Renegotiating Power Purchase Agreements

Why in news?

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Many states including Andhra Pradesh & Tamil Nadu have sought to renegotiate power purchase agreements (PPAs) which were signed a couple of years ago with producers of wind & solar power.

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What is PPA?

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- It is a contract between the one who generates electricity and one which is looking to purchase it.
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- It defines all of the commercial terms for the sale of electricity between the two parties, including when the project will begin commercial operation, schedule for delivery of electricity, penalties for under delivery, payment terms, and termination.
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- e.g Andhra Pradesh’s electricity discoms signed PPAs with various wind power generators at between Rs 4.76 and Rs 4.84 per unit in 2015.
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- These tariffs looked competitive at that time.
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- Now, Solar Energy Corporation of India (SECI) managed to get bids as low as Rs 3.46 per unit.
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- So several State Electricity Boards (SEBs) want to revisit their tariff aggrements.
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Why is the demand a bad one?

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- **Investor Sentiment -** The cancellation of contracts and arm-twisting of agreements will ruin investor sentiments & discourage new investments.
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- The key to the ease of doing business is enforceability of contracts which needs to be protected.
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- Such calls by SEBs could come at ruinous costs, ultimately affecting their power sufficiency in the long run.
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- **NPA Buildup -** With banks having lent heavily to the developers, the Indian Banks Association has written to the Union power ministry to intervene.
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- They’ve warned that projects could turn unviable if states default on agreements, leading eventually to NPAs.
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- Banks that had assessed the projects for loans had done so keeping in mind the costs of technology then and the tariffs agreed to.
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Is the comparison with private players a fair one?

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- Some argue that if the government allows private players like Tata or an Adani to renegotiate contract for power projects and so the same should be allowed for SEBs.
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- This arguement is frivolious as it compares two different issues.
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- The agreement on coal based power projects of Adani & Tata was renegotiated as the ‘Indonesian coal prices’ on which these projects were dependent, had shot up unexpectedly.
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- On the contrary, falling costs of technology for solar and wind can’t be considered the same.
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- So the Centre must get states to realise the range of effects this could have.
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Source: Financial Times

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