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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 this market value to ensure consistency and transparency.** **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. **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	Should include a premium over the REC price to incentivize direct compliance.	**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.** **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 buyout a cheaper, and therefore more attractive, option, undermining the REC market and the very purpose of the RCO. **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.
Premium level	The premium should be at least 10% (higher than the 5% proposed by the Hon'ble Commission).	**A 10% 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.** **Justification:** The Hon'ble Commission has proposed a buyout price at a 5% premium over the previous year's weighted average REC price. The request for a higher premium of at least 10% 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. **Rationale:** A 10% 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 & Maintains the integrity of the REC market	The calculation should be based on the YTD FY 26 average REC price, not the FY 25 average.	**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.** **Justification**: 1) The Hon'ble Commission's proposal to use the previous financial year's (FY 25) average REC price for the current year's (FY 26) buyout price is potentially disrupt the REC market. This can create a significant disconnect if recent market prices have increased. If the average REC price in the early part of FY 26 is higher than the average price for the entirety of FY 25, an FY 25 based buyout price would be seen as a cheaper alternative to buying recent

		RECs. 2) The primary objective of the RCO and REC market is to stimulate investment in renewable energy. A buyout price that is lower than the recent market-discovered REC price undermines this objective by encouraging non-compliance rather than compliance through market mechanisms. **Rationale:** 1) Basing the price on the year-to-date (YTD) average of FY 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. 2) By linking the buyout price to the most recent data (YTD FY26 average), regulators can 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.