

Hon Dr Megan Woods

MP for Wigram

Minister of Housing

Minister of Energy and Resources

Minister of Research, Science and Innovation

Associate Minister of Finance



07 December 2021

Mike Bennetts
Chief Executive
Z Energy Limited

Dear Mike

Re: Recent fuel margins

I am writing to you because consumers have recently been facing the highest fuel prices that have ever been seen in New Zealand.

I understand fuel prices are affected by a range of factors, including the global crude oil prices. However, data provided by the Ministry of Business, Innovation & Employment shows that margins are currently sitting well above trend compared to the past couple of years and have not responded to the recent substantial fall in global crude oil prices.

With the recent enactment of the Fuel Industry Act 2020, I expect the wholesale fuel market to experience increases in competition, which should over time lead to lower fuel prices for consumers. In the meantime, I would appreciate an explanation as to why margins are currently so high, and any actions your business is taking to ease this pressure at the pump for consumers.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'M. Woods'.

Hon. Dr Megan Woods

Minister of Energy and Resources

Hon. Dr Megan Woods
Minister for Energy and Resources
Parliament Buildings



Via email: m.woods@ministers.govt.nz

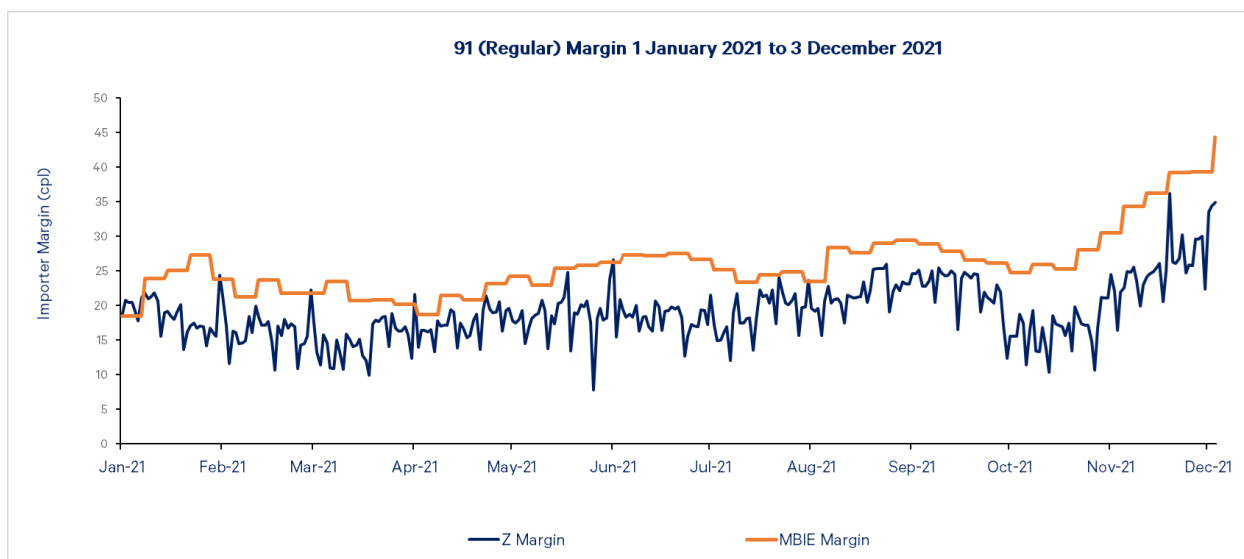
Kia ora Minister,

Thank you for your letter dated 7 December with your query around current petrol pricing.

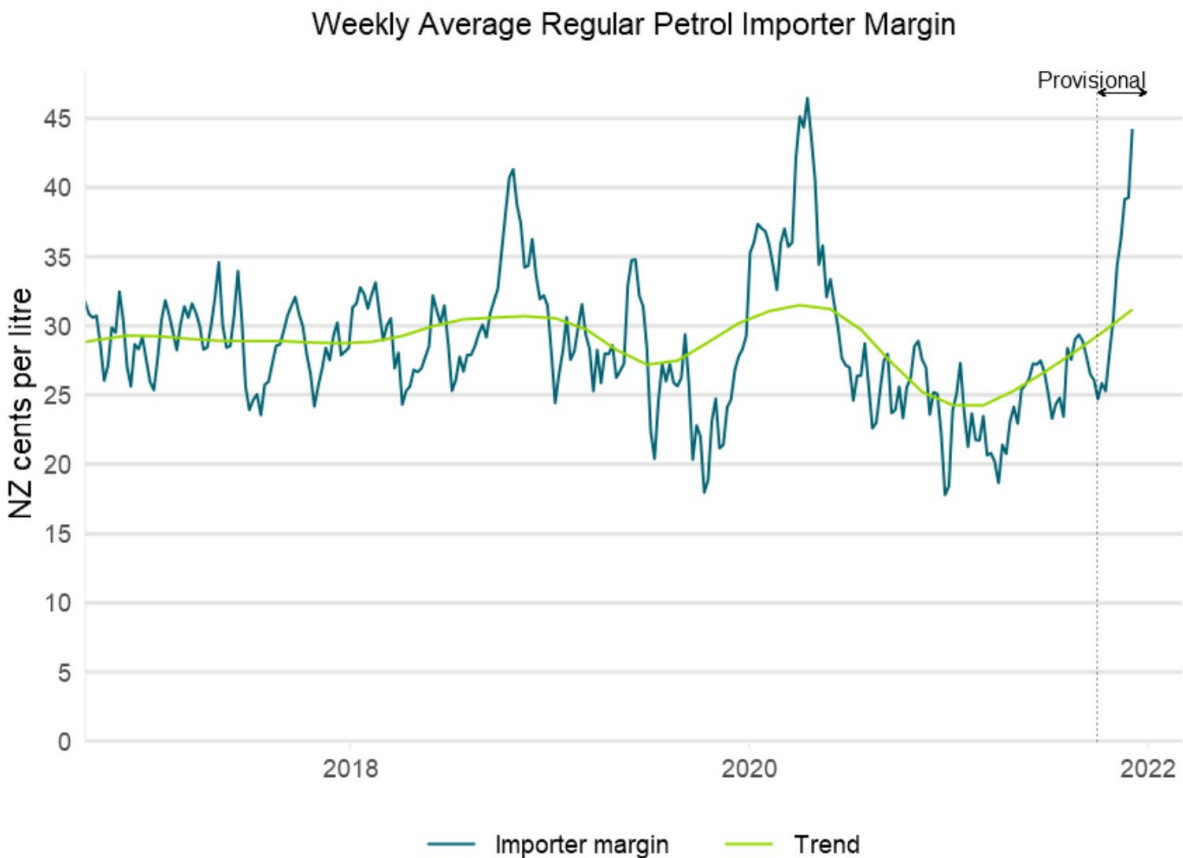
Z understands that petrol is an important part of New Zealanders' household expenses and as such, want to know that they are getting a fair deal at the pump. We appreciate your focus on recent high pump prices, especially following the enactment of the Fuel Industry Act 2020 in August of last year.

It is important to note that Ministry of Business, Innovation and Employment (MBIE) data is provisional and remains that way for up to three months after initial publication. The lag in this data has been a source of frustration for ourselves and our stakeholders for some time as it does not accurately reflect the trading conditions that Z is currently experiencing in the market.

I can categorically state that Z is not achieving the margin indicated by MBIE's data. Confidentially, the graph below shows Z's actual reported Retail margin for unleaded 91 fuel (blue line) compared to the MBIE published data (orange line). You will note that the variance between the two lines is greater over the past three months (and especially last week) than it has been at other times during 2021.



The recent spike in margins is consistent with what happened during lockdowns in 2020, as evident in the two spikes in the MBIE graph below. In the past two weeks we have seen international product prices fall rapidly and materially followed by days of significant volatility in pricing. This has happened in the broader equity and commodity markets as a result of concerns for the economic impact of the Omicron variant. For example, in the past five trading days since the data in the MBIE graph was provided, crude prices have increased by the equivalent of 7-8 cents per litre.



Source: Ministry of Business, Innovation and Employment - 2021

Based on that sort of volatility and the price decreases we have made at the pump over the past week, I would expect the spike in the graph to diminish when it is produced by MBIE this week.

I note that unit margins are not the same as our post tax profits. We do think it is reasonable for margins to expand, albeit not to the extent of this recent spike being for an extended period, in current conditions. As a business largely made up of fixed costs, retail fuel sales are still down 10-15% from pre-COVID levels having been down as much as 70% in August and September. We are also facing operating cost increases well in excess of CPI, such as labour costs. It would be reasonable to expect a company to price its products to retain its profitability against these cost increases.

Minister, we did not seek any wage subsidy support in the most recent round that was offered by the Government, even though we were eligible to do so. Due to this we are continuing to recover the impacts of lockdown through our pricing rather than Government support.

I would also note that headline price rises have been while we have seen record prices for carbon, as indicated by the most recent carbon auctions under the Emissions Trading Scheme. MBIE's own data reports the ETS component of the unleaded 91 fuel prices to be 16 cents per litre last week whereas it was 8 cents per litre for the same week a year ago.

We commend the Government for the passage of the Fuel Industry Act 2020 through Parliament as legislation has created meaningful competition in the wholesale market. The introduction of terminal gate pricing has meant a more vigorous competitive market for wholesale distributor volumes. At the time, we did caution Government Ministers that retail pricing was made up of many factors and that claims over large drops in retail fuel prices should be used with caution. Retail pricing remains competitive; there are 20 Retail brands in the market, and we compete vigorously at each site, making around 30-50 price changes across the nation every day, seven days a week.

Minister, I hope that this commentary helps to address your questions regarding current petrol pricing. Please don't hesitate to contact me if you have any further questions, or if there is anything else I can do to assist you.

If we don't speak again before the holidays, I hope you and your family have a safe and relaxing break.

Ngā mihi nui.



Mike Bennetts
CEO Z Energy

Hon Dr Megan Woods

MP for Wigram

Minister of Housing

Minister of Energy and Resources

Minister of Research, Science and Innovation

Associate Minister of Finance



07 December 2021

Matt Elliott
Head of Country New Zealand
BP Oil New Zealand Limited

Dear Matt,

Re: Recent fuel margins

I am writing to you because consumers have recently been facing the highest fuel prices that have ever been seen in New Zealand.

I understand fuel prices are affected by a range of factors, including the global crude oil prices. However, data provided by the Ministry of Business, Innovation & Employment shows that margins are currently sitting well above trend compared to the past couple of years and have not responded to the recent substantial fall in global crude oil prices.

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Yours sincerely,

A handwritten signature in blue ink, appearing to read 'M. Woods'.

Hon. Dr Megan Woods

Minister of Energy and Resources



bp Oil New Zealand Limited
Watercare House
73 Remuera Road
Newmarket
Auckland 1050

Hon. Dr Megan Woods
Minister of Energy & Resources
Via email megan.woods@parliament.govt.nz
cc rebekah.bisson@parliament.govt.nz;
marissa.quinn@parliament.govt.nz

Friday, 10 December 2021




Dear Minister Woods,

Thank you for raising the matters outlined in your letter. bp is conscious of recent record crude oil prices and the flow on effect for motorists. To ensure you get the clearest picture possible I have shared some high-level, but commercially confidential information below. I can also be available by phone or on Teams to discuss this further if this would be of further assistance.

Overview

- Commercially Sensitive [REDACTED]
- As highlighted in the Commerce Commission's 2019 Retail Fuel Market Study findings, the industry model relies heavily on operating high volumes to sustain competitive margins. Since the onset of COVID-19 and now with the persistent impacts of the Delta variant, bp experienced an ^{Commercially Sensitive} decline in volumes at its peak.
 - Our 2021 year-on-year volumes are down almost ^{Commercially Sensitive} on 2019. Commercially Sensitive [REDACTED]
- In addition to the record cost of product, bp is incurring unprecedented freight cost increases of between Commercially Sensitive [REDACTED]
 - There is a long list of additional inflationary-related costs we are absorbing across our supply chain. I can assure you we are actively managing this as best we can. And despite the significant operating headwinds, we continue to see daily competition at retail level.
- Our team is reviewing prices daily to ensure competitiveness in the market. The bp loyalty programme continues to offer customers significant discounts on pricing.
- Commercially Sensitive [REDACTED]

Thank you for the opportunity to respond. **Commercially Sensitive**



Sincerely



Matt Elliott
Head of Country New Zealand
bp Oil New Zealand Ltd

Hon Dr Megan Woods

MP for Wigram

Minister of Housing

Minister of Energy and Resources

Minister of Research, Science and Innovation

Associate Minister of Finance



07 December 2021

Philippe Dubau
Director
Timaru Oil Services Limited

Dear Philippe

Re: Recent fuel margins

I am writing to you because consumers have recently been facing the highest fuel prices that have ever been seen in New Zealand.

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Yours sincerely,

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Hon. Dr Megan Woods

Minister of Energy and Resources



TIMARU OIL SERVICES LIMITED

Hon Dr Megan WOODS
Minister of Energy and resources

Private Bag 18041
Parliament Buildings
Wellington 6160
New Zealand

13 December 2021

Ref: Recent fuel margins
Your letter of 7 December 2021

Dear Hon Dr Megan WOODS

In your letter of December 12, you kindly drew our attention to the price of oil at the pump for consumers. You asked us about the level of the oil companies' margins and the actions taken to reduce the pressure on consumers.

First of all, I would like to remind you that our company operates only one terminal in Timaru and does not have any service stations. This limits our ability to make useful comments on the situation in the North Island or the North of the South Island, or on commercial decisions made on service station networks that we do not operate.

It is clear that the price of hydrocarbons, which has risen from around 55USD to 86USD per barrel in one year, while the ETS has risen from 34 NZD to 68 NZD per unit, has been a major factor in the observed increase in pump prices. However, your question about operator's margins remains perfectly valid.

Parliament passed the industry reform in August 2020 *"to improve transparency of pricing and to provide for rules to ensure that wholesale contracts are transparent and fair (aiming) to increase wholesale market competition, which should over time lead to lower fuel prices for consumers"*; the implementing regulations were made on July 5, 2021, one year later.

To our knowledge (and our great disappointment!), to date, no company has terminated its supply contract with its supplier in order to take advantage of the negotiation process offered by the regulation.

Since the implementation of the provisions of the law on Terminal Gantry Price advertisement, we offer prices systematically and significantly lower than our colleagues on the same port.

For example the last 2 weeks (prices in NZD/L)

Week 48	Z Energy	BP	Tasmanfuels
AGO	1,4397	1,5046	1,1005
ULP91	2,2792	2,3720	1,8843
ULP95	2,4795	2,4865	1,9281

Week 49	Z Energy	BP	Tasmanfuels
AGO	1,3749	1,4810	1,0520
ULP91	2,2143	2,3462	1,8355
ULP95	2,4160	2,4608	1,8806

However, we note that not one single company operating networks of service stations has contacted us to benefit from these wholesale prices.

Our company intends to fully participate in the effort undertaken to reduce the price of fuel to consumers at the pump and in this context, has taken the decision to open its own outlets.

We remain at your disposal,

Yours sincerely,



Philippe Dubau
Managing Director

Hon Dr Megan Woods

MP for Wigram

Minister of Housing

Minister of Energy and Resources

Minister of Research, Science and Innovation

Associate Minister of Finance



07 December 2021

Andrew McNaught
Lead Country Manager
Mobil Oil New Zealand Limited

Dear Andrew,

Re: Recent fuel margins

I am writing to you because consumers have recently been facing the highest fuel prices that have ever been seen in New Zealand.

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Yours sincerely,

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Hon. Dr Megan Woods

Minister of Energy and Resources

Mobil Oil New Zealand Limited
Auckland Office
Building B, 8 Nugent Street, Grafton
PO Box 1709, Auckland
Telephone: +64 9 302 4700



Serving Aotearoa for 125 Years

13 Hakihea 2021

Hon Dr Megan Woods
Minister of Energy and Resources
New Zealand Parliament
[via email: M.Woods@ministers.govt.nz]

Tēnā koe Minister,

Re: Recent fuel margins


COMMERCIALLY SENSITIVE AND IN CONFIDENCE

Thank you for your letter dated 7 December 2021.


I appreciate your concern for Kiwi motorists and assure you that where Mobil sets the price at service stations, we always aim to ensure that our prices are as competitive as possible.

As you have correctly pointed out in your letter, there are a range of factors that influence fuel prices. I am pleased to share the below graph which demonstrates that Mobil's prices on average are significantly lower than those that have been reported by the Ministry of Business, Innovation and Employment (MBIE).

Commercially Sensitive



Most recently, the price of fuel at the pump has been impacted by the high cost of crude oil globally. Due to rising product costs, our **Commercially Sensitive**



We would welcome the opportunity to meet with MBIE to discuss the apparent discrepancy in what has been reported and our recent experience in the New Zealand fuels market.

Ngā mihi nui,



Andrew McNaught
Lead Country Manager
Mobil Oil New Zealand Limited

Hon Dr Megan Woods

MP for Wigram

Minister of Housing

Minister of Energy and Resources

Minister of Research, Science and Innovation

Associate Minister of Finance



07 December 2021

Dave Bodger
General Manager
Gull New Zealand Limited

Dear Dave,

Re: Recent fuel margins

I am writing to you because consumers have recently been facing the highest fuel prices that have ever been seen in New Zealand.

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Yours sincerely,

A handwritten signature in blue ink, appearing to read 'M. Woods', with a stylized flourish at the end.

Hon. Dr Megan Woods

Minister of Energy and Resources



16 December 2021

Hon Dr Megan Woods
Minister of Energy and Resources
Parliament Buildings
Via email: m.woods@ministers.govt.nz

Dear Dr Woods

Recent Fuel Margins

Thank you for your correspondence dated 07 December 2021 regarding current circumstances in the New Zealand fuel market.

As you note in your letter, fuel prices are impacted by a range of variables, both domestic and international, which often mean that there are times where there is limited predictability around the movement.

I note the *estimated* margins monitored by MBIE may seem higher than normal at this point in time, however when looking over a longer-term Gull's view is that actual margins are likely not out of line with our long term position. This includes factoring in impacts through COVID and other periods, such as April 2020 where we sold at a loss to all our independent fuel outlets when international prices fell rapidly.

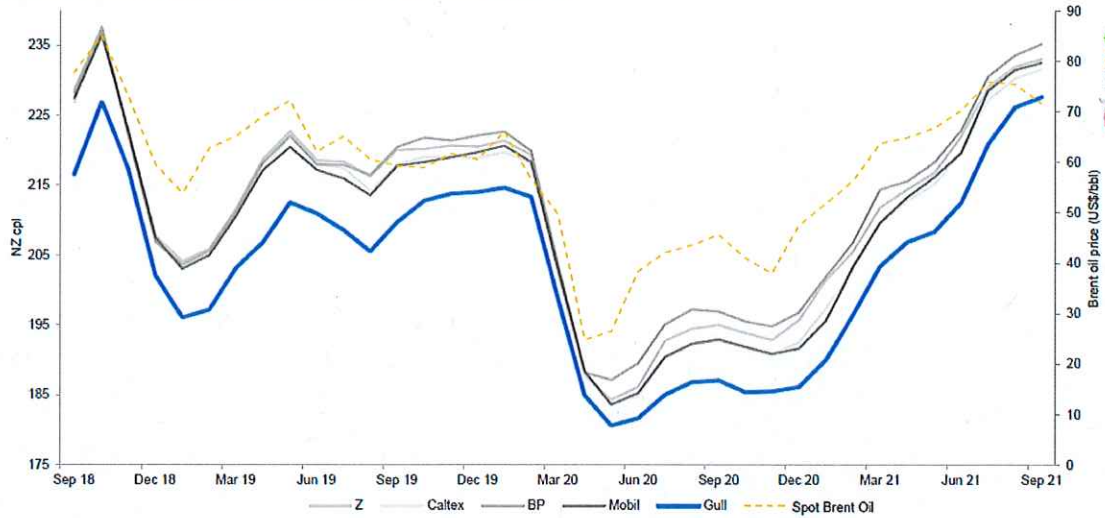
It is the nature of a dynamic market that over time there will be overs and unders especially when an estimate is compared to the actual.

Key in your concern is that the consumer is getting as good a value as possible. I believe that Gull continues to remain one of, if not the key drivers of lower prices in the NZ market.

The below graph, which utilises independent data, notes our position on unleaded 91 prices long term against our competition. Apologies that the graph does not reflect the most recent months, I am happy that the trend of Gull being well below competitor prices remains the case, and I have included the graph as the data is from an independent source, with the most up to date we have.



Regular 91 Monthly Average Pump Price, Pre-loyalty Card Discounts (NZ cpl)



Source: GASPY – Fuel Price Database (Sep-18 to Sep-21). Brent Oil price sourced from FactSet.

In looking at the market, and the impact which the Fuel Industry Act 2020 has had, I would agree with you that the Act is making competition more active across New Zealand. Arguably, without the Act Gull would not be able to competitively source fuel to operate our six South Island outlets and provide that same competitive tension which we have proudly brought to the North Island for so long.

I trust this assists with your review and we are available to discuss further with you or your staff

Best regards for Christmas and the New Year.

Yours sincerely

Dave Bodger
General Manager