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CONTRACT EXTENSION OF SOURCE SEPARATED ORGANICS PROCESSING WITH UNIVERSAL RESOURCE RECOVERY INC.

The Environmental Services Committee recommends the adoption of the recommendations contained in the following report dated April 19, 2011 from the Commissioner of Environmental Services.

1. RECOMMENDATIONS

It is recommended that:

1. Regional Council authorize extension of a service agreement with Universal Resource Recovery Inc. to continue processing a portion of York Region's source separated organics on the following new terms and conditions:
 - a) The service agreement be extended for a term of two years commencing on June 5, 2011 and expire on June 30, 2013, with the option to renew for one additional year.
 - b) The maximum contract value will be \$5,111,200 over the two year term based on a maximum annual tonnage allowance of 20,000 tonnes of source separated organics.
 - c) The Region will commit to a put-or-pay minimum annual tonnage of 10,000 tonnes of source separated organics.
2. The Commissioner of Environmental Services be authorized to enter into the above contract.

2. PURPOSE

The purpose of this report is to obtain authorization to enter into an extended service agreement with Universal Resource Recovery Inc. to continue processing York Region's source separated organics at their facility in Welland, Ontario for a term of two years and to incorporate certain terms and conditions within the agreement. The current contract with Universal Resource Recovery Inc. expires June 4, 2011.

3. BACKGROUND

Universal Resource Recovery Inc. and Orgaworld Canada Ltd. are the only two processors in Ontario with the capability and capacity to manage York Region's source separated organics.

As previously reported to Council in Report No. 7 of the Environmental Services Committee of September 15, 2010, York Region elected to allow the use of plastic bags in the source separated organics program and permitted personal hygiene products (diapers, sanitary and incontinence products), kitty litter and pet waste in order to drive participation. While this has led to York Region achieving the highest source separated organics capture per household in the Greater Toronto Area, a limited number of processors are able to manage this material. Source separated organics processing capacity is limited in Ontario with very little excess capacity. Currently, Universal Resource Recovery Inc. in Welland and Orgaworld Canada Ltd. in London are the only two processors in Ontario with the capability and the capacity to handle York Region's source separated organics stream. Consequently, the Region has maintained contracts with Universal Resource Recovery Inc. and Orgaworld Canada Ltd. and has committed to working with these processors to ensure continuity in organics processing.

Source separated organics processors experience facility throughput limitations as well as full facility shutdown over the past few years affecting York Region's diversion rates

Over the past few years, the Ministry of the Environment has placed orders on Universal Resource Recovery Inc. and Orgaworld Canada Ltd., significantly limiting their facility throughput. Previous reports and updates to Environmental Services Committee and Council have identified these on-going challenges. In June 2010, Universal Resource Recovery Inc. and Orgaworld Canada Ltd. indicated they were addressing processing issues at their facilities. Orgaworld Canada Ltd. and Universal Resource Recovery Inc. both closed voluntarily to deal with odour issues on July 9 and 19, 2010, respectively. Both Orgaworld Canada Ltd. and Universal Resource Recovery Inc. were able to reopen their facilities after significant upgrades on October 4, 2010 and December 6, 2010, respectively.

As reported previously these orders and voluntary shutdowns at Universal Resource Recovery Inc. and Orgaworld Canada Ltd. directly impacted York Region's diversion efforts, resulting in a portion of organics being diverted to landfill.

Staff secured additional processing capacity through WeCare Organics LLC located in Massachusetts

In order to minimize the amount of material being landfilled due to the temporary closures of both Orgaworld Canada Ltd. and Universal Resource Recovery Inc. staff sought to secure additional organics processing capacity, critical to the continued success

of the source separated organics diversion program. It was acknowledged that diversifying the portfolio of contracts for source separated organics processors would not only secure additional processing options for source separated organics, but would also ensure the Region remains on track in meeting long term diversion targets. Staff found only one processor with available capacity capable of processing York Region's feedstock.

In July 2010, the Region entered into an agreement with WeCare Organics LLC to process 15,000 tonnes of the Region's organics annually at their plant in Marlborough, Massachusetts. That contract was later increased to 30,000 tonnes when additional capacity at WeCare Organics LLC became available. The current contract expires on June 30, 2013 with an option for two, two year extensions. Table 1 summarizes existing third party contract terms for processing of source separated organics.

Table 1
Summary of Source Separated Organics Contract Terms

Processor	Annual Tonnage	Expiry Date
Universal Resource Recovery Inc.	Up to 50, 000	June 4, 2011
Orgaworld Canada Ltd.	45,000 - 50,000	June 2022
WeCare Organics LLC	30, 000	June 30, 2013

Universal Resource Recovery Inc. resumes operation after completing facility upgrades on December 6, 2010

Universal Resource Recovery Inc. resumed operation on December 6, 2010 after completing significant facility upgrades including odour control. Due to the extended shutdown, Universal Resource Recovery Inc. agreed to extend the contract expiration date from February 4, 2011 to June 4, 2011 and waive the Region's minimum tonnage commitment for the remainder of the contract.

Since reopening on December 6, 2010, Universal Resource Recovery Inc. has been successful in processing the Region's source separated organics, at restricted rates, without odour issues. Consequently, on February 17, 2011, the Ministry of the Environment allowed Universal Resource Recovery Inc. to operate the plant at full capacity.

4. ANALYSIS AND OPTIONS

Staff met with Universal Resource Recovery Inc. to discuss the potential of extending processing services with revised terms and conditions subject to award by Council

On March 17, 2011, staff met with representatives from Universal Resource Recovery Inc. to discuss revision of terms and conditions and extension of the term of organics processing services. It was agreed that the contract would include the following terms:

- The service agreement will extend for a term of two years commencing on June 5, 2011 and expiring on June 30, 2013, with the option to renew for one additional year
- The maximum contract value will be \$5,111,200 over the two year term based on a maximum annual tonnage allowance of 20,000 tonnes of source separated organics per year
- The Region will commit to a put-or-pay minimum tonnage of 10,000 tonnes of source separated organics per year
- A revised unit processing cost of \$127.78 up from \$120.55

The put-or-pay minimum tonnage commitment will not apply in the event that odour issues at the facility result in reduced or unavailable throughput capacity. This service arrangement, if approved by Council, will expire at the same time as the source separated organics processing contract with WeCare Organics LLC. This is intentional, and provides flexibility at the time of renewal to determine processing capacity needs, including consideration of available processing at a regionally owned facility.

Minimum and maximum tonnage commitments to Universal Resource Recovery Inc. reflect Region's needs to diversify third party processing capacity and meet obligations with other source separated organics processors

It is anticipated that the Region will require processing capacity for approximately 95,000 tonnes of source separated organics in 2011. In accordance with existing contract commitments, the following list summarizes the contract quantities and locations for third party processing of the Region's source separated organics.

Table 2
2011 Processing Capacity Summary

Processor	Location	2011 Tonnage Range	Licensed Capacity (metric tonnes)
Universal Resource Recovery Inc.	Welland, ON	15,000 – 20,000*	60,000
Orgaworld Canada Ltd.	London, ON	45,000 – 50,000	150,000
WeCare Organics LLC	Marlborough, MA	30,000	54,000
Total 2011 processing capacity range		90,000 – 100,000	
Expected 2011 source separated organics generation		95,000	

*put or pay minimum of 10,000 tonnes

Staff recommend that the extended contract term with Universal Resource Recovery Inc. commit The Region to a maximum 20,000 tonnes of source separated organics annually to balance existing commitments with Orgaworld Canada Ltd. and WeCare Organics LLC.

Staff recommend extending processing services with Universal Resource Recovery Inc. to maintain diversification of source separated organics processing

Universal Resource Recovery Inc. and Orgaworld Canada Ltd. are the only two processors in Ontario with the capability and capacity to manage York Region's source separated organics. While Orgaworld Canada Ltd is able to take additional tonnage, staff are reluctant to consolidate processing capacity to two contractors given processing shutdowns that occurred in 2010. This strategy ensures continued diversification of source separated organics processors. Since Universal Resource Recovery Inc. resumed operations on December 6, 2010, staff have closely monitored their performance through continual communications and a site visit. Universal Resource Recovery Inc. has made significant investments in facility upgrades with the sole intent of mitigating odour issues and obtaining Ministry of the Environment's approval to operate at full capacity. As a result, staff recommend that Council authorize the Region to extend processing services with Universal Resource Recovery Inc. to maintain a diversified and resilient contract portfolio for source separated organics processing. By having three processors the Region's diversion efforts are better protected to mitigate impacts in the event that one facility should experience processing upsets.

5. FINANCIAL IMPLICATIONS

The contract with Universal Resource Recovery Inc, that expires on June 4, 2011, costs \$120.55 per tonne to transfer and process source separated organics with a minimum tonnage commitment of 25,000 tonnes per year. Table 3 summarizes contract costs to transfer and process source separated organics before and after the contract extension with Universal on June 4, 2011.

Table 3
Impact of term extension with Universal Resource Recovery on Region's Source Separated Organics Costs

Processor	Processing Cost (to June 4, 2011) \$/tonne	Processing Costs with Extension past June 2011 \$/tonne	2011 Fully Burdened Cost \$/tonne*
Universal Resource Recovery Inc.	\$120.55	\$127.78	\$179
Orgaworld Canada Ltd.	\$118.80	\$121.18**	
WeCare Organics LLC	\$155.00	\$158.10**	

* The 2011 budgeted fully burdened costs are a weighted average for all source separated organics processing contract costs that accounts for inflation as well as handling at transfer stations, administration and haulage fees. The 2011 fully burdened cost has increased to \$179 per tonne from the previously reported \$178 per tonne due to the increase in the Universal Resource Recovery contract price effective June 4, as well as increases in the cost of fuel.

**Based on estimated 2% Consumer Price Index increase due for Orgaworld Canada Ltd and WeCare Organics LLC in June 2011.

Under new terms in the extended service agreement it will cost \$127.78 per tonne to transfer and process source separated organics with a minimum tonnage commitment of 10,000 tonnes per year as compared to the previous 25,000 tonne commitment. The increase in cost per tonne is attributed to inflation, capital recovery cost for the facility upgrades recently implemented as well as the reduced tonnage commitment. With a maximum tonnage provision of 20,000 per year, total contract value will not exceed \$5,111,200 for the two year term excluding HST. Sufficient funding has been provided in the approved Environmental Services 2011 Operating Budget.

6. LOCAL MUNICIPAL IMPACT

Region staff will continue to communicate with the local municipalities regarding potential processing constraints and/or facility impacts that could result in changes to the planned management of source separated organics. A service agreement with Universal Resource Recovery Inc. will secure a portion of the processing capacity necessary for a diverse portfolio of contracts and minimize the potential for landfilling of organics in the event that any one facility has processing disruptions. This additional two year processing term commitment with Universal Resource Recovery Inc. will help ensure the Region and its local municipalities stay on track in meeting diversion targets.

7. CONCLUSION

There is limited capacity for organics processing in Ontario. Over the last few years, the Region's organics processors, Universal Resource Recovery Inc. and Orgaworld Canada Ltd., have experienced significant challenges due to odour complaints resulting in limited throughput and facility shutdowns. In 2010, both Universal Resource Recovery Inc. and

Orgaworld Canada Ltd. have invested significant funds into facility upgrades to mitigate odour issues. The current contract with Universal Resource Recovery Inc. will expire on June 4, 2011. Staff recommend Council authorize the Region to enter into an amended service agreement with Universal Resource Recovery Inc. that will commence on June 5, 2011 and expire on June 30, 2013, with an option for an additional one year extension at a cost of \$127.78/tonne with minimum and maximum annual tonnages of 10,000 and 20,000 respectively.

For more information on this report, please contact Laura McDowell, Director Environmental Promotion and Protection (905) 830-4444 at Ext. 5077.

The Senior Management Group has reviewed this report.