Beat: Technology

Managing Basis Successfully with Long-Term VPPAs for Renewable Energy

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USPA NEWS - Managing basis with long-term fixed price VPPAs is critical for buyers looking to secure renewable energy for their operations.

In 2022, electricity and natural gas prices hit record highs, leading to a surge in fixed VPPA prices. According to LevelTen Energy, PPA prices rose by 9.6% in Q3 2022 to an average of $45.93 per MWh, 34% higher than the same period the previous year. Wind power PPAs rose faster than solar PPAs, increasing by 11.4% and 7.5%, respectively. Despite the increase in prices, demand for renewable energy remains strong, with many companies committing to reducing their carbon footprints.

However, supply chain and transmission constraints mean that there are limited renewable energy projects available, forcing buyers to compete for them. As a result, managing basis with long-term fixed price VPPAs has become crucial. These contracts allow buyers to lock in a fixed price for renewable energy for a period of 12 years or more. This provides price certainty and stability, protecting buyers from fluctuations in energy prices and reducing their exposure to basis risk.

To successfully manage basis with a long-term fixed price VPPA, buyers must consider several factors. First, they must understand the unique characteristics of their load profile and how they align with the generation profile of the renewable energy project. This requires a deep understanding of energy usage patterns, peak demand periods, and other load characteristics. Buyers can then match these characteristics with the project's generation profile to minimize basis risk.

Second, buyers must carefully consider the geographic location of the project and how it relates to their load. This includes understanding the transmission infrastructure, interconnection queues, and other factors that can affect the project's ability to deliver energy to the buyer's load. A thorough analysis of these factors can help buyers identify potential basis risk and take steps to mitigate it.

Third, buyers must understand the regulatory landscape and how it affects renewable energy projects. This includes federal, state, and local regulations that can impact project development, financing, and operations. A comprehensive understanding of these regulations can help buyers assess the risks associated with the project and develop a risk management strategy that protects against potential regulatory changes.

Finally, buyers must work closely with their renewable energy partners to manage basis risk effectively. This includes establishing clear communication channels, sharing data and insights, and developing contingency plans for unforeseen events. By working closely together, buyers and their renewable energy partners can develop a strong and effective risk management strategy that protects against basis risk and delivers long-term value.

In conclusion, managing basis with long-term fixed price VPPAs is critical for buyers looking to secure renewable energy for their operations. By understanding their load characteristics, the project's generation profile, and the regulatory landscape, buyers can identify and mitigate basis risk effectively. Working closely with their renewable energy partners, buyers can develop a strong and effective risk management strategy that provides price certainty and stability, delivering long-term value and supporting their sustainability goals.

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