

## **Market Based Economic Dispatch**

CERC has issued Discussion Paper on 'Market Based Economic Dispatch of Electricity: Re-designing of Day-ahead Market (DAM) in India' for scheduling entire country's generation and power demand through power exchange.

Comments are as below-

### **1. Flexibility of Self Scheduling**

The flexibility in self-scheduling should be available to DISCOMs and power plants having LT PPA with DISCOMs. The DISCOMs and power plants having LT PPA should be given choice for participation in MBED on basis of mutual decision.

In the concept paper it is mentioned that during the transition period if part of the contracted capacities in any generating station remains un-requisitioned after 9.45 a.m., such un-requisitioned surplus (URS) capacities will have the right to participate in the day ahead market of the power exchange starting from 10.00 a.m. For such URS, the discoms shall not have the right to recall, but the net revenue earned by these capacities (URS) by participating in the DAM or RTM shall be shared in the ratio of 50:50.

A contract between a DISCOM and a generator was agreed on certain terms and conditions bilaterally and taking away the provisions of the contract doesn't seem appropriate.

### **2. Discouraging Long term/ Medium term PPA**

The DISCOM are discouraged for doing long term/ medium term contracts. Under proposed mechanism, the DISCOMs not having PPA have advantage as they can procure

cheaper power at marginal cost as the fixed cost is being borne by DISCOM having contractual tie-up under PPA. MBED model would turn out to be detrimental for attracting investment in power sector which in turn may lead to higher energy prices in the future with the limited availability.

### **3. Huge Working Capital Requirement**

The proposed MBED mechanism requires creation of huge working capital with DISCOMs prior to trading in DAM. For example, if Karnataka ESCOMs require say 200 MU for a day and the energy is purchased at the KERC approved power purchase cost of Rs 4.29 per unit(For 2018-19), then the amount required =  $200 \times 4.29 = \text{Rs } 86 \text{ Crores}$  every day which is huge. Many of the DISCOMs in India suffers from poor financial health and this may affect the effective functioning of MBED.

### **4. Congestion and Market Splitting**

Capacity reserved under LT PPA may not be available during congestion.

### **5. 100% Sharing of Benefit to DISCOMs**

The proposed MBED mechanism along with BCS mechanism suggest sharing of benefits of additional generation between generators and discoms equally in the ratio of 50: 50. As Discoms, bear the fixed charges of the Generator at all times, the benefit of the profit should be 100% passed to the DISCOM because DISCOM is owner of that power and generators under the proposed mechanism would not be facilitating any additional activity. Alternatively, selling of surplus power should be facilitated through DISCOM without applicability of open access charges, in order to pass entire benefit of LT PPA to the respective DISCOM.

## **6. Overestimation of potential benefits:**

Savings in cost of generation in MBED framework is estimated to be around 11% in FY 2016-17. Here, we would beg to differ as we understand that many constraints haven't been considered while reaching this figure. Constrains of transmission corridor, availability of generating station, fuel supply scenario, reserve requirements, etc. are few such constrains. Also, situation has changed significantly in last 2 years due to reallocation of mines for linkage coal (cost of costlier plants have significantly reduced) and states are themselves backing down & replacing their costlier generation. Accordingly, savings in cost of generation would be considerably lower than the amount projected in the paper. The disruption caused by change in the power market, which is yet to mature vis-à-vis its international peers, would far outweigh the benefit in terms of savings of cost of generation.