No. IEX/RA/059/25-26 Date: 21.11.2025

To,

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

Sub: IEX Comments on CERC Proposal dated 22.10.2025 in Suo Motu Petition No. 12/SM/2025 for 'Determination of the Buyout Price as an alternate compliance mechanism towards fulfilment of Renewable Consumption Obligation (RCO)'

Dear Sir,

This has reference to Public Notice dated 22.10.2025 inviting suggestions and comments from stakeholders on the proposal for 'Determination of the Buyout Price as an alternate compliance mechanism towards fulfilment of Renewable Consumption Obligation (RCO)' in Suo Motu Petition No. 12/SM/2025.

Comments on behalf of IEX are hereby attached hereto for kind consideration of the Hon'ble Commission.

Thanking You

Yours Sincerely,

Indian Energy Exchange Limited

Gaurav Maheshwari

Vice President (Regulatory Affairs)

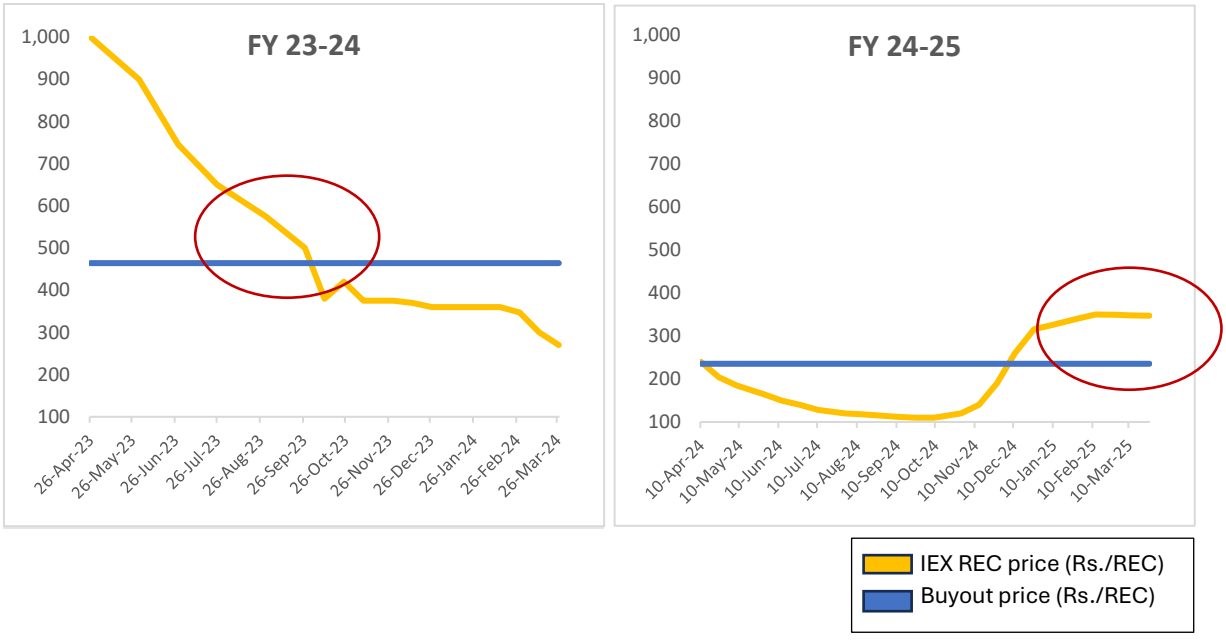
Enclosures: As above

IEX Comments on CERC Proposal dated 22.10.2025 in Suo Motu Petition No. 12/SM/2025 for 'Determination of the Buyout Price as an alternate compliance mechanism towards fulfilment of RCO'

The proposal issued by the Hon'ble Commission seeks to determine a Buyout price for compliance of Renewable Consumption Obligation (RCO) by the Obligated entities. The proposal links the Buyout price to the weighted average price of RECs traded in an year and marks it up with a 5% premium over and above the weighted average REC price. We believe that the existence of the said price in the proposed manner will distort the market forces and will effectively act as a reference price for the market players. In the presence of such a reference price, the market may collapse going ahead. We elaborate the apprehensions in the paras below.

1. **Proposed Buyout price will distort the REC market-** Buyout price for the previous year has been proposed to be 105% of the weighted average price of RECs traded in the market during such year. While there exist two ways to meet RCO compliance- RE power purchase and REC purchase, as per the proposal the third option, i.e., Buyout price will be used by buyers to meet their RCO compliance remaining after exhaustion of the first two options for previous year. Following aspects may be considered in this regard.

   a. **The proposal penalizes the entities complying with RCO**
      i. In the present REC market, the obligated entities purchase REC based on the market dynamics of supply and demand.
      ii. Last two years' data is shown below to highlight the prices in the market at which entities have procured the certificates. The charts also show the 'Buyout price' as per the proposed mechanism.



iii. As can be seen in the highlighted period in the charts above, with the Buyout price being lower than market price at several instants, the entities who purchased REC at high market prices well within the compliance period are eventually getting penalized on post-facto basis since non-complying entities will get to comply at relatively low price.

iv. This will ultimately alter the behavior of complying entities and force them to exit the market.

b. **The proposal incentivizes to act in misalignment with market forces**

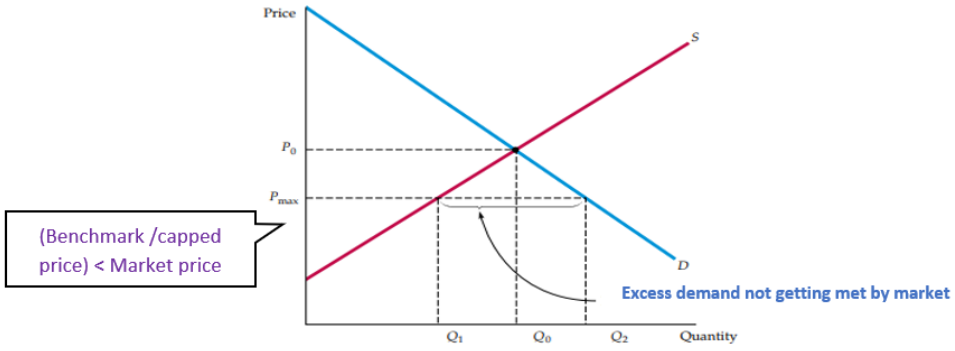
i. It may be noted that in absence of any specific prohibition to meet past year's RCO during subsequent year, all the buyers will have a perverse incentive to bring down the market price to as low as possible resulting in turn in a lower Buyout price for the past year.

ii. Infact, they might simply strategize to not trade or trade minuscule in the market and meet their compliance after completion of the year at a petty Buyout price. This is bolstered by the fact that REC market is concentrated and mostly driven by few bulk buyers/discoms. For instance, in FY 2024-25 around 60% of buy bid at power exchanges was placed by 4-5 buyers.

c. **Imposition of an arbitrary benchmark/de-facto price cap**

i. Economically, such buyout price has a tendency to become the de-facto cap/benchmark price for other trades. The effect of such benchmark being lower than the market price is seen simply in the supply-demand curves below.

Fig: Supply demand interaction with a benchmark/cap lower than the market price



ii. Sellers withdraw their interest to sell at the lower benchmark while buyers may want to purchase more. As is evident, with a benchmark lower than the market price, there will be a clear distortion by creating artificial scarcity in the actual market for RECs. Similarly, if the benchmark is higher than the market price, sellers may want to sell at such higher price while the buyers may go out of the market.

iii. Once a proxy price is established for the market and is expected to remain low, liquidity in the market will dry out close to fag end of trade cycle.

iv. Such behavior is typical of a market not in equilibrium and prone to creation of deadweight loss.

d. **Drastic reduction of Buy Bid volume in the market at IEX**

i. With the issuance of instant Buyout price proposal, the buyers have already started acting to strategize their compliance at the least cost to them.

ii. Purportedly, in their efforts to do the same and in anticipation of low Buyout price for the period, they have drastically reduced the buy bids in the last two market sessions after issuance of the current proposal.

Trade date	IEX Buy bids (No.)	% inc.(+)/dec.(-) after issuance of Buyout price proposal
08/10/2025	7,95,121	
22/10/2025	Buyout price proposal issued by CERC	
29/10/2025	1,05,577	-87%
12/11/2025	2,94,487	-63%

The reduction in buy bid quantity at IEX platform is to the tune of ~63-87% against the sessions concluded prior to the current proposal.

e. **The proposal is contrary to CERC's REC regulations**

i. The Hon'ble CERC in the REC regulations 2022 had done away with the floor and forbearance price of RECs in the market with an objective to let the price be decided by the market forces of supply and demand.

ii. With the proposed buyout price, there will be a de-facto price cap/floor in the market. It vitiates the Hon'ble Commission's objective of removing the price floor and forbearance in the regulations.

f. **The Buyout price creates an arbitrage and legalizes RCO default**

i. It can also be said that the proposed Buyout price will legalize defaulting on the RCO targets by providing them with an arbitrage between an ongoing market and a fixed price based on past trade.

ii. Furthermore, the proposed price is also negligible in comparison to the RCO non-compliance penalty of Rs. 3.72/unit determined by the BEE under the Energy Conservation Act.

In view of the above reasons, it is suggested that the Buyout price should always be at a premium (150%) to the highest REC trade price in the financial year. At such a premium, such arbitrage will usually not exist.

2. Proposed Buyout price 'route' of RCO compliance will lead to REC market collapse

a. REC market was conceived as a way to promote RE power off-take by allowing the RE projects to segregate the green attributes from the power and sell it separately to such buyers who are not able to source RE power.

b. Over the years, RECs equivalent to around 250 BUs have been traded in the market corresponding to the electricity generated by such RE projects. As in November 2025, the REC inventory stands at 3.3 crores. Against this, the buy side volume has been on average of 15-20 lakh RECs per month. Even with the current buy rate, it will take atleast 24 months to clear this inventory of RECs, assuming there will be no new issuance of REC.
c. In such circumstances, introducing another method of RCO fulfilment in the form of Buyout price will wipe out the liquidity from the market. While the proposal states that Buyout price route should be availed by Obligated entities only after RE power and REC routes are **exhausted**, there is nothing to prohibit them from availing Buyout route as the primary means of RCO fulfilment.

It is suggested that the Buyout price route may not be treated as a regular compliance mechanism and instead be available only once RE power and REC route are exhausted.

3. Buyout price mechanism has failed globally

a. Many countries such as those in USA, UK, Australia have attempted some form of buyout price mechanism. These mechanisms have either been phased out or have faced criticism for diluting the RE purchase obligations.
b. When in place, they have acted to become a capped/benchmark price for certificates and discouraged investments in renewable, leading to market volatility and inefficiencies.

With the above experiences, the rationale for setting the proposed Buyout price route ought to be re-considered.

4. Alternate proposal

a. In order to improve the aforesaid shortcomings of the proposal, we suggest that the Buyout price route should only be allowed if neither RE power nor RECs are available in the market during the period of compliance with RCO targets.
b. Additionally, there is no specific mechanism in the Ministry of Power notification dated 27.09.2025 which limits the premium for Buyout price. Accordingly, to dissuade non-compliance by the buyers, the Buyout price premium over the REC should atleast be 50%, i.e., it should atleast be 150% of the highest REC price of the year gone by. **So it is proposed that the buyout price should be atleast 150% of the highest trade price during the year.**

If the Buyout price mechanism is not altered as suggested above, the same may result in collapse of the REC market conceptualized and established over the years under the regulatory guidance of the Hon'ble Commission.