

Clause No. 29 in Report No. 13 of Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on September 11, 2014.

## **29**

### **SECURING LONG TERM SOURCE SEPARATED ORGANIC WASTE PROCESSING SERVICES**

**Committee of the Whole recommends adoption of the following recommendations contained in the report dated August 18, 2014 from the Commissioner of Environmental Services:**

#### **1. RECOMMENDATIONS**

It is recommended that:

1. Council authorize an amending agreement between the Region and Orgaworld Canada for haulage and processing of additional source separated organic waste for a term expiring June 30, 2020, with an option for the Region to renew for three additional terms of two years each and a further term of one year, to June 30, 2027, on the terms set out in Table 2 and Table 5 of this report.
2. Council authorize an amending agreement between the Region and Lafleche Environmental for haulage and processing of additional source separated organic waste for a term expiring June 30, 2020 with an option for the Region to renew for three additional terms of two years each and a further term of one year, to June 30, 2027, on the terms set out in Table 2 and Table 5 of this report.
3. Council authorize the Commissioner of Environmental Services to execute the amending agreements on behalf of the Region.

#### **2. PURPOSE**

To report back to Council on terms of amending agreements with Orgaworld Canada and Lafleche Environmental for haulage and processing of source separated organic waste and to obtain authorization for the Commissioner of Environmental Services to execute the amending agreements as recommended in Report No. 12 of Committee of the Whole dated June 19, 2014.

### 3. BACKGROUND

#### **Council authorized the Commissioner of Environmental Services to negotiate terms to secure additional source separated organic waste processing capacity with two existing service providers**

York Region currently processes its source separated organic waste at Orgaworld Canada's composting facility in London and Lafleche Environmental's composting facility in Moose Creek. Until June 2014, York Region was also pursuing a municipally-owned processing facility to be located in the County of Dufferin. York Region's combined annual capacity at Orgaworld and Lafleche was set to decrease by up to 60,000 tonnes in June 2016 to make tonnage available for a new municipally-owned facility. York Region's current organics contract commitments are summarized in Table 1.

**Table 1**  
Existing York Region Source Separated Organic Waste Processing Contracts

<b>Contract</b>	<b>Minimum Annual Tonnage</b>	<b>Maximum Annual Tonnage</b>	<b>Expiration Date</b>	<b>Expiration Date with Optional Extensions</b>
Orgaworld (Current)	56,000	80,000	June 30, 2016	N/A
Orgaworld (Reduced)	35,000	60,000	June 28, 2022	June 28, 2027
Lafleche	25,000	40,000	June 1, 2016	June 1, 2017

As reported to Council at its meeting of June 26, 2014, the County of Dufferin endorsed a recommendation that effectively ended the current development of the Dufferin Eco-Energy Park, which includes the demonstration-scale York-Dufferin source separated organic waste processing facility project. By adopting Clause No. 37 in Report No. 12 of Committee of the Whole, Council authorized cancelling the process of seeking proposals for design, construction and operation of a source separated waste processing facility at the Dufferin Eco-Energy Park site. Council also authorized the Commissioner of Environmental Services to negotiate the terms of amending agreements for organic processing with Orgaworld and Lafleche and report back to Council for authority to execute these amending agreements.

### **Orgaworld and Lafleche are currently the only large scale Ontario merchant facilities licensed to process York Region's organic waste stream**

York Region and the City of Toronto are currently the only Ontario municipalities that accept diapers, sanitary products and pet waste in their organics programs. Until recently, the majority of York Region and Toronto's organic waste streams have been processed at Orgaworld and Lafleche, which are currently the only large-scale merchant facilities licensed in Ontario to process these types of material.

In fall 2013, Toronto started commissioning the Disco Road Organics Processing Facility, a municipally owned anaerobic digester with an annual processing capacity of approximately 75,000 tonnes per year. Tonnage required to fill the Disco Road facility was redirected from Orgaworld and Lafleche, freeing processing capacity that could potentially be made available to York Region. As directed by Council, York Region staff have approached Orgaworld and Lafleche about increasing contractual commitments beyond June 2016. Staff have received and evaluated pricing proposals from both facilities.

## **4. ANALYSIS AND OPTIONS**

### **York Region staff reach agreement in principle with Orgaworld and Lafleche on terms of amending agreements**

York Region staff have met with representatives from Orgaworld and Lafleche and agreed in principle on terms for amending agreements, subject to approval by Council. Terms of the existing and proposed amending agreements are compared in Table 2.

**Table 2**  
 Existing and Proposed Amending Agreements with Orgaworld and Lafleche<sup>1</sup>

<b>Contract Term</b>	<b>Orgaworld</b>	<b>Lafleche</b>
<i><b>Existing Agreement</b></i>		
Maximum Annual Tonnage	80,000	40,000
Minimum Annual Tonnage	56,000	25,000
Unit Price per Tonne	\$126.31	\$142.52
<i><b>Proposed Amending Agreement</b></i>		
Maximum Annual Tonnage	80,000	50,000
Minimum Annual Tonnage	52,000	32,500
Unit Price Per Tonne		\$139
<i><b>Prior to June 2016</b></i>		
First 57,500 tonnes	\$126.31	
>57,500 tonnes	\$123.81	
<i><b>June 2016 to June 2027</b></i>		
		\$139
First 60,000 tonnes (Band 1)	\$126.31	
Next 10,000 tonnes (Band 2)	\$121.31	
Next 10,000 tonnes (Band 3)	\$118.81	
> 80,000 tonnes (Band 4)	\$116.31	

1. Unit prices are expressed in 2014 dollars and include estimated 2014 fuel surcharges of \$2.68 per tonne for Orgaworld and \$0.00 per tonne for Lafleche.

Existing and proposed pricing shown in Table 2 includes haulage and processing and is subject to fuel surcharges and annual adjustments based on the *Consumer Price Index* in accordance with the existing agreement. All prices are expressed in 2014 dollars.

Under the amending agreements, York Region's minimum commitment to both contractors will be equal to sixty-five percent of the maximum annual tonnage. Maximum and minimum weekly tonnages and bonding and insurance requirements will be adjusted to reflect the new annual tonnage limits. All other terms of the current agreements will remain in effect.

**Amending agreements provide competitive pricing and long term cost savings**

Orgaworld and Lafleche have each offered discounted pricing to secure a longer term commitment from York Region. Lafleche has decreased its unit price from \$142.52 to \$139.00 per tonne, a savings of \$3.52 per tonne. This discount takes effect upon Council

approval and applies to all tonnage processed under the contract. Orgaworld's current unit price, including estimated fuel surcharges, is \$126.31 per tonne. Until June 2016, Orgaworld has offered a discount of \$2.50 per tonne on any processing above 57,500 tonnes per year. After June 2016, Orgaworld has offered a banded pricing structure with incremental price reductions based on increasing tonnage commitments. The reduced prices apply only to tonnages in their respective bands.

The pricing offered by Orgaworld and Lafleche is competitive in the current market. The higher unit price per tonne offered by Lafleche is due to the longer haulage distance to their facility.

### **Maintaining two processing contracts provides flexibility to respond to processing disruptions**

Orgaworld and Lafleche have each offered additional price discounts for larger minimum commitments. However, in accordance with the strategy approved by Council in June 2014, staff recommend that tonnages be distributed between Orgaworld and Lafleche in proportion to the maximum annual tonnages outlined in Table 2. Staff believe that the recommended tonnage distribution maintains an appropriate balance between reducing costs and managing the risk of a processing disruption. Maintaining significant capacity at both facilities ensures that some processing remains available in the event of a service interruption. It also provides a strong incentive for both facilities to continue to provide excellent customer service.

### **Orgaworld and Lafleche continue to provide solid performance under existing contracts**

Orgaworld and Lafleche continue to perform well under the existing contracts. York Region staff have completed due diligence reviews of Orgaworld and Lafleche in 2014, including visits to both processing facilities. The reviews included discussions with onsite staff, document review and site tours to ensure that the facilities are operating in accordance with regulatory and contractual requirements. Staff also contacted the Ministry of the Environment and Climate Change to discuss operations at Orgaworld and Lafleche in 2014.

The Lafleche facility commenced operations in 2009 and has processed a portion of Toronto's source separated organic waste since 2010. York Region staff completed its first due diligence review of the Lafleche facility in spring 2012, prior to York Region's first shipments in early 2013. York Region staff continue to make regular site visits and review site operations data and inspection reports by the Ministry of the Environment and Climate Change. To date, there are no compliance issues identified in the inspection reports, and no recent odour complaints related to composting operations at Lafleche.

As previously reported to Council, Orgaworld's London facility has been operating at reduced capacity since 2012 as a result of past odour complaints. Orgaworld implemented improvements to its odour abatement system in December 2013 with a goal of further reducing odour complaints. Ministry staff report a reduced number of validated odour complaints filed against Orgaworld between January and June of 2014 compared to past years during the same period. The Ministry will continue to monitor the improvement of Orgaworld's odour abatement program.

### **Amending agreement secures stable processing through June 2027 while providing flexibility to pursue future options**

The proposed amending agreements include an initial term through to June 2020, plus three optional two-year extensions and one optional one-year extension. This structure secures proven processing capacity for York Region's entire source separated organic waste stream through June 2027 while providing sufficient flexibility to continue to pursue a York Region owned facility or diversify by entering into agreements with new third party processors that may become available in the future. The contract strategy under the amending agreements is summarized in Table 3.

**Table 3**  
Proposed Source Separated Organic Waste Processing Contract Strategy

<b>Contract</b>	<b>Minimum Annual Tonnage</b>	<b>Maximum Annual Tonnage</b>	<b>Projected Annual Tonnage Generation (2014 – 2027)<sup>1</sup></b>
Orgaworld	52,000	80,000	
Lafleche	32,500	50,000	
<b>Total</b>	<b>84,500</b>	<b>130,000</b>	<b>98,290 – 112,743</b>

1. Projected annual tonnages based on per-capita tonnage reduction goals as outlined in the SM4RT Living Integrated Waste Management Master Plan.

In the event that York Region does not exercise the option to renew the amending agreement with Orgaworld in June 2020, the original agreement to process up to 60,000 tonnes with a minimum commitment of 35,000 tonnes will continue until its expiry date in June 2022.

### **Development of a source separated organic strategy to address the Region's long-term processing needs**

Staff will complete a strategic assessment of available long-term options for source separated organic waste processing, with preference given to the option of a York Region owned processing facility. The strategic assessment will recommend preferred alternatives based on a detailed review of emerging processing technologies, opportunities to construct a municipality-owned processing facility either in partnership with surrounding municipalities or solely owned by the Region and due diligence reviews of existing processing sites. Examples of the work to be undertaken as part of the

strategic assessment include a review of the municipality-owned anaerobic digester processing facility in Toronto and partnering with the Region of Peel to conduct a feasibility study on the merits of building a municipality-owned processing facility within York Region's and Peel Region's respective boundaries. The assessment work will be completed between 2015 and 2018.

### **Amending agreements fit within limits prescribed by Council**

As required by Council, the proposed amending agreements are fully compliant with the following requirements outlined in Clause No. 37 in Report No. 12 of Committee of the Whole:

- Agreements consist of an initial contract term through June 2020 with three optional two year extensions and one optional one year extension.
- Combined maximum annual tonnages under the amending agreements do not exceed 130,000 tonnes per year.
- Combined minimum annual tonnages under the amending agreements do not exceed 85,000 tonnes per year.
- Unit pricing under the amending agreements is equivalent to current contract pricing, or less.

### **Link to key Council-approved plans**

Source separated organic waste processing contributes to the 2011 to 2015 Strategic Plan as a component of overall diversion of waste from landfill. Organic waste processing aligns with the waste management hierarchy of maximizing reduction, reuse, recycling, and recovery prior to disposal.

## **5. FINANCIAL IMPLICATIONS**

### **Amending agreements secure long term processing at reduced unit price**

Proposed amending agreements with Orgaworld and Lafleche will secure long term processing capacity at lower unit prices than the existing contracts. According to the SM4RT Living Integrated Waste Management Master Plan, York Region's projected annual generation rate in 2016 when Orgaworld's long term pricing structure takes effect is 102,138 tonnes per year. If these tonnes are divided between Orgaworld and Lafleche in proportion to contract size, York Region will realize an estimated savings of \$162,396 per year relative to the cost to process the same tonnages at current prices, as illustrated in Table 4. Prior to June 2016, the Region will save an average of \$144,000 per year under the interim pricing structure if the tonnage is divided proportionally between Orgaworld and Lafleche.

**Table 4**  
 2016 Processing Cost Comparison at Current and Amended Unit Prices

Orgaworld			Lafleche			Projected Annual Processing Cost in 2016
Tonnes	Unit Price	Total	Tonnes	Unit Price	Total	
<i>Current Contract Pricing<sup>1</sup></i>						
63,326	\$134.00	\$8,485,684	38,812	\$151.20	\$5,868,374	\$14,354,058
<i>Amended Contract Pricing</i>						
60,000	\$134.00	\$8,040,000	38,812	\$147.47	\$5,723,606	\$14,191,662
3,326	\$128.70	\$428,056				
<b>2016 Annual Savings</b>						<b>\$162,396</b>
<b>2016 Average Cost Per Tonne at Amended Prices</b>						<b>\$138.95</b>

1. Unit pricing is based on 2014 pricing shown in Table 2 plus an allowance of three percent per year for fuel surcharges and *Consumer Price Index* adjustments

**Additional tonnage requires additional financial commitment to Orgaworld and Lafleche**

Contract value increases are required to account for additional tonnage secured through amending agreements with Orgaworld and Lafleche. The contract value increases, shown in Table 5, are based on annual tonnage projections in the SM4RT Living Plan to process organic waste up to 2020. The tonnage has been divided between Orgaworld and Lafleche in proportion to contract size and includes an estimated annual price increase of three per cent to account for fuel surcharges and *Consumer Price Index* adjustments. In the event the actual annual tonnage exceeds the tonnage projections in the SM4RT Living Plan during this period, additional funding will be required.



**Table 5**  
Contract Value Increases for Orgaworld and Lafleche (June 2014 to June 2020)

<b>Contract Amount</b>	<b>Orgaworld</b>	<b>Lafleche</b>
Contract value of services June 2014 – June 2020	\$51,764,397	\$34,995,009
Remaining contract value balance as of June 30, 2014	\$11,924,893	\$14,451,826
<b>Required Contract Value Increase to 2020</b>	<b>\$39,839,504</b>	<b>\$20,543,183</b>

## 6. LOCAL MUNICIPAL IMPACT

Amending agreements with Orgaworld and Lafleche secure long term source separated organic waste processing for all nine local municipalities. Processing will occur at the same facilities at lower unit prices than the current contracts.

## 7. CONCLUSION

Amending agreements with Orgaworld and Lafleche secure long term processing for York Region's entire source separated organic waste stream through June 2027, if required. Source separated organic waste processing is a key component of York Region's overall diversion from landfill strategy and aligns with the waste management hierarchy of maximizing reduction, reuse, recycling and recovery prior to disposal.

Optional contract extensions provide flexibility to pursue a York Region owned facility or other third party contracts prior to June 2027, if appropriate. Staff will complete a strategic assessment of available long-term options for source separated organic waste processing between 2015 and 2018, with preference given to the option of a York Region owned processing facility. The strategic assessment will recommend preferred alternatives based on a detailed review of emerging processing technologies, opportunities to construct a municipality-owned processing facility either in partnership with surrounding municipalities or solely owned by the Region and due diligence reviews of existing processing sites.

For more information on this report, please contact Laura McDowell, Director, Environmental Promotion and Protection, Environmental Services at 905-830-4444 Ext.75077.

The Senior Management Group has reviewed this report.

*Attachments (0)*