

CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI

**Explanatory Memorandum for the “Draft Central Electricity Regulatory
Commission
(Power System Development Fund – First Amendment) Regulations, 2014”**

Explanatory Memorandum

1.0 INTRODUCTION

1.1 The Commission had notified the Central Electricity Regulatory Commission (Power System Development Fund) Regulations, 2010 (hereinafter Principal PSDF Regulations) vide notification dated 4th June, 2010.

1.2 Section 79(1)(c) of the Electricity Act enables the CERC to *inter alia* regulate interstate transmission of electricity. The interstate transmission of electricity involves, *inter alia*, the regulation of the grid in accordance with the specifications contained in the grid code. In interstate transmission of electricity, oversight and regulation by the CERC is necessary. Matters such as frequency, voltage and congestion in the transmission corridor have to be regulated. The CERC has formulated a mechanism to ensure that grid discipline is maintained. In order to ensure and foster adherence to the grid, a commercial mechanism has been evolved by which those who breach the discipline will be compelled to pay what is referred to as “unscheduled interchange charges”. This would be payable when the users of the grid who should adhere to scheduled dispatch and drawal of electricity do not conform to their commitments. Secondly, in order to relieve congestion in the real time, a charge called congestion charge is also applied as a commercial measure. Thirdly, a market splitting charge is also levied which is a mechanism adopted by the power exchanges where the market is split because of the congestion in transmission. This market splitting mechanism is divided into National Load Dispatch Centre bid areas or zones which are cleared individually at their respective area prices. As a consequence of such market splitting, the energy balance in every bid area is reached upon the calculation of demand and supply in individual bid areas. The available transmission corridor capacity between various bid areas is also taken into account. Thus, the congestion amounts arise from the difference in market prices of different regions as a consequence of market splitting. A fourth charge is through reactive compensation which compels the maintenance of power voltages.

1.3 The above four charges, namely – (a) unscheduled interchange charge, (b) congestion charge, (c) market splitting congestion amount, (d) reactive compensation for failure to maintain voltage are constituents of PSDF.

1.4 The above charges are settled between those who pay and those who need to receive. Thus those who use transmission lines and generate are entitled to claim these

charges in accordance with the mechanisms which are specified in the Regulations. After final settlement of claims take place, there are surplus amounts which lie in separate accounts maintained by the Regional Load Despatch Centres. These surplus amounts do not have any trace or origin but they have to be subjected to use because they have been generated as a result of regulation by CERC. In order to enable ploughing these funds back for effective purposes of regulation of interstate transmission the amounts are pooled by an institutional mechanism and credited into a special fund called the Power System Development Fund.

2.0 MAINTENANCE AND OPERATION OF PSDF

2.1 Efforts were made to operationalise the PSDF. In the process, it was decided to park PSDF in the Public Account of India and to entrust National Load Despatch Centre (NLDC) with the responsibility of maintaining and operating PSDF.

2.2 The Commission wrote to Ministry of Power to bring about necessary changes in the NLDC Rules and also to suggest the Operational Procedure for transferring PSDF to the Public Account of India.

3.0 CABINET APPROVAL ON PSDF

3.1 Ministry of Power took up the matter to the Cabinet and came out with a Scheme to Operationalize PSDF. A copy of the Scheme approved by the Cabinet is enclosed as Annexure 1.

4.0 PROPOSED AMENDMENT

4.1 In the light of the above, it is proposed to amend the PSDF Regulations.