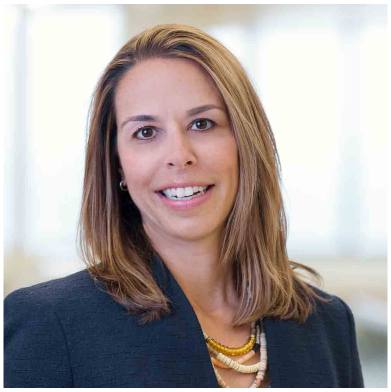

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What's Next for Renewable Power Purchase Agreements?

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Last year, more than 100 corporations across 23 countries used renewable power purchase agreements to buy a record amount of clean energy. Denver-based Holland & Hart energy partner Rochelle Rabeler enumerates factors that will help shape the evolution of PPAs in the near term.

These days, most weeks do not go by without a major announcement from a corporation taking further action to address climate change. A cornerstone of many announcements is an energy contract that has been in use by corporations and educational institutions for more than a decade, but which recently has exploded in popularity with companies: the power purchase agreement, or PPA.

Under these contracts, companies purchase energy and renewable energy credits (RECs) at pre-agreed prices for pre-agreed periods from renewable energy producers. In addition to the environmental benefits they can produce, these contracts also provide energy price certainty to corporations.

Last year, more than 100 corporations across 23 countries used PPAs to buy a record amount of clean energy, according to BloombergNEF. Some companies, like Google, announced their largest corporate PPA procurement portfolio in late 2019.

The rise of corporate renewable power purchase agreements has taken place over several years. In 2019, the Deloitte Renewable Energy Transition Survey found that cost-cutting, together with sustainability goals and reducing a company's carbon footprint, were the most popular drivers of corporate PPAs, followed by diversifying their energy supply and price certainty.

Factors That Will Shape PPA Evolution

Those factors will continue to be salient for the foreseeable future, which is why PPAs will remain popular. But they will continue to evolve. Here are five factors that will help shape that evolution.

1. Tax credits: The federal Production Tax Credit (PTC) and Investment

Tax Credit (ITC) that were available to renewable energy projects and have helped fuel the competitive price of renewable PPAs are set to phase out. The last year projects could start construction to qualify for the PTC was scheduled to be 2019. That cliff forced many corporate buyers to pursue these PPA opportunities before the PTC disappears, affecting PPA prices.

At the eleventh hour, however, Congress voted to approve a one-year extension of the PTC through 2020 with a value of 60% (or $0.015/kWh). This extension, together with cost reductions, means continued competitive pricing and likely more projects available in the coming years for corporate buyers. As demand for construction teams and capacity increases, however, along with the uncertainty of the coronavirus on global markets and potential tariffs on equipment and materials imports, project costs could actually rise.

2. Expectations of environmental benefits: Generally, sustainability initiatives have provided good PR for companies, but the media and the public have started to more closely consider the environmental benefits they produce. What, for example, does a company's claim to being carbon neutral really mean?

The reality is that, at a basic level, many corporate PPAs have been financial hedges where companies continue to source the energy that powers their facilities from the local utility but buy renewable energy credits form a renewable energy project.

Procuring renewable energy certificates from a Texas wind project while using energy from a coal plant located near the corporate office building does not provide the same greenhouse gas reductions that an on-site solar project would, and may open the door to greenwashing claims by a savvy public if the company oversells its sustainability activities.

As the market for corporate PPAs matures, expect to see more fully engaged corporate citizens that attribute value to contracting with nearby projects that can provide added benefits to the community while supplying physical energy to offset their load under traditional PPAs in lieu of financially hedging energy costs under virtual PPAs.

3. Energy usage data: Even as environmental impacts steer more corporations to utilize PPAs, economic incentives will continue to be key drivers. At the same time, many corporate buyers are not experienced energy traders or modelers and can be surprised by the shape of production from a wind or solar project and how it matches (or differs) from their energy use profile.

Depending on the market, a megawatt hour produced in the early evening can be significantly more valuable than one in the middle of a sunny day when solar production is at its peak in a solar heavy market.

This spread can affect how much value corporate buyers ultimately receive from their PPAs. Increasingly, savvy companies are leveraging their energy usage data to negotiate different deals, or they are looking to risk mitigation products from third parties, which can shape the transaction to better match their usage or goals.

4. Need for speed: Technology companies looking to enter a physical PPA are often on a faster schedule than green-energy developers. For instance, take a tech company wanting a PPA to supply energy needed for its new data center, which must be up and running within 12 months. By contrast, an energy project can take substantially longer after factoring in the acquisition of land rights, site studies and analysis, the interconnection process, obtaining permits and of course the actual construction period.

While first-time corporate buyers seeking virtual PPAs may not be impacted as much, this tension will continue to motivate internet and technology corporations to seek alternative options to buy renewable energy from utilities in their local markets. These may include green tariffs, sleeved PPAs or community choice programs.

5. The U.S. presidential election: It's no secret that under the Trump administration, alternative energy sources have not received much support. What is also true, however, is that private investments in renewables surged to a record last year. This is not to say that federal policy is irrelevant. Although the Trump administration has not depressed the private sector's enthusiasm for green energy, a new administration may provide even more incentives to engage in PPAs.

This column does not necessarily reflect the opinion of The Bureau of National Affairs, Inc. or its owners.

Author Information

Rochelle Rabeler is a partner at Holland & Hart who focuses her practice on project development, project financing, joint ventures, and mergers and acquisitions for clients in the energy and infrastructure sectors, with a focus on renewable energy. She specializes in power purchase agreements (PPAs) and has extensive experience representing parties in the negotiation of traditional physical offtake PPAs and also financial and virtual PPAs. To date, Rabeler has helped clients successfully negotiate and execute corporate PPAs for wind and solar projects totaling more than 2 GW.
