

THE SOLUTION IMPLEMENTED BY OPCOM IN ORDER TO SUPPORT INVESTMENT IN ELECTRICITY THROUGH LONG TERM BILATERAL CONTRACTS (PPA)

SOLUȚIA IMPLEMENTATĂ LA NIVELUL OPCOM PENTRU SUSȚINEREA INVESTIȚIILOR ÎN ENERGIE PRIN CONTRACTE BILATERALE PE TERMEN LUNG (PPA)

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Abstract: Starting with 1st of September 2020, the Centralised Market for awarding Long Term Electricity Contracts (PPA) (PCTL) has become fully operational, after going through a public consultation process. This new market allows the negotiation and the conclusion of long-term electricity sale-purchase contracts, the seller being an economic operator who will build and connect a new capacity to produce electricity or to produce electricity and heat in cogeneration.

Keywords: PPA, electricity market

Rezumat: Începând cu 1 septembrie 2020, Piața Centralizată centralizată destinată atribuirii contractelor de energie electrică pentru perioade lungi de livrare (PPA) (PCTL) a devenit pe deplin operațională, după parcurgerea unui proces de consultare publică. Această nouă piață permite negocierea și încheierea contractelor de vânzare-cumpărare a energiei electrice pe termen lung, vânzătorul fiind un operator economic care urmează să construiască și să racordeze o capacitate nouă de producere a energiei electrice sau de producere a energiei electrice și termice în cogenerare.

Cuvinte cheie: PPA, piața de energie electrică

1. What is a PPA?

A PPA (Power Purchase Agreement) is a bankable contract that guarantees the payment of the price and therefore the revenues from the sale of electricity produced, or as the case may be, the costs with electricity, based on the business

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plan, by defining known prices during the contract for an economic operator to build and connect a capacity to produce electricity or to produce electricity and heat in cogeneration (seller) concluded with a buyer (licensed company in the field of electricity and/or end customer) which may also include a residential/industrial park under construction.

2. The role of a PPA

The PPAs bring long-term financial stability due to forecasting for both the seller and the buyer, by supporting the provision of financing for the implementation of the construction project of an electricity generation capacity or of a residential and/or industrial park.

Most PPAs include a known price which could be fixed or variable, adjusted based on public indicators as for example the spot price of electricity, resulting a price risk reduction.

Reduction of volume risk is brought due to the fact that most or all the generation from the new capacity will be taken over by the final customer or the supplier. On the other side, the forecast consumption is secured at the contract price.

Also, the supplier secures the supply of contracted electricity.

The PPAs are means to increase investments in new production plants (mainly renewable, but also other types), resulting stability in terms of electricity prices.

Also, the PPAs offer to end consumers the opportunity to reduce their costs for purchasing electricity.

3. PCTL principles

The principles underlying the Centralised Market for awarding Long Term Electricity Contracts (PPA) (PCTL) administrated by OPCOM starting with 1st of September 2020 are as follows:

- non-discriminatory access to auctions organized for all market participants.

- the use of competitive mechanisms for awarding contracts, described in a transparent operational procedure.

- transparency, by publishing in advance the information regarding the proposed contracts to be traded. All the information related to the auction session is public, as well as the results of the auction.

- non-discrimination and objectivity. The selection criteria for awarding contracts are applied in a non-discriminatory way, therefore the tender participants that meet the selection criteria are given equal chances of awarding contracts.

On the PCTL market, the initiator has the opportunity in defining the quantity, taking into account the multitude of delivery profiles which can be

proposed for the delivery period, the possibility to propose a set of profiles and subsequent application periods of the proposed profiles. Thus, the delivery period can be divided to make the contractual conditions more flexible.

4. Who can be a market participant on the PCTL market?

On PCTL market, the companies who are intending to build and connect a cogeneration or electricity generation capacity that will produce electricity traded under the contract concluded on PCTL market, can be registered as seller. On the other hand, the licenced companies and/or end customers can be registered as buyers. Both sellers and buyers have to sign the participation Agreement on the Centralized Market for awarding Long Term Electricity Contracts with OPCOM, as market operator for this market.

5. Trading mechanism on PCTL

5.1. Publication of the initial offer

An initiator, meaning a registered market participant can submit an initiating offer, through which communicates the intention to buy/ sell on PCTL, respectively the following:

- the proposed contract format together with the initiating offer.
- the list of documents requested for the pre-selection stage of the participants with response offers, based on which the evaluation of the creditworthiness indicators will be performed.
- pre-selection/ eligibility criteria, respectively the list of creditworthiness indicators based on which the qualification of the participants in the pre-selection stage for the competitive dialogue stage is performed.
- elements of the initiating offer, other than the price, on which the initiator of the trading session wants to discuss in the competitive dialogue stage, in order to establish the final form of the contract for which the final offers regarding the quantity and the price of the transaction will be transmitted.
- the initiator's proposals for the duration of the next stages of the trading session.

The initiator will define the delivery period as the start date and the end date. The initiator has to take into consideration to include also the period required for the seller to obtain a license for energy production of the new electricity generation capacity, including electricity produced in cogeneration, or to ask for the modification of the license he holds in order to integrate the new generation capacity, with at least 60 days before the start date of the delivery period he indicates in the initiating offer. The contract format proposed by the initiator for the buy/ sell of electricity must have the delivery period longer than one (1) year.

The initiating offer has to include the option regarding the full/ partial trading quantity of the offer, the proposed opening price and, where appropriate, the price adjustment formula.

OPCOM verifies in terms of completeness and compliance with the provisions of the regulatory framework the documents submitted and publishes the Announcement of organization of the trading session.

The contractual conditions will be established by the initiator, "by taking into consideration the technical characteristics of the energy capacity that will produce the contracted electricity".

5.2. The pre-selection stage of the participants with the response offers

The participants who want to participate as respondents to the trading session announced on the OPCOM SA website have to submit the required documents for the pre-selection stage of participants with response offers.

The persons empowered for this purpose by the initiators will evaluate the degree of fulfillment of the pre-selection/ eligibility criteria of the offers submitted by the participants interested in participating with the response offers and will fill an evaluation report in which will indicate the result of the evaluation of the specified pre-selection/ eligibility criteria specified together with the initiating offer.

The report prepared by the representatives of the initiating participant will be communicated to OPCOM and will be subsequently verified for compliance with those mentioned in the Announcement of the trading session. The responsibility of the applied criteria and the evaluation result belongs entirely to the initiator of the trading session in order to maximize the level of compliance of the provisions of the contract with the requirements of the project financier.

5.3. The stage of competitive dialogue with qualified candidates

Participants qualified after the pre-selection stage will communicate their own proposals regarding the elements of the initiating offer, other than the price, on which the initiator of the trading session wants to discuss in the competitive dialogue stage to identify firm conditions of the final offer that will not be subject of the trades in the final stage of the trading session.

The initiator shall establish the final form of the contract applicable to the initial offer for the sale-purchase of electricity for long delivery periods (PPAs) and shall submit it to OPCOM to be published on the website.

OPCOM publishes the final form of the contract, including the price adjustment formula, applicable during the validity period of the contract, for periodic updating of the contract price.

5.4. The auction stage

To award the final offers during the trading session, OPCOM organizes an auction session with continuous negotiation, in an online trading session which will have two phases, for the evaluation of the final offers:

The first phase of the auction stage: the introduction by OPCOM in the online trading system of the initial offer/bid and by the respondents of their own bids/offers;

The second phase of the auction stage: automatic correlation of the bids and offers, based on which the electricity transactions resulting from the bidding process from the first phase of the bidding stage will be concluded. If the initial order is unallocated or partially awarded, after the first bidding phase, all participants will be allowed to enter/ modify/ cancel their own orders.

6. Conclusions

The operational procedure leaves the initiator of a trading session to establish in his entirety:

- The initial condition for quantity and price, taken into consideration at the beginning of the competitive dialogue stage.
- The eligibility criteria applicable to all potential contract partners.
- Schedule of the trading session so that the initiator of the trading session has the time to maximize the results of negotiations with both potential contract partners and funders involved.
- Conditions of the contract, subject to competitive dialogue stage, to ensure that the contractual conditions envisaged by the project financier are met as far as possible.
- According to the proposed contractual conditions, the management of the balancing risk is indicated (at the expense of the consumer/ buyer and/ or the producer).
- Final conditions of the contract and auction based on which the final offers will be selected in order to award the quantities and determine the awarding prices.

R E F E R E N C E S

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