HALDIA ENERGY LIMITED

Comments on Discussion Paper on Market Based Economic Dispatch of Electricity: Re-designing of Day-ahead Market (DAM) in India

1) The Indian banking sector is intricately tied up with the power sector. Thus, the various problems of the power sector, if not addressed, will continue to haunt the banking sector and will eventually result in an extremely dangerous situation not only for power sector but also for the economic situation prevailing in the country as well. Unfortunately, not all these problems can be tackled by creating a market. In other words, market is not the panacea for all these problems. However, Market Based Economic Dispatch (MBED) may be initiated on a pilot mode and if proved successful, can be extended over time.

2) A spot market has the potential to reduce costs and bring in marginal cost pricing which will improve economic dispatch. In long term this may reduce the magnitude of uncompetitive generation in the Indian power sector. However, a peremptory push for implementing new market mechanisms without considering the long reaching effects can further complicate the situation. Recovery of sunk costs and rising NPAs are the major challenges facing the Indian Power sector today. New Market design proposals may not be the remedy for such issues. In fact, MBED may actually worsen the situation further in this regard, further adding to the woes.

3) Moreover, it appears that the proposed market mechanism raises several issues pertaining the jurisdiction of State and Central Commission. Some of them are highlighted below:

   (i) The Electricity Act, 2003 clearly demarcates the roles and responsibilities of the Central Commission and the State Commissions. However, the proposed mechanism seems to encroach upon the rights of the State Commission.

   (ii) Section 62 of the Electricity Act, empowers the State Commissions to determine tariff in accordance with provisions of the Act. The proposed market mechanism thus encroaches upon the rights of a generating company to approach their

respective State Commission for tariff determination or in other words to choose between Section 62 and Section 63 of the Act.

(iii) Section 11 of the Act empowers the State Governments to provide direction(s). The proposed mechanism is unclear on the course of action to be taken if such an event arises.

(iv) The Tariff Policy or the National Electricity Policy, are guiding in nature. Mandatory implementation of such policies is not tenable under the present framework provided by the Electricity Act, 2003. Legislative provisions cannot be overridden through executive action, as is being proposed through this new market mechanism.

4) It is understood that the purpose of the proposed MBED regime is to allow the plants with lower Variable Cost (VC) to generate more by replacing the plants that have a higher VC. However, the quantity of coal available through FSA is not sufficient to meet even the normative 85% Plant Load Factor (PLF) due to lesser materialization as well as due to poor quality of coal received. Thus, all power plants that have long term Power Purchase Agreement (PPA) and run on high PLF have to buy coal from the domestic or international market to ensure availability of the plant for the DISCOM.

5) The plant with a lower VC that is currently operating at 75% PLF for example, will operate on say 95% PLF in the proposed new regime. However, the Variable Cost of the plant will go up as with the limited supply of linkage coal, more coal from the domestic/international market will have to be procured to meet the higher PLF. The DISCOM will have to pay for the higher VC though it requires only 75% generation. The gain sharing from the additional generation may not offset such higher costs of VC as the cost of non – linkage coal is significantly higher.

6) There will be some generating plants with higher VC who will go to reserve shutdown while some plants will operate at high PLF. So, while the coal company continues to produce the

same amount of coal it earns bonus from those generating stations whose materialization is above 90% and penal charges from those generators whose materialization is less than 75%. The gains of the coal companies due to the distorted demands will ultimately have to be borne by the consumers.

7) It is proposed that the existing long term PPAs will be honored by DISCOMS who will continue to pay the fixed costs of the generators while procuring power from the Exchange. However, there is strong probability that cash strapped DISCOMs will default in paying the fixed costs as DISCOMs will have to pay upfront to buy power from Exchange.

8) In the case of generating stations with high PLF, the amount to be refunded by the generating company in terms of higher VC earned from the Exchange may exceed the fixed costs receivable and hence, there may not be any transactional problems. However, in case of plants whose PLF is poor after implementation of the regime the DISCOMs will be reluctant to bear the burden of fixed costs.