

**CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI**

Coram : Dr. Pramod Deo, Chairperson
Shri S.Jayaraman, Member
Shri V.S.Verma, Member
Shri M.Deena Dayalan Member

L-1/13/2010-CERC

Date of Order: 26.8.2010

In the matter of:

Approval of the Rules, Bye-Laws and Business Rules of Indian Energy Exchange revised in compliance with the provisions of Central Electricity Regulatory Commission (Power Market) Regulations, 2010 and the Central Electricity Regulatory Commission (Terms and Conditions for Recognition and Issuance of Renewable Energy Certificates for Renewable Energy Generation) Regulations, 2010.

And in the matter of

Indian Energy Exchange Ltd., New Delhi

... Applicant

ORDER

Regulation 14 of the Central Electricity Regulatory Commission (Power Market) Regulations, 2010 (hereinafter referred to as "Power Market Regulations") *inter alia* provides as under:

"14. No Power Exchange shall operate without obtaining registration under these regulations.

Provided that the Power Exchanges which have been granted approval / in-principle approval by the Commission on or prior to the date of notification of these regulations shall be deemed to be registered under these regulations subject to payment of annual registration charge.

Provided further that the Power Exchanges in operation shall realign their Bye-laws, Rules and Business Rules to make the same in conformance with these regulations and shall submit the same for approval of the Commission within three months from the date of notification of these regulations.”

2. The Applicant, Indian Energy Exchange Limited (“IEX”) was accorded approval by the Commission to establish and operate a power exchange vide order dated 31.8.2007 in Petition No.38/2007. The Applicant started its operation with effect from 27.6.2008. In terms of the first proviso to Regulation 14, the Applicant is deemed to be registered under the Power Market Regulations. The Applicant is mandated under second proviso to Regulation 14 to realign its Bye-laws, Rules, and Business Rules with the provisions of the Power Market Regulations and seek approval of the Commission within 3 months from the date of notification of the regulations. The Power Market Regulations were notified on 21.1.2010. The Applicant vide its letter dated 20.4.2010 had sought time till 6.5.2010 to file the complete set of revised Bye-Laws, Rules and Business Rules. The Applicant vide its affidavit dated 6.5.2010 has submitted the draft revised Bye-Laws, Rules and Business Rules for approval of the Commission. The Applicant has also included provisions regarding Renewable Energy Certificates in the revised Rules, Bye-Laws and Business Rules in line with the Central Electricity Regulatory Commission (Terms and Conditions for Recognition and Issuance of Renewable Energy Certificates for Renewable Energy Generation) Regulations, 2010 (hereinafter referred to as “REC Regulations”).

3. The Applicant has filed Petition No.210/2010 on 26.7.2010 for approval of “Schedule C” of its Business Rules titled *Renewable Energy Certificates Market* and for approval of contract for trading in Renewable Energy Certificates (*REC*). Since proposed Schedule ‘C’ of the Business Rules is being considered by the Commission in a separate petition, we have not examined the same at this stage. We direct that the Applicant shall revise its Business Rules pertaining to Renewable Energy Certificates in accordance with our decisions/directions to be issued in Petition No. 210/2010.

4. The Applicant has revised its Rules, Bye-Laws and Business Rules in alignment with the provisions of the Power Market Regulations and REC Regulations and has submitted these documents for our approval. We have examined the draft revised Rules, Bye-laws and Business Rules and have indicated our observations/directions in the **Annexure** to this order. We accord our approval to the revised Rules, Bye-laws and Business Rules subject to incorporation of our observations/directions therein. The Applicant is directed to appropriately incorporate our directions/observations in its Rules, Bye-Laws and Business Rules and submit the same for perusal of the Commission within ten days from the date of issue of this order. If any discrepancy is noticed at that stage or if it appears that the revised Rules, Bye-Laws and Business Rules do not conform to the Power Market Regulations and REC Regulations in any respect, the Commission shall issue

such further directions as may be considered necessary to ensure compliance with these Regulations.

5. There are certain provisions in the Power Market Regulations which are required to be complied with even without including the same in the Rules, Bye-Laws and Business Rules of the Exchange. They primarily pertain to the achievement of the capital governance structure, financial and operational requirements and information dissemination etc. These requirements shall be complied with by the Applicant within the timelines specified in the Power Market Regulations and submitted for the information of the Commission.

sd/-
[M DEENA DAYALAN]
MEMBER

sd/-
[V.S.VERMA]
MEMBER

sd/-
[S. JAYARAMAN]
MEMBER

sd/-
[Dr. PRAMOD DEO]
CHAIRPERSON

Annexure

(vide para 4 of the order L-1/13/2010-CERC, dated 26.8.2010)

Observations/directions of the Commission on the revised draft Bye-Laws, Rules and Business Rules of the Indian Energy Exchange.

Ser No.	Page No.	Clause No.	Observations/directions of the Commission
Rules of Indian Energy Exchange Limited			
1	5	4.32	There are specific duties mentioned in CERC (Power Market) Regulations, 2010 which is required to be stated suitably in the Rules. Accordingly, the following sentence may be added at the end of clause 4.32 of the Rules: “The Managing Director or an Exchange Member or office bearers of the Exchange shall carry out such other duties as are assigned under the Power Market Regulations.”
2	6	4.39	As per the Power Market Regulations, Exchange Members are not eligible to be members of certain committees. Therefore, the following may be added at the end of the sentence: “subject to the restrictions/limitations imposed by the Power Market Regulations”.
3	6	4.42	The word “Regulations” be replaced with the words “CERC (Power Market) Regulations, 2010 as amended from time to time”.
4	9	1.3.3 (a)	The words “or skilled personnel” be added at the end of the sentence as provided in Regulation 26(ii)(a) of the CERC (Power Market) Regulations, 2010.
5	14	3.1(a)	The grounds of defaults as specified in sub-clauses (1) to (7) of clause(i) of Regulation 30 of Power Market Regulations may be incorporated verbatim under clause 3.1(a) of the Rules for the convenience of the members of the exchange.
6	15	3.2	Default Remedy Mechanism as specified in Regulation 30(ii) of Power Market Regulations be incorporated under clause 3.2

			of the Rules.
Bye-Laws of Indian Energy Exchange Limited			
7	5	New definition to be incorporated	The words "Area Clearing Price" may be defined having regard to the definition of "Market Clearing Price", in Clause 2.1.17 of the Rules as they may be different in case of Transmission congestion.
8	8	3.1	The words "transactions in contracts" be substituted in place of the word "transactions" in clause 3.1 of the Rules..
9	12	4.10	The words "Subject to Regulations 6 and 7 of Power Market Regulations" be inserted at the end of this clause.
10	13	4.14	The words "with the approval of CERC" be inserted at the end of the clause.
11	14	5.1	<p>Clause 5.1 be supplemented with the following provisions in the pre-revised Bye-Laws :-</p> <p>“(a) Trading Days <i>(i) The Exchange shall be open on all days except on such Exchange holidays as the Exchange may, at its discretion, declare in advance, at any time. The days on which the ATS or any other trading system of the Exchange shall be available for trading in Contracts admitted on the Exchange shall be called as "Trading Days". The Exchange has the rights to cancel such Trading Days. However, the Exchange shall carry out trading for each day of the year.</i> <i>(ii) The ATS of the Exchange shall however be available for trading on such holidays as the Exchange may, at its discretion decide from time to time.</i></p>

			<p>(b) Alteration or cancellation of Exchange holidays</p> <p><i>(i) In exceptional circumstances and for reasons to be recorded in writing, the Exchange may and at any time:</i></p> <p><i>(a) alter or cancel any of the Exchange holidays fixed under these Bye-Laws, the Rules and Business Rules,</i></p> <p><i>(b) keep the ATS or any other trading system of the Exchange available for trading on any day notwithstanding that such day had earlier been declared as an Exchange holiday,</i></p> <p><i>(c) close trading in any one or more or all Contracts on the ATS or any other trading system of the Exchange for one day.</i></p> <p><i>(ii) In exceptional circumstances and for reasons to be recorded in writing, the Exchange may, at its discretion, close the trading in any one or more or all Contracts on the ATS or any other trading system of the Exchange for more than one trading day. Provided that such trading on the ATS or any other trading system of the Exchange shall not be so closed by the Exchange at any time continuously for a period exceeding three trading days without the approval of the CERC.”</i></p>
12	14	5.2.1	In the example under this clause, “electricity” may be added.
13	14	5.4.1	In this clause, provision may be made for giving advance notice to the Members in case of modification in trading sessions.

14	21	New clause to be incorporated	A new clause may be incorporated to provide that the IT audit of trading system shall be carried out by the exchange on data security, data integrity and operation efficiency as provided in Regulation 31 (vi) of CERC (Power Market) Regulations, 2010 .
15	21	-	The process to trade on an alternate trading facility in case of emergency be incorporated as required under Regulation 31 (vii) of Power Market Regulations pertaining to Disaster Recovery site and alternate trading facility.
16	21	6.3	The processes to support regulation 58(iv) of CERC (Power Market) Regulations, 2010, should be specified.
17	27	New Clause to be incorporated	A new clause be incorporated providing that margins for different contracts in different segments can be computed to different methodologies.
18	27	8.10	“Change in market conditions” may be added as another contingency to address the volatility in the market.
19	29	Chapter 10 SGF	Exchange contribution to settlement guarantee fund is required to be specified.
20	29	Settlement Guarantee Fund (SGF)	Whether the Professional Member’s and REC member’s security deposit/additional deposit are part of SGF or not should be clearly mentioned in Chapter of SGF.
21	33	10.10.1	A clause may be added clarifying whether members to specific segments (for example REC members) would have a separate SGF or would there be one integrated SGF.
22	35	11.6	Positions in each contract of the Clearing Member – whether these are gross or net positions - be clearly mentioned for clarity regarding the obligations of the Clearing Member.
23	37	12.1.13	The Professional Members can only provide the services as mentioned in Regulation 26(ii) of Power Market Regulations which does not include handling money of the clients. Clause 12.1.13 of the Rules provides for certain processes which include collection of money

			by professional members. This is not in conformity with Power Market Regulations and needs to be modified. Similar modification may be carried out wherever the Rules, Bye-Laws and Business Rules provide for handling of money of the clients by Professional Members.
Business Rules of Indian Energy Exchange Limited			
24	3	1.6	This clause may be deleted as it gives overriding power to the Exchange to supersede the duly approved Business Rules.
25	5	9.4	The words “in compliance with CERC (Power Market) Regulations, 2010 and as amended from time to time” be added at the end of the sentence.
26	11	18	<p>The following provisions in the pre- revised Business Rules be retained for the physical power market segment:-</p> <p><i>“There are two categories of Clients.</i></p> <p><i>i. Grid-connected Client: A Client who is eligible to buy or sell electricity and is connected to the grid. The entities including but not limited to, Distribution Licensees, Generators, and Open Access Users can become Grid-connected Clients.</i></p> <p><i>ii. Trader Client: A Client who is eligible to trade in electricity under the Electricity Act, 2003 and has a legally valid power purchase/sale agreement, which gives the Client the right to purchase and sell electricity A Trade Client will register each power purchase/sale agreement with the Member who will be registering the same with the Exchange and receive a separate registration identification code. The entities such as trading licensees can become Trader Clients.</i></p>

			<p><i>Clients who have been provided direct access to the Exchange ATS shall be referred to Direct Access clients.</i></p> <p><i>All Clients shall have a grid-connected entity for effecting the delivery of the electricity as cleared and settled by the Exchange.</i></p> <p><i>Each of such grid-connected entities shall be assigned one or more portfolio identification code on ATS, in different bid areas, depending upon their physical location on the transmission network.”</i></p> <p>The above provisions may also be suitably incorporated for the REC market segment.</p>
27	18	24.1	The words “notified by System Operator” to be added after the words “system constraints”.
28	14	Trading System	A clause be added for maintaining the confidentiality of Bid information of clients during the auction process.
29	43	Annexure VII	MPLS undertaking to be written in full form.
30	45	Schedule A	Block Bid- Selection of block bid should be based on the Market Clearing Price (MCP) or Area Clearing Price (ACP) of the client’s bid area. This needs to be clarified /suitably incorporated in clause 5(b) of schedule A.
31	45	8.2	The Power Market Regulations do not envisage parallel running of day ahead auction sessions for the delivery on the same day. Accordingly the first sentence of clause 8.2 be suitably modified.
32	46	8.3.b	1. ‘Bid-offer quantity to vary linearly between consecutive prices’ – Explain with example in the document whether all the

	45	Schedule A	buyers and sellers quantity would be prorated in case the market clearing price solution lies between these two linearly interpolated price –volume pairs?
	45	8.3d	2. The demand supply curves may intersect horizontally or vertically while finding the solution. This may be included in the Schedule and suitably clarified with graph and examples in matching rules of Day Ahead Market. 3. Explain with example, in the matching rules, the scenarios where the time priority of bids condition will be used.
33	47,48,72,75, 79,84	9.4, 10.1.a, Matching of bids of all Annexure	Discrepancies in the clause numbers of rules require to be corrected.
34	49	10.1.j	The words “Congestion revenue” be replaced by the words “Congestion amount” in conformity with Power Market Regulations. The transfer of funds shall be as per the provisions provided in Power Market Regulations.
35	46	8.3.j	The stated scenario be explained with an example in the document.
36	47	8.3.k	Paradoxically rejected bids be defined and explained with examples in the document.
37	51	Surveillance	The following provisions of pre-revised Business rules be added after clause 12.: “Surveillance <i>Validation of orders: Members are required to ensure that bids and offers are in conformity with relevant regulatory provisions. In order to avoid any abnormal orders being put by the Exchange Members like high bid or offer rate, bids quantity or offer quantity submitted higher than the declared capacity/demand by the Member, or the maximum quantity of purchase or sale as allowed in the Standing Clearance, the Exchange</i>

			<p><i>will validate such orders either through software or manually on a daily basis, wherever possible. Further, the order value of the Member will also be compared with the available limits of such Member for any over utilization.”</i></p> <p>The other clauses w.r.t. surveillance which has been provided for Term Ahead Market (TAM) Segment at Clause 8(b), 8(c), 8(d), 8(e) at page 68 be added for Day Ahead Market (DAM) segment also.</p>
38	52	Annexure A1	Minimum volume to be changed to “1 MW” from “0 MW.” If transactions below 1 MW in inter-State transactions is carried out, that would lead to difficulty in measuring and accounting of losses and rounding off errors.
39	52	Annexure A1	Settlement – volume traded “by the client” be added to bring clarity.
40	52	Annexure A1	Quotation method – to be changed to “Double sided close bid auction with Uniform Market Clearing Price for all buyers and sellers”.
41	52	Annexure A1	The words “when to place orders” be replaced with the words “Auction timings” for uniformity with other contract specifications.
42	52	Day ahead contract Specification	This can also be made in a table format with numbering like other contract specifications for uniformity.
43	54	Market splitting	Market splitting diagrams P_L and P_H to be correctly depicted in the diagram.
44	54	Market splitting	The Phrase “if area A and B managed totally independent” in the last line on the page to be changed to “if no power flow is possible between Area A and B”. The note should also mention that in case there is no constraint, prices in Area A and Area B will be equal.
45	54	Market Splitting	Spellings in diagram to be corrected.
46	54	Market Splitting	P_H and P_L – to be defined as new intersection point on movement of supply/ demand curves.
47	59	Continuous trade	Mention whether bids of all buyers and sellers or best five shall be displayed to all

		sessions	participants to show the market depth.
48	60	Schedule B- Order management	Stop Loss order Should be explained with example.
49	69	Delivery procedure	The phrase Intra-state contract should be deleted as all contracts permitted are for interstate transactions in nature.
50	57,58	Schedule B	Term ahead contracts upto 3 month ahead to be removed, as the Commission has permitted in order dated 31.08.2009 in petition 120/2008 only Term ahead markets with weekly contracts up to one month ahead only.
PAGE NUMBERING			
51	-	Rules Byelaws, Business rules	The numbering formats are required to be corrected at following pages: Rules- Page No. 4 to page 16 Bye-Laws - Page No.- 7 Business Rules - Page No. 18
General Comments			
52			The Order of precedence among Rules, Byelaws, Business Rules of the exchange be clearly indicated for addressing any contingency arising out of conflict/inconsistency in the provisions of these documents.
53			Power Market Regulations specifies a distinct membership structure for the category of members who are neither electricity traders nor distribution licensees (including deemed distribution licensee) nor grid connected entity New processes and procedures need to be formulated for client transactions of this category of Members which may be suitably incorporated.
54			Utilization of SGF shall be in line with Regulation 30 (ii) of Power Market Regulations. The provisions of the regulation regarding functioning of the default remedy mechanism (use of reserves equity of exchange not mentioned etc) should be

			clearly mentioned.
55			Reference to CERC (Open Access in inter-state transmission) Regulations, 2008 wherever appearing shall be replaced by CERC (Open Access in inter-state transmission), Regulations 2008 and as amended from time to time.