

Dear Sir,

Subject: Comments on Central Electricity Regulatory Commission Discussion Paper on Market Based Economic Dispatch of Electricity.

We are in receipt of the Central Electricity Regulatory Commission Discussion Paper on Market Based Economic Dispatch of Electricity.

At the outset Statkraft Markets values the opportunity to provide inputs and interact on an important subject. We appreciate the steps being taken by honourable commission to increase the visibility across states, efficient utilization of resources and thus bring down the system cost. In addition it will organize the entire pool of demand centres and supply entity with better transparency in the production cost, purchase cost and payment mechanisms.

However, the Hon'ble commission may address the following Clarifications or challenges:

**1. Required Changes in Existing Regulations and Contract Structures**

As proposed in the market based economic despatch, there will be centralised merit order despatch on day-ahead- basis through a single market operator. Thus the price offer submitted by sellers and buyers and the discovered market clearing price will be at regional periphery. This design change would require other associated changes like standardization of contracts - delivery point and uniformity in cost composition of two part pricing, the inclusion of network cost and Long term access cost, and integration of renewables in the wake of uncertainty on must run.

**2. Development of Enabling Markets**

• **Establish Backward Linkages - Market for Fuel procurement and Cost optimisation:**

The generators might run the risk of not meeting the planned generation target depending on their position in stack. Generators will also be exposed to higher working capital requirement and uncertain/unplanned fuel procurement cost as the generation would be dependent on the discovered market price

The generation/coal offtake target/limit defined in Fuel Supply Agreement should be revisited or the market based mechanism for fuel allocation/or real time availability of fuel can be simultaneously planned.

• **Development of new markets -**

**Simultaneous Development of Ancillary and Real Time Market** - As discussed in the paper, the efficient functioning of the proposed design of market based economic despatch on day-ahead basis has dependence on the proposed Ancillary Market and Real time Market.

As discussed in Annexure IV of the discussion paper, a generator would be obligated to buy back power from real time market in case the beneficiary exercises the right to recall. In case of an illiquid & nascent real time market the generator will be exposed to high price level/volatility or penalties corresponding to unavailability of power.

**Derivatives Market** - Further, the commission may consider the development of derivatives market to provide a hedging opportunity for merchant generators.

**Capacity Market** - The commission may also consider the subsequent development of capacity market in India in order to incentivise the generator and ensure the availability of peaking capacity. This would ensure a revenue stream especially for the merchant generators and would be an incentive to the availability to generate.

### **3. Exchange design to be used in Real Time Market and Day Ahead Ancillary Market:**

As mentioned in para 7.12 of the discussion paper, the structure of multiple exchanges and their roles have been explained. On the similar note, the design & role of exchanges can be defined for the above two proposed markets as well.

For operational efficiency and to maintain sync amongst the three markets a similar mechanism of bid collection and clearing can be followed in all three markets.

### **4. Standardization of Exchange Platform:**

As mentioned in para 7.12, “*CERC Regulations allow for multiple power exchanges to ensure competition in Day-Ahead and intra-day markets. Structurally, the same can continue, however for better system efficiency, one option is to combine the bids and offers of both the exchanges.*”

To enable the proposed mechanism of multiple exchanges and combining the bids, it is imperative that standardization of Exchanges is taken up by the commission. To ensure uniformity, the exchanges should follow pre-defined standards and procedures. E.g. Bid types, Matching Principle, Algorithm etc.

### **5. Expected increase in transmission Congestion:**

The Hon’ble commission may consider the possibility of an expected increase in transmission congestion and/or cost as the despatch of efficient plants and resultant power flow may not be in sync with the existing transmission infrastructure. The Commission may consider conducting a load flow study to understand the impact (if any) of the expected change in design.

### **6. Cross border trade of electricity:**

The commission may highlight the expected mechanism and despatch procedure with integration of Cross border trade as well as the cost implications on local stake holders.

### **7. Level playing field:**

The commission may take note of the fact that the design change should ensure level playing field to all players involved. The large scale operators, by virtue of their scale and ready linkages, would have an upper hand in optimising their Variable cost.



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Further, due to the separate capacity charges payment to the generation volume under PPA (as mentioned in discussion paper), the merchant plants will have to take a severe hit on their fixed cost recoveries or would run the risk of not despatching at all in the day ahead market.

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