

The new proposed fee methodology for use in Printed Paper & Packaging fee setting

Steward Information Session



Welcome



Webinar Housekeeping

- Speaker advances slides
- Sound slider ①
- Questions / Comments ②
 - ‘Ask a Question’
 - Click ‘Submit’
- If you have a technical issue, let us know through the ‘Ask a Question’ box



The screenshot displays the webinar interface. At the top left is the logo for the Canadian Stewardship Services Alliance, which consists of a stylized green and grey hexagon. To the right of the logo is the text "Canadian Stewardship Services Alliance". Below the logo is a large, circular map of Canada with a green and black color scheme. In the bottom left corner of the interface, there is a text input field labeled "ASK A QUESTION" with a circled "2" next to it. To the right of the input field is a "SUBMIT" button. In the bottom right corner, there is a volume control slider with a circled "1" next to it and a "0:00" timer.

Today's agenda

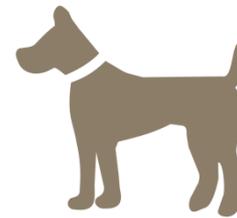
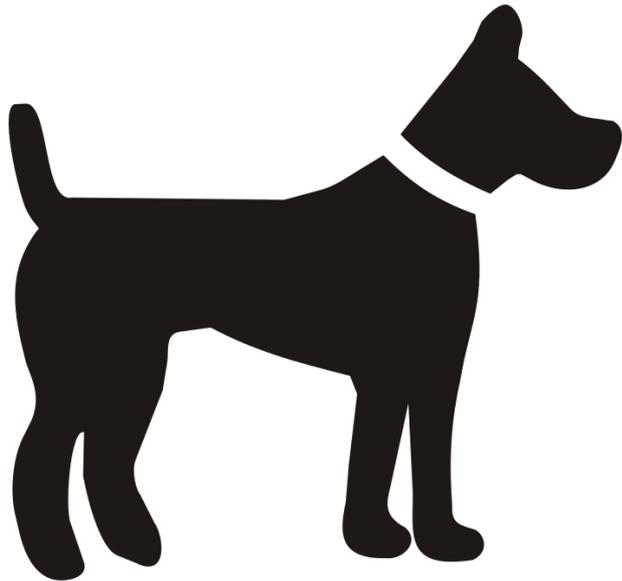
1. What is the 'fee methodology'?
2. An overview of the project work undertaken by the Steward Consultation Committee (SCC)
3. An overview of the options explored and decisions taken
4. The new methodology and its impacts
5. Other issues of interest to stewards
6. Next steps

Comparative fee rates will be made available

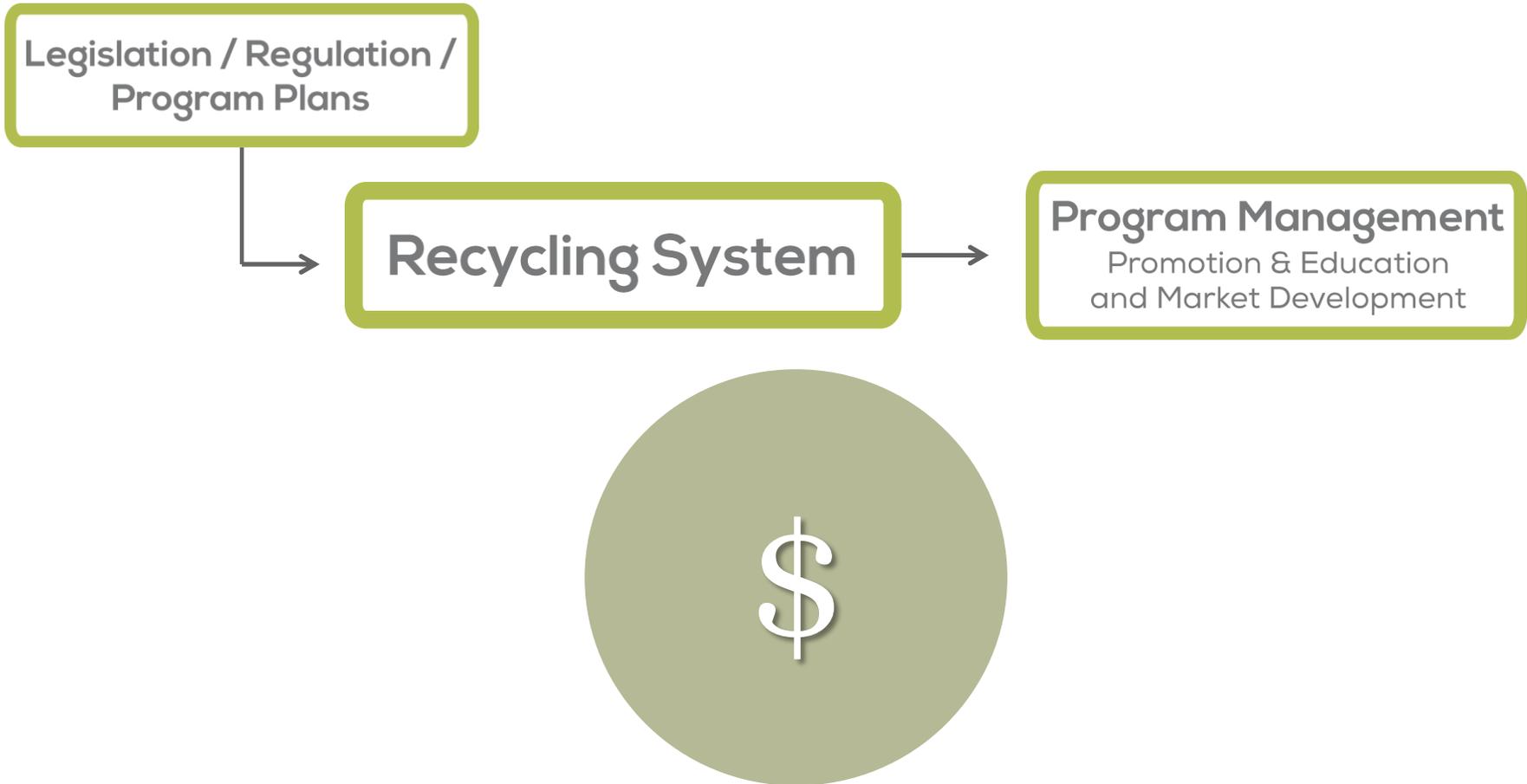
- Early next week, we will publish sample fee rates for each of the four programs
- We'll describe what we are publishing in more detail later on in the presentation

What is the scope of the Fee Methodology?

Define the dog – what is the ‘Fee Methodology’?

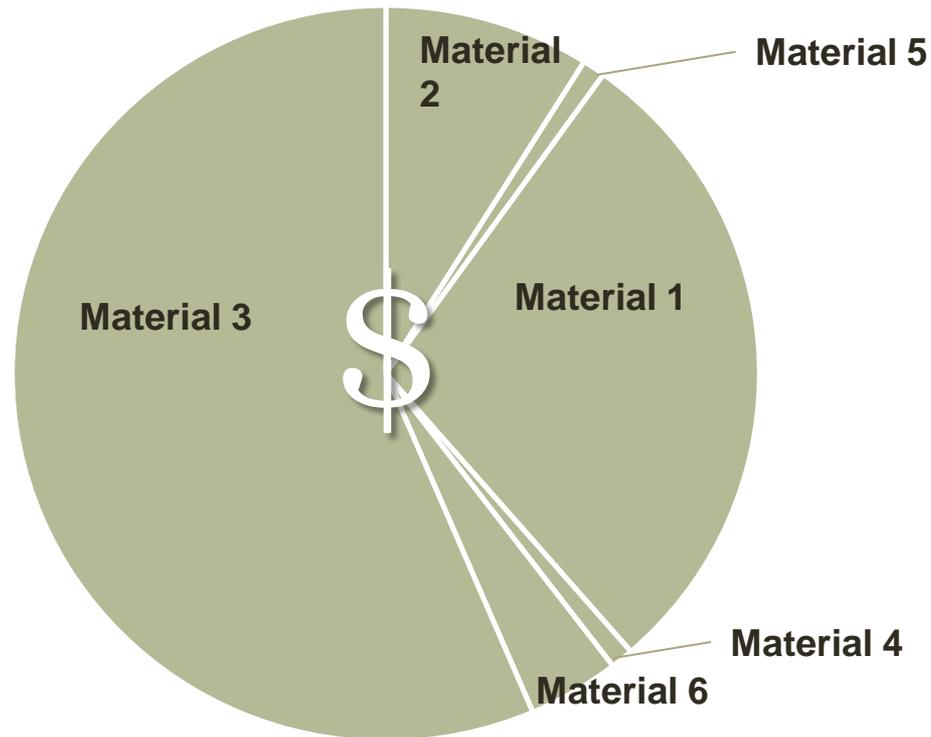


The scope of the stewardship organization's obligations generate the total pie to be funded by stewards



The Fee Methodology does not determine the size of the pie

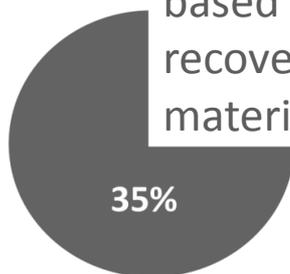
The fee methodology determines the size of the slice for each material



Stewards

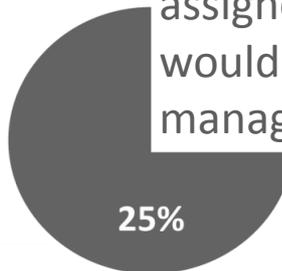
The three-factor formula is today's method of determining the size of the slice related to the recycling system that each material pays

1. Recovery Rate factor: 35% of cost assigned based on the recovery rate. Materials with lower recovery rates assume a larger share of costs than materials with higher recovery rates.

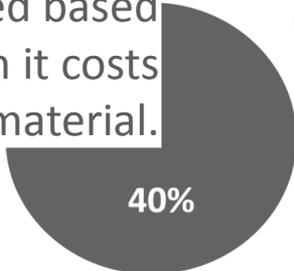


Share of Recycling System Costs

3. Equalization factor: 25% of cost assigned based on how much it would incrementally cost to manage the material at target.



2. Net Cost factor: 40% of cost assigned based on how much it costs to manage the material.



Information about the Fee Methodology Review Project

Project chartered to address concerns about the three-factor formula fee methodology

- It was weakening as more materials were achieving target
 - And in fact was broken in Manitoba in 2014 (2015 fees)
- It was difficult for stewards to understand
- It relies on inputs that are becoming harder to access in some jurisdictions (i.e. Activity Based Costing studies)

Objectives of the Project

- **Produce a harmonized fee setting methodology** that is related to the costs that can be measured in the recycling supply chain.
- Make it **easier** to explain to stakeholders.
- **Define material fee rate categories** that align to our ability to measure costs and revenues and eliminate 'false precision'.
- **Identify options to fairly allocate** recycling system costs to materials.
- Determine the **appropriate level of reliance on waste system studies** needed to inform cost and revenue allocations.

Project Timeline

- Q4 2014** The fee project was chartered

- Q1 2015** Project co-chairs onboard and actively planning with team
Steward Consultation Committee (**SCC**) members confirmed

- Q2 2015 –** SCC members participated in ten four-hour workshops
Q1 2016 Industry Associations were provided with status updates

- Feb. 18/16**  SCC members unanimously support one methodology!

- Q2 2016** Steward consultations begin

SCC member companies supply between 22% - 45% of the materials in *each* category



Project designed to enable the SCC to answer the BIG question

“How should stewards share the cost of meeting their obligation to fund the recycling of designated materials?”

External experts helped educate the SCC

Kelleher Environmental was commissioned to interview MRF operators to gather their thoughts on how cost differentiation could be measured amongst materials

Jerry Powell, Resource Recycling, was engaged to speak to the SCC on the complexity of MRF operations and the challenges related to maximizing commodity revenues

Guy Perry & Associates educated the SCC on how material characteristics impact costs

10 workshops were required to answer that BIG question

Series 1: Learn about the system and stakeholder viewpoints

Workshop 1
History & Current
Situation

Workshop 2
Guiding Principles
for Fee Setting

Workshop 3
Stakeholder
Presentations 1

Workshop 4
Stakeholder
Presentations 2
& Principles cont'd

Series 2: Review options for fee setting and make decisions

Workshop 5
Explore Options

Workshop 6
Refine Options

Workshop 7
Assemble Options

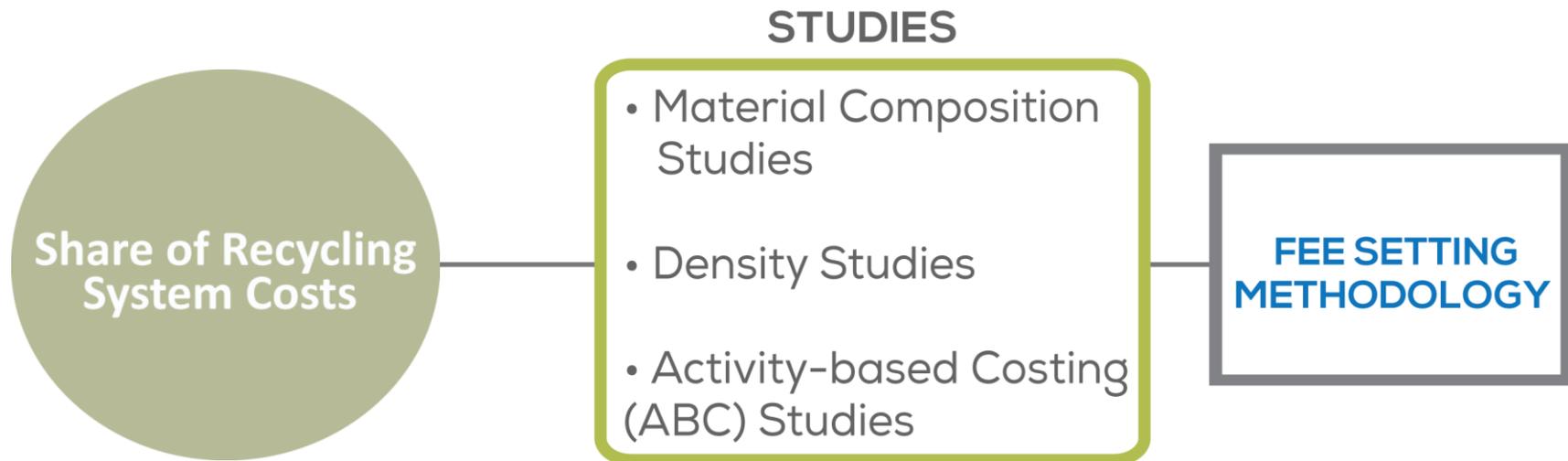
Workshop 8
Refine Rationale
and Weightings

Workshop 9
Review Business
Case & Issues

Workshop 10
Review Final
Report

Status Meeting 1
Final Decision

What was the scope of our work



Options and Outcomes

Section Overview

1. Guiding Principles for fee setting – new and old
2. The options considered by the SCC
3. Key decisions taken by the SCC
4. Walk through of the new methodology and its impacts
5. Summarize the related issues of interest to the SCC

Updated Guiding Principles provided the foundation for reviewing the options for fee setting

1. **All obligated materials should bear a fair share of the costs** to manage the packaging and printed paper program, irrespective of whether a material is collected, because all obligated stewards who put obligated materials into the marketplace should contribute to the recycling system.
2. The **material management costs** allocated to each material **should reflect the material's impact on the cost to collect and manage** it in the recycling system because a material's unique characteristics can drive costs in distinctive ways.
3. The **commodity revenue should be attributed only to the materials that earn that revenue** because materials that are marketed have value and should benefit from their earned revenue.

Refresher – The Guiding Principles for Fee Setting used by the three-factor formula

1. Encourage reduction, redesign and recyclability
2. Reflect the costs to manage each designated material category
3. Recognize the benefits to all stewards from the high recycling rates achieved by certain designated materials
4. Equitably share program management costs among all stewards

Option review was a multi-step and iterative process



First, the SCC considered what information was available to use in fee setting

-  1. Generated quantities – disposed of by the resident
-  2. Supplied quantities – reported by stewards
-  3. Collected/managed quantities – managed by the recycling system
-  4. Marketed quantities – materials sold to recycling end markets

Generated quantities are used today but are not recommended for continued use



When using Generated quantities to allocate cost you can unfairly attribute cost to obligated materials simply because they 'look like' non obligated materials.

Supplied quantities, as reported by stewards, are used in the new methodology for allocating the portion of cost to be borne by all obligated materials

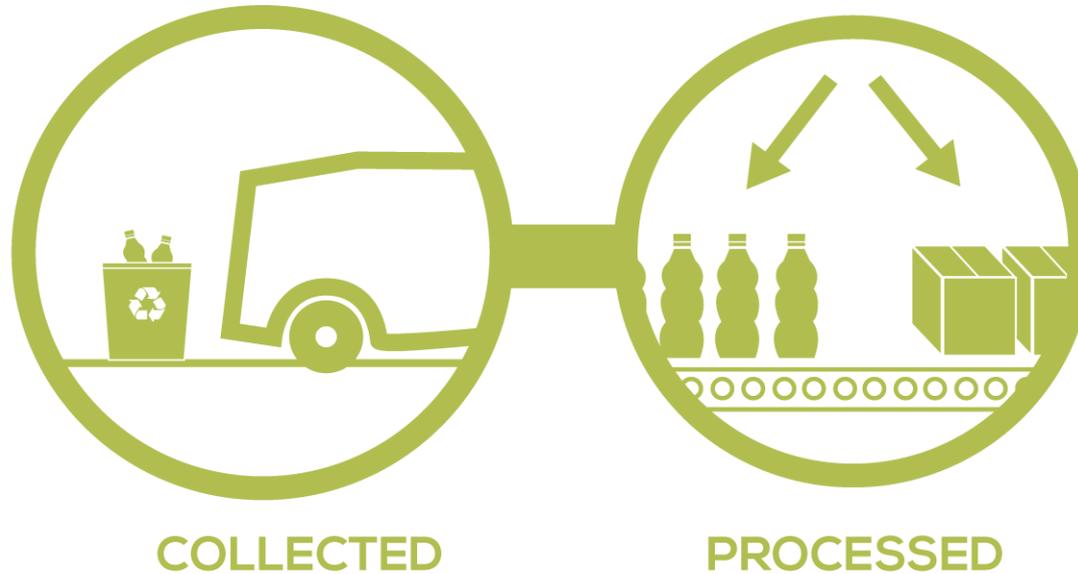


CONSUMER



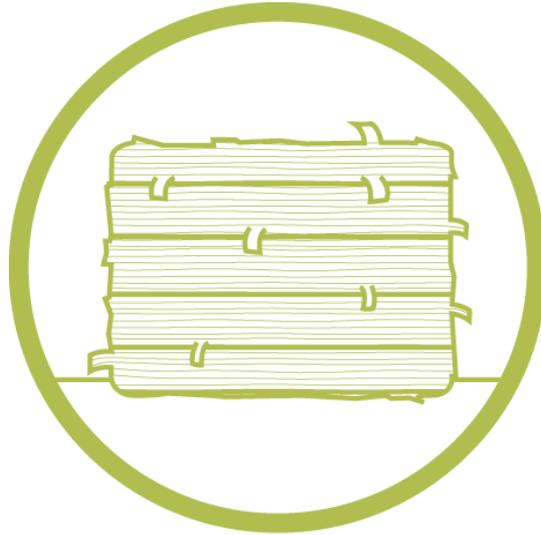
By using supplied quantities, as reported by stewards, we are comfortable we are allocating some of the gross costs *only to* obligated materials.

Collected/managed quantities are used in the new methodology for allocating the portion of cost to be borne only by those materials managed



The SCC also supported using the quantities of materials actually collected/managed in the recycling system in the gross cost allocation.

Marketed quantities are used in the new methodology for allocating the commodity revenue to those materials that earned the revenue



BALED AND SOLD

The SCC agreed to attribute commodity revenue to those materials that were sold into end markets.

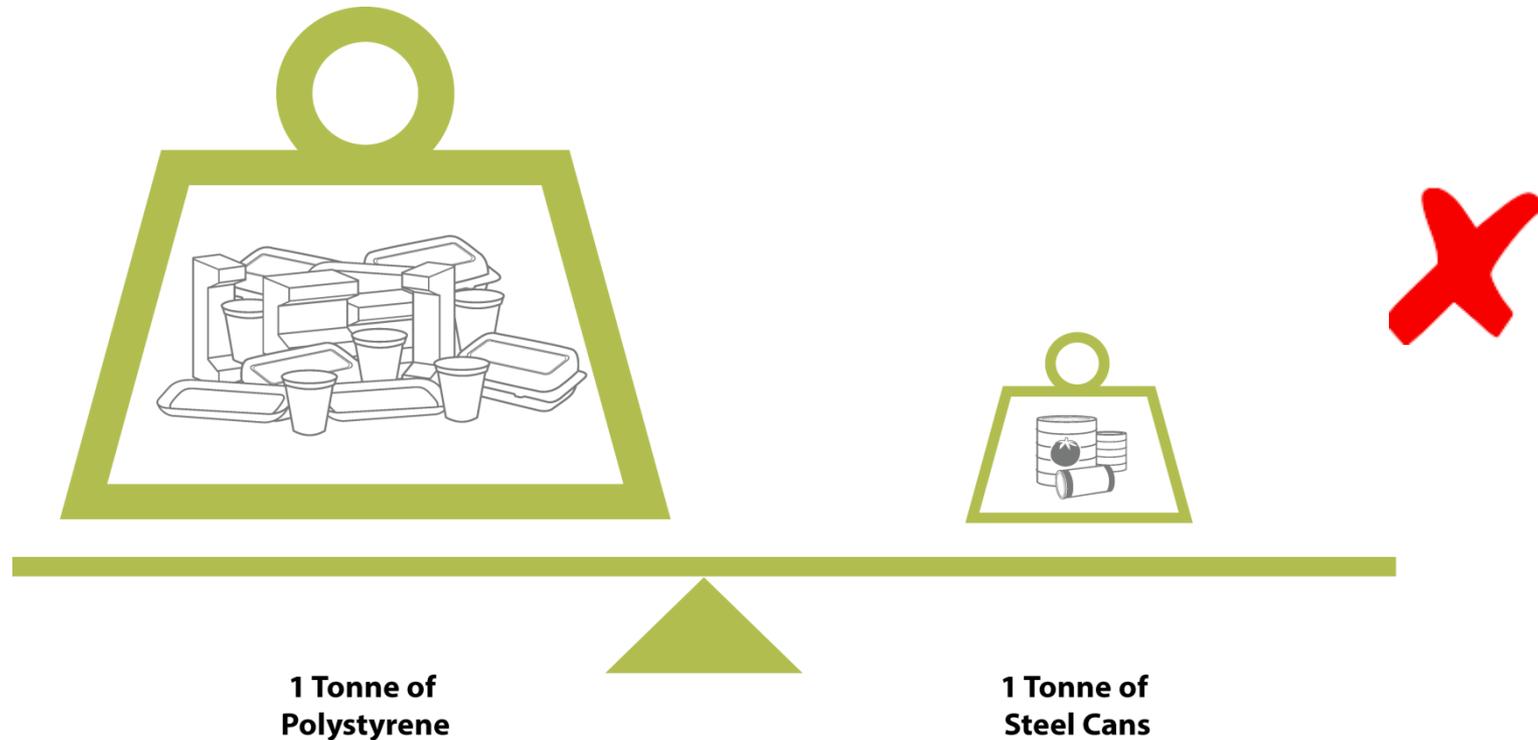
The SCC concluded that three sources of information would be used in the fee methodology

-  1. Supplied quantities – reported by stewards
-  2. Collected/managed quantities – managed by the recycling system
-  3. Marketed quantities – materials sold to recycling end markets

The SCC considered a number of options for how to use the supplied, managed and marketed quantities

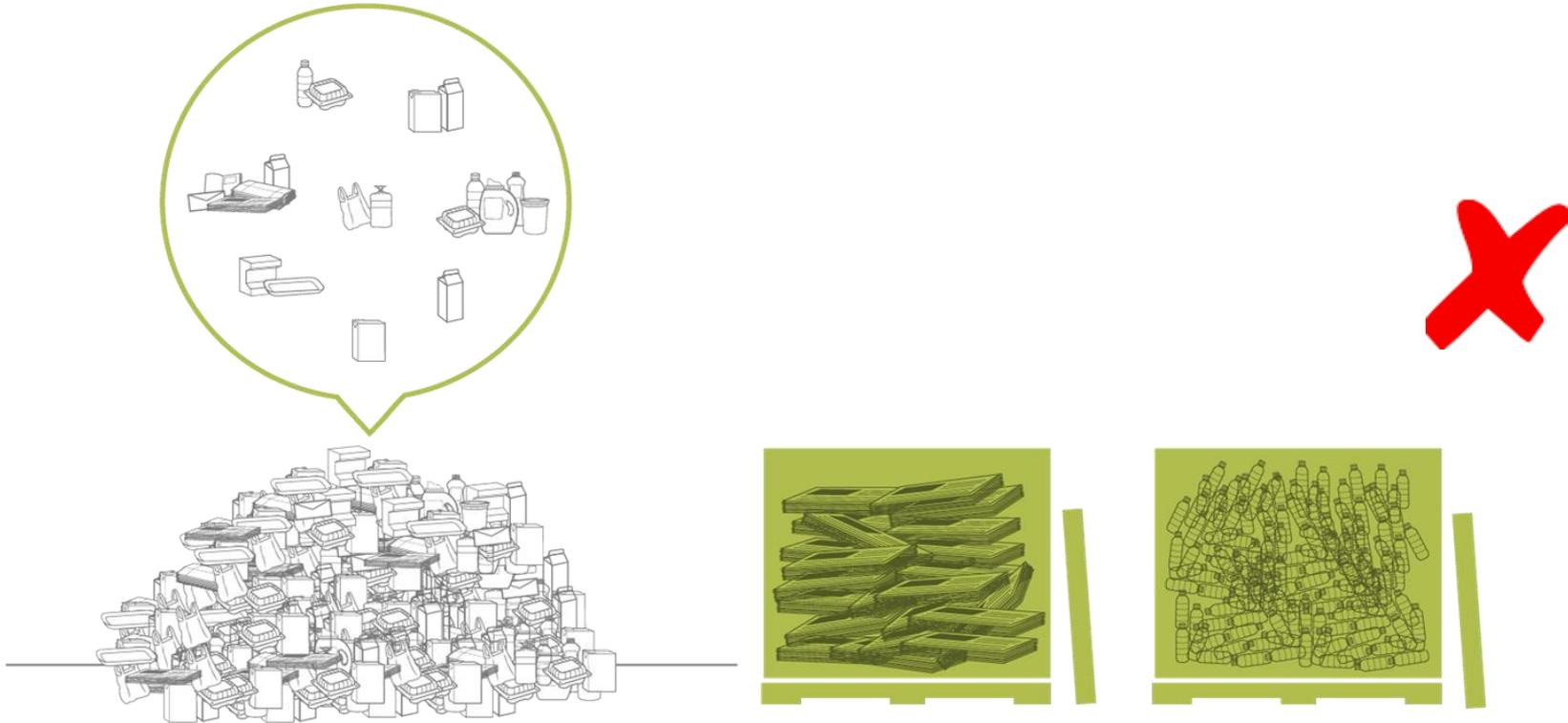
1. Weight – as reported by stewards and the recycling system operators
2. Volume – to reflect the amount of space the material occupies in collection trucks and in processing facilities
3. Units – to reflect the cost to manage the number of pieces to be sorted
4. Activity Based Cost per material – to reflect all the impacts the material can have on the cost to manage the material including weight, volume, units and unique characteristics like abrasiveness and disruptiveness

Using WEIGHT alone was not supported



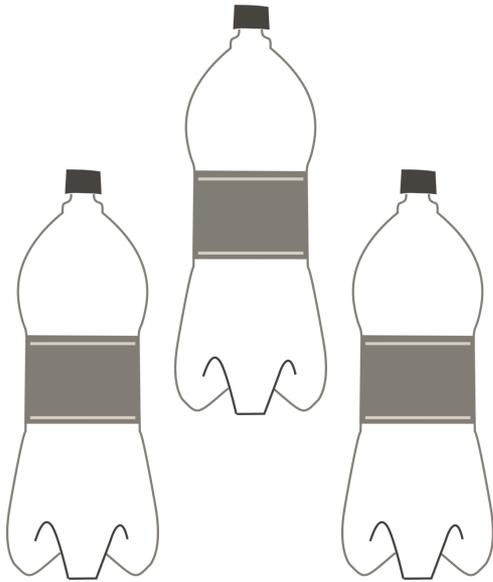
Weight has only a small impact on the recycling system cost and used on its own is not sufficient for use when allocating cost

VOLUME alone was not supported

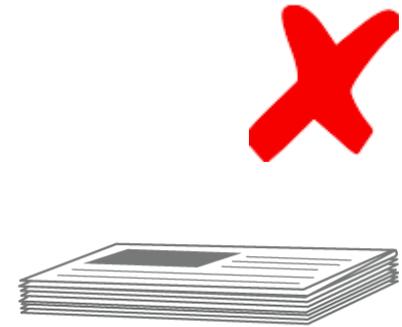
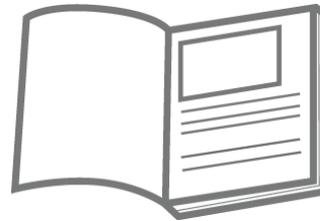


The Volume of material managed has a significant impact on the recycling system cost but on its own is not sufficient when allocating costs

UNITS alone was not supported

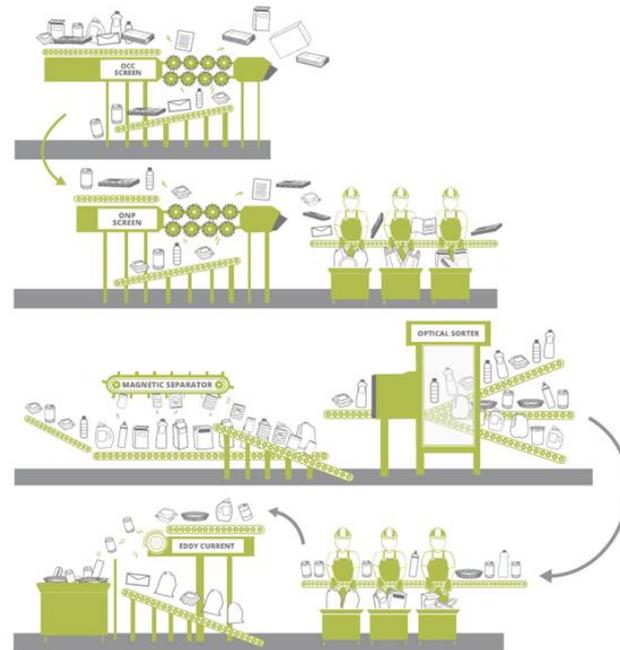


vs.



It would be far too difficult for stewards to report their supplied quantities as 'units' – i.e. what is a 'unit' of film??

ABC cost studies measure everything that can impact collection and processing costs



ABC studies measure the material's impact on the cost of collection and processing activities so consider all of weight, volume, units, and unique characteristics like disruptiveness and abrasiveness for example

The SCC concluded that ABC study based cost provide the most comprehensive representation of each material's impact on the recycling system



1. Weight only



2. Volume only



3. Units only



4. Activity Based Cost per material

There are four steps of the new methodology

Step 1: Allocate the **Gross Cost** of the recycling system

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graph TD; A[Step 1: Allocate the Gross Cost of the recycling system] --> B[Step 2: Allocate the Commodity Revenue earned by the recycling program]; B --> C[Step 3: Allocate the Program Management costs of the stewardship program]; C --> D[Step 4: Allocate the Promotion & Education and/or Market Development costs];
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Step 2: Allocate the **Commodity Revenue** earned by the recycling program

Step 3: Allocate the **Program Management** costs of the stewardship program

Step 4: Allocate the **Promotion & Education and/or Market Development** costs

Step 1 allocates the Gross Cost of the recycling system - the collection & processing activities

Step 1: Allocate the Gross Cost of the recycling system

60% of the total gross costs are allocated based on the materials' relative share of supplied quantities calculated by using both the supplied quantities (steward reported) and the material's specific cost to manage

40% of the gross costs are allocated based on the materials' relative share of the collected quantities calculated by using both the collected quantities of material and the material's specific cost to manage

Guiding Principle #1 is satisfied by including quantities supplied as all obligated materials are represented.

Guiding Principle #2 is satisfied by calculating each material's relative share using the individual material's cost per tonne to manage.

Step 2 allocates the commodity revenue to those materials that have earned the revenue

Step 2: Allocate the **Commodity Revenue** earned by the recycling program

100% of the commodity revenue earned is allocated based on the materials' relative share of the materials that are sold to recycling end markets, using both the quantities of the material sold into recycling end markets and its unique commodity price

Guiding Principle #3 is satisfied by ensuring there is no reallocation of commodity revenue.

Step 3 allocates the program management cost of the stewardship program

Step 3: Allocate the Program Management costs of the stewardship program

First, on count of stewards reporting in a category to consider steward service activities

Then, on the material's share of gross cost to consider the cost to manage the recycling system and its service providers

The allocation considers the two primary services delivered by stewardship organizations; support for the stewards and oversight of the recycling system costs and performance.

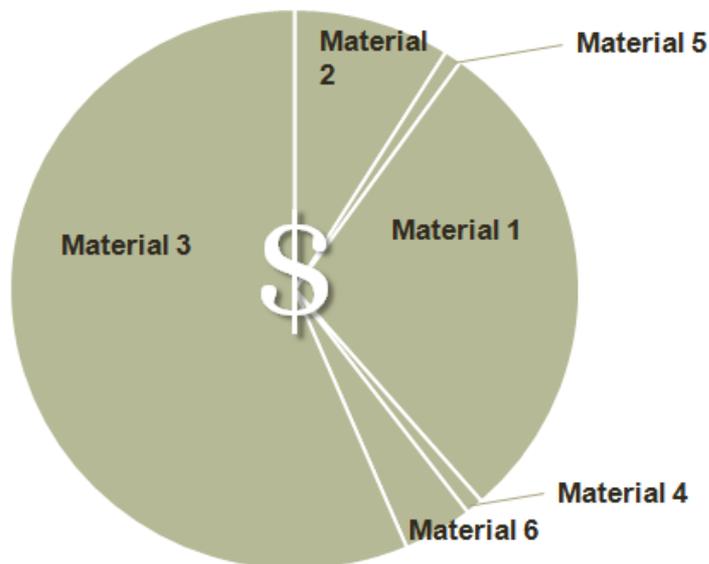
Step 4 will add material specific Promotion & Education and/or Market Development

Step 4: Allocate the Promotion & Education and/or Market Development costs

As needed to advance the material's adoption in the recycling system, the cost efficiency to manage the material and/or develop end market to maximize the material's value

These costs are added when materials require investment to advance the cost effectiveness to manage the material, or to develop recycling end markets capable of reusing or recycling the material.

The new fee methodology is used to determine the size of the slices and is simple to understand and satisfies the guiding principles

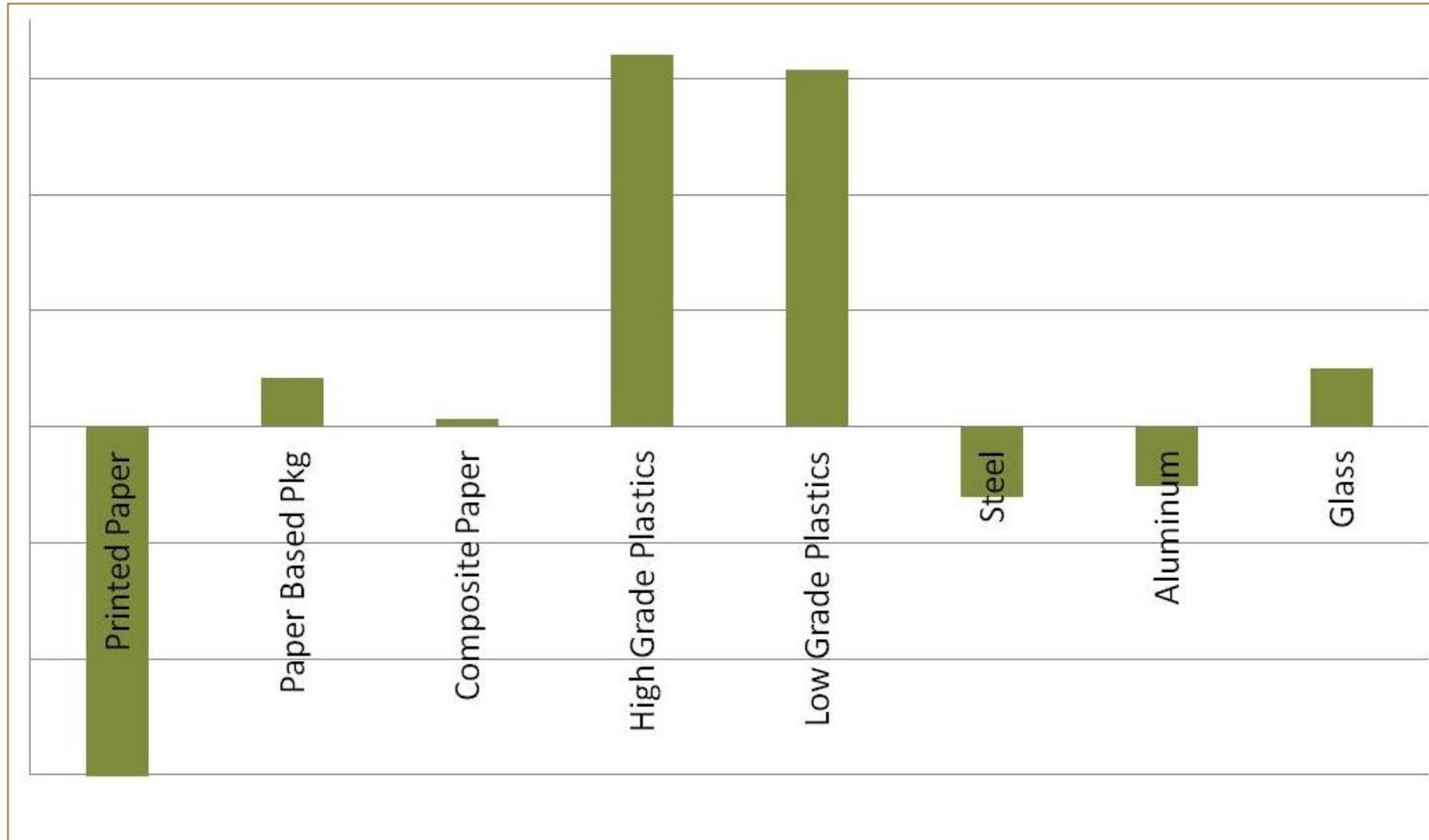


Impacts of the new proposed fee methodology

Major themes

- The size of fee variances will differ by program
- In a few cases, the direction of the variance differs – i.e. may increase in one province but decrease in another
- Themes common to all programs are:
 - Printed paper fees decline
 - Plastic packaging increases
 - In aggregate, the methodology does not create a shift in total fees paid between Retailers and Brand Owners
 - Generally, stewards in the Services sector see declines because of their concentration in Printed Paper

Decisions would see Printed Paper costs go down and some Packaging go up



How might this affect the cost of a typical Plastic Beverage Bottle?



Method	Fee per Unit
Three-factor formula	\$0.0049
New Method	\$0.0083
Potential Increase	\$0.0034

How might this affect the cost of a typical HDPE Detergent Bottle?



Method	Fee per Unit
Three-factor formula	\$0.0371
New Method	\$0.0566
Potential Increase	\$0.0195

How might this affect the cost of a typical Plastic Film carry-out bag?



Method	Fee per Unit
Three-factor formula	\$0.0028
New Method	\$0.0033
Potential Increase	\$0.0005

METHODOLOGY ASSESSMENT TOOLS

A sample fee schedule can be used to illustrate the impact of the new proposed fee methodology

- Published early next week – stewards will be notified
- Excel based tool
- Tool will allow you to enter quantities you have supplied and will calculate the variance between the current fees and the fees that would have been calculated using the new methodology
- Tool has fee rates by material using both the old and new fee setting methodology

Things about the tool for stewards to be aware of.....

- The fee rates in the tool are *directional*
- The fee rates are intended to allow you to assess the order of magnitude change in rates based on the new methodology
- The fee rates are **not** the 2017 fee rates as these cannot yet be calculated, pending:
 - Receipt of the steward annual report on quantities Supplied
 - Receipt of information from Ontario and Manitoba municipalities on quantities collected and program costs incurred
 - Completion of a number of routine studies to refresh the inputs to fee setting

PROJECT SUMMARY

How did the SCC do against its objectives?

Objective	Status
Produce a harmonized fee setting methodology that is related explicitly to the costs that can be measured in the supply chain	
Make it easier to explain to stakeholders.	
Define material fee rate categories that align to our ability to measure costs and revenues and eliminate 'false precision'.	
Identify options to fairly allocate recycling system costs to materials.	
Determine the appropriate level of reliance on waste system studies needed to inform cost and revenue allocations.	

What's happening with other items of interest to stewards?

Area of interest	Action
The size of the pie – STINO – ‘<i>Stuff that is not ours</i>’	Boards of Directors are active
Aggregation of fees	Under review as part of the material list evaluation
Addressing the access issues related to conducting ABC studies	ABC study methodology is under review to determine where alternative approaches can be used
Answering stewards questions about why cost per tonne for the very same material can be so different between Quebec and Ontario and Manitoba	CSSA and EEQ have formed a technical committee to analyse

What's Next?

Steward feedback

- Please complete your evaluation form for this session as we are polling stewards related to their interest in having an information session on the ABC studies
- If your question has not yet been answered, it will be answered and posted in the Questions & Answers communiqué coming in the next week or so
- We ask that you submit your feedback on the new proposed fee methodology by May 20
jjames@cssalliance.ca
- Staff will consolidate and publish a consultation report to the programs' Boards of Directors
- In Ontario, the fee methodology change is 'material' and requires Ministerial approval. Presentations to the WDO and MOECC have begun

QUESTIONS?

Thank you!

