

Comments on Power Market Regulations, 2020

Sl No	PMR 2020 Provisions	Provision Contents	Our comments
1	Clause 5 (1) (a)	<p>Price discovery by power exchanges or by market coupling operator as and when decided by regulator.</p> <p>Market Clearing Price for unconstrained market and in congestion, market splitting shall be adopted.</p>	<p>Price discovery through power exchanges with certain algorithm is the existing Process with double bid closed end auction for both seller and buyer. There are no major issues observed through this process until now.</p> <p>Market coupling as an idea is good and applicable where transactions take place in multiple platforms for uniform price discovery. In India, where there are 2 exchanges existing now, market coupling may not be required as it will increase the transaction cost and time unnecessarily.</p> <p>Regulator should clarify that when and how they would like to introduce market-coupling operator in the market.</p>
2	Clause 7(1)	<p>Price discovery: The price and other terms of contract in the OTC Market shall be determined either through mutual agreement between the buyer and the seller or through competitive bidding process or as determined by the Appropriate Commission.</p>	<p>We are of the view that there is no need to omit “power Trader” from this clause as traders have a larger role in price discovery in the power market.</p>
3	23	<p>Power exchange transaction fee: No Power Exchange shall charge</p>	<p>This is a good step by the regulator to protect the consumer for unnecessary passing on additional cost burden</p>

		transaction fee exceeding such fee as approved by the commission. Prior approval is required from regulator	<p>arising due to the transaction fees.</p> <p>As this is a volume market, this should not be major concern to the power exchanges.</p>
4	25(1) (2)	<p>New contracts by Power exchanges Any Power Exchange seeking permission to introduce a new contract under clause (1) of this Regulation, shall submit to the Commission complete and detailed contract</p>	<p>For any new contracts or products offering, power exchange has to take required approval from CERC. This is required for maintaining transparency in the market.</p> <p>We welcomes this step.</p>
5	27(1)	<p>Clearing and settlement function to be hived off from power exchanges. An independent entity to be formed within 1 year of PMR 2020 notification.</p> <p>Power exchange has to create a Settlement Guarantee Fund management committee headed by an independent director with adequate representation of members of power exchanges.</p>	<p>This is a welcome step by the regulator to clearly define the functions of clearing and settlement entity.</p> <p>More clarity is required whether it will be a completely independent entity approved by the regulator or a separate entity from the power exchange with distinct roles and functions for ease of operations.</p> <p>More clarity is requested from CERC on this clause.</p>
6	31	Information dissemination by power exchanges through its websites	<p>This is a welcome step by the regulator for the interest of consumers. There will be no ambiguity and consumers will get all the required information at one place from the power exchange website relates to any transaction.</p> <p>This will help remove any information asymmetry from the market.</p>
7	Part 5, clause 37-40	<p>Market Coupling It envisages a new independent operator known as market coupling operator (MCO) for</p>	<p>A good move but may not be suitable to current market as there is only 2 operating exchanges in the market now. It is a well-established concept in</p>

		determination of uniform market price, optimum grid utilization and maximization of economic surplus.	<p>EU with cross border transactions happening through multiple platforms.</p> <p>The coupling of power exchanges would centralize the platform providing hardly any incentives for the exchanges to innovate</p> <p>CERC should come up with more clarity on the same as to when and how it is going to introduce the MCO. It should come up with a definite period and pre conditions for introducing the same to provide clarity to the stakeholders.</p>
8	Part 6, Clause 41-46	<p>OTC Platform</p> <p>OTC Platform has to provide an electronic platform with information of potential buyers and sellers, to maintain a repository of data related to buyers and sellers and provide such data to market participants and to provide advanced data analysis tools.</p> <p>Registration required from CERC for OTC Platform. Minimum net-worth required is Rs 50 Lakhs. Registration will be valid for 5 years.</p>	<p>We are of the view that the aggregator (OTC platform) should be an independent entity.</p> <p>But, in view of the traders expertise, knowledge over the market and information database, they should be allowed to participate or operate the OTC platform in some way or the other.</p> <p>The overall idea is to utilize the expertise and experience of traders in this platform. It should be open to all participants to have their own platforms for such information exchange.</p>
9	Part 7, Clause 49-54	<p>Market Oversight</p> <ul style="list-style-type: none"> To detect and prevent market manipulation, insider trading, cartelization and abuse of 	<p>This is related to intervention by the regulator in the functioning of power exchanges to monitor compliances and make for penalty provisions on non-compliance and breach of rules</p>

		<p>dominant position by any Market Participant;</p> <ul style="list-style-type: none"> • To ensure that Market Participants have confidence in the integrity and fairness of power markets • To ensure that the prices are discovered in a transparent and competitive manner. 	<p>and regulations.</p> <p>We believe that market oversight should be stringent but flexible. While it is required to prevent gaming in the market, market manipulation, cartelization or insider trading, it should not be a deterrent for market development by unnecessarily putting many compliances, stringent operational rules and complex requirements from the market players.</p> <p>A regular interaction with all stakeholders in a time bound manner may be envisaged so that regulatory oversight can also be monitored for excessiveness periodically with view from all stakeholders including consumers.</p>
10		<p>OTHER Comments</p>	<p>Enhancing liquidity in the market: The introduction of spot exchanges has immensely benefited the sector. The competition in the platform has ensured that the prices discovered at the exchange have remained low. Further, there are no issues related to payment security & cash flow due to transactions taking place through the exchanges as the exchanges bear the counterparty risk et al. Notwithstanding such benefit the participation in the power exchanges is still limited with only 4% of the overall transactions taking place through the power exchanges. Almost 90% of the transactions is taking place</p>

			<p>through long term PPAs which is not as competitive & reflective of the current market scenario. There is a need to bring “structural reforms” in the market to increase liquidity in the market which would also enhance the efficiency.</p> <p>However, nothing related to “market design” is covered in the proposed Power Market Regulations.</p>
11		OTHER Comments	<p>Enabling participation of renewable energy:</p> <p>Presently, the RE participation in the power exchanges is negligible. Given the renewable energy targets for the country there is a need to promote renewable energy participation in the market. Draft PMR has not proposed any suitable mechanism or contracts to enable participation from RE generators</p>
12			<p>Market mechanism for RE integration & other new technologies:</p> <p>The power market is going to significantly change on account of increasing renewable penetration & the associated market and technological changes taking place around it. While the increase in renewable energy is desirable given the climate considerations et al. the intermittency associated poses a serious challenge before grid management. The grid cannot be efficiently managed through only system operations related measures or any other policy/regulatory</p>

			<p>interventions, We need an appropriate market mechanism with suitable products et al. which could align the interest of participants incentivizing them to partake in the market and provide the much-needed flexibility to the grid. Besides, there would be new technologies viz. grid scale battery, electric vehicles, roof top solar etc. all of which would require efficient marketplace to interact and provide optimal solutions for the sector.</p> <p>The Commission while finalizing the Draft Power Market Regulations is requested to bring in appropriate changes to facilitate the transition in the market looking at foreseeable future</p>
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