

ENGIE Impact's Perspective On The PPA Market

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September 18, 2025

In our current era of energy market volatility, identifying timely PPA market guidance is crucial. We sat down with our longstanding collaborative partner, LevelTen, to discuss how organizations can keep their footing in the energy market. From market and strategy trends to evolving risk tools like settlement swaps, read the full interview to find valuable information on navigating market uncertainty.

Interview courtesy of LevelTen.

LevelTen Energy partners with a network of energy providers, who use the LevelTen Platform to gather market intelligence and source PPAs. To gain insight into what organizations are looking for in the market today, we interviewed sustainable energy advisor ENGIE Impact. Their responses are summarized in the following Q&A.

LEVELTEN: Traded forwards and hourly curves are important in facilitating accurate VPPA modeling and budgeting. Beyond this, are there other methodologies, data sources, internal capabilities, or best practices that you encourage energy buyers to use to predict and manage their near-term VPPA cash flows?

ENGIE IMPACT: Traded curves and hourly forecasts are both helpful sanity checks, but when it comes to VPPA budgets they have their shortfalls.

Hourly fundamental forecasts are a critical tool when evaluating long-term energy price scenarios, however these bottom-up exercises are typically produced either quarterly or bi-annually and can therefore miss "real-world" events that may moderate

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therefore miss real-world events that move markets.

On the other hand, traded forwards capture near-term market sentiment, but these prices carry a significant risk premium. Moreover, on/off-peak contracts aren't sufficiently sensitive to the impact of solar generation on hourly prices.

While there is no "crystal ball," we find that VPPA budgets are most reliable when nearterm conditions (e.g., gas pricing or heating/cooling degree days) are factored into market sensitivity models. Running Monte Carlo simulations with these variables, VPPA budgets can be developed under statistical confidence intervals with documented assumptions.

LEVELTEN: What can PPA counterparties do to transact with confidence in an environment of uncertainty around federal-level policies like tariffs, IRA tax credit changes, and other headwinds?

ENGIE IMPACT: For the last five years, developers and VPPA buyers have overcome headwind after headwind: COVID supply chain disruptions, Winter Storm Uri, inflation and interest rate spikes, ERCOT market reform, tariffs, and now threats to clean energy tax cuts.

An experienced advisor will help keep regulatory and policy risks in focus while leaving room for climate-driven and geopolitical shocks in a risk management strategy. Those strategies may include, but are not limited to:

1. Prioritizing projects that are less susceptible to cost and financing risks;
2. Diversifying projects/contracts across markets and over time;
3. Structuring PPAs to limit both the Buyer's and Seller's exposure to changing market and regulatory environments.

We should also acknowledge that tariffs and potential IRA tax credit changes do not create risk in a vacuum. Policies that make it harder to develop and contract renewable energy projects will have a ripple effect in wholesale power markets, unbundled REC markets, and would likely drive "pent up demand" as science-based emission reduction efforts grow more urgent and costly. To transact in confidence, we encourage buyers to assess and compare financial outcomes under various "what if" scenarios.

LEVELTEN: With companies increasingly looking to de-risk their VPPA positions by trading them for fixed cost/revenue streams, how do you see the evolution of "Settlement Swap Agreements" specifically in addressing basis risk and volumetric risk in VPPAs? What other innovative options would you recommend?

ENGIE IMPACT: We actually see corporate interest in "Settlement Swap Agreements" stemming more from wholesale power dynamics than basis and volumetric risks. Unsurprisingly, we're finding corporates more interested in these agreements after 2024 (when power markets were depressed and settlements were costly) than prior years (when power markets were higher and settlements were favorable).

There is relatively strong demand from financial institutions, power marketers, retailers, and other industry players who see growing energy demand on the horizon and will trade corporate VPPA holders a fixed amount for their VPPA's fixed-for-floating position. These agreements can favor the corporate VPPA holder, who gets to retain project RECs and trade a sometimes-positive-sometimes-negative settlement for a predictable cost or revenue stream.

While the value of budget certainty is clear, it may be less clear whether a Settlement Swap Agreement is the best available means to achieve that predictability.

To determine whether a Settlement Swap Agreement is the right tool for your organization, we'd encourage corporate VPPA owners to:

1. Assess their value at risk (VaR) and the opportunity cost of selling that position;
2. Assess the hedging potential of their VPPA and opportunities to limit risk with an integrated energy purchasing strategy;
3. Explore options to sleeve their power in retail power contracts;
4. Choose the path that best achieves financial and budgetary objectives.

LEVELTEN: Which markets in North America are most attractive to your clients for clean energy procurement right now? What are the driving factors behind these preferences, and do you see any other markets becoming more attractive in the near-to-mid-term?

ENGIE IMPACT: Texas remains an attractive market for renewable energy development and procurement due to its favorable interconnection and permitting environment, but we do see corporate interest in markets that are less exposed to state and Federal legislative/policy risks and that offer more risk management opportunities.

For example:

- Canadian projects are less exposed to import tariff risks and financing risks related to IRA incentives;
- New England projects can be attractive if corporates face building emission requirements in Cambridge, MA, for example;
- Similarly, PJM projects can be attractive for their ability to manage exposure to regional RPS and capacity costs;
- And VPPAs in more carbon-intensive energy markets can be attractive in their ability to manage exposure to potential changes to the GHG Protocol's Scope 2 accounting standards.

LEVELTEN: A growing number of energy buyers are looking to build portfolios that match their energy use with renewable electricity on an hourly (or sub-hourly) basis. What are the primary challenges, opportunities, and/or best practices you've observed when sourcing and structuring PPAs that align with 24/7 carbon-free energy (CFE) targets? Have you observed any trends when sourcing and structuring PPAs that fit into 24/7 CFE strategies?

ENGIE IMPACT: At ENGIE Impact, we celebrate the ambition of organizations pursuing 24/7 carbon-free energy, but we do share the Clean Energy Buyer's Association (CEBA) concern that hourly matching "simply will not work for the vast majority of buyers." Aligning clean energy generation and corporate demand profiles is not just about ambition, however; we should acknowledge its risk management benefits. Layering wind and solar shapes in a portfolio not only diversifies exposure to hourly price mechanics, it creates more efficient hedges. Layering in battery tolling agreements can further improve a corporate's risk profile, but we should acknowledge that:

1. These risk management approaches will likely carry a premium that many corporates won't tolerate;
2. These agreements may help achieve 80-90% hourly matching...and achieving the last 10-20% requires a willingness to over-procure for intermittency.

All this said, there are a few developers that specialize in 24/7 programs and manage their asset portfolios to offer a streamlined and (relatively) cost-effective pathway. We'd encourage corporate buyers interested in 24/7 clean energy to leverage these developers' resources, rather than try to replicate in a contract-by-contract approach.

Thank you to LevelTen for facilitating this interview. Subscribe to [LevelTen's Full PPA Price Index Reports](#) to stay up-to-date on timely, valuable energy market guidance.

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