

F. No. 23/23/2020-R&R/RCM
Government of India
Ministry of Power
(RCM Division)

Shram Shakti Bhawan, Rafi Marg
New Delhi, 11th September 2023

To

1. Chairperson, CEA
2. ACS/Principal Secretary/Secretary (Energy/Power) of all States/UTs
3. Secretary, CERC
4. Secretaries of all SERCs/JERCs
5. CMD/MDs of all GENCOs

Subject: Withdrawal of the Guidelines dated 22nd March 2021 and Clarification dated 5th July 2021 regarding the Discoms continuing with drawing power after completion of the term of the PPA and implementation of the scheme issued vide letter dated 20th April, 2023 for pooling of tariff of those plants whose PPAs have expired.

Sir,

Ministry of Power vide letters dated 22nd March 2021 and 5th July 2021 issued guidelines and clarification thereon, enabling the Discoms to continue drawing power after completion of the term of the PPA. Thereafter, it was noticed that some Discoms stopped drawing power from those plants whose costs were high while continuing to draw power from the cheaper plants. The GENCO's have protested the inequitable arrangement, which has led to a situation where a generating company has been left with a portfolio of costlier assets while the benefits of cheaper assets are entirely utilized by the distribution licensees at the cost of the generator.

2. The matter has been carefully examined. The legal position is that both the parties under the Agreement should have equal rights. On the expiry of a PPA, both the Generator and Procurer have equal right to decide the next course of action. Any unilateral choice with the any party is not justifiable.

3. The Power Purchase Agreement is a contract entered into by two parties, by the Generator and the Buyer, and when the Power Purchase Agreement expires, both the parties are free from the obligations of supplying or purchasing power from each other.

4. After careful consideration, the Government has decided that the legal position may be strictly enforced, wherein, on the expiry of the PPA, both the parties to the agreement are free to decide whether they will get into another agreement with each other for purchase/ sale of power or else the Generator can sell the power in the

exchange or bilateral to any other party and the Discoms may buy power from any entity of its choice.

5. Government of India has decided that the Central Generating Stations (CGSs) of a Central Public Sector Undertaking (CPSU) whose PPAs have expired will be brought together in a pool, bundled with Gas based power and sold to whosoever wants to buy. The rate of power will be fixed fairly and transparently and will be equal for every buyer from the pool.

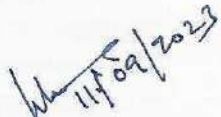
6. With the above consideration, Ministry of Power vide its letter dated 20th April 2023(Copy enclosed) issued the Scheme for Pooling of Tariff of those plants whose PPAs have expired to replace the Guidelines dated 22nd March 2021 and Clarification dated 5th July 2021. The proposed Scheme is equitable for both the parties and is beneficial to the country by improving Resource Adequacy.

7. To enable implementation of the Scheme, CERC was directed under sec 107 of the Act to take necessary action for making appropriate regulatory provisions to operationalize the Scheme.

8. It is hereby clarified that the guidelines issued by this Ministry vide letters dated 22nd March 2021 and clarification dated 5th July 2021 **stand superseded vide MoP Scheme dated 20th April 2023**. The State/ Discom may place requisition for taking power from the pool after expiry of the current PPA, as per the provisions of the Scheme issued by the Ministry.

9. This issues with the approval of Hon'ble Minister of Power & New & Renewable Energy.

Encl: A/a.


(GEOJI C. KORAH)
Under Secretary (NRE)

Copy for information to:

1. PS to Hon'ble Minister of Power & NRE
2. APS to Hon'ble Minister of State for Power
3. Sr. PPS to Secretary, Ministry of power
4. PPS to Joint Secretary (Thermal)
5. PSO to CE (R&R)/ PPS to Director (RCM), Ministry of Power

Copy To: Technical Director, NIC for uploading on Ministry's website under 'New Notices' with the heading "**Withdrawal of the Guidelines dated 22nd March 2021 and 5th July 2021 regarding the Discoms continuing with drawing power after completion of the term of the PPA**".

F. No. 23/23/2020-R&R/RCM
Government of India
Ministry of Power
(RCM Division)

Shram Shakti Bhawan, Rafi Marg
New Delhi, dated the 20th of April 2023

To

1. Chairperson, CEA
2. ACS/Principal Secretary/Secretary (Energy/Power) of all States/UTs
3. Secretary, CERC
4. Secretaries of all SERCs/JERCs
5. CMD/MDs of all GENCOs

Subject: Scheme for Pooling of Tariff of those plants whose PPAs have expired - reg.

Sir,

At present, the annual electricity demand and the peak demand in the country is around 1400 BUs and 216 GW, respectively, and the peak demand is growing at an annual rate of around 6%. It is also a fact that the country is advancing along the path of energy transition from fossil fuel to non-fossil fuel. During April-May 2022 challenges were faced in meeting increasing demand. With the support of all stakeholders including all states, the challenges were handled successfully. However, the systems need to be restructured to meet future challenges.

2. As per National Electricity Plan, the projected electrical energy requirement and peak electricity demand on all-India basis is estimated as 1908 BU and 277 GW for year 2026-27 and 2474 BU and 366 GW for year 2031-32, respectively. This will require a total capacity addition of around 212 GW in the Power sector during 2022-27 and about 292 GW during 2027-32, against the present installed capacity of about 412 GW. The total fund requirement for investment during the period 2022-2027 is estimated to be around Rs. 14.5 Lakh Crores. The total fund requirement for investment during the period 2027-2032 has been estimated to be around Rs. 19.06 Lakh Crores. Apart from this the successful integration of 365 GW Solar and 122 GW Wind planned by 2031-32 will require large quantum of storage capacity in the electrical grid. In such a scenario, it is essential that the generation capacity available in the country at present is utilized optimally. The available Gas based capacity is also required to be kept operational to meet the flexibility requirement and for peaking support at least during the crisis period.

3. With the objective to facilitate the States to optimize their electricity generation/availability portfolio, Ministry of Power, considering the request of the States, vide guidelines dated 22.03.2021, allowed the States to exit from PPAs with Central Power Sector Utilities after the expiry of the PPA period. Thereafter, many States/ Distribution companies exited from PPAs of costlier plants (non-pit head coal stations and Gas based thermal generating station), while retaining the PPAs of

cheaper plants. This trend may be detrimental to the resource adequacy in the power system.

4. The Government is committed to promote non-fossil fuel-based generation and the efforts to promote RE generation are being taken. However, in this stage of energy transition, it will not be wise to let go off the resources that are already available in hand and whose capex has been substantially recovered. Even with generation capacity two times of the demand, the demand - supply situation of electricity becomes tight for some periods in the crunch months. The development of balancing resources as ESS will take a while for full deployment and it is very expensive presently. While PSPs are limited by their gestation period of at least 5 to 7 years the Batteries are limited by their ability to be commercialized and availability of raw materials. Despite significant quantum of Renewables in the grid, it would be difficult to meet peak demand without conventional sources, in near future.

5. In case of shutdown of existing but without offtake arrangements thermal generation plants, following scenarios / options emerge:

- i. Additional investments for new thermal capacity addition for meeting the balancing and peaking requirements. Investment in such additional capacity would need to be serviced for further 25 years by payment of depreciation, interest on loan and other elements of tariff. Further, there may be requirement to support their technical minimum during off-peak hours for their useful life. All these costs would have to be eventually borne by the end consumers.
- ii. Installation of larger capacities of BESS/PSP will be required to provide for balancing requirements. Deployment of BESS in large quantum is dependent on factors as high capital costs, availability of critical raw material, production batteries or on imports – all adding to uncertainty in balancing resources. Development of PSPs has its own challenges.

Further, both the above options are much costlier as compared to continued operation of these well-maintained generation plants with almost all the investment cost paid.

6. In view of long gestation period required for the construction of new thermal capacities and impending retirement of old inefficient thermal plants, it would be prudent to continue to operate the existing efficient thermal capacities of CPSUs whose PPAs have expired, but have remaining operational life, deferring the capital expenditure required for creation of new capacities. It is required to ensure continued operation of these gas-based power plants to provide peaking /balancing power for smoother and affordable energy transition towards RE & for Resource Adequacy.

7. It is noteworthy to mention that many thermal units in India and the world are operating efficiently much beyond 25 years. Further, it is a known fact that due to better O&M practices, the generating stations of CPSUs are operating at full capacity even after completion of 25 years of the useful life as per the norms specified by CERC. These constitute a well-balanced pool of thermal stations comprising of pithead coal stations for catering to the base load, non-pithead coal stations and gas

stations to meet peak demand and provide much required cycling and balancing services required for smooth RE integration. Gas stations are important to grid operation as they are capable of fast ramping operations and best suited for flexing. CPSU gas stations are being frequently utilized in providing ancillary services for reliable grid operation. The selective approach adopted by the procurers, who are exiting from PPAs, may lead to the shutdown of significant thermal capacities especially the Gas based capacities, which would be detrimental to the power sector.

8. As the stations of 25 plus years have their capex recovered, fully depreciated, debt free, Fuel Supply Agreement (FSAs) in place, and well-maintained, power at competitive tariffs can be made available to the beneficiaries from these stations. Accordingly, to utilize these capacities, it has been decided to pool power from all Central Generating Station (CGSs) whose PPAs have expired, and such pooled power shall be made available to willing beneficiaries. The willing beneficiaries will have to enter PPA for a duration of a minimum of 5 years. Discoms not finding value in pooling will be able to opt out from the pool after 5 years.

9. The measure will ensure availability of adequate resources in the grid for peaking, balancing, and flexing and re-distributing benefits such as reliability, cost-effectiveness among the beneficiaries. A detailed mechanism in this regard finalized after consultation with States and other stakeholders (Draft scheme was circulated on 15th November, 2022, comments received have been examined and a meeting was also held with States on 20th February, 2023) is enclosed. All the concerned organizations shall take necessary action to implement the scheme w.e.f. 1st July, 2023.

10. This issues with the approval of **Hon'ble Minister of Power and New & Renewable Energy**.

 20/4/23
(Suresh Annepu)
Director (RCM)
Tel: 011-23717137

Copy for information to:

1. PS to Hon'ble Minister of Power & NRE
2. APS to Hon'ble Minister of State for Power
3. Sr. PPS to Secretary, Ministry of power
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