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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:

KiwiRail Holdings Limited

- 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.

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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.

We perceive several potential disruption risks, including:

- a) Delayed imports due to a shortage of ships and ship crews – both of which are emerging constraints for New Zealand.
- b) Distribution of fuel between North and South Islands in the absence of international imports after the two Coastal Oil Logistics Limited (COLL) tankers are no longer in use.
- c) Not knowing how global fuel firms will prioritise countries in terms of supply, and how New Zealand can ensure the supply of refined fuels. Fuel refining is being consolidated and largely being centralised in emerging markets in Asia. There is a risk to supply when demand in producing nations exceed supply – they are likely to prioritise their internal market requirements above exports.
- d) More broadly, there is a need to protect New Zealand as far as is possible from international cartel like behaviour, and international pricing structures.
- e) There are fewer refineries in the world (they are getting larger due conglomeration). This raises the question, what happens to the supply of fuel during times of crisis and emergency, such as a pandemic, act of terrorism or war that halts refining across one or more refineries?

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.

We accept the assessments and the rationales provided.

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.

No, the South Island likely lacks sufficient storage to meet the proposed stock holding requirements. This would create significant North/South Island distribution issues in the absence of the coastal tankers (unless minimum storage location is defined at least by island).

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?

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Yes, because New Zealand is geographically isolated and completely dependent on imported refined fuel (no refinery means New Zealand cannot process crude oil as an option). We are also reliant on trading nations that are subject to geopolitical and trading constraints to access fuels.

90 days should be minimum. A thorough economic assessment should be conducted to quantify the optimum level of reserve given New Zealand would be hugely disadvantaged without fuel. The implications of a lack of fuel would have dire economic consequences for key sectors (e.g., transport, agriculture, and forestry).

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 cost to the public will increase when fuel companies pass through cost of storage and administration plus markup. If fuel companies are required to maintain minimum stock, costs will likely be passed onto consumers, increasing the price of fuel for most sectors of our economy. In the December 2021 Quarter, Transport costs have risen by 15%.

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?

We are supportive of the Government's initiatives to achieve a target level of onshore stocks as it builds resilience in the event of disruptions.

This is especially important as NZ does not have any refining capacity once Marsden Point closes.

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?

New Zealand should have access to at least 28 days of onshore diesel supply. As per table 3, option 2, this provides 56 days of resilience in a fuel rationing scenario. The other options further improve

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resilience but come at a significantly higher cost. Option 2, with 28 days minimum cover for diesel, strikes an acceptable balance between cost and resilience.

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?

New Zealand should be concerned with the total stock rather than sales.

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?

We consider that the Government should regulate minimum levels of fuel stocks and avoid procuring tickets. The Government should not speculate in the market through tickets because fuel security is critical for national security.

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?

We agree in cases where the wholesale suppliers are also the importers. Supply security and resilience is a critical operating requirement for KiwiRail. Overall, KiwiRail is supportive of the Government's initiatives to achieve a target level of onshore stocks as it builds resilience in the event of disruptions. Table 4 on page 24 of the consultation document provides a summary of the options assessed to achieve a target level of stockholding. KiwiRail has focused its feedback on Options B and C2 as these options are assessed as the most favourable in the consultation document.

Criteria	Option B (Minimum stockholding obligations on fuel wholesale suppliers)	Option C2 (Stockholding agency with cooperation arrangements between the Government and the fuel industry)
Supply security	<i>Better than status quo.</i> Lack of clarity on how this would be coordinated between the fuel companies and / or Government.	<i>Better than status quo.</i> Lack of clarity on the incremental costs between option C2 and option B.
Business compliance costs	<i>Worse than status quo.</i> Additional costs from the fuel suppliers and / or Government is	<i>Worse than status quo.</i> Additional costs from the fuel suppliers and / or Government is

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	likely to be passed on to wholesale and retail customers.	likely to be passed on to wholesale and retail customers.
Administrative efficiency	<i>Worse than status quo.</i> Will require setup and ongoing monitoring of stock levels.	<i>Worse than status quo.</i> Will require setup and ongoing monitoring of stock levels.
Fuel storage (infrastructure location) and distribution risk	<i>No difference to status quo.</i> The key risk is fuel supplier's incentives to invest in regional fuel infrastructure in a terminal gate pricing environment (which is / will be status quo from August 2022).	<i>Possibly better than status quo.</i> As noted on page 25 of the consultation document, cooperation agreements could "facilitate identification and assessment of locations for holding additional reserve stocks, taking into account locational fuel security benefits relative to the economies of scale and co-location in existing bulk storage terminals. This could subsequently lead to investments in fuel storage and distribution networks at the right location(s)."

Overall, both options are expected to increase resilience to New Zealand. Option C2 could add further resilience at a regional level, but could come at an additional cost relative to option B. KiwiRail's preference would be to support option C2 if the benefits of investment in regional infrastructure outweigh the incremental costs relative to Option B.

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?

There should be minimum requirements for the primary types of fuel e.g., jet fuel, diesel, and petrol.

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?

It is important to have minimum stockholding requirements in the North and South Island due to the lack of coastal tankers. The number of days' worth of fuel stockpiled should be approximately equal, to mitigate against natural disaster risk, and this should be accompanied by a distribution strategy to access the stockpiled fuels (as the need may not be equal on each Island). Further detailed analysis will be required to ascertain the exact optimum stockholding levels.

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?

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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?

Minimum stocking level can be monitored electronically with automated exception reporting in event stock falls below the required levels.

We understand that compliance, enforcement and monitoring of exception reports can readily be conducted by an existing agency, such as the Commerce Commission.

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?

No, as we do not believe that a new entity needs to be established to monitor the stock level.

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?

No, Civil Defence Emergency Act already provides coordination when required.

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?

See answer 14.

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?

While we disagree with the proposal to create a stockholding agency, should one be created then this should be primarily Government funded to avoid costs being passed on to the consumer.

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

We do not support this funding model as outlined 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

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

In questions 14 and 17, we indicate our view that a stockholding agency is not required, but if one were established, we would have no objection to the PEFM being used to fund it. We would expect consideration would be given to the extent of any levy use and its implications for consumers as end users.

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?

No, see answer 14 and 17.

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

If monitoring is automated (see question 13), less than 1 FTE would be required to receive exception reports (should these occur and escalate). We suspect an existing agency could leverage the existing resources required (and prioritise resources as needed). As the establishing a new agency would likely require hiring core staff, such as legal, executive management, finance, payroll, HR, analysts, and administration, all these costs would be passed on to consumers.

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?

Monitoring could be readily automated using existing technology (see question 13).

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?

PEFM levy is one option for passing costs back to the consumers. However, we disagree with the premise for a need to establish a new stockholding agency.

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?

It is already subject to Executive notice by Cabinet, under Section 5 of the Energy (Petrol, Engine Fuel, and Gas) Levy Regulations 2017.

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See here: <https://www.legislation.govt.nz/regulation/public/2017/0147/9.0/DLM7296605.html>

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?

This process can be conducted electronically in real time, using industry standard existing technology. If a monthly report is required, this could also be generated automatically from the same technology.

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?

No, as this process can be conducted electronically in real time, using industry-standard existing technology. If a monthly report is required, this could also be generated automatically from the same technology. The focus of any regular reporting should be to alert the monitoring agency to non-compliance, with a set time afforded to the stockholder to address the situation before any action is taken by the monitoring agency.

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?

See question 25. All reporting can be electronically generated in real time, using industry standard existing technology.

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?

Yes, because we are trying to achieve the goal of minimum stockholding.
Fuel companies are the subject matter experts so they can best optimise how this could be achieved.

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?

The current penalties are insignificant for non-compliance with minimum stockholding obligations by fuel companies.

The fines need to have a financial significance to incentivise fuel companies to comply with the minimum stockholding requirements i.e., to ensure any commercial benefit (through profits) is outweighed by the potential penalty for non-compliance.

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29. Any other comments?

With the closing of the Marsden Point Oil Refinery, New Zealand will be a completely dependent on imported refined fuels. This along with geopolitical risks, New Zealand's geographic isolation, an ongoing pandemic, and reliance on fuel for running the economy - highlights the importance of establishing fuel security.

Currently, the fuel companies in New Zealand rely on commercial trade with each other to maintain supply. This trade is facilitated through a shared infrastructure agreement which allows oil companies to trade refined product at base cost or through a balance sheet transfer. The major suppliers were sharing infrastructure (terminals), allowing individual companies to operate monopoly supply at some locations in the country. However, we understand that this agreement is unwinding, along with the closing of the Marsden Point Oil Refinery. Despite the introduction of terminal gate pricing there is a potential ramification of a higher cost for refined product as well as supply risk for consumers in New Zealand.

KiwiRail, like many businesses around the country, relies on imported fuel to operate i.e., to run trains and ferries. It is therefore critical to have minimum stockholding requirements (for both the North and South Island).

We also disagree with the need to establish a new entity to monitor stockholding requirements. As this could be done through an existing government agency (without the establishment costs).

Also, in terms of the current penalties, just to reemphasise that we believe that they are insignificant for non-compliance with incomplete information by fuel companies. The fines need to have a financial significance to incentivise fuel companies to comply with the information requirements. For perspective, the proposed fines are a tiny fraction of the profits generated every year from the domestic fuel industry.

Key requirements for KiwiRail from its fuel supplier(s)

1. *Fuel Security* –
 - a. From a demand perspective –
 - i. Fuel is a critical input for KiwiRail's freight and passenger Locomotives, Ferries (Interislander), Container Terminal and other sites.
 - ii. KiwiRail has a national footprint, with sites located from Whangarei through to Invercargill.
 - b. From a supply perspective –
 - i. KiwiRail would prefer that vendor's infrastructure is located across the country to meet KiwiRail's national fuel demand footprint.
 - ii. Whilst KiwiRail operates fuel silos across its network, we expect our vendors to have a resilient storage and distribution network to support the effective operation of KiwiRail's mobile and fixed assets.
2. *Cost leadership* – A significant portion of the costs of fuel are made up of international commodity costs and foreign exchange which are largely uncontrollable; however, controllable costs such as storage & handling and distribution costs also make up a material portion of the overall cost to KiwiRail.