

## **CERC (Terms and Conditions for Dealing in Energy Saving Certificates) (First Amendment) Regulations, 2022**

### **Summary:**

CERC notified draft CERC (Terms and Conditions for Dealing in Energy Saving Certificates) (First Amendment) Regulations, 2022.

In these Regulations, the term ‘Floor Price’ have been introduced and is defined as the minimum price at which the Energy Savings Certificate shall be traded on the power exchanges.

The floor price is proposed to be fixed at ten percent of the price of 1 mtoe of energy consumed as notified by the Central Government from time to time.

Currently, the price of 1 mtoe is Rs. 18402/- as notified by the Ministry of Power on 7<sup>th</sup> January, 2021.

The draft document can be found [here](#).

### **CER Comments**

- 1. Determination of floor price:** The new draft Clause to be inserted states that “*The floor price for the trading of Energy Saving Certificates as mentioned in the Energy Conservation Rules shall be fixed at ten percent of the price of one metric tonne of oil equivalent of energy consumed as may be notified by the Central Government, by notification in the Official Gazette for every Perform, Achieve and Trade Cycle*” (emphasis added). It is suggested that the **basis and calculation** of the fixed floor price for trading of ESCerts may be mentioned in the draft Regulations. The floor price as ten percent of the price of per toe of fuel seems arbitrary and does not reflect the economics of the market conditions.

**In case of competitive and liquid markets, the need for floor price may not ideally arise<sup>1, 2, 3</sup>.** Such a floor price often brings comforts for financing of the projects (by energy service companies) as lenders seek revenue certainty.

- 2. Equivalence of Floor Price for REC and ESCerts:** While deciding the **floor price of ESCerts, its equivalence with respect to the floor price of an REC should be ensured.** Given that the country is expected to witness launch of a carbon market, which may include conversion of ESCert and REC to equivalent carbon reductions, such a priori equivalence in the floor price would avoid disruption in the respective market providing room for arbitrage, if such instruments are traded near the floor price (as generally is the case).
- 3. Value of floor price:** An additional step requiring notification of the price of 1 mtoe may be avoided **by linking this price to a market price/index**, which is available publicly and is derived in a transparent manner. For e.g. this can be equivalent to the price of domestic crude or, weighed average of domestic and imported crude of

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<sup>1</sup> Singh, A. 2010. “*Economics, Regulation and Implementation Strategy for Renewable Energy Certificates in India*” in India Infrastructure Report 2010, Oxford Univ. Press,

[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3440253](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3440253), ... REC papers and comments

<sup>2</sup> Singh A. 2009. “*A market for renewable energy credits in the Indian power sector*”, Renewable and Sustainable Energy Reviews; 13(3): 643-652. <https://doi.org/10.1016/j.rser.2007.10.011>

<sup>3</sup> CER comments CERC’s proposal for determination of Forbearance and Floor price for REC framework, 31<sup>st</sup> March, 2020, [https://cer.iitk.ac.in/blog/new\\_blog/?id=NDYz](https://cer.iitk.ac.in/blog/new_blog/?id=NDYz)

identified quality.

- 4. Frequency of price notification: The draft amendment does not seek to establish the periodicity of the base price of 1 mtoe. A formal calendar for such a ‘notification’, if required should be announced beforehand to remove any uncertainty associated with the same. In case of the base price being linked to an available price/index, a case of such an uncertainty would not arise.**