ECRC ~ SIMEC

JUSTIFICATION DOCUMENT

AMENDED BULK OIL CARGO FEES

Fiscal year 2013 and 2014

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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 and Newfoundland Region

The Great Lakes and Newfoundland Region BOCFR have not been amended and are shown below for information purposes only.

APPLICABLE AREA	PERIOD	PRODUCT	BOCF
Great Lakes Region	From January 1, 2013	Oil other than Asphalt Asphalt	55.00 ¢ per tonne 27.50 ¢ per tonne
Newfoundland Region	From January 1, 2013	Oil other than Asphalt Asphalt	10.00 ¢ per tonne 5.00 ¢ per tonne

2.3 Bulk Oil Cargo Fee Rate (BOCFR) Quebec/Maritimes Region

The amended BOCFRs for the Quebec/Maritimes region are provided below;

APPLICABLE AREA	PERIOD	PRODUCT	BOCF
Quebec/Maritime Region	From Jan 1, 2013 to Dec 31, 2013	Oil other than Asphalt Asphalt	19.00 ¢ per tonne 9.50 ¢ per tonne
	From January 1, 2014	Oil other than Asphalt Asphalt	25.00 ¢ per tonne 12.50 ¢ 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

<u>**2012**</u>

A review of 2012 results for the Quebec/Maritimes Region follows;

- Total revenues (other than BOCF) for 2012 were $425,000 higher than forecasted in the company's fee application;
    - Arrangement Fees were $240,000 higher, Service Revenues – Net were $140,000 higher, Interest on Deposits was $23,000 higher and Miscellaneous Revenues were $22,000 higher than forecasted.
- Total operating expenses before interest and taxes were $379,000 below amounts forecasted in our fee application
- Actual volumes for the region were higher than forecasted. Volume levels used to set the BOCF rates in the 2012 fee application were based on 2011 actual volume combined with estimates provided by stakeholders at the beginning of the reporting period;

- Total volume was 7.8% higher than forecasted (1,989,000 tonnes)

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

As required by the fee setting formula excess/shortfall in BOCF collected in 2012 will be applied to the following year's estimate of fees. Therefore for the 2013 fee application we will be applying a credit of $1,327,000 to the Quebec/Maritimes region.

2013

The financial information used in establishing the 2013 and 2014 BOCFR for the Quebec/Maritimes Region 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 2013 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 2013 the company's forecast is for 39 full time employees. The forecast for 2014 is for a work force similar to 2013.

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, 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 530 contractors and advisors of which 480 are trained annually;

- Great Lakes – Approximately 70 contractors and 20 regional advisors

- Quebec/Maritimes - Approximately 260 contractors and 40 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 $44,000,000 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.

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 Report - Calculation of BOCFR prepared by PriceWaterhouseCoopers for the periods ending December 31, 2013 and December 31, 2014 provided on ECRC's web site at www.ecrc.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. On May 22, 1998 the company closed on a financing deal (outstanding as at January 01 2013 - $9.07 million/ Quebec / Maritimes portion - $6.36) 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 of the debt financing is set proportionately with the company's ability to repay debt through annual depreciation charges as this in the only non cash item available for this purpose.

During 2012 the company increased long term debt by $4.95 million (Quebec / Maritimes portion - $3.46 million), in order to complete the 2009 - 2013 capital investment program (see note 20).

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 2013 is 7.23% after tax. For forecasting purposes, the proposed rate of returns for 2014 and thereafter, is also 7.23% 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 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 36% was used as a guide to calculate the provision for taxes for the years 2013 and 2014.

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 2013 fee application, excess/shortfall in bulk oil cargo fees collected in 2012 have been brought forward and applied against the 2013 bulk oil cargo fee requirement.

Note 20 – Supplemental information – ECRC's Five Year Capital Replacement Program 2009 – 2013: Equipment Replacement Strategy

ECRC was created on a foundation of pre-existing equipment inventories owned by regionally distinct spill response cooperatives. Four cooperatives formed the basis for the present ECRC.

- ESRI (1975) - initial inventory for the Newfoundland Response Centre;
- PIER Atlantic (1989) - initial inventory for the Dartmouth Response Centre;
- COPIM (1989) - initial inventory for the Quebec Region;
- PIMEC (1979) - initial inventory for the Great Lakes Region.

The creation of ECRC from pre-existing organizations provided a cost-effective solution that enabled a rapid development of capability.

From this original cache of equipment ECRC invested in 1994-1996 in additional equipment to increase the corporation's emergency response capacity to 10,000 tonnes. The type and quantity of equipment required was based on the response planning standards found in regulations. The regulations require a tiered response within a specific time frame for a given operating environment.

In setting up the organization conventional wisdom was that equipment inventories had an expected useful life of approximately 20 years. When used in response a provision for accelerated depreciation, where applicable, would be charged to a project to ensure adequate replacement of the equipment. ECRC has completed an extensive assessment of existing equipment. We have reviewed each equipment category assessing the age, condition, suitability and remaining useful life of each item.

With some of the inventory now closing in on 20 years of age, while not in a poor condition mechanically due to sound maintenance programs, response practices have changed and some of the equipment is becoming obsolete as it is increasingly difficult to obtain spare parts and components.

Under the current Five Year Capital Replacement Program 2009 – 2013 ECRC will be investing in new technology as well as replacement. The majority of the replacement program was undertaken in 2011 and was completed in 2012.

5.0 SUPPORTING STATEMENTS

The following statements are available upon request.

– Calculation of BOCFR prepared by PriceWaterhouseCoopers for the periods ending December 31, 2013 and December 31, 2014 (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

<u>ECRC</u>

		Quebec / Maritime Region	
		2013	**2014**
Revenue (other than BOCF)			
Arrangement fees		$ 1,000,000	$ 1,000,000
Services revenue - net	*Note 1*	200,000	200,000
Interest	*Note 2*	40,000	40,000
Other	*Note 3*	500,000	500,000
Total Revenue		$1,740,000	$1,740,000
Expenses			
Employee costs	*Note 4*	$ 1,810,000	$ 1,850,000
Travel & living	*Note 5*	$ 87,000	$ 89,000
Administration	*Note 6*	$ 415,000	$ 423,000
Professional fees	*Note 7*	$ 41,000	$ 42,000
Training & exercise	*Note 8*	$ 450,000	$ 459,000
Operations	*Note 9*	$ 530,000	$ 541,000
Building & warehouse	*Note 10*	$ 1,093,000	$ 1,207,000
Depreciation & amortization	*Note 11*	$ 1,654,000	$ 1,600,000
Non operating	*Note 12*		
Non recurring - operations	*Note 13*	$ 100,000	$ 120,000
Overhead allocation	*Note 14*	$ 665,000	$ 678,000
Inter region cost	*Note 15*	125,500	165,000
Total Expenses		$ 6,970,500	$ 7,174,000
Cost of Capital			
Interest on long term debt	*Note 16*	$ 251,000	$ 240,000
Return on equity (after tax)	*Note 17*	393,000	393,000
Total Cost of Capital		$ 644,000	$ 633,000
Provision for Tax	*Note 18*	$ 221,000	$ 221,000
BOCF Revenue Required		$ 6,095,500	$ 6,288,000
Deferred from prior years	*Note 19*	$ 1,326,539	$ -
BOCF Revenue Required Under Current Fee Application		$ 4,768,961	$ 6,288,000
Tonnes under current fee application			
- Oil other than asphalt		25,000,000	25,000,000
- Asphalt		200,000	300,000
BOCF Rate per tonne			
- Oil other than asphalt		$ 0.1900	$ 0.2500
- Asphalt		$ 0.0950	$ 0.1250