

# AP power sector investments in limbo on tariff concerns

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Investors are scaling back investment plans in the Andhra Pradesh power sector as the deadlock continues over the possibility of the State reneging on its contracts.

At least half a dozen companies that *BusinessLine* spoke to opined that the AP government's decision to cancel solar and wind power projects entered into by the N Chandrababu Naidu government is weighing heavily on their minds.

Following this development, a petition was filed by renewable energy firms which led the AP High Court to order a stay against State government renegotiating tariffs of signed contracts.

Andhra Pradesh Chief Minis-



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ter YS Jagan Mohan Reddy had written to Power Minister RK Singh pointing out that the PPAs by the previous TDP-led government had majorly benefited only three players and the power has been procured at higher than normal rates which

has imposed a heavy burden on the State finances. Singh, in his reply, said that the current energy situation in Andhra Pradesh cannot be attributed to renewables, as the costs incurred on power purchases are pass-through tariff and the con-

sumer takes on more risk than the supplier. Aakanksha Joshi, Partner, Economic Laws Practice, said: "There is a basic question - what is the sanctity of a contract? And if it is subject to change with a change of government, it puts a break on the business plans too."

Some multinational renewable companies were looking to invest in group captive projects in AP but they now have put them on the back burner. "We have scaled back our plans after what we saw and will make a decision only after things become clear," said a senior executive of the company. Group captives means corporates wanting to put up solar or wind energy installations to meet

their own electricity demand.

Even as the to and fro between the Centre and State plays out, on the ground, investors are a worried lot. The Indian government plans to install 175 gigawatts of renewable energy by 2022 and this mandates significant capex in

the power sector, for which global pension funds have pumped in capital. The industry strongly argues that investments depend on long-term contracts and long-term legal and regulatory certainty. For the last two decades since privatisation, there have been no cases of successful renegotiation, stated Manish Chourasia, Managing Director, Tata Cleantech Capital.

According to Andrew Hines,

Co-founder, CleanMax Solar, the gravity of the situation can be gauged from the fact that some power producers in AP have not been paid for 14 months and Discoms' dues are around \$2.2 billion. "Any move to revise tariffs, add new charges, or retrospectively change regulations will alarm lenders and investors who are otherwise enthusiastic about investing in renewables in India."

In the long-term, such changes will actually lead to higher power costs, as equity and debt costs have a direct impact on the tariffs. So while governments and utilities need to ensure competitive prices, they will do consumers more harm than good by making changes retrospectively, and also by creating a climate of uncertainty in the industry, pointed out Hines.

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