

Introduction to the Formula Based Pricing System of Auto Fuels

1. Construction of Pricing Formula

The Cabinet of Ministers has granted approval for implementation of a cost reflective formula based pricing system of Auto Fuels effective from May 11, 2018.

The Pricing Formula was constructed by a Technical Committee based following components of the supply of auto fuels

- a) Landed Cost
- b) Processing Cost
- c) Administrative Cost
- d) Taxation

Accordingly, the Maximum Retail Price (MRP) of the auto fuels was established as follows:

$$\text{MRP} = V_1 + V_2 + V_3 + V_4$$

Where;

MRP = Maximum Retail Price of Auto Fuel

V₁ = Landed Cost (Rs. / Litre)

Which includes Singapore Platts Price per Barrel, Weighted Average Premium per Barrel, Loss due to the Evaporation and Exchange Rate (US\$) / LKR are applied.

V₂ = Processing Cost (Rs. / Litre)

Which includes Local Port Charges, Transport Cost, Dealer's Margin including losses due to Evaporation to Dealers and Stockholding Cost

V₃ = Administrative Cost (Rs. / Litre)

Which includes Administrative Expenses including Personnel Cost, Depreciation, and other cost elements, if any.

V₄ = Taxation (Rs. / Litre)

Which includes Customs Import Duty, Excise Duty, Ports and Airports Development Levy and Nation Building Tax.

Note:

According to the above pricing formula, Singapore Platts per Barrel and Exchange Rate are two uncontrollable variables. Other components are either controllable variables or fixed components

2. Application of the Pricing Formula

As per Maximum Retail Price of Petrol, released effective from October 10, 2018, the value and percentage of the above components of the Pricing of Petrol (92 Octane and 95 Octane) are summarized as follows:

| No | Components | Petrol (92 Octane) | | Petrol (95 Octane) | |
|----|---|--------------------|---------------|--------------------|---------------|
| | | Value | % | Value | % |
| 1 | Landed Cost (Rs. / Litre) (V ₁) | 93.84 | 59.68 | 97.85 | 57.77 |
| 2 | Processing Cost (Rs. / Litre) (V ₂) | 5.87 | 3.74 | 6.25 | 3.69 |
| 3 | Administrative Cost (Rs. / Litre) (V ₃) | 3.83 | 2.44 | 4.00 | 2.36 |
| 4 | Taxation (Rs. / Litre) (V ₄) | 53.68 | 34.14 | 61.27 | 36.18 |
| | Total | 157.22 | 100.00 | 169.37 | 100.00 |

As per Maximum Retail Price of Diesel, released effective from October 10, 2018, the value and percentage of the above components of the Pricing of Diesel (Auto Diesel and Super Diesel) are summarized as follows:

| No | Components | Diesel (Auto) | | Diesel (Super) | |
|----|---|---------------|---------------|----------------|---------------|
| | | Value | % | Value | % |
| 1 | Landed Cost (Rs. / Litre) (V ₁) | 99.95 | 74.56 | 99.53 | 70.83 |
| 2 | Processing Cost (Rs. / Litre) (V ₂) | 4.58 | 3.41 | 4.73 | 3.37 |
| 3 | Administrative Cost (Rs. / Litre) (V ₃) | 4.05 | 3.02 | 4.03 | 2.87 |
| 4 | Taxation (Rs. / Litre) (V ₄) | 25.48 | 9.01 | 32.21 | 22.93 |
| | Total | 134.06 | 100.00 | 140.50 | 100.00 |

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