



## The value of PPAs to electricity users in New Zealand

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This is the second publication in our short series of articles on renewable energy corporate power purchase agreements (PPAs) in New Zealand. In our previous article we provided a brief introduction to PPAs and summarised the various forms that are currently used in the global market.

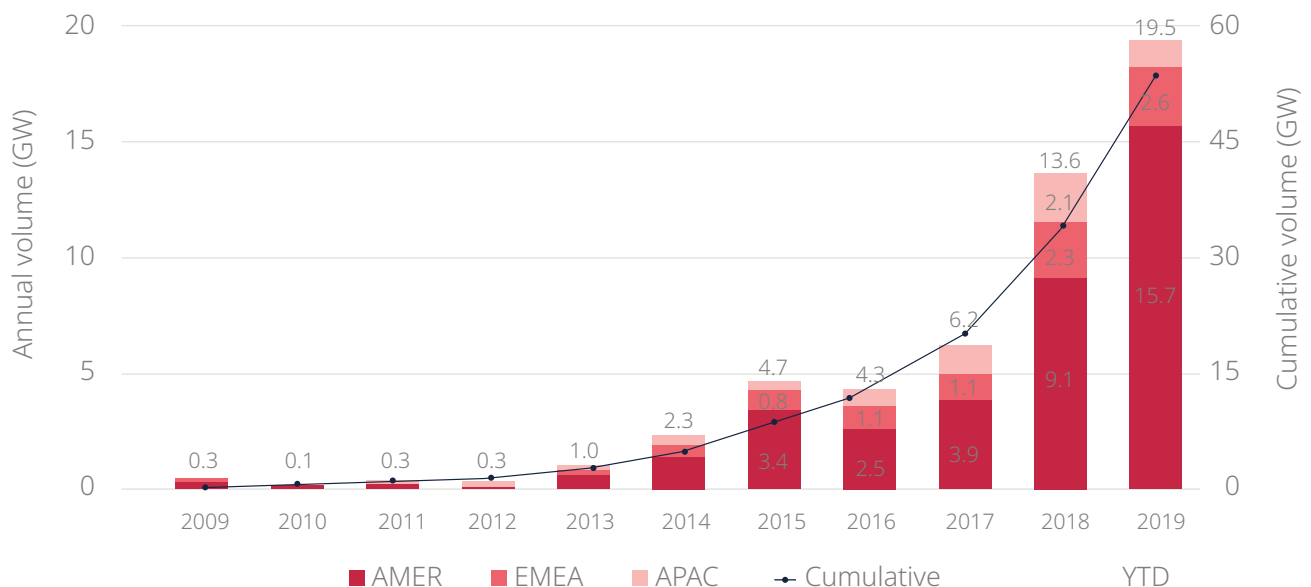
Across the world, electricity users have benefitted by incorporating long-term PPAs into their energy strategies. In this article, we highlight the advantages PPAs present to users (or offtakers) of electricity and look at the various sectors that we have seen participate in the PPA market to date.

We have advised on more than 150 PPAs around the world in over 30 countries. From our New Zealand offices we have experience in over 3.5GW of corporate PPAs, ranging from smaller on-site arrangements to some of the largest PPAs that have been signed globally.

## How can corporate offtakers benefit from PPAs?

Companies will have a variety of different reasons to source power from renewables, but the possibility to secure lower and fixed electricity costs is a major factor in their growing popularity. Indeed, a recent survey of 1,200 companies found that 92% that were sourcing from renewable energy technologies were doing so to reduce their electricity costs.<sup>1</sup> In the face of a steep global decline in the price of renewables, companies are entering the PPA market to take control of their electricity costs.<sup>2</sup> Demand from corporates worldwide for renewable energy is now exceeding supply.<sup>3</sup>

We have seen that PPAs can potentially provide offtakers with savings of up to 45% on their electricity bills. In this light, PPAs offer a sustainable way of hedging the future cost of electricity against volatility in the market. The below graph from the International Energy Agency and Bloomberg NEF highlights the global rise of the corporate PPAs (shown as agreements by volume of contracted offtake):



Source: BloombergNEF. Note: Data are through 2019, reported in MW DC capacity. Onsite PPAs are not included. Australia sleeved PPAs are not included. APAC number is an estimate. Pre-market reform Mexico PPAs are not included. These figures are subject to change and may be updated as more information is made available.

<sup>1</sup> <https://www.baywa-re.de/en/energy-report-2019/>

<sup>2</sup> <https://about.bnef.com/blog/corporate-clean-energy-buying-leapt-44-in-2019-sets-new-record/>

<sup>3</sup> BNEF, 2H 2020 Corporate Energy Market Outlook

Despite the falling cost of renewables, users of electricity via the spot market in New Zealand are exposed to periods of unpredictably high electricity prices. Recently, there have been various incidents of market volatility that have pushed the market power price upwards. They can come in various shapes and forms. For instance, natural events: this year the North Island suffered its worst drought in 50 years, with clear implications on the price of hydroelectricity. Alternatively, there are arguments that high prices can be caused by human intervention. For example, earlier this winter the Electricity Authority issued its preliminary decision on an Unfavourable Trading Situation (UTS) in which it is alleged that certain Gentailers unnecessarily spilt water from their hydro facilities which could have been used for generation. The authority has suggested that this UTS might have costed other electricity retailers an extra NZD80 million for power on the wholesale market.

In the face of similar peaks of market volatility in other countries, a longer-term market hedge against power prices has been attractive to a number of our clients.

PPAs are also helping companies to meet their sustainability commitments. In 2019 almost 400 companies around the world agreed to set science-based targets for their environmental commitments, more than doubling the total number of companies with such goals. Through entering into direct agreements with renewable energy facilities, companies can verify the renewable source of their electricity and also their contribution to the development of a specific project. For this reason, PPAs have been an essential component in the energy strategies of many RE100 companies <https://www.there100.org/> who wish to demonstrate additionality in their green contributions.

### Which sectors are using corporate PPA?

We have advised on a wide variety of significant PPAs since we worked on the first European PPA in 2013. Originally demand was led by Big Tech offtakers, although the large industrial users of electricity soon entered the market. However, over the last five years, we have seen an exponential increase in the introduction of other sector participants to the PPA market. As the benefits of these arrangements have become better understood, they have become increasingly common across the board. We are now advising clients on transactions incorporating PPAs into a range of markets, including retail, government, education, agriculture and financial and professional services.

In New Zealand the PPA market is currently in a relatively nascent stage. However, this is expected to change. There has been particular interest from the agriculture and industrial sectors. A group of New Zealand's largest energy users has announced its intention to procure a large proportion of their electricity from renewable electricity sources. This would be achieved via PPAs. The group is proposed to include Fonterra, pulp and paper manufacturer Oji Fibre Solutions, forestry and timber company Pan Pac Forest Products, and metals industry companies New Zealand Steel and Pacific Steel. This procurement project, which is being led by the Major Electricity Users Group (MEUG), will seek to buy electricity from a range of new projects, potentially including geothermal, solar and wind sources.

However, we do not expect the rise of the NZ PPA to be restricted to the industrial and agriculture sectors. For example, Microsoft has announced its intention to develop a data centre in Aotearoa. Microsoft has procured more than 1.9GW of renewable energy globally in its places of operation and will likely implement a similar strategy again in New Zealand. Throughout the world we have seen Big Tech companies leading the way in developing the PPA market, and so it seems likely that the New Zealand market will follow suit.

For more information about corporate PPAs in New Zealand please contact Jeremy MacIver and Mark Williamson.



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