



Charlie Ward gives a PPA and GPA overview to ADBA members

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POWER PURCHASE AGREEMENTS: MAXIMISING THE VALUE OF AD GENERATORS

Q I have been hearing about PPAs and their potential application to the biogas industry. Can you tell me what they are and how they would function in our industry? I understood that most plants didn't generate enough to make such agreements accessible.

A A power purchase agreement (PPA), or gas purchase agreement (GPA), is a contract between two parties, one which generates electricity or gas (the seller) and one which is looking to purchase the electricity or gas (the buyer).

The PPA/GPA defines all the commercial terms for the sale of electricity or gas commodity between the two parties.

Both deliver a tailored purchase contract for your business. You can choose an index-linked contract to earn competitive market rates every day – or a fixed-price contract so you can budget with certainty. Companies like ours administer the relationship with the power or gas off-taker, National Grid, and manages all balancing services on your behalf.

For AD biogas generators there will be associated income benefits that come in the form of local credits termed as "embedded benefits and green certificates". Green certificates are associated with the electricity and gas generated and are an important source of additional income for any generator. They confirm 'green energy' has been used by the buyer, to meet renewable obligations or carbon limits.

We have seen a significant increase in the value of green certificates associated with both green gas and power. Generators should think carefully before getting rushed into agreeing something without fully understanding market drivers.

Short or long-term PPAs?

In the UK Power Purchase Agreements (PPAs) have been around from 2005 but only really started to gain traction from 2010 onwards. Feed-in-Tariffs and Renewable Obligation Certificates provided a significant portion of the revenue certainty for projects, which enabled some generators to enter short term contracts that facilitated the PPA market.

The closure of the ROC scheme in the UK further encouraged generators to look at other options in terms of route to market. Generators started to pay more attention to the commodity value of the power and value both in terms of market timing - when to lock and price in - and structure. Subsequently we have seen the PPA market in the UK develop and competition increase, which has been great news for funders and owner generators.

PPAs can't typically be standardised and put on an auction platform. If they are, then there is a risk of either undervaluing renewable price or ending up with a PPA structure that doesn't work for the company or individual. Each transaction requires a customised solution, working closely with developers and funders to develop an optimal PPA structure for the project duration, individual assets or for entire portfolios.

In the current Covid-19 crisis, which has seen demand for energy plummet with a commensurate fall in price, any renewable energy provider would have benefited from having a fixed price PPA. In these kind of market conditions, when it comes to PPA and GPA fixing, you must have a game plan. With this volatility and uncertainty, it would be madness to cross your fingers and hope for the best.

PPAs can also assist in financing unsubsidised projects, putting a value on future output. However, you must consider the wider context. The structuring of PPAs is fundamental in terms of enabling unsubsidised renewable projects to get funded and built.

Corporate PPAs

Corporate PPAs continue to be a hot topic for developers who perceive enhanced returns and business looking to demonstrate green credentials. The challenge here is to find sellers in enough numbers and at the right scale that are both creditworthy and have a willingness to collaborate in PPA.

We have obviously seen some pretty large and long term corporate PPAs concluded in the Nordics, which to now has accounted for over 50% of the market. However, the UK market is flexing its might. Recent PPA deals for renewable electricity in the UK are the McDonalds UK 15 year, Marks and Spencer 20 year, and Rolls Royce signing a 25 year off-take with Belectric UK.

Corporates buying directly from renewable generators is a relatively new phenomenon. Where there is a good fit and the numbers work it has been an effective tool. I would just caution that this market is still new and relatively small.

From the buy side we shouldn't underestimate the value in potentially securing a good relative market price for energy that gives the corporate price certainty and protection against market volatility. Obviously, the green element is widely talked about but there is commercial value on the table also.

With many corporates committed to meeting publicly stated sustainability and carbon targets, renewable corporate PPAs offer the opportunity to manage energy costs and environmental footprint in one, which is good news for renewable energy suppliers.



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