

Green Energy Projects Choke on Weak Demand

Developers stuck with renewable energy certificates for want of buyers

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Renewable energy projects, once lucrative enough to attract even alcohol makers and farm traders, are feeling the heat as a key attraction, the market for green certificates issued to developers, has collapsed alarmingly, casting a shadow on India's ambitious plan for solar, wind and small hydro projects.

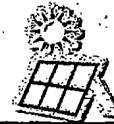
Until a year ago, it seemed a seller's market in state-promoted Renewable Energy Certificates (REC) as power distribution companies in states were asked to buy 5-10% of their electricity from renewable sources or buy RECs instead. Project developers are granted 1 certificate for every 1,000 units of electricity generated from renewable sources.

Today, developers have accumulated 21 lakh certificates which nobody wants to buy. Last month, they have been able to sell barely 2% of the certificates, and concerns are mounting as RECs have a shelf life of only two years.

It was different in 2009-10. Himachal Pradesh, which has a huge potential for small hydro plants, and Rajasthan that has the sunshine and land needed for solar projects, attracted a wave of cash-rich visitors. The head of a leading brewery regrets his decision to plunge into the sector, investing ₹400 crore for a 40 mw hydro project. He thought distribution companies would follow the

On a Downturn

Solar REC Market



INDEX	REC for Sell	REC Demand	Price
May-13	2,113	862	₹11,490
Jan-13	3,356	40,138	₹12,500
PXIL	REC for Sell	REC Demand	Price
May-13	2,720	1,137	₹10,990
Jan-13	203	2,107	₹12,500

government order on Renewable Purchase Obligation (RPO) — the rule that obliges them to buy some green power.

"Investors like us thought that government's regulation on RPO will be honoured by discoms like a law. However, we are unable to even serve our debts. We have no option but to continue with the project. We do not expect anyone to acquire our project as the revenue model in the present scenario is unviable," said a top executive of the distiller.

The market for certificates has crashed and the gap between sellers and buyers is widening. "The availability of RECs has increased to more than 20 lakh and this would increase by a few lakhs," the head of Power Exchange India MG Raoot told ET. Unsold RECs will start lapsing if project developers can't find buyers by September.

Sector expert and former power minister Suresh Prabhu said investments in the sector were at risk. He blamed regulators for not being able to enforce the obligation of utilities to buy renewable power. "Renewable purchase obligation is part of the act itself and the regulator has to decide its quantum from time to time. Non-compliance

of this obligation will jeopardise investments in the renewable sector," Prabhu said.

Renewable energy equipment makers, too, are facing an uncertain future. India added 1,700mw of wind power capacity in 2012-13 as against 3,164 mw in the previous year. Consultants are now telling companies not to depend on certificates for project economics.

"We don't advise our clients to bank on REC anymore since we do not expect investors to earn any margins over the floor price," said PwC India leader for energy & utilities Kameswara Rao. Financial institutions have already stopped funding projects banking on REC heavily.

The REC mechanism, launched in November 2010, has given developers ₹743 crore from sale of certificates up to March 31, 2013, but the demand is falling rapidly.

In the last trading session, prices of solar certificates slumped to a record low of ₹11,490 from ₹12,206 in the previous session. For the first time, there were more sellers than buyers. Renewable energy advisor Gensol Consultants' Anmol Jaggi feels solar REC is will touch its floor price of ₹9,300 in the coming sessions.