



23 November 2012

Energy Markets Group
Ministry of Business, Innovation and Employment
Wellington
Via email OilSecurity@med.govt.nz

Dear Sir

Attached please find Gull's response to the October 2012 paper "Review of New Zealand's oil security". Gull has responded question by question in the attached paper

Gull is readily available to engage further on any of these matters. Should you wish to discuss further please contact either me or Ulrik Olsen on 09 4891 452.

Yours sincerely

Dave Bodger
General Manager

Questions

Q1. Are you aware of any future investments or shutdowns, or any other factors that are likely to significantly alter the level of commercial inventories held in New Zealand?

There are major oil company installations that do not conform to the current fire fighting and secondary containment requirements. There are no apparent processes in place to update these plants.

Q2. Do you agree that the international oil security problem definition is appropriate?

Our submission regarding paragraph 23 is that Crown funding is the most economically efficient method of funding the IEA obligations

Q3. Do you agree with the selection criteria used for the international oil security analysis?

In general yes.

Q4. Do you agree that New Zealand should maintain its membership of the IEA and continue to meet its IEA obligations?

No comment this is a government decision.

Q5. Do you agree that New Zealand should continue to meet its IEA stockholding obligations through ticket contracts rather than purchasing domestic stockholding?

Yes tickets are the lowest cost option for the motorist.

Government should enter dialogue with IEA to recognise inventory that is "on the water" en-route to New Zealand and under contract. There are significant quantities of fuel at any one time that is in transit to New Zealand. Gull's understanding is that this fuel is excluded from New Zealand's stock holding. Gull submits there is a very reasonable argument that it should be included. If it is included then this will reduce the quantity of tickets required to be held.

Q6. Do you agree that the government should continue to procure ticket contracts rather than placing a mandate on industry?

Yes. Firstly this is a government obligation thus Government should complete the requirements. Secondly the ability to source tickets may disadvantage Gull who does not have the international contacts that Multi National Oil companies do. This would also act as a barrier to entry to any new operator

Q7. Do you agree that it is more equitable to recover ticket contract costs via a levy on fuel than from general taxation? Are there any other matters that the government should consider?

Probably. Ideally the levy would be part of excise tax to avoid a separate system. However the excise free nature of diesel complicates this.

Q8. Do you agree that the PEFML is the most appropriate levy by which to recover ticket contract costs and that it should only cover petrol, diesel, ethanol, and biodiesel?

Given the levy applies to biodiesel (estimated annual consumption less than 2 million litres) and to ethanol (estimated annual consumption less than 10 million litres) it should certainly apply to domestic jet fuel, fuel oil, LPG and bitumen.

Regarding point 42 there appears to be contradiction around the “small quantities” arguments as noted for biodiesel and ethanol. The complexity of splitting domestic jet fuel from international jet fuel has been solved for the GST system and the Emissions Trading Scheme. Can this same methodology ensure the PEFML can apply to these fuels?

Q9. Do you agree that it is best to smooth the levy rate over three years? How much lead time is required for companies to prepare for a change in the rate?

Given excise tax changes (in general) annually and (in general) by much greater quantities than envisaged for PEFML Gull does not see why annual adjustments cannot take place.

A minimum of one months' notice is sufficient.

Alignment of the point at which the PEFML becomes payable for various fuels would be a significant improvement in the system. Currently:

- Excise tax, ACC Levy and PEFML on petrol is accrued on “removal for home consumption”. This is effectively on import or when removed from the refinery i.e. on receipt by the oil terminal.
- PEFML for biodiesel and PEFML and ACC levy on ethanol is paid after blending at the oil company terminal i.e. on dispatch from the oil terminal.

The two systems by no means efficient or ideal. Alignment of all the taxes would increase efficiency

Q10. Do you agree that the rationale for government investigation into domestic oil supply security is to ensure that domestic oil infrastructure resilience is socially optimal, and to ensure that industry can re-establish supply as quickly as possible following a disruption?

Yes

Q11. Are there any other measures available to industry or government to increase supply following an emergency disruption?

The paper appears to not consider the weight loading restrictions that apply to fuel tankers.

Supply disruption will lead to fuel being trucked from other ports. Most tankers of any fleet currently in use have a nominal capacity of 38,000 litres or greater, however due to Road User Charge weight limits these trucks only carry 31,000 – 34,000 litres on each delivery. Relaxing the RUC limits during times of crisis would add at least 10% capacity to the tanker fleet immediately.

Q12. Is the description of the major refinery outage accurate? If not, what should be expected?

There are international and independent agencies better placed to comment here.

Q13. Is 0.20-0.25 per cent per year a reasonable probability range for a major outage at the refinery?

There are international and independent agencies better placed to comment here.

Q14. Are there other factors that can be addressed to enable industry to better respond to a major refinery outage?

There are international and independent agencies better placed to comment here.

Q15. Is the description of the minor refinery outage accurate? If not, what should be expected?

There are international and independent agencies better placed to comment here.

Q16. Is 0.5-1.0 per cent per year a reasonable probability range for a minor refinery outage?

There are international and independent agencies better placed to comment here.

Q17. Are there other factors that can be addressed to enable industry to better respond to a minor refinery outage?

Refer to other comments regarding tanker capacity and RUC restrictions.

Q18. Is the description of the long-term disruption to RAP/Wiri accurate? If not, what should be expected?

Gull has no ownership or direct access to product from the RAP and so makes no comment.

Q19. Is 0.2-0.3 per cent per year a reasonable probability range for a long-term RAP/Wiri disruption event?

Gull has no ownership or direct access to product from the RAP and so makes no comment.

Q20. Are there other factors that can be addressed to increase the speed with which industry can respond to a long-term disruption to RAP/Wiri?

Refer to other comments regarding tanker capacity and RUC restrictions.

Q21. Is the description of the short-term disruption to RAP/Wiri accurate? If not, what should be expected?

Gull has no ownership or direct access to product from the RAP and so makes no comment.

Q22. Is 0.5-1.0 per cent per year a reasonable probability range for a short-term RAP/Wiri disruption event?

Gull has no ownership or direct access to product from the RAP and so makes no comment.

Q23. Are there other factors that can be addressed to enable industry to better respond to a short-term outage to RAP/Wiri?

Refer to other comments regarding tanker capacity and RUC restrictions.

Q24. Is the description of the long-term disruption at Seaview accurate? If not, what should be expected?

Gull has no ownership or direct access to product from Seaview and so makes no comment.

Q25. Is 0.15-0.25 per cent per year a reasonable probability range for a long-term Seaview disruption event?

Gull has no ownership or direct access to product from Seaview and so makes no comment.

Q26. Are there other factors that can be addressed to enable industry to better respond to a long-term disruption to Seaview?

Refer to other comments regarding tanker capacity and RUC restrictions.

Q27. Is the description of the long-term disruption at Lyttelton accurate? If not, what should be expected?

Gull has no ownership or direct access to product from Seaview and so makes no comment.

Q28. Is 0.2-0.3 per cent per year a reasonable probability range for a long-term Lyttelton disruption event?

Gull has no ownership or direct access to product from Lyttelton and so makes no comment.

Q29. Are there other factors that can be addressed to enable industry to better respond to a long-term disruption to Lyttleton?

Refer to other comments regarding tanker capacity and RUC restrictions.

Q30. Do you agree that the probability of a tsunami that results in disruptions that are more severe than those outlined above is extremely small?

Tsunami experts should answer this question. Gull has no comment.

Q31. How viable is it to use the abovementioned trucks, are there any other trucks in New Zealand that have not been considered above, and are there any regulatory barriers to unconventional trucks being utilised in an emergency?

I suspect unconventional road tankers could be converted to transport diesel as diesel is significantly less hazardous than petrol. However would the diesel delivered be "on specification" say from residue crude oil? If off specification, is it still fit for use in an emergency? Some preliminary research prior to any emergency may be worthwhile in this area.

Q32. Assuming the Commerce (Cartels and Other Matters) Amendment Bill is enacted, would oil companies be able to plan and coordinate fuel deliveries and trucking resources between themselves in an emergency?

Unlikely. Gull is excluded from traditional legacy major oil industry arrangements. Including Gull or any other independents at a time of crisis would unlikely be successful.

Q34. Are the assumptions about the length of time to import trucks from Australia reasonable? How could the importation of offshore trucks be expedited in an emergency?

No comment

Q35. Are there any other sources of drivers that could drive fuel trucks in an emergency?

Historically airport refuelling personnel have been trained as tanker drivers. The major oil companies can comment if this training is applicable to the open road and delivery of fuel.

There will be a significant number of ex New Zealand tanker drivers working in general driving positions in Australia it may be possible to entice them back for a period.

Q36. Are there any issues that would hinder Australian drivers and New Zealand milk truck drivers driving fuel trucks in an emergency? What measures could be taken to ensure that Australian drivers could obtain

approved handler certification sooner? How long would it take to certify Australian drivers if such measures were taken?

A comprehensive induction relevant to the deliveries undertaken is key. If deliveries are restricted to diesel with trained parties loading and potentially unloading then these drivers may well be a valuable resource in emergencies.

Q37. Should drivers without approved handler certification still be utilised in an emergency if they are not required to physically load/unload fuel?

Yes. Convoying these drivers with regular tanker drivers is an option worth considering as long as the restraint is drivers.

Q38. Should driver time restrictions be relaxed in an emergency?

Yes.

Q39. What other measures could be taken to reduce bottlenecks at loading gantries at terminals?

Assuming the key fuel to load may well be diesel. Fill stands could be changed (1 – 7 days) to provide additional diesel loading points.

Q40. What other measures can be taken to increase coastal shipping capacity in an emergency?

Possible:

- Use of the Navy tanker "Endeavour".
- Use of ships that carry diesel to the Pacific Islands in their running tanks.
- Use of small barges suitable for carrying loads of 1 million litres of diesel.
- Use of bladders / flexi-tanks (flexible bladders held inside a shipping container).
These are used to transport biodiesel currently.

Q41. Do you agree that a government campaign to encourage voluntary demand restraint in a short-term disruption will be effective at minimising a short-term supply shortfall?

It has a "good" chance of creating the reverse effect of people stockpiling fuel.

Q42. Do you envisage that any consenting process would result in delays to emergency repairs of fuel infrastructure? If so, what are they?

No.

Q43. Do you think that a handbook with representative domestic supply disruption scenarios, and supply-side response measures would help to expedite an emergency response?

Possibly

Q44. Do you agree that building the RAP-WAP bypass is a reasonable 'insurance premium' to pay to avoid disruption of jet supply to Auckland Airport? Which party is best placed to cover these costs?

Airlines should be able to indicate the ability to "tanker in" jet fuel from the airport of origin. This would eliminate some of the demand for Jet at Auckland. Can it be reduced to a point where trucking is a viable option?

Q45. What work could be pre-emptively undertaken to expedite the building of a RAP-WAP bypass following a disruption, how much time would this work expedite the build by, and what would this work cost? Which party is best placed to cover these costs?

No comment.

Q46. What preparatory measures could industry take to expedite the importation of trucks from Australia in the event of a long-term terminal outage? What measures can government take to ensure that the importation process is sped up?

No comment.

Q47. Do you agree that the construction of domestic stockholding is not an economic solution to improving domestic oil security? If you disagree, please state why?

Yes.

Q48. What cost effective options are there for improving the resilience of the network? Please provide an explanation of the network vulnerabilities that the option would address, and an estimate of costs.

Gull is not privy to other oil company's data but knows there has been little maintenance conducted at several major oil company terminals in the last ten years. Some Terminals are known in the industry to not meet basic standards for secondary containment and fire fighting. The lack of these basic standards could well escalate a minor incident to one of major proportions. Gull submits that an independent review of the Terminal infrastructure in New Zealand would be a good housekeeping measure for the Government. This would monitor if longer term maintenance is being completed or if this is being let go while the owners of these assets contemplate an exit from New Zealand.