

# Buying green power as a business

Faced with a volatile energy market and rising overheads, businesses are increasingly looking for long term price certainty when it comes to their energy. This is coupled with the challenge of buying power that is aligned with corporate sustainability commitments.

A solution to both of these issues is procuring power direct from a renewable energy generator under a corporate power purchase agreement (“**CPPA**”).

## What is a CPPA?

A CPPA is a contract, between a business and a renewable electricity generator. Under the CPPA, the business buys electricity generated by a particular renewable energy project, such as a wind farm or solar farm.

This is different to the usual method in which businesses buy power from a licensed electricity supplier via the grid. A licensed supplier will source power from a vast portfolio of producers whereas a CPPA establishes a direct contractual relationship between a business and a renewable energy generator.

Further, the business is typically able to strike a longer term deal with a renewable generator compared with a typical supply contract with a licensed supplier.

CPPAs typically concern electricity but there is also an emerging market in corporate (bio)gas purchase agreements, enabling business to decarbonise their gas demand.

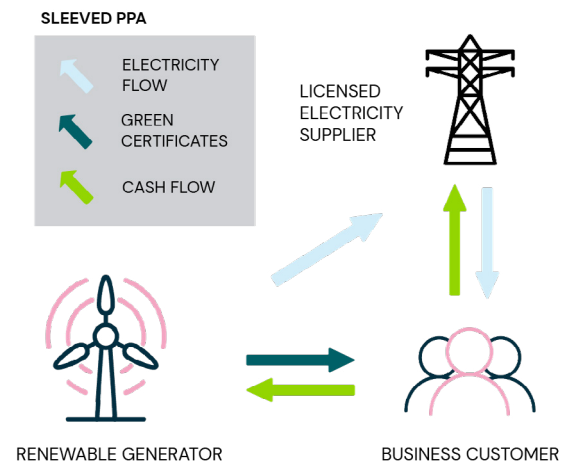
## Why should you consider a CPPA?

- **Price stability and certainty:** A core benefit of all CPPAs is an element of price stability. Businesses can agree a fixed price for a proportion of or all their energy, providing more certainty on outgoings and protecting the business against future price hikes over the term of the contract (often 10–15 years).
- **Green credentials:** Businesses are facing increasing regulatory and reputational pressures to both disclose and reduce their carbon footprints. Purchasing power directly from renewable energy projects can lower indirect carbon emissions, otherwise known as ‘Scope 2’ emissions. Alongside purchasing the power, businesses can also purchase green certificates – renewable guarantees of origin (“**REGOs**”) and use these certificates for sustainability reporting purposes.

## How are CPPAs structured?

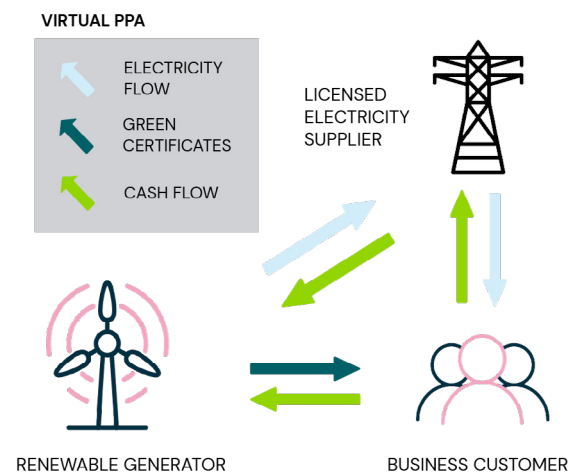
There are three approaches commonly used to structure CPPA arrangements. Which approach is used will depend on a variety of factors, including the commercial drivers, the business needs of the corporate and the structure of the generating project providing the electricity.

- **Sleeved:** A business agrees to buy electricity from a specific renewable energy generator, but there is no physical connection between the business and the generator so the electricity must travel via the public grid. Therefore, a licensed electricity supplier is needed to act as an intermediary to 'sleeve' (orchestrate) the 'physical' supply of electricity from the generator to the business. For providing this service they receive a 'sleeving' fee. The licensed supplier can also provide additional "top up" electricity to the business when needed. This is essential in the context of intermittent renewable electricity generation, particularly wind.

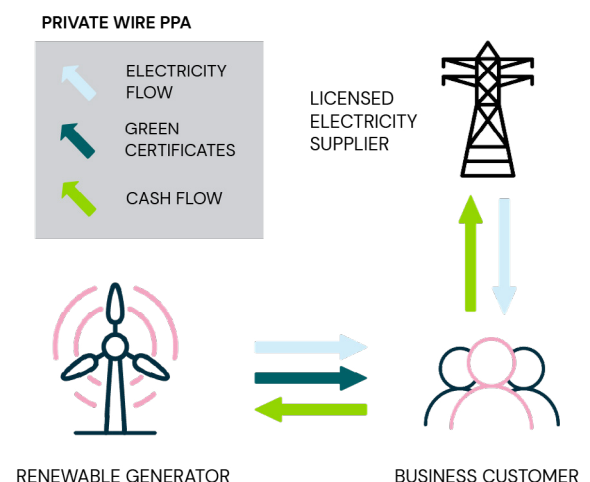


- **Virtual:** A business and a renewable energy generator agree to fix the price of electricity between themselves in order to protect against fluctuations in the market price. This fix is agreed under a "virtual" power purchase agreement – essentially a contract for difference.

If the market price is above the agreed fixed price then the generator pays the difference to the business customer (and vice versa). The agreement is 'virtual' as the customer will still need a contract with a licensed supplier for the 'physical' delivery of power to the business.



- **Private wire:** A business agrees to buy electricity from a renewable energy generator that is located nearby or on the same site such as a rooftop solar provider. The electricity does not travel via the public grid but instead via a 'private wire' connecting the generator directly to the business site. Unlike the other two structures above, with a private wire the electricity produced by the generator is physically conveyed to the customer. However, this structure can only be implemented where geography permits – that is, where there is proximity between the renewable generator and the business, and the ability to lay a private cable.



Our specialist Clean Energy lawyers have extensive experience of advising businesses on all types of power purchase arrangements. We have acted for clients on all sides of the table, including multinational logistics providers, international retailers, airport operators, manufacturing businesses, waste businesses and public sector bodies, as well as renewable generators and licensed electricity suppliers.

Please contact the Clean Energy lawyers below if you would like to discuss how we can help your business with its green power journey.

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