

## Explanation of Steward Obligation for the Municipal Hazardous or Special Waste (MHSW) Program

### PRE-2011:

#### Q3 2008 – Q2 2010

When the MHSW program began on July 1, 2008, stewards reported and paid fees after the completion of the obligation period.<sup>1</sup> This reporting and invoice schedule was followed until the Q2 2010 obligation period (as outlined in the table *MHSW Schedule* below). The steward obligation period was aligned with the data period used to calculate the invoice amount. Stewardship Ontario set fee rates based on the forecasted costs of managing each of the nine materials (in turn based on the targets set for the tonnes of materials to be recovered) divided by the expected quantities supplied for each of the nine materials.

#### MHSW Schedule:

Obligation Period	Steward Data Period	Report Due	Invoice Due
Q3 2008 (July 1 – September 30)	Q3 2008 (July 1 – September 30)	October 31, 2008	October 31, 2008
Q4 2008 (October 1 – December 31)	Q4 2008 (October 1 – December 31)	January 31, 2009	January 31, 2009
Q1 2009 (January 1 – March 31)	Q1 2009 (January 1 – March 31)	April 30, 2009	April 30, 2009
Q2 2009 (April 1 – June 30)	Q2 2009 (April 1 – June 30)	July 31, 2009	July 31, 2009
Q3 2009 (July 1 – September 30)	Q3 2009 (July 1 – September 30)	October 31, 2009	October 31, 2009
Q4 2009 (October 1 – December 31)	Q4 2009 (October 1 – December 31)	January 31, 2010	January 31, 2010
Q1 2010 (January 1 – March 31)	Q1 2010 (January 1 – March 31)	April 30, 2010	April 30, 2010
Q2 2010 (April 1 – June 30)	Q2 2010 (April 1 – June 30)	July 31, 2010	July 31, 2010

#### Q3 2010 – Q1 2012

July 1<sup>st</sup>, 2010 marked the end of the Phase 1 MHSW program and the beginning of the Consolidated Municipal or Hazardous Waste Program or CMHSW program. The CMHSW program expanded the MHSW program through the addition of new materials and by expanding the definition for some of the phase 1 materials, and therefore was expected to add new stewards to the program.

With the implementation of the CMHSW program, Stewardship Ontario implemented a new approach to the manner in which a steward would satisfy its obligation to Stewardship Ontario. Beginning in Q3 2010, each steward was required to meet its current quarter financial obligation to Stewardship Ontario for the CMHSW program by paying its invoice at the beginning of the obligation period. The invoice was calculated by multiplying the quantities supplied during the prior quarter (data period) with the fee

<sup>1</sup> Obligation period refers to any quarter that a steward supplies one or more designated materials into the residential market.

rates by material. The transition to the new model was required in order to enable Stewardship Ontario to generate the cash flow required to manage its business (i.e., pay its bills as they were incurred).<sup>2</sup>

To transition to the new “payment in at the beginning of the quarter” model, 2010 Q2 data was used twice. Once to calculate the Q2 2010 obligation period invoice associated with the MHSW program and a second time to calculate the Q3 2010 obligation period invoice associated with the CMHSW program. Both the Q2 and Q3 2010 invoices were due on July 31, 2010. It is important to note that despite receiving two invoices calculated using Q2 2010 data, these invoices were related to two different obligation periods; the first was issued to meet the steward’s Q2, 2010 obligation (“paid at the end of the quarter”) and the second to meet its Q3, 2010 obligation (“paid at the beginning of the quarter”). Use of each steward’s quantities supplied from the prior period was the method selected by Stewardship Ontario to distribute cost among stewards.

As before, Stewardship Ontario set fees per material based on the forecasted cost of managing each material divided by the expected quantity supplied of each material.

At the end of July 2010, the Government of Ontario initiated a review of the CMHSW program and prevented Stewardship Ontario from amending the fee rates for the original nine MHSW materials pending completion of the review. The review included a postponement of the expansion of the program from nine to twenty-three materials. Stewardship Ontario issued credits to those stewards that received invoices for the new materials which effectively canceled the invoice amounts associated with these materials.

The stewards for the nine materials continued to pay at the beginning of the quarter.

The table below (“CMHSW Schedule”) summarizes stewards’ reporting and fee payment obligations during this period.

**CMHSW Schedule:**

Obligation Period	Steward Data Period	Report Due	Invoice Due
Q3 2010 (July 1 – September 30)	Q2 2010 (April 1 – June 30)	July 31, 2010	July 31, 2010 (payment extension: September 30, 2010)
Q4 2010 (October 1 – December 31)	Q3 2010 (July 1 – September 30)	October 31, 2010	October 31, 2010
Q1 2011 (January 1 – March 31)	Q4 2010 (October 1 – December 31)	January 31, 2011	February 28, 2011
Q2 2011 (April 1 – June 30)	Q1 2011 (January 1 – March 31)	April 30, 2011	May 31, 2011
Q3 2011 (July 1 – September 30)	Q2 2011 (April 1 – June 30)	July 31, 2011	August 30, 2011
Q4 2011 (October 1 – December 31)	Q3 2011 (July 1 – September 30)	October 31, 2011	November 30, 2011
Q1 2012 (January 1 – March 31)	Q4 2011 (October 1 – December 31)	January 31, 2012	February 28, 2012

<sup>2</sup> Due to the program expansion, the supply chain service provider community grew to include more commercial partners; these partners were expected to file claims promptly and Stewardship Ontario was expected to pay claims in accordance with their contractual obligations.

## **POST-2011:**

### **Deficit Period (Q3, 2008 – Q4, 2011)**

As a new program, the ability of Stewardship Ontario to set MHSW fees to match program costs differed by material. In all cases, fees were calculated once annually, and relied on sales estimates, supply chain performance and cost estimates.<sup>3</sup> From the start of the program in Q3, 2008 through to Q4, 2011, quarterly fees for the units/kilograms/litres reported and used to calculate the invoices paid by stewards did not cover the annual costs incurred by Stewardship Ontario for all but two materials.

A number of factors contributed to the creation of deficits. As mentioned above, during Q3 2010, Stewardship Ontario was prevented from increasing fees when the program entered the review period, which caused the deficits (or surpluses in the case of two materials) to continue to increase. It is important to note that the factors underlying these “frozen” fees changed when Stewardship Ontario was informed it would not be expanding its program to twenty-three materials but would continue to manage nine materials – anticipated economies of scale were lost and these economies had been recognized during the process of establishing the “frozen” fees. Targets were exceeded for some materials (i.e., tonnes collected exceeded the forecast), which resulted in increased costs. As well, stewards were reporting less than anticipated, which resulted in lower than anticipated revenues. All of these factors contributed to the accumulation of deficits.

### **Regulation 11/12 (Implemented Q2 2012)**

In February 2012 the Government of Ontario completed its program review and issued regulation 11/12 which states:

1. Beginning with Q2 2012, Stewardship Ontario must recover the previous quarter’s costs by invoicing each steward for its share of those costs, where the share is based on a Steward Share Assessment(SSA);
2. Stewardship Ontario must recover the deficit amounts that accumulated from Q3 2008 through Q4 2011 based on a steward share assessment (SSA)\*; and,
3. Stewards must pay the stewardship invoices associated with the designated MHSW waste they supply (voluntary remitters may report on behalf of the steward but can no longer pay stewardship invoices associated with the steward’s designated MHSW waste).

#### **\*SSA Calculation**

The steward’s SSA is calculated by dividing the quantity supplied by the steward of a particular material by the total quantity supplied by all stewards of that material.

The steward’s share of the deficit, or the steward’s SSA with respect to the deficit, was calculated by dividing the total quantity the steward supplied for the material in deficit during the deficit period by

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<sup>3</sup> This document does not address the details behind the determination of fees by material (i.e., fee methodology).

the total quantity supplied by all stewards of the same material during the deficit period. The dollar amount of the deficit associated with the material in question is then multiplied by the steward's SSA to arrive at its deficit invoice. The steward is permitted to pay its portion of the deficit in twelve installments as per the table "Deficit Recovery Schedule" below.

A steward's quarterly SSA is calculated by dividing the quantity of a material supplied by the quantity supplied by all stewards of that material during a quarter. The quarterly costs incurred in the prior quarter are multiplied by the steward's SSA to arrive at its quarterly invoice. The Q2, 2012 invoice was calculated using the steward's Q1 Report (Q4 2011 data) and Q1 2012 costs. The Q3 2012 invoice is calculated using the steward's Q2 Report (Q1 2012 data) and the Q2 2012 costs, and so on.

### True-Up Calculations

Individual Quarterly steward invoices may not be fairly distributed across the steward universe due to fluctuating SO costs and variations in individual stewards sales cycles and in quantities reported from quarter to quarter; to address this issue, an annual "true-up" calculation is performed. (Please consult Stewardship Ontario's website [2012 Annual True-Up](#) for a detailed explanation of the "true-up" process.) In April of 2013, an annual "true-up" calculation was performed and credit or debit memos were issued to stewards depending upon the outcome of their annual SSAs applied to annual costs relative to their quarterly SSAs applied to quarterly costs. In 2013, a decision was made to calculate stewards' quarterly invoices by applying the annual 2012 steward SSAs (instead of fluctuating quarterly SSAs) to quarterly cost figures. An annual "true-up" of the 2013 data will be performed during 2014 and debits and credits will be issued accordingly.

### Deficit Recovery Invoice Schedule

Installment Number	% of Deficit Recovered	Payment Due
1	8.33%	May 31, 2012
2	8.33%	August 30, 2012
3	8.33%	November 30, 2012
4	8.33%	February 28, 2013
5	8.33%	May 31, 2013
6	8.33%	August 30, 2013
7	8.33%	November 30, 2013
8	8.33%	February 28, 2014
9	8.33%	May 31, 2014
10	8.33%	August 30, 2014
11	8.33%	November 30, 2014
12	8.37%	February 28, 2015

## Cost Recovery is the New Paradigm for MHSW:

Reg.11/12 requires Stewardship Ontario to recover all costs incurred by the MHSW program as follows:

1. **Costs incurred from Q3 2008 – Q4 2011, inclusive, including program start-up expenses**, are recovered through invoices paid by stewards from Q4 2008 through Q4 2011, in addition to the stewards' deficit recovery invoices which are calculated based on each steward's SSA (note that material surpluses were or are being returned to stewards)
2. **Costs incurred in Q1 2012, and going forward**, are recovered in the following quarter based on invoices to stewards calculated using each steward's SSA.
3. **Stewards must pay all stewardship fees** related to the designated materials they supply (as a result, "voluntary remitters" became "voluntary reporters" as they were no longer allowed to pay invoices for materials for which they were not the obligated stewards).<sup>4</sup>

Note that until Q2, 2012, quarterly invoices were calculated based on quantities supplied by a steward (a means of allocating estimated cost) and fees (based on forecasted costs). Ultimately actual costs incurred (the residual not covered by the quarterly invoices) and an SSA was used to calculate the steward's deficit invoice.<sup>5</sup>

### Q1 2012 invoice:

Stewards met their Q1 2012 financial obligation by paying their Q1 2012 invoices, issued on January 31, 2012, by February 28, 2012. The fee rates used to calculate these invoices had been set to cover costs for an entire year and were not changed quarterly to reflect seasonality within the cost cycle, and had remained unchanged since July 2010 in accordance with the Minister's direction.

Regulation 11/12 directed Stewardship Ontario to recover costs associated with a prior period by applying the SSA to a current obligation period. This meant that Q2 2012 invoices were based on Q1 2012 costs.

The revenue generated by Stewardship Ontario from the Q1 2012 fee-based steward invoices was applied to working capital reserves. This alternative was selected to prevent Stewardship Ontario from having to increase quarterly costs by a reserve amount (which would have been included as an expense in a future SSA cost recovery calculation).

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<sup>4</sup> In order to accommodate this change, Stewardship Ontario provided each steward with voluntary reporter agreements with multiple invoices in equal amounts – a separate invoice was generated for the steward and each voluntary reporter (with the name of the voluntary reporter noted in the invoice header). The amounts of each invoice do not correspond to the quantities reported by the voluntary stewards. Due to system and technical issues, this approach was used to invoice the steward. The invoices were not intended to provide stewards with information that would allow them to pass through stewardship fees to their customers/voluntary reporters. However, the quantities reported by each voluntary reporter are available to stewards through the portal.

<sup>5</sup> Stewards will be unable to reconcile sum of their invoice amounts for the period to their quantities supplied multiplied by the appropriate fee rates because their Q2 2010 data was used twice (to produce both the Q2 2010 and Q3 2010 invoices).

### Post Reg. 11/12 Invoicing

To reiterate, regulation 11/12 changed the way stewards were invoiced. To calculate the steward's first SSA, Stewardship Ontario used the steward's last available report or data period. This was the 2012 Q1 report, containing 2011 Q4 data. This data was used to calculate a steward's 2012 Q2 SSA and invoice.

Steward reporting was not affected; Stewards continue to report the as they have since Q3 2010.

### Invoice calculation per material:

SSA x Total Costs in the quarter to manage a material

### Current MHSW Schedule

Obligation Period	Steward Data Period Used for invoicing	Invoice based on Stewardship Ontario Costs	Invoice Due
Q2 2012 (April 1 – June 30)	Q4 2011 (October 1 – December 31)	Q1 2012	May 31, 2012
Q3 2012 (July 1 – September 30)	Q1 2012 (January 1 – March 31)	Q2 2012	August 30, 2012
Q4 2012 (October 1 – December 31)	Q2 2012 (April 1 – June 30)	Q3 2012	November 30, 2012
Q1 2013 (January 1 – March 31)	Q3 2012 (July 1 – September 30)	Q4 2012	February 28, 2013
Q2 2013 (April 1 – June 30)	Q4 2012 (October 1 – December 31)	Q1 2013	May 31, 2013
Q3 2013 (July 1 – September 30)	Q1 2013 (January 1 – March 31)	Q2 2013	August 30, 2013
Q4 2013 (October 1 – December 31)	Q2 2013 (April 1 – June 30)	Q3 2013	November 30, 2013
Q1 2014 (January 1 – March 31)	Q3 2013 (July 1 – September 30)	Q4 2013	February 28, 2014

### Exiting Stewards

A steward is obligated until it no longer supplies MHSM to the Ontario market. The first quarter during which a steward does not supply MHSM to the Ontario market marks the first quarter during which the steward is no longer a steward and is no longer obligated to report and pay fees **Example - Steward does not supply MHSM in Q4 2013 (Steward does supply MHSM during Q3 2013):**

Obligation Period	Steward Data Period Used for invoicing	Report Due (based on previous Quarters Data)	Invoice Due
Q1 2013 (January 1 – March 31)	Q3 2012 (July 1 – September 30)	January 31, 2013	February 28, 2013
Q2 2013 (April 1 – June 30)	Q4 2012 (October 1 – December 31)	April 30, 2013	May 31, 2013
Q3 2013 (July 1 – September 30)	Q1 2013 (January 1 – March 31)	July 31, 2013	August 30, 2013
Q4 2013 (October 1 – December 31)	Q2 2013 (April 1 – June 30)	<b>*Not Required to Report</b>	<b>*No Invoice Sent due to Non –Obligation</b>
Q1 2014 (January 1 – March 31)	Q3 2013 (July 1 – September 30)	<b>*Nothing to Report</b>	<b>*No Invoice Sent due to Non –Obligation</b>



Please note that exits by stewards en masse (e.g., due to an ISP) are handled differently from exits of individual stewards due to departure from the Ontario marketplace, liquidation of the business, selling of the business, etc.