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Budget 2022: What to expect for the renewable energy industry

The budget must address the key areas that could galvanize the RE sector and inject fresh momentum to India's Energy Transition.

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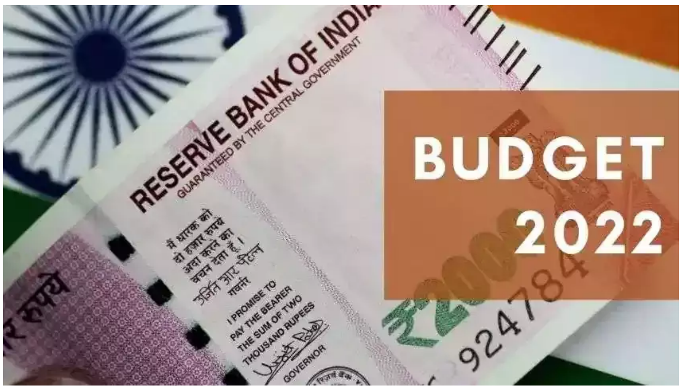

New Delhi: The Union Budget 2022 comes at an interesting juncture for the Indian Renewable Energy sector, with the government having set a firm Net-Zero target. The freshly revised target of generating 500 GW from renewables and non-fossil fuels accounting for half the country's electricity mix by 2030 augurs well for the growth of the Clean Energy sector. However, to realize this ambitious vision, the Government must focus on a few critical enablers. That includes ensuring a stable and consistent policy framework, encouraging steady flow of affordable capital from domestic and international sources, crafting structural solutions to ensure the long-term financial viability of state Discoms, designing appropriate incentives in the form of supports, mandates, rationalization of import duties, and promoting research & development in emerging technologies to catalyze their adoption at scale in India. We look forward to the Budget addressing the following key areas that could galvanize the RE sector and inject fresh momentum to India's Energy Transition:

Reverse the recent hike in GST rates for RE devices and parts from 5% to 12% as this impacts solar installation costs. Bring generation and sale of electricity under the ambit of GST as this will help bring down input costs and ultimately benefit the end customer. Defer levying the Basic Customs Duty on imported modules by 1-2 years, as domestic manufacturing is still at a nascent stage in terms of quality and capacity. This will ensure there are fewer disruptions and cost escalations in the commissioning of current pipeline of projects.

Promote a robust domestic manufacturing ecosystem through a mix of: a) subsidies for setting up R&D infrastructure, b) interest subvention on term loans and working capitals and c) tax holidays. Budgetary allocation for the PLI scheme should be augmented and its scope should be widened to include indigenous manufacturing of Hydrogen Electrolysers and Fuel cells, Batteries, and the entire value chain for Solar modules from polysilicon, ingots, wafers, cells to modules

Announce steps to encourage adoption and scale-up of emerging technologies such as higher efficiency Solar modules, Green Hydrogen and Battery Storage. This should include slashing import duties on Electrolysers and lithium-ion batteries, provision of Viability Gap Funding and low-cost finance for pilot projects, introduction of targeted Purchase Obligations for DISCOMS and mandated use levels for Green Hydrogen in hard to abate sectors such as Refining and Fertilizers. The government should also announce tax concessions for industries investing in these technologies, specifically from an R&D perspective. The State should also announce more innovative tenders for RTC, Peak power and Wind-Solar Hybrid projects.

Distribution continues to be a chronic problem and an Achilles heel for the sector. The Budget should introduce some long-term policy measures aimed at sustained improvement of the financial health and operational efficiency of DISCOMS so that they are able to upgrade their infrastructure, cut losses and settle their dues to generators on time. This will ease the massive liquidity crunch across the sectoral value chain and spur fresh investments. At the same time Government should look to
dilute the current monopoly of DISCOMS and introduce some degree of choice for the end consumer by facilitating privatization. The Government should also take steps to ensure sanctity of contracts so that recent cases of arbitrary renegotiation of PPAs do not occur in future – this is an extremely important step to restore investor confidence in the RE sector.

Increase allocation of funds for strengthening and modernizing the grid for enhanced integration of Renewable Energy which by nature, is variable and reduce curtailments. Focus on developing a robust evacuation infrastructure so that Renewable power can be carried from RE rich regions to those where demand is high

Long-term and cost competitive financing is vital for growth of the RE sector. RE should form a separate category under priority sector lending, including hybrids, energy storage, hydrogen projects and not be clubbed with thermal power. This will ensure a higher flow of funds from banks and financial institutions. Budget should announce additional capital outlay for SECI and IREDA to boost lending to this sector.

Drive growth of distributed RE, e.g., Rooftop solar by encouraging its enhanced adoption by residential and C&I segments through incentives like tax rebates and concessional loans, and announce a consistent policy framework across the country to incentivize distributed generation by removing the current barriers that exist in many stares.

[This piece was authored by Srivatsan Iyer, Global CEO, Hero Future Energies]

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