Address by Shri Tuhin Kanta Pandey, Chairman, SEBI

Launch of Monthly Electricity Futures Contract by National Stock Exchange of India Limited

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Shri Jishnu Barua, Chairperson, Central Electricity Regulatory Commission (CERC), Shri Ashishkumar Chauhan, MD & CEO, NSE, Shri Samir Chandra Saxena, CMD, GRID-India, Shri K. Suresh, National President, ANMI, Shri Rakesh Kumar Jain, National President, CPAI, market participants, members of electronic and print media, ladies and gentlemen!

I am delighted to be here today at the launch of electricity futures by NSE. This initiative represents a historic milestone in deepening India's electricity market. We are very happy to welcome Chairperson, CERC and his team on this occasion and acknowledge their tremendous contributions and support to this initiative.

Electricity as a Commodity

India has made significant progress in strengthening its energy sector in recent years. The country is successfully balancing the twin goals of meeting rising electricity demand and promoting sustainability. According to the International Energy Agency, 85% of the increase in global electricity demand over the next three years will come from emerging and developing economies. India's energy demand, driven by sustained economic growth, is expected to grow rapidly. Consequently, India's share in global primary energy consumption is projected to double by 2035. Over the past decade, India's power sector has seen robust expansion driven by rising demand, infrastructure development, and strong policy support for both conventional and renewable energy sources. Electricity generation has increased from 1,168 billion units (BU) in 2015-16 to an estimated 1,824 BU in 2024-25[1].

As a key ingredient for economic growth, electricity has always been under regulatory watch. Today, it is one of the 104 goods that have been notified by the Central Government for the purposes of commodity derivatives. As a non-agricultural commodity, electricity falls under the category of energy, which also includes commodities, such as, natural gas, coal, crude oil, etc[2].

As we all know, Electricity is a unique commodity - it cannot be stored easily and it must be balanced in real time. Historically, it has been traded through physical

[1] https://www.pib.gov.in/PressNoteDetails.aspx?NoteId=154717&ModuleId=3
[2] https://www.sebi.gov.in/web/?file=https://www.sebi.gov.in/sebi_data/attachdocs/mar-2024/1709616112434.pdf#page=1&zoom=page-width,-16,842

contracts, often with long-term bilateral agreements and spot exchanges.

Role of SEBI and CERC

The lack of forward price signals has been a structural gap in India's power market evolution. Globally, electricity derivatives markets are well established. In regions like the EU and the USA, they support deeper competition, better investment signals, and efficient price discovery. Therefore, the Ministry of Power and both regulators - SEBI and CERC - have worked together to facilitate electricity derivatives in India. First, the delineation of respective roles - SEBI to regulate financial derivatives on commodity exchanges, while CERC to oversee physical delivery based contracts on power exchanges[3]. A Joint Working Group was set up between SEBI and CERC to work out the modalities for introduction of electricity derivatives.

As we all know, CERC has been the architect of India's competitive power market. From defining the market design and enabling short-term trading, to promoting power exchanges, its regulatory framework has fostered transparency, liquidity, and market integrity.

SEBI and CERC have followed a robust, consultative, and data-driven approach to design the contract specifications and risk management norms to ensure that electricity derivatives remain tools for hedging rather than undue speculation.

Electricity Derivatives

The primary participants in this market are power generators, distribution companies (Discoms), the power exchanges, end consumers, and traders. These participants have faced persistent challenges. For example,

1. Price volatility in spot markets due to demand supply dynamics,

2. Financial stress on Discoms which are locked into inflexible, long-term Power Purchase Agreements,

3. Lack of hedging tools to plan future procurement, and

4. Uncertainty that discourages investment in power generation infrastructure and renewable energy.

Electricity derivatives, starting with monthly futures, will provide market participants a transparent and regulated platform to hedge against price volatility. These contracts will complement physical power trading by adding a layer of financial flexibility. Electricity derivatives will help participants plan more effectively by managing price

[3] https://www.pib.gov.in/PressReleasePage.aspx?PRID=1761701

uncertainty, mitigate revenue risks, and attract investment in the power sector. Specifically, market participants may be enabled in various way, for example:

1. Power generators may now be able to lock-in the selling price of their future output, ensuring stable cash flows even if spot prices fall due to any unexpected demand or supply changes. This stability is important for power generators to continue to expand their infrastructure to meet India's growing power demands.

2. These instruments may enable Discoms to procure electricity at predictable prices and reduce their losses. Discoms will be able to avoid extreme short- term price fluctuations and their downstream effects on tariffs and subsidies.

3. Industrial consumers can shield themselves from volatile input costs and plan their budgets effectively.

I am glad to note that state and private power generators, power Discoms, power trading companies, and power finance companies have shown interest in this product[4]. The availability of a price hedging mechanism will help attract institutional investors and power generators.

Risk Management

SEBI, in consultation with CERC, has put in place safeguards to ensure that electricity derivatives remain true to their intended purpose. Many of these measures draw from the best practices that have already been established in the equity derivatives segment. Some of these measures are:

1. We have started with monthly contracts. As you know, monthly contracts in case of other energy commodities, like natural gas and crude oil, have been well accepted by market participants.

2. Electricity has been categorized as a high volatile commodity, thereby attracting a high initial margin requirement. This will discourage undue speculative activity. Additional margins may be imposed in times of heightened volatility.

3. Daily Price Limits, an important risk management tool to check excessive volatility, have also been prescribed. This will protect investors from sudden and extreme price movements, especially during sudden demand supply imbalances.

Concluding Thoughts

I urge officials of SEBI, CERC, and the stock exchanges to continuously engage with all stakeholders to make them aware of this product and educate them about its

[4] Source: NSE

features. We need to work together to build market depth. We must ensure that financial reforms in the energy sector lead to benefits to the end consumer.

I would like to extend my sincere thanks to the Ministry of Power for supporting the introduction of electricity derivatives. I congratulate the CERC team for working towards a well-developed spot market with transparent price discovery. I also congratulate the members of the SEBI-CERC Joint Working Group who have collaborated in developing this financial instrument. Finally, I congratulate NSE Team for their relentless efforts, persistence and commitment to bring electricity derivatives. This co-ordination is a testimony to SEBI's commitment to enabling innovation, while maintaining the highest standards of investor protection and market integrity. We will continue to ensure safe, transparent, and well- regulated trading environment for all non-physical electricity contracts.

Electricity derivatives mark the next phase of India's power market reforms. As India marches toward its net-zero commitments and a greener grid, a deep and liquid electricity derivatives market will be essential for a reliable, sustainable, and investor friendly power sector. Let us work together to make this initiative a success for our economy, our energy security, and our environment.

Thank you all. Jai Hind!