NAME
India's 1st OTC Platform

NAME/MD/CERC/BOP-RCO/2025 November 21, 2025

To,

Shri H S Pruthi,

Secretary,

Central Electricity Regulatory Commission,

7th Floor, Tower B, World Trade Centre,

Nauroji Nagar, New Delhi- 110029

Email: secy@cercind.gov.in and advisor-re@cercind.gov.in

*Subject: Comments / suggestions on the proposed mechanism for determination of **Buyout Price** as an alternative compliance mechanism for fulfilment of RCO.*

Dear Sir,

Kindly refer to the **Suo-Motu Petition No. 12/SM/2025 dated October 22, 2025** on proposed mechanism for determination of **Buyout Price** as an alternative compliance mechanism for fulfilment of RCO, inviting suggestions from the stakeholders.

We wish to provide you with our comments/ suggestions on the petition for your kind consideration and are annexed as Annexure to this letter.

In addition to providing this written memorandum, we are also available for making an oral representation to the staff and/or before the Hon'ble CERC if so required.

We take this opportunity to thank you and take our comments on record.

Warm regards,

Kapil Dev 21/11/25

Managing Director

NAME's Comments & Suggestions on the
Determination of Buyout Price as an alternate compliance mechanism towards fulfillment of Renewable Consumption Obligation (RCO)

Preliminary Comments

1. **New Age Markets in Electricity Private Limited (NAME)** operates India's first Over-the-counter (OTC) platform under Hon'ble Central Electricity Regulatory Commission (Power Market) Regulations 2021.
2. Hon'ble CERC introduced OTC Platform, as a market infrastructure institution, to foster **direct interaction between buyers and sellers**, **enhance transparency in the OTC market** by **reducing the current information asymmetry** and **facilitate informed decision making**. The co-existence of OTC Platform, in the OTC Market, and power exchanges provides the much-needed choice for an additional regulated venue cum marketplace and complete the spectrum of offerings for the market participants.
3. **The Ministry of Power, vide its notification dated September 27, 2025** (published in Part II, Section 3, No. 4301 of the Gazette of India – Extraordinary), has mandated the minimum proportion of total electrical energy consumption to be derived from renewable energy sources by Designated Energy Consumers. The notification further delineates three permissible compliance mechanisms through which such obligated entities may fulfil their Renewable Consumption Obligation (RCO). Among these, the primary compliance route—direct consumption of renewable energy—is intended to bolster demand-side participation and catalyze further investment in renewable energy infrastructure. Even the alternatives provided through purchase of RECs and Buyout price are indirectly supporting development of RE projects.
4. Consequently, the Hon'ble Commission, through **Suo Motu Petition No. 12/SM/2025 dated October 22**, 2025, has prescribed the Buyout Price applicable for RCO fulfilment. In reference to the aforementioned notification and determination, our detailed comments and submissions have been articulated in the following sections.
5. We have referred to the following documents while preparing the comments for the petition:
    a. MoP's Revised Gazette Notification on Renewable Consumption Obligation (RCO) under the Energy Conservation Act, 2001, notified dated September 27, 2025
    b. CERC's Suo-Motu Petition No. 12/SM/2025 dated October 22, 2025
    c. CERC's Deviation Settlement Mechanism and Related Matters Regulations, dated August 5, 2024.
    d. CERC's Deviation Settlement and Related Matters Regulations, 2022 – Explanatory Memorandum

6. Our comments are mentioned below: -

a. The proposed Buyout Price might contradict the objectives of MoP's Revised Gazette Notification on Renewable Consumption Obligation (RCO)

As per, Clause 6 of the petition, it is evident that the Commission intends to prioritize the adoption of the first two methodologies for fulfilling the RCO, designating the third as a measure of last resort. The relevant extract from the petition has been reproduced below:

"The first two options clearly lead to investment and, in turn, the establishment of RE capacities and should definitely be preferred options for RCO compliance. It is only when either of these two options is exhausted that the Designated Consumers should lean on the third option for RCO Compliance."

Here the Commission has explicitly expressed its intent to prioritize the first two methods for RCO compliance, assigning the highest precedence to the first two options. Further, given that the proceeds collected through RCO compliance are envisaged to support the development of renewable energy projects, it becomes essential that all three compliance options need to have equivalence in energy terms.

b. The proposed Buyout Price might not be sufficient to reflect market dynamics

Pursuant to Clauses 9 and 10 of the Suo-Motu Petition No. 12/SM/2025, the Commission has proposed the following:

1. The Buyout Price for a given year shall be linked to the weighted average REC price for that year.
2. The Buyout Price shall be set 5% higher than the weighted average REC price for the respective year, factoring in REC prices discovered in both the Collective and Bilateral markets.
3. Accordingly, the Buyout Price for FY 2024–25 has been fixed as **₹245/MWh.**

However, considering the dynamic nature of the market, this approach appears inadequate.

From a policy and regulatory standpoint, the three options for RCO compliance should be on the principle of equivalence. Accordingly, benchmarking has to have the component of energy as well.

Hence, it is proposed that the buyout price should be linked to the prices of green energy rather than being limited solely to that of the green attribute.

In order to capture the prices of the wider market, the prices in the exchange market as well as the OTC market needs to be considered. Thus, the benchmark for the buyout price could be:

1. Exchange market: Prices of electricity + RECs
2. Exchange market: Green Day Ahead Market (GDAM)
3. OTC market: Prices of electricity + RECs
4. OTC market: Prices for the scheduled RE energy

The prices in (4) are currently not available. The prices for (3) are likely to be available in near future.

In order to have parity amongst the electronic platforms, a blend of the price of (2) & (4), as available, should

be considered for Buyout Price.

Consequently, the combined prices for the entire OTC market shall be published by the OTC platform on a monthly basis. Accordingly, it should be mandated by the Hon'ble Commission that *"All the transactions in the bilateral market should be reported timely on the regulatory reporting platforms."*

Secondly, as purchase of RECs is to be promoted, the buyout price should be set sufficiently high so that Designated Consumers do not lean on this option.

Thirdly, as per prevailing market practice, the late payment surcharge is levied at 1.25% per month, amounting to 15% annually. Hence, a Buyout Price uplift of merely 5% appears considerably low and inconsistent with the prevailing market standards.

Thereby, it is proposed that the Buyout Price, based on the above comments, be determined as follows:

The Buyout Price applicable to obligated entities for any shortfall in RCO Compliance shall be as defined below:

Buyout Price = (Weighted average of the green electricity prices of the Collective and Bilateral market) * Multiplication Factor (MF)

Where the Multiplication Factor (MF) = (105 + shortfall percentage of the respective entity's RCO)

Illustration: Based on the statistics of FY 24-25, the weighted average of the renewable energy price (GDAM) in the given financial year is approximately ₹4014.15 Rs/MWh across exchanges. The MF for an entity that has a shortfall of 10% (of RCO, as specified the respective Commission), will be 115% (as based on the above formula). Thus, the corresponding Buyout Price payable by such an entity would amount to ₹4616.27/MWh (4014.15*1.15).

Such a valuation appears substantial and tends to better reflect market dynamics, thereby encouraging the obligated entities to prioritize the first two methods for RCO compliance.

c. The Buyout Price mechanism needs to be contextual to the objective.

The Hon'ble Commission had introduced the first set of Deviation Settlement Mechanism (DSM) Reforms in 2014. Initially, the DSM penalty framework was linked to a frequency vector which was taken away leading to behaviors not contextual with the objective.

The same has been highlighted by the Commission in the Deviation Settlement and Related Matters Regulations, 2022 – Explanatory Memorandum, presented below: -

"*Another fallout of linkage of frequency to DSM rate is the perverse tendency of the Discoms to deviate from the schedule, especially during high frequency conditions. In view of the prevailing stability in grid operation and frequency and consequent DSM price being predictable, the drawee entities can choose to deviate during high frequency hours as DSM price tend to be very are low or even zero at those times."*

Thus, in view of the aforementioned subject, the Commission in the Deviation Settlement Mechanism and Related Matters Regulations, 2024, decided to link the DSM charges with the *Normal Rate,* which indeed was a **market-linked reference** (DAM/RTM/AS prices) and **added explicit deterrent charges, volume limits, and tighter definitions.**

It appears that the relatively low Buyout Price (as discussed in the preceding sections) may once again enable arbitrage opportunities. Therefore, to prevent such behavior and genuinely promote investments in renewable energy sources, it is recommended that the Commission might strengthen the Buyout Price framework by setting it at a more substantial level, linked to the highest prices discovered in the market. This approach would effectively prompt obligated entities to adopt the first two methods for fulfilling their RCO compliance.

7. Our Suggestions

a. The Commission should consider revising the mechanism deployed to determine the Buyout Price, in order to ensure that it aligns with the intent of prioritizing direct renewable consumption and REC purchases. Therefore, the Buyout mechanism should adopt a more **deterrent structure** to **ensure compliance integrity and alignment with RCO objectives.**

b. Hence, instead of linking the Buyout Price with the weighted average of the REC price**,** it should be benchmarked with the weighted average of the green electricity prices of the Collective and Bilateral market. Additionally, the Multiplication Factor (MF) should be dynamic rather than static and calibrated in proportion to the extent of RCO shortfall. The same shall be determined as:

Buyout Price = (Weighted average of the green electricity prices of the Collective and Bilateral market) * Multiplication Factor (MF)

where the Multiplication Factor is defined as:
MF = (105 + shortfall percentage of RCO of the respective entity)

c. Furthermore, to ensure timely and robust adherence to RCO compliance, **strict monitoring becomes imperative.** In this regard, it is recommended that the Hon'ble Commission **mandate compliance reporting on regulatory reporting platforms**, such as the OTC Platforms. This approach would enable seamless consolidation of data at a single accessible interface, thereby facilitating efficient oversight as well as enable the Commission and other concerned regulatory authorities to determine applicable Buyout Prices for non-compliant entities in a timely manner.