Submission by

to the

Ministry of Business, Innovation and Employment

on the

Onshore Fuel Stockholding

28 February 2022

ONSHORE FUEL STOCKHOLDING CONSULTATION PAPER – SUBMISSION BY BUSINESSNZ ENERGY COUNCIL[1]

INTRODUCTION

1. BusinessNZ Energy Council (BEC) welcome the opportunity to provide feedback on the Ministry of Business Innovation and Employment's Consultation Paper *Onshore Fuel Stockholding*.

2. The Ministry has undertaken a review of domestic fuel security and resilience in light of changes to the operation of the refinery (and a shift to an import-only supply chain), as well as other possible fuel disruption scenarios (including the Covid-19 pandemic).The consultation paper discusses various levels of stocks to be held physically onshore by fuel wholesale suppliers as a means to increase our fuel security in the event of a fuel disruption, how to implement this requirement and various proposed structures to manage this requirement.

3. We believe liquid fuels will remain an important part of our energy mix for some time. As we transition to more sustainable fuels, we think it will be important to maintain existing infrastructure to ensure ongoing access to secure, affordable energy, and achieve a smooth energy transition.

4. According to our energy trilemma framework, New Zealand's energy security has declined, although we still rank 23rd out of 127 countries assessed. We note changes to the refinery are unlikely to impact on fuel security in the case of domestic supply interruptions but may increase the risk of disruption in an extended closed border event. We acknowledge increased fuel stocks held within New Zealand would provide security against this particular scenario, however we caution that any moves to increase security must be balanced against the increased costs faced by consumers.

5. We are interested in further details about how the costs presented were determined. We prefer a least-cost approach and suggest further work is undertaken to determine whether sufficient stocks may be obtained using existing government procurement processes before implementing other more costly options.

6. Members have been consulted in preparing this submission. Given the diversity of our membership, some members will have specific issues they wish to comment on in more detail. We have encouraged members to make their own submissions raising those issues specific to their areas of interest. This submission is not confidential.

[1] Background information on BusinessNZ is attached as Appendix One.

GENERAL COMMENTS

Ongoing role of fuels for a smooth energy transition

7. We believe liquid fuels will remain an important part of our energy mix for some time. BECs own modelling suggests oil products like petrol and diesel will likely be consumed until 2050. BEC has developed a New Zealand specific model TIMES-NZ[2] to explore two possible future energy scenarios; Kea (cohesive) where climate change is prioritised as the most processing issue, and Tūī (individualist) where climate change is one of many pressing issues. Our bottom-up model selects from available technologies to produce a least-cost energy system over the medium to long term. The results below show fuel consumption for petrol (light grey), diesel (dark grey) and jet fuel (orange) across all subsectors.

Figure 1: Kea – Fuel Consumption for all subsectors, all end use, all technology (PJ)

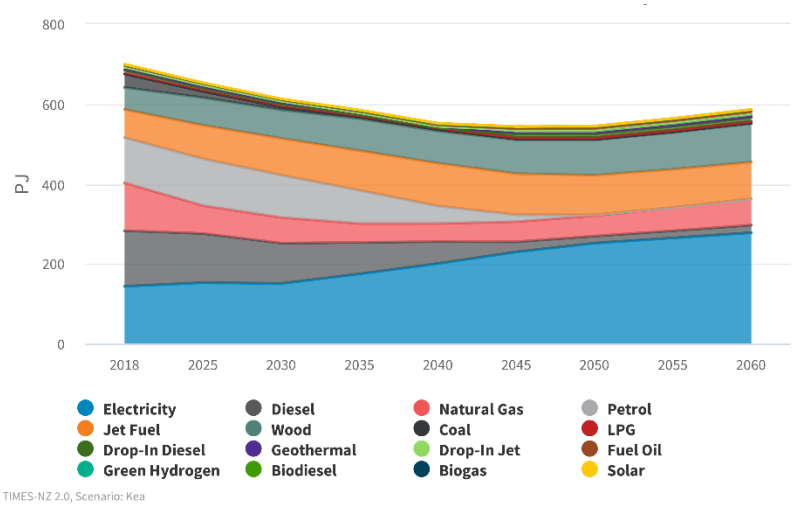
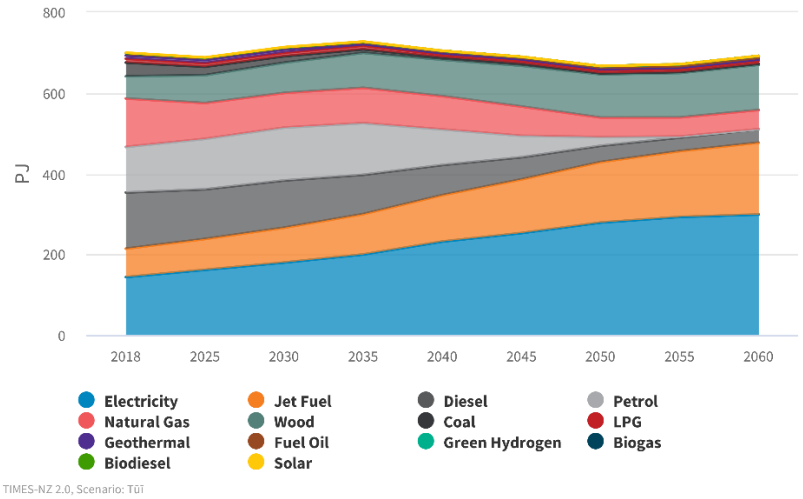


Figure 2: Tūī – Fuel Consumption for all subsectors, all end use, all technology (PJ)



8. Alongside investment in low carbon technologies, we believe it will be important to maintain existing infrastructure to ensure ongoing access to secure, affordable energy, and achieve a smooth energy transition.

[2] BusinessNZ Energy Council and EECA, New Zealand Energy Scenarios, https://times.bec.org.nz/

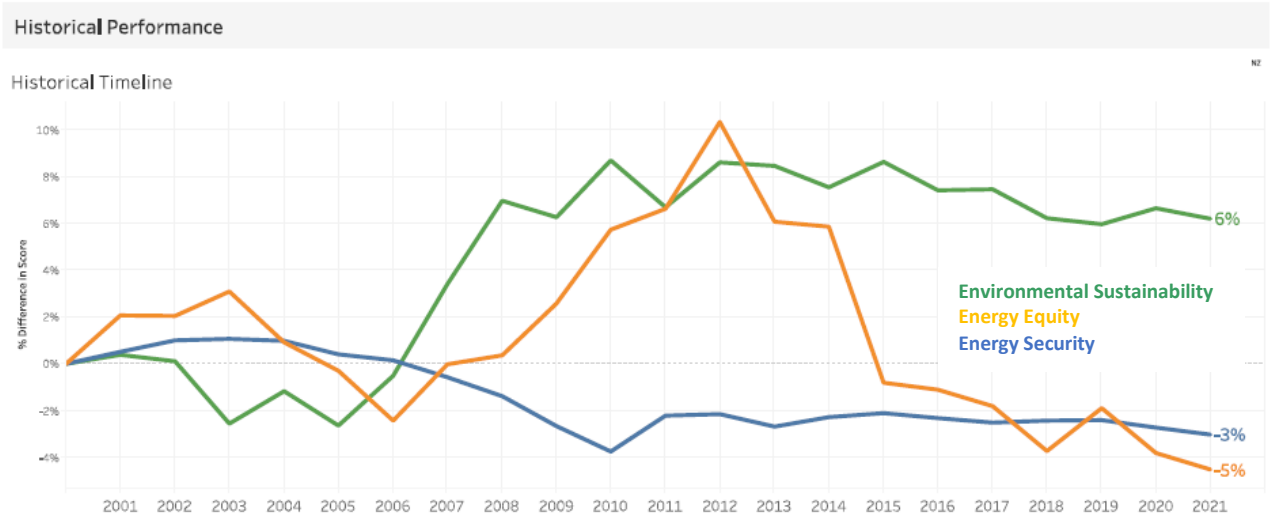
According to trilemma, New Zealand energy security has declined

9. Each year we assess the performance of the New Zealand energy system using the World Energy Council's Energy Trilemma framework[3]. The trilemma focuses on three dimensions; energy security, energy equity and environmental sustainability. Energy security considers a country's capacity to access the necessary energy resources and its ability to deliver the energy required by its population and economy. The score for each dimension is based on a number of sub-indicators. For the security score this includes (but is not limited to):

   - Import independence – a measure of net energy imported as a percentage of total energy used,
   - Energy storage – a measure of a country's ability to supply demand for oil and natural gas in case of international oil or gas supply disruptions, based on crude oil and oil products stocks as well as domestic crude oil refining and oil produce refining capacity.

10. According to this framework, our energy security score has declined since 2012 (compared to a baseline year of 2000). This decline was driven by an increased dependence on imports, and lower locally-based energy storage due to the adoption of tickets to meet our 90-day IEA obligation. Our security score is expected to continue to decline, with the change to a 100% fuel products import model, and the possible decrease in energy diversity if thermal-fuelled power plants are retired.

Figure 3: Historical Performance of New Zealand's Energy Trilemma score



11. Given changes to the operation of the refinery and disruptions experienced during Covid-19, we agree fuel security is an important issue to consider and support the Ministry investigating fuel security under various scenarios and consulting on opportunities to enhance our fuel security settings.

Our overall performance is strong with a well-balanced system

12. Despite our declining energy score, New Zealand still ranks 23 out of 127 countries assessed in terms of energy security[4]. This is a remarkable achievement, considering other countries benefit from significant energy resource endowments and close market integration with neighbours. There are a diverse range of strategies to achieve energy security depending on a country's particularly circumstances, however, one commonality for those countries with a strong energy security score is a diverse energy mix. As the trilemma report highlights the context of each individual country is important to consider when developing energy policies.

[3] World Energy Council, World Energy Trilemma Index, https://www.worldenergy.org/transition-toolkit/world-energy-trilemma-index

[4] Index Rank represents performance relative to other countries. If countries' overall scores differ by less than 0.1, they share the rank position. The top rank is #1, the bottom rank is #108.

Changes to refinery unlikely to impact fuel security in most scenarios

13. We note changes to the refinery and a shift to an 100% import-only supply chain model are unlikely to impact on fuel security in most scenarios and in the case of domestic supply interruptions, may improve flexibility to respond to disruptions. This view is reflected in Cabinet papers[5] which noted that *'the closure of the refinery is expected to have little impact on fuel supply resilience under most disruption scenarios'.*

14. However, moving to 100% import-only supply chain model may increase the risk of disruption in an extended closed border event. The Hale & Twomey report *Fuel Security and Fuel Stockholding Costs and Benefits 2020*[6] notes:

> *"It is only this area (global market failure) where it can be considered there is a real loss in supply security by not having a refinery. If New Zealand becomes isolated, without a refinery, there will be less total stock available and New Zealand will lose the ability to ensure at least minimal supply (~20%) from processing its own crude (and in such a market failure crude supply might be easier to secure than product).*

We agree this type of scenario has a low likelihood, although we acknowledge recent experiences of supply chain interruptions due to covid have highlighted the potential impacts of such an event.

15. The proposal to increase fuel stocks held within New Zealand would provide security against this particular scenario, (an extended close border event), and would improve New Zealand's energy security performance, as measured by the energy trilemma framework.

Balancing fuel security risks against costs

16. The paper proposes various levels of onshore stockholding; from requiring a minimum stockholding level similar to stocks currently held commercially, to requiring increasing levels in line with Australia or the European Union. We agree these options must balance the desired level of security and resilience against an acceptable cost, while also taking into account administrative efficiency.

17. We note any increase to the level of security will result in a cost which is ultimately borne by the consumer. We are mindful of the impact of increasing costs on affordability, and which are likely to have a negative impact on the energy equity (access and affordability) dimension of the energy trilemma.

18. We would like to acknowledge the work done to provide an indication of potential costs for each option. We note the costs presented provide a conservative estimate. We would be interested to understand how these approximate costs have been determined, and whether they take into consideration the risk of stranded assets. This is a concern for those in the energy sector who are making investment decisions for long-life assets, in the context of increasing uncertainty as we transition to a low-emissions economy.

19. We note the paper states stockholding is not expected to impact on New Zealand greenhouse gas emissions so this is not considered in the assessment of options. While emissions, or any other environmental factors, are not considered directly we believe it is important to understand how this policy may interact with other energy policies being developed, in particular the Emissions Reduction Plans due to be released by government in May 2022.

20. We understand the ministry is developing a long-term energy strategy. We are keen to understand how the proposed policies would support the long-term energy strategy, or any other relevant energy or transport strategies under consideration.

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[5] Cabinet Paper (Fuel supply resilience without a domestic oil refinery), https://www.mbie.govt.nz/dmsdocument/17733-fuel-supply-resilience-without-a-domestic-oilrefinery-proactiverelease-pdf

[6] Hale&Twomey, Fuel Security and Fuel Stockholding Costs and Benefits 2020, https://www.mbie.govt.nz/dmsdocument/15257-fuel-security-and-fuel-stockholding-costs-and-benefits-2020

Least cost, complexity option preferred

21. The paper proposes three broad mechanisms to implement the desired stockholding level; through government procurement, an industry obligation, or establishing a stockholding agency (with varying degrees of input from government and industry). We note the paper provides a good overview of international examples. However, as noted earlier, we believe the country context is important in developing effective energy policies. As such we believe some countries may not provide a useful comparison.

22. We note the Hale & Twomey report *Fuel Security and Fuel Stockholding Costs and Benefits 2020*[7] suggests the cost and complexity of arrangements is likely to increase through an industry obligation, as opposed to government owned agency structure. We agree the establishment of another agency is likely to increase costs to consumers. We suggest further work is undertaken to determine whether sufficient stocks may be obtained using existing procurement processes.

23. We would support the trading of obligations if a minimum requirement was to be introduced. We agree this type of arrangement is a useful mechanism to help minimise compliance costs.

Looking forward continued collaboration required

24. Whatever arrangements are put in place, we believe ongoing collaboration between industry and government will be required to ensure as smooth a transition as possible. We note Z Energy's white paper *Z Energy: Our future fuel supply*[8] recommends practising for a worst-case scenario. We agree scenario planning would be a useful exercise to better understand how suppliers and customers are likely to respond to a range of events and help prepare to mitigate any risks identified.

[7] Hale&Twomey, Fuel Security and Fuel Stockholding Costs and Benefits 2020, https://www.mbie.govt.nz/dmsdocument/15257-fuel-security-and-fuel-stockholding-costs-and-benefits-2020

[8] Z Energy, Z Energy: Our Future Fuel Supply, https://z.co.nz/assets/Uploads/Z-Energy-Security-of-Fuel-Supply-091221.pdf

Appendix One - Background information on BusinessNZ Energy Council

The BusinessNZ Energy Council (BEC) is a group of New Zealand's peak energy sector organisations taking a leading role in creating a sustainable energy future. BEC is a division of BusinessNZ, New Zealand's largest business advocacy group. BEC is a member of the World Energy Council (WEC). BEC members are a cross-section of leading energy sector businesses, government and research organisations. Together with its members BEC is shaping the energy agenda for New Zealand.

Our vision is to support New Zealand's economic wellbeing through the active promotion of the sustainable development and use of energy, domestically and globally. With that goal in mind, BEC is shaping the debate through leadership, influence and advocacy.

BusinessNZ is New Zealand's largest business advocacy body, representing:

- Regional business groups EMA, Business Central, Canterbury Employers' Chamber of Commerce, and Employers Otago Southland
- Major Companies Group of New Zealand's largest businesses
- Gold Group of medium sized businesses
- Affiliated Industries Group of national industry associations
- ExportNZ representing New Zealand exporting enterprises
- ManufacturingNZ representing New Zealand manufacturing enterprises
- Sustainable Business Council of enterprises leading sustainable business practice
- BusinessNZ Energy Council of enterprises leading sustainable energy production and use
- Buy NZ Made representing producers, retailers and consumers of New Zealand-made goods

BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy and services for enterprise, BusinessNZ contributes to Government, tripartite working parties and international bodies including the International Labour Organisation (ILO), the International Organisation of Employers (IOE) and the Business and Industry Advisory Council (BIAC) to the Organisation for Economic Cooperation and Development (OECD).

www.businessnz.org.nz