

## Solar goal for 2022 too hot to handle

India had been on track to meet its target of 100 Gigawatt (GW) of solar energy capacity by 2022 but momentum has been severely eroded in the last few months, according to industry players. Issues such as uncertainty around import duties and future tax rates on existing power purchase agreements have dampened investor sentiment.

“If you look at the trajectory India is on, [with] regard to solar capacity addition, real volumes have started to come and it’s accelerating too,” Andrew Hines, co-founder and head of business development (South India), Cleanmax Solar, told *The Hindu*. “If that trajectory is to continue over the next few years, it will certainly be possible to get to that number.”

“A valid question is whether we are still on that trajectory or not, or whether we can expect volumes to grow at the same speed or not,” Mr. Hines added. “In the last 3-4 months, people’s confidence in that trajectory has weakened somewhat because of trade issues, to do with anti-dumping duties and safeguard duties”

The Director General (Safeguards) had earlier this year recommended imposing a 70% safeguard duty on imported solar cells, panels and modules for a minimum period of 200 days. No decision has been taken yet on this, but the proposal is causing a lot of uncertainty in the industry because of the higher costs this would result in.

“The 70% safeguard duty proposed will also inflate project costs by 25% and crank up the viable tariff to Rs. 3.75 per unit from Rs. 3 estimated earlier, making solar power less attractive to discoms,” Subodh Rai, senior director, Crisil Ratings, said in a release. “That would also be more than the average power purchase cost [for] 10 out of 14 discoms last fiscal.”

“It will obviously impose significant costs on developers,” Mr. Hines said. “Already the goal looks difficult and then you’re looking at imposing import duties on the primary materials of these projects, so of course that’s going to have an impact. The uncertainty around that is a concern for industry.”

### ‘GST is a dampener’

“[In the latest] Budget, we were hoping for a lot of things to happen, which did not take place,” Gyanesh Chaudhary, MD and CEO of Vikram Solar said. “In the pre-GST regime, we had zero tax on solar panels. Now it is 5%. There is a lot of confusion surrounding the GST on project execution. We need clarity on that. In a VUCA [volatility, uncertainty, complexity and ambiguity] environment, what do investors and financiers need? They need some sort of certainty.”

“With the advent of anti-dumping and the prospect of safeguard duties, and so many changes, it becomes that much more uncertain.”

Ashish Khanna, CEO and ED, Tata Power Solar said, “While I agree that FY18 has been a good year as far as the installation of large-scale projects and the focus towards solar pumps are concerned, this recent phenomena of the last few months with regard to uncertainties of customs duty, and certain investigations taken by the government especially regarding the safeguard duty, I think, are not helping the environment.”

Last year, the global capacity addition in solar stood at 105 GW, according to Mr. Chaudhary, who added that India was in third place in terms of how much its market has grown over the year.

“What’s lacking is an effective ecosystem to make this happen in a speedy and time-bound manner,” Mr. Chaudhary said. “It’s riddled with a lot of complications and a lot of noise from the industry as well, where everybody wants protectionism. China has done nothing like that. It has created a bottom up approach where 60-70% of the global manufacturing in solar is from China.”

“They have built this huge ecosystem that is fuelling the growth,” he added. “Out of 105 GW last year, 52 GW came from China, so you can imagine the kind of installation that is happening there.”

The problem in India is that uncertainty surrounding tariffs coupled with a large target means that the road ahead to 2022 will be a tough one. Industry players across the board have said that they are waiting for more certainty before they bid for more projects or expand their existing projects.

“The installation base in solar in India has touched 20 GW,” Mr. Chaudhary said. “Our targets are 100 GW of solar by 2022. So, that gives us effectively four years. In the last 10-12 years, we have come from 10 MW to 20 GW. Now we have to do 20 GW every year to achieve the target, so it’s pure maths. Unless there is some serious might behind this, the target looks unlikely to be met.”

“We need to go into the details of what has happened,” Mr. Khanna said. “In the case of bids, certain tariffs are decided upon but there was uncertainty over the incidence of future taxes and how they would affect the tariffs. Developers are not in a position to take a guess regarding the future statutory changes that are beyond their control.

“And, they cannot mitigate that risk by keeping a margin in the bid.” Another major issue that is causing industry players to slow their investments is the incidence of State governments trying to renegotiate past power purchase agreements due to lower tariffs being discovered subsequent to the signing of their PPAs.

### **Renegotiation by States**

“The renegotiation of renewable power purchase agreement (PPA) tariffs by quoting high tariffs is not an apparent option available with State discoms,” India Ratings and Research said in a report. “Although there is no anecdotal evidence of cancellation of renewable PPAs in contravention to possible exit clauses available in PPAs, there have been instances of lower-than-contracted payments or grid curtailments. There is no direct evidence of PPA cancellation due to higher tariffs, except in Uttar Pradesh... However, additional clarity will attract investments in the sector.”

The report added that anecdotal experience shows high power cost (that States had signed off on) as the sole reason for the proposed renegotiation or cancellation of PPAs.

Solar power tariffs plunged to Rs. 2.44/kWh in May 2017 from Rs. 5.10 in June 2015. “It did hurt investor sentiment,” Mr. Chaudhary said. “There were a couple of cases where this was tried, but it didn’t fly with the courts. If something like that were to happen, it would crush the industry because there would be no surety.”

The other aspect that will likely hold up India’s achievement of the 100 GW target for solar is the rooftop solar component within this target. Out of the total, utility scale capacity is to make up 60% of the target and rooftop solar is to make up the remaining 40%.

“If the total achievement in solar is 20 GW today, then about 18 GW of that is probably from utility scale. On the rooftop side, I think the volumes installed today are modest. It’s less than 2 GW,” Mr. Hines said.

In other words, the utility scale segment has achieved 30% of the 2022 target with four years to go. The rooftop segment has achieved less than 4%.

***Of the 20 GW solar capacity installed, only 2 GW has come from the rooftop segment***

***Andrew Hines***

***Co-founder, Cleanmax Solar***

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