

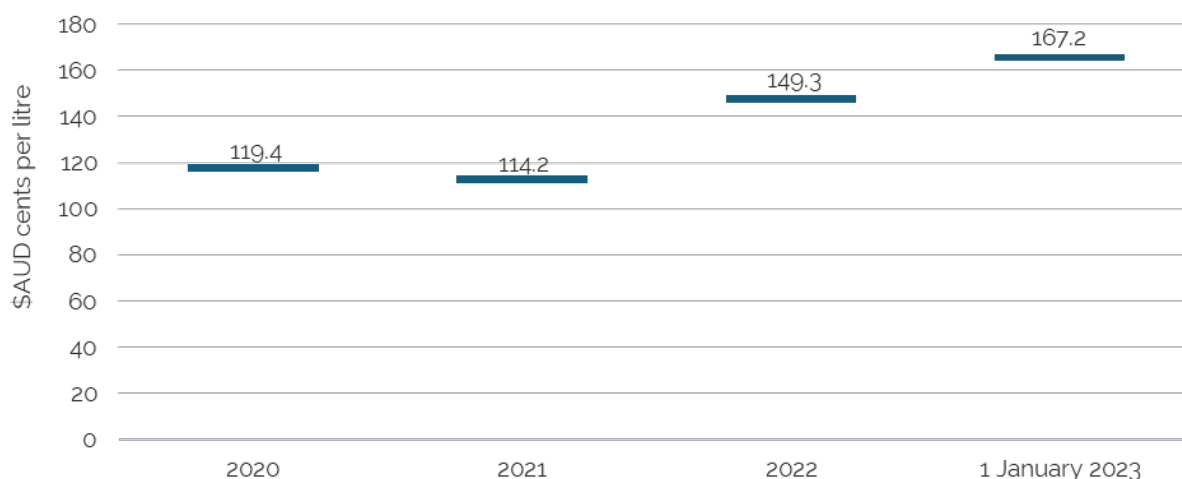
Wholesale price for fuel ethanol from 1 January 2023

21 December 2022

Determination

The Independent Pricing and Regulatory Tribunal (IPART) has determined a reasonable wholesale price for fuel ethanol from 1 January 2023 of 167.2 cents per litre (excluding GST) as shown in Figure 1.

Figure 1 Determined wholesale prices for fuel ethanol (ex GST, \$nominal)



Source: IPART import price parity model.

Why we set the wholesale price for ethanol

Under the *NSW Biofuels Act 2007* (Biofuels Act), fuel sellers must ensure that 6% of fuel sold is ethanol. This means that 60% of fuel sales are required to be E10 (which is made up of 10% ethanol, and 90% unleaded fuel).

Fuel sellers can be exempt from this requirement on various grounds. Since 2017, one of the grounds of exemption is that the wholesale price of fuel ethanol paid by retailers exceeds the reasonable wholesale price determined by IPART.

How we set prices

Our approach to determining wholesale prices depends on the level of competition in the retail and wholesale markets. Where there is effective competition in one or both of these markets, it will protect customers from excessive prices.

In the NSW retail market, around 23% of the fuel sold was E10 in 2022.¹ E10 competes with regular unleaded petrol ("U91"), and premium fuels, which limits the price that suppliers can charge for ethanol. If the wholesale price of ethanol is too high, the retail price of E10 would rise relative to other fuels and customers would switch fuels.

Because this competition protects customers from excessive wholesale prices, we set wholesale prices based on an estimate of the market price of importing ethanol (the "import parity price" or "IPP"). This approach reduces the risk of the determined wholesale price being set too low, which could impact the financial viability of ethanol suppliers and discourage new entry.

We adopted this approach in 2016, taking into account the matters in the Biofuels Act, and after extensive consultation with stakeholders. Since then, we have periodically reviewed our approach and sought stakeholder feedback.

The wholesale price that we determine is based on a 9-month average (to one month prior to the commencement of the pricing period) of weekly import parity price estimates based on the lowest cost origin for ethanol from either the US or Brazil.^a Due to the volatility in the market following COVID-19, we have used the latest available data for cost components in this price determination.^b We calculate this price in an excel model available on our [website](#).

More information on our methodology, and why we consider it is the most appropriate approach is available in our [2021 ethanol market monitoring report](#).

Changes in the determined wholesale price

The January 2023 determined price of 167.2 cents per litre is 18 cents or around 12% higher than the determined price for the previous period, which was 149.3 cents per litre. This is mostly due to the higher mill-gate price (See Table 1 and Figure 2).

The increase in mill-gate price and fuel costs is likely to continue with the war in Ukraine affecting the agriculture and energy markets.

For two thirds of the nine-month IPP averaging period, Brazil was the lowest priced origin for wholesale ethanol.

^a We modified the calculation method the fuel excise component. We have used fuel excise at the date of publication instead of the 9-month historical average. This is explained on page 4 of this Fact Sheet.

^b In 2021, we decided to update mill-gate prices and fuel excise annually and hold the other cost components equal to their 5-year historical average as these cost components had not materially changed from year to year.

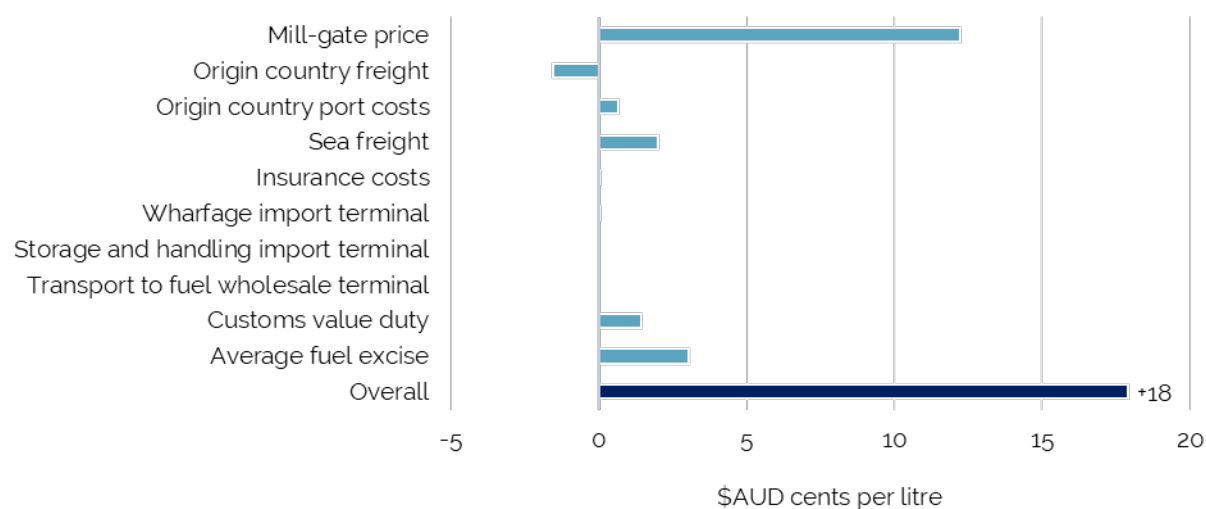
Table 1 Determined wholesale price for fuel ethanol from January 2023 (\$AU cents/L, ex GST, \$nominal)

IPP Component	1 Jan 2022	1 Jan 2023	Change ^a
Mill-gate price	79.5	91.7	12.2
Origin country freight	6.8	5.2	-1.6
Origin country port costs	3.4	4.0	0.6
Total Free-on-board price	89.7	101.0	11.3
Sea freight	10.4	12.4	2.0
Insurance costs	0.4	0.5	0.1
Wharfage import terminal (Sydney)	0.2	0.2	0.0
Storage and handling costs – import terminal	3.0	3.0	-
Transport from port to fuel wholesaler's terminal	1.5	1.5	-
Total landing costs (Taxes)	15.5	17.6	2.1
Customs value duty	1.2	2.6	1.4
Average fuel excise	43.0	46.0	3.0
Total landing costs (taxes)	44.1	48.6	4.5
Total IPP delivered to wholesale terminal	149.3	167.2	17.9

a. Numbers may not add due to rounding.

Source: IPART import parity price model

Figure 2 Changes in the wholesale price components from January 2023 (ex GST)



Source: IPART import parity price model

We want your feedback on proposed changes

We are proposing to make 2 changes to future our ethanol determinations:

- Determining the wholesale price for ethanol quarterly, rather than yearly, due to volatility in the market conditions.
- Continuing to use the rate of excise at the time of the month prior to the determination, rather than the 9-month historical average.

Our determined import parity price from January 2023 uses the current rate of excise as at December 2022, rather than an average for a period of 9 months to November 2022. This is because the fuel excise rate was temporarily halved from 30 March 2022 to 28 September 2022. Using a 9-month average, produces a lower value of fuel excise, which would not represent the likely value of excise next year from the date the determined price applies.

We propose to maintain this change in our import price parity model for future price determinations, as we consider that the current rate of excise is a better indicator of the future fuel excise than the historical average.

We want your feedback on these changes. Please provide your feedback by **28 February 2023**. You can make a submission via the [IPART Have Your Say website](#).

Seek Comment



1. Should we determine the wholesale price for fuel ethanol quarterly, rather than yearly?
2. For the fuel excise cost component of the import parity price, should we use the rate of excise in the month prior to the determination, rather than the 9-month average?

¹ Data source, [Australian Petroleum Statistics – Data Extract September 2022](#), January to September 2022, accessed 2 December 2022.