

28 February 2023

Monitoring of wholesale and retail markets for fuel ethanol
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop
SYDNEY NSW 1240

Dear Tribunal Members

Re: IPART Wholesale Price for Ethanol Determination

Thankyou for the opportunity to provide comment on the NSW Independent Pricing and Regulatory Tribunal (IPART) *Wholesale price for fuel ethanol from 1 January 2023* Determination.

The Australian Institute of Petroleum (AIP) presents this submission to the Independent Pricing and Regulatory Tribunal (IPART) on behalf of AIP's core member companies:

- AMPOL Limited
- BP Australia Pty Ltd
- Mobil Oil Australia Pty Ltd
- Viva Energy Australia Pty Ltd.

AIP member companies operate across all or some of the liquid fuels supply chain including crude and petroleum product imports, refinery operations, fuel storage, terminal and distribution networks, marketing and retail. AIP members are significant suppliers of fuel ethanol to NSW consumers as wholesalers and retailers and have been actively engaged in biofuel policy for many years.

IPART methodological approach

AIP notes IPART has determined a reasonable wholesale price for ethanol from 1 January 2023 of 167.2 cents per litre which is around 12% higher than the previous year. This is mostly due to higher mill gate prices, which IPART considers to likely continue due to the war in Ukraine affecting agricultural and energy markets.

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

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. (page 2)

IPART's rationale for its methodology is that:

- the current approach reflects a high degree of consumer choice in fuels
- the choice limits the price suppliers can charge for ethanol because if the wholesale price of ethanol was too high, the retail price of E10 would rise relative to other fuels and customers would switch fuels
- this, in turn, protects customers from higher prices

IPART also notes:

“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”. (page 4)

Previous AIP Feedback on IPART’s Methodology

In its submission to IPART’s June 2016 *Review of a maximum price for wholesale ethanol in automotive fuel blends* Issues Paper, AIP encouraged IPART to develop and recommend a methodology that is market driven and market reflective. To achieve this, the methodology needed to the greatest extent possible, provide for:

- linkages to international pricing
- low barriers to market entry
- market transparency
- price discovery and price flexibility
- low transactions costs for market operators
- a transition to a well-functioning ethanol market with fully market determined prices.

AIP considered that IPART’s proposed approach, based on the available options and subsequently adopted, exhibited as many market characteristics as possible consistent with AIP’s preferred approach. While the Import Parity Price (IPP) approach was most appropriate, AIP considered that the methodology would not be capable of delivering wholesale ethanol at a sufficient price discount necessary to meet the 6 percent mandate.

AIP has also previously noted that at the wholesale level, we continue to be concerned with the lack of competition in the wholesale ethanol market. It remains the case that the excise regime is a genuine barrier to the importation of ethanol and the introduction of additional competition into the wholesale market. While AIP agrees that the IPP approach provides for a simplicity and transparency, there will unlikely be sufficient competition until there is parity between domestically produced ethanol and imported ethanol and petroleum products.

AIP has maintained these positions in subsequent IPART reviews and supports the view that a less intrusive price regulation model remains appropriate at this time and that the model used by IPART continues to be fit for purpose.

Comments on the 2023 Determination

IPART is proposing to make two changes to future ethanol determinations:

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

AIP appreciates the rationale for IPART using the most up to date excise rates in its current determination due to the 6-month cut in the excise rate during 2022 which will have distorted the 9 month average approach previously adopted by IPART.

AIP considers that this cut in the excise rate was temporary and is unlikely to be repeated in the future. That said, it is appropriate that IPART continues to use the most recent and up to date excise rates in its methodologies and determinations, particularly if the intent is to update the maximum wholesale rate more frequently.

While there is some logic to moving to a quarterly basis due to market volatility, AIP's preference is to remain with an annual review given the market is expected to return to more normal patterns with reduced volatility.

However, should IPART decide that it should determine a new maximum price more regularly, AIP believes that twice yearly is more appropriate and should be sequenced in line with the automatic updating of the excise rate in February (determining the price in at the start of 2Q) and September (for a determination at the start of December).

AIP considers that this is a balanced approach that would see the maximum price updated frequently enough to recognise market volatility, reflect up to date excise rate and minimise additional workload for both industry and government.

I would be happy to further discuss any matters raised.

Yours sincerely

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[Redacted contact information]