

ECRC

JUSTIFICATION DOCUMENT

AMENDED BULK OIL CARGO FEES

Fiscal year 2009 and 2010

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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 Fee has not been amended and is 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)

The amended Bulk Oil Cargo Fee Rates are provided below

APPLICABLE AREA	PERIOD	PRODUCT	BOCF
Great Lakes Region	From Jan 1, 2009 to Dec 31, 2009	Oil other than Asphalt Asphalt	40.00 ¢ per tonne 20.00 ¢ per tonne
	From January 1, 2010	Oil other than Asphalt Asphalt	57.00 ¢ per tonne 28.50 ¢ per tonne
Quebec/Maritime Region	From Jan 1, 2009 to Dec 31, 2009	Oil other than Asphalt Asphalt	18.00 ¢ per tonne 9.00 ¢ per tonne
	From January 1, 2010	Oil other than Asphalt Asphalt	25.00 ¢ per tonne 12.50 ¢ per tonne
Newfoundland Region	From Jan 1, 2009 to Dec 31, 2009	Oil other than Asphalt Asphalt	9.00 ¢ per tonne 4.50 ¢ per tonne
	From January 1, 2010	Oil other than Asphalt Asphalt	11.00 ¢ per tonne 5.50 ¢ 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

2008

A review of 2008 results follows;

- Total revenues (other than BOCF) for 2008 were \$913,000 higher than forecasted in the company's 2008 fee application;
 - Great Lakes region – Arrangement Fees were \$28,000 higher, Service Revenues – Net were \$46,000 lower, Interest on Deposits were \$49,000 higher and Miscellaneous Revenues were \$150,000 higher than forecasted.
 - Quebec/Maritimes region – Arrangement Fees were \$163,000 higher, Service Revenues – Net were \$432,000 higher, Interest on Deposits were \$62,000 higher and Miscellaneous Revenues were \$75,000 higher.
- Total operating expenses before interest and taxes were \$498,000 below amounts forecasted in our fee application (Great Lakes \$179,000, Quebec/Maritimes \$367,000, NL (\$48,000)).

- A volume decrease over estimates was experienced for the Great Lakes Region. Actual volumes for the Quebec /Maritimes Region and Newfoundland Region were higher than forecasted. Volume levels used to set the BOCF rates in the 2008 fee application were based on 2007 actual volume combined with estimates provided by stakeholders at the beginning of the reporting period. Volume variance by region follows;
- Great Lakes region – total volume was 5.5% lower than forecasted (187,000 tonnes)
 - Quebec/Maritimes region – total volume was 3.7% higher than forecasted (897,000 tonnes)
 - Newfoundland region - volume was 16.8% higher than forecasted (4,195,000 tonnes)

These factors have resulted in overall BOCF revenue requirements to be lower than forecasted for the Great Lakes Region and the Quebec /Maritimes Region. BOCF requirements for the Newfoundland region were as forecasted.

As required by the fee setting formula excess/shortfall in BOCF collected in 2008 will be applied to the following year's estimate of fees. Therefore for the 2009 fee application we will be applying a credit of \$400,000 to the Great Lakes region, \$1,525,000 to the Quebec Maritimes region and \$450,000 to the Newfoundland region.

2009

The financial information used in establishing the 2009 and 2010 Bulk Oil Cargo Fee Rates (BOCFR) for each of ECRC's regional areas 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 2009 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 2009 the company's forecast is for 36 full time employees. The forecast for 2010 is for a work force similar to 2009.

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.

Note 6 – Administration

This category includes all computer charges, 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. Capital Taxes (approximately 35% of total) charged by the various provincial governments are also included in this category.

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 520 contractors and advisors of which 470 are trained annually;

- Great Lakes – Approximately 70 contractors and 20 regional advisors
- Quebec/Maritimes - Approximately 260 contractors and 30 regional advisors
- Newfoundland - Approximately 70 contractors and 10 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.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 \$43,000,000 of spill response equipment (refer to equipment specifications provided on ECRC's web site at www.ecrc.ca). Comprehensive preventative maintenance programs have been developed to ensure adequate equipment readiness. These programs are an integral part of the Company's response plan submitted to Transport Canada supporting our certification.

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;

- Corruna, Ontario – 17,300 square feet
- Vercheres Quebec – 11,850 square feet
- Quebec, Quebec – 17,880 square feet
- Sept Iles, Quebec – 12,600 square feet
- Dartmouth, Nova Scotia – 25,000 square feet
- St John's Newfoundland and Labrador – 36,000 square feet

Note 11 – Depreciation and Amortization

Refer to the Audited Calculation of BOCFR as at January 01, 2009 and as at January 1, 2010 provided on ECRC's web site at www.ecrc.ca (a hard copy can be made available upon request).

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 3500 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. On May 22, 1998 the company closed on a financing deal of \$28.6 million (outstanding as at January 01 2009 - \$10.5 million) in order to reduce its equity financing. This was done in order to benefit from the relatively lower costs of debt financing versus the higher costs associated with equity financing. The level and term (18 year amortization) of the initial debt financing was 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 bank loan is maturing March 24, 2011 and bears interest at the bank's prime rate.

In June 2008 the Company entered into an interest rate swap agreement with the bank securing a fixed rate of 4.795% to March 24, 2011.

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 for 2009 is 8.57% after tax. The proposed rate of returns for 2010 and thereafter is also 8.57% after tax. The after tax rate of return published 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 of 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 2009 and 2010.

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 2009 fee application, excess/shortfall in bulk oil cargo fees collected in 2008 have been brought forward and applied against the 2009 bulk oil cargo fee requirement.

5.0 SUPPORTING STATEMENTS

The following statements are available upon request.

- Audited Calculation of BOCFR as at January 1, 2009 and as at January 1, 2010 (Available at ECRC's web site at www.ecrc.ca)

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

		2009			2010		
		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	20,000	60,000		20,000	70,000	
Other	Note 3	200,000	425,000		200,000	425,000	
Total Revenue		\$ 620,000	\$ 1,685,000	\$ -	\$ 620,000	\$ 1,695,000	\$ -
Expenses							
Employee costs	Note 4	\$ 589,000	\$ 1,619,000	\$ 529,000	\$ 606,000	\$ 1,669,000	\$ 545,000
Travel & living	Note 5	44,000	88,000	25,000	45,000	92,000	26,000
Administration	Note 6	254,000	434,000	142,000	261,000	448,000	146,000
Professional fees	Note 7	48,000	99,000	39,000	49,000	102,000	40,000
Training & exercise	Note 8	133,000	457,000	136,000	137,000	471,000	140,000
Operations	Note 9	120,000	513,000	95,000	124,000	528,000	98,000
Building & warehouse	Note 10	213,000	916,000	318,000	218,000	943,000	328,000
Depreciation & amortization	Note 11	356,000	1,557,000	507,000	364,000	1,604,000	522,000
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	211,000	638,000	210,000	216,000	657,000	216,000
Inter region cost	Note 15	(100,000)	(24,000)	124,000	-	(74,000)	74,000
Total Expenses		\$ 1,908,000	\$ 6,397,000	\$ 2,165,000	\$ 2,060,000	\$ 6,540,000	\$ 2,175,000
Cost of Capital							
Interest on long term debt	Note 16	\$ 75,000	\$ 290,000	\$ 100,000	\$ 55,000	\$ 250,000	\$ 90,000
Return on equity (after tax)	Note 17	195,000	466,000	155,000	195,000	466,000	155,000
Total Cost of Capital		\$ 270,000	\$ 756,000	\$ 255,000	\$ 250,000	\$ 716,000	\$ 245,000
Provision for Tax	Note 18	\$ 92,000	\$ 220,000	\$ 80,000	\$ 92,000	\$ 220,000	\$ 80,000
BOCF Revenue Required		\$ 1,650,000	\$ 5,688,000	\$ 2,500,000	\$ 1,782,000	\$ 5,781,000	\$ 2,500,000
Deferred from prior years	Note 19	\$ 400,000	\$ 1,525,000	\$ 450,000	\$ -	\$ -	\$ -
BOCF Revenue Required Under Current Fee Application		\$ 1,250,000	\$ 4,163,000	\$ 2,050,000	\$ 1,782,000	\$ 5,781,000	\$ 2,500,000
Tonnes under current fee application							
- Oil other than asphalt		3,000,000	23,000,000	22,750,000	3,000,000	23,000,000	22,700,000
- Asphalt		250,000	250,000	70,000	250,000	250,000	70,000
BOCF Rate per tonne							
- Oil other than asphalt		\$ 0.4000	\$ 0.1800	\$ 0.0900	\$ 0.5700	\$ 0.2500	\$ 0.1100
- Asphalt		\$ 0.2000	\$ 0.0900	\$ 0.0450	\$ 0.2850	\$ 0.1250	\$ 0.0550