

Comments/Suggestions on the Staff Paper on “**Market Coupling**”  
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- A. Does the current Indian power market scenario form a compelling case for market coupling?

***Is there a necessity?***

1. Para 4.1 of the Staff Paper on Market Coupling (“Paper”) is as follows:  
*Globally, market coupling has been introduced to integrate two or more electricity markets or different geographies.*

*However, in the Indian context, the objectives of market coupling, as stipulated in the Power Market Regulations 2021 (‘PMR 2021’), include the discovery of a uniform market clearing price, optimal use of transmission infrastructure, and maximisation of economic surplus.*

2. This makes it evident that though the term “Market Coupling” has been borrowed from the global context, the underlying meaning, context and objectives of Market Coupling in India are very different from that of the international markets.
3. Then the preliminary question that has to be answered here is the following:

*What is the unique/exceptional need of the Indian power markets that makes it so urgent for the regulator to try a radical, unprecedented and untested approach that could possibly create more problems?*

4. Therefore, unless the regulator is able to clearly articulate the answer to this question by identifying gaps in the Indian markets that are not present in the international markets, they should exhibit caution in trying drastic new measures.
5. In a scenario like this, what is important to understand is that the burden of proof should be on those who are proposing new ideas. Further, the standard of proof required should be set at a very high level. Unless concrete answers are provided by the regulator as to why these radical changes are necessary, the market will be exposed to frequently changing regulations that will deny market participants “certainty” about the future, which is a very vital requirement for well functioning free markets.
6. I humbly submit that there are absolutely no such requirements in the Indian power markets, and therefore, there is no need at all for forcing market coupling on the Indian market.

### ***What are the purported benefits?***

#### *Purported Benefit of Market Coupling: **Economic Surplus***

7. There is no doubt that in any theoretical economic simulation, “economic surplus” in a scenario where there is just one market will be greater than that where there are multiple markets.
8. But the problem with the theoretical calculation in Annexure 1 is that it does not take into account the current market shares of different exchanges. If the current market share of various exchanges are taken into account (where 1 exchange is the main player and two others have negligible market share), the **incremental economic surplus** that can be achieved by coupling all the exchanges is going to be **very miniscule**.

#### *Purported Benefit of Market Coupling: **Discovery - Uniform market price***

9. The discovery of a uniform market price is not necessarily a good thing. If we take the example of any other product/service in the country and look at its prices, the inescapable conclusion is that prices are always going to differ due to a variety of reasons. And these differences in prices are actually information signals that are very crucial inputs in a well-functioning market. This is true whether you look at financial markets, precious commodities (gold) or even vegetables. The regulator need not worry about the presence of arbitrage opportunities as private market participants can take care of it and drive it down to negligible levels.
10. There isn't any case under the well-accepted global principles of free markets for the Regulator to believe that multiple prices are not healthy and that the discovery of a uniform market price is even desirable in the first place.
11. If a single reference price is required, it can always be calculated using a weighted average of the prices in different markets (with market shares as the weights). Besides, there is data on the basis of which one can come to the conclusion that “*the introduction of financial products in the electricity market would benefit from a single, uniform price discovery*” [4.2.1 of the Paper].

#### *Purported Benefit of Market Coupling: **Optimal use of transmission infrastructure***

12. The Regulator has already solved this problem. With the current system of allocation on a pro-rata basis, there isn't any further scope for improving the utilisation of transmission corridors. In fact, introduction

of Market Coupling could cause large swings in the market share of different exchanges, thereby making it very difficult for any reservation of transmission corridors.

*Purported Benefit of Market Coupling: **Improvement in Liquidity and Prices***

13. Similar to the point about market surplus, while there is absolutely no doubt that a single market would have greater liquidity than multiple markets, the **incremental benefit** for a market like India (where 2 players have negligible share) is extremely miniscule.

### **Legal Considerations**

14. An aspect that has not been considered at all is the legality of such a move. Article 19(1)(g) of the Indian constitution gives the right to carry on any business.
15. The only exceptions would be the ability of the government (including the CERC) to put “reasonable restrictions” in the interest of the general public under Article 19(6).
16. This would imply that while CERC could put reasonable restrictions on the power exchanges (such as a price cap on the charges), any move where the business of price exchanges is COMPLETELY banned is unlikely to stand the test of judicial scrutiny.

### **Conclusion**

17. There is absolutely no case, leave alone any compelling case, in the current Indian power market scenario for market coupling.

### **B. Effect of coupling on technological innovation and competition**

18. Leaving aside the arguments that have already been made against market coupling, such as less incentive for innovation in products, transaction ease, service quality, information dissemination and technology, a severely adverse effect that has not been considered is that of the **signalling**.
19. In other words, what is the impact caused due to the negative perception that will be created in the minds of investors (both global and domestic) on the overall economy of India because of , what can essentially be termed as, forced nationalisation of a private business?

20. It wouldn't be unreasonable for investors to believe that if a government can nationalise one industry, which industry could be next? Could there be forced nationalisation of the financial exchanges BSE and NSE? Would the Commodity exchanges MCX and NCDEX be merged together? Can this spill over to the non-financial space? At the end of the day, any industry where there are commoditised offerings and multiple players can be subjected to such treatment.

21. This could have a devastating impact on the entire Indian economy and could stifle investments in a broad range of sectors. This would effectively signify a change in regime and move back to the pre-liberalisation days in India's economic history.

C. Who shall be the Market Coupling Operator?

N.A

D. Which Algorithm should be adopted for a coupled market?

N.A

E. How will the clearing & settlement be carried out?

N.A

F. Changes in the settlement process

N.A

G. In which market segment should the coupling be introduced first?

N.A

### **Final Conclusion**

Market Coupling, as defined in the Power Market regulations in the Indian context, is a regressive idea that would stifle investments and innovation in not only the electricity exchange space but in other industries as well. CERC should not only restrain itself from bringing into effect, but should also proactively amend the CERC (Power Market) Regulations, 2021 (PMR 2021) to delete the relevant provisions regarding market coupling.