11th November 2025

Mr. Harpreet Singh Pruthi
Secretary
Central Electricity Regulatory Commission,
World Trade Center, Tower-B,
Nauroji Nagar, New Delhi -110029

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

Dear Mr. Pruthi,

This is with reference to the CERC Petition No. 12/SM/2025 (Suo-Motu) dated 22nd October, 2025 on **"Determination of the Buyout Price as an alternate compliance mechanism towards fulfilment of Renewable Consumption Obligation (RCO)."**

I have gone through it and record some of my comments on the same. Additional suggestions are also provided for consideration of the Commission.

I would be pleased to address any clarification, if required.

Thanking you,
Yours sincerely,

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Comments on

CERC Petition on Determination of the Buyout Price as an alternate compliance mechanism towards fulfilment of Renewable Consumption Obligation (RCO)

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1. **Timeline for Compliance:** As per the Ministry of Power Notification dated 27th September 2025,

   "Designated Consumers shall submit their duly certified energy accounts for the year 2024–2025 by 31st October 2025, and by 31st July for each subsequent year. They shall submit compliance report after meeting the shortfall in Renewable Consumption Obligation through purchase of Renewable Energy Certificates or payment of buyout price, if any, by 31st March 2026 for the year 2024-2025, and by 31st December for each subsequent year."

   The compliance timeline (Figure 1) allows for compliance beyond the compliance year. This is inconsistent with the general set principles for compliance duration, for example in case of tax compliance. Payment of taxes and its compliance is limited to the period of compliance. In case of any shortfall calculated for the period of compliance, interest and penalty are due beyond that year. The Buyout mechanism should operate as a last-resort option once REC or renewable procurement avenues are exhausted within the compliance year. Extending REC purchases beyond the compliance period would lead to speculative deferment and distort the REC market dynamics. The current approach is similar to the one adopted in the case of energy saving certificates (Escerts). This should be treated as an aberration rather than a norm. **The global norm for similar schemes such a renewable purchase obligation or the emissions trading schemes also do not envisage purchase of certificates/allowances beyond the compliance year. The sanctity of compliance period should be retained as it is in the case of tax compliance.**

   This existing approach may be adopted for the compliance year 2024-25. Beyond that, i.e. for the compliance year 2025-26 onwards, purchase of RECs within a compliance year should only be accounted towards the respective compliance year. Beyond that, the buyout penalty should be operative. This approach would promote accountability, ensures timely RCO fulfillment, and maintains consistency and transparency in the compliance framework.

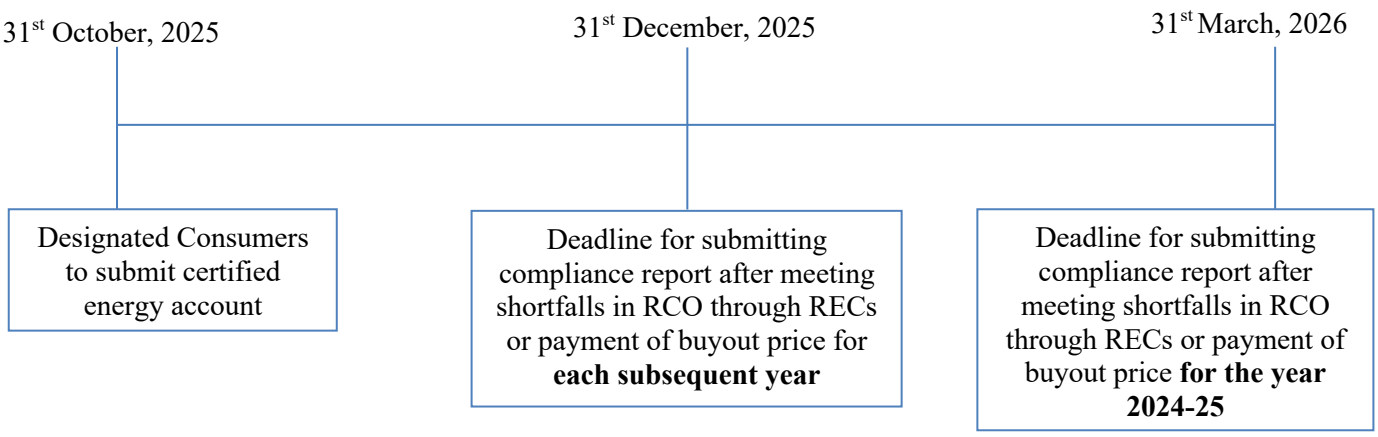


Figure 1: Timeline for RCO compliance year 2024-25

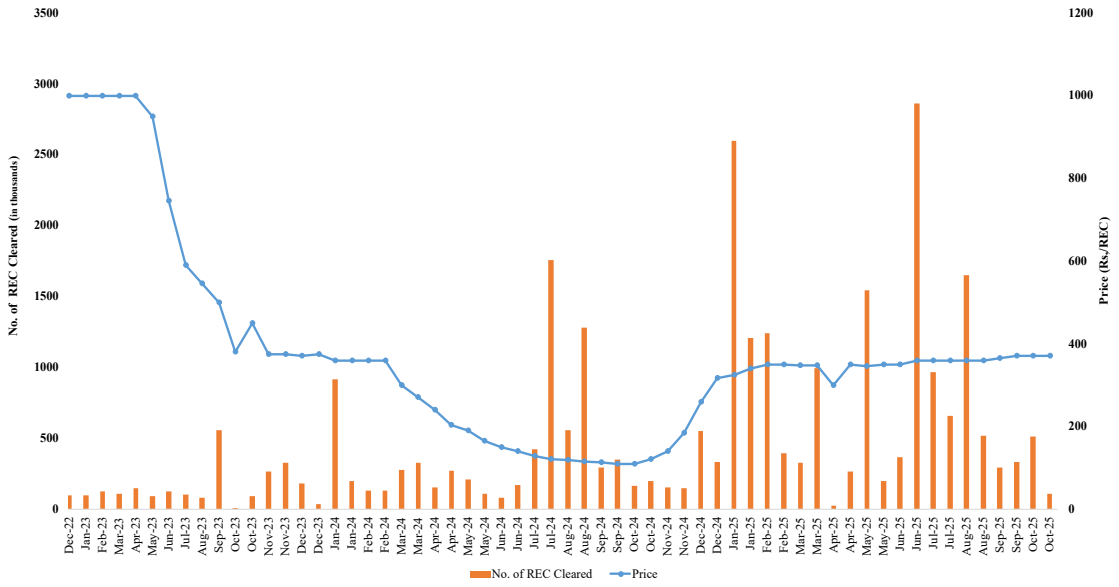


Figure 2: REC Market Trend (So: IEX)

2. **Buyout Price:** The REC market outcome is subject to market forces as well as the changes in the regulatory and policy framework in the sector. This is reflected in the associated market dynamics resulting in variation in REC prices across time (Figure 2). Singh (2009) proposed implementation of a buyout price mechanism for ensuring the RPO compliance. The buyout price was suggested to be calculated on the basis of value of the carbon replacement.

The proposed approach to calculate buyout price relates it to the average REC price discovered in the compliance year. The proposed buyout price of Rs. 245/MWh for FY 2024–25 does not take into account the market dynamics within the compliance year that would have motivated compliance by a designated consumer. The Buyout price, appropriate accounting for carrying cost, would influence the upper cap on REC price in the year next to the compliance year.

Correct price signal for the compliance would only be delivered if buyout penalty is related to the period in which the designated consumers would make the REC purchase. This further highlights the need to limit the REC purchase only to compliance year. The buyout price, linked to the Rec price in the compliance year, would then provide appropriate price signal for effective compliance.

3. **Carrying Cost:** The proposed 5% 'carrying cost' does not represent adequate penalty for deferment. **A uniform 5% premium overlooks the potential financial advantage entities gain by retaining capital during the compliance period, creating an arbitrage between timely and delayed fulfillment.** To ensure fairness and economic neutrality, the buyout price should include a carrying cost beyond the REC benchmark. This should be linked to an appropriate financial benchmark such as the SBI MCLR plus 100 basis points appropriately reflecting the carrying cost and thus providing correct signal for compliance. A dynamic, cost-reflective premium would eliminate economic gains from delayed compliance, encourage timely RCO fulfillment, and strengthen the overall integrity and credibility of the compliance framework.