Pacific Islands Fuel Pricing Manual

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Pacific Island Fuel Pricing Manual (PIFPM)

• The PIFPM was prepared to support PICT government departments that use pricing templates to regulate or monitor the price of fuel.

• Different systems are used to determine fuel pricing
  – No price regulation, leave the market to find its own level (Australia, Vanuatu and Palau)
  – Tender out national fuel supply (American Samoa, Samoa, Kiribati and Nauru)
  – Regulate fuel prices (Fiji, Tonga, Cook Islands)
Fuel Prices change daily, so formula pricing is used.
Crude Oil

- Crude oil is refined to produce petroleum fuels.
- The portion of fuels produced depends on the crude oil processed, leading to supply/demand imbalances by product.
- Crude oil is classified as heavy or light, sweet or sour.
- ‘Benchmark’ crudes are broadly representative of quality:
  - Brent Blend – light sweet north sea crude
  - Dubai blend – medium sour middle east crude
  - West Texas Intermediate – light sweet US crude
Crude Oil is refined into fuels

Products made from a Barrel of Crude Oil (Gallons)

- Other Products: 7.27
- LPG: 1.72
- Jet Fuel: 3.82
- Heavy Fuel Oil (Residual): 1.76
- Other Distillates (Heating Oil): 1.75
- Diesel: 9.21
- Gasoline: 19.15
Oil Refining

- Light crude produce more LPG, naphtha, gasoline, kerosene, and diesel
- Heavy crude oils produce proportionally more heavy fuels, lubricating oils, bitumen, and tars
- Sour crudes have high natural sulfur content and require more harsh refining techniques.
- The trend in fuels is to move toward lower sulfur content.
- Residual fuels, tars and bitumen are what is left over when the lighter fuels are distilled, hence their relatively low value.
Fuel Pricing Templates (FPT)

- Fuel pricing templates were originally developed to achieve a level of transparency between oil company suppliers, major customers and eventually government regulators.
- The major benefit is that the various pricing elements can be verified through independently published sources.
- FPTs enumerate the identifiable costs of the fuel supply chain, recognising that fuel suppliers need to recover those costs.
- FPTs allow suppliers an adequate profit to justify their continued presence in the market.
Fuel Pricing Template Elements

The starting point is fuel reference prices – for the Pacific, we refer to the Singapore market as reported by Platts or Argus, thereafter;

• Fuel type, quality and price premiums
• Pricing period
• Freight related charges MR and LCT
• Government taxes and charges
• Operating costs
• ROCE allowances – contribution to Profit
FPT Elements – Platts prices

• Platts publishes reference fuel prices – for the Pacific, we refer to the Singapore market.
• Platts reports prices by fuel type and quality as measured in the last hour of each trading day
• Platts prices are reported as a daily high and low value. The average of that range is Mean of Platts Singapore or MOPS.
• Premiums (or discounts) over Platts are whatever is negotiated with suppliers.
Fuel supply lines are long, both in distance and time
FPT Elements - Freight

Fuel is shipped by medium range (MR) or local coastal (LCT) tankers

**MR Tankers**
- MR (25-45,000 metric tonnes (MT)) is used where there is adequate water depth and enough tankage on shore to allow at least a 30% cargo discharge.

**Local coastal (LCT) tankers**
- Typically 4-7,000 MT and can be used to deliver bulk fuel in more shallow harbours.

Freight related cost elements include Insurance, Ocean loss, Demurrage and Wharfage
FPT Elements – Taxes and charges

• Taxes and charges refer to those items that are collected by government for the purpose of revenue gathering
• Can include duty and excise, value added tax (VAT), Goods and Services Tax (GST) or other less direct government charges.
FPT Elements – Operating Costs

- Operating costs should be based on previous year actual audited company accounts – not budgets.
- Cost recovery only – profit is through the ROCE allowance.
- Depreciation can be allowed if the net depreciated value of assets is the basis of the ROCE allowance.
FPT Elements – ROCE Allowance

- Return on Capital Employed (ROCE) allowances are a contribution to company profit.
- Percentage allowed is negotiable – typically 12-15% after tax

**ROCE elements include**

- **Capital assets** – scrutinize asset register for relevance, using net depreciated value
- **Stock** – actual days, take into account minimum stock level
- **Debtors** – actual days allowed
- **Creditors** – credit allowed by fuel suppliers (negative value)
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Thank you