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Fonterra Co-operative Group Ltd Submission on Section 62 of the Electricity Act 1992 'Continuance of Supply' 2013 Review

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Fonterra Co-operative Group Ltd

Fonterra Co-operative Group Ltd is a leading multinational dairy company, co-operatively owned by 11,000 New Zealand supplier shareholders. Exporting 96 percent of our shareholders' production, Fonterra is the world's largest exporter of dairy products, responsible for a third of international dairy trade across open borders.

Fonterra's global supply chain stretches from our shareholders' farms in New Zealand to customers and consumers in 140 countries. Collecting more than 13 billion litres of milk a year, we manufacture and market over 2 million tonnes of product annually, making us the world's leader in large scale milk procurement, processing and management, with some of the world's best known dairy brands.

Submission

General Submission

Security and reliability of electricity supply is of utmost importance to Fonterra and its suppliers. Electricity is an essential daily input dairy farming operations enabling pumping of stock drinking water, operation of farm dairies, and milk cooling. In its raw form milk is a highly perishable product which cannot be preserved without chilling and heat treatment (pasteurisation); both activities require reliable electricity supply.

While it is not considered that the locations of Fonterra manufacturing sites would be designated as remote rural areas, we nonetheless note that security of supply is essential for these operations and that any interruption can have significant implications. For example an interruption to power supply in the peak milk processing period (October – December typically) would potentially compromise processing of the milk into final product.

Whatever options are progressed from this review, there must not be any compromise to security and reliability of supply.

A reduction of security or reliability of supply for remote rural users will have flow-on impacts for the New Zealand economy as a whole. The New Zealand economy is a rural based economy. The initial stage of production for the agricultural products which

generate over 50% of New Zealand's export returns takes place in rural locations. Any compromises to essential infrastructure to support this productive activity will in-turn reduce productivity in other sectors of the economy.

Fonterra considers that security of supply for electricity cannot be viewed independent of cost. We strongly support the concept that electricity supply should be available to all New Zealanders at a competitive cost. The current liquid fuel market provides an example of this occurring in practice. For example there is minimal difference in cost between petrol prices for consumers located in close proximity to the Northland refinery and those in Gore.

Limitations of Information

The current limited availability of information regarding the specific locations and consumers that would be affected by a change to the Section 62 supply obligations is a barrier to the provision of more detailed comment and engagement on these changes. Fonterra considers that a priority for this review process must be to address these information gaps.

Supply alternatives:

Any options for alternative supply to rural consumers must be evaluated on the basis of reliability, security of supply, cost and efficiency. In Fonterra's view a well maintained local area network is currently the best option for continued delivery against these criteria. We do not consider that distributed generation alternatives are currently proven to a high enough level against these criteria to justify them being considered a viable alternative for remote rural consumers. We do however acknowledge that technology is continually advancing and that in the future distributed generation may offer equal or improved outcomes against these criteria.

Proposed way forward:

In summary Fonterra proposes a continuance of the current electricity supply obligations to all remote areas throughout New Zealand with emphasis on security and cost of supply. Only when, new (or different) technologies can compete on the basis of critical reliability and cost criteria should consideration be given to relaxing the current obligations.

Fonterra encourages the Government to give consideration to establishment of pilot projects in potentially effected areas to further test the viability of alternative supply options (including small wind, hydro and solar generation) against the reliability and cost criteria.

If there are any queries relating to this submission, please contact either: Stacey Fellows on +64 6 278 2449 (phone) or email Stacey.fellows@fonterra.com; or Kimberly Crewther on +64 7 850 9851 (phone) or email Kimberly.crewther@fonterra.com.

Yours sincerely

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