

Fonterra submission on proposals to level the playing field in the Electricity Market

May 2025

Fonterra welcomes the opportunity to provide input to the Electricity Authority's options paper proposing measures to level the playing field in the electricity market.

Fonterra is a dairy co-operative owned by over 8,000 New Zealand farming families with 27 manufacturing sites across the country, making us the country's largest exporter and a major supplier of dairy products to the domestic market.

With manufacturing operations spread throughout New Zealand, Fonterra is a major electricity user. We rely on stable and affordable access to electricity to support our operations. This reliable access underpins New Zealand's export competitiveness.

Increasing wholesale electricity prices and a lack of competition in the market are having a negative impact on this competitiveness, illustrated by several industrial closures in recent years. Fonterra supports ongoing moves by the Government and the Authority to consider how best to reorientate New Zealand's energy system to better support the interests of consumers and the country's ability to remain competitive internationally.

Fonterra welcomes the Authority's options to level the playing field as part of a broader shift to increase competition and rebalance the market. We support option two and the introduction of mandatory non-discrimination obligations to ensure all market participants can access products on substantially the same terms as generator-retailers supply their vertically integrated retail businesses.

Non-discrimination measures are common in well-functioning markets and it's clear that the electricity market would have benefited from such measures being in place at a much earlier stage. Introducing them now is a sensible move to address this gap and will support greater competitiveness.

The proposed three-step progressive approach supports the pace of change which we view as important, and a market-based implementation in the first instance which provides the opportunity for efficient adoption. We are uncertain as to whether this measure is likely to improve pricing, however it is likely to be meaningful to parts of the market. It is important for price signals that this covers all parties participating in the wholesale market.

In our view effective monitoring will be crucial to ensure effectiveness in a timely manner. Monitoring needs to be adequately resourced, and the disclosure requirements clear from the outset, so that the effectiveness can be properly assessed and any escalation can be considered within the appropriate context. We also recommend shortening the stocktake intervals from six months to quarterly for an initial period, to ensure immediate compliance and effectiveness, and that the trigger points for escalation are more clearly defined for the benefit of all parties.

While we believe the approach proposed by the Authority is an appropriate initial step, we do not consider that this change will address underlying issues in the market and ensure prices move back down to more sustainable levels.

There is an urgent need for more generation, including both new renewable sources and flexible firming generation, to accompany market changes. We share concerns of others that there is a growing disparity between wholesale prices and the Long-Run Marginal Cost (LRMC) of generation and believe this needs greater focus, including consideration of appropriate market settings and the continued availability of hedge contracts and other products to enable participants to manage risk.