



Fuel Security RIS – Addendum in relation to Fuel Security Services Payment (FSSP) Rule and Petroleum and Other Fuels Reporting (POFR) Amendment FSSP Rule

Outline

On 26 May 2021, the Government published a Regulation Impact Statement (RIS) attached to the *Fuel Security Act 2021* (the Act). This RIS addendum provides additional information and analysis on one measure of the Act, the Fuel Security Services Payment (FSSP). The addendum addresses the estimated regulatory costs and benefits associated with the FSSP to affected entities.

This addendum notes that the regulatory costs will be minor in comparison to the financial support and benefits that will be received by affected entities.

About the FSSP

The Government's FSSP measure intends to support and maintain an onshore, sovereign refining capability by providing a capped production payment to refineries on a cent per litre basis sufficient to ensure they do not make a loss for primary transport fuels (petrol, diesel and jet fuel). Payments would not be made to refiners during times when they are making a profit.

The FSSP recognises the critical role refineries play to Australia's fuel security framework. Other important benefits achieved through the FSSP include retaining jobs in the refinery sector and maintaining support for both upstream and downstream sectors, such as the agricultural industry and the petrochemical industry.

In return for funding support, refiners will make a commitment to continue refining until at least 30 June 2027, with an option to extend to 2030.

The FSSP will be variable and tied to external market conditions, switching on and off to provide support only when refinery margins are poor.

Requirements for applicants receiving FSSP

The FSSP poses limited ongoing regulatory impost on affected entities. Importantly, it is a voluntary scheme whereby refiners may apply to be included, and in doing so accept the regulatory impost associated under the Act and the Fuel Security (Fuel Security Services Payment) Rule 2021 (the Rule). The anticipated regulatory impost is detailed below.

Applications

Eligible FSSP industry participants will be required to make a one-off application to be approved by the relevant Minister to receive the support. Applicants will have to adhere to certain criteria prescribed by the Act and the Rule, including but not limited to providing basic business details of the entity, historical data on refining of FSSP fuels, and either a security from their parent companies or a bank guarantee in relation to the commitment to fulfil repayment obligations under the Act.

Reporting and payments

If approved, refiners will be required to report production volumes of FSSP fuels to receive a quarterly payment (subject to profit margins). The report must be provided to the Secretary shortly after the end of each quarter.

Given refiners can leverage monthly production data they currently report under the *Petroleum and Other Fuels Reporting Act 2017* (POFR Act) to prepare the FSSP quarterly report, the additional reporting burden is expected to be minimal.

Approved FSSP participants will be paid quarterly in arrears. The FSSP payment rate will be calculated by the Department of Industry, Science, Energy and Resources, in accordance with the method prescribed by the Rule, at the end of each quarter. The rate will be applied to the production volumes of FSSP fuels the refiner produced during that period.

Additionally, it is intended that refiners will be required to submit an audit report by 30 September 2022 for the first financial year of payments (starting 1 July 2021). Subsequent audit reports may be required if there are concerns about the accuracy of data reported under the POFR Act.

A registered greenhouse and energy auditor must prepare the audit report in accordance with the requirements for reasonable assurance engagements under the *National Greenhouse and Energy Reporting (Audit) Determination 2009*.

Number of entities that would benefit from the FSSP

Under eligibility arrangements it is likely only the two major oil refineries will be eligible for the FSSP. However, the Act allows new market entrants to receive the FSSP, if criteria under the Rule are met.

The two major oil refineries, Ampol and Viva Energy, currently employ an estimated 1,250 workers. These jobs will benefit from additional security as a result of the FSSP.

In addition, the FSSP will support jobs directly and indirectly in the petrochemical industry. For example, the LyondellBasell polypropylene plant, which relies on Geelong's Viva refinery, employs approximately 2,055 Australians directly and indirectly.

Obligations that would be placed on participating refineries

The primary ongoing obligation of the scheme requires approved FSSP participants to commit to repaying amounts received if the refinery ceases refining FSSP fuels before the end of their commitment period. Only under very limited circumstances, that have caused refineries to be operationally or commercially unviable for a continued period, refiners will not be required to repay amounts received.

There would be some administration imposed on refineries associated with repayments, but only in these unlikely circumstances as noted above.

Anticipated participation costs and benefits

Regulatory and administrative costs for participants are expected to be minimal. The benefits in the form of payments when they are needed, would significantly outweigh the regulatory impost.

To reduce the regulatory burden, FSSP production information will be based on data refiners are already required to submit under the POFR Act, as well as the additional quarterly production report based on the same or similar information.

One-off costs

Applications for the FSSP (anticipated costs):

- The application will likely take one to two people up to one week (full time) to write the application and collate supporting materials, including quality assurance and legal checks. Two eligible refiners will make applications (total up to 140 hours).
- Senior executive clearances for the application within each organisation, will take around half a day each x2 entities (total up to 8 hours).

Total anticipated costs – approximately \$11,000.¹

Audit reports:

- Procuring and requesting an auditor will take approximately one full day x2 entities (15 hours)
- Estimated average registered greenhouse energy auditor fees x2 entities (\$55,000)
- Clearance timeframes, including through senior executive to verify the audit report would be up to one full day x2 entities (15 hours)

Total anticipated costs – approximately \$112,000.²

Ongoing costs

Quarterly reports:

- Assuming the quarterly reports of FSSP production volumes will take one person one day, to write up the quarterly report x2 entities (15 hours)
- Clearance timeframes, including through senior executive for reporting, will take around half a day x2 entities (8 hours)
- Over the commitment period and including option to extend (9 years)

Total anticipated costs – approximately \$60,000.³

Other costs

Other costs are expected to be minimal given the infrequency and improbability of these circumstances occurring and as such have not been estimated. These would include matters such as making an application to vary a commitment period, or exercising a right to extend a commitment period.

Benefits to refiners

Combined, the approved FSSP participants may receive up to the full \$2.047 billion in appropriated funding during any loss-making periods from 1 July 2021 to 30 June 2030 (should the option to extend get exercised), although receiving this full amount is very unlikely.

Regulation impact summary

The FSSP provides a significant positive financial impact to refiners which far outweighs the minor regulatory impost.

The total regulatory burden of the FSSP is expected to be less than \$200,000 per eligible entity over the next nine years.⁴ While the total potential financial benefit of the FSSP would only be capped by the \$2.047 billion appropriated to the scheme.

¹ The anticipated costs have been calculated according to the Office of Best Practice Regulation – Regulatory Burden Measurement Framework. The default hourly wage cost of \$73.05 has been used.

² Ibid.

³ Ibid.

⁴ Ibid.