WORKING TOGETHER TO SCALE RENEWABLE ENERGY

AGGREGATING SMALL ENERGY DEMAND:

HOW FIVE COMPANIES PARTNERED TO BUILD A NEW PROCUREMENT MODEL

A CLEAN ENERGY BUYERS ASSOCIATION CASE STUDY

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CEBA
Clean Energy Buyers Association

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See the customers talk about this project.

Read additional perspectives:

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ABOUT THE CLEAN ENERGY BUYERS ASSOCIATION (CEBA)

The Clean Energy Buyers Association (CEBA) is a membership association for energy customers seeking to procure clean energy across the U.S. Today, our membership of nearly 300 includes stakeholders from across the commercial and industrial sector, non-profit organizations, as well as energy providers and service providers.

The Clean Energy Buyers Association's aspiration is to achieve a 90% carbon-free U.S. electricity system by 2030 and to cultivate a global community of energy customers driving clean energy.
www.cebuyers.org.

The customers:

Bloomberg

Bloomberg, the global business and financial information and news leader, gives influential decision makers a critical edge by connecting them to a dynamic network of information, people, and ideas. The company's strength—delivering data, news, and analytics through innovative technology, quickly and accurately—is at the core of the Bloomberg Terminal. Its mission is to provide clients with the data needed to navigate a changing economic landscape and successfully transition to a lower-carbon economy. This includes decision-useful sustainability data, analytics, and news. It also incorporates sustainability considerations throughout its own operations. Bloomberg has pledged to obtain 100% of its electricity from renewable sources by 2025. For more information, visit www.bloomberg.com/company.

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Cox Enterprises

Cox Enterprises is dedicated to building a better future through its leading communications, automotive services, and media companies. Its major operating subsidiaries include Cox Communications, Cox Automotive, and Cox Media Group. Headquartered in Atlanta, Georgia, Cox is a global company with $21 billion in annual revenues and brands that include Autotrader, Kelley Blue Book, and Cox Homelife. Founded in 1898 by Ohio Governor James M. Cox, the company is a family-owned business committed to its people, its communities, and the planet. To learn more about Cox, visit www.coxenterprises.com. Through its sustainability arm called Cox Conserves, Cox strives to make all of its operations zero waste to landfill by 2024 and carbon- and water-neutral by 2044.

Gap Inc.

Gap Inc. is a leading global retailer offering clothing, accessories, and personal care products for men, women, and children under the Old Navy, Gap, Banana Republic, Janie and Jack, Athleta, Hill City, and Intermix brands. As one of the world's leading apparel companies, Gap Inc. recognizes that it contributes to and has the opportunity to address systemic social and environmental challenges. Gap Inc. continues to be committed to enabling safe, fair working conditions for the people who make its products; minimizing its environmental impact; and working with its industry to achieve progress on global goals. Gap Inc. does this by addressing impacts in its owned and operated facilities and collaborating throughout its value chain and across government, business, and civil society. To learn more about Gap Inc., visit www.Gapinc.com.

Salesforce

Salesforce is the global leader in Customer Relationship Management (CRM), bringing companies closer to their customers in the digital age. Founded in 1999, Salesforce enables companies of every size and industry to take advantage of powerful technologies—cloud, mobile, social, internet of things, artificial intelligence, voice and blockchain—to create a 360° view of their customers.

Salesforce is committed to creating a sustainable and low-carbon future for all. The company delivers a carbon-neutral cloud to all customers, is actively pursuing green building certification for global office spaces, signed onto the Science Based Targets Initiative, is partnering with its top suppliers to set their own emissions reduction targets, is committed to reaching 100 percent renewable energy by 2022 and advocating for policies that set the planet, and the geographies the company operates in, on a just path to a low-carbon economy. Learn more about sustainability at Salesforce here.

Workday

Workday is a leading provider of enterprise cloud applications for finance and human resources. Founded in 2005, Workday delivers financial management, human capital management, planning, and analytics applications designed for the world's largest companies, educational institutions, and government agencies. Organizations ranging from medium-sized businesses to Fortune 500 enterprises have selected Workday.

Workday has a goal to achieve net-zero carbon emissions by 2021 across its offices, data centers, and business travel. The company has achieved net-zero carbon emissions across all of its offices and data centers worldwide. This also means that Workday is providing thousands of customers with a carbon-neutral cloud. Workday continues its commitment to power 100% of global operations with renewable electricity. All of its data centers that run its cloud applications—in both the United States and Europe—are powered by 100% renewable electricity. To learn more about Workday, visit www.workday.com.

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Transaction partner:

LevelTen Energy

LevelTen Energy develops technology that makes it easier for companies of all sizes to meet their renewable energy goals through power purchase agreements (PPAs). The foundation of the company's platform is the LevelTen Marketplace, which features PPA prices, market risk, development risk, forward cash flow analysis, and dozens of other key specifications on nearly every clean energy project under development in North America. To find a project—or portfolio of projects—that will best meet the needs of its clients, LevelTen runs its Dynamic Matching Engine, which uses data science and proprietary algorithms to analyze the massive amount of data in the LevelTen Marketplace and find the optimal match. In addition, LevelTen has reengineered the procurement process from end to end, using software to improve components like request for proposal (RFP) solicitation and PPA performance monitoring. The result is a more efficient process that produces PPAs with less risk and far greater value.

Key participants:

BayWa r.e.

Across solar, wind, and bioenergy, BayWa r.e. rethinks energy—how it is produced, how it can be stored, and how it can be best used. BayWa r.e. is a leading global renewable energy developer, service supplier, wholesaler, and energy solutions provider. BayWa r.e. has brought over 2.5 GW of energy online while managing over 7 GW of assets. This includes over 1,000 megawatts (MW) of assets in operation or contracted with corporations or retail energy suppliers. BayWa r.e. Solar Projects, LLC, is responsible for the group's North American activities in the solar and storage sectors and has over 4 GW of project pipeline in the United States and Mexico. Learn more about BayWa r.e. at us.baywa-re.com.

Business Council on Climate Change

The Business Council on Climate Change (BC3) is a San Francisco–based multisector partnership dedicated to incubating, scaling, and sharing world-leading solutions to address climate change. The council is committed to working together—across businesses, government agencies, and economic sectors—to secure a vibrant, low-carbon future for the Bay Area and the planet. BC3's dues-paying members include many of the Bay Area's most iconic brands, which collectively earn more than $215 billion in annual revenues and employ more than 750,000 people. Learn more about BC3 at www.bc3sfbay.org.

Couch White, LLP

Couch White, LLP is a full-service law firm dedicated to the cost-effective resolution of legal problems encountered by, and the consummation of transactions contemplated by, an extensive business and professional clientele. Couch White is a recognized leader in energy law with an established regional, national, and international client base that includes numerous Fortune 500 companies. The firm's energy clients include large end-use customers, large building owners, merchant energy generators, municipalities, and private developers. Couch White is also at the forefront of renewable energy development, both in New York State and nationwide. From large-scale project development to rooftop solar, Couch White attorneys have found creative and effective ways to meet their client's renewable energy goals while simultaneously helping to shape the future of renewable energy policy.

INTRODUCTION

In January 2019, five companies announced that they had pooled relatively small amounts of electricity demand to collectively procure the output from 42.5 MW of a 100 MW solar power project being developed by BayWa r.e. (BayWa) in the Dominion Energy service territory in North Carolina, in the PJM region (click here for a map of US regional transmission organizations). This transaction adds to a growing collection of models and approaches for companies wishing to initiate or expand their renewable energy purchases. This deal offers a mechanism for achieving a material impact by catalyzing new renewable energy projects with a relatively small commitment by the procuring companies. This model offers companies the chance to test the virtual power purchase agreement (VPPA) as a model to meet their renewable energy strategies and provides options for those companies that may lack choice due to size, location, or other factors.

> ***"This unprecedented, cross-industry collaboration resulted in the development of a massive new solar energy project. More importantly, it laid the groundwork for other companies to follow. Thanks to the vision and tenacity of each customer, other corporations now have a blueprint for collective renewable energy procurement."*** ***— Rob Collier, LevelTen Energy***

In summary, the transaction process was as follows:

- Five customers came together and undertook multilateral negotiations with one project developer.
- Each customer contracted for a similar, but not identically sized, slice of project capacity ranging from 5 MW to 10 MW depending on the buyer's specific need and the collective-credit need from the project financier. (The total MW contracted by all customers had to be sufficiently large to meet economies of scale and provide the best value to the customers collectively.) Transaction sizes have been decreasing in recent years; however, the average transaction size is around 50 MW for onshore wind projects and 30 MW for solar PV projects.
- Pricing of the MW contracted was identical for each customer.
- All transaction expenses were shared equally by the participating customers.
- A blended credit rating, considering different credit ratings for each customer, was used to establish project risk for the financier and offtake-contract terms, primarily price.
- The customers used a uniform contract.
- Each customer executed its own contract with the developer and assumed payment liability with each counterparty. There was no joint and several liability.
- The combined procurement of 42.5 MW from a total 100 MW provided the developer with the equivalent of an "anchor tenant" and served as the basis for overall project finance for the solar project.

Because of the potential for the model used in this transaction to expand the pool of market participants, CEBA has worked closely with the five procuring companies and other key actors in the transaction to develop this case study.

The five customers, collectively known as the Corporate Renewable Energy Aggregation Group, are hereafter referred to as "the Group" or "the Customers" in this document.

01 CREATING THE PARTNERSHIP

CREATING THE PARTNERSHIP

In this section we discuss important steps and lessons learned for creating a successful partnership, drawing on the experience of the five Customers. More specifically, we discuss:

- The importance of a professional network for creating a group.
- Useful criteria for selecting partners.
- Developing a project framework.

1.1 THE IMPORTANCE OF A PROFESSIONAL NETWORK

> ***"I attended the Buyers' Boot Camp put on by BRC (now CEBA), which was an incredibly helpful experience, both in learning more about renewable energy and being introduced to Max Scher from Salesforce and the idea of a Customers' Group."***
>
> ***— Wilson Griffin, Gap Inc.***

Having the right partners lies at the heart of a successful partnership. This requires intentionally seeking and selecting partners, not simply relying on random contacts. Professional networks are an excellent way to meet potential partners and explore renewable energy buying partnerships. The Customers in the Group connected through professional renewable energy networks: San Francisco–based Customers Gap Inc., Salesforce, and Workday connected through a San Francisco–based nonprofit, the Business Council on Climate Change (BC3), and the Business Renewables Center (BRC) program of the Rocky Mountain Institute (the BRC program is now part of CEBA). Bloomberg's Michael Barry, Workday's Erik Hansen, and Cox Enterprises' Kevin Sok had preexisting professional relationships which were reinforced through BRC meetings. The Customers all agreed that operating a successful renewable energy aggregation group requires trusted partners who are highly motivated to get the deal done, who work collaboratively with a group while protecting their companies' interests, and who can handle the ups and downs of a lengthy negotiating process.

1.2 CRITERIA FOR PARTNER SELECTION

> ***"This was a high-quality group. Everyone was committed from the outset."***
>
> ***— Michael Barry, Bloomberg***

The companies in the Group all have high commitments to environmental sustainability in general, and several have quantified objectives for renewable energy sourcing. Company commitment and motivation to make an aggregate deal work were essential to the successful outcome of a transaction.

Experience with this and other aggregation transactions suggests an aggregation group can work well with three to six members; however, there is no hard and fast number for the participants in a group. It was noted by the Group members that while building consensus around a project deal becomes more difficult as group size increases, it is important to consider partner attrition during the transaction. For example, this Group began with six partners, but two dropped out several months into the process. It was also noted that companies can join a process already underway. For details on the project timeline, see Appendix D.

While it is not necessary to include experienced customers in the Group, the Customers were unanimous that experienced members of the Group were extremely helpful. In this case, Salesforce and Bloomberg had previously executed VPPAs, and while each deal is different, their prior experience provided practical information for a VPPA and brought a level of confidence to the Group as a whole.

CREATING THE PARTNERSHIP

> ***"Engagement is key. I trusted my fellow project members and knew they were working hard to get this project across the line."***
>
> ***— Michael Barry, Bloomberg***

The personal commitment of each individual is critical to getting the deal done. The representatives from each company brought the passion and drive to succeed. This Group used weekly conference calls with a clear agenda and good facilitation by LevelTen Energy to maintain Group cohesion. It was very important that everyone could be counted on to make the calls and actively participate.

While not an absolute criterion for selection, some alignment in business model can be a useful indicator of company/partner congruence. Each business in the Group is a services-based organization: Bloomberg, Salesforce, and Workday providing data, CRM, and finance and HR services; Cox providing communications, automotive services, and media services; and Gap Inc. providing retail services—all with distributed sites across the globe.

Lower credit rating should not exclude participation

The creditworthiness of project offtakers is a critical project finance consideration. An investment-grade credit rating reduces the project's risk in the eyes of investors and can enhance credit terms (e.g., spread or debt service cover ratio). However, customers below investment grade should not be excluded from a customers' group. Customers with lower credit ratings can enhance their credit rating through traditional mechanisms, such as a parent company guarantee,* surety bond, letter of credit, etc.,* if available to the company. However, as in the Group's case, credit ratings can be averaged across an aggregation group to present one credit risk to project financiers. Therefore, in an average credit score scenario, the PPA strike price and contract terms will reflect the group-average position.

In a competitive developer environment, as current, some developers will be more aggressive on their pricing than others; however, significant attention must be given to the risks being allocated between transacting parties, as a low strike price does not necessarily equate to a good deal.

*These reduce the company's credit capacity and do not provide a return to shareholders when used to secure renewable energy offtake.

CREATING THE PARTNERSHIP

1.3 DEVELOPING AN UPFRONT PROJECT FRAMEWORK

OPTING FOR A VPPA

Early on, the Group agreed to important parameters that framed the remainder of the project development. Group members decided a VPPA was the most appropriate contract structure, citing the following reasons:

- No upfront investments other than transaction costs.
- Environmental attributes at scale.
- Geographic flexibility (project generation and load do not have to be correlated).
- Clear impact through creation of new sources of renewable energy.
- Corporate demand for renewable energy demonstrated to utilities and the world at large.
- Local economic benefit created through project construction and operation.
- Legal title of the power is not passed and relationship with existing electricity providers is not interrupted.

See Appendix B for an overview of the VPPA; see CEBA resources for a full explanation.

> ***"The Group was aligned in our level of risk tolerance—the Group members were great to work with, sharing ideas, lessons and insights to achieve the risk-price balance we all thought fair."***
>
> ***— Kevin Sok, Cox Enterprises***

CREATING THE PARTNERSHIP

WHERE TO LOCATE A PROJECT

Customers agreed to look for a project in the PJM electricity region, as several of the Customers have important facilities located in PJM, such as large data centers for Salesforce and broadband operations for Cox Enterprises. PJM is an independent system operator with a deregulated wholesale market allowing transactions between private sellers and customers of renewable energy. Electricity generation in the PJM grid has a high CO2e content and presented the five Customers with an opportunity to maximize emissions reductions from a transaction.

PROJECT UPTAKE FOR EACH CUSTOMER

Customers agreed on the collective target transaction size, 40–50 MW, and the amount required by each participant (between 5 MW and 10 MW). Finally, despite different credit ratings, it was agreed each participant would set the same strike price and contract terms with the developer, with uniformity being a key element in an aggregated transaction to secure project finance. This decision to deal with each other on the basis of equality across the Group helped build the collaborative spirit necessary to complete a single transaction with five participating companies and reduce the transaction cost for Customers and seller alike.

UNDERSTANDING THE BUSINESS RATIONALE FOR A TRANSACTION

> ***"Sustainability should be the primary motivator when pursuing a project like this. While it might forecast as cost neutral or even a revenue generator, taking a holistic view of the business value is really important."***
>
> ***— Erik Hansen, Workday***

Independently, each Customer in the Group had developed a business-based rationale for why they sought to procure renewable energy attributes through a VPPA structure. Appendix C contains a simple diagnostic tool which codifies many of the questions customers have asked themselves to determine "the why."

Setting internal expectations for project economics was critical, especially with regard to expected value and risk. Renewable energy project finance requires a contract term sufficient to repay the initial investment, typically more than 10 years.

Each Buyer's approach to this is somewhat different; however, in general, Customers secured approval for the project using a low case pricing scenario forecast. Corporate leadership felt that even in a worst-case scenario, what the company is buying (the business rationale for the transaction) made the cost acceptable.

"The worst case is if electricity market prices dropped to $0/MWh for the entire term of the contract [assuming a contract has a $0/MWh floor]. We consider this from an accounting perspective, but we still present the spread of scenarios, then ask ourselves if we'd be comfortable with the low case and what action we would take to manage this scenario. Being cognizant of why we're doing this and our tolerance for a bad day is critical."

—Max Scher, Salesforce

CREATING THE PARTNERSHIP

While the Customers favored a VPPA, it should be noted they believe the VPPA is a necessary workaround, compensating for the lack of renewable energy purchase options from most of the country's utilities and retail electricity providers. They hope that eventually all utilities will offer competitively priced renewable energy purchases as a routine matter of business.

> ***"Since our operations are spread throughout the country, we needed a flexible model like the VPPA."***
>
> ***— Kevin Sok, Cox Enterprises***

SUMMARY OF LESSONS LEARNED CREATING THE PARTNERSHIP

- Be intentional about partnership selection. Know your transaction criteria and proactively search across business networks for like-minded partners.
- Join renewable energy professional associations for learning, networking, and meeting potential partners.
- Consider partners with clear, strong, shared environmental commitments (a strong drive within the company) while also having similar transaction timelines (i.e., sustainability goals) and a comparable appetite toward key transaction risks.
- Keep the group small enough to be effective (three to six), but anticipate losing a member or two along the way and have a backup, if needed.
- Develop, as early as possible, agreement on the broad project framework, including contract structure (e.g., VPPA or physical PPA), targeted MW size, uptake required by participating partners, ideal location of the project, and treatment of partners in terms of cost sharing and project pricing.
- Establish reasonable financial expectations with internal stakeholders.

02 FINDING AND NEGOTIATING THE PROJECT

FINDING AND NEGOTIATING THE PROJECT

In this section of the case study we discuss the steps for finding and negotiating the project as well as lessons learned. More specifically:

- Determining why and how the Customers selected external advisors.
- Selecting a specific project.
- Negotiating the final agreement.
- Building internal agreement among each company's key stakeholders.

2.1 SELECTING AN EXTERNAL ADVISOR

> ***"Since this was Gap Inc.'s first VPPA process, we benefited from the collective experience of the Group."***
>
> ***— Wilson Griffin, Gap Inc.***

In July 2017, the Customers discussed possible transaction structure options and reviewed alternative structures through conversations with experts in the industry. The Group had undertaken a "soft" RFP for an external commercial advisor, seeking the following services:

- Provide deep renewable energy procurement and market knowledge.
- Support each member of the Group with consistent materials for dissemination to key internal stakeholders.
- Assist in organizing and facilitating weekly meetings.
- Apply expertise in managing the RFP process and screening potential projects.
- Provide practical assistance with negotiations.
- Analyze projects, transaction value, and risks.
- Provide assistance to avoid over-reliance and overburdening experienced Customers in the Group.

After evaluating options, in August 2017 the Group chose LevelTen Energy, who supported the Group through transaction close.

> ***"LevelTen was indispensable to making the Group successful."***
>
> ***— Erik Hansen, Workday***

2.2 SELECTING A PROJECT

> ***"Having a concrete deal to react to is what moved the Group along."***
>
> ***— Max Scher, Salesforce***

Three months after engaging LevelTen, the Group issued an RFP through LevelTen's online renewable PPA Marketplace seeking contractable project options which quickly resulted in roughly 100 responses from project developers. LevelTen evaluated the responses and conducted analytics on each project to determine which projects would best meet the needs of the Group in terms of risk, value, and other factors and 10 projects were selected for closer review. A wind farm project in PJM was ultimately selected as the most attractive project. The Group collectively developed a term sheet, drawing on a template developed by LevelTen and significantly informed by a CEBA template. However, the Group wasn't able to negotiate and sign a term sheet before another customer, motivated by federal tax reductions and moving extremely fast, signed and moved forward with the project. This was a valuable lesson for the Group, emphasizing the need to move quickly on the most attractive projects and compete with single customers who may be nimbler than an aggregated group of customers.

> ***"After losing the wind farm opportunity, we realized we needed to be efficient, otherwise good projects would be snapped up before we could move on them."***
>
> ***— Kevin Sok, Cox Enterprises***

FINDING AND NEGOTIATING THE PROJECT

2.3 NEGOTIATING A FINAL AGREEMENT

> ***"Leveraging PPA terms from signed deals that have been financed will ensure an efficient path to contracting and operational delivery of a project. This comes down to working with partners, counsel, and advisors who have significant experience in the large-scale renewable energy market."***
>
> ***— Rebecca Sternberg, BayWa r.e.***

In February 2018, a new RFP was launched which yielded a similar number of responses as the first RFP. The Group worked through responses with LevelTen and selected a solar project being developed by BayWa r.e. in North Carolina in March 2018. Working with BayWa, the Group took two months to negotiate a term sheet suitable for a solar project, then signed and entered into exclusivity to negotiate the full contract.

Informed by LevelTen's analysis and conversations with BayWa, the Group felt project development risk was low compared to some other alternatives. The Group also liked the project location, with financial settlement at the PJM Dominion Hub.

The Group spent time evaluating the possibility of contracting with BayWa through a financial intermediary. A financial intermediary would have contracted with BayWa on behalf of the Group, using its own creditworthiness, thereby circumventing the different credit ratings of individual Customers in the Group. The Group ultimately felt the price premium of the financial intermediary made the deal unattractive, and it decided to contract directly with BayWa. The Group feels financial intermediaries can play an important role in enabling greater participation for customers with weaker credit ratings.

Following term sheet development, the Customers recognized the impracticality of five customers negotiating a complete PPA with one developer, so the Group issued an RFP for a shared legal counsel and, with LevelTen's support, selected Couch White, LLP to negotiate on behalf of the Group. LevelTen and Couch White liaised closely and handled all full-contract negotiations with BayWa directly. The advisors also liaised directly with internal legal counterparts within each Buyer's company to modify LevelTen's standard contract to serve the entire Group and future aggregation groups. The PPA was described by one Customer as 98% identical between each company, with the minor variances being immaterial to project financing.

> ***"Every Customer in the Group had an equal voice in our discussions, and no single company dictated terms or decisions more than another."***
>
> ***— Wilson Griffin, Gap Inc.***

Contract negotiations take substantial time, typically more than expected at the outset. In this case, the Group hoped for two sets of contract revisions; however, five revisions were required to reach agreement over roughly a six-month period. The Group members felt this time was well spent because key project risks are addressed at this stage. Risks focused on by the Group included pricing, electricity volume production, project completion, project operations, downtime, and reputational risk. For a more complete discussion of project risks, several resources are available through CEBA, including Deal Structure Primers, Risk Allocation Primer, Financing Primer, recent Corporate Purchaser's Guide to Risk Mitigation report, and numerous blogs.

"Having one legal counsel was critical for this transaction to succeed and would have been impossible without a coordinated legal engagement together with Couch White's stakeholder management skills."

—Max Scher, Salesforce

FINDING AND NEGOTIATING THE PROJECT

Concluding negotiations in six months, including all parties becoming comfortable with the risks and legal details, is considered relatively swift. The expedience of this process was aided by: previously working through details on a genuine transaction opportunity (the first wind project); deep trust among the Customer Group together with motivated and experienced Customers in the Group; experienced transaction advisors, including legal and commercial; and an experienced project developer. It should be noted that many contract terms are becoming standardized as corporate procurement of renewable energy becomes more mainstream, which should make this process easier in the future.

Ultimately, each company signed its own contract and retained its responsibility for honoring all contract terms. Key to finalizing the contract was flexibility on the part of each company; therefore, there was no joint and several liability between Group members.

> ***"We hit a ceiling with our onsite strategy, and so it was a natural progression to analyze the areas we can have impact and execute. This project was one of those areas that also served to diversify our sustainability strategy."***
>
> ***— Kevin Sok, Cox Enterprises***

Why not an onsite project?

Onsite projects can provide significant impact depending on a company's goals or targets. For example, if reducing greenhouse gas (GHG) emissions is a priority and a facility is in a low-GHG electricity grid, then an onsite project could have a significantly lower impact than an offsite project sited in a high-GHG electricity grid. Onsite projects do lead to the creation of new renewable energy capacity, which directly reduces grid-drawn electricity at point of consumption and eliminates factors such as line losses; so if new, effective renewable capacity is a priority, onsite projects can provide material impact.

Individually, Group members had considered and developed an onsite strategy where appropriate, as all the companies have some wholly owned facilities, but found an onsite-only strategy could not provide sufficient scale to achieve their renewable energy and GHG reduction objectives. For example, Cox Enterprises has installed 15 MW of onsite solar PV projects and felt it was nearing the limit of its onsite renewable potential. Cox's electricity demand is significantly greater than the output from 15 MW of solar panels. For some other Customers in the Group, leased, rather than owned, facilities made onsite projects difficult and a VPPA relatively more attractive. For example, Gap Inc.'s Athleta brand operates 160 leased stores throughout the country. Electricity sourcing in these cases is largely determined by the building owner, not the lessee, making it difficult to procure renewable energy directly from the local utility, even in cases where this option was available. As another example, Salesforce leases its major data centers, which are the company's primary driver of electricity consumption and are typically unable to develop onsite renewable energy projects.

FINDING AND NEGOTIATING THE PROJECT

2.4 BUILDING AGREEMENT AMONG KEY INTERNAL STAKEHOLDERS

> ***"Although we used one shared external legal counsel, each of our company's internal legal was heavily involved. It was important they were engaged early as they participated in the vetting and selection of external counsel and the weekly calls. They all recognized the need to make informed decisions quickly and kept the process on track."***
>
> ***— Michael Barry, Bloomberg***

Coming to agreement with the project developer is only part of the story. The other part is gaining agreement among internal stakeholders within each Buyer's company. Stakeholders for the Group included Accounting, Legal, Finance, Risk, Compliance, and Communications, in addition to leadership at the C-suite level. Other companies may need to involve Credit and Treasury. Indeed, failure to adequately inform and bring along internal key stakeholders presents a major risk for project approval and transaction completion.

As a general rule, the newer a company is to a VPPA, the earlier internal communications should begin. A key role for the individuals in the Group was to serve as the internal champion for the project, sharing information with key stakeholders, understanding and addressing any concerns in the contract, and building consensus until sign-off.

> ***"At the outset of the project, I met with our finance team to obtain buy-in and build consensus."***
>
> ***— Erik Hansen, Workday***

Each company has its own decision-making process for this kind of project, and therefore the approach taken at each was slightly different and often innovative. Salesforce, which had previous experience with a VPPA, conducted a project kickoff meeting with all key internal stakeholders. Cox Enterprises found peer-to-peer communication across its companies very helpful. All Group members took comfort in participating collaboratively with peers, especially from Salesforce and Bloomberg, who were the most experienced renewable energy Customers in the Group at that time. The Group noted that in most cases a new customer will need to develop new processes or systems to meet stakeholder needs within their company.

> ***"Our accounting team was fantastic. They gave a lot of time to helping accounting departments in other companies resolve issues."***
>
> ***— Max Scher, Salesforce***

FINDING AND NEGOTIATING THE PROJECT

As large-scale procurement has increased, the developer's deal champions have significantly gained expertise or increased dedicated resources to navigate their internal departments and support transaction negotiations. Developer's deal champions act as the liaison between the transaction and key internal departments within the developer's company, such as Permitting, Construction, Finance, and Legal. As with buyer's deal champions, the developer's deal champion builds consensus across all the required departments as the transaction negotiations progress. Treating the developer's deal champion as an ally can help smooth the transaction process.

SUMMARY OF LESSONS LEARNED FROM FINDING AND NEGOTIATING A PROJECT

- Partners in an aggregated transaction may need to sign identical, or nearly identical, contracts, while offtake size can vary.
- Aggregation transaction partners do not have to infer joint liabilities.
- Relationships within your company must be cultivated to genuinely understand different perspectives. It's not a matter of trying to "convince" others a specific transaction is a good idea, but more a process to truly understand concerns and ensure these are reflected in the transaction and/or suitably mitigated.
- External experts play a critical role in offsite transactions. Only the most experienced Customers with deep understanding of these transactions should consider undertaking a process without external legal counsel and/or consultant support.
- Often a transaction's progress increases pace when a real project is "on the table"—this point in the transaction process is key to changing from concept to reality.
- Missed opportunities are learning opportunities. Expect a project you want to be contracted by another party, but use this as a learning experience for yourself and the Group: Why did you miss this opportunity? How can you improve your process as a group to not miss the next?
- Other impacts from your transaction should be considered. For example, is there a wider social good which can arise from this transaction? In this case, the Group sought to apply pressure to a certain element of the electricity system to help effect a change larger than one transaction.
- The developer's deal champion should be treated as an ally in the process to help smooth the transaction.
- Consider factors beyond the bid-price and value a developer with flexibility to overcome unexpected roadblocks during the negotiation that increase the probability of execution.

03 CONCLUSION

CONCLUSION

> ***"Don't be intimidated by a VPPA. It is eminently doable. For achieving sustainability goals, it doesn't get much easier than this."***
>
> ***— Adam Conway, Legal Counsel, Couch White***

The five companies in the Customers' Group walked an efficient path that other companies can follow and shed light on what works as an effective transaction process, increasing the likelihood that, once launched, a renewable energy project will come to a successful conclusion.

A customer-aggregated project, as in this case study, offers numerous benefits to prospective customers of renewable energy. For companies new to renewable energy contracting, assembling a group with one or two experienced customers can reassure other, newer participants and serves as a vehicle for transferring important contracting experience. Transaction costs, often a major concern for contracting companies, can be shared across a group and reduced for each group member (compared to a solo procurement). Individual group participants have the option to contract for a small tranche of a larger project, while allowing for pricing as if procuring a larger capacity. Customer-aggregated transactions with a small volume procured can serve as a learning experience for other stakeholders in the company, setting them up for future, possibly larger, projects, either with a group or alone.

Importantly, the aggregation approach demonstrates that smaller customers can pool their demand and support large-scale projects in the same impactful way larger companies do. This tactic could also help larger companies in markets where their renewable energy needs are smaller, while enabling those just starting their renewable energy journey to pilot VPPAs or other transaction types as a viable option to meet their climate goals.

> ***"An aggregated transaction can be immensely rewarding and reduce risk through diversification. It is also very important to have realistic expectations on timeline, and cost exposure to properly assess the genuine risks any transaction will introduce to a buyer's business."***
>
> ***— Kevin Sok, Cox Enterprises***

04 APPENDICES TO CASE STUDY

APPENDIX A: SUMMARY OF LESSONS LEARNED

CREATING THE PARTNERSHIP

- Be intentional about partnership selection. Know your transaction criteria and proactively search across business networks for like-minded partners.
- Join renewable energy professional associations for learning, networking, and meeting potential partners.
- Consider partners with clear, strong, and shared environmental commitments (a strong drive within the company) while also having a similar transaction timeline (i.e., sustainability goals) and appetite toward key transaction risks.
- Keep the group small enough to be effective (three to six members), but anticipate losing a member or two along the way and have a backup, if needed.
- Develop, as early as possible, agreement on the broad project framework, including contract structure (e.g., VPPA or physical PPA), targeted MW size, uptake required by participating partners, ideal location of the project, and treatment of partners in terms of cost sharing and project pricing.
- Establish reasonable financial expectations with internal stakeholders.

FINDING AND NEGOTIATING A PROJECT

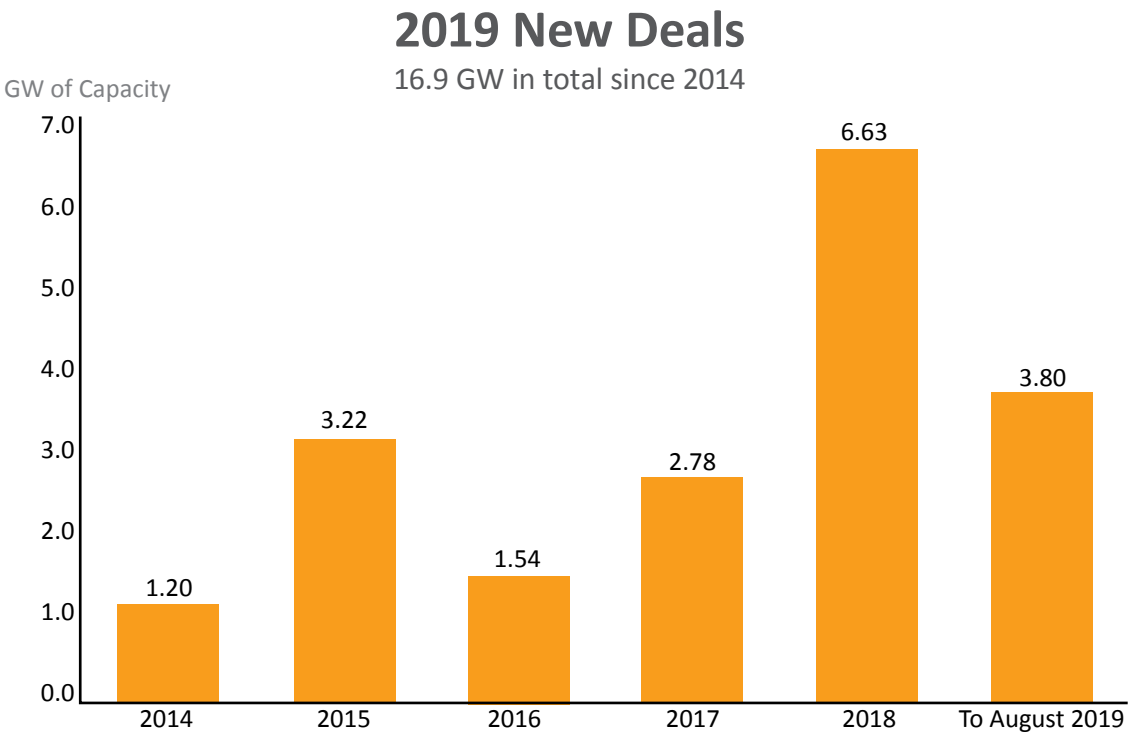
- Partners in an aggregated transaction may need to sign identical, or nearly identical, contracts, while offtake size can vary.
- Aggregation transaction partners do not have to infer joint liabilities.
- Relationships within your company must be cultivated to genuinely understand different perspectives. It's not a matter of trying to "convince" others a specific transaction is a good idea, but more a process to truly understand concerns and ensure these are reflected in the transaction and/or suitably mitigated.
- External experts play a critical role in offsite transactions. Only the most experienced customers with deep understanding of these transactions should consider undertaking a process without external legal counsel and/or consultant support.
- Often a transaction's progress increases pace when a real project is "on the table"—this point in the transaction process is key to changing from concept to reality.
- Missed opportunities are learning opportunities. Expect a project you want to be contracted by another party, but use this as a learning experience for yourself and the group: Why did you miss this opportunity? How can you improve your process as a group to not miss the next?
- Other impacts from your transaction should be considered. For example, is there a wider social good that can arise from this transaction?
- Treating the developer's deal champion as an ally in the process can help smooth the transaction.
- Consider factors beyond the bid-price and value a developer with flexibility to overcome unexpected roadblocks during the negotiation that increase the probability of execution.

APPENDIX B: RENEWABLE ENERGY MARKET CONTEXT

GROWTH TRENDS

Corporate purchases of renewable energy have grown rapidly over the past few years. From 1.2 GW announced in 2014, the market has grown to announce 6.6 GW in 2018 (see Exhibit 1). In 2018 alone, the electricity capacity brought online could power the entire state of Massachusetts. Once the currently contracted deals are commissioned, the total corporate-contracted output would rise to over 67.8 terawatt hours (TWh) of electricity generation, enough to power more than 6.5 million US households per year.

Exhibit 1: *Publicly announced contracted capacity of corporate PPAs, Green Power Purchases, Green Tariffs, and Outright Project Ownership in the United States. Excludes onsite generation and procurement from operating plants.*



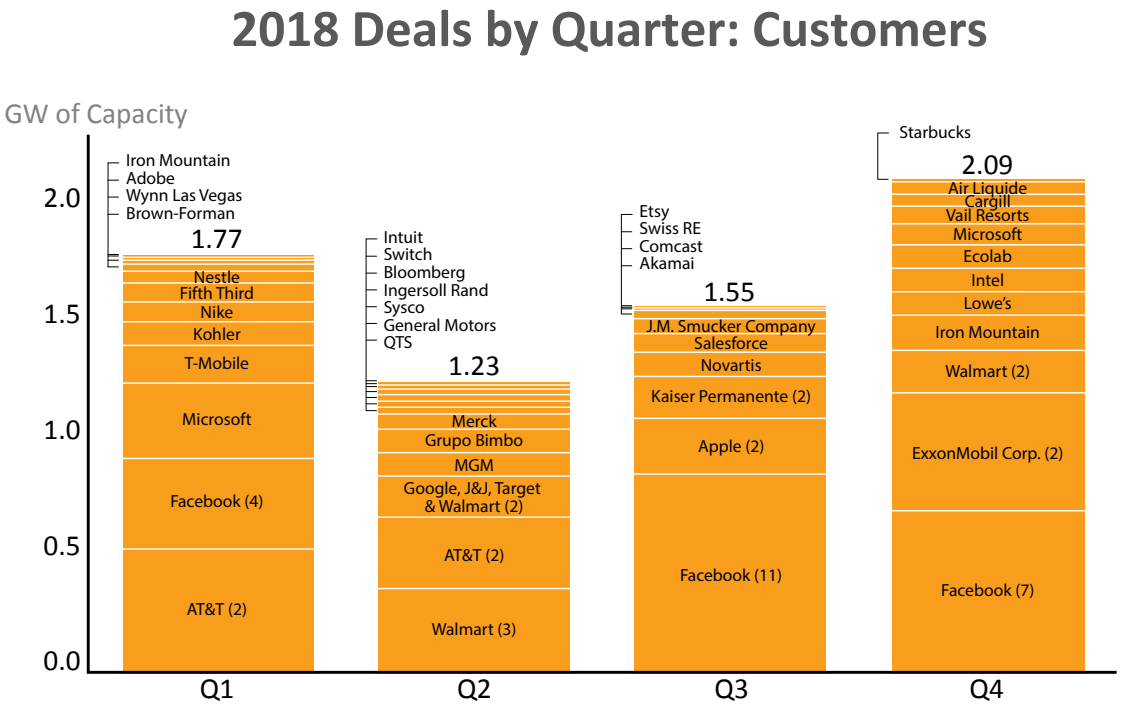
Source: Clean Energy Buyers Association

APPENDIX B: RENEWABLE ENERGY MARKET CONTEXT

IMPORTANCE OF LARGE COMPANIES

The corporate renewable energy market has traditionally been driven by large companies with large energy needs, a fact now changing through recent transactions as shown in this case study. The record level of announced transactions in 2018 was a combination of 75 projects from 45 companies. In 2018, many new and repeat customers announced transactions across the year (Exhibit 2) in a quarterly distribution pattern that was similar to previous years.

Exhibit 2: *Announced corporate transactions by quarter in 2018*



Publicly announced contracted capacity of corporate Power Purchase Agreements, Green Power Purchases, Green Tariffs, and Outright Project Ownership in the US, 2018 by quarter. Excludes onsite generation (e.g., rooftop solar PV) and deals with operating plants. (#) indicates number of deals each year by individual companies.

Source: Clean Energy Buyers Association

An estimated 20% of the announced transactions in 2018 used "green tariff" programs, whereby large corporations enter into a contract with a utility and catalyze the utility to develop new renewable energy capacity. Currently the green tariff option through a local utility is used in only nine states, with a few others expected to offer similar tariffs in the next couple of years.

APPENDIX B: RENEWABLE ENERGY MARKET CONTEXT

COMMON PROCUREMENT CONTRACTS

In the United States, two common contract structures are used for most offsite corporate procurement: PPAs and VPPAs. PPAs are typically long-term contracts between one or more energy consumers (the customer[s]) and an energy provider (the developer) to procure environmental attributes from renewable energy generation and sometimes the electricity produced. In the United States, environmental attributes from renewable energy generation are tracked using a Renewable Energy Certificate (REC) system, and the environmental attributes are often referred to as RECs for simplicity.

VPPAs and physical PPAs are key contracts to secure external finance for the renewable energy asset and as such need to be long enough to fund the repayment of invested capital. VPPAs and physical PPAs are signed for periods between 10 and 25 years. The benefits to differing structures will vary between buying organizations, as each customer often values different benefits.

A comparison of VPPAs and physical PPAs can be viewed on the CEBA portal, and interested readers are directed to the recent Corporate Purchaser's Guide to Risk Mitigation report.

VPPAS

The primary structure of choice in the United States is the VPPA, also known as a synthetic PPA, contract for differences, or fixed for floating swap. Under a VPPA structure, customer and seller agree to a "strike price" at which the customer will pay for each MWh produced by the renewable energy facility. The project owner sells power at wholesale prices to the regional grid operator and in turn passes this to the customer, who pays the strike price to the project owner. (In reality, there is a monthly or quarterly "true-up.") For example, one MWh of electricity is generated and sold to the regional grid operator. If the wholesale price is higher than the strike price, the cost of the REC for the customer is lower than the strike price. If the wholesale price is lower, the customer pays above the strike price for the REC. See Exhibit 3 below for a simple numerical example. The project owner passes the REC associated with the renewable electricity produced to the customer. Under a VPPA, the customers do not take legal title of the power (unlike a physical PPA), which does not interrupt or alter any relationship with existing providers of electricity to the customer.

Exhibit 3: *Numerical example of how wholesale power prices impact the cost of a REC under a VPPA contract*

Fictitious Example, VPPA Strike Price: $10/MWh

Scenario	Wholesale Power Price	Customer Pays	Customer Receives	Net REC Cost
1	$13/MWh	$10/MWh	$13/MWh	-$3
2	$10/MWh	$10/MWh	$10/MWh	0
3	$8/MWh	$10/MWh	$8/MWh	$2

Source: Clean Energy Buyers Association

A VPPA does not have to be linked directly with the specific locations of electricity consumption. In other words, a corporation can execute a VPPA in Virginia to offset its electricity consumption in California and other states. A VPPA provides opportunities for corporations to match their "brown" energy consumption with renewable energy.

APPENDIX B: RENEWABLE ENERGY MARKET CONTEXT

PHYSICAL PPAS

In the physical PPA structure, the customer procures the electricity produced (which is often scheduled into the buyer's electricity portfolio) and receives the environmental attributes associated with the renewable electricity produced. Physical PPAs are often contracted by customers with sophisticated energy teams within their companies as part of normal business operations, while other customers employ intermediaries to provide the more complex operations. Physical PPAs are often signed with projects in regions where a buyer's energy consumption lies and can be directly incorporated into the buyer's energy procurement strategy. To date, the customers employing physical PPAs have significant energy needs and have sought to procure significant volumes—the physical PPA doesn't present a structural reason why transaction sizes couldn't be reduced.

APPENDIX C: BUSINESS RATIONALE FOR A TRANSACTION—DIAGNOSTIC TOOL

WHAT IS YOUR BUSINESS RATIONALE FOR A TRANSACTION?

Why is this critical?

For customers: Understanding the "why" before transacting is critical, as this lays a resilient foundation that will carry the initiative through to closure.

For developers: The fact that a customer has a robust "why" indicates the customer has a resilient foundation for the initiative that will carry the transaction through to closure.

APPENDIX D: TRANSACTION TIMELINE

December
Concerted outreach by the most motivated customers seeking possible transaction partners (outreach made to about 15 companies)

September–October
First RFP sent out

November
Term sheets submitted to Customers by project developer

September
Individual buyers contemplating aggregated transactions start to connect through professional networks

August
LevelTen Energy retained as third-party advisor

2016

2017

November
Buyers connect informally at BRC conference in Detroit

June
Additional Buyers introduced into the Group by meeting at a BRC Buyers' Boot Camp

January
First conference call with newly formed Customer Group

October
Wind farm project selected


March
Solar project being developed by BayWa r.e. selected
April
LevelTen, Bloomberg, and BayWa r.e. meet at BRC conference in Jersey City, NJ; Customers develop term sheet
May
Term sheet negotiations commence
January
Deal publicly announced
2018
2019
December
Negotiations finalized with BayWa r.e.
February
Wind project lost to another customer; second RFP sent out
July
Couch White, LLP retained for legal counsel; detailed contract negotiations begin

CEBA

Clean Energy Buyers Association

https://cebuyers.org/