



## Frequently Asked Questions

Power Exchange is a new concept in India. It is therefore natural that many of us have questions about it. We list below some of the frequently asked questions and their answers, which we hope will clarify the commonly raised issues about IEX, the first-ever Power Exchange in India.

### What is an Exchange?

An Exchange is a platform on which buyers and sellers come together to trade. An Exchange is not the market. An Exchange is the **host** to a market.

### What is a Power Exchange?

A Power Exchange is a platform on which power is traded, i.e., bought and sold.

### Why do we need a Power Exchange?

An Exchange is essential to a market-driven economy where prices are decided by the forces of demand and supply. In economies that are not market-driven, interventionist forces (such as political forces or business lobbies) determine prices. It is common knowledge today that non-market principles have failed to bring about efficient markets, hence efficient economies. That's why almost all countries that followed non-market principles in the past have implicitly acknowledged their mistake and have lately opted for economic reforms designed to bring in a market-driven economy.

Market-forces are contradictory: e.g., the seller wants high prices while the buyer wants low prices. These conflicting forces determine the correct price of a commodity at a given time in a market-driven economy. But the problem is that the market has its potential influencers. For example, big buyers and big sellers can manipulate the market in their own favour and to the detriment of the larger social and economic interests. They can drive small players out of the market. They can come together to form a cartel. All these possibilities of unfair trade will curtail market-forces and prevent the emergence of a true market-driven economy.

It is therefore important that while market-forces are encouraged to slug it out in the market, they must remain **FACELESS** and **ANONYMOUS**. Facelessness and anonymity levels the market for all players. *And only when the market is a level field for all participants can a true market-driven economy come into being.*

On an electronic Power Exchange, traders from a large geographical spread converge without their identities being revealed. In the case of IEX, this large geographical spread would comprise the all-India electricity market. Therefore, anonymity of traders is maintained; hence market manipulation is thwarted and, in effect, a true-market driven power economy is enabled.

Thus, we need a nationwide, electronic Power Exchange to enable the market to be driven by the genuine market forces of demand and supply, and not by any vested interest.

Indian Energy Exchange (IEX) is India's first-ever Power Exchange. It serves as an optional, electronic, nationwide platform for trading in electricity.

### What benefits does IEX bring to the electricity market?

IEX brings about the following benefits to the electricity market:

- enables the market to discover a uniform **market clearing price** and **market clearing volume**
- evenly distributes **transmission losses**
- brings about **cost-effectiveness** through lower cost of transactions than possible by any other mode
- enables participants to **hedge** against UI risks
- **guarantees** timely payment to sellers
- generally improves the market environment to encourage **investment** in new generation capacity and helping make India a **power-surplus** country

### Who are the promoters of Indian Energy Exchange Ltd (IEX)?

Financial Technologies (India) Ltd (FTIL) and PTC India Ltd are the promoters of IEX. Many other leading names in the power market – such as TPC, REL, Adani, Lanco Infratech, IDFC, and REC - have taken key stakes. The Multi Commodity Exchange of India Ltd (MCX) is sharing its Exchange operations and management experience with IEX.

### Who is the regulator of IEX?

The Central Electricity Regulatory Commission (CERC) is the regulator of IEX.

### What products will be offered by IEX?

A day-ahead market hourly contract is being currently offered. IEX also proposes to offer other products like week-ahead, month-ahead, quarter-ahead, year-ahead, 3-year-ahead and seasonal contracts along with OTC clearing. IEX proposes to cover the entire gamut of power trading in India.

### Does one need to be a member of IEX to trade?

Not necessarily. Even if you are not a member, you can trade through a member, i.e. by becoming a client of a member. Members, however, can trade and clear directly on their own behalf as well as on their clients' behalf. Presently, IEX is offering membership in the Trading-cum-Clearing Member (TCM) category.

### Who is eligible to become a member of IEX?

Entities such as generators, distribution licensees, Independent Power Producers (IPPs), Captive Power Producers (CPPs), Merchant Power Plants (MPPs), traders and others are eligible to be a member.

### What is the minimum net worth for becoming a member?

The minimum net worth for the purpose of membership eligibility is Rs. 150 lakhs.

#### **What will be the contract for trading?**

In a day-ahead market, the hourly electricity contracts (in MW) would be traded. It would also be possible to add certain conditions of block bids, to additionally specify the continuous hours for which the bid should be accepted.

#### **When do members place their orders on an auction day?**

Members may place their orders during the bid-call period (10:00 a.m. to 12:00 noon) of the auction day.

#### **Will IEX protect participants from counter-party risk?**

Yes, IEX, apart from providing payment security, will be the counter-party for all trades. Participants need not be concerned about the risk-profile of the other party.

#### **Does a Member need to be connected to any transmission system?**

No. Members need not be connected to any transmission system. A member can trade on behalf of his clients connected to the grid.

#### **When will IEX launch other forward contracts?**

Forward contracts for trading electricity in week-ahead, season-ahead and quarter-ahead will be launched in the near future, subject to regulatory approval. IEX proposes to cover the entire gamut of power trading.

## **DAY-AHEAD MARKET**

#### **What are the highlights of the proposed day-ahead market operations of IEX?**

IEX will collect the available transfer capability (available power) on all inter-regional links from Regional Load Despatch Centres (RLDCs). It will then collect bids and offers from potential buyers and sellers during the bid call period.

The bids and offers will be processed to determine the market clearing price (MCP) and market clearing volume (MCV). All successful bidders will pay or receive common uniform prices arrived at. RLDCs will allocate appropriate transmission capacities for the trades settled through the Exchange depending on the capacities requisitioned. The bidders will pay/receive for their trades to/from the Exchange.

#### **How will transmission charges and losses be handled?**

Transmission charges and losses are proposed to be apportioned on all trades to make them equitable under the present CERC regulations.

#### **How will the payments be made?**

All payments will be routed electronically through clearing banks authorised by IEX.

#### **How will delivery be arranged and handled?**

As far as delivery is concerned, individual members, whose bids are accepted in the auction, will be responsible for their respective delivery and drawal obligations for their cleared quantities. Delivery of the electricity will be arranged through the grid system of regional and state grids. The reservation of transmission capacities will be undertaken by IEX for the day-ahead market.

#### **How will grid bottleneck and congestion be handled?**

Congestion will be handled through methods such as market splitting, wherein grid bottlenecks are relieved by comparison of the calculated contractual flow with the transmission capacity available for spot trading; if the flow exceeds the capacity, the prices are adjusted on both the sides of the bottleneck so that the flow equals the capacity. If the flow does not exceed the capacity, a common price is established for the whole area.

If the flow exceeds the capacity at the common price for the whole market area, it is split into a surplus part and a deficit part. The price is reduced in the surplus area (sale > purchase) and increased in the deficit area (purchase > sale). This will reduce the sale and increase the purchase in the surplus area. In the same way, it will reduce the purchase and increase the sale in the deficit area. Thus, the needed flow is reduced to match the available transmission capacity.

#### **Does the Exchange enable members to hedge their risk?**

The real time prices of electricity fluctuate, which is why licensees need to mitigate risks. The exchange provides a tool to minimise price risks and hedge unscheduled interchange (UI) risks.

#### **What is the role of the clearing house in IEX?**

The clearing house will be responsible for the financial settlement of the trades and will act as the counter-party for all trades taking place on the IEX platform.

### **MEMBERSHIP APPLICATIONS INVITED**

**Indian Energy Exchange Ltd. (IEX) invites membership applications from**

**Generators, MPPs, IPPs, CPPs, Distribution Licensees, Bulk Consumers and Electricity Traders.**

IEX offers membership in the Trading-cum-Clearing Member (TCM) category. TCMs will have the right to trade and clear on their own behalf as well as on behalf of their clients.

For application forms, and terms and conditions, please contact Membership Section on **022 - 670 99 017** or download from **[www.iexindia.com](http://www.iexindia.com)** or email **[membership@iexindia.com](mailto:membership@iexindia.com)**.

***All memberships are subject to necessary regulatory compliance***

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