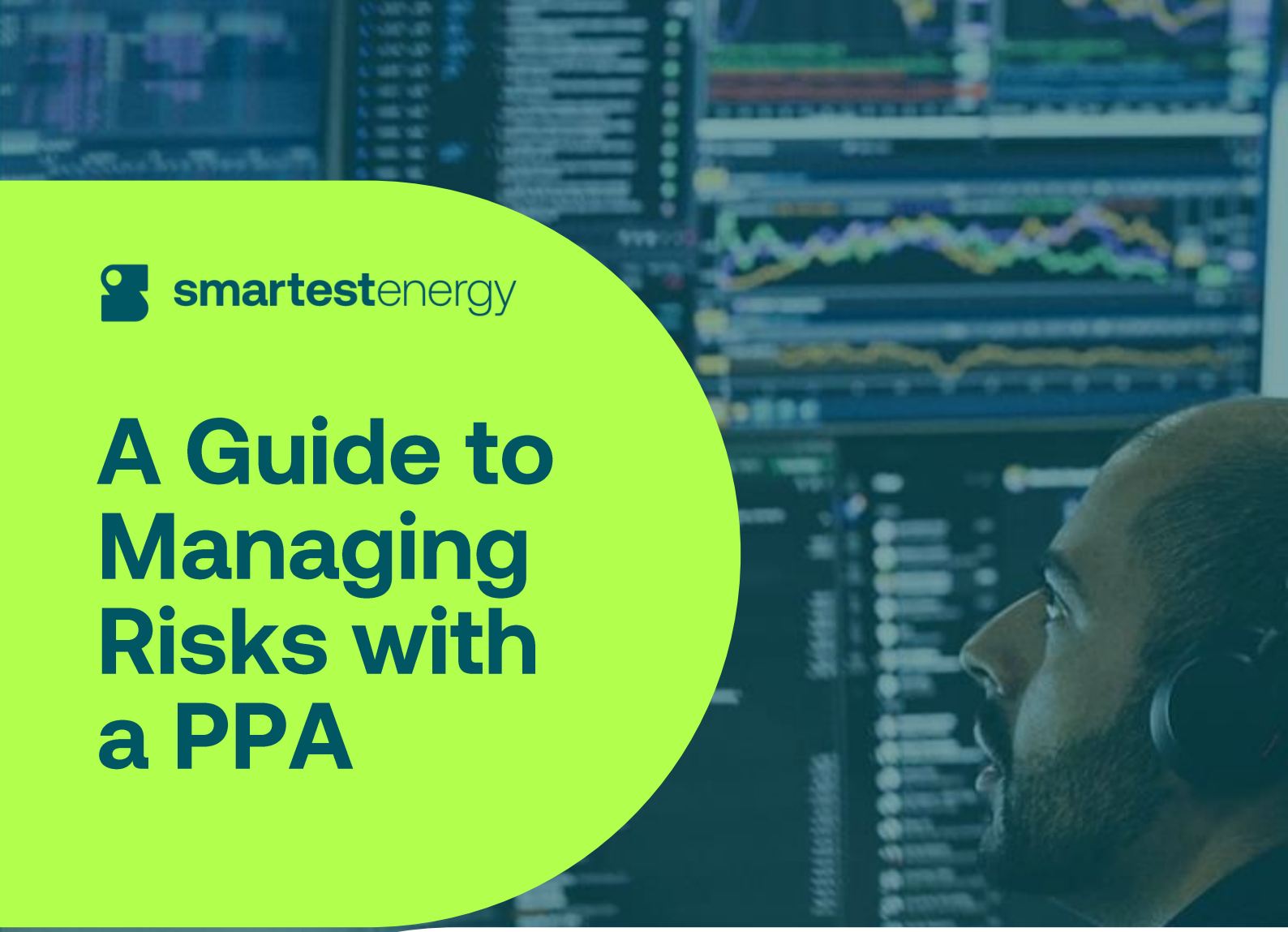


smartestenergy

A Guide to Managing Risks with a PPA

As the UK moves towards a low-carbon future, the energy landscape is undergoing a significant transformation. Generators are looking for viable routes to market and ways to maximise their assets' potential whilst assessing new risks and opportunities in the changing market.

At SmartestEnergy, we can help you to understand and navigate these as we provide expertise and innovative strategies to mitigate your potential risks.

In this guide, we delve into strategies for effective PPA risk management, offering direction to help you overcome hurdles and make informed decisions.

Strategies for Effective PPA Risk Management

Risk management strategies can be an essential step in protecting your interests in a Power Purchase Agreement. By using the right strategic process, you can effectively manage risks in your renewable energy projects. Here are three key strategies:

Capitalising on Flexibility

One of the most powerful strategies for effective PPA risk management is utilising flexibility to take advantage of market volatility and maximise your assets revenue.

With a flexible selling strategy, generators can buy and sell their power in multiple hedging decisions rather than with a single decision at a set time. This allows them to be proactive and reactive to the market.

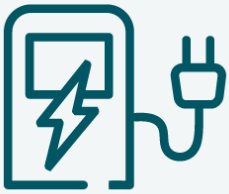
Generators can proactively set all terms and discounts up front, including imbalance and shape costs, providing a level of price certainty. This then acts as a foundation to be reactive to the market utilising price signals and other tools to make hedges at various prices.

We've seen a **26%** increase in customers opting for flexible products in the last two years!

Opting for Long-Term PPAs

Locking in the risk for the long-term in your PPAs is another good risk management strategy. Contracts, such as CfD PPAs, CPPAs or mixed routes to market offer stability and predictability in revenue streams, protecting you from short-term market volatility.

With fixed pricing over an extended period, you can achieve a level of revenue certainty which allows you to effectively plan your finances, make investment decisions, and meet long-term sustainability goals.



Implementing Co-location

Co-location involves combining multiple renewable generation or storage assets on the same site, increasing efficiency and reducing costs.

A great example of this may be co-locating wind turbines with solar to produce energy during periods of low solar output, and then implementing the use of energy storage systems to help balance out any fluctuations in energy production.

This strategy helps create a smooth profile with a more consistent and reliable source of energy, reducing exposure to capture price cannibalisation, and also provides additional revenue streams to enhance your project's financial viability.

Identifying & Mitigating Key PPA Risks

Having reviewed a few the key strategies for effective PPA risk management, we would like to identify some of the core risks facing renewable generators and highlight the tools available to help mitigate these and create your risk strategy to help you navigate the changing energy landscape.

	The Risk	The Solution
Market Risk 	Wholesale power prices are influenced by supply and demand, regulatory shifts, and geopolitical tensions, which can cause price uncertainty.	We offer the expertise to help our customers make informed decisions, utilising flexibility to minimise price risk and take advantage of volatility.
Credit Risk 	To secure price stability, many generators sign long-term fixed-price PPAs. But, if partnered with an unreliable off-taker, this can lead to credit risk.	With long-term stability and financial backing from Marubeni, we can assure we are a creditworthy partner you can rely on.
Balancing Risk 	Renewable output can be unpredictable, which can cause misalignment between forecasting and actual generation, creating an imbalance.	We can create a trading strategy to manage this risk, and, across our suite of PPA products, provide different solutions in order to manage or share imbalance risk with the generator.

Our PPA Risk Management Solutions

SmartestEnergy is an established, robust organisation with a wealth of experience in providing profitable and effective risk management solutions to a diverse range of renewable generators across all technology types. Our case studies demonstrate how we have helped them mitigate their risks and unlock their assets' potential.

enfinium

About the project:

Capacity: 150MW
Location: Knottingley, West Yorkshire
Product: Flexi PPA

enfinium's Ferrybridge 1 & 2 are two of the UK's most efficient Energy from Waste facilities, diverting 725,000 tonnes of post-recyclable waste from landfill every year to produce enough renewable energy meet the needs of up to 370,000 local UK homes and businesses.

Our solutions in action:

Using our FlexiPPA product, enfinium have access to the latest edition of SmartestEnergy's SmartFlex Platform. This enables them to track the market and carry out sophisticated hedging transactions at the click of a button, taking advantage of market volatility and minimising their price risk.

BayWa r.e. UK

About the project:

Capacity: 43.2MW
Location: South Lanarkshire, Scotland
Product: CfD PPA

The Broken Cross Wind Farm is a 9-turbine transmission-connected project, built on the site of a former opencast coal mine. With a planned capacity of 43.2 MW, the project has the potential to supply approximately 36.900 homes annually with clean, green electricity, supporting the UK's renewable energy targets.

Our solutions in action:

Using our CfD PPA structure, our 6-year contract provides a flexible framework that supports the project's transition through the construction, pre-CfD and CfD phases, enabling BayWa r.e. to maximise the wind farm's revenues and lock in their risk for the long-term. We also provide ongoing security, ensuring BayWa is paid as produced with the imbalance risk managed by SmartestEnergy.

Want to mitigate your PPA risks? Get in touch