



Getting ahead of the energy transition

Sourcing renewable energy through Power Purchase Agreements (PPAs) can fast track your company's decarbonization journey.

Regulations around the globe are evolving and will require companies to develop ambitious decarbonization plans. Under increasing pressure to decarbonize, companies should expect to undertake more direct management of their energy consumption and use more renewable energy. There are various ways to source renewable energy and KPMG professionals' experience shows that Power Purchase Agreements (PPAs) are effective. PPAs not only speed up decarbonization journeys, but also increase competitiveness, as they are nearly always the most cost-effective option.

Power Purchase Agreements (PPAs)

Roads to decarbonization

As companies consider their decarbonization strategies and their net zero ambitions they should aim to reduce their energy consumption and source higher amounts of low carbon or green energy. The recent energy crisis is also making companies reconsider their energy strategies - in terms of both consumption costs and the security of energy supplies. There are various renewable energy supply options available which all companies can consider. These include buying Renewable Obligation Certificates and Renewable Energy Guarantees of Origin. These will, however, have price premiums and their value can fluctuate according to market conditions and government targets. Companies can also generate their own renewable energy, but this is often not a realistic option as it can be expensive, will impact the balance sheet and will more often fulfill only a limited part of the energy needs. For companies looking for a secure long-term supply of renewable energy, PPAs offer the most cost-effective method of sourcing large amounts of renewable energy, at competitive prices.

What is a PPA?

A PPA (Power Purchase Agreement) is a long-term contract signed by a company with a renewable energy supplier to buy electricity and its certificates of origin. The energy is purchased at pre-determined price and volumes over a given period.

There are generally two types of PPA – physical, where power is supplied to the company directly from the grid, and virtual, which is a pure financial transaction, exchanging a fixed-price cash flow for a variable-priced cash flow and renewable energy certificates. Virtual PPAs are also known as Synthetic PPAs or “Contract for Differences”.

PPA expected benefits

Companies looking to source large amounts of low carbon or renewable energy are finding that PPAs can be the most rapid, credible, and competitive lever to drive their decarbonization journeys - offering price stability and long-term supplies of green electricity. As renewable energy continues to become more cost competitive with conventional energy sources like natural gas, it is driving the growth of the PPA contract market, allowing buyers to effectively hedge against energy price volatility. PPAs can create a win-win situation. Sellers like that they can adapt the PPA contract and product to the specific customers' needs, fostering long-term customer relationships. PPAs also allow sellers to invest in new renewable power generation due to the long-term revenue certainty they provide. Customers like the fact that PPAs not only allow easy access to green energy, but also that they allow them to trace their energy supply back to a specific source or asset, creating transparency and credibility in their net zero journey.

Key features of our approach

KPMG firms have a holistic view of decarbonization. They provide wide-ranging net-zero services and have experience in the sourcing of renewable energy.

Even those companies already advanced in their decarbonization journeys require support to meet the challenges and seize the opportunities of the energy transition. With extensive experience across the whole climate change and decarbonization agenda, KPMG professionals can help clients create a clear strategy and a concrete roadmap. KPMG professionals experience includes carbon emissions diagnostics across Scope 1, 2 and 3, identification of carbon emissions reduction levers and associated risks, creation of a net-zero roadmap and action plan construction. KPMG professionals can also support with the implementation and reporting of net zero action plans including monitoring and compliance. KPMG professionals also advise on renewable energy sourcing options including PPAs. They can offer broad support to navigate the complexity and challenges of PPA programs.



**Net-zero strategy
and road map**



**Net-zero action
plan creation,
implementation
and monitoring**



**Renewable energy
sourcing/PPA
program management**

Selecting a PPA requires deep knowledge of electricity markets and strong capabilities in energy pricing, financial modeling, and risk assessment. KPMG professionals have experience in supporting the negotiation and management of renewable PPAs and can guide clients with holistic support through the entire PPA journey:

- **Strategy** with consumption data collection and analysis, market screening and regulatory analysis and strategies for renewable energy sourcing
- **Execution** with supporting PPA bids, contract negotiations, initiating partner selection and the PPA implementation process.
- **Follow-up** helping with the monitoring and compliance of the PPA contract until the start of production.

Expected benefits of KPMG professionals' approach

As companies come under more pressure to meet their net zero targets and decarbonize, they need to consider the best options for sourcing reliable and cost-effective supplies of renewable energy. Leveraging KPMG professionals' experience and approach to Power Purchasing Agreements can help. This approach has the following expected outcomes:

- Using our track record in PPAs, we can help structure all types of PPAs, mitigate related risks and evaluate developers' bids using advanced financial modelling and KPIs.
- While we are independent from renewable energy developers and utilities, we also have a strong relationship with them allowing us to initiate, facilitate and complete the PPA process.
- Our risk management, accounting and legal processes provide strong safeguards and ensure our service teams act according to the highest ethical standards and are fully independent.
- We understand and analyze the latest trends and developments related to the PPA market and we regularly publish insights and analysis on renewable energy sourcing and PPA topics.

KPMG's ESG insights

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To find out how KPMG's ESG professionals can add value to you and your organization, please speak with your local KPMG firm contact by visiting kpmg.com/esgcontacts or by reaching out to one of the contacts below.

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