



**Fonterra submission to the Electricity Authority regarding the “Transmission Pricing Methodology: Problem definition relating to interconnection and HVDC assets” consultation paper.**

October 2014

## Overview

1. Fonterra Co-operative Group (“Fonterra”) thanks the Electricity Authority (“EA”) for the opportunity to make a submission in response to the consultation paper entitled “Transmission Pricing Methodology: Problem definition relating to interconnection and HVDC assets” (“Consultation Paper”).
2. Fonterra is the world’s largest global milk processor and exporter of dairy products and is at the heart of the New Zealand dairy industry, and the dairy industry is at the heart of the New Zealand economy. Through our integrated “grass to glass” supply chain we deliver high quality dairy ingredients and a portfolio of respected consumer brands to customers and consumers in over 140 countries around the world.
3. In the 2014 annual report, Fonterra recorded a net profit after tax of \$179 million, on revenue of \$22.3 billion, and a final cash payout of \$8.50 for the 2014 year for a 100 percent share-backed farmer – comprising a Farmgate Milk Price of \$8.40 per kilogram of milk solids (“kgMS”) and a dividend of 10 cents per share. During this season, 18 billion litres of milk were collected in NZ. Compared with the previous season, North Island volumes were up 9% at 969 million kgMS, while the South Island delivered a 7% rise in volumes to 615 million kgMS.
4. Fonterra is owned by approximately 10,600 farmer shareholders who supply Fonterra with 18 billion litres of milk each year that is processed across 28 processing sites in New Zealand. Therefore, Fonterra’s processing sites are reliant on an efficient, reliable, and secure electricity supply in order to process the large volumes of milk that are collected each year.
5. In NZ, Fonterra uses approximately 23PJ of energy annually. Of this, approximately 1,000 GWh of electricity is used annually, which includes the electricity from co-generation facilities. Four of Fonterra’s processing sites are supplied by co-generation facilities: Te Rapa, Whareroa, Edgumbe, and Kapuni.
6. Fonterra has previously submitted on several of the transmission pricing methodology (“TPM”) working papers and as stated in our March 2013 submission on the TPM issues and proposal consultation paper, “Fonterra views that the current TPM is working well, although acknowledge that it could be improved.” This view has not changed.
7. Fonterra is a member of the Major Electricity User Group (“MEUG”) and supports the MEUG submission and the accompanying NZIER report. This submission aims to add some further points to support the MEUG submission and the NZIER report.

### 1. EA view that the interconnection charge may over-signal the value of embedded generation

- 1.1. In the Consultation Paper, the EA makes references<sup>1</sup> about investment decisions that companies make and the influence of interconnection costs on these decisions.
- 1.2. It appears that the EA has overstated the emphasis that businesses put on this factor – it is one of many factors that are considered, and is a relatively minor consideration that influences decision making. From Fonterra’s perspective, there are other major drivers that influence decisions, such as the location of milk growth. Also, Fonterra’s energy use is typically 85% thermal, 15% electrical, so the provision of thermal energy is a major consideration. The efficient, economic, and secure supply of thermal energy is the primary driver for co-generation facilities, not reducing electricity interconnection charges.
- 1.3. Therefore the EA has put too much emphasis on the contribution of electricity interconnection charges to industrial co-generation investment decisions.

<sup>1</sup> For example, reference is made in paragraphs 5.6(c), 11.87-11.104.

## 2. Submissions on Transpower's investment proposals

- 2.1. The Consultation Paper provides a summary analysis of submissions on selected Transpower investment proposals. Fonterra is noted as only submitting individually once, and submitted via MEUG several times.
- 2.2. This is reflective of the ability to dedicate resources to understand and analyse such investments, and our reliance upon industry advocacy groups to assist with our understanding of potential impacts or benefits of regulatory changes, and assisting with advocacy to protect our interests.
- 2.3. There are very few large capital expenditures planned by Transpower in the upcoming years, so the opportunity for further review of investment proposals is limited, although the upcoming Transpower capital expenditure input methodology review provides some opportunity for improvements.
- 2.4. MEUG is raising some important questions regarding the treatment of current assets and who bears the risk of stranded or uneconomic assets and Fonterra is supportive of exploring these questions.

Please direct any queries regarding this submission to Fonterra's Energy Manager:

[Linda.Mulvihill@fonterra.com](mailto:Linda.Mulvihill@fonterra.com)