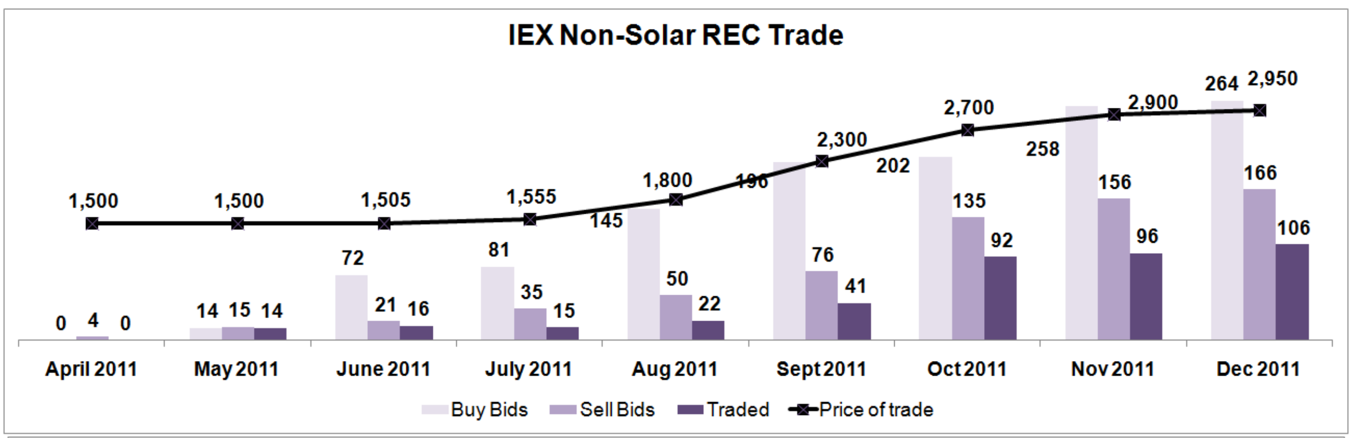
Markets stay strong – stage set for Last Quarter

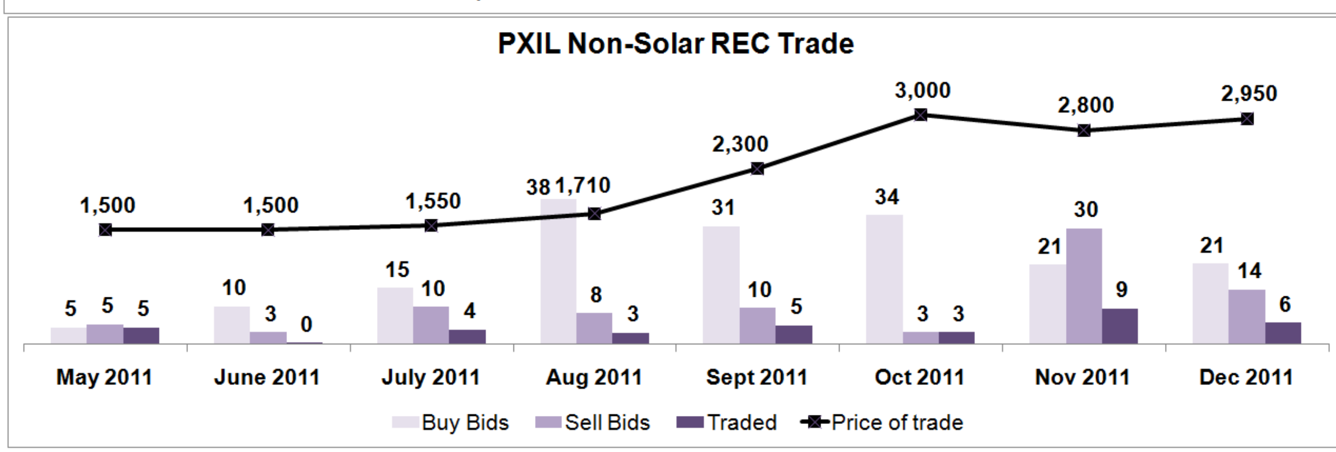
RECs maintain strong showing at IEX

REC Trade December 2011		Buy Bids	Sell Bids	Volume Traded	Clearing Price Rs. per REC
Non-Solar	IEX	264,093	166,000	105,942	**2,950**
	PXIL	21,179	14,336	5,679	**2,950**
Solar	IEX	495	-	-	**-**
	PXIL	5	-	-	**-**

Trade value highest this year; PXIL catches up on price

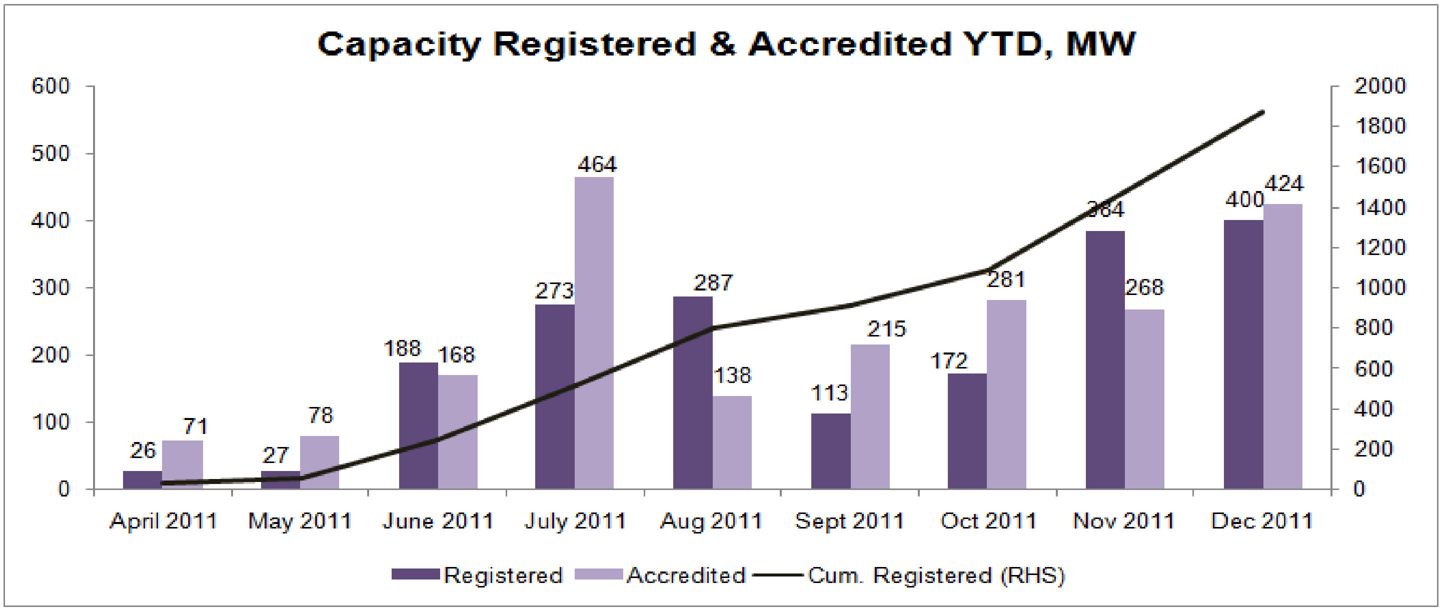
The REC market maintained its strong footing in the ninth REC trading session on Wednesday 28th December. Final price realization of Rs. 2,950 was again the highest till date in the current FY. Major part of the trade continues to be conducted on the IEX, where volumes too rose to a historical high, accompanying the increase in price. Price rose to Rs. 2,950 at PXIL also although with muted trading volumes.





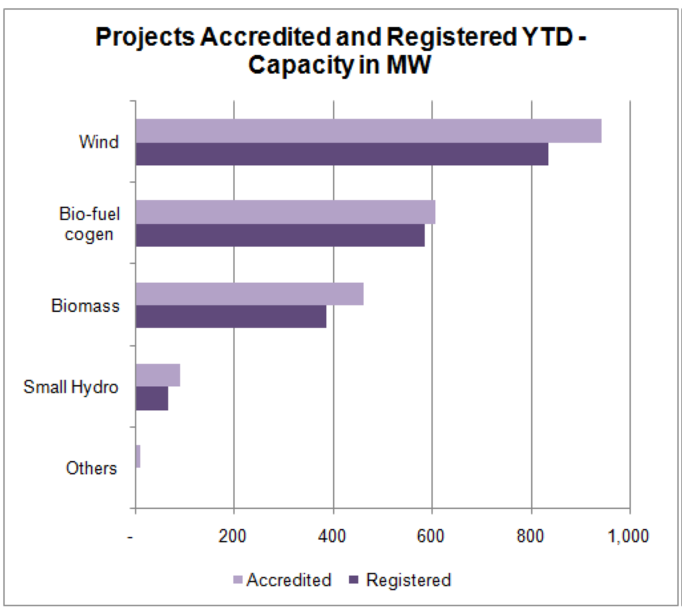
***Buy bids, Sell bids and Trade numbers in thousands; Source of data – IEX, PXIL**

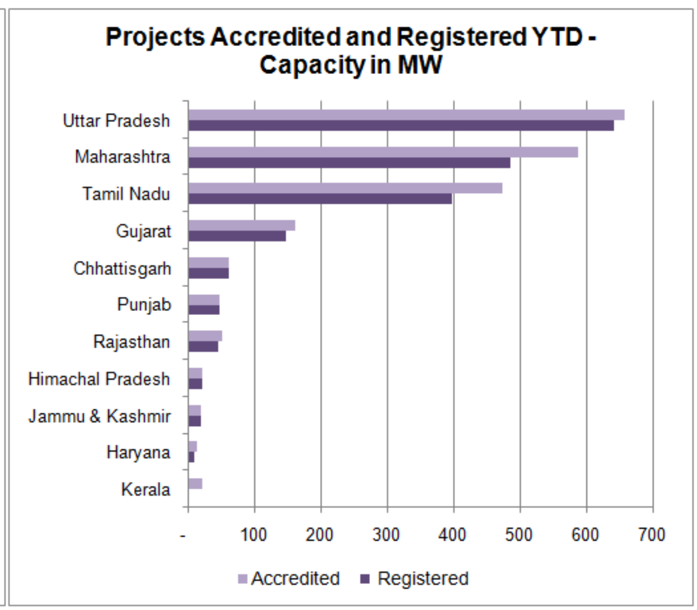
Total trade value at the IEX rose 12% to more than Rs. 31 crores compared to Rs. 28 crores last month. Trade at PXIL fell by a third to just Rs. 1.7 crores in the month. 400 MW of capacity was registered in December – the highest till date in any month. At 424 MW, capacity accredited was also the highest in recent months.



YTD – Year to Date (April to Dec 2011); Source of data – REC Registry of India

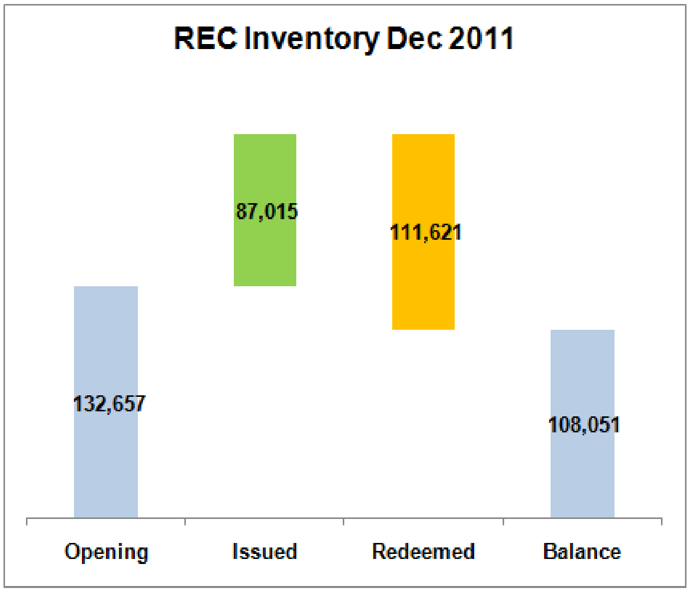
The capacity registered year to date has now touched 1,870 MW while the capacity accredited now stands at 2,107 MW. Overall, registration at NLDC has therefore kept up with state level accreditation.

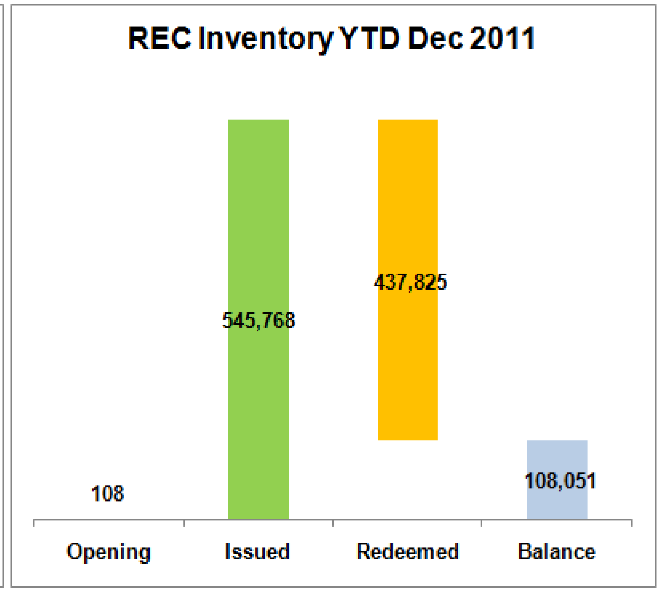




YTD – Year to Date (April to Dec 2011); Source of data – REC Registry of India

Uttar Pradesh is now the leading state in terms of projects registered and/or accredited with a total of 643 MW registered and 658 MW accredited, YTD. Along with UP, Maharashtra, Tamil Nadu and Gujarat account for 90% of the total capacity registered/accredited till date. Kerala also made its debut with 21 MW of small hydro capacity accredited in December. In a further boost to the REC mechanism, **Andhra Pradesh ERC has now come out with draft regulations on the REC mechanism.** A public hearing on this subject is proposed to be held in January 2012. This opens up the route for REC projects to get accredited in AP. Among Renewable Energy types, Wind continues to lead in the trading market with 45% of share in registration as well as accreditation.





YTD – Year to Date (April to Dec 2011); Source of data – REC Registry of India

December opened with inventory of more than 130 thousand RECs. Issuance slowed down while redemption maintained pace. As a result December ended with a net drop of roughly 25 thousand in REC inventory. Total issuances crossed the 500k mark this month. Of these, 80% have been redeemed by December compared to 71% up till the end of last month.

Durban – Climate, Economy and Politics

The 17th Conference of Parties (COP) of the UNFCCC was convened in December 2011 to discuss the future of the Kyoto Protocol after 2012. Expectations of a positive outcome were low in the run-up to it. One of the major reasons was the differences between developed nations and emerging economies. The current inventory of carbon in the atmosphere is a result of cumulative emissions over the last century, to which developed nations have been the main contributors. On the other hand, emerging economies like India and China are the largest emitters by absolute volume but low on per capita emissions. They would like to reserve their right to address the needs of their growing economies and hence want preferential treatment under the protocol i.e. commitments that are less stringent than those for developed nations. The challenge thus, was to come up with an agreement that addresses climate change considering disparate interests of all parties.

Continued Uncertainty

The COP ended with Canada withdrawing from the protocol, joining Japan and Russia in deciding not to take any further commitments. On the positive side, the agreed outcome was launched as the "Durban Platform for Enhanced Action". The EU already has its own internal target of lowering greenhouse gases by 20% below

1990 levels by 2020. Now, the USA, India and China have also agreed to work on targets. Work will start next year on a new legally binding treaty to cut GHG. This will be decided by 2015 and come into force by 2020. The deal extends Kyoto until the end of 2017, ensuring there is no gap between commitment periods.

For carbon markets, this means continued uncertainty (after the COP, EU emission permits for December rose to €8.32, before falling back below €8). This is discouraging news for investors looking forward to assistance from CDM – while the mechanism holds, prices are expected to stay low. The situation is further exacerbated by a weak European economy.

Implications for India

Given its need for large doses of infrastructure and energy, making commitments will be tough for India. In the short run, India could try scaling up coal based power generation capacity rapidly before the 2020 baseline is set. In the long term however, a sustained push will be required by the Government to arrive at a solution that is acceptable to all stakeholders.

While Renewable Energy still needs support, it is only a part of the solution – it cannot replace conventional fuels beyond a point. A combination of measures – many of which have already been kick started under the NAPCC – will need to be implemented well. These include technology tie-ups with industry to introduce energy efficient equipment and supply chains, tough decisions on pricing of electricity to farms and ensuring smooth running of markets for ESCerts and RECs.

2012 promises to be a more challenging year for the Government of India – the Durban COP has sharply highlighted the need for it to make tough decisions quickly. All the more so with the current political impasse and an eye on the up-coming Lok Sabha elections in 2014.