

# *Issues and Concerns in Competitive Bidding: Industry Perspective*

*Mahesh Vipradas*

# Provisions

- Electricity Act 2003
  - 61. The Appropriate Commission shall, subject to the provisions of this Act, specify the terms and conditions for the determination of tariff, and in doing so, shall be guided by the following, namely:-
    - (c) the factors which would encourage **competition**, efficiency, economical use of the resources, good performance and **optimum investments**;
  - 62. Determination of Tariff
  - 63. Notwithstanding anything contained in section 62, the Appropriate Commission shall adopt the tariff if such tariff has been determined through transparent process of bidding in accordance with the guidelines issued by the Central Government.

# Provisions

- Tariff Policy 6.4
  - (1)...It will take some time before non-conventional technologies can compete with conventional sources in terms of cost of electricity. Therefore, procurement by distribution companies shall be done at preferential tariffs determined by the Appropriate Commission.
  - (2) Such procurement by Distribution Licensees for future requirements shall be done, as far as possible, through competitive bidding process under Section 63 of the Act within suppliers offering energy from same type of non-conventional sources. In the long-term, these technologies
    - Clarification by MoP on 19th April 2011

5. It is clear from the provisions of the Tariff Policy that as far as possible, future procurement of power from non-conventional sources of energy shall be done through competitive bidding process under section 63 of the Act within suppliers offering energy from same type of non-conventional sources. In the long term, these technologies would need to compete with other sources in terms of full costs. However, keeping in view the less developed non-conventional technologies presently vis-à-vis technologies of conventional sources in terms of cost of electricity, the policy provides that procurement by distribution companies may be done at preferential tariffs determined by the Appropriate Commission depending on the circumstances at the time of procurement.

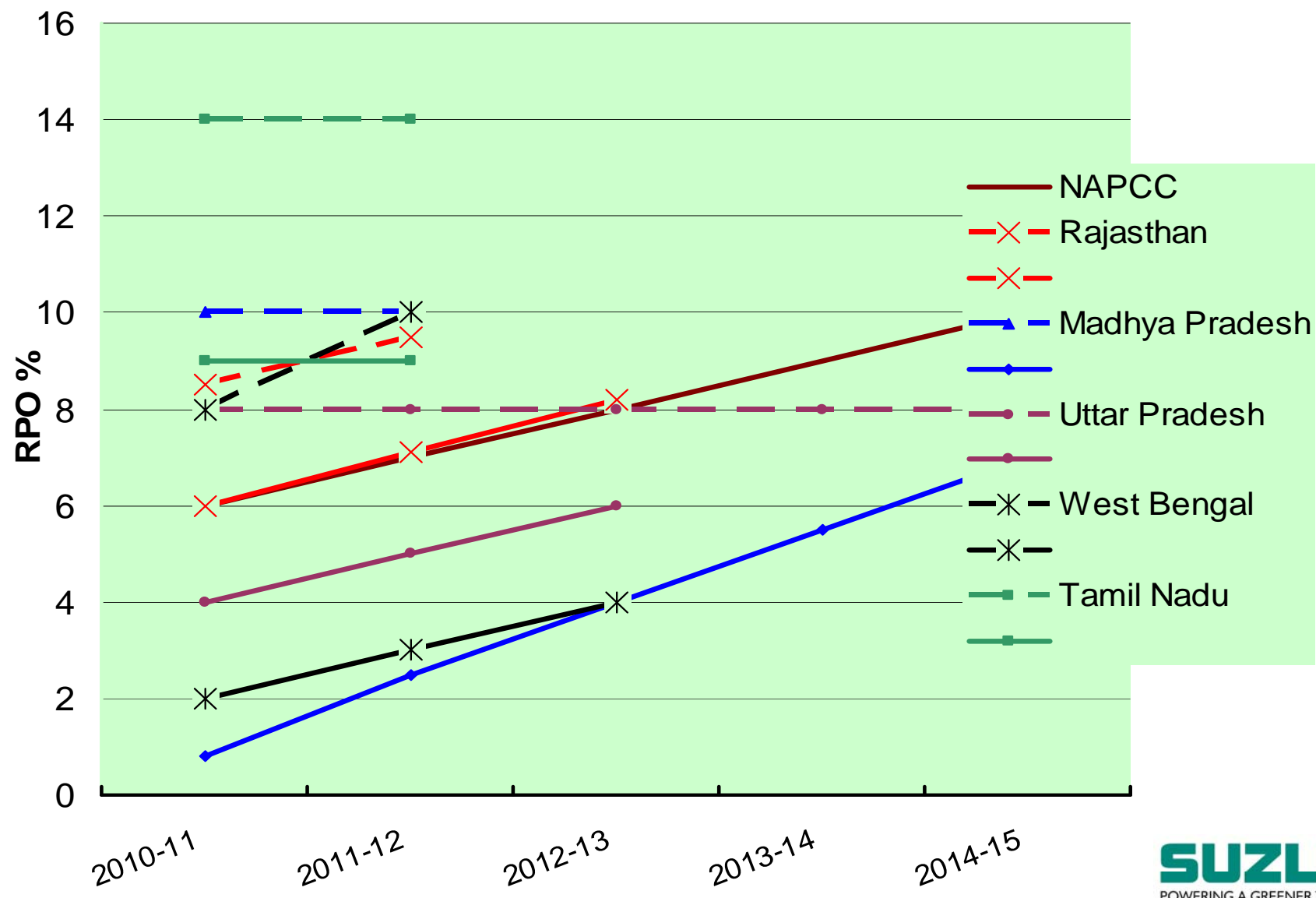
# Important policy and regulatory changes

- Policy
  - Discontinuation of Accelerated Depreciation
  - Discontinuation of Generation Based Incentives
  - Uncertainty of policy
- Regulatory Changes
  - Trend of RPO reduction
  - Enforcement of RPO
  - Scheduling

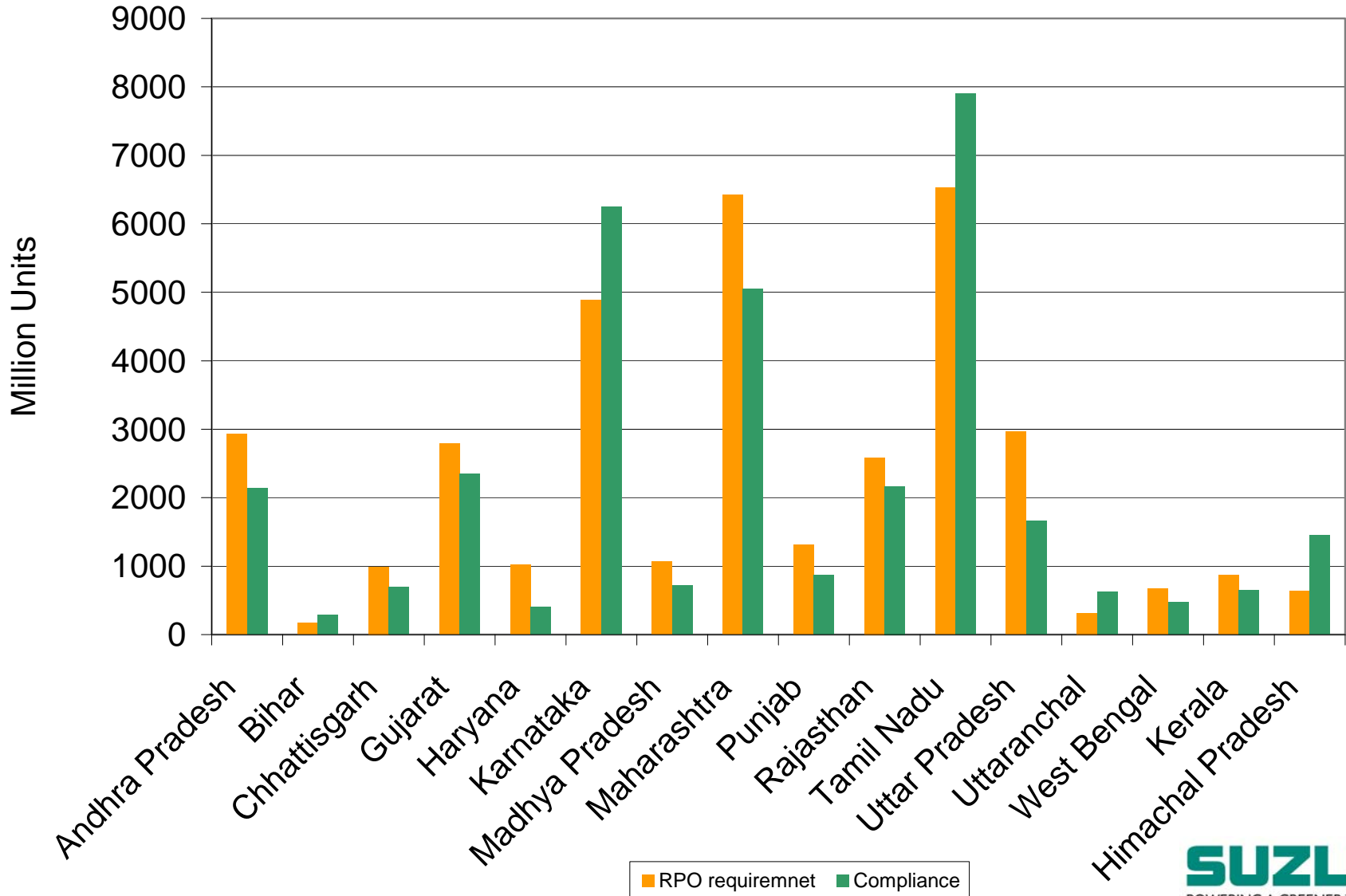
## Policy Changes

- Accelerated Depreciation (AD) was a major stimulus for the growth of wind sector.
- Ministry of Finance has withdrawn this effective from 1<sup>st</sup> April, 2012.
- Withdrawal of AD would make it difficult to maintain the present growth rate of wind power.
- The Generation Based Incentive Scheme also ended on 31<sup>st</sup> March 2012
- These changes in combination with overall economic situation had a very substantial impact on wind sector

# RPO trajectory....



# RPO Compliance and Enforcement??

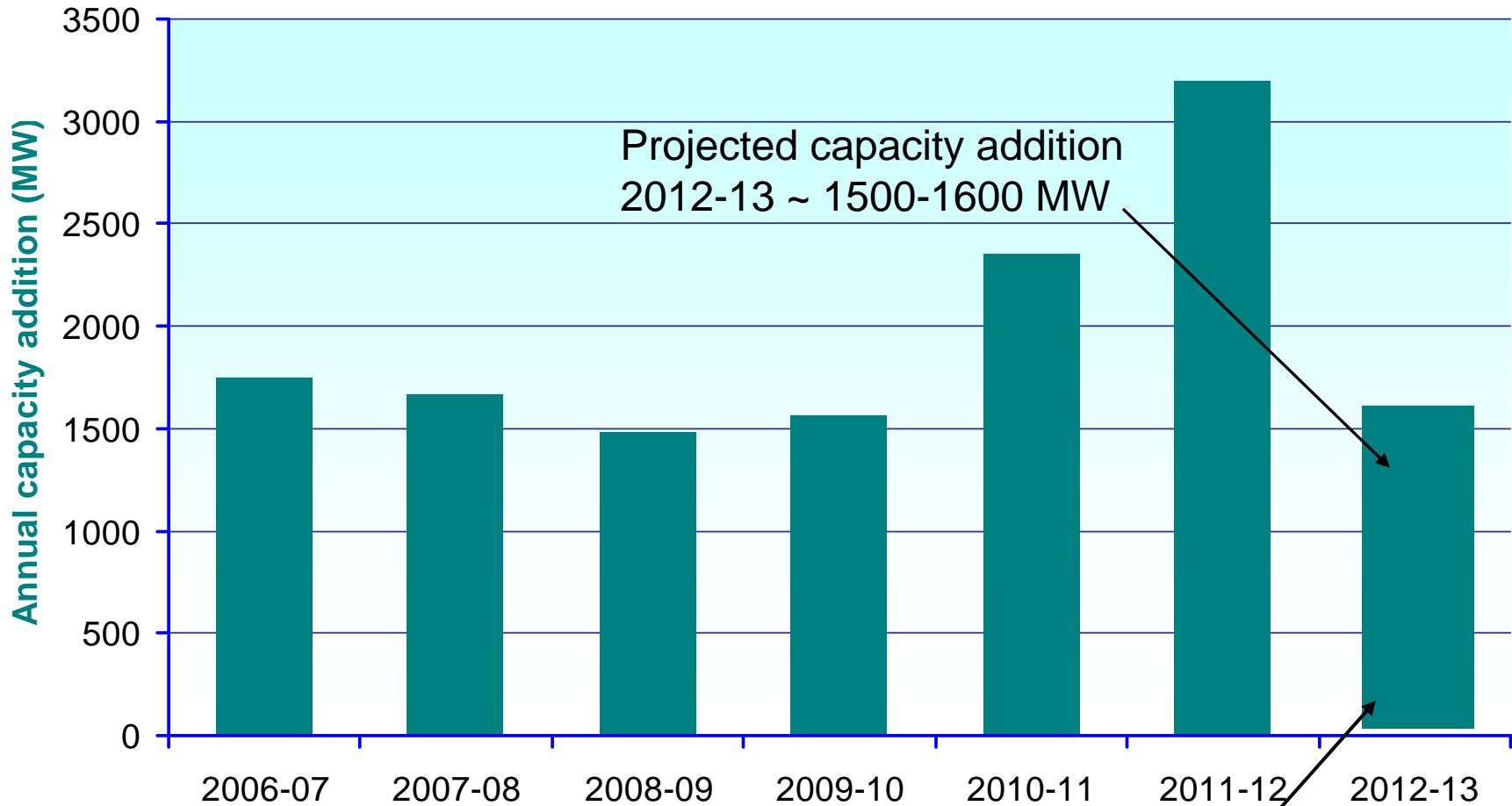


# Scheduling of wind

- Indian Electricity Grid Code (IEGC 2010) requires wind power to be scheduled and forecasted
  - Towards large scale integration of Renewable Energy sources in future
  - Implementation issues faced by wind projects in scheduling
  - Preparedness of the State Load Dispatch Centres (SLDCs) was also not at the expected level
- It is complex to implement IEGC in its current format
- The revenue impact of scheduling is about 10-15% reduction



# Wind power today....



Capacity added till July  
2012 ~ 500MW

## Bidding: Status

- Some states are in favor of implementing competitive bidding for wind energy
- Karnataka (2007), Madhya Pradesh (2010), Rajasthan (2012) had initiated the process of bidding for wind power in past
- MNRE had issued draft guidelines for procurement of renewable/wind power through bidding
- MoP had constituted a committee for accelerated development of RE and to evolve competitive bidding guidelines for RE
- Competitive bidding is being discussed at different levels and different forms.

# Bidding: Concern

- Multiple Players:
  - MNRE (2010, 2012)
    - Draft Bidding Guidelines in Dec 2010
    - Draft RfP for Bidding in 2012 (in absence of final bidding guidelines)
  - Ministry of Power (2012)
    - Constituted committee in Feb 2012 for accelerate development of Renewable Energy through legislative changes
  - State Commissions (2007, 2008, 2012)
  - State Utilities (2011)
    - MP, Maharashtra, Gujarat (torrent)
  - Adds to uncertainty and affects investment

# Bidding: Concern

- Enforcement of RPO
  - Except Tamil Nadu and Karnataka no other state has met its RPO
  - In case of states like Andhra Pradesh, Madhya Pradesh the achievement is less than half of RPO
  - No enforcement
    - At the most the unfulfilled obligation is carried to next year!!
    - GERC RPO compliance order on 18<sup>th</sup> Aug 2012
- A strict enforcement of RPO with stringent penalties is a prerequisite for bidding to succeed

# Bidding: Concern

- Evolution of RE sensitive bidding process
- MNRE 2010 Guidelines
  - Heavily drawn from MoP Bidding Guidelines for Conventional Power
    - Need to be RE specific
  - Applicability
    - Solar or renewable
- MNRE RfP
  - In absence of Guidelines and framework – premature
  - Technology specific/ neutral
    - (tariff policy envisages bidding within same technology)
  - Is reverse bidding as per the Electricity Act??
- Consultation process and transparency extremely critical

# Bidding: Concern

- Open Access
  - Bidding should not lead to single buyer situation
    - Open access is critical for access to market
      - Sec 11 restrictions
    - The non issuance of Open Access in case of Maharashtra
      - Unilateral restrictions against the existing regulations
    - Implementation of Scheduling in Case of Wind

# Bidding: Concern

- Multiple mechanisms
- The REC mechanism is also a tool for competitive RE procurement
  - There is resistance from Utilities for signing PPA with APPC
  - With Competitive Bidding practically there won't be any REC mechanism
    - The REC mechanism was also being perceived as a tool for OA consumers to meet the RPO

# Bidding: Concern

- Technology Specific Issues
- Wind
  - The resource information -Extremely site specific unlike solar
  - The grid infrastructure
    - STUs are supposed to provide connectivity from pooling s/s
    - Different implementation models have evolved
  - Land – forest land takes 2 years for clearance (majority of untapped potential in forest areas)

**OR**

- The states prepares infrastructure for specific site(s) with resource data
  - Will have a lead time of more than a year

The answer is comprehensive technology specific/sensitive bidding guidelines



# Bidding: the Solar example

- Comparison with Solar
  - Solar Bidding
    - Installation till now: 130 MW
    - Under the bundling scheme- with substantial off-take and payment guarantees
      - ✓ Its possible to sell ‘bundled power’ in spot market
      - ✓ Budgetary support to the tune of 400 CR ( for payment security)
    - Inventory in International market
    - Status of Indian Manufacturers!!
  - The same solution and philosophy may not be applicable to all RE

# Bidding: Way forward

- Decide upon appropriate time for introduction
  - Not many policy shocks simultaneously
  - Address the uncertainties – primarily RPO and its implementation
- Prepare a uniform timeline for introduction of bidding
  - Pilot stage
- Development of Guidelines
  - Transparent, Coordinated and Consultative process
  - Technology specific/sensitive