

16th October, 2023

From:

Pankaj Batra

Former Chairperson, CEA

To,

The Secretary

Central Electricity Regulatory Commission (CERC)

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Subject: Suggestions on Staff Paper on Market Coupling – Reg

Dear Shri Jishnu Barua

My views on the Staff Paper on Market Coupling w.r.t. the CERC Public Notice dated 21.08.2023 inviting comments.

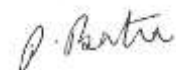
1. Market Coupling will definitely lead to better optimization of power generation and transmission assets for buyers and sellers. In fact, it would be ideal to have a single power exchange, so that the need for market coupling gets alleviated. However, in order to inculcate competition, so as to provide better and more economical service by the power exchanges, at least two power exchanges were conceived in the Power Market Regulations 2010. Any power exchange with less than 20% market share for two consecutive years, after two years of operation, would need to discontinue service and its contracts merged with an existing power exchange, provided that at least two power exchanges existed. This provision was removed in the Power Market Regulations 2021. In the Nordic countries, there is a single power exchange for all these countries, the Nordpool Exchange. In the EPEX Spot, there is a single power exchange to cater to eight countries, i.e. Austria, Belgium, France, Germany, Luxembourg, United Kingdom, the Netherlands and Switzerland.
2. In the Staff Paper, it is not proposed to limit the number of persons allowed to set up a power exchange in India. Its functions of matching would then not serve much of a purpose. In fact, eliminating some of the buyers and sellers, which could not get matched in one exchange could have got matched if it had taken part in one of the other power exchanges. Therefore, there is a lost opportunity for some of the buyers/sellers that get eliminated. This, in fact, would lead to splitting the market and then again integrating it.
3. There could be, in future, be tens and hundreds of power exchanges. These would become unintelligent collection agents, where markets would get split between power exchanges and therefore would reduce liquidity in each of the exchanges. This is undesirable. The technical innovation which is presently there in the power exchanges

would get lost. Therefore, the power exchanges, if they are multiple, should not do the matching and just pass it on to the market coupling operator, to avoid the above mentioned case. These exchanges would then act as collection agents, with no intelligence, but just collecting bids and passing it on to the market coupling operator. The matching would then have to be done by the market operator. In fact, the market coupling operator would then become a monopoly and may lead to inefficiency and loss of innovation. The cost of transacting power for buyers and sellers would also increase.

4. It is recommended that the old provision of a maximum two power exchanges (in the Power Market Regulations, 2010) be kept in the country, only from the point of competition. The second exchange can try to increase market share through their own efforts. They should not be handed the power exchange on a platter.
5. I believe that Market coupling in its proposed form has a potential to bring in many fly-by-night operators that can crop up without much ado to the sustainability of the systems in place. This can result in having exchanges that would compete only on the transaction fee, since there will not be any motive for them to innovate on products/services. They may not be inclined to build a competitive team, a resilient system and may lead to erosion of the market discipline we see presently among the market players. It may not be an exaggeration to say that in the existing power exchanges, we have institutions that not only operate the market with the functions and responsibilities assigned to them but also strive to develop the market.
6. The current power exchange market has inculcated a sense of discipline among the distribution companies, owing to which timely payment is ensured. Once the role of exchanges is curtailed, with no onus on the exchanges, they will be reduced to mere bid collection agencies and the entire value chain will be hit.
7. As mentioned earlier, it would be better to have a maximum of two power exchanges. In fact, it would be best if we can have one power exchange that is strictly regulated. No one country internationally, has more than one power exchange catering to the market in the country. In fact, there are many instances of power exchanges, catering to more than one country, like the Nordpool power exchange and the EPEX Spot in Paris.

In view of the above, it would be preferred to restructure the power exchanges, to have a maximum of two power exchanges.

Yours sincerely,



(Pankaj Batra)