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How Covid-19 can affect India's energy transition goals

We must use this critical juncture to push for positive reforms and overdue structural changes to build a resilient electricity future

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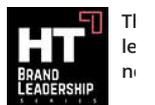
ht Ashwini K Swain



The government continues its protective impulse on coal – seeking to maintain production, substituting coal import and promote sales – likely because workers, some poorer states, and key sectors like railways are heavily dependent on the coal economy. (MINT)

As we stare down the Covid-19 pandemic, the crisis has put the trend towards an energy transition at risk. While some fear that the transition may be left flat, others are optimistic that it will get supercharged by this cataclysm.

India moved to the forefront of the global energy transition with a target of 175-gigawatt (GW) renewable energy (RE) capacity by 2022. This is likely to undergo an upgrade to 450 GW by 2030. Simultaneously, policy interventions are being planned to push electric vehicles, energy



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storage, smart grids and other modern energy technologies and practices. Will the pandemic-induced economic contraction topple India's energy transition priorities?

First, disruptions in the global supply chain for clean energy technologies is a key impediment. A long-haul to restoration will not only cause delays but also increase component costs by eliminating global manufacturing surplus. India, with modest 3 GW manufacturing capacity, depends on Chinese manufacturers for about 80% of our solar cells and modules.

Chinese manufacturers and India's ministry of new and renewable energy (MNRE) are hopeful of a speedy revival. The ministry has offered a blanket extension of the lockdown period plus 30 days to ongoing projects and is making efforts to ease the movement of materials. Besides, MNRE has sought land sites suitable for RE manufacturing and export services hubs.

Second, the downtrend in fossil fuel prices and demand shrinks the cost advantage RE has gained in recent years. Crude oil prices have declined, even gone negative for one memorable day, while coal prices are also under pressure. For example, India's kerosene subsidy bill came down to zero in March and the LPG subsidy cost (excluding the three free refills being provided to Ujjwala consumers during the lockdown) reduced to nearly zero in May. The coal ministry has removed surcharges, quantity restrictions, and advance payment requirements to maintain demand, and may even cut prices.

The government continues its protective impulse on coal – seeking to maintain production, substituting coal import and promote sales – likely because workers, some poorer states, and key sectors like railways are heavily dependent on the coal economy. By contrast, the Centre seized the moment with the oil price drop to increase the excise duty on petrol and diesel to boost tax revenues. Will the net effect government's use of tax and subsidy instruments benefit fossils or work to keep RE cost competitive?

Third, global capital has been increasingly enthusiastic about an energy transition but the pandemic may open alternative investment opportunities. India's RE development has largely been financed by foreign and private capital that may shrink if the pandemic worsens. Domestic public capital, constrained by lock-ins to non-performing energy assets, have limited capability to finance energy transition. Will the RE transition suffer for want of financing?

Fourth, the decline in electricity demand will likely shrink the space for new RE. Distribution utilities are struggling to keep up with surplus power purchase contracts. In the wake of the lockdown, a few states attempted to invoke force majeure clause and stop withdrawal from RE plants. However, the Centre mandated 'must-run' status and regular payments for RE in order to keep it going. Further, India signalled its continued support for RE by completing tenders for 2 GW of solar power even amid the lockdown. The government could go even further by retiring old and polluting coal plants to create space for RE.

The Centre's efforts to protect RE are important signals in favour of sustaining the energy transition. Further, a draft bill to amend the Electricity Act, notified amid the lockdown, may add additional safeguards, such as provisions for a national RE policy, stricter compliance

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mechanism for renewable purchase obligation, and an Electricity Contract Enforcement Authority that may protect RE and other generators from threats of renegeing. Beyond these prompt signals, India needs a strategic approach to sustain the transition to a 21st century energy future. Here are three key steps in that direction:

First, while firm national targets are essential, the centralised approach to enforcement in the proposed amendment is misplaced. It is crucial to engage with political economic opportunities and constraints in the states and let the states chart their transition pathways. While the Centre should focus on creating incentives, the states must step up to tap them and unwind the chronic lock-ins. For example, the transition offers opportunities to manage the rising burden of recurring tariff subsidy on the states through one-time support to clean energy infrastructure for the poor.

Second, in planning the post-Covid-19 recovery, energy transition could be a catalytic force for rebooting the economy while redirecting energy in the direction of more resilience. For example, we need more health infrastructure, to manage the health emergency, that can be energy resilient through decentralised clean energy.

Finally, the pandemic is exacerbating the weaknesses in India's electricity system, thus causing tensions in the transition. Both fossil and RE systems will need stimulus to sustain the impacts. It is not a question of which technology to support, but a choice between different configurations of technology, politics and institutions. Our focus should not be on restoring the pre-Covid configuration and underlying low-level equilibrium in electricity. Rather, we must use this critical juncture to push for positive reforms and overdue structural changes to build a resilient electricity future.

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