

drax

A guide to Power Purchase Agreements

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



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 is crowded and can feel difficult to navigate. Each provider has a different offering, with a range of available tariffs and pricing structures.

This guide is 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:

- Discover what you should look for in a PPA partner
- Know the questions to ask when setting up a contract
- Find out 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 biggest supplier (by annual consumption volume) of renewable power to UK businesses.

You can be part of this journey by choosing Drax as your PPA partner. If you're interested in hearing more from us, you can reach us using the contact details on the back page. We look forward to hearing from you.



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.

They 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?

- **Generate 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.

- **Enjoy 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 are contracted to sell, so you know exactly how your business stands.

- **Stay in control**

Your PPA can "spill" spare energy to the grid. You still have complete control of the energy you generate for your own needs, while earning extra money by selling excess power

By choosing to generate renewable power - and bringing 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 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) 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 is appropriate for those generators that actively monitor the wholesale market and who are comfortable trading.

System Sell Price option

You can choose a PPA that pays you the System Sell Price (SSP) 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.

The tariff's adjusted by Ofgem each April in line with the Retail Price Index (RPI) inflation rate for the prior calendar year.

What are Embedded Benefits?

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

What are REGOs?

REGO is short for Renewable Energy Guarantee of Origin. REGOs are official certificates to prove where electricity was generated.

REGOs certify 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.

What's the System Sell Price?

The 'cash-out' price set by the system operator. This is used to settle the difference between the amount of energy that was contracted to be generated or consumed in each half hour trading period and the actual amount that was generated or consumed.

What's the Retail Price Index?

The Retail Price Index (RPI) is a measure of inflation published monthly by the Office for National Statistics.

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

Which generators are eligible for a PPA?

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



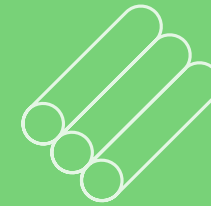
Solar PV (photovoltaic)



Wind



Hydro



Biomass



Anaerobic digestion

What's the Feed-in Tariff?

The Feed-in Tariff (FIT) is a government scheme for renewable generators, introduced in April 2010.

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

Participants are paid 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 generator 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 generator(s).

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

PPAs can last from anything as short as six months, right up to 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 generator, 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 in question three.

3 Are there any hidden costs?

It is important to be aware of any additional costs that may not be included in your PPA offer.

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 these are included in the PPA. Our pricing is 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 be paid through commissions which will add to overall costs

Directly

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

This can also be achieved 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 nature of this arrangement means that it's normally only suitable for larger generators.



A business success story

At Drax, we partner with over 2,300 renewable generators across the UK. Together with our supply businesses, we're one of the largest suppliers and supporters of renewable electricity in the UK.

Ashby Farms is one of our PPA partners. This is their story.

Ashby Farms, in Daventry, Northamptonshire, is home to a family that's been farming in the area for generations.

Originally an arable and livestock farm, the Ashby family began to look at alternative revenue streams as the business developed and found a promising solution.

"Farming is the basis of the business, but we've since diversified into renewable energy," explains Roger Ashby.

With a wind turbine and solar panels on the land, the Ashby family business is reducing its energy spend and environmental impact

The family installed a PV solar array in 2011, and a wind turbine followed in 2014.

"We chose a wind turbine because initial investigation found out there was sufficient windspeed in the area to support a wind turbine, and so we pushed ahead."

The benefit is twofold. Firstly, investing in renewable energy infrastructure represented "a very good business model" for Ashby Farms. Secondly, aside from the set-up costs, maintenance is low and there's a guaranteed return.

With a PPA in place, Mr Ashby is paid for every unit of electricity generated on site.

"We signed up with Drax and we've been very pleased with the service they've provided. It's a great business because you just rely on the wind, and usually the wind will blow. And then Drax will do the rest."

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

The Retail Price Index (RPI) is a measure of inflation, published monthly by the Office for National Statistics (ONS).

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

System Sell Price

The 'cash-out' price set by the system operator that is used to settle the difference between the amount of energy that was contracted to be generated or consumed in each half hour trading period and the actual amount that was generated or consumed.

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.



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, providing 100% renewable source electricity from independent generators like yourself to our customers. These relationships, and our own generation assets, make us the biggest supplier (by annual consumption volume) of renewable power to UK businesses.

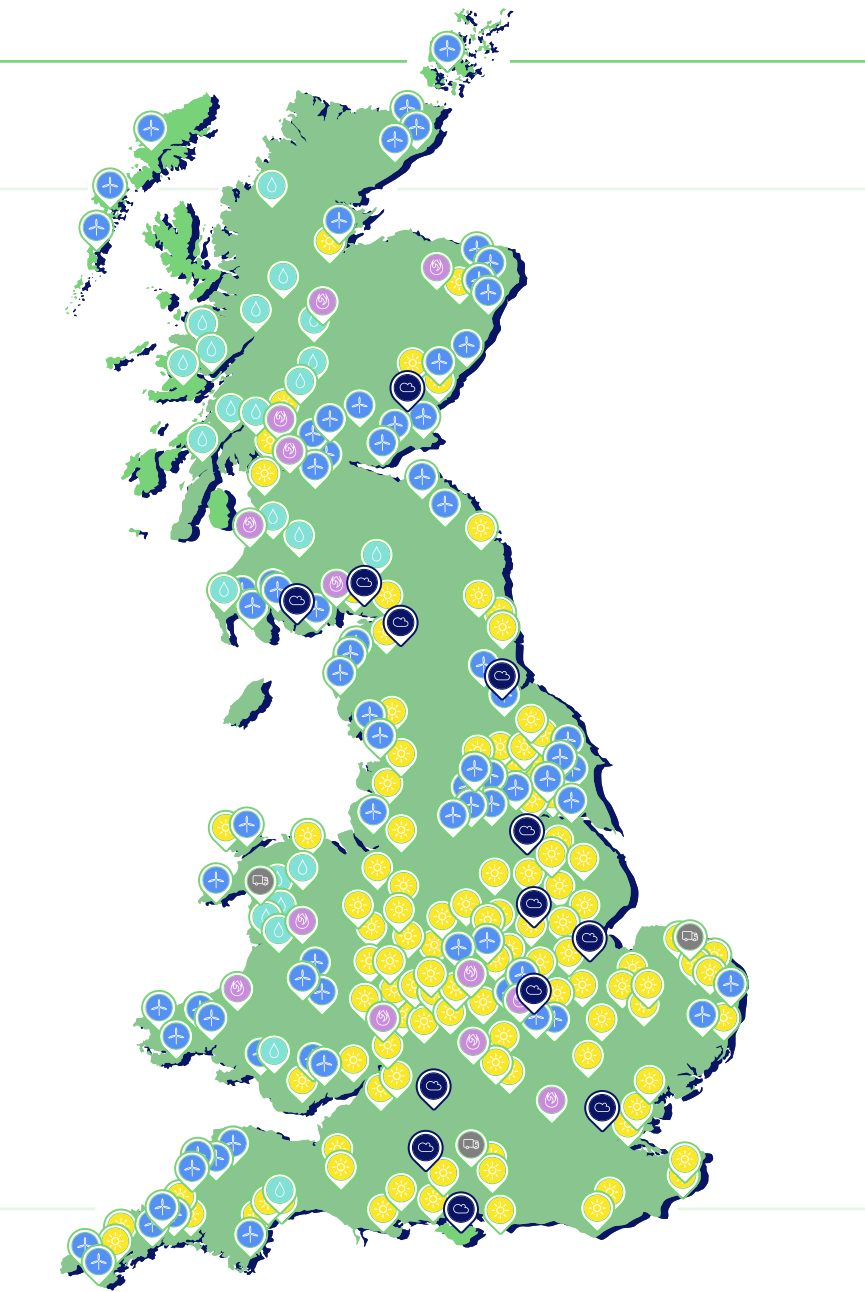
Through PPAs, we provide generators with a route to market, guaranteeing revenue on the electricity they generate. We help more than 2,300 generators across Great Britain make the most of their generation opportunity.

Switch to PPAs

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

 Contact Us

 0845 485 3134



Hydro



Landfill Gas



CHP



Solar (PV)



Anaerobic Digestion



Wind