



JUSTIFICATION DOCUMENT

AMENDED BULK OIL CARGO FEES
2018 and 2019

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1.0 INTRODUCTION

This document details the manner in which the amended fees were established and provides supporting financial information.

2.0 MEMBERSHIP FEES

The membership fees for ECRC are shown below.

2.1 Registration Fee

The Registration Fees have not been amended and are shown below for information purposes only.

APPLICABLE TO	ANNUAL FEE	COVERAGE
Member – Oil Handling Facility (OHF)	\$450 per OHF	Within the Geographic Area of Response of Eastern Canada Response Corporation (All regional areas)
Member – Ship Bulk Oil and Ship Non-Bulk Oil	\$450 per Ship	Applicable to a ship that navigates or engages in a marine activity within a 500-kilometer radius from its home port and within ECRC's GAR.
Member – Ship Bulk Oil and Ship Non-Bulk Oil	\$750 per Ship	Applicable to a ship that navigates or engages in a marine activity: (a) Beyond a 500 kilometer radius from its home port, and within ECRC's GAR, ALERT's GAR or PTM's GAR or; (b) From a port not within ECRC's GAR and within ECRC's GAR, ALERT's GAR or PTM's GAR.

2.2 Bulk Oil Cargo Fee Rate (BOCFR) Great Lakes Region, Quebec/Maritimes Region and Newfoundland Region

The amended BOCFRs for the Great Lakes, the Quebec/Maritimes and the Newfoundland Regions are provided below;

APPLICABLE AREA	PERIOD	PRODUCT	BOCF
Great Lakes Region	From Jan 1, 2018 to Dec 31, 2018	Oil other than Asphalt Asphalt	42.00 ¢ per tonne 21.00 ¢ per tonne
	From January 1, 2019	Oil other than Asphalt Asphalt	62.00 ¢ per tonne 31.00 ¢ per tonne
Quebec/Maritime Region	From Jan 1, 2018 to Dec 31, 2018	Oil other than Asphalt Asphalt	21.00 ¢ per tonne 10.50 ¢ per tonne
	From January 1, 2019	Oil other than Asphalt Asphalt	29.50 ¢ per tonne 14.75 ¢ per tonne
Newfoundland Region	From Jan 1, 2018 to Dec 31, 2018	Oil other than Asphalt Asphalt	8.50 ¢ per tonne 4.25 ¢ per tonne
	From January 1, 2019	Oil other than Asphalt Asphalt	9.40 ¢ per tonne 4.70 ¢ per tonne

3.0 BASIS FOR CALCULATION OF MEMBERSHIP FEES

The basis for establishing the Registration Fee and the Bulk Oil Cargo Fee is shown below.

3.1 Registration Fee

- A fixed annual fee.
- Applicable to all members of ECRC
- Represents approximately 10% of total preparedness cost of ECRC.

3.2 Bulk Oil Cargo Fee (BOCF)

- Cost per tonne.
- A Bulk Oil Cargo Fee Rate (BOCFR) has been established for each of three regional areas within ECRC. The regional areas are Great Lakes Region, Quebec/Maritimes Region and the Newfoundland Region.
- The BOCF for each regional area is calculated by multiplying the regional Bulk Oil Cargo Fee Rate (BOCFR) by the applicable quantity of bulk oil cargo loaded or unloaded within the regional area.
- The BOCFR for the regional area is calculated by dividing the forecast annual *Net Expense*¹ of the regional area by the forecast *Annual Volume*² of bulk oil cargo to be loaded or unloaded within the regional area.
- *Net Expense*¹ = Debt servicing + operating costs including depreciation + return on equity less revenue from forecasted registration fees plus/minus previous year's operating surplus/deficit
- *Annual Volume*² = Total volume of bulk oil unloaded + total volume of bulk oil loaded for international destinations and North of 60 within the regional area.
- The above formulae for the BOCFR was endorsed by the participants at the Multi-Stakeholder Consultation Meeting held in Toronto, June 1 – 5, 1998
- The BOCFR calculated by the above formulae is applicable to all products except asphalt. The BOCFR for asphalt is 50% of the rate for other products.

4.0 SUPPORTING FINANCIAL INFORMATION

2017

A review of 2017 results follows;

- Total net revenues (other than BOCF) were \$278,000 higher than forecasted in the company's 2017 fee application;
 - Great Lakes region – Arrangement Fees were 6% or \$18,000 higher, Service Revenues – Net were 48% or \$48,000 higher, Interest on Deposits was 232% or \$23,000 higher and Miscellaneous Revenues were 9% or \$16,000 higher.
 - Quebec/Maritimes region – Arrangement Fees were 13% or \$128,000 higher, Service Revenues – Net were 12 % or \$23,000 lower, Interest on Deposits was 51% or \$10,000 higher and Miscellaneous Revenues were 12% or \$58,000 higher.

- Total operating expenses before interest and taxes were \$1,763,000 below amounts forecasted in our fee application (Great Lakes \$295,000 lower, Quebec/Maritimes \$1,468,000 lower). Interest on long term debt was \$269,000 lower than anticipated due to delays in the delivery of the company's new barges delivered in Q4 only.
- Volume increases over estimates were experienced for the Great Lakes Region, the Quebec /Maritimes Region and the Newfoundland Region. Volume levels used to set the 2017 BOCF rate were based on 2016 actual combined with estimates provided by stakeholders at the beginning of the reporting period. Volume variance by region follows;
 - Great Lakes region - volumes were 9% higher than forecasted (300,000 tonnes)
 - Quebec/Maritimes region - volumes were 4% higher than forecasted (959,000 tonnes)
 - Newfoundland region - volumes were 10% higher than forecasted (2,579,000 tonnes)

These factors have resulted in overall BOCF revenue requirements to be lower than forecasted for the regions.

As required by the fee setting formula excess/shortfall in BOCF advances collected in 2017 will be applied to the following year's estimate of fees. Therefore for the 2018 fee application we will be applying a credit of \$590,000 for the Great Lakes region BOCF advances, \$1,933,000 to the Quebec/Maritimes region BOCF advances and \$233,000 to the Newfoundland region BOCF advances.

2018

The financial information used in establishing the 2018 and the "2019 and thereafter" BOCFR is shown in Appendix 1

These notes are in reference to the financial information shown in Appendix 1.

Note 1 – Service revenue net

This category includes all project revenue earned through the provision of marine oil spill response services and training services and is net of all direct costs incurred to earn the revenue. These costs include a provision for accelerated depreciation on equipment used for the project when applicable. Given the nature of this source of revenue it is company policy to be conservative when forecasting future revenue streams (inherent limitations in attempting to forecast emergencies). Therefore the forecast for this revenue stream for 2018 was established without considering the potential for major spills occurring during the year. All revenues earned in this category are accounted for in the year earned.

Note 2 – Interest

This category includes forecasted interest earned on short term investments. Excess cash is invested in fully guaranteed short term bank funds.

Note 3 – Other

This category includes all other types of revenue.

Note 4 – Employee cost

This category includes wages & salaries, statutory benefits (EI, CPP), non-statutory benefits (23% of salaries), as well as any direct employee expense such as training, memberships, etc. For 2018 and 2019 the company's forecast is for 50 full time employees.

Note 5 – Travel & living

This category includes expenses incurred while employees are travelling outside their normal place of business. Expenses are those that correspond to the company's preparedness mandate. All travel expenses resulting from the provision of spill response services or associated services are

charged directly to the applicable project. All travel expenses are subject to company policies and procedures.

Note 6 – Administration

This category includes all computer charges, communications, facilities charges (including rent on office space and insurance) and general office expenses.

Note 7 – Professional fees

This category includes legal, audit and consulting fees.

Note 8 – Training & exercise

This category includes two main elements; the cost of training contractors and advisors and the cost of delivering the exercise program included in the company's certification response plan.

Training – The Company maintains a complement of approximately 550 contractors and 90 advisors trained annually;

- Great Lakes – Approximately 90 contractors and 20 regional advisors
- Quebec/Maritimes - Approximately 370 contractors and 40 regional advisors
- Newfoundland - Approximately 90 contractors and 20 regional advisors
- Approximately 10 advisors at the National level

Exercises – The Company conducts, on an annual basis, a number of mandatory operational and table top exercises as required under its response plan submitted to Transport Canada for certification purposes.

Please refer to the Training and Exercise section of ECRC's web site at www.ecrc-simec.ca for further details on our training and exercise programs.

Note 9 – Operations

This category includes costs related to the operation and maintenance of the company's marine equipment, vehicles and other spill equipment. The company maintains in excess of \$55,000,000 of spill response equipment (refer to equipment specifications provided on ECRC's web site at www.ecrc-simec.ca). Comprehensive preventative maintenance programs have been developed to ensure adequate equipment readiness.

Note 10 – Building & warehouse

This category includes all direct costs related to the operation and maintenance of its six warehouse facilities. The company operates facilities in the following locations;

- Corunna, Ontario – 17,300 square feet
- Vercheres Québec – 21,850 square feet
- Québec, Québec – 17,880 square feet
- Sept Iles, Québec – 24,660 square feet
- Dartmouth, Nova Scotia – 25,000 square feet
- St John's Newfoundland and Labrador – 36,000 square feet

The company is still assessing potential warehouse upgrades in Quebec City and anticipates adding approximately 10,000 square feet of space to its warehouse in 2018. This upgrade was originally planned for the 2016 / 2017 timeframe

Note 11 – Depreciation and Amortization

Refer to the Report - Calculation of BOCFR prepared by PriceWaterhouseCoopers for the periods ending December 31, 2018 and December 31, 2019 provided on ECRC's web site at www.ecrc-simec.ca.

Note 12 – Non-Operating

This category includes those expenses not directly linked to the company's day to day operations and is of a one time nature.

Note 13 – Non recurring – operations

Certain items of equipment have been in use for an extended period of time and require periodic or major maintenance. Expenditures such as painting of barges and rewiring of sea trucks do not fall into the Capital category or in the regular annual operating budget.

Note 14 – Overhead

This category includes the region's portion of the corporate office expense. A centralized corporate management approach has been taken to realize cost efficiencies through the sharing of resources, providing a single point of contact for client servicing and facilitating spill management coordination. The activities of the corporate office include; general management, coordination of the Health and Safety program, client contact and contracting, administration of the active data-base of 2500 members, spill management coordination, development and maintenance of a Spill Management System and centralized accounting and administration as well as Federal and Provincial government relationships.

Note 15 – Inter region costs

This category includes shared costs paid by one region on behalf of another, as required, pursuant to an agreement endorsed by the participants of the Multi-Stakeholder Consultation Meeting held in Toronto, June 1-5, 1998.

Note 16 – Interest on long term debt

This category includes all interest paid on debt owed to third parties. Long term debt is used to finance significant equipment purchases. The level and term of the debt financing is set proportionately with the company's ability to repay debt through annual depreciation charges as this is the only non cash item available for this purpose. The outstanding long term debt as at January 01 2018 - \$16.3 million.

The Company anticipates completing the 2014 - 2018 five year capital investment program by the end of 2018 increasing long term debt by \$7.9 million.

Note 17 – Return on equity

This category includes the cost of providing the shareholders with a preset rate of return on actual capital invested of \$9,525,000. The rate of return on capital invested approved by the Board of Directors for 2018 is 7.36% after tax. For forecasting purposes, the proposed rate of returns for 2018 and thereafter, is also 7.36% after tax. The after tax rate of return on common equity calculated by the National Energy Board is used by Management as a guide for establishing the rate of return on equity.

Note 18 – Provision for taxes

This category includes the provision for taxes payable as determined in accordance with the recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, Section 3465 - Income Taxes. An effective tax rate of 32% was used as a guide to calculate the provision for taxes for the years 2018 and 2019.

Note 19 – Deferred from prior years

Consistent with agreed upon principles, this category represents the items brought forward from previous years that impact on the current year fees. For the 2018 fee application, excess/shortfall in bulk oil cargo fees advances collected in 2017 have been brought forward and applied against the 2018 bulk oil cargo fee requirement.

5.0 SUPPORTING STATEMENTS

The following statements are available at ECRC's web site at www.ecrc-simec.ca.

- Calculation of BOCFR reviewed by PriceWaterhouseCoopers for the periods ending December 31, 2018 and December 31, 2019

6.0 CONTACT FOR FURTHER INFORMATION

Further information with respect to this document can be obtained by contacting Paul Pouliotte, Chief Financial Officer at 613 230-7369.

**APPENDIX 1
SUPPORTING FINANCIAL INFORMATION**

ECRC

		2018			2019		
		Great Lakes Region	Quebec/ Maritimes Region	Nfld Region	Great Lakes Region	Quebec/ Maritimes Region	Nfld Region
Revenue (other than BOCF)							
Arrangement fees		\$ 300,000	\$ 1,000,000		\$ 300,000	\$ 1,000,000	
Services revenue - net	Note 1	100,000	200,000		100,000	200,000	
Interest	Note 2	10,000	20,000		15,000	25,000	
Other	Note 3	180,000	540,000		180,000	540,000	
Total Revenue		\$ 590,000	\$ 1,760,000	\$ -	\$ 595,000	\$ 1,765,000	\$ -
Expenses							
Employee costs	Note 4	\$ 784,000	\$ 2,372,000	\$ 619,000	\$ 798,000	\$ 2,418,000	\$ 630,000
Travel & living	Note 5	46,000	102,000	39,000	47,000	103,000	40,000
Administration	Note 6	203,000	460,000	128,000	206,000	465,000	129,000
Professional fees	Note 7	43,000	55,000	18,000	44,000	56,000	18,000
Training & exercise	Note 8	157,000	612,000	221,000	159,000	622,000	224,000
Operations	Note 9	115,000	534,000	147,000	115,000	542,000	148,000
Building & warehouse	Note 10	207,000	1,309,000	389,000	209,000	1,330,000	394,000
Depreciation & amortization	Note 11	317,000	1,295,000	431,000	315,000	1,300,000	430,000
Non operating	Note 12						
Non recurring - operations	Note 13	40,000	100,000	40,000	40,000	100,000	40,000
Overhead allocation	Note 14	300,000	900,000	300,000	305,000	918,000	305,000
Inter region cost	Note 15	(33,000)	(37,000)		(33,000)	(37,000)	
Total Expenses		\$ 2,179,000	\$ 7,702,000	\$ 2,332,000	\$ 2,205,000	\$ 7,817,000	\$ 2,358,000
Cost of Capital							
Interest on long term debt	Note 16	\$ 77,000	\$ 465,000	\$ 258,000	\$ 96,000	\$ 470,000	\$ 270,000
Return on equity (after tax)	Note 17	168,000	400,000	133,000	168,000	400,000	133,000
Total Cost of Capital		\$ 245,000	\$ 865,000	\$ 391,000	\$ 264,000	\$ 870,000	\$ 403,000
Provision for Tax	Note 18	\$ 79,000	\$ 188,000	\$ 63,000	\$ 79,000	\$ 188,000	\$ 63,000
BOCF Revenue Required		\$ 1,913,000	\$ 6,995,000	\$ 2,786,000	\$ 1,953,000	\$ 7,110,000	\$ 2,824,000
Deferred from prior years	Note 19	\$ 590,000	\$ 1,933,000	\$ 233,000			
BOCF Revenue Required Under Current Fee Application		\$ 1,323,000	\$ 5,062,000	\$ 2,553,000	\$ 1,953,000	\$ 7,110,000	\$ 2,824,000
Tonnes under current fee application							
- Oil other than asphalt		3,000,000	24,000,000	30,000,000	3,000,000	24,000,000	30,000,000
- Asphalt		300,000	200,000	50,000	300,000	200,000	50,000
BOCF Rate per tonne							
- Oil other than asphalt		\$ 0.4200	\$ 0.2100	\$ 0.0850	\$ 0.6200	\$ 0.2950	\$ 0.0940
- Asphalt		\$ 0.2100	\$ 0.1050	\$ 0.0425	\$ 0.3100	\$ 0.1475	\$ 0.0470