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STANDING COMMITTEE ON ENERGY

(2022-23)

SEVENTEENTH LOK SABHA

MINISTRY OF NEW AND RENEWABLE ENERGY

[Action-taken by the Government on observations/recommendations contained in Twenty-First Report (17th Lok Sabha) on the subject 'Financial Constraints in Renewable Energy Sector']

THIRTY-SEVENTH REPORT

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

July, 2023/ Ashadha, 1945 (Saka)

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Presented to Lok Sabha on 25th July, 2023

Laid in Rajya Sabha on 25th July, 2023

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2.	Shri R.K. Suryanarayanan	Director
3.	Shri Kulmohan Singh Arora	Additional Director
4.	Ms. Deepika	Committee Officer

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* *Nominated as Member of the Committee w.e.f. 4th November, 2022.*

\# *Nominated as Member of the Committee w.e.f. 16th December, 2022.*

INTRODUCTION

I, the Chairperson, Standing Committee on Energy, having been authorized by the Committee to present the Report on their behalf, present this Thirty-Seventh Report on action-taken by the Government on observations/recommendations contained in Twenty-First Report (17th Lok Sabha) on the subject 'Financial Constraints in Renewable Energy Sector'.

2. The Twenty-First Report was presented to the Lok Sabha on 3rd February, 2022 and was laid on table of the Rajya Sabha on the same day. Replies of the Government to the observations/recommendations contained in this Report were received on 23rd May, 2022.

3. The Report was considered and adopted by the Committee at their sitting held on 20th July, 2023.

4. An Analysis of action-taken by the Government on the observations/ recommendations contained in the Twenty-First Report (17th Lok Sabha) of the Committee is given at Appendix-II.

5. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in bold letters in the body of the Report.

New Delhi;
20th July, 2023
29 Ashadha, 1945 (Saka)

Jagdambika Pal
Chairperson,
Standing Committee on Energy

CHAPTER – I

This Report of the Standing Committee on Energy deals with action-taken by the Ministry of New and Renewable Energy on observations/ recommendations contained in the Twenty-First Report (Seventeenth Lok Sabha) of the Committee (2021-22) on the subject 'Financial Constraints in Renewable Energy Sector'.

2. The Twenty-First Report was presented to the Lok Sabha on 3rd February, 2022 and was laid on table of the Rajya Sabha on the same day. The Report contained 10 Observations/Recommendations.

3. Action Taken Notes in respect of all the observations/ recommendations contained in the Report have been received from the Government. These have been categorized as follows:

(i) Observations/Recommendations which have been accepted by the Government:
Serial Nos. 2, 3, 4, 5, 6, 7, 8, 9 and 10 Total - 09
Chapter-II

(ii) Observations/Recommendations which the Committee do not desire to pursue in view of the Government's replies:

Nil Total - 00
Chapter-III

(iii) Observations/Recommendations in respect of which the replies of the Government have not been accepted by the Committee and which require reiteration:

Serial No. 1 Total– 01
Chapter-IV

(iv) Observation/Recommendation in respect of which the final replies of the Government are still awaited:

Nil Total - 00
Chapter-V

4. The Committee desire that Action-taken Statement on the Recommendations/Observations contained in Chapter-I of this Report may be furnished to the Committee within three months of the presentation of this Report.

5. The Committee will now deal with action-taken by the Government on some of their Recommendations that require reiteration or merit comments.

Recommendation No. 1

6. The Committee had recommended as under:

> "The Committee note that India's power sector has been experiencing transition with increasing penetration of renewable energy in the energy mix and the Country has a target to install 175 GW of renewable energy by 2022 and commitment has been made to increase the renewable energy capacity to 500 GW by 2030. The Committee have been informed by the Ministry that for our long term commitments, an additional investment of about Rs 17 lakh crore has been envisaged which would include associated transmission cost and the Country would need an annual investment of Rs. 1.5-2 lakh crore in renewable energy sector against which our estimated investment for last few years have been in the range of Rs. 75,000 crore only. The Committee find that there is a huge gap between the required and actual investment and it will be a gargantuan task to fill this gap which requires an enabling framework to be created by the Government. Keeping in view that the overall debt requirement is large and reducing the cost of financing to the renewable energy developers is important, the Committee recommend that:
>
> i) The Ministry should work proactively to make available and explore innovative financing mechanisms and alternative funding avenues like Infrastructure Development Fund (IDF), Infrastructure Investment Trusts (InVITs), Alternate Investment Funds, Green/Masala Bonds, crowd funding etc. for renewable energy sector.
>
> ii) The Ministry may explore the possibility of prescribing Renewable Finance Obligation on the lines of Renewable Purchase Obligation for banks and financial institutions in order to make them invest a specific percentage of their investment in renewable energy sector.
>
> iii) Since Green Banks have emerged as an innovative tool for accelerating clean energy financing globally, the Government should

explore setting up of a green bank system which can address the persisting finance related challenges being faced by the renewable energy sector in the Country."

7. In its action-taken reply, the Ministry of New and Renewable Energy has stated as under:

"The recommendations of the Committee have been noted. However, MNRE had requested RBI to consider segregating the exposure in RE sector from Power Sector and defining a new category "RE Sector". In response, RBI had clarified that RBI has neither prescribed the sector across which the exposures need to be categorised nor any sector specific exposure limits. If in a bank's assessment, exposure to RE can be differentiated from other exposures to the power sector from risk management perspective, it is free to do so and that there is presently no regulatory constraint on banks treating RE as separate sector for managing their sectoral credit allocations for risk management purposes. Subsequently, MNRE had requested banks to treat RE as a separate category for Sector Credit Allocation. Some of banks had confirmed that a separate exposure ceiling is already carved out for RE sector in their banks and banks are increasing engagement in the RE sector. Also, RBI has included small RE projects costing upto Rs. 30 crores (earlier Rs. 15 crore) under Priority Sector Lending Norms.

IREDA has raised Green Masala Bonds of USD 300 Million in October, 2017 for financing green energy projects in India. These bonds have a tenor of 5 years and are listed on the International Securities Market (ISM) segment of the London Stock Exchange, Singapore Stock Exchange and also on NSE IFSC.

IREDA's Board of Directors have approved setting up of Alternate Investment Fund (Category-II). Further, NITI Aayog, has approved creation of a fully owned subsidiary of IREDA for the purpose of setting up of AIF, which is under process.

With above initiatives taken in the past, the Ministry/IREDA will continue to work on recommendations of the Committee."

8. The Committee had recommended the Ministry to explore various innovative financing mechanisms and alternative funding avenues like Infrastructure Development Fund (IDF), Infrastructure Investment Trusts (InVITs), Alternate Investment Funds, Green/Masala Bonds, Renewable Finance Obligation, Green Banks, etc. in order to address the persisting finance related challenges in the renewable energy sector.

The Ministry in its action-taken reply has stated that various initiatives like fixing of separate exposure ceiling for renewable energy sector by Banks, increase in limit under Priority Sector Lending by RBI, raising of Green Masala Bonds by IREDA, proposal for setting up of Alternate Investment Fund, etc. have been taken for financing green energy projects in India. The Committee appreciate the efforts made by the Government to ease out financial constraints in renewable energy sector. However, the reply furnished by the Ministry does not contain any information regarding recommendation of the Committee on prescribing Renewable Finance Obligation and setting up of Green Bank. The Committee, therefore reiterate their recommendation and desire that the Ministry should work proactively to make available and explore innovative financing mechanisms and alternative funding avenues like Infrastructure Development Fund (IDF), Infrastructure Investment Trusts (InVITs), Alternate Investment Funds, Green/Masala Bonds, crowd funding etc. for renewable energy sector. The Ministry should also explore the possibility of prescribing Renewable Finance Obligation on the lines of Renewable Purchase Obligation for banks and financial institutions in order to make them invest a specific percentage of their investment in renewable energy sector. Moreover, since Green Banks have emerged as an innovative tool for accelerating clean energy financing globally, the Government should explore setting up of a green bank system which can address the persisting finance related challenges being faced by the renewable energy sector in the Country.

<u>Recommendation No. 2</u>

9. The Committee had recommended as under:

"The Committee note that the Indian Renewable Energy Development Agency (IREDA) is a specialized public sector financial institution dedicated for financing renewable energy projects in India. As on 31st March, 2021, it has financed more than 2800 renewable energy projects in the Country with cumulative loan sanctions of Rs. 96,250 crore and disbursement of Rs. 63,158 crore supporting green power capacity addition of more than 16,165 MW. However, the Committee have been apprised by the Ministry that IREDA is constrained in meeting the financing requirement of large capacity projects mainly because of exposure norms and its low capital base. The Committee observe that as per the guidelines of Reserve Bank of India, IREDA is required to maintain a minimum CRAR of 15%, however its CRAR has dipped from 23.14% in 2014-15 to 14.34% in 2019-20 with slight improvement to 17.12% in 2020-21 thereby limiting the window for further borrowings. Further, the Ministry has submitted that in addition to proposed equity infusion of Rs. 1,500 crores by the Government of India which will facilitate extending additional loan facility of approximately Rs. 12,000 crores, IREDA has been planning to come up with IPO to enable space for further financing. As IREDA has been playing a catalytic role in financing renewable energy sector since its inception in 1987 and it understands the risks involved in the sector, the Committee recommend that IREDA should be given special window for borrowing from RBI at repo rate in line with other specialized financial institutions viz. NHB, SIDBI, NABARD, etc. to ensure availability of low-cost financial resources for renewable energy sector."

10. In its action-taken reply, the Ministry of New and Renewable Energy has stated as under:

"The Government of India on 19.1.2022 had approved the equity infusion of Rs. 1,500 crore in IREDA and the same has been released to IREDA on 26.3.2022. This will also enable IREDA to improve the capital-to-risk weighted assets ratio (CRAR) to facilitate its lending and borrowing operations. Now IREDA is also working to come out with Initial Public Offer (IPO) in FY 2022-23 to meet its further requirement of capital.

IREDA has prepared its Business Plan in line with the GoI's RE target. As per Business Plan for next 5 years (till FY 2025-2026), IREDA plans disbursements of Rs 1.95 lakh crore (approx.) over the next 5 years and the loan portfolio of Rs 1.35 lakh crore (approx.). IREDA will work to mobilize low-cost resources matching its disbursement targets.

Ministry vide DO letter No. 340-12/4/2018-IREDA dated 13.05.2022 has requested RBI to provide IREDA, a special window for borrowing from RBI at repo rate in line with other specialized financial institutions viz. NHB, SIDBI, NABARD, etc. to ensure availability of low-cost financial resources for renewable energy sector."

11. The Committee had recommended that IREDA should be given special window for borrowing from RBI at repo rate in line with other specialized financial institutions viz. NHB, SIDBI, NABARD, etc. in order

to ensure availability of low-cost financial resources for renewable energy sector. The Committee appreciate that in response to their recommendation, the Ministry has placed a request before the RBI in this regard on 13th May, 2022. The Committee may be apprised about the outcome of the Ministry's request to RBI in this matter.

<u>Recommendation No. 4</u>

12. The Committee had recommended as under:

"The Committee note that as on 31st March, 2021, IREDA had 94 non-performing accounts (84 projects) with total loan outstanding of Rs. 2,442 crores, PFC had NPAs of Rs. 333.46 crores and REC had NPAs of Rs. 40.66 crores. The Committee have been apprised that revenue generation of renewable energy projects is not uniform throughout the year since electricity generation from renewable energy sources is highly seasonal as a large proportion of generation occurs during a particular season, for example, maximum power generation from wind and small hydro projects occur during monsoon. As a consequence, if a renewable energy project is not able to remit its due during the period of low generation, it will be treated as NPA according to RBI's notification regarding NPA and Asset Categorization. The Committee observe that the peculiar realities of renewable energy sector have not been taken into account while formulating the regulatory policies relating to financing and investments, as a result, there is heightened risk of renewable energy projects becoming NPAs in compliance of RBI's regulations and guidelines since revenue generation from renewable power is not uniform throughout the year because of its high seasonality and intermittency. The Committee, therefore recommend that:

i) The Ministry should take up the matter related to highly seasonal revenue generation from renewable energy projects with the Ministry of Finance and the Reserve Bank of India for necessary relaxations in the concerned regulations and guidelines.

ii) The Ministry should pursue all the banks which provide funds to renewable energy sector to restructure the loans in such a way that EMI is kept higher in peak season of revenue generation and lower in the off-season."

13. In its action-taken reply, the Ministry of New and Renewable Energy has stated as under:

"In terms of RBI Prudential Norms, a non-performing asset (NPA) is a loan or an advance where interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan.

Revenue generation from renewable power is not uniform throughout the year because of its high seasonality and intermittency, as a large proportion of generation occurs during a particular season. As a result, if a renewable energy project is not able to pay its due during the period of low generation, it will be treated as NPA according to RBI's notification regarding NPA and Asset Categorization.

MNRE had requested DFS/RBI for increasing period for declaring NPAs from 90 days to 180 days for commissioned RE projects where payments are due from government owned entities. In response, DFS/RBI had replied that Reserve Bank's norms for asset classification have evolved over a period and the 90-day delinquency norms were brought in a calibrated manner to benchmark the prudential regulations to the international standards and that as such DFS/RBI was not in favour of sector specific regulations and dispensations.

Ministry vide DO letter No. 340-12/4/2018-IREDA dated 13.05.2022 has requested RBI for bringing necessary relaxations in the concerned regulations and guidelines for NPAs in RE Sector in reference to highly seasonal revenue generation from renewable energy projects. Ministry has also requested RBI to impress upon banks to restructure the RE loans in such a way that EMI is kept higher in peak season of revenue generation and lower in the off-season."

14. In response to recommendation of the Committee, the Ministry has furnished that it has requested the RBI on 13th May 2022, for bringing necessary relaxations in the concerned regulations and guidelines regarding NPAs in renewable energy sector because of highly seasonal revenue generation from renewable energy projects. The Ministry has further stated that it has also requested the RBI to impress upon banks to restructure the renewable energy loans in such a way that EMI is kept higher in peak season of revenue generation and lower in the off-season. The Committee would like to be informed about the final outcome of the Ministry's request to RBI in this regard.

CHAPTER – II

Observations/Recommendations which have been accepted by the Government

Recommendation No. 2

The Committee note that the Indian Renewable Energy Development Agency (IREDA) is a specialized public sector financial institution dedicated for financing renewable energy projects in India. As on 31st March, 2021, it has financed more than 2800 renewable energy projects in the Country with cumulative loan sanctions of Rs. 96,250 crore and disbursement of Rs. 63,158 crore supporting green power capacity addition of more than 16,165 MW. However, the Committee have been apprised by the Ministry that IREDA is constrained in meeting the financing requirement of large capacity projects mainly because of exposure norms and its low capital base. The Committee observe that as per the guidelines of Reserve Bank of India, IREDA is required to maintain a minimum CRAR of 15%, however its CRAR has dipped from 23.14% in 2014-15 to 14.34% in 2019-20 with slight improvement to 17.12% in 2020-21 thereby limiting the window for further borrowings. Further, the Ministry has submitted that in addition to proposed equity infusion of Rs. 1,500 crores by the Government of India which will facilitate extending additional loan facility of approximately Rs. 12,000 crores, IREDA has been planning to come up with IPO to enable space for further financing. As IREDA has been playing a catalytic role in financing renewable energy sector since its inception in 1987 and it understands the risks involved in the sector, the Committee recommend that IREDA should be given special window for borrowing from RBI at repo rate in line with other specialized financial institutions viz. NHB, SIDBI, NABARD, etc. to ensure availability of low-cost financial resources for renewable energy sector.

Reply of the Government

The Government of India on 19.1.2022 had approved the equity infusion of Rs. 1,500 crore in IREDA and the same has been released to IREDA on 26.3.2022. This will also enable IREDA to improve the capital-to-risk weighted assets ratio (CRAR) to facilitate its lending and borrowing operations. Now IREDA is also working to come out with Initial Public Offer (IPO) in FY 2022-23 to meet its further requirement of capital.

IREDA has prepared its Business Plan in line with the GoI's RE target. As per Business Plan for next 5 years (till FY 2025-2026), IREDA plans disbursements of Rs 1.95 lakh crore (approx.) over the next 5 years and the

loan portfolio of Rs 1.35 lakh crore (approx.). IREDA will work to mobilize low-cost resources matching its disbursement targets.
Ministry vide DO letter No. 340-12/4/2018-IREDA dated 13.05.2022 has requested RBI to provide IREDA, a special window for borrowing from RBI at repo rate in line with other specialized financial institutions viz. NHB, SIDBI, NABARD, etc. to ensure availability of low-cost financial resources for renewable energy sector.

[Ministry of New and Renewable Energy
O.M. No. 372-12/8/2017-PU, Dated: 23/05/2022]

Comments of the Committee
(Please see Para No. 11 of Chapter – I of the Report)

Recommendation No. 3

The Committee have been apprised that only few financial institutions and limited number of banks have been providing financial assistance to the renewable energy sector as all financial institutions and banks do not understand the risks and returns of this sector which is one of major challenges in its financing. Further, it has been submitted that there is no 'Green' element in our financial system framework and renewable energy projects are treated as any other project, since the indirect advantages of renewable energy to environment and society at large are often not considered at the time of investment. The Committee feel that in such a scenario where banking sector has a reluctant attitude to finance renewable energy sector, public sector lending institutions need to take up the extra responsibility of providing funds to renewable energy sector. The Ministry has also submitted that the Government of India charges guarantee fee of up to 1.2% p.a. for providing guarantee on the loan outstanding from international financial market, thereby increasing the landed cost of these loans. In view of the above, the Committee are of the opinion that there is a need to facilitate and encourage Government-owned sector-specific lenders like PFC limited, REC Limited and IREDA through supportive policy initiatives, exemptions, concessions, etc in order to reduce the cost of funds. The Committee, therefore recommend that the Ministry should explore the possibility of exempting PFC Limited, REC Limited and IREDA from payment of guarantee fee for raising funds from international multilateral agencies like KfW, JICA, ADB etc. or alternatively, guarantee fee should be charged at a concessional rate like in the case of National Bank for Financing Infrastructure and Development.

Reply of the Government

The recommendation of the committee has been noted. IREDA has approached Ministry of Finance through MNRE, requesting for waiver/ exemption/reduction of GoI guarantee fee for the sovereign guaranteed international lines of credit. Waiver of the GoI guarantee fee shall lower the overall cost of the foreign currency loans for lending to the renewable energy (RE) sector. This will enable the company to provide further benefit in the interest rates for RE project developer.

DEA has reduced Sovereign Guarantee Fee (SGF) in some cases. DEA vide DO letter dated 11-03-2021 was requested that SGF may be kept at 0.1% per annum for USD 469 million line of credit of the ADB to IREDA. However, in this case, it was reduced to 0.5% per annum from 1.2% per annum. MNRE is taking up the matter of waiving/reducing SGF with DEA on case to case basis.

Further, REC and PFC have been continuously aligning their financing norms in line with the financing requirement of RE developers in the country. REC and PFC have also been requesting for Nil or concessional Guarantee Fee on the loans to be availed from Multilateral Agencies like KfW, JICA, ADB etc.

[Ministry of New and Renewable Energy
O.M. No. 372-12/8/2017-PU, Dated: 23/05/2022]

Recommendation No. 4

The Committee note that as on 31st March, 2021, IREDA had 94 non-performing accounts (84 projects) with total loan outstanding of Rs. 2,442 crores, PFC had NPAs of Rs. 333.46 crores and REC had NPAs of Rs. 40.66 crores. The Committee have been apprised that revenue generation of renewable energy projects is not uniform throughout the year since electricity generation from renewable energy sources is highly seasonal as a large proportion of generation occurs during a particular season, for example, maximum power generation from wind and small hydro projects occur during monsoon. As a consequence, if a renewable energy project is not able to remit its due during the period of low generation, it will be treated as NPA according to RBI's notification regarding NPA and Asset Categorization. The Committee observe that the peculiar realities of renewable energy sector have not been taken into account while formulating the regulatory policies relating to financing and investments, as a result, there is heightened risk of renewable energy projects becoming NPAs in compliance of RBI's regulations and guidelines since revenue generation from renewable power is not uniform throughout the year because of its high seasonality and intermittency. The Committee, therefore recommend that:

i) The Ministry should take up the matter related to highly seasonal revenue generation from renewable energy projects with the Ministry of Finance and the Reserve Bank of India for necessary relaxations in the concerned regulations and guidelines.

ii) The Ministry should pursue all the banks which provide funds to renewable energy sector to restructure the loans in such a way that EMI is kept higher in peak season of revenue generation and lower in the off-season.

Reply of the Government

In terms of RBI Prudential Norms, a non-performing asset (NPA) is a loan or an advance where interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan.

Revenue generation from renewable power is not uniform throughout the year because of its high seasonality and intermittency, as a large proportion of generation occurs during a particular season. As a result, if a renewable energy project is not able to pay its due during the period of low generation, it will be treated as NPA according to RBI's notification regarding NPA and Asset Categorization.

MNRE had requested DFS/RBI for increasing period for declaring NPAs from 90 days to 180 days for commissioned RE projects where payments are due from government owned entities. In response, DFS/RBI had replied that Reserve Bank's norms for asset classification have evolved over a period and the 90-day delinquency norms were brought in a calibrated manner to benchmark the prudential regulations to the international standards and that as such DFS/RBI was not in favour of sector specific regulations and dispensations.

Ministry vide DO letter No. 340-12/4/2018-IREDA dated 13.05.2022 has requested RBI for bringing necessary relaxations in the concerned regulations and guidelines for NPAs in RE Sector in reference to highly seasonal revenue generation from renewable energy projects. Ministry has also requested RBI to impress upon banks to restructure the RE loans in such a way that EMI is kept higher in peak season of revenue generation and lower in the off-season.

[Ministry of New and Renewable Energy
O.M. No. 372-12/8/2017-PU, Dated: 23/05/2022]

Comments of the Committee

(Please see Para No. 14 of Chapter – I of the Report)

Recommendation No. 5

The Committee have been apprised that one risk which has significantly affected the funding of renewable energy sector is the attempts towards renegotiation of tariffs. Some States have resorted to cancellation/ renegotiation of tariffs which were discovered during early stages of market development when tariffs were high due to higher input cost, adversely impacting the debt serviceability of the projects. The Ministry has been of the view that PPAs are sacrosanct and they cannot be renegotiated. In view of the above, the Committee recommend that the Ministry should actively engage with the State Governments to avoid any unilateral cancellation/ renegotiation of PPA as it causes uncertainty and negatively affects the investment in the renewable energy sector.

Reply of the Government

AP DISCOM on 12.07.2019 directed the developers to reduce the Tariff to Rs.2.43/unit for wind and Rs. 2.44/unit for solar and to submit the revised/ reduced monthly power supply bills and also threatened termination of PPAs in case of refusal to accede to such reduction. Since tariffs in renewable energy sector vary from place to place and depends on risk perception of bidders, and that earlier tariffs in AP were finalised by its Regulator by following due process, MNRE advised AP government against this move stating that the contractual agreements are sacrosanct and should not to be revisited unless there is a specific provision to do so in the agreement.

Affected by these actions a large number of RE developers approached High Court of AP. The division bench of Hon'ble High Court of Andhra Pradesh vide its order dated 15.03.2022 have held that the terms of PPAs cannot be altered either by the parties or by the Court and, further financial difficulty of Government or DISCOM is no ground to permit avoiding the contract or reducing the tariff. Following the above order, Hon'ble Minister of Power & NRE vide letter dated 12.04.2022 addressed to Chief Ministers of all states has apprised them of the above order informing that it would be illegal to re-negotiate the PPAs.

[Ministry of New and Renewable Energy
O.M. No. 372-12/8/2017-PU, Dated: 23/05/2022]

Recommendation No. 6

The Committee note that as per Section 86(1)(b) of the Electricity Act, 2003, SERCs have been mandated to regulate electricity purchase and procurement process of distribution licensees including the price at which electricity shall be procured from the generating companies. Accordingly, the tariffs discovered through competitive bidding are required to be adopted by Central/State Electricity Regulatory Commissions. However, the Committee have been apprised that developers are facing problem in financing arrangements and fund disbursement from lenders due to delay in disposal of tariff adoption applications by the electricity regulatory commissions. The Ministry has submitted that one of the reasons for delay in approvals by the Electricity Commissions is the delay in appointment of Members to these Commissions by the concerned State Government. The Committee feel that renewable energy developers resort to aggressive biddings after estimating fixed cost of implementation with timely execution of the project and any delay in tariff adoption derails the project execution causing time and cost overrun thereby impacting the viability of the project. The Committee, therefore recommend that:

i) A maximum period should be prescribed for according approvals/ disposing-off petitions by the SERCs under Section 86(1)(b) through appropriate amendments in the Electricity Act.

ii) A maximum stipulated time should also be prescribed for appointment of Members of the SERCs after the vacancy arises.

Reply of the Government

As suggested by the Standing Committee, the maximum period should be prescribed for according approvals/disposing-off petitions by the SERCs under Section 86(1)(b) through appropriate amendments in the Electricity Act 2003.

In the proposed amendment to the Electricity Act (which is currently under discussion), Ministry of Power has proposed to amend Section 63 (Determination of Tariff by bidding process) to include the following provisions:

- Appropriate Commission shall, after receipt of an application adopt the tariff so determined, not later than 90 days from the date of receipt.
- If the tariff is not adopted on expiry of ninety days, the proposed tariff shall be deemed to have been adopted.

This amendment should be sufficient to ensure adoption of tariffs for RE projects awarded through competitive bidding route.

Further, as regards selection/appointment of Members in SERCs the relevant provisions under section 85 of the Act are as under:

- The State Government shall, within one month from the date of occurrence of any vacancy by reason of death, resignation or removal of the Chairperson or a Member and six months before the superannuation or end of tenure of the Chairperson or Member, make a reference to the Selection Committee for filling up of the vacancy.

- The Selection Committee shall finalise the selection of the Chairperson and Members within three month from the date on which the reference is made to it.
- The Selection Committee shall recommend a panel of two names for every vacancy referred to it.

It may be seen that appointment of Members falls under the purview of respective State Government.

[Ministry of New and Renewable Energy
O.M. No. 372-12/8/2017-PU, Dated: 23/05/2022]

Recommendation No. 7

The Committee note that renewable energy developers have been facing severe challenges in realizing revenue on time since there have been cases of exorbitant delay in receipt of payments from various Discoms causing problem in debt servicing and thus downgrading of the asset to NPA. It has been submitted that delays are typically longer for renewable developers than conventional generating companies even within the same utility. The Committee have been apprised that while Discoms have been claiming rebates for payments before due dates as per terms of PPA, they are reluctant to pay compensation/penal interest to the renewable energy developers for delayed payments payable in the form of Late Payment Surcharge. Further, it has been submitted that standard PPAs approved/adopted by the regulators have provision of Payment Security which generally include revolving Letter of Credit or sometimes Payment Security Funds, Escrow etc., however in majority of cases where PPAs are executed with Discoms, the payment security instrument i.e. Letter of Credit are not being provided. In view of the above, the Committee recommend that:

i) The Ministry should ensure proper implementation of Electricity (Late Payment Surcharge) Rules, 2021 so that the developers get compensated for the delay caused by Discoms in payment of dues.

ii) The Ministry should also ensure that every PPA signed by renewable energy developers with Discoms has the provision of payment security instrument and the same is implemented in letter and spirit.

iii) The Ministry should pursue the States/Discoms to clear dues on the first in – first out basis so that the oldest dues are paid first.

Reply of the Government

The Ministry of Power has notified Electricity (Late Payment Surcharge) Rules, 2021 on 22.02.2021 under section 176 of the Electricity Act, 2003. The objective of these Rules is to take measures conducive to the development of the electricity industry and protecting the interest of the consumers.

The payment security provisions have already been provided in the Bidding Guidelines issued by MoP/MNRE for Wind, Solar, Hybrid & RTC tenders and these are applicable to all the tenders whether issued by Central agencies or State agencies where the tariff is to be determined u/s 63 of the Act.

In case of SECI, Payment Security Mechanisms are being provided in all the bids being issued by the Corporation:

- Revolving Letter of Credit (LC) of an amount not less than 1 (one) months' average billing for the Project under consideration;
- Payment Security Fund, which shall be suitable to support payment of at least 3 (three) months' billing of all the Projects tied up with such fund.
- State Government Guarantee, in a legally enforceable form, such that there is adequate security, both in terms of payment of energy charges and termination compensation if any. [for the purpose of this clause, the Tri-Partite Agreement (TPA) signed between Reserve Bank of India, Central Government and State Government shall qualify as State Government Guarantee covering the security for payment of energy charges].

Based on the stakeholders' consultation, the Electricity (Late Payment Surcharge) Rules, 2021 are proposed to be amended by Ministry of Power by incorporating the provisions of first in- first out so that the oldest dues are paid first. Some other provisions are also proposed to be included making it comprehensive LPS Rules.

[Ministry of New and Renewable Energy
O.M. No. 372-12/8/2017-PU, Dated: 23/05/2022]

Recommendation No. 8

The Committee note that renewable energy projects in the Country enjoy the status of "Must Run" and hence are not subjected to curtailment except for grid safety reasons. The Ministry has apprised that the status of 'Must-Run' remained unchanged even during the period of lockdown. However, it has been submitted that there have been some instances where the energy evacuation scheduled from renewable energy projects was restricted causing capacity loss as well as revenue loss to renewable energy developers. In view of the above, the Committee recommend that the Ministry should come out with lucid & enforceable guidelines for compensation with respect to curtailment for reasons other than the grid security.

Reply of the Government

Electricity (Promotion of generation of Electricity from Must-Run Power Plant) Rules, 2021 have been notified by Ministry of Power on 22nd October, 2021.

The Rules have been notified to provide that a must-run power plant (including RE plants and hydro power plant in case of spillage of water) shall not be subjected to curtailment or regulation of generation or supply of electricity on account of merit order dispatch or any other commercial consideration. The electricity generated from a must-run power plant may be curtailed or regulated only in the event of any technical constraint in the electricity grid or for reasons of security of the electricity grid. In the event of a curtailment of supply from a must-run power plant, compensation shall be payable by the procurer to the must-run power plant at the rates specified in the agreement for purchase or supply of electricity. The RE generator is also allowed to sell power in the power exchange and recover the cost suitably. These Rules will help in economic sustainability of RE generators as well as availability of more RE power leading to decarbonisation of power sector.

[Ministry of New and Renewable Energy
O.M. No. 372-12/8/2017-PU, Dated: 23/05/2022]

Recommendation No. 9

The Committee note that there is a target to install 40 GW of renewable energy through roof-top solar by 2022 and KUSUM Scheme has been initiated to ensure energy security for farmers. The Committee have been apprised that in respect of schemes like Roof-top Solar and KUSUM which are for small consumers, there have been complaints that banks are reluctant to lend as they are not aware enough of these schemes. In view of the above, the Committee recommend that the Ministry should pursue this matter with the local banks and ensure availability of funds for installation of renewable power under schemes like Roof-top Solar and KUSUM.

Reply of the Government

The Committee has recommended that Ministry should peruse the matter related to financing of rooftop solar, solarisation of agriculture pumps and installation of small solar power plants under PM-KUSUM Scheme.

In this regard, it is to inform that Ministry is continuously following up with banks and other financial institutions as also with Department of Finance Services, Ministry of Finance to facilitate concessional and easy financing for the beneficiaries of rooftop solar and PM-KUSUM Schemes. As a result, the Reserve Bank of India has included all the three components of PM-KUSUM Scheme under Priority Sector Lending (PSL) Guidelines. In addition, the provision that a household owner can borrow upto Rs. 10 lakh for installation of solar/other renewable energy equipment is also included under PSL guidelines. Further, Component-B and Component-C of the PM-KUSUM Scheme are also included in the Agriculture Infrastructure Fund (AIF) being operated by the Ministry of Agriculture and Farmers Welfare (MoAFW) wherein soft financing with the upper cap of 9% for the interest rate and interest subvention upto 3% is available. Ministry has also requested the MoAFW for inclusion of Component-A in the AIF.
A number of banks have also issued guidelines/ products for financing PM-KUSUM and Rooftop Solar. These guidelines/ products have been uploaded on the Ministry's website for information of the general public. To facilitate speedy process of loan application of farmers under Component-A of PM-KUSUM Scheme, a web page has been created in the PM-KUSUM Portal wherein a farmer can express his interest for loan and this is then forwarded to respective banks for further action.

[Ministry of New and Renewable Energy
O.M. No. 372-12/8/2017-PU, Dated: 23/05/2022]

Recommendation No. 10

The Committee note that the RBI has categorised renewable energy sector under priority sector lending for loans up to a limit of Rs. 30 crores. The Ministry has apprised the Committee that the loan upto a limit of Rs. 30 crores is not sufficient as it can take care of small sized renewable energy projects only and there is a need to increase this limit. Further, the Ministry has also submitted that many banks which are not conversant with renewable energy projects, may not offer even this small financial assistance and may cover their priority sector lending obligations with projects from other sectors. In view of the above, the Committee recommend that:

i) The limit of loans for renewable energy sector under priority sector lending should be increased. The Ministry should pursue this matter with the Ministry of Finance and the Reserve Bank of India.

ii) Banks should be sensitized about the importance and benefits of renewable energy so that they do not overlook this sector in their priority sector lending.

Reply of the Government

MNRE on 03.05.2019 requested RBI to consider segregating the exposure in RE sector from Power Sector and defining a new category “RE Sector”. RBI vide its letter dated 15.07.2019 to MNRE, has clarified that RBI has neither prescribed the sector across which the exposures need to be categorized nor any sector specific exposure limits. If in a bank’s assessment, exposure to RE can be differentiated from other exposures to the power sector from risk management perspective, it is free to do so and that there is presently no regulatory constraint on banks treating RE as separate sector for managing their sectoral credit allocations for risk management purposes. Subsequently, MNRE on 19.09.2019 had sent letters to Banks communicating to them the above-mentioned clarification from RBI and requested them to treat RE as a separate category for Sector Credit Allocation. Ministry had received encouraging responses from three banks-SBI, IndusInd Bank and Bank of Maharashtra. Ministry on 26.4.2021, has again written to the Department of Financial Services to impress upon banks to take measures to enhance funding for RE Projects and setup a separate credit limit for the RE sector. RBI has increased the loan limit from earlier Rs. 15 crore to Rs. 30 crore for RE projects Priority Sector Lending (PSL) guidelines issued on 4.09.2020.

[Ministry of New and Renewable Energy
O.M. No. 372-12/8/2017-PU, Dated: 23/05/2022]

CHAPTER – III

Observations/Recommendations which the Committee do not desire to pursue in view of the Government's Replies

Nil

CHAPTER – IV

Observations/Recommendations in respect of which the Replies of the Government have not been accepted by the Committee and which require Reiteration

Recommendation No. 1

The Committee note that India's power sector has been experiencing transition with increasing penetration of renewable energy in the energy mix and the Country has a target to install 175 GW of renewable energy by 2022 and commitment has been made to increase the renewable energy capacity to 500 GW by 2030. The Committee have been informed by the Ministry that for our long term commitments, an additional investment of about Rs 17 lakh crore has been envisaged which would include associated transmission cost and the Country would need an annual investment of Rs. 1.5-2 lakh crore in renewable energy sector against which our estimated investment for last few years have been in the range of Rs. 75,000 crore only. The Committee find that there is a huge gap between the required and actual investment and it will be a gargantuan task to fill this gap which requires an enabling framework to be created by the Government. Keeping in view that the overall debt requirement is large and reducing the cost of financing to the renewable energy developers is important, the Committee recommend that:

i) The Ministry should work proactively to make available and explore innovative financing mechanisms and alternative funding avenues like Infrastructure Development Fund (IDF), Infrastructure Investment Trusts (InVITs), Alternate Investment Funds, Green/Masala Bonds, crowd funding etc. for renewable energy sector.

ii) The Ministry may explore the possibility of prescribing Renewable Finance Obligation on the lines of Renewable Purchase Obligation for banks and financial institutions in order to make them invest a specific percentage of their investment in renewable energy sector.

iii) Since Green Banks have emerged as an innovative tool for accelerating clean energy financing globally, the Government should explore setting up of a green bank system which can address the persisting finance related challenges being faced by the renewable energy sector in the Country.

Reply of the Government

The recommendations of the Committee have been noted. However, MNRE had requested RBI to consider segregating the exposure in RE sector from Power Sector and defining a new category "RE Sector". In response, RBI had clarified that RBI has neither prescribed the sector across which the exposures need to be categorised nor any sector specific exposure limits. If in a bank's assessment, exposure to RE can be differentiated from other exposures to the power sector from risk management perspective, it is free to do so and that there is presently no regulatory constraint on banks treating RE as separate sector for managing their sectoral credit allocations for risk management purposes. Subsequently, MNRE had requested banks to treat RE as a separate category for Sector Credit Allocation. Some of banks had confirmed that a separate exposure ceiling is already carved out for RE sector in their banks and banks are increasing engagement in the RE sector. Also, RBI has included small RE projects costing upto Rs. 30 crores (earlier Rs. 15 crore) under Priority Sector Lending Norms.

IREDA has raised Green Masala Bonds of USD 300 Million in October, 2017 for financing green energy projects in India. These bonds have a tenor of 5 years and are listed on the International Securities Market (ISM) segment of the London Stock Exchange, Singapore Stock Exchange and also on NSE IFSC.

IREDA's Board of Directors have approved setting up of Alternate Investment Fund (Category-II). Further, NITI Aayog, has approved creation of a fully owned subsidiary of IREDA for the purpose of setting up of AIF, which is under process.

With above initiatives taken in the past, the Ministry/IREDA will continue to work on recommendations of the Committee.

[Ministry of New and Renewable Energy
O.M. No. 372-12/8/2017-PU, Dated: 23/05/2022]

Comments of the Committee

(Please see Para No. 8 of Chapter – I of the Report)

CHAPTER – V

Observations/Recommendations in respect of which the final Replies of the Government are still awaited

Nil

New Delhi;	**Jagdambika Pal**
20th July, 2023	**Chairperson,**
29 Ashadha, 1945 (Saka)	**Standing Committee on Energy**

APPENDIX – I

STANDING COMMITTEE ON ENERGY

MINUTES OF TWENTY-EIGHTH SITTING OF THE STANDING COMMITTEE ON ENERGY (2022-23) HELD ON 20th JULY, 2023 IN MAIN COMMITTEE ROOM, PARLIAMENT HOUSE ANNEXE, NEW DELHI

The Committee sat from 1500 hours to 1545 hours

LOK SABHA

Shri Jagdambika Pal - Chairperson

2 Shri Chandra Sekhar Bellana
3 Shri Pradeep Kumar Chaudhary
4 Dr. A. Chellakumar
5 Shri S. Gnanathiraviam
6 Shri Sunil Kumar Mondal
7 Shri Gyaneshwar Patil
8 Shri Jai Prakash
9 Shri Uttam Kumar Nalamada Reddy
10 Shri Devendra Singh *alias* Bhole Singh
11 Shri Balashowry Vallabbhaneni
12 Shri P. Velusamy

RAJYA SABHA

13 Shri Gulam Ali
14 Shri Narain Dass Gupta
15 Shri Javed Ali Khan
16 Shri K.R.N. Rajeshkumar
17 Dr. Sudhanshu Trivedi

SECRETARIAT

1.	Dr. Ram Raj Rai	Joint Secretary
2.	Shri Kulmohan Singh Arora	Additional Director

2. At the outset, the Chairperson welcomed the Members of the Committee and apprised them about the agenda of the sitting. The Committee then took up for consideration and adoption the following draft Reports:

(i) Report on action-taken by the Government on observations/ recommendations contained in 20th Report (17th Lok Sabha) on the subject 'Tidal Power Development in India'.

(ii) Report on action-taken by the Government on observations/ recommendations contained in 21st Report (17th Lok Sabha) on the subject 'Financial Constraints in Renewable Energy Sector'.

(iii) Report on action-taken by the Government on observations/ recommendations contained in 27th Report (17th Lok Sabha) on the subject 'Evaluation of Wind Energy in India'.

3. After discussing the contents of the Reports in detail, the Committee adopted the aforementioned draft Reports without any amendment/ modification. The Committee also authorized the Chairperson to finalize the above-mentioned Reports and present the same to both Houses of the Parliament during the current session.

The Committee then adjourned.

APPENDIX - II

(*Vide Introduction of the Report*)

Analysis of action-taken by the Government on Observations/ Recommendations contained in the Twenty-First Report (17th Lok Sabha) of the Standing Committee on Energy

(i)	Total number of Recommendations	10
(ii)	Observations/Recommendations which have been accepted by the Government: Sl. Nos. 2, 3, 4, 5, 6, 7, 8, 9 and 10	
	Total:	09
	Percentage:	90 %
(iii)	Observations/Recommendations which the Committee do not desire to pursue in view of the Government's replies: Sl. No. Nil	
	Total:	Nil
	Percentage:	00
(iv)	Observations/Recommendations in respect of which the replies of the Government have not been accepted by the Committee and which require reiteration: Sl. No. 1	
	Total:	01
	Percentage:	10 %
(v)	Observations/Recommendations in respect of which final replies of the Government are still awaited: Sl. No. Nil	
	Total:	Nil
	Percentage:	00