

Renewable energy strategy and PPA implementation

Helping corporates navigate the
changing energy landscape

Renewable energy moving up the boardroom agenda

Volatile wholesale energy prices, significant improvements in the cost-effectiveness of renewable technologies and a strategic shift toward lower-carbon business models have created new opportunities for alternative energy sourcing.

As a result, renewable energy has moved up the boardroom agenda and emerged as a potential driver of shareholder value. Leading corporate energy strategies are focusing on renewables to generate long-term cost savings and cost predictability, combined with the reputational benefits of securing a more sustainable energy supply.

The corporate market for renewable procurement via PPAs in Europe alone has grown from zero in 2012 to almost 6GW in 2020 (15GW cumulative), mostly in the Nordics, UK and Spain. PPAs are now increasing in Netherlands, Poland, France, Italy, Ireland and Germany. It has also quickly expanded beyond first-mover tech giants such as Google and Microsoft to gain momentum across a range of sectors, especially consumer products, telecoms and financial services.

The benefits of a more diverse energy supply that includes renewables:

Cost savings – likely net present value benefits, compared with business-as-usual wholesale electricity costs

Risk management – managing long-term exposure to volatile market conditions by locking in a fixed price or hedging wholesale energy costs

Resilience – improved energy security through access to a portfolio of alternative onsite energy sources

Brand – enhanced reputation from meeting the sustainability expectations of shareholders and customers

Compliance – avoiding long-term environmental and carbon penalties by complying with current and future regulatory requirements

Several hundred companies – many Fortune 500 and FTSE 100 organizations – have made ambitious public renewable energy pledges under initiatives such as RE100 and the Corporate Renewable Energy Buyers' Principles.

PPA prices in the UK have fallen 25% since 2013¹ while wholesale prices have stayed at similar average levels, despite significant volatility year to year.

Large corporate consumers are expected to account for c.30% (or 18GW) of new wind power forecast to be installed in the US alone between 2017 and 2026². Europe could gain a similar proportion.

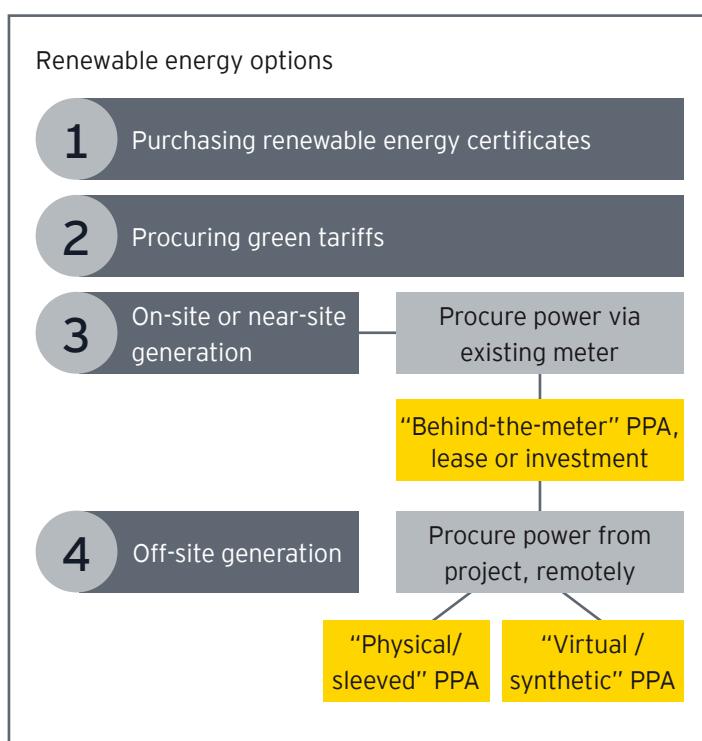
In an increasing number of countries across Europe, renewable PPAs can make a saving from year one. Across the region, Government subsidies (e.g. feed-in tariffs) have been removed for renewables projects. To regain revenue security for their projects, developers are keen to sign fixed price PPAs to enable new projects to be financed.

¹EY analysis

²North America Wind Power Outlook, MAKE Consulting

Finding the right model

There is no one-size-fits-all renewable energy delivery model, with the options for corporate participation expanding as innovative tariff and PPA models gain traction in Europe and globally.



Historically, renewable energy certificates (e.g. RECs, GOs) and carbon offsets have been the preferred instruments for corporates looking to procure renewable energy, typically as part of a wider carbon reduction strategy.

Corporates are now increasingly turning to direct contracting of renewable energy through long-term PPAs as offering more tangible financial, resilience and reputational benefits. Further benefits include:

- ▶ The consolidation of energy purchasing decisions over multiple sites or assets, particularly where direct control over physical power supply is limited
- ▶ Reputational benefits from "additionality", where new renewables capacity is initiated as a direct result of corporate contracting
- ▶ The ability to decouple electricity supply and demand to take advantage of differential pricing or market risk across multiple jurisdictions
- ▶ Multi-corporate 'club' arrangements, which allow smaller corporates to participate in large-scale projects even if individual consumption requirements are low
- ▶ Direct equity investments (on-site or off-site) that offer potential for additional financial return, compared with a purchase-only PPA

How EY can help

Although the potential benefits to be realized from incorporating renewables into an organization's energy mix can be significant, developing and implementing a strategy that is timely and effective can be challenging.

Key challenges for corporate buyers:

- Having limited internal resources or capabilities to focus on "non-core" business activities
- Securing stakeholder buy-in and approvals at both the C-suite and operational level
- Coordinating different functional areas (e.g., procurement, legal, financial, operations)
- A reluctance to enter into longer-term 10- to 15-year contracts, being typically outside the corporate planning horizon
- Understanding renewable and conventional electricity market regulations across different jurisdictions
- Interpreting electricity price forecasts
- Determining the appropriate renewable energy delivery model(s) and project structure relative to the asset/consumption footprint
- Identifying and quantifying potential PPA pricing and deliverability risks
- Driving value through an efficient and competitive procurement process
- Understanding the broader financial and nonfinancial accounting treatment and reporting implications

EY is helping corporates navigate these challenges and complexities through strategy formulation and PPA project origination, evaluation and structuring, underpinned by robust financial and commercial analysis:

We provide the following alternative energy sourcing services on a stand-alone or integrated basis:

- Market analysis and stakeholder briefings
- Strategy and business case development
- Market testing
- Help with design, implementation and management of the procurement process
- Construction of Business Case using NPV models
- Financial and commercial bid evaluation
- PPA structuring and negotiation
- Accounting and reporting treatment guidance
- Transaction and counterparty due diligence

Renewable energy strategy and PPAs are key specialisms for EY:



- FTSE 100 financial services company – global renewables strategy and PPAs
- Fortune 500 global consumer products company – renewable energy market assessment
- UK supermarket chain – renewable strategy and onsite PPAs
- Global food and beverage company – UK PPA implementation
- Leading UK retailer – UK PPA implementation
- Global pharmaceuticals company – global renewables market strategy
- Fortune 500 global beverage company – PPA market test and rollout
- UK building society – UK PPA implementation
- FTSE 100 telecommunications service provider – global renewables strategy

We can also provide programme or project management support to help reduce the burden on internal resources.

Why EY

1

Independent and objective advice

As a regulated professional services firm, our objective advice and analysis, independent of any energy supplier, technology or project, enables strategic decisions to be made with confidence.

2

Strategy through a delivery lens

3

Multidisciplinary teams

We draw upon a wide range of focused skills across EY member firms to deliver holistic and seamless financial and commercial advisory support, including tax equity shadow pricing, accounting treatment and carbon reporting.

4

Global reach

Our network of more than 3,500 energy professionals in more than 60 countries provides us with in-depth knowledge and experience of national, regional and global energy trends and issues.

Contacts

Please contact us to discuss how we can help your organization develop and implement a renewable energy strategy tailored to your needs and objectives:

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We have deep knowledge of trends and issues across the energy market and regularly publish insights and thought leadership pieces.



From boiler room to boardroom: optimizing the corporate energy mix:
Organizations are meeting the challenge of transitioning to a low-carbon and resource-efficient economy through proactive energy strategies with C-suite engagement.



Renewable Energy Country Attractiveness Index (RECAI):
Leveraging our transaction market experience, sector knowledge and global reach, and now in its 19th year, the RECAI ranks 40 countries on the attractiveness of their renewable energy investment and deployment opportunities.



Energy: More than just an operating expense? This report explores how energy-intensive corporates can use EY's "3D Energy Strategy™" approach to effective energy management to generate significant cost savings, while also yielding a number of other resilience, risk management and sustainability benefits.

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