



# Power Purchase Agreements (PPAs)

**[cec.uk.com](http://cec.uk.com) | 01737 556631**

Control Energy Costs Ltd, Kingsgate, 62 High Street, Redhill RH1 1SH



## | What is a Power Purchase Agreement?

A Power Purchase Agreement (PPA) is a long-term contractual agreement between an energy buyer and an energy seller for the purchase of renewable energy.

## | Power Purchase Agreements

PPAs are agreements between an electricity generator/s and corporate offtaker or supplier where either the corporate offtaker agrees to buy an amount of electricity from a renewable generator (usually from a single asset) or the supplier agrees to allocate PPA volume to corporate customer/s along with the associated generator/s REGOs.

The offtaker agrees to purchase power generated at an agreed price, which can either be fixed or indexed over a long-term contract, with physical delivery of the electricity passing through the Transmission and Distribution network. This is the most common PPA structure transacted.

There has to be a licensed supplier involved between corporate offtaker and generator. This is because the renewable generation must be channelled through a licensed supplier in accordance with industry settlement regulations.

## | PPAs involve

- ✓ PPA price agreed between generator/s and corporate buyers
- ✓ Parallel agreement agreed between supplier and buyer
- ✓ Possible sleeving fee – buyer pays supplier a fee for management
- ✓ Supplier Balancing Fees – commercials revisited where generator is providing 'pay as produced' renewable energy under a bilateral generator/corporate offtaker PPA
- ✓ Renewable certificates (REGOs) – transferred from generator to supplier to buyer to evidence clean energy

In exchange for agreeing to offtake power for a fixed amount of time, corporate buyers lock in energy rates for the renewable energy purchased over the contract term, demonstrating their commitment to clean electricity.

## | There are two types of PPA

### **Direct PPA**

Power purchase agreements between a generator and supplier that involve the physical delivery of electricity to the corporate infrastructure. These are also referred to as physical or sleeved PPAs. This structure is most suited to public or private sector organisations with significant electricity requirements.

### **Indirect PPA**

Power purchase agreements between an electricity generator and a corporate buyer where the buyer agrees to purchase power at an agreed price, over a fixed duration period, without physical delivery of electricity to the corporate infrastructure.

## | In the current energy climate...

It is more important than ever for organisations to commit to their carbon reduction initiatives while protecting themselves against future price shocks.

PPAs are increasingly popular among large corporates and SMEs as a reliable way to decarbonise energy consumption and mitigate against market volatility.

### **Benefits of PPAs**

- ✓ Reduces Scope 2 emissions
- ✓ Supports renewable energy targets
- ✓ Locks in power prices
- ✓ Mitigates exposure to market fluctuations
- ✓ Provides long-term budget certainty
- ✓ Incentivises investment in more green energy infrastructure projects

## | How PPAs are accredited

Renewable electricity provided through our PPAs is verified via Ofgem's Renewable Energy Guarantees of Origin (REGOs) scheme that authenticates the power's renewable credentials.

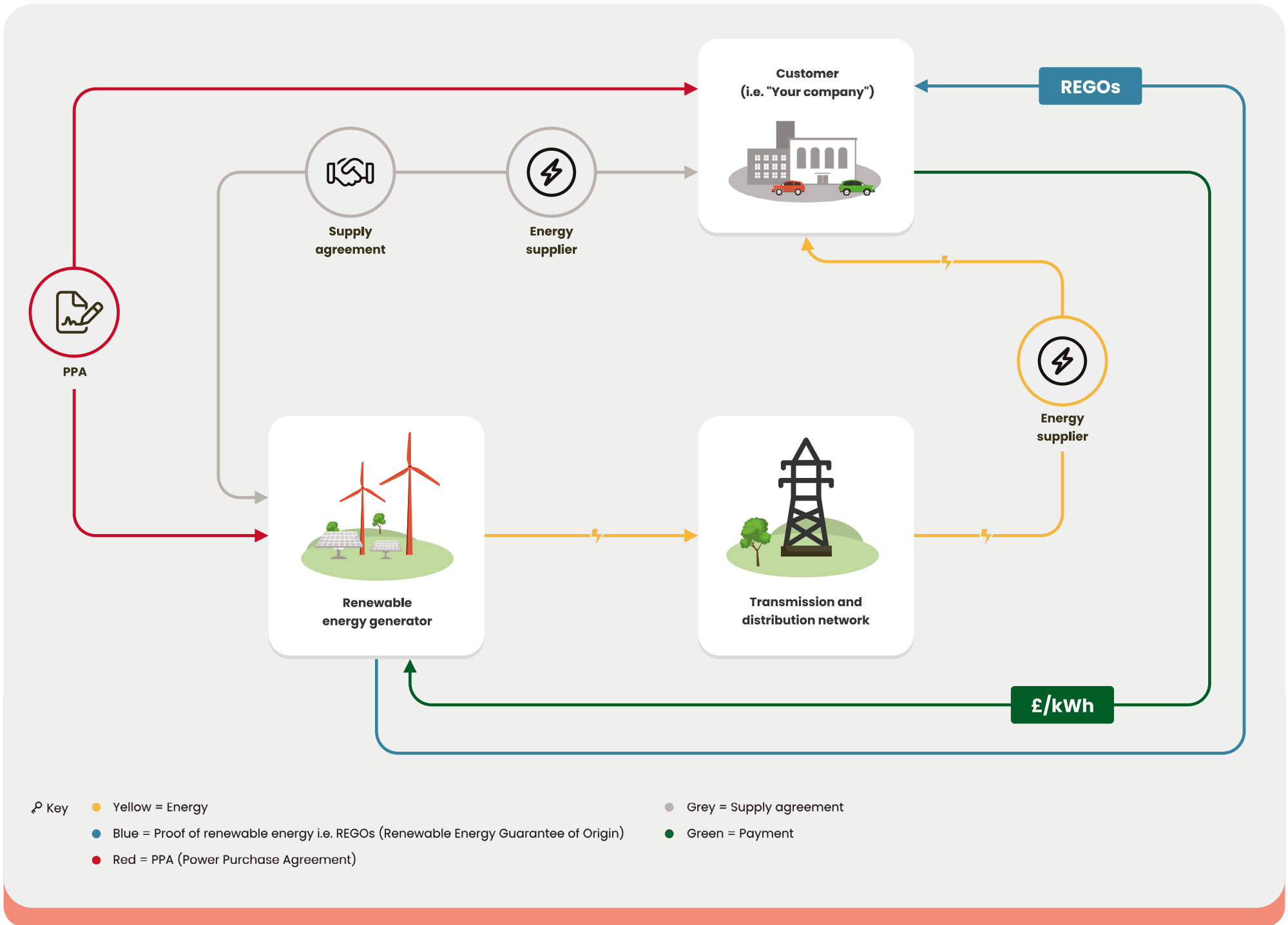
This ensures that, for every unit of power supplied, a generator produces an equivalent amount of green electricity.

## Advantages

- ✓ Long-term budget certainty de-risking cost exposure in a volatile wholesale market
- ✓ Satisfies Environmental, Social and Governance (ESG) and Corporate Social Responsibility (CSR) commitments on the pathway to de-carbonisation
- ✓ Supplier settles shape and cost throughout the contract for both sides
- ✓ Generators want to sell to corporate off takers as known revenue streams help unlock funding for future projects
- ✓ REGOs certifiable from source
- ✓ PPA lengths now offered for 5 years as opposed to 10 or 15 years
- ✓ PPAs are portable

## Disadvantages

- ✓ Some suppliers will not support bilateral PPAs where renewable energy is coming from independent generators
- ✓ Debt financed generators will only sell to investment grade rated offtakers
- ✓ Buyer may have to pay a sleeving fee to the supplier
- ✓ Non-energy specialist lawyers can inadvertently stall the execution of PPAs by challenging standard contractual clauses





To find out more contact your Client Relationship Manager  
or visit [cec.uk.com/contact-us](https://cec.uk.com/contact-us)



**cec.uk.com | 01737 556631**

Control Energy Costs Ltd, Kingsgate, 62 High Street, Redhill RH1 1SH