Fonterra submission on financeability in the Electricity Distribution Businesses DPP4 reset

March 2024

Fonterra welcomes the opportunity to comment on the Issues Paper for the financeability of electricity distribution services in the default price-quality path (DPP). 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).

We do not support the need for the Commerce Commission to introduce further compensation into the DPP to factor in any financeability issues. As highlighted in the consultation document at paragraph X3; financing significant capital is the responsibility of businesses through normal, efficient capital raising and management.

We recognise that the Commission is responsible for regulating the monopoly EDBs, but as the Commission notes in paragraph 1.11, there are also a number of EDBs who are not regulated and they are expected to undertake effective capital planning and management of their finances.

The DPP process already ensures that regulated businesses will generate acceptable returns for their shareholders into the future via the RAB return on investment, so as the Commission's outlines in paragraph 1.12, the Commission should not be taking into account what a business may or may not do to effect their ability to finance capital, for example particular capital structures and/or dividend investment in non-regulated businesses.

The Commission also clearly makes the case for non-consideration of financeability in paragraph 1.14, by noting that the DPP process and RAB lock in long term revenue with risk being managed through the WACC percentile.

Electricity users are facing significant pricing pressure from both the sustained high cost of electricity via wholesale electricity market prices and increased transmission and distribution costs from the proposed Transpower RCP4 and the EDB DPP4, without any real ability to avoid these costs or, in the case of exporters of internationally traded products, the ability to pass the costs on to customers.

Allowing further costs to be passed onto electricity users will create more pressure and impact New Zealand's international competitiveness, which is crucial for a small island nation at the end of global supply chains.

Fonterra would welcome further engagement on our submission.