

NEWSLETTER

Exchange for Change (NSW) Pty Ltd

August 2018 Pricing Assumptions

Issued: 30 June 2018



NSW Container Deposit Scheme Newsletter

Welcome to the June newsletter from Exchange for Change NSW. In this newsletter we talk about the assumptions behind the July advanced contribution as well as the May period true up, which will both be issued on the 2nd July. We will also give you an update on the progress around developing an export protocol.

To assist you with reconciling your invoices, we intend on providing additional data once the invoices are sent out. This should occur by the 6th July.

Exports

Exchange for Change and the NSW EPA have reviewed the submissions received in relation to the recent export protocol consultation. Thank you to everyone who took the time to make a submission.

None of the submissions received indicated a need to modify the proposed approach to the export process.

The majority of the responses sought additional clarification around the definitions covered in the briefing paper and the responsibilities of each scheme participant. These items will be addressed in the drafting of the export agreement. Drafting will commence once final sign off is received from the NSW EPA. The drafting process is expected to take approximately two weeks. Once completed, exporters will be invited to sign up to the export agreement. We still anticipate exporters having the ability to commence making submissions in August, with first payments to commence in September.

We are continuing to use 7.5% in our pricing models until we gain more accurate data once all exporters commence reporting in August.

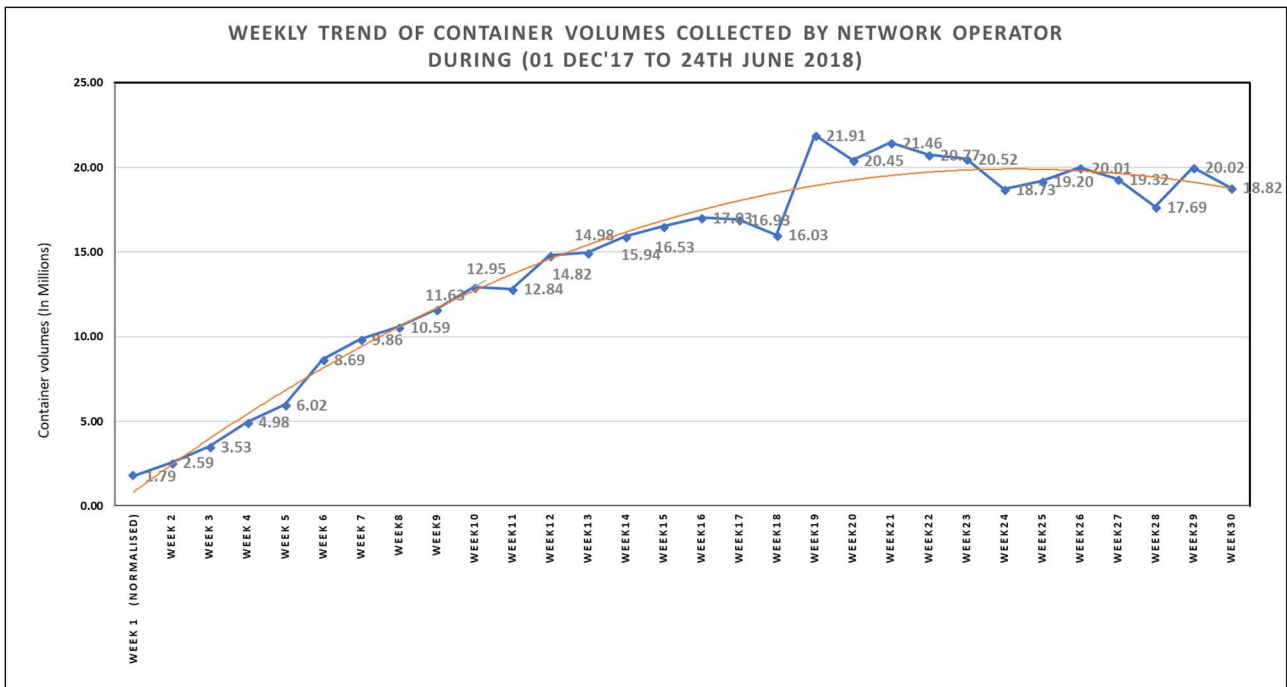
It is important that all suppliers correctly declare their gross supply volumes into NSW and pay the CDS contribution on these volumes. Under no circumstances should suppliers be netting off for exports. If you have not been reporting your volumes correctly, please amend your supply data via the Exchange for Change Portal.

Collection Volumes

The Network Operator is continuing to roll out more collection points and they have now implemented 633 collection points across the State.

As we move into winter the number of containers collected by the Network Operator is stabilising at approximately 19 to 20 million containers per week. We expect this trend to continue through the cooler months before volumes of containers increase as we move back into the warmer weather.

The graph overleaf shows volumes collected by the Network Operator, Tomra Cleanaway.



August forecast

The variables involved in determining the July invoice are the total number of containers redeemed by both the Network Operator and the MRFs as well as the percentage split between these two channels. For the Network Operator we have used the weekly volumes collected so far and then extrapolated this forward to the August period. Collected volumes are reported by the Network Operator on a weekly basis, ending Sunday.

Supply Volume Forecast Methodology Simplified

Since the commencement of the scheme suppliers have found the forecast methodology overly complex and difficult to apply when undertaking their own forecasting activities. In light of the feedback received from suppliers, Exchange for Change will be using a simplified methodology from the July forecast onwards.

Note: this simplified methodology will also be utilised by the ACT CDS, which commences on 30 June 2018.

The new methodology will generate a daily supply volume using the data from the three most recently reported months and multiply this daily supply volume by the number of days in the forecast month. If three months are available, three months will be used. If two months are available, two months will be used. If one month is available, only one month will be used. If no actuals have been provided in the last three reporting months, no forecast will be generated. It is essential that you provide your actuals on time.

In order of priority, the calculation of the August forecast for NSW will be as follows:

Three months of data available (Mar-18, Apr-18 and May-18)

$(\text{Mar vol} + \text{Apr vol} + \text{May vol}) / (31 + 30 + 31) \times 31$ days in August

Two months of data available e.g. (Mar-18, Apr-18)

$(\text{Mar vol} + \text{Apr vol}) / (31 + 30) \times 31$ days in August

One month of data available e.g. (Mar-18)

$(\text{Mar vol}) / (31) \times 31$ days in August

The assumptions for the August 2018 invoice are:

- Network Operator collections in August of 95 million, the same recovery volume forecast for July due to collection volumes flattening off through the cooler winter months as outlined above.
- MRF volumes are forecast at 10% below the historical volumes from the same period last year as product moves from MRFs to the Network Operator. A 10% reduction has been used as the anticipated degree of transfers away from kerbside collections (yellow lidded bins) has been lower than anticipated. This will mean a total of 72.3 million containers recovered through MRFs in August. As noted in the True Up paper issued last month, a system error resulted in the quarterly true up incorrectly returning the revenue associated with 18.6 million containers to suppliers. As outlined in the True Up paper, EfC will adjust the forecast volumes for the MRFs in August and September to recollect this revenue from suppliers. As such, the forecast volume for August will be increased by 9.8 million containers, bringing the total MRF volume to 82.1 million containers.
- Estimated supply volume of 275 million generated using the simplified methodology outlined above.
- 7.5% exported out of the state in August 2018
- This gives an overall redemption rate of 66% net of exports prior to the adjustment for the true up system error or 70% if these volumes are included in the August MRF volume.

These assumptions and the resulting cost per container (excluding GST) are shown in the table below.

Schedule Costs - As at June 2018 (all figures exclude GST)	7th Invoice	8th Invoice	9th Invoice
Dates			
Scheme Month	Jun-18	Jul-18	Aug-18
Invoice Date	May-18	Jun-18	Jul-18
	Forecast	Forecast	Forecast
Assumptions			
Recovery Rate per material type	79%	68%	70%
% of containers recovered via MRFs/kerbside	46%	43%	46%
Containers recovered in month (m)	196	167	177
Calculations			
Total scheme costs for month advertised (\$m)	30.57	26.64	27.58
Total scheme costs for month invoiced (\$m)	30.57	26.64	27.58
Total invoice issued after adjustments (\$m)	30.57	26.64	27.58
Monthly True Up (\$m)	-0.44	-0.15	0.16
Quarterly True Up (\$m)*		-18.70	
Export Payments (\$m)			
Net Amount Invoiced (\$m)	30.13	7.79	27.74
Scheme Costs per Supplied Container (cents)			
Aluminium	11.11	9.83	9.84
Glass	11.56	10.24	10.24
HDPE	11.31	10.01	10.02
PET	11.31	10.01	10.02
Liquid Paper Board	11.85	10.51	10.50
Steel	11.56	10.24	10.24
Other Plastics	11.31	10.01	10.02
Other materials	11.31	10.01	10.02

*Adjusted to show the net position inclusive of the system error prior to the final stockpile provision. The stockpile provision will reduce the size of the true up by a further \$0.94m to -\$17.76m excluding GST.

Monthly true up for May 2018

The 1st July invoice will include a true up to cover the Network Operator collections from May.

For May, Exchange for Change forecast the collection volumes for the Network Operator would be 85.0 million containers, whereas the actual collection volumes by the Network Operator 85.9 million. The value of the true up across the whole beverage industry for May is an additional payment of approximately \$0.16 million excluding GST, which will be invoiced to first suppliers. The true up has resulted in a small additional payment across all suppliers as the forecast container volume was lower than the actual container volume for the first time. While the net position for the scheme as a whole is an additional supplier payment, the actual cash flow for each individual supplier will depend on their actual market share at the time of the time of the true up adjustment and may be a payment or a rebate.

Scheme outlook

We believe the collection volumes via the Network Operator will continue to stabilise through the middle of the year following the completion of the next round of RVM roll outs. In parallel, we expect the volumes collected through the kerbside program (MRFs) to decline due to consumers redirecting containers from kerbside recycling to the Network Operator collection points in order to redeem the 10-cent refund.

Based on this, we anticipate the total redemption rate will stabilise by the middle of 2018 with a greater proportion coming through the Network Operator channel.

Please note that Exchange for Change is not in a position to accurately predict what the cost per container will be in the medium to long-term, and each scheme participant should make their own assumptions to this end.

The Exchange for Change website, exchangeforchange.com.au, has a section for suppliers. In this section you will see a \$ icon which gives information about pricing. This section of the website has tables that allow you to use the information above to predict future pricing for each container type.

Please note the information that Exchange for Change has provided in this newsletter is our best assessment of the market conditions, however, these estimates can change based on a range of external factors that are beyond the control of Exchange for Change.