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CERC's Market Coupling Proposal — Reforming India's Short-Term Electricity Market

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CERC's Market Coupling Proposal — Reforming India's Short-Term Electricity Market

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WHY IN NEWS

The **Central Electricity Regulatory Commission (CERC)** has proposed **Market Coupling Regulations** for India's short-term electricity markets. The proposal would aggregate buy and sell bids from all power exchanges — **IEX, PXIL, and HPX** — and determine a **single uniform Market Clearing Price (MCP)** across all platforms. **Grid India** (formerly POSOCO) has been proposed as the **Market Coupling Operator (MCO)**.

INDIA'S ELECTRICITY MARKET — BACKGROUND

Structure of India's Power Market

India's electricity sector is governed by the **Electricity Act 2003**, which introduced competitive markets. The short-term electricity market has grown significantly:

YEAR	SHORT-TERM MARKET VOLUME
2009-10	65.90 BU (Billion Units)
2018-19	157 BU
2024-25	238.35 BU

Power Exchanges in India

EXCHANGE	FULL NAME	MARKET SHARE (DAY-AHEAD)
IEX	Indian Energy Exchange	~90%+
PXIL	Power Exchange India Ltd	~8-9%
HPX	Hindustan Power Exchange	~1-2%

Problem: IEX's dominant market share means prices on different exchanges can diverge — buyers and sellers on smaller exchanges may get worse prices than they would if all bids were pooled.

WHAT IS MARKET COUPLING?

Market Coupling is a mechanism where:

- 1 All buy and sell bids from multiple power exchanges are **pooled together**
- 2 A single algorithm determines the **uniform Market Clearing Price (MCP)**
- 3 All transactions execute at this single price — **regardless of which exchange the bid was placed on**

How It Works

[IEX bids] —┐
 [PXIL bids] —┐→ Market Coupling Operator (Grid India) → Single MCP → All exchanges settle at same price
 [HPX bids] —┐

Benefits of Market Coupling

BENEFIT	EXPLANATION
Price discovery	Larger pooled order book → more accurate price signals
Market liquidity	All participants access unified liquidity
Reduced arbitrage	Eliminates price differences between exchanges
Fair competition	Smaller exchanges can compete without liquidity disadvantage
Efficient dispatch	Better matching of cheap generation with demand

KEY PLAYERS AND THEIR ROLES

CERC — The Regulator

Central Electricity Regulatory Commission:

- Statutory body under the **Electricity Act 2003**
- Regulates tariffs for inter-state transmission and wholesale electricity markets
- Sets rules for power exchanges, market design, and open access

Grid India — The Proposed Market Coupling Operator

Grid India (formerly Power System Operation Corporation — POSOCO):

- Manages the national grid; ensures real-time grid stability
- Operates the **National Load Despatch Centre (NLDC)**
- Proposed as MCO because it is the neutral, central entity overseeing grid operations

IEX's Position

Indian Energy Exchange (IEX), which controls 90%+ of the Day-Ahead Market, has opposed market coupling — arguing:

- IEX's dominant market share reflects genuine user preference
- Market coupling reduces exchanges' ability to innovate independently
- Implementation complexity is high

TYPES OF ELECTRICITY MARKETS IN INDIA

MARKET	TIMEFRAME	DESCRIPTION
Day-Ahead Market (DAM)	Next day	Bids placed a day before delivery
Real-Time Market (RTM)	Within 30 min	Bids placed close to delivery time
Term-Ahead Market (TAM)	Up to 11 days	Short-term contracts
Green Day-Ahead Market (GDAM)	Next day	Only renewable energy
High Price Day-Ahead Market (HP-DAM)	Next day	No price ceiling — price discovery
Ancillary Services Market	Real-time	Balancing mechanism

Market coupling will initially apply to **Day-Ahead and Real-Time Markets**.

REGULATORY CONTEXT — ELECTRICITY SECTOR

INSTRUMENT	RELEVANCE
Electricity Act 2003	Framework law; enabled power markets; mandated open access
National Electricity Policy 2005	Promotes competition and market development
National Tariff Policy 2016	Guides tariff determination principles
Renewable Purchase Obligations (RPOs)	Mandates minimum renewable energy purchases
Open Access	Allows large consumers to buy directly from generators

UPSC RELEVANCE

Prelims

- CERC: Central Electricity Regulatory Commission — statutory body under Electricity Act 2003
- Power exchanges: IEX (dominant), PXIL, HPX
- Grid India: formerly POSOCO; operates NLDC; proposed Market Coupling Operator
- Market Coupling: unified price discovery across all power exchanges
- India's short-term electricity market (FY25): 238.35 BU

Mains

- “India's electricity market design needs structural reform to prevent monopoly and improve efficiency. Examine in context of CERC's market coupling proposal.”
- Role of competitive markets in India's energy transition

FACTS CORNER

FACT	DETAIL
CERC	Central Electricity Regulatory Commission — regulates inter-state electricity
IEX Day-Ahead Market share	90%+
Power exchanges in India	IEX, PXIL, HPX
Market Coupling Operator	Grid India (proposed)
Grid India	Formerly POSOCO; operates NLDC
India short-term electricity market (FY25)	238.35 BU
India short-term electricity market (FY10)	65.90 BU
Electricity Act	2003 — framework for competitive electricity market
Market Coupling benefit	Uniform price discovery; removes inter-exchange arbitrage
DAM	Day-Ahead Market — bids placed one day before delivery

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