

APP Comments on Draft CERC (Deviation Settlement Mechanism and Related Matters) Regulations 2021

Sl. No.	Proposed Clause	Comments and Suggestions
1.	<p>Clause 7 (1)</p> <p>(1) The normal rate of charges for deviation for a time block shall be equal to the Weighted Average Ancillary Service Charge (in paise/kWh) computed based on the total quantum of Ancillary Services deployed and the total charges payable to the Ancillary Service Providers for all the Regions for that time block:</p> <p>Provided that for a period of one year from the date of effect of these regulations or such further period as may be notified by the Commission, the normal rate of charges for deviation for a time block shall be equal to the highest of the weighted average ACP of the Day Ahead Market segments of all the Power Exchanges; or the weighted average ACP of the Real Time Market segments of all the Power Exchanges; or the Weighted Average Ancillary Service Charge of all the regions] for that time block:</p> <p>Provided further that in case of non-availability of ACP for any time block on a given day, ACP for the corresponding time block of the last available day shall be considered:</p>	<ul style="list-style-type: none"> • In the proposed draft, the deviation charge is linked with the highest spot price in either of the DAM, RTM or Ancillary market - this may cause ambiguity on applicable charges for a particular time block. To optimally manage the operations, sellers as well as the buyers needs to be aware the charges/penalties applicable for deviation. To avoid such ambiguity, the applicable deviation charges should be published by a competent authority (POSOCO/RLDC) prior to the start of respective time block. • The Tariff of Ancillary Services Provider (ASP) will have a direct impact on revenue of the generators. Hence, detailed procedure needs to be specified for calculation of Weighted Average Ancillary Service Charge (in paise/kWh) for each time block and such calculation of ASP tariff should be transparent and be made readily available on the related websites. Accordingly, CERC should define an agency or platform where daily block-wise ancillary service charges will be published in detail. This data should be made available in advance in a manner accessible to all the stakeholders. • Dispute resolution mechanism with regard to normal rate of charges for deviation may be specified. The solution to any discrepancy should be provided before the

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		<p>due date of DSM payment. If it is not resolved within the timeline, the due date should be extended.</p> <ul style="list-style-type: none"> CERC (Ancillary Services) Regulations, 2021 is still in the draft phase. The ‘regional entities’ or ‘directly affected parties’ cannot quantify its impact on them. Hence, CERC is requested to wait at least 1 year after the finalization of Ancillary Service Regulations 2021 in order to analyze its impact on the power market and then provide a mock trial run period for 6 months for the smooth transition of linking of ‘Normal Deviation Charges’ to ‘Weighted Average Ancillary Service Charges’ methodology. 						
2.	<p>Clause 8 (1) – For a general seller other than an RoR generating station or a generating station based on municipal solid waste.</p> <p>Charges for deviation in a time block by a seller shall be payable by such seller as under:</p> <table border="1" data-bbox="288 1082 1032 1374"> <tr> <td data-bbox="288 1082 456 1201">Entity</td> <td colspan="2" data-bbox="456 1082 1032 1201">Charges for deviation payable to Deviation and Ancillary Service Pool Account</td> </tr> <tr> <td data-bbox="288 1201 456 1374">Seller</td> <td data-bbox="456 1201 658 1374">Deviation by way of over injection</td> <td data-bbox="658 1201 1032 1374">Deviation by way of under injection</td> </tr> </table>	Entity	Charges for deviation payable to Deviation and Ancillary Service Pool Account		Seller	Deviation by way of over injection	Deviation by way of under injection	<ul style="list-style-type: none"> In the case of a unit tripping, a thermal generator having two part tariff can revise its schedule only from the 7th/8th time block (as per clause 6.5.18 of IEGC Regulations 6th Amendment, 2019). As per the proposed DSM Regulations, even in case of unit trip, the generator would have to pay penalties for under injection for at least 6-time blocks. Such events of unit trip are entirely uncontrollable for any generator, and current regulations does not have any provisions for early revision in schedule. In such scenario, even though the generator is willing to revise its schedule, it is literally forced to deviate from the schedule and additionally pay penalty on the same. <p>Further, this provision will have severe implications for the plants which are tied up under long term/medium term PPAs. For example, suppose the contracted VC for a plant under LT/MT PPA is Rs. 2.2/kWh and the normal charge rate for a</p>
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	<p>For a general seller other than an RoR generating station or a generating station based on municipal solid waste</p>	<p>(i) Zero up to 2% Deviation-general seller (in %); (ii) @ 10% of the normal rate of charges for deviation beyond 2% Deviation-general seller (in %)</p>	<p>(i) @ normal rate of charges for deviation up to 2% Deviation-general seller (in %); (ii) @ 110% of the normal rate of charges for deviation beyond 2% Deviation-general seller (in %).</p>	<p>particular time-block is Rs. 8.0/kWh. In case of under-injection, the generator would get revenue of Rs. 2.2/kWh for the scheduled quantum but as per the proposed draft it would have to pay the DSM charge of Rs. 8.8/kWh (110% of normal rate of charge). This results in effective penalty of Rs. 6.6 /kWh (8.8 – 2.2). However, if the same plant is tied up in spot market which will be closed to Normal rate of charge i.e. Rs.8.0/kWh, it would have to pay penalty of only Rs. 0.8/kWh (8.8 – 8.0).</p> <p>Such discrimination based on the contract type is unjustified. Therefore, it is requested that penalty should be exempted in the case of any forced outage. Further, in order to avoid discrimination, it is proposed that the deviation charges should be capped at the contract rate at which it has been paid based on schedule. Or, in the absence of a contract rate, such deviation charges may be considered at rate of ACP of the DAM for the respective time block.</p> <ul style="list-style-type: none"> • Further, deviation limit of 2% for deviation-general seller needs to be reviewed as with any fall in grid frequency, generation from the unit should increase as per generator droop up to a maximum of 5% of the generation subject to ceiling limit of 105% of the MCR of the unit having regard to machine capability, as per clause 5.5(a) of IEGC 5th amendment regulations. Further, owing to differences between meter readings of SCADA – SEM, it has become difficult to adhere to the deviation limit. Also, practically, it is difficult to maintain exact zero deviation because of real-time coal quality and parameter variation, mill changeover, etc. Therefore, it is requested to increase the deviation limit in terms of MW or as a percentage of

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		<p>scheduled capacity or graded deviation limit may be provided commensurate with the generation capacity. We suggest the following for deviation charges:</p> <p>a) For over injection:</p> <ul style="list-style-type: none"> ➤ Up to 2%: Payment at Normal rate ➤ 2% to 12%: Zero payment to the generator ➤ Beyond 12% schedule: Penalty of 10% the of Normal rate <p>b) For under injection:</p> <ul style="list-style-type: none"> ➤ Up to 12% or 150 MW: Normal Rate ➤ Beyond 12% or 150 MW: 110% of Normal Rate <ul style="list-style-type: none"> • When the station/unit is under RSD, any import may be net off with subsequent export, as RSD is proposed by LDC and Generator should not be penalized for RSD auxiliary consumption with the normal deviation charge rate. • At the time of unit synchronization, it is not possible to maintain ramp rates. Thus, deviation charges for the same needs to be exempted. • Facility of schedule revision may be provided to short-term generators, similar to long-term/medium-term PPAs generators, in case of partial generation on account of technical abnormality in order to lessen the burden of deviation charges. <p>Variation in Generation due to RGMO should be compensated to the Generator. No penalty should be levied for variations on account of RGMO. If there is over- injection due to FGMO there should not be any penalty but there should be an incentive.</p>

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3.	<p>Clause 8 (1) – For WS Seller</p> <p>Charges for deviation in a time block by a seller shall be payable by such seller as under:</p> <table border="1" data-bbox="288 515 1055 1434"> <thead> <tr> <th data-bbox="288 515 454 636">Entity</th> <th colspan="2" data-bbox="454 515 1055 636">Charges for deviation payable to Deviation and Ancillary Service Pool Account</th> </tr> <tr> <td data-bbox="288 703 454 927">Seller</td> <th data-bbox="454 703 663 927">Deviation by way of over injection</th> <th data-bbox="663 703 1055 927">Deviation by way of under injection</th> </tr> </thead> <tbody> <tr> <td data-bbox="288 927 454 1434">For WS seller</td> <td data-bbox="454 927 663 1434">Zero</td> <td data-bbox="663 927 1055 1434">(i) Zero up to 10% Deviation-WS seller (in %); (ii) @ 10% of the normal rate of charges for deviation beyond 10% Deviation-WS seller (in %): Provided that such seller shall pay back to the Deviation and Ancillary Service Pool Account for the total shortfall</td> </tr> </tbody> </table>	Entity	Charges for deviation payable to Deviation and Ancillary Service Pool Account		Seller	Deviation by way of over injection	Deviation by way of under injection	For WS seller	Zero	(i) Zero up to 10% Deviation-WS seller (in %); (ii) @ 10% of the normal rate of charges for deviation beyond 10% Deviation-WS seller (in %): Provided that such seller shall pay back to the Deviation and Ancillary Service Pool Account for the total shortfall	<p>The proposed draft Regulation contains the following major changes from the earlier Deviation Settlement Mechanism Regulation for solar and wind generators:</p> <ol style="list-style-type: none"> i. The error band has been reduced from 15% to 10% ii. The vector sign of error band for deviation penalty is negative (-) only iii. For any under injection or negative deviation, shortfall in energy against schedule has to be paid back at contract rate iv. Over injection does not require payment of any deviation error penalty v. For over injection the RE generator shall not receive any money corresponding to its contract price <p>Essentially, the proposed regulation does away with the principle of treating over injection (or positive Error) and under injection (or negative Error) on equal footing for reasons not mentioned in the Statement of Reasons. It appears that the regulations are biased against over injection and presupposes the availability of excellent weather data to preclude any over-injection error by the wind/solar generator. We enlist reasons below to demonstrate that this bias against over injection would result into larger errors and consequent grid instability:</p> <ul style="list-style-type: none"> • Wind-Solar Generation is weather determined and positive/negative error are considered equally probable - Generation from Wind and Solar is weather dependent and never fully controllable as weather cannot be 100% accurately predicted. Even with robust forecasting tools, the forecast would be only near to injection but never equal to injection due to Errors that may
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			<p>in energy against its schedule in any time block due to under injection,</p> <p>(a) at the contract rate at which it has been paid based on schedule,</p> <p>or (b) in the absence of a contract rate at the rate of the Area Clearing Price of the Day Ahead Market for the respective time block.</p>	<p>be on positive (over injection) or negative (under injection) side. As an example, in wind sites, neither gusts of wind nor sudden drop in wind can be predicted causing over injection and under injection respectively. Thus, one has to begin with by considering the probability of positive/negative Error as equally likely that would vary from site to site. A proposed deviation regulation that removes over injection Error deviation penalty, essentially violates the principle of equal Error likelihood.</p> <ul style="list-style-type: none"> <p>Forecasting and Scheduling has improved since 2015 DSM regulations to bring majority of Error in acceptable deviation band of 15% - Since the 2015 Deviation Mechanism Regulation was introduced, the Error level improved from earlier around 60% Error in $\pm 15\%$ range to present more than 90% Error in $\pm 15\%$ range. This shows a clear improvement in forecasting and scheduling framework within the country post the 2015 DSM regulations that has enabled better predictions and reduced Errors. Reduced Errors have helped in improved grid management, despite the persisting challenges on more accurate weather forecasting. A proposed -10% Error band would now reduce the Error within this band to only 60% to 65% of the time blocks (all things being same as on date). Increasing the same to 12% would increase this band to around 75%. It is suggested that instead of 10% Error, the Commission should consider revising it to 12%, as that would help solar/wind generators to quickly adopt to this change without paying excessive penalty.</p>

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		<ul style="list-style-type: none"> Impact of proposed DSM charges would be usurious and potentially make projects unviable - The proposed change in deviation wherein over injection is not paid at all is a very severe change proposed and would have a very serious impact on existing projects. The current 2015 DSM regulation's impact on the top line of wind generators is about 0.5% to 1% per annum. A simulation of the proposed regulation's impact was carried out by a member company of the Association, which showed that the potential impact on its top-line would be between 5% to 7%. <p>Such a high penalty would potentially make businesses unviable in India. It will erode investor's wealth and cause them to lose interest in the RE market. The Hon'ble Commission may appreciate that the objective of the DSM regulations has been to maintain grid safety and grid discipline through a reasonable commercial mechanism. The objective has never been to penalize RE generators. The extant mechanism allows for compensation to generators and compensation by generators thereby offsetting the loss with gain. By disallowing this, an unreasonable commercial mechanism is being imposed which shall make operating solar/wind generators extremely difficult.</p> <ul style="list-style-type: none"> Proposed deviation regulations would result in higher levels of over-scheduling and under-injecting - The existing 2015 DSM regulation recognizes equal likelihood of both positive and negative Errors. It provides for compensation at contract tariff for over injection to generators and also same compensation at contract tariff by generator for under injection. As a

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		<p>result, the nation’s forecasting and scheduling market matured to bring more than 90% of deviation Errors within the $\pm 15\%$ range, created an ecosystem of world class forecasters, improved absorption of RE power in grid and penalized solar/wind generators reasonably for deviations. The said gains shall be frittered away if the proposed regulations are allowed.</p> <p>The proposed regulations don’t recognize over injection Error for compensation to generators at contract price. It rather penalizes solar/wind generators for over injecting by disallowing tariff compensation. Therefore, the solar/wind generators in order to avoid revenue losses would be compelled to give higher schedules (higher than forecast) and higher available capacity so that Errors are in the negative side and low as far as possible defeating the whole purpose of DSM. Further, the painstakingly developed forecasting market shall be deterred from investing in better weather forecasting technology, as generators (to avoid over injection) would always schedule more energy than that forecasted, thereby removing any incentive or higher performance bonuses being given now by generators to forecasters for accuracy. It will spell the death knell to quality forecasting in the country. Further, as more negative Errors would come due to over scheduling and that quality forecasting would take a back seat, the range of negative Error would be very high thereby threatening grid safety/security and creating challenges for the grid operator to absorb RE power. Consequently, it will not be surprising to see more curtailment in RE power across the country, which</p>

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		<p>already many renewable generators are struggling with.</p> <p>In view of the above points, it is suggested that the proposed regulations may be modified as follows:</p> <ol style="list-style-type: none"> 1. The proposed regulation may be applied prospectively i.e., for projects which would be commissioned or where bid submission date is after notification of these regulations and for projects commissioned or where bid submission date is prior to the date of notification of these regulations the provisions of pervious regulations. 2. Error band to be reduced to $\pm 12\%$ range 3. Compensation at contract price to and from generators for over injection and under injection respectively may be retained as per existing mechanism.
4.	<p>Clause 8 (3)</p> <p>(a) The charges for deviation for injection of infirm power shall be zero.</p> <p>(b) The charges for deviation for drawal of start-up power before COD of a generating unit or for drawal of power to run the auxiliaries during shut-down of a generating station shall be payable at the normal rate of charges for deviation.</p>	<p>The draft Regulation provides that charges for deviation for injection of infirm power will be zero while the charges for deviation for drawal of start-up power shall be payable at the normal rate of charges for deviation. As mentioned in our comments under s.no.2, the draft Regulation has done away with equal treatment of positive and negative error.</p> <p>It is requested that treatment for injection of infirm power should be retained as per the existing DSM Regulation. Further, for start-up power drawn from</p>

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		<p>the grid by generating stations, the deviation charges should be exempted or capped at the same level as per the existing mechanism.</p>
5.	<p>Clause 10 (1)</p> <p>The payment of charges for deviation shall have a high priority and the concerned regional entity shall pay the due amounts within 7 (seven) days of the issue of statement of charges for deviation by the Regional Power Committee, failing which late payment surcharge @0.04% shall be payable for each day of delay.</p>	<ul style="list-style-type: none"> The time period allowed for the payment of deviation charges as per the existing Regulations is 12 days. As the Hon'ble Commission is well aware, the generators' cashflow depends on payment from the Discoms, and these payments have been consistently delayed, thereby putting pressure on the working capital of the generators. In fact, for many generators such working capital limit has already exhausted. Proposed reduction in payment period from 12 days to 7 days would put undue pressure on generators who are already facing cashflow issues due to delayed payments from Discoms. <p>Further, even apart from such cashflow issue from Discoms, 7 days timeline appears to be very less and there is every chance that delays may happen due to unforeseen factors. We request the Hon'ble Commission to retain the period of 12 days for payment. We further, request to additionally allow 2 days of grace period for at least 5 instances of delayed payment.</p> <ul style="list-style-type: none"> If any regional entity fails to make payment of Charges for Deviation including Additional Charges for Deviation by the time specified in these regulations during the current fiscal year, it shall be required to open a Letter of Credit equal to 110% of weekly outstanding liability in Favour of respective Regional Load Despatch Centre within a fortnight from the due date of payment. & LC encashment rules should be as per DSM regulation 2014.

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6.	Other comments	In case of grid disturbance, no deviation charges should be levied on any of the entities.