

50 GW renewable energy projects may seek tariff revision after GST rate rationalisation

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The reduction in GST rates on Renewable Energy (RE) equipment from 12 per cent to 5 per cent may prompt developers who have committed as much as 50 gigawatt (GW) capacity to seek tariff revision under 'Change in law' event.

For the said revision, a developer will have to move the Central Electricity Regulatory Commission (CERC). As per JM Financial, the rate rationalisation in RE is "structurally positive" as it reduces capex requirement for developers, thereby supporting lower tariffs in auctions.

"Discoms are likely to benefit from reduction in GST rates, as the change can be interpreted as a "change in law" event under regulatory provisions. This precedent was established in 2021 when GST on RE was increased from 5 per cent to 12 per cent, and the CERC ruled in favour of developers such as Beempow Energy, granting compensation to restore them to their pre-event financial position," the brokerage explained.

Applying the same prin-



OVERALL BENEFIT. The rate rationalisation in RE reduces capex requirement for developers, thereby supporting lower tariffs in auctions

ciple, the current GST cut should work in reverse, with Discoms expected to seek benefit of lower capex through reduced tariffs in under-construction projects, it added.

Currently, 158.45-GW RE projects—74.15-GW Solar, 30.08-GW wind and 53.75 GW of hybrid—are under construction.

JM Financial pointed out adding that out of these, around 50 GW was awarded recently.

"Discoms may seek revision in tariff in many of these projects, bringing one more challenge for RE developers in addition to recent ones like ISTS waiver, curtailment and localisation (PV cell and wind turbine)," the brokerage added.

CHANGE IN LAW

In September 2021, Beempow Energy, backed by O2 Power, was awarded a 350 megawatt (MW) solar project in Agar Solar Park in Madhya Pradesh. However, in the same month, the government increased GST on solar PV cells and modules from 5 per cent to 12 per cent effective October 2021.

Beempow approached the CERC, asking to recognise the GST hike as a change in law event and seek compensation and carrying costs for the period, which the regulator recognised and allowed the developer to seek compensation, JM Financial said.

The regulator stated that increase in costs due to change in law events have a direct bearing on debt and

equity required for setting up of the project. These components are integral to the all-inclusive tariff bid. "The Commission said that a change in law provision existed as a risk allocation to ensure that the affected party was restored to the same position before the event," the brokerage added.

COST IMPLICATIONS

A typical firm and dispatchable RE (FDRE) power project comprises 70 per cent goods and 30 per cent services, which were previously subject to GST rates of 12 per cent and 18 per cent, leading to a composite GST of 13.8 per cent, JM Financial pointed out.

With the current changes, the rate on goods has dropped from 12 per cent to 5 per cent, while the service rate remains at 18 per cent; lowering the overall GST rate from 13.8 per cent to 8.9 per cent.

For a 320-MW FDRE project, for instance, costs decrease from ₹4,750 crore to ₹4,440 crore, and the GST liability reduces from ₹490 crore to ₹220 crore, resulting in a tariff reduction from ₹4.5 per unit to ₹4.2 per unit, it added.