

Insights into Corporate Power Purchase Agreements



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Paul is a partner in the Energies and Utilities Group at Addleshaw Goddard with 20 years' experience advising on renewable energy projects.

We asked Paul to share his insights on Corporate Power Purchase Agreements.

What is a Corporate Power Purchase Agreement (PPA)?

“At its heart, a corporate PPA is an agreement to procure green power from the generator of that power, as opposed to procuring power in the conventional way which is under a licensed supply arrangement with a licensed supplier.

PPAs come in a few different forms. You can get PPAs where you directly connect to the generation asset, for example, something like rooftop solar or ground mounted solar. These are known as direct wire PPAs. You also get PPAs where the generation facility is built offsite somewhere else in the country and the electricity generated goes into the electricity grid and there is an arrangement with the end customer's electricity supplier to 'sleeve' that electricity to the end customer. This

means a company can have a large amount of green power supplied to a number of facilities all around the country at the same price. As with direct wire PPAs, these are backed by renewable energy certificates - REGOs (Renewable Energy Guarantee of Origin) – which are becoming increasingly important for a number of corporates. This arrangement is more typically referred to as a physical or sleeved corporate PPA.

There's one other model worth noting, which is the synthetic or virtual PPA. It's a slightly different model which does not involve a physical trade of power between the generator and customer.

The PPA in this model is essentially a financial hedge against market prices, with a difference payment paid from one party to the other dependent on how the market price compares against the pre-agreed price or 'strike price' set out in the PPA. We are frequently seeing this model in certain international markets but not as often in the UK.”

And why do real estate investors, developers and building owners enter into corporate PPAs?

“Like many businesses, investors, developers and owners are thinking more about energy, about ESG, their net zero targets and about their decarbonisation strategies.

I would also say that businesses are becoming much more knowledgeable. It used to be the case that you just sign up to an energy supply contract and pay the bills and that was it. Now, the whole issue of energy and renewable energy is much more centre stage.

This is in part because of the whole decarbonisation agenda. However, the high energy price spike we saw in 2022 and generally higher energy prices we've seen in recent years have also really focused minds on the benefits that a PPA can offer in terms of giving you certainty of pricing and security of supply.

Where you've got a directly connected asset you are not then reliant on the grid and not exposed to the risk of blackouts, which can be a real concern particularly if a steady supply of electricity is essential for operational stability.



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Some land-owning companies see opportunities here and are looking at what land they have and how they can use that land better and more efficiently. We're also seeing institutional investors moving away from partnering with a third party for their energy consumption, and instead developing operating companies themselves which generate solar power and supply electricity to their tenants which can be used simply as electricity or as electricity for heat or EV charging or even to charge batteries to manage consumption better. We know there is increasing demand from tenants for green energy so this approach can dovetail neatly with tenants' requirements."

But decarbonisation is a driver too?

"Absolutely. Direct wire PPAs have strong green credentials because you can directly trace the electrons that are generated to the electrons that are used on site. And with sleeved PPAs, building owners can use the renewable certificates associated with the generated power to demonstrate how they are meeting their net zero targets."

So how common are corporate PPAs? Are they becoming more common and if so, why?

"I think direct wire PPAs are definitely becoming more common. These are probably easier for people to get their head around. If there is a roof that is capable of taking solar, then it's quite easy to fit solar on and quite a lot of new developments are either required to or choose to put solar on the roof just because it makes sense.

We are also seeing an increase in sleeved PPAs but I would say these are less common and less well understood and not everyone has the demand which requires the larger volumes that these PPAs typically require.

They are also relatively complex to set up in the first place: generators have to have a connection to the grid, they have to secure planning, and property rights, and then build the asset so it's a whole infrastructure project and that takes a while to get off the ground. Because of that and the relatively high initial cost involved in developing these types of projects (paid by the generator

and recovered over the long term through the energy price) they typically suit customers that have bigger energy demands."

Which takes us to the pros and cons. So clearly, it's not going to be right for everybody, it's complex, probably costly, there are hurdles to overcome but are there other pros and cons to think through?

"With the direct wire PPAs, if you've got land or space available then this can be relatively simple and done reasonably quickly. In some cases it's also a planning requirement. And it's popular with many tenants.

Sleeved PPAs provide a solution where you don't have land which lends itself to renewable energy generation and high electricity demand.

Costs are a long-term commitment, including with direct wire PPAs where you are directly connected. This means that you need to be certain that you are going to be at that site for a period of time. That is different to the sleeved PPA where you can effectively port that arrangement to any of your operational sites, which is a definite positive for some real estate owners.

You're also taking a risk on electricity prices to some extent.

The price you pay over the long term should be lower than the price you would otherwise pay to an electricity supplier. But whilst you get certainty of price, you're taking a gamble that the price is going to make sense in the long run, and of course you have no certainty around the cost of electricity going out for 15, 20 or 25 years. Then, if the arrangement does come to an end earlier than anticipated, you have potential termination costs which can be quite high.

That said, the market appears confident that PPAs will continue to make sense in the long term, not least because of the decarbonisation values that are offered through these approaches. But it is a long-term contract and, as you can imagine, some people are nervous about entering such long-term contracts."



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Is there anything the BPF can do to sort of help smooth those concerns? Anything from a policy or regulatory perspective?

“Energy policy is dynamic and is developing quite rapidly. I think the policy would benefit from a bit of demystifying.

Direct wire PPAs are quite easy to understand. Sleeved PPAs are slightly more complex, and because it’s not the core business of real estate investors and developers, can be quite confusing. There is a need to ensure that we make things as simple as possible and make access to these kinds of products is as easy as possible.

For me the one thing that continues to be a real challenge is understanding how PPAs can impact your carbon footprint and help you meet your ESG and other reporting requirements.

Understanding exactly how these products are going to help you achieve your net zero ambitions is probably the biggest challenge, but as I said, companies that 5-10 years ago were not particularly conversant with energy and energy markets are becoming increasingly informed and knowledgeable. But it is quite a steep learning curve.”

As you have said, it is becoming more common although it’s still quite complex issue. Would you have any tips for BPF members who may be thinking about a PPA?

“There is a lot of helpful information out there so do your research. Make sure you understand the fundamentals, make sure you know what the products on offer actually do and what you want as an organisation.

I think very often we talk to people who are doing deals who understand what is going on, but ultimately they need sign off from Investment Committees or other internal stakeholders. So keeping it simple and making sure that the whole of the organisation is brought along and understands the benefits of what you are doing is absolutely critical.

I also think selecting the right partner is critical. There are some really good developers out there who will take you

along and support you through the journey, particularly if it’s your first time. I think it’s important to find a partner who understands your organisation and who is willing to devote the time to actually supporting you through that journey.”

You mentioned that energy policy is pretty dynamic and there is growing interest in the energy market. Is there anything else in the energy space that real estate investors and developers need to be aware of?

“The world of corporate PPAs inevitably continues to evolve as a wider variety of products are brought to the market to meet customer demands – things like 24/7 and 365 PPAs which essentially aim to match generation and consumption more closely and by doing so, achieve much better decarbonisation. But the big change that is likely to have more of an impact across more of the sector will be Government’s drive to decarbonise heat.

Transport and heat are the two sectors that have been the most difficult to decarbonise for a variety of reasons. There is a real focus on heat decarbonisation at the moment and Government is introducing a heat network zoning policy over the next few years and increasing regulation for heat networks to drive that. This is one of the areas of energy policy that is changing most rapidly and one that will impact developers and landlords because there will be requirements to connect to, or develop buildings that have the potential to connect to, heat networks in areas that are zoned.

This is something that BPF members need to be aware of. It certainly is something that we are working on with our clients at the moment. As an energy and utilities specialist, I have been working in this sector for a good number of years but for many real estate clients this is something new, something tricky that developers and landlords, and tenants, are going to have to get their heads around because, whether they like it or not, in the future they may be required to connect through regulation and policy instead of it being voluntary.”