

The Power Purchase Agreement



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THE POWER PURCHASE AGREEMENT

What is a Power Purchase Agreement (PPA)?

- The agreement that governs the **sale and purchase of power from a power project**.
- A PPA is a contract between two parties, one who **produces or generates power for sale** (the seller/producer/project company) and one **who seeks to purchase power** (the buyer/offtaker). This contract is some-times referred to as an offtake agreement.



CONSIDERATIONS BEFORE THE PPA

Before a PPA is drafted, an offtaker should:

- Determine **power demand**
- Assess the availability of **transmission** infrastructure
- Identify potential **energy sources** for new generation
- Decide on the power-generating **technology**
- Determine the ideal **location** of the power project relative to resource quality/market infrastructure



POWER PROCUREMENT AND TARIFF CONSIDERATIONS:

- **Procurement methods:** Offtakers may pursue either a structured competitive tender or a more open process of direct negotiations to procure power.
- **Quality matters:** Since most power-projects are expected to operate for decades, the offtaker should select a project based not only on price, but also on quality and reliability.



SPECIAL CONSIDERATIONS FOR RENEWABLE ENERGY

Unique Advantages

- Security of supply
- Reduced cost/risk
- Speed of deployment
- Fewer triggers for termination
- Greater shift of risk to defaulting sellers
- Lower decommissioning costs

Unique Risks

- Wind and Solar projects generally provide intermittent supply as opposed to baseload supply
- Effective capacity of renewables may be less than nameplate capacity due to weather conditions
- Increasingly volatile weather events may reduce predictability of solar/wind

Mitigating these Risks

- Geographical Spread
- Ongoing wind/solar resource studies to adjust modelling
- Energy storage to reduce intermittency



Memorandum of Understanding (MOU)

- Non-binding agreement signed between the project company and host government
- Can be interpreted as an indicator of activity on a project, which could result in liabilities for the host government
- Host Governments should use the same discretion and care when negotiating a MOU as when negotiating a PPA

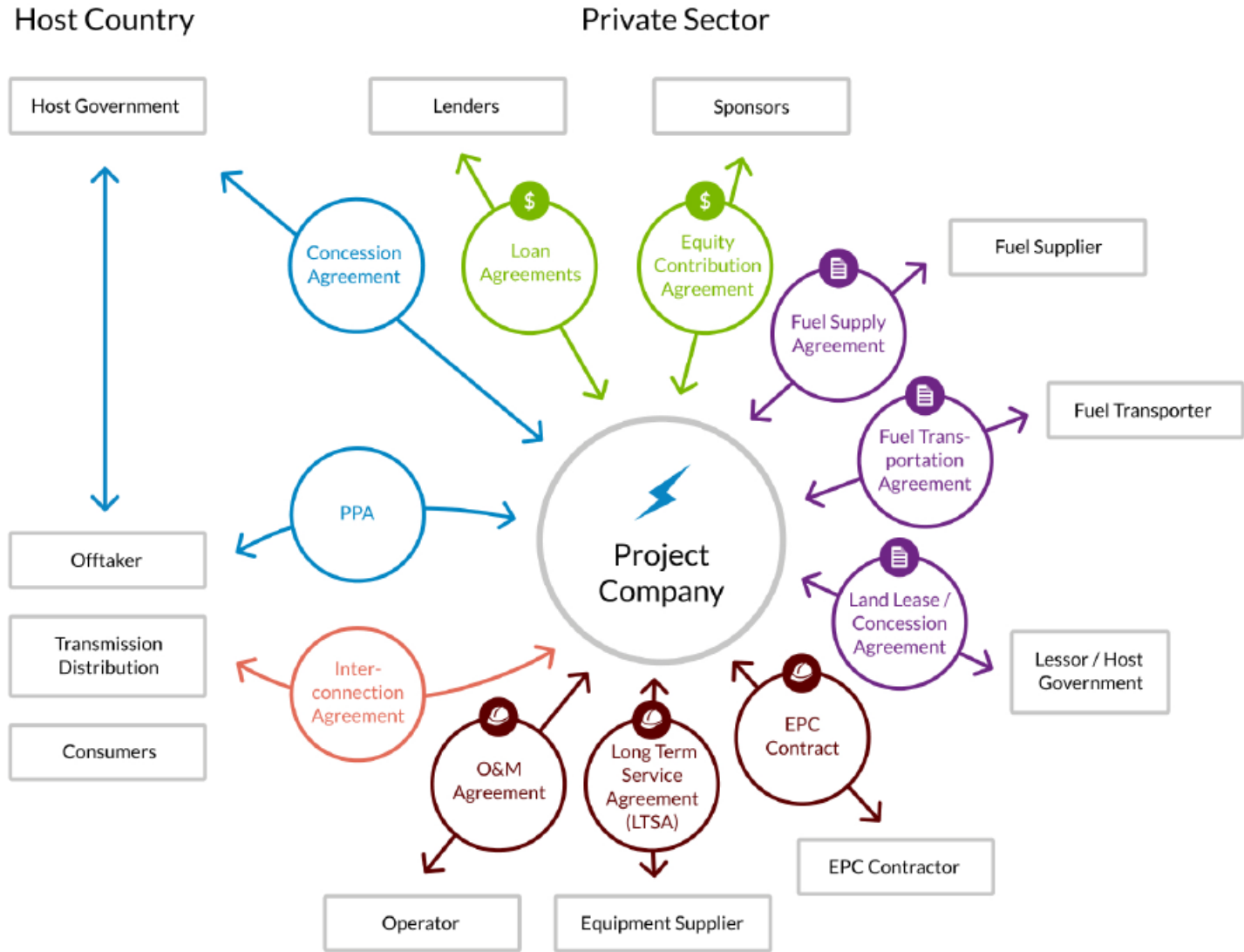


CRAFTING A PPA

- **Who takes the pen:** The initial draft of the PPA can come from either the project company or the offtaker, but is typically first proposed by the offtaker.
- **The importance of legal counsel:** The offtaker should seek the advice of qualified legal counsel when preparing the PPA to ensure all legal/financial risks are identified and addressed.



RELATED PROJECT AGREEMENTS



TIMING CONSIDERATIONS

- Effective Date Considerations
- The PPA will include milestones and deadlines, while failure to meet these could result in the PPA penalties/termination
- Delay-linked Liquidated Damages: Included to incentivize the Project Company to meet deadlines
- Development Bond: Posted by project company and payable to offtaker if milestones are not met

Milestones	Required by PPA	Late satisfaction terminates PPA
Land acquisition	Yes	No
Major permits: application	Yes	Sometimes
Major permits: receipt	Yes	Rarely
Financial close	Yes	Yes
Signing EPC/Issuing notice to proceed	Yes	Rarely
Commencement of construction	Yes	Sometimes
COD	Yes	Yes



