From: "Alex HogeveenRutter" <Alex.HogeveenRutter@isolaralliance.org>
To: "Gagan Diwan" <gagandiwan@cercind.gov.in>, "Harpreet Singh Pruthi" <secy@cercind.gov.in>, "Ashutosh Sharma" <ashutosh.sharma@nic.in>
Sent: Friday, September 1, 2023 3:08:45 PM
Subject: Comments on Staff Paper on Market Coupling

To the esteemed commissioners and CERC members:

Firstly, I want to congratulate you on the excellent paper on market coupling. This is an urgent need for India and I applaud you for taking this action forward.

Having worked in North American markets (specifically MISO), I wanted to offer the following observations. Especially given that the international examples are heavily weighted toward Europe, I hope this perspective is valuable:

1) In Europe, the challenge is that the markets are physically disconnected due to poor transmission ties. It should be clear that India (unlike Europe) has a unified transmission grid, so the challenge is not geographic coupling, but coupling among markets.

2) Not requiring transmission block allocation would be a very good step-though congestion is limited now, this could become a problem as more RE is added and markets become more integrated

3) I disagree with the concern this could dampen innovation & technology investment. Though the analogy is imperfect, having a government-run neutral market-maker (think like UPI), but liberalizing what services market operators can provide (Paytm, BharatPe, Gpay, etc.) would unleash innovation. However, it is crucial for enabling regulation/legislation to allow market operators to provide more such services

Specific recommendations addressed in section 5:

1) The natural market coupling operator is Grid India. It is crucial for the auction itself to be run by a neutral central government party with independent governance.

2) In terms of settlement, I would consider multi-settlement algorithms used by ISOs in North America (similar to Europe)

3) It is crucial to introduce in as many market segments as possible. The reason there are insufficient supply side bids is a lack of overall supply in the market (~220 GW of **firm** capacity that is available at the maximum price of Rs. 10 or less vs. demand of 230 GW+. This is not a fault of the market operation but of the lack of capacity resource planning

Other recommendation:

1) As the paper notes, only 7% of power is currently sold through exchanges. It is crucial to increase this amount, for example by obligating or at least encouraging DISCOMs to procure real-time energy in the exchange (and separating out capacity contracted for reliability purposes). Thermal generators (including state and private) should be obligated to offer surplus capacity in the market

2) All power should be bid at marginal variable cost (eg. ~0 for RE), ***not*** PPA cost

3) It is crucial to resolve the jurisdictional dispute between CERC and RBI ASAP and allow financial structures. This would be a key role for the existing market operators going forward-they could offer “fixed price” short, medium and long-term contracts to both DISCOMs and generators and compete on who can offer the best prices/lowest spreads. Allow market operators to “cancel out”, hedge prices and take market risk, similar to financial market makers in other jurisdictions

4) Should move toward reducing gate close from 15 minutes to 5 minutes and/or decreasing the number of time blocks from n-6 to n-2 to increase liquidity

5) It would be best to have one unified market discover and publish the “true” price where supply-demand meets, rather than with an arbitrary cap, with **payments** reduced to the cap (eg. Rs. 10/kWh) to ineligible bidders (eg. domestic coal, hydro, vanilla wind and solar) rather than separating out as an HP-DAM market. That is, if the true market clearing price is Rs. 20/kWh, eligible bidders (LNG, battery storage, pumped hydro, etc.) would receive Rs. 20/kWh and others would receive the market cap. Buyers would pay the weighted average.

Thanks & Regards,

Alexander Hogeveen Rutter
Private Sector Specialist- International Solar Alliance
+91 88005 93532

www.isolaralliance.org

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