circ
Enhancing Knowledge, Strengthening Capacity
CIRC Issue Note
07 July 2014

Modi's Maiden Motion: What's 'New' for Renewables?

Given BJP's thrust on renewable energy in its election manifesto and the solar developments in Gujarat under the leadership of current Prime Minister, the expectations were high among energy enthusiasts. The issue note seeks to find out whether the budget 2014-15 has met those expectations.

There had been keen anticipation on what the new government would signal about its energy policy in its maiden budget. BJP manifesto had already indicated party's thrust on renewable energy as an important component of India's energy mix and passion to strengthen the national solar mission. Moreover, given the solar developments in Gujarat under the leadership of current Prime Minister, the expectations were high, at least among energy enthusiasts. Has the 2014 budget met those expectations? Does it make any noteworthy departure from the past?

Describing new and renewable energy as a 'high priority', in an energy starved country, is certainly a departure from the past rhetoric. A Rs 1,000 crore allocation for solar energy development and excise duty exemption for renewable components seem equally serious and impressive. The package may appear attractive, but are the contents well thought and bundled? Let's look into each of the announcements and their implications.

First, the budget makes an allocation of Rs 500 crores for ultra-mega solar projects (UMSPs) in Rajasthan, Gujarat, Tamil Nadu, and Ladakh. The announcement may be seen as an extension of previous government's proposal to set up four UMSPs in Rajasthan, Gujarat, Kargil and Ladakh.[1] Yet, will the 500 crores be proved as an effective incentive? The budget does not offer any clue on utilisation of this fund. At best, as Viability Gap Fund (VGF), this amount can only support a mere 200 MW capacity addition, not even a single UMSP. Any incentive smaller than the VGF of 2.5 crores/MW may not be attractive to the private developers.

Second, with an allotment of Rs 400 crores, the budget envisions installation of 100,000 solar powered agricultural pumps and pumping stations. The idea of running all 28.5 million irrigation pumps (19.5 million electricity-run and another 9 million diesel-run) with solar power is certainly brilliant as well as ambitious. It will not only solve India's energy problem, but also save about US$ 6 billion every year in electricity and diesel subsidies.[2] The proposed figures may sound impressive; but the measure is not any novelty. Erstwhile Ministry of New & Renewable Energy has been subsidising solar pumps since 2000 (80% of capital costs till 2004 and reduced to 30% afterwards). It had later launched a scheme to install 10,000 solar pumps with a capital subsidy of 40% at an expense of Rs 228 crores.[3] Some state governments already have much higher subsidy in place; Punjab offers additional 40% subsidy, Tamil Nadu and Rajasthan offer a total subsidy of 80% and 86% of

[1] BS (2013): Centre plans 4 solar UMPPs of Rs 90,000 cr, *Business Standard*, 12 November, available at www.business-standard.com/article/economy-policy/centre-plans-4-solar-umpps-of-rs-90-000-cr-113111100790_1.html, last accessed on 12 July 2014.

[2] Pearson, N O & Nagarajan G (2014): Solar Water Pumps Wean Farmers From India's Archaic Grid, *Bloomberg*, 08 February, available at www.bloomberg.com/news/2014-02-07/solar-water-pumps-wean-farmers-from-india-s-archaic-grid.html, last accessed on 12 July 2014.

[3] See http://mnre.gov.in/file-manager/UserFiles/scheme-SPV-water-pumps-NABARD.pdf, last accessed on 12 July 2014.

the cost respectively. With the allotted amount, there could be provision for only 10% of the capital cost. However, it is not clear whether this will be additional to existing central subsidies. If not, then it will clearly fail to offer any incentive. Moreover, the target of 100,000 pumps (as annual target) is really modest.

Third, the budget also makes provision of Rs 100 crores for development of 1 MW solar parks on the banks of canals. Canal top solar plant is certainly an innovation from the Modi camp and it does address a major challenge of land acquisition. But, the budget does not specify how the funds will be utilised. Using the fund as capital subsidy may not achieve much capacity addition. However, using it for land development and evacuation infrastructure and offering the land to developers at a cheaper price may attract more investment and capacity addition.

Fourth, as a commendable move, the budget increased the clean energy cess from Rs 50 to Rs 100 per tonne of coal mined or imported. The collectibles will contribute to the National Clean Energy Fund (NCEF), which was announced in the budget 2010-11. Though the primary objective of NCEF is 'funding research and innovative projects in clean energy technology', it has been used for all sort of purposes, like supporting VGF under JNNSM, Green India Mission and subsidising solar water heaters, but research and innovation. There have been criticisms that NCEF is ill-utilised and directionless.[4]

With the new rate, the Coal India Limited is expected to shell out about Rs 5,200 crore in the current fiscal. Together with the cess from other sources, including imports, this is emerging as a bountiful amount. The implication is unclear at this stage, since there is no information on how the funds will be utilised. The Finance Minister has indicated that part of this fund may be utilised to accelerate the Green Energy Corridor project. However, the fund could be best utilised by sticking to the original objective of promoting substantive research and innovation in clean energy so that the cost could be brought down.

Finally, the budget also announced excise duty exemption for renewable energy components, including EVA, backsheets, tempered glass and copper wires used in solar modules and forged steel rings used in wind. The manufacturers, particularly of solar PV, had been questioning the inverted duty structure for imported solar components that attracted an excise duty of 12.36% till now, whereas the finished goods had lower duty or no duty at all. This seemed to have put the domestic manufacturers at a disadvantage. The new move offers some respite to the manufacturers, whose cost of production may reduce in the range of 2-5%.

At macro level, for renewable energy sector, the budget 2014-15 seems to be a continuation from the past, possibly what any other or the UPA government may have presented if it had returned to power. At the micro level, however, there seems to be some incremental developments, but no clear direction. The canal-top solar plants are lucrative and possibly effective for energy security, but we also need roof-tops for energy access. The UMSPs will certainly contribute to energy affluence, but may not effectively address the energy poverty. Additional generation may end up catering to the growing urban energy demand, while the unconnected rural poor may be left out.

To address this, in coming months, the government need to come out with effective and at par incentive structure for off-grid renewable energy development to foster energy access and promote substantive research and innovation in renewable energy. While the aggregate budget allocation seems impressive, disaggregated incentives fall short of impactful. Overall, it is a good beginning from a new government, but the government needs to promote further innovation, offer directions and take follow-up actions to make the incentives impactful.

[4] Paliwal, A. (2013): "Crores to Gamble", *Down to Earth*, available at www.downtoearth.org.in/content/crores-gamble, last accessed on 12 August 2014.

The Issue Note is prepared by **Ashwini K Swain, Fellow, CIRC.**