HIndu Business Line, 10 January 2009

MCX launches futures trading in electricity

Day One response lacklustre but expected to pick up

Our Bureau

Mumbai, Jan. 9

Multi Commodity Exchange has launched futures trading in electricity for the first time in India. Globally, Nordpool in Sweden, Norway, Finland and Denmark, Inter Continental Exchange in UK, Powernext SA in France, European Energy Exchange in Germany, PLM in the US and Australian Securities Exchange in Australia offer electricity futures trading platform.

MCX received the approval from market regulator Forward Markets Commission for launching weekly and monthly electricity contracts. The exchange will launch eight weekly contracts and four monthly contracts. The first trade was executed in the March monthly contract at Rs 7,300 a MWh.

On day one, trading in electricity futures was lacklustre. In the first session, which ended at 5 p.m., there were only two trades valued at Rs 3.5 lakh on a volume of 48 MWh. The open interest was zero.

The exchange recorded a turnover of Rs 6,828 crore in the first half of the trading session up to 5 p.m. "The response was poor as many traders were not aware of the launch. We expect the product to pick up as it is a unique product in India," said an analyst.

The contract trading unit will be 1MWx24 hours with tick size as Rs 1 per MWh. The delivery will be optional for both buyers and sellers and due date rate will be the average of daily system prices of day-ahead market of Indian Energy Exchange (IEX) for delivery during the contract week/month.

It will be traded from Monday to Saturday between 10 a.m. and 11.55 p.m., except Saturdays which will be from 10 a.m. to 2 p.m.

MARKET SIZE

The annual market size (electricity generation) in 2007-08 was Rs 2 lakh crore (for 665 million MWh @ Rs 3,000 / MWh) i.e. about 665 billion units. The present short term market per year is about 4 to 5 per cent of the total market which works out to Rs 13,500 crore (30 million MWh @ Rs 4,500 per MWh) which is equivalent to about 30 billion units.

Mr Joseph Massey, Managing Director, MCX, said, "With the launch of electricity futures, MCX has further diversified its basket of energy products after crude oil, furnace oil, natural gas and aviation turbine fuel. Now the industry will be able to mange price risk on energy-related raw material or output better on MCX, which already accounts for 98 per cent of the entire energy-related futures market."

PRICE RISK

The large number of participants, including inter-state generating stations, distribution licensees, state generating stations, captive power plants and independent power producers, electricity traders and others, are exposed to price risk due to uncertain demand and supply and volatile prices.

The launch of electricity futures will smoothen the price curve in the medium to long run that will help the market participants to facilitate price discovery and take an informed decision looking at the futures prices, said Mr Massey.