



Corporate Power Purchase Agreements (PPAs): What are they?

12 November 2019

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A Corporate Power Purchase Agreement (PPA) is a long-term contract under which a business agrees to purchase electricity directly from an energy generator. This differs from the traditional approach of simply buying electricity from licensed electricity suppliers, often known as utility PPAs.

Such structured agreements provide financial certainty for the utility companies and the developers, which removes a significant roadblock to financing and building new renewable facilities; PPAs are therefore helping to deliver more renewable energy on the grid.

In a world where many countries have reduced or withdrawn subsidies for renewable energy, a Corporate PPA with a financially strong counterparty is an essential component for achieving a "bankable" project.

Power Purchase Agreement structures

There are three typical contract structures for the corporate PPA: Physical PPAs, Synthetic PPAs and Private Wire PPAs.

Physical PPA

Pursuant to a physical PPA, the corporate off-taker will enter into a long term PPA (commonly with a term in excess

of 10 to 15 years) with a renewable energy generator to take some or all of the energy generated by its plant (or portfolio of plants) with a defined amount of power sold at a fixed price per MWh.

The PPA will contain provisions for the sale and purchase of electricity and the allocation of any applicable renewable energy benefits (such as green certificates), and all of the provisions governing that sale and purchase. The delivery of renewable energy is notional in most cases.

In certain jurisdictions, including the UK, these provisions will also include obligations to provide or procure certain metering and regulatory activities that can only be undertaken by licensed electricity suppliers. As such, in these countries, the corporate off-taker will need to enter into a back-to-back agreement with a licensed supplier under which the licensed supplier commits to undertake these obligations.

In parallel to this arrangement, in many jurisdictions, the corporate off-taker will have an electricity supply agreement with that licensed supplier under which electricity may be supplied to meet the corporate off-taker's energy demands from time to time. The terms of supply under this supply agreement will take into account the electricity purchased under the PPA and passed through to the licensed supplier under the licensed supplier agreement. This ensures that the corporate has the benefit of the fixed pricing for renewable energy under the PPA but the reliability of a supply agreement with a licensed electricity supplier to meet its day-to-day energy demands.

Synthetic PPA

In a synthetic PPA structure no power is physically traded. Instead, the agreement functions with a derivative contract structure where the off-taker and generator agree a defined 'strike price' for power generated by a renewable energy facility. Each party will then enter into separate agreements with their electricity supplier / utility to sell/acquire (as applicable) electricity at the spot price. The agreement then works as a financial hedge: if the spot price in a settlement period exceeds the PPA defined strike price, the generator pays the excess amount to the off-taker for power generated in that period; if the market price for power is less than the strike price in a settlement period, the off-taker shall pay the shortfall amount to the generator for power generated in that period.

Private Wire PPA

Private Wire PPAs are concerned with the sale of electricity from a generator to an off-taker. However, unlike the Physical PPA, power will normally be sold directly from the generator's facility to the off-taker, rather than being notionally passed through a national power grid. The generating facility will be located at, or close to, the off-taker's assets and will usually only supply power to the off-taker. Private Wire PPAs may often be utilized in conditions where the off-taker wishes to secure its own source of power (for example for use in a factory, or in an off-grid location), or in countries where the grid system is not reliable.

Global Relevance of PPAs

Whilst now well established in US, UK and Scandinavian markets, developers and off-takers are constantly looking to new jurisdictions to utilize PPAs - in recent weeks and months we have been involved in new discussions on PPAs in Spain, Portugal, Romania and Japan, to name only a few. The increasing frequency with which large, well-known corporates have entered into PPAs and invested in generation assets of their own, stems from both the economic and environmental benefits they provide.

Although the original instigators of the Corporate PPAs were the high energy using data centres, the desire to enter into PPAs has not been limited to particular types of companies or geographical areas. Large banks, oil majors, retailers, restaurant chains and IT and telco companies have all widely published details of their PPAs — all sorts of companies are concerned about their carbon footprints.

At DLA Piper we have first-hand experience of the win-win scenario these PPAs offer, having advised lenders, developers and off-takers on their PPAs — from generators and their funders to the corporate end users and their licensed electricity suppliers - we have acted on many of the largest European corporate power purchase agreements in the recent years.

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