



SOLAR POWER DEVELOPERS ASSOCIATION

910, 9th Floor, Surya Kiran Building,
19, Kasturba Gandhi Marg, New Delhi- 110001
Website: www.solarpda.com
Email: dg@solarpda.com, duttshekh@hotmai.com

Shekhar Dutt, SM, IAS (Retd.)
Director General, SPDA
Former Governor of Chhattisgarh State
Phone: +91-9810222250 / +91-8750394442

SPDA/DG/2020/231

November 11, 2020

Sub: Request for relaxation in terms and conditions associated with 'Payment on Order Instrument'/Letter of Undertaking issued by REC, PFC and IREDA

Dear Shri Chaturvedi,

Greetings from Solar Power Developers Association.

At the outset, we would like to commend the Government's proactive effort to ease the power sector's liquidity situation. The government's approval for consideration of 'Payment on Order Instrument'/Letter of Undertaking (LoU) by three NBFCs, i.e., PFC, REC, and IREDA as an alternate to Bank Guarantees for EMD, Bid Bond, Performance Bank Guarantee (PBG) tenders issued by intermediary procurers like NTPC, SECI, NHPC, etc. is a positive move.

The primary purpose of the LoU facility's introduction was to provide Renewable Energy developers with more options to get the EMD / Bid Bonds / PBG and reduce the burden on banks. The objective of these NBFCs is to provide affordable funding to RE sector. However, the purpose gets defeated because major terms as proposed by these institutions and the fee/charges associated with the LoU facility are significantly higher than the bank, thus making these facilities unattractive to the developers.

The brief comparison of BGs issued by banks as compared to LoU issued by said NBFCs is tabulated below:

S.No.	Parameter	Banks	PFC / REC / IREDA	Remarks
1	Margin (depending on nature of BG as bid bond or performance guarantee)	5.00% - 15.00%	25 - 35%	Excessive margin will block growth capital thus impacting bidding capacity of developers
2	Security Cover	<1x (times BG value)	1.1 - 1.7x (times of BG value)	Financial burden on security compliances,

Former

				difficult to comply.
3	Commission	0.50% - 1.00% p.a. payable quarterly in advance	1.5% - 2.50% payable upfront	Economical unviable charges.
4	Upfront Fee	0.10%	0.25% - 0.50%	

As is evident, there is a significant difference in the various fee and conditions attached to the LoU issued by the NBFCs that will act as a deterrent for prospective applicants from availing the facility.

It may be kindly noted that, if developers were to provide 25-35% margin, a substantial portion of funds will be blocked which will limit the capacity of the developers to participate in bids. In addition, the provision of exclusive security cover of 1.1 - 1.7x times of BG value is too high and would be extremely difficult for the majority of developers to comply. The case is similar for commission and upfront fees prescribed by the NBFCs to avail this instrument.

In view of the above stated, we request your kind intervention and necessary advice to the concerned authorities so that terms and conditions/charges are rationalised and reduced to levels similar to or lower than banks. This will not only facilitate the developers to bid more capacity and help to meet the MNRE's ambitious target to achieve 175 GW for the RE sector but inturnhelp NBFCsto scale their business.

We look forward to your kind support in the matter.

Thanking you.

With warm regards

Yours Sincerely,



Shekhar Dutt

**To,
Shri Indu Shekhar Chaturvedi
Secretary
Ministry of New and Renewable Energy
CGO Complex, Lodhi Road
New Delhi**