STEPHENSON HARWOOD

Energy Law

Green financing continues to break records in the UK while benefiting both developers and consumers

In October 2019, Amazon claimed to have signed the largest corporate wind power purchase agreement ("PPA") in the UK. The onshore windfarm in Scotland had 50MW of capacity. In November 2020, SSE and Equinor announced that they had signed two 15 year PPAs for the first two phases of the world's largest offshore wind farm, Dogger Bank. Dogger Bank, made up of Dogger Bank A and Dogger Bank B, have a combined capacity of 2.4GW. Use of green PPAs in the UK energy market is increasing.

Background

For businesses around the world, green energy is in demand. Big corporations have pledged to reduce their emissions in line with the Paris Agreement and green energy is an essential part of this strategy. Companies need support to reach their renewable energy targets in an optimal way. Many large corporations are therefore choosing to meet their renewable energy target using a corporate PPA.

Green energy is also being increasingly demanded by stakeholders, shareholders, supply chain partners and critically, customers.

For these reasons, there has been a noticeable increase in high profile, high GW power PPAs being entered into across the UK over the last 24 months.

Major oil players are also following the trend. Companies such as Occidental Petroleum, Chevron and Energy Transfer Partners all signed solar PPAs in 2019, following in the steps of ExxonMobil, who

kicked off the trend by signing two PPAs totalling 575MW at the end of 2018.

Corporate PPAs can provide a number of benefits to both the developer and the corporate offtaker/buyer. A key element of their attractiveness to developers in recent years has been their bankability; a PPA with a financially strong counterparty is an essential component for achieving a 'bankable' project. For the offtaker, a PPA can provide an efficient route to achieving their commitments to renewable energy whilst benefitting from less exposure to market risks.

The Corporate PPA model explained

A corporate PPA is a renewable energy supply agreement using energy from a specified project or asset. It is a reciprocal arrangement between an electricity generator (i.e. the developer) who develops and owns the project, and a dedicated purchaser of the electricity (i.e. the offtaker). PPAs can incorporate many options which enables them to be tailorable to the developer and/or offtaker. For example, the offtaker may only want to purchase a portion of the power available from the developer or the developer may only sell if a certain minimum amount is purchased by the offtaker.

A PPA has significant green potential because the agreement represents an alternative opportunity for expanding renewable sources, usually solar or wind, by sourcing energy from alternative/offsite providers. We predict that we will also shortly see the first hydrogen PPAs between developers of hydrogen producing assets and corporate offtakers/consumers being entered into in the UK.

PPAs support the investment and development for the renewable project and secures budget certainty for the business consumer throughout the contracted period. Offtakers that enter into PPAs benefit from long term, stable energy costs and reduced exposure to market risk.

There are three main types of physical PPA. Common to all three types is a fixed quantity of energy that is sold and supplied in the PPA. The difference between the three types of PPA is how the energy is supplied.

1. **On-site/Private:** An arrangement between a developer and an offtaker for the direct supply of energy. This option cuts out the middleman since the exchange of money and energy takes place outside of the traditional sphere of clients and utility companies transferring energy by the power grid. The offtaker outsources the project (including the financial and operational risks) in exchange for paying the developer directly for the energy produced at source (usually on its own site); or

2. **Off-site/Sleeved:** A simple agreement to purchase a physical quantity of electricity whereby the developer delivers the electricity to the offtaker through the public grid. The process is facilitated by an intermediary, such as an electricity supplier, who takes delivery of the energy at the plant and 'sleeves' it to the offtaker for a fee; or

3. **Synthetic/Virtual:** A purely financial agreement. No power is physically traded. Instead, the developer's energy service provider (such as an electricity trader) takes the produced electricity into its balancing group and trades it (on short-term power markets, to name one example). The synthetic structure is in essence a form of hedging the wholesale market since there is no physical transfer of energy between parties.

Why are PPAs attractive to developers and consumers?

The developer:

a. **Bankability:** Striking a deal with a creditworthy and reliable offtaker can provide a long-term income stream that can whet a lender's appetite to finance a renewable project; and

b. **Diversification:** A PPA enables direct access to corporate offtakers such as the oil majors noted above, who are demanding clean energy more than ever. This enables developers to diversify their revenue streams because they no longer have to sell to utility offtakers as they were historically forced to do.

The offtaker:

a. **Price certainty:** The offtaker can gain certainty as to their power price over a given period and can mitigate against the risk of volatile energy markets; and

b. **Operational risk**: Since the project is outsourced to a developer, the offtaker is able to avoid the financial and operational risks of undertaking the project itself; and

c. **Flexibility:** Greater flexibility by engaging with projects that are not limited to their immediate location or proximity. Geography and land no longer are barriers to going green; and

d. **Environmental:** Offtakers can get closer to environmental goals and address a sizeable portion, if not all, of their electricity footprint. Offtakers can also seize the opportunity to promote one's brand as more sustainable and greener.

Conclusions

The upward trend in demand for green energy is likely to continue. Corporate PPAs can provide a number of benefits to both the developer and the corporate offtaker, particularly as markets move to a post-subsidy world and achieving "net zero" is increasingly expected (if not demanded) by the customers of large corporates.

Brexit may not necessarily increase the energy price in the short term. However additional costs may ultimately be incurred and passed down to consumers due to the increased costs associated with constructing and maintaining the energy network, since the majority of equipment required has to be imported into the UK. Corporate PPAs reduce this risk to the offtaker.

PPAs are accessible. There are a range of PPA structures available for both developers and corporates to explore, including increased opportunities for corporate offtakers to join forces and sign joint PPAs. We therefore predict an increase in the number of smaller size PPAs, or joint PPAs, as companies of all sizes seek the benefits of PPAs.

While COVID-19 may delay certain projects, PPAs can take several months to complete so we nevertheless predict a significant increase in interest in such structures across the UK.

Get in touch

Nick Morgan
Associate
T: +44 20 7809 2255
E: nick.morgan
@shlegal.com

Cathal Leigh-Doyle
Senior associate
T: +44 20 7809 2658
E: cathal.leigh-doyle
@shlegal.com

Tom Adams
Partner
T: +44 20 7809 2628
E: tom.adams
@shlegal.com