

31st July 2018

Commerce Commission
44 The Terrace
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Wellington
(Submitted via email to: regulation.branch@comcom.govt.nz)

Fonterra Co-operative Group
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Attention: Matthew Lewer, Regulation Branch

Dear Matthew,

Re: Feedback on recent Customised Prices and Quality Path Process

Fonterra thanks the Commerce Commission for the opportunity to provide feedback on the Customised Prices and Quality Path Process (*CPP*).

Fonterra is a major electricity user and used approximately 1,100GWh of electricity last season (1 August 2015 to 31 July 2016, aka FY17). Fonterra's sites are located across New Zealand, resulting in Fonterra having relationships with 14 different electricity distribution businesses (*EDB*).

Fonterra is a member of the Major Electricity User Group (*MEUG*) and supports the points raised in its submission on the CPP Process, except where they may differ by any points raised in this submission by Fonterra.

Fonterra views that a robust review and analysis needs to occur before any customised price path is approved. The Commerce Commission needs to ensure that the CPP process is not seen as an alternative way for EDB's to recover costs for activities that have not adequately undertaken during DPP periods

Fonterra looks forward to further engagement with the Commerce Commission on this topic and is willing to discuss further any matters regarding this submission.

Yours sincerely,

Tony Oosten
Manager Energy & Utilities Group
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1. Topics for Feedback

Topic of feedback	Fonterra's Feedback
A. Consideration of alternatives	Fonterra supports the need by the Commerce Commission to require applicants to show that they have market tested their major investment plans with third parties, especially connected parties, as lower cost solutions may become apparent. Typically, CPP submission stage is too late for alternatives to be raised as significant pre-engineering may have been done to generate capital costs estimates.
B. Use of Cost-Benefit analysis	<p>Fonterra continues to support the need for applicants to undertake and demonstrate the cost benefit analysis of proposed changes. The end cost of distribution charges in New Zealand is of a similar scale to the transmission charges – where Transpower is required to perform cost benefit analysis, so there should be no difference for other regulated utilities. In this case, \$1.27B in spend should have a cost benefit analysis done as the Transpower capital spend trigger is significantly lower. As the PowerCo CPP verifier Farrier Swier identified themselves:</p> <p><i>“Based on the analysis that we have performed, information reviewed, matters considered and the assessment techniques that we have applied, Powerco’s capex and opex forecasts and supporting assumptions for the CPP period do not fully meet the expenditure objective because it is in excess of what is a reasonable forecast to:</i></p> <ul style="list-style-type: none"> • <i>meet or manage expected demand at appropriate service standards;</i> <i>and</i> • <i>comply with applicable regulatory obligations.”</i> <p>This indicates that the rigour of cost benefit analysis needs to be done to assure customers that any potential cost increase is justified.</p>
C. Long Term Pricing Impact	<p>Fonterra supports that long term pricing impact visibility for the following regulatory period after the CPP period.</p> <p>As per Transpower’s RCP process, it is critical to be able to hold the regulated monopoly accountable for under or over forecasting of required revenue.</p> <p>Fonterra does not support the view of suppliers that future pricing is questionable and therefore forecasting of long term pricing should not be mandatory. There should be very limited uncertainty in the suppliers business that prevents them from forecasting long term prices. This is because they can forecast the asset conditions, they can forecast incremental load changes, any significant load increases are funded by the parties causing the load increase, and acts of nature are insured for.</p>
D. Calculating revenue and pricing changes	Fonterra supports that there needs to be a standard methodology for calculating revenue price changes. As the price impact on individual industrial cannot be generalised due to differences in contracts, it should be mandatory for the supplier to communicate to the customers with individually negotiated contracts what the price impact and benefits delivered are.
E. Delivery and accountability of CPP commitments	Fonterra agrees that there needs to be greater transparency that the suppliers are delivering on their commitments via a stakeholder report.
F. Link Between Price and Quality	Fonterra strongly encourages greater transparency of the asset management plans aligned to asset criticality as a way to ensure

	investment decisions are being made for the right purposes and will deliver quantifiable benefits to end customers.
G. Consumer Consultation	Fonterra supports mandated direct stakeholder consultation that will assist with identifying alternative solutions as well as clearly engaging on the cost benefit analysis and potential price impact. This consultation needs to continue during the CPP period to show how the delivery of the benefits are progressing.
H. Verification	Fonterra supports that independent verification needs to occur to give confidence that the proposed price increases and cost benefit analysis are appropriate. As indicated by the PowerCo verifier that some of the benefits might be questionable for the costs.
I. Defining and applying proportionate scrutiny	Fonterra supports that the issue of defining proportionate scrutiny can be resolved by the Commerce Commission outlining its scrutiny plans for each CPP submission early on in the process to allow submissions on the scrutiny plan.