

Maharashtra State Electricity Distribution Co. Ltd.

Office of Director (Commercial), Prakashgad, Plot No.G-9, Bandra (East), Mumbai – 400 051
(P)26476743,(O)26474211,Website:www.mahadiscom.in,Email-directorcomm@mahadiscom.in

Ref. No. MSEDCL/Comments/PMR /13433

Date:14.08.2020

To,
The Secretary,
Central Electricity Regulatory Commission,
3 rd & 4th Floor, Chandralok Building,
36, Janpath, New Delhi -110 001.

Sub: Submission of comments / suggestions / objections on Draft CERC (Power Market)
Regulations, 2020

Ref: Public notice L-1/257/2020 by Hon'ble CERC for draft Power Market Regulations
dated 18th July 2020.

Respected Sir,

This is in reference to public notice issued by Hon'ble CERC on Draft CERC (Power Market) Regulations, 2020. MSEDCL welcomes the initiatives such as market coupling, introduction of NTSD contracts under Term Ahead Market and Market Oversight proposed in draft Power Market regulations 2020 and appreciates the efforts of Hon'ble Commission to revise the power market regulation based on the latest developments in the industry and the need for further development of Indian Power Markets. However there are still some issues which need to be addressed. The MSEDCL is hereby submitting the comments/suggestions on some of proposed draft regulations, which is attached herewith. Some of important issues are highlighted as under.

1. Market Coupling

Hon'ble commission has introduced the new concept of Market Coupling for discovery of uniform market price and maximization of economical surplus, though this ensures the same price guarantee throughout the nation at one side; on the other side the competition within the exchanges and thereby getting cheaper competitive discovered rates and development of different product to buyer will come to an end. Further the exchanges offering lower trading margin will have the cheaper landed cost of energy (as the clearing price is same) Hence MSEDCL suggests that in case Hon commission thinks to bring in the market coupling mechanism, then it is necessary to fix the minimum and maximum transaction fee to be claimed by power exchanges.

2. OTC Platform

The new concept of OTC platform is proposed in the draft regulation for exchange of information for sellers and buyers. The OTC platform will lead to bilateral transactions. Further the proposed OTC Platforms in the draft regulations shall not engage in the negotiation, execution, clearance or settlement of the contracts unlike power exchanges or DEEP portal, where such transactions are properly monitored and scrutinized. Furthermore such transactions will have no competitiveness as well as transparency. Probably the settled rate and the actual rate may be different as the buyer and seller will be known and negotiate directly with each other which is against the vision of the Electricity Act and National Tariff Policy which encourage competitiveness in power markets. So, we don't see any need for creation of such platforms

through regulation which encourages non-regulated transactions and may increase the unethical deals in the market.

Since requirement of such platforms for bilateral discussions can be driven by the market itself and the nature of functions of the OTC platform are outside the regulated activity, MSEDCL request Hon'ble Commission to omit entire 'Part-6 OTC Platform'.

Further, MSEDCL submit that if Hon'ble Commission wants to test this option, it may allow only Renewable Energy transactions with competitive bidding for tariff discovery and with proper oversight on all transactions including third party audit.

3. Promoting Renewable Energy participation in the market

Presently, the Renewable Energy participation in the power exchanges is less. Hence, as per the target set by GOI for Renewable Energy for the country there is a need to promote renewable energy participation in the market and bring maximum competitiveness so as to benefit to the Discoms. Hence it is suggest that a suitable mechanism or contracts shall be devised to enable participation from RE generators.

The detailed comments attached herewith as Annexure-A. It is kindly requested to Hon'ble commission to consider MSEDCL's comments / suggestions on Draft CERC (Power Market) Regulations, 2020 and the same please be taken on records and considered while framing the final regulations.

With Regards

Yours Faithfully,

Encl: - Annexure-A

Sd/-
(Satish Chavan)
Director (Commercial)

Copy s.w.r.to: CMD, MSEDCL, Corporate office, Mumbai.

Draft Comments on Central Electricity Regulatory Commission (Power Market) Regulations, 2020

S.No.	Clause/Regulation	Existing text/regulation in the proposed Draft	Requested amendment	Comments/Suggestions/Rationale/ Remarks
1	2 (v)	<p>Real Time Market</p> <p>(v) "Gate closure" refers to the time at which the bidding for a specific delivery period closes and no further bidding can take place for the said delivery period;</p>	-	<p>In order to optimize the overall power portfolio, the State Discoms having started using the real time market for sale and purchase of energy. The Inter State Generating Stations may form significant portion of the power portfolio of some State Discoms.</p> <p>When the demand of the States is low, the Discoms consider selling the energy from ISGS in the real time market. However, since the timeline for gate closure for revision of ISGS schedule and bidding in the real time market is the same it may lead to situations where Discoms may incur losses when ISGS energy sold by the Discoms is not selected in the real time market. The schedule of ISGS plant cannot be revised for that particular delivery period in which the Discom had attempted to sell the ISGS energy through real time market. It is suggested that the real time gate closure should allowed at least downward revision during gate closure period for ISGS stations.</p> <p>Further it is requested that gate closure time of real time market will be reduced from existing 4 blocks to 2 blocks by implementing NOAR on fast track.</p>
2	2(ah)	<p>(ah) "Market Manipulation" means:</p> <p>(i) entering into any transaction by any Market Participant, which:</p> <p>(1) gives, or is likely to give, false or misleading signals as to the supply of, demand for, or price of any of the</p>	-	<p>MSEDCL welcomes the introduction of a comprehensive market monitoring framework. Hon'ble Commission is requested to develop a mechanism such that data can be shared with the Discoms on monthly basis.</p> <p>Hon'ble commission is further requested to devise</p>

		contracts on the Power Exchange; (2) secures or attempts to secure, by any member of the Power Exchange or client, relatively higher sale price while curtailing supply to other beneficiaries entitled to receive the same power;		suitable action on Market Participant which brings manipulation in market
3	5 (2)	5(2) Intraday Contracts and Contingency Contracts (b) Scheduling and delivery: (i) The scheduling and delivery of transactions for Intraday Contracts and Contingency Contracts shall be in coordination with the system operator and in accordance with relevant provisions of the Grid Code and the Open Access Regulations and the Procedure issued thereunder. (ii) Inter-State transmission charges and losses shall be as per the Open Access Regulations and the Sharing Regulations.	-	Present the delivery time of intraday and contingency contract is kept 3.5 hours, it is suggested that same should be reduced to 2 hours and gate closure be changed accordingly to avoid any gaming in such markets.
4	5 (3)	Term Ahead Contracts and Term Ahead Market (a) Price discovery: The bidding mechanism and price discovery mechanism shall be as approved by the Commission based on the proposal of the Power Exchange. (b) Scheduling and delivery: (i) The scheduling and delivery of transactions for Term Ahead Contracts shall be in coordination with the system operator and in accordance with relevant	-	It is understood that Term Ahead Contracts can now be of any duration. This would require amendment in the Open Access regulations since currently market participants can only have one month rolling open access under short term open access. In the proposed Non-Transferable Specific Delivery (NTSD) Contracts there should be enough competition and should not become monopolistic. The payment structure and terms for different contracts and different duration shall be specified. It is requested to Hon'ble Commission to formulate necessary guidelines in this regard to the applicable extent.

		<p>provisions of the Grid Code and the Open Access Regulations and the Procedure issued thereunder.</p> <p>(ii) Inter-State transmission charges and losses shall be as per the Open Access Regulations and the Sharing Regulations.</p> <p>(iii) Term Ahead Contracts shall be settled only by physical delivery of electricity without netting and shall be binding on the participants executing the transactions.</p> <p>(iv) No Circular Trading shall be allowed and the rights and liabilities of the parties to the Term Ahead Contract shall not be transferred or rolled over by any other means whatsoever.</p>		
5	7 (1)	<p>Contracts transacted in the OTC Market</p> <p>(1) Price discovery: The price and other terms of contract in the OTC Market shall be determined either through mutual agreement between the buyer and the seller or through competitive bidding process or as determined by the Appropriate Commission.</p>		<p>As the National Tariff Policy focus on Competitive Tariff, the price discovery in OTC Market/Contract should be determined only by Competitive bidding process.</p> <p>A Suitable mechanism shall be formulated for facilitating, bidding and price discovery by competitive means.</p>
6	17	<p>Governance structure of Power Exchange</p> <p>17(11) No member of Power Exchange or their client shall be on the Board of Directors of any Power Exchange.</p>		<p>The Hon'ble Commission is requested to mandate Power Exchanges to have at least one Independent Director/Shareholding Director from the State distribution companies since distribution companies represent major volume of the power exchange business and such member of power exchanges should have adequate representation.</p>
7	23	<p>Power Exchange transaction fee</p> <p>No Power Exchange shall charge</p>	-	<p>To bring further transparency, it is requested to Hon'ble Commission to formulate a detailed methodology to estimate upper ceiling of power</p>

		<p>transaction fee exceeding such fee as approved by the Commission: Provided that the Power Exchanges which have been granted registration by the Commission prior to the date of notification of these regulations shall be required to obtain approval of the transaction fee to be charged by the Power Exchange within a period of three months of the date of notification of these regulations.</p>		<p>exchange transaction fee & fixed transaction fee based on cost plus method. The Hon'ble Commission may appreciate the fact that most of the fees/ tariffs in power sector value chain are either regulated through cost plus basis or determined through competitive methods. Power exchanges being key stakeholders in the power sector value chain, and since the transaction fee affects the costs of power purchase which would ultimately be borne by electricity consumers, transaction fee should be either on cost plus basis or competitive basis as considered prudent by Hon'ble Commission. We also suggest that the transaction fee should consider increasing transactions in the evolving power market through exchanges instead of only relying on the past transaction/ data.</p> <p>Further, with the introduction of Market Coupling, where consumers doesn't get any clearing price differentiation between the exchanges, it is the transaction fee that may impact the choice of power exchange for consumers, and there might be a situation where an exchange with lower transaction fees would dominate in terms of market share. Considering aforesaid submissions, a common transaction fee should be derived by Hon'ble Commission to all exchanges in case Hon'ble commission plans to introduce the Market coupling mechanism. In this case, the exchanges will function as an Aggregator.</p>
8	25	<p>25. Approval or Suspension of Contracts by the Commission</p> <p>(1) The Commission may, on its own or on an application made in this behalf,</p>		<p>Since distribution licensees are major stakeholders in terms of the volumes transacted in the power markets, and requirements of various distribution companies changes time to time in terms power deficit / power surplus it is requested to Hon'ble</p>

		<p>permit any Power Exchange to introduce new contracts as specified in clause (1) of Regulation 4 of these regulations:</p> <p>Provided that no permission shall be required for the contracts which are being transacted on a Power Exchange on the date of notification of these regulations;</p> <p>Provided further that the Power Exchanges may introduce new bid types or modify existing bid types conforming to the types and features of the contracts specified under Regulations 4, 5 and 6 of these regulations, after consultation with stakeholders and National Load Despatch Centre, under intimation to the Commission.</p>		<p>Commission that the Power Exchanges should consider the requests made by distribution companies for designing new contract/ bid types. Further in draft regulation, Hon'ble Commission allowed Power Exchanges to design the new bid types based on the need time to time without need for detailed approval process. Hence, it is requested that, Hon'ble Commission should mandate Power Exchanges to consult stakeholders, NLDC & market coupling operator if any and seek their comments for such new bid types. After the consultation process, such new bid type along with modified algorithm should get Commission's approval and then get updated in exchanges.</p>
9	27 (iii)	<p>27(iii) The Power Exchange shall distribute at least 70% of the return earned on the initial security deposit invested in the financial year to the members of Power Exchange in proportion to initial security deposit of the member and duration for which such deposit was held with the Power Exchange, within 45 days of the last date of the financial year.</p>	<p>(iii) The Power Exchange shall distribute at least 100% of the actual return earned or return estimated based on SBI MCLR + 350 basis points on the initial security deposit invested in the financial year, whichever is higher, to the members of Power Exchange in proportion to initial security deposit of the member and duration for which such deposit was held with the Power Exchange, within 45 days of the last date of the financial year.</p>	<p>Primary intention behind requirement of security deposit by the members is not to accrue any revenue/ profits to the exchange. Since costs and expenses of exchange can be covered through more formals means like trading margin, transaction fee etc., hence the return earned on the initial security should be directly distributed in cash to the actual extent (full 100%). Further, the return on the security deposits thus collected by exchanges to be actual returns or with the interest of MCLR + 350 basis points whichever is more.</p>

10	31	<p>Information Dissemination by Power Exchange</p> <p>31 (8) Power Exchange shall create and maintain a document on its website providing detailed description of the algorithm used for price discovery for all type of contracts. The description shall include bid types, details of how the algorithm results in maximisation of economic surplus taking into account various bid types and congestion in transmission corridor, which shall be updated with every new version of the price discovery algorithm:</p> <p>Provided that Power Exchanges which have been granted registration by the Commission prior to the date of notification of these regulations shall publish this document on their website within a period of three months from the date of notification of these reg</p>	-	<p>As per the current Draft Regulation Hon'ble Commission allowed Power Exchanges to design the new bid types based on the need time to time without need for detailed approval process. Hence, it is requested that, Hon'ble Commission should mandate Power Exchanges to consult stakeholders and seek their comments for algorithms used for such new bid types. After the consultation process, such algorithm should get Commission's approval and get updated in the document</p>
11	37	<p>Market Coupling</p> <p>Objectives of Market Coupling</p> <p>(1) Discovery of uniform market clearing price for the Day Ahead Market or Real-time Market or any other market as notified by the Commission;</p> <p>(2) Optimal use of transmission infrastructure;</p> <p>(3) Maximization of economic surplus, after taking into account all bid types and thereby creating simultaneous buyer-seller surplus.</p>		<p>We welcome the proposal of Hon'ble Commission to have a Market Coupling operator to optimize the process which results in uniform price discovery of all power exchanges.</p> <p>Presently, market participant get clearing price differentiation between the exchanges i.e. gets lower price in some time slots. With the introduction of Market Coupling, market participant doesn't get such clearing price differentiation between the power exchanges.</p> <p>If the markets are couple then the single uniform price will discovered for a block and the generators/ purchasers bidding on different exchanges will have getting the same price. Though this ensures the same price guarantee</p>

			<p>throughout the nation at one side; on the other side the competition within the exchanges and thereby getting cheaper competitive discovered rates and different products to buyer will come to an end. Further the exchanges offering lower trading margin will have the cheaper landed cost of energy (as the clearing price is same).</p> <p>Further as per the draft regulation Hon'ble commission will approve the transaction fees of all power exchanges and the transaction fee that may impact the choice of power exchanges for market participant. If the Hon'ble commission has given approval of different transaction fees or ceiling to different power exchanges, there might be a situation where an exchange with lower transaction fees would dominate in terms of market share.</p> <p>Hence at the end only a trader/ exchange offering lowest trading margin will rule the market and again the monopoly will create.</p> <p>Hence MSEDCL suggests in case Hon'ble commission thinks to bring in the market coupling mechanism, then it is necessary to fix the trading margin of all power exchanges.</p>
12	39	<p>Functions of the Market Coupling Operator</p> <p>(4) The Market Coupling Operator shall use the algorithm to match the collected bids from all the Power Exchanges, after taking into account all bid types, to discover the uniform market clearing price, subject to market splitting.</p> <p>(5) The Market Coupling Operator shall communicate the results of the auction to the Power Exchanges in a</p>	<p>We welcome the proposal of Hon'ble Commission to have a Market Coupling operator to optimise the process which results in efficient price discovery.</p> <p>We also request Hon'ble Commission to elaborate further on the role of Market Coupling Operator and mechanism of such price discovery, in the regulation itself.</p> <p>Further we would also recommend that intraday market should also be coupled similar to Cross Border Intraday (XBID) Project in European zone.</p>

		transparent manner. 40. The Power Exchanges shall inform the participating bidders about the results of the auction as communicated by the Market Coupling Operator.		This would allow orders entered by market participants for continuous matching in one area to be matched by orders similarly submitted by market participants in any area as long as transmission capacity is available.
13	41, 42, 47	OTC Platform 41. OTC Platform shall operate after obtaining registration under these regulations. 42. The objectives of the OTC Platform shall be: (1) To provide an electronic platform with the information of potential buyers and sellers of electricity; (2) To maintain a repository of data related to buyers and sellers and provide such historical data to Market Participants; (3) To provide such services as advanced data analysis tools to Market Participants. 47. Obligations of the OTC Platform 1) The OTC Platform shall not engage in the negotiation, execution, clearance or settlement of the contracts. 2) The OTC Platform shall maintain neutrality without influencing the decision making of the Market Participants in any manner.	-	We understand that the OTC Platform proposed under the Draft Regulations doesn't involve any competitive biddings or tariff discovery. It is only an electronic platform with information of sellers or generators and buyers and their respective requirements. We don't see any need for creation of such platforms through regulation which encourages non regulated transactions and may financially affect Distribution companies. Further it clear from the Draft Regulation that OTC Platforms shall not engage in the negotiation, execution, clearance or settlement of the contracts unlike power exchanges, where such transactions are properly monitored and scrutinized (as and when necessary as proposed in the Draft Regulation). Hence, by such out of the market settlement/ negotiations, most of the Commercial & Industrial consumers will directly deal and settle the power trades. Such transactions will have no competitiveness as well as transparency. Probably the settled rate and the actual rate may be different as the buyer and seller will be known and have options of interactions to know and negotiate directly with each other. This will not happen in exchanges transactions as buyer and seller are unknown. So unethical deals are avoided. The OTC Platform also doesn't mandate

				<p>competitiveness in the market contracts which is against the vision of the Electricity Act and National Tariff Policy which encourage competitiveness in power markets.</p> <p>Since requirement of such platforms for bilateral discussions can be driven by the market itself and the nature of functions of the OTC platform are outside the regulated activity, we request Hon'ble Commission to omit entire 'Part-6 OTC Platform'.</p> <p>Further the Hon'ble Commission should study the pros and cons after 6 months and decide way forward for existence of such OTC through proper public consultation.</p>
14				<p>Considering the emphasis on Renewable Energy and its obligations on Discoms, there is need to promote renewable energy participation in the market and bring maximum competitiveness so as to benefit the Discoms. Hence it is requested to Hon'ble commission that a suitable mechanism or contracts shall be devised to enable participation from RE generators in the power market.</p>