ONSHORE FUEL STOCKHOLDING SUBMISSION

28 February 2022

Dear Energy Markets Policy Team,

Z Energy (Z) welcomes the opportunity to submit on the Ministry of Business, Innovation & Employment's (MBIE) *Onshore Fuel Stockholding* consultation document as way to provide further assurance on New Zealand's fuel security and resilience as we move to an import-only fuel supply.

Z currently operates the largest network of the most strategically important fuel storage assets in New Zealand. We own and operate more than 50 percent of New Zealand's bulk fuel storage terminals, Commercial Information & Confidentiality

Security of supply is a risk Z is constantly managing and it is not something new. Z safely and reliably imports, refines and distributes over 3.3 billion litres[i] of product each year, and distributes it to 1000's of customers every day, across Aotearoa New Zealand. Our strategy centres on making this process as efficient as possible to control costs for our customers and consumers.

As officials are aware, Z recently released a report titled *Our future fuel supply* which outlines how New Zealand will get its fuel as the country stops importing and processing crude oil at Marsden Point and moves to an import-only, finished product model.

The report supports our position that moving to a refined product fuel supply will provide flexibility and resilience of the supply chain, improve the industry's ability to respond to changes in the domestic market (including potential, but unlikely disruption scenarios) and help to reduce New Zealand's greenhouse gas emissions.

We appreciate that it may seem counter-intuitive that moving to an import-only fuel supply will strengthen and deepen New Zealand's security of supply, however the value of moving to the new model is clear and compelling, so too are the benefits to consumers and the country. Z notes that this position has been verified on multiple occasions by industry experts, market commentators, and in independent reports commissioned by Government over the last 10 years.

Considering this, Z holds significant concerns about the potential cost impact of the proposals. Especially when these are weighted against the potential benefits and that implementing a minimum stockholding requirement (through the building of long-life assets) will cost between $111- $296m for Z alone (not accounting for other fuel wholesalers). This cost estimate does not factor in a return on investment for the assets, which Z would have pass on to customers.

During a time of increasing costs on affordability including other Government policies that will have an impact on the price of fuel – such as the Sustainable Biofuels Mandate Commercial Information & Confidentiality Commercial Information & Confidentiality, increased Refinery to Auckland Pipeline (RAP) fees Commercial Information & Confidentiality and increasing Carbon costs under the Emissions Trading Scheme (ETS) Commercial Information & Confidentiality and rising – we are extremely concerned that stockholding proposals may drive further energy inequity in communities and be counter to the Government's principles of an equitable energy transition.

While Z agrees that a significant proportion of transport fuels in New Zealand will still be fossil fuels in the period to 2040, we question whether the building of significant additional long-life

fossil fuel infrastructure to meet stockholding proposals for minimum resilience benefits align to our shared goals of a decarbonising economy.

Below is a summary of Z's positions outlined in our submission:

Disruption scenarios

- The change to an import-only model will not have a major impact on fuel security and resilience. Z contends that the model will strengthen and deepen New Zealand's security of supply, not least because stock enroute to New Zealand provides a very flexible response measure to disruptions.
- Z strongly believes a situation under the import-only model where all tankers on the water will be disrupted by one event is extremely unlikely as not all tankers are coming from the same place or travelling through the same water ways. Z takes control of the cargo from when it is loaded, so can direct the vessel as needed (i.e., speed up, slow down, take another route).
- Analysis shows that the mitigation for a North Asia disruption, being an increased risk identified in the consultation document with the move to an import-only model, is covered by existing stocks (i.e., 20 days net).
- Z believes the main constraint in a domestic disruption scenario, such as the 2017 Refinery to Auckland Pipeline, is set by available tank trucks and drivers and the different supply method has little impact.

Onshore stock

- At any one-time Z calculates it will have four shipments on the water which equates to 185ml of product. At an average voyage time of 22 days, there will be the equivalent of one Z vessel arriving into New Zealand every ~ 5.5 days.
- Z's analysis shows that if you count stock on water (all tankers, not limited to territorial waters or those in the Exclusive Economic Zone (EEZ)), it could comfortably meet the stockholding levels the consultation document proposes on the basis that storage tanks are half full.
- Commercial Information & Confidentiality

Significant cost-impact to consumers

- Z believes that advancing the proposals would be forcing an outcome on supply for diversity reasons counter to best economic outcomes. Our analysis estimates it would cost Z between $111- $296m to build new tankage to meet proposed stockholdings if we couldn't count stock on water.
- Our analysis shows the cost of any additional resilience to meet the proposals far exceeds benefit and will result in a cost which is ultimately borne by the consumer during a time of increasing costs on affordability.

Unintended consequences

- Commercial Information & Confidentiality
- The proposals would force significant industry investment in long-life fossil fuel assets in the context of negative fuel demand by 2026 and a decarbonising economy.

Z's recommendation

- Security of supply is a risk Z is constantly managing, not something new. As such, Z strongly opposes the proposals to mandate each fuel company to hold fuel in storage.
- Our strategy is to maintain a safe and reliable supply chain for our customers, and to make this as efficient as possible to control costs. Given our analysis, we strongly encourage officials to include all stocks on the water, enroute to New Zealand (all tankers, not limited to territorial waters or those in the Exclusive Economic Zone (EEZ)) in days cover calculations.
- To allay concerns expressed in the consultation document as New Zealand transitions out of refining to an import-only model, Z believes a more cost effective and efficient option to increase stock levels is for the Government to work with Refining New Zealand to convert existing tankage that could be used for resilience purposes.

We would welcome the opportunity to hold a briefing session with you to go through our submission and supporting analysis in more detail and look forward to arranging this at your earliest convenience.

Please note that analysis included in our submission is commercially sensitive and has been provided in confidence. We would be happy to provide MBIE with a version of our submission that can be publicly released.

If there is any further information that would be of use to MBIE, please do not hesitate to contact us.

Kind regards,

Julian Hughes

Z Energy, GM Supply

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:	Haley Mortimer
Email address:	haley.mortimer@z.co.nz
Phone number:	Privacy of natural persons
Organisation:	Z Energy Limited (Z)

☐ 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**. 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:

Please note that the modelling we have included in our submission is commercially sensitive and cannot be released in full. We are happy to provide MBIE with a version of our submission that can be publicly released.

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.

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.

Fuel supply disruption risks

- The change to an import-only model of supply will not have a major impact on **New Zealand's** domestic fuel security. In fact, Z contends fuel security will likely improve not least because stock enroute to New Zealand provides a very flexible response measure to any possible disruptions.
- Z strongly believes a situation under the new model where all tankers on the water will be disrupted by one event is extremely unlikely as not all tankers are coming from the same place or travelling through the same water ways. Z takes control of the cargo from when it is loaded, so can direct the vessel as needed (i.e., speed up, slow down, take another route).
- The mitigation for a North Asia disruption scenario, being an increased risk identified in the consultation document with the move to a 100 percent product import model, is well covered by existing stocks.
- The main constraint in a domestic disruption scenario, such as what we saw in the 2017 Refinery to Auckland Pipeline (RAP) crisis, is usually the availability of trucks and drivers so additional domestic stocks provide no real security benefit.

Increased security of supply under an import-only model

Z strongly believes that the shift to an import-only model will not have a major impact on fuel security. In fact, we contend that New Zealand's security of supply will likely improve as we move to source refined product from larger and more efficient overseas refineries, while ensuring flexibility and reliability of supply for our customers.

While we understand there may be some public perception of supply chain fragility and potential vulnerability to prolonged import disruption as we move into a new supply model – whether that be from international conflict, extreme weather events or future pandemics – it is important to distinguish perception from actual risk.

As is outlined in the consultation document, there has been considerable independent analysis undertaken as to whether New Zealand will be more vulnerable to fuel supply disruption as the country stops importing and processing crude oil at Marsden Point and moves to an import-only, finished product model. The analysis has centred on a reduction in supply security for New Zealand and has concluded on multiple occasions "while a change to 100% product import supply will dramatically reduce the amount of stock held in New Zealand, it will not have a major impact on fuel security (2020 Hale & Twomey, Page ii)."

Instead of importing crude oil from the Middle East, a region which has faced frequent political instability, New Zealand will instead predominately acquire its refined fuel from Asia, including Singapore, Japan and Korea. A refined fuel import supply chain, sourced from multiple refineries in multiple countries, will provide more options for sourcing product and is therefore more resilient to most credible fuel disruption scenarios.

Disruption event affecting all tankers on-water

Despite recent conjecture that under the new model all tankers on the water could be disrupted by one event, it is important to note that this is extremely unlikely as not all tankers are coming from the same place or are travelling through the same water ways. Z takes control of the cargo from when it is loaded, so has the ability to direct the vessel as needed (i.e., speed up, slow down, take another route).

As Z is not part of a multinational oil major, we therefore have different options for finished product supply. We are in the final stages of negotiations with several potential suppliers to meet Z's requirements therefore are unable to provide details at this stage. However, the partners are either refiner-marketers of petroleum products or trading houses that can supply product to Z from multiple regional refineries. Other brands operating in New Zealand will make their own procurement decisions.

There will also be more frequent deliveries of finished product to New Zealand, with Z estimating around 175 tankers arriving annually. Put that another way, a tanker will be discharging into our domestic supply chain every two days. That is considerably more tankers than the industry currently imports and each carrying fuel that is ready to be delivered to customers.

North Asia disruption scenario

The consultation document refers to a potential import disruption from North Asia under an import-only model. Z agrees with the analysis undertaken in the 2020 Hale & Twomey report (page i) that cites "the gap between new supplies arriving (with longer shipping times) and the loss of supply from North Asia was modelled with the expected inventories held under a 100% product import case likely to provide enough buffer in the majority of cases."

Z agrees with the reports assessment (page 17) that "expected inventories should be sufficient to manage a major North Asia supply disruption, however that is contingent on companies holding stocks at around 20 days net."

As we note above, Z has different options for finished product supply. Although Z acquires its fuel prominently form North Asia, including Singapore, Japan and Korea, the import-only model allows us to source from multiple refineries across the globe.

This being the case there appears to be a disconnect from what is required to mitigate potential supply chain risk (20 days) versus the proposed stockholding requirement (24-28 days). Please refer to our response to Q7 below for detailed analysis on options to meet the proposed onshore stockholding levels.

Domestic disruption scenario

The main constraint in a domestic disruption scenario, such as what we saw in the 2017 Refinery to Auckland Pipeline (RAP) crisis, is usually the availability of trucks and drivers, so additional domestic stocks provide no real security benefit. This was a point noted in the 2020 Hale and Twomey report (page ii).

Under the import-only model, we have the flexibility to move fuel to other ports if required. As well as Marsden Point, fully laden medium-range tankers will be able to access other ports around New Zealand like Mt Maunganui and Lyttleton; medium-range tankers, having partially discharged at the larger ports and carrying smaller cargoes, can then access other ports around New Zealand, ensuring a flexible and more efficient coastal supply of fuel.

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.

Fuel security assessment risks

- Z agrees with the independent 2020 Hale & Twomey **report that "while a** change to 100% product import supply will dramatically reduce the amount of stock held in New Zealand, it will not have a major impact on fuel security (page ii)."
- We strongly disagree with the assertions in the consultation document that the closure of the Marsden Point Refinery and the move to an import-only supply **chain will detrimentally impact New Zealand's security of supply –** even in a worst-case fuel disruption scenario.
- Z contends that import shipments of refined fuels provide more flexibility as ships can be redirected to other ports if needed and arrive with the finished product ready to use. In cases such as the Refinery to Auckland Pipeline (RAP) failure in 2017, it would have been far more helpful to have more product on the water enroute to New Zealand, such as under an import model, than having unrefined crude in the country.

2020 Hale & Twomey report

Z agrees with the independent report from Hale & Twomey (2020) that "while a change to 100% product import supply will dramatically reduce the amount of stock held in New Zealand, it will not have a major impact on fuel security (page ii)." Of note are the supporting points that:

- Crude stock "is not immediately available to respond to disruption events;"
- New Zealand stock held on the water "provides a very flexible response measure to disruptions;" and
- "In most domestic disruption events, the resupply constraint is set by the availability of tanker trucks and drivers and the different supply method has little impact."

Further to this, we agree with the report's major conclusion that "the import option would see a significant reduction to stock levels, albeit the majority of the reduction will be from operational stocks rather than stocks that provide fuel security (page 35)." The reduced need for operational stocks also mitigates the loss of Wynyard Wharf, which we note was diesel only.

Noting the above, Z therefore agrees with the recommendation made in the independent report that "MBIE should consider implementing a minimum stock obligation at around the current minimum operating level (page iv)." More information on our recommendation for a National Fuel Inventory can be found in our response to Q22.

Marsden Point

As we outline in our white paper *Our future fuel supply*, while refining crude oil at Marsden Point has provided a level of comfort to governments and consumers alike that New Zealand has control over its fuel supply and therefore energy independence, that oil still needs to be imported, refined and distributed. In the case of a global crisis or disruption, crude oil imports can be impacted and with a refinery or pipeline outage, there can be a significant delay to supply finished product.

Import shipments of refined fuels provide more flexibility as ships can be redirected to other ports if needed and arrive with the finished product ready to use. In cases such as the Refinery to Auckland Pipeline (RAP) failure in 2017, it would have been far more helpful to have more product on the water enroute to New Zealand, such as under an import model, than having unrefined crude in the country.

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.

Port infrastructure

- Z believes that New Zealand has sufficient onshore infrastructure to maintain a satisfactory level of fuel supply resilience under an import-only model.

Z currently operates the largest network of the most strategically important fuel storage assets in New Zealand. We own and operate more than 50 percent of New Zealand's bulk fuel storage terminal, Commercial Information & Confidentiality. As we have outlined in our responses above, we believe that New Zealand has sufficient onshore infrastructure to maintain a satisfactory level of fuel supply resilience.

Marsden Point is serviced by a deep-water port able to discharge long-range tankers (those carrying 50,000 tonnes or more). As well as Marsden Point, fully laden medium-range tankers will be able to access other ports around New Zealand like Mt Maunganui and Lyttleton; medium-range tankers, having partially discharged at the larger ports and carrying smaller cargoes, can then access other ports around New Zealand, ensuring a flexible and more efficient coastal supply of fuel.

While the scheduling of ships is more complicated under the import-only model, the options for delivering fuel to where it is needed are also greater. If something goes wrong in one part of the country, you have significantly more options to discharge ships to other parts of the country and ensure supply. The single point of failure risk is greatly reduced with an import-only model. It is highly unlikely all companies will be sourcing from the same refinery and increasing the amount of product imported can offer commercial advantages.

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?

Please refer to our response to Q7 for detailed analysis on options to meet proposed new onshore stockholding levels.

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?

Evaluation criteria

- Z strongly believes that the **'cost to consumers' should be inc**luded as part of the evaluation criteria.

Z holds significant concerns about the potential cost impact of the proposals and believes that if implemented, would be forcing an outcome on supply for diversity reasons counter to best economic outcomes. Our analysis shows that implementing minimum stockholding requirements (through the building of long-life assets) will cost between $111-$296m for Z alone (not accounting for other fuel wholesalers). This cost estimate does not factor in a return on investment for the assets, which Z would have pass on to customers.

During a time of increasing costs on affordability including other Government policies that will have an impact on the price of fuel – such as the Sustainable Biofuels Mandate Commercial Information & Confidentiality Commercial Information & Confidentiality, increased Refinery to Auckland Pipeline (RAP) fees Commercial Information & Confidentiality and increasing Carbon costs under the Emissions Trading Scheme (ETS) Commercial Information & Confidentiality – we are extremely concerned that stockholding proposals may drive further energy inequity in communities and be counter to the Government's principles of an equitable energy transition.

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?

Onshore fuel stockholding levels

- Z strongly believes that fuel in transit (stock on the water) should be considered part of the national supply, as it provides a flexible response measure to possible disruptions.
- **Z's analysis shows that if we were able to include stock on the water, we** could comfortably meet the stockholding levels as proposed in the consultation document.

Counting fuel in transit, or stock on water

While fuel in transit (stock on the water) is not currently considered part of the national supply, we think it should be, as there is a low likelihood that this product could not be delivered in whole or in part which considerably ramps up our capacity. This was acknowledged in the 2020 Hale and Twomey report that noted New Zealand stock held on the water "provides a very flexible response measure to disruptions (page ii)."

As we have noted above, Z strongly believes a situation under the import-only model where all tankers on the water will be disrupted by one event is extremely unlikely as not all tankers are coming from the same place or travelling through the same water ways. Z takes control of the cargo from when it is loaded, so can direct the vessel as needed (i.e., speed up, slow down, take another route).

Under an import-only model there will always be three ships carrying 144 million litres of product within seven days of unloading at a New Zealand port. On the basis that storage tanks are half full[ii], there are roughly 400 million litres (approximately 17 days of cover) currently held in tanks across New Zealand. As the country moves to an import-only model, it will have an estimated 440 million litres of additional fuel on the water making its way to a New Zealand port within three weeks.

If we were to include fuel in transit as part of our national supply, this would more than double our capacity. The high fixed costs of the refinery model compare poorly to the

variable costs of importing fuel for the foreseeable future, which allow companies to respond to supply and demand variations with greater flexibility. Industry can plan and optimise supply by product, and not be limited by so-called barrel constraints[1].

Please refer to Q7 below for detailed analysis on options for Z to meet the proposed onshore stockholding levels, and likely consequences.

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

While Z does not think there is a need for stockholding requirements, our analysis below highlights that if we were able to count stock on water (all tankers, not limited to territorial waters or those in the Exclusive Economic Zone (EEZ)), it could comfortably meet the levels the consultation document proposes.

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

Options to meet proposed new onshore stockholding levels

- Security of supply is a risk Z is constantly managing, not something new. Our strategy is to maintain a safe and reliable supply chain for our customers, and to make this as efficient as possible to control costs. As such we strongly encourage officials to include stocks on the water, enroute to New Zealand (all tankers, not limited to territorial waters or those in the Exclusive Economic Zone (EEZ)) in days cover calculations.

Commercial Information & Confidentiality

[1] What are barrel constraints? When you buy a barrel of crude oil, it contains layers of products. At the bottom of the barrel is heavy, sticky bitumen and at the top is processed product that can be used to make petrochemicals and industrial petrochemicals. In between is layers of jet fuel, diesel and mogas (91/95 petrol). You may not need fuel oil, for example, but this is produced by refining the crude oil, whether you want it or not. When importing refined oil, you get exactly what you want, without having excess stock or products that are subsequently exported at a loss.

Onshore fuel stockholding

Note the following analysis is based on Z's current tankage and market share. We consider stock on water to be all tankers enroute to New Zealand, not limited to those within territorial waters or the EEZ.

Commercial Information & Confidentiality

Commercial Information & Confidentiality

Onshore fuel stockholding

Option 4 - Include stocks on the water, enroute to New Zealand (all tankers, not limited to territorial waters or those in the Exclusive Economic Zone (EEZ))

- At any one-time Z calculates it will have four shipments on the water which equates to 185ml of product. Note this does not include other fuel wholesalers who will have their own additional stocks on the water.
- Z contends that an average voyage time is 22 days, so this is the equivalent of one Z vessel arriving into New Zealand every ~ 5.5 days.

Commercial Information & Confidentiality

Commercial Information & Confidentiality

Z recommendation

Include stocks on the water, enroute to New Zealand (all tankers, not limited to territorial waters or those in the Exclusive Economic Zone (EEZ)) in days cover calculations.

- Security of supply is a risk Z is constantly managing, not something new. As such, Z strongly opposes the proposals to mandate each fuel company to hold fuel in storage.
- Our strategy is to maintain a safe and reliable supply chain for our customers, and to make this as efficient as possible to control costs. Given our analysis, we strongly encourage officials to include stocks on the water, enroute to New Zealand (all tankers, not limited to territorial waters or those in the EEZ) in days cover calculations.

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?

Commercial Information & Confidentiality

Commercial Information & Confidentiality

Z reiterates its strong view that requiring fuel suppliers to hold stock is an expensive and unnecessary exercise, with the costs of additional storage and increases in working capital and risk likely to be passed on to consumers.

Commercial Information & Confidentiality

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?

Please refer to our response to Q22 that details our recommendation to expand the IEA tickets system to hold IEA tickets for fuel that is as close to New Zealand as possible – in Australia. In case of emergency, it would be possible to get fuel to New Zealand within days.

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?

As we have outlined above, Z views the minimum onshore stockholding proposals as an expensive and unnecessary exercise, with the costs of additional storage and increases in working capital and risk likely to be passed on to the consumer.

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?

Stockholding requirements for Jet

Onshore fuel stockholding

Z acknowledges that the obvious resilience exception to minimum stockholding requirements is Auckland Jet, following the 2017 RAP crisis. We note that this is already the subject of The Auckland Fuel Supply Disruption (AFSD) Inquiry and is addressed separately via 6-monthly progress reports to the Minister of Energy and Resources.

Noting the significant uncertainty around current demand modelling for jet with the ongoing response COVID-19, Z would be happy to provide officials with the analysis provided under the AFSD Inquiry for further context.

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?

As we have outlined above, Z views the minimum onshore stockholding proposals as an expensive and unnecessary exercise, with the costs of additional storage and increases in working capital and risk likely to be passed on to the 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?

Stockholding agency

Any additional costs associated with holding and managing resilience over and above what is managed today, will need to be passed on to consumers. Please refer to our Q7 response for more detailed costings.

As we outline in our response to Q22, Z believes that instead of setting up a stockholding agency that would likely impose significant additional costs to both Government, industry and consumers, a National Fuel Inventory could be established to provide visibility of what stocks are in place, rather than adding additional capacity.

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?

Please refer to Q13 for our response.

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?

Onshore fuel stockholding

Please refer to Q13 for our response.

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?

Please refer to Q13 for our response.

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?

Please refer to Q13 for our response.

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

Please refer to Q13 for our response.

19. 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?

Please refer to Q13 and Q22 for our responses.

20. 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?

Please refer to Q13 and Q22 for our responses.

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

Please refer to Q13 and Q22 for our responses.

22. 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?

National Fuel Inventory

- Z believes a more cost effective and efficient option to increase stock levels is for the Government to work with Refining New Zealand to convert existing tankage that could be used for resilience purposes.
- Alternatively, the Government could also consider expanding the IEA ticket system to hold tickets for fuel in Australia.

Developing a National Fuel Inventory

Although New Zealand has never experienced an event that prevented fuel imports, establishing a national fuel stockpile could provide additional fuel security. New Zealand consumes around 8.5 billion litres of fuel per year, or 23 million litres a day, and it would offer peace of mind if a certain number of days' worth of fuel cover were sitting in tanks in New Zealand, ready to be used.

How would this work? The Government could hold additional product in tanks (most likely but not exclusively at Marsden Point where a number of crude tanks could be refurbished for finished product) that in a crisis the country could quickly access. The industry could manage the additional supply to ensure the product reserves are well maintained.

This system has been used successfully in the United States for decades, to protect against emergencies such as the 1973-1974 Arab oil embargo, when the price of imported crude oil tripled. In Z's view, a national fuel stockpile like this is preferable to mandating each fuel company to hold fuel in storage.

Expand the IEA tickets system

Another option would be to expand on a system that already exists – agreeing to supply contracts with other countries that are part of the International Energy Agency (IEA). Member countries exchange IEA tickets, which are traded for fuel products when needed. The preference would be to hold IEA tickets for fuel that is as close to New Zealand as possible – in Australia. In case of emergency, it would be possible to get fuel to New Zealand within days.

Amending levy formula

23. 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?

In Z's view, a National Fuel Inventory (as outlined in our response to Q22) is preferable to mandating each fuel company to hold fuel in storage. Given this, we support the PEFM levy rate being variable, subject to three-yearly review and approval by the Minister of Energy and Resources to help cover a National Fuel Inventory.

24. 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?

Please refer to Q23 for our response.

Implementing minimum stockholding obligations (if required)

25. 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?

As we have outlined above, Z views the minimum onshore stockholding proposals including the requirement for fuel whole suppliers to file monthly returns on onshore fuel stockholding, as an expensive and unnecessary exercise that will ultimately be borne by consumers (please refer to our response to Q7).

26. 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??

Please refer to Q25 for our response.

27. 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?

If there is an obligation, Z agrees that fuel wholesale suppliers should be allowed to trade with each other.

28. 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?

Please refer to Q25 for our response.

29. 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?

Please refer to Q25 for our response.

30. Any other comments?

No further comments.

Commercial Information & Confidentiality