

31<sup>st</sup> January, 2019

**Shri Sanoj Kumar Jha**  
**Secretary**  
**Central Electricity Regulatory Commission**

**Subject:** Comments on CERC Discussion Paper- "Market Based Economic Dispatch of Electricity: Re-designing of Day-Ahead Market (DAM) in India"

Sir,

Central Electricity Regulatory Commission (CERC) vide Notification No. RA-14026(11)/3/2018-CERC dated 31<sup>st</sup> December 2018 has released a Discussion Paper on Market Based Economic Dispatch (MBED) and has asked for comments from the stakeholders.

In the capacity as a long standing lender to Power sector in India, we would like to submit our comments on this proposal, as per Annexure-1. We request to kindly consider these comments while finalizing the market design. As the proposed design would alter power sector dynamics significantly, in-depth consultative process with all the stakeholders, including lenders, would be required. In case any clarification/ discussions are required over any of our comments in Annexure-1, we would be glad to meet the concerned officials and provide the same.

Yours faithfully,  
For **L&T Infrastructure Finance Company Ltd.**



**Virender Pankaj**  
**Chief Executive – Wholesale Business**



**Annexure-1: Comments from L&T Infrastructure Finance Company Ltd. On a Discussion Paper- 'Market Based Economic Dispatch of Electricity: Re-designing of Day-ahead Market (DAM) in India'**

The proposed mechanism of Market Based Economic Dispatch of electricity delinks the energy charge from the total cost. This would certainly help power markets to become more efficient, which is a welcome step. The mechanism would also help in enabling optimal utilization of plants having cheapest variable cost across the country and bring down Power Purchase Cost for many discoms.

However, there are certain concerns, which unless discussed in length with all key stakeholders, may pose challenge while implementing the proposed mechanism. Some of these are mentioned below:

**Lender's perspective:**

- The proposed mechanism could result in discoms delaying or avoiding any new long/medium term PPAs, as they would have easier access to power through exchanges without entering into contracts and committing capacity charge payments.

In recent years, India has witnessed large fluctuations between base and peak power demands. Despite having a power surplus situation currently in the country, the power prices on exchanges were higher than Rs.10/kwh at certain instances during peak hours in year 2018. With rapid urbanization and increasing share of intermittent renewable energy, this sharp variation in exchange based prices is expected to amplify further.

With paucity of new long- term contracts, the projects would accordingly earn fluctuating revenues. However, for a financial closure of generation projects, having visibility of cash flows for long term loan tenors of 20-25 years is essential, matching economic life of these assets. In absence of this, financial closures would see lower leverages and higher share of equity. This would increase financing cost, affecting the ultimate consumer, who may have to pay higher tariffs.

- Further, financing of existing plants was done based on prevalent government policies, and at certain load factors and availability assumptions. The new mechanism could result in significant fall in PLFs of non-pit head plants. This may adversely impact their availability, as plants may not be able to procure enough fuel to declare normative availability. This would result in lower realization of capacity charge- impacting their debt servicing ability. Also, with low PLFs, variable cost of such plants would increase (due to higher SHR), thereby increasing generation cost, affecting their competitive position on exchanges.

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Such situation would add to the stress in the power sector and also hinder resolution of stressed power projects. Also, economic value of power plants, which usually has 30-35 years life, would depreciate sharply. Power plants' being national assets, such situation is avoidable.

- Under the proposed mechanism, the variable cost payment would be settled through exchanges and capacity charge payment would be separate as per bilateral contracts. For exchanges related transactions, the settlement should be as per prevalent norms in trading markets. There could be delays/ non-payment of capacity charge by discoms under bilateral contracts, as certain plants may not get dispatched for a long period.

To ensure that the generators receive both capacity & variable charge payments on time, there should be strict contract enforcement and payment security mechanism/ tripartite agreement may be put in place, in line with SECI PPAs for Renewable Energy.

#### **Other concerns**

For the mechanism to work smoothly, certain pre-requisites as under may be examined:

- The existing as well as new Fuel Supply Agreements would have to allow the use of coal for power sale in short term/ merchant power market as well. Thus, present restriction of linkage coal use only for supplying power under long/ medium term PPA needs to be removed prior to finalization of proposed mechanism. All coal based plants would need to be provided linkage coal ACQ (annual contracted quantity) sufficient to run the plant at normative PLFs. Coal India Limited will have to improve coal production accordingly and railways would have to resolve the logistical issues as well.
- Even after implementation of the proposed mechanism, discoms will still self-schedule the cheapest power, as they have the right to self-schedule until 9.45 am in the Day Ahead Market. Thus, only the costlier power in each State may be available in the Day Ahead Market. This may affect the very purpose of reducing the power purchase cost for discoms. Hence, to avoid such contradiction, self-scheduling may be completely stopped after the transition period.
- For the mechanism to achieve optimal results, Government will have to augment the transmission capacity at inter-state/ inter-regional level. In absence of this, the grid stability would become a major concern, as renewable generation is expected to increase sharply over the coming years. Thus, to avoid grid curtailments and assist

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economical free-flow of electricity, a robust, efficient and flexible transmission network is a necessity before implementing the proposed mechanism.

- It is not clear as to how unanticipated shortfall in scheduled energy due to the variability in the renewable energy generation and resulting instability in the grid would be taken care. Also, involved parties will have to take accountability for any failures in supplying contracted power to the respective discoms. The roles of dispatch centres could be defined in this revised scenario. Also, for grid stability, gas based plant may act as a spinning reserve.
- As per proposed mechanism, the current volumes on power exchanges would increase significantly. The transaction charges (commission of exchanges, transmission charges & losses etc.) would have to be moderated in order to avoid increase in power purchase cost.
- There appears to be no example of any other country where such mechanism has been implemented at national level. Thus, the proposed mechanism may initially be implemented on a regional basis during transition period and only after its successful result, could be extended at national level.

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