REFINING NZ
Your Energy Hive

NZX announcement

19 November 2020

Refining NZ Operational Update for September/October 2020

HIGHLIGHTS

- Refining NZ's excellent health and safety performance continued during the period.
- Processing Fee revenue remained at the Fee Floor due to continuing negative international refining margins.
- RAP throughputs were 16% higher than the July/August operating period, reflecting COVID-19 travel restrictions lifting following the imposition of Auckland's Coronavirus Level 3 lockdown.
- Net debt was reduced by $17m to $232m as at the end of October, due to savings realised from the six-week temporary refinery shutdown in July/August and proceeds of asset sales.
- Good progress has been made on the implementation of the refinery simplification plans which will enable the company to extend cash neutral operations at the Fee Floor into 2021.
- Import Terminal discussions continue with customers.

COMMENTARY

Refining NZ's excellent health and safety performance continued through September and October, with no Tier 1 or Tier 2 process safety events or recordable injuries. Refining NZ's E Tu Tangata safety programme was recognized at the New Zealand Workplace Health and Safety 2020 Awards, winning the Engagement category.

In September, the refinery completed a safe restart after a six-week shutdown to help rebalance stocks across the country, due to the COVID-19 impacts on New Zealand fuel demand. All processing units have continued to operate at reduced rates as a result of the continuing impact of COVID-19 travel restrictions on jet fuel demand.

RAP throughputs were 16% higher than the previous period, reflecting COVID-19 travel restrictions lifting following the imposition of Auckland Coronavirus Level 3 lockdown.

Global refining margins remained weak during September/October, with product demand reduced due to on-going COVID-19 impacts. In response to weak margins, refiners globally have lowered runs, brought forward maintenance plans and implemented some temporary or permanent closures. Although global oil demand recovered considerably from May to September, the recovery in demand slowed in October due to a resurgence of COVID-19 infections globally.

Refining NZ's September/October uplift over the Singapore Dubai complex margin was US$2.79 per barrel. The Singapore Dubai complex margin for the September/October period was weak at US$-1.64 per barrel.

Processing Fee revenue was NZ$23.3 million, including NZ$15.8 million of Fee Floor payments by our customers. GRM for the two months was US$1.15 per barrel reflecting the low global refining margins and reduced refinery throughput. Processing Fee Floor payments now total NZ$86.2 million in the year to date.

Net debt was NZ$232 million at the end of October, which is NZ$17 million lower than the last update at the end of August. The reduced debt levels reflect savings from the temporary shutdown of the refinery in July/August and c. $13 million realised from asset sales, which will be used in part to fund restructuring costs associated with the refinery simplification plans.

Good progress is being made on the implementation of the refinery simplification plans which will enable the company to extend cash neutral operations at the Fee Floor into 2021. Employee consultation has been completed and approximately 90 of the Company's employees, whose roles are impacted by simplification, will depart between November and Q1 2021.

Discussions regarding the potential conversion to an Import Terminal continue with customers, including Exxon Mobil, who has paused its dispute in relation to the refinery's simplification plans. Front End Engineering and Design (FEED) has now commenced to further develop and refine Import Terminal conversion plans, including estimated costs of conversion and timing. Further updates will be provided as this work is progressed.

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OPERATIONAL DATA[1]

		Sep/Oct 2020	Sep/Oct 2019	YTD 2020	FY 2019
Health, Safety & Environment					
LTI	#	0	0	0	1
LTIF	#/200,000hrs	-	-	0.00	0.13
TRC	#	0	1	0	2
TRCF	#/200,000hrs	-	-	0.00	0.27
Tier I Process Safety Events	#	0	0	0	0
Tier II Process Safety Events	#	0	0	0	0
Releases outside of consent	#	0	0	3	1
Refining					
Brent Crude Oil Price	US$/bbl	40.5	61.2	40.8	64.4
Exchange Rate	US$/NZ$	0.67	0.63	0.64	0.66
Operational availability	%	99.8	98.6	97.9	99.7
Unplanned process downtime	%	4.5	1.0	27.5	1.6
Refining throughput	Mbbl	6.22	7.25	23.42	42.69
Gross Refining Margin	US$/bbl	1.15	6.16	1.19	5.34
Gross Refining Margin (including Fee Floor/Margin Cap)	US$M	22.2	44.6	107.1	227.9
Processing Fee (including Fee Floor/Margin Cap)	US$M	15.5	31.2	75.0	159.5
Processing fee (including Fee Floor/Margin Cap)	NZ$M	23.3	49.2	117.0	242.0
Distribution					
RAP throughput	Mbbl	2.5	3.4	12.1	20.8

[1] Notes:

1) The information provided in this announcement excludes Revenue from other activities.
2) The Processing Fee results reported in this announcement are subject to change due to post announcement price updates and independent audit.
3) A five-year history of Throughput, Margins and Processing Fees is attached below.
4) Refer to the explanatory notes/glossary for a definition of terms.

HISTORICAL INFORMATION - REFINING

		2016	2017	2018	2019	2020
Jan/Feb	Barrels 000's	6,826	7,160	7,011	6,963	6,909
	RNZ USD GRM per barrel [1)]	7.96	6.58	7.54	4.88	1.04
	Singapore Dubai Complex GRM	4.95	3.42	3.37	-0.32	-1.58
	Uplift vs. Singapore Dubai Complex [3)]	3.01	3.16	4.17	5.20	2.62
	NZD Processing Fee (million) [2)]	57.0	45.9	50.8	34.9	23.0
Mar/Apr	Barrels 000's	7,471	5,140	6,958	7,312	4,656
	RNZ USD GRM per barrel [1)]	1.84	9.35	6.82	6.63	0.67
	Singapore Dubai Complex GRM	3.18	3.02	3.75	0.75	0.19
	Uplift vs. Singapore Dubai Complex [3)]	-1.34	6.33	3.07	5.88	0.48
	NZD Processing Fee (million) [2)]	14.8	48.1	45.8	50.1	23.7
May/Jun	Barrels 000's	6,837	7,755	3,910	6,945	3,867
	RNZ USD GRM per barrel [1)]	6.26	7.63	0.18	4.36	4.59
	Singapore Dubai Complex GRM	2.13	2.90	2.02	0.17	-3.78
	Uplift vs. Singapore Dubai Complex [3)]	4.13	4.73	-1.84	4.19	8.37
	NZD Processing Fee (million) [2)]	43.3	58.4	0.7	32.2	23.3
Jul/Aug	Barrels 000's	6,833	7,511	7,615	7,419	1,766
	RNZ USD GRM per barrel [1)]	6.20	8.87	6.86	7.10	-4.18
	Singapore Dubai Complex GRM	1.86	4.70	2.57	3.23	-2.46
	Uplift vs. Singapore Dubai Complex [3)]	4.34	4.17	4.29	3.87	-1.73
	NZD Processing Fee (million) [2)]	41.3	63.6	54.3	56.2	23.7
Sept/Oct	Barrels 000's	7,251	6,816	7,639	7,245	6,219
	RNZ USD GRM per barrel [1)]	7.49	9.31	7.09	6.16	1.15
	Singapore Dubai Complex GRM	3.18	4.73	2.47	3.55	-1.64
	Uplift vs. Singapore Dubai Complex [3)]	4.31	4.58	4.62	2.61	2.79
	NZD Processing Fee (million) [2)]	52.5	62.2	57.8	49.3	23.3
Nov/Dec	Barrels 000's	7,447	7,342	7,307	6,803	
	RNZ USD GRM per barrel [1)]	9.20	6.83	6.53	2.62	
	Singapore Dubai Complex GRM	4.19	3.67	1.80	-1.55	
	Uplift vs. Singapore Dubai Complex [3)]	5.01	3.16	4.73	4.16	
	NZD Processing Fee (million) [2)]	67.6	50.7	49.2	19.2	
Total	**Barrels 000's**	**42,665**	**41,724**	**40,440**	**42,687**	**23,417**
	USD GRM per barrel [1)]	**6.47**	**8.02**	**6.31**	**5.34**	**1.19**
	NZD Processing Fee (million) [2)]	**276.6**	**328.9**	**258.7**	**242.0**	**117.0**
	YTD Cap adjustment					
	NZD Processing Fee (million) [1)]					

1) Excludes Fee Floor/Cap adjustment
2) Includes Fee Floor/Cap adjustment
3) RNZ uplift vs. Singapore Dubai Complex GRM is in USD per barrel

EXPLANATORY NOTES/GLOSSARY

LTI (Lost time injuries) and LTIF (Lost time injury frequency)
Lost time injuries refer to fatalities, permanent disabilities or time lost from work.
Lost time injury frequency refers to the number of lost time injuries over a rolling 12-month period, per 200,000 hours worked.

TRC (Total recordable cases) and TRCF (Total recordable case frequency)
Total recordable cases refer to lost time injuries, medical treatment and restricted work cases.
Total recordable case frequency refers to the number of recordable injuries over a rolling 12-month period, per 200,000 hours worked.

Tier 1 Process Safety Event (API 754)
A tier 1 Process Safety Event (PSE) is an unplanned or uncontrolled release of any material, including non-toxic and non-flammable, from a process which results in one or more of the following: A LTI and/or fatality; a fire or explosion resulting in greater than or equal to $25,000 of direct cost to the company; a release of material greater than the threshold quantities given in Table 1 of API 754 in any one-hour period; an officially declared community evacuation or community shelter-in-place.

Tier 2 Process Safety Event (API 754)
A tier 2 Process Safety Event (PSE) is an unplanned or uncontrolled release of any material, including non-toxic and non-flammable, from a process which results in one or more of the following: A recordable injury; a fire or explosion resulting in greater than or equal to $2,500 of direct cost to the company; a release of material greater than the threshold quantities given in Table 2 of API 754 in any one-hour period.

Operational availability
Operational availability is the percent of time available for manufacturing after subtracting maintenance and regulatory/process downtimes.

Unplanned process downtime
A unit downtime is “planned” if the refinery is aware of and has scheduled that unit outage in the previous year. Unplanned process downtime is the weighted average of unplanned downtime across all process units.

Refining throughput
Refining throughput is the volume of feedstock intake, comprising crude oil, residues, natural gas and blendstock, measured in barrels. One barrel equates to approximately 159 litres.

Turnaround
A scheduled outage of one or more process units, planned well in advance and typically occurring in cycles of 2 years or more, for the purpose of significant mechanical inspection and repair.

Gross Refining Margin (excluding Fee Floor/Margin Cap)
The Gross Refining Margin is calculated in USD as the difference between the value of products and the cost of feedstock for each refining customer. The value of products use Singapore quoted prices adjusted for New Zealand quality and the cost of importing those products to New Zealand. Feedstocks are valued using the notional market values adjusted for the cost of getting the feedstock to the refinery. The Gross Refining Margin incorporates the cost of hydrocarbon used as fuel and incurred as process losses.

Typically, Refining NZ has an uplift over the Singapore complex margins of around USD 3.00 to 4.00 per barrel. The value of the uplift varies due to fluctuations in freight rates, product quality premium, crude market premium and operational performance. Product quality premium are the cost differentials between products made to New Zealand quality and products made to the quality that applies to quoted prices in Singapore. Crude market premium are the cost differences between the crude types actually processed at Refining NZ and Dubai (used as basis for the Singapore complex margins). Refining NZ's crude diet comprises of crudes that price off Dubai as well as crudes that price off different markers such as Brent. The fluctuations of these price markers relative to each other impact the uplift.

Margin Cap/Fee Floor Adjustment
The processing agreements with our customers contain both Floor and Margin Cap clauses, both effective over a full calendar year. The Fee Floor is the minimum Processing Fee due, for a calendar year, up to a current maximum of NZD 140.0 million. If the year-to-date Processing Fee is below the pro-rata Fee Floor, then an interim pro-rata Fee Floor payment is made by the Customers. Should the Processing Fee exceed the Fee Floor in future months any pro-rata Fee Floor payments that have been made are repaid to the Customers. The Margin Cap limits the Gross Refining Margin for each customer to a maximum of USD 9.00 per barrel over the calendar year. Should the Gross Refining Margin fall below the Cap in future months any pro-rata Cap reductions that have been made are repaid by the Customers. The Cap and the Floor are subject to year-to-date adjustments. Any balance remaining at the end of the year cannot be carried over to the next year.

Processing Fee (after Fee Floor/Margin Cap)
The Processing Fee is 70% of the Gross Refining Margin after any adjustment for the Margin Cap or Fee Floor. The Processing Fee is paid by our customers in NZD.

RAP throughput
RAP throughput is the volume of refined products, comprising gasoline, jet fuel and diesel that are delivered via the Refinery to Auckland Pipeline (RAP) to the Wiri oil terminal.