PPAs AND THE IMPORTANCE OF THE ELECTRICITY MARKET PRICE FORECASTS

November 28th, 2017.- Power Purchase Agreements (PPAs) are electricity sales contracts where the producer agrees with a final consumer the delivery of electricity at a set price for a given period, typically between 15 and 25 years. The only PPA signed in Spain, between the EDP group and Calidad Pascual, is an agreement only for the following 5 years, so it is not the most common type of PPA.

Nowadays, with a much volatile electricity market, PPAs are the security of a stable price at the long term needed by the renewable technologies to secure bank financing for their projects.

But PPAs are also a needed tool for the consumers, because it guarantees them a stable electricity price that allows a proper planning of the costs. Moreover, a PPA with a renewable energy project ensures the consumer the certified origin of the electricity consumed.

In a **PPA** negotiation, the price determination is one of the key aspects. If the set price deviates too much from the pool price, then one of the parties will be clearly adversely affected. If the set price is much higher that the pool price, the buyer will be paying much more for the electricity it consumes than what it would pay in the market. On the other hand, if the set price falls far short of the pool price, than the producer will be adversely affected.

Having reliable **electricity market price forecasts** at the long term is thus of critical importance to agree in a fair price, for both parties to benefit from the advantages of the PPAs.