

# **Draft Power Market Regulations, 2020**

## **Comments and Suggestions by Prayas (Energy Group)**

Public Hearing

Before the Central Electricity Regulatory Commission

14<sup>h</sup> August 2020

# Outline

- Re-examine need for coupling
- Eligibility of power exchanges
- Regulatory approval for new contracts, bid orders
- Eligibility and regulatory treatment of OTC platform
- Public accountability related measures
  - Market Oversight and Penalties
  - Statutory data requirements and publishing data
  - Public consultation for crucial processes
- Framework for futures and derivatives contribute to robust market operation

# Re-examine need for market coupling...1

- **Lack of clarity makes it challenging to assess merits of arrangement**
  - Process for when buyer and seller are with two different exchanges
    - incl. NLDC communication, market splitting, payment settlement
  - No clarity on agency to be designated as market coupling operator (MCO)
    - CTU? Power Exchange? New entity?
  - Role of MCO in market oversight and surveillance
    - Not clarified in draft regulations
- **Uniform price discovery and market development**
  - Market coupling to reduce role of power exchanges to bid aggregators
  - Would dampen incentives to compete and innovate (with products, bid orders, clearing algorithm)
  - Additional layer of complexity in contract settlement

## Re-examine need for market coupling...2

- **Coupling not a pre-requisite for market development**
  - For futures and financial products
    - separate exchange –specific products
  - Change in DSM regulations to reduce arbitrage
    - Link price vectors to weighted avg. block-wise RTM price with 10% mark-up
- **Suggest introduction of MCO after medium-term examination of market operations**
  - Market coupling be introduced after considering impacts of proposed changes
    - new PXs, OTC platforms, new contracts/bid orders, futures etc
  - Can be considered in 5 years time with amendment of regulations
  - Provide sufficient clarity on the operation of the MCO and evaluation of benefits

**At this stage of India's market development, power exchanges should be allowed to compete with price discovery as an important lever to further innovation.**

# Performance linked entry barrier for Power Exchanges

- Retain Regulation 35 with proposed modification

*“A Power Exchange which has less than ~~20%~~ 15% market share for continuously two financial years falling after a period of two years of commencement of its operations shall close operations or merge with an existing Power Exchange within a period of next ~~six~~ **twelve** months. (For this purpose Market size is defined as the total Annual Turnover in Million Units of all contracts transacted in all the Power Exchanges in each financial year).*

*Provided that this regulation shall not apply if there are only two Power Exchanges in operation.”*

- Performance evaluation of existing power exchanges
  - Market share to be reviewed when exchanges apply for renewal of registration.

# Regulatory approval for new contracts and bid orders...1

- **Bid orders to be subject to regulatory approval after limited introduction**
  - Bid orders should be approved as it would impact price discovery
  - New bid orders can be introduced without approval on a *limited basis*
    - limited duration and quantum to encourage innovation and acceptability
    - should be after stakeholder consultation
    - results and insights should be submitted during approval of bid order
- **Audit of clearing algorithm before introduction of any new bid orders and contracts**
  - Six months before and after the introduction of new bid orders and contracts
- **Clarification that power exchanges are free not to offer all existing contracts**
  - Draft regulation 25 states that the Commission can introduce new contracts
  - Power exchanges should not be obligated to introduce all existing contracts

# Clarity on green products

- **‘Green’ bid orders in DAM**
  - Consumers can specify RE bid → sell bid marked ‘green’/ ‘brown’
  - Matching of green bids with green options during DAM clearing
- **REC for DAM sellers**
  - DAM clears at MCP → cleared RE generators issued RECs
  - NLDC to monitor power scheduled for REC settlement
  - RE generators can register even part of their capacity
  - Need to modify REC regulations and appropriate changes in metering, accounting etc.
- **Continuous trades**
  - Buyers are able to select RE generators based on ‘green’ markers

**Regulatory clarity on such ‘green products’ can be provided in the regulations to reduce uncertainty**

# Regulatory treatment of OTC platforms

- **Net worth for eligibility should be increased significantly**
  - Rs. 50 lakhs may not discourage ‘fly-by-night’ operators/non-serious players
  - Net worth requirement should be increased to Rs 5 crores
- **Clarity on status of DEEP portal**
  - Involved in execution, clearance, settlement as per bidding guidelines
  - Would DEEP need to register as an OTC platform?
  - What steps would be needed to ensure guidelines are complied with?
- **Need to flag false reporting/ default**
  - Information submitted by registered parties proactively collected by OTC periodically
  - Repeated, reported defaults should also be flagged on the system
- **Need for grievance redressal mechanism for OTC platform functioning**
  - Set up grievance redressal forum and report details of complaints on website



# Public accountability related measures

- **Market Oversight and Penalties**
  - Penalties u/s 142, 146 not enough for insider trading, circular trading, cartelisation
  - Specific penalties for market manipulation to be stipulated in the E Act.
- **Statutory data requirements and publishing data**
  - Information in Forms I-XIV to be uploaded on PX website (like traders)
  - Information not commercially sensitive and deals with past trades

- **Removal of timelines for data storage**

Draft Regulation	Information related to	Limit to maintain records
32	Related to market surveillance,	2 years
16	Issue or transfer of PX shares	8 years
22	Documents submitted for PX membership	5 years

- **Public consultation for crucial processes**
  - grant, renewal, revocation of power exchanges and OTC platforms
  - Approval/suspension of contracts + bid orders, market oversight proceedings

# Significant risks with introduction of futures

- **Significant risks in a mostly cost-plus sector**
  - Exposure to price volatility and impact of potential market manipulation
  - Risks could be passed onto regulated consumers not limited to market participants
  - Need for sufficient liquidity
- **Irrespective of potential dangers and pitfalls , it introduced there should be**
  - Strong cooperation and information sharing between the financial and electricity regulators
  - Adequate caution and consultation before introducing financial products
- **Some steps to consider**
  - Details of indices/products are transparently shared, developed after public consultation
  - Products limited to contracts with sufficient liquidity, low volatility → not in TAM/ OTC
  - Products based on constrained price not the market clearing price to reflect actual trades