



OTS Hauler Transportation Incentive Meeting 2012 TI Review

November 1st, 2011

For Audio Dial 416-343-2285 or 1-877-969-8433

PIN# 4467765

Agenda

- 1) Overview of 2012 Proposed Changes
 - a. Overview of Model
 - b. Fuel Adjustment
 - c. Price Index Adjustments
 - d. Reuse Adjustments
 - e. Reallocation of Delivery Destinations/Assumptions for Direct Deliveries
 - f. Review of Estimated Weights vs Actual Weights and Adjustments
- 2) 2012 TI Proposed Rate Changes to PLT & MT Tires
- 3) 2012 TI Proposed Rate Changes to DOTs
 - a. Premium Revisions
 - b. Estimated Weight Revisions
- 4) Implementation Timelines
- 5) Questions/Comments?

1) Overview of 2012 Proposed Changes

a) Overview of Model

- Earn credits when tires collected from Approved Sources;
 - Registered collectors (TCR, DOT)
 - Special tire collections (STC)
- Eligible for payment when tires delivered to OTS approved end uses:
 - In-Province processors (PTR);
 - Approved export processors (PTR)
 - Hauler Transfers (HIT) – as normal course of business
 - NOTE: Reuse will remain an eligible end use, however payment will not be received at the point of sale/delivery this will be discussed further in section 1d.

1) Overview of 2012 Proposed Changes

Earning Credits

- Point of Origination is defined as a postal code (FSA);
- Credit is a single blended rate based on assumptions on end destination of tires and ultimate use, assumes/encourages an efficient collection pattern, closest facility with processing capacity;
- Culled tires are only eligible for credit to a sorting yard (reuse and retreading)
- Rate is weight based on standard weights for P/LT, MT and OTR
- Used tires must be generated in Ontario after August 31, 2009.
- Actual information is tracked and compared to assumptions to make future adjustments

1) Overview of 2012 Proposed Changes

Earning Payments

- Payments are earned upon proof of delivery to approved end uses (in 2012 this will not include deliveries to reuse/retreading although these uses will continue to be considered approved end uses – to be discussed further later in the presentation;
- Transfer of Inventory between haulers in the normal course of business is defined as an approved end use
 - The Hauler transferring the tires to another Hauler is responsible for ensuring that the tires received by the Hauler are managed in accordance with the OTS program rules and policies.

1) Overview of 2012 Proposed Changes

- As Proposed in October 19th Technical Committee Meeting, Haulers must deliver 75% of their deliveries to a Processor or to a Reuse/Retreading destination, Haulers transferring more than 25% of their tires delivered to another Hauler will be reviewed by OTS and potentially removed from the program in the event that they are not able to deliver 75% of their tires to either a registered processor or sold to a reuse/retreading market
- This threshold will be reviewed by OTS from time to time; Haulers not meeting the threshold will be given a deadline (2 months from the point of notification) in which to prove that they can/are meeting the threshold
- Haulers who do not meet the 75% threshold after the 3 month period will be deregistered as a Hauler from the program
- Implementation to begin January 1, 2012

1) Overview of 2012 Proposed Changes

In–Province

Surplus

- In-Province – Re-Direct
- Out-of-Province – Ad-hoc

The In-Province Model

1) Overview of 2012 Proposed Changes

- Incentive Rates are derived from the three main components of collection costs as per consultation with Haulers during plan development and based on the experience of other programs;
- Local collection costs
 - includes delivery costs to processing facilities (where the facility is located within or proximate to the collection zone) or to a sorting or consolidation yard;
 - Collection 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 go through a sorting yard but averages are estimated across a collection zone:
 - Assumed minimum annual volume for an efficient yard:
- Onward delivery costs from a sorting yard to a domestic processing facility
 - 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

1) Overview of 2012 Proposed Changes

Local Collection Costs Components:

Zones are defined based on collection patterns, density and efficiency of collection:

- Truck type
- Average # tires per load
- Average load/unload time
- Employee wage rates
- Average kilometres driven (route plus to drop facility)
 - Established as return to centre of FSA for initial model
- Truck operating costs per kilometre
 - Transport Canada provincial level surveys
- Administration & overhead allocation.

1) Overview of 2012 Proposed Changes

Sorting Yard Cost Components:

Not all tires hit a sorting yard but use averages across a collection zone:

- Lower percentage in GTA
- High percentage in rural areas

Assumed minimum annual volume for an efficient yard:

- Urban Yard
- Rural Yard
- Average re-load time
- Labour wage rates
- Annual equipment costs
- Annual facility/land costs

1) Overview of 2012 Proposed Changes

Final Transport Cost Components:

Assumed average distance to processing facilities:

- Assumes movement to nearest facility/facilities with processing capacity
- 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

Re-Directs – Ad Hoc Transportation Incentives

1) Overview of 2012 Proposed Changes

Calculating Re-Direct and Ad-Hoc Rates

- The normal in-province rates are available to be claimed based on the point of collection (i.e. Postal Code Zone)
- The ability to claim the additional incentives is based on pre-approval by OTS to ensure that capacity does not exist in the facilities where these tires would normally be directed when the approval was granted
- The additional incentives are based on the estimated incremental cost to transport these tires from the zone where they were collected to the approved facility. The zones are defined as:
 - North
 - Southwest
 - Southcentral/GTA
 - Southeast
- Ontario-First Policy remains in effect
- Refer to Hauler Guidebook for full details re: Adhocs/Redirect Policies and Procedures

1) Overview of 2012 Proposed Changes

Re-Direct/Ad-Hoc Transport Incentive Premiums

- OTS is not proposing any change to the existing Re-Direct/Adhoc policy of premiums going into 2012
- OTS will continue to monitor these rates and in the event changes are proposed, this information would be circulated to Haulers for comment etc.

Managing & Adjusting the Model

1) Overview of 2012 Proposed Changes

Managing the Rates

- Scheduled reviews annually
- Ad Hoc Adjustments if applicable
- Underlying assumptions change
 - Processors enter/leave the business
 - Capacity Changes
 - Rapid change in costs
 - Tires not being collected
- Ad Hoc decreases with 90 day notice period (at this time, no changes are being proposed)

1) Overview of 2012 Proposed Changes

b) Fuel Adjustment:

- Adjustment to be made in February (not January) to reflect the adjustments in fuel changes for Q3
- Based on fuel price index
- Overall decrease in the TI rate of 0.79%
- Fuel adjustments were calculated in accordance with Fuel Adjustment Policy
- Comments on implementing the decrease in February 2012 instead of January 2012?
- Next fuel adjustment to be made as usual in April 2012

1) Overview of 2012 Proposed Changes

c) Price Index Adjustments

- The TI model takes numerous factors into account in terms of operating a Hauling business I.E:
 - Insurance Costs
 - Depreciation Costs
 - Labour Costs
 - Etc.
- On average these costs have increased slightly over the year

1) Overview of 2012 Proposed Changes

d) Reuse Adjustments:

- As proposed during the recent Technical Committee OTS will be changing the way tires destined for reuse/retreading are incented to account for the fact that the reuse/retreading market is in itself a viable market and to address identified opportunities for gaming of the Claims system
- In 2012 tires sold/delivered to reuse/retreading will not attract payment at the time of "Sale/Delivery"
- Haulers will still be compensated for transportation of tires delivered to reuse from a collection location to an assumed sort yard by inflating the Base TI Rate to account for the proposed changes regarding reuse

1) Overview of 2012 Proposed Changes

d) Reuse Adjustments Cont:

- This change still requires that Haulers report all sales/deliveries to Reuse/Retreading to OTS (RTR forms and supporting documents must still be submitted to OTS as part of the claim process)
- Haulers found to have underreported reuse/retreading will be assessed an amount determined by calculating the average inventory value multiplied by the weight of the undocumented / unreported tires delivered to the reuse application
- This adjustment would result in an average increase in the model if nothing else changed.

1) Overview of 2012 Proposed Changes

d) Reuse Adjustments Cont:

Example of Reuse in 2012:

Hauler Picks Up 100 Tires:

- 5 Go to Reuse
- 95 Go to a Registered Ontario Processor
- Incentive is paid out on the 95 tires delivered to an ON Processor (the rate now includes an assumed reuse compensation amount derived from the average rate of cull for all Haulers since the inception of the program)
- Incentive is not paid on the 5 tires sold to reuse, however the inventory and credit is reduced by the applicable weight and dollar amount.

1) Overview of 2012 Proposed Changes

- e) Reallocation of Delivery Destinations/Assumptions for Direct Deliveries
 - As a result of additional capacity for certain tires adjustments will be required to account for the increase in capacity (indicating an overall decrease in travel distance and an increase in the number of direct deliveries)
 - This adjustment will result in an overall average decrease to the TI rates if nothing else in the model changed

1) Overview of 2012 Proposed Changes

- f) Review of Estimated Weights vs Actual Weights and Adjustments
 - In the course of reviewing claims in 2012, OTS will be comparing estimated weights delivered against the actual weights reported as being delivered and documented on scale tickets
 - When the variance between the two weights is deemed to be substantial, OTS may investigate the claim/line further to determine if an adjustment to payment is applicable
 - This review/adjustment system will work in tandem with the revised estimated OTR weights that will be discussed later on in the presentation.
 - These adjustments could result in an increase or decrease in payment amounts

What do these things mean for 2012.....

2) 2012 TI Proposed Rate Changes to PLT & MT Tires

The PLT & MT TI Rate Changes can be summarized as follows:

- Decrease in fuel prices
- Decrease in average distance to a Processor due to increase in Ontario Capacity
- Increase in the number of assumed direct deliveries as a result of increased capacity
- Increase in some of the base costs of operating a business
- Adjustment to base rates to account for culled tire Collection costs in overall base rates

2) 2012 TI Proposed Rate Changes to PLT & MT Tires

The PLT & MT TI Rate Changes can be summarized as follows:

- Results: An overall average increase in the base rates of approximately 1.2% (rate changes vary by FSA, please see detailed Incentive listing for specifics as not all FSA rates have increased, some have decreased or remained the same)
- Questions/Comments?

3) 2012 TI Proposed Rate Changes to OTRs

a) Premium Adjustments:

- During plan conception, a 25% premium was applied to OTR Tire transportation based rough assumptions from other jurisdictions
- In an effort to better ascertain what, if any, the premiums associated with transporting OTR tires in Ontario is, OTS has requested feedback on the actual costs associated with transporting OTR tires and a review of the tires moving on DOTs vs TCRs.
- Numerous Haulers provided data as part of the review
- As a result OTS is reducing the 25% premium that was previously applied to OTR tires as follows:
 - No premium on Ags, INDs or SOTR Tires
 - 15% premium on MOTR, LOTR and GOTR Tires

3) 2012 TI Proposed Rate Changes to OTRs

- The OTRs where no premium is applicable would be MT cost assumptions with adjustments made regarding the Processing destinations
- DOT forms will continue to be authorized by OTS in order to qualify for the OTR rates, OTRs not part of an approved DOT will attract MT rates as is consistent with 2011
- Questions/Comments?

3) 2012 TI Proposed Rate Changes to OTRs

b) Estimated Weight Adjustments

- In an effort to ensure that Haulers are compensated in a fair manner, and to validate assumptions made pertaining to the estimated weights of used tires, OTS has undertaken a study to examine the average weight of Used OTR tires
- The results from this study were also compared with results from the OTS system (i.e. comparison of estimated scale weights, unit counts and actual scale weights) to determine more accurate estimated weights for the OTR tire categories.

3) 2012 TI Proposed Rate Changes to OTRs

- Based on this analysis OTS is proposing the following changes to the estimated weights for OTR tires to better reflect the weights being transported in the market place today (no change to PLT or MT estimated Weights for 2012)

Tire Type	2011 Estimated Weight	2012 Proposed Estimated Weight
AG	110KG	60KG
IND	90KG	40KG
SOTR	160KG	120KG
MOTR	700KG	580KG
LOTR	750KG	740KG
GOTR	1800KG	1560KG

- To be coupled with minor category refinements as well
- Questions/Comments?

3) 2012 TI Proposed Rate Changes to OTRs

The OTR TI Rate Changes can be summarized as follows:

- Decrease in fuel prices
- No substantial change in average distance to a Processor
- Increase in some of the base costs of operating a business
- Adjustment to base rates to account for culled tire Collection costs in overall base rates
- Reduction and elimination of premium

3) 2012 TI Proposed Rate Changes to OTRs

The OTR TI Rate Changes can be summarized as follows:

Results: An overall average decrease in the base rates of 15% for AGS, IND and SOTR*

An overall average decrease in the base rates 5% for MOTR, LOTR and GOTR*

* rate changes vary by FSA, please see detailed Incentive listing for specifics as not all FSA rates have decreased by the same percentage.

- Questions/Comments?

4) Implementation Timelines

OTS is proposing that the falling change be implemented January 1st 2012:

- Review of Hauler HIT percentage versus deliveries to Processors/Reuse/Retread

OTS is proposing that the following changes be implemented February 1st 2012:

- All applicable rate changes to TI Base Rates (PLT, MT and OTR)
 - Removal of the incentive payout (and related items) on tires sold/delivered to Reuse/Retread
 - Adjustment of Estimated Weights
- Comments/Questions?

5) Adjourn Meeting

Please send comments/suggestions to hauler@ontariots.ca before the end of the day on Friday November 4th 2011 for consideration.

Adjourn Meeting.