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**MAROHITANGA** > WHAKARITENGA AHUMONI > MOTUHAKE

# **Spreading method to be used for some electricity price contracts for difference**

Issued | Tukuna: 11 September 2025

**S65**

This determination relates to the financial arrangement spreading method that a company (Company A) is to use to return income and expenditure in relation to certain off-market contracts for difference in respect of the wholesale price of electricity.

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## Determination | Marohitanga

This determination may be cited as **Special Determination S65: Spreading method to be used for some electricity price contracts for difference.**

### 1 Explanation (which does not form part of the determination) | Whakamārama (ka kore i whai wāhi i te marohitanga)

1. This determination relates to the financial arrangement spreading method that a company (Company A) is to use to return income and expenditure in relation to certain off-market power purchase agreements (PPAs) in respect of the wholesale price of electricity. The PPAs are structured as contracts for difference because the electricity is not physically settled between the parties.
2. Company A entered into an off-market PPA (PPA 1) to manage its electricity pricing risk while establishing and operating a solar project (the Project). The intention behind PPA 1 was to give Company A a level of price certainty over its future electricity generation (ie, a hedge against future fluctuations in the spot price of electricity) in order to provide comfort to lenders about the financial profile of the Project over its life.
3. All electricity generated by the Project is physically submitted to the wholesale market and receives spot prices, which are set half-hourly.
4. Under PPA 1 (which has a 15-year term):
  - Company A pays the counterparty (Company B) a floating price for electricity (based on 30-minute intervals) for all electricity generated by the Project; and
  - Company B pays Company A a fixed price for all electricity generated by the Project.
5. This determination also applies to other off-market PPAs that Company A enters into in the future on the same or materially similar terms to PPA 1 to manage its electricity pricing risk in relation to additional electricity generated by later stages of the Project.
6. It is not possible to use the expected value spreading method in s EW 15F for PPA 1 and other PPAs that are in scope of this determination. The reasons for this are:
  - the long terms of the instruments;

- the lack of market-quoted pricing data; and
  - the lack of fixed volumes of electricity by which each party's payment obligations are calculated. (Instead, the parties agree to pay each other for all electricity that the Project generates, which may vary between payment dates.)
7. Company A has adopted International Financial Reporting Standards (IFRS) to prepare its financial statements and to report for financial arrangements.

## 2 Reference | Tohutoro

This determination is made under s 90AC(1)(bb) of the Tax Administration Act 1994.

## 3 Scope of determination | Hōkaitanga o te marohitanga

1. This determination applies to Company A in respect of:
- PPA 1 entered into in August 2025; and
  - other off-market PPAs that Company A enters into on the same or materially similar terms to PPA 1 to manage its electricity pricing risk in relation to additional electricity generated by later stages of the Project.
2. It is not possible to use the expected value spreading method for PPA 1, and for other future PPAs described above as being in scope of this determination. The reasons for this are the long terms of the instruments, the lack of market-quoted pricing data and the absence of any fixed volumes of electricity for calculating each party's payment obligations.
3. PPA 1 was entered into as part of the establishment of a new solar project. It was entered into "off-market" – that is, on day 1, the fair value of PPA 1 to Company A was less than zero. To calculate the initial fair value of PPA 1, Company A followed these steps:
- It quantified the expected volume of electricity to be generated in each payment period.
  - It modelled the forward price of electricity over the term of PPA 1. It sourced this data from the ASX New Zealand Electricity Futures Contracts. The ASX data generally extends for only 3 years. After this point, Company A sourced data from Energy Link, an electricity consulting firm.

- It calculated the present value of expected payments under PPA 1 (by reference to the expected volume of electricity, the agreed price of electricity specified in the PPA and the forward price of electricity).
- 4. The parties have approximately 180 cash settlements in total under PPA 1, with one cash settlement occurring each month during the term of PPA 1. The prices are set from the date on which the first generation of electricity occurs. Following that, prices increase in line with the Consumer Price Index at the date of practical completion of the Project and annually after that.
- 5. The fixed rate Company B pays has been set by reference to historical baseload price, adjusted for location and discounted to reflect the anticipated decrease in electricity prices for solar power compared with the forward price path for all electricity. (This arises because multiple solar facilities simultaneously change their generation of power when weather conditions change. As a result, a coordinated shift in supply occurs, which affects the price of electricity.)
- 6. Company A does not treat PPA 1 and other eligible PPAs as a hedge under IFRS 9.
- 7. For both PPA 1 and other PPAs that Company A enters into "off-market", the non zero day 1 fair value is calculated by reference to the expected cashflows over the term of the PPA with regard to the expected volume of electricity, the agreed price of electricity under the PPA, and the electricity forward price path, and applying a cost of funds discount factor. Where the contract price and day 1 fair value differ, and the day 1 fair value technique uses data that is not only from observable markets, IFRS 9 requires the deferral of the difference. This is achieved by calculating a "calibrated PPA" with a zero day 1 value by using an adjustment factor to adjust the agreed prices uniformly.
- 8. This determination does not apply to the counterparty to any of the above PPAs.
- 9. This determination is made subject to the condition that the IFRS accounting treatment of Company A's off-market PPAs does not materially alter.

## 4 Principle | Mātāpono

1. The PPA is a financial arrangement under s EW 3 and is not an excepted financial arrangement under s EW 5.
2. Under s EW 15C(1), a person who uses IFRS to prepare financial statements and to report for financial arrangements must use one of four methods for the financial

arrangement, including a determination alternative under s EW 15E. Under s EW 15E(2)(d), the Commissioner may determine the spreading method to be applied.

3. Under s EW 29, Company A is required to calculate a base price adjustment (BPA) in the income year that the PPA matures or is terminated. The BPA will take into account all consideration Company A receives and all amounts Company A pays under the PPA.
4. This determination specifies the spreading method that Company A must apply to allocate income and expenditure in respect of PPAs that are within scope of this determination.

## 5 Interpretation | Whakamāoritanga

In this determination, all legislative references are to the Income Tax Act 2007, unless otherwise stated.

## 6 Method | Tikanga

1. Income or expenditure for an income year from the PPA is the total of:
  - the amount calculated in accordance with [5] below; and
  - the amount described at [6] below.
2. Company A will estimate the expected annual volume of electricity to be supplied in order to calculate expected cashflows. It will determine the estimate by reference to the P50 value of an electricity generation model that uses daily sunlight irradiance data for the location of the Project and the known efficiency profile of the solar panels as its input variables.
3. Company A calculates the day 1 fair value of the PPA by reference to:
  - the expected monthly volume of electricity; and
  - the expected price per unit of electricity over the relevant term based on the electricity forward price path.
4. Company A will construct a calibrated PPA with the same expected volume of electricity by adjusting the prices in the PPA by a constant factor such that the day 1 fair value of the calibrated PPA is zero.
5. Company A will recognise the day 1 fair value of the PPA spread over the term to which the day 1 fair value amount relates by:

- subtracting payments expected under the calibrated PPA in each income year from the payments that would be expected under the PPA; and
  - discounting the difference in each income year to present value.
6. At the end of each income year, Company A will also recognise an amount equal to the difference between the net amount paid or received under the PPA and the amount calculated in [5] above, which is due to differences between the:
- actual electricity prices and the prices in the calibrated PPA (as actual payments are made between Company A and Company B); and
  - actual volume of electricity generated by the Project and the expected volume of electricity determined at [2] above.
7. IFRS 9 also requires remeasurement of the PPA at each balance date based on the latest forward electricity prices and any change to the expected generation volumes of the Project. Any gains or losses resulting from remeasurement of the PPA at each balance date based on the latest forward electricity prices under IFRS 9 are not allocated as income or expenditure in the relevant income year for tax purposes.

## 7 Example | Tauira

This example illustrates how to apply the method set out in this determination.

The figures and values used in this example are indicative only and cannot be relied on as an indication of the expected cashflows under a PPA.

Company A and Company B have agreed to enter into a PPA on the following terms:

- term of PPA: 5 years;
- annual volume of electricity to be supplied: all electricity generated by the Project;
- fixed price per MWh of electricity: \$100; and
- agreed price to enter into the PPA: \$0.

Calculating the initial fair value of this PPA involves:

- estimating the annual volume of electricity to be supplied by reference to the P50 value of a model that uses daily sunlight irradiance data for the location of the Project and the known efficiency profile of the solar panels as its input variables;

- modelling the forward price of electricity over the term of the PPA using data sourced from the ASX New Zealand Electricity Futures Contracts and from Energy Link, an electricity consulting firm; and
- comparing the agreed electricity price (of \$100 per MWh) with an electricity forward price path.

In this example, the expected annual volume of electricity is 100 MWh.

The calculated day 1 fair value of the PPA is a loss of \$500 (because the electricity price path expects the average price of electricity over the term of the PPA to exceed \$100 per MWh).

Under IFRS 9, a calibrated PPA is constructed with:

- prices increased by an adjustment factor of 1.2 (compared with the actual PPA); and
- the annual volume of electricity set at 100 MWh (ie, the same as the estimated annual volume in the actual PPA),

such that the day 1 fair value of the calibrated PPA is zero. By the end of year 5, the PPA has matured and has a fair value of 0.

For each income year, the expected cashflows under the “calibrated PPA” are compared with the expected cashflows under the PPA and then discounted to present value (to achieve the expected spread of the day 1 negative fair value of \$500 as in row 1 of the table below).

From the beginning of year 1 (when the PPA was entered into) until the end of year 1, Company A generated 110 MWh of electricity compared with the estimated annual volume of 100 MWh (eg, as a result of sunnier than expected weather conditions during that year).

Company A was required to pay Company B \$13,200 based on the electricity spot price over that period (ie, 110 MWh multiplied by \$120/MWh). Over the same period, Company B was required to pay Company A \$11,000 based on the agreed fixed price (ie, 110 MWh multiplied by (\$100/MWh). This results in a net loss of \$2,200 (refer year 1, rows 4 to 6 of the table).

This net loss effectively comprises the following components:

- the expected loss for year 1 of \$3,000 as calculated on day 1;
- the unfavourable unexpected difference in the electricity spot price; and
- the favourable unexpected increase in the actual volume of electricity generated.

The aggregate effect of the unexpected price and volume changes (refer year 1, row 7 of the table) reduced the expected loss for year 1 (refer year 1, row 1 of the table) by \$800 for the year. The sum of these amounts is the net income for Company A in year 1 (which, in practice, matches the net amount received by Company A under the PPA).

At the end of year 1, IFRS 9 also requires remeasurement of the fair value of the PPA based on the forward electricity prices at balance date. This resulted in a negative fair value of \$600 (refer year 1, row 9 of the table). None of the loss is included as expenditure under the spreading method.

The table below illustrates how the spreading method applies for the remaining term of the PPA and the amounts Company A will have to allocate as income or expenditure over the term of the PPA.

|                                                                                              |                                                                                            | Year 1         | Year 2         | Year 3         | Year 4     | Year 5   |
|----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|----------------|----------------|----------------|------------|----------|
| <i>Day 1 fair value component</i>                                                            |                                                                                            |                |                |                |            |          |
| 1                                                                                            | Day 1 fair value amount spread (\$)                                                        | (3,000)        | (2,500)        | (1,000)        | 5,000      | 1,000    |
| <i>Actual cashflow component</i>                                                             |                                                                                            |                |                |                |            |          |
| 2                                                                                            | Actual volume of electricity generated (MWh)                                               | 110            | 100            | 100            | 90         | 100      |
| 3                                                                                            | Average spot price (\$/MWh)                                                                | 120            | 110            | 120            | 90         | 100      |
| 4                                                                                            | Payment by Company A under PPA (\$)<br>[2] x [3]                                           | 13,200         | 11,000         | 12,000         | 8,100      | 10,000   |
| 5                                                                                            | Payment by Company B under PPA (\$)<br>[2] x \$100/MWh                                     | 11,000         | 10,000         | 10,000         | 9,000      | 10,000   |
| 6                                                                                            | Net payment amount for Company A under PPA (\$)<br>[5] – [4]                               | (2,200)        | (1,000)        | (2,000)        | 900        | 0        |
| <i>Income/expenditure for income year</i>                                                    |                                                                                            |                |                |                |            |          |
| 7                                                                                            | Difference between net payment amount and day 1 fair value amount spread (\$)<br>[6] – [1] | 800            | 1,500          | (1,000)        | (4,100)    | (1,000)  |
| <b>8</b>                                                                                     | <b>Total income (\$)</b><br>[1] + [7]                                                      | <b>(2,200)</b> | <b>(1,000)</b> | <b>(2,000)</b> | <b>900</b> | <b>0</b> |
| <i>Remeasurement of fair value (not allocated as income or expenditure for tax purposes)</i> |                                                                                            |                |                |                |            |          |
| 9                                                                                            | Gain or loss from remeasurement at balance date (\$)                                       | (600)          | 500            | (400)          | 100        | 0        |



This Determination is signed by me on the 11<sup>th</sup> day of September 2025.

A handwritten signature in black ink that reads "Howard Davis".

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**Howard Davis**

Group Leader | Rōia Kaihautū ā-ropu Taake  
Tax Counsel Office | Te Tari Tohutohu Tāke

## About this document | Mō tēnei tuhinga

Special Financial Arrangements Determinations are issued by the Tax Counsel Office. These Determinations set out how the Commissioner will apply the financial arrangements rules to a particular financial arrangement. These determinations apply only to the particular financial arrangements and taxpayers to which they relate and will often be published in anonymous form. Special Financial Arrangements Determinations are binding on the Commissioner. This means that if the parties to the financial arrangement have calculated their tax liabilities in accordance with the determination, the Commissioner must accept that assessment. A Special Financial Arrangement Determination applies only to the taxation laws and the particular financial arrangement set out in the determination. It is important to note that a general similarity to a financial arrangement covered by a Special Financial Arrangement Determination will not necessarily lead to the same tax result.