

**Sembcorp's Comments/Suggestions on "CERC Staff Paper on Market Coupling"**

The staff paper provides examples of market coupling which was introduced internationally. However, these examples are of coupling markets operating in different geographies and not in the same country. However, in the case of India, the proposed market coupling is of exchanges that are operating in the same geographic area and hence there may not be any benefit due to geographical diversity in demand and supply. It is also argued in the staff paper that uniform price discovery and maximization of economic surplus. However, in the case of India, due to the fact that the share of one exchange is 99% in the day ahead and real time segment, the market coupling may not result in further maximization of economic surplus or better price discovery. While there are limited benefits offered by coupling, following issues need to be considered while analyzing the pros and cons of the proposed market coupling.

- 1. Innovation for introduction of new market products:** With significant growth and green transition expected in Indian power sector, there is huge potential for growth in the exchange market. This would require timely introduction of new and innovative products to cater for the flexibility required to support such growth and transition. With market coupling there is no advantage for an individual exchange to invest in building up new and innovative market products. It is suggested that a certain incentive may be provided to the exchanges for undertaking such innovations. This may be in the form of an initial exclusivity for such new products. That is, the existing products may be kept under market coupling mechanism whereas the new products for certain period may be cleared by only by the exchange which introduces it. To ensure that product innovation continues in the market, other suitable incentive mechanisms may also be explored.
- 2. Single window transactions:** In the existing mechanism, the sellers and buyers have to deal only with exchange, with introduction of an additional player i.e. Market operator, it may happen that the participants on certain aspects have to deal both with exchange as well as the market operator. This will create more complexities and may also increase costs for participants (esp. for the small participants). It is suggested that mechanism may be designed in such a way which makes the overall processes simplified for all the participants.
- 3. Reliability of market results:** Reliability/sanctity of market results is one of most important aspects of market coupling, as most the transactions under exchange will be for short-term (DAM, RTM etc.) there is no scope for contesting such results by exchanges or other stakeholders. It is therefore suggested to ensure robust algorithms/processes are established before transitioning towards such mechanism.
- 4. Sharing/publishing the market data:** As of now the individual exchange is responsible for sharing/publishing the market data (volumes, MCP etc.) with CERC or on their website for public consumption. Such data is useful for the participants to analyze the market and take informed decisions. Under the current mechanism most of this data is taken directly from exchange. Also, as most of the volumes (DAM & RTM) are transacted through IEX, the data published by IEX is considered as representative for the entire market. With introduction of market coupling, such volumes will get distributed between all 3 exchanges, it is therefore suggested that the data formats for the future data as well as the data for

past transactions may be compiled in uniform formats for ease of access by the all the stakeholders.

- 5. MCO to be a Regulated Entity:** We agree with the proposed through, that like Exchanges an MCO also needs to be a regulated entity. This will ensure that MCO will not only operate under well-defined regulatory framework and will undertake required changes only upon proper stakeholder consultation. Also, it will be important that the fee payable to the MCO is also regulated to ensure that the total transaction fee of the market participants remains within current levels i.e. 2 paisa/kWh.
- 6. Market coupling in REC trading:** The staff paper has not deliberated on introduction of market coupling in REC trading, if the benefits of market coupling are recognized for power trading transactions the same may be introduced for REC trading or other non-power trading transactions as well.