REsurety

Fact Sheet

Settlement Guarantee Agreements, Volume Firming Agreements, and Virtual Power Purchase Agreements

Buying electricity comes with risk in many shapes and forms. Fossil fuel generation is heavily burdened with fuel cost variance. Renewables don't face that risk but they do face others, starting with impacts from variable weather. Settlement Guarantee Agreements and Volume Firming Agreements help to manage the financial uncertainties that otherwise come with virtual Power Purchase Agreements, enabling corporate buyers to buy clean energy more confidently. Some definitions:

Virtual Power Purchase Agreement (vPPA)

- A vPPA allows a corporate buyer to contract for off-site renewable energy. It is a financial contract that works by "exchanging a fixed-price cash flow for a variable-priced cash flow and renewable energy certificates (RECs)," as Rocky Mountain Institute describes.

- While settlement of a vPPA contract can effectively help a buyer achieve their sustainability goals, it also exposes them to significant financial volatility, driven by commodity prices, project performance, and the weather.

- A Proxy Generation PPA is an evolution of the vPPA, protecting buyers from project-specific operational risk. Proxy Generation settlement has the added benefit of reducing contract complexity, as described in a 2018 whitepaper by REsurety, Microsoft, and Orrick, and also improves access to add-on risk management tools like the VFA and SGA.

Volume Firming Agreement (VFA)

- Since 2018, VFAs have been used by clean energy buyers to mitigate their exposure to weather-driven risks: the uncertain total volume and timing of weather-driven generation. This allows corporate buyers to more effectively manage their energy consumption costs than is possible with a traditional vPPA on its own.

- In 2018, Microsoft described the need for and use of VFAs this way:

  > "Put simply, the power needs of buyers are static but the power from the project varies on a day-to-day, hour-to-hour basis. But what is undesirable to buyers is very attractive to others, namely insurance companies whose core business revolves around taking weather-related risks, including temperature, rain, snow, wind, and so on. VFAs effectively remove the risk related to how future weather conditions will impact the financial value of a PPA from buyers and reallocates it to people who want that risk."

Settlement Guarantee Agreement (SGA)

- REsurety's SGA product helps clean energy buyers further control for cost – it locks in the future value of vPPA settlements, shedding the financial exposure to weather and commodity market-driven volatility. Leading data center provider Iron Mountain announced in October 2020 that it will use the SGA product as well as a VFA to manage weather-linked risk for its vPPAs with wind farms in Pennsylvania and Texas, “and confidently enter into additional agreements to responsibly power our rapidly growing data center footprint.”

- SGAs exchange future unknown, variable vPPA settlement payments for a known, fixed payment (which can be positive or negative depending on the expected future value of the vPPA). Financial risks associated with the vPPA are therefore transferred away from the vPPA buyer to an insurer, who manages that risk as part of a portfolio of weather and commodity market-linked exposures.

"Commitments to renewable energy and financial resilience can and should be fully compatible,” said Lee Taylor, CEO of REsurety. “A vPPA alone achieves sustainability goals, but not necessarily financial goals. To do that you need proven risk management products like an SGA and/or a VFA.”

Both the SGA and the VFA are part of REsurety’s suite of risk management tools for clean energy buyers. For more information, please contact Eric Carlson, Senior Vice President, Business Development, at ecarlson@resurety.com.

News media may schedule an interview by contacting Peter Kelley, peter@renewcomm.com, 202-270-8831.

About REsurety
REsurety is the leading provider of valuation analytics and risk management services to buyers and sellers of renewable energy. With deep expertise at the intersection of weather and power markets, REsurety has built unrivaled databases and analytical systems that enable a more precise understanding of the value and risk of intermittent power generation. Having supported over 6,000 MW of transactions since 2015, REsurety is rapidly changing the way renewable energy is bought and sold across the globe. For more information, visit www.resurety.com.

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