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**Beverage Container Stewardship Plan**

*Product Category:*

**Recycling Regulation, Schedule 1, Beverage Container  
Product Category (BC Reg. 449/2004)**

*Document Title:*

**Amendment to Section 9: Producers Paying the Cost of  
Obligated Materials and Dispute Resolution Process**

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Stewardship Plan:*

**The September 1, 2021, approved Stewardship Plan  
replaces Encorp's previous Stewardship Plan, which  
was approved by the Ministry on November 20, 2014,  
and originally approved on July 19, 2007.**

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PO Box 9341, Stn Prov Govt Victoria, BC V8W 9M1**

## Section 9 Producers Paying the Cost of Obligated Material & Dispute Resolution Process

### Section 9A: Producers Paying the Cost of Obligated Material

#### Financial Incentive and Payment Methodology and Process

In 2022 Encorp Pacific (Canada) expects to collect and recycle 1.4 billion beverage containers, about 95% of which will be returned by consumers through its network of 162 redemption facilities, (80 of which also provide Express service to consumers), 12 Return-It Express & Go unmanned facilities and two Express Plus locations. Encorp is paying the cost to manage these obligated materials by paying handling fees to the depots, processing fees to processors, freight rates to transporters, and marketing expenses to inform consumers. This section describes the methodology used to set rates paid to depots, processors, and transporters. (Encorp pays all marketing expenses.)

The process to establish the rates paid to transporters and processors is relatively simple. A detailed statement of the required work, services and scheduling requirements is developed for the general area to be served by the contractor and then qualified suppliers are offered the opportunity to submit a bid for the contract. Service providers are chosen based on the total merit of the offers submitted in a competitive market and contracts are established.

Currently Encorp is contracted with 38 trucking firms that provide transport services, picking up beverage containers from redemption facilities, delivering them to 15 different processors throughout British Columbia and/or to Encorp's Quality Assurance/Count Centre facility.

Encorp also covers the transportation costs to move the container commodities from processors to the ultimate recycling plants and these arrangements are made with the recyclers.

This competitive process cannot be conducted in establishing handling fees with depots since individual licence agreements for most depots include an exclusive territory in which Encorp cannot license another depot. As a result, Encorp cannot initiate a competitive bid process for depot services within the exclusive territory. Encorp may only contract with the depot owner that holds the exclusive territory license. Further, many of the depots conduct business unrelated to the collection of used beverage containers for delivery to Encorp. Encorp is not required to, nor should it, be subsidizing these depots for their other lines of business.

Therefore, Encorp must use a different methodology to determine appropriate handling fees.

#### General Overview of Depot Handling Fee Methodology

The basis of compensation to depots is via the payment of handling fees from Encorp to the depot. The process for establishing Depot handling fees for collection of used beverage containers managed by Encorp involves the following steps:

1. Conduct a handling fee consultation process to provide the contracted depot stakeholders with an opportunity to voice their expectations, and understand, participate in, and provide input and feedback into the process.
2. Complete a depot financial study performed by an independent consultant to assess actual reasonable depot costs to collect and handle obligated materials based on a representative sample of depots which looks at actual costs of the different inputs into the operating costs of the sample depots and the depots current revenues. This establishes a baseline average depot reasonable profit margin.
3. Develop a forecast of depot revenue and costs for the next term (typically five (5) years) and calculate handling fees over that term to provide reasonable handling fees for depots. This forecast is based on the depot financial study, [forecasted costs](#) and forecasted revenues related to the collection and handling of Encorp used beverage containers including container volume projections, other macro-economic indicators, and projected changes over the term that are anticipated to impact depot revenues and costs. The result of the process is a handling fee proposal that covers the projected depot operating costs and provides a reasonable profit margin for an efficient<sup>1</sup> depot that is meeting operating procedures and standards and does not require subsidization of the depot for its other business lines.
4. Process depot contract amendments to reflect the new handling fees.

## Methodology and Process Detail

### 1. Handling Fee Consultation Process

The handling fee consultation involves a series of communications and meetings to review methodology and information throughout the process of determining new handling fees for the next 5-year term. All depots, regardless of whether they participate in the depot financial study portion of the process, are invited to attend these meetings, and ask questions (verbally or written) either during the meeting or as follow-up questions to Encorp management, the independent consultant, or Encorp's team of Regional Operations Managers<sup>2</sup>.

At these meetings, Encorp presents a detailed outline of the proposed methodology to determine new handling fees and asks for feedback. In addition, Encorp also presents detailed anonymized statistical data from the previous 5-year handling fee period on depot container volume growth, depot handling fee growth, other financial support payments provided by Encorp to the depots (such as loans, technology investments and presence grants), depot financial forecasts and economic indices, and results of third-party studies. Material presented in each of these meetings is posted and made available to depots to download, review, and provide additional feedback. All feedback received by Encorp is recorded

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<sup>1</sup> Efficient is defined as a depot that is meeting operating procedures in a manner representative of the average depot operator. For example, a depot operating in a space that is twice as large as a depot handling the same number of containers would be considered inefficient.

<sup>2</sup> Regional Operations Managers ("ROMs") are full-time dedicated employee liaisons between Encorp and Return-It Depots.

verbatim, reviewed and considered, and adjustments are made to the handling fee review process as necessary.

As part of the consultation process, Encorp reviews the Depot Operating Standards which form part of depot contracts. Depot operating standards are designed to ensure adequate customer service standards are met, ensure consumers have adequate access to recycling of obligated materials in their communities, ensure facilities are healthy, clean, and safe, and provide standardization of depot operations. Encorp considers feedback from depots on any proposed changes to the operating standards during the consultation process itself to determine any necessary amendments to Depot Operating Standards. Encorp then considers the impact those changes may have on operating costs and factors that into handling fee calculations.

## 2. Depot Financial Study

The depot financial study is an integral part of the handling fee review process. To initiate the depot financial study, Encorp issues a Request for Proposal (RFP) to several independent accounting firms/consultants.

The objective of the depot financial study is to assess the financial performance of an average depot that is meeting depot operating procedures and standards for delivering contracted services to Encorp based on the actual costs incurred by depots during the most recent fiscal year. This is done by selecting a subset of depots representing a cross-section of depot profiles and producing an aggregated Profit and Loss statement for an average depot.<sup>3</sup>

The Depot Financial Study also examines other activities undertaken by depots, including business unrelated to the collection of Encorp obligated material. Revenues and costs from those activities are segregated for comparison with Encorp program related revenues and costs to ensure handling fees are set with the objective of there being no cross-subsidization between Encorp's and other extended producer responsibility plans.

### 2.1 Scope of Services for the Financial Study

#### Depot Selection Process

In 2021, the selection of depots to participate in the depot financial study was included in the scope of the independent consultant's engagement for the first time. This change was a result of the feedback provided by the depots during the 2021 handling fee consultation process where depots indicated they preferred that Encorp did not manage the selection of depots to maintain anonymity. Encorp provides a stipend to participating depots to acknowledge the time and commitment required to participate in the study and the stipend was administered by the independent consultant.

The independent consultants are required to sign a non-disclosure agreement ("NDA") with Encorp and with all participating depots. After the NDA is executed, Encorp provides the independent consultant with a list of all depots showing their container volumes and locations across the province as well as contact

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<sup>3</sup> Express operating in depots are included in the financial study. Express and GO are unmanned, not operated by depots and are not included in the financial study.

information for depot owner / operators. The list also provides the independent consultant with depot participation in other Encorp programs, such as Express, to ensure depots of different profiles are included in the study. The engagement scope included the independent consultant selecting depots for the study, with the goal to obtain a sufficient cross-section of depots in terms of geography, program participation (i.e., Express) and container volume, to generate accurate and representative results, as well as to protect participant anonymity. The goal is to have the average volume of containers handled by the depots participating in the study as close as possible to the average volume of containers for all depots.

Depots with volume under 1.5 million units per year (under approximately \$75,000 in revenue per year) are excluded from the study as they receive additional financial compensation for their services in the form of a presence grant paid each quarter. The amount an individual depot receives as a presence grant is on a sliding scale that reflects the actual number of containers the depot collects. Those low-volume depots represent 16% of depots and are primarily located in rural areas of BC.

Removing these small depots from the selection criteria reduces the population of eligible depots to 138 depots. To obtain a representative cross-section of depots, it is hoped that all depots selected for the study by the independent consultants participate in the study. If all those invited elect to participate, the result of this analysis provides a better representation of depot costs.<sup>4</sup>

#### Data Gathering Process

In the data gathering process the independent consultant develops an understanding of current depot operations, including key macro-factors that influence the cost of operations, through written submissions from, and interviews with, participating depot owner / operators.

The independent consultant develops a questionnaire to solicit key financial information, such as consolidated and segregated actual unit volumes (Encorp volume versus BRCCC volume), actual sales revenue, actual operating expenses and other expenses associated with beverage containers managed by Encorp and other programs. Five (5) of the participating depots, chosen by the independent consultant as being generally representative of the overall sample of participating depots, are consulted by the independent consultant to refine the questionnaire via one-hour meetings before distributing the questionnaire to all participating depots.<sup>5</sup>

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<sup>4</sup> In the last handling fee setting process in 2021, 125 out of 138 eligible depots were invited to participate in the study by the third-party independent consultant, KPMG. 17 depots agreed to participate in the study. The more depots that participate in the study, the more representative the resulting data will be.

<sup>5</sup> Input from depots in a past consultation indicated that the depots preferred that the independent consultant choose the 5 depots representing the overall sample of participating depots so Encorp has adopted this methodology.

Data is then collected from the depots. The independent consultant reviews and summarizes the data collected, including consolidated and segregated volumes of beverage containers, sales revenues, operating expenses, and other costs, but not including goodwill. The questionnaire data is validated against information provided in each depot's financial statements. Finally, data is normalized to account for differences among depots such as physical depot size and proportion of space dedicated to Encorp's beverage program, and variations in premise costs. The data analysis, validation, and normalization are performed by the independent consultant using methods chosen at their own discretion.

#### Stakeholder Engagement

During this phase of the depot financial study, the independent consultant reviews the financial findings with the participating depots to confirm that the independent consultant's interpretation of the data is correct and consistent with the actual depot operations.

#### Review and Finalization

This phase involves finalizing the financial report, including the Aggregated Income Statement for an average depot, and presenting the results to all depot stakeholders. The statement helps Encorp evaluate the profit margins and financial performance of depots under the then current handling fee structure.

At the end of the independent consultant's engagement, the final report and Aggregated Income Statement based on depots' historical data is used by Encorp to develop forward looking financial projections and calculate appropriate handling fees for the next 5-year term that provide a reasonable profit margin. Refer to Figure 1 below for a template of the Income Statement format. Assumptions regarding macroeconomic factors used to project revenue and costs are described in more detail in section 3 below and are shared with contracted Depots during the process.

Summary Income Statement (Based on Participating Depot Average)							
Encorp				Other		Total	
Revenue		% Total Revenue			% Total Revenue		
Handling Fees - Encorp UBC	XXXXX	%		-			XXXXX
Other Programs				XXXXX	%		XXXXX
<b>Total</b>	XXXXX	%		XXXXX	%		XXXXX
Expenses		% Revenue	% of total expenses			% Total Expenses	
Wages and Benefits	XXXXX	%	%	XXXXX	%	#VALUE!	%
Rents and Occupancy Costs	XXXXX	%	%	XXXXX	%	#VALUE!	%
Equipment Costs	XXXXX	%	%	XXXXX	%	#VALUE!	%
Office, Administration and Other Costs	XXXXX	%	%	XXXXX	%	#VALUE!	%
<b>Total</b>	XXXXX	%	%	XXXXX	%	#VALUE!	%
		% of Rev			% of Rev		
<b>Earnings Before Taxes</b>	XXXXX	%		XXXXX	%		XXXXX
<b>Income Taxes</b>	XXXXX			XXXXX			XXXXX
<b>Net Earnings</b>	XXXXX			XXXXX			XXXXX

Figure 1: Income Statement Template

### 3. Projection of Revenue and Costs for the Next Term to Determine a New Set of Handling Fees

The final report and Aggregated Income Statement prepared by the independent consultant is used as a key input into forecasting depot revenue and costs over the next handling fee period and ultimately, to determine a new set of handling fees for all depots.

#### 3.1 Expense Projection

Depot Expenses are broken down into four components:

- Wages and Benefits
- Rents and Occupancy Costs
- Equipment Costs
- Office, Administration, and Other Costs<sup>6</sup>

##### Wages and Benefits

The wages and benefit costs are determined by an analysis of how many employees a depot would need based on the depot's volume of containers. An average annual increase in wages and salaries in BC over the past 5 years and analysis of projections of labour market wage costs for similar work, including changes to the provincial minimum wage, are used to project wage increases for the next term.

If any additional benefits are introduced by the provincial government, they are added as a new cost to the financial model. A recent example is the 5 days sick leave benefit.

##### Rents and Occupancy Costs

Most depots either own their property or have a long-term lease arrangement with pre-determined rental rates. Therefore, a CPI forecast of space costs using forecasts from Statistics Canada, BC Stats and/or major financial institutions is used to project increases in rent and occupancy costs for depots. Actual increases experienced over the previous five-year period may provide some indication of local trends.

##### Equipment Costs

Generally, handling used beverage containers does not require a lot of equipment, particularly with simplified sorts. Reducing the number of sorts from 28 to 8 means that large numbers of containers are placed into mega-bags that are provided by Encorp.

The most important piece of equipment required by a depot is the Point of Return (POR) cash register system. This system records the containers by type as they are received by depot staff from the consumers. This equipment is provided by Encorp with the number of units available to a depot based on the number of containers it collects. If the depot wants more units than what would be allotted based on its container volume, the depot is free to purchase additional units. The depots share with Encorp the

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<sup>6</sup> Other cost include, but are not limited to insurance, phone, computing & internet, professional fees and discretionary depot marketing.

maintenance costs for this equipment. Encorp provides the equipment necessary for Express in the depots and subsidizes the cost of supplies, such as labels.

Encorp considers whether there are any operational changes to procedures for handling Encorp containers, that require additional equipment expenditures and, if so, factors these into cost projections. A CPI forecast from Statistics Canada, BC Stats and/or major financial institutions is also used to project increases in annual equipment costs for depots.

The introduction of simplified sorts, which cut the number of sorts from 28 to 8, provides depots with an opportunity to operate with fewer staff at a time when staff shortages are a significant operational issue. Depots place containers into fewer mega-bags so they can provide more efficient service to customers.

Some larger depots have chosen to invest in depot automation technology (automated sorting, counting and reverse vending machines (RVMs)) which has shown to provide cost certainty and the ability to gain further savings of operational costs. To assist depots in deploying automation technology Encorp offers an interest free loan for a portion of automation costs, which is repayable over a two-year term via offset deductions.

#### Office, Administration, and Other Costs

A CPI forecast using forecasts from Statistics Canada, BC Stats and/or major financial institutions is used to project increases in office, administration, and other costs. Encorp considers other factors that may result in specific cost increases and, where applicable, factors those into cost projections.

The requirement that depots must allocate a small amount to local marketing activities and advertising was removed in 2017. However, Encorp has increased its marketing budget to about \$4 million per year for a variety of marketing activities, including traditional television and radio advertising along with newer platforms, special promotions and innovative initiatives intended to motivate consumers to bring their containers to redemption facilities.

### 3.2 Revenue Projection

Once costs have been projected as described above, the revenue estimates start with projections of depots' future container volume. Encorp uses various estimates including Statistics Canada BC population growth forecast, per capita return rates, the addition of new containers to the deposit refund system (i.e., milk and milk substitutes) to project future sales figures as well as considers container volume increases needed to meet the recovery rate targets for the next five years. Depots are an important service provider for Encorp, collecting 93% to 95% of the containers returned each year in the areas they operate, most with territorial exclusivity from other depots.

The estimated volume is then multiplied by the current handling fee to determine the future revenue per year for an average depot. The resulting figure is assessed against the projected operating costs as established in 3.1 to ensure that the rates provide a reasonable return to efficient depots meeting operating procedures and standards, and meet the costs of managing the obligated materials, without subsidization. If not, new handling fees are altered to ensure that a reasonable return to efficient depots is established.



### 3.3 New Handling Fee Rates

If the projected future costs of the average efficient depots multiplied by the current handling fees paid by Encorp to the depots does not provide a reasonable return to the depot, the financial model incorporating the forecasted depot volume and costs is updated with new handling fee rates. In this way the new handling fees for the next 5-year term are established and tested to ensure that the projected revenue is sufficient to cover the costs and provide a reasonable gross margin to the depots that are meeting operating procedures and standards over the next term, without subsidization of depots' other lines of business.

The handling fees for the next 5 years term are presented to the depots and depots are offered an opportunity to ask questions regarding the factors used in determining the handling fees. The Depot Financial Study is made available to the depots so they can compare their own results with those identified by the study. The projections of key future costs that are used to develop the proposed fees are also shared with depots along with projected revenue, coverage of costs and gross profit margin.

[Key assumptions used in forecasting both revenues and costs will be shared concisely, in a summary format, with depots. The Aggregated Income Statement developed by the third-party consultant and the forecasting spreadsheet that considers future revenues, costs, and handling fees will be shared with the depots.](#)

### 3.4 Contract Amendments to Reflect the New Handling Fees

At the conclusion of the handling fee review process, the Depot Agreements are amended to include the new Handling Fee Schedule and offered for execution to individual depots to coincide with the end of the previous fee schedule.

### 3.5 Handling Fee Review Commitment

Encorp commits to reviewing handling fees [including the additional financial assistance grants provided to small volume depot locations known as Presence Grants](#), at least once every five years. In addition, handling fees will be reviewed within 12 months after the addition or deletion of a new obligated beverage container category or other material change to depot operations.<sup>7</sup>

## Conclusion

The methodology and process outlined in this revised Section 9 of the Stewardship Plan describes how Encorp meets the compliance requirements within the Producer Paying the Cost of Obligated Material Guidance document.

## Section 9B: Dispute Resolution Process

All Encorp depot, transport and processing contracts include dispute resolution terms that permit either party to initiate a dispute resolution process in respect of disputes covered by the agreement. That

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<sup>7</sup> For example, Encorp reviewed handling fees in August 2022, 6 months after the introduction of milk and milk substitutes to reassess the handling fees which resulted in a handling fee increase to the depots who chose to participate in simplified sorts.

process provides for, on notice of a dispute being filed by either party, a mandatory meeting to negotiate a resolution and, in the absence of resolution, mediation through a mutually appointed mediator or, failing that, arbitration.

Both the negotiation and mediation between the parties will be confidential. If the parties fail to resolve the dispute by mediation, either party may request the dispute go to arbitration before a mutually acceptable arbitrator or an arbitrator appointed by the Vancouver International Arbitration Centre.

While not specified in the Regulation, Encorp has established procedures for managing complaints or concerns on the part of customers, local governments, retailers, and non-commercial stakeholders. Of particular note, Encorp employs a team of Regional Operations Managers whose primary role is to support depots and work to address any day-to-day operational or contractual issues.