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COMMENTS ON CERC'S DRAFT PROPOSAL FOR BUYOUT PRICE UNDER RENEWABLE CONSUMPTION OBLIGATION (RCO) – Petition No. 12/SM/2025

1. Executive Summary

The proposal to set the Buyout Price at ₹245/MWh (₹0.245 per unit) for FY 2024-25 is detrimental to renewable energy producers and is inconsistent with current market conditions. It undervalues green attributes, undermines active compliance markets such as REC and GDAM/GTAM, and threatens to reverse the gains achieved under the Bureau of Energy Efficiency's (BEE) enforcement framework.

2. Misalignment with BEE Compliance Schedule

The BEE notification extends the RCO compliance deadline for FY 2024-25 obligations until 31 March 2026. Numerous obligated entities are currently buying Green Electricity and Renewable Energy Certificates (RECs) to meet these obligations within the extended timeframe. The proposed buyout price, calculated using FY 2024-25 averages, disregards the ongoing compliance cycle and current REC price range (₹350 – ₹370 /MWh or ₹0.35–₹0.37 per unit). Hence, the buyout price should only be determined after the compliance period ends, reflecting the actual weighted-average REC and GDAM prices during the entire compliance window.

3. Impact on REC, GDAM, and Green Markets

The average GDAM premium above conventional power over the past three years is about ₹0.49 per unit. By fixing the buyout price at ₹0.245 per unit, complying through buyout becomes cheaper than using genuine market instruments, leading to:

- A collapse in REC demand and liquidity on exchanges.
- Reduced participation in GDAM/GTAM, adversely affecting renewable generators. Already observed data post-proposal indicate over 90% decline in buy bids and more than 85% drop in cleared volumes on exchanges.

4. Negative Effects on Virtual Power Purchase Agreements (VPPAs)

A low buyout price deters buyers from entering into VPPAs, since the regulatory fallback option is cheaper and risk-free. This will curb corporate renewable procurement, depress REC values, and destabilize the long-term green finance structures reliant on VPPA-linked RECs.

5. Risk to the Green Real-Time Market (G-RTM)

The Power Exchanges' proposal for the Green Real-Time Market is pending approval by CERC. Renewable generators may depend more on G-RTM than on Green DAM due to the near-generation time trading and better forecasting and balancing capabilities. However, implementing the current low buyout price would severely harm the G-RTM market and renewable generators, as obligated entities might opt for the cheaper buyout instead. This

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would remove a vital balancing tool and negatively impact incentives for short-term grid stability.

6. **Absence of Validation and Limitations on Buyout Usage**

The draft proposal permits obligated entities to use the buyout option without demonstrating any effort to procure renewable power or RECs. CERC must introduce a validation mechanism that ensures buyout eligibility only if:

- The entity has made genuine attempts to procure green electricity and RECs, and
- Some obligation remains unmet.

Additionally, a cap (e.g., 10–20%) should be imposed on the share of RCO that can be fulfilled via buyout. Allowing 100% of RCO fulfilment through buyout undermines the Ministry of Power's objective to increase renewable energy penetration.

7. **Economic and Financial Implications**

Renewable developers count on green attribute revenues for project viability. Reducing the attribute value by setting a low buyout price diminishes internal rates of return (IRR), complicates loan repayments, and discourages future investments. A transparent, market-reflective buyout mechanism is crucial to sustain investor confidence.

8. **Recommended Framework**

- Timing: Fix the buyout price only after the compliance period closes (post 31 March 2026).
- Price Linkage: Buyout Price = 1.5 × max (Average REC Price for the compliance year, Average GDAM Green Premium).
- Usage Cap: Restrict buyout fulfilment to no more than 20% of total RCO.
- Validation: Mandatory proof of attempts for procuring renewable electricity and RECs before buyout usage.
- Penalty Alignment: The buyout price should be significantly below the penalty rate (₹3.72/unit) but above REC prices to preserve deterrence and fairness.

9. **Conclusion**

The present proposal undervalues green attributes, distorts market signals, and weakens the compliance ecosystem. CERC is urged to critically reassess the methodology by integrating real-time market data for the entire compliance cycle and issue a revised framework that strengthens rather than substitutes the green power market.