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Competition Taskforce
Electricity Authority Te Mana Hiko
PO Box 10041,
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Via email: TaskForce@ea.govt.nz

18 February, 2025

To whom it may concern,

Thank you for the opportunity to submit feedback on the Electricity Authority's *Entrant generators – context, headwinds and options for power purchase agreements* working paper.

Octopus Energy strongly supports efforts to enable more generation to be built and enter the market. Streamlining the processes for negotiating PPA's is a positive step. However, the current market structure creates fundamental barriers that need to be addressed before generation supported by PPA's will be able to access the market efficiently.

Crucially, flexible generation is highly concentrated in incumbent 'big 4' gentailers. As a consequence, noted by the Commerce Commission recently, they have both the incentive and ability to exercise market power and foreclose competition. An outcome of this is that the socially efficient level of generation will not be delivered to the market, security of supply is compromised and prices end up being higher than they need to be[1].

Examples of this exercise of market power were highlighted in the Risk Management Review. Big 4 'gentailers' described preference for internal supply, refusals to supply were noted and there was an increase in responses that were non conforming, and a third of all offers were less volumes than requested. At the same time these firms were offering retail acquisition tariffs significantly below the ASX longdated forward prices.

Big 4 Gentailers control most firming capacity which will be a critical ingredient in

[1] Malcolm Johns, CEO Genesis Energy has made a number of public statements that Gentailers will not build new supply unless demand increases. This illustrates poor competitive dynamics and we have been facing significant forward price increases since 2018, also demand will not electrify at the optimal rate into high prices.

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risk management portfolios that include PPA's. This makes gentailers the primary counterparties for PPAs. The resulting dynamic limits the competitive pressure PPA backed generation could create.

Market concentration is compounding. There have been numerous recent examples of where independent generators have ended up having to sell consented projects or businesses to Big 4 Gentailers (Tilt, Helios- Edgecumbe, KeaX- Leeston, NZ Windfarms) part of this could be explained by the levels of PPA pricing received and that independent generators are price takers from Big 4 Gentailers.

As an Independent retailer we are interested in entering into PPA's however the following attributes limit our ability to do so.

- Most renewable projects are too large for smaller retailers to independently contract. Limited opportunities exist for taking 'portions' of a project. Creating an effective portfolio for energy prices risk management requires a diversity of technologies and locations.

- There is limited availability to 'flexible'/ firming risk management solutions. Banks prefer lending on PPA projects with off takers who have a strong New Zealand credit rating.

- Counterparties (and financiers) prefer longer terms, given our concerns about market foreclosure and a margin squeeze we have limited market confidence and are tentative in our commitments. If there was a level playing field and the forward price trajectory was consistently priced for all it would foster our confidence to engage in longer term commitments.

- Recent market conditions and high wholesale future energy prices create additional challenges. High wholesale prices have inflated some developer price expectations.

- A long term PPA currently does not provide any market prudential relief. The absence of prudential relief could discourage market participants from maximizing the benefits of PPAs in their overall risk management strategy.

The working paper offers largely incremental improvements, some of which we agree with and would like to see implemented, however we believe more fundamental reform is needed.

Without addressing these fundamental issues, PPAs risk becoming primarily a tool for gentailers to maintain market dominance rather than a mechanism for increasing competition and encouraging efficient investment in new generation.

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We appreciate the Authority's focus on this important issue and would welcome the opportunity to provide additional detail on our experience and recommendations. We believe enabling effective PPA participation by independent retailers is essential for achieving the Authority's objectives of promoting competition and ensuring efficient market operation.

Below we respond to your consultation questions:

Q1. Is there any other related work that you think is relevant to our consideration of PPA issues?

The EA should more deeply examine international examples of market mechanisms that have successfully enabled smaller retailers to participate in PPAs, particularly in markets like the UK where structural reforms have supported greater competition.

Q2. Do you have any suggested additions or modifications for PPA terms and concepts?

The EA should look into how PPAs (and in fact other instruments such as futures) might be integrated into the Hedge Settlement Agreement structure and so allow them to be utilised to reduce market prudential. This would lead to more efficient capital usage in the NZ market. By lodging these PPAs with the clearing manager and allowing them to count toward prudential requirements, participants would be able to reduce the amount of collateral required which also incentivises long term contracts contributing to market stability.

Q3. Do you agree with our definition of PPAs?

Yes, the definition captures the key elements. However, it could acknowledge that current market structures make these arrangements primarily accessible only to gentailers and very large users.

Q4. Have we correctly identified buyer and seller motivations for PPAs?

While the high-level motivations are accurate, the paper understates the significant barriers faced by independent retailers. Our experience suggests that:

- Credit requirements effectively exclude smaller retailers
- Project scales are too large for individual smaller retailers to absorb
- Gentailer market dominance means they are often the only viable counterparties
- Current wholesale market volatility creates misaligned price expectations
- If signing a long term PPA doesn't result in prudential relief, participants are still required to post additional collateral to cover their market exposure, even

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though the PPA reduces this market risk. This can be particularly problematic for smaller market participants who may have limited financial resources.

Q5. Have we correctly identified how PPAs may fit with other contracts?

The paper identifies but understates the critical issue of firming being largely controlled by gentailers. This creates an inherent conflict and barrier for independent retailers seeking PPAs.

Q6. Do you agree with our characterisation of how PPAs may impact system evolution?

PPAs can promote system expansion, but current market structure means this benefit is mostly through large-scale projects backed by gentailers. The analysis could more explicitly acknowledge how current market structure inhibits the competitive benefits of PPAs. When gentailers are the primary PPA counterparties, this limits the competitive pressure PPAs are meant to create.

Q7. Have we correctly identified and understood PPA headwinds?

While the headwinds are broadly correct, we believe the paper understates the fundamental structural barriers. The reliance on gentailers for firming creates a circular dependency that is very difficult for independent retailers to overcome.

Q8/Q9. Do you agree with the potential benefits we have identified?/Do you agree with the potential risks we have identified?

The benefits are well-articulated but may be difficult to realise without addressing underlying market structure issues. The risk analysis could more explicitly consider the risk of continuing gentailer dominance.

Q10. Do you agree with the potential options we have identified?

Standardised PPA templates would be extremely helpful. Currently, PPA negotiations require extensive legal and technical expertise. These complexities can exclude many potential market participants. A standardised template would reduce complexities and potentially speed up negotiations.

Additionally, formal pooling (or matching) mechanisms would address the scale mismatch between typical renewable projects and smaller electricity retailers. Most renewable generation developments are simply too large for individual small retailers to contract. A formal pooling mechanism could allow smaller retailers to work together to create viable scale for developers. This would enable participation in larger projects while spreading risks across multiple parties.

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The proposed options, while helpful on a small scale, seem insufficient to address the fundamental barriers facing independent retailers. We recommend:

- Continuing to explore reforms to reduce gentailer dominance
- Establishing credit support mechanisms for qualifying independent retailers

Without addressing these structural issues, PPAs will likely remain primarily a tool for gentailers, limiting their intended competitive benefits.

Q11. Do you agree with our comments on potential options?

We believe the Authority's comments on potential options underestimate the severity of structural market barriers and consequently overestimate the effectiveness of some of the proposed solutions. The Authority seems to view the barriers to PPA participation as relatively modest issues that can be addressed through incremental measures like better information sharing, facilitation services, or process scrutiny. The market has deep structural problems that make it nearly impossible for smaller retailers to participate in PPAs.

Q12. Do you have a view on the most promising options?

Standardised PPA templates and formal pooling (or matching) would help address scale mismatch in the short term, but again more long-term solutions to effectively reduce gentailer dominance is needed.

Yours sincerely,

Pearl Little