



Incentive Structures

Coverage

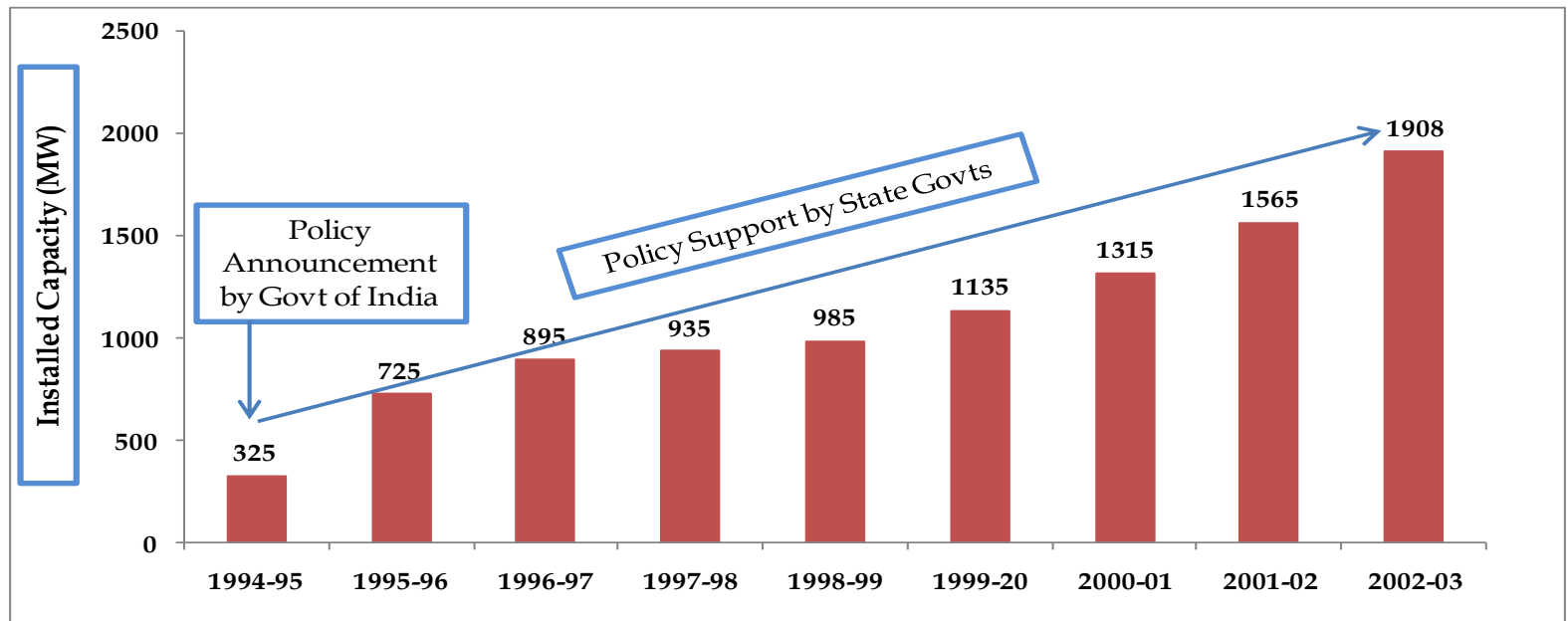
- Incentives – Growth Path
- Need of Incentives – Till when?
- Issues, Recommendations & Discussions
 - Regulatory
 - Financial and Fiscal/Tax



Incentives- Growth Path

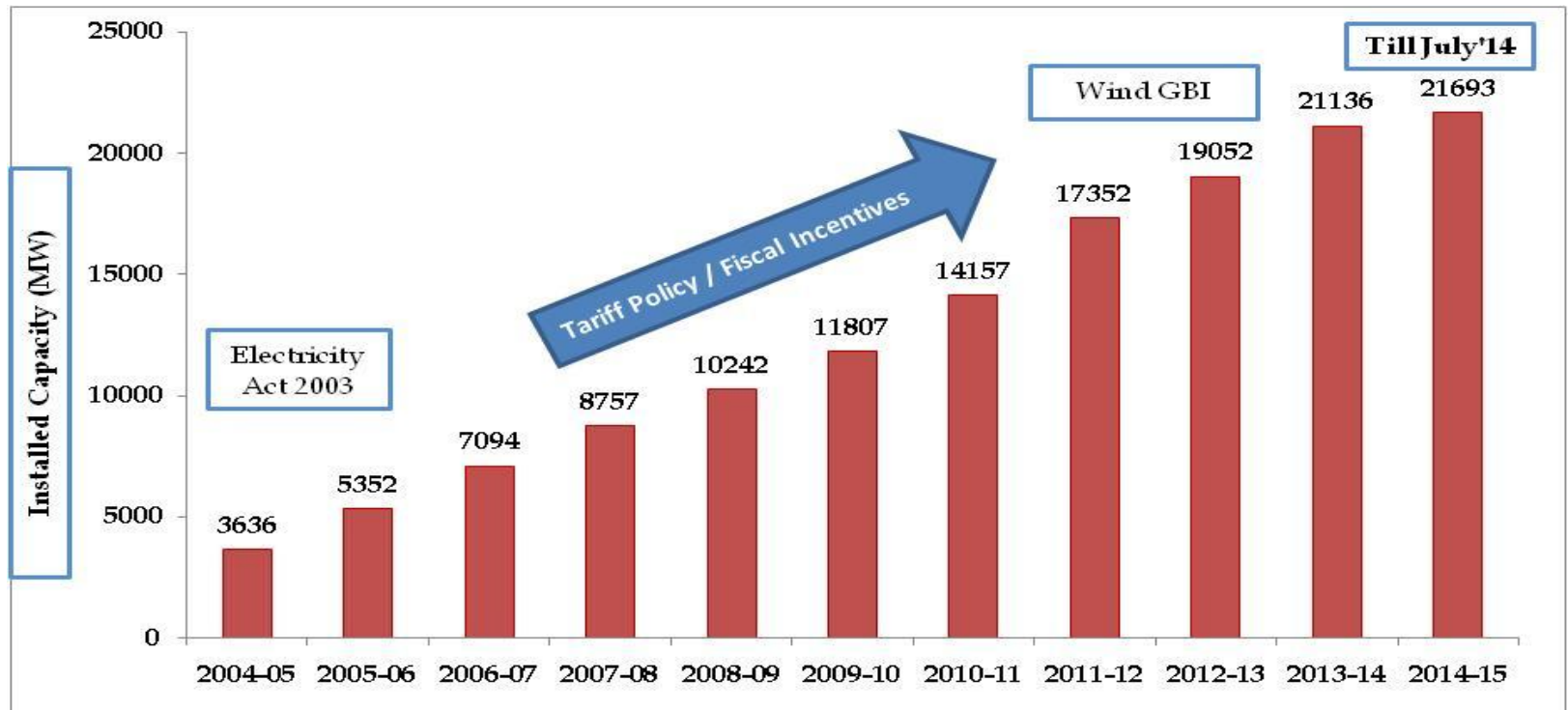
- ✓ Incentives Prior to EA'03
- ✓ Incentives Post EA'03
- ✓ Wind Vision - 2030

Incentives – Prior to EA'03



From Central Government	From State Government
Income Tax Holiday	Energy buyback, power wheeling and banking facilities
Accelerated Depreciation	Sales tax concession benefits
Concessional Custom Duty / Duty Free Import	Electricity tax exemption
Capital/Interest Subsidy	Capital Subsidy

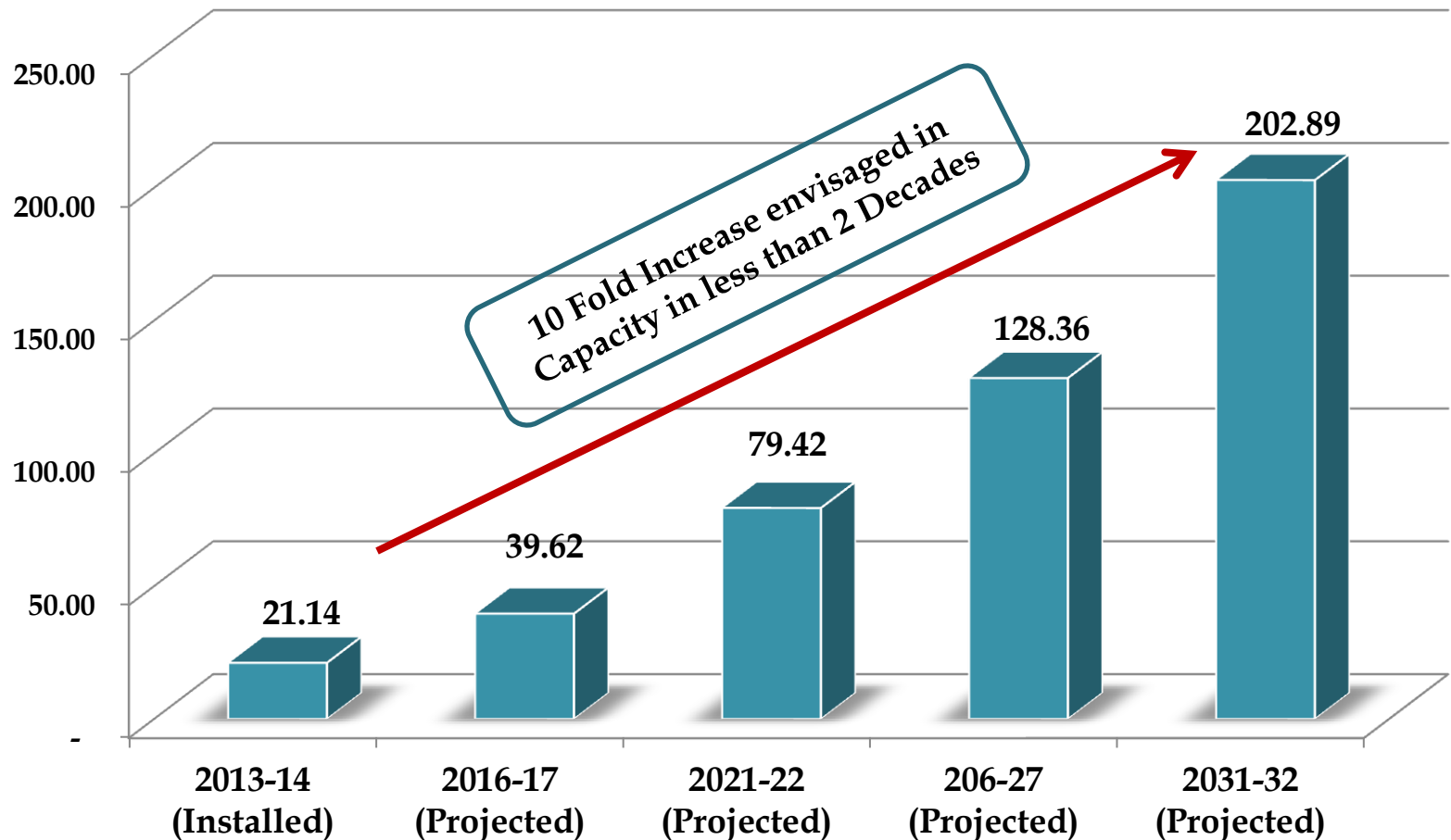
Incentives – Post EA'03



- Conducive Policy and Regulatory Framework ensured continued development of Wind Sector.
- Growth rate for the last 2 years has been sluggish due to uncertainty over GBI post FY 2012-13 and withdrawal of AD.
- With new GBI scheme being notified by MNRE, and restoration of AD, the growth rate is again picking up.

Wind Vision – 2030

Wind Capacity in (GW)



The CAGR for increase in capacity addition from 21.14 GW in FY 2013-14 to 202.89 GW in FY 2031-32, works out to 13.39%



Need of Financial Incentives: Till When?

Need of Financial Incentives

- Wind Vision – 2032 of 200 GW is an ambitious target
- Whether prevailing level of Incentives sustainable?
- Such huge capacity addition possible, if wind power becomes competitive with minimal financial incentives support
- An attempt has been made to ascertain the time by which the Wind FiT would become comparable to the average power purchase cost of the DISCOMs and thus, would no longer require any financial incentive

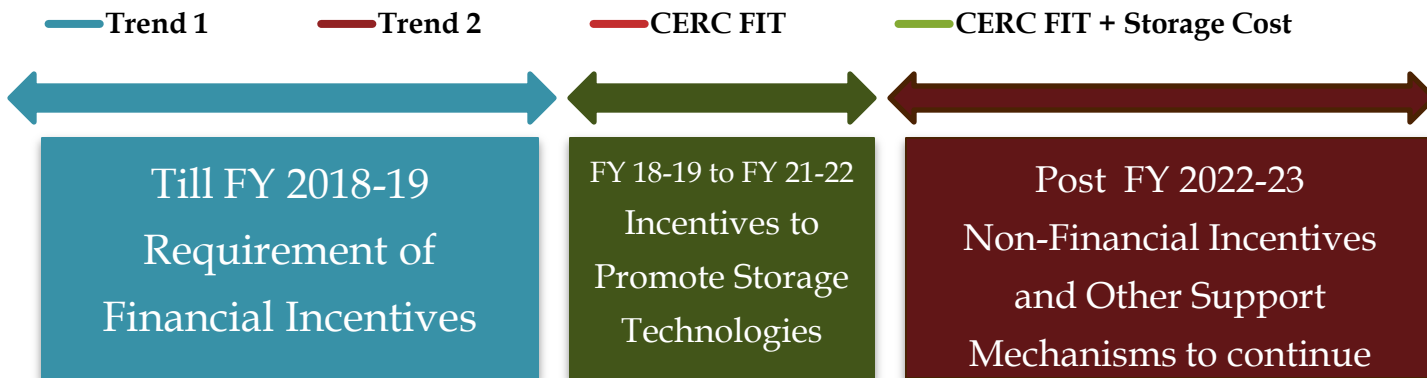
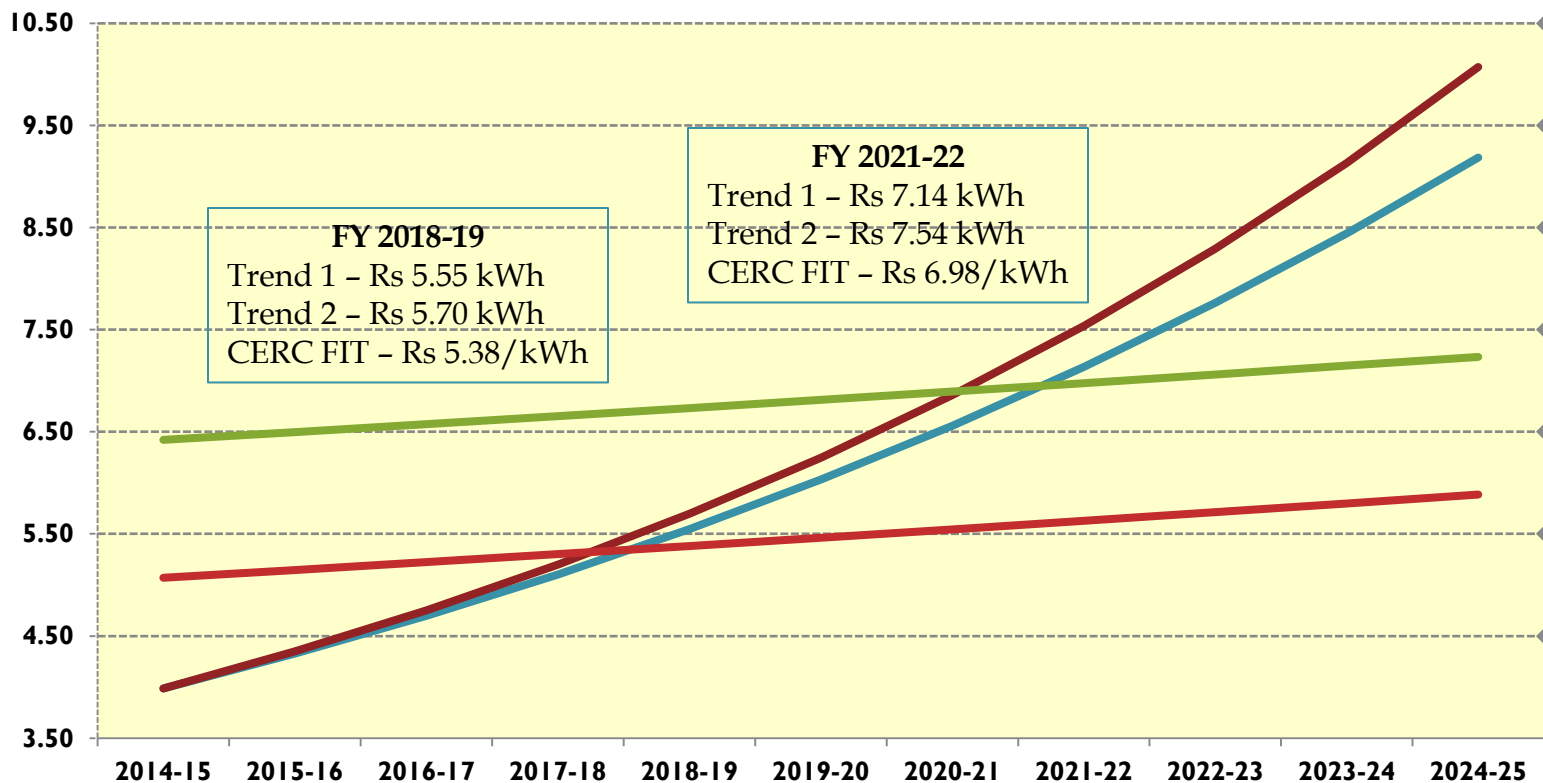
Need of Financial Incentives

- A comparative analysis of forecast combined average power procurement cost of major (Wind rich) States vis-à-vis Projected FiT of Wind as per CERC Norms

Broad Assumptions

- State-wise Energy Demand Projection: As per 18th EPS of CEA
- Weighted Average Power Purchase Cost Projection: Based on 10 Year (Trend Line 1) and 5 Year (Trend Line 2) CAGR of average Power Purchase Cost
- CERC Wind FiT: Rs. 5.07/kWh escalated by 2% per annum
- Storage Cost: Rs. 5.40/kWh (as per IEA)
- Storage Requirement: 25% of the Installed Capacity

CERC FiT vis-à-vis Average Power Purchase Cost



Discussion Point

- Should the Government continue Financial/Fiscal Incentives only till Grid Parity
- Whether Grid Parity would necessarily indicate complete rollback of Incentives having Financial implications for Govt



Regulatory Incentives:
Issues, Recommendation and
Discussion Points

Regulatory Incentives

- **Feed in Tariff (FiT)/Preferential Tariff**
 - One of the main factor behind significant growth of RE sector in general and Wind sector in particular
 - Nearly, all SERCs have determined their FITs
- **Open Access, Banking & Wheeling Arrangement**
 - Not per-se Incentives, but 'special dispensation' by Regulator
 - No direct financial impact on DISCOMs,
 - Financial burden is indirectly spread out to broader consumer base.
 - Favourable Banking and Wheeling arrangement essential for promotion of inter-state transaction of renewable power.

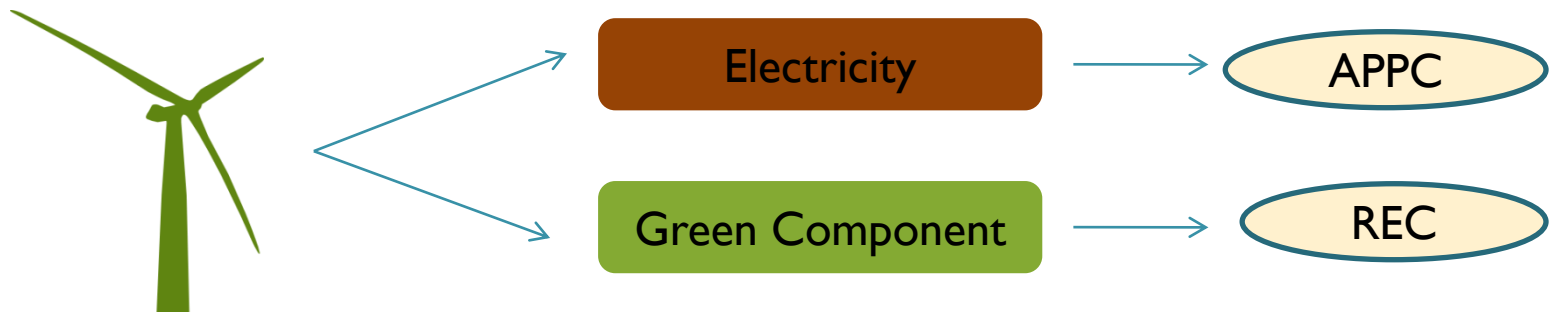
Regulatory Incentives

- **RPO Mechanism**

- Provision of certain % age of electricity consumption by eligible entities through RE source
- SERCs have issued RPO Orders/Regulations specifying % for mandatory RE procurement obligations

- **REC Mechanism**

- Separates the two components-Electricity & Green Component
- Electricity Component meets energy demand and Green Component is converted into tradable RECs



RE Policy and Regulatory Recommendations

Wind FiT Determination –CERC Vs SERCs

Issues	Recommendations
Variation in Wind FiTs approved by SERCs and CERC	Uniform Tariff Regime
Variation in Indexation mechanism for capital cost considered by SERCs & CERC	Uniform mechanism for Indexation
Principle for computation of levellised tariff	Broad consensus across Regulators for developing a nation-wide framework.

Zone wise tariff Vs Single Tariff

Issue	Recommendation
Consideration of same CUF at all sites within the same State	Zone wise wind tariff determination to push capacity additions in low wind zones

RE Policy and Regulatory Recommendations

Rationalization of Open Access Regime

Issues	Recommendations
Delays in granting connections in Open Access	Entire procedure should expedite
Accounting issues in lower than MW size transactions	Appropriate M&V system should be developed
Management of UI charges - Provision of scheduling	

- Need for building national level Consensus on OA Regime for RE / Wind related Transactions – Captive and Third party Sale
- Promotion of Inter-State RE/Wind power sale through introduction of national / regional level OA Framework.

RE Policy and Regulatory Recommendations

RPO Compliance and REC Mechanism

Issues	Recommendations
Lack of Penalties for non-compliance with the RPO by the obligated entities	Strict penalties for Non-compliance
Lack of a uniform mechanism for M&V of RPO	Appropriate guidelines for SNAs for M&V of compliance with RPOs.
Lack of clarity about the application of RPO to OA and captive-power consumers	Enable SERCs to specify RPOs for OA and captive consumers in addition to distribution licensees
RECs are treated as Regulatory instruments	RECs should be made a Statutory instrument

Discussion Points

- **FiT/Preferential Tariff**

- Standardisation of SERCs capital cost / financial parameters in lines with CERC Regulations
- Desirability of Zone-wise tariff within the State to push capacity additions in lower wind zones

- **Open Access (OA) Regime**

- Need for building national level Consensus on OA Regime for RE / Wind related Transactions – Captive and Third party Sale
- Promotion of Inter-State RE/Wind power sale through introduction of national / regional level OA Framework.

Discussion Points

- **RPO Compliance**

- Whether 'Incentivising Compliance & Penalising Default' would motivate cash-strapped Discoms to comply?
- **Does Wind Vision 2032 - 200 GW require the impetus of Separate Wind RPO, similar to Solar RPO?**

- **REC Mechanism**

- Differentiation between APPC and Non-APPC based Projects - Multiplier based RECs affecting capacity addition
- Exploring possibility of Bilateral / Multilateral transactions of RECs to improve bankability?
- Visibility of Floor/Forbearance Price Mechanism for longer tenure (10-20 years) with values to be fixed periodically



Financial and Tax Incentives:
Issues, Recommendation and
Discussion Points

Financial Incentives

- **Generation Based Incentive (GBI)**
 - GOI, with IREDA as the nodal agency, introduced GBI scheme for Grid-interactive wind power projects
 - The scheme was rolled back in 2012 but re-introduced in 2013
 - New scheme applicable on Wind projects commissioned on or after April 2012, available for entire 12th FYP, with a target of 15,000 MW
 - Incentive of Rs 0.50 per unit, with a cap at Rs 10 million per MW (not exceeding Rs 2.5 million per MW per year)
 - For a minimum of 4 years and a maximum of 10 years
 - Incentive will be over and above the applicable tariff approved by respective SERCs.

Tax Incentives

- **Accelerated Depreciation (AD)**
 - One of the most significant drivers aimed at capacity additions
 - Mainly targets small/medium size captive consumers
 - Speeds up the depreciation in value of wind projects in the FY after CoD and hence significantly reduces tax liability
 - Allows producers of RE Power to claim AD in first year on written down value
 - Reduction in AD rate has affected wind capacity installation
 - **Restoration of AD in FY 2014-15 would again boost the Wind Sector**

Tax Incentives

- **Tax Holiday**

- Sec 80-IA provides exemption to wind project developers from income tax on all earnings generated from the project
- Applicable to a project for period of 10 consecutive assessment years during the first 15 years of the project life
- The book profit from such undertaking, however attracts MAT @18.5% of book profits.

- **Others**

- Concessional Custom Duty on Imports
- Excise Duty exemptions
- Exemption in CST
- Exemption from ED, Stamp Duty, VAT in certain States

Recommendations on Tax Provisions

Direct Tax Code (DTC)

Issues	Recommendations
Large & complicated structure	Ensure that the DTC continues to provide the tax holiday as provided under the current direct tax laws to some categories of infrastructure projects
No Clarity on the proposed DTC - whether income tax holidays currently enjoyed by various RE projects will be continued	

Goods & Service Tax (GST)

Issues	Recommendations
Cascading Tax Structure	Simplification in the structure
No Excise Duty Exemption	Extend the exemption
Negative list of Services	Defining of Appropriate categories

Recommendations on Other Provisions

RE Law in India

Issues	Recommendations
Legislative support for RE development is inadequate	Few important amendments are to be done in RE policies
Inconsistent RE policies across states	Pass the RE Act enabling all necessary provisions
Inadequate empowerment to MNRE	RE Act to be administered by MNRE

Discussion Points

- Policy clarity on GBI and AD with clear road map of phasing out
- Extend Tax Benefit for Investment in Wind Sector to individual Tax payers also
- Structures such as Real Estate Investment Trust should be promoted in Wind Sector
- Incentivise Discoms and other Off-takers by weighted higher deduction on expenses on Wind Power Purchase
- Link Central Assistance/ Grants/ Low-cost Financing to Discoms to Wind Power off-take and RPO compliance



THANK YOU



For more information, please contact :
Wind Discussion Forum Secretariat
C/O IDAM Infrastructure Advisory Services Pvt. Ltd.
801, Crystal Plaza, 158, CST Road, Kalina, Santacruz(EAST), Mumbai - 400 098 India.
Telephone : + 91 22 4057 0201 Website : www.idaminfra.com