From:
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To:
The Commissioners
Economic Regulation of Airports

via e-mail: airports@pc.gov.au

22 March 2019

Re: Economic Regulation of Airports - Productivity Commission Draft Report

Dear Commissioners

The Brisbane Joint User Hydrant Installation (JUHI) Joint Venture wishes to respond to the additional information request made by the Productivity Commission following the release of their draft report into the Economic Regulation of Airports. We also note the request for information made through the Australian Institute of Petroleum regarding biofuel delivery into Brisbane JUHI, and additionally wish to respond to the queries raised by the Commission on those points.

It is critical that the PC understands that the JUHI JV is an infrastructure service provider. The JUHI JV itself does not play a role upstream of the JUHI tank farm, and is not commercially involved downstream in provision of into-plane services at Brisbane Airport. It also does not own the fuel it is transferring. As a result, the JUHI has no involvement nor visibility of wingtip prices. These are matters between the individual airlines and fuel suppliers. Similarly, the JUHI has no involvement or visibility of upstream assets and any rates of return sought. As a result, this submission only deals with matters directly relevant to JUHI JV operational matters.

Part 1: Response to queries relating to access to Brisbane JUHI

Viva Energy Australia, as the operator and on behalf of the Brisbane JUHI JV would like to note the following:

- The Brisbane JUHI JV is an unincorporated JV comprising BP, Caltex, Mobil and Viva Energy
- The JUHI JV owns and operates the Jet fuel infrastructure located at Brisbane Airport, principally the storage tanks and the hydrant reticulation system which connects the storage tanks to the airport apron
- The JUHI JV maintains a strict confidentiality protocol amongst member companies, which is adopted from a global standard, provided by the Joint Inspection Group (JIG). This means that data relevant to the JUHI JV is ring-fenced, and as such is only accessible to the Operator, in all respects in the role of Operator, and nominated Participant company representatives in respect of that individual Participant company information and for the JUHI JV in the aggregate.

The JUHI JV would like to note there are five bullet point requests for information from fuel infrastructure owners, made by the Commission:

- fuel companies' return on assets for the terminals, pipelines, Joint User Hydrant Installation (JUHI) infrastructure and into-plane services
- terms of third party access, including price, to infrastructure services for the provision of jet fuel
- the number of applications for access to JUHI infrastructure that have been successful and unsuccessful over the past 10 years
- details of the JUHI access application process, including the information required from access seekers, time taken for a decision on access to be made and reasons as to why access seekers were unsuccessful
- the assessment process for granting access to JUHI infrastructure at individual airports.

Fuel companies' return on assets for the terminals, pipelines, JUHI infrastructure and into-plane services

We noted previously the return on assets in the case of terminals, pipelines and into plane services to be a matter for individual owners of those assets. In the case of the Brisbane JUHI infrastructure, the JUHI operates on a cost recovery mechanism, with users who utilise a larger proportion of the assets paying a proportionally larger share of the costs. The JUHI JV has no knowledge of how the JUHI JV costs are incorporated into the outright price of jet fuel offered by each fuel supplier as these are a matter for individual fuel suppliers marketing businesses.

The number of applications for access to JUHI infrastructure that have been successful and unsuccessful over the past 10 years

There have been no applications to join the Brisbane JUHI in the last 10 years

Details of the JUHI access application process, including the information required from access seekers, time taken for a decision on access to be made and reasons as to why access seekers were unsuccessful

The JUHI JV follows recommended industry best practise in the evaluation of participant applications, and substantially follows the globally recommended process proposed by JIG for evaluation of potential JV entrants. An entrant gains an equal share in the Joint Venture assets, and becomes a member of the JUHI JV with the same rights and obligations as all other participant members.

While the joining criteria and assessment process is confidential, the Brisbane JUHI has outlined below the general steps that take place in assessing an applicant and the application process itself. As the Commissioners will note, the process is substantially similar to the joining process for Sydney JUHI, which is a matter of public record.

Entry of participants to the Brisbane JUHI is covered in the Brisbane JUHI Joint Venture Agreement. The JV can provide a details of the relevant clause(s) in confidence if requested by the Commission.

General joining process:

1. Applicant makes enquiry to the JUHI JV
2. JUHI JV requests response to a number of queries, which cover:
    a. Approval to distribute fuel by relevant governing bodies

b. An ability to deliver fuel sufficient to support the applicant's customers, which conforms to the product specifications required, with appropriate access to a certified laboratory
c. Financial capability, including insurance coverage and an ability to supply or procure into plane services for the applicant's customers
d. Technical capability to assume the role of Operator
e. An ability to become party to the Joint Venture Agreement

3. Once the above responses are provided satisfactorily (noting that the JV may clarify certain responses), the Applicant is invited to make a formal application to join the JUHI JV.
4. The purchase price for a share in the JUHI is then evaluated, and if agreed, the applicant pays the purchase price and becomes a member of the Brisbane JUHI (noting that the applicant may dispute the purchase price via an independent assessment).

The Brisbane JUHI JV hopes the above information provides further detail on entrant applications to join the Brisbane JUHI JV, and clarifies sufficiently the assessment process for new entrants. Further information can be made available confidentially should the Commission require it.

Part 2: Response to queries relating to Biojet fuel deliveries at Brisbane Airport

The Brisbane JUHI JV would like to clarify and correct the various views which have been provided as part of the discussion on the delivery and supply of biojet fuel to Brisbane Airport.

Key background information:

- 'Biojet fuel' refers to a product which is a blend of mineral Jet derived from oil refining and a biologically derived component, certified to a standard Jet specification.
- The JUHI tankage and hydrant system exists as a single, continuous system, with a single fuel specification. The fuel put into the system by each fuel supplier is "commingled", rather than being held in a separate tank for each fuel supplier.
- This means that if one airline purchases biojet fuel from a fuel supplier, when that fuel supplier delivers the biojet fuel into the JUHI, it is mixed in with the jet fuel that other suppliers have delivered into the JUHI for their airline customers. When those other fuel suppliers draw product from the JUHI to supply to their customers, that product will have biojet fuel mixed into it.
- Brisbane JUHI tankage and the hydrant system are not designed to blend different grades of fuel – they are purely designed to receipt product, hold a sufficient quantity of that product to manage upstream fluctuations in supply, and then distribute the fuel to aircraft (this is generally true of on-airport jet fuel storage and delivery systems).
- Conformance to fuel specification is one of the most critical aspects of fuel management at an airport, as it ensures the fuel meets specification and is fit for use in aircraft. The consequences of an off-grade fuel mixture being supplied to an aircraft could be catastrophic.
- Therefore, all fuel which enters the JUHI must be of appropriate specification to be supplied to aircraft.
- In the case of Brisbane JUHI, the specification agreed to by the Joint Venture is DEFSTAN 91-91, which is an accepted global standard.
- Fuel sellers deliver to the JUHI system product that meets the fuel specification in their fuel supply contracts with airline customers which is consistent with the JUHI specification. The JUHI, having taken delivery of product that meets the specifications in the supplier's fuel

supply contracts, cannot return to the supplier product that does not meet those specifications.

- As a result, and because product is commingled in the JUHI system, the JUHI operator cannot take delivery of product (say, biojet fuel) from a fuel supplier, unless that product meets the specification in all of the other fuel suppliers' contracts with their airlines customers.

Brisbane Biojet Fuel Trial

The trial which took place in 2018 involved a proposal which saw an airline customer source bio-material blending component from another location, transport the material to Brisbane, arrange blending of the relevant bio-material through a participant member (Caltex), and supply via the normal supply chain into aircraft. This was completed successfully.

During the trial it was apparent that the proposed blending component did not conform to the specification agreed by the JUHI JV (DEFSTAN 91-91) but rather to an alternative global standard (ASTM D1655). Therefore, the proposed blended fuel did not conform to the agreed specification used by the JUHI, and which is reflected in fuel suppliers contracts with their airline customers.

To complete the trial, Caltex sought a resolution from all participants to accept the fuel into the Brisbane JUHI – noting that the blended fuel complied with the alternative industry standard (ASTM D1655).

Each participant then evaluated the request with their product quality experts, and sought feedback from their marketing businesses on the product supply terms of their respective fuel supply contracts with their airline customers, and post this evaluation, agreed to accept the fuel into Brisbane JUHI.

An important point to note on the specification differences is that occasionally international standards can be misaligned. In this case, the ASTM standard had approved the addition of the bio-material blending component, whereas the DEFSTAN specification had not yet been updated approving the component. This situation is a rapidly evolving part of fuel standards, and it is conceivable that the reverse could also be true in the future – with DEFSTAN specifications being updated prior to ASTM.

Thankfully, since the initial trial the ASTM and DEFSTAN standards have been updated and aligned with one another with regards to biojet fuel blending component acceptability. Post this alignment, subsequent processing of biojet fuel at Brisbane airport has occurred on two more occasions in the latter half of 2018 and early 2019.

The JUHI JV is aware that Bioenergy Australia has made various assertions to the Commission, and makes the following points:

- In the case of the above trial, Bioenergy Australia were an industry observer, and played no part commercially in the interactions with the supply of biojet fuel to Brisbane JUHI for the trial as discussed.
- At no stage did Bioenergy Australia make an application to join the Brisbane JUHI (per the outlined process above in Part 1), or make representations to supply biofuel to Brisbane airport through the Brisbane JUHI or its participant members.
- Bioenergy Australia were therefore never rejected from supplying fuel to the JUHI. The application for supplying the trial fuel into the JUHI was made by Caltex, who were tasked by the airline customer with blending and certifying the fuel to an appropriate standard before supplying it.
- As noted above, Brisbane JUHI conforms to a single specification for Jet fuel. There is no restriction on supply of biojet fuel to the JUHI or airline customers. If the fuel (blended or otherwise) meets the specification, the fuel is accepted. Indeed, there is no specific notification or approval process

for the receipt of biojet fuel if the product conforms to the overall specification – the fuel is simply accepted into the JUHI as on-grade jet fuel.

While there are a multitude of false statements in the submission made by Bioenergy Australia, the following are important in the context of the Brisbane biojet fuel trial.

- BioEnergy Australia states 'Through this trial it was clear there were unreasonable levels of testing'. This is a false statement. The testing that was undertaken for the trial was completed as per ASTM standard requirements before the fuel arrived at the JUHI (after it was blended at the terminal), and was completed by the party delivering the blending and transfer of the fuel. There was no additional testing completed at the JUHI. Rather, the JUHI had to ensure that the fuel supplied and delivered through the system was certified Jet A1, if the JUHI operator commingled biojet fuel into the jet fuel in the JUHI system.
- Further, Bioenergy states 'The JUHI did not communicate or justify delays and was unwilling to communicate on solutions because the trial was being sought by an airline and that was not a party to the JUHI". Again, this is a false statement. The JUHI communicated extensively to the supplier who was responsible for completing the fuel blending (Caltex), as well as other relevant stakeholders during the trial - including Brisbane Airport and the airline customer who sourced the bio-material for the trial.
- Finally, bioenergy proposes "any existing JUHI member or fuel supplier should be permitted to supply blended fuels into the fuel network without unreasonable blocking of the fuel". This situation already exists. If the fuel conforms to the specification, the fuel is by default accepted into the JUHI. But because the fuel is commingled, it must confirm with the specification agreed to by all parties in the JUHI Joint Venture.

The Brisbane JUHI JV hope this submission clarifies the two key areas of enquiry which the Commission has in relation to Brisbane JUHI

Regards

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Joint Venture Manager

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(on behalf of the Brisbane JUHI Joint Venture)