

## **Comments on discussion paper on redesigning the REC mechanism by Ministry of Power**

India has an ambitious target of 450GW of RE (Renewable Energy) capacity addition by 2030. Currently, it has an installed renewable energy capacity of 89.63GW with a target investment of around INR 1 trillion by 2030. REC (Renewable Energy Certificate) was first introduced in 2010 to promote and sustain renewable energy in India. The RE technologies have matured in the past 11 years. In addition, new technologies in the field of renewable energy have taken shape in these years. Now the market is open with opening up green term ahead market (GTAM) for renewable energy. Discoms are also slowly making their move to purchase RE power from GTAM to fulfil their obligation. The prices of renewable energy have gone down significantly and are now at par with the variable prices of thermal energy, even lower than that. The REC pricing is also a critical issue. Since the REC launch in 2010, its floor & ceiling prices have been reduced by several times by CERC. As a result, the REC transactions are put on hold from June 2020, as there is resistance on downward price revisions by CERC and capping the ceiling price at INR 1000 per REC.

In this backdrop, Ministry of power has come out with a discussion paper on redesigning the REC mechanism and sought comments from different stakeholders. The discussion paper highlights some of the reasons while bringing out this paper for discussion, such as;

1. Rapid change in energy mix of the country from thermal to renewable energy
2. Cost of RE power reaching parity to variable thermal price or even lower than that
3. Evolution of Market mechanism for RE power transaction
4. New technology emerging for energy adoption and change driver

The overall objective of the discussion paper is to cater to the climate driven global challenges and emerge as a leader in the technological landscape and to support new technology such as offshore wind, hydrogen and pumped hydropower.

CIRC welcome this move from the MOP and are pleased to submit its comments on the same.

<b>Sl No</b>	<b>Discussion Paper point</b>	<b>Proposed by the paper</b>	<b>CIRC comments and suggestions</b>
1	4.0 RE Evolution: From promotional stage to growth phase	From compensating high cost RE through REC mechanism in 2010 to promote new technologies in 2021 and support, further the RE growth, India has witnessed robust RE penetration in India. Now, it is time to make way for new technologies such as offshore wind, pumped hydro storage	At this moment, India is witnessing new challenges from net neutrality and debating about just transition shift from thermal to RE with new concept of storage, EV and hydrogen economy. While it is necessary to maintain the momentum in solar penetration, it has to think beyond for newer technologies and provide a clear pathway for its adoption in the country. The question is should India go the REC way to promote these new technologies or should it have an alternate path to address this.

		and hydrogen technology.	The discussion paper in its objective mentioned that the new guidelines are to promote new technologies but failed to carve out a complete framework for adoption and implementation of such technologies.
2	5.1 Validity period of REC	<ol style="list-style-type: none"> <li>1. Validity period removed and made to perpetuity</li> <li>2. price capping is not required</li> <li>3. CERC to monitor the hoarding and artificial price build up by the REC holder</li> </ol>	<p>CIRC is not in favour to make REC valid for perpetuity. If validity is removed, there will be virtual no pressure on the generator to sell the REC and there is high probability of gaming the market with hoarding and cartel formation.</p> <p>CIRC is in favour of not putting any price cap on REC and it should be better left for the market to decide the best price of REC. As the market is responding strongly to RE market with success of Green Term Ahead Market (G TAM), we believe that REC will get good price in the market that is good for all stakeholders.</p> <p>While CERC should monitor any artificial build up in the market pricing, removal of perpetual REC will help things easier for CERC to monitor the market.</p>
3	5.2 Period of issue for the REC to the generator	From existing 25 years to 15 years from the date of commissioning for new projects	CIRC welcomes this provision. 15 years is enough for the generators to make good of the REC generated.
4	5.3 promoting new and high cost technologies	<ol style="list-style-type: none"> <li>1. concept of multiplier</li> <li>2. concept of negative list and sunset clause</li> <li>3. New technology to be identified 2 years in advance and policy support to provide for 15 years visibility</li> <li>4. concept of technology multiplier</li> </ol> <p>From less mature technology to high multiplier technology</p>	<p>The concept of multiplier is a very good idea to support and promote the new technology in the market. In addition, having a negative list and sun set clause on the matured technologies will help the old and outdated technologies to exit from the market on a good note and a proper planning for its succession.</p> <p>However, the identification of new technology, its utility for the future and maturity time line along with cost involved is very complex and tricky affair.</p> <p>The ministry should come up with a proper mechanism to identify, pilot test, approve and establish these type of</p>

			<p>technologies in a scientific manner based on several studies in comparison with other competing technologies. As the evolution is very fast in the technology, it is going to be a very complex process and maximum attention should be given to this.</p> <p>Similarly, the concept of multiplier should be based on a proper framework with identifiable variables and their proper weightages depending on the utility, cost and time.</p>
5	5.4 OE <sup>1</sup> to be incentivized for procurement beyond their RPO target	<p>Option 1: Only Discoms to be allowed to purchase REC beyond their RPO targets.</p> <p>Incentives not to be given to OA consumers and CPP as they consume the power themselves.</p> <p>Option 2: open to all OE to further the REC market.</p>	<p>CIRC is in favour of option 2 to develop a robust REC market by opening the market to all irrespective of their nature of business.</p> <p>The nature and degree of incentives can be varied according to their risk profile. The more the risk of OE, the more should be the incentives.</p> <p>There should not be any barrier at the entry level or starting of the market platform. Any barriers or restrictions would depend on after the market is stabilized and with a proper study and analysis of the positive and negative market forces at a later stage.</p>
6	5.5 no REC to be issued to the beneficiary that avail concessions or any other benefits (waiver of transmission charges or preferential banking charges)	FOR (Forum of Regulators) may define concessional charges for denying the RECs.	CIRC welcome this idea. The REC mechanism should be so lucrative that the developers voluntarily give up any concessions and benefits they get from the ministry or other institutions.
7	5.6 the role of trader in REC trading	For long-term visibility and RPO compliance. Traders should be allowed to transact on behalf of small players in addition to the exchanges.	This is a good move from the ministry to allow the traders to transact on behalf of their clients. The entry of traders in the business will help bring the much liquidity to the market and help in further innovation of the market place with new instruments.

<sup>1</sup> OE stands for obligated Entities

**The Way Forward:**

While the draft paper addresses many fundamental issues of the REC market, it is silent on many aspects like regulatory intervention in monitoring and controlling the REC market, compliance and penalty system for non-binding of RPO mechanism by state discoms and other OEs that is directly linked with REC. It is also not touching the controversial issue of REC pricing by CERC. . It is also silent on rooftop solar developers like residential and commercial prosumers as their size is very small as compared to big developers. This is high time MOP should consider allowing these developers the benefits of REC and make suitable arrangements for them. The inclusion of small developers like rooftop solar developers will help in developing a vibrant REC market in India.

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