

**CENTRAL ELECTRICITY REGULATORY COMMISSION  
NEW DELHI**

**Coram:**

- 1. Dr. Pramod Deo, Chairperson**
- 2. Shri R.Krishnamoorthy, Member**
- 3. Shri S.Jayaraman, Member**
- 4. Shri V.S.Verma, Member**

**Petition No. 120/2008**

**In the matter of**

Petition for seeking permission to introduce additional contracts by Indian Energy Exchange.

**And in the matter of**

Indian Energy Exchange, New Delhi

**....Applicant**

**The following were present:**

1. Shri M.G.Ramachandran, Advocate
2. Shri Rajesh Mendiratta, IEX
3. Shri Jayant Deo, IEX
4. Shri Bikram Singh, IEX

**ORDER  
(DATE OF HEARING:16.6.2009)**

Through this petition, the applicant, India Energy Exchange Ltd. has sought permission to introduce additional contracts like intra-day contracts, day-ahead contingency contracts, daily contracts, weekly contracts, monthly contracts, intra-State contracts and approval of the revised rules, bye-laws and business rules.

2. The Commission vide its order dated 31.3.2007 had accorded the approval for setting up and operating the power exchange by the applicant. Subsequently, the Commission vide order dated 9.6.2008 accorded the approval for the rules, bye-

laws and the business rules of the power exchange for day-ahead collective transactions. Finally, the power exchange became operational on 27.6.2008. The Commission conducted two hearings related to grant of permission to introduce additional contracts on term ahead market on 28.05.2009 and again on 16.06.2009

### **Type of Contracts**

3. It is felt that the term-ahead market through the power exchange is a new concept. Therefore, at this stage, we grant permission for the launch of the following contracts:-

- (i) Regional day-ahead contingency contracts;
- (ii) Region -wise daily contracts;
- (iii) Region-wise intra-day contracts;
- (iv) Region-wise weekly contracts. (trading one month in advance with a delivery period of one week)

4. Intra-State contracts are not under the purview of the Commission and therefore, the permission for such contracts cannot be granted. Accordingly, Clause 39 (B); Clause 40 (6) and Annexure X (f) is directed hereby to be deleted as they pertain to intra-State contracts and other necessary modifications to be carried out accordingly in the rules, bye-laws and business rules.

5. These contracts would be for physical delivery and would be non-transferable. Financial settlement of these contracts without scheduling shall not be permissible.

6. The applicant has sought approval of daily and weekly contracts to be available for trading up to three months ahead basis, in line with Central Electricity

Regulatory Commission (Open Access in inter-State Transmission) Regulations, 2009. Since the term-ahead market, where in the contracts are for a future time period and with the extended delivery period, has price and volumetric risk simultaneously, we presently grant the permission for launch of these contracts up to one month ahead only.

7. Accordingly, clauses 40 (2) and (4) pertaining to daily and weekly contracts shall be suitably modified in addition to other consequential modifications as may be required in the rules, bye-laws and business rules.

8. The performance of these contracts shall be reviewed after 6 months.

**Price Discovery Mechanism and Matching Rules to be used:**

9. The following price discovery mechanism and matching rules proposed by the applicant are approved. The exchange can apply either or both of the following price discovery mechanisms in accordance with its own discretion for Regional day-ahead contingency contracts; Region-wise daily contracts and Region-wise intra-day contracts:

- (i) Closed auction with uniform price solution; and
- (ii) Continuous electronic trading with trade for trade settlement

For Region-wise weekly contracts, only closed auction with uniform price solution shall be used.

10. No modification of the mechanism shall be allowed without the prior approval of the Commission. Clause 35 related to matching rules shall be modified accordingly.

### **Open Access and Scheduling**

11. The approved contracts are power contracts with constant MW to be supplied during the contract period. The applicant shall abide by the Central Electricity Regulatory Commission (Open Access in Inter-State Transmission) Regulations, 2008, as amended from time to time, for open access and scheduling procedure. This shall be specified in the business rules.

### **Contingency and grid disturbances**

12. In case of contingency or grid disturbance, the directions of the load despatch centres (NLDC/RLDC) shall be followed to ensure grid security.

### **Risk Management System and Margin Requirements**

13. The exchange is the counterparty to all transactions and is exposed to the risk of financial non-fulfillment of contracts. The adequacy and effectiveness of risk management is of paramount importance for the power exchanges. The condition becomes further complicated in case of the power exchanges since electricity prices have high volatility, the term-ahead market, being contracts for a future time period and with an extended delivery period, have price and volumetric risk embedded in them. A well thought out risk management system and, margin requirement able to handle these two risks need to be put in place by the power exchange. The power exchange shall keep sufficient and prudent margins in order to ensure adequate payment security. The methodology for calculation of various margins shall be disclosed to the participants before they enter into any trade.

14. Notwithstanding the approval of the rules, bye-laws and business rules by the Commission, the persons enrolling themselves as members or clients of the power exchange or transacting business thereon in any capacity shall do so after satisfying themselves of all the commercial aspects covered under the rules, bye-laws and business rules, uninfluenced by the fact that the Commission has approved them since these matters are primarily the concern of the parties. The observation in this para shall be notified by the applicant to its existing members as also to the persons seeking enrolment as members or clients in future.

### **Default and Penalty**

15. There should be sufficient deterrent built in the settlement system for any commercial consideration motivated default by participant due to market price variation. This is needed to maintain the sanctity of the contracts. Penalty for default to profit from better price in other markets shall be treated severely.

16. The applicant, in its petition, had sought for approval for introduction of contracts allowed to the other power exchange (i.e. PXI) operating in India. The power exchanges have to think and innovate on their own in designing the contracts to meet the market requirements and hence this cannot be granted.

### **General**

17. The following observations/discrepancies are observed in the revised bye-laws and business rules for further submission after necessary correction as under, namely

- (i) It has been submitted that the membership criteria and member-client relationship shall be the same as in the case of day-ahead market. However, a provision shall be made in the business rules clarifying the membership criteria including membership fee details, to distinguish between day-ahead market and term-ahead market membership, for information of all concerned.
  
- (ii) In Clause 37 (e), titled Risk Management System, defaults and penalties shall be mentioned as a separate section which shall cover the financial defaults and physical delivery defaults separately. The section shall have the definition of financial defaults and physical delivery defaults and the penalties thereof, the discrepancy between this clause and the fines and penalties mentioned under the contract specifications shall be reconciled.
  
- (iii) The contract specifications [Annexure X (a) to X (d)] shall be more concise covering the specifications relevant to the specific contract only and need not cover the common features related to price mechanism, matching mechanism and settlement procedures in such detail. These should form a part of the common features list.
  
- (iv) The applicant has prayed for granting flexibility in contract specifications for creating a responsive place and the right to

modify all other parameters except delivery of the contract according to the market feedback. The power exchange need not take approval from the Commission only on the following parameters of the contract specification:

- (a) Contract name;
- (b) Contract code;
- (c) Firm (daily/weekly) contract – Within daily / weekly contracts it could be round-the-clock or any block of any number of hours);
- (d) Trading day and Trading session: The power exchange shall submit an overall plan on details like number of days a contract is open for trading , how many days before the delivery the contract closes for trading , before the launch of different kinds of contracts by preparing a trading calendar pertaining to each kind of contract. The contract launch calendar for the next 3 months shall be published by the exchange to create an environment of certainty and planning activity for the participants;
- (e) Order management;
- (f) Trading time;
- (g) Minimum volume quotation (As per the regulations under the Electricity Act, 2003);
- (h) Minimum volume step;
- (i) Maximum bid size;

- (j) Tick size (for price quote);
- (k) Margins;
- (l) Transaction fee;
- (m) Trading cycle;
- (n) Fines and penalties; and
- (o) Settlement procedure.

(v) At Clause 41, the applicant has sought permission for providing Over-the-counter (OTC) clearing and settlement services. At this nascent stage of market development, the Commission is of the view that the exchange should focus on the price discovery and clearing and settlement of contracts traded on its own platform. Therefore, the OTC (bilateral) clearing and settlement services shall not be provided by the power exchange.

18. In the Contract Specifications of certain contracts, (Annexure X(b) and others) at Serial No. 25, the applicant has sought for revision of trade for orders placed by them erroneously, within 10 minutes of such trading taking place. The Commission feels that this provision could be misused based on price considerations. Therefore revision of trade is not allowed.

19. The rules, bye-laws and business rules shall be amended in accordance with the directions given above.

20. Subject to the compliance of above directions, approval is hereby accorded to the rules, bye-laws and business rules submitted by the applicant and the applicant



is permitted to launch these contracts. The rules, bye-laws and business rules approved are applicable to the contracts approved with the flexibility given to amend certain parameters of the contract specifications as given above. The rules, bye-laws and business rules shall be amended and a copy shall be forwarded to the Commission for information and record. In case the applicant intends to start any other type of contract, it shall obtain prior approval of the Commission.

21. In order to ensure equal opportunities, it is desirable that both the running power exchanges, namely the applicant and Power Exchange India Limited (the petitioner in Petition No. 166/2008) start their operations in the term-ahead market simultaneously. Therefore, it is ordered that both the power exchanges shall commence their operations prospectively, on or after 15.9.2009, after complying with the directions given above

22. With the above, petition is disposed of.

Sd/= **(V.S.VERMA)**  
**MEMBER**

Sd/= **(S.JAYARAMAN)**  
**MEMBER**

Sd/= **(R.KRISHNAMOORTHY)**  
**MEMBER**

Sd/= **(DR.PRAMOD DEO)**  
**CHAIRPERSON**

**New Delhi dated the 31<sup>st</sup> August 2009**