

28 February 2025

To: Electricity Authority

By email: taskforce@ea.govt.nz

Submission on the PPA working paper

To whom it may concern

Thank you for the opportunity to comment on the power purchase agreement (PPA) working paper, 'Entract generators - context, headwinds and options for power purchase agreements'. EVA welcomes this work as we believe a deep and active PPA market will improve competition, reduce prices and help NZ to achieve its renewables targets.

Please feel free to contact us if you have any questions.

Sincerely

Paul Coster
Founder, [EVA Marketplace](#)

Question	Answer
Q1. Is there any other related work that you think is relevant to our consideration of PPA issues?	<p>We think the work being done on PPAs in other jurisdictions is relevant. New Zealand's electricity market has its own unique context (a small island nation that is dominated by hydro generation) but other countries are also grappling with how to enable renewables in markets that have increasing levels of intermittent generation and volatility. Examples of such work includes:</p> <ul style="list-style-type: none"> • Europe's reform of electricity market design , European Commission, 2024 (obliges availability of instruments to expand access to PPAs) • Market study including an assessment of potential financial instruments to support renewable energy commercial PPAs, Baringa, 2022 • Assessment on the need of ACER's voluntary PPA contract template(s), European Union Agency for the Cooperation of Energy Regulators (ACER), 2024
Q2. Do you have any suggested additions or modifications for PPA terms and concepts?	In Europe, sleeving is often defined as a service that manages an offtakers shape, volume and location risks ¹ . The EA may like to note that sleeving services typically include a firming service and management of locational price risk. EVA believes that, in most cases, retailers are better equipped to manage locational price risk than independent generators or corporate buyers.
Q3. Do you agree with our definition of PPAs?	We agree that PPAs are contracts for the sale and purchase of electricity from one or more specific projects, and are typically longer-term. We note that PPAs don't need to be 'generation-following' (also called Pay-as-Produced). There are other types of PPAs where generators take more shape and volume risk, such as Pay-as-Consumed, Fixed Hourly Profile and Baseload PPAs. However, we recognise it is non-firmed PPAs that are the focus of this consultation.
Q4. Have we correctly identified buyer and seller motivations for PPAs?	<p>The seller and buyer motivations are well described. However, we'd like to clarify that:</p> <ul style="list-style-type: none"> • Corporate buyers typically use PPAs as a tangible way to support <i>new</i> renewables (as opposed to existing

¹ [Market study including an assessment of potential financial instruments to support renewable energy commercial PPAs](#), Baringa

	<p>renewables) so they can make ethical claims in relation to 'additionality'</p> <ul style="list-style-type: none"> • Access to lower overall electricity prices via a PPA is, for most buyers, highly reliant on access to fairly priced PPA firming/sleeving
Q5. Have we correctly identified how PPAs may fit with other contracts?	<p>Yes. However, it's worth noting that corporate buyers have an option to indirectly enter into a PPA in a type of 'green tariff'. This is where a generator enters into a PPA with a retailer (the generator and retailer could be the same party), then the retailer enters into a supply agreement with the corporate that sleeves the indirect PPA². Examples of a green tariff with an indirect PPA are Lodestone's deals with The Warehouse and Inghams.</p>
Q6. Do you agree with our characterisation of how PPAs may impact system evolution?	<p>We think the EA's characterisation is quite theoretical and understates the importance and potential impact of PPAs.</p> <p>The Market Development Advisory Group (MDAG) and ACER have both noted that an effective and efficient hedge market is essential for a stable, resilient electricity market. PPAs are an important part of a hedge market, providing longer-term hedges for sellers and buyers. Internationally and in NZ, the impact of PPAs has been demonstrated time and time again. It is clear that PPAs accelerate the deployment of renewable generation and increase competition by supporting independent developers. In NZ, Lodestone's deals are tangible examples. The question is not <i>if</i> PPAs have a positive impact, but <i>how big</i> the positive impact will be.</p> <p>We agree the introduction of subsidies would distort the system's evolution. However, internationally, policy-driven measures are the main driver of renewables deployment (followed by corporate PPAs)³ and have been highly effective in some cases (e.g. the UK's CfD scheme). We believe policy-driven measures should be explored if other market reforms do not prove to be effective.</p>
Q7. Have we correctly identified and understood PPA headwinds?	<p>We agree the following challenges are particularly acute in the NZ market: limited buyers of scale, buyer credit worthiness, access to firming/sleeving at fair and transparent prices, cost of capital, buyer sophistication.</p> <p>We have some comments on the following headwinds identified by</p>

² [Renewable electricity procurement options for businesses](#), EVA Marketplace

³ [Are market forces overtaking policy measures as the driving force behind wind and solar PV?](#), IEA

	<p>the EA:</p> <ul style="list-style-type: none"> • Underlying need: While we agree that underlying demand is essential, demand doesn't need to come first, it may follow the introduction of lower-cost supply (as noted in the benefits section). • Additionality: Additionality as a driver for PPA demand is an issue in all jurisdictions. This is because the current GHG programmes and voluntary target-setting programmes (e.g. RE100) do not adequately differentiate between PPAs and/or RECs across old, new and yet-to-be-built renewable generation. Under current rules, a business can report the same low emissions whether they purchase low-cost RECs from existing generation (no additionality) or enter into a PPA with a not-yet-built project (additionality). The issue is more acute in NZ because an oversupply of RECs from existing generation means a greater availability of low-cost RECs. Finally, additionality must be viewed from the perspective of the energy system, not the electricity system. NZ's energy system is only ~30% renewable. Additionally is just as important here as in any other jurisdiction. • PPA pricing: We agree that some buyers are concerned about locking in a long-term price when prices may decline over time. However, we would note that wind and solar technology cost declines are slowing, and staying in a lower-risk supply agreement has a potential opportunity cost.
Q8. Do you agree with the potential benefits we have identified?	<p>Yes. However, we would like to note that PPAs driving earlier system expansion and electrification has significant benefits beyond the EA's statutory objectives, such as:</p> <ul style="list-style-type: none"> • Lowering total energy costs (not just electricity costs) for consumers • Helping to achieve net zero (lowering carbon costs, such as carbon offset/border costs) • Improving NZ's energy independence and security (less reliance on fossil fuels)
Q9. Do you agree with the potential risks we have identified?	<p>Yes, noting that such risks are present with any regulatory intervention.</p>

<p>Q10. Do you agree with the potential options we have identified?</p>	<p>Yes. However, as noted below, we believe there may be merit in further investigating socialising prudential risk to help address the 'credit worthiness' headwind.</p> <p>We believe another action that will make the PPA market more active and competitive is for government organisations to enter the market. The government is a natural PPA buyer due to its strong financial position, ability to enter into long-term contracts, and growing electricity consumption. Currently the government uses 1-2 TWh of electricity per year which could help to support, say, 500 MW of new solar projects. Once the projects are constructed and the PPAs derisked, it is possible for those PPAs to be onsold, allowing the support of more projects. In 2023, and again in 2024, we discussed this action with the Energy Minister at the time. Our understanding is that no public sector PPAs have been progressed or executed to date.</p>
<p>Q11. Do you agree with our comments on potential options?</p>	<p>We largely agree with the EA's comments, however we have some comments in return:</p> <ul style="list-style-type: none"> ● PPA template(s): As noted in recent work by ACER⁴, a template will have various benefits including making PPAs more visible and accessible for buyers, providing a starting point for negotiations and encouraging best practice. EVA is collaborating with BusinessNZ and others to develop a standardised PPA template that supports sleeving. We aim to publish the template by Q3. ● Matching service: In other jurisdictions this role is successfully filled by private organisations. EVA currently provides offline matching and plans to provide online matching (a bulletin board) later this year. ● Procurement resources: We agree the market would benefit from more of these resources. In addition to our quarterly renewables report and the template initiative, we are willing to help develop other resources. For example, a resource similar to the Buyers Toolkit by RESource or the Corporate PPA Deal Tracker by BRC-A. ● Pooling services: EVA plans to build on our matching service to provide pooling services (e.g. multi-buyer PPAs). We agree an organisation like EECA would be well placed to assist with pooling. ● Process scrutiny: EVA agrees with a holistic approach to

⁴ [Assessment on the need of ACER's voluntary Power Purchase Agreement contract template\(s\)](#), ACER

	<p>improving access to products like firming and sleeving. This could start with voluntary guidelines and/or a code of conduct and, if not effective, develop into mandatory access arrangements in the Code</p> <ul style="list-style-type: none"> • Pricing scrutiny (firming): We agree PPA firming is a diverse activity. However, it is essential the market knows the approximate cost of firming/sleeving for typical arrangements (e.g. a C&I consumer sleeving a solar PPA). An 'average price index' for PPA firming/sleeving prices is needed, similar to the index that Total Utilities publishes for electricity prices, and could be provided by the EA via new disclosure obligations once PPA volumes increase • Pricing scrutiny (PPAs): We agree there is a need to balance commercial sensitivity against transparency. EVA will continue to publish bids/offers from our PPA tenders on an anonymous, aggregated basis. Average price indices for PPA prices is needed, and could be provided by the EA via existing disclosure obligations once PPA volumes increase • Sleeving: Provision of the billing aspect of sleeving is currently a headwind as retailers develop this service and make billing system changes. However, we believe this is a short-term issue that is better addressed via process scrutiny. EVA has assisted retailers by developing a guide on corporate PPA sleeving, demonstrating how sleeving can be achieved with any billing system. We are happy to share this guide with the EA • Flexibility trading: We believe there is merit in investigating a standardised flexibility product that firms a solar PPA for a C&I customer, as this is likely to be a frequently requested firming service. In time, this product could be added to the EA's proposed non-discrimination measures⁵. We agree that flexibility needs to have improved price transparency and access. • Allocate firming resources: We agree this should only be explored if other measures are not successful. • Socialising risks: We believe there is merit to investigating socialising prudential risks, including having discussions with Europe, where similar measures have been introduced. Socialising of revenue risks should be explored
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⁵ [Energy Competition Task Force looks to level the playing field between the gentailers and independent generators and retailers](#), Electricity Authority

	<p>if the EA and government is unsatisfied with the market's performance. We agree that socialising of firming risks is likely to be problematic and counterproductive.</p>
<p>Q12. Do you have a view on the most promising options?</p>	<p>We believe the most promising options for the EA are those where regulatory intervention can assist the most. I.e. Process scrutiny, pricing scrutiny, flexibility trading, socialising risks. We believe there is merit in investigating socialising prudential risks. EVA is keen to work with the EA and wider industry to deliver the other options. I.e. PPA template, matching/pooling service, procurement resources.</p> <p>As noted earlier, we are strong advocates for government organisations entering the PPA market. This will provide the government and EA with direct insight into the market and the effectiveness of the EA's interventions.</p>