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To,

The Chairperson

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Subject: Suggestions on Staff Paper on Market Coupling - Reg

I am writing with reference to the CERC Public Notice dated 21.08.2023 inviting comments and suggestions on the Staff Paper on Market Coupling. The Staff paper has sought views of stakeholders on some pertinent questions with respect to market coupling. Before expressing my views on the specific questions, my comments are as follows for consideration of the Commission:

2. Globally, Market Coupling has been implemented only in the European Countries and power exchanges operating in 27 countries were coupled one by one to take advantage of diversity in demand and supply and optimum utilization of cross border transmission capacity. However, the market coupling in India as proposed in the staff paper is completely contrary to the European example. In India power exchanges are operating within same geography i.e., Indian territory which would not lead to any benefits as being harnessed in case of Europe.

3. Regulation 37 of the PMR 2021 provides following three objectives of the market coupling:

- 1) discovering uniform market clearing price for Day Ahead and Real-time markets,
- 2) ensuring optimal utilization of transmission infrastructure and
- 3) maximization of economic surplus,

4. The objective of uniform market price will not serve any purpose as the DAM/RTM constitutes only 5% of the total generation in the country and rest of 95% is being transacted through bilateral agreements at different prices. Even Commission determines/adopt tariff of ISGS u/s 62 & 63 of the Act which have different prices. Moreover, even after coupling this uniform market price will be only for a 15-minute time block therefore there would be 96 prices in a single day. Further, there are total 4 segments based on collective transactions i.e., GDAM, DAM, HPDAM & RTM. This will further multiply the number of prices in a day.

5. The Staff Paper indicates that one of the exchanges is trading a volume of 99.63% in DAM and 99.95% in RTM. Thus, practically DAM and RTM transactions in one time block are still being carried out at a uniform price.
6. Therefore, uniform price as an objective itself is faulty and seems to have no rationale.
7. The second objective of optimal utilization of transmission infrastructure seems to be only relevant in case of congestion in the transmission system. At present India has very strong inter-connected transmission network with practically no congestion in the country. Hence optimum utilization of transmission system under present condition is not relevant. Further, the DAM/RTM market represents only 5% of the generation in the country and in these markets virtually there is no congestion (0.09% as per CERC MMC report), therefore there is no scope for any further improvement in transmission utilization. However, the present provision of pro-rata allocation of transmission capacity between the power exchanges in case of congestion is working well.
8. The third objective i.e. maximization of economic surplus would have rationale only in case if there is a spread of buy and sell bids among the 3 power exchanges, This is not the case at present, as more than 99% market share is with one power exchanges therefore the coupling will not yield any benefit in terms of improvement in the economic surplus in the present scenario.
9. In view of the above, there is no case of achieving any of the objectives provided in the PMR 2021 by market coupling. Further, in Para 5.2.4 of the staff paper mentions that:
- "5.2.4 Given the existing market share of power exchanges in the collective transaction segment, it seems that while the implementation of market coupling may not cause any major change in terms of price discovery, the bid could be divided among the exchanges, which at present are concentrated in one exchange."***
- The Staff Paper has recognized that there will not be any improvement in price discovery however market coupling can be used to distribute the business of leading exchange among other exchanges having lower market share. I don't think regulatory intervention should be used for the purpose of evenly distributing the market share. This is also not the intended objective of market coupling as specified in the PMR 2021.
10. While the Commission has powers to make regulations for development of market under section 66 of the Act read with section 178(2)(y) and in making the

regulations, the Commission shall be guided by the NEP and the Tariff Policy notified by the Central Government under section 3. The Electricity Act and policies of the Government provides for promoting competition in the power market. By coupling 3 exchanges by the process of market coupling will amount to centralization and will kill competition.

11. It is envisaged that a Market Coupling Operator (MCO) will discover price by collecting all bids received on the power exchanges. In this scenario, the power exchanges will become brokers as their core function of price discovery will be taken away. I strongly endorse the disadvantages mentioned in the Staff Paper i.e. it will diminish role of Power Exchanges, dampen innovation & technology investments, reduce competition and discourage investments.

12. Further, the Guidelines issued by the Commission in 2007 and PMR 2010 & 2021 provide for price discovery as a key function of the exchange. Taking away price discovery function from exchanges will reduce the exchanges to bid collecting agencies. In the Staff Paper it is also mentioned that the trading companies can submit bids directly to the MCO which implies that there will be no difference between exchanges and trading companies. It will demolish an important institutional framework which has been created in the sector.

13. Moreover, the idea of designating NLDC/Grid India as the MCO also does not seem to align with the section 26 of the Electricity Act under which the NLDC was created for optimum scheduling and dispatch of electricity among the RLDC.

14. At present exchange market is only 7% of the total generation in the country. For the energy transition and high renewable capacity addition taking place in the country it is necessary to increase liquidity in the market.

15. My response to the specific queries asked in the Staff paper are as follows:

1) Does the current Indian Power Market scenario form a compelling case for market coupling?

No, there is no case of market coupling in the current market scenario.

2) Effect of coupling on technological innovation and competition

There will be adverse effect on innovation and competition.

3) Who shall be the Market Coupling Operator?

Market Coupling itself is not required therefore the question does not arise.

4) Which algorithm should be adopted for a coupled market?

Market Coupling itself is not required therefore the question does not arise.

5) How will the clearing & settlement be carried out?

In coupling scenario, a separate clearing entity would be required due to cross settlement between power exchanges which will be regulated by RBI as per PSS Act 2007.

- 6) Changes in the settlement process? And
Same as above.
- 7) In which market segment should the coupling be introduced first?
Market Coupling itself is not required therefore the question does not arise.

In view of the above, instead of implementing market coupling, the need of the hour is to bring more liquidity in the market for which necessary policy and regulatory framework is required to be put in place.

Yours faithfully



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