Procurement norms for solar power

Why in news?

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The Ministry of New and Renewable Energy (MNRE) has come out with new guidelines for buying power from grid-linked solar power projects through competitive bidding.

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What are the highlights?

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- The guidelines are issued for long term procurement of electricity by the procurers from grid-connected Solar PV power projects of 5 MW and above.
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- They are issued under the provisions of Section 63 of the Electricity Act, 2003
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- **PPAs** - Power Purchase Agreement is a contract between the one who generates electricity and one which is looking to purchase it.
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- Earlier instances of cancellation of contracts and distortion of agreements created concerns among the investors.
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- The new guidelines have prescribed **minimum PPA tenure to be 25 years** to ensure lower tariffs.
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- Also, unilateral termination or amendment of PPA is not allowed under the guidelines, ensuring a balance.
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- **Ease of doing business** - The issues related to land, connectivity and clearances, and the extension in the case of delay have been streamlined for ensuring **project preparedness**.
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- There is a provision for **termination compensation** to increase bankability of the projects by securing investment by the generator.
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- This also secures the lenders against any arbitrary termination of a PPA.
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- Additionally there are provisions to facilitate the procurers to **take over stressed projects.**
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- Under this, procurers are allowed to acquire project assets for 90 per cent of the due debt in case of a loan default by the solar power generators.
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- For facilitating **expeditious completion** of projects, early commissioning and part-commissioning have been allowed.
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- The **penalties** have been **rationalised** to reduce the overall cost to the generator while at the same time ensuring compliance with the rules.
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- **Risk sharing** - It provides for the government to **compensate** solar power producers for grid unavailability, back down, and transmission constraints, if any.
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- Importantly, solar power producers are now secured against the financial losses due to errant distribution entities.
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- The event of default and the consequences thereof are clearly defined to ensure optimal risk sharing.
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- **Payment Security Mechanism** addresses the risks of delayed payment or non-payment.
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- This is done through instruments like Letter of Credit (LC), Payment Security Fund, State Guarantee, etc to secure the generator's revenue.
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What is the significance?

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- Solar power is getting to be a critical element in India's renewable power expansion programme.
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- In this backdrop, the guidelines are significant in reducing the off-takers' risks, encouraging investments, enhancing bankability of projects and improving profitability for investors.
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- Also, the institutionalisation of tariff-based competitive bids by the

government has ensured reduced risk and enhanced transparency.
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- It will also help protect consumer interests through affordable solar power.
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Source: BusinessLine

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