

Dear Sir:

Subject: Comments on CERC (Ancillary Services Operations), Regulations 2015.

We are in receipt of the draft regulations posted by the Honourable Commission on the website. Statkraft Markets Pvt. Ltd. is an Inter-state trading licensee, granted a licence by the Honourable Commission under the (Procedure, Terms and Conditions for grant of trading licence and other related matters) Regulations, 2009.

We request the Honourable Commission to consider the following inputs as a part of finalizing the proposed regulations:

1. The proposed co-existence of two real-time instruments i.e. Deviation Settlement Mechanism and Ancillary Services Operation could lead to more complexity, higher administrative costs and potential indirect costs due to loss of coordination between the two markets. Secondly, it could also impede implementation of a more thorough and well-functioning ancillary services market. **Therefore, it is requested that the Honourable Commission may consider replacing the existing DSM mechanism with the introduction of ancillary services from the very onset.**
2. **Definition:** The definition of Ancillary Services may be expanded to include additional services such as Black Start, Voltage Regulation and Reactive Power Compensation.
3. **Price Determination:** The price for providing various services should be determined through market discovery rather than regulated cost plus route. Since these services are required for short periods but are extremely critical for maintaining and restoring grid functioning, the price determination should be based on principle of value provided rather than cost plus. It is requested that the Commission may consider competitive market discovery as the mechanism for providing various ancillary services. A transparent mechanism similar to spot market may be created for these services.
4. The Ancillary Services Operations is currently based on ISGS willing to participate. This approach has two issues:
 - a. It limits the eligibility to generators which have tariff determined by the Honorable Commission but leaves out power plants which may not have been able to secure long term PPA or those who may not wish to lock-in a long term PPA. It is requested that other generators should also be allowed to participate i.e. eligibility should be defined more broadly. This will ensure that sufficient generation resources are available particularly at times when the eligible generators do not have un-requisitioned reserves. It appears that under the proposed design, it may be possible that there are no ancillary reserves available during days when they are most needed. Table-1 included in 2.3.2 of Explanatory Memorandum does not indicate if the capacity mentioned there is already committed or open for taking other commitments.

It is also noted that most of the generators mentioned in Table-1 are coal fired and few gas based plants. Given the technological constraints, it is quite likely that these generators will not be able to provide fast response required to stabilize grid in case of sudden events listed in regulation 6.5

In view of this, it is requested that the Honorable Commission may provide incentives to incorporate Hydro generation which has the least response time and ability to provide reactive power in the ancillary services

b. The proposed pricing mechanism with “no commitment” charges for declared availability in ancillary services may not provide sufficient incentives in attracting generators, ensuring their commercial viability and sending proper signals for operation and development. Given the high uncertainty in dispatch of generation in ancillary services reserves, there appears to be a strong need to compensate generators for their preparedness in providing the service when called for.

It is thus requested that the Commission may:

- I. Reconsider eligibility criteria to include other generators who may not have tariff already determined by the Honourable Commission.
 - II. A transparent competitive mechanism for pricing may be created for price discovery.
 - III. A part of the price discovery should be towards commitment to be available for dispatch and respond within stipulated time under the reserves system/market.
5. **Voluntary Demand** response as an important component of ancillary services design. Demand response has been universally acknowledged as amongst the least cost and fastest way to manage system requirements listed under regulation 6.5. This is particular important under the current situation where the Government is trying to significantly increase the share of renewables in the system. **It is therefore requested that the regulation incorporate provision for Voluntary Demand Response especially by larger consumers.**
6. **Transmission Pricing and Losses:** No specific details about sharing of transmission charges and losses are mentioned in the regulation. **It is requested that this aspect may be clarified in the regulations.**
7. **Forecasting:** It is requested that system operator provide daily load-generation balance forecast on 15 minute block level for optimum decision making in supply and procurement of these services. **It is also requested that the historical data on demand at time block level may be shared transparently with all market participants.**
