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Fonterra Co-operative Group
Private Bag 885, Cambridge, New Zealand
Victoria Road, Hautapu, Cambridge, New Zealand
www.fonterra.com

Submissions
Dane Gunnell
Acting Manager, Price-Quality Regulation
Commerce Commission
Wellington

(Submitted via email to regulation.branch@comcom.govt.nz)

Dear Dane,

Re: Consultation Paper "EDB DPP3 Issues Paper"

Fonterra thanks the Commerce Commission for the opportunity to provide feedback on the consultation paper, "EDB DPP3 Issues Paper" *(Consultation Paper*).

Fonterra supports this Consultation Paper in its objective to promote more efficient and low-cost electrical supply to consumers by reducing unnecessary complexity and compliance costs while incentivising capital and operating cost reductions. Fonterra also supports the objectives in DPP3 to incentivise the Electrical Distribution Businesses (*EDB's*) to utilise new technology to reduce costs and improve security of supply.

Fonterra is a major electricity user and used approximately 1,100GWh of electricity (including on-site co-generation electricity) last season (1 August 2017 to 31 July 2018, aka FY18). Fonterra's sites are located across New Zealand, resulting in Fonterra having relationships with 14 different EDB's.

Fonterra is a member of the Major Electricity User Group (*MEUG*) and supports the points raised in this submission, except where it differs from the points that Fonterra makes in this submission.

A2

- Fonterra is supportive of the move to a revenue cap that is independent of demand. The main driver of EDB cost is peak demand management and future technology might reduce overall demand, including peak demand.
- Fonterra still believes that the WACC percentile needs to be reduced to the 50th percentile as the risk of capital delivery cost and timing is all in the control of the EDB's. Furthermore, the risk of stranded assets is managed by the proposed accelerated asset depreciation request process. We do advocate that this request process goes through detailed vetting to ensure that the proposed assets truly are at risk of being stranded.

A5

- Fonterra recommends that the Commerce Commission put in processes to ensure that there is no gaming of the proposed process to set the revenue based on actual operating expenditure in 2019. For example, the Commerce Commission needs to ensure that EDB's have not deferred operational costs in the current DPP to the final 2019 year to increase operating costs in that year.

A7

- Fonterra is supportive of the proposed option A7.1 which forecasts operational expenditure based on regional population growth for ICP connections and historic line length growth.

A8

- Fonterra supports the continued disaggregation of operating expense forecasts from network and non-network and applying drivers for each category.

A9

- Fonterra does not support the use of 0% for the operating expense partial productivity factor, although note that it is better than the –0.25% used previously. Fonterra supports the MEUG view it should be at 1.5% as an incentive to drive continuous improvement in cost reductions. This would be similar to any privately-owned business operating in a competitive market needing to drive year-on-year continuous improvement in cost reductions to stay competitive.

A10

- Fonterra supports the use of NZ Statistics standard published all industries labour cost and producer price indices to forecast nominal operating expenses.

B17

- Fonterra continues to support the use of the EDB's Asset Management Plans (*AMP's*) to drive forecasts of capital expenditure.
- Out of the two other options being considered, Fonterra supports the option B18.2 to derive capital expenditure forecasts using modelling and independent forecasts of demand and growth rather than historical capital spend.

B21

- Fonterra also supports the increased scrutinising of these AMP's by accredited auditors to ISO 55000 "Asset Management".

B39

- Fonterra supports forecasting capital expenditure down to the sub-category level as this would align with the outputs from the AMP increased scrutinization. We disagree that this level of detail would not be consistent with a relatively low-cost DPP. This level of detail must exist in the EDB's AMP's and must already exist in their capital expenditure rolled up forecasts. Any EDB that does not possess this level of detail maturity and business systems is at high risk of not being able to control any of their expenses.

B42

- Fonterra supports the option B42.4 where AMP's undergo qualitative analysis. As noted in response to paragraph B21, our expectation is that this would be undertaken by qualified ISO 55000 auditors.

B57

- Fonterra's view is that the other capital expenditure categories that do not have clear quantitative drives should be capped at industry historic average, to ensure that there is some driver to control cost expansion in this area.

B65

- Fonterra supports the option B65.1 using all industries CGPI forecasts to provide better capital cost escalation.

Attachment C: Reliability Standards & Incentives

Fonterra is a co-operative owned by approximately 10,500 dairy farmers located across New Zealand. Quality and continuity of electrical supply is critical to both Fonterra factories and the dairy farmers. However the impact to dairy farmers is not picked up in existing quality metrics of SAIDI and SAIFI as they do not cover the Low Voltage network performance. It is also critical that dairy farmers receive notification of any outage with sufficient time to respond directly back to the EDB to schedule the outage outside of the twice daily milking periods. If the outage does coincide with milking, then communication of when power will be restored is important to ensure both animal welfare and product safety is met. For example, if an outage occurs after milking has been completed but before milk is collected, then notice of this to both farmer and Fonterra's milk collection team is important as milk cannot be collected if the vat agitator is not operational. If this is not known, then a tanker could arrive at a farm with a power outage and not be able to collect the milk, which is inefficient and results in additional transport costs.

Fonterra notes that there is no current regulatory quality metric that measures the performance of retailers in the aspects of performance to reach all customers when communicating planned outages, as well as no quality metrics for the EDB regarding their performance in the accuracy of the outage period start and completion times, as well as their communication of updates during the outage. These are all important aspects to consumers when outages occur.

Fonterra also believes that there needs to be a quality metric around the number of planned outages to the same customers to drive co-ordination of work to minimise multiple planned outages which is more inconvenient than a single longer planned outage.

C20

- Fonterra supports the expansion of quality reporting to all the parameters indicated as our sites experience on average 91 individual plant outages per year that are caused by power spikes or voltage dips.

C34

- Fonterra supports option C34.3 that planned interruptions should be recognised as less impactful to farmers especially if they are scheduled outside of the milking times, and therefore should be treated separately.
    - Planned outages must be reported for frequency of events on the same low voltage network to drive coordination of outage work.
    - Accuracy of start and completion times of planned outages must be reported.

C35 and 36

- Fonterra notes that 24 hours' notice is not typically sufficient notice for a planned outage, nor is notification that a planned outage could occur within a one week window.
- Fonterra recommends that EDB's are measured on their compliance to a 10 day notice period of planned outages.

C68

- Fonterra supports option C68.2 as the sensitivity of the existing SAIDI and SAIFI is so low and does not take into account low voltage disturbances.

C81

- Due to the impacts from climate change, it is expected that New Zealand will experience an increase in major weather events and hence an increase in power outages. To this end, Fonterra would recommend that the changes to the major event day handling not abdicate the responsibility of EDB's to ensure their networks are resilient to major events. This includes reducing the number of outages, the time taken to restore power after an event, as well as the overall cost to recover from a major event.

C115

- With the increasing installation of smart meters, Fonterra supports the view that time has come to utilise the power quality data being generated from them to provide transparency on how the EDB's are protecting the consumers assets from consistently high or low voltage, voltage spikes or dips.

Fonterra encourages the Commerce Commission to consider such measures and impacts on end users within its current review.

Fonterra looks forward to further engagement on this topic and is willing to engage further regarding any of the points raised in this submission.

Yours sincerely,

Tony Oosten

Energy & Utilities Manager
Tony.Oosten@fonterra.com