



No. IEX/RA/144/21-22

Date: 25.03.2022

To,

The Secretary
Central Electricity Regulatory Commission
3rd & 4th Floor, Chanderlok Building
36, Janpath
New Delhi - 100 001,
Fax: 011-23753923

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

Dear Sir,

This has reference to Public Notice dated 15.02.2022 inviting suggestions and comments from stakeholders on the 'Central Electricity Regulatory Commission (Terms and Conditions for Renewable Energy Certificates for Renewable Energy Generation) Regulations, 2022'.

Accordingly, comments on behalf of Indian Energy Exchange are hereby attached hereto for kind consideration of the Hon'ble Commission.

Thanking You

Yours Sincerely,

(Jogendra Behera)

Vice President (Market Design & Economics)

Enclosures: As above

IEX Comments on Draft CERC (Terms and Conditions for Renewable Energy Certificates for Renewable Energy Generation) Regulations, 2022”

At the outset, IEX welcomes the redesigning of REC mechanism by way of the proposed Draft REC Regulations. Particularly, the proposal to allow RE Generator to sell power through RPO and REC route, removal of categorization of RECs into solar and non-solar RECs, introduction of multiplier for RECs of different technologies etc. are progressive measures and will strengthen the overall REC market. At the same time however the proposed introduction of bilateral trading of RECs may lead to market distortion and diminish the benefits envisaged through the redesigning of the REC mechanism. Our comments/suggestions on the proposed Draft Regulations are as under:

1. Eligibility of RE Generators for issuance of RECs [Regulation 2]

a. Having PPAs u/s 62/63 [Regulation 2(a)]:

Regulation 2(a) of proposed draft Regulations inter-alia provides that RE Generators whose tariff has not been either determined or adopted under section 62 or section 63 of the Act will be eligible for issuance of RECs. In this regard, it is submitted that it is not clear whether the RE Generators who have PPAs with the Discoms @ APPC are eligible for issuance of RECs or not. Therefore, it is suggested that a proviso may be incorporated to save existing PPAs on APPC with Discoms.

b. Issuance of RECs against RE Power Sold in DAM/TAM [Regulation 2(a)]:

Regulation 2(a) provides that RE Generator shall be eligible for issuance of RECs if the electricity is not sold either through an electricity trader or in the Power Exchange for RPO compliance will be eligible for issuance of RECs. From this it is clear that when the RE Generator is selling power in GDAM or GTAM it will not be eligible for the issuance of RECs. However, it can't be deduced from the above whether sell of power through DAM TAM or RTM will result into issuance of RECs for the RE Generators. In view of the above, it is suggested that the clause may be amended suitable for bringing clarity that the RE power sold in DAM TAM or RTM shall be eligible for issuance of RECs.

c. Waiver of Charges [Regulation 2(b)]:

Regulation 2(b) provides that if RE Generator avail any (i) waiver or concessional transmission charges or (ii) waiver or concessional wheeling charges or (iii) facility of banking of electricity it will not be eligible for issuance of RECs. In case a RE Generator avails the concession for the transactions for GDAM but not for DAM TAM or RTM transactions, how this is going to be treated, whether RECs will be issued to such RE Generators or not. A clarity may be provided regarding the above.

d. Issuance of RECs to Discoms selling RE power in DAM/TAM [Regulation 2(a)]:

Regulation 2(a) provides that RE Generator shall be eligible for issuance of RECs if the electricity is not sold either through an electricity trader or in the Power Exchange for RPO compliance will be eligible for issuance of RECs. In other words, electricity sold in GDAM/GTAM by RE

Generators will not be eligible, however if such electricity is sold in DAM/TAM, such transaction will be eligible for issuance of RECs. In this regard, it is submitted that Discoms are major sellers of RE at Power Exchange GDAM & GTAM market therefore Discoms like RE Generators selling RE power in the DAM/TAM should be eligible for issuance of RECs. Such RECs may be issued on financial year basis to ensure that such RECs are issued against surplus RE i.e., after fulfilling respective RPO.

2. Bilateral Trade of RECs will lead to inefficiency in Price determination [Regulation 11]:

The Draft Regulations proposed to allow bilateral trading of RECs in addition to the trading at Power Exchanges. The introduction of such bilateral trading is not in line with the Act and Policies which aims at promoting competition in the market. Government is keen to strengthen the market keeping in view the efficient price-discovery with increased liquidity, however the REC trading which is already being traded on power exchanges is proposed to be distorted by introduction of bilateral trading. Some of the issues related to bilateral trading of RECs are as follows:

- a. **Against Competition:** The proposal of trading of RECs at mutually determined prices will be against the spirit of the Electricity Act 2003 and policies made thereunder to promote competition in the market.
- b. **Inefficiency in price discovery:** The efficiency of price discovery on Exchanges depends on the liquidity in the market and with the introduction of bilateral trading, the market will be fragmented, and the prices determined at power exchange will be distorted due to lack of liquidity.
- c. **Lack of Transparency:** The price of RECs will be mutually decided by the parties in the bilateral contracts, the price will not be transparently available which may hamper development of market. This will not provide the necessary price signal to the market at large crucial for various decision making.
- d. **Market Manipulation:** Due to information asymmetry the traders may manipulate the market. Although the Draft Regulations have provided that the Trading licensees shall be reporting the transactions along with the trading margins to the Commission it is going to be practically difficult to monitor and ascertain such transactions. This will vitiate the business environment and impact the overall development of market.
- e. **Issues related to Payment security:** It is observed that in bilateral contracts, though PPAs have provisions for payment security to Generators, however same is not followed in practice and therefore recently Government has framed strict rules for payment security however despite such rules the outstanding dues of generators are mounting day by day for not only conventional generators but also RE Generators. This phenomenon has potential to destruct the well operated REC market.
- f. **Default in RPO compliance:** Since it is proposed that Bilateral Trading in RECs is permitted, it is expected that obligated entities will tend to float bilateral tenders for purchase of RECs. In case, these tenders would not attract any bids than obligated entities may seek exemption from the RPO compliance on the pretext of non-receipt of bids against the tenders. Therefore, appropriate provisions need to be incorporated in the State Regulations to avoid such exemptions which may derail RE ambitions of the Country.
- g. **Disputes:** As it is well aware that in electricity bilateral contracts whether direct or through trader, many payment disputes persist. Therefore, it is likely that the introduction of bilateral trading will lead to disputes in the REC transactions.

In view of the above, we urge Hon'ble Commission to drop the proposal of introduction of Bilateral trading in RECs.

3. Dispense with categorization of RECs [Regulation 12]:

Draft Regulations have proposed to dispense with categorization of RECs into Solar and Non-Solar RECs in instead multiplier will be introduced for different RE technologies. The proposal is a welcome step as it will provide more depth in the market, however, in the existing regulatory framework i.e., SERCs RPO Regulations, the Solar and Non-Solar RPO can be met by Solar and Non-Solar RECs respectively. In this scenario, it is suggested that the proposed regulations may be made effective when all SERCs align their RPO Regulations with the proposed REC Regulations otherwise the obligated entities would not be able to purchase technology agnostic RECs as proposed in the draft Regulations.

4. Exchange and Redemption of Certificates [Regulation 11(4)]:

Regulation 11(4) provides that in case of Exchange of Certificates through electricity traders, the eligible entities shall inform, in advance, to the Central Agency about the number of Certificates intended to be sold through electricity traders and the Central Agency shall block the Certificates in the Registry. Further such blocked RECs will not be allowed to be sold on the Power Exchange and only be transferred when such trader inform the Central Agency that such blocked RECs have been sold. It is submitted that the blocking of RECs at the instance of eligible entities/trader will unnecessarily lead to hoarding of RECs and may create artificial scarcity in the market. Therefore, it is suggested that in case of bilateral trade, the eligible entity/trader should inform to Central Agency when it wants to transfer/exchange such RECs i.e. single information to Central Agency.