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Fact Find – Power Purchase Agreements

Today's energy market is plagued by fluctuating costs, making it difficult to budget energy expenses in the long run. With a PPA, you and your energy partner lock in at a fixed electricity rate, so you can more accurately predict energy expenses over the short and long terms.

With a PPA, an organization typically enters into a 15- to 25-year agreement with the solar developer. You, the customer, are not responsible for the installation or maintenance of the solar system, the solar developer is responsible. The developer can then sell the electricity generated by the solar structure back to you at a rate that is less than the prevailing cost of energy.

Questions to Ask

- Solar PPAs can provide electricity at a lower cost than electricity rates from a utility as well as future price certainty for the duration of the PPA. But there are many ways to structure solar PPAs and great care should be taken to ensure that the savings, risks, and benefits have been thoroughly evaluated. What will you pay per kilowatt-hour (kWh)? Is it lower than electricity from the grid and, if so, for how long? What is the pricing structure over time and how much can you save over the duration of your contract? Is there an “escalator” (a contractual provision that increases or decreases the contract price according to changing market conditions)? How much of your electricity usage will be offset by solar and how much will you still need to purchase from or sell back into the grid and at what price? You’ll want to consider these important elements, understand the financial implications, and make sure the details are clearly spelled out in your solar PPA.

- What are the contractual terms. Besides price, energy production and duration, there are several other terms that should be discussed and agreed upon before you sign a solar PPA. For example: What happens when the PPA contract ends? Who is responsible for removing the system at the end of the contract? What happens if the developer goes out of business or if the business changes hands? What happens to your PPA if your organization moves to a new location? Can your PPA be sold or change hands without your knowledge or approval? Be sure to ask the pertinent questions and that the agreed upon terms are clearly detailed in the contract.

- What kind of risk is involved with a solar PPA. As with any type of long-term contract, a PPA can come with risk. You'll want to be sure that risk is evenly distributed between your organization (the customer) and the developer (the owner). Your organization can be prone to utility energy cost escalation and tariff restructuring, or annual price escalation of the PPA. You should also understand what happens if your electricity requirements increase over time or if the forecasted energy production is different from the actual production. What happens if the system performance degrades over time? What if the developer goes out of business or the business changes hands? It's important to understand the risks involved and ensure that all details are included in the solar PPA.

- What happens if the system breaks. Solar systems, once installed, are relatively low maintenance and the developer is responsible for maintenance and repair for the duration of the PPA. In fact, the developer is financially incentivized to keep the system in good working order. However, if the system breaks, you may need to use energy directly from the grid, likely at a higher price. Be sure your contract details the process and timeline for repairs.

- Who is underwriting the PPA or providing the capital. This is a big one. Just because a developer shows you a PPA, does not mean it is financed. A solar PPA is a financial agreement between you and the developer. The developer owns the photovoltaic (PV) system and needs to facilitate the financing of the distributed generation assets such as photovoltaic panels, microturbines, reciprocating engines, and fuel cells. Some developers might first seek out clients, then pursue financing. Don't sign a PPA without understanding that the capital is secured and where the capital is coming from.

- Is there a solar performance or production guarantee? A solar PPA should include a performance guarantee (e.g. 90-99% of estimated production). You'll want to make sure that you aren't billed for more than the system actually produces. The contract should have language outlining the guarantee such as: "The owner guarantees that during the term of the PPA the system will generate the guaranteed kilowatt-hours (Guaranteed kWh) of energy under usual weather conditions." Additionally, there should be language addressing what happens if the system underperforms such as: "The owner will send the customer a refund check equal to the difference between the Guaranteed kWh and the cumulative Actual kWh."

- What happens at the end of term? At the end of your solar PPA contract, there are three things that are typically specified:
  - The system will be taken away at no cost to you.
  - You can renegotiate and renew your contract.
  - You can buy the system outright from the developer.

  Your contract should outline end-of-term buyout provisions which typically state that you can buy the system at the greater of i) a specified buyout value or ii) fair market value as determined by an independent third-party appraiser. While the end of the term is a long way away, you want to make sure the buyout provisions are fair and reflect the true value of the system. No matter which end-of-term option you choose, you'll want to be sure that the termination structures are fair and clearly outlined.

- While there's no shortage of developers and "deals", it pays to compare your options before jumping into a solar PPA. In addition to price and duration, you should also consider the quality of the solar equipment, the reputation of the developer, and how comfortable you are with the installer. A PPA contract is typically 15-20 years. That's a long time to work with a business that you can't rely on or don't trust. You may benefit from interviewing several solar developers and requesting proposals from each so you can conduct a thorough comparison.

Information required for Credit Application

Organisation Overview

- Structural chart of the business – who owns it etc.
- Background to the principles and bios
- Background to who does what in the business.
- Who put the equity in and what are the terms of the equity injection?
- Business plan

Target market

- Rational of business being marketed to and the purpose for the procurement of the renewable energy solution.
- Process of identifying each client, how they assess energy needs and how the proposal being put in place works.
- Value of the project, soft and hard cost breakdowns

Model

- What model are you using and what are the key drivers to it?
- Who has validated the model as being one that works in the market?
- Economic analysis to be provided of the project showing anticipated revenue and profit over 10 to 15 years on an excel spreadsheet, with the payback and IRR.
- What equity are you putting into the project, monthly savings generated and the payback to the funder?
- Copy of the Power Purchase Agreement
- Gas supply (CHP System)– how is this being undertaken, length of contract, who pays if prices go up/down etc and what does this do to affordability and ability to service the funders debt.
- Details of structure of debt finance required cost, equity/deposit and period of tenure provided.
- Who is taking the operational risk? Are you guaranteeing any performance criteria of the model? If so, what? And have you the resources to guarantee?
- Details of any insurance wraps taken out on the project
- Can we get a negative pledge in the deal?

Equipment

- Please provide background to the supplier and the equipment and valuation assumptions to the equipment being financed.
- Are we been asked to provide funding through the construction phase, details of supplier payment terms?

Benefits of Power Purchase Agreements

- Power Purchase Agreement brings simplicity to Solar and CHP systems, helping you to transform your energy estate with no upfront CAPEX expenditure.
- Typical contract length of 15-20 years, with the potential for a 25-year contract subject to credit checks
- No upfront capital investment and no setup costs, subject to agreement
- Can bundle operations and maintenance into your contract.
- This solution can provide customers with price certainty for a proportion of their electricity consumption and help them decarbonise and meet environmental targets.
- PPA's can potentially save customers on their power bills (compared to current grid costs) and could be considered off-balance sheet meaning the existing financing or banking limits you arrange for them might not be impacted.