



## BRIEFING

### Leveraging Government Energy Demand to Support Development of Energy Projects

Date:	30 May 2025	Priority:	Medium
Security classification:	In Confidence	Tracking number:	REQ-0015201

Action sought		
	Action sought	Deadline
Hon Nicola Willis <b>Minister for Economic Growth</b>  Hon Simon Watts <b>Minister for Energy</b>	<b>Agree</b> to the proposed approach of: <ol style="list-style-type: none"><li>publishing a Request for Information, about potentially leveraging the Government energy use or through other mechanisms, to underwrite energy projects;</li><li>assessing proposals received and advising joint Ministers on options to establish a long-term purchase agreement or similar options to underwrite energy generation projects</li></ol> <b>Agree</b> that, given the recent responses to Request for Proposal from the gas market, MBIE focus the Request for Information on new electricity generation.	6 June 2025

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Liz Palmer	General Manager (Acting), New Zealand Government Procurement	Privacy of natural persons	✓
Richard Lee	Head of Strategy, Policy and Governance, New Zealand Government Procurement	Privacy of natural persons	
Rebecca Heerdegen	Policy Director, Energy Markets	Privacy of natural persons	

The following departments/agencies have been consulted



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#### Purpose

To seek your approval on our proposed approach and work programme to investigate the feasibility of a Government-backed long-term purchase agreement for energy, noting early identified risks and challenges.

#### Executive summary

New Zealand has an energy shortage which is putting the affordability and security of gas and electricity at serious risk. In 2024, gas shortages and low hydro inflows left the electricity system short of energy, leading to high prices and significant impacts for some businesses (particularly those with high energy requirements and limited ability to pass on cost increases). The two underlying problems are a shortage of gas and firm electricity generation capacity.

Cabinet has agreed to a Review of Electricity Market Performance (due to report back in June), and an initial package of actions to improve the security and affordability of New Zealand's gas and electricity supplies. This package includes an action to explore options for the development of a long-term purchase agreement or similar options to underwrite energy projects (new generation or gas supply), with current government users and potential market partners.

In order to demonstrate the Governments openness to market-led and innovative approaches and solutions, we recommend taking the following approach to best explore options:

1. **Publishing a Request for Information (Rfi)** open to the energy market seeking information about potential long term partnership options with government, potentially leveraging the governments energy use or through other mechanisms to underwrite energy projects.
2. **Assess information and advise on options.** Once we receive the Rfi proposals, we will have a good indication of what the market wants and can offer, particularly the extent to which they can create new investment, supply, and additionality over and above what is being generated. If new investment in generation could be achieved, the Government can pursue establishing a long-term purchase agreement or similar options with those interested parties.

Based on our recent engagement with the gas market, we recommend that this exercise focus on new generation in the electricity market. MBIE would remain open to discussions about long-term gas/biogas supply, once the current tender process has been concluded.

Currently Governments energy is predominantly purchased through two All-of-Government MBIE managed contracts and panel suppliers within. These contracts provide agencies with security of supply and pricing, while also removing most of the contractual complexities of dealing directly with suppliers.

A long-term solution has the potential to support increased energy system capacity and enhance security of supply. There are also a number of challenges in using the Government's energy demand which will need careful consideration. Key factors we will provide advice on include any cost implications, managing the complexities of ensuring consistent supply (for example, contracting for renewables will require some form of sleeving or spot market purchases), how any proposal might fit with (or require amendment to) the existing All-of-Government procurement framework, and ensuring any long-term agreement is supporting additional capacity.

There are a number of key stakeholders we must carefully manage and inform to ensure they are aware of the work programme, and potential implications (agencies and current panel suppliers).

Budget 2025 included \$0.6 million for additional resources to ensure delivery of this programme. If Ministers agree to our recommended approach, we will begin engaging with the relevant commercial expertise so that their services can be contracted from July 2025. We will also look to reallocate internal resources to support this work.

## Recommended action

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The Ministry of Business, Innovation and Employment recommends that you:

- a **Note** the potential for a Government long-term purchase agreement or similar options to underwrite energy generation projects.

*Noted*

- b **Note** that there are some challenges in moving to this model, which we will provide further advice on, as the nature of any long-term agreement is determined.

*Noted*

- c **Agree** to the proposed approach of:

- i) publishing a Request for Information, about potentially leveraging the Government energy use or through other mechanisms, to underwrite energy projects;
- ii) assessing proposals received and advising joint Ministers on options to establish a long-term purchase agreement or similar options to underwrite energy generation projects

*Agree / Disagree*

- d **Agree** that, given the recent responses to Request for Proposal from the gas market, MBIE focus the Request for Information on new electricity generation.

*Agree / Disagree*

- e **Note** the proposed work programme and indicative timing, as set out in Annex One, including:
- i) Draft Request for Information provided to Ministers in August
  - ii) Request for Information expected to commence in September
  - iii) Advice on proposals to Ministers in December

*Noted*

Privacy of natural persons

Liz Palmer  
**General Manager (Acting)**  
New Zealand Government Procurement, MBIE

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Privacy of natural persons

Rebecca Heerdegen  
**Policy Director, Energy Markets**  
Building, Resources and Markets, MBIE

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Hon Nicola Willis  
**Minister for Economic Growth**

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Hon Simon Watts  
**Minister for Energy**

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## Background

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1. The Minister for Energy took a paper to Cabinet mid-April, *Securing New Zealand's Gas and Electricity Supplies* [CAB-25-MIN-1025 refers].
2. In that paper, Cabinet agreed to a package of actions to improve the security and affordability of New Zealand's gas and electricity supplies. Further actions are expected to be agreed once Cabinet has considered the Review of Electricity Market Performance (due to report back in June).
3. One of these initial actions is *Action 7: Options for leveraging all-of-government procurement*. This involves exploring options for the development of a long-term purchase agreement or similar options to underwrite energy generation projects, with current government users and potential market partners.
4. This work will be supported by additional funding of \$0.6 million provided in Budget 2025.
5. This paper explains how government currently purchases gas and electricity, and provides additional information on options for long-term purchase agreement or similar options, including their benefits and known risks and challenges for Government. We also set out our recommended approach and the work programme, including timeline and deliverables at **Annex one**.

## Electricity and gas are purchased using All-of-Government contracts

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6. Electricity and gas are largely purchased by Government through All-of-Government contracts (AoG) managed by MBIE.

### All-of-Government contracts and eligible agencies

7. All-of-Government (AoG) contracts establish supply agreements with approved suppliers for selected common goods or services purchased across government.
8. Around 140 agencies (referred to as “mandated agencies”) including Departments, Ministries, Crown Entities and Public Finance Act Schedule 4A companies must purchase from the AoG contracts, unless there is a good reason not to.
9. Other government agencies and local government are encouraged to access the AoG contracts, however it is optional.

### Reticulated gas is purchased using an AoG contract and a commercial proposal is currently being evaluated

10. MBIE manages an AoG contract with Genesis Energy, which facilitates the supply of reticulated gas to participating agencies across the North Island. Annual gas volume used is around 1.9 PJ, which equates to 1.6 per cent of the New Zealand gas market, with Health NZ, Corrections and Defence facilities using the largest percentage of this gas volume.
11. In mid-2024, MBIE secured a short-term, collective agreement to supply reticulated gas to 88 government agencies (including supplying to hospitals, prisons and schools) via a centrally managed contract with Genesis Energy. This supply agreement with Genesis expires on 30 September 2025.
12. MBIE approached the market with a Request for Proposals (RFP) to meet government agencies' ongoing needs for gas supply from 1 October 2025, when the current contract expires. We have received a promising long term commercial proposal, which we are now evaluating.

13. More clarity is expected in June 2025 on securing an ongoing collective gas supply arrangement for government agencies. This will ensure critical government services continue without disruption and this is the priority given challenging market conditions.
14. We sought interest through the RFP from the gas industry on partnering with Government for longer-term objectives for the energy market, including increasing energy supply through new generation and alternative fuels, such as renewable gas; and market-led innovative approaches and solutions.
15. We did not have any proposals come through the RFP process, although one respondent did endorse the Government's long-term approach to the gas supply market.
16. Given this, we recommend that we focus on new generation in the electricity market. MBIE would remain open to discussions about long-term gas/biogas supply, once the current tender process has been concluded.

### **Electricity is purchased using an AoG contract which provides supply, price certainty and simplicity for agencies**

17. MBIE manages an AoG electricity contract which covers the supply of electricity and associated services for agencies. There are around 800 agencies participating in this contract, with schools making up around 500. In the year to April 2025, we consumed 1236.88 GWh of electricity, at a cost Commercial Information. This equates to around 2 – 4 per cent of the electricity market.
18. The current AoG contract commenced on 1 September 2022. Contract terms are three years, plus two rights of renewal of three years (there are two renewals left). Suppliers in the panel are Simple Energy Limited, Mercury Energy, Genesis Energy, Meridian Energy Limited and Manawa Energy Limited.
19. The supply of electricity and associated services contract includes benefits such as fixed electricity costs and contractual simplicity, set out more fully in **Annex Two**.

### **Long-term purchase agreement or similar options**

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20. There is interest, particularly from the electricity market, that Government use its aggregated energy consumption to enter into a Power Purchase Agreement (PPA), to stimulate investment in new renewable energy.

#### **A Power Purchase Agreement is a long-term contract for output**

21. PPAs are generally long-term, fixed-price contracts for the output of a specific generation plant, agreed between the generator and a customer, usually an industrial or commercial customer, or an electricity retailer.
22. With a PPA, the risk for the purchaser of entering into a long-term commitment may be offset by lower electricity prices for that portion of its consumption covered by the generation.
23. Many corporates enter into PPAs with renewable generation developers to reduce emissions, to demonstrate their 'green' credentials and to improve their environmental social governance reporting disclosures.
24. PPAs can be structured in different ways, to allow for customisation based on risk appetite, location, and operational needs.
  - a. A private wire PPA, with direct transfer and sale of electricity from the renewable electricity generator to the corporate buyer without being passed through the distribution or transmission grid. This can include on-site generation, such as rooftop solar.

- b. A virtual PPA, in which the generator agrees to sell the electricity it produces to the corporate buyer under a financial agreement and typically at a fixed price, with the remaining electricity requirements purchased on the wholesale spot market.
  - c. A physical PPA, which contains provisions for the sale and purchase of electricity and differs from a virtual PPA in that the renewable generator and corporate buyer must be on the same electricity grid, and the buyer must take physical ownership of the electricity.
25. A PPA for a renewable generation project will typically require “sleeving”. That is an additional fixed-price, variable volume contract to provide electricity when the renewable source is unavailable (e.g., the wind does not blow). Sleeving arrangements can be put in place by either the seller or the buyer.
26. While growing, our corporate PPA activity is not yet mature relative to other countries. Most PPAs to date in New Zealand have supported new investment by large gentailers, rather than independent generators<sup>1</sup>. This partly reflects particular characteristics of the New Zealand electricity market, including a limited number of large electricity consumers, relatively modest growth in electricity demand in recent years, a high (80+ per cent) share of existing supply from renewables and the fact that the majority of new generation investment is undertaken by integrated generator-retailers.
27. There are two public sector agencies either working through or signed up to PPAs for intermittent generation. Pāmu (Landcorp Farming) is working on selected Manawatū sites as a pilot, where the entire contract will be via PPA and firming proposed solely via the PPA supplier. Christchurch City Council has just signed a sleeving arrangement via the AoG contract. It is too early to determine the end outcomes for these agencies.
28. Internationally, PPAs are becoming increasingly common, in the United States, UK, Europe and Australia. The drive in renewable energy has seen the cumulative total of PPAs in Australia since 2017 grow to a contracted volume of over 7.4 GW of renewable generation in 2023 (over 165 PPAs)<sup>2</sup>.

### **Government entering a PPAs has potential benefits, but also challenges**

29. PPAs, if structured correctly, can offer multiple benefits to the energy sector:
- a) *Accelerating Renewable Energy Deployment*: PPAs provide long-term revenue certainty for renewable energy developers, making it easier to secure financing for new projects. By locking in buyers early, developers can de-risk projects and bring them online faster.
  - b) *Corporate Decarbonisation and ESG Alignment*: Businesses can use PPAs to demonstrate climate leadership by directly supporting new renewable generation. This aligns with Environmental, Social, and Governance reporting frameworks and international sustainability standards. PPAs can also help companies meet Science-Based Targets or carbon neutrality goals.
  - c) *Financial Risk Management*: Electricity prices in NZ can be volatile due to hydro inflows, fuel prices, and market dynamics. PPAs can offer a hedge against spot market volatility, allowing buyers to lock in predictable energy costs over 10–20 years. The case becomes even stronger, where a PPA is sleeved.

<sup>1</sup> Examples include between Contact and Microsoft (51.4 MW geothermal for 10 years), Contact and NZ Steel (30MW for 10 years), Mercury and Amazon (51.5 MW wind for 10 years) and Mercury and Ryman Healthcare (20 MW solar for 10years). Earlier this year, Contact Energy agreed a 10-year contract to supply Fonterra with 140 GWh of electricity from August next year, growing to 415 GWh in 2028.

<sup>2</sup> Electricity Authority Working Paper: [Entrant generators – context, headwinds and options for power purchase agreements](#)

- d) *Infrastructure and Regional Development:* PPAs can stimulate regional economic growth by enabling projects in rural or underdeveloped areas. They create local jobs during construction and operation, and can lead to grid upgrades that benefit surrounding communities.
- e) *Grid Stability and Demand Management:* When paired with battery storage or demand response, PPAs can help manage peak demand and improve grid reliability. They can also support distributed energy resources and microgrids, enhancing energy resilience.
- f) *Regulatory and Policy Alignment:* PPAs support NZ's Emissions Reduction Plan and National Adaptation Plan by enabling private-sector participation in the energy transition. They also align with the Electricity Authority's goals of increasing competition and innovation in the wholesale market.

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31. Without a firm proposal to consider, it is difficult to judge the significance of any of the issues identified above. Consistent with the no-regrets approach Cabinet endorsed in early April, we recommend a staged approach to explore long-term power purchase agreements or similar options.

## **We recommend a staged approach to market**

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### **A staged approach allows the market to engage collaboratively with government**

32. The electricity market has signalled interest in PPAs, but as noted above, these can take a wide range of forms. We recommend publishing a Request for Information (RfI) open to the electricity market, seeking information about potential long term partnership options with government, potentially leveraging the government's electricity use or through other mechanisms to underwrite electricity projects. The timing for the RfI is outlined in **Annex One**.
33. This is an opportunity for the Government to demonstrate that it is open to market-led and innovative approaches and solutions. The market can inform us on what they could offer and what they would be seeking from government, with indications of the demand and structure of an agreement.
34. We would look to use independent advice to support drafting RfI documentation to make sure this would elicit the right information from the energy market. This will significantly speed up the process, as we will be able to access unbiased advice about going to market and evaluating the proposals.
35. We would seek joint Minister's approval of the RfI, prior to it being released. This would also be an opportunity for Ministers to announce this work and the Government's intentions.

36. We will provide you a draft Rfl for your approval, our initial thoughts on the purpose and key elements follow.

### **Stage One: Request for Information** (commencing September 2025)

#### *Purpose of the Request for Information (Rfl)*

37. The Rfl would be designed to:

- **Gauge electricity market interest** in long-term electricity partnerships with the government, given the nature of demand.
- **Identify innovative and market-led solutions** for renewable electricity procurement.
- **Understand what the market would need from government** to make such partnerships viable (e.g., underwriting, volume commitments, regulatory support).

#### *Key Elements of the Rfl*

38. The Rfl would likely include:

- **Background context** on the government's energy use and decarbonisation goals.
- **Objectives** for exploring a long-term purchase agreement or similar options to underwrite electricity generation projects (e.g. price stability, enabling new generation).
- **Open-ended questions** to elicit a wide range of responses, such as:
  - What types of structure would be most effective?
  - What term lengths and pricing mechanisms are preferred?
  - What support or guarantees would be needed from government?
  - How could government demand be aggregated or leveraged?

#### *Market Engagement Strategy*

39. MBIE would aim to:

- **Signal openness to innovation**, encouraging responses from a broad range of stakeholders (generators, retailers, aggregators, financiers).
- **Use the Rfl as a pre-procurement tool**, not committing to any procurement but informing future steps.

### **Stage Two: Assess Rfl and advise on options** (advice to Ministers December 2025)

40. We anticipate the Rfl will provide a good indication of what the market wants and can offer, particularly the extent to which a government PPA might support new investment, supply, and additionality over and above what is being generated. If new investment in generation could be achieved, the Government can pursue establishing a long-term purchase agreement or similar options to underwrite energy generation projects with those interested parties.

41. At this point we will advise Ministers of the proposals and recommendations on how best to proceed and required government approvals, including considerations such as obligations under the Public Finance Act, and options for addressing any of the challenges identified above that may be associated with the specific proposal(s).

## Engagement with stakeholders to explore a new process to aggregate government agency demand

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### Exploring a new process to aggregate government agency demand

42. In parallel to the RfI, MBIE will work to assess if demand can be aggregated, and how future electricity/energy supply might be managed.

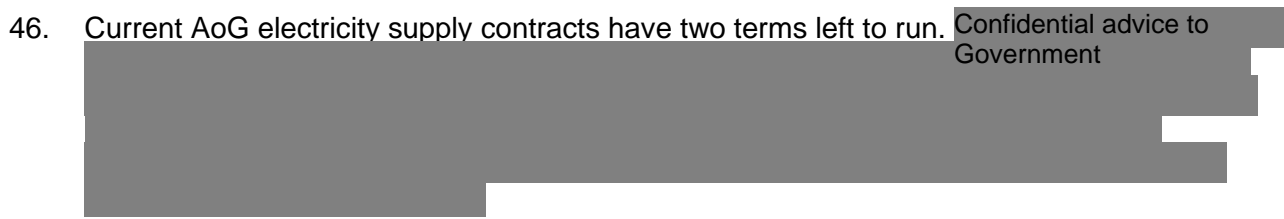
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44. Government could also look to join a wider PPA, that includes businesses, in order to ensure scale of demand that would be meaningful in supporting new projects.

45. While the market has been supportive of PPAs, understanding how agency energy demand can be aggregated and matched with potential energy projects may be complicated.

### Managing existing supply contracts alongside any new PPA arrangements

46. Current AoG electricity supply contracts have two terms left to run. Confidential advice to Government
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### We will communicate with AoG electricity contract stakeholders, to ensure they understand the RfI process

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## A new project team will be established, to accelerate this work

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53. Budget 2025 includes \$0.6 million in the Economic Growth Policy appropriation to support this project. In addition, we expect to draw on internal resource within, from both the Procurement and Energy Branches.
54. To assist with the delivery of the work programme, we will form a project team. The team which is yet to be determined but may initially look like:
  - 1 x PPA energy specialist (externally engaged),
  - 2 x senior policy resources (internally resourced),
  - 1 x commercial lead (internally resourced),
  - 1 x principal commercial specialist (internally resourced),
  - Legal support as required (mix of internal and externally engaged).

## Next steps

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55. We will set up an immediate internal project team. Then, if joint Ministers agree, we will engage additional external resource by 30 June 2025.
56. We will keep you informed using current ongoing reporting methods, and Cabinet will be kept informed through the overall Cabinet report back in late June 2025.
57. A timeline, with proposed deliverables is provided below at **Annex One**.

## Annexes

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**Annex One:** Timeline and proposed deliverables for the initial staged approach

**Annex Two:** Further details on AoG electricity contracts

## **Annex One: Deliverables and timing for the initial staged approach**

Below are the proposed deliverables and timing for the initial staged approach to exploring long term electricity solutions.

<b>Task</b>	<b>Deadline / Timeframe</b>
Cabinet report back on <i>Securing New Zealand's Gas and Electricity Supplies</i> .	25 June 2025
Complete tender process for additional resource	30 June 2025
MBIE drafts Rfl	July – Mid-August 2025
MBIE stakeholder engagement	Early June – Mid-August 2025
Joint Ministers receive draft Rfl for approval	Late August 2025
Rfl released (possible Ministerial announcement)	1 September 2025
Rfl closes	15 October 2025
Evaluation of Rfl completed	31 November 2025
Advise joint Ministers on options for progressing a PPA	1 December 2025
Update Cabinet on progress of PPA	TBC

## Annex Two: Electricity AoG contracts

Benefits of AoG electricity contract:

- Fixed energy costs over the term of the supply agreed between the selected supplier and agency.
- Flexible billing options, consolidated billing or individual billing for each site.
- Account management and reporting (if needed) from the suppliers.
- Complaints or performance management process and a timeline for resolution.
- Contractual simplicity, as agencies and schools do not need to go through a full procurement process of their own.

Eligible agencies and schools are required to join a secondary procurement process (SPP). This is a closed tender process to receive the service order (SO), including the pricing elements from the panel suppliers.

MBIE groups agencies and schools with complementary requirements (known as a tranche) and invite the five suppliers on the panel to submit their pricing via the SPP. MBIE run these SPPs on behalf of the agencies and schools to ensure a fair process and competitive price.

Features and benefits include:

- Incentives for participating agencies or schools to consume less energy by changing the administration fee from a percentage base to cent per kW.
- Price certainty and flexibility on agencies' and schools' daily consumption, through fixed price variable volume (FPVV), and optional pricing strategies, such as spot or hedge pricing and solar buy-back services.
- Introduction of both desktop and cloud-based applications that agencies and schools can use to review usage and spend data.
- Access to the five largest electricity retailers, with fair terms and conditions, and selected free services to help agencies and schools with their de-carbonisation activities (workshops and webinars).
- Suppliers provide account managers to respond to daily operational matters.

Savings	Costs
<p>Agencies and schools participating in the electricity contract don't need to go through a full procurement process of their own. MBIE approach the market on your behalf through the secondary procurement process (SPP) and provide other services, for example legal services, which will save agencies time, effort and cost.</p> <p>MBIE run regular SPPs to discover competitive pricing in the current market and pass on these savings to participating agencies and schools.</p>	<p>Most AoG contracts include an administration fee. This fee is a simple, effective and transparent way of recovering the cost of developing, sourcing, implementing and managing AoG contracts.</p> <p>There is no upfront charge for participating in a tranche for the electricity contract. After an agency enters into a pricing supplement(s) with a supplier(s) and supply commences, an administration fee of 0.25% applies to the total invoice (exclusive of GST) or 0.04 cents per kWh.</p> <p>Suppliers collect the administration fee and pass it on to MBIE - agencies don't need to make any payments to MBIE.</p>