

## Comments on draft Central Electricity Regulatory Commission (Power Market) Regulations, 2020

Sr. No.	Draft CERC Power Market Regulations 2020	Proposed Amendments	Comments
1.	<p><b>Clause 2-</b> Definition (ah) Market Manipulation (i) entering into any transaction by any Market Participant, which: (1) gives, or is likely to give, false or misleading signals as to the supply of, demand for, or price of any of the contracts on the Power Exchange;</p> <p><b>(2) secures or attempts to secure, by any member of the Power Exchange or client, relatively higher sale price while curtailing supply to other beneficiaries entitled to receive the same power;</b></p> <p>(ii) disseminating any information through the media which gives, or is likely to give, false or misleading signals as to the supply of, demand for, or price of any of the contracts on the Power Exchange</p>	<p>Market Manipulation (i) entering into any transaction by any Market Participant, which: (1) gives, or is likely to give, false or misleading signals as to the supply of, demand for, or price of any of the contracts on the Power Exchange;</p> <p><del>(2) secures or attempts to secure, by any member of the Power Exchange or client, relatively higher sale price while curtailing supply to other beneficiaries entitled to receive the same power;</del></p> <p>(ii) disseminating any information through the media which gives, or is likely to give, false or misleading signals as to the supply of, demand for, or price of any of the contracts on the Power Exchange;</p>	<p>In our view if the beneficiary can curtail the power under the contract and buy cheaper power on exchange then same should also apply to supplier.</p>
2.	<p><b>Clause 5 (3) -</b> Provisions for Long Duration Contracts:</p>		<p>Welcome Step. Should go ahead.</p>

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	<p>a. Definition of 'Term Ahead contracts' has been proposed to be amended to incorporate contracts for delivery on T+2 or more. No restriction on the time period upto which LDC contracts may be launched, however delivery will be as per short term open access regulations.</p> <p>b. The method of price discovery has been specified in the definition of the Term Ahead Contracts as 'Continuous transactions" which means other method of price discovery may require special consideration.</p> <p>c. Term Ahead Contracts shall be settled only by physical delivery of electricity without netting.</p> <p>d. Circular trading is not allowed in TAM</p>		
3.	<p><b>Clause 5 (3) (iv)</b> - No Circular Trading shall be allowed and the rights and liabilities of the parties to the Term Ahead Contract shall not be transferred or rolled over by any other means whatsoever.</p>		To meet the supply obligations, flexibility to be allowed for supply of electricity from another unit with untied capacity.

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4.	<p><b>Clause 5. Contracts transacted on Power Exchanges</b></p> <p>(1) Day Ahead Contracts and Real-time Contracts</p> <p>(a) Price discovery:</p> <p>(i) Price Discovery shall be done by Power Exchanges or by Market Coupling Operator, as and when notified by the Commission.</p> <p>(ii) Price discovery mechanism shall adopt the principle of maximization of economic surplus (sum of buyer surplus and seller surplus), taking into account all bid types.</p> <p>(iii) The bidding mechanism shall be double sided closed bid auction on day ahead basis or on real time basis, as the case may be.</p>		<p>Price discovery mechanism shall be adopted as the principle of maximization of economic surplus, taking into account all bid types, however as per the Clause (iii), bidding mechanism is adopted. Both the mechanisms will discover two different prices which may lead to confusion. Accordingly, the Commission may clarify the same.</p>
5.	<p><b>Clause 7 -Contracts transacted in the OTC Market</b></p> <p>(1) Price discovery: The price and other terms of contract in the OTC Market shall be determined either through mutual agreement between the buyer and the seller or through competitive bidding process or as</p>		<ul style="list-style-type: none"> <li>• Presently, OTC contracts can either be entered into through the platform of bilateral contracts or scheduling through RLDC.</li> <li>• From the proposed draft it appears that power exchange platform is for contract information only. There is no clarity as to whether it is</li> </ul>

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	determined by the Appropriate Commission.		<p>required to be declared through exchange.</p> <ul style="list-style-type: none"> <li>• Further, it must include the payment security mechanism.</li> </ul>
6.	<p><b>Clause 22- Reporting about Member of the Power Exchange</b>            .....            (4) A Power Exchange shall stipulate criteria for membership to the Power Exchange including Net worth, minimum base capital, security deposit requirement and liquid asset requirement.            .....</p>	<p>(viii) <del>A Power Exchange</del> <b>The Commission</b> shall stipulate criteria for membership to the Power Exchange including Net worth, minimum base capital, security deposit requirement and liquid asset requirement.</p>	<p>Considering that there are more than one Power Exchanges in operation, it is suggested that the Hon'ble Commission should fix the criteria for membership, which would bring uniformity amongst Power Exchanges.</p>
7.	<p><b>Clause 23 - Power Exchange transaction fee</b>            No Power Exchange shall charge transaction fee exceeding such fee as approved by the Commission:</p>		<ul style="list-style-type: none"> <li>• It is submitted that given the huge volumes being transacted at the exchange every day the power Exchanges make windfall profits at the current fees of 2 paise per unit.</li> <li>• Therefore, the transaction fees should be rationalized by reducing them drastically.</li> <li>• It is suggested to have fix return on equity model which is applicable for all other constituents of power sector be it Generation, Transmission or Distribution.</li> </ul>

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8.	<p><b>Clause 27 -Clearing and Settlement</b>            (iii) The Power Exchange shall distribute at least <b>70%</b> of the return earned on the initial security deposit invested in the financial year to the members of Power Exchange in proportion to initial security deposit of the member and duration for which such deposit was held with the Power Exchange, within 45 days of the last date of the financial year.</p>	<p><b>27. Clearing and Settlement</b>            (iii) The Power Exchange shall distribute <del>70%</del> <b>100%</b> of the return earned on the initial security deposit invested in the financial year to the members of Power Exchange in proportion to initial security deposit of the member and duration for which such deposit was held with the Power Exchange, within 45 days of the last date of the financial year.</p>	<ul style="list-style-type: none"> <li>• In our view as the members on exchange contribute to SGF so any return earned on SGF deposit should be distributed amongst the members of the Power exchange in proportion to their initial security deposit.</li> <li>• The 100% return realized from SGF should be distributed among the members of the exchanges as the same is funded by the members.</li> </ul>
9.	<p><b>Part 4</b>  <b>Clause 19: Flexibility given to Power Exchange</b>            No amendment to the bye-laws, rules and business rules shall be carried out without prior approval of the Commission:  <b>Provided that the Commission may, through a separate order, dispense with the requirement of prior approval for amendment of certain provisions of the bye-laws, rules and business rules;</b>            Provided further that such amendments shall be required to be</p>		<p>The Hon'ble Commission ought to ensure that the flexibility introduced should not adversely affect other constituents of the power sector.</p>

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	<p>approved by the Board of Directors of the Power Exchange</p> <p>Clause 25: Provided further that the Power Exchanges may introduce new bid types or modify existing bid types conforming to the types and features of the contracts specified under Regulations 4, 5 and 6 of these regulations, after consultation with stakeholders and National Load Despatch Centre, under intimation to the Commission</p>		
10.	<p><b>Part - 5 Market Coupling:</b></p> <p>Market coupling means whereby the collected bids from all the Power Exchanges will be matched to discover the uniform market clearing price for DAM and RTM</p> <p>Key objectives of Market Coupling</p> <ul style="list-style-type: none"> <li>- Discovery of Uniform Price</li> <li>- Social Welfare/Economic Surplus Maximization</li> <li>- Optimal use of Transmission Infrastructure</li> </ul> <p>Market Coupling Operator will be an entity to be designated by the Commission for undertaking the</p>		<p>Market coupling is a welcome move as this will optimize and lead to efficient use of the transmission system and will improve competition.</p>

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	market coupling. Market Coupling Operator to issue a detailed procedure for implementation of Market Coupling		
11.	<p><b>Part -6 OTC platform: Objective</b></p> <p>(1) To provide an electronic platform with the information of potential buyers and sellers of electricity;</p> <p>(2) To maintain a repository of data related to buyers and sellers and provide such historical data to Market Participants;</p> <p>(3) To provide such services as advanced data analysis tools to Market Participants.</p> <p>Eligibility: Company with Rs. 50 lakh net-worth</p>		<ul style="list-style-type: none"> <li>• If OTC platform is intended to act as a data repository only, the same will lead to greater data transparency and analytics for the market participants.</li> <li>• Present mechanisms such as DEEP offers transparent price discovery mechanism and the same may be continued.</li> </ul>
12.	<b>Part 6 -</b> OTC platform		The Draft Regulations do not clarify as to who will set up the OTC platform. It is requested to clarify the same.