

Submission

Transmission Pricing Methodology amendments 2026

24 July 2026



Fonterra welcomes the opportunity to provide input to the Electricity Authority's Transmission Pricing Methodology amendments 2026 consultation. As a dairy co-operative owned by over 8,000 New Zealand farming families with 24 manufacturing sites, we are the country's largest exporter and a major electricity user. Stable and affordable electricity access is fundamental to our operations and to New Zealand's export competitiveness.

Fonterra believes the current Transmission Pricing Methodology is no longer fit for purpose. As New Zealand invests more in grid infrastructure to support electrification and given the ongoing gas supply issues in the North Island, the TPM is simply not suited to today's energy environment.

Since the TPM was introduced, it has become so complicated that companies now need to hire specialist consultants just to work out what they owe. On top of that, Benefit-Based Charging (BBC) has caused electricity prices to fluctuate significantly at individual connection points - which actually works against the Commerce Commission's goal of keeping pricing stable and predictable over time.

There are strong reasons to think the BBC calculation is fundamentally broken. It works by modelling electricity prices at specific nodes and assumes that if upgrading a grid connection lowers prices at those nodes, businesses are better off. But most businesses don't buy electricity at those exact node points - they typically buy through the ASX at reference points like Benmore or Otahuhu, and usually at a fixed price. That means they never actually feel the benefit of lower node prices in the first place.

The model also has a mismatch problem: the charges it imposes (based on the actual capital cost of grid upgrades) are often higher than the price savings it assumes businesses will receive (which are based on a simplified, static model with no real connection to how electricity is actually priced in real time). The BBC model also fails to account for how the grid is changing. As more renewable energy comes online, electricity will increasingly flow in both directions, not just one way. There is also no mechanism to go back and check whether the BBCs are still appropriate as the grid evolves.

Ultimately, Fonterra believes the Electricity Authority should acknowledge that the TPM has failed and return to the original, simpler approach where all grid revenue is recovered through a straightforward charge based on how many megawatts a business uses. The argument that it's "too hard to undo" because the TPM took ten years to implement doesn't hold up; it took that long precisely because the industry strongly opposed it the whole way through. One practical way to reverse it would be to roll everything back into the existing residual charge and simply remove the BBC charges altogether.

One positive outcome of the TPM was removing the HVDC charge that previously fell solely on South Island generators, given increasing bidirectional flows and the South Island's role as New Zealand's energy battery, this should be retained. Fonterra supports the improvements proposed by the Transpower TPM working group but is concerned the EA will treat these as sufficient. While our overarching position remains that the TPM should be fully unwound, the following comments address the EA's current proposals on a without-prejudice basis.

Fonterra disagrees with the EA's position that Battery Energy Storage Systems (BESS) should be subject to BBC charges. The broader benefit that BESS provides to the electricity market outweighs the revenue generated through BBC charges, and exempting BESS would reduce complexity while encouraging greater investment in storage. By nature, BESS is best located close to demand and will charge when nodal prices are low and discharge when they are high. This means BESS is unlikely to drive the need for new interconnection upgrades, making the case for BBC charges on BESS even weaker.

Fonterra acknowledges that increasing bidirectional flows add complexity to the grid, but notes that the distributed, demand-proximate nature of BESS means it is far less likely than centralised generation to drive interconnection upgrades, and any residual risk can be assessed on a case-by-case basis rather than through a blanket BBC charge.

Because major grid assets take a long time to build, Transpower must invest ahead of demand to maintain efficient capacity margins. However, the current BBC model creates an unfair burden when this happens, the proposed Tararua Major Capex Project (MCP) is a good example, where existing load customers will bear BBC charges to support future wind generation capacity before any new wind farms are even built.

Fonterra's suggested approach is to allow Transpower to build ahead, but phase the capital cost into the Regulatory Asset Base (RAB) gradually, for example at around 10% per year, broadly aligned with expected demand growth. Spreading costs across all grid connections should not be viewed negatively; all generation and demand ultimately benefits New Zealand as a whole. The risk of overbuilding can be managed through transparent national priority lists, clear timelines for expected capacity utilisation, and independent peer review and consultation.

Fonterra agrees with the EA's own assessment that the proposed WACC timing changes are relatively minor, but views this as a distraction from the more important question of why Transpower receives a WACC that includes a risk premium and debt premium above the government's own cost of financing. As a wholly state-owned entity with effectively no cost recovery risk, Transpower's bondholders face no meaningful default risk and should not need to be compensated as such. Fonterra believes this warrants closer scrutiny.

Fonterra supports consolidating cost increases into single, pre-announced annual events. However, it also strongly urges the EA to follow the Commerce Commission's guidance and apply revenue smoothing to BBC changes across multiple years. Large, sudden step changes in GXP charges make it very difficult for businesses to build reliable financial cases for decarbonisation projects, and risk pushing them toward non-electrical solutions that offer more financial certainty. Pricing stability is essential to support New Zealand's electrification goals

A gap currently exists in the framework: when a business funds a new or expanded Grid Exit Point (GXP) through a connection agreement capital contribution, and that asset later also serves an interconnection function, there is no mechanism to compensate the original funder. Fonterra's position is straightforward; if a privately funded connection asset ends up performing a function that an interconnection upgrade would otherwise have had to deliver, the first mover should be reimbursed for that portion of their spend. A fair compensation mechanism should be established to address this.

Fonterra welcomes further engagement on our submission.