Sneha Kinetic Power Projects Private Limited

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Date: 15th Feb 2019

To,
The Secretary,
Central Electricity Regulatory Commission
Janpath, New Delhi

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

Ref: Public Notice No.RA-14026(11)/3/2018-CERC dated 31st Dec 2018

Dear Sir,

This is with reference to the captioned subject on Discussion Paper on "Market Based Economic Dispatch of Electricity: Re-designing of Day-ahead Market (DAM) in India" issued by Hon'ble CERC vide Public Notice No.RA-14026(11)/3/2018-CERC dated 31st Dec 2018.

We, welcome the initiative of the Hon'ble Commission to issue the discussion paper which has addressed several issues of the Day Ahead Market such as self-scheduling by discoms which restricts the visibility of low cost generation available with other discoms or generators. The discussion paper covers several international experiences in detail and is also reflecting the future of day ahead market with high efficiency and lower system costs.

CERC vide public notice, has invited comments and suggestions by various stakeholders by 15th Feb 2019. Accordingly, we are hereby enclosing our comments and suggestions in the Annexure A. We, request Hon'ble Commission to kindly consider our suggestions before finalizing the discussion paper.

Thanking you,
Yours Sincerely,

For Sneha Kinetic Power Projects Private Limited

Authorized Signatory

Annexure A – Comments and Suggestions on Discussion Paper on "Market Based Economic Dispatch of Electricity: Re-designing of Day-ahead Market (DAM) in India"

1. Legal Challenges

   With reference of clause 4.4, Hon'ble Commission has clearly articulated that the MBED model where the sellers (central generators, state generators, independent power producers (IPPs)), traders and discoms as sellers) would be required to submit offers for all the time-blocks (which can be a single offer or block offer or multi-part offer) for the following day to the Power Exchanges. These offers would reflect the quantum of electricity that the sellers are willing to supply at a particular price. Similarly, the buyers' bids would indicate the quantum of electricity they are willing to buy at a particular price.

   Presently, more than 90% volume of electricity transactions in the country works with Long term Contracts and Bilateral with short term and medium term contracts where PPAs have been signed between generators and various distribution companies. In order to honour the contracts, discoms are bound to procure the power from such contractual generators. Now the proposed MBED framework, enforces the departure of terms and conditions of PPA including change in mechanism of power procurement, scheduling, billing, payment, etc. In order to accommodate the above suggested framework, approval from all the stakeholders including generator, utilities, Hon'ble State Electricity Regulatory Commissions (SERCs), Hon'ble Central Electricity Regulatory Commission (CERC), State Load Despatch Centres, Regional Load Despatch Centres, is a pre-requisite. As power being a concurrent subject and that to being bound by the already signed agreement, the participation in the suggested framework has to be kept optional.

   In view of the Hon'ble Supreme Court under the Mundra UMPP case, where Hon'ble Supreme Court has categorically mentioned that no change in PPA is allowed unless the same has been provided for as per the terms and conditions of the PPA document. Considering the same, affecting the proposed change in scheduling, billing and payment pattern of the PPAs under the proposed MBED framework may not be possible and desired.

2. Operational Challenges

   Proposed MBED framework provides for payment of tariff only when the generation is scheduled from respective power plants. In such a scenario, large hydro power plant tariffs which are primarily linked to capital cost of respective power plants but recovered under the normative two part tariff mechanism. Under the proposed MBED framework, the recovery of variable part tariff of large hydro plant would be at risk and would short charge the approved Annual Fixed Cost (AFC) of the respective plant.

3. Revenue recovery of merchant power plants
   At present, there is a majority of base load power plants in the country which is tied up with cost plus long term PPAs and have two part tariffs. But still there is also a significant portion of capacities of merchant power plants in the country which participate in the short term or medium term bids and quote single part tariff. It would be very critical situation where the merchant power plant is ready to sell the power on the nationalized pool and will not be able to recover the fixed charges (being embedded in the quoted single part tariff) and may arise to accumulated losses. Therefore, un-intentionally MBED framework may hamper the bilateral market. Similar is the case for thermal power plants operating under several schemes to revive distressed thermal power plants (e.g. developers under PTC tender, certain gas based power plants etc) where fixed charges are negligible and recovery is based on variable cost.

4. Financial Viability of Generators
   Generators would prefer the settlement through bilateral contracts which are for short term, or medium term or long term, instead of submitting the time block bids on day ahead basis on the Power Exchanges. In the proposed MBED framework, entire financial viability of the generating plants has to depend on the daily MCP or multiple MCPs. There may be cases where MCP is less than contract price or VC, then the power of such generators would not get scheduled. This arise situations where generators' financial viabilities may be affected.

5. Complexities in the system
   As per Clause 5.2 of the discussion paper, in the proposed MBED framework, under transmission constraints, Discoms and Generators located in different bid regions may face (apart from the 'temporal risk') the 'Spatial Risk' due to difference in Area Clearing Prices (ACP) of bid areas.

   In case of BCS under congestion and market splitting, the contract settlement takes place between the intra region, inter regions, and the VCs of the generators along with the congestion management from one region to other. This involves multiple contract settlements which may arises to complexities which requires strong monitoring mechanism in order to ensure the generators to get compensated for the power generated along with assurance that maximum power may get despatched.

6. Voluntary vs Mandatory Participation under the MBED Framework
Clause 5.12 of the discussion paper states that "This proposition of the Day Ahead Market would allow National Level Merit Order Dispatch through a voluntary market mechanism. Option 1 should be available during the transition period of one year, post which Option 2 should be followed. This is expected to yield benefits in terms of meeting demand at reduced cost."

The MBED framework has proposed the formation of nationalized pool, which will centralize the market and has to accommodate the demand of 29 states as compared to markets where there are multiple options viz long term, bilateral short term or medium term, power exchange, through DSM, etc. Centralization of market vs decentralized having multiple options has its own merits and demerits, such as legal, operational and other challenges which has been explained in the above paras. Therefore, we request Hon'ble Commission that the participation in the MBED framework may be voluntary.

7. Implementation of MBED Framework
It is to be noted that that the proposed MBED framework may involve the review of laws and regulations unless all the discoms of the country voluntarily participate in the nationalized pool bidding system.

8. Additional Transaction Cost
At present, Power Exchanges charge around two paise per unit as the service fee for providing platform to generators and discoms for buy and sell bids. Under the MBED framework wherein the entire countries' electricity transactions would take place through Power Exchanges, then this would increase the burden of transaction cost to be charged from generators and discoms, which would ultimately lead to windfall gain of power exchanges.

9. Nullify the Envisaged benefit
With so many high cost generators which were hitherto contracted with the respective state utilities would be offering their capacity on the power exchange. This is likely to lead to increase in the MCP of the exchange and thereby nullifying the envisaged benefit in overall power purchase cost by the utilities.

10. Viability of Trading Market
Under the proposed scheme of MBED framework, it is proposed that all the power either for short term or medium term or long term, all the power requirements of

state utilities would be catered through the Power Exchange platform. In such a scenario, the bilateral market size under short term, medium term or long term would become non-existent. Thus, the proposed framework would tantamount to centralization of power procurement and diminishing the other power procurement modes. This would invariably severely put to risk the business model of numerous market intermediaries like traders in the benefit of Power exchange. Thus, this framework may un-intentionally benefit one market participant at the cost of remaining numerous market participants.

11. Financial Constraints of Discoms

Considering the precarious financial conditions of discoms of different states and the requirement of paying for power to be procured for the next day before hand under the MBED framework, participation of discom looks infeasible as they themselves are facing challenges in regular payments of their power purchase bills. This may force the discom to reduce its power procurement under the proposed framework due to financial constraints which essentially leads to curtailment of power supply to its consumers.