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Sent: Tuesday, October 3, 2023 6:40:34 PM

Subject: Ref. CERC Notification: Eco-14/1/2023-CERC

Dear Sir,

I am writing to provide feedback on CERC notification No. Eco-14/1/2023-CERC, dated 21st August 2023, which seeks comments on the Staff Paper on Market Coupling. We would like to share our insights regarding various critical aspects related to Market Coupling in the Indian context for your consideration.

Competition as a Fundamental Theme of the Electricity Act 2003:

Promoting competition within the electricity sector is a cornerstone of the Electricity Act 2003. In pursuit of fostering a competitive environment, both the Central and State Governments have undertaken several reform initiatives since the Act came into effect. These include competitive power procurement, introducing competition in power generation, transmission, and distribution, amongst others. The Indian Power Market envisions a multi-exchange model for the introduction of power exchanges nationwide.

It is noteworthy that, among the three existing power exchanges, trades in the Day-Ahead Market (DAM) and Real-Time Market (RTM) segments are currently conducted on a single exchange. In contrast, the other segments of the market feature vibrant and substantial participation from all three exchanges. Remarkably, the newest exchange managed to capture a significant one-third share of the TAM segment within just a year of commencing operations. However, it faced challenges when attempting to compete in the Collective Segments, highlighting a notable gap in the market structure that appears to favour the established incumbent or dominant exchange.

Price Reference restricts DAM/RTM trade to any new Power Exchange:

Our experience underscores a recurring challenge related to reference prices, which concentrates liquidity on the dominant exchange in all collective market segments. Despite concerted efforts by the other two exchanges, they have struggled to gain even a minimal foothold in these segments. Utilities across the country, have time & again attempted to support a competitive environment in the collective segments. However, due to the reference price dilemma, within a week of initiating DAM/RTM trades, the other exchanges are left with either solely buy orders or exclusively sell orders. Consequently, they are unable to facilitate double-sided auction process, reinforcing the monopolistic nature of these segments. This is contrary to the healthy market environment envisioned by the Electricity Act 2003 and reinforces the need to address this design flaw at the earliest to ensure that the sector is hedged against a long-term/perpetual monopoly in the exchange domain.

Recognition of Market Design Challenge by Ministry of Power & CERC:

The Hon'ble Commission had recognized this market design challenge while revisiting the Power Market Regulations and had paved the way for the implementation of Market Coupling in PMR 2021. Additionally, the Ministry of Power has acknowledged this market design flaw and has written to the Hon'ble Commission, urging a swift implementation of Market Coupling in the interest of the sector.

PMR 2021 also clearly advocates that Market Coupling is the preferred state for price discovery on power exchanges, and the current mechanism of individual power exchanges determining prices for their respective bids/offers is only an interim arrangement.

Market Coupling to Deepen the Market and Enhance Price Discovery:

Market coupling is expected to expand the power market, which has thus far been limited to trading a relatively modest range of 5-7 GW in the collective segment. This is insufficient for a sector catering to a peak demand of close to 242 GW daily, as the collective market price also acts as a broader price indicator for the country's short-term power trade.

This shallow depth of the power trade (just 5-6%) over exchanges has also been highlighted as major concern area by the MOP and CERC from time to time. This leaves space for concentration of market power and possibility of price manipulation, an area of major concern, which

has also triggered audit of power exchanges recently.

We have also been seeing skewed price signals during crisis periods, necessitating price caps to limit its impact on end consumers. While price caps are not the ideal solution for a healthy market and can only act as a short term measure, addressing the underlying issue decisively by increasing market depth can surely mitigate these anomalies and lead to more accurate price discovery, benefiting end consumers.

Drive Innovation in Collective Segments:

It is also clear that with implementation of market coupling, all exchanges would have a play in the collective segment of the market, and a fair and vibrant competition is expected between exchanges driving innovation in market products and services, to retain or gain market share in the overall power exchange basket. This innovation will ultimately benefit the power market as a whole and enhance efficiency within the sector.

Right portfolio management advises for market participants:

We also believe that the exchanges in general have been divided in their advocacy of the suitable market segments for buyers and sellers, basis the product portfolio that is liquid on their respective exchanges. Through market coupling all existing exchanges would have a play in all the market segments and hence their engagement with market players would lead to right power procurement or sale advise. This would lead to better planning at the buyer and seller end and would also lead to spread of liquidity from only one segment to all the power segments in the best interest of the sector.

MOP would be able to roll out critical Power Market Reforms post Market Coupling:

The recently rolled out "Report of the Committee on Development of Electricity Market in India" in May 2023, talks about critical reform initiatives to deepen the exiting power market. While doing that flow of a lot of power from the expiring PPAs is planned to be directed towards the DAM segment. If this segment is liquid only in one exchange, and that too because of a market design problem, it poses a lot of threat to the way this crucial reform initiative would be perceived by the market participants and the kind of allegations that the government may have to face. Hence, it is necessary that DAM/RTM does not become synonymous to one particular exchange and becomes an impediment in rolling out critical reforms beneficial for the country.

Market coupling is expected to solve this problem for the government and pave a way for implementation of many crucial reforms that are much needed in the current scenario and would become critical for the sector to integrate such high percentage of RE and still give the right investment signals for future investments.

Mechanism for swift implementation of Market Coupling:

Out of the various options suggested in the Staff Paper towards implementation of Market Coupling, the most suitable option for the swift roll-out of this crucial reform, is through the three exchanges acting as Market Couplers in a rotational manner. Over the years, exchanges have gained expertise in understanding the complexity of the matching engine and integrating new bid structures. Moreover, their collective efforts would offer more to market participants and align their suggestions. This would also promote better product innovation.

Hence, to promote the welfare of consumers and maintain competitiveness within the power exchange sector, where exchanges should compete based on the merits of their offerings and service excellence, we strongly urge the timely implementation of market coupling for the Day-Ahead Market (DAM) and Real-Time Market (RTM) segments across multiple power exchanges. We kindly request the Hon'ble CERC to formulate necessary regulations based on the comments and suggestions received in this consultation paper to advance this long-awaited market reform.

Thank you for your attention to this important matter.

Sincerely yours,

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