ALL INDIA DISCOMs ASSOCIATION

(Registered Society: S/ND/54/2024)

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No. DG-30/2026-AIDA

Dated: June 23, 2026

Alok Kumar

Director General, AIDA

Sub: Comments of All India Discoms Association (AIDA) on the proposals contained in the 'Staff Paper on Capacity Market for Electricity in India'

Dear Harpreet

Greetings from All India Discoms Association (AIDA)!

2. We have carefully gone through the proposals contained in the above referred Staff Paper circulated by CERC in April, 2026. We have also consulted the member Discoms of AIDA.

3. AIDA welcomes the forward-looking initiatives proposed in the Staff Paper for deliberations on introduction of Capacity Markets for Electricity in India.

4. Before giving our detailed comments on the proposed mechanisms in the Staff Paper, we will like to share the following major apprehensions of the member Discoms of AIDA in this regard:

(i) The paper does not clearly specify whether Discoms are expected to procure their entire RA requirement through the proposed capacity market, or the proposed mechanism is intended only as an additional/ secondary procurement product. This ambiguity materially impacts the operational and commercial implications of the proposal. Therefore, it is requested to provide clarification on the same.

Considering the significant structural transition proposal under the paper, implementation of the proposed RA Capacity Market may initially be undertaken in a phased manner. In this regard, CEA may be asked to consider recommending only a limited portion of the RA requirement (for instance, around 5% of the assessed RA requirement) for procurement through the proposed capacity market as a pilot mechanism under the respective State-wise RA Study Reports. Based on the operational experience, market behaviour, reliability outcomes and commercial implications observed during such pilot phase, the framework may subsequently be reviewed and expanded in a calibrated manner.

(ii) The proposed mechanism of drawing the demand curve of the contracting buyer at a price slightly above the price cap is leading to apprehensions of increased power purchase costs for the Discoms. Therefore, it is requested that the Hon'ble Commission may get simulations conducted for various scenarios to reach a clear position whether the proposed method of drawing the demand curve at a higher level is workable.

The paper suggests that aggressive demand bidding is intended to address free-rider concerns (those Discoms who have not procured their RA). However, under-procuring Discoms may still participate later, bid aggressively and secure capacity despite inadequate prior planning. Thus, the mechanism alone may not fully eliminate free-riding behaviour. Therefore, there is a need for exploring alternative mechanisms for ensuring Discom interests and bid clearance, which do not lead to an increase in procurement costs or distortion in MCP discovery, while also providing adequate assurance regarding access to contracted capacity and dispatch rights.

(iv) In both the cases – (Option (3) for RA Obligation Capacity Market and Reserve Capacity Market Design), the allocation to the Discoms having shortfall need to have a gradual transition in view of the financially weak position of a large number of Discoms. It is suggested that such allocation should be based on a composite formula with 50% weightage being given to GNA and 50% weightage being given to shortfall in RA capacity/ Reserves. Gradually, the weightage being given to shortfall may be increased.

5. The Staff Paper does not contain adequate details on certain important concepts. These need to be developed and shared with the stakeholders before a final decision is taken for rolling out Capacity Markets:

(i) 'Net-CONE' is a new concept for the stakeholders in India's power sector. Therefore, it is requested that CERC should come out with detailed guidelines for computing Net-CONE.

(ii) It is suggested that the Capacity Market mechanism should also have an appropriate accreditation methodology in order to reflect the effective load carrying capability and aspects like derating factors. Such an accreditation is necessary to distinguish between a dispatchable thermal MW, a solar MW and a 4-hour battery MW.

The accreditation methodology as suggested above, should also incorporate limitation on such capacity, if any, due to present transmission constraints. This is necessary in order to have a dispatchable capacity in the Capacity Market.

(iii) The paper proposes that peak/stress hours may be centrally identified by NLDC. However, adequacy concerns of individual Discoms are often localized, transmission-constrained, seasonal and state-specific in nature. Accordingly, a single national peak/ stress definition may not adequately reflect regional reliability concerns. It is possible that no national shortage exists, while a particular State simultaneously faces regional stress due to local demand spikes or transmission constraints. Therefore, a robust design may require regional stress-hour definitions, locational/ zonal capacity products, transmission-constrained adequacy modelling and region-specific peak definitions.

6. AIDA submits the following specific suggestions regarding the various mechanism proposed in the Staff Paper: -

(i) Option (1) proposed for RA Obligation Market will be premature for States in India as it will lead to fragmentation of demand curve. Therefore, it is suggested that this option may be considered for larger States in subsequent

stages when the stakeholders have developed adequate confidence in the Capacity Market mechanisms and the methodologies for preparing the demand curve.

It is also requested that the phrase 'Capacity holder' may be suitably clarified as at some places it gives an impression that it refers to the off-takers.
In addition, it is noted that contract duration of up to 15 years has been suggested. However, no minimum tenure or segmentation framework has been provided. Therefore, it is requested to provide suitable clarification regarding minimum contract tenure.

(ii) Option (2) for RA Obligation Capacity Market is likely to face the challenges of counter-party risks for the Discoms having weaker financial position which, in turn, may lead to discovery of higher capacity charges.

It is also requested to provide suitable clarification regarding the following aspects:

- Treatment where generator fails to clear
- Treatment where Discom demand fails to clear
- Continued liability towards contracted tariff/ capacity charges
- Treatment of congestion or market mismatch

The above aspects are critical for clearly understanding the allocation of operational, commercial and market risks between generators and procuring Discoms under the proposed framework.

(iii) Accordingly, it is recommended that Option (3) may be preferred for RA Obligations Capacity Market which envisages the central agency to be the counter-party for entering into contracts with the capacity providers. However, it is suggested that the scheduling rights may be provided to the buying entities in this Option (3) also in the similar manner as envisaged in Option (1).

(iv) The Reserve Capacity Market Design seems acceptable. It is suggested that 'Claw Back Mechanism' may be included in Scenario 3 in order to prevent windfall profits to the capacity providers.

However, the participation of the generators may remain limited, particularly, because reserve market revenues may be uncertain and contingent in nature. In such circumstances, financing institutions and investors may not consider such revenue streams sufficiently bankable for supporting long-term investment decisions or financial closure. Therefore, it is suggested that suitable measures may be undertaken to provide a long-term visibility to such revenues.

(v) For the Secondary Short-term Capacity Market, Option (1) is ideally preferable because Option (2) lacks the dispatch efficiency through market-based clearing. However, in order to give comfort to the Discoms during the initial rolling out phase of Capacity Market, Option 2 under the proposed Secondary Short-Term Capacity Market may be adopted. The proposed structure carries a commercial philosophy broadly similar to the existing framework under the LPS Rules and conventional PPS arrangements, wherein Discoms retain the first opportunity to schedule the contracted capacity before opening of DAM, while only the unscheduled/ excess capacity is permitted to participate in the

market subsequently. Accordingly, under the proposed approach market participation appears to function more as a supplementary optimization mechanism, rather than replacing bilateral scheduled rights and conventional contracted supply arrangements altogether.

7. In addition to the above comments, there are two operational matters which will require attention before Capacity Markets are rolled out in India: -

(i) It is observed that the paper does not clearly address the treatment of Fuel Supply Arrangements (FSAs), coal linkages and utilization of State-allocated coal under the proposed Capacity Market framework.

Presently, allocation of coal linkages and execution of FSAs by Coal India Limited (CIL) (or its subsidiaries) are generally linked with long-term PPAs and identified beneficiary arrangements. However, under the proposed market-based framework, particularly where dispatch and scheduling become market-linked, the mechanism for allocation and utilization of FSA-backed fuel has not been clearly elaborated.

Further, in several cases, coal is allocated to States for meeting their State-specific power requirements and such coal is presently utilized through identified generating stations supplying power to the respective State under existing PPA arrangements. In this regard, the proposed framework does not clearly specify the mechanism through which States would ensure that coal allocated for meeting their State-specific requirement is utilized only for supply of power to the concerned State and not diverted towards supply to other entities/states through centralized market-based dispatch.

Accordingly, it is requested to further examine and clarify the treatment of coal linkages, FSA-backed fuel arrangements and utilization of State-allocated coal under the proposed framework, in consultation with the Ministry of Coal, CEA and other concerned stakeholders, so as to ensure consistency with the existing fuel allocation structure and State-specific fuel security considerations.

(ii) Discoms will have to pay the MCP to the capacity providers immediately which might be difficult for the Discoms having cash flow challenges. Therefore, there is a requirement of arranging a working capital borrowing window at reasonable interest rates for such Discoms.

Best wishes

Yours sincerely,

Alok Kumar

(Alok Kumar)

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