



Fonterra Co-operative Group

31 August 2012

Submission to the Gas Industry Company on “Proposed revised guidelines for essential service providers and minimal load users 2012”



Dairy for life

Introduction

1. Fonterra Co-operative Group (Fonterra) thanks the Gas Industry Company (GIC) for the opportunity to provide input into the proposed revision of the guidelines for essential service providers (ESP) and minimal load use consumers (MLC).
2. Fonterra is the world's largest processor and exporter of dairy products and is at the heart of the New Zealand dairy industry which is at the heart of the New Zealand economy.
3. Natural gas is Fonterra's fuel of choice where it is economically available and Fonterra has 21 processing sites dependent on gas supply, four of those via cogeneration plants, collectively requiring around 13 PJ of gas a year.
4. Raw milk is a perishable material which must be collected from farms and processed within ~48 hours. Fonterra collects over 14.5 billion litres of milk from farms each year and last season approximately 81.5 million litres of milk was collected on the peak day in October 2011. There is no tap to stop production coming off the farms, nor is there a tap to turn it back on if milking of cows ceases prematurely in a season. This means milk processing sites are absolutely dependent on an uninterrupted energy supply.
5. Fonterra's responses to the proposed changes are outlined below as per the questions posed by GIC in the report.

Question 1: Do you agree with the proposed revisions to the Essential Services and Minimal Load Guidelines? If there are aspects that you disagree with, please explain what they are and why.

6. Fonterra generally supports the review of the ESP and MLC classifications as an interim measure and the principle that the associated definitions require greater clarity to assist with interpretation and application.
7. However, Fonterra does not support the rationale behind the proposed guideline changes to the interpretation of (h) and (i) of the CDEM Plan Order¹.
8. In summary, these proposed changes to the guidelines for ESP designation are:
 - 8.1. "That it is the '*essential*' nature of the services provided by gas users that is the relevant consideration in determining an ESP designation. Additionally, it is the *service itself* that is the subject of any designation, rather than the possible consequences of curtailing a particular gas user."
 - 8.2. "That the CDEM Plan Order objective of '*preservation of economic activity*' needs to be interpreted in light of services that are necessary to further the emergency response objectives."
9. As stated in the report, the ESP designation "recognises (at least implicitly) that curtailing ESP's represents a potentially higher cost to society than the curtailment of other gas consumers". Further, that an ESP designation "is a means of prioritising gas supply to users who provide essential services and whose curtailment poses a greater cost to society than other gas users' curtailment."
10. These statements regarding the objective of ESP designation do not match with the narrow interpretation GIC has taken regarding the "protection of natural and physical resources (to the extent reasonably possible in the

¹ CDEM = Civil Defence Emergency Management. The emergency response objectives in the Schedule of the CDEM Plan Order include:
 (h) Protection of natural and physical resources (to the extent reasonably possible in the circumstances); and
 (i) Preservation of economic activity.

circumstances)” and “preservation of economic activity” conflicts with what they state the ESP designation purpose is.

11. The GIC's interpretation of an ESP seems to be quite narrow in the following respects:

11.1. An ESP includes services which affirmatively protect the environment (e.g. facilities operated by Department of Conservation or the Ministry for Primary Industries), but not businesses whose curtailment would cause environmental damage;

11.2. An ESP includes infrastructural services (e.g. banking, NZX) which support normal economic activity, but not businesses who directly contribute to economic activity.

12. Fonterra does not believe the distinctions above make much sense from a policy point of view. Prevention of environmental harm should be as, if not more, important as improving the environment or repairing damage to the environment.

13. ESP designation should be based upon the effect of curtailment on the emergency response objectives (and taking into account what mitigating steps are available or unavailable), without adding the filters in (11) above.

Question 2: Are there other revisions that you would suggest for the Guidelines? Please outline what they are and why you think they are important.

14. No further comments at this stage.