

CENTRAL ELECTRICITY REGULATORY COMMISSION

Record of Proceedings

PETITION No. 210/2010

Sub: Petition under Section 66 of the Electricity Act, 2003 read with Regulations 4 and 7 of the Central Electricity Regulatory Commission (Power Market) Regulations, 2010 for approval for the draft contract for trading in Renewable Energy Certificates.

Date of hearing : 17.8.2010.

Coram : Dr. Pramod Deo, Chairperson
Shri S.Jayaraman, Member
Shri V.S.Verma, Member
Shri M.Deena Dayalan Member

Petitioner : Indian Energy exchange , New Delhi

Parties Present : Shri Jayant Deo, IEX
Shri Rajesh Mediratta, IEX
Shri Akhilesh Awasthy, IEX
Shri S.C.Sexena, NLDC

Through this application the applicant, India Energy Exchange has made following prayers:

- (i) Approve the draft contract for trading in Renewable Energy Certificates (RECs); and
- (ii) Approve the Rules, Bye-laws and Business Rules relating to RECs.

2. At the outset, the representative of the petitioner submitted that the present petition has been filed under Regulations 4 and 7 of the Central Electricity Regulatory Commission (Power Market) Regulations, 2010, Detailed Procedure prepared by the Central Agency (NLDC) and discussion held with the staff of the Commission. The representative of the petitioner reiterated the salient features and the time adopted for Renewable Energy certificate contracts.

3. In response to observations made by NLDC, the representative of the petitioner informed that they have not received the views of NLDC. In regard to the observations of NLDC as to whether the participants have to place the bids at all price points or some interpolation is to be done, the representative of the petitioner submitted that the participant would specify a price and quantity. Any price which is better than that is taken as acceptable. Therefore, there will not be any need to give price for all price ticks. In response to point made by NLDC in regard to handling fractional REC methodology, the representative of the petitioner submitted that the solution with fractional REC would not arise as the demand supply curves are step functions. The representative of the petitioner made its submission in respect of clarification sought by NLDC in regard to contradiction in Para 8.1 and 13.2 of the petition relating to checking of margins.

4. The Commission directed the staff to supply a copy of the observations made by NLDC to the petitioner to enable it to file its reply. Accordingly, copy of the observations received from the NLDC is attached as Annexure.

5. The Commission further directed the petitioner to undertake test run of the software for various scenarios with at least 10 test cases covering the different types of demand supply curves (including all boundary conditions like high demand, high supply, less supply, less demand and the scenarios which depict the matching rules w.r.t any kind of priority or pro-rata method being used, time priority used in selection of participants, solution with demand supply curves overlapping at multiple points) and submit the test results latest by 27.8.2010. The petitioner was further directed to file its reply to NLDC observations along with the test results.

6. Subject to above, order in the petition was reserved.

Sd/-
(T. Rout)
Joint Chief (Law)

Views/Suggestions on Draft Business rules for REC submitted by IEX and PXIL:

Fundamentally speaking, the REC Market segment is a mandated segment as against the competitive Electricity Market segment for physical delivery in the Power Exchanges. The views/suggestions of NLDC are only in the context of the Renewable Energy segment. The physical electricity market segment proposed by PXIL has not been considered in the views/suggestions. It is felt that the rules / bye-laws dealing with the physical delivery market for electricity should be taken up separately from the rules / bye-laws for the REC market.

The country has opted for multiple Power Exchanges. Keeping in view the fact that REC Market is a mandated segment, harmonization of various aspects between both the Power Exchanges is suggested. Harmonization may be carried out to the maximum extent possible in the following aspects:

- Price discovery mechanism
- Price Ticks
- Membership criteria
- Risk management
- Information dissemination

The views/suggestions on various aspects are given below for the consideration of the Hon'ble Commission.

• **Matching Rules:**

IEX: They have clearly spelled out the matching rules in their document. The price ticks and volume ticks have been mentioned clearly. However, it is not clear from the given rules that whether the participant has to place the bids at all price points or some interpolation is to be done. The possibility of fractional REC market clearing volume, if any and its treatment needs clarification.

PXIL: More clarity as to how the MCP / MCV is going to be worked out is required. There is a possibility of fractional market clearing volumes in the PXIL case as apparently they intend to move on the methodology followed in the case of Collective Transactions. It is important that they spell the rules clearly upfront for better clarity.

• **Price Ticks:**

IEX has specified INR 1 and PXIL has specified INR 0.01. Since REC is a mandated segment, harmonization of the basic structure is proposed.

• **Block Bids:**

PXIL has proposed Block bids ("All or None type", "Convertible block bids" and "any other type block bids"). The concept of block bids has no relevance

here and may be removed. IEX has proposed only one type of orders - "Single Bid"

- **Information about buyers of RECs:**

IEX has specifically mentioned that information about buyers would be given to the Central Agency in Clause 8.5. This may be replaced as *"Information would be sent to the CA as per the agreed data interchange formats"*.

- **Proof of purchase of RECs by the Buyers:**

An explicit mention is required in both the Rules / Bye Laws of both the Power Exchanges that the details of purchase of RECs by the buyers would be issued by the Power Exchanges in line with the approved Procedure issued by the CA. IEX has mentioned this aspect in Para 8.7 but this Para may be reworded to read as *"The Exchange shall issue a statement of the purchase of RECs to the buyers by the first week of the following month."*

- **Risk Management:**

IEX: In the IEX Rules / Bye Laws, as per Para 8.1, IEX will check the margins of the buying participants in the pre-trade phase and members would be allowed to place orders only up to the available margins. However, in Para 13.2, IEX has reserved the right to reject the buy bids in the final solution in case enough margins are not maintained by the concerned buyer. This is contradictory and may be removed from Para 13.2 as checking of available margins has already been carried out.

PXIL: Clause 6.2.1.11-Invalidation of contracts shall be done before the Provisional trade is sent to Central Agency.

- **Harmonization of the Membership Criteria :**

RECs being a mandated market segment, the membership types may be harmonized between the Power Exchanges to the extent possible.

- **Indemnification of the Central Agency by the Power Exchanges and its Members:**

An indemnification clause indemnifying all the Statutory Bodies is required to be put into the Rules/Bye-Laws of IEX. PXIL has already provided for indemnification.

- **Trading Hours:**

IEX: Clause 6.1 on Trading Hours states "The exchange may extend, advance or reduce trading hours by notifying the members as and when it deems fit and necessary. Exchange will notify trading hours for new products as and when these are launched." Further, Clause 8.8 mention about change of timelines depending on experience gained during the operations. These clauses may be reworded as "*Trading hours shall be as per approved detailed procedure issued by Central Agency.*"

PXIL: The Clause 6.2.1.2 mentioned as "The exchange may extend, advance or reduce trading hours by notifying the members as and when it deems fit and necessary". This clause may be reworded such as "*Trading hours shall be as per approved detailed procedure issued by Central Agency.*"

- **Order Matching and trade finalization phase:**

IEX: Clause 8.3 states that "In case sufficient number of certificates is not available in the account of seller, his offer shall be rejected." This clause may take into account cumulative bids placed by Sellers on all the Power Exchanges.

- **Delivery of RECs:**

Annexure C1, Clause 4 may also consider REC Regulations, 2010 and amendments thereof apart from Power Market Regulations, 2010 as mentioned in Rules/Bye-Laws of IEX.

- **Number of Certificates bid for sale:**

PXIL: Clause 6.2.1.5 interalia states "Exchange can at any point of time confirm with Central Agency the number of certificates that can be bid by a Member".

As per Clause 3.4, step 4 of detailed procedure for Redemption of REC, Central Agency shall give status of REC Certificates only via Exceptional report send to Power Exchanges only after Provisional trade results are provided at Central Agency.