

Date: Aug 14, 2020

The Hon'ble Secretary

Central Electricity Regulatory Commission (CERC)
3rd & 4th Floor, Chanderlok Building, 36,
Janpath, New Delhi- 110001

Subject: *CLP Comments on draft CERC (power market) regulations, 2020*

Reference: *Draft regulation issued by Hon'ble CERC vide notification No. L-1/257/
2020/CERC dated 18th July 2020*

Dear Sir,

We would like to introduce ourselves as CLP India, owned by CLP Group, one of the largest investor-owned power businesses in Asia, and Caisse de dépôt et placement du Québec (CDPQ), one of Canada's leading institutional fund managers. In India, CLP is one of the largest foreign investor in the Indian power sector and a leading renewable energy generation company. CLP owns and operates a 655MW Combined Cycle Power Plant in Gujarat and a 1320MW coal fired power project at Jhajjar in Harayana. In the renewable energy space, CLP has invested in about 1100 MW of wind and solar power projects, spread across various states in India.

This has reference to the above referred draft regulation issued by this Hon'ble Commission, dated Jul 18, 2020 and the notification inviting stakeholder's comments. Our views on the same are appended as Annexure-I.

We would be obliged if you could take cognisance of our submissions while issuing final order on the same.

Thanking You,

For CLP India Private Limited



Mahesh Makhija
Director (Renewables)

Annexure-1: *Comments on draft CERC (Power Market) Regulations, 2020*

Annexure 1

CLP India Private Limited
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Annexure I - Comments on draft CERC (Power Market) Regulations, 2020

At the outset we welcome the proposals made by Hon'ble Commission in the draft Regulations which are progressive and appears to be a step in the right direction for moving towards a more evolved and mature power markets. This would act as a catalyst in eventually moving towards a market-based power procurement approach, as is the dominant mode of power procurement in developed power markets, bringing greater depth and much needed liquidity to the power market. Our comments specific comments and general observations on the draft Regulations are mentioned below in the ensuing paragraphs.

1. Introduction of Market Coupling Operator-

- a) The Hon'ble Commission has proposed Market coupling to ensure that the price discovery mechanism of Power Exchanges adopt the principle of maximization of economic surplus (sum of buyer surplus and seller surplus) for Day Ahead Contracts and Real-time Contracts. While Market coupling has been adopted across geographically different markets in Europe, the overall impact of market coupling in an already integrated market would require further examination and evaluation.
- b) From the perspective of the markets participants in the exchanges (buyer and sellers), it may be a good proposition as the buyers and seller may more freely exercise their choice of exchange based on the transaction costs involved, rather than the chances of clearing their bids and the resultant price difference between the exchanges. The price coupling of different exchanges and discovery of single price at National Level, would be applicable for all the entities (subject to technical constraints) and will not generate multiple price signal. Irrespective of the volume cleared on any of the exchanges price would not be different for same power at the same time.
- c) However, when viewed from the perspective of power exchanges, the introduction of Market coupling operator may act as a deterrent to competition among the exchanges as there may not see any incentive for performance improvement and innovation. Since its introduction in 2008, the Power exchange market has matured over the time and have gained trust of the market participants as a reliable platform. However, the market share of power exchange driven transaction remains miniscule in comparison to the overall volume in the country.
- d) We understand that the Hon'ble Commission is contemplating on concept of centralized dispatch, in the form of market based economic dispatch (MBED), to improve efficiency by reducing the overall power purchase cost of the utilities across States. In case of eventual introduction of MBED, the market volume of transaction are expected to increase considerably. In such a case it may be a good idea for introducing market coupling due to the large volume of transaction expected on the exchanges. However, in case the MBED is not introduced or much delayed, market coupling in itself would not be sufficient to attract more liquidity in the power market as the share amongst the power exchanges is currently in the ratio of 99:1.
- e) Further, currently the function of bid aggregator, discovery of market clearing price and clearing and settlement of transactions is done by the exchanges themselves. Introduction of separate entities for price discovery and clearing and settlement function would introduce multitude of layers of entities and therefore increase the



complexities of transactions as well as associated transaction cost for the market participants. Needless to say, the role of power exchanges would be diminished considerably, especially in view of the fact that a significant portion of exchange transactions are witnessed in DAM and RTM.

- f) It is also not clear from the draft which entity would be designated as the Market Coupling Operator. Whether it would be a private body or a government entity. Also, one of the USPs of the power exchanges is the sophisticated IT infrastructure/engine for secure, reliable and continuous operation of the power exchanges. It is not clear how these technological capabilities would be transferred to the MCOs and whether duplication of these resources would lead to additional transaction costs for the market participants.
- g) In case the Hon'ble Commission decides to proceed with the proposal of market coupling, it should be ensured that introduction of another layer/entity in the market does not increase the complexities and addition in associated transaction cost for market participants and any perceived gains to be derived from Market coupling are not lost on account of increased complexities for the stakeholders.

2. Introduction of OTC platforms

- a) In terms of market share, the OTC transaction market is more or less equally placed with the share of power exchanges. Presently, the buyers and sellers rely heavily on the trading intermediaries for identification and negotiations with potential counterparties. Therefore, introduction of OTC platform is a timely and much needed initiative for non-exchange transactions. Online OTC platforms are expected to serve as online marketplace for direct interaction between buyers and seller.
- b) We understand from the draft regulations that the purpose of the OTC platforms is to serve as a tool for information and does not have any commercial role in carrying out the transaction between the buyers and sellers. The OTC platforms would provide detailed information on buyers and sellers of electricity at one place and the participants can access information viz. quantity, price, fuel, location etc. Therefore, this is only a platform wherein advisory services will be provided by the OTC platform provider without assuming any commercial role or obligation in terms of the contract executed between the parties. The chances of such platforms having conflict of interest are miniscule and therefore the OTC platform should be freely permitted to be established by anyone meeting the eligibility criteria, without any imposing any restriction on the same. We, therefore, suggest that entities such as traders or other grid connected entities may be allowed to have ownership with a certain threshold specified for shareholding by the Hon'ble Commission.

3. Clearing and Settlement corporation

- a) The Hon'ble Commission has proposed hiving off clearing and settlement function, currently undertaken by Power Exchanges themselves, to an entity (Clearing corporation) set up under the Payment and Settlement Systems Act, 2007. As mentioned earlier, this would introduce another layer of entity in the power market



transaction resulting in overall increase in transaction cost. This would lead to overlapping/dual regulation scenario.

- b) Since this Hon'ble commission is dealing with all the aspects of electricity, therefore, CERC would be better placed to regulate and monitor and grant permission for setting up and operating clearing corporation for the purpose of carrying on clearing function of a power exchange. This Securities and Exchange Board of India (SEBI) has granted recognition to Multi Commodity Exchange Clearing Corporation Ltd. which is a wholly owned subsidiary of Multi Commodity Exchange of India Ltd, as a Clearing Corporation. Similarly, Petroleum and Natural Gas Regulatory Board also plans to permit setting up and operate clearing corporation for the purpose of gas exchange within its purview. Therefore, we suggest that CERC should keep within its purview, the grant of permission for setting up of clearing corporation and regulating operations of clearing corporation as provided in CERC (Power Market) Regulation, 2010 within framework and rules defined under Payment System and Settlement Act, 2007.

4. Shareholding and composition of Board of Directors in power exchanges

- a) The Hon'ble Commission has proposed a cap of 5% on direct or indirect shareholding in the power exchanges, by a member or a client of the Power exchanges. This is in addition to the already provided cap of 49% of total shareholding of a power exchange owned by entities, which are member or clients, directly or indirectly, either individually or together with person acting in concert could hold. An additional cap of 5% by entities being member or client prevents sector specific entities to bring in their relevant expertise and experience to the functioning of power exchanges. It may be noted that ownership by power sector entities provides vital expertise of dealing with various issues in development of power markets, which would be necessary in view of the ultimate objective of developing and attracting greater volumes on the power exchanges. An overall cap of 49% should in itself be sufficient to ensure that operations of power exchanges are not influenced by the shareholders, and therefore, further cap of 5% may not be necessary.
- b) The Hon'ble Commission has also proposed to put a restriction on the appointment of member or client of Power Exchange, on the Board of Directors of any Power Exchange. For the reasons as mentioned earlier, such restriction may deprive the Power exchanges of the expertise of the field experts having know how of the intricacies of power markets. The power sector experts understand the market reality and expectations, therefore they can actively contribute towards market development and bring in innovation, efficiency and better services. In order to bring relevant technical expertise and know how, it may not be appropriate to totally bar member/clients of power exchanges from being appointed in Power exchanges management. We therefore suggest that, in case the Hon'ble Commission considers it necessary, it may put a cap on the number of member/client directors to be permitted on the board of power exchange.

5. Entry barriers to competition:

- a) The hon'ble Commission has proposed various provisions for regulation of transaction fees, stringent market monitoring etc. which are expected to tighten the Regulatory



framework around the performance of the Power exchanges, however it should be ensured that such provisions do not lead to increase in entry barriers for the new exchanges, thereby negatively affecting the competition. Therefore, it is requested that the Hon'ble Commission may review these provisions with an objective to make it easier for new entrants to bring more competition in the market.

6. General observations/comments:

- a) The Hon'ble Commission is well aware of the increased emphasis on mainstreaming of Renewables taking place across the globe. The Government of India has set ambitious targets for RE capacity addition in the country and the Government is looking to encourage new RE generation capacity addition through non utility route as centralized tendering process for utilities alone would not be sufficient to fulfil these targets. As of now, there is literally no participation from the RE generators in the power exchanges, primarily due to the existing power market design which remains favorable to conventional generators. There is need for market reforms and changes in structural aspects for enabling greater participation not only for RE generators but also for other emerging technologies such as grid scale batteries storage application and distributed generation sources, which continues to be prohibitive for them. This becomes even more relevant in the perspective of government's plans for encouraging setting up of RE merchant capacities in the country. The concept of RE as a merchant power plant has gained wide acceptance in the developed power market economies. However, in India, RE merchant projects continue to face financing difficulties as lenders are still attuned to long term firm PPA contracts and are apprehensive of the largely volatile and unpredictable power exchange market. In order to address these challenges, we request the Hon'ble Commission to issue a separate discussion paper covering various aspects for enabling greater participation of RE and other emerging technologies and also inviting suggestion on tackling challenges of connectivity requirements, prohibitive network charges and the restriction in the revision of schedules remains etc. Greater participation from RE generators would greatly improve the market depth and liquidity, which is the stated objective of the draft Regulations.
