

**Central Electricity Regulatory Commission**  
**Core-3, SCOPE Complex, 7, Lodhi Road, New Delhi-110 003**  
**Telephone No.24360051, Fax : 24360010**

July 20, 2006

**Press Release**

**CERC releases Staff Paper on Power Exchange for electricity trading**

The Central Electricity Regulatory Commission (CERC) has released its Staff Paper on developing a common trading platform – Power Exchange - for electricity trading in the country. Power Exchange (PX) is a mechanism for institutionalized, transparent and efficient trading. The Paper has structured the development of a day-ahead Power Exchange based on firm hourly contracts with simultaneous clearance of transmission path by the System Operator. Its business would be conducted by an independent Board, under regulatory oversight.

It may be recalled that the Central Commission has already facilitated bilateral trading through Open Access under which the trading parties can reserve the transmission path for trading at concessional rates through user friendly Open Access regulations. The creation of a common platform for trading would help in further streamlining the trading process, standardization of electricity as a tradable product, provide a payment security mechanism through a Clearing House and increase business confidence in the power sector. The functional mechanism of the Power Exchange would be in line with the Indian Electricity Grid Code and balancing mechanism through Unscheduled Interchange (UI) rate.

Section 66 of the Electricity Act, 2003 and the National Electricity Policy require the Central Commission to promote and develop the electricity market in the country. Based on in-house research and analysis, the Staff Paper addresses the whole gamut of issues related to development of electricity market from an Indian perspective and existing ground realities of the electricity sector. The major findings and recommendations of the Paper are as follows:-

- It is not advisable to disturb existing long-term contracts for the sake of market development.
- Short-term trading is essential for resource optimization and meeting peak demand.
- At present, electricity can be traded bilaterally at mutually agreed rates. There is a need to further develop short-term trading to bring equity, transparency and efficiency in trading.
- Short-term trading through Open Access constitutes 2-3% of the total supply. The market lacks depth. It is dominated by limited number of Suppliers having limited quantum of tradable power.
  - Participation in the PX may be voluntary for the present.
  - PX should handle trading and transmission clearance in a composite manner. The PX should be designed in line with all relevant provisions of Indian Electricity Grid Code and function in close coordination with Regional Load Dispatch Centres.
  - The PX should be a counter party to all trades, providing payment security to the suppliers.
  - A Power Exchange (PX) would provide a common trading platform. The PX should be designed for the purpose of dispensing short-term power available for

trading through competitive bidding by inviting simultaneous anonymous bids from buyers as well as sellers on day-ahead hourly basis.

- The PX should adopt marginal pricing principle. It is proposed that the PX may essentially follow the classic market splitting model. However, in a congested zone, the buyers could be served at the weighted average cost of supply and the PX may not collect any congestion revenue.
- Uniform pricing philosophy based on marginal cost of supply may be followed for suppliers. In order to ensure that suppliers quote close to their true marginal costs, bid caps could be considered.
- Bid caps for PX trading cannot be effective if it is profitable to sell at a higher price bilaterally or through UI mechanism. Similar caps may be considered for pricing in case of bilateral trading.
- Since the amount of tradable power is low, PX on regional basis may not be viable. Only one PX at the national level could be conceived subject to availability of adequate power.
- The Electricity traders should have a useful role in the PX trading.
- The PX would be run by an independent Board having five Directors including Chairperson. Entities buying from and supplying to the PX would recommend name of an eminent professional for each vacant position including that of Chairperson and three other Directors for approval of the Commission. One of the Directors would be appointed on the recommendation of Regional Load Dispatch Centres.
- There would be a separate clearing house for financial settlement.
- The PX would provide a platform for harnessing captive generation and cogeneration. It would also provide positive signal for investment in merchant generation and encourage setting up of peaking power plants.
- Merchant power plants should be allowed grid connectivity.

- Additional supplies would have to be ensured for PX to enable it to serve open access consumers.
- The right time to launch a Power Exchange needs to be debated. It may be argued that it would be better to wait till the aggregate demand and supply streams are more or less balanced on all India basis so that it is feasible to meet the twin objectives of serving the peak demand and resource optimization through a common trading platform. On the other hand, it may be prudent to launch it in the near future to send the right signal to investors and consumers about transparent market development.

Organizing the electricity market is a challenging task requiring detailed study, preparation and investment. The Commission has released the Staff Paper to provide a starting point for an informed debate with the stakeholders as a part of the consultation process for developing the electricity market.

The Commission has sought for comments and suggestions from all stakeholders, by August 31. Thereafter, the Commission proposes to hold open consultations with stakeholders on the subject.

A.K. Sachan  
Secretary