INDIA POWER

Ref: RA/II/002/25-26/52

21st November ,2025

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

**Subject: Comments/Suggestion on Determination of the Buyout Price as an alternate compliance mechanism towards fulfilment of Renewable Consumption Obligation (RCO).**

**Reference: Suo-motu Petition No. 12/SM/2025 dated 22.10.2025**

**Dear Sir,**

Greetings from India Power Corporation Limited **("IPCL")**!!!!!

This is in reference to the notification issued by the Hon'ble CERC inviting comments/ suggestions on Determination of the Buyout Price as an alternate compliance mechanism towards fulfillment of Renewable Consumption Obligation (RCO). We are herewith submitting our comments as per attachment mentioned in the Appendix.

At the outset, we humbly would like to thank the Hon'ble CERC for giving us an opportunity to express our views/comments/suggestion on the proposal of specifying the Buyout Price for FY 2024-2025 issued for the stakeholder's consultation. We appreciate the opportunity to contribute our perspectives towards the development of the compliance mechanism for RCO.

We trust that our submission will receive your positive consideration. We are available to provide any further clarification or information.

Thanking You,
Yours sincerely
**For India Power Corporation Limited**

Sandeep

**Deputy Manager (Regulatory Affairs)**

Enclosed: Appendix

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# INDIA POWER CORPORATION LIMITED

## **Appendix**: Comments on Determination of Buyout Price for Renewable Consumption Obligations (RCO)

Hon'ble Central Electricity Regulatory Commission **("Hon'ble CERC/Commission")** has invited comments from all stakeholders on the proposed suo-motu proposal for **"Determination of the Buyout Price as alternate compliance mechanisms towards fulfilment of Renewable Consumption Obligation (RCO)**" vide its Petition No. 12/SM/2025 dated 22nd October, 2025. Accordingly, the comments on the proposed proposal are provided in the following Table.

**TABLE: COMMENTS ON DETERMINATION OF BUY-OUT PRICE FOR RENEWABLE CONSUMPTION OBLIGATIONS (RCO)**

| ASPECT | RECOMMENDATION | JUSTIFICATION & RATIONALE |
|---|---|---|
| Buyout price basis | Should be linked to the REC market price. | **The REC market is the established mechanism for discovering the value of the "green attribute" of electricity. The buyout price should reflect the market value to ensure consistency and transparency.**<br><br>**Justification:** Linking the buyout price to the Renewable Energy Certificate (REC) market is a sound regulatory principle. The REC market represents the discoverable market price for the "green attribute" of electricity. An obligated entity's failure to purchase RECs means they are not paying this market price for their compliance. The buyout price, therefore, acts as a payment in lieu of purchasing that green attribute.<br><br>**Rationale:** Basing the price on the REC market is a logical and transparent way to penalize non-compliance. It ties the cost of non-compliance directly to the market mechanism designed to meet the green energy goals. |
| Buyout price premium level | Should include a premium over the REC price to incentivize direct compliance.<br><br>The premium should be at least 10% to 15% (higher than the 5% proposed by the Hon'ble Commission). | **The premium discourages reliance on the buyout option by making it more expensive than purchasing RECs. This encourages active participation in the renewable energy market, which is the primary policy goal. A 10% to 15% premium provides a more robust and effective deterrent. A lower premium risks making the buyout a cheaper alternative to recent REC prices, which could undermine the REC market.**<br><br>**Justification:** Setting the buyout price at a premium over the REC price is necessary to encourage obligated entities to primarily use the preferred compliance methods: direct renewable energy consumption or REC purchases. A lower or equal price would make the |

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**Appendix**: Comments on Determination of Buyout Price for Renewable Consumption Obligations (RCO)

| ASPECT | RECOMMENDATION | JUSTIFICATION & RATIONALE |
|---|---|---|
| | | buyout a cheaper, and therefore more attractive, option, undermining the REC market and the very purpose of the RCO.<br><br>The Hon'ble Commission has proposed a buyout price at a 5% premium over the previous year's weighted average REC price which is ₹245/MWh (₹0.245 per unit) for FY 2024-25. This low price fundamentally undermines the economic value of green attributes, creating a cheaper, non-market-based alternative that threatens to dismantle the liquidity and participation achieved in the Renewable Energy Certificate (REC) and Green Day-Ahead Market (GDAM) ecosystems. The prevailing market price of REC hovers around currently ₹350 to ₹370 per MWh. In view of the above, we request for a higher premium of at least 10% to 15% is justifiable based on recent trends. When the buyout price is too low relative to market prices, it provides insufficient disincentive, potentially leading to a market crash for RECs and negatively affecting the green energy market.<br><br>It is further submitted that the REC market and the buyout mechanism serve distinct functions and should operate in separate "game areas". The REC mechanism is designed as a market-based instrument for direct compliance and demand creation, while the buyout is intended solely as an exceptional, last-resort option. Buyout price and REC mechanisms should operate separately, serving different but complementary roles in RCO compliance with the objective of maintaining the REC market as the primary, market-based compliance route, with the buyout mechanism serving as a fall back option. A low differential between the two prices creates a significant risk of overlap. Obligated entities, seeking the path of least resistance, might frequently choose the hassle-free buyout option, thereby eroding demand in the primary REC market and destabilizing market prices.<br><br>Furtherance to the above, the REC mechanism involves time-bound and regulator-dependent compliance procedures, including accreditation, issuance, and trading. This procedural timeline introduces an inherent risk factor and potential financial implications (e.g., penalties |

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| | | for late compliance) for market participants. The buyout option, by contrast, is a straightforward financial transaction with no associated regulatory compliance burden or time risk. This fundamental difference in operational ease requires a significant price gap to maintain the integrity of the overall RCO framework. Therefore, 5% premium is arguably insufficient to act as a meaningful deterrent and a higher premium is necessary to ensure the primary compliance avenues (RECs and direct procurement) remain the unequivocally preferred options.<br><br>**Rationale:** The premium acts as a deterrent. By making the buyout more expensive, the Hon'ble Commission sends a clear signal that the primary goal is investment in and consumption of renewable energy, not simply paying a fine or penalty. This incentivizes entities to manage their compliance actively, which strengthens the REC market and supports renewable capacity addition. A 10% to 15% premium offers a stronger and more effective deterrent against non-compliance compared to the proposed 5%. A higher premium is also a more reliable mechanism to ensure the buyout is the "last resort" option, rather than a cheaper, tactical choice for obligated entities who can afford to pay the lower penalty. |
| Pricing period & latest available REC price data or current market trends | The calculation should be based on the latest available REC price data or current market trends, not on the FY 2024-25 weighted average REC price. | **The Commission should consider recalibrating the initial buyout price for FY 2025-26 based on the latest available REC price data or current market trends to ensure the 10-15% premium serves as an effective deterrent from the outset, preventing the market distortion the mechanism is designed to avoid. Using the most current data ensures the buyout price accurately reflects prevailing market conditions. This prevents a situation where the buyout price is lower than recent market-discovered REC prices, which would encourage non-compliance and harm the REC market.**<br><br>**Justification**:<br>The proposed formula for the buyout price, set at 105% of the previous year's weighted average REC price, is not an appropriate mechanism to ensure the price remains relevant to market conditions. However, the initial proposed price of ₹245/MWh for FY 2024-25 (based |

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| | | on the previous year's data) is already substantially lower than the current spot market price of approximately ₹350 to ₹370/MWh. This disparity may lead to immediate arbitrage and an over-reliance on the buyout option in the current fiscal year.<br><br>**Rationale:**<br>1) Basing the price on the year-to-date (YTD) average of FY 2025-26 (or a more current period) ensures that the buyout price accurately reflects the prevailing market conditions. This keeps the buyout as a less attractive option than participating in the current REC market, thereby protecting the integrity of the market.<br><br>2) By linking the buyout price to the most recent data (YTD FY2025-26 average), the Hon'ble Commission may ensure that the financial penalty for non-compliance remains appropriately calibrated to the current market value of green attributes. This reinforces the market signal and prevents the "third option" from becoming a loophole that devalues the REC. |

