



RECONNECT
ENERGY

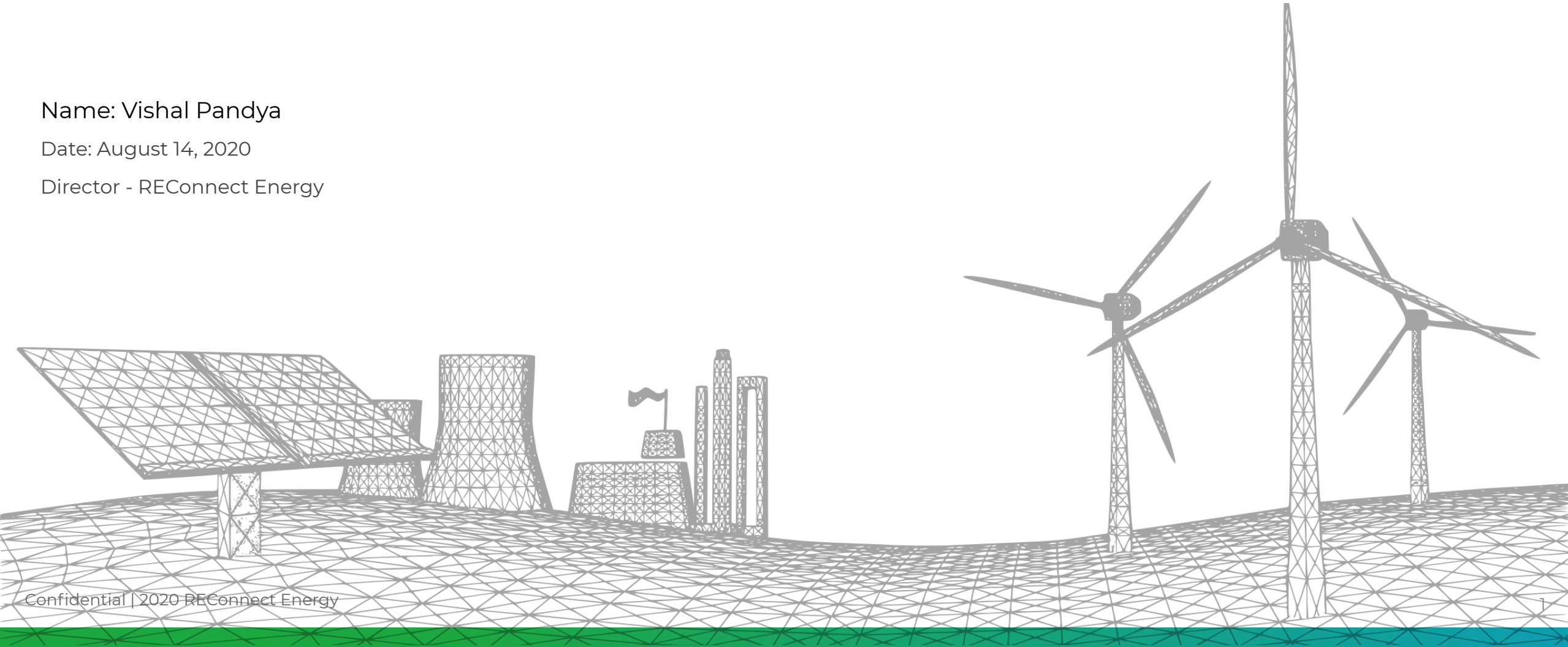
Draft PMR 2020

Comments and Submission to Hon'ble Commission

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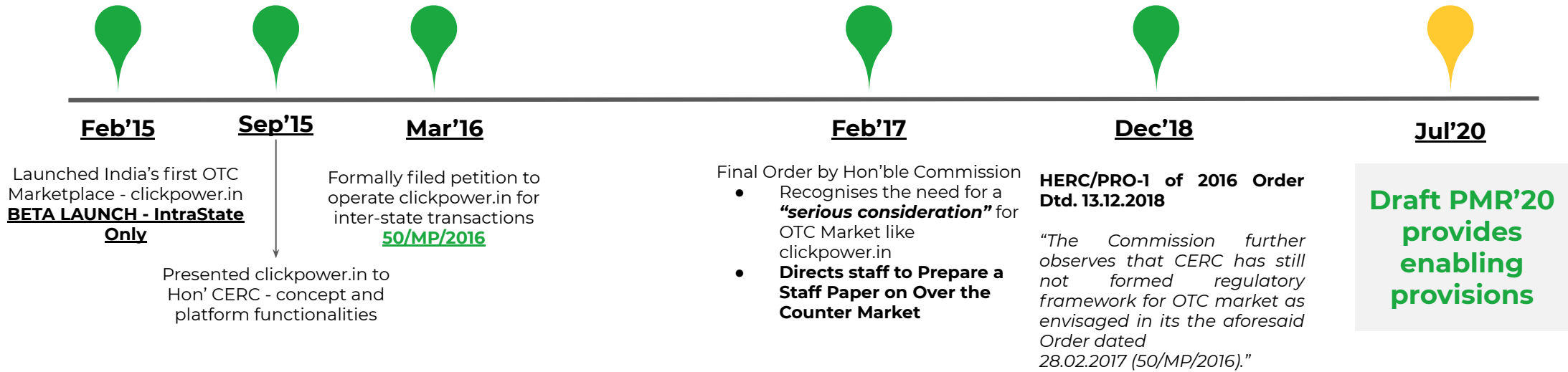




OTC Market

Submission to the Hon'ble Commission

OTC Marketplace: Background



REConnect's online marketplace to allow consumers buy & sell green electricity

The marketplace will enable open-access customers to explore options to buy green electricity from various energy generators by monitoring real-time deals.

Vasumita S Adarsh | ET Bureau | March 18, 2015, 08:50 IST

Now, click to buy electricity

REConnect Energy launches online marketplace to enable power buying and selling

Anita Babu | Bengaluru
Last Updated at April 13, 2015 01:52 IST

REConnect Energy launches online renewable energy marketplace

The marketplace will enable open access customers to explore options to buy green electricity from various energy generators by monitoring real-time deals.

ET Bureau | Updated: Mar 18, 2015, 12:01 PM IST

By Vasumita Adarsh

PUNE: REConnect Energy Solutions, a renewable energy consultancy and sourcing firm, has launched an online marketplace for power consumers and generators to buy and sell green electricity.

The marketplace, clickpower.in, will enable open access customers to explore options to buy green electricity from various energy

Industries, bulk consumers can directly buy power online

By Niranjan Kaggere, Bangalore Mirror Bureau | Updated: Sep 27, 2015, 04:00 IST

The concept of online retailing has now crept into the energy sector too with both buyers and sellers brought face to face without the intervention of 'brokers', much to the relief of 'bulk consumers. Reeling under erratic power cuts, industries and bulk customers now have a bright solution to resolve their power woes: All they need to do is to log in to the virtual world and buy required quantity of uninterrupted power from green energy sources directly from the generators.

Merging technology with innovative ideas in energy purchase and sale that could change several equations, REConnect Energy Solutions, a renewable consultancy and

We would like to express our gratitude to the Hon'ble Commission and the Staff for providing enabling provisions for further development of the OTC Market under the draft PMR'20

OTC Market: Observations by Hon'ble Commission (50/MP/2016)

- “12. ...”At present, trading licensees are in place who can promote market for exchange of power. **However, there is no platform for facilitating direct interaction between the buyers and sellers in the OTC market”...**
- “12. ...”In our view, **there is a necessity to provide for a regulatory framework to promote the OTC market through direct participation of buyers and sellers** to explore the untapped sources of power to meet the consumer needs”...
- “13. ...In this context, **the proposal of the petitioner to create a platform to facilitate buyers and sellers to come together to negotiate and discover the price of power needs serious consideration.**”...
- “13. ...During the hearing held on 31.1.2017, **the Commission directed the Staff to prepare a Staff Paper on “Over the Counter Market” after taking into consideration the submissions of the petitioner and Order in Petition No. 50/MP/2016** other parties in the present petition, the inputs provided by the learned counsel for the petitioner and inputs received from any other interested parties.”...

[Order Link](#)

PMR'20 & OTC: Key Observations and Submissions

“Market” as per Draft PMR'20

Means a platform where buyers and sellers, either directly or through Trading Licensees, or through Power Exchanges, buy or sell electricity or renewable energy certificates or energy savings certificates or any other product as may be decided by the Commission

- **Promotion of the OTC Market** through direct participation of buyers and sellers is a well established disposition. (Ref: 50/MP/2016 para 12, Draft PMR SOR 1.6.3)
- It is also being recognised by the Hon'ble Commission that the OTC Platform to facilitate buyers and sellers to come together **to negotiate and discover the price of power** needs serious consideration and suitable regulatory framework can be put in place in the PMR after making appropriate provisions. (Ref: 50/MP/2016 para 13)
- Part-6 (OTC Platform) under the draft PMR'20 hence is a welcome introduction.
- However, the scope of OTC Platform is being hugely restricted to “information exchange” (Draft PMR'20, clause 42) and the OTC Platform is proposed to be restricted from engaging in the “negotiation, execution, clearance or settlement of the contracts” (Draft PMR'20, clause 41.1).
 - ◆ For the OTC platform to add real value to its participants, **counter-party discovery, negotiation and execution of contracts are absolutely necessary functions**. Clearance and Settlement of contracts may still be excluded and may be carried out by the buyers and sellers directly.
 - ◆ The proposed exclusion of scope in the OTC platform would not only go against the Hon'ble Commission's own judgment (50/MP/2016) but would also stifle the OTC platform from carrying out any meaningful scope for the development of the power market.

The OTC platform would be a B2B marketplace and restricting it to be an “information exchange platform” alone would make it more like a listing platform which would not make a viable business case.

PMR'20 & OTC: Key Observations and Submissions...contd.

42. Objectives

We would request Hon'ble Commission to add **1) counterparty discovery 2) negotiations 3) execution of contract via a digital platform** under the core objectives of the OTC Platform

43. Participants

We welcome Hon'ble Commission's directives on this.

44. Eligibility

We would request Hon'ble Commission to **1) increase the networth to INR. 2 Crore or more.** Restrictions on power exchanges, trading licensees and grid connected entities from ownership and operations may be **relaxed through a limited ownership of say 5 to 10%.**

45. Procedure for OTC

We welcome Hon'ble Commission's directives on this.

47. Obligation of the OTC Platform

We would request Hon'ble Commission to permit **1) counterparty discovery 2) negotiations 3) execution of contract via a digital platform.** Clearance and settlement of the contract may be restricted if required.

Other Observations

- OTC Platform may be permitted to operate under various contracts domains viz. Inter-state, intra-state and roof-top segments so that buyers can be enabled with maximum possible supply options.
- Contracts executed on the OTC Platform may be reported to the Commission in suitable format on a monthly basis.



MBED & Market Coupling

Submission to the Hon'ble Commission



Pre-Paid DISCOMs

This exciting sector has been turned into a relative unfortunate sector largely as **payment defaults are considered fundamental rights!**

The trickle down effects starting from DISCOMs, to GENCOs, to TRANSCOs and then to entire ecosystem has been devastating for the investors, innovators, and the people associated with the sector.

Even if we ignore the dispatch optimisation benefits that MBED aims to achieve, if large part of DISCOM business is operated in a “pre-paid” mode through MBED with mandatory payment security mechanism and daily settlement through PXs or MCO, the ripple effect of this would be enormously positive on the entire sector and will outweigh any concerns that any market participants may have.

The sector desperately needs financial discipline and MBED has potential to deliver it. And thus, the idea must not only be nurtured but executed at the earliest.

Market Coupling: MBED (some apprehensions)

Technology Costs

Existing Power Exchanges have spent significantly large amount of investments in building exchange auction technologies. Market Coupling Operator (MCO) would be required to have all the permutation/combination of bid options/types being provided by all the Power Exchanges.

- How would the MCO ensure that all the bid types available at all the Power Exchanges are accommodated (purely as a technology function), while clearing bids centrally? **Would this not lead to higher technology costs for the market participants?**

Transaction Costs & Renewables

All the regional entities (including renewable presumably) would be required to dispatch under MBED. The current costs of a transaction through power exchanges alone is 4 paisa/kWh + some fixed charges like registration, annual charges etc. Given the lower RE tariff discovery (sub INR 2.50/kWh), the RE industry is already extremely sensitive about RE DSM Charges which would vary from say 1 paisa/kWh to 8 paisa/kWh on an average (over a larger timescale of say a year).

- How would Hon'ble Commission ensure that the mandatory participation costs in MBED for all the long term PPA holders (renewables as well as conventional) are kept in check considering the layered transaction costs of Power Exchanges, MCO and Clearing House (in future) for each transaction?
- For the renewables, the day-ahead forecast is required to be adjusted (permitted upto 16 times as of now) for better accuracies. This means, if an RE Generator has to dispatch in DAM through MBED, the RE Generator would also be required to participate in real-time market for continuously calibrating its forecasts for better dispatch accuracies and reduced RE DSM. **The number of transactions which an RE Generator would thus make would be much higher compared to conventional generators for the same amount of energy produced.**

Market Coupling: MBED..contd

RE Integration, Aggregation and MBED: One of the recent discussion papers on the Grid Code, Hon'ble Commission also proposed to permit geographical aggregation of renewable energy resources at regional level.

- A clarity on dispatch rules under MBED around such aggregation framework may also be provide by the hon'ble Commission.
- Similarly, if aggregation is permitted across various assets, it would be preferred to have such dispatch directly being coordinated with MCO instead of power exchanges as an additional layer will further push away the gate closure timelines for renewables leading to higher RE DSM charges.
- Likewise, even if there is no aggregation (current regulations), the scheduling framework / Grid Code permits the RE Generators to revise their schedule anytime within 1.5 Hours of Time Slot. This flexibility would be completely lost in MBED if the dispatch is mandated to be routed through Power Exchanges. Between bid collection by PXs, bid transfer to MCO, central clearing at MCO, bids routing to power exchanges for final dispatch would lead to a significant delay and higher RE DSM costs to RE Generators.
- If the same is routed directly to the MCO which could clear the bids say every 15/5 minute TB basis, such delay would be arrested and save RE generators from additional RE DSM as well as transaction costs.

Overall, MBED is a significant milestone for the Power Market. However, 1) the clarity and flexibility in the dispatch norms for renewables and 2) overall transaction cost control would be crucial for seamless adoption and integration of all asset class into One Grid - One Nation - One Market.



Power Exchanges

Submission to the Hon'ble Commission

Power Exchanges & MCO: General Appeal



Marketplaces as Public Utilities (??)

Marketplaces generally create duopolies where the winner extracts the maximum benefits. Be it e-Commerce (Amazon, Walmart), mobility aggregation (Uber, Ola), or food delivery based aggregation (Swiggy, Zomato). We have experienced this in Power Exchanges as well.

Draft PMR indicates that there would be a competition amongst the PXs, but a natural monopoly would be created in form of MCO. **A distinction is needed in terms of promoting investments, innovation and operations between the PXs and MCO.**

Ideally, the Power Exchanges may be allowed to innovate w.r.t their technology, service offerings with very limited regulatory oversights on their charges (let the competition decide).

Likewise, a natural monopoly like MCO should be tightly regulated w.r.t their technology, operations and thus transactions costs.

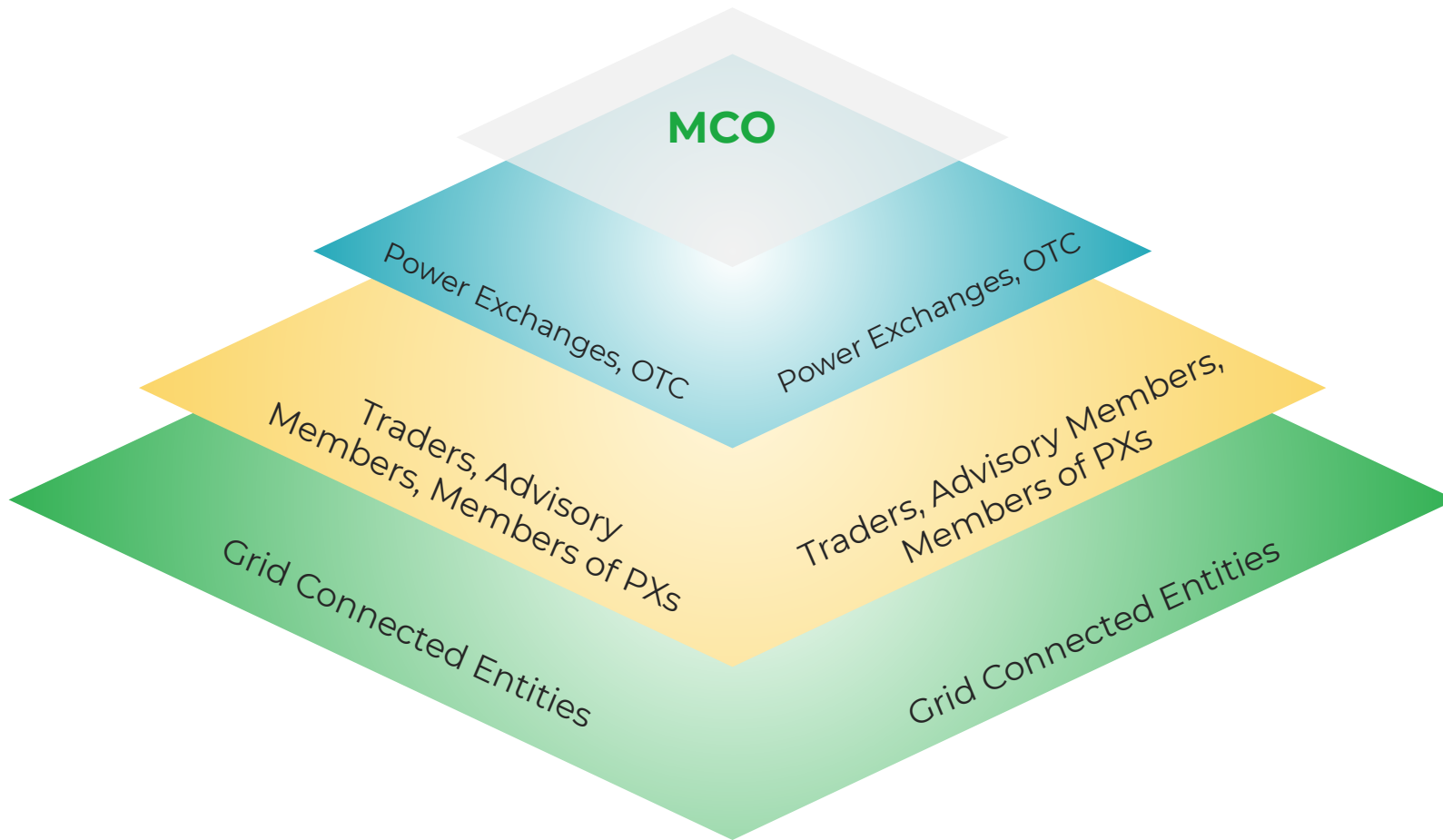
Power Exchanges may be maintained as “Private-for-Profit” entities with a provision for a level playing grounds for all the Power Exchanges (existing and upcoming). MCO being a natural monopoly needs to be maintained as a “Sustainable Public Utility”.

Power Exchanges: **Equal Treatment**



Existing vs. New Entrants for Power Exchange Play

- An applicant for a New Power Exchange needs to prove compliance of Regulation 14 (net worth), Regulation 18 (qualification of directors), Regulation 15 (ownership structure), Regulation 17 (governance) of the Power Market Regulation. Even before they are granted registration under PMR as a Power Exchange. *Ref: 3.4.1 of the Draft PMR.*
- The existing Power Exchanges (operating for more than 10 years now), however, are permitted to comply with the same with extended timelines on aspects like Net Worth, Governance, Ownership Structure.
- **We would appeal to the Hon'ble Commission to enable framework where the new and existing Power Exchanges gets equitable treatment at all the times.**



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Thank You!

It's a Great New Beginning for the Sector!