

**Explosives Regulatory Division (ERD)
NRCan**

Proposed Revision to User Fees

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1. Introduction

This paper discusses the context for cost recovery related to ERD activities. It sets out information on the current costs being incurred, the level of cost recovery now in place, the potential future costs and a potential revised fee schedule.

This is intended as a starting point for discussion with stakeholders and for eventual tabling of a proposal related to the *User Fees Act*.

ERD activities are defined as work related to each of the following categories:

- i. **Authorization Lists** - Approval of articles to be added to the Authorization Lists and maintenance of the Lists.
- ii. **Import Permits** – review and approval of applications for permits to import articles, including those not on the authorization lists
- iii. **Fireworks and pyrotechnical** – training and certification of individuals to handle fireworks and pyrotechnical displays
- iv. **Factory licensing** – review and approval of applications for licenses to manufacture explosives (including sub-activities of inspection and compliance restoration)
- v. **Magazine licensing** – review and approval of applications for licenses for user and vendor magazines (including sub-activities of inspection and compliance restoration)
- vi. **Manufacturing certificates** – review and approval of applications for certificates to manufacture explosives, other than at a factory
- vii. **Standards and regulations** - Development of standards and regulations associated with explosives
- viii. **Other work related activities-**
- ix. **Management and administration**

Inspection and Compliance Restoration are considered as sub-activities of Factory Licensing and Magazine Licensing. Inspections are carried out of the licensed facilities or functions in order to assess whether the terms of the license (including compliance to regulations) are being fulfilled. When breaches are noted, ERD staff may be involved in subsequent work (as compliance restoration) to ensure the breaches are addressed by the licence holder.

Currently, fees are charged for licenses, permits and authorizations related to categories ii, iii., iv., v. and vi, above. The proposed fee schedule also identifies potential fees related to the first category.

2. Current Costs

Budgeting and accounting practices consider ERD as one unit and it does not account for costs below the Division level. In order to estimate the costs for each of the activities noted in section 1 above, an employee survey was undertaken in late 2004 wherein each employee was asked to identify the average percentage of time devoted to each type of work activity. The survey data was tabulated and the number of FTEs (full time equivalent positions) for each activity was determined.

For 2004-2005, ERD had an approved staff complement of 41 FTEs (of which 25.5 worked from headquarters and 15.5 worked from regional offices). Table 1 shows how these FTEs are utilized in each regulatory activity.

Table 1: Direct FTEs by Regulatory Activity (2004-2005)

Activity	HQ	Regions	Total
Authorization list	1.94	0.00	1.94
Import permits	2.25	0.00	2.25
Fireworks and pyrotechnical certification	1.75	.80	2.55
Factory licensing	3.53	0.15	3.68
Magazine licensing	0.00	4.84	4.84
Manufacturing certificates	0.91	0.00	0.91
Inspections	2.40	5.40	7.80
Compliance restoration	0.97	1.29	2.26
Developing standards and regulations	3.06	0.84	3.90
Other work related activities	3.20	2.18	5.38
Management and administration	5.95	0.00	5.95
Total	25.50	15.50	41.00

Since Inspection and Compliance Restoration are sub-activities that are carried out to support factory licensing and magazine licensing activities, the level of effort from these sub-activities was distributed or allocated to the related licensing activity on a pro-rate basis related to the effort associated with licensing. Inspection and compliance restoration work undertaken by regional offices is related to magazine licensing and similar work from HQ staff is related to factory licensing.

Management and administration activity supports all work related activities and the level of effort from that activity was distributed on a pro-rate basis to the other activities.

The level of effort by FTE following these distributions of support functions is shown in Table 2.

Table 2: FTEs by Regulatory Activity, after distribution (2004-2005)

Activity	HQ	Regions	Total
Authorization list	1.94	0.00	1.94
Import permits	2.93	0.00	2.93
Fireworks and pyrotechnical certification	2.28	0.80	3.08
Factory licensing	8.99	0.15	9.14
Magazine licensing	0.00	11.53	11.53
Manufacturing certificates	1.18	0.00	1.18
Developing standards and regulations	3.99	0.84	4.83
Other work related activities	4.17	2.18	6.35
Total	25.50	15.50	41.00

Financially, ERD planned spending levels are approximately as follows:

Salaries	\$3.0 million
Non-salary operating	1.3
Employee benefits	0.6
Accommodation	<u>0.4</u>
Total	\$5.3 million

To estimate the costs incurred for each of the ERD activities, the average salary rate was applied to FTEs by activity. Similarly, employee benefit costs and accommodation costs were aligned with FTEs by activity. Non-salary operating costs were analyzed by activity. Based on that analysis, Table 3 shows the estimated total current costs incurred for ERD activities.

Table 3: Costs by Regulatory Activity (2004-2005)

Activity	Total
Authorization list	253,354
Import permits	307,078
Fireworks and pyrotechnical certification	383,546
Factory licensing	1,056,720
Magazine licensing	1,406,432
Manufacturing certificates	133,514
Developing standards and regulations	1,005,519
Other work related activities	764,836
Total	5,310,000

It should be noted that these costs are only those **directly** related to ERD functions. The costs do not include any portion of overhead associated with Branch, Departmental or other Government activity that supports ERD.

3. Current Cost Recovery

ERD has been recovering part of its costs from regulatory activities for many years. The revenues collected during 2004-2005 for each activity are shown in Table 4. The table also shows the percentage of cost recovery for each of the activities relative to the costs incurred during the year. Overall, approximately 24% of costs incurred by ERD are recovered through user fees.

Table 4: Revenues Collected by Regulatory Activity (2004-2005)

Activity	Revenues	% Recovery
Authorization list	0	0 %
Import permits	36,460	12 %
Fireworks and pyrotechnical certification	279,721	73 %
Factory licensing	445,458	42 %
Magazine licensing	448,319	32 %
Manufacturing certificates	40,600	30 %
Developing standards and regulations		
Other work related activities	4,100	
Management and administration	2,091	
Total	1,256,749	24 %

4. Proposed Fee Schedule

As noted in Table 4 above, there has not been an equal degree of cost recovery across activities. For example, the degree of cost recovery ranges from 0% for work related to the Authorizations Lists to 73% for fireworks and pyrotechnical training and permits. On a total dollar basis, the majority of revenue is derived from factory licensing and magazine licensing. These two activities are the two largest consumers of resources in ERD.

The current fee structure represents an imbalance between revenues received for licensing activities and those received for authorizations and import permits. In effect, Canadian manufacturers have paid relatively more and imports have paid relatively less.

Given that the authorization lists are the foundation for all regulatory activity, it would be appropriate to charge fees related to the work required to authorize additions to the lists. There is currently minimal work undertaken by ERD to review articles that are on the authorization lists; however, ERD should be undertaking periodic audit activity to validate the continuing appropriateness of articles on the lists and related costs should be recovered from those who maintain articles on the lists.

The proposed fee structure reflects a re-balancing of the fees among the different activities to reflect the work carried out by ERD.

The proposed fee schedule also incorporates fees related to some new costs that would be incurred. For example, while explosives manufactured in Canada are inspected as part of the ongoing inspection of factory licenses, no such work has carried out related to

periodic assessment or audit of the quality of explosives being imported. It would be prudent to do so in the future.

The proposed fee schedule also would achieve more strategic weighting of fees among all stakeholders. The proposed fees would result in approximately 35-40% cost recovery for licensing activities and 90-95% cost recovery for other activities where fees are charged. Development of standards and regulations and other work related activities would continue to be funded fully from appropriations and not from fees.

The Proposed Fee Schedule is set out in Appendix A. The proposed fee structure would generate the revenues and percentage cost recovery noted in Table 5.

Table 5: Revenues from Proposed Fee Schedule (2006-2007)

Activity	Revenues	% Recovery
Authorization list	375,000	75 %
Import permits	245,000	80 %
Fireworks and pyrotechnical certification	170,000	45 %
Factory licensing	460,000	45 %
Magazine licensing	470,000	35 %
Manufacturing certificates	75,000	55 %
Inspections		
Compliance restoration		
Developing standards and regulations		
Other work related activities		
Management and administration	5,000	
Total	1,800,000	33 %

5. Performance Standards

ERD remains committed to managing its regulatory activities in an effective and efficient manner. In the past, performance standards have not been explicitly published and ERD will commit itself to meeting the performance standards set out in Appendix B.

The proposed performance standards reflect a reasonable amount of time that could be taken to complete a regulatory activity (e.g., the amount of time required to review and make a decision regarding an application for a license). The standards identify an intent to meet the standard at least 95% of the time. This reflects the fact that on occasion, a regulatory decision may be delayed due to circumstances beyond ERD control and that on occasion, spikes in workload may prevent all decisions to be reached within the defined timeframe.

Appendix A: Proposed Fee Schedule

Activity	Fee in 2004-2005	Proposed fee
Authorizations:		
1. Application to have an explosive declared an authorized explosive, minimum \$100 per application, maximum \$1,000	0	10
2. Annual fee to maintain an authorization for an explosive, manufactured in Canada, minimum fee per company, \$100, maximum \$1,000 per company	0	3
3. Annual fee to maintain an authorization for an explosive, manufactured outside Canada, minimum fee per company, \$100, maximum \$4,000 per company	0	12
Importation:		
1. Application for an explosives importation permit, general (items are included in the Authorizations Lists)	30	125
2. Application for an explosives importation permit, general (items are not included in the Authorizations Lists)	30	250
3. Application for an explosives importation permit, annual - maximum fee \$1,000	100	125
- plus, per 1,000 kg. Imported NEQ on an annual basis	0	15
Certification Fireworks and Pyrotechnics		
1. Initial Certification as a display fireworks assistant or pyrotechnic special effects apprentice (five year certificate)	100	150
2. Upgrade with additional endorsement(s) for display fireworks or pyrotechnical certificate		100
3. Renewal of display fireworks or pyrotechnical certificate, five years after previous certificate or upgrade	100-150	100
Factory Licences		
1. Application for an initial factory licence (blasting and military explosives), minimum \$2,000 and maximum \$20,000		
- per process unit and per process vehicle	700	700
- per 1,000 kg storage limit increment per magazine, NEQ	15	15
- per detonator magazine	200	200
2. Application for renewal of a factory licence (blasting and military explosives), minimum \$2,000 and maximum \$20,000		
- per process unit and per process vehicle	700	500
- per 1,000 kg storage limit increment per magazine, NEQ	15	15
- per detonator magazine	200	200
3. Application for an initial factory licence (fireworks), minimum \$500 and maximum \$4,000		
- per process unit	90	180
- per 1,000 kg storage limit increment, NEQ	n/a	15
4. Application for renewal of a factory licence (fireworks), minimum \$500 and maximum \$4,000		

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Activity	Fee in 2004-2005	Proposed fee
- per process unit	90	180
- per 1,000 kg storage limit increment, NEQ	n/a	15
5. Application for a factory licence (other), minimum \$500 and maximum \$2,000		
- per process unit	180	500
- per 1,000 kg storage limit increment, NEQ (no fee if storage limit less than 250 kg.)	0	15
User Magazine Licence		
1. Application for a user magazine (high explosives) licence, minimum fee \$200	50-200	
- per magazine		100
2. Application for a user magazine (high explosives) zone licence, minimum fee \$300	200	
- per magazine		150
3. Application for a user magazine (other)	50	50
4. Application for a user magazine (law enforcement)	0	0
Vendor Magazine Licence		
1. Application for a vendor magazine licence (high explosives)	90/ 200	
- per detonator magazine		200
- per 1,000 kg of storage limit increment of explosives, NEQ	15	15
2. Application for a vendor magazine licence (other)		
- per retail location		100
- per distributor location, up to 1,000 kg. Storage, NEQ		250
- per distributor location, over 1,000 kg. storage, NEQ		500
Manufacturing Certificates		
1. Application for a certificate to establish a satellite site for the manufacture of blasting explosives, per-month licence, minimum fee \$1000, maximum fee \$2,000	200/mon	250/mon
2. Application for a certificate issued for a 12-month period to mechanically blend ammonium nitrate and fuel oil for immediate use at the place of use	1000 / 2000	1,000
3. Application for a manufacturing certificate to prepare and package assortments of explosives, other than high explosives, for retail, distribution and sale	0	500
4. Any other manufacturing certificate	0	90
Special Events		
1. Approval and monitoring of an event using articles authorized for a specified period, maximum fee \$2,000 per related events	50	500

Note: Authority will be sought to increase fees on an annual basis by a percentage equal to the increase in government salary rates.

Appendix B: Proposed Performance Standards

Activity	Performance standard	Comment
Authorizations	95% of decisions on applications to add articles to the Authorization List will be made within 30 days of receipt of the application.	There are 4 possible decisions that can be made: approve the application; deny the application; request testing from CERL; or request more information from the applicant (e.g., an incomplete application). In the first two cases, the case is complete. In the latter two cases, the 30-day clock starts again once the new information is available.
Import Permits	95% of decisions are made within 30 days of receipt of an application.	There are 3 possible decisions that can be made: approve the application; deny the application; or request more information from the applicant (e.g., an incomplete application). In the first two cases, the case is complete. In the latter case, the 30-day clock starts again once the new information is available.
Certification Fireworks and Pyrotechnics	95% of decisions are made within 30 days of receiving an application that contains all necessary information.	All necessary information includes evidence that all prerequisites and requirements have been met.
Factory License	Initial license – 95% of decisions are made within 60 days of receipt of an application Renewal - 95% of decisions are made prior to expiry of a current license, assuming the license holder has applied at least 30 days prior to expiry of a current license.	Initial licenses require more work and a longer time frame to ensure information is accurate and all regulatory requirements are being met, including an environmental assessment. For renewals, ERD has existing information and can complete the process in a shorter time frame. A decision prior to expiry is important from a regulatory viewpoint.
User magazine licenses	95% of decisions are made within 30 days of receipt of an application.	There are 3 possible decisions that can be made: approve the application; deny the application; or request more information from the applicant (e.g., an incomplete application). In the first two cases, the case is complete. In the latter case, the 30-day clock starts again once the new information is available.

Activity	Performance standard	Comment
Vendor magazine license	95% of decisions are made within 30 days of receipt of an application.	There are 3 possible decisions that can be made: approve the application; deny the application; or request more information from the applicant (e.g., an incomplete application). In the first two cases, the case is complete. In the latter case, the 30-day clock starts again once the new information is available.
Manufacturing certificates	95% of decisions are made within 30 days of receipt of an application.	There are 3 possible decisions that can be made: approve the application; deny the application; or request more information from the applicant (e.g., an incomplete application). In the first two cases, the case is complete. In the latter case, the 30-day clock starts again once the new information is available.