BP G&LCE Offshore wind
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Regarding: internet consultation on PPA document

Dear reader,

bp appreciates the opportunity to contribute to the discussion on the implementation of the EU market design package implementation and specifically the PPA document in the Netherlands. We include here our response to the current internet consultation, which is published on the Dutch government's website and open for consultation until 5 December 2024.

About bp:
bp is a leading global energy company – we provide heat, light, and mobility solutions for customers all over the world. Our purpose is to reimagine energy for people and the planet. bp has been based in the UK for more than 100 years and operates in over 70 countries around the world.

Our purpose is to reimagine energy for people and the planet. We want to reach net zero by 2050 or sooner, and help the world to reach net zero. While we're mostly in oil and gas today, we've increased our global investment in our lower carbon, convenience stores and power trading businesses (what we call our 'transition growth engines').

bp aims to be a global leader in offshore wind, working towards safely developing and operating a multi-gigawatt global pipeline over the next decade. We currently have a pipeline of 9.6GW net with planned projects and partnerships in the US, UK, Europe and Asia.

We are pleased to share our response to consultation questions below:

1. In general, what is your perception of the Dutch PPA market?

   The ratio of installed renewable energy sources (RES) capacity to PPA capacity is relatively high. The Dutch PPA market has low liquidity and limited market depth which is reflected by the number of PPA transactions we have seen in the past two years. Overall transaction sizes vary with only a few large contracts (Google and Amazon), and the majority of transactions having a relatively small individual size, typically from 25-50MW.

2. What are concerns from the perspective of producers and buyers?

   bp considers the following concerns exist for the Dutch PPA market:

   I. From a producer's perspective, a lack of development of large-scale corporate electricity demand, and slow pace for industrial electrification is a concern for the Dutch PPA market. This is further complicated by a bearish outlook on European industrial competitiveness, leading to further concerns around creditworthiness of counterparties.
   II. Another concern from a producer's perspective is the cannibalization effect from continued buildout of renewable capacity causing market prices to likely decline during hours with renewable production. If this trend is sustained, corporate buyers are likely incentivized to maintain more spot exposure and avoid (more expensive) PPAs.
   III. For both producers and buyers, the development of the Dutch market and regulation, and their potential impact on existing PPAs, represent a significant

concern: the possibility of a bidding zone split could influence the negotiation and transaction of a PPA.

3. What are barriers for producers and buyers? And how can the government help overcome them?

bp sees the following barriers and proposes corresponding recommendations to overcome them:

I. The relatively small individual transaction sizes of PPAs, which require similar time and energy to contract as larger sized PPAs.
    a. All PPA group contracting parties will be assessed separately and hence grouping of PPAs is only beneficial if all parties have sufficient creditworthiness.

II. Lack of creditworthy counterparties
    a. State guarantees to reduce counterparty risks.

III. SDE++ removes incentives to generators to step into PPAs due to the long-term revenue certainty and the subsidized RES still receives Guarantees of Origin (GoOs).
    a. Incentivize producers and buyers to step into PPAs by e.g. exempting consumers with renewable PPAs from paying a proportion of their energy taxes (equivalent to the amount that would otherwise be used to subsidize new renewable generation).
    b. Encourage greater differentiation within PPA market including firm, low carbon PPAs by facilitating timestamping of GoOs and allowing storage to change the timestamp of certificates.

IV. The delay in electrification and demand development has an impact on the consumers side of the PPA market. The main issues are delayed grid connections and high network tariffs.
    a. Incentivize industrial off-takers to buy more power and step into PPAs. The following mechanisms could help to speed up electrification: addressing high grid tariffs, reducing permitting timelines, accelerating grid buildout, streamlining connection processes, and addressing barriers to low carbon flexibility, such as overcharging storage for use of the grid, could also reduce congestion and support faster electrification.

V. There is a discrepancy between RES levelized cost of energy (LCOE) and electricity prices. Therefore, it can be more beneficial for off-takers to procure electricity via the spot market than to secure it via PPAs.
    a. Ensure a balance of demand and generation in time when setting generation targets.

VI. First, ask utilities whether they are already considering long-term PPAs (given the growth of demand for EVs and building electrification), second, consider ways for incentivizing utilities to offtake power which has been bought under long-term PPAs with a renewable asset.

4. To what extent would the PPA market benefit from demand aggregation from smaller customers and what is needed so that such aggregation leads to lower risks?

The PPA market could benefit from larger sized PPAs due to grouping. However, all PPA group contracting parties will be assessed individually and hence grouping only helps if all parties have sufficient creditworthiness. State-backed PPAs can help to support parties which have a too low creditworthiness.

5. To what extent is bundling of demand for PPAs possible and does this pose practical challenges?

See answer to question 4.

6. What could make bundling multiple small buyers easier?

State-backed PPAs could help overcome some creditworthiness concerns of individual parties.

7. What could support the development of a European PPA market (e.g. cross border PPAs with production in one bidding zone and off-take in another)?

Cross-border PPAs bring volume and price spread risks, since in a situation with congestion on the bidding zone border (one of) the two parties will be exposed to a price spread risk. To mitigate this risk, the following mechanisms could be considered:

I. Increase cross-zonal interconnector capacity
II. Increase LTTRs in duration and quantity

8. What are the barriers to cross-border PPAs?

Barriers to cross-border PPAs are:

I. Duration of financial transmission rights (FTR) is too short to manage volume and price spread risks, since PPAs are usually negotiated for at least 10 -15 years.
II. Ability to gain FTRs as only a limited amount is auctioned across the market and hence there is no certainty to get FTRs.
III. Cross-zonal capacity is limited resulting in cross-border congestion and corresponding price spreads.
IV. As a result, a cross-border PPA is usually a virtual ppa (VPPA), which does not have the same sustainability characteristics for industrial off-takers, does not meet the requirements for green hydrogen and has a smaller off-take market.
V. VPPAs provide less favorable financing conditions than physical PPAs, because a residual exposure (volume and price) remains for the electricity producer.

9. Is the lack of suitable PPA model contracts currently a major barrier to further opening up the PPA market?

The lack of a suitable PPA model is not considered a barrier. Renewable developers should be able to retain flexibility in PPAs to accommodate risks on a case-by-case basis. PPAs are highly bespoke due to location, market, duration of the contract and counterparty. Furthermore, there have been several initiatives to create a model contract, but they have not been used.

10. To what extent, and how, can the government support the PPA market in achieving greater standardization to reduce transaction costs?

bp is currently not aware of any mechanisms that the government could use to achieve greater standardization and reduce transaction costs.

11. To what extent is the creditworthiness of buyers a barrier to agreeing PPA contracts?

This is considered to be a big risk. See answer on question 3 and 4 for the full explanation.

12. To what extent would the PPA market be helped by a market-based PPA guarantee fund, covering credit risks on the buyer side?

State-backed credit guarantees would increase the number of contracting parties. See the support scheme that was approved in Spain to cover credit risk of long-term transactions for energy intensive companies.

13. Besides the creation of guarantee funds, in what other ways can barriers to buyers with insufficient creditworthiness be removed?

Bp is currently not aware of other mechanisms to remove barriers regarding creditworthiness.

14. In what other ways would the government encourage the use of PPAs in order to promote long-term price stability and guarantee of supply of (renewable) electricity?

It is unclear what is meant by long-term price stability. In case the aim is to introduce long-term investment certainty than all answers above apply and creating incentives for batteries could be another way to encourage this. However, it should not be the goal to remove all price fluctuations in the spot market.