

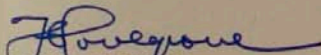
CONFIDENTIALCABINET DECISIONNO. 1023

---

Submission No.: 878  
Title: ESTABLISHMENT OF A TANK FARM FOR EMERGENCY FUEL RESERVES.

## Cabinet:-

- a) approved in principle the establishment of a tank farm with a reserve capacity sufficient to cover normal fuel requirements for three months excluding the requirements of major users;
- b) approved in principle the offering of inducements to major users of petroleum products to establish their own reserve storage facilities;
- c) directed that Treasury prepare a Submission to the Commonwealth seeking funds to increase buffer storage to at least the Victorian level as part of a national petroleum products reserve stockpile; and
- d) requested that relevant Departments prepare a detailed proposal for submission to Cabinet. The Departments concerned are Mines and Energy which will institute discussions, Transport and Works, Treasury, Lands and Housing, Northern Territory Electricity Commission and the Northern Territory Port Authority.



T.C. LOVEGROVE,

~~XXXXXXXXXXXX~~

Actg. Secretary to Cabinet.

9 January, 1980.

## THE NORTHERN TERRITORY OF AUSTRALIA

CONFIDENTIAL

Copy No. 1

FOR CABINET

SUBMISSION No. 878

Title:	ESTABLISHMENT OF A TANK FARM FOR EMERGENCY FUEL RESERVES.
Cabinet Member	The Hon. Ian Tuxworth, M.L.A., Minister for Mines and Energy.
Purpose:	Policy decision in principle.
Relation to existing policy:	To ensure continuity in the economic development of the Northern Territory.
Timing/legislative priority:	Urgent
Announcement of decision, tabling, etc.:	Ministerial Statement in the Legislative Assembly and appropriate press release.
Action required before announcement:	Discussions and agreement with oil industry. Clarification of legislation aspects.
Staffing implications, numbers and costs, etc.:	Approximately 15 employees.
Total cost:	\$6.8M

CONFIDENTIAL

CONFIDENTIAL

Department/Authority ..... PUBLIC SERVICE COMMISSIONER .....

COMMENT ON CABINET SUBMISSION No.

TITLE: ..... ESTABLISHMENT OF A TANK FARM FOR .....

..... EMERGENCY FUEL RESERVES .....

COMMENTS:

It would appear from the Submission that the recommended storage capacity of 90 days normal requirements for users other than major users is in addition to the existing normal operational stock holdings thus exceeding the International Energy Agency's recommended storage capacity of 90 days normal requirements.

It is not clear from the Submission whether the reserve capacity envisaged will service other areas of the Territory not currently serviced by the distribution network from Darwin.

The estimated staffing increase of 15 additional employees will need to be submitted and justified to the Cabinet Committee on Establishment Variations. An increase of 15 employees to maintain 21 "reserve only" tanks does, however, appear excessive at first glance.

The introduction of a Submission of this nature at this time is questioned in view of the impending appointments of a new Head of the Department of Mines and Energy and the Energy Co-ordinator, either or both of whom may have views at variance with the recommendations of the Submission.

SIGNED: *P. J. Bartholomew* P. J. BARTHOLOMEW for Public Service Commissioner

DESIGNATION:

DATE: 23/11/79

CONFIDENTIAL

Department/Authority ..... Law .....

COMMENT ON CABINET SUBMISSION No.

TITLE: ESTABLISHMENT OF A TANK FARM FOR EMERGENCY FUEL RESERVES

COMMENTS:

The reference to "Clarification of legislation aspects" in page 1 of the Submission is not expanded upon and do not know what is in mind.

There are no legal barriers to the proposal.

There appear to be no constitutional barriers to the proposal.



SIGNED: LEGISLATIVE DRAFTSMAN

DESIGNATION: for SOLICITOR GENERAL

DATE: 22 November 1979

CONFIDENTIAL



CONFIDENTIAL

Department/Authority DEPARTMENT OF THE TREASURY

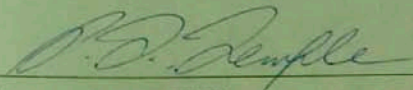
COMMENT ON CABINET SUBMISSION No.

TITLE: ESTABLISHMENT OF A TANK FARM FOR EMERGENCY FUEL RESERVES

COMMENTS:

It is recommended that the Northern Territory first make representations to the Commonwealth for an increase in buffer stocks to at least the Victorian level as part of a national petroleum products reserve stockpile.

Only if this fails should the Northern Territory establish its own stockpile and in that case, the favoured approach is to provide assistance to oil companies to increase their own reserves.



SIGNED: A.B. ASHLEY  
DESIGNATION: UNDER TREASURER  
DATE: 30/11/79

CONFIDENTIAL

DEPARTMENT OF MINES AND ENERGY - Notes on  
Departmental Comments

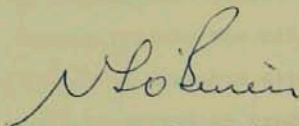
Title: Establishment of a Tank Farm for Emergency  
Fuel Reserves

1. Public Service Commissioner

- (a) The recommended reserve storage capacity of 90 days specifically excludes the normal day-to-day operational stockholdings.
- (b) The envisaged reserve storage capacity covers the whole of the Northern Territory's requirements.
- (c) The estimated staff of 15 employees is based on the need to man the installation 24 hours a day for security reasons. Furthermore, it is necessary to turn over the stock within prescribed periods to avoid deterioration of the product, particularly of avgas, diesel and motor spirit.

2. Department of Law

The "legislation aspects" refer mainly to the legal provisions which may be required for the holding, management and distribution of the stock reserves by the Northern Territory Government.



(V. T. O'BRIEN)  
Secretary

3 January 1979

THE ISSUE

1. This Submission is seeking a policy decision in principle in relation to the provision of additional storage capacity for liquid petroleum products in the Northern Territory as a means of reducing the effects of possible short term supply shortages.

BACKGROUND

2. The Northern Territory is completely dependent on petroleum products as its primary energy source. As these products are imported from interstate and overseas, any disruption in coastal shipping can seriously affect the Territory's economy unless adequate buffer stocks are available. In addition to the seaboard logistics problems, the world energy crisis, highlighted by the effects of the Iranian revolution, has created an unstable situation in the supply of crude oil and some petroleum products. As a result, short term petroleum shortages can occur while alternative supplies are being negotiated.

3. The recent temporary shortages of avgas and distillate are examples of the effects of supply and distribution problems which the oil industry has been lately experiencing. Such shortages are particularly disruptive in the Northern Territory and if they extended into the longer term, could seriously affect the rate of the Territory's economic development.

4. At present there are five oil companies operating in the Northern Territory; however, not all of these handle the complete range of petroleum products. The existing bulk storage capacity of the companies at their seaboard terminals at Darwin and Gove varies significantly for the individual products. It ranges from about six weeks for motor spirit and distillate to about 15 weeks for jet fuel, under normal offtake conditions. As the tanks are used for normal operational stock holdings however, they cannot be regarded specifically as reserve storage.

#### CONSIDERATION OF THE ISSUE

5. At the present time none of the oil companies is considering any expansion of its bulk storage facilities for the purpose of establishing reserve storage capacity. Several of the major users such as the Northern Territory Electricity Commission, Nabalco, the Groote Eylandt Mining Company and the uranium province, have some reserve storage capacity in their existing tankage or are in the process of installing additional tanks.

6. The International Energy Agency, of which Australia has recently become a member, recommends a national storage capacity sufficient for about 90 days normal requirements. Current nominal storage capacities of the States are :-



Victoria	138 days
Queensland	117 days
New South Wales	100 days
Western Australia	100 days
Tasmania	87 days
South Australia	55 days
Northern Territory	50 days

7. The criteria which determine the desirable size of fuel reserves in the Northern Territory are the capacity of the national and regional distribution system, the frequency and reliability of overseas imports, and the lead time for variations of interstate and overseas shipping schedules. Present normal supply arrangements are based on shipments arriving every six to eight weeks. Lead time for variation of schedules is usually two to three months.

8. On this basis, the desirable level of regional buffer reserves in the Northern Territory would appear to be about three months of normal requirements. This capacity would cover the cancellation of two consecutive scheduled shipments and allow time for the arrival of emergency national reserves.

9. Details of the Northern Territory fuel consumption for the six months period January to June 1979 are given in Attachment 'A'. Storage capacity requirements for one and three months reserve stocks are also shown in this Attachment.

THE OPTIONS

10. The three main options which have been considered in respect of this issue are :-

11. Option 1: The Northern Territory Government provides reserve storage capacity to cover the total normal fuel demand of all consumers for a three month period. This option would require initial investment of substantial government funds but would enable the Government to exercise complete control over the fuel usage rate during any supply shortage period.

12. Option 2: The Northern Territory could offer inducements to the oil companies to establish reserve tankage facilities as under Option 1 for lease to the Government. This option would save the Government the outlay of the initial capital funds but would involve considerable long term lease payments to the oil companies.

13. Option 3: The Northern Territory Government provides reserve storage capacity to cover the normal fuel demand for a three month period of essential services and of the general community only, and offers inducements to major users to establish their own reserve storage facilities. This option would require less capital outlay

than Option 1. It would have similar control advantages over the fuel usage but these would be in respect of the general community sector only. Inducements to the major oil users could be in the form of e.g. cheap loans.

#### FINANCIAL CONSIDERATIONS

14. Details of the estimated fund requirements for each of the three options, covering the cost of capital works, tank contents and operating expenditures involved in the provision of a three month fuel reserve, are shown in Attachments 'B', 'C' and 'D' respectively. The costs are summarised below :-

Fund Requirements for :-	Option 1 \$M	Option 2 \$M	Option 3 \$M
Capital Works	17.5	Nil	6.5
Annual operating expenditures	0.5	4.0	0.3
Tank contents (recoverable)	36.0	36.0	16.0

15. No formal discussions with Treasury concerning the availability of funds have taken place at this early stage, however, Treasury has been advised as to the likely extent of the funds involved.

EMPLOYMENT CONSIDERATIONS

16. Significant employment opportunities will occur during the initial site development stage and during the plant construction period. Once established, the manpower requirement for the servicing and maintenance of the tank farm will be relatively small.

CO-ORDINATION AND CONSULTATION

17. The allocation of a suitable site will have to be subject to consideration by the Department of Lands and Housing in conjunction with the Town Planning Authority. The Town Planner has indicated that the required land could be made available in the East Arm area which is presently subject to a Port Development study.

18. Land area requirements for each of the three options are :-

- Option 1 (56 tanks) : 48 hectares
- Option 2 (56 tanks) : 48 hectares
- Option 3 (21 tanks) : 18 hectares

../7.



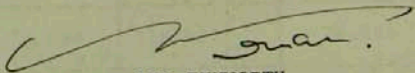
PUBLIC IMPACT

19. The public reaction to the adoption by Government of a policy which, through the provision of fuel reserves would effectively reduce hardship associated with short term fuel supply disruptions, is expected to be favourable, regardless of political affiliation.

RECOMMENDATION

20. Because of the serious disruptive and damaging effects which shortages of petroleum products have on the economy of the Northern Territory, it is recommended that Cabinet approve, in principle :-

- (a) the establishment of a tank farm with a reserve capacity sufficient to cover normal fuel requirements for three months excluding the requirements of major users (Option 3).
- (b) the offering of inducements to major users of petroleum products to establish their own reserve storage facilities.

  
IAN TUXWORTH

Consumption of Petroleum Products in the Northern Territory for the period January - June 1979.

Product	All Users	Estimated Use Excluding Major Users (*)
	Kilolitres	Kilolitres
Motor Spirit	46,282	45,000
Avgas	4,414	4,000
Automotive Distillate	75,577	46,000
Industrial Distillate	77,301	32,000
Jet Fuel	33,918	33,000
Fuel Oil	200,970	Nil
<b>TOTAL</b>	<b>438,462</b>	<b>160,000</b>

\* Major users include:- Northern Territory Electricity Commission and major mining companies.

Estimated Bulk Storage Capacity Requirements

Basis:- One month and three months Reserve Stocks

Product	Average Normal Use ALL Users		Average Normal Use EXCLUDING Major Users	
	1 Month kl	3 Months kl	1 Month kl	3 Months kl
Motor Spirit	8,000	24,000	7,500	22,500
Avgas	800	2,400	700	2,100
Automotive Distillate	12,500	37,500	7,600	22,800
Industrial Distillate	13,000	39,000	5,300	15,900
Jet Fuel	5,500	16,500	5,500	16,500
Fuel Oil	33,500	100,500	Nil	Nil
<b>TOTAL</b>	<b>73,300</b>	<b>219,900</b>	<b>26,600</b>	<b>79,800</b>

OPTION 1

The Northern Territory Government provides reserve storage capacity to cover the total normal fuel demand of ALL USERS for a THREE MONTH period.

(1) Estimated Cost of Capital Works

PRODUCT	Average normal use, <u>ALL</u> users kl	Tanks No/Size	Capital Cost without contents \$M
Motor Spirit	24,000	6/4000	1.782
Avgas	2,400	1/3000	0.242
Automotive Distillate	37,500	9/4000 1/2000	2.871
Industrial Distillate	39,000	9/4000 1/3000	2.915
Jet Fuel	16,500	4/4000	1.188
Fuel Oil	100,500	25/4000	7.425
TOTAL	219,900	<u>56 Tanks</u>	16.423
Additional Costs:			
- Infrastructure			0.486
- Fire Protection			0.500
		TOTAL CAPITAL COST	17.409
		SAY	<u>\$17.5M</u>

(2) Estimated Operating Cost of Tank Farm

The cost of labour, insurance, repairs and maintenance, surity and general administration for a tank farm comprising 56 tanks is estimated at \$500,000 p.a.

(3) Land Requirements 58 hectares(4) Cost of Tank Contents (recoverable) at current Government contract prices \$36.0M

OPTION 2

The Northern Territory Government offers inducements to the oil companies to establish reserve tankage facilities as under Option 1, to lease to the Government.

(1) Estimated Cost of Capital Works

Cost to the Government

N I L

(Facilities provided by oil companies and leased to the Government)

(2) Estimated Operating Cost of Tank Farm

Operating costs (same as for Option 1)

\$500,000 p.a.

Plus: Cost of leasing the tank farm facilities. (These costs were based on the depreciation of the installation over 10 years and a profit rate of 10% on the capital invested.)

\$3,500,000 p.a.

TOTAL

\$4,000,000 p.a.(3) Land Requirements58 hectares(4) Cost of Tank Contents (recoverable) at current Government contract prices. (as for Option 1)\$36.0M