31st January 2019

TPTCL-TPTCLM-GEN-CERC-CK-FY19-STRL-0001

Secretary,

Central Electricity Regulatory Commission

3rd and 4th Floor Chanderlok Building,

36, Janpath

New Delhi 110001

Tel No.:011-23753915 / Fax No.:011-23753923

Dear Sir,

Sub: Comments on Discussion Paper on "Market Based Economic Dispatch"

Reference public notice No. RA-14026(11)/3/2018-CERC, dated 31st December 2018 as issued by the Hon'ble Commission, please find enclosed Annexure for our comments on Discussion paper on Market Based Economic Dispatch of Electricity: Re-designing of Day-Ahead Market (DAM) in India.

Thanking you,

Yours sincerely,

For Tata Power Trading Company Ltd.

(Neeraj Srivastava)

Group Head – REC & Regulatory

Encl: a/a

Tata Power Trading Company Limited

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Annexure

Comments on "Discussion Paper on Market Based Economic Dispatch" issued by Central Electricity Regulatory Commission

Overview:

Considering federal structure, electricity is made concurrent in both State and Centre. Considering this, Electricity Act, 2003 was notified and then subsequent Policies and Regulations were framed in overall development of Power Sector including Power Market.

One of the key aspects of Act, 2003 has been to bring in competition across value chain of Power Sector, mandating all procurement of power by DISCOMs through tariff based competitive bidding for long term, Medium term and short term. The procurement of RE power has also been mandated to be routed through competitive bidding process.

It is evident that Power Sector has constituted a large no. of Power Plants with varied technology and different cost of generation. Location of generators primarily coal-based generation (Domestic/Imported) and load centers are two very critical factor in computing cost of power to generators and cost of power to DISCOMs/Consumers.

A large Electricity Grid like of India is largely dependent on different types of technology in generating electricity and it can be noted that increasing infirm Renewable generation in Indian Grid has become a reality now. All DISCOMs of each state has tied up with multiple generators under long term contracts arrangement, with different fuel types and technology resulting in non-uniform cost of generation and tariff of such generators are governed either under Section-62 and/or Section-63 of E Act, 2003.

Hence, for all Central Generators, State Generators, IPPs and RE Generators, scheduling and dispatch and contract settlement are highly decentralized. Each state has its own economics i.e. Merit Order Dispatch in Scheduling and dispatch of such generators having allocation with the state, considering must run status from few generators like Nuclear, RE etc.

Given the above context, proposed market based economic dispatch on day ahead though seems to be saving cost of total system, it would however create other issues in already struggling power sector. Following are our comments highlighting the issues and concerns.

1. **Creating fresh NPAs:**

   MBED if implemented would create fresh NPAs for Power Plants with no long term/medium term PPAs and selling power in open market as bids from such power plants would consider both fixed and variable costs which would not be competitive with variable cost (as bid price) of Central Generators, State Generators and IPPs which are having two-part tariff structure.

   This would result in low or no schedule under proposed MBED day ahead model. Further, merchant coal-based plants have to depend on coal procurement-based e-auction method which costs more to such generators as compare to coal linkages available with generators having long term PPAs.

   Two-part Long Term/Medium Term contract replacing single part Short term Bilateral Since Generator having low fuel cost would bid on Exchange, this would replace the short-term bilateral volume due to their relatively higher price (as Single part) currently discovered though DEEP.

2. **Increase in Stress of already stressed generation**

   Also, Power plants tied under long term with imported coal and/or relatively high cost of generation, would not be at par with other long-term low cost/domestic coal-based generation in MBED model and therefore such plants would not be able to schedule optimally leading to back down and creating more stress in already stressed power sector.

   Huge investments were made in creating generation assets which have been made operational keeping in view of the economics of the state and requirement of power for that state and the procurement of power in such states have been done through tariff based competitive bidding guideline. Now, mapping the low-cost generation asset with the beneficiary state with whom there is no long-term contract, would not be appropriate while optimizing the total cost of the system. In the present context of stressed power sector mainly arising out from Generation side,

it is more desirable if a mechanism be evolved to increase the dispatch from stranded and stressed generation rather maximizing the dispatch from low cost generation.

The idea should be to de-stress the generation and create opportunities for sale of power from stranded/stressed generation through short to medium term tenders by DISCOMs. Both the aspects i.e. competitive procurement of Power under long term/Short term/Medium term by DISCOMs and then maximizing the dispatch of low-cost generation by out of way arrangement as under MBED should not be mixed which would though result in total system cost optimization but would however lead further burdening of the stressed generation and would create fresh Non-performing assets.

3. **Captive and small STU connected generators would be impacted**

At present, many Captive generators and STU connected generators are being easily scheduled in day ahead Power Exchanges as well as day ahead bilateral market under third party Open Access. Such category of sellers which have been building the short-term market for years would also be impacted.

Considering few Central Generators with contracted quantum say 2000 MW having low/lowest variable cost, if participate in proposed MBED, they would likely to be scheduled close to 100%. Same set of generators of 2000 MW is expected to be scheduled sub optimally (say 70% PLF) due to current contract structure and the same is also explained in the paper.

The proposed MBED while providing an opportunity for maximum dispatch from such low/lowest cost of generation, close to 100%, the differential up side in schedules (i.e. 30% of 2000 MW i.e. 600 MW) for 2000 MW set of generators would partially replace captive, small and STU connected generators currently forming a major chunk of short-term day ahead market.

In view of above, the proposed MBED would discourage and discriminate such captive, small STU connected generators at the cost of reducing system cost and increasing PLF of mainly Central Generators.

4. **STOA – Advance and FCFS applications not required Day Ahead bidding under MBED**

Other than Long Term/Medium Term contracts and Day Ahead Collective transaction, STOA transactions based on Advance Reservation and FCFS are currently not required day ahead scheduling and dispatch.

Since Short term bilateral market (of FCFS and Advance Reservation based) has significant share in overall short-term market, it is not mentioned in the discussion paper that whether such Short-term transactions for which transmission corridor are booked in advance are again required to schedule the same power through MBED model.

In this regard it would be contrary that the corridor for fixed quantum of power, at already discovered price under DEEP portal, which is approved by Nodal Agency under AR/FCFS category, might not get corridor once parties under AR/FCFS STOA application submit their sell/buy bids in MBED due to price mismatch.

5. **Partial Clearing of Bids under MBED**

As market clearing price is discovered for 96-time blocks in a day, under current Day Ahead Market on Exchanges, it may so happen that few hours of bid of sellers do not clear under MBED i.e. sale bid price exceeds the clearing price, such scenario may come up during off peak and night hours. In such a situation, sellers (Long term generators) may have to shut down.

6. **Increasing probability of Transmission Congestion:**

Under proposed MBED, chances of market splitting would be higher as price would be discovered by aggregating all sell bids (of Central Generators, State Generators, IPPs & Merchant Generators) and all demand bids (of all DISCOMs and Open Access Customers) i.e. making supply and demand curve for all over India. As generation capacity is relatively dense in ER and WR regions, chances of congestion would occur while export of power from ER/WR to NR. Further, market split would increase the price of deficit region which would lead to increase in overall system price under MBED.