The Power Purchase Agreement

Project made possible through funding by:

In Partnership with:

Institutional Partners:
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 sometimes 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

<table>
<thead>
<tr>
<th>Milestones</th>
<th>Required by PPA</th>
<th>Late satisfaction terminates PPA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land acquisition</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Major permits: application</td>
<td>Yes</td>
<td>Sometimes</td>
</tr>
<tr>
<td>Major permits: receipt</td>
<td>Yes</td>
<td>Rarely</td>
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<tr>
<td>Financial close</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Signing EPC/Issuing notice to proceed</td>
<td>Yes</td>
<td>Rarely</td>
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<tr>
<td>Commencement of construction</td>
<td>Yes</td>
<td>Sometimes</td>
</tr>
<tr>
<td>COD</td>
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<td>Yes</td>
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</tbody>
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