

COMMENTS ON DISCUSSION POINTS IDENTIFIED IN CERC'S STAFF PAPER ON POWER MARKET PRICING

| Sl. No. | Point of Discussion | Rationale/Suggestion |
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| 1. | <i>Does Pricing Methodology need a change?</i> | <p>The pricing methodology as being currently followed by Power Exchange in India is double sided closed auction, which is a proven practice and is one of the most robust and transparent price discovery mechanism. So, in our opinion it may not be required to change Pricing Methodology.</p> <p>Pay as Bid resembles to that of pool methodology (one side auction model), where generator is envisaged to be paid as per their bid, while it appears that buyer side will have no say on the price, as they will be providing only the demand profile. Demand without price bid, have potential to cause market distortions as the discovered price will become a function of demand, and price bid provided by the generators. Also, the sellers will end up revealing their bidding strategy in the process, which has the potential for cartel related market distortions.</p> <p>The new mechanism if introduced, must address the following issues in current market dynamics, which were also instrumental in sudden price rise in shoulder months</p> <p>A) Low Liquidity in the power market The competitive power market (exchange) is very shallow, and the measures need to be adopted to increase the liquidity</p> <p>B) Lack of new products for risk management perspective such as forwards and futures</p> <p>C) Depth of OTC markets,</p> <ul style="list-style-type: none"> • It is not mandatory for the distribution companies to issue LOI, in case the OTC/Bilateral bid is finalised such as through DEEP/LDC etc. • Operational and Fiscal Interventions for Open Access consumers, which prevents these large consumers to manage their load risk • Lack of options available in OTC markets <p>D) Review of pass-through mechanism for plants under section 63</p> <p>Therefore, "Uniform Clearing Price" pricing methodology may be kept for power price discovery in Power Exchanges to ensure that the power prices remain reliable and robust.</p> |
| 2. | <i>What should be the criteria for Regulatory Interventions?</i> | <p>Regulatory Interventions, in terms of direct price capping may not be most suitable option to adopt for any market, and specifically for Indian power market on account of following: -</p> <p>a) The major demand is catered through Long Term contracts</p> |

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| | | <ul style="list-style-type: none"> • The volume of power purchased from power exchanges, is very low as compared to that being catered through Long Duration contracts. If, the cost incurred for meeting demand through power exchanges, is spread over the total volume purchased by the Buyers (through all contracts), it will not result on phenomenal increase in power prices • The value chain of Long-Term contracts is generally not exposed to market risks. Thus, there is minimum incentive for adopting risk management principles • The price difference between LT bilateral contracts and spot market prices is physiological due to the anticipated moment in time in which the LT contract are negotiated and signed. <p>b) The sudden introduction of cap on prices, provides an extremely negative indication for the robustness of the market structure and is detrimental for development of a derivative market on power exchange traded physical prices</p> <p>As per our opinion, inframarginal generators are not inframarginal because of the cost, but because of the technology and competition, which makes it a must run case in all scenarios. The so called “inframarginal” generators keep generating even when the prices go very low, and do not have choice to stop generation or follow price curve for deciding the generation pattern. Because demand curve is not flat and supply curve for RE power plants (Inframarginal generators) is also not flat, so the probability for these RE plants to remain in the category of inframarginal will be always high, by the virtue of technology and not by choice. The bidding strategy for RE plants is very different from that of conventional power plants. So, levy of any form may not be justified unless, a simultaneous compensation mechanism is defined for the durations where the realisation for these inframarginal generators is abysmally low.</p> <p>Alternatively, rules around already existing separate markets for green power and conventional power can be made more powerful, by ensuring that the total demand will be first through green markets and then the residual demand will be taken to conventional markets, to achieve dual goal of decarbonisation of grid and addressing must run status of green power</p> <p>Now, to safeguard the interest of last resort consumers (retail), the caps may be introduced in the power exchanges with a foreseeable condition by introducing some transparent methodology. The methodology for introduction of the caps must be well captured and trigger to introduce such measures should be well documented, so that necessary measures can be adopted in fully functional markets.</p> |

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| 3. | <i>How do we address the negative impact of price cap?</i> | <ul style="list-style-type: none"> • High Price Segment <ul style="list-style-type: none"> • Since, the market is very shallow, the generating companies with decent merchant capacity will be able to influence market price, by strategizing to participate with substantial volume, in the High Price Segment. Thus, introducing such market may require for establishing a separate validating entity for ensuring fair market practices • Current TAM market can be utilised for catering to this residual capacity • Explore to introduce robust mechanism for OTC markets • Explore to introduce option for mitigating risks in the power markets such as forward, futures etc. |
| 4. | <i>What should be the market design for incentivising demand response and energy storage system (ESS)?</i> | <ul style="list-style-type: none"> • Ensure ToD tariff across the Distribution Companies in Pan India basis, for all consumer categories, to create awareness and market for demand response <ul style="list-style-type: none"> • The above option would encourage load intensive customers to shift their requirement to off peak hours, thus would help in reducing peaking requirement. • Explore option to introduce two separate time zones from East to West, to shave peaks in adjacent regions • Defining role of demand aggregators to participate in the Demand Side Management (DSM) • Discoms to be encouraged to host DSM platforms, and introduce measures such as option of introducing Incentives for operating at higher load factor during off-peak hours (above 80% LF) in addition to the lower TOD tariff during off-peak hours |
| <i>Other Options for Market Development</i> | | |
| 5. | <i>Pool Methodology for already operational Long-Term Contracts</i> | <ul style="list-style-type: none"> • Optimization of central generating assets through schemes such as SCED, MBED, MOP's envisaged optimization through NPC etc., are far reaching initiatives and continued focus is required for such initiatives <ul style="list-style-type: none"> • All the LT tied up power needs to be routed through central dispatch at ex bus i.e., generator bus or STU connectivity with the CTU network (Distribution companies to bid for STU connected power plants) • MBED can be introduced, in a sperate market structure to be operated by NLDC in line with SCED |

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| 6. | <i>Integration in Value Chain</i> | The conventional merchant plants are generating power for the usage in India, but at present this merchant capacity has reliance on spot coal. These merchant-based plants must be allowed to tie up coal for longer duration, to mitigate the fuel risk Introduce measure for increasing the domestic coal supply |
| 7. | <i>Introduce Opportunity for Risk Mitigation by introducing Financial Contracts (Forward & Futures)</i> | Ensure High Liquidity backed by Risk Mitigation Financial Products CFDs to be allowed Measures to be introduced for ensuring Higher Predictability of the price Lower paying customers (retail) can be safeguarded by Govt Packages/Interventions, in times of very high prices |
| 8. | <i>Introduction of fully functional Ancillary Market</i> | Need to introduce special incentive provisions for RE based ESS Support mechanism for stranded gas-based plants that can operate during peak hours |