

**Submission from Refining NZ**  
Fuel Stockholding Consultation Submission

Date: 28 February 2022

Refining NZ welcomes the opportunity to engage with the Government on this policy, and appreciates the opportunity to respond to the consultation paper.

By way of background, Refining NZ is in the final stages of preparation to cease operating New Zealand's only oil refinery, and to transition to a fuel import terminal. This change to our new business, Channel Infrastructure, will take place on 1 April and is progressing to plan. We will continue to distribute fuel owned by our customers to New Zealand's largest population base, Auckland, by utilising the Refinery to Auckland Pipeline (the RAP) which runs directly to the Wiri fuel Terminal, as well as to the Northland market via the road tanker loading facility at Marsden Point. After conversion, we will have 180-million litres of available shared storage tank space, and have now entered into agreements with our customers for the provision of an additional c. 100-million litres of private storage to enable improved supply chain efficiencies. We are also looking at the many ways we can further use our site to diversify our operations, and support New Zealand's wider transition to a lower-carbon economy.

Our shift in operations is a major factor contributing to the need for Government to consider implementing a new policy that is designed to enhance New Zealand's fuel supply resilience. We agree with MBIE officials' assessment that greater resilience would be a good thing for New Zealand, and that holding more fuel in-country is one way to achieve this. Our transition to an import terminal operation at Marsden Point, will remove the single point of failure risk associated with our current manufacturing operations producing c.70% of New Zealand's transport fuels, on New Zealand's fuel supply chain but will also result in a reduction in the volume of inventory held in country and the loss of processing flexibility both to address any fuel quality issues as well as actual demand varying from forecast levels.

With a terminal conversion, storage at Marsden Point becomes part of an integrated supply system in New Zealand, which is managed by the oil companies. Our customers control how much of each fuel-type is held on site at Marsden Point at any given time, as occurs today under the refinery model.

In addition to the core business of running the import terminal, Channel Infrastructure will be well positioned to support New Zealand's changing future fuel needs. We are investigating the best way to support the importation and storage of other bulk liquids, including BioFuels to support the incoming BioFuels mandate, and supporting Air New Zealand with their process to investigate the feasibility of local production of Sustainable Aviation Fuel, which will be required to decarbonise aviation in the future. Over a longer horizon, we are investigating opportunities for solar and battery capacity in the region and have partnered with Fortescue Future Industries (FFI), who are studying the feasibility of producing industrial scale green hydrogen at Marsden Point.

Infrastructure investments typically involve long-time frames both to deliver and to generate a return on investment. Marsden Point has an advantage with its existing surplus tank capacity, which enables us to deliver additional capacity more quickly than the construction of new storage may involve. However, it is important to have adequate notice to prepare and plan for the required infrastructure. In relation to the biofuels mandate, we note that the policy is due to commence in 2023, however, specific details of the policy requirements are only intended to be published for consultation mid-year, making it difficult to assess and plan for the required infrastructure to support this policy.

As well as adequate time to plan and prepare, it is important that Government policy across the fuels industry is considered as a whole and aligned. As we have shared in previous correspondence, we have some concerns that while the MBIE/Air NZ tender process is focused on options to produce Sustainable Aviation Fuel produced from woody biomass, the MPI Stage 2 Wood Fibres study is focused on biocrude which without an operating refinery will not be a suitable feedstock for biofuels.

We are supportive of measures to ensure New Zealand has a reliable and stable fuel supply and are committed to playing our part to ensure that New Zealand's economy keeps moving now, and in the future.

### **Fuel Security Risk Assessment**

We agree with the assessment in the consultation paper of the risks, including those which have assessed the impact of the refinery's closure on New Zealand's fuel supply chain resilience. New Zealand relies on imported product to meet 98% of its fuel needs today, including a combination of crude which we process at Marsden Point, and imported refined fuel to other terminals around New Zealand. The Marsden Point refinery has typically held crude and intermediate product equivalent to c.18 days cover for New Zealand's fuel demand. These stocks will disappear as we make our conversion to an import terminal. New Zealand will still rely on imported product, and the import of refined product is more versatile and immediately usable (without further processing) when compared with refinery feedstocks.

With the terminal conversion, storage at Marsden Point becomes part of an integrated supply system in New Zealand, which is managed by the oil companies, and can quickly be reconfigured to manage disruptions impacting other parts of the supply chain. At Marsden Point, we have the ability to handle a large range of vessel sizes, can reload vessels to supply other ports, and we are based in one of New Zealand's lowest seismic activity regions, as well as being located close to New Zealand's largest demand centre. We manage the lowest emissions-intensive way of transporting fuel to Auckland, via the RAP.

### **Onshore stockholding levels**

As noted throughout this submission, Refining NZ agrees that greater resilience in our fuel supply chain would be a good thing for New Zealand. We consider that current onshore fuel stockholding levels provide an adequate buffer for normal day-to-day supply chain interruptions, which are managed by the oil companies who determine supply to market of their products. The system is reliant on regular and rateable replenishment, and if this were to be interrupted for a more extensive period, then the current stockholding levels may not provide adequate buffer; it may therefore be prudent for the protection of the domestic economy to increase the level of fuel stockholding requirements held in country, as Australia has done.

The appropriate level of stockholding will depend on the scenario the policy is intended to make New Zealand's fuel supply resilient to. These are not business as usual disruption scenarios, but ones involving major regional disruptions, such as a geopolitical situation having a significant impact on fuel shipments. We are aware this has been given significant consideration in the design of the Australian policy and note that the New Zealand policy settings appear to align with those of our closest neighbour.

We do note that with the anticipated decline in petrol and diesel demand in the next decade, as New Zealand makes its transition to a lower-carbon economy, stockholding quantity requirement (in terms of volume) will also reduce with time; for example, 28-days' stock will require fewer litres of fuel to meet the equivalent 'days cover' in the future. At the same time, jet fuel demand is expected to increase, increasing the requirement for jet fuel stockholdings.

## **Achieving the target level of onshore stocks**

Officials have provided a number of different options for the management of a stockholding policy. Given supply is adequately managed by the oil companies today, we suggest that it is the wholesalers who are best placed to maintain responsibility for meeting their obligations to strategic stockholding requirements. We do not support the creation of another agency to manage the implementation of this policy.

Ensuring that individual companies are responsible for the management of their own obligations will minimise bureaucracy and administrative burden, and most importantly will utilise existing capability and knowhow to derive the lowest cost solution, which will be of benefit to us all. An additional agency would likely result in suboptimal outcomes including creating a cost-burden, which would be passed on to the consumer. It could also have unintended consequences on fuel wholesaler's investment intentions given such investments require long time horizons to develop, implement, and recoup the investment. There would also be questions about how a standalone agency would recognise existing tank storage investments if, for example, a wholesaler was already meeting the required stock levels with its existing assets.

The wholesalers are best placed to manage their stockholding obligations, given the existing capability they have in meeting current market demand for transport fuels. Further, we are supportive of allowing for trading of stockholding positions between wholesalers, which would be best managed by the fuel companies and would further assist in minimising the cost to fuel companies of complying with this policy, and the subsequent cost on the consumer.

Having product-specific targets is important. There is little benefit to having high stocks of one product, when another is what is required to keep the economy moving. Fuel products are not interchangeable, so the stock level of one product does not provide resilience to another.

Similarly, having location-specific obligations increases the supply burden significantly, and should be avoided, especially when there may be differing demand trends (growth / decline) in different regions. Investments in tanks are large, discrete investments, that benefit from economies of scale and require long payback periods. Regulating location-specific minimum stock-holding requirements could result in inefficient capital spending as multiple terminals around NZ might then be forced to build new, small, tanks to fulfil this obligation. Each of these locations would then be over-tanked if/when product demand decreases from today's demand, in that location, resulting in stranded assets. The cost burden of such inefficient investments would ultimately be borne by the end-consumer.

In practice fuel wholesalers are likely to make prudent decisions on where to invest in additional storage capacity, that provides the greatest efficiency and resilience to meet expected market needs. In most interruption scenarios, supply and demand profiles can be modified to address location specific interruptions, as they are today.

We also take this opportunity to highlight the lack of movement on the inquiry into the RAP supply disruption recommendation for additional jet tankage in Auckland and urge the Government to give consideration to how it intends to address this situation ahead of a potentially strong recovery in jet fuel demand in the coming years once COVID border restrictions are lifted. We will be increasing the jet storage capacity at Marsden Point through the terminal transition which will provide added capacity and resilience at the Marsden Point end.

Further, we do not consider that a stockholding agency should develop or manage other fuel resilience mitigation measures, such as investments in fuel storage and distribution facilities of their own. This would increase the bureaucratic burden as well as add a further cost that would be passed on to consumers. Industry is best placed to manage supply chain resilience and disruptions, in accordance with Government policy settings, as this is their field of expertise.

### **Implementing minimum stockholding obligations**

We support MBIE in developing a solution that is fit for purpose, simple, and with minimal administrative burden, to increase the resilience of the New Zealand's fuel supply chain. We are strongly in favour of appropriate sales and inventory data being reported on a monthly basis.

Channel Infrastructure stands ready to support the Government with the implementation of this policy, and we look forward to further engagement with industry as details are finalised.

Should you have any further questions on this matter, or anything else to do with our conversion to an import terminal in coming months, please do not hesitate to reach out to me.

Ngā mihi



Naomi James

## How to submit this form

# Submission form: Consultation on Onshore Fuel Stockholding

The Ministry of Business, Innovation and Employment (MBIE) would like your feedback on the proposal to require minimum onshore fuel stockholding levels similar to what has been proposed in Australia, and the options on how to achieve these minimum levels. Please provide your feedback by **5pm, 28 February 2021**.

When completing this submission form, please provide comments and supporting explanations for your reasoning where relevant. Your feedback provides valuable information and informs decisions about the proposals.

We appreciate your time and effort taken to respond to this consultation.

## Instructions

### To make a submission you will need to:

1. Fill out your name, email address, phone number and organisation. If you are representing an organisation, please provide a brief description of your organisation and its aims, and ensure you have the authority to represent its views.
2. Fill out your responses to the discussion document questions. You can answer any or all of these questions in the discussion document [Consultation paper: Onshore fuel stockholding](#). Where possible, please provide us with evidence to support your views. Examples can include references to independent research or facts and figures.
3. If your submission has any confidential information:
  - i. Please state this in the email accompanying your submission, and set out clearly which parts you consider should be withheld and the grounds under the Official Information Act 1982 (Official Information Act) that you believe apply. MBIE will take such declarations into account and will consult with submitters when responding to requests under the Official Information Act.
  - ii. Indicate this on the front of your submission (e.g. the first page header may state "In Confidence"). Any confidential information should be clearly marked within the text of your submission (preferably as Microsoft Word comments).
  - iii. Note that submissions are subject to the Official Information Act and may, therefore, be released in part or full. The Privacy Act 1993 also applies.

## How to submit this form

### 4. Submit your feedback:

i. As a Microsoft Word document by email to [energymarkets@mbie.govt.nz](mailto:energymarkets@mbie.govt.nz) with the subject line: *Consultation: Onshore Fuel Stockholding*

ii. By mailing your submission to:

Consultation: Onshore Fuel Stockholding  
Energy Markets Policy  
Building, Resources and Markets  
Ministry of Business, Innovation and Employment  
PO Box 1473, Wellington 6140  
New Zealand

## Submitter information

### Submitter information

MBIE would appreciate if you would provide some information about yourself. If you choose to provide information in the section below, it will be used to help MBIE understand how different sectors view the proposals and options for requiring and achieving minimum onshore fuel stockholding. Any information you provide will be stored securely.

#### Your name, email address, phone number and organisation

Name:

Naomi James

Email address:

Communications@refiningnz.com

Phone number:

Privacy of natural persons

Organisation:

Refining NZ

- The Privacy Act 1993 applies to submissions. Please tick the box if you do **not** wish your name or other personal information to be included in any information about submissions that MBIE may publish.
- MBIE may upload submissions and potentially a summary of submissions to its website, [www.mbie.govt.nz](http://www.mbie.govt.nz). If you do **not** want your submission or a summary of your submission to be placed on either of these websites, please tick the box and type an explanation below:

I do not want my submission placed on MBIE's website because... [insert reasoning here]

#### Please check if your submission contains confidential information

- I would like my submission (or identifiable parts of my submission) to be kept confidential, and **have stated** my reasons and ground under section 9 of the Official Information Act that I believe apply, for consideration by MBIE.

## Onshore fuel stockholding

### Fuel security risk assessment

1. Do you agree with the description of fuel supply disruption risks in the consultation paper on *Onshore Fuel Stockholding*? What other disruption scenarios or types of risk should be considered?

Yes       Yes, with changes       No       Not sure/No preference

Please explain your views.

We agree with the assessment in the consultation paper of the risks, including those which have assessed the impact of our closure on New Zealand's fuel supply chain resilience.

2. Do you agree with the fuel security assessments risks in the consultation paper on *Onshore Fuel Stockholding* (and in the [2020 Hale & Twomey report](#)), including the implications of the Marsden Point Refinery's closure? If not why not?

Yes, I agree       I agree in part       No, I don't agree       Not sure/no preference

Please explain your views.

The country is 98% reliant on imports now (including refinery feedstocks), and the import of refined product is more versatile and immediately usable (without further processing) when compared with refinery feedstocks.

3. Do you consider that regional ports other than Northport at Marsden Point have sufficient infrastructure to maintain a satisfactory level of fuel supply resilience? If not, which fuels may need better storage and distribution facilities at those regional ports and why?

Yes, I agree       I agree in part       No, I don't agree       Not sure/no preference

Please explain your views.

We note that the stocks and infrastructure at Marsden Point are not at 'NorthPort', but on the site next door, with a separate jetty and offloading facilities to that of NorthPort.

4. Should New Zealand hold fuel stock equivalent to more than 90 days of net fuel import demand (i.e more than the minimum level required by the membership of the International Energy Agency (IEA))? If so, how much more and why?

Yes, I agree       I agree in part       No, I don't agree       Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

The appropriate level of stockholding will depend on the scenario the policy is intended to make New Zealand's fuel supply resilient to. These are not business as usual disruption scenarios, but ones involving major regional disruptions, such as a geopolitical situation having a significant impact on fuel shipments. We are aware this has been given significant consideration in the design of the Australian policy and note that the New Zealand policy settings appear to align with those of our closest neighbour.



## Onshore fuel stockholding

### Objectives and evaluation criteria

5. Are the evaluation criteria used for assessing options for onshore fuel stockholding the right ones? What other criteria should be considered?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

### What level of onshore stocks should be held?

6. Do you agree that the minimum onshore fuel stockholding level should be above the current level?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

We consider that current onshore fuel stockholding levels provide adequate buffer for normal day-to-day supply chain interruptions, which are adequately managed by the oil companies who determine supply to market of their products. The system is reliant on regular and rateable replenishment, and if this were to be interrupted then current stockholding levels arguably do not provide a buffer for more extensive outages. It may therefore be prudent for the protection of the domestic economy to increase the level of fuel stockholding requirements held in country, as Australia has done.

7. Which option for minimum onshore stockholding level do you consider to be the best? Why do you choose that option?

- Status quo
- Option 1 (current level or 20 days of cover for meeting daily fuel consumption)
- Option 2 (24-28 days of cover similar to the Australian level)
- Option 3 (40 days of cover)
- Option 4 (60 days of cover similar to EU countries)
- Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

The appropriate level of stockholding will depend on the scenario the policy is intended to make New Zealand's fuel supply resilient to. These are not business as usual disruption scenarios, but ones involving major regional disruptions, such as a geopolitical situation having a significant impact on fuel shipments. We are aware this has been given significant consideration in the design of the Australian policy and note that the New Zealand policy settings appear to align with those of our closest neighbour.

## Onshore fuel stockholding

### Achieving the target level of onshore stocks

8. Do you agree that any biofuel sales should be counted for the purpose of determining a wholesaler's stockholding obligation and any biofuel stocks be counted for the purposes of meeting a wholesaler's obligation?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

Different biofuels require different rates of blending with fossil fuels and therefore, should be counted on that basis.

9. Do you agree that the Government should adapt its oil ticket strategy to procure tickets for onshore fuel stocks if the fuel industry participants in New Zealand offer such tickets?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

Without a refinery, it's unclear what resilience oil stockholdings held overseas will provide to New Zealand, though they may be used as part of multi-national efforts to respond to oil supply disruptions. NZ's fuel supply resilience will be improved if the government purchases domestic tickets for refined fuel instead of overseas oil tickets to meet its 90-day IEA obligation.

10. Do you agree that fuel wholesale suppliers should be required to meet minimum onshore stockholding level?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

Given supply is adequately managed by the oil companies today, we suggest that it is the wholesalers who would be best placed to maintain responsibility for their own stockholding requirements. We do not support the creation of another agency to manage the implementation of this policy.

11. Do you consider that there should be minimum stockholding requirements specific to the type of fuel?

Yes     To some extent     No     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

There is little benefit to have high (say) petrol stocks when you need to refuel diesel powered vehicles. The products are not interchangeable, so the stock level of one product does not provide resilience for another.

## Onshore fuel stockholding

**12.** Do you consider that there should be minimum stockholding requirements that apply to specific locations?

Yes     To some extent     No     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

Having location-specific obligations increases the supply burden significantly, and should be avoided. In practice fuel wholesalers are likely to make prudent decisions on where to invest in additional storage capacity, that is closest to the necessary market. In most interruption scenarios, supply and demand profiles can be modified to address location specific interruptions, as they are today.

Investments in tanks are large, discrete investments, that benefit from economies of scale and require long payback periods. Regulating location-specific minimum stock-holding requirements could result in inefficient capital spending as multiple terminals around NZ might then be forced to build new, small, tanks to fulfil this obligation. Each of these locations would then be over-tanked if/when product demand decreases from today's demand, in that location, resulting in stranded assets. The cost burden of such inefficient investments would ultimately be borne by the end-consumer.

**13.** Do you agree that a stockholding agency should be set up to manage the compliance, enforcement and monitoring activities associated with the minimum stockholding obligations on the fuel wholesale suppliers?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

We do not support the creation of another agency to manage the implementation of this policy.

**14.** Do you consider that a stockholding agency (if established) should take over the responsibility for managing compliance with New Zealand's IEA obligations, including procurement of oil tickets?

Yes     To some extent     No     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

We do not support the creation of another agency to manage the implementation of this policy. However, if a new agency was set up to monitor minimum stockholding obligations, then it would make sense to include the responsibility for managing compliance with New Zealand's IEA obligations in its remit.

**15.** Do you consider that a stockholding agency (if established) should take on a role in managing responses to fuel disruptions and coordinating the relevant contingency planning and emergency exercises?

Yes     To some extent     No     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

Industry is normally best placed to manage supply chain disruptions, as this is their field of expertise.

## Onshore fuel stockholding

- 16.** Do you consider that a stockholding agency (if established) should develop or manage other fuel resilience mitigation measures, such as investments in fuel storage and distribution facilities?

Yes     To some extent     No     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

We do not support the establishment of another agency. Should one be established, we do not consider that a stockholding agency should develop or manage other fuel resilience mitigation measures, such as investments in fuel storage and distribution facilities of their own, as this would increase the bureaucratic burden that would be passed on to consumers.

- 17.** If a stockholding agency is established, should it be government-funded, industry-funded or co-funded by government and industry?

Government-funded     Industry-funded     Co-funded by Government and industry  
 Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

We do not support the creation of another agency to manage the implementation of this policy.

What should be the share of government funding if a stockholding agency is established and co-funded by government and industry?

We do not support the establishment of an agency.

- 18.** Do you agree that the Petroleum or Engine Monitoring Fuel (PEFM) levy should be used to provide government funding for a fuel stockholding agency if it is set up?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

We do not support the creation of another agency to manage the implementation of this policy.

- 19.** Do you agree that a stockholding agency, if established, would improve coordination between the Government and the fuel industry in managing fuel supply resilience? If so, in what ways?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

We do not support the creation of another agency to manage the implementation of this policy.

- 20.** In your view, how much resources would be needed for the operation of a stockholding agency if established?

## Onshore fuel stockholding

21. Are there any other options for meeting the target level of onshore stockholding?

Yes     No     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

Fuel stockholdings could also include product on ship within New Zealand's territorial waters, as has occurred in Australia, to limit the amount of additional storage required.

## Amending levy formula

22. Do you agree that the PEFM levy formula should be amended to distinguish the component of managing IEA-related costs (including procurement of tickets for onshore fuel stocks and possibly funding for a stockholding agency in the future)?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

To provide transparency

23. Do you agree that the PEFM levy rate for covering the IEA-related costs should be variable, subject to three-yearly review and the Minister of Energy and Resources' approval? If not, why not?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

To minimise the bureaucratic burden.

## Implementing minimum stockholding obligations (if required)

24. Do you agree that fuel wholesale suppliers should file monthly returns on onshore fuel stockholding? If not, why not?

Yes, I agree     I agree in part     No, I don't agree     Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

We are strongly in favour of data being made readily available, on a monthly basis that covers fuel stocks and sales per grade, and location of storage (primarily for auditing purposes).

25. Do you have any view on the information disclosure requirements for monthly returns on onshore fuel stockholding, particularly the type of information to be provided and relevant record-keeping requirements??

We suggest: fuel stocks and sales per grade, and location of storage (primarily for auditing purposes). Record-keeping requirements as per normal business record retention obligations.

## Onshore fuel stockholding

**26.** Do you agree that fuel wholesale suppliers should be allowed to trade with each other to meet the minimum fuel stockholding obligations through entitlement agreements between them? If not, why not?

Yes, I agree       I agree in part       No, I don't agree       Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

This will allow the market to achieve the lowest cost, and most efficient solution.

**27.** Do you think the proposed penalties for non-compliance with minimum stockholding obligations are appropriate? If not, why?

Yes       To some extent       No       Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

**28.** Do you think the proposed penalties for knowingly providing false or incomplete information are appropriate? If not, why?

Yes       To some extent       No       Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

**29.** Any other comments?

We support MBIE in developing a solution that is fit for purpose, simple, and with minimal administrative burden.