



Fonterra submission to the Electricity Authority regarding the “HVDC component of Transpower’s proposed variation to the Transmission Pricing Methodology” consultation paper.

July 2015

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 “HVDC component of Transpower’s proposed variation to the Transmission Pricing Methodology” (“Consultation Paper”).
2. Fonterra is the world’s largest global milk processor and exporter of dairy products with annual turnover of NZ\$22.3 billion for the financial year ending July 2014. In total Fonterra is responsible for more than a third of global dairy trade. Fonterra is a truly global company, with milk supply originating from in New Zealand and throughout the world. This milk is processed and distributed through Fonterra’s integrated “grass to glass” global supply chain where 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. Fonterra and its 10,500 farmer shareholders are at the heart of the dairy industry in New Zealand, and the dairy industry is at the heart of the New Zealand economy. In the year 2014, the value of New Zealand’s dairy exports represented 25 percent of New Zealand’s merchandised exports.
4. In New Zealand, Fonterra processes more than 17 billion litres of milk each year across 28 processing sites. 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 New Zealand, 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. Energy is a significant cost input into the manufacturing process and maintaining a cost effective energy supply is essential for Fonterra to compete in the global dairy market.
6. Fonterra is a member of the Major Electricity User Group (“MEUG”) and supports the MEUG submission, except where the points raised in the MEUG submission may differ from those raised in this submission.

Feedback on Consultation Paper

7. 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.
8. As noted in Fonterra’s submission to the EA in May 2015 on the consultation paper entitled “Transpower’s proposed variation to the transmission pricing methodology”:

Transpower included the per MWh option under “Option 3: Other tariff design” to support their “TPM Operational Review: RCPD charges – setting the value of ‘N’ amendment proposal to the EA¹. As stated by Transpower for their rationale not to analyse this option in any detail, “...they are too novel or unexpected to be introduced from 1 September 2015”. Fonterra agrees that this option should not be considered further and does not support the per MWh approach for allocating transmission charges.

9. As stated previously, Fonterra does not support the proposed change of allocating the HVDC charge on a per MWh basis and does not consider that the proposal is preferable to the status quo.

¹ Page 8, Attachment _A2_RCPD_CAP_13Feb2015.

10. Fonterra does not support the suggestion in the Consultation Paper that the per MWh charge is undertaken on a total generation rather than a net injection basis (paragraph 4.5.7 of the Consultation Paper).
11. As outlined in the MEUG submission, it does not appear efficient to proceed with this proposal and then further changes occur under the EA's TPM consultation.

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

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