

CENTRAL ELECTRICITY REGULATORY COMMISSION
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PRESS RELEASE

CERC issues regulations for Inter-State Trading in electricity

The Electricity Act, 2003 recognises trading as a separate licenced activity. The Central Electricity Regulatory Commission (CERC) is required to issue the licence for inter-state trading. Consequent upon the enactment of The Electricity Act, 2003, the Commission has been receiving applications for grant of licence for trading. The Commission has ordered that these applicants may, at their own risk, carry out trading in electricity by complying with all the existing Laws and Regulations till the licence application is processed as per the Commission's regulations.

The Act envisages that the Commission shall notify the procedure for grant of licence and also specify the technical requirement, capital adequacy requirement and credit worthiness for being an electricity trader. The trader is also to discharge duties in relation to supply and trading in electricity as may be specified by the Commission. Keeping in view the requirements of the Act, the CERC had circulated a Concept Paper on "Eligibility Conditions for Grant of Power Trading Licence" in September 2003. The Commission has received large number of comments on the concept paper. On December 9, 2003, the Commission has issued the Draft Regulations for electricity trading. The draft regulations are available on CERC's website: www.cercind.org.

The regulations issued by CERC envisage that any person who is interested in obtaining a licence for inter-state trading shall apply to the CERC in the form appended to the regulations. The application shall be accompanied by a fee of Rs. one lakh only. The applicant for the licence shall post his complete application alongwith annexures and enclosures on his own website. Besides posting on the website, the applicant shall, within seven days after the application, publish a notice in at least two national english daily newspapers including one economic newspaper and two local newspapers falling within the areas of trading. The draft regulations describe the items to be disclosed in the publication which includes the type of the firm, share holding pattern, financial and technical strength, management profile, volume of power intended to be traded, geographical areas within which the trading is to be undertaken, details of past experience etc. Objections if any, is to be filed before the Commission within 30 days of the publication of the notice.

The regulations further deal with the requirements of being an electricity trader, which includes the technical requirement, capital adequacy and credit worthiness. The trader is to have at least one full time professional each having experience in

the power system operations, finance, commerce and accounts. The capital adequacy requirements and credit worthiness is related to the volume of electricity traded. The trading licensees are divided into six categories based on the volume of electricity traded. The net worth is stipulated in the range of Rs.2 crores for the lowest and Rs.25 crores for the highest category. The licence fee for these six categories of traders varies from Rs. one lakh to Rs.15 lakhs per annum.

The trading is initially proposed only by bilateral contracts which will be entered into between the generators and the traders on one hand and the traders and the licensees on the other. The Commission has recently introduced open access in transmission. The State Commissions are expected to introduce open access in distribution in due course. The Central Commission is also working on the introduction of market mechanism including power pool, power exchange etc. These trading regulations shall be reviewed, from time to time, to take into account these developments.

The licensee has to maintain separate account for the trading activity and shall also submit the information like source of purchase and the agency to which the electricity is sold alongwith the purchase price, sale price etc. through the RLDC/REB to the Commission.

The salient provisions of draft regulations:

- Any person interested in obtaining inter-state trading licence shall apply to the CERC in the format enclosed with the draft regulations.
- The application fee shall be Rs.one lakh provisionally subject to adjustment as and when the Government of India notifies the fee.
- The present Regulation will apply to trading to be carried out bilaterally between generator and trader, and trader and licensee. The Regulations would be modified as and when open access in distribution is allowed, and when power exchange is introduced.
- The applicant has to publish his application, within 7 days of making such application, in at least two national english daily newspapers and two local newspapers. The publication shall include the name of the applicant, address, share holding pattern, financial and technical strength, management profile, volume of power intended to be traded, areas in which the proposed trading is to be taken place etc.
- The trader has to comply with the minimum technical requirements of having at least two full time professionals, one having experience in power system operations, and the other in finance, commerce and accounts.
- The capital adequacy and credit worthiness for being an electricity trader is divided into six different categories as per the following table. This table also indicates the annual licence fee to be paid by various categories of traders.

Sl.No.	Category of the Trading Licencee	Electricity traded (in Kilo - Watt Hours) per annum	Net worth (Rs. in crores)	Annual Licence fee(Rs in lakhs)
1	A	Upto 100 million	2.00	1.00
2	B	100 to 200 million	4.00	2.00
3	C	200 to 500 million	10.00	5.00
4	D	500 to 700 million	15.00	7.00
5	E	700 to 1000 million	20.00	10.00
6	F	Above 1000 million	25.00	15.00

- The Commission may fix the trading margin from time to time.
- The licence shall be valid for a period of 25 years unless revoked earlier.
- The Commission may issue appropriate directions, in case any trading licensee is found to be abusing its position.
- The terms and conditions of the licence may be modified by the Commission in the public interest or on an application made by the licensee, following the notified procedure.
- The licence may also be revoked in the event of defaults or violation of any of the terms and conditions of the licence.

The Commission has already issued the orders for open access in transmission. Introduction of trading licensees is expected to promote trading and will facilitate better utilisation of generation capacity. This will facilitate harnessing of the bottled up energy of captive power plants as well, if the sale rate of power is attractive, taking into account the wheeling charges, transmission losses, trading margin etc.

(A.K.Sachan)
Secretary