

Ref: IIPL/CERC/151
Dated: 14th August, 2020

To,
The Secretary
Central Electricity Regulatory Commission
4th Floor, Chanderlok Building Janpath,
Connaught Place New Delhi - 110001

Subject: Comments on Draft Power Market Regulation-

Dear Sir,

In reference to the subject draft regulation, we submit our comments as under:

Company Details:

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Comments on Draft Power Market Regulation

1. The Draft Regulations have proposed Market Coupling between the power exchanges. It has also been proposed that the Commission would designate a Market Coupling Operator who would aggregate the bids collected by the Power Exchanges and undertake the price discovery. This seems to be a significant shift from the earlier approach taken by the Commission in the prevailing Power Market Regulations. As this is a major shift in the approach the Commission and can have serious implications on the market and the competition this should have been adequately deliberated before including it in the Draft Regulations. The Commission, as has been following the practice, should have brought Discussion paper on the Market Coupling as a concept and taken views from different stakeholders. Although the Draft Regulations have provided that Market Coupling Operator would come out with the detailed Procedure for implementation of Market Coupling, **consultation should have taken place on whether to have the Market Coupling or not in the first place.** There are

several pertinent questions which should be widely deliberated before embarking on the proposed changes such as:

- Why do we need Market Coupling? What are the benefits expected?
- Why there is a need of adding another organization/layer in the market?
- Who will be Market Coupling Operator? Will it be a Private body or a PSU to be decided on a nomination basis?
- What are the cost implications? How these are going to be recovered?
- What would be the role of Power Exchanges after Market Coupling is implemented?

The Commission is requested to include the provisions on Market Coupling only after wider consultations with other stakeholders.

2. CERC has recently introduced the Real Time Market recently and it is observed that many Discoms are availing this opportunity to buy cheaper power available at Power Exchange & optimizing their power procurement cost. With the initiatives of MoP, the forward contracts are soon going to be launched by the power exchanges which would further strengthen the market. As the trend shows the participation in the power exchanges is going to grow in the coming days. In this backdrop the Commission in its Draft Power Market Regulations has proposed to couple the power exchanges and give the price discovery function to an independent. **This will significantly diminish the value proposition of the power exchanges and its Members.**
3. As we understand the market coupling will carry out the price discovery in a centralized manner. This would negatively affect the competition amongst the power exchanges. There will be no incentives for the power exchanges to compete and bring innovation in new products essential in the changing market scenario. There is a need to have further research in the product space and bring innovation in it to cater to the varying needs of market participants. India is a diverse country with different resource mix across the regions, the weather pattern and needs are also varying across the

regions. Further, market coupling does not seem to be in alignment with the future trends of electricity market. With increasing RE penetration & emergence of actors viz. battery, electric vehicles, demand response etc. we need more of innovation in the marketplaces which is only possible in a decentralized market set up. Perhaps, the more appropriate way forward is to provide a liberal regulatory framework and flexibility for the power exchanges to introduce products & features and compete amongst each other themselves; all of which would eventually benefit the sector & the consumers. **The coupling of power exchanges would centralize the platform providing hardly any incentives for the exchanges to innovate. The Commission is requested to not to consider market coupling for competition amongst the power exchanges which would lead to product innovation.**

4. Draft PMR has proposed that the Power Exchange shall enter into an agreement for transferring their Clearing & Settlement function to an entity established in accordance with the provisions of PSS Act, 2007. CERC regulating the delivery of electricity through Power Exchanges, Load Dispatch Centers & settlement of the transactions through Clearing Corporation regulated by RBI will create overlapping/dual Regulations. **This will create difficulties for the Members/Clients of the Power Exchanges as they have to also become a registered Member of Clearing Corporations. This may also increase the overall cost of the transactions.**

5. Power Market Regulations were notified in the year 2010 and provided a broad-based vision for the power market in India. The Regulations introduced the spot exchanges in the country and provided a forward-looking regulatory framework for the efficient functioning of the spot exchanges in the country. The Regulations have also envisaged the introduction of Derivatives Market, Ancillary Market & Capacity Market at appropriate time. As a result of these Regulations, a new era ushered for the

power market in India particularly the short-term market benefiting the sellers, buyers & consumers at large. In comparison, the new Draft Power Market Regulations proposed by the Commission on July 20th, 2020 after almost a decade of the introduction of existing Power Market Regulations do not have anything in substance apart from few minor changes proposed in it. **The objective of repealing the existing Power Market Regulations and introducing a new Regulations is not very clear.**

6. Draft PMR has not provided anything for meeting the current challenges before the sector viz:

a. **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 has 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 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. The Commission had floated the consultation paper on Market Based Economic Dispatch in 2018 which shows the intention of the Commission to bring changes in the market design. **However, it is disappointing to note that there is hardly anything related to market design in the proposed Power Market Regulations which could address the current anomalies in the market.**

b. **Enabling participation of renewable energy:** 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.**

Unfortunately, the Draft PMR has nothing to offer in terms changing market scenario or has captured any long-term vision for the future. **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.**

Thanking you,

Yours truly,
For Instinct Infra & Power Ltd



Director