



Negotiating Power Purchase Agreements – Best Practice Guidelines

Guidelines

The guidelines are intended to help independent generators navigate the process of negotiating a PPA – from making an initial approach to an offtaker, to final signature of a contract. As these are best practice guidelines, they are not legally binding on any market participant but provide an overview of the process, set out what each party can expect at each stage and an indication of how long it may take. Due to the variety of different projects (by technology, size, location, ownership and financial structures) these guidelines provide only an indication and it is possible that the process and timings could vary from what is described here.

The guidelines include:

1. Required stage of Development: an indication of the stage of development that a project should have reached before beginning to negotiate a PPA with an Offtaker;
2. Minimum information: the minimum information that the generator should be able to provide to an offtaker to enable the offtaker to make an offer of a PPA;
3. Process and Indicative Timings: an indicative timeline for negotiating a PPA, from initial contact through to final contract; and

1. Required stage of development

Although it is never too early to start discussions with offtakers regarding PPA arrangements, it is reasonable to expect that the generator should have reached certain development milestones before an offtaker can provide a firm offer. The table below details the information that an offtaker is likely to require in order to fully consider offering a PPA to a project. Further, the generator should be able to point, with a degree of certainty, to an expected PPA signing date within approximately 12 months of approaching potential offtakers.

i. Consents	<ul style="list-style-type: none">• the generator should have planning and other necessary consents in place.
ii. Grid connection	<ul style="list-style-type: none">• the generator should have made an application for a grid connection however, a firm grid offer is not required at

	this stage.
iii. CFD	<ul style="list-style-type: none"> the generator will need to demonstrate progress towards application for a CfD. However, as the CfD is awarded relatively early in a project's development cycle it is likely that a generator would start discussions with an offtaker prior to actually submitting an application for a CfD. The generator may require some information on their eventual PPA costs before applying for a CfD.

2. Minimum information

Similarly, generators should be able to provide the following minimum level of information to potential offtakers when requesting firm PPA offers:

i. Seller Counterparty Details	<ul style="list-style-type: none"> Contracting Company Name (Address, Company No. etc.) Description of company & project structure. (For example: description of financing arrangements (e.g. JV or SPV structures); details of licence application; ultimate owners (in the event that the developer is planning to sell the project after construction).)
ii. Project Details	<ul style="list-style-type: none"> Name of project Location (incl. address, postcode and Ordnance Survey National Grid Reference) Technology type Estimated Installed Capacity (MW) Expected Output (p50/p75/p90 per annum and shape) Any onsite usage of electricity generated
iii. Project Progress	<ul style="list-style-type: none"> Date of planning consent Estimated Financial close date Estimated Grid-live date Estimated Commissioning date Estimated Commercial operations date
iv. Credit/Finance Aspects	<ul style="list-style-type: none"> Requirement for Direct Agreement Proposed lender(s)/investor(s) Requirement for credit/collateral/PCG
v. Key Commercial Terms Required	<ul style="list-style-type: none"> Duration (including start date and estimated commercial operations date) Pricing Structure Treatment of Imbalance Risk Requirements and timing for CfD application

3. Process and indicative timings

The timings in this table are indicative and will depend on the size and complexity of the project in question. Overall the process can be expected to take between 4-12 months. A relatively straight-forward project could reasonably expect timings towards the lower end of the ranges, while a large, complex project could be towards or even beyond the ranges.

Timing	Step or process	comment
For each step		
Start	Generator to make approach to potential offtaker	Generator should provide as much of the 'minimum information' as is available, this will help the offtaker in their consideration of the project and speed up the process.
5-10 working days	Initial consideration of project by offtaker	
	Response from Offtaker	Response should include confirmation to start a dialogue and enter non-disclosure agreement (NDA) if required, along with indicative timings for detailed consideration or to discuss with generator reasons if not willing to consider further.
10-15 working days	Open dialogue between Generator and Offtaker	
	NDA agreed and signed (if required)	
	Generator to issue Request for Proposal/tender document	If indicative PPA terms are required then they could be provided at this stage. If a deadline for responses is included it should have been discussed with potential offtakers in advance
10-15 working days	Generator to field queries / provide further information to Offtaker	
15-40 working days	Detailed consideration of project by offtaker, including appropriate clearance processes required to make an offer	Length of time for this step will depend on a number of factors, such as the size of the project, which will determine the level at which internal clearance is given, and the meeting schedule for the appropriate approvals boards.
	Non-binding offer (subject to contract) provided by Offtaker OR Offtaker supplies Generator with reasons for decision not to tender	Offer should either meet the required commercial terms as set out by the generator, or provide reasons why not.
10-15 working days	Offtaker to field queries / provide further information to Generator	

10-15 working days	Detailed consideration of offers by Generator	The time for this step may vary as the generator will only be in a position to fully consider an offer once all expected offers from prospective offtakers have been received. Generator may also need to go through approvals process.
	Generator to specify if offtake proposal preferred/shortlisted or to provide reasons why offer has not been shortlisted	
1-6 months	Enter into exclusivity arrangement and begin negotiations on detail of contract	The Offtaker would typically provide a first draft of the PPA contract, which would be open to subsequent negotiation between the Parties. If a 'PPA in principle' or 'Binding Heads of Terms' is required for the generator to participate in the CfD allocation, it could be agreed early on during this period. A fully worked up PPA conditional on successful award of a CfD would take significantly longer.
	Contract agreed	

4. Draft PPA Contract

A separate Working Group has considered PPA contracts under the CfD. The Working Group has produced a table which sets out the main elements of a PPA and the heads of terms for a typical project under the CfD. These are intended to describe the overall shape of the PPA and to highlight areas where particular consideration will be needed to tailor the contract to specific projects. It is intended to improve understanding of possible PPA approaches, and to provide a basis for commercial negotiations on the details of a contract.