



Fonterra submission to the Electricity Authority regarding the “Shortened gate closure and revised bid and offer provisions” consultation paper.

August 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 “Shortened gate closure and revised bid and offer provisions” (“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. Four of Fonterra’s processing sites are supplied steam and electricity by co-generation facilities: Te Rapa, Whareroa, Edgecumbe, and Kapuni. Fonterra’s Whareroa Site has a co-generation plant that is a 50/50 joint venture between Fonterra and Nova Energy (“FTJV”).

## Feedback on the Consultation Paper

7. Fonterra supports the EA’s proposal to reduce the 2 hour gate closure to 1 hour. As noted in Fonterra’s submission to the EA on industrial co-generation dispatch arrangements<sup>1</sup>, the current 2 hour gate closure places unnecessary administrative costs on industrial co-generation plants to comply with offer and dispatch rules and that Fonterra supports the gate closure reducing to 30 minutes. The Consultation Paper notes<sup>2</sup> that the EA may consider further shortening of the gate closure after a period of operation under a one hour gate closure and Fonterra supports this approach.
8. As noted in the Consultation Paper<sup>3</sup>, the proposed changes will assist with improving the accuracy of forecast schedules and Fonterra supports an improvement in the accuracy of forecast schedules.
9. The Consultation Paper recommends that Transpower as grid owner will not have to provide a report on their reasons for updating grid information after gate closure. The Consultation Paper has not stated what insights are obtained from the current reporting<sup>4</sup>. Fonterra believes that it is important that the grid is accurately

<sup>1</sup> <https://www.ea.govt.nz/development/work-programme/wholesale/industrial-co-generation-dispatch-arrangements/consultations/>

<sup>2</sup> Paragraph 4.6.23, page 50 of the Consultation Paper.

<sup>3</sup> Paragraphs 4.4.11 to 4.4.19, pages 38-40 of the Consultation Paper.

<sup>4</sup> Section 3.7, page 32 of the Consultation Paper.

represented ahead of real time and that any change should be communicated and explained to ensure that the grid owner is acting as a reasonable prudent operator. Perhaps instead of fully removing this reporting obligation, there is an opportunity between Transpower and the EA to improve the efficiency of how these are communicated and reviewed or an opportunity to include some exceptions to when reporting is required based upon the insights that the EA has obtained from the numerous reports.

10. The Consultation Paper provides several scenarios<sup>5</sup> where the current two hour gate closure can prevent participants from taking efficient actions. This assumes that the action taken by any change within this two hour window would have resulted in lower electricity costs. The EA has suggested if the gate closure decreases to one hour, that there will be increased monitoring of offer revisions close to real time and Fonterra supports this. Fonterra would like to note that the scenarios did not include an industrial co-generation example, which has different causes for any need to change offers within the current two hour gate closure under the bona fide exception and may not require increased monitoring.
11. Fonterra supports the EA's recommendation<sup>6</sup> to progress the Code amendment, rather than the other options provided. If the EA decided to progress with Option D, then an exception needs to be provided for industrial co-generation plants. As noted earlier, the EA should assess moving to a half hour gate closure in the future.

Please direct any queries regarding this submission to Fonterra's Energy Manager:	<a href="mailto:Linda.Thompson@fonterra.com">Linda.Thompson@fonterra.com</a>
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<sup>5</sup> Paragraph 3.2.14, pages 25-26 and paragraph 4.5.12, pages 42-43 of the Consultation Paper.

<sup>6</sup> Section 4.6, pages 45-50 of the Consultation Paper.