Suggestions on the Capacity Market Staff Paper

1. Capacity Market Design should be aligned with Market-Based Economic Dispatch (MBED)

The Staff Paper discusses scheduling and dispatch of procured capacity but does not explicitly integrate **Market-Based Economic Dispatch (MBED)** into the proposed framework.

Scheduling and dispatch provisions under the proposed Capacity Market should be aligned with MBED for operational and regulatory efficiency.

2. Relevance of short-term markets in Capacity Market Design

As noted in the Staff Paper, long-term PPAs inherently function as capacity contracts by recovering fixed costs and ensuring resource adequacy The Proposed Capacity Market should therefore be implemented with the primary objective of providing long-term reliability and appropriate investment signals, while energy markets strive for competitive pricing short-term/ medium-term markets.
An efficient spot market will accurately reflect true cost of providing electricity and reliability which will help regulators understand regulate capacity market.

3. Determining Capacity Market design requires recognition of needs for capacity market

A **Capacity Market is an artificial administrative mechanism**, unlike the energy market where prices are determined through supply and demand, Capacity market requires regulatory obligations to function and determine prices.

Determining capacity market design will require regulators to determine the problems that they want to solve through capacity market mechanism, and obligations, auctions, time frame can be determined with objective of addressing those problems.

The Staff Paper discusses various approaches to capacity market design but does not clearly articulate the underlying objectives or demonstrate why the existing market framework would be insufficient to achieve resource adequacy without introducing a separate capacity mechanism.

The international experience with capacity markets (specifically PJM) highlights several important limitations, mainly regulatory uncertainty and administrative complexity, that should be carefully considered before implementation in India.