24thSeptember 2023

V. Subramanian
IAS (Retired)
Former Secretary MNRE

To:

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

Subject: Comments on the Staff Paper issued by Hon'ble Commission on Market Coupling.

Dear Sir,

I retired as the Secretary to the Government in the Ministry of New and Renewable Energy in 2008. Earlier I had worked as the Secretary, Power in the Government of West Bengal in the mid nineties. In that capacity, I have had the knowledge and experienceof dealing with multiple generating and distribution companies / entities that were in the public sector as well as in the private sector. During my tenure, West Bengal moved from a '"power deficit "to marginally surplus power state. (No credit is being claimed here). We did not have the opportunities of transferring the surplus power to other states either because of transmission constraints or because of inability to enter into clear commercial agreements. This was the period much before the enactment of Indian Electricity Act, 2003.

Later, in the MNRE, I had struggled for the recognition of power from renewable equipment by the Regulatory Commissions. The interest shown by the then Regulators (no offence meant) was one of benign ignorance and neglect. I would not really find fault with them for such an attitude since the then eco system of the power sector was replete with poor performance of thermal generating plants in the public sector, appalling management of distribution companies, perennial shortages of power, renewable power being viewed as just another sector of minor or marginal importance that did not really matter and the regulators were more occupied with setting the sector in order rather than going in for new developmental initiatives. It is in this context, I was excited by the CERC Power Market Regulations, 2010. Despite my retirement from the government, I have sustained my interest in the various sectors I have worked in and the overall governance issues. I have also been silently working in the power sector as an independent consultant for which I have been looking at the developments in the sector. I have also been advocating setting up renewable energy projects based on projections of sale of power only to the power exchanges. True, I have not been writing articles in mainstream media or posting my views in social media. But I do feel that I would be right in expressing my views on specific issues when such views are called for. Hence, I am taking the liberty of submitting my views.

I am submitting my views with reference to the CERC Public Notice dated 21.08.2023 inviting comments on the subject matter. I am expressing my views for the consideration of the Commission. It is after years of efforts and operations that the Indian Power System today is able to operate seamlessly with distinctly defined functions for the entities. This proposal seeks to undo a lot of such benefits it without any value addition to the system.

While the concept of having power exchanges to operate in the sector was conceived with a view to encourage competition amongst them, the present proposal for market coupling militates against the merits of initial objectives and competition. The entire idea of coupling kills the merits of competition that is beneficial to both the generators and consumers. The present suggestion for market coupling seeks to do away with commercial and technological innovations done by the power exchanges since 2008.

While the transactions through power exchanges constitute only about 7% of the total electricity generation, there has been a phenomenal increase in the number of products that have been floated that benefit both the generators and consumers. The efforts should be to enlarge the market instead of dividing the existing market that is not large.

The fact that most power is generated and consumed based on long term Power Purchase Agreements thus keeping the volumes traded at the exchanges low, cannot become the ground for not encouraging more power from being brought within the scope of exchanges. This is a sector that has been artificially constrained and restricted by the policies, regulations, market practices and the compulsion to have firm marketing agreements by the government as well as the financial intermediaries. Power is the only sector where the financing institutions call for sale and purchase agreements between the generators and the consumers. The low percentage of trading on exchanges is more because of such binding obligations to sell power by the generators to counterpart consumers rather than the inability of the exchanges to trade in higher quantities. Theoretically, power projects can also be set up for all the power that is generated being offered on exchanges and through them to the consumers. Appraisal of such projects by the banks and financiers can be based on the average price in all the exchanges. It is high time the sector moved away from such guaranteed inflows of funds facilitated by PPAs. No other industrial sector - be it steel, cement, automobiles and many others - has an obligation to satisfy the FIs by fool proof agreements with consumers that the investment will have returns. (It is a different matter that there are stressed assets in the power sector despite these rigid requirements and is not the subject matter here.) These sectors depend on supply and demand factors for a return on investment. There is no reason as to why the power sector alone be left to regulations of price controls when all other sectors of the economy work on competitive principles. The country would be better off with power that is generated being entirely offered on exchanges for sale. The differences in the average prices of power among exchanges cannot become the reason for pooling the operations.

It appears that the entire concept of coupling amongst the exchanges has been conceived to benefit the exchanges that are not in a position to compete in the market. The efforts should be made to make the cake bigger instead of cutting off portions to be given to others. It is well known that the financial intermediary Pay TM has a disproportionate share of the UPI market compared to others due to its offerings, technology, customer centricity and innovation. It can be nobody's case that all market players should either collaborate or form a consortium to ensure equitable business opportunities. The market structure needs to be in tune with the objectives of maximising efficiencies and in the process to benefit the participants. Percolation of efficiencies will depend upon the ability of the exchanges to innovate and offer new products in terms of commercial and technological innovations to the participants. It is an undeniable fact that the present growth of Telecom and Automobile sectors has been facilitated by competition. It might have been disastrous if the government had chosen to intervene and set up an Aggregator for such sectors. The inability to innovate or inefficiency of one or a few players cannot become the justification for destroying the capability for innovations in others. Efficient Business Management has to be brought about from within and cannot be achieved by collaborative pricing and market shares.

Ours is a country where power market integration has been brought about by deliberate policy design and physical infrastructure creation by having a national grid and interstate exchange of power. As mentioned in the staff paper, Market coupling might have been done in a multi-country context for example in European Union but does not lend itself to replication in a single country that has an integrated market. It has not been clearly brought out on the negotiations that were conducted to achieve such Market Coupling in Europe or the problems that the participants are facing even after the same is done. It is unfair to list out only the positive aspects of the proposed measure and suppress the problems that afflict such a market operation.

This approach will completely erode the role of power exchanges, converting them into mere post offices without any incentives for innovation. In fact, the role of power exchanges will be reduced to just collecting bids and transferring them to the market coupling operator. It will also destroy the possibility of investment in new exchanges with better technology. Most importantly, the existing investors of the exchanges would stand to lose since the rules of the game are sought to be changed abruptly. When the present approach in the economy is to be "Market Friendly", this abrupt change of rules would militate against the objectives. In this context, the image of the country in general and the sector in particular suffer.

At a point of time when the country is working on giving the power consumers a choice to choose their distribution companies, the idea of coupling the operations of power exchanges is contradictory. Further, when the government seeks to establish competitive benefits in the economy in all sectors, market coupling only in the power sector is contrary to the principles of competitive business. If one views the basic foundation of the Competition Commission of India, there is no reason as to why the power sector should be devoid of the competitive nature of business among the exchanges by introducing market coupling.

Yours sincerely,

(V Subramanian)

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