Head – Regulatory : 067 **November 19, 2025**

The Secretary,
Central Electricity Regulatory Commission,
6th, 7th and 8th Floors, Tower B
World Trade Centre, Nauroji Nagar,
New Delhi – 110029

Subject: Comment on proposal 12/SM/2025 on Determination of the Buyout Price as an alternate compliance mechanism towards fulfilment of Renewable Consumption Obligation (RCO)

Sir,

At the outset, we appreciate the promptness of the Hon'ble Commission for issuing the proposal through suo motu Petition No. 12 / SM/2025 dated 22.10.2025 to specify the Buyout Price as an alternate compliance mechanism under the Renewable Consumption Obligation (RCO) framework, as notified by Ministry of Power ("**MoP**") on 27th September 2025. The proposed mechanism for determination of the Buyout Price as an alternate compliance mechanism towards fulfilment of RCO represents an important transitional pathway to support national targets for RE capacity addition while ensuring obligated entities maintain compliance flexibility.

However, upon careful perusal of the proposal, CESC wishes to submit the following observations and suggestions for the kind consideration of the Hon'ble Commission before finalization of the proposal:

1. Applicability of Buyout Price as a "Last Resort"

The MoP notification dated 27.09.2025 (Clause 9) allows three options for fulfilment of the RCO:

i. Consumption of renewable electricity (directly or through storage),

ii. Purchase or self-generation of Renewable Energy Certificates (including through Virtual Power Purchase Agreement), and

iii. Payment of the Buyout Price specified by the CERC.

It is respectfully submitted that the original MoP notification does not prescribe any hierarchy or prioritization among these options.

The proposal indicates that the buyout price option is not meant as a last-resort measure. However, Clause 6 conveys a conflicting impression of it (buy-out price mechanism) being a fallback option, should be treated as a last resort, to be exercised only when the other two options are exhausted. This interpretation effectively modifies the scope envisaged under the MoP notification and may impose constraints on obligated entities, which are not intended by the notification. The drafting may kindly be clarified to ensure that all three options are available to the designated consumers, for fulfilling their obligation.

It is therefore suggested that the final order may kindly clarify that all the three mechanisms are exercisable in a non-hierarchical basis, thereby allowing the utilities and designated consumers viable options to meet their RCO obligations, while being able to optimize costs with environmental benefits.

2. Timing Mismatch in Buyout Price Determination

As proposed that the buyout price for a financial year shall be 105% of the weighted average REC price for that same financial year, which is to be published by NLDC by 30th April of the subsequent year. As per the MoP notification, the obligated entities shall submit compliance report after meeting the shortfalls through REC or payment of buyout price by 31st December for each subsequent year.

In practical terms, this creates a timing inconsistency since the buyout price would only be known after the end of the financial year, obligated entities (including distribution licensees) would be unable to make the payment within that year to demonstrate RCO compliance. To ensure regulatory harmony and implementability, the following alternative as mentioned below may be prescribed.

Price Volatility and Predictability

While linking the buyout price to REC market prices (with a 5% premium) maintains economic consistency, the volatility in REC prices across years could lead to unpredictability in compliance costs.

It is suggested that buyout price may be set at 5% above the three-year moving average REC price on a sliding basis. This would moderate annual fluctuations while preserving the intended incentive for direct RE or REC-based compliance. This will also address the issue of gaming and will make the buy-out price option available to the designated consumers across the year, and not only on completion of a financial year.

Also, the Buyout price is 105% of Weighted Average of Volume and rate of RECs in Power Exchanges and Trading licensees. The rate of RECs discovered on Power Exchanges are transparent whereas rates of RECs through Power Traders are based on mutually agreed rates. Therefore, it is suggested to keep a premium % on rates of RECs discovered on Power Exchanges only instead of Weighted Average rate of RECs through Power Exchanges and Power Traders combined.

In this context, we also submit that a cap may be placed on the buyout price. The draft Electricity (Amendment) Bill proposes a penalty rate for non-compliance. Accordingly, the buyout price may be fixed at 5 paise/kWh lower than the said penal rate specified in the draft Amendment Bill. This will ensure that the buyout price does not exceed the penal rate.

3. Utilisation of Buyout Proceeds

The proposal provides that 75% of the proceeds be transferred to the State Energy Conservation Funds. To ensure transparency and measurable outcomes, it is suggested that:

- Each State Fund may be directed to maintain a separate account head for buyout collections and expenditures with project-wise details of funding.
- The funds may be earmarked for utilization towards promotion/ adoption of distributed renewable energy or storage projects within the state operational area, thus creating a visible cycle of reinvestment in local renewable capacity additions.

While the proposed Buyout Price mechanism as a flexible compliance pathway under the RCO framework looks highly beneficial and may provide impetus to RE capacity addition, clarity on prioritization, timing, and procedural aspects is crucial for ensuring regulatory consistency and operational feasibility.

We trust that the Hon'ble Commission may find the above suggestions useful while finalizing the proposal, thereby ensuring a balanced and implementable framework that upholds both the spirit and practicality of renewable obligation compliance.

Yours faithfully,

Balaji Sivan
Head – Regulatory