



Guide to renewable energy procurement

Plus: Spotlight on aggregated power purchase agreements

How should companies be considering their own renewable power purchases in the context of science-aligned net-zero targets? Addressing Scope 2 emissions is a crucial component of an effective decarbonization strategy, and companies shouldn't wait for utilities to decarbonize rather than taking action themselves. Well-executed renewable energy projects can not only break even but generate returns that offset a company's energy costs. Understanding what an effective renewable energy strategy looks like for a particular company requires navigating a market with an array of options, each with its own pros and cons.

The Climate Board has investigated the most popular options to help get companies started identifying which renewable energy sourcing tools will work best for them. Readers will learn about how onsite renewables, renewable energy certificates, power purchase agreements (PPAs), and utility agreements are best utilized. The secondary focus of this research is the aggregated PPA, a specific framework for long-term renewable power sourcing. Aggregated PPAs come with certain tradeoffs but are a good option for companies challenged by scale or credit constraints. The results of conversations with market participants and customers reveal where these agreements work best, and shares lessons learned from companies already participating in these agreements.

The full report contains nearly 40 pages of detail on how renewable options fit into varied contexts, the details of aggregated power purchase agreements, and the learnings of companies already navigating these decisions.

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Every company with a net-zero goal should be making a plan to procure renewable energy.

1

There are two primary reasons businesses should not wait for utilities to transform the energy supply on the grid. First, utilities are not moving quickly enough to meet science-aligned net-zero targets. Second, there are financial opportunities for those taking renewable energy into their own hands, both in avoided costs and in chances to reduce or offset utility bills.

The option set for renewable energy procurement ranges from low to high in upfront cost and simple to complex in execution.

2

RECs are easy to buy, but they are a recurring cost with little stability. Owned renewable energy is expensive up front but provides energy for decades. Utility agreements are simple, but not all utilities offer competitive renewable energy options. And power purchase agreements are a hedge against future REC prices, but they are more complicated and difficult to access.

Low power demand at the commercial scale and lack of credit both disadvantage companies seeking power purchase agreements.

3

Companies with lower power demand or poor credit may not be able to find a developer willing to work with them on a 10- to 15-year contract project at all. Larger projects with creditworthy companies are considered lower risk, so without these characteristics, the terms offered may not represent a prudent financial decision.

Aggregated power purchase agreements solve some of these scale and credit challenges but introduce new complexities of their own.

4

Forming a buying consortium with larger partners can allow smaller or less creditworthy companies to overcome obstacles and access the power purchasing market. Larger companies, in turn, may be able to negotiate more advantageous contract terms with a bigger group. However, forming a group can be challenging and makes contract negotiation more complicated than in a bilateral agreement.

Group formation and location considerations are key to mitigating crowded contract negotiations and maximizing financial return.

5

A well-negotiated aggregated PPA can make tens to hundreds of thousands of dollars a year in returns depending on global energy price trends. Selecting a project location carefully and putting together the appropriate group are both critical to success.