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Subject: Comments on the Staff Paper on Market Coupling by Central Electricity Regulatory Commission published in August 2023

Comments on the 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 Hi-Tech Power and Steel Limited likes to offer its views on the issues and questions highlighted in the discussion paper w.r.t to power distribution utilities. At the outset, we do not support the proposal of Market coupling. Our reasons for the same are elaborated hereinafter.

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 in line with power market regulations where multiple power exchanges operate and compete at national level and therefore provide scope for trade in various products in the market. As a downside of coupling, it will increase 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. The price coupling of power exchanges in India will undo all the progress and market development which introduced open access, efficiency, transparency, healthy competition & social welfare will all be diluted.

The proposal to introduce market coupling seems a non-starter as it is neither beneficial for the consumer nor for the market while requiring while requiring significant fundamental and structural changes.

1. **Lack of rationale/objectives for Market coupling:** No study or empirical evidence of any benefits seem to have been provided for proposing market coupling in the Indian power market. We request the Hon’ble Commission to conduct a study which provides rationality on the need for coupling.
2. **Market coupling is deemed pre-cursor to MBED, which may further lead to loss of scheduling rights, disruptions in existing contracts and uncertainties for future long-term and medium PPAs:** The transition from traditional power

procurement methods/routes to potential MBED for which market coupling is a pre cursor can induce several challenges for the discoms which may include the following.

- a. Discoms will lose the flexibility of self-scheduling.
- b. Discoms will likely be discouraged to enter in long term and medium term PPAs,
- c. Discoms will need to maintain huge working capital.
- d. Who benefits from MBED?: It cannot be denied that MBED which is the subsequent step to market coupling, seems to benefit only the ISGS plants at the cost of the state generating stations and the IPPs supplying power to discoms. Owing to their better placement in terms of fuel availability, financial stability etc., the national level pool such as MBED will replace the State Genco's/IPP's. The Discoms will lose their flexibility to schedule or choose generator. It therefore appears that the largest benefactor of MBED and therefore coupling will be generators instead of the consumers.
- e. Disruptions in existing contracts & uncertainty in future long term & medium term PPAs: The MBED transition will necessitate adjustments to existing contracts of the discoms as traditional PPAs need to be re-negotiated or modified to get aligned with new market framework. Also, the shift to MBED will introduce new dynamics to the electricity market as long & medium term PPAs may evolve over time.

Accordingly, MBED will not be in the interest of DISCOMs, or consumers thereby implement coupling in the guise of bringing MBED in the system without addressing the issues raised by the Discoms neither desirable nor tenable.

3. Market coupling may curb the present efficiencies of the exchange market: The introduction of market coupling can potentially bring down the efficiency of the current exchange market owing to the simple reasons of agility, innovation, fast turnaround time etc. depicted by the three power exchanges at present, which may not remain available post coupling. It may also restrict the options available to power distribution utilities within the power exchanges and the range of products, bid types etc. they can choose from. The contributing factors which may lead to this are explained as below:

- **Reduction in innovation related to products:** The aim of market coupling is to result in a uniform price discovery in the exchange market. This will require a single set of rules, products, bid specifications etc. With the coupling of power exchanges there will be no differentiation in products, and it will negatively affect the innovations in the short-term market. This would clearly result from the fact that the exchanges being merely the bid collection agencies may not have any motive for product/market innovation. This in turn will signal a reduction in the diversity of products, bid specifications etc. available on power exchanges. This will be detrimental to the interest of discoms.
- **Agility in current systems & processes will be lost:** Presently, the three exchanges operate with agility and quick turnaround time owing to the competition among them to provide best in class products/services to the customer. Introduction of new products takes places smoothly and swiftly, feedbacks/issues are addressed quicky, often to protect their market share and gain more customer bases. Once the competition is limited merely to fees, the exchanges will lose any interest in developing their whole gamut of products/services.
- **Effectiveness in implementing the new initiatives like RTM market will be affected:** Power Exchanges specially IEX has played a significant role in successfully implementing new market segments such as RTM, GTAM/GDAM, HP-DAM, new REC market, to name a few. Considering for example the RTM market, the enabling provision for RTM was made by the Hon'ble Commission but it was owing to the robust infrastructure and 24x7 support of the human resource capability of the exchanges that streamlined the operations. A single failure at any step could have dealt a blow to the initiative but IEX ensured the market has grown leaps and bounds over the years. With the onset of new types of RE tenders in the market such as Firm &

Dispatchable RE (FDRE), new opportunities will continue to arise for introducing complementary products/bid types in the market. Exchanges are therefore necessary to bring about such novelty in the market.

4. Transition period uncertainty & complete loss of control over electricity procurement & supply arrangements for the DISCOMs: The transition period & potential loss of control over the electricity procurement and supply arrangement will present significant challenges for discoms post the introduction of market coupling mechanism. During the transition period discoms may face challenges as to how will the new market behave. This will include a cluster of uncertainties pertaining to price movements, market behavior & the signals from market participants. Given these uncertainties it can be challenging for the discoms to plan & budget effectively. Additionally, wherever market coupling has been implemented across the globe it has come with changes in regulatory framework and market rules which will lead to unnecessary burden of compliances for Discoms.

5. Aids and services of power exchanges may cease to exist: Exchanges have provided crucial services to act as a Market maker over the years. Their absence/disinterest will lead to a potential loss in such services. Power exchanges often provide crucial market information such price trends, demand forecasts and other relevant data which would change completely post market coupling impacting discom ability to make informed procurement decisions. Power Exchange in the last 15 years of its operations has provided continuous support to the participants by way of capacity building through workshops, seminars etc. for the development of the market. They have assisted us in navigating through various rules, regulations and procedures issued by the MoP, CERC or the SERCs.

6. Post coupling experience may turn out to be less transparent like it was for the transmission charges under the POC mechanism: The introduction of market coupling may potentially reduce transparency for discoms. With implementation of market coupling, the discoms may not get access to plethora of insights of market participation, price discovery etc. A similar situation existed when transmission charges were determined through the POC mechanism, and it was too difficult for the discoms to comprehend the principle of levy of charges. Similar complexity under the coupling can make it harder for the discoms to have a clear & transparent understanding of how market dynamics and pricing mechanisms will work if especially they possess limited resources in navigating these intricacies.

7. Increased risk for private sector participation in distribution business: As market coupling is anticipated to bring MBED in play, it will restrict the power procurement options for the discoms and therefore induce uncertainty for the revenue streams of power distribution utilities eventually leading to negative impact on their profitability would make it challenging. Further, the private companies planning to enter the power distribution business will naturally become more hesitant to commit significant investments in a market with uncertain revenue conditions which clearly would limit the competitiveness of distribution sector in the country.

8. Disruptions in established trading patterns impacting the supply reliability and capacity management of DISCOMs: Post the introduction of market coupling it is anticipated that there would be significant disruptions in established trading patterns. This can impact and affect the cost of electricity procurement for power distribution utilities which can potentially lead to budgetary challenges and enhanced financial risks. Also, with sudden changes in trading patterns the availability and flow of electricity in the grid might be affected which can have a cascade effect on supply reliability of power distribution utilities. Further, these disruptions can also lead to challenges in accurately forecasting demand and managing capacities which can potentially result in either under supply or over supply situations. 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.

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Reply

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