A. Market Coupling

1. The present market share of Power Exchange is merely 4% of the total energy transactions as about 90% of the transactions are through long term PPAs. Over the years the price discovered in the Power Exchange by auction has resulted in better utilization of the national resources and helped in reducing unmet energy. The price discovered in the power Exchange in Day Ahead Market ("DAM") and Real Time Market ("RTM") is close to the system marginal cost of generation and indicates that the market has been operating efficiently. Discoms have been using the Power Exchange to meet shortages on a day ahead basis on DAM and in near real time in RTM and to optimize their power procurement cost.
2. Even though the total short-term trade during last five years has been static at about 10%, the share of trade through Power Exchange has grown from 2.9% to 4.1% of total generation. Major transaction is through long term PPAs which is burdening the Discoms with capacity charges of unutilized capacity. There is a need to increase the depth of power market by introduction of innovative market products particularly in view of integration of large solar and wind energy generation capacity planned during next 10 ten years.
3. Two Power Exchanges are operational out of which the market share of one exchange is more than 99% and the share of the second exchange is miniscule. Considering that the two power exchanges are operating under the regulatory oversight of CERC under a well-structured mechanism, the market dominance of one power exchange cannot be due to use of unfair and non-transparent practices but seem to be a result of efficient operation and the services provided by the exchange to its clients.
4. In the above background let us examine the proposal of introducing the Market Coupling Operator ("MCO"). It has been proposed to have a Market Coupling Operator to address the following issues:
    i. There is difference in the price discovered in different Power Exchanges.
    ii. Allocation of transmission corridor amongst the Power Exchanges is not optimal due to skewed market share of various Power Exchanges.

iii. Overall economic surplus is not maximized.

5. Considering that about 90% transaction volume is through contracts and more than 99% trade in power exchange is taking place in one exchange, optimization from a common price discovery by MCO and maximizing overall economic surplus will be of little significance. On the other hand, it will result in introduction of one more player in the chain of operations through power exchange and flow of information from power exchanges to the MCO and vice versa. Time available in RTM for obtaining bids and processing after gate closure is already quite less and introduction of one more agency will make it tighter and add to cost with insignificant gain.
6. The introduction of MCO will weaken and harm the existing exchanges and also discourage the new entrants. The Power Exchange will be acting like a post office in obtaining bids from its clients and forwarding the same to MCO and communicating the result of price discovered and transactions cleared by MCO. There will be no incentive for the power exchanges to introduce new and innovative products in the market. On the other hand, the MCO being the monopoly entity not having any interface with the customers will not have any incentive to introduce innovative products.
7. Regarding allocation of transmission corridor, the existing formula linked to volume handled in each exchange seems to be fair. Thus, at the moment there seems to be no requirement of establishing an MCO.
8. It is understood that a petition for grant of license to a third exchange is under consideration of CERC and in due course of time the new exchange may get its pie of business. It is felt that a in depth evaluation of the ground conditions may be carried out from time to time by CERC and only when the difference in price discovered in different exchanges become significant and establishment of MCO becomes necessary, action may be initiated for necessary amendment in the regulations.

B. <u>Regulating the transaction charge of Power Exchange</u>

9. Clause (j) of sub-Section (1) of section 79 of the Electricity Act,2003 gives power to the Central Commission to fix trading margin in intra-State trading of electricity, if considered necessary. The Parliament in its wisdom has not used the words “shall fix the trading margin” as is the intent in provisions for regulation of tariff. Thus, the intent of the lawmakers is that the Commission shall fix trading charges only if it considers necessary.

10. In the present scenario when the transactions in the Exchange amount to only 4% and the efforts of the Commission and the Central Government is to deepen the power markets to increase the share of power exchange to optimize the power procurement cost of the Discoms, the proposal of the Central Commission to approve the transaction charges of the Exchanges seems to be a retrogressive step.