Comments on the Draft Central Electricity Regulatory Commission (Deviation Settlement Mechanism and Related Matters) Regulations, 2021

October 22, 2021

Submissions from the Council on Energy, Environment and Water (CEEW)

The Draft Central Electricity Regulatory Commission (Deviation Settlement Mechanism and Related Matters) Regulations, 2021 (**Draft Regulations**) are a natural consequence of implementation of the ancillary services market as proposed under the Draft Central Electricity Regulatory Commission (Ancillary Services) Regulations, 2021.

Our suggestions and requests for clarifications on the Draft Regulations are set out below. We also make system level suggestions that, we believe, are relevant to an overall efficient market design.

1. Market monitoring and surveillance will be crucial

Under the existing DSM regulations, the deviation charges are linked to the day ahead market (DAM) prices. With the transition to the ancillary services market (ASM), the same sellers will be eligible to bid under DAM, real time market (RTM), and the ASM. This may create opportunities for price arbitrage and artificial increase in prices. Market monitoring and surveillance will be essential to ensure that the price discovered is fair and accurately represents the service provided. Otherwise, the entities subject to pay penalties under the Draft Regulations will unfairly be required to pay high charges.

2. Need to build capacity in demand and generation forecasting

Implementation of the proposed DSM regulations is another step in the ongoing process of moving power transactions to the markets. This requires the capacity of the states to improve in demand forecasting and responding to price signals across different market platforms. Setting up of renewable energy management centres (REMCs) could be expedited in RLDCs and SLDCs. LDCs which do not have REMCs could be given a clear start date for setting up REMCs subsequent to which, DSM regulations will be applicable, irrespective of whether the REMC is set up. Capacity building of states and agencies should be prioritised for effective market participation.

Transparency in data on deviations and applicable charges is uneven and patchy. Improvement in data collection and transparency is an important requirement for capacity building. **A dedicated public portal to track deviation and associated penalty across states and pooling stations may also be developed.**

3. Deviations charges in the short-run may be very high for buyers

Liquidity may be low initially in the AS market due to inadequacy of reserves and may increase the market price of the reserves.
Further, in many states the existing DSM regulations provide a tolerance band of (+/-) 15 % for RE sellers, but if the Draft Regulations are implemented the ISTS RE generators will now have no liability for over injection but tolerance band will be reduced to (+/-) 10 % for under injection. This means that there will be different tolerance bands and incentives for RE generators connected to ISTS and those connected to InSTS. Further, states are bound to face resistance in tightening their error bands

in line with the proposed changes and in the interim, buyers may be unduly impacted with high deviation costs.

These factors will result in the burden of deviation costs being very high, at least till liquidity increases in the market. A transition mechanism or fund that addresses the financial burden, especially for stressed discoms may be required.

4. Accounting of Charges for Deviation and Ancillary Service Pool Account

As per the Draft Regulations, RLDCs are required to provide the data for deviation on a weekly basis to the regional power committees (RPCs) who may then release the charges for deviation within a short span of five days (or three working days). After the release of the charges by RPCs, the concerned regional entity is required to pay the due amounts within 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.
States have a different portal, format and procedure for schedule submission which results in operational complexity. A weekly computation and settlement of charges based on such a schedule gives very less turnaround time to the RLDCs and adds to their administrative burden.[1] This leads to frequent errors in energy accounting, computation of charges as well as settlement. The implementation of SAMAST should be expedited to bring in uniformity and automation in energy accounting for successful implementation of these DSM regulations.

5. Required clarifications

- The Commission is requested to clarify whether a general seller, RoR seller, and MSW seller will not be required to pay back to the pool for shortfall in addition to the deviation charges.

- Commission is requested to clarify the process of accounting for deviations of SRAS and TRAS providers who are connected to the InSTS. As per the Draft Regulations, their deviation accounting will be done by the RLDC but they are also subject to the state level deviation settlement regulations where accounting is done by the SLDCs.

[1] Forum of Regulators. 2018. *Capacity Building of the Indian Load Despatch Centres.* New Delhi: CERC.