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Date: 29<sup>th</sup> May, 2015

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**Sub: Draft Central Electricity Regulatory Commission (Ancillary Services Operations) Regulations, 2015.**

**Ref: Public Notice No. 18/1/2013 – Reg. Aff. (AS Reg.)/CERC dated 1<sup>st</sup> May, 2015.**

Dear Sir,

PXIL welcomes the above referred Public Notice dated 1<sup>st</sup> May, 2015, *vide* which the Hon'ble Commission invited the comments/suggestions/objections on the Draft Central Electricity Regulatory Commission (Ancillary Services Operations) Regulations, 2015 (hereinafter referred to as "the draft regulations"). The introduction of Ancillary Services would mark a new chapter in the evolution of Electricity Markets in India. In this regard, PXIL would like to submit as under:

**General observations on Draft regulations:**

PXIL welcomes the effort and steps taken by the Hon'ble Commission in rolling out Ancillary services in power market of India. Events in the recent past such as failure of grid on 30<sup>th</sup> and 31<sup>st</sup> of July 2012 and tripping of one unit at Kudankulam nuclear power station on 14.1.2015 causing system frequency excursions demands for introduction of ancillary services in India.

The Hon'ble Commission in its earlier staff paper on "Introduction of ancillary services in Indian Electricity Market" dated 10<sup>th</sup> April 2013 had envisioned introduction of these services on Power Exchanges that would eventually take over the UI market, as has been provided at clause 16 – "*Gradually as the market grows and imbalances are better handled with improved system security and reliability, this market could phase out the UI mechanism.*"

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The draft regulations propose a mark-up above the approved variable charge of an ISGS registering voluntarily to participate in Reserves Regulation Ancillary Services (RRAS). The charges along with mark-up being determined under a regulated mechanism may not incentivise many ISGS to participate in a voluntary ancillary mechanism as proposed and limited participation may eventually effect development of Ancillary Services contract as a mechanism.

In our view, if ancillary services are made an exchange based instrument, better pricing will be discovered leading to larger volumes being transacted in a competitive market based instrument when compared to regulated transactions.

**Clause wise specific observations:**

**1. Clause- 5: Eligibility for participation for Reserves Regulation Ancillary Services**

*“All Inter-State Generating Stations whose tariff is determined or adopted by the Commission and are operating on part load and which have not received full requisition shall be eligible to participate for providing the Reserves Regulation Ancillary Services”.*

**PXIL comments:**

It has been proposed that the all ISGS whose tariff is determined or adopted by the Hon’ble Commission and are operating on part load shall be eligible for participation in RRAS. In our opinion, the clause should also include UMPP’s and IPP’s which are ISGS in nature as eligible entities since the system excursions can sometimes demand that a large number of generators are required for supporting the reliability of power system. Also the un-requisitioned power supply will deem to diminish during peak load hours since the availability and PLF as assumed in explanatory memorandum to draft regulation may not be available for all the 96 time blocks of the day throughout the year (reason being shortages of fuel supply, forced outages, annual shutdowns, etc.) and hence all available generation sources in addition to un-requisitioned ISGS should be allowed to participate in this mechanism. With large number of participants providing ancillary service the system stability will increase, eventually all generation sources above a threshold limit can also be allowed to participate in these services.

We are of the opinion, based on the international practices, wherein the ancillary services are market based services, the mandated as well as voluntary participants should bid on the exchanges, for the capacity identified by the Nodal Agency instead of preparing a merit order stock based on variable cost, DC, etc.

This will ensure the following advantages to all the stakeholders:

- (i) *Introduce competition to get dispatched.*
- (ii) *Lower the overall cost of providing ancillary services.*
- (iii) *Introduce a transparent, market based instrument for pricing ancillary services.*
- (iv) *Reduce the cost of relieving congestion in the market.*
- (v) *Mitigate the possibilities of withholding the capacity to get dispatched in Ancillary Services at higher prices.*
- (vi) *Integrate RE as ancillary service provider.*
- (vii) *Make the ancillary service source neutral*

## 2. Clause 13: Reserves Regulation Ancillary Services Settlement

*Sub clause 13.1- "The settlement shall be done by the Nodal Agency under the Deviation Settlement Account under separate account head of Reserves Regulation Ancillary Services".*

*Sub clause 13.2- "The payment to Reserves Regulation Ancillary Services provider shall be from the Regional Deviation Pool Account Fund".*

### **PXIL comments:**

The Hon'ble Commission had introduced DSM mechanism for commercially handling real time imbalances in the schedules of respective entities and was never meant to be converted into a market for real time variations in schedule. Similarly, ancillary services are meant for maintaining real time efficiency, increasing reliability and ensuring safety of power system. The draft regulations propose payment to RRAS from Regional Deviation Pool Account Fund, however, since the DSM is a zero sum account, any addition of a new component like RRAS may create deficit in Deviation pool account in case adequate pay-in mechanism are not identified to attract participation from RRAS providers.

The Regional deviation pool account fund receives payin for DSM charges, capping and penalty charges. Amongst these charges, the capping and penalty charges help in creating a surplus in the deviation pool fund after final settlement of claims in accordance with Deviation Settlement Mechanism Regulations, which is deposited in PSDF. In a similar manner, the nature of payment for RRAS should be designed in such a way that it creates a surplus over and above the balance after settlement of claims in accordance with ancillary regulations as has been proposed by the Hon'ble Commission.

To streamline the process of settlement, it is submitted that, the payin and payout component is specified in the regional deviation pool account that ensures successful

operation of the DSM mechanism hence in a similar manner, in addition to methodology of payout that will be made to RRAS providers, there should also be a methodology identified for payin into the deviation pool account for settling ancillary services transactions.

### 3. Clause 13: Reserves Regulation Ancillary Services Settlement

*Subclause 13.3- "The Reserves Regulation Ancillary Services provider shall be paid at their fixed and variable charges, with mark-up as decided by the Commission through a separate order from time to time....."*

#### **PXIL comments:**

##### **a) Requirement of price cap.**

The payment mechanism as proposed in the draft regulations and as stated in RRAS settlement mechanism proposes to provide a markup in addition to variable charge and fixed charge. The markup should reflect factors that age of plant, frequency response characteristics, SHR etc that will incentivise and attract participation in RRAS mechanism To avoid subdued response to the proposed RRAS mechanism the exchanges can play a role of inviting bids from ancillary services providers with a condition that the bids submitted by the generators would have a price cap similar to forbearance price applicable in REC mechanism to avoid profiteering by generators.

In our view, the price to be paid to the generators participating in the ancillary services shall be discovered through a fair, transparent and neutral mechanism which shall essentially reflect the real time demand supply dynamics along with the transmission corridors constraints applied for power flows as in the case of exchange based products. It is submitted that under these circumstances prices will be reflection of real time scenario and participants will get a competitive platform for trading un-requisitioned surplus, excess power in case of merchant plants

##### **b) Limited competition among RRAS providers:**

The Nodal agency shall prepare a merit order stack reflecting the variable charge of RRAS providers, since variable is determined a priori there may not be any competition among the RRAS providers and the merit order would become static by nature.

**Additional comments:**

PXIL believes that introduction of Ancillary Services is the next step in the evolution of electricity markets in the country. This product needs to be introduced on the Power exchange as a market based instrument that would complement the new phase of 24 x 7 Extended market to be operated by the power exchanges. In the 24 x 7 Extended market delivery is proposed to be scheduled within an hour's time, and therefore, the ancillary services market would be integrated based on delivery timelines. As mentioned in the draft regulations, these services are restorative and curative in nature and therefore, have to be for a pre-defined duration during which the load/generator is expected to secure the supply/revise the schedule. Owing to regional nature, these can be scheduled within one time block after trade and should continue until fifth time block.

We wish to inform that in our comments dated 29.04.2013 to the staff paper on "Introduction of ancillary services in Indian Electricity Market" that had proposed operation of ancillary services contract on power exchanges, we had submitted that the System Operator becomes the Procurer of the Services even though it was not the ultimate beneficiary of the Services. The nature of the demand is indirect and therefore, it is the System Operator who is competent to decide on the quantum of Ancillary Services required. Therefore, based upon the available stack, the Nodal Agency would decide on the quantum. The same shall be traded, scheduled, cleared and settled between the service provider, exchange(s) and the procurer (respective RLDC).

Over the past seven years of exchange operation, the fair & transparent price discovery mechanism coupled with the robust risk management system of the exchange has led to more than 3000 participant trading on the power exchange, this trading platform of the exchange needs to be utilised for operation of Ancillary Services.

We humbly submit our comments on the draft regulations and request the Hon'ble Commission to consider the above comments and provide us an opportunity to make a presentation on the same as and when a public hearing is scheduled on the above subject matter.

Thank you.

For and on behalf of  
**Power Exchange India Limited**

  
**Authorised Signatory**

