

India RE Weekly

Karnataka takes the lead in addressing duty concerns

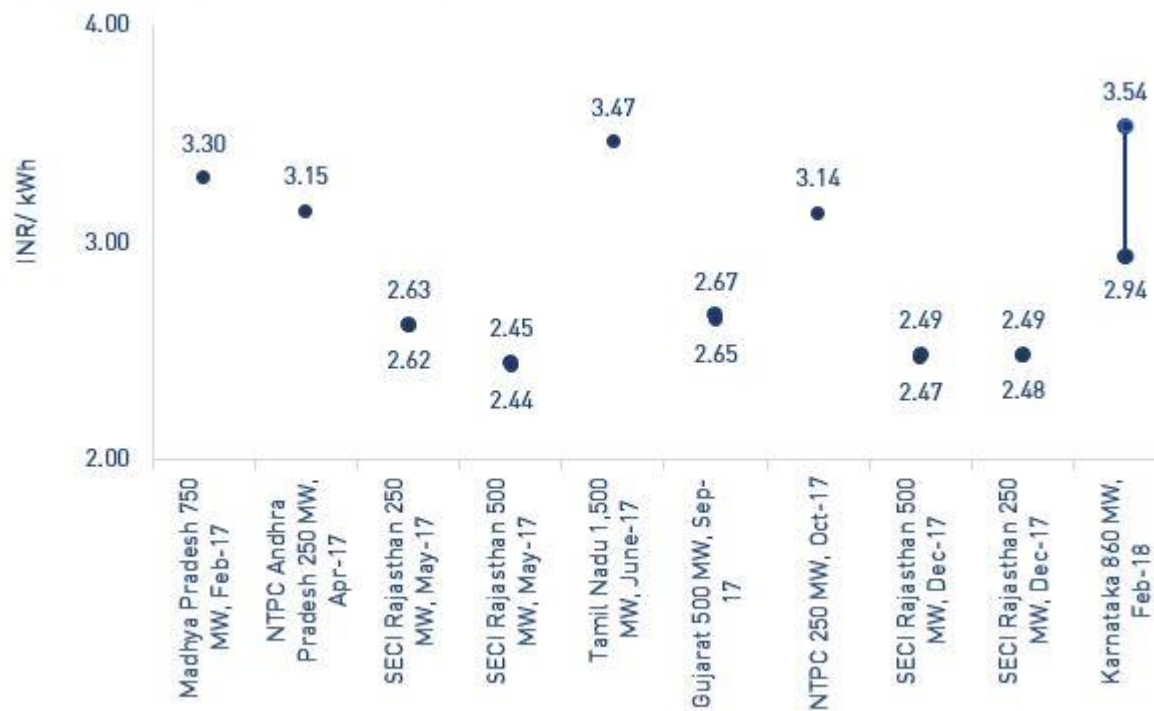
Karnataka announced results of an 860 MW state solar tender last week. 11 developers have won 48 projects aggregating 760 MW at tariffs ranging between INR 2.94 - 3.54/ kWh. Big winners include Shapoorji Pallonji (185 MW), Acme (106 MW), ReNew (99 MW), Asian Fab Tech (85 MW) and Greenko (45 MW). Prominent losers include Aditya Birla, Avaada, Orange and EdF. 100 MW of the allocated capacity was reserved for domestic module manufacturers, but we expect this to be cancelled in view of the ongoing WTO dispute. We understand that no bids were received for the remaining 100 MW capacity

- Karnataka is the first state to absorb complete risk of any change in duties and we expect other procurement agencies to follow suit;
- Taluk-based bidding model remains unique to the state;
- The state's aggressive RE procurement is puzzling as its total RE capacity is set to exceed base load by 32% by 2019;

In a big relief to developers, Karnataka offered to assume complete risk of any change in taxes and duties arising after submission of bids. As we commented in our recent report on anti-dumping duties, duties pose a major risk to financial viability of solar projects. No other state or central agency including SECI has offered this concession so far but we expect Karnataka's position to become an industry standard position over time.

Lack of a solar park and direct DISCOM offtake meant that the tender was dominated almost entirely by local developers, who accounted for most of the 4x subscription. Moreover, winning bidders were selected on the basis of the lowest bids. Absence of e-auctions provided much-needed respite to developers as the winning tariffs are amongst the highest in more than 16 months.

Figure: Winning tariffs in recent solar auctions



Source: BRIDGE TO INDIA research

Karnataka is a pioneering state in the solar sector in many respects. It is the largest state in the country in terms of policy-based, utility scale installed and pipeline capacity totalling 3,754 MW as of December 31, 2017. The state also has a uniquely attractive open access policy. And it remains the only state in the country to adopt taluk-based bidding. The 860 MW tender is only the second tender of its kind, where up to 20 MW capacity is proposed to be developed in each of the 43 earmarked taluks across the state (a taluk is a sub-district level administrative area) in a bid to evenly spread solar capacity across the state and manage grid stability issues.

All this still begs the question – why is Karnataka installing so much solar capacity? Including this 860 MW tender and other ongoing SECI and state tenders, Karnataka will have procured a total of 5,810 MW of solar power by 2019. By that time, the state is expected to have a further 1,500 MW of open access solar, 200 MW of rooftop solar and almost 4,000 MW of wind capacity, raising total RE capacity in the state to 11.5 GW. By comparison, the state's average power requirement is only 8.7 GW. The state is storing up big trouble for the years to come.