



Ref: PTC/Strategy/REC/Mar 01/ 678

Date: March 14, 2022

To
The Secretary
Central Electricity Regulatory Commission
3 rd & 4th Floor, Chanderlok Building,
36, Janpath, New Delhi-110001

Sub: PTC's Comments on Terms and Conditions for Renewable Energy Certificates Renewable Energy Generation Regulations, 2022

Dear Sir,

This is with reference to the Draft Central Electricity Regulatory Commission (Terms and Conditions for Renewable Energy Certificates for Renewable Energy Generation) Regulations, 2022.

We at PTC India Limited support this initiative by the CERC to ask the market participants to adopt these terms and conditions.

Enabling a trading licensee to structure bilateral contracts under these proposed regulations is a welcome step. This opens a whole new segment for traders to engage in creating a market for (bilateral, OTC) long-term supply, and purchase of RECs. Given the market making role of the electricity traders, it might be worthwhile to consider **allowing trading licensees to take title to the RECs and selling it onward to an obligated entity akin to a bilateral trade in electricity**. Given the tenor of the validity of these RECs (currently 15 years as proposed in the draft regulations), this will enable true market making by allowing participants to build products to suit different needs. Additionally, it would also be beneficial from a market development perspective if a trading licensee was allowed to retain the flexibility to sell such RECs on the power exchange in case sourcing a buyer with the right commercial proved challenging in the OTC market.

Removing the floor and cap prices on RECs and letting market forces dictate the prices is another significant step. Therefore, we welcome these draft guidelines and request that the trading licensees be allowed the flexibility to take title to RECs for onward sale and be allowed the flexibility to choose the platform (either the power exchange or the OTC market) for the optimum realization of such RECs.

You are requested to kindly consider the enclosed annexure (Annexure-A) of our detailed comments for your kind reference and perusal.

Thanking you,

Yours faithfully,
For **PTC India Ltd.**

(Rajesh Cherayil)
Chief Strategy Officer

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Subject: Comments on Terms and Conditions for Renewable Energy Certificates Renewable Energy Generation Regulations, 2022

1. **Context:** The Central Electricity Regulatory Commission (CERC) has issued draft regulations for Renewable Energy Certificates (RECs) with certain proposed changes that seek to improve the marketability and liquidity of these certificates along with leaving the price discovery to market forces.
2. **Key Observations:**

S. No.	Clause No.	Original Terms and Conditions	Observations and Comments
1.	4.(2).(b)	<p>“A renewable energy generating station shall be eligible for issuance of Certificates, if it meets the following conditions</p> <p>...</p> <p>b. such renewable energy generating station has not availed any</p> <p>(i) waiver or concessional transmission charges or</p> <p>(ii) waiver or concessional heeling charges or</p> <p>(iii) facility of banking of electricity.”</p>	<p>These provisions need to be consistent with provisions under other regulations (where ISTS charges may be waived off or banking allowed to account for the intermittent RE generation) where RE generation is being promoted. Therefore, it is proposed that this negative covenant be removed in the final regulations.</p>
2.	8.(2)	<p>“The registration for Certificates granted in terms of these regulations shall be valid for 15 years from the date of registration for Certificates.”</p>	<p>While a tenor of 15 years is quite long-term and if it is meant to encourage marketability of an asset based on the “renewable” trait, it could also be extended to the life of a renewable energy (RE) project which is around 25 years (small hydro has a longer life but for consistency a 25-year validity would be a good incentive). It is also</p>

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(Annexure –A)



			<p>pertinent to mention that the current long-term project financing of a RE project involves debt tenors ranging from 17-20 years. Therefore, to improve the bankability of such RE projects based on these certificates, a longer tenor would be more desirable.</p>
3.	10.(3)	<p>Issuance of Certificates</p> <p>“The Central Agency shall, within fifteen days from the date of receipt of complete application for issuance of Certificate by the eligible entities, issue Certificate or reject the application recording reason for such rejection and intimate the same to the concerned entity.”</p>	<p>While strict timelines for applying for the accreditation under the REC mechanism and for issuance of certificates (within 15 days from the date of receipt of the complete application or reject the application with recorded reasons) has been imposed by and for the Central Agency (NLDC), most RE generators are embedded in the network of state utilities. So, the same timelines need to be adopted by state nodal agencies as well.</p>
4.	11.(2)	<p>Exchange and Redemption of Certificates</p> <p>“The Certificates shall be exchanged through power exchanges or through electricity traders in such periodicity as may be stipulated by the Central Agency in the Detailed Procedure.”</p>	<p>The new participant that has been included in the REC market is trading through electricity traders which is a welcome development. Although, the periodicity of such trades is yet to be stipulated by the Central Agency in detailed procedures, the very fact that trading licensees are allowed to set up bilateral, OTC trades is a welcome step.</p>

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5.	11.(4)	<p>“Exchange of Certificates through electricity traders shall be subject to the following:</p> <p>(a) The eligible entities shall inform, in advance, to the Central Agency about the number of Certificates intended to be sold through electricity traders;</p> <p>(b) The Central Agency shall block the Certificates in the Registry as informed by eligible entity in terms of sub-clause (a) of this clause;</p> <p>(c) The Certificates blocked under sub-clause (b) of this clause shall not be allowed to be exchanged through Power Exchange(s);</p> <p>(d) The electricity trader shall intimate to the Central Agency consequent upon sale of the Certificates blocked under sub clause (b) of this clause;</p> <p>(e) The trading margin to electricity traders for trade of Certificates shall be governed by the Trading Licence Regulations, 2020, treating one Certificate representing one Megawatt hour of electricity.”</p>	<p>This opens a whole new segment for traders to engage is creating a market for (bilateral, OTC) long-term supply, and purchase of RECs. Given the market making role of the electricity traders, it might be worthwhile to consider allowing trading licensees to take title to the RECs and selling it onward to an obligated entity akin to a bilateral trade in electricity. Given the tenor of the validity of these RECs (currently 15 years as proposed in the draft regulations), this will enable true market making by allowing participants to build products to suit different needs.</p> <p>Additionally, it would also beneficial from a market development perspective if a trading licensee was allowed to retain the flexibility to sell such RECs on the power exchange in case sourcing a buyer with the right commercials proved challenging in the OTC market.</p>
6.	12.(2)	<p>“The Certificate Multiplier for the period of three years from the date of effect of these regulations or such other period as may be decided by the Commission.”</p>	<p>The Certificate Multiplier that has been proposed to promote RE projects that are tougher to implement and operate is a welcome concept. However, it may be worthwhile to examine the rationale</p>

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(Annexure –A)

			behind the fractional multipliers (Hydro with 1.5 and Biomass and Biofuel with 2.5) and to assess if whole number multipliers would be an easier construct to implement.
7.	13.(1)	<p>Pricing of Certificates</p> <p>“The price of Certificate shall be as discovered in the Power Exchange(s) or as mutually agreed between eligible entities and the electricity traders:</p> <p>Provided that the Power Exchange(s) and the electricity traders shall report all transactions with details including but not limited to volume, price, buyers and sellers to the Central Agency on a monthly basis.”</p>	A significant modification is the removal of floor and forbearance price and letting prices be discovered either on the power exchanges or as mutually agreed between eligible entities and electricity traders. This is a significant enablement of market forces of supply and demand with some oversight by the regulator on managing any extraordinary volatility in market prices if it emerges.
8.	14.(1)	<p>“The amount realized from sale of such Certificates along with the interest at the rate of two hundred (200) basis points above the State Bank of India Marginal Cost of Funds based Lending Rate (MCLR) of one year tenor.”</p>	The penal provision in case of an entity being discovered to have gained accreditation through misrepresentation (resulting in revoking the same) is that the revenues realized through any certificates issued and sold shall be deposited to the Central Agency along with the interest at the rate of 200 basis points above SBI MCLR of one year tenor. While it is not explicitly mentioned, we assume that this penal interest is annualized (p.a.)

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3. **Conclusion:** Enabling a trading licensee to structure bilateral contracts under these proposed regulations is a welcome step. Removing the floor and cap prices on RECs and letting market forces dictate the prices is another significant step. Therefore, we welcome these draft guidelines and request that the trading licensees be allowed the flexibility to take title to RECs for onward sale and be allowed the flexibility to choose the platform (either the power exchange or the OTC market) for the optimum realization of such RECs.

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