Annexure-I

Comments on CERC Staff Paper on Power Market Pricing:

Sno.	Clause	Comment
1	**2.2** However, due to a uniform price for all type of market participants who are cleared, all sellers who bid lower prices get an extra profit (difference of the UMCP and the bid price), which constitutes the seller's surplus. Owing to the recent events in the electricity market with prices reaching alarming levels, concerns have been raised that some sellers are making huge gains in the market due to this market auction design. This has prompted the regulators and policy makers to analyze different possible pricing methodologies	**1.** As the staff paper itself says that Uniform Pricing method is used worldwide for price discovery in power exchange, it is a successful price discovery mechanism which perfectly evens out demand and supply, giving right incentive to seller and best price to the buyer. **2.** this method is also in use in India for past 14 years and has been quite successful **3.** PX prices have always remain stable except for few occasions for few days, when price rise was not due to Pricing methodologies but due to **shortage of coal** all over the country. Pertinent to note that during these times, OTC prices also rose exorbitantly. **4.** During past 10 years the monthly IEX Prices have remain low most of the time. **82% of time prices have remain lower than Rs. 4/kWh.** However **there were only 3 instances in last 10 years when monthly average IEX prices have been very high i.e. more than Rs. 7/kWh** (See Annexure-1 for detailed analysis of IEX Prices)
2	**2.3.3**. **Pay as Bid** – Prices paid to the cleared sellers are based on the sell bid offered by the respective seller. Thus, each seller is paid a different price tied to the bid offered by them and these prices are not dependent on the price of the most expensive seller cleared to meet demand.	Apart from the disadvantages of such approach listed down in the staff paper itself (Table 2.3.5 Clause) there will be following disadvantages also: 1. This will discourage power suppliers to participate in PX as there will be no premium for them. 2. Many a times thermal power generator put minimum price bid (10 p/kWh) due to issues like technical minimum schedule etc. In such a case if they are paid @ bid price, it will be huge loss to them. 3. Alternately they will not quote such low tariffs but will quote a tariff higher than their variable cost, in such a case MCP will be higher, thus buyer will end up paying more. Hence such pricing method shall be a hara-kiri for power markets.

3	**Clause 2.3.5 (Table -2):** **Pros:** 1. May decrease electricity prices, as the reference price would become the average cost of production instead of the marginal one as in case of pay-ascleared (UMCP)	On the contrary, it will increase the power prices as it will compel sellers to quote higher prices that will raise the reference point for MCP hence MCP will rise which will result in buyers paying higher prices thus costlier power to the consumers.
4	2. Promotes market competition	Since such an approach will discourage Power suppliers to participate in PX as the incentive to bid in PX is lost, less supplier will bid in PX and will prefer to sell their power through other methods like OTC and DSM, hence this approach will rather be detrimental for Market competition.
5	2.5.2: Long-term measures proposed by ACER	Please note that Long term measures proposed by ACER insists on correcting demand side like better Demand side management, shifting to renewables etc. It may be noted that there is no proposal for correcting pricing methodology of power markets.
6	2.5.3.3. On 1st April 2022, the Commission directed the power exchanges until further orders, to re-design, with immediate effect, the bidding software in such a way that members can submit their bids in the price range of Rs.0/kWh to Rs.12/kWh for DAM and RTM	It may be appreciated that despite of curbing DAM and RTM market to Rs. 12/kWh, the power prices in Short Term Market and TAM Market were way above the threshold of Rs. 12/kWh. The volumes sold in TAM and OTC market also rose exorbitantly in April & May 2022, which further led CERC to cap the OTC market also at Rs. 12/kWh
7	**3.2.1** Market power is what should be a matter of concern. That is, as a matter of principle, is intervention in the market is justified when the price spike is a result of market power or misuse of market position by supplie**rs**	A better way to prevent misuse of market position by the suppliers is to cap the maximum bid price, which CERC has done a few times in the past. Since the market abnormality is temporary in nature, it is prudent that only temporary solution shall be provided so that the basis of market design is not disturbed. Further already successful criterion for price discovery should not be tampered with.