HANDLING COMMISSIONS REVIEW PANEL

REPORT TO THE MEMBERS AND DIRECTORS OF THE BEVERAGE CONTAINER MANAGEMENT BOARD

RECOMMENDATIONS FOR HANDLING COMMISSIONS

NOVEMBER 2, 2007

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1 EXECUTIVE SUMMARY

This Report to the Members and Directors of the Beverage Container Management Board (BCMB) presents the recommendations of the Handling Commissions Review Panel (HCRP or Panel) in accordance with the BCMB's Handling Commission Procedure. The development of this Report has followed a lengthy process of data collection and analysis by the Data Collection Agent (DCA), presentation of evidence by Interested Parties and testing of all the evidence in hearings. This summary is intended for convenience of the reader. Please refer to the body of this Report for more detailed analysis of material and relevant issues.

In this Report the Panel has recommended a total Revenue Requirement of $56,371,471 as set forth in Schedule 12-a of Appendix "D", and Handling Commissions as set forth in Appendix III of Appendix "E". The Panel notes the following:

1. The Panel's recommended Revenue Requirement has been calculated based on the submissions of the DCA and the Interested Parties in relation to a 2006 Revenue Requirement, with an escalation of operating costs in order to address regulatory lag and bring the Panel's recommended Revenue Requirement calculation forward to 2007. The HCRP total Revenue Requirement is less than the amounts recommended by the DCA and the Alberta Bottle Depot Association (ABDA) and greater than the amounts recommended by either of the manufacturers, Alberta Beverage Container Recycling Corporation (ABCRC) and Canada's National Brewers (CNB).

2. The material differences between the Panel's recommended Revenue Requirement and the DCA's Revenue Requirement result from the following:

    a) the exclusion of Collection Costs, including Labour costs associated with Collections, primarily to reflect the discretionary nature of Collection Costs;

    b) the use of an escalation of Labour costs to 2006 which is lower than that used by the DCA in view of expert testimony;

    c) the use of a five-year rolling average lease rate methodology as recommended by CNB's expert for the deemed lease value;

d) the calculation of Income Tax on a system wide basis rather than the Depot-specific basis for only profitable Depots used by the DCA, in recognition of a Depot network and the complementary relationship between return and income tax; and

e) the roll forward of costs by the Panel to 2007 in recognition of regulatory lag.

3. The Panel considers that it has addressed some of the concerns of the manufacturers and provided for a more appropriate calculation of the Revenue Requirement in the adjustments noted in paragraph 2 above. At the same time the Panel has balanced this by addressing some of the concerns of ABDA through the following recommended adjustments:

a) the exclusion of the VAF from Miscellaneous Revenues in recognition that all parties supported this approach;

b) the inclusion of additional hours for Overhead Labour for Depots whose hours were capped, and for Depots in higher volume clusters based on ABDA's evidence relating to certain managerial duties;

c) the inclusion of an amount of Regulatory costs in consideration of the similarity, in part, of ABDA to an applicant in a utility proceeding;

d) the calculation of return margins at the high end of the expert testimony in consideration of fair return to maintain a viable Depot network; and

e) the escalation of operating expenses to a 2007 Revenue Requirement, including an adjustment to variable costs reflecting the impact of volume increases, to address regulatory lag.

4. With respect to the calculation of Handling Commissions for containers, the Panel has recommended:

a) the use of the Stantec Time and Motion Study (TMS) results as per the "front door" study to allocate Direct Labour to container streams in view of expert testimony;

b) the use of the allocators as recommended by ABCRC for costs other than Direct Labour in view of expert testimony; and

c) no adjustment at this time with respect to internalities and externalities (environmental characteristics of individual container streams), owing more to the nature of the record than to any determination that these characteristics should not be considered.

5. The effect of the Panel's recommended Revenue Requirement and Handling Commissions is an average rate decrease of approximately 5.9% from the current level. In consideration of the potential impact on earnings and the Depot viability assessment of the DCA the Panel has recommended:

a) a fixed fee component in the rate design of $250 per month, as per the ABDA evidence, in order to address viability of smaller Depots; and

b) return margins in accordance with the high end of the range of expert testimony.

The Panel considers that in determining the totality of its recommendations it has balanced the issues of "the lowest possible cost to consumers" with "fair return to maintain a viable Depot network" in the context of the evidence before it on the record.

In reaching the recommendations in this Report, the Panel has considered all relevant materials comprising the record of this proceeding, including the evidence of the DCA and Interested Parties and the Argument and Reply provided by each Interested Party. References in this Report to specific parts of the record are intended to assist the reader in understanding the Panel's reasoning relating to a particular matter and should not be taken as an indication that the Panel did not consider all relevant portions of the record with respect to that matter.

2 INTRODUCTION

By a motion dated October 18, 2006[1] the Members of the BCMB[2] formally commenced the Handling Commissions Review Process (Review Process) pursuant to the BCMB's Handling Commission Procedure.[3] Handling commissions (Handling Commissions) are required to be paid to bottle depots (Depots) by beverage manufacturers for the handling of empty beverage containers.

The Review Process itself is one segment of a lengthy process, which has been undertaken by the BCMB and its Members to determine Handling Commissions since approximately 2001. The Record of relevant documents for this process was initially prepared by the BCMB and formed the foundation for the exhibit list used for the Phase I and Phase II hearings in the Review Process.

ABCRC, ABDA and CNB (collectively the "Interested Parties") participated in the Review Process. The Interested Parties filed evidence in the Review Process and participated in the oral hearings, in Argument, and in Reply Argument (Reply). Section 2.1 below provides further detail on the participation of the parties and Section 3.1 below provides further details on the process parameters and chronology. The BCMB was a neutral party in the Review Process, with a representative attending the pre-hearing meeting and the oral hearings but taking no position throughout.

The other participating party was Desiderata Energy Consulting Inc. (formerly Stantec Consulting Ltd. (Stantec)), which had been retained by the BCMB as the Data Collection Agent (DCA) for purposes of the BCMB's Handling Commission Procedure. The DCA was retained to provide the following services:

a) provide input and advice into the type and form of data to be collected;

b) be responsible for all aspects of the collection of information for the purposes of setting Handling Commissions, having regard to specific direction of the Directors;

[1] BCMB Members Motions, October 18, 2006, Exhibit 136a
[2] Definitions of capitalized terms used in this Report are consistent with the same terms as defined in the Rules, Exhibit 280.
[3] Handling Commission Procedure, approved by the BCMB December 11, 2003, Exhibit 11

c) receive all information collected from depots, and prepare such reports as are requested by the Directors or the Handling Commissions Review Panel;

d) verify to a reasonable degree, analyse and organize the information, and provide reports respecting the information to the Directors, the Members, the Handling Commissions Review Panel and all Interested Parties.[4]

The DCA advised the BCMB as to the creation of a Uniform Code of Accounts (UCA) to collect financial and operating data from Depots. The DCA also prepared reports for the BCMB in relation to Phase I issues (Revenue Requirement) and in respect of Phase II issues (rate design and recommended Handling Commissions), using data from the years 2004 (which data was included in the DCA's 2005 Phase I and II Reports) and 2005 (which data was included in the DCA's 2006 Phase I and II Reports). The reports were prepared, distributed to the BCMB, discussed by the parties and revised. The final reports prepared by the DCA and utilized in the Review Process were the DCA's 2005 Phase I Report Revision 1, dated November 1, 2005[5]; 2005 Final Phase II Report, dated September 27, 2006[6]; 2006 Phase I Report, Revision 1, dated January 31, 2007[7]; and 2006 Phase II Report, Revision 1, dated January 31, 2007[8]. These reports are referred to respectively herein as the 2005 Phase I Report, the 2005 Phase II Report, the 2006 Phase I Report and the 2006 Phase II Report, and collectively as the 2005 DCA Reports and the 2006 DCA Reports. These reports formed the base evidence used in the Review Process, a more detailed summary of which is found under "Process Parameters and Chronology" in Section 3.1 below.

2.1 Parties Participating in the Review Process

By letters dated between December 3, 2006 and December 8, 2006 the parties set forth in Table 1 below numbers 3 through 7, confirmed that they would participate as Interested Parties in the Review Process. By letter dated January 19, 2007[9], counsel for the ABDA confirmed that Deerfoot Bottle Depot and Millwoods Bottle Depot had agreed to consolidate their participation in the Review Process with the participation of the ABDA.

The ABCRC, ABDA and CNB participated in all aspects of both Phases I and II of the Review Process, filing Information Requests (IRs) to the DCA, filing evidence in both Phases I and II, filing IRs on the evidence of other Interested Parties, responding to IRs in respect of their evidence, and filing Argument and Reply.

The DCA participated in preparation of the 2005 and 2006 Phase I and Phase II Reports, filing responses to IRs on both reports and appearing at the Phase I and Phase II hearings for purposes of being cross-examined on the Reports and clarifying evidence; and responding to Panel requests for clarification of evidence or illustrative calculations. The DCA did not file IRs, Argument or Reply.

[4] Data Collection Agent Services Agreement made effective the 25th of June, 2004, between the BCMB and Stantec Consulting Ltd., Schedule A; Exhibit 19.
[5] Exhibit 89
[6] Exhibit 133
[7] Exhibit 188
[8] Exhibit 193
[9] Exhibit 174

It should be noted that although the BCMB was included as an Interested Party in the BCMB's Handling Commission Procedure and in the Rules, the BCMB did not file evidence, issue any IRs, participate actively in the hearings or file Argument or Reply. At the Pre-Hearing Meeting of January 23, 2007 it was confirmed that the BCMB was an Interested Party and would remain neutral during the Review Process.[10] It was further determined that BCMB counsel could assist the DCA during the cross-examination of the DCA by Interested Parties, and in redirect in relation to clarifying the DCA's evidence. BCMB counsel could also assist for purposes of clarifying any matter, providing background information or commenting on jurisdictional matters requested by the Panel, so long as any such assistance was on the Record and all Interested Parties had the opportunity to address the matters as well.[11]

As indicated in the Panel's Ruling dated February 7, 2007, the Panel considered the DCA to be neutral as well, serving primarily a function of providing information in the Review Process.[12] The DCA provided a number of additional analyses of evidence at the request of the Panel.[13]

[10] Panel Letter to Interested Parties and the DCA dated January 25, 2007, pg. 1; Exhibit 175
[11] Ibid, pgs. 2 – 3
[12] Ibid, pgs. 4 – 5; also Panel letter and Ruling of February 7, 2007, Exhibit 203, pgs. 1 – 3.
[13] Exhibit 330(a) in respect of Phase I analyses; Exhibits 409, 410, and 422 in respect of Phase II analyses.

Table 1: Parties who Participated in the Review Process

Principals and Representatives (Abbreviations used in Report)	Witnesses
1. Desiderata Energy Consulting Inc. (DCA) D. Hildebrand E. J. Boomer (counsel for BCMB)	D. Hildebrand[14]
2. Beverage Container Management Board (BCMB) R. Saari E. J. Boomer	
3. Alberta Beverage Container Recycling Corporation (ABCRC) G. West R. Turner S. Finlay K. Wakefield	Mr. G. West Dr. M. Huson Mr. J. B. Pammenter Mr. C. Dietze
4. Alberta Bottle Depot Association (ABDA) J. Linton T. Marr-Laing R. Kruhlak D. Evanchuk	Mr. J. Linton Mr. T. Marr-Laing Mr. N. Chymko Dr. L. Booth
5. Canada's National Brewers (CNB) G. D'Avignon B. Pearce L. E. Smith C. K. Sheard	Mr. G. D'Avignon Mr. B. Pearce Dr. W. Marcus Dr. M. Percy Mr. M. Keating[15] Mr. C. Dietze
6. Deerfoot Bottle Depot (participation consolidated with ABDA)	
7. Millwoods Bottle Depot (participation consolidated with ABDA)	

3 BACKGROUND

A considerable amount of history in respect of Handling Commissions has preceded the current Review Process involving the HCRP. This Section of the Report will briefly summarize the developments relating to Handling Commissions in recent years and the processes undertaken to set them.

The BCMB was established by the Beverage Container Recycling Regulation[16] (Regulation) passed pursuant to the provisions of the Alberta Environmental Protection and Enhancement Act[17] (Act). The BCMB is governed by a stakeholder board of Directors, including representatives from the beverage

[14] Dr. C. Cicchetti and Mr. C. Long also provided evidence and responded to questions in writing but did not appear at the hearings.
[15] Ms. C Morawski also provided evidence and responded to questions in writing but did not appear at the hearings.
[16] AR 101/97, as amended
[17] RSA 2000, c. E-12, as amended

container industry, government and the public. In a 2003 Court of Queen's Bench decision, Bielby, J. considered the BCMB to be an administrative tribunal in its own right.[18]

Legislative Mandate

Part 9 of the Act deals with waste minimization, recycling and waste management. Pursuant to section 175 of the Act the Lieutenant Governor in Council is empowered to make regulations for purposes of, among other things, designating materials and requiring them to be recycled; the establishment and operation of depots; requiring manufacturers or distributors to pay depot operators in respect of the collection of designated material and prescribing the amount of the payments or the manner in which they are to be calculated; and providing for the establishment of a management board or other body for any purpose in connection with a regulation under section 175 of the Act.[19] The Regulation designates beverage containers as "designated material" for the purposes of the Act and the Regulation.[20] The Regulation establishes the BCMB as a management board for the purpose of exercising the powers and carrying out the duties conferred or imposed on it pursuant to the Act, the Regulation and the BCMB's bylaws in respect of regulated containers.[21]

The Regulation provides that a manufacturer, or the collection system agent, upon collecting containers from a depot or retailer, shall reimburse the depot operator or retailer for each refund paid on a container collected from the depot operator or retailer, and, in addition, shall pay a handling commission to a depot operator in an amount specified in the bylaws.[22] The BCMB must make bylaws prescribing the handling commissions for the purposes of section 13(b) of the Regulation, and establishing the criteria and procedures for changing the handling commissions.[23] The BCMB has set the current Handling Commissions for the various categories of beverage containers in section 3 of its Administrative Bylaw.[24] The Depots earn their income from payments of the Handling Commissions by the manufacturers; the bottle-returning public are the "suppliers" to the Depots and the manufacturers are the "customers" of the Depots.[25]

Section 4 of the Administrative Bylaw sets out the circumstances in which the BCMB Members may review and change the Handling Commissions. Consensus of BCMB Members is required for changes to be made to Handling Commissions. Bielby, J. held that, for purposes of subsection 4(3)(d) of the Administrative Bylaw, "consensus" means "unanimity".[26]

Subsections 4(1) and 4(3) of the Administrative Bylaw[27] provide:

> **4.** (1) The Members of the Association may review the amount of the handling commission referred to in section 3 if any of the following circumstances occur:

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[18] WBA Management Society v. Beverage Container Management Board, ABQB 551 (a decision of the Honourable Madam Justice Myra B. Bielby) (Bielby decision) Date 20030625, Exhibit 7, paragraph [1]
[19] See subsections 175(b), (i), (p), (u) and (jj) of the Act.
[20] Regulation, s. 2
[21] Regulation, s. 4
[22] See section 13 of the Regulation
[23] Regulation, subsections 18(c), (d).
[24] BCMB Administrative Bylaw, approved November 20, 1997, as amended, Exhibit 2
[25] Exhibit 7 Bielby decision, paragraph [13]
[26] Exhibit 7 Bielby decision, paragraphs [119] – [127]
[27] Exhibit 2 as amended; note that the bylaw was amended in December 2003, subsequent to the Bielby decision

a) a change is made to the exemptions under section 3 of the Regulation resulting in a substantial change in the volume of containers handled by the system;

b) a new category of container is added to section 3 of this Bylaw;

c) significant new sorting, handling or processing technologies are introduced or handling or processing tasks are redistributed between manufacturers and depot operators;

d) significant changes occur in other major handling or processing costs.

(3) In making a change to the handling commissions referred to in section 3 the following applies:

a) the benefits from more efficient handling or processing technologies implemented through the co-operation of manufacturers and depot operators, or from significant additions of new registered containers shall be shared equitably between the manufacturers and the depot operators;

b) the provision of depot operators with a fair return to maintain a viable depot network across the province will be balanced with the need for the lowest possible cost to consumers;

c) the Members of the Association must seek consensus among manufacturers and depot operators regarding handling commission amounts through fair process, negotiation and use of sound information. The gathering of sound information and the process for negotiations and submissions respecting handling commissions shall be governed by the BCMB's Handling Commission Procedure;

d) if consensus, as reflected by a unanimous decision of the Members of the Association, cannot be reached after a reasonable effort has been made, any outstanding issues regarding the settling of handling commissions shall be resolved through an unbiased, independent process determined by the Association;

e) the procedure referred to in subsection (d) shall be binding upon all Members of the Association, and the Members of the Association shall pass any bylaw adopting the handling commissions determined by that procedure.

Background Regarding Handling Commissions

Prior to November 2001 domestic beer containers were exempted from the regulated container system. An amendment was made to the Regulation in 2001 which removed this exemption, bringing beer containers into the system. Section 3 of the Administrative Bylaw was amended to include an interim Handling Commission for beer containers of 2.83 cents per container (also referred to as 34 cents per dozen in the proceeding), as adopted by the BCMB Members on November 5, 2001. This rate was to be effective until such time as the BCMB established another rate either directly or via an arbitration procedure, which at that time would have been a "baseball-style" arbitration procedure.[28]

[28] Exhibit 7 Bielby decision, paragraphs [18] – [21]; Exhibit 2 Administrative Bylaw, subsection 3(3)(t)

The BCMB retained Acton Consulting Ltd. (Acton) with a view to establishing a "final" rate for all types of containers. Acton recommended an activity based costing method to determine Depot costs, and provided a report recommending changes to Handling Commissions. The Handling Commissions in the Acton report were approved for all containers other than beer containers in June 2002.

The BCMB Members considered a resolution to adopt the Acton recommendations for Handling Commissions for beer containers, which did not pass unanimously, with the brewer's representative casting the sole negative vote. The Board then voted to proceed to arbitration for setting the Handling Commissions for beer containers. This process did not proceed to conclusion; rather, an application for judicial review was undertaken before the Alberta Court of Queen's Bench.[29] Madame Justice Bielby rendered a decision on the matter on June 25, 2003.

The Bielby decision itself should be reviewed for the complete reasons in the matter. The following is a brief summary of the key points in the decision:

- the BCMB lost jurisdiction by purporting to set Handling Commissions in regard to beer containers without seeking or obtaining the information needed to properly set a "fair return" to bottle depots.[30]
- the BCMB lost jurisdiction by breaching the rules of natural justice by making a decision without identifying which information presented to it was to be considered by Board members in making their decision and by failing to ensure that each Board member had been provided with that information in advance of the vote. The Board failed to establish a procedure in advance to ensure that each party knew the case against it and had an effective opportunity to be heard on the issue of setting Handling Commissions.[31]
- the Board erred in law in failing to interpret the phrase "fair return" in accordance with jurisprudence from the Supreme Court of Canada; rather the Board applied an activity based costing model which focused on costs, rather than on the larger issue of rates of return.[32]

On December 11, 2003 the BCMB approved a Handling Commission Procedure, which governs the present Review Process. The procedure provides for binding arbitration in the event that the Handling Commissions recommended in this Report are not unanimously accepted by the BCMB Members.

The current Handling Commissions for all regulated containers are set forth in Schedule A at Appendix "E" to this Report.

3.1 Process Parameters and Chronology

Process Parameters

The development of the DCA processes and reports was undertaken prior to the Panel's involvement. However, the overall approach of the DCA, in determining a total revenue

[29] Ibid; see paragraphs [22] – [42]
[30] Ibid paragraphs [4], [77]
[31] Ibid, paragraphs [100], [105]
[32] Ibid, paragraph [118], referring to *NUL v. Edmonton [1929] S.C.R. 186*, a decision in relation to regulated public utilities.

requirement in a Phase I process, then allocating costs and determining reasonable rates in a Phase II process, generally accords with a regulated utility framework for rate setting. The Panel considers that this framework is generally consistent with the approach outlined in the Bielby decision.[33] Further, from a review of the Record, it appears to the Panel that the development of the DCA documents, approach and procedures were undertaken in a transparent manner with input from affected parties.

With respect to the HCRP's process, the BCMB's Handling Commission Procedure requires the HCRP to follow a procedure that ensures fairness for all parties, meets the requirements of natural justice, and is consistent with the bylaws and policies of the BCMB and the direction of the Directors. Within these principles, the Panel may establish its own procedure.[34] The Panel established process timelines (Timelines) and Rules of Procedure (Rules) which were distributed to Interested Parties for comment on December 18, 2006. The Timelines received a number of comments and were revised several times before being finalized. The Rules received no comments from Interested Parties. The Panel notified all Interested Parties and the DCA that the Timelines were finalized and the Rules were formally adopted in its letter regarding Phase I Preliminary Hearing Matters of April 5, 2007.[35] The Timelines were further amended on July 17, 2007 with regard to a supplemental filing in respect of the Time and Motion Study (TMS) undertaken by the manufacturers.[36]

With respect to fairness in the conduct of the Review Process, the Panel considers the Rules to be consistent with the bylaws and policies of the BCMB and to provide for fair procedures consistent with the requirements of natural justice. The Panel also considers that procedural steps in the Review Process have been conducted with input from Interested Parties on all key matters.

<u>Chronology</u>

As indicated above, the chronology of the process to set Handling Commissions has pre-dated the current Review Process. Following the issuance of the Bielby Decision in June, 2003, the BCMB adopted the Handling Commission Procedure in December, 2003. The DCA was retained in June, 2004 to provide a recommended approach to obtain cost data for the purposes of setting Handling Commissions. To this end the DCA provided a "Straw Dog" report, the final version of which was issued on September 21, 2004.[37] In this report the DCA proposed to develop new Handling Commissions in a multi-step process, including revising the UCA to be completed by the Depots, reviewing the data collected from the Depots in the UCAs, adjusting the data as necessary for purposes of reasonable accuracy and providing the basis of the forecast of total System Revenue Requirement. The DCA would then prepare a report allocating the total system

[33] see Exhibit 7 Bielby decision, for example paragraphs [1] – [3], [28], [43] – [57], [64] – [68], [75] – [78]. Bielby, J. focused on calculating handling commissions using the regulated utility concept of "fair return" and the consideration of actual data on operating costs of Depots. The Justice noted the monopolistic nature of the container return industry; see paragraphs [3] and [51] – [52]. The Justice also touched on rate setting, noting at paragraph [75] that the utilization of a rate setting process using actual data need not mirror in every way the relatively complex rate setting method utilized by public utilities; paragraph [76] discussed the issue of possible cross subsidization among Depots if identical handling commissions were used for all Depots and the possibility of different handling commissions being paid by manufacturers as between rural and urban Depots.

[34] See the BCMB's Handling Commission Procedure, Exhibit 11, section 3(c), (d).

[35] Exhibits 279, 280 and 281

[36] Exhibit 363 Timelines of July 27, 2007

[37] Exhibit 34

costs to the different container types, and recommending end-use rates for approval by the BCMB.[38]

As indicated in Section 2 of this Report, the DCA prepared both 2005 and 2006 Phase I Reports. The issue of fair return was not included in the 2005 Phase I Report. The Panel considered that fair return must be determined in order to meet the requirements of governing law. The Panel sent a memorandum to the BCMB on July 25, 2006 requesting that a report on fair return be provided for purposes of recommending Handling Commissions.[39] Fair return was addressed in the DCA's 2006 Phase I Report.

IRs and responses were provided on both the DCA 2005 and 2006 Reports and on Interested Party evidence. The IR process in total was somewhat complex given the fact that the Interested Parties had been following a procedure of review, comment, questions and answers on DCA documents, including the draft Phase I and II Reports, for some time prior to the retention of the Panel and the formal commencement of the HCRP process. The following table presents a chronology of the filings of the 2005 and 2006 Phase I and II Reports, and the IRs and IR responses filed in respect of them.

Table 2: Chronology of Filings – 2005 and 2006 Reports

Date	Filings
September 8, 2005	DCA 2005 Phase I Report
October 14, 2005	ABDA & CNB IRs on September 8, 2005 Phase I Report
October 28, 2005	DCA Responses to October 14, 2005 IRs
November 1, 2005	DCA 2005 Phase I Report, Revision 1
November 11, 2005	DCA 2005 Draft Phase II Report
December 16, 2005	ABDA & CNB IRs on November 11, 2005 Draft Phase II Report
January 20, 2006	DCA Responses to December 16, 2005 IRs
January 25, 2006	Panel IRs on November 1, 2005 Phase I Report Revision 1 and November 11, 2005 Draft Phase II Report
June 15, 2006	DCA Responses to January 25, 2006 Panel IRs
November 27, 2006	DCA 2006 Phase I Report, Revision 0
December 11, 2006	DCA 2006 Phase II Report, Revision 0
December 14, 2006	Technical Meeting between DCA and Interested Parties re: 2006 DCA Reports
January 10, 2007	Interested Parties & Panel IRs on DCA 2006 Phase I Report Revision 0 and DCA Phase II Report Revision 0
January 29, 2007	DCA Responses to January 10, 2007 IRs
January 31, 2007	DCA Final 2006 Phase I and Phase II Reports (Revision 1)
February 20, 2007	Interested Party and Panel Supplemental IRs on Final 2006 Phase I and II Reports
February 27, 2007	DCA IR Responses & Revised Schedules to Final 2006 Phase I and II Reports

In the 2006 Phase I Report, the DCA forecast a 2006 Revenue Requirement for the total Depot system (System) in Alberta. In response to CNB-DCA-2006-13, the DCA discovered a formulaic

[38] Ibid p. 1.1
[39] Exhibit 125

error which resulted in a revision of the Revenue Requirement. At the end of the Phase I hearing, the DCA issued a revised Schedule 12-a in response to an undertaking to ABCRC counsel, wherein the 2006 Total System Revenue Requirement Forecast was stated to be $57,790,348 and the 2007 Total System Revenue Requirement Forecast was stated to be $59,879,274. [40] In the 2006 Phase II Report the DCA allocated the costs contained in the 2006 Revenue Requirement to the container streams, and recommended a rate structure including a fixed monthly payment to Depots to address network viability, and a per-container charge to recover the 2006 Revenue Requirement. The 2007 Revenue Requirement was obtained by applying the proposed Handling Commissions to the forecast 2007 volumes.

The members of the Panel, the DCA, counsel and representatives of the Interested Parties attended a Pre-Hearing Meeting on January 23, 2007 in Calgary, Alberta, to discuss the Review Process parameters, the role of the BCMB and the DCA as parties, the Timelines, the level of participation of parties and evidence to be filed, the role of BCMB counsel, the issues to be reviewed and the Rules of Procedure.

On January 25, 2007 the Panel issued a letter outlining the matters that had been discussed. The Panel noted that the process framework had been discussed and issued a revised Issues List. Among other points, the letter and the revisions to the Issues List clarified that the HCRP would recommend one-time Handling Commissions, not annual Handling Commissions with adjustments or escalation formulae. The Panel requested that parties comment on certain matters that were raised but not settled at the Pre-Hearing Meeting, including the role and participation level of the DCA and the possible conflict of interest of participants.

Following receipt of the responses of Interested Parties, the Panel issued a Ruling in a letter dated February 7, 2007, including the following determinations:

- the DCA is a neutral participant in the Review Process and may be called upon by the Panel for purposes of clarifying information and evidence in the Review Process. The DCA may only ask limited IRs to Interested Parties upon prior application to the Panel and approval of the Panel as to those IRs that may be submitted by the DCA within the proper scope of its neutral position. The DCA would not have a right of cross-examination of Interested Parties. The DCA would be subject to cross-examination by Interested Parties, for the purpose of clarifying differences of opinion and testing these differences in a reasonable way.
- the Panel's process is independent and free of bias, in line with comments made in the Bielby decision at paragraphs 115 and 116, and no party had questioned the fairness of the Review Process. The Panel confirmed that it would accept BCMB Board Members as witnesses on behalf of Interested Parties that they represent, without commenting on the voting by any such parties on the Handling Commissions recommended by the Panel.

The Panel and representatives of all Interested Parties attended a viewing of eight Depots on February 14 and 15, 2007. The Depots visited represented a cross section of sizes and

[40] Exhibit 347

classifications. The viewings were arranged by the BCMB and attended for illustrative purposes.[41]

On February 23, 2007 the Members of the BCMB considered the recommendations of the DCA in its 2006 Phase II Report. A motion to adopt the recommendations for Handling Commissions, as detailed in that Report, failed. The Members adopted a subsequent motion to review the Handling Commissions by referring the matter to the HCRP.[42]

On March 2, 2007 the Panel issued a Ruling splitting the Hearing into Phase I and Phase II segments, as requested by the manufacturers, to accommodate the filing of a Time and Motion Study (TMS) as evidence in respect of Phase II cost allocation issues.

Interested Parties filed Phase I Evidence on March 9, 2007. Interested Parties and the Panel issued IRs on the Interested Party Evidence on March 21, 2007 and the Interested Parties filed Responses to these IRs on April 2, 2007.

A letter regarding Preliminary Hearing Matters for Phase I of the Review Process, including final Rules of Procedure and Timelines, was e-mailed to all participants on April 5, 2007.

Interested Parties filed Phase I Rebuttal Evidence on April 20, 2007.

The Phase I exhibit list and a CD of pre-filed exhibits were finalized during the week of April 30, 2007 and an updated version was provided to all parties at the commencement of the Phase I hearing.

The hearing for Phase I was convened in Calgary on May 7, 2007 before Panel members Ms. C. Dahl Rees, LL.B. (Chair), Mr. K. Anderson, CA, and Ms. K. Holgate, MBA, CA - IFA. The Phase I hearing was completed on May 10, 2007.

Following the Phase I hearing, the exhibit list was again updated to reflect the filing of responses to undertakings, and an updated version was sent to all parties.

Interested Parties filed Phase II Evidence on July 13, 2007, including a preliminary TMS prepared by Stantec and filed on behalf of both ABCRC and CNB. Interested Parties and the Panel issued IRs on the Phase II Interested Party Evidence on July 27, 2007. On August 3, 2007 a revised TMS by Stantec was filed on behalf of manufacturers to reflect "back door" container receipts. The Interested Parties filed Responses to the July 27, 2007 IRs on August 10, 2007. In addition, on August 10, 2007 IRs were submitted by the HCRP on the revised TMS. Responses were filed to these IRs on August 24, 2007.

[41] A summary of the site visits / Depot viewings was set out in the Panel's letter to all participants of February 20, 2007, Exhibit 211
[42] BCMB Members Motions, February 23, 2007, Exhibit 217a

A letter regarding hearing scheduling for Phase II of the Review Process was e-mailed to all participants on August 23, 2007. Further hearing matters were dealt with in Panel letters to all participants dated September 5, 2007 and September 6, 2007.[43]

The hearing for Phase II was convened in Calgary on September 10, 2007 before the Panel. The Phase II hearing was completed on September 11, 2007. An updated exhibit list including documents filed in respect of the Phase II hearing, was prepared on September 13, 2007 and sent to all parties.

Interested Parties filed written final Argument on Phase I and Phase II matters on September 21, 2007, and filed written Reply on September 28, 2007. The Panel issued a draft version of this Report to the DCA, along with directions for recalculating costs and schedules for the System Revenue Requirement and Handling Commissions on October 15, 2007, and the DCA issued a compliance refiling to the Panel on October 22, 2007. On October 25, 2007, the Panel issued a Draft of this Report, including the refiled Schedules from the DCA, to the Interested Parties for review and comment with respect to any clerical or computational errors. The Panel received comments from ABCRC and ABDA on October 30, 2007. The Panel sent a letter on October 31, 2007 indicating that only comments of a clerical or computational nature were appropriate. On October 31, 2007, CNB confirmed that they had no comments.

ABDA questioned whether there had been errors in eliminating Cluster 1 from the Study System and in the adjustment to managerial hours. Both ABCRC and ABDA identified errors in Schedules in the Appendices. ABCRC also identified clerical errors in the Report. The DCA reviewed the points raised by ABDA with respect to Cluster 1 and management hours, and provided supporting calculations and clarification in a revised Schedule 12-a-2 dated November 1, 2007, which is included in Appendix "D". The errors identified by ABCRC and ABDA in the Schedules were corrected in revised Schedules A, A-1, B, B-1and the chart titled "Comparison of Historical and HCRP 2007 Handling Commissions for Large Volume Container Streams". These revised Schedules dated November 1, 2007 are included in Appendix "E".

The corrections did not impact the Revenue Requirement or the Handling Commissions, but the percentage changes in costs for ABCRC and BDL were altered. The Panel has referred to these percentages on page 75 of this Report.

4 PHASE I – SYSTEM REVENUE REQUIREMENT

This Section of the Report outlines the costs which form the System Revenue Requirement, and discusses various issues associated with the determination of these costs. The Panel has focused on those items which have a material impact on the Revenue Requirement determination and/or were contested by Interested Parties.

[43] Exhibits 419 and 421

4.1 Total Revenue Requirement

At the request of the Panel, Interested Parties filed their proposed Revenue Requirements for 2006 and 2007 in the form of the DCA's Schedule 12-a. In Argument ABCRC and ABDA refiled their Schedule 12-a calculations and CNB proposed modifications to its 2006 Revenue Requirement.

In respect of the 2007 Revenue Requirement, the DCA calculated revenue, purchases, and return on purchases based on the forecast volume increase. Due to the volume increases, the expected excess of revenue over the 2006 costs, was sufficient that all costs could increase by 1.77% (revised to 3.62% in Exhibit 347 dated May 10, 2007) and provide a 4% return on operating costs with no revision to the proposed rates. The 2007 "forecast" was essentially a sensitivity analysis of the proposed Handling Commissions. In response to questions in the Phase II hearing the DCA explained that the purpose of the 2007 data in Schedule 12-a was to determine:

> …what would inflation need to be to counter off the impacts of one side of the equation having higher costs and on the other side having higher volume? …We were just simply trying to do a year-to-year rate comparison. So please don't read more into that than was there.[44]

The Revenue Requirement forecasts for 2006 of the DCA, ABCRC, ABDA and CNB are presented in comparative form in Appendix "A" to this Report.[45] The differences among the proposed Revenue Requirements are significant. The DCA's calculation of total 2006 Revenue Requirement was $57,790,348; the ABCRC's was $51,203,364; the ABDA's was $87,050,190 and the CNB's was $52,539,519.[46] These amounts reflect minor adjustments to be consistent with the submissions of the parties.

The Panel will discuss the material components of the Revenue Requirement later in this Report. The Panel notes that the 2006 proposed Revenue Requirements of the ABCRC and CNB were lower than that presented by the DCA, owing primarily to certain key reductions in costs.

In respect of ABCRC, they reduced Building Costs and Collection Costs, allowed no return on Purchases and reduced Income Tax. Although their direct evidence indicated that building sizes should be capped at the BCMB minimum square footage, [47] their oral testimony allowed for some latitude in the calculation of building size to accommodate growth.[48] Their final calculation of Revenue Requirement, submitted with their written Argument, reduced Building Costs based on BCMB minimum square footage.

In respect of CNB, their evidence expressed concern regarding the cost of Collections, Labour and Buildings. In Exhibit 350 they provided a recommended Revenue Requirement in which

[44] Phase II Transcript page 108 lines 8 to 25
[45] The Panel made adjustments to some of the line entries, as noted in Appendix "A".
[46] The ABCRC number was revised by the Panel in Appendix "A" to $51,622,363 to reflect the ABCRC's view that the VAF could be excluded. The CNB number was revised by the Panel in Appendix "A" to $49,483,061 to reflect a 5% escalator to labour and to adjust collection costs to a total system.
[47] Exhibit 235 Schedule B page 3, paragraph 10
[48] Phase I Transcript page 429 line 20 to 430 line 6.

Collection Costs of $2.82 million were removed. Building Costs were reduced by $982,542 to reflect an adjustment to the deemed lease rate, assuming the leases had been entered into one fifth per year over the preceding five years. The calculation reflected a supplement for a single tenant building, applied to 50% of the Depots; and $3.50 per square foot for operating costs. The $3.50 per square foot is the maximum of the range of operating costs provided by Torode. In response to a request for clarification by the Panel, CNB recommended that the adjustment for Building Costs should apply to the Total System.[49] Further, CNB stated in Argument that it was giving the benefit of the doubt to the DCA and the Depots by accepting the rate of $10.24 per square foot as a deemed lease rate for 2006, when the rate recommended by Torode was lower.[50] The ABDA argued in Reply that a rate of $10.24 did not give the benefit of doubt to the DCA as the DCA in Exhibit 347 (page 12) calculated a lease rate of $10.75 based on the Torode data. The Panel notes that in this analysis, the DCA assumed a single tenant premium of $1.00 per square foot, which was inconsistent with the evidence of Mr. Keating of Torode that a suitable location for a Depot would be a multi-tenant building.[51] If the assumption regarding a single tenant premium were removed the DCA calculated rate based on Torode data for rent and operating costs would have been $9.75. However, the Panel further notes that in Exhibit 350, if the same approach followed by CNB in 2005 were used in 2006, the CNB calculations based on the Torode evidence plus an assumption that 50% of Depots are located in single tenant premises, the lease rate would have been $11.00 ($7.00 + $3.50 + $.50).

Labour Costs were reduced by CNB to reflect a 6% escalation factor in the roll forward from reported Depot fiscal year ends to December 31, 2006, rather than the 12% used by the DCA. In Argument, CNB submitted that the Revenue Requirement should be based on a labour escalator of 5%,[52] the minimum general rate proposed by Dr. Percy, but did not provide a revised Schedule 12-a. However, the Panel notes that Dr. Percy also stated that for the specific comparator industries he thought that 3 or 4% was appropriate.[53] In this point the CNB has given the Depots the benefit of the doubt.

In respect of the ABDA, their Revenue Requirement calculation was significantly higher than that of the DCA or the manufacturers. Contributing factors were their inclusion of Collection Costs, their use of the Watson Wyatt (WW) P50 salary rates for labour costs, their inclusion of additional labour hours, their inclusion of all existing square footage in Depot buildings, their escalation of deemed lease rates by $2 per square foot to represent commercial space and their inclusion of Regulatory and Compliance costs.

4.2 Study System

In Section 3.0 of the Phase II Report the DCA provided the return statistics of UCAs which formed the basis for the Study System. The DCA further examined different characteristics of the

[49] Exhibit 415c
[50] Torode's average lease rate was stated to be $7.00, with typical operating costs of $2.75, for a total of $9.75 per square foot; CNB Argument page 11, lines 4 – 6.
[51] Phase I Transcript page 659 line 22 to page 660 line 6.
[52] CNB Argument page 10, lines 15 to 17.
[53] Phase I Transcript page 249 lines 7 to 17.

Depots by Volume Cluster including an examination of which Depots were "Non-Profit" and "Multi-Business".

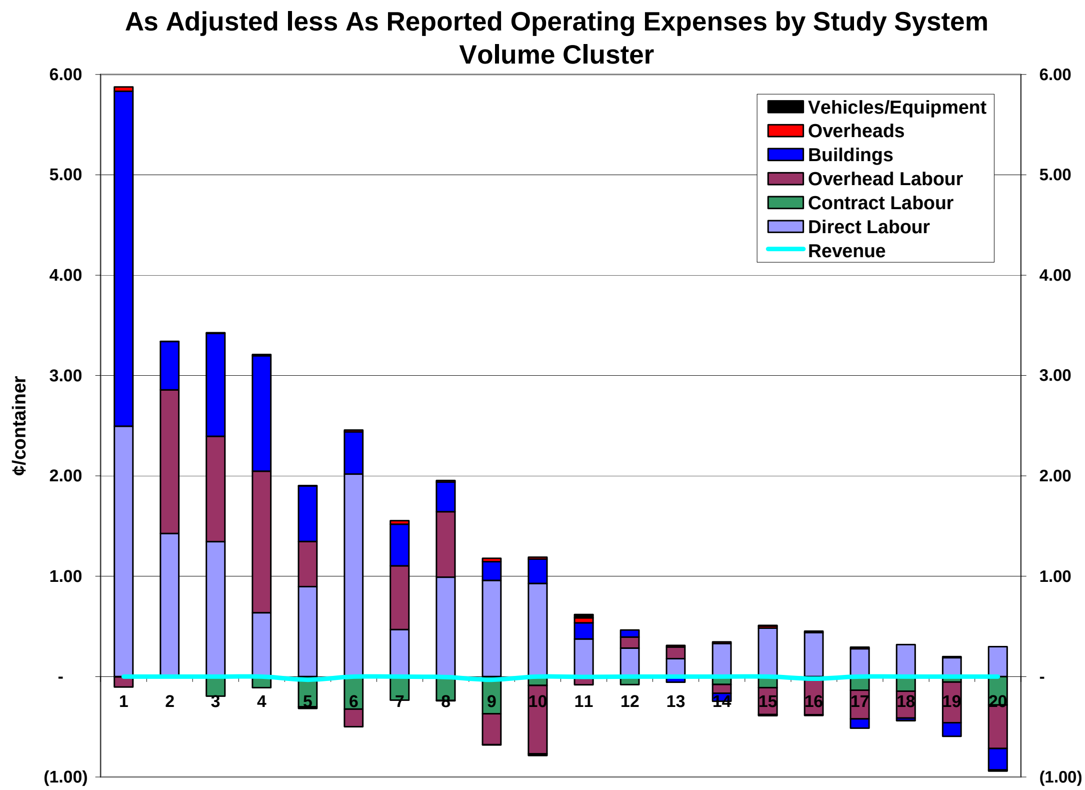
With respect to Non-Profit Depots the DCA noted that their cost structure is materially higher than the "For-Profit" Depots. The DCA could not determine conclusively if the Non-Profit Depots' net higher cost structure was due to differences in operations or simply due to these Depots being on the more costly side of average. The DCA noted that although he included the Non-Profit Depots in the Study System to incorporate as much volume and cost data as possible, in future Handling Commission processes, the BCMB may wish to consider treating Non-Profit Depots as "price takers."[54] Non-Profit Depots have operating expenses that are 14.7% higher than the For Profit Depots.[55]

With respect to the 42 Depots which reported that they were Multi-Business Depots, 13 tracked their costs separately, and for the other 29 Depots the DCA allocated their costs between Depot operations and the other business. The DCA questioned the accuracy of the reporting of the Multi-Business Depots. The cost structure of the Multi-Business Depots As Reported is materially different from Single-Business Depots.[56] Multi-Business Depots have operating expenses that are 13.4% higher than Single Business Depots.[57]

The DCA's Chart of "As Adjusted less As Reported Operating Expenses by Study System Volume Cluster" at page 122 of the 2006 Phase I Report, reproduced below, provides the cost adjustments per unit by cost category for each volume cluster. Items above the zero axis are cost increases; items below the zero axis are cost reductions. The Panel notes the large cost increases in clusters one to four with the general pattern of net adjustments decreasing with the volume of the clusters. As the Panel is of the view that actual costs should be used as the basis for Handling Commissions, the Panel has concerns regarding the inclusion in the Study System of the smaller volume clusters with such a large percentage of cost adjustments. To put the size of the adjustments in context, it must be remembered that the average as reported operating expense per container was 3.36 cents. For volume cluster one, the adjustments were almost 6 cents per unit and the adjusted cost exceeded nine cents per unit.

[54] 2006 Phase I Report page 133 lines 2 to 14.
[55] 2006 Phase I Report page 190 line 16 of Table.
[56] 2006 Phase II Report page 133 line 16 to page 134 line 10.
[57] 2006 Phase I Report page 194 line 16 of Table.

Table 3: As Adjusted less As Reported Operating Expenses by Study System Volume Cluster



In response to HCRP –DCA – 2006 – 25a)(i),[58] the DCA calculated the impact on Revenue Requirement of excluding Non-Profit and Multi-Business Depots from the Study System to be approximately $1.2 million.

The DCA in the Phase I Reports and in response to Panel questions expressed the view that all Depot information received should be reflected in the Study System. However, in response to questions by the Panel, the DCA expressed a view that if a fixed cost component were provided in the rate design it might be appropriate to view Depots with volumes of somewhere between 500,000 and 1,000,000 containers per year as a special case. Then the cost could be excluded from the Revenue Requirement if a fixed fee were provided. [59]

The Panel in Section 6.2.3 of this Report has recommended a fixed fee to Depots. The Panel directed the DCA to exclude Depots in volume cluster one from the Study System. These Depots had an average volume of 425,712 containers per year. The rationale for this is the potential unreliability of the data caused by material cost increases to this group by the DCA. The impact of excluding Depots in volume cluster one was to remove approximately $207,000 of costs from the Revenue Requirement.

[58] Exhibit 181, page 93.

[59] Phase II Transcript page 81 lines 1-19.

The Panel notes that ABCRC indicated in Argument at page 20 that Multi-Business and Not-for-Profit Depot information should be excluded. The Panel believes the ABCRC may have misunderstood the statements of the DCA in testimony. The DCA ultimately supported leaving these Depots in the system.

The Panel considers that it could have been appropriate to exclude Multi-Business Depots, Not-for-Profit Depots and Depots in volume clusters one to four from the Study System as well. With respect to Multi-Business and Not-for-Profit Depots, the Panel decided to accept the DCA's position and keep these costs in the system. The Panel directed the DCA to calculate the impact of excluding clusters two to four from the Revenue Requirement. On Schedule 12-a-2 dated November 1, 2007 the DCA indicated that the impact of excluding these clusters would have been approximately $982,000.

However, in balancing the components of the legislative mandate, the Panel has applied a reasonableness approach and recommended that the costs of only volume cluster one be removed.

4.3 Adjustments by DCA to Phase I Costs

The DCA briefly described in the Executive Summary of the 2006 Phase I Report the major adjustments made to the data " …in an attempt to compensate for significant deficiencies in the data provided and to align the costs with standard regulatory principles." [60]

A Table comparing adjustments, on a high level basis, in each of the 2005 and 2006 Phase I Reports is presented in Appendix "B". In the 2005 Phase I Report, the net effect of the adjustments made by the DCA is that total reported Depot costs of $32.8 million were reduced to approximately $31 million. The adjustments which most significantly contributed to this decrease were the exclusion of Collection Costs and the capping of management hours offset by increases in management wage rates.

In the 2006 Phase I Report, the net effect of the adjustments made by the DCA, is that total reported Depot costs of $36.3 million rose to $37.4 million. The most significant adjustments were:

- Labour rate adjustment – For all managerial hours reclassified to Direct Labour from Overhead Labour a rate adjustment was made to $17.42 per hour.
- Management wage rate adjustment – The managerial rate for small Depots, primarily for Depot Owners, was adjusted from $7.15 per hour to $17.42 per hour.[61] A further rate adjustment was made for large Depots, increasing the rate from $25.92 per hour to $26.56 per hour.[62] All bookkeeper hours were adjusted to an hourly rate of $17.42; formerly small Depot bookkeepers had an hourly rate of $8.08 and Large Depots an hourly rate of $19.11.[63]

[60] See page v of 2006 Report starting at line 24.
[61] 2006 Phase I Report page 57 lines 12 – 13. The DCA implicitly assumed that the low hourly rate was accurate. Another possible assumption was that the hours reported were overstated.
[62] 2006 Phase I Report page 58 lines 4 - 5.
[63] 2006 Phase I Report page 56 lines 11 - 18.

- Deemed lease costs – All building space was deemed to be leased at summer 2005 market rates. The same rate was used in both the 2005 Phase I Report, and the 2006 Phase I Report, where an adjustment was made in the roll forward to the Cal 2006 Study System Forecast.
- Building size cap – All building costs related to sizes in excess of 3,000 square feet for Rural Depots, 5,000 square feet for Urban Depots and 7,500 square feet for Metro Depots were excluded.

In addition the following adjustments were made in escalating to the Cal 2006 Study System Forecast:

- The 2005 volumes were increased by 7.7%.
- Because the fiscal year ends differed for the Depots, there was a roll forward for labour costs for individual Depots ranging from January 2005 to December 31, 2006. The average roll forward period was 15.57 months.[64] This roll-forward was made by escalating the reported costs by 12% based on an annual labour rate increase of 8.3% per year for Direct Labour[65] and 7.8% per year for Overhead Labour.[66] For Direct Labour in addition to the rate increase hours were increased by 8.9% to reflect the anticipated increase in volumes for a compound increase of 21.5%.
- The deemed lease rate was increased by approximately 40% from $7.27 to $10.24 per square foot based on a 2006 study.[67]

The Interested Parties proposed certain adjustments to the costs determined by the DCA, as summarized in Appendix “C”.

4.4 Key Governing Principles

Subsections 4(3)(b) and (c) of the BCMB’s Administrative Bylaw, quoted earlier, contain certain fundamental principles governing the Review Process, which the Panel has considered in the determination of Handling Commissions. The Panel has highlighted and discussed certain key principles below, namely the gathering and use of **sound information**, the requirement for a **fair return to maintain a viable Depot network** and the requirement that this return be balanced with the need for the **lowest possible cost to consumers**:

> 4 (3) In making a change to the handling commissions referred to in section 3 the following applies:
>
> b) the provision of depot operators with a **fair return to maintain a viable depot network** across the province will be balanced with the need for the **lowest possible cost to consumers**;
>
> c) the Members of the Association must seek consensus among manufacturers and depot operators regarding handling commission amounts through fair process, negotiation

[64] 2006 Phase I Report page 159 lines 6 - 7
[65] 2006 Phase I Report page 167 lines 1 - 7 and Tables.
[66] 2006 Phase I Report page 168 lines 5 - 6
[67] 2006 Phase I Report page 172 line 31 - page 173 line 2.

and **use of sound information**. The **gathering of sound information** and the process for negotiations and submissions respecting handling commissions shall be governed by the BCMB's Handling Commission Procedure. (emphasis added)

4.4.1 Sound Information

Sound information is a fundamental issue for the determination of Handling Commissions, as reflected in the findings in the Bielby decision, the Administrative Bylaw, the Handling Commission Procedure and the retainer of the DCA. As discussed earlier, Bielby, J. indicated that proper calculations for Handling Commissions would involve utilizing information relating to operating costs of Depots and "fair return" associated therewith. [68]

The court discussed gathering information to properly set Handling Commissions[69] through a Uniform Code of Accounts, and identified the following issues: the possible use of a statistical sample rather than obtaining actual data from every Depot, the use of weighted averages to account for volume differentials, and how to take into account different processing costs of containers. The court considered that an expert might be required to address all the relevant issues. [70]

The term "sound information" is referred to but not defined in the Administrative Bylaw. The BCMB's Handling Commission Procedure likewise does not define "sound information" but provides for the Directors of the BCMB to determine, with the assistance of the DCA and expert advice as may be utilized, the process of gathering, verifying and analyzing the information from Depots.[71]

The terms of engagement of the DCA provided that the DCA was responsible for data collection, analysis, organization and the preparation of relevant reports.[72] To meet this mandate, the DCA developed the following documents and policies related to the collection of financial and operational data:

- Final Straw Dog Report to the BCMB, September 21, 2004 (Straw Dog Report)[73]
- Handling Commission Review Procedure - Process Document Draft III April 14, 2005 (Process Document)[74]
- The Uniform Code of Accounts (2004 and 2005), related Instruction Manuals and Return Checklists [75]

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[68] Exhibit 7 Bielby decision; see paragraphs [23] – [25], [27], [43], [48], [56], [61], [75], [77], and [80].
[69] Exhibit 7 Bielby decision, paragraph [73]
[70] See Bielby decision (Exhibit 7), paragraphs [67] – [68]; paragraph [68] referred specifically to the identification of factors and the possible engagement of an expert in setting the handling commissions for beer containers. Bielby J. stated in paragraphs [64] – [66] that while only the decision relating to handling rates for beer containers was the subject of the judicial review application, the same type of information and formulas as referred to by Mr. Sheard for calculating handling commissions would apply to all containers for which handling commissions are set by the BCMB.
[71] See Handling Commission Procedure, (Exhibit 11) Part III, Section 2 (a) – (f).
[72] Exhibit 19, page 11: Data Collection Services Agreement, June 25, 2004, Schedule "A" Description of Services, s. 1
[73] Exhibit 34
[74] Exhibit 66

- Handling Commission Review Procedure - Information Review and Verification Procedure Version II, dated January 12, 2005 (Verification Document).[76]

In Section 4.0 of the Straw Dog Report the DCA discussed the qualities of sound information, which were identified in the following statement:

In order to facilitate and lend structure to Board discussion Stantec has developed the following detail around Sound Information. Sound Information should be **comprehensive, accurate and truthful,** appropriate, **verifiable,** formatted correctly and reasonable in terms of reporting requirements as more fully described below.[77] (emphasis added)

The Panel agrees that these criteria are acceptable with respect to identifying and considering "sound information" but considers some of these criteria to be more critical than others, specifically the criteria emphasized in the above quote of comprehensive, accurate and truthful and verifiable information, which give rise to reliable information. The Panel will discuss these criteria further below.

In discussing the meaning of **comprehensive,** the DCA stated that it was fundamental that all Depots must provide their data. The DCA sent the UCA to all Depots and received a response rate of 74% (2005 74.7%) by number of Depots in the province, representing 80% (2005 84.9%) by container volumes processed by the Depot network for 2004[78] and 2005.[79] In the absence of data from all Depots, the Panel considered the question of whether the Depots responding to the UCA were sufficiently representative of the Depot network that the information provided could be considered "comprehensive".

In response to HCRP–Desiderata-9,[80] the DCA discussed its assumption that Depots outside the Study System were not materially different from those inside the Study System. The analyses in the response indicated an 87.2% response by Metro Depots, a 72% response by Urban Depots and a 69.7% response by Rural Depots.[81] In response to HCRP-DCA-2006-1,[82] the DCA provided analyses using 20 volume clusters analyzing the number of Depots filing and the percentage of total System container volumes filed. The DCA observed that there was a relatively even distribution by cluster of the number of Depots and the volumes processed by Depots that filed 2005 UCAs.

Based on the number of Depots reporting, the volumes represented, and the relatively even distribution of these by cluster, the Panel accepts that the data gathered by the DCA is sufficiently representative of all Depots to be considered "comprehensive" for the purposes of "sound information".

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[75] See Exhibits 59, 60, 65, 119, 121, 122.
[76] Exhibit 50
[77] Exhibit 34: Straw Dog Report, Section 4.0, pages 4.6 – 5.7
[78] 2005 Phase I Report page 12
[79] 2006 Phase I Report page 12
[80] Exhibit 123
[81] The Metro, Urban and Rural classifications are used by the BCMB in issuing permits, based on the population of the area in which the Depot is located.
[82] Exhibit 181

The DCA also addressed whether the data was "**accurate and truthful**" and "**verifiable**". The review and verification procedures[83] undertaken by the DCA provided independent verification of the information reported in the UCAs relative to financial statements and income tax returns. Although verification to the source documents for the underlying transactions was not undertaken, financial statements with which external accountants are associated are subject to certain standards, and income tax information is subject to audit by Canada Revenue Agency. The Panel is of the view that verification to these documents provides some comfort regarding the accuracy and truthfulness of the information.

The DCA concluded that the costs reported for 2004[84] and 2005[85] materially reflected the operating costs of the Depots as reported in their financial statements and/or their tax returns.

Based on the verification procedures of the DCA and the comfort provided by the nature of the supporting documents, the Panel accepts that the data gathered by the DCA is sufficiently accurate, truthful and verifiable to meet the requirement to gather and use "sound information".

With respect to overall reliability of data, the Panel notes that not all information collected by the DCA was equally reliable. The DCA expressed qualifications regarding the reliability of reported Collection Costs, particularly for the 2005 data.[86] The DCA made similar comments with respect to Handling Commission revenue, which was recalculated based on manufacturer reported volumes;[87] for Building Costs[88], for which deemed lease rates were ultimately used; and for Multi-Business Depots,[89] for which no adjustments were proposed by the DCA in the Reports.

The DCA concluded in the 2006 Phase I Report that the 2005 UCA cost data collected was sufficient for setting the 2006 Revenue Requirement, but stated that the quality of data reported was generally poor in comparison to regulated utility processes. [90] At the Phase I hearing the DCA observed that if the data were rated on a scale of 10, the data from the 2004 UCAs (i.e. 2005 Report) would be a "5" and the 2005 UCAs (i.e. 2006 Report) would be a "6".[91] However the DCA stated that the data was the best available,

[83] The procedures undertaken by the DCA were approved by the BCMB in the Verification Document (Exhibit 50) and were revised for the reasons stated and as described in the 2005 Phase I Report at pages 8 to 10. In summary, due to concerns regarding accuracy of the UCAs filed, the DCA verified or conformed the operating expenses in the UCAs to the information reported in tax returns for 100% of the UCAs filed. The procedures undertaken for 2005 data are described at pages 9 and 10 of the 2006 Phase I Report. For 2005 data, the DCA reviewed every returned UCA for all cost categories.

[84] 2005 Phase I Report page 9 lines 7-9

[85] 2006 Phase I Report page 10 lines 18-21

[86] 2006 Phase I Report, page 11, lines 27 -31

[87] See 2006 Phase I Report, page 31, lines 10-13 and page 13 lines 16 to 24 and page 14 lines 3 to 6 of 2005 Phase I Report

[88] 2006 Phase I Report page 65 lines 7-9 and 74 lines 8-10; 2005 Phase I Report page 37 lines 8 – 9 and page 45 lines 5 – 7. The DCA questioned the accuracy, validity and usefulness of the building cost data collected via the UCAs and expressed concerns that the UCA reported costs would not appropriately reflect the actual costs of housing Depot operations.

[89] 2006 Phase I Report page 142 lines 3 – 6; see additional discussion at 2006 Phase I Report page 133 lines 18 – 24 and 2005 Phase I Report page 44 lines 16 – 18.

[90] 2006 Phase I Report Conclusion no. 1, page 203

[91] Phase I Transcript, page 34, line 23 – page 35, line 6

that all steps were taken to verify the data and that it was of a high enough quality to move forward with the HCRP process.[92]

The Panel noted that no questions were asked in the UCA regarding related party transactions, which may impact the reliability of data. For small businesses, the employment of family members and tax minimization, such as income splitting via related party transactions, are not uncommon. At the Phase I hearing the DCA expressed concern as to potential non arms-length leases.[93]

At page 121 of the 2006 Phase I Report is a chart of "As Reported Operating Expenses by Study System Volume Cluster" indicating Depot cost structures. Clusters 11 to 20, which represent approximately 80% of the System volume, exhibit fairly consistent cost structures. The Panel interprets this consistency in cost structure to indicate that there is no significant error or bias in the reported data. In addition, the Panel takes comfort from the verification of data by the DCA, including the follow-up of outlier data as described in HCRP – DCA – 2006-2 b).[94]

The Panel is of the opinion that, while there is room for improvement as remarked by the DCA, overall there is sufficient cost and operational data gathered from the 2004 and 2005 UCAs, and that the data is sufficiently reliable to form a basis to determine Handling Commissions. Therefore, the Panel concludes that the requirement to gather and use "sound information" has been met.

4.4.2 Maintenance of a Viable Depot Network

Section 4(3)(b) of the Administrative Bylaw requires that Depot operators be provided with a "fair return to maintain a viable depot network" across the province. This return must be balanced with the need for the lowest possible cost to consumers.

The Panel included the concepts of fair return, the meaning of "viable Depot network" and the lowest possible cost to consumers in its Issues List for the Phase I hearing.[95] The issue of fair return is addressed in Section 4.12 of this Report.

4.4.2.1 Views of the Parties

During the hearings and in Argument and Reply, all parties expressed their views regarding a "viable Depot network". Essentially all parties indicated that the Depot network is viable today, although the ABDA expressed some concerns going forward.

[92] Phase I Transcript, page 35, lines 19 – 22
[93] Phase I Transcript, page 167, lines 2 – 6
[94] Exhibit 181
[95] Exhibit 320

DCA

The DCA was of the view that, with the exception of some small Depots, the Depot network is viable today. The DCA indicated that some Depots are selling at multiples of book value, which is an indication of viability. There was no evidence as to whether Depots sold in recent years have been sold at a profit. [96] The DCA expressed the view that the lack of viability of some small Depots could be dealt with in the rate structure. [97]

ABCRC

ABCRC expressed the view in Argument that viability should be considered on a network basis. The DCA's adjusted costs used to assess viability may not accurately reflect reality, and smaller Depots may in fact be more viable than reflected in the DCA's analysis using adjusted costs.[98]

ABDA

Dr. Booth, on behalf of the ABDA, stated in the Phase I hearing that a viable Depot network was one in which the social objective of having access to recycling depots was supported throughout the province. Dr. Booth believed that individual Depot viability must be a concern, since the system in Alberta did not provide for one corporation or entity in charge of the entire system, in which case cross-subsidizations could occur and province-wide viability would be more readily assured. However, Dr. Booth did not maintain that this concern should generally increase the Revenue Requirement; rather he stated that he looked at the rate of return on the value of assets in the system and worked up to a reasonable handling charge to support the DCA. If this charge were applied province-wide there would be some Depots with high profitability and some Depots with low profitability and perhaps a problem with service delivery in rural areas. He indicated that the issue of small Depots could be addressed as a rate design matter.[99]

The ABDA witnesses stated in the Phase I hearing that the Depot network was currently viable but that there were three "cracks" in the system which caused concern for the future, namely: high employee turnover,[100] declining return rates speculated to be due to customers having to wait in lines, and challenges in siting new Depots. The ABDA witnesses indicated that a "viable Depot network" was one in which future viability was taken into account.[101] The ABDA remarked that there are unique factors that affect viability of the Depot network, such as families owning Depots for purposes of "buying

[96] See Phase I Transcript page 180, line 20 – page 182, line 7.
[97] Phase I Transcript page 180 line 19 to page 181 line1.
[98] See ABCRC Argument, page 32, paragraph 93.
[99] See Phase I Transcript page 312, line 5 to page 315, line11.
[100] In Argument the ABDA cited high turnovers in the range of 75 – 250% per annum; ABDA Argument page 12. In response to CNB – ABDA – 7, [Exhibit 261a) page 11] the ABDA responded that they did not have data on vacancy levels; in response to HCRP – ABDA – 6 [Exhibit 258a)] they said they had no information on turnover but in 6(b) they said that informal internal member polling indicated 75%. See also the Phase I Transcript page 480 line 24 to page 481 line 2 where they referred to the turnover rate in evidence of 75% but stated that members experienced turnover rates of 150 % to 200%.
[101] See Phase I Transcript page 614, line 6 – page 622, line 5.

jobs".[102] In the Phase II hearing the ABDA witnesses said viability must balance the point of presence aspect with a rate structure that motivates and provides the incentive to get the Depots to do whatever they need to do to maximize their returns.[103] They also said that no one group of Depots was suffering more than any other.[104] In Argument the ABDA stated that in order to achieve the legislative objective of maximizing container returns, each "leg of the stool," being fair return, viable Depot network and lowest possible cost, must be maintained and preserved. The ABDA expressed its concern that viability was at risk in Argument and Reply.[105]

The ABDA did not fully share the concern of the DCA regarding the viability of smaller Depots, noting that all but one of these Depots received their permits in a regime in which it was mandated that the Depot be associated with another business. Further, very few small Depots have closed in the past five years.[106]

CNB

Mr. Marcus, on behalf of CNB, indicated in the Phase I hearing that a viable Depot network means that there is a system where people are making profits. Every Depot need not be profitable but there must be an adequate amount of profit so the system works and there is a reasonable opportunity to make a profit. Further, a viable Depot network must not have insurmountable barriers to entry. Mr. Marcus expressed the view that rate design could address the concerns related to small Depots.[107]

Mr. D'Avignon, on behalf of CNB, expressed the view that the current Depot network is viable and healthy today given that it has remained the same size for seven or eight years, and considering the high premiums people are willing to pay to purchase Depots and Depot licences.[108] He also identified factors that impacted viability of the network such as Depot owners investing in Depots in order to "buy jobs" for family members and consolidation of Depots among families. Siting of Depots in his opinion is a policy issue for the BCMB in respect of their population requirements and potential objections to new Depot locations by existing Depot owners or landlords in relation to highest and best use of the tenancy.[109]

In Argument CNB stated that the Depot network was clearly viable at existing Handling Commission levels. CNB considered that the DCA was the only entity that believed viability to be an issue and then only for the very smallest Depots in the system. Further supporting the viability of the system is the high container growth rate which will increase revenues to Depots.[110]

[102] See Phase I Transcript page 612, line 14 – page 613, line 12.
[103] Phase II Transcript page 219 lines 8 to 12.
[104] Phase II Transcript page 221 lines 14 to 16.
[105] See ABDA Argument pages 11 – 12; ABDA Reply pages 3 – 5.
[106] Phase II Transcript pages 214 – 216 and 224.
[107] Phase I Transcript page 368, line 20 – page 370, line 13.
[108] See Phase I Transcript page 703 line 25 – page 704 line 11.
[109] See Phase I Transcript pages 720 – 724.
[110] See CNB Argument, pages 6 – 7.

In Reply, CNB submitted that the longer customer line-ups and declining return rates, despite overall increases in volume, were identified by the ABDA as symptoms that the system is no longer viable; however in CNB's view these factors may be due to population increases, no new Depots being approved in the face of opposition by existing depots and increased container volumes. CNB viewed these factors as indicators of a system producing more business, higher profits and less competition for Depots.[111]

4.4.2.2 Views of the Panel

The consensus of the parties was that not all Depots must be profitable in order to have a viable network, as the financial test of a viable network is one in which there is a reasonable opportunity to earn a profit, not necessarily that each Depot must be profitable.[112] The evidence was clear in the Panel's view that the Depot network is viable at present. In the 2005 As Reported numbers in Phase I Schedule 1 the Depots in the Study System (representing 83% by volume) reported net income after tax of $5,353,603 (February 27, 2007 Schedules 5,082,556).[113] If grossed up to the Total System this would be an after tax profit of $6,450,124 (February 27, 2007 Schedules $6,123,561). In the same Schedule the As Adjusted Net Income figure for the Study System from 2005 was $6,826,328 (February 27, 2007 $4,875,483). On a Total System basis this would have been a net income of approximately $8 million (February 27, 2007 Schedules $5.7 million) in 2005. Both Total System returns are well in excess of the DCA's proposed return of $3,215,811 in Schedule 12-a of the 2006 Phase I Report (February 27, 2007 Schedules).

The DCA expressed concerns regarding the ability of some small Depots to make a profit. The ABCRC noted that the difficulty of smaller Depots to make a profit arose under the DCA's analysis which was based on As Adjusted costs. There have been very few Depot closures in the past five years and the number of Depots has remained relatively constant.

The Panel considers that a properly determined Revenue Requirement, including the required determination of "fair return", will allow for maintenance of the existing viable Depot network. The Panel agrees with the DCA, Dr. Booth and Mr. Marcus that viability of small Depots can be addressed in rate design. This issue has been addressed in Section 6.2 of this Report.

With respect to the threats to viability raised by the ABDA, the Panel notes that the ABDA filed no study or numerical evidence regarding these concerns. Nevertheless, the Panel acknowledges that there are concerns for the Depots and notes that, with respect to employee turnover, Dr. Percy agreed that there are costs associated with turnover and that at some point turnover might affect service and returns.[114] The DCA indicated that costs

[111] CNB Reply pages 11 – 12.
[112] See Phase I Transcript pages 182 lines 4 to 7, Mr. Hildebrand; page 370 lines 4 to 13 Mr. Marcus; 430 lines 7 to 17 Dr. Huson. Mr. Linton of the ABDA at page 622 said a viable depot network encompassed the concept of the ability to stay whole.
[113] In the compliance filing, the DCA revised the 2005 As Reported and As Adjusted numbers to use a 26.52% income tax rate and to exclude collection costs from the As Adjusted numbers.
[114] Phase I Transcript, pages 238- 239; Dr. Percy also noted that turnover is greater for all firms where there is not a strong career path.

associated with turnover were captured in the UCA but that there could be cost increases that the Panel might want to consider.[115] The Panel has considered the costs associated with turnover in Section 4.7.2 on Overhead Labour.

With respect to the statement of CNB that the high container growth rate, which increases revenues to the Depots, supports system viability, the Panel notes that increased revenue is not necessarily related to increased profitability. For example in the DCA's 2007 Total System Forecast[116] volume and revenue increase while gross margin decreases.

4.4.3 Lowest Possible Cost to Consumers

The Panel requested the Interested Parties to comment in Argument as to whether the legislative requirement to balance "the provision of Depot operators with a fair return to maintain a viable Depot network" with "the need for the lowest possible cost to consumers," is the equivalent, in effect, of the test of "just and reasonable rates" or "fair and reasonable rates" typically used in a regulated utility context, or whether a different standard applies in this case.[117]

4.4.3.1 Views of the Parties

ABCRC

ABCRC argued that the Panel has a much more circumscribed mandate than typical public utility boards or tribunals. In ABCRC's view Handling Commissions must be "fair and reasonable" but not necessarily determined pursuant to strict application of public utility principles.[118]

ABDA

The ABDA argued that the legislation in this case meant that the "lowest possible cost" must not be viewed in isolation but must be balanced with fair Depot returns for a viable system in the context of the public policy objective to maximize container returns. Meeting government policy objectives in the environmental area comes with a cost, and revenues must cover prudently incurred expenses to meet these objectives. While the words "just and reasonable" do not directly appear in the public mandate, a Handling Commission that fails to meet the "just and reasonable" standard will also fail to meet the balance required in section 4(3)(b) of the BCMB's Administrative Bylaw. Essentially "just and reasonable" is equivalent to "lowest possible cost while maintaining a viable Depot network", with no extra stringency assigned to this test of fairness. [119]

[115] Phase I Transcript pages 84 to 85.
[116] Exhibit 224 Schedule 12-a
[117] Panel letter dated September 13, 2007, Exhibit 437
[118] ABCRC Argument, pages 11 to 16.
[119] ABDA Argument, pages 9 to 10; ABDA Reply page 2.

CNB

Mr. Marcus addressed the issue of the need to balance fair return to maintain a viable Depot network with the lowest possible cost, as follows:

> But I think you have to also balance the lowest reasonable rate to consumers with that. I mean, you have -- you've got both of those things to look at and balance and that balance I will say is structured a little differently than it might be in the Electric Utilities Act, or something like that, where you've been given, you know, a very specific mandate for lowest reasonable cost consistent with having a viable network. And I think you've -- I think you've got a balancing act here. But it would tend to me to say that if you have numbers that have ranges of reasonableness, you probably are more justified going to the low end of them with this regulatory framework than you might be if you were the Energy and Utilities Board.[120]

CNB argued that the legislative test of "lowest possible cost to consumers" mandates a more stringent standard than the "just and reasonable" standard in the utility context. Within the utility context, a range of reasonable costs is often reviewed and the regulator is free to determine a cost within that range. However, in this case the Panel is mandated to fix rates with reference to the "lowest possible cost" to the customers. CNB submitted that, by definition, the Bylaw directs rates to be set at a level that is "the least amount that can happen" and that where a range of reasonableness is being considered, the Panel must fix costs at the lowest number within the range.[121]

4.4.3.2 Views of the Panel

The Panel notes the opinion of Mr. Marcus that in this regulatory framework allowed costs should be at the "low end" of the range of reasonable costs. In addition, the Panel considers that the Handling Commissions must be based on actual costs with reasonable adjustments as referenced in the Bielby decision.[122]

With a one-time determination of Handling Commissions, the Panel believes that it should focus on a reasonable level of costs to maintain the Depot network. As discussed in the Phase I hearing, the parties have no certain ability, as in a typical regulated utility context, to assess the reasonableness of the Revenue Requirement by a review in later years of the Depots' actual results.[123] Therefore, the Panel does not believe that significant upgrading of components of the DCA's recommended Revenue Requirement is within the bounds of reasonableness and the mandate of considering the lowest possible cost to consumers. The ABDA's "go-forward" Revenue Requirement includes an adjustment for Labour to the P50 level and other adjustments based on assumptions regarding costs which might be incurred up to mid-2009. The Panel is of the view that

[120] Phase I Transcript page 369 line 15 to page 370 line 3.
[121] CNB Argument, pages 3 – 4.
[122] The Bielby decision referred to the need to set rates based on actual cost data, with appropriate adjustments, and criticized the Acton report for not having obtained actual cost data. See paragraphs [23], [24,], [25], [27], [43], [48], [56], [61], [75] and [80] of the decision.
[123] Phase I Transcript page 474 line 19 to page 479 line 15; and 497 line 11 to page 499 line 10.

the Handling Commissions should be based on evidence of costs at the present time, and consequently the Panel rejects the "go-forward" approach of the ABDA to mid-2009.

The Panel notes that CNB's focus on the "lowest" number within a range is slightly more strict than the comment made by their expert, Mr. Marcus, that where a range of reasonable numbers is being considered, the Panel would be more justified in going to the "low end" of the range. The Panel also notes that in fact CNB did not choose the absolute lowest cost in some cases in its evidence, but allowed for something greater. For example, as referenced in the sections on deemed lease rates and Direct Labour costs, CNB did not reflect the lowest possible costs as identified by their experts. Further, in Argument CNB indicated an intention to give the benefit of the doubt to the Depots in the 2006 lease rate.[124] The Panel understands the position of CNB as one of reasonableness while considering the "low end" of a range of values.

The Panel agrees with the approach of CNB as proposed by Mr. Marcus, recognizing that the balance with Depot network viability must be considered relative to the Revenue Requirement as a whole.

The Panel considers that the assessment of Depot network viability must consider both the fair return component, which is the equivalent of the net income of the Total System, and the amount of the allowed Total Operating Expenses in the Revenue Requirement.

4.5 Collection Costs

Collection Costs are the costs incurred by Depots to pick up containers from external sources and bring them to the Depots rather than relying solely on customers to return containers to the Depots. Collection Costs are a relatively significant item, representing approximately 5.6% of the Revenue Requirement,[125] and include costs recorded in a number of different categories, including Direct Labour, Overhead Labour, Overhead, Vehicles and Equipment. Collections increase the volume processed through the Depot for those Depots that engage in the practice, and the increases in volume can be material.[126] Parties were divided on the issue of whether Collection Costs should be considered a legitimate part of the Revenue Requirement.

In the 2005 Phase I Report the DCA excluded Collection Costs from the Revenue Requirement. The justification for this was as follows:

> Stantec is of the view that Collection costs are not a proper system cost. Collection costs are a discretionary cost made by certain Depots to increase return volumes to their Depots. Including these costs in overall system cost would be akin to paying Customers to bring their

[124] CNB Argument, page 11.

[125] Exhibit 181: HCRP-DCA-2006-25a)ii.

[126] 2005 Phase I Report, page 65 lines 11 - 19. "…in the absence of the expenditure of Collection Costs, volumes of some high volume Depots would fall materially".

> containers in to a Depot. We are of the view that the deposit refund should be the only incentive provided to the public to return containers included in the system cost.[127]

In response to ABDA-Stantec-34 and CNB-Stantec-11, the DCA relied on Subsections 1(1) and 10(1) of the Regulation and Section 2 of the BCMB Operating and Service Standards. Subsection 1(1) defines a "depot" as "a place operated as a business for the collection of empty containers." Section 10(1) refers to a person presenting to a depot operator an empty registered container. The DCA interpreted these sections to mean that the regulatory framework is premised on the customer presenting the empty beverage container to the Depot operator at the Depot. The DCA also noted that Depot permits issued by the BCMB specify the location of the Depot. The DCA indicated that the regulation does not comport with the practice of collecting containers from external premises. The DCA made the following statement:

> "Stantec is of the view that Collection services are not mandated as a condition of the depot permit, and therefore the costs are not properly a part of the costs of providing utility service."

In the 2005 Phase I Report, the DCA excluded Collection Costs totaling $2,318,241 from the Study System. The total Collection Costs for 2005 are estimated by the Panel as follows:

[127] 2005 Phase I Report page 57 line 24 to page 58 line 1.

Table 4: Estimated Total Collection Costs from the 2005 Phase 1 Report

Cost Category	Reference	Hours	Dollars
Purchases – overpayments to Customers or third-party collection costs.	Page 15 lines 9 to 11	Hours not identifiable (ABDA-Stantec-1)[128]	Not provided
Miscellaneous revenues	Page 15 line 26 to 16 line 9		($32,900)
Direct Labour[129]		Not identifiable	Not identifiable
Contract Labour	Page 24 line 4; Schedule 3	27,547	$296,649
Overhead Labour	Page 26 line 36; Schedule 4	8,125	$88,375
Overhead	Page 58 line 3; Schedule 7		$1,138,549
Vehicles/ Equipment	Page 53 lines8 to 19; Schedule 6[130]		$360,613
Vehicles (overhead)	Page 57 lines 5 to 18; Schedule 7		$466,969
Marketing and advertising	HCRP-Desiderata-11		Not provided
Collection Costs excluded		35,672+	$2,318,241 +
Estimated Collection costs of the Total System	Grossed up from 83% to 100%		$2,727,342

Direct Labour hours identified as relating to collections were 27,547 from Contract Labour on Schedule 3 and 8,125 hours for drivers from Schedule 4, for a total of 35,672 hours.

In the 2006 Phase I Report, the DCA recommended that all Collection Costs, As Reported, be included in the 2006 Revenue Requirement.[131] The justification for this was that the data collected did not permit Collection Costs to be properly estimated or verified:

> Given the data collected from the 2005 UCAs the DCA is of the view that an appropriate approximation of collection costs is not possible. As noted above, collection costs related to labour are thought to be understated, collection costs related to vehicles are thought to be

[128] In response to ABDA-Stantec-1, the DCA advised that for the 98 depots that reported purchases, there was an overstatement of $3,233,284. The amount related to collection costs was not identified.
[129] No Direct Labour was identified as relating to collections.
[130] Vehicle related costs excluded cannot be determined from Schedule 6 as Goodwill costs were excluded.
[131] 2006 Phase I Report page 91 lines 15 - 16 and HCRP-DCA-2006-18.

overstated and collection costs related to cash payments are not fully reconcilable (and not verifiable). [132]

In response to CNB-DCA-2006-3[133], the DCA clarified its position stating that the assumption regarding Collection Costs in the 2006 Phase I Report was the same as in 2005 that Collection Costs were not a system cost. However, the DCA had applied its judgment differently, i.e., that a lack of confidence in reported values led the DCA to propose inclusion of Collection Costs with consideration given to quantum of Return.

The DCA also stated in the 2006 Phase I Report its belief that "the quantum of under-reporting in the 2005 UCAs is higher than for the 2004 UCAs as some large Depots were aware of the DCA's 2004 UCA determination [i.e., to exclude Collection Costs] and did not provide the breakout of collection costs as requested." [134]

The Panel notes that the definition of Direct Labour in the 2005 UCA Instruction Manual differs from the 2004 UCA Instruction Manual and states:

> Direct labour includes employees performing the following functions: customer interface, cashiers, sorters, **collection of containers from outside the depot**, loading trucks, etc. (emphasis added)[135]

At the Phase I hearing the DCA could not recall the reason for changing the Instruction Manual in this respect.[136]

For Contract Labour, supplementary detail was provided and the UCA directed that "Any persons paid an hourly fee to pick up containers is to be included as 'COL'" (i.e. a Collection function). The requested detail related to Contract Labour only.

In the 2006 Phase I Report[137] the inclusion by the DCA of Collection Costs had the net effect of adding approximately $2.82 million to the Study System which was extrapolated to approximately $3.2 million for the Cal 2006 Total System Forecast.[138]

The Table below is an analysis of Collection Costs included in the 2006 Phase I Report. In an undertaking to the Panel[139] the DCA estimated the Direct Labour hours related to collection activity as between 100,000 and 200,000 hours with a possible range from 50,000 to 500,000 hours. The Panel notes that in the 2005 Phase I Report labour hours related to collection activity were reported as 27,547 for Contract Labour, 8,125 as drivers in Overhead Labour, with no ability to identify the collection hours in Direct Labour. Thus in 2004 approximately 35,500 hours were specifically identified as relating to collection activities for the Study System.

[132] 2006 Phase I Report Page 91, lines 10 - 14.
[133] Exhibit 180 page 5.
[134] 2006 Phase I Report, page 11, lines 27 to 31.
[135] Exhibit 122 Section 3.3 page 11.
[136] Phase I Transcript discussion at pages 208 and 209 to line 8.
[137] 2006 Phase I Report, page 89
[138] Exhibit 181 Response to HCRP-DCA-2006-25 a)ii
[139] Exhibit 431

Table 5: Collection Costs – Summary – 2006 Phase I Report

Source			Page 89	HCRP – DCA – 2006 – 25a)ii	HCRP – DCA – 2006 – 25a)ii
Cost Category	Reference	Hours	Dollar impact on As Reported Values	Dollar impact on Cal 2006 Study System[140]	Dollar impact on Cal 2006 TOTAL System
Purchases – third party Collection Costs and Deposit incentives to wholesale Customers	Page 31 line 23 to page 34 line 9 [141]				
Miscellaneous revenues[142]				($62,559)	($75,823)
Direct Labour[143]			Not identifiable	$162,870	$197,404
Contract Labour	Schedule 3	11,250	$139,737		
Overhead Labour		3,538	$40,774	$120,452	$145,992
Overhead					
Vehicles/ Equipment			$1,551,385	$1,590,895	$1,928,218
Vehicles (overhead)				$1,169,313	$1,417,246
Overheads			$1,088,695		
Marketing and advertising					
Net Collection Costs			**$2,820,591**		
Income Tax				($447,207)	($542,029)
Return				$121,741	$147,554
Net decrease in Revenue Requirement				**$2,655,507**	**$3,218,562**

In the DCA compliance filing (see Schedule 12-a-2 in Appendix "D") $4,122,700 of Collection Costs (including Direct Labour of $654,546) were excluded and a vehicle allowance of $849,680 was included, for a net exclusion of $3,273,020 before income tax and return.

4.5.1 Views of the Parties

ABCRC

ABCRC was of the view that Collection Costs should be excluded from the Revenue Requirement. Dr. Huson argued that poor reporting of Collection Costs was not an appropriate justification for inclusion of these costs in the Study System. He stated "In

[140] Exhibit 181,

[141] The 136 Depots which reported purchases reported Collection Adjustments of $365,355. Further adjustments of $688,706 were reported as related to Shrinkage/Cash adjustments and a further difference of $614,132 was unaccounted for. The purchase adjustments of $365,355 were transferred from purchases to overhead in the Study System. See page 93 of the 2006 Phase I Report.

[142] The Table on page 35 shows Miscellaneous Revenue from Pick-up Fees of $59,239.

[143] No Direct Labour costs were identified as relating to collections. Contract Labour was reclassified as Direct Labour.

my opinion, remote collection is not an industry standard and therefore the inclusion of these costs is clearly incorrect." [144] ABCRC excluded $2,114,325 of Collection Costs from its recommended calculation of the 2006 Revenue Requirement. [145]

At the Phase I hearing Dr. Huson stated "I think that if a depot operator cannot cover his costs of engaging in such activity under the handling commissions, he or she would decide not to engage in that activity. And building the costs in, again, would be subsidizing such activity and would encourage this, and that's -- I'm not sure that that's exactly the purpose behind the handling … fees."[146]

In Argument ABCRC submitted that there is little if any information with respect to the nature and number of arrangements pursuant to which remote collection occurs, that the DCA had concerns regarding the accuracy of the reporting of collection costs and that in the absence of BCMB policies or requirements regarding remote collection, collection costs should not be included in the Revenue Requirement.[147]

ABDA

ABDA concurred with the DCA's recommendation in the 2006 Phase I Report to include Collection Costs in the Revenue Requirement. ABDA argued that the purpose of the container return system under the Act is to maximize the return of containers through the Depot system and is not restricted to containers physically brought to a Depot by a customer.

ABDA argued that Collection Costs are legitimate system costs, as the motivation for customers to return containers for a cash refund is diminished in an affluent society. Depot pick-up services are viewed by businesses as a cost-effective alternative to garbage pick-up. ABDA further submitted that in their opinion, although they acknowledged that there was no supporting evidence,[148] collections capture a significant percentage of containers that would otherwise not be brought into the Depot system. In addition ABDA submitted that Depot collection services offer the system a net savings due to voluntary customer labour.[149] ABDA argued that the shifting of volumes between Depots is not an issue for containers that would not otherwise come to a Depot, and that if Collection Costs were excluded, the system revenues generated by container volumes captured by collection services should also be excluded.

In response to HCRP-ABDA-3,[150] ABDA stated that, as a saturation point has not been reached with regard to unrecovered containers, no attempt has been made to identify predatory competition among Depots with respect to collections. ABDA acknowledged that "There is likely some volume swapping in the process of introducing new levels of

[144] Exhibit 235, page 11, paragraph 7.
[145] Exhibit 266 pages 13 and 14; HCRP-ABCRC-3 and Appendix A Table 1 of Argument
[146] Phase I Transcript page 388 lines 5-11.
[147] ABCRC Argument page 20 paragraph 52.
[148] Phase I Transcript page 606 line 25 to page 607 line 8.
[149] Phase I Transcript page 609 lines 17 - 25.
[150] Exhibit 258a pages 7 - 8.

service but we believe this to be a small amount and a temporary component of the greater benefit of expanding service to unreached user groups."

Mr. Chymko, appearing on behalf of the ABDA, stated that a key reason why Depots engage in remote collection is for the purpose of maximizing profit.[151] Mr. Linton of the ABDA agreed that the decision made by the Depot regarding collections is whether the revenue (handling commissions) and any labour savings offset the costs to be incurred.[152]

In Argument ABDA submitted that the Panel should accept the DCA's recommendation to include Collection Costs in the Revenue Requirement. In the alternative, the ABDA proposed a reasonable transition from current practice and an appropriate provision for deemed vehicle costs for bank runs, etc.

CNB

CNB did not submit direct evidence with respect to Collection Costs but in their calculation of the Revenue Requirement in Exhibit 350, Collection Costs were excluded in the amount of $2.82 million, as identified by the DCA at page 89 of the 2006 Phase I Report. No estimate was made of the Direct Labour costs related to Collection Costs and no adjustment was made to escalate from the Study System to the Total System Forecast. In Argument CNB stated that Collection Costs should be excluded and pointed out that the amount of $2.82 million related to collections is acknowledged to be low in that it does not include Direct Labour. CNB stated "Collection activity clearly benefits the depot only, and not customers or the system as a whole".[153]

4.5.2 Views of the Panel

The Panel is of the view that Collection Costs should not be included in the Revenue Requirement. The Panel found the responses to ABDA-Stantec-34 and CNB-Stantec-11, discussed above, to be persuasive. The Panel concurs with the statement made by the DCA in the 2005 Phase I Report, that Collection Costs are a discretionary cost made by certain Depots to increase return volumes to their Depots. The Panel also accepts the views of Dr. Huson that the decision to engage in collection activity is made by each Depot owner in relation to the additional revenue that can be gained vs. the cost of external collections, and that poor reporting of Collection Costs was not a reason to exclude them from the Revenue Requirement.

The Panel does not find the arguments of the DCA in relation to the inclusion of Collection Costs in the 2006 Phase I Report to be persuasive. The DCA indicated in CNB-DCA-2006-3 that the inclusion of these costs resulted from a change in the application of judgment. Because of the poor reporting of Collection Costs, these costs could not be quantified and therefore, could not be excluded in the 2006 Phase I Report. If there had been a degree of inconsistency or unreliability in the reporting of Collection

[151] Phase I Transcript page 496 line 4 to page 497 line 10.
[152] Phase I Transcript page 607 line12 to page 608 line 10.
[153] CNB Argument page 13 lines 6 – 7.

Costs, the Panel considers that the DCA could have adjusted the As Reported costs, as it did with other cost adjustments, by the application of judgment.

The Panel further has concerns regarding the inclusion in the Revenue Requirement of costs of competition among Depots within the Depot network. To the extent collections result in a shift of volumes from one Depot to another, the Panel would have difficulty in legitimizing these costs by including them in the Revenue Requirement. No evidence of volume shifting was put on the record, although the ABDA acknowledged that there could be some volume shifting among Depots owing to collection practices.[154] Mr. Pearce on behalf of CNB referred to a number of rural Depots traveling to Red Deer, Lethbridge, Drumheller, Calgary and Edmonton to pick up containers which are then taken back to the rural Depot locations. He argued that this is not cost efficient as the contracted carriers must then go to the rural Depots to pick up the containers and transport them back to their cross-dock facilities or to Edmonton or Calgary warehouse locations.[155] Further, there was no objective evidence on the record that remote collections increase the overall return of containers.

The Panel directed the DCA to calculate the Revenue Requirement excluding the following items relating to collections (as calculated by the DCA in response to HCRP-DCA-2006 - 25a)(ii) and (iii), subject to any adjustments or corrections):

- Overhead $1,417,246
- Miscellaneous Revenue $(75,823)
- Equipment (net of vehicle allowance) $1,015,405

The numbers excluded by the DCA in the compliance filing are presented in Schedule 12-a-2 of Appendix “D”.

In addition, the Panel directed the DCA to estimate the amount of Direct Labour cost for 50,000 labour hours as the minimum number of collection-related hours identified by the DCA[156] and to remove that cost from the Revenue Requirement. The Panel has considered the reasonability of the 50,000 hours relative to the Direct Labour hours reported in the 2004 UCAs for contract labour and drivers. If the 35,672 hours as then reported are grossed up proportionately to the 2006 volume forecast of 1,428,953,298 from the 2004 Study System volume of 1,025,480,397 the resulting number of hours is approximately 50,000.

The Panel notes that in the 2005 Phase I Report, when Collection Costs were excluded, a vehicle allowance was provided. The ABDA requested an allowance if the Panel were to recommend exclusion of Collection Costs. A vehicle allowance is reflected in the Panel’s direction to the DCA as noted above. ABDA also requested a reasonable transition from current practice, if Collection Costs were to be excluded from the

[154] HCRP – ABDA - 3
[155] Phase I Transcript, page 675 line 14 to page 677 line 3.
[156] Exhibit 431, September 13, 2007.

Revenue Requirement. Since this is the first determination of a rate and current Handling Commissions were not set in relation to costs, the meaning of a reasonable transition from current practice is unclear. Therefore, no transitional provision has been recommended.

4.6 Revenue

The DCA calculated the theoretical amount of Revenue and Purchases, based on each Depot's shipments within its fiscal year for each container stream at the current Handling Commission rates. The justification for using theoretical Revenue and Purchases was that Depots may not separately track miscellaneous revenues, ABDA /BCMB fees netted from payments may not have been recorded (a complementary adjustment is made to ABDA/ BCMB fees), and there could be timing differences in the reporting of cash receipts vs. revenue recognized.

None of the Interested Parties expressed concerns regarding this practice and the Panel accepts the position of the DCA.

The DCA included a value-added fee (VAF) for the 2005 fiscal year based on information provided by the ABCRC that the payments made in 2006 were 0.26 cents per glass container for a total payment of approximately $419,000. The DCA calculated this amount to reflect what the VAF payment would have been based on data from the Manufacturers, had it been in effect in 2005.[157]

As indicated earlier, the DCA also adjusted revenue amounts for nine Depots reporting fiscal years of less than 12 months. All revenues and costs were adjusted to gross up the revenues and costs of their Depots to reflect a full year ("stub period adjustments").

4.6.1 Views of the Parties

All Interested Parties addressed the VAF. The ABDA initially recommended that the VAF be excluded from Miscellaneous Revenues and that VAF related under-reported costs should be included in the cost base (presumably as Operating Expenses). In Argument the ABDA withdrew the request to add the "under-reported" costs.

At the Phase I hearing, the ABDA witnesses indicated that the VAF involved lowering the number of container sorts, and that the changes in the sorting process initially involved some higher costs but that the transition stage was now completed, and no additional costs were expected.[158]

CNB suggested that any costs associated with the VAF should be excluded from the costs going forward.[159] ABCRC agreed with ABDA's proposal in Argument to remove all

[157] 2006 Phase I Report page 35 lines 16 - 18.
[158] See Phase I Transcript pages 593 - 595.
[159] See Phase I Transcript pages 509 – 511 and Reply Argument pages 6 – 7.

considerations of the VAF from the total system revenue requirement and cost allocation considerations.[160]

4.6.2 Views of the Panel

The Panel concurs with the theoretical calculation of revenue and purchases for the reasons cited by the DCA.

The Panel does not agree with the inclusion in the System of any amounts associated with the VAF, in terms of either revenues or possible costs. All parties concurred with this position. The Panel directed the DCA to remove any revenue or cost associated with the VAF from the Revenue Requirement. The calculation of Miscellaneous Revenue on Schedule 8 of Appendix "D" does not include the VAF and it is not included in the Revenue Requirement at Schedules 11 and 12-a of Appendix "D".

4.7 Labour Costs

Total Labour cost, including Direct Labour and Overhead Labour, is a very significant component of Depot costs, representing approximately 65% of the total Operating Expenses in the Revenue Requirement. Direct Labour is 50.7% of total Operating Expenses and approximately 47% of the DCA revised Revenue Requirement in the February 27, 2007 schedules.

The 2005 UCA collected information on three classifications of labour: Direct Labour, Contract Labour and Overhead Labour. The DCA made a number of adjustments to labour hours and rates which are discussed below. Despite the capping of management hours the net effect of all Labour adjustments was that in the 2006 Phase I Report Study System costs for Total Labour increased from $23,292,029 million As Reported to $24,186,377 As Adjusted (February 27, 2007 Schedules).

4.7.1 Direct Labour

The DCA reviewed the information provided and reclassified to Direct Labour, costs of Contract Labour and Overhead Labour which were associated with the duties described as Direct Labour activities. For 2005 data, the DCA also included a "stub period adjustment" to adjust the data for Depots reporting fiscal periods of less than twelve months to a full year.

For 2005, the DCA adjusted the hourly rate for all managerial hours reallocated to Direct Labour (149,553 hours) to a rate of $17.42 per hour for a dollar adjustment of $868,244, representing an average increase of $5.80 per hour. The DCA made a further adjustment of $37,068 reflecting the rate adjustment related to the reclassification of Overhead

[160] ABCRC Reply, paragraph 3.

Labour COL/DRV costs to Direct Labour, for a total dollar increase of $905,310[161] to the cost of wages.

The justification for these adjustments increasing the hourly wage rates was based on the 25th percentile (P25) of reporting companies the WW survey. The DCA was of the view that a Lead Hand in the Depot network is 50% the equivalent of a lead hand, 20% the equivalent of a foreperson, 20% the equivalent of a shift supervisor and 10% the equivalent of a shipper-receiver, as those classifications were described in the WW survey. The DCA adjusted the combined rate in recognition of the fact that the WW study lead hand was paid 15.9% more than a Depot lead hand. The DCA stated that the rate of $17.42 was appropriate for a Lead Hand who is capable of supervising HND employees and managing a Depot when a MGR is not present, and for Depot owners who elect to provide these services themselves.

The DCA further adjusted the Direct Labour costs of the 2005 Fiscal Year as Adjusted to roll forward to the Cal 2006 Study System Forecast based on an average annual increase of 8.3%. As the Depots have different fiscal year ends the roll forward period differed but averaged 15.57 months resulting in an escalation factor of 12%. Direct Labour hours were also increased to accommodate forecast volume increases for a combined increase of 21.5%.

4.7.2 Overhead Labour

The DCA discussed in both the 2006[162] and 2005[163] Phase I Reports the importance of distinguishing a proper split between the compensation for owning a business compared to the compensation for managing the business. It was observed that the Depot network has a variety of ownership structures and that Overhead Labour is influenced by the ownership structure, the level of family involvement and tax planning considerations. The DCA observed that owners or related parties may be paid salaries that are not reflective of market values.

Given the multitude of managerial structures and compensation policies of the Depots in the study, the DCA concluded that a deemed level of management time at a determined rate should be applied to each Depot.[164]

The adjustment made by the DCA to cap management hours was contentious. In the 2005 Phase I Report, the approach taken by the DCA was to cap individual owner and manager hours at 2,500 hours each. This affected 58 of the 255 managers/owners[165] and resulted in excluding approximately 46,000 hours[166] from System costs. In the 2006 Phase I Report managerial hours for large Depots were capped at the number of annual

[161] HCRP-DCA-2006-26 and related references.
[162] 2006 Phase I Report pages 45 and 46.
[163] 2005 Phase I Report pages 24 and 25.
[164] 2006 Phase I Report page 53 lines 22-24, and 2005 Phase I Report page 26 lines 26 - 28.
[165] 2005 Phase I Report page 29 lines 7 - 11.
[166] 2005 Phase I Report page 29 lines 1 - 11.

operating hours. This resulted in an exclusion of 66,027 hours from System costs.[167] The two capping methods result in setting a maximum number of hours rather than deeming the number of hours for all Depots.

No adjustments were made to small Depots as reported. In the 2006 Phase I Report the DCA did not explain the reason for the different approaches as between the capped hours for large vs. small Depots in 2005 and 2006 Reports, nor did the DCA explain why only large Depots were subject to the capping of managerial hours in 2006. In the Phase I hearing the DCA clarified that a different analyst had prepared the Overhead Labour section of the 2006 Report and used a different approach which Mr. Hildebrand considered better. He stated that it was possible that small Depot managers or owners could have hours in excess of 2,500 for the year, but that he didn't believe so.[168]

Hourly rates were determined based on the WW survey at $26.56 per hour for large Depots, for which the As Reported wage rate was an average of $25.92, and $17.42 for small Depots, for which the As Reported wage rate was an average of $7.15. The wage rate adjustment for small Depots for managers and bookkeepers was an increase of $872,174.

The DCA testified that the costs incurred associated with turnover were captured in the costs included in the UCAs. However, he continued to say that there may be some cost increases associated with turnover that the Panel may want to consider.[169] The Panel has considered this in Section 4.7.4 with respect to Overhead Labour adjustments.

4.7.3 Views of the Parties

ABCRC

In Argument, ABCRC indicated that it took no issue with the DCA's findings and recommendations regarding Direct Labour hours and wage rates for the System. ABCRC commented on ABDA's evidence as to Direct and Overhead Labour. While ABCRC did not take issue with ABDA's evidence about difficulties in finding and retaining appropriate labour, ABCRC argued that there was no empirical evidence that calculating System costs at a much higher wage level than that reported by Depots would eliminate this issue. ABCRC agreed with the DCA's position, which was consistent throughout the proceeding, that Depot staff are likely to have limited experience and be paid at or near minimum salary levels. ABCRC submitted that setting the benchmark at WW P50 level was inappropriate. The Review Process should not be used to determine whether Depots should be engaging in certain labour practices and incentivizing them to do so, particularly when there is no evidence that a particular practice was widespread and when there are no regulatory consequences for failure to implement such practices. ABCRC

[167] Page 57 of the 2006 Phase I Report states at lines 24 - 25 that the adjustment reduced the number of Large Depot MGR hours from 196,811 to 130,784 or a 34% reduction. Schedule 4-d indicates that the 66,027 hours removed were removed at an hourly rate of $21.62 (February 27, 2007 Schedules).

[168] See Phase I Transcript pages 197 - 199.

[169] Phase I Transcript page 83 line 14 to page 85 line 21.

indicated that this type of "incentivizing" was not consistent with the purpose of the Review Process to determine, as accurately and reasonably as possible, the costs to operate the System and maintain it at a viable level.[170]

ABDA

ABDA recommended that both Direct Labour and Overhead Labour rates should be based on the 50th percentile of the WW survey (P50). They also proposed that all Depots should be compensated for the equivalent of a full time manager for each hour of operation. They recommended that the cap on Depot hours should be increased by approximately 23.8 hours per week to take into account various activities associated with opening and closing Depots, management overlap, hiring employees, paid leave and container loading during non-public hours, with proportionate adjustment for Small Depots.[171] In Argument, the ABDA clarified their position as 26.1 hours for large Depots and 13.05 hours for small Depots.[172] In testimony the ABDA identified turnover as one of the "cracks" in the Depot system regarding viability.[173]

In response to HCRP-ABDA-19, the ABDA provided the quantitative impact of their initial recommendations. Direct Labour would increase from $26.9 million to $33.5 million and Overhead Labour would increase from $7.5 million to $23.3 million. Total Labour costs would increase from $34.5 million to $56.8 million, an increase of 65%.

In the Chymko evidence at page 22, Table 3, titled "Outlooks for Labour Rate Escalators in Alberta", provided an escalation rate for 2006 of 6.7%.

CNB

CNB expressed concern with the DCA's 12% escalator [for 15.57 months] to bring reported Depot costs to December 31, 2006, and Dr. Percy provided expert evidence that the escalator for the relevant period was approximately half that amount. Dr. Percy also stated that labour contracts during that period were in the 3 to 5% range.[174] In its calculation of the Revenue Requirement CNB did not take issue with the Labour hours or base rates as set out by the DCA, but only with the escalation factor. CNB recommended reducing Labour Cost to $32,264,889[175] in contrast to the DCA's total Labour Cost of $34,504,871.[176] In Exhibit 350 CNB used a 6% labour escalator and in Argument CNB recommended an escalator of 5% but did not submit an amount of Labour Costs.

170 See ABCRC Argument pages 21 – 22.
171 ABDA Evidence Section 2.2.2.3. See Table at page iii.
172 ABDA Argument page 3.
173 Phase I Transcript page 614 line 6 to page 615 line 2. In Argument the ABDA expanded these concerns slightly; ABDA Argument page 12.
174 Phase I Transcript, page 230, lines 6-15.
175 Exhibit 350
176 Exhibit 347

4.7.4 Views of the Panel

The Panel accepts the DCA's hours and hourly rates for Direct Labour, other than the escalator and the hours taken out in respect of Collections. The Panel reviewed the evidence of the DCA, Chymko and Dr. Percy with respect to the labour escalator. The Panel considers that 6% is a fair escalator for 2006. The Panel notes this is less than the DCA's annual rates of 8.3% and 7.8% for Direct and Overhead Labour; is slightly less than Chymko's rate of 6.7% and is at the upper end of Dr. Percy's range. The Panel considers that Dr. Percy has the greatest expertise in this area and since the other escalators on record are in excess of his range, the Panel has selected the high end of his escalators. The Panel directed the DCA to use a 6% escalator to calculate the 2006 Labour costs for purposes of the compliance filing.

The Panel does not believe that the P50 salary level advocated by the ABDA is acceptable. Of the companies included in the WW survey[177] approximately 15% have fewer than 100 employees and 16% have in excess of 2,500 employees. The DCA reported that Depots in the first fourteen volume clusters had fewer than six full time equivalent employees (FTEs) and that no Depots have more than 20 FTEs.[178] Further the WW industry representation included banks, insurance companies and professional services companies, some of which were unionized. Dr. Percy indicated that unionized companies are paid a premium of approximately 30%.[179] The DCA testified at page 199 of the Phase I Transcript that WW companies use different labour pools and that Depots would not pay their employees at the P50 level.

The Panel notes that the hourly rate for managers in small Depots was increased significantly from $7.15 to $17.42 per hour[180] and sees no need to increase the rate further to the WW P50 level. The Panel accepts the evidence of the DCA at page 56 of the 2006 Phase I Report that the $17.42 rate is appropriate for a Lead Hand capable of supervising handler employees and managing a Depot when a manager is not present, and for Depot owners who elect to provide these services themselves.

With respect to Overhead Labour costs, the Panel accepts the ABDA submission, in part.

The Panel is of the view that the concern regarding costs associated with employee turnover is an issue to be addressed but considers that the ABDA proposal of two hours per week is excessive for Depots with a small number of FTEs. The Panel considers that one hour per week is a reasonable allowance for additional time to address staff turnover for Depots with more than six full time equivalents. Based on the number of FTEs indicated by the DCA, the Panel recommends that one additional hour per week be provided for Depots in volume clusters 15 to 20.

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[177] Exhibit 69, page 3 of WW Survey.
[178] Exhibit 181 page 31: Response to HCRP-DCA-11.
[179] Phase I Transcript page 247 lines 5 - 19.
[180] 2006 Phase I Report page 57 lines 12 - 13.

The Panel accepts the ABDA's recommendation that an additional two hours per week be provided for an early morning pick-up, but only with respect to Depots whose hours have been capped. For all other Depots all management time reported has been included in the calculation of the Revenue Requirement.

The Panel does not accept the ABDA's recommendation that an additional two hours per day per Depot is required for opening and closing activities. The Panel notes that except for capped Depots all hours reported have been included. Further, the description of opening and closing activities appears to relate primarily to activities which can be conducted during public hours.

The Panel notes that the managerial hourly rate for Large Depots of $26.56 includes an allowance for benefits of $3.11 per hour or 11.7%. Based on the DCA's definition of benefits, benefits do not include vacation.

The Panel agrees with the need for annual vacation and accepts the three weeks or 120 hours per year proposed by the ABDA for Depots whose hours were capped, calculated at the managerial hourly rate.

The Panel considers that salaried employees need not be compensated for a certain amount of overlapping time with other employees coming onto their shifts. Based on testimony from the ABDA witnesses,[181] the Panel understands that managers are salaried employees and are expected to work up to 44 hours per week for their salary.[182]

The Panel estimates a managerial salary of $55,000 using the $26.56 hourly rate proposed by the DCA and a 40 hour week. In calculating the extra hours allowed by the Panel for the capped Depots, the Panel directed the DCA to assume a maximum of 44 hours per week for the salaried manager and to provide for the additional hours until a second full time manager would be hired at the hourly rate of $26.56.

The Panel directed the DCA to make the following adjustments to Labour Costs and reflect them in the compliance filing:

- Reduce the number of hours of Direct Labour by 50,000 in recognition that these hours relate to Collections;
- Decrease the annual escalation rate for 2006 for Direct Labour from 8.3% to 6%;
- Decrease the annual escalation rate for 2006 for Overhead Labour from 7.8% to 6%;
- Increase the number of overhead hours for Depots in clusters 15 to 20 by one hour per week for additional time related to employee turnover at the managerial rate of $26.56;

[181] Phase I Transcript pages 602 to 606.
[182] Phase I Transcript page 605 line 10.

- Increase the number of overhead hours for Depots with capped hours to allow for three weeks of vacation (120 hours per manager) per year, at the managerial rate of $26.56; and
- Increase the number of overhead hours for Depots with capped hours to allow for an additional two hours per week for an early morning pick-up at the managerial rate of $26.56.

4.8 Labour – Lowest Possible Cost and Viable Depot Network

The Panel considers that the P10 wage levels could be more appropriate for the Depots given the evidence on the general duties of Depot employees. The DCA was of the view that the employees who work in a Depot are at the lower end of the range of the WW data and that if a person working in a Depot could go to one of the WW type companies and earn 10, 20 or 40 percent more then he would do it.[183] The DCA indicated that a comparison of the actual Depot labour rates to the WW study minimum showed that they were relatively comparable.[184] In view of the comparability to the WW minimum, the Panel believes that the P10 level would arguably have been appropriate. The Panel asked the DCA in HCRP-DCA-2006-25 to calculate the impact on the Revenue Requirement of using the WW P10 wage rates to calculate Direct and Overhead Labour Costs, rather than the P25 wage rates as used by the DCA. The DCA calculated the reduction in the Revenue Requirement to be approximately $581,000 for Direct Labour and $921,892 for Overhead Labour for a total impact, including return and income taxes, of approximately $1.7 million.[185] However, the manufacturers did not recommend this type of approach. As with the inclusion of Depot volume clusters two to four in the Revenue Requirement, the Panel has again applied a moderated approach to "lowest possible costs" and has not recommended lowering the labour rates to the P10 level. The Panel considers this to be a reasonable interpretation of the balancing of lowest possible cost to consumers and a viable Depot network.

4.9 Building Costs

Building costs are a material component of Depot costs, comprising approximately 15% of the Revenue Requirement and the treatment of these costs was a matter of some contention. The development of appropriate Building Costs for the Depot network to be included in the Revenue Requirement is very complex, primarily due to the wide disparity amongst individual Depots. The disparity ranges across a number of features, including whether the buildings are owned or leased, the size of the premises, the location of the premises in Alberta, the location or zoning within a community, container volumes processed and relative efficiencies in usage of space.

4.9.1 Views of the DCA - Background

Information relating to Buildings was reported by Depots in the 2005 UCA in two sections, Table 5 and Table 7-a. Table 5 included square footage, business space

[183] 2006 Phase I Transcript page 78 line 19 to page 79 line 5. See also page 119 lines 19 to 24.
[184] 2006 Phase I Transcript page 81 line 21 to page 82 line 5.
[185] HCRP-DCA-2006-25 a)(iv)

allocation, and utilities costs. Table 7-a included all reported Building costs, i.e. all expenses reported on the income statement. Some expense items were reported in both tables.[186] For owned buildings the UCA collected information regarding building cost and related Capital Cost Allowance, appraised and market values, and financing information. For leased buildings the UCA collected information regarding annual lease payments and leasehold improvements.

From the data collected, the DCA conducted a number of analyses and reported regression analyses including Building size vs. Container Volumes, Utilization (Container returns/Sq Ft) vs. Net Building Size (Sq Ft), and Building costs (per Sq Ft) vs. Building Size. From the analyses, the DCA made a number of observations, including that owned buildings tended to be larger than leased buildings, and that there was very little correlation between building size and utilization statistics or between building size and unit cost of buildings. Further there was a considerable variation in the building utilization statistics, indicating a range of Depot efficiencies. The DCA noted that some Depots were over 4 times more efficient than others.[187]

In summarizing its analyses, the DCA stated:

> Overall, there is little correlation between the size of the building and building's unit costs. This suggests that total reported costs, on a per SF basis, vary considerably and no definable correlation to building size or type was found. **This result leads the DCA to question the accuracy, validity and usefulness of the building cost data collected via the 2005 UCAs in the setting of the 2006 Revenue Requirement.**(emphasis added)[188]

The DCA considered and discussed three different options to determine the amount to be included in the 2006 Revenue requirement related to Building Occupancy Costs, and recommended that a Deemed Building Lease Rate be used.

In the remainder of this Section the Panel will examine Building Costs primarily in relation to two key issues:

- Appropriate Deemed Building Lease Rate; and
- Appropriate Deemed Building Size.

4.9.2 Views of the DCA - Appropriate Deemed Building Lease Rate

In order to determine a market based deemed building lease rate, the DCA retained a commercial real estate company to conduct a survey of lease rates in various

[186] Similar information was gathered in the 2004 UCA but with different groupings. Some items included as Building Costs in 2005 were included in Overhead in 2004.
[187] 2006 Phase I Report pages 62 to 64.
[188] 2006 Phase I Report, page 65. In the 2005 Phase I Report, the DCA expressed a concern that the reported costs would not appropriately reflect actual costs for housing Depot operations at page 45 lines 5 to 7.

communities across Alberta in each of 2005 and 2006.[189] The survey comprised some 41 communities and the DCA compiled average lease rates for those communities from the survey data. In addition, the DCA computed an average lease rate for smaller centres for which no market data was available based on the rates determined for smaller centres in the northern and southern regions of the province. The number of buildings and their size were not used to determine if the Royal LePage data was representative of Depots in each region or town.[190]

The deemed lease rates based on the Royal LePage surveys were applied to the actual square footage areas in the 2005 Phase I Report, and to the deemed square footage areas in the 2006 Phase I Report for each Depot to arrive at the 2005 and 2006 Study System costs. For 2005, As Adjusted Deemed Lease Costs for building usage were $3.879 million or $7.27 per square foot.[191] In the 2006 Phase I Report, the deemed lease rate for the 2006 Study System Forecast and the Cal 2006 Total System Forecast was a weighted average of $10.24 per square foot.[192] The DCA projected a 2007 lease rate using indices for Calgary and Edmonton. The average of summer 2006 and 2007 was $11.29 per square foot.[193] In contrast, the As Reported lease rate for the 58 Depots that leased premises in 2006 was $7.54 per square foot (for 2005 $7.65) and the total reported use costs for all buildings prior to utilities and a return on rate base for 2006 was $7.41 (for 2005 the rate was $4.89).[194] The illogical cost relationships in the As Reported costs are the reason the DCA recommended the use of a deemed lease rate.

The DCA assumed that the current deemed lease rate applied to all buildings. In response to questions by the Panel regarding the possibility of the lease term being related to the term of the BCMB permit, the DCA replied that BCMB permits are from one to five years, but that as these tend to be renewed, Depots were unlikely to make business decisions based on the lease term. The DCA noted that the information gathered on lease rates had not specified lease terms.

In the 2006 Phase I Report, building costs for the Total System Forecast were $9,090,879.[195]

4.9.2.1 Views of the Parties

Parties expressed various opinions about what the appropriate deemed lease rate should be and the evidence relating to the deemed lease rates was revised a number of times.

[189] 2005 Phase I Report Appendix II – Royal Lepage Commercial Inc. Report, includes the August 31, 2005 cover letter to the Survey. The report identifies sources as Royal LePage, other real estate companies, real estate agents, MLS and ICX Listing Service, Economic Development, Chamber of Commerce, Landlords, newspaper advertisements, and Internet searches. The 2006 Cushman & Wakefield LePage Inc. (formerly LePage) survey is referred to at page 169 of the 2006 Phase I Report as part of Calendar 2005 Study System Cost Forecast.

[190] ABDA-Stantec-23

[191] 2006 Phase I Report, page 77, table; In the 2005 Phase I Report, the deemed lease rate for the 2005 Forecast was $7.30 per square foot – page 48 line 23.

[192] 2006 Phase I Report, page 172 line 20.

[193] Exhibit 347 page 14

[194] 2006 Phase I Report, page 68, table and 2005 Phase I Report page 40 table.

[195] Exhibit 224 2006 Phase I Report revised Schedules dated February 27, 2007 Schedule 12-a.

ABCRC

ABCRC did not submit evidence regarding the deemed lease rate. In Argument at page 23 ABCRC agreed with the DCA's determination of a deemed lease rate and its approach to determining Building Costs. ABCRC took no issue with the DCA's calculation of occupancy costs.

ABDA

ABDA was of the view that the DCA's deemed lease rates for Depots should be increased by $2 per square foot to include consideration of lease rates for a mixture of Industrial, Commercial and other zoning lease rates based on rates of $20 for Edmonton and $25 for Calgary.[196] In Exhibit 347, in response to undertakings, the DCA's analysis indicated that the commercial rates proposed by the ABDA were not logical in view of the As Reported lease costs by Calgary and Edmonton Depots in the Study System. In Argument at pages 38 to 39 ABDA requested a revision to the Revenue Requirement to include an additional $1.325 million in building lease costs or a comparable value that may arise from an alternate method they suggested; the alternate approach would create separate commercial lease rate categories for Edmonton and Calgary that would be averaged into the single provincial rate calculated by the DCA.

ABDA submitted that, while it is probable that most Depots operate under multi-year leases, the Panel should reject CNB's proposal to set lease rates on a five year average, using the previous five years. ABDA believed this approach would under-represent average lease rates Depots would have to pay at present, let alone on a go-forward basis. Present lease costs should be used rather than looking at the past five years, which might under-represent costs, or the next five years, which might over-represent costs. ABDA supported the use of the DCA's projected base lease rate for summer 2007 of $11.44 per square foot, and submitted that Chymko's 2008 and mid-2009 escalators should be applied to it.[197]

In Reply at page 13 ABDA submitted that while it is not unreasonable to anticipate that many Depots operate under multi-year lease agreements, it is also common in real estate business practice to index lease rates to inflation. Application of a five year average with fixed rates would under-represent average lease rates presently paid by Depots.

ABDA presented an alternative approach to fair return which was premised on a market value rate base of buildings used, implicitly assuming all buildings were owned, as opposed to leased. In Section 4.12.3 the Panel has not adopted this approach to calculating fair return, and therefore the implications for Building costs have not been further addressed.

[196] Exhibit 179 page 13 DCA response to ABDA – DCA – 2006 – 10 where the DCA was asked for an estimate of lease rates for commercially zoned properties. Rates were provided for different commercial zones.
[197] See ABDA Argument pages 46 – 47.

CNB

CNB provided evidence from a commercial real estate company, Torode Realty (Edmonton) Ltd. (Torode), to address lease costs. Torode provided a range of lease rates for each of the years 2002 to 2006 for "comparable multi-tenant facilities." CNB proposed that a five-year average lease rate be used. In the CNB's adjustment to the Revenue Requirement in HCRP-CNB-6, the CNB reduced Cal 2006 Total System Forecast Building costs from $9,090,879 to $8,132,541.[198] In Exhibit 350, a revised Schedule 12-a, CNB revised its Building cost figure to $8,108,337, incorporating a single tenant premium of $0.50 per square foot and using an increasing rate per year for operating costs rather than the constant rate in ABDA – CNB – 3.

Torode indicated a general range for operating costs (about $2.25 to $3.50 per square foot, with a typical rate of $2.75 per square foot).[199] Torode stated that the definition of rent in the 2006 Phase I Report was unclear as to what was included in base rent and what was included in operating costs. Torode indicated that the operating cost assessments over and above the 'triple net' base lease rent typically include property taxes, whereas the DCA 2006 Phase I Report considered that property taxes were included in the base rent.[200] In response to ABDA-DCA-2006-13, the DCA provided a response by LePage which said that for "commercial leasing", operating costs include the property tax portion related to the premises.

4.9.2.2 Views of the Panel – Appropriate Deemed Building Lease Rate

The Panel notes the range of views expressed by the Interested Parties regarding the deemed lease rate. The DCA proposed for the 2006 Study System Forecast a combined lease, utilities and building use cost rate of $13.73 per square foot.[201] ABDA proposed a rate increase to $15.73 per square foot and CNB proposed that a five year average rate be used. The average cost per square foot CNB proposed in Exhibit 350 and clarified in Exhibit 415c was calculated by the Panel as $11.89 per square foot.

The Panel has summarized the evidence regarding lease rates and building costs per square foot in the following table:

[198] This adjustment is less than the full adjustment of $1.27 million, which is calculated by grossing up the CNB adjustment of $982,542 to the Total System, as clarified in Exhibit 415c.

[199] In response to HCRP-CNB-5(c) Torode indicated that the operating costs would have been in the range of $1.75 to $2.10 in 2002 and would have increased by $0.10 to $0.25 per year.

[200] 2006 Phase I Report, page 77, lines 23 to 24

[201] This rate was calculated as the total building cost divided by 1.24 which was the gross up from the study system to the total system; divided by the number of square feet allowed of 533,623 per page 80 of the 2006 Phase I Report.

Table 6: Table of Building Costs per Square Foot Recommended by Parties for the Cal 2006 Total System Forecast

	Deemed Lease Rate ($ / SF)	Lease Term (Years)	Total Building Cost (including Operating Costs and Use Costs) ($ / SF)
DCA	10.24	1	13.73
ABDA	12.24	1	15.73
CNB	8.40	5	11.89

The Panel accepts the DCA's finding that there is little correlation between the utilization statistics and the size of the buildings, and that the DCA was unable to find a definable correlation to building size or type. These factors led the Panel to accept the deemed building lease rate methodology as a measure of Building Costs.

With respect to the appropriate amount to use as a deemed lease rate, the Panel has considered the range of rates proposed and the supporting rationale.

The Panel is of the opinion that the DCA's 2006 weighted average deemed lease rate of $10.24 may be high as a base rate. The Panel notes the DCA's observation that "The building lease rates provided to LePage are likely higher than the actual costs a Depot would pay." [202] There appear to be two reasons for this. The DCA stated that a negotiated lease rate would be lower and indicated that Depot operations may accommodate a longer term lease at a lower rate. In response to ABDA-DCA-2006-11, the DCA confirmed that the LePage surveys were list rates, not actual negotiated rates. The Panel observes that the average reported lease rate for the 58 Depots in leased premises was $7.54 per square foot in the 2006 Phase I Report.

In response to HCRP-DCA-2006-28, the DCA undertook an analysis assuming 1/5 of the space was leased in each of the five years preceding 2006, and that 1/5 of the space was leased in each year from 2004 to 2008. The DCA's analysis assumed that the index of building construction costs of commercial buildings in Edmonton and Calgary was proportional to the market lease rates. The calculated costs per square foot for the two scenarios were $7.82, assuming renewals in the period 2002 to 2006, and $9.34, assuming renewals in the period 2004 to 2008. The DCA opined that the index used was an imperfect surrogate, and did not reflect the impact of the land cost component.[203] In response to undertakings in Exhibit 347, the DCA revised the five year average base lease rates to $8.65, for the period 2002 to 2006, and $10.33 for the period 2004 to 2008.

The Panel has considered the arguments of the ABDA respecting commercial property, but finds the use of the $20 and $25 per square foot rates not to be well supported and accepts the DCA's analysis that they are not consistent with the as reported lease costs by

[202] 2006 Phase I Report, page 75, lines 4 and 5; and 2005 Phase I Report page 46 lines 1 to 4.
[203] The Panel observes that the fact that the impact of land cost component has not been specifically considered would be relevant only to the extent that the increase in land cost differs from the increase in building costs.

Depots in Calgary and Edmonton.[204] The Panel is not convinced that an alternate methodology should be adopted as submitted by the ABDA in Argument, to blend a commercial rate for Calgary and Edmonton with the DCA's average lease rate.

The ABDA did not support using a lease rate determined by taking a five year average approach. However, the Panel notes the expertise of Torode in commercial leasing and accepts that the five year average methodology recommended by Torode[205] is sound. The Panel agrees with the position of CNB that a five year average lease rate should be used, for the years 2002 to 2006, in order to provide a deemed lease value that better aligns with actual Study System costs as reported of $7.54 per square foot for leased premises. The Panel believes that using the five year average better aligns with the mandate to balance lowest possible cost with Depot viability, and better reflects the use of business practices presented by Torode. Further the ABDA acknowledged that "… it is probable that most depots operate under multi-year lease agreements …".[206] There is insufficient discussion on the record as to inflation indexing in multi-year leases for the Panel to evaluate the ABDA's Reply submission in this regard. Finally, the five year average rate of $8.40 is closer to the actual 2005 lease rate of $7.54 reported by the Depots than the $10.24 recommended by the DCA or the $12.24 recommended by the ABDA.

The Panel notes the final escalated lease rates presented by the parties and considers that the rate of $8.40 per square foot, as presented by CNB, should be utilized in calculating the Revenue Requirement. The Panel notes that in calculating the five year average that CNB has used operating costs at the upper end of the Torode range of values. The Panel is comforted as this rate is very close to the 2002 to 2006 surrogate rate of $7.82 per square foot provided by the DCA in HCRP-DCA-2006-28, and revised in Exhibit 347 to $8.65 per square foot.

4.9.3 Appropriate Deemed Building Size

In the 2005 Phase I Report, the DCA accepted the As Reported building sizes for the purpose of determining the Revenue Requirement. The justification for this, expressed in the response to HCRP-Desiderata-27, was that in the past there was no direct link between facility cost and revenues, so an issue of fairness arose with respect to investments made by Depot owners in the past.

In the 2006 Phase I Report, the DCA reconsidered the issue of building size and determined that "… for rate making purposes, excessively sized building costs should not be included in the Revenue Requirement based on a deemed lease cost per square foot."[207] The DCA determined maximum building sizes for Revenue Requirement purposes. These are compared to BCMB minimum size specifications for Metro Urban and Rural Depots, as follows:

[204] Exhibit 347 page 7.
[205] See Phase I Transcript page 651 lines 23 to 24, where Mr. Keating says that five years is the norm for a lease term.
[206] ABDA Argument page 46 paragraph 129; Reply page 13.
[207] 2006 Phase I Report, page 77, lines 29 to 31

Table 7: Comparison of BCMB Minimum Depot Size to DCA Recommended Maximum Depot Size

BCMB Classification	BCMB Minimum Size (SF)	DCA Maximum Size (SF) [208]	Percentage of BCMB Minimum Size
Metro	5,000	7,500	150%
Urban	3,000	5,000 (as amended)	166%
Rural	1,500	3,000	200%

In respect of building utilization the DCA indicated that there is little correlation between the utilization statistics and the size of the building; small buildings may have insufficient volumes to fully utilize their buildings; and for large Depots the more efficient buildings tend to be in the range of 4,000 to 7,000 square feet.[209] In testimony the DCA revised this to 3,500 to 6,500.[210]

The DCA did not provide the rationale for the maximum building sizes recommended. In response to HCRP-Desiderata-24, the DCA obtained a response from the BCMB that the building size requirements were determined based upon space required for sorting of material, customer service space, an office, a bathroom, loading space, and storage requirements for both beer and non-beer containers. In response to ABDA-DCA-2006-14 the DCA clarified that the maximum square foot size was not premised on pickups occurring as requested and scheduled, but was based on an analysis of the building sizes and the objective to remove the costs of excessively sized buildings from the 2006 Revenue Requirement.

4.9.3.1 Views of the Parties

ABCRC

ABCRC argued that BCMB minimum square footage should be used in calculating the Revenue Requirement. Dr. Huson referred to the large differences in utilization efficiency presented in the chart on page 63 of the 2006 Phase I Report and the DCA analysis thereof, which showed several Depots operating at an inefficient scale. He argued that the setting of an appropriate square footage is arbitrary and that the decision to have a larger than minimum size reflects the business judgment of the Depot operator.

In response to HCRP-ABCRC-2(d), Dr. Huson explained that including the square footage above the minimum size in the System Costs, creates the wrong marginal costs and would lead to inefficient Depot size. A Depot operator would make a different decision if the Depot were responsible for the marginal costs of expansion and would only expand if the benefits of the larger increased Depot size exceeded the costs.

[208] 2006 Phase I Report page 78, line 5; with the Maximum Size for Urban Depots revised to 5,000 SF in response to HCRP-DCA-2006-25a)(vi).
[209] 2006 Phase I Report, page 63. Similar findings were made at Page 35 of the 2005 Phase I Report.
[210] Phase I Transcript page 188 lines 4 to 18.

In testimony Dr. Huson acknowledged that it would be reasonable to provide some allowance for growth.[211] ABCRC did not adjust the square footage associated with Building Costs in its calculation of the proposed revenue requirement in the Phase I hearing [212] but in Appendix A Table 1 of its Argument, adjusted Building Costs based on minimum square footage. The supporting calculation for the adjustment was not provided. ABCRC stated in Argument at page 23 that it would be neither arbitrary nor inappropriate to use BCMB minimum building size requirements as a basis for determining building Costs for the Depot system. However, in the event the Panel did not accept these minimums for this purpose, ABCRC was of the view that the DCA's use of maximum building size caps was reasonable. ABCRC did not support using actual building sizes because the Revenue Requirement could then include costs that were not in fact required to maintain a viable Depot network.

In the TMS filed in Phase II by the manufacturers, Stantec made a general observation that there was poor utilization or underutilization of space in Depots.[213] Stantec also provided a shop floor usage table analyzing the space used in each of the "macro processes" for handling containers, and estimated that 50.2% of the space was used for "Handling Process Support Services". This category represented the space left over in the Depots after taking into account the space used for all other handling and processing functions. Stantec indicated that this space represented the areas used by Depot owners or managers for storage of vacuum cleaners, tools and other unused equipment and for travel space not directly connected to sortation areas.[214] In testimony Mr. Dietze clarified that customer interface and the space for forklifts moving were included in this space.[215] Stantec indicated that its comments as to space utilization were not directly related to the purpose of the TMS and were included as additional information.[216]

ABDA

ABDA submitted that the actual sizes of buildings should be recognized in the Revenue Requirement without any capping. Chymko submitted that the 2006 Phase I Report provided no justification for a proposed cap of deemed Depot size and that the DCA's proposed cap was arbitrary and unjustified. Chymko also argued that the DCA has not shown that the Depots above the cap are built significantly larger than required, resulting in imprudent costs. Chymko recommended that absent a reasonable explanation for capping building sizes, the matter be referred to the BCMB for further study.[217] In Argument at page 70 ABDA referred to evidence that 20% of floor space was allocated to customer receiving and that additional space was required for cardboard operations and hallways. ABDA stated that the TMS values for storage space were questionable since Depots are required to provide a minimum of 800 square feet (two trailer loads) whereas five of the 18 sample Depots measured in the TMS had values less than this.

[211] Phase I Transcript page 429 line 20 to page 430 line 3.
[212] Exhibit 266
[213] Stantec Final TMS, Exhibit 394 page 4.30
[214] Ibid, page 2.10.
[215] Phase II Transcript page 122.
[216] Exhibit 392 page 25: Response to HCRP – ABCRC – Phase II – 12d)ii)
[217] Chymko Evidence pages 20 to 21.

CNB

CNB did not provide evidence on Building size.

4.9.3.2 Views of the Panel – Appropriate Deemed Building Size

The Panel is particularly persuaded by the evidence of the DCA regarding the efficient utilization of buildings and the finding that buildings owned by Large Depot operators (by volume of containers processed) tend to be larger than buildings leased by Depot operators.[218] The Panel is of the view that the benefit of investing in buildings and taking the capital gains on sale of the buildings, which would be gains not accounted for in the regulated Depot system, could create an incentive toward larger owned buildings with no direct relationship to a regulated Depot and its operations.

The Panel has considered information provided by the DCA with respect to Metro, Urban and Rural Depots relative to the volumes processed and utilization of building space. In response to HCRP-Desiderata-53, the DCA provided data on the millions of containers processed by Depots of varying sizes. Points of interest are that 34.5% of containers processed by Metro Depots are processed in Depots of 5,000 square feet or less, with 59% of containers processed in Depots up to 6,000 square feet (this volume represents 31% of all containers processed in the System).

The 2006 Study System average utilization is calculated by the Panel as approximately 1,700 containers per square foot (1,105,988,642/637,006) and this figure is impacted by the small Depots, which, as observed by the DCA, may have insufficient volumes to utilize their buildings.[219]

The Panel is of the view that the standard of reasonableness on a System wide basis requires that an appropriate number of square feet should be adopted for all Depots. The Panel notes that the utilization rates for owned buildings are less than for leased buildings, particularly for those buildings greater than 6,500 square feet.[220] The Panel is aware that capital appreciation on owned buildings will not benefit the Depot System. It would be unfair to the manufacturers to include costs of excess capacity in the System costs.

The Panel also notes the comments of Stantec in the TMS regarding inefficient utilization of space and the large proportion of space (50.2%) devoted to "Handling Process Support Services". This space was not identified by Stantec as relating to any particular handling process but it included the area needed for customer interface and the space required as passage for forklifts.[221] The Panel notes that a review and recommendation on space utilization was not within Stantec's mandate. The Panel did not place significant weight on the Stantec comments in this regard, except to note that in general they support the

[218] Exhibit 188: 2006 Phase I Report page 62, lines 2 to 4 and graph.
[219] 2006 Phase I Report page 63 lines 7 to 8.
[220] 2006 Phase I Report page 63; see graph.
[221] Phase II Transcript page 122 lines 4 to 20.

direction taken by the DCA to cap Building Sizes. The Panel did consider Phase I and Phase II issues to be interrelated, and Building Size is a good example of this interrelationship.[222]

In respect of ABCRC's position, the Panel considers that the BCMB minimum size may be too stringent a standard to which to hold the entire System, given the optimal utilization statistics per the DCA for a size range of 3,500 to 6,500 square feet. Only the Metro Depots would fit comfortably within this range at their BCMB minimum of 5,000 square feet. With respect to the views of Chymko, the Panel does not believe that prudence is the proper test for inclusion of actual building sizes. Given the fact that the larger sized Depots are typically owned rather than leased, and the fact that the Depot owners can sell at any time, take their gains and leave the System, the Panel does not believe that System Revenue Requirement must allow for cost recovery on total square feet. In balancing the components of its mandate the Panel considers that utilization statistics generally support the direction taken by the DCA in capping Building Sizes.

The Panel accepts the DCA's recommendations for maximum Building sizes of 7,500 square feet for Metro Depots, 5,000 square feet for Urban Depots and 3,000 square feet for Rural Depots. While most Rural Depots process low volumes, there are a few Rural Depots that process large volumes[223] and therefore the 3,000 square feet number can be considered reasonable. The Panel had considered that the building utilization statistics could have suggested a cap for Metro Depots at 6,500 square feet, but notes that no Party argued in favour of that position although the utilization statistics had clearly been explored by the Panel on the record. Further the Panel has noted ABCRC's position in Argument that it would accept the DCA's recommendations for maximum building sizes as reasonable, should the Panel not accept the BCMB minimum size standards as a cap.

4.9.4 Utility Costs

Utility Costs were included in Building Costs. The numbers were fairly insignificant and received no comment from parties. In the 2006 Phase I Report the DCA made two adjustments to the As Reported data for utility costs totaling ($64,943). The adjustments were stub period adjustments and an extrapolation of utility costs on the basis of square footage (as adjusted) to reflect costs of those Depots which had not included utility costs in their UCA data. The adjusted utility cost was $797,000.[224]

4.9.5 Building Use Costs

In the 2006 Phase I Report the DCA made adjustments to the As Reported data for other Building Use costs, comprising maintenance, property insurance, garbage and other. The adjustments were made to take into account the stub periods for those Depots that reported fiscal periods less than a full year. The adjustment from the As Reported

[222] Exhibit 381 HCRP Letter dated August 7, 2007 re Phase II Information Requests - HCRP-ABCRC-12.
[223] See 2006 Phase I Report page 17. One Rural Depot is in each of Volume Clusters 15, 17 and 20.
[224] 2006 Phase I Report page 81 lines 14 to 16. See also Schedule 5- a of February 27, 2007 Schedules . Note that there was some discrepancy in the stated size of the net reduction but the total impact was not material in the view of the Panel.

amount was an increase of $15 thousand to $1,000,692. Interested Parties made no submissions to adjust these costs.

4.9.6 Views of the Panel – Total Building Costs

Based upon the recommendations of the Panel in respect of Appropriate Deemed Lease Rates and Appropriate Deemed Building Size, and including other Building related costs for usage and utilities, the Panel directed the DCA to calculate the Operating Costs relating to Buildings for purposes of the Revenue Requirement as follows:

- Use $8.40 per square foot as the Deemed Lease Rate for 2006 based on a five year average as per the evidence of CNB. This includes a single tenant premium of $1.00 per square foot assumed to apply to 50% of buildings as per the CNB evidence;
- Use $3.49 per square foot occupancy costs as recommended by the DCA; and
- Cap the As Reported Building Size for each Depot, in accordance with the DCA's recommendation, at a maximum of:
    - 3,000 square feet for Rural Depots;
    - 5,000 square feet for Urban Depots; and
    - 7,500 square feet for Metro Depots.

4.10 Equipment (including Vehicle) Costs

The DCA included the amount of $3,143,853 for Equipment, including Vehicle, costs in the 2006 Phase I Report. No parties questioned these figures and the Panel accepted these costs, other than with respect to Collection Costs.

The Panel directed that Equipment/ Vehicle costs be adjusted in accordance with the direction of the Panel in Section 4.5 for the purpose of the compliance filing.

4.11 Regulatory and Compliance Costs

4.11.1 Views of the DCA

The DCA did not propose that Regulatory Costs or Compliance driven changes to bookkeeping costs should be included in the Revenue Requirement. Rule 14 of the Panel Rules of Procedure states that each Interested Party is responsible for its own costs. In response to HCRP-ABDA-12, ABDA stated that they considered the rule to be silent on the issue of whether Depot Regulatory Costs would be included in the Revenue Requirement.

The DCA expressed the opinion that his estimate of $500,000 to implement improvements to the accounting system that he identified in response to the ABDA IR was likely high as many Depots presently have (or should have) these controls in place.

Furthermore, the DCA was of the view that daily cash reconciliations are a basic internal control measure that Depots should already be performing as a standard business practice and accordingly should not be considered an additional cost for which Depots should be reimbursed.[225] In testimony the DCA expressed the view that these costs should not be included in the Revenue Requirement as the BCMB has not required the suggested practices.[226]

4.11.2 Views of the Parties

ABCRC

In Argument ABCRC said it did not object to the inclusion of reasonable regulatory costs and referred to Alberta Energy and Utilities Board (EUB) Directive 31B as a good guide regarding reasonable regulatory costs.[227] With respect to compliance accounting costs, ABCRC submitted that to the extent these have not already been captured by reported costs, ABCRC would not oppose reasonable compliance accounting costs forming part of the total system requirement. ABCRC did not include any amounts in respect of Regulatory or Compliance Costs in the Revenue Requirement in their filed Schedule 12-a.

ABDA

ABDA requested that $760,000 be included in the Revenue Requirement for regulatory costs of the ABDA participation in the process to determine Handling Commissions, assuming a three year amortization period.[228] The ABDA stated that, by acting on behalf of the industry as a whole, it was responsible for a substantial cost reduction compared to the costs that would have been incurred by 216 separate entities participating individually. ABDA compared itself to an applicant in a regulatory proceeding, indicating that regulatory costs were a significant cost to the Depots and could only be recovered through the Handling Commissions. In response to HCRP – ABDA – 12,[229] ABDA commented on the ability of the manufacturers to pass on to consumers recycling system costs as a Container Recycling Fee (CRF) in addition to the retail shelf price.

In response to CNB – ABDA – 9, ABDA provided a supporting schedule by year of the costs composing the $760,000. ABDA included costs relating to the development of the Handling Commission Procedure, the selection of the DCA and continuing to the completion of the HCRP hearings. Most of the costs were legal/ professional fees with some expenses for administration, meetings and travel, office, postage and telephone. In response to the Panel's request for clarification, ABDA identified costs on a fiscal year

[225] Exhibit 179 pages 6 – 7; ABDA – DCA – 2006 – 6.
[226] Phase I Transcript page 40 lines 3 to 21.
[227] ABCRC Argument page 21. EUB Directive 031B, Utility Cost Claims, Revised Edition March 31, 2006, was not entered as an exhibit on the record. However the Panel has considered the principles in it as referred to by the manufacturers, and notes that it can be treated in the same vein as legislation, which typically is not required to be entered and marked as an exhibit in EUB practice.
[228] ABDA Evidence page 18 - 19, Section 2.5.
[229] Exhibit 258a) page 31

basis and revised the cost estimate to $883,884.[230] In Argument at pages 21 and 22 ABDA stated that ABDA's legal and consulting costs are passed to all member Depots in the form of a special fee. Depots would have incurred many of these costs in the 2006 calendar year, and therefore they would not have appeared in the DCA's data gathering for the 2004 and 2005 calendar years. In Argument at page 22 ABDA stated that the estimate should be revised to reflect the $51,300 already included in the Revenue Requirement[231] and calculated the net amount, amortized over three years, as an adjustment of $227,528, based on $883,844 minus $51,300 divided by 3.

On questioning by CNB counsel, ABDA acknowledged the EUB policy of not reimbursing certain costs, including costs in excess of the Board's scale of costs, costs of reviews, costs incurred for the benefit of utility share owners as opposed to customers and costs of retroactive or retrospective ratemaking.[232] ABDA acknowledged that their role in the Process is to promote their business interest.[233] The ABDA witnesses stated that the BCMB paid for the cost of the DCA which was passed on to the manufacturers and Depots on a 50/50 basis. The Depots' portion of the costs was proposed to become part of operating costs in the Revenue Requirement. The ABDA also confirmed that it was participating voluntarily in the process and that regulatory practice does not provide for full cost recovery to an applicant in all circumstances.[234] CNB further questioned the ABDA panel regarding the composition of the $760,000 and the absence of deferral accounts. Mr. Chymko responded that as this is a first process there are no deferral accounts.[235]

In Reply at pages 8 and 9 ABDA submitted that the Panel should not be fettered by cost directives of any regulatory tribunal. ABDA submitted that it was not an applicant but was compelled by the consequences of the Bielby decision to participate in order to have the revenue requirement assessed for the Depots. If regulatory and compliance costs are not included in the system revenue requirement there is no ability for the Depots to raise fees to recover them, as would other parties. Depots must be present to establish a "first rate" and should not be expected to subsidize the review process.

ABDA further requested that $400,000 per annum be included in the Revenue Requirement to facilitate the transition of all Depots to minimum record keeping standards set by the BCMB for UCA compliance purposes. ABDA relied on the response to ABDA-DCA-2006-6, wherein the DCA estimated the Depot-level cost of upgrading and maintaining bookkeeping systems for BCMB compliance purposes to be $500,000 per year. ABDA estimated that some Depots (no more than 20%) have these systems in place. Therefore, ABDA requested that the Panel recommend the inclusion of 80% of these estimated costs, or $400,000 per annum, in the Revenue Requirement to facilitate the transition of all Depots to minimum record keeping standards set by the

[230] Exhibit 415a).
[231] Exhibit 347, page 16.
[232] See Phase I Transcript, pages 526 – 528, 538 and 542.
[233] Phase I Transcript page 520 lines 17 to 19 and page 524 lines 3 to 8.
[234] See generally Phase I Transcript pages 521 - 533.
[235] See generally Phase I Transcript pages 530 - 539.

BCMB for UCA compliance purposes. In Argument ABDA proposed that the adoption of this cost be subject to the BCMB's decision regarding the DCA's recommendation to meet minimum accounting standards for the purpose of compliance.

CNB

With respect to Regulatory costs, in Argument at pages 15 and 16 CNB submitted that the DCA assumed the bulk of the function of an applicant in terms of the work performed and the presentation of the detailed application-like material. CNB further argued that the business interest rule, applied in Alberta utility regulation, typically prohibits parties simply seeking to protect their business interests from recovering costs. Under cross-examination by CNB Counsel, ABDA acknowledged that its role was the protection of its members' business interests.[236] CNB further argued that the scale of costs applied under EUB regulation constrains full cost recovery, even where the standard is "just and reasonable" rather than "lowest possible cost", and there is no evidence in the present case that the professional costs proposed by ABDA are consistent with the scale of costs. In Reply at page 11 CNB stated that ABDA had been silent on Rule 14.

4.11.3 Views of the Panel

Regulatory Costs

With respect to Regulatory Costs, the Panel is of the view that, in the interest of fairness to the Depots, a portion of such costs should be allowed to the Depots, similar to the recovery of external regulatory costs by regulated utilities in the role of an applicant in a regulatory proceeding. The Panel concurs with ABDA that the Depots, or ABDA in their stead, are compelled by the consequences of the Bielby decision to participate in the Review Process in order to have the Revenue Requirement assessed for them.

This case is unusual and presents something of a "hybrid" in that the ABDA exhibits some characteristics of an applicant and some characteristics of an intervener in a utility proceeding. The ABDA is not strictly speaking the "applicant" here, and the Panel agrees with CNB that the DCA has done much of the work of a typical applicant. At the same time the ABDA is similar to a utility applicant in that the Depots are only able to recover costs through "regulated rates", i.e. the Handling Commissions. A utility applicant may usually recover external professional fees and disbursements under the EUB scale of costs. The Panel has considered the concerns raised by CNB that the manufacturers ultimately pay their own costs plus the costs of the DCA, 50% directly and 50% indirectly. CNB stated in Argument at page 15 that they should not be required to bear the costs incurred by the ABDA in order to enhance Depot profits. However, in this case the manufacturers are customers of the Depots, as noted by Bielby, J. and are similar to customers of a utility in a regulated context.

[236] Phase I Transcript page 520 lines 17 – 19 and page 524 lines 3 to 8.

Rule 14 of the HCRP Rules of Procedure reflects the fact that there is no explicit provision in the Handling Commission Procedure for intervener funding. In EUB practice approved intervener costs may be added by a utility to its regulatory cost reserve account and thus be recovered through the revenue requirement. However the "business interests rule" of the EUB, as referred to by CNB, would typically exclude the costs of interventions which are for the purpose of protecting the business interests of a party. To the extent the ABDA is considered as an intervener, it acknowledged that its role was the protection of Depot business interests.

The Panel notes that ABCRC did not object to the inclusion of reasonable regulatory costs and referred to EUB Directive 31B as a good guide. In this context the Panel assumes ABCRC is referring to the scale of costs in Directive 31B relating to allowable professional fees and disbursements for an applicant or an intervener.

In respect of the "retrospective" aspect of the costs, as raised by CNB in cross examination, the Panel has considered ABDA's view that there have been no deferral accounts established in the process, but that there have been ongoing costs in past years. The Panel cannot determine with precision the regulatory activity level of parties in the years prior to its involvement. However the record indicates that the Handling Commission Procedure was formulated following the Bielby decision in 2003 and that in 2004 significant work was done in relation to the retainer of the DCA and the development of the Straw Dog Report and other process documents. In 2005 the UCAs for 2004 were prepared and the DCA filed the 2005 Reports. In 2006 and 2007 significant work has been undertaken in this Review Process. Accordingly the Panel has decided to consider all of the costs filed by the ABDA. The Panel notes that the Revenue Requirement in the 2006 Phase I Report is based on 2005 UCA costs as analyzed by the DCA in 2006 but has included the costs for 2007 given the process timelines.

When considering the ABDA as similar to an applicant, the Panel notes that in EUB practice an applicant would recover external professional costs on the approved scale of costs. The Panel agrees with ABCRC that EUB Directive 31B is good guide regarding reasonable regulatory costs, but does not have enough detail on the record in terms of professional hours, hourly rates and seniority of the individuals to review the ABDA's proposed external costs against the EUB scale of costs. As an intervener, the ABDA would likely recover no costs in a utility proceeding in light of the business interests rule. Consequently the Panel will not allow 100% of the professional regulatory costs but considers it a fair balance as between Depots and the manufacturers to allow 50% of the costs incurred, less the costs included in the Revenue Requirement. The Panel believes that these costs should be amortized over three years as requested by the ABDA. The amount of allowed annual costs is $138,757 which is 50% of the proposed ABDA adjustment.[237] The Panel directed the DCA to include this cost in the Revenue Requirement.

[237] ABDA Argument has a calculation error having calculated $227,528. The Panel's calculation was [($883,844-$51,300)/2]/3 = $138,757 based on the information at paragraph 64 of ABDA argument.

Compliance Costs

With respect to Compliance Costs, the Panel is of the view that the proposed Compliance Costs are not a legitimate system cost. The Panel agrees with the views of the DCA that daily reconciliations and cash controls are part of standard business practices and accordingly should not be considered additional costs for which Depots should be reimbursed. Further, contrary to the DCA's view that many Depots presently have (or should have) these controls in place, the ABDA is requesting reimbursement of 80% of these costs for Depots. The Panel does not find the argument of the ABDA to be a sensible interpretation of the DCA's response to ABDA-DCA-2006-6, nor are their arguments related to the cost recovery persuasive. Finally, the Panel notes that Depots are required to report their financial results for income tax purposes and that business records must be maintained to do this. Therefore, the Panel concludes that the Depots should already have sufficient financial controls and reporting practices in place to provide for an adequate degree of record keeping.

4.12 Fair Return

As discussed in Section 3 of this Report, the issue of the determination of a "fair return" has been a critical one in the history relating to the determination of Handling Commissions. The determination of a "fair return" was fundamental to some of the findings in the Bielby decision. The decision focused on traditional utility rate-making and the concept of "fair return" in that context, i.e. return on investment, using the rate of return currently available in industries or on investments bearing similar business risk to that of Depots. [238]

4.12.1 Views of the DCA

In the 2005 Phase I Report, the DCA expressed the view that the Return on Rate Base model proposed by Justice Bielby was not optimal for the beverage container return industry in Alberta, since the data collected by the DCA suggested that the Alberta system was not capital intensive, in contrast to a typical utility. The DCA continued to be of the same view in the 2006 Phase I Report.[239] Consequently, the DCA identified four utility return models and discussed their applicability to the beverage container return industry in Alberta. The four models examined were Comparable Earnings, Risk Premium, Discounted Cash Flow and Return Margin. The DCA determined that the Return Margin methodology was the most appropriate one to use for the Depot industry and that this methodology would meet the fair return standard posed by Bielby, J. This model had been proposed by Dr. Cicchetti for regulated retailers in two recent EUB cases and the DCA provided a summary of his evidence.

Having made this determination, the DCA then addressed the appropriate quantum of a return margin for the Depots. The DCA retained Dr. C. Cicchetti and Mr. C. Long, of Pacific Economics Group, LLC (PEG) to perform a high level review of the Alberta

[238] Bielby decision, paragraphs [1] and [47]
[239] 2006 Phase I Report page 99 line 1 – 11.

beverage container return industry and to provide a memorandum with their views on an appropriate return margin level.[240] The PEG memorandum described the approach they had used in a former article and in EUB proceedings. Their methodology was to select comparable companies based on turnover ratios (TOR). The sales margins for these companies were used to recommend a margin percentage on an after tax basis. In response to HCRP-DCA-2006 -15(g) PEG stated that the point of referring to the Valueline data on retail companies was not to identify companies that were identical to bottle depots because such as task would be almost impossible and would provide very few, if any, observations.

PEG noted at page 9, that they had reviewed the Stantec Report dated November 1, 2005 (i.e. the 2005 Phase I Report). PEG discussed the differences between the Depot network and regulated energy suppliers from operational and risk perspectives. PEG noted that much of the Depots costs (the refund of the deposit) is a relatively risk free pass-through, and in the discussion of risks noted that there are likely some costs and risks associated with arranging and collecting containers from various business that are not accounted for in the cost data.[241]

PEG also compared the Handling Commissions to adjusted handling fees in US jurisdictions with bottle deposit laws and found the Alberta fees to be higher than all but one. PEG calculated the 2004 margin as a percentage of total revenue as 5.61% on an after tax basis.

The PEG memorandum identified the issues to be considered and proposed a margin for the Depots of 4.83% - 5.02%.[242] This recommendation was qualified at page 11 of the memo as possibly not reflecting adjustments for specific risks not reflected in the analysis.

The DCA relied on the PEG memorandum and discussions with Dr. Cicchetti and Mr. Long in his analysis.[243] He compared business risks of the PEG benchmark companies to the bottle Depots and determined margins for each of the purchases and operations components of the Depot business. The DCA substituted the small corporation tax rate of 26.52% for the large corporation rate used in the PEG analysis.[244]

The DCA was of the view that Depots have some risk in the management of cash purchases and a legislated obligation to return deposits to customers, and therefore the Depots should receive a return on this service. The return margin should be at the low end of the spectrum due to the low risk of revenue certainty for purchases. The DCA recommended a return margin for Depots for purchases of 1% after tax (1.36% before tax) and a return margin related to operations of 4% after tax (5.44% before tax).[245] In

[240] Exhibit 131.
[241] The Panel notes that the 2005 Phase I Report excluded collection costs from operating expenses.
[242] 4.83% - 5.02% after correcting a typographical error as confirmed in Exhibit 325a, page 8, Q6 and A6.
[243] Phase I Transcript page 63 lines 10 – 18.
[244] 2006 Phase I Report, page 110 lines 33 – 36.
[245] See 2006 Phase I Report, pages 111 – 114. The Panel notes that the DCA in calculating the return requirements has used the margin percentages as a mark up on costs and referred to this as a return margin. Dr. Huson referred to the calculation as a mark-up in the Phase I

testimony the DCA reaffirmed his position, saying the correction to one of Dr. Cicchetti's numbers did not change his opinion and that he remained comfortable with a 4% range.[246]

The DCA stated in testimony that the components of return could be debated, but in the context of the system wide revenue requirement there were puts and takes to come up with numbers that were reasonable.[247] The 1% return on purchases produced a number of approximately $900,000, and in the context of 216 Depots this was considered to be a reasonable amount of money. The risk component was also considered in order to land on the 1% but it was not a precise calculation. The purchase service was considered to require some return margin, but in relation to it, the 1% return figure and the dollar amount were each used as checks on the other. More precision was applied to considering comparable industries to arrive at the 4% number for the operational component.[248]

4.12.2 Views of the Parties

ABCRC

Dr. Huson on behalf of ABCRC did not question the methodology but said the proposed margins were high relative to his benchmarking based on the beverage industry.

Dr. Huson did not agree with providing a return on purchases (deposit refunds). [249] He expressed the opinion that as well as using the return margin methodology, one of the other return methodologies in the Phase I report, discounted cash flow, should be consulted.[250] He further suggested that the return margin should be similar to that of the beverage industry since the business of the Depots was highly linked to the beverage industry and the consumption patterns of consumers of beverages.[251] Dr. Huson did not recommend a specific amount of return or a specific return margin. He discussed returns relative to both equity and assets providing a check on the return margin. He said that his evidence was a method to check the reasonableness of the returns generated using the return margin approach and that he had no recommendation as to quantum.[252] He considered that a one year lease payment could be considered a fixed investment on the part of the Depot owner, in the context of viewing the capital investment by Depot owners in connection with the assessment of fair return. The amount of a one year lease commitment would be added to the $3 million invested system wide in equipment to estimate capital at risk.[253]

Transcript at page 426 line 17; at page 427 line 25 he referred to a 4% margin, apparently using the terms mark-up and margin interchangeably. No party challenged the DCA's calculation of mark-up referred to as a "return margin".

[246] Phase I Transcript page 127 lines 8 to 22.
[247] Phase I Transcript page 129 lines 3 – 8.
[248] Phase I Transcript page 203 line 17 to page 205 line 5.
[249] Exhibit 235, Dr. Huson Evidence, paragraph 6.
[250] Ibid, paragraphs 14 and 16.
[251] Ibid, paragraph 17; Phase I Transcript page 426 lines 22 to 24
[252] Phase I Transcript page 426 line 8 to page 427 line 9.
[253] Phase I Transcript page 416 line 16 to page 417 line 5; page 430 line 20 to page 432 line 10.

In Argument ABCRC took no issue with the DCA's choice of the method of calculating return but submitted that no return should be allowed on purchases or refunds to customers as Depots generally enjoy a positive working capital float, the manufacturers are required by statute to refund to Depots the deposits they return to consumers and allocating less than one percent or no return at all is appropriate where there are few, if any, costs of provision of a service.

ABDA

Dr. Booth for the ABDA approached the issue of fair return from a different perspective, using a deemed fair market value rate base to calculate a recommended dollar return, which he then compared to the DCA's recommended return. The calculation of the rate base relied on the DCA's data of gross book value and the ratio of fair market value to book value to estimate the fair market value of buildings for the total system. Equipment and working capital were added to building value for the total rate base.

Dr. Booth estimated financial charges for debt costs and return on equity (ROE), based on the EUB parameters of a risk free rate plus a CAPM risk premium, and additional premiums for small and private firms. The estimated ROE was 18.28% with Dr Booth then applying qualitative adjustments to arrive at a recommended fair ROE range of 14% to 18%.[254] Debt costs of 6.73% were combined with the midpoint ROE rate (16%) using the small business tax rate of 26.52% to calculate a weighted average cost of capital (WACC) of 10.47% after tax, or 14.25% before tax.

Dr Booth adjusted the above calculations, based on the DCA 2005 Phase I Report, for 2006 Phase I financial data to arrive at a WACC of 9.39% after tax and 12.8% before tax. The 2006 adjustments resulted in an operating margin of 10.56% and a net profit margin of 6.3%. Dr. Booth concluded by recommending that the overall operating costs of the System be grossed up to generate an operating margin of 10%, which included net income, income taxes and interest.[255]

Dr. Booth cautioned that margin should not be used in isolation and stated that he was not convinced regarding the 1% return on purchases.[256] He indicated that his evidence was essentially a corroboration of the work of the DCA, indicating that the DCA's recommendation was fair and reasonable. He further said that he would be perfectly happy if the Panel were to accept the DCA's recommendations on margins and leases and everything else.[257] He said use of DuPont analysis ties the return margin methodology back to the statutory requirement that the return be fair and reasonable.[258]

[254] Exhibit 237 Dr. Booth Evidence, pages 46 and 47.
[255] Phase I Transcript page 308 lines 3 – 12.
[256] Phase I Transcript page 300 line16 to page 301 line 15.
[257] Phase I Transcript pages 309 lines 19 to 25.
[258] Phase I Transcript pages 315 line 25 to page 317 line 9.

In testimony Mr. Chymko, on behalf of the ABDA expressed the view that fair return is in the aggregate versus the individual.[259]

ABDA prepared their Schedule 12-a in two formats using both the return methodology of the DCA and Dr. Booth.[260] In Argument at pages 4 and 52, ABDA recommended a 5% after-tax return margin on operating costs and 1% on purchases. At page 64 ABDA filed a revised Schedule 12-a using the DCA return methodology with a return on operations of 5% and a return on purchases of 1%.

CNB

Mr. Marcus, the return expert for CNB, fundamentally concurred with the use of a return margin methodology, but made comments and suggestions with respect to the application of the methodology in this case. With respect to the CNB return evidence, Mr. Marcus concurred with the return margin methodology used by PEG[261] but proposed refinements to the selection of comparable businesses for determining the appropriate margin. Mr. Marcus recommended an after tax margin of 4.25% for Handling Commission revenue and, in his filed evidence, agreed with the DCA's recommendation of a 1% after tax return on purchases. In his oral testimony, Mr. Marcus confirmed that in past testimony before the EUB, he had disagreed with the concept of a return margin on transmission and distribution costs that were largely pass-through in nature and had recommended zero margin on these costs. However, the EUB had disagreed with him and had awarded an implicit return of approximately 0.8 percent on transmission and distribution costs of a retailer.[262] He went on to say that the 1% was within a range of reasonableness.[263]

In relation to the return on purchases Mr. Marcus agreed with the DCA's approach and considered the return percentage together with the number of dollars associated with it. If deposits increased he was not saying that higher earnings should result; rather he was looking at the dollar number of the return as much as the percent:

> I think I agree with what the DCA said yesterday, which is that it's more in line with a fixed number of dollars at least with respect to the cost. I'm not saying that if you -– if you get 100 million more cans, maybe you should pay some more money for it. But in terms of if they raise the deposit on pop cans, I'm not sure that I would raise -- that I would give them more money than, you know, 1.2 million for the current volume. I think that's - - I was looking at the number as much as at the 1 percent when I was trying to say what's a reasonable number here.[264]

[259] Phase II Transcript page 213 lines 18 to 25.
[260] Exhibits 342 and 352a). The Panel notes that the total Revenue Requirement using both the DCA's and Dr. Booth's methodologies are very close and understood the ABDA to be indifferent as to the methodologies. In Argument, ABDA did not use Dr. Booth's methodology.
[261] Exhibit 241, page 1 line 24 – page 2, line 6.
[262] Phase I Transcript page 325 line 22 to page 326 line 18
[263] Phase I Transcript page 352 line 23 to 353 line 5.
[264] Phase I Transcript page 360 lines 9 to 18.

Mr. Marcus stated that he could be persuaded that the 1% was at the high end of a range of reasonableness, although he thought some compensation should be given for this function.

With respect to the range around all of his numbers, he stated that on his margin recommendation of 4.25% you would have a range of 3.5 to 4.5 and on purchases you might have a range of half a percent to a percent. Zero would not be appropriate for purchases in Mr. Marcus' view, as purchases are a significant component of the business of the Depot, requiring prudential requirements and some management acumen, unlike transmission and distribution. There is more risk here than with transmission and distribution in a retailer context.[265]

Mr. Marcus stated that the Depot industry was very unusual. If one excluded the real estate, the turnover ratios would be 13 to 16, for which no comparables were provided.[266] Mr. Marcus stated:

> This is a very unusual industry. I remember saying this to the Alberta Energy & Utilities Board when we were talking about retail margins, and I kept trying to tell them this is a very unusual industry compared to other retailers, and I was talking about the energy retailers. This is an even more unusual industry I think I would say, Mr. Anderson, that inasmuch as it has even less capital invested, it doesn't have as much working capital needs, but it's all divided up into small companies. So it's probably -- I have the feeling this is the most unusual industry I will look at in my career.[267]

Further the Alberta Depot network is composed of many businesses of different sizes. Mr. Marcus indicated that the rate he recommended would have been much lower if there had been a single utility model.[268]

Mr. Marcus stated that the decision to own real estate was separate from the decision to be in business. The use of market lease rates was appropriate for the real estate component and looking at the rest of the business, the amount of return recommended by the DCA was a reasonable amount of money to give them.[269]

Mr. Marcus, on behalf of CNB, filed rebuttal evidence with respect to the evidence of Dr. Booth. He concluded that Dr. Booth's recommendation would provide bottle depots with a much higher cash return than the return that would be received by a real estate owner under the normal course of doing business. He supported this conclusion with a comparison to returns realized by Real Estate Investment Trusts. [270]

[265] Phase I Transcript page 361 lines 7 - 23; page 357 line 18 to page 358 line 24.
[266] Phase I Transcript pages 364 line 22 to page 365 line 5.
[267] Phase I Transcript page 367 line 23 to page 368 line 8.
[268] Phase I Transcript page 332 line 21 to page 333 line1.
[269] Phase I Transcript page 365 line 9 to page 366 line 12, and see pages 360 – 361.
[270] See Exhibit 301.

In response to questions from the Panel regarding Dr. Cicchetti's responses, Mr. Marcus discussed the difficulty in applying usual checks of equity returns in this situation. Mr. Marcus indicated that a Dupont type analysis using an asset or equity ratio is difficult in a case like this. Most of the investment is real estate which if addressed in the market lease rate leaves very little equity ($3 million).[271] He indicated that because of the low asset base the margin becomes more of a risk compensation rather than equity return.[272]

CNB provided evidence that shorting and contamination are costs to the manufacturers. They indicated that shorting, the short shipping of containers, averaged approximately 2.6% of can volumes for an annual value of approximately $1 million. The response to CNB-HCRP-1f) provided data regarding monthly audits for shortages in 2004 and 2005. Contamination, the inclusion of pop cans on which a 5 cent deposit is paid with beer cans on which a 10 cent deposit is paid, costs $165,240 for every one percent contamination for a total cost impact at a contamination rate of 5% of approximately $826,000.

In Argument CNB submitted that equity return should be awarded as one number, not hidden in other cost items such as building costs, contamination and shorting.[273]

4.12.3 Views of the Panel

The Panel notes that the return margin methodology has been utilized in Alberta by the EUB and agrees with the DCA that this method is a reasonable basis on which to calculate "fair return" for the Depot network, particularly since it is not a capital intensive industry.

The Interested Parties varied in their approaches to fair return. In the 12-a Schedules filed by the Interested Parties, ABCRC did not provide a return on purchases and provided for a 4% return on operations. ABDA filed two calculations of Schedule 12-a for the years 2006 to 2009, one based on the DCA methodology and one based on the Booth rate base methodology. In Argument, ABDA used the DCA methodology with a return on purchases of 1% and a return on operations of 5%. CNB's calculation reflected the DCA methodology of 1% on purchases and 4% on operations.

One of the key challenges in this case in terms of return margin methodology is the unique nature of the Alberta Depot network and the lack of truly comparable industries to it. There was disagreement amongst the experts as to which industries should be used as comparable, and the Panel notes that some of the experts dealt in different ways with the low amount of capital invested. The Panel notes the comments of Dr. Cicchetti as to the lack of exact comparables and the comments of Mr. Marcus as to the very unusual nature of the Depot industry. Mr. Marcus addressed the difficulty in applying a Dupont type of analysis as a reasonableness check given the amount of only $3 million in equipment investment across the Depots. Dr. Huson suggested that the lease commitment for one year should be added to the investment in equipment and the total viewed as the capital

[271] Phase I Transcript pages 363 to 366.
[272] Phase I Transcript page 374 line 9 to page 375 line 12.
[273] CNB Argument pages 2, 13, 14, 18 and 19.

investment, in order to do a check on the return amount. Dr. Booth used a model in which imputed ownership of real estate was assumed, which in the Panel's view, facilitated his use of a more traditional investment based return analysis. However, in Mr. Marcus' view, Dr. Booth's evidence provided Depots with a much higher cash return than would be received on real estate investments.

Notwithstanding the differences in approach of the experts, there was substantial agreement among the DCA, (based on Dr. Cicchetti), Mr. Marcus and Dr. Booth as to the resulting amount of fair return using the return margin method as presented in the 2006 Phase I Report. Dr. Huson did not provide a view as to quantum of return.

Dr. Cicchetti stated in response to Panel question 6 (Exhibit 325a):

> The goal here should be to insure that Bottle Depots receive a sufficient margin so that they can remain in business. …

Given the unique characteristics of the Depot network, the Panel agrees that the goal should be to provide a proper amount of return for the Depot network. The Panel found further support for this view in the following statement of Mr. Marcus:

> And I just looked at the overall amount of return for the depots and said "you know, given the fact that they are small companies and have risks of small companies, even though they have other significant risk-reducing factors that on balance this is a reasonable amount of money to give them"…[274]

The Panel also notes that Dr. Booth, while at variance in his methodology from that of the DCA and Dr. Cicchetti, was comfortable with the DCA's recommendations:

> So I would be perfectly happy if you accepted the DCA's recommendations on margins and leases and everything else…[275]

The DCA indicated that in considering the return margins recommended, more care was taken in assessing the range in respect of the return margin for the operational component than in respect of the 1% return on purchases. He stated that in looking at the 1% return on purchases he was considering the amount of the return as a check on the percentage level. Mr. Marcus agreed with that approach.

In relation to the recommended range around all of his numbers, Mr. Marcus stated that on his margin recommendation of 4.25% you would have a range of 3.5% to 4.5% and on purchases you might have a range of half a percent to a percent. The range presented by the DCA and PEG, using the revised numbers from Dr. Cicchetti, is from 4.83% to 5.02% for the margin recommendation, with the DCA's recommendation on purchases being 1%.

[274] Phase I Transcript page 366 lines 2 to 7.
[275] Phase I Transcript page 309 lines 19 to 20.

With respect to purchases the Panel notes the position of ABCRC that there should not be a return on purchases (deposit refunds), owing to the pass-through nature of these costs. The Panel notes that Mr. Marcus acknowledged that in previous testimony he had disagreed in principle with a return on costs that are largely pass-through in nature, and Dr. Booth said that he was not convinced regarding the return on purchases. Nonetheless, as Mr. Marcus noted, the EUB allowed a return on transmission and distribution costs which were largely pass-through in nature. In fact, Mr. Marcus observed that some prudential requirements and business acumen are required in relation to purchases by the Depot operator, reflecting a greater risk than with respect to transmission and distribution. Due to the regulatory precedent and the evidence of the DCA and Mr. Marcus that a 1% return on purchases is reasonable in this case, the Panel is persuaded that a 1% return on purchases should be accepted.

The Panel examined the fair return evidence carefully in the context of balancing the requirement to maintain a viable Depot network with the need for the lowest possible costs to consumers. The Panel recognizes the potential combined impact on net income of the Depot system of the significant cost adjustments to Operating Expenses and the amount of fair return recommended by the experts. In consideration of Depot network viability in this context, the Panel concluded that a return margin on operating expenses of 5.02% and a return margin of 1% on purchases, both being the highest of the recommended margin levels of the DCA and the experts, was appropriate in this case.

The Panel directed the DCA to calculate an after tax return in the same manner as calculated in the 2006 Phase I Report, using an after tax return related to purchases (deposit refunds) of one percent and an after tax return related to operations of 5.02%.

The Panel acknowledges the concern of CNB regarding shorting and contamination but notes that there are remedies available to address this. [276] Other avenues for redress are more appropriate in the Panel's view than adjustments to Handling Commissions through a cost-based regulatory rate assessment.

Although the Panel is satisfied with the amount of the return determined in this proceeding, it is concerned about the effect of a future change in deposit levels if the current methodology of determining return is used in future. The Panel notes that Mr. Marcus indicated that if there were an increase in deposits he would not necessarily increase the dollar amount of the return on purchases. Therefore the Panel does not recommend establishing a precedent that return should always be allowed on purchases, in that if deposits change in the future, earnings could be significantly affected.

4.13 Income Tax

The Panel notes that the DCA recommended the small corporate rate of income tax to be applied to the amount of Return in the Revenue Requirement.[277] However, in calculating income tax

[276] Exhibit 221: Operating Agreement, Schedule G and Exhibit 261a: CNB-ABDA-2; Phase II Transcript page 174 lines 1-8

[277] 2006 Phase I Report page 110 lines 33 – 36.

expense the DCA indicated that the 26.52% rate was used on income less than $300,000 and the 39.52% rate for income above $300,000, applied on an individual Depot basis.[278] The DCA further clarified in response to HCRP-DCA-2006 - 17b) that there were 97 profitable and 68 unprofitable Depots, with four Depots with taxable earnings over $300,000. Income Tax was calculated only for those Depots which were profitable at an average rate of 26.89%.[279] Due to the exclusion of the unprofitable Depots from this calculation, the percentage of income taxes relative to the income before income tax for the 2006 Study System was significantly in excess of the 26.52% rate ($2,163,988/$5,575,242 = 39%). The DCA did not address the possibility that unprofitable Depots could utilize losses through tax planning strategies. In response to HCRP-DCA - 2006 - 25a)ix) the DCA clarified that if the 26.52% rate had been applied to the Total System, the Revenue Requirement would have been reduced by $1,164,698.

In response to questions by the Panel, the DCA acknowledged that the four Depots reporting in excess of $300,000 of income had been impacted by DCA adjustments and might not have paid taxes at the higher rate.[280] Further, in the Panel's view, the tax planning strategies available make it unlikely that Depots would pay tax at a rate higher than 26.52%.

ABCRC submitted in Argument that income tax should be on an individual Depot basis as this approach would more accurately reflect the costs incurred in the system.

The Panel concurs with the DCA's recommendation that the small corporate rate of income tax of 26.52% should be applied to the amount of Return in the Revenue Requirement and considers that this rate should also be used in calculating income tax expense. The Panel directed the DCA to apply the small corporate tax rate of 26.52% to the Total System rather than on an individual Depot basis, and to reflect the calculation on this basis in the compliance filing. The Panel considers that this approach more closely reflects the consequences of tax planning strategies including the use of tax loss carry back and forward provisions. Further, it more fairly represents a Depot network. This approach was reflected in the DCA's compliance filing (see Schedules 1, 11, 12-a, and 12-b of Appendix "D").

4.14 System Revenue Forecast

The Panel notes that no Interested Party took issue with the volume forecasts of the DCA. However, as the data was available at the time the 2006 Phase I Report Revision 1 was prepared, the DCA used actual 2006 volumes rather than relying on the forecast data.

4.15 2006 System Revenue Requirement

On October 15, 2007 the Panel sent a draft of this Report to the DCA for a determination of a compliance filing given the recommendations herein. On October 22, 2007 the DCA sent the Panel the compliance filing. Appendix "D" sets out the DCA's compliance filing of the Phase I

[278] Ibid page 185 lines 4 – 6.
[279] The DCA calculated Income Tax expense on $8,047,912 rather than the Study System income of $5,575,242. See HCRP – DCA – 2006 – 17b), at page 51 of Exhibit 181.
[280] Phase I Transcript page 202 line 18 to 203 line 8.

Schedules. The Schedules are in the same format as in the DCA's prior filings. Schedule 12-a-2, a new Schedule, showing the impact of the Panel directions was revised on November 1, 2007.

4.16 2007 System Revenue Requirement

<u>**Escalation of Revenue Requirement for 2007**</u>

4.16.1 Views of the DCA

The DCA collected information in the 2005 UCAs which formed the basis of the 2006 Phase I Report. The DCA updated this information in respect of 2006 actual container volumes in the final 2006 Phase I Report. The DCA noted in its conclusions at page 204 lines 12 to 16 that it had concerns regarding regulatory lag. In the Phase I hearing the DCA stated that regulatory lag was a significant concern.[281] Regulatory lag can create significant inequities and the Panel considers that escalation of the 2006 cost data into 2007 should be considered in fairness to the Depots and to keep the Panel's recommendations current. In the 2006 Phase I Report, the DCA calculated a volume forecast for 2007 at page 158. The volume forecast of 1,479,505,797 containers indicated an increase of approximately 3.5% over actual 2006 volumes.

In Schedule 12-a in the 2006 Phase I Report the DCA provided a "2007 Total System Forecast". This forecast was based on the forecast 2007 volume, and the assumption that the DCA's cost recommendations would be accepted in the determination of the 2006 Revenue Requirement and was in substance a sensitivity analysis indicating how much costs could increase at the DCA's proposed rates for 2006, while earning the recommended return percentage. It was found that if costs increased on average by 3.62% as per Schedule 12-a of Exhibit 347,[282] the return margins would be maintained. In this calculation the DCA adjusted revenue for the proposed volume increase, but did not adjust Direct Labour for the proposed volume increase. The Panel notes that there was no analysis of Direct Labour costs in terms of any fixed or variable components, and the DCA explained that the purpose of the 2007 data in Schedule 12-a was to determine:

> … "What would inflation need to be to counter off the impacts of one side of the equation having higher costs and on the other side having higher volume?" …We were just simply trying to do a year-to-year rate comparison. So please don't read more into that than was there.[283]

In Schedule 12-b of Exhibit 347 the DCA used existing Handling Commissions and forecast 2007 volumes to determine how much the 2006 forecast costs would have to change to achieve the proposed return at the current Handling Commissions. The finding was that an increase of 2.92% would be necessary. (In the February 27, 2007 a decrease of 2.05% was indicated.)

[281] Phase I Transcript page 74 lines 16 – 21.
[282] This was revised from 1.77 % in the February 27, 2007 Schedules.
[283] Phase II Transcript page 108 lines 8 to 25

4.16.2 Views of the Parties

The Panel requested that the Interested Parties all file their proposed 2006 and 2007 Revenue Requirements in the form of Schedule 12-a.[284] Both ABCRC and CNB utilized the DCA's original adjustment factor, termed "General Escalation Rate" of 1.77% (revised to 3.62%) on Operating Costs to transition from the 2006 to the 2007 Revenue Requirement forecasts.

ABCRC

ABCRC did not take any issue with the "escalators" used by the DCA to determine the 2007 Revenue Requirement.[285] In preparing their Schedule 12-a they used the original 1.77% rate calculated by the DCA.

ABDA

The ABDA provided specific consideration of escalators for the 2007 Revenue Requirement in tables in Exhibit 352a and at page 62 of Argument, as follows:

Volume	3.7%
Labour	4.5%
Industrial leases	5.0%
Other cost items	2.8%
Working capital	3.23%

CNB

In their Schedule 12-a CNB used the original 1.77% rate calculated by the DCA as an escalator from 2006 to 2007.

CNB stated in Reply, at pages 7 to 9, that it strongly disagreed with the ABDA's proposed cost escalators from 2006 to 2007 much less any further escalation into future years. CNB referred to the Chair's remarks that the remit of the Panel is to recommend one-time Handling Commissions without consideration of future adjustment formulas or further escalation formulas in subsequent years. CNB stated that significant incremental volumes are entering the System each year and this will allow for assured viability without increasing the level of current costs in anticipation of a 2009 test year.

In addition to the Operating Cost escalators as discussed above, the evidence of certain witnesses provided information on specific escalators to current cost numbers. Dr. Percy, addressing Alberta labour costs on behalf of the CNB, indicated that the appropriate wage

[284] The Schedules 12-a were revised on several occasions with the final versions being:
ABCRC – Argument Appendix A Table 1.
ABDA – Argument pages 64 – 68.
CNB – Exhibit 350
DCA – Exhibit 347

[285] ABCRC Argument page 26, paragraph 72.

increases going forward would likely be 5% to 6% in general, for comparator industries in the 3% or 4% range, and for specific settlements going forward in the 5% range.[286]

Mr. Keating, addressing lease rates in Alberta in the near future, stated that increases are likely to stay at 10% for the next five years.[287]

4.16.3 Views of the Panel

The Panel has considered all the escalators presented in the evidence of the parties. The Panel notes the views of CNB that costs should not be escalated, particularly at the rates proposed by ABDA, and that rates should not be determined using adjustment or escalation formulas. The Panel agrees with the concerns of CNB relating to ABDA's "go-forward" approach to costs into 2009, and confirms that in determining one-time Handling Commissions, it has not recommended rates that are to be escalated annually in accordance with any particular formula (for example, a consumer price index). However the Panel concurs with the DCA that regulatory lag is a significant problem. Given the timelines of the Review Process and the date of this Report, the Panel believed it was fair and reasonable to address regulatory lag by escalating 2006 costs into 2007 in order to arrive at a more current Revenue Requirement.

With respect to CNB's position that incremental volumes will allow for assured viability, the Panel notes that the revenue from Handling Commissions is a function of both the product mix and the volume of containers. For example, in Schedule 12-a of the February 27, 2007 Appendices to the 2006 Phase I Report, the DCA's forecast of containers has increased by 3.5% but the forecast Gross Margin, which is the revenue from Handling Commissions, has fallen by approximately $150,000.

With respect to lease rates, the Panel considers Mr. Keating to have sufficient experience that his view on lease rate escalators in 2007 of 10% would be acceptable for an adjustment of deemed lease rates for the purpose of a 2007 Revenue Requirement. Based on the evidence of Mr. Keating the Panel considers an escalation of 10% in the fifth year of the calculation of the base rent component of the deemed lease rate with 2002 being dropped to be reasonable. The Panel considers that Dr. Percy's expert opinion of 5% is very close to the ABDA's recommended escalation rate of 4.5%. The Panel considers that a 5% escalation rate for labour costs would be reasonable for 2007. For other costs the Panel accepts the 2.8% recommended by the ABDA. The Panel accepts the 2007 volume forecast of the DCA.[288]

The Panel directed the DCA to prepare a Revenue Requirement analysis for 2007 for the purpose of addressing regulatory lag based on the 2006 Revenue Requirement and the

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[286] Phase I Transcript, page 249 line 3 to 250, line 20.
[287] Phase I Transcript, page 658 lines 7 – 9.
[288] The Panel is comfortable with using the DCA's 2007 volume forecast. CNB noted an increase in 2007 year to date beer container volumes of approximately 5 percent. Phase II Transcript page 260, lines 18-20; page 292, lines 11-15. The Panel considers the CNB volume increases to be compatible with the DCA forecast to December 2007 at page 150 of the 2006 Phase I Report.

following assumptions. This analysis takes into consideration the variable nature of Direct Labour and some variable overhead costs as well as cost escalators.

Assumptions:

- Use of the DCA 2007 Volume Forecast;
- An escalation of both Direct and Overhead Labour, at 5%;
- An increase in Direct Labour to reflect the additional hours required based on the increased volume;
- A Calculation of Deemed Lease costs using the five year rolling average technique of CNB; dropping the year 2002 and adding 2007 calculated as the 2006 rate escalated by 10%; and
- An increase in variable overhead proportional to volume increases.

The Panel has recommended a Revenue Requirement based on the 2007 escalated values as set forth above and reflected in Schedule 12-a at Appendix “D”. The Panel’s total recommended Revenue Requirement is $56,371,471.

5 PHASE II – PROPOSED HANDLING COMMISSIONS

This section of the Report examines two fundamental aspects of Handling Commissions: how the Revenue Requirement is allocated to container streams to determine Handling Commissions, and rate design. In the Review Process rate design involves distribution of the Revenue Requirement to individual Depots. Typical utility rate design principles will be considered and two rate designs, a fixed / variable rate proposal and a variable rate block design, will be discussed. Appendix “E” of this Report sets out the DCA’s compliance filing of the Phase II Schedules. These Schedules are in the same format as the DCA’s prior filings.

5.1 Background

The 2006 Phase II Report described the analysis conducted to allocate the Phase I Revenue Requirement to the Container Streams and recommended Handling Commissions. The analysis involved five steps:

1. Determination of homogeneous customer classes, by dividing container streams into groups of similar usage patterns and characteristics (Forecast Groups);
2. Cost Functionalization – splitting costs into categories based on the Phase I Report;
3. Cost Classification – i.e. further separation of cost functions;
4. Cost Allocation – the key step in the process to distribute costs to Forecast Groups based on cost drivers; and

5. Rate Design – the determination of a rate for each container stream.[289]

A fixed / variable rate design in respect of the basis on which the Revenue Requirement is to be distributed to the individual Depots was also addressed.

Interested Parties took no issue with the foregoing approach of the DCA, and the Panel considers that it is reasonable. The specific concerns of the Interested Parties with respect to cost allocation and rate design are discussed in further detail below.

5.1.1 Container Streams for which Handling Commissions are determined

The 31 container streams identified in the 2006 Phase II Report were grouped into 27 container streams for the purpose of Handling Commissions.

Table 8: DCA Proposed Handling Commissions

Product ID	Product Name	DCA Proposed Handling Commission
1	Pop Cans 0-1L	3.81
26	Beer Cans	3.80
16	PET 0-1L	4.29
33	Industry Standard Bottles	3.68
23	Big Rock Bottles	3.68
8	Glass 0-500 ml	4.19
9	Glass 501 – 1 Litre	4.19
41	Glass 0-1 Litre	4.19
21	Tetra Brik	3.85
17	PET Plastics Over 1 Litre	5.17
35	Import Beer Bottles	4.40
10	Glass Over 1 Litre	6.00
0	Gable Top Over 1L	6.00
5	Drink Pouch 0-1L	6.00
12	HDPE Plastics >1Litre	7.00
18	Polycups 0-500 ml	6.00
3	Bi-Metal 0-1L	6.00
11	HDPE 0-1L	6.00
4	Bi-Metal Cans >1Litre	6.00
7	Gable Top 0-1L	6.00
2	Bag in Box Over 1L	10.00
34	Tetra Brik Over 1 Litre	6.00
20	PVC Plastics Over 1Litre	10.00
37	Polypropylene	6.00
19	PVC 0-1 L	6.00
15	Liq/Wine Ceramics	10.00
36	Aerosol 0-1Litre	10.00
32	Sleemans Bottles	6.00
14	Import Beer PET 0-1Litre	6.00

[289] See 2006 Phase II Report, page iii and page 1

Product ID	Product Name	DCA Proposed Handling Commission
13	Import Beer Cans (Bi-Metal)	6.00
27	Imports Under 1 Litre	6.00
24	Beer Cans – Deposit Only	10.00
25	Unusable ISBs	10.00
30	Molson Obsolete	10.00
31	Over 1 Litre Bottles	10.00

The Handling Commissions proposed by the DCA resulted in a 23.9% reduction in total cost to the containers of the ABCRC and a 35.6% increase to the BDL containers. The Panel's recommended Handling Commissions result in a 16.8% decrease to the total cost to the containers of the ABCRC and a 23.3% increase to the BDL containers. [290]

5.2 Functionalization of Costs

The following cost functions identified in the 2006 Phase I Report were used, with further sub-classifications as discussed further in this Report:

1. Direct Labour Costs
2. Overhead Labour Costs
3. Building Costs
4. Equipment
5. Overhead
6. Return
7. Income Tax
8. Miscellaneous Revenue

5.3 Classification of Costs

The DCA stated that in order to allocate costs appropriately it is necessary to analyze Depot operations and determine the primary cost drivers for each cost category. The DCA made the following observations about the cost classifications.

Direct Labour was reasonably homogenous.

Overhead Labour was believed to be related to the management of Direct Labour (50%) and the management of other aspects of the business (50%).

[290] Schedule A-1, as revised in Appendix "E" to this Report, dated November 1, 2007.

Building costs were subdivided into categories based on space usage reported in the 2005 UCA. The DCA then combined some categories and addressed the costs as follows: customer interface and office (20.1%), storage and loading (53.3%), and sorting (including temporary storage) (26.6%).[291]

Vehicle and Equipment costs included, for owned assets, CCA, loan interest and operating costs; and, for leased assets, lease payments and operating costs. The DCA reviewed the descriptions of equipment and classified the equipment and related costs as (percentages calculated by HCRP):

- Sorting/ Loading/ Cardboard (25%)
- Building (2%)
- Office (20%)
- Collection (53%).[292]

For Overhead, the DCA classified costs as

- business related (50%) including office expenses, professional fees, insurance, municipal taxes, advertising etc,
- building related (7.4%) which was shop supplies, and
- volume related (42.6%) including BCMB and ABDA fees, shrinkage and some collection costs.[293]

5.4 Allocation of Costs

Cost allocation methodologies differ with the nature of costs as fixed, variable or some combination thereof, and include category allocators, such as the number of classes of customers, and volume or usage related allocators, including peak volume allocators. Cost allocation is a significant component of a Phase II rate determination process.

5.4.1 Views of the DCA

The cost allocators identified by the DCA were

- Total Container Volume;
- Total Container Pallets/Bags;
- Peak Month Volume;
- Peak Month Pallets/Bags; and
- Multi-Variable Linear Regression (MVLR).

[291] 2006 Phase II Report page 23 line 4, table.
[292] See 2006 Phase II Report page 23 line 23.
[293] 2006 Phase II Report Section 3.6 page 5 line 1, table.

The Handling Commissions for the eight highest volume Container Streams recommended by the DCA were rounded to one-hundredth of a cent, while the remaining Container Streams Handling Commissions had a minimum of 6 cents and a maximum of 10 cents, rounded to the nearest cent. In oral testimony the DCA said the maximum could be increased to 11 or 12 cents due to the time elapsed. The Panel directed the DCA to apply his judgment in setting the minimum and maximum values for the small volume container streams in the compliance filing, based on the costs from the Panel's recommended Revenue Requirement. Appendix III in Appendix "E" reflects the DCA's determination of these Handling Commissions for the small volume container streams.

The DCA relied on three principles in selecting cost allocators:

1. The underlying data is available and valid;
2. The allocator reflects the need for the cost to be incurred in order for the Depot to perform the tasks required; and
3. The allocator used is relatively intuitive from DCA observations of Depot operations.[294]

The following allocators were recommended by the DCA:

1. Direct Labour Regression – Proposed in the 2005 Phase II Report for Direct Labour, but rejected in the 2006 Phase II Report as being unreliable.
2. Total Container Volume – Used for costs related to volume or costs that are partly fixed and partly variable.
3. Total Container Pallets/ Bags – Certain costs were believed to be related to the space the bags or pallets require. As some pallets and bags shipped are not full, the number per bag or pallet was based on the average volume shipped, rather than the notional or capacity volume per bag or pallet. The result is that the first eight forecast groups, which account for 97% by volumes, account for 90% by pallets or bags.[295]
4. Peak Month Container Volume – The premise was that costs with a greater fixed component should be allocated based on the forecast peak volume. Since data was not available for units of less than one month, monthly data was used.
5. Peak Month Pallets/Bags – The number of pallets shipped in July 2006 was used to calculate peak month container pallets.[296]

The differences between allocators two to five are presented in Schedule 8 of Appendix I of the 2006 Phase II Report.

[294] 2006 Phase II Report Section 4.1 page 7 lines 14 to 19.
[295] 2006 Phase II Report page 11 lines 1 to 2.
[296] 2006 Phase II Report page 13 lines 8 to 11.

The allocators recommended by the DCA in the 2006 Phase II Report are summarized in the following Table.

Table 9: Cost Allocators Recommended by the DCA

		Total Volume	Peak Month Volume	Total Pallets	Peak Month Pallets	Total Building Costs
Direct labour		100%				
Overhead Labour Schedule 3.1						
	Direct Labour related	50%				
	Management related		50%			
Building Schedule 4.1						
	Office		100%			
	Customer Interface		100%			
	Sorting		50%		50%	
	Loading				100%	
	Storage				100%	
Equipment Schedule 5.1						
	Sort/Load/Cardboard			100%		
	Building					100%
	Office		100%			
	Collection	100%				
Overhead Schedule 6.1						
	Business related		100%			
	Building related					100%
	Volume	100%				
Return and Income Tax		100%				

The DCA stated that Direct Labour represented 46% of the proposed Revenue Requirement.[297] Given the lack of confidence the DCA had in the proposed MVLR analysis, the DCA recommended that the Direct Labour costs be allocated on the basis of volume.

The data collected did not provide sufficiently detailed information to classify Overhead Labour by management function. In the absence of any better data, the DCA recommended that the Overhead labour costs be allocated 50% on Direct Labour Regression allocators [sic] and 50% using the Peak Month Container Volume allocators, based on the premise that management functions were related 50% to supervision and 50% to administrative and planning tasks related to peak periods.[298]

The Building cost allocators were premised on:

[297] 2006 Phase II Report page 14 line 7

[298] 2006 Phase II Report page 22, lines 24 to 33.

1. office and customer interface areas (office) being determined by the need to handle the peak volume; and
2. loading and storage space (loading) being based on peak month container pallets.

Sorting costs containing attributes of the office and loading were allocated 50% on peak month container pallets and 50% on peak month container volumes.

With respect to equipment costs, the DCA was of the view that storage/loading and cardboard handling equipment costs were generally fixed and should be allocated based on volume. For example, one forklift was needed. Office equipment costs should be allocated on the same basis as office related building costs, and equipment used in association with collection was generally related to vehicles and should be allocated on total volume.

With respect to overhead, the DCA was of the view that business related overhead costs were related to peak month volume. Building related costs were not discussed but were allocated on the basis of building costs. Other overhead costs, which included fees such as the BCMB fees, were allocated on the basis of total volumes.

The DCA recommended that Return and Income Tax should be allocated based on volume. This treatment would imply equal risk among containers and provide for the easy addition of further container streams.

The DCA expressed concern with the limited scope of the TMS and was somewhat surprised by the final results.[299] In testimony he confirmed that the TMS is the best evidence on record but reiterated his surprise regarding the time attributed to the ISB.[300]

In response to the Panel's request for Illustrative Calculations the DCA provided calculations for two scenarios:

1. The original recommendations of the Phase II Report, modified to use the TMS as the basis for allocation of Direct Labour Costs; and
2. The allocation of costs on the basis of the evidence of Mr. Pammenter.[301]

In testimony the DCA stated that more than one method of cost allocation could be reasonable in a particular set of circumstances. He accepted as reasonable Mr. Pammenter's proposed allocation methods for labour based on the TMS, and return and income tax based on total costs. He disagreed with Mr. Pammenter's proposed allocators for costs the DCA had allocated on the basis of peak allocators.[302]

[299] Exhibit 422 September 7, 2007, Response to Phase II Pre-Hearing HCRP Requests, page 10 and Phase II Transcript page 45 line 11 to page 46 line 21.
[300] Phase II Transcript page 16 lines 12 - 17.
[301] Exhibit 409.
[302] Phase II Transcript page 16 line 18 to page 18 line 5 and page 82 line 10 to page 84 line 3.

5.4.2 Views of the Parties

Views of ABCRC and CNB – Time and Motion Study

In Revision 1 to the 2006 Phase II Report, dated January 31, 2007, the DCA concluded that MVLR analysis should not be used to allocate Direct Labour and certain other overhead costs and recommended that these costs be allocated on the basis of volume. Considering this to be a significant shift in methodology, the Panel agreed to alter the Timelines to accommodate a TMS to be jointly submitted by the ABCRC and CNB. In a letter of March 15, 2007,[303] CNB advised that Stantec had been retained to undertake the proposal.

The TMS report was completed on July 13, 2007 and filed as Phase II evidence.[304] Stantec was engaged "to determine the direct labor hours required for handling each of the different types of beverage containers (10 categories)".[305] Stantec was instructed by ABCRC and CNB to use the same weighted average handling time for both Aluminum Beer Cans and for Aluminum Pop Cans, and to use the same weighted average handling time for the minor groups 'Minor Volumes 0-1 Litre' and 'Minor Volumes Over 1 Litre'.[306]

The TMS was conducted in 18 Depots selected randomly by the Managing Director of the BCMB. The selection process was described as a relatively representative mixture of Depots from the Metro, Urban and Rural classifications with secondary criteria of volume and location.[307] The sample included seven Metro, six Urban and five Rural depots in the Edmonton through Calgary area corridor. Although Stantec had originally proposed that 36 Depots should be visited, based on a statistical formula, they accepted the decrease in numbers of Depots, noting that it was representative at a 20% confidence level, rather the original 15% confidence interval. In testimony Mr. Dietze clarified that the 20% confidence interval applied to a normal distribution such that for each container stream there was an equal possibility that the actual time would be above or below the value cited. Mr. Dietze confirmed that he considered the data to be representative.[308]

Stantec used two work study techniques referred to as the stopwatch study and the work sampling study. The stopwatch study captured time and motion data in each of the Beverage Container handling Macro-Processes:

- Primary Sort
- Secondary Sort
- Consolidation / Tie-out

[303] Exhibit 245
[304] Exhibit 361
[305] Exhibit 379 Final Report Time & Motion Study for The Alberta Beverage Container Recycling Corporation and Canada's National Brewers, page E.1
[306] Exhibit 379, pages E.1 to E.2
[307] Exhibit 392, pages 17 and 18: HCRP-ABCRC-Phase II – 5
[308] Phase II Transcript page 123 line 18 to page 125 line 23.

- Store, and
- Load.

The second work sampling study consisted of a large number of observations taken at random intervals, which were then compared to the stopwatch study. The difference was that the stopwatch study only focused on the handling tasks while the work sampling study included all operations going on in the Depot. In the work sampling study "inspection" was identified as a distinct activity in primary sortation as indicated in the primary sortation table matrix at Appendix C of the TMS. However, no information was provided regarding time spent specifically on inspection.

At page E.2 of the TMS Adjusted Handling Times were provided in Table format. Using the time per piece and the actual data for system volumes a "Percentage of Work Content based on percentage of Total Hours" was calculated. This percentage was calculated as the basis for allocating Direct Labour costs. As confirmed in response to HCRP – ABCRC– 10, the time in the table reflected only the 72.9% of time described as working time for personnel in the Depot. Of the remaining 27.1% of time 20.3% was idle or out of work area, 0.7% garbage disposal, 1.3% floor cleaning and 4.8% work area cleaning.

As part of their analysis, Stantec prepared a shop floor layout for each Depot. Stantec provided a Shop Floor Usage Table which they indicated could be used to assign costs to container groupings for those costs driven by shop floor space. "Handling Process Support Services" represented 50.2% of the space. Mr. Dietze clarified in testimony that the Handling Process Support Services include the customer service area and areas for passage of forklifts and moving containers.[309]

Total Hours were calculated as 1,164,865 at page E.2, compared to the DCA's adjusted Direct Labour Hours of approximately 1,932,000.[310]

In the DCA's response to the Panel of August 24, 2007 the DCA addressed the differences in the Stantec total labour hours in the TMS with the DCA's total Direct Labour hours. The DCA noted that its total Direct Labour hours were approximately 1.9 million hours, which was 71% higher than Stantec's total of approximately 1.1 million hours in the TMS. The DCA was surprised at this result, noting that it would have been expected that the TMS would produce fewer hours than the DCA but not by such a wide margin. The DCA noted that its Direct Labour hours were based on UCA data and included Collection related labour and potentially some Overhead Labour.[311]

In the July 13, 2007 TMS,[312] Stantec noted that on June 5, 2007, CNB inquired about the impact of licensee pickups and bottle drive intake volumes ("back door" volumes) on the container handling processes. Additional work was undertaken and a Final TMS Report

[309] Phase II Transcript page 122, lines 4 to 20.
[310] Schedule 2.0, Appendix I, 2006 Phase II Schedules, February 27, 2007.
[311] Exhibit 409 page 2.
[312] Exhibit 361.

issued on August 3, 2007.[313] Stantec noted that the sample of observations was small and the margin of error for the "back door" volumes much greater than the front door volumes.[314] As none of the Interested Parties has requested reliance on the revised data of the August 3, 2007 report, the methodology of the "back door" study and handling times for containers based on the data will not be addressed.

Stantec observed at page 3.23 of the August 3, 2007 TMS, in relation to volumes received at the back door:

> … considerable work was performed on apparently presorted volumes. Staff removed cases from the incoming truck or trailer (no containers were observed coming in on pallets), checked the contents and moved the case to a pallet for stacking. We observed no incidents of cross docking without any work being performed.

Stantec also undertook a telephone survey relating to "back door" volumes. The results indicated that 15.69% of CNB volumes were "back door"; 5.80% were presorted and 9.89% were unsorted.[315] In response to HCRP – ABCRC – 20,[316] Stantec advised that the confidence interval of the telephone survey was +/- 20%.

In testimony Mr. Dietze explained that the perception that a container of 12 bottles would result in less labour per unit was not so, as a case of twelve bottles might be placed on a conveyor and moved where it received further processing before being placed on a pallet.[317]

[313] Exhibit 379: Final TMS dated August 3, 2007.
[314] Exhibit 379: Final TMS dated August 3, 2007, page E.3
[315] Exhibit 379: Final TMS page 3.22.
[316] Exhibit 406 page 6.
[317] Phase II Transcript page 137, lines 3 to 18.

ABCRC

Table 10: ABCRC Recommended Allocators – Pammenter Evidence Relative to DCA Allocators

			DCAs Allocators	Recommended Change (if any)
Direct Labour			Total Volume	Stantec TMS Report
Overhead Labour	Direct Labour related		50% Total Volume	75% Direct Labour Costs
	Management related		50% Peak Month Volume	25% Total Volume
Building	Office		Total Volume	
	Customer Interface		Total Volume	
	Sorting	Office related	50% Total Volume	Total Volume but use split identified in TMS Report
		Loading related	50% Peak Month Pallets	Total Pallets but use split identified in TMS Report
	Loading		Peak Month Pallets	Total Pallets
	Storage		Peak Month Pallets	Total Pallets
Equipment	Sorting		Total Pallets	Total Volume
	Loading			Total Pallets
	Cardboard crushing			Total Pallets
	Alternative for Sorting / Loading /Cardboard			50% Total Volume 50% Total Pallets
	Building		Total Building Costs	
	Office		Peak Month Volume	Total Volume
	Collection		Total Volume	Total Pallets
Overhead	Business related		Peak Month Volume	Total Costs
	Building related		Total Building Costs	
	Volume related		Total Volume	
Return & Tax			Total Volume	Total Costs

The ABCRC filed expert evidence by James Pammenter with respect to cost allocation.[318]

Mr. Pammenter argued both in his evidence and in testimony at the hearing against the use of Peak Month Volume or Peak Month Pallets allocators for the following reasons:

- Depots may size their operations for peak day or peak hour. The use of a peak month may not be appropriate, particularly as the mix of containers has changed over time such that the allocators using peak month values differ significantly from year to year;

[318] Exhibit 360: ABCRC Evidence of J. Pammenter dated July 13, 2007

- Monthly variations may arise from a number of factors including the timing of collections and dating of related record-keeping, the number of days per month, the number of week-ends per month, and the timing of holidays;
- The percentages of total container recoveries for an individual container stream will vary from month to month for purely random factors; and
- The question of whether any one measure of peak volume should be preferred over other measures.

Direct Labour

With respect to Direct Labour costs, Mr. Pammenter argued that the use of volume as an allocator violates Bonbright's regulatory criterion number 6 regarding fairness of apportionment within the rates of the total Cost of Service among the different customers and criterion number 7, avoidance of undue discrimination.

Mr. Pammenter recommended that Direct Labour costs should be allocated to container streams on the basis of the time required to receive, sort, store and load the containers as determined by the TMS.

ABCRC did not support a credit to the ISB in respect of Labour costs. ABCRC submitted in Argument at pages 26 to 28, and in Reply at paragraph 10, that the TMS is the best evidence regarding the allocation of Direct Labour, as agreed by the DCA. ABCRC argued that only limited and non-specific evidence had been presented by CNB to substantiate CNB's belief that Labour costs had been overallocated to ISBs because of the way ISBs are returned to Depots. Further ABCRC pointed out evidence contradicting CNB's assertions, including evidence from the TMS that ISBs took longer to handle than cans; ABDA's testimony that other containers are handled in larger volumes than ISBs despite ISBs being in cartons; Mr. D'Avignon's statements that he was not surprised that the ISB had higher handling times than pop cans and beer cans; and Mr. D'Avignon's acknowledgement that studies in other jurisdictions had shown ISBs to have higher handling times than other containers. In addition ABDA witnesses had indicated surprise that the TMS handling time for ISBs was not higher.

ABCRC agreed with CNB that average handling times for total containers are affected by the percentage received through the back door and the difference between front door and back door handling times. However, ABCRC questioned the CNB's assertion that most ISBs are returned in pre-sorted fashion. ABCRC pointed out testimony of the ABDA that collections from licensees do not typically come palletized or partially palletized, nor are they always received in kraft boxes holding two dozen ISBs. ABCRC agreed with Stantec's observations that Stantec's sample size in the TMS in relation to the back door volumes was too small to be useful. Therefore in the absence of conclusive evidence relating to back door volumes ABCRC recommended using the unadjusted handling times at page E.2 of the TMS.

Overhead Labour

Based on his experience, Mr. Pammenter recommended that Overhead Labour be split 75% as related to supervision and 25% as related to administration and planning. In response to HCRP- ABCRC - 13, Mr. Pammenter clarified that in his experience Depot operators consider recruiting, hiring, training, scheduling and supervising staff to be their greatest challenge, to take the majority of their time, and to be of a continuous nature. He continued to say that if the DCA category of "other" includes recruiting and hiring he would not challenge the DCA's 50/50 split. Mr. Pammenter recommended that the supervision component be allocated based on Direct Labour Costs, which would be based on the TMS, and that the administration and planning component be based on the Total Volume allocator rather than the Peak Month Allocator for the reasons discussed above.

Buildings

For Office, and for Customer Interface (which Mr. Pammenter viewed as the TMS classification "Primary Sortation") Mr. Pammenter recommended the use of Total Volume as an allocator. In his written evidence he recommended using the split identified in the TMS but withdrew this recommendation in his testimony following the clarification by Mr. Dietze that handling support services included the customer service area. [319]

He observed that although the DCA said Peak Month Volume was used for these allocations, Total Volume was actually used in the 2006 Phase II Report.

For Sorting, which the TMS classified as "Secondary Sortation" and "Consolidation/ Tie-out", Mr. Pammenter recommended the use of the Total Volume and Total Pallet allocators respectively. Mr. Pammenter observed that during busy periods, the same number of bags are used but are replaced more often. Therefore, sorting space is not related to peak volumes.

For Loading and Storage, Mr. Pammenter recommended the used of Total Pallets as the allocator.

Equipment

Since containers are sorted individually, Mr. Pammenter recommended the use of a Total Volume allocator for Sorting Equipment. He agreed with the DCA's use of the Total Pallets Allocator for Loading Costs and for Cardboard crushing equipment, given the limited information available. As an alternative allocator for Sorting/ Loading/ Cardboard Mr. Pammenter suggested a 50/50 split between Total Volume and Total Pallets. The Panel directed the DCA to use the 50/50 split in allocating Sorting/Loading and Cardboard.

[319] Phase II Transcript page 146 line 23 to page 147 line 11.

For office equipment costs, Mr. Pammenter recommended the use of Total Volume as the allocator in his table at page 11 of his evidence. For Collection equipment Mr. Pammenter recommended Total Pallets rather than Total Volume, as the number of containers carried is a function of size.

For Overhead costs, Mr. Pammenter recommended that Business Costs be allocated based on Total Costs incurred per container stream, as management involvement and overhead expenses are likely greater for the more costly streams. Mr. Pammenter concurred with the use by the DCA of Total Building Costs as the allocator for building related costs and Total Volume for Volume related costs.

With respect to Return and Income Tax Mr. Pammenter recommended the use of the Total Cost per Container Stream rather than Total Volume as proposed by the DCA. He argued that the use of a Total Volume allocator ignored the time and space required, and therefore total cost of providing the service. He noted that time is usually priced at an hourly rate including a percentage for profit, with jobs taking more time having higher costs and risks and therefore higher profits.

ABCRC identified an error in the Illustrative Calculations prepared by the DCA in accordance with Mr. Pammenter's evidence and filed an adjusted interpretation of Mr. Pammenter's recommendations on September 5, 2007.[320] ABCRC filed a further revision changing the space allocation factors due to Mr. Pammenter's misunderstanding of the TMS regarding space allocation.[321]

In Argument, ABCRC reaffirmed its view that allocations should be based on the TMS and Mr. Pammenter's allocators.

ABDA

ABDA did not file evidence regarding the allocation of costs to Container Streams which it viewed as a matter of concern primarily for the manufacturers but reserved the right to comment. In response to HCRP –ABDA – 26, ABDA reaffirmed its position that cost allocation to container streams was purely a matter of concern between the manufacturers.

In Reply at pages 18 and 19 ABDA offered a clarification of the record in respect of CNB's generalized assertions as to the nature and extent of cross-dock activity. ABDA indicated that there is no consensus regarding this activity and that the packaging the containers arrive in, or the door they arrive through, has little to do with the requirement for sorting and preparing containers for shipment (secondary sortation). Labour is required for inspection and sorting. Further ABDA clarified some of the statements of its witness panel in testimony, submitting that CNB misrepresented the difference between primary and secondary sortation outlined in the oral testimony. Further their witnesses

[320] Exhibit 420
[321] Exhibits 428 and 429.

did not confirm the volume of loose bottles to be 20% of ISBs; rather loose bottles varied among Depots and the ABDA provided no evidence or commentary on these volumes.

In Argument at page 77 ABDA indicated that the waste minimization policy and mandate in respect of refillable containers should not be an issue for the Handling Commissions.

CNB

CNB co-sponsored the TMS with ABCRC. In response to HCRP – CNB – 13, CNB responded that it took no issue with the cost allocators used by the DCA.

In testimony Mr. D'Avignon said that CNB believes the direct labour allocation to the ISB is 50% higher than it should be based on the way the containers are actually returned.[322] In the Phase II hearing during cross examination by CNB Counsel, the ABDA witness panel addressed some proportions of labour time for Depot macro-processes involved in container handling and some proportions of Depot space that would be involved in such processes. [323]

In Argument and Reply CNB submitted that the labour costs allocated to both beer cans and the ISB should be reduced.

At page 18 of Argument, CNB submitted that 55% of Direct Labour costs of sorting and handling should be allocated to pop cans rather than the equal allocation which had been recommended in the DCA's report.

CNB also argued that ISBs deserve a lower allocation of Direct Labour because they require less sorting and handling.[324] A distinction was made between bottles returned in the original containers and loose bottles. CNB indicated that a coloured case is handed to the sorter who quickly checks the bottles without removing them from the box and places the box directly on a pallet, eliminating the sorting function for loose bottles. An argument was made that as the average pre-sorted box includes 15 bottles, it should be allocated 1/15th of the cost of handling individual glass containers as determined by the DCA and the Stantec TMS. Since CNB believed that 60% of ISBs received through the front door are in boxes, they should benefit from this adjustment. Further CNB argued that 20% of ISBs are received through the back door, and are not subject to primary sortation. Therefore, CNB submitted that an adjustment should be made to 80% of the ISB volume for primary sortation.

For back door volumes, CNB argued that only 20% of Direct Labour costs and 15% of Building Costs should be assigned. The basis for the 20% Direct Labour appears to be premised on the only activity being storage and loading. For building costs the basis for the 15% appears to have been the generalized discussion by the ABDA Panel in the Phase II hearing.

[322] Phase II Transcript page 287 lines 8 to 12.
[323] Phase II Transcript, see generally pages 181 to 202.
[324] CNB Argument pages 19 to 23.

CNB also referred at page 24 of its Argument to the idle labour time in the TMS and submitted that it would relate to front door deliveries and retail returns, not to cross docking activity. CNB submitted that Depots should be required to bear the cost of idle time in line with the lowest possible cost mandate. However if the Panel allowed all costs of idle time, none of it should be assigned to cross dock volumes.

CNB stated in its Rebuttal Evidence that less time was spent handling beer containers delivered in bulk which are often pre-sorted and palletized. CNB stated that over 11% of all beer containers and 20% of ISBs enter Depots through the back door. CNB stated that less space was utilized in Depots in processing these containers than for other containers, such that lower costs should be allocated to beer containers for both labour and building costs.

5.4.3 Views of the Panel

The Panel accepts the evidence of Stantec in the Handling Times Summary Table at page E.2 of the TMS, in respect of the determination of Direct Labour time per container, as the basis of allocation of Direct Labour costs. Stantec was retained as an expert jointly by ABCRC and CNB, the two parties impacted by the allocation of Direct Labour costs, for which the TMS serves as a basis. The Panel agrees with ABCRC and the DCA that the TMS is the best evidence on the record for allocating Direct Labour costs.

The Panel accepts the evidence of Mr. Pammenter with respect to cost allocation for costs other than Direct Labour. The major difference between Mr. Pammenter's recommendations and the DCA's recommendations was with respect to the use of peak allocators. The Panel finds the arguments of Mr. Pammenter to be persuasive and considers that the peak allocators are not the most appropriate method of cost allocation in this case. For sorting/loading/cardboard the Panel directed the DCA to use the 50/50 split alternative submitted by Mr. Pammenter.

With respect to the position of CNB regarding the allocation of labour costs, the Panel notes that CNB and ABCRC directed Stantec to allocate the same time to beer and pop cans, and that back door volumes were specifically excluded from the scope of the original study.[325] CNB requested Stantec to consider back door volumes late in the process schedule. Stantec was unable to obtain a sufficient number of observations to provide reliable cost allocation data. In these circumstances the Panel considers that CNB has developed more "ad hoc" numbers for cost allocation and that this approach is not as reliable as the approach in the TMS. Had a more extensive back door study been conducted by Stantec, more reliable data might have been provided. The Panel accepted Stantec as an expert with respect to the TMS and does not give as much weight to CNB's arguments as to the TMS.

The Panel understands CNB's argument that 55% of labour costs should be allocated to pop cans rather than the equal allocation which had been recommended in the DCA's

[325] Phase II Transcript page 265; Stantec TMS Exhibit 379 page E.1; and Exhibit 420 page 6.7

report, to mean that on a per unit basis costs allocated to beer cans should be decreased by 10% and costs to pop cans increased by 10%, moving from equal costs per unit pursuant to the DCA's volume allocation to a 55%/ 45% split. The Panel considers this inappropriate given the direction to Stantec by the manufacturers that Stantec should use the same weighted average handling time for both Aluminum Beer Cans and for Aluminum Pop Cans.[326] Further, the basis for the CNB argument appears to be that contamination is up to 5% of container volume and CNB is proposing that ABCRC should bear this cost through the allocation of labour processing time. This would place a cost on ABCRC for Depot error. The Panel is of the view that rather than adjusting labour allocations, contamination can and should be addressed through the Operating Agreement and other remedies.[327]

The Panel notes that CNB's arguments for the ISB labour adjustment are based on the premise that a box of bottles is placed directly on a pallet and requires 1/15 of the labour effort. These arguments are in conflict with Mr. Dietze's testimony at pages 137 to 138 of the Phase II transcript with regard to the process work done on boxes of bottles.

CNB argued that 20% of the ISBs are received through the back door, and are not subject to primary sortation. The Panel notes that CNB did not discuss the contradictory evidence of the Stantec telephone survey that only 15.69% rather than 20% of CNB volumes are "back door" volumes, or that 5.8%, approximately 1/3 of the volumes, are presorted. Further, CNB has not addressed the requirement for inspection, a function required pursuant to the Operating Agreement and the Guideline.[328] It appears that at least this element of primary sortation is not fully avoided by back door deliveries. The Panel notes that inspection times in the TMS were included as an element of primary sortation, but were not separately broken out in the TMS.[329] It is not clear to the Panel how inspection time for back door volumes can be reliably assessed.

Further CNB's submission in Argument and Reply that less time was spent handling beer containers from cross-dock deliveries was premised on the deliveries being typically palletized and containing a large number of pre-sorted ISBs. This is contrary to the evidence of Mr. Linton.[330]

With respect to the proposed time adjustments, CNB relied on Mr. Marr-Laing's testimony that the loading function involves between 5 to 15% of Direct Labour costs. The line of questioning by CNB referred to a "very very general range" of indicators for amounts of labour used in stages of sortation, and Mr. Marr-Laing qualified his answers due to differences in the internal sorting systems in use.[331] Given the context in which

[326] Exhibit 379 page E.1
[327] Exhibit 221: Operating Agreement Schedule G and Exhibit 261a: CNB-ABDA-2 Quality Control and Progressive Action Policy; Phase II Transcript page 174, lines 1-8.
[328] Exhibit 238: BDL Industry Standard Beer Bottle Return Guideline and Exhibit 221. Consequences of non-compliance were revenue adjustments and possible loss of permit. (See Phase II Transcript page 171 line 22 to page 174 line 13)
[329] Exhibit 379 TMS page 2.6, 3.23 and Appendix C
[330] Phase II Transcript page 198 lines 12 – 23.
[331] Phase II Transcript page 194 line 14 – 195 line 11; see generally pages 181 to 202.

the labour estimates were obtained in testimony, the Panel does not consider the data precise enough to be suitable for the purpose of cost allocation.

CNB argued that the "back door" ISB volumes should be assigned only 15% of Building Costs as the cross-dock handling and storage avoids use or need for the vast majority of the Depot space. The DCA evidence on space utilization reported in the UCA's contradicts this percentage.[332] In addition, back door volumes must be inspected and according to the TMS telephone survey 2/3 must also be sorted. CNB did not address where these activities take place.

Further back door volumes included both CNB containers and ABCRC containers at page 3.22 of the August 3, 2007 TMS. If an adjustment were to be made for beer containers, an assessment should be made of other container streams that do not utilize full facilities. A more comprehensive record containing a reliable back door TMS would likely have shed more light on possible differences between back door and front door volumes.

With respect to CNB's argument that idle time should not be allocated to cross dock volumes, the Panel notes the view of the DCA that idle time can be considered a fixed cost, unrelated to any container stream.[333] Mr. Dietze indicated that the percentage of idle time was within the boundaries of what he had seen in other industries and did not startle him in this context. "Idle time" would include regular breaks or the employee being re-deployed in the Depot.[334] The Panel is not convinced that the idle time is unreasonable or that it can be related to any particular container or volumes thereof.

With respect to Direct Labour, the Panel did not consider CNB's position persuasive with respect to a reduction of Direct Labour costs to the ISB. The Panel concurs with the argument of ABCRC at pages 26 – 28, noting the references to evidence cited therein, that contradictory evidence would not support a reduction in Direct Labour costs to the ISB. Rather the record indicates that the TMS is sufficiently reliable that it represents the best evidence available of the assignment of Labour time to containers, including to the ISB. Mr. D'Avignon indicated that he was not surprised at the results. In addition to the evidence cited by ABCRC, the Panel is of the view that CNB has understated the processing required for back door volumes.

The Panel therefore is not persuaded by the position of CNB that the allocation of Labour Costs and Building Costs should be adjusted for beer containers.

The Panel directed the DCA to allocate Direct Labour costs on the basis of the TMS and to allocate all other costs in accordance with the evidence of Mr. Pammenter as corrected in the most recent filing from ABCRC. The Schedules in Appendix "E" reflect these cost allocations.

[332] 2006 Phase II Report, page 61. Depot space utilization was reported to be 43.8% storage and 9.4% loading for a total of 53.2% for these combined functions.

[333] Phase II Transcript page 88 line 23 to page 89 line 3

[334] Phase II Transcript page 126 line 16 to 128 line 15

6 RATE DESIGN

6.1 Rate Design Principles

The DCA described the following fundamental rate design principles, as espoused by James C. Bonbright and adopted by regulators the world over.[335]

1. The application must be practical with such attributes as: simplicity, understandability, public acceptability and ease of application.
2. Freedom from controversies as to proper interpretation.
3. Effectiveness in yielding total Revenue Requirement under the fair return standard.
4. Revenue stability from year to year.
5. Rate stability from year to year.
6. Fairness of the apportionment within the rates of the total Cost of Service among the different customers.
7. Avoidance of "undue discrimination" in rate relationships.
8. Efficiency of the rate classes and rate blocks in discouraging wasteful use of service while promoting all justified types and amounts of use.
9. Rates should promote economic efficiency.
10. Rates should reflect all present and future private and social costs and benefits (i.e. internalities and externalities).

With respect to principle three "the fair return standard", the DCA stated:

> The fair return standard was interpreted by the DCA to mean that each Depot (regardless of size, location, etc.) has the opportunity to earn a fair Return if the Depot is operating in an industry standard manner.[336]

The DCA noted that since Depots have some fixed costs, a purely variable Handling Commission, which currently exists, may violate the third principle. In the Phase II hearing the DCA explained that industry standard manner meant an average of the Depots, and that there is an implied minimum level of efficiency.[337]

With respect to principle five, rate stability from year to year, the DCA discussed the concept of gradualism pursuant to which regulators may set a maximum change from year to year.

With respect to principle six, fairness of the apportionment within the rates of the total Cost of Service among the different customers, the DCA observed that this is a key criterion for the Phase

[335] See 2006 Phase II Report pages 2 to 6 for discussion and reference to Bonbright.
[336] 2006 Phase II Report page 4, lines 22 to 28.
[337] Phase II Transcript page 77 line 13 to page 79 line 14.

II process and that allocation methods should relate to actual Depot operations allocating costs to Container Streams that cause the costs to be incurred.

With respect to the last principle; that rates should reflect all present and future private and social costs and benefits (i.e. internalities and externalities). The DCA did not identify any internalities and externalities of the nature referred to.

6.2 Other Components of Rate Design

6.2.1 Views of the DCA

Because the Depot network is composed of Depots, which are generally independently owned, individual Depot results matter. The DCA was of the view that fixed costs per unit are higher for Small Depots (defined by volumes) due to higher per unit costs for buildings, fixed equipment and overhead costs.

The DCA recommended a fixed fee of from $1,000 to $2,500 per month based on volume, with the $2,500 being reached at an annual volume in excess of 2 million containers.

The extensive analysis and calculations of the DCA have not been summarized as the issue is not controversial. The only party impacted by the fixed component, the ABDA, agreed in principle. However, the ABDA argued, with supporting reasons, for a constant fixed fee of $250 per Depot. Neither ABCRC nor CNB expressed views on the fixed/variable aspect of rate design.

Other aspects of rate design in respect of a declining block rate, gradualism and environmental considerations (internalities / externalities) were also addressed.

6.2.2 Views of the Parties

ABCRC

Fixed/ Variable: ABCRC did not express a view regarding the amount of a fixed rate component. Mr. Pammenter considered the rate design proposed by the DCA as a rational way of paying Depots for their service.

Gradualism: In response to HCRP – ABCRC –Phase II – 15,[338] ABCRC expressed the view that “gradualism should have no role in the setting of the initial rate”. They continued to say that this was particularly true for the “one-time” mandate to determine Handling Commissions. However, if the Panel provided recommendations regarding rate design in future years, gradualism would be appropriate. In Argument ABCRC reaffirmed this position relying on Justice Bielby’s comments.[339]

[338] Exhibit 392 page 29

[339] ABCRC Argument page 30, paragraph 85; see Bielby decision paragraph [109].

Internalities and Externalities / Environmental Considerations: These issues are discussed in Section 6.3 below.

ABDA

Fixed/ Variable: ABDA expressed the view that it would support the DCA's recommendation for a Fixed Fee but due to data uncertainties, recommended that it should be limited to $250 per month per Depot as proposed by Chymko. The justification for this position was that per container costs vary significantly among low volume Depots, so that there may be other unidentified factors that should be reflected in the Handling Commission structure. Since the current system has no fixed component, Chymko recommended that only a small fixed component be introduced for minimum disruption. Chymko noted that the fixed component would re-distribute revenue from high volume to low volume Depots and that the payment is non-discriminatory as it is independent of the Depot's license designation. Chymko further recommended that pending additional study of the opportunity to "game" the system, that all Depots be paid the same fixed commission.

ABDA in its evidence had submitted that there should be no revenue shifting between Depots. ABDA reported unanimous agreement among its members at their Annual General Meeting for the "postage stamp rate" of a 100% variable rate structure.[340] ABDA stated that the Fixed and Variable rate concept proposed by the DCA solely affected Depots and no other parties.[341] In response to HCRP – ABDA – 21, and 22, ABDA said that there would be no change to the aggregate Revenue Requirement regardless of the fixed fee.

In its analysis Chymko noted that the DCA's cost data was adjusted to account for market lease rates, data scrubbing and other factors. Chymko argued that this data was sufficiently reliable for the purpose of the Phase I Revenue Requirement but not sufficiently precise for use in rate design, where it is more likely to materially affect individual Depot returns. Chymko pointed out that the adjustments to As Reported data were greater for the smaller Depots and that the variability of costs (as adjusted) was greater for the lower volume Depots. Based on this analysis, Chymko concluded that there may be other factors impacting Depot cost that were not yet explained or measured.

In oral testimony the ABDA panel indicated that the membership continued to support a totally variable rate design and had been displeased with the ABDA evidence supporting a fixed fee of $250 per month. ABDA further clarified that they were concerned regarding both small and large Depots. Mitigating factors regarding the smaller Depots are that only one rural depot has come into existence in the past ten years. Prior to that time a permit was not granted for a bottle depot unless there was a related business. Consequently, ABDA did not believe Depot viability should be assessed on a standalone

[340] In response to ABCRC – ABDA – Phase II – 1, ABDA clarified that the meeting was the October 2, 2005 Annual General Meeting attended by 62 Depots: 34 rural, 10 urban and 18 metro.
[341] ABDA evidence page 1 Section 1.3

basis and did not have concerns for viability specific to the smaller Depots. The fact that only three or four of the small Depots have closed indicates that they are viable.[342]

ABDA raised in testimony a concern that a larger fixed fee, could result in a large number of permit applications for rural locations servicing small populations such that the fixed fee would be the primary motivation for opening the Depot. There are large areas of rural Alberta where the depot siting criteria would allow a Depot, but it was unlikely any additional containers would be returned.[343]

Gradualism**:** The ABDA did not express a view on Gradualism.

Internalities and Externalities / Environmental Considerations: These issues are discussed in Section 6.3 below.

CNB

Declining Block Rate: CNB did not file evidence regarding rate design. However, in response to HCRP – CNB – 12, they proposed a declining block rate. The rationale for this rate design is that it would create an identical rate for all Depots, while still achieving the objective of increasing revenues to smaller Depots, without creating the perception raised by the fixed fee approach that the large Depots were directly subsidizing the small Depots. The Panel asked the DCA to comment on this proposal in a letter of August 17, 2007 and the DCA responded on August 24, 2007[344] identifying practical difficulties with this method and expressing the view that it did not meet the Bonbright rate design criteria numbers 1 (simplicity, understandability, etc.), 2 (freedom from controversy), and 3 (efficiency in yielding the total revenue requirement). This method of rate design was not pursued further.

Gradualism: With respect to the concept of gradualism, CNB expressed the view, in response to HCRP – CNB – 8, that gradualism should be considered and approached from the context of impact on the ratepayer. CNB argued that the potential exists to harm the ratepayer by causing rate shock and financial surprise by imposing a drastically different rate than the status quo. CNB did not address this further in Argument or Reply.

Internalities and Externalities / Environmental Considerations: With respect to Bonbright rate criterion number ten, that rates should reflect all present and future private and social costs and benefits, CNB filed evidence regarding the environmental benefits of the ISB, which has the highest return and reuse rates of all containers and argued that its use is threatened by the outcome of the HCRP process. In response to a request for clarification of evidence from the Panel dated August 31, 2007, CNB stated that the ISB should have a reduced allocation of costs to it in determining the Handling Commission in recognition of the environmental benefit it creates. Two approaches were suggested:

[342] See Phase II Transcript pages 213 to 224.
[343] Phase II Transcript pages 178 line 16 to page 180 line 12 and page 215 line 16 to page 217 line 17.
[344] Exhibit 409

- To apply the Alberta CPI to the rate in place in 2001, or
- To recognize that the recovery rate is 18% higher than the provincial average and credit the ISB with 18% of its share of the revenue requirement, allocating the amount of the adjustment to containers with less than an 85% return rate.

In Section 6.3, the DCA analyses illustrating these modifications to rate design and the basic findings are discussed.

6.2.3 Views of the Panel

The Panel directed the DCA to assume a fixed rate component of $250 per month per Depot. This assumption is reflected in Table 11 at Section 6.3.4 of this Report. The Panel has not addressed whether the fixed fee should be paid to Depots from the BCMB or the manufacturers as this is outside the mandate of the Panel in relation to recommending Handling Commissions. With respect to gradualism the Panel accepts the statements of Bielby, J. that in this context of recommending initial rates, gradualism does not apply.

6.3 Adjustments to Cost Based Rates

Bonbright's rate design principle number ten, that rates should reflect all present and future private and social costs and benefits (i.e. internalities and externalities), received a great deal of discussion amongst the parties in relation to the ISB. The Panel found this a very complex issue given the nature of the evidence and conflicting views of the parties as to the scope and proper interpretation of the environmental mandate of the legislation in relation to Handling Commissions.

6.3.1 Views of the DCA

In the 2006 Phase II Report, the DCA was of the view that no costs of internalities and externalities of the nature referred to, i.e., representing present and future private and social costs and benefits, had been identified,[345] and stated that the Handling Commissions contained no internalities or externalities. In testimony at the Phase II hearing, when examined by CNB Counsel, the DCA discussed his reticence to employ non cost-based principles in rate design. In the DCA's view the Regulation suggested how the rates would be set. Bielby, J. had adopted to a large extent Mr. Sheard's suggestion that the standard utility rate design methodology should be used for beverage containers. External factors or social factors in rate making, as per Bonbright principle ten, were being phased out in use in the regulatory arena, where more cost-based rates were now being set by regulators reflecting a user-pay basis.[346]

In the response to CNB – Stantec – 13,[347] the DCA quoted from the Act*:* "The purpose of this Act is to support and promote the protection, enhancement and wise use of the

[345] 2006 Phase II Report page 6 lines 8 to 18; page 57 lines 25 to 28.
[346] Phase II Transcript page 34 line 14 to page 36 line 10.
[347] Exhibit 105, regarding the 2005 Phase II Report

environment …" and stated its belief that all of the BCMB's actions must reflect the purpose of the Act. Stantec's view of the BCMB's mandate in regard to environmental protection was to " …maximize container return rates – thereby minimizing the containers that are disposed of in landfills." In Stantec's view their proposed rate design would improve the financial strength of the Depot system and result in increased service levels to the public, thereby increasing their opportunity to easily return containers.

In testimony the DCA indicated that the environmental component was an important part of rate design to be determined by the Panel. The DCA remarked that the BCMB had never given it the mandate to prefer one container over another in relation to an environmental factor. The DCA considered the Bielby decision to clearly require cost based rates, and focused on developing such rates.[348] The DCA stated that should any adjustment be made to rates to reflect environmental factors, first one would calculate rates based on costs, then make an adjustment at the end rather than to the cost of service study. The DCA suggested that, in view of the Bielby decision, a cost based reason to make such adjustment would be preferable to a totally external factor. Further, any such adjustment should be applied to all containers. In this case, no life cycle assessment had been requested by the BCMB and no data had been collected relating to a container's environmental benefits, costs or features.[349]

The Panel asked the DCA to provide illustrative calculations[350] of two approaches suggested by CNB to recognize the environmental status of the ISB and to suggest other plausible methodologies for rate adjustments. The DCA suggested that the allocation of Direct Labour costs of the Phase II Report, which was based on volume of containers, was an area where arguments could be made for an adjustment to the ISB. The DCA proposed a reduction of the Direct Labour component to 17 cents per dozen based on an assumption that ISBs are 25% less costly to handle.

The DCA stated:

> In summary, the DCA is of the view that environmental considerations are important and should be considered in the rate design, subject to the interpretation of the BCRR [Beverage Container Recycling Regulation]. Any environmental considerations should be applied to all container streams.[351]

In response to Undertaking number 1 in Exhibit 430, the DCA stated:

> If a rate design objective is to send a strong price signal to manufacturers that low return rate container streams will attract higher handling commissions, then the amount of the subsidy should be large enough to be meaningful. The DCA suggests that a subsidy of 10% of the 2006 revenue requirement or about $5.8 million may be meaningful. (page 3)

[348] Phase II Transcript page 26 lines 22 – 23; page 36 line 16 to page 38 line 4
[349] Phase II Transcript page 24 line 23 to page 30 line 4
[350] Exhibit 422 September 7, 2007 Response to Phase II Pre-Hearing HCRP Requests
[351] Exhibit 422, page 12

As return rates are not related to costs, the DCA noted that it would be necessary to determine both the amount of the subsidy and the method of allocating the subsidy.

In Exhibit 430 the DCA provided examples of two allocation methods in relation to the return rates of containers: the first method proportional to the variation from the weighted average return rate and the second based on the share of each container stream of the Revenue Requirement.

6.3.2 Views of the Parties

ABCRC

ABCRC argued that there should be no consideration of internalities or externalities and specifically that no adjustment should be made to the Handling Commission of the ISB. ABCRC submitted that the Panel's jurisdiction was limited by the scope of the governing legislation and that there was nothing in the Act, the Regulation nor any of the BMCB bylaws or procedures giving explicit direction to either the BCMB or the Panel to consider the relative environmental costs or benefits of various container streams in setting Handling Commissions, or in allowing for discrimination between containers on this basis. Rather the purpose of the Act was reflected in the provision of a system whereby containers are recycled or reused rather than being discarded in a landfill, and Handling Commissions support this purpose by allowing the Depots to stay in business and provide a place for customers to redeem their containers.

ABCRC referred to authorities indicating that broad purposes in legislation cannot expand the jurisdiction of an administrative body beyond what is either explicit in legislation or necessarily implied in order for that body to fulfill its statutory mandate. The Bielby decision did not state that relative environmental benefits of containers were a consideration, such considerations were not added to the BCMB's Handling Commission Procedure and the DCA was not directed to consider them. Bonbright's criteria should not be used to expand the Panel's mandate. The Panel's legislative mandate does not include any direction with respect to rates, but to "fair return", which is a revenue requirement determination, not a rate design issue. The expansion of the Panel's mandate to consider Bonbright's criteria was not necessary in order for the Panel to meet the legislative requirement to balance fair return to maintain a viable Depot network with lowest possible cost to consumers.[352]

ABCRC submitted that the issue of whether high return rates should receive a reward or credit is a policy issue for the BCMB. The ISB's very high return rate was reflective of the controls on the container in terms of where it could be sold and consumed and therefore it was easier to recapture. ABCRC did not believe it would be fair to other

[352] See ABCRC Argument pages 11, 16 – 19, 31; ABCRC Reply paragraph 5.

containers to give an economic reward to the ISB given this role played by government regulation in the return rate.[353]

ABDA

ABDA argued that the Panel should avoid assessing externalities in determining container rates without additional government policy direction. It would not be justifiable in ABDA's view to provide for a reduced Handling Commission for a container due to its environmental attributes as it might reduce a Depot's capacity or motivation to handle that container. Other avenues could be pursued to reward or penalize various container streams outside the Handling Commission process, including individual tariffs set by manufacturers.

With respect to environmental considerations, ABDA submitted that the most fundamental consideration was for the Panel to recommend Handling Commissions that are consistent with the overall policy objective of waste minimization. Activities promoting maximum container recovery should be recognized. However, the use of refillable containers, although it deserves reasonable analysis as part of the waste minimization mandate, should not be reflected through Handling Commissions. ABDA submitted that there were more appropriate tools available to the BCMB to encourage specific container use than lowering the Handling Commission to Depots. ABDA did not suggest any specific tools for the BCMB in this regard.[354]

CNB

With respect to Bonbright rate criterion number ten, that rates should reflect all present and future private and social costs and benefits, CNB filed evidence regarding the environmental benefits of the ISB, which has the highest return and reuse rates of all containers and argued that its use is threatened by the outcome of the HCRP process. The evidence of Ms. Morawski (Exhibit 242) stated that from the perspective of energy consumption, associated greenhouse gas emissions and reduction of waste, refillable glass containers are preferable to single-serve aluminum cans, glass and plastic containers. She stated that refillable bottles are recovered at much higher rates than other containers and that lower recovery rates for single-use containers had an environmental impact in terms of more waste to landfill and more litter. Ms. Morawski provided a table comparing the energy use in MJ required for production of a single serve size of various containers, indicating that refillable beer bottles (refilled 14 times) used the lowest amount of energy. No evidence was provided as to relative amounts of greenhouse gas emissions. In response to a request from the Panel prior to the Phase II hearing, a clarification was provided to this evidence (Exhibit 426) to include the energy used in transportation of refillable and non-refillable containers and washing of the refillable containers for 14 uses. Refillable beer bottles exhibited an increase in energy use but

[353] Phase II Transcript page 154 line 8 to page 155 line 9.
[354] See ABDA Argument pages 7 – 8, 77.

were still lower than other container streams. Some of the relationships among container streams were altered in the updated analysis.

CNB argued at pages 25 and 26 of Argument and at pages 2 to 6 of Reply for a further and separate reduction of 10% to the Handling Commission for ISBs in order to ensure the ISB's continued viability and to maximize the utilization of refillable containers. CNB cited in support the Issues List for the Review Process, the DCA's statement as to environmental objectives in CNB-Stantec-13.1, the contribution of the ISB to keeping containers out of landfills with its 14 reuses and the evidence of Ms. Morawski. Greenhouse gas emission reductions in relation to the refillable ISB were important in relation to public policy goals. CNB referred to 15,521 tons of reduced greenhouse gases in relation to the 14 reuses of the ISB[355] and quantified the benefit, while "elusive", at $15 per ton as referenced in the recent Alberta Specified Gas Emitters Regulation (AR 139/2007).

In response to a request for clarification of evidence from the Panel dated August 31, 2007 (Exhibit 415c), CNB suggested two approaches to recognize the effects of environmental benefits in setting the Handling Commissions:

- To apply the Alberta CPI to the rate in place in 2001 for a Handling Commission of $0.26 per dozen, or
- To recognize that the recovery rate is 18% higher than the provincial average and credit the ISB with 18% of its share of the revenue requirement, allocating the amount of the adjustment to containers with less than an 85% return rate.

At the request of the Panel, the DCA calculated the impact of these two approaches for cost allocation methods with two subsidy allocation scenarios, the first to all other container streams in proportion to their share of the Revenue Requirement, and the second in accordance with CNB's suggestion that an allocation be made to container streams with less than an 85% return rate. The use of different allocation methods in combination with the different adjustment processes allowed parties to consider possible methodologies and their impacts on the different container streams.

CNB had provided evidence that the ISB recycling network was for western Canada. In response to questioning they provided the rates paid for handling commissions in other locations in the network. The rates differed with the services provided and the class of supplier. Rates were also quoted singly or blended as between ISBs and other containers. The range of rates was from 15 to 30 cents per dozen, and the regulated systems for container deposits and the depot composition differed across the provinces in western Canada. Mr. D'Avignon noted that in Alberta they pay substantively more than any other marketplace.[356] CNB expressed concern that increases in the Handling Commission for the ISB could make it uneconomic for smaller breweries such as Big Rock and they

[355] See Exhibit 358, Phase II Evidence of Greg D'Avignon, page 8 lines 4 to 10.
[356] Phase II Transcript pages 296 to 299.

might decide not to continue its use, jeopardizing the benefits of the common "float" of ISBs in western Canada.

In Reply CNB argued that ABCRC's interpretation of the legislation was too restrictive and had the effect of stripping the environmental mandate from it. CNB stated that the high recovery rate, and resulting reuse, of refillable bottles directly served the objectives of the regulations and bylaw by avoiding waste. Widely accepted rate design principles in utility practice would allow externalities, rather than solely cost-based factors, to be considered.

6.3.3 Views of the Panel

The Panel has closely considered and weighed all the evidence and arguments of parties in respect of the ISB and the environmental mandate in the legislation. The Panel, having carefully reviewed the legislative scheme, is of the view that Part 9 of the Act and the Regulation clearly direct the establishment and operation of Depots for recovery of beverage containers for the purpose of waste minimization and recycling. They do not provide any direct indication that containers should be treated differently within this waste minimization scheme in relation to their particular characteristics or environmental impacts. There is no requirement in the BCMB's Administrative Bylaw or the Handling Commission Procedure that would alter this conclusion.

The Act governs a large number of activities and processes in Alberta. The purpose of the Act in section 2 thereof, "to support and promote the protection, enhancement and wise use of the environment…" is very general and presents an overarching principle for the entire scheme of the Act. Bielby, J. referred to the purpose of the Act in section 2 thereof and stated that in pursuit of this purpose, Part 9 of the Act created an obligation on a manufacturer to provide for Depots and other methods for collection and recycling of certain materials. In accordance with section 175 of the Act and the Regulation, a system of Depots was established for the return of both refillable and non-refillable containers, and the BCMB was established to carry out the duties referred to in the Regulation.[357] The Panel agrees that the environmental purpose of the Act has been reflected in the creation of the Depot system and the provisions for recovery of containers by manufacturers from Depots. The Panel accepts the view of the DCA that the most clearly expressed mandate of the BCMB with regard to environmental protection, as indicated in the legislation, is to maximize container return rates and minimize the number of containers disposed of in landfills.

The Panel notes ABCRC's argument that Bielby, J. did not provide that relative environmental considerations relating to containers should be addressed, despite the benefits of refillable beer containers and potential threats to it having been argued.[358] ABCRC further noted that environmental considerations for containers were not added to

[357] See Bielby decision paragraphs [7] – [10].
[358] See Bielby decision paragraph [33].

the Handling Commission Procedure. This procedure was approved by the BCMB in December 2003 following the release of the Bielby decision in June 2003.

The Panel notes that environmental issues relating to containers have been raised among the parties in the past but have not been reflected explicitly in the regulatory mandate.[359]

The Panel is not fully convinced by ABCRC's argument that it should be restricted from considering any environmental considerations in relation to container streams, or that Bonbright's principle 10 should not be taken into account. ABCRC argued that the legislative mandate does not include any direction with respect to rates, only to "fair return" which is usually dealt with in determining revenue requirement but not rate design. This is a somewhat limited view of the principles that were adopted for this Review Process. Clearly the utility regulation model, or a corollary to it, was chosen after the Bielby decision for purposes of reviewing the Handling Commissions, [360] and the DCA's Reports have utilized utility principles in both Phases I and II, including the Bonbright rate design criteria, without objection from parties.

Regarding the environmental benefits of the ISB, the Panel notes CNB's submission that a key objective of setting Handling Commissions is to secure the environmental benefits associated with recycling, citing the DCA's statements in CNB-Stantec-13 and Exhibit 422. These statements of the DCA in the Panel's view underline the environmental context of all of the BCMB's actions, in particular relating to maintaining a strong Depot system to minimize containers disposed of in landfills. In Exhibit 422 the DCA stated that rates should be cost based. The DCA raised through example the question of how far-reaching environmental aspects should be from a societal perspective. If glass is crushed and used to produce building insulation, should the energy impact relative to feedstock displaced be considered? The Panel accepts the DCA's expressed view that external environmental factors, if applied, should be applied to all container streams.

CNB argued that the 14 reuses of the ISB and its return rate minimized waste in landfills.[361] In the Panel's view the linkage between reuse and minimization of waste in landfills was not established. The refillable nature of a container in the Panel's view may not directly relate to whether it will be disposed of in a landfill or returned for reuse. The high recovery rate of the ISB and its impact on reducing waste in landfills was addressed by Ms. Morawski. The Panel accepts that a high return rate will have an impact on lowering numbers of containers in landfills, and that this result is consistent with the waste minimization mandate in the legislation.

In Exhibit 415c CNB suggested an 18% reduction in the ISB's share of Revenue Requirement, in recognition of its return rate being 18% higher than average. At the Panel's request the DCA provided illustrative calculations for different scenarios related

[359] Bielby decision paragraph [33]; see also section 4(e) of Exhibit 9 a "strategic framework" discussion document for issues relating to Handling Commissions arising out of the Bielby decision. This document predates the Panel's involvement.

[360] See for example Exhibit 6, Review of Approach to Regulatory Rate Setting, Kogawa Consulting Ltd., page 4; see also the DCA's references to the standard utility rate design methodology adopted to a large extent in the Bielby decision – Phase II Transcript page 34 lines 17 to 25.

[361] CNB Argument page 25; Reply page 3

to this in Exhibit 422. CNB did not pursue this option or the calculations by the DCA. In the Panel's view the reduction of 18% of Revenue Requirement is not well supported in theory as it singles out revenue related to the return rate of one container.

In Argument and Reply CNB proposed a 10% reduction to the cost based ISB fee in order to ensure the ISB's continued viability and to maximize the utilization of refillable containers. CNB was not able to indicate the Handling Commission rate at which the viability of the ISB would be at risk given the fact that input costs of individual brewers are different.[362] Further, CNB provided no support for the 10% proposed rate reduction.

With respect to greenhouse gas reductions, associated with the 14 reuses of the ISB, the evidence as to tonnage reduced and the quantification of the value of the reduction is not clear on the record. The number of tons of greenhouse gases reduced, as cited in Mr. D'Avignon's evidence, was not substantiated by any reference and did not appear to come from the evidence of Ms. Morawski, although it related to the 14 reuses of the ISB which she addressed. Her evidence was revised to deal with transportation energy use, which increased the amounts of energy in MJs used by the ISB; however CNB's evidence was not revised with respect to the amount of greenhouse gases reduced.

The Panel agrees with CNB Counsel that the quantification is somewhat "elusive" at $15 per ton, given the dearth of evidence on the record relating to pricing emissions and the nascent stages of an offset or credit market in Alberta. The Panel also notes that CNB introduced the quantification of $15 per ton in Argument. The Panel had specifically requested CNB to provide quantitative evidence in advance of the Phase II hearing as to any adjustment, cap or formula that would be necessary or advisable in CNB's view in respect of Handling Commissions for ISBs (Exhibit 400). In response (Exhibit 415c) the quantifications provided by CNB did not address greenhouse gas credits or how they should be applied in favour of the ISB. It would be unsound for the Panel to place weight on the quantification of $15 per ton as there has not been adequate testing of the issue.

The Panel considers that high return rates and greenhouse gas reductions relating to the life cycle of containers are externalities which could support adjustments to cost-based Handling Commissions for all container streams. The only evidence on the record regarding an adjustment with respect to high return rates is the CNB suggested approach for which the adjustment based on the 18% return rate differential was not well supported, and which was not pursued by CNB following the preparation of illustrative calculations.

The Panel agrees with CNB that reduction of greenhouse gases is an important policy issue in Alberta. However the Panel does not consider this record strong enough to address the issue fairly.

The Panel agrees with CNB that the evidence as to lower energy use of the ISB in relation to other containers has been on the record since the original filing of

[362] Phase II Transcript pages 299 to 301.

Ms. Morawski's evidence and no other party pursued the issue. However there has been no full consideration as to quantifying greenhouse gas reductions, particularly in relation to the revised evidence of Ms. Mowawski, which altered the relationships between container types in respect of energy use.

The Panel concurs with the view of the DCA that externalities with respect to containers, if taken into account, should be taken into account for all containers. This approach is more equitable and sound in the Panel's view than providing a credit for an externality to only one container stream on the basis of limited or untested evidence. Were the Panel to recommend this kind of credit for the ISB it could be arguably akin to unjust or undue discrimination, which is obviously not permitted for the Panel.

In conclusion the Panel has not found the evidence convincing that a reduction in Handling Commissions should be recommended for the ISB. The Panel does agree with CNB that it would be extremely unfortunate if higher Handling Commissions threatened the use of the ISB, considered the best example of an environmentally efficient container.[363] The Panel believes that a more comprehensive record would have been of greater assistance. Such a record would have included a full assessment of all container streams in terms of greenhouse gases, other environmental impacts and their quantification.

6.3.4 Depot Impact

The Panel directed the DCA to prepare the Profit Impact by Volume Cluster table at page 58 for the Panel's proposed 2007 Revenue Requirement. This table was provided in the compliance filing and is included below.

[363] Exhibit 387: HCRP – CNB – 10.

Table 11: Cal 2007 Profit Impact by Volume Cluster

Cal 2007 Profit Impact by Volume Cluster

HCRP 2007 Rate: **Variable + Fixed Fee @ $250 Rate Design**

	Volume:	2005 FY	2007 Forecast	2007 Forecast		
	Costs:	DCA 2005 FY As Adjusted	HCRP Cal 2007	HCRP Cal 2007		
	Rates:	Current	Current	HCRP 2007		
		Average Profit per Depot				
Volume Cluster	Average Depot Volume	2005 FY As Adjusted	Profit at Current Rates	Profit at HCRP 2007 Rates	Difference	% Difference
1	446,496	-$27,954	-$35,608	-$33,066	$2,542	7.1%
2	786,499	-$21,429	-$26,122	-$24,769	$1,353	5.2%
3	939,025	-$22,457	-$27,936	-$26,611	$1,325	4.7%
4	1,071,030	-$16,920	-$23,240	-$23,027	$213	0.9%
5	1,161,447	-$7,135	-$11,970	-$17,512	-$5,542	-46.3%
6	1,477,083	-$10,493	-$19,027	-$18,427	$600	3.2%
7	2,001,416	-$471	-$2,293	-$5,124	-$2,831	-123.5%
8	2,313,480	-$13,577	-$19,277	-$22,601	-$3,324	-17.2%
9	2,812,156	-$12,823	-$22,449	-$39,589	-$17,140	-76.3%
10	3,685,058	-$15,114	-$21,386	-$24,332	-$2,946	-13.8%
11	4,579,904	$14,545	$13,045	-$2,312	-$15,357	-117.7%
12	5,411,677	$8,604	$1,673	-$10,879	-$12,552	-750.3%
13	6,676,848	$42,544	$52,519	$39,727	-$12,792	-24.4%
14	8,223,346	$62,714	$69,456	$51,716	-$17,740	-25.5%
15	10,598,464	$44,640	$32,093	-$2,675	-$34,769	-108.3%
16	13,458,349	$87,100	$86,763	$45,122	-$41,641	-48.0%
17	15,635,200	$134,223	$160,970	$117,914	-$43,055	-26.7%
18	16,098,949	$130,286	$130,083	$87,294	-$42,789	-32.9%
19	18,401,898	$175,248	$193,570	$134,994	-$58,576	-30.3%
20	28,265,105	$260,984	$293,104	$193,116	-$99,988	-34.1%

At Schedule 1 of Appendix "D" the As Adjusted Net Income figure for the Study System from 2005 was $6,826,328. On a Total System basis this would have been a net income of approximately $8 million in 2005. The DCA proposed a Total System return of $3,215,811,[364] approximately 40% of 2005 Total System net income levels. The Panel has recommended a return amount of $3,727,393 or approximately 46% of the 2005 As Adjusted net income. As discussed in Section 4.12.3, in consideration of the potential impact of the Panel's overall recommendations on Depot profitability, and in order to balance the components of its mandate, the Panel recommended a total fair return at the maximum supported by the record.

6.3.5 Container Stream and Manufacturer Impact

The Panel notes that the Container Stream and Manufacturer impacts of its recommended Revenue Requirement and Handling Commissions are set out in Schedule A-1 of Appendix "E", dated November 1, 2007.

[364] Schedule 12-a of the 2006 Phase I Report (February 27, 2007 Schedules)

7 RECOMMENDATIONS

7.1 Recommended 2007 Handling Commissions

The Panel recommends the Handling Commissions as set forth in Appendix III to Appendix "E" to this Report.

7.2 General Recommendations and Comments for the BCMB

The Panel has considered a number of matters which have arisen during the Review Process and includes the following points for consideration by the BCMB. These general recommendations and comments are outside the specific mandate of the Panel in relation to a recommendation on Handling Commissions. In addition to the points below there are a number of other issues that arise which are relevant but are beyond the Panel's remit. These issues include the structure of the Depot industry (216 small businesses rather than one large entity or a few large entities), the regulatory framework (monopoly pricing to the manufacturers but no defined franchise areas for Depots) and the governance model of the BCMB.

In respect of more specific issues related to determining Handling Commissions the Panel offers the following recommendations and comments.

7.2.1 Regarding UCA and Cost Data

The Panel recommends that the UCA should gather information concerning:

- Non-arm's-length transactions;
- Employee turnover, for example a list of staff and their length of service with the company;
- Full time equivalent employees;
- Cost structure as to fixed and variable costs;
- Costs and cost drivers in Multi-Business Depots; and
- Remote collection volumes, labour hours and related costs.

7.2.2 Regarding Policy

The Panel considers that BCMB policy should be established and / or reviewed in relation to:

- Recognition of environmental costs and benefits relating to container streams; and
- Remote Collection..

Dated at Calgary, Alberta on November 2, 2007.

HANDLING COMMISSIONS REVIEW PANEL

C. Dahl Rees
Presiding Member

K. Anderson
Member

K Holgate

K. Holgate
Member

APPENDIX "A"
REVENUE REQUIREMENT CALCULATIONS OF PARTIES

Comparison of Interested Parties
2006 Revenue Requirement

Line No.		DCA		ABCRC		ABDA		CNB	
		Exhibit 347		Table 1 of Appendix A to ABCRC Argument		Page 64 of Argument		Exhibit 350 amended for comments in Argument	
1	**Report Volume**	1,428,953,298 or 00% Total System							
2	**Report Depots**	216 or 00% Total System							
		Cal 2006 Total System Forecast							
		$	**¢ per container**	**$**	**¢ per container**	**$**	**¢ per container**	**$**	**¢ per container**
		(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
3	**Revenue**	$166,656,018	11.66	$160,473,846	11.23	$195,901,674	13.71	$158,334,544	11.08
4	Less Purchases	$108,851,483	7.62	$108,851,483	7.62	$108,851,483	7.62	$108,851,483	7.62
5	Gross Margin (HC)	$57,804,535	4.05	$51,622,363	3.61	$87,050,191	6.09	$49,483,061	3.46
6	Misc Revenue	$1,022,347	0.07	$603,347 [1]	0.04	$603,347	0.04	$1,022,347	0.07
7	Total Margin	$58,826,882	4.12	$52,225,710	3.65	$87,653,538	6.13	$50,505,408	3.53
				$0	-	$0	-	$0	-
	Expenses 32145988			$0	-	$0	-	$0	-
8	Direct Labour	$26,974,764	1.89	$26,974,764	1.89	$33,510,875	2.35	$25,288,841 [3]	1.77
9	Contract Labour	$0	-	$0	-	$0	-	$0	-
10	Overhead Labour	$7,530,107	0.53	$7,530,107	0.53	$23,321,906	1.63	$7,334,520 [4]	0.51
11	Labour Subtotal	$34,504,871	2.41	$34,504,871	2.41	$56,832,780	3.98	$32,623,361	2.28
12	Building	$9,090,879	0.64	$7,370,609	0.52	$12,435,358	0.87	$8,108,337	0.57
13	Equipment	$3,143,853	0.22	$3,143,853	0.22	$3,143,853	0.22	$1,592,468	0.11
14	Overhead (Ex-Collections)	$6,442,808	0.45	$6,442,808	0.45	$7,096,141	0.50	$6,442,808	0.45
15	Collections	$0	-	$ (2,114,325)	(0.15)		-	$ (3,357,846) [5]	(0.23)
	Regulatory costs								
16	**Total Operating Expenses**	$53,182,410	3.72	$49,347,816	3.45	$79,508,132	5.56	$45,409,127	3.18
				$0	-	$0	-	$0	-
17	**Return on Purchases (AT)**	$1,088,515	0.08	$0	-	$1,088,515	0.08	$1,088,515	0.08
18	Return Margin **1.00%**			$0	-	$0	-	$0	-
19	**Return on Operations (AT)**	$2,127,296	0.15	4% $1,973,913	0.14	5% $3,975,407	0.28	4% $1,816,365	0.13
20	Return Margin **4.00%**			$0	-	$0	-	$0	-
21	**Total Return (After Tax)**	$3,215,811	0.23	$1,973,913	0.14	$5,063,921	0.35	$2,904,880	0.20
22	Return Margin	**3.48%**		**1.82%**	0.00	**4.32%**	0.00	**3.30%**	0.00
23	**Income Taxes**	$2,414,474	0.17	$903,982	0.06	$3,081,484	0.22	$2,191,401 [6]	0.15
				$0	-	$0	-	$0	-
24	**Revenue Requirement**	$57,790,348	4.04	$51,622,363 [2]	3.61	$87,050,190	6.09	$49,483,061 [7]	3.46
					-		-		-
25	**Revenue at Proposed Rates**	$58,826,882	4.12		-		-		-

[1] ABCRC said that the VAF should be included if costs associated with it were included.

[2] ABCRC argued that multi-business and not-for -profit Depots should not be included in the study system. This has not been reflected in the calculation of the Revenue Requirement.

[3] Calculated to reflect a 5% escalator as $26,974,764/1.12*1.05

[4] In Exhibit 650 CNB adjusted overhead labour to $6,908,620 which was said to be a decrease of 6%. This was actually a decrease of 8.25%. The Panel has calculated this amount as $7,530,107/1.0786*1.06.

[5] The Panel was unsure from the CNB argument whether the intention was to adjust the $2.82 million to the total system costs or to adjust the amount for direct labour. The 2.82 million has been grossed up to the total system but no adjustment made for direct labour

[6] In Exhibit 350 CNB used a rate of 43%. The Panel has used the same rate.

[7] In Exhibit 350 CNB did not deduct miscellaneous revenue. This figure has been adjusted to deduct miscellaneous revenue

APPENDIX "B"
DCA'S ADJUSTMENTS TO "AS REPORTED" COSTS

The DCA undertook adjustments to costs at two stages:

- cost adjustments, which are increases or decreases to the Fiscal Year as Reported cost data to the Fiscal Year as Adjusted data, and
- cost escalations which were made from the Fiscal Year as Adjusted data to the Calendar 2005 (Cal 2005) and 2006 (Cal 2006) Study System Forecasts.

Adjustment	2005 Phase I Report	2006 Phase I Report
Stub period adjustment	No – stub periods not included	Yes
Direct Labour rate adjustment	No	No
Management rate adjustment	Yes including hours reclassified from Direct Labour	Yes including hours reclassified from Direct Labour
Owner/ Management hours cap	Owner/ manager hours capped at 2,500 hours per person	Management hours capped for Large Depots as equal to the number of hours of operation
Building size capped	No	Yes
Deemed lease cost	Yes	Yes
Other building use costs	Excluded	Included
Collection Costs	Excluded	Included
Goodwill related costs	Excluded	Excluded
As Reported Costs	$32,802,059	$36,250,314
Adjustments to As Reported Costs	Decrease of $1,842,369	Increase of $1,138,431
Adjusted Costs	$30,959,690	$37,388,745
Escalators		
Labour hours	In proportion to volume	In proportion to volume
Direct Labour rate	An annual rate of 11.0%	An annual rate of 8.3%
Overhead Labour rate	An annual rate of 3.4%	An annual rate of 7.8%
Deemed Lease rate	Captured in adjustments	$7.27 to $10.24 (40% increase)
Utility costs	Escalation rate 6.07%	4.44% Increase
Building use costs	No corresponding category	Escalation rate 2.3%
Equipment	Escalation rate 3%	Escalation rate 2.3%
Overhead costs	Escalation rate 1.3%	8.5% Increase

APPENDIX "C"
COST ADJUSTMENTS PROPOSED BY INTERESTED PARTIES

	ABCRC	ABDA	CNB
Adjustment: Adjustments in bold italics were not addressed by the DCA in the Phase I Reports			
Stub period adjustment *			
VAF		Remove VAF Revenue	
Overhead Labour		Compensate for manager rates for each hour of operation	
Labour rate adjustment		Increase rates to Watson Wyatt P50 levels	Reduce increase in roll-forward to 2006 to 5% from 12%
Management rate adjustment		Increase rates to Watson Wyatt P50 levels: Both small and large Depots at same rate	Reduce increase in roll-forward to 2006 to 5% from 7.8%
Owner/ Management hours cap		Increase cap by 26.1 hours for large Depots and 13.05 hours for small Depots	
Building size cap	Cap at BCMB minimum size	Remove cap	
Deemed lease cost		Increase for commercial zoning.	Decrease assuming renewals over five years for Study System
Collection Costs	Exclude	Include	Exclude
Regulatory costs	Include reasonable regulatory costs	Include	Exclude
Compliance driven Bookkeeping changes	To extent not captured in reported costs	Include	No Position expressed
Return methodology	No return on purchases	Calculate a return on market value of System assets	Adjustments to Correct DCA calculation
Income Taxes	Individual Depot basis	Individual Depot basis	No Position expressed

APPENDIX “D”
PHASE I COMPLIANCE FILING

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
SUMMARY - REVENUE AT EXISTING RATES

Line No.		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1	**Report Volume**	1,079,178,439 or	~ 83% Total System	1,105,988,642 or	~ 85% Total System	1,202,867,072 or	84% Total System	1,428,953,298 or	100% Total System
2	**Report Depots**	165 or	76% Total System	165 or	76% Total System	165 or	76% Total System	216 or	100% Total System
		2005 Fiscal Year as Reported		**2005 Fiscal Year as Adjusted**		**Cal 2006 Study System Forecast**		**Cal 2006 Total System Forecast**	
		$	**¢ per container**	**$**	**¢ per container**	**$**	**¢ per container**	**$**	**¢ per container**
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	Revenue								
3	Revenue	$126,126,279	11.69	$129,278,014	11.69	$140,093,784	11.65	$166,631,564	11.66
4	Less Purchases	$82,983,136	7.69	$85,081,622	7.69	$91,341,755	7.59	$108,851,483	7.62
5	Gross Margin (HC)	$43,143,142	4.00	$44,196,393	4.00	$48,752,029	4.05	$57,780,080	4.04
6	Misc Revenue	$392,967	0.04	$333,878	0.03	$367,257	0.03	$499,240	0.03
7	Total Margin	$43,536,110	4.03	$44,530,271	4.03	$49,119,286	4.08	$58,279,320	4.08
	Expenses								
8	Direct Labour	$13,940,512	1.29	$18,200,904	1.65	$21,470,302	1.78	$25,557,518	1.79
9	Contract Labour	$1,523,068	0.14	$0	0.00	$0	0.00	$0	0.00
10	Overhead Labour	$7,828,449	0.73	$5,875,870	0.53	$6,360,125	0.53	$7,827,467	0.55
11	Labour Subtotal	$23,292,029	2.16	$24,076,774	2.18	$27,830,427	2.31	$33,384,985	2.34
12	Building	$5,716,426	0.53	$5,676,267	0.51	$6,347,919	0.53	$7,898,293	0.55
13	Equipment	$2,361,150	0.22	$1,532,053	0.14	$1,536,461	0.13	$1,909,188	0.13
14	Overhead (Ex-Collections / Vol. Cluster 1)	$3,792,014	0.35	$4,113,971	0.37	$4,249,633	0.35	$5,197,755	0.36
15	Collections / Volume Cluster 1Excl.	$1,088,695	0.10	($158,843)	(0.01)	($174,016)	(0.01)	($206,619)	(0.01)
16	**Total Operating Expenses**	$36,250,314	3.36	$35,240,222	3.19	$39,790,425	3.31	$48,183,602	3.37
17	**Earnings before taxes**	$7,285,796	0.68	$9,290,049	0.84	$9,328,861	0.78	$10,095,719	0.71
18	**Income Taxes** **(System Calc.)**	**$1,932,193**	0.18	**$2,463,721**	0.22	**$2,474,014**	0.21	**$2,677,385**	0.19
19	**Net Income**	$5,353,603	0.50	$6,826,328	0.62	$6,854,847	0.57	$7,418,334	0.52
20	Net Income - Small	$729,241	0.42	($1,066,156)	(0.59)	($1,282,847)	(0.64)		
21	Net Income - Large	$4,624,362	0.51	$7,892,485	0.85	$7,934,325	0.79		
	Net Income - Total	$5,353,603	0.50	$6,826,328	0.62	$6,651,477	0.55	$7,418,334	0.52

Schedule 1b

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS & 2007 FORECAST October 22, 2007
SUMMARY - REVENUE AT EXISTING RATES

Line No.		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
1	**Report Volume**	1,079,178,439 or	~ 83% Total System	1,105,988,642 or	~ 85% Total System	1,202,867,072 or	84% Total System	1,428,953,298 or	100% Total System	1,479,505,797 or	104% Total System
2	**Report Depots**	165 or	76% Total System	165 or	76% Total System	165 or	76% Total System	216 or	100% Total System	216 or	100% Total System
		2005 Fiscal Year as Reported		**2005 Fiscal Year as Adjusted**		**Cal 2006 Study System Forecast**		**Cal 2006 Total System Forecast**		**Cal 2007 Total System Forecast**	
		$	**¢ per container**	**$**	**¢ per container**	**$**	**¢ per container**	**$**	**¢ per container**	**$**	**¢ per container**
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
	Revenue										
3	Revenue	$126,126,279	11.69	$129,278,014	11.69	$140,093,784	11.65	$166,631,564	11.66	$172,560,366	11.66
4	Less Purchases	$82,983,136	7.69	$85,081,622	7.69	$91,341,755	7.59	$108,851,483	7.62	$112,642,887	7.61
5	Gross Margin (HC)	$43,143,142	4.00	$44,196,393	4.00	$48,752,029	4.05	$57,780,080	4.04	$59,917,480	4.05
6	Misc Revenue	$392,967	0.04	$333,878	0.03	$367,257	0.03	$499,240	0.03	$513,219	0.03
7	Total Margin	$43,536,110	4.03	$44,530,271	4.03	$49,119,286	4.08	$58,279,320	4.08	$60,430,698	4.08
	Expenses										
8	Direct Labour	$13,940,512	1.29	$18,200,904	1.65	$21,470,302	1.78	$25,557,518	1.79	$27,784,757	1.88
9	Contract Labour	$1,523,068	0.14	$0	0.00	$0	0.00	$0	0.00	$0	0.00
10	Overhead Labour	$7,828,449	0.73	$5,875,870	0.53	$6,360,125	0.53	$7,827,467	0.55	$8,218,841	0.56
11	Labour Subtotal	$23,292,029	2.16	$24,076,774	2.18	$27,830,427	2.31	$33,384,985	2.34	$36,003,598	2.43
12	Building	$5,716,426	0.53	$5,676,267	0.51	$6,347,919	0.53	$7,898,293	0.55	$8,653,324	0.58
13	Equipment	$2,361,150	0.22	$1,532,053	0.14	$1,536,461	0.13	$1,909,188	0.13	$1,962,645	0.13
14	Overhead (Ex-Collections)	$3,792,014	0.35	$4,113,971	0.37	$4,249,633	0.35	$4,991,136	0.35	$5,414,741	0.37
15	Collections	$1,088,695	0.10	($158,843)	(0.01)						
16	**Total Operating Expenses**	$36,250,314	3.36	$35,240,222	3.19	$39,964,441	3.32	$48,183,602	3.37	$52,034,308	3.52
17	**Earnings before taxes**	$7,285,796	0.68	$9,290,049	0.84	$9,154,845	0.76	$10,095,719	0.71	$8,396,390	0.57
	Return	$2,649,597		$2,619,875		$2,919,632		$3,507,332		$3,738,551	
18	**Income Taxes** (System)	**$956,278**	0.09	**$945,551**	0.09	**$1,053,738**	0.09	**$1,265,847**	0.09	**$1,349,297**	0.09
19	**Net Income**	$6,329,518	0.59	$8,344,498	0.75	$8,101,107	0.67	$8,829,872	0.62	$7,047,093	0.48
20	Net Income - Small	$729,241	0.42	($1,066,156)	(0.59)	($1,282,847)	(0.64)				
21	Net Income - Large	$4,624,362	0.51	$7,892,485	0.85	$7,934,325	0.79				
	Net Income - Total	$5,353,603	0.50	$6,826,328	0.62	$6,651,477	0.55	$8,829,872	0.62	$7,047,093	0.48

Schedule 2

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
DIRECT LABOR

Line No.		2005 Fiscal Year as Reported				2005 Fiscal Year as Adjusted				Cal 2006 Study System Forecast			
		Hours	Salary & Wages	Benefits*	Total	*Hours*	Salary & Wages	Benefits	Total	*Hours*	Salary & Wages	Benefits	Total
		(a)	(c)	(b)	(d)	(e)	(f)	(g)	(h)	*(i)*	(j)	(k)	(l)
1	**Small**	*153,053*	$1,487,578	$186,875	$1,674,453	*249,569*	$3,166,779	incl. in rate	$3,166,779	*278,857*	$3,817,255	incl. in rate	$3,817,255
2	**Large**	*1,028,100*	$10,816,719	$1,449,340	$12,266,059	*1,204,723*	$15,034,125	incl. in rate	$15,034,125	*1,305,419*	$17,653,047	incl. in rate	$17,653,047
3	**Total**	*1,181,153*	$12,304,297	$1,636,215	$13,940,512	*1,454,292*	$18,200,904	$0	$18,200,904	*1,584,276*	$21,470,302	$0	$21,470,302

* FY 2005 Reported benefits include benefit amounts for both direct labor and overhead labor (Schedule 4).

Schedule 3

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
CONTRACT LABOR

Line No.	2005 Fiscal Year as Reported			2005 Fiscal Year as Adjusted			2006 Calendar Year Forecast		
	Job Class	Hours	$	Job Class	Hours	$	Job Class	Hours	$
		(a)	(b)		(c)	(d)		(e)	(f)
	Small								
1	COL	2,129	$14,705	COL			COL		
2	HND & LDH	24,533	$229,935	HND & LDH			HND & LDH		
3	MGR	3,186	$25,238	MGR			MGR		
4	OWN	-	$0	OWN			OWN		
5		29,848	$269,878		-	-		-	-
	Large								
6	COL	9,121	$125,032	COL			COL		
7	HND & LDH	88,854	$1,128,159	HND & LDH			HND & LDH		
8	MGR	-	$0	MGR			MGR		
9	OWN	-	$0	OWN			OWN		
10		97,975	$1,253,191		-	-		-	-
11	**Total**	**127,823**	**$1,523,068**		**-**	**-**		**-**	**-**

Schedule 4

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
OVERHEAD LABOR

Line No.	Job Class	2005 Fiscal Year as Reported		2005 Fiscal Year as Adjusted		2006 Calendar Year Forecast	
		Hours	Salary & Wages	*Hours*	Salary & Wages	*Hours*	Total
	(a)	(b)	(c)	(e)	(f)	(j)	(m)
	Small						
1	BK	*1,843*	$27,976	*14,490*	$252,440	*included in MGR*	
2	COL	*310*	$0	*allocated to Direct Labour*			
3	HND & LHD	*6,286*	$24,268	*allocated to Direct Labour*			
4	MGR	*12,740*	$145,228	*78,459*	$1,366,913	*92,948*	$1,735,874
5	OWN	*135,575*	$1,051,425	*allocated to Direct & Overhead Labour*			
6		*156,754*	$1,248,897	*92,948*	$1,619,352	*92,948*	$1,735,874
	Large						
7	BK	*12,922*	$152,799	*24,938*	$434,474	*included in MGR*	
8	COL	*3,228*	$40,774	*allocated to Direct Labour*			
9	HND & LHD	*33,170*	$466,663	*allocated to Direct Labour*			
10	MGR	*65,296*	$1,564,087	*143,886*	$3,822,044	*168,824*	$4,624,251
11	OWN	*187,561*	$4,355,230	*allocated to Direct & Overhead Labour*			
12		*302,177*	$6,579,552	*168,824*	$4,256,518	*168,824*	4,624,251
13	**Total**	***458,931***	**$7,828,449**	***261,772***	**$5,875,870**	***261,772***	**$6,360,125**

2005 Fiscal Year Reported benefits are included in Direct Labour (Schedule 2)

Schedule 4-a

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
SUMMARY OF AS REPORTED LABOUR

		2005 Fiscal Year As Reported											
		Direct Labour			Contract Labour			Overhead Labour			Total Labour		
	Job Class	**Hours**	**($)**	**($/h)**	**Hours**	**($)**	**($/h)**	**Hours**	**($)**	**($/h)**	**Hours**	**($)**	**($/h)**
Line		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	Small												
1	BK							1,843	$27,976	$15.18	1,843	$27,976	$15.18
2	COL				2,129	$14,705	$6.91	310	$0	$0.00	2,439	$14,705	$6.03
3	HND & LHD	153,053	$1,674,453	$10.94	24,533	$229,935	$9.37	6,286	$24,268	$3.86	183,872	$1,928,656	$10.49
4	MGR				3,186	$25,238	$7.92	12,740	$145,228	$11.40	15,926	$170,466	$10.70
5	OWN				-	$0		135,575	$1,051,425	$7.76	135,575	$1,051,425	$7.76
6	Sub-Total	153,053	$1,674,453	$10.94	29,848	$269,878	$9.04	156,754	$1,248,897	$7.97	339,655	$3,193,227	$9.40
	Large												
7	BK							12,922	$152,799	$11.82	12,922	$152,799	$11.82
8	COL				9,121	$125,032	$13.71	3,228	$40,774	$12.63	12,349	$165,806	$13.43
9	HND & LHD	1,028,100	$12,266,059	$11.93	88,854	$1,128,159	$12.70	33,170	$466,663	$14.07	1,150,124	$13,860,880	$12.05
10	MGR				-	$0		65,296	$1,564,087	$23.95	65,296	$1,564,087	$23.95
11	OWN				-	$0		187,561	$4,355,230	$23.22	187,561	$4,355,230	$23.22
12	Sub-Total	1,028,100	$12,266,059	$11.93	97,975	$1,253,191	$12.79	302,177	$6,579,552	$21.77	1,428,252	$20,098,802	$14.07
13	**Total**	**1,181,153**	**$13,940,512**	**$11.80**	**127,823**	**$1,523,068**	**$11.92**	**458,931**	**$7,828,449**	**$17.06**	**1,767,907**	**$23,292,029**	**$13.17**

Schedule 4-b

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
SUMMARY OF AS ADJUSTED LABOUR

		2005 Fiscal Year As Adjusted											
		Direct Labour			Contract Labour			Overhead Labour			Total Labour		
	Job Class	Hours	($)	($/h)	Hours	($)	($/h)	Hours	($)	($/h)	Hours	($)	($/h)
Line		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	Small												
1	BK							14,490	$252,440	$17.42	14,490	$252,440	$17.42
2	COL	3,369	$36,308	$10.78							3,369	$36,308	$10.78
3	HND & LHD	246,200	$3,130,471	$12.72							246,200	$3,130,471	$12.72
4	MGR							78,459	$1,366,913	$17.42	78,459	$1,366,913	$17.42
5	OWN										-	$0	
6	Sub-Total	249,569	$3,166,779	$12.69	-	$0		92,948	$1,619,352	$17.42	342,517	$4,786,131	$13.97
	Large												
7	BK							24,938	$434,474	$17.42	24,938	$434,474	$17.42
8	COL	12,349	$181,271	$14.68							12,349	$181,271	$14.68
9	HND & LHD	1,192,374	$14,852,854	$12.46							1,192,374	$14,852,854	$12.46
10	MGR							143,886	$3,822,044	$26.56	143,886	$3,822,044	$26.56
11	OWN										-	$0	
12	Sub-Total	1,204,723	$15,034,125	$12.48	-	$0		168,824	$4,256,518	$25.21	1,373,547	$19,290,643	$14.04
13	**Total**	**1,454,292**	**$18,200,904**	**$12.52**	**-**	**$0**		**261,772**	**$5,875,870**	**$22.45**	**1,716,064**	**$24,076,774**	**$14.03**

Schedule 4-c

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
DIRECT LABOUR RECONCILIATION

		Small			Large			Total		
		(h)		($/h)	hours		($/h)	hours		($/h)
Line		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	As Reported	153,053	$1,674,453	$10.94	1,028,100	$12,266,059	$11.93	1,181,153	$13,940,512	$11.80
2	Stub Year Adjustment	(2,960)	($18,560)		(13,531)	($71,114)		(16,492)	($89,674)	
3	Contract Labour COL to DL	2,129	$14,705	$6.91	9,121	$125,032	$13.71	11,250	$139,737	$12.42
4	Stub Year Adjustment*	0	$0		0	$0		0	$0	
5	Contract Labour HND & LHD to DL	24,533	$229,935	$9.37	88,854	$1,128,159	$12.70	113,387	$1,358,093	$11.98
6	Stub Year Adjustment	231	$1,686	$7.31	2,633	$25,902	$9.84	2,864	$27,588	$9.63
7	Overhead COL / DRV to DL	310	$0	$0.00	3,228	$40,774	$12.63	3,538	$40,774	$11.52
8	Stub Year Adjustment*	930	$0	$0.00	0	$0		930	$0	$0.00
9	LDH Wage Rate Adjustment		$21,603	$17.42		$15,464	$17.42	0	$37,068	$17.42
10	Overhead Labour HND & LHD to DL	66,224	$536,716	$8.10	83,329	$1,248,485	$14.98	149,554	$1,785,201	$11.94
11	Stub Year Adjustment	5,119	$55,586	$10.86	2,989	$37,775	$12.64	8,108	$93,361	$11.51
12	LDH Wage Rate Adjustment		$650,654	$17.42		$217,589	$17.42	0	$868,244	$17.42
13	As Adjusted	249,569	$3,166,779	$12.69	1,204,723	$15,034,125	$12.48	1,454,292	$18,200,904	$12.52

Line 2 reflects removal of collection related direct labour

* No adjustment made as no Depots with Stub Fiscal Years reported costs

Schedule 4-d

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
OVERHEAD LABOUR RECONCILIATION

		Small			Large			Total		
		(h)		($/h)	hours		($/h)	hours		($/h)
Line		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	As Reported	156,754	$1,248,897	$7.97	302,177	$6,579,552	$21.77	458,931	$7,828,449	$17.06
2	Stub Year Adjustment	8,650	$88,345	$10.21	9,119	$125,549	$13.77	17,768	$213,894	$12.04
3	Overhead COL / DRV to DL	(310)	$0	$0.00	(3,228)	($40,774)	$12.63	(3,538)	($40,774)	$11.52
4	Stub Year Adjustment*	(930)	$0	$0.00	0	$0		(930)	$0	$0.00
5	Overhead Labour HND & LHD to DL	(66,224)	($536,716)	$8.10	(83,329)	($1,248,485)	$14.98	(149,554)	($1,785,201)	$11.94
6	Stub Year Adjustment	(5,119)	($55,586)	$10.86	(2,989)	($37,775)	$12.64	(8,108)	($93,361)	$11.51
7	MGR Wage Rate Adjustment		$741,930		(52,925)	($1,079,442)	$20.40	(52,925)	($337,512)	$6.38
8	BK Wage Rate Adjustment		$132,483			($42,107)		0	$90,376	
9	As Adjusted	92,820	$1,619,352	$17.45	168,824	$4,256,518	$25.21	261,643	$5,875,870	$22.46

Includes impact of removal of collection related direct labour

* No adjustment made as no Depots with Stub Fiscal years reported costs

Schedule 5

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
BUILDINGS

Line No.		2005 Fiscal Year as Reported			2005 Fiscal Year as Adjusted			2006 Calendar Year Forecast		
		Small	Large	Total	Small	Large	Total	Small	Large	Total
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
	Owned Buildings									
1	*sq. ft.*	*170,559*	*211,399*	*381,958*				-	-	-
2	Building CCA	$155,912	$320,966	$476,879				$0	$0	$0
3	Use Costs incl. Mortgage I	$537,201	$901,279	$1,438,480				$0	$0	$0
4	Utilities	$211,575	$346,455	$558,029				$0	$0	$0
5		**$904,688**	**$1,568,701**	**$2,473,388**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
	Leased Buildings									
6	*sq. ft.*	*48,938*	*206,110*	*255,048*	*200,639*	*332,984*	*533,623*	*200,639*	*332,984*	*533,623*
7	Leasehold CCA	$1,456	$24,587	$26,043	$0	$0	$0	$0	$0	$0
8	Lease Payments	$197,368	$2,213,005	$2,410,373	$1,393,111	$2,485,530	$3,878,641	$1,685,364	$2,797,066	$4,482,430
9	Use Costs	$40,772	$462,002	$502,774	$261,846	$738,846	$1,000,692	$269,459	$763,691	$1,033,151
10	Utilities	$45,026	$258,822	$303,848	$260,830	$536,104	$796,934	$272,418	$559,921	$832,339
11		**$284,622**	**$2,958,416**	**$3,243,038**	**$1,915,787**	**$3,760,480**	**$5,676,267**	**$2,227,241**	**$4,120,678**	**$6,347,919**
12	**Total**	**$1,189,309**	**$4,527,117**	**$5,716,426**	**$1,915,787**	**$3,760,480**	**$5,676,267**	**$2,227,241**	**$4,120,678**	**$6,347,919**

Schedule 5 a

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
BUILDINGS RECONCILIATION

Line No.		Small	Large	Total	Comments
		(a)	(b)	(c)	(d)
1	**As Reported**	$1,189,309	$4,527,117	$5,716,426	
2	Lease Payments	$1,195,743	$272,525	$1,468,268	deemed lease rate x deemed size for all Depots
3	Building CCA	($155,912)	($320,966)	($476,879)	remove, included in deemed lease rate
4	Use Costs incl. Mortgage Interest	($316,127)	($624,436)	($940,563)	remove items included in deemed lease rate, increase for stub fiscal year
5	Utilities	$4,230	($69,172)	($64,942)	increase for stub fiscal year, reduce for deemed size
6	Leasehold CCA	($1,456)	($24,587)	($26,043)	remove, included in deemed lease rate
7	**As Adjusted**	$1,915,787	$3,760,480	$5,676,267	

Schedule 6

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
EQUIPMENT

Line No.		2005 Fiscal Year as Reported			2005 Fiscal Year as Adjusted			2006 Calendar Year Forecast		
		Small	Large	Total	Small	Large	Total	Small	Large	Total
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
	Equipment									
1	CCA	$146,315	$227,356	$373,671	$149,895	$232,920	$382,815	$156,298	$219,890	$376,188
2	Loan interest	$3,894	$21,074	$24,968	$3,989	$21,589	$25,578	$3,989	$21,590	$25,579
3	Lease payments	$4,339	$247,194	$251,533	$4,482	$255,346	$259,828	$4,557	$259,651	$264,208
4	Operating Costs	$29,933	$176,031	$205,964	$31,718	$180,034	$211,752	$32,627	$185,779	$218,406
5		$184,480	$671,655	$856,135	$190,083	$689,889	$879,973	$197,471	$686,910	$884,381
5.5	**Vehicle**									
6	CCA	$76,616	$187,200	$263,816	$0	$0	$0	$0	$0	$0
7	Loan interest	$1,297	$702	$1,999	$0	$0	$0	$0	$0	$0
8	Lease payments	$34,047	$39,224	$73,271	$0	$0	$0	$0	$0	$0
9	Operating Costs	$344,366	$821,564	$1,165,930	$375,440	$276,640	$652,080	$375,440	$276,640	$652,080
10		$456,325	$1,048,690	$1,505,016	$375,440	$276,640	$652,080	$375,440	$276,640	$652,080
11	**Total**	$640,805	$1,720,345	$2,361,150	$565,523	$966,529	$1,532,053	$572,911	$963,550	$1,536,461

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
OVERHEAD

Line No.		2005 Fiscal Year as Reported			2005 Fiscal Year as Adjusted			2006 Calendar Year Forecast		
		Small	Large	Total	Small	Large	Total	Small	Large	Total
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
	Overhead - Office									
1	Office Expenses	$76,070	$266,879	$342,949	$81,192	$272,572	$353,764			
2	Shop Supplies	$77,023	$295,041	$372,065	$81,066	$295,999	$377,065			
3	Telephone	$119,100	$285,047	$404,147	$125,183	$306,637	$431,819			
4	Charity (As Reported) / Complaince (As Adjusted)	$9,303	$34,522	$43,825	$18,458	$94,488	$112,946			
5	Internet	$3,424	$6,919	$10,344	$3,424	$7,399	$10,824			
6	Bank Charges	$77,377	$137,073	$214,450	$86,863	$148,531	$235,394			
7	Professional Fees (Accounting/Legal)	$77,454	$332,066	$409,520	$83,755	$347,842	$431,596			
8	Training Courses (3rd Party)	$4,714	$10,273	$14,986	$4,714	$10,273	$14,986			
9	Marketing and Promotions	$22,722	$153,236	$175,958	$23,288	$155,574	$178,862			
10	Advertising	$50,628	$264,336	$314,964	$51,429	$264,606	$316,035			
11	Other Insurance (non-property)	$47,256	$182,318	$229,574	$55,102	$187,495	$242,597			
12	Municipal Taxes & License Fees	$30,497	$163,701	$194,197	$30,845	$169,336	$200,182			
15	Other Office costs	$18,902	$113,634	$132,536	$19,489	$116,899	$136,389			
		$614,471	$2,245,045	$2,859,516	$664,806	$2,377,653	$3,042,458	$672,193	$2,412,948	$3,085,141
	Overhead - Fees									
13	BCMB Fees	$49,886	$288,112	$337,998	$81,291	$416,404	$497,695	$91,366	$457,142	$548,507
14	ABDA Fees	$25,874	$168,972	$194,846	$33,125	$120,289	$153,414	$34,318	$121,184	$155,501
		$75,760	$457,083	$532,844	$114,416	$536,692	$651,109	$125,683	$578,326	$704,009
	Overhead - Other									
16	Non-labour collection costs (e.g. contractors)	$1,655	$24,134	$25,789	$0	$0	$0			
17	Deposit incentives	$0	$8,845	$8,845	$0	$0	$0			
18	Shrinkage	$17,161	$113,461	$130,622	$17,161	$120,082	$137,243			
19	Other costs	$34,943	$234,090	$269,032	$34,943	$248,218	$283,160			
		$53,759	$380,529	$434,288	$52,104	$368,300	$420,404	$56,841	$403,643	$460,483
	Overhead - Table 9									
20	Table 9 Collections costs (As Reported) / Volume Cluster 1 Cost Exclusion (As Adjusted & Cal 2006)	$0	$365,355	$365,355	-$25,958	-$132,885	-$158,843	-$29,697	-$144,319	-$174,016
21	Table 9 Cash & Shrinkage	$40,001	$648,705	$688,706	$0	$0	$0	$0	$0	$0
		$40,001	$1,014,060	$1,054,061	-$25,958	-$132,885	-$158,843	-$29,697	-$144,319	-$174,016
22	**Total**	$783,991	$4,096,718	$4,880,709	$805,368	$3,149,760	$3,955,127	$825,020	$3,250,597	$4,075,617

Schedule 8

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
MISCELLANEOUS REVENUE

Line No.		2005 Fiscal Year as Reported			2005 Fiscal Year as Adjusted			2006 Calendar Year Forecast		
		Small	Large	Total	Small	Large	Total	Small	Large	Total
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Cardboard Sales	$12,211	$29,415	$41,626	$12,211	$29,565	$41,776			
2	Pick-up Fees	$1,413	$57,826	$59,239	$0	$0	$0			
3	Other Recycling	$50,409	$29,847	$80,256	$50,409	$29,847	$80,256			
4	Wine Bottle Sales	$3,129	$3,803	$6,932	$3,129	$3,803	$6,932			
5	Value Add Fee (VAF)	$0	$0	$0	$0	$0	$0			
6	Other Revenue	$144,614	$60,300	$204,914	$144,614	$60,300	$204,914			
7	**Total**	$211,776	$181,192	$392,967	$210,362	$123,516	$333,878	$233,910	$133,347	$367,257

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
GROSS MARGIN

Line No.		2005 Fiscal Year as Reported			2005 Fiscal Year as Adjusted			Cal 2006 Study System Forecast			Cal 2006 Total System Forecast
		Small	Large	Total	Small	Large	Total	Small	Large	Total	Total
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(h)
1	*Volume (000's)*	*173,983,908*	*905,194,530*	*1,079,178,439*	*180,647,234*	*925,341,408*	*1,105,988,642*	*200,362,975*	*1,002,504,097*	*1,202,867,072*	*1,428,953,298*
2	**Revenue**	$20,110,312	$106,015,967	$126,126,279	$20,882,774	$108,395,240	$129,278,014	$23,165,273	$116,928,510	$140,093,784	$166,631,564
3	**Less : Purchases**	$13,408,486	$69,574,651	$82,983,136	$13,921,077	$71,160,545	$85,081,622	$15,319,328	$76,022,426	$91,341,755	$108,851,483
4	**Gross Margin**	$6,701,826	$36,441,316	$43,143,142	$6,961,697	$37,234,696	$44,196,393	$7,845,945	$40,906,084	$48,752,029	$57,780,080
5	**Taxes**	$377,028	$1,555,165	$1,932,193	$148,244	$2,315,477	$2,463,721	$175,430	$2,501,954	$2,677,385	$2,677,385

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
RATE BASE

Line No.		2005 Fiscal Year as Reported			2005 Fiscal Year as Adjusted			2006 Calendar Year Forecast		
		Assets			Assets			Assets		
		Original Cost	Net Book Value	Liabilities	Original Cost	Net Book Value	Liabilities	Original Cost	Net Book Value	Liabilities
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
	Small									
1	Equipment	971,773	426,620	122,866	961,635	418,788	122,866	1,074,827	531,981	122,866
2	Leaseholds	4,064	410	-	-	-	-	-	-	-
3	Land	1,601,393	1,601,393	-	-	-	-	-	-	-
4	Buildings	4,127,446	3,018,833	2,973,460	-	-	-	-	-	-
5	Working Capital	n/a	277,635		n/a	319,338		n/a	379,653	
6		6,704,676	5,324,890	3,096,326	961,635	738,127	122,866	1,074,827	911,633	122,866
7	Owners' Equity			2,228,564			615,261			788,767
8	**Total Small**		5,324,890	5,324,890		738,127	738,127		911,633	911,633
	Large									
9	Equipment	2,404,588	886,559	31,673	2,145,875	672,237	31,673	2,274,355	800,717	31,673
10	Leaseholds	338,952	208,783	616,479	-	-	-	-	-	-
11	Land	4,148,543	4,148,543	-	-	-	-	-	-	-
12	Buildings	11,165,610	8,786,882	3,269,395	-	-	-	-	-	-
13	Working Capital	n/a	401,637	-	n/a	507,946	-	n/a	549,708	-
14		18,057,694	14,432,404	3,917,546	2,145,875	1,180,182	31,673	2,274,355	1,350,425	31,673
15	Owners' Equity			10,514,858			1,148,509			1,318,751
16	**Total Large**		14,432,404	14,432,404		1,180,182	1,180,182		1,350,425	1,350,425
17	**Total**		**19,757,294**	**19,757,294**		**1,918,309**	**1,918,309**		**2,262,058**	**2,262,058**

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
2006 REVENUE REQUIREMENT

Line No.		Current Handling Commissions				HCRP 2007 Handling Commissions			
1	**Report Volume**	1,202,867,072 or	84% Total System	1,428,953,298 or	100% Total System	1,202,867,072 or	84% Total System	1,428,953,298 or	100% Total System
2	**Report Depots**	165 or	76% Total System	216 or	100% Total System	165 or	76% Total System	216 or	100% Total System
		Cal 2006 Study System Forecast		**Cal 2006 Total System Forecast**		**Cal 2006 Study System Forecast**		**Cal 2006 Total System Forecast**	
		$	**¢ per container**	**$**	**¢ per container**	**$**	**¢ per container**	**$**	**¢ per container**
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
3	**Revenue**	$140,093,784	11.65	$166,631,564	11.66	$137,176,355	11.40	$163,307,920	11.43
4	Less Purchases	$91,341,755	7.59	$108,851,483	7.62	$91,341,755	7.59	$108,851,483	7.62
5	Gross Margin (HC)	$48,752,029	4.05	$57,780,080	4.04	$45,834,600	3.81	$54,456,437	3.81
6	Misc Revenue	$367,257	0.03	$499,240	0.03	$367,257	0.03	$499,240	0.03
7	Total Margin	$49,119,286	4.08	$58,279,320	4.08	$46,201,857	3.84	$54,955,677	3.85
	Expenses								
8	Direct Labour	$21,470,302	1.78	$25,557,518	1.79	$21,470,302	1.78	$25,557,518	1.79
9	Contract Labour	$0	-	$0	-	$0	-	$0	-
10	Overhead Labour	$6,360,125	0.53	$7,827,467	0.55	$6,360,125	0.53	$7,827,467	0.55
11	Labour Subtotal	$27,830,427	2.31	$33,384,985	2.34	$27,830,427	2.31	$33,384,985	2.34
12	Building	$6,347,919	0.53	$7,898,293	0.55	$6,347,919	0.53	$7,898,293	0.55
13	Equipment	$1,536,461	0.13	$1,909,188	0.13	$1,536,461	0.13	$1,909,188	0.13
14	Overhead (Ex-Collections / Vol. Cluste	$4,249,633	0.35	$5,197,755	0.36	$4,249,633	0.35	$5,197,755	0.36
15	Collections / Volume Cluster 1Excl.	-$174,016	(0.01)	-$206,619	(0.01)	-$174,016	(0.01)	-$206,619	(0.01)
16	**Total Operating Expenses**	$39,790,425	3.31	$48,183,602	3.37	$39,790,425	3.31	$48,183,602	3.37
17	**Return on Purchases (After Tax)**	$913,418	0.08	$1,088,515	0.08	$913,418	0.08	$1,088,515	0.08
18	Return Margin **1.00%**								
19	**Return on Operations (After Tax)**	$1,997,479	0.17	$2,418,817	0.17	$1,997,479	0.17	$2,418,817	0.17
20	Return Margin **5.02%**								
21	**Total Return (After Tax)**	$2,910,897	0.24	$3,507,332	0.25	$2,910,897	0.24	$3,507,332	0.25
22	Return Margin	7.11%		6.43%		4.89%		4.31%	
23	**Income Taxes (System)**	**$1,050,585**	0.09	**$1,265,847**	0.09	**$1,050,585**	0.09	**$1,265,847**	0.09
24	**Revenue Requirement***	$43,384,650	3.61	$52,457,540	3.67	$43,384,650	3.61	$52,457,540	3.67
25	**Revenue at Current Rates**	$49,119,286	4.08	$58,279,320	4.08				
26	**HCRP Rate Increase**	-11.0%		-9.2%		-11.0%		-9.2%	

*** Revenue Requirement = Total Operating Expenses [line 16] - Miscellaneous Revenue [line 7] + Total Return [line 21] + Income Taxes [line 23]**

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Schedule 12-a

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
2007 REVENUE REQUIREMENT FORECAST

Line No.								
1	**Report Volume**	1,428,953,298 or	100% Total System		1,479,505,797		3.54% Overall Growth	
2	**Report Depots**	216 or	100% Total System		2.80%	HCRP General Escalation Rate		

HCRP 2007 Handling Commissions

Line No.			Cal 2006 Total System Forecast		Cal 2007 Total System Forecast			
			$	¢ per container	Escalation Factor	$	¢ per container	Comments
			(a)	(b)	(c)	(d)	(e)	(f)
3	**Revenue**		$163,307,920	11.43		$169,014,357	11.42	2007 volume forecast at 2006 HCRP rates
4	Less Purchases		$108,851,483	7.62		$112,642,887	7.61	2007 volume forecast at 2006 HCRP rates
5	Gross Margin (HC)		$54,456,437	3.81		$56,371,470	3.81	3.52% Increase
6	Misc Revenue		$499,240	0.03	2.80%	$513,219	0.03	HCRP General Escalation Rate
7	Total Margin		$54,955,677	3.85		$56,884,689	3.84	
	Expenses							
8	Direct Labour		$25,557,518	1.79	8.71%	$27,784,757	1.88	HCRP Direct Labour Escalation Rate
9	Contract Labour		$0	-		$0	-	
10	Overhead Labour		$7,827,467	0.55	5.00%	$8,218,841	0.56	HCRP Overhead Labour Escalation Rate
11	Labour Subtotal		$33,384,985	2.34		$36,003,598	2.43	
12	Building		$7,898,293	0.55	9.56%	$8,653,324	0.58	HCRP 5 year rolling average
13	Equipment		$1,909,188	0.13	2.80%	$1,962,645	0.13	HCRP General Escalation Rate
14	Overhead (Ex-Collections / Vol. Cluster :		$5,197,755	0.36	4.17%	$5,414,741	0.37	HCRP Overhead Escalation Rate
15	Collections / Volume Cluster 1Excl.		-$206,619	(0.01)	7.58%	-$222,281	(0.02)	Weighted Average of above escalators
16	**Total Operating Expenses**		$48,183,602	3.37		$51,812,027	3.50	7.53% Expenses Escualtion
17	**Return on Purchases (AT)**		$1,088,515	0.08		$1,126,429	0.08	3.48% Increase
18	Return Margin	**1.00%**			**1.00%**			
19	**Return on Operations (AT)**		$2,418,817	0.17		$2,600,964	0.18	7.53% Increase
20	Return Margin	**5.02%**			**5.02%**			
21	**Total Return (After Tax)**		$3,507,332	0.25		$3,727,393	0.25	6.27% Increase
22	Return Margin		**4.31%**			**3.08%**		
23	**Income Taxes (System)**		**$1,265,847**	0.09		**$1,345,270**	0.09	6.27% Increase
24	**Revenue Requirement**		$52,457,540	3.67		$56,371,471	3.81	7.46% Increase
25	**Revenue at 2007 HCRP Rates**		$54,456,437	3.81		$56,371,470	3.81	3.52% Increase
26	**Proposed Rate Increase**		-3.7%			0.00%		

Schedule 12-a-1

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
2007 REVENUE REQUIREMENT FORECAST - Difference from DCA Feb 27, 2007 to HCRP October 22, 2007

HCRP 2007 Handling Commissions

Line No.			Cal 2006 Total System Forecast $ (a)	¢ per container (b)	Comments	Cal 2007 Total System Forecast Escalation Factor (c)	$ (d)	¢ per container (e)
1	**Report Volume**		-	or 100% Total System			-	100% Total System
2	**Report Depots**		-	or 100% Total System			1.03%	HCRP General Esc.
3	**Revenue**		-$3,348,098	(0.23)			-$3,507,804	(0.24)
4	Less Purchases		$0	-			$0	-
5	Gross Margin (HC)		-$3,348,098	(0.23)	HCRP 2007 rates lower than DCA 2006 rates		-$3,507,804	(0.24)
6	Misc Revenue		-$523,107	(0.04)	Remove collection costs and VAF	1.03%	-$527,221	(0.04)
7	Total Margin		-$3,871,204	(0.27)			-$4,035,025	(0.27)
	Expenses							
8	Direct Labour		-$1,417,247	(0.10)	Remove collection costs and lower 2006 escalation factor	6.94%	$332,603	0.02
9	Contract Labour		$0	-			$0	-
10	Overhead Labour		$297,361	0.02	Lower 2006 escalation factor & add manger hours	3.23%	$555,469	0.04
11	Labour Subtotal		-$1,119,886	(0.08)			$888,072	0.06
12	Building		-$1,192,586	(0.08)	Reduced deemed lease rate	7.79%	-$598,442	(0.04)
13	Equipment		-$1,234,665	(0.09)	Remove collection costs	1.03%	-$1,236,846	(0.08)
14	Overhead (Ex-Collections / Vol. Cluster 1)		-$1,245,052	(0.09)	Remove collection costs	2.40%	-$1,142,089	(0.08)
15	Collections / Volume Cluster 1Excl.		-$206,619	(0.01)	Remove incremental Volume Cluster 1 costs	5.81%	-$222,281	(0.02)
16	**Total Operating Expenses**		-$4,998,808	(0.35)			-$2,311,587	(0.16)
17	**Return on Purchases (AT)**		$0	-			$0	-
18	Return Margin	0.00%				0.00%		
19	**Return on Operations (AT)**		$291,520	0.02	Increase Return on Purchases rate		$436,019	0.03
20	Return Margin	1.02%				1.02%		
21	**Total Return (After Tax)**		$291,520	0.02			$436,019	0.03
22	Return Margin		**0.83%**				**-0.99%**	
23	**Income Taxes (System)**		**-$1,148,627**	(0.08)	Calculate based on system, rather than by depot		**-$1,154,621**	(0.08)
24	**Revenue Requirement**		-$5,332,808	(0.37)			-$2,502,967	(0.17)
25	**Revenue at Proposed Rates**		-$4,370,444	(0.31)			-$3,507,804	(0.24)
26	**Proposed Rate Increase**		-1.9%				1.7%	

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS November 1, 2007
2007 REVENUE REQUIREMENT FORECAST - Difference from DCA Feb 27, 2007 to HCRP October 22, 2007

		Cal 2006 Total System Forecast		Summary of Cost Adjustments							
		$	¢ per container	Volume Cluster 1	Remove Collection Costs	Vehicle Provision	Escalation Factors	Overhead Hours	VAF	Deemed Lease Rate	Compliance Costs
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
3	**Revenue**	($3,348,098)	(0.23)								
4	Less Purchases	$0	-								
5	Gross Margin (HC)	($3,348,098)	(0.23)								
6	Misc Revenue	($523,107)	(0.04)		($79,226)				($443,881)		
7	Total Margin	($3,871,204)	(0.27)	$0	($79,226)	$0	$0	$0	($443,881)	$0	$0
	Expenses										
8	Direct Labour	($1,417,247)	(0.10)		($654,546)		($762,701)				
9	Contract Labour	$0	-								
10	Overhead Labour	$297,361	0.02				($180,558)	$477,919			
11	Labour Subtotal	($1,119,886)	(0.08)	$0	($654,546)	$0	($943,259)	$477,919	$0	$0	$0
12	Building	($1,192,586)	(0.08)							($1,192,586)	
13	Equipment	($1,234,665)	(0.09)		($2,084,345)	$849,680					
14	Overhead (Ex-Collections / Vol. Cluster 1)	($1,245,052)	(0.09)		($1,383,809)						$138,757
15	Collections / Volume Cluster 1Excl.	($206,619)	(0.01)	($206,619)							
16	**Total Operating Expenses**	($4,998,808)	(0.35)	($206,619)	($4,122,700)	$849,680	($943,259)	$477,919	$0	($1,192,586)	$138,757
17	**Return on Purchases (AT)**	$0	-								
18	Return Margin 0.00%										
19	**Return on Operations (AT)**	$291,520	0.02								
20	Return Margin 1.02%										
21	**Total Return (After Tax)**	$291,520	0.02								
22	Return Margin	**$0**									
23	**Income Taxes (System)**	**($1,148,627)**	(0.08)								
24	**Revenue Requirement**	($5,332,808)	(0.37)								
25	**Revenue at Proposed Rates**	($4,370,444)	(0.31)								
26	**Proposed Rate Increase**	-1.9%									

DCA reduced revenue requirement to reflect impact of removing Volume Cluster 1:

Volume Cluster 1 Cost Removal Determination

Cal 2006 Total System

Cluster	Depots	Volume	Unit Cost	Operating Cost	
1	10	2,421,076	11.89	$287,907	A
2 to 20	205	1,426,532,222	3.36	$47,895,695	B
1 at 2 to 20 average	10	2,421,076	3.36	$81,287	C
			Operating Costs to be excluded	$206,619	D = A - C
			% of Total Operating Costs	0.43%	

The directed adjustments added an additional 13,231 Overhead Hours.
- Adding one hour/week for Volume Cluster 15 to 20 Depots increased the Manager hours by 2,860 hours
- Adding 120 hours per Manager for manger hour capped Depots (28 in total) increased the Manager hours by 7,459 hours
- Adding two hours/week for manger hour capped Depots (28 in total) increased the Manager hours by 2,912 hours

Since 50,000 Direct labour hours were removed (collection costs), and some of the Direct Labour hours were allocated to Overhead Labour, the net increase in Overhead Labour hours is 13,102 (129 hours less). This also resulted in an overall rate for all adjustments of $26.30 (slightly lower than the large Depot Manager rate of $26.56/h).

DCA impact on revenue requirement of removing Volume Clusters 1 to 4:

Volume Cluster 2 to 4 Cost Removal Determination

Cal 2006 Total System

Cluster	Depots	Volume	Unit Cost	Operating Cost	
1 to 4	43	29,321,410	7.34	$2,153,173	E
5 to 20	172	1,399,631,888	3.29	$46,030,428	F
1 to 4 at 5 to 20 average	43	29,321,410	3.29	$964,309	G
			Operating Costs to be excluded	$1,188,865	H = E - G
			% of Total Operating Costs	2.47%	
				0	
			Remove Volume Clusters 2 to 4	$982,246	I = H - D
				2.04%	

Schedule 12-b

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
2007 REVENUE REQUIREMENT FORECAST

Line No.						
1	**Report Volume**	1,428,953,298	or	100% Total System	1,479,505,797	100% Total System
2	**Report Depots**	216	or	100% Total System	2.80%	HCRP General Escalation Rate

Current Handling Commissions

Line No.		Cal 2006 Total System Forecast		Cal 2007 Total System Forecast			
		$	**¢ per container**	**Escalation Factor**	**$**	**¢ per container**	**Comments**
		(a)	(b)	(c)	(d)	(e)	(f)
3	**Revenue**	$166,631,564	11.66		$172,560,366	11.66	2007 volume forecast at 2006 HCRP rates
4	Less Purchases	$108,851,483	7.62		$112,642,887	7.61	2007 volume forecast at 2006 HCRP rates
5	Gross Margin (HC)	$57,780,080	4.04		$59,917,480	4.05	
6	Misc Revenue	$499,240	0.03	2.80%	$513,219	0.03	HCRP General Escalation Rate
7	Total Margin	$58,279,320	4.08		$60,430,698	4.08	
	Expenses						
8	Direct Labour	$25,557,518	1.79	8.71%	$27,784,757	1.88	HCRP Direct Labour Escalation Rate
9	Contract Labour	$0	-		$0	-	
10	Overhead Labour	$7,827,467	0.55	5.00%	$8,218,841	0.56	HCRP Overhead Labour Escalation Rate
11	Labour Subtotal	$33,384,985	2.34		$36,003,598	2.43	
12	Building	$7,898,293	0.55	9.56%	$8,653,324	0.58	HCRP 5 year rolling average
13	Equipment	$1,909,188	0.13	2.80%	$1,962,645	0.13	HCRP General Escalation Rate
14	Overhead (Ex-Collections / Vol. (	$5,197,755	0.36	4.17%	$5,414,741	0.37	HCRP Overhead Escalation Rate
15	Collections / Volume Cluster 1	-$206,619	(0.01)	7.58%	-$222,281	(0.02)	Weighted Average of above escalators
16	**Total Operating Expenses**	$48,183,602	3.37		$51,812,027	3.50	7.53% Expenses Escualtion &
17	**Return on Purchases (AT)**	$1,088,515	0.08		$1,126,429	0.08	3.48% Increase
18	Return Margin **1.00%**			**1.00%**			
19	**Return on Operations (AT)**	$2,418,817	0.17		$2,600,964	0.18	7.53% Increase
20	Return Margin **5.02%**			**5.02%**			
21	**Total Return (After Tax)**	$3,507,332	0.25		$3,727,393	0.25	6.27% Increase
22	Return Margin	**6.43%**			**5.24%**		
23	**Income Taxes (System)**	$1,265,847	0.09		$1,345,270	0.09	6.27% Increase
24	**Revenue Requirement**	$52,457,540	3.67		$56,371,471	3.81	7.46% Increase
25	**Revenue at Current Rates**	$57,780,080	4.04		$59,917,480	4.05	3.7% Increase
26	**Proposed Rate Increase**	-9.2%			-5.92%		

Schedule 13

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
ESCALATION FROM CAL 2006 STUDY SYSTEM TO TOTAL SYSTEM

Line No.	Total System Volume Cluster	Depots in Study System	Depots In Total System	Volume in Study System	Volume in Total System	Volume Escalator	Miscellaneous Revenue Study System	Miscellaneous Revenue Total System	Direct Labour Study System	Direct Labour Total System	Overhead Labour Study System	Overhead Labour Total System	Building Study System	Building Total System	Equipment Study System	Equipment Total System	Overhead Study System	Overhead Total System	Total Operating Expense Study System	Total Operating Expense Total System
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)
1	1	5	10	1,800,589	2,421,076	134.5%	$0	$0	$38,833	$52,214	$22,835	$30,704	$122,076	$164,144	$20,583	$27,677	$9,793	$13,168	$214,120	$287,907
2	2	6	11	3,823,750	6,461,320	169.0%	$0	$0	$139,781	$236,201	$62,592	$105,767	$103,188	$174,366	$24,327	$41,107	$13,535	$22,872	$343,424	$580,312
3	3	9	11	7,651,808	9,198,310	120.2%	$0	$0	$164,671	$197,952	$86,086	$103,485	$144,275	$173,434	$53,114	$63,849	$56,689	$68,146	$504,834	$606,866
4	4	11	11	11,240,704	11,240,704	100.0%	$1,523	$1,523	$119,890	$119,890	$221,946	$221,946	$216,823	$216,823	$55,268	$55,268	$64,161	$64,161	$678,088	$678,088
5	5	7	10	7,899,154	11,237,176	142.3%	$40,470	$57,572	$122,770	$174,650	$69,407	$98,737	$141,870	$201,821	$45,738	$65,066	$50,798	$72,265	$430,583	$612,539
6	6	9	11	12,298,467	14,993,490	121.9%	$3,814	$4,650	$171,645	$209,258	$106,146	$129,407	$147,755	$180,133	$40,806	$49,748	$35,839	$43,693	$502,191	$612,239
7	7	9	11	16,876,504	20,767,092	123.1%	$0	$0	$302,848	$372,665	$161,849	$199,160	$209,105	$257,310	$41,502	$51,069	$70,855	$87,190	$786,159	$967,395
8	8	7	11	15,494,986	24,614,421	158.9%	$5,253	$8,345	$355,749	$565,123	$53,201	$84,512	$142,543	$226,436	$36,752	$58,382	$74,644	$118,574	$662,889	$1,053,027
9	9	8	10	21,076,555	26,460,173	125.5%	$558	$700	$266,878	$335,047	$221,459	$278,026	$228,494	$286,858	$57,810	$72,577	$104,335	$130,986	$878,976	$1,103,494
10	10	7	11	22,848,182	35,681,392	156.2%	$111,486	$174,105	$502,901	$785,367	$255,580	$399,132	$217,592	$339,807	$54,193	$84,631	$106,225	$165,888	$1,136,489	$1,774,825
11	11	8	11	32,393,055	43,971,156	135.7%	$21,910	$29,742	$716,972	$973,236	$212,460	$288,398	$267,207	$362,714	$68,683	$93,232	$133,663	$181,437	$1,398,984	$1,899,017
12	12	9	11	44,198,128	53,714,901	121.5%	$49,318	$59,938	$854,107	$1,038,014	$275,241	$334,506	$274,036	$333,042	$84,783	$103,038	$109,043	$132,522	$1,597,210	$1,941,122
13	13	6	10	34,238,716	59,043,148	172.4%	$339	$585	$377,220	$650,500	$316,067	$545,044	$241,717	$416,831	$71,696	$123,637	$185,267	$319,485	$1,191,968	$2,055,497
14	14	9	11	65,788,247	80,704,819	122.7%	$7,815	$9,587	$962,146	$1,180,299	$383,463	$470,408	$359,027	$440,432	$82,856	$101,642	$196,642	$241,227	$1,984,134	$2,434,009
15	15	8	11	71,215,007	97,247,065	136.6%	$8,080	$11,034	$1,167,806	$1,594,688	$414,986	$566,680	$329,532	$449,990	$89,096	$121,664	$272,611	$372,262	$2,274,031	$3,105,285
16	16	6	11	68,727,814	126,912,809	184.7%	$20,631	$38,097	$1,357,862	$2,507,428	$373,014	$688,807	$389,762	$719,735	$61,256	$113,116	$298,082	$550,439	$2,479,976	$4,579,525
17	17	9	10	124,041,955	138,188,192	111.4%	$46,988	$52,347	$2,284,032	$2,544,512	$589,618	$656,860	$549,721	$612,413	$128,035	$142,637	$345,100	$384,456	$3,896,506	$4,340,879
18	18	11	11	169,806,348	169,806,348	100.0%	$7,833	$7,833	$3,047,719	$3,047,719	$754,551	$754,551	$663,353	$663,353	$140,883	$140,883	$536,063	$536,063	$5,142,569	$5,142,569
19	19	11	11	196,696,436	196,696,436	100.0%	$19,718	$19,718	$3,470,139	$3,470,139	$765,328	$765,328	$728,255	$728,255	$148,092	$148,092	$593,530	$593,530	$5,705,343	$5,705,343
20	20	10	11	274,750,667	299,593,270	109.0%	$21,518	$23,464	$5,046,334	$5,502,617	$1,014,297	$1,106,008	$871,587	$950,395	$230,987	$251,872	$818,742	$892,772	$7,981,947	$8,703,665
21		165	215	1,202,867,072	1,428,953,298	118.8%	$367,257	$499,240	$21,470,302	$25,557,518	$6,360,125	$7,827,467	$6,347,919	$7,898,293	$1,536,460	$1,909,188	$4,075,617	$4,991,136	$39,790,424	$48,183,602
22								135.9%		119.0%		123.1%		124.4%		124.3%		122.5%		121.1%

Schedule 13 a

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2006 PHASE I DETERMINATIONS October 22, 2007
UNIT AND PER DEPOT COSTS CAL 2006 TOTAL SYSTEM

			Miscellaneous Revenue		Direct Labour		Overhead Labour		Building		Equipment		Overhead		Total Operating Expense	
Line No.	Total System Volume Cluster	Depots In Total System	Unit Cost	Per Depot Cost	Unit Cost	Per Depot Cost	Unit Cost	Per Depot Cost	Unit Cost	Per Depot Cost	Unit Cost	Per Depot Cost	Unit Cost	Per Depot Cost	Unit Cost	Per Depot Cost
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)
1	1	10	-	$0	2.16	$5,221	1.27	$3,070	6.78	$16,414	1.14	$2,768	0.54	$1,317	11.89	$28,791
2	2	11	-	$0	3.66	$21,473	1.64	$9,615	2.70	$15,851	0.64	$3,737	0.35	$2,079	8.98	$52,756
3	3	11	-	$0	2.15	$17,996	1.13	$9,408	1.89	$15,767	0.69	$5,804	0.74	$6,195	6.60	$55,170
4	4	11	0.01	$138	1.07	$10,899	1.97	$20,177	1.93	$19,711	0.49	$5,024	0.57	$5,833	6.03	$61,644
5	5	10	0.51	$5,757	1.55	$17,465	0.88	$9,874	1.80	$20,182	0.58	$6,507	0.64	$7,226	5.45	$61,254
6	6	11	0.03	$423	1.40	$19,023	0.86	$11,764	1.20	$16,376	0.33	$4,523	0.29	$3,972	4.08	$55,658
7	7	11	-	$0	1.79	$33,879	0.96	$18,105	1.24	$23,392	0.25	$4,643	0.42	$7,926	4.66	$87,945
8	8	11	0.03	$759	2.30	$51,375	0.34	$7,683	0.92	$20,585	0.24	$5,307	0.48	$10,779	4.28	$95,730
9	9	10	0.00	$70	1.27	$33,505	1.05	$27,803	1.08	$28,686	0.27	$7,258	0.50	$13,099	4.17	$110,349
10	10	11	0.49	$15,828	2.20	$71,397	1.12	$36,285	0.95	$30,892	0.24	$7,694	0.46	$15,081	4.97	$161,348
11	11	11	0.07	$2,704	2.21	$88,476	0.66	$26,218	0.82	$32,974	0.21	$8,476	0.41	$16,494	4.32	$172,638
12	12	11	0.11	$5,449	1.93	$94,365	0.62	$30,410	0.62	$30,277	0.19	$9,367	0.25	$12,047	3.61	$176,466
13	13	10	0.00	$58	1.10	$65,050	0.92	$54,504	0.71	$41,683	0.21	$12,364	0.54	$31,949	3.48	$205,550
14	14	11	0.01	$872	1.46	$107,300	0.58	$42,764	0.55	$40,039	0.13	$9,240	0.30	$21,930	3.02	$221,274
15	15	11	0.01	$1,003	1.64	$144,972	0.58	$51,516	0.46	$40,908	0.13	$11,060	0.38	$33,842	3.19	$282,299
16	16	11	0.03	$3,463	1.98	$227,948	0.54	$62,619	0.57	$65,430	0.09	$10,283	0.43	$50,040	3.61	$416,320
17	17	10	0.04	$5,235	1.84	$254,451	0.48	$65,686	0.44	$61,241	0.10	$14,264	0.28	$38,446	3.14	$434,088
18	18	11	0.00	$712	1.79	$277,065	0.44	$68,596	0.39	$60,305	0.08	$12,808	0.32	$48,733	3.03	$467,506
19	19	11	0.01	$1,793	1.76	$315,467	0.39	$69,575	0.37	$66,205	0.08	$13,463	0.30	$53,957	2.90	$518,668
20	20	11	0.01	$2,133	1.84	$500,238	0.37	$100,546	0.32	$86,400	0.08	$22,897	0.30	$81,161	2.91	$791,242
21		215	0.03	$2,322	1.79	$118,872	0.55	$36,407	0.55	$36,736	0.13	$8,880	0.35	$23,215	3.37	$224,110

APPENDIX “E”
PHASE II COMPLIANCE FILING

Schedule 1

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS October 22, 2007
REVENUE REQUIREMENT

Line #	(a)	(b) 2007 Revenue Requirement ($)		
1	Direct Labour	$27,784,757		
2	Overhead Labour	$8,218,841		
3	Building	$8,653,324		
4	Equipment	$1,962,645	$5,414,741	Overhead (Ex-Collections / Vol. Cluster 1)
5	Overhead	$5,192,460	-$222,281	Collections / Volume Cluster 1Excl.
6	Return	$3,727,393		
7	Income Tax	$1,345,270	$4,559,444	Return, Income Tax & Misc. Rev.
8	Less: Miscellaneous Revenue	-$513,219		
9	Cal 2006 Revenue Requirement	$56,371,471		

Schedule 1.1

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS October 22, 2007
COST ALLOCATION SUMMARY

	(a)	(b)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(h)
Line #	Forecast Group	ID	Direct Labour	Overhead Labour	Buildings	Equipment	Overhead	Return, Income Tax & Misc. Rev.	Forecast Group Revenue Requirement	Unit Cost (¢/Container)
1	Pop Cans	1	5,965,875	1,978,665	1,565,904	384,963	1,145,008	971,554	12,011,969	3.04
2	Beer Cans	2	5,018,036	1,664,301	1,315,848	323,564	962,897	817,046	10,101,692	3.04
3	PET 0 to 1 l	3	4,884,584	1,456,548	1,894,588	415,711	974,459	847,076	10,472,966	3.96
4	Beer Bottles	4	3,382,689	931,666	571,097	143,064	533,626	489,467	6,051,607	3.90
5	Glass 0 to 1 l	5	2,689,312	677,879	750,071	163,693	447,806	416,130	5,144,890	5.10
6	Tetra 0 to 1 l	6	1,515,232	440,987	424,495	97,571	273,328	242,141	2,993,754	3.83
7	PET Over 1 l	7	1,674,144	396,239	959,166	191,613	345,571	313,872	3,880,604	7.25
8	Import Beer	8	1,375,911	363,005	486,823	104,357	250,671	227,107	2,807,875	4.89
9	Glass Over 1 l	9	356,348	73,561	206,033	40,224	70,060	65,668	811,893	10.81
10	Gable 0 to 1 l	10	182,545	49,861	153,721	30,628	47,588	40,862	505,205	6.14
11	Drink Pouch	11	130,670	35,692	32,777	7,502	22,160	20,134	248,935	4.22
12	HDPE Over 1 l	12	161,575	33,354	128,233	24,737	37,131	33,883	418,913	12.30
13	Polycups	13	61,275	16,737	8,999	2,328	9,410	8,690	107,439	3.89
14	Bi Metal 0 to 1 l	14	96,326	26,311	35,533	7,653	18,088	16,184	200,094	4.61
15	HDPE 0 to 1 l	15	36,194	9,886	13,651	2,931	6,843	6,116	75,621	4.63
16	Bi Metal Over 1 l	16	38,900	8,030	18,631	3,670	7,053	6,713	82,998	10.13
17	Gable Over 1 l	17	29,751	6,141	14,104	2,780	5,372	5,117	63,264	10.09
18	Bag in Box	18	10,247	2,115	17,121	3,247	3,740	3,209	39,679	18.38
19	Tetra Over 1 l	19	1,708	353	679	135	288	278	3,442	9.56
20	PVC Over 1 l	20	3,190	659	7,202	1,360	1,453	1,220	15,084	22.44
21	Polypropylene	21	11,213	3,063	9,848	1,957	2,986	2,558	31,625	6.25
22	PVC 0 to 1 l	22	985	269	1,043	205	290	246	3,037	6.84
23	Other	23	40	8	24	5	8	7	93	11.02
24	Sleemans	24	154,792	42,633	35,848	8,360	25,916	23,544	291,094	4.10
25	Import Beer PET 0 to 1 l	25	106	29	77	16	26	22	277	5.76
26	Import Beer (Bi-Metal)	26	2,791	762	1,699	347	627	548	6,774	5.38
27	Imports 0 to 1 l	27	319	87	106	23	58	52	646	4.48
28	Total		27,784,757	8,218,841	8,653,324	1,962,645	5,192,460	4,559,444	56,371,470	3.81

Schedule 1.2

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS November 1, 2007
VARIABLE RATE DESIGN SUMMARY

	(a)	(b)	(c)		(d)	(e)	(f)	(g)
Line #	Forecast Group	ID	Total Class Revenue Requirement	Cal 2007 Volume	Variable Rate (¢/cont)	Revenue @ Variable Rates	Revenue Surplus / Shortfall	Manufacturer
1	Pop Cans	1	$12,011,969	394,698,617	3.04	$12,011,969	$0	ABCRC
2	Beer Cans	2	$10,101,692	331,990,150	3.04	$10,101,692	$0	BDL
3	PET 0 to 1 l	3	$10,472,966	264,299,596	3.96	$10,472,966	$0	ABCRC
4	Beer Bottles	4	$6,051,607	155,301,308	3.90	$6,051,607	$0	BDL
5	Glass 0 to 1 l	5	$5,144,890	100,852,527	5.10	$5,144,890	$0	ABCRC
6	Tetra 0 to 1 l	6	$2,993,754	78,083,404	3.83	$2,993,754	$0	ABCRC
7	PET Over 1 l	7	$3,880,604	53,510,795	7.25	$3,880,604	$0	ABCRC
8	Import Beer	8	$2,807,875	57,426,288	4.89	$2,807,875	$0	BDL
9	Glass Over 1 l	9	$811,893	7,508,825	10.81	$811,893	$0	ABCRC
10	Gable 0 to 1 l	10	$505,205	8,231,091	6.14	$505,205	$0	ABCRC
11	Drink Pouch	11	$248,935	5,892,000	4.22	$248,935	$0	ABCRC
12	HDPE Over 1 l	12	$418,913	3,404,645	12.30	$418,913	$0	ABCRC
13	Polycups	13	$107,439	2,762,927	3.89	$107,439	$0	ABCRC
14	Bi Metal 0 to 1 l	14	$200,094	4,343,400	4.61	$200,094	$0	ABCRC
15	HDPE 0 to 1 l	15	$75,621	1,632,000	4.63	$75,621	$0	ABCRC
16	Bi Metal Over 1 l	16	$82,998	819,687	10.13	$82,998	$0	ABCRC
17	Gable Over 1 l	17	$63,264	626,893	10.09	$63,264	$0	ABCRC
18	Bag in Box	18	$39,679	215,919	18.38	$39,679	$0	ABCRC
19	Tetra Over 1 l	19	$3,442	36,000	9.56	$3,442	$0	ABCRC
20	PVC Over 1 l	20	$15,084	67,218	22.44	$15,084	$0	ABCRC
21	Polypropylene	21	$31,625	505,620	6.25	$31,625	$0	ABCRC
22	PVC 0 to 1 l	22	$3,037	44,400	6.84	$3,037	$0	ABCRC
23	Other	23	$93	840	11.02	$93	$0	ABCRC
24	Sleemans	24	$291,094	7,106,597	4.10	$291,094	$0	BDL
25	Import Beer PET 0 to 1 l	25	$277	4,800	5.76	$277	$0	ABCRC
26	Import Beer (Bi-Metal)	26	$6,774	125,850	5.38	$6,774	$0	BDL
27	Imports 0 to 1 l	27	$646	14,400	4.48	$646	$0	BDL
28	Total		$56,371,470	1,479,505,797		$56,371,470	$0	
29	ABCRC		$37,111,782		65.8%	$37,111,782	65.8%	
30	BDL		$19,259,688		34.2%	$19,259,688	34.2%	
			$56,371,470		100.0%	$56,371,470	100.0%	

Schedule 1.2-a

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS November 1, 2007
VARIABLE RATE DESIGN SUMMARY - ADJUSTMENTS

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Line #	Forecast Group	ID	Total Class Revenue Requirement	Variable Rate (¢/cont)	Revenue @ Variable Rates	Revenue Surplus / Shortfall	Modified Variable Rate (¢/cont)	Revenue @ Modified Variable Rates	Revenue Surplus / Shortfall	Manufacturer
1	Pop Cans	1	$12,011,969	3.04	$12,011,969	$0	3.02	$11,915,510	-$96,459	ABCRC
2	Beer Cans	2	$10,101,692	3.04	$10,101,692	$0	3.02	$10,020,558	-$81,134	BDL
3	PET 0 to 1 l	3	$10,472,966	3.96	$10,472,966	$0	3.94	$10,408,374	-$64,592	ABCRC
4	Beer Bottles	4	$6,051,607	3.90	$6,051,607	$0	3.87	$6,013,654	-$37,954	BDL
5	Glass 0 to 1 l	5	$5,144,890	5.10	$5,144,890	$0	5.08	$5,120,243	-$24,647	ABCRC
6	Tetra 0 to 1 l	6	$2,993,754	3.83	$2,993,754	$0	3.81	$2,974,672	-$19,083	ABCRC
7	PET Over 1 l	7	$3,880,604	7.25	$3,880,604	$0	7.23	$3,867,527	-$13,077	ABCRC
8	Import Beer	8	$2,807,875	4.89	$2,807,875	$0	4.87	$2,793,841	-$14,034	BDL
9	Glass Over 1 l	9	$811,893	10.81	$811,893	$0	11.00	$825,971	$14,078	ABCRC
10	Gable 0 to 1 l	10	$505,205	6.14	$505,205	$0	6.00	$493,865	-$11,339	ABCRC
11	Drink Pouch	11	$248,935	4.22	$248,935	$0	6.00	$353,520	$104,585	ABCRC
12	HDPE Over 1 l	12	$418,913	12.30	$418,913	$0	12.00	$408,557	-$10,355	ABCRC
13	Polycups	13	$107,439	3.89	$107,439	$0	6.00	$165,776	$58,336	ABCRC
14	Bi Metal 0 to 1 l	14	$200,094	4.61	$200,094	$0	6.00	$260,604	$60,510	ABCRC
15	HDPE 0 to 1 l	15	$75,621	4.63	$75,621	$0	6.00	$97,920	$22,299	ABCRC
16	Bi Metal Over 1 l	16	$82,998	10.13	$82,998	$0	10.00	$81,969	-$1,030	ABCRC
17	Gable Over 1 l	17	$63,264	10.09	$63,264	$0	10.00	$62,689	-$575	ABCRC
18	Bag in Box	18	$39,679	18.38	$39,679	$0	12.00	$25,910	-$13,769	ABCRC
19	Tetra Over 1 l	19	$3,442	9.56	$3,442	$0	10.00	$3,600	$158	ABCRC
20	PVC Over 1 l	20	$15,084	22.44	$15,084	$0	12.00	$8,066	-$7,018	ABCRC
21	Polypropylene	21	$31,625	6.25	$31,625	$0	6.00	$30,337	-$1,288	ABCRC
22	PVC 0 to 1 l	22	$3,037	6.84	$3,037	$0	7.00	$3,108	$71	ABCRC
23	Other	23	$93	11.02	$93	$0	12.00	$101	$8	ABCRC
24	Sleemans	24	$291,094	4.10	$291,094	$0	6.00	$426,396	$135,302	BDL
25	Import Beer PET 0 to 1 l	25	$277	5.76	$277	$0	6.00	$288	$11	ABCRC
26	Import Beer (Bi-Metal)	26	$6,774	5.38	$6,774	$0	6.00	$7,551	$777	BDL
27	Imports 0 to 1 l	27	$646	4.48	$646	$0	6.00	$864	$218	BDL
28	Total		$56,371,470		$56,371,470	$0		$56,371,470	$0	
29	Rate Range			Min	6.00 ¢/cont.	Max	12.00 ¢/cont.	Rate Range Impact	$350,980	
30	ABCRC		$37,111,782	65.8%	$37,111,782	65.8%		$37,108,607	-$3,175	
31	BDL		$19,259,688	34.2%	$19,259,688	34.2%		$19,262,863	$3,175	
			$56,371,470	100.0%	$56,371,470	100.0%		$56,371,470	$0	

Schedule 1.3

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS October 22, 2007
VARIABLE + FIXED FEE RATE DESIGN

Line #	(a) Forecast Group	(b) ID	(c) 100% Modified Variable Rate (¢/cont)	(d) Volume Allocator	(e) Fixed Fee ($x/month/depot)	(f) BCMB Variable Rate (¢/cont)	(g) Depot Variable Rate (¢/cont)	(h) System Cost (100% Variable)
1	Pop Cans	1	3.02	26.67773%	$172,071	0.04	2.98	$11,915,510
2	Beer Cans	2	3.02	22.43926%	$144,733	0.04	2.98	$10,020,558
3	PET 0 to 1 l	3	3.94	17.86405%	$115,223	0.04	3.90	$10,408,374
4	Beer Bottles	4	3.87	10.49684%	$67,705	0.04	3.83	$6,013,654
5	Glass 0 to 1 l	5	5.08	6.81664%	$43,967	0.04	5.04	$5,120,243
6	Tetra 0 to 1 l	6	3.81	5.27767%	$34,041	0.04	3.77	$2,974,672
7	PET Over 1 l	7	7.23	3.61680%	$23,328	0.04	7.19	$3,867,527
8	Import Beer	8	4.87	3.88145%	$25,035	0.04	4.83	$2,793,841
9	Glass Over 1 l	9	11.00	0.50752%	$3,274	0.04	10.96	$825,971
10	Gable 0 to 1 l	10	6.00	0.55634%	$3,588	0.04	5.96	$493,865
11	Drink Pouch	11	6.00	0.39824%	$2,569	0.04	5.96	$353,520
12	HDPE Over 1 l	12	12.00	0.23012%	$1,484	0.04	11.96	$408,557
13	Polycups	13	6.00	0.18675%	$1,205	0.04	5.96	$165,776
14	Bi Metal 0 to 1 l	14	6.00	0.29357%	$1,894	0.04	5.96	$260,604
15	HDPE 0 to 1 l	15	6.00	0.11031%	$711	0.04	5.96	$97,920
16	Bi Metal Over 1 l	16	10.00	0.05540%	$357	0.04	9.96	$81,969
17	Gable Over 1 l	17	10.00	0.04237%	$273	0.04	9.96	$62,689
18	Bag in Box	18	12.00	0.01459%	$94	0.04	11.96	$25,910
19	Tetra Over 1 l	19	10.00	0.00243%	$16	0.04	9.96	$3,600
20	PVC Over 1 l	20	12.00	0.00454%	$29	0.04	11.96	$8,066
21	Polypropylene	21	6.00	0.03417%	$220	0.04	5.96	$30,337
22	PVC 0 to 1 l	22	7.00	0.00300%	$19	0.04	6.96	$3,108
23	Other	23	12.00	0.00006%	$0	0.04	11.96	$101
24	Sleemans	24	6.00	0.48034%	$3,098	0.04	5.96	$426,396
25	Import Beer PET 0 to 1 l	25	6.00	0.00032%	$2	0.04	5.96	$288
26	Import Beer (Bi-Metal)	26	6.00	0.00851%	$55	0.04	5.96	$7,551
27	Imports 0 to 1 l	27	6.00	0.00097%	$6	0.04	5.96	$864
28	**Total**			**100.00%**	$645,000			$56,371,470

Schedule 1.4

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS October 22, 2007
GRADUATED FIXED FEE

		(a)	(b)	(c)	(d)	(e)	(f)	(g)
Line #		Depot Size Range (containers/year)		# Depots Cal 2005 Study System	# Depots Cal 2006 Total System	Fixed Fee (*$/month/depot*)	Study System Fixed Fees (*$/year*)	Total System Fixed Fees (*$/year*)
1	1	-	500,000	6	14	$250	$18,000	$42,000
2	2	500,000	1,000,000	17	21	$250	$51,000	$63,000
3	3	1,000,000	2,000,000	29	36	$250	$87,000	$108,000
4	4	2,000,000	3,000,000	21	27	$250	$63,000	$81,000
5	5	3,000,000	4,000,000	10	16	$250	$30,000	$48,000
6	6	4,000,000	5,000,000	7	10	$250	$21,000	$30,000
7	7	5,000,000	10,000,000	27	36	$250	$81,000	$108,000
8	8	10,000,000	15,000,000	21	27	$250	$63,000	$81,000
9	9	15,000,000	20,000,000	17	17	$250	$51,000	$51,000
10	10	20,000,000	40,000,000	10	11	$250	$30,000	$33,000
11		**Total**		165	215		$495,000	$645,000

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS October 22, 2007
DIRECT LABOUR

Line #	(a) Forecast Group	(b) Stantec July 13, 2007 Report p. E2 (sec./cont.)	(c) 2007 Volume Forecast	(d) Direct Labour Hours	Adjusted Hours	(e) Loaded Hourly Rate (*$/hr*)	(f) Total Direct Labour Cost (*$*)	(g) Direct Labour Allocators	(h) ¢/ cont.
1	Pop Cans	2.29	394,698,617	251,072	419,254	$14.23	$5,965,875	21.4718%	1.51
2	Beer Cans	2.29	331,990,150	211,183	352,645	$14.23	$5,018,036	18.0604%	1.51
3	PET 0 to 1 l	2.80	264,299,596	205,566	343,266	$14.23	$4,884,584	17.5801%	1.85
4	Beer Bottles	3.30	155,301,308	142,360	237,720	$14.23	$3,382,689	12.1746%	2.18
5	Glass 0 to 1 l	4.04	100,852,527	113,179	188,993	$14.23	$2,689,312	9.6791%	2.67
6	Tetra 0 to 1 l	2.94	78,083,404	63,768	106,484	$14.23	$1,515,232	5.4535%	1.94
7	PET Over 1 l	4.74	53,510,795	70,456	117,651	$14.23	$1,674,144	6.0254%	3.13
8	Import Beer	3.63	57,426,288	57,905	96,693	$14.23	$1,375,911	4.9520%	2.40
9	Glass Over 1 l	7.19	7,508,825	14,997	25,042	$14.23	$356,348	1.2825%	4.75
10	Gable 0 to 1 l	3.36	8,231,091	7,682	12,828	$14.23	$182,545	0.6570%	2.22
11	Drink Pouch	3.36	5,892,000	5,499	9,183	$14.23	$130,670	0.4703%	2.22
12	HDPE Over 1 l	7.19	3,404,645	6,800	11,355	$14.23	$161,575	0.5815%	4.75
13	Polycups	3.36	2,762,927	2,579	4,306	$14.23	$61,275	0.2205%	2.22
14	Bi Metal 0 to 1 l	3.36	4,343,400	4,054	6,769	$14.23	$96,326	0.3467%	2.22
15	HDPE 0 to 1 l	3.36	1,632,000	1,523	2,544	$14.23	$36,194	0.1303%	2.22
16	Bi Metal Over 1 l	7.19	819,687	1,637	2,734	$14.23	$38,900	0.1400%	4.75
17	Gable Over 1 l	7.19	626,893	1,252	2,091	$14.23	$29,751	0.1071%	4.75
18	Bag in Box	7.19	215,919	431	720	$14.23	$10,247	0.0369%	4.75
19	Tetra Over 1 l	7.19	36,000	72	120	$14.23	$1,708	0.0061%	4.75
20	PVC Over 1 l	7.19	67,218	134	224	$14.23	$3,190	0.0115%	4.75
21	Polypropylene	3.36	505,620	472	788	$14.23	$11,213	0.0404%	2.22
22	PVC 0 to 1 l	3.36	44,400	41	69	$14.23	$985	0.0035%	2.22
23	Other	7.19	840	2	3	$14.23	$40	0.0001%	4.75
24	Sleemans	3.30	7,106,597	6,514	10,878	$14.23	$154,792	0.5571%	2.18
25	Import Beer PET 0 to 1 l	3.36	4,800	4	7	$14.23	$106	0.0004%	2.22
26	Import Beer (Bi-Metal)	3.36	125,850	117	196	$14.23	$2,791	0.0100%	2.22
27	Imports 0 to 1 l	3.36	14,400	13	22	$14.23	$319	0.0011%	2.22
28	**Total**		1,479,505,797	1,169,314	1,952,585		$27,784,757		

Line #		
29	Cal 2007 Total System Direct Labour Costs	$27,784,757
30	Cal 2007 Total System Direct Labour Hours	1,952,585
31	**Cal 2007 Total System Direct Labour Rate**	$14.23
32	**Average Time per piece (s)**	2.85

Schedule 3.1

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS October 22, 2007
OVERHEAD LABOUR

Line #	(a)	(b) Classification Factors	(c) Overhead Labour Costs ($)
1	Management Related Costs	50%	$4,109,420
2	Direct Labour Related Costs	50%	$4,109,420
3	Cal 2005 Total System Overhead Labour	100%	$8,218,841

Schedule 3.0

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS October 22, 2007
OVERHEAD LABOUR

Line #	(a) Forecast Group	(b) Direct Labour Allocator	(c) Direct Labour Costs ($)	(d) Cal 2007 Total Volume Allocators	(e) Management Costs ($)	(f) Total Cost ($)	(g) % of Total	(h) ¢/cont.
1	Pop Cans	21.4718%	$882,365	26.67773%	$1,096,300	$1,978,665	24.07474%	0.50
2	Beer Cans	18.0604%	$742,177	22.43926%	$922,124	$1,664,301	20.24983%	0.50
3	PET 0 to 1 l	17.5801%	$722,440	17.86405%	$734,109	$1,456,548	17.72207%	0.55
4	Beer Bottles	12.1746%	$500,306	10.49684%	$431,359	$931,666	11.33573%	0.60
5	Glass 0 to 1 l	9.6791%	$397,755	6.81664%	$280,124	$677,879	8.24786%	0.67
6	Tetra 0 to 1 l	5.4535%	$224,106	5.27767%	$216,882	$440,987	5.36557%	0.56
7	PET Over 1 l	6.0254%	$247,609	3.61680%	$148,630	$396,239	4.82110%	0.74
8	Import Beer	4.9520%	$203,500	3.88145%	$159,505	$363,005	4.41674%	0.63
9	Glass Over 1 l	1.2825%	$52,705	0.50752%	$20,856	$73,561	0.89503%	0.98
10	Gable 0 to 1 l	0.6570%	$26,999	0.55634%	$22,862	$49,861	0.60667%	0.61
11	Drink Pouch	0.4703%	$19,326	0.39824%	$16,365	$35,692	0.43427%	0.61
12	HDPE Over 1 l	0.5815%	$23,897	0.23012%	$9,457	$33,354	0.40582%	0.98
13	Polycups	0.2205%	$9,063	0.18675%	$7,674	$16,737	0.20364%	0.61
14	Bi Metal 0 to 1 l	0.3467%	$14,247	0.29357%	$12,064	$26,311	0.32013%	0.61
15	HDPE 0 to 1 l	0.1303%	$5,353	0.11031%	$4,533	$9,886	0.12029%	0.61
16	Bi Metal Over 1 l	0.1400%	$5,753	0.05540%	$2,277	$8,030	0.09770%	0.98
17	Gable Over 1 l	0.1071%	$4,400	0.04237%	$1,741	$6,141	0.07472%	0.98
18	Bag in Box	0.0369%	$1,516	0.01459%	$600	$2,115	0.02574%	0.98
19	Tetra Over 1 l	0.0061%	$253	0.00243%	$100	$353	0.00429%	0.98
20	PVC Over 1 l	0.0115%	$472	0.00454%	$187	$659	0.00801%	0.98
21	Polypropylene	0.0404%	$1,658	0.03417%	$1,404	$3,063	0.03727%	0.61
22	PVC 0 to 1 l	0.0035%	$146	0.00300%	$123	$269	0.00327%	0.61
23	Other	0.0001%	$6	0.00006%	$2	$8	0.00010%	0.98
24	Sleemans	0.5571%	$22,894	0.48034%	$19,739	$42,633	0.51872%	0.60
25	Import Beer PET 0 to 1 l	0.0004%	$16	0.00032%	$13	$29	0.00035%	0.61
26	Import Beer (Bi-Metal)	0.0100%	$413	0.00851%	$350	$762	0.00928%	0.61
27	Imports 0 to 1 l	0.0011%	$47	0.00097%	$40	$87	0.00106%	0.61
28	**Total**	**100.0%**	**$4,109,420**	**100.0%**	**$4,109,420**	**$8,218,841**	**100.0%**	

See Schedule 1.2 for the Direct Labour Allocators & Schedule 8 for the Cal 2007 Total Volume Allocators

Schedule 4.1

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS October 22, 2007
BUILDINGS

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
				Classification Factors		**Classification ($)**	
Line #		**% Reported**	**Costs ($)**	**Volume**	**Total Pallets**	**Volume**	**Total Pallets**
1	Office	6.2%	$533,656	100%		$533,656	$0
2	Customer Interface	14.0%	$1,209,613	100%		$1,209,613	$0
3	Loading	9.4%	$816,726		100%	$0	$816,726
4	Sorting	26.6%	$2,302,155		100%	$0	$2,302,155
5	Storage	43.8%	$3,791,174		100%	$0	$3,791,174
6		100.00%	$8,653,324			$1,743,268	$6,910,056

Schedule 4.0

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS October 22, 2007
BUILDINGS

Line #	(a) Forecast Group	(b) Cal 2007 Total Volume Allocators	(c) Volume Costs ($)	(d) Total Container Pallets Allocators	(e) Total Pallet Cost ($)	(f) Total Cost ($)	(g) Buildings Allocators	(h) ¢/cont.
1	Pop Cans	26.67773%	$465,064	15.93099%	$1,100,840	$1,565,904	18.09599%	0.40
2	Beer Cans	22.43926%	$391,177	13.38154%	$924,672	$1,315,848	15.20627%	0.40
3	PET 0 to 1 l	17.86405%	$311,418	22.91109%	$1,583,169	$1,894,588	21.89433%	0.72
4	Beer Bottles	10.49684%	$182,988	5.61658%	$388,109	$571,097	6.59974%	0.37
5	Glass 0 to 1 l	6.81664%	$118,832	9.13508%	$631,239	$750,071	8.66801%	0.74
6	Tetra 0 to 1 l	5.27767%	$92,004	4.81170%	$332,491	$424,495	4.90557%	0.54
7	PET Over 1 l	3.61680%	$63,051	12.96828%	$896,116	$959,166	11.08437%	1.79
8	Import Beer	3.88145%	$67,664	6.06593%	$419,159	$486,823	5.62585%	0.85
9	Glass Over 1 l	0.50752%	$8,847	2.85361%	$197,186	$206,033	2.38097%	2.74
10	Gable 0 to 1 l	0.55634%	$9,699	2.08424%	$144,022	$153,721	1.77644%	1.87
11	Drink Pouch	0.39824%	$6,942	0.37387%	$25,835	$32,777	0.37878%	0.56
12	HDPE Over 1 l	0.23012%	$4,012	1.79770%	$124,222	$128,233	1.48190%	3.77
13	Polycups	0.18675%	$3,255	0.08312%	$5,744	$8,999	0.10400%	0.33
14	Bi Metal 0 to 1 l	0.29357%	$5,118	0.44016%	$30,415	$35,533	0.41062%	0.82
15	HDPE 0 to 1 l	0.11031%	$1,923	0.16973%	$11,728	$13,651	0.15776%	0.84
16	Bi Metal Over 1 l	0.05540%	$966	0.25565%	$17,666	$18,631	0.21531%	2.27
17	Gable Over 1 l	0.04237%	$739	0.19341%	$13,365	$14,104	0.16299%	2.25
18	Bag in Box	0.01459%	$254	0.24409%	$16,867	$17,121	0.19786%	7.93
19	Tetra Over 1 l	0.00243%	$42	0.00921%	$637	$679	0.00785%	1.89
20	PVC Over 1 l	0.00454%	$79	0.10308%	$7,123	$7,202	0.08323%	10.71
21	Polypropylene	0.03417%	$596	0.13390%	$9,253	$9,848	0.11381%	1.95
22	PVC 0 to 1 l	0.00300%	$52	0.01434%	$991	$1,043	0.01205%	2.35
23	Other	0.00006%	$1	0.00034%	$23	$24	0.00028%	2.89
24	Sleemans	0.48034%	$8,374	0.39761%	$27,475	$35,848	0.41427%	0.50
25	Import Beer PET 0 to 1 l	0.00032%	$6	0.00104%	$72	$77	0.00089%	1.61
26	Import Beer (Bi-Metal)	0.00851%	$148	0.02244%	$1,551	$1,699	0.01964%	1.35
27	Imports 0 to 1 l	0.00097%	$17	0.00128%	$89	$106	0.00122%	0.73
28	**Total**	**100.00%**	**$1,743,268**	**100.0%**	**$6,910,056**	**$8,653,324**	**100.00%**	

See Schedule 8 for the Cal 2007 Total Volume Allocators & Total Container Pallets Allocators

Schedule 5.1

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS October 22, 2007
EQUIPMENT

	(a)	(b)	(c)	(e)	(e)	(f)	(g)	(h)
			Classification Factors			**Classification ($)**		
Line #	Equipment Cost Class	**Costs ($)**	**Buildings**	**Total Pallets**	**Total Volume**	**Buildings**	**Total Pallets**	**Total Volume**
1	Sorting / Loading / Cardboard	$624,557		50%	50%	$0	$312,279	$312,279
2	Building	$39,454	100%			$39,454	$0	$0
3	Office	$352,484			100%	$0	$0	$352,484
4	Collection	$946,149		100%		$0	$946,149	$0
5		$1,962,645				$39,454	$1,258,428	$664,763

Schedule 5.0

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS October 22, 2007
EQUIPMENT

	(a)	(b)	(c)	(f)	(g)	(f)	(g)	(h)	(i)	(j)
Line #	**Forecast Group**	**Buildings Allocator**	**Buildings Costs ($)**	Total Container Pallets Allocators	**Total Pallet Cost ($)**	**Cal 2007 Total Volume Allocators**	**Total Volume Cost ($)**	**Total Cost ($)**	**% of Total**	**¢/cont.**
1	Pop Cans	18.09599%	$7,140	15.93099%	$200,480	26.67773%	$177,344	$384,963	19.61451%	0.10
2	Beer Cans	15.20627%	$6,000	13.38154%	$168,397	22.43926%	$149,168	$323,564	16.48614%	0.10
3	PET 0 to 1 l	21.89433%	$8,638	22.91109%	$288,320	17.86405%	$118,754	$415,711	21.18118%	0.16
4	Beer Bottles	6.59974%	$2,604	5.61658%	$70,681	10.49684%	$69,779	$143,064	7.28932%	0.09
5	Glass 0 to 1 l	8.66801%	$3,420	9.13508%	$114,958	6.81664%	$45,314	$163,693	8.34042%	0.16
6	Tetra 0 to 1 l	4.90557%	$1,935	4.81170%	$60,552	5.27767%	$35,084	$97,571	4.97141%	0.12
7	PET Over 1 l	11.08437%	$4,373	12.96828%	$163,197	3.61680%	$24,043	$191,613	9.76299%	0.36
8	Import Beer	5.62585%	$2,220	6.06593%	$76,335	3.88145%	$25,802	$104,357	5.31718%	0.18
9	Glass Over 1 l	2.38097%	$939	2.85361%	$35,911	0.50752%	$3,374	$40,224	2.04947%	0.54
10	Gable 0 to 1 l	1.77644%	$701	2.08424%	$26,229	0.55634%	$3,698	$30,628	1.56054%	0.37
11	Drink Pouch	0.37878%	$149	0.37387%	$4,705	0.39824%	$2,647	$7,502	0.38223%	0.13
12	HDPE Over 1 l	1.48190%	$585	1.79770%	$22,623	0.23012%	$1,530	$24,737	1.26040%	0.73
13	Polycups	0.10400%	$41	0.08312%	$1,046	0.18675%	$1,241	$2,328	0.11864%	0.08
14	Bi Metal 0 to 1 l	0.41062%	$162	0.44016%	$5,539	0.29357%	$1,952	$7,653	0.38991%	0.18
15	HDPE 0 to 1 l	0.15776%	$62	0.16973%	$2,136	0.11031%	$733	$2,931	0.14936%	0.18
16	Bi Metal Over 1 l	0.21531%	$85	0.25565%	$3,217	0.05540%	$368	$3,670	0.18701%	0.45
17	Gable Over 1 l	0.16299%	$64	0.19341%	$2,434	0.04237%	$282	$2,780	0.14164%	0.44
18	Bag in Box	0.19786%	$78	0.24409%	$3,072	0.01459%	$97	$3,247	0.16543%	1.50
19	Tetra Over 1 l	0.00785%	$3	0.00921%	$116	0.00243%	$16	$135	0.00689%	0.38
20	PVC Over 1 l	0.08323%	$33	0.10308%	$1,297	0.00454%	$30	$1,360	0.06931%	2.02
21	Polypropylene	0.11381%	$45	0.13390%	$1,685	0.03417%	$227	$1,957	0.09972%	0.39
22	PVC 0 to 1 l	0.01205%	$5	0.01434%	$180	0.00300%	$20	$205	0.01045%	0.46
23	Other	0.00028%	$0	0.00034%	$4	0.00006%	$0	$5	0.00024%	0.56
24	Sleemans	0.41427%	$163	0.39761%	$5,004	0.48034%	$3,193	$8,360	0.42596%	0.12
25	Import Beer PET 0 to 1 l	0.00089%	$0	0.00104%	$13	0.00032%	$2	$16	0.00079%	0.32
26	Import Beer (Bi-Metal)	0.01964%	$8	0.02244%	$282	0.00851%	$57	$347	0.01767%	0.28
27	Imports 0 to 1 l	0.00122%	$0	0.00128%	$16	0.00097%	$6	$23	0.00118%	0.16
28	**Total**	**100.0%**	**$39,454**	**100.0%**	**$1,258,428**	**100.0%**	**$664,763**	**$1,962,645**	**100.0%**	

See Schedule 5 for the Buildings Allocators and Schedule 8 for the Cal 2007 Total Volume Allocators & Total Container Pallets Allocators

Schedule 6.1

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS October 22, 2007
OVERHEAD

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
				Classification Factors			Classification ($)		
Line #	Cost Classification	2005 YE As Adjusted	Cal 2006 Total Costs Alloc.	Buildings	Total Cost	Total Volume	Buildings	Total Cost	Total Volume
1	Business	$2,665,393	$3,649,038		100%		$0	$3,649,038	$0
2	Building	$377,065	$516,219	100%			$516,219	$0	$0
3	Volume	$912,669	$1,027,203			100%	$0	$0	$1,027,203
4		**$3,955,127**	**$5,192,460**				**$516,219**	**$3,649,038**	**$1,027,203**

Schedule 6.0

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS October 22, 2007
OVERHEAD

Line #	(a) Forecast Group	(b) Total Cost Allocators	(c) Total Cost ($) Business	(d) Building Allocators	(e) Building Costs ($) Building	(f) Cal 2007 Total Volume Allocators	(g) Volume Costs ($) Volume	(h) Total Cost ($)	(i) % of Total	(j) ¢/ cont.
1	Pop Cans	21.30860%	$777,559	18.09599%	$93,415	26.67773%	$274,034	$1,145,008	22.05136%	0.29
2	Beer Cans	17.91987%	$653,903	15.20627%	$78,498	22.43926%	$230,497	$962,897	18.54414%	0.29
3	PET 0 to 1 l	18.57849%	$677,936	21.89433%	$113,023	17.86405%	$183,500	$974,459	18.76680%	0.37
4	Beer Bottles	10.73523%	$391,733	6.59974%	$34,069	10.49684%	$107,824	$533,626	10.27693%	0.34
5	Glass 0 to 1 l	9.12676%	$333,039	8.66801%	$44,746	6.81664%	$70,021	$447,806	8.62415%	0.44
6	Tetra 0 to 1 l	5.31076%	$193,792	4.90557%	$25,323	5.27767%	$54,212	$273,328	5.26393%	0.35
7	PET Over 1 l	6.88399%	$251,199	11.08437%	$57,220	3.61680%	$37,152	$345,571	6.65524%	0.65
8	Import Beer	4.98102%	$181,759	5.62585%	$29,042	3.88145%	$39,870	$250,671	4.82761%	0.44
9	Glass Over 1 l	1.44025%	$52,555	2.38097%	$12,291	0.50752%	$5,213	$70,060	1.34926%	0.93
10	Gable 0 to 1 l	0.89621%	$32,703	1.77644%	$9,170	0.55634%	$5,715	$47,588	0.91648%	0.58
11	Drink Pouch	0.44160%	$16,114	0.37878%	$1,955	0.39824%	$4,091	$22,160	0.42678%	0.38
12	HDPE Over 1 l	0.74313%	$27,117	1.48190%	$7,650	0.23012%	$2,364	$37,131	0.71509%	1.09
13	Polycups	0.19059%	$6,955	0.10400%	$537	0.18675%	$1,918	$9,410	0.18122%	0.34
14	Bi Metal 0 to 1 l	0.35496%	$12,952	0.41062%	$2,120	0.29357%	$3,016	$18,088	0.34835%	0.42
15	HDPE 0 to 1 l	0.13415%	$4,895	0.15776%	$814	0.11031%	$1,133	$6,843	0.13178%	0.42
16	Bi Metal Over 1 l	0.14723%	$5,373	0.21531%	$1,111	0.05540%	$569	$7,053	0.13584%	0.86
17	Gable Over 1 l	0.11223%	$4,095	0.16299%	$841	0.04237%	$435	$5,372	0.10345%	0.86
18	Bag in Box	0.07039%	$2,569	0.19786%	$1,021	0.01459%	$150	$3,740	0.07202%	1.73
19	Tetra Over 1 l	0.00611%	$223	0.00785%	$41	0.00243%	$25	$288	0.00555%	0.80
20	PVC Over 1 l	0.02676%	$976	0.08323%	$430	0.00454%	$47	$1,453	0.02798%	2.16
21	Polypropylene	0.05610%	$2,047	0.11381%	$588	0.03417%	$351	$2,986	0.05750%	0.59
22	PVC 0 to 1 l	0.00539%	$197	0.01205%	$62	0.00300%	$31	$290	0.00558%	0.65
23	Other	0.00016%	$6	0.00028%	$1	0.00006%	$1	$8	0.00015%	0.96
24	Sleemans	0.51638%	$18,843	0.41427%	$2,139	0.48034%	$4,934	$25,916	0.49910%	0.36
25	Import Beer PET 0 to 1 l	0.00049%	$18	0.00089%	$5	0.00032%	$3	$26	0.00050%	0.54
26	Import Beer (Bi-Metal)	0.01202%	$439	0.01964%	$101	0.00851%	$87	$627	0.01208%	0.50
27	Imports 0 to 1 l	0.00115%	$42	0.00122%	$6	0.00097%	$10	$58	0.00112%	0.40
28	Total	100.0%	$3,649,038	100.0%	$516,219	100.0%	$1,027,203	$5,192,460	100.0%	

See Schedule 7.0 for the Total Cost Allocators, Schedule 5 for the Buildings Allocators and Schedule 8 for the Cal 2007 Total Volume Allocators

Schedule 7.1

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS October 22, 2007
SYSTEM RETURN & INCOME TAX

Line #	(a)	(b) Return Calculation ($)
1	Return	$3,727,393
2	Income Tax	$1,345,270
3	Less: Miscellaneous Revenue	-$513,219
4	System Return & Income Tax	$4,559,444

Schedule 7.0

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS October 22, 2007
RETURN & INCOME TAX

	(a)	(a1)	(b)	(c)	(d)	(e)
Line #	**Forecast Group**	**Total Cost excl. Return & Income Tax**	**Total Cost Allocators**	**Return, Income Tax & Misc. Rev. ($)**	**¢/cont**	**Total Cost**
1	Pop Cans	$11,040,416	21.30860%	$971,554	0.24615	$12,011,969
2	Beer Cans	$9,284,646	17.91987%	$817,046	0.24611	$10,101,692
3	PET 0 to 1 l	$9,625,890	18.57849%	$847,076	0.3205	$10,472,966
4	Beer Bottles	$5,562,141	10.73523%	$489,467	0.31517	$6,051,607
5	Glass 0 to 1 l	$4,728,761	9.12676%	$416,130	0.41261	$5,144,890
6	Tetra 0 to 1 l	$2,751,613	5.31076%	$242,141	0.31011	$2,993,754
7	PET Over 1 l	$3,566,733	6.88399%	$313,872	0.58656	$3,880,604
8	Import Beer	$2,580,768	4.98102%	$227,107	0.39548	$2,807,875
9	Glass Over 1 l	$746,225	1.44025%	$65,668	0.87454	$811,893
10	Gable 0 to 1 l	$464,343	0.89621%	$40,862	0.49644	$505,205
11	Drink Pouch	$228,801	0.44160%	$20,134	0.34172	$248,935
12	HDPE Over 1 l	$385,030	0.74313%	$33,883	0.99519	$418,913
13	Polycups	$98,749	0.19059%	$8,690	0.31452	$107,439
14	Bi Metal 0 to 1 l	$183,910	0.35496%	$16,184	0.37261	$200,094
15	HDPE 0 to 1 l	$69,505	0.13415%	$6,116	0.37478	$75,621
16	Bi Metal Over 1 l	$76,285	0.14723%	$6,713	0.81898	$82,998
17	Gable Over 1 l	$58,147	0.11223%	$5,117	0.81624	$63,264
18	Bag in Box	$36,470	0.07039%	$3,209	1.48636	$39,679
19	Tetra Over 1 l	$3,164	0.00611%	$278	0.77331	$3,442
20	PVC Over 1 l	$13,864	0.02676%	$1,220	1.815	$15,084
21	Polypropylene	$29,068	0.05610%	$2,558	0.5059	$31,625
22	PVC 0 to 1 l	$2,792	0.00539%	$246	0.55329	$3,037
23	Other	$85	0.00016%	$7	0.89138	$93
24	Sleemans	$267,549	0.51638%	$23,544	0.3313	$291,094
25	Import Beer PET 0 to 1 l	$254	0.00049%	$22	0.46597	$277
26	Import Beer (Bi-Metal)	$6,226	0.01202%	$548	0.43538	$6,774
27	Imports 0 to 1 l	$594	0.00115%	$52	0.3627	$646
28	Total	$51,812,026	100.0%	$4,559,444		$56,371,470

Schedule 8.0

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS November 1, 2007
ALLOCATORS

(a)	(b)	(e)	(d)	(e)	(f)	(j)
Forecast Group	**ID**	Cal 2007 Total Volume	Cal 2007 Total Volume Allocators	Cal 2007 Total Container Pallets	Total Container Pallets Allocators	Manufacturer
Pop Cans	1	394,698,617	26.67773%	219,662	15.9310%	ABCRC
Beer Cans	2	331,990,150	22.43926%	184,509	13.3815%	BDL
PET 0 to 1 l	3	264,299,596	17.86405%	315,906	22.9111%	ABCRC
Beer Bottles	4	155,301,308	10.49684%	77,443	5.6166%	BDL
Glass 0 to 1 l	5	100,852,527	6.81664%	125,958	9.1351%	ABCRC
Tetra 0 to 1 l	6	78,083,404	5.27767%	66,345	4.8117%	ABCRC
PET Over 1 l	7	53,510,795	3.61680%	178,811	12.9683%	ABCRC
Import Beer	8	57,426,288	3.88145%	83,639	6.0659%	BDL
Glass Over 1 l	9	7,508,825	0.50752%	39,346	2.8536%	ABCRC
Gable 0 to 1 l	10	8,231,091	0.55634%	28,738	2.0842%	ABCRC
Drink Pouch	11	5,892,000	0.39824%	5,155	0.3739%	ABCRC
HDPE Over 1 l	12	3,404,645	0.23012%	24,787	1.7977%	ABCRC
Polycups	13	2,762,927	0.18675%	1,146	0.0831%	ABCRC
Bi Metal 0 to 1 l	14	4,343,400	0.29357%	6,069	0.4402%	ABCRC
HDPE 0 to 1 l	15	1,632,000	0.11031%	2,340	0.1697%	ABCRC
Bi Metal Over 1 l	16	819,687	0.05540%	3,525	0.2557%	ABCRC
Gable Over 1 l	17	626,893	0.04237%	2,667	0.1934%	ABCRC
Bag in Box	18	215,919	0.01459%	3,366	0.2441%	ABCRC
Tetra Over 1 l	19	36,000	0.00243%	127	0.0092%	ABCRC
PVC Over 1 l	20	67,218	0.00454%	1,421	0.1031%	ABCRC
Polypropylene	21	505,620	0.03417%	1,846	0.1339%	ABCRC
PVC 0 to 1 l	22	44,400	0.00300%	198	0.0143%	ABCRC
Other	23	840	0.00006%	5	0.0003%	ABCRC
Sleemans	24	7,106,597	0.48034%	5,482	0.3976%	BDL
Import Beer PET 0 to 1 l	25	4,800	0.00032%	14	0.0010%	ABCRC
Import Beer (Bi-Metal)	26	125,850	0.00851%	309	0.0224%	BDL
Imports 0 to 1 l	27	14,400	0.00097%	18	0.0013%	BDL
		1,479,505,797	100.00%	1,378,834	100.00%	

Schedule A

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS November 1, 2007
HISTORICAL & PROPOSED HANDLING COMMISSION PERCENT CHANGE

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	Product ID	**Product Name**	**Cal 2007 Volume**	**1993 to November 14, 2001**	**November 15, 2001 to June 6, 2002**	**June 7, 2002 to Current**	**2006 DCA Proposed (Feb 27 2007)**	**2007 HCRP**
1	1	Pop Cans 0 - 1 L	394,698,617	3.00	**2.83**	2.83	3.81	3.02
2	26	Beer Cans	331,990,150	1.83	**2.83**	2.83	3.80	3.02
3	16	PET 0 - 1 L	264,299,596	4.80	4.80	**5.54**	4.29	3.94
4	33	Industry Standard Bottles	155,301,308	1.83	**2.83**	2.83	3.68	3.87
5	41	Glass 0 - 1 Litre *	100,852,527	**5.00**	**5.00**	7.50	4.19	5.08
6	21	Tetra Brik 0 - 1 L	78,083,404	3.60	3.60	**5.30**	3.85	3.81
7	17	PET Plastics Over 1 Litre	53,510,795	5.00	5.00	**7.50**	5.17	7.23
8	35	Import Beer Bottles	57,426,288	3.55	**2.83**	2.83	4.40	4.87
9	0	Gable Top Over 1L	8,231,091	5.00	5.00	**8.00**	6.00	6.00
10	10	Glass Over 1 Litre	7,508,825	5.00	5.00	**8.00**	6.00	11.00
11	32	Sleemans Bottles	7,106,597	1.83	**2.83**	2.83	6.00	6.00
12	5	Drink Pouch 0 - 1 L	5,892,000	3.00	3.00	**8.00**	6.00	6.00
13	12	HDPE Plastics Over 1 Litre	3,404,645	5.00	5.00	**8.00**	7.00	12.00
14	3	Bi Metal 0 - 1 L	4,343,400	3.05	3.05	**8.00**	6.00	6.00
15	18	Polycups 0-500ml	2,762,927	3.00	3.00	**8.00**	6.00	6.00
16	11	HDPE 0 - 1 L	1,632,000	3.14	3.14	**8.00**	6.00	6.00
17	4	Bi-Metal Cans Over 1 Litre	819,687	5.00	5.00	**8.00**	6.00	10.00
18	7	Gable Top 0 -1 L	626,893	3.60	3.60	**8.00**	6.00	10.00
19	37	Polypropylene	505,620	5.00	5.00	**8.00**	6.00	6.00
20	2	Bag in Box Over 1 L	215,919	5.00	5.00	**8.00**	10.00	12.00
21	27	Imports Under 1 Litre	14,400	5.00	5.00	**2.83**	6.00	6.00
22	20	PVC Plastics Over 1 Litre	67,218	5.00	5.00	**8.00**	10.00	12.00
23	13	Import Beer Cans (Bi-Metal)	125,850	5.00	5.00	**2.83**	6.00	6.00
24	19	PVC 0 - 1 L	44,400	3.14	3.14	**8.00**	6.00	7.00
25	34	Tetra Brik Over 1 Litre	36,000	5.00	5.00	**8.00**	6.00	10.00
26	14	Import Beer PET 0 - 1 Litre	4,800	5.00	5.00	**2.83**	6.00	6.00
27	15	Liq/Wine Ceramics	840	5.00	5.00	**8.00**	10.00	12.00
28	8	Glass 0 - 500 ml	-	5.00	5.00	**7.18**	4.19	5.08
29	9	Glass 501 - 1 Litre	-	5.00	5.00	**8.00**	4.19	5.08
30	23	Big Rock Bottles	-	1.83	**2.83**	2.83	3.68	3.87
31	24	Beer Cans - Deposit Only	-	-	-	-	-	-
32	25	Unusable ISBs	-	-	-	-	-	-
33	30	Molson Obsolete	-	-	-	-	-	-
34	31	Over 1 Litre Bottles	-	-	-	-	-	-
35	36	Aerosol 0 - 1 Litre	-	5.00	5.00	8.00	10.00	12.00
36			1,479,505,797		**revised**	**revised**		

37	**Average Handling Commission per Container**	Based on Cal 2002 Data		Based on Cal 2007 Data		
38	ABCRC	3.79	3.70	4.79	3.64	3.98
39	BDL	1.96	2.83	2.83	3.84	3.49
		3.14	3.39	3.91	3.91	3.80

* Weighted Average for Glass 0 to 500 ml & Glass 501 - 1 litre, which were combined into Glass 1 to 1 l Jan 1, 2006

Schedule A-1

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS November 1, 2007
HISTORICAL & PROPOSED HANDLING COMMISSION PERCENT CHANGE

	(a)	(b)	(c)		(d)	(e)	(f)	(g)	(h)
				FROM:	1993 to November 14, 2001	November 15, 2001 to June 6, 2002	June 7, 2002 to Current	2006 DCA Proposed (Feb 27 2007)	June 7, 2002 to Current
	Product ID	Product Name	Cal 2007 Volume	TO:	November 15, 2001 to June 6, 2002	June 7, 2002 to Current	DCA Proposed 2006 (Feb 27 2007)	2007 HCRP	2007 HCRP
1	1	Pop Cans 0 - 1 L	394,698,617		-5.7%	0.0%	34.6%	-20.8%	6.7%
2	26	Beer Cans	331,990,150		54.6%	0.0%	34.2%	-20.5%	6.7%
3	16	PET 0 - 1 L	264,299,596		0.0%	15.4%	-22.5%	-8.3%	-28.9%
4	33	Industry Standard Bottles	155,301,308		54.6%	0.0%	30.1%	5.2%	36.8%
5	41	Glass 0 - 1 Litre *	100,852,527		0.0%	50.0%	-44.2%	21.3%	-32.3%
6	21	Tetra Brik 0 - 1 L	78,083,404		0.0%	47.2%	-27.3%	-1.1%	-28.1%
7	17	PET Plastics Over 1 Litre	53,510,795		0.0%	50.0%	-31.0%	39.7%	-3.6%
8	35	Import Beer Bottles	57,426,288		-20.3%	0.0%	55.5%	10.5%	71.9%
9	0	Gable Top Over 1L	8,231,091		0.0%	60.0%	-25.0%	0.0%	-25.0%
10	10	Glass Over 1 Litre	7,508,825		0.0%	60.0%	-25.0%	83.3%	37.5%
11	32	Sleemans Bottles	7,106,597		54.6%	0.0%	112.0%	0.0%	112.0%
12	5	Drink Pouch 0 - 1 L	5,892,000		0.0%	166.7%	-25.0%	0.0%	-25.0%
13	12	HDPE Plastics Over 1 Litre	3,404,645		0.0%	60.0%	-12.5%	71.4%	50.0%
14	3	Bi Metal 0 - 1 L	4,343,400		0.0%	162.3%	-25.0%	0.0%	-25.0%
15	18	Polycups 0-500ml	2,762,927		0.0%	166.7%	-25.0%	0.0%	-25.0%
16	11	HDPE 0 - 1 L	1,632,000		0.0%	154.8%	-25.0%	0.0%	-25.0%
17	4	Bi-Metal Cans Over 1 Litre	819,687		0.0%	60.0%	-25.0%	66.7%	25.0%
18	7	Gable Top 0 -1 L	626,893		0.0%	122.2%	-25.0%	66.7%	25.0%
19	37	Polypropylene	505,620		0.0%	60.0%	-25.0%	0.0%	-25.0%
20	2	Bag in Box Over 1 L	215,919		0.0%	60.0%	25.0%	20.0%	50.0%
21	27	Imports Under 1 Litre	14,400		0.0%	-43.4%	112.0%	0.0%	112.0%
22	20	PVC Plastics Over 1 Litre	67,218		0.0%	60.0%	25.0%	20.0%	50.0%
23	13	Import Beer Cans (Bi-Metal)	125,850		0.0%	-43.4%	112.0%	0.0%	112.0%
24	19	PVC 0 - 1 L	44,400		0.0%	154.8%	-25.0%	16.7%	-12.5%
25	34	Tetra Brik Over 1 Litre	36,000		0.0%	60.0%	-25.0%	66.7%	25.0%
26	14	Import Beer PET 0 - 1 Litre	4,800		0.0%	-43.4%	112.0%	0.0%	112.0%
27	15	Liq/Wine Ceramics	840		0.0%	60.0%	25.0%	20.0%	50.0%
28	8	Glass 0 - 500 ml	-		0.0%	43.6%	-41.7%	21.3%	-29.3%
29	9	Glass 501 - 1 Litre	-		0.0%	60.0%	-47.7%	21.3%	-36.5%
30	23	Big Rock Bottles	-		54.6%	0.0%	30.1%	5.2%	36.8%
31	24	Beer Cans - Deposit Only	-						
32	25	Unusable ISBs	-						
33	30	Molson Obsolete	-						
34	31	Over 1 Litre Bottles	-						
35	36	Aerosol 0 - 1 Litre	-		0.0%	60.0%	25.0%	20.0%	50.0%
36			1,479,505,797						
					implemented	implemented			recommended
37	Average Handling Commission per Container				Based on Cal 2002 Data		Based on Cal 2007 Forecast		
38	ABCRC				-2.3%		-23.9%	9.4%	-16.8%
39	BDL				44.5%		35.6%	-9.1%	23.3%
					8.1%		-0.2%	-2.7%	-2.9%

* Weighted Average for Glass 0 to 500 ml & Glass 501 - 1 litre, which were combined into Glass 1 to 1 l Jan 1, 2006

Schedule B

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS November 1, 2007
HISTORICAL & PROPOSED HANDLING COMMISSION IMPACT

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
			Based on Cal 2002 Volumes			Based on Cal 2007 Volumes	
	Product ID	Product Name	Cal 2002 Volume	November 15, 2001 to June 6, 2002 Rate Impact	June 7, 2002 to Current Rate Impact	Cal 2007 Volume	HCRP
1	1	Pop Cans 0 - 1 L	379,888,338	($645,810)	$0	394,698,617	$745,539
2	26	Beer Cans	256,380,072	$2,563,801	$0	331,990,150	$625,237
3	16	PET 0 - 1 L	118,679,898	$0	$878,231	264,299,596	($4,233,824)
4	33	Industry Standard Bottles	116,562,648	$1,165,626	$0	155,301,308	$1,618,627
5	41	Glass 0 - 1 Litre *	-	$0	$0	100,852,527	($2,443,696)
6	21	Tetra Brik 0 - 1 L	65,763,204	$0	$1,117,974	78,083,404	($1,163,749)
7	17	PET Plastics Over 1 Litre	57,710,727	$0	$1,442,768	53,510,795	($145,783)
8	35	Import Beer Bottles	30,568,643	($220,094)	$0	57,426,288	$1,168,677
9	0	Gable Top Over 1L	5,709,631	$0	$171,289	8,231,091	($164,622)
10	10	Glass Over 1 Litre	8,091,388	$0	$242,742	7,508,825	$225,265
11	32	Sleemans Bottles	4,209,204	$42,092	$0	7,106,597	$225,279
12	5	Drink Pouch 0 - 1 L	2,214,724	$0	$110,736	5,892,000	($117,840)
13	12	HDPE Plastics Over 1 Litre	2,990,716	$0	$89,721	3,404,645	$136,186
14	3	Bi Metal 0 - 1 L	2,145,644	$0	$106,209	4,343,400	($86,868)
15	18	Polycups 0-500ml	2,941,214	$0	$147,061	2,762,927	($55,259)
16	11	HDPE 0 - 1 L	2,237,660	$0	$108,750	1,632,000	($32,640)
17	4	Bi-Metal Cans Over 1 Litre	948,254	$0	$28,448	819,687	$16,394
18	7	Gable Top 0 -1 L	706,961	$0	$31,106	626,893	$12,538
19	37	Polypropylene	-	$0	$0	505,620	($10,112)
20	2	Bag in Box Over 1 L	287,644	$0	$8,629	215,919	$8,637
21	27	Imports Under 1 Litre	36,576	$0	($794)	14,400	$456
22	20	PVC Plastics Over 1 Litre	91,379	$0	$2,741	67,218	$2,689
23	13	Import Beer Cans (Bi-Metal)	39,008	$0	($846)	125,850	$3,989
24	19	PVC 0 - 1 L	25,970	$0	$1,262	44,400	($444)
25	34	Tetra Brik Over 1 Litre	-	$0	$0	36,000	$720
26	14	Import Beer PET 0 - 1 Litre	5,137	$0	($111)	4,800	$152
27	15	Liq/Wine Ceramics	2,292	$0	$69	840	$34
28	8	Glass 0 - 500 ml	57,641,289	$0	$1,256,580	-	$0
29	9	Glass 501 - 1 Litre	31,791,672	$0	$953,750	-	$0
30	23	Big Rock Bottles	2,896,692	$28,967	$0	-	$0
31	24	Beer Cans - Deposit Only	-	$0	$0	-	$0
32	25	Unusable ISBs	-	$0	$0	-	$0
33	30	Molson Obsolete	-	$0	$0	-	$0
34	31	Over 1 Litre Bottles	-	$0	$0	-	$0
35	36	Aerosol 0 - 1 Litre	492	$0	$15	-	$0
36			1,150,567,077	$2,934,582	$6,696,331	1,479,505,797	($3,664,419)
37	**Impact by Manufacturer**						
38	ABCRC		739,913,242	($645,810)	$6,697,125	927,667,055	($7,302,695)
39	BDL		410,653,835	$3,580,392	($794)	551,838,743	$3,638,276
			1,150,567,077	$2,934,582	$6,696,331	1,479,505,797	($3,664,419)
	% Change by Manufacturer						
40	ABCRC			-2.3%	24.4%		-17.0%
41	BDL			44.5%	0.0%		24.4%
41				8.1%	17.2%		-6.3%

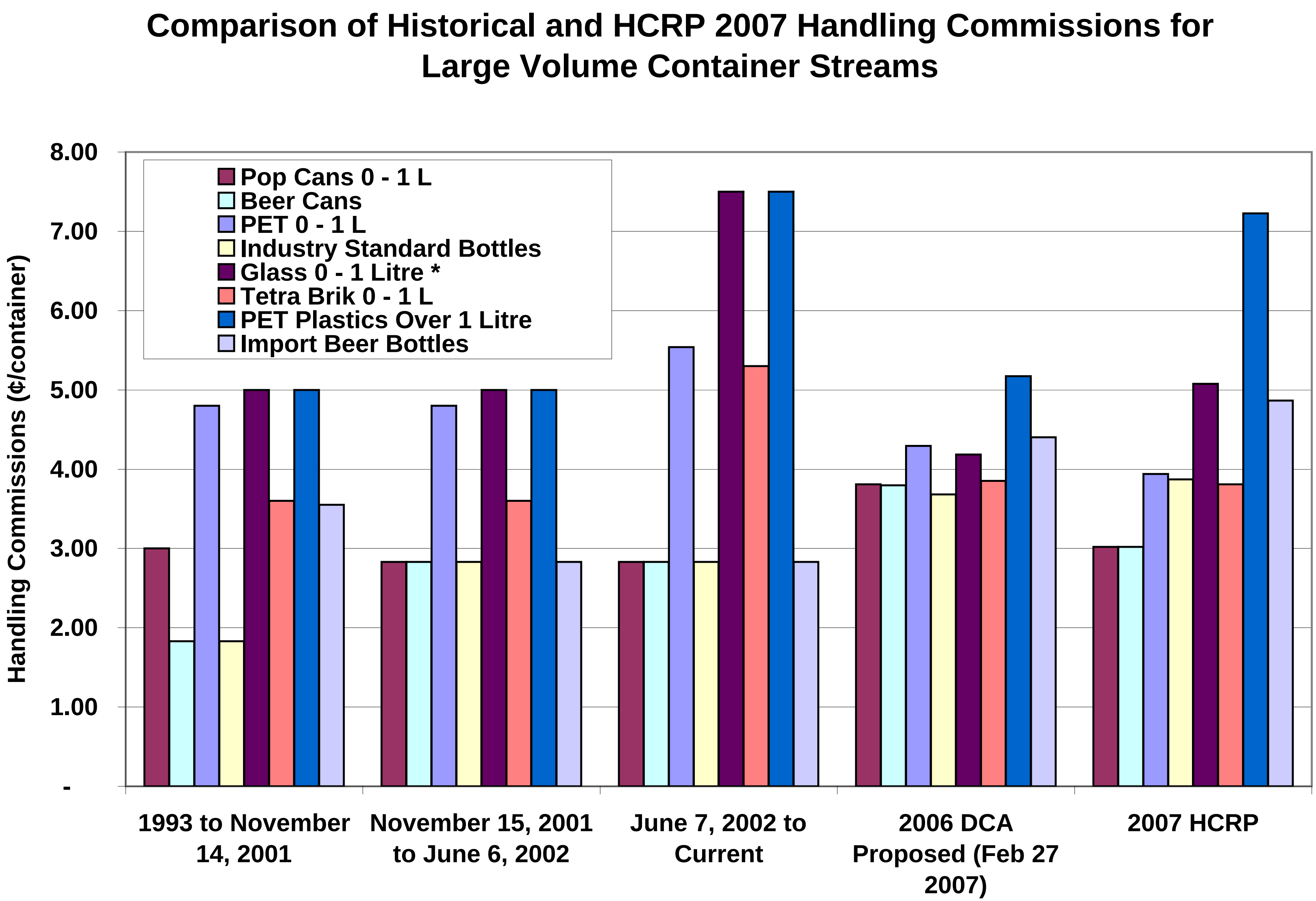
* Weighted Average for Glass 0 to 500 ml & Glass 501 - 1 litre, which were combined into Glass 1 to 1 l Jan 1, 2006

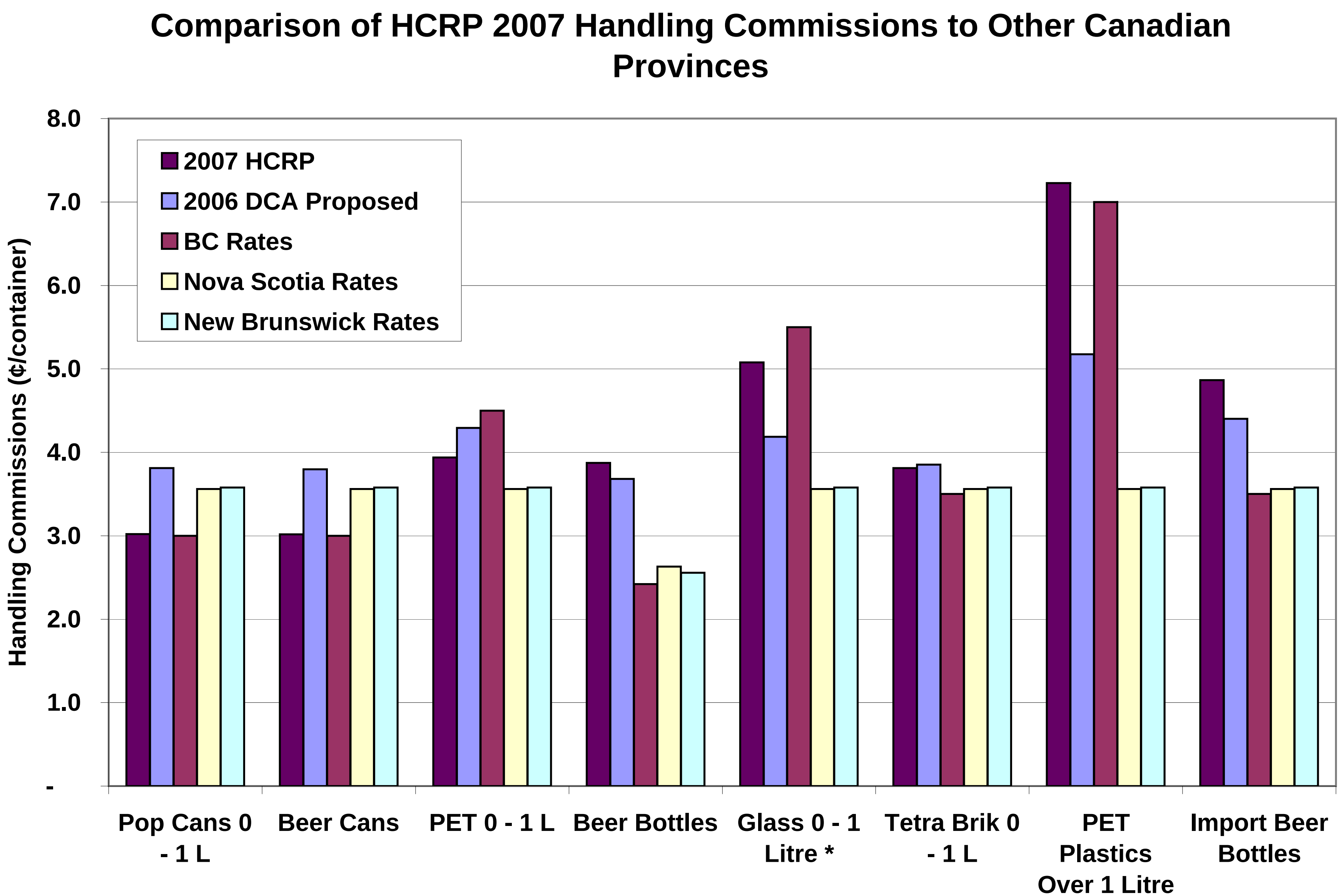
Schedule B-1

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS November 1, 2007
HISTORICAL & PROPOSED HANDLING COMMISSION PERCENT CHANGE

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
			Based on Cal 2002 Volumes			Based on Cal 2007 Volumes	
	Product ID	Product Name	Cal 2002 Volume	November 15, 2001 to June 6, 2002 Rate Impact	June 7, 2002 to Current Rate Impact	Cal 2007 Volume	HCRP
1	1	Pop Cans 0 - 1 L	379,888,338	-5.7%	0.0%	394,698,617	**6.3%**
2	26	Beer Cans	256,380,072	54.6%	0.0%	331,990,150	**6.2%**
3	16	PET 0 - 1 L	118,679,898	0.0%	13.4%	264,299,596	**-40.7%**
4	33	Industry Standard Bottles	116,562,648	54.6%	0.0%	155,301,308	**26.9%**
5	41	Glass 0 - 1 Litre *	-			100,852,527	**-47.7%**
6	21	Tetra Brik 0 - 1 L	65,763,204	0.0%	32.1%	78,083,404	**-39.1%**
7	17	PET Plastics Over 1 Litre	57,710,727	0.0%	33.3%	53,510,795	**-3.8%**
8	35	Import Beer Bottles	30,568,643	-20.3%	0.0%	57,426,288	**41.8%**
9	0	Gable Top Over 1L	5,709,631	0.0%	37.5%	8,231,091	**-48.1%**
10	10	Glass Over 1 Litre	8,091,388	0.0%	37.5%	7,508,825	**27.3%**
11	32	Sleemans Bottles	4,209,204	54.6%	0.0%	7,106,597	**52.8%**
12	5	Drink Pouch 0 - 1 L	2,214,724	0.0%	62.5%	5,892,000	**-33.3%**
13	12	HDPE Plastics Over 1 Litre	2,990,716	0.0%	37.5%	3,404,645	**33.3%**
14	3	Bi Metal 0 - 1 L	2,145,644	0.0%	61.9%	4,343,400	**-33.3%**
15	18	Polycups 0-500ml	2,941,214	0.0%	62.5%	2,762,927	**-33.3%**
16	11	HDPE 0 - 1 L	2,237,660	0.0%	60.8%	1,632,000	**-33.3%**
17	4	Bi-Metal Cans Over 1 Litre	948,254	0.0%	37.5%	819,687	**20.0%**
18	7	Gable Top 0 -1 L	706,961	0.0%	55.0%	626,893	**20.0%**
19	37	Polypropylene	-			505,620	**-33.3%**
20	2	Bag in Box Over 1 L	287,644	0.0%	37.5%	215,919	**33.3%**
21	27	Imports Under 1 Litre	36,576	0.0%	-27.1%	14,400	**52.8%**
22	20	PVC Plastics Over 1 Litre	91,379	0.0%	37.5%	67,218	**33.3%**
23	13	Import Beer Cans (Bi-Metal)	39,008	0.0%	-27.1%	125,850	**52.8%**
24	19	PVC 0 - 1 L	25,970	0.0%	60.8%	44,400	**-14.3%**
25	34	Tetra Brik Over 1 Litre	-			36,000	**20.0%**
26	14	Import Beer PET 0 - 1 Litre	5,137	0.0%	-27.1%	4,800	**52.8%**
27	15	Liq/Wine Ceramics	2,292	0.0%	37.5%	840	**33.3%**
28	8	Glass 0 - 500 ml	57,641,289	0.0%	30.4%	-	
29	9	Glass 501 - 1 Litre	31,791,672	0.0%	37.5%	-	
30	23	Big Rock Bottles	2,896,692	54.6%	0.0%	-	
31	24	Beer Cans - Deposit Only	-			-	
32	25	Unusable ISBs	-			-	
33	30	Molson Obsolete	-			-	
34	31	Over 1 Litre Bottles	-			-	
35	36	Aerosol 0 - 1 Litre	492	0.0%	37.5%	-	
36			1,150,567,077	8.1%	17.2%	1,479,505,797	**-6.3%**
37	**Impact by Manufacturer**						
38	ABCRC		739,913,242	-2.3%	24.4%	927,667,055	**-17.0%**
39	BDL		410,653,835	44.5%	0.0%	551,838,743	**24.4%**
			1,150,567,077	8.1%	17.2%	1,479,505,797	**-6.3%**

* Weighted Average for Glass 0 to 500 ml & Glass 501 - 1 litre, which were combined into Glass 1 to 1 l Jan 1, 2006


Comparison of Historical and HCRP 2007 Handling Commissions for
Large Volume Container Streams
Handling Commissions (¢/container)
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
-
Pop Cans 0 - 1 L
Beer Cans
PET 0 - 1 L
Industry Standard Bottles
Glass 0 - 1 Litre *
Tetra Brik 0 - 1 L
PET Plastics Over 1 Litre
Import Beer Bottles
1993 to November 14, 2001
November 15, 2001 to June 6, 2002
June 7, 2002 to Current
2006 DCA Proposed (Feb 27 2007)
2007 HCRP


Comparison of HCRP 2007 Handling Commissions to Other Canadian Provinces
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
-
Handling Commissions (¢/container)
2007 HCRP
2006 DCA Proposed
BC Rates
Nova Scotia Rates
New Brunswick Rates
Pop Cans 0 - 1 L
Beer Cans
PET 0 - 1 L
Beer Bottles
Glass 0 - 1 Litre *
Tetra Brik 0 - 1 L
PET Plastics Over 1 Litre
Import Beer Bottles

APPENDIX III – 2007 HCRP HANDLING COMMISSION RATES

BEVERAGE CONTAINER MANAGEMENT BOARD
HCRP 2007 PHASE II DETERMINATIONS October 22, 2007
CAL 2007 HANDLING COMMISSIONS

Product ID	Product Name	ID	Fixed Fee Component (¢/cont)	Variable Fee Component (¢/cont)	Total Handling Commission (¢/cont)
1	Pop Cans 0 - 1 L	1	0.04	2.98	3.02
26	Beer Cans	2	0.04	2.98	3.02
16	PET 0 - 1 L	3	0.04	3.90	3.94
33	Industry Standard Bottles	4	0.04	3.83	3.87
23	Big Rock Bottles	4	0.04	3.83	3.87
8	Glass 0 - 500 ml	5	0.04	5.04	5.08
9	Glass 501 - 1 Litre	5	0.04	5.04	5.08
41	Glass 0 - 1 Litre	5	0.04	5.04	5.08
21	Tetra Brik 0 - 1 L	6	0.04	3.77	3.81
17	PET Plastics Over 1 Litre	7	0.04	7.19	7.23
35	Import Beer Bottles	8	0.04	4.83	4.87
10	Glass Over 1 Litre	9	0.04	10.96	11.00
0	Gable Top Over 1L	10	0.04	5.96	6.00
5	Drink Pouch 0 - 1 L	11	0.04	5.96	6.00
12	HDPE Plastics Over 1 Litre	12	0.04	11.96	12.00
18	Polycups 0-500ml	13	0.04	5.96	6.00
3	Bi Metal 0 - 1 L	14	0.04	5.96	6.00
11	HDPE 0 - 1 L	15	0.04	5.96	6.00
4	Bi-Metal Cans Over 1 Litre	16	0.04	9.96	10.00
7	Gable Top 0 -1 L	17	0.04	9.96	10.00
2	Bag in Box Over 1 L	18	0.04	11.96	12.00
34	Tetra Brik Over 1 Litre	19	0.04	9.96	10.00
20	PVC Plastics Over 1 Litre	20	0.04	11.96	12.00
37	Polypropylene	21	0.04	5.96	6.00
19	PVC 0 - 1 L	22	0.04	6.96	7.00
15	Liq/Wine Ceramics	23	0.04	11.96	12.00
36	Aerosol 0 - 1 Litre	23	0.04	11.96	12.00
32	Sleemans Bottles	24	0.04	5.96	6.00
14	Import Beer PET 0 - 1 Litre	25	0.04	5.96	6.00
13	Import Beer Cans (Bi-Metal)	26	0.04	5.96	6.00
27	Imports Under 1 Litre	27	0.04	5.96	6.00
24	Beer Cans - Deposit Only	23	0.04	11.96	12.00
25	Unusable ISBs	23	0.04	11.96	12.00
30	Molson Obsolete	23	0.04	11.96	12.00
31	Over 1 Litre Bottles	23	0.04	11.96	12.00

Fixed Fee ($/month/depot) **$250**