11.11.2022

To
The Secretary,
Central Electricity Regulatory Commission,
3rd & 4th Floor, Chanderlok Building, 36, Janpath
New Delhi-110001

Subject: Comments/Suggestions on "Power Market Pricing"- reg.

Reference: CERC Public Notice No.: Eco-4/2022-CERC dated 12.10.2022

Dear Sir,

We wish to introduce ReNew Power Private Limited ("ReNew") which is among the top and fastest growing renewable IPPs in the country. ReNew is in the business of developing wind, solar and hydro power plants and has more than 12,000 MW of operational and under construction wind, solar and hydro projects spread over multiple states.

This is in reference to the notification issued by CERC on its website inviting comments/suggestions on Power Market Pricing. Accordingly, we are hereby enclosing our comments as '**Annexure-I**' for your reference.

We request your good office to kindly consider our comments/suggestions while finalizing the staff paper.

Thanking you.

Yours Sincerely,

Smarajit Sahoo

for ReNew Power Private Limited

Annexure-I

ReNew Power Submissions:

1. Pricing Methodology need no change

Current pricing methodology i.e. uniform price auctions adopt the principle of maximization of economic surplus. This widely accepted methodology is not only technology neutral but also provides price signals and encourage investment in the merchant segment.

The other mechanism i.e. pay-as-bid, at first looks more sensible as why pay a higher price to a supplier than the price at which he or she offers to sell the product and this is the reason that pay-as-bid is frequently promoted as a way to reduce consumers' overall expenditures for wholesale power.

However, various studies have concluded that switching to a pay-as-bid approach would likely produce just the opposite result. This counter-intuitive outcome stems from the propensity for strategic bidding behaviour, as well as the resulting inefficiencies in plant dispatch and capacity investment. Pay -as-bid not only encourage sellers to offer high bid prices but also promotes speculative bidding and reduces transparency of prices.

Also, a change in auction design would do little to address other pressing market concerns, including ensuring adequate transmission and generation resources and increasing the role of demand response/ ESS.

2. Regulatory interventions

Any kind of market intervention is not required as long as price discovery is a result of market forces and is through transparent process. Any consistent occurrence of price surge, market abuse may require a close watch but shouldn't necessarily lead to alter the market rules and fundamentals. As a matter of fact, presently also, there are enough checks (like HHI index etc) to monitor market concentration.

Principally, the rules of the market should be standardised and such that the discovery of the price represents the true demand supply scenario (surplus or deficit) for respective month(s) of the year/day of the month/hour of the day

It is a well-established fact that frequent alteration of market rules creates regulatory uncertainty and fears of regulator opportunism, which may discourage investment in new generation facilities.

3. There should not be any Price cap

Natural evolution of market is that first spot market is developed, and once there is enough liquidity and critical mass is achieved developed leading to reliable price discovery, then derivatives are introduced. However, capping the price would distort the reference price and hence against the spirit of deepening of market and expanding the product base to future contracts which is essential for growth of Indian power sector.

Also, the statement that generators make supernormal profits doesn't hold good for the entirety of the project life as despite price surge for a while, doesn't guarantee project viability as the developer still runs the risk of merchant exposure and some of the IPPS are still NPAs. Barring few months, they are not able to recover their fixed cost through market and there could be a counter argument that if we are capping the profit, loss should also be safeguarded by having a floor price

Further, capping the revenue or market price would discourage investment in merchant segment and developers will be restricted with long term PPAs. This will be a backward step and is contradictory to the India's vision of deepening the power market.

Also having different market segments w.r.t. variable cost of sellers would impact the overall liquidity of the market. Recently proposed "High Price Market Segment" is again fragmenting the market and has its own operational/technical limitations. Technology-wise cap also will distort the market.

4. Market design for incentivising demand response and energy storage system (ESS)

- It is worth mentioning that for ESS & demand response too kick in it is imperative that the true price signals are provided. Any regulated price will lead to such required capacity not getting added.
- Developers seek true price signal (which is possible in uniform price methodology only) and minimum regulatory risk (regulatory interventions)
- Innovative products/segments should be introduced where certain portion of fixed cost could be guaranteed e.g. capacity contracts plus CFD market mechanism
- Time frame of market products (which is currently 3 months) should be increased

5. Other Suggestions:

It must be understood that price rise is caused by demand behaviour and instead of capping seller's revenue, steps should be taken to manage the demand side more efficiently. In other words, inefficiency should not be protected, rather efficient demand planning and resource adequacy planning should be promoted. The policy and regulatory environment should support innovative products like Contract for difference (CFD) etc.

To conclude all the efforts should be made to increase the product offering instead of controlling the market too much. Ensure that Electricity derivatives are introduced at the earliest so that both buyers and sellers can hedge. Also, longer duration contracts with daily scheduling to facilitate Renewable participation in the market.