

19 September 2017

WHAT

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

IPART has determined that the wholesale price for fuel ethanol from 1 October 2017 to 31 December 2017 is **AU 116.5 cents per litre excluding GST**. We have considered the matters in s17A(2) of the Biofuels Act in determining this price.

The price for the previous quarter was AU 116.7 cents per litre excluding GST. The reasons for the decrease are set out below.

WHY

A volume fuel retailer may be exempted 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

We determine the wholesale price using an import parity price (IPP) methodology we developed after extensive consultation and a review of the NSW ethanol wholesale market in 2016. We found that there was competition in the supply of wholesale ethanol, and a high degree of consumer choice in retail fuels.

Therefore, we developed an IPP methodology that would minimise distortion in the market for fuel ethanol. Ethanol producers and fuel wholesalers would continue to negotiate wholesale ethanol prices below our determined price.

We use a 9-month average of estimated IPPs for ethanol sourced from either the US or Brazil, whichever is the lowest cost at any point in time.

The full IPP methodology is detailed in Chapter 4 and Appendix C of our report *Review of a maximum price for wholesale ethanol in automotive fuel blends – Final Report December 2016*, 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 2017 wholesale price is AU 0.2 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 62.6 cents per litre to AU 62.2 cents per litre.
- ▼ Transit costs decreasing from AU 14.3 cents per litre to AU 14.2 cents per litre.
- ▼ The excise on imported fuel ethanol increasing from AU 39.8 cents per litre to AU 40.0 cents per litre.

Table 1 compares the IPP components for Q3 2017 and Q4 2017. 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 all together. 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 price in 2018.

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 March 2017, 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 2017, and deliver a Final Report to the Minister in December 2017.

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

IPP Component	Q3 2017	Q4 2017
Mill gate price	52.1	51.8
Origin country freight	7.3	7.3
Origin country port charges	3.2	3.2
Total FOB price	62.6	62.2
Freight (sea)	9.3	9.2
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	14.3	14.2
Customs value duty	0.0	0.0
Customs fuel import duty	39.8	40.0
Total landing costs (taxes)	39.8	40.0
Total IPP delivered to wholesale terminal (ex GST)	116.7	116.5

Note: Totals may not sum due to rounding.

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

