



HGC Management Inc.  
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June 5, 2018

Ms. Virginia Swinson  
Waste Diversion Section Manager  
City of Peterborough  
500 George St.  
Peterborough, Ont. K9H 3R9

And

Ms. Tara Stephen  
Manager, Waste Management  
Peterborough County  
310 Armour Road  
Peterborough ON K9H 1Y6

Re: Adjustments to Existing Process Contracts

Dear Ms. Swinson and Ms. Stephen:

As discussed at our meeting on May 31<sup>st</sup>, the amount of contamination in the inbound recycling streams delivered by the city and county has grown to more than double the amount indicated in the original RFP. Further, the city and county have been unable to control this increase at source as indicated in the RFP.

The uncontrolled contamination has negatively impacted HGC financially, and HGC is seeking adjustment for 2018 and 2019 to compensate for the financial impact as follows:

- 1) **Allowable residue adjustment** – The added contamination has increased the residue level. Appendix 1 provides results from a recent third party audit. This indicates that the container stream contains over 15% non-program material and also over 12% by weight of cross contaminating fibre and film for an overall contamination rate of over 28%. The fibre stream has an overall contamination rate of over 2.3%. We are therefore requesting:
  - a) An increase in the allowable residue level sent to city landfill at no tip fee to 12% from 5%, and
  - b) An adjustment in the material revenue formula to change marketed tonnage to 88% of inbound delivered from 95% of inbound to reflect actual marketed tonnes.
- 2) **Process fee adjustment** – An adjustment to the process fee is needed to compensate for increased sorters required to remove contamination to produce marketable commodities, as well as slower production rates to meet recently tightened commodity specifications. We have calculated the required adjustment needed to be \$15 per MT processed.

- 3) **Adjustment for optical investment due to contamination** – HGC installed an optical sorter in 2015 to deal with increased PET plastic sorting challenges in the container stream arising from increased amounts of water bottles and introduction of PET clam

shell packaging for fruits and vegetables. The installation of the optical sorter with an investment of \$650,000 was done in order to be able to extend the contract with no increase in process rate. Unfortunately, the high contamination rate in the container stream required that we double-sort the material, which negated the advantage of having the optical sorter. HGC increased their investment in optical technology by a further \$800,000 through installation of a second machine, which allowed all material to be sorted with a single pass as originally envisioned. This installation was made at our sole cost and in good faith. We expected to amortize the investment over 5 years at \$160,000 per year as we envisioned a three-year extension. If the contract is not extended, it would leave \$480,000 unrealized. Therefore, we seek an adjustment of \$16.55 per MT processed in 2018 and 2019 as an appropriate adjustment to make HGC whole. If HGC were granted an extension of three years, this amount would not be required.

- 4) **Change in revenue formula from grade 54 instead of grade 56** – Appendix 2 provides information as to the closure of deinking mills and the impact of China's National Sword initiative. Due to the closure of deinking mills, the only major market for 56 grade news was China. Their implementation of a quality specification of 0.5 percent is impossible for recycling programs to meet without major capital investment in optical sorting technology or significant increase in labour. As a result of the inbound contamination and the current capability of the sort system, HGC is not able to meet this extremely stringent specification.

In order for us to maintain movement, HGC has shifted sales to packaging mills that buy grade 54 at a lower price. Our contract uses the composite index formula calculated by CIF Price Sheet. Unfortunately, the methodology assumes tonnage marketed as it was in 2016 when programs sold 56 grade. This is not the reality today. The correct methodology would be to use grade 54 price, as this is what Ontario recycling programs are now selling. The weighted percentage of news used by the CIF composite index is 51.8% of the blue box. The price differential last month between grade 56 and 54 was \$52 per MT. The impact, therefore, would be about \$26 per marketed tonne. The contract between HGC and Peterborough County did not originally intend for HGC to be at market risk, but the inaccuracy of the CIF formula has significantly jeopardized the standing of HGC. We request the formula be adjusted for 2018 and 2019 to correct this unintended effect.

We appreciate the collaborative approach Peterborough has taken during this difficult time. With help from our long-term partners, like Peterborough, we are confident that we will be able to continue diverting all recyclables from landfills, despite shifts in the global recycling market and the trend of increased contamination.

Sincerely,

Herb Lambacher  
President, HGC Management Inc.



Other Materials							
All Other Non-Accepted Materials (Residue)	0.40%	7.17%	1.69%	9.63%	0.27%	15.22%	0.00%
Total Accepted Other Materials (fibres stream)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Accepted Other Materials (containers stream)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Non-Accepted Other Materials	0.40%	7.17%	1.69%	9.63%	0.27%	15.22%	0.00%
Total Accepted Fibres Stream Material	96.81%	6.24%	96.71%	11.52%	98.77%	2.48%	100.00%
Total Accepted Containers Stream Material	2.77%	86.13%	1.60%	74.82%	0.96%	76.19%	0.00%
Total Non-Accepted Residue Material	0.41%	7.62%	1.69%	13.66%	0.27%	21.32%	0.00%
Total ALL Material	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Bagged Materials	3.27%	5.96%	0.00%	18.38%	4.85%	17.78%	0.00%
Combined Fibre & Container Bagged (65/35% Split)	4.21%		6.43%		9.37%		
Overall Bagged (Weighted by Sector)	5.10%						
Combined Fibre & Container Residue (65/35% Split)	2.94%		5.88%		7.64%		
Overall Residue (Weighted by Sector)	3.80%						
Combined Fibre & Container Cross Contamination (65/35% Split)	3.99%		5.07%		1.49%		
Overall Cross Contamination (Weighted by Sector)	3.69%						

# Price Sheet – June 2018

Ontario Market Price Trends | CDN\$/Metric Tonne | Page 1

MONTHLY AVERAGES (CDN\$/Metric Tonne)																			# of Muni. (Monthly Change)
	Jan 2017	Feb 2017	Mar 2017	Apr 2017	May 2017	June 2017	July 2017	Aug 2017	Sept 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	June 2018	
Newspaper (ONP #8 / SRP #56) <sup>1</sup>	131	146	154	119	96	112	129	122	111	84	83	85	88	83	72	54	48	49	7 (0)
Mixed Paper #54 / ONP#6 <sup>2</sup>	110	123	130	80	62	83	96	89	75	33	29	36	33	25	18	2	(2)	(3)	7 (0)
Corrugated (OCC)	174	216	281	255	235	249	262	255	243	161	163	165	160	147	147	130	120	119	11 (0)
Hardpack (OBB/OCC)	117	143	166	135	na	136	155	153	143	78	81	73	86	65	74	57	57	51	4 (-1)
Boxboard (OBB)	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	2 (-1)
Polycoat Containers	115	120	110	94	102	61	43	49	29	35	53	38	45	46	42	50	70	65	9 (0)
PET (mixed)	285	296	324	359	391	439	444	452	440	396	352	352	342	351	373	390	416	455	14 (1)
HDPE (mixed)	410	472	615	631	541	439	419	444	446	489	530	472	434	464	496	531	527	469	14 (3)
Plastic Tubs & Lids	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	2 (0)
Mixed Plastics <sup>3</sup>	38	39	44	39	38	34	35	32	24	24	21	25	30	39	43	40	49	52	11 (-1)
Film Plastic	30	28	26	24	21	33	37	32	18	13	20	19	11	15	16	14	18	18	6 (0)
Aluminum Cans	1731	1829	1909	1877	1819	1721	1666	1729	1751	1809	1791	1681	1723	1756	1788	1828	1994	2044	13 (0)
Steel Cans	252	245	297	279	288	275	263	262	254	228	232	258	283	280	320	345	341	342	14 (0)
Glass (mixed)	(38)	(38)	(38)	(38)	(36)	(44)	(41)	(42)	(42)	(43)	(43)	(50)	(53)	(56)	(49)	(42)	(35)	(36)	7 (-1)
<b>Composite Index</b>	<b>151</b>	<b>170</b>	<b>192</b>	<b>169</b>	<b>152</b>	<b>161</b>	<b>172</b>	<b>168</b>	<b>159</b>	<b>128</b>	<b>126</b>	<b>126</b>	<b>129</b>	<b>125</b>	<b>124</b>	<b>114</b>	<b>114</b>	<b>116</b>	
<b>Fibre Composite Index<sup>4</sup></b>	<b>137</b>	<b>159</b>	<b>179</b>	<b>146</b>	<b>124</b>	<b>139</b>	<b>155</b>	<b>148</b>	<b>137</b>	<b>98</b>	<b>97</b>	<b>99</b>	<b>103</b>	<b>95</b>	<b>87</b>	<b>70</b>	<b>64</b>	<b>64</b>	
<b>Container Composite Index<sup>5</sup></b>	<b>192</b>	<b>203</b>	<b>229</b>	<b>232</b>	<b>231</b>	<b>223</b>	<b>220</b>	<b>225</b>	<b>221</b>	<b>214</b>	<b>208</b>	<b>200</b>	<b>205</b>	<b>210</b>	<b>226</b>	<b>239</b>	<b>256</b>	<b>263</b>	

YEARLY AVERAGES (CDN\$/Metric Tonne)																		
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Newspaper (ONP #8 / SRP #56) <sup>1</sup>	76	100	99	114	101	89	118	121	72	90	126	76	71	69	72	103	111	66
Mixed Paper #54 / ONP#6 <sup>2</sup>															43	73	73	12
Corrugated (OCC)	55	106	89	114	95	80	131	111	68	149	173	133	131	131	127	152	221	137
Hardpack (OBB/OCC)	38	63	62	75	68	50	89	76	42	74	95	61	53	51	66	91	121	65
Boxboard (OBB)			43	62	53	41	70	62	26	61	84	62	46	48	50	50	na	na
Polycoat Containers	57	58	64	67	66	59	84	75	39	105	127	96	65	79	114	114	64	53
PET (mixed)	324	166	278	432	507	314	368	352	187	391	652	431	372	377	295	265	383	388
HDPE (mixed)	257	233	364	428	683	565	524	573	320	464	562	552	497	659	617	533	497	487
Plastic Tubs & Lids	5	0	12	51	104	128	146	204	22	54	247	265	na	na	na	na	na	na
Mixed Plastics <sup>3</sup>											48	32	38	46	58	61	32	42
Film Plastic	26	0	8	55	148	137	51	35	3	13	25	23	14	29	47	40	24	16
Aluminum Cans	1700	1709	1619	1772	1763	2169	2065	1904	1215	1591	1790	1516	1523	1783	1548	1576	1772	1856
Steel Cans	26	47	76	191	116	141	168	245	89	263	335	277	257	299	179	200	262	318
Glass (mixed)	(15)	(15)	(19)	(12)	(31)	(31)	(31)	(24)	(18)	(15)	(11)	(18)	(22)	(22)	(30)	(37)	(42)	(45)
<b>Composite Index</b>	<b>95</b>	<b>113</b>	<b>114</b>	<b>131</b>	<b>124</b>	<b>111</b>	<b>145</b>	<b>150</b>	<b>80</b>	<b>124</b>	<b>169</b>	<b>118</b>	<b>107</b>	<b>117</b>	<b>105</b>	<b>129</b>	<b>154</b>	<b>120</b>
<b>Fibre Composite Index<sup>4</sup></b>															<b>77</b>	<b>109</b>	<b>132</b>	<b>80</b>
<b>Container Composite Index<sup>5</sup></b>																<b>188</b>	<b>184</b>	<b>217</b>

Disclaimer: The CIF Price Sheet represents the average commodity prices received across Ontario based on a sample number of municipalities. It may not be representative of local municipal conditions.

#### Pricing Notes:

1. Paper Stock Industries (PSI) have eliminated the ONP#8 grade specification. For continuity, the new PSI grade specification, Sorted Residential Paper (SRP #56), has been included as it most closely represents the ONP#8 commodity ON municipalities are producing.
2. Paper Stock Industries (PSI) have eliminated the ONP#6 grade specification and added a new PSI grade specification, Mixed Paper #54. Mixed Paper has already been capture on the price sheet with the new grade number being added.
3. The composition for mixed plastics varies from each municipality based on the range of materials accepted and the specifications from their end markets.
4. The Fibre Composite Index is calculated using ONP#8 / SRP#56, Mixed Paper #54 / ONP#6, Corrugated (OCC), Hardpack (OBB/OCC), and Boxboard (OBB).
5. Polycoat containers are included in the container composite index and NOT the fibre composite index.

#### General Notes:

- A. Prices are for baled post-consumer residential materials except glass, which is loose.
- B. As of May 2012, prices for all materials are FOB the municipality including glass. Prior to May 2012, prices for glass were delivered prices.
- C. The Composite Index is calculated using the overall composition of residential Blue Box material recovered and marketed in Ontario as reported from the approved 2016 RPRA (formerly WDO) Datacall with some additional allocations to material categories. Mixed glass includes coloured glass. Composition figures are updated annually. Details available upon request.
- D. Materials with a listed price of "NA" indicate either an insufficient number of municipalities reported a price in the given month (<4) or variation in the reported price which is not considered representative of Ontario.
- E. Prices are compiled from a range of municipal programs across Ontario combined with information from industry representatives. Prices may not be the same as actual prices being paid in any given program.

For more information:

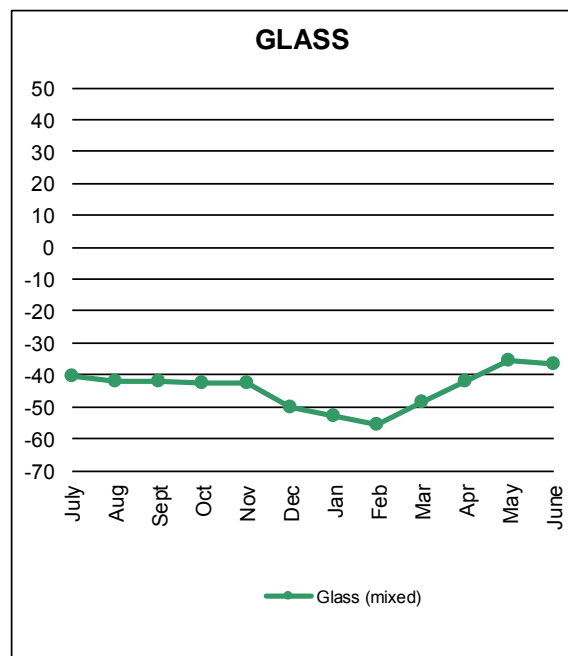
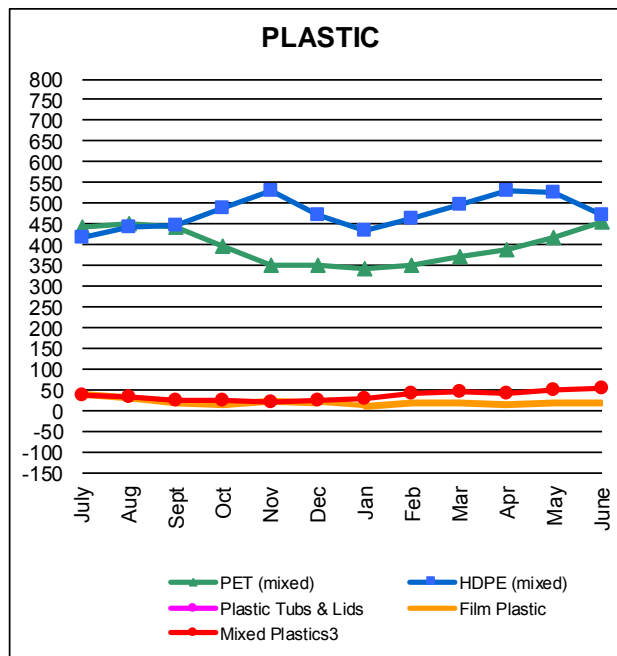
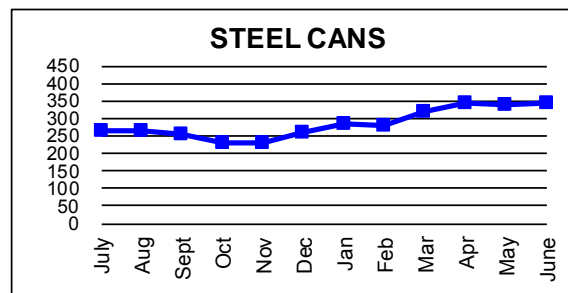
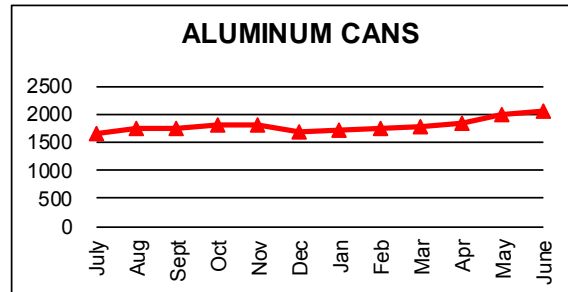
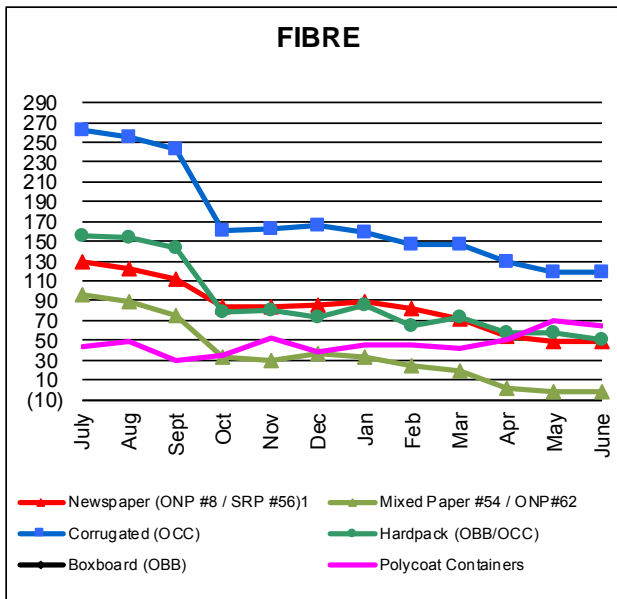
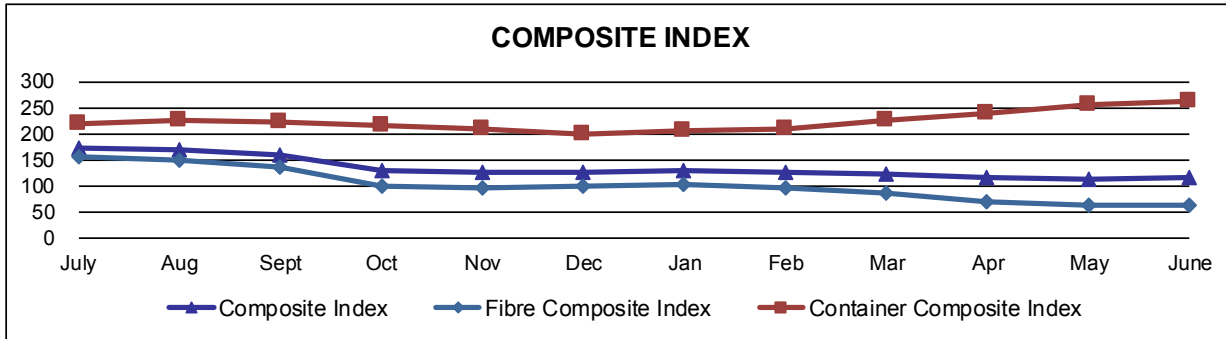
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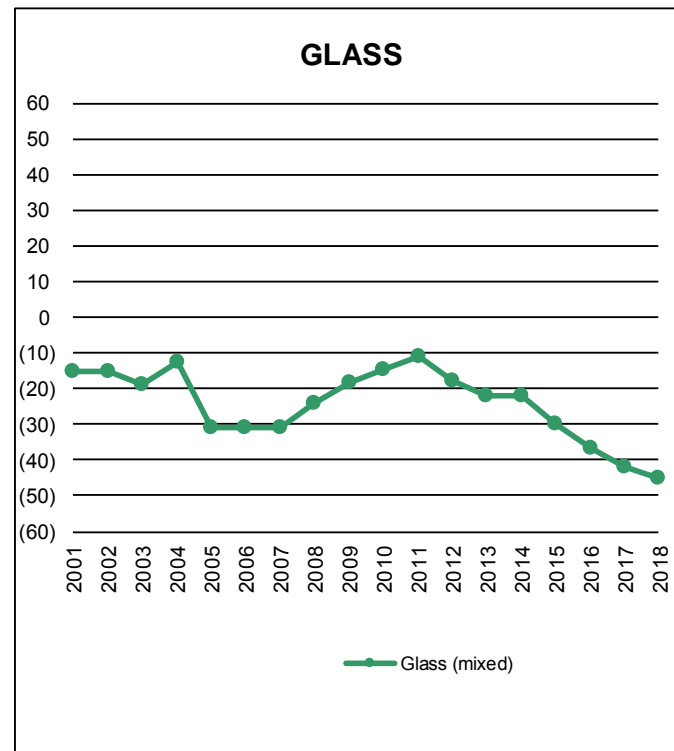
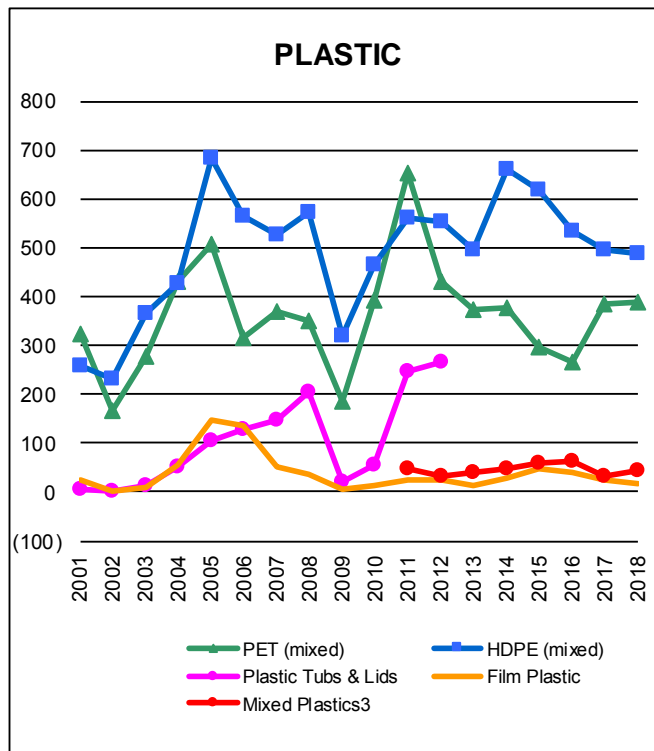
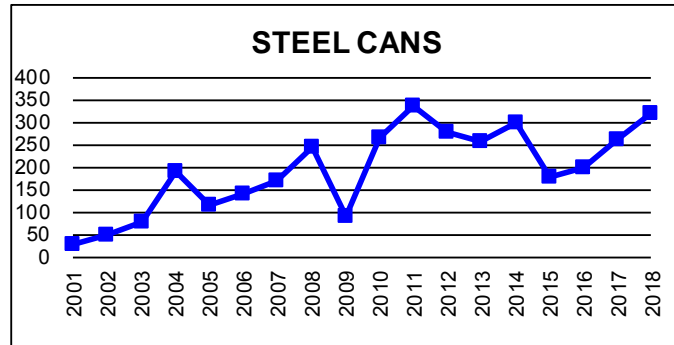
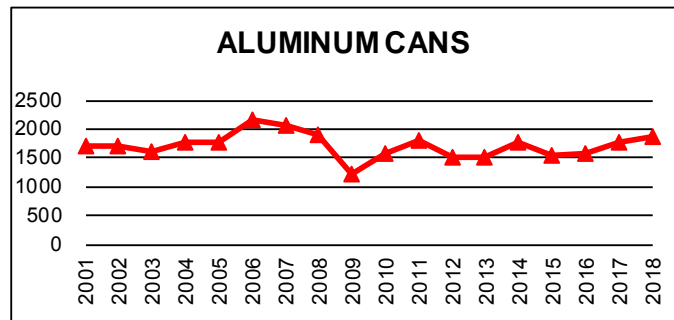
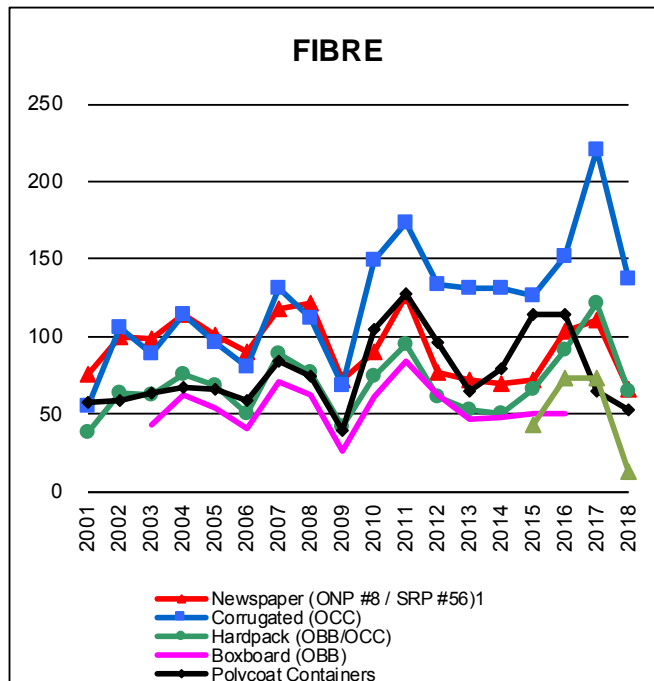


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Graphs produced from Monthly Averages Table.



Graphs produced from Yearly Averages Table

## **Report IPSWM18-004: Attachment 4:**

### **Proposed Amendments to the HGC Contract for the period January 1, 2018 to December 31, 2019 inclusive.**

Beginning in July, 2018, quarterly audits will be undertaken of the on-street collected recyclable material received at the Pido Road Material Recovery Facility. The contamination rates will be determined for:

- Residue contamination, being contamination that cannot be recycled and must go to landfill;
- Cross-contamination, being contamination of either the fiber blue box by container recyclable material or the container blue box by fibre material; and
- Bagged contamination being containers that are set out at the curb in bags.

Based on these quarterly audits, following amendments to the existing HGC Contract will be made for the three months preceding the audit:

- An increase in the allowable residue rate over 5% to mirror the audited results for the City. For greater clarity, if the audited residue contamination from inbound City material is, for example, 8%, the allowable residue rate will be increased by 3% to 8%. No rebate from HGC is expected for residue levels below 5%.
- An increase in the processing fee for the level of audited cross-contamination from the City above 2%. For greater clarity, if the audited cross-contamination level from City material is 5% then the HGC processing fee will be increased by 3%.
- An increase in the HGC contract for a portion of the annual cost for ½ an FTE to deal with bagged inbound City container material when the bagged City container material is greater than 5%.