To,
The Secretary,
CERC, New Delhi

Date: 14-10-2023

Subject: Comments and suggestions on Market Coupling Staff Paper prepared by Hon'ble Commission.

Respected Sir,

This is in reference to the public notice No. Eco-14/1/2023-CERC dated: 21-08-2023, where CERC issued a Staff Paper on "Market Coupling" under Part-5 (i.e. Regulations 37 to 39) of the Central Electricity Regulatory Commission (Power Market) Regulations, 2021, published on 15th February 2021, which came into force on 15th August 2021.

A Staff Paper on "Market Coupling" was prepared by Hon'able Commission and is hosted on the website (www.cercind.gov.in) for comments and suggestions of the stakeholders. The paper discusses the regulatory provisions for market coupling, international experiences, objectives of market coupling in India, the issues and challenges in implementing market coupling, and the key points for discussion.

We are pleased to share our views for the subject cited regulation and appreciate Hon'ble CERC's efforts for continuously developing the power market. Our comments on the above subject cited matter are enclosed as 'Annexure-A' for kind consideration of the Hon'ble Commission.

This is for your information and necessary action.

With Regards

Gaurav Saini
Authorized Signatory
Saini Power Transactor

Annexure-A

In our view the market coupling will bring setbacks instead of bringing boon in the electricity market. Few of my concerns are mentioned as follows:

- Dampen innovation & technology investments:
  The market coupling will definitely stifle the innovation as there will not be any incentive for the market participants. As also rightly mentioned that the coupling of power exchanges would centralise the bid matching platform. A centralized algorithm, by design, would not be able to accommodate complex bid structures, keeping in view the compatibility of different power exchanges. As a result, the market may have to forego certain innovative products that could have improved participation.
- Reduce Competition
  With the coupling, power exchange's role will diminish and the bigger traders who already have a dominant position on the market will gain further advantage taking the share of top 5 traders above 90% and the smaller traders will go out of business. In any market a healthy competition is must. Bigger traders are already at an advantage with their scale of operations whereas smaller localized traders are already struggling with within their respective states due to various hurdles imposed by DISCOMS & SERC's. The competition will be based only on their transaction fees, where bigger traders are already at an advantage with their scale of operations.
- Market Consolidation
  Market coupling will lead to consolidation of the market where the top traders will have an advantage. As per CERC's Annual & Monthly Report on Short-Term Power Market in India the following are the Share of the Top 5 Trading Licensees:

Share of Top Traders financial yearly wise

Sr. No.	Financial Year	Top-5	Top-3	Top-2	Top
1	2008-2009	79.80%	60.76%	49.25%	33.12%
2	2009-2010	83.32%	65.97%	56.14%	42.89%
3	2010-2011	85.43%	65.70%	52.18%	35.11%
4	2011-2012	78.49%	61.06%	50.49%	33.05%
5	2012-2013	70.14%	52.60%	41.31%	29.64%
6	2013-2014	68.37%	55.12%	44.08%	31.68%
7	2014-2015	66.70%	52.21%	42.68%	33.12%
8	2015-2016	72.14%	53.94%	41.87%	29.13%
9	2016-2017	71.60%	55.91%	46.06%	31.59%
10	2017-2018	73.84%	57.42%	47.87%	37.60%
11	2018-2019	76.30%	58.21%	48.02%	37.39%
12	2019-2020	71.87%	54.67%	44.07%	33.26%
13	2020-2021	76.63%	61.70%	53.90%	41.88%
14	2021-2022	83.26%	67.85%	56.36%	44.84%

As clearly represented above the top 5 Traders have 3/4th market share, top 2 have almost 50% market share and top trader i.e. PTC itself has 1/3rd market share in short term market in India. Even in the monthly trend the scenario is almost the same.

Share of Top Traders in 2023

Sr. No.	Month	Top-5	Top-3	Top-2	Top
1	January	78.47%	65.13%	56.96%	35.18%
2	February	81.27%	68.82%	58.83%	36.15%
3	March	80.71%	65.37%	56.73%	35.88%
4	April	81.63%	68.39%	60.81%	44.79%
5	May	81.05%	64.75%	58.69%	40.50%
6	June	77.65%	61.50%	47.84%	33.93%

If market coupling is implemented the share of large traders will increase further and Top 5 will have over 90% market share.

- Loss of investments

Small traders have invested heavily in taking the membership of the power exchanges and have also maintained security deposits with the power exchanges. If the current proposed model of traders submitting bids directly to the market coupler there would be no need for power exchanges. In such a scenario there would be no need for power exchanges and would lead to shut down of power exchanges thus resulting in the loss of investment of smaller traders. It will also create a negative impact on the investors which will reduce the investment in this market.

- Significant built-up Cost
  Bigger traders have enough capital to invest in the transition cost. If traders be allowed to submit their bids directly to the market coupler the traders need to invest heavily in order to keep up with the bigger traders which will be a failed attempt. This will impact the whole market and business case for traders.
- Discourage New entrants.
  It is clearly evident that with the introduction of Procedure, Terms and Conditions for grant of trading licence and other related matters Regulations, 2020 many players have shown interest in the power market and many trading licences have been granted by the CERC. With the current proposal there will be no business case for new players.
- No support for Smaller Traders
  Currently the power exchanges are a platform for traders to reply on and industries also reply on traders for power trading solutions. If the power exchanges cease to exist, then there will be no platform for small traders. Even in the current scenario, the smaller traders rely heavily on power exchanges for clearing and settlement purposes.
- Unfavourable regulatory environment
  Micromanaging and over regulation in any form, field are not good. Electricity is already highly regulated in almost every aspect. If current proposal of market coupling gets implemented this will create an impression that the regulatory environment in electricity market in India is unfavourable and will also have a rippling effect. Currently India is the third largest producer of electricity in the world and is among the top destination for renewable energy projects and is the fastest growing sectors in India. Such a scenario will also create a negative impact on the renewable energy sector.
- No improvement in utilization of transmission infrastructure
  With the market coupling there would not be any improvement in the utilization of transmission infrastructure. The Commission had provided for the reservation of transmission corridors for the smaller power exchange, instead it should prioritize the volume clearance of smaller exchanges rather than blocking the transmission capacity.
- Increase in Cost
  As proposed by CERC for appointing a Third-Party Market Coupling Operator/ Super-Exchange (i.e. Grid-India) this will further increase the cost as in order to operate & function and carry on with the day-to-day activity the MCO will charge transaction fee which will be around ₹ 0.02/kWh (as being charged by the power exchanges)

There are several benefits mentioned in the discussion paper which have already been achieved such as:

- Discovery of a uniform market clearing price: As almost 99% of the collective volume is traded in the IEX, no better price can be discovered in any market scenario.
- Optimal use of transmission infrastructure: Instead of reservation of transmission infrastructure to smaller exchange the CERC should prioritise the allocation. For example, the volume of the smaller exchanges should be allocated first and the larger exchange at the end. This will also utilize the whole transmission infrastructure and will also ensure that the whole volume on the smaller energy exchanges gets cleared.
- Maximisation of economic surplus: With such a huge liquidity on a single platform, there cannot be any other ideal market situation.
- Improvement in Liquidity and Prices: With such a huge liquidity on a single platform, there cannot be any other improvement in liquidity and prices.

In order to increase participation in other exchanges, we firstly need to identify that what are the major hurdles being faced by the market participants in participating with other exchanges. Some of the hurdles are mentioned below:

- One Time Fee

All three power exchanges charge a huge amount in form of One-time registration fee (Non-refundable) from all its members. The fee charged from members is as follows:

Sr. No	Power Exchange	One Time Fee
1	Indian Energy Exchange Limited	₹ 35,00,000
2	Power Exchange India Limited	₹ 10,00,000
3	Hindustan Power Exchange Limited	₹ 25,00,000

Note: GST is in addition to above amount @18%

If some small trader needs to take membership in all three exchanges, then that trader will have to pay in total of ₹ 70 Lakhs which itself is a huge amount.

- Security Deposit

  In addition of one-time fee, the traders who want to become members of all three power exchanges also need to maintain a security deposit (refundable) with each exchange. The Security Deposit amount of all three exchanges are as follows:

Sr. No	Power Exchange	Security Deposit
1	Indian Energy Exchange Limited	₹ 25,00,000
2	Power Exchange India Limited	₹ 40,00,000
3	Hindustan Power Exchange Limited	₹ 25,00,000

In total a trader will have to invest in total of ₹ 90 Lakhs as security deposit with each exchange.

- Annual Subscription Fees

  In addition of One-time fee and Security deposit the trader also has to pay Annual Subscription Fees (Non-refundable) to each exchange paid annually to each power exchange. The Annual Subscription Fees charged by each exchange is as follows:

Sr. No	Power Exchange	Annual Subscription Fees
1	Indian Energy Exchange Limited	₹ 5,00,000
2	Power Exchange India Limited	₹ 2,50,000
3	Hindustan Power Exchange Limited	₹ 5,00,000

Note: GST is in addition to above amount @18%

So, in total a trader will have to ₹ 12.50 Lakhs as annual subscription fee every year. In addition to this trader member also needs to pay annual fee of CERC as per the category of license.

If will add all the cost of a trader who is willing to become a member of power exchange, then that trader will have to invest ₹ 1.725 crore out of which ₹ 90 Lakhs would be refundable and ₹ 82.50 Lakhs would be non-refundable. Annual subscription fee will add ₹ 12.50 Lakhs every year to the trader's expense in addition to the CERC annual fee. This itself is a huge entry barrier for smaller players who want to enter into the energy market. In order to reduce initial expenses a trader will identify that with which exchange it should get associated with and generally that trader will choose the power exchange with highest liquidity. Suppose if a new exchange is established than that exchange will also keep its fee structure inline with the other exchanges. A category V trader who must have a net worth of ₹ 2 crores will not even opt to go for any exchange as there would not be any business case due to higher initial costs and very low trading margins, thus restricting entry of new player in the market. Even a category IV trader who must have 10 crores net worth will take membership of all the 3 exchanges only if there is a strong business case and with the current market scenario where top 5 traders who have 83.26% market in F.Y. 2021-22 it is highly unlikely that anyone is willing to do so.

We have also observed that in the collective market the energy charges and open access charges are non-negotiable. Even the transaction fee of power exchanges is non-negotiable. The only fee a customer/client would negotiate is the trading margin and the trading margin in the exchange are as low as ₹ 0.005/kWh. The Big traders have their expenses covered by scale of operation and they tend to undercut the small traders and in order to survive the small trader have to agree to the lower margins leading to precarious situation. The exchange market has become very competitive due to high competition from big traders and very low trading margins.

For a new entrant the above are huge entry barriers which need to be looked at if commission wants to create competition among the power exchanges.