Fonterra submission on the 2025 reset of the electricity default price-quality path

January 2024

Fonterra welcomes the opportunity to comment on submissions lodged for the Commission's 2025 reset of the electricity default price-quality path.

Fonterra is a dairy co-operative owned by around 9,000 New Zealand farming families with 27 manufacturing sites across the country, making us the country's largest exporter and a major supplier of dairy products to the domestic market. With manufacturing operations spread throughout regional New Zealand, Fonterra is a major user of electricity and we operate within the local network of numerous electricity distribution businesses (EDBs).

Fonterra supports the Commission's work to adjust its approach to ensure the sector is well positioned to navigate the accelerating decarbonisation that is underway and to ensure local networks remain cost efficient.

It's critical that the Commission continues the success of containing price increases to end users while maintaining security of supply quality standards when considering the settings of DPP4, including the impact outages have on consumers. Non-capital solutions should be a bigger priority for EDBs and the Commerce Commission could push harder for EDBs to identify these before further capital investments are made.

As discussed by the Major Electricity Users Group, DPP4 needs to continue to deliver a fair and justifiable price for all users which allows industry to remain competitive internationally. The recent Electricity Authority Market Development Advisory Group report on the needs for a 100% renewable electricity market future highlighted that demand side flexibility will need to deliver significant megawatts of response to keep the lights on and eliminate the need to curtail as well as place downward pressure on prices.

Fonterra endorses the position outlined by Counties Energy that that DPP4 needs to have the right settings to incentivise EDBs to become Distributed System Operators and deliver demand side response via the use of smart devices at the consumer level when either a network becomes stressed due to high demand, high solar generation at Low Voltage network level, or the electricity market is stressed.

As Orion discussed, DPP4 also needs to drive non-network opex solutions to reduce the significant cost to implement capital solutions. The Commerce Commission could look at the relative benefits that can be achieved from per dollar spend of opex non-network solutions versus capex spend. For example, a third party battery at LV network level can solve peak demand issues but it can also solve high residential solar generation issues by charging up. A network battery can also generate additional revenue from the electricity market ancillary services thereby reducing the potential EDB opex costs to procure its services.

As outlined by SolarZero, DPP4 should encourage EDBs to leverage the LV network data that is present from existing smart meters as well as time of use tariffs to drive a flattening of the LV network demand, increasing its 24hr utilization levels. We believe the AMPs need to show justification of network capital upgrades by showing that all non-network solutions from any party have been investigated and do not succeed on a total cost view for end users.

As mentioned in the Infrastructure NZ submission, there should be a mechanism to compensate the first mover if future spare capacity is utilised by other users. Fonterra agrees with the principle that capital contributions should be standardised at the industrial level to ensure a fair playing field.

Finally, we agree with the Consumer Advocacy Council, who emphasises the potential for demand-side management and energy efficiency initiatives to defer or avoid investment that would otherwise be needed to meet peak demand and thereby reduce costs to consumers and that incentives should be considered.

Fonterra would welcome further engagement on our position.