

## **Nordenergi views on market-based Power Purchase Agreements (PPAs) to support European competitiveness**

A PPA is a tailored agreement for the supply of power at an agreed price over a given period. As a rule, the agreement is entered into between a power producer and a consumer, and can often have a long time horizon (10-15 years). There are many different forms of PPA agreements. What they have in common is that the PPA agreement is subject to lengthy negotiations to identify counterparty risk and agreement on price. The use of PPAs is widely considered an effective way to reduce financing costs of generators and to mitigate the impact of short-term market fluctuations on electricity prices paid by the consumers, including industrial consumers.

In some countries regulatory barriers are hampering PPAs at national level, such as obstacles to the signature of direct contracts between generators and off-takers.

In the context of the Draghi report and the forthcoming Clean Industrial Deal, Nordenergi would like to highlight the following principles for a framework for PPAs:

1. PPAs are and must remain market-based agreements based on price expectations in the electricity market during the contract period. They do not require public support, and they should not be mandatory. Support or market intervention could reduce the incentives for energy efficiency and flexibility.
2. The ability of market participants to tailor PPAs is a particularly important asset.
3. It must be up to market participants how they choose to trade power and how they choose to hedge.
4. PPAs should not be harmonised or standardized since they should be able to vary according to the wishes of market participants based on negotiations
5. PPAs should be traded at market parties' discretion. Voluntary trading platforms can lead to increased transparency. However, a platform must not be mandatory, given that PPAs must be able to be tailored for the individual purposes.
6. It is important to be careful with the aggregation of PPAs in a centralized, mandatory "pool" as this could undermine tailoring and reduce efficiency in the market. A pool will quickly appear unattractive to the seller and thereby undermine the availability of PPAs for industry. Voluntary private aggregation on market terms, on the other hand, can be positive.
7. Public authorities should not take the role of "single buyer and seller" of PPAs on behalf of consumers as this will destroy a well-functioning market. "Matching demand" with "production" will similarly undermine the market
8. In line with the EU market rules, the issuance of credit guarantees to cover offtaker default should be further explored in a careful manner. Such a credit guarantee will reduce the hurdles for consumers and sellers who want to enter into PPAs. Guarantees can contribute to the opening for actors with somewhat lower creditworthiness (high debt ratio), typically

start-ups, to enter into PPA agreements. This reduces the counterparty risk for the developer of the project and would unlock the PPA offtaker base even further.

9. Production that receives state support via CfDs should not be earmarked in whole or in part for PPAs to consumers "who face international competition". Any support for industry exposed to competition should be given in the form of direct support.
10. So-called "shaping costs" (costs due to differences in consumption and production profile) are a natural part of a power system characterized by intermittent production and should be covered by the market players. Government support should not be introduced to reduce shaping costs. Pricing them provides incentives to develop flexibility solutions. In the longer term, shaping costs can be reduced by increasing the degree of flexibility in the power system through energy storage systems and demand flexibility. This must mainly be incentivized through prices in the market.

Nordenergi would like to emphasize that a well-functioning market for PPAs can contribute to reduce the effect of market fluctuations. We remain available for further discussions if this is useful for you.

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