A case for continued support for green energy

Going by recent reports, it appears that the Union government is contemplating withdrawing all kind of incentives that are being provided to renewables-based electricity by 2022. It is said that there will not be any targeting of renewable energy after 2020 (presumably no renewable purchase obligations, or RPOs, after 2022). Moreover, the draft National Energy Policy 2017 proposes gradual withdrawal of the provision of "must run" status and other support such as non-

levy of interstate transmission charges. The sharp reduction in bids for solar and wind power forms

the basis of the argument that now these technologies are ready to face markets.

If this is really the direction being pursued, there is an urgent need to view things in the right perspective. While the record low prices of solar power in the recent past have been on account of very low global prices of solar photovoltaic modules and accessories, there have been other underlying reasons as well. For instance, in the case of the Rewa solar park, the fact is that a payment security mechanism was put in place along with provisions for guaranteed uptake of electricity from the solar park. These critical aspects in turn helped bring down the cost of capital that constitutes about 70% of renewable electricity prices. Or the fact that the Solar Energy Corp. of India wind power auction contained three very crucial elements: (i) power purchase agreement with PTC (India) Ltd (and not the distribution utility, thereby providing security of payment against the sale of electricity as well as assured offtake of electricity); (ii) waiver of inter-state transmission charges; and (iii) compensation for system losses till the interconnection point by allowing for construction of 5% additional capacity. The point, therefore, is that these low prices are the result of several facilitating measures. Of course, one has still to see how sustainable these tariffs are insofar as businesses are concerned.

Even with the provision of "must run" under the regulation and with RPO in place, there have been several cases of curtailment in off-take of renewable energy in states like Tamil Nadu and Rajasthan. So under the circumstances, the proposition of doing away with such provisions appears to be totally counter-productive to India's ambitions in this field. Or it may be the case that the outcomes of recent solar and wind auctions have lulled officials to complacency, a classic malady of taking success for granted—of assuming that things will continue to move in a certain way but ignoring the key parameters that helped chart out that direction in the first place. Undoubtedly, a good policy framework has to have sunset clauses for incentives but withdrawals must also be nuanced and gradual, arrived at after taking into account their long-term implications on the sector.

If these were not enough to send mixed signals to the clean energy community, we have the Economic Survey 2016-17, volume II, that was released by the ministry of finance recently. The survey talks about the "social cost" of renewable energy in comparison to that of coal-based power generation. Besides other cost parameters, including health and environmental costs, the survey includes "the opportunity cost of stranded conventional power assets" as one of the components of the social cost. Thus, the losses incurred by investors and lenders due to the underutilization of coal power plants becomes the most significant contributor to renewable energy's social cost, making it three time more expensive than conventional power. At best, this is strange logic. According to Central Electricity Authority figures, the share of renewable electricity in India's total electricity generation was around 7.6% between April 2016 and March 2017. Surely this cannot be the reason for below-par plant load factors of coal power plants.

Second, by the same logic, no disruptive transition to better and more efficient technologies would ever be possible because during the transition stage, the older assets are bound to be underutilized or in a sense, financially stranded. Let us take, for instance, the UJALA, or Unnat Jyoti by Affordable Lighting for All, scheme that aims to promote efficient use of energy. This

whole UJALA campaign must also be rendering manufacturers of incandescent lamps in a state of financial stress, so is that being factored in while estimating the social cost of LED lamps? And what about the present thrust on electrical vehicles that surely would result in the supply chain of conventional automobile components becoming stranded assets? And how transparently does this "social cost" dispensation take into account the cost of longer term impacts of different alternatives? How accurate are the cost-components and how close are the assumptions to Indian realities? Public health in any case is always heavily discounted in all such calculations.

A good policy regime tries to balance these seemingly divergent viewpoints and provides direction for long-term and sustainable solutions for larger public good. This is particularly critical when the decisions made today could have far-reaching implications for generations to come. Besides, basing such decisions on anecdotal premise rather than on sound analytical evidence could very well jeopardize the momentum that renewable energy sector in the country has gained. What message are we trying to give investors and developers with such pronouncements? It appears as if there is a lack of cohesion within different arms of the government, leading to conflicting signals. This, however, needs to be managed quickly to avoid the serious implications such mixed signals could have on our commitment to achieve about 40% of installed power capacity from non-fossil fuels by 2030.

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