



# Factors for successful PPAs

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5 MAY 2021

# Factors for successful PPAs

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## Master the basics

Definitions and characteristics everyone should know

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## Master your negotiation

How to negotiate at eye-level and achieve desired results

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## Master your risks

All about volume, price and credit risks to find your best fit

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## Step-by-step process

A concrete plan on where to start and which steps to take along the way





**Statkraft**

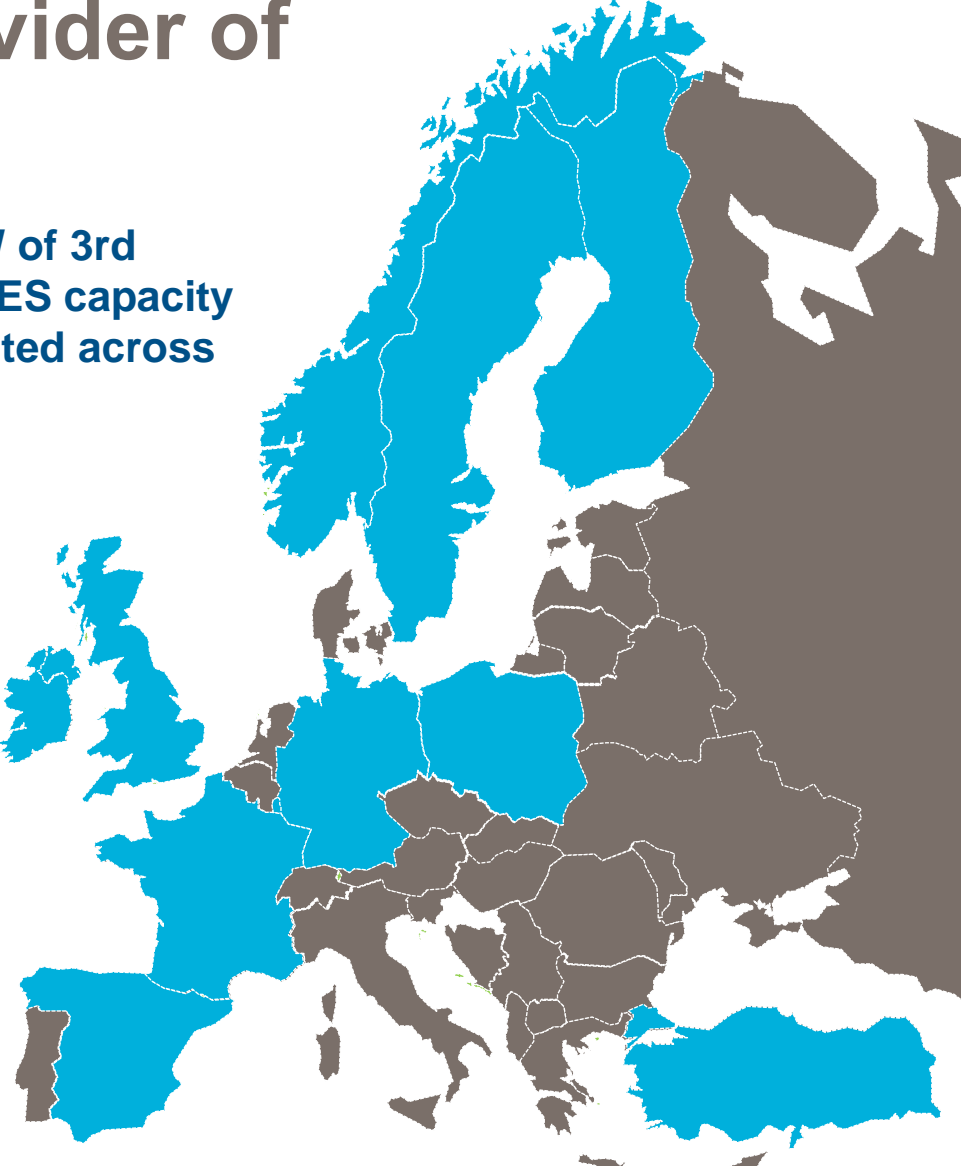
**What can I do for  
you?**

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# Statkraft is Europe's largest provider of market access services and upstream PPAs

	<b>65 TWh</b> Environment-friendly power generation	More than <b>3 mill</b> energy related contracts traded per year
<b>92%</b> Renewable energy		More than <b>370</b> power plants around the world
<b>4 500</b> employees in 17 countries	<b>125 years</b> <b>100%</b> state-owned	More than <b>20GW</b> 3 <sup>rd</sup> party capacity

>20 GW of 3<sup>rd</sup> party RES capacity contracted across Europe



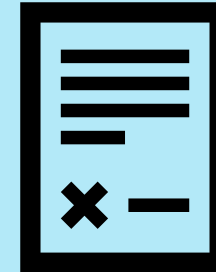


# Master the basics

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# What is a PPA and why is it needed?

- Contract between energy buyer and sellers
- Typically:
  - For a **renewable energy** producer
  - **long-term** (5-25 years)
  - **mitigating market price risk** through fixed or floor prices
  - compliant with **bankability** requirements
- A PPA **secures project revenue streams**, thereby reducing the risk-return profile (cost of capital) of the renewable energy project and **facilitating its funding by third parties**

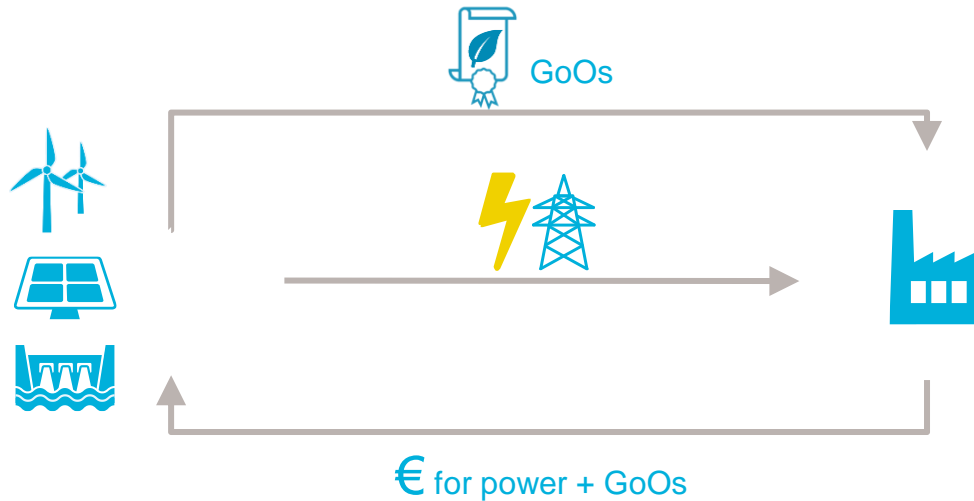


## Power Purchase Agreement (PPA)

- Usually 5 years to 25 years
  - Fixed or floor prices
  - Funder and lawyer approved
- Secures revenue streams
- „Insurance“ against falling prices
- Facilitates project funding

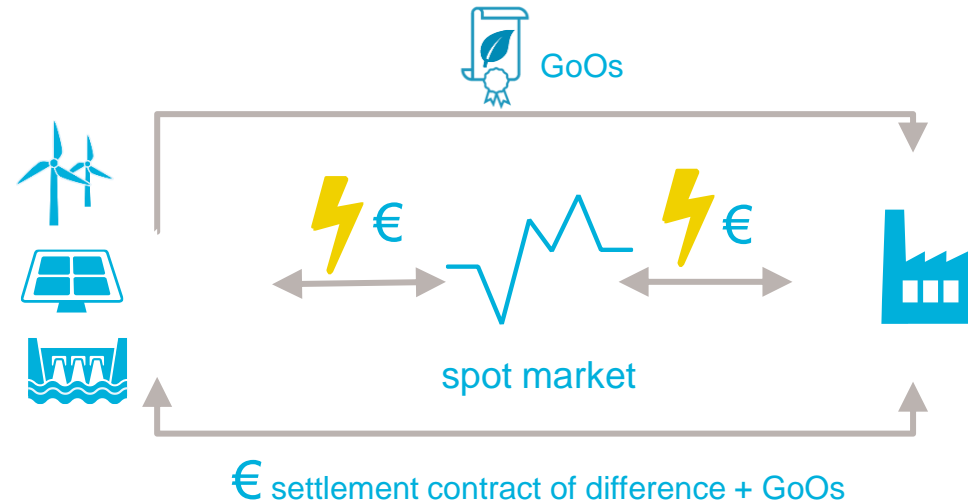
# Fundamental types of PPAs and their differences

## Physical (with physical supply)



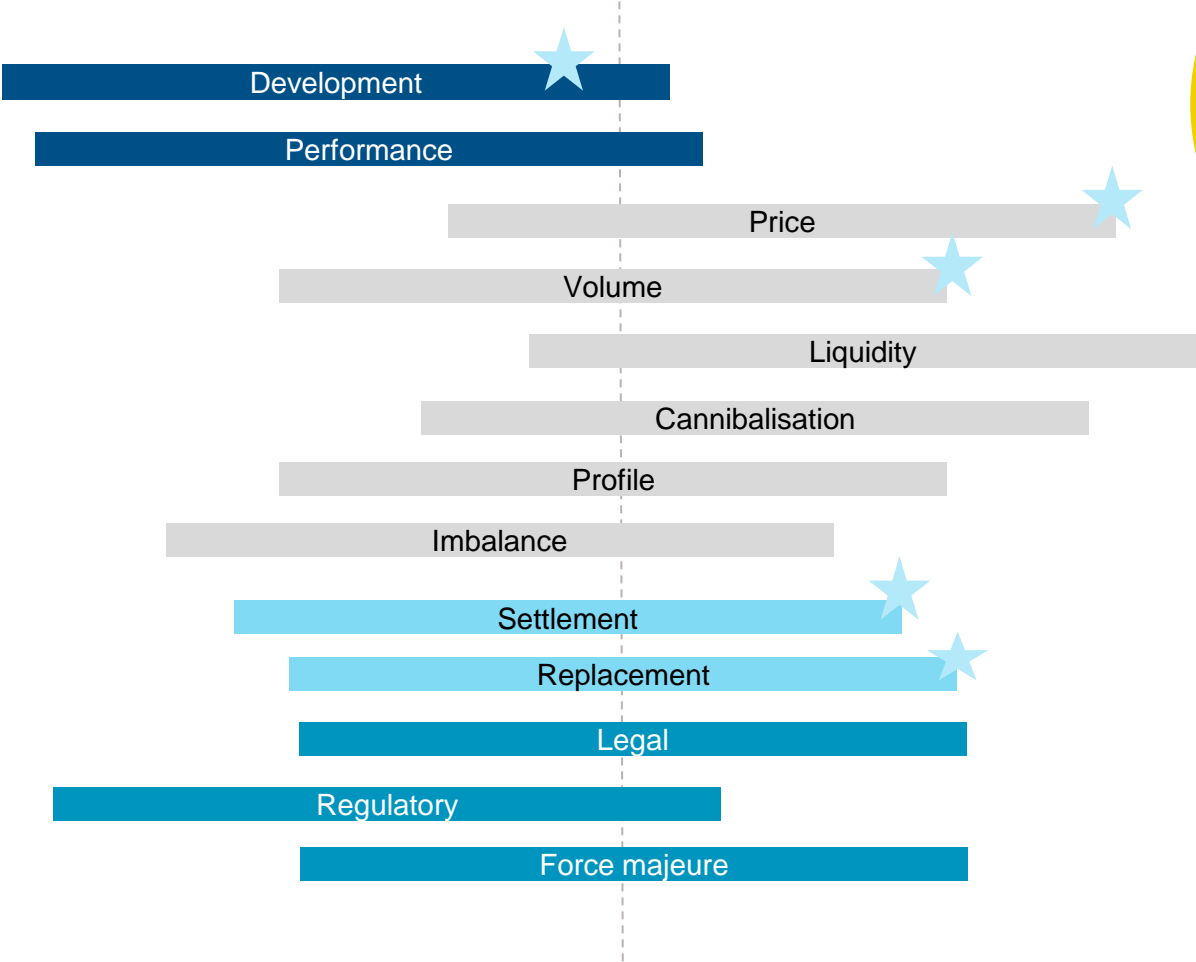
- risk management for price fluctuations: power is sold based on agreed price
- guarantees of origin
- power supply
- standard accounting as realised sale

## Financial\* (without physical supply)



- risk management for price fluctuations: power is sold in the spot market and price differences (vs agreed price) are settled between the parties
- guarantees of origin
- no power supply and therefore more flexible (i.e. pan-European PPAs)
- complex accounting typically considered financial derivative under IFRS

# Risks typically allocated in PPAs



A PPA negotiation is a risk allocation exercise between seller and buyer





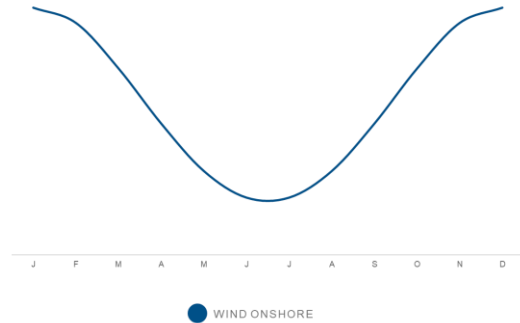


# Master your risks

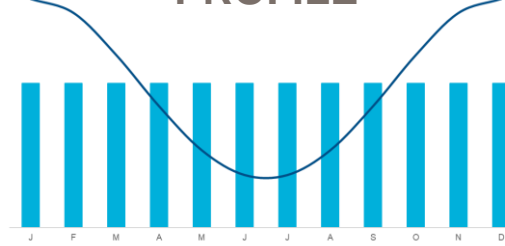
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# Volume risks

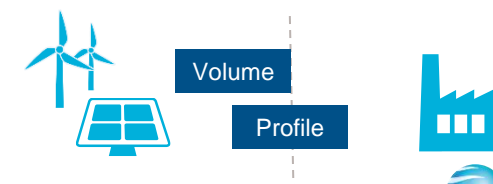
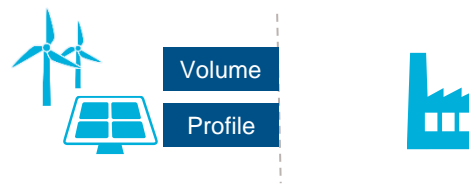
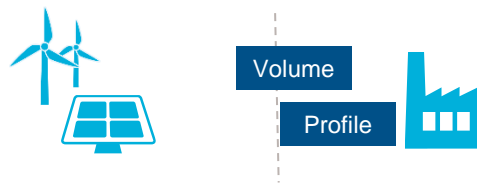
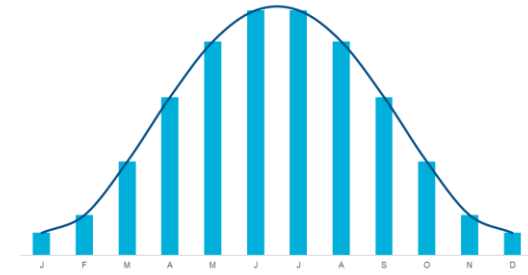
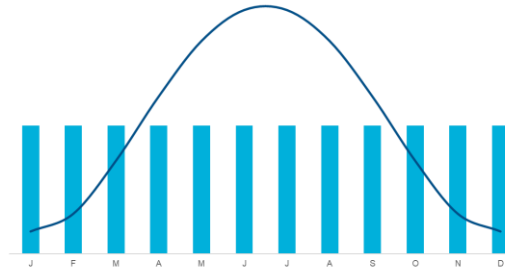
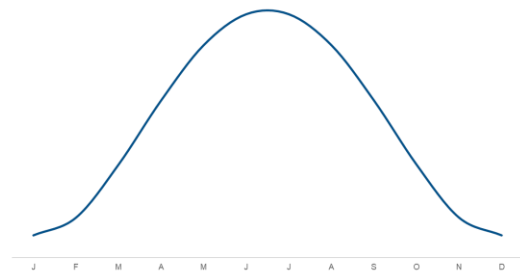
## AS-PRODUCED PROFILE



## ANNUAL BASELOAD PROFILE

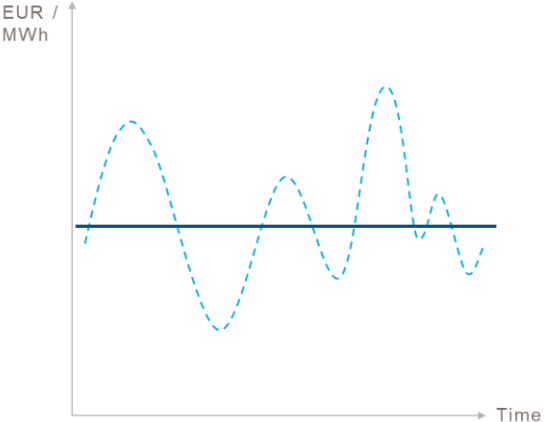


## MONTHLY BASELOAD PROFILE



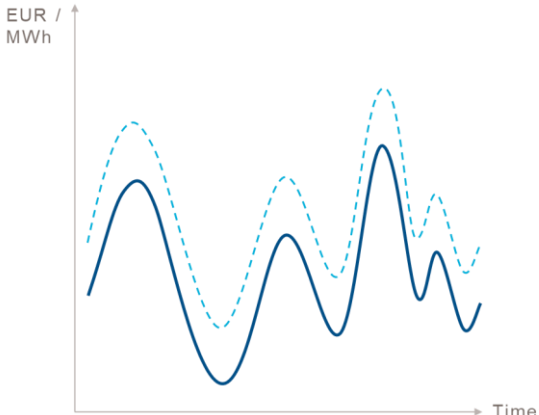
# Price risks

**FIXED PRICE**



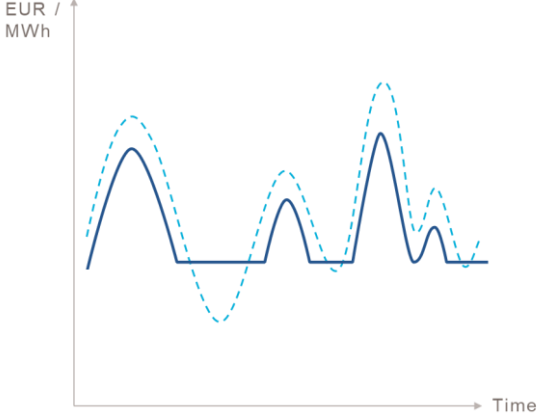
● PPA PRICE ● MARKET PRICE

**FLOATING PRICE**



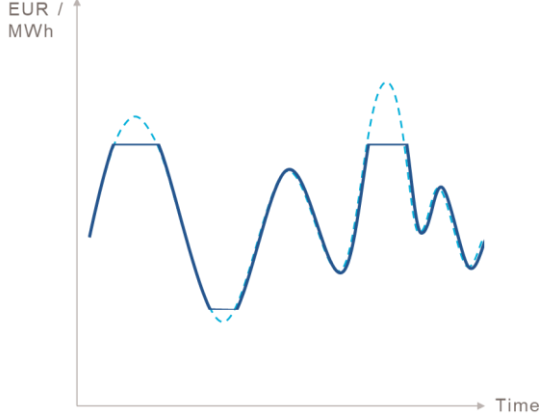
● PPA PRICE ● MARKET PRICE

**FLOOR PRICE**

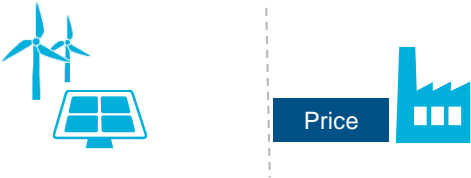


● PPA PRICE ● MARKET PRICE

**COLLAR PRICE**



● PPA PRICE ● MARKET PRICE



# Credit risk and bankability



- **Credit risk: the risk that your counterpart will not be able to meet its contractual obligations as agreed in the PPA contract**

<b>Replacement</b>	One of the counterparties may default and a replacement arrangement has to be made at current market prices (“replacement cost”)
<b>Settlement</b>	One of the counterparties may pay late or fail to make a payment when due

- A PPA is a long-term commitment: Know your counterpart, be realistic about future scenarios and monitor your counterpart’s credit development throughout the PPA lifetime
- Additional safeguards can be put in place such as guarantees/collateral, rating triggers or margining

- **Bankability – buzzword or success factor?**

- The project’s ability to repay its debt with a (very) high level of confidence
- Project financing banks consider strong counterparties “bankable” (typically investment grade or similar)
- **“Bankable” PPAs** comply with bankability requirements in several relevant contract clauses such as Price, Payment Terms, Credit, Termination, Liability, Force Majeure, Change in Law, Assignment, etc.

## bankability

*noun* [ U ]

UK /bæŋ.ke'bil.ə.ti/ US /bæŋ.ke'bil.ə.tj/

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**an ability to make money:**



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# **Master your negotiation**

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# PPA Process

Align your  
PPA process  
with your  
specific  
needs

- **Defining your PPA requirements and target PPA signature date are key to plan your process**
  - What PPA structure and risk allocation do I aim for? What risks can I take or are already mitigated otherwise?
  - PPA requirements of lenders and/or long-term investor relevant and known?
  - When do I want/need to sign the PPA? During development stage? At to ready-to-build status?
- **Negotiating detailed Term Sheets early on**
  - PPA Structure, Price and Credit are key, but other contract terms and conditions matter! (PPA should be evaluated as a whole)
  - Time spent is valuable as you save it (as well as negative surprises) later in the PPA process
- **The more negotiation parties involved, the longer the process**
  - For project financing, bankability requirements need to be fulfilled. Should lenders be involved in PPA negotiations?
  - More mature investors tend to involve lender and/or exit investors later and/or to a lesser extent
- **PPA experience of involved parties speeds up the process**
  - For many corporates it is the first deal, while some utilities/traders have an experienced transaction machine established
  - Expect 3-6 months of negotiation time with experienced counterparties and up to 12-24 months with newcomers

# Standardisation

Short-cut or  
double-edged  
sword?

- **Market has established some standards for bankable PPAs** that are to be found also in bespoke long-form agreements.
- **Standard templates are emerging such as the EFET or the FEE Corporate PPA Contract Template** which can be used as a starting point for PPA contract negotiations.
- **Comes at cost of flexibility / tailor made solutions** – Optimizing the risk allocation is often a project and stakeholder specific complex task. Time spent on tailoring the PPA to your needs with a reliable PPA partner (transactability!) often pays off vs. tendering a standard structure.

**Green light for Spanish subsidy-free  
170 MWp solar plant: BayWa r.e. and  
Statkraft conclude Power Purchase  
Agreement**

10.04.2018 10.00 | pressrelease

“This is made possible by a  
15-year PPA that is the first  
of its kind in Spain.”



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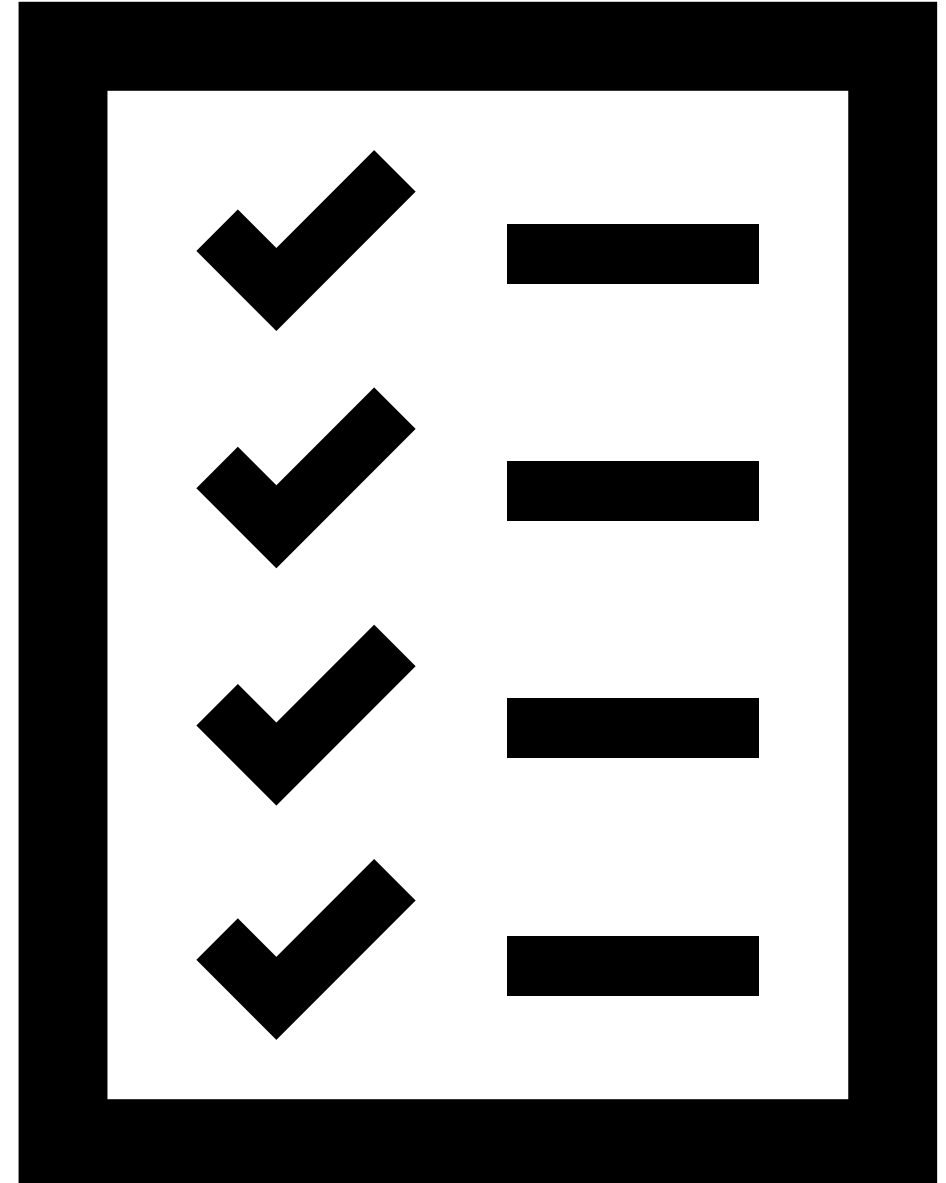
# **Step-by-step process**

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# Where to start:

- Know your risks and define your desired outcomes and risk mitigation strategies as detailed as possible (you can leverage standard term sheets for this phase)
- Choose the right timing for your PPA and allow for sufficient time to negotiate (min. 3-6 months)
- Find the PPA process that suits you best – tendering a standard structure vs. optimizing the risk allocation between the project’s specific stakeholders
- Choose a creditworthy counterparty if you want the PPA to be bankable over longer terms
- Negotiate detailed Term Sheets early on to compare the most important terms and conditions
- Evaluate the risk allocation within the PPA as a whole, and do not solely focus on price
- If lacking own PPA experience, involve experienced (legal) advisor(s)





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