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Call for evidence - Electricity markets – removing barriers to power purchase agreements

Swedenergy brings together and gives a voice to around 500 companies that produce, distribute, sell, and store energy. Our goal is to develop the energy sector—based on knowledge, a holistic view of the energy system, and in collaboration with our stakeholders—for the benefit of all.

Swedenergy welcomes the European Commission’s initiative to consult on barriers to the development of Power Purchase Agreements (PPAs). PPAs are a cornerstone for scaling fossil free electricity and driving electrification of industrial processes. PPAs play an important role in matching electricity supply and demand over time, which is essential for maintaining efficient price formation in the electricity market.

Avoid market interventions and maintain a stable regulatory environment

Investments in the electricity sector are long time commitments. Market interventions disrupt markets, creating uncertainty and eroding confidence in the political and regulatory environment. Furthermore, the risk of market intervention can significantly increase the complexity of PPA contractual negotiations (for example, by increasing the prevalence of ‘change in law’ clauses) and increase risk premiums that ultimately only reduce the attractiveness of a long-term PPA.

Support a trustworthy investment climate

The lack of implementation of RED III and the risk of potential scaling down of ambitions in future reviews significantly hamper investment decisions which prevents entering into PPAs. Continued commitment to the European Green Deal and a robust post-2030 energy and climate framework therefore is essential.

Administrative simplifications

A potential significant barrier could be the reporting and accounting obligations for financial PPAs. However, this must also apply for other financial contracts as unequal treatment would undermine the liquidity in exchange-traded derivatives which would decrease transparency in the market. And transparent market prices are an important reference for both sellers and buyers of PPAs.

Ensure that PPAs and other long-term contracts function efficiently together

In the potential introduction of support schemes, it should be ensured that they complement other long-term contracts like PPAs.

Member-States and the Commission should only consider the relevance of a Europe-wide PPA market platform if these are proven to be effective at improving PPA market liquidity. In any case, these should be voluntary.

Introduce national credit guarantees to de-risk PPAs

Current market conditions make access to appropriately sized credit guarantees difficult for many potential offtakers. The EU Electricity Market Regulation identifies PPA credit guarantees at EU and national level as an important tool to incentivise PPAs but the national implementation of such schemes still remains limited.

Upgrade the EIB credit guarantee scheme and add a direct guarantee track

We welcome the establishment of the EIB's pilot scheme to provide counter-guarantees to offtakers for corporate PPAs. To maximize its impact, the existing indirect credit scheme should better reflect real market needs. Current eligibility criteria often fail to capture economic reality.

We believe that further enhancements can be made to the existing pilot scheme by ensuring technology neutrality in both the existing pilot and any future permanent scheme, making the scheme more accessible and widening the scope of eligible offtakers, and ensuring that both repowering installations and existing generation assets are by default included within the scheme.

The indirect scheme should be complemented by a direct credit guarantee track for large transactions.

Prolong maturities hedging possibilities auctioned by TSOs in accordance with FCA

When PPAs are concluded across borders, contract parties face additional risk due to the possibility of price divergence between bidding zones. At present, maturities is limited to one year ahead, whereas PPAs are typically signed for at least five years, creating a product mismatch and adding to uncertainty for contract parties. The current framework for LTTRs and EPADs is therefore misaligned with long-term hedging contracts, resulting in a market barrier for cross-border PPAs.

PPAs are market based

The marketing of PPAs as a universal remedy for lower energy costs risks triggering a debate about being misled. Consumers may be given the impression of prices lower than market prices throughout the entire contract period, which can extend 10–15 years into the future. This, however, sits uneasily with the actual production costs, including capital costs and required returns which will be included in the price.

Customer protection must prevail

The intention to allow even smaller consumers to enter into PPAs is inconsistent with the desire for active customers. The latter creates a perception that customers are not locked into the contract they have signed, or believe they need to be locked into. However, without such lock-in, a PPA does not function as a

hedge for the seller. This would require a different regulatory framework for PPAs to work for small customers, which is not desirable for either the customers themselves or electricity retailers. We do not believe that PPAs are a contract form that private individuals can reasonably be expected to understand, given their long durations and the lock-in they entail.