How this year's Budget can bring India closer to its green energy target

By Vibhuti Garg, ET CONTRIBUTORS Last Updated: Jan 21, 2022, 05:48 PM IST

Synopsis
The 2022-23 budget will likely see the government attempting to lower its fiscal and current account deficit, providing a huge push for domestic manufacturing to reduce reliance on expensive fossil fuel imports. The government will build on new energy initiatives already actioned during 2021 in response to the COVID-19-induced crisis and to boost economic growth.

Budget 2022 could put in place the necessary supports for India to complete the third successful chapter of its renewable energy story.

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Budget 2022: Highlights

There is much to look forward to in the 2022-23 Budget. The government has already set a target to achieve 500 gigawatts (GW) and a 50% share of energy from non-fossil fuels by 2030, backed up with a net-zero emissions by 2070 pledge delivered at COP26.

As the government would know, in order to achieve these ambitious targets, the renewable energy sector will require substantial government financial support in the form of targeted subsidies, import tariff restrictions, interest-free loans, better tax structures and careful policy framing for both the states and discoms.

The 2022-23 budget will likely see government attempting to lower its fiscal and current account deficit, providing a huge push for domestic manufacturing to reduce reliance on expensive fossil fuel imports.

The government will build on new energy initiatives already actioned during 2021 in response to the COVID-19-induced crisis and to boost economic growth. That includes the production-linked incentive (PLI) scheme for renewable energy including batteries to boost domestic manufacturing, the greening of Indian railways, priority sector lending to renewable projects, and the provision of further capital to the Solar Energy Corporation of India (SECI) and the Indian Renewable Energy Development Agency (IREDA).

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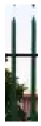

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EXPERT'S TAKE

India is currently 4th largest in installed wind power and 5th largest in installed solar power in world. Overall India is 4th largest country in terms of installed renewable energy. India's renewable energy sector has a share of ~38% in total installed generation capacity (149GW as of Oct-21) in the country. After looking to achieve 175GW target earlier than expected, the country has revised and set an ambitious target to achieve a capacity of 227 GW worth of renewable energy by the end of 2022, which expands to 450 GW by 2030. This is the world's largest expansion plan in renewable energy. Almost adding ~33GW each year or a CAGR of ~13% for next 9 years. Having 26GW of tenders already in pipeline with various supportive measures to sector including 100% FDI, PLI Scheme, dedicated investment outlay of $70-80Bn etc the sector should continue to maintain momentum in medium term. -- Narendra Solanki, Head- Equity Research (Fundamental), Anand Rathi Shares & Stock Brokers

In its previous Budget, the government approved 10GW of integrated manufacturing capacity for 'High Efficiency Solar PV Modules' with a financial outlay of Rs 4,500crore (US$616 million) using the production-linked incentive (PLI) scheme.

The bid received a tremendous response from the industry and forced India's central government to reconsider. They eventually increased the PLI amount for solar module manufacturing with an additional Rs19,000 crore (US$2.5 billion)) confirmed.

It is hoped that in Budget 2022/23 the PLI scheme will be extended to include the manufacturing of polysilicon, wafers, and ingots as well, to ensure backward integration. Doing so will reduce India's reliance on imports across the value chain.

Cabinet recently approved a fresh equity infusion of Rs1,500 crore (US$205 million) into the Indian Renewable Energy Development Agency (IREDA) to boost its lending capacity. Such a move demonstrates again the government's commitment to assisting local bodies help achieve the country's 450GW renewable energy target.

Despite its ongoing support to the sector, more can be done.

Additional government financial support is needed to in[...] and development of new energy technologies such as battery[...] hydrogen, hydro, offshore wind, and so forth.

Renewable energies such as solar and wind are now price competitive in India – and cheaper than coal or gas-powered generation.

Battery storage however – critical for integrating increasing renewable energy into the grid - is still an expensive technology.

The government must offer essential viability gap funding for new energy storage projects, and emerging green hydrogen and offshore wind projects. Once these technologies are more established, the government can leave the price determination to the markets.

Further, the transmission and distribution network will soon require strengthening. The government should urgently plan for modernizing and digitalizing the transmission system for better integration of new renewable energy capacity into the grid.

India is lagging behind its 40GW solar rooftop installation target by 2022. In order to facilitate uptake, in Budget 2022/23 the Government should offer more capital subsidies and concessional loans, particularly to Micro, Small and Medium-sized Enterprises (MSMEs) and residential customers.

Budget 2022/23 could put in place the necessary supports for India to complete the third successful chapter of its renewable energy story.

Necessary government financial and policy support for newer clean energy technologies will determine the level of success in which India is able to achieve its renewable energy target.

(Vibhuti Garg, Energy Economist, Lead India at the Institute for Energy Economics and Financial Analysis -IEEFA)

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