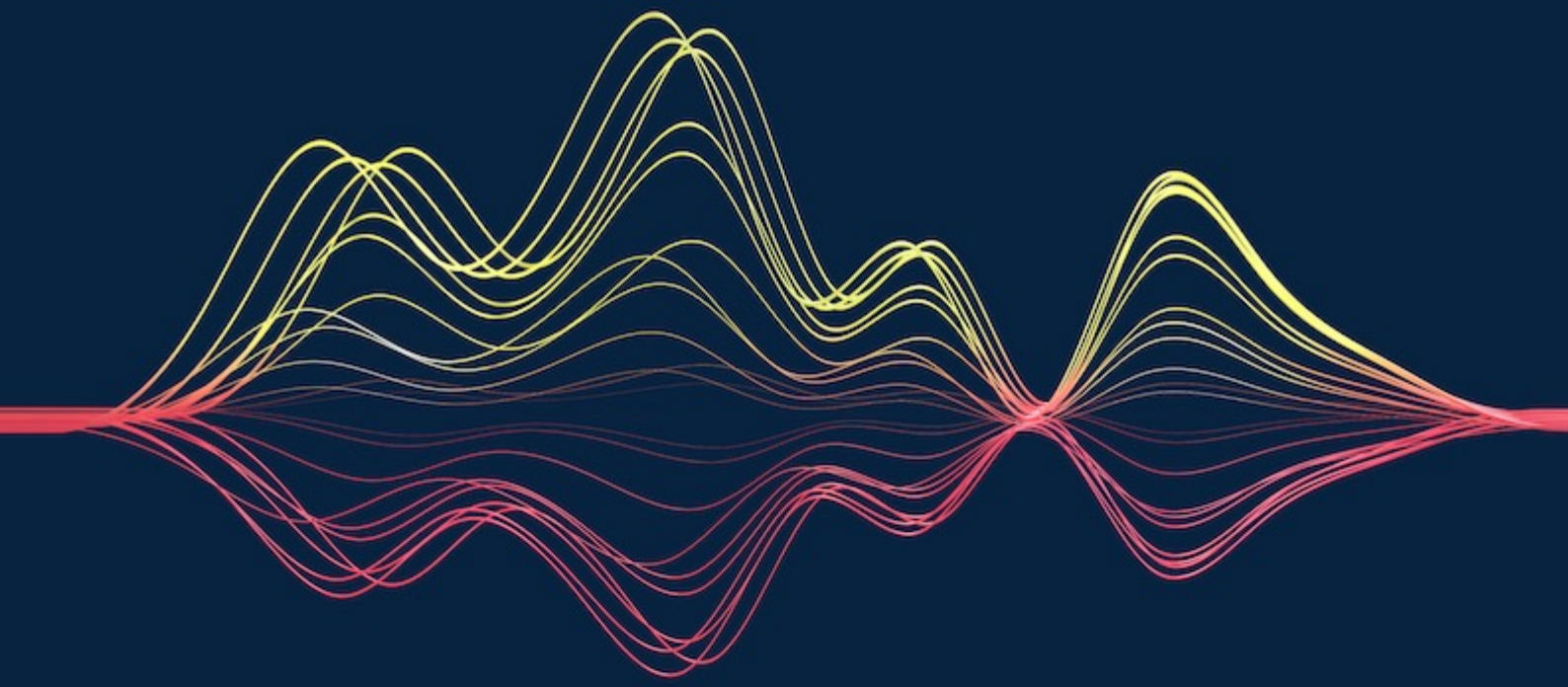
CZECH REPUBLIC

Corporate Power Purchase Agreements



Czech Republic

Last modified 26 July 2021

PPA structures and parties involved

To what extent are corporate PPAs presently deployed and what sort of structure do they take?

PPAs have not been used very much as the Czech Republic has not yet fulfilled its obligation under Directive 2018/2001 of the European Parliament and of the Council (EU) to adopt legislation and remove obstacles to the conclusion of such contracts. However, it can be expected that over time these contracts will be used more frequently.

We can distinguish between virtual and physical contracts. Virtual contracts are based on the customer purchasing electricity from the electricity trader at the market (spot) price. The generator and the customer then settle between themselves the funds received on the generator's side in relation to the price they have agreed in the PPA. If the spot price of the electricity received by the producer is higher than the price agreed in the PPA, the producer shall pay the customer the difference between the spot price of the electricity and the price agreed in the PPA. If, on the other hand, the spot price of the electricity received by the producer is lower than the price agreed in the contract, the customer shall pay the producer the difference between the agreed price and the spot price of the electricity.

In the case of so-called physical contracts, the supply of electricity is made by direct transmission of electricity from the producer's facility to the customer, where the electricity generation plant is often located directly at or near the customer's premises. The price of electricity may be negotiated as a fixed amount, regardless of the evolution of the electricity price on the market. Surplus electricity may then be resold to an electricity trader, this is however not always very beneficial due to the low price.

Do the country's regulators allow corporate owners to purchase (1) directly from a facility, or (2) from a choice of suppliers?

The contract is between the customer and any electricity producer. The law does not restrict the choice of producer.

Both direct and sleeve PPAs and synthetic PPAs are allowed. Direct PPAs have evolved as a way for utilities to contract directly with generators for electricity produced from one or more specific facilities.

Other than the generator and the off-taker, are any third parties commonly party to the PPA structure (e.g. a utility or other market agent)?

Agreements involving third parties are possible, the law does not restrict it in any way. In such PPAs, the third party usually acts as an intermediary between the manufacturer and the buyer. Renewable energy produced by the generation site is not delivered directly to the point of demand or consumption of the business, but via a third party (usually the energy company) to the existing energy grid.

Is a generator permitted to sell electricity directly to an end user? If so, do they require a licence or other form of authorization?

Yes, this is possible. It needs to obtain an electricity trader's licence or electricity generation licence. The difference between the licences is whether the generator supplies the end user with electricity through a direct line, where it must obtain a generation licence, or through the public grid, where an electricity trader's licence is also required.

Challenges

What are some of the technical, political, financial or regulatory challenges to corporations adopting green energy in the short/medium term in your country and how have these challenges been overcome (or how can they be overcome)?

The governmental support in the Czech Republic which has been enormous before 2010 is since then being reduced and vast majority of "green bonuses" is no longer effective (exceptions are listed in Subsidies). Also the green energy is now being further taxed.

Further issue is quite lengthy and complicated building process in the Czech Republic (i.e. obtaining all necessary permits etc.).

Regulatory changes

Are there any anticipated regulatory changes which will alter the regulatory landscape for corporate green energy and corporate PPAs?

The EU Clean Energy Package introduces recast legislation, including the Energy Efficiency Directive (Directive (EU) 2018/2002), the Renewable Energy Directive (Directive (EU) 2018/2001) and Energy Union Governance Regulation (Regulation (EU) 2018/1999), which are designed to cover the electricity and renewables markets from 2021 to 2030. The Energy Efficiency Directive sets an indicative target for energy efficiency of 32.5% by 2030. The Renewable Energy Directive increases the consumption target from renewables to 32% by 2030, and the target to at least 14% of transport fuel originating from renewable sources by 2030.

In mid-July, as part of the biggest ever package of climate action, the EU proposed to increase the existing target of 32%. The proposal would also see the EU as a whole reduce energy consumption by nine per cent by 2030 compared to current levels.

In January 2020, the Czech Republic published its National Energy and Climate Plan. The document contains objectives and key policies in all five dimensions of the Energy Union. Through this document, Member States are obliged, among other things, to inform the European Commission of their national contribution to the agreed European targets for greenhouse gas emissions, renewable energy, energy efficiency and electricity and transmission system interconnectivity.

Incentives and benefits

What is the corporate appetite for green energy, including any political or financial incentives available to corporates to adopt green energy?

The importance of green energy has recently been growing significantly, mainly due to the negative consequences of traditional non-renewable sources, especially fossil fuels.

The topic of green energy is very topical in the Czech Republic. By signing the Paris Agreement, countries have committed themselves to moving away from fossil fuels and to ensuring carbon-free energy by 2050. It will therefore be necessary to switch to energy sources other than fossil fuels.

Green energy is also an issue for electricity suppliers. Many of them offer tariffs in which they guarantee that the electricity consumed has been entirely generated from renewable sources.

Different types of subsidies are available for families, mostly for the installation of a photovoltaic power plant for self-consumption or for the installation of a small solar power plant. The subsidies are mainly aimed at reducing energy consumption and saving money.

What are the key local advantages of the corporate PPA model which can benefit our clients?

The nature of the benefits arising from PPAs can be diverse; on the customer side, these include mainly long-term fixation of electricity costs, minimisation of the risk of electricity price fluctuations and a guarantee of the purchase of electricity from renewable sources. Thanks to the PPAs, the producers of electricity from renewable energy sources secure a predictable income in the long term, which guarantees them a return on investment and the possibility of obtaining bank financing.

What subsidies are applicable to the generation and sale of renewable energy?

Until 2020, it was possible to use a subsidy from the Renewable Energy Support Programme. This programme focused on energy efficiency, energy development infrastructure and renewable energy sources, promoting introduction of new technologies in the field of energy management and secondary raw materials.

A subsidy programme called Renewable Energy Sources is available from 2022. Through this programme, Czech companies can receive subsidies to build renewable energy sources. Subsidies can be obtained for wind or small hydropower plants, projects related to the use of biomass energy. The aim of the programme is to support the production and distribution of energy from renewable sources. Support will be given to installations with the highest efficiency and without a negative impact on the electricity grid.

Does your country implement a national support scheme with tradable green certificates (such as guarantees of origins)?

Yes, the Czech Republic uses certificates of origin, which declare the quantity of a given commodity produced at a specific location, at a certified facility and under specified conditions.

Furthermore, the Czech Republic operates Green Certificates, which prove that certain electricity is produced using renewable energy sources. These certificates have two purposes. Firstly, they can serve as an accounting mechanism in the event of having to comply with obligations set by the government, or as proof that a certain amount of renewable energy has been produced, for customers requiring green electricity. Second, green certificates help to create a market for green certificates that operates independently of the electricity commodity market.

Typical PPA terms and risk allocation

To the extent corporate PPAs are deployed, how are prices, terms and risks affected?

Topic	Details
Do prices tend to be floating or fixed?	Given the private nature of contracts, it is difficult to generalise on commonly used pricing arrangements across CZ market. The price of electricity is often adjusted in different ways in the contract; often the price of electricity consists of a fixed component, which covers the investment made by the producer, and a variable component, which relates to the quantity of electricity supplied. The same electricity price may be guaranteed for the entire duration of the contractual relationship or for individual sub-periods, with the possibility of further adjustments according to pre-agreed conditions. The PPA agrees on the minimum and maximum amount of supply per year that the generator is obliged to provide to the customer. It is then common for the price arrangements to include an obligation for the customer to pay the fixed component of the electricity price even if it does not take the agreed minimum amount of energy per year; this ensures that the generator recovers its investment.
What term is typically agreed for the PPAs?	A specific feature of PPA contracts is their long-term nature, as a PPA contract is usually concluded for a period of 15 to 25 years, with no exception for automatic contract extensions.
Are the PPAs take-or-pay or limited volume?	The legislation does not restrict the choice. It is therefore possible to have PPAs take-or-pay or limited volume.

Are there any other typical risks?	The question arises as to which party will bear the risk of changes in legal and tax regulations that may occur during the course of a long-term contractual relationship. Due to the requirements of banks lending the manufacturer's investment in the energy equipment, this responsible party is often the customer, who is not entitled to claim damages or other claims from the manufacturer in the event of a change in legislation.

To the extent corporate PPAs are deployed, in whose favour will the risks typically be balanced?

Type of risk	Details
Volume risk	Where a PPA is based on fixed volume, the producer bears the risk. Conversely, with a pay-as-produced PPA, the off-taker bears the risk.
Change in law	The PPA will usually include change in law provisions, as this will usually prevent the PPA from being frustrated in the event of a significant change in law.
Increase / reduction of benefits	Depends on the specific PPA wording.
Market liberalisation (if applicable)	Czech Republic liberalised its electricity market through its Energy Act. As such, this is not a risk for CPPA parties.
Credit risk	Given the private nature of contracts, it is difficult to generalise on this across market, however depending on the relative strength of the parties, one party may wish to seek performance security from a party with lower creditworthiness.
Imbalance power risk	Depends on the specific PPA wording.
Production profile risk	Usually, this risk is allocated to the buyer, who acquires any missing volume from the market. Under the CPPA, a third party may also take responsibility for providing the missing electricity in order to manage this risk.

Balancing

Does your country operate a balancing responsibility scheme?

Yes.

If your country operates a balancing responsibility scheme, who is the balancing authority and do the generator and offtaker typically undertake balancing themselves?

Balancing is performed by the users of the network.

Significant transactions

What significant transactions/deals have taken place in the last 12-18 months?

The Jarošov brewery was one of the first Czech companies which started to build a photovoltaic power plant through the PPA.

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