Prayas Energy Group's Submission on CERC draft proposal for determination of the Buyout Price as an alternate compliance mechanism towards fulfilment of Renewable Consumption Obligation (RCO).

21st November, 2025

On 22nd October, 2025, the CERC via *Petition No. 12 / SM/2025 (Suo-Motu),* invited public comments on the proposal of specifying the Buyout Price for FY 2024-2025 at Rs. 245/MWh and for the subsequent financial year at 105% of the weighted average REC price of that financial year. Our comments are detailed in this submission.

Context: Before going directly into the buyout proposal, we would like to lay out our broader thinking in the context of the sectoral developments for RPO/RCO and their penalty structures.

1. The RCO targets under the 27th Sep notification from MoP are 43.3% by 2030 and the penal structure for non-compliance as stated in the EC Act amendment is such that only the upper limit is capped at twice the price of every metric ton of oil equivalent (i.e.; Rs 3.72/kWh).
2. Under the EA, 2003, SERCs set RPO targets under section 86(1)e and nearly all states have adopted the MoP guidelines in this matter and set their 2030 RPO targets at 43.3%. Thus, while the targets under both Act are exactly same, the penal structures are not. While the existing EA, 2003 allows for nominal non-compliance penalties under section 142, the 2025 EA amendment bill proposes a new section 142(2), wherein the penalty '*shall be……. at a rate of not less than thirty-five paisa per kilowatt-hour and not more than forty-five paisa per kilowatt-hour for default'.*
3. Given these different penal frameworks coupled with the proposal for buy-out price to be specified by CERC (proposed as Rs 0.245/kWh), there is every possibility of forum shopping seeking lower penalties, in case, both the Acts remain in force. Ideally the penalty band should be same in both Acts to avoid legal complications. Hence, we have suggested an upper cap of the penalty under section 142(2) of the EA, 2003 in line with the EC Act.
4. Further, to avoid confusion amongst DCs/obligated entities and legal and jurisdictional complications between the Centre and States, we strongly recommend that all RE and ESS related targets (RPO, RCO or ESO), compliance framework and levy of penalty should be done only under one Act, i.e. the Electricity Act, 2003. In any case, it is the SERCs in both the Acts that must finally determine the penalty for non-compliance for exactly the same target.
5. Finally, coming to the matter of the buyout price, *'Payment of the buyout price'* is essentially akin to a penalty by a different name since this mechanism does not translate to any actual RE capacity addition in the country. Neither does it have any equivalent RE generation like the REC mechanism. Further, there is no mention of CERC at all in EC Act 2001. As there is no defined function or role of CERC, under which section of EC Act would CERC come up with a regulatory framework for the buyout price? Thus, allowing this through an amendment to the Oct, 2023 Notification should be reconsidered considering the likely legal challenges. The EC Act provides adjudication power to SERCs under section 26(3), which empower them to levy penalty in case of non-compliance. However, through buyout mechanism, which is essentially a form of penalty, this role of SERC is being undermined.
6. Not-withstanding these possible legal complexities and our view that RE and ESS related targets (RPO, RCO or ESO), their compliance framework and levy of penalty should be done only under one Act, i.e. the Electricity Act, 2003, we have the following comments on the CERC buyout proposal.

As per the proposal, CERC notes that,

> *5. As per the Ministry of Power's Notification dated 27.09.2025, there are three options available for meeting the RCO, namely:*
> *(i) consumption of renewable electricity, either directly or through an energy storage system;*
> *(ii) purchased or self-generated Renewable Energy Certificates issued in accordance with regulations notified by the Central Electricity Regulatory Commission, including Renewable Energy Certificates acquired under Virtual Power Purchase Agreements; and*
> *(iii) payment of the buyout price specified by the Central Electricity Regulatory Commission.*
> *6. 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****. (emphasis added).*
>
> *7. In view of the current installed capacity of the RE Sources and annual capacity addition achieved historically in the country, the Commission is of the opinion that there might be a requirement for the Designated Consumers to fall back on the third option, i.e. buyout price for the fulfilment of the RCO for the* ***next two financial years****. (emphasis added).*
>
> *8 (c) On lines of the above, the third option, namely buyout price, should also* ***reflect the green attribute cost*** *(emphasis added) and electricity component cost separately in an unbundled form. The obligated entity seeking to adopt a buyout price would pay this price, which would* ***represent a green attribute equivalent*** *(emphasis added) to the REC price. In addition, such an obligated entity will have to meet its energy requirements by purchasing the electricity separately.*

Thus, the CERC proposal clearly states that **buy-out should be the last option**. Further given the gestation period of RE projects being 1.5-2 yrs, point 7 above notes the possible need for buy-out mechanism for a **temporary period (2 yrs)**. Finally, the buy-out price should have **some link to the green attribute cost**.

While linking the buy-out price to the REC price is certainly one possible way forward, there remain challenges with this approach, namely

a. RE capacity registered under REC mechanism is very low (13.59 GW as of Nov 2025[1]), as compared to total RE installed capacity of 250.6 GW[2] in the country. Using the price discovery of just 5% of the national RE capacity for determining buyout price may be challenging, especially since REC prices are not reflective of a time when SERCs should have been strictly enforcing RPO targets and levying penalties.
b. If the REC prices remain suppressed (With very few DCs buying RECs given the historical lack of stringent implementation of RPO targets and penalties), then the buy-out mechanism may become the de-facto simplest way to fulfill RCO targets, completely undermining the very basic purpose of RPO/RCO targets – building actual RE capacity. The need for DISCOMs and other DCs to contract RE capacity and the pressure to sign enough PPAs may be further diluted with very low buy-out prices. The recent example of the 42 GW of the unsigned PPAs lying with CPSUs is pertinent in this case.

[1] https://www.recregistryindia.nic.in/index.php/publics/registered_regens
[2] https://mnre.gov.in/en/physical-progress/

c. In the present proposal, there is no sun-set clause for the buyout price mechanism. In case it is allowed without any sunset date, the mechanism will hamper prospects of meeting the 500 GW RE goal by 2030 and any future RE targets envisaged by the Central government.
d. While the REC represents the value of the green attribute/green premium under one framework, we also have the G-DAM and G-TAM markets which represent another value of the green premium. Data for such a green premium from FY 25 based on the CEA Market reports shows that in many months, the green premium is negative, i.e.; the G-DAM or G-TAM price is lower than their non green equivalents **(See Figure 1)**. Thus, simply linking the buy-out price to a market mechanism (REC in the proposal) may not be sufficient, there is a need for an absolute floor price.
e. It is critical that the minimum buy-out price to be notified by CERC should be 35 p/kWh or else the penal framework under the proposed amendment under the EA, 2003 – section 142 (2) will not be effective in practice. This is roughly 10% of the recently discovered tariffs for solar+storage, FDRE, RTC bids. **(See Figure 2)**

Thus, given the challenges noted above, the **CERC may consider the following**.

1. Set the buy-out price **as the higher of 35p/kWh or 110% of the weighted average REC price** for FY 24-25.
2. The minimum value of the buy-out price **should increase by 10p/kWh each year** to clearly signal to the DCs that the preferred option for RPO compliance should be setting up RE capacity. Thus, the minimum buy-out price for FY 26 would be **45p/kWh and for FY 27 would be 55p/kWh.**
3. The value of the buy-out price **should be re-considered by CERC after 2 years** based on the ensuing sectoral developments to encourage actual investments and building of RE capacity, though this shall not be higher than twice the price of every metric ton of oil equivalent (i.e.; Rs 3.72/kWh).

Supplementary steps needed to be taken by MoP

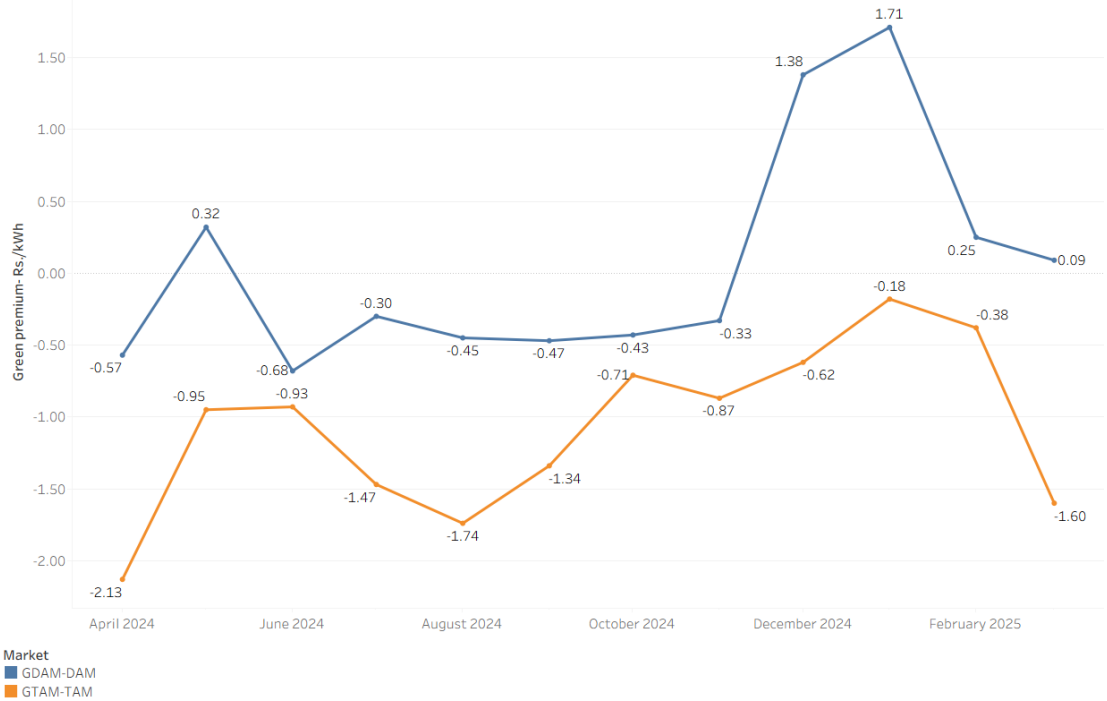
1. **Buy-out option should be made available only after RECs are exhausted** or else there could be a risk of none of the DCs buying REC, thereby suppressing the REC price and hence the buy-out price. **Alternatively, the buy-out option should be available only to those DCs that demonstrate adequate RE capacity tied up in the form of signed PPAs** (at the time of RCO compliance checking/auditing) for the requisite RE demand (with RCO of 33.01% and 35.95 %) for the year FY 26 and FY 27 respectively.
2. The buy-out mechanism should have a **pre-defined sunset clause or 2-3 years** after which the framework could be reworked (if still relevant and needed) based on the ensuing sectoral developments. If the sunset clause is not mandated, then at least the buy-out price should increase each year by a specific value (maybe 5p/kWh).
   Both these conditionalities shall have to be mandated by MoP as part of the Notification.
3. Since there is only the upper cap for the non-compliance penalty under the EC Act (Rs 3.72/kWh), SERCs could possibly have very low penalties, which may further undermine the REC and buy-out framework. Thus, the **minimum penalty under the EC Act should also be similar to the EA, 2003 (proposed to be 35p/kWh).**

While there has been repeated and significant RPO non-compliance in most states (see https://indiaredata.org/rpo/compliance-visualisation/compliance-at-a-glance and https://indiaredata.org/rpo/compliance-visualisation/compliance-overview), the unfortunate reality is that most SERCs have allowed carry forward of the shortfall and some have levied tokenistic penalties which have been criticized by APTEL. To our knowledge, only five states (MP, UP, Delhi, Bihar, Telangana) have levied some form of penalty in the past and it is unclear if these penalties were even recovered from the defaulting entities. Further, APTEL in a 2025 order has criticized levying of penalties as part of tariff process when section 142 in the EA, 2003 was available. Many SERCs have directed obligated entities to purchase RECs or make concerted efforts to meet RPOs, but have refrained from applying section 142.

Despite the new RCO targets being announced in Oct 2023 with the likelihood of much higher penalties (upper limit of Rs 3.72/kWh), there is still an inventory of ~ 33.6 million RECs (as of Oct 2025, **see Figures 3, 4**). This underscores the lack of seriousness in the entire RPO-RCO mechanism. If obligated entities or designated consumers have not rushed in to buy RECs, when available at such low prices (22p/kWh in FY 25, **see Figure 5**), they are unlikely to step up to pay the buyout price when the reality of SERCs non-compliance penalties has been practically non-existent. **Thus, the crux of the matter really lies in actually enforcing the targets and actually levying the appropriate penalties, without which DCs are unlikely to either buy RECs, pay the buy-out price or contract the necessary amount of RE capacity.**

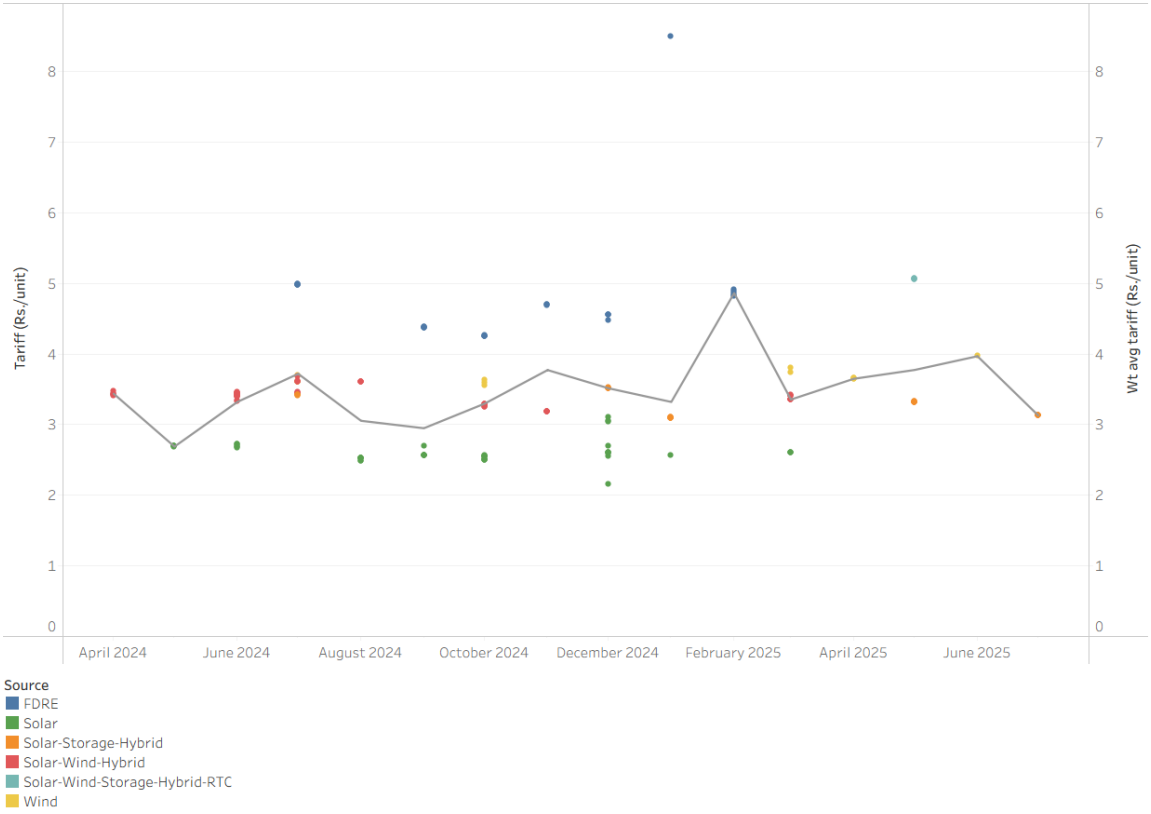
* * * * *

Figure 1: Monthly Green Premium in GDAM and GTAM markets in FY 25



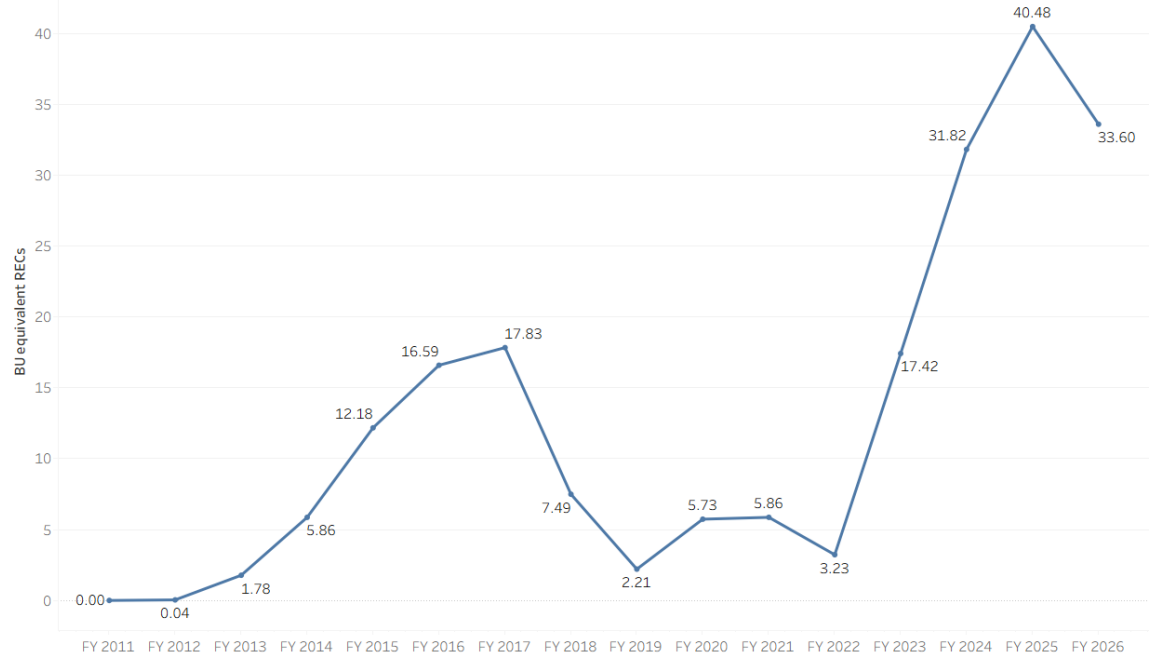
Source: CEA Monthly Market Monitoring Reports. The values above represent the difference of weighted average prices of GDAM – DAM and GTAM-TAM respectively.

Figure 2: Trend of tariffs discovered for various RE and Hybrid projects in FY 25.



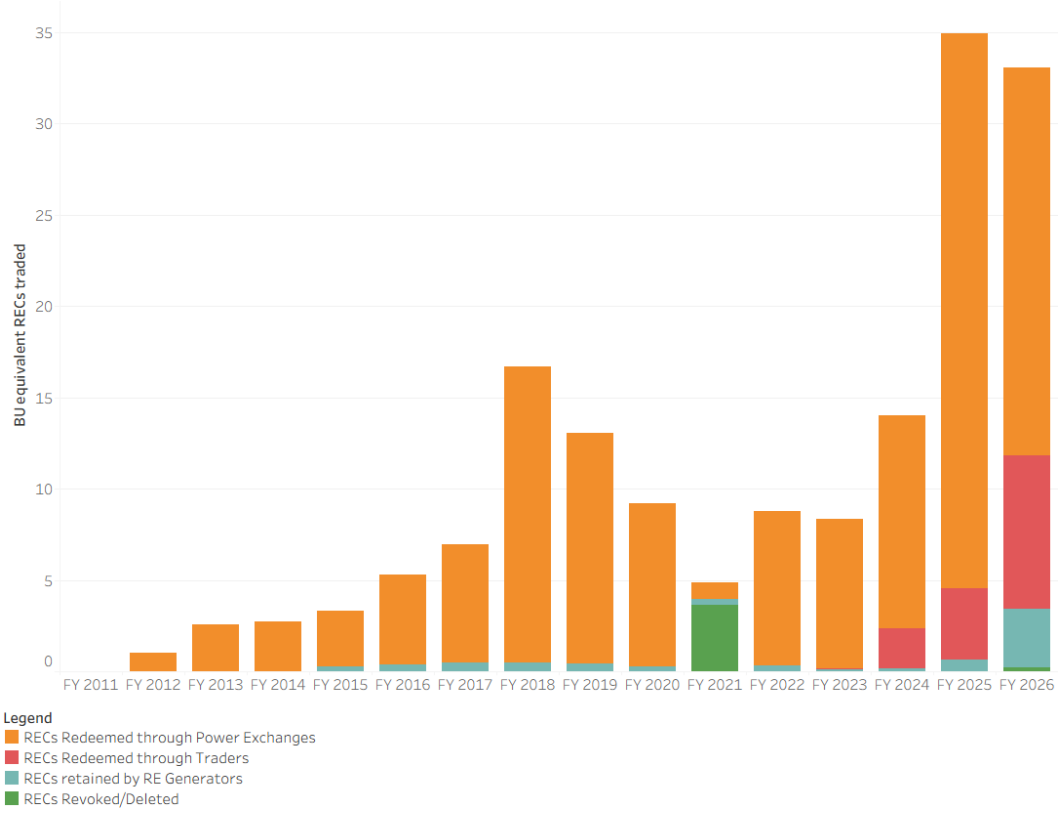
Source: Prayas compilation from various sources.

Figure 3: RECs (in million) unsold at the end of each financial year



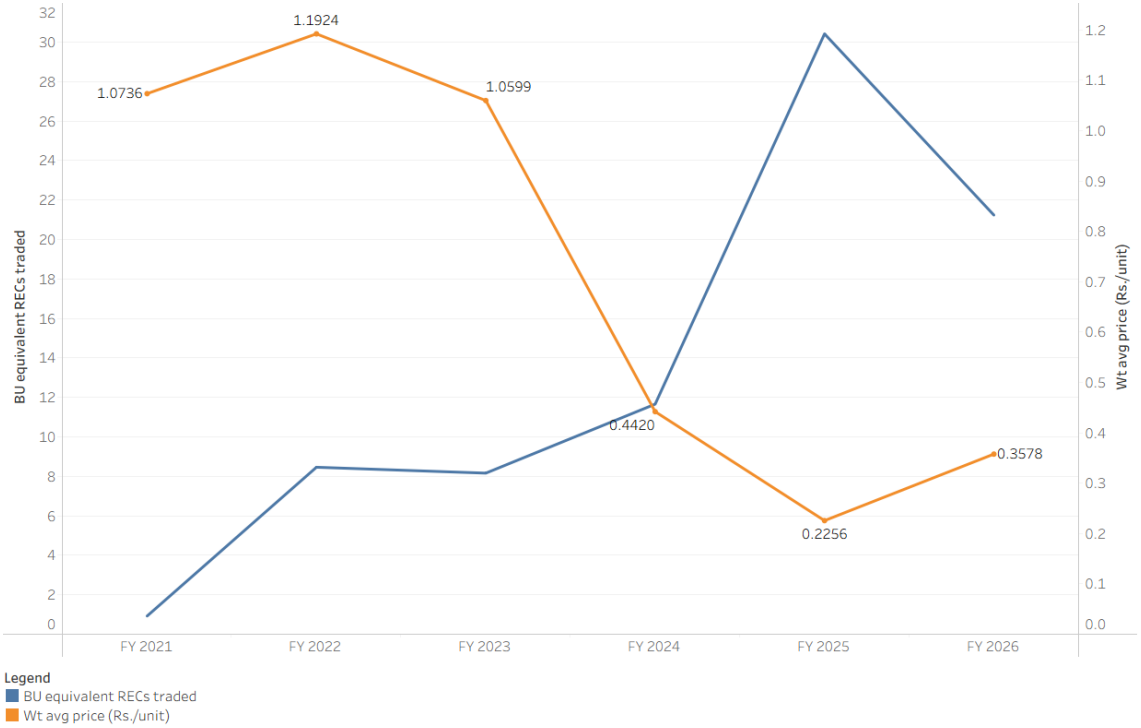
Source: REC Registry; FY 26 data upto Oct 25.

Figure 4: RECs (in million) utilised in each year



Source: REC Registry; FY 26 data upto Oct 25.

Figure 5: Trend of REC trading (volume and prices) in PXs in last 5 years.



Source: Prayas compilation from PXs.

* * * * *