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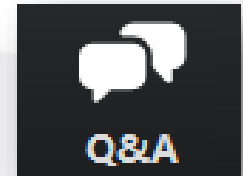
Stewardship Ontario

MHSW Program Wind Up Consultation Return of Surplus Funds to MHSW Stewards

May 12 & 13, 2020

Using the Webinar Platform

- To ask a question, click the Q&A button on the bottom of your screen.
 - You may have to toggle your cursor on the screen to show the Q&A button.
 - You can ask questions on the content of this presentation at anytime during the webinar.
 - Any question we don't get to we will answer in the Q&A document which will be posted on our website.
 - All questions and answers will be included in the consultation report that will be submitted to RPRA.
- This presentation and webinar recording will be available on the MHSW Wind Up webpage by tomorrow:
StewardshipOntario.ca/MHSW-WindUp/.



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5 Key Objectives re: Proposed Amendment to MHSW Wind Up

- Meet the requirements of the Minister's direction letters and the provisions of the *Waste Diversion Transition Act* (WDTA);
- Be transparent with stewards, municipalities and other stakeholders with respect to the risks and obligations related to MHSW Wind-Up;
- Enable prudent financial provisions in the event there is a potential delay in development and implementation of an individual producer responsibility (IPR) regulation to transition the management of municipal hazardous or special materials (MHSM) under the *Resource Recovery and Circular Economy Act* (RRCEA);
- Treat all stewards fairly with respect to the allocation of cost of MHSW Wind-Up; and
- Consider feedback and respond to stewards, municipalities and other stakeholders following meaningful consultation.

Agenda

1. Background
2. Process & Timelines for Consulting on New Direction
3. Principles & Important Financial Concepts
4. Proposal for Meeting the Minister's Direction
5. New Risks Post-COVID-19
6. SO-ISO Agreements
7. Stakeholder Feedback



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1. Background



Program Overview

- The Municipal Hazardous or Special Waste (MHSW) program, known to consumers as Orange Drop, launched in 2008.
- The program is designed to collect household hazardous or special waste and manage these materials at their end of life, ensuring they are recycled or disposed of safely.
- The program includes nine materials:

Anti-freeze	Batteries
Oil Filters	Pressurized Containers
Oil Containers	Pesticides
Paint	Fertilizers
Solvents	

Program Overview

- SO is responsible for the overall administration of the MHSW program. It is required to maintain data and records related to all materials and to conduct reconciliations between SO and ISOs. It is also responsible for developing and implementing a Wind Up Plan for the MHSW program.
- Stewardship Ontario also oversees end-of life management for pressurized containers and single-use batteries.
- Industry Stewardship Plans introduced over the years are responsible for the end of life management of the other MHSW materials:
 - **2015: Product Care** – paints and coatings.
 - **2016: Product Care** – pesticides, solvents and fertilizers.
 - **2017: Automotive Materials Stewardship** – oil filters, oil containers, antifreeze and antifreeze containers.

MHSW Wind Up to Date

April 12, 2018	The Environment Minister issued direction to develop a plan to wind up the MHSW program, and submit the plan to RPRA for approval by June 30, 2019.
December 11, 2018	The Environment Minister amended the wind up date for single-use batteries to June 30, 2020.
March/April 2019	Stewardship Ontario held consultations with stakeholders on its MHSW Wind Up Plan proposals.
July 2, 2019	The Environment Minister sent a direction letter requesting amendments to the MHSW Wind Up Plan around how surplus funds would be managed and returned to consumers. The Minister also extended the program termination date to June 30, 2021.
August 2019	Stewardship Ontario consulted with stakeholders on the amendments directed in the Minister's July letter.
September 30, 2019	Stewardship Ontario submitted its amended MHSW Wind Up Plan to RPRA for approval.

MHSW Wind Up to Date

October/November 2019	RPRA consulted on Stewardship Ontario's MHSW Wind Up Plan.
December 20, 2019	New Ministerial direction was received clarifying the management of residual funds.
December 27, 2019	RPRA approved the MHSW Wind Up Plan with certain conditions.
January 2020	Stewardship Ontario consulted with stakeholders on its residual funds addendum proposals.
January 16, 2020	Stewardship Ontario submitted its residual funds addendum to RPRA for approval.
January 22 – 31, 2020	RPRA held consultations on Stewardship Ontario's residual funds addendum.
February 19, 2020	RPRA approved the residual funds addendum.

Recent Events

- On April 1, 2020 the Minister directed SO to develop amendments to the wind up plan that would ensure that 100% of the surplus funds RPRA approved for fee reductions in December 2019 and February 2020 for stewards who are part of approved ISPs be returned in one-time lump sum payments to the ISOs that operate the ISPs.
- The amended wind up plan will require one-time lump sum payments be provided pursuant to agreements that:
 - Outline how ISOs are to return surplus funds to Industry Stewardship Plan (ISP) stewards "in the form of fee reductions for the maximum benefit of consumers" and;
 - In the case that there is a delay in the transition of the MHSW program under the RRCEA, allow Stewardship Ontario to recover "**reasonable unexpected costs** related to the materials managed by the ISOs."



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2. Process & Timelines for Consulting on New Direction

Process for Implementing Minister's April 1 Direction

April 29, 2020	Ministerial direction granting an extension for submitting the amendments to RPRA to June 5, 2020 in order to allow sufficient meaningful consultation with stakeholders given the current situation with the COVID-19 pandemic.
April/May, 2020	Stewardship Ontario develops a proposal that meets the Minister's direction and is in accordance with the <u>WDTA</u> * and its regulations.
May 12/13, 2020	Stewardship Ontario conducts consultations and provides stakeholders with the opportunity to submit feedback.
May 22, 2020	Stakeholder feedback due to Stewardship Ontario. Stewardship Ontario develops the required amendments to the WUP based on stakeholder feedback received.
June 5, 2020	Stewardship Ontario submits the amendments to RPRA for consultation and subsequent approval.

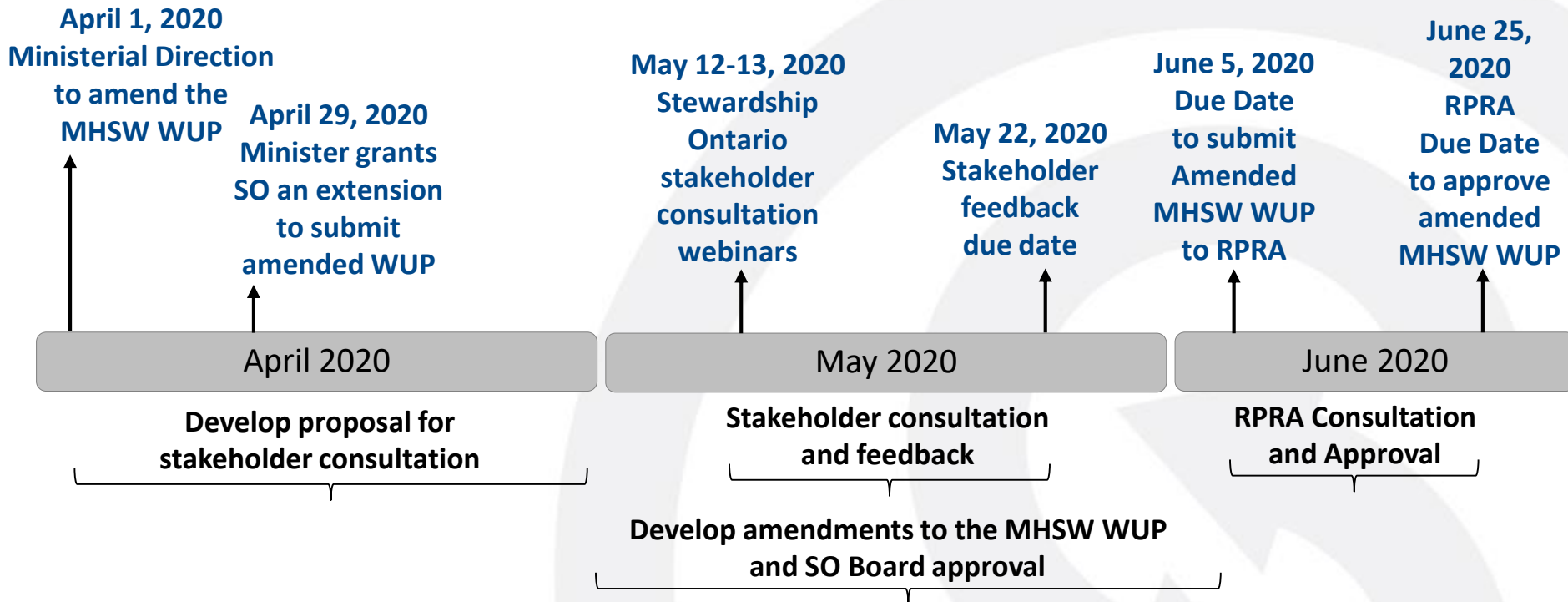
* Waste Diversion Transition Act, 2016

Process for Implementing Minister's April 1 Direction

June 10, 2020	RPRA's tentative consultation date.
June 17, 2020	Stakeholder feedback due to RPRA.
June 25, 2020	Date the Minister anticipates RPRA will approve the surplus fund amendments.
Two weeks following approval	SO-Industry Stewardship Organization Agreements signed and lump sum payments made to AMS & PCA.

Process & Timelines

Amended MHSW Wind Up Plan Timeline





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3. Principles & Important Financial Concepts

Introduction to Wind Up Costs

- The wind up of a stewardship program and subsequently the Industry Funding Organization (IFO), such as Stewardship Ontario, requires funding. For example, the costs of this wind up plan amendment proposal, consultation and regulatory oversight are all wind up costs.
- To avoid having to bill stewards for wind up costs as they were incurred, the SO Board made provisions through its reserve policies to set aside money for winding up its stewardship programs, including the MHSW program.
- The total cost of wind up will vary depending on a number of factors: how long the wind up takes, the amount of resourcing required to meet government direction(s) and address stakeholder issues, and the fees for regulatory oversight.

Introduction to Wind Up Costs

- While SO makes every effort to control administrative costs, including those related to wind up, many of these costs are outside of SO's control, particularly the costs associated with reporting requirements, regulatory delays as well new directions, which require policy development, consultation and regulatory approval.

Foundational Principles

- Two important principles underpin IFO wind up plans:
 1. Prior to the distribution of surplus funds, Stewardship Ontario is required to allocate sufficient funds to cover the costs to wind up a program.
 2. One material category cannot cross-subsidize the costs of another material category.
- These principles are grounded in legislation, specifically, the WDTA, s.33(5) and s.35(2), and cited in the Minister's direction.

WDTA Wind Up Funding Provisions: Section 33(5)

- IFOs are permitted to use fees paid into diversion programs for the purpose of wind up; specifically for:
 - The costs of developing and implementing a plan to wind up all or part of the program.
 - The costs incurred by the organization or the Authority to wind up all or part of the program.
 - The costs incurred by the organization or the Authority to wind up the organization.
- Moreover, fees “paid by a steward should fairly reflect the proportion of the sum that is attributable to the steward.”

What constitutes a Wind Up Cost as per s.33(5) WDTA?

- Costs to **develop** the MHSW Wind Up Plan:



- Management & professional fees, accounting, communication, consultation with stakeholders, legal costs associated with Wind Up Plan development and approvals;
- Including development of subsequent Wind Up Plan amendments.

- Costs to **implement** the MHSW Wind Up Plan once approved:



- Costs associated with implementing all the activities described in the Wind Up Plan. (e.g. administering fee reduction agreements, terminating contracts with service providers, staff severance, corporate dissolution, wind up plan regulatory reporting, on-going stakeholder communication and associated management of the wind up.)

- RPRA fees for **oversight** associated with wind up of MHSW program.



- Distinct from oversight of normal MHSW program operations.

These costs are known as “General Wind Up Costs” because they apply to all MHSW materials and are shared among all stewards.

How are General Wind Up Costs Funded?

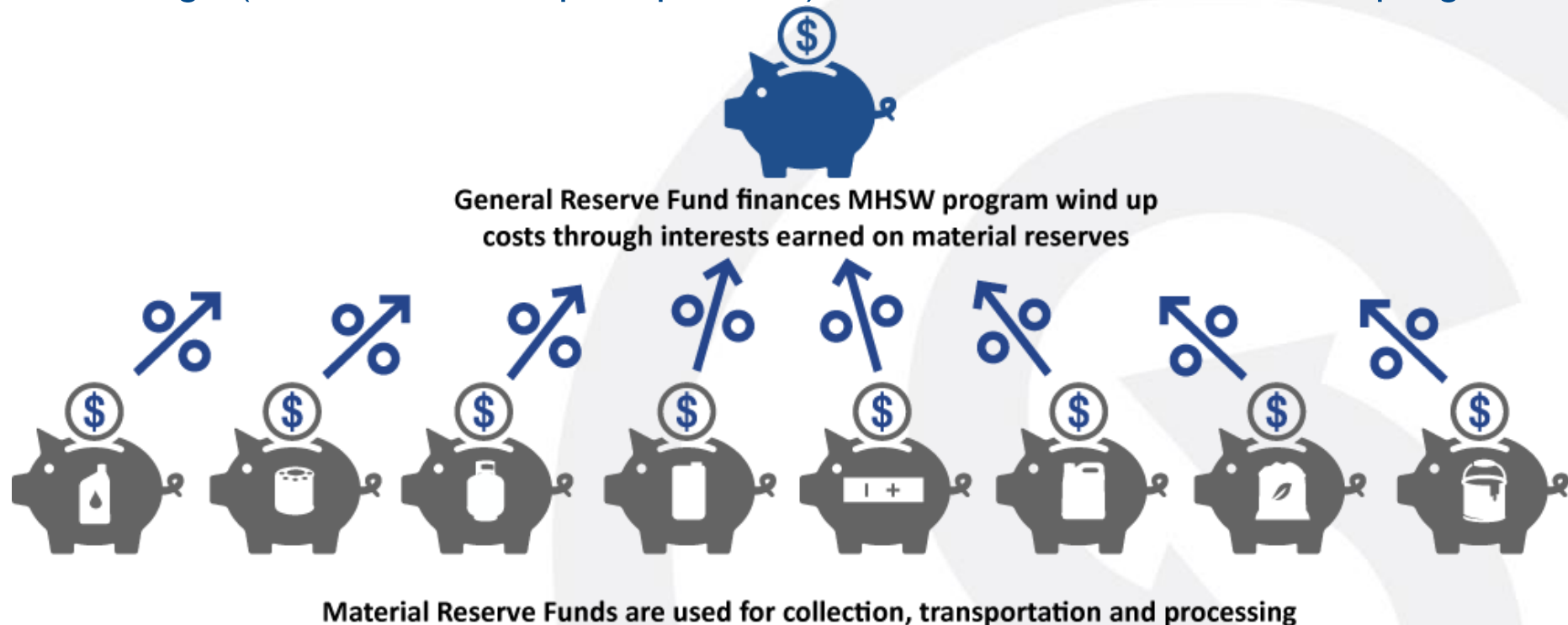
- In 2010, the Stewardship Ontario Board created a **General Reserve Fund** for the purpose of paying for general wind up costs when the time came to wind up the MHSW program.
- The General Reserve Fund was financed by setting aside the interest earned on the investment of MHSW funds in any given year.
- This accounting policy allowed monies already contributed by stewards to earn the necessary funds to discharge their shared obligations for wind up on a proportional basis.
- The General Reserve Fund was established to avoid having to charge stewards directly for general wind up costs.



**General Reserve
Fund**

How are General Wind Up Costs Funded?

- The interest in the General Reserve Fund was earned on the Material Reserve Fund balances which consisted of any monies stewards paid to manage (i.e. collect, transport, process) their MHSW materials in the program.



- Interest accumulates on material balances when there is a time lag between when fees are collected and when program expenses are paid AND when there are surpluses at year end that are set aside in material reserves.

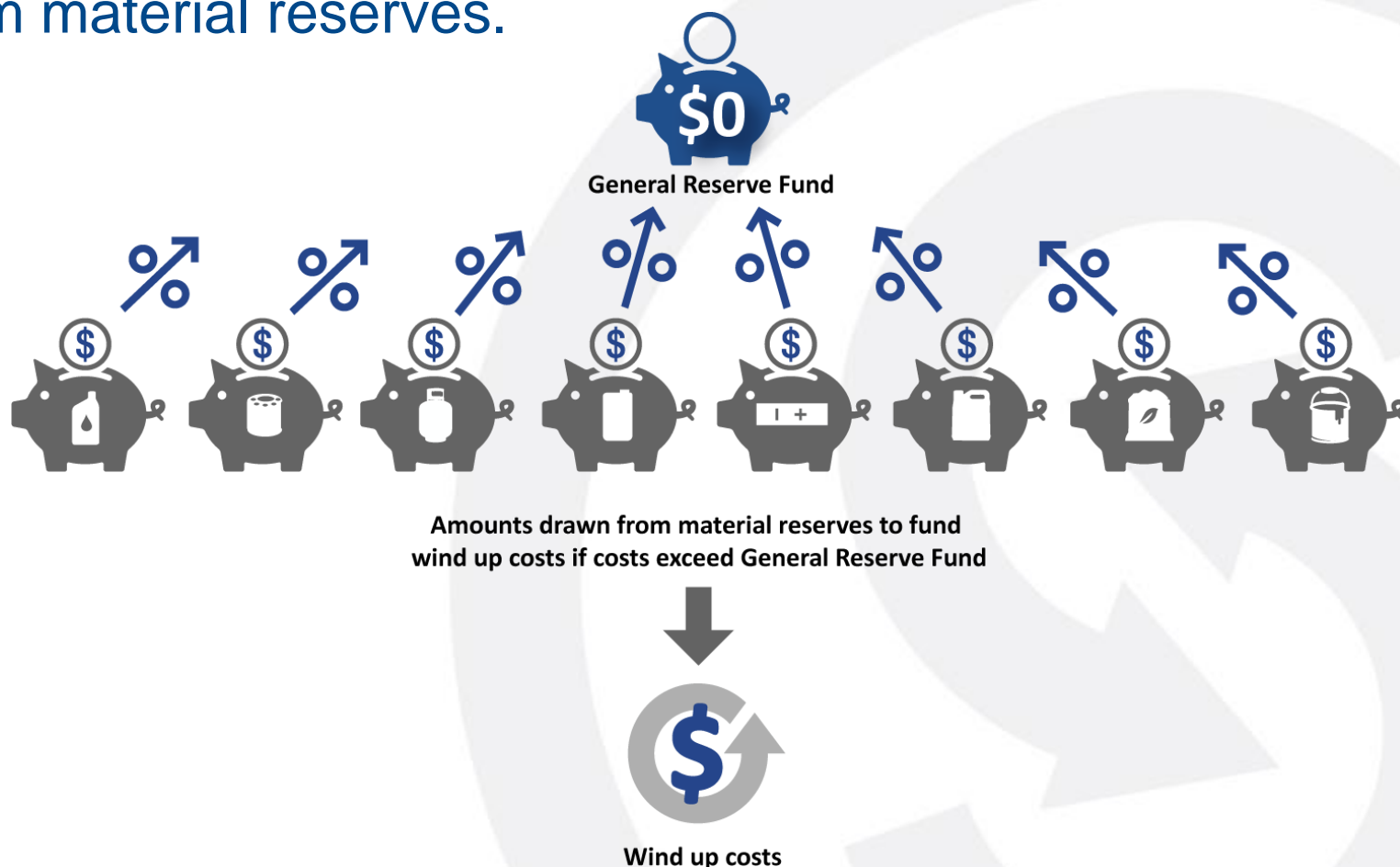
Where did the interest in the General Reserve Fund come from?

- Today, over 70% of the material reserve balances relate to a 2018 Federal Court decision which ruled in SO's favour to return HST payments that were collected on steward fees from 2011-2018.
- The Canada Revenue Agency returned approx. \$30M to SO which has been accumulating interest for the benefit of all MHSW stewards whether they are members of SO or an ISP.



What if the General Reserve Fund cannot cover all general wind up costs?

- In the event general wind up costs exceed what is set aside in the General Reserve, additional amounts will need to be drawn from material reserves.



How will costs be allocated to replenish the General Reserve Fund?

- Costs will be allocated on the basis of each materials' historic share of revenue contribution to the MHSW program.
- **For example:**
 - If Material X contributed 10% of the revenue in SO's MHSW program over time;
 - And general wind up costs increase by \$10,000; then
 - Material X pays $\$10,000 \times 10\%$ or \$1,000 towards the increased costs.
 - All stewards in Material X are therefore sharing those costs through a deduction from their material reserve fund.



Why would wind up costs increase beyond what has been budgeted?

Events that could increase costs:

1. **Regulatory Delay:** The MHSW program is extended beyond June 2021 because new regulations under the RRCEA are not yet promulgated. Keeping the program running increases Wind Up Plan implementation costs because most wind up activities as well as overhead must continue Business As Usual for an extended period of time.
2. **Ministerial Directions:** Each additional Direction imposes costs for duplicate consultations (IFO + RPRA), professional fees for drafting proposals, technical, administrative and communications support.

Why do stewards that are now in ISPs have to share in SO's wind up costs?

- Without the MHSW program to set standards/benchmarks for environmental performance no ISP would exist.
- Once ISPs are established SO is required to maintain its program even if there are zero stewards left in a particular material category. SO's role is to function as a “home base” for stewards in the event the ISP cannot meet performance requirements OR in the event stewards wish to return to SO.
- In addition, SO is required to continue certain activities on behalf of all stewards even once an ISP is approved. The cost for these administrative activities must be allocated fairly amongst all stewards, regardless of how or who manages the reverse supply chain for their materials.



Stewardship Ontario



Automotive
Materials
Stewardship



Why do stewards that are now in ISPs have to share in SO's wind up costs?

- SO and the ISOs are interdependent and are engaged in a continuous flow of information and data. Stewardship Ontario regularly conducts complex transactions and reconciliations on behalf of ISP stewards and is responsible for maintaining related data and records until final wind up.
- SO has always operated on the basis that all MHSW stewards carry an obligation to provide both for its start up and wind up. SO has no source of funding other than steward contributions. SO could not unfairly burden stewards who did not or could not join ISPS with all the costs of winding up SO.



Stewardship Ontario



Automotive
Materials
Stewardship



In Summary...

- The approach that the SO Board took in 2010, of having interest on material reserves fund the General Reserve has provided enough money in the General Reserve to cover anticipated costs at the time the WUP was approved.
- If there are no events that increase costs beyond those planned expenditures, stewards will not be required to pay additional fees to SO for wind up.
- If there are unplanned costs, it is possible that stewards will have to pay additional fees to SO for wind up. As noted, SO's original intention was that funds would be drawn from material reserves to cover unplanned costs, rather than charging stewards additional fees.



For your Consideration When Submitting Written Feedback

- Is further clarification required to illustrate what constitutes an IFO wind up cost?
- In your opinion, are there events in addition to regulatory delay and additional Ministerial directions that could increase costs, in your opinion?
- Would any additional information help stakeholders understand why there is a risk of unplanned costs?
- What steps can stewards, SO, ISPs and other stakeholders take to avoid the risk of unplanned costs occurring?
- How important is it for SO to have the ability to recover "reasonable unexpected costs" from the ISOs if there is a delay in the transition of the MHSW program to the RRCEA?



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4. Proposal for Meeting the Minister's Direction

The Minister's Direction



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Ministry of the Environment,
Conservation and Parks

Ministère de l'Environnement,
de la Protection de la nature et des
Parcs

Office of the Minister

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357-2020-577

Ms. Robyn Collver
Chair, Stewardship Ontario
1 St Clair Avenue West, 7th Floor
Toronto ON M4V 1K6

Dear Ms. Collver:

In accordance with recent Ministerial directions to Stewardship Ontario (SO) on the transition of the Municipal Hazardous or Special Waste (MHSW) program, I am directing that SO develop amendments to the wind up plan, pursuant to subsection 14(17) of the *Waste Diversion Transition Act, 2016*.

This direction applies only to the MHSW material categories for which there are approved Industry Stewardship Plans (ISPs) and does not relate to the material categories managed exclusively by SO (i.e. single-use batteries and pressurized containers).

Pursuant to feedback from stakeholders, I am directing SO to develop amendments to the wind up plan that would ensure that 100 per cent of the surplus funds the Resource Productivity and Recovery Authority (the Authority) approved for fee reductions in December 2019 and February 2020 for stewards who are part of approved ISPs be returned in one-time lump sum payments to the Industry Stewardship Organizations (ISOs) that operate the ISPs.

The amended wind up plan will require that the one-time lump sum payments be provided pursuant to surplus transfer agreements between the ISOs and the Authority.

- Outline how the ISO would return 100 per cent of the surplus funds to ISP stewards in the form of fee reductions to consumers.
- In the case that there is a delay in the transition of individual producer responsibility under the *Resource Management and Recovery Act, 2016*, allows SO to recover reasonable costs to the materials managed by the ISO's. This shall be similar in scale to prior years' wind up plan.

Pursuant to feedback from stakeholders, I am directing SO to develop amendments to the wind up plan that would ensure that 100 per cent of the surplus funds the Resource Productivity and Recovery Authority (the Authority) approved for fee reductions in December 2019 and February 2020 for stewards who are part of approved ISPs be returned in one-time lump sum payments to the Industry Stewardship Organizations (ISOs) that operate the ISPs.

Summary of Surplus Funds Transfer MHSW Category

	A	B	C	D	E
MHSW Material Reserves	Total Surplus Funds Available for Fee Reduction MHSW WUP Dec 2019	SO Steward Share Split WUP	SO Steward Share of Surplus Funds	ISO Member Share Split WUP	ISO Member Share of Surplus Fund Estimate
1. Antifreeze	\$1,900,000	21%	\$399,000	79%	\$1,501,000
2. Oil Filters	\$9,550,000	23%	\$2,196,500	77%	\$7,353,500
3. Oil Containers	\$9,700,000	16%	\$1,552,000	84%	\$8,148,000
4. Subtotal	\$21,150,000		\$4,147,500		\$17,002,500
5. Fertilizers	\$195,000	15%	\$29,200	85%	\$165,800
6. Paints/Coatings	\$14,470,000	0.2%	\$28,900	99.8%	\$14,441,100
7. Pesticides	\$113,000	0%	\$0	100%	\$113,000
8. Solvents	\$1,320,000	33%	\$435,600	67%	\$884,400
9. Subtotal	\$16,098,000		\$493,700		\$15,604,300
10. PC (Non-Refillable)	\$0	100%	\$0	0%	0
11. PC (Refillable)	\$225,000	100%	\$225,000	0%	0
12. Single-Use Batteries	\$5,490,000	100%	\$5,490,000	0%	0
13. Subtotal	\$5,715,000		\$5,715,000		0
TOTAL	\$42,963,000		\$10,356,200		\$32,606,800

Surplus fund amounts and SO–ISO share splits from Approved MHSW WUP Plan Section 8: Reserves

100% Surplus Fund Transfer Amounts Automotive Materials

MHSW Material Reserves Automotive Materials	Total Surplus Funds Available for Fee Reduction MHSW WUP Dec 2019	SO Steward Share Split WUP	SO Steward Share of Surplus Fund Estimate	AMS Member Share Split WUP	AMS Member Share of Surplus Fund Estimate
1. Antifreeze	\$1,900,000	21%	\$399,000	79%	\$1,501,000
2. Oil Filters	\$9,550,000	23%	\$2,196,500	77%	\$7,353,500
3. Oil Containers	\$9,700,000	16%	\$1,552,000	84%	\$8,148,000
TOTAL	\$21,150,000		\$4,147,500		\$17,002,500

Surplus fund amounts and SO–AMS share splits from the December 2019 Approved MHSW WUP Plan Section 8: Reserves

80% of SO's reserves in the automotive materials' category will be transferred to AMS.

100% Surplus Fund Transfer Amounts PCA MHSW Materials

MHSW Material Reserves PCA Materials	Total Surplus Funds Available for Fee Reduction MHSW WUP Dec 2019	SO Steward Share Split WUP	SO Steward Share of Surplus Fund Estimate	PCA Member Share Split WUP	PCA Member Share of Surplus Fund Estimate
1. Fertilizers	\$195,000	15%	\$29,200	85%	\$165,800
2. Paints/Coatings	\$14,470,000	0.2%	\$28,900	99.8%	\$14,441,100
3. Pesticides	\$113,000	0%	\$0	100%	\$113,000
4. Solvents	\$1,320,000	33%	\$435,600	67%	\$884,400
TOTAL	\$16,098,000		\$493,700		\$15,604,300

Surplus fund amounts and SO-PCA share splits from Approved MHSW WUP Plan Section 8: Reserves

97% of SO's reserves in the above categories will be transferred to PCA.

Surplus Fund Amounts SO Managed Materials

MHSW Material Reserves	Total Surplus Funds Available for Fee Reduction MHSW WUP Dec 2019	SO Steward Share Split WUP
1. PC (Non-Refillable)	\$0	100%
2. PC (Refillable)	\$225,000	100%
3. Single-Use Batteries	\$5,490,000	100%
TOTAL	\$5,715,000	

100% of reserves in the above categories for which there are no ISPs remain at SO.

Surplus fund amounts and SO–ISO share splits from Approved MHSW WUP Plan Section 8: Reserves

In summary the 100% Surplus Fund Transfer means....



Summary of Effect of Minister's Direction

Approved Wind Up Plan

- Reserves would have been disbursed to AMS and PCA in six **quarterly installments** from Q1 2020 to Q2 2021.

Effect of the Minister's Direction

- Stewardship Ontario will disburse the full amount of reserves that were set out in the approved WUP to AMS and PCA in Q3 2020.



Summary of Effect of Minister's Direction

Approved Wind Up Plan

- ISOs disburse surplus funds to ISP stewards “in the form of **fee reductions** for the maximum benefit of consumers.”
- Fee reductions are applied to stewards' quarterly/monthly invoices.



Effect of Minister's Direction

- No change



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5. New Risks Post-COVID-19

The Minister's Direction

Ministry of the Environment,
Conservation and Parks

Ministère de l'Environnement,
de la Protection de la nature et des
Parcs



Office of the Minister

Bureau du ministre

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Tél.: 416 314 6790

357-2020-577

Ms. Robyn Collier
Chair, Stewardship Ontario
1 St Clair Avenue West, 7th Floor
Toronto ON M4V 1K6

Dear Ms. Collier:

In accordance with recent Ministerial directions to Stewardship Ontario (SO) on the transition of the Municipal Hazardous or Special Waste (MHSW) program, I am directing that SO develop amendments to the wind up plan, pursuant to sub-section 10(1) of the *Waste Diversion Transition Act, 2016*.

This direction applies only to the MHSW material categories approved by SO under approved Industry Stewardship Plans (ISPs) and does not relate to material categories managed exclusively by SO (i.e. single-use batteries and paint containers).

Pursuant to feedback from stakeholders, I am directing SO to develop the wind up plan that would ensure that 100 per cent of the surplus funds are returned to the Productivity and Recovery Authority (the Authority) approved by the Minister in December 2019 and February 2020 for stewards who are paid for the materials returned in one-time lump sum payments to the Industry Stewardship Ontario (ISOs) that operate the ISPs.

The amended wind up plan will require that the one-time lump sum payments be provided pursuant to surplus transfer agreements between SO and the Authority.

- Outline how the ISO would return 100 per cent of the surplus funds to ISP stewards in the form of fee reductions, for example, to consumers.
- In the case that there is a delay in the transition of the MHSW program to individual producer responsibility under the *Resource Recovery and Circular Economy Act, 2016*, allows SO to recover reasonable unexpected costs related to the materials managed by the ISO's. This shall be supported by full disclosure and shall be similar in scale to prior years' wind up costs, plus inflation.

...2

In the case that there is a delay in the transition of the MHSW program to individual producer responsibility under the *Resource Recovery and Circular Economy Act, 2016*, allows SO to recover reasonable unexpected costs related to the materials managed by the ISO's. This shall be supported by full disclosure and shall be similar in scale to prior years' wind up costs, plus inflation.

Summary of Effect of Minister's Direction

Approved Wind Up Plan

- The declining balance of reserve funds would have continued to be held in trust by SO.
- In the event of unplanned wind up expenses, SO retained control over all material reserves and could fund the deficiency from the remaining balances.

Effect of the Minister's Direction

- AMS and PCA manage their reserve funds.
- In the event of “reasonable unexpected costs” related to regulatory delay, which exceed the funds available in the General Reserve, SO can recover these costs from the remaining material reserves held by both SO and the ISOs.



SO's Wind Up Budget assumes Transition to RRCEA will be on Time

SO's wind up budget was developed in July 2019.

The budget is a forecast based on two critical assumptions:

1. The wind up will end as follows:
 - Program for single-use batteries would terminate on June 30, 2020;
 - Program for other MHSW material would terminate on June 30, 2021;
 - The final six-months of 2021 would consist only of one-time close down costs associated with “clean up, tally up, close down”.
2. The General Reserve Fund would be sufficient to cover general wind up costs over this period of time.

Post-MHSW Wind Up Plan

Financial Risks

- COVID-19 crisis increases the risk of a delay in transitioning to RRCEA framework:
 - MHSW program termination date only 14 months away.
 - More difficult for government/stakeholders to participate in required regulation development process in current economic climate;
 - No draft regulations have been released.
 - Greater likelihood of current program extension.

Est. Impact of Program Extension on Wind Up Costs

Approved MHSW Wind Up Budget (\$'000) ¹	2019	2020	2021	2022	Total
Plan Development & Implementation	\$995	\$1,230	\$894		\$3,121
RPRA Fees	\$450	\$450	\$610		\$1,510
HR Severance			\$110		\$110
Litigation/Dispute Resolution			\$500		\$500
Corporate Wind Up			\$50		\$50
TOTAL	\$1,446	\$1,681	\$2,165		\$5,291
Program Extension (Unfunded)			\$735	\$1,500	\$2,235

¹ From Approved MHSW WUP: Section 4: Financial Forecast and Budget: Table 19 – Page 46.

General wind up costs that are ongoing depending on the term of the wind up.
One-time costs associated with wind up post-termination.

Program extension costs for general windup exceed the amounts in the General Reserve Fund.

How would a program extension be funded from material reserves?

Material Category	Unfunded Cost of Program Extension	Percentage for Each MHSW Category
1. Antifreeze	\$101,500	4.5%
2. Oil Filters	\$428,000	19.1%
3. Oil Containers	\$410,300	18.4%
5. Fertilizers	\$16,700	0.7%
6. Paints	\$674,100	30.2%
7. Pesticides	\$15,000	0.7%
8. Solvents	\$66,400	3.0%
10. PC-NR	\$72,900	3.3%
11. PC-R	\$23,700	1.1%
12. Batteries	\$426,400	19.1%
TOTAL	\$2,235,000	100.0%

- The personnel and overhead costs associated with extending the MHSW program run approx. \$125K month.
- These costs are borne by the General Reserve Fund but once this is depleted in June 2021, these costs must be drawn from material reserves.
- They are to be shared by all stewards (SO/ISO).
- The formula utilized by SO to draw from material reserves to cover general wind up costs is based on each category's contribution to the revenue of the program since its inception.
- This table shows how an 18-month program extension (\$2.2M) would be allocated to each material category.

How would costs of a program extension be shared between SO and the ISOs?

Material Category	Unfunded Cost of Program Extension	SO Steward Share Program Extension	ISO Share of Program Extension
1. Antifreeze	\$101,500	\$21,300	\$80,200
2. Oil Filters	\$428,000	\$98,500	\$329,500
3. Oil Containers	\$410,300	\$65,600	\$344,700
4. Subtotal	\$939,800	\$185,400	\$754,400
5. Fertilizers	\$16,700	\$2,500	\$14,200
6. Paints	\$674,100	\$1,400	\$672,700
7. Pesticides	\$15,000	\$0	\$15,000
8. Solvents	\$66,400	\$21,900	\$44,500
9. Subtotal	\$772,200	\$25,800	\$746,400
10. PC-NR	\$72,900	\$72,900	\$0
11. PC-R	\$23,700	\$23,700	\$0
12. Batteries	\$426,400	\$426,400	\$0
13. Subtotal	\$523,000	\$523,000	\$0
TOTAL	\$2,235,000	\$734,200	\$1,500,800



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Potential amounts SO must recover from ISOs to ensure material reserve adjustments are consistent with statutory requirements.

Program extension based on potential 18-month delay in termination.

Stewards who Remain with SO Would Bear the Full Burden Cost

Material Category	SO Steward Share of Surplus Funds	Unfunded Cost of Program Extension	Revised SO Surplus Fund Estimate
1. Antifreeze	\$399,000	\$101,500	\$297,500
2. Oil Filters	\$2,196,500	\$428,000	\$1,768,500
3. Oil Containers	\$1,552,000	\$410,300	\$1,141,700
4. Fertilizers	\$29,200	\$16,700	\$12,500
5. Paints	\$28,900	\$674,100	-\$645,200
6. Pesticides	\$0	\$15,000	-\$15,000
7. Solvents	\$435,600	\$66,400	\$369,200
8. PC -NR	\$0	\$72,900	-\$72,900
9. PC -R	\$225,000	\$23,700	\$201,300
10. Batteries	\$5,490,000	\$426,400	\$5,063,600
TOTAL		\$2,235,000	

This table shows what would happen to SO steward reserves if ISOs did not contribute their share towards the cost of a program extension.



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6. SO-ISO Agreements

SO-ISO Agreements Key Tool

- The “surplus transfer agreements” between SO and the ISOs are a key tool in the execution of the Minister’s direction letters and are a necessary condition for the lump-sum payments.
- The agreements have two critical objectives:
 1. Outline how the ISOs would return 100% of the surplus fund to stewards for the maximum benefit of consumers.
 2. Define conditions under which SO can recover reasonable costs in the event of a program extension.

Cost Recovery Provision Objectives

- Ensure a fair allocation of costs between SO stewards and ISO stewards in the event of a program extension.
 - Cost share formula to provide for proportionate contributions from all stewards according to their contributions to program revenue while at SO;
- Avoid cross-subsidization whereby
 - Only existing SO stewards pay for all program extension costs either through depletion of their material reserves or in the case where their material reserves are insufficient, through additional invoicing
 - Costs are shifted to Blue Box stewards once MHSW funds are depleted.
 - These scenarios would violate the cross-subsidization principles of the WDTA.

The ISO Agreement will set out

- The surplus funds to be transferred to each ISO as per the Minister's direction.
- The amount of funds that could potentially be recovered in the event of a program extension.
 - How those amounts are calculated.
 - The criteria that must be met for those funds to be paid to SO.
 - How those funds are to be safeguarded during the wind up to ensure they are available if needed.
- The process for returning surplus funds to stewards through fee reductions.
- The conditions that ISO stewards must meet to be eligible for fee reductions.
- The data sharing and reporting requirements related to the use of surplus funds.

Safeguarding Funds for Potential Program Extension

- SO is proposing that a portion of the 100% ISO surplus fund transfer be placed into escrow:
 - Escrow amounts would be equal to the amount SO may need to recover from ISOs in the event of an 18-month program extension (see slide 48):
 - Approx. \$750K for each of AMS & PCA;
 - If the transition to the RRCEA framework takes place as planned on June 30, 2021, escrow funds would be released to stewards;
 - If the transition to the RRCEA framework is delayed, and SO General Reserves are not sufficient to cover SO wind up costs, escrow amounts would be utilized to cover SO wind up costs as per terms of the SO-ISO surplus fund transfer agreement.

Provisions to Ensure Fee Reductions Benefit Consumers

- Terms for transferring surplus funds to ISOs will specify that:
 - They be be utilized strictly for fee reductions.
 - That only stewards in “good standing” receive fee reductions.
 - That stewards receiving fee reductions acknowledge the Minister’s Direction that the funds will benefit consumers.
 - ISOs develop fee reduction schedules and report to RPRA on the outcome of fee reductions.

ISP Agreements to be Posted for All Stakeholders

- The draft ISO agreements will be posted at the same time as this presentation on Wednesday May 13, 2020.
- Stakeholders who have questions about the key provisions of the proposed SO-ISO Agreement can contact us at mhswwindup@stewardshipontario.ca.

For your Consideration when Submitting Feedback

- The Minister's direction requires that surplus transfer agreements outline a process for SO to "recover reasonable unexpected costs" related to regulatory delay. The direction does not consider the possibility of unexpected costs related to further ministerial directions or other events. Should SO have the ability to recover costs other than those related to a program extension?
- Do the proposed terms of the agreements with ISOs strike the right balance to protect stewards who are not in ISOs from having to pay more than their proportionate share of unplanned costs?

For your Consideration when Submitting Feedback

- Is the dispute-resolution process proposed in the legal agreement reasonable in order to resolve any potential disputes between SO and the ISOs over funding reasonable unexpected costs?
- Would any additional information help stakeholders understand why there is a risk of unplanned costs?
- What steps can stewards, SO, ISOs and other actors take to avoid the risk of unplanned costs occurring?



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7. Stakeholder Feedback

Feedback Requested

- Feedback is required by **Friday May 22, 2020**:
 - Email feedback to mhswwindup@stewardshipontario.ca; or
 - Submit feedback via the online [feedback form](#).
- Stewardship Ontario will review and consider all comments, as well as additional stakeholder feedback in developing the amended MHSW Wind Up Plan.
- Stewardship Ontario will submit the amended MHSW Wind Up Plan to RPRA by **June 5, 2020**.

Consultation and Wind Up Materials

- MHSW Wind Up information is available at: stewardshipontario.ca/mhsw-windup
- Today's webinar recording and presentation will be available on the above webpage by end of day on Wednesday, May 13, 2020.
- Q&A document with questions received during the webinar will be posted with webinar materials.



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Thank you