

**MINUTES OF THE CENTRAL ADVISORY COMMITTEE (CAC)
MEETING OF CERC HELD ON 06TH JULY, 2009 AT NEW DELHI**

**VENUE : “MAGNOLIA” HALL, CONVENTION CENTRE
INDIA HABITAT CENTRE, LODHI ROAD
NEW DELHI – 110 003.**

LIST OF PARTICIPANTS : AT ANNEXURE –I (ENCLOSED).

Dr. Pramod Deo, Chairperson, Central Electricity Regulatory Commission (CERC) welcomed all the Members of the Central Advisory Committee of CERC. In his opening remarks, he highlighted the importance of and need for a definitive framework for development of Power Market in India. The Electricity Act, 2003 entrusts the responsibility of developing market in electricity at inter-State level on CERC. The National Electricity Policy also reiterates the need for development of market and gives a direction in this regard, for instance by providing inter alia that 15% of the capacity in any new generating station may be sold outside long-term PPAs. He said that CERC had already issued Regulations on Trading, Open Access and Unscheduled Interchange (UI). The Commission had also issued guidelines on Power Exchange and would be coming out with regulations on power markets shortly. The Commission, therefore, looks forward to valuable suggestions from the Members of the CAC.

2. Dr. Deo’s address was followed by a presentation by Secretary, CERC. The presentation highlighted the key issues for development of power market – rollout of new products, role of different market agencies,

price discovery process in power exchanges, concerns relating high prices, sanctity of trading contracts, nature of electricity market etc. He requested the Members of the CAC to give their views on each of these issues.

3. During issue wise discussions, mainly the following views emerged:-

Rollout of New Products -

- ❖ New products like term ahead contracts should be allowed. This would increase depth of market. However, there should be intensive monitoring by CERC to ensure that there was no scope for speculation and abuse of market. Also, there should be stringent norms of disclosure and tighter grid discipline.
- ❖ Measures in the form of disincentive for persistent defaulters of UI by debarring them from participating in market could be considered.
- ❖ There was consensus on introduction of intra-day products which would enable sale and purchase of power on the day of operation itself. This would facilitate better load management. The system operator assured full cooperation in this regard.
- ❖ It was also suggested that delivery based capacity contracts (as against the currently available energy contracts) needed to be made available for longer duration keeping in view the demand uncertainties and attendant payment margin risks. There was consensus that time was not ripe for introducing Futures Contracts which are purely financial products, in view of the fact that spot market in electricity was in nascent stage and lacked liquidity.

- ❖ As regards payment security, the need for 100% margin for power exchange was advocated in view of the risks involved and high volatility in day ahead prices.

Role of different Market Agencies -

- ❖ It was felt that the traders as well as the power exchanges could co-exist without any conflict. Their role and domain were different and existence of one might not in any way jeopardize the existence of the other.
- ❖ Role of traders could include buying and selling in bulk, management of portfolios of generators in the short term and medium term, giving advisory service to the generators, financial support and hand holding support to the developers etc.
- ❖ Trading licensees should also take up the role of standalone power suppliers to the open access consumers and if need be, the regulatory framework should be modified to provide for aggregation both of sellers as well as of buyers. This would mean that trading contracts need not be on one to one basis and the trading licensees would have freedom to aggregate the generators as well as consumers.
- ❖ The power exchanges could provide market place with standardized contract and controlled risk. Traders could take care of the space around the exchange in taking the asymmetries of the market in their Balance Sheet.
- ❖ However, it was strongly urged that there should be a level playing field between the traders and the power exchanges, especially, in terms of appropriate allocation of transmission capacity and

- requirement of qualification, technical capability and credit worthiness of all players participating in the market.
- ❖ The need for regulatory scrutiny of qualifications and financial capabilities of members /intermediaries in the power exchange, e.g., professional members was underscored.

Price discovery process in power exchanges -

- ❖ Price discovery mechanisms should be sound and robust.
- ❖ Broad framework should be evolved by the Commission and it should be the same for all power exchanges. Details could be left to their discretion to encourage innovation and efficiency enhancement.
- ❖ It was felt that price discovery mechanisms, should address the possibilities of gaming and breach of sanctity of contract. For instance, one could breach the contract in one market if it found better price in another. Such a practice should be avoided.

Concerns relating to High Prices -

- ❖ Need for building in more generation capacity was underscored as it was felt that the high prices were mainly the result of the States not taking for years any significant action for setting up generation capacity.
- ❖ It was suggested that the Regulatory Commissions while approving the ARR, should clearly quantify the month-wise quantum of purchase of electricity in the short term market and ceiling purchase

price thereof and it should be clearly provided that any purchase beyond the quantum so specified would not be allowed as pass through in the ARR. Any extra quantum of purchase, if at the instance of the State Governments, should be made good by the State Government through upfront payment on lines of the scheme envisaged under section 65 of the Act.

- ❖ It was felt that such mechanism once instituted, would also bring down the political pressure on the utilities.
- ❖ Forum of Regulators (FOR) should evolve consensus in this regard.
- ❖ It was felt that capping at generation level might be difficult because of wide variation in the cost of generation of generating stations based on vintage, source of fuel, technology used etc.
- ❖ Some of the members raised concerns regarding high volatility of prices in short term and requested for appropriate regulatory intervention as high prices had potential of adversely affecting financial health of utilities.

Sanctity of Trading Contracts -

- ❖ Any contract should not allow a party to pay penalty and walkout. This can not be termed as performance of contract.
- ❖ Due care should be taken while finalizing the contract, particularly the standard contracts on power exchanges.
- ❖ There was a view that there should be a common definition of misdemeanor and there should be a common list of defaulters which should be given wide publicity to ensure that any contracting party

- which had indulged in misdemeanor was not allowed to participate in the market.
- ❖ Misdemeanor could be also made part of the licence conditions and the licensee indulging in such misdemeanor should be liable for cancellation of licence.
 - ❖ It was felt that standard model contract for short-term transactions should be developed on lines of Standard Bidding Documents (SBD) evolved for long term and medium term agreements under Case-I and Case-II bidding.
 - ❖ It was suggested that capacity contracting on medium term could solve the problem to some extent.

Nature of Electricity Market -

- ❖ It was felt that power exchanges at the national level were better than that at the regional and State level in view of the lack of liquidity.
- ❖ There might not be any volume for power exchange at the regional and State level as the national level exchanges were already operating with negative spinning reserve. Power exchange at the regional and State level would not be viable.
- ❖ Mandatory pool required centralized dispatch system and the transition looked difficult presently.

Other Issues -

- ❖ Information regarding markets being displayed by various agencies (like CERC, CEA, RLDCs etc.) should be more structured.
- ❖ Information especially of transmission system availability should be displayed in comprehensive manner to facilitate the players in the market.
- ❖ There was also scope for commercial information services to fulfill the customized needs of the market players.
- ❖ There was a need to undertake programmes for skill building, particularly of purchasers and small sellers to ensure their effective and informed participation in the market. Such programmes should be undertaken by various institutions. The Regulatory Commissions could provide faculty resources for such initiatives.

The meeting ended with a vote of thanks to the Chair.

LIST OF PARTICIPANTS ATTENDED THE ELEVENTH MEETING

OF

CENTRAL ADVISORY COMMITTEE (CAC)

HELD AT INDIA HABITAT CENTRE, NEW DELHI

ON 06TH JULY, 2009

S. No.	NAME	
01.	Dr. Pramod Deo Ex-Officio, Chairperson, CAC	Chairperson, CERC
02.	Shri Rakesh Nath Ex-Officio, Member, CAC	Chairperson, CEA
03.	Shri R. Krishnamoorthy Ex-Officio Member, CAC	Member, CERC
04.	Shri S. Jayaraman Ex-Officio Member, CAC	Member, CERC
05.	Shri V.S. Verma Ex-Officio Member, CAC	Member, CERC
06.	Shri S.K. Chaturvedi Chairman & Managing Director	Power Grid Corporation of India Limited
07.	Shri Padamjit Singh Chairman	All India Power Engineers Federation
08.	Shri Girish Sant Coordinator (Energy Group)	Prayas
09.	Dr. Leena Shrivastava Executive Director	The Energy & Resources Institute (TERI)
10.	Shri T.L. Sankar Advisor	Administrative Staff College of India (ASCI)
11.	Shri T.N. Thakur Chairman & Managing Director	PTC India Limited
12.	Shri R.K. Madan CEO (Power)	Adani Enterprises Limited
13.	Shri Ashok Pendse President	Mumbai Grahak Panchayat
14.	Shri R.V. Shahi Secretary (Retd.)	Ministry of Power

15.	Shri P.S. Bami Ex-CMD	NTPC Limited
16.	Shri Brij Mohan Director	Representative of Deptt. of Consumer Affairs
17.	Shri K.K. Agarwal RED (NC)	Representative of NTPC Limited
18.	Shri S.N. Geol General Manager (Commercial)	Representative of NTPC Limited
19.	Shri Mahendra Kumar Garg Senior Executive Vice-President	Representative of Reliance Infrastructure Limited
20.	Shri Praveer Sinha Director (Projects)	Representative of Tata Power Company Limited
21.	Dr. Rajesh Kumar	Representative of CUTS
22.	Shri S. Majumdar Senior Economist	Representative of NCAER
23.	Shri Sanjay Kaul	Representative of Jindal Power Limited
24.	Dr. Sambit Basu Principal (Policy Group)	Representative of IDFC Co. Limited
25.	Shri Alok Kumar Secretary	CERC
	SPECIAL INVITEES	
26.	Shri Jayant Deo CEO	Indian Energy Exchange Limited (IEX)
27.	Ms. Rupa Devi Singh CEO	Power Exchange India Limited (PXIL)
28.	Shri Rahul Banerjee	