



GMR Energy Limited

Comments on CERC draft Power Market Regulations 2020

Sr. No.	Clause	Proposed Draft Regulation	GMR Comments
1	PMR – Part 3 - Clause 5(1)(a)(i)	Price Discovery shall be done by Power Exchanges or by Market Coupling Operator, as and when notified by the Commission.	<p>As Price discovery mechanism shall adopt the principle of maximisation of economic surplus, we request to keep the following provision:</p> <p><i>“Price Discovery shall be done by Market Coupling Operator, as and when notified by the Commission.”</i></p>
2	PMR – Part 3 - Clause 5 (3) (b) (iii)	Term Ahead Contracts shall be settled only by physical delivery of electricity without netting and shall be binding on the participants executing the transactions.	We request commission to consider netting of for Term Ahead Contracts for generator and allow purchase from DAM/RTM only under forced outage conditions of plant due to technical limitations.
3	PMR – Part 4 - Clause 9(4)	The applicant has a Net worth of minimum Rs. 50 crores as per the audited special balance sheet	We request commission to kindly relax this criteria of having Net worth of Rs 50 crore to Rs 35 crore.
5	PMR – Part 4 – clause 17	Ownership and Governance Structure of Power Exchange - number of Independent Directors shall not be less than the number of Shareholder Directors on the Board of the Power Exchange.	<p>Better to keep as per the Companies act and since they are still governed under the act and it too has lots of mechanism to build a robust corporate governance structure.</p> <p>PMR 2010 had the provision of 1/3rd of directors be independent or 2 whichever is higher. Commission may restore the same provision as Companies act 2003 also states a similar provision and will ensure standardization.</p> <p>PMR 2010 had the provision of getting prior approval of Independent directors. Now after 10 years, this provision still continues. Request commission to relax such rules and provide the independence to the respective Board to appoint Independent Directors. (Ease of doing business)</p>

<p>6</p>	<p>PMR – Part 4 - clause 17(11)</p>	<p>Representation of members on the Board of Power Exchange:</p> <p>Commission has suggested that - No member of Power Exchange or their client shall be on the Board of Directors of any Power Exchanges.</p>	<p>We welcome as there can be certain influence by the members at the Board, but the members or clients of the exchange also provide deep insights of the market as well as help in different product development and therefore Commission in PMR 2010 had taken cognizance of their contribution and inducted into the board but had kept certain cap to the number of directors to be included.</p> <p>So in order to bring in the balance, a separate committee under the leadership of MD without any Board participation can be formed with trading members who are shareholders to provide deep insights of their experience for Product development as well as for expanding the breadth and depth of Exchange by way on introduction of newer products and deepening the existing products.</p>
<p>7</p>	<p>PMR – Part 4 - clause 20</p>	<p>Management of Power Exchange:</p> <p>Commission is proposing one person from the Information Technology discipline with at least 10 years of relevant experience with a Degree in Computer Science/Computer Application/Information Technology.</p>	<p>Though it's a welcome step, Commission should avoid prescribing to the level of degree that a person has to possess. In today's world, a person with any degree or qualification if he has enough experience in the IT field should be eligible to take up the professional duties in the power exchange</p>
<p>8</p>	<p>PMR – Part 4 - clause 21</p>	<p>Membership in Power Exchange:</p> <ul style="list-style-type: none"> a) Trader Member b) Propriety Member c) Facilitator Member 	<p>Trader Member and Facilitator member have become exclusive. It means the Trader cannot provide additional services like IT related services to its client's. Trader members who have had extensive experience in this field can be of great value to its clients by adding additional services like IT and data analytics. Commission has compartmentalized and services have been made exclusive to each other</p> <p>Earlier in the PMR 2010, the facilitator members can provide such services but were barred providing other services of what Traders were providing as they were not licensee. Today in PMR 2020, the trader's role is also being clipped and silos are being created which</p>

	21.1 (c)		<p>may not be good for the market as well as growth of Traders whose contribution, Commission has lauded in various orders as well as in previous EMs.</p> <p>2020 - Facilitator Member may provide advisory services to its clients related to power prices and the follow-on bidding strategy as per PMR 2010, while the same has been removed in the Draft Regulations. – Commission shall restore this provision to have a vibrant advisory role.</p>
9	PMR – Part 4 - clause 23	Power Exchange Transaction Fee - No Power Exchange shall charge transaction fee exceeding such fee as approved by the Commission	<p>CERC has to balance between its objective of Power market development, protecting the interests of the consumers but at the same time improve the business opportunities in the Power exchange domain and provide regulatory certainty to the shareholders of power exchange.</p> <p>The Cap proposed is welcome move though in a free market, the market forces will determine the fees structure, CERC may provide sufficient margin for the business to thrive and at the same time maintain the interests of the consumers.</p>
10	PMR – Part 4 - clause 24	Service charge cap of two (2.0) paise/kWh would be sufficient to cover the costs associated with operation and maintenance expenses as well as providing adequate returns to the Facilitator Members	<p>In a free market, competition should decide on the fee structure and with many players expected to provide multiple services based on IT platform.</p> <p>Commission may leave it to market forces. As such they are only providing advisory services and there is no great pricing power for such advisory roles, Commission may consider deleting such capping</p>

<p>11</p>	<p>PMR – Part 4 - clause 26 (3) & (4)</p>	<p>(3) RAMC shall also review the risk management framework on a six-monthly basis in January and July each year. The six-monthly report of RAMC shall be submitted to the Board of Director</p> <p>(4) The report of RAMC along with decision of the Board of Directors thereon shall be submitted to the Commission not later than end of March and end of September each year respectively</p>	<p>We request commission to consider following points the provisions for review by RAMC and publishing those reports on monthly basis.</p> <p>The report shall consist detailed review of separate risk management of each product/market structure along with Margin Compliance (buyers/sellers) report</p> <ul style="list-style-type: none"> • Day Ahead • Contingency • RTM • Term Ahead <p>We request commission to mandate submission of Monthly Margin Compliance report by Exchange which should be notified on their website</p>
<p>12</p>	<p>PMR – Part 4 - clause 27. (ii)</p>	<p>(ii) The Power Exchange shall invest the proceeds of Settlement Guarantee Fund in safe investments and ensure that the principal amount is not at risk. Not less than fifty percent (50%) of the proceeds of Settlement Guarantee Fund shall be kept in safe liquid investments, including but not limited to fixed deposits with Scheduled Public Sector Banks, Treasury Bills and Government Securities</p> <p>(iii) The Power Exchange shall distribute at least 70% of the return earned on the initial security deposit invested in the financial year to the members of Power Exchange in proportion to initial security deposit of the member and duration for which such deposit was held with the Power</p>	<p>We request commission to consider following:</p> <p><i>“Not less than hundred Percentage (100%) of the proceeds of Settlement Guarantee Fund shall be kept in safe liquid investments, including but not limited to fixed deposits with Scheduled Public Sector Banks, Treasury Bills and Government Securities”</i></p> <p><i>The PX shall distribute 100% of the return on the initial security deposit invested in the financial year to the members of the PX in proportion to Initial Security deposit (ISD) of the member.</i></p> <p><i>Since PX is already charging the annual client membership fee from each Grid Connected entity and from member as well hence the interest earning on ISD should not be an additional source of income for PX.</i></p>

		Exchange, within 45 days of the last date of the financial year.	
13	PMR – Part 4 - Clause 28(4) 28 (5), (6)	The algorithm of the software application for price discovery and market splitting shall be in compliance with the requirement specified in Regulation 5 as applicable and methodology mentioned in the bye-laws, rules and business rules of Power Exchange. The Power Exchange shall get the algorithm audited before commencement of operations and thereafter, once in every two years and submit the findings of the audit to the Commission. The resources employed shall have competence in audit of algorithms and relevant industry certifications such as CISA (Certified Information Systems Auditor) from ISACA or shall have empanelment with the Standardization Testing and Quality Certification Directorate under the Ministry of Electronics & Information Technology.	<p>Since Market coupler is vested with the functions of price discovery, it may be necessary on Market Coupler's part to get the price discovery algorithm audited before commencement of operations which is not included in the provision.</p> <p>Therefore, we request to include in the provision as per following</p> <p><i>“The Market Coupler shall get the algorithm audited before commencement of operations and thereafter, once in every two years.....”. Technological upgradation should be incorporated.</i></p> <p>Accordingly, the provisions of 28(5) & (6) should also include Market Coupler to ensure robust mechanism.</p>

<p>14</p>	<p>PMR – Part 4 - clause 30</p>	<p>Exchange Congestion Management and Merger or closure of Power exchange:</p>	<p>In PMR 2010, the rules on Congestion management were lengthy and little complex. PMR 2020 has simplified by suggesting that the congestion amount shall be transferred to PSDF.</p> <p>PMR 2010 - A Power Exchange which has less than 20 % market share for continuously two financial years falling after a period of two years of commencement of its operations shall close operations or merge with an existing Power Exchange</p> <p>The market has evolved over the years and since there is clear trend of expansion of volume in Power exchanges, and Commission is introducing Market Coupling and as stated it will bring in uniform price as well as remove skewedness in transmission corridor availability, it's a good move to remove such clauses.</p>
<p>15</p>	<p>PMR – Part 5 – clause 37, 38 & 39</p> <p>PMR EM clause 3.5-</p>	<p>Market Coupling - Objectives of Market Coupler, Designation of Market Coupling Operator & Functions of Market Coupling Operator</p>	<p>It is a path breaking reform, where one exchange has monopolized the whole market due to various reasons, but with Market coupling operator, the price discovery engine is being placed under a neutral body who will discover the price from bids from various exchanges. This will also help the exchanges to concentrate on improving service qualities and offering better services than the current situation where both buyer and seller has to come to a single exchange as price engine was the most coveted tool and the choice was limited.</p> <p>This is also a step towards Market Based Economic Dispatch (MBED), once implemented will shift the complete trade towards exchange and the growth will be exponential. Commission has put that foresight into motion and has introduced MC which will also enable exchanges to now concentrate more on service delivery.</p>

			<p>It is requested to Hon'ble Commission if this can also be through a consultative approach to appoint MCO, its roles, functions & responsibilities MCO including whether its functioning will be regulated?</p> <p>We also request commission to designate a new and independent entity as Market-Coupler which is not involved in following business activities:</p> <ol style="list-style-type: none">1. Generation2. Transmission3. Exchange4. Distribution5. Trading <p>This path breaking reform, Commission from 2010 till 2020 has avoided introducing for various reasons. Now with the introduction, commission needs to bring in further clarity in their SOR as to what has triggered to introduce and how this will facilitate better price discovery and how this will shape the future market. This will help stakeholders to understand Commission's intension behind this market reform and also help gain acceptance.</p>
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