

Submission to the Energy Competition Task Force on the Working Paper on Entrant Generators and Power Purchase Agreements (PPAs)

Submitter	Taranaki Offshore Partnership , a joint venture between Copenhagen Infrastructure Partners and Guardians of New Zealand Superannuation as manager and administrator of the New Zealand Superannuation Fund
------------------	---

Questions	Comments
Q1. Is there any other related work that you think is relevant to our consideration of PPA issues?	
Q2. Do you have any suggested additions or modifications for PPA terms and concepts?	
Q3. Do you agree with our definition of PPAs?	
Q4. Have we correctly identified buyer and seller motivations for PPAs?	
Q5. Have we correctly identified how PPAs may fit with other contracts?	
Q6. Do you agree with our characterisation of how PPAs may impact system evolution?	
Q7. Have we correctly identified and understood PPA headwinds?	<p>The key PPA issues and benefits we identify are:</p> <ol style="list-style-type: none"> Market Structure and Barriers to Entry <ul style="list-style-type: none"> The dominance of vertically integrated gentailers creates a challenging environment for independent generators seeking to enter the market via PPAs. The lack of mandatory firming obligations limits access to affordable risk management options for PPA buyers. <p>Improvements to the PPA market will attract more Independent Power Producers (IPPs) to the market and support market decentralisation.</p> Liquidity and Risk Management in PPA Markets <ul style="list-style-type: none"> There is limited publicly available price discovery for PPAs, which inhibits informed decision-making for buyers and sellers. A more active secondary market for PPAs and associated firming products like

	<p>Capacity Contracts (Caps) could encourage broader participation.</p> <ul style="list-style-type: none"> ○ Access to firming services remains concentrated among incumbent gentailers, making it difficult for independent generators to offer competitive PPAs. <p>A balance between transparency and maintaining competitive commercial sensitivity in the PPA space will be critical for the evolution and sustainability of the market.</p> <p>Introduction of standard firming products (e.g. NZD300/MWh Capacity contracts – Caps) that can be offered by baseload high credit generators/gentailors would reduce IPPs risk to advance variable renewable energy (VRE) projects.</p> <p>3. Investment Confidence and Creditworthiness Concerns</p> <ul style="list-style-type: none"> ○ A limited pool of creditworthy buyers in New Zealand reduces the viability of long-term PPAs, impacting financing options for new projects. <p>Policy mechanisms, such as government-backed credit support or risk-sharing mechanisms, can enhance the bankability of PPAs. Government can further support in syndication and bundling of smaller offtakers to access larger generation assets and unlock investments that are otherwise unavailable.</p> <p>4. Decentralization and Investment Growth</p> <ul style="list-style-type: none"> ○ PPAs have the potential to decentralize the electricity market by encouraging investment in smaller, distributed renewable energy projects. ○ By providing a stable revenue stream for independent generators, PPAs reduce reliance on centralised generation and open opportunities for community and regional energy developments. ○ Increased participation from diverse investors and developers can drive innovation, competition, and economic growth, ensuring a more resilient and flexible energy market.
Q8. Do you agree with the potential benefits we have identified?	We agree on the benefits of decentralization in fostering investment and the role of PPAs in advancing this decentralization process as described in Q7.
Q9. Do you agree with the potential risks we have identified?	
Q10. Do you agree with the potential options we have identified?	We recommend the EA considers the following comments relating to options identified in the white paper as 'not for further development':

The Role of Subsidised PPAs in Market Development

While the paper discusses some of the challenges that can arise from subsidising PPAs, there are some benefits and opportunities that should be explored.

Subsidised PPAs can help level the playing field for new entrants by reducing financial barriers and accelerating investment in renewable projects.

Rather than distorting the market, well-designed revenue support mechanisms can enhance competition by enabling independent generators to compete with established gentailers.

Targeted support mechanisms can support technological advancements, encourage private-sector investment and Independent Power Producers (IPPs), and create long-term price stability for consumers.

Subsidised PPAs can be essential for enabling less mature but game-changing renewable technologies to enter the market.

These technologies often face higher upfront costs and greater financial uncertainty compared to established renewables like solar and onshore wind. By providing guaranteed revenue streams, centralised support helps de-risk these investments, encourage innovation, and accelerate their adoption, ultimately contributing to a more diversified and resilient energy mix.

The Role of Two-Way Contracts for Difference (CFDs) in Market Stability

As a concrete example, two-way CFDs can play a crucial role in improving market stability and reducing price volatility in the electricity sector. By providing a mechanism where generators and buyers are both protected from extreme price fluctuations, two-way CFDs create a more predictable financial environment that benefits all market participants.

Two-way CFDs work by setting a reference price for electricity. When market prices fall below this reference price, the contract ensures the generator is compensated for the difference, making renewable investments more financially viable. Conversely, if market prices rise above the reference price, the generator pays back the surplus, preventing excessive profits and keeping electricity costs stable for consumers.

Key benefits of two-way CFDs include:

- **Investment Certainty:** By stabilising revenue streams, two-way CFDs can encourage investment in renewable energy projects, reducing financial risk for developers and ensuring a steady supply of new generation capacity.
- **Consumer Protection:** These contracts can help mitigate price spikes by ensuring that consumers

do not bear the full impact of sudden increases in wholesale electricity prices.

- **Market Competitiveness:** By reducing reliance on subsidies and creating a self-balancing mechanism, two-way CFDs support a competitive energy market where generators can participate on a more level playing field.
- **Integration of Renewables:** Given the intermittent nature of renewable generation, two-way CFDs provide financial stability that allows for greater integration of wind, solar, and other renewables into the grid without excessive market disruption.

Given the scale of offshore wind projects, governments are generally better positioned than the market to provide

Contracts for Difference (CFDs) for offshore wind projects due to several key advantages:

1. Longer Tenors

- o Private financial institutions or corporate Power Purchase Agreements (PPAs) typically offer contracts for 5–10 years due to balance sheet constraints and market uncertainties.
- o Governments can provide **15–20+ year CFDs**, ensuring revenue stability for developers and making financing easier.
- o Longer contract periods reduce the levelized cost of energy (LCOE) by allowing developers to spread high capital expenditures over a longer timeframe.

2. Better Credit Rating and Lower Counterparty Risk

- o Governments or government-backed entities generally have **higher credit ratings** than private buyers.
- o This **reduces default risk**, making CFDs more attractive to investors and lenders.
- o Private sector buyers (e.g., utilities, corporations) may lack the financial strength to guarantee payments over decades, increasing project risk.

3. Lower Cost of Capital

- o Since governments are considered **low-risk borrowers**, they can provide **cheaper financing** compared to private entities.
- o Offshore wind projects are capital-intensive, and lower financing costs translate to **cheaper electricity for consumers**.
- o Private buyers often demand **higher returns to compensate for risks**, increasing the overall cost of offshore wind.

4. Market Volatility Protection

- o Governments can absorb **market price fluctuations** better than private companies.

	<ul style="list-style-type: none"> o Private PPAs often reflect wholesale market risks, requiring developers to accept price volatility. o Government-backed CFDs stabilize revenues, making projects more bankable. <p>5. Support for Early-Stage and Large-Scale Deployment</p> <ul style="list-style-type: none"> o Private sector CFDs usually focus on mature, lower-risk projects with guaranteed revenue streams. o Governments, however, can support: <ul style="list-style-type: none"> o First projects like offshore wind o Larger-scale projects that might struggle obtaining sufficient offtake <p>6. Long term objectives and policy alignment</p> <ul style="list-style-type: none"> o The market, driven by profitability and risk management, tends to focus on projects that are immediately economical rather than those with long-term strategic benefits. This short-term focus contrasts with government-backed CFDs, which can support projects crucial for future energy security and decarbonization (e.g. NZ Hydro Dam projects). <p>Implementing two-way CFDs as part of New Zealand's energy market framework can enhance price stability, encourage new investment, and support the transition to a more sustainable electricity system. They offer a complementary approach to PPAs and other financial instruments in ensuring a resilient and competitive energy market.</p>
Q11. Do you agree with our comments on potential options?	We strongly recommend the EA considers our Q10 comments relating to options identified in the white paper as 'not for further development'.
Q12. Do you have a view on the most promising options?	