



Comments in response to the Staff Paper “**Methodology for Computing the Escalation Factors and other Parameters for the Purpose of Bid Evaluation and Payment for Procurement of Power from Renewable Energy Projects Complemented with Firm Power from any other source through Competitive Bidding**” Dated 23. 02.2021

Overview

The proposal focuses broadly on two modifications, on the one hand modification to CERC’s obligation to notify the escalation factors for the purposes of evaluation and payment and, on the other hand, discusses changes in the datasets used to calculate the scalability factors. The changes in the preferred dataset enable the implementation of a Minimum Mean Square Error calculation, which requires at least 12 years of historical data.

Direct comments on the proposal

The proposed improvements generally are good suggestions within the specific context of the instrument currently in place to procure ‘Round-the-clock’ power from RE sources, backed up by firm generation.

On the first broad modification, the main question would be regarding the reason to stop CERC’s obligation to report the updates to scalability factors for the purpose of bid evaluation. As understood, the current change means that the scalability rates will only be communicated for the purposes of payment.

If scalability rate changes are only communicated for payment, does this mean that only incumbent stakeholders with a contract will be able to stay up to date with any changes? If this is the case, this might have implications on new entrants that are unable to check the scalability rates, in order to evaluate their bids.

On the second group of modifications, overall the proposed modifications make sense **given the design of the current framework**. There are few select questions on the following modifications:

1. On Domestic gas: while the reflection of the subsidy to consumer price makes sense given that that is the price faced by suppliers, the question would whether alternatives have been considered that incentivise gas-fired generators to improve their process of gas procurement, thus reducing the overall subsidy burden.
2. On Inland gas transport: It was not immediately clear why the transportation charges of the HVJ line, which serves the North West is the price defining line. Does it carry a much more significant volume than other lines?
3. On imported coal indices: Does the 25% weighing for each index also reflect the share that each type of imported coal has in the overall volume of imports? Or are their movements so consistently correlated that adjusting the index to reflect their actual shares make no difference?

4. On Imported gas: Will the shift to the spot prices index, not present a different risk profile for the suppliers depending on the extent to which they are through either FOC or CIF contracts?

Further comments related specifically to renewables integration

There are a couple of comments that arise from reading this proposal from the perspective of renewables integration. Within the Round-the-clock framework, the key question is whether there are any geographical constraints to where the RE generation is located and where the required firm generation is located. Could for example a bidder structure an offer where RE and firm generation are on opposite sides of the country. At higher levels of renewable deployment this may lead to spillover effects through network constraints and deployment of capacity that further constraints the grid.

On a more fundamental note, the team considers that there might be better tariff structures to cost-effectively incentivise the update of renewable generation sources. For example, a number of countries at higher shares of variable RE have shifted from fixed tariff systems to more system friendly systems such as market premiums, contracts for difference, or indexing the payment to an operating hour threshold rather than a year threshold. In Denmark, for example, fixing the payment to a set thousand hours in which the payment is given, ensures that producers chase the hours with greater value for the system. This has been particularly useful in cases where RE technologies have outperformed the generation expectations at the time of installation. By contrast a number of countries like Germany or the UK have moved to premium based systems, where the RE generator has an incentive to operate on the hours with most value, while selling power directly to the wholesale market, rather than having an assured offtaker, such as a DISCOM or the System Operator.

In the context of the country's ambitious goals for clean energy deployment, the team considers that more comprehensive reforms are considered. Particularly the requirement for RE operators to procure their own firm generation to back their contract can prove costly and a barrier for the development of new projects. At a system level this can also lead to overcapacity. When looking at market design for the integration of high shares of renewables it is important to separate the procurement of energy and capacity and remunerate these as separate products.

The IEA and the Unit for Renewable Integration and Secure Electricity stand ready to continue advising and supporting India in their regulatory and policy efforts as part of the clean energy transition.

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