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Are low wind power tariffs sustainable?

The drop in wind power tariff to record lows may seem like a positive, but industry insiders feel it may do more harm than good to the sector

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India has a target of installing 175,000MW of renewable energy by 2022. Of this, 100,000MW is to be generated by solar projects and 60,000MW by wind projects. Photo: Bloomberg

Mumbai: While the drop in wind power tariff to Rs2.64 per unit, at an auction conducted by Solar Energy Corp. of India Ltd on Thursday, may seem like a great positive, industry insiders feel it is likely to do more harm than good to the sector.

For starters, several state governments are already pressurizing renewable power producers to renegotiate existing deals at a lower price, and the new record low tariff for wind power is only likely to embolden them further. Tamil Nadu, for instance, has been trying to renegotiate agreements at Rs3.4 per unit as compared to Rs4.4 per unit that it has signed for. Karnataka, similarly, is vying for Rs3.75 per unit as against Rs4.5 per unit.

“Renegotiation of contracts is bound to dent the very little confidence that is left in India’s infrastructure sector. These all-time lows are bound to have a knock-on effect on thermal plants and while it may sound good in the short term, it will kill competition and finally leave the industry with just a few players. The natural consequence of that will be fewer bidders in subsequent rounds and prices will go up,” Sujjain Talwar, partner at law firm Economic Laws Practice, said.

Aaron Solomon of Solomon & Co., however, while acknowledging the fact that several state governments are trying to renegotiate existing power purchase agreements (PPAs), is of the opinion that implementing the same won’t be

easy. “Once the government signs a PPA, it is committed to make payment of tariffs at the rates set out in the agreement. Hence, even though the government may be inclined to renegotiate the rate of tariffs, it may be unable to do so for the period the tariffs are fixed under existing PPAs,” Solomon said.

Sandeep Upadhyay, managing director and chief executive officer of Centrum Infrastructure Advisory Ltd, said wind turbine prices haven’t dropped enough to justify such low bids. “While some of the larger players like ReNew Power Ventures Pvt. Ltd have got the cheap capital (to operate at such lower rates), the repercussion this has on the industry is not that positive,” he said.

Echoing similar sentiments, Somesh Kumar, partner & leader, power and utilities, EY India, said, “As opposed to solar wherein module prices have really come down, I am not sure if wind turbine prices have dropped so much to justify such low bids.”

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