Determination of Buyout Price as an Alternate Mechanism for Compliance with Renewable Consumption Obligation (RCO)

< rajnish.chaba@chambal.in >

Thu, 20 Nov 2025 6:16:20 PM +0530

To "secy@cercind.gov.in"<secy@cercind.gov.in>,"advisor-re@cercind.gov.in"<advisor-re@cercind.gov.in>

Cc "AJAY TAYAL"<ajay.tayal@chambal.in>,"N GOYAL"<n.goyal@chambal.in>

Tags Not in Contacts Buyout-Price

Subject: **Determination of Buyout Price as an Alternate Mechanism for Compliance with Renewable Consumption Obligation (RCO)**

Dear Sir,

With reference to the Central Electricity Regulatory Commission (CERC) Proposal in Petition No. 12/SM/2025 regarding the determination of the Buyout Price as an alternate mechanism for compliance with the Renewable Consumption Obligation (RCO), we wish to submit the following comments from the fertilizer industry perspective:

1.**Buyout Price Premium**:
The proposed 5% premium over the Renewable Energy Certificate (REC) price may substantially increase the compliance cost for energy-intensive sectors such as fertilizers. It is suggested that a lower or phased premium (2–3% initially) be considered to facilitate a smooth transition during the initial implementation years.

2.**REC Price Volatility**:
REC prices are subject to market fluctuations driven by supply-demand dynamics. To ensure predictability and fairness, we recommend that the buyout price be determined using a stabilized approach, such as a quarterly or annual moving average of REC prices, rather than a single-point price reference.

3.**Utilization of Buyout Proceeds**:
A portion of the buyout fund may be earmarked for clean energy and decarbonization projects in energy-intensive industries like fertilizers—specifically for energy efficiency improvements, process optimization, and renewable integration in plant operations. This would ensure that buyout funds contribute directly to the national decarbonization goals.

4.**Applicability of Buyout Option**:
As per the CERC draft proposal Petition no 12/SM/2025(Suo-motu), the buyout option is to be exercised only after exhausting the other two alternatives, namely:
(i)Consumption of renewable energy for meeting the Renewable Purchase Obligation (RPO), and
(ii)Purchase of Renewable Energy Certificates (RECs).
In this context, it is submitted that this condition may not be appropriate for the fertiliser sector, which operates under a regulated and cost-controlled environment governed by Government of India pricing policies. The input energy cost for fertiliser units, including the cost of power,

steam, and feedstock, is either partially or fully compensated at a fixed concession rate determined by the Department of Fertilisers (DoF).
Therefore, mandating REC purchases as a prerequisite before availing the buyout option would expose fertiliser companies to the volatility of REC exchange prices, which are determined through market mechanisms and may fluctuate significantly. Such exposure would adversely affect cost recovery under the controlled pricing framework and distort energy cost accounting. It is, therefore, requested that the condition requiring prior exhaustion of REC purchases before buyout to be **excluded for the fertiliser sector**. Fertiliser companies should be allowed to directly exercise the buyout option for RPO compliance, in line with the sector's regulated cost structure and government oversight.

5.**Framework for Buyout Procedure**:
To ensure smooth compliance, audit transparency, and clarity for obligated entities, it is requested that the Commission's final Order includes a detailed procedural framework covering declaration, verification, payment, and certification steps. The suggested process is outlined below:
Step 1: *Declaration of Intent*
Obligated entities should formally declare their intent to utilize the buyout mechanism for a specified portion of their RCO shortfall by a defined date within the compliance period (e.g., one month before the financial year-end).
Step 2: *Buyout Price Publication & Invoice Issuance*
Following the NLDC's publication of the final buyout price, the designated authority (e.g., NLDC or another central agency) should issue a formal demand notice/invoice to each entity that declared intent, specifying the RCO shortfall (in MWh) and total buyout amount payable.
Step 3: *Payment Mechanism*
A secure, centralized online payment portal should be established for all buyout transactions. A strict payment deadline (e.g., within 60 days of invoice issuance) should be specified to ensure timely compliance within the RCO cycle.
Step 4*: Compliance Certification*
Upon successful payment, the administering authority should issue a digital "Buyout Compliance Certificate" to the obligated entity and its respective State Regulatory Commission as proof of compliance for the relevant portion of the RCO.

Regards

Rajnish Chaba
Vice President- Technical services & Strategic Projects
Chambal Fertilisers and Chemicals ltd
07442782070, 9001994669

1 Attachment(s)

Proposal_12-SM-2025.pdf
170.8 KB