# GST: competitiveness to quell power costs

India is the world's third-largest producer and fourth-largest consumer of electricity. In the last couple of years, the power sector witnessed record capacity addition taking the installed generation capacity to more than 330 GW.

Considering its role in developing the economy and in achieving universal electrification, the Central and State Governments have always given special tax treatment to the power sector in the past. But post GST, that trend may not continue.

The GST Act has kept electricity out of its ambit while keeping the capital goods and services consumed by the sector under its coverage. Power generating companies will hence not be able to claim input tax credit — that is, they cannot pass on the tax they paid for inputs to the consumers.

There is also no benefit of input tax credit in respect of state VAT on inputs used in the process of power generation and distribution. So, the cost of power will come embedded with taxes on power generation equipment and other inputs.

A marginal rise in the power tariff is therefore inevitable at least in the short to medium term.

Though the Engineering, Procurement and Construction (EPC) contracts could see a reasonable decrease as works contract gets subsumed into service tax, they cannot avail input tax credit on contracts for the same reason that electricity is outside the GST regime.

As for the renewable sector, there will be an increase in cost of generation to the extent of 5-10%, due to the increased tax incidence on many of the components that go into the manufacturing of solar PV systems and wind generation systems.

According to an estimate by the Ministry of New and Renewable energy, the cost of setting up solar off-grid projects will rise by 16-20%, after GST. There will be an about 16% increase in solar PV grid installations and a 11-15% jump in the cost of setting up of wind energy projects. As far as biomass and hydro projects are concerned, the increase in project cost will be about 11-14% and 11% respectively.



**Positive impact**

But the GST does come with its own benefits. Domestic coal, for instance, has been brought under the 5% tax slab — in the past, the tax slab for coal varied from 11% to 12%. This comes as a much needed breather for a majority of private sector thermal power generators who are struggling with low returns. It is estimated that the variable cost of generation for coal-based power companies will be decline by 5-6 paise a unit, or about 1% of the current open market tariff.

The impact of GST will be positive for the electrical and the lighting sectors that will enjoy reduction in indirect taxes — from about 30% to 18%. India has announced a major initiative to achieve an all Electric Vehicle Regime by 2030. Towards this, the GST at 12% for Electric Vehicles compared with 28% for diesel /petrol vehicles and hybrids is a major step.

The fallout of the programme will give a major boost for the demand pick-up. With more and more charging stations coming up, electricity demand should go up by a few hundred gigawatts by 2030. This indeed is a welcome move.

While the government needs to rationalise the tax structure and pave the way for the seamless flow of input tax credit, eventually market competitiveness of power generators — public or private, conventional or renewable — could absorb the increase, relieving consumers of the burden.

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**This is the final instalment of a six-part series on GST implementation across industries. The series has been facilitated by the Confederation of Indian Industry**

***Variable costs for coal-based power generation will decline***

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