

FEBRUARY 2017

RENEWABLE ENERGY ALERT

Our Renewable Energy Alert is a monthly update designed to keep you up-to-date with the latest legal developments that could potentially impact your business.

We set out below a brief summary of some of the key legal developments impacting the sector during January 2017.

1. ARE WE HEADING FOR A ZERO GST RATE?

The Ministry of Power of the Government of India (the "MoP") on 16th January, 2017 made a proposal to the Goods and Services Tax ("GST") Council for a zero GST rate tax status or deemed export status on renewable energy under the coming GST legislation.

At present, excise duty is exempted on solar panels, but states levy between 0 to 5% of concessional value added tax and the center levies an additional 2% of central sales tax in case of the inter-state power supply.

It is anticipated that the new GST legislation will charge a GST rate of 18% on raw materials and services availed by renewable power producers.

This is likely to result in an increase in capital expenditure for renewable energy companies of up to 10-12%, which will require a tariff increase of between Rs. 30 to 40 paise for wind power projects and Rs. 40 to 50 paise for solar power projects to mitigate the increased costs.

The proposal also suggests bringing *all* hydropower projects in the category of *renewable energy*. Currently, only existing small hydropower projects below 25MW are considered as renewable energy projects.

2. SOLAR ROOFTOP – PERFORMANCE INCENTIVES TO DISCOMs

The Ministry of New and Renewable Energy (the "MNRE") has come out with a Performance Incentive Scheme (the "Scheme")¹ to provide financial support to power distribution companies² ("DISCOMs") to promote and increase the installation of rooftop solar systems ("RTS") within their distribution areas.

This Scheme intends to stimulate India's ambitious target of adding 175 GW of renewable energy capacity by 2022 under which it is anticipated that 40 GW of renewable energy capacity is to be added from rooftop solar power installations.

¹ <http://solarrooftop.gov.in/notification/Notification-08112016901.pdf>

² DISCOMs will also include private sector DISCOMs.

Under the Scheme, DISCOMs will be provided with a maximum grant of up to Rs. 37.5 lakh per MW of RTS installed up to 1,350 MW of capacity.

This grant can be used by the DISCOMs to upgrade and modernise its distribution network, facilitate demand aggregation and develop consumer awareness programs. This grant will be *exclusive* of any other central or state grants to DISCOMs.

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