

Power Pulse: Wind energy auctions

Contact:

Madan Sabnavis
Chief Economist
Madan.sabnavis@careratings.com
91-22- 6754 3489

Ashish K Nainan
Research Analyst
Ashish.nainan@careratings.com
91-22-6754 3443

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
91-022-6754 3515

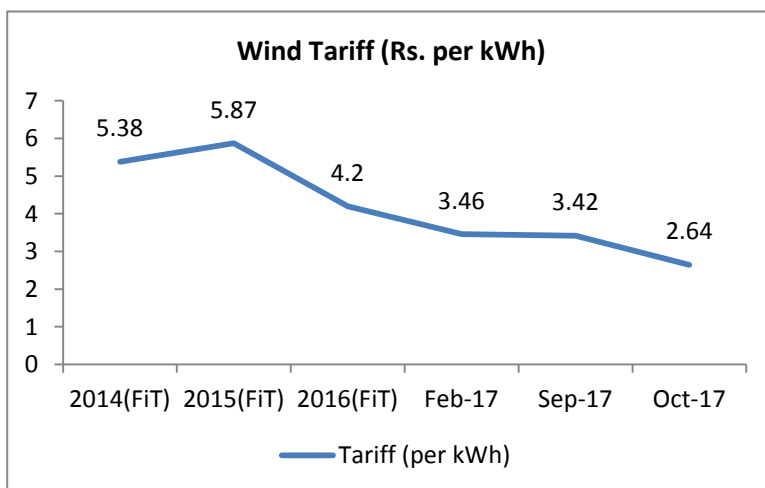
The wind tariff in India touched lowest level of Rs.2.64 per kWh in the second wind auction conducted by the Solar Energy Corporation of India (SECI) on behalf of Ministry of New & Renewable Energy, Government of India. The tariff discovered is much lower than first wind auction concluded at Rs. 3.46 per kWh in February this year.

Five winners were selected for a total of 1000 MW capacity of wind power projects. The projects are to be commissioned within 18 months from the date of issue of Letter of Award by SECI to successful bidders.

Tariff trends:

India's wind energy sector transitioned from a Feed-in-Tariff (FiT) regime to competitive auctions for tariff. Under Feed-in-tariff regime, a fixed price is decided by State and Central Electricity Regulatory Authority to be paid to the wind power producers.

The latest wind tariff also comes on the back of solar tariffs witnessing a record low of Rs. 2.44 per unit in May for 500MW in Rajasthan which later firmed up to Rs. 2.65 per unit in the September auction by Gujarat Urja Vikas Nigam.



Source: CERC & State ERCs

The lowest wind power tariff prior to the latest auctions was in the range of Rs. 3.82-4.16 under the FiT regime as set by specific States.

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In the first auction held in February 2017, four companies won rights to set up 250MW wind projects each at a tariff of Rs. 3.46 kWh and Power Trading Corporation was the buyer of power. The second auction held by Tamil Nadu Generation and Distribution corporation Limited (TANGEDCO) for 500MW of wind power capacity with a set ceiling for tariff at Rs. 3.46. The lowest tariff discovered was Rs. 3.42.

The latest auction for wind energy brings the tariff for the two renewable energy source i.e. wind and solar energy at par.

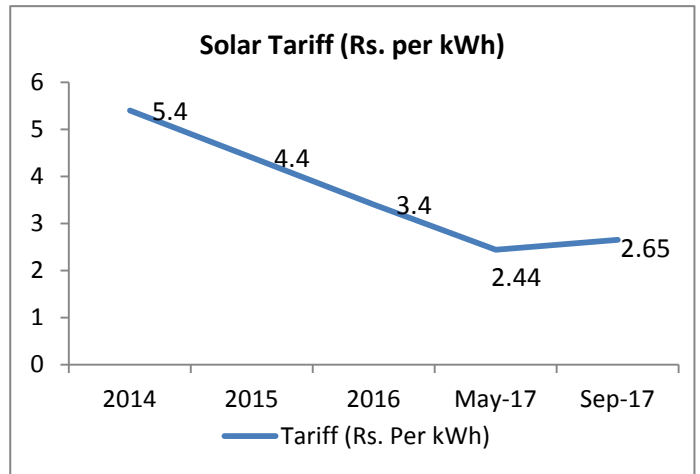
For the renewable sector, these tariffs may become new benchmarks, even though some industry participants have raised doubt on viability of these projects.

Higher competition for wind projects owing to limited capacity addition in the recent past is one of the major factors for heightened tariff war. This tariff pricing may have also accounted for correction in wind turbines prices, improved efficiency of turbines (higher plant load factor) and better financing mix which includes longer duration of funding as well as lowered cost of debt.

Engineering services which include setting up of wind projects witnessed a higher tax incidence of 18% under GST, up from 12% earlier. The initial fears of the GST impacting tariff may now be put to rest.

CARE Ratings View:

- Viability of these projects would depend on project execution capability of the firms involved. This includes land acquisition to set up projects in areas with grid connectivity.
- The lower tariffs are an outcome of fierce competition due to limited capacity addition in the wind energy renewable segment.



CORPORATE OFFICE:

CARE Ratings Limited (Formerly known as Credit Analysis & Research Ltd)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022; CIN: L67190MH1993PLC071691
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457
E-mail: care@careratings.com | Website: www.careratings.com

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