



MANILDRA GROUP

100% AUSTRALIAN OWNED

Carmel Donnelly PSM
Chair of the Tribunal
Independent Pricing and Regulatory Tribunal
Level 15, 2-24 Rawson place
Sydney NSW 2000

13th February 2023

Dear Carmel

Subject Line: Determination on the wholesale price for fuel ethanol

Thank you for the opportunity to respond to the Independent Pricing and Regulatory Tribunal's (IPART's) 2023 determination for the wholesale price of fuel ethanol.

We support IPART's proposal for the reinstatement of quarterly price determinations to ensure that the import parity price (IPP) constraint accurately reflects the forward looking commercial realities of importing fuel ethanol. Major global events in 2022, including the conflict in Ukraine and Australia's energy crisis, have caused the cost of fuel ethanol product to soar since IPART's determination on 17 December 2021.

Over the course of 2022, the determined wholesale price became increasingly inadequate at reflecting the prevailing commercial realities of fuel ethanol production. We note for example that the cost of importing ethanol in the December 2022 quarter¹ was 11 per cent (17 cents) higher than the 2022 determined wholesale price. Further, Figure 1 below shows that the difference between the annual determination approach and the quarterly determination approach has increased markedly in terms of cents per litre since 2021.

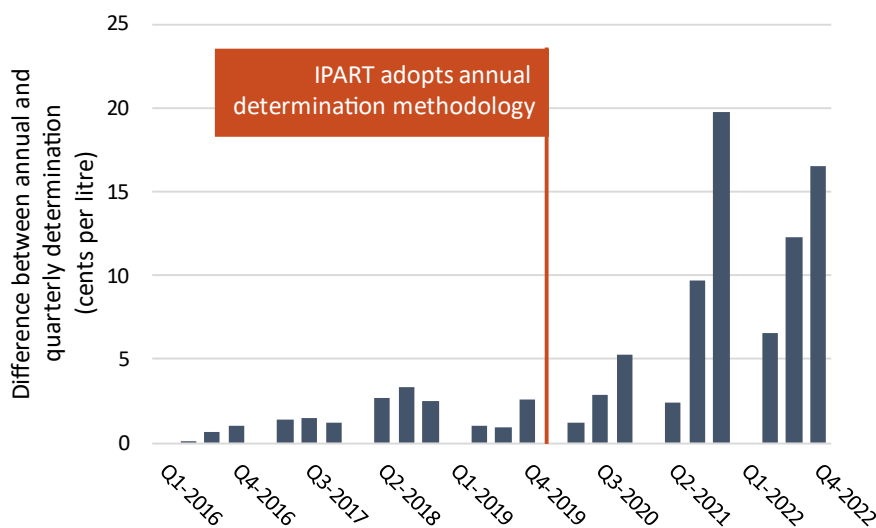
HoustonKemp analysis of IPART's price determination model shows that implementing quarterly determinations would have been significantly more effective in predicting the forward-looking quarterly cost of importing ethanol during 2021 and 2022.

We note that IPART's decision to move to annual determinations was made in the context of relatively stable input costs. For instance, prior to 2021, the difference between the annual or quarterly determined price and the observed cost of importing fuel ethanol was 3 per cent on average from 1 January 2017 to 31 December 2020.

However, due to significant price volatility and inflation in input costs from 2021 onwards, the difference between the realised quarterly cost of importing ethanol and the annually determined price has increased to 14 per cent (or 22 cents per litre) on average. Had a quarterly determination been adopted instead, the difference between the determined price and the cost of ethanol would have reduced to only 9 per cent (14 cents per litre). In effect, a quarterly determination would lead to a 36 per cent improvement in accuracy in reflecting the observed average quarterly costs of importing ethanol.

¹ Using weekly IPPs from 7 October 2022 to 16 December 2022.

Figure 1: Absolute difference between annual and quarterly determinations



We note that the major components of the IPP calculation increased dramatically from the determination of the 2022 wholesale price in December 2021 to the December 2022 quarter, including:

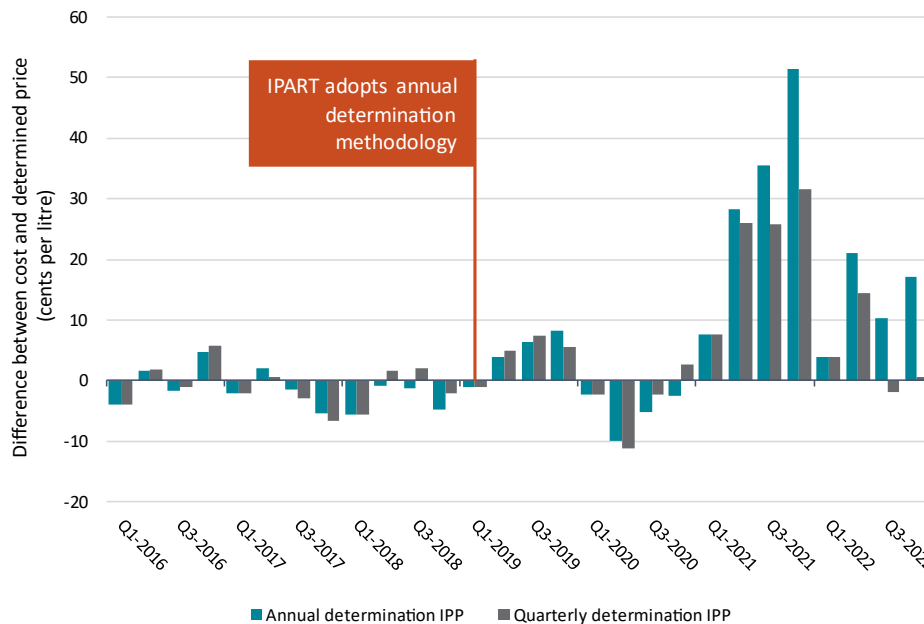
- lowest cost origin mill gate prices increasing 15 per cent (AUD);
- lowest cost origin sea freight rates increasing 20 per cent (AUD); and
- lowest cost origin local port costs increasing 30 per cent (AUD).

It follows that the use of an annual price determination failed to reflect the true cost of importing fuel ethanol throughout the majority of 2022 and could not update in a timely manner to reflect global cost pressures faced by ethanol producers including Manildra. In our view, inflexible regulatory constraints that restrict suppliers’ ability to adjust prices to increasing input costs have the potential to undermine the long-term success of a sustainable domestic biofuels industry.

We also note that given the natural inflationary nature of input costs, the determined wholesale price is progressively less accurate the more time passes from the point of a determination.

Figure 2 presents the difference between the observed cost of importing ethanol in each quarter, and the trailing quarterly and annual determination IPPs conducted in accordance with IPART’s methodology. It shows that a quarterly determination is better able to update to reflect circumstances where input costs are subject to a high degree of variability (while still incorporating a nine-month trailing average).

Figure 2: Difference between average import cost (over a quarter) and IPART’s determined price on a quarterly or annual basis



We also support IPART’s proposal to adopt the up-to-date rate of excise (ie, the excise one month prior to a determination). The use of a nine-month trailing average rate of excise would inappropriately incorporate reduced excise from a one-off temporary tax relief scheme. In our view, the use of a forward looking rate is appropriate where input costs can be forecast with a high degree of certainty.

Further, we believe there is merit in amending IPART’s methodology to determine the wholesale determined price ‘free of excise’. This would allow any future adjustments to excise to be immediately reflected in the IPP constraint and adjust in accordance with excise indexation which occurs in February and August of each year (noting that excise indexation is not aligned with a quarterly determination schedule).

We stress that any changes to the methodology for calculating the IPP price as determined by IPART will not increase prices for consumers on the forecourt since E10 prices have always been firmly constrained by the price of regular unleaded petrol (RULP).

[Should we determine the wholesale price for fuel ethanol quarterly, rather than yearly?](#)

Yes – please see our position outlined in the letter above.

[For the fuel excise cost component of the import parity price, should we use the rate of excise in the month prior to the determination, rather than the 9-month average?](#)

Yes – please see our position outlined in the letter above.

If you have any further questions, please feel free to contact me directly.

Kind regards



Kirsty Beavon
 Head of Government and Corporate Affairs
MANILDRA GROUP

To	Manildra Group
From	HoustonKemp – [REDACTED]
Subject	Variability in input costs relating to determinations for the wholesale price of fuel ethanol
Date	8 February 2023

We have been asked by Manildra Group to assess the import parity price model used by IPART to determine the reasonable wholesale price of fuel ethanol. The analysis is intended to inform a submission from Manildra Group to IPART's 2023 determination for the wholesale price of fuel ethanol.

Specifically, we have been asked to analyse:

- variability in input costs arising in the import parity price methodology that is used by IPART to determine the maximum wholesale price of fuel ethanol; and
- assess the implications and accuracy of a quarterly or annual determination methodology in reflecting the prevailing commercial conditions that arise as part of importing ethanol.

The remainder of this memo breaks down this analysis in further detail.

1. Input costs variability

There have been considerable fluctuations in the input costs since IPART's last determination in December 2021. Specifically, we observe that:

- lowest cost origin mill gate prices have increased 15 per cent;
- local transport costs have decreased over 50 per cent;
- local port costs have increased 30 per cent;
- sea freight costs have increased 20 per cent; and
- insurance costs have increased 11 per cent.

We calculate the change in input costs as the percentage change from IPART's last determination to data available for the most recent quarter in IPART's 2023 price determination excel model, ie, from 1 October 2022 to 16 December 2022.¹

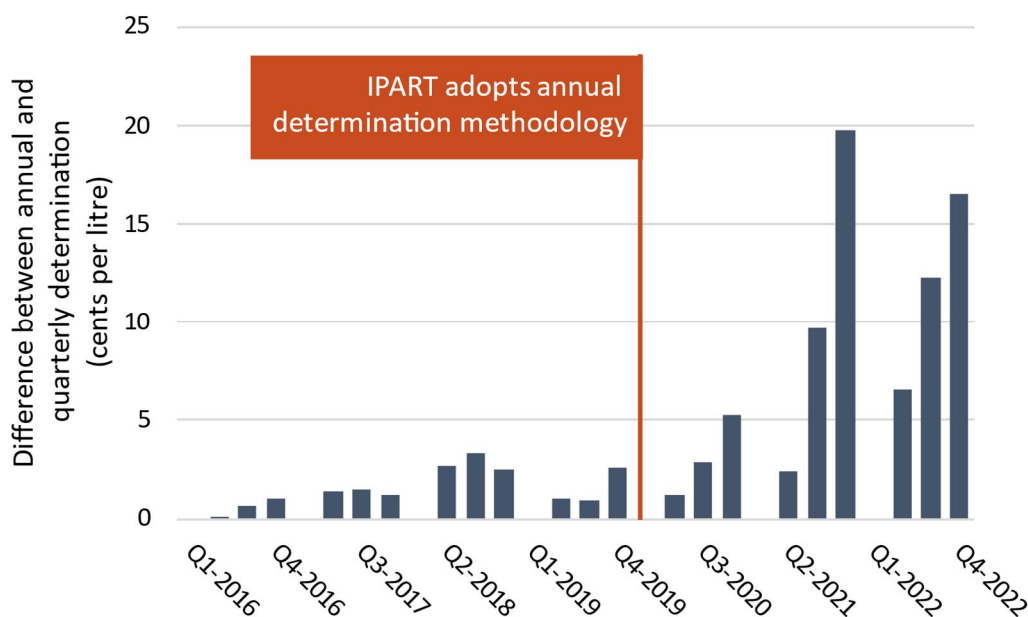
¹ We note that only data until 16 December 2023 is available due to the timing of IPART's January determination schedule.

2. Difference between quarterly and annually determined price

The difference between the annually determined price, and the quarterly determination that would have occurred under a more frequent determination schedule, is sourced from IPART's spreadsheet model from the "Pricing Periods IPPs" tab.²

We present the absolute difference between the quarterly determinations and the annual determinations in figure 2.1 below.

Figure 2.1: Absolute difference between annual and quarterly price determinations



3. Comparison of realised cost and determination frequencies

We also analysed to what extent quarterly price determinations provide increased forecast accuracy in reflecting the observed cost of importing fuel ethanol.

To determine this, we calculated the observed average cost of importing ethanol in every quarter from 2017 to 2023 and compared them to the respective annual and quarterly determinations that would have arisen.

Overall, between 2017 and 2021 we observe that:

- the difference between annual determinations and the quarterly average observed cost was 3 per cent; and
- the difference between quarterly determinations and the average quarterly observed cost was 3 per cent.

However, due to rising variability in input costs from 2021 onwards, we observe that:

- the difference between annual determinations and the average observed quarterly cost increased to 14 per cent; and

² IPART continue to provide the quarterly determined price in addition to the annually determined price.

- the difference between quarterly determinations and the average observed quarterly cost increased to 9 per cent.

This trend is shown in figure 3.1 which compares annual and quarterly determinations, with the observed average quarterly cost of importing fuel ethanol. It shows that quarterly determinations are more effective in reflecting the observed cost of fuel ethanol compared to an annual determination approach over this period.

Figure 3.1: Difference between the average quarterly observed cost of ethanol, and annual and quarterly determinations

