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(A Government of India Enterprise)



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संदर्भ: पोसोको/आर ई सी/2022/ 1188

Date: 25.03.2022

To,

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

Subject: Draft CERC (Terms and Conditions for REC for Renewable Energy Generation) Regulations, 2022

Sir,

This is with reference to Hon'ble CERC public notice dated 15.02.2022 (No. RA-14026(11)/1/2022-CERC), wherein comments on the subject matter have been sought.

In view of the above, views/ suggestions of Power System Operation Corporation Limited are enclosed herewith as Annexure-1.

सादर धन्यवाद,

भवदीय

मनोज कुमार अग्रवाल
मुख्य महाप्रबंधक

संलग्न: उपरोक्त

POSOCO's observations on draft CERC (Terms and Conditions for RECs for RE Generation) Regulations, 2022.

Draft Central Electricity Regulatory Commission (Terms and Conditions for Renewable Energy Certificates for Renewable Energy Generation) Regulations, 2022 as brought by Hon'ble CERC is a welcome step and it has come at a very appropriate time.

POSOCO's views/suggestions on draft Regulations are as follows:

- 1. Regulation 4 (2) (a): *“the tariff of such renewable energy generating station has not been either determined or adopted under section 62 or section 63 of the Act, or the electricity generated is not sold either through an electricity trader or in the Power Exchange, for RPO compliance by an obligated entity”***

POSOCO's observation: A generator can have multiple PPAs with the sale in power exchange. It may happen that in such a case only power exchange transaction is not eligible and the other transaction is eligible. Moreover, in bilateral transactions, direct purchase by the distribution licensee can take place for compliance of RPO.

POSOCO's proposal: Regulation 4(2)(a) may be rephrased as

*“The tariff of such renewable energy generating station has not been either determined or adopted under section 62 or section 63 of the Act, or the electricity generated **part or full capacity** is not sold **directly or** either through an electricity trader or in the Power Exchange, for RPO compliance by an obligated entity”*

Further, the Ministry of Power(MOP), vide letter dated 24.03.2021 to the power exchanges, proposed in the Guidelines on **“Development of Integrated Day-Ahead Market (DAM) in Power Exchange with separate price formation for RE Power and Conventional Power”** as follows:

“Sellers of RE will get RECs (Renewable Energy Certificates) against the quantum of power cleared in the conventional segment”

However, in the matter of petition no. 143 &146 / MP/2021, Hon'ble commission ordered the following:

“..... participation in RE segment of IDAM shall be restricted to RE generators which are not registered under REC mechanism and sale of power by such RE generator in the conventional segment of IDAM (uncleared bids) would not be eligible for issuance of RECs.”

The website link of the two orders of Hon'ble CERC is mentioned below

<https://cercind.gov.in/2021/orders/143-MP-2021.pdf>

<https://cercind.gov.in/2021/orders/146-MP-2021.pdf>

In view of the aforementioned, the inconsistency between the MoP Guidelines and the Hon'ble CERC order may be addressed.

- 2. Regulation 4 (2) (b): “A renewable energy generating station shall be eligible for issuance of Certificates if it meets the following conditions, such renewable energy generating station has not availed any (i)(ii)....(iii) facility of banking of electricity”**

POSOCO’s observation: In the fourth amendment to CERC REC Regulations, 2010, Hon’ble CERC explained the meaning of banking facility as below:

“For the purpose of this Regulation, the expression “banking facility benefit” shall mean only such banking facility whereby any renewable energy generator gets the benefit of utilizing the banked energy at any time (including peak hours) even when it has injected into grid during off-peak hours.”

POSOCO’s proposal: Hon’ble CERC may include the meaning of the banking facility for REC Regulations 2022 also, for avoiding any disputes in the future.

- 3. Regulation 4 (3): Captive generating stations based on renewable energy sources and meeting the conditions as specified under clause (2) of this Regulation in respect of renewable energy generating stations shall be eligible for issuance of Certificates:**

Provided that the Certificates issued to such captive generating stations to the extent of self-consumption, shall not be eligible for sale.

POSOCO’s observation: It is submitted that RPO is applicable on CPPs based on fossil fuels, and there is no burden of RPO compliance on the CPPs based on Renewable Energy sources. Further, CPPs may not be allowed for the issuance of RECs to the extent of self-consumption. However, CPPs based on renewable energy sources may be allowed for the issuance of RECs for energy sold to third parties over and above their self-consumption. Further, it will be difficult to maintain the record of two types of RECs for the Registry viz. eligible or not eligible for sale. Accordingly, Regulation 4(3) and Regulation 11(7) may be modified.

POSOCO’s proposal: Regulations 4(3) may be modified as under:

“Captive generating stations based on renewable energy sources and meeting the conditions as specified under clause (2) of this Regulation in respect of renewable energy generating stations shall be eligible for issuance of Certificates for energy generated from the plant excluding the self-consumption.”

- 4. Regulation 4 (4): “An obligated entity being a distribution licensee or an open access consumer, which purchases electricity from renewable energy sources in excess of the renewable purchase obligation determined by the State Commission shall be eligible for issuance of Certificates to the extent of purchase of such excess electricity from renewable energy sources”**

POSOCO’s observation: Renewable Purchase Obligation (RPO) determined by State/Joint Electricity Regulatory Commissions (SERCs/JERC) are not uniform and, in many cases, it is not aligned with the RPO trajectory notified by the Ministry of Power. Only a few SERC/JERC RPO Targets are aligned with MoP RPO Trajectory.

As per Regulation 5 (1A) (a) of CERC REC Regulations, 2010, *a distribution licensee shall be eligible to apply for registration with the Central Agency for issuance of and dealing in Certificates if it has procured renewable energy, in the previous financial year, at a tariff*

determined under Section 62 or adopted under Section 63 of the Act, in excess of the renewable purchase obligation as may be specified by the Appropriate Commission or in the National Action Plan on Climate Change or in the Tariff Policy, **whichever is higher**.

POSOCO's proposal: Hon'ble CERC may modify Regulation 4.4 as below:

*"An obligated entity being a distribution licensee or an open access consumer, which purchases electricity from renewable energy sources in excess of the renewable purchase obligation **trajectory notified by the Ministry of Power, Govt of India or notified by the State/Joint Commission, whichever is higher** shall be eligible for issuance of Certificates to the extent of purchase of such excess electricity from renewable energy sources."*

5. **Regulation 6(2) "Accreditation for Certificates to eligible entities connected to inter-State transmission system shall be granted by the RLDC of the region in which such eligible entities are located...."**

POSOCO's observation: The process of Accreditation of any RE Project under REC Mechanism involves various verifications/ validations at the level of state agencies. Previously, in the case of accreditation of RE Projects connected to the inter-State transmission system and located in Rajasthan, the RE projects were accredited by Rajasthan State Agency (RRECL). Further, the Energy Injection Reports for issuance of REC(s) were validated by NRLDC.

POSOCO's proposal: Accreditation in all cases may be granted by the state agency where the RE project is geographically located. Further, the provision related to Accreditation for Certificates to eligible entities connected to the inter-State transmission by "RLDC" may be replaced as "state agency where the RE project is geographically located".

Accordingly, Regulation 6 (3) may be rephrased as *"Eligible entities that have been granted accreditation for Certificates, referred to in clause **(1) and (2)** of this Regulation, which has undergone a change in name or change in legal status after the grant of accreditation for Certificates, shall inform, along with relevant documents from the appropriate authority such as Registrar of Companies or National Company Law Tribunal or any other Court, to the concerned **state agency where the RE project is geographically located** which shall, upon verification of documents, update such change in its records within 30 days from the date of such information and inform the same to the Central Agency.*

Accordingly, Regulation 7 may be rephrased as *"The concerned **state agency**, after making an enquiry and giving notice may revoke, recording reasons for such revocation, accreditation granted to an eligible entity referred to in clause (1) and (2) of Regulation 6 of these regulations in case the eligible entity breaches any of the terms and conditions of its accreditation, the breach of which is expressly declared by such accreditation to render it liable to revocation."*

6. Regulation 11.4: “Exchange of Certificates through electricity traders is allowed subjected with some conditions.”

POSOCO’s observation: In this regard, POSOCO submission is that already traders are playing a considerable role in the trading of REC(s). As per present practice, the small buyers are able to trade REC(s) through traders on the power exchanges. Traders are facilitating small buyers for meeting the Renewable Purchase Obligation (RPO). Traders are active participants in this market and provide advisory and support to both the Renewable energy generators and Open Access Customers, for sale/purchase of Renewable Energy Certificates (RECs) on the power exchange.

For example, the website link of two traders is mentioned below:

<https://www.ptcindia.com/renewable-purchase-obligation/>

<http://tatapowertrading.com/service-portfolio/rec.php>

It may be noted that more than 3200 obligated entities from more than 20 States/UTs are already trading RECs through Power Exchange either directly or through traders. Small buyers are mostly trading on Power Exchange through traders only. Therefore, POSOCO is of the view that the present role of Traders should continue.

In this regard, POSOCO’s submission is that the RECs should be traded only on Power Exchanges on account of its inherent advantages, such as price discovery, standard contract, information symmetry, double side closed bid auction, etc.

Further, the Hon’ble Commission may review the transaction fee applicable for the trading of RECs over the power exchange platform to make it more competitive.

POSOCO’s proposal: Therefore, the following modification is suggested:

- (i) The provision related to the exchange of certificate through trader as specified in draft Regulation 11(4) may be deleted
- (ii) “or through electricity trader” may be deleted from draft regulation 11(5)
- (iii) “and the electricity trader” may be deleted in the sub proviso of Regulation 13(1).

Further, the following regulations 8(3) of the CERC REC Regulations 2010 may be included in the proposed REC Regulations which will facilitate the RPO compliance and also reduce the transaction charges for those entities which have their consumption units located in different parts of the country.

“An eligible renewable energy generator including an eligible captive generating plant shall be permitted to retain the certificates for offsetting its renewable purchase obligation as a consumer subject to certification and verification by the concerned State Agency.”

7. Regulations 11(7): The Certificates issued to captive generating stations based on renewable energy sources to the extent of self-consumption shall stand redeemed on compliance of RPO:

Provided that the State Agency shall inform the Central Agency about such redemption of Certificates, upon which the Central Agency shall extinguish such Certificates and update its records.

POSOCO's observation: It is submitted that RPO is applicable on Captive Power Plants based on the on-fossil fuels, and there is no burden of RPO compliance on the CPPs based on the Renewable energy sources. Accordingly, Regulation 11(7) may be deleted, and Regulation 4(3) may be modified.

8. **Regulation 12.2: "A new provision of Certificate Multiplier is introduced by Hon'ble CERC for Renewable Energy Technologies like Hydro, Municipal Solid Waste (MSW) and non-fossil fuel-based cogeneration, Biomass, and Biofuel"**

POSOCO's observation: The important part of the REC mechanism is the probity; Each Certificate issued shall represent one Megawatt hour of electricity generated from the renewable energy source and injected or deemed to be injected (in case of self-consumption by eligible captive power producer) into the grid. There is only one instance of REC multiplier done in the past and that was on account of lowering the floor price and forbearance price and the multiplier applied to old REC(s). This distorted the green electron probity to some extent. The whole process of certificate multipliers may lead to legal issues/uncertainty to the developers/investors and may defeat the whole purpose of issuing RECs to incentivize the RE Technologies like Hydro, Municipal Solid Waste (MSW), and non-fossil fuel-based cogeneration, Biomass, and Biofuel.

POSOCO's Proposal: In order to ensure the probity of the REC Mechanism, the provisions related to the Credit multiplier may be deleted.

9. **Regulation 13: "Pricing of Certificates: The price of Certificate shall be as discovered in the Power Exchange(s) or as mutually agreed between eligible entities and the electricity traders"**

POSOCO's observation: POSOCO agrees with the proposal of removal of floor and forbearance price of REC(s). It's a fact that with any ceiling in the form of floor price or forbearance price, it distorts the market, and discovery of true price is not achieved. In the absence of externalities, both the price floor and ceiling cause deadweight loss since they change the market quantity from what would occur in equilibrium. This is accompanied by a transfer of surplus from one player to another.

POSOCO's submission is that the RECs should be traded only on Power Exchanges on account of its inherent advantages, such as price discovery, standard contract, information symmetry, double side closed bid auction, etc.

POSOCO's proposal: Hon'ble CERC may delete the provisions related to the exchange of RECs through OTC platforms.

10. Regulation 14: “Validity of Certificates: The Certificates issued shall remain valid until they are redeemed.”

POSOCO’s observation: POSOCO agrees with the proposal of removal of the REC Validity period. The key objective is to increase the share of non-fossil fuel in the energy basket of the Indian Electricity sector.

Some Additional Comments:

[1] Treatment of Hybrid RE Generating Stations:

Presently, many Hybrid Renewable generating stations with different combinations such as wind and solar, solar and battery storage, etc. are under the development phase and may apply for registration under REC Mechanism for issuance of REC(s).

In order to issue RECs for Hybrid Projects separate accreditation, registration, scheduling, metering, and energy accounting is required to be done for the respective energy source. Since the different type of generation needs different treatment, there is a need to specify their treatment for issuance of REC(s).

For example, for Wind + Solar Hybrid plants, Solar RECs are to be issued based on solar injection and non-solar RECs for Wind Generation. Similarly for Solar + Battery Hybrid plants, Solar RECs are to be issued for solar generation and no RECs for battery (as it does not come under Renewable Source) but can participate in the ancillary market.

Therefore, the treatment for Hybrid plants may also be covered in the REC Regulations, 2022.

[2] Hydro Power Obligation and Hydro Energy Certificate: Ministry of Power, Govt of India, has notified HPO targets vide order dated 29.01.2021. The HPO targets are to be met from the purchase of electricity generated from the Large Hydro Project (Installed capacity > 25 MW) which are commissioned on or after 08.03.2019. The draft regulations are silent on Hydro Power obligation and Hydro Energy Certificates.

Hon’ble CERC may include provisions for Hydro Energy Certificate.

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