



Opportunities in Open Access Transactions and Short Term PPAs in Wind Power Business of India

Opportunity in Open Access Transaction and Short Term Power Purchase Agreements for Developers, Consumers and Traders in Wind Power Business of India

September 2017

Why enincon's report upon “Opportunities in Open Access Transactions and Short Term PPAs in Wind Power Business of India”

RENEGOTIATION OF LONG TERM PPAs BY DISCOM MAKING WAY FOR SHORT TERM TRANSACTIONS

In recent step, regulatory commission allowed distribution utilities to renegotiate the long term PPAs to a lower degree of tariffs which is determined by reverse auction of the wind power tariffs. In recently held auction, sharp decline in the tariff of wind power was witnessed. The tariff fell close to INR 1-1.5 per Unit and reached a level of INR 3.46 per Unit, which is significantly lower than Feed in Tariffs of some states. It is also anticipated that wind power generators may further bid aggressively taking the tariff to sub INR 3 levels. These tariff levels will have the direct impact on the existing plants. Further, owing to such lower tariffs, distribution utilities can put a pressure on to generators to renegotiate PPAs or simply dishonour them. This issue is critical and long term PPAs can come under jeopardy, hence, the opportunity for the wind power developers lie in signing short term PPAs and selling power directly to the consumers through Open Access route.

PAYMENT DELAYS BY DISTRIBUTION UTILITIES POSING RISK TO WIND POWER PROJECTS

Payment delays by distribution utilities to wind power projects in the country is posing a major threat to the feasibility of the projects. These delays are hurting liquidity of the projects and also delaying payment to lenders. Discoms in Tamil Nadu, Maharashtra, Madhya Pradesh and Rajasthan have found it difficult to pay wind power producers on time. Discoms in Maharashtra, Tamil Nadu, Madhya Pradesh and Rajasthan have delayed payments to generators of wind power by as much as 8-10 months, putting their cash flows under tremendous pressure and sending negative signals for developers and investors, which in turn can turn the tide towards development of small scale wind power projects catering to the need of specific chunk of consumers.

Some trivial and yet complex questions associate with open access mechanism which needs to be addressed through a pan India study which should prove to be a path finding guide for the project developers as well buyers to facilitate the same.

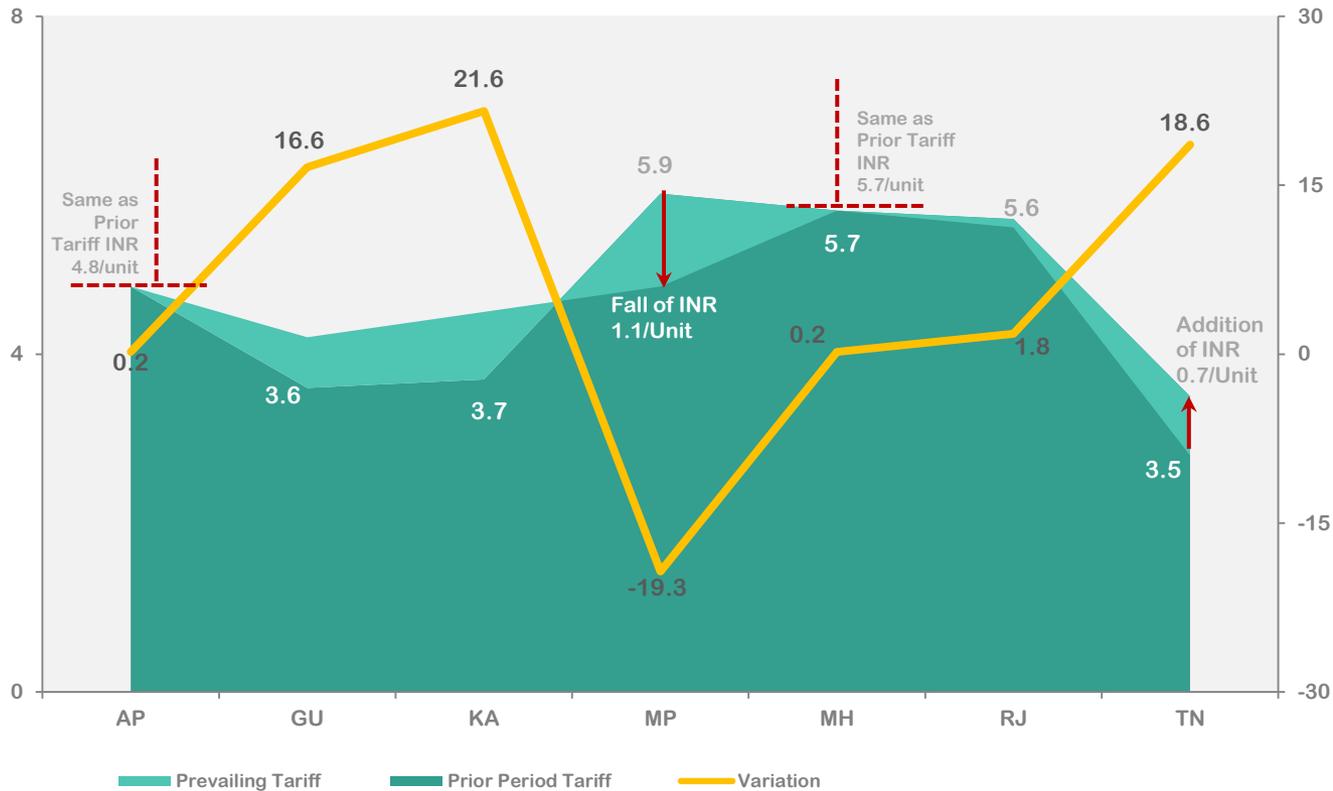
Which region is most suitable for affecting the open access transactions through wind having the largest cluster of industries, corporates and bulk consumers? Which state has least regulatory barriers or least cross-subsidy surcharge (CSS) applicable to bulk buyers? Whether the tariff discovered in third-party power sales agreements sustainable for long-term i.e. for a period of 10-15 years? What kind of transactions i.e. Bilateral or Collective transactions are favorable through wind? What is the penetration level of short term transactions through wind in different pockets of the country?

Queries like these and many more demanded an in-depth research to unearth the very reason as to why essentially open access is fast gaining popularity in India, which transformed into the research base for the report for enincon consulting llp. Our analysts and consultants touched base with various industry specialists to garner a greater degree of depth for conducting a widespread research and come up with a dossier which shall enable decision making process regards open access transactions with ease for all players involved like wind power producers, state and private transmission utilities, distribution utilities, corporates and bulk consumers etc.

BUSINESS CASE FOR OPEN ACCESS MECHANISM IN INDIA

1. Rising popularity among developers especially renewable players to go for third party direct agreements
2. Benefits widely available to state transmission utilities and private transmission utilities to felicitate the open access mechanism through wind.
3. 1500 MW of green power is sold to big corporates through direct agreements and the trend is northbound as more and more corporates are joining in the race.
4. Since wind generation is erratic, the utility can source power from them as per availability and supply to consumers as per their needs 24x7.
5. Reduction in tariff by a quantum of 15-20% through this mechanism with respect to distribution utilities tariff.
6. States of Karnataka, Tamil Nadu, Andhra Pradesh, Telangana in southern region of India and Rajasthan, Punjab and Haryana in Northern region of the country are fast catching up with open access transactions.
7. Increased impetus on rural electrification.
8. Increasing number of bilateral and collective transactions of power through Open Access.

Exhibit 1: Feed-in-Tariff for Major Wind States in India, Status Existing as on FY'2016



AP- Andhra Pradesh, MP – Madhya Pradesh, MH – Maharashtra, GU – Gujarat, KA- Karnataka , RJ- Rajasthan, TN- Tamil Nadu

Prevailing Tariff Period :

AP- Mar'2016 Till Mar'2017 , MP- Mar'2016 Till Mar'2019 , MH- Nov'2015 Till Mar'2016 , RJ-May'2015 Till Mar'2016 , TN- Mar'2016 Till Mar'2018 , GU- Jan'2013 Till Mar'2016

Source: enincon research & analysis

PRESS EXCERPTS

Wind power prices have crashed to ₹3.46 a kWh in the country's first ever auction of wind capacity. The least wind tariff today is ₹4.16 in Tamil Nadu, if one ignores the outlier ₹3.82 for some specific sites in Maharashtra. This fall in wind tariffs mirrors a similar trend in solar tariffs witnessed earlier this month, when the prices fell to an unprecedented ₹3.29, averaged over 25 years.

Business Line, India

Toeing the line of electricity distribution companies in Uttar Pradesh and Andhra Pradesh, Karnataka-based discom, Bescom has cancelled the power purchase agreements (PPAs) of 75.6 MW wind power projects commissioned before March 31

Financial Express, India

Moreover even if we consider the REC mechanism and market, the revenues are generated from two sources – sale of power and trade of RECs. Power can be sold either at the average pooled purchase cost (APPC) or through open access to captive or third-party users. The average rate of power sale under APPC is between INR. 1.96 and INR. 3 per kWh. However, third party power sale prices are higher, at INR. 4-4.25 per kWh, depending on the prevailing tariffs in the respective states, thereby making better business sense. Also, we are a power-hungry and power-deficit country, and any supply of power through open access will help the distribution licensee to meet the deficit. Despite this, third-party power sales are subject to state level permissions which are proving impediments for the country and hence calls for a dossier to throw insights upon a same to which enincon are responding with a detailed opportunity tracker for all value chain players.

KEY QUERIES ANSWERED

1. Which state has least regulatory barriers or least cross-subsidy surcharge (CSS) applicable to bulk buyers?
2. Whether the tariff discovered in third-party power sales agreements sustainable for long-term i.e. for a period of 10-15 years?
3. What are the various power procurement models which shall be most beneficial given the current regulatory paradigm and policy environment in India?
4. What are the various incentives/benefits to the consumers/generators to wheel power through open access?
5. Which region is most suitable for affecting the open access transactions having the largest cluster of industries, corporates and bulk consumers?
6. Which region has more penetration of short term transactions through wind power?
7. Which transaction i.e. bilateral or collective is preferred for wind?

MUST BUY FOR

1. Wind Power Developers
2. Captive Power Developers
3. IPPs
4. Power Distribution Companies (DISCOMs)
5. Power Transmission Utilities
6. Power Traders
7. Bulk Consumers
8. Industrial/Manufacturing Units
9. Corporates
10. Government Agencies

WHAT YOU CAN LEARN ? – A SNAPSHOT

1. Business Case for Open Access Transactions in India
2. Mode of Sustainability for Demand of Open Access in India through Wind
3. Tariff Movements for Open Access through Wind – Key States
4. Examining Liberalism for Green Power in Open Access Mechanism in States
5. Filtering of Major Open Access Consumers / Pockets for Wind Power
6. Filtering Major Open Access Customers/ Pockets for IPP's
7. Filtering Opportunities for STU's and Bulk Consumers
8. Region Wise Customer Profiling
9. Regulatory Consideration for Open Access in India
10. Procurement Models for Open Access Transactions in India
11. Parametric Ranking of States Generating Business Case for Long Term Open Access