



SHREE CEMENT LIMITED

(CATEGORY-III INTER-STATE ELECTRICITY TRADING LICENSEE)

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16th September 2019, New Delhi
SCL/FY19-20/SM/CERC/200

The Secretary
Central Electricity Regulatory Commission,
3rd & 4th Floor,
Chanderlok Building, 36, Janpath
New Delhi-110001

Sub: Comments/Suggestions/Objections from Shree Cement Limited on the Provisions of Draft CERC (Procedure, Terms and Conditions for grant of Trading Licence and other related matters) Regulations, 2019.

Ref: CERC Draft Notification No. ECO- 14/06/2019- CERC dated 24th July 2019

Dear Sir,

This is in reference to your above referred draft notification dated 24th July 2019 vide which Hon'be Commission proposed draft CERC (Procedure, Terms and Conditions for grant of Trading Licence and other related matters) Regulations, 2019.

In this regard, SCL is submitting its Comments/Suggestions/Objections in the form of Annexure I enclosed with this letter.

Thanking You,

Yours Faithfully,

For Shree Cement Limited

(Amanjit Singh)



Assistant Vice President- Power Business

Encl: Annexure I, Comments/Suggestions/Objections from SCL

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ANNEXURE-I

Comments/Suggestions/Objections from Shree Cement Limited on the Provisions of Draft CERC (Procedure, Terms and Conditions for grant of Trading Licence and other related matters) Regulations, 2019

Sl. No	Section/Clause	Proposed Changes/Amendment	Remarks
1	<p>Chapter- I Preliminary</p> <p>Regulation 2: Definitions and interpretation</p> <p>(1) In these regulation,</p> <p>(a)</p> <p>(b)</p> <p>(c)</p> <p>(d) 'Back to Back Deals' shall have the same meaning as is assigned to it under Power Market Regulation, 2010, as amended from time to time;</p> <p>(e)</p> <p>(2)</p> <p>(3) The provisions of the General interpretation of an Act of Parliament.</p>	<p>The definition of Back to Back Deals should be clearly defined and incorporated in these Regulations.</p>	<p>As per Power Market Regulation 2010 Back to Back Deals are defined as: <u>The interstate transactions in which an Electricity Trader buys a specific quantity of power for a particular duration from one party and simultaneously sells it to another party on same terms and conditions. Such transaction does not expose the trader to any price risk. It may expose the trader to credit risk and operational risk.</u></p> <p>On the contrary, in the Power Trading market as per current practice, the back to back deals means where the electricity is traded between seller and buyer through an Electricity Trader and Electricity Trader makes the payments to Seller on back to back basis i.e. once the payments are received from Buyer. The same is then passed on to the supplier.</p> <p>Interest on payment, is also equivalent to the amount as agreed by the buyer (for which negotiation happen many a times).</p> <p>We request Hon'ble Commission to review the definition and interpretation of Back to Back deals as</p>





<p>defined in Power Market Regulation 2010 and accordingly the fixation of Trading Margin as per Draft Trading License 2019 should also be reviewed.</p> <p>Furthermore, the definition of <i>Back to Back Deals</i> should also clearly outline whether a trader can alter the terms of engagement w.r.t. periodicity of billing, prompt payment rebate, compensation clause, with a seller or not.</p>			
<p>Shree Cement Limited being a Category II interstate trading licensee is also in to business of power generation and cement manufacturing. The manufacturing industries have huge stocks of raw materials, fuels, packing materials, finished goods etc which comes under the inventory of the company. This inventory can be used to fulfil the financial obligations of the company whenever needed.</p> <p>In our case, the percentage of electricity trading business as compared to cement manufacturing and power sales (from own generation) is insignificant.</p> <p>On the contrary the service industry does not have huge stocks of inventories and are mainly dependent on cash or cash equivalent of money.</p> <p>So the effect of liquidity ratio as per the current definition is not same all the companies who has decided to engage in trade of electricity though</p>	<p>Chapter- I Preliminary Regulation 2: Definitions and interpretation</p> <p>(2) In these regulation, (b) ... (o).... (q) <u>'Liquidity Ratio' means the ratio between the liquid assets current liabilities., where</u> (iii) <u>Liquid assets include the current assets including inventory, and</u> (iv) <u>Current liabilities include sundry creditors, provisions and other liabilities</u></p>	<p>Chapter- I Preliminary Regulation 2: Definitions and interpretation</p> <p>(1) In these regulation, (a) ... (o).... (p) <u>'Liquidity Ratio' means the ratio between the liquid assets current liabilities., where</u> (i) <u>Liquid assets include the current assets less inventory and prepaid expenses, and</u> (ii) <u>Current liabilities include sundry creditors, provisions</u></p>	<p>2</p>



<p>interstate trading license.</p> <p>In view of above, we propose that definition of liquid ratio should include inventory and also to be modified so as to provide same interpretation for all the trading licensees</p>	<p><u>to be discharged within a period of one Year.</u></p> <p>(3) The provisions of the General interpretation of an Act of Parliament.</p>	<p><u>and other liabilities to be discharged within a period of one Year.</u></p> <p>(3) The provisions of the General interpretation of an Act of Parliament.</p>	<p>3</p>
<p>As per the proposed Trading Licence Regulation, the yearly volume traded by Category I trading licensee will be between 5000 MUs to 10,000 MUs.</p> <p>Considering average market price of Rs. 4.0 per unit and the daily average volume of ~13.70 MUs to ~27.40 MUs (5000 MU/365 and 10000 MU/365 days), the daily exposure of trading licensee will come out to be ~Rs 5.5 Crores to Rs. 11 Crores. Assuming the trader takes minimum exposure of 15 days (weekly billing with 7 days credit period), his outstanding exposure would be in the range of Rs. 82 crores to Rs. 164 crores.</p> <p>The proposed net worth for Category I Trading Licensee is 75 Crores does not cover the financial exposure involved.</p> <p>Therefore the minimum Net Worth for Category I trading Licensee should be increased to 250 Crores in order to cover the exposure for at least of 15 days.</p> <p>And proportionately the minimum Net Worth for other</p>	<p>The minimum Net Worth criteria should be increased for all the Categories of Trading Licensees to cover the financial exposure involved.</p>	<p>Chapter- II Qualifications for Grant of Trading License</p> <p>Regulation 3: Qualifications of Applicant:</p> <p>Clause 3: Financial Qualifications- Capital Adequacy and Liquidated Requirements:</p> <p>(a) Considering the volume Net Worth of the Applicant on the date of application, as per audited special balance sheet accompanying the application, shall not be less than the amounts specified hereunder:</p> <p>.....</p> <p>(b)</p>	

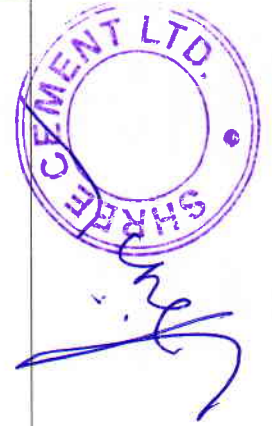




<p>categories may also be increased.</p>		
<p>Power Exchanges are power trading platforms providing physical delivery of electricity through trade of electricity between Sellers and Buyers.</p>	<p>The capping of trading margin on short term transactions is inequitable.</p>	<p>Chapter- IV Trading Margin</p> <p>Regulation 8: Trading Margin</p> <p>Clause (1)</p> <p>(1) Trading Licensee shall comply with the trading margin as given below:</p> <p>(a) The electricity;</p> <p>(b) The margin ... and the application fee;</p> <p>(c) For short term contracts and contracts through power exchanges maximum trading margin of seven (7.0) paisa/kWh;</p> <p><u>Provided that in contracts where escrow arrangement or irrevocable, unconditional and revolving letter of credit as specified in clause 10 of regulation 9 is not provided by the Trading Licensee in favour of the seller, the Trading Licensee shall not</u></p>
<p>Power exchanges takes advance payments from the buyers (T-1 day) and pays to the sellers one day after the Trade Day (T+1 day). By taking advance payments Power Exchanges safeguard themselves from any risks involved and keep charging 2 paisa/kWh individually from sellers and buyers (cumulative of 4 paisa/unit per transaction) as Trading Margin in the name of Fees.</p>		
<p>Power Exchanges inspite of charging cumulative 4 paisa/kWh 'Fee' for every transaction, acts only as a facilitator and bears Zero risk (which as per the Hon'ble Commissions view should be on Trader).</p>		
<p>Therefore, in view of Power Exchanges charging Trading Margin of 4 paisa/kWh per transaction, the capping of trading margin on short term transactions is inequitable.</p>		

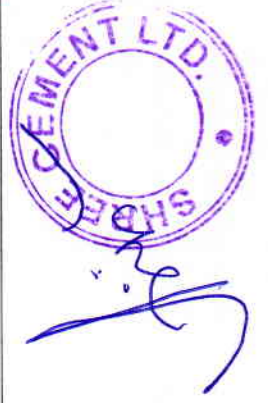


	<p><u>charge any trading margin excluding one (1.0) paisa/kWh.</u></p> <p>(d) (e) (f)</p> <p>(2) The trading margin specified under these regulations ... specified under these regulations.</p>		
5	<p>Chapter- IV Trading Margin Regulation 8: Trading Margin Clause (1) (c)</p> <p>(1) Trading Licensee shall comply with the trading margin as given below: (a) (b) (c) (d) (e) (f) <u>For Cross Border Trade of Electricity, the trading margin should be decided</u></p>	<p>Chapter- IV Trading Margin Section 8: Trading Margin Clause (1) (c)</p> <p>(1) Trading Licensee shall comply with the trading margin as given below: (a) (b) (c) (d) (e) (f) <u>For Cross Border Trade of Electricity, the upper limit for trading margin shall be 7 paisa/kWh</u></p>	<p>As the Trading License to Traders is granted on the basis of same regulation; there should be uniformity of Trading Margins to be charged under Cross Border Trade of Electricity as well.</p>



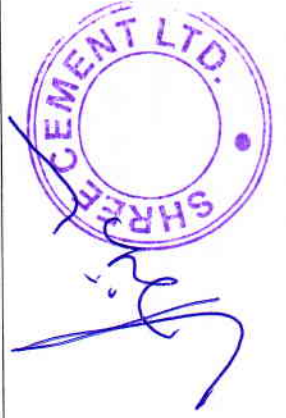


	<p><u>mutually between the Trading Licensee and the Seller</u></p> <p>(2) The trading margin specified under these regulations ... these regulations.</p>	<p>(2) The trading margin specified under these regulations ... these regulations.</p>	
6	<p><u>Chapter-V Terms and Conditions of the Licence</u></p> <p>Regulation 9: Obligations of the Trading Licensee</p> <p>Clause 10: The Trading License shall make payments of dues upon the agreed due date to the seller for purchase of agreed quantum of electricity through an escrow arrangement of irrevocable, unconditional and revolving letter of credit in favour of seller. Such escrow arrangement or irrevocable, unconditional and revolving letter of credit in favour of seller shall be equivalent to:</p> <p>(a) Two point one (2.1) times ...</p>	<p>Chapter-V Terms and Conditions of the Licence</p> <p>Regulation 9: Obligations of the Trading Licensee</p> <p>Clause 10: The Trading License shall make payments of dues upon the agreed due date to the seller for purchase of agreed quantum of electricity through an escrow arrangement of irrevocable, unconditional and revolving letter of credit in favour of seller. Such escrow arrangement or irrevocable, unconditional and revolving letter of credit in favour of seller shall be equivalent to:</p> <p>(a) Two point one (2.1) times ...</p>	<p>Ministry of Power vide its order dated 17th July 2019 issued Procedure for Scheduling of Power to Distribution Companies in the event of Non-maintenance of Letter of Credit.</p> <p>In the procedure it was clearly mentioned that the Distribution Companies may open LC for a shorter duration say for supply corresponding to one week or fortnight.</p> <p>And in case of difficulty in opening of LC, Distribution Companies may pay in advance through electronic mode the amount corresponding to atleast one day's purchase of electricity.</p> <p>The same principle should be adopted for opening/maintenance of Payment Security Mechanism (PSM) by Trading Licensee to Seller.</p> <p>For short Term contracts; the mode and amount of PSM to be provided by Trading Licenses to the Seller should</p>





	<p>with a validity of one year for long terms contracts.</p> <p>(b) <u>One point zero five (1.05) times of contract value for short term contracts</u></p>	<p>with a validity of one year for long terms contracts.</p> <p>(b) <u>As per the mutual agreement between seller and trader for short term contracts</u></p>	<p>be based on mutually agreed terms between Seller and Trading Licensee.</p> <p>The PSM may not necessarily be in form of LC or escrow account and also the amount of PSM should not be equivalent to 1.05 times of contract values.</p>
7	<p>Chapter-V Terms and Conditions of the Licence</p> <p>Regulation 9: Obligations of the Trading Licensee</p> <p><u>Clause 23: In the event Trading Licensee has entered into a contract for sale of power with a buying entity for a particular period, then the Trading Licensee shall not enter into any contract for sale of same power with any other entity for such period except with prior consent of the buying entity.</u></p>	<p>This clause should be deleted</p>	<p>The Power Supply Agreements (PSA)s and Power Purchase Agreements (PPA)s have clause related to Liquidated Damages through which permitted deviation beyond a certain limit is dealt with.</p> <p>There is a provision of penalty in the PSAs/PPAs if Trading Licensee (as the case may be) sells the already contracted power to third party.</p>
8	<p>Chapter-V Terms and Conditions of the Licence</p> <p>Regulation 9: : Obligations of the Trading Licensee</p> <p>Clause 24: Trading Licensee shall not</p>	<p>No change</p>	<p>As per the definition (Electricity Act 2003), Trading of electricity means purchase of electricity to for resale thereof. Since swapping/banking of electricity only involves energy to energy settlement and there is no resale of electricity therefore banking of electricity should not come under purview of these regulations and trading licensees should not engage in business of</p>





	<u>engage in Banking of electricity.</u>		banking of electricity.
9	<p>Chapter-V Terms and Conditions of the Licence</p> <p>Regulation 15: Procedure for upgradation or downgradation of licence or compliance of Net Worth Criteria for Category I Trading Licensee</p> <p>Clause 1 Upgradation of License, Sub Clause (d): <u>The Trading Licensee shall be required to upload the audited special balance sheet to support the compliance of Net Worth requirement for higher category of license</u></p>	<p>Chapter-V Terms and Conditions of the Licence</p> <p>Regulation 15: Procedure for upgradation or downgradation of licence or compliance of Net Worth Criteria for Category I Trading Licensee</p> <p>Clause 1 Upgradation of License, Sub Clause (d): <u>The Trading Licensee shall be required to upload the immediately available past audited balance sheet to support the compliance of Net Worth requirement for higher category of license</u></p>	<p>The rationale is explained in the Point No 8</p>
10	<p>Chapter-V Terms and Conditions of the Licence</p> <p>Regulation 15: Procedure for upgradation or downgradation of licence or compliance of Net Worth Criteria for Category I Trading Licensee</p> <p>Clause 3 Downgradation of License, Sub Clause (b): <u>The Trading Licensee shall be required to upload the audited special balance sheet to support the compliance</u></p>	<p>Chapter-V Terms and Conditions of the Licence</p> <p>Regulation 15: Procedure for upgradation or downgradation of licence or compliance of Net Worth Criteria for Category I Trading Licensee</p> <p>Clause 3 Downgradation of License, Sub Clause (b): <u>The Trading Licensee shall be required to upload the immediately available past audited balance sheet to</u></p>	<p>The Hon'ble Commission grants Trading License to any Trader after doing all the due diligence. Licensee submits the annual reports and audited accounts along with all the necessary reports for one year immediately preceding year in which the application has been made. Also, when the commission desires, an audited quarterly report is also presented by Licensee to the commission which covers the period for which the special balance sheet is required by commission.</p> <p>It is also important to mention here that for a listed company, in order to prepare a special balance sheet</p>





	<p><u>of Net Worth requirement for lower category of license</u></p>	<p><u>support the compliance of Net Worth requirement for lower category of license.</u></p> <p><u>And</u></p> <p><u>Intimation by advance notice by Trading Licensee should be sufficient for Downgradation of License without necessity of submission of audited special balance sheet.</u></p>	<p>approval from board is required and practically it is not possible to have approval of board on a specific day which falls on any date falling within 30 days immediately preceding the date of application.</p> <p>Therefore we propose that necessity for submission of special audited balance sheet should be removed.</p>
11	<p>Chapter- VIII Revocation of Licence</p> <p>Regulation 20: Revocation of licence</p> <p>Clause (e): <u>Whether the Trading Licensee has neglected to undertake trading in electricity;</u></p>	<p>Clause (e) of the Regulation 20 shall be deleted.</p>	<p>Trading Licensees on many occasions have cumulative volume traded in a financial year less than the lower limits defined for the volume of electricity to be traded in a financial year. Irrespective of this Trading Licensee continues to pay Trading License Fee of that particular category.</p>
12	<p>MISCELLANEOUS:</p>		
			<p><u>1) The Hon'ble Commission should clarify whether the Trading Margin charged by any Electricity Trader against any type of transaction for re sale of electricity is exclusive or inclusive of applicable taxes and duties.</u></p> <p><u>2) On many occasions it has been observed that, there are variations in prompt payment rebate. In a particular transaction where seller, trader and procurer are involved; for timely payment, a rebate of 2% is permissible to the procurer by trader. On the other hand, some traders while giving timely payment to sellers, charge prompt rebate of 3%. It is requested from the Hon'ble Commission to clarify if such extra rebate charged by trader rebate shall also form a part of Trading Margin or not.</u></p>

