

## 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:

Privacy of natural persons

Email address:

Privacy of natural persons

Phone number:

Privacy of natural persons

Organisation:

Mobil Oil New Zealand Limited (Mobil)

- 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 as it contains commercially and competition sensitive information (a redacted version would be acceptable).

#### 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.

Mobil holds the view that Aotearoa New Zealand's supply chain will be even more resilient with the closure of the domestic refinery at Marsden Point, as the risk of fuel disruption will no longer be dependent on a single refinery and will therefore be significantly reduced.

This is consistent with the Hale & Twomey assertion in *Fuel Security and Fuel Stockholding Costs and Benefits 2020* that the risk to Aotearoa New Zealand fuel security will not increase once the Refining New Zealand's Marsden Point refinery transitions to an import terminal:

*Closure of the refinery is not expected have a major impact on fuel security under most fuel disruption scenarios. Indeed, industry and independent expert advice is that a 100 per cent fuel import model will be more resilient to domestic disruption scenarios than having a domestic refinery, because there will no longer be a 'single point of failure risk' associated with refining, and because import shipments of refined fuels provide more flexibility to respond to local disruptions (shipments can be redirected to ports where they will be most useful for fuel distribution by road).*

The import of products will be most efficient when operating under a free market supply chain, which allow importers to determine the most efficient and cost effective way to meet the consumer demand. This has included joint terminal arrangements, building of shared infrastructure, balancing buy/sell, optimising product transfers, developing shared inventory arrangements, and reallocating supply in the event of emergencies.

A severe impact due to a "closed border" event of the nature described by Hale & Twomey has an extremely low likelihood, and given this, the significant cost impacts of onshore stockholding on market participants, and New Zealand consumers must be given appropriate consideration.

An onshore stockholding obligation will reduce the flexibility and efficiency of the supply chain as suppliers will either need to de-optimize their supply chain, or take on additional storage to hold inventory that is not required to meet customer demand, both of which would ultimately increase the cost for New Zealand consumers.

MBIE also shared that the industry currently holds an average of 20 days of cover across all transport fuels. However, this level of days' cover is not evenly split across all products and suppliers, and ensuring an on-shore stockholding is consistently kept at similar levels to the status quo (i.e. Option 1) will come at a cost as it will require some market participants to either convert tanks or lease storage.

Implementing MBIE's preferred option, Option 2: 28 days of cover for diesel and its biofuels equivalent, and 24 days of cover for other transport fuels, will require the provision of additional tankage.

## Commercial Information & Confidentiality

## Onshore fuel stockholding

## Commercial Information &amp; Confidentiality

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.

As stated above, Mobil agrees with Hale & Twomey's assertion in *Fuel Security and Fuel Stockholding Costs and Benefits 2020* that the risk to Aotearoa New Zealand fuel security will not increase once the Refining New Zealand's Marsden Point refinery transitions to an import terminal.

Under a 100% refined import model, Mobil estimates that there would be about 15 import shipments per month; an average of 3-4 shipments a week. Mobil has an extensive supply chain in South Pacific region, with more than <sup>Comm</sup> shipments a month across Aotearoa, Australia and the Pacific Islands, and has the ability to shift fuels around countries and terminals if this is required for fuel security purposes. The removal of coastal tankers is a function of the decision to close the refinery, and will have zero impact on fuel security, or on Mobil's ability to distribute fuels between terminals, as this just as effectively be performed by import fuel tankers.

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.

As shared in Mobil's response to Question 2 above, there will be an increase in ships on water in transit to various ports across the country. This will create more flexibility in Aotearoa's fuel supply resilience, as ships can be redirected to the locations in which they are most required. Any shortfall could also be made up by trucking (bridging) within country, which is easy to achieve and is already part of regular business operations throughout the industry.

This increase in supply resilience negates the need to manage stock at regional level and the management of stock at national level would be sufficient.

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?

Mobil considers that the existing ticket system which is managed under IEA, is sufficient. It is up to the Government to determine whether they should exceed their obligation. However, Mobil would be available to support the Government in managing its supply chain in this regard.

## Objectives and evaluation criteria

## Onshore fuel stockholding

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?

Mobil recognises that MBIE is weighing the trade-off between fuel security, cost and administrative efficiency, and believes these are the appropriate criteria.

However, Mobil would strongly encourage MBIE to consider applying a risk-based approach, supported by a detailed analysis of the cost of supply, and appropriately weigh this against an extremely low probability of a "closed border" event.

A robust risk assessment of potential supply disruption scenarios post-Refinery should be developed to:

- identify and prioritise the highest risk scenarios (likelihood x consequence);
- inform the most effective risk mitigation measures; and
- inform a cost-benefit (risk reduction) analysis.

Based on Mobil's assessment, the cost stated on Table 3 of the consultation paper is too low (as shared in Mobil's response to Question 1).

With regard to *administrative efficiency*, MBIE must also consider the impact of monitoring, enforcement and compliance activities on businesses, which are likely to be a significant resourcing impost on a sector that already has significant reporting obligations under the Fuel Industry Act 2020.

## 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?

Mobil does not support the development on any minimum onshore fuel stockholding obligation for the reasons already stated above Mobil considers that future scenarios for the fuel supply chain in Aotearoa will improve the nation's supply reliability and resilience, including when Aotearoa moves to 100% import of refined product.

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)

## Onshore fuel stockholding

Not sure/no preference

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

Mobil does not support the development on any minimum onshore fuel stockholding obligation, and therefore considers that the status quo is the most appropriate option.

### 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?

If the Government determines to implement a minimum onshore fuel stockholding obligation above the status quo, then Mobil considers that biofuel sales should be counted for the purposes of meeting a wholesaler's obligation.

Mobil considers that all stocks such as total tank volume, stock in transit within Aotearoa's EEZ, stock held in pipelines and other facilities such as retail stations be considered for the same reasons.

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?

Mobil supports the existing Government tender process for both offshore and onshore stock. More detailed information is required on how MBIE proposes to amend this process.

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?

See response to Question 7.

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?

As noted earlier, Mobil does not believe that a minimum stockholding is required. If MBIE chooses to implement such an obligation, Mobil notes that costs will increase and efficiency will decrease if a stockholding obligation is measured by fuel type rather than at a total fuel level.

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

## Onshore fuel stockholding

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

As shared in Mobil's response to Questions 2 and 3, there will be an increase in ships on water in transit to various ports across the country which will create more flexibility in Aotearoa's fuel supply resilience, as ships can be redirected to the locations in which they are most required. Any shortfall could be made up by trucking (bridging) within country, which is already part of regular business operations throughout the industry. As such, this negates the need to manage stock at regional level and the management of stock at national level is sufficient.

There is also an existing process via MBIE and the National Emergency Management Agency (NEMA) for an emergency response, to direct and ensure fuel goes to the right locations. Mobil believes this process functions well and this negates the need for specific stock locations

- 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?

Mobil does not support the development of a stockholding agency to manage the compliance, enforcement and monitoring activities associated with the minimum stockholding obligations on the fuel wholesale suppliers. The development of such an agency would create additional compliance costs for fuel industry participants, and these costs would ultimately be borne by New Zealand consumers.

- 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?

MBIE already manages this process, and Mobil is not aware of any issues with the status quo.

- 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?

MBIE already manages this process and Mobil is not aware of any issues with the status quo. Additionally, Mobil has developed a strong working relationship with MBIE with regard to contingency planning and emergency response, and believes that better outcomes would be available to Aotearoa if this relationship endured.

- 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



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

See response to Question 15.

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?

A Government agency should be funded by Government. Forcing the cost of funding such an agency onto fuel market participants would be an additional expense that would ultimately be borne by New Zealand consumers, and a wholly Government-funded agency would provide greater transparency to New Zealanders.

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

Please see Mobil's response above.

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?

It is up to Government to determine how it would pay for the development of such an agency, however Mobil notes that this would see an increase in fuel prices for New Zealand consumers.

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?

Mobil has developed a strong working relationship with MBIE with regard to contingency planning and emergency response, and believes that better outcomes would be available to Aotearoa if this relationship endured.

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

Mobil considers that this is a matter for Government to determine.

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

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Yes     No     Not sure/no preference

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

Apart from the options assessed, the nature of what is included as part of the minimum stock obligation is important.

Mobil believe that onshore stockholding calculations should be made on a rolling monthly average basis, as this is more efficient both administratively as well as from a cost to comply as inventory forecasting is more predictable to plan on a month average vs. daily basis.

Mobil also believes that all stocks in tanks, stocks held within Aotearoa's Exclusive Economic Zone (including stock in transit), stock held in pipelines and other facilities such as retail stations should be considered as part of any stock obligation This approach is aligned with how we are reporting our inventory. Inclusion of stock in the EEZ is also common in the industry and is applied by many countries, including Australia.

## 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?

Insofar as the PEFM levy is a pass-through cost that will be ultimately be borne by New Zealand consumers, Mobil considers that this is a matter for Government to determine. However, Mobil considers that MBIE should carefully scrutinise the impact of any potential increase in the levy with the potential impact to consumers.

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?

Mobil considers that a regular review of the PEFM levy rate would be prudent to ensure the cost of the levy reflects actual costs related to Aotearoa meeting its IEA obligations

## 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?

Mobil notes that the fuel industry in Aotearoa is already required to disclose a significant amount of information to the Government as part of the regulations under the Fuel Industry Act 2020, which already requires significant internal resourcing and is burdensome for industry participants.

Mobil suggests that information disclosure requirements are therefore kept to a minimum, and questions the frequency of monthly reporting. If this is required for monitoring purposes, Mobil

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considers that it would be just as effective, and more practical if disclosed on a six-monthly or annual basis.

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??

Mobil believes that the frequency of any reporting regime must be as efficient and flexible as possible, per the above comment, and should assess data on a rolling monthly average basis.

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?

Market share of wholesale fuel suppliers will likely fluctuate due to the competitive nature of the industry. If a stock obligation is implemented, allowing a trade system will provide greater flexibility to market participants.

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?

Provided obligated parties are given sufficient lead time to develop infrastructure to meet any obligation, Mobil considers that it would meet its obligations.

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?

No comments.

29. Any other comments?

Mobil's assessment is that apart from cost, the biggest challenge in meeting MBIE's preferred minimum stockholding obligations (if required) will be the availability of diesel storage across the industry. Depending on how each supplier chooses to optimize their supply chain, Industry requirements may be 0.8 to 1MB of additional diesel storage across the industry. This is based on assuming an incremental 8 days onshore stock holding vs current level (20 to 28 days) and

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5-7 days of operational tolerance, which Mobil would consider as prudent and typical in the NZ supply chain. As shared in our earlier response the cost of meeting MBIE's preferred option is estimated to be in excess of Commercial Information & Confidentiality

Should MBIE choose to implement a minimum stock obligation, it should also consider an exemption and concession framework. There are likely to be scenarios where uncontrollable events occur in the market and we believe there should be a concession to adjust stock obligations if demand decreases by a certain percentage instead of using prior 2 years' average demand.

Examples of this could include a significant shift in a wholesale supplier's demand, such as the phasing out fuel oil to meet Aotearoa's obligations under MARPOL Annex VI, the unprecedented COVID-19 pandemic, which saw jet demand destruction by more than 50%, or in the event a significant customer is lost (rather than the exiting supplier carrying the burden for an additional two year period). Similar concessions are already in place in Australia.

Some other examples of where exemptions should be made available include:

- Local emergency which impacts on supply chain or fuel demand
- Failure of equipment (e.g. power) outside of the supplier's control
- Receipt of a shipment of fuel that does not meet quality standards
- Failure of equipment from a third party facility impacting product transfers
- Third party damage to infrastructure, such as offsite pipeline
- Inability to access intermediary market stock

If it does determine to implement a stock obligation, MBIE must also consider the timing of implementation: adequate lead time is required for market participants to make the necessary investments. For example, if suppliers are required to build additional storage to meet the onshore stockholding, the process could take approximately 3 years, possibly longer.