

# The Increasing Popularity of Group Captive Projects



*From lesser transmission charges to the developer's equity interest, group captive projects are gaining traction for a plethora of reasons in the domestic renewable industry*

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**S**ome things appear better in theory than when put to the test in the real world. Open access appears to be one such case, where numerous restrictive policies by states and umpteen number of charges on the consumer, have made this once attractive sought after model a difficult proposition to undertake on the ground. That said, it is still an attractive source of power for large consumers (with a connected load of more than 1 MW) as it allows them to procure solar energy at competitive prices from offsite solar projects using the existing transmission and distribution infrastructure.

However, the absence of developer-friendly policies has resulted in the open access solar market accounting for less than 10% of the total installed solar capacity, according to Mercom Research.

Over the past few years, the market has largely been driven by state-specific policies such as the one in Karnataka, which has also been the most favorable from a project developer's perspective. The Karnataka Open Access Solar Policy, released in 2014, was hailed by the solar developers as it exempted transmission, banking, wheeling, and other charges for ten years. However, the state increased the charges

applicable under the third-party sale mechanism. In March this year, the Karnataka High Court quashed an order issued by the Karnataka Electricity Regulatory Commission (KERC) relating to a retrospective increase in wheeling charges for open access power consumers in the state. The KERC had promised solar project developers that they would be exempt from wheeling charges for 10 years after commissioning. The state is leaning towards the group captive model since it brings in the equity from the entities consuming power from the projects.

The developers have now started to look at group captive power projects as a business model to expand operations in the open access market. Unlike an individual captive or third-party sale power project, group captive is an arrangement through which a developer sets up a power project for the collective use of multiple industrial or commercial consumers who have 26% equity in the project and must

*In a group captive setup, a developer builds the project under a special purpose vehicle and offers 26% equity to the consumer*

consume 51% of the power produced.

The primary advantage of a group captive model is that cross-subsidy, and additional surcharges are not levied on the power procured. Typically, in a group captive setup, a developer will build the project under a special purpose vehicle company and offer 26% equity to the consumer. Further, an agreement is entered into to buy back the shares on the termination of the procurement contract.

On the viability of group captive renewable energy projects, Manu Karan, vice president at CleanMax Solar, said, "Industrial and commercial consumers are looking to reduce power costs. For example, for a business like a data center, electricity is likely to be the highest part of the operational cost and reducing these costs will increase profitability. Today, a lever available to consumers to reduce power costs is renewable energy projects. The few models under which large consumers can buy open access power are - third-party sale, captive projects, and group captive projects. In the case of solar or wind energy, a third-party sale can attract charges between ₹2-3 (-\$0.03)/kWh, and the consumers might not want to take the risk of developing the project under the captive use model. In this situation, group captive renewable energy projects seem to offer a much more viable source to procure power from, due to reduced charges and the modular nature of solar and wind energy plants. Further, our clients have visibility on power costs by procuring electricity from renewable energy projects, so it acts as a hedge for them."

Recently, CleanMax Solar initiated the process to set up 150 MW of solar group captive projects to supply power to corporates in the state of Haryana.

On group captive becoming a more attractive solution for the open access

solar market, Guru Inder, director, and chief operating officer at Amplus Solar stated, "The 26% investment by the off-taker into the SPV which will develop the solar project would translate into real money being invested by them. This is an essential pre-condition of the group captive policy, and it ensures customer loyalty and interest in the project."

"The problem is that different states have diverse interpretations of the open access policy. The government has drafted a policy that aims to iron out these issues, and we are waiting for the policy to be approved," Inder added.

Another executive working for an open-access project developer said, "We feel that states are not keen on enabling consumers to access the third-party sale model, as they are charging extremely high wheeling, banking charges, and cross-subsidy charges. Therefore, the developers are looking at tapping into the open access market through the group captive model. States such as Karnataka, Tamil Nadu, Andhra Pradesh, Haryana, Uttar Pradesh, and Gujarat have good group captive policies. However, states like Maharashtra, Telangana, and

Rajasthan are still not up to the mark in terms of implementation of group captive projects."

In January 2019, the Central Electricity Regulatory Commission finalized the amended regulations for open access in interstate transmission, which were initially passed in 2008. Following this, Andhra Pradesh and Maharashtra also issued amendments to open access regulations.

For industrial consumers, captive solar projects make sense as most projects or manufacturing units have poor quality or small roofs, which may only allow them to meet 10-15% of their energy consumption whereas renewable purchase obligations (RPO) for these companies are much higher and many have also signed up for RE100 initiative. Further, given the lower cross-subsidy charges, group captive would be ideal for such consumers. Besides, the consumers having to fund a certain percentage of the project gives the developer a sense of comfort as well.

According to Mercom's interaction with the developers in the large-scale ground-mount solar sector, land acquisition and development approvals remain to be the most significant challenges for group captive projects. For now, group captive projects are becoming a more viable model of open access for developers in India. That said, it is not clear how long before the states try to thwart this market as they begin losing their top customers.

