

Responsible Procurement contributing to climate action - PPAs

What is a Power Purchase Agreement (PPA)?

- A PPA is an agreement for an energy buyer (an 'offtaker') to purchase a fixed volume of electricity directly from a renewable generator (developer)
- On a long-term basis (7-25 yrs, but usually 10-15 yrs)
- At a fixed price (linked to e.g. CPI)
- The offtakers' forward commitment to buy the energy & creditworthiness allows the generator to gain debt finance to develop new renewables installations

What are the main drivers to procure a Power Purchase Agreement?

- **Price Certainty** – the ability to fix a portion of electricity prices beyond the 3-year horizon that energy markets typically trade for.
- **Additionality** – the ability to spur new renewable generation projects by providing a commitment to buy electricity from the generation asset.
- **Traceability** – the ability to know the name, location & technology of the electricity purchased, rather than an anonymous market-purchase of electricity.
- **Carbon reduction** – the ability to report lower carbon emissions through the purchase of renewable electricity (under a 'market-based' reporting method).

Corporate PPA Decision Matrix

'Standard' CPPA	'Alternative' CPPA	Cost	Risk	Time	Green	Decision points
New 'additional' project	Existing 'operational' project					<ul style="list-style-type: none">• Additionality is key• Ease of internal & external communication• Creditworthiness of offtaker

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Solar / Wind technologies	Biomass / Hydro technologies	Green	Green	Green	Green	<ul style="list-style-type: none"> • Avoiding 'fuzzy' green – striving for deep green • No fit for purpose definitions of 'renewable' • Reputational considerations - unpopular tech
Long-term (e.g. 10-15 yrs)	Short-term (e.g. 5-7 yrs)	Green	Red	Grey	Green	<ul style="list-style-type: none"> • Balance between market interest, cost avoidance & certainty and uncertainty of energy prices 15+ years into the future

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High vol. offtake (e.g. >80% of project output)	Low vol. offtake (e.g. <50% of project output)	Red	Green	Green	Grey	<ul style="list-style-type: none"> • Allowing one project or a portfolio • Less contracting parties (other offtakers) to deal with, minimising risk • Large scale projects e.g. offshore wind can be cheaper, but take longer

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Large volume (e.g. >50GWh)	Small volume (e.g. <20GWh)					<ul style="list-style-type: none"> • Increases competition amongst relatively large scale projects • Cost avoidance and green credentials outweigh additional time and risk implications of larger projects

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Virtual ('financial') structure	Sleeved ('physical') structure					<ul style="list-style-type: none"> • No need to involve the utility company – i.e. no tri-partite agreement, reducing time, risk and consultancy fees • Some risk in terms of accountancy and balance sheet

Virtual PPA – Advantages & Considerations



Advantages

- Simpler contracting
- Less onus on matching half hourly volume
- Lends itself more to collaborative procurement
- May receive payment from the generation



Considerations

- Not paid through your supply agreement
- May need to pay the generator
- Can add accounting and financial reporting complexity

Physical PPA – Advantages & Considerations



Advantages

- Payment link through your supply agreement
- Single point of billing (albeit reconciliation may be needed)



Considerations

- More complex to set up (than a virtual PPA)
- Requires facilitation within your supply agreement
- Doesn't lend itself as well to a collaborative procurement
- Required to match half hourly volume

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PPA Pricing – Example Offers

- **Greensolver Options Appraisal:**
 - Fair Value PPAs
 - Solar: £67.50 - 129/MWh, Wind: £63.50 - £128/MWh
- **Recent Price Offers**

Volume GWh pa	Duration	Technology	Exp. Start Date	Starting Price £/MWh
17	15-years	Solar	Q4 2024	£83.30 + CPI
51	15-years	Solar	Q4 2024	£80.50 + 50% CPI
51	15-years	Solar	Q4 2024	£74.00 + CPI
25	10-years	Solar	Q3 2025	£76.30 Fixed
30	15-years	Solar	Q1 2025	£73.95 + CPI
70	10-years	Solar	Q4 2024	£96.00 Fixed
100	20-years	Solar	H1 2025	£74.28 + CPI

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Any questions?



Please contact

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