Corporate PPAs—First step in corporate decarbonization

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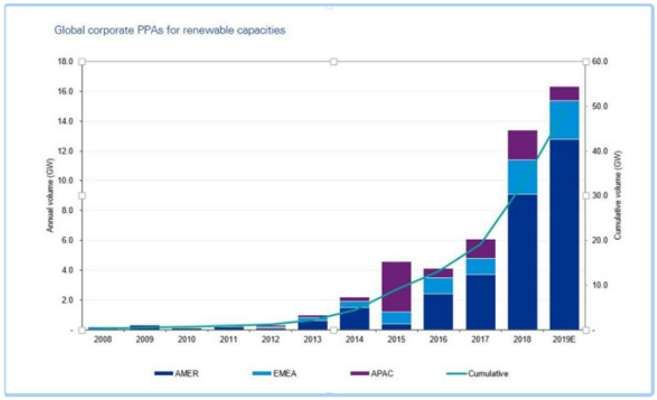
Strong ambitions for corporations

As corporations account for approximately two-thirds of the world's electricity end-use consumption, they can and will likely play a vital role in decarbonizing global economies by 2050. Until recently and outside the energy-intensive industries, the majority of corporations used to treat energy procurement as a cost to be managed rather than a strategic area for risk reduction and value creation. This has changed over the last years, partly driven by stakeholder pressure and government policy, but also as multiple options have emerged for corporations to reduce carbon emissions with respect to electricity consumption, varying from energy efficiency programs (often driven by innovation) to equity investments in renewable generation assets. By now, a large part of the largest global corporate consumers of energy have clear renewable energy targets in place—some of them already committed to procuring 100 percent of their electricity from renewable sources.

In particular, sourcing renewable electricity through a corporate power purchase agreement (corporate PPA) has grown in popularity recently. Simply put, a corporate PPA usually is a long-term contract under which a company agrees to purchase electricity directly from an energy generator/developer (instead of through a utility).

A clear acceleration of global corporate PPA volumes has been observed over the second half of the previous decade.



Source: Bloomberg NEF

Tip of the iceberg

The growth of global corporate PPA volumes is a clear indication that the private sector is mobilizing in an unprecedented way, replacing the supporting role of governments with respect to the significant global build out of renewable capacity over the next decade. Corporations are offering renewable asset developers an alternative to risk mitigating subsidies by offering

[1] For the period 2010–LE 2019. LE 2019 should be based on: https://energynorthern.com/2019/10/21/long-term-renewables-based-power-purchase-agreements-transform-european-electricity-sector/ and should be estimated by dividing by 9/12 to get a high-level full year estimate.

long term contracts with risk mitigating characteristics (e.g., fixed price or flexible pricing with caps and floors) while providing themselves with improved cost management (more stable, more predictable and/or lower costs—driven by a strong reduction of the levelized cost of renewable energy), strengthened resilience, and an enhanced green brand.

While the recent growth of global corporate PPA volumes has been steep, it is expected this is just the tip of the iceberg. Driven by a further decrease of government incentives with respect to renewable energy projects (resulting from a combination of a stronger policy focus on environmental goals and reduced government interference of national electricity markets in developed countries), risk mitigated corporate PPAs will be required for developers to be able to attract competitive financing and realize new build of renewable generation assets, aligning with the increased demand for renewables by corporations driven by their renewable energy sourcing targets. This combination of elements will likely further catalyze growth of global corporate PPA volumes in the coming decade.

Impact to the broader value chain

The further increase of corporate PPA volumes can have a fundamental impact on the traditional electricity value chain and need to be monitored carefully over the coming years. Examples include the following:

- What is the long-term impact of a significant increase of bilateral trading through corporate PPAs on the liquidity of the energy trading markets?
- What is the impact on developers and corporate offtakers of renewable energy because of the reduction of government control and supervision with respect to national energy markets?

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