



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

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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 some countries are reducing or withdrawing subsidies for renewable energy, the Corporate PPA with a financially strong counterparty is seen by many developers, equity investors and funders as an essential component for achieving a “bankable” project.

Power Purchase Agreement structures

The corporate off-taker will enter into a long term PPA (commonly with a term in excess of 10 to 15 years) with renewable energy generator to take all of the energy generated by its plant (or portfolio of plants), commonly for a fixed price per kWh (subject to some form of indexation).

The PPA will contain provisions for the sale and purchase of electricity and the benefit in any renewable energy

subsidies, and all of the provisions governing that sale and purchase. The delivery of renewable energy is notional and not physical in most cases.

In the UK and some other European countries, these provisions will also include obligations on the corporate off-taker to provide or procure certain metering and regulatory activities that can only be undertaken by licensed electricity suppliers.

As such, 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. The licensed supplier will also commit to purchase the electricity and renewable energy benefits from the corporate off-taker on the same terms with some margin built in.

In parallel to this arrangement, in the UK and some other European countries, the corporate off-taker will have an electricity supply agreement with that licensed supplier under which electricity will be supplied to the 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.

Global Relevance of PPAs

PPAs are not new. Although we can see an emerging trend, which we are sure will be emphasised by the outcomes of the Paris Agreement, in the increasing number of large corporates committing to PPAs of an unprecedented size.

While PPAs are well accepted in the US, the European and Scandinavian markets are catching up and we expect to see a surge in Corporate PPAs over the next 12 to 18 months in the Asia Pacific region. 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, 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 a number of organisations on their PPAs – from generators and their funders to the corporate end users and their licensed electricity suppliers.

Read more in our report: 2016: The Year of PPAs and the Corporate Green Agenda

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