Submission on the Review of New Zealand's Oil Security

Report prepared by Lisa Roberts, on behalf of the Auckland Council Civil Defence Emergency Management Coordinating Executive Group ('Auckland CEG').

Preliminary notes:

There are a number of questions asked in the discussion paper to which we have replied 'No Comment', as they are either better answered by the fuel industry itself (which has the best technical understanding of risks associated with the fuel network) or the questions relate to other regions.

Our focus in preparing this submission is on ensuring that the proposed recommendations take account of the need for, and benefits of, improved oil security supply in Auckland and the wider social implications associated with the risk of oil supply failure in the region.

Q1. Are you aware of any future investments or shutdowns, or any other factors that are likely to significantly alter the level of commercial inventories held in New Zealand?

No

Q2. Do you agree that the international oil security problem definition is appropriate?

No. The problem definition should include the other 'driver' of this project identified on page 10 – that is, the need to review the supply chain resilience in light of the Christchurch earthquakes. The problem statement suggests the issue is solely about funding mechanisms.

Q3. Do you agree with the selection criteria used for the international oil security analysis?

Following on from the response to Question 2, we would like to see a criteria relating to 'Resilience' – ie the contribution the option makes to improving the resilience of NZ's oil supply network.

Q4. Do you agree that New Zealand should maintain its membership of the IEA and continue to meet its IEA obligations?

Yes.

Q5. Do you agree that New Zealand should continue to meet its IEA stockholding obligations through ticket contracts rather than purchasing domestic stockholding?

Uncertain. We don't believe the report has fully considered the option of a combination of the two – some increased domestic stockholding but also continuation of ticket contracts to provide the flexibility for demand changes.

Q6. Do you agree that the government should continue to procure ticket contracts rather than placing a mandate on industry?

Uncertain. The report does not convincingly argue against industry mandated purchasing. For example, it says that "the industry might be able to source better value ticket contracts, though this is unclear". The fuel industry may be able to provide clearer input to this question.

Q7. Do you agree that it is more equitable to recover ticket contract costs via a levy on fuel than from general taxation? Are there any other matters that the government should consider?

Yes, however the government should also consider that there are wider beneficiaries than the direct fuel consumers. For example, all food purchasers, whether or not they directly purchase fuel, benefit from the

reliability of the food distribution network (reliant on fuel). This aspect, if fully considered, might actually lead back to a general taxation preference.

Q8. Do you agree that the PEFML is the most appropriate levy by which to recover ticket contract costs and that it should only cover petrol, diesel, ethanol, and biodiesel?

Generally yes. However without seeing the figures on cost of administering the collection from other fuel type levies against the potential income, we cannot make a definitive comment.

Q9. Do you agree that it is best to smooth the levy rate over three years? How much lead time is required for companies to prepare for a change in the rate?

No comment.

Q10. Do you agree that the rationale for government investigation into domestic oil supply security is to ensure that domestic oil infrastructure resilience is socially optimal, and to ensure that industry can re-establish supply as quickly as possible following a disruption?

The first part of the statement is inclusive enough, the words after the comma are not also necessary as the concept of 'resilience' includes the ability to establish supply as quickly as possible.

Q11. Are there any other measures available to industry or government to increase supply following an emergency disruption?

No comment.

Q12. Is the description of the major refinery outage accurate? If not, what should be expected?

Consideration should be given to the outage being caused by, or concurrent with, a significant disruption to electricity supply to Northland. This would impact on tanker loading and RAP operations. Also, the outage may well be concurrent with a major natural disaster (eg: tsunami) which would further impact the outcomes of a major refinery outage and make some of the assumptions invalid.

Q13. Is 0.20-0.25 percent per year a reasonable probability range for a major outage at the refinery?

No Comment.

Q14. Are there other factors that can be addressed to enable industry to better respond to a major refinery outage?

Given that there are a number of suggestions that rely on Australian resources (eg: diverting fuel ships headed for Australia to NZ) should one of the recommendations be a MoU with the Australian Government or Australian fuel distribution companies in terms of mutual support during a major national fuel disruption?

Q15. Is the description of the minor refinery outage accurate? If not, what should be expected?

No Comment

Q16. Is 0.5-1.0 percent per year a reasonable probability range for a minor refinery outage?

No Comment

Q17. Are there other factors that can be addressed to enable industry to better respond to a minor refinery outage?

No Comment

Q18. Is the description of the long-term disruption to RAP/Wiri accurate? If not, what should be expected?

We would like to see impact on Auckland region specifically outlined (not just the overall North Island shortage) as we understand that the shortages will be worse in this region because of trucking duration / capacity from Marsden / Maunganui to Auckland.

Also, a long term disruption could well be concurrent with a wider major disaster impacting other infrastructure, which would affect the impact of the outage on fuel supplies (eg: transport routes disrupted).

If the disruption is concurrent with a major electricity outage (which might be reasonable if the disruption is caused by a wider disaster) the fuel needs will significantly change (eg: diesel for generators) and therefore the statistics about fuel shortages will change.

Q19. Is 0.2-0.3 percent per year a reasonable probability range for a long-term RAP/Wiri disruption event?

No Comment

Q20. Are there other factors that can be addressed to increase the speed with which industry can respond to a long-term disruption to RAP/Wiri?

Other issues may arise if the event has impacted other infrastructure, eg: transport routes, electricity supply. These will need other factors to be addressed such as giving priority road access to fuel trucks.

Q21. Is the description of the short-term disruption to RAP/Wiri accurate? If not, what should be expected?

See comment related to Q18.

Q22. Is 0.5-1.0 percent per year a reasonable probability range for a short-term RAP/Wiri disruption event?

No comment.

Q23. Are there other factors that can be addressed to enable industry to better respond to a short-term outage to RAP/Wiri?

No comment.

Q24. Is the description of the long-term disruption at Seaview accurate? If not, what should be expected?

No Comment

Q25. Is 0.15-0.25 percent per year a reasonable probability range for a long-term Seaview disruption event?

No Comment

Q26. Are there other factors that can be addressed to enable industry to better respond to a long-term disruption to Seaview?

No Comment

Q27. Is the description of the long-term disruption at Lyttelton accurate? If not, what should be expected?

No Comment

Q28. Is 0.2-0.3 percent per year a reasonable probability range for a long-term Lyttelton disruption event?

No Comment

Q29. Are there other factors that can be addressed to enable industry to better respond to a long-term disruption to Lyttelton?

No Comment

Q30. Do you agree that the probability of a tsunami that results in disruptions that are more severe than those outlined above is extremely small?

Yes, but the consequences are very large.

Q31. How viable is it to use the abovementioned trucks, are there any other trucks in New Zealand that have not been considered above, and are there any regulatory barriers to unconventional trucks being utilised in an emergency?

No comment.

Q32. Assuming the Commerce (Cartels and Other Matters) Amendment Bill is enacted, would oil companies be able to plan and coordinate fuel deliveries and trucking resources between themselves in an emergency?

No comment.

Q34. Are the assumptions about the length of time to import trucks from Australia reasonable? How could the importation of offshore trucks be expedited in an emergency?

No comment.

Q35. Are there any other sources of drivers that could drive fuel trucks in an emergency?

No comment.

Q36. Are there any issues that would hinder Australian drivers and New Zealand milk truck drivers driving fuel trucks in an emergency? What measures could be taken to ensure that Australian drivers could obtain approved handler certification sooner? How long would it take to certify Australian drivers if such measures were taken?

No comment.

Q37. Should drivers without approved handler certification still be utilised in an emergency if they are not required to physically load/unload fuel?

No comment.

Q38. Should driver time restrictions be relaxed in an emergency?

No comment.

Q39. What other measures could be taken to reduce bottlenecks at loading gantries at terminals?

No comment.

Q40. What other measures can be taken to increase coastal shipping capacity in an emergency?

No comment.

Q41. Do you agree that a government campaign to encourage voluntary demand restraint in a short-term disruption will be effective at minimising a short-term supply shortfall?

Uncertain. Are there not overseas experiences we could use to assess how effective voluntary demand measures are?

Q42. Do you envisage that any consenting process would result in delays to emergency repairs of fuel infrastructure? If so, what are they?

No comment.

Q43. Do you think that a handbook with representative domestic supply disruption scenarios, and supply-side response measures would help to expedite an emergency response?

Yes, unless the fuel industry / companies already have such plans.

Q44. Do you agree that building the RAP-WAP bypass is a reasonable 'insurance premium' to pay to avoid disruption of jet supply to Auckland Airport? Which party is best placed to cover these costs?

Yes, we would support this project to mitigate the risk of a major disruption to national air transport.

Q45. What work could be pre-emptively undertaken to expedite the building of a RAP-WAP bypass following a disruption, how much time would this work expedite the build by, and what would this work cost? Which party is best placed to cover these costs?

No comment.

Q46. What preparatory measures could industry take to expedite the importation of trucks from Australia in the event of a long-term terminal outage? What measures can government take to ensure that the importation process is sped up?

Uncertain. Are all fuel trucks currently operated 24/7 or could we just bring in additional drivers to increase the hours of operation (rather than bringing in trucks)?. Also note that this measure assumes that Australia has trucks available and truck owners willing to release them.

Q47. Do you agree that the construction of domestic stockholding is not an economic solution to improving domestic oil security? If you disagree, please state why?

Uncertain. It is not clear from the report the extent to which the knock-on social and economic consequences of a fuel supply disruption have been considered – eg: see response to Q7.

Q48. What cost effective options are there for improving the resilience of the network? Please provide an explanation of the network vulnerabilities that the option would address, and an estimate of costs.

We are not sure of the feasibility / cost of these options, but some of these ideas have been floated around.

- *Fuel gantry that enables offloading from ship to tanker in the Waitemata Harbour.*
- *When the second fuel line from Marsden –Wiri is built (required in the future for capacity?) it is not co-located in the existing easement.*
- *Ability to transfer fuel by rail from Marsden to Auckland.*

A further general comment on the report is that, if this project is intended to demonstrate that the oil supply infrastructure resilience is socially optimal (and not just commercially optimal), we do not believe that this objective has been achieved. The distinction between 'socially optimal' and 'commercially' optimal is not well covered in the discussion paper, and it is not clear whether the benefit-cost analyses supporting some of the recommendations include consideration of social benefits and costs, and not just financial ones. For example, there is continual reference to projects being 'not economic' rather than 'not socially optimal'. Therefore the answer as to whether the current level of oil supply security is socially optimal is not clear from the report.