

Ref.no. PEG/2022/14

The Secretary
Central Electricity Regulatory Commission
36, Janpath, New Delhi – 110 001

Sub: Prayas comments on Draft Central Electricity Regulatory Commission (Terms and Conditions for Renewable Energy Certificates for Renewable Energy Generation) Regulations, 2022

Ref: Public Notice dated 15th March 2022 (No. RA-14026(11)/1/2022-CERC)

25th March 2022

Dear Sir,

The CERC issued 'draft REC regulations' on 15th February, 2022 and asked for public comments by 25th March, 2022.

It is quite clear from the Explanatory Memorandum that the market dynamics (risks and rewards) do not favour REC projects compared to existing alternatives. Thus as stated by CERC and MoP, there is a need to align the REC framework with market realities and redesign it appropriately.

Our submission in the matter is attached and we request you to take it on record. We have also uploaded the submission using the SAUDAMINI portal.

Kind Regards,

Ashwin Gambhir, Saumendra Aggarwal, Ann Josey

[Prayas \(Energy Group\)](#)

Prayas (Energy Group) comments and suggestions on the draft CERC REC Regulations 2022.

The CERC issued 'draft REC regulations' on 15th February, 2022 and asked for public comments by 25th March, 2022. The explanatory memorandum released thereafter clearly points towards declining new investments in REC projects. Moreover, while *'872 projects with total capacity of around 3980 MW have been commissioned after the introduction of REC Mechanism'*, RE capacity has increased by 85 GW in the same time period. Thus REC share in the overall RE capacity is a mere 4.5% with most of this capacity coming up in the first four years. Thus it is quite clear that the market dynamics (risks and rewards) do not favour REC projects compared to existing alternatives of long term PPAs (within and outside state due to ISTS waiver), GDAM/GTAM markets, emerging merchant RE projects, OA and CPP routes. Thus as stated by CERC and MoP, there is a need to align the REC framework with market realities and redesign it appropriately.

Our detailed comments on specific regulations are noted below.

1. Definition of Renewable Energy sources

As per the draft regulations, 'hydro' is now included in the ambit of the 'renewable energy sources' definition. The explanatory memorandum notes that the [MoP has declared](#) large hydro projects with more than 25 MW installed capacity commissioned after 8.3.2019, as renewable energy source. However, the [Ministry of Power's O.M. dated 8th March 2019](#) considers all large hydro projects (above 25 MW) as renewable energy source and only those projects commissioned after 8th March 2019 are eligible for Hydro Purchase Obligation (HPO).

It seems unlikely that the intent of re-defining RE to include large hydro would have anything to do with the date of commissioning of projects. However, it is amply clear that eligibility of large hydro for any new incentive or mandate such as HPO would only be for projects commissioned after a certain date (March, 2019 for the case of HPO). **Similarly, the draft REC regulations should specify that only such large hydro projects commissioned after the notification of these regulations could be eligible for registration for REC certificates.**

2. Doing away with solar/non-solar categories and introducing the concept of Multiplier

While we appreciate the proposal to do away with the categorisation of solar and non-solar RECs (which has been requested by States for RPO as well), the introduction of multiplier will not only increase the complexity of the REC framework, but may also not be aligned to its core objective as an alternative RPO compliance mechanism. While there is regulatory certainty (multiplier fixed for 3 years), grandfathering (project which has been granted a certain multiplier would continue with the same multiplier till 15 years from the date of commissioning of such project) and exclusion of already commissioned projects, this will result in further sub-categorization and need for more stringent tracking of projects.

We feel that this approach would further complicate the REC mechanism and would add another layer of subjectivity in terms of choosing which technologies should be promoted and what their multiplier should be, especially since RE prices are changing rapidly. While discontinuing floor and forbearance prices on one hand, this multiplier for new RE technologies results in indirectly assuming some level of RE prices.

An easier and more straight forward way of promoting new RE technologies would be simply to provide Viability Gap Funding (VGF) over and above the price discovered through open and transparent

competitive bidding, which is already seen in some storage and RE hybrid and RE manufacturing linked projects. This should be done by GoI as a policy measure rather than through the REC mechanism whose core objective is to provide an alternative route for RPO compliance and not necessarily promoting each and every RE technology, no matter the cost. The aim of the REC mechanism should not be ‘increasing the overall renewable energy capacity in the country.’ (EM 4.9)

Further, as noted in the EM (4.8 REC framework is a market driven approach seeking to promote competition without any concessional benefits, which have the potential to skew the market.) The multiplier weighs cost of the technology, instead of both cost and maturity. Thus there is absolutely no justification for giving a 1.5 multiplier for large hydro projects which has close to a century of technology development behind it. Further, it treats large and small hydro on the same footing. Large hydro can provide lot of value for balancing, peak supply and ancillary services and should be valued appropriately for its services in such mechanisms and should not be promoted indirectly through the REC mechanism.

3. RECs for DISCOMs and Open Access consumers for RPO over-compliance

As per the 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.*

While this is a welcome provision and can incentivise obligated entities to exceed their mandatory minimum RPO, this need to be implemented with certain caveats. For example, ESCOMs in Karnataka are routinely exceeding their RPOs as seen in the table below. This may create an un-intended consequence of keeping RPOs low to be eligible for RECs. **Thus this provision should have the caveat that such DISCOMs/OA consumers will be eligible only if their RPO is in line with or higher than the MoP/MNRE RPO trajectory.**

Figure 1: ESCOM wise RPO compliance in Karnataka for FY 20

DISCOM	RPO type	Target	Compliance	RE Purchase (MUs)	Total Power purchase (MUs)
BESCOM	Solar	7.25%	15.25%	4,732	31,043
BESCOM	Non solar	12.00%	13.18%	4,092	31,043
HESCOM	Solar	7.25%	18.77%	1,744	9,291
HESCOM	Non solar	11.00%	33.45%	3,108	9,291
GESCOM	Solar	7.25%	19.99%	1,266	6,331
GESCOM	Non solar	8.00%	33.15%	2,099	6,331
MESCOM	Solar	7.25%	17.37%	725	4,173
MESCOM	Non solar	13.00%	17.90%	747	4,173
CESC	Solar	7.25%	24.57%	1,033	4,204
CESC	Non solar	12.00%	16.49%	693	4,204

Source: Prayas’ Renewable Energy Data Portal

Another procedural complication that arises from this is as follows.

The regulation 10(2) states that

*“(2) Application for issuance of Certificates shall be made to the Central Agency within six months from the corresponding generation by the eligible entity:
Provided that no Certificate shall be issued for applications made beyond the period of six months from corresponding generation.”*

This clause may be difficult to implement for DISCOMs and OA consumers. Their eligibility depends on them overachieving their RPO targets which can only be assessed by the SERCs with the support of state nodal agency. This process of RPO compliance is annual and often 1-2 years behind. Many SERCs also allow for carry forward of non-compliance and cumulative compliance for a number of years. Some states like Maharashtra also have an incentive for over-compliance. Thus this six-month limit on issuance of RECs will not align with the RPO compliance proceedings and would need to be amended.

Some states like Maharashtra have also introduced Green Consumer Tariffs (higher than regular tariff) for DISCOM consumers which are voluntary and for which DISCOMs will procure additional RE power and get additional revenue for the same. At present, Maharashtra is allowing the distribution companies to account this RE power for their RPO compliance. Now, in case any DISCOM of Maharashtra is overachieving its RPO (with or without support of this green tariff), it is eligible for RECs for the over-compliance. This will further complicate accounting and can result in double-counting (pp. 8 of EM) of the green attribute.

Considering all these issues, an easier way to incentivize RPO over-compliance (through RPO regulations) is to follow the MERC path and give an explicit and direct incentive for such extra RE procurement. Regulation 12.1 in MERC (Renewable Purchase Obligation, its Compliance and Implementation of Renewable Energy Certificate Framework) Regulations, 2019 is reproduced below:

“12.2 Distribution Licensee shall endeavour to achieve total RPO target notified by the Central Government and for doing so it will get incentive of Rs 0.25 per kWh for RE procured above the minimum percentage specified in Regulation 7 upto the percentage notified by the Central Government as under or as may be notified from time to time:

<i>Year</i>	<i>Solar</i>	<i>Non-solar</i>	<i>Total</i>
<i>2020-21</i>	<i>8.75%</i>	<i>10.25%</i>	<i>19.00%</i>
<i>2021-22</i>	<i>10.50%</i>	<i>10.50%</i>	<i>21.00%</i>

Provided such incentive will not be applicable if Distribution Licensee have not fulfilled Renewable Purchase Obligations on cumulative basis;

Provided further that RE procured during the year for meeting RPO of previous years shall be deducted while determining eligible RE quantum for incentives.”

4. REC trading

The draft regulations allow exchange of RECs through traders. However, we feel that the Commission should provide further clarity in this route.

- a. Would ownership of certificates change hands and if so does it have implications for taxation like GST?
- b. Would traders be allowed to hold on to certificates for any length of time if they own the certificates?
- c. Would certificates through the trading route be tagged differently for accounting purposes?

5. Pricing of RECs

The regulation 13(2) states that

(2) The Commission, on being satisfied that any of the following circumstances exist or is likely to occur, may by an order give such directions as may be considered necessary:

(a) Abnormal increase or decrease in prices of Certificates;

(b) Sudden volatility in the prices of Certificates;

(c) Sudden high or low transaction volumes of Certificates on a Power Exchange.

Orders in such cases should be reasoned and the proceedings should have participation from all relevant stakeholders.

6. REC trading sessions

The Commission should consider increasing the frequency of REC trading sessions in Power Exchanges from the present monthly frequency to twice a month.

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