Fonterra submission on the Electricity Authority Distribution Connection Pricing Amendment

December 2024

Fonterra welcomes the opportunity to comment on the Electricity Authority's consultation on the Distribution connection pricing proposed Code amendment. We trust that this submission will provide constructive feedback into the review process.

Fonterra supports the proposed code amendments that aim to make new or changed distribution connections simpler and affordable at lowest cost possible to support the decarbonisation of New Zealand.

Fonterra is a dairy co-operative owned by around 8,500 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.

Fonterra is unique in New Zealand as we are a major electricity user at 1.2GWh per year from our 27 sites in 18 different electricity distribution business (EDB) areas, with the remainder of the 8 EDBs hosting Farm Source retail stores and fresh milk hubs.

We have seen significant differences between EDBs on their processes for new or changes to connections and the contractual arrangements to achieve these. This adds significant cost and effort to ensure that Fonterra is not being unfairly disadvantaged in the contractual terms and is paying only for the direct equipment needed for its electricity supply.

It is important that the connection cost requested by businesses on the medium to high voltage (MV, HV) networks is paid for by the parties requesting the change and not applied to existing users, thereby ensuring no cross subsidisation. This exposure to the true cost of connection capacity will drive the appropriate design to reduce or smooth capacity requirements from the network using the likes of solar PV, batteries, or thermal storage. The EA should not seek to dampen the true cost of connection signal, nor socialise the cost to other users at the MV or HV network level. This aligns to the EA's transmission pricing methodology of beneficiary pays.

We support the EA's proposal for standard rates per MVA where the incremental capacity change to the MV or HV is less than 80% of existing spare capacity, or even a zero rate if capacity is expected to be fully absorbed without the need for future capacity capital cost. Fonterra also supports the clear requirement of the EDBs to provide the least cost minimum technical solution design basis for costing.

All EDBs should provide clear connection request processes on their websites, including the contractual arrangement for new connections, which should clearly provide a breakdown of the costs i.e.

- what is the expected % capital contribution upfront versus ongoing capital recovery;
- what is the term of the capital recovery and annual percentage;
- what is the WACC used for capital recovery;
- what is the R&M costs to be recovered;

- A financial model that allows connection seeking parties to explore the total cost of ownership if the % upfront capital contribution is changed and the subsequent bypass option cost model.

Fonterra supports the EA's proposed fast track parameters as laid out in table 7.3, especially as a way to regulate the WACC used by exempt EDBs. There are examples of exempt EDBs using WACC rates in excess of the Commerce Commission's published midpoint WACC, reinforcing the need for this proposal.

We do not support any risk premium being applied to the WACC as connection capital spends are typically incorporated into a connection agreement and therefore have the ability to include termination clauses which could trigger capital recovery.

We support the requirement to ensure that businesses funding new/expanded connections have that capacity protected and then, at their choice, could release the capacity for others to use while being compensated for the historical costs paid associated with that capacity. This would help mitigate the so called first mover disadvantage.

Fonterra also supports the information disclosure requirements of all EDBs around their capital costs. We feel there is value in being able to see nationwide costs of recent connection projects by MVA size and the actual cost of equipment, for example transformers, cable, circuit breakers etc.

This information disclosure requirement will help smaller EDBs and connection customers to know potential discounts the larger EDBs are obtaining from equipment vendors and seek the same discounts.

There is a need for a dispute resolution process to be formalised either contractually or in the code, as this would allow connection parties to seek resolution if there is a challenge to the minimum technical solution costed or other revenue recovery expectations.

Finally, Fonterra questions the reliance factor settings. As earlier stated, we support beneficiary pays even if that is all the way to the GXP, if it's the least cost minimum technical solution to deliver the capacity of connection requested. Therefore, we do not support restricting the EDBs to a hard maximum total revenue from capital contribution. We do support EDBs funding the system growth in their MV and HV due to residential LV demand increases from their asset-based revenue recovery.

We welcome further engagement with the EA on our submission.