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*We may discuss in a meeting with Mr. Sardana*

25 July, 2017

Dear **Mr. Gireesh Pradhan,**

*Chief (Eco)  
8/8/17  
SRO(PM)*

**Key outcomes of the CII Roundtable on Cross Border Electricity Trade**

The Confederation of Indian Industry (CII) organized a **Roundtable on Cross Border Electricity Trade on 3rd July 2017 at New Delhi.**

This discussion brought together multi-stakeholders and representatives from Bangladesh, Bhutan and Nepal, to interact with key Government of India officials from MEA, MoP, CEA and CERC. This dialogue helped in engaging with the intricacies of the Guidelines and the draft regulation on cross border electricity trade and helped provide inputs to facilitate developing suitable regulations for cross border electricity trade.

Some of the salient recommendations as they emerged include:

- Representatives from the Bhutan, Bangladesh and Nepal are keen on tripartite/ multilateral energy trade arrangements in addition to bilateral agreements.
- International representatives collectively raised the issue of ownership pattern, specifically raising concerns over the energy trading criteria of 51% Indian ownership, government or private.
- Emphasis on the need for market mechanism to prevail over geopolitics for successful CBET.
- Harmonisation of policies and regulations across borders is very crucial component in the implementation of an effective regional cooperation arrangement.
- Move towards a Day-Ahead Market from Term Ahead Market to help participants manage their electricity portfolio for different durations on exchange, as entire trading volumes happen only on Day-Ahead basis.

A background note on the roundtable with detailed recommendations has been enclosed with this letter for your kind perusal.

We would be happy to discuss this further with your concerned officials.

*With warm regards,*

Sincerely,

**Anil Sardana**

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**Mr Gireesh B Pradhan**  
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cc: **Mr Sudhakar Dalela, I.F.S**  
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Confederation of Indian Industry

**CII Note on Cross-Border Electricity Trade**

**CONTEXT**

India trades about 2500 MW of power with Bhutan, Bangladesh and Nepal. This consists of about 1500 MW imports from Bhutan, 600 MW of exports to Bangladesh, and 400 MW of exports to Nepal, therefore, making India a net importer of power in South Asia today.

Going forward, the volume of cross-border power trade is expected to increase significantly to about 31 BU by 2020, which could rise to 330 BU by 2034 as estimated in a study by USAID. This clearly represents the huge potential in developing cross-border electricity trade and building new transmission capacities between India and adjoining countries.

While the process of power trading has already been initiated with the signing of the SAARC Framework Agreement for Energy Cooperation (electricity) in 2014, the challenge lies, particularly when there is an intrinsic interplay of factors like political economy, natural resources, infrastructure, foreign policy matrices and international relations, in maintaining transparency and accessibility in the trade with counterparties.

To facilitate and promote cross-border trade of electricity with greater transparency, consistency and predictability in regulatory approaches across jurisdictions and minimise perception of regulatory risks, the Guidelines on Cross Border Trade of Electricity was announced by the Ministry of Power in December 2016. The Central Electricity Regulatory Authority has issued the Draft Regulations thereafter.

Given this background, the Confederation of Indian Industries (CII) organized a roundtable on Cross Border Electricity Trade on 3 July, 2017 at New Delhi with following objectives:

- Provide inputs to facilitate developing suitable regulatory environment to promote CBET,
- Provide a platform for multi-stakeholder dialogue on opportunities in CBET, and
- Provide a platform for all attendees, from India and neighbouring countries Bhutan, Nepal and Bangladesh, to interact with the key Government of India officials from Ministry of External Affairs, Ministry of Power and Central Electricity Regulatory Commission.

## KEY INPUTS FROM BANGLADESH, BHUTAN AND NEPAL

### Mr Monowar Islam, Chairman, Bangladesh Energy Regulatory Commission

- Congratulated the Government of India for the constructive effort to issue well-articulated, concise guidelines on CBET.
- SAARC countries should work together on implementation of CBET guidelines.
- However, certain reservations from neighbouring countries must be addressed.
- The Guidelines discuss bilateral agreement, while Bangladesh is keen on tripartite trade.
- Seasonal variations in power generation and trade should be taken into consideration.

### Mr Karma Penjor Dorji, Chief Engineer, Department of Hydropower and Power Systems, Ministry of Economic Affairs, Government of Bhutan

- Hydropower is the backbone of the Bhutanese economy being the only major resource and therefore of immense strategic importance.
- India and Bhutan have had close ties in terms of energy trade.
- Bhutan agreed that the CBET Guidelines tend to realise the positive experience of India-Bhutan cooperation, but recommended that the Guidelines be less restrictive to the countries. Concerns include:
  - First, the energy trading criteria of having 51% of Indian ownership (govt. owned/ controlled company)
  - Second, perpetual G2G mode of trade: market mechanism should prevail in CBET
  - Third, tariff should be determined through competitive bidding and power should be sold through PPA (Power Purchase Agreements) to the highest bidders in the market
- The Guidelines restrict power to the Indian energy exchanges; there should be unrestricted and complete access to the electricity market.

### Mr Rameshore Khanal, Former Finance Secretary, Government of Nepal

- In Nepal, almost 66% of the population relies on fuel wood which accounts to over 1 million tree falling/year. Hence, development and use of hydropower through CBET will change the energy pattern in Nepal. It would also accelerate the South Asian market.
- Nepal and India have been involved in low voltage agreement earlier; only in 2014 high voltage agreement happened between the two countries.
- While the CBET Guidelines are an improvement over the past, a more liberal approach should be adopted as energy cannot be discussed in isolation. Some key concerns:
  - Energy trading criteria of 51% of Indian ownership for any interested party.
  - The Guidelines do not encourage the Indian private sector; market mechanisms should be allowed to prevail.
  - If we do not allow free flow of energy, it will be wasted.
  - The Guidelines do not explicitly mention/define transit trade and its process.



## SALIENT DISCUSSION POINTS

- Guidelines are a framework for bilateral trade, but cannot override existing bilateral Agreements.
- If Guidelines are set right, then regulations would not be an issue – the freedom to interpret for regulators depends on clarity of Guidelines.
- The Guidelines encourage electricity trade through long-term Bilateral Trade Agreement instead of multilateral arrangement. The tariff so determined often is not reflective of the market demand and supply scenario.
- For power transactions, market mechanisms or transactions should operate instead of a Government to Government (G2G) basis. Both for export and import of power, free market mechanisms should prevail.
- Tariff determination - for bilateral projects should be allowed to discover tariff through market mechanism after the expiry of existing contracts. Plants not allowing their plants (Government owned/controlled projects) to bid out to Indian Utilities/ Licensed Traders goes contrary to Bhutan's interest.
- Eligibility criteria to participate in CBET project ownership and trading company - Bhutan government owned/controlled traders will be allowed to export power.
- Designated entity approval means that selling entity located in neighbouring country is required to seek one time approval of Designated Authority to participate in the existing Exchange Term Ahead Market (TAM) market in which other Indian selling entities are also participating.
- Trading through Indian Power Exchange: The Guidelines do not allow trade of electricity on a Day Ahead Market (DAM) basis, and is restricted to only TAM, which includes Intra-day, Day-ahead Contingency, Daily and Weekly contracts to help participants manage their electricity portfolio for different durations. Projects in trading companies should be allowed full access to all categories of India's electricity markets including Day-Ahead Market in Exchange.
- Other general conditions like 'approval on case-by-case basis' should be the rule rather than the exception.
- 400 kV interconnection between India and Nepal not being utilised to full capacity.
- Seasonal variations in power requirement need to be taken into consideration.
- 51% Indian ownership in all power trade business / projects is a matter of concern.
- The Guidelines do not allow for medium term PPAs, such as 6 months for 6 years.
- PLF for Indian power plants less than 60% is creating a buyer's market.

## SUMMARY OF RECOMMENDATIONS

- Bangladesh, Bhutan and Nepal have each submitted recommendations for formal consideration by Government of India.
- Issues related to tripartite / multilateral cooperation could be further evaluated and addressed through Guidelines / Regulations or a separate framework as deemed suitable.
- Economic advantages should prevail over geopolitical issues, as in Europe's unified power network.
- CERC may invite formal discussions on proposed regulations with neighboring countries as part of the present stakeholder discussion on cross-border regulation.
- Trading companies controlled/owned by Govt. of neighboring countries should be allowed to participate in electricity trade.
- Grid security must be of prime importance for all trading countries while streamlining transmission.
- Trading platforms must encourage bilateral flow of power.
- Ownership of power projects and how transactions are affected needs to be reviewed.
- CII to facilitate periodic stakeholder discussion on CBET to provide a common platform for ongoing discussions.
- Prepare an instrument for BBIN / SAARC countries with joint ownership and provide methods / provisions for modification; this would be more workable.
- Important to start building transmission lines as that takes 2 – 3 years conservatively.
- 5 success stories: Dalachu, Bhutan / Adani India to B'desh, etc. can be tested in the next 6 – 12 months wrt the Regulations.

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