Fonterra submission on Improving Settings for PPAs working paper

February 2025

Fonterra welcomes the opportunity to comment on the Electricity Authority's (EA) working paper on Options for PPAs. Fonterra supports the EA in exploring options to remove hurdles and increase the use of PPAs to support the development of new generation. Fonterra recommends the EA focus on the following areas:

- **Availability of sleeving and firming:**

  Fonterra agrees that a more formalised marketplace for competitive firming or sleeving arrangements to be offered by the incumbent gentailers would be beneficial.

- **Prudential requirements:**

  Buyer and seller credit risk prudential requirements are often complex and can delay agreements. Options to streamline requirements may be beneficial (for example ISDAs or Offtake Guarantees as proposed in Europe).

- **Nodal price risk:**

  Consideration of a simplified FTR process or market to manage nodal price risk stemming from the location of GIP versus the ultimate GXP.

- **Centralised PPA market, information and updates:**

  Consideration should be given to ways in which access to information around the PPA market can be broadened. A PPA marketplace that allows for PPAs to be offered by developers would also be interesting. It is currently difficult to know who is looking for offtake agreements or for parties who want to on sell PPAs to reach a wide group of interested parties. A marketplace would reduce the financial risk of entering into a long term PPA, similar to being able to trade futures on the ASX. This would assume that the current large contract or hedge disclosure requirements would capture PPAs.

- **Leadership on PPA uptake in the public sector:**

  The public sector is a significant electricity consumer in its own right. Uptake of PPAs via CfDs to manage public sector demand is likely to have wide ranging benefits for New Zealand consumers. Collaboration by the EA, Ministry of Business, Innovation and Employment (MBIE) and other agencies to enable this transition would attract significant new renewable investment, ultimately helping to bring down the price of electricity, and likely result in lower power costs for government departments under these contracts.

  There seems to be a view that public sector demand is too siloed to consolidate under a PPA procurement approach, as each department independently procures from retailers via FPVV contracts. As a major electricity user, Fonterra has over 500 ICPs and we believe this is an opportunity for government to take a leadership role. Departments could continue to purchase from a

retailer by moving to a spot market price, with MBIE negotiating PPAs based on CfDs to develop portfolio cover and any profit or loss proportioned back to the departments based on ICP usage.

FPVV contracts tend to be priced at a premium to the ASX Futures market whereas PPAs are typically priced nearer to the long run marginal cost of generation, meaning there are potentially meaningful savings to be made. The optics of government participation we believe would also instil confidence in the wider market for PPAs.

- **Hydro storage for firming:**

  Further to the firming/sleeving comment above, it may be valuable for the EA to explore a market product that allows independent generators to purchase or access hydro storage volume as a means to provide firming. This could enable those generators to offer FPVV contracts or firmed CfD PPAs.

  For example, an independent generator could designate a volume per trading period as energy to be stored in the lakes (charging) and then be able to designate withdrawal per trading period (discharge). As the electricity system moves to higher levels of intermittent generation our capacity to use the hydro lakes as peaking plants and maintain higher average lake levels (storage) will become more critical and is more capital efficient than large scale BESS.

- **Hedge accounting:**

  Changes to International Accounting rules which allow for hedge accounting of Generation Following PPAs has resolved what has been a significant hurdle for the sector and we expect this will make the uptake of PPAs significantly more straightforward.

END