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## **Review of New Zealand's Oil Security (Discussion Paper October 2012)**

Submission on behalf of Wiri Oil Services Limited

## Introduction

- 1 Wiri Oil Services Ltd (**WOSL**) makes this submission in relation to the Ministry discussion paper, *Review of New Zealand's oil security*<sup>1</sup>(**discussion paper**). This submission represents the views of WOSL but does not necessarily represent the views of WOSL's shareholders.
- 2 WOSL operates the Wiri Terminal, identified in the discussion paper as a nationally significant oil distribution asset. As stated in the discussion paper, Wiri Terminal:
  - 2.1 receives and supplies 90% Auckland's finished product from Marsden Refinery via the RAP pipeline;
  - 2.2 supplies 100% of Auckland International and Domestic Airport's jet fuel via the WAP pipeline;
  - 2.3 *'disruption to any one of New Zealand's significant pieces of oil infrastructure has the potential to result in supply shortfalls at either regional or national levels.'*<sup>2</sup>
- 3 WOSL shareholders are the four largest oil companies operating in New Zealand - BP, ExxonMobil, Chevron, and Z Energy. WOSL operates a bulk hazardous substances storage terminal at Roscommon Road, Wiri/Manukau (**Wiri Terminal**) on behalf of shareholders.
- 4 The Wiri Terminal is a critical link in the supply chain of fuels for the Auckland region, supplying virtually all Auckland's petroleum demand including all jet fuel supplied to Auckland International Airport via the Wiri-to-Airport pipeline (**WAP**). In considering domestic oil security it is therefore vital to increase the resilience of the supply chain and WOSL's operations in particular.

## Executive summary

- 5 Studies show that resilience of the supply chain is critical. Duplication or providing alternatives to WOSL's operations (such as new terminal or direct feed to Airport from RAP) involve substantial costs and require considerable further investigation. In the absence of complete, fully costed, viable and resilient alternatives, then options that increase resilience of WOSL's current operations (RAP, Wiri Terminal and WAP) are vital and should be preserved on a no regrets basis.
- 6 Increasing resilience requires protection against any further encroachment by sensitive land uses adjacent or proximate to the WAP, Wiri Terminal and RAP. This includes streamlined or more straightforward regulatory processes for RMA and other consents/approvals, with appropriate priority being given to New Zealand's 'significant oil infrastructure'. For example, additional tankage located at the Wiri Terminal but

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<sup>1</sup> October 2012, Ministry of Business, Innovation & Employment

<sup>2</sup> Discussion Paper at [66]

separate from existing facilities creates redundancy and allows the RAP to be partially utilised in any Terminal incident.

- 7 In addition, projected fuel demand warrants investment in development to increase storage and handling capacity at Wiri. WOSL must be able to store adequate product inventories through the supply cycle (between product batch cycles through the RAP) to ensure users have appropriate security to manage disruptions that may occur from time to time without affecting supply to customers. Any change to fuel supply, including biofuels (as Auckland moves to a low carbon future), would necessitate additional development.
- 8 Government strategies and plans need to be revised to:
  - 8.1 Better recognise the fundamental importance of WOSL's operations to the Auckland environment (economic and social wellbeing) in high level strategies and plans; and
  - 8.2 Prioritise an appropriate planning/risk overlay (RMA and other) for the Wiri area to ensure the safe and efficient operation, maintenance and future expansion of Wiri Terminal, including the WAP and RAP;
  - 8.3 Central government directives to Auckland Council to prioritise Wiri Terminal's (including WAP and RAP) existing and reasonable future growth requirements, particularly RMA, Health and Safety.

#### **International oil security**

- 9 At present, WOSL has no plans for shut-downs or any other works that would materially affect NZ's IEA obligations.
- 10 WOSL supports NZ maintaining its membership of IEA and continuing to meet its IEA options, for the reasons set out in the discussion paper.

#### **Methods for meeting IEA stockholder obligations**

- 11 According to the NZIER analysis cited by the discussion paper, there are no net benefits for New Zealand's domestic oil security from building new stockholding within New Zealand. WOSL does not disagree from an industry perspective - costs of increased stockholding, associated with new capital expenditure, would be significant. However, should future government strategies change from the current approach, the Wiri Terminal could be an appropriate location for additional stockholdings (amplifying the need for resilience, discussed below).

#### **Domestic oil security - the need for increased resilience**

- 12 Energy resilience is supported at a high level, in statutory planning documents such as the Auckland Council's Regional Policy Statement (RPS). E.g. RPS Strategic Policy 2.6.14 provides as follows:

2. Provision is to be made to enable the safe and efficient operation, maintenance and development of regionally significant infrastructure

which is necessary for the social and economic wellbeing of the region's people.

3. Land use change should avoid significant reverse sensitivity effects on regionally significant infrastructure.

- 13 The Auckland Plan<sup>3</sup> also recognises as resilience issues:
- Auckland's liquid fuel supply, including all jet fuel for Auckland International Airport, is reliant on a single pipeline from the Marsden Point Refinery to the Wiri Oil Terminal, and a further pipeline from the Terminal to the Airport. These assets are affected by incompatible land uses, given their hazardous nature and the risks associated with their operation
  - increasing dependence on the Northland and Waikato Regions for secure and reliable fuel delivery with the future loss of Wynyard Point
- 14 The Wiri Terminal is the main supply route for petroleum products into the Auckland market (and a significant portion of the Waikato market). As such, the Terminal plays a critical role in the fuel supply chain, and WOSL has been proactive in evaluating supply risks and options for increased supply security.
- 15 Operations at the Wiri Terminal will need to expand to support plans for improving Auckland's energy efficiency and supply security. Adequate handling and storage capacity is needed to manage throughput and hold sufficient stock levels to ensure resilience in the supply chain for Auckland.
- 16 The existing supply network is reasonably robust - pipeline supply is a very reliable form of transport, and distribution terminals are also reliable facilities - but there is a need for greater resilience. Further, plans for disruption events show that the oil industry is adept at planning for and responding to most supply disruptions (while acknowledging that a low-probability significant disruption event would cause difficulties for many<sup>4</sup>).
- 17 Significant capital expenditure by government is not required or warranted. Instead, industry needs government support to get on with increasing resilience, e.g. in the form of support for use of existing streamlined RMA processes such as designations and call-in of major infrastructure projects.
- 18 WOSL is closely monitoring trends in fuel demand. In recent years, the demand for diesel has increased, while the demand for other fuels has remained steady despite increases in vehicle numbers and air travel due to efficiencies gains in vehicle and airline technologies and operations. Continued growth in diesel demand is forecast, as is biofuel development and increased usage, and WOSL is planning future investment in the terminal site in the way of additional storage tanks. While this will

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<sup>3</sup> At chapter 12

<sup>4</sup> A disruption event - one not totally stopping supply - is likely to cause an economic impact of around \$6.5 million per day. A major incident that is likely to be over an extended period could cost at least \$400 million with ongoing costs

not have any material impact on the level of commercial inventories held in NZ it is vital in the domestic security context.

- 19 The additional tanks would be situated on the site but a sufficient distance away from the existing tanks to ensure some continued operation in the event of a disruption event at Wiri Terminal - it would be far less likely that a single incident could take the whole facility out of action for an extended period as assumed in many of the contingency studies on disruption to the RAP supply route into Auckland.
- 20 More tankage would also increase the flexibility to deal with operational issues. Currently for petrol and diesel, when a tank is out of service for maintenance, operation switches to one tank. This creates risks both in lower supply security levels and with product quality as there is little time to let the tank settle before it is used again. While WOSL is able to manage this operationally at present, this could become more of an issue as the tanks age and throughput increases.
- 21 WOSL needs to be capable of handling any changes that might occur in the fuel supply. If the Wiri Terminal is unable to be developed due to constraints from development of neighbouring sites, growth in demand would need to be managed through neighbouring terminals, namely Marsden Point and Mt Maunganui. This means greater transportation and related environmental costs. Anything that compromises the use and future development of the Wiri Terminal is likely to have an impact on petroleum supply into Auckland. Consequently, any government strategies and plans following this review should:
- 21.1 Recognise the fundamental importance of WOSL's operations to the Auckland environment (economic and social wellbeing) in high level strategies and plans; and
  - 21.2 Make provision for an appropriate planning/risk overlay (RMA and other) for the Wiri area to:
    - 21.2.1 Prioritise the safe and efficient operation, maintenance and future expansion of Wiri Terminal; and
    - 21.2.2 control land use change to avoid constraints and reverse sensitivity effects on the Wiri Terminal, WAP and RAP.

#### **Disruption scenario analysis and proposal for RAP/WAP bypass**

- 22 WOSL is generally supportive of most of the options to address constraints to the re-establishment of supply following a disruption, such as increased trucking and driver capacity, increased coastal shipping. It is clear, though, that these contingencies will take time to implement. Of primary importance, then, is the need to address constraints or roadblocks in the regulatory sphere, and to ensure the operation and development of the Wiri Terminal.
- 23 The RAP is an existing fixed asset and represents the most efficient, environmentally sound and reliable route for product supply into Auckland, and is capable of handling increased throughput (as is the WAP). This means the Wiri Terminal must be capable of handling any increased throughput and of managing any changes in fuel

requirements such as different product trades and/or biofuels. At the same time the storage capability needs to be sufficient such that WOSL can store adequate product inventories through the supply cycles (between product batch cycles through the RAP) to ensure the users have appropriate security to manage disruptions that may occur from time to time without affecting supply to their customers.

- 24 Expansion, in the form of additional storage tanks in a separate location at the Wiri Terminal, would ensure greater resilience in terms of jet and other fuel supply in the event of a disruption. A relatively quick resupply (within weeks rather than months) would be likely if these tanks were available (in the event the others were damaged) and could be operated on jet/petrol.
- 25 The possibility of a bypass on the RAP of the Wiri Terminal needs further analysis. This would be a significant - and at present unplanned - capex project. It needs further cost/benefit analysis, and funding issues would need major consideration and buy-in by all affected industry parties (e.g. Auckland Airport has recently increased the capacity of its jet fuel storage facility).
- 26 At present, the cost of regulatory authorisation for and the construction of such a bypass on a pre-emptive basis does not appear to be justified. However, WOSL supports the investigation of preparatory work (with appropriate central government funding, and participation by relevant industry stakeholders) to expedite the building of a bypass in an emergency. Other options include pre-emptive government planning fast-tracking of such a project, e.g. by identifying/designating preferred route and location for associated works for emergency purposes only.

#### **Possible government investment in public stockholding**

- 27 The discussion paper refers to an NZIER finding that building new stockholding in NZ is not economic. WOSL does not disagree. The preferred approach is to promote resilience-building in the existing supply chain.

#### **Other options for improving resilience**

- 28 Other cost-effective options for improving resilience include central and local government support of industry, primarily in terms of RMA processes/requirements. WOSL has been working with the Ministry for the Environment and Auckland Council to increase Wiri Terminal and WAP resilience. We assume that other government agencies are already involved in wider oil security planning work (e.g. MfE TAG report on infrastructure issues).

29 WOSL seeks the opportunity to discuss its submissions with the Ministry.

**Date:** 27 November 2012



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