Submission regarding Mobil Oil New Zealand Ltd's application to acquire 100% of Z Energy Ltd shares in the WAP and JUHI Assets supplying Jet Fuel to Auckland Airport ("the Mobil application")

8th June 2022

Background

Auckland International Airport Limited (**"Auckland Airport"**) owns a section of the jet fuel supply infrastructure called the Fuel Hydrant System, which runs from the JUHI fuel terminal at the airport onto the airfield and distributes jet fuel to international aircraft stands.

Auckland Airport has no direct involvement or commercial interaction with its customer airlines or their oil company providers of jet fuel regarding fuel purchasing or supply matters, other than to provide access to the Fuel Hydrant System which our company owns, develops and maintains - for which access we charge a fee via a Licence Agreement with the JUHI partners, that fee being based on jet fuel throughput volumes.

It is in New Zealand's best interest that a robust, cost-effective, competitive and resilient jet fuel supply model is in place in order to ensure that:

- International airlines continue to deploy aircraft capacity on routes to and from New Zealand, given between 30 and 35% of airline operating costs are directly attributed to fuel; and
- Participants continue to invest in asset upgrades and renewals to ensure jet fuel supply capacity matches forward demand forecasts.

Auckland Airport has had access to the redacted public version of the Mobil application without the benefit of detailed data, but nonetheless wishes to make the following comments based on the information that has been available to us.

Open access and appetite for investment

Auckland Airport fully supports the concept of open access models, and also appreciates the realities of participating in an asset capital intensive market such as exists with jet fuel (and other transport fuels) which present limited opportunities to generate a commercial return due to New Zealand's relatively small, limited, and remote market.

The major international oil companies' historic reluctance to invest further in New Zealand's wholesale fuel asset base has been visible for some time and continues with the most recent observation being Channel Infrastructure raising public capital to fund the construction of additional tankage at Marsden Point.

Given growing public and political sentiment to move away from fossil-based energy sources, and the uncertainty surrounding the timing of alternative energy options at commercial scale - both of which will have a significant impact on commercial operating models involving traditional hydrocarbon supply chain assets - it is not surprising to Auckland Airport that concern regarding potential "stranded assets" is being expressed by oil company majors.

In this light it is challenging to understand how a new player entering the market - further diluting the profit margins of the existing participants - would successfully gain a commercial foothold let alone make a meaningful financial contribution to improving the current situation of international oil companies' lack of timely investment into improving the resilience of the fuel supply chain, as had been recommended by the Government Inquiry into the 2017 fuel supply disruption.

Again and again we see evidence of little appetite to invest in what is a small New Zealand market – another recent example being the direct involvement of the New Zealand Transport Agency in bitumen supply, with Z Energy subsequently giving notice it was withdrawing from the bitumen market completely.

Auckland Airport's response to the Mobil application

Item 5.5, Page 9 – Current operating model

The current three party ownership model has worked effectively to date without any pricing complaints from end users.

Item 5.7, Page 10 – Proposed new operating model

To remove the need to invest capital as an entry mechanism to use the WAP and JUHI, Mobil has no instrument other than attempting to obtain voluntary consent from the other joint owner(s) of the assets - who are not party to this application.

Item 5.14, Page 12 – The Acquisitions are both necessary and pro-competitive

Auckland Airport submits that any test of 'open market access' falls well short when ownership interests in upstream supply infrastructure (such as WOSL and RAP) are external to the Mobil application. The notion that the application is pro-competitive because there is an alternative supply route via (for example) importation of jet fuel to the Port of Tauranga and thence to Auckland Airport via road transport is nonsensical.

If as stated in the application it is Mobil's intention to renegotiate the terms of the current WAP and JUHI agreements with its joint venture partner(s) in order to ensure open access to those assets for third parties, we fail to see what has prevented Mobil from doing so up until this time. Further, we question in what manner any increase in ownership percentage by Mobil is a precursor for or triggers a requirement to initiate such a process. In short, we question whether Mobil is genuinely motivated (or indeed able in the terms of the construct of the joint venture agreements) to use its majority ownership position if the application is approved, to improve access to the assets for current non-participant third parties.

Item 10.3,10.4 Page 22 – Ability to foreclose access to AIAL Jet fuel markets

We disagree with the view expressed by Mobil in its application that access to the WAP is not essential to supply jet fuel at Auckland Airport at pre-COVID demand levels. By contrast, Auckland Airport submits that the WAP is a critical asset to the timely and effective supply of the high volumes of jet fuel required at Auckland Airport.

The WAP was operating at close to 100% capacity pre-COVID, and there is no scenario in which it is practicable to contemplate a BAU model involving road tankers delivering jet fuel into the airport precinct. Our experience during the 2017 fuel supply disruption taught us that an emergency (contingency) road tanker bridging operation could deliver only approximately 16% of the daily pre-COVID jet fuel requirement. Further, each tanker delivery of jet fuel necessitated the closure of the domestic terminal access road for every movement of a tanker i.e. each delivery necessitated TWO closures of the road (one for entry and one for exit). To supply even a fraction of the pre-COVID daily jet fuel demand would require multiple daily domestic terminal access road closures with ensuing airport roading network and downstream aeronautical schedule impacts.

Evidence provided by Mobil in its application regarding alternative supply routes being investigated by Gull and Z Energy were in our view more likely to have been triggered by the 2017 RAP fuel supply disruption event and subsequent Government Inquiry and its interest in supply chain resilience, rather than by a view that these presented genuinely commercially viable and sustainable alternatives to the established pipeline and terminal-based supply chain.

As passing commentary, it is our understanding that pipeline transmission of fuel is approximately 500% safer than rail car transport.

Item 10.6, Page 22

The Mobil application states that Auckland Airport has a countervailing power in the terms of the Airport Authorities Act 1966. However, in practice Auckland Airport has no interest in precipitating additional and unnecessary capital expenditure through the early termination of the JUHI lease, only for the cost of a replacement JUHI to be passed on to users before it is absolutely necessary. The power of Auckland Airport under the Airport Authorities Act 1966 has been overstated when balanced against the terms of the existing JUHI lease document. Auckland Airport's interest is in working with similarly motivated parties - and making its own effective contribution - in the interests of a sustainable, efficient, safe, cost effective and resilient jet fuel supply chain.

Item 10.8, Page 23

Auckland Airport engages with a range of parties to ensure a common understanding of future jet fuel growth forecasts, and it wishes to see at least the current level of competition for the supply of jet fuel at Auckland Airport continue.

Even beyond 2035 when the existing JUHI lease finally expires, Auckland Airport will not as Mobil claims be in a position to impose jet fuel supply conditions to ensure open access to the Auckland jet fuel market via any future JUHI lease. Any terms of a new leasing arrangement will be heavily negotiated and AIAL will not be in a position to simply impose conditions. In addition, Auckland Airport company has no control (nor even influence) over the major upstream transmission pipelines (RAP and WAP) or receiving depot (WOSL) which are as if not more material to jet fuel supply chain access.

Item 10.11, Page 23

Further to the above, the suggestion in the Mobil application that a rival WAP or JUHI funded by the airlines and/or Auckland Airport would be feasible as a means of ensuring the necessary competitive tension - in the absence of access to an effective upstream supply chain as described above - is questionable to say the least. For clarity, there is not and has never been a provision for a duplicate/ competing WAP in the Auckland Airport Master Plan, nor is this eventuality contemplated in any of the many land and building leases Auckland Airport has with third parties.

Competitive tension is maintained via the commercial dynamics between fuel owners/sellers and the end user (airlines). The transition infrastructure in the middle ground is fixed, capital intensive and requires a 40- to 50-year life span to recover the initial investment and to fund maintenance activities.

To suggest there is room for duplicated JUHI facilities and that this would ensure competition in a small and limited market is irrational. Stranded existing hydrocarbon supply chain assets, let alone new assets, both of which are at risk from contraction of capital cost recovery timeframes due to climate change sentiment, is already of significant concern to incumbents and will be of equal if not greater concern to any future market participant. Owners of older assets which have had the majority of capital already recovered (i.e. assets constructed during the 1980s or earlier) will by definition have a commercial advantage over any new entrant required to establish what can only ever be partial jet fuel supply chain infrastructure.

At 11.2(d) the Mobil application notes that the infrastructure used in the Auckland jet fuel supply chain is highly specialised, and suppliers rely on selling large volumes of fuel to spread fixed costs in order to remain competitive. Auckland Airport agrees, and sees this as a clear reason why it would never eventuate that a rival WAP or JUHI would be built (by anyone). The Mobil application makes several references to a new pipeline being built as a reason why access to the market remains open, which is nonsensical. it is imperative that the current WAP and JUHI infrastructure remains in the ownership of three parties not two, to ensure true competition remains in the Auckland market.

Item 10.12, Page 24

Although parts of 10.12 have been redacted, AIAL assumes that Mobil has anticipated a financial amount that it would take to build a second WAP and JUHI, as well as comparing that against a historic estimation of replacement costs. Any cost comparison exercise does not accurately reflect the true cost of building a second WAP and JUHI, given land would need to be secured, consents obtained and companies to fund

such an exercise would need to be willing to go through this long and high risk process on the basis that being able to secure a route is uncertain.

Item 10.21, Page 24

The Mobil application notes that competition at Wellington Airport remains despite there being only two suppliers of jet fuel in that market (Mobil and BP). Mobil further notes that "The Commission has previously found that the Auckland Airport jet fuel markets are highly competitive…" Auckland Airport submits that the very reason the Auckland jet fuel market is highly competitive is the presence as currently of **three** supplier participants who enjoy ownership of and access to the full extent of the necessary high volume jet fuel delivery infrastructure.

Conclusion

For the reasons outlined above (and we note omitted from the Mobil applications) we submit that the Commission should consider that the true ability of any new participant to enter and compete effectively in the jet fuel supply market depends upon the willingness of the incumbents to provide open access not only to the WAP and JUHI but also - and of equal if not greater importance - to upstream supply chain assets (i.e. the RAP and WOSL) which consideration is not in any way addressed in the Mobil application.

Auckland Airport is supportive of the concept of open access as a matter of principle, but has concerns that "open access" given the current market construct and supply chain asset ownership structures is in the present context more of an ideal than a practical deliverable which would – critically - materialise into a meaningfully and sustainably competitive jet fuel market such as presently exists.

We submit that competitive tension will be better preserved under the current ownership model where ownership of the WAP and JUHI remains split between **three** different participants (not necessarily in equal ownership interests), or alternatively where the third share is offered to a participant who is outside the current ownership split, in order to mitigate any unfavourable consequences arising from a significant majority ownership (controlling) influence such as is proposed in the Mobil application.