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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: Justin Tighe-Umbers

Email address: justin@barnz.org.nz

Phone number:

Privacy of natural persons

Organisation: Board of Airline Representatives 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.

Note: This response refers explicitly to jet fuel storage and supply unless otherwise stated.

BARNZ supports MBIE reviewing jet fuel resilience and how to mitigate disruptions to offshore supply as one element of risk in the supply chain. The decommissioning of refining capability at Marsden Point is an opportune time to do this.

We agree with the MBIE position and the Hale and Twomey report 2020 that moving to an import-only terminal will not materially increase the risk of fuel supply disruption for New Zealand, noting the diversity of suppliers of refined product available in the near Asia-Pacific geographic region.

However, we consider both the scenarios assessed and the scope of the exercise too narrow. As experienced in 2017, the single refinery to Auckland (RAP) pipeline suffered an outage which required airlines to move to rationing jet fuel for 8-10 days (initially 30% of their usual usage) causing significant flight disruption.

At its heart, this exercise is about improving the fuel security in New Zealand. As such BARNZ would like to see the scope broadened to consider mitigations to onshore distribution risk, downstream from Marsden Point. This includes disruptions to:

- RAP pipeline (such as an extended outage)
- WAP pipeline
- National distribution of jet fuel either via in-shore shipping, or road
- Storage facility availability at Wiri, Mt Maunganui, Wellington and Lyttleton.

Without considering onshore causes of disruption it is not clear that the proposed investment in storage is necessarily targeted at the area of greatest risk of supply chain disruption for airlines.

As such BARNZ calls for a broadening of scope of the review to full supply chain resilience for jet fuel, broadening from the narrower scope requested by Cabinet to consider changes to onshore fuel stockholding levels only.

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 discussed above, we would like to see the consultation consider domestic fuel disruption scenarios. The intent is to assess the likelihood of a particular disruption, and associated cost to mitigate or partially mitigate. One example would be informing the benefit of maintaining an inshore tanker capability to shift onshore fuel stocks around the country should upstream supply be affected. Another example could be investment in adaptors to load road tankers at the refinery or port tank storages.

Onshore fuel stockholding

Cost / benefit analysis would determine if targeted investment in such measures would mitigate higher risk areas for lower cost.

Recommendations were forthcoming from the Auckland Fuel Disruption Inquiry, the H&T 2020 report itself and previous risk assessments conducted by the Government. However, the fuel supply chain in New Zealand remains vulnerable to single points of failure from source to consumption. Very few of the recommendations appear to have been acted on, and opportunities lost.

BARNZ believes extending the scope of this current exercise as described would be invaluable in addressing this vulnerability in a targeted and cost-effective fashion.

As noted in question 1. BARNZ agrees that moving to an import-only terminal will not materially increase the risk of fuel supply disruption for New Zealand.

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.

Mount Maunganui Terminal Contingency During the 2017 RAP outage, the Mount Maunganui terminal was considered as an alternative point of supply of jet fuel to Auckland Airport. BARNZ would like to see an exercise to determine what would need to be in place for Mount Maunganui to operate as a contingent supply should a prolonged RAP or WAP (Wiri to Airport Pipeline) outage occur. Establishing a road-bridge could assist in reducing the jet fuel rationing required by airlines and consequential fuel disruption.

Coastal Oil Logistics Ltd (COLL) capability It is unclear to BARNZ what the loss of the inshore tanker capability provided by the COLL joint venture as a result of the refinery closure means for jet fuel supply resilience. It is understood that offshore tankers will directly supply Marsden Point, Wellington, Lyttelton and Port Chalmers, or indeed conduct domestic tankering with MOT approval. What is less clear is should there be an upstream supply disruption, how increased onshore jet fuel stocks will be distributed if offshore vessels are not available. Of particular concern for international airlines is how Christchurch airport would be supplied jet fuel in this scenario if onshore storage is predominantly in the north of the North Island. Expanding the scope of this review to determine the cost/benefit trade off of investment in additional localised fuel storage versus the operational cost of maintaining an inshore tanker capability would help identify the most efficient resilience approach.

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?

International events affecting the supply of jet fuel beyond 90 days are likely to drive their own reduction in consumption of jet fuel as airlines manage international network disruption. We have seen this during the global pandemic, with flights to New Zealand fall more than 90%. Expensive additional fuel storage required for this volume of jet fuel would not be economically feasible given a) the likelihood of the risk manifesting and b) the resultant reduction in demand in such a scenario.

Onshore fuel stockholding

Objectives and evaluation criteria

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

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

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

BARNZ agrees with the evaluation criteria, but requests an expansion to criteria b) to consider that the downstream effects of costs passed on to consumers and customers. Airlines and their passengers ultimately pay for jet fuel infrastructure investment via capital returns. This is why it is important to strike the right balance between risk mitigation, resilience and cost, as mitigation measures can end up making the cost to travel more expensive.

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?

There is not enough information provided to determine the most optimum level for jet fuel. It is unclear on current demand, and building demand for jet fuel over the next 5 years as the airline industry recovers how much storage is a) available or b) needed. Further analysis is required, as the current analysis is based on 2019 levels which may take 5-6 years to recover to.

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?

As per answer 6, it is unclear how many days jet fuel cover current available storage can provide at the current and growing demand levels. 20 days is a reasonable cover, and with 50% rationing for airlines could be stretched to 40 days cover which provides a reasonable length of time to fix any onshore infrastructure issues.

Achieving the target level of onshore stocks

Onshore fuel stockholding

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?

Assuming sustainable aviation fuel (SAF) is available onshore I see no reason why it could not be included as part of the obligation for storage.

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?

BARNZ would need to understand the cost of increased storage of jet fuel, and the benefit of that storage over the next 5 years when compared to forecast usage.

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?

Yes, minimum onshore fuel stocks are a critical component of jet fuel supply resilience. BARNZ would like to understand when investment in additional storage would need to be made to meet 24 days jet fuel cover (as per previous point on lower forecast demand levels than 2019).

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?

Yes, to prevent the danger that other fuels are used to meet the obligation, at the expense of jet fuel storage. Each fuel will require its own stock holding levels to provide adequate resistance to the relevant market.

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?

If the onshore tankers capability is retired, then minimal reserves of jet fuel should be kept at the relevant locations throughout the country. This is in order to prevent domestic supply constraints in the event that offshore shipping capability is not available for any reason. However, as per the response to question 3, it is unclear whether retaining an onshore tankering capability is more cost effective than building additional new storage at various locations throughout the country.

Onshore fuel stockholding

- 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?

I believe this obligation could be satisfied by an information disclosure regime placed on the oil companies, with existing MBIE roles to manage the compliance. Establishing an entire agency just for stock holding feels excessive.

- 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?

I think these events are typically rare enough to be managed by existing crisis response governance. However if such an agency were established, yes it would be the natural home of expertise for managing contingency planning and emergency exercises.

- 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?

If the scope of such an agency were extended to include full fuel supply chain resilience, then yes. The commercial structure and tripartite ownership of existing oil infrastructure across the three main oil companies makes agreeing future investment plans very difficult. Having an agency established to help overcome the existing vulnerabilities would be a worthwhile investment.

- 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?

Onshore fuel stockholding

All of society and economy benefit from improved fuel resilience, not only oil companies and transport operators. It is appropriate that the government would fund oversight of fuel which is a strategic enabler for the economy.

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

[insert response here]

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?

[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?

Yes, if such an agency:

- developed a network view of vulnerabilities, single points of failure, redundancies and contingency options against an agreed risk framework.
- identified required investment to address identified resilience shortfalls
- overcame the current commercial obstacles to investment (outlined in response to question 16.)

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

Onshore fuel stockholding

- 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?

N/A

- 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?

N/A

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?

[insert response here]

- 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??

Breakdown of fuel type. Location of fuel. Number of days estimated at current usage rates.

- 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?

Subject to adequate distribution across the country, noting the retirement of the coastal fuel tankers.

Onshore fuel stockholding

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?

It is important that the disincentive for non-compliance is high enough to prevent it happening. A maximum of \$1.5m is substantial, and appears in line with other overseas penalties.

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?

[insert response here]

29. Any other comments?

[insert response here]