



AUSTRALIAN INSTITUTE OF PETROLEUM

5 May 2017

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

Dear Sir/Madam

Re: IPART Monitoring of wholesale and retail markets for fuel ethanol in 2016-17, Proposed approach Issues Paper

Thank you for the opportunity to comment on the New South Wales Independent Pricing and Regulatory Tribunal (IPART) *Monitoring of wholesale and retail markets for fuel ethanol in 2016-17, Proposed approach Issues Paper (Issues Paper)*.

AIP presents this submission to IPART on behalf of AIP's core member companies BP Australia Pty Ltd, Caltex Australia Limited, Mobil Oil Australia Pty Ltd and Viva Energy Australia Pty Ltd. AIP, and member companies, have been active participants in the policy development and implementation of the NSW Biofuels Mandate since inception.

AIP position on Biofuels

AIP strongly supports market based approaches for the supply of fuels, including biofuels, in Australia. AIP considers that biofuels will have a place in the Australian fuels market as long as they are:

- acceptable to consumers
- available at a competitive price
- reliably supplied, and
- produced sustainably

AIP believes that any government policy support for biofuels (e.g. on environmental grounds) needs to be:

- transparent, with clear, credible and tested objectives
- applied equitably to all industry participants
- stable with clear timeframes for withdrawal of support
- based on sound science, and
- cognisant of other broader policy settings and commercial practice.

In principle, AIP does not support mandates requiring the use of any particular fuel as a way of increasing the demand for that fuel. While AIP members will work to comply with the requirements of any government imposed biofuels mandate, AIP believes any mandates for biofuels that may help to increase short-term consumer demand must be designed so that they promote and enable a sustainable, competitive and commercial market over the medium to longer term for those fuels. This has not happened in the NSW market.

AIP believes that fuel mandates can lead to higher costs for consumers (which has been supported by both the Productivity Commission and ACCC analysis), reduce market price transparency for fuel suppliers and consumers, limit price competition and associated marketing innovation, and fail to encourage the development of robust and reliable fuel supplies.

With that context, AIP acknowledges that the Mandate is NSW Government Policy and continues to work with the Government to ensure the policy is implemented as efficiently as possible and at least cost to both industry and Government.

Wholesale Price Determination 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.

Furthermore, AIP noted that in assessing pathways to meet the Government's objectives, AIP contends that IPART must consider two key parameters in developing its recommendations:

- Firstly, the Government would necessarily require IPART to set a wholesale ethanol price (E100) at a level that would ensure the ongoing profitability of ethanol producers and provide for an appropriate incentive to invest and maintain reliable and competitive supply. A methodology that determined a wholesale ethanol price insufficient to at least cover costs would likely result in legal action by the producer.
- Secondly, IPART must simultaneously set that wholesale ethanol price (E100) at a level where fuel wholesalers and then retailers are able to economically provide consumers E10 at a retail price point where they see sufficient value in the price differential between E10 and regular unleaded petrol so as to preferentially choose the ethanol option (at least up to the point of consumption required by the mandate).

These two parameters needed to be satisfied simultaneously in the recommended regulatory approach in order to successfully meet the Government's objectives. However, AIP considered that there are very significant challenges and constraints to achieving this outcome. These challenges and constraints arise because the two parameters, and consequently the associated price methodology, would be heavily influenced and/or inhibited through a range of factors beyond regulatory control.

AIP considers that IPART recommended an approach (based on the available options) that exhibited as many market characteristics as possible consistent with AIP's preferred approach. While the Import Parity Price (IPP) approach is most appropriate, AIP however considers that the methodology is not capable of delivering wholesale ethanol at a sufficient price discount necessary to meet the 6 percent mandate.

Assessing consumer choice

AIP has consistently argued that the number of bowzers or nozzles should not be used as a proxy for consumer choice. Indeed, when the NSW Government initially mandated the removal of Unleaded Petrol (ULP) from the forecourt in place of E10, NSW motorists elected and continue to purchase premium fuels (PULP) even though E10 remains widely available. Sales of PULP in NSW have almost doubled since 2009 (now representing almost half of all gasoline sold in the state) while in the rest of Australia, PULP sales have only increased by around 35 percent over the same period.

AIP believes there is already sufficient consumer choice in the market place. In particular, an approach that examines the number of bowzers is highly likely to contaminate the data due to the differing nature of bowser infrastructure across service stations. That is, there is no like for like measure of bowzers. For example, some bowzers at smaller service stations might only dispense two products versus the newer multi product bowzers at larger service stations which can have up to three or four products.

The single greatest barrier to increased sales of ethanol blended fuel is customer aversion and no measure of nozzle or bowzers will change this fact. Rather, a simple metric of E10 availability should be sufficient to determine customer choice. Service station operators intimately understand their markets and will undertake all necessary activities to meet that demand. As such, AIP believes that Government needs to focus its efforts on addressing this consumer aversion to the product.

Price Monitoring and Reporting

AIP's longstanding position is to support initiatives which strengthen market transparency and clearly address a demonstrated market failure in this regard. However, AIP does not support IPART taking on a price monitoring function as we believe there is already sufficient data and analysis in the market including:

- AIP's own data provision;
- the regulated environment through the Australian Competition and Consumer Commission; and
- third party providers, including from Fuel Providers, apps such as MotorMouth and GasBuddy, and services provided by the National and State Motoring Bodies.

However, if IPART are to undertake a similar role to that already undertaken by the ACCC, the approach should:

- impose a minimal regulatory red tape burden;
- use, to the extent possible, already available data sources; and
- seek data in a format consistent with industry data already provided to other agencies, (including the ACCC) or reported publicly by companies and/or AIP.

AIP is pleased that IPART's Issues Paper appears to support such an approach in principle.

AIP encourages IPART to closely work with the ACCC and seek to establish a partnership whereby data could be provided without the need to source further data from companies. AIP would also be happy to discuss whether our own data (at international, wholesale and retail levels) could be useful to IPART.

AIP notes IPART's proposal to seek information on prices paid for wholesale ethanol. AIP proposes that consistent with the desire to minimise the regulatory burden, this information could be readily

sourced from ethanol suppliers given their limited number. Should IPART wish to validate these supply prices with prices paid by customers, then AIP expects that this customer data would have the necessary protections around commercial confidentiality. It is assumed that IPART would not publish any data that would compromise commercial arrangements.

IPART reports

The Issues Paper is not yet clear on how the IPART intends to utilise, analyse and report the data. Similarly, it is not clear how these reports would inform policy formulation. AIP certainly anticipates that the reports would be made public and that opportunity would be provided to comment on the reports. AIP encourages further discussion between industry and Government on how this data is intended to be used.

Conclusion

Thank you again for the opportunity to provide comment to IPART on the Issues Paper. While AIP remains opposed to mandates and IPARTs' role in price monitoring for the reasons outlined above, we continue to welcome the opportunity to engage and work with the Government to achieve a sensible and workable outcome.

Should you wish to discuss further anything contained herein, please do not hesitate to contact me.

Yours sincerely

A solid black rectangular box used to redact the signature of Peter Gniel.

Peter Gniel
General Manager, Policy