

**Central Electricity Regulatory Commission
New Delhi**

Petition No. 378/MP/2014

Subject : Permission to introduce Two Day Ahead Spot (2D-SPOT) and Extended Evening Day Ahead Spot (EVE-DAS) in Power Exchange India Limited

Date of hearing : 8.1.2015

Coram : Shri Gireesh B. Pradhan, Chairperson
Shri A. K. Singhal, Member
Shri A. S. Bakshi, Member

Petitioner : Power Exchange of India Ltd

Parties Present : Shri M G Raoot, PXIL
Shri S G Tenpe, PXIL
Shri Kapil Dev, PXIL
Shri Rajesh Mendiratta, IEX
Ms. Shruti Bhatia, IEX
Shri S S Barpanda, POSOCO

Record of Proceedings

The representative of the petitioner submitted that the present petition has been filed for seeking permission to introduce Two Day Ahead Spot (2D-SPOT) and Extended Evening Day Ahead Spot (EVE-DAS) in Power Exchange of India Limited. He further submitted as under:

(a) Two day ahead product has been conceptualized based on 5 years of experience in the market in view of the fact that there is no skewed market or desperate price bidding on the Exchanges.

(b) India has adopted the model for multiple exchanges in the country and liquidity is very important in this scenario. Day ahead market is the flagship product and has 99% of market share and with share of other products like bilateral, weekly, any day, contingency being only about 1%.

(c) The participants bid desperately in terms of prices on day ahead market as it is the last resort for trading. In UI, the price discovery is based on real time demand and supply of power whereas on Power Exchange price discovery is based on profile, number and desperation of the participants and therefore, is not a true price discovery. In case of non-fulfillment of

requirement, the participants either back down their generation or resort to load shedding.

(d) Workshop was conducted in Delhi and feedback was taken from participants across the country including all important utilities. About 80-90% of the participants felt that the 2D-SPOT would give them a lot of respite and comfort and they would be able to take advantage of multiple exchanges in India. The feedback would be submitted to the Commission.

(e) As per reply filed by POSOCO, it has no aversion for the product for the two day ahead spot.

(f) In view of fact that only minor procedural changes are required, no new product has been introduced in the last 6 years and market is evolving.

(g) The representative of the petitioner requested to allow introduction of the product and let the market respond to the product.

2. The representative of POSOCO submitted that POSOCO supports the proposal of evening market. With regard to two day ahead market, the representative of POSOCO submitted as under:

(a) Modifications are required in the Grid Code, Power Market Regulations and Open Access Regulations.

(b) In Grid Code, modifications would be required in terms of day ahead scheduling. However, in Power Market Regulations, Term Ahead Market and Day Ahead Market are defined separately and therefore, changes would be required. With regard to Open Access Regulations, application for bilateral open access under FCFS is submitted 4 days in advance and RLDC has to approve 3 days in advance, therefore open access approvals are known one day in advance. Introduction of two day ahead market would require shifting of timelines for approval for T+2 trade as FCFS approvals are given before day ahead transactions.

(c) ISGS declare their availability only one day in advance. Market participants including utilities would be better informed on day ahead basis rather than two day ahead basis.

3. The representative of IEX submitted that IEX does not support introduction of both the products. He further submitted that the petitioner's submissions are centered around market design and changes to regulations. The representative of IEX explained the following reasons against introduction of 2D-SPOT :

(a) Liquidity is an important factor for discovery of prices and therefore, products are standardized. By spreading the timing too often it would be difficult to get a real price discovery. There may also be a proposal for three day ahead and therefore, criteria for selecting the best timeline for doing an auction should be defined. The issue of addressing the best timeline has been with the Commission since 2006.

(b) All exchanges in the world are operating on day ahead market and none of them is operating on two day ahead basis. IEX has studied 30 Power

Exchanges across the world of which most of them are spot exchanges and few of them are future exchanges. UK has two Power Exchanges but operates only one day ahead auction. Similarly, other exchanges across the world like APX, EPEX SPOT (largest PX in Europe), South African Power Pool and exchanges in countries like Korea, Australia, PJM, Italy, Japan, etc do not conduct two day ahead auction. Except few exchanges all other trade more volume than traded on Indian Power Exchanges.

(c) IEX expressed apprehension 2D-SPOT would divide the liquidity and would lead to poor price discovery. The participants trade on day ahead market in distress situation. Generators bid at marginal cost and buyers bid at marginal price in day ahead market. By operating a 2D-SPOT market, the price discovery on day ahead market would not be a correct one thereby giving distorted price signals to the participants. If 2D-SPOT is allowed, then the participants may shift to 2D-SPOT depending on the prices discovered which would not be a correct one.

(d) The representative of IEX explained the following reasons against introduction of Evening Market product:

(i) Auctions are conducted to discover price and for doing transactions. In Europe almost all the contracts after day ahead market are executed based on continuous matching. The underlying concept is that the facility should be provided to participants so that demand is matched in a continuous trading at the time of requirement. The demand may not be there at the time of running an auction.

(ii) European Commission through their directive 714/2009 or third energy package mandated that the day ahead market should be followed by intraday market which is continuous trade market.

(iii) Since 90-95% of the trade happens on day ahead market and only small volume is traded in other markets, price discovery would be a challenge in evening market.

(iv) Presently only 3% of volume transacted is transacted on Power Exchanges. It would not be a good time to fragment the market.

4. The Commission observed that owing to non-storage property of electricity there may be speculations regarding demand and supply and therefore, the discovered prices.

5. The representative of IEX raised apprehension that from the regulatory perspective, allowing such products may result in circular trading or arbitrage. He further submitted as under:

(a) No benefit may accrue to market participant. In case of severe transmission congestion, it does not matter which product a participant is trading on. The capacity to day ahead market is also made available from release of transmission capacity by long term participant. In case of no congestion, better price would be discovered on day ahead market. Also, there may be players who may take opportunity to play in two ahead market.

(b) Changes as suggested by the petitioner in the market design is a serious matter and an independent international consultant should be involved to study the impact of such changes.

6. In response, the representative of PXIL submitted as under:

(a) All across the world, there is no UI mechanism or ABT framework. However, India has adopted such things. Internationally, there is not a single market but there is a single exchange. India we have adopted one market and multiple exchange.

(b) The Commission, being an expert body, can take a call on such changes in the design and an external consultant may not be required. The exchange is willing to extend its help, if required.

(c) Liquidity would get split and it does not matter whether transmission corridor is utilized one day or two day before. As per Grid Code, planning should happen 8 days ahead. Also, open access customers have a flat requirement.

(d) The Commission took a conscious decision to have multiple exchanges for healthy competition with the impact that the total liquidity would get split among exchanges. So split of liquidity between one day ahead and two day ahead should be a minor issue.

(e) Circular trading may be prevalent today as well. Also, the pricing in today's day ahead market is highly volatile whenever there is presence of a dominant player. Thorough analysis may be carried out to find relationship between pricing and type of buyers further, speculation is already happening in day ahead market.

(f) 11 day ahead trading is already allowed in bilateral segment and the petitioner is only desiring to change the mechanism to collective which is more transparent.

7. The Commission observed that arbitrage is a serious issue and the petitioner should submit complete details for a view to be taken.

8. The representative of POSOCO submitted that the arbitrage opportunity is also available in bilateral segment.

9. After hearing the representatives of the parties, the Commission directed PXIL to submit on affidavit by 30.1.2015, the justification for arbitrage and operational and implementation differences between T+2 and T+4 markets.

10. IEX was directed to submit a copy of the European Commission's directive by 30.1.2015.

11. The Commission directed POSOCO to submit, on affidavit by 30.1.2015, number of T+2 contracts executed in FCFS market in bilateral segment.

12. The Commission directed that due date of filing the information called for should be strictly complied with.

13. Subject to the above, the Commission reserved order in the petition.

By order of the Commission

**(T. Rout)
Chief (Law)**