Wellington, November 2, 2023

Energy and Resource Markets Branch
Ministry of Business, Innovation and Employment
15 Stout Street
PO Box 1473, Wellington 6140

Attention: Measures for Transition to an Expanded and Highly Renewable Electricity System Discussion Document Submissions

Email: electricitymarkets@mbie.govt.nz
Cc: offshorerenewables@mbie.govt.nz

Tēnā koe,

Parkwind Submission: Measures for Transition to an Expanded and Highly Renewable Electricity System Discussion Document

Thank you for the opportunity to submit on the measures for transition to an expanded and highly renewable electricity system. This letter provides our general feedback on the Measures for Transition to an Expanded and Highly Renewable Electricity System Discussion Document.

We commend the New Zealand government for its forward-thinking approach to developing an energy strategy and in particular ensuring the electricity system is affordable, reliable and resilient while we transition to an expanded and more highly renewable system. Our perception is that New Zealand is at somewhat of a turning point in its broader energy system, and this is a time for vision and a multifaceted approach. There are strong similarities, in a different context, with the establishment of the gas industry in New Zealand: the government enabled the gas industry through strategic policy decisions, ownership stakes, investment in projects, contractual agreements, deregulation, and supportive regulatory frameworks. These measures were aimed at promoting growth, ensuring a reliable gas supply, and aligning with the country's energy and economic objectives. The same can happen with our electricity market and, from there, new markets such as hydrogen and ammonia.

The proper functioning of the electricity market in this wider context is critical, ensuring that the right incentives are sent to all participants and that large new renewable generation is incentivised to invest in New Zealand.

Parkwind nv
Sint-Maartenstraat 5
3000 Leuven
Belgium

T + 32 (0)16 24 07 90
www.parkwind.eu
info@parkwind.eu

BTW BE0844 796 259
RPR LEUVEN
IBAN 82 0016 7211 2268
BIC GEBABEBB

Parkwind supports this paper and further work being done on the electricity system and New Zealand's overall energy strategy.

This submission should be read alongside our submission on the Interim Hydrogen Roadmap and the Second Discussion Document on Developing a Regulatory Framework for Offshore Renewable Energy.

Our submission is short as we do not have the benefit of years of experience operating in the New Zealand electricity market. However, we wish to make just a few points as the key issues are clear to us, as a new entrant poised potentially to make significant investment.

About Parkwind

Parkwind is a Belgian-based company that develops, finances and operates offshore wind farms. Our submission is made from the perspective of an experienced offshore wind developer who has developed, financed and operated offshore for over 10 years. Parkwind and its parent company JERA have built and operate seven offshore wind farms off the Belgian, German, UK and Taiwanese coasts, with one of Japan's first offshore wind farms (Ishikari Bay) currently under construction.

Parkwind aspires to build 500MW to 1GW of offshore wind in New Zealand operational by 2032, acting in partnership with relevant iwi, hapū, local communities and selected experienced energy sector participants. As Parkwind progresses its preliminary discussions and investigations, it is conceiving of a range of strategic alliances that will benefit the eventual offshore project or projects in which it invests for the long-term benefit of Aotearoa New Zealand. An example is the memorandum of understanding (MOU) Parkwind signed with Meridian Energy to explore offshore wind generation in New Zealand waters. Efforts will focus principally on the Taranaki coast and build on work already undertaken by Parkwind, including engagement with stakeholders as well as the iwi of Taranaki.

Part 1, Chapter 2: Accelerating supply of renewables

Parkwind is in principle open to either commercial (merchant) models such as PPAs[1] to provide the revenue stability or a government backed mechanism such as a CfD[2] for offshore wind projects. We acknowledge the pipeline of new onshore renewable projects, and we can understand that, all things being equal, a level playing field should exist.

Although we see a case to argue for differences between offshore and onshore renewables, we believe it is too early to make a call on whether any support at all is justified for offshore wind in New Zealand, until a number of market factors become clearer. These are discussed as part of our submission on 'Developing a Regulatory Framework for Offshore Renewable Energy' chapter 6.

Parkwind encourages further investigation into support measures for new renewable generation, MBIE should review the suitability of CfDs, LTESAs[3] (NSW) and commercial offtake agreements (PPAs), amongst other measures to support new large scale renewable generation and support competitive markets. This extends to reviewing wholesale market operation to see whether spot price volatility cannot be better tamed.

From an offshore wind industry perspective, a 2-way CfD is widely considered an optimal structure that appropriately shares risks/benefits between the Government and the developers.

We note that in the recent energy crisis in Europe following the war in Ukraine and surging gas prices, the 2-way CfD schemes paid back significant sums to the relevant governments as their contracted (strike) prices were much lower than the wholesale cost of electricity.

1. PPA: Power Purchase Agreement
2. CfD: Contracts for Difference
3. LTESA: Long Term Energy Services Agreement

Part 1, Chapter 3: Ensuring sufficient firm capacity during transition

Continued work needs to be done on NZ Battery Project options (not necessarily Lake Onslow) as a possible solution to NZ's dry year risk problem.

We favour large scale battery storage but do not rule out the role of gas as a fuel for firming generation. Having sufficient dispatchable capacity is essential in a highly intermittent renewable market.

We acknowledge the need for some form of demand response in a highly renewable electricity market, but encourage the government to look at ways other than paying large industrials not to consume and hence not to produce. In our submission on the 'Interim Hydrogen Roadmap' we urge government to consider the role of hydrogen as a means of storing energy to assist with both variability and resilience.

Part 3, Chapter 7: A Transmission system for growth

A critical focus must be growing and enhancing the transmission network – consideration of renewable energy zones (REZs) to places like Taranaki with abundant potential for new renewable energy generation. Long lead times for transmission investment mean that we should examine whether the regulatory system for approvals of new investment is fit for purpose given the substantial build-out required ahead.

From an offshore wind industry perspective, guaranteed and timely grid access when the offshore wind farm becomes operational is critical. Given the large potential for low-cost offshore wind and convergence of developers to the South Taranaki and Waikato region we think there are clear benefits in efficiency and coordination if Transpower plays a role. We have listed these as part of our submission on 'Developing a Regulatory Framework for Offshore Renewable Energy'.

Electricity system planning needs to happen in a centrally managed, coordinated way: the different roles of MBIE, Electricity Authority, Transpower, Infrastructure Commission (to name the key players) as regards the wider electricity market need to be better coordinated and managed. This is the time for vision and to conceive of that vision and implement it requires a very focussed body.

General

If you have any queries regarding the content of this letter, please contact Peter Spencer, Parkwind Country Manager Aotearoa New Zealand.

Nāku iti noa, nā

Country Manager New Zealand