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Renewable Energy: The inexhaustible power source

G Krishnamurthy, April 04, 2016

Solar industry has piqued private sector interest, while wind power offers favourable op facets



On January 14 this year, the total installed solar power capacity in India crossed 5,000 mW. The milestone could not have been reached on a more auspicious day, as it coincided with the harvest festival.

Favourable winds are blowing in the direction of wind energy. As in the case of solar, private investors and developers are evincing interest in setting up commercial wind power projects. Thus, the total wind power capacity is estimated to double by 2020, from over 23,000 mW in June 2015.

Renewable energy (wind, solar) sector has a few favourable facets: short construction cycle, availability of improved technology and a generally supportive government. The sector also has enough bankable projects out there seeking funding. However, one needs to take cognisance of attendant risks viz. resource assessment, evacuation infrastructure, quality of project team, counter party assessment etc.

Infrastructure finance companies are willing to lend to solar and wind projects, but not without due diligence. For example, we often conduct a load flow analysis study to assess the evacuation landscape and better understand the risk-reward matrix. Once the project economics and regulatory environment are found acceptable, our in house sector experts initiate a financial structuring exercise to mitigate identified risks and allocate them to stakeholders best positioned to manage them.

Typically, a renewable energy project witnesses multiple rounds of financing depending on the project lifecycle. Post-operation stabilisation, more options are available via portfolio refinance, higher leverage, debt capital markets and so on. Further, partial credit enhancement products, vendor financing and yield co-structures offer greater flexibility for optimum financing.

Infrastructure financing is expertise-based lending. L&T Infra has been at the forefront of peer advocacy for the sector to ensure optimum debt structures for the sector.

A few of the key challenges that the industry faces at this juncture include State Distribution Companies (DISCOMs') precarious financial health, insufficient transmission infrastructure, unsustainable tariffs that could have roots in low stakes involved at bidding stage and policy variability across states. Another risk that could emerge from within the lending community is, if sundry lenders jump into business without the necessary expertise.

On the policy front, the government needs to promote and develop the RE sector with an eye on the future. There is a need to ensure effective on-ground implementation of the Ujwal DISCOM Assurance Yojana (UDAY); develop dedicated grid evacuation infrastructure for the upcoming renewable power projects; and have uniform power purchase agreements (PPAs) across states with step-in/substitution/contract assignment rights for the lenders to enable quick response in stress situations.

On the investments front, global green energy firms are already taking keen interest in India's renewable energy story due to scale of opportunity and a supportive regime. The recent solar bids do reflect this interest. However, they continue to be concerned about financial health of distribution companies and grid evacuation challenges that need to be addressed. Stable regulatory environment, quick dispute resolution mechanism and policy continuity till a defined finite period will also play an important role in investment growth. Hence, if we address key risks and reduce uncertainties, capital flows are bound to follow.

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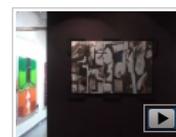
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A word on the tariff bidding process. I feel it is necessary to have stricter eligibility criteria to discourage irrational bidding as witnessed in the road sector a few years ago. Market forces should determine tariffs. A few ill-prepared and aggressive bidders should not be allowed to hold the auctions to ransom. Allocation to stakeholders best positioned to manage RE projects is the key to the growth of the sector.

The Union Ministry of Power is aiming at generating 2 trillion units (kilowatt hours) of energy by 2019. This will mean doubling the generation capacity to provide 24x7 electricity for residential, industrial, commercial and agriculture users. This is in line with the government's aim to take electricity to every home in the country by 2020.

If this ambitious plan is to succeed, the renewable energy sector, particularly solar and wind, will have to contribute to the power matrix in a big way.

(The author is Chief Executive at L&T Infrastructure Finance)

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