

To, The Secretary, A.P. Electricity Regulatory Commission, 4 th Floor, Singareni Bhavan, Red Hills, Lakdi ka pool, Hyderabad – 500 008	From, M. Thimma Reddy, Convenor, People’s Monitoring Group on Electricity Regulation, 139, Kakatiyanagar, Hyderabad – 500 008
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Date: 25-04-2015

Dear Sir;

Sub: - comments on APERC’s Draft Terms and Conditions for determination of upcoming wind energy projects.

Ref: - APERC Public Notice Dt. 08-04-2015 and GoAP G.O. Ms. No. 9 Dt. 13-02-2015.

1.1 We welcome initiative of APERC to solicit views of stakeholders on draft Terms and Conditions for Tariff Determination for upcoming Wind energy Projects in the state of Andhra Pradesh for the period FY 2015-16 to FT 2019-20.

2.1 The draft Terms and Conditions follow basically cost plus method which has nearly become outdated. Open competitive bidding has become an important tool for discovery of efficient price. The recent Supreme Court orders on coal mining and subsequent allotment of coal mines on the basis of competitive bidding also once again bring to the fore the need to follow competitive bidding process in determining wind energy also.

2.2 In the case of solar energy, one of the important sources of renewable energy, competitive bidding method is being followed in determining the price as well as in identifying solar energy developers since 2009. It is high time similar method is followed in the case of wind energy also. In coming days in Andhra Pradesh (AP) DISCOMs and nodal agency for promotion of renewable energy shall identify wind energy developers through transparent and efficient open competitive bidding process.

2.3 We request the Commission to make open competitive bidding mechanism to be the centre piece of terms and conditions for determination of tariff for upcoming wind energy plants in AP. Section 61 (c) of the Electricity Act, 2003 provides that the Commission shall be guided by “the factors which would encourage competition, efficiency, economical use of resources, good performance and optimum investments”. Determination of wind energy tariff through competitive bidding will be in keeping with the Electricity Act, 2003.

2.4 To make determination of wind energy tariff through competitive bidding to be effective the selection of wind energy developers or allotment of government land shall also be based on competitive bidding. The wind energy policy of GoAP announced through G.O. Ms. No.9 dated 13-02-2015 provides that government land will be allocated on the basis of first come first served. It is important to change this provision. The APERC shall give policy advise to the GoAP (under Section 86 (2) of the Electricity Act, 2003) to follow competitive bidding process to identify wind energy developers and allotment of land. This land shall be allotted on long term lease and the lease period shall be coterminous with the PPA period. After the PPA period land shall be reverted to the government.

3.1 If the Commission chooses to follow the cost plus method we would like to place the following for consideration:

3.2 The capacity utilisation factor (CUF) as well as wind energy tariff shall change according to wind zones. There shall be no single CUF for the whole state. It shall differ on the basis of wind potential.

3.3 The draft Terms and Conditions (Regulation 21) suggested CUF of 23%. This is low in the background of improved technologies. The Centre for Study of Science, Technology and Policy (C-STEP)¹ which recently studied the wind power potential in AP came to the conclusion that CUF in AP could be in the range of 25 to 30%. Accordingly the Commission may revise CUF for AP upwards.

3.4 The wind energy tariff shall reflect increasing efficiency of new technologies deployed in this sector. The wind energy price shall come down because of new technology/efficiency though unit capital cost increases. Though world over wind energy unit prices are coming down in AP it shows contrary trend. In the past APERC hiked wind energy tariff from Rs. 3.50 per unit to Rs. 4.70 per unit through questionable process. There is need to revise this downwards.

3.5 Though capital cost indexing formula takes in to account prices of materials that go in to the making of machinery the wind energy tariff shall not mirror this alone. Changing technology and increasing efficiency of turbines and other parts shall also be taken in to account while determining tariff for upcoming wind energy units in the state.

3.6 The GoAP through its wind energy policy, 2015 announced some incentives for the wind energy sector. These include exemption from electricity duty and deemed industry status. These shall also be reflected in the wind energy tariff.

3.7 The draft Terms and Conditions (Regulation 14) suggested return on equity of 16%. In the background of lower inflation rate and declining interest rates we request the Commission to adopt return on equity of 14%.

4.1 We request the Commission to take our above submissions on record while finalising the Regulations on Terms and Conditions for Determination of Wind Energy Tariff in AP.

Thanking you.

Yours truly,

M. Thimma Reddy.

¹ Meera Sudhakar *et al* (2013). Wind Power in Karnataka and Andhra Pradesh: Potential Assessment, Costs, and Grid Implications. Centre for Study of Science, Technology and Policy, Bengaluru.