

**CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI**

Petition No. 2/SM/2024

Coram:

Shri Jishnu Barua, Chairperson

Shri Arun Goyal, Member

Shri P.K. Singh, Member

Date of Order: 21st February, 2024

IN THE MATTER OF:

Directions by the Commission to the Power Exchanges registered under the Central Electricity Regulatory Commission (Power Market) Regulations, 2021.

ORDER

In exercise of the powers conferred under Section 66 read with Section 178 of the Electricity Act, 2003 and the National Electricity Policy, the Commission notified the Central Electricity Regulatory Commission (Power Market) Regulations, 2021 (hereinafter 'PMR 2021') on 15.02.2021, which came into force with effect from 15.08.2021. These regulations apply to power exchanges, market participants other than power exchanges and the OTC Market.

2. A power exchange has been defined as an electronic platform registered under these regulations with one of the objectives to ensure fair, neutral, efficient and robust price discovery. Power exchanges have nationwide operations, handle large financial transactions involving trading in electricity and interact with multiple stakeholders. Therefore, it is important that the power exchanges remain robust, neutral and transparent at all times in their management and operation and inspire confidence in market participants.



3. Part-7 of the PMR 2021 (i.e., Regulations 48 to 53) provides for a framework for market oversight by the Commission to safeguard the integrity and fairness of the power markets. In pursuance of this, the Commission has been regularly monitoring the situation in the power market, collecting and analyzing the market data and issuing directions from time to time, as deemed necessary.

4. Furthermore, the PMR 2021, under Regulation 32, mandates the power exchange to carry out day-to-day monitoring and surveillance of transactions by setting up a surveillance department. A power exchange is also required to constitute a Market Surveillance Committee (MSC), which shall submit its quarterly surveillance report to the Commission based on the analysis carried out by the surveillance department.

5. Regulation 26 of PMR 2021 requires the power exchange to develop and implement a prudent risk management framework by adopting best practices, which shall be dynamic based on the changing risk profile of the market. A Risk Assessment and Management Committee (RAMC) is required to be constituted by the Exchange to monitor adherence to the risk management framework and shall submit a six-monthly report.

6. The three power exchanges, namely Indian Energy Exchange Limited (IEX), Power Exchange India Limited (PXIL) and Hindustan Power Exchange Limited (HPX), have been submitting the quarterly MSC Report and the biannual RAMC report, as stipulated in the PMR 2021. The same are regularly perused for the purpose of monitoring and use of the Commission.

7. It has been observed from the MSC reports submitted by the power exchanges that there is no uniformity in the contents of the report submitted by all the three power exchanges and there is a need to bring improvement in the contents of the report. Accordingly, a detailed structure of the quarterly Market Surveillance Committee Report has been prepared by the staff of the Commission, and vide letter dated 23rd January 2024, all the power exchanges have been directed to submit the quarterly MSC reports in the desired format.

8. Moreover, on preliminary scrutiny of the quarterly MSC reports, the staff of the Commission had observed a few instances of manual entry of bids, cancellation of bids after the market hours, entry of bids after the market hours, and extension of market hours, etc. To corroborate these observations, the Commission's staff examined the bid order books of the power exchanges, submitted in compliance with the direction of the Commission in its letter dated 24th April 2023, under Regulation 49(2)(b) of PMR 2021. Each of these instances is dealt with in the subsequent paragraphs.

9. First, we deal with the manual entry of bids by the power exchanges at the request of its members. The Commission takes note that two of the power exchanges have made enabling provisions in their Business Rules for aiding the members as part of contingency management, as under:

“
Contingency management

.... In the event of failure of a Member's workstation and/or the loss of access to the trading system, the Exchange may assist the Member in placing the order on best effort basis. For this purpose, the Member must forward a valid request in writing in a clear and precise manner to the Exchange as per Annexure-XXX. The Exchange will execute such orders on behalf of the Member subject to such terms and conditions, which the Exchange may deem necessary to be imposed.....”

10. On perusal of the reports for the period Q1 2019-20 to Q3 2023-24, it is observed that while the instances of such assistance were few initially, there has been an increasing trend of such instances in the recent past, especially in 2022-23. Notably, some of the major buyer and seller members of these exchanges have repeatedly had their bids manually entered through their respective power exchanges. Moreover, it has been observed that some facilitator members, whose function is to provide IT infrastructure for bidding on exchange platforms or skilled personnel, also requested the respective power exchange to enter bids on their behalf in many instances.

11. In order to further examine the matter, vide letter dated 25th January 2024, one of the power exchanges was directed to submit the details of manual bid entry by the exchange during the last three years along with the reasons, which was responded to by the exchange vide their letter dated 6th February 2024. The reasons submitted by the exchange for the manual entries include operational and communication issues, bids placed during non-office hours, and unavailability of manpower on a round-the-clock basis.

12. The Commission believes that accommodating members' requests to enter bids on their behalf can provide a potential breeding ground for market manipulation. This also goes against the basic principle of anonymity and transparency of the collective transactions. Moreover, the Commission finds some of the reasons submitted by the exchange, like bids placed during non-office hours and unavailability of manpower on a round-the-clock basis, as not covered under the reasons specified in the Business Rules of the said exchange and hence unwarranted. The Commission feels that with the rapid advancement in information technology, the members can eliminate such issues through IT integration and automation in the bid submission process. Therefore, the Commission believes that in the current market scenario, with years of operational experience and multiple avenues at the disposal of the market participants, continuation of such practices of manual entry is not only undesirable but also poses a question mark on transparency and fairness of the market.

13. Next, we deal with the instances of cancellation and modification of bids after trading hours. There have been some instances when some of the members had asked the exchange to cancel their bids after trading hours on account of various reasons.

14. It is noted that the Commission, in Order dated 9th October 2018 in Petition No. 33/RC/2017, provided a limit of 5 times a year to a member for the cancellation of bids post trading hours. The relevant extract of the order with directions to IEX is as under:



“...To clearly specify that request for any kind of modification shall not be entertained after the trading hours.

Incorporate the provision to limit the request for cancellation (post trading hours) of a Member to 5 times in a year so as to elicit a disciplined bidding behavior from the Members.”

15. The above-referred petition was filed by IEX seeking approval of amendments to its Business rules. While the power exchange had proposed an unbridled cancellation of bids on the request of the member, the Commission found it imperative to limit the request for cancellation (post trading hours) of a Member to 5 times in a year so as to elicit a disciplined bidding behavior from the Members. Further, any kind of modification of bids post trading hours was disallowed.

16. The Commission notes that, the power exchanges in their reports affirm that they keep strict surveillance on these limits. For instance, in the RAMC report for Jan-Jun 2023, IEX had reported that a total of 6 members requested for cancellation post trading hours. Further, the instances of cancellation of bids post trading hours were within the limit of 5 times per Member. However, it is important to review the need for this provision in light of the developments in the power market. We find that many new products have been introduced in the power market since the time (2018) of the grant of such approval by the Commission. For example, the Real-time Market (RTM) introduced in 2020 allows a market participant to manage the energy imbalances which are known only closer to actual delivery. Further, the market participants have achieved a level of maturity over the last 15 years of operation of the power exchanges in India. The market participants are expected to pay more attention while placing their bids rather than relying on the power exchanges to correct their bids. Also, such provisions no longer gel with the process of scheduling and dispatch enshrined in the Grid Code notified in 2023, i.e., IEGC 2023. Therefore, the Commission is of the view that the provision for cancellation of bids after trading hours needs to be revisited, especially in the backdrop of the recent market developments and changes in regulatory norms.

17. There were also instances when some of the members had asked the respective exchange to cancel their submitted bids and place their correct bids after trading hours. Such cases recorded were not very many. For instance, IEX, in its Jan-Jun 2023 RAMC report, submitted that on 11 March 2023, one of its members had placed incorrect bids inadvertently and requested the power exchange to cancel this bid and place the correct bid. The bid was only in terms of quantum correction and was placed before the computation of provisional results. Though the number of such instances was minimal, the Commission takes a strong exception to any modification or acceptance of bids after trading hours.

18. Further, we examine the instances of extension of the market hours. There have been a few instances when the market hours were extended. As per the RAMC report for Jan-Jun 2023, the market was extended on 20th Jan and 21st Feb for one hour due to payment security mechanism restrictions imposed on multiple members. Also, on 10th March 2023, the market was extended for 10 minutes as some members did not install the latest software version in their respective systems related to HP-DAM. Despite such instances being very small in number, it is critical to assess the reasons for the extension. The Commission notes that one of the power exchanges, in its RAMC and MSC report, mentioned reasons like members facing difficulty in placing bids, non-installation of the latest software by some of the members and events like policy restrictions (Payment Security restriction on DISCOMs) that led them to extend the trading hours.

19. The Commission feels that with years of operational experience, members of the power exchanges would have gained a significant level of expertise in the submission of bids and are expected to be well-versed with the latest change in technology. Moreover, now multiple avenues are available to the participants in the market for trading. Thus, the Commission is of the view that the need for an extension of market hours does not seem justifiable and is especially impermissible for reasons like members facing difficulty in placing bids.

20. Consequent to the examination of the bid order books, it was noticed that there were instances where the time stamp of the last modification of the bid was beyond the prevalent trading hours. The Commission's staff had sought necessary clarification from the concerned power exchange vide email dated 4th December 2023, which was duly responded to by the exchange vide email dated 4th December 2023. In response, it was submitted that such a time stamp may pertain to the time of provisional results, re-run results on account of congestion, or cases wherein the member re-opened the bid entry screen for an already submitted bid; however, no modification was made effective. The Commission notes that such cases have not been defined anywhere. Further, it was seen that any changes by the power exchange due to provisional/ final results or congestion were incorrectly reflected as modifications by the member. The Commission finds that necessary corrections need to be made in this regard so that precise trail of bid entry/ modification is maintained in the database.

21. The Commission finds it of utmost importance to ensure that the power exchanges operate in a fair, transparent and competitive manner so as to repose the faith of the market participants and other stakeholders in the power exchange market. The Commission also notes that the power exchanges have introduced some enabling provisions in their Business Rules after the introduction of PMR 2021 to facilitate smooth operations of their business. While it is necessary to have some flexibility on the part of the power exchanges to deal with system exigencies and to accommodate the requests of members, the Commission feels that the procedure for bid entry and timelines, which constitute the key elements of a double-sided closed auction process with uniform price discovery, should be strictly complied with to avoid any scope for market manipulation.

22. Therefore, in the interest of probity and transparency of market operation and in the exercise of the powers conferred under PMR 2021, the Commission hereby directs all the three power exchanges as under:



- i. There shall be no manual entry of bids by the power exchanges on behalf of their members within or after the trading hours.
- ii. Henceforth, no bids shall be accepted by the power exchanges after the trading hours for any reason whatsoever. The power exchanges shall, within one month from this order, build a robust system with end-to-end encryption of data from the trading workstation of the respective member/clients and the trading platform of the power exchange to ensure that the entire trail of the bidding session starting from bid submission till the end of bidding session is encrypted. In order to maintain bid anonymity and market integrity, power exchanges must ensure that the encrypted bid data of members/clients is not made accessible to anyone till bid matching and finalisation of the results. All three power exchanges shall make necessary changes in their existing system and report compliance to the Commission.
- iii. Regulation 28(2) of PMR 2021 provides that *the bids entered by a member of Power Exchange shall be first checked against the availability of funds or collateral in the risk management system before being accepted in the bid book of the Power Exchange*. In light of this, the process of validation of orders shall be completely automated with no manual intervention, and the need to re-run provisional/ final results due to deletion of bids on account of fund shortage shall not be allowed. Necessary changes shall be made to verify this at the very stage of entering the bids.
- iv. The relevant provisions relating to the cancellation of bids (post trading hours) as approved by the Commission vide Order dated 9th October 2018 in Petition No. 33/RC/2017 shall stand withdrawn with immediate effect. Henceforth, the power exchanges shall no longer entertain any request for cancellation (post trading hours) of a Member in any of the collective market segments. Any transaction in power exchange shall be treated in terms of the provisions of the IEGC 2023.



- v. As already clarified by the Commission in Order dated 9th October 2018 in Petition No. 33/RC/2017, any request for modification of bids shall not be entertained after trading hours. Further, the software should be so designed to capture any changes by the power exchange due to provisional/ final results or congestion, separately from any modification done at the member level.
- vi. No extension shall be allowed in the trading hours, except in case of any constraint identified by the system operator. Trading hours as stipulated under the IEGC 2023 shall be strictly complied with.

23. In addition to the above, the Commission strongly feels that many of the aforesaid situations may be avoided by imparting proper training to market participants. Therefore, all the power exchanges shall arrange for training sessions from time to time for their members to enable smooth submission of bids. The power exchanges shall also submit a report every six months with the details of the training sessions conducted by them for market participants and other awareness programs conducted by them.

24. Moreover, it shall be the responsibility of the members of the power exchange to ensure that the latest version of the interface is available on their workstation and that the requisite infrastructure is in place in order to participate in the market.

25. In view of the above, all the power exchanges are directed to align their respective Business Rules, Rules and Bye-Laws according to the directions in this Order and submit the compliance report of the same on affidavit within two weeks from the date of issuance of the Order.

26. The Commission is of the considered view that a comprehensive review of the operation of the power exchanges is necessary in order to ascertain that the affairs of the power exchanges are carried out in compliance with the provisions of the PMR 2021. Therefore, the Commission directs its staff to arrange to conduct an audit of the processes as well as software of the three power exchanges in terms of the relevant provisions of PMR 2021. For this purpose, suitable agency(ies) may be appointed.



The audit should be completed within a period of six months from the date of this Order. The audit agency(ies) shall submit their report within three weeks of completion of the audit.

27. Based on the findings in the audit report, the Commission may issue further directions as deemed necessary.

28. Petition No. 2/SM/2024 is disposed of in terms of the above directions.

**Sd/-
(P.K. Singh)
Member**

**Sd/-
(Arun Goyal)
Member**

**Sd/-
(Jishnu Barua)
Chairperson**

