Noul val de regenerabile

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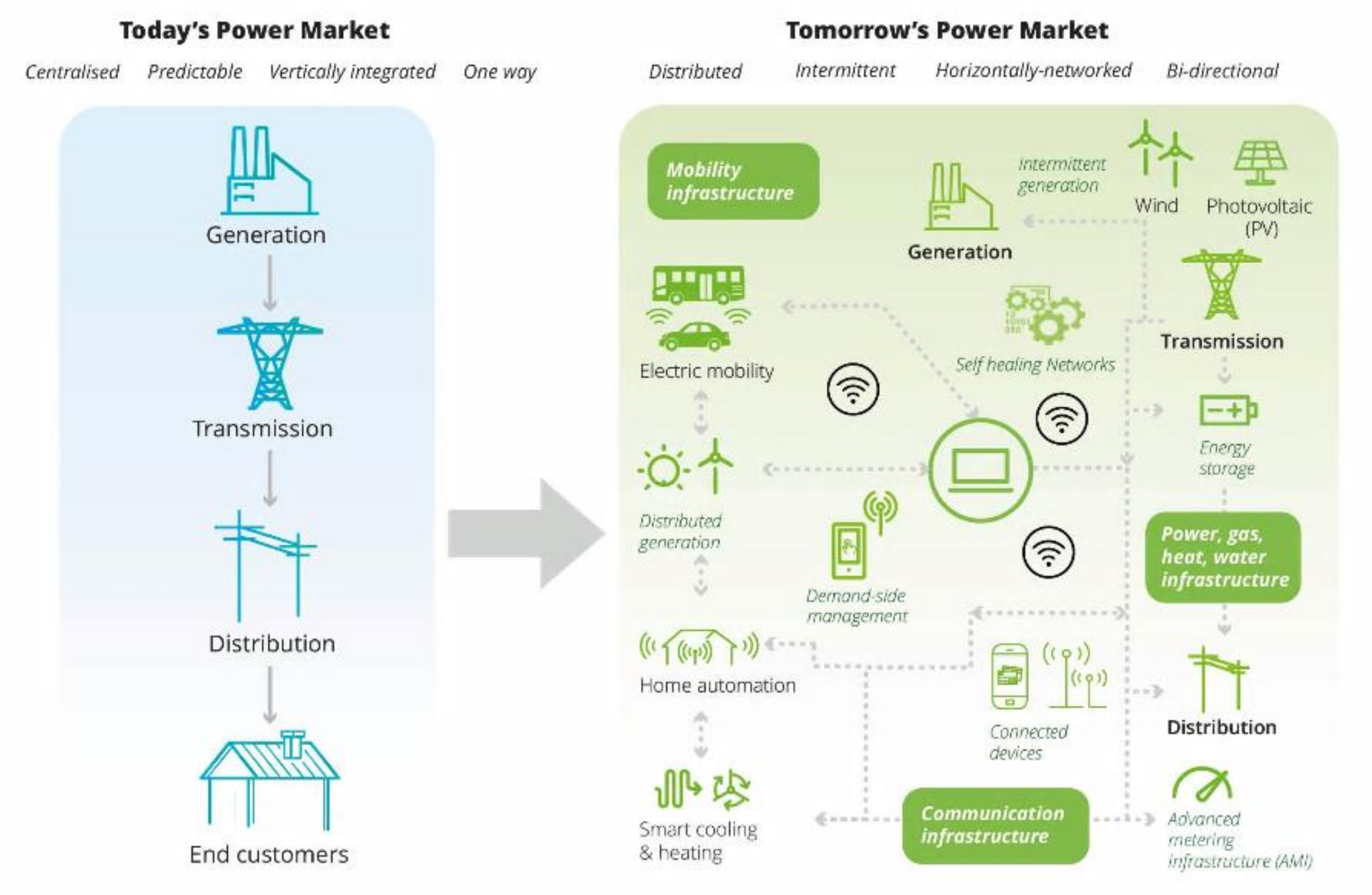
Romania qualified in the top 30 companies in the PPA index

“Romania qualified in the top 30 companies in the PPA (Corporate Power Purchase Agreement) index following a comprehensive evaluation of 12 key parameters, which act as an indicator of companies' PPA potential. The report is a recognition of the local market potential for such tools that can contribute to lower energy costs and long-term price stability for large energy companies, while providing the long-term contracts required by developers to finance new investment. “

Mihai Draghici

EY Romania Director | Consulting

Tomorrow's Power Market



https://www2.deloitte.com/uk/en/pages/energy-and-resources/articles/energy-as-a-service.html

Decentralized energy production

Demand response

Smart grid, smart home and industrial appliances

Electrification of economy

REPower EU strategy accelerates the green transition

Context: At least 85% of Europeans consider that EU should stop depending on Russian gas and petroleum as soon as possible, in order to support Ukraine. Acting together, this could happen sooner than expected.

Role: The plan is designed to ensure Europe's independence from the fossil fuels coming from Russia before 2030

Financing the plan: Additional investments of €210 billion are needed by 2027

Measures implemented:

1. Diversification – Find alternatives sources of gas from other international suppliers
2. Saving - All citizens, all businesses and all organizations can save energy
3. Accelerating the transition to clean energy

Clean Energy:

Renewable energy is the cheapest and cleanest energy available and can be generated in the EU, reducing the need for energy imports. The Commission proposes to increase the EU's 2030 target for energy from renewable sources from the current 40% to 45%. The REPowerEU plan would bring total renewable energy generation capacity to 1 236 GW by 2030, compared to 1 067 GW by 2030 as envisaged in the 2030 'Get 55' legislative package.

Role of PPAs

What is a PPA?
A Power Purchase Agreement (PPA) mainly refers to a long-term electricity supply agreement between two parties, usually between a power producer and a customer (an electricity consumer or suppliers). The PPA defines the conditions of the agreement, such as the amount of electricity to be supplied, negotiated prices, duration of the contract, balancing responsibilities, guarantees, termination clauses and penalties for non-compliance.

What is the role of PPAs?
Long-term Cash-flow predictability Reduction of cash-flow volatility → Reduction of investment risk → helps investors secure helps long-term financing, incl. cheaper debt financing, such as project finance bank loans and bonds. In the context of the cheapening of RES technology and rise of EUA prices for conventional energy producers, some RES investors have decided to build new capacities without relying on any incentive scheme. Thus, in the context of the shift from regulatory risk to market risk, PPAs help reduce risk

How does the PPA generate cash-flow predictability and reduce investment risk?
By mitigating price risk (most PPAs include a fixed price over most of or the entire PPA period) and volume risk (most or the entire production of the RES producer is secured and assumed by the off-taker – consumer or supplier)

Who are beneficiaries?
Strategic (existing conventional looking for diversification, RES producers) and financial (private equity, investment funds) investors and corporate consumers.

Estimated impact on power market?
Increase investment in new power plants (mainly RES, but also conventional) generating more stability in terms of power prices, positively impacting the power prices for consumers and offering large consumer the possibility to lower power costs (whole vs. retail prices).

Current impact of PPAs in the Romanian market?
Rising interest from investors to develop new projects, by acquiring existing approved connection capacities or securing new ones. However, there are uncertainties regarding the capacity of the grid to support new RES power without further investments.

Advantages of PPAs

- Protect against the risk of fluctuating energy prices
- Locking in long-term energy deals creates an opportunity for future profit
- A mean to reach sustainability goals and add new renewable energy to the grid
- Create a more open, collaborative approach between corporate and industrial consumers, and power generators

PPA related Requirements in Project Financing

Counterparty	• **Energy supplier and / or large consumer with strong creditworthiness** and long-term perspective of business
Volume	• **The debt amount** shall **not be higher than 150% of the NPV of the "Contracted Cash Flows".** • The NPV of the Contracted Cash Flows (applying debt interest as discount rate) means the discounted cash flows resulting from that share of the generation which is sold under the PPA or the prices of which are hedged ("Contracted Cash Flows").
Selling Price	• Fixed or floored or hedged price, preferably EUR-indexed to support EUR financing.
Balancing	• To be structured in a way to avoid exposure of the Borrower to cost volatility.
Duration	• **Limited excess of the loan tenor over the term of the PPA** could be considered subject to the financial structure **– up to 3 years**, depending on PPA term.
Termination Compensation	• Off-taker to pay termination compensation so that the RES producer ends-up in the same position, as if the PPA would still produce effects.
Guarantees securing Purchaser's Obligations	• Depending on financial strength of off-taker and size of off-take compared to off-taker T/O, **a bank guarantee / corporate guarantee (from a financially sound party) might be required** to guarantee the fulfilment of its obligation and payment of the termination compensation.
Performance Bonds securing the Seller-Obligations	• Depending on the level of completion risk, the gearing level overall and the required bond amount, issuance of performance bonds covering the construction period might require (limited) recourse to the Sponsor. • During the operational phase, performance bonds could be issued on a non-recourse basis. • Performance bonds should be secured pro rata with investment loans.
Timing	• Valid and enforceable PPAs need to be **signed as a CP for signing the finance documents**. Obligation of the off-taker to **buy power should start at COD** (commercial operation date).
Other important conditions	• Change in Law, Termination clauses (no unilateral termination)

PPAs for high-scale Renewable Energy Plants

		On-site	Self-owned	Physical electricity delivery	Long-term fixed cost	Local visibility - *in sight of consumers and local community*	More suitable for SMEs	Additionality - *encourages new build renewable projects*
Common Models On-site	A1: Self-owned on-site	•	•	•	•	•	•	•
	A2: Leasing	•		•	•	•	•	•
	A3: On-site PPA	•		•	•	•		•
	A4: Private-wire PPA			•	•	(•)		•
Common Models Off-site	B1: Physical PPA			•	•			•
	B2: Financial PPA				•			•
Off-site Variants	C1: Self-owned off-site		•					•
	C2: Multi-buyer PPA			(•)	•		•	•
	C3: Multi-seller PPA			(•)	•			•
	C4: Cross-border PPA			(•)	•			•
	C5: Multi-technology PPA			(•)	•			•
	C6: Proxy generation PPA			(•)	•			•

Source:: "Risk mitigation for corporate renewable PPAs" presentation prepared by RE-Source in March 2020

New updates on the OUG 119/2022

Among the changes proposed by this project are included the following provisions:

- It is proposed to amend the article that regulates the conclusion of bilateral contracts negotiated directly by electricity producers
    - They will have the obligation to sell, through bilateral contracts directly negotiated, 70% of the available electricity to electricity suppliers who have end customer portfolio, intended exclusively for their consumption, electricity distributors, Transelectrica and consumers who have benefited from the provisions of OUG 81/2019
- It is proposed to introduce the obligation for suppliers who have end customers in their portfolio (representing at least 100,000 places of consumption and with a consumption in the previous year of at least 500 GWh) to conclude contracts for a minimum term of 3 years, with a higher delivery for 1 year to cover at least 70% of the quantity supplied in 2021
    - Plus, large final energy customers will sign contracts for a term of 5 years that will cover at least 40% of the annual consumption achieved in 2021

Green/Sustainable Loans vs. Sustainability-linked Loans

Activity-based financing
Definition of use of proceeds **required**

Behavior-based financing
No definition of use of proceeds **required**
Interest / Coupon payments linked to certain indicators

Green

- Focus on **sustainable environmental** impact

Social

- Focus on **sustainable social** impact

Sustainable

- Amalgam of **green and social aspects** in financing

Sustainability-linked

ESG rating

- Interest / coupon payments are linked to **ESG rating score**

KPI (SPT)

- Interest / coupon payments are **linked to Key Performance Indicator** (*Sustainable Performance Target)*