

Highlights CT2

RES Electricity

2nd CA-RES IV Plenary Meeting

18th-19th May 2022

Session 8: Power Purchase Agreements: focus on sellers and purchasers

This session focused on power purchase agreements from the perspective of buyers and sellers as well as financial institutions. Article 15.8 of the RES directive 2018/2001 requires Member States to remove unjustified administrative or market barriers to corporate purchase agreements of renewable energy, in particular to accelerate the uptake of corporate purchase agreements of renewable energy by small and medium-sized enterprises. The REPowerEU plan has emphasised the measures foreseen by the RES directive. In the context of REPowerEU, the European Commission has issued a Guidance to Member States on good practices to accelerate permitting processes for renewable energy projects and on facilitating Power Purchase Agreements

The PPA market in Europe is growing and there is a diversification of sectors and markets is taking place. However, currently, PPAs have been signed only in about 11 EU Member States and companies face a number of barriers when trying to source renewables through PPAs. The main barriers identified in this session are policy uncertainty, lack of credit worthiness of off-takers in particular SMEs, risk aversion of off-takers, limited understanding of energy markets and contract complexity. Obstacles with project financing in connection to PPAs include partner risk and higher cost of capital compared to financing under government support scheme.

A presentation by the RE-Source platform and the WBCSD highlighted benefits of PPAs for buyers such as price stability and cost visibility. Benefits for sellers include risk mitigation through guaranteed offtake and diversified revenue streams, stable and bankable long-term income and brand recognition. The RE-Source platform buyers toolkit offers several resources for interested parties such as an introduction to corporate renewable sourcing, templates for PPA contracts and an European corporate sourcing directory.

Credit risks for PPAs are an issue of concern for the contracting parties. Risk hedging measures include contractual mechanisms, credit risk insurance, letters of credit and credit guarantees by a parent company or the state (e.g. through a management agent), among others. In the session, a presentation was held on a power purchase guarantee scheme to help large power intensive industrial companies obtain long term PPAs. The guarantee scheme covers risk related to electricity intensive power purchasers in key economic sectors. In case of a power purchaser default, the power supplier can choose to invoke the guarantee. A new power purchaser is designated and the electricity is sold in the spot market. The designated power purchaser pays 80% of the difference between the PPA price and the average spot market price.

An example of a one stop-shop for SMEs, which is currently under development was also presented. The one-stop shop will have to rely on a close collaboration with the banks and standardized financial products for PPAs. Banks are a very important actor in mobilisation of investments and the closure of PPAs. The banks must have a good understanding of the risks such that they can price risks adequately and develop risk-hedging strategies. The banks typically prefer to have long term PPAs while off-takers such as SMEs may prefer to have a shorter tenor but with secured price stability. Banks may require standardised clauses in contracts and capacity building to understand the implemented approaches in order to gain confidence.

Some countries are developing support measures for PPAs such as digital platforms to facilitate the supply and demand of PPA contracts, electricity market opening, Guarantee funds for PPAs, PPA regulations, and revision of the regulatory framework for PPAs.

European markets for PPAs are dominated by large corporate off-takers and expanding PPA schemes to SMEs is still difficult. Demand aggregation mechanisms, which pool together multiple off-takers can be useful to facilitate the participation of SMEs in PPAs, since they help to distribute the risks. However, the multi-buyer PPAs also have complexities such as the fact that SMEs may not have in-house knowledge about PPAs and electricity markets. Thus, external knowledge may be needed to guide them through the process. Standardisation and template contracts can be also useful.

In some Member States there is a combination of support schemes and PPAs. In some approaches, the Member State retains the GOs for the part of the RES electricity that is subsidised by the support scheme and issues the GOs for the part that is sold in the framework of the PPA. Other MS are looking into the possibility of combining support schemes with 'proof of use of renewable electricity' through PPAs combined with GOs. This topic could be explored in future sessions.

Session 10: Administrative Barriers

The session continued the discussion on the barriers in administrative procedures and experiences that was started in November 2021.

Based upon the analysis of the existing procedures, an electronic contact point was established in Finland, that concentrates all permitting procedures for a certain project. In this contact point, the applicant can apply for permits, see the status of each permit, and can exchange information with the competent authorities. Digital solutions can improve the permitting process, but the set-up requires time and resources, and should be designed from the customer's perspective

German examples show that offshore wind power benefits from preliminary site investigations. When all relevant information available in a standardized way at an early stage, delays during plan approval become more unlikely. With this information, wind farm operators are aware of site conditions at an early stage, which allows to plan on an efficient and reliable basis.