Solar power tariffs

Why in news?

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The recent falling of solar power tariffs should be welcomed, but it remains to be seen whether producers can deliver at those rates on a sustainable basis.

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What is the background of the issue?

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- Tariffs plunged to a new low of Rs2.44 per kilowatt-hour (kWh) last week during an auction for 500 megawatt (MW) capacity at Bhadla solar park in Rajasthan.
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- Tariffs in the solar space have declined significantly over the years and have come down from levels in excess of Rs10 per kWh at the beginning of this decade to the present record lows.
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- Along with this there is an increase in capacity addition which is likely to touch 8.8 gigawatt (GW) in 2017.
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- This is an increase of 76% over 2016 which will make India the third biggest solar market in the world.
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What are the reasons behind the fall in tariffs?

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- For one, the government has set an ambitious target of attaining 100 GW of solar power capacity by 2022.
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- Consequently, the total installed capacity in this space has gone up by over three times in the last three years.
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- According to government data, the share of renewable energy in the total installed capacity was 13% at the end of financial year 2016.
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- Second, private sector participants want to be part of this big opportunity if it means lower returns on investments.
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- Third, developments in the sector, such as the fall in price of solar panels and the availability of finance, are also helping.
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- Solar power tariff has also been declining on account of sharply declining prices of solar panels, better structuring of the project that reduces risk for project developers and better currency hedging deals that make financing available at competitive cost.
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What are the drawbacks in the fall?

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- The fall in tariffs may make adjustments difficult for conventional power producers like thermal.
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- The rise in cheap supply from renewable sources would affect the demand from conventional power suppliers.
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- A hit in revenue will hurt the ability of thermal power companies to repay loans, which would mean more trouble for the banking sector.
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- The latest rates in the solar power space are among the lowest in the world; it remains to be seen if they can be sustained in the long run.
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- It remains to been seen as to how low the solar power tariff can go and whether producers are actually able to deliver at that rate on a sustainable basis.
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Source: Live Mint

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