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Energy Markets Group  
Ministry of Business, Innovation and Employment  
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## REVIEW OF NZ OIL SECURITY

# Submission

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## Background

PrimePort Timaru Ltd is a commercial Port positioned centrally on the East Coast of the South Island. The Port is at the epicenter of South Island's agriculture production and within 200km of 75% of the population of the South Island.

Within the last 3 years the Port has "lived through" 2 experiences which are particularly relevant to the Oil Security review. Namely

- The Christchurch Earthquake
- The Closing down of half the fuel storage capacity at Timaru (by Chevron) – subsequently re-opened).

Our comments are to a large extent based on these experiences.

Our comments relate in particular to the following questions:

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?

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

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?

## Current Status / Security

We believe the discussion paper largely relies on status quo in terms of existing storage and transport facilities. We contend that this assumption may be fraught as it is built on existing market conditions and a consistent commercial approach by participants in the oil industry – neither of which can be relied on.

The market share, the rural penetration and service, the consolidation of distribution points and the appetite for oil companies to own or support downstream infrastructure will vary over time and can be subject to rapid change brought about by no more than a change in commercial strategy by one or more companies.

The experience in Timaru (and Taranaki) when existing storage was closed down, against a trend where consumption was increasing, reflects the vulnerability of supply driven purely by International competition. Direct outcomes included fuel shortages and a big increase of fuel trucks on the road. The ability to fully support Christchurch in the aftermath of the earthquakes was also compromised.

We suggest it would be "dangerous" to assume that the existing network or backups can be relied upon without some level of Government oversight or regulatory control.

## Resilience – The Christchurch Earthquake

We note the discussion paper suggests that disruption through Lyttelton was only days. We would suggest it was more, but in any case the importance to have a substantial alternative for the large metropolitan areas should be a lesson learnt. Bulk storage could not immediately be accessed and just as importantly the number of outlets were severely compromised. We suspect the balance of use also changed with reductions in some areas but dramatic increases required in other sectors, critical to getting the city functioning and reducing risk. If Timaru had not been available, then Nelson and Dunedin would have had elevated roles, but the logistics would probably not have been able to keep pace with demand.

What does this mean – the trend to consolidation will compromise resilience. The commercial imperative is likely to weaken an ability to respond to natural disaster.

What do we suggest – develop regulatory requirements to ensure minimum storage is developed throughout the country. (eg The industry must retain storage back up within minimum distance as a proportion of consumption or at least demonstrate secure supply capability is in place to effect the same).

Note:

- This implies more detailed requirements for inventory and its distribution within NZ.
- A secure network of storage will offset the key issue identified around truck capacity
- A levy would be difficult justify given no real change to current actual, but up to 2cents /litre would seem a prudent investment to create better security.
- A greater weighting on stored fuel within NZ rather than reliance on the ticket system seems wise. Supply is immediate and risk is nil if fuel is stored within the country.
- Growth will compound the reliance on the ticket system and exacerbate vulnerabilities.



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