

**Comments/Suggestions to Draft Power Market Regulations, 2020 by Pranurja Solutions Limited (PSL)**

**14.08.2020**

<b>S. N.</b>	<b>Clause No. in PMR 2020</b>	<b>As proposed in draft PMR 2020</b>	<b>Suggestion / Clarification</b>	<b>Reason</b>
<b>1.</b>	Part-5 Market Coupling Clause Clause no. 38	38. Designation of a Market Coupling Operator (MCO) subject to provisions of these regulations for the DAM and the RTM markets or any other contracts as may be specified by CERC. For such contracts the MCO will aggregate the bids from all the exchanges and be responsible for price discovery in such contracts.	The provisions related to MCO may be clarified. The kind of model to be followed in terms of bid aggregation (buy or sell side bids may be dominant in multiple exchanges), price discovery and the clearing processes to be followed in the case of multiple clearing agencies being engaged by the different exchanges all need to be specified.	For the newer proposed exchanges , the development of the technology solution is dependent on the modalities of the proposed framework of the MCO. Otherwise, a full suite of technology as per the prevailing design needs to be built.
<b>2.</b>	Clause 23: Power Exchange transaction fee	Power Exchanges cannot charge a fee more than that prescribed by the CERC	An exchange is a platform for buyers and sellers to transact in a transparent manner with settlement guarantees in place. With the proposed design of a multi power exchange model for the Indian markets, the competition and market forces would lead to the levying of a competitive fee by the power exchanges. The CERC may intervene , if necessary , if any participant abuses their position	Moving towards a market-oriented design would require reliance on market forces to determine economic levels of demand, supply and prices. Regulatory oversight should be used to monitor abuse of market power, if any.
<b>3.</b>	Clause 17: Governance structure of Power Exchange:	4. A minimum of two names shall be submitted by the Board of the Power Exchange to the Commission for	The proposed clause should be amended to say the Board of Directors of the Power Exchange shall submit the name and profile of	Given that Independent Directors have to be persons of repute and with different skills and competencies, identifying and

		approval for each vacancy of Independent Directors.	the Independent Director proposed to be inducted on the Board of the Power Exchange to CERC for approval.	selecting multiple such persons would be a challenge. So, the name of one person identified for the vacancy of the Independent Director should be shared with CERC for approval for practical reasons.
4.	Clause 17: Governance structure of Power Exchange:	11. No member of Power Exchange or their client shall be on the Board of Directors of any Power Exchange.	It is suggested that the clause no. 11 may be deleted from the PMR 2020.	The members of the Power Exchange are allowed to become shareholders in the exchange as per extant and proposed regulations. Shareholders always have the right to have a say in the management as they own equity in the company. Subject to other approvals, shareholders have a right to nominate their directors on the Board of a company. Therefore, such restrictive provisions are in contravention to rights of shareholders. Additionally, the members of the power exchange have domain expertise which would be useful for the development of the power exchange. Restricting the entry of members in the Board of Directors of any Power Exchange shall deprive the Board and the Company from the domain expertise of the members. The

				<p>Power Exchange is a demutualized entity with ownership and governance being clearly demarcated in the extant as well as the proposed regulations. In the PM2020, different key functions are proposed to be looked at by different committees like Risk Assessment and Management Committee, SGF Management Committee, Market Surveillance Committee (MSC) each headed by Independent Director who are appointed post approval by CERC to their Board positions. Therefore, the proposed clause is not necessary.</p>
5.	<b>27. Clearing and Settlement</b>	<p>The Power Exchange shall enter into an agreement in writing for Clearing and Settlement of any transaction of electricity undertaken on the Power Exchange with an entity established in accordance with the provisions of the Payment and Settlement Systems Act, 2007.</p>	<p>The eligible entities that can set up the legal entity for undertaking clearing services needs to be clarified.</p>	

6.	14. <b>Net worth</b>	An applicant proposing to set up a power exchange is required to meet a Net Worth criteria of 50 INR Crores and to meet the shareholding requirements of an operational power exchange.	We welcome the increased Net Worth requirements for setting up a power exchange. The requirement of Net Worth and compliance to shareholding patterns shall be for operational power exchanges and not applicants.	An applicant to have a Net Worth of 50 INR crores and comply with a shareholding pattern ( which requires infusion of capital and allotment of shares as per the regulations) even before the grant of registration will be an effective barrier for a new entrant and discourage competition. Therefore, there should be a clear distinction between an applicant and a power exchange.
7.	17. Governance Structure of Power Exchange	( 2) The number of Independent Directors shall not be less than the number of Shareholder Directors on the Board of the Power Exchange	The number of Independent Directors should be one-third of the total number of Directors in the Board of Directors of the Power Exchange.	The demutualized and widespread shareholding of the Power Exchange as per extant and proposed regulations implies many shareholders would hold equity in the Power Exchange. Any representation of Directors from the shareholders especially minority shareholders would need to be matched by an equal number of independent directors making the Board large and unwieldy.

<b>8.</b>	31. Information Dissemination by the Power Exchange	(8) Power Exchange shall create and maintain a document on its website providing detailed description of the algorithm used for price discovery of all types of contracts.	The clause may restrict to” description of bid types, contracts and historical information of prices and volumes”	If the algorithm of price discovery which is the core intellectual property (IP) of the Power Exchange is a public document, a significant IP which could be a source of comparative advantage is public knowledge with detrimental effects to the value of the exchange.
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