PPAs in the Internal Electricity Market: Addressing Constraints without Undermining Market Functioning

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Europex welcomes the European Commission’s call for evidence to assess barriers to Power Purchase Agreements (PPAs). PPAs serve a specific purpose: they enable generators and consumers to connect directly, offering solutions that are tailor-made to their needs and restrictions. There are trade-offs to this design. Issues such as counterparty risk, limited standardisation and transparency as well as the absence of dedicated trading platforms are therefore inherent to the structure of PPAs. Hence, many of the obstacles affecting PPAs stem directly from their nature as uncleared, over-the-counter, bespoke bilateral contracts.

Alternative products and markets that address these shortcomings already exist and are offered by organised marketplaces. In fact, market participants already have the option to choose the product mix that meets their requirements and respects their constraints effectively. This leaves the question of whether all shortcomings of PPAs need to be reduced or whether alternative products offer better solutions in certain circumstances. Nevertheless, we would like to share our ideas on how to best address certain barriers to PPAs.

Main Barriers and Suggested Solutions

A well-established best practice for addressing these challenges is to execute PPAs through exchanges. Clearing provides robust management of counterparty risks, while also fostering standardisation and enabling the aggregation of supply and demand through uniform contractual products. Exchanges and delegated operators can further support the uptake of PPAs and the pooling of liquidity by, for example, establishing trading platforms for physical PPAs, thereby lowering barriers to entry for consumers - or facilitating the clearing of PPA transactions to mitigate risks and enhance bankability.

Because PPAs are bespoke bilateral contracts, full standardisation into a single EU-wide PPA template is not possible, indeed different templates coexist to accommodate the distinct needs of market participants. While industry-led templates exist (e.g., EFET, ISDA), the need to negotiate project- and counterparty-specific clauses means agreements must remain flexible and adaptable to parties’ needs. Market participants are best placed to draw on their expertise, risk profiles and operational knowledge to draft effective contracts. In practice, rigid, one-size-fits-all templates have not gained broad traction across Europe[1], reinforcing the case for standardising only what is genuinely fungible, while leaving commercial specifics to bilateral negotiation. At the same time, standardised risk-management solutions in the form of power derivatives, forward and/or other forms of long-term contracts listed on regulated exchanges, have increased in relevance. Power exchanges may also offer services for longer-term maturities for standard, power base contracts, either financially or physically settled, both exchange-based and OTC. PPA counterparties could use these to mitigate counterparty risk.

Where public support is used to facilitate PPA financing, for example through state-backed guarantee schemes, it is important that such support is fully compatible with market-based risk-management solutions. This would enable PPAs to be registered for clearing rather than leaving volumes and prices outside the transparent and generally visible wholesale market, preserving price signals while addressing specific credit constraints that still hinder some market participants from signing a PPA. This approach is consistent with the revised Electricity Market Design, which aims to strengthen liquidity in forward markets.

These barriers are more severe for small and medium-sized market participants, who are often unable to enter into PPAs due to the so-called minimum efficient deal size. Transaction costs can render PPAs uneconomic for SMEs due to factors such as the extensive legal work required to draft and negotiate agreements and offtaker creditworthiness requirements, which tend to favour larger players. These barriers can be partly mitigated through the intervention of an aggregator acting as the wholesale offtaker. In this model, aggregators operate as intermediaries that consolidate multiple smaller demand profiles and convert retail-scale consumption into a single offtake position. By pooling numerous buyers, aggregators are able to socialise and amortise fixed and non-volume-related transaction costs such as legal structuring, bankability requirements. Aggregators may play an essential role in enabling SMEs to access PPAs.

Other persistent barriers that continue to hinder the development of PPAs are regulatory uncertainty and lengthy permitting procedures both of which undermine investor confidence and can complicate contract structuring. Additional friction arises from the interaction of PPAs with renewable subsidy schemes. If not carefully designed, instruments such as state-backed two-way CfDs (especially if not technologically neutral) risk crowding out, rather than complementing, the PPA market. This underscores the need for clear guidance to ensure that public support mechanisms do not distort investor incentives or diminish appetite for market-based contracting. Finally, strengthening developers' understanding of market-based risk-hedging instruments remains essential, particularly to enable smaller players to access these instruments and, in turn, help make the PPA market more mature and resilient.

[1] Montel News, "PPA Standardisation Sputters as Rigid Terms Deter Sellers," 19 January 2026, [https://montelnews.com/de/news/b2ddf958-f2ef-46d1-9911-505458d6bfe5/ppa-standardisation-sputters-as-rigid-terms-deter-sellers]

About

Europex is a not-for-profit association of European energy exchanges with 36 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

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