

PRESS RELEASE

18.12.2006

CERC to hold public hearing on Power Exchange

1. The Central Electricity Regulatory Commission (CERC) would conduct a public hearing on December 19, 2006 to deliberate on the pros and cons of organizing electricity trading through a common trading platform, usually called 'Power Exchange'. Due to the unique nature of electricity, organizing electricity market through a Power Exchange requires a structured approach and sophisticated design, taking into account the national laws, grid conditions and organization of the generation, transmission and distribution industry. According to Mr. Ashok Basu, Chairman, CERC, "CERC wishes to use this as a brainstorming session to elicit the views of all stake holders. We would decide the way ahead, based on these deliberations."

2. The volume of the bilaterally traded electricity is about 2 to 3 % of the total generation in the country. It needs to be emphasized that in our country, almost the entire electricity generation is sold to the distribution Utilities at regulated prices and generators are not allowed to take advantage of the shortage scenario. Only a small percentage is traded among surplus and deficit entities from time to time. The main challenge in creating a Power Exchange, in the Indian context, is to ensure that in an overall deficit scenario, the prices of traded electricity may not shoot up further.

3. In the Staff Paper released by the CERC in July, 2006, the Staff of the Commission has recommended that the established long term contracts between generating companies and distribution utilities should not be disturbed and the

Availability Based Tariff (ABT) mechanism should continue. The Staff Paper has analysed the Indian as well as the international scenario in respect of electricity market development. The Staff Paper has discussed the possibility of creation of Power Exchange to supplement the existing long term contracts at regulated prices. The purpose of Power Exchange would be mainly to facilitate better optimisation of existing resources through trading among surplus and deficit entities and to provide investment signal for capacity addition in generation.

4. The Staff Paper was earlier published on the CERC Web Site for inviting public suggestions and comments. The electricity traders, commodity exchanges and generating companies, are in favour of conceiving a common trading platform with a uniform market clearing price. However, the distribution utilities have either not responded or have advised a cautious approach in the matter.

5. The debate during the hearing is likely to focus around the following issues:

- The right time for launching a Power Exchange
- The ownership and organizational structure
- Whether there should be any capping mechanism for keeping the prices under check
- National Exchange Vs. Regional Exchange
- Mandatory Vs. voluntary participation
- Double sided auctions Vs. supply side bidding
- Method of price discovery through power exchange
- Day ahead exchange Vs. same day exchange
- The time blocks for bidding in the exchange
- Handling of transmission congestion by the Power Exchange

- How the transmission charges and transmission losses should be levied on the Power Exchange
- Whether a fixed transmission capacity should be assigned to a Power Exchange
- How to increase liquidity and depth of supply in the Power Exchange
- Financial clearing mechanism including payment security issues
- Market monetary mechanism

6. The Commission has already facilitated electricity trading by issuing interstate trading licenses to 21 traders. At present, the electricity trading is facilitated by the Open Access in Inter State Transmission introduced by the Commission in 2004, which is user friendly and enables bilateral trading on the basis of advanced reservation, current reservation, day ahead reservation and on the same day basis by payment of transmission charges for the MW quantum of electricity to be traded. While section 61 and 62 of the Electricity Act, 2003 lay down a statutory frame work for regulation of electricity prices, section 63 of the Act seeks to move away from regulated tariffs through a competitive bidding prices on the basis of transparent bidding guidelines. Further, section 66 of the Act provides that the Regulatory Commissions shall endeavour to promote development of electricity market in line with the National Electricity Policy. The National Electricity Policy issued by the Central Government in 2005, had sought that the Regulatory Commissions take action for development of power market in consultation with the various stake holders.

(S.K. Chatterjee)
Assistant Secretary