REPORT

COMMERCE COMMISSION NEW ZEALAND
Te Komihana Tauhokohoko

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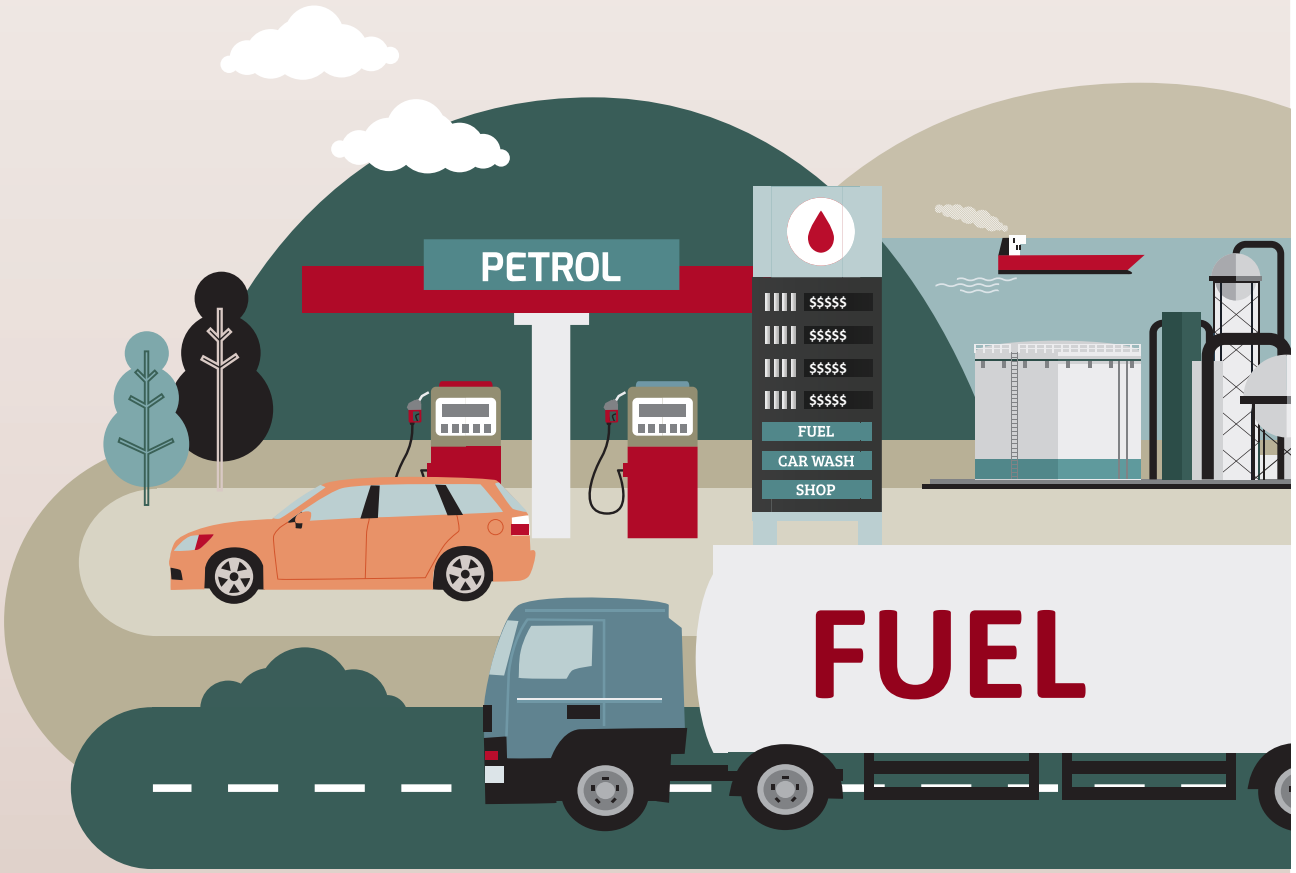
Quarterly Fuel Monitoring Report

For the quarter ended 30 June 2022



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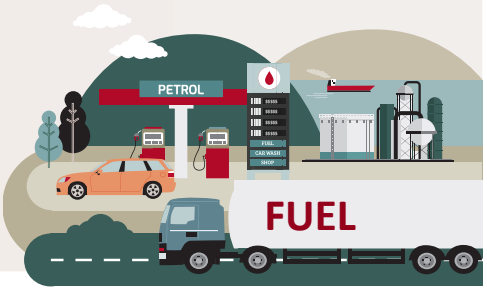


Preface

This is the first report we have produced to monitor the performance of engine fuel markets in New Zealand under the Fuel Industry Act 2020 (the Act).[1] It provides a snapshot of the competitive performance of engine fuel markets in New Zealand and is based on our analysis of information disclosure (ID) provided to us for the three months to June 2022.

This report is the first in an ongoing series of quarterly reports shining the light on the performance in these markets. We expect to build a more robust picture of performance as more data become available over time.

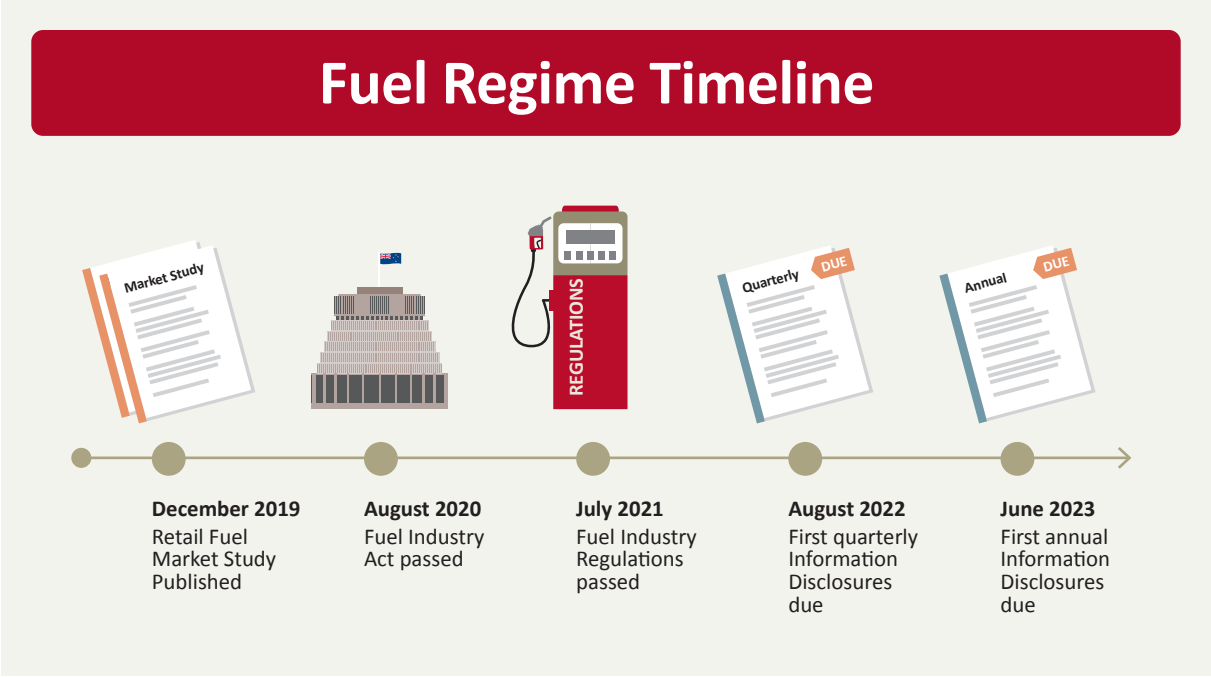
Fuel is an essential purchase for many New Zealanders and money spent on petrol and diesel represents a significant proportion of household and company bills – spending on petrol and diesel accounts for 4.6% of the average annual New Zealand household expenditure.[2] Retail sales of fuel have an annual cost to consumers of more than $10 billion.

This monitoring regime arose from the first competition study undertaken under Part 3A of the Commerce Act 1986. In late 2018, the Hon Kris Faafoi, Minister of Commerce and Consumer Affairs, directed the Commerce Commission (Commission) to undertake a study into the factors affecting competition within retail fuel markets.[3] We published the resulting Retail Fuel Market Study (market study) report a year later. In the report, we identified shortcomings in the competitiveness of fuel markets in New Zealand, namely the absence of an active wholesale market and poor consumer information at the pump.[4]

In response, the Government established a regulatory regime aimed at promoting competition in engine fuel markets for the long-term benefit of consumers.[5] The Act and Regulations come into effect in stages. The requirement to publish terminal gate prices (TGPs) took effect from 11 August 2021.[6] Requirements relating to fixed wholesale contracts also came into effect on 11 August 2021 (for new contracts) and 11 August 2022 (for all contracts, ie, including those entered into prior to 11 August 2021).[7] The first quarterly information disclosure (ID) was provided on 1 August 2022 (for the three months to 30 June 2022). The first information that must be disclosed on an annual basis is not required until June 2023.[8]

1 See Appendix 2: Explanatory notes- Explanatory Note 2: ID Data, at [34].
2 https://www.stats.govt.nz/news/petrol-and-interest-payments-drive-up-cost-of-living
3 https://gazette.govt.nz/notice/id/2018-go6158.
4 Commerce Commission "Retail fuel market study - Final report" (5 December 2019), at [9].
5 Fuel Industry Act 2020, s 3.
6 Fuel Industry Act 2020, s 2(3)(a) (date of Royal assent was 11 August 2020).
7 Ibid, see also Schedule 1, Part 1, clause 2(1) and clause (2)(b).
8 See Appendix 2: Explanatory notes- Explanatory Note 2: ID Data, at [34].

Figure 1 - Fuel Regime Timeline



Energy and Resources Minister Dr Megan Woods announced that a backstop regime is being developed to incentivise wholesale suppliers to ensure that TGPs are competitive. The backstop will enable the Commission, under certain circumstances, to set specific wholesale prices.[9]

The new regime is focussed on promoting greater competition in wholesale and retail fuel markets. A more active wholesale fuel market should promote price competition and enhanced consumer information should incentivise retailers to compete more vigorously. Other forces operating beyond the reach of this regime —such as the international price of crude oil and refined products, foreign exchange rates, and taxes — will continue to strongly influence retail prices. However, promoting healthy domestic market competition will help to keep downward pressure on fuel prices and deliver better value to New Zealanders.

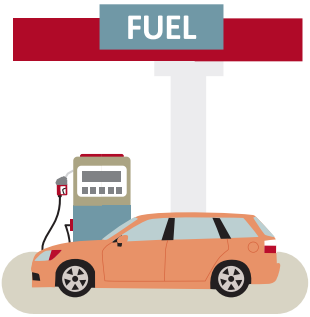
Promoting healthy competition within the domestic fuel sector keeps downward pressure on fuel prices and delivers better value for New Zealanders.

9 The Government also provided an update on measures it is taking to improve fuel resilience and indicated that the start date for fuel wholesaler obligations to deploy biofuels into their fuel supply will be delayed until 1 April 2024. https://www.rnz.co.nz/news/political/478341/commerce-commission-given-power-to-set-fairer-petrol-diesel-prices; and https://www.beehive.govt.nz/release/fuel-markets-become-more-resilient-sustainable-and-competitive.

Key features of the Fuel Industry Act 2020

Figure 2 - Fuel Industry Act 2020: New rules for industry participants

New rules promote competition in the New Zealand fuel market



Petrol stations are now required to clearly display the standard prices of all engine fuels that they sell to help motorists shop around for the best deal before they pull onto the forecourt.

Transparency in pricing is intended to allow consumers to make informed purchasing decisions. The new rules will also level the playing field for retailers and improve competition for customers looking for a better deal at the pump.

Stimulating wholesale competition in fuel markets

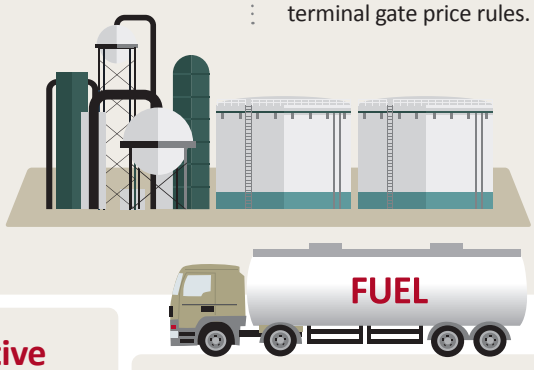
The Fuel Industry Act introduced new requirements designed to make it easier for retailers to access fuel at competitive wholesale prices. These requirements started coming into force from August 2021, and it came fully into force in August 2022. These are:

Terminal gate pricing
Wholesale fuel suppliers must publish a spot price for fuel and are generally required to sell it to any wholesale customers that want it at that price, even if they're competitors.

Wholesale contract rules
These limit the use of restrictive terms in wholesale contracts, freeing up wholesale customers to shop around for a better deal.

Dispute resolution
The Act provides a process for wholesale fuel suppliers and their customers to resolve disputes about wholesale contracts and terminal gate price rules.

The Commission can seek court-ordered **penalties of up to $5 millon** if fuel companies do not comply with these new rules



Monitoring the competitive performance of fuel markets

Fuel companies will also need to disclose key information to the Commission to help us monitor and report on the competitive performance of fuel markets now that these changes are in place.

Why are we regulating fuel?

The Government introduced the Fuel Industry Act following the Commission's 2019 fuel market study, which found a number of shortcomings in the competitiveness of fuel markets in New Zealand – particularly in the wholesale market.

The Commission also enforces other legislation that affects the fuel sector:

The Commerce Act – this prohibits anti-competitive conduct and acquisitions that substantially lessen competition

The Fair Trading Act – this prohibits false and misleading conduct and other unfair business practices.

More information about the Fuel Industry Act and the Commerce Commission's role can be found at **www.comcom.govt.nz/fuel**

Source: Commerce Commission.

The Commission's role

The Commission has two roles under the Act:

- enforcing the requirements of the Act; and
- analysing information disclosed under the Act in order to monitor the competitive performance of fuel markets.[10]

Enforcing the requirements of the Act

The Commission has the primary enforcement role in relation to the obligations on fuel industry participants. We monitor compliance with the requirements of the Act.

Where we have concerns about potential non-compliance, we may investigate. If we consider a breach has likely occurred, we will apply our Enforcement Criteria to select from a range of enforcement responses, including seeking pecuniary penalties against industry participants in the courts.[11]

Analysing and monitoring information disclosed by industry

Our other key role is to monitor and analyse information in order to assess the competitive performance of the markets.[12] Our quarterly reports will publish the results of our monitoring analysis, showing how fuel markets are evolving over time and highlighting any matters relevant to competition and market outcomes.

The analysis we undertake will evolve as we build a longer data set over time, and gain a deeper and more reliable understanding of how competition is working for consumers.

If you have any questions regarding this report, please contact us at fuel@comcom.govt.nz.

10 See Appendix 2: Explanatory notes- Explanatory Note 2: ID Data, at [34].
11 https://comcom.govt.nz/about-us/our-policies-and-guidelines/investigations-and-enforcement/enforcement-criteria.
12 See Appendix 2: Explanatory notes - Explanatory Note 2: ID Data, at [35].

Our Findings

This first quarterly report presents our findings on trends and activity during the three months to June 2022, and notes market changes since the market study was completed in December 2019.

We summarise our findings below and provide detail on the analysis underlying them in the chapters following.

The market is volatile, and there have been significant domestic structural changes

Global and domestic fuel markets have been volatile over the past two and a half years, and retail fuel prices are currently high relative to long-term average prices. International events have affected crude oil and refined product prices worldwide, and significant structural changes within the domestic sector in the first half of 2022 have altered the domestic operating environment. The full impact of this volatility on New Zealand's domestic fuel sector may only become apparent over time.

Importer margins in the June 2022 quarter were lower than at the time of the market study

Importer margins are the difference between retail prices and the cost of importing fuel into New Zealand. Importer margins cover the domestic costs of operating terminal storage facilities, distribution costs (such as trucking and pipeline costs), and retail costs, as well as aggregate importer, wholesale and retail profit margins.[13,14]

Trends in importer margins are one indicator of how competition is evolving over time. Falling margins indicate that competition has intensified.

We have compared importer margins for the June 2022 quarter against those observed during the market study (which reviewed 2018 data). This comparison indicates that importer margins in the June 2022 quarter were lower than observed during the market study:

- In the June 2022 quarter, average importer margins were 21 New Zealand cents per litre (cpl) for diesel, 22 cpl for Regular 91, and 34 cpl for Premium 95.
- In 2018, comparable margins were 31 cpl for diesel, 30 cpl for Regular 91, and 40 cpl for Premium 95.
- On this measure, since the period considered in the market study, margins have fallen by:
  - 32% for diesel;
  - 27% for Regular 91; and
  - 15% for Premium 95.

We note that there has been significant volatility in oil and fuel prices. Analysis of margins in subsequent periods will give a better indication of whether the reduction in margins is isolated or ongoing.

These importer margins reflect the average margins across New Zealand retail sites operated by four of the five fuel importers, but there is significant variability in prices and margins regionally. We intend to undertake regional analysis of competition and other outcomes as part of subsequent reports as we gain further data.

Discounts on retail board prices do not always lead to the lowest prices for consumers

A number of fuel retailers offer discounts on the retail board price for fuel, for example, through loyalty programmes and supermarket dockets.

13 In this report, we use the term fuel importer to refer to a fuel industry participant that imports fuel into New Zealand, and this includes their role as wholesalers or retailers.
14 See page 12 for more detail on importer margins.

Our analysis of retail prices in the June quarter highlights that while discounting is a prominent feature of the New Zealand retail fuel market, discounted prices do not always represent the lowest price. There is wide variation in prices between nearby fuel sites in many areas of New Zealand, so consumers should shop around for the best deal before filling up.

- On average across the country, discounts at importers' retail sites ranged from 5 cpl for Premium 98 to 16 cpl for diesel in the June 2022 quarter. For Regular 91, they were 6 cpl.[15]
- On average across the country for Regular 91, importers offering discounts were not offering the lowest retail price after taking account of the discounts, and in some instances, retailers who did not offer discount programmes were offering the lowest retail price.
- As competitive conditions and retail prices vary across the country, we intend to undertake further analysis of retail board prices and discounts at the local and regional level. We may also include a wider range of fuel retailers such as distributors and independents.

Wholesale market remains contract-based

A key purpose of the new fuel regulatory regime is to stimulate greater competition in the wholesale market as a means of achieving more competitive retail outcomes for consumers. To do this, the Government:

- set rules governing contracts between wholesale fuel suppliers and their wholesale customers to allow greater contractual freedom for resellers to compare offers and switch suppliers; and
- introduced a Terminal Gate Price (TGP) regime.[16]

We have commenced our review of revised wholesale contracts for compliance with the new requirements and will publish our findings in a later report. However, contract prices are already available to us and reported below in averaged form.

The TGP regime was introduced to:

- allow the potential for a liquid wholesale spot market to develop;
- reduce barriers to entry and expansion for both importers and distributors;
- provide greater pricing transparency for distributors and dealers, to rebalance bargaining power in the wholesale market; and
- provide transparent benchmark information for industry and government to reveal any use of market power in regions where importer competition is weak.[17]

The disclosed data show that no liquid spot market has developed as yet, with TGP sales accounting for only 0.01% of all wholesale trade. The wholesale market therefore remains contract-based.

TGPs in the quarter ended 30 June 2022 are set at higher than expected levels

TGPs look very high when compared against several benchmarks:

- in comparison to Australia, adjusted for differences in taxes and exchange rates;
- in comparison to contract prices, where average TGPs range from 10 to 23 cpl higher than wholesale contract prices; and
- in comparison to retail prices, where TGPs range from 6 to 8 cpl lower than the average discounted retail board prices.

15 Whilst ID does not provide us with any data around the reason/s for variations in discount levels by fuel grade, the most likely reason for diesel discounts on offer being much higher than those for petrol is the use of commercial fuel cards by large truck fleets.
16 https://comcom.govt.nz/regulated-industries/fuel.
17 Ministry of Business, Innovation and Employment, Regulatory impact statement: https://www.mbie.govt.nz/dmsdocument/11217-regulatory-impact-statement-fuel-industry-bill p.28.

Our initial review of wholesale contracts has found that at least one-quarter of contracts contain clauses which incorporate TGP as part of a pricing methodology.[18]

While it is too early to draw firm conclusions on how posted TGPs are affecting overall competition in the wholesale market, our observations suggest that future monitoring reports might consider:

- differences in TGP price components that could account for the large differences in TGPs between Australia and New Zealand, given that these have already been adjusted for differences in taxes, as well as exchange rates;
- differences in TGP price components that could account for the differences in TGPs between fuel importers;
- factors that could account for the differences between average TGPs and contracted wholesale sale prices –including wholesale contract pricing methodologies, with a focus on how TGP is utilised as a contract pricing tool; and
- how the differences between TGPs and retail prices and their relationship to downstream costs change over time.

Structure of this report

The rest of this report contains more detailed analysis with a focus on four areas:

- **Industry developments;**
- **Retail sites, prices, and volumes;**
- **Wholesale prices and volumes; and**
- **Terminal Gate Price analysis.**[19]

18 Wholesale contracts between importers and resellers (wholesale suppliers/distributors and/or dealers) submitted to the Commission as part of ID on 1 September 2022.

19 These were key issues identified in the market study.

Industry developments

Global and domestic fuel markets have been volatile over the past two and a half years. The operating environment in New Zealand has been altered by events affecting crude oil prices internationally and changes to the structure of the domestic sector in 2022.

Increased international price volatility, lower importer margins

The last two years have been a period of volatility with a sharp drop in prices in early 2020 due to the outbreak of Covid-19. A partial recovery from the impacts of Covid-19 in late 2021 was followed by the Russian invasion of Ukraine in February 2022.[20] Global fuel prices increased during the June 2022 quarter as uncertainty around the military action continued and there was a decrease in oil supply available from Russia, in part due to international sanctions. At the end of the quarter, domestic retail fuel prices were high relative to long-term averages.

Global refining margins were volatile throughout the quarter, reaching record highs and then plummeting after the end of June, as concerns over a recession entered the market.[21] Refining margins were influenced by high global demand – for diesel in particular – and reductions in supply due to low inventories, as well as the impact of economic sanctions against Russia.

The cost of importing fuel products into New Zealand was also impacted by exchange rate variability. During the quarter, the New Zealand dollar against the US dollar fell from $0.69 to $0.62, increasing fuel costs in New Zealand dollars.[22]

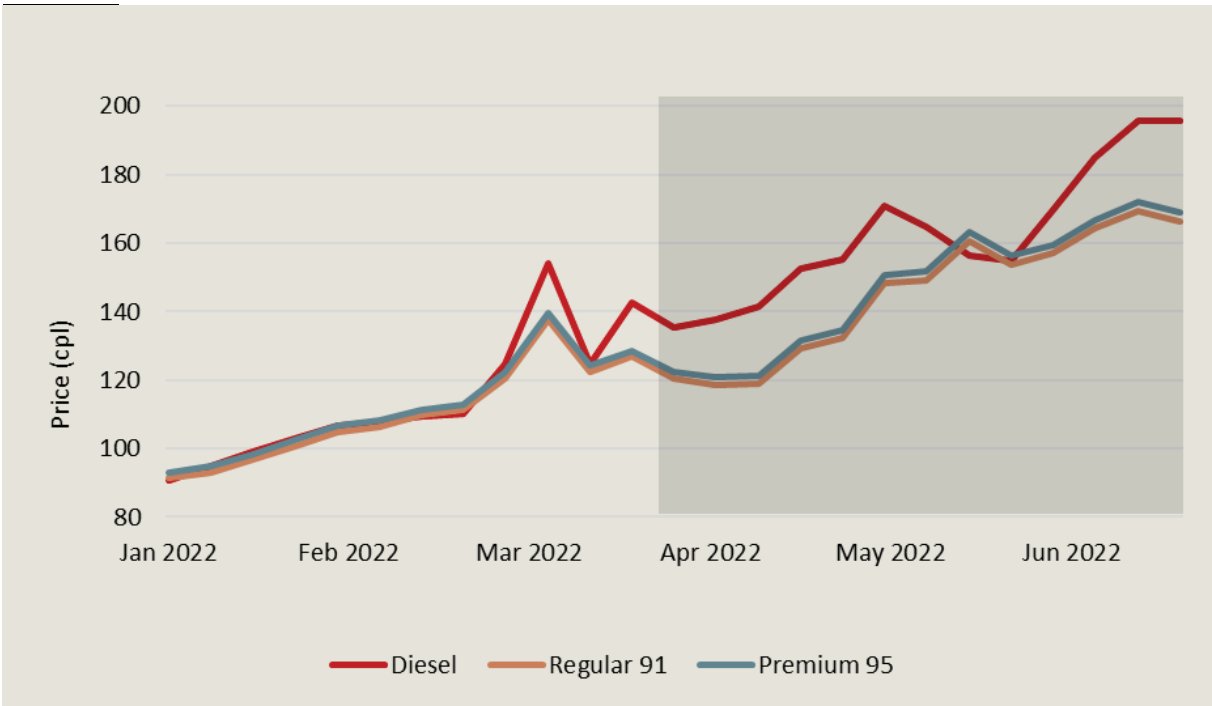
Importer margins observed during the June 2022 quarter are lower than those observed during the fuel market study. Analysis of margins in subsequent periods will add to our understanding of whether this represents a sustained reduction in margins.

International price volatility also impacts local pricing

The events mentioned above contributed to the cost of importing fuel products into New Zealand during the March and June 2022 quarters, as shown below.

20 https://www.beehive.govt.nz/speech/prime-ministers-statement-russian-invasion-ukraine.
21 Refinery Margins and Cracks Hit Record - Rigzone.
22 Exchange rates and Trade Weighted Index (B1) - Reserve Bank of New Zealand - Te Pūtea Matua (rbnz.govt.nz).

Figure 3 - Fuel Importer Costs



Source: MBIE weekly fuel monitoring data

Significant changes in the domestic oil market

The most significant change in the domestic market occurred at the beginning of the quarter with the closure of New Zealand's only oil refinery at Marsden Point and conversion of the refinery to an import-only terminal. The New Zealand Refining Company Ltd (NZE:NZR), which had previously been operating the refinery, changed its name to Channel Infrastructure (NZE:CHI) to coincide with the change in operation of the business on 1 April 2022.[23]

The closure and conversion of the refinery was followed by the termination of the coastal shipping activity that had been run by Coastal Oil Logistics Limited (COLL). COLL's two coastal ships were redeployed overseas once the refinery closed.

Domestic policy changes and developments have impacted the local market

In early 2022, the Government reduced the fuel excise duty rate from 70 cpl to 45 cpl (effective from 15 March 2022). The reduction was initially for a period of three months, but was subsequently extended through until 31 January 2023.[24,25]

MBIE has been monitoring fuel margins since the cut in fuel excise duty "to determine whether the reduction to petrol excise duty, as well as any consequent GST reduction, is being passed through to consumers in a manner that is expected in a competitive market."[26] MBIE has developed a 'weekly fuel industry traffic light' system to show how industry margins have changed since the reduction in the excise tax rate.[27]

23 https://www.nzx.com/announcements/389509.
24 https://www.beehive.govt.nz/release/government-cuts-25c-litre-fuel-excise-cost-living-relief-package.
25 https://www.beehive.govt.nz/release/govt-provides-more-cost-living-support.
26 https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/energy-generation-and-markets/liquid-fuel-market/monitoring-the-petrol-excise-duty-reduction/.
27 https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/energy-generation-and-markets/liquid-fuel-market/monitoring-the-petrol-excise-duty-reduction/.

As at the end of the quarter, we have found no discernible impacts on wholesale or retail pricing brought about by structural changes to the domestic fuel supply infrastructure in New Zealand. We further expand on this observation regarding prices and volumes in subsequent chapters of this report.[28]

On 9 November 2022, the Energy and Resources Minister Dr Megan Woods announced that a backstop regime is being developed to incentivise wholesale suppliers to ensure that TGPs are competitive. The backstop will enable the Commission, under certain circumstances, to set specific wholesale prices.[29]

28 See p. 12-18 and 19-23 of this report.
29 The Government also provided an update on measures it is taking to improve fuel resilience and indicated that the start date for fuel wholesaler obligations to deploy biofuels into their fuel supply will be delayed until 1 April 2024. https://www.rnz.co.nz/news/political/478341/commerce-commission-given-power-to-set-fairer-petrol-diesel-prices; and https://www.beehive.govt.nz/release/fuel-markets-become-more-resilient-sustainable-and-competitive.

Retail sites, prices, and volumes

Key findings

Importer margins have fluctuated during the quarter, but were substantially lower on average during the quarter than at the time of the market study.

While discounting is a prominent feature of the New Zealand retail fuel market, discounted prices are not necessarily the lowest prices available in a local area.

- On average across the country for Regular 91, importers offering discounts were not offering the lowest retail price after taking account of the discounts and in some instances, retailers who did not offer discount programmes were offering the lowest retail price.
- As competitive conditions and retail prices vary across the country, we intend to undertake further analysis of retail board prices and discounts at the local and regional level. We may also include a wider range of fuel retailers such as distributors and independents.
- On average across the country, discount levels at the pump during the quarter were higher than those shown in the market study.[30]

Domestic retail volumes have remained relatively stable over the past quarter despite price volatility, indicating that demand is not sensitive to price in the short term.

There were only a small number of site openings and closings during the quarter, resulting in no significant change to overall retail site numbers.

Importer margins were lower during the June 2022 quarter than at the time of the market study

Retail board prices for different fuel types can be broken down into the following components:

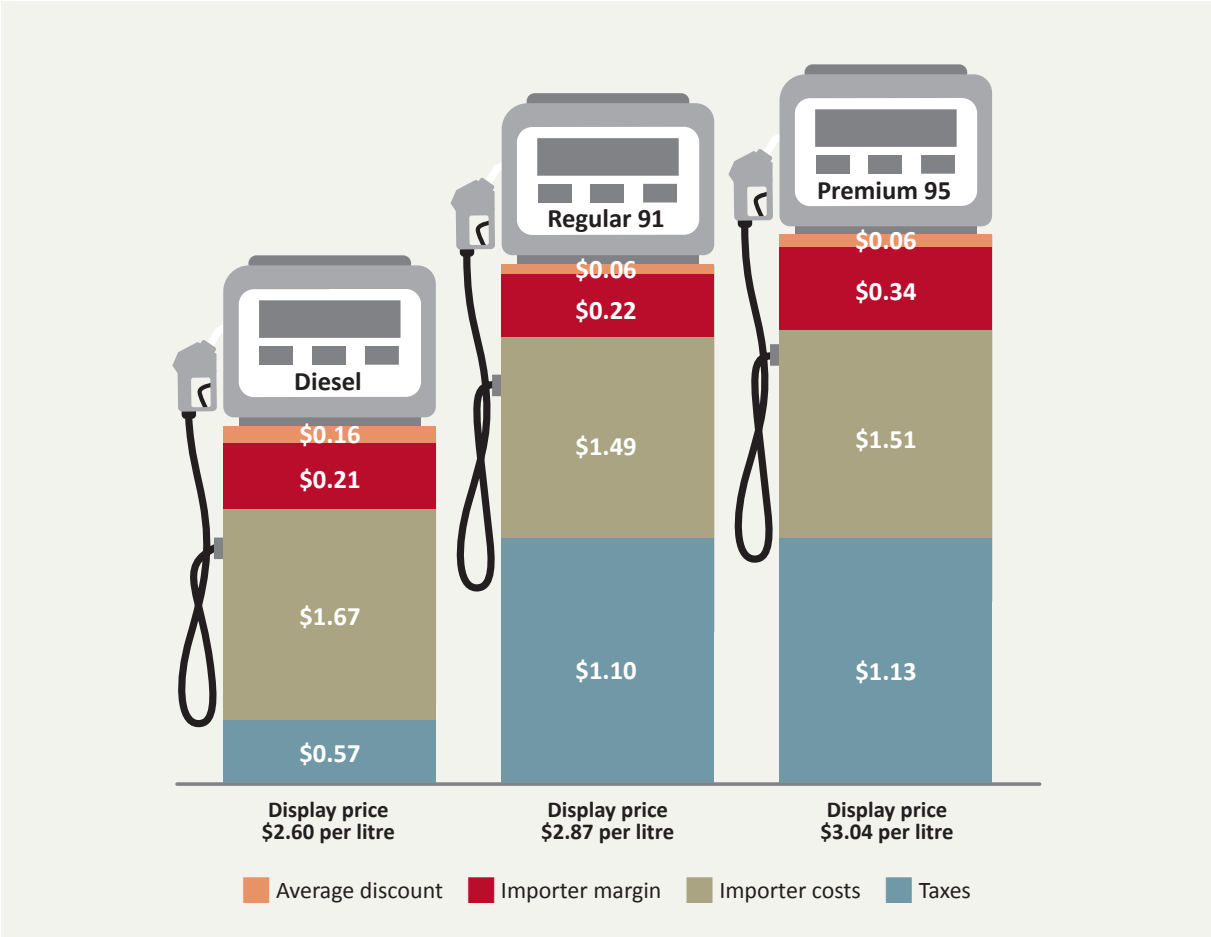
- the average level of discounting that occurs;
- taxes and levies;[31]
- importer costs (representing the cost of acquiring fuel at an overseas refinery and shipping it to New Zealand); and
- importer margins (the gross margin between discounted retail prices and importer costs and taxes).[32]

We have calculated average retail board prices for the main fuel types using information received under ID for the June 2022 quarter. We have also calculated average discounts by fuel type for the quarter, using retail board prices, retail sales volumes and retail revenues received under ID.

For importer costs and taxes and levies, we have used publicly available data from MBIE's weekly fuel monitoring.[33] The main components of retail board prices are shown in Figure 4.

30 Commerce Commission "Retail fuel market study - Final report" (5 December 2019), at 51 (Fig 2.2).
31 See Appendix 3 for the taxes, levies, and details of the New Zealand Emissions Trading Scheme Carbon Costs applicable to fuel.
32 Importer margins cover the domestic costs of operating terminal storage facilities, distribution costs (such as trucking and pipeline costs), and retail costs, as well as aggregate importer, wholesale and retail profit margins.
33 We intend to undertake our own analysis of the costs of importing refined fuel into New Zealand in the future.

Figure 4 - Retail board prices and estimated components – June 2022 quarter



Source: ID data; and MBIE weekly fuel monitoring data.
Note: We have excluded Premium 98 from our analysis as MBIE data does not include this grade of petrol.

As shown above, the main components of retail board price are the costs of importing fuel into New Zealand and taxes. Taxes and importer costs made up the following percentages of retail board price for different fuel types over the June 2022 quarter:

- Diesel:
  - taxes comprised an average of 22% of the retail board price; and
  - importer costs comprised an average of 64% of the retail board price;
- Regular 91:
  - taxes comprised an average of 38% of the retail board price; and
  - importer costs comprised an average of 52% of the retail board price; and;
- Premium 95:
  - taxes comprised an average of 37% of the retail board price; and
  - importer costs comprised an average of 50% of the retail board price.

In monitoring fuel markets in New Zealand, we are particularly interested in the components that are influenced by domestic operating conditions and competition, including the average discount and importer margin components and how these evolve over time.

We reported a similar breakdown of retail fuel prices in the market study, for the 2018 year.[34] The importer costs used in the market study were calculated using the Mean of Platts Singapore pricing data. In order to compare estimates we have used MBIE's importer cost data for both 2018 and the June 2022 quarter.[35] The resulting importer margins for each fuel type are shown below in Table 1.

Table 1 - Importer margins by fuel type (cpl)

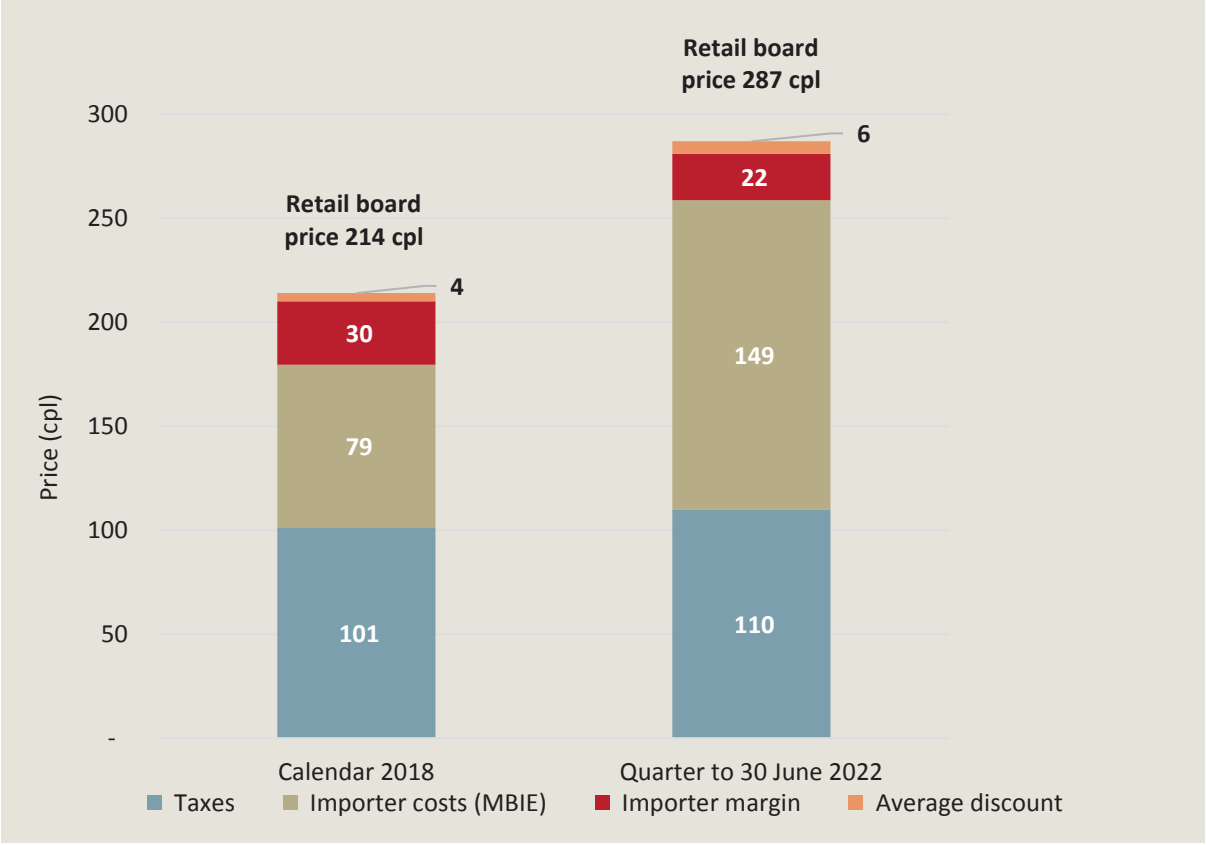
Fuel Type	Calendar 2018	June 2022 quarter	% change
Diesel	31	21	-32%
91	30	22	-27%
95	40	34	-15%

Source: ID data; MBIE weekly fuel monitoring data; and market study (2018).

The market study figures included some data from distributors.[36] Including distributor data could change the size of the margin decrease. However, we would not expect this to be significant, based on a number of factors, including distributors' relative market shares.

The change in retail price components for Regular 91 since the market study is shown in Figure 5.

Figure 5 - Change in retail board prices and estimated components – Regular 91



Source: ID data; MBIE weekly fuel monitoring data; and market study (2018).

34 Commerce Commission "Market study into the retail fuel sector Final report" 5 December 2019, at 51.
35 In the market study, we estimated importer costs during the calendar 2018 year to be 83 cpl for 91, 86 cpl for 95, and 87 cpl for diesel. For the purposes of comparison with the June 2022 quarter, we have used the average MBIE importer cost estimates for 2018, of 79 cpl for 91, 80 cpl for 95, and 83 cpl for diesel.
36 Information on distributor retail sales figures will be available to us on 1 September 2023, as part of distributor annual retail disclosures under Regulation 17(J).

This indicates that importer margins for the June 2022 quarter are lower than the importer margins at the time of the market study. However, we would not reach strong conclusions based on an analysis of a single quarter and we note that there has been significant volatility in fuel prices and margins.[37] Analysis of importer margins in subsequent periods is likely to provide a better indication of whether the reduction in margins has been sustained.

A retail discount does not always mean that consumers pay a lower price

A number of fuel retailers offer discounts on the retail board price for fuel, obtainable through loyalty programmes (eg, AA Smartfuel, AirPoints, FlyBuys, Mobil Smiles, Z Pumped) as well as supermarket dockets. Importers are required to provide quarterly information (as part of ID) that enables us to calculate an average level of discount by fuel type. Our methodology for this calculation is shown in Table 2.

Table 2 - Methodology for determining average retail discount levels

Average discount =	Calculation
Calculated revenue from ID	(retail board price * volume sold)
Less	-
Actual revenue from ID	(actual revenue received from volume sold)
Divided by	/
Total sales volume from ID	(actual total litres sold)

On average across the country for Regular 91, importers offering discounts were not offering the lowest retail price after taking account of these discounts.

Figure 6 - Average discount to retail board prices by importer – Regular 91

Source: ID data. Includes all taxes.
Note: Distributor retailer prices are not included as these are not part of the ID data we have received to date.

37 For example, MBIE's 'traffic light' system for monitoring the reduction in petrol excise duty turned red for a number of weeks in July 2022, indicated that there had been a relatively large increase in importer margins.
38 Whilst ID does not provide us with any data around the reason/s for variations in discount levels by fuel grade, the most likely reason for diesel discounts on offer being much higher than those for petrol is the use of commercial fuel cards by large truck fleets.

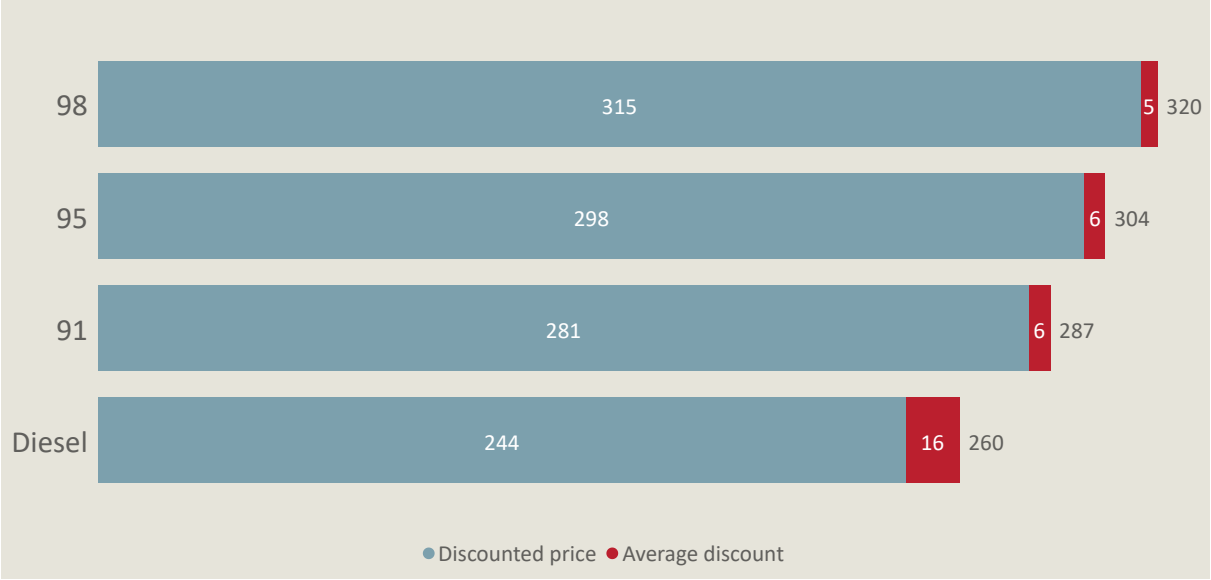
Discount levels in the retail fuel market are larger for the best-selling fuel grades by volume

Based on information disclosed, we have estimated the average retail discounts at a national level.

Figure 7 shows the fuel grades from least sold to most sold by volume, and indicates that discounts are:

- larger for diesel and Regular 91 than for premium fuel grades,
- significantly higher for diesel than petrol; and
- for petrol grades, broadly in line with known programmes, such as AA Smartfuels, AirPoints, FlyBuys and Mobil Smiles.

Figure 7 - Average discount to retail board price by fuel type



Source: ID data. Includes all taxes.

Discounts to retail board prices do not always lead to the lowest prices for consumers. Importers that strongly promote discounting programmes (eg, BP, Mobil and Z) do not necessarily have lower prices after discounts than Gull, which only occasionally offers discounted fuel.

These findings, and the wide variation in prices observed between nearby fuel sites in many areas of New Zealand, highlight that consumers should 'shop around' for the best deal before filling up.

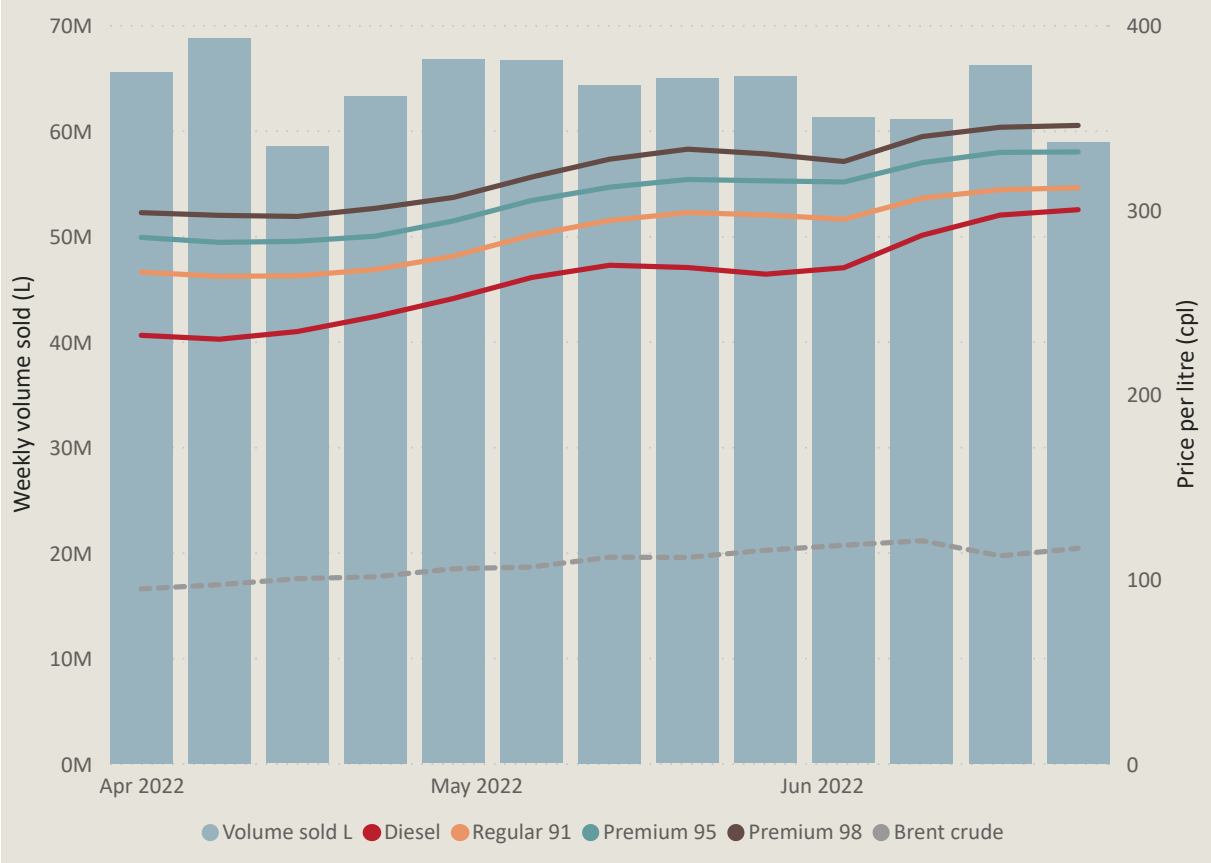
Retail sales volumes did not reduce as prices increased

Weekly retail board prices reached record highs during the quarter, with diesel, Regular 91 and Premium 95 reaching as high as 299.9, 312 and 331 cpl respectively.[39,40] Diesel prices increased more than Regular 91 prices, in line with international price changes. There was no significant change to premiums on higher octane fuels over the quarter as prices rose.

Despite these price increases, as shown in Figure 8 below, there was no significant reduction in weekly sales volumes. This observation is consistent with the view that demand for fuel is not price-sensitive in the short-run. It is an essential purchase because consumers are locked into their existing patterns of use, at least until they have the time and resources to restructure these patterns.

39 ID data.
40 Prices are inclusive of all applicable taxes, including GST.

Figure 8 - Weekly average retail volumes, retail and benchmark crude prices



Source: ID data; https://www.rbnz.govt.nz/statistics/series/exchange-and-interest-rates/exchange-rates-and-the-trade-weighted-index; and https://www.investing.com/commodities/brent-oil-historical-data.
Note: Brent crude price series is exclusive of any taxes. The drop in crude oil price and the fuel price rise towards end of quarter shows the increase in international refining margins.

Premium petrol volume shares remain similar to 2019

Regular 91 and diesel fuel sales made up 87% of retail sales over the quarter, with Premium (95 and 98) fuels making up the remaining 13% of retail sales, as seen in Table 3.

Table 3 - Retail sales volumes by fuel type - June 2022 quarter

Fuel Type	Sales (millions of litres)	Percentage of total sales
Diesel	379	46%
91	344	41%
95	72	9%
98	37	4%
Total	**831**	**100%**

Source: ID data.

Excluding diesel to focus only on petrol, Premium (95 and 98) sales amounted to 108 million litres during the quarter, which represented 24% of total retail petrol sales volumes. This is similar to sales volumes observed during the market study, when Premium fuels made up approximately 23% of retail petrol sales volumes.[41]

41 Commerce Commission "Retail fuel market study - Final report" (5 December 2019), at 49.

There have been small changes in site numbers during the June 2022 quarter

The majority of retail sites are either owned by, operated by, or have their price set by an importer.

The total number of importer-controlled sites increased by one site only from 1,180 to 1,181 as shown in Table 4.

Table 4 - Number of importer sites where importers started /stopped supplying

Importer	Current	Started	Stopped	Total
BP	398	2	-4	**396**
Gull	91	2	0	**93**
Mobil	173	1	0	**174**
Z	518	1	-1	**518**
Grand Total	**1180**	**6**	**-5**	**1181**

Source: ID data

There was much more site change activity by non-importers over the quarter, with 16 new retail sites opened by distributors and independents. These included some high-profile additions, such as Costco in West Auckland. Nelson Petroleum Distributors Ltd and Waitomo added the largest numbers of new retail sites.[42]

While the Regulations require importers to disclose which sites they started and stopped supplying to, they are not required to disclose a reason for the change in supply arrangements.[43] Additionally, as any effect(s) of competition (or impact on competition) arising from these changes are not yet clear, we intend to examine these further in future reports to understand the reasons for supply changes.

42 Commerce Commission analysis based on Gaspy data.
43 Fuel Industry Regulations 2021, reg 17L(2)(b) and (c). ID data is unclear on whether these stations have closed permanently or have closed temporarily for refurbishment.

Wholesale prices and volumes

Key findings

Since publication of the market study, there have been two significant regulatory developments in the wholesale market:

- new regulations relating to wholesale contracts; and
- the introduction of the TGP regime.

It is not yet clear whether the apparent reduction in importer margins is attributable to these measures. However, a liquid spot market has not yet developed from the TGP regime, and the wholesale market remains contract-based:

- TGP sales made up just 0.01% of wholesale sales over the June 2022 quarter; and
- average fixed wholesale contract sales prices were significantly lower than TGPs.

The difference between posted TGPs and wholesale contract sales prices (the 'TGP premium') was higher than expected, ranging from 10 cpl (Regular 91) to 23 cpl (Premium 95).

Government has sought to increase competition in the wholesale market

The market study found that an active wholesale market for fuel did not exist in New Zealand. As a result, wholesale prices were higher than would be expected in a competitive market, and this was flowing through to consumers paying higher pump prices.

To stimulate greater competition in the wholesale market, the Government passed the Fuel Industry Act 2020 which:

- set rules governing contracts between wholesale fuel suppliers and their wholesale customers to allow greater contractual freedom for resellers to compare offers and switch suppliers; and
- introduced a TGP regime.[44]

The rules governing wholesale contracts were intended to provide opportunities for distributors to shop around for better wholesale prices – including by providing rights of termination and placing limits on exclusive-supply contracts.

The TGP regime was introduced to:

- allow the potential for a liquid wholesale spot market to develop;
- reduce barriers to entry and expansion for both importers and distributors;
- provide greater pricing transparency for distributors and dealers, to rebalance bargaining power and increase the likelihood of switching; and
- provide transparent benchmark information for industry and government to reveal any use of market power in regions where importer competition is weak.[45]

44 https://comcom.govt.nz/regulated-industries/fuel.
45 Ministry of Business, Innovation and Employment, Regulatory impact statement: https://www.mbie.govt.nz/dmsdocument/11217-regulatory-impact-statement-fuel-industry-bill p.28.

Wholesale contract sales volumes account for the majority of wholesale volumes

Our analysis indicates that as at the end of the June 2022 quarter, fixed wholesale contracts made up more than 96% of wholesale volumes. TGP sales made up 0.01% of wholesale sales, a negligible amount.

While the majority of wholesale transactions and volumes might be expected to continue under contractual arrangements, we intend to monitor trends in the wholesale market including the extent to which firms are purchasing fuel under the TGP regime. Higher volumes of TGP transactions would provide an indication that a more liquid wholesale spot market is developing.

Table 5 - Wholesale volumes sold by type of wholesale sale - June 2022 quarter

Type of Sale	Sales (millions of litres)	Percentage of total sales
Fixed wholesale contract	728.0	96.62%
Other Contract	25.3	3.36%
Terminal Gate Price	0.1	0.01%
Total	**753.5**	**100%**

Source: ID data.

Posted TGP prices are significantly higher than wholesale contract sale prices

Posted TGPs during the June 2022 quarter were significantly higher than the sales prices for contracted wholesale volumes, as seen in Table 6. This indicates that incentives to sell spot volumes under the TGP regime have not yet developed.

However, the average wholesale contract prices that we have observed in the June 2022 quarter in New Zealand appear to be similar to Australian TGPs, once adjusted for taxes and exchange rates.

In analysing potential reasons for the difference in posted TGP prices, we reviewed TGPs in Australia, where posted TGPs are used by the Australian Competition and Consumer Commission as indicative of average wholesale prices.

We recognise that Australia's wholesale market has distinct characteristics from the New Zealand market and the TGP regime in Australia is well-established and mature.

However, given import costs and overall market structure are similar, it is difficult to explain the size of the gap between posted TGPs and wholesale contract prices in New Zealand.[46]

Table 6 - Average wholesale prices (cpl) by type of sale – June 2022 quarter

Type of Sale	91	95	98	Diesel
TGP	267	286	N/A	234
Fixed wholesale contract	257	263	288	218
Other Contract	N/A	281	253	209
Volume-weighted average	**257**	**263**	**284**	**218**

Source: ID data.
Note: A TGP sale in this table refers to a sale made that is made based on a TGP price. These price of these sales will not necessarily align with the posted TGP prices where TGP discounts are applied. Wholesale suppliers are not required to post a TGP for Premium 98 under the Fuel Industry Act 2020. Where it is available, we have included data on Premium 98 to support our analysis.

46 See page 24 for more detailed pricing information on the posted TGPs here and in Australia.

TGP premium varies between terminals

Differences in importer costs and/or volumes sold do not appear to explain price differentials between terminals.

We would expect larger terminals, like Mount Maunganui, Auckland and Whangarei to have the lowest wholesale contracted price, the lowest TGPs posted and also the lowest TGP premium due to economies of scale achievable due to the size of the terminal. However, we see large variations in TGP premiums for terminals of similar sizes.[47]

Table 7 - Weighted average prices (cpl, excluding taxes) for Regular 91

Terminal location	Wholesale contracted price	TGP posted price	TGP premium ex taxes
Other terminals	152	172	20
Mount Maunganui	157	176	19
Christchurch	153	172	19
Wellington	155	171	17
Auckland & Whangarei	156	169	13
Average across all terminals	**154**	**172**	**18**

Source: ID Data.
Note: 'Other terminals' includes Bluff, Dunedin, Napier, Nelson, New Plymouth, Timaru. Analysis excludes TOSL.

Table 8 below shows that wholesale contracted prices were lower at terminals operated by one or two importers during the quarter, despite these terminals being supplied by fewer importers than those operated by three or more. Posted TGP levels have generally been unchanged in dollar terms no matter the number of importers, however, so small terminals also show a higher TGP premium (ie, average TGPs less average wholesale contract prices).

Table 8 - Weighted average prices (cpl, excluding taxes) for Regular 91 petrol by number of importers

Number of importers	Wholesale contracted price	TGP posted price	TGP premium ex taxes
1 or 2	152	172	20
3 or more	155	172	17
Total	**154**	**172**	**18**

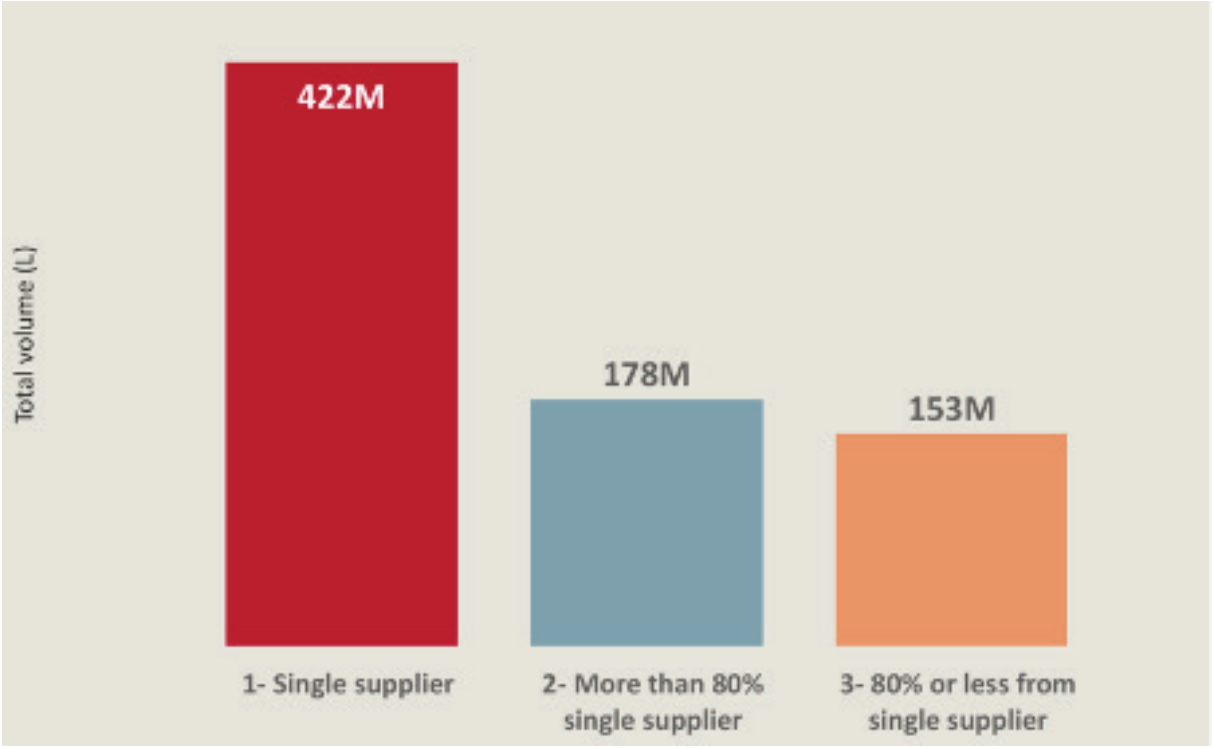
Source: ID data.
Note: Terminals with one or two importers: Napier, New Plymouth, Nelson, Timaru, Dunedin, Bluff. Terminals with three or more importers: Auckland & Whangarei, Mount Maunganui, Wellington, Christchurch. TOSL excluded.

47 See Explanatory Note 5: Terminal size definition.

The majority of wholesale customers purchase fuel from one supplier only

Wholesale contracts commit buyers to a relationship with one supplier for a proportion of their volume. When that proportion is very high this has a similar effect to structural vertical integration. Although contracts can provide both parties with greater certainty, they can also reduce the scope for competition at the wholesale level. This is why we are interested in how many wholesale customers are relying on a single supplier. During the June 2022 quarter, 188 fuel buyers out of 195 were provided fuel by one supplier only, representing more than half of the wholesale market volume.

Figure 9 - Wholesale volumes by single and multi-source suppliers (millions of litres)



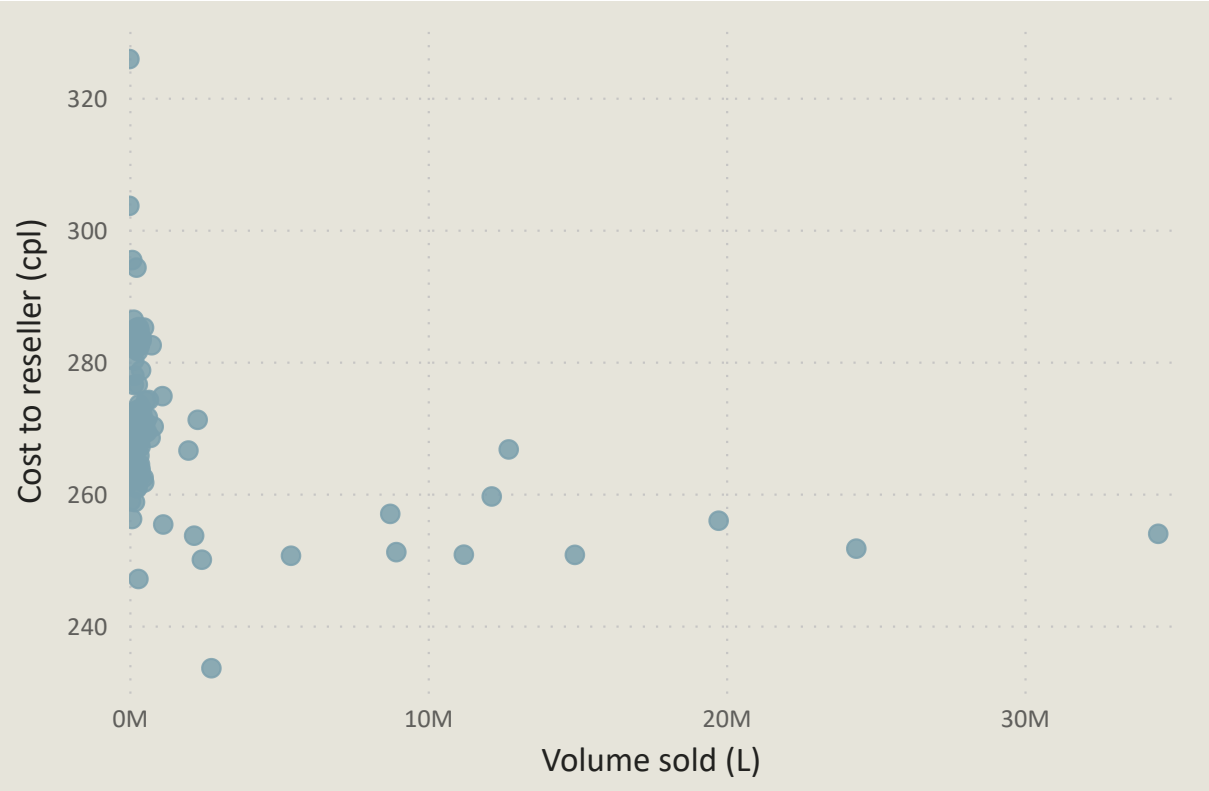
Source: ID data.
Note: '1 – Single Supplier' means that 422 million litres was purchased by customers who each used only one supplier for all of their fuel requirements. '2 – More than 80% Single Supplier' means that 178 million litres was purchased by customers who each used one supplier for between 80 and 99% of their fuel requirements. '3 – 80% or less from single supplier' means that 153 million litres of fuel was purchased by customers who each source their fuel requirements from multiple suppliers, with no supplier supplying more than 80% of their required volume.

At a general level reliance on a single supplier could indicate that a customer is receiving a more favourable price than could be obtained through a split-supply strategy. However, in the market study, we found that margins on wholesale sales to distributors exceeded those earned on sales to large commercial customers in a number of instances, and that in some cases distributor margins were higher even though the volumes sold to individual distributors are significantly larger than those sold to large commercial customers.[48]

Figure 10 below shows the relationship between quantity of fuel purchased, and price per litre paid. For Regular 91 in the June quarter, the largest buyer —purchasing 30 million litres of fuel— paid more per litre than some of the smallest customers who bought 1 million litres (or less) fuel during the quarter. This could be due to a number of factors other than existing contract terms. As part of our ongoing monitoring, we will continue to review the wholesale contracts received by the Commission on 1 September 2022, to ensure they meet the requirements of the Act.

48 Commerce Commission "Market study into the retail fuel sector: Final report" 5 December 2019, at [6.154].

Figure 10 - Regular 91 wholesale volume sold and price (cpl) by individual distributor or reseller



Source: ID data.
Note: TOSL excluded.

Terminal Gate Price analysis

Key findings

TGPs in the June 2022 quarter are set at levels that are higher than expected.

- TGPs look high in comparison to Australia, adjusting for differences in taxes and exchange rates.
- TGPs also look high in comparison with retail prices, where the differences between average TGPs and average discounted retail price ranges from 6 to 8 cpl.
- The spread between TGPs for Premium 95 and TGPs for Regular 91 is higher than cost differences would suggest, with the spread varying between importers.
- The TGP regime is still in its infancy, and we would expect firms to continue to develop their TGP offers over time.

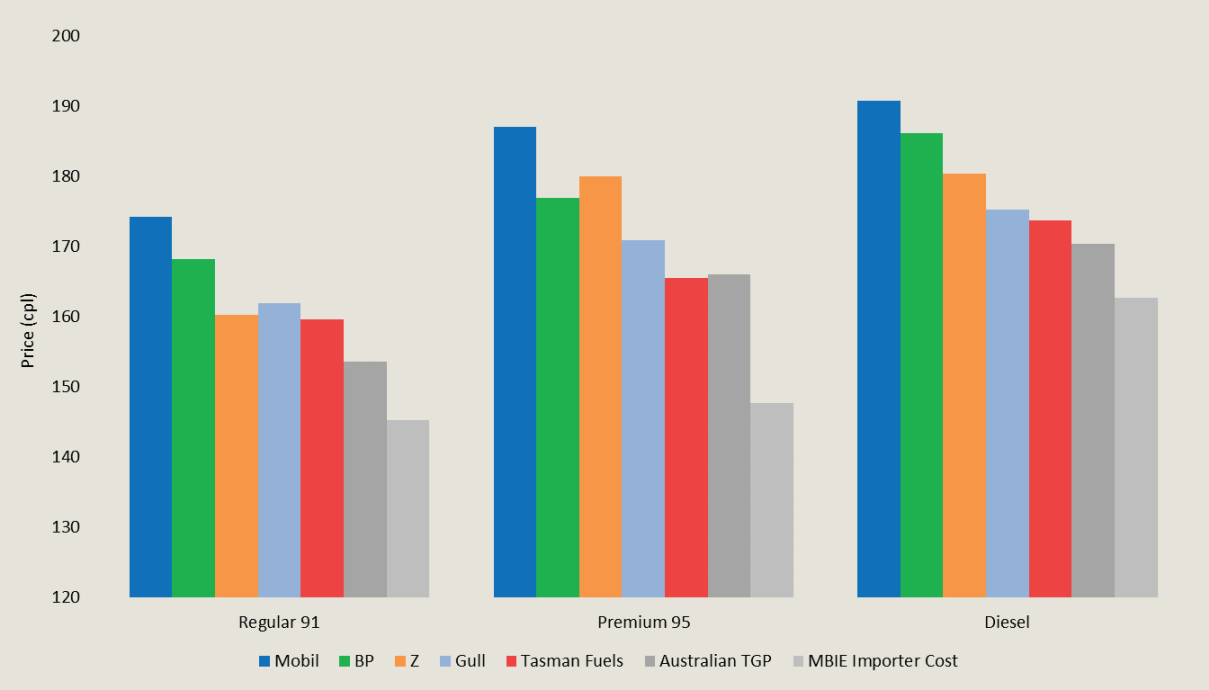
Whilst the disclosed data for the June quarter show that no liquid spot market has developed as yet, with TGP sales accounting for only 0.01% of all wholesale trade, the wholesale market remains contract-based. Our initial review of wholesale contracts has found that at least one-quarter of contracts contain clauses which incorporate TGP as part of a pricing methodology. We have therefore carried out a range of analysis on the current status of TGPs.

There is considerable variation in TGPs between fuel importers during the June 2022 quarter

Average TGPs offered during the quarter for each fuel type by each importer are shown in Figure 11. The TGPs shown are the posted TGPs for fuel drawn from a supplier's own terminal or storage facility located at a terminal, adjusted for taxes.[49] Also included in Figure 11 are MBIE's importer cost estimates (which represent the cost of importing fuel into New Zealand, but do not include terminal costs) and average TGPs observed in Australia (Australian TGPs adjusted for taxes and exchange rates).

49 Under the Regulations, TGPs are required to be published inclusive of taxes and costs to be paid by the buyer. When analysing TGPs, we have adjusted TGPs to remove taxes for comparison purposes. For further details on how we have adjusted TGPs for taxes, refer to Appendix 3: Adjusting Terminal Gate Prices for taxes and exchange rates.

Figure 11 - Average quarterly TGPs (excluding taxes, levies, ETS costs) in New Zealand by fuel importer



Source: ID data; Australian importer websites; Australian Institute of Petroleum; and MBIE weekly fuel monitoring data.

The highest TGPs posted during the quarter for Regular 91 and diesel are those of Mobil and BP, and for Premium 95, Mobil and Z. The lowest TGPs were offered by the newest importer, Tasman Fuels. We discuss this in more detail under the regional variations section later in this chapter.

Average TGPs (by fuel type) offered in New Zealand during the quarter were higher than those in Australia (after adjustments).[50] Reviewing prices for Regular 91, the highest average TGPs in New Zealand, offered by Mobil, was 21 cpl higher than the average TGP in Australia. The TGPs posted by Z and Tasman Fuels for Regular 91 were the lowest in New Zealand, and these were on average 6 cpl above the Australian TGP.

New Zealand TGPs were also higher than MBIE's importer cost estimates. This is to be expected, as MBIE's estimates do not include the costs associated with building and operating terminal storage facilities, which can be significant.

We are interested in better understanding the reasons for the variations in TGPs observed in New Zealand, and also for the differences between TGPs observed in New Zealand and Australia. For example, there may be differences in quality standards, scale, or freight costs. However, we note that to date, some of the lowest TGPs in New Zealand have been offered by the smaller fuel importers. This may indicate that factors other than scale influence pricing.

50 See Appendix 3: Adjusting Terminal Gate Prices for taxes and exchange rates, at 37.

We also note that although posted TGPs in New Zealand appear to be higher than Australian TGPs, the average wholesale contract prices (excluding taxes) for each fuel type in New Zealand were similar to the Australian TGPs during the quarter:

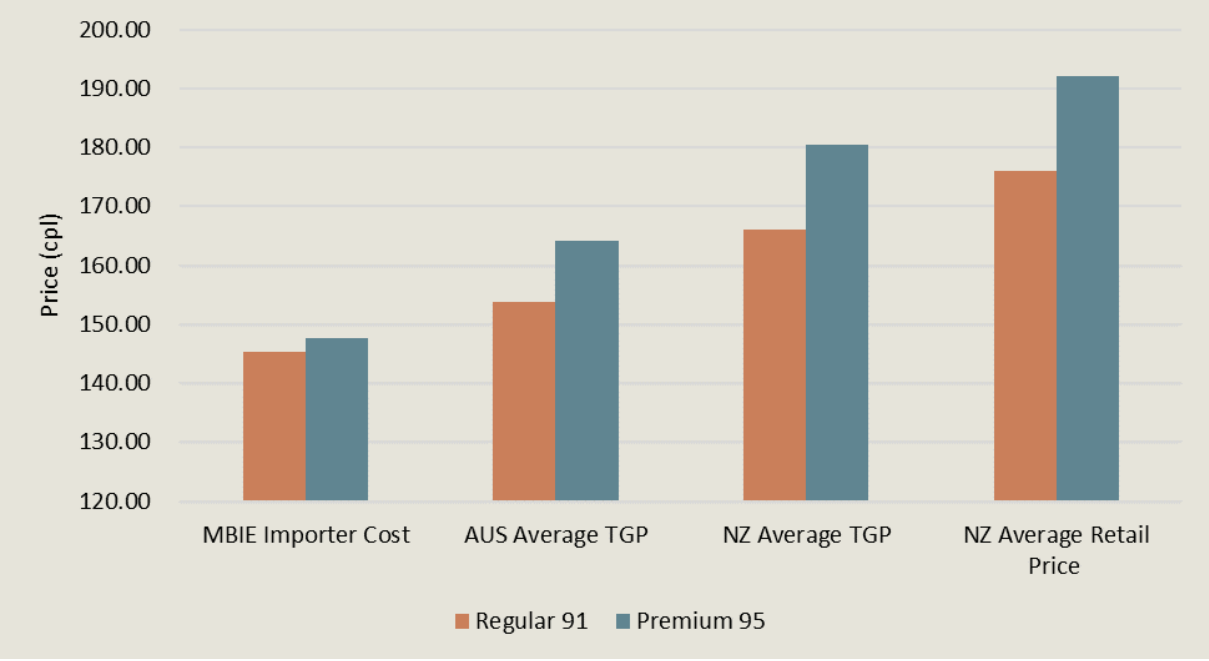
- for Regular 91, the average wholesale contract price in New Zealand was 154 cpl, which was the same as the Australian TGP (adjusted for taxes and exchange rates);
- for Premium 95, the average wholesale contract price in New Zealand was 159 cpl, which was lower than the Australian TGP of 166 cpl (adjusted for taxes and exchange rates);
- for diesel, the average wholesale contract price in New Zealand was 168 cpl, which was lower than the Australian TGP of 170 cpl (adjusted for taxes and exchange rates).

We will continue to monitor TGPs and average wholesale contract prices, as the new regulatory regime is still in its infancy. We also note that pricing terms were only one part of the wholesale supply arrangements with which we were concerned during the market study, with other issues relating to the ability of wholesale customers to switch between suppliers, bargaining imbalances, and a lack of transparency. The TGP regime has been introduced as part of a range of measures (along with measures directed at fixed wholesale contractual terms) under the Act to facilitate competition at the wholesale level. As noted in previous sections, the posted TGPs observed to date appear to be very high which, combined with the lack of volumes supplied under the TGP regime, indicates that TGPs have not yet been effective in addressing the issues identified in the market study.

There was also variation in the spread between TGPs for different fuel types

During the quarter, the spread between average TGPs for Regular 91 and Premium 95 was just over 14 cpl. This is shown in Figure 12.

Figure 12 - Average quarterly TGPs (excluding taxes, levies, ETS costs) by fuel type[51]



Source: ID data; Australian importer websites; Australian Institute of Petroleum; and MBIE weekly fuel monitoring data.

51 New Zealand Emissions Trading Scheme Carbon Costs

The spread (price difference) between Regular 91 and Premium 95 TGPs varies by fuel importer. For example, the spread between Regular 91 and Premium 95 TGPs offered by Z during the quarter was 20 cpl, by BP and Gull, 9 cpl and by Tasman Fuels was 6 cpl.

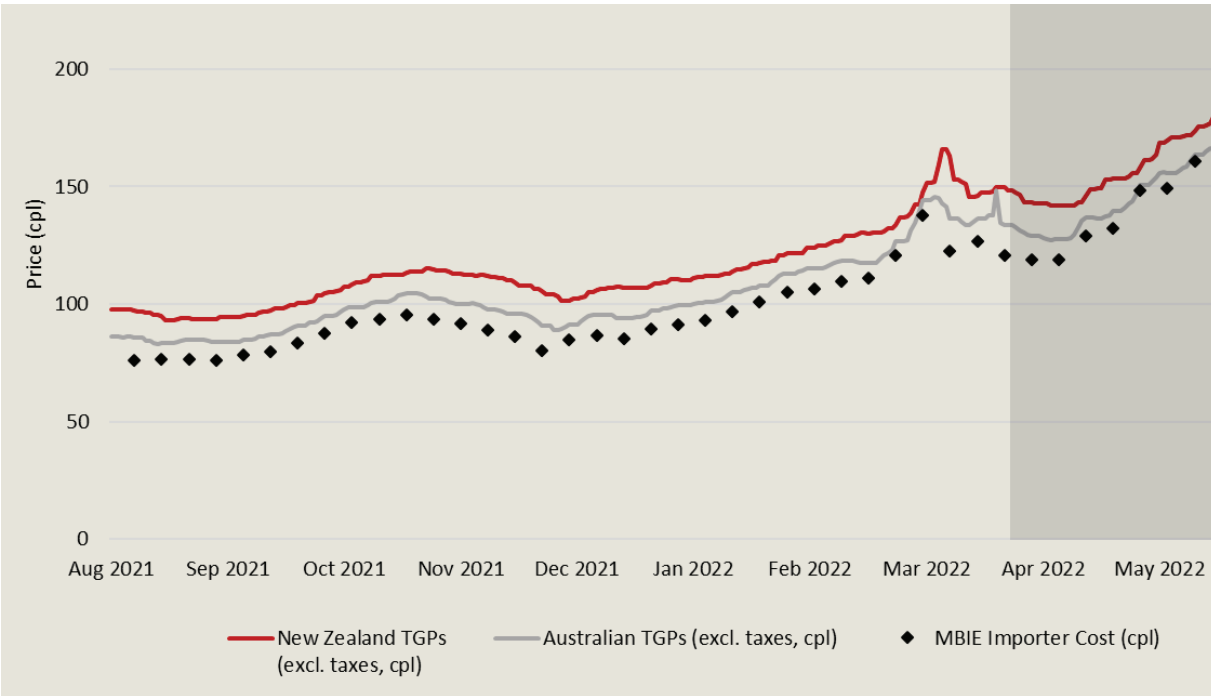
In comparison, the spread in TGPs in Australia was just over 10 cpl during the quarter for the two products, and the difference in MBIE's importer cost estimates for the two fuel grades was just over 2 cpl.

One possible explanation for the differences in spreads is that the percentage volume of Premium 95 sold in New Zealand is lower than it is in Australia. As a result, the cost of supplying Premium 95 at the terminal gate may be higher due to the additional cost of importing a lower-volume fuel. We intend to continue to monitor these spreads, with a focus on understanding the full cost build-up of TGPs.

TGPs have moved in line with importer cost and Australian TGP movements

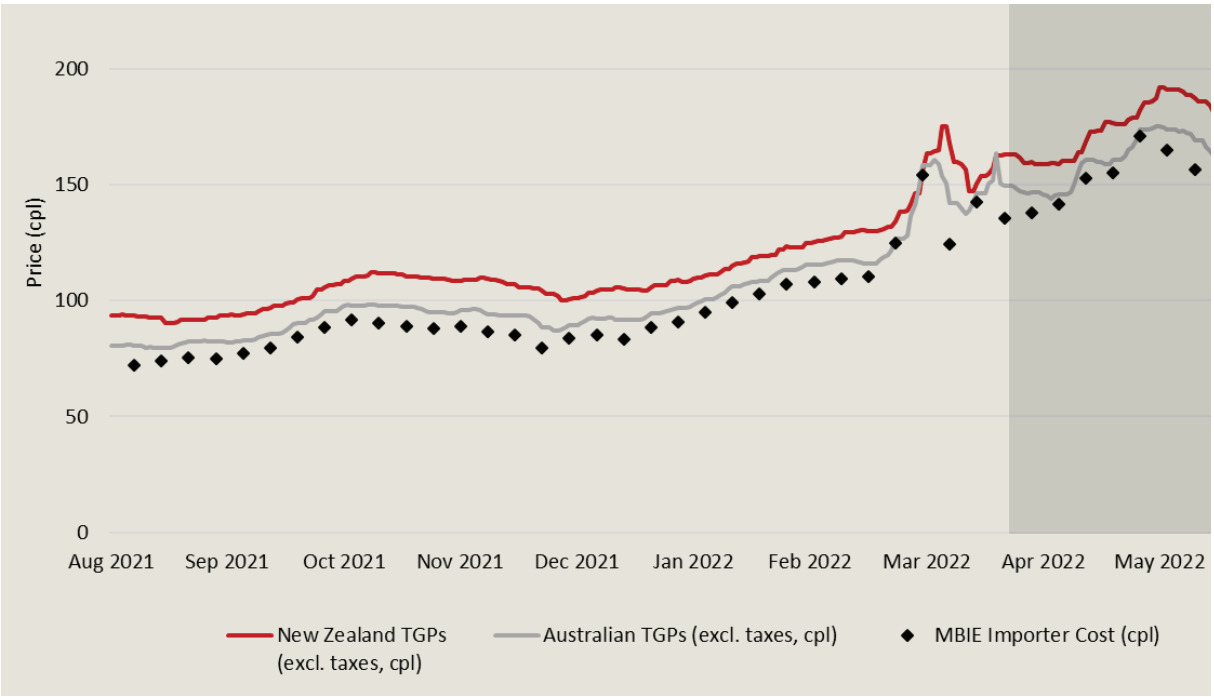
The history of average TGPs for Regular 91 and diesel in New Zealand is shown in Figure 13 and Figure 14. These were prepared using ID data for the June 2022 quarter, supplemented by TGP data dating back to August 2021 (when the TGP regime came into effect). They also demonstrate how prices have moved over time compared to TGPs observed in Australia (adjusted for taxes and exchange rates), and MBIE's importer cost estimates.

Figure 13 - Average Regular 91 TGPs (excluding taxes) New Zealand and Australia



Source: ID data; New Zealand importers (voluntary responses); Australian Institute of Petroleum; and MBIE weekly fuel monitoring data.

Figure 14 - Average diesel TGPs (excluding taxes) New Zealand and Australia



Source: ID data; New Zealand importers (voluntary responses); Australian Institute of Petroleum; and MBIE weekly fuel monitoring data.

Assessing posted TGPs relative to retail prices

In the market study it was noted that high wholesale prices limit retail competition, as resellers are unable to offer prices in line with the rest of their local market unless their product purchase prices (including downstream costs) are sufficiently low.[52]

In an efficient market, the gross margin between retail prices and TGPs should cover the costs incurred downstream from the terminal gate. These downstream costs include the costs of distributing fuel from the terminals to the retail sites as well as the costs of building and operating the retail sites. The margins between average retail prices (net of average discounts) and average posted TGPs (inclusive of taxes) is shown below.

Table 9 - Average retail prices and posted TGPs (cpl, including taxes)

	Regular 91	Premium 95	Diesel
Average retail board price	287	304	260
Average discount	6	6	16
Average discounted retail price	281	298	244
Average posted TGP	273	290	238
Gross retail margin	8	8	6

Source: ID data.

52 Commerce Commission "Market study into the retail fuel sector: Final report" 5 December 2019, at 273.

We will continue to monitor the margin between TGPs and retail prices and how this relates to downstream costs to inform our viewpoint on the overall efficiency of the TGP regime. This will be supported by the annual cost information and travel distance IDs.

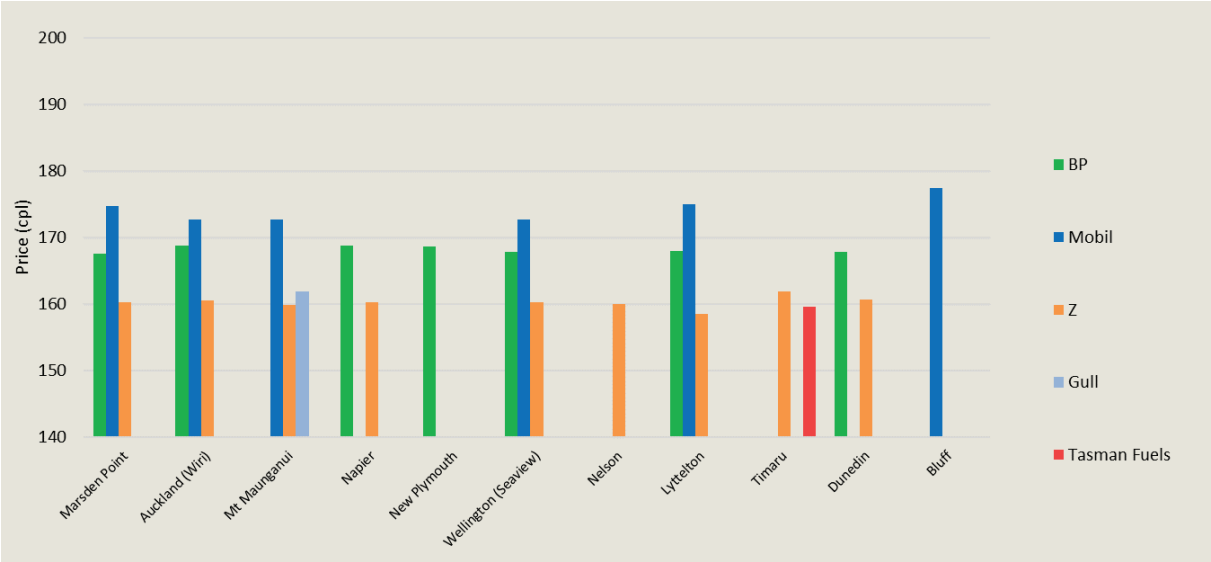
Regional variation in TGPs requires further investigation to determine the cause(s)

Under the TGP regime, fuel is supplied on a spot basis at the terminal gate. We would expect TGPs to reflect the cost of supplying fuel at terminal locations around New Zealand. This would include importer costs and port-related and terminal storage costs.

Regional variations identified in TGPs (adjusted to account for differences in taxes) may be due to differences in the cost of supplying fuel at different terminals. However, regional variations in TGPs could also reflect market power at a particular terminal. For example, concerns could arise where TGPs are higher at locations where fewer options are available (such as Bluff, where there is only one terminal, or Nelson). Comparing TGPs will help show whether higher TGPs posted at a particular location are easily explained, or potentially reveal the exercise of regional market power.

For each of the fuel types subject to the TGP regime, we have compared the average quarterly TGPs offered at terminal locations around New Zealand (adjusted to exclude taxes). These are shown below.[53]

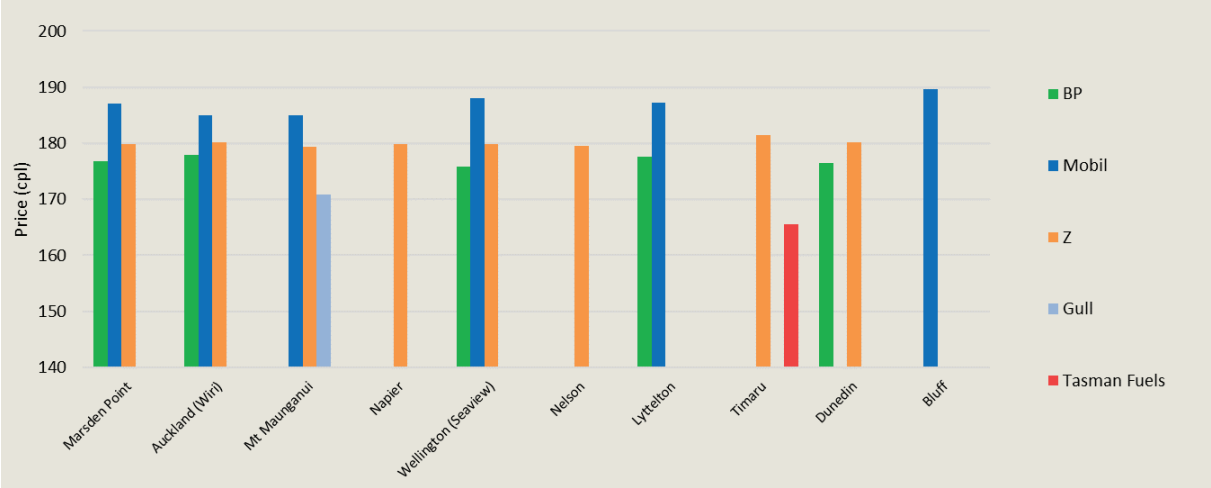
Figure 15 - Average quarterly TGP (excluding taxes, levies, ETS costs) – Regular 91



Source: ID data; MBIE weekly fuel monitoring data and ETS costs.

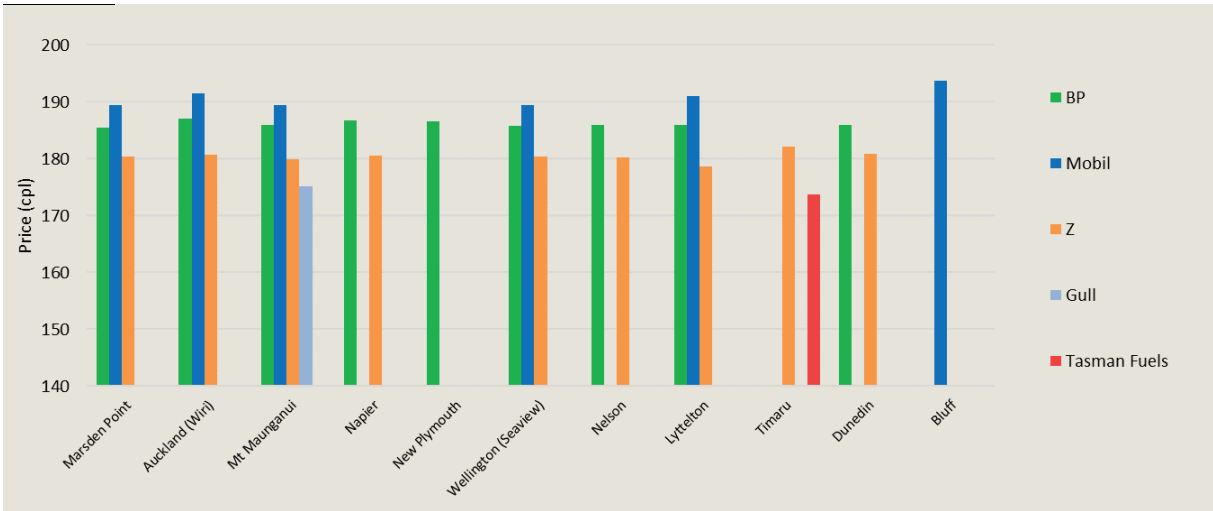
53 As discussed earlier, the TGPs posted by the fuel importers are adjusted to exclude taxes, levies, and ETS costs (estimated by MBIE) applicable to each fuel type.

Figure 16 - Average Quarterly TGP (excluding taxes, levies, ETS costs) – Premium 95



Source: ID data; MBIE weekly fuel monitoring data and ETS costs.

Figure 17 - Average quarterly TGP (excluding taxes, levies, ETS costs) – Diesel



Source: ID data; MBIE weekly fuel monitoring data and ETS costs.

For those fuel importers with multiple terminals, there is no observable relationship between TGPs offered at a given location and the number of competing operators at that location – as noted on page 25. In addition, the variation in TGPs (excluding taxes and levies) for each supplier across different regions was as follows during the quarter:

- for BP, the spread in TGPs was between 1.3 cpl (for Regular 91) and 2.1 cpl (for Premium 95);
- for Mobil, the spread in TGPs was between 4.3 cpl (for diesel) and 4.6 cpl (for both petrol grades); and
- for Z, the spread in TGPs was between 2.1 cpl (for Premium 95) and 3.5 cpl (for diesel).

As shown above, of the three importers operating at multiple terminals, Mobil typically offered the highest TGPs at each location across all fuel types, while Z offered the lowest TGPs for Regular 91 and diesel (with BP offering the lowest TGPs for Premium 95). Tasman Fuels' TGPs for Premium 95 and diesel were the lowest at any terminal location during the quarter, while its TGPs for Regular 91 were also some of the lowest in the country.

Terminal-specific TGP reviews and comparisons

We have taken a closer look at TGPs at a selection of locations, comparing the average TGPs offered by the fuel importers at each location with the MBIE importer cost series as well as the Australian TGPs. In this report, we have reviewed the following locations:

- Mount Maunganui (where there are four fuel importers);
- Timaru (where there has been recent new entry at the terminal level);
- Wellington (where there are three fuel importers); and
- Nelson (where there is a single fuel importer for Regular 91 and Premium 95, and two fuel importers for diesel).

We intend to examine other terminal locations as part of future quarterly reports.

Mount Maunganui

At Mount Maunganui, there are four terminal facilities (owned by BP, Mobil, Z, and Gull). This is the largest number at any location in New Zealand. The average TGPs (excluding taxes) offered by these importers at their respective terminals over the quarter are shown in Figures 15, 16 and 17. Z and Gull offered the lowest TGPs during the quarter, while Mobil's average TGPs were the highest across all three fuel types.

During the quarter, all TGPs at Mount Maunganui were higher than the adjusted Australian TGP prices observed:

- for Regular 91, the lowest average TGP at Mount Maunganui was offered by Z (160 cpl), while the highest average TGP was offered by Mobil (173 cpl). By comparison, the average TGP for Regular 91 petrol observed in Australia was 154 cpl during the quarter;
- for Premium 95, the lowest average TGP at Mount Maunganui was offered by Gull (171 cpl), while the highest average TGP was offered by Mobil (185 cpl). By comparison, the average TGP for Premium 95 observed in Australia was 166 cpl during the quarter; and
- for diesel, the lowest average TGP at Mount Maunganui was offered by Gull (175 cpl), while the highest average TGP was offered by Mobil (190 cpl). By comparison, the average TGP for diesel observed in Australia was 170 cpl during the quarter.

The TGPs offered at Mount Maunganui were also above MBIE's estimate of the cost of importing fuel into New Zealand. We note however that these importer cost estimates are for the landed cost of fuel and do not include costs associated with terminal storage.

Timaru

At Timaru, there are two terminal facilities, operated by Z and Tasman Fuels. Tasman Fuels is a relatively recent new entrant, commencing terminal operations at Timaru in 2020.

Tasman Fuel's TGPs were lower than Z's during the quarter, in particular for Premium 95 and diesel:

- for Regular 91, the Tasman Fuels average TGP was 2 cpl lower than that of Z;
- for Premium 95, the Tasman Fuels average TGP was 16 cpl lower than that of Z; and
- for diesel, the Tasman Fuels average TGP was 8 cpl lower than that of Z.

The average TGPs offered by Tasman Fuels for Premium 95 and diesel were similar to the average TGPs observed in Australia, and for Regular 91, slightly higher than Australian TGPs for the same product.

Z's TGPs were higher than the Australian TGPs throughout the quarter, in particular for Premium 95 (where Z's TGPs were 16 cpl higher) and for diesel (where Z's TGPs were 12 cpl higher).

Wellington

At Wellington, three fuel importers (BP, Mobil, and Z) operate terminal facilities.

Mobil's TGPs were the highest across the three fuel types at Wellington, while the lowest TGPs offered were still higher than the Australian TGP average for the same fuel type:

- for Regular 91, Z's TGPs were the lowest, but were approximately 6 cpl higher than the Australian TGPs and approximately 15 cpl higher than MBIE's importer cost.
- for Premium 95, BP's TGPs were the lowest, but approximately 10 cpl higher than the Australian TGPs and approximately 28 cpl higher than MBIE's importer cost.
- for diesel, Z's TGPs were the lowest, but 10 cpl higher than the Australian TGPs and approximately 18 cpl higher than MBIE's importer cost.

The difference between the Wellington TGPs and MBIE's importer costs is larger and varies more than the difference between Wellington and Australian TGPs. It is important to note, though, that MBIE's importer cost only accounts for the landed cost of fuel and does not account for terminal costs.

Nelson

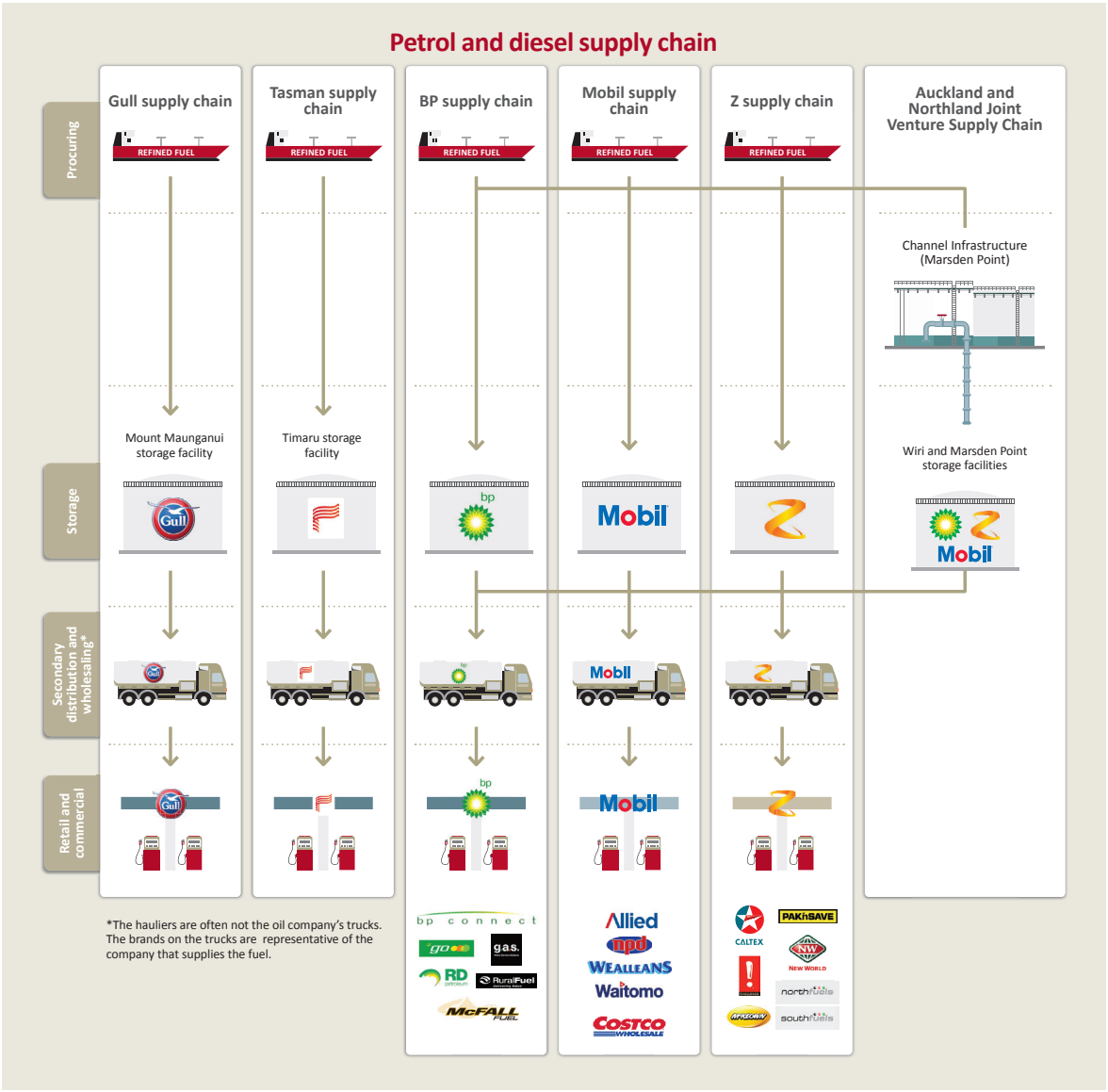
At Nelson there is a single terminal offering Regular 91 and Premium 95 (Z), while BP also offers diesel. Only two other terminals, New Plymouth and Bluff, have a single supplier of Regular 91. Apart from Nelson, only Napier and Bluff have single suppliers of Premium 95.

Of the average TGPs offered at Nelson over the quarter:

- for Regular 91, Z's TGPs were approximately 6 cpl higher than the Australian TGPs and approximately 15 cpl higher than MBIE's importer cost.
- for Premium 95, Z's TGPs were approximately 20 cpl higher than for Regular 91, approximately 14 cpl higher than the Australian TGPs and approximately 32 cpl higher than MBIE's importer cost.
- for diesel, Z's TGPs were lower than the other supplier, BP, but were 10 cpl higher than the Australian TGPs and approximately 17 cpl higher than MBIE's importer cost.

As a small terminal, Nelson's terminal costs may be higher per litre than that of other, larger terminals which may impact the TGPs listed, specific to Nelson. However, as shown in Figure 15, Figure 16, and Figure 17 above, the TGPs for fuel supplied from Z's Nelson terminal during the quarter were similar to Z's TGPs at other terminal locations around the country.

Appendix 1: New Zealand's fuel supply chain



Appendix 2: Explanatory notes

Explanatory Note 1: Fuel Regime Key Dates

Table 10 - Fuel regime timeline

Item	Date
Commission directed to carry out Retail Fuel Market Study	December 2018
Retail Fuel Market Study published	December 2019
Fuel Industry Act passed – August 2020	August 2020
Fuel Industry Regulations passed – July 2021	July 2021
TGP regime and Wholesale contract provisions came into effect	August 2021
Fuel Industry Amendment Regulations passed	December 2021, February 2022, April 2022, July 2022
Consumer Information Requirements came into effect	February 2022
First ID period commenced	April 2022
First quarterly ID due	August 2022
First annual ID of wholesale contracts due	September 2022
First annual ID due	June 2023

Explanatory Note 2: ID Data

The ID regime under the Act requires certain fuel industry participants to provide the Commission with information relating to specific elements of their fuel business including prices, costs and volumes, enabling the Commission to analyse and monitor the competitive performance of fuel markets. The ID requirements are both quarterly and annual, with different types of information required at these intervals. Quarterly disclosure obligations apply to fuel importers, while various annual disclosure obligations apply to fuel importers, wholesale suppliers, or distributors.

In addition, fuel importers must record and retain copies of all fixed wholesale contracts that are in force on 1 April 2022 or that come into force after that date, including a copy of any material changes to the provisions of the contract. They must disclose a copy of a fixed wholesale contract to the Commission upon our request.[54]

54 Fuel Industry Regulations 2021, r 17C.

Table 11 - Information disclosure requirements as set out in the Regulations[55]

Participant	Reg	Disclosure	Frequency	Deadline[56]	First period for which information must be disclosed	First disclosure date
Fuel importer	17D	Fixed wholesale contracts	Annual	1 September each year	Contracts in force as at 11 August 2022[57]	1 September 2022
	17F	Certain formulas and volumes	Annual	1 September each year	1 April 2022 – 31 March 2023	1 September 2023
	17H	Certain discounting or loyalty programmes	Annual	1 September each year	1 April 2022 – 31 March 2023	1 September 2023
	17I	Storage capacity	Annual	1 September each year	1 April 2022 – 31 March 2023	1 September 2023
	17K	Fuel supply	Quarterly	30 days after end of financial quarter	1 April 2022 – 30 June 2022	1 August 2022
	17G	Certain travel distances	Annual	1 September each year	1 April 2022 – 31 March 2023	1 September 2023
	17L	Retail fuel sites	Quarterly	30 days after end of financial quarter	1 April 2022 – 30 June 2022	1 August 2022
Wholesale supplier or distributor	17E	Certain financial statements	Annual	5 months after balance date	First balance date after 1 April 2022	Varies according to balance date
	17J	Retail supply	Annual	1 September each year	1 April 2022 – 31 March 2023	1 September 2023

To facilitate the submission of ID, the Commission has created an online disclosure portal for ID upload, which feeds into the Commission's secure data platform, ensuring data integrity and security.

Explanatory Note 3: Non-ID Data

For the purposes of our analysis, ID data may be supplemented by the use of data from other sources (which we refer to as non-ID data). This includes such as information on international benchmark oil prices and exchange rates.

55 Fuel Industry Regulations 2021, Part 3A.
56 If any deadline falls on a weekend or public holiday, submitting on the next working day will meet requirements.
57 Fuel Industry Regulations 2021, Schedule 1.

Explanatory Note 4: TGP

A TGP is a wholesale price offered by fuel importers for spot sales of fuel supplied at the 'terminal gate'. Fuel importers have been required to offer TGP for certain types of fuel (Regular 91, Premium 95 and diesel) at their terminal facilities since 11 August 2021. Fuel importers are required to provide TGP information as part of their quarterly information disclosures.

In addition to the TGP disclosure for the June 2022 quarter, we have received TGP information provided from the fuel importers on a voluntary basis, covering the period from August 2021 to 31 March 2022. This larger dataset has enabled us to develop a more in-depth view of how the regime is operating.

Explanatory Note 5: Terminal size definition

Table 12 - Terminal sizes

Size	Definition
Large	Three or more importers operating
Small	One or two importers operating

Appendix 3: Adjusting Terminal Gate Prices for taxes and exchange rates

In order to ensure that comparisons between TGPs throughout New Zealand and between New Zealand and Australia are consistent, we have adjusted TGPs to exclude taxes and levies applicable to fuel types. Table 13 and Table 14 summarise the taxes, levies, and ETS costs that we have used to adjust TGPs in both countries.

Table 13 - New Zealand taxes, levies, and ETS costs applicable to fuel types

New Zealand (NZ cpl)			
	Regular 91	**Premium 95**	**Diesel**
National Land Transport Fund (NLTF) [58]	45.02	45.02	-
ACC Levy	6.00	6.00	-
Petroleum Engine Fuels Monitoring Levy	0.59	0.59	0.59
Local Authority Fuels Tax	0.66	0.66	0.33
Regional Fuels Tax (Auckland)	10.00	10.00	10.00
ETS costs	MBIE estimates	MBIE estimates	MBIE estimates
GST	15%	15%	15%

Source: MBIE https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/energy-generation-and-markets/liquid-fuel-market/duties-taxes-and-direct-levies-on-motor-fuels-in-new-zealand/; https://www.mbie.govt.nz/assets/Data-Files/Energy/Weekly-fuel-price-monitoring/weekly-table.csv; and Inland Revenue https://www.ird.govt.nz/gst.

Table 14 - Australian taxes applicable to fuel types

Australia (A cpl)			
	Regular 91	**Premium 95**	**Diesel**
Excise tax	22.1	22.1	22.1
GST	10%	10%	10%

Source: Australian Taxation Office https://data.gov.au/data/dataset/0aa77454-d0f6-4499-b0a4-88dbdeee95d1/resource/b9227cdf-4c04-492d-bd84-65031adc408e/download/historicalexciserates-29-sep-22.xlsx; and https://www.ato.gov.au/business/gst/.

We have used daily exchange rates from the Reserve Bank of New Zealand to convert Australian TGPs into New Zealand currency.[59]

58 The NLTF rate was reduced from 70.02 cpl to 45.02 cpl on 15 March 2022.
59 https://www.rbnz.govt.nz/statistics/series/exchange-and-interest-rates/exchange-rates-and-the-trade-weighted-index

Glossary

Term	Explanation
the Act	Fuel Industry Act 2020
Australian TGPs	Australian posted Terminal Gate Prices (TGPs), adjusted for taxes and exchange rates).
Borrow & Loan (B&L)	Where terminals and the refined product held within the terminals are declared as industry storage. Each participant can draw down fuel from anywhere in the system as long as they match it with an equivalent amount of fuel added somewhere in the system, but not necessarily at the same place.
BP	BP Oil New Zealand Limited
Bulk storage facility	Facility for the storage of 5 million litres or more of engine fuel
Cpl	NZ cents per litre
(the) Commission	New Zealand Commerce Commission
Dealer	Means a reseller that sells and supplies engine fuel through its own retail fuel sites using a brand owned by another person that is not an interconnected body corporate of the reseller.
Diesel (including bio-diesel)	Means (a) a refined petroleum distillate, or other liquid hydrocarbon fuel, having a viscosity and distillation range that is intermediate between those of kerosene and light lubricating oil, whether or not it contains additives, and that is intended for use as fuel in compression-ignition internal combustion engines; and (b) includes diesel containing up to 5% bio-diesel by volume
Discounts	Discounts off the retail board price for fuel. These discounts may be offered through discount and loyalty programmes or through fuel cards
Discount and loyalty programmes	Programmes that offer discounts off the retail board price for fuel and may provide other benefits or rewards unrelated to fuel (eg, the accumulation of Fly Buys points or Air New Zealand AirPoints). These programmes are typically targeted at households rather than businesses. Examples include AA Smartfuel, supermarket discount vouchers, and Mobil Smiles
Distributor	A reseller that is not a dealer
ETS	New Zealand Emissions Trading Scheme Carbon Costs
Fixed wholesale contract	A wholesale contract that governs, for a fixed period, the wholesale price and other conditions of sale and supply of engine fuel during the period; or for a fixed amount of engine fuel, the wholesale price and other conditions of sale and supply for that engine fuel; but does not include a wholesale contract for the sale and supply of engine fuel under the terminal gate pricing regime in subpart 1 of Part 2 of the Regulations.
Fuel	Petrol and diesel fuels (unless specified otherwise).
Fuel industry participant	a person that purchases, or sells and supplies, engine fuel other than as— (a) an end user; or (b) an incidental part of the hiring, leasing, or selling of motor vehicles
GST	Goods and Services Tax
Gull	Gull New Zealand Limited
Importers	Collective term used for BP, Mobil, Z, Gull, and TOSL. These companies each import fuel to New Zealand
ID	Information disclosure
Market study	Commerce Commission Retail Fuel Market Study
MBIE	Ministry of Business, Innovation and Employment
Mobil	Mobil Oil New Zealand Limited
NLTF	National Land Transport Fund

Term	Explanation
Premium 95	Petrol with a minimum Research Octane Number of 95
Premium 98	Petrol with a minimum Research Octane Number of 98
Premium petrol or premium fuel	95 octane and 98 octane fuel
(the) Regulations	Fuel Industry Regulations 2021
Regular 91	Petrol with a minimum Research Octane Number of 91 and less than 95
Reseller	As per the Act, means a person that purchases, or intends to purchase, engine fuel from a wholesale supplier to sell and supply to another person; but does not include a person that does so, or intends to do so, only as an incidental part of their business.
Retail board price	The retail fuel price displayed on price boards outside retail sites
Retail sites	Collective term used to refer to a broad range of sites selling fuel, including service stations, unmanned sites and some truck stops (only those that are accessible to the public and light passenger vehicles)
Tasman Fuels	Tasman Fuels Limited
TGP	Terminal Gate Price
TOSL	Timaru Oil Services Limited
Wholesale contract	A contract between a wholesale supplier and a reseller for the sale and supply of engine fuel
Wholesale supplier	A person that sells and supplies engine fuel, as the whole or part of its business, to persons other than end users.
Z	Z Energy Limited

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This is a guideline only and reflects the Commission's view. It is not intended to be definitive and should not be used in place of legal advice. You are responsible for staying up to date with legislative changes.

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