

CENTRAL ELECTRICITY REGULATORY COMMISSION

3rd Floor, Chanderlok Building, 36-Janpath, New Delhi-110001

Tel. No. 23353503, Fax No. 23753923

Website : www.cercind.gov.in

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PRESS RELEASE

CERC issues new trading margin regulations

In exercise of its powers under the Electricity Act, 2003, the Central Electricity Regulatory Commission has issued new regulations fixing the trading margin for inter-state trading in electricity. The following are the main features of the new regulations:

- i) Trading margin shall apply only to short term buy – short term sell contracts for the inter-state trading.
- ii) Trading margin shall not exceed 4 paise per unit if the sell price of electricity is less than or equal to Rs.3 per unit. The ceiling of trading margin shall be 7 paise per unit in case the sell price of electricity exceeds Rs.3 per unit.
- iii) If more than one trading licensees are involved in a chain of transactions, the ceiling on trading margin shall include the trading margins charged by all the traders put together. In other words, traders cannot circumvent the ceiling by routing the electricity through multiple transactions.
- iv) The new ceiling rates on trading margin would come into force after a period of one month so that the existing contracts can be re-aligned by the parties, if required.

2. CERC had earlier fixed a trading margin of 4 paise per unit in year 2006. The earlier regulations were reviewed keeping in view the increase in the risk faced by traders which is also a function of the prices of electricity. CERC had got

done a detailed study to assess the quantum of default risk, late payment risk, contract dishonour risk and inflationary risk for arriving at the new ceilings on trading margin. The Commission also held a public hearing on the proposals.

3. Long term agreements have been exempted from trading margin in order to facilitate innovative products and contracts for new capacity addition which involve higher risk in transactions. Also the trading margin on long term contracts was not consistent with the tariff based competitive bidding guidelines which envisage discovery of electricity prices through competition among the suppliers.

4. The full text of the regulations is available on the CERC's website www.cercind.gov.in.

(Alok Kumar)
Secretary