



# Fonterra submission

Fonterra welcomes the opportunity to comment on Commerce Commission's Electricity Distribution Business (EDB) Default Price Path (DPP4) consultation.

As a large participant in the New Zealand electricity market, we trust that the commentary we put forward in this submission is a constructive contribution to help ensure the New Zealand electricity market functions efficiently and is set up for success in delivering secure, low-cost electricity and supports the transition to a low emissions economy.

Fonterra is responding to this consultation as we use approximately 800 GWh of grid electricity per annum, and 200 GWh of electricity generated per annum by our third-party co-generation partners. This combined annual electricity usage is the 4th largest industrial use in New Zealand.

At the peak of the dairy season, we can be using over 170MW and therefore need an electricity market that is delivering secure and low carbon electricity at the lowest cost possible now and into the future. Our recent announcement of a 20MW electrode boiler for our Edendale site is an indication of our future movement towards decarbonising our sites using electricity.

The Commission's proposed EDB DPP4 is projecting significant price increases which Fonterra as an exporter cannot pass through to internationally traded dairy products. We have provided comments below that aim to recommend changes to ensure the electricity system remains as competitive as possible to support end consumers.

## Discussion on Capital Policy Measures

We believe EDB capex allowance requests in Asset Management Plans (AMPs) should be held at historic levels and only inflated by the Capital Goods Price Index (CGPI), as the previous two DPPs (2 & 3) have shown no significant increase and end consumers have not suffered any corresponding decline in SAIDI or SAIFI quality measures. Fonterra does not support the adjusted cost escalation beyond CGPI, nor the 25% uplift compared to historic spend.

Most of the proposed increase is being made on the presumption of increased electrical demand due to decarbonisation electrification. This presumption may not reflect the most likely scenario for the DPP4 period, particularly due to removal of several significant decarbonisation incentives.

On top of this, most large industry electrification capital requirements for distribution network upgrades will be funded by capital contribution agreements. The Commission should be actively encouraging these agreements as they are in line with the Transpower TPM design whereby the beneficiary pays for capital upgrades.

Notably, under the current Commission methodology, EDBs can receive more than what has been accounted for in the DPP4 via capital contribution requirements and can therefore generate windfall profits. Fonterra supports the Commission's additional disclosure obligations to enhance visibility of this.

Deliverability is another important issue. As the Commission has identified in the Transpower RCP4, there is a high probability that EDBs will not be able to secure the equipment and/or labour to align to their capital spend requests. This aspect should be managed through a separate use it or lose it mechanism.

## Discussion on Operational Policy Measures

It is important that the Commission's DPP process drives EDBs to the lowest cost solution with emphasis on operational solutions rather than capital solutions. To this end we support option 2 in the setting process.

Fonterra supports the use of reopeners to cover the potential operational costs for Non-traditional solutions (NTS) and we recommend that the Commission makes these as simple and low cost as possible as they do not need the level of scrutiny that a capital cost driven reopener requires.

We also believe that the use of base step trend operational cost setting is the appropriate methodology to drive EDB cost control. If the resulting operational cost recoveries are not sufficient then an EDB can apply for a reopener.

The cost for regulated monopolies in the gas and electricity transmission and distribution sectors to insure their assets from acts of nature are also escalating above inflation. Much of this escalation is due to increasing frequency and strength of weather event. To this end, we recommend the Commission considers investigating whether mechanisms like EQC could be applicable to gas and electrical infrastructure.

## Discussion on Innovation Policy Measures

EDBs need to be encouraged to move customer demand away from system peaks which will deliver a double benefit of eliminating capital spend by both EDBs and Transpower. The Commission could consider implementing a greater drive for EDBs to request NTS, similar to the existing NTS policy for Transpower. NTS can also deliver significant spot market price stack price reductions as they push thermal peaking plant generation out of the final System Operator dispatch solution.

The innovative NTS area represents a significant opportunity to support EDBs deliver the grid of the future. As the level of intermittent renewable generation increases, the grid needs to move from a static one-dimensional demand driven machine to a dynamic self-balancing machine. EDBs should actively seek opportunities to not only flatten the demand curve, but also use those tools to match demand to intermittent renewable generation.

The challenge is how to fairly compensate the EDBs and the end consumers participating in demand response. This could be achieved by allowing EDBs to bid demand response into the price stack and be paid the resulting trading period settlement price if dispatched. This already occurs with EDBs bidding demand response into the reserves market, so it just needs to be expanded into the spot market.

We also believe that the INSTA policy support for NTS might not offer sufficient capital to deliver the full benefits possible and so we recommend considering whether capital should just be based on the total capital in the AMP. The NTS project criteria should focus on delivering at least one of the following:

- RAB physical equipment capital reduction;
- it will increase equipment 24hr capacity utilisation;
- it will flatten the demand curve;
- it will support the increased utilisation of intermittent renewable generation.

We do not believe the Commission needs to consider non-regulated parties of NTS in INSTA as there is nothing currently stopping any other party from approaching consumers with revenue/benefit proposals for the demand control.

If anything, this will increase competition in the marketplace as we will have EDBs, retailers, and aggregators all competing for the consumers demand response. We also believe the INSTA closeout report is requested too early at 50 days and should be set at one year from commissioning so that a full year's worth of data can be recorded and analysed.

Finally, the Commission should consider modelling the full New Zealand wide electricity market benefits to end consumers from NTS to support and justify this policy.

## Discussion on Quality Policy Measures

The Commission should consider introducing new quality measures that track the percentage capacity utilisation of EDBs networks down to the low voltage system to ensure that they are working on non-network solutions as a priority over capital solutions.