Targeting Net Zero: 5 ways to deliver on carbon reduction targets

As we move towards a carbon constrained future and electricity prices rise, companies are increasingly looking for ways to deliver on their carbon reduction commitments, including by purchasing electricity from renewable sources, managing their exposure to changing electricity prices and supporting carbon reduction initiatives.

This guide provides a high-level overview of some of the ways that companies can meet their carbon reduction commitments.

1

Corporate PPAs

Power purchase agreements with corporate offtakers (***Corporate PPAs***) for electricity and green products from renewable facilities have become increasingly popular in Australia. Companies looking to enter into Corporate PPAs can come from any industry, or a group of industries, where the load is large enough to support a generator's project, either in part or as a whole. Banks, local councils, water corporations, airports, energy-intensive industry and universities have all ventured (or are looking to venture) into the world of Corporate PPAs.

How does a PPA work?

Despite its name, a PPA in this context does not involve the physical delivery of electricity (this is still done under your retail agreement). Rather, a PPA is a financial instrument that allows you to agree a fixed price for a notional quantity of electricity from a renewable power generator in exchange for the spot price for electricity for the same notional quantity.

What are the advantages of entering into a Corporate PPA?

Key drivers for entering into Corporate PPAs include:

- Securing stable energy pricing: a well-negotiated Corporate PPA can secure lower and predictable energy pricing to shield the energy buyer from the volatile energy prices it faces under its electricity retail contracts.
- Green credentials: large-scale generation certificates (*LGCs*) available from a renewable energy generator can be an important tool for demonstrating that the entity is achieving specific targets relating to renewable energy generation (eg emissions reduction targets or promotion of renewable energy in a particular jurisdiction).
- Managing retail contract exposure: a company can also use the LGCs to manage its exposure under its retail contracts to retailers.

Our Corporate PPAs PDF examines some of the structuring options and key issues that we often see needing to be considered when entering into a Corporate PPA.

2

Structured retail products

A number of retailers now offer electricity retail products that are backed:

- (either in whole or in part) by PPAs with renewable generators - these products tend to have less visibility as to the underlying generators and would not typically come with marketing rights with respect to those generators; or
- by a single PPA that provides the energy user with visibility as to the renewable generator that is the counterparty in respect of which the retailer has a hedge for all/part of the corporate's retail load – these products tend to suit companies with smaller loads.

As a retail contract, these products can be simpler to manage in an administrative sense than a Corporate PPA (for example, the energy user receives only one bill from its retailer, rather than making payments under both a Corporate PPA and retail agreement).

3

Emissions reduction investment

Companies can also choose to invest in emissions reduction activities in order to offset or reduce emissions equivalent to a company's carbon reduction target. This can be done in a number of ways, including by:

- purchasing LGCs or Australian Carbon Credit Units (*ACCUs*) on the open market and self-surrendering or cancelling these under the relevant scheme; or
- investing in energy efficiency upgrades or other emissions reduction projects (including those in respect of which energy efficiency certificates or ACCUs can be created) – such projects could either involve a direct reduction of a company's energy usage or a separate carbon sequestration or abatement project.

Companies can also use surplus LGCs and energy efficiency certificates to manage their exposure to retailers for such certificates under retail electricity contracts or on-sell certificates and ACCUs to third parties on the open market.

4

On-site generation

Companies with suitable corporate facilities may be able to install on-site generation at, or adjacent to those facilities, with the electricity generated reducing the amount of electricity supplied under a retail contract and any surplus generation being sold back into the grid.

These arrangements can be implemented directly by companies, who then own the generation infrastructure, or by appointing a third party to own and operate and sell the physical electricity to the company.

Note that, ownership, operation or control over larger generators (typically over 5MW) may require market registration and associated compliance.

5

Demand response

Companies who are able to reduce their electricity usage for short periods, without adversely impacting their operations, can also consider demand response arrangements. There are a number of demand-side aggregators in the market who offer incentives for companies who are willing (and able) to:

- turn off equipment or otherwise curtail their electricity demand; or
- switch to on-site generation,

on request (usually during periods of high electricity demand).

Demand response arrangements are expected to become more common with the anticipated introduction of a wholesale demand response market in late 2021. Large energy users will be able to participate in the new wholesale demand market directly or by appointing a demand aggregator.[1]

Related publications

For more information on how to navigate the corporate governance risks and challenges presented by climate change, see **allens.com.au/targetingnetzero**

We would be happy to discuss how Allens can support you in implementing these options (and others) to help your organisation achieve its carbon reduction targets.

Who to contact

Kate Axup
Partner, Sector Leader – Energy
T +61 3 9613 8449
M +61 420 647 104
Kate.Axup@allens.com.au

Jillian Button
Partner, Head of Climate Change
T +61 3 9613 8557
M +61 413 805 109
jillian.button@allens.com.au

Karla Drinkwater
Managing Associate
T +61 7 3334 3337
M +61 424 730 697
Karla.Drinkwater@allens.com.au

1 At the outset, only entities that exceed the 'large customer' threshold will be able to participate in the wholesale demand response market. Though the market may be expanded to allow participation by 'small customers' in the future.