

PXIL/S&PD/21102014/32

October 21, 2014

To,
The Secretary,
Central Electricity Regulatory Commission,
3rd and 4th floor, Chanderlok Building,
36 Janpath, New Delhi - 110001.

Sub: Public Notice issued by the Hon'ble Commission inviting comments on staff paper on Transmission planning, connectivity, long/medium term Open Access and Other related Issues

Ref. Public Notice dated 19.09.2014

Dear Madam,

With the above quoted reference, PXIL would humbly like to submit comments on the Staff paper on "Transmission planning, connectivity, long/medium term Open Access and Other related Issues" for kind consideration of the Hon'ble commission.

As PXIL operates under the regulatory framework specified by Hon'ble CERC and Hon'ble FMC which restricts exchanges from offering products promising delivery period beyond 11 Days, we would like to submit our comments on query no. 11 and 12 as stated in the Staff paper:

We have not provided any comments on Connectivity and/or Long term Access as discussed in the Staff paper as these pertain to specific requirements related to a Generating plant and the distribution licensees. However, PXIL humbly submits that principles for permitting long term access has effects on investments in the creation transmission assets, adequate transmission capacity helps in complete realisation of exchange based trades that have established itself as a portfolio management tool in the day ahead market. In future, with the growth in market, power exchanges are poised to play a large role in meeting requirements of all the participants.

We have structured our observations and suggestion as under:

Question no. 11: Utilization of Congestion charges:

- a. Whether proposal of using congestion charges to reduce the long term ISTS transmission charges acceptable or
- b. Whether Congestion charges are to be utilized for creation of specific transmission assets for relieving the congestion? How should this be treated-as equity, loan or grant?

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Reply:

- a. PXIL would humbly like to submit that funds raised from congestion charges shall not be utilized to reduce the long term ISTS transmission charges but to strengthen the existing congested corridors.
- b. Specifically concentrating the reply towards congestion fund created from short term collective transactions in power exchanges have amounted to few hundred Crores, PXIL would like to humbly submit that power exchanges have emerged as the most transparent and reliable platforms for short term transactions which from system perspective also allows market participants to:
 1. To manage their last moment requirements smoothly
 2. Transparent price mechanism
 3. Better utilization of transmission corridors which otherwise would have left unused had there been no option of exchanges.

As the reliability of transactions on exchanges solely depend on the allocation of transmission corridors which in turn reflect in the price discovered on the exchanges, such congestion funds shall be used to strengthen the corridors which are frequently congested. PXIL would humbly like to submit following observations:

1. The transmission planning cannot be done based on short term transactions but the fact that generators reserving their capacity for the merchant sale of power can't be ignored.
2. Though these merchant generators are not submitting their capacity requirements in LTA but the reserved non-declared capacity for merchant sales is not hidden or even if it is, regulations shall make it compulsory for generators to declare their merchant planned capacity so that no surprise injections will appear and sufficient corridors will be created for short term transactions for export of power.
3. It is well taken that due to unavailability of counter party for merchant plants, no transmission planning can be done for such plant capacities but it is worthwhile here to mention that exchanges face regular congestions in few corridors e.g. WR-SR, ER-SR, W3 Export, etc. which actually need an urgent attention which PXIL feels can be done by deploying these funds for building additional transmission capacity.

Therefore, these funds shall be treated as grant as it helps in making investment that provides benefits to the all market participants.

Question no. 12:

Transmission corridor allocation for Power Market:

- a. Whether participants of Power Exchanges should be allowed to participate in e-bidding for transmission corridor? Or

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- b. For power market development, certain quantum of corridor may be reserved for power market with all participant of Power Exchange sharing the transmission charges of reserved corridor.

Reply: Based on the solution emphasized by Hon'ble commission in the presented staff paper, PXIL would humbly like to submit following responses:

1. Since the inception of exchanges in the country, power markets have grown substantially from 20MU/Day in FY 2009-10 to 84 MU/Day In FY 2013-14.
2. Short term requirements transacted on exchanges (Buy/Sell) are very contingent requirements from market participants which may be basically due to sudden weather conditions, force majeure events, drastic drop or increase in loads due to socio-political circumstances, therefore PXIL feels that allowing participants to E-bid for transmission corridor may kill the basic "Tatkal" structure of exchange based transactions.
3. In the Day Ahead Market allocation of transmission capacity receives higher priority over any bilateral transactions hence larger allocation to the collective format would benefit large no. of participants from all over the country.
4. Even if it is considered that few large market participants may reserve some capacities for them in advance through proposed E-Bidding, sudden non-requirement of corridors by such participants would either leave the "won" corridors unutilized or lead to gaming someway.
5. Considering that many of the Open Access consumers participate on daily basis through traders thus if traders will be allowed to bid for reservation of corridors, this will lead to huge benefit for large traders who can actually afford such high reservation costs.
6. With current set of regulations, transmission corridors made available to the exchanges are the last un-utilized capacities (left after LTA, MTA and bilateral allocations), therefore, even allowing booking such corridors will lead to discriminatory market price discoveries as market will be driven by the ones with affordability for such bookings.
7. PXIL would humbly like to submit that, with current set of practices, bids are cleared on exchanges based on price and quantum quoted/submitted by bidders and accordingly corridors are requested by exchanges. As this corridor allocation requests by exchanges are on actual basis this is leading to proper utilization of corridors.
8. Further, PXIL humbly submits that as per current approved business rules by Hon'ble commission, PXIL derives UMCP/UMCV after gate closure for DAS and accordingly requests flows to NLDC which is derived from an optimized solution. Today the power exchange is responsible for seeking allocation of transmission capacity, under the

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proposed e-bidding of transmission capacity the participant will have to make an assessment of the transmission corridor at the time of bidding in absence of any information related to buyers/suppliers.

As per proposal, the participant may already book the corridor without any identified counterpart, therefore it may prove extremely difficult for exchange to request optimized flow based on actual bids as booked corridors may vary from actual flows.

9. Further, PXIL would like to submit that allocation/reservation of corridors through E-bidding considering exchange as a counter party will lead to discriminatory allocation as corridors will be booked exchange specific wherein participants will not able to exercise their trades on other exchange with better options at the time bidding as corridors will be exchange specific.
10. PXIL respectfully submits that reservation of certain quantum of corridors for power exchanges is a welcome move considering that these reservation charges will be divided equally among all participants, but this reservation opportunity shall be equally divided among the operational exchanges in the country so that equal competitive spirit will be sustained.
11. **PXIL would humbly like to re-iterate that, all the transmission resources available shall be equally divided among the operational exchanges for which PXIL has submitted the petition with Hon'ble commission. PXIL would like to submit that issues raised in the petition may please be considered at this point of time.**
12. DAS market operates on the principle of collective transaction wherein orders are processed in batch method. As participants are not aware of their counterparts, it will be difficult for them to identify corridor for which they are supposed to bid.
13. Further, if market participant pays premium for booking of transmission corridor, they will have to remain competitive for power prices also during DAS session which will further Burden them and the landed price of power will become unaffordable.
14. Hon'ble commission by introducing Point of Connection (POC) charges mechanism avoiding pan caking of charges , PXIL submits that introduction of E-bidding option may result in introduction of pan-caking of charges.
15. PXIL submits that, current power market structure has Day Ahead product on exchanges in collective segments where the proposed methodology of E-bidding may not be implementable. In future with introduction of "n-Day Ahead Product" in collective segment in future (up to 11 days), the proposed methodology of e-bidding of transmission capacity may not be feasible.



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Further, PXIL submits that following challenges are envisaged in exchange based transactions that may create major hurdle in implementation of E-bidding option for market participants on power exchanges, hence clarification may please be provided on the following:

1. Will this bidding be based on 15 minutes or hourly basis?
2. In view of newly proposed evening markets and 24 hours intraday markets, how exactly the corridor booking will take place?
3. How pricing issue will be exercised i.e. separate prices will be discovered for corridor booking and power purchase?

PXIL submits that considering the existing scenarios of the power markets, the proposed E-bidding structure may add to the confusion from price perspectives for market participants. In addition to that corridor available alias trade clearance on power exchanges will be questioned as for the "guest participants" very less corridors will be left for utilization and get their trades confirmed. PXIL would also like to highlight that this pattern will be more useful for those with financial strengths to afford corridor pricing thus it may lead to discriminatory allocation of resources and may further collapse the well established, transparent and reliable exchange transaction mechanism.

Unbundling of transmission pricing and power pricing may artificially raise the power prices and therefore, price discovered on exchanges may not reflect the true cost of power which may further severely affect the price references for other short term bilateral transactions.

To conclude PXIL would humbly like to re-iterate that the proposed E-bidding mechanism may prove un-suitable with current set of market structure.

For and on behalf of
Power Exchange India Limited


Authorised Signatory



Encl: Original + 9 copies of the letter

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