

25 June 2018



DETERMINATION

Under the *Biofuels Act 2007* (NSW) (Biofuels Act), the Independent Pricing and Regulatory Tribunal (IPART) is required to determine a reasonable wholesale price for fuel ethanol, which forms part of the exemptions framework for the ethanol mandate.

IPART has determined, under s17A(1)(a) of the Biofuels Act, that the reasonable wholesale price for fuel ethanol from 1 July 2018 to 30 September 2018 is **AU 111.3 cents per litre excluding GST**. We have considered the matters in s17A(2) of the Biofuels Act in determining this price.

The price determined for the previous quarter was AU 112.0 cents per litre excluding GST. The reasons for the reduction are set out below.



WHY

A volume fuel retailer may be exempted by the Minister from complying with the mandate to sell 6% ethanol if the wholesale price of the ethanol in their petrol-ethanol blends (such as E10) exceeds the price determined by IPART.



HOW

Since January 2017 we have determined the reasonable wholesale price for fuel ethanol using an import parity price (IPP) methodology. We adopted this less-intrusive approach to minimise distortion in the market for fuel ethanol based on our finding that there was competition in the supply of wholesale ethanol and a high degree of consumer choice in retail fuels.

Our monitoring review of wholesale and retail markets for fuel ethanol found that competition continued between the three major producers during 2016-17, and there remains a high degree of consumer choice in retail fuels.

In addition, our IPP methodology has provided scope for ethanol producers and fuel wholesalers to negotiate prices below our determined prices. Therefore, we have decided to continue using the same IPP methodology for determining the wholesale ethanol price from 1 July 2018 to 30 September 2018. This methodology is available on our website: www.ipart.nsw.gov.au

Our IPP Excel model is also available on our website. Stakeholders can use this tool to calculate the price themselves.



CHANGES

The Q3 2018 reasonable wholesale price is AU 0.7 cents per litre lower than the previous quarter, due to changes in the 9-month averages of the following IPP components:

- ▼ The Free-On-Board price decreasing from AU 57.9 cents per litre to AU 57.2 cents per litre.
- ▼ Transit costs decreasing from AU 13.8 cents per litre to AU 13.6 cents per litre.

These reductions were marginally offset by higher excise on imported fuel ethanol from AU 40.3 cents per litre to AU 40.6 cents per litre.

Table 1 compares the IPP components for Q2 2018 and Q3 2018. Figure 1 shows the wholesale ethanol prices since Q1 2017.



WHAT NEXT

IPART will continue to publish quarterly updated wholesale ethanol prices. The update for the fourth quarter 2018 (1 October 2018 to 31 December 2018) will be published mid-September 2018.

The full IPP methodology is detailed in Appendix A of our report *Monitoring of wholesale and retail markets for fuel ethanol 2016-17 – Final Report December 2017*. This is available on our website www.ipart.nsw.gov.au.

Table 1 Determined reasonable wholesale price for fuel ethanol (ex GST, AUC/litre, \$nominal)

IPP Component	Q2 2018	Q3 2018
Mill gate price	47.7	46.8
Origin country freight	7.1	7.2
Origin country port charges	3.1	3.2
Total FOB price	57.9	57.2
Freight (sea)	8.8	8.6
Insurance costs	0.3	0.3
Wharfage Sydney	0.2	0.2
Storage and handling costs import terminal	3.0	3.0
Transport from port to fuel wholesaler's terminal	1.5	1.5
Total transit costs	13.8	13.6
Customs value duty	0.0	0.0
Customs fuel import duty	40.3	40.6
Total landing costs (taxes)	40.3	40.6
Total IPP delivered to wholesale terminal (ex GST)	112.0	111.3

Note: Totals may not sum due to rounding.

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

