

Indian Renewable Energy Sector

**Strong demand prospects for RE
projects in C&I segment; however,
regulatory risks a key challenge**

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Captive / group captive projects being preferred due to relatively lower regulatory risk compared with third party sale route

Despite the regulatory challenges, the third-party sale route under open access remains fairly attractive for the IPPs in some of the key states like Gujarat, Karnataka, Rajasthan and Tamil Nadu



Demand prospects for renewable energy (RE) capacity addition in the commercial & industrial (C&I) segment remain solid, given the improved tariff competitiveness and growing sustainability/green initiatives by C&I players to meet their energy requirements through renewables, going forward.



The C&I segment accounts for about 40-45% share in all India energy demand. Even assuming 20% of the energy requirements to be met by C&I segment through RE, RE capacity addition requirement is estimated to remain significant at about 75 GW. Further, the policy focus by the Government of India (GoI) in the renewable segment remains strong, with a net zero energy transition target by 2070.



From the C&I off-taker's perspective, cost of sourcing of renewable energy through open access remains at a discount to grid tariffs after factoring the applicable open access charges. The grid tariffs have shown an increase over the years, with the energy charge varying between Rs. 6-7/unit and Rs. 6-10/unit for HT industrial and commercial segment respectively, across the states.



Nonetheless, the regulatory risk remains inherent for open access-based RE projects, due to dependency on open access and banking requirements. The open access & banking charges/norms vary widely with effective cost ranging between Rs. 1.5 to 5.0 per unit across key states. Further, the quantum of open access charges have shown an increasing trend, given the upward pressure on cost of power supply & continued high level of cross-subsidisation in the tariff structure for the discoms.



Recent directive by the apex court in December 2021 for non-applicability of additional surcharge for captive projects, remains a positive for captive RE projects. The clarity on waiver of inter-state transmission charges (ISTS) for projects to be commissioned by FY2028 also remains a positive.



Moreover, draft rules on RE open access by Ministry of Power, dated August 2021 are yet to be notified and would benefit RE players, if the same is notified & implemented by SERCs given the certainty & clarity proposed in open access & banking norms.



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