R.V. SHAHI
Former Power Secretary
Govt. of India

4th October, 2023

The Chairperson
Central Electricity Regulatory Commission (CERC)
3rd Floor, Chanderlok Building,
36, Janpath, New Delhi- 110001

Subject: Suggestions on Staff Paper on Market Coupling

Respected Chairman,

Preamble of Electricity Act 2003 itself makes specific mention about promotion of competition, besides several structural provisions in the Act aimed at competition as an important tool to facilitate and protect consumer interests. The Power Exchanges were given licenses by the Commission to operate for 25 years. A few initial years of power trading experience, much before Power Exchanges were conceived., had demonstrated some disturbing concerns about the way prices were fixed in short term power trading. A more acceptable and transparent mechanism for pricing in short term trading was a general and genuine expectation among various stake holders. Hence, Price Discovery, as provided in the licence, is a core function, and perhaps the most important responsibility, of these Exchanges.

The price discovery process is complex with numerous variables of 15 minute time blocks, buyers quotations for each time block and also suppliers quotes for as many time blocks, transmission system availability and constraints, system operators ability to optimise transactions etc. It required expensive technology support to meet the challenge which was given to these power exchanges in the guidelines issued in 2007, PMR 2010 and also PMR 2021. Based on the regulatory provisions, entrepreneurs have invested to set up power exchanges and made their business within the four corners of regulations. As proposed in the Staff Paper, if price discovery is taken away, it would amount to curtailing the license of power exchanges because theses exchanges will then be reduced to merely bid collection agencies. Such regulatory uncertainties are not desirable for attracting investment in the sector. In Distribution Sector, in case of privatisation, distribution license is issued for a defined period based on which investment is made by the private entrepreneur. Change in license terms or its duration will lead to regulatory uncertainty and will discourage investment.

One of the objectives provided in PMR 2021 for market coupling is uniform price discovery. In the case of the DAM & RTM markets this is already being followed. However, we need to deliberate and question whether the intent to have a “uniform price” and that too only for the 5% of market is at all a right approach. In power sector, we have different prices for supply of power from different sources based on the technology, locations, fuel and also timing of the contract. Each PPA leads to a price different from other PPA’s. Thus, the balance 95% of the power is being purchased by Distribution Companies at different prices. We are not going to achieve anything by having uniform price for just 5% of the total generation in the country through the Exchange mechanism. The proposal of Market Coupling among the Power Exchanges is not in line with the spirit and objectives of the Act.

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During last 15 years of operations, the power exchanges have contributed immensely and assisted the Commission in introducing new market products. Their role in educating users to optimally utilize their generation resources and minimise power procurement costs has been remarkable. In fact, they did assess on a regular basis the reasons of not harnessing the full advantage of this important tool of market development to bring competition as envisaged in the Act. Initially two Exchanges were given approval to create competition. A third Exchange has been approved recently for further competition. Grant of third Licence obviously may be seen in the context of Exchanges to play a meaningful role to enlarge the size of this segment in the overall role for market development. Instead of exploring initiatives and actions aimed at enhancing the proportion, well beyond five percent, curtailing their role would be only counterproductive. We should avoid excessive centralisation because it will lead to monopoly and kill competition and advantages of competition to consumers will be lost. There are several provisions in the Act and Statutory Policies which have remained unimplemented or partially implemented, and whose proper implementation will enlarge the size of this Market. We need to focus attention on these areas rather than digressing into areas which may destabilise even the little that has been achieved.

NLDC/Grid India as MCO, is absolutely not in line with the provisions of the Act u/s 26 and digressing them from their main task of grid operation and control and load dispatch may not be desirable. Actions of the Government to disaggregate various roles of PGCIL into NLDC, CTU have been completely in line with the latter and sprit of the Act. Loading this function of price discovery to Grid India appears to be ill conceived and not in line with the architecture of power sector envisaged in the Act. Price in any sector is the essence of competition besides quality of service. Why do we have more players if competition is not around and about price? Post Electricity Act passed in 2003, we took several initiatives to bring a number of players to derive the advantages of competition in generation and in transmission. The most important parameter of competition in larger interest of consumers has been the competition in price. Benefits of these initiatives are there for all of us to see.

In view of the above, I suggest that the CERC may consider to constitute an expert committee comprising industry experts, academicians, CEA, Grid-India, SLDC and representatives of Discoms, generating companies, power exchanges and consumer representatives to examine the broad market design and how to bring more liquidity in the market.

With Regards,

Yours sincerely,

(**R.V Shahi**)

CC To:

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