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UNITED ELECTRICITY EMPLOYEES UNION

(Regd. No.: B 1829 - Affiliated to CITU)
AP STATE COMMITTEE
State Office : 24-24-14, Rajaka Veedhi, Durgapuram, VIJAYAWADA - 520003

11 October 2023

To

The Secretary

Central Electricity Regulatory Commission

Janpath, New Delhi

Dear Sir,

CERC has published the "Staff Paper on Market Coupling" in August 2023 inviting comments/views from the stakeholders. In response **Electricity Employees Federation of India (EEFI)** offers following remarks on the staff paper. At the outset, we do not support the proposal of Market coupling. Our reasons for the same are elaborated hereinafter.

The staff paper proposals of the Market coupling are framed in contrast to the existing legal provisions. Hence, we record our objection on issuance of such type "subverting" the principal Act. Further, from the proposal, all the objectives of transforming electricity from being a service sector used for national development to commercialisation are clear.

It is stated in the Electricity Act that trends in the electricity market which inhibit competitive possibilities should be avoided. Rather it was proposed that the creation of market will make even playfield and scope of competition for all the generators and hence the prices of electricity will be reduced. Now the staff paper itself has mentioned that *"In the recent past, it was observed that due to unprecedented high demand, the prices in these segments (i.e. DAM and RTM) went abnormally high, warranting a regulatory intervention."* [Para 5.8.1] Clearly, the introduction of Power Exchanges hasn't served the purpose it claimed. The high buy-to-sell ratio in DAM and RTM clearly exposes that the commodification of electricity through market antithetical to the perspective of electricity as human right and indispensable service for social welfare.

While discussing the benefits of Market Coupling in Indian Context, the staff paper has furnished one claim that *" ...the market clearing price discovered through the matching of aggregate buy and sell bids would result in the creation of a surplus for the buyers and sellers of electricity, the summation of which is referred to as the 'economic surplus'."* [Para 4.2.3] The same paper has clearly mentioned *"Given the existing market share of power exchanges in the collective transaction segment, it seems that ...the implementation of market coupling may not cause any major change in terms of price discovery"* [Para 5.2.4]. As IEX accounts for almost 99% of the share in the collective transaction segment i.e., already a clear monopoly, the coupling may have the least effect on price discovery and hence in creating economic surplus. The Net result would be pushing up the average cost of supply of Electricity causing hardship for the low end consumers in the interest of traders

The current proposal seeks to consolidate electricity prices in the market. Currently, due to the slowdown in the capacity addition of generators which provides round – the -clock electricity, many distribution companies are depending on the market for meeting their electricity needs. The ever-increasing dependence on this speculative market and the catastrophic increase in ceiling of bidding price have already made electricity non-affordable to a huge section of people as well as has put the DISCOMs under tremendous financial pressure. This will lead to bankruptcy of the public sector Discoms leading to total privatisation of state-owned utilities evading impugned Electricity (Amendment) Bills. It will be a gross travesty to Parliamentary democracy.

Presently, in India the three power exchanges operate parallelly based on power market regulation. In these three exchanges, the market clearing price are different at the same time blocks. This potential is currently being exploited by DISCOMs. However, this opportunity may be lost with monopolistic market coupling.

Further, Market coupling is deemed pre-cursor to MBED, which may further lead to loss of scheduling rights, disruptions in existing agreement in lieu of contracts and uncertainties for future long-term and medium PPAs.

It cannot be denied that MBED which is the subsequent step to market coupling, seems to benefit only the Interstate Generating station plants at the cost of the state generating stations and the IPPs supplying power to DISCOMs. Owing to their better placement in terms of fuel availability, financial stability etc., the national level pool such as MBED will replace the PSU/ State Genco's/IPPs. The DISCOMs will lose their flexibility to schedule or choose generator. It therefore appears that the largest benefactor of MBED and therefore coupling will be generators instead of the consumers. Hence the basic principle of providing affordable electricity to the common people will not be met**.** So, instead of market coupling and heading towards MBED, the Hon'ble CERC should limit the scope of purchase from market and allow just to 'correct' the position of DISCOMs by either buying or selling the difference of power needed to an extent to 5-10% of its total consumption need whereas the rest of the bulk power need should be met through long-middle term agreements, which ensures cost effectiveness, base load requirement and resource adequacy.

As market coupling is anticipated to bring MBED in play, it will restrict the power procurement options for the DISCOMs and therefore will push towards speculative market leading to uncertainty for the revenue streams of power distribution utilities eventually making the viability of the DISCOM at

Apart from determining single price, the argument for market coupling is primarily focused on the objectives to improve transmission corridor management & availability and maximize the social welfare. However, the same paper has expressed "*As the exchange market is only 7% of the total generation, the objective of optimal utilisation*

of transmission infrastructure by coupling the small share market doesn't seem to be relevant in the current market scenario. The current approach of transmission corridor allocation against the power exchange on a pro-rata basis by the System Operator does not leave any further scope for improving the utilisation of transmission corridors for the exchange market." [Para 4.3.5] Then how it will lead to social welfare is not clear anyway.

There exists a lot of confusion and ambiguity in regard to the constitution and functioning of Market Coupling Operator (MCO). If a curtail is formed by the existing power exchanges and if they start controlling MCO, there will be practically no mechanism to check their monopoly price fixation methods and it will be a 100% monopoly. The regulatory scope and mechanism of periodic audits proposed to ensure the transparency and integrity of market results is also not clear.

The proposed Third-Party Market Coupling Operator/ Super-Exchange will be another risky mechanism as the data management, data security, technology, price fixing algorithm will be controlled by a single entity and it will be concentration of enormous power to a third-party. The regulatory provisions also proposed in a very loose manner indicating little scope for intervention on part of the Commission.

There exist striking doubts on the deployment of price fixing algorithm, the role of clearing corporation for clearing and settlement, the relation between MCOs and Power Exchanges with regard to settlement rights and obligations, the fixation of transaction fees, the constitution of grievance handling framework, payment of margins to the trades and exchange and many more.

Further, introduction of coupling operator shall result in introduction of one more player in the chain making the timelines tighter and shall add to cost with insignificant gain. Practically the market coupling operator will replace the power exchanges who will undertake the price discovery as and when notified by the CERC for day-ahead contracts and real time contracts. Thus, market coupling is not actually coupling the market, rather it couples only power exchanges.

The paper itself has stated that "*Further innovation, ease of transaction, technology solutions, disseminating of information, analytical tools, high quality services will be lost if the coupling of exchanges is centralised. The centralised algorithm, by design, may not be able to accommodate complex bid structures, keeping in view the compatibility of different power exchanges*" [Para 5.1.1]. It will further discourage investment for innovation.

Post the introduction of market coupling it is anticipated that there would be significant disruptions in established trading patterns. This can impact and affect the cost of

electricity procurement for power distribution utilities which can potentially lead to budgetary challenges and enhanced financial risks.

Further, the study paper suggests that market coupling will lead to large increases in sell bids and it will lower the market clearing prices. However as per the proposal, exchanges remain part of market coupling and their operational costs and marketing coupling operator costs are likely to be added to electricity prices as overheads charges.

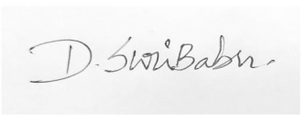
It may be noted that, different figures and percentage have been mentioned to justify the proposed speculatory power market. But no figures are available that reflect the prevailing market conditions. We have seen impact on countries where policies were formulated on the basis of speculation. For example, the California crisis where US federal government failed to solve the crisis. So, we strongly demand that the country's policies should not be based speculation in any forms and terms.

By considering all these issues, the newly proposed reform called ‘market coupling’ should be withdrawn. Instead, we propose:

1. A time bound target should be set to reduce DISCOM’s dependence on flexible power market. The prospects of long and mid-term PPAs should be given most preference in DISCOM’s power purchase plan. This ensures cost effectiveness, base load requirement and resource adequacy of power
2. The market price ceiling in the power exchange should be immediately reduced and make at par to the regulated tariff.
3. All the generators have to ensure production of power at the necessary level of PLF and ensure the supply to the market, if not through PPAs, to meet the demand of electricity.

Thanking you

Sincerely yours



(D. SURIBABU)
President