Ashutosh Sharma via nic.in
to me 11:11 AM (4 hours ago)

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To: "Ashutosh Sharma" <ashutosh.sharma@nic.in>, "Harpreet Singh Pruthi" <secy@cercind.gov.in>
Sent: Sunday, September 10, 2023 4:44:00 PM
Subject: Staff Paper on Market Coupling - View from an Investor - Itus Capital

Dear Ashutosh and Cerc team,

I am writing to you as the Co-founder and fund manager at Itus Capital. We are a USD 120mm fund with offices across Chennai and Houston and are currently shareholders of IEX. I am writing to you as a part of providing feedback on the Staff paper on Market Coupling that was provided by the CERC and where public opinion was requested.

Background to the Market Coupling :

The power industry is a crucial industry as it is a regulated entity which has large scale impact on the country's growth at large , in turn having a direct impact on the country's GDP growth. The CERC plays a crucial regard in this context and ensuring there is adequate growth of the power market with increased efficiency and transparency. So, the steps CERC are taking are absolutely essential in this regard.

History of Market Coupling :

a. As the paper rightly points out, the European countries introduced market coupling as a mechanism to bring in a one grid one price mechanism across countries as the power generation and pricing across countries were at different prices. Moreover, when coupling was brought in, the central exchange which matched prices continues to be owned privately as it has significant investments to make in technology.
b. Taking another country as an example, where coupling is being spoken about, China, the Poliburto is looking at a central exchange to be created by 2030 (the total volume of power trading on the exchange is at 44%)

In both the jurisdictions (where we have a history of market coupling), the exchange volumes was significant (in excess of 35%) before the concept of coupling was looked at.

Why is this important ?

India is in a unique situation of growth, where manufacturing is today the essence across our GDP growth. This is going to drive a significant impetus on power production, and more importantly ensuring that there is no supply-demand mismatch across producers and consumers. This is a time where the role of the exchange becomes vital, and exchanges must be incentivised to invest additionally in technology to support the power offtake and trade.
Separately, the government has announced its mandate and willingness to have a 10% contribution of renewables into the power generation eco-system over the next 10 years. This again creates a large opportunity (and an investment) for an exchange to introduce additional products (in the form of green energy, solar and carbon trading) to ensure wide-scale distribution and transmission of power from the producers to the consumers.

At a time, where an exchange needs to be incentivised to invest, creating market coupling will nullify the role of the exchange. Exchanges will act as pure data feeds and can cause detrimental impact on the role of the power eco-system. This can have second-order impacts in the power eco-system that we do not plan for (For eg : One of the reasons, the power lenders like REC and PFC have clean balance sheets and have created value in the last 3 years is because of the role of the exchange played to ensure collections and counterparty risk have been minimised. Creating something detrimental to exchange growth would not serve the purpose of what the country needs today).

Building Competition

As is pointed out by the staff paper, market coupling has been proposed by competitors to increase competition. It is right from their perspective to propose this, but it misses the bigger picture.
Once the volume of the overall exchanges in India increases along the lines of Europe and other developed countries (from the current 7% to 30%+), this will automatically increase the volumes of other exchanges (We have the case in point in the equity markets in India, like the BSE and NSE where both continue to invest significantly in technology to win market share and create value for the participants).

While the CERC must keep an eye on competition, it will be a lot more meaningful for the country and the economy to do that once the exchange contribution becomes meaningful (after the contribution reaches 40% and above).

Instead, the CERC can always impose tighter audit requirements from the exchanges to ensure that each exchange comply with regulations and are tightly always monitored with respect to guidelines.

Investment Mandates

As you are aware, an exchange is an infrastructure layer that attracts significant investments both from domestic and foreign capital (included). One can always look at the capital NSE has attracted in the last 15 years of its growth. One of the core aspects capital looks for is stability in rules and regulations. Each exchange was given a 25-year license and an operating mandate to promote the industry. IEX since its inception, has operated within its mandate and ensured that the power sector in India has grown for all stakeholders within the industry, included. Changing the rules of operation when the market is not yet deep, will create uncertainty and doubt in all stakeholders and can cause second-order disruptions in the power volumes, at a time, we should be focussed on the growth of the industry, which forms the backbone of the economy.

With the above as the background, I sincerely hope the CERC, and the committee will reconsider its stance of coupling and instead look at increasing the role of the exchange and volumes on the exchange to ensure a thriving eco-system.

I thank you again for your time and I do sincerely hope you take the above into consideration.

Naveen

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