

27 September 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 October 2018 to 31 December 2018 is **AU 112.5 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 111.3 cents per litre excluding GST. The reasons for the increase 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 2016-17 monitoring review found that the IPP methodology has provided scope for ethanol producers and fuel wholesalers to negotiate prices below our determined prices, and therefore, we decided to continue using this methodology to determine wholesale ethanol prices from 1 October 2018 to 31 December 2018. This methodology and more information 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 Q4 2018 reasonable wholesale price is AU 1.2 cents per litre higher than the previous quarter, due to changes in the 9-month averages of the following IPP components:

- ▼ The Free-On-Board price increasing from AU 57.2 cents per litre to AU 58.2 cents per litre.
- ▼ The excise on imported fuel increased from AU 40.6 cents per litre to AU 40.8 cents per litre

These increases were marginally offset by lower transit costs from AU 13.6 cents per litre to AU 13.5 cents per litre.

Table 1 compares the IPP components for Q3 2018 and Q4 2018. Figure 1 shows the wholesale ethanol prices since Q1 2017.



WHAT NEXT

We are currently evaluating whether the IPP methodology has been operating as intended and whether there have been significant market developments that would warrant a move to cost-based price regulation or the removal of price regulation altogether.¹ If we find that light-handed price regulation remains appropriate, and that the IPP methodology has worked as intended, we will continue to use this methodology in determining wholesale ethanol prices in 2019.

Under the Biofuels Act, we are also required to monitor and report annually on the retail market for ethanol-blended fuels. We will report jointly on the retail market for ethanol-blended fuels and on the need for price regulation of wholesale ethanol.

In July 2018, we released an Issues Paper that outlined how we would monitor the retail market for ethanol-blended fuels, as well as our proposed approach to re-assessing the need for price regulation of wholesale ethanol. We will release a Draft Report in October 2018, and deliver a Final Report to the Minister in December 2018.²

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

IPP Component	Q3 2018	Q4 2018
Mill gate price	46.8	47.6
Origin country freight	7.2	7.3
Origin country port charges	3.2	3.3
Total FOB price	57.2	58.2
Freight (sea)	8.6	8.5
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	13.6	13.5
Customs value duty	0.0	0.0
Customs fuel import duty	40.6	40.8
Total landing costs (taxes)	40.6	40.8
Total IPP delivered to wholesale terminal (ex GST)	111.3	112.5

Note: Totals may not sum due to rounding.

¹ IPART, *Monitoring of wholesale and retail markets for fuel ethanol in 2017-18 - Issues Paper*, August 2018.

² Ibid.

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

