RENEWABLE ENERGY

HOW TO...

Asset managers are primarily responsible for the procurement of renewable electricity for a property, or portfolio. However, it is important that asset managers engage with occupiers to understand how commercial real estate can contribute towards their renewable energy needs.

The ability to procure verifiable 100% renewable energy should be considered against other commercial outcomes. If a supplier is able to offer this tariff, but cannot, for example, consolidate billing, then there is a potential resource and environmental impact of handling and storing large quantities of both paper and data. If the commercial and operational terms do not justify the solution, then carbon offsetting may be considered as a more preferable solution.

Procuring renewable energy involves two primary areas of consideration:

1. DECIDE ON THE PROCUREMENT ROUTE

There are two primary routes to securing a robust renewable energy tariff:

A Corporate Power Purchase Agreement (CPPA)

A CPPA gives the end-user control over the source of their power. Unless the physical infrastructure supports a private wire arrangement (whereby a cable or pipe connects the generator with the end-user), the contractual structure will be tripartite.

This will require an agreement between the generator and the end-user (to purchase the power), one between the generator and supplier (allowing the supplier to bill on behalf of the generator and pricing in third-party charges and balancing risks), and one between the supplier and the end-user to confirm the supply and payment of the power consumption.

100% Renewable Energy Guarantee of Origin Certificate (REGO) backed supplier tariff

A REGO is a UK specific type of Energy Attribute Certificate which removes end-user choice over generation source but is simpler than a CPPA.

Only a contract between the supplier and end-user is required, as the supplier will have made contractual provisions for the generation source themselves. REGOs are allocated in arrears by the supplier based on end-user consumption.

Note that the green gas equivalent tools are CGPAs (Corporate Gas Purchase Agreement) and RGGOs (Renewable Gas Guarantee of Origin Certificates).

There are pros and cons to each solution, which are listed below:

CPPAs		100% REGO Backed Tariffs	
Pros	**Cons**	**Pros**	**Cons**
Choice of Generator	Complex Contract Structure	Simple Contract Structure	Generators selected by Supplier
Budget Stability	Price Inflexibility	Price Flexibility	Price Volatility
Additionality	Long-term contract length	Contract flexibility	Unbundling and Audit Failures

2. PROCURE THE CHOSEN SOLUTION

CPPAs

A CPPA requires a wholesale supplier contract structure, which involves an end-user having capacity for in-house, or outsourced, commodities trading.

This is because you will need to be able to 'sleeve' the energy offtake from a generator into your supply contract, i.e., handle the transfer of money and energy to and from a renewable energy project on behalf of the end-user

When tendering a supply contract, it is important that the end-user includes sleeving provisions within the specification, such as example contract terms or written acceptance of sleeving solutions.

Once the framework is laid out within a supply contract that facilitates the inclusion of CPPAs, it will be up to the end-user to source a preferred generator.

Options to source preferred CPPA generator:

- Reverse auction – wherein a generator will invite bids from prospective end-users for volumes and offtake prices for existing and new schemes;
- Direct engagement – wherein an end-user tenders the available portfolio to generators; and
- Dedicated platforms – wherein end-user requirements are added to a collective demand which is bid for by generators.

CPPAs typically run for a period of 5-15 years, with the shorter agreements reserved for low investment, swift payback solutions such as solar photo-voltaic. Prices are usually set for the duration of the contract term and are often index linked.

In order to better adjust to market conditions, it is recommended that negotiations with generators take place to explore opportunities for price reopeners (in the event, for example, that the commodities market crashes and the agreed CPPA price represents poor value) and supplier guarantees (should the portfolio not be able to honour the contract in future).

REGO-backed tariffs

A 100% REGO-backed tariff provides greater flexibility in the choice of supplier and supply contract structure than a CPPA. This is because REGOs can be offered through both wholesale and retail contracts. That is., whether energy is procured independently of the supply contract, or whether through an all-inclusive solution.

As only a few suppliers offer exclusively green tariffs, other supplier's tariffs can be compromised by the inclusion of brown energy in an overall supplier mix, and the utilisation of unbundled REGOs. That is, where the REGOs are procured independently of the utility. Rather than restricting competition to those few suppliers that offer only renewable energy tariffs.

Rather than restricting competition to those few suppliers that offer only renewable energy tariffs, there are questions that should be asked of all suppliers concerning their REGO-backed tariffs when tendering:

- Are REGOs (in whole, or in part) bundled, either due to power purchase agreements with generators, or due to self-generation?
- Can bundled REGO certificates be directly attributed to end-user supply?
- Is the bundled REGO chain-of-custody process accredited by a third party, to a recognised international standard such as ISAE 3000?

Combined approach

It may be that a blended solution provides the most pragmatic approach, with the CPPA covering a percentage of the portfolio or asset baseload, and the renewable tariff covering the remaining consumption.

This is particularly important to consider if there is concern about portfolio turnover, and it is important to remember that a significant asset sale could result in an inability to consume agreed volumes. Whilst CPPAs can support volume tolerance clauses, energy suppliers have greater flexibility than generators.

Additionality

'Additionality' requires that the procurement of a renewable energy credit must contribute to additional, rather than existing decarbonization.

The requirement for additionality is designed to maximise renewable generation in the UK through prioritisation of CPPAs and/or Supplier Tariffs predicated solely on consented (but unbuilt) schemes.

However, additionality doesn't account for partial financing options, where a scheme has been built utilising short term Power Purchase Agreements as collateral, with the understanding that these will be displaced by future CPPAs once they come to an end.

Equally the use of REGOs as an income stream is considered by investors. REGOs unclaimed from existing schemes, if additionality is pursued, could result in more unbundled REGOs finding their way into supplier offerings.

Critically, end-users should consider whether optimising existing generation has a role to play in their decarbonisation strategy, and tailor their specifications appropriately.