

RPTCL/2023-24/CERC/SP/075

29.09.2023

The Secretary,
Central Electricity Regulatory Commission,
3rd & 4th Floor,
Chanderlok Building,
36, Janpath,
New Delhi- 110001

Sub:- Comments/Suggestions on "Staff Paper on Market Coupling prepared by Staff of Central Electricity Regulatory Commission"

Sir,

This has reference to the **Public Notice No. Eco-14/1/2023-CERC, dated 21st August,2023** for seeking comments and suggestions on **"Staff Paper on Market Coupling prepared by Staff of Central Electricity Regulatory Commission"**, notified by Hon'ble Central Electricity Regulatory Commission through above referred public notice.

Accordingly in this regard, kindly find our observations/comments/suggestions enclosed as Annexure to this letter for your kind consideration.

Thanking you,

Yours faithfully,



Sushanta Basumatary,
Chief Manager,
RPG Power Trading Company Limited

Enclosed: As stated above

RPTCL Comments on CERC Staff Paper on Market Coupling

At the outset, RPG Power Trading Co. Ltd. ("RPTCL") would like to thank the Hon'ble Central Electricity Regulatory Commission ("Hon'ble Commission") for bringing out the Staff Paper on Market Coupling and providing the stakeholders an opportunity to provide comments/suggestions on the same. Accordingly, the comments and suggestions on behalf of RPTCL on the afore-said Staff Paper are provided in the following matrix for the kind perusal of the Hon'ble Commission.

PARA	DETAILS	COMMENTS AND SUGGESTIONS
5.2– 5.2.5	<p><i>Does the current Indian power market scenario form a compelling case for market coupling?</i></p> <p>.....</p> <p><i>Under such a scenario, what significant benefits can be derived in terms of uniform price discovery, and which model suits best for India?</i></p>	<p>In our humble opinion, the current Indian power market structure (Power Exchanges) have some aspects which support the case for market coupling.</p> <p>1) Voluntary Participation:</p> <p>The fact that participation in Exchange is voluntary, suggest that there are rooms for improving market efficiency and participation. Market coupling can potentially ensure greater participation by enhancing the attractiveness and reliability of this market.</p> <p>2) Share of Exchange Transaction:</p> <p>The transactions through power exchanges constitute only 7% of the total electricity generation. Hence there is enough potential to increase market liquidity and market efficiency. Market coupling can help to achieve this by aggregating bids of all the existing PXs leading to greater volume of transactions and better price discovery.</p> <p>3) Long Term Transactions and Corresponding DISCOM Behavior:</p> <p>The prevalence of Long Term Power Purchase Agreements (87% of total electricity transactions) suggests that there is an opportunity for the DISCOMs to optimize their portfolios by participating in Short Term transactions. This importance of optimizing the power portfolios by participating in short term transactions has further increased due to the ever increasing share of renewable power in the overall power mix, emergence of electric vehicles and BESS modules.</p> <p>Market coupling can provide an efficient platform to achieve this, by ensuring better liquidity and making the process of price discovery more efficient.</p> <p>However it needs to be ensured that the option of market coupling is being considered and implemented for the purpose of making the Indian Power Market</p>



RPTCL Comments on CERC Staff Paper on Market Coupling

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		<p>(PXs) more efficient and robust gradually paving the way for operationalizing the proposed MBED and Derivative Product Segment.</p> <p>In our opinion, a properly planned and well thought out implementation of market coupling can have the following benefits:</p> <ol style="list-style-type: none"> 1) Price Transparency: A uniform market clearing price discovered through market coupling will enhance transparency and reduce the possibilities of market manipulation. 2) Clear price signal for Investment decision: The market players will be in a position to take decisions based on uniform pricing of the market capturing the supply demand scenario in totality. 3) Reduced Arbitrage Opportunities: A single market clearing price should reduce arbitrage opportunities across same segments of different PXs. 4) Ease of Settlement: With one uniform price being discovered through market coupling, it will enable the coupler to settle the transactions easily. 5) Entry of new participants: With efficient price discovery and increased liquidity, there is the possibility of new entrants entering the market, being attracted by the robust market structure.
5.3-5.3.2	<p><i>Effect of coupling on technological innovation and competition</i></p> <p>.....</p>	<p>Indian power sector is a diverse one, with demand supply patterns being distinctly different depending on the geographical location. Also the ever increasing share of RE is making the sector even more diverse. In this context, in our humble opinion,</p> <ol style="list-style-type: none"> 1) In the Indian context, where the electricity market is evolving and facing challenges, both arguments need to be considered, in the context of the manner in which the MoP & Hon'ble CERC plan to take the sector forward, minimizing the necessity of intermittent regulatory interventions. Maximizing social welfare and optimal corridor utilization are the key economic principles which need to be considered.



RPTCL Comments on CERC Staff Paper on Market Coupling

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		<p>2) Given the challenges posed by a fragmented electricity market, including the need for efficient transmission corridor utilization, improved price discovery and optimal utilization of resources, the argument for increased liquidity, competition and efficient price discovery seem to align better in the Indian context.</p> <p>3) But the argument regarding concerns of innovation and role of PXs should not be ignored completely. Market Coupling could provide some of the existing challenges by adopting a balanced approach. Introduction of MCO should not necessarily lead to complete elimination of PX's innovative capabilities. Hon'ble CERC may kindly like to look into this aspect and put in place the regulatory framework and market design to encourage innovation in Power exchanges while reaping benefits of Market Coupling.</p>
5.4	<p>Who shall be the Market Coupling Operator?</p> <p><i>What should be the ideal institutional/ structural design for market coupling and the extent of autonomy of various parties in such a design?</i></p>	<p>In our humble opinion, the structural/institutional design for market coupling in India should carefully balance the interest of the stakeholders while ensuring efficient market operations and price discovery. This design should strive to achieve the objectives of uniform price discovery, optimal transmission infrastructure utilization, maximization of economic surplus and improvement in market liquidity. The following is a suggested approach:-</p> <p>1. Market Coupling Operator/System Operator (GRID-INDIA):</p> <p>The system operator should act as the MCO, as there is already a mechanism in place for transferring and aggregating the bids of the PXs and GRID-INDIA acting as the platform for price discovery in the recently launched TRAS Market, hence the same working methodology can be replicated.</p> <p>As such, it is felt that GRID-INDIA can be chosen as the agency for merging bids from all the three functional PXs, running the market-</p>



RPTCL Comments on CERC Staff Paper on Market Coupling

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		<p>clearing algorithm, and determining uniform MCP. Further, the most important criteria for MCO is to ensure efficient and objective operation without any conflict of interest which we think justifies GRID-INDIA as the appropriate agency for this purpose.</p> <p>As a system operator, GRID-INDIA has to play a significant role in coordinating and facilitating the transfer of bid information between PXs and MCO and itself as well as allocation of required corridor for the cleared volume.</p> <p>2. Power Exchanges:</p> <p>The PXs will have their roles redefined, where they will be primarily responsible for collecting the bids and transmitting them to the MCO. They will continue to act as the clearing house for all the clients registered with them. Suitable framework for incentivizing Px for making innovations in product delivery and better customer experience need to be in place.</p> <p>PXs have to formulate a suitable mechanism and frame detailed timeline to settle inter-exchange transactions, which will be a reality post market-coupling.</p> <p>3. Regulatory Commission(CERC):</p> <p>The existing mechanism for monitoring and regulatory oversight be continued.</p> <p>There may be a need to specify and regulate a common format for bid data submission which should be adopted to facilitate the seamless transfer and merging of bids of all the three PXs by the MCO.</p> <p>Further the bid clearing algorithm should be consistent, repeatable and auditable to maintain the integrity of the market results.</p>
5.5	<p><i>Which Algorithm should be adopted for a coupled market?</i></p> <p><i>Would standardizing/ harmonising the bid types in DAM & RTM across the exchanges address the issue?</i></p>	<p>In our opinion, standardizing/harmonizing bids across the PXs could potentially address some of the challenges which this sector will face in its effort towards market-coupling. The reasons are as follows:</p> <p>1. Simplification:</p> <p>Standardizing bid types across the PXs would ensure that all the PXs are at the same platform at the time of coupling, simplify the process of</p>



RPTCL Comments on CERC Staff Paper on Market Coupling

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		<p>matching bids and reduce the complexity of the market coupling algorithm.</p> <p>2. Ease of Implementation: Developing a new algorithm for pooling different types of bids across the PXs, and subsequently matching them efficiently can be a really complicated and time consuming affair. Hence standardizing bids (in the segment which is to be coupled) across the PXs will make this job relatively easier.</p> <p>Suitable Bid Types: In order to develop suitable bid types, it is suggested that a detailed two-pronged analysis be conducted,</p> <ol style="list-style-type: none"> 1. A comprehensive study needs to be conducted based on historical data to find out the bid types and sub types which are mostly used by the participants across the three PXs. There are several sub bid types under the broad categories of Single bids and Block bids. It needs to be ascertained which are the sub types which are mostly used by the trading diaspora. These should be retained and made uniform across the three PXs in the post MC scenario. This will ensure that under post MC scenario the popular and proven bid types are present for the market participants and will also make the process of transition easier. This study can be conducted by the PXs under supervision by Hon'ble Commission appointed Party to conduct this study. 2. A discussion with all the stakeholders can be conducted to understand the need of the market. Based on such discussions and workshops newer bid types and sub bid types may be developed for the coupled segment to make it more dynamic and efficient. It is felt that newer bid types/sub-types are to be developed, in due course of time only if they are uniformly adopted in all the three PXs.
5.6.4	<i>Thus, in the scenario of a coupled market,</i>	No, in our opinion, the MCO should not act as the counterparty to the PXs with regard to settlement rights and obligations. In a coupled market structure,



RPTCL Comments on CERC Staff Paper on Market Coupling

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	<ul style="list-style-type: none"> • While the power exchanges will be the counterparty to the market participants, would the Market Coupling Operator act as a counterparty to the power exchanges with regard to settlement rights and obligations? • Would it be advisable to allow the Market Coupling Operator to charge transaction fees from the power exchanges, which in turn charge related transaction fees from the market participants? • What should the grievance handling framework be? 	<p>the primary responsibility of the MCO is to ensure proper and efficient matching of buy and sell bids across PXs to discover a uniform Market Clearing Price (MCP). In any coupled power-market environment, the objectives behind creating an MCO are:</p> <ol style="list-style-type: none"> 1) Ensuring optimization in terms of price discovery. 2) Ensuring optimization of transmission utilization. 3) Ensuring optimization of economic surplus. <p>The contractual obligations and settlement between the market participants and the PX should be left unaltered.</p> <p>The MCO's role is to enhance market efficiency and not to engage in clearing and settlement.</p> <p>In our opinion, allowing the MCO to charge transaction fee directly from the PXs, which in turn charge related transaction fees from market participants may complicate the situation. On the other hand, the MCO also needs to recover the cost which it will incur to develop the infrastructure required for market coupling and the cost of developing the matching algorithm.</p> <p>Hence it is humbly suggested that the Hon'ble Commission may like to examine this aspect and if required conduct joint discussions with the PXs, GRID-INDIA and the algorithm developer and come up with a fixed cost that needs to be recovered per day in lieu of the MCO charges, to be divided equally among all the successful portfolios each day.</p> <p>Further, with respect to a grievance handling framework, some of the suggestion provided below may be considered by this Hon'ble Commission:</p> <ol style="list-style-type: none"> 1) Establish clear guidelines and procedures for raising grievances, wherein all stakeholders should be informed about the process and where they can submit their concerns. Reporting on the types of grievances received/grievances addressed and



RPTCL Comments on CERC Staff Paper on Market Coupling

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		<p>establishing a feedback mechanism to continuously improve the grievance handling process.</p> <p>2) Appointment of an official body (existing/new) responsible for handling grievances related to market coupling and specifying a clear timeline for addressing issues promptly.</p> <p>3) Periodically review the efficacy of the grievance handling framework and make necessary adjustments to address emerging challenges and concerns.</p>
5.7.	<p>Changes in the settlement process</p> <p><i>Should traders be allowed to submit their bids directly to the market coupler to reduce the cost of power for trader clients, as the clients are presently paying margins to the trader and also bearing fees and margins of exchange?</i></p>	<p>There are several factors which may act as deterrent to this suggested move.</p> <ol style="list-style-type: none"> Risk Management: Power Trading involves financial risks. The PXs through their business rules mitigate the risk by providing layers of financial risk management through margin requirement. If traders submit the bids directly to the MC then the risk management measures may be compromised and can severely complicate the process of bid management. Fragmented Bidding: If traders are given the option to submit the bid directly to the MC, then that may lead to fragmentation in the bidding process, making the algorithm of market coupling and subsequent price-discovery too complicated. Increase in cost: Contrary to the initial assessment that this move will reduce the cost of power by removing the charges that the client has to pay to the PXs, this move may increase the cost of power. <p>In order to submit the bids directly to the MC, the traders will have to establish and maintain a direct interface with the MC requiring technological upgradation. The traders will have to recover the cost for this technological upgradation from their clients, resulting in subsequent increase in their cost of power.</p>



RPTCL Comments on CERC Staff Paper on Market Coupling

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5.8	<i>In which market segment should the coupling be introduced first?</i>	The transactions in the physical power market segment in PXs, can be broadly categorized into (a) collective transactions, (b) continuous transactions. We propose Collective transaction firstly in I-DAM and RTM Segments for introducing market coupling.

