



ENERGY AND NATURAL RESOURCES

Corporate Power Purchase Agreements Can Benefit Suppliers, Businesses and Our Environment

by **Seanna Mulrean**

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With increased global focus on climate action and proposed Irish legislation promising to introduce more definite and ambitious sectoral targets of de-carbonising the economy, it is anticipated that Corporate Power Purchase Agreements (PPAs) will become increasingly prevalent in the Irish energy market.

At present about 40% of electricity used in Ireland per year comes from renewable generation. The Irish Government has set a target of increasing this to 70% by 2030 as part of its Climate Action Plan. The development of renewable energy facilities will be key to achieving this. The use of Corporate Power Purchase Agreements (PPAs) to power business has been on the increase in recent years particularly in the renewables space. In this article we explore how Corporate PPAs might assist in removing obstacles to financing and building new renewable facilities which will be key to achieving Ireland's climate action targets.

What are Corporate Power Purchase Agreements (PPAs)?

A Corporate PPA is a long-term contract pursuant to which a corporate agrees to buy electricity from an energy generator at a fixed price. In the wind energy industry for example, a Corporate PPA refers to a PPA between a wind farm and, usually, a business that uses a large amount of electricity such as a data centre or pharmaceutical and high-tech manufacturers. There are also examples in Ireland of PPAs being entered into by groups of smaller businesses or companies whose power demands may not be so high, but they have a desire to contribute to climate action by "going green".

How are they Structured?

Corporate PPAs can be structured in several different ways and the structure used will typically depend on the relevant underlying regulatory regime. Internationally the main forms are "sleeved" and "synthetic" (or financial) PPAs. In Ireland there is an additional option of what is known as a "supplier-lite" structure.

A "sleeved" PPA (or "back to back" PPA) involves a direct agreement between a generator and a consumer for an agreed level of power output. The consumer sells all the power procured under the generator PPA immediately to a traditional utility under a second, back-to-back PPA. The utility runs the power through the grid, 'topping up' the renewable electricity with extra power if necessary, to satisfy the consumer's energy needs and then sells the power back to the consumer. Typically, the consumer will pay a margin or a "sleeving fee" to the utility.

A "synthetic" PPA is essentially a contract for difference (CFD) between the generator and the corporate consumer. Under this structure, the generator and the corporate enter a direct financial hedging contract, such as a CFD (rather than a PPA). The corporate retains a supply contract with a utility, but contracts separately with the generator to provide a price floor for that generator's output in return for the associated green rights. Under this system a wind farm for example sells its electricity on the wholesale market like any other generator. That power is bought, as normal, by an electricity retailer who sell it on to domestic and business consumers. If the wholesale electricity price is lower than what was agreed between the corporate

and the wind farm then the corporate steps in to make up the difference. If the wholesale electricity price is higher than what was agreed, then the wind farm pays the difference back to the corporate. This is known as a Contract for Difference or CFD.

These arrangements have certain benefits for the consumer over the sleeved arrangements including that they are easily scalable, they can be highly flexible and being solely financial contracts, the consumer does not have to consider the technical or regulatory details of the generator's project.

Another model commonly used in Ireland is what is known as the "Supplier-Lite" structure. Under this structure the consumer establishes its own licensed supply company (the Supplier-Lite) which enters a PPA with the generator. The Supplier-Lite passes the output through the Single Electricity Market pool and sells it to the consumer under an electricity supply agreement. The advantages of the Supplier-Lite structure include the fact that the Supplier-Lite is credited as having supplied the consumer with the relevant quantity of renewable electricity and the consumer has a hedge against market fluctuations and high energy prices.

Managing Risks in Negotiation

The negotiation of Corporate PPAs can be complex and there are several factors and risks to be considered, including the following:

- Counterparty Credit Risk: It will be key to generators and their funders that their counterparty is credit worthy. This will require adequate evaluation prior to entering into the contract.
- Market Change: As the energy market is continuously evolving mechanisms designed to address market and regulatory change during the term of the contract should be incorporated in the contract.
- Fluctuations in Energy Prices: Considering the long-term position taken on energy prices upon entering a corporate PPA the risk exists that during certain periods the Corporate PPA may not offer the best price to the parties.

Benefits of Corporate PPAs

While they can be complex there are also many benefits which make corporate PPA arrangements attractive to both developers and corporates.

For developers they provide financial certainty. The developer will have a guaranteed source of income for the duration of the contract which gives them the financial security they need to build the relevant renewable energy facility. A Corporate PPA with a financially strong counterparty would enhance the bankability of a renewables project, regardless of whether it receives grant funding. This is important particularly where there is uncertainty as to timing or the extent of governmental support available for renewables projects.

For businesses purchasing their electricity through a Corporate PPA, they can be certain of the long-term price they are going to be required to pay for energy while also ensuring they are contributing to efforts to reduce CO2 emissions.

As climate action shifts from being a matter of corporate social responsibility to one of fundamental corporate strategy for Irish businesses, the use of Corporate PPAs as a means of powering business and removing barriers to the development of renewables projects in Ireland is likely to continue to grow.

Our Experience

At **LK Shields** our team regularly advises clients on renewables energy projects and Corporate PPAs. If you are considering projects or exploring opportunities in this area, please do not hesitate to get in touch. For more information please contact Seanna Mulrean smulrean@lkshields.ie.

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