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RENEWABLES - CORPORATE PPAS

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In addition to power purchase agreements (PPAs) offered by utilities, there is an increasing appetite amongst companies to procure renewable power in order to meet their sustainability goals. They can do this through corporate PPAs which demonstrate their renewable credentials and hedge against increasing power prices or the cost of carbon.

In the case of large-scale renewable power projects in the UK such as offshore wind farms, contracts for difference (CfDs) have been used to provide assurance as to long-term stable revenues. A project is able to effectively secure a fixed price through a combination of CfD difference payments and the sale of power at a market price consistent with the index used under the CfD. The CfD does not necessarily need to provide a premium to the current market price, the assurance it provides as to long-term stable revenues may be sufficient. However, the bidding rounds for CfDs are competitive and developers will not always be able to secure a CfD. Do corporate PPAs offer an alternative for financing large-scale renewable power projects in the UK?

Features of a "bankable" PPA

The features of a "bankable" PPA include:

Term and termination. PPA term to run for longer than the proposed financing. Termination rights for the offtaker to be limited, with banks having an opportunity pursuant to a direct agreement to step-in and remedy defaults on the part of the project company. Termination payment to be payable if the offtaker is in breach and the project company terminates the PPA.

Volume. A commitment from the offtaker to take and pay for 100% of the project's generation (or a fixed volume) or a structure involving availability payments.

Pricing. A fixed or floor price to provide protection against falling power prices.

Change in law. A rebalancing of the PPA if a change in law, regulation or industry document has a material impact.

Credit. An offtaker with a strong credit rating and/or credit support.

Force majeure. Force majeure provisions, which will likely face increased scrutiny from banks following recent issues for various projects relating to COVID-19.

Observations

The use of corporate PPAs has the potential to offer a deeper market for developers looking for a "bankable" PPA. The UK Government has legislated for net-zero carbon emissions by 2050 and renewable corporate PPAs will form part of the solution. 200+ multinationals (including many companies in the UK) have committed to source 100% of their global electricity consumption from renewable sources through RE100. These companies disclose their electricity data annually and RE100 reports on their progress, with 2028 being the average target date for RE100 members to achieve 100% renewable electricity.

A corporate PPA can deliver some or all of the features described above, but it is easier to support small-scale projects with corporate PPAs. In order to secure the commitment required, large-scale projects may need to sell "tranches" of generation to a number of different companies or develop a financing structure which works for a project with a PPA covering only part of its generation. This may involve the use of hedging products or lower levels of gearing.

Case study: Hornsea One Offshore Wind Farm

We worked with Ørsted in connection with its disposal of a 50% interest in the Hornsea One offshore wind farm to GIP and related financing arrangements. With a capacity of 1.2 GW, Hornsea One is the world's first offshore wind farm to exceed 1 GW in capacity. The financing involved a multi-tranche package of more than £3.5bn, consisting of a mixture of investment grade-rated project bonds, institutional term loans, commercial bank loans and mezzanine debt. This financing was the largest single-project financing to date in the global renewable energy sector. Ørsted provided a long-term power purchase agreement for GIP's share of generation from the wind farm which, together with the underlying contract for difference, supported the financing.

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