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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 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:

Air New Zealand

- 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:

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.

“...whether New Zealand should consider changes to onshore fuel stockholding levels in order to increase our fuel security in the event of a fuel disruption...” excerpt from ‘Purpose’ heading on page 2

“The primary disruption scenario we have in mind is an event that prevents or significantly delays the delivery of imported fuel into New Zealand for a sustained period.” – Sentence 2 of Paragraph 2 under ‘Context’ heading on Page 2

Note: all comments refer to the supply chain for Jet fuel rather than other refinery products.

We believe that this consultation is too narrow in scope – both in terms of the risks to be mitigated and the mitigations proposed.

While we agree that the consultation should consider the risk of the described disruption events on the fuel supply chain and potential mitigations, we believe that this scope should be broader. It is difficult, for example, to justify the expense of additional storage realised through a more decentralised model utilising additional incremental tankage through the domestic supply chain (i.e. more smaller tanks dotted around rather than only a couple of large but comparatively more cost effective tanks at a single location) when only considering this as a mitigation for the relatively extreme risk scenarios upstream in the supply chain referred to in the consultation document - though that would be a very reasonable mitigation when also considering local risks to the supply chain.

We agree with MBIE’s position as supported by the H&T 2020 report that the refinery conversion will not place the NZ fuel supply chain in an adverse risk position relative to current state and does not introduce any material additional risks however, there are still inherent risks in the domestic supply chain that MBIE should also consider as part of a broadened consultation. **We agree with MBIE that the refinery closure is an excellent opportunity to use as a catalyst for this discussion and we believe broadening the description of fuel supply chain risks would facilitate a better outcome.**

We acknowledge the perceived benefit of having a defined focus and narrow scope however the nature of the fuel supply chain for NZ and fuel supply chains generally, is that they should be reviewed and risk assessed in their totality so as to better design a cohesive and integrated mitigation strategy. Not only will this approach lead to a more effective mitigation strategy, it will also invariably lead to a more cost effective solution.

We believe MBIE should **re-scope the consultation to consider the risk position along the new supply chain – not just the extreme risks and not just upstream from Marsden Point.** The 2020 H&T Report, as well as the 2019 Auckland Fuel Supply Disruption Report provides a very good foundation for this

Onshore fuel stockholding

discussion, and we feel it would be a lost opportunity for MBIE to now only consult on a specific event occurring at a specific position of the supply chain.

We understand that in September 2021, Cabinet asked officials to investigate whether NZ should consider changes to onshore fuel stockholding levels **in order to increase NZs fuel security in the event of a fuel disruption**. Our position is that the consultation should be focussed on **increasing fuel security in NZ**, with changes to onshore fuel stockholding levels one of a number of mitigations discussed.

Some of the key risks we would like to see addressed:

- Very tight throughput limitations/ceilings at Marsden Point, RAP, WAP, Wiri relative to future volume growth
- Low storage relative to pre-COVID volumes at AKL JUHI and Wiri Terminal
- Use of DUD/Lyttleton terminals as BCPs for each other as volumes increase through the South Island

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.

Scope of Risk Assessments

While the risks discussed in the Consultation Paper and the 2020 H&T Report are relevant and well considered in terms of severity and likelihood, part of an expanded consultation (as proposed in our response to Question 1) **should also consider the downstream demand impacts of those risk events in the context of the proposed mitigations**. For example, as we have seen in the pandemic jet fuel demand has significantly reduced and so is a built-in mitigation to any associated impact to upstream supply shortage. A demand reduction of some quantum would accompany any of the more extreme geo-political/conflict events discussed in the Consultation Paper and H&T Report. Where these events are estimated to occur once in 40 years, the cost of carrying mitigations for this time period must be fully considered against the likely demand impacts of these events.

Marsden Point refinery closure

We agree with the high level position established in both documents "...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..." (excerpt taken from 2nd sentence of 2nd paragraph of Fuel Supply Risks section on p. 9 of Consultation Paper).

Single Point Sensitivity

The above does not mean that new risks are not introduced or the same risk is not present, but in a slightly different context. The single point of failure risk as referred for refining operations, for example, is no longer present, but now has great significance for terminal/wharf operations. In addition, the NZ supply chain is effectively nose-to-tail single points of failure. Once product enters NZ, we still have a single supply chain with very little spare throughput capacity or storage (on pre-covid volumes) with no meaningful contingency operations. A quote from the Auckland Fuel Supply Disruption Enquiry by H&T and WorleyParsons further highlights this point: **"The 2017 RAP outage highlighted that the supply chain that brings jet fuel to Auckland Airport is vulnerable to what is known as "single-point failure**

Onshore fuel stockholding

risk” at all points. That is, if the infrastructure at a particular point fails, there is no ready alternative that can keep the overall supply chain operating.”

To put those comments in context, the NZ supply chain operates well in “fair weather operation” and the fuel companies along with Refining NZ have proven themselves to be adept at managing small to moderate disruptions through bridging product and re-optimising supply chains however, more needs to be done by the NZ Govt to incentivise the industry to mitigate existing on-shore risks as well as preparing for the necessary investments required to support forecast product volume growth through the domestic supply chain at all points.

Our significant concern is that even though as the Consultation paper notes “the Government has previously considered various domestic fuel disruption scenarios, such as short or long term outages of the Wiri terminal, the fuel pipeline that supplies the Wiri terminal from Marsden Point, and other port terminals including at Tauranga, Wellington and Lyttleton. The impacts of these disruption scenarios and options to mitigate them were assessed in 2012 and 2017” – **the industry has implemented none of the proposed mitigations.**

Infinitely worse than an unknown risk, is a known risk with no mitigation plan.

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

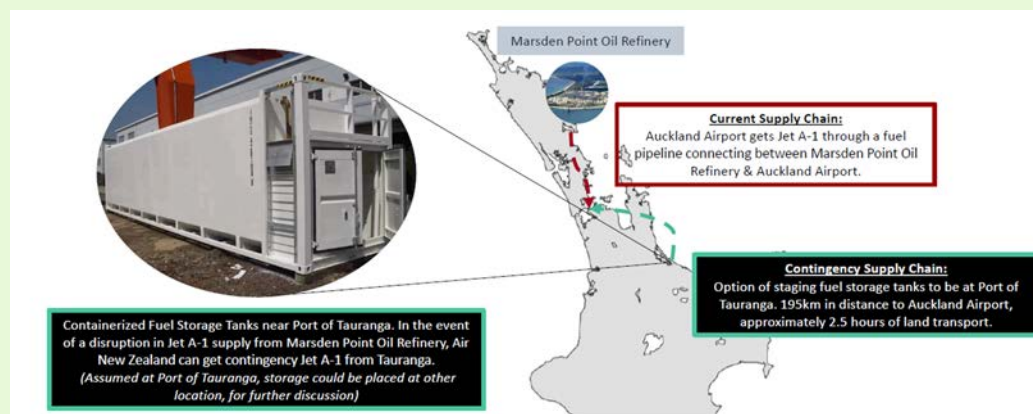
Please explain your views.

Tauranga

While Tauranga is not part of the existing jet fuel supply chain, there is an opportunity for Tauranga to play a role in a contingency capacity for Auckland. Previous opportunities that have been investigated include establishing jet tankage and building a road tanker supply chain but these have some feasibility challenges.

There is, however, an opportunity to consider Tauranga as a potential location for a contingency supply chain for Auckland to be mobilised during a significant supply chain disruption event upstream from AKL such as the 2017 one. One opportunity with an approx. \$5m initial capex would provide an ability to supply AKL with 4m litres per day through containerised jet tanks (80% of AKL volumes). No significant capital works are required at the port as, along with the tanks being containerised, there is also a containerised fuel pump that is able to load the containers directly from a cargo ship.

This also has the significant benefit that, being containerised, they could be repositioned around the country at any port in NZ should the need arise. The limitation is around availability of container trucks, drivers and truck loading facilities at delivery storage locations.



Onshore fuel stockholding

South Island

With the removal of the COLL joint venture, the South Island fuel supply chain is independent of the North Island supply chain for the first time. Without this link, there is a need to consider whether the storage levels for each island should be considered independently of each other and if, without COLL, the fuel suppliers still have the capability to bridge product in the event of low stock or disruption. Accordingly, we would encourage a review of the terminal operations at Lyttleton and Dunedin with this consideration in mind.

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?

Cost of carrying mitigations to provide 90+ days coverage would not be economically feasible relative to the likelihood of any event that would require the use of such volumes of fuel. For jet fuel, in any situation that would lead to such a disruption of fuel supply Air NZ would almost certainly see a proportional reduction in flying volumes. Reference also that the overwhelming majority of Air NZ's fuel volumes (85%) are for international travel which is where the volume reductions would be felt the most.

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?

The following criteria are applied to assessing the options considered:

- a. Fuel security/resilience —fuel security/resilience in New Zealand will be maintained or improved, including minimising the economic and social impact of fuel supply disruption.
- b. Cost — to Government and businesses of building and maintaining fuel storage and holding reserve fuel inventories.
- c. Administrative efficiency (when considering how to meet the preferred stockholding level) — in terms of monitoring, enforcement and compliance activities by government.

These criteria will be effective in evaluation of the options for onshore fuel stockholding however we believe **criteria (b) should be expanded to consider the downstream impact of these costs and how they may affect or otherwise be passed on to customers.** The materiality of Air NZs demand means that a significant portion of the mitigation costs as they relate to jet fuel will likely end up being carried by Air NZ and our customers.

Onshore fuel stockholding

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?

This question is answered in our response to Question 7.

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?

While there may be a case for additional onshore fuel stockholding levels, we do not believe the information is available currently to adequately determine the business case for increasing levels. **We disagree with the sentiment of this statement from the Consultation paper** "If New Zealand wishes to increase fuel supply resilience, increasing the onshore stockholding level beyond the status quo level would be desirable" **as there is an implication that onshore stockholding is the only mitigation for disruption when clearly it is not.**

As we have highlighted in responses to previous questions, this consultation needs to be broadened to consider risks along the supply chain with a view to create an integrated mitigation strategy. In addition, we need to consider stockholding obligations in the context of other mitigations that may be implemented.

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?

[insert response here]

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?

Onshore fuel stockholding

Tickets are a reasonably expensive mitigation and should just be used for fuel supplies upstream of NZ. Holding tickets for onshore fuel would not provide any mitigation for the scenario this consultation is working to mitigate and so there is no justification for the expense.

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?

[insert response here]

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?

Each fuel type is subject to individual market pressures and risks. If each fuel type has its own requirements from establishment then it will be more simple to adjust these requirements independently of the other fuel types should the need arise through future review processes.

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?

The de-commissioning of the coastal tankers (COLL) may limit the ability for NZ to move volumes of fuel cost effectively between North/South Island. In addition, Lyttleton will now be receiving international jet cargoes which means it will have a supply chain independent of Marsden Point for the first time.

Previously, Lyttleton (and Dunedin) could rely on the storage at Marsden Point where they may not be able to do so without COLL operating. Consideration should be made for North Island and South Island storage capabilities being independent of each other. That said, location specific demand obligations could become quite onerous and so a suitable risk assessment should be undertaken to confirm the expense of incremental stockholding is the most appropriate mitigation here vs other available mitigations.

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?

There does need to be a central government agency commissioned for oversight of a single mitigation for fuel supply chain resilience. There does, however, need to be a central government agency commissions for oversight of fuel supply resilience in general.

Onshore fuel stockholding

Establishing an agency simply for stockholding would rank poorly against the cost and administrative efficiency evaluation criteria.

- 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?

[insert response here]

- 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?

[insert response here]

- 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?

As answered in Question 13. If established, a stockholding agency should have a much broader remit than just stockholding and should be responsible for managing fuel resilience in general.

- 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?

An agency of this nature should be funded by the crown due to the strategic nature of its remit. This needs to be free from industry funding vehicles to maintain its independence.

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

N/A

- 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?

Onshore fuel stockholding

[insert response here]

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?

[insert response here]

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

[insert response here]

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?

[insert response here]

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?

[insert response here]

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?

[insert response here]

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

Onshore fuel stockholding

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

We agree that the fuel wholesale suppliers should file returns however these should be on a fortnightly basis. Once the systems are in place, we see no reason why the increase in frequency from monthly to fortnightly would be administratively arduous.

Fortnightly will also provide a significantly higher level of certainty of the available stock levels than monthly. With the move to imports, in order to achieve effective economies of scale, the import parcels will likely be significant in size (for reference a jet fuel only MR vessel would hold 10 days of NZ stock) and so the stock levels will likely have more variation between shipments arriving into-storage which means the on-shore stock levels will invariably have more peaks and troughs between shipments.

- 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??

The information should provide the detail down to where the product is being held so that we know exactly how much stock is held at each terminal and storage facility.

In the 2017 supply disruption there was a significant delay in obtaining this information which then delayed the response time. Equally, last year when the unionised workers at Wiri were threatening strike the fuel companies were not able to provide clear information on what stock is held where, which delayed the response by a number of days while that information was found and even then there was a lack of certainty.

When we are faced with a supply disruption, this information should be readily available so that we can respond quickly to quantify the response required in any given situation.

- 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?

[insert response here]

- 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?

[insert response here]

- 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?

Onshore fuel stockholding

As noted in the 2020 H&T report: "...poor (incorrect) quality of stocks information some companies were reporting in their monthly submissions to MBIE. This has been a problem over many years and it would appear that not all companies are taking an appropriate 'duty of care' to ensure these submissions are correct...MBIE needs to work with industry on improving the quality of this data including using its legislative powers as needed. It may be that these powers need to be modified (for instance there does not appear to be any penalty for incorrect submissions and the penalties are low) to ensure the fuel industry takes appropriate care to ensure these submissions are accurate."

Clearly the companies require the incentive of a penalty structure to report their data accurately. We do not have a position on what level the penalty should be.

29. Any other comments?

[insert response here]