OVER THE COUNTER SALE OF RENEWABLE POWER: SECURING STABLE PRICES ON THE LONG TERM

French perspectives

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1. INTRODUCTION

OTC SALES OF RENEWABLE ELECTRICITY IN THE WORLD

- Rapid increase in recent years:
  - 13.4 GW were purchased worldwide in 2018, compared to 5.4 GW throughout 2017
  - Member companies of the RE100 group will buy 100 GW of new solar and wind power capacity from corporate PPA by 2030

- Renewable Corporate PPAs have so far been concluded mainly in the United States and Northern Europe
- Historically, in France, several nuclear power purchase agreements were concluded during the construction of the French nuclear park and of hydro-power plants

Figure 1: Global corporate PPA volumes

Source: Bloomberg/NEF.
WHY IS THE TOPIC EMERGING IN FRANCE?

- Generators’ point of view:
  - Transformation of support mechanisms limiting attractiveness of the tariffs: in terms of (i) installed capacity, (ii) environmental criteria, and (iii) tariff level
  - 1,200 MW of the French wind farms reach the end of their purchase obligation contract in the coming years (about 500 MW/year from 2020-2021)

- End consumers’ point of view:
  - Uncertainty on market prices: (i) high variation of prices and (ii) ARENH reform to come
  - Lack of guarantees of origin available on the market
CORPORATE PPAS IN FRANCE

- Corporate PPAs already concluded in France:
  - Eurowatt / Agregio (EDF) / Metro: volume of 25 GWh and 3-year term for a brownfield wind farm
  - Boulanger / Voltalia: partnership agreement providing for the conclusion of a 25-year corporate PPA for a greenfield solar power plant with a capacity of 5 MW

- Ongoing processes:
  - Aéroports de Paris (ADP): call for tenders in 2018 to supply its three sites through a corporate PPA for 10% of its needs
  - RATP: call for tenders in 2019 to benchmark the various market players with a view to concluding a CPPA for the supply of 1.4 TWh of electricity from renewable sources
  - Orange: ongoing process
  - SNCF (SNCF Energie): tendering process aiming at covering 20% of its consumption
CORPORATE PPA SCHEMES

Main corporate PPA schemes:

- Physical PPA
  Direct grid connection and direct sale of power

- Sleeved PPA
  Connection to the public grid and intermediation of a supplier

- Virtual PPA
  Purely financial agreement without physical delivery
2. CONTRACTUAL STRUCTURES

PRICE LEVEL

- **Free determination** of the price: the price is not regulated by law


- Thanks to the decrease in renewable energy costs (the cost of solar panels has decreased by 84% since 2010, wind turbines by 32%), **greenfield solar and brownfield wind energy are competitive** today (around €50/MWh)

Source: *Coût des énergies renouvelables en France – ADEME 2016*
TARIFF STRUCTURE AND DURATION

- The duration of the contract depends on the type of installation:
  - Greenfield projects will require long term contracts (15-20 years), whereas brownfield projects may be used to meet shorter term contract demand (2-5 years)
  - No legal issue per se, however (i) dominant position and (ii) public contract requirements must be scrutinized

- Stability of the price is compatible with variations (predictability):
  - Fixed tariff or variable tariff (with a floor price and a cap price)
  - Depending on the phases of the contract: testing, commissioning, operation
  - Index: (i) linked to the contract and (ii) possible to replace

- Guarantees of origin (GO):
  - Low value of GOs in France (trades between €0.2/MWh and €3/MWh)
  - GOs cannot be cumulated with a support mechanism: lack of available Gos
  - Interest in securing GOs prior to the emergence of a market
THE EXELTIUM AGREEMENT

- Exeltium consortium: electricity purchasing group composed of around 30 "electro-intensive" companies (Total, Solvay, Arcelor Mittal…)

- 25-year take-or-pay contract signed with EDF in 2008 to purchase 311 TWh of nuclear electricity

- Price:
  - €4 billion advance ("avance en tête")
  - Indexed proportional price representing the operating costs of EDF's nuclear park: the price is competitive when compared to the ARENH price (€42/MW)
OTHER CLAUSES AND RISKS (1)

- **Volume/profile risk**: 2 types of contracts
  - Pay as produced: the offtaker buys all the electricity produced or pays the producer a penalty. The offtaker closely controls the production of electricity;
  - Guaranteed volume: the producer guarantees a volume of electricity production, and compensates the difference in the event of production lower than the guaranteed level.

- Implications of the “pay as produced” scheme:
  - Information obligation
  - Audit of the operation of the installation / approval of O&M contractor
  - Penalties in case of inefficient operation
OTHER CLAUSES AND RISKS (2)

- **Counterparty risk:**
  - Guarantees: (i) contractual or (ii) financial
  - Insolvency: limitation of the possibility to terminate the contract and/or claim damages

- **Risk of change in the contract environment:**
  - Hardship: possibility for a court to modify the contract?
  - Legal: change in law
  - Transfer of the contract – change of control
  - Revision clause
3. PERSPECTIVES

HOW TO SUPPORT THE USE OF CPPA?

- Combination with a contract for difference?
  - Pros: price competitiveness
  - Cons:
    - GO can not be cumulated with a support mechanism
    - The price is not stable for the offtaker
    - The project would remain subject to the restrictive requirements of support mechanisms

- Support to end-consumers benefitting from GOs?
  - Tax advantage to the benefit of end-consumers for buying GOs (ex: USA)
PERSPECTIVES

 Lack of feedback on the performance of CPPAs

 State support?
  o Tax scheme for the Exeltium contract
  o Similar scheme for CPPAs?

 Importance of market practice and standardization
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