Oct. 15, 2023

Shri Harpreet Singh Pruthi
Secretary
Central Electricity Regulatory Commission
3rd & 4th Floor, Chanderlok Building
36, Janpath, New Delhi- 110001

Subject: Comments on CERC Staff Paper on Market Coupling

Dear Shri Pruthi,

This is with reference to the Public Notice dated 21th August, 2023 for the Comments on the document, **CERC Staff Paper on Market Coupling.**

I have gone through it and record some of my comments on the same. Additional suggestions are also provided for consideration of the Commission.

I would be pleased to address any clarification, if required.

Thanking you,
Yours sincerely,

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Comments on

CERC Staff Paper on Market Coupling

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1. **Market Coupling - Need:** The Indian power market is characterised by geographical market coupling, similar to the one in the context of the European market. While coupling may theoretically bring economic benefits, it carries numerous challenges in its implementation.

   It is also important to understand the reasons the reasons for the inability of the smaller exchanges, one of which has been in the market for long, has not been able to make a mark in the key market segments. Apart from the bidding design (i.e. closed auction especially for the DAM and RTM market segments), perhaps certain business practices hasn't allowed others to gain market share in the key segments. Alternative effective steps may be identified to address specific challenges of the participating power exchanges.

2. **Market Coupling – Distributional Impact:** While the objective of the proposal seems to be premised on the enhancing competition, it is also important to know if the dominant power exchange has misused its market power to influence its market share. If not, the distributional impact on a market player that hasn't misused its dominant position may seem an overstretch. Furthermore, in the short-run, there would be miniscule 'economic gain' as the volume in the other two power exchanges is very small. In the long-run, this would essentially become a tool for redistribution of market share.

   It would improve business prospects for the power exchanges, which face liquidity risk for some of the market instruments at the cost of the one that has built is clientele base perhaps through relatively more transparent business practices.

3. **Derivative as a medium of Information Transmission among Power Exchanges:** The discussion paper aims to bring the idea of coupling of existing power exchanges across the country. One of the main reasons to implement the same could be to allow the transmission of information across the power exchanges. Currently the power exchanges operate in isolation such that the bid information of one exchange is not visible to other exchanges. One of the implications of the same is the diversion amongst the discovered clearing prices on the power exchanges.

   Derivatives market provides a platform for risk hedging. In the process, there is two way information transmission between the energy and the derivatives market. Another way of transmission of information between different exchanges can be through the derivatives market, wherein the underline of derivatives will be the MCP discovered under IEX since it is the largest and most liquid power exchange in the country right now. **Participants on the smaller exchanges can hedge against the diversion in those exchanges vis a vis the largest exchange, through derivatives (e.g. a futures contract) on the underlying DAM/RTM price on the largest power exchange.**

4. **Entry of Non-serious Players - Minimum Net-Worth Criteria for a Power Exchange:** The coupling of power exchanges will reduce its role from the discovery of MCP to a role of collecting and submitting the bids to the Market Coupling Operator (MCO). This will lead to the reduction in the capital expenditure requirement for an entity the play the role of exchange in the country, which can ultimately lead to an argument in favour of a reduction in the net-worth criteria of the power exchanges. This would open gates for more such bid collecting platforms seeking business license with a potential risk of enticing non-serious participants that may expose the market to a risk due to one of such platforms going out of business[1]. The reduction in the net-worth criteria for PXs can thus lead to the increase in inefficient services, frequent licensing and de-licensing of entities, etc.

5. **Uniformity of Bid Design and Impact on Innovation:** Market coupling can only be implemented if all power exchanges have exactly same product with applicable bid types. It is important to highlight that power exchanges do differ in the context of bid types permitted across such platforms, even for the same product segment, for example, DAM/RTM products differ across exchanges in terms of allowable bid types.

   Market coupling would thus impact product innovation, as coupling would enforce uniformity of product.

6. **Dilemma of the Settlement Process between the Bidders and Power Exchanges:** Currently, the bids in the three power exchanges are cleared separately since all the power exchange operate independently in terms of bid clearing and calculation of MCP for the collective transaction segment. The process is illustrated via the figure below:

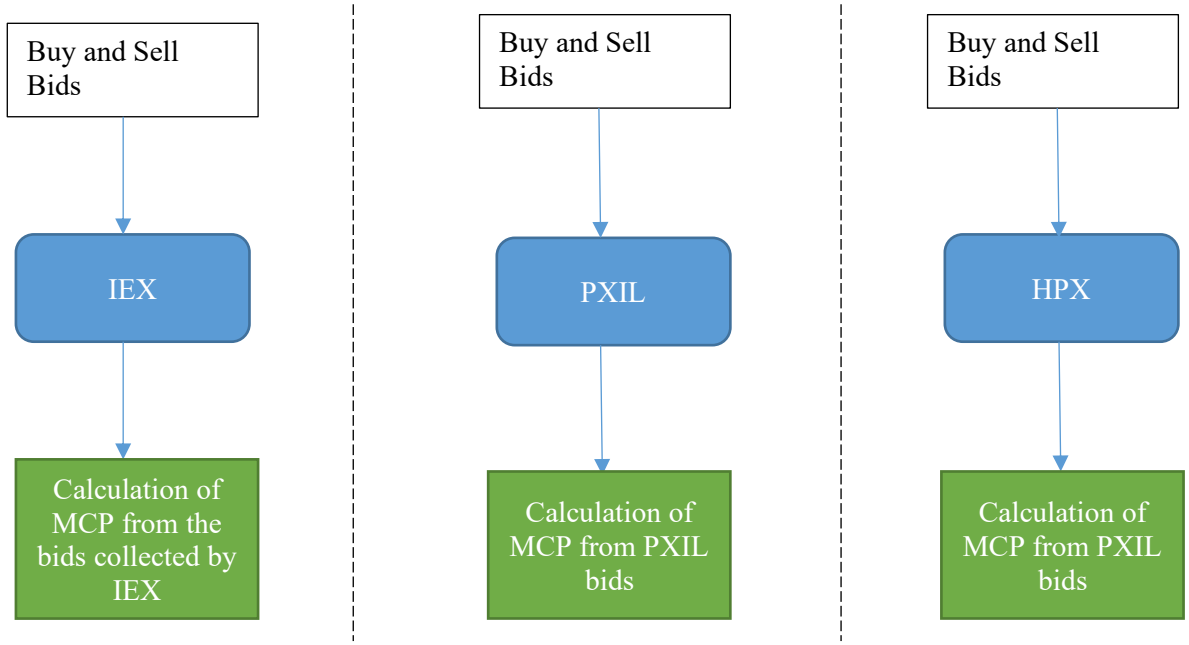

Figure 1: Current Mechanism of Price Discovery where all power exchanges are isolated

[1] Similar to the case of trading licensees, many of whom end up surrendering their licenses, sometimes causing disruption in the trading market.

After the clearing of volumes, the responsibility of settlement of transactions lies within the ambit of the respective. Hence, each exchange acts independently while implementing the settlement process. Under the proposed mechanism, the buyer and the seller may have submitted bids on separate exchange platforms (Figure 2), thus leading to the issue of cross platform settlement process.

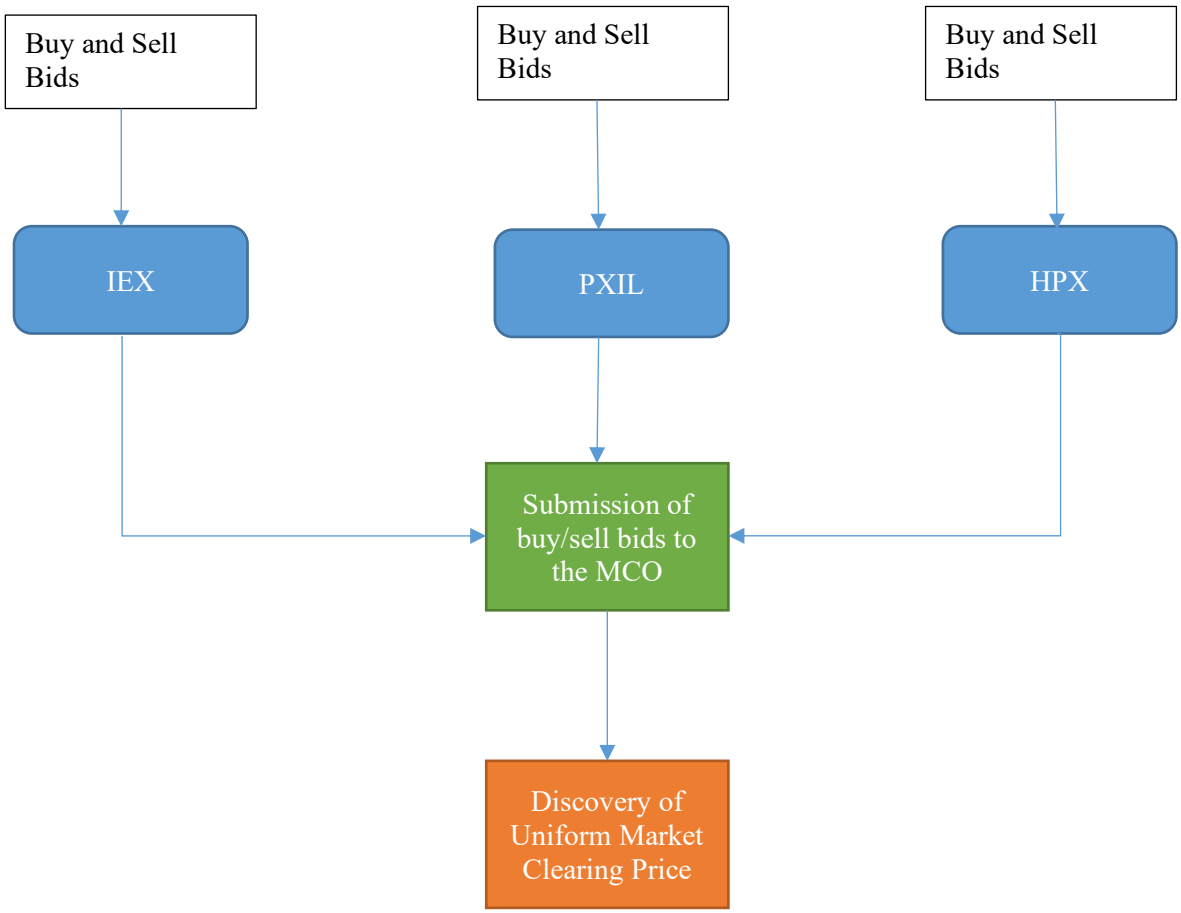

Figure 2: Proposed Mechanism of Price Discovery

7. **Choice of MCO and its Revenue Model:** Some of the key implementation issues would include selection of a New Market Coupling Operator (MCO) or its implementation on a Rotational basis[2]. What would be the Revenue model for MCO? This may involve a regulated approach to determine charges to be levied by the MCO which would be then an integral part of the trading related charges.

8. **Grievance Handling Framework for disputes among power exchanges:** The proposed framework for market coupling requires a well-coordinated approach between the power exchanges. While the document discusses about the contractual agreement between the exchanges when the exchange itself operates as the MCO, a mechanism should also be put in place if a third party will play the role of the MCO.

[2] As in the case of geographical coupling of exchanges in the European context.

9. **Market Monitoring:** Effective role of competitive markets can only be ensured with a robus market monitoring framework. The power market needs a well-designed market monitoring framework that should ensure a transparent, effective and timely implementation of market monitoring protocols. Public disclosure of the key indices of market monitoring, and transparent and timely reporting of the potential identified cases of market manipulation and investigation thereof would ensure greater trust of the market participants. In the context of market coupling such a framework should be able to ensure that market participants across platforms can be monitored through a unique ID.