

End in sight to wind energy sector's plight

The government has finally moved the meter that could push the sector towards viability, says **M Ramesh**

The wind energy sector has just been pulled back from the brink of the precipice. It had got to a situation where the chronicler was about to write the last chapter titled, 'And then there was none', but now the government, finally, has taken a step that will keep the undertakers away. For now.

The Ministry of New and Renewable Energy (MNRE) has decided to remove the upper limit for tariffs in capacity auctions, bids above which would not be considered for award of capacity. This has been one major tripwire.

The government had been adamant on keeping the cap in order that energy prices were kept low; it has taken no less than four failed auctions under SECI's 9th round for the government to reconsider its stand, for which the cap had been set at ₹2.93 a kWhr. With 7 paise mark-up for the SECI — the government company that offers capacity on auctions — discoms would buy power at ₹3 — a price way below the average price any discom paid for the electricity it purchased.

The Ministry, however, is said to have implicitly cautioned the industry against cartelisation in future auctions; it has told them if the prices discovered through

auctions were unacceptable, the bids would still be cancelled. But even with this caveat, the industry is relieved, if not happy. Prices will rise somewhat and projects could begin to get off the ground.

The cap was helping nobody. While the government took an unhelpful stand saying, "I did not ask you to bid such low prices", competitive forces depressed prices, which only helped discoms cover

up their inefficiencies, because they were getting ultra-cheap power without having to work for it. The energy companies were tottering on the brink of viability, projects were not getting executed and no consumer — industrial or individual — was benefiting from the low tariffs.

Cap apart, a few good things are happening. The issue of reopening PPAs (power purchase agreements) in Andhra Pradesh, which had red-lighted investors, appears to be easing. The AP government has also begun paying developers ₹2.43 a kWhr — the tariff the government is okay with, even as the agreed higher tariff is being examined by the court. And, there is some forward movement on allocation of land, particularly in Gujarat, where bulk of the projects are coming up. Sources say that Gujarat has cleared land allocation for projects won through SECI I to SECI IV. If the State government gives land for the rest of the rounds too, the wind industry is in for a boom.

Anand Kumar, Secretary, MNRE, is said to have assured the industry that there would be auctions worth 10 GW every year.

The industry has requested the Ministry that the auctions should be evenly spread out through the year, with visibility about when

each auction would be tendered out, so that the players could organise land, connectivity and finances.

Industry insiders, such as DV Giri, Secretary-General of the wind industry's premier body, the Indian Wind Turbine Manufacturers' Association (IWTMA), believe that 2020-21 could see a pick-up in installations — a figure of 4 GW may not be too optimistic; in contrast, the

current financial year would be lucky to end with 2.3 GW. This, in turn, would mean revival of fortunes of several players who are down in the dumps today, such as Suzlon Energy.

So, has the wind industry taken a decisive turn for the better? It would seem so, but for the industry to realise its full potential, experts have called for some measures.

Re-look at the auction method

Data on implementation of projects awarded through auctions shows how poor the implementation track record has been. The reasons are known — low tariffs have inevitably made developers flock to the two windy States, Gujarat and Tamil Nadu, the former more than the latter. Gujarat, seeing its best lands taken away for projects that would supply power to other States, balked at giving the lands to such projects. The industry has been asking for State-wise, or sub-station-wise auctions, to avoid bunching of projects in one State or region.

Payment security

Developers are not getting their dues paid by discoms, which is pushing some into the red (for example, Orient Green Power). Efforts of the federal government to force State-owned discoms to open letters of credit as payment security mechanism have not quite worked, due to the

reluctance of the State governments and the costs associated with LC, as naturally banks charge more to stand guarantee for sick discoms.

Open access charges

Wind companies can sell directly to consumers — as do many solar companies — but they have to contend with high charges associated with it. It is fair to ask them to pay for the transmission

infrastructure they use, but there are several hurdles. Research and ratings company ICRA observes that "projects in the open access market face challenges in the form of delays in securing open access approvals from the state utilities, risk of revision in open access regulations and imposition of cross-subsidy surcharge and additional surcharge."

Further, in the recent past, some of the States put restrictions on availability of banking facility for wind power projects, which leads to mismatch between supply and demand, given the seasonal nature of wind power generation, says ICRA.

Discoms fear that OA (open access) developers will walk away with their well-paying customers, but developers feel that they should not be penalised so that the discoms could be fine.

Bundling with thermal power

MNRE has floated draft guidelines proposing blending of renewable energy and thermal power, so as to supply 'bundled' power round-the-clock.

This has by and large been welcomed by the industry, particularly by companies such as Adani Green and Sembcorp, which belong to groups that have both renewable and thermal power capacity.

However, for pure-play renewable energy companies like Hero Future Energies and ReNew Power, it is a hassle to find a thermal power partner who would

supply power whenever needed at viable prices. The industry has therefore suggested that such 'bundling' may be done by large thermal power companies, like NTPC, which can easily buy green power directly from developers and bundle it with its own thermal power to supply to discoms. Today's technology allows thermal power stations to be quickly ramped up or down, to complement green power. IWTMA



observes that modern super critical coal-based projects have a high ramp-up rate — 50 MW in 15 minutes — which can be used to provide RE-blended round-the-clock power. RE-blended power works out cheaper to the discoms, by 20-30 paise a kWhr, says IWTMA.

In sum, there are lots of low hanging fruits to nourish the wind industry. Fundamentally, a tariff of around ₹3.10 a kWhr is viable — a price that lets the developer be in business and is also cheaper than what the discoms otherwise buy. This price level has become viable because of technology.

A recent ICRA study found that a sample set of projects commissioned over the past

Implementation status of projects

Name of the tenderer	Scheduled commercial operations date*	Capacity awarded (MW)	Capacity installed (MW)**
SECI Bids			
I	March 5, 2019	1,050	1,000
II	May 3, 2019	1,000	605
III	Nov 24, 2019	2,000	416
IV	Feb 28, 2020	2,000	0
V	Sept 22, 2020	1,200	0
VI	Feb 2021	1,200	0
VII	May 2021	480	0
VIII	Aug 2021	440	0
Total		9,370	2,021
NTPC and States bids			
NTPC	May 2020	1,200	0
Tamil Nadu	May 2019	450	50
Gujarat	Oct 2019	500	500
Maharashtra	Jan 2020	500	202
Maharashtra	Mar 2019	87	0
Gujarat	May 2021	745	0
Total		3,482	752
Grand total		12,852	2,773

*For some projects government has extended the deadline for commissioning

**As of January 24, 2020

one to two years indicates that there are projects that have been able to achieve annual PLF in the range of 33-38 per cent, "thus providing a comfort on PLF

assumption which is critical for the viability of projects bid at tariffs lower than ₹3 per unit. Such projects typically have higher hub height and rotor diameter of more than 100 meters and are concentrated at windy locations in the States of Gujarat and Tamil Nadu."

Thus, the message is clear. Now that the cap irritant is gone, just tweak things a little — the industry has little option but to flourish.

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