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To,
The Secretary
Central Electricity Regulatory Commission,
6th, 7th & 8th Floors, Tower B, World Trade Centre, Nauroji Nagar,
New Delhi- 110029

Sub: Submission of Comments on the Proposed Buyout Mechanism under RCO Compliance Framework

Respected Sir,

The Electricity Act, 2003 under Section 86(1)(e) provides for promote co-generation and generation of electricity from renewable sources of energy, and mandates the formulation of mechanisms for its commercial viability.

This Hon'ble Commission, in the year 2010, introduced the concept of Renewable Energy Certificates (RECs), giving them a status at par with physical renewable energy for the purpose of meeting mandatory and voluntary Renewable Purchase Obligation (RPO) compliance by obligated entities, including open access consumers procuring power from conventional sources.

To regulate REC prices, this Hon'ble Commission has from time to time undertaken studies and determined the floor and forbearance price based on the cost of renewable energy generation during the relevant control periods. RECs were primarily introduced as a valid compliance instrument for RPOs with the objectives of:

1. Removing geographical limitations on renewable energy procurement; and

2. Providing commercial viability to renewable energy generation supplied under non-captive consumption models.

The REC value acted as a viability gap support mechanism for developers who took the risk of supplying renewable power under non-captive and non-

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secure power offtake arrangements. The forbearance price was introduced so that devleopers were adequately compensated and not not subjected to arbitrary price suppression. Accordingly, the forbearance price has been periodically revised—from ₹17/unit in 2010 to the present level of ₹1/unit (₹1000 per REC).

However, due to weak enforcement of mandatory RPO/RCO compliance, persistent defaults by obligated entities, and insufficient penal provisions, REC trading has remained close to the floor price. Consequently, REC inventory has accumulated to nearly 3.5 crore certificates.

Despite this, developers remain optimistic that strict enforcement of RPO/RCO compliance will increase REC demand and drive prices closer to the forbearance level. The Ministry has also taken significant steps toward strengthening mandatory compliance.

At this stage, introducing a buyout mechanism at a price lower than the forbearance price of REC would severely undermine the confidence of investors and project developers operating under the REC mechanism. Such an approach amounts to a violation of the principle of *promissory estoppel*, as the REC framework was established with defined commercial expectations and regulatory assurance.

Further, buyout mechanism is nothing but a backdoor restriction/ capping of the maximum price at which RECs can be traded at these buyout tariffs.

It is germane to say that in case a developer receives an opportunity to sell a REC at a price higher than the buyout tariff but still within the forbearance price, such an opportunity will be lost, as obligated entities will instead opt for the buyout mechanism as a means to fulfil RPO/RCO compliance.

It is important to highlight that RECs represent renewable energy that has already been generated, whereas the buyout mechanism intends to support future renewable capacity addition. It is neither logical nor equitable for compliance to be fulfilled through a mechanism supporting future generation when a valid, existing compliance instrument already exists.

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Therefore, we submit that the buyout tariff must be higher than the REC forbearance price, even if capped at 105% thereof. Presently, RECs serve as an established compliance route for fulfilling RPO/RCO obligations in cases of shortfall of physical renewable energy procurement.

The buyout mechanism should only be invoked when the obligated entity is unable to procure renewable power and/or RECs due to non-availability in the market—not as an alternative primary option.

In view of the above, introducing a buyout mechanism priced lower than the REC forbearance price is a violation of natural justice, the rights of REC-based developers, and the doctrine of promissory estoppel.

We request the Hon'ble Commission to reconsider the proposed framework accordingly.

Thanks and Best Regards,

For Cleanmax Enviro Energy Solutions Pvt. Ltd.

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