

New measures to bolster fuel resiliency plan

Bassam Maghzal

1 December 2022

On 9 November 2022, the Government announced a range of initiatives aimed at strengthening New Zealand's fuel supply resiliency. The move came after a review of the Ministry of Business, Innovation and Employment's (MBIE) fuel resiliency policy that was instigated by Refining NZ's moves to transition Marsden Point Oil Refinery (Refinery) to an import terminal. The changes include ensuring adequate onshore fuel stocks, and implementing several adaption measures for addressing any potential fuel issues.

Onshore fuel stocks

The Government's approach to ensuring adequate onshore fuel stocks is two-fold. Firstly, the Government aims to procure greater reserve stocks with an initial aim to increase onshore diesel stocks by at least 70 million litres (which equals roughly seven days of normal use) to achieve a total of 28 days cover for diesel at normal consumption levels. To maintain this level of fuel, the Government will enter a long-term lease agreement for new diesel storage capacity and will own or tender periodically for onshore reserve stock contracts. This could be funded through the levy at its current rate and would not cause an increase in the price of petrol and diesel at the pump. By shouldering some of the load involved in storing and managing our reserve fuel stocks, the Government minimises the risks associated with requiring fuel wholesalers to hold significantly more stocks - something which could limit market competition.

Additionally, the Government will also require fuel importers/wholesalers with bulk storage facilities to hold stocks of diesel, petrol and jet fuel. The minimum stockholding level for fuel importers/wholesalers - being 28 days for petrol, 24 days for jet fuel and 21 days for diesel on a three-month rolling average basis - will initially be prescribed in primary legislation and are likely to be replaced by regulations. These regulations, which are to be developed in 2023, will set minimum levels to reflect the market share of the individual fuel sellers or importers to protect small industry players. These levels are based on the national average commercial stockholding levels, after the Refinery's closure, in terms of days cover, which should limit costs to the industry and consumers. It is expected these obligations will come into effect 1 July 2024 and are to be administered by MBIE.

These measures will ensure that we exceed the level of useable diesel which was held onshore before the Refinery's closure.

Adaption measures for future fuel issues

Improving fuel resilience monitoring: There are some information gaps to be filled to provide clear Government oversight of fuel stocks and potential vulnerabilities in New Zealand's fuel supply chains. Considering this, the Government has proposed that a regulation-making power be created to enable the Minister of Energy and Resources (the Minister) and MBIE to collect detailed information from fuel importers at both national and regional levels, international supply chains and contingency arrangements. In collecting such information, the Government hopes to better assess New Zealand's current fuel resilience and develop an adaptive approach to fuel resilience measures.

Dedicating additional resources to the National Fuel Plan: As a further measure, the Government announced it would be taking steps to update the National Fuel Plan (NFP) to establish how they should coordinate with the fuel sector and international tankers to manage fuel disruptions under the new 100% fuel import model. Currently, in the event of a major disruption, the primary responsibility resides with the fuel sector. However, with the Government taking on a larger role in holding onshore fuel stocks, greater coordination with the sector and international tankers is necessary.

Levy to fund fuel resilience initiatives: The statutory purpose of the levy will be amended so that funds can be used to recover the costs of promoting onshore fuel resilience. Such measures may include:

- Government procurement of services for storage and management of reserve fuel stocks
- Facilities that would be useful for mitigating the impacts of local fuel disruptions or distributing fuel in an emergency, such as mobile fuel distribution facilities
- Fuel emergency planning activities, including tasks associated with the implementation of the NFP, regular emergency response exercises and regional studies of fuel resilience gaps and options to address them
- Tools and programmes for improving monitoring and collecting of information on fuel resilience.

The use of the levy for these projects is considered justifiable on the basis that those paying for the levy, namely fuel importers and fuel consumers, benefit from the extra resilience these initiatives can bring.

Streamlining the process to release reserve oil stocks: It is proposed that the Government's decision-making process is streamlined for the release of oil stocks held under oil tickets to take part in International Energy Agency (IEA) collective actions.

Before any formal declaration of an IEA emergency under the International Energy Programme Agreement, the IEA is obliged to consult with member countries. This allows a warning of up to several days before an emergency is declared, affording New Zealand the opportunity to hold preliminary discussions (between government and industry) about response options. Approval from the Minister is required before New Zealand can agree to any IEA mandated action. Once it has consulted with and received agreement from member countries, the IEA can officially declare an emergency and call for a specific response under the International Energy Programme. The IEA will notify each country of what is required from them (eg how much stock they are expected to release or conserve).

New Zealand's recent experience indicates that it is not practical to follow the standard Cabinet process before a decision is made and conveyed to the IEA within the required timeframe. Given that the release of oil stocks under oil tickets (as part of the IEA collective actions) does not result in any fiscal cost to the Crown, the Government hopes to authorise the Minister (on the advice of MBIE) to agree to an oil stock release as part of the collective actions, to streamline the release process. However, the Minister would be required to provide an oral update to Cabinet following any release.

Conclusion

The Government's fuel resilience initiatives are an improvement on the status quo and should result in the Government playing a greater, but light-handed, role in maintaining an appropriate level of fuel in New Zealand at only a marginal cost to consumers and the fuel industry.

Auckland

188 Quay Street
Auckland 1010

PO Box 1433
Auckland 1140
New Zealand

P: +64 9 358 2555
F: +64 9 358 2055

Wellington

Aon Centre
1 Willis Street
Wellington 6011

PO Box 2694
Wellington 6140
New Zealand

P: +64 4 499 4242
F: +64 4 499 4141

Christchurch

83 Victoria Street
Christchurch 8013

PO Box 322
Christchurch 8140
New Zealand

P: +64 3 379 1747
F: +64 3 379 5659