Browne Jacobson

What is a Power Purchase Agreement?

06 March 2025 Conor Macaire Duncan and Zoe Stollard

A PPA in essence is a contractual arrangement between a power producer (the Generator) and a customer (the Consumer), where the Generator installs a solar PV system on the Consumer's property (this is a Physical PPA) at minimal upfront cost.

The Consumer benefits from reduced electricity rates, while the Generator earns revenue from the electricity sold. The PPA arrangement not only facilitates sustainable energy solutions but also provides economic advantages to both parties.

The landscape of PPAs in the UK is characterised by a variety of models, each tailored to meet diverse needs and circumstances of the Generator and Consumer. From physical or direct PPAs, where power is physically delivered from the Generator to the Consumer, to sleeved PPAs that involve an intermediary such as a utility (the Utility) to 'sleeve' the power through to the Consumer, and synthetic or virtual PPAs, where the physical delivery of electricity is not required, the variations are as complex as they are varied.

The PPA outlines key details such as the price of electricity and the quantity to be supplied, tailored to meet the specific needs of both parties involved. These agreements typically span long-term periods of 10 to 25 years, with the Generator being responsible for system maintenance and operations (usually through an O&M Contract) throughout the PPA term. This long-term commitment ensures continuous operation and maintenance of the energy systems, securing a stable energy supply and predictable costs.

At the end of a PPA term, the Consumer will usually have options to either extend the agreement, purchase the installed energy system, or have it removed. PPAs define all commercial terms including the project's commencement, electricity delivery schedule, penalties for non-delivery and payment conditions. Whilst this discussion focuses on electricity, similar structures exist for 'green' gas, known as Gas Purchase Agreements (GPAs), highlighting the versatility and adaptability of such agreements in promoting renewable energy consumption.

PPAs not only offer a stable financial environment for renewable projects by securing a fixed price for the electricity generated but also provide Consumers with a more predictable and often greener energy supply. This dual benefit is driving the growth of PPAs in the UK, making them a viable portion of the journey to decarbonisation.

As we delve deeper into the types of PPAs and their contracting principles, it becomes clear that understanding PPA arrangements is vital for any stakeholder. This article aims to demystify the different types of PPAs and explore the contractual principle and nuances that distinguish them, providing a comprehensive overview that aims to enlighten both novices and experts alike.

Notably, with the Sleeved PPA arrangement being a rapidly growing arrangement combining the benefits of a Physical PPA arrangement with the flexibility of a Virtual or Synthetic PPA, the predominant focus of this article will be on Sleeved PPA arrangements.

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