

Views/Comments upon Staff Paper on Market Coupling by Central Electricity Regulatory Commission published in August 2023

CERC has published the “Staff Paper on Market Coupling” in August 2023 inviting comments/views from the stakeholders. We M/s BMM Ispat Limited have perused the staff paper. We are completely against the proposal of market coupling and consider it apt to put forward few points for the consideration of the Hon’ble Commission.

The argument for market coupling is primarily focused on three key objectives which are determining single price, improve transmission corridor management & availability and maximize the social welfare. However, market coupling requirements as per the issues highlighted by hon’ble commissions require an extensive examination. Market coupling as a concept was introduced in Europe in 2006 but in a phased manner with transnational merger happening between countries of France, Belgium, and the Netherlands. Subsequently, 15 different European countries introduced a nation-wide market coupling in the year 2014. By 2023 the European electricity wholesale market is highly integrated with 27 countries & 30 transmission system operators participating in market coupling. The prime objective behind coupling of power exchanges in Europe was to integrate market of different countries & thereby leading to optimization of cross border transmission infrastructure with respect to both capacity allocation and congestion management and achieving the same by price convergence of electricity between the integrated markets. However, if the same rationale is applied for India, it will be a flawed structure for the reason being there are multiple prices that prevail in the country which stand unique to each power purchase agreements (PPA).

In the Indian context coupling will not create any additional value as the country has a voluntary market model in line with power market regulations where multiple power exchanges operate and compete at national level and therefore provide scope for trade in various products in the market. As a downside of coupling, it will increase operational cost, cost to access the market, create unwarranted rigidities & stifle innovations in the market there by defeating the very purpose of the reforms that were bought by EA 2003.

In the Indian context the objectives of market coupling seem already being achieved as all the regions and states are integrated geographically. The price coupling of power exchanges in India will undo all the progress and market development which introduced open access, efficiency, transparency, healthy competition & social welfare will all be diluted.

Therefore, the proposal to introduce market coupling seems a non-starter as it is neither beneficial for the generators or investors or for the market while requiring significant fundamental and structural changes.

Summary of Views for Conventional Power Generation Companies:

- 1. Reduction in operating profit margins and risks of price erosion would negatively impact the power generation companies-** Power generation involves higher capital and operating costs. Coupling being a pre-cursor to MBED will lead to price pooling at national level, in which the prices shall be determined by marginal cost of generation and therefore, the power companies would struggle to compete with lower cost alternatives. Chances for the low-cost generators would become higher to drive down the overall market prices. This can lead to price erosion and erode the profitability of power generation companies, impacting their business negatively. Also,

the power plants already have longer start-up times and thus would be less responsive to frequently changing demand patterns which further would limit their ability to compete effectively in a coupled market.

2. **Regulatory and Policy Uncertainty in Power Market:** Regulatory & policy uncertainty in the short-term market will lead to a reduction in investment incentives which will account for reduced power generation capacity and impact the resource adequacy plans of the Central and State Governments. Challenges may evolve to meet the peak power demand in the country post market coupling introduction. The introduction of MCO and price pooling may influence the competitiveness of different technologies. Conventional power generation companies may be uncertain about which technologies will be favored or required under the new regulatory framework.
3. **Disruption of entire value chain starting from coal mining, logistics to operations of thermal power plants resulting in job displacement:** If thermal power plants, which are major consumers of coal, face reduced dispatch due to price pooling, there will be a decrease in demand for coal. This can lead to reduced production and potentially job losses in the coal mining sector. With reduced demand for coal, there may be less need for transportation and logistics services associated with coal delivery to power plants. This can impact jobs in the transportation sector. Furthermore, if thermal power plants face reduced dispatch and operational hours due to price pooling, they may need to reduce their workforce. This can lead to job displacement for workers involved in power plant operations.
4. **Grid stability would be impacted along with impact upon ancillary services of frequency regulation and reserves will be a steep challenge to handle:** Conventional power plants, especially those using fossil fuels, play a critical role in providing dispatchable power that can respond quickly to changes in demand. If these plants are dispatched less frequently due to price pooling, there may be a reduction in availability. Frequency regulation is crucial for maintaining grid stability. Conventional power plants have historically played a key role in providing this service due to their ability to rapidly adjust their output. Reduced dispatch of these plants could challenge the grid's ability to regulate frequency effectively. Further, ancillary services like spinning reserves, non-spinning reserves, and reactive power are essential for maintaining grid stability. Conventional power plants are typically equipped to provide these services, and their reduced dispatch may lead to limitations in the availability of these critical services.
5. **Risk of Unilateral Price Capping in the Market leading to Market distortion & reduced supply in the Market:** If a government entity (NLDC) takes the responsibility of Market Coupling Operator (MCO), the power will be with the government to extend unilateral price capping in the market leading to Market distortion & reduced supply in the Market. Presently, the govt. remains cautious about imposing any arbitrary caps due to involvement of all the stakeholders including the existing three exchanges. With a govt. entity as an MCO, no one else will be required to consult for the same.
6. **Impact on cost economics of state gencos, IPPs and merchant power plants post coupling:** Conventional power generation companies may struggle to be competitive, especially the IPPs and State Genco's who have higher operating costs which may be induced by market coupling which is deemed as a pre-step to introduce MBED. Further, the IPPs and State Genco's may be utilized only for TRAS market which has no visibility of returns leading to the poor financial stability of such plants. Consequently, chances of creation of more stranded assets for the conventional power generation companies would be enhanced post introduction of MBED. Managing higher fixed costs for merchant power plants will be a challenge post introduction of market coupling which would act as a precursor to MBED as it would be leading to price volatility

in the market. This would lead to a negative impact on the existing merchant capacities and no investments would be likely for future capacities as well.

7. **Lack of clarity on Clearing and Settlement mechanism post coupling:** Currently, since the clearing and settlement is also handled by the power exchanges the generators are assured about timely payment corresponding to their supplies. This is the only market segment wherein owing to presence of power exchanges the generating companies are safeguarded from the precarious financials of the Discom. With introduction of market coupling there is a lack of clarity on clearing and settlement mechanism leading to high financial risk to the generators with regard to timely pay-out of their supplies.

In view of the above, the Hon'ble Commission is requested to conduct a detailed independent study on the market design rather than taking such steps like market coupling in an isolated manner. The market design should reflect the current need of the power sector and should be conducive for all the stakeholders.

Therefore, before proceeding any further on the proposed mechanism in the Staff Paper, the Hon'ble Commission is requested to deliberate on the following:

1. **Rationale of market coupling in Indian Power Market?**
2. **Objective of market coupling in Indian Power Market?**
3. **Need of market coupling in Indian Power Market?**