

CENTRAL ELECTRICITY REGULATORY COMMISSION

NEW DELHI

**Coram:
Shri P.K. Pujari, Chairperson
Shri I.S. Jha, Member**

No. L-1/253/2019/CERC

Dated 1st April 2020

In the matter of Central Electricity Regulatory Commission (Procedure, Terms and Conditions for grant of trading licence and other related matters) (First Amendment) Regulations, 2020

ADDENDUM TO STATEMENT OF REASONS

1. Introduction

1.1 The Central Electricity Regulatory Commission (hereinafter referred to as “the Commission”) vide notification dated 25th March 2020 issued the Central Electricity Regulatory Commission (Procedure, Terms and Conditions for grant of trading licence and other related matters) (First Amendment) Regulations, 2020 (hereinafter referred to as “First Amendment Regulations”) along with the Statement of Reasons.

1.2 Through this addendum, the Commission notes the additional comments received from stakeholders, namely, Manikaran Power Limited (“MPL”), Punjab State Power Corporation Limited (“PSPCL”), Arunachal Pradesh Power Corporation Private Limited (“APPCPL”) and PTC India (“PTC”). Comments received from Tata Power Trading Company Limited (“TPTCL”) have already been considered in the Statement of Reasons dated 25.03.2020.

2. Regulation 8(1)(e): Trading margin in respect of banking of electricity transactions

2.1 MPL has supported Commission’s proposal to restrict Trading Licensee from quoting negative margin as it will boost the market sentiment.

2.2 PSPCL has commented that generally, less than zero trading margin/discount is offered by traders to participating utility in tenders of another utility. Same gives an edge/relief to participating utility. However, to maintain sanctity or avoid unlimited combinations of positive/negative trading margin to keep cumulative trading margin in between 0 to 7 paise/kWh, Hon’ble Commission may cap maximum positive trading margin to be charged from either of the parties.

2.3 APPCPL has agreed with the amendment to the clause as proposed by the Commission.

2.4 PTC has welcomed and supported the proposed amendment with regards to handling negative margin concern on banking transactions by adding a new proviso to Regulation 8(1)(e).

2.5 TPTCL had supported the proposed amendment. The Commission has analyzed the comments received from MPL, PSPCL, APPCPL and PTC. The Commission is of the view that neither party to the banking transaction should be charged trading margin of less than (0.0) paise/kWh in order to avoid market distortion. Hence, the Commission has decided to retain the proviso as per the First Amendment Regulations, stated as under:

“Provided that the trading margin shall not be less than zero (0.0) paise/kWh from either of the parties to the banking transaction.”

3. Regulation 9(10)(b): Value of letter of credit in respect of short term contracts

3.1 MPL has requested the Commission to consider that in case of short-term transactions wherein billing cycle is either on weekly basis or fortnightly basis, the letter of credit/escrow arrangement in favour of the seller should be equivalent to 1.05 times of weekly/fortnightly contract value. MPL has further suggested that in cases wherein advance payment is made to seller in a power purchase transaction, such advance payment should be considered as payment security paid to the seller as it adequately covers the risk assumed by the seller. MPL has requested the Commission to consider not having any regulatory intervention for deciding the terms of a commercial contract in case Parties to the contract willingly decide to waive off payment security mechanism.

3.2 APPCPL has suggested that since the risk of supplier depends on the billing period rather than the period of the contract, the value of the LC or other payment security mechanism be linked to the billing period rather than the contract period. They have accordingly suggested that where the duration of short term contract is more than one month, the letter of credit in favour of seller should be 1.05 times the estimated bill value for the billing period specified in the contract with validity period equal to validity of the contract.

3.3 PTC has welcomed the proposed amendment and has supported the Commission's view on mitigating concern relating to the value of letter of credit for short term contracts with a new proviso added to Regulation 9(10)(b).

3.4 TPTCL's comments have already been considered by the Commission. The Commission has analyzed the comments received from MPL, APPCL and PTC. The Commission maintains the view that, as in the case of long term contracts, it is appropriate to prescribe the requirement to maintain letter of credit on the basis of the monthly contract value in case of short term contracts also where the duration of such short term contract is more than one month. As regards the suggestion of MPL for not having any regulatory intervention for deciding the terms of a commercial contract in case Parties to the contract willingly decide to waive off payment security mechanism, the Commission is of the view that in a number of cases, generators have approached the Commission seeking enforcement of payment security mechanism including LC which means that the mutual arrangements between the generators

and traders with regard to payment security mechanism is not working. Therefore, it requires regulatory intervention in order to ensure that payment security mechanism in the form of LC is maintained by the traders. Hence, the Commission feels that there is no requirement to modify the proposed amendment to the regulations and has decided to retain the proviso as per the First Amendment Regulations, stated as under:

“Provided that where the duration of the short term contract is more than one month, the letter of credit in favour of the seller shall be equivalent to one point zero five (1.05) times of the monthly contract value with validity period equal to validity of the contract.”

**Sd/-
(I.S. Jha)
Member**

**Sd/-
(P.K. Pujari)
Chairperson**
