



NEW ZEALAND SUGAR COMPANY LIMITED

21 December 2012

Ian Dempster  
General Manager Operations  
Gas Industry Company Limited

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Dear Ian,

Submission; Statement of Proposal - Amendments to the Gas Governance (Critical Contingency Management) Regulations 2008

New Zealand Sugar Company Limited (NZ Sugar) welcomes the opportunity to comment on the above proposed amendments. The area of greatest concern to NZ Sugar is the recommended designation of Essential Service Providers (ESPs), specifically, the assertion that food does not fall under the definition of an essential service provider.

We would like to make the following points in response to the assertions made in the report:

1. *ESP consumption is excessive leading to a scenario where it may need to be curtailed sooner and in more situations*

NZ Sugar is not in a position to determine if 11,500Tj pa consumption is excessive for band 5. However, a review of chart 3 does highlight two key points:

- a. The consumption levels would appear to reflect that of full operation. This is misleading, certainly in respect to the "Manufacturer Sugar" category where under a critical contingency situation NZ Sugar can operate at half of maximum consumption
- b. Given that Dairy and Meat Processing have ESP status under environmental considerations and account for approximately 9,000Tj pa then it would appear that Food Manufacturers with ESP status is not much more than 1,000Tj pa (full consumption) approximately 10% of the total ESP consumption

2. *Economic efficiency of curtailment bands*

NZ Sugar note that in terms of value add by industry, Food and beverage manufacturing falls into two categories at places 2<sup>nd</sup> and 5<sup>th</sup> highest (Chart 7)

3. *Alternative fuel Capability*

NZ Sugar is concerned that the GIC is proposing merging categories 2 and 3 on the basis that separating them disincentives gas users to invest in alternative fuel capability. NZ Sugar has investigated the installation of alternative fuel:

- a. A high capital investment is required, the major justification of which is to offset the risk of a breakage in critical infrastructure, the use of which costs a significant sum annually

- b. NZ Sugar understands that studies have been done showing that availability of alternative fuel and transportation of the fuel would be restricted if significant numbers of manufacturers had to switch over at short notice.

NZ Sugar does not believe that there has been sufficient analysis to conclude that an increase in manufacturers, who can move to alternative fuel, during a critical contingency event, is an economic and practical option.

4. *Qualities of an essential service provider*

NZ Sugar agrees that an ESP should be defined as “a gas user who provides services that society finds essential”. However, NZ Sugar disagrees that a supplier to an essential service should, in itself, not be an ESP. Although it is suggested that appropriate arrangements should be made to ensure an ESP has sufficient supplies or that suppliers themselves are resilient to gas outages, this is often impracticable or would require significant investment in operating and working capital. Furthermore, the GIC would seem to support this stance given the suggestion of placing Laundry Supplies to Critical Care Facilities into band 7 even though they are a supplier to a Critical Care Provider rather than a Critical Care Provider themselves.

5. *No justification for exempting food manufactures from curtailment*

NZ Sugar strongly disagree with this statement and feel that it reflects the complete disconnection that the gas industry, as represented by the GIC, have with their consumers and the role they play in New Zealand society.

As a major supplier to the majority of food manufacturers in New Zealand, NZ Sugar is keenly aware of how close the 2011 Maui outage brought the NZ food supply chain to its knees. The NZ Food industry works on Just-In-Time manufacturing. It is not practical, economic or competitive for food manufacturers to hold large stocks of raw material. Even an outage of relatively short duration will impact upon food supply in New Zealand. If NZ Sugar was not designated to band 5 and able to commence partial production during the critical contingency event, a number of NZ food manufacturers, including those not reliant upon gas for the manufacture of staple foods for New Zealanders, would have been forced to cease operations. This would very quickly impact food stocks in supermarkets. Whilst not wanting to overly dramatize, it is a matter of record that even in modern Western type countries a lack of food quickly leads to dissolution of the civilised veneer. Cases in point include New Orleans following hurricane Katrina and the more recent Queensland floods.

### **Summary**

NZ Sugar believes that GICs conclusion that staple food manufacturers and suppliers to those manufacturers should not be designated ESPs is fundamentally flawed and is contrary to the evidence within the GIC proposal.

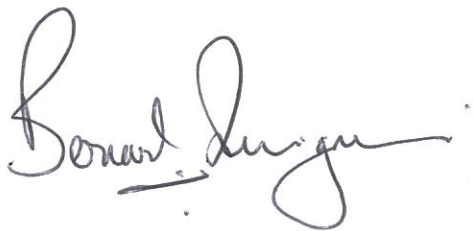


- NZ Sugar support the creation of band 7 for Critical Care Providers in order to give them the maximum protection over and above other gas users.
- ESPs designated as such, due to the fact that they are food manufacturers, are a relatively small percentage of the total band 5 consumption (and even smaller under critical contingency conditions). Additionally, as demonstrated by the NZIER in the proposal, the food manufacturing industry is one of the higher value adding gas consumers.
- The use of an alternative fuel is an unsupported assumption by the GIC. NZ Sugar see no evidence provided by the GIC to support merging bands 2 and 3 and assuming that manufacturers could or should install alternative fuel capability. Before relying on such assertions, a clear understanding of fuel type, likely demand, availability and the ability to supply in a critical contingency situation needs to be determined.
- The GIC assertion that there is no justification for food manufacturers (and essential suppliers to them) to be classed as ESPs is fundamentally flawed and demonstrates the lack of understanding to the impact of the Maui outage on New Zealand's food industry and the potential ramifications, of even a medium term gas outage, on food supply to consumers in New Zealand.

We believe that staple food manufacturers should be eligible for designation as ESPs in band 5. This is supported by some of the evidence within the GIC proposal and to not do so would demonstrate a fundamental disregard for the importance of gas to the New Zealand food supply chain.

We ask the GIC to reconsider their recommendation to completely remove food suppliers from the ESP category 5.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Bernard Duignan', with a stylized flourish at the end.

Bernard Duignan  
**General Manager**

