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MCX may launch electricity futures

RAJESH BHAYANI& KALPANA PATHAK
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Power producers and consumers may soon have a new hedging tool in the form of electricity futures as Multi Commodity Exchange (MCX) is readying itself to launch the product, and is expecting regulatory approval for the same shortly. The MCX spokesperson was not available for comment.

According to Section 15 of the Forward Contracts (Regulation) Act 1952, futures trading in electricity is permissible. Spot power trading is done on the Indian Energy Exchange (IEX), floated by the FT group, and the Power Exchange of India (PXI), promoted by the National Stock Exchange (NSE) and others. Hence, the much-needed spot market price indications for futures will be available.

While the spot market power trading is regulated by the Central Electricity Regulatory Commission (CERC), futures trading in the commodity is governed by the Forward Markets Commission (FMC). So, the FMC clearance is a must for MCX to start trading in electricity futures.

Spot power prices have fallen on exchanges recently due to industrial slowdown and, hence, the demand for electricity has also come down. Futures market will provide such indications in advance.

Power producers can sell their perceived surplus in futures and consumers, who foresee higher consumption and a price rise, can buy power on the same platform.

Trading in electricity futures will be helpful as power prices are volatile. Those who buy or sell power in the spot market will benefit directly from this. That apart, dealings via an exchange are always safe as its clearinghouse provides a system of guarantee that mitigates counterparty credit risk.

Industry players too are optimistic that once introduced, electricity futures will attract huge market participation.

"Introduction of this facility will help get the true price in the market and will also rationalise the use of electricity. It will increase the depth of the market, where all sellers and buyers can come on one platform and trade," said Ajoy Mehta, MD, Maharashtra State Power Generation Company.

Market players believe that in such a trading format, electricity must be produced at virtually the same speed as it is consumed.

Analysts, however, fear that introduction of electricity futures will concentrate the commodity with a handful of players, who will start controlling it as India is a power-deficient market. "Electricity, like other commodities, will become too expensive because of futures trading," said an analyst on condition of anonymity..