

## Dairy Companies Association of New Zealand

### Submission to:

### The Ministry for Business, Innovation and Employment

### on

### Accelerating Renewable Energy Efficiency Discussion Document

28 February

The Dairy Companies Association of New Zealand (DCANZ) appreciates the opportunity to submit on the *Accelerating Renewable Energy Efficiency Discussion Document* in light of its relevance and importance to our member companies. DCANZ member companies collectively account for more than 98% of the milk processed in New Zealand and the vast majority of New Zealand's dairy exports.

In providing input to this consultation DCANZ has attempted to represent the views of all its members however it is likely that on various topics different dairy processors will have different views on options and impacts. This is due to the range of processors who are members of DCANZ, operating across multiple species, multiple sites and multiple geographies, and differing in:

- Size,
- Exposure to legacy infrastructure,
- Opportunity to access alternative energy sources, and
- Ability to access capital.

Energy is a significant part of our members businesses. Process heat is central to much of their processing activity. Most processing sites are large and integrate a number of processes with available energy sources, making demarcation between high, medium and low heat processes difficult at times. This use of energy provides an existing economic driver for energy efficiency.

Given the demands of processing large volumes of highly perishable food products and the level of investment in long-life processing infrastructure required to do so, our members have a need for long term security and certainty of energy supply. The impacts of changes in the availability of energy sources has very significant implications for these processors, as well as for the farmers who supply them with milk and the communities and economy they support.

Any moves to require a movement to renewable energy use should be viewed in that context, bearing in mind the wider community and economic impacts that would occur should a key component of the dairy value chain (dairy processing) be constrained or removed.

There are significant differences in the availability of alternative energy sources in the quantities required between the differing regions where our members operate. For example, processing sites in the South Island have no opportunity to switch to natural gas, and in many regions, wood energy/biomass is in insufficient supply (and lacks supply security) to be a viable alternative. For much of New Zealand electricity infrastructure would also be a limiting factor. This is a significant concern in relation to any future loss of access to coal, should alternative energy sources not be available.

Given the high focus on exports, our members are exposed to competition with overseas based companies often not subject to similar costs and constraints such as those being proposed through this discussion document. Any additional costs will flow through into reduced returns meaning either/or both of decreased returns to shareholders or reduced ability to invest in capital projects, including energy related projects.

As such, regulation that requires prioritisation of immediate energy efficiency or switches in energy options, may come at a cost of being able to fund other necessary business activities.

Energy efficiency makes good business sense. But making changes to processing infrastructure needs to occur at a pace that reflects the current state of infrastructure (age and timeframe to achieve required return on investment) and the options available to that processor at a particular site. In this way (multiple large-scale processing sites across the country) our members differ significantly from many other New Zealand businesses or industries impacted by these proposals.

## **Response to Questions:**

### ***Q1.1 Do you support the proposal in whole or in part to require large energy users to report their emissions and energy use annually publish Corporate Energy Transition Plans and conduct energy audits every four years? Why?***

DCANZ does not support a requirement to require large energy users to publicly report emissions or energy use, nor that they be required to annually publish Energy Transition Plans and conduct energy audits every 4 years.

Undertaking activities such as Energy Transition Planning and efficiency audits should be left to the discretion of the entity. Given the wider framework of the Emissions Trading Scheme (ETS) and costs currently associated with energy use undertaking such activities make sense, but the outputs from such considerations is often commercially sensitive.

The verification of emissions is already provided for within the ETS and public reporting offers no real benefits. Energy use on its own, without context, provides no real benefit by being publicly reported.

### ***Q1.2 Which parts (set out in Table 3) do you support or not? What public reporting requirements (listed in Table 3) should be disclosed?***

DCANZ does not support any mandatory public reporting, nor the requirement to undertake energy audits every four years. Businesses should be allowed to provide this level of information to the public outside a regulatory regime.

Public reporting offers no real benefit to reducing emissions, and places businesses at risk due to the commercial sensitivity of this information and the additional compliance requirements such public disclosures bring.

### ***Q1.3 In your view, should the covered businesses include transport energy and emissions in these requirements?***

DCANZ does not support mandatory public reporting of any energy or emissions. Some businesses may wish to report targets and progress against these but this should be at their own discretion.

### ***Q1.4 For manufacturers: what will be the impact on your business to comply with the requirements? Please provide specific cost estimates if possible.***

There is significant variation in the size of DCANZ members businesses and this will impact on the degree of impact such a regime would have.

Members have indicated that the additional costs of energy audits alone would be approximately \$50 000 per site every four years. Fonterra alone has 30 manufacturing sites.

Where energy efficiency options have been previously identified, this cost could be better directed to implementing solutions.

***Q1.5 In your view, what would be an appropriate threshold to define 'large energy users'?***

As energy spend is not necessarily directly related to carbon emissions, or energy efficiency, DCANZ considers this is a mute point and does not support any requirement to publish Corporate Energy Transition Plans.

The value in requiring public reporting of such plans has not been demonstrated within the discussion document. For the reasons noted previously, DCANZ recommends this proposal be scrapped.

***Q1.6 Is there any potential for unnecessary duplication under these proposals and the TCFD disclosures proposed in the MBIE-MfE discussion document on Climate-related Financial Disclosures?***

Yes – there is potential for unnecessary duplication.

***Q1.7 Do you support the proposal to develop an electrification information package? Do you support customised low-emission heating feasibility studies? Would this be of use to your business? Q1.8 In your view, which of the components should be scaled and/or prioritised? Are there any components other than those identified that could be included in an information package?***

It is considered unlikely that such a package would be of value to DCANZ members given their ability to access such information either in-house or via consultancies.

***Q1.9 Do you support benchmarking in the food processing sector?***

DCANZ supports benchmarking however only where industry led, and not within a mandatory government led regime.

***Q1.11 Do you believe government should have a role in facilitating this or should it entirely be led by industry?***

Benchmarking should be industry led within dairy processing. DCANZ provides a suitable pathway for such across-sector activity to take place and Government involvement, should the sector choose to undertake benchmarking, would add little value.

***Q2.2 Do you agree that a NESAQ users' guide on the development and operation of the wood energy facilities will help to reduce regulatory barriers to the use of wood energy for process heat?***

Such a guide may provide some benefits, however the practicalities of wood energy supply chains may be a bigger issue.

***Q2.4 Please describe any other options that you consider would be more effective at reducing regulatory barriers to the use of wood energy for process heat.***

It is questionable whether regulatory barriers are more of an impediment to the use of wood energy than are consistency and volume of supply, and immediate and long term security of the supply chain.

***Q2.6 In your view, could the Industry Transformation Plans stimulate sufficient supply and demand for bioenergy to achieve desired outcomes? What other options are worth considering?***

Given the need of DCANZ members for consistent and secure energy supply to allow them to process large volumes of highly perishable food products, and the differences in availability of wood energy across the country where these operations occur, ability to transition to use of wood energy will likely be on a case-by-case basis for dairy processors.

### ***Q2.7 Is Government best placed to provide market facilitation in bioenergy markets?***

Yes

### ***Q2.8 If so, how could Government best facilitate bioenergy markets? Please be as specific as possible, giving examples.***

Government could:

- Stimulate and support growth of secure wood energy supply chains by ensuring government agencies become early adopters, and
- Ensure adequate accurate information was made available to allow potential wood energy users to understand the future fuel supply situation.

### ***Q3.1 Do you agree that de-risking and diffusing commercially viable low-emission technology should be a focus of government support on process heat? Is EECA grant funding to support technology diffusion the best vehicle for this?***

Yes, DCANZ strongly supports Government involvement in the de-risking of low emission technology uptake.

Rather than technology diffusion grants, Government could provide funding support for the implementation of such projects, on the basis of prioritising those projects with the greatest reduction/dollar invested.

### ***Q3.2 For manufacturers and energy service experts: would peer learning and on-site technology demonstration visits lead to reducing perceived technology risks? Is there a role for the Government in facilitating this?***

Yes, though there are limits to this given the differences in scale between those projects that can receive EECA funding (and are then demonstrated) and the needs of significant energy users.

Peer and on-site learning and demonstration may provide a mechanism for reducing perceived risks however the difference in scale between projects used for this and the needs of dairy processors can often differ significantly. This may reduce their value in lessening perceived risk.

There is a role for Government in facilitating this, however to be of value it needs to have a commercial focus rather than demonstration of small scale or research focused projects.

### ***Q3.3 For EIH stakeholders: What are your views on our proposal to collaborate to develop low carbon roadmaps? Would they assist in identifying feasible technological pathways for decarbonisation?***

We generally support this direction. We note, however, that generalised roadmaps would have limitations in the extent to which they can be applied for individual situations. In practice a level of tailoring for individual circumstance will be needed.

### ***Q3.4 What are the most important issues that would benefit from a partnership and co-design approach?***

Given the likely increasing use of electricity as an energy source, alignment of Transpower's grid upgrades to provide for increased demand and the timing of such demand is seen as useful.

### ***Q4.1 Do you agree with the proposal to ban new coal-fired boilers for low and medium temperature requirements?***

Generally, we support a focus for new capital investment to be in alternatives to coal. DCANZ members are already factoring a transitional away from coal boilers into their planning processes.

We note however that there are areas within New Zealand, such as the South Island, that do not and are unlikely to in the future to have access to natural gas. A number of regions are unlikely to have access to

other alternative energy sources (wood energy), and may be constrained in their ability to access sufficient electricity given the lack of new consistent generation, as provided by hydrogeneration, becoming available. In the absence of suitable alternative energy sources the proposed ban may see the end of some forms of processing, and potentially the associated supply of raw materials, within these regions.

***Q4.2 Do you agree with the proposal to require existing coal-fired process heat equipment for end-use temperature requirements below 100 degrees Celsius to be phased out by 2030? Is this ambitious or is it not doing enough?***

This proposal does not recognise the manner in which some large processors make use of their equipment. There are circumstances where coal boilers provide energy for a range of inter-linked processes, some of which are above and some below the proposed temperature.

This proposal requires further consideration in light of the above situations and the complexity of altering site wide infrastructure.

The proposal is ambitious and would need to be strongly supported by way of ensuring the capacity for secure access to alternative energy sources into the future. Without this there will be significant risk to some processing sites, especially those already constrained as to the viable energy alternatives available to them.

***Q4.3 For manufacturers: referring to each specific proposal, what would be the likely impacts or compliance costs on your business?***

At this point we have no data on expected increases in compliance costs however we expect an increase of approximately 50% on capital costs between a replacement based on alternate energy sources and coal.

***Q4.4 Could the Corporate Energy Transition Plans (Option 1.1) help to design a more informed phase out of fossil fuels in process heat? Would a timetabled phase out of fossil fuels in process heat be necessary alongside the Corporate Energy Transition Plans?***

DCANZ does not support mandatory Corporate Energy Transition Plans. Such planning, within the dairy processing sector at least, can be better addressed by actions taken by individual processors.

Each processing site will need to be approached on the basis of energy needs, availability of alternative energy, and current state of the existing infrastructure (e.g. recently invested in or not).

***Q4.5 In your view, could national direction under the RMA be an effective tool to support clean and low GHG-emitting methods of industrial production? If so, how?***

It is difficult to see how such direction would be able to be both effective across the entirety of industrial production while not being overly constraining given:

- The variability of situations and options between sites (as noted above), and
- The lack of expertise available within those administering the RMA at a operational level to understand and respond to this variation.

***Q4.6 In your view, could adoption of best available technologies be introduced via a mechanism other than the RMA?***

Yes, this will be driven by the need for processors to operate within ETS environment. As such, rational decisions will be driven by economics.

***Q5.1 Do you agree that complementary measures to the NZ-ETS should be considered to accelerate the uptake of cost-effective clean energy projects?***

Yes.

### ***Q5.2 If so, do you favour regulation, financial incentives or both? Why?***

Financial incentives. The proposed regime is going to increase the call on capital for investment in improved infrastructure, increase energy efficiency and reduce emissions. Access to capital is likely to be the significant hurdle businesses face and financial incentives may help address this.

Regulation is highly likely to be too blunt, not nuanced enough given the wide variety of situations that will occur, and to only increase costs while not addressing the issue of access to capital.

### ***Q5.3 In your view what is a bigger barrier to investment in clean energy technologies, internal competition for capital or access to capital?***

This will be dependant on the situation of the business making such investments, at the time they make them.

### ***Q5.4 If you favour financial support, what sort of incentives could be considered? What are the benefits, costs and the risks of these incentives?***

These will be situationally dependant, however they could include:

- Low/no interest loans
- Access to contestable funding support
- Accelerated depreciation.

The benefits etc will also be situationally dependant.

### ***Q5.5 What measures other than those identified***

If the ultimate objective of movement to renewable energy and energy efficiency is to reduce global emissions then providing a mechanism that allowed New Zealand businesses to achieve lower cost (but credible and equivalent) emissions reductions off-shore could provide an alternative mechanism.

### ***Q6.1 What is your view on whether cost recovery mechanisms should be adopted to fund policy proposals in Part A of this document?***

Such an approach will only redistribute available funds that businesses could otherwise be using to fund investment in energy transition and efficiency projects. It is not supported.

### ***Q6.2 What are the advantages and disadvantages of introducing a levy on consumers of coal to fund process heat activities?***

Such a levy would only reduce available funds for investment in energy transition and efficiency projects. It is not supported.

If funding is required for Government driven activity this should be provided directly from Government. We have previously suggested that ETS revenues be directed to funding initiatives which support companies in transitioning.

### ***Q7.1 Do you consider that the current NPSREG gives sufficient weight and direction to the importance of renewable energy?***

Given the likely increase in need for renewable energy and the issues facing those attempting to build it, the weight is currently probably insufficient. This is especially the case in the instance of hydrogeneration.

### ***Q7.4 What are your views on the interaction and relative priority of the NPSREG with other existing or pending national direction instruments?***

As with many other such documents, they would seem to be at odds, especially with regard to those guidelines and standards relating to environmental outcomes, leading to confusion and lack of progress on either side.

***Q7.6 What objectives or policies could be included in the NPSREG regarding councils' role in locating and planning strategically for renewable energy resources?***

It may be that addressing such a national issue is beyond the capacity of individual councils working in isolation and a nationally directed and led approach may be required.

***Q8.1 Do you agree there is a role for government to provide information, facilitate matchmaking and/or assume some financial risk for PPAs?***

Yes – for all points.

***Q8.2 Would support for PPAs effectively encourage electrification and new renewable generation investment?***

Yes, it could do so.

***Q8.4 What are your views and preferences in relation to different options A to D above?***

Support consideration of a State sector led approach, with Government guaranteed contracts.

***Q8.5 For manufacturers: what delivered electricity price do you require to electrify some or all of your process heat requirements? And, is a long-term electricity contract an attractive proposition if it delivers more affordable electricity?***

Long term certainty of pricing at an affordable rate would support investment confidence.

***Q8.7 Do you consider the development of the demand response (DR) market to be a priority for the energy sector?***

No.

***Q8.8 Do you think that DR could help to manage existing or potential electricity sector issues?***

It may do, however the question would be whether this is a priority.

***Q8.11 Would energy efficiency obligations effectively deliver increased investment in energy efficient technologies across the economy? Is there an alternative policy option that could deliver on this aim more effectively?***

Yes, if such obligations were backed via a regulatory regime however it would be more efficient to achieve this via energy/emissions costs.

***Q8.12 If progressed, what types of energy efficiency measures and technologies should be considered in order to meet retailer/distributor obligations? Should these be targeted at certain consumer groups?***

Retailer/distributor incentivising of uptake of energy efficient equipment.

***Q8.15 Do you consider the development of an offshore wind market to be a priority for the energy sector?***

This is a question for the energy sector, and will depend on a wide range of factors most importantly of all being the cost of alternative renewable energy generation options, and the feasibility of their consenting.

***Q8.16 What do you perceive to be the major benefits and costs or risks to developing offshore wind assets in New Zealand?***

Benefits – increased renewable supply in the absence of any real opportunity to develop new hydro generation.

Risks – potential for prioritisation of such generation meaning more cost effective options are overlooked and/or not invested in.

***Q8.20 Would a government backed certification scheme support your corporate strategy and export credentials?***

DCANZ is not aware of any potential benefits accruing to it's members from such a scheme currently.

***Q8.25 Do you support the managed phase down of baseload thermal electricity generation?***

Only where it can be demonstrated that sufficient alternative electricity generation is available.

***Q8.28 What is the best way to meet resource adequacy needs as we transition away from fossil fueled electricity generation and towards a system dominated by renewables?***

By ensuring the required level of new renewable generation is developed at least cost and ahead of any phase down of thermal generation.

***Q10.1 Which option or combination of options proposed, if any, would be most likely to address the first mover disadvantage?***

Options 10.1, 10.2, and 10.3.2

***Q10.3 Would introducing a requirement, or new charge, for subsequent customers to contribute to costs already incurred by the first mover create any perverse incentives?***

No

***Q10.11 Do you think that there is a role for government in improving information sharing between parties to enable more coordinated investment? Why or why not?***

Significant energy users will already be in discussion with Transpower etc regarding future plans and impacts on grid and demand.