

CENTRAL ELECTRICITY REGULATORY COMMISSION

Record of Proceedings

PETITION NO. 166/2008

Sub: Petition for seeking permission to week ahead contracts, etc.

.Date of hearing : 16.6.2009

Coram : Dr. Pramod Deo, Chairperson
Shri R.Krishnamoorthy, Member
Shri S.Jayaraman, Member
Shri V.S.Verma, Member

Petitioner : Power Exchange India Limited

Parties present : Shri Ashish Bernard, Advocate,
Shri Ravi Parkash, Advocate
Shri Satyajit Ganguly, PXIL
Shri P.K.Sarkar, PXIL
Shri R.Singh, PXIL

Matching mechanism to be proposed by the petitioner for the bilateral trading in the power exchange

At the outset, it was observed that the business rules submitted by the petitioner did not contain any provision for matching of transactions. The Commission directed the petitioner to incorporate the same in the business rules.

The representative of the petitioner explained the mechanism matching. He stated that the petitioner had developed the market mechanism which would give a price signal to the entire market. He stated that this mechanism was to be proposed keeping in view the Indian market conditions. He stated that it was basically the open auction in which highest buy-bid was to be matched with the lowest sell bid and the seller would get buyer's price. The representative of the petitioner informed that nowhere in the world was there a sizeable physical term-ahead market. In the Indian market, he informed, there were very few participants, around 20 and quantity may be very large i.e. 500 MW in one month contract. As there was lack of preparedness to understand complexity of trading, there may be a condition in uniform price mechanism that a particular buyer can make the uniform price high for the entire market. The market mechanism that was to be proposed was based on discriminatory price mechanism. He explained that the highest price of buyer (best buyer) and lowest price of seller (best seller) would be matched to form bilateral contract. The representative of

the petitioner informed that the matching mechanism being proposed had a motivation for seller to quote lower in order to get priority in matching against the best buyer. The Commission was informed that as per the study made by the petitioner, after three trading sessions, seller actually started bidding at the marginal price. The representative of the petitioner stated that economic motivation for the buyer was that it had to pay what it had bid for, unlike in uniform price mechanism where the buyer actually paid less even after bidding high and which could fluctuate the entire market to the higher side, without any commercial repercussion. It is an open auction method.

Fixation of higher matching price when the seller was willing to sell at a lower price

The representative of the petitioner stated that the petitioner could fix higher match price. Therefore, the Commission enquired whether the buyer, under distress, could quote higher price because of its demand, and the price resulted could increase the seller's profit, under the matching mechanism being proposed. For consumer's benefit, matching should have been on the seller's price, since the seller was ready to sell at lower price. The representative of the petitioner was not able to explain why this could not be done.

International experience of the methodology proposed

The representative of the petitioner clarified that due to lack of term-ahead physical market elsewhere, it was difficult to find such mechanism in any other country.

Difference, if any, between the auction mechanism chosen for term-ahead market and day market

The representative of the petitioner confirmed that both had different mechanisms. He explained that the proposed open auction method was based on discriminatory price while day-ahead was based on uniform pricing model. It was explained that in the term-ahead market there was a huge price risk and due to existing delegation and risk management practices in utilities, which are government-owned, continuous trading may be susceptible to audit objections, since in continuous trading, price keeps changing over the day.

Closeness of the mechanism proposed to the practices of matching mechanism prevailing in other power exchanges across the world and the necessary details of such practices, being followed at other power exchanges.

Any improvements carried out over the mechanism being used at other power exchanges, keeping the Indian electricity market in mind, with the necessary details thereof.

Historical development of power exchanges in other country, as regards bilateral market.

The Commission directed the petitioner to submit statistical data and literature on matching mechanism in other countries and the historical development of power exchanges.

Consent of the members of the power exchange on matching mechanism proposed with necessary details thereof.

The representative of the petitioner confirmed that the matching mechanism was discussed with the members of the petitioner power exchange and their views were recorded in the minutes of meeting with the members and signed by the members. The petitioner was asked to submit a copy of the minutes and views of their members, which may include buyers and sellers.

Modification or cancellation of contract by buyer or seller, like in the case of a normal bilateral transaction.

The representative of the petitioner stated that a buyer/seller could cancel transaction by giving two days notice, but the petitioner had devised a penalty mechanism to ensure sanctity of contract.

Any provision in the matching mechanism where the seller can prescribe that he wants to sell only a minimum quantum of power.

The representative of the petitioner confirmed that participants had the facility to put 'Minimum Acceptable Quantity' in their order.

Initial margin, penalty and fee structure

It was noted that initial margin, penalty and fee structure was not given. The representative of the petitioner assured to submit the same in document form.

Different Mechanisms for two Exchanges

The Commission enquired whether it was possible to have different mechanisms for two exchanges. Learned counsel for the petitioner informed that this was possible, if it was a transparent mechanism and was approved as per law.

The Commission pointed out that basic philosophy of business should be uniform so that user of the power exchange did not face any difficulty. Also, that the details of two different mechanisms would be difficult to capture in regulations on power exchanges, to be specified by the Commission.

2. The Commission directed the petitioner to place on record the information/details, on all the issues raised and taken note of, above, duly supported on affidavit, latest by 15.7.2009.

3. Subject to above, Commission reserved its order.

Sd/-
(K.S.Dhingra)
Chief (Law)