

NAME/Reg/CERC/MD003

June 3, 2024

To

**Mr. Harpreet Singh Pruthi,**

Secretary,

Central Electricity Regulatory Commission,

3<sup>rd</sup> and 4<sup>th</sup> Floor, Chanderlok Building,

36, Janpath, New Delhi- 110001

Email: [secy@cercind.gov.in](mailto:secy@cercind.gov.in)

***Subject: Comments, suggestions and objections on the draft Central Electricity Regulatory Commission (Deviation Settlement Mechanism and Related Matters) Regulations, 2024***

Dear Sir,

Kindly refer to the Public Notice No. L-1/260/2021/CERC dated April 30, 2024, inviting comments, suggestions and objections from the stakeholders on the draft Central Electricity Regulatory Commission (Deviation Settlement Mechanism and Related Matters) Regulations, 2024 (“**CERC Regulations**”).

We wish to provide you with our comments/suggestions/objections on the above for your kind consideration and annexed as Annexure to this letter.

In addition to providing this written memorandum, we are also available for making an oral representation to the staff and/or members of the Hon’ble Central Electricity Regulatory Commission, if so required.

Warm regards,



Kapil Dev,

Managing Director,

New Age Markets in Electricity Private Limited



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## ANNEXURE

### Preliminary Submissions:

1. The Central Electricity Regulatory Commission (Power Market) Regulations 2021 ("**PMR 2021**"), introduced Market Coupling and **Over-the-Counter (OTC) Platform** as the two new provisions/concepts in the power market.

OTC Platform has been **conceptualized** with an objective to:

- a. **facilitate direct interaction** between buyer and seller in the OTC market.<sup>1</sup>
- b. provide such **information** as is **necessary to take informed buy and sell** decision.<sup>2</sup>
- c. **maintain neutrality** without influencing decision making of market participants.<sup>3</sup>
- d. maintain **repository of data** and provide **advanced analysis tools**.<sup>4</sup>

It is further mentioned that **no entity can operate an OTC platform unless granted registration**.<sup>5</sup>

The OTC Platform is slated to introduce the much-required **transparency** in the OTC market by **reducing** the current level of **information asymmetry**.<sup>6</sup>

We, being New Age Markets in Electricity Private Limited (NAME), got the license to establish the OTC Platform on September 29, 2022, *vide* Petition Number 157/MP/2022, and to operate the OTC Platform on April 23, 2023. NAME's OTC Platform went live on November 23, 2023.

2. The Central Electricity Authority ("CEA") in its Annual Report 2022-23 stated that the total volume of electricity transacted during the period April 2022, to March 2023 in the power exchanges on delivery date basis was 1,02,977 million units ("MU"), which is only **6.84% of the total energy supplied** i.e. 15,04,263 MU in the country during FY 2022-23. And, as per CEA's Annual Report 2021-22, the total volume of electricity transacted during the period April 2021, to March 2022 in the power exchanges on delivery date basis was 1,01,860 MU, which is only **7.44% of the total energy supplied** i.e. 13,69,818 MU in the country during FY 2021-22. Of the above about 20% is transacted in the term-ahead-market leading to about 5% of the energy being transacted in collective segment.

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<sup>1</sup> Clause 29.6 of the Statement of Reasons of Central Electricity Regulatory Commission (Power Market) Regulations 2021.

<sup>2</sup> Clause 27.6 of the Statement of Reasons of Central Electricity Regulatory Commission (Power Market) Regulations 2021.

<sup>3</sup> Regulation 46 of Central Electricity Regulatory Commission (Power Market) Regulations 2021.

<sup>4</sup> Regulation 41 of Central Electricity Regulatory Commission (Power Market) Regulations 2021.

<sup>5</sup> Regulation 40 of Central Electricity Regulatory Commission (Power Market) Regulations 2021.

<sup>6</sup> Clause 26.4 of the Statement of Reasons of Central Electricity Regulatory Commission (Power Market) Regulations 2021.

The above statistics indicate that the electricity transacted on power exchanges only reflect a small portion of the total supply of energy in the country, and therefore, is not a true and fair representation of the overall supply.

Even for the transacted energy there is a higher degree of concentration in volumes. Hence, a few participants will always have a higher contribution than others leading to a narrow base.

As has been indicated through the bidding behaviour of the participants in the staff paper on “regulatory oversight on bidding behaviour in power exchanges” circulated by CERC on May 04, 2024, the behaviour seems to be overtly competitive leading to inefficiencies in the discovered prices.

Further, as per the CERC Regulations, contract rate, in the absence of any tariff as prescribed, shall be calculated as per the weighted average area clearing price (“ACP”) of the day ahead market segments of all power exchanges for the respective time block. There are practically no volumes in the day-ahead-market in the two exchanges of the total time.

3. As day ahead market represents the last-minute market, the participants tend to be overtly competitive in their bidding behavior. The discovered price may not be the true reflection of the supply and demand.
4. As per the CERC’s staff paper on “developing a common platform for electricity trading”:  
*“Thus, at a particular price, demand and supply will match and this price becomes the market-clearing price and corresponding volume will become clearing volume. Thus, the price offered by the last supplier (marginal supplier) sets the price for all suppliers in the uniform pricing model. Its criticism is that such marginal pricing enhances the possibility of gaming by dominant players, and has the potential to create windfall profits.”* (emphasis supplied)
5. The deviation settlement mechanism rate is applicable to all the entities who are connected to the grid including the ones that have chosen to not participate in the market or are not allowed to do so. These entities being charged on the price which is not reflective of the overall market may not be the best alternative. This reduces the incentive to participate in the market as without participation they are being exposed to the market. For example, all the generators would get the higher realization for their generation irrespective of their costs in times of high discovered prices of electricity.

6. It is also recognized that as of date there is no prices discovered other than power exchanges to determine the weighted average ACP price, but we propose the inclusion of an enabling provision. It is proposed that once the market participants are mandated to report about the electricity transacted by them, irrespective of the medium, on the regulatory reporting platform, the price determination under the CERC Regulations shall be a true and accurate representation of the data.

**Specific Suggestions regarding CERC Regulations:**

1. In light of the above recommendations, the following Regulation may be modified as follows:

***7. Normal Rate of Charges for Deviations***

...

*(3) The Commission reserves the authority to amend the method of price determination as outlined in these regulations, by combining various market segments to have the price of a true reflection of the market, and such amendment may be considered necessary in furtherance of the objective of these regulations.*

