

CERC (Power Market) (First Amendment) Regulations, 2025

The CERC notified draft on CERC (Power Market) (First Amendment) Regulations, 2025, issued on 17th June 2025. The main objectives of the proposed regulations are:

Objective: The CERC seeks to strengthen the evolving framework of electricity trading by expanding role of Over-the-Counter (OTC) platforms and incorporating Virtual Power Purchase Agreements (VPPAs). The amendment aims to promote innovation in market instruments, and provide flexibility for buyers and sellers through structured contracts. By enabling consumers to participate in VPPAs and empowering OTC platforms to facilitate a wide range of bilateral contracts and aligning with existing provisions with the Connectivity and General Network Access (GNA) framework, the amendment aims to promote transparency, market accessibility, and competition.

The document can be accessed [here](#).

EAL Opinion

- 1. Disparity in Financial and Technical Requirements & Compliance Symmetry between OTC Platforms and Trading Licensees:** There is a lack of balance and uniformity in the financial, technical, and compliance requirements imposed on OTC Platform Operators as compared to Trading Licensees. While Trading Licensees must meet category-wise net worth thresholds based on volume (ranging from ₹2 crores to ₹75 crores), OTC Platforms are proposed to have a flat net worth requirement of ₹35 crores with no cap on trading volume. **This may create a regulatory arbitrage. The obligations and qualification criteria should be aligned across market participants.**

There seems to be an anomaly between the regulatory obligations of Trading Licensees and OTC Platforms in terms of reporting, disclosure and financial compliance. Trading Licensees are subject to monthly trading reports, payment security enforcement, and trading margin regulations. OTC Platforms, despite facilitating substantial market transactions (including VPPA, BESS, banking contracts), have limited reporting and disclosure mandates in the public domain. A more uniform and transparent compliance structure should be implemented for OTC Platforms, particularly concerning market data and transaction disclosures, to prevent regulatory evasion and ensure market integrity.

- 2. Clarification on Volume Cap Applicability to VPPA Transactions:** In the current draft, VPPAs are allowed to be facilitated by both Trading Licensees and OTC Platforms. However, the applicability of annual trading volume limits (e.g., 500 MU for Category V Licensee) as per clause (3)(2) of CERC (Procedure, Terms and Conditions for Grant of Trading License and Other Related Matters) Regulations, 2020 to VPPA-linked energy transactions is not clarified.

A situation may arise where a Category V¹ trader with a low net worth (e.g., ₹5 crore) facilitates high-volume VPPAs without such transactions being counted toward its licensed MU limit. This may create a perverse incentive and undermine the category-based trading volume thresholds. **The regulations should clarify whether volume under VPPAs will be counted toward the annual trading volume.** While VPPs are long-term transactions, how would annualised volumes be considered against each such transaction to be ‘brokered’ by the respective intermediaries like the traders and the OTC platforms.

3. **Potential Backdoor Entry to Power Market via Low-Cost OTC or Trader Licence?:** In the proposed Clause 8.1 (b) of Regulation 43, *“The minimum Net worth of the applicant shall be Rs. 35 Crore as on any date falling within 30 days immediately preceding the date of filing the application for grant of registration.”*

The current structure appears to create a low-cost backdoor into the power trading market. OTC platforms with only a ₹35 crore net worth and no volume cap, or Category V Trading Licensees with just ₹2 crore net worth, could potentially conduct large-scale VPPAs and similar transactions with minimal oversight. If these entities offer functionally similar services to high-category traders or exchanges, the absence of parity in their obligations and financial exposure may distort the regulatory architecture. **CERC may assess if this may lead to ‘parallel licensing regimes’ which may be used to bypass stricter norms of trading licenses or exchange operations.**

4. **Definition of ‘Facilitation’ by OTC Platforms:** In the proposed Clause 1 (ap) of Regulation 2 *“Over the Counter (OTC) Platform” is an electronic platform for exchange of information amongst the buyers and sellers of electricity, and for **facilitating** the buyers and the sellers to engage in transactions as specified in these Regulations and the Guidelines for OTC Platform;”* (Emphasis added)

The revised definition of OTC Platform introduces the term “facilitation” but does not explain it in sufficient detail. It is unclear whether this facilitation includes transaction structuring, commercial negotiation, document execution, or only listing/matching services. Additionally, the draft remains silent on **whether the Commission will specify or cap the service fees/facilitation charges recoverable by OTC operators.** A clear regulatory definition of “facilitation” and a framework for permissible charges are required to ensure transparency and prevent abuse.

5. **Price Discovery in Case of VPPA Must Be Exchange-Based for Transparency:** In the proposed Clause 2 (a) of Regulation 2 *“Virtual Power Purchase Agreement (VPPA) means the non-transferable specific delivery (NTSD) based Over-the-Counter (OTC) contracts entered between a Consumer or Designated Consumer and a RE generator, wherein, the Designated*

¹ Page no. 5, CERC (Procedure, Terms and Conditions for Grant of Trading Licence and Other Related Matters) Regulations, 2020 cercind.gov.in/2019/regulation/154.pdf

Consumer guarantees payment of the mutually agreed price (VPPA price) to the RE generator for the entire duration of the agreement. The RE generator shall sell electricity through Power Exchange or any other mode authorized under the Electricity Act 2003, and the difference between the VPPA price and the market price shall be settled bilaterally between the contracting parties as per mutually agreed terms;”

As per the draft VPPA definition, the RE generator may sell power “through Power Exchange or any other mode authorized under the Electricity Act.” This provision may dilute the core principle of market-linked price discovery. If the power is sold through bilateral routes (e.g., through traders or OTC platforms), the discovered price may be opaque, non-verifiable, and open to manipulation. **Allowing VPPA-linked energy to be sold only via Power Exchanges would ensure transparent price discovery and protect against future disputes around VPPA settlement.**

6. **Absence of Regulatory Tools for Non-Compliance with VPPA Guidelines by Voluntary Buyers:** The draft guidelines enforce strict compliance for DISCOMs but are unclear about enforcement mechanisms for non-obligated entities (such as open access consumers or corporates) entering into VPPAs on a voluntary basis. In cases where such entities deviate from the VPPA guidelines, what corrective powers will the Commission have? Will such VPPAs be deemed non-compliant, disallowed, or nullified? **Clear guidance is needed on the enforceability and consequences for non-compliance by voluntary participants.**
7. **Innovation in VPPA Pricing Models Must Be Permitted:** The draft appears to adopt a rigid approach by expecting VPPAs to follow the guidelines “in-toto.” While such prescription may be needed for DISCOM procurement under Section 86 of the Electricity Act, 2003, the same should not apply to voluntary, private, or corporate **VPPA transactions. CERC should explicitly provide space for innovative VPPA pricing approaches — including peak-hour contracts, asymmetric settlement windows, indexed pricing —** to allow commercial flexibility based on participants’ need.
8. **Net Worth Audits and Volume-Based Compliance:** In the proposed Clause 1 of Regulation 53, *“The Commission may at any time undertake inspection, conduct inquiries or audit of any Power Exchange or OTC Platform, either through its officers or through a third-party agency, in accordance with the provisions of the Act.”*

Given the scale of transactions OTC platforms may facilitate, such platforms should be required to submit quarterly reports on the transactions, audited balance sheets to demonstrate continued compliance with net worth requirements, especially if they facilitate VPPAs, BESS, and other market-sensitive contracts. Similar to Trading Licensees, they must also report volume of energy facilitated in public domain, to ensure regulatory oversight.



9. **Level Playing Approach to Regulation:** The draft amendment places OTC platforms in a position where they facilitate energy transactions (VPPAs, BESS, delivery-based contracts), handle structured documentation, and bring together counterparties, much like Trading Licensees and Power Exchanges, but without bearing any counterparty or credit risk. **This introduces asymmetry in regulatory burden. If OTC platforms are allowed to play a quasi-trader or quasi-exchange role, they should be subject to commensurate technical and reporting standards.**