

INDIAN RENEWABLE ENERGY SECTOR

**Contract for Difference (CfD): A new
revenue paradigm for India's RE
developers**

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CfD pilot represents a structural shift in renewable procurement, linking developer revenues to peak-hour market prices while introducing calibrated risk sharing.

The proposal enhances market integration and improves the bankability for dispatch-flexible renewable configurations, particularly storage-backed and hybrid projects. However, the commercial viability and scalability of CfD projects remain contingent on disciplined strike-price discovery, sustained evening price premiums and the development of settlement depth and contract tenure.



- **CfD mechanism pilot:** Pursuant to the Ministry of New and Renewable Energy's (MNRE) guidelines for the implementation of a 500-MW CfD pilot, the Solar Energy Corporation of India (SECI - nodal agent) has invited bids for renewable projects under a market-linked CfD mechanism. Under this mechanism, developers sell power on the exchanges while a bid-discovered strike price is used as a settlement reference, enabling partial downside protection against price volatility, through a 12-year CfD agreement with the SECI.



- **Peak-hour price monetisation:** The CfD pilot allows contract capacities ranging from 50 MW to a maximum of 125 MW per bidder. The developers are required to supply 3 hours per day during the 18:00–24:00 window, aggregating to 1,500 MWh per day (500 MW × 3 hours). The mechanism enables developers to capture structurally higher evening Market Clearing Price (MCP), shifting the procurement focus from baseload Power Purchase Agreements (PPA) to time-specific, demand-responsive supply.



- **Credit outcomes hinge on pricing discipline and dispatch flexibility:** A sensitivity analysis indicates that the acceptable Debt service coverage ratio (DSCR) of 1.2 times threshold is achieved only beyond specific strike price (6.0/kWh) and peak-hour realisation levels (6.5/kWh), structurally favouring storage-backed and hybrid projects with optimised dispatch capability.



- **Scalability constrained by tenure and settlement architecture:** The 12-year CfD tenure is materially shorter than the economic life of renewable assets (solar/wind ~25 years; Battery Energy Storage System (BESS) beyond 12 years), constraining debt amortisation and leaving a portion of the project cash flows, particularly residual solar debt and post-CfD BESS value, exposed to refinancing and merchant risk beyond contract expiry.



- **CfD prospects:** CfD prospects will be shaped by critical monitorables, including sustainability of evening peak price depth, the pace of improvement in storage economics, and how the contract framework evolves beyond the pilot, in the absence of which participation and credit comfort are likely to be selective across developers.



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