

Market Based Economic Dispatch Scheme

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Context - The Market Based Economic Dispatch Scheme is touted to be a game changing scheme proposed by the Central Government in power sector governance. But whenever there is a scheme carved out for the power sector, a clash between the Centre and States is imminent.

About the Scheme

- The MBED is primarily a new approach towards power distribution to help the distribution companies save costs and transition to a new form of power market.
- The scheme is a shift towards a centralized framework which marks a departure from the current decentralized and voluntary pool-based electricity market.
- Under the MBED framework, the system wide demand will be met by the dispatch of the cheapest power from across the country. It is also believed that the framework would ultimately lead to a "Market Clearing Price." The same framework will also be generating significant savings for the customers.

Present System of Power Distribution

- Under the present framework, each DISCOM or the Distribution Company is bound by the agreement under the Power Purchase Agreement (PPA).

- That means, the DISCOMs can schedule power only from its own PPAs, starting out with the cheapest PPA and then gradually moving up. In any case, it cannot schedule power from the PPA of some other distribution company.

Drawbacks of the Present System

- Out of the 20 lakh crore stimulus package announced during the COVID-19 pandemic, Rs 90, 000 crore was earmarked for the DISCOMs only. Although called a stimulus, it was a loan in real sense meant for the DISCOMs to pay off the generators. The DISCOMs owe almost One Lakh crore rupees to generators and without the infusion, the chain would have collapsed.
- State Government turn out to be the biggest defaulters who are responsible for an estimated one-third of the trade receivables. Apart from that, they were also not paying the subsidies either in time or in full.
- The downfall in subsidy payments appears very low on account of annual cash flow basis. For instance, a sum of only about 1% cumulative unpaid subsidies with modest carrying costs turns out making the DISCOMs poorer by almost Rs 70, 000 crore in the past 10 years.

Advantages with MBED Scheme

- Centralized Approach – With the assistance of the electricity exchanges, a centralized dispatch of the power generated will be done. In the day ahead market of the electricity exchange, each discom and each generator will place a bid which will give an idea about how much power is being demanded and supplied and at what price.
- Pan-India Market – Through these bids, a lone dispatcher will construct a pan India demand and supply curve and its intersection will determine the Market Clearing Price (MCP). The generators with variable cost below that of the MCP will be asked to dispatch and all of them will receive the same MCP irrespective of their bids. The Generators with variable cost above that of the MCP will sit idle.
- No Loss to DISCOM – The MBED framework is designed in such a way that its operation will not affect the current finances of either the discoms or the generators owing to the fixed costs of the generators which will still be paid by the discoms outside the market as determined by the regulator.
- Increasing Efficiency – With the adoption of MBED, only the relatively efficient plants will generate without affecting the revenues and income of either the discoms or generators. Therefore the total cost of generation under the MBED framework would be less.
- Less Pollution – Owing to the Scheme, there would be a decrease in the coal consumption which effectively means less carbon dioxide will be injected into the atmosphere.
- Easy Integration with Renewable – Less pollution through this framework would also mean that there will be less movement of coal leading to decongestion of the railway tracks. Furthermore, there will be enhanced renewable balancing as the balancing area would shift from state to the national level.
- Single MCP – Since, at present there are three electricity exchanges in operation, there would be three different determined MCPs. The need of the hour is a single MCP for

which there will be an institution called the 'Market Coupler'. The job of the Coupler will be to determine a national MCP based on the things arrived at the three different exchanges.

Conclusion

The Power Distribution Companies or the DISCOMs are in a way the sinkhole of Government finances. Government budgetary support is required every year for these loss-bearing companies. All the states and the union territories, with due consultation should look to adopt and implement the MBED Framework and save their resources for other developmental activities.