

Commodities Insight

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Price Divergence in Electricity Futures

MCX and NSE has launched electricity futures contracts, providing power generators, distribution companies, and large industrial consumers with a tool to hedge their risks. These contracts will be available throughout the year, and trades will occur in units of 50MWh, cash settled.

The Electricity Futures on MCX will help:

1. Power producers hedge against price crashes
2. Large industrial consumers manage input cost risks
3. Traders and investors participate in a new energy market
4. Bring transparency, standardization, and liquidity to electricity price discovery

There will be difference in settlement prices for both exchange as there is divergence in the **valuation methodology** used for calculating the settlement prices. The settlement for NSE and MCX is on 30 days Average DAM (Day ahead Volume weighted prices for NSE and MCX).

MCX Settlement Price Calculation: Let's take an example using IEX UMCP data for selected days in July:

Date	UMCP (₹/MWh)	Volume (MWh)	Price × Volume (₹)
Jul 1	₹5,600	150,000	₹8,70,00,00,000
Jul 2	₹5,220	165,000	₹9,76,80,00,000
Jul 3	₹5,050	140,000	₹8,47,00,00,000
Jul 4	₹5,100	155,000	₹9,14,50,00,000
Jul 5	₹4,900	160,000	₹9,60,00,00,000
Aug 29 Estimate	₹4,470	148,000	₹6,61,56,00,000

- **Total Volume** = 9,18,000 MWh
- **Total Price × Volume** = ₹ 52,29,86,00,000

VWAP Settlement Price = ₹52,29,86,00,000 ÷ 9,18,000 MWh = **₹5596/MWh**

NSE Settlement Price Calculation (Multi-Exchange VWAP)

- IEX (Indian Energy Exchange)
- HPX (Hindustan Power Exchange)
- HPL Electric & Power Ltd

Date	IEX Price	IEX Vol	HPX Price	HPX Vol	HPL Price	HPL Vol
Jul 1	₹5,600	150,000	₹5,620	20,000	₹5,610	30,000
Jul 2	₹5,220	165,000	₹5,400	25,000	₹5,490	35,000
Aug 29 Estimate	₹4201	148,000	₹4000	22,000	₹4010	33,000

NSE Settlement Price =

(Value*Price)/Total Volume = Total Value , ₹33,761,28,000 /Total Volume 628,000

VWAP = ₹5376/MWh

Electricity futures on MCX and NSE are currently showing a price difference of ₹90, which could widen to ₹ 220 as the contracts approach expiry. One can look to initiate a spread trade — Sell NSE / Buy MCX — to benefit from the pricing divergence.

Given the structural difference in valuation:

- **MCX is likely to trade at a premium** over NSE due to its exclusive linkage with IEX's DAM prices.
- **NSE contracts** may continue to trade at a **discount**, especially if HPX and HPL contribute lower volumes or prices.
- Avoid going long NSE in anticipation of spread narrowing near

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