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Power

Ref.: APMuL/CERC/11112022

Date: 11.11.2022

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To

The Secretary,  
Central Electricity Regulatory Commission,  
3<sup>rd</sup> and 4<sup>th</sup> Floor, Chanderlok Building,  
36 Janpath, New Delhi – 110001

**Sub.:** Comments on CERC Staff Paper on "Power Market Pricing" sought vide Notification No. Eco-4/2022-CERC dated 12.10.2022

Dear Sir,

With reference to the comments invited by the Hon'ble Commission on the above mentioned Staff Paper, we hereby submit our comments on the same with a request to kindly take the same on record.

Thanking You,

Yours Sincerely,

For **Adani Power (Mundra) Limited**



**M. R. Krishna Rao**  
**Joint President**

Encl: As mentioned above

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## Comments on Staff Paper – Power Market Pricing

1. The Staff Paper seems to be on a preconceived notion that in the Uniform Pricing Mechanism (UPM) only the Seller is benefited and not the Buyer. However, the same is not the case as Buyer also get power at lower prices in many blocks compared to the bid rates. This fact can be checked from the block-wise as well as yearly average prices of exchange over the past 10 years.

Illustration: If price discovered in UPM is Rs. 3/kWh, where-in, Seller price was Rs. 2.5/kWh and Buyer price was Rs. 5/kWh than as per the UPM Buyer & Seller will be paying & receiving as per Rs. 3/kWh only.

The benefits of the price discovery in the current mechanism should be done on equitable basis rather than unilateral basis.

2. Since last more than 10 years thermal generators have not been able to recover their capacity charges from sale of power in exchange due to exchange prices being lower or slightly above than the fuel cost of the sellers. This is the specific reason why the balance sheet of almost all the generators were severely stressed which made them either bankrupt or operating at non-efficient PLFs. This lead to banks also coming under pressure with higher NPAs and resulting in either write-off or restructuring by taking huge haircuts.

This implies that the claim being made in the Staff Paper that the generators are making supernormal profit is nothing but a hypothesis. If this was the reality, then there won't have being so many thermal plants ending under insolvency. In-fact on the contrary, if the merchant generators would have made some gains through higher prices in exchange, then it would have benefited the overall economy and also garnered further investment in the sector.

3. Many generators in order to meet their technical minimum generation requirement offer bids at rates lower than their fuel cost. This is with the expectation that the generator shall get the uniform price discovered for any block which may be higher or lower or equal to the fuel cost. It is a big question mark that how many merchant plants will be actively able to participate in the market with the concept of pay as bid.

4. The scenario given in Staff Paper is just for 4 months where-as for the rest 8 months thermal generators have not even recovered the Fuel Cost leave apart the Fixed Cost. Also, the higher prices are only prevailing for few time blocks and not for the complete day. If this would have been the scenario, then there would have been huge investment in the sector which is not the case. So, we need to have holistic viewpoint rather than breaking down into individual scenario.

5. Staff Paper talks only about the upper ceiling of the price and not on pain points which the thermal generators are facing when the price goes down below their fuel cost.

6. The months being quoted i.e. Oct'21, Mar'22 of FY 21-22 and Apr'22, May'22 of FY 22-23 are exceptions which don't reflect the correct picture of the power market over the year. The average rate for FY 21-22 was 4.39 Rs./kWh and without Oct'21, Mar'22 was 3.64 Rs./kWh. Similarly, the average rate for FY 22-23 upto Sep'22 was 6.57 Rs./kWh and without Apr'22, May'22 was 5.67 Rs./kWh.

7. The 3 year, 5 year, 7 year and 10 year average of power exchange rate are as shown in table below:

(all figs. in Rs./kWh)

Month	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Avg. 3 yrs	Avg. 5 yrs	Avg. 7 yrs	Avg. 10 yrs
Apr	2.67	2.79	2.47	2.69	2.71	3.97	3.19	2.42	3.70	10.07	5.40	4.67	4.11	3.67
May	2.36	2.95	2.25	2.06	2.90	4.57	3.33	2.57	2.83	6.76	4.05	4.01	3.57	3.26
Jun	1.95	3.48	2.18	2.23	2.59	3.68	3.32	2.35	3.06	6.49	3.97	3.78	3.39	3.13
Jul	2.00	3.22	2.20	2.10	2.45	3.45	3.38	2.47	2.94	5.41	3.61	3.53	3.17	2.96
Aug	1.77	4.16	2.39	2.08	3.07	3.33	3.32	2.43	5.06	5.17	4.22	3.86	3.49	3.28
Sept	2.81	4.06	3.42	2.35	4.08	4.69	2.73	2.69	4.40	5.63	4.24	4.03	3.80	3.69
Oct	2.47	3.66	2.89	2.40	4.08	5.73	2.71	2.73	8.01	3.82	4.85	4.60	4.21	3.85
Nov	2.56	2.61	2.54	2.25	3.55	3.58	2.85	2.73	3.08	-	2.91	3.06	3.01	2.86
Dec	3.06	2.79	2.45	2.14	3.00	3.30	2.92	2.83	3.54	-	3.19	3.15	2.96	2.89
Jan	2.95	2.59	2.24	2.37	3.19	3.33	2.85	3.18	3.39	-	3.29	3.19	3.05	2.90
Feb	3.01	2.32	2.11	2.39	3.22	3.05	2.91	3.39	4.44	-	3.92	3.45	3.23	2.98
Mar	2.64	2.20	2.40	2.46	4.02	3.06	2.45	4.02	8.23	-	6.13	4.44	4.04	3.50
<b>Avg.</b>	<b>2.52</b>	<b>3.07</b>	<b>2.46</b>	<b>2.29</b>	<b>3.24</b>	<b>3.81</b>	<b>3.00</b>	<b>2.82</b>	<b>4.39</b>	<b>6.19</b>	<b>4.15</b>	<b>3.81</b>	<b>3.50</b>	<b>3.25</b>

It is quite evident from the above table that the thermal generators in none of the average years have been able to recover their entire fixed cost.

8. The concept of keeping an upper price ceiling and no floor price creates imbalances in the power sale market. Further, lowering the upper price ceiling disturbs the averages created over a period of time.

If pay as bid concept has to be introduced with success then it is must to implement a floor price to limit the under recovery of fuel cost of thermal generators to a great extent.

9. As can be seen from Figure-1 of Staff Paper the power exchange transaction are only 7% of the total electricity generation in FY 21-22. However, the power exchange transactions from FY 10-11 to FY 20-21 has only been approx. 3% of the total electricity generation.

This highlights the fact that due to uncontrolled factors like rise in demand, lower fuel availability, high cost of fuel, forced outages etc. led to spurt in exchange volume and the rates.

The Merchant plants which otherwise were operating at sub-optimal PLFs could achieve higher PLF only in these few exceptional months.

## **Points for Discussion**

### ***3.1. Does Pricing Methodology Need a change?***

#### **Our Suggestion**

Pricing Methodology does not need any change. Uniform Pricing Mechanism (UPM) is beneficial to both Buyer and Seller and same is followed across the world and have very well adopted.

### ***3.2. What should be the criteria for Regulatory Interventions?***

#### **Our Suggestion**

Regulatory interventions should be on both side as in current regime the maximum price capped at Rs. 12/kWh in a similar manner floor price should also be kept in order to balance and protect the interest of Buyers and Sellers. Further, the regulatory intervention should be as and when required to take care of the aberration in the market for limited period and upon stabilization the market should be left free to operate. This is clearly visible in the other markets around the world.

### ***3.3. How do we address the negative impact of price cap?***

#### **Our Suggestion**

The price cap in the market should be determine after considering all type of the Fuels.

### ***3.4. What should be the market design for incentivising demand response and energy storage system (ESS)?***

#### **Our Suggestion**

The major demand is coming from Industries and for them Time-of-Day (TOD) has already been implemented where in incentives are given for shifting of load during lean period. The investment towards changing of load profile i.e. new shift to be operated are all cost bearing decision and to encourage them to do so higher discounts in tariff during lean period as compared to peak hours needs to be given.