

Observations on the Draft Power Market Regulations, 2020

1. The Commission, through the Central Electricity Regulatory Commission (Power Market) Regulations, 2010, has provided Scope of Regulations and Extent of Application as also Principles of Market and Market Design. These have served well in providing overarching principles of Market and Market Design. This “Principle based regulatory framework” has promoted competition in the sector as mandated in Section 66 of The Electricity Act ,2003. The Commission has provided a multiple power exchange framework for the market and has envisaged that the competition amongst the power exchanges would result into product innovation, efficiency in service delivery, cap on transaction fees etc. The Regulations have also laid down the eligibility conditions attaining which, any entity can establish its power exchange. The competition amongst the existing power exchanges & threat of possible new entrant into the market has pushed the existing two power exchanges to operate efficiently in the market.
2. 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. Notwithstanding such benefits, the participation in the power exchanges is still limited to only 4% of the overall transactions taking place through the power exchanges and almost 90% of the transactions are taking place through long term PPAs which are neither competitive nor reflective of the current market scenario **signifying that there is need to incentivise power exchange business and promote it further by removing any entry barrier** ,enable more competition and innovative products as also improve their accessibility. There is a need to bring structural reforms in the market to increase liquidity and efficiency in the market.
3. 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. Going forward, the Power Market Regulations need to promote competition further to get the best out of the market participants. However, it seems these **Draft Power Market Regulations attempt to move towards tightening of the existing regulatory framework**: The Commission has proposed to regulate the transaction fees of the power exchanges which was earlier left to the market. The

Commission has made the market monitoring more stringent which would increase the management effort towards the compliance activities.

4. Further, the Commission has proposed market coupling between the Power Exchanges. The proposed Market Coupling Operator would aggregate the bids collected by the exchanges and undertake the price discovery thus replacing functions of the extant exchanges of trading, clearing and settlement to merely bid aggregators and rendering these exchanges merely as unviable bid collection centres. Introduction of coupling operators will virtually replace the functions of the present exchanges and make these redundant and these stranded assets will further discourage entry of fresh players. Need of the hour is to incentivise exchanges so new players enter and help increase exchange based transactions which will enhance competition and bring down prices at large thereby reducing consumer electricity prices. **I strongly recommend that the proposal to introduce Coupling Operator may not be pursued**
5. The Commission should rather consider to make suitable changes in the Draft PMR to enable the competition to effectively take place in the market:
 - a. **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.
 - b. **Market mechanism for RE integration & other new technologies:** 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 consideration, the intermittency associated poses a serious challenge before grid management.
 - c. The grid cannot be efficiently managed through only system operations related measures or any other policy/regulatory interventions. We need an appropriate market mechanism with suitable products which provide much needed flexibility to the grid.
6. The Payment and Settlement Systems Act, 2007 provides for the regulation and supervision of payments systems in India and designates the apex institution (RBI) as the authority for that purpose. 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 Centres & settlement of the transactions through Clearing Corporation regulated by RBI will create overlapping/dual Regulations which may create ambiguities & delay in regulatory pronouncements. This will create difficulties for the Members/Clients of the Power Exchanges as they have to also become a registered Member of Clearing Corporations. RBI regulations are likely to create conflicts in smooth operation of power exchanges. The Electricity Act 2003 authorises market development and over-rides the PSS Act,2007. The Commission may continue regulating the clearing & settlement activities as done in the past for efficient and seamless power market operations despite the PSS ACT,2007 because The Electricity Act 2003, being the specific Electricity Act which mandates market development overrides the PSS Act 2007 which is general rather than being specific.