

To

The Secretary,
Central Electricity Regulatory Commission (CERC),
6th, 7th & 8th Floors, Tower B, World Trade Centre,
Nauroji Nagar, New Delhi, 110029.

04 November 2024

Sub: Comments on CERC's "Directions by the Commission to the Power Exchanges registered under the Central Electricity Regulatory Commission (Power Market) Regulations, 2021 – Draft order in the Suo-Motu Petition No. 8/SM/2024 thereof."

Respectable Sir,

The following clause may be considered to be added to Section 24 of the above-mentioned draft order to ensure that there is no collusion among market participants and ensure that the TAM contracts & auctions are transparent and competitive in the Term Ahead Market:

1. *Power Exchanges should not, directly or indirectly, **solicit bids** for the term ahead market from members or market participants. This includes any communication outside of the Power Exchange platform (e.g., emails, WhatsApp chats and phones, etc.) with buyers, sellers, trading licensees, and any other intermediary to provide or seek information on their buy and sell requirements.*
2. *The present Business Development (BD) teams' operation allows for the possibility of collusion and information sharing with outside participants, especially in the TAM market given that these are bilateral contracts. The functioning of BD team needs to be monitored, and the Hon'ble Commission may discuss their relevance in present markets; the present robust stock exchanges model can be looked at for better transparency. Therefore, a standard operating procedure (SOP) needs to be in place and periodically monitored to avoid any possibility of collusion and ensure that the BD teams operate strictly as per their Business Rules and Regulations duly approved by the Hon'ble Commission.*
3. *Any auction in the term ahead market (either continuous matching or uniform price step-up auction) should be considered valid only if there are at least three bidders in the auction. If fewer than three bidders participate, the auction should be declared void and the terms and conditions may be examined and revised, if required, to increase the competition.*
4. *Considering the broad framework and intent of CERC's current guidelines for OTC Platforms, we respectfully request the Hon'ble Commission to consider incorporating TAM contracts within these guidelines to promote deeper market development and enhanced regulatory clarity. Market Participants may be allowed to list Term Ahead Auctions/contracts on OTC Platforms to ensure greater liquidity and wider participation. 'Continuous Trade' in the TAM market primarily only requires the listing of prices and can thus be easily enabled on OTC Platforms. We believe that this will contribute significantly to a more robust and inclusive market structure.*
5. *In 24(a), the Commission has directed for pre-specified slots for TAM and HP-TAM contracts to align them with spirit of the term 'Pre-specified' crucial for the power exchange processes. However, we would like to highlight that TAM contracts are inherently bilateral agreements requiring customisation based on the unique needs of each participant. This results in numerous possible combinations tailored to optimize terms and conditions, which makes standardisation of TAM contracts challenging. This is a key factor because of which power exchanges worldwide are limited only to collective markets and there are no TAM contracts on the power exchanges. Therefore, TAM market should be shifted to dedicated bilateral market platforms like OTC platforms, which provide a flexible, efficient, and transparent platform for bilateral interactions in the TAM market.*
6. *Further, it is to highlight that there is a conflict of interest in Power Exchanges carrying out the Clearing and Settlement functions since the objective of a power exchange is to maximise revenue and profit (by increasing trading volume) while the clearing and settlement function focusses on risk management. Thus, if the power exchange handles its own clearing and settlement, the 'clearing and*



settlement function' might not have the necessary independence or incentive to impose strict compliance measures or risk controls, as doing so could reduce trading activity. Further, since the primary goal of clearing and settlement is risk mitigation, this lack of separation could discourage the imposition of necessary compliance measures or risk controls, potentially undermining the integrity and stability of the TAM market because of the bilateral nature of the contracts. Thus, the following changes may be considered to mitigate this:

- a. Implement proper governance and audit mechanisms for the clearing and settlement function to reduce the conflict of interest by holding the exchange accountable for its dual roles.
- b. Separate the clearing and settlement functions from the exchange operations, ensuring an independent clearing house manages this aspect

Thank you for your kind consideration.

Regards,



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