



**For the kind attention of:**

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**Comments to CERC on the Staff Paper on Market Coupling**

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**Introductory Remarks**

Dear Dr. Sushanta Chatterjee, Ms. Rashmi Nair, and esteemed members of staff at the Central Electricity Regulatory Commission (CERC),

The Regulatory Assistance Project (RAP) thanks CERC for the opportunity to comment on the *Staff Paper on Market Coupling*, issued by CERC in August 2023.

RAP is an independent, global, non-profit organization advancing innovation and thought leadership within the energy community. RAP acts as a resource for electricity sector policy-makers, planners, regulators and key decision-makers in the world's major power markets, including the USA, the EU, China, and India. RAP's primary role is to offer knowledge from decades of international experience and share lessons learnt, insights, and best practice from across the world, to support those who are driving or shepherding electricity industry reforms. In particular, RAP assists processes that accelerate clean energy transitions, in line with countries' own national priorities and goals, in sustainable, equitable, and affordable ways.

RAP's experts have strong track records working on wholesale electricity markets in a number of countries, and our comments on the staff paper are informed by our experience in several jurisdictions.

We commend CERC and all staff members who have contributed to the paper for their responsiveness to the Ministry of Power's directive to initiate market coupling across different power exchanges, and for their commitment to shaping efficient, transparent, and competitive electricity markets in India.

The directive is informed by the objective of enabling greater price discovery and establishing a uniform clearing price across different exchanges. In this context, and keeping in mind the

overarching goal of increasing market participation in India, RAP is pleased to be able to contribute the following feedback after reviewing the staff paper.

### **Comments and Suggestions on the Staff Paper:**

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We would like to provide some comments and suggestions to enhance its chances of achieving what is our understanding of the Indian government's objectives.

1. We commend CERC's effort to pursue the efficiency of the market, and we believe the staff paper on market coupling has made a robust case to pursue further reform. In particular, it has shown that in spite of the existence of a multiple-exchange-system, significant price divergence persists, leading to inefficiencies and forgone economic surplus. This point could be underscored even more heavily.
2. It has been pointed out in the staff paper that power exchanges have a tendency to concentrate most of the transactions in the largest platform, since having a larger number of participants attracts liquidity, and more liquidity attracts more participants. This does not mean that coexistence of exchanges is impossible, but it requires specific regulation to happen.
3. Another key element or feature that should be considered for the market, to manage market power and support prevailing market conditions that facilitate price discovery, is the introduction of a Market Monitor to undertake a market monitoring function.
4. There are many models that can allow for price convergence, and we would refrain from suggesting or supporting just one, as this requires a deeper understanding of existing institutional arrangements, including the collateral requirements.
5. Notwithstanding this, we would like emphasize the economic benefits that should be preserved:
  - a. **Congestion management**- European experience on market coupling was developed to give the right economic signals to market participants coming from the physical reality of the grid, in particular power flows. Power flows can create situations in which expensive regions "export" to cheap ones. Current European arrangements align economic signals with physical flows.

Although the European set up allows for multiple market exchanges in a single jurisdiction, as you have noted in the case of the Nordic market, rules regarding coupling emphasize an efficient allocation of transmission capacity among different jurisdictions.

We suggest that the coupling model to be chosen should preserve this benefit.

- b. **Innovation**- The current algorithm, Euphemia, allows for complex bids coming from different exchanges. Innovation can be preserved with proper stakeholder engagement providing feedback to the Market Coupling Operator. On the other hands, as far as we are aware, although Euphemia accepts complex bids, there is no need for local power exchanges to have uniform bidding.
  - c. **Collateral costs** – one of the benefits of power exchanges is the minimization of collateral needed to pursue transactions. This is a significant benefit that should be preserved to minimize the risks of bilateral trading. It should be noted that this is a benefit that can still be kept in a model where a third party is required to operate as a Market Coupling Operator, and collateral arrangements should be found to cover the potential imbalance among power exchanges.
6. For these reasons we find that reforms looking for price convergence are a step in the right direction, and that market coupling is indeed a potential instrument to enable this objective.

#### **Availability to Offer Technical Assistance for Wholesale Market Reforms**

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RAP is supportive of India's power sector reforms and the ongoing efforts at shaping more efficient, transparent, and competitive electricity markets. We are especially supportive of CERC's steadfast commitment to improving price discovery and broadening market participation, as competitive and efficient markets naturally provide an impetus to clean energy scale-up and deployment. As such, market coupling could contribute as yet another strategic lever within the broader effort to meet the country's renewable energy targets.

If our support is of interest to CERC or to any decision-makers working to advance wholesale market reform in the country, RAP will be willing to bring to bear our global expertise to assist in the role of a knowledge partner. Our experts can assist in offering international expertise and insights, by way of technical assistance, to feed into and strengthen India's efforts at policy and regulatory reforms.

If we can be of further assistance, please don't hesitate to ask.

Sincerely,

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