



Dairy for life

29 October 2008

**FONTERRA SUBMISSION ON THE PROPOSED NATIONAL POLICY STATEMENT (NPS)
FOR RENEWABLE ELECTRICITY GENERATION**

Summary

Fonterra is New Zealand's largest business and a major contributor to New Zealand's economic, social and cultural well being. Fonterra's business is based on New Zealand's natural advantages of water, sunshine and grass. It draws upon New Zealand's long heritage in farming, and New Zealand's international reputation for technological and scientific innovation in pastoral and food production technology. Fonterra, while global in its outlook, is firmly based in New Zealand.

Fonterra is committed to a long term, sustainable future in New Zealand. Fonterra recognises that sustainability requires both farming and manufacturing to be investing in practises, technology and decision making that manage to strike the right balance between economic growth and environmental management.

Fonterra, both at the farm and manufacturing level, make use of a range of energy sources in day to day business and understand the importance of a secure, efficient, electricity supply.

Fonterra milk suppliers/shareholders and manufacturing facilities, and the wider agricultural community require access to natural resources, such as water, to carry out their business activities. At times this has led to competition for these resources between electricity generators and the agricultural community. For this reason Fonterra has an interest in ensuring that any NPS is developed after consideration of the full range of social, economic and environmental objectives sought by New Zealand so the final NPS does not to have significant, adverse, and unintended consequences. For this reason the focus of Fonterra's submission relates to the potential impacts of the proposed NPS in relation to hydro-generation and water availability.

The proposed NPS would seem to tilt the process for allowing access to specific finite resource users in favour of renewable electricity generation. There seems to have been insufficient consideration of the broader social, environmental and economic opportunities for New Zealanders from the use of water, and the potential impacts of the proposed NPS on their achievement.

Fonterra does not support the proposed NPS in its current state for the following reasons:

- Neither the proposed NPS nor the Section 32 report adequately consider the costs or consequences, both social and economic, of promoting (prioritising) access to resources (e.g. water) for activities to develop, maintain, or operate renewable electricity generation over the needs of other, competing resource use activities;

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By focussing solely on the intersect between electricity generation related green house gas emissions (i.e. climate change and costs) and the environmental impacts of renewable electricity generation infrastructure, the broad economic and social goals of New Zealand may not have received sufficient consideration. In particular, consideration has not been given to how this NPS would interact with the proposed NPS on Freshwater (currently being consulted on) or the wider Sustainable Water Programme of Action

- The proposed NPS and supporting Section 32 report seem to assume, incorrectly in the opinion of Fonterra, that the use of resources for the generation of renewable electricity will always provide the greatest net benefit to New Zealand.

Fonterra recommends that:

- The proposed NPS be re-assessed against the broader and social, economic and environmental impacts that are likely to occur if it were implemented, specifically the economic and social impacts of prioritisation of water use away from other water dependant activities such as agriculture;
- The proposed NPS be considered in the context of other related policy currently under consideration, specifically the NPS on Fresh Water, to ensure that an environment of conflicting policy and objectives is not implemented;
- The potential impacts of distorting resource management decision making through promotion (prioritisation) of renewable electricity generation be reconsidered with specific focus on the relative net national benefits of differing resources uses, most especially water, being considered in greater detail; and
- The potential impacts of distorting resource management decision making through promotion (prioritisation) of renewable electricity generation be reconsidered with specific focus on the opportunity for competing resource users to access alternative resources (e.g. agriculture needs water and has no alternative while there are renewable means of generating electricity that do not require water).

Fonterra further recommends that if the proposed NPS were to be progressed, Policy 3 (having regard to the relative reversibility of adverse effects associated with particular generation types) must be retained. While an important consideration environmentally, it is also an important consideration given the vital nature of resources such as water to a number of other sectors and activities. Locking resources up within a non-reversible activity would not provide for flexibility in future decision making or activities.

At this time Fonterra wishes to be heard in support of this submission.

Background

The proposed NPS has the objective of promoting the development, upgrading, maintenance and operation of new and existing renewable electricity generation activities. This encompasses all such generation, including hydro-generation, at all scales (national “base load” input through to small and community scale generation).

The drivers for promotion of renewable electricity generation are a Government desire to maintain or increase generating capacity while reducing or displacing greenhouse gas emissions (GHG), and maintaining or increasing security of electricity supply. The outcomes of this are reduced Government liability for GHG emissions and reduced total GHG emissions.

The proposed NPS would direct resource managers to have particular regard to the national benefits of renewable electricity generation and as a result, in their decision making, favour such activities through preferential access to resources and the acceptance of lower environmental thresholds for the impacts of their activities.

Consideration of Desired Outcomes

The proposed NPS is driven by a very narrow range of desired outcomes – stable electricity supply and GHG emission reduction. Given the likely impact of the proposed NPS on the prioritisation of access to resources and the breadth of likely areas of impact (e.g. on access to water by other resource users) this would seem too narrow a focus. As a result, there would seem to be a high potential for the proposed NPS to have adverse and unintended impacts on the achievement of other social, economic and environmental objectives.

Currently consideration is being given to a NPS on Fresh Water Management. It would seem obvious that there is likely to be some level of cross-over in the way the two proposed NPSs interact however, no consideration would seem to have been given to this.

The potential for the proposed NPS to result in adverse effects on access to water resources for agriculture is high. Given the importance of water to the maintenance of current agricultural production and processing activities, any adverse impacts would have immediate and not inconsiderable social and economic impacts on rural and regional communities. Depending upon the extent of the impacts, these may well manifest themselves at a national level as well.

Access to Water Resources

Within the bounds of the current regulatory framework, water is a relatively finite resource.

Water is a key input to a wide range of resource users, including the agricultural production and processing sector of New Zealand. It is also the basis for much of New Zealand’s current renewable electricity generation via hydro-generation. In some regions there is already a competitive relationship between different water use activities, including between agriculture, urban water use, and hydro-generation.

In many regions water availability is becoming a key constraint to maintaining current levels of agricultural productivity and associated economic and social outcomes.

Agricultural productivity is a key social and economic driver for New Zealand, at both a regional and national level. As a result of the promotion of renewable electricity generation, including promotion of (priority) access to water resources, other water users (including the agricultural community) are likely to have their current or future level of access reduced. The potential economic impacts of this have not been considered within the documentation supporting the proposed NPS and are therefore not available to inform the decision making process.

Value of Different Water Uses

The proposed NPS assumes that the benefits of renewable electricity generation, at any scale, are of national significance. While this may be the case, consideration has not been given to the relative potential for other activities, such as water use within the agricultural sectors that are likely to provide an even greater regional and national benefit.

Fonterra believes that work carried out by NZIER shows that the value of water used for dairying purposes has a value at least 4.5 times that of the value of water used for the production of electricity via hydro-generation. Fonterra is currently seeking to have this NZIER report made available to the Board of Inquiry.

The potential economic impacts of this have not been considered within the documentation supporting the proposed NPS and are therefore not available to inform the decision making process.

Costs

A further cost matter should be considered within the Section 32 report. Given the vital nature of water to a number of activities it is likely that there would be significant and increased legal action taken by those water users who would face reduced access to the resource due to the proposed NPS.

Protection of Future Flexibility

Fonterra supports the proposed Policy 3. This would require decision makers to have regard to the reversibility of adverse effects associated with particular generation types. Leaving aside the issues associated with undertaking non-reversible activities that have a significant adverse environmental impact, there is good reason to maintain the ability for flexibility in future resources use, especially water use, for social and economic reasons.

Investment in hydro-generation infrastructure is long term . Once resource is committed to this activity, it is highly unlikely that it will become available for other uses in the future. Given the rapidly changing technological, economic and social environment we operate within as a country it would be reckless to commit resources without due consideration of the potential risks and opportunities such action brings.

Consideration of the Ability to access Alternative Resources

Water is a key resource for many groups. It is vital to the agricultural community and no other alternative resources can be used to replace it. There are a number of alternative means of generating renewable electricity, some of which do not require water or any other contested resource. The proposed NPS should direct decision makers to consider the range of

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alternatives available both to the electricity generator and those resource users who would be adversely impacted by their activities. Priority, if given at all, should go to those renewable generation activities that use uncontested resources or would impact least (or not at all) on those who have no other alternative resources available.