

To  
The Chairman  
Central Electricity Regulatory Commission (CERC)  
3rd and 4th Floor  
36 Janpath, New Delhi-110036

**Sub: Comments on CERC Staff paper on market coupling**

Dear Sir

I am an electricity consumer from Pune, Maharashtra and I would like to humbly submit my comments on the recently issued CERC staff paper on market coupling.

1. In the DAM & RTM markets the market share of each of the exchanges is as under  
PX 1 = 99.XX%  
PX 2 = 0.XX%  
PX 3 = 0%

In such a scenario, **de-facto market coupling already exists in India**

Do we need to explicitly create a market coupling operator (MCO)?

Is there really any practical benefit of creating a MCO and transferring the function of price discovery to the MCO?

2. Since PX2 and PX3 seem to have lost out to their competitor PX1, will market coupling solely serve the purpose of handing over revenues / profits to PX2 and / or PX3 through a government dictate / change in rules by the regulator?
3. **The three biggest challenges in front of the Indian power sector and consumer are**
  - a. Integration of large RE generation
  - b. Inflexibility of long-term PPAs especially in a technologically changing scenario
  - c. Financial viability of DISCOMs

**Does market coupling help solve any of these issues?**

4. **Do forward-looking reforms like MBED, contract for differences, capacity markets, electricity derivatives need market coupling as a pre-condition for implementation? Can these proposals be implemented (in phases) without market coupling?**
5. **Once rules / regulations are formulated, it takes decades for things to work out.**  
Electricity Act 2003 opened up the power generation sector for private participation  
Share of private sector in electricity generation in  
April 2006 = 12 %  
July 2023 = 51 %

It took 20 years – 2 decades for installed capacity in the private sector to cross the 50% mark.

India, as a nation in its wisdom decided to go for private power exchanges. Since, private players cannot be trusted to always act in the interest of the consumers, we encouraged multiple power exchanges. In fact, in the biggest champion for capitalist society – US, no private entity is allowed to run a power exchange. The ISO (independent system operator) operates the power exchange / wholesale electricity market. India went in contravention to the wisdom of capitalist America and decided to go ahead with privately owned power exchanges.

**The basis on which different power exchanges compete is the “price discovery mechanism”.** If we now transfer the price discovery mechanism to the MCO, there is no need for multiple power exchanges.

It has taken 15 years for the power exchanges to reach 7% market share.

If the regulator / ministry of power decides to transfer the price discovery mechanism to the Market coupling operator (MCO), CERC must consciously and unequivocally acknowledge that these 17 years of power market (exchange) reforms were a waste and the power market needs to take a different direction in the interest of the electricity consumers.

**6. Has there been any allegation of market manipulation, deficiency of service or any other impropriety against any of the 3 exchanges in the past 16 years?**

Has there been any investigation by CERC into any of the 3 exchanges for any wrong-doing in the last 16 years?

Why break something which is working fine.

On top of this, CERC regulates the transaction charge which the power exchanges are allowed to charge its members for transaction on the power exchanges.

Even if one of the power exchanges has a monopoly with 100% market share, no one can allege “profiteering” at the expense of the electricity consumer since CERC has already capped the transaction charges and that too well below the trading margin that a power trader is allowed to charge.

**7. If price discovery is shifted to the market coupling operator, the only parameter on which the 3 power exchanges will compete is the transaction charge.**

It will be a race to the bottom.

Do we really want to save 2 paise in the cost of supply of power?

Is that a priority at this juncture of development of the power markets?

**8. Why India is not comparable to Europe?**

Europe decided to integrate (couple) electricity markets across countries not across power exchanges. The major motivation was that diversity in demand and diversity in supply across European countries can be exploited in an integrated manner.

Europe built inter-country transmission capacity and now to reap benefits of this inter-country transmission capacity as well as diversity in demand and diversity in supply, they

created a pan-European single electricity market through market coupling

India first created a pan-India single electricity market through power exchanges. India then realized that the inter-region transmission capacity needs to be strengthened to fully reap the benefits of one single power market. Heavy investment by GOI primarily through Powergrid has created massive transmission capacity and enabled India to reap the benefits of one nation, one grid, one price.

Thus, India is already enjoying all the benefits of a hypothetical market coupling.

A consumer in Arunachal Pradesh can easily buy power generated in Karnataka just at the click of a button through the power exchanges.

#### **9. Why India is not comparable to United Kingdom?**

The example of the two power exchanges in UK is often cited to justify the case for market coupling in India. However, the two power exchanges in the UK were not coupled with each other, but with the rest of Europe.

When BREXIT happened, the coupling broke down.

Now, UK again wants market coupling, not between these two exchanges but with the rest of Europe.

#### **10. Why India is comparable to Germany?**

As mentioned in the staff paper, Germany used to have multiple power exchanges. Since these private enterprises realised that competing against each other was not viable, they decided to collaborate and merge.

Prima facie, India also does not need multiple power exchanges.

CERC should facilitate a merger of the 3 power exchanges into a single entity and make sure that such a combined entity is listed on the stock exchanges so that it has diverse ownership.

Since the transaction charges are regulated and capped by CERC, there is no question of this merged power exchange exploiting its monopoly status.

#### **11. Expected benefits of market coupling (as mentioned in power market regulations 2021 and the staff paper)**

##### **a. Uniform market clearing price**

87% of power is traded through long-term PPAs, each of which has a different price.

How is creating a “uniform clearing price” across power exchanges for 7% of the power going to help?

##### **b. Optimal utilization of transmission infrastructure**

In my opinion, this is more relevant when there is bidding for the allocation of transmission infrastructure alongwith the price of power.

In Europe, not only is the power auctioned, transmission corridor is also auctioned. In such a case, separate auctioning across power exchanges may potentially cause inefficiencies.

Pro-rata allocation across power exchanges in India has worked well in the Indian context.

c. Maximization of economic surplus

We probably need to concentrate on the fact that only 7% of the power consumed in the country is transaction on the power exchanges. Increasing this will probably do more for “maximization of economic surplus” than market coupling.

d. Single reference price for DSM or electricity derivatives

A simpler solution is to use a volume weighted average of the prices discovered on the three power exchanges as the reference price.

e. Improvement in liquidity and prices

Improvement in liquidity will only happen when the regulator creates a market design which discourages inflexible long-term PPAs not by market coupling.

At present there are no sell or buy bids on the other two exchanges.

## 12. Challenges mentioned in the staff paper regarding market coupling

a. Market coupling will severely impact market making and innovation

One Case in point is the gross bidding proposal by one of the power exchanges.

CERC and MoP has been trying to push through MBED since at least 2018. One of the power exchanges proposed gross bidding as an alternative to MBED in 2021. Gross bidding will fulfil most of the objectives of MBED without the need to change the long-term PPA contracts or get states to ratify a proposal like MBED. However, nothing seems to have moved on the gross bidding proposal.

Once market coupling is implemented, power exchanges will be forced to only compete on price and will not have any financial flexibility or management bandwidth left to think of market innovation or any other beneficial policy advocacy.

b. If market coupling is introduced, power exchanges will be reduced to “bid collectors”.

**IEEX India had 16.32 lac owners** (most of them individual shareholders) as on 30.06.2023 No owner wants to be in a business that does not do any value addition and only competes on prices (transaction charges). **Transfer of price discovery away from the power exchanges through a change in regulations will be grave injustice to these 16.32 lac individual shareholders.**

## 13. Section 75 and Section 107 of the Electricity Act 2005 empower the central government to issue directions in writing to CERC in “matters of policy involving public interest”.

However, in determining whether such written directions by the central government actually relate to a public interest or not is at the sole discretion of the commission.

I have confidence that the honourable commission will apply its mind to determine if implementing market coupling at this junction of the power market development is in the interest of the electricity consumer, power sector shareholders and the public at large.

14. Section 79 (2) of the Electricity Act 2003 puts responsibility of advising and guiding the central government on the shoulders of the commission.

Specifically Section 79 (2)(ii) and 79 (2) (iii) repose the central commission to advise the government on matters related to “promotion of investment in electricity industry” and “promotion of competition, efficiency and economy in activities of the electricity industry”.

To my mind, market coupling at this juncture is counter-productive to both to promotion of investment in the electricity industry and promotion of competition.

To summarize, if MoP and CERC are convinced that market coupling is in aggregate, in the benefit of all the power sector stakeholders and the electricity consumer, CERC should adopt one of the two paths

- I. Compulsory merger of the three power exchanges.  
India should have only one power exchange (de-facto market coupling)  
Preferably listed on the stock exchanges for dispersed ownership
- II. POSOCO should takeover all the three power exchanges  
India should not have any power exchange.  
POSOCO is sufficient and competent to do the job of a power exchange.

Amey Ashok Kulkarni  
Electricity Consumer  
Ex-shareholder of IEX India  
SEBI registered investment advisor

Kothrud, Pune  
Maharashtra, pin code – 411038  
[amey.kulkarni@candorinvesting.com](mailto:amey.kulkarni@candorinvesting.com)  
+91 9619203756