

NAME/MD/Reg/CERC/2024-25/SM-8/001

November 04, 2024

To,

Shri H S Pruthi,

Secretary,

Central Electricity Regulatory Commission

7th Floor, Tower B, World Trade Centre,

Nauroji Nagar,

New Delhi- 110029

Email: secy@cercind.gov.in; Ashutosh.sharma@nic.in

Subject: 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.

Dear Sir,

Kindly refer to the Notice No. L-1/257/2020/CERC dated October 4th, 2024, inviting suggestions from the stakeholders on the order.

We wish to provide you with our comments/ suggestions on the Petition for your kind consideration and are attached 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 before the Hon'ble Central Electricity Regulatory Commission ('CERC'), if so required.

We take this opportunity to thank you and take our comments on record.

Warm regards,



Kapil Dev,

Managing Director



Registered Office:

6th Floor, Statesman House, Barakhamba Road Connaught Place,
New Delhi - 110001 India

CIN : U72900DL2022PTC413048

New Age Markets in Electricity Pvt. Ltd.

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Annexure
Comments/ Suggestions on the Draft Order 8 SM

Preliminary Comments

1. New Age Markets in Electricity Private Limited (NAME) is a private limited company having its registered office at 6th Floor, Statesman House, Barakhamba Road, Connaught Place, New Delhi -110001 and operates India's first Over-the-counter (OTC) platform licensed and established under Central Electricity Regulatory Commission (Power Market) Regulations 2021 ("PMR 2021").
2. As was mentioned in the Staff Paper on Power Market Pricing, the institutional arrangements for short term transactions are classified into OTC Market and Power Exchanges and the OTC Platform is firmly placed in the OTC Market. Furtherance to this regulatory certainty and in our role as a market infrastructure institution, we are offering our comments based on the larger interest of the market participants, in particular, and market stakeholders, in general.
3. The comments take into consideration the current as well as evolving market structure as new institutions become operational. With the introduction of OTC Platform in the OTC Market, it is imperative that the institutional mechanisms are harmonised to the envisaged roles. All collective transactions with uniform price clearing have to be at exchanges whereas all bilateral transactions have to move towards OTC Market facilitated through the OTC Platform. We firmly believe that developing an orderly market structure which offers choices and doesn't allow overlaps will lead to a well reported and deeper power market in the country.
4. We have referred to the following documents in preparing the comments for the draft order:
 - a. CERC Notification dated July 20, 2006 on Developing a Common Platform for Electricity Trading;
 - b. CERC Order dated January 18, 2007 in Petition 155/2006 for Development of a common platform for electricity trading;
 - c. CERC Order dated September 11, 2009 in Petition 178/2009;
 - d. CERC Order dated August 31, 2009 in Petition 120/2008;
 - e. CERC Order dated August 31, 2009 in Petition 166/2008;
 - f. CERC Order dated December 2, 2009 in Petition 199/2009;
 - g. CERC Order dated July 6, 2012 in Petition 147/MP/2012;
 - h. CERC Order dated June 7, 2022 in Petition 219/MP/2021; and
 - i. Comments from market participants on market coupling wherein request to couple TAM markets is made.
5. We have based our comments and suggestions keeping in view the following areas and/or principles:

a. Liquidity & Fragmentation Concerns:

A crucial aspect of short-term markets like TAM and G-TAM is the availability of liquidity. **Standardization leads to building liquidity and therefore, the process and the Contract needs to be standardized** as has been the case in Day Ahead Market (DAM) & Real Time Market (RTM).

Availability of **multiple contracts for same delivery period will lead to fragmentation** of the liquidity. This fragmentation of liquidity **changes the nature of the contract** from **many-to-many to one-to-many or one-to-one**. This changes the nature of the transaction and affects the efficiency of the price discovery process for a uniform price clearing contract. Two, even in the current market structure, one opportunity is extended for DAM, one for RTM and two for REC. Similarly, **one opportunity per week for a weekly contract, one opportunity per month for a monthly contract and so on and so forth be offered. Exchanges is not the venue for customised process and configurable requirements.**

This was also mentioned in the petition bearing number 219/MP/2021 that overlapping of the contracts will be taken care of in the trading and settlement calendar. The relevant extract is mentioned below:

"14. Stakeholders have commented that introduction of multiple contracts and overlapping of these contracts may cause loss of liquidity in the market. In response, the Petitioner has submitted that availability of different contracts will provide flexibility to the market participants to meet their specific needs. The issue related to overlapping of contracts shall be taken care of while issuing the Trading and Settlement calendar."

However, it is evident from the circulars (as attached herewith) issued by Petitioner that there are multiple auctions which are concurrently running, one for each buyer, with overlapping delivery periods leading to fragmentation of liquidity.

Accordingly, **a pre-defined trading calendar duly approved by Hon'ble CERC needs to be submitted wherein liquidity is pooled for all buyers and sellers in a standard contract.** It is worthwhile to mention that in case of DAM not all participants place bid for all the hours and hence, the same can be adopted for TAM as well. **The trading calendar should provide only one opportunity for each contract and there should be only one contract open for bidding at any given point in time.**

b. Exchange to facilitate many-to-many contracts

The extract from CERC Order in Petition 219/MP/2021 in the matter of Indian Energy Exchange Limited versus Power System Operation Corporation on the price discovery methodology was done is reproduced below:

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"Para 36 - We note that presently adequate liquidity is not there in the Weekly contracts offered by the Petitioner's Exchange., since inception is using Uniform Price Step Auction. However, the Petitioner has never approached the Commission to change its price discovery and matching mechanism to Continuous trade session on account of low liquidity in these contracts. This could be indicative of the fact that Uniform Price Step Auction can also be used in low liquidity scenarios. Moreover, since the Uniform Price Step Auction has merits over the Continuous trade Session in terms of transparency and efficiency in price discovery, we approve the use of Uniform Price Step Auction only as a matching methodology for price discovery in Daily, Weekly and Monthly Contracts. We further direct the Petitioner to use open auction for Uniform Price Step Auction so that the participants while bidding for these contracts can take informed decisions after seeing buy and sale bids offered by other anonymous participants."

From the above, it is clear that the intent was to have multiple buyers and multiple sellers for the product segment. **In other words, the hallmark of an exchange and the envisaged regulatory role is to facilitate many-to-many contracts and not one-to-one or one-to-many contracts. Further, in case the participation is by one buyer & one seller, this auction may be declared void and that no price could be discovered between buyers & sellers.**

Further, as per Regulation 2(1)(bf) of PMR 2021,

"(bf) "unpublished price sensitive information" means any information, relating to contracts transacted on the Power Exchange, that is not generally available which upon becoming generally available, is likely to materially affect the price of the contract and shall ordinarily include, but not restricted to, information relating to the following contracts:

- (i) Day Ahead Contract;*
- (ii) Real-time Contract;*
- (iii) Intraday Contract;*
- (iv) Contingency Contract;*
- (v) Term Ahead Contract."*

The information on the contracts may be classified as unpublished price sensitive information and has the potential to impact the prices of the contracts.

In light of the above, double sided closed auction, anonymous and simultaneous bidding and uniform clearing price should be the methodology for the contracts on exchanges.

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c. Contracts are for Physical Delivery:

The extracts from the order dated August 31, 2009 in the petition bearing number 120/2008 are reproduced below:

“Open Access and Scheduling

*11. The approved contracts are power contracts with **constant MW** to be supplied during the contract period.*

*18. In the Contract Specifications of certain contracts, (Annexure X(b) and others) at Serial No. 25, the applicant has sought for revision of trade for orders placed by them erroneously, within 10 minutes of such trading taking place. The Commission feels that this provision could be misused based on price considerations. **Therefore, revision of trade is not allowed.**”*

Default and Penalty

15. There should be sufficient deterrent built in the settlement system for any commercial consideration motivated default by participant due to market price variation. This is needed to maintain the sanctity of the contracts. Penalty for default to profit from better price in other markets shall be treated severely.”

The relevant extracts from the order dated 07.06.2022 in the petition bearing number 219/MP/2021 in the matter of Indian Energy Exchange Limited versus Power System Operation Corporation are reproduced below:

*“52. We note that the mechanism of final price settlement as proposed by the Petitioner has been in practice since the commencement of the existing term ahead contract at the Power Exchange. We further note that no adverse feedback regarding the said mechanism has been received in this context. Accordingly, we approve the price settlement as proposed by the **Petitioner subject to the condition that the netting off of the positions shall not be allowed.**”*

*“53. We hereby direct the Petitioner to schedule these contracts, viz., Daily, Weekly, Monthly and Any day Single Sided contracts **on the first available day following the transaction day and to strictly abide by the following conditions of NTSD contracts:***

- i. **the contracts are settled only by physical delivery without netting;***
- ii. **the rights and liabilities of parties to the contracts are not transferable;***
- iii. **no such contract is performed either wholly or in part by any means whatsoever, as a result of which the actual delivery of electricity covered by the contract or payment of the full price therefor is dispensed with;***
- iv. **no circular trading shall be allowed and the rights and liabilities of parties to the***

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specific delivery contracts shall not be transferred or rolled over by any other means whatsoever;

v. the trading shall be done only by authorized grid connected entities or trading licensees on behalf of grid connected entities, as participants;

Accordingly, the availability of contracts on a rolling basis provides for an opportunity to roll over the position through different contract for the same period of delivery. The contract trade calendar should be designed so that there is only one contract for a particular time period available to the members at any given point in time.

56. Once a transaction takes place and contract is entered into, no partial or full rejection of the contracted quantity shall be allowed, except in the case of force majeure or constraints in the transmission corridor, subject to the validation by the system operator and default mechanism of the Petitioner's Exchange.

57. The capacity offered, as a sell bid in Power Exchange under the Daily, Weekly,

Monthly and Any-day single sided contracts from a resource in the same time-block, shall be separate and non-overlapping. Non-compliance of the same by any of the parties to the transaction shall lead to its debarment as a member or client and/or revocation or suspension of registration, along with the other actions for market abuse taken under the PMR 2021 and other applicable Regulations of the Commission."

From the above, it is evident that:

- Standard and fixed terms and conditions of the contract have to be defined.
- The exchange cannot allow flexibility to the members to define the contours of the product or the process.
- The trading calendar should define the process for delivery and financial settlement along with the timelines so as to ensure that adherence to the contracts is ensured.
- The pay in and pay out cycle should not net off the positions of the already executed contracts.

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Suggested Comments on Draft order under SM Petition 8/SM/2024

S.No.	Clause No.	Direction by the Commission	Suggestion from NAME	Rationale for Change	Legal Basis
1.	24(a)	<i>All Power Exchanges shall allow only the established pre-specified slots on the exchange platform for TAM contracts (including HP-TAM). These pre-specified slots shall include Base/RTC, Peak, Off-Peak (other than peak), and Night, wherein the peak period would be as defined by the NLDC. In the case of G-TAM, Power Exchanges shall have the liberty to pre-specify slots based on the generation profile of different technologies, as provided by the sellers. Exchanges should submit the pre-specified contracts for approval of the commission.</i>	(i)All Power Exchanges shall allow only the established pre-specified slots & <i>pre specified trading calendar duly approved by the Hon'ble CERC</i> on the exchange platform for TAM (including HP-TAM) contracts. These pre-specified slots shall include Base/RTC, Peak, Off-Peak (other than peak), and Night, wherein the peak period would be as defined by the NLDC. In the case of G-TAM, Power Exchanges shall have the liberty to pre-specify slots based on the generation profile of different technologies, as provided by the sellers. Exchanges should submit the pre-specified contracts for approval of the commission. <i>(ii)The pre specified Trading calendar shall provide only one opportunity for each contract.</i>	(i)In order to avoid the fragmented liquidity scattered over various contracts of power exchange the standardization of trading calendar is a necessity. This will not only help in pooling the liquidity but also help in the discovery of a uniform price per contract per delivery period. As power exchange is a platform for standardized contracts, if any customization is required at all, it shall be the forte of OTC Platforms only. (ii) Segmentation of price in similar nature of contracts may hamper the efficacy of discovered prices & the price discovery process itself.	PMR-2021 Petition No.- 229/MP/2021, 219/PM/2021, and 206/MP/2022 & Our Preliminary comment at point (b)
2.	24(b)	<i>All Power Exchanges shall follow the timelines for different stages of ADSS contracts, including the bid receiving window/submission of</i>	All Power exchanges shall run the Bidding & Auction process of ADSS Contracts <i>only once a month</i> as per the timelines specified & approved	The overlapping delivery period of ADSS Circulars demands for a uniform discovered price for all the	Our preliminary comment at Point (a) & (b)

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		interest quantity by sellers, IPO auction, Reverse Auction, and Bid acceptance window as follows.	by the commission.	<p>participants, different trading calendar for different circulars may not only lead to different prices for different participants but also lead to hedging as well as netting.</p> <p>ADSS contracts are by nature customized contracts which results in discovery of individual prices for different circulars; also, the nature of contract is many-to-one which is against the principles of PXs & deviation from the directives set by CERC for PXs.</p> <p>We do understand the need of customization needed in the markets, as Customization is a characteristic of OTC Markets, all the Customized contracts shall be done through the CERC Regulated OTC Platforms.</p>	
3.	24(c)	<i>In view of the very low liquidity in Intra Day Contracts since its introduction, the availability of the alternative Real-Time Market, and to avoid market fragmentation, it</i>	(i) In view of the very low liquidity in Intra Day Contracts since its introduction, the availability of the alternative Real-Time Market, and to avoid market fragmentation,	The existence of more than one similar nature & Similar delivery period contracts may provide the flexibility to the participants but it	PMR-2021 Our Preliminary comments at Point (c)

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		<i>is proposed to withdraw Intra-Day Contracts in all the Power Exchanges from a pre-specified date, in terms of Regulation 25(3) of PMR 2021.</i>	it is proposed to withdraw Intra-Day Contracts in all the Power Exchanges from a pre-specified date not later than 31 st December 2024, in terms of Regulation 25(3) of PMR 2021.	leads to the fragmentation of liquidity. Also, this fragmented liquidity leads to discovery of different prices for the same time blocks going against the spirit of Uniform Price discovery. As the Commission is moving towards market Coupling which envisages the concept of “One Market One Price” it is prudent enough to take steps to remove the price asymmetry distributed across same delivery period & similar nature contracts.	
4.	24(d)	<i>It is proposed to modify the price discovery mechanism in the case of Contingency Contracts to Uniform Price Step Auction from the existing Continuous matching. The Commission proposes to issue amendment(s) in PMR 2021 to this effect.</i>	It is proposed to modify the price discovery mechanism in the case of Contingency Contracts to Uniform Price Step Auction from the existing Continuous matching. The Commission proposes to issue amendment(s) in PMR 2021 to this effect not later than 31 st March 2025.	In order to implement the suggestions made by the Hon'ble CERC within a stipulated time frame, the changes shall be made by 31 st March 2025.	PMR-2021

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5.	24(e)	<p><i>Till the time the amendments to PMR 2021 come into effect, the Power Exchanges shall follow the directions in case of Contingency contracts as under:</i></p> <p><i>(i) Power Exchanges to make changes in the software/ market watch so that all the parties are able to see all the buy and sell offers for 10 minutes before the order gets transferred to the order book; after the expiry of this period, best buy and sell bids get cleared, and</i></p> <p><i>(ii) Power Exchanges to display information regarding the number and volume of bids received (both buy and sell) on their website, in addition to the data on traded volume.</i></p>	<p>Till the time the amendments to PMR 2021 come into effect, the Power Exchanges shall follow the directions in case of Contingency contracts as under:</p> <p>(i) Power Exchanges to make changes in the software/ market watch so that all the parties are able to see all the buy and sell offers for 10 minutes before the order gets transferred to the order book; & the participants shall not have the chance to modify the bids once it is transferred to the order book after the expiry of this period best buy and sell bids get cleared, and</p> <p>(ii) Power Exchanges to display information regarding the number and volume of bids received, participant name, price & quantity on their website, in addition to the data on traded volume.</p>	<p>In view of the transparency concerns, participants shall not be allowed to modify their bids by watching the counter offers as well as other offers to avoid any behind the curtain cartelization.</p> <p>Further, considering the transparency measures, in addition to the number & volume of bids received the name of participants their offered quantum & price shall also be displayed by the power exchanges on their websites.</p>	PMR-2021
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**CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI**

Petition No. 8/SM/2024

Coram:

Shri Jishnu Barua, Chairperson

Shri Ramesh Babu V., Member

Shri Harish Dudani, Member

Date of Order: 4.10.2024

IN THE MATTER OF:

Directions by the Commission to the Power Exchanges registered under the Central Electricity Regulatory Commission (Power Market) Regulations, 2021.

DRAFT ORDER

In exercise of the powers conferred under Section 66 read with Section 178 of the Electricity Act, 2003 and the National Electricity Policy, the Commission notified the Central Electricity Regulatory Commission (Power Market) Regulations, 2021 (hereinafter 'PMR 2021') on 15.02.2021, which came into force with effect from 15.08.2021. These regulations apply to the Power Exchanges, market participants other than Power Exchanges, and the OTC Market.

2. Regulation 4 of the PMR 2021 enlists the various types of contracts for trading, and Part 3 (i.e., Regulations 5 to 7) provides the features of each of these contracts, covering aspects like Price Discovery, Scheduling & Delivery, etc.

3. At present, the following types of contracts for electricity are available at the Power Exchanges:

- a. Day Ahead Contracts, including Green Day Ahead and High Price Day Ahead contracts
- b. Real-Time Contracts



- c. Intraday Contracts, including Green Intraday and High Price Intraday contracts
- d. Day-Ahead Contingency Contracts, including Green Day-Ahead Contingency and High Price Day-Ahead Contingency contracts
- e. Term Ahead Contracts (Daily/Weekly/Monthly/Any-Day Single Sided Contracts) including Green Term Ahead and High Price Term Ahead contracts

4. Initially, when the two Power Exchanges, viz., Indian Energy Exchange (IEX) and Power Exchange India Ltd. (PXIL), started operations in 2008, only Day Ahead contracts were offered on their platform. Later, vide Orders dated 31.08.2009 in Petition No. 120/2008 (of IEX) and Petition No. 166/2008 (of PXIL), the Commission approved the introduction of additional contracts, i.e., Day-ahead Contingency contracts, Intra-day contracts, Daily contracts & Weekly contracts.

5. To serve the growing volumes of electricity trade and increasing penetration of renewable energy in the grid, the Commission approved the introduction of a Real-Time Market (RTM) vide Order dated 29.05.2020 in Petition No. 225/RC/2020 (of IEX) and 304/MP/2020 (of PXIL). RTM provides buyers & sellers with an organized platform for trading electricity closer to real-time.

6. Further, the Commission, vide Orders dated 07.06.2022 in Petition No. 219/MP/2021 and 229/MP/2021 of IEX and PXIL, respectively, approved the introduction of longer duration contracts up to 3 months duration in the Term-Ahead market and Green Term-Ahead Market. The introduction of these contracts has been made possible due to the outcome of the Hon'ble Supreme Court of India Order dated 06.10.2021, which disposed of the jurisdictional matter between CERC and SEBI in terms of the agreement reached between the two, which provided that the CERC will regulate all the physical delivery contracts, whereas the SEBI will regulate the financial contracts. These contracts are allowed as non-transferable specific delivery-based forward contracts (NTSD contracts) at power exchanges in both conventional and renewable energy segments. The Commission approved these contracts for a maximum duration of three months by following a gradual approach. The Commission allowed the revision in timelines of the existing Daily and Weekly contracts, as well as the introduction of Monthly and Any day single-sided contracts on the exchange platform.

7. The Table below provides details of matching mechanisms and bidding timelines in various types of contracts on the Power Exchanges.

Table 1: Matching Mechanism and Bidding Timelines in Power Exchanges

Contract Type	<u>Bidding Mechanism</u>	Matching Mechanism	<u>Clearing Mechanism</u>	Bidding/Trading Time		
				IEX	PXIL	HPX
Integrated-Day Ahead Market	<u>Double sided, closed, simultaneous, Bidding</u>	<u>Double-Sided-Closed-Auction-with-Uniform-Price</u>	<u>Uniform Price</u>	10:00 - 11:00	10:00 - 11:00	10:00 - 11:00
Real-Time Market		<u>Aggregate Demand & Aggregate supply for Collective Transaction</u>		22:45 - 23:00 (Session 1) and onwards	22:45 - 23:00 (Session 1) and onwards	22:45 - 23:00 (Session 1) and onwards
Intra-day	<u>Double sided open simultaneous bidding</u>	Continuous Matching With <u>Price Time Priority</u>	<u>Pay as you bid.</u>	00:15 - 19:30 Delivery 3.5 hrs ahead	00:15 - 20:30 Delivery 2.5 hrs ahead	00:00 - 20:30 Delivery 2.5 hrs ahead
Day Ahead Contingency				13:00 - 23:30 Delivery 3.5 hrs ahead	13:00 - 23:00 Delivery 2.5 hrs ahead	13:00 - 23:30 Delivery 2.5 hrs ahead
Term Ahead Market - Daily	<u>Double sided open simultaneous Bidding</u>	<u>Uniform-Price-Step-Auction</u> <u>Cumulative Buy & sell.</u>	<u>Uniform price step auction</u>	12:00 - 17:00	12:00 - 17:00	12:00 - 17:00
Term Ahead Market - Weekly				12:00 - 17:00	12:00 - 17:00	12:00 - 17:00
Term Ahead Market - Monthly				12:00 - 17:00	12:00 - 17:00	12:00 - 17:00
Any Day Single Sided Contracts (ADSS)	<u>Single sided closed sequential bidding</u>	Reverse Auction	<u>L1 Selection by buyer & bucket filling mechanism</u>	00:00 - 24:00	00:00 - 24:00	00:00 - 24:00

8. Lately, some concerns have been raised by the stakeholders regarding price discovery in the Day-Ahead Contingency contracts. The issues relating to high prices in Day-Ahead

Contingency contracts and potential deficiencies in the price discovery mechanism in the case of TAM have also been pointed out by the Ministry of Power. Moreover, the Commission's staff has observed some anomalies in the operation of the Term-Ahead Market, including Any-Day Single-Sided contracts.

9. The Commission has examined the trend in volume and price of Contingency and Term Ahead Contracts in Power Exchanges over the years and the emerging issues in these market segments/contracts. Each of these market segments/contracts is dealt with in the subsequent paragraphs.

Intraday and Day-Ahead Contingency Contracts

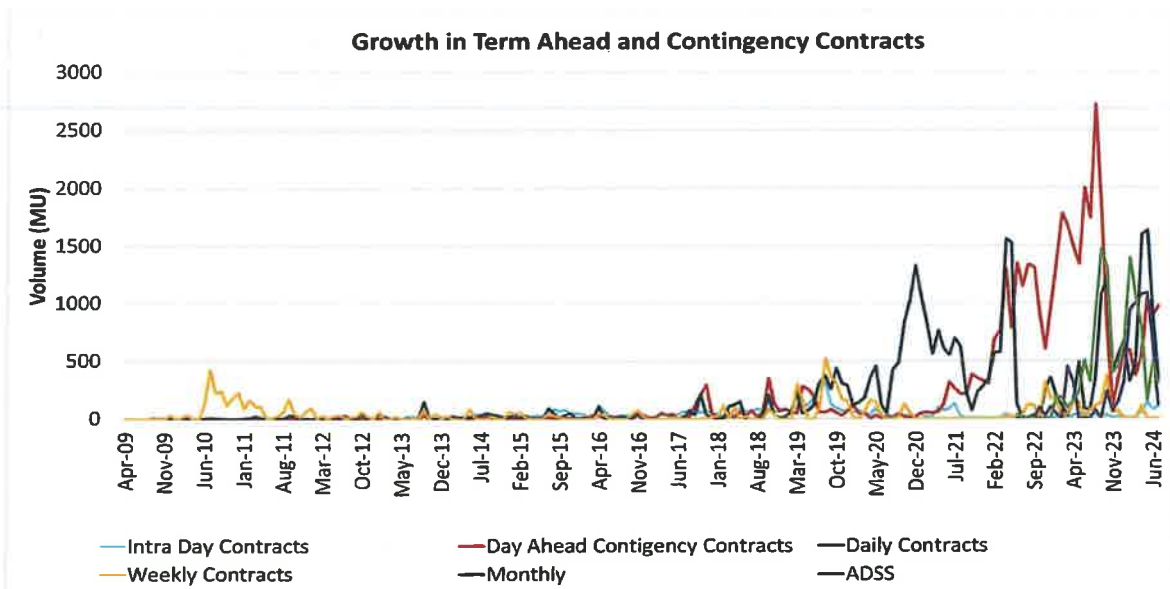
10. While the Intra Day market in the Power Exchanges was specifically introduced to address the need for meeting energy requirements closer to real-time, the Day Ahead Contingency market (DAC) was introduced primarily with the objective of addressing the unexpected changes or contingencies that occur after closing of Day Ahead Market (DAM).

11. In order to provide the grid-connected entities with measures to respond optimally and in pursuance of the development of the market, the staff of the Commission published a staff paper on "Extended Market Session on Power Exchanges" on 8th July 2014, which proposed two options – (1) 24x7 intraday/contingency contracts, (2) Operating Day ahead auction in the evening on Power Exchanges. Subsequently, the Commission vide Order dated 8.4.2015 in Petition No. 6/SM/2015, after public consultation & deliberations, directed the Power Exchanges to operate 24x7 intraday/contingency market. The directions given in the order were implemented by IEX and PXIL w.e.f 20.7.2015.

12. With regard to the Intra Day contracts, it has been observed that the segment of the market has not been able to attract much liquidity since its introduction (Chart-1 below). This was also discussed in the CERC discussion paper on "*Re-designing Real-Time Electricity Markets in India*," wherein some of the plausible reasons for such low response observed were (i) inertia of DISCOMs and absence of delegation of decision-making power at operators' level, (ii) the price discovery methodology, viz., continuous trading based on pay-as-you bid principle as against the auction based on uniform clearing price, being restrictive to the growth, and (iii) absence of gate closure.

13. With the introduction of the RTM in June 2020, a market closer to real-time with sale/purchase based on the methodology of uniform clearing has been made available to market participants, and the concept of gate closure has also been brought in. Thus, the concerns related to the intra-day market were considerably addressed with the introduction of RTM. There has been a significant growth in the RTM volume compared to the intra-day market.

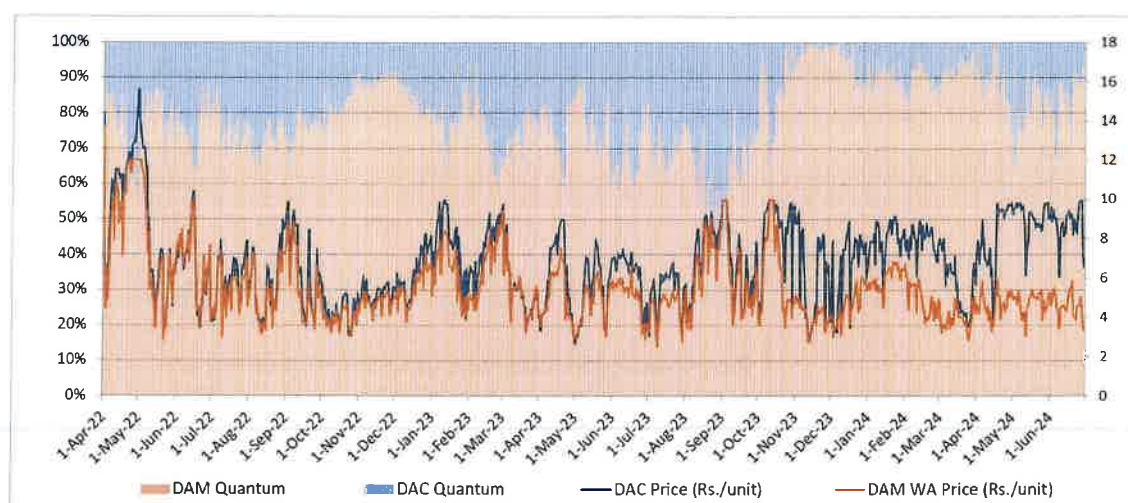
Chart 1: Growth in Term Ahead and Contingency Contracts



14. The Day Ahead Contingency market had also not witnessed much volume till the year 2020, except for minor spikes in between. In comparison to the Intra-day market, however, there has been a noticeable increase in DAC volume from 2020-21 onwards (refer Chart-1).

15. We have examined the trend in the daily volume and weighted average price of transactions in DAM and DAC for the period from April 2022 to June 2024, as shown in the chart below.

Chart 2: Comparison of transactions in DAM and DAC



16. From the above trends, it has been observed that the prices in DAC generally follow the same trend as prices in DAM, though with a slight premium owing to it being for contingency measures. However, from October 2023 onwards, there has been significant variation in the prices, with prices in DAC remaining consistently higher than DAM.

17. Such high prices in the DAC segment have raised both policy and regulatory concerns. During various consultations, stakeholders have also hinted at potential manipulations in the Day-Ahead Contingency contracts.

18. The Commission has always been sensitive to any form of connivance or malpractices by the market participants. The Commission also notes that continuous matching was initially allowed in the contingency contracts on the assumption of inadequate liquidity in these segments. However, the DAC has witnessed significant growth over the period, presenting a case for the discovery of a single price rather than price discovery based on continuous matching. Further, without a single price for the same time block/hour, the market becomes fragmented, with disparity of price for different participants, which also increases the price uncertainty.

19. Therefore, the Commission feels that there is a need to review the (i) continuation of existing contracts and (ii) current matching mechanism for Contingency contracts in light of the performance of these market segments/contracts over the years and with the introduction of other competing contracts, like RTM.

Term Ahead Market Contracts

20. The Commission notes that pursuant to the settlement of the issue of the longer duration contracts (beyond T+11 days) in 2021, the exchanges sought approval on the longer duration TAM & GTAM contracts beyond 11 days. After examining the Petitions and following due process, the Commission, vide Orders dated 7.6.2022 in Petition No. 219/MP/2021 and 229/MP/2021 for IEX and PXIL, and vide Order dated 30.12.2022 in Petition No. 206/MP/2022 for HPX, approved TAM & GTAM contracts for the maximum duration of three months, considering the month in which transaction is made as the zero month.

21. As observed from Chart-1 and also affirmed by the performance report on longer duration contracts submitted by Grid Controller of India Ltd. ('Grid-India') for the period September 2022 to October 2023, the liquidity in the longer duration contracts has increased over time.

22. The Commission has noticed that subsequent to the approval for Daily Contracts/ Weekly Contracts with modified timelines and the introduction of Monthly Contracts (up to 3 months) for pre-specified time blocks notified to the market participants well in advance, the Power Exchanges, through various circulars, have notified the time blocks for these contracts available for the market participants. To date, a variety of slots, like Base/round-the-clock, peak, off-peak, evening, night peak, hourly, etc., have been notified by the Power Exchanges. Many of these slots have overlapping time blocks, and some slots offer a very high level of granularity. The Commission is of the view that by notifying so many slots, the Power Exchanges are effectively letting the buyer/seller define the delivery days and time blocks. This does not augur well with the spirit of the term "pre-specified" intended by the Commission in the direction of Petition No. 229/MP/2021, 219/PM/2021, and 206/MP/2022. The Commission notes that all the Power Exchanges have attempted to introduce all possible slots of time blocks to cater to the specific needs of the market participants by issuing a number of circulars. The Commission does not consider such an approach as proper and is of the view that there is an urgent need to put a check on it by ensuring that only a few established pre-specified slots are made available on the exchange platform thereby improving liquidity.

Accordingly, a pre-defined trading calendar needs to be submitted wherein liquidity is pooled for all buyers and sellers in a standard contract. The trading calendar should provide only one opportunity for each contract and there should be only one contract open for bidding at any given point in time.

Any-Day Single-Sided Contracts (ADSS)

23. The Commission, in Orders dated 7.6.2022 and 30.12.2022 referred above, also approved the introduction of Any-Day Single Sided Contract (ADSS) for user-defined days and time blocks for the buyers. It is understood that the ADSS contracts are called upon by the buyers, as per their requisition. However, it has been observed that the Power Exchanges are also providing the option of specifying timelines like bid validity, acceptance window, etc., to the buyers, which might lead to non-serious participation and act as a deterrent to the performance of these contracts. Therefore, there is a need for a defined duration for all the stages involved in the ADSS contracts, including bid receiving window, bid validity, bid acceptance, etc., for all buyers across the exchange platforms.

24. In view of the above, the Commission proposes to give the following directions:

- (a) (i) All Power Exchanges shall allow only the established pre-specified slots on the exchange platform for TAM contracts (including HP-TAM). These pre-specified slots & pre-specified trading calendar duly approved by the Hon'ble CERC on the Exchange Platform for TAM Contracts. shall include Base/RTC, Peak, Off-Peak (other than peak), and Night, wherein the peak period would be as defined by the NLDC. In the case of G-TAM, Power Exchanges shall have the liberty to pre-specify slots based on the generation profile of different technologies, as provided by the sellers. Exchanges should submit the pre-specified contracts for approval of the commission.
- (ii) The pre specified Trading calendar shall provide only one opportunity for each contract in order to consolidate the fragmented liquidity; for example once a day, once a week, once a month etc.
- (b) All Power Exchanges shall follow the timelines for different stages of ADSS contracts, including the bid receiving window/submission of interest quantity by sellers, IPO auction, Reverse Auction, and Bid acceptance window as follows.

Bid Receiving Window	<u>On Nth day to N+2th day</u> Max-2 days (48 hours)
IPO Auction	<u>On a pre approved date after N+2th day for</u> Max. 2 hours (120 mins)
Reverse Auction	<u>On a pre approved date after the end of IPO Auction</u> Min. 2 hours (120 mins) with an extension up to 24:00 Hrs of auction day
Acceptance Window	<u>Deemed To be auto accepted with L1 After RA ends:</u> Max. 2 days (48 hours)

Note:- Nth Day shall be a pre approved date by CERC, which shall provide only one opportunity each month to the participants to participate & Initiate ADSS in order to consolidate fragmented liquidity.

- (c) In view of the very low liquidity in Intra Day Contracts since its introduction, the availability of the alternative Real-Time Market, and to avoid market fragmentation, it is proposed to withdraw Intra-Day Contracts in all the Power Exchanges from a pre- specified date, **but not later than 31st December 2024**, in terms of Regulation 25(3) of PMR 2021.
- (d) It is proposed to modify the price discovery mechanism in the case of Contingency Contracts to Uniform Price Step Auction from the existing Continuous matching. The Commission proposes to issue amendment(s) in PMR 2021 to this effect **not later than 31st March 2025**.
- (e) Till the time the amendments to PMR 2021 come into effect, the Power Exchanges shall follow the directions in case of Contingency contracts as under:
- (i) Power Exchanges to make changes in the software/ market watch so that all the parties are able to see all the buy and sell offers for 10 minutes before the order gets transferred to the order book; **& the participants shall not have the chance to modify the bids once it is transferred to the order book** after the expiry of this period, best buy and sell bids get cleared, and
- (ii) Power Exchanges to display information regarding the number and volume of bids received (both buy and sell) **participant name, price & quantity** on their website, in addition to the data on traded volume.

25. The directions in this order {point (a) and (b) of Para 24 above} shall be in furtherance/addition to the directions in Orders dated 7.6.2022 in Petition No. 219/MP/2021 (of IEX) and 229/MP/2021 (of PXIL) and Order dated 30.12.2022 in Petition No. 206/MP/2022 (of HPX).



Suggestions/Comments from Stakeholders

26. Before we issue the final order on the proposal in paragraphs 24-25 of this order, we intend to give an opportunity to all stakeholders, including power exchanges, to submit their views, comments, and suggestions, if any, within thirty days.

(Harish Dudani)
Member

(Ramesh Babu V.)
Member

(Jishnu Barua)
Chairperson

