

Fuel Security (Fuel Security Services Payment) Guidelines 2021

I, Angus Taylor, Minister for Energy and Emissions Reduction, make the following instrument.

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Angus Taylor Minister for Energy and Emissions Reduction

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Part 1—Preliminary

1 Name

This instrument is the Fuel Security (Fuel Security Services Payment) Guidelines 2021.

2 Commencement

This instrument commences immediately after it is made.

3 Authority

This instrument is made under subsection 43(4) of the Fuel Security Act 2021.

4 Definitions

In this instrument:

Act means the Fuel Security Act 2021.

basis differential—see subsection 6(4) and section 12.

cpl means cents per litre.

Geelong refinery means the petroleum refinery located in Geelong, Victoria.

Lytton refinery means the petroleum refinery located in Lytton, Queensland.

yield—see section 11.

Part 2—Objective of Method for Fuel Security Services Payments

5 Objective

- (1) Under subsection 43(5) of the Act, the key considerations for determining the calculation method for fuel security services payments are:
 - (a) the determination by the Minister under subsection 44(1) of the Act that 6.4 cpl is, at the time of that determination, the margin sufficient to ensure that refineries operating in Australia over the period starting on 30 June 2021 and ending on 30 June 2027 do not make a loss; and
 - (b) the principle that (subject to the cap of 1.8 cpl) the amount of fuel security services payment paid to a person for quarters ending in the person's commitment period should be guided by the margin that is sufficient to ensure that refineries operating in Australia over the person's commitment period do not make a loss.
- (2) Under subsection 43(6) of the Act *margin* is defined as the excess of the sale price of FSSP fuels and fuel oils refined by the refineries over the costs of feedstock and transport in relation to FSSP fuels, expressed in cents per litre. Subsection 43(7) of the Act sets out the following matters relevant to the refinery's margin for a period:
 - (a) government payments and benefits other than fuel security services payment in relation to the period;
 - (b) costs of operating the refinery incurred in relation to the period;
 - (c) capital expenditure in relation to the period;
 - (d) any other matters the Minister considers relevant.

- (3) The considerations are to be given effect by calculating a single rate of fuel security services payment for each litre of FSSP fuel refined at a committed refinery in a quarter based on a margin marker calculated for the quarter for each committed refinery. The basis for the margin marker is set out in Part 3 of this instrument.
- (4) The fuel security services payments are intended to address refinery operators' downside risk of losses during a quarter in their commitment period, but are capped at 1.8 cpl under paragraph 43(2)(a) of the Act. Therefore:
 - (a) a margin marker of 6.4 cpl is the collar when payments start to be made; and
 - (b) at a margin marker of 4.6 cpl the payments are capped at 1.8 cpl.
- (5) Under subsection 43(4) of the Act, the Minister must take these guidelines into account in making rules for subsection 43(1) of the Act to prescribe the calculation methods for fuel security services payment for a quarter.

Part 3—Margin Marker

6 Margin marker

- (1) The margin marker is intended to reflect refining market conditions in a quarter based on prevailing FSSP fuel, fuel oil, crude oil and transport prices. In doing so it should maintain incentives for efficient refinery operations.
- (2) The margin marker should be calculated based on the price of FSSP fuels and fuel oils obtained from Singapore and the cost of shipping those fuels to Australia, less the price of crude oil and the costs of shipping crude oil from Indonesia so that:
 - (a) the application of the margin marker to each committed refinery should reflect differences in refinery configuration and the resultant refined product mix/yield; and
 - (b) the calculation should be based on verifiable market data to promote investment certainty for each committed refinery.
- (3) The margin marker calculation under subsection (2) should be calibrated to available financial and operational information for each refinery to determine the relationship between the margin calculated by the variables used in the marker and unique operating conditions and estimated actual margins of the refinery. This is known as the *basis differential*.
- (4) The calibrated margin marker calculation which incorporates the basis differential should then be used to calculate the rate of fuel security services payments for each committed refinery. The difference between the calibrated margin marker for each committed refinery and the 6.4 cpl margin determined by the Minister is the rate of fuel security services payments (up to 1.8 cpl) and reflected in legislative rules under the Act.

7 FSSP fuel and fuel oil prices.

- (1) The prices of FSSP fuels and fuel oil obtained from Singapore should be based on published prices for those fuels, converted to cpl.
- (2) The most relevant data set of these prices is as follows:
 - (a) for gasoline—"Gasoline Unl 95 FOB Spore Cargo" published by S&P Global Platts (Platts code: PGAEZ00) in United States dollars per barrel;
 - (b) for diesel—"Gasoil 0.001% S (10 ppm) FOB Spore Cargo" published by S&P Global Platts (Platts code: AAOVC00) in United States dollars per barrel;

- (c) for kerosene—"Jet Kero FOB Spore Cargo" published by S&P Global Platts (Platts code: PJABF00) in United States dollars per barrel;
- (d) for fuel oil—"FO 380 CST 3.5% S FOB Spore Cargo" published by S&P Global Platts (Platts code: PPXDK00) in United States dollars per tonne;
- (e) for marine fuel oil—"FOB Spore Marine Fuel 0.5% Cargo" published by S&P Global Platts (Platts code: AMFSA00) in United States dollars per tonne.
- (3) The yield of each fuel for the refinery needs to be taken into account to determine the overall input to the margin marker for each refinery of the fuel types.

8 Costs of transporting refined fuel from Singapore

- (1) The costs of transporting refined fuel from Singapore should be based on published prices for the transport of refined fuels to Australia, converted to cpl.
- (2) The most relevant data set is the daily "Clean Singapore-Australia 30kt MR \$/mt" price published by S&P Global Platts (Platts code: AAJPV00) in United States dollars per tonne of refined fuel.
- (3) The price obtained under subsection 8(2) needs to be weighted by the yield of each fuel for the refinery.

9 Crude oil prices

- (1) The price of crude oil should be based on published prices for crude oil, converted to cpl.
- (2) The most relevant data set is the daily "Kimanis (Asia close)" price published by S&P Global Platts (Platts code: AASCL00) in United States dollars per barrel.

10 Costs of transporting crude oil from Indonesia

- (1) The costs of transporting crude oil from Indonesia should be based on published prices for the transport of crude oil to Australia, converted to cpl.
- (2) The most relevant data set is the daily "Dirty Indonesia-Australia 80kt \$/mt" price published by S&P Global Platts (Platts code: TDABC00) in United States dollars per tonne of crude oil.

11 Refinery yields

- (1) For the above calculations, the yield of each fuel for the refinery, as a percentage of the volume of refined fuel from an equivalent volume of crude oil, should be fixed for the commitment period, based upon historical and expected future output of the refinery.
- (2) For the Geelong refinery, the yields are determined to be the following:
 - (a) gasoline—37%;
 - (b) diesel—37%;
 - (c) kerosene—12%;
 - (d) fuel oil—10%;
 - (e) marine fuel oil—3%.
- (3) For the Lytton refinery, the yields are determined to be the following:
 - (a) gasoline—48%;
 - (b) diesel—40%;
 - (c) kerosene—9%;

- (d) fuel oil—2%;
- (e) marine fuel oil-0%.

12 Basis differential

- (1) The basis differential should reflect the difference between the calculated margin marker and the margins of the refinery, based upon historical financial information and the operating environment of the refinery. This includes the ability to source alternative crude oil and constraints such as the depth of shipping berths that are available to the committed refinery.
- (2) For the Geelong refinery, the basis differential is determined to be \$1.80 per barrel of FSSP fuel.
- (3) For the Lytton refinery, the basis differential is determined to be \$3.10 per barrel of FSSP fuel.

13 Exchange rate

Where values are based on United States dollars, those values should be converted to Australian dollars based on the exchange rates published by the Reserve Bank of Australia for each month.

Part 4—Milestone report

14 Milestone report

The method for determining the rate of fuel security services payments will be subject to a milestone report after two years to ensure it is still appropriate for Australian market conditions.