

# NEWSLETTER

Exchange for Change (NSW) Pty Ltd



## September 2018 Pricing Assumptions

Issued: 30 July 2018

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## NSW Container Deposit Scheme Newsletter

Welcome to the July newsletter from Exchange for Change NSW. In this newsletter we talk about the assumptions behind the pricing for the September advanced contribution and the June period true up, which will both be contained in the invoice issued on the 1<sup>st</sup> August. We will also give you an update on the progress around developing an export protocol and provide an overview of the Supplier audit process.

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> August.

### **Exports**

The export agreement is now in the advanced stages of the drafting process. 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. If you wish to be added to our mailing list for the export process, please send us an e-mail at [exporters@exchangeforchange.com.au](mailto:exporters@exchangeforchange.com.au). As each step of the process becomes available we will contact you via the provided e-mail address.

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.

### **Supplier Audits**

Some Suppliers have raised questions about the Supplier Audit process. This is the process whereby an audit of the information that Suppliers provide to EfC regarding the number of containers supplied into NSW is conducted. The concern raised was whether EfC shareholders have access to this information. To address this concern, we have provided the following brief overview of the Supplier Audit process.

The audit of Suppliers is conducted by an Independent Supplier Auditor, PKF Australia, the appointment of which has been endorsed by the NSW EPA. The independent auditor's scope is to verify and validate the eligible container supply volumes declared by beverage container supplier. The minimum criteria for conducting each audit has been reviewed and approved by EPA.

Each quarter the Independent Supplier Auditor selects a sample from the total supplier list maintained by EfC. As the top 15 suppliers account for over 90% of the supply volume, the audit programme ensures that the top 15 suppliers are audited at least once per year with the balance of audit candidates being made up of a selection for the remaining suppliers. The independent auditor seeks to audit a cross section of the

beverage supply industry by selecting businesses that vary in size, business line and the variety of container material types supplied.

EfC receives a summary of the audit findings from the Independent Supplier Auditor in the form of a report. If adverse findings are encountered this report is shared with the NSW EPA when appropriate. EfC shareholders never receive a copy of any audit report.

In summary, the audit of Suppliers is not conducted by EfC, but rather an independent auditor and EfC only receives a summary of their findings. EfC Shareholders do not have any influence over which suppliers are audited, nor do not receive the results of the audit.

### Network Collection Volumes

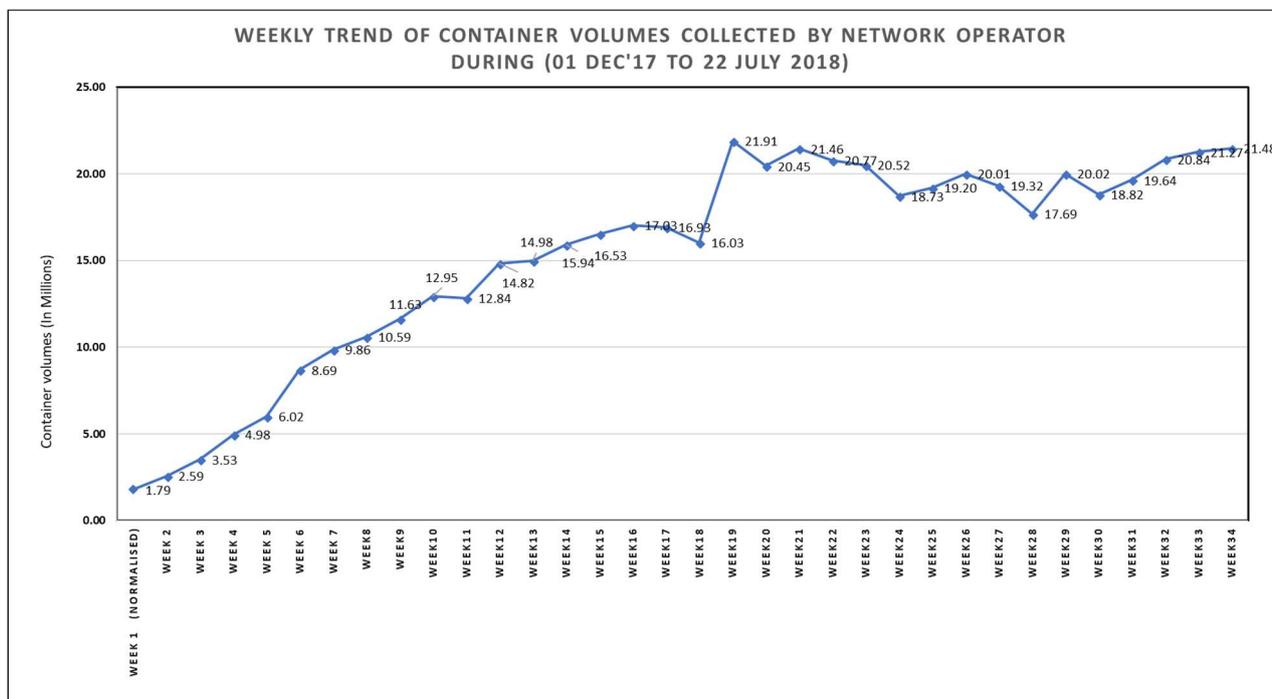
The Network Operator is continuing to roll out more collection points and they have now implemented 639 collection points across the State.

The advanced contribution rates in the August invoice will relate to the anticipated collection volumes for the month of September, the first month of spring. Forecast volumes through winter have remained relatively flat and we anticipate both supply volumes and collection volumes to begin increasing as we move into warmer weather patterns.

For this reason, the forecast collection volume through the Network Operator has been forecast at 100 million containers.

The graph overleaf illustrates the volume of containers returned through the Network Operator channel (Reverse Vending Machines, Over the Counter and Automated Depots) since scheme commencement.

Forecast supply volumes are discussed in more detail in the Supply Volume Section.



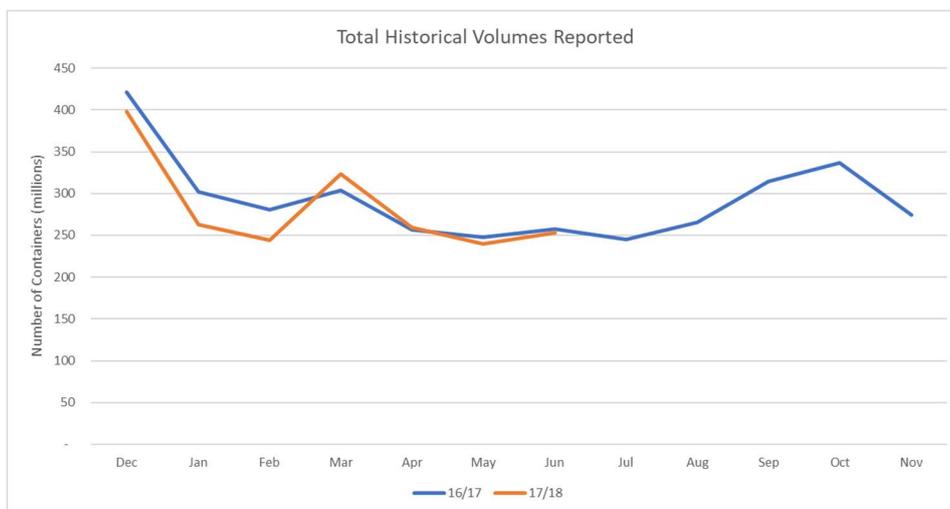
### MRF Collection Volumes

MRF Collection volumes currently consider the expected return volumes for the quarter in which the forecast month falls. For Q3 2018, it was anticipated that approximately 72.3 million containers would be

recovered each month. As explained in last month’s newsletter and the Q1 2018 true up paper entitled “Summary of Key Scheme Metrics to Assist with April 2018 and Q1 2018 True Up Calculations”, a system error resulted in the quarterly true up incorrectly returning the revenue associated with 18.6 million containers to suppliers. Consistent with these papers, EfC will again adjust the forecast volume for the MRFs in September to recollect this revenue from suppliers. As such, the forecast volume for September will again be increased by 9.8 million containers, bringing the total MRF volume to 82.1 million containers.

### Supply Volume Forecast

The adoption of the simplified forecast methodology, as described in last month’s newsletter, has removed the implicit allowance for seasonal factors (also known as seasonality) that was imported through the inclusion of the volumes for the forecast month in the prior year. As can be seen from the graph below, the total volumes for the beverage supply industry follows a seasonal cycle:



The forecast volumes for September 2018 under the simplified approach are based on the actual volumes reported by suppliers for April 2018, May 2018 and June 2018. As the graph above demonstrates, these source periods are typically the low points in the year.

As can also be seen from the graph, the April, May and June volumes in 2018 are consistent with the equivalent periods in 2017. On the basis that 2018 supply volumes will continue to follow the 2017 curve, we anticipate that September will be the first major increase in volumes following the winter period.

To maintain the simplicity of the forecast, a seasonality factor of 1.1 has been applied to the raw forecast volumes calculated using April to June 2018. This means that your forecast supply volumes in the August invoice will be 1.1 times the volumes calculated prior to the adjustment for seasonality.

### Summary of Key Assumptions

The key assumptions behind the September 2018 advanced contribution rates included in the August 1<sup>st</sup> invoice are:

- Network Operator collections in September of 100 million, an increase of 5 million containers 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 collection volumes totalling 82.1 million comprising 72.3 million containers recovered from kerbside collections (yellow lidded bins) and a recovery of 9.8 million containers to recoup the over payment due to the system error during the Q1 true up process.

- Estimated gross supply volume of 272 million generated using the simplified methodology with a 1.1x seasonality adjustment.
- 7.5% of the supplied containers above out are exported out of the state
- This gives an overall redemption rate of 68% net of exports prior to the adjustment for the true up system error or 72% if these volumes are included in the September MRF volume.

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

<b>Schedule Costs - As at July 2018 (all figures exclude GST)</b>	<b>8th Invoice</b>	<b>9th Invoice</b>	<b>10th Invoice</b>
Dates			
Scheme Month	Jul-18	Aug-18	Sep-18
Invoice Date	Jun-18	Jul-18	Aug-18
	Forecast	Forecast	Forecast
Assumptions			
Recovery Rate per material type	68%	70%	72%
% of containers recovered via MRFs/kerbside	43%	46%	45%
Containers recovered in month (m)	167	177	182
Calculations			
Total forecast scheme costs for month advertised (\$m)	26.64	27.58	28.52
Forecast Monthly True Up (\$m)	-0.15	0.16	-4.12
Quarterly True Up (\$m)*	-18.70		
Export Payments (\$m)			
Forecast Net Amount to be Invoiced (\$m)	7.79	27.74	24.40
Scheme Costs per Supplied Container (cents)			
Aluminium	9.83	9.84	10.25
Glass	10.24	10.24	10.67
HDPE	10.01	10.02	10.44
PET	10.01	10.02	10.44
Liquid Paper Board	10.51	10.50	10.95
Steel	10.24	10.24	10.67
Other Plastics	10.01	10.02	10.44
Other materials	10.01	10.02	10.44

\*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 June 2018

The 1<sup>st</sup> August invoice will include a true up to cover the Network Operator collections from June.

For June, Exchange for Change forecast the collection volumes for the Network Operator would be 105.0 million containers on the back of strong growth in the week on week collection volumes, whereas the actual collection volumes by the Network Operator was 81.5 million. The value of the true up across the whole beverage industry for June is forecast to be a rebate of approximately \$4.12 million excluding GST.

### Scheme outlook

We believe the collection volumes via the Network Operator will commence increasing from September as beverages in eligible containers start being consumed in higher quantities as spring weather patterns start taking effect. 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 start to increase after a period of stabilisation in 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.