

APP Comments on Draft MoP Notification of RGO dated 7th Nov 2022 as per Revised Tariff Policy 2016

At the outset, APP recognizes the need for decarbonization of Indian economy and welcomes the steps & initiatives taken by the Govt of India towards addressing the issues of impact of climate change on the environment due to fossil fuel-based power generation. The thermal generating stations are also at the same time taking various measures to reduce pollution and mitigate harmful effects on the environment by way of implementing emission control systems and deploying advanced technological solutions.

With regard to the proposed draft notification of Renewable Generation Obligation as per Revised Tariff Policy 2016, we would like to outline the following concerns and suggestions:

1. Confusion regarding applicability to existing thermal power plants

The draft Notification circulated by Ministry of Power proposes that any new thermal power plant proposed to be established post 1st April, 2024 shall be mandatorily required to establish or procure and supply RE capacity/energy which shall be minimum 25% of the capacity of the thermal station being established.

However, subsequent to the scheme dated 12th April 2022 for flexibility in generation and scheduling of thermal/hydro power through bundling with RE power, Ministry of Power had issued a notification on 26th May, 2022 ('Trajectory for replacement of Thermal Energy with about 50,000 MU (30,000 MW) of Renewable Energy by 2025-26') which laid out a trajectory for replacement of thermal power with RE for existing thermal power plants and issued station-wise targets. **Read together, the Tariff Policy 2016, scheme for bundling of thermal with RE (dated 12th April 2022) and the MoP notification on trajectory for replacement of thermal power with RE (26th May 2022) have created considerable confusion among the generators due to the following reasons:**

- A. The notification is not in accord with the Tariff Policy 2016. The Tariff Policy states that – *“In order to promote renewable energy)/ sources, **any generating company proposing to establish a coal/lignite based thermal generation station after a specified date** shall be required to establish such renewable energy generating capacity or procure and supply*

*renewable energy/ equivalent to such capacity, as may be prescribed by the Central Government from time to time after **due consultation with stakeholders.**“ (bold and underlined for emphasis)*

Contrary to the above provision of the Tariff Policy which clearly states that the obligation of establishing or procuring and supplying RE capacity/energy shall rest with thermal generating stations proposed to be established after a specified date, MoP's notification dated 26th May, 2022 has imposed the same obligation on existing thermal generating stations. **Further contrary to the Tariff Policy provisions**, the 26th May notification has imposed station-wise targets **without any due consultation with the stakeholders and without any clarity provided on the criteria based on which certain stations have been selected** for imposing thermal energy replacement targets or on the computations used to arrive at the targets. The existing thermal power plants did not factor any such requirement of supplying additional RE power while finalizing their investment plans and any imposition of such obligations at this stage is not only inequitable but also flawed in the eyes of law – this is the reason why the Tariff Policy 2016 has explicitly placed this obligation only on generating stations which are proposed to be established after a specified date. Further, when seen in the context of existing stress in the thermal power sector, very few existing plants can afford to put in this level of investment required for setting up new RE capacity. It is also doubtful that banks will come forward for financing unless definite offtake agreements for the RE capacity are ensured.

- B. The 26th May notification is not in accord with the revised scheme on “Flexibility in Generation and Scheduling of Thermal/Hydro Power Stations through bundling with Renewable Energy and Storage Power’ as issued by MoP on 12th April 2022.** The revised scheme provides that the trajectory for replacement of thermal power with RE power shall be worked out by the generating company and the proposed mix shall be finalized after taking into account the comments of the Procurer. **However, the targets have been issued without any stakeholder consultation and without providing any detailed explanation of the process adopted to arrive at these targets.**

The list of stations on whom targets have been imposed by the 26th May notification also appear to include many high efficiency supercritical units. It must be kept in mind that

Super-critical units are especially sensitive to part load operations and such proposed replacement of thermal power from high efficiency supercritical units could not only involve cost implications for the Procurers receiving power from such units but would also have harmful impact on the safety and reliability of the operation of such supercritical units since continuous backing-down of the thermal power plant may lead to operational hazards and severe accidents in addition to the financial losses due to tube-leakages and malfunctioning of other equipment.

Therefore, while issuing the present draft notification giving effect to the provisions of Renewable Generation Obligation as per Revised Tariff Policy 2016, MoP is requested to amend the 26th May notification to remove the mandatory requirement of replacement of thermal by RE power and provide the existing thermal generators with an option to voluntarily work out thermal energy replacement targets in consultation with their procurers as long as they have adequate financial wherewithal to do so.

2. Clarity regarding applicability to thermal plants currently under construction

It is to be noted that instead of referring to a generation company ‘commissioning’ a coal/lignite based thermal generating station after a specified date, Clause 6.4 (5) of the Tariff Policy 2016 refers to a generation company ‘proposing to establish’ a coal/lignite based thermal generating station after a specified date.

If we take the example of a coal based generating station which gets commissioned on 2nd April 2024, the proposal to establish this plant would have taken place much earlier considering that coal based power plants require 5-6 years gestation time. Such under-construction projects would not have accounted for additional investment for establishing separate RE capacity/procuring RE power and the Tariff Policy 2016 seems to have realized this difficulty by using the words ‘proposing to establish’.

Hence necessary clarity may be provided that Clause 6.4 (5) of the Tariff Policy 2016 will not be applicable to under-construction thermal generating stations even if the plant gets

commissioned after the specified date, and that this clause will only be applicable to thermal generating stations where the decision to establish a plant is taken after the specified date.

3. Need to consider practical concerns without assured offtake of thermal & RE power

Our experience of the past 15 years with regard to IPPs clearly brings out that any attempts to establish thermal/RE projects without PPAs in place is fraught with grave financial implications. Having learned lessons the hard way and with 8 GW of coal based generating capacity still remaining without coal and PPA despite several years of effort by both the central government and the developers to convince states to tie up PPAs, **it is doubtful if any developer would be willing to establish a thermal plant without assured coal source/offtake guarantees or a RE plant without offtake agreement. It is also doubtful whether bankers would be willing to finance any new projects without assured offtake of power.**

Further, we need to consider GoI's prospective plan of moving away from PPA based scheduling and dispatch towards market based economic dispatch (MBED). With such a move, upcoming coal based power projects may, upon commissioning, find themselves a part of the MBED mechanism wherein they would have no assured offtake of power since all generators would be mandatorily participating in the power exchanges for creation of national merit order. Mandatory bundling of RE power with thermal may lead to double risk for the generator in view of lack of assured offtake for both its conventional power and RE capacity if set up by the generator. Even at present, the price of solar power plummets to very low levels on the power exchanges during the day time when demand requirement is low.

Therefore, careful thought needs to be given as to how the framework of bundling RE power with conventional power would work in a PPA or MBED regime framework. One possible approach could be that States may be tasked with calling for bundled thermal + RE bids instead of placing the onus on the thermal generator to build RE capacity. This would provide assured power offtake and reduce the risk of any stranded capacity in the future.

4. Captive Power Plants which are already meeting their RPO obligations may be excluded

The requirement of establishing RE capacity/supplying RE power by new power plants to be commissioned beyond the specified date may be waived for Captive Power Plants who are already discharging their RPO obligations as per new RPO trajectory from any other captive source or through open market, as this would complicate the obligation of such captive users and may make the business unviable.