CENTRAL ELECTRICITY REGULATORY COMMISSION NEW DELHI

I.A. No. 17/2013 in Petition No. 52/2013

Coram: Shri V.S. Verma, Member Shri M. Deena Dayalan, Member

Date of Order: 25.7.2013

IN THE MATTER OF

Petition under Regulation 63 (i) of the Central Electricity Regulatory Commission (Power Market) Regulations, 2010 for grant of additional time to the Petitioner to raise additional equity share capital to achieve the net worth prescribed in Regulation 18(i), such additional time being three years from the notification of the said Regulations.

AND IN THE MATTER OF

Power Exchange India Limited

....Respondent

<u>ORDER</u>

The petitioner, Power Exchange India Limited (PXIL) has filed Interlocutory Application (IA) seeking suspension of the Commission's order dated 8.6.2013 by extending the time up to 31.3.2014 and 31.3.2015 to increase its net worth to ₹ 10 crore and ₹ 25 crore, respectively.

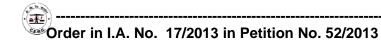
2. The petitioner had filed petition under Regulation 63 (i) of the Central

Electricity Regulatory Commission (Power Market) Regulations, 2010 (Power Market Regulations) seeking to invoke the inherent powers of the Commission for granting additional time of 3 years from 31.3.2013 to achieve the Net worth prescribed by the Commission under Regulation 18 (i) of the Power Market Regulations.

3. The Commission after carefully considering the submissions of the petitioner, vide its order dated 8.6.2013 *inter-alia* directed the petitioner to take steps to infuse capital and increase its net worth to at least ₹ 10 crore within one month of the issue of this order and submit a confirmation for the same in the form of CA certificate. The relevant portion of the said order dated 8.6.2013 is extracted as under:

"12. As a future roadmap, the petitioner is directed to increase its net worth to ₹ 25 crore by 20.1.2014 either through additional capital infusion or by improving the business operations and maintain the minimum net worth thereafter on a consistent basis. To start with, the petitioner should take steps to infuse capital and increase its net worth at least to ₹ 10 crore within one month of the issue of this order and submit a confirmation for the same in the form of CA Certificate. The petitioner is also directed to submit a business and financial performance report every quarter commencing from the first quarter of financial year 2013-14 for periodic review by the Commission."

4. The petitioner has submitted that PXIL is taking several major initiatives to improve its performance. The efforts are being made in all front, namely



business strategy, marketing efforts, cost rationalization, equity infusion. The summary of the initiatives being taken by the petitioner are as under:

(a) National Stock Exchange of India Limited (NSE) and National Commodity and Derivatives Exchange Limited (NCDEX), have contributed to equity infusion from time to time that has helped the petitioner to achieve a share capital of ₹ 56.05 crore as on 31.3.2013 which includes Preference Share Capital of ₹ 10 crore which is not considered by CERC in computation of net worth. Out of the ₹ 44 crore infused later, major percentage of capital has been infused by the promoters. However, due to the restriction in share holding percentage, the promoters had to infuse capital in the form of preferential capital which as per Power Market Regulations is not considered for calculating net worth.

(b) **Cost control:** Over the past two quarters, PXIL has rationalised its cost structure that has helped reduce the cash loss.

(c) Change in leadership: The leadership at the petitioner's Exchange has been revamped with joining of an experienced technocrat MD and CEO, who has renewed its focus for increasing the market share of PXIL.

(d) Replication of REC success: PXIL chalked out a well thought

strategy to enhance its market share in REC segment. This led to significant increase in the market share to 35% in H-2 of financial year 2012-13. PXIL intends to replicate the success of REC market in the other markets also.

(e) Removal of entry barrier: The petitioner has introduced an option of providing express use of exchange platform to market participants for meeting their trade requirements (either sale or buy) for a short period time, namely, few day/week/month at a much lower Membership fee.

(f) Approaching regulator for removal of regulatory hurdles:

(i) **RLDC Charges:** The petitioner has submitted that PXIL has filed petition before the Commission for levy of a standard operating charge per participant irrespective of the Power Exchanges on which they transact and the quantum they trade.

(ii) **Exchange specific NoC:** PXIL has requested all the SLDCs to issue non-exchange specific (exchange neutral) NoC, to provide equal opportunity for an open access consumer to trade on any Power Exchange.

(iii) Allocation of transmission corridor: PXIL proposes that

transmission corridor allocation should be a two-step process, wherein the corridor is allocated equally to Power Exchanges, in Step-1and any unutilized surplus from earlier allocation is allocated to other PXs in Step-2 should it require additional quantum.

(g) Focus on retail market: A major retail initiative is being implemented in the States of Gujarat, Rajasthan, and other States. PXIL would be able to develop a base load of 400-500 MW over a period of 6 to 12 months that would help in providing successful trade of 8 to 12 MUs/day. With the significant reduction in costs, PXIL's breakeven point has come down.

(h) Product innovation: PXIL is considering innovative contract pricing structure for its weekly contract which is more suited to the markets needs.

(i) Equity infusion: To increase equity, PXIL is in dialogue with several private equity, international power exchange and State utilities and has received very encouraging commitments from them.

(j) Risk management: PXIL has a robust risk management mechanism wherein 100% margins are taken from buyers before accepting their bids in day ahead product and REC segment. The exchange also maintains a Settlement Guarantee Fund in compliance with Power Market Regulations that would be accessed only when there is a default from any of the participant. Therefore, with strict compliance of the above practices in conducting the business of the exchange, the transaction on the exchange are secure in nature and risk of default to the participants is protected.

5. The petitioner has submitted that all possible efforts elaborated in the I.A. and subsequent submissions made by petitioner in regard to increasing the net worth would take some more time to achieve \gtrless 10 crore, and may require long/extended period for achieving \gtrless 25 crore. Accordingly, the petitioner has requested to extend time up to 31.3.2014 to increase its net worth to \gtrless 10 crore and time extension till 31.3.2015 to achieve net worth of \gtrless 25 crore.

6. The petitioner is making serious and focused efforts in all fronts including business strategy, cost structure, financial strategy to improve its business performance. The petitioner has also taken new initiatives with several entities to infuse equity and these efforts may take some time to bear results.

7. In light of the renewed efforts being made and difficulty projected by PXIL, the petitioner is directed to increase its net worth to ₹ 25 crore by 31.3.2014.
The petitioner is also directed to infuse capital and increase its net worth to at least ₹ 10 crore by 31.12.2013 and submit a confirmation for the same in the

form of CA certificate. No further extension shall be granted for the purpose.

8. I.A. No. 17/2013 is disposed of with the above directions.

Sd/-

sd/-

(M. Deena Dayalan) Member (V.S. Verma) Member