# Hauler Transportation Incentive Program
# Change Consultation
# January 14th, 2014
# OTS Offices

# Hauler Consultation – To be updated

Session Agenda

1. Used Tire Program (UTP) Objectives
2. UTP Incentive Changes
3. Proposed Delivery Zone Model
    i. Exception Processes
4. Next Steps

Rethink your relationship with tires

# Hauler Incentive Changes

UTP Objectives

1. Ensuring used tires are picked-up from all areas of the province;

2. Incenting the development of Ontario processing capacity to be able to manage 100% of Ontario's used tires;

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# Hauler Incentive Changes

UTP Objectives

3. Incenting the development of Ontario Recycled Product Manufacturing (RPM) to consume an increasing portion of recycled rubber from Ontario Processors;

4. Supporting the growth of existing, and development of new, markets for Ontario Tire Derived Products (TDPs);

5. Clean-up existing tire stockpiles

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# Quick Recap

- The positive capacity developments in the Ontario market have resulted in a significantly changed tire transportation map that should result in a more efficient and less costly system:
- As Processors capacity stabilizes Haulers have greater certainty about where tires can be delivered resulting in opportunity for transportation efficiencies that reduce costs
- Haulers have had time to solidify relationships with Collectors, again providing greater certainty around routes, volumes etc.;
- An analysis of TI rates across Canada shows that Ontario pays the highest Transportation rates of any province (except Newfoundland, where tires are loaded onto ships and sent to Quebec)

# Quick Recap

OTS has determined that the Delivery Zone TI Model (DZM) is the preferred one to achieve program and industry objectives:

- Facilitate free and efficient movement of Used Tires in Ontario
- Reduce OTS administrative burden on stakeholders
- Reduce the incidence and costs associated with gaming of the TI system
- Ensure that the TI Model encourages a fair and competitive Used Tire transportation industry in Ontario

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# Quick Recap

While OTS is proceeding with implementing the DZM TI structure there continue to be details which will need to be addressed prior to implementation October 1st 2014:

- Delineation of the Delivery Zones
  - Current DZM Model includes 5 zones (differentiated by ORT and OTR), is this the correct number, should some zones be aggregated \ disaggregated?
- Review of Base cost assumptions used in model
  - OTS is seeking input from Haulers regarding the costs associated with operating a Hauling business such as labor, insurance, fuel etc…
- Update using full year 2013 delivery data
  - OTS will continue to update the rates based on the most up-to-date delivery information

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# Components of Transportation Incentives

- Incentive Rates are derived from three collection cost components:
  - **Local collection costs**
    - includes delivery costs to either processing facilities (where the facility is located within or proximate to the collection zone) or to a sorting or consolidation yard;
    - This includes truck type, average tires a load, average load/unload time, driver wages, average kilometers, truck operating costs; admin and overhead
    - zones are defined based on collection patterns, density and efficiency of collection:
  - **Sorting yard costs**
    - include the costs of sorting and reloading tires for delivery to a domestic processing facility;
    - Not all tires hit a sorting yard but use averages across a collection zone:
    - Assumed minimum annual volume for an efficient yard:
    - Urban Yards assume 1,000,000 PTE for efficiency
    - Rural Yard – 500,000 PTE for efficiency
    - Average re-load time
    - Labour Wage Rates
    - Annual Equipment and facility costs

# Components of Transportation Incentives

- **Final Transport costs from a sorting yard / collection point to a processing facility**
  - Assumed average distance to processing facilities based on capacities:
  - Ontario transport  operating costs per Km from Transport Canada Truck Operating Cost Surveys adjusted for changes to the transportation component of the Consumer Price Index

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# Components of Transportation Incentives

- ***Incentive Rate*** is based on the point of delivery (formerly collection) and is a single blended rate based on assumptions on processing capacity and estimates of tire generation by point of origination and assumes an efficient collection pattern, i.e. tires go to the nearest processing facility with capacity and capability to process these tires on a reliable basis

# Hauler Incentive Changes

Reminder from 2013

Average # tires collected per load

- Increased average load for 5 ton trucks 10% based on 3 years collection data; smaller truck sizes not adjusted

Truck Operating Cost Assumptions

- Quarterly Fuel Adjustment – slight decrease to September 30

Assumed Average Distance to Processing Facilities

- Ontario transport operating costs per KM from Transport Canada Truck Operating Cost Surveys adjusted for changes to the transportation component of the Consumer Price Index

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# Delivery Zone Model
## Transportation Incentive

The Delivery Zone model will have differentiated ORT and OTR and will move forward as such. The change is intended to:

- Significantly simplify the TI model
- Reduces opportunities for system gaming
- Continues to account for the variations in costs of transport of tires to Processors based on assumed points of origination

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# What are the Changes ? –
## Transportation Incentive

Delivery Zone Model (DZM)

In this model OTS would set TI rates (either for all tires or setting differentiated rates for ORT and OTR tires) per tonne based on a "Delivery Zone" taking into account the "catchment area" for each zone (the FSAs from which tires should flow to that Delivery Zone based on assumed most-efficient transport).

A premium would be added to any. payment based on volumes of tires collected in the north

Currently proposed Zones would be:

- Ontario East (Ottawa/Moose Creek)
- GTA
- Ontario West 1 (Brantford, Wallenstein, Dunnville, St. Catherines)
- Ontario West 2 (Windsor, Chatham, Tilbury)
- Ontario North (Sturgeon Falls)

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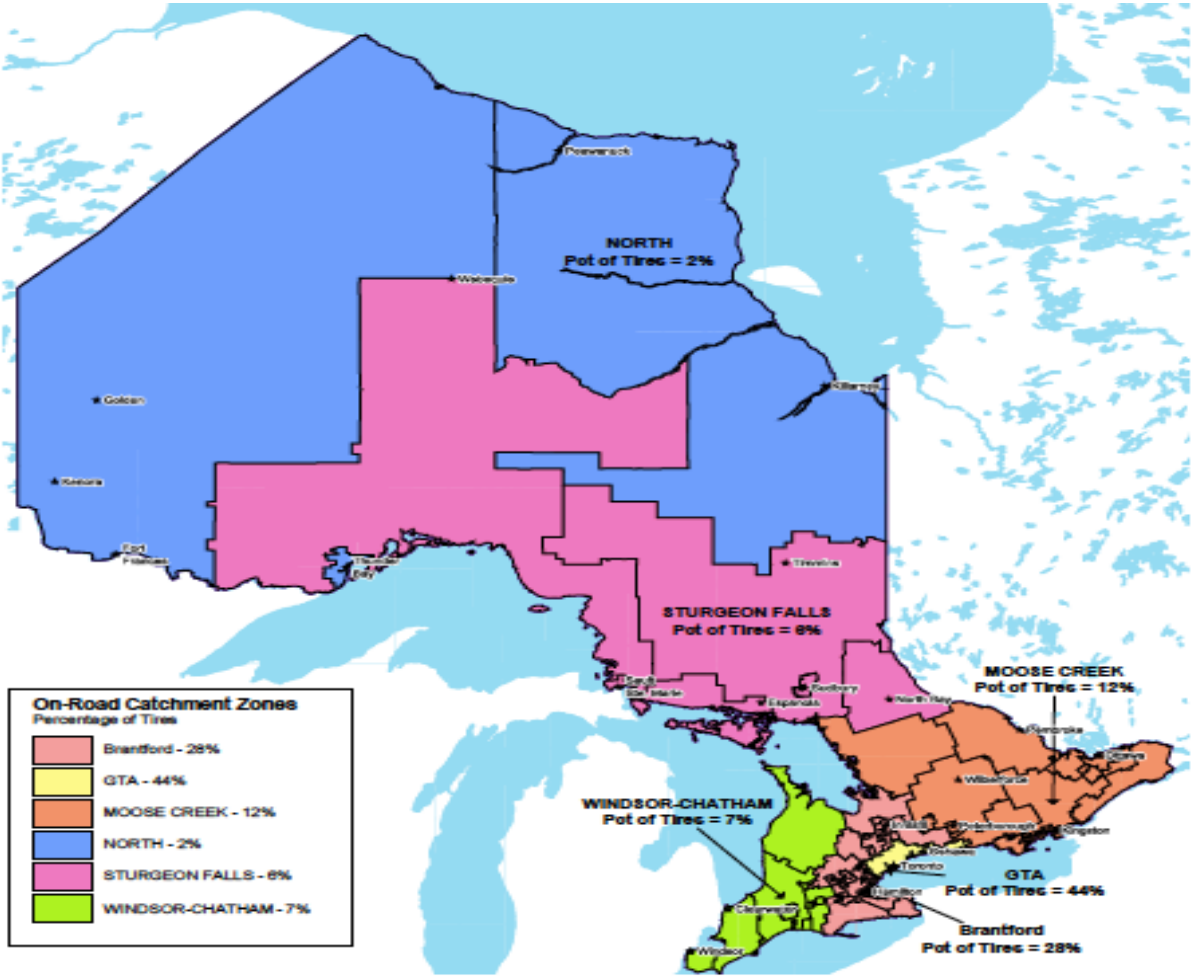
# Catchment Zones – On-Road (est.)




OntarioTire Stewardship
On-Road Catchment Zones

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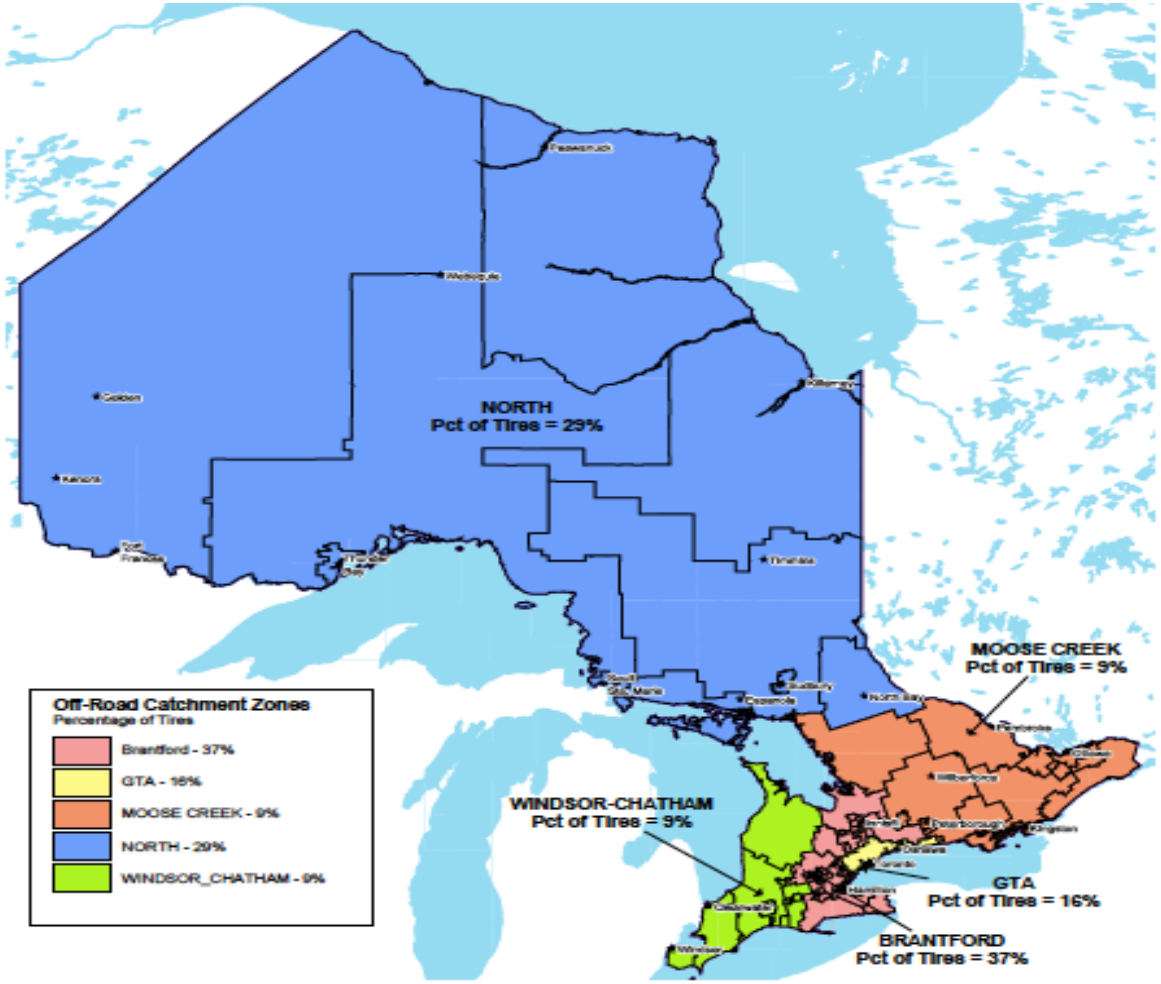


OntarioTire Stewardship Zones
Off-Road Catchment Zones

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# Processor Catchment Average Credit Calculation

| GTA Processing Zone Catchment Area | | Rate / PTE | Volume | Average Credit |
|---|---|---|---|---|
| GTA 1 | Toronto | $ 0.93 | 680 | $ 0.63 |
| SC1 | Baldwin | $ 1.51 | 34 | $ 0.05 |
| SC3 | Orillia | $ 1.72 | 49 | $ 0.08 |
| SC9 | Newmarket | $ 1.46 | 27 | $ 0.04 |
| SC10 | Barrie | $ 1.48 | 34 | $ 0.05 |
| SE5 | Apsley | $ 2.07 | 34 | $ 0.07 |
| SE7 | Kingston | $ 1.74 | 83 | $ 0.14 |
| SE8 | Peterborough | $ 1.77 | 32 | $ 0.06 |
| SE9 | Huntsville | $ 2.02 | 28 | $ 0.06 |
| | | | | |
| | | | 1,000 | $ 1.18 |

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# What are the Changes ? –
## Transportation Incentive On Road

| | | Moose Creek | GTA | Brantford/Dunville/Kitchener/Wallenstein | Windsor/Tilbury/Chatham | Sturgeon Falls |
|---|---|---|---|---|---|---|
| On Road | | $ 1.34 | $ 1.18 | $ 1.34 | $ 1.50 | $ 2. 20 |

A premium will be paid on tires collected in the North of $0.90 /PTE

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# What are the Changes ? –
## Transportation Incentive Off Road

| | | Moose Creek | GTA | Brantford/Dunville/Kitchener/Wallenstein | Windsor/Tilbury/Chatham | Sturgeon Falls |
|---|---|---|---|---|---|---|
| Off Road | | $ 1.58 | $ 1.28 | $ 1.30 | $ 1.62 | N/A |

A premium will be paid on tires collected in the North of $0.90 /PTE

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# What are the Changes ? –
## Transportation Incentive

Example:
PTR to Brantford etc.
PLT – 100 ; MT – 50 ; SOTR – 5
50 PLT's Collected in North
Estimated Weight – 4,100 kgs
Actual Weight – 4,500 kgs

On Road - $ 1.34 ($1.34 + $0.90 for 50 Northern Tires)
Off Road - $ 1.30

Therefore, 500/4100=12.2% of weight came from North
12.2% of 4,500 = 549.00
54.90 x .90 = $49.41 Premium (per PTE)

OTS will breakdown the percentage of weight based on estimated weight (as currently) and use those percentage breakdowns when calculating the actual weight payout.
50 PLT tires will carry an additional $0.90 premium

| | Est. Weight | Actual Weight | TI Rate | Payment |
|---|---|---|---|---|
| On Road | 3,500 kg | 3,500 kg | $ 1.34 | $ 4,690 |
| Off Road | 600 kg | 1,000 kg | $ 1.30 | $ 1,300 |
| Northern Premium | 12.2% of 4,100 kg | | $0.90 | $ 49.41 |

# Collection Cost Calculation – GTA example

| | GTA | 1 ton truck | | GTA/Ottawa 5 ton truck | | |
|---|---|---|---|---|---|---|
| | | Cost | Cost / PTE | | Cost | Cost / PTE |
| # Loads / day | 2 | | | 2 | | |
| # Tires Collected | 400 | | | 1000 | | |
| Loading/Unloading Time | 4 | | | 4 | | |
| Cost | | 80 | 0.2 | | 168 | 0.168 |
| Drive Time | 4 | | | 6 | | |
| Cost | | 80 | 0.2 | | 108 | 0.108 |
| Drive Km | 140 | | | 165 | | |
| Cost | | 140 | 0.35 | | 561 | 0.561 |
| Admin & Office Overhead Cost | | | 0.106154 | | | 0.106154 |
| | | | | | | Weighted Average |
| | | | $ 0.86 | | | $ 0.94 | $ 0.92 |
| | | | 25% | | | 75% | |

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# What are the Changes ?
## Transportation Incentive

**Potential TI Models - Exceptions**

A concern provided to OTS was that moving to a TI model based on delivery as opposed to pick-up does present a risk of reduced service levels in specific areas, particular in northern zones.

In the event that certain parts of the province do not receive service OTS may elect to issue an RFP to Processors for used tire pick-up for that area. Processors may continue to elect which haulers they choose to deal with, but will be responsible for ensuring service levels are maintained for that area.

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# Hauler Incentive Changes

Next Steps

OTS invites the hauler stakeholders to provide any suggestions or comments they may have on how we can achieve the organization's financial objectives. The comments should be submitted to OTS by February 14th 2014 by e-mail at info@rethinktires.ca

Next Hauler Consultation : Mid March 2014

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# Hauler Incentive Changes

Questions?

Comments?

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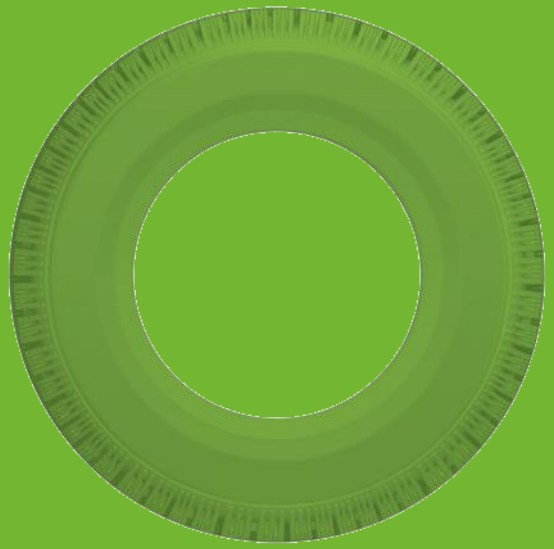

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