

Has FuelWatch delivered lower prices?

Under the FuelWatch System introduced in Western Australia, petrol retailers in Perth and selected West Australian regional areas are required to provide formal notice to the State Government by 2:00pm each day of their retail selling price for each fuel for the 24 hours from 6:00am for the following day. Those prices are locked in and published on the West Australian Government website by 4:00pm each day and made available to consumers via web access, email alerts or SMS messages.

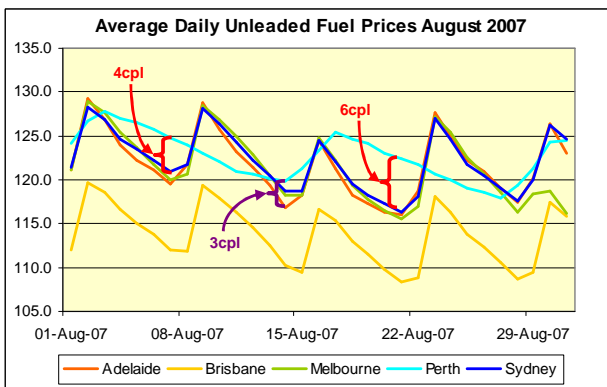
This paper explores impacts of the FuelWatch system and examines alternatives to provide tangible benefits for Australian motorists.

Consequences of the 24 Hour Rule

FuelWatch has extended the typical price cycle from a 7 day cycle that motorists benefit from in Eastern States, to a slower moving 14 day cycle with a slightly reduced amplitude or swing. This cycle is known as an Edgeworth Cycle and has been the focus of multiple academic research papers.

As a result of prices being fixed for 24 hours, the petrol reseller is adversely impacted if they get the price wrong (either too high or too low) and spend the day uncompetitive or over-competitive in their local market. As a result, when setting their selling price they do so less aggressively and play it safe which introduces "stickiness" to the market and a 14 day cycle results.

The 14 day cycle effectively removes the opportunity for the cost conscious Perth motorist to purchase petrol every second week at a heavily discounted price – see the 4 cents per litre and 6 cents per litre points in the graph below.



As shown in the graph, the reduced swing in fuel price cycle results in higher average prices for cost conscious consumers. Available data has shown that prices do not sink as low or peak as high as the normal 7 day fuel cycle. This "desired" result of a reduced swing under FuelWatch unfortunately also results in cost conscious motorists paying higher

prices at the bottom of a 14 day cycle. These motorists effectively subsidise the wealthier motorists who buy at the top of the cycle by choice to avoid the crowds or randomly stage their purchases of fuel. This subsidising is the reverse effect of eastern state markets.

Further impacts of introducing the 24 Hour Rule

Inequity of burden for smaller independent site operators due to:

- Larger petrol re-sellers can submit their prices via a central system in their head office while smaller independent operators must manage the process locally.
- Larger petrol re-sellers can subsidise incorrect or uncompetitive pricing at one location through alternate locations.
- Larger petrol re-sellers can discount prices at 2 or 3 sites to ensure their brand is displayed on fuel price lists as the cheapest although these prices are often not reflected across the brand throughout the region.

Location	Brand	Price (cpl)
West Swan	CALTEX	133.9
Mirrabooka	CALTEX WOOLWORTHS	134.8
Madeley	CALTEX WOOLWORTHS	135.8
Beechboro	CALTEX	135.9
Morley	CALTEX	135.9
Mt Lawley	CALTEX	135.9
AVERAGE		138.6

www.fuelwatch.wa.gov.au

Why fuel in Western Australia should be cheaper even without the FuelWatch Scheme

- Reduced shipping costs from Singapore of around 1.3 cents per litre compared with eastern states.
- Lower historical land costs in Perth of approximately \$2 million to \$3 million per site. Lower financing costs should result in at least a portion of the estimated 6 cents per litre financing costs flowing through to consumers.

As the following data demonstrates, cheaper prices have not resulted and raise uncertainty over claims of 2 to 5 cents per litre savings under a FuelWatch System.

PERIOD: 1st April 2007 to 31st March 2008 – All sites –
Daily averages

Fuel	Perth	Sydney	Melbourne	Adelaide
ULP	130.5	130.4	130.9	129.7
Diesel	138.9	138.9	134.9	138.6
LPG	59.9	58.5	54.2	61.1

If we assume that cost conscious fuel buyers in Western Australia shopped around and purchased their unleaded fuel on the cheapest day every week, then Perth motorists have been paying more than other motorists in ALL of the unregulated states.

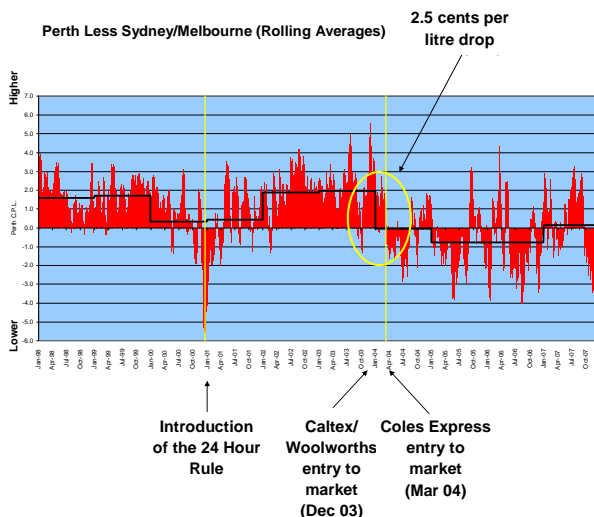
PERIOD: 1st April 2007 to 31st March 2008 – All sites –
Cheapest day of the week averages

Fuel	Perth	Sydney	Melbourne	Adelaide
ULP	121.9	120.3	119.5	119.5
Diesel	125.3	125.9	120.5	125.1
LPG	50.5	50.9	44.5	50.0

Increased competition lowers prices, not regulation

There is strong evidence to support the argument that increased competition will deliver lower prices more than any form of regulation can achieve. The graph clearly illustrates that although fuel prices were briefly lowered at the introduction of the FuelWatch 24 Hour Rule, no significant or lasting cost advantage occurred in the Perth market prior to the introduction of supermarket brands (Coles Express and Woolworths).

This is illustrated in the graph below showing the entrance of supermarket brands into the Perth market and the significant effect on market prices.



In early 2004 a significant and lasting benefit occurred with the arrival of the second supermarket brand. The Perth market stood to benefit most from the introduction of supermarket petrol competition – it was the last capital city to abolish weekend rostered trading and a capital with inherent competition challenges due to its remoteness. This can be seen in the large fall in average prices of 2.5 cents per litre compared with other capital cities – Adelaide enjoying a 0.9 cents per litre drop and Brisbane a 0.5 cents per litre improvement. Sydney and Melbourne delivered negligible improvement from the introduction of supermarket competition.

The difference in size of the benefit reflects the lack of competition in the existing markets at the time of competition change.

Alternative solutions

Proposed benefits of the FuelWatch 24 Hour Rule include increased transparency through television notices, internet, email, and SMS services notifying motorists of prices at service stations. However, independent research conducted for the 2007 ACCC Petrol Inquiry revealed only 9% of motorists surveyed in Perth were actually using the Fuelwatch Web site to guide their petrol purchasing decisions.

In other state capitals cost conscious motorists can already search for fuel prices on the web (RACV, NRMA, RACQ, MotorMouth, Austereo & IGA) and via selected Telstra and Vodafone mobile services.

Discussions have already been held with oil retailers to dramatically increase the number, regularity and timeliness of prices made available to both consumers and the ACCC.

Current mobile phone services and soon to be enhanced SatNav services afford flexibility to motorists on-the-move. These electronic services will deliver real-time data resulting in greater transparency on which retailer is providing the lowest cost of fuel at that time in the area of interest. It is these types of services that will become the preferred medium to both television and static web based or SMS distribution.

By partnering with motoring organisations these mobile services can deliver the added social bonus of delivering community education messages through their websites. These organisations provide a trusted and credible source for motorists and can add another element to support community messages such as the learner driver and drink drive campaigns.