

ARBITRATION TO DETERMINE  
THE 2014 STEWARD OBLIGATION FOR THE Blue Box PROGRAM

B E T W E E N:

ASSOCIATION OF MUNICIPALITIES OF ONTARIO and THE CITY OF TORONTO

Applicants

- and -

STEWARDSHIP ONTARIO

Respondent

Affidavit of Denis Goulet

Table of Contents

Introduction.....	2
Our Company.....	2
Competing in Ontario.....	2
Our MRFs .....	3
Tonnage, volume and cost .....	4
Efficiency .....	4
Theoretical alternative MRF system.....	5
Conclusion .....	5

## Introduction

1. My name is Denis Goulet. I am the Vice President and General Manager of Miller Waste Systems Inc. (Miller Waste), a private, for – profit waste management company. My cv is attached.
2. I will be a witness at this arbitration because I have been compelled to do so by summons.
3. I am neutral in this matter. I am not retained or paid to give evidence by either municipalities or stewards. Miller Waste has valued commercial relationships with both municipalities and stewards. Miller Waste takes no position on the amount of the 2014 Steward's Obligation.

## Our Company

4. Miller is a strong leader in waste processing and diversion in order to minimize wastes headed to landfill. Since the early 1990's, Miller Waste has been a trusted provider for collecting and processing Blue Box waste collected Ontario by municipalities and diverting it from landfill.
5. Miller recognizes the importance of resource preservation and to this end concentrates on material recovery. The recovery of used materials is paramount to decreasing waste of potentially reusable valuable materials. Miller currently owns four material recovery facilities; and operates four others under municipal contract. Miller currently processes over 225,000 tonnes of recyclable material annually. The materials that are recovered are then marketed to local markets for reuse.
6. Miller is first and foremost a diversion company. Miller designs/builds/operates MRF's of various capacities and configurations – we do not operate landfills. Miller has its own commodity marketing arm and engineering staff.
7. Miller Group is accredited as one of the Best Managed Companies in Canada. Miller can provide references from several large municipalities in Ontario attesting to our efficiency and capabilities.

## Competing in Ontario

8. In Ontario, there is a very competitive open market for Blue Box waste processing. We aggressively compete for municipal waste processing business in the entire area of Ontario.
9. Cost and efficiency are major factors in obtaining and in keeping municipal Blue Box business. Municipalities are very sensitive to long-term costs. Municipalities also show strong interest in improving their recovery of Blue Box materials, in terms of minimizing residue and maximizing the value of the recovered materials. Contractors, such as Miller, are also incentivized/penalized under contract to minimize residue and maximize commodity value.

10. Certain municipal MRF's, such as that owned by the City of London, design facilities to act as regional MRF's and actively bid for material from other municipalities to generate revenue and lower per unit costs.
11. In 2012, we charged Ontario municipalities only what they were legally obliged to pay us for Blue Box waste processing, and that is exactly what they paid us.
12. As the market is extremely competitive, it is essential that we keep confidential certain aspects of our operations, including internal financial details.

#### Our MRFs

13. A MRF is a Material Recovery Facility, a factory set up to separate marketable materials from collected Blue Box materials. We use a combination of human sorters and specialized optical and mechanical equipment to rapidly and effectively separate varying grades of often similar materials. Accurate material separation is essential to maximize the value of the recovered materials. Flexibility is also important; operating adjustments are made as feedstock changes and commodities values change.
14. We currently operate 3 Ontario Blue Box MRFs owned by municipalities under competitive free market contracts, namely:
  - \* York Region Waste Management Center, owned by York Region and servicing only York Region. Processing capacity is 140,000 MT/yr. Opened in 2005.
  - \* Durham Region MRF, owned by Durham Region and servicing only Durham Region. Processing capacity of 75,000 MT/yr. Opened in 2007.
  - \* City of London MRF, owned by City of London. Processing capacity is 75,000 MT/yr. Opened in 2011.
15. Our modern, world-class MRFs are equipped to handle Blue Box recyclables of all kinds including paper, cardboard, plastics and metals. Each MRF operates at a high world-class standard, and we continuously strive to improve them in every way practical. Significant capital improvements have been made in these MRF's to reduce costs and increase value of marketable commodities, e.g.
  - a. York Region invested over \$8M in 2011 to install additional optical sorters and other modifications.
  - b. York Region is planning an additional \$2M investment in 2014 for optical sorters and other refinements to several systems.
  - c. Durham Region invested \$500K in 2013 to reduce residue from 6% to 2% and plans to replace the baler with an upgraded unit in 2014.
16. In 2012, we processed and marketed all municipal Blue Box recyclable material for the Ontario municipalities of York Region, City of London and Durham Region, which represent about 13.8% of Ontario's population.
17. In 2012, our MRFs handled about 16.6% of Ontario municipal Blue Box waste by tonnage.

## Tonnage, volume and cost

18. Blue Box processing is often described in terms of dollars per tonne.
19. Weight is easy to measure and easy to understand but it is not an accurate proxy for the processing costs of individual Blue Box wastes. Many of our processing costs are more strongly affected by waste volume, number and type of items and contamination levels, not by weight.
20. Old newspaper, for example, is heavy, easy to collect and process, and readily marketed. Old newspaper has been the economic bedrock of Blue Box programs.
21. Since 2005, easily processed and handled materials like ONP have decreased in relative tonnage to other more difficult to process packaging materials. It is much more expensive to process light-weight and complex material such as plastic packaging, such as clamshell packaging. Additionally, with the introduction of the LCBO glass deposit system in February 2007, glass tonnage has dropped by a third, further exacerbating the problem.
22. For example, lightweight packaging has greatly increased, which increases processing costs. For example, 5 years ago plastic water bottles were about twice as heavy as they are now. This means that we must handle, process and pay labour costs for dealing with nearly twice as many water bottles as we did in 2008 to recover 1 tonne of plastic.
23. The overall volume of the Blue Box waste stream, and the cost to manage it, has increased dramatically because of these new lightweight materials.
24. Blue Box processing contract prices are also affected by fuel and electricity prices, and domestic and international commodity price. They do not move in lockstep with the Consumer Price Index.

## Efficiency

25. We operate our MRFs as efficiently and as effectively as we can.
26. Waste recycling is a rapidly changing and fast-moving business. Successful competition in this business requires frequent innovation and adaptation.
27. The technology and economics of Ontario Blue Box MRFs have changed dramatically over the years. As described above, there have also been major changes in the composition of the waste stream.
28. The historic MRF cost estimates set out in the 2007 KPMG report, entitled Operations Improvement: Blue Box Program Enhancement and Best Practices Assessment Project Report, volume 1 or volume 2 (KPMG report) even if adjusted by an inflation index, played no role in determining which competitive contracts we held in 2012, nor the prices we charged under those contracts. We certainly don't reference this report.

Theoretical alternative MRF system

29. Theoretically, centralized, larger and more modern MRF's would be more cost effective than Ontario's current MRFs on a per unit basis. However, to assume transporting to larger MRF's is more efficient may not be accurate.
30. This would require establishing a transfer station (at \$8 to \$15/MT) and transporting long distances. This material is light and a 53' trailer is loaded with only 14 to 15 MT, which makes transportation relatively inefficient.
31. You need the volume to drive the critical mass and transportation costs to deliver the material must be relatively low. Smaller, more labour intensive MRF's in small municipalities, such as Napanee, Brockville, Perth etc. often suit their purpose, and there is no economic reason to replace them. Capital costs may be written off and labour inexpensive. They may also collect in 5 stream and process in 5 stream which tends to drive the lowest residue levels.

Conclusion

32. I understand that this affidavit is sworn evidence to be offered to a legal tribunal deciding a question of great public importance. I have done my best to make this evidence as accurate and as truthful as I can. I intend to be bound by it.
33. To the best of my knowledge, I do not have any current records of any critical emails that document an agreement that is material to the issues set out in the pleadings



Denis Goulet

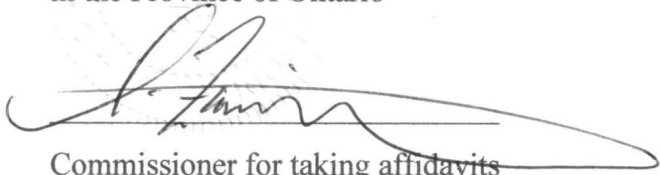
(Signature)

Sworn or Affirmed before me

On April 4, 2014

at the City of Richmond Hill

in the Province of Ontario



Commissioner for taking affidavits

**Sahar Zomorodi**  
Barrister & Solicitor  
Commissioner of Oaths  
for the Province of Ontario  
with unlimited duration.