Ref: HPX/CERC/0411 Date: 4th November 2024

To,

The Secretary,
Central Electricity Regulatory Commission (CERC)
7th Floor, Tower B, World Trade Centre,
Nauroji Nagar, New Delhi- 110029

Subject: Hindustan Power Exchange Limited (HPX) comments on CERC Draft Order in Suo-Motu petition no. 8/SM/2024

Dear Sir,

Hon'ble Commission issued a Draft Order in Suo-Motu petition no. 8/SM/2024 regarding the proposed changes in Contingency Contracts and Term-Ahead Market on 4th October'2024 and invited comments from various stakeholders on the same.

HPX is enclosing its comments on the above draft order as **Annexure-I** for perusal of the Hon'ble Commission.

Yours sincerely,

(Naveen Godiyal)
Head, Market Operations

Annexure- I

HPX's comments on CERC Draft Order in Suo-Motu Petition No. 8/SM/2024

1. DAY AHEAD CONTINGENCY

Commission's Observations:

1.1. The Hon'ble Commission has presented a comparison of transactions in the Day Ahead Market (DAM) versus Day Ahead Contingency (DAC) in chart-1. It has been observed that DAC prices reflect trends similar to those in DAM prices with a slight premium until October 2023. However, after October 2023, significant discrepancies in DAC prices have emerged, consistently surpassing those in DAM. Following consultation with stakeholders, the Commission believed that these variations may indicate potential manipulation within Day Ahead contingency contracts.

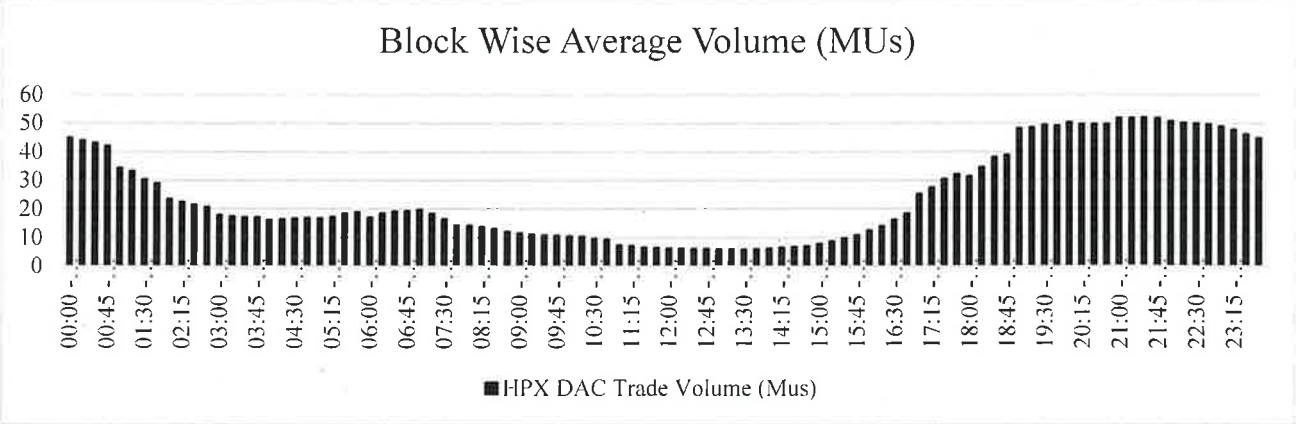
1.2. Furthermore, the Commission notes that continuous matching was originally allowed for contingency contracts under the assumption of inadequate liquidity in these segments. Nonetheless, DAC has shown substantial growth over time, suggesting the need for a single price discovery mechanism instead of relying solely on continuous matching. The absence of a uniform price for corresponding time blocks may fragment the market, resulting in price disparities among participants and exacerbating price uncertainty. Therefore, the Commission feels that there is need to review (i) the continuation of existing contracts and (ii) the current matching mechanism for contingency contracts in light of the performance of these market segments/contracts over the years and the introduction of other competing contracts, such as RTM.

HPX's Comments:

1.3. It is worthwhile to note that the participants first try to secure day ahead shortage of power from DAM market. On being unsuccessful in DAM, which generally occurs when prices touch the ceiling and distress buying prevails in the market owing to pro-rata allocation in the collective market, the shortfall is tried in DAC segment. RTM generally in such a situation is not considered an avenue as already market has given the signal that there is distress in the market which may also pass on to the next collective segment, RTM, which

again works on the principal of pro-rata allocation. Hence, the participants rely on DAC segment after DAM and RTM is considered as the avenue of last resort.

1.4. We have analysed DAC trades executed on HPX platform for last one year i.e. from Oct'23 to Oct'24,



As can be seen from the graph bulk of the trades on our platform are concentrated in peak hours 61% of the total HPX DAC volume was traded in 8 hours (17:00 -24:00 & 00:00-01:00). It is well known that these are generally peak hours and buyers normally resort to distressed buying during these hours to meet the high demand. Moreover, buyers are desperate to secure the volume during these hours and doesn't want the uncertainty associated with collective transactions where there is no surety whether the buyer will be able to secure the desired volume. This justifies the slight premium commanded in the DAC segment over other segments.

1.5. A comparison of the prices discovered in DAC segment (on HPX) and DAM segment shows that DAM prices were lower than DAC prices in 53% of the time blocks whereas the DAM prices were equal or more than DAC prices in rest 47% of the time blocks. Thus, it is incorrect to infer that DAC prices remain consistently higher than DAM. where DAM prices are more than DAC prices and 21% of time blocks where DAM prices are equal with DAC prices.

Month	DAM Volume (Mus)	DAM MCP (Rs/Kwh)	HPX DAC Volume (Mus)	HPX DAC Price (Rs/Kwh)	Price Difference
Jan'24	5561.85	7.06	173.81	8.4	-1.34
Mar'24	4658.59	4.14	157.16	4.4	-0.26

The above two cases clearly depict the market behaviour during high demand and normal demand. When the demand is high (Jan'24), the difference between prices of DAM and DAC segment is also high which shows distress buying by the participants. And when the demand is low (Mar'24) price difference is not substantial. This clearly shows that the prices are reflective of prevalent demand-supply situation at a particular time and cannot be attributed to design of a particular market segment.

1.6. We would also like to highlight a situation observed in DAC contracts attributed to the shutdown of the largest hydro merchant plant, which was affected by a natural calamity on October 4, 2023. The same is also evident from the chart-2 of Suo-motu order. Prior to the shutdown, plant was a significant power generator, effectively storing power for sale during peak hours in the winters and for RTC during the summers. Following its closure, there was a marked decrease in sale bid during peak hours, resulting in distress purchasing behaviours that led to pro-rata allocations in the DAM during these critical periods.

2. Establishing pre-specified time slot on exchange platform for TAM Segment (including HP-TAM)

Commission's Proposal:

2.1 The Hon'ble Commission has proposed that all power exchanges shall permit only the established pre-specified slots on the exchange platform for TAM contracts (including HP-TAM). These pre-specified slots include Base/RTC, Peak, Off-Peak (other than Peak), and Night, with the peak period defined by the NLDC. For G-TAM, Power Exchanges shall have the flexibility to pre-specify slots based on the generation profiles of different technologies as submitted by sellers.

HPX's Comments:

2.2 We would like to humbly submit that different DISCOMs exhibit diverse load profiles, particularly during peak hours across different time blocks, and each RLDC has defined its own peak hours. Consequently, exchanges may face challenges in accurately mapping these variations in the existing scenario. Furthermore, implementing pre-specified slots would contradict the spirit of the market, as exchanges offer a variety of diverse products and allow participants to optimize their trading strategies according to their consumption or generation patterns. This flexibility promotes higher participation and enhances liquidity in the TAM segment. Limiting the TAM segment to a few time slots could discourage participants whose needs do not align with the operational requirements, potentially distorting the market given that peak demand fluctuates seasonally and is influenced by factors such as heating and cooling load variations.

2.3 Considering the above, we suggest keeping flexible contracts available to trade in TAM & HP-TAM are better suited to generators & DISCOMs to balance load profile.

3. Direction on Revision in timelines of ADSS Contract

Commission's Proposal:

3.1 The Hon'ble Commission has suggested revising the timelines that are specified for various stages of ADSS contracts. The bid receiving window is proposed to set at a maximum of 2 days (48 hours), while the IPO auction will have a maximum duration of 2 hours (120 minutes). For the reverse auction, a minimum duration of 2 hours (120 minutes) is required, with the possibility of an extension until 24:00 hours on the auction day. Additionally, the acceptance window is capped at a maximum of 2 days (48 hours).

HPX's Comments:

3.2 We would like to humbly submit that the proposed timelines for the different stages of the ADSS contract as a welcome step. This structured approach is expected to enhance efficiency and clarity within the ADSS segment, fostering a more transparent and organized bidding process. However, acceptance window of 2 days would be difficult for buyers as most of them are state utilities and taking decision in such short span may not be feasible for them, it is our humble request that acceptance window may please be increased to 5

working days and shall be concluded before two days of delivery. Adhering to these timelines is expected to result in improved participation from sellers and a more streamlined auction process, ultimately benefiting the entire market.

4. Withdrawing the Intra-Day Contracts from all power exchanges

Commission's Proposal:

4.1 The Commission has observed low liquidity in intraday contracts since their introduction and has proposed to withdraw intraday contracts from all power exchanges effective from a specified date, in accordance with Regulation 25(3) of PMR 2021.

HPX's Comments:

4.2 On withdrawal of Intra-Day Contracts from Power Exchanges, RTM is the only option left with market participants to sell/purchase power. Continuous matching in intraday contracts assures market participants to trade electricity at a given market price whereas, in RTM there might be a chance of partial/no clearance of bids. In case of non-clearance of bids in RTM, market participants have no other options (products) available at Exchange platform to meet their Real Time demand of Power.

4.3 RE-rich State/ RE Super-rich State comes up with an inherent nature of Injection variability from RE Plants. On sudden demand of power by such state's utilities, there may be occurrence of partially/ no clearance in Real-Time Market. On such an event utility will look for over drawl for which penalty will be payable by buyer.

4.4 There may be situations where a gas-based power plants needs to despatch its available power in contingency situations. For this, gas-based plant requires sufficient Ramp-up or Ramp-Down schedule. If the required Ramp- UP/ Ramp-Down power not got fully cleared in RTM segment than it will be difficult to meet the transaction obligation.

4.5 Under Intra Day Contracts, conventional and green energy sellers can trade where price cap of Rs 10/kWh is applicable, and High Price sellers can sell power where price cap is Rs. 20/kWh. In case of sudden requirement of larger capacities by DISCOMs, they can purchase power from gas-based generators under high price intraday contracts in case of

non-availability of such larger capacity from other sellers. Similarly, gas-based generators are also having option to sell power in intraday segment at more than 10/kWh and having a certainty of time duration as they would require 4-5 hours being in operation. Such underutilisation of assets would have distressing impact on the generating companies and would eventually lead to creation of NPAs (Non-Performing Assets).

4.6 Therefore, we would like to humbly request that the intraday contracts be allowed to continue as they are in the present setup and need not be withdrawn.

5. Modifying the price discovery mechanism in case of Contingency Contracts

Commission's Proposal:

5.1 The Hon'ble Commission has proposed to modify the price discovery mechanism for contingency contracts from the existing continuous matching to a uniform price step auction.

HPX's Comments:

5.2 We would like to humbly submit that in international practices, several power exchanges, such as the European Power Exchange (EPEX), the Nord Pool Power Market, and the UK Power Exchange (UKPX), utilize continuous matching for price discovery in their contingency segments. Auctions are normally used in liquid markets with multiple buyers and sellers to achieve efficiency and maximize social welfare. Transitioning this market to an auction-based model would render all market segments similar in terms of price matching methodology, thus depriving market participants of the variety available and guarantees currently available in the present setup. Moreover, the fundamental meaning of the contingency market would also change if the price discovery methodology shifted to an auction-based system. Contingency markets are inherently associated with distress buying, and parties are eager to obtain results as soon as possible in order to close their positions.

5.3 In light of the views mentioned above, we would like to humbly request that the existing price discovery mechanism, which has been functioning effectively, should be allowed to continue without any changes.