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**COMMENTS OF KERC**

**On the proposal of CERC on the Determination of Buyout price**

**(CERC Suo motu – Petition N.12/SM/2025)**

CERC in terms of the clause 9(iii) of the Notification of Ministry of Power dated 27-9-2025 has brought out a proposal on determination of buy-out price, which is one of the three methods for compliance of RCO. The comments of KERC on the said proposal are given below:

- In the present proposal, the buyout price is proposed as 105% of the average market price of REC for the year. As the current market price of REC is around Rs.250 per MWh only. The 5% margin fixed for the buyout price based on the current market price may not provide sufficient incentive for a person to choose option 1 and 2, in comparison with buyout price. The margin of 5% is so low (considering the current market prices), that the entities will be indifferent between choosing between purchase of RE or REC and buyout price. If the intention is to promote option 1 or 2, the buyout price shall be determined at a price sufficiently higher than current REC price, which would tempt the entities to choose option 1 or 2 rather than going for the option of buyout price. The buyout price should act as an indicator for the ceiling price of REC and help to stabilise the REC prices in the market. It should also act as a predictor for the future REC prices. Hence, the initial buyout price shall be based on an administrated price (rather than based on average market price) and linked/indexed to price index (CPI or WPI) every year so that price trend of REC is predictable and also help to sustain the REC price. For example, the buy out price in UK in 2002 was determined through legislation (The Renewables Obligation Order 2002) as 30 pounds per MWh, which is to be adjusted with general index of retail prices each year.

- Keeping in view, the current trend of declining price of RECs in the market, the present methodology of determination of buyout price may lead to perpetual decline of REC prices in the market. This is because, if the designated consumers abstain from purchasing REC in anticipation of the further reduction in REC price, the buyout price will be still lower for that year.

- As per the MoP notification, buy out Price is one of the options to meet RCO. Thus, if a person wants to go for buyout option during the financial year, the buyout price has to be determined *ex-ante*, at the beginning of the year for conveying proper signal for the entities. It is mentioned that by 30th April of every financial year upto 2029-30, the NLDC shall publish the weighted average price of REC, for the concluded previous financial year for determination of buyout price. This means, the buyout price is determined *ex-post*, and will be known only after the end of the financial year. The present methodology of determining the buyout price ex-post, (ie., after the financial year is over) may not achieve the objective of considering buy-out price as an alternative mode for meeting RCO.

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