



Comments / Suggestions on CERC Staff Paper on Market Coupling

The Central Electricity Regulatory Commission (CERC) plays a pivotal role in shaping the regulatory framework for the power market in India. The Power Market Regulations, along with their periodic amendments, serve as a cornerstone in fostering competition and transitioning towards market-based mechanisms within the electricity sector.

The existence of robust regulations has ensured smooth functioning of one of the largest grids of the world and has brought disciplines among the market participants. The introduction of Exchanges for fair price discovery is the testimony to that and the active participation of power exchanges contribute to the dynamism and vitality of the electricity sector. These mechanisms facilitate fair competition, transparent price discovery, and the efficient allocation of resources, ultimately benefiting both industry stakeholders and consumers. Through continuous regulatory efforts and adaptations, the Indian power market can continue to evolve towards a more competitive and market-driven environment, ensuring a reliable and efficient supply of electricity to meet the nation's growing energy needs.

Multiple Exchange Model was introduced to bring more competition so that better services can be offered to the market, however, it is observed that despite the launch of other exchanges and having the comparable or superior technology, the bids are converging to only one Exchange. This suggests that factors beyond better technology and services are at play in the decision-making process of market participants. In many instances, these exchanges only receive either buy or sell orders, preventing the completion of a two-sided auction process, which is not conducive to a healthy market environment. When the price is touching to the ceiling price, some trades are observed in other two exchanges that shows market participants want to participate in other exchanges but only when the prices are similar in all the exchanges. This underscores a gap in the market design that favours the established exchange.

Ministry of Power has recognized the market design challenge and has taken a proactive step by writing to the Hon'ble Commission in its letter dated 02nd June 2023 to expedite the implementation of the market coupling.

CERC notification *No. Eco-14/1/2023-CERC* dated 21st August 2023 seeking comments on the Staff Paper on Market Coupling is a welcome step towards implementation of this long pending market reform. We believe that Market Coupling would act as a key milestone in the development of the Indian Power Market that would enable a more robust price discovery in the collective market segments, supporting the One Nation, One Grid, One Price mission of the government.

We further submit our views on all the points mentioned in the staff paper in the below paragraphs:
The following are the key points in favour of the implementation of market coupling.



- 1) Diverse options for Power Exchange:** Relying solely on a single power exchange may not align well with the evolving market dynamics, especially as more renewable energy (RE) capacity is added to the generation mix. While framing market design, choice to market participants shall be the prime focus for fostering competition in that market so that participants can choose based on the services offered by the Exchanges and any compulsion to fulfil requirement from single source shall be avoided.
- 2) Addressing Liquidity and Monopoly Concerns:** The absence of liquidity in some exchanges is not due to technology but rather to the fear of price differences. It is evident from the Term ahead Market (TAM) where all the three Exchanges are competing and having a considerable share. Recently launched long duration contracts also suggest that when three Exchanges are competing, better services are offered to the market as liquidity in all Exchanges will give enough avenues for each exchange to innovate. Market coupling can address this issue and prevent the creation of a monopoly that is not in the national interest.
- 3) Promotion of Innovation:** Monopolies can stifle innovation, while competition promotes it. Market coupling can encourage multiple exchanges to innovate and offer products tailored to the specific needs of RE players, fostering overall development in the power market.
- 4) Price Stability for RE Integration:** The addition of 500 GW of renewable capacity will lead to a significant increase in power trading through exchanges. Market coupling can help prevent a significant price drop due to increased competition among generators bidding for the lowest price, which could send the wrong signal to the market for future investments. This would support the government's commitment to renewable energy integration.
- 5) Signalling for Storage Technologies:** Market dynamics and power prices at exchanges provide signals for developers and technology providers in the storage domain to make longer-term investment decisions. Market coupling can enhance these signals, facilitating the integration of schedulable RE power and storage technologies.
- 6) Adaptation to Market Growth:** The Indian power market is growing rapidly, and new market-based instruments are expected to be launched. Implementing market coupling at this juncture can help the exchange market evolve during these transformations.
- 7) Risk Mitigation:** Market coupling can provide Risk mitigation mechanism such as hedging opportunities and access to broader market, which can benefit both generators and consumers. It can help market participants manage price volatility and uncertainties in supply and demand.

Market coupling will not only bring competition within the Exchanges but would benefit market at large by opening different avenues to the market.