

drax



A guide to Power Purchase Agreements

The options for selling your excess power to generate additional revenue for your business



A large, high-angle photograph of a combine harvester working in a vast, golden-brown field. The harvester is positioned in the center-left of the frame, moving from left to right. It's a complex machine with a white cab, a red grain tank, and a green harvesting head. A significant amount of dust is visible behind the machine as it cuts through the crops. The field extends to the horizon under a clear sky.

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Introduction

Generating your own renewable power offers a great opportunity, but setting up Power Purchase Agreements (PPA) can be a tricky business.

The PPA market's crowded and can feel difficult to navigate. Each provider has a different offering, with a range of available tariffs and pricing structures.

This guide's an introduction to renewable PPAs. It's designed for independent, small-scale generators that produce more renewable electricity than they need.

This guide will provide all the information you need to make the right decisions, including:

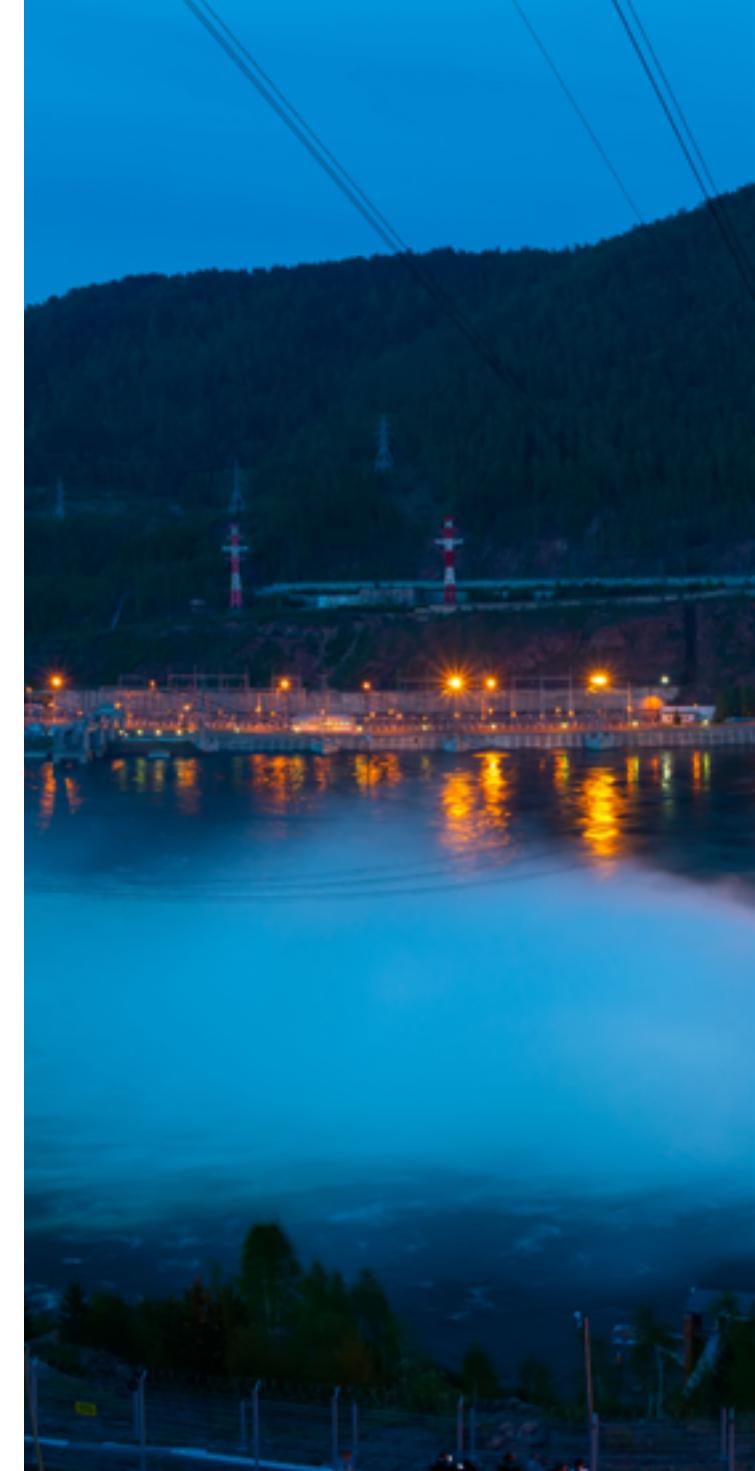
- What you should look for in a PPA partner
- The questions to ask when setting up a contract
- How to maximise your revenue opportunity

With this guide to hand, you can harness the potential of energy generation and realise real returns for your business.

Who are we?

We're Drax. We're supporting the UK's transition to a more sustainable future, providing renewable power from independent generators like yourself to our customers. We're also the largest provider of renewable electricity in the UK.

You can be part of our journey by choosing Drax as your PPA partner. Contact us using the details on the back page.



What's a Power Purchase Agreement?



A PPA lets you sell the excess electricity you generate to a utility company or other buyer for a fixed price, and over an agreed period.

A PPA can be straightforward, or complex, depending on your needs. You may have one site with one generation technology, or multiple sites with different commercial needs.

Whatever type of contract you agree, a PPA covers the sale of the excess energy you generate, creating additional value for your business.

What benefits do PPAs offer?

- **Extra income**
A PPA lets you generate extra income over a fixed period by selling the excess renewable electricity your business has generated back to the grid on an agreed basis.
- **Price certainty**
A fixed price for your energy gives you certainty on your investment returns. It can guarantee you a set price for every MWh of power you're contracted to sell, so you know exactly how your business stands.
- **Control**
Your PPA can be flexible, allowing you to retain control of the energy you generate for your own consumption and sell only the excess 'spilled' power.
- **Support for wider decarbonisation efforts**
By choosing to generate renewable power - and bring that power to market for other end-users - you can help to support the wider decarbonisation efforts in the UK.

Choosing the right PPA

There's a range of PPAs available for generators. Some choose the security of a fixed price PPA, while others prefer the greater freedom that comes with a flexible option.



Fixed price PPA

You can choose from two options when it comes to fixed price PPAs:

Fully fixed PPA

Your PPA guarantees a fixed price for your power and 'embedded benefits' (see page 9) as a single unit rate so you know exactly how much your business will be paid.

Fixed price PPA with passthrough embedded benefits

This option pays you a fixed price for every KWh of electricity you sell while also passing through embedded benefits as a fixed percentage.

The value of the embedded benefits will vary depending on your site's distribution region and technology type. At the same time, you'll receive a Renewable Energy Guarantee of Origin (REGO - see page 9) certificate.

Flexible PPA

A flexible PPA allows you to trade your export power at different times to take advantage of changes in prices on the wholesale market.

Because there's trading involved, this type of PPA's appropriate for those generators that actively monitor the wholesale market and are comfortable trading.

System Sell Price option

You can choose a PPA that pays you the System Sell Price (SSP - see page 9) for every KWh of electricity that your business sells to the grid.

SSP - sometimes called the 'cash-out price' or 'imbalance price' - is used to settle half-hourly balancing differences in the wholesale electricity market.

As a result, you'll receive variable payments depending on when you choose to export your power.

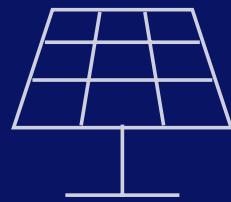
Export tariff option

The export tariff is a regulated, all-inclusive tariff that's available to accredited Feed-in Tariff (FiT) generators exporting electricity.

Ofgem adjusts the tariff each April in line with the Retail Price Index (RPI - see page 9) inflation rate for the prior calendar year.

Which generators are eligible for a PPA?

If you're generating electricity with any of the below technologies, or are accredited under the Feed-in Tariff (FIT) or Renewables Obligations Certificate (ROCs) schemes, you're a renewable generator.



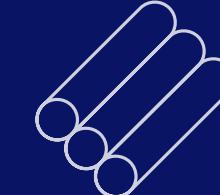
Solar PV (photovoltaic)



Wind



Hydro



Biomass



Anaerobic digestion

What's the Feed-in Tariff?

The Feed-in Tariff (FiT) is a scheme the Government introduced in April 2010 for renewable generators.

Generators with a capacity of up to 5MW were eligible to take part. The scheme closed to new participants in April 2019.

Participants receive payment both for the generation and export from eligible installations.

The four questions you should consider to secure the best PPA

1 How much electricity are you intending to sell through your PPA?

Roughly speaking, how much spare electricity capacity does your business have?

You may be a 'prosumer' – a site that both produces and consumes electricity. You could use your generation to produce renewable power to use in your business, and then only sell the surplus. Or you may be looking to sell all the energy you can from your generation.

2 How long do you want to fix your PPA for?

PPA lengths can range from as short as six months right up to 20 years, though it's rare to find one longer than five years.

No two businesses are exactly the same, which is why you need to find a PPA that suits your needs. Depending on how active you want to be in managing your generation, you might favour flexibility or stability. If you work with a partner, they'll be able to make recommendations on length of PPA. Find out more about partners under question 4.

3 Are there any hidden costs?

It's important to be aware of any additional costs that your PPA offer may not include.

These could be metering charges such as **data collection (DC)** or **data aggregation (DA)** charges, other non-commodity costs, or management fees.

You should always clarify if the PPA includes these. Our pricing's always transparent, so with Drax you know exactly what you're getting.



4 How do you want to arrange your PPA?

There are three main routes to setting up a PPA:

- **With an energy supplier**

To save searching for the right business to sell your power to, you can choose a licensed energy supplier to set up your PPA for you.

This is one of the more common routes for PPAs, especially for small-scale generators. A supplier will buy your power, and then distribute to their portfolio of customers.

At Drax, this is how we supply our own customers with renewable electricity, while supporting small-scale independent generation. The right partner will work with you to put your commercial needs first, reliably handling all associated paperwork and paying you for your power on time.

- **With a third party intermediary**

You could also choose to work with a third party intermediary (TPI) to find the right PPA for you - either directly with a customer or through a licensed supplier. A TPI will be able to compare different suppliers. In exchange for their services, they tend to receive payment through commissions - which will add to overall costs.

- **Directly with a consumer**

As a generator, you can choose to sell your excess power directly to another site or business, usually adjacent, and receive compensation via a bespoke purchase agreement. This can bypass the grid, avoiding certain charges.

You can also achieve this through a Corporate Power Purchase Agreement (CPPA). A CPPA doesn't bypass the grid in the same way, however, and will attract distribution charges.

The complex nature of this arrangement means that it's normally only suitable for larger generators.



Jargon buster - what does it all mean?

Direct PPA

An agreement to sell some or all of your electricity directly to a customer.

Distribution network

The network that carries lower voltage electricity (that's been converted from the high voltage transmission network) to industrial, commercial and domestic consumers.

Embedded benefits

These are extra payments on top of the fixed price for electricity included in a PPA. They essentially reward electricity generators who contribute to their local lower-voltage network (without using the infrastructure of the main national 'distribution' network).

Embedded generation

Generation plants that are connected to the distribution network rather than the transmission network.

Power Purchase Agreement

A contract where your business agrees to sell some or all of the electricity you're generating to a buyer for a set number of years.

Retail Price Index

Abbreviated to RPI, this is a measure of inflation that the Office for National Statistics (ONS) publishes on a monthly basis.

It measures the change in the cost of a representative sample of retail goods and services.

System Sell Price

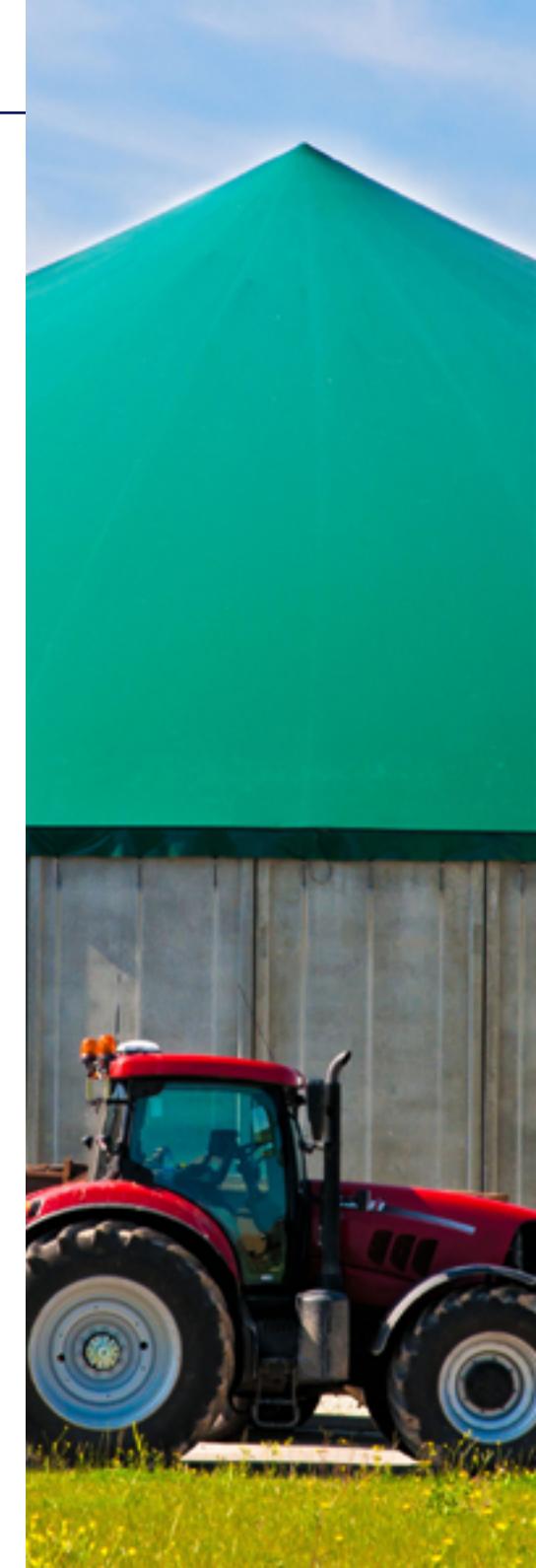
The system operator sets the half-hourly System Sell Price (SSP), referred to as 'cash-out', shortly after the half-hourly settlement period in question. Its value reflects the relative balance of the electricity system for a given settlement period.

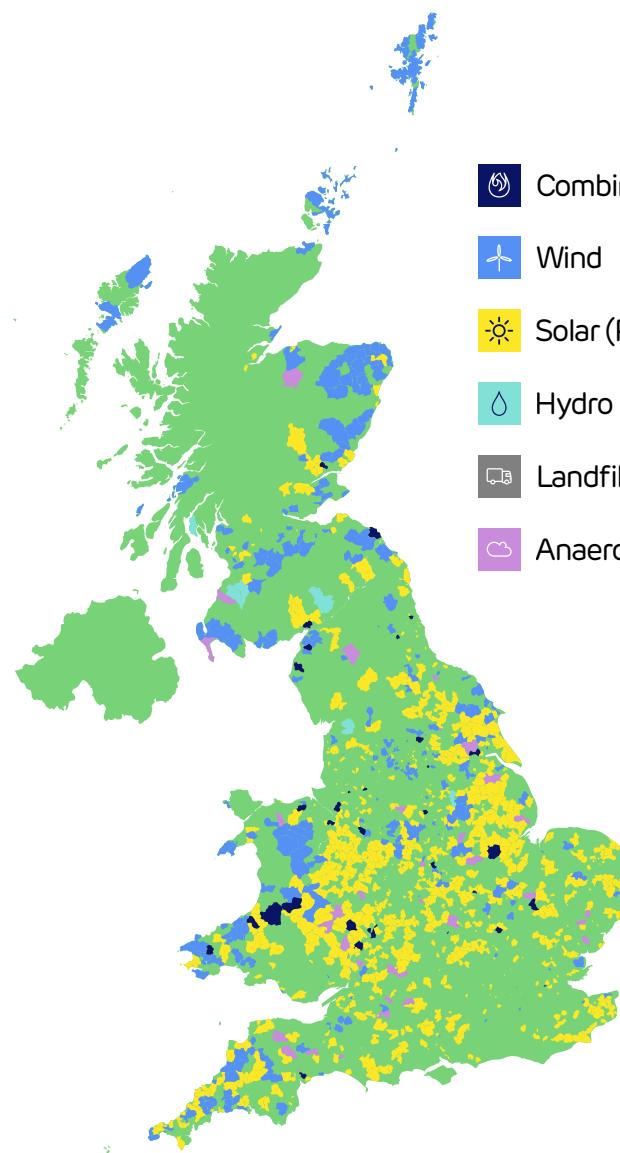
Renewable Energy Guarantee of Origin (REGO) certificate

Certifies that the electricity you're generating is renewable. When a supplier buys this power from you, they'll also buy the relevant REGO certificates from you.

Transmission network

The network of pylons and cables that transmits higher voltage electricity from power stations (where it's produced) to wherever it's needed across the UK.





-  Combined heat and power (CHP)
-  Wind
-  Solar (PV)
-  Hydro
-  Landfill gas
-  Anaerobic digestion

Who are we?

Drax helps independent renewable electricity generators maximise revenue from their generation assets.

We're supporting the UK's transition to a more sustainable future by supplying renewable source electricity from independent generators like yourself to our customers.

Through PPAs, we provide generators with a route to market, guaranteeing revenue on the electricity they generate. We help more than 2,300 generators across Great Britain make the most of their generation opportunity.

Switch to PPAs

We'd love to talk to you more about how your business could benefit from a renewable PPA with Drax. Get in touch to tell us what you'd like to discuss.

 [Contact us](#)

 [0845 040 5802](tel:0845 040 5802)

 [/draxenergy](#)

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energy.drax.com