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CfD PPAs

Optimise revenue for projects in the CfD scheme

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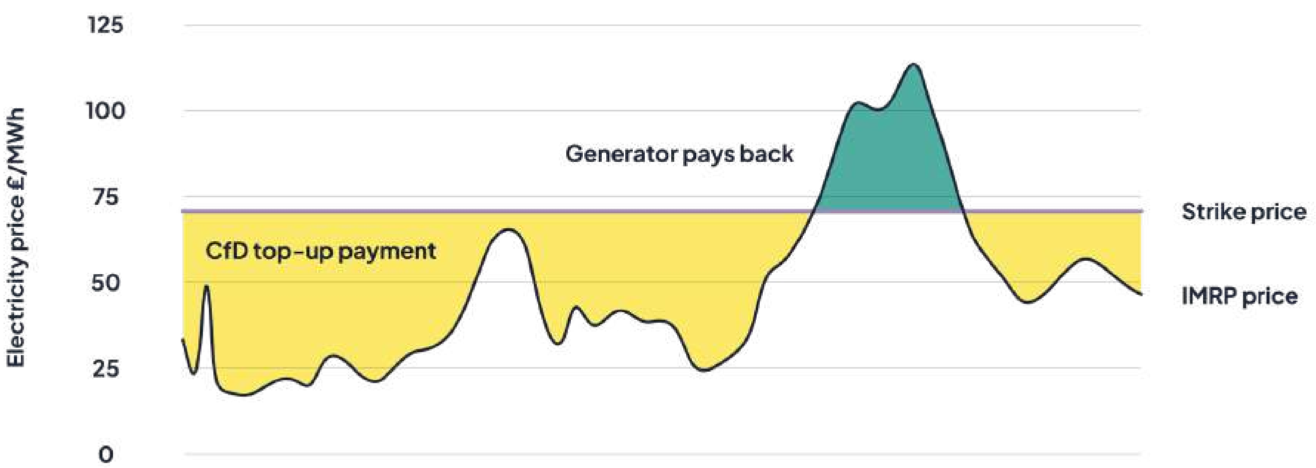
You’ve been offered a CfD: what’s next?

Under a CfD, the Low Carbon Contracts Company (LCCC) considers only the difference between the Intermittent Market Reference Price (IMRP) and the strike price agreed in the contract. Where the strike price is above the IMRP, the LCCC will issue a top-up payment. Where the IMRP is above the strike price, the difference has to be paid back to the LCCC. The IMRP is calculated as a volume-weighted average of the two day-ahead auctions: EPEX and N2EX.

Generators must remember and factor into their bid that they will not receive the full strike price from the LCCC, but only the top-up to the IMPR.

Generators will therefore need a power purchase agreement (PPA) that will pay the day-ahead price on outturn generation (the market revenue element of the graph below).

An overview of CfD mechanism



Figures used are for illustrative purposes only

Get in touch with our team to discuss these services in further detail: **ppa@renewable.exchange**

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When to start looking for a PPA?

You can secure your route to market PPA as soon as the CfD is secured, in order to reach Final Investment Decision (FID) with all necessary contracts in place.

PPA contract structuring for CfDs

A variable (rather than fixed) PPA is usually the preferred option for a CfD generator to ensure the final revenue (market revenue with the CfD top-up) can oscillate around the strike price. This guarantees a fairly stable revenue stream throughout the duration of the contract.

The PPA price will come at a discount to the index price as a result of the balancing costs that the PPA offtaker (buyer) incurs. There are generally two options for structuring the discount: either as a fixed amount (in £/MWh) or as a percentage value (e.g. 98% of EPEX day-ahead price).

When looking for a PPA, you have to consider which index you'd want it to link to: one of the auctions (N2EX/EPEX) or the IMRP. There are some basic risks associated with choosing either option as there are some small differences between the prices captured between them. Speak to our team of PPA Experts to discuss your options.

Driving value from the CfD

We help unlock greater financial performance from CfD-winning projects by structuring CfD PPAs that secure more of the strike price, maximise REGO potential, and providing 'merchant nose' PPAs to cover the period between commissioning and CfD delivery.

CfD PPA

The PPA for physical power offtake ('CfD PPA') is **a critical consideration for any projects successful in the CfD auction**, as significant additional value can be secured by minimising the discount to the day-ahead market to capture more of the strike price. Renewable Exchange can ensure an optimal CfD PPA is secured via a comprehensive tender process to the whole of the market and efficient contract execution.

REGO Optimisation

REGOs are a significant source of value for CfD projects. By exploring multiple contract tenors or trading the certificates wholesale, **Renewable Exchange can help maximise the REGO value and increase the levered equity return.**

Merchant Nose PPA

The 'merchant nose' PPA covering the period between commissioning and CfD delivery is a further commercial consideration for new projects. **Renewable Exchange's PPA platform was built for tendering such PPAs** through an efficient and competitive tender process, making it easy to optimise revenues from the crucial early stages of the project's life.

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