

No.29/5/2010-11/JNNSM(ST)
Government of India
Ministry of New & Renewable Energy
(Solar Thermal Division)

Block No.14, CGO Complex, Lodi Road,
New Delhi-03, Dated: **30th June 2011**

To

The Pay and Accounts Officer
Ministry of New & Renewable Energy
New Delhi-110003.

Subject:- Implementation of a Payment Security Scheme (PSS) for Grid connected Solar Power projects under Phase I of Jawaharlal Nehru National Solar Mission (JNNSM) during the year 2011-12.

Sir,

I am directed to convey sanction of the President for implementation of a Payment Security Scheme (PSS) during 2011-12, as detailed in the **Annexure**, for grid connected solar power projects under Phase-I of Jawaharlal Nehru National Solar Mission, with Gross Budgetary Support (GBS) of not exceeding Rs.486.05 crore to MNRE in the event of default by State Utilities/Discoms from Plan Funds. The requirement of fund size has been estimated to be Rs.486.05 crore with requirements for the four years i.e. 2011-12, 2012-13, 2013-14 and 2014-15 being estimated as Rs.2 crore, 56.32 crore, 184.71 crore and 243.02 crore, respectively.

2. **Objective**

2.1 The main objective of the Scheme is to facilitate creating a Solar Payment Security Account (SPSA) and other necessary mechanisms as a payment risk mitigation strategy and to ensure financial closure of projects through NVVN under Phase 1 of the Jawaharlal Nehru National Solar Mission (JNNSM) by extending Gross Budgetary Support (GBS) to MNRE in the event of default by the State Utilities /Discoms.

3. **Salient Features of the Payment Security Scheme (PSS):**

- a) As per available provisions of PPA, NVVN will raise a provisional bill on last day of the month. Utilities would get 2% rebate if payment is made on the next working day. Due date of payment would be 30 days from the date of billing. If payment is not made by the 30th day, NVVN can notify default and encash the amount from LC. Utilities would open LC for 6 month equivalent amount which would be backed by an Escrow Account. In addition to encashing LC, NVVN has right to divert and sell the bundled power in the spot / short term market. In case, the realized amount from the market is lower than the cost of bundled power, the difference is to be paid from the Solar Payment Security Account (SPSA) provided under the

- aforesaid Scheme. Alternatively, NVVN can continue to supply power to the utility since the LC has six months equivalent amount. Even in case of diversion, the defaulting utility is not absolved of the liability to pay capacity charges.
- b) The PSS is perceived as a 'fall back' arrangement, and is envisaged to be accessed only when other payment security provisions available in PSA, such as, six months revolving Letter of Credit linked with an escrow account, have been exhausted.
 - c) A GBS of up to Rs.486 crore will be provided to MNRE for implementation of the PSS, which has been estimated for a default of 35% and based on capacity utilization factors on normative basis.
 - d) The funds for each year shall be allocated by MNRE into SPSA which could be deployed in the approved liquid securities with the approval of PSS Management Committee (PMC). However, resulting returns would be treated as accretion to the SPSA after taking into account the management fee of 1% to be provided to NVVN.
 - e) The entire exercise will be under supervision of the Member, Planning Commission.
 - f) NVVN shall charge a Trading Margin for selling the bundled power as fixed by CERC from time to time.

4. Implementation Arrangements.

4.1 The Scheme (PSS) will be implemented by the Ministry of New and Renewable Energy (MNRE) with the provision of NVVN opening the Solar Payment Security Account (SPSA) for this purpose and managing it as per mechanism/ provisions of the Scheme. NVVN will open a separate account called Solar Payment Security Account (SPSA) for implementing and operating the scheme. NVVN would be provided management fee of 1% of funds handling. NVVN shall draw money from the SPSA only to recover the difference between the tariff of bundled power and price realized from sale of this power in the short term / spot market, if the same is lower, and cost of power already supplied but not paid.

4.2 The MNRE will use the available budget head under its Demands for Grants 2011-12 for grid connected solar power till a separate budget head is allocated for JNNISM. NVVN will further ensure that the Scheme is implemented as per provisions contained in the enclosed **Annexure** and also issued from time to time in this regard by MNRE.

4.3. The GBS for each year shall be paid by MNRE into SPSA. The SPSA could be deployed in approved liquid securities with the approval of PSS Management Committee, returns from which, will be treated as accretion to the fund.

4.4. An amount equal to half the estimated annual corpus for the financial year shall be deposited into the SPSA in two installments every year – on 1st January and 1st July. The first amount of Rs 1.0 crore will be provided by the MNRE for

this account on 1st July 2011. As per estimates, the funds requirement pattern for the first phase of JNNSM is as follows:--

Funds Deployment Pattern	Incremental Fund Deployment (Cr)	Total Fund Capacity (Cr)
1 Jul 11	1.0	1.0
1 Jan 12	1.0	2.0
1 Jul 12	32.85	34.85
1 Jan 13	23.47	58.32
1 Jul 13	58.32	116.64
1 Jan 14	126.39	243.03
1 Jul 14	243.02	486.05

4.5 The balance in the SPSA shall be reviewed at the end of every six month and if found to be less than six months of the balance worked out for the financial year, shall be replenished promptly by MNRE to hold at least six months of the balance for the year. In case of an emergency, the SPSA administrator shall have the flexibility of approaching MNRE for an earlier disbursement of subsequent tranches for the financial year.

4.6 NVVN, the administrator of SPSA, shall maintain records of negotiations with third parties, including prevailing exchange prices during such periods in a format specified by CERC. MNRE and M/o Power shall reserve the right to verify such records through a Standing Committee comprising of representatives of Regional Power Committees and CERC, if they have reasons to believe that NVVN has not exercised due diligence in sale of bundled power to third parties. If it is established that for any period, NVVN has not exercised due diligence in sale of bundled power to third parties subsequent to default, the Standing Committee may recommend to MNRE a suitable reduction in disbursement from the SPSA, which will be complied with by NVVN. This reduction in disbursement shall not relieve NVVN of its obligations under the Power Purchase Agreement(s) with solar power developers.

5. **Monitoring Arrangement.**

5.1 The MNRE will undertake review / monitoring of the implementation of the PSS through a PSS Management Committee (PMC) under the Chairmanship of Secretary, MNRE and having representatives of M/o Power, M/o Finance and Planning Commission. The PMC shall have powers to issue any direction to remove difficulties with regard to implementation of this Scheme. The MNRE will also undertake monitoring of solar power projects to minimize defaults.

6. Necessary funds for implementation of this Scheme will be drawn from Demand No.68-Ministry of New & Renewable Energy, Major Head 2810-New & Renewable Energy, Minor Head: 101-Grid Interactive & Distributed Renewable Power, 01-Grid Interactive Renewable Power; 04-Solar Power, 31- Grants-in-aid General during the year 2011-12 (plan).

7. This issues under the powers delegated to this Ministry and with the IFD's concurrence dated 28th June 2011 vide their Dy. No.IFD/607/2011-12 dated 22.06.2011 and approval of the competent authority.

8. The sanction has been entered at S.No. 6 Page No.42 in the Expenditure Control Register.

Yours faithfully

(V.P. Madra)

Under Secretary to the Govt. of India

Copy to:

1. Cabinet Secretariat, Rashtrapati Bhawan, New Delhi, w.r.t. their letter No.21/CM/2011(i) dated 8th June, 2011.
2. Secretary, Ministry of Power, Shram Shakti Bhawan, New Delhi.
3. Secretary, Planning Commission, Yojna Bhawan, New Delhi.
4. Secretary (Expenditure), Deptt. Of Expenditure (Min.of Finance), North Block, New Delhi
5. Shri Arup Roy Choudhury, Chairman, NVVN, (NTPC Vidyut Vyapar Nigam), 7th Floor. Core 3, Scope Complex, 7 Institutional Area, Lodi Road, New Delhi-110 003
6. Shri Anil Kumar Agrawal, CEO, NVVN, Scope Complex,, New Delhi – with the request to take immediate action as per para 4.1 under intimation to MNRE to facilitate release of funds.
7. Director of Audit(CW &M), DACR Building, I.P Estate, New Delhi 110002.

Internal Distribution

1. PS to Minister, NRE
2. PSO to Secretary, MNRE
3. PA to AS&FA, MNRE
4. PSs to JS(SS) / JS(TK), MNRE
5. Adv.(ST)/Dir.(AK)/Dir.(Bh)/Dir.(AR)/Dir.(AKS)/Dir.(SR)/Dir.(F)
Dir.(P&C)/Sci.'B' (KT)/Sc.B (Chalpathi Rao)
6. Dir.(S))/US(VPM) with the request to take necessary action as per para 4.2.
7. Dir.(NIC) for uploading on the MNRE website
8. US(F)/US(P&C)/US(Solar)
9. Cash Section, MNRE
10. Sanction folder

(V.P. Madra)

Under Secretary to the Govt.of India

**Government of India
Ministry of New and Renewable Energy**

PAYMENT SECURITY SCHEME

It is proposed to implement a Payment Security Scheme to facilitate creating a Solar Payment Security Account (SPSA) and other necessary mechanisms as a payment risk mitigation strategy and to ensure financial closure of projects through NVVN under Phase 1 of the Jawaharlal Nehru National Solar Mission (JNNSM) by extending Gross Budgetary Support (GBS) to MNRE in the event of default by the State Utilities /Discoms. The main features of the scheme are as follows:

Governance of the Payment Security Scheme

1. The Payment Security Scheme (PSS) will be implemented by the Ministry of New and Renewable Energy (MNRE) with the provision of NVVN opening the Solar Payment Security Account (SPSA) for this purpose and managing it as per mechanism/ provisions of the scheme. NVVN will open a separate account called Solar Payment Security Account (SPSA) for implementing and operating the scheme. The MNRE will use the available budget head under its Demands for Grants 2011-12 for grid connected solar power till a separate budget head is allocated for JNNSM.
2. The GBS for each year shall be paid by MNRE into SPSA. The SPSA could be deployed in approved liquid securities with the approval of PSS Management Committee, returns from which, will be treated as accretion to the fund.
3. NVVN would ensure that while negotiating with the State Utilities/ Discoms, adequate safeguards are built into the agreements relating to 6 months Letter of Credit and the escrow mechanism to provide adequate security and comfort. NVVN will further ensure that the Scheme is implemented as per provisions contained herein and also issued from time to time in this regard by MNRE. All efforts shall be ensured to be made by various stakeholders for recovery of the defaults.

Disbursal from the Solar Payment Security Account

4. An amount equal to half the estimated annual corpus for the financial year shall be deposited into the Solar Payment Security Account in two installments on first of January and first of July of every year. The first amount of Rs 1.0 crore will be provided by the MNRE for this account on 1st July 2011. As per estimates, the funds requirement pattern for the first phase of JNNSM is as follows:

Funds Deployment Pattern	Incremental Fund Deployment (Cr)	Total Fund Capacity (Cr)
1 Jul 11	1.0	1.0
1 Jan 12	1.0	2.0
1 Jul 12	32.85	34.85
1 Jan 13	23.47	58.32
1 Jul 13	58.32	116.63
1 Jan 14	126.39	243.02
1 Jul 14	243.02	486.05

5. The balance in the SPSA shall be reviewed at the end of every six month and if found to be less than six months of the balance worked out for the financial year, shall be replenished promptly by MNRE to hold at least six months of the balance for the year. In case of an emergency, the SPSA administrator shall have the flexibility of approaching MNRE for an earlier disbursement of subsequent tranches for the financial year.

6 Under the Power Sale Agreement entered into by NVVN with distribution utilities, in case of default of payment by distribution utilities, NVVN has right to invoke Letter of Credit (LC) followed by the Default Escrow Agreement to mitigate the immediate payment liability. In case the default persists without replenishment of LC or Escrow, NVVN shall have right to divert the bundled power and sell to a third party.

7. If NVVN cannot meet a default by any distribution utility from the Letter of Credit and the Default Escrow Agreement, it shall have the right to approach the SPSA with a copy of the defaulted invoice and a certificate from NVVN confirming inadequacy of the Letter of Credit or Default Escrow Agreement. The SPSA shall disburse the required default amount in full to NVVN within 3 working days of receipt of demand from NVVN. In case of delay or shortfall in payment from the SPSA, NVVN shall be suitably compensated for delayed payment at rates similar to those provided under the Power Purchase Agreement of NVVN with solar power developers.

8. NVVN shall charge a trading margin for selling the bundled power as fixed by CERC from time to time. In case, the trading margin is freed by CERC from capping for the short term power, NVVN will charge a trading margin as mutually agreed with the State Utilities / Discoms.

Sale of Power to third party(ies) by NVVN in case of default by a distribution utility

9. Without prejudice to the above modalities with SPSA, in case of a default by distribution utility, not remedied by the established payment security mechanism under the Power Sale Agreement, sale of bundled power shall be undertaken by NVVN within the minimum possible time in the following sequence:

10. Pending bilateral negotiations with procurers, such power shall be sold in the power exchange(s) on a day-ahead basis within 24 hours from the point NVVN earns the right to divert bundled power for sale to third parties under the PSA.

- a) For bilateral sale, such power shall first be offered to the remaining non-defaulting procurers of solar power under Phase 1 of JNNSM at tariffs applicable under the contracted PSA. Sale of power at PSA contracted tariffs shall have attendant RPO benefits for the procurers.
- b) Bilateral negotiations for sale of balance power shall then be concluded with third party procurers no later than 7 days from the point NVVN earns the right to divert bundled power for sale to third parties under the Power Sale Agreement.

11. For the sale of bundled power to third parties in case of default, NVVN shall move swiftly to sell power in the short-term market by using its best efforts to realize the most favorable rates possible for such power. NVVN shall ensure that sale of bundled power to any third party through a bilateral contract shall, in general, not be lower than the average rate of NTPC unallocated power. This restriction shall not apply for power sold in the power exchange(s).

12. Negotiations for sale of bundled power to third parties should at the least cover the top three procurers of power in the power exchange(s) over the past month. NVVN shall maintain records of negotiations with third parties, including prevailing exchange prices during such periods in a format specified by CERC and shall submit the same to CERC on a monthly basis, with a copy to the administrator of SPSA. MNRE and MoP shall reserve the right to verify such records through a Standing Committee comprising of representatives of Regional Power Committees and CERC, if they have reasons to believe that NVVN has not exercised due diligence in sale of bundled power to third parties. If it is established that for any period, NVVN has not exercised due diligence in sale of bundled power to third parties subsequent to default, the Standing Committee may recommend to MNRE a suitable reduction in disbursal from the SPSF, which will be complied with by NVVN. This reduction in disbursal shall not relieve NVVN of its obligations under the Power Purchase Agreement(s) with solar power developers.

13. Under the prevailing conditions, the cost of bundled power is more than the average trading price of power, which may lead to shortfalls in payment obligations of NVVN towards NTPC and solar power developers even after third party sale. After considering the revenue realized from sale of bundled power to third parties (over and above NVVN trading margin and other regulatory and administrative costs incurred in supply of bundled power to third party), NVVN will approach SPSA to meet the full liability of solar power developers. The revenue realized from third party, shall be adjusted in the following order:

- a) NVVN trading margin, transmission charges and other regulatory and administrative charges, if any.
- b) Adjusting the subsisting liability of the defaulting distribution utility. Towards this end, the SPSA shall be credited with the realized amount and adjusted against the liability of the defaulting distribution utility.
- c) Surplus, if any, over and above the bundled tariff, shall be credited to SPSA for use against future liability in respect of the defaulted power.

Reimbursement of payments to the SPSA

14. The following amounts shall be paid into the credit of SPSA by NVVN.
- a) Recoveries made from distribution utilities against past liabilities shall be deposited into the SPSA within 3 working days of receipt of such amount by NVVN. In case of delay or shortfall in payment of such amount into the SPSA, NVVN shall suitably compensate for delayed payment at rates similar to those provided under the Power Purchase Agreement of NVVN with solar power developer.

- b) Revenue realized from third party sale of bundled power, over and above NVVN trading margin and other regulatory charges during a month and up to the subsisting liability of the distribution utility shall be credited into the SPSA by 7th day of the following month.

Monthly reconciliation of disbursal of payments from and amounts due to SPSA

15. From the commencement of supply of power by solar power developers, NVVN shall submit the following reconciliation details to the MNRE on the 7th day of each month.

- a) Details of defaults by distribution utilities and sale to third parties in the format specified by CERC
- b) Details of recoveries made from distribution utilities against past liabilities.
- c) Statement of surplus or deficit against funds received from SPSA and due to it on account of recoveries from third party sale or repayment by distribution utilities for the previous month and details of payment of such amount by NVVN into SPSA.

Review/ Monitoring of the Payment Security Scheme

16. The MNRE will undertake review/ monitoring of the implementation of the PSS through a PSS Management Committee (PMC) under the Chairmanship of Secretary, MNRE and having representatives of MoP and MoF. The PMC will be empowered to issue any directions to remove difficulties with regard to implementation of the proposed Scheme in consultation with Planning Commission. The MNRE will also undertake monitoring of solar power projects to minimize defaults.

17. The entire exercise will be under supervision of the Member, Planning Commission.