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Strategic Energy Guidance.
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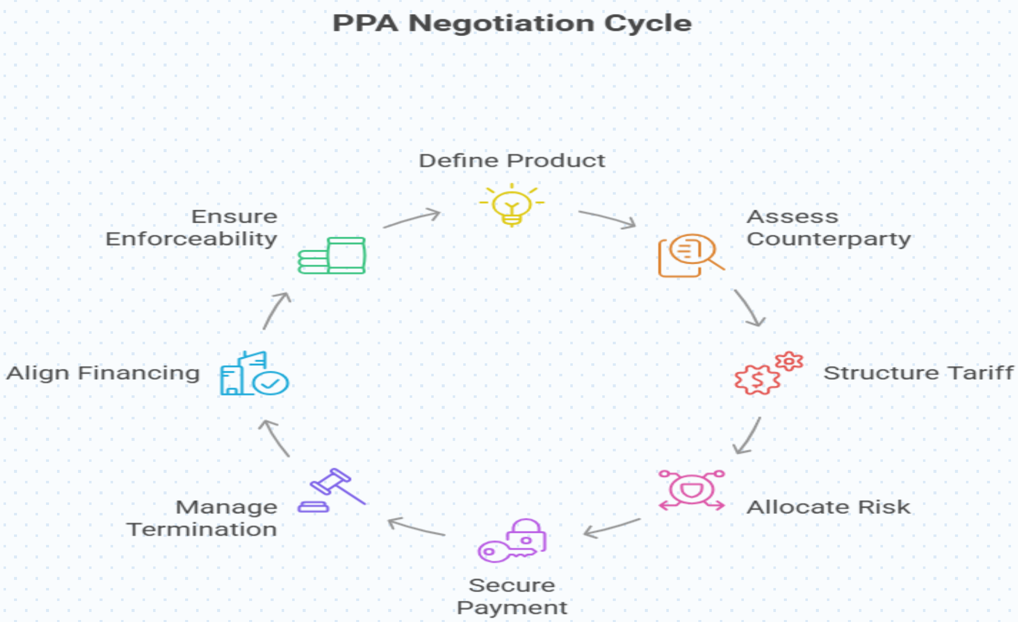
PPA Negotiation Checklist

A Structured Framework for Entering PPA Discussions with Clarity and Discipline



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PPA Negotiation Checklist

A Structured Framework for Entering PPA Discussions with Clarity and Discipline

A Power Purchase Agreement (PPA) is the commercial backbone of any power project. It defines how revenue is generated, how risks are allocated, and whether the project will ultimately be bankable. Many projects fail not because of weak fundamentals, but because negotiations begin without sufficient clarity or discipline.

The checklist below is designed to ensure that you enter PPA discussions fully prepared, with a clear understanding of key issues and the most common negotiation pitfalls.

PPA Negotiation Checklist

1. Commercial Readiness – Defining the Product

Clarity on what is being sold is the starting point for any negotiation.

Key Considerations

- Contracted capacity (MW) and generation profile (baseload, peaking, intermittent)
- Expected annual output and dispatch assumptions
- Tariff structure (fixed, indexed, or hybrid)
- Currency denomination and indexation
- Contract tenor aligned with financing horizon
- Capacity vs energy payment structure

Critical Question
Is the product clearly defined, measurable, and aligned with system needs?

Common Pitfall
Entering negotiations with evolving or inconsistent technical and commercial assumptions.

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2. Counterparty Assessment – Evaluating the Offtaker

The strength of the PPA depends on the offtaker's ability and willingness to perform.

Key Considerations

- Creditworthiness and financial standing
- Historical payment performance
- Existing contractual obligations
- Regulatory or sovereign support (if applicable)
- Need for credit enhancement mechanisms

Critical Question
What is the realistic payment risk profile of the offtaker?

Common Pitfall
Assuming reliability based solely on government ownership or market position.

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3. Tariff Structure and Economics – Ensuring Viability

Tariff design directly affects project sustainability and investor confidence.

Key Considerations

- Cost-reflective tariff aligned with capital and operating costs
- Indexation (inflation, foreign exchange, fuel costs)
- Change-in-law provisions
- Curtailment compensation framework
- Performance and degradation assumptions

Critical Question
Does the tariff structure remain viable under downside scenarios?

Common Pitfall
Focusing on headline tariff levels rather than the robustness of the underlying structure.

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4. Risk Allocation – Defining Responsibilities

A PPA is fundamentally a risk allocation framework.

Key Considerations

- Force majeure definitions and consequences
- Grid availability and dispatch risk
- Fuel supply risk (where applicable)
- Transmission and interconnection responsibilities
- Change-in-law and political risk allocation

Critical Question
Are risks allocated to the parties best able to manage them?

Common Pitfall
Accepting disproportionate or poorly defined risks to accelerate agreement.

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5. Payment Security – Protecting Revenue

Revenue certainty is critical for financing and long-term sustainability.

Key Considerations

- Letters of credit (coverage and replenishment terms)
- Escrow arrangements and payment waterfalls
- Guarantees (sovereign, corporate, or multilateral)
- Late payment interest provisions
- Step-in rights for lenders

Critical Question
What mechanisms ensure continuity of payment in stress scenarios?

Common Pitfall
Treating payment security as negotiable rather than essential.

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6. Termination and Compensation – Managing Downside Risk

Termination provisions define outcomes in adverse scenarios.

Key Considerations

- Termination triggers (default, prolonged force majeure, political events)
- Termination payment formulas
- Debt repayment protection
- Equity compensation mechanisms
- Buyout and transfer provisions

Critical Question
Does the termination regime adequately protect invested capital?

Common Pitfall
Ambiguous or incomplete termination provisions that create disputes.

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7. Alignment with Financing Requirements – Achieving Bankability

The PPA must meet lender expectations to enable financial close.

Key Considerations

- Consistency with financial model assumptions
- Direct agreement provisions
- Lender step-in and cure rights
- Assignment rights
- Compliance with lender bankability standards

Critical Question
Would lenders accept the PPA without requiring material restructuring?

Common Pitfall
Negotiating without integrating lender requirements early in the process.

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8. Regulatory and Legal Framework – Ensuring Enforceability

The enforceability of the PPA depends on the surrounding legal and regulatory environment.

Key Considerations

- Required regulatory approvals
- Licensing and compliance status
- Tariff approval processes
- Applicable law and dispute resolution mechanisms
- Stability of the regulatory environment

Critical Question
Is the PPA enforceable in practice under the applicable legal framework?

Common Pitfall
Overlooking regulatory constraints until late-stage approvals.

Final Note: Preparation as a Strategic Advantage

Effective PPA negotiation is less about reacting at the table and more about disciplined preparation beforehand. A well-prepared sponsor enters discussions with defined positions, understands trade-offs, and avoids concessions that undermine long-term project viability.

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