

# REVIEW OF ENVIRONMENTAL HANDLING FEES FOR PHASE I PRODUCTS



## EXECUTIVE SUMMARY

Atlantic Canada Electronics Stewardship (ACES); Saskatchewan Waste Electronic Equipment Program (SWEEP) and Electronics Stewardship Association of British Columbia (ESABC) jointly commissioned a review of the Environmental Handling Fees (EHFs) for Phase I products. Each of these programs uses a visible EHF to provide program revenue for the collection, transportation, responsible recycling and administration of regulated electronics in their jurisdictions. Phase I regulated products include: desktop and notebook computers, computer monitors, desktop printers and televisions. This fee applies to all suppliers of the regulated products.

### Proposed Environmental Handling Fees by Category and Program

<i>New Standardized Categories</i>	<i>ACES</i>	<i>SWEEP</i>	<i>ESABC</i>
Display Devices - 29" and smaller	\$11.50	\$9.25	\$9.00
Display Devices - 30" and larger	\$40.00	\$23.25	\$31.75
Desktop Computers	\$10.50	\$15.00	\$5.50
Portable Computers	\$2.10	\$3.00	\$1.20
Desktop Printers	\$6.50	\$8.00	\$6.50
Computer Peripherals	\$0.90	\$1.10	\$0.90

The objective of the study is to analyze and make recommendations for EHFs for "Phase I" regulated products as listed in the British Columbia, Saskatchewan and Nova Scotia regulations, as well as for other computer peripherals (including keyboards and mice). The intent is to harmonize the implementation of the revised EHFs and methods for their determination across jurisdictions.

The EHF study was carried out by InterGroup Consultants Ltd. and Forkast Consulting (collectively the Research Team). Both have extensive experience in utility cost of service and rate design projects. The methodology used in this study is consistent with that used for determining Nova Scotia's Phase II EHFs (effective Feb. 1 2009).

A consultation period was held from March 27 2009 to April 17 2009. Based on comments received from stakeholders, the Research Team and the Study Advisory Committee made revisions to the report and the proposed fees. The primary change was to remove the proposal for a combined computer product category.

Download the full report at [www.estewardship.ca](http://www.estewardship.ca).

**GUIDING PRINCIPLES** The following 10 principles were chosen at the outset of this study to provide guidance and direction for the study:

1. Separate EHF's will be set for each product category.
2. Fees will be determined using forecast total costs divided by forecast total unit sales for each category.
3. Product category fees will cover the costs of related products created by manufacturers that are no longer in business.
4. Fees will include operations costs for each product category, common costs of running the EHF programs and costs unique to each category (if applicable).
5. There will be no cross-subsidization across product categories.
6. The costs of disposing of obsolete technologies will be applied to the successive product technology.
7. Fees will be set in a fair and transparent manner that is communicated clearly to all program members.
8. The program will not operate with an ongoing surplus or deficit. A reserve will be established to cover a minimum of two years of operating expenses.
9. Program members will be adequately notified of any fee changes. Fees will not change between September 1 and January 31.
10. A single EHF will be charged for each product. Where products from more than one category are sold within a single SKU, the single highest applicable EHF will be charged.

**RESEARCH CRITERIA** Specific EHF setting criteria were established by the three programs together to guide the research process:

- The EHF's are based on forecast costs and product sales for a three-year period, with the intent of maintaining consistent EHF's throughout the period.
- Common costs are allocated to different product categories based on two ratios. 15% of total common costs are allocated in equal shares to each product category, in order to recognize that there are certain fixed costs associated with administering each product category. 85% of total common costs are allocated to each product category in proportion to the total operating costs incurred by each category.
- The programs will maintain an Operating Contingency Reserve per category to cover a minimum of two full years of operating costs.
- The EHF's will include an accrual for the Operating Contingency Reserve until the targeted amount is achieved.
- The EHF's will include an accrual for an Effectiveness & Efficiency Fund for research and development initiatives.

## Effects of Proposed Changes on Existing Product Categories

	ACES			SWEEP			ESABC		
	Current	Proposed	Change	Current	Proposed	Change	Current	Proposed	Change
TV's - 18 inch and smaller	\$15.00	\$11.50	-23%	\$15.00	\$9.25	-38%	\$15.00	\$9.00	-40%
TV's - 19 - 29 inch	\$25.00	\$11.50	-54%	\$25.00	\$9.25	-63%	\$25.00	\$9.00	-64%
TV's - 30 - 45 inch	\$30.00	\$40.00	33%	\$30.00	\$23.25	-23%	\$30.00	\$31.75	6%
TV's - 46 inch and larger	\$45.00	\$40.00	-11%	\$45.00	\$23.25	-48%	\$45.00	\$31.75	-29%
Desktop Computers (CPU's)	\$10.00	\$10.50	5%	\$10.00	\$15.00	50%	\$10.00	\$5.50	-45%
Portable Computers	\$5.00	\$2.10	-58%	\$5.00	\$3.00	-40%	\$5.00	\$1.20	-76%
Monitors	\$12.00	\$11.50	-4%	\$12.00	\$9.25	-23%	\$12.00	\$9.00	-25%
Desktop Printers	\$8.00	\$6.50	-19%	\$8.00	\$8.00	0%	\$8.00	\$6.50	-19%
Computer Peripherals	N/A	\$0.90		N/A	\$1.10		N/A	\$0.90	

**RESEARCH ACTIVITIES** The Research Team, in consultation with a Study Advisory Committee made up of representatives from each program, as well as industry stakeholders, undertook the following activities:

- A review of forecast collections; operating and common costs and sales forecasts for the period from 2009-2011.
- Updates to EHF calculations for the existing Phase I product classes as well as calculations for computer peripherals (including keyboards and mice).
- A review of the existing product categories, to determine if revisions were desired.
- A consideration of harmonization of EHF across the three jurisdictions.

**EXPECTED EFFECTS** During the course of the review, the Research Team was cognizant of the economic downturn affecting most of the country. Therefore cost estimates and sales forecasts used in this study are conservative and were reviewed with the Study Advisory Committee. As a result of the review, the Research Team recommends certain changes to the EHF fee schedule. The proposed revisions are intended to:

- Update the fee schedules to reflect program experience to date and projections for collections, sales and operating costs in the future.
- Address technological convergence between some product categories; changes in consumer preferences and to simplify administration and communication to consumers by reducing the number of product categories.
- Differentiate the fees across the programs, to reflect regional differences in cost structures, sales and collection patterns.

**IMPLICATIONS OF IMPLEMENTING PROPOSED EHF** Implementing the proposed fee schedules would reduce the EHF for most product categories. Overall program revenues would also be lower. Some of the key factors that contribute to the differences between the proposed EHF and the existing EHF include:

- Each of the programs were able to provide actual operating statistics (including costs and volumes collected), improving the ability to forecast costs and revenues on a program by program basis.
- Regional differences in costs contribute to different fees for each jurisdiction. The proposed EHF reflect these regional differences.

**MONITORING RECOMMENDATIONS** The proposed EHF incorporate actual operating experience from each of the programs. However, the analysis by necessity also includes a number of assumptions and estimates. Although these assumptions and estimates are considered conservative and reasonable, it is acknowledged that actual operating costs, collections and product sales will be different from these assumptions and change over time. Therefore the Research Team recommends a program of monitoring, to ensure the EHF continue to be reasonable in light of potential changes to each program's operating environment. Specific monitoring recommendations include:

1. Monitor on an ongoing basis key product parameters and variables including product weights, life cycles and collection volumes to assist in future refinements of the EHF calculations.
2. Conduct a high-level review of the Phase I EHF at a pre-determined interval, perhaps after the first full year following implementation of revised fees. This review can be used to identify any material problems related to revenue over-collection or under-collection and to ascertain if the EHF are reasonable.
3. Undertake a detailed review and assessment of the Phase I EHF at the end of the three-year period. (The EHF have been calculated assuming a three-year operating period.) New estimates will be required to take into account actual operating experience and changes in technology, products and operating environments.
4. Maintain on-going communication with stakeholders, including stewards and consumers, to help to identify opportunities to further refine the EHF calculation methods.