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INVESTOR PPA Q&A

Allianz Capital Partners' Stefan Henge

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Longer-term PPAs look like an enduring trend, one playing an important role for long-term capital markets, says Allianz Capital Partners head of renewables, Europe, Stefan Henge. Henge looks optimistically on demand in a European PPA market that has seen some price volatility. He eventually expects to see more price cannibalistion.

Allianz Capital Partners became an owner and developer of renewables in 2005, attracted by the assets' high cash flow visibility boosted by, at the time, regulated long-term Feed-in Tariffs. On the back of this, Allianz invested in a 3.5GW offshore, onshore and solar generation portfolio in Europe, with 150 assets comprising both sole ownership and joint venture models. This complements its cash equity investments in the US.

FQ: What factors are impacting Allianz's wind PPA activity in Europe and the US?

SH: For new investments, finding a suitable long-term PPA with an appropriate risk allocation is key to our investment decision and allows us to further grow and diversify our renewables portfolio. On the back of an accelerating build-out speed of renewables and increasing project sizes, there will be an increased demand for all types of PPAs. One will see how far the PPA market can grow with the renewables build-out and how this will impact pricing and risk allocation structures.

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FQ: Looking at the past year, have you seen any notable trends in PPAs for wind?

SH: For new investments and projects, we can see the clear trend of more large-scale corporate players emerging who are seeing PPAs as a crucial means to achieving their stated decarbonisation goals. In addition to the role as pure PPA offtaker, industrial players are becoming interested in obtaining a direct equity position in the respective assets for further alignment of interest.

One further notable trend we observe is the increasing availability of PPAs beyond the standard 10-year tenor. The depths of the PPA market for tenors of 15 years or even longer seem to be increasing again. For an investor like Allianz having a desire for long-term and stable cash flow profiles, this is an important and positive development.

FQ: With today's higher-power-price environment and PPA revenue structures, is price cannibalisation still a concern for projects?

SH: With the further accelerating build-out speed of renewable generation capacity, we expect this to become an even more pronounced effect in the future, displayed in the generators' revenue pattern. This affects not only actual revenues received in a merchant sales situation, but equally PPA pricing must consider the specific local demand or supply and expected build-out situation to manage price risk over the PPA term accordingly.

To counterbalance the impact of price cannibalisation, energy storage solutions as well as the emergence of price responsive demand-side flexibility, including EVs and electrolysis would have to play an important role, but the speed and extent of deployment remain uncertain. The race between renewable energy deployment and demand-side flexibility will shape power market expectations for the foreseeable future, and consequently drive PPA pricing and merchant revenues.

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FQ: How much are you relying on available power price forecasts within your PPA contracting process given the volatility, and has that changed?

SH: Investing in renewables as an asset class requires a good understanding of short- and long-term energy market dynamics and the resulting long-term power prices driving the value of renewable generation assets beyond any contracted or fixed-price revenue period. Within the context of the PPA contracting process, power price forecasts do serve as a certain reference and benchmarking point, especially when the PPA contracting period only starts in a few years' time. However, ultimately the nominal price level of a long-term PPA is more a question of supply and demand as well as individual requirements by the parties linked to a specific project situation or location, and hence is to a lesser extent influenced by short-term market price volatility. For PPAs with a short tenor, we see market forward curves as a good and relevant benchmark allowing to steer the discussion with potential offtakers. Here long-term power price forecasts are less relevant, especially in the more recent volatile market environment.

Speaking as an investor with some degree of flexibility on the amount and tenor of PPAs, PPAs need to be competitive compared to our power price expectation after taking into account the decrease in risk and cost of capital.

FQ: What is the best approach for the conversation with off-takers when both sides are navigating power price uncertainty?

SH: As an insurance company and a long-term investor, we are interested in long, stable and predictable cash flow patterns from renewables as an asset class. As such, we are looking for offtakers who are able to provide us with long-term price visibility and certainty and manage associated price risks of a PPA as suitable for the individual asset situation. Understanding PPA structures, price components and respective price risks is therefore fundamental to approaching discussions with potential offtakers. The same goes with transparently setting out expectations on risk allocation when starting to explore mutual interest in a long-term cooperation on the PPA side. ◼

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