

28nd September, 2023

From:
V.P. Raja
IAS (Retired)
Former Chairperson, MERC

To,

The Chairperson
Central Electricity Regulatory Commission (CERC)
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Subject: Suggestions on Staff Paper on Market Coupling – Reg

Dear Shri Jishnu Barua Ji

This is with reference to the Public Notice dated 21.08.2023 issued by CERC inviting comments on the Staff Paper on Market Coupling. The Staff paper has deliberated the pros and cons of the market coupling and sought views on some issues. I am submitting my views on the staff paper for consideration of the Commission:

2. At the outset, in my view this subject is of utmost importance as the proposal has far-reaching consequences even to the extent of irreversible damage to the market which is being nurtured by the Commission from last 15 years.
3. From the Staff paper, it is apparent that the concept of Market Coupling has been brought from the European electricity market. The staff paper also mentioned that through market coupling in Europe, many benefits have been achieved. Further, it is stated that in Europe, market coupling was done across different geography however in the Indian context it is proposed in same geography. Having, such circumstances, any parallel drawn between the European experience and Indian scenario would be irrational. Because here the proposal is to just couple the power exchanges and not to couple any additional market.
4. The objectives of market coupling are provided in Regulation 37 of the PMR 2021 i.e. discovering uniform market clearing price for Day Ahead and Real-time markets, ensuring optimal utilization of transmission infrastructure and maximization of economic surplus.
5. Further, in Para 5.2.4 of the staff paper mentions that *“Given the existing market share of power exchanges in the collective transaction segment, it seems that while the implementation of market coupling may not cause any major change in terms of price*

discovery, the bid could be divided among the exchanges, which at present are concentrated in one exchange.”

6. From the above, it appears to me that the objectives of the market coupling as provided in the PMR 2021 will not be achieved due to very marginal power being traded through power exchanges (only 7% of total generation) and that too most of it is already being traded only on IEX. However, the result envisaged from coupling is division of bids among the exchanges. To me it is akin to the giving business of one licensee to another licensee in a parallel license scenario. In Maharashtra, we have issued the parallel distribution licenses in Mumbai, however at the time of granting license for same area, there was no criteria that one particular licensee will get a minimum number of consumers. It is upto the licensees to garner the consumers by providing services and better price.

7. From a Regulator’s perspective, the proposal of market coupling does not make any sense as the mandate of the Regulator is to provide a level playing field for the development of market u/s 66 rather than supporting the private power exchanges so that they can survive in a competitive environment.

8. While the Commission has powers to make regulations for development of market under section 66 of the Act read with section 178(2)(y) and in making the regulations, the Commission shall be guided by the NEP and the Tariff Policy notified by the Central Government under section 3. The Electricity Act and policies of the Government provides for promoting competition in the power market. By coupling 3 exchanges by the process of market coupling will amount to centralization and will in fact be anti-competitive.

9. It is envisaged that a Market Coupling Operator (MCO) will discover price by collecting all bids received on the power exchanges. It is rightly mentioned in the staff paper that in this scenario, the power exchanges will merely become bid collectors as their core function of price discovery will be taken away.

10. I agree with the disadvantages mentioned in the Staff Paper that it will Diminished Role of Power Exchanges, Dampen innovation & technology investments, Reduce Competition and Discourage investments. We need to provide regulatory certainty to the investors, such moves may not only discourage the power exchange investors but also existing and prospective generators who are setting up their capacity considering the available market at power exchanges.

11. Moreover, the idea of designating NLDC/Grid India as the MCO also does not seem to align with the section 26 of the Electricity Act. NLDC was created solely for the purpose of grid operation, control and load dispatch.

Apropos to above reasons, market coupling of power exchanges is not feasible in the current market scenario.

Yours sincerely

V.P. Raja

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