Ref: HFE/CERC/REC/R&C/FY25-26/03 21st November 2025

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

Subject: Suggestions/comments on the proposal for determination of the Buyout Price as an alternate compliance mechanism towards fulfilment of Renewable Consumption Obligation (RCO) in Petition No. 12 / SM/2025 (Suo-Motu).

Dear Sir,

At the outset, we extend our gratitude to the Hon'ble Central Electricity Regulatory Commission for issuing the proposal for "determination of the Buyout Price as an alternate compliance mechanism towards fulfilment of Renewable Consumption Obligation (RCO)" in Petition No. 12 / SM/2025 (Suo-Motu) and seeking stakeholder's comments on the same.

We would like to introduce 'Hero Future Energies Private Limited' (HFEPL), the renewable energy arm of Hero group and an Independent Power Producer (IPP) primarily focusing on investment in developing the generating capacities based on solar and wind resources across the country. The HFEPL portfolio has around 1.8 GW of commissioned capacity and around 6 GW under various stages of development.

Hero Future Energies Private Limited hereby submits its suggestions/comments on proposal for "determination of the Buyout Price as an alternate compliance mechanism towards fulfilment of Renewable Consumption Obligation (RCO)" in Petition No. 12 / SM/2025 (Suo-Motu) and same are attached as **Annexure-I** to this letter. We humbly request CERC to consider our suggestions while finalizing the amendments to the mentioned Regulations.

We respectfully submit these suggestions/comments for CERC's consideration.

For Hero Future Energies Pvt. Ltd.

Hero Future Energies Pvt. Ltd. New Delhi

Anchal Kumar
Authorized Signatory

Enclosure: As above.

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Annexure I

The proposed mechanism for determining the Buyout Price under the Renewable Consumption Obligation (RCO) is an important step toward operationalising a complete compliance framework under the Energy Conservation Act, 2001. However, given the central role that RCO will play in influencing renewable procurement behaviour, it is critical that the buyout option is designed carefully to avoid becoming a low-effort alternative to actual renewable sourcing. The current proposal, while well-intentioned, requires refinement to maintain the integrity of the REC market, ensure genuine compliance, and reinforce the primacy of renewable electricity and REC purchases. The following recommendations aim to strengthen the framework by improving clarity, tightening safeguards, and ensuring that the buyout mechanism supports—rather than substitutes—the country's broader renewable energy transition.

Mandatory Compliance Hierarchy

To preserve the integrity of the Renewable Consumption Obligation (RCO) framework, it is essential that the Commission clearly establish a mandatory hierarchy of compliance. Renewable energy procurement and REC purchases must be recognised as the primary routes, with buyout allowed strictly as a last-resort option. This hierarchy should not be left to interpretation or voluntary preference; it must be codified in the regulation.

Obligated entities should be required to submit documented and verifiable evidence demonstrating their genuine attempts to procure renewable electricity—including participation in tenders, PPA negotiations, market purchases, or open access transactions—and similar evidence of REC purchase attempts, such as time-stamped exchange bids, unmatched transactions, or market snapshots. These records should be submitted along with a declaration to NLDC/SLDC prior to opting for buyout.

Such a framework ensures that buyout is not misused as a convenient or low-effort alternative and reinforces the policy intent of driving real renewable energy investment in the economy.

Higher Buyout Premium (15-20%) With a Floor Price

The proposed 5% premium above REC prices is inadequate to meaningfully deter obligated entities from choosing buyout over more substantive compliance routes. Given that renewable procurement involves long-term contracting efforts, market volatility, and transaction complexity, a minimal premium creates an unintended incentive to treat buyout as the preferred option.

A higher premium—in the range of 15-20%—is necessary to ensure that buyout is always more expensive than REC purchases and remains a financially unattractive option relative to

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direct renewable sourcing. Along with this, the Commission should consider adopting a minimum floor price, calibrated to long-term REC price trends and actual renewable procurement costs.

A stronger price signal will maintain REC market liquidity, prevent potential downward spirals in REC demand and pricing, and reinforce the broader policy objective of accelerating renewable energy capacity addition.

Strengthened Monitoring, Verification, and Enforcement Mechanisms

The credibility of the buyout mechanism hinges on the robustness of compliance monitoring. At present, the draft does not outline the verification systems necessary to ensure that obligated entities do not bypass the first two compliance routes. The Commission should introduce a comprehensive oversight framework that includes:

- Annual audits of RCO compliance conducted by NLDC or an independent agency
- Quarterly reporting by obligated entities detailing their procurement attempts, REC purchase records, and justification for invoking buyout
- Standardised reporting formats to ensure uniformity and ease of verification
- Independent verification provisions
- Penalties for misreporting or false declarations, aligned with the Energy Conservation Act

Such measures will increase transparency, minimise misuse of buyout, and ensure that the mechanism functions as intended—only when renewable or REC options are genuinely unavailable.

Temporary Nature of Buyout & Introduction of a Sunset Clause

The Commission has noted that buyout may be required over the next two financial years due to capacity constraints. However, without regulatory clarity, obligated entities may begin to view buyout as an accepted long-term compliance method, potentially undermining the development of renewable markets.

To address this risk, the regulation should explicitly state that the buyout mechanism is intended as a temporary and transitional tool, subject to annual review. Additionally, a clearly defined Sunset Clause should be introduced in the proposal.

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Strategic Use of Buyout Funds to Reduce Transmission Charges for RE Infrastructure

To ensure that the buyout mechanism contributes meaningfully to renewable energy development, a portion of the collected buyout funds should be specifically earmarked for reducing transmission charges associated with renewable evacuation infrastructure. Transmission costs are a major component of landed RE tariffs, and targeted support in this area would directly lower procurement costs for obligated entities, improve the competitiveness of renewable power, and strengthen compliance through actual RE consumption rather than buyout. Directing buyout proceeds toward offsetting ISTS and green corridor charges will create a clear, outcome-oriented linkage between buyout payments and system-level improvements that facilitate renewable integration.

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