

Ref. 2006 / PEG / 89

Date – 1<sup>st</sup> June 2006

To,  
The Secretary,  
MERC  
Mumbai

Subject: Comments / Suggestions on approach paper on development of renewable energy sources, MERC Public notice dt. 11<sup>th</sup> May 2006

Madam,

Please find enclosed comments / suggestions by Prayas on the above-mentioned approach paper along with the affidavit.

We also request the Commission to allow us to make a presentation at the hearing on 14<sup>th</sup> June 2006 and to make additional submission at that time, if any.

Yours sincerely,

Shantanu Dixit,  
Member, Energy Group  
Prayas

**BEFORE THE MAHARASHTRA ELECTRICITY REGULATORY  
COMMISSION, MUMBAI**

**Comments / Suggestions on 'Approach paper on long term development of  
renewable sources', MERC Public notice dt. May 11, 2006**

By  
Prayas (Energy Group), Pune, 1<sup>st</sup> June 2006

1. The RPS Approach paper presents an aggressive development of RE in the state, and Prayas welcomes such an aggressive approach. Considering the environmental, social as well as economic implications of dependence on fossil fuel based power generation options; it is essential to adopt an aggressive policy for promoting RE in the state as envisaged in the Approach Paper. At the same time, there is a need to make certain changes in the path suggested in the Approach Paper to protect interests of consumers as well as to ensure rational development of RE in the state. Our suggestions in this regard are listed below.
2. The Approach paper estimates that the impact of RPS target of 6% on the consumer tariff will be of the order of 6 paise / unit (i.e. less than 2%). In order to ensure that tariff burden on consumers is limited and to ensure efficient procurement of RE generation, we urge the MERC to adopt 2% as the **ceiling on tariff impact** due to RE procurement during the operating period of RPS (i.e. upto FY 2009-10). The RPS regime should be reviewed if such tariff impact becomes more than 2% during any year in the operating period of RPS. For clarity, this does not imply revisiting the tariff of projects which have signed PPA before such review but to adopt a different path / approach for further development of RE.
3. As suggested in the Approach Paper, to ensure fairness, it is essential that **all eligible persons**, including open access consumers should be required to procure 6% of the electricity requirement from RE sources by year 2009-10. With the same rationale it is also essential that consumers using electricity from captive plants should also be required to adhere to RPS and they should also be required to procure 6 % electricity requirement from RE in year 2009-10.
4. In the financial settlement mechanism suggested in para 4.10.5 of the Approach Paper, eligible person purchasing RE quota from others should be required to pay only **marginally** higher charges than the weighted average cost of RE purchase of the seller. Further, this marginal cost should not be passed on to consumers, but should come from the profit / surplus component of the eligible purchaser (in case it is a DISCOM)
5. The approach of specifying financial penalty to ensure compliance with RPS is a welcome approach, and Prayas also, in-principle, agrees that strong

financial disincentive will ensure better compliance. But, considering that the RPS is still evolving in the state and an aggressive RE target is being attempted, it is essential that the quantum of financial penalty be increased gradually over the RPS operating period. Further the financial disincentive should not be very exorbitant. At the penalty of Rs. 7/ unit of RE shortfall suggested in the paper, a shortfall of even 1% of the RE target (i.e. shortfall of 70 MU against target of about 7000 MU in year 2009-10) imply a penalty of about Rs. 50 Cr. in FY 09-10. Hence, we suggest that, to begin with, a penalty of say 20% of the weighted average cost of RE purchase should be levied in the first year of the RPS operating period and the same should be increased to say 80% by the final year of the operating period. In light of certain difficulties pointed out in the RE generation (para 4.11.5 in the approach paper), such a gradual approach is desirable and will not compromise the objective of ensuring final RE contribution by the terminal year of operating period. Further, in case of DISOMs this penalty should come from the profit / surplus of the licensee and should be used to reduce the ARR – i.e. passed on to consumers. Similarly, penalty received from open access consumers and captive users should be first used to meet the cost of operating RPS/O and the remaining amount should be used to reduce the wheeling charges of Transco / Discoms for such consumers. In order to avoid proliferation of multiple incentives and support mechanisms for promoting RE we urge the commission not to create any separate fund from such penalties.

6. The approach paper envisages that the existing tariff order for Wind projects will be essentially extended without any cap on additional wind capacity till the end of the RPS operating period (i.e. FY 2009-10). As is evident from the table 4.7 of the approach paper, wind power procurement is about 10% to 30% costlier than other RE sources. The approach paper has also estimated that the wind contribution to total RE generation will increase from around 25% in FY 04-05 to about 50% in FY 09-10. This essentially implies doubling the wind capacity (from 750 to 1500 MW) based on tariff determined in the MERC order dt. 24<sup>th</sup> November 2003.

Here we would like to draw commission' attention to provision 6.4.3 of the National Tariff Policy notified on 6<sup>th</sup> January 2006. It states "*The central commission should lay down guidelines within three months for pricing non-firm power, especially from non-conventional sources, to be followed in cases where such procurement is not through competitive bidding*".

Further the tariff policy also states "*Benefits of reduced tariff after the assets have been fully depreciated should remain available to the consumers*" (S. 5.3.c). This essentially implies that the term of the PPA should be equivalent to the economic life of the project. Unfortunately, as per the current MERC tariff order for wind projects the PPA duration is only 13 years and hence denies the benefit of lower cost to consumers even though consumers are required to bear the entire cost of project upfront in the first 13 years.

Hence, in light of, a) relative high cost of wind procurement stipulated in MERC order dt. 24<sup>th</sup> November 2004, b) projected additional significant capacity creation based on tariff determined in 24<sup>th</sup> November 2004 order (about 750 MW over and above 750 MW target considered in the order), c) National Tariff Policy requirement that CERC should evolve tariff guidelines for non-conventional projects, d) National Tariff Policy requirement that benefits of depreciated assets should be available to consumers, and considering the fact that present MERC tariff order for wind projects will expire on 31<sup>st</sup> March 2007, it is imperative for the MERC to review the tariff of wind power projects, in order to protect consumers interests and to ensure efficient and economical development of the renewable energy in the state.

7. Approach paper stipulates that DISOMs should attempt to meet the RPS target through RE generation in the area of supply (para 4.7.9). RE availability is very site specific and considering the composition of DISOMs in Maharashtra, RE potential in the area of different DISOMs is highly uneven. Hence, in order to provide equal opportunity to all DISOMs to procure RE at competitive rates it is essential to allow DISCOMs as well as other persons to procure RE from any source in the state. This will also help in reducing the burden / complexity of RPO Operating Mechanism stated in para 4.7.10.
8. As suggested in the Approach it is envisaged that MEDA will operate the RPO and will evolve an operating mechanism. Essentially, MEDA will be monitoring the development and compliance with RPS as well as will facilitate financial settlement amongst different participants. This is a very crucial and complex role and complete transparency needs to be ensured in the RPO operating mechanism. Hence we request the MERC to specify data compilation and disclosure formats for MEDA. Such formats should include individual project / unit wise RE generation on monthly basis, installed capacity, self and auxiliary consumption, exported power, beneficiaries of this generation (i.e. specific DISOM, OA or captive consumer), fuel usage, tariff of all such projects on individual basis etc. Further MEDA should be required to periodically publish all this data as well as RPO report on the website.
9. In order to ensure efficient development of RE in the state we urge the commission to kindly adopt our suggestions / comments elaborated in above sections. Further, we request the MERC to issue a detailed, reasoned order while finalizing the RPS.
10. We also request MERC to permit Prayas to make a presentation at the hearing on 14<sup>th</sup> June 2006 and to make additional submission if any.

**BEFORE THE MAHARASHTRA REGULATORY COMMISSION, MUMBAI.**

Filing No.

Case No.

(To be filled by the Office)

IN THE MATTER OF

Public Notice issued by MERC dt. 11<sup>th</sup> May 2006, inviting comments / suggestions on the Approach paper on long term development of Renewable Energy.

AND

IN THE MATTER OF

Petitioner:

Prayas, Initiatives in health, energy, learning and parenthood

Athawale Corner,

Karve Road-Lakdi Bridge Corner,

Karve Road, Deccan Gymkhana

Pune – 411 004

Tel. + 20 2542 0720 / 5620 5726 Fax. + 20 2542 0337

*Affidavit* verifying the Petition/ reply/application

I, Shantanu Dixit, son of Manohar Dixit, aged 35 residing at, 105 Shaniwar Peth, Pune 411 030 do solemnly affirm and say as follows:

1. I am the a member, Energy Group of Prayas (Initiatives in health, energy, learning and parenthood) the petitioner/applicant in the above matter and am duly authorized and Competent to make this affidavit.
2. The statements made in paragraphs 1 to 10 of the petition / application are true to my based on knowledge and belief or information and I believe them to be true.
3. I say that there are no proceedings pending in any court of law/ tribunal or arbitrator or any other authority, wherein the Petitioners are a party and where issues arising and/or reliefs sought are identical or similar to the issues arising in the matter pending before the Commission.

Solemnly affirm at Pune on this 1<sup>st</sup> day of June 2006 that the contents of the above affidavit are true to my knowledge, no part of it is false and nothing material has been concealed there from.

Shantanu Dixit,  
Member, Energy Group, Prayas