

# NEWSLETTER

Exchange for Change (NSW) Pty Ltd

## July 2018 Pricing Assumptions

Issued: 30 May 2018



Welcome to the May newsletter from Exchange for Change. In this newsletter we talk about the assumptions behind the July advanced contribution as well as the April period true up, which will both be issued on the 1<sup>st</sup> June. 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 7<sup>th</sup> June.

### **Exports**

Exchange for Change has now circulated a briefing paper to industry outlining the key elements of the revised export scheme methodology. The same scheme principles have recently been the subject of a consultation process in Queensland, with several jurisdictions working together to create a uniform approach to exports. Submissions in relation to the export process for NSW close at 5pm on 30 May 2018.

It is still anticipated that the earliest that we will be signing up exporters to the process will be the 15<sup>th</sup> June with first payments occurring in August, if no significant amendments are required post consultation.

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

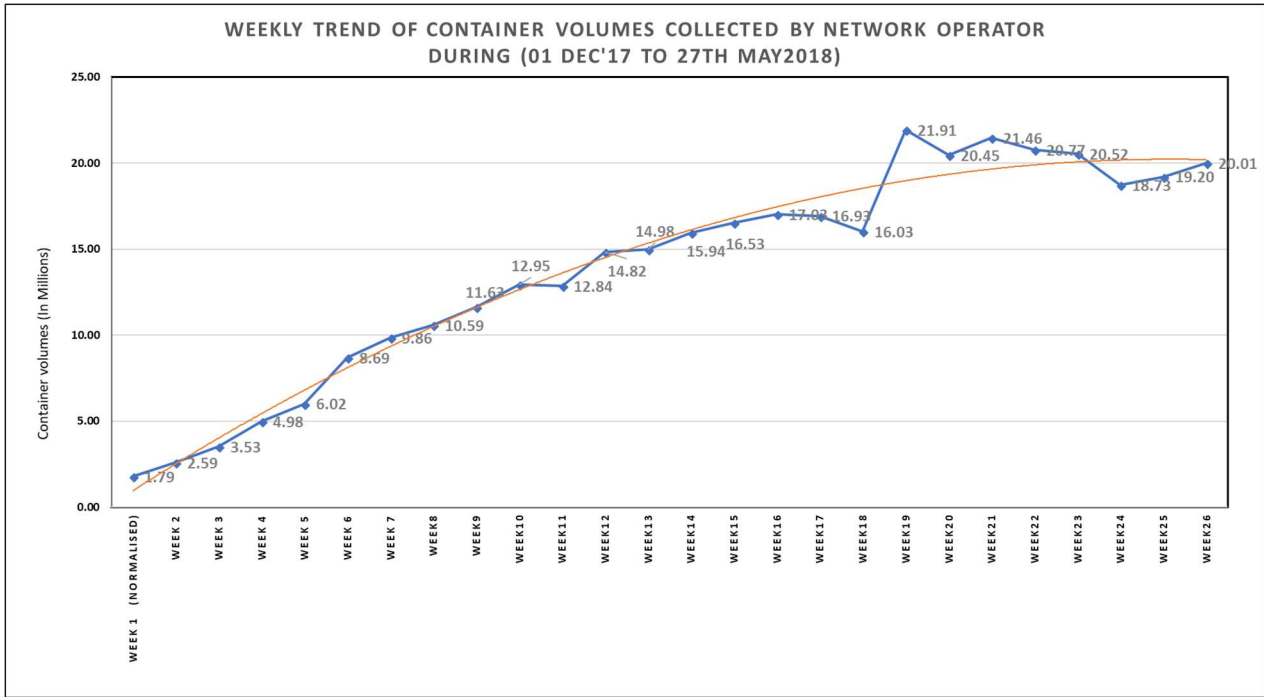
It is important that all suppliers correctly declare their gross supply volumes into NSW and pay the CDS contribution on these volumes. Under no circumstances should suppliers be netting off for exports. If you have not been reporting your volumes correctly, please amend your supply data via the Exchange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

### **Collection Volumes**

The Network Operator is continuing to roll out more collection points and they have now implemented 612 collection points across the State. We are seeing an increase in the number of automated depots which are aimed at taking larger volumes of containers from groups like sporting clubs and schools.

April saw a step change in Network Operator collections with an average of 20 million containers collected each week. This trend has continued throughout May (up to and including the 27<sup>th</sup> of May).

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



**July forecast**

The variables involved in determining the June 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 July period. Collected volumes are reported by the Network Operator on a weekly basis, ending Sunday.

The assumptions for the July invoice are:

- Network Operator collection in July 95 million, down 10 million from the June forecast due to collection volumes flattening off over the last eight weeks.
- MRF volumes will drop by 10% from historical volumes as product moves from MRFs to the Network Operator 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 million containers recovered through MRFs
- Estimated supply volume of 265 million
- 7.5% exported out of the state in July 2018
- This gives an overall redemption rate of 68% net of exports.

These assumptions and the resulting cost per container are shown in the table overleaf.

Schedule Costs - As at April 2018	6th Invoice	7th Invoice	8th Invoice
Dates			
Scheme Month	May-18	Jun-18	Jul-18
Invoice Date	Apr-18	May-18	Jun-18
	Forecast	Forecast	Forecast
Assumptions			
Recovery Rate per material type	74%	79%	68%
% of containers recovered via MRFs/kerbside	52%	46%	43%
Containers recovered in month (m)	176	196	167
Calculations			
Total scheme costs for month advertised (\$m)	26.81	30.57	26.64
Total scheme costs for month invoiced (\$m)	26.81	30.57	26.64
Total invoice issued after adjustments (\$m)	26.81	30.57	26.64
Monthly True Up (\$m)	-9.14	-0.44	-0.15
Quarterly True Up (\$m)			-19.84
Export Payments (\$m)			
Net Amount Invoiced (\$m)	17.67	30.13	6.65
Scheme Costs per Supplied Container (cents)			
Aluminium	10.21	11.11	9.83
Glass	10.59	11.56	10.24
HDPE	10.38	11.31	10.01
PET	10.38	11.31	10.01
Liquid Paper Board	10.84	11.85	10.51
Steel	10.59	11.56	10.24
Other Plastics	10.38	11.31	10.01
Other materials	10.38	11.31	10.01

### True Up for April period and Quarter 1

True up calculations are based on the actual volumes reported by Suppliers to the Scheme Coordinator. Without your actuals, we are unable to provide you with a true up adjustment on your invoice. It is essential that all suppliers provide their actual supply volumes into NSW via the Exchange for Change portal by the 15<sup>th</sup> day of each month.

#### Monthly true up

The 1<sup>st</sup> June invoice will include a true up for the April period in the same manner as previous invoices. This true up will cover the Network Operator collections from April.

For April, Exchange for Change forecast the collection volumes for the Network Operator would be 95.0 million containers, whereas the actual collection volumes by the Network Operator 90.1 million. The value of the true up across the whole beverage industry for March is approximately \$0.15 million, which will be credited to first suppliers. This true up includes an adjustment to increase the provision for the export scheme associated with the month of April from 5.0% to 7.5%. 5.0% was built into the pricing for the advanced contribution when the rates were set for the March invoice. The increase of 2.5% is to align the provision for April with the provisions currently held for all other months since scheme commencement.

## Quarterly true up

The Quarterly true up is an adjustment to reflect the difference between the forecast number of containers expected to be recovered through Materials Recovery Facilities (MRFs) and the actual containers claimed by the MRFs for quarter 1, which included the months of December 2017, January 2018, February 2018 and March 2018. Future quarters will revert to standard three month quarters.

Like the monthly true ups associated with the beginning of the scheme, this first quarterly true up is based on highly conservative forecasts. In December it was assumed that 100% of containers would be returned with 50% of these returns coming via the MRFs, in January it was assumed that 90% of containers would be returned with 50% of these returns coming via the MRFs and in February it was assumed that 80% of containers would be returned with 50% of these returns coming via the MRFs. For March the forecast was based on the monthly average of historical volumes from Quarter 1 2017. The following table summarises these forecast volumes, the actual volumes claimed by the MRFs and the variance between the two:

	<b>Dec-17</b>	<b>Jan-18</b>	<b>Feb-18</b>	<b>Mar-18</b>	<b>Total</b>
Forecast volume	170,496,916	163,367,332	146,608,053	128,944,652	609,416,952
Actual volume	87,188,066	110,811,871	89,762,055	93,121,512	380,883,504
<b>Variance</b>	<b>83,308,850</b>	<b>52,555,461</b>	<b>56,845,998</b>	<b>35,823,140</b>	<b>228,533,448</b>

As the MRFs are paid by the scheme for containers shipped for recycling, they will often have stock on hand at the end of the quarter. Exchange for change has estimated that approximately 10.3 million containers have yet to be claimed. To ensure adequate funds are available to pay the MRFs when these containers are sent for recycling, a provision has been deducted from the final amount being rebated to suppliers as part of the quarterly true up process.

Please note that the size of the true up for an individual supplier will depend on each supplier's actual market share calculated on the actual containers First Supplied into NSW by container type, e.g. Glass, Aluminium, PET, etc.

## **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](http://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.