



Annexure

Comments on “Discussion Paper on Re-designing Ancillary Services Mechanism in India” issued by Central Electricity Regulatory Commission

Overview: Central Electricity Regulatory Commission had notified CERC (Ancillary Services Operations) Regulations (henceforth, RRAS Regulations) on 13th August, 2015. Detailed Procedures were approved by CERC on 8th March, 2016 and Ancillary Services were implemented by the Nodal Agency i.e. NLDC in coordination with RLDCs on 12th April, 2016. Under RRAS, a total of 4,294 MUs and 482 MUs were scheduled for regulation up and regulation down, respectively, from April 2016 to Dec. 2017.

Based on the experience gained from current ancillary service operations it has been observed that existing regulatory framework for slow tertiary services needs to be expanded by including other generators and other services. In view of the same CERC staff has issued a discussions paper wherein they have proposed to re-design the Ancillary Service Mechanism.

We have following comments on the discussion paper:

General Comments:

1. Recently CERC has issued draft fifth amendments to DSM Regulations proposing DSM prices linked to market price, Discussion paper on Re-designing Real Time Electricity Market and Discussion paper on Re-designing Ancillary Services. These documents intend to make several changes in current market design by introducing ACP linked DSM pricing, introducing gate closure and double-sided close auction-based pricing for Intra-day hourly market and re-designing Ancillary services for tertiary reserves selected through auction-based pricing.
2. It is suggested that these proposed changes should undertake step by step, after examining the impact of implementing market linked DSM pricing under DSM regulations amendments.
3. About re-designing Ancillary Services mechanism which is currently applicable to only regional entities whose tariff is determined/adopted by CERC, it is submitted that since other generators/IPPs whose tariff is not determined by CERC/SERCs and they are contracted their power at one-part tariff unlike two part (Fixed & Variable) and selling power in short term market.



In this context, it is not appropriate to compare bids of such generators with those generators currently under the scope of CERC RRAS Regulations, 2015 because the former would be placing their bids in reference to their cost of generation would not be competitive in comparison to latter placing their bids in reference to their variable cost, even when both have generation capacity based on say domestic coal based plants and have same kind of reserves.

Therefore, the idea of co-optimization of Energy and Ancillary bids should not be introduced.

4. Further, it is also suggested that bids for Day ahead Ancillary should be called after the clearing of Day ahead energy market and accordingly, day ahead Ancillary market should be operated separately wherein sale bids from all eligible generators should be mapped against demand curve which should either consider reference benchmark buy price of respective region/control area or average cost of generation in the same region/control area.

Comments against Clause/provision of the discussion paper are as follows

Clause and Provision	Comments
<p>Clause 6.9 All Inter-State / Intra-State generation (Public or Private) resources may be qualified to provide Ancillary Services</p>	<p>(a) It is suggested that cross border generators selling power in India under Inter State transactions be allowed to participate in Ancillary Market.</p> <p>(b) Trading Licensees should also be permitted to submit bids on behalf of generators as is the case in Day Ahead Market of Power Exchanges</p> <p>(c) Further, it is suggested that SLDC should provide NOC to Generators for participating in both Day Ahead Energy and Day Ahead Ancillary Services.</p> <p>(d) For Intra state generation sources, who would be the buyer for Ancillary Reserves?</p>



Clause and Provision	Comments
<p>Clause 6.12 (sub clause) The markets will operate both on a Day Ahead Basis and Real Time Basis through the Market Clearing Engine of the Power Exchanges</p>	<p>We propose that the Power Traders may aggregate the reserves available and participate in the Ancillary service market.</p>
<p>Clause 6.13 For the slow tertiary, there shall be a Day Ahead Market where generators would bid simultaneously in Day Ahead Energy and Day Ahead Ancillary Services Market and the two shall be cleared together</p> <p>Clause 6.33 It would be desirable that POSOCO declares in advance the transmission corridor margin available for real-time/ ancillary services transaction. Accordingly, Power exchanges shall factor in the said margin available while clearing the market.</p>	<p>(a) It is suggested that current arrangement of corridor allocation for Day Ahead (Energy) on Exchanges(s) and for Real time operations should continue.</p> <p>(b) It is further submitted that no extra margin for transmission corridor should be considered in view of proposed real-time/Ancillary services transaction.</p>
<p>Clause 6.14.2 Resources capable of providing tertiary reserves in the Day-Ahead commitment shall be required to submit Availability Bids for each hour of the upcoming day in the Day Ahead Market</p>	<p>(a) It is suggested that Separate Day ahead market for Ancillary be created, after closure of Day ahead market for Energy. Both the markets should not be operated simultaneously</p> <p>(b) It may kindly be clarified as why each hour bids for availability of reserve is called in place of 15 min time block. It is suggested that both AS bids and Energy bids, should be for 15 min time block basis.</p>



Clause and Provision	Comments
<p>Clause 6.14.3</p> <p>“The tertiary Reserve Suppliers shall be selected for each block of time for the upcoming day through a <i>co-optimized Day-Ahead Unit Commitment</i> process that minimizes the total cost of Energy and tertiary Reserves....”</p>	<p>It is submitted that tertiary reserve supplier should be selected through a separate bidding post price discovery on DAM (Energy) platform.</p> <p>The Commission may also consider sharing the mechanism of price discovery in Ancillary market so that the same may be better understood.</p>
<p>Clause 6.14.3</p> <p>“The tertiary Reserve Suppliers shall be selected for each block of time for the upcoming day through a co-optimized Day-Ahead Unit Commitment process that minimizes the total cost of Energy and tertiary Reserves, using bids submitted to <i>Power Exchanges</i> in the Day Ahead Market.....”</p>	<p>(a) As balancing market is a critical segment of power markets, we believe that System Operator should run the balancing market as is the general practice in developed power markets of Europe and USA</p> <p>(b) Here, in the said clause, it is said that tertiary reserve supplier shall be selected for each time block. This seems in contradiction with one hour bid availability as mentioned in 6.14.2.</p>
<p>Clause 6.16</p> <p>Certain conditions may lead to a change in real time availability of resources and hence the resources designated to provide Ancillary Services shall be finally selected through a real time market</p>	<p>The definition of real time market shall be elaborated. What would be the frequency of running this real time market (i.e. will this market be run for each hour, each 15 min time block or for some other time period. The gate closure for such real time market should also be clarified)</p>
<p>Clause 6.16.2</p> <p>In case the requirement changes in real time and the system operator does not require a supplier selected in day ahead market to provide tertiary reserve services, <i>the supplier would be required to buy back the unserved quantum at real time prices</i></p>	<p>(a) It is not clear what is meant by real time price and how is this price determined. Will this price be same as price discovered in Real Time Markets or will it be equal to DSM rate?</p> <p>(b) In case real time price is higher than the day ahead price, a peculiar situation may</p>



Clause and Provision	Comments
	<p>arise wherein a supplier who has not been dispatched by NLDC needs to pay to NLDC.</p> <p>(c) It should also be clarified that what would be the platform/market (Real Time Market or DSM) for the buyback of unserved quantum by supplier</p> <p>(d) In the scenario when the generator is ready to provide AS, but System operator, due to any technical reason, calls the selected generator back and that generator won't be serving in real time. However, as proposed, Generator buying back the unserved quantum at real time prices is not justifiable with no default at the end of selected generator. In such scenario, considering the cost of bidding in AS and cost associated in running the unit at low PLF etc., generators here must be given the price whichever is higher between AS and DSM (real time).</p>
<p>Clause 6.16.3</p> <p>Similarly, a supplier, selected in Day Ahead Market, that is not able to supply reserve services in real time shall also buyback the unserved quantum at real time prices.</p>	<p>It should also be clarified that what would be the platform/market (Real Time Market or DSM) for the buyback of unserved quantum by supplier</p>
<p>Clause 6.20</p> <p>NLDC can initiate resource evaluation at any instant. The resource that is not able to</p>	<p>We propose that the resource to be evaluated may have the option to identify alternate source, which is situated in the same bid area as that of</p>



Clause and Provision	Comments
demonstrate the offer parameters shall be barred from participating in these markets for a period of three years after it has failed three successive tests	original source, which is kept ready to meet the parameters
<p>Clause 6.36</p> <p>As the power sector in India transitions to include AS markets for tertiary services, it is proposed that initially, the charges be recovered from the Deviation Settlement Mechanism pool. Once the AS markets have stabilized, the charges be recovered as a “price adder” to the NLDC/ RLDC service charges and recovered from the grid connected entities on per unit of energy basis or as price adder in UI/DSM charges.</p>	It may kindly be clarified as how the generator will recover the fixed cost for providing Ancillary services.
<p>Payment for energy supplied for Ancillary services</p>	It seems from the Discussion Paper that generators will be paid a Reserve Price for energy supplied for Ancillary services. This reserve price does not include fuel cost incurred by generator for producing this energy. The Reserve Price should include the fuel costs too