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Sub: Comments on the '**Staff Paper on Market Coupling**' by Central Electricity Regulatory Commission published on 21.08.2023.

Ref: The Public Notice No. Eco-14/1/2023-CERC dated 21.08.2023 of the Central Electricity Regulatory Commission, New Delhi.

We are an Association of yarn spinning mills having 817 members at the roll as on date with the Association. Our members are all HT consumers, having connected their industries with the TANGEDCO and most of our members are all OA consumers having their own Renewable Energy installations in Wind and Solar and are occupying a strong stake in the State of Tamilnadu. Our members are also sourcing power from Exchange Sources and other Third-Party Sources. Hence, we feel that our stake is very high in the matter covered by the Staff Paper. Accordingly, we are furnishing the following comments for the benign consideration of the CERC.

CERC has published the "Staff Paper on Market Coupling" in August 2023, inviting comments/views from the stakeholders, through the Public Notice above cited. In response to the same we would like to offer our views on the issues and questions highlighted in the Discussion Paper w.r.t to the Power Distribution Utilities. At the outset, we endorse all the issues provided in the Staff Paper and submit as under:

1. Lack of rationale/objectives for Market Coupling:

We wish to state that there was no study or empirical evidence of any benefits, is provided for proposing 'Market Coupling' in the Indian Power Market. A study that demonstrates the rationality of the requirement for coupling, should be done before moving forward with such a significant change in market design, so as to make the stakeholders to completely understand the requirement and basis to move towards the proposed 'Market Coupling'. The exercise seems to couple the prices in the Exchanges rather than separate markets, as is the requirement in Europe, where different Countries' markets are geographically coupled. The stated advantages of market/price coupling viz. uniform market clearing price in collective markets, optimal use of transmission infrastructure and maximization of economic surplus, are already achieved in the current market structure and the disadvantages seem disastrous in nature. Additionally, wherever market coupling has been implemented across the globe, it came with changes in regulatory framework and market rules which will lead to significant confusion in the transition period.

2. Market Coupling is deemed pre-cursor to Market-Based Economic Dispatch (MBED), which may further lead to loss of scheduling rights, disruptions in existing contracts and uncertainties for future long-term and medium term PPAs:

The transition from traditional power procurement methods/routes, to potential MBED, for which 'Market Coupling' is a pre cursor and therefore, it can induce several challenges for the DISCOMs which may inter alia include the following.

- a. DISCOMs will be discouraged to enter in to long term and medium term PPAs, which will leave them to vagaries of market variations, which can increase costs for their customers like members of our Association.
- b. DISCOMs will need to maintain huge working capital funds, which will ultimately impact the end consumer tariff and may lead to make the end consumers to suffer.
- c. MBED appears primarily to benefit the ISGS Plants at the expense of the State Generating Stations and the IPPs that provide electricity to DISCOMs.

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 Power Exchanges at present, which may not remain available post Coupling. Additionally, it might limit the selection of products, bid types, and other alternatives available to the customers like our members. The contributing factors which may lead to this, are further 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 of product/market innovation. This in turn will cause a reduction in the diversity of products, bid specifications etc., available on Power Exchanges which will be detrimental to the interest of all customers now sourcing power from Power Exchanges.

- **Agility in current systems & processes will be lost:**

Presently, the available three Exchanges operate with agility and quick turnaround time, owing to the competition among them to provide the best-in-class products/services to the customers. Introduction of new products takes places smoothly and swiftly, feedbacks/issues are addressed quickly, 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. Further, when the market development gets stagnated, it may lead to unwarranted practices to retain customers, which will ultimately result in bad market practices.

- **Effectiveness in implementing the new initiatives like RTM Market will be affected:**

Power Exchanges, specially IEX has played a significant role in successfully implementing the new market segments such as RTM, GTAM/GDAM, HP-DAM, New REC market, to name a few. Considering the example of the RTM Market, the enabling provision for RTM were made by the Hon'ble Commission, but it was owing to the robust infrastructure and 24x7 support of the human resource capability of the IEX that streamlined the whole 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. Aids and services of Power Exchanges may cease to exist:

Exchanges have provided crucial services to act as a Market maker over these years. Their absence/disinterest will lead to a potential loss in such services. Power Exchanges often provide for crucial market information such price trends, demand forecasts and other relevant data, which would change completely the post Market Coupling impacting DISCOMs' 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 market. They have assisted our members also in navigating through various Rules, Regulations and Procedures issued by the MoP, CERC or the SERCs, as the case may be.

5. Post-Coupling experience may turn out to be less transparent like it was for the Transmission Charges under the POC mechanism:

With implementation of Market Coupling, customers may not get access to plethora of insights of market participation, price discovery etc. The similar situation existed when Transmission Charges were determined through the POC Mechanism and it was too difficult for all the stakeholders to comprehend the principle of levying charges. Similar complexity under the coupling can make it harder for the customers to have a clear & transparent understanding as how the market dynamics and pricing mechanisms would work, if especially they possess limited resources in navigating these intricacies.

6. During supply constrained scenario, which is recurring quite frequently in the recent past, Post-Market Coupling, all Exchanges will push for bilateral TAM Markets instead of Collective Markets, as their revenue and interest in Collective Markets is diminished. This may also lead to a vicious cycle, in which all the merchant power will be gobbled up by the dominant customers and generators dictating terms on the prices, which will ultimately nullify all the efforts put in so far, for the development of electricity market since 2003.

In view of the above, we request the Hon'ble Commission to conduct a detailed independent study on the market design rather than taking up of such steps, like Market Coupling in an isolated manner. The market design should reflect the current need of the power sector and should be conducive for all the stakeholders.

SHORTER VERSIONS FOR INDIVIDUAL INDUSTRIES

The cost on Power is a critical input to our Textile Industry which runs next to the cost of raw material and vibrant / active Exchanges like IEX, have enabled deeper understanding of the Markets and helped our members, in optimising their power procurement costs. Further, over the years, they have provided multiple options of procurement to our members ranging from one hour ahead to 90 days ahead, which gave us a flexible and transparent option, for procuring both conventional and green power.

Exchanges are involved in several market development initiatives, including sensitising the customers, on open access related issues, supporting customers in regulatory understanding and proposing corrective measures in the case of any regulatory hurdles in the States, conducting workshops to develop detailed understanding of Power Markets etc.

If Market Coupling were implemented, the role of Exchanges will be reduced to just bid collection agencies, they will lose interest in all these activities and customers like our members are left to fend for themselves dealing with these issues. It will be detrimental to the whole interest of the consumers, if the enabling role of

Exchanges is reduced particularly in such a highly complex sector that requires expert guidance for non-sector players.

In line with the Nation's green targets, we have already advised our members to set up various Green Energy Projects, aimed to reduce GHG Emissions, from 1997 onwards and our members are having 60-70% of their power needs met through their own Green Energy Projects either from Wind or Solar, by harnessing the geographical advantages of the State of Tamilnadu in the best possibilities. For the balance of the power requirements of our members, Exchanges have helped our members to realize their green ambitions, on both supply and demand side (as applicable). Exchange driven markets, especially green market, RTM, REC etc., helped our members in meeting their targets.

To further realise our ambitious targets, we need a vibrant Exchange Market and it may not be possible if the current proposal of coupling is implemented. If any, with greater renewable integration expected in the Country's Power Markets and newer RTC solutions expected, we envisage a greater role for the Exchanges which require them to be actively engaging with all the stakeholders.

In view of the same and the background of all the above issues, we request the Hon'ble Commission to kindly have a rethink over the proposal of bringing out a Market Coupling Mechanism and accordingly, all the expected issues as explained above can be analysed thoroughly and a proper study can be conducted before introducing any risky systems in the Power Market. We also invite a kind reference to the below link by which some comments have been made and we feel that the issue requires a complete rethinking.

<https://etenergyworld.com/s/yv2gc4s>

Thanking You,

Yours Truly,
Dr.K.Venkatachalam
Chief Advisor