

# High-cost variable renewable energy cause for the crisis in state

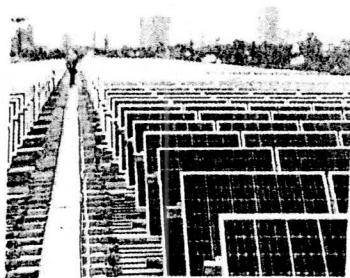
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Andhra Pradesh, which has high potential for variable renewable energy (VRE), or wind and solar power, was born as an energy-surplus state in 2014, and will remain so till 2023-24. Today, AP has the second largest installed VRE capacity of about 7,500MW at ₹4.7 per unit. This high-cost VRE is contracted by discoms, not out of considerations of providing cheap power to the rural areas, industry and services, as envisaged in our National Electricity Policy, but because of government directions.

Since July 2018, discoms could not borrow from banks to pay generators because their working capital loan limits were reached. Today, unpaid power generator dues stand at about ₹20,000 crore and opex loans raised to settle power bills stand at ₹10,300 crore. Rural Electrification Corp. Ltd.'s sales don't recover more than ₹300 crore a year, and an additional ₹7 crore per day is incurred for surplus VRE purchases on account of government directions/policies.

State subsidy increased from ₹3,000 crore till 2017-18 to about ₹7,000 crore from 2018-19. The poor, agriculture-dependent new state with a ₹2.62 trillion deficit, is not in a position to sustain such a financial burden.

The high-cost, must-run VRE is supplying about 25%



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(15,000 million units) of AP's annual energy consumption of about 60,000 MU. To accommodate this VRE, the dispatchable energy under long-term contracts, which is readily available at a ₹2 lower per unit cost, is backed down; as a result, the discoms are paying an additional back-down cost of ₹3,000 crore per year. The balancing costs and grid integration costs borne by discoms are in addition to this. Dis-

com losses doubled in five years. Of the additional ₹6,800 crore losses, which accumulated over the last five years, an amount of ₹5,497 crore is due to the adequacy costs.

With advancements in technology, tariff reduces. However, wind energy, which was available for ₹2.3 per unit till 2014, went up to above ₹4.7 per unit, but is now back in the ₹2 range. During this period of temporary hike, a large number of contracts were entered, leading to windfall gains to developers and losses to discoms/consumers. Of the 133 power purchase agreements (PPAs) for wind power in AP, more than 60% benefitted three companies.

All these complaints are entrusted to the cabinet sub-committee headed by the finance minister, and the government will take further action as per its recommendations.

It is the responsibility of the government, under whose directions the PPAs were entered by discoms, to see that the additional financial burden on this account is eased. With a view to protect the interests of both discoms and investors, the government initiated the renegotiation process with high cost PPAs. Unless the tariffs are reduced, there is no way that the high-cost VRE can be purchased in a sustainable manner by AP discoms or supported by the Government of Andhra Pradesh.

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