

Standing Committee Report Summary

Financial Constraints in Renewable Energy Sector

The Standing Committee on Energy (Chair: Mr. Rajiv Ranjan Singh) submitted its report on 'Financial Constraints in Renewable Energy Sector' on February 3, 2022. Key observations and recommendations of the Committee include:

- **Investment requirements of RE sector:** The Committee noted that there is a huge gap between the required and actual investment for RE capacity addition. Against the required annual investment of Rs 1.5-2 lakh crore, the actual annual investment in the last few years was Rs 75,000 crore. The Committee recommended the Ministry of New and Renewable Energy to: (i) find alternative financing mechanisms such as green bonds and infrastructure investment trusts, and (ii) explore the possibility of prescribing banks and financial institutions to invest a certain percentage of their investments in RE through a Renewable Finance Obligation (similar to a Renewable Purchase Obligation).
- **Lending by financial institutions:** The Committee observed that the banking sector has a reluctant attitude towards financing RE projects. The central government charges a guarantee fee up to 1.2% per annum to provide guarantee on loans outstanding from the international market, leading to increased cost of loans. The Committee recommended the Ministry to encourage financing RE projects by public sector lenders like PFC (Power Finance Corporation) and IRDEA through policies that reduce cost of funds. The Ministry should explore the possibility: (i) of exempting PFC, Rural Electrification Corporation (REC), and IRDEA from payment of guarantee fee for raising funds from international markets, or (ii) of charging guarantee fee at a concessional rate.
- **Lending capacity of IRDEA:** Indian Renewable Energy Development Agency (IRDEA) is a public sector institution financing RE projects. The Committee noted that IRDEA's lending capacity for large scale projects is constrained due to its low capital base. RBI requires IRDEA to maintain a Capital Adequacy Ratio (CRAR) (ratio of a bank's capital to its risk) of a minimum 15%. IRDEA's CRAR has declined from 23% in 2014-15 to 17% in 2020-21 thereby reducing its borrowing capacity. The Committee recommended that IRDEA should be given a special window for borrowing from RBI at the repo rate in line with other institutions such as NABARD, ensuring the availability of low-cost financial resources.
- **NPA norms for RE sector:** Due to the seasonal nature of RE, projects are not able to pay their dues during periods of low power generation. As a result, projects are treated as non-performing assets (NPAs) due to RBI guidelines on NPA and asset categorisation. As of March 31, 2021, PFC had NPAs worth Rs 333 crore. The Committee observed that the seasonal nature of RE is not considered while framing policies for RE financing. It recommended the Ministry to: (i) take up the matter with RBI and Ministry of Finance for relaxations in the guidelines and regulations, and (ii) pursue banks providing funds to RE sector to have higher EMI during peak season and lower during off season.
- **Renegotiation of tariffs and delay in payments:** The Committee noted that the attempt to renegotiate tariffs has affected the funding of RE projects. Some states have resorted to canceling/renegotiating tariffs which were discovered during the early stages of market development when tariffs were high. The Committee recommended the Ministry to engage with state governments to prevent any unilateral cancellation/renegotiation of tariffs.
- The Committee noted that RE developers face challenges in realising revenue due to delay in payments by distribution companies (discoms). For instance, developers in Telangana have faced delays of more than 10 months. The Committee recommended the proper implementation of Electricity (Late Payment Surcharge) Rules, 2021 ensuring developers get compensation for delays caused by discoms.
- **Delay in tariff approval:** Under the Electricity Act, 2003, SERCs regulate electricity purchases and prices of electricity. Tariffs decided by competitive bidding are adopted by CERCs/SERCs. The Committee noted that developers face problems in fund disbursement from lenders due to delays in disposal of tariff adoption applications by SERCs. One of the reasons for delays is the delay in appointment of members to SERCs by state governments. The Committee recommended: (i) a maximum period should be prescribed under the Electricity Act for SERCs to decide tariffs, and (ii) prescribing a maximum time for the appointment of members of SERCs after a vacancy arises.

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