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BIOENERGY AUSTRALIA SUBMISSION

IPART review - Monitoring of wholesale and retail markets for fuel ethanol

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The purpose of this submission from Bioenergy Australia is to provide comment on the analytical approach proposed by the Independent Pricing and Regulatory Tribunal for monitoring the wholesale and retail markets for fuel ethanol.

About Bioenergy Australia

Bioenergy Australia is the National Industry association, committed to accelerating Australia's bio economy.

Our mission is to foster the bioenergy sector to generate jobs, secure investment, maximise the value of local resources, minimise waste and environmental impact, and develop and promote national bioenergy expertise into international markets.

Bioenergy Australia's objectives are to:

Advocate - With our members, we anticipate and develop leading positions on issues of concern to the advancement and growth of bioenergy in Australia.

Campaign - We raise the profile of the industry within the media and broader community to achieve a greater level of understanding about bioenergy and the vital role it must play to achieve carbon neutrality by 2050.

Inform - We publish reports, webinars and articles to help our members keep ahead of industry trends and opportunities. We also manage the Biomass Producer website, an AgriFutures Australia resource showcasing Australian bioenergy projects, expertise, and identifying opportunities for primary producers.

Connect - We facilitate knowledge exchange and networking for members through task-specific meetings, our Annual Conference, and Webinars. We link investors with emerging businesses; researchers with technology developers; government with innovators. We also administer Australia's participation in IEA Bioenergy. Our Industry groups bring together specialists in specific fields.

Introduction

Bioenergy Australia is a strong supporter of the NSW *Biofuels Act 2007* and its goal of encouraging the use of sustainably produced ethanol in NSW.

Level of pricing intervention required in the wholesale market for ethanol

Bioenergy Australia strongly recommends that the level of pricing intervention remain 'less intrusive', as per IPART's continued recommendations and commentary. We support IPART's preliminary decision to continue with a light-handed approach to setting maximum price of wholesale ethanol, on the basis of its findings that:

- the degree of consumer choice in the retail fuel market is relatively high with the availability of E10 becoming more widespread since the ethanol mandate was amended in January 2017 and with 92 per cent of service stations offering regular petrol; and
- there is ongoing competition between the three-major eastern Australian ethanol producers through 2017-18

1 - We have outlined a range of indicators that we propose to use to assess whether the degree of consumer choice for retail fuel has changed over the past year. Are there any other indicators we should consider?

Bioenergy Australia suggests the following additional indicators:

- The ability for consumers to access credible information to ascertain if their vehicle is compatible with E10
- The marketing tactics being used by petrol stations to drive consumers away from E10 and towards premium fuel

3 - Has there been any change in the factors likely to impact the availability of RULP in NSW in the near term?

Bioenergy Australia would like to highlight the key role played by the healthy competition in wholesale ethanol market from Queensland due to their successful mandate and a number of new projects that are now up and running at various stages including the commitments by ARENA and CEFC.

4 - We have outlined a range of indicators we propose to use to assess whether the extent of competition in the wholesale ethanol market has changed over the past year. Are there any other indicators we should consider?

Bioenergy Australia believes that the oil price doesn't impact in this case the ethanol pricing as the majority of the contracts for all oil majors are for a one-year period.

We suggest the following additional indicators:

- Global trends towards renewable and biofuels and significant innovations in technology and feedstock
- Global future fuel strategies of Oil majors (BP, VIVA) indicating a move towards biofuels

5 - Have there been significant changes since mid-2017 in the level of competition in the wholesale ethanol market in NSW, including the number of producers or changes in market shares?

Bioenergy Australia believes that there haven't been significant changes since mid-2017 in the level of competition in the wholesale ethanol market in NSW.

6 - Are there any other factors likely to impact the level of competition in the wholesale ethanol market in NSW in the near term, such as regulatory barriers or the availability or cost of feedstock?

Although there haven't been any major changes in competition in the ethanol market,, Bioenergy Australia highlights that there is significant international interest in the development of Biofuels in Australia. In addition, the Federal Government and the NSW Government have provided financial support to an ethanol project in NSW. Finally, the level of competition is likely to be affected by the international aviation emission reduction targets (50% by 2050), which can only be achieved through sustainable fuels.

Methodology for determining the wholesale ethanol price from 1 January 2019

Bioenergy Australia believes that the import parity price (IPP) is the most appropriate methodology.

7 - Have fuel wholesalers and ethanol producers continued to negotiate prices below our determined wholesale prices?

In our opinion, the wholesale ethanol producers will continue to negotiate with oil wholesalers below the recommended determined prices.

9 - Could improvements be made to the IPP methodology without significantly impacting on the simplicity, transparency and predictability of the methodology?

From our point of view, the IPP methodology is appropriate and no refinements are needed.

10 - Do the US and Brazil remain the two most likely sources for ethanol if it were to be imported to Australia in 2018?

Bioenergy Australia believes that there would be no need to import ethanol into Australia in the short to mid-term because no ethanol production facilities are currently operating at full capacity in the country, therefore steps should be taken to increase the domestic production before looking at import opportunities.

That said, USA and Brazil are still the most likely sources of ethanol, if ethanol was to be imported into Australia.

11 - Would adopting a commercial IPP, from providers such as OPIS or Platts, align more closely with the principles set out in Box 3.1?

Bioenergy Australia strongly recommends staying with the IPP through the sourcing of all inputs independently as opposed to the other two proposed commercial options, since there is a lack of transparency with those other two options.

Bioenergy Australia supports IPART's preliminary decision to continue with an implied import parity price methodology to determine the wholesale price of ethanol. However, we recognise that there are significant limitations with estimating an implied IPP from a spot ethanol mill-gate price – whether sourced from the US or Brazil. In our opinion, these limitations counsel against calculating the IPP on the lowest sourced ethanol (either US or Brazil) at any point in time. From our perspective, the most appropriate approach is one that calculates the implied IPP using the average of US and Brazilian sourced ethanol.

Monitoring retail prices for petrol ethanol blends (E10)

Bioenergy Australia is disappointed to learn that the majority of volume fuel retailers were granted exemptions from meeting the 6% mandate in the reported period. Although we acknowledge that exemptions are a necessary transitional measure, since the Act has been operational since 2007, we would contest that this is ample time for transition and retailers should now have the right credentials to meet the mandate.

13 - Do you agree with our proposed approach to monitoring the retail price for E10, including our proposal to compare average E10 and average RULP prices?

As a general comment, Bioenergy Australia suggests that IPART should be also examining PULP and RULP itself, in addition to the ethanol part of E10.

Also, given that PULP is almost universally provided by service stations, the inclusion of PULP in the assessment of the availability of different fuel types at service stations would demonstrate that consumers have yet more choice than RULP and E10.

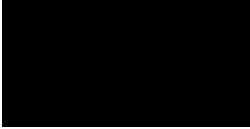
We would encourage the inclusion of PULP in the comparison of the average retail prices for E10 and RULP.

14 - Are there other issues we should consider in monitoring the retail price of E10?

Bioenergy Australia suggests that IPART should seek to understand if the cost saving of ethanol is being passed onto the consumer. If IPART were to compare the price differential applied at United petrol stations it would show that a 4 cents difference is applied.

Thank you for the opportunity to provide this submission.

Yours sincerely



CEO Bioenergy Australia