

# Indian Renewable Energy Sector

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**Andhra HC order reinforcing the sanctity of PPAs a positive for RE IPPs; timely implementation of the order remains a monitorable**

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*The order issued by the AP High Court upholding the sanctity of the signed PPAs is a positive for the renewable energy sector and a major relief for the affected IPPs in the state*

*Timely implementation of the order by the discoms remains a key monitorable considering the weak financial position of the AP discoms and large dues to be cleared, estimated at ~10,500 crore*



The Andhra Pradesh (AP) High Court issued an order on March 15, 2022 on the PPA tariff renegotiation initiated by Government of Andhra Pradesh for wind and solar power projects, by setting aside the previous order issued in September 2019 by a single judge and reinforcing the sanctity of signed PPAs signed between the renewable energy (RE) developers and state discoms.



The order issued by HC of AP is a significantly positive development for the affected RE IPPs in the state as well as for the entire renewable energy sector, given the clear direction given to the discoms to honour the terms of the signed PPAs and clear the pending payments, as per the terms of tariff under the PPA within six weeks from the date of the order.



However, implementation of the HC order by the discoms remains a critical monitorable. The risk of further appeal against the HC order by the discoms cannot be ruled out. This is given the weak financial profile of the discoms in AP marked by continued losses and large debt dependence.



The impact of the HC order on the cost of power supply for AP discoms is estimated to be significant, with the pending dues to be paid to the RE developers estimated at ~Rs. 10,500 crore based on the difference between the PPA rate and interim rate, which have been built up over the last three-year period for the affected wind and solar power capacity.



The incremental impact of these dues on the retail tariffs in AP is estimated at about 8.5%, assuming the additional dues payable on power purchase cost were to be recognised under regulatory assets with five year amortisation period.



More importantly, tariff adequacy & timeliness of tariff determination process by SERCs remains key from the discoms perspective. Notwithstanding the pressure on cost of power supply, the average retail tariffs remain unchanged for AP discoms as per the tariff orders issued since FY2019.

## Background of tariff renegotiation issue for the affected projects in AP

In July 2019, the new Government of Andhra Pradesh (GoAP) formed of a high-level negotiation committee (HLNC) to renegotiate the tariffs for wind and solar PPAs tied-up by the state discoms



In September 2019, the AP High Court set aside this order of GoAP and directed the state discoms & developers to approach State Electricity Regulatory Commission (SERC) on the tariff renegotiation issue. Also, AP High Court ordered payments at interim tariff of Rs. 2.4/unit



AP discoms have been making payments to wind & solar IPPs at interim rate (Rs. 2.43/2.44 per unit), though with a delay. The same has been partly supported by the funding support received through loans availed from PFC/REC under the liquidity relief scheme implemented by Government of India

This has in turn adversely impacted the liquidity profile of renewable IPPs in AP, especially for the entities without a strong sponsor. The resolution of tariff renegotiation issue remained pending since July 2019 & was also a key concern from the RE sector perspective.

## Order issued by Andhra HC on March 15, 2022 reinforces the sanctity of PPAs; key positive development for RE IPPs and also for the sector

- High Court of AP has issued order on 15<sup>th</sup> March 2022, setting aside the previous order by the single Judge in September 2019.
- **As stated in the order, *“The order passed by the learned single Judge fixing the interim rate or interim tariff of Rs.2.44 per unit for solar power and Rs.2.43 per unit for wind power and for payment of all the pending and future bills of all the petitioners, is set aside and instead the distribution utilities are directed to make payment of all pending and future bills at the rate mentioned in the PPAs. The payment of arrears/pending bills shall be made within a period of six weeks from March 15, 2022.”***

This is a significant positive development for the affected IPPs and also from the RE sector perspective

This order further reinforces the sanctity of the signed power purchase agreements (PPAs), as seen similarly in the earlier judicial/ regulatory orders/notifications

The payment of dues as per the court order would bring a significant liquidity relief for the affected IPPs. However, the timely implementation of the order by AP discoms remains a critical monitorable, considering their weak financial position

## Upward pressure on cost of power supply for AP discoms; timeliness & adequacy of tariff determination for the AP discoms remains a key monitorable

- The tariff order issued by Andhra Pradesh Electricity Regulatory Commission (APERC) for FY2022 has approved ARR (annual revenue requirement) for AP discoms based on average RE purchase cost at Rs. 2.55/unit, considering the interim rate.

For AP discoms	Volume (MU)	Cost of Purchase (Rs./Unit)
Renewable Energy Purchased	15941	2.55
Energy Input	67755	3.88
Share of RE in Units Input	24%	

Source : ICRA Research, Tariff order for AP discoms

- Basis the direction by AP High Court, the incremental impact on power purchase cost is estimated at about Rs. 10,500 crore, given the build of dues (which is difference between the PPA rate and interim rate) over the last three-year period.
- Assuming the additional power purchase cost is approved as regulatory asset to be amortised over the period of 5 years, the incremental impact on cost of power supply for AP discoms is estimated at 54 paise/unit reflecting an upward pressure of 8.5% on average retail supply tariff for AP discoms
- As a result, timely implementation of HC order as well as timely & adequate tariff determination by the APERC for AP discoms remain key monitorables.



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## Analytical Contact Details



**Sabyasachi Majumdar**

*Senior Vice-President and  
Group Head*

**Girishkumar Kadam**

*Senior Vice-President and Co-  
Group Head*

**Vikram V.**

*Vice-President and Sector Head*



sabyasachi@icraindia.com

girishkumar@icraindia.com

Vikram.v@icraindia.com



0124- 4545 304

022 – 6114 3441

040- 4067 6500





ICRA

## Business Development/Media Contact Details



**L. Shivakumar**

*Executive Vice-President*

**Jayanta Chatterjee**

*Executive Vice-President*

**Naznin Prodhani**

*Head Media & Communications*



shivakumar@icraindia.com

jayantac@icraindia.com

communications@icraindia.com



022- 6114 3406

080 – 4332 6401

0124 – 4545 860





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