Petroleum or Engine Fuel Monitoring Levy:

Introduction and Purpose:

Earlier this year, the Ministry of Business, Innovation and Employment (**MBIE)** released a discussion paper titled "*Petroleum or Engine Monitoring Fuel Levy: Consultation of Scope and Calculation of Levy*" to consult on whether there should be a change in the fuel coverage of the Petroleum or Engine Fuel Monitoring Levy (PEFML) and the method and frequency of the levy calculation.

Following consultation, the Government has decided on the method for setting PEMFL rates to recover the costs of specified activities (Cabinet decision attached):

- The levy will be applied to petrol, diesel, biodiesel and ethanol (the status quo).
- The levy rate will be determined by the Minister of Energy and Resources and specified in regulations from time to time, after consulting with affected parties on the parameters that will determine each rate.
- The first regulations specifying the levy rate are expected to come into force on 23 February 2016, which is the date when the current rate cap specified in section 24(1) of the Energy (Fuels, Levies and References) Act 1989 expires.
- The initial levy regulations will specify a transitional levy rate of 0.045 cents per litre for the period 23 February 2016 to 30 June 2016. That rate is the same as the current levy rate.
- The initial regulations will also specify the rate applying from 1 July 2016, determined according to the formula set out below.

The Government has also decided that the Minister must review the levy rate within the "levy period" used in the formula. The levy period can be up to three years.

The purpose of this consultation is to explain the method for determining the levy rate, and invite feedback on the proposed parameters that will determine the levy rate to apply from 1 July 2016.

Please let us know by **5pm, 12 November 2015** if you have any comments.

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Levy rate:

We propose setting the following levy rates in the regulations:

- Interim levy rate of 0.045 cents per litre from 23 February 2016 to 30 June 2016;[1] and
- Rate of 0.2 cents per litre from 1 July 2016.

[1] A transitional rate is proposed as the current rate of collection will expire on 23 February 2016 and is necessary to enable the levy to be collected until 1 July 2016, when the expanded levy rate comes into force (this date aligns with the government financial year and Customs' levy management systems).

Method for determining the levy rate from 1 July 2016

In calculating the levy rate from 1 July 2016 we used the following formula:

$$\text{Rate (cents/litre)} = \frac{\text{Forecast costs and expenses of activities in subsection 14(2) for the levy period - (or +) surplus (or deficit)}}{\text{Forecast fuel demand for the levy period}}$$

In the formula:

i. 'Levy period' means a period up to three years to be determined by the Minister of Energy and Resources (for the levy from 1 July 2016 the Minister has decided on a three year period).

ii. 'Forecast cost' means a forecast of the departmental and non-departmental costs and expenses recoverable under subsection 14(2) of the Act for the levy period.

iii. 'Departmental costs and expenses' are the reasonable costs and expenses recoverable under subsection 14(2)(a), 14(2)(b), and 14(2)(c) of the Act (principally the costs and expenses of inspection and monitoring, disseminating safety information, and the recovery of levies).

iv. The forecast departmental costs and expenses may not exceed an amount corresponding to a rate of 0.045 cents per litre on forecast fuel demand in the levy period (consistent with existing policy and previous statutory rate cap).

v. 'Non-departmental costs and expenses' are those recoverable under subsection 14(2)(ba) of the Act, representing the costs of meeting IEA obligations.

vi. 'Surplus' (or 'deficit' if costs and expenses exceed revenues) means the estimated accumulated difference between levies and the costs and expenses of activities in subsection 14(2) of the Act between 1 July 2013[2] and the end of the financial year (being 30 June) immediately preceding the levy period.

vii. 'Forecast fuel demand' means the estimated total quantity (in litres) of petrol, diesel, ethanol and biodiesel on which the levy is payable in the levy period.

Forecast volume of levied fuel for the period 1 July 2016 to 30 June 2019

The volume of petrol, diesel and biofuels to be levied during this period is forecast as 19,535 million litres, comprising 9,575 million litres of petrol, 9,939 million litres of diesel and 21 million litres of biofuels.

Forecast petrol consumption is calculated using a linear growth factor, taking into account Ministry of Transport long-term (30-year) forecasts and recent historical trends.

Forecast diesel consumption is also calculated using a linear growth factor. It also takes into account Treasury forecasts of GDP growth, which are generally correlated with diesel consumption.

Forecast biofuel consumption (which is a very small proportion of diesel and petrol consumption) is calculated using the assumed petrol growth factor, and based on recent biofuel consumption.

Cost of departmental activities

MBIE undertakes several departmental activities that are, and will continue to be, funded or part-funded by the levy, including:

- monitoring and enforcing compliance with fuel quality specifications
- collecting and administering certain information about petroleum and engine fuel supply and demand.

MBIE undertakes these levy-funded activities alongside similar activities, which are not funded by the levy, such as:

- collecting and administering information about other forms of energy supply and demand (such as electricity, coal, geothermal, and natural gas)
- monitoring fuel prices and fuel supply security.

The forecast expenditure for potentially levy-funded departmental activities during the period from 1 July 2016 to 30 June 2019 is $8.5 million.

In the 2015-16 financial year, the amount budgeted for the levy-funded activities is $2.8 million, equivalent to the current levy rate of 0.045 cents per litre applied to forecast levied fuel volume of 6,320 million litres in 2015-16. Accordingly, no accumulated surplus or deficit is expected in respect of this cost component, when applying the levy rate formula for the levy period commencing 1 July 2016.

Cost of IEA emergency reserve obligations

From 1 July 2016 the levy also will recover the government's costs of ensuring NZ meets its obligations to hold emergency reserves equivalent to 90 days of net oil imports.

The levy rate applying from 1 July 2016 has two components relating to the costs of IEA obligations:

- a forecast of the costs for the period 1 July 2016 to 30 June 2019 of $16.3 million, plus
- the costs incurred for the period 1 July 2013[3] to 30 June 2016 of $14.5 million.

The second component is the 'accumulated surplus/deficit' referred to in the formula. It is a deficit because the levy applying before 1 July 2016 does not recover any of those costs. Note that the deficit component includes an estimate for the three months from 1 April to 30 June 2016, because the Government has yet to contract for emergency reserves for that three month period.

The forecast of the costs for the period 1 July 2016 to 30 June 2019 ($16.3 million) is derived based on assumptions about future ticket contract costs in USD and forecast quantities of stock tickets needed to meet our 90-day obligations (which depends on forecast crude oil extraction from domestic fields and forecast domestic oil consumption).

[3] Section 4(3) of the Energy (Fuels, Levies, and References) Amendment Act 2015

The portion of the costs incurred for the period 1 July 2013 to 30 June 2016 ($14.5 million) which relates to the three months from 1 April to 30 June 2016 is taken from part of the calculation yielding forecast of the costs for the period 1 July 2016 to 30 June 2019.

Proposed levy rate from 1 July 2016

Proposed Rate = (8.5[4] + 16.3[5] + 14.5[6]) / 19,535[7] (multiply by 100 to convert $ per litre to cents per litre) = 0.2 cents per litre.

Future levy periods

The Minister will determine a future levy rate no later than 1 July 2019. We expect the Minister will re-determine the levy rate to apply from 1 July 2019, after consulting with affected parties in early 2019. However the Minister can consult on and determine a new rate to apply earlier then 1 July 2019, if the Minister considers it necessary because of a material change in forecast departmental costs, IEA obligation costs, or fuel demand. That levy rate will be determined using the same formula described above, and will account for any surplus or deficit accumulated to 30 June 2019.

[4] Forecast expenditure for levy-funded departmental activities during the period from 1 July 2016 to 30 June 2019
[5] Forecast of IEA obligation costs for the period 1 July 2016 to 30 June 2019
[6] IEA obligation costs incurred for the period 1 July 2013 to 30 June 2016
[7] Forecast volume of petrol, diesel and biofuels to be levied for the period