

Electricity Department of Goa (EDG)

Comments

On

CERC Staff paper

On

Market Coupling

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1. Introduction

Market Coupling is expected to play a crucial role in improving how prices are determined in the Power Market as a whole. It is anticipated that this will reduce price differences among Power Exchanges in collective segments, leading to increased trading activity and lower costs for consumers. But, before implementing market coupling in the Indian power market, we need to conduct a study to justify its necessity, as there is currently no supporting empirical evidence for the same.

2. Benefits and drawbacks associated with Market Coupling in perspective of DISCOMs

Benefits	Drawbacks
Market coupling can promote integration between different regions and countries, allowing DISCOMs to tap into a broader market and diversify their energy sources.	Market coupling might make it harder for DISCOMs to understand how the market works. This complexity could be a challenge for DISCOMs, especially those with limited resources, in grasping how market dynamics and pricing mechanisms will operate transparently.
Coupling can provide DISCOMs with access to a broader range of electricity suppliers and market participants, increasing their options for sourcing power.	DISCOMs ability to make informed power procurement decisions will be affected.
Market coupling can improve price discovery mechanisms, enabling DISCOMs to procure electricity at more transparent and competitive prices. This can lead to cost savings.	DISCOMs will no longer be able to benefit from the Power Exchange's leverage of market insights.
Merging buy and sell orders from multiple exchanges increases trading volume, making it easier to buy or sell assets without affecting prices significantly, thus improving liquidity. This consolidation also leads to more accurate pricing, potentially resulting in lower prices (Market Clearing Price - MCP), attracting new market participants due to the enhanced trading environment.	DISCOMs will need to adapt to the new market, which brings uncertainties about prices, market behaviour, and signals from other participants. Planning and budgeting become difficult in such a scenario. Moreover, global implementations of market coupling have often brought changes in regulations and market rules, adding compliance burdens for DISCOMs.
Over time, these exchanges have become well-versed in handling the intricacies of the matching engine and incorporating new bidding structures. Their collaborative approach would be beneficial, as they could collectively provide more value to market participants and offer aligned suggestions.	Coupling power exchanges will eliminate product differentiation and hinder short-term market innovations. Since exchanges mainly collect bids, they may not prioritize product or market innovation. As a result, there will be fewer choices in terms of products and bid options on power exchanges, which could be harmful to DISCOMs' interests.
A rotating system where the three exchanges take turns acting as the Market Coupling operator will help in rapidly implementing market coupling.	With market coupling taking place, the competition among the three Power Exchanges will be reduced to just fees. This may result in diminishing of different power market products/services provided by them.

3. Need for considering the Market Coupling –

- * Indian market having mere 7% share of Power Trading through Exchanges.
- * Optimal use of transmission infrastructure.
- * Since Indian power market is slowly shifting towards cross-border electricity supply, there will be a need to optimise the market liquidity for International Energy Trading.
- * One should also consider the example of the European Power market and how the implementation of the Market Coupling was a success for them. Like the EU, India also has a diverse geography, and hence, a more coordinated and economic approach towards resource adequacy will be a game changer for the power supply-demand scenario.

4. Stakeholders to get affected by the Market Coupling –

- * Three Exchanges (IEX, PXIL, & HPX)
- * DISCOMs
- * Independent Power Traders.

5. EDG Analysis:

- * In the current Indian power market, IEX is dominating in the market segments like Day Ahead and Real Time markets. PXIL is only surviving in Term Ahead market segment and HPX has negligible presence in any of the market segments.
- * This disruption of market share is causing an unhealthy competition among the players.
- * For the competitors to survive, a uniform mechanism for price discovery seems like an opportunity in disguise.
- * This transition will directly benefit some stakeholders and indirectly detriment others.
- * A pilot project can be implemented based on the past, present, and future data of the sellers and buyers. The analysis will open many unidentified results and the stakeholders will get more information regarding this market transition.
- * Also, there should be more focus on the modernisation and up gradation of ISO (Independent System Operator), i.e., Grid-India (NLDC) for managing of the impending congestions in the electricity grid.
- * Finally, the market Coupling should not only be utilised for price discovery, but also for regulating the power trading market and help utilising the resources effectively and efficiently.
- * Hence, more research and time is needed to further substantiate the role of Market Coupling in the current Indian Power Market.