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UFE's contribution to the European Commission's call for evidence for removing barriers to power purchase agreements (PPAs)

Private power purchase agreements (PPAs) provide investors and consumers with visibility and stability against long-term price volatility during PPA production hours (which depend on the technology). The number of PPAs signed in the EU increased by 35% in 2023 compared to 2022 and by 65% in 2024 compared to 2021. However, this recent acceleration is largely due to the wholesale price crisis, and the figures do not yet reflect the multifactorial slowdown observed by market participants in its aftermath. The distribution of PPAs is uneven across EU member states and is mainly concentrated in a few sectors, primarily the IT and heavy industries. The French Energy Regulatory Commission (CRE) published its PPA observatory in march 2025, noting that *"PPA development is more limited in France than in other European countries"* and that *"Several structural reasons can explain this observation: the predominantly decarbonized French electricity mix and lower electricity prices in France compared to other European countries reduce consumers' appetite for signing PPAs."*

Sharing the guidelines of the reform of the electricity market organization (Regulation 2024/1747) and considering the protection against long-term price volatility that PPAs provide for captured prices related to each technology, **the French Union of Electricity (UFE) calls for improved conditions for the development of medium- and long-term private PPA contracts, for both renewable and nuclear energy sources.**

Drawing on the expertise developed by its members over the past few years, **UFE summarizes in this note the structural elements limiting the demand for PPA, the regulatory and non-regulatory barriers specific to France and/or EU, accompanied by recommendations to facilitate the development of the PPA market.**

Demand for PPAs in France is often hampered by market electricity prices being lower than PPA production costs, as well as the economic and solvency constraints of smaller buyers

In a context where the electrification and industry are key to achieving our climate goals and our energy and industrial sovereignty, electricity consumption has stagnated in recent years while production continues to grow (RTE's 2024 Electricity Balance). This is regrettable and should be addressed with more incentives for electrification (technology-neutral regulations, a sufficiently high CO2 price, public support for replacing fossil fuels with electricity, and accelerated grid connections). This supply-demand imbalance influences consumer demand for PPAs. Indeed, futures market prices reflect this new situation, with prices currently lower than the costs of low-carbon generation capacity. **According to UFE, the gap between current market prices and PPA production costs is the main cause of the slowdown in the PPA market in France.**

UFE suggests studying the opportunity to lift certain constraints on new production capacities to reduce production costs, such as the acceleration of the authorization procedure, the removal of barriers to economies of scale, the reduction of connection times, etc. UFE underlines that the ongoing revision of the permitting Directive in the Grids Package is therefore an opportunity to remove some of these constraints.

An unfavourable economic environment adds to this context, limiting the long-term vision of some industrial and professional consumers regarding their business cycles. Consumers thus find it difficult to commit to long-term contracts. Furthermore, because low-carbon energy projects are capital-intensive, project developers overwhelmingly rely on bank financing for their installations. Financing institutions then require a good credit rating from the buyer, which effectively excludes these potential buyers or results in excessively high PPA prices, thereby widening the gap between market prices and PPAs.

Other regulatory and non-regulatory barriers to the development of PPA (either specific to France or applicable to EU member states)

UFE points out that overly frequent changes in energy policies create an unpredictable environment for both buyers and sellers, which is detrimental to long-term commitments. **Conversely, the development of PPAs requires a stable framework once the remaining barriers have been removed.**

Regulatory barriers

- ❖ [Specific to France] Allocation of the customer's consumptions between the supplementary supplier and the PPA producer

Article L. 333-1 of the Energy Code requires electricity suppliers wishing to purchase electricity for resale to end consumers or network operators to cover their losses to hold an authorization issued by the administrative authority. The “APER” law of March 10, 2023, clarified in Article L. 333-1 I. 2° of the Energy Code the obligation for electricity producers entering a direct sales contract with end consumers or network operators for their losses from July 1, 2023, onwards, to hold this authorization.

UFE believes it is necessary to define how consumption volumes should be allocated among each direct supplier/producer operating at the consumption site. This information is essential for the proper fulfilment of each supplier/producer's supply obligations. This allocation will determine the kWh assigned to each supplier/producer, which will then be used as the basis for calculating their respective obligations.

❖ **[Specific to France] Issues specific to public actors**

The meeting of electricity needs of contracting authorities and contracting entities through direct electricity sales contracts – as defined in Article R. 333-1 of the Energy Code – is complicated by their specific status and operational framework. Unlike private actors, these public actors a) are subject to specific legal constraints, particularly those stemming from the Public Procurement Code; b) have consumption profiles that are difficult to reconcile with a "pay-as-produced" electricity sales model; and c) do not aim to resell the acquired electricity to third parties for profit.

Therefore, a strict interpretation of the prohibition on "subsequent transfer" stipulated in Article R. 333-1 of the Energy Code could prevent these actors from entering direct electricity sales contracts under Article L. 331-5, even if the electricity is indeed acquired exclusively to meet their own needs. However, adapting to the energy acquired through aggregation of volumes or its integration into a supply contract may be essential to guarantee this coverage, and thus substitute the consumption of fossil fuels by public actors with electricity.

UFE therefore recommends clarifying that the prohibition of subsequent transfer does not target cases of transfers made with the aim of adapting acquired volumes to cover the own needs of the contracting authority or the contracting entity.

❖ **[Applicable to EU member states] Persistent accounting problems**

While the market for physical PPAs is well-developed in Europe, financial (or virtual) PPAs are almost non-existent. Companies reporting under IFRS are currently reluctant to enter such contracts due to the obligations associated with IFRS 9 (potential classification of virtual PPAs as "financial instruments" with specific and complex accounting rules). **UFE recommends an evolution of accounting and tax rules so that virtual PPAs are no longer considered derivatives, which would significantly improve their adoption by customers.** Virtual PPAs offer a risk profile and hedging effect similar to physical PPAs for customers, without requiring complex physical

integration into supply contracts. They would not replace physical PPAs, as some customers prefer physical integration into a single supply contract to better manage their procurement strategy, but they would allow customers who do not want a physical PPA to still use PPA hedging.

❖ **[Specific to France] Regulatory constraints for renewable energy projects that limit economies of scale**

Investing in technologies like wind and solar requires significant initial infrastructure costs. In France, installed wind turbines are generally low-powered compared to other EU member states, due to specific regulatory constraints that limit the potential for reducing wind energy costs. However, taller, larger, and therefore more powerful wind turbines with a better capacity factor would reduce production costs and thus the price of wind PPAs. **UFE calls for continued discussions between the industry and the relevant ministries to explore the possibility of lifting these constraints and enabling economies of scale.**

Regarding solar farms, the size limitations imposed by tenders hinder the achievement of more favourable economic conditions, which would be reflected in PPA prices after public support ends. **To reduce the prices of future brownfield PPAs at the end of support contracts, UFE would support the removal of the 30 MW maximum eligible capacity constraint for upcoming tenders. Also, within the framework of tenders, UFE proposes not requiring producers to submit a capacity identical to their authorized capacity, as this limits the optimization of the LCOE that accompanies technological developments.**

❖ **[Applicable to EU member states] Long and complex administrative procedures for electrification connections**

The length and complexity of administrative procedures remain a significant obstacle hindering both production facility projects and consumer connections. **UFE highlights the insufficient staffing levels within national and local authorities responsible for issuing permits for new renewable energy projects, the lack of digitalization in the authorization process, the inadequate monitoring and information provided by local authorities regarding the progress of permit applications, and the lack of explanations for permit refusals.**

❖ **[Applicable to EU member states] Over-regulation should be avoided**

As a rule of thumb, over-regulation by Member States should be avoided, as it creates unnecessary legal uncertainty, increases transaction costs, and ultimately hampers the efficient development of the PPA market.

In the case of France, the French Energy Regulatory Commission (CRE) highlights the lack of an explicit legal obligation for systematic PPA reporting in French law and recommends including a reporting requirement in the Energy Code to allow for better market monitoring. **UFE will ensure that this initiative does not overlap with existing European regulations—which already include transparency rules for PPA contracts—at the risk of creating over-regulation and**

administrative barriers for contractors.

Non-regulatory barriers

❖ **[Applicable to EU member states] Financing costs for new infrastructure remain high**

To reduce the cost of new low-carbon electricity generation capacity and thus encourage the substitution of fossil fuels with electricity, UFE recommends implementing subsidized "low-carbon" interest rates (for example, through the Clean Industrial Deal's decarbonization bank) to lower the capital costs of net-zero assets. This would mechanically reduce project financing costs, which would be passed on to PPA customers in the form of lower prices. Financing for net-zero assets would also target the financing of equipment necessary for electrification: industrial processes, electric vehicle charging infrastructure, heat pumps, etc.

❖ **[Applicable to EU member states] Physical cross-border PPAs are developing slowly due to a lack of economic value**

UFE points out that currently, it is only possible to hedge against the price difference between the two countries for one year when purchasing interconnection capacity. Indeed, the maturity of interconnection access products is still limited to one year. ~~A measure that could be very effective in developing the cross-border PPA market would be the introduction of long-term transmission rights, with a duration compatible with that of PPAs, which would allow for the conclusion of physical cross-border PPAs~~ UFE suggests assessing the need for long-term cross-border hedging instruments that are compatible with the duration of physical PPAs, potentially through evolutions of LTRs or alternative mechanisms, while taking into account the need for short-term markets. However, the customer would still be subject to the assessment of the price difference between the two countries at the time the PPA is signed.

❖ **[Applicable to EU member states] The types of clients with access to PPAs are not very diverse**

To enable access to PPAs for companies with little knowledge or small businesses, it is necessary to deepen the knowledge of potential buyers by developing educational elements, while taking into account the impact of the PPA on the supplementary supply contract (price distortion) to provide a complete view of the cost of the entire supply.

❖ **[Applicable to EU member states] Multi-buyer contracts are still not widespread**

Allowing consumer aggregation within PPAs could facilitate access to PPAs for smaller players. However, the complexity of this type of PPA, which multiplies the risks associated with financial guarantees and requires buyers to align with the PPA terms (aggregation fees, contract duration, invoicing), remains a barrier.

UFE believes that the two measures in the "Draghi" report—i) the development of platforms within markets solely dedicated to aggregating national PPA supply and demand, and ii) the creation of a PPA "green pool" overseen by a public body acting as a single buyer and seller for participating companies—would restrict market dynamics.

❖ **[Applicable to EU member states] Limited liquidity in futures markets for counter-hedging PPAs**

Particularly for brownfield PPAs, the lack of products and liquidity can destabilize the price signal for these contracts. The lack of liquidity in futures markets beyond 3–5 years limits producers' ability to hedge and buyers' ability to manage price risk over horizons compatible with the usual durations of PPAs (10–15 years). This constitutes a direct obstacle to contracting. **European action aimed at strengthening transparency, depth, and long-term hedging mechanisms would be desirable.**

❖ **[Specific to France] Lack of understanding of public procurement**

Local authorities are interested in the alternative purchasing method of PPAs, driven by economic objectives and territorial energy sovereignty.

These contracts are part of a broader trend towards local reappropriation of energy development levers. However, many stakeholders are still unaware of the recent changes in the legal framework enabling public procurement to sign PPAs.

Furthermore, the right of public entities to unilaterally terminate a contract hinders the establishment of PPAs with public actors. This mechanism is sometimes perceived as a risk for producers wishing to make long-term commitments. Local authorities generally commit to long periods, from 15 to 20 years, and compensation is provided in the event of early termination, thus offering a degree of contractual security.