

Torrent Power Limited - Comments/ Suggestions on Draft DSM Regulations 2021

At the outset, we would like to highlight that there exists huge variation in adoption and implementation of the DSM Regulation for Renewable Energy in Center and State. For example, Renewable is considered on schedule basis by Center and on actual basis for State. Further, there are different sets of regulations concerning deviation for RE Energy. For successful implementation and also to avoid disputes in future, clarity is required about back-to-back implementation of DSM Regulation in Center and State.

With this background, our comments on draft CERC (Deviation Settlement Mechanism and Related Matters) Regulations 2021 are as under:

1. Regulation 5(2)- Adherence to Schedule and Deviation read with Regulation 7- Normal Rate of Charges for Deviation

- The proposed mechanism seeks to move away from the composite market-based mechanism (followed by intervention from Grid operator for controlling grid frequency) to a centrally controlled mechanism entirely in the hands of the Grid Operator i.e. Load Despatch Centres (LDCs).
- Currently prevailing framework of the DSM has evolved over years wherein the initial control of frequency was based on market forces, followed by intervention of LDCs in form of Ancillary Services, etc. These systems have evolved over a period of time and have worked effectively with consistent improvement in the frequency profile. Hence, any such measure which centralizes the operations and takes away market forces does not augur well and may prove to be ineffective and detrimental to the grid operations
- The proposed mechanism will increase the overall power purchase cost since it will always be more burdensome as compared to existing mechanism.
- In fact, Ancillary Services Market, SCED etc. should also be operated through Power Exchanges. This would ensure true discovery of prices of electricity without any intervention by the grid operator.
- Also, the availability of the RRAS providers may reduce over the period as country is towards power deficit scenario (especially during non-solar hours). The same will limit the ability of LDCs to manage frequency in absence of market forces.
- **Hence, it is suggested that existing market-based mechanism for DSM should continue. Further, Ancillary service market should not be considered as a reference point for Normal Rate.**

2. Regulation 6(2) – Computation of Deviation for WS (Wind/Solar) seller

- As per proposed regulation, the percentage (%) deviation for wind/solar seller shall be computed on the basis of available capacity.

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- In this regard, it may kindly be noted that it is difficult to track whether Installed capacity is available or not unless there is a planned outage.
- Further, there is no such specific requirement for planned outages for RE Energy. Hence, Installed Capacity may be considered as available for the purpose of computing % deviation for Wind/ Solar sellers.

3. Proviso to Regulation 7(1) - Normal Rate of Charges for Deviation for period of 1 year or further, as notified

- The draft provides that for a period of one year or such further period as notified, 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; or the weighted average ACP of the Real Time Market; or the Weighted Average Ancillary Service Charge for that time block.
- As per the above proposed mechanism, the DSM rates may reach as high as Rs. 20/kWh (at present price cap in power exchange is Rs. 20/kWh) which is exorbitant and will severely aggravate the financial condition of the distribution companies. Further, the intention of grid operation is to ensure grid security & safety and not revenue generation.
- There cannot be any dispute on the fact that deviation is inevitable. Further, frequency band is also tightened and now there is no room for further squeezing the band. Under the circumstances, proposed mechanism to delink penalty from frequency and treating all the stakeholders with single eye is against the principle of 'Causer Pays'.
- **Hence, without prejudice to our submission that existing mechanism should continue, we request that normal rate of charges for deviation for period of 1 year or further period as notified shall be 'lower' of the weighted average ACP of the Day Ahead Market; or the weighted average ACP of the Real Time Market; or the Weighted Average Ancillary Service Charge for that time block.**

4. Regulation 8 - Charges for Deviation

A. Charges for Over-injection by general seller:

- The proposed regulations provide for penalty to general seller other than ROR and MSW for over-injection beyond 2%.
- It may be noted that a generating station incurs cost towards power generation irrespective of source of generation. Since the proposed regulation has already provided for Zero recovery of charges (as specified in subclause 8(1)(i)) for over injection by a general seller, such Zero charges itself are sufficient deterrence for restricting any generator from over-injection.

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- Further, as per existing regulations, over injection due to operation of governor mode, which is not in control of generator, was compensated by way of Deviation charges. However, the new regulation does not provide for any payment for over-injection even in case of governor operation. Hence, imposition of additional penalty for over-injection would be unjust for the seller who is incurring cost on power generation and not receiving any payment for it.
- **Accordingly, there should not be any penalty to seller for over injection beyond 2%.**

B. Charges for Over-injection / under-injection by WS seller:

- The regulations propose charges for deviation @ 10% of the normal rate of charges for deviation beyond 10% by WS seller.
- There exists variance in actual data as compared to forecasted generation, even after availability of latest forecasting technologies and flexibility to revise generation schedules upto maximum 16 times, due to inherent nature of RE generation which till date remains largely unpredictable.
- In this regard, it is important to note that tariffs of RE projects are very competitive now and leaves almost no margin for various price uncertainties during its operating life. Hence there should be no penalty for deviation by WS generators, if they operate in reasonable dead band.
- However, if Hon'ble Commission deems it necessary to levy charges, then the same should be rational and within operable range of WS generators.
- The limitation of revisions, which, to some extent was offset by having Nil charges in band of upto -15% will only be aggravated on reduction of such band to -10%
- WS generators are also facing historically low generation wind season, which was neither envisaged nor predicted hence, such narrow band of 10% would be severely unjust for the WS generators.
- **Hence, we humbly submit that considering the uncertainty & variability of WS generation and capping on number of permitted revisions, the existing band of -15% should be retained in proposed regulations.**
- **As we all are aware that variation in schedule energy and actual energy is beyond the control of WS generators. The proposed regulations provide for WS generators to payback for shortfall of scheduled energy at contract rate whereas for over injection, WS generators don't get paid for from pool for additional energy injected to the system. Therefore, to balance the interest of WS generators, it is proposed that under injection quantum of WS generation may be paid to the pool at price say minimum of (a) 80% of**

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normal rate of charges for deviation or (b) Wt. avg PPA rate without additional penalty else pool should also pay at contract rate for additional energy injected in case of over-injection.

C. Charges for Under-drawal by buyer:

- The proposed regulations provide that the buyers will neither pay nor be paid for any under drawal.
- Thus, the mechanism encourages Seller to declare Higher Capacity to avoid incidence of over injection as in case of over injection, seller will not get paid for any additional injection whereas for Buyer, the mechanism encourages to forecast demand conservatively to avoid losses as there is penalty for overdrawal and no penalty for Under Drawl. Combination of this may result in serious deficit in the system i.e. actual low generation and higher demand, thereby leading to lower frequency. Further, it will result in artificial demand for Ancillary Service.
- **Hence, in our view, DSM charges should also be specified for under-drawal.**

D. Ceiling in terms of MW for Over-drawal/ under-drawal:

- The proposed regulations provide for limit of 12% or 150MW (as per 8(2)(i))/ 250 MW (as per Clause 3.13 of explanatory memorandum) for RE Rich states.
- We humbly request the Hon'ble Commission to remove the capacity restriction of 150MW/ 250 MW as it does not reflect level playing field for all RE rich states. Such limits cannot be in ignorance of ground realities of increasing RE penetration in select RE rich states.
- Huge variability in the Renewable Energy generation already persists and with more capacity addition including by way of distributed generation like solar rooftop and green open access, impact of such variability will be significantly higher. In such situation, expecting accurate forecasting by Distribution Companies (Buyers) is impractical and may lead to undesirable consequences.
- For smaller States with lower RE Penetration, these limits may be sufficient, however, for RE intensive states like Gujarat, Maharashtra etc. it is practically difficult to adhere to such limits. Proposed mechanism indirectly punish the RE rich State.
- Percentage-based restriction inherently reflects the overall quantum of power being transacted in the Interstate and also sufficient to maintain grid discipline. Hence, we suggest that **either the capacity limit should be removed OR in the alternate it should be increased on the basis of energy exported/ imported in interstate by respective State.**

5. Regulation 8(3) – Charges for Infirm power

- The draft proposes that charges for deviation for injection of infirm power shall be zero.
- In this regard, it may kindly be noted that commissioning of a plant includes base load testing which involves significant expenditure. Further, infirm power before commissioning may not be 'infirm' in nature. Further, it cannot be denied that the generating station will be spending significant resources for infirm power generation. Since the grid will be receiving such infirm power during generation, it is apt that the grid / pool pays for such power.
- Proposed regulations would force the generator to opt for scheduling of infirm power which indirectly promotes the deviation only. Currently, it is well managed by the LDCs through coordinated efforts.
- **Hence, it is humbly submitted that any scheduled infirm power generation may be paid at least at 50% of normal rate of charges for deviation.**

6. Regulation (10)(1) – Schedule for payment of charges for deviation

- The draft Regulations provide for payment of charges for deviation within 7 (seven) days of the issue of statement of charges, failing which late payment surcharge @0.04% shall be payable for each day of delay.
- As per the proposed regulations, DSM accounts are to be issued by Tuesday and the due date has been reduced to seven calendar days.
- We humbly request Hon`ble commission to note that each week would have one or two bank holidays which further reduces the payment cycle to six / five days on average basis respectively. If we are to include any other public holidays observed by various public sector / private banks, then the available time for verifying the accounts and making payment is reduced further.
- In view of the above, we humbly submit that due date for making payments as per existing regulations i.e. 10 (Ten) days may be retained by Hon`ble Commission or alternately, 7(seven) working days be considered.