

NEWSLETTER

Exchange for Change (NSW) Pty Ltd

November 2018 Pricing Assumptions

Issued: 28 September 2018



NSW Container Deposit Scheme Newsletter

Welcome to the September newsletter from Exchange for Change NSW.

In this newsletter, we shall provide you with an update on the scheme and discuss the assumptions behind the pricing for the November advance contribution contained in the first part of your invoice, which will be issued on 2 October.

The 2 October invoice will also contain the true up for August 2018. Once the true up is processed, we will give you additional data to help you reconcile your invoices. This should occur by 9 October.

SCHEME OUTLOOK

The beverage industry has adapted well to the new legislative framework since the launch of the NSW Return and Earn scheme on 1 December 2017.

We appreciate that there are still some challenges for industry and continue to explore opportunities to enhance the operation of the scheme. However, the industry's support has enabled the scheme to achieve a number of significant milestones during its first financial year of operation to 30 June 2018. These include:

- A 30% reduction in the volume of littered drink containers in the NSW environment, as measured by the Keep Australia Beautiful National Litter Index
- 86% of people over the age of 18 being aware of the scheme in NSW.

As anticipated, the volume of containers collected via the Network Operator is starting to increase as we enter spring. We believe this trend will continue into summer as more beverages in eligible containers are typically consumed in the warmer months and through the festive season and school holidays.

In parallel, we expect the volumes collected through the kerbside program handled by Material Recovery Facilities (MRFs) will continue to decline as consumers redirect containers from kerbside recycling to Network Operator collection points to redeem 10-cent refunds. Overall, we anticipate that the total redemption volume will start to increase following the period of stabilisation in the middle of 2018, with a greater proportion of containers coming through the Network Operator channel than the MRFs.

UPDATES

Exports

The export protocol for NSW went live on 20 August and exporters have started signing up to claim export rebates for containers leaving NSW that have previously attracted the CDS (levy). The first reporting cycle for exporters will close on 15 October, with associated payments to flow in mid-November. Until we gather enough data from actual export claims, we are continuing to use 7.5% in our pricing models to ensure sufficient funding is available to pay rebates. Any surplus raised will be returned to suppliers through the true-up process.

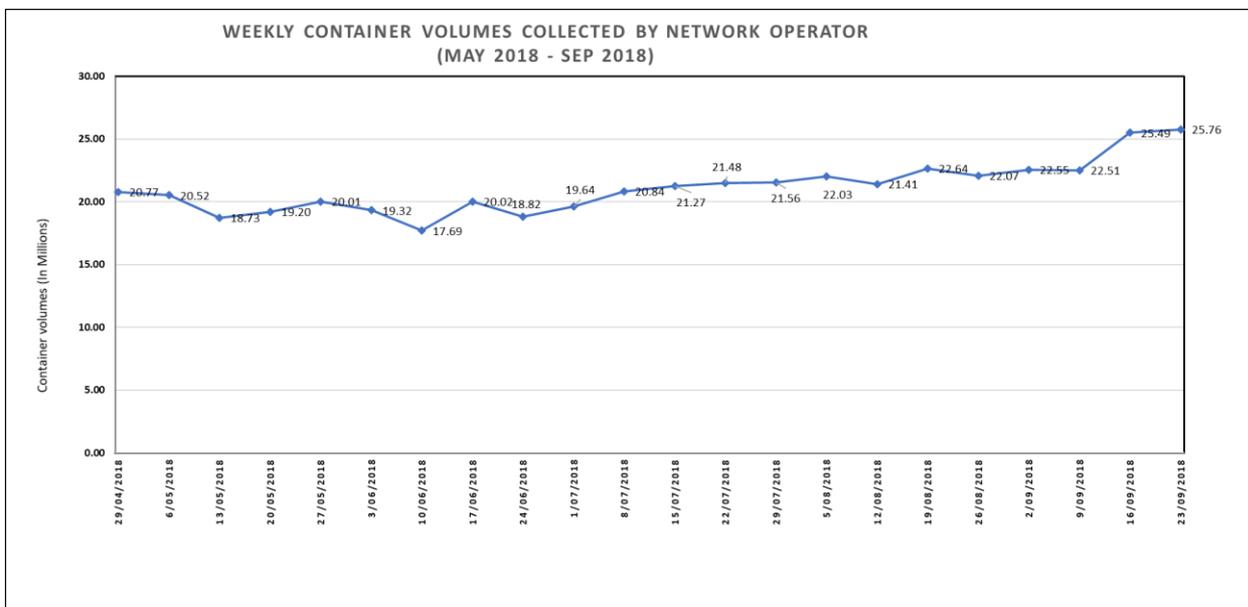
If you are an exporter or know of an exporter who is yet to register for the scheme, they can register to become an Exporter at <https://returnandearn.org.au/partners/drinks-suppliers/exporter-sign-up/>.

Please note 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. If you require further assistance, please contact us via exporters@exchangeforchange.com.au or portalsupport@exchangeforchange.com.au.

Network Collection Volumes

The Network Operator has now established 682 collection points across the State.

The graph below illustrates the actual volume of containers returned through the Network Operator channel (Reverse Vending Machines, Over the Counter and Automated Depots) since the beginning of May.



FORECAST CALCULATIONS FOR SUPPLIERS

Forecast Volumes – Supplier Volume Forecast Calculation

The invoice issued on 2 October will consist of an advance contribution for November 2018, which is based on the forecast container volumes calculated for November.

To calculate the November forecast, we have used actual volumes reported in the portal for the months of June, July and August 2018. We have also applied a seasonality factor of 1.30x to allow for the upturn in supply in late spring compared to the volumes reported through winter.

Forecast Pricing – Summary Key Assumptions

The key assumptions behind the November 2018 advanced contribution rates in the 2 October invoice are as follows:

- Network Operator forecast collections in October are expected to be 130 million, to reflect the upturn in supply volumes and an anticipated increase in consumption of beverages in eligible containers as the weather becomes warmer.
- MRF and glass crushing forecast collection volumes recovered from kerbside collections (yellow-lidded bins) are expected to total 74 million containers in each month of Q4 of the scheme.
- Gross supply volume is estimated at 324 million, generated with a 1.30x seasonality adjustment.
- 7.5% of the containers supplied into NSW are exported out of the state, giving an overall redemption rate of 68% net of exports.

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

Schedule Costs - As at August 2018 (all figures exclude GST)	10th Invoice	11th Invoice	12th Invoice
Dates			
Scheme Month	Sep-18	Oct-18	Nov-18
Invoice Date	Aug-18	Sep-18	Oct-18
	Forecast	Forecast	Forecast
Assumptions			
Recovery Rate per material type	72%	66%	68%
% of containers recovered via MRFs/kerbside	45%	38%	36%
Containers recovered in month (m)	182	194	204
Calculations			
Total forecast scheme costs for month advertised (\$m)	28.52	31.51	33.41
Total scheme costs for month invoiced (\$m)	28.52	31.51	33.41
Total invoice issued after adjustments (\$m)	28.52	31.51	33.41
Forecast Monthly True Up (\$m)	-4.12	-0.02	0.34
Quarterly True Up (\$m)		-6.49	
Export Payments (\$m)			
Forecast Net Amount to be Invoiced (\$m)	24.40	25.00	33.75
Scheme Costs per Supplied Container (cents)			
Aluminium	10.25	9.70	10.09
Glass	10.67	10.13	10.55
HDPE	10.44	9.89	10.29
PET	10.44	9.89	10.29
Liquid Paper Board	10.95	10.42	10.85
Steel	10.67	10.13	10.55
Other Plastics	10.44	9.89	10.29
Other materials	10.44	9.89	10.29

MONTHLY TRUE UP FOR AUGUST 2018

The 2 October invoice will include a true up to cover the Network Operator collections from August.

When the pricing was set, Exchange for Change forecast the Network Operator would collect 95.0 million containers in August. This was slightly less than the Network Operator's actual collection volume of 97.4 million for the month. The value of the true up across the whole beverage industry for August is forecast to be approximately \$0.3 million.

DISCLAIMERS

Minor changes in volumes between those at the time of setting prices and running invoices can result in small variances in the forecast volume of containers associated with the advanced contribution. As such, the true-up value provided here is a guide only. The actual assumptions that support the true-up value on your invoice will be provided separately after the invoice has been run, as noted earlier in this newsletter.

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 information provided in this newsletter reflects our assessment of market conditions. These estimates can change based on a range of external factors beyond the control of Exchange for Change.