



## KERALA STATE ELECTRICITY BOARD LIMITED

(Incorporated under the Indian Companies Act, 1956)

### TARIFF AND REGULATORY AFFAIRS CELL

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KSEBL/TRAC/CG/ Tariff Reg 2024-29/2023-24/

.11.2024

To,

The Secretary

CENTRAL ELECTRICITY REGULATORY COMMISSION

3rd & 4th Floor, Chanderlok Building, 36, Janpath, New Delhi -110 001

Sir,

Sub: 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. – KSEBL Remarks - Reg.

Ref.: - CERC Public notice File L-1/257/2020/CERC dated 04.11.2024.

Please refer above.,

KSEBL's Response on the Proposed Changes in Price Discovery Mechanism for Contingency Contracts in the Power Exchanges is furnished herewith;

### **I. Proposal of Changing price discovery mechanism**

- 1. Introduction and Background:** KSEBL appreciates the initiative to review and propose changes in the price discovery mechanism for Contingency Contracts. It is noted that the draft proposal seeks to replace the existing continuous matching mechanism in the Day-Ahead Contingency (DAC) market with a Uniform Price Step Auction. While this shift aims to address some structural aspects of price discovery, KSEBL respectfully submits that the continuous matching mechanism currently operational has been

advantageous for buyers, particularly in addressing supply-demand mismatches in critical market conditions.

2. **Concerns Regarding Uniform Price Step Auction Mechanism:** KSEBL wishes to highlight specific concerns regarding the proposed Uniform Price Step Auction mechanism, as follows:
3. **Impact on Evening Peak Prices and Power Availability:** Under the current DAC continuous matching system, KSEBL, along with similar buyers, can effectively manage demand volatility arising from outages, fluctuating wind generation, and other unexpected supply interruptions. During peak hours, when market supply volumes are lower, large DISCOMs with substantial buy volumes influence the clearing prices significantly in the Day-Ahead Market (DAM) and Real-Time Market (RTM). This often results in bid clearances at ceiling prices (Rs. 10/kWh), with only small quantities (e.g., 0.1 MW, 1 MW) clearing against much larger bids (e.g., 500–700 MW).
4. To ensure reliable and consistent procurement, KSEBL relies on the DAC market, where continuous matching allows for predictable quantities during peak demand blocks. With a shift to Uniform Price Step Auction, we anticipate that price spikes and insufficient clearances could similarly arise in the contingency market, thereby undermining its reliability for meeting high-demand requirements during peak hours.
5. **Recommendation:** KSEBL proposes that the Uniform Price Step Auction be introduced as an additional product alongside the existing DAC continuous matching product. This would offer flexibility and enable participants to choose the most suitable mechanism for their needs without compromising existing DAC benefits.
6. **Need for Price Cap and Surveillance Mechanism for Suppliers:** Given the potential price volatility and the current high bid prices in certain blocks, KSEBL recommends the implementation of price cap measures for suppliers on the Power Exchanges to maintain fair and reasonable price discovery across the market. To this end, the following mechanisms are suggested:

**a. Monthly Declaration of Variable Costs:**

All supplier categories on Power Exchanges should be required to declare their variable costs monthly to the National Load Despatch Centre (NLDC). This data, while kept confidential, will enable NLDC to conduct effective market screening and surveillance and should be accessible to all three exchanges for review.

**b. Benchmark Supply Offer (BSO) Compliance for Suppliers:**

Each supplier's bid price in any time block should be restricted to a maximum of 1.6 times their respective BSO, with a daily average bid cap of 1.2 times the BSO, subject to an absolute ceiling price of ₹10/kWh. This measure will prevent excessive price deviations while allowing suppliers reasonable flexibility.

**c. Daily Computation and Reporting of Supplier Prices:**

Exchanges should calculate each supplier's average daily price using the outlined formula and submit this to the designated agency, NLDC, for further analysis of BSO deviations. Deviations should be accompanied by justifications from the supplier, and penalties may be imposed for substantial deviations lacking reasonable cause.

**II. Proposal Regarding Pre-specified Slots and Withdrawal of Intra-day Contracts**

7. The various market Segments in the Indian Power Exchange like DAM-Day Ahead Market, DAC- Day Ahead Contingency, RTM- Real time Market and TAM-Term-Ahead Market offers flexibility for load balancing, for mitigating operational handicaps and finally for optimizing cost of procurement. Each segment caters to distinct procurement needs of the buyers, thereby minimizing market volatility and optimizing cost management.
8. With the increasing renewable penetration growth and unpredictable variation in weather and huge variation in weather forecasts even in a day, the real time load dispatch is becoming a herculean task of the system operator. The forecasted demand is in no match with the actuals and there is a dire need for power procurement in the immediate hours to move forward even with all the planned procurement done on D-1 th day. The existing segments, especially the real-time market and DAC facilitate dynamic balancing, providing buyers with flexibility and opportunities to accommodate the variability in real time demand minimizing the curtailment of load and loss of generation as export to grid in the case of low demand.

9. Hence KSEBL request that measures to ensure power to all participants in the market at an economical rate is the need of the hour. It is true that TAM markets are always cleared at higher rates. Hence measures to curtail or dissuade the sellers from offering such high rates are to be enforced before curtailing the existing products that offer flexibility to the market participants.
10. Hence KSEBL request CERC to look into the actual factors resulting in higher TAM clearing market rates and other associated factors before negating the existing market segments in the Indian Power exchanges.

Sd/-

Chief Engineer  
Commercial & Tariff