

Views/Comments upon Staff Paper on Market Coupling by Central Electricity Regulatory Commission published in August 2023

CERC has published the “Staff Paper on Market Coupling” in August 2023 inviting comments/views from the stakeholders. In response **M/s.Abja Power Private Limited ,3rd block, 5th floor, My Home Hub, Madhapur, Hyderabad-500 081** likes to offer its views on the issues and questions highlighted in the discussion paper w.r.t to power trading companies as given hereunder.

We submit that we are not in favor of the proposed mechanism of market coupling. The argument for market coupling is primarily focused on three key objectives which are determining single price, improve transmission corridor management & availability and maximize the social welfare. However, market coupling requirements as per the issues highlighted by hon'ble commissions require an extensive examination. Market coupling as a concept was introduced in Europe in 2006 but in a phased manner with transnational merger happening between countries of France, Belgium, and the Netherlands. Subsequently, 15 different European countries introduced a nation-wide market coupling in the year 2014. By 2023 the European electricity wholesale market is highly integrated with 27 countries & 30 transmission system operators participating in market coupling. The prime objective behind coupling of power exchanges in Europe was to integrate market of different countries & thereby leading to optimization of cross border transmission infrastructure with respect to both capacity allocation and congestion management and achieving the same by price convergence of electricity between the integrated markets. However, if the same rationale is applied for India, it will be a flawed structure for the reason being there are multiple prices that prevail in the country which stand unique to each power purchase agreements (PPA).

In the Indian context coupling will not create any additional value as the country has a voluntary market model where multiple power exchanges and traders operate to develop the market in a competitive manner. Market coupling as such will create a single coupling operator and do away with the need to have exchanges and traders in the market. There will be an increase in operational cost, create unwarranted rigidities & stifle innovations in the market there by defeating the very purpose of the reforms that were bought by EA 2003.

In the Indian context the objectives of market coupling seem already being achieved as all the regions and states are integrated geographically.

Market coupling will undo all the progress and market development which introduced efficiency, transparency, healthy competition, open access will all be diluted. The specific points are as below-

Views on Impact of Market Coupling on Power Traders:

- 1. Business case of small traders will be negatively impacted:** Post introduction of the market coupling the business case of small traders would be negatively impacted purely for the fact that the market infrastructure available to them would come under threat, as the current role of power exchanges would completely cease to exist. Further, there will be market concentration for traders and the volumes would be

lying with a couple of larger ones like PTC, NVVN etc. Therefore, in the absence of aids and services provided by the power exchanges the small traders' business case shall become limited and the market would be stifled for innovation and new products.

- 2. Risk of market concentration and volume handed would get centralized to top 2-3 traders only:** In India presently there are 50+ traders of which the top 3 command close to 70% of the volume traded. Post introduction of market coupling as the business case of small traders' would be negatively impacted due to limited support from power exchanges, the volume traded in all likelihood by top 3 traders would reach a level of 90%. This would signal market concentration and would leave the small traders idle and deserted. Hence, in this milieu the honorable CERC may envisage to develop some market mechanisms like that of coupling of exchanges, for the small power traders as well. This would negate the risk of volumes being concentrated with 2-3 big traders and can be more evenly distributed so that skewness in the market is limited.
- 3. Significant transition cost built-up for power traders with loss of localized market information will add to challenges for traders:** In the event of market coupling the services of power exchanges would cease to exist and therefore the loss of localized market information which involves factors like regional demand patterns, grid constraints, etc. shall be unavailable. This would clearly impact the business case of traders who would need to invest in capacity building and eventually would mean significant cost additions. For the bigger traders it may not be problematic but for the smaller ones to get involved in a significant transition cost wherein the market has high uncertainty and risk is unfavorable.
- 4. Disruptions in established trading patterns:** Post the introduction of market coupling it is anticipated that there would be significant disruptions in established trading patterns. Already, several new regulations such as IEGC, GNA/TGNA, transmission charge sharing are soon to be implemented with much ambiguity. This would lead to an ambiguous environment and the confusion would lead to bring in more complexities for the traders, especially the smaller ones. Therefore, it is pertinent for the honorable commission to give sufficient time for stabilization of the new regulations such as IEGC, GNA etc. before proceeding further for the market coupling so that the instances of challenges faced during DSM do not repeat.
- 5. Reduced market innovation and risk of sudden change in market rules post coupling:** As market coupling would lead to major shift in market structure for the volume of power traded upon exchanges, it can lead to uncertainty for market participants. If there are sudden changes in the market rules or regulations, it can easily disrupt the established business models and strategies which would introduce hesitancy amongst the market participants as it may lead to ambiguity in their operations. Also, as market coupling would mean a more centralized market structure with the introduction of a MCO, the drive for exchanges for pushing innovations & new products will not exist. This could lead to stifling innovation in the power sector and affect our business.

6. Enhanced risks for traders would be there towards managing their respective portfolios, especially for the small traders: The risk for small traders to manage their portfolios would be higher in the scenario where market coupling is introduced. This is because market uncertainty would be introduced, which may make it difficult for the participants to respond to price movements resulting in uncertainty in the market thereby impacting the performance of traders' portfolios. Additionally, as the smaller power traders may have limited resources and therefore could opt to focus on specific segments and regions of the market. If market coupling is introduced then it might lead to a change in dynamics and would see concentration in certain areas which could limit the potential of smaller traders to diversify their portfolios. This lack of diversification may increase their exposure to higher market risks.

In view of the above, the Hon'ble Commission is requested to conduct a detailed independent study on the market design rather than taking such steps like market coupling in an isolated manner. The market design should reflect the current need of the power sector and should be conducive for all the stakeholders.