No. IEX/RA/060/21-22 Date: 22.10.2021

To,

The Secretary
Central Electricity Regulatory Commission
3rd & 4th Floor, Chanderlok Building
36, Janpath
New Delhi - 100 001,
Fax: 011-23753923

Sub: IEX Comments on Draft Central Electricity Regulatory Commission (Deviation Settlement Mechanism and Related matters) Regulations, 2021.

Dear Sir,

This has reference to Public Notice dated 07.09.2021 inviting suggestions and comments from stakeholders on the Draft Central Electricity Regulatory Commission (Deviation Settlement Mechanism and Related matters) Regulations, 2021.

Accordingly, comments on behalf of Indian Energy Exchange are hereby attached hereto for kind consideration of the Hon'ble Commission:

Thanking You!

Yours Sincerely,

(Jogendra Behera)
Vice President (Market Design & Economics)

IEX COMMENTS ON DRAFT CERC (DEVIATION SETTLEMENT MECHANISM AND RELATED MATTERS) REGULATIONS, 2021

1. **Deviation charges should act as a deterrent for the entities to deviate from their schedule**

   The Draft Regulations have delinked the deviation charges from the grid frequency and has proposed that the buyers & sellers should not deviate from their schedule and in case of any grid imbalances the same should be managed by the System Operator through suitable deployment of Ancillary Services. Draft Regulations have proposed deviation charges for different buyers and sellers with maximum charges being specified at 110% of the normal rate where the normal rate will be the weighted average prices of Ancillary Services deployed during a particular time block.

   The proposed mechanism will work properly only if there is enough deterrence for the entities to not deviate from their schedule. A strong deterrent in terms higher deviation charges will induce grid discipline behavior amongst the entities; this will push the entities to due diligently forecast and schedule their drawl or injection essential for better grid management. This will also help the System Operator in accurately estimating the reserve requirement and procuring the Ancillary Services from the market in advance to meet the possible grid imbalances. However, it is observed that the proposal to levy deviation charges at 110% of the normal rate may not act as a strong deterrent for the entities and make them put efforts towards avoiding deviations. For e.g., if the normal rate is found to be Rs. 3/unit then the maximum deviation rate would be Rs. 3.30/unit which is still nominally higher and may not act a strong deterrent for the entities to deviate. In view of the above, it is suggested that the deviation charges should be at such level, say at 150-200% of the normal rate, which really act as a deterrent for the entities to deviate from their schedule. This will also lead to better grid management, estimation and procurement of Ancillary Services for managing the imbalances etc. as discussed above.

2. **Provision for balancing of Deemed RPO compliance of Buyers**

   The current DSM Regulations provides for settlement of green attributes on account of deviations by Wind and Solar generators at pooled level (Refer Regulation 5(1)(vii) of DSM Regulations). In this mechanism, NLDC is required to purchase RECs in case of net shortfall of RE Generation in a month. This mechanism is necessary to enable claiming of RPO on schedule basis. This mechanism is vital for the Green Products (GDAM/GTAM) at power exchanges to enable buyers of these contracts to meet their deemed RPOs on the energy purchase under these products. This mechanism ensures that on a monthly aggregated basis, an equivalent number of green units corresponding to the deemed RPO of the buyers are injected into the grid. Similar provision has been incorporated in various SERCs Forecasting & Scheduling Regulations to account for the deemed RPO compliance at the State level. However, it is observed that this provision has been omitted in the proposed Draft DSM Regulations 2021 which may create difficulties in accurately accounting for the green power injected into the grid for the deemed RPO compliance of buyers participating in the Green products at power exchanges; therefore, it is requested to retain the aforesaid provision while finalizing the DSM Regulations 2021.

3. Clarity on 'Contract' and 'Normal Rate'

Regulation 3(1)(j) of the proposed Draft DSM Regulations provides for definition of Contract Rate which is to be utilized for settlement of Deviations in case of Wind and Solar Sellers. The Contract Rate has been defined as *the tariff for sale or purchase of power, as determined under Section 62 or adopted under Section 63 or approved under Section 86(1)(b) of the Act by the Appropriate Commission or the price as discovered in the Power Exchange, as the case may be*. While the tariff determined under Section 62 and Section 63 may be ascertained as these are mostly constant, however, with regard to price discovered in Power Exchange, further clarity is required because in case of Power Exchange, a RE Generator may be participating in GDAM, DAM, GTAM and TAM which may lead to discovery of different prices for different time block based on the nature of the product. The process of attributing the deviation to different market segments and ascertaining the prices for different segments for calculation of the DSM Charges may be clarified.

The Draft Regulations have defined normal rate as weighted average charges payable to Ancillary Service Provider for all the Regions in a particular time block. Further the Draft Regulations have proposed the deviation charges as a percentage of the normal rate. However, it is not clear what normal rate would be considered if there no Ancillary Services are deployed during a time block or due to lower demand in the system the System Operator issues TRAS down instructions and the Ancillary Service Provider would be paying to the Deviation and Ancillary Services pool (DASM Pool). It is not clear whether the normal rate will be considered as zero in the former and negative in the later instance – a clarity may be provided regarding this while finalizing the Regulations.

4. Sufficiency of reserves for Ancillary Services:

The proposed Draft DSM Regulations 2021 have done away with the frequency linked DSM charges and shifted the onus of maintaining grid frequency on system operator by way of Ancillary Services. The explanatory memorandum provides various reasons for shifting of decentralized approach to the Centralized approach for maintaining grid frequency. In this regard, it is essential to examine the expected reserves required for the Ancillary Services with the implementation of the proposal as it is evident that the reserves requirement would be increased manifold with the present deviation quantum (or at least some % of the deviation quantum) will be required to be met from the Ancillary Services. As understood from the Explanatory Memorandum of the Draft CERC Ancillary Services Regulations 2021, the URS is not available to meet Ancillary requirement under RRAS mechanism at least 30%-40% of the time. With the additional requirement of managing frequency under DSM, the pressure on Ancillary Services would be further increased. Though it is envisaged that some additional capacity, other than existing RRAS capacity may be available through market, however, availability of such capacity will only be ascertained on launch of Ancillary Market. Therefore, while adopting centralized approach is a great step, it is essential to examine the impact of the proposed regulations on the Ancillary Services to avoid any market distortion.

5. Enabling provisions for creation of Balance Responsible Party (BRP)

As discussed above, the Centralization approach may put pressure on ancillary services. To overcome such pressure, balancing aggregators may be introduced in line with the concept of Balance Responsible Parties (BRPs) prevailing in the developed markets. A BRP is an entity that overlooks the balance of one or multiple grid connection points. The BRPs portfolio is also called the balancing group. The BRP composes a balanced portfolio by combining injection and drawl entities. Each generator and buyer in the grid are obliged to have a contract with a BRP. Alternatively, the entities can be their own balancing responsible party.

The proposed regulations restrict entities to deviate from schedule therefore principally all market parties have balance responsibility. The case of introducing BRPs become more evident as the Load Despatch Centers will only be doing reactive balancing which may lead to spikes in the balancing price (Ancillary service charge) in periods wherein the entities have not managed to balance themselves. India has already gained some experience in terms of Qualified Coordinating Agencies (QCAs) which act as balance responsible parties for renewable generators. Therefore, it is suggested that an enabling provision for Balance Responsible Parties (BRPs) may be incorporated to assist the system operator to balance the system.