

PTC Comments on CERC MBED Discussion Paper

Kind Attn: Shri Sanoj Kumar Jha, Secretary, Central Electricity Regulatory Commission

Subject: Submission of PTC India Ltd's Comments on Discussion paper on "Market Based Economic Dispatch of Electricity: Re-designing of Day-Ahead

Market (DAM) in India"

Respected Sir,

This has reference to your Public Notice No.RA-14026(11)/3/2018-CERC, Dated 31st December, 2018 seeking comments/suggestions on Discussion Paper on "Market Based Economic Dispatch of Electricity: Re-designing of Day-Ahead Market (DAM) in India".

Our comments on the Discussion paper are enclosed as Annexure – I for the kind consideration of the Hon'ble Commission. As it is an important matter, we seek your permission to send our additional comments in a week's time.

Annexure-I

PTC India Ltd's comments/suggestions on Market Based Economic Dispatch Re-Designing of Day-ahead Market (DAM) in India

The Discussion paper which intends to decrease the cost to Discoms and in turn to the consumers is good in concept. However, there are few observations and concerns we feel may be addressed in the proposed scheme.

- 1) Electricity being a concurrent subject, there may be concerns as the proposed scheme creates a mandatory market mechanism to be followed by State Discoms. The power procurement is a State subject and any regulation by CERC on power procurement and related treatment to the PPAs may interfere with the present legal status of Discoms in Electricity Act 2003.

- 2) The financial viability of a generating asset is based on the financial decisions taken by IPPs which is not only accepted by the developers but more importantly with lenders. Arbitrary changes in the method of power sale would distort the premise on which the financial closure is done
- 3) The main issue in the discussion paper is related to change from present power exchange bidding and prices based on total cost to a proposed variable cost market. As also described in the paper, there are various types of contracts in the power market at present from long term, medium term short term duration wise and based on regulated tariff or competitive bidding in the procurement side. The proposed scheme seems to be working when there is national level merit order dispatch of all regulated tariff power supply. However, if we mix the total cost and variable cost together, the generators with contracts will be at an advantage as compared to generators with no contracts. This may lead to market distortion.
- 4) There is also a concern related to generators who went through competitive bidding as Case-1 & Case -2 bid basis projects have tariff on the basis of bids and may not truly reflect fixed and variable costs as the same depends upon the bidding strategy of the particular IPP. Variable cost also carries escalation components as per CERC index. In ideal scenario, the comparison should be of total cost and not only variable cost.
- 5) Under a PPA, commitment is towards a particular Utility and not the pool where generator is required to pump the power, hence entire commitment of the supplier & procurer may get jeopardize with the implementation of the above proposal.
- 6) In the paper, it is mentioned that all the power will be sold through power exchanges. The selling of entire power through power exchanges also adds to 4 paise per unit considering the present charges, which will increase the overall system cost. However, as mentioned in the paper, the power exchange transaction charges will also be reconsidered looking at the high volumes, there would still be some addition in the total cost.
- 7) In a scenario, it may be possible that a generator finds favorable rate on one day and then remains unscheduled the next day. Then generator has to take frequent shut downs leading to stress on machinery.
- 8) Current scenario allows real time revisions for medium term and long term transactions implementing from 4th time block counting the current time block as 1st whereas power exchanges transactions could not be curtailed even if plant is under outage except under grid security issues. So, a mechanism may be clearly explained for real time revisions.
- 9) The measures for ensuring minimum technical generation of a power plant may be incorporated.

10) In current practices, in the long term, medium term and short term bilateral transactions, credit facility is given to buyers thus buyers which are in has enough time to pay the dues generated through such transactions, however in power exchange transactions, bidding on daily basis requires upfront payment which may be a serious concern for financially distressed Discoms.

11) It also appears that the scheme may benefit states with high APPC as they will have to pay less each day if MCP is lower than their APPC whereas it may be disadvantageous for the states with low APPC as they will have to pay higher amount on advance basis.

12) Further, the regulated tariff based projects are entitled for interest for two months working capital whereas in case advance payment or continuous non-dispatches the impact of the component would be huge as Discoms will have to pay on advance basis without getting any rebate.

13) Hydro rich states (like Himachal, Uttarakhand etc.) with high low cost hydro allocation would get impacted as their advance power purchase cost is likely to higher than the existing low cost hydro purchases.

14) Certain PPA clauses penalty/minimum off-take/commercial arrangements/fuel take or pay etc. which are specific between the parties may get impacted with the proposed scheme.

15) With daily scheduling and uncertainty over dispatch, generator plan / budget to maintain other critical inputs like water, oil, consumable, working capital fund may be severally impacted. In fact overall planning of capacity/transmission etc. may have adverse impact with the above proposal.

16) Linkage coal based / Imported coal /gas based projects generally have minimum off-take guaranteed cause with the fuel supplier like CIL etc. In case, project is not getting continuous scheduling, then the same may pose question as to which party would be paying penalty in such case.

17) Since, power is not going to the original beneficiaries and going to a system pool, claims on change in law/force majeure etc. may create confusion/disputes.

18) Process of Multi Year Tariff (MYT) regime may also go haywire as it may be difficult to determine actual/likely cost of procurement beforehand say for a year or few years. Tariff projections, planning, budgeting may become unpredictable.

19) Impact of transmission charges may become volatile depending upon the power scheduled from a particular project and the same can vary each day. In view of the schedules/revise schedules, POC charge may undergo change in each revision and hence, many beneficiaries might end up paying higher POC charges then they are entitled in case MBED is not in place and it may give undue advantage to some players.

20) Before moving to such a huge changeover, a robust IT infrastructure at each level where the buyer and seller are situated needs to be created so that participation can be ascertained to the extent possible.

21) In a multiple exchange scenario, curve shifting towards least cost while calculating MCP/ACP will be higher where the participation of such generators are high, which may adversely impact competitiveness of the multiple exchanges and volumes will be skewed towards one exchange. We feel that looking at the complexities of the multiple exchanges, the proposed scheme may be done through a new independent entity.

22) At present there is no direct handshaking of server for stakeholder for disseminating information related to scheduling/open access and other issues. Thus working in real time with so many available instruments may be difficult to execute. Proper Application Programming Interface (API) or other appropriate measures may be incorporated for real time information dissemination.

Probable concerns/impact of Market Based Economic Dispatch on various stakeholders:

a. Generators:

i. One set of participants are PPA holders (with MOU route where fixed cost is regulator approved and other is competitively discovered) with two part tariff and other set of participants are either not having PPAs or limited FSAs. Assuming these generators bid on a same platform, the discovered price will be in favour of the generators/plants which shall have lesser incremental cost of generating electricity. The generators with contracts will have higher gains whereas the generators without contracts will find it difficult to survive leading to more stranded assets.

ii. Generators with regulated tariff will be at an advantage with cost plus fixed cost recovery as compared to generators selling power under competitive bidding with different bidding strategy creating uncertainty of recovery of costs.

iii. This scheme also equates plants with full FSA vis-à-vis plants with limited FSA (typically given to IPPs). The average cost of alternate source of coal (e-auction, washeries, imported) is normally more than 25% of the linkage coal.

iv. If implemented, the proposed scheme would severally impact the short term bilateral market wherein the generators with untied capacities look for recovery of full tariff.

v. The scheme discourages merchant power plants and also places adversely to the competitiveness of embedded generating plants/co-generation/distributed generation.

b. States/Discoms

i. The proposed scheme may create an uncertainty of power availability to Discoms as the Discoms will need to bid at power exchanges for their everyday power needs as compared to present scenario of going to power exchange only for temporary mismatch in demand/supply.

c. **Transmission entities:** The complexities will increase manifold. The system preparedness for such scheme needs to be created beforehand.

Hard copy of the letter is being sent to you separately.

Regards,

Sneh Daheriya

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