

Cabinet approves Viability Gap Funding Scheme for battery energy storage systems

On September 6, 2023, the Union Cabinet provided its approval to the Scheme for viability gap funding for development of battery energy storage systems (“**BESS**”) (“**Scheme**”). This Scheme (please refer to the [link](#) for the Cabinet approval to the Scheme) has been approved in line with ‘National Framework for Promoting Energy Storage Systems, August 2023’ which was released by the Ministry of Power on September 1, 2023 (please refer to the [link](#)), with the objective to encourage development and deployment of energy storage for addressing the concern of variability of energy generation in renewable energy (RE) sources. As part of the comprehensive framework, the government had recommended various policy and regulatory measures, including financial incentives by way of viability gap funding (“**VGF**”) for BESS.

Summarised below are the salient features of the Scheme:

1. Financial Outlay

The initial financial outlay for development of the Scheme is INR 9,400,00,00,000 (Indian Rupees nine thousand four hundred crore) and this will include a budgetary support of INR 3,760,00,00,000 (Indian Rupees three thousand seven hundred sixty crore). The amount of INR 3,760,00,00,000 (Indian Rupees three thousand seven hundred sixty crore) will be equivalent to provision of financial support of up to 40% of the capital cost in the form of VGF to the developers of BESS technology and projects. The VGF is proposed to be disbursed in 5 (five) tranches for different stages of implementation of BESS projects.

2. Levelised Cost of Storage

Through VGF, the government will be attempting to make BESS a viable option by decreasing the levelised cost of storage (“**LCoS**”). Under the Scheme, the government will provide budgetary support of up to 40% of the capital cost of the project for development of 4,000 MWh (four thousand megawatt hours) of BESS projects by 2030-31. With this, the government aims to bring down the LCoS ranging from INR 5.50-6.60 per kWh (Indian Rupees five point fifty – Indian Rupees six point sixty kilowatt-hour).

3. BESS capacity allocation to distribution companies

A minimum of 85% of the BESS capacity will be allocated to electricity distribution companies. This will ensure that:

- a) the benefit of the Scheme reaches the consumers;
- b) the integration of renewable energy into the electricity grid is enhanced; and

c) wastage is minimized while optimizing the utilisation of transmission networks and thereby reducing the need for costly infrastructure upgrades.

4. Competitive Bidding Process

For availing the benefits of VGF, the developers of BESS will be selected through a transparent competitive bidding process. This approach will provide a level playing field for both public and private sector entities and will also encourage significant investments and generate opportunities for associated industries.

Considering that the Cabinet has approved the Scheme, it is expected that a detailed document will be notified in due course and the details of the manner of disbursement of the VGF to the developers of BESS technology will also be explained.

India has made a commitment at COP 26 to reduce the emission intensity of its gross domestic product by 45% by 2030 and ensure that approximately 50% cumulative electric power installed capacity will be from non-fossil fuel-based energy resources by 2030. While development of renewable energy projects is crucial in achieving these goals, it is also critical to harness the renewable energy to its optimal and to transmit the same to the electricity grid in a flexible manner. This is crucial considering the seasonal variability of renewable sources of energy. The grant of Cabinet approval to this Scheme will ensure financial viability to developers of BESS and we can be optimistic that it will enhance India's renewable energy storage capacity.

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As part of our Energy practice, we are also involved in advising clients in the renewable energy and cleantech space. Our team has been part of complex corporate transactions involving entities engaged in the renewable energy sector including solar and wind energy entities, drafting as well as advising clients on issues related to commercial agreements such as power purchase agreements, EPC contracts and O&M contracts, advising on regulatory issues being faced by clients in the renewable energy sector as well as representing such clients before various judicial and regulatory fora. Our team is leading the green hydrogen sector and are advising clients in the public and private sector in relation to some of the first green hydrogen related acquisitions in India.

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