

## Fonterra Submission to the Electricity Authority

October 2022

Fonterra welcomes the opportunity to submit to the Electricity Authority (EA) on the consultation document “*Inefficient Price Discrimination in very large electricity contracts*”.

As a large participant in the New Zealand electricity market, we trust that the commentary we put forward in this submission is a constructive contribution to help ensure the New Zealand electricity market functions efficiently and is set up for success in delivering secure, low-cost electricity and supporting the transition to a low emissions economy.

Fonterra is responding to this consultation as we use approximately 800 GWh per annum of grid electricity, and 200 GWh per annum of electricity generated by our third-party co-generation partners. This combined annual electricity usage of approximately 1,000 GWh is the 4th largest industrial use in New Zealand.

At the peak of the dairy season, our demand can exceed 170MW per hour. We need an electricity market that is delivering secure and low-carbon electricity at the lowest cost possible now and into the future. Our load is spread across most distribution networks in New Zealand and complimented by the embedded co-generation at several of our sites.

Notwithstanding the high wholesale electricity prices in recent years, our view is that the electricity market is generally working efficiently, and large-scale intervention is unnecessary. Any intervention should be targeted, proportionate and should carefully consider and aim to avoid unintended consequences.

We acknowledge the Authority’s role in supporting an efficient market and agree that market participants should not use their respective scale to either stifle new generation or subsidise the true cost of generation across other customers. This may warrant greater oversight of a very limited category of contracts as proposed in the consultation document, however we have concerns about the scope of the proposals and the potential for unintended consequences.

Fonterra currently negotiates a range of contracts for electricity supply and we participate in the spot market. We acknowledge that the proposals are not intended to capture our current activities, such as spot market contracting. However, with a current aggregated load exceeding 150MW and a growing demand profile, Fonterra could potentially be captured by these proposals in the future.

An overly complex contracting environment in the future may also deter greater electrification or add unnecessary additional cost. To minimise the risk of this occurring, the proposals should be sufficiently narrow to avoid impacting standard commercial arrangements that will enable large industrial users to electrify and support New Zealand’s decarbonisation. We would also encourage the Authority to set prescribed review dates to reassess the relevance of the framework and keep the regulatory landscape fresh.

We are also concerned that the definition of “best alternative price” as defined in the consultation document is still too vague. We suggest the EA consider the role of the Long Run Marginal Cost (LRMC) in determining fair pricing.

Further, we note that most large contracts are financial derivatives separated from physical supply, and it is difficult to assess the net value of a contract to the generator in the context of their portfolio and/or the counterfactual available.