

New Zealand's experience with ticketing

Petrostocks 2007

New Orleans

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New Zealand

Overview

- **Tendered for tickets in Sept/Oct 2006 for**

2007

438,000t*

2008

275,000t

- **Sought bids from**

- New Zealand
- Australia
- UK
- Netherlands

Government to Government agreements
in place

- **Contracts concluded with**

BP
Shell
Total

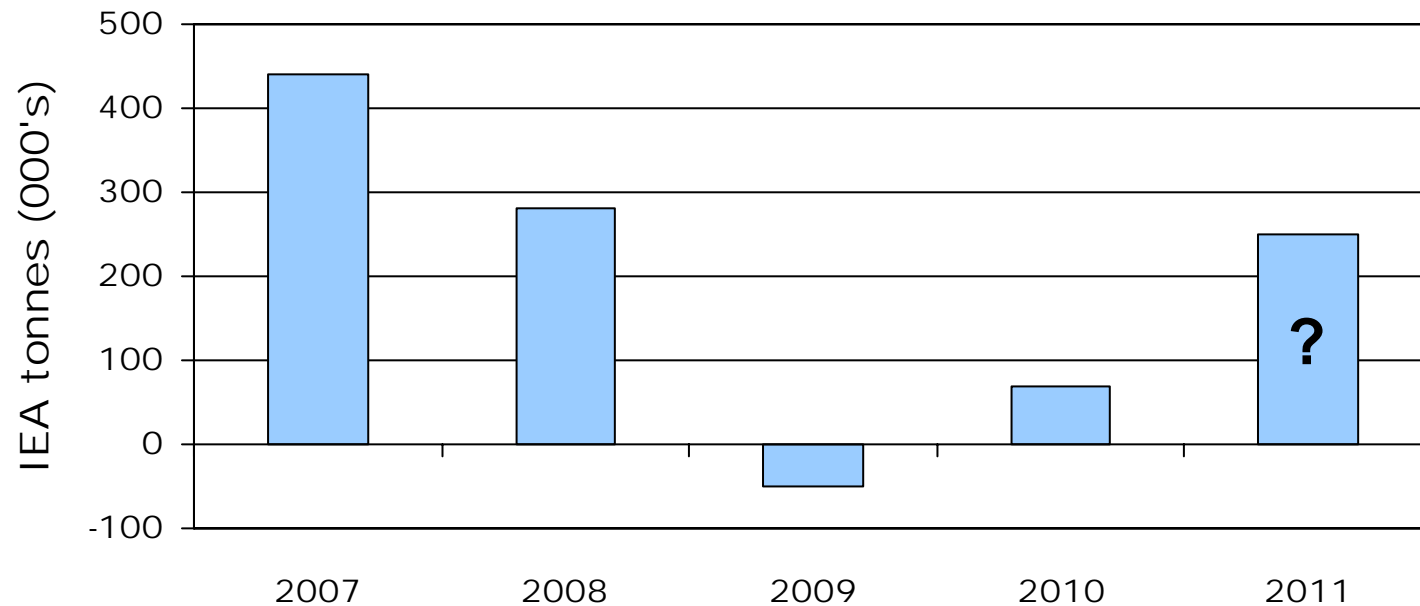
in

Australia
UK
Netherlands

for

Gasoline
Gasoil

Additional reserves required



- Short-term requirement
- Highly variable quantities
- High uncertainty in longer term

Options considered

- Existing storage in NZ
 - None available
- New storage in NZ
 - 2-3 year lead-time
 - Uncertain future requirements
- Overseas stockholding
 - Type of contract?
 - Best option: tickets
- Note: Also propose to use tickets for stocks in any spare tanks in NZ. (Companies better placed than govt to manage shorter-term price risk)

Tickets

- Option to purchase stocks in an (IEA) emergency
 - Specified quantity, stock type and duration
 - Specified price
 - Usually market price at time of purchase
 - Specified terms and conditions
 - Definition of emergency, process requirements and timelines
 - Rateability of supply
 - Company GT&C's (General Terms and Conditions)
 - Taxes, duties etc
 - Dispute resolution
- Payment of monthly fee

Govt to Govt agreements

- Critical component
- NZ agreed to:
 - Seek approval of maximum quantities and stock types
 - Notify contracts entered into
 - Consult (briefly) before exercise option to purchase
- Overseas government agreed to:
 - Not impede release of stocks to NZ in an IEA emergency

Policy issues

- How know stocks/tickets add to overall oil security?
 - Confident that stock is additional to IEA obligations and host government obligations
 - NZ reports overseas stock holdings to IEA
 - Oil companies report total stocks to their governments
 - Including any stock subject to ticket obligation
 - Overseas government reports to IEA
 - Total stocks
 - Stocks 'reserved' for overseas government
 - Net stock position (needs to meet IEA obligations)

Policy issues (continued)

- Can NZ be sure stocks will be available in an emergency?
 - Quality of counter-party and contract is crucial
 - Government to government agreements essential
- What about transport to NZ?
 - NZ faced with long supply lines anyway
 - Some stock in Australia
 - Option to get supply from closer location ('swaps')
 - Option to 'release' (releases stock on to local market)

Policy issues (continued)

- What about high purchase price in an emergency?
 - NZ government would on-sell to oil companies at market price
 - To do otherwise gives windfall gain to oil companies
 - Best way to manage overall market shortage is to allow price mechanism to work
 - Option to 'release'
- What about availability for an emergency in NZ?
 - If only a domestic emergency can 'manage' existing stocks and acquire additional stocks on global market

Tendering process

- Developed template contract
 - Not rely on oil companies' contracts
 - Consulted on the contract
- Developed RFT (request for tender)
 - Consulted with potential bidders
- Two-step RFT
 - Registration / pre-qualification
 - Included finalising contract and GT&C's
 - Commercial offers (price, type, quantity, duration)

Conclusions

- Ticketing working well for NZ
 - Cost-effective way to meet obligations
 - Flexible (term, quantity, stock-type)
 - Straight-forward management and administration
- Provides additional oil security, but less secure than domestically-held stocks
- Government to Government agreements are essential
- Good tendering and contracting processes are essential