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Sent: Friday, 5 June 2020 6:48 pm
To: ben.cunliffe@parliament.govt.nz; Andrew Hume; Bertrand Ngai
Subject: Letter to Minister Woods
Attachments: Letter to Minister Woods - June 2020 (Strategic Review).pdf

Dear Ben, please find attached a letter from Refining NZ CEO Naomi Woods to Minister Woods.
Nga mihi
Ellie Martel.



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5th June 2020

Hon. Megan Woods
Minister of Energy and Resources

Via email: m.woods@ministers.govt.nz

Dear Minister,

We appreciate the time you have taken to focus on the challenges facing Refining NZ and thank you for the time you took to speak to me yesterday.

As you are aware, we commenced a strategic review in April against a backdrop of structural change in the global refining industry. This has been driven by growth in new capacity in Asia, well in excess of regional demand, resulting in very low refining margins. This overcapacity is forecast to increase over the next 5 years. In New Zealand, this has meant Refining NZ reaching the point where continued operation of Marsden Point Oil Refinery in its current form is unsustainable.

The first phase of our review has been to identify and assess all the options for continuing crude oil refining in New Zealand and options to convert to finished product import operations. We are now close to finalising the first phase of our strategic review and our work is indicating that changes within our control will not be sufficient to allow the refinery to remain economically viable in New Zealand over the medium and longer term.

As the review progresses through to finalisation over the next two weeks, we are seeking Government input on a number of matters (provided to MBIE on 30 April 2020) as follows:

1. The strategic importance to New Zealand of maintaining refining capacity in New Zealand

- We note that the New Zealand Government has not to date publicly communicated a position in relation to refining in New Zealand. A number of Government policy announcements relevant to the hydrocarbon fuel supply chain have been made over the last 18 months, such as the legislation of the 2050 net zero emission target and the setting of new shorter-term emissions reduction targets, the prohibition on new oil and gas exploration and the decision to restrict Kiwisaver investments in this area.*

2. How the refinery today contributes to New Zealand's IEA obligation to hold oil stocks and what impact transition to an import model with product storage could have

- We note that the closure of the refinery would reduce the level of oil stocks held in New Zealand by approximately 30% and that any shift to imports will require decisions to be made around the level of NZ storage in the fuel supply chain.*

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3. Any potential changes in Government policy for fuel supply chain resilience requirements, as identified in the Pipeline Inquiry – or related to independent control of NZ's fuel infrastructure

- [REDACTED] s 9(2)(f)(iv)
[REDACTED]
- *We would like to understand how Refining NZ might be impacted by any upcoming decisions, and whether there is a broader role for Refining NZ to play as an independent owner of New Zealand's shared fuel supply infrastructure, which might encourage adequate investment to New Zealand fuel storage.*

4. Options for RNZ to access lower cost electricity and gas, including lower distribution charges

- *Refining NZ is a significant source of demand for utilities in the Northland region, making up 25% of Northland demand.* [REDACTED] s 9(2)(b)(ii)
[REDACTED]
[REDACTED]
[REDACTED] *We note that the proposed changes to transmission pricing currently under consideration would further increase these costs.*
- *We are meeting with Transpower's CEO and the Electricity Authority next week. We are also seeking responses from our electricity and gas suppliers, regarding their ability to lower Refining NZ's electricity and gas costs in the near term.*

5. What should RNZ assume about longer term EITE allocations under the ETS

- *Refining NZ has approximately 1.1mt of CO2 emissions at present, representing just over 1% of New Zealand emissions. It was awarded EITE status in April, with the Government's Regulatory Impact Statement noting that while the closure of the refinery would reduce New Zealand emissions, it would likely result in an increase in global emissions (Regulatory Impact Analysis: Regulatory Impact Statement - Future climate change policy treatment for Refining NZ).*
- *We note announcement of new emission caps for 2021 to 2025 this week and the planned review of EITE allocations later this year.*
- [REDACTED] s 9(2)(j)
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

6. How RNZ's assets, skills and personnel capabilities may play a role in the New Zealand Government's planned transition to a lower carbon fuels future

- *We have engaged with MBIE and the Government's consultants to provide information on the various capabilities available at Marsden Point.*
- *These discussions have focused on what option value these capabilities may have as New Zealand determines the lowest cost pathway to transition to greener fuels in the future, as under consideration in the Ministry of Transport's Green Freight project.*

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7. Any other considerations the Government wishes to provide as input to the strategic review

As you can see, the objective of engaging with Government is to understand the position of Government around the refinery, and the timing of transition, as Refining NZ contemplates the need to make significant changes in its operations.

We have undertaken to update the market on the outcome of Phase 1 of the strategic review by the end of June and had previously requested Government input by the end of May. I would be grateful to receive your response as soon as possible, so that this can be considered by our Board later in June as we finalise the first stage of the strategic review.

As noted, we will also update you on the review's outcome as soon as we are able to, and will make arrangements to do so closer to the time.

Nga mihi,



Naomi James
Chief Executive Officer

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