NATROAD

Fuel levy guide

How to set a fuel levy

Protecting your business from fuel price volatility starts with your formal contract or direct explicit agreement with your customer. This guide explains what a fuel levy includes and how to set one up quickly and easily.

What is a fuel levy and why does it matter?

A fuel levy is a variable surcharge added on every kilometre traveled or on top of your base freight rate. It rises and falls as diesel prices change.

If you have a formal contract without a fuel levy clause, fuel price risk sits entirely with the carrier, meaning when diesel prices rise the carrier without a levy clause must absorb all the added costs, or breach the contract. If you don't have a formal contract, you should get an agreement in writing with your customer for transparency and your relationship.

There are a number of free calculators available on the internet that can help you with this. However, you need to be careful the websites are trusted and you are confident on how the calculation is made. We recommend working out the levy yourself initially, so you are confident in the calculator you are using.

Why add a fuel levy?

> Fuel is usually 20–40% of a trucks total costs. A 20 cent per litre (cpl) diesel increase can wipe out your profit if you don't recover it.

> You carry all the risk when fuel prices rise.

> You either absorb the extra cost or risk a dispute with your customer.

The building blocks of a fuel levy

There are three numbers you must know: base freight rate, base fuel price, fuel cost share.

1 Base freight rate

The base freight rate is your everyday price per kilometre. It covers your vehicle, labour, maintenance, insurance, overheads, and fuel at the price when you quoted the job. It does not include fuel levies, tolls, or special handling charges.

Calculation: Base freight rate = total operating costs (including fuel) ÷ the kilometres travelled over the time = price/km

A B-Double long-haul linehaul travelling 208,000km a year with an annual operating cost of $400,000.

Base freight rate = $400,000 ÷ 208,000 = $1.92/km

2 Base fuel price

The **base fuel price** is the diesel price you lock in at the start of the contract or general agreement. All future fuel levies are worked out by comparing prices back to this number. This is the fuel price built into your base freight rate.

If you have a contract, both parties must agree on a single, objective, publicly available price source. Using an independent index removes disputes about 'whose price' applies.

We recommend using the Australian Institute of Petroleum (AIP) website. The AIP publishes diesel rates weekly (and annually), by state, and nationally, find the pump prices here.

Then you need to consider and confirm with your customer:

> The time period you want to manage the fuel levy over i.e. weekly, fortnightly, or monthly.

> Whether you are going to use the regional, state, or a city price (depending on where you will be carting your freight).

> You also need to take into consideration GST, Fuel Excise, and Road User Charges.

Agree with your customer you will use the AIP National Retail Diesel weekly average pump price in regional areas of 182.3c week ending Sunday 1st March:

> Less the GST 10% (182.3 ÷ 1.1) = 165.7cpl

> Less FTC = Fuel excise less Road User Charge (52.6cpl-32.4cpl) = 20.2cpl (FTC)

Base fuel price = 145.5cpl

3 Fuel cost share

The fuel cost share how much of your total costs are fuel. It reflects how exposed your business is to fuel price movements and is used to scale the levy, so it recovers only the fuel component of your rate, not your full margin. For example, if fuel is 49% of your operating costs, a 40% rise in the fuel price should only trigger roughly a 20% levy on your freight rate - not 40%.

When you calculate the fuel cost share you need to use the same time period you have used for calculating your base freight rate.

A B-Double long-haul linehaul travelling 208,000km a year with an annual operating cost of $400,000 spends $104,000.

Fuel cost share = $104,000 ÷ $400,000 = 26%

Calculating a fuel levy

Determine the current fuel price

If you are using AIP data and have an agreed approach you are taking to the base fuel rate, then you then need to figure out how you will agree with your customer what the current fuel price is.

Options to consider:

> Use the AIP price at the end of the week and agree to use the average price for the period/s.

> Use your actual fuel cost and average across the week or the agreed time period.

> If the customer accepts the weekly average and variation as stated by AIP.

You use the average AIP National Retail Diesel weekly pump price in regional areas to at Sunday 15th March, which is 245.8cpl:

> Less the GST 10% (245.8 ÷ 1.1) = 223.5cpl

> Less FTC = Fuel excise less Road User Charge (52.6cpl-32.4cpl) = 20.2cpl (FTC)

Current fuel price = 203.3cpl

Fuel levy calculation – the simple way

STEP 1
Fuel price increase

> current price (203.3cpl)-Base price (145.5cpl) = +57.8cpl

> expressed as a percentage 57.8cpl ÷ 145.5= +39.7%

STEP 2
Levy % on your freight rate

A Levy % on base freight rate: = Fuel cost share (%) x net price increase (%) = 26% x 39.7% = 10.31%

STEP 3
What you charge per kilometre

Levy as cents per kilometre = Levy (%) x base freight rate =10.31% x $1.92 = 19.79c/km

Other considerations on when using a fuel levy

When does a fuel levy kick in?

It can be helpful to agree with your customer prior, at what % increase (or decrease) is the amount of the change can be before you add a fuel levy. This number can change dramatically if you are looking at monthly or quarterly. So, beware if you say a 10% change over a fortnight, in usual circumstances that may not happen and you are managing 3% every fortnightly over time and suddenly at the end of the year you've sustained 78% change you haven't put a fuel levy in for. For every invoice period you go back to the base fuel price you have agreed.

The fuel levy should be recalculated at a regular, predictable interval, typically fortnightly or monthly, aligned to your chosen index publication schedule. On your next invoice, if there have been further increases you still use the same base fuel price. There can also be situations where the average fuel price can be below the base fuel price so you will have to reduce your charge.

Diesel prices increase by more than 2% over a fortnight a fuel levy will be used for that fortnight on your invoice. With a Base fuel price of 145.5cpl and a current price 203.3cpl the net price increase is 57.8cpl.

So, the % change is: (203.3cpl – 145.5cpl) ÷145.5cpl = +3.97%

Notification mechanism

Specify how and when you will notify the customer of the current levy rate.

Options include:

> A published levy schedule on your website, updated weekly.
> An email notification sent to the customer on the first business day of each review period.
> A line item on each invoice showing the levy rate and calculation.

Index unavailability and dispute resolution

The contract must address what happens if the agreed index is suspended, discontinued, or not published in any given week. Options:

> Use the most recently published figure until the index resumes
> Substitute with a named alternative index (e.g. DISR data)
> Agree to use the average of the prior four published readings

Also specify a simple dispute resolution mechanism. For example, a 7-business-day good faith negotiation period before escalation.

Best Practice

Show the fuel levy as a separate line item on invoices. Transparency builds trust and makes the mechanism credible to customers who might otherwise question surcharges.

Common mistakes to avoid

> Not writing the base fuel price down
> Mixing GST-included numbers
> Burying the levy in the freight rate
> Forgetting to update base prices at contract renewal

Glossary

Term	Definition
Base freight rate	Your normal charge per km (ex. GST)
Base fuel price	The fuel price you start from
Fuel cost share	The % of your costs that are fuel
Fuel levy	A variable charge that rises and falls with diesel prices
Operating costs	Example of costs included to determine your operating costs: > Fuel (gross) > Driver wages (incl. on costs) > Maintenance & repairs > Tyres > Rego, insurance > Tolls > Depreciation/lease costs > Admin and overheads. > RUC/ Fuel Tax Credits

Notes:

> There may be rounding errors in some of the working in this fact sheet.
> Always check with your accountant for actuals when calculating your operating costs.
> Ensure all inputs are ex. GST.