I.   RETURN MARGIN METHODOLOGY POLICY

Definitions

1. In this Policy:

    "BCMB" means the Beverage Container Management Board;

    "Bottle Depot" means a universal bottle depot operating in Alberta;

    "Container Volume Forecast" means the determination made by the DCA, based on actual or forecast volumes, of the total volume of beverage containers to be processed by all of the Bottle Depots during a specified time period and to be used as a factor in determining the HCs for that specified period of time;

    "DCA" means the BCMB's Data Collection Agent;

    "Deposits", for any particular Revenue Requirement, means an estimate of the aggregate of all regulated refunds reimbursed by all Bottle Depots to consumers upon the return to such Bottle Depots of registered beverage containers during the period of time used for the calculation of that particular Revenue Requirement, basing such estimate upon the Container Volume Forecast;

    "HC" means, at any particular time, the Handling Commission rates used for payment to Bottle Depots for their handling of registered beverage containers;

    "HCRP" means the Handling Commission Review Panel which was involved in the BCMB's 2005 to 2007 HC review process;

    "Operating Expenses", for any particular Revenue Requirement, means the aggregate of all Bottle Depot eligible operating expenses, including without limitation direct, contract and overhead labour expenses, building expenses, equipment expenses and overhead expenses, used in determining that particular Revenue Requirement;

    "Return", for any particular Revenue Requirement, means the quantum of money to be included in that particular Revenue Requirement which is derived from the Return Margin for Operating Expenses plus the quantum of money to be included in that particular Revenue Requirement which is derived from the Return Margin for Deposits.

"Return Margin for Deposits", for any particular Revenue Requirement, means the percentage of Deposits that is used to determine the Return to be included in that particular Revenue Requirement;

"Return Margin for Operating Expenses", for any particular Revenue Requirement, means the percentage of Operating Expenses that is used to determine the Return to be included in that particular Revenue Requirement;

"Return Margin Methodology", means the method to be used by the DCA and its experts when calculating the Return to be included in the determination of any particular Revenue Requirement, based on the following general premises:

a) that return in a regulated context is analogous to profit in a non-regulated context; and

b) that for service based industries return is a percentage (the return margin) of revenue.

For the Bottle Depot industry Return for any particular Revenue Requirement shall equal the amount represented by the applicable Return Margin for Operating Expenses plus the amount represented by the applicable Return Margin for Deposits;

"Revenue Requirement" means the annual cost to operate the Bottle Depot network and is used to determine HCs;

"UCA" means the BCMB Uniform Code of Accounts.

Background to Policy

2. The lack of significant capital assets within the Bottle Depot network led to the DCA recommending the use of the Return Margin Methodology for the determination of Return during the 2005 to 2007 HC review process. The recommendation of the HCRP, in their November 2, 2007 report, which was subsequently approved by the BCMB, was that the Return Margin Methodology be used and that the Return then under consideration should be equal to:

a) 5.02% of Operating Expenses, calculated as an after tax Return provision, plus

b) 1.00% of Deposits, calculated as an after tax Return provision.

3. During the 2005 to 2007 HC review process, the DCA recommended that the appropriate Return Margin for Operating Expenses should be a function of the level of risks which the Bottle Depots face; the higher the level of risk faced, the higher the Return Margin for Operating Expenses should be. In addition, the DCA's expert recommended a comparative approach in order to determine the appropriate Return Margin percentages to use, comparing Return Margins for competitive service industry based businesses and making adjustments for the different types of risk profiles.

4. The HCRP recommended, in consideration of regulatory precedents where utilities manage sums of money on a flow through basis, that a Return Margin for Deposits be used, to compensate Bottle Depots for the risks associated with handling large volumes of cash. This recommendation was subsequently approved by the BCMB.

5. On November 1, 2008, the Deposit rates for non-beer beverage containers increased significantly (overall Deposit revenue to Bottle Depots increased by about 56%).

Determination of Return

6. When determining any particular Revenue Requirement, the following general principles shall apply to the determination of Return for that particular Revenue Requirement:

    a) The determination of the Return for that particular Revenue Requirement will be based on the Return Margin Methodology; and

    b) The determination of the Return Margin for Operating Expenses and the Return Margin for Deposits, for the purposes of calculating the Return for that particular Revenue Requirement, will be calculated on an after-tax basis.

7. Changes in Deposit rates for beverage containers, such as the November 1, 2008 increase in Deposit rates for non-beer beverage containers, warrants consideration of a revision in the Return Margin for Deposits to be used in calculating Return for the purposes of determining HCs.

8. As part of every HC review process, the DCA will be directed by the BCMB to retain an expert in order to provide a recommendation to the BCMB, using the Return Margin Methodology, on the quantum of Return to use for that particular HC review process, including without limitation the percentages to be used for the Return Margin for Operating Expenses and the Return Margin for Deposits.

    a) Prior to retaining this expert, the DCA shall prepare a Return Margin Expert Terms of Reference (TOR) that outlines the services the DCA requires of the Return Margin Expert. The DCA shall also prepare a listing of potential experts (List) who will be asked to respond to a Request for Proposal (RFP).

    b) If the interested Parties to the Handling Commission Review have been identified by the time that the DCA is ready to retain the Return Margin Expert, the DCA shall meet with the Interested Parties or their representatives to review the Terms of Reference and the listing of potential experts. The Interested Parties or their representatives shall have the opportunity to recommend additions, deletions or amendments to both the Return Margin Expert Terms of Reference and the listing of potential experts. The role of the Interested Parties or their representatives shall at all times be advisory, with the DCA to have the sole prerogative to make the final determination on the Return Margin Expert Terms of Reference and the listing of potential experts. The DCA will provide the Interested Parties or their representatives with a copy of the final Return Margin Expert Terms of Reference prior to conducting the Request for Proposal. The DCA shall inform the Interested Parties or their representatives as to the successful respondent to the Request for Proposal. Any Interested Party has the right to engage their own Return Margin Expert in the Handling Commission Review process if they should so choose.

    c) If the Interested Parties to the Handling Commission Review have not been identified at the time that the DCA is ready to retain the Return Margin Expert, the previous paragraph applies, but with "the BCMB Handling Commission Review Task Force" substituted in place of "the Interested Parties or their representatives" wherever that phrase occurs.