



**SOLAR POWER DEVELOPERS ASSOCIATION**

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**SPDA/PG/2020/246**

**December 21, 2020**

**To,**  
**Shri R K Singh**  
**Hon'ble Minister of State (I/C)**  
**for Power & New and Renewable Energy**  
Government of India  
New Delhi

**Subject: Suggestions on the guidelines and the bid documents for RE Thermal tender w.r.t. Escalation Indices and treatment of storage assets**

Dear Sir,

Greetings from Solar Power Developers Association.

The pandemic caused by the outbreak of COVID-19 has led to a global economic slowdown, with India being one of the worst impacted countries. This has resulted in a severe and long-term impact on the renewable energy sector's development. Therefore, from now on, a collaboration between the Industry and the Government is imperative to successfully achieve the Government's target of 175 GW RE capacity by 2022. The partnership will have to be healthier, particularly in the new and innovative constructs happening for the first time in India. In this regard, we would like to commend the Government for taking the lead in coming out with innovative tenders like round-the-clock (RTC) power that allows RE power to be complemented with other power projects in India ("RTC Tender").

As you would appreciate, the proposed RTC Tender is an innovative construct that has not been tried anywhere else, globally. We welcome and appreciate the Ministry of Power's amendment to the guidelines for the tariff-based competitive bidding process for the procurement of round-the-clock power from grid-connected renewable energy power projects, complemented with Power from Other Sources ("Bidding Guidelines") dated 3rd November 2020. We also understand that based on the revised Bidding Guidelines, SECI is changing the RTC Tender to align the two documents.

We are writing this letter to notice two points that need deliberation from the policymakers before finalising the RTC Tender.

**1. Bid evaluation and escalation index**

One of the significant pre-requisites mentioned in RfS is the declaration of escalation index by CERC for comparison between various fuel sources. This escalation index is of vital importance for RTC Tender evaluation as there will be different competing generation sources, including coal (domestic and imported), gas, hydro, etc. and in various configurations, to be used by prospective bidders for balancing RE as per the revised amendments issued under the Bidding Guidelines.



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- The Current Escalation Index methodology seems flawed.

We want to bring to your attention that post-2014, CERC has stopped determining escalation for bid evaluation purposes. Based on publicly available data, we have tried to derive the tentative escalation indices (as captured in Annexure I). The numbers indicate that the index for coal and gas can vary significantly depending on the number of years for which historical data is used. If the number of years is tweaked or the time-period is tweaked, the escalation index may even come out to be negative. This makes us believe that the methodology for working out the escalation index might require review by CERC.

- Payment would be based on actual escalation - Index does not matter: A wrong perception

An argument has been made by some of the stakeholders regarding the non-significance of escalation index for evaluation, as the actual payment by the Discoms, which would be based on actual escalation. However, this is not correct when one is evaluating bids with multiple alternate fuels.

For example, it is possible that basis a low escalation index (historical), one ends up selecting a project with Fuel A, which ends up having a much higher actual escalation trajectory. In such a case, Discoms would pay a much higher tariff for such a project, compared to say Fuel B might have a high escalation index (and hence not selected), however, lower actual escalation.

In essence, while the current format may safeguard thermal sources' interests, an inappropriate escalation index could result in selecting wrong bids, hampering the interests of Discoms and consumers. Any evaluation wherein the index is not reflective of the most likely future scenario can result in massive liability for the Discoms.

**Suggestion:**

Regarding the above, we request you to kindly consider our suggestions below to resolve the issues due to bid evaluation and escalation index.

We believe that before any such escalation indices are finalised, the Commission would have to re-evaluate the methodology for specifying these indices. The earlier procedure has become redundant now, given the changes in inflation (including its base year), commodity prices, and cycles. The methodology is debatable and requires rationale for aberrations' treatment, especially during the COVID period where commodity prices, including gas and coal, have witnessed historic lows. Since the CERC is soon to become functional, we expect it to take two to three months before final indices are released in the public domain. In the right spirit of regulations, going with the escalation index route would require the bid submission extension for at least six months.

or

An alternate suggestion is that the guideline is revised to have a flat escalation index in the range of 1.5-2%, applicable to all bids, irrespective of the technology/fuel



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choice. Accordingly, the bidders are asked to quote a fixed cost and a variable cost, of which the variable cost to be indexed to the given escalation index. Such a simplistic method would ensure that pay-outs from Discoms are known well in advance, and the evaluation would not go wrong.

**2. Clarity on the treatment of storage**

Energy Storage System (ESS) requirement in RE generation linked tenders is primarily for firming up the output from a wind/solar plant, which can shift the power from peak generation hours to peak consumption hours.

There are various configurations of storage possible, either co-located or non-co-located with renewable capacity. The Bidding Guidelines have classified ESS as a separate asset class that can be bundled with renewable energy to supply "Round-the-clock" power. We would request the RTC Tender to clarify the modus operandi of operation and accounting for storage technologies about the operational aspects of charging and discharging from storage technologies.

We would request that the following may kindly be clarified:

- Whether the storage asset must be dedicated to the project and clarify whether such storage capacities will be used for alternate PPAs/ projects?
- Whether charging the storage asset (either co-located or non-co-located) will be allowed from any or all sources, including dedicated capacity (irrespective of RE or conventional), grid, exchanges, 3rd party PPAs?
- If charging for storage for the project's purpose is restricted to project assets, what would be the operational protocol to ensure the same?
- If a developer ties-up with a hydro facility, would they be meeting eligibility criteria? Along-side hydro asset, is the bidder allowed to tie-up with yet another fuel source (such as coal/gas) and storage? If such a tie-up is allowed, would the dispatch from hydro be considered part of the 51% compliance requirement of Renewable energy annually?
- What shall be the treatment of the electrons that get discharged from the storage facility? Would they be counted as part of the 51% compliance requirement of Renewable energy annually?
- What would be the treatment of ISTS charges for ISTS from generation to storage facility, in case of non-co-located storage asset? And for ISTS use from storage to procurer?

**Request:**

Therefore, we would request you to kindly direct your good office to clarify the aspects mentioned earlier in the RTC Tender.

Also, we would humbly submit that, because of the above, the RTC Tender bid submission may be extended in one go for a sufficient period, instead of frequent smaller extensions, which creates unnecessary uncertainty and lack of clarity in the



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tender process. This extension will allow the SECI to make necessary adoption in the tender documents post-CERC determination of escalations and provide better visibility in tender conditions and timelines for participants, prospective buyers, and industry observers.

We hope you will consider our request favorably. We would also be happy to provide any additional information that may be required in this regard.

Thanking you.

Yours Sincerely,

Praveen Golash

Joint Secretary- SPDA

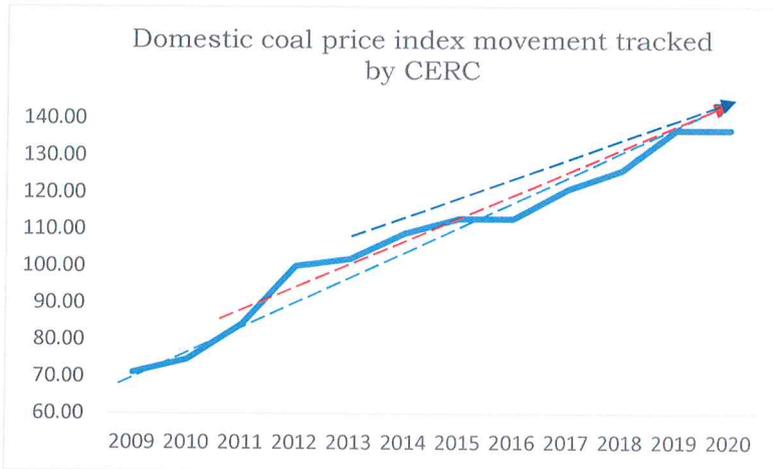
**CC:**

1. Shri Indu Shekhar Chaturvedi, Secretary MNRE.
2. Shri Sanjiv Nandan Sahai, Secretary MoP.
3. Shri Amitesh Kumar Sinha, Joint Secretary MNRE.
4. Shri Ghanshyam Prasad, Joint Secretary MoP.

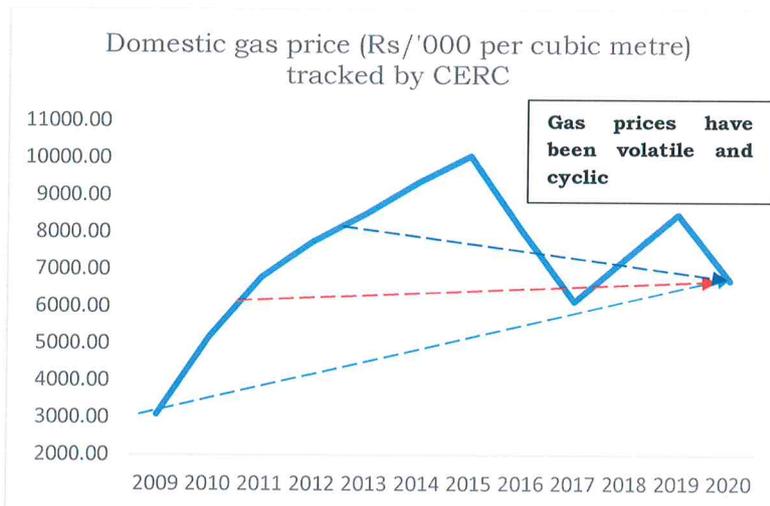


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Annexure I



No. of Years of Historical data looked at	Approximate YoY Escalation observed
12 years	7%
10 years	5%
8 years	3%



No. of Years of Historical data looked at	Approximate YoY Escalation observed
12 years	12.7%
10 years	1.6%
8 years	-1.6%

As can be seen above, there is wide variation in the escalation index ranges depending upon the time horizon