

## Definitions

1. In this Policy:
  - A. “As Reported Lease Costs” for a Depot Building Group means all annual building lease rates, specifically including all net costs for leasehold improvements borne by bottle depot lessees in such Depot Building Group but specifically excluding all As Reported Lease Related Operating Costs and all Building Ownership Costs, being paid by all those bottle depots in such Depot Building Group which are leasing their respective bottle depot buildings, all based on the “As Reported Data” collected from the most current UCAs;
  - B. “As Reported Lease Related Operating Costs” for a Depot Building Group means all lease related building operating costs which are identifiable and quantifiable , including without limitation building utility costs, building maintenance costs, and all other building operating costs but specifically excluding all Building Ownership Costs and all As Reported Lease Costs, being paid by all those bottle depots in such Depot Building Group which are leasing their respective bottle depot buildings, all based on the “As Reported Data” collected from the most current UCAs;
  - C. “Average As Reported Lease Cost” for a Depot Building Group means the average of the As Reported Lease Costs for such Depot Building Group;
  - D. “Average As Reported Lease Related Operating Cost” for each group of As Reported Lease Related Operating Costs determined by the DCA for a Depot Building Group means the average of the As Reported Lease Related Operating Costs for such group;
  - E. “BCMB” means the Beverage Container Management Board;
  - F. “Base Revenue Requirement Year” means at any particular time the effective year selected by the BCMB for purposes of collecting data and information upon which to base the then current review and determination of Handling Commissions;
  - G. “Building Ownership Costs” for a Depot Building Group means all building finance costs and all capital, improvement and other costs specifically related to the ownership of a bottle depot building in such Depot Building Group;
  - H. “DCA” means the Data Collection Agent selected by the BCMB;
  - I. “Deemed Building Size” means the average size for a bottle depot building in a Depot Building Group;

- J. “Deemed Lease Rate” means, in any particular Base Revenue Requirement Year and for each Depot Building Group, the annual building lease rate which has been determined by the DCA in accordance with this Policy for such Depot Building Group and which is deemed to apply to all bottle depot buildings in Alberta which are contained by definition in such Depot Building Group, whether such buildings are owned or leased, for the purposes of determining the annual Revenue Requirement for that particular Base Revenue Requirement Year;
- K. “Depot Building Group” means any one of the defined groupings of bottle depot buildings in Alberta, as determined by the DCA for any particular Base Revenue Requirement Year, which groupings fairly combine, represent and differentiate the various sizes and locations of bottle depots through-out Alberta;
- L. “Handling Commissions” means amounts required to be paid by manufacturers or collection system agents to bottle depot operators in Alberta for the handling of those empty beverage containers for which a handling commission has been set by the BCMB pursuant to the terms of the BCMB Administrative Bylaw;
- M. “HCRP” means the Handling Commission Review Panel, as it existed for the 2005 to 2007 Handling Commissions review process;
- N. “Real Estate Expert” means an independent third party accredited appraiser who has extensive experience and knowledge of commercial lease rates for buildings comparable to those used by bottle depots contained in a Depot Building Group;
- O. “Revenue Requirement” means the estimated total annual cost to operate the Alberta bottle depot network and is used to determine Handling Commissions in Alberta; and
- P. “UCA” means Uniform Code of Accounts used by the BCMB.

### Background to Policy

2. In the 2005-2007 Handling Commission review process, the DCA and the HCRP recommended to the BCMB that deemed building lease rates be used to estimate the cost of bottle depot buildings for the purpose of determining the Revenue Requirement when calculating Handling Commissions. With a mixture of owned and leased bottle depot buildings, the use of a deemed building lease rate was determined to be a fair and equitable approach to use when calculating the Revenue Requirement for the Base Revenue Requirement Year under consideration.

3. The HCRP recommendation was to use deemed building lease rates that were based on the market value of building lease rates for similar buildings over a five year period of time. An average of the deemed building lease rates over a five year period was recommended to emulate the average cost of bottle depots which were assumed to have five year building lease terms.
4. The DCA recommended that deemed building lease rates should be differentiated by location and that a location weighted average deemed building lease rate be utilized. The rationale was that building lease rates in urban settings are higher than in rural settings and that a mixture of urban and rural bottle depots should also be considered. The HCRP recommendation was to use an average deemed building lease rate for the Province of Alberta based on the evidence that was filed during the review process.

### Determination of Deemed Lease Rate

5. The DCA will determine the composition and number of Depot Building Groups to be used in any particular Base Revenue Requirement Year under consideration for the purposes of determining the Revenue Requirement for such year, taking into consideration, all relevant factors, including without limitation, the difference between commercial and industrial bottle depot locations, the difference between Metro, Urban and Rural bottle depot locations, the economic differences of the various geographic locations of bottle depots through-out Alberta, and generally the different sizes of the Metro, Urban and Rural bottle depots in Alberta.
6. The DCA will engage a Real Estate Expert for each Depot Building Group. A Real Estate Expert may be engaged by the DCA for more than one or for all Depot Building Groups.
7. For any particular Base Revenue Requirement Year under consideration, and for each Depot Building Group, the DCA will determine the following:
  - A. the Deemed Building Size for such Depot Building Group;
  - B. the Average As Reported Lease Cost for such Depot Building Group;
  - C. how the As Reported Lease Related Operating Costs for such Depot Building Group will be grouped for such Depot Building Group (in any particular Base Revenue Requirement Year, the same groupings are to be used for all Depot Building Groups); and
  - D. the Average As Reported Lease Related Operating Cost for each group of As Reported Lease Related Operating Costs determined by the DCA for such Depot Building Group.

8. The Deemed Building Size for a Depot Building Group, as determined by the DCA, together with a full description of the composition of such Depot Building Group, as determined by the DCA, shall be provided by the DCA to the Real Estate Expert analyzing such Depot Building Group.
9. The Average As Reported Lease Cost for a Depot Building Group and the Average As Reported Lease Related Operating Cost for each group of As Reported Lease Related Operating Costs for such Depot Building Group, as determined by the DCA, shall be provided by the DCA to the Real Estate Expert analyzing such Depot Building Group.
10. The Real Estate Expert shall hold all data and information provided to it by the DCA in strict confidence.
11. Based on the data and information provided to the Real Estate Expert by the DCA, and based on the further external investigation, analysis and expertise of the Real Estate Expert, the Real Estate Expert shall provide the DCA with a written report addressing the following matters for the particular Base Revenue Requirement Year under consideration:
  - A. for each Depot Building Group, the average comparable market rates for annual building lease rates ("Market Lease Rates") for the Base Revenue Requirement Year under consideration ("Year 1") and for the four years prior to the Base Revenue Requirement Year under consideration ("Years 2, 3, 4 and 5"), comparable by description to the As Reported Lease Costs and exclusive of the As Reported Lease Related Operating Costs; and
  - B. for each Depot Building Group, the average comparable market rates for annual costs for each identifiable and quantifiable category of building related costs, in accordance with the categories which were determined by the DCA, ("Market Building Related Costs") for the Base Revenue Requirement Year under consideration ("Year 1") and for the four years prior to the Base Revenue Requirement Year under consideration ("Years 2,3,4 and 5"), comparable by description to the As Reported Lease Related Operating Costs.
12. The Real Estate Expert's report to the DCA will be used by the DCA for the purposes of this Policy and will be made available to all stakeholders of the BCMB, with the exception only of those portions of such report, if any, which contain confidential data or information that cannot be disclosed to any party other than the DCA.
13. In any particular Base Revenue Requirement Year under consideration, the DCA shall determine the Deemed Lease Rate for all bottle depots in each Depot Building Group, as follows:

- A.** the DCA will rely on the written report of the Real Estate Expert for such Depot Building Group for such Base Revenue Requirement Year;
  - B.** the DCA will calculate the average of the five Market Lease Rates for Years 1,2,3,4, and 5 for such Depot Building Group, and that average shall be the Deemed Separate Lease Rate for such Depot Building Group;
  - C.** the DCA will calculate the average of the five Market Building Related Costs for Years 1,2,3,4, and 5 for such Depot Building Group, and that average shall be the Deemed Building Related Costs for such Depot Building Group; and
  - D.** the DCA shall add the Deemed Separate Lease Rate for such Depot Building Group to the Deemed Building Related Costs for such Depot Building Group, and the resulting total shall be the Deemed Lease Rate for such Depot Building Group for that particular Base Revenue Requirement Year.
- 14.** The DCA will use the Deemed Lease Rate for each Depot Building Group and the Deemed Building Size for each such Depot Building Group to determine the total building cost to be used for each such Depot Building Group. The total building cost for each and every Depot Building Group, as determined in accordance with this Policy, shall be added together to determine the aggregate total building cost for all of the Depot Building Groups and shall be used in determining the annual Revenue Requirement for the Base Revenue Requirement Year under consideration and the related Handling Commissions.
- 15.** This Policy shall apply to the review and calculation of all Handling Commissions.