

Resolving the solar tariff war

legally binding power purchase agreements with no revision clauses cannot be renegotiated, notwithstanding any appeal by discoms. In other cases, there is some leeway for a compromise

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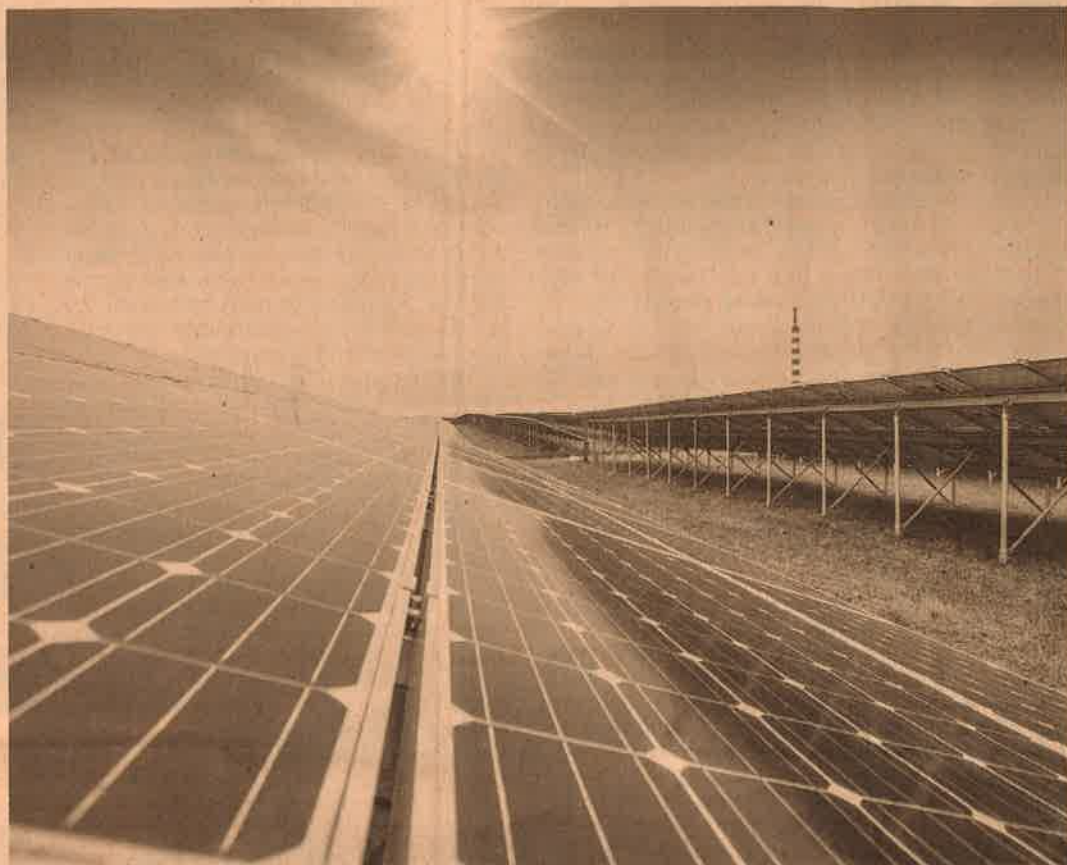
Solar Photovoltaic (PV) projects have witnessed rapidly declining prices in India over the past two years (See chart). Experts and industry representatives have raised eyebrows and questioned the sustainability of such aggressive bidding. The central government has made strong statements about how power has reached grid-parity and will continue to receive heavy support and propel India to be a global leader in solar power. The winning companies have attributed the low rates to the sharp fall in global PV module prices, low cost of finance from foreign investors and low risk hedging because of the offtake guarantees provided by NTPC. However, the backlash against these low prices is now being felt across India, especially by the distribution companies (discoms) who have to buy power from NTPC or from solar developers directly, trying to renegotiate their commitments.

Invoking their poor financial health as leverage, discoms are asking developers with existing power purchase agreements (PPAs) of solar projects to reduce PPA rate based on the Bhadla auctions. Today, the Kadapa project does not have a PPA signed between NTPC and the concerned state discom. Tamil Nadu, Andhra Pradesh, Karnataka, Uttar Pradesh and Madhya Pradesh are other states following this disconcerting trend. Piyush Goyal, the minister for power, renewable energy and mines, has condemned such contract violations. Industry experts have voiced their disapproval stating that banks and investors will become wary of the Indian solar sector in the future and hinder the growth by drying up access to finance. Developers with these PPAs in question face the risk of bankruptcy because the electricity generated will not be sold. The question now arises: Are the discoms within the law when it comes to renegotiations?

In the past, the Appellate Tribunal for Electricity (APTEL) rejected the Gujarat Urja Vikas Nigam Limited's (GUVNL) demand for reduction of rate paid for purchase of solar power in 2014. The tariff determined was ₹15/kWh for first 12 years and ₹5/kWh for the balance 13 years thereafter. This was based on a capital cost of ₹5.50 crores/Mw. The GUVNL appealed that the tariff reductions led to the capital costs falling to ₹11-13 crores/Mw and hence the rates needed to be revised. However, the Gujarat Electricity Regulatory Commission (GERC) rejected this appeal and this decision was upheld by APTEL and was considered a victory for solar developers. However, the same issue has found its ugly head again today. According to the law, legally binding PPAs with no revision clauses cannot be renegotiated, notwithstanding any appeal by discoms. If these were to go to court, it is likely that the developers will get the verdict in their favour.

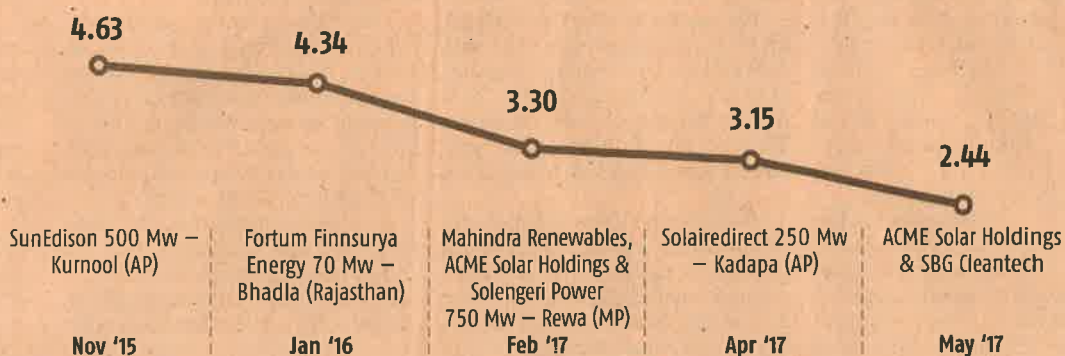
However, there are PPAs signed in the recently concluded solar park tenders that have mutual negotiation clauses and are under scrutiny. Between the two tenders in April and May 2017 in Kadapa and Bhadla respectively, the price difference is almost 23 per cent. The issue now is whether it is correct for the Andhra Pradesh discom to pay 23 per cent more than the Karnataka discom when there are negligible changes in market conditions?

These sensitive PPAs and solar projects need to be addressed on a case-by-case basis. There are instances where project developers have still not placed orders for PV modules or have placed orders but have not received shipments from the suppliers in China. For such projects, the central and state governments can



DROP IN SOLAR PPA RATES IN INDIA

Figures in ₹/kWh



intervene and propose that the developers renegotiate the rates with their suppliers and thereby procure cheaper modules which will lead to lower rates. In some extreme cases, retendering can be thought of as an option if the price difference is too high and project inspection shows that the developers are making windfall profits. The discoms are within their rights to oppose such projects. In Karnataka, more than 1,000 Mw rooftop PPAs signed at ₹9.56/kWh were cancelled because it was observed that developers stood to make more than 80 per cent return on equity (RoE) by procuring cheaper modules.

The central and state governments need to take a stand and ask developers to revise their rates if the financial models for these projects show RoE's north of a threshold value (₹16-20 per cent). For other project

developers who have already installed projects or received modules at higher rates, it is inadvisable to revise PPAs because their financial structures will fail. For upcoming tenders, developers need to hedge their risk and bid competitively instead of aggressively in order to gain entry into the immensely promising Indian solar market. There is a need to arrive at stable prices with sustainable business strategies for the overall solar sector to continue growing in India. Teething troubles such as the present issues of tariff revision need to be handled carefully so that appropriate precedents are set that do not discourage investments in the solar sector in the near future..

The writer is a senior research scientist at the Center for Study of Science, Technology and Policy