एनटीपीसी
NTPC

एन टी पी सी लिमिटेड
(भारत सरकार का उद्यम)
NTPC Limited
(A Govt. of India Enterprise)

केन्द्रीय कार्यालय/Corporate Centre

To,

Date: 16.09.2019

The Secretary,
The Central Electricity Regulatory Commission,
New Delhi.

16/09/19

Sub: Comments / Suggestions on the Draft "CERC (Procedure, Terms and Conditions for Grant of Trading Licence and Other Related Matters) Regulations 2019"

Chief (Eco)

Dear Sir,

Please find enclosed herewith our comments /suggestions on Draft "CERC (Procedure, Terms and Conditions for Grant of Trading Licence and Other Related Matters) Regulations 2019" circulated by the Hon'ble Commission seeking comments / suggestions from all concerned.

Thanking you,

Yours sincerely,

(Rajnish Bhagat)
ED (Commercial)

पंजीकृत कार्यालय : एनटीपीसी भवन, स्कोप काम्पलैक्स, 7, इंस्टीट्यूशनल एरिया, लोधी रोड, नई दिल्ली-110003
कार्पोरेट पहचान नम्बर : L40101DL1975GOI007966, टेलीफोन नं. : 011-24387333, फैक्स नं. : 011-24361018, ईमेल : ntpccc@ntpc.co.in वेबसाइट : www.ntpc.co.in
Registered Office : NTPC Bhawan, SCOPE Complex, 7, Institutional Area, Lodi Road, New Delhi-110003
Corporate Identification Number : L40101DL1975GOI007966, **Telephone No. :** 011-24387333, **Fax No.:** 011-24361018, **E-mail :** ntpccc@ntpc.co.in
Website : www.ntpc.co.in

NTPC Comments

Sub: NTPC Comments / Suggestions on Draft CERC (Procedure, Terms and Conditions for Grant of Trading Licence and other related Matters) Regulations 2019

1. **Regulation 8**

8. Trading Margin:

(1) Trading Licensee shall comply with the trading margin as given below:

....

(e) In case of Back to Back deals, the Trading Licensee shall charge a minimum trading margin of zero (0.0) paise/kWh and a maximum trading margin of one (1.0) paise/kWh.

Comment:

The Statement of Reasons at Para 2.2.2.7 states as under:

Quote:

"2.2.2.7. As per the Electricity Act 2003, trading is defined as purchase of electricity for resale thereof. In back to back arrangements, there is no ownership or obligation with the trader as is expected of such traders in terms of the definition of trading, such an arrangement is mere facilitation of transactions <u>without any credit risks</u> and accordingly shall not charge any trading margin exceeding one (1.0) paise/kWh."

Unquote:

(Emphasis provided)

Draft Trading Regulations defines "Back-to-Back Deals" to have the same meaning as is assigned to it under Power Market Regulations, 2010, as amended from time to time. The Power Market Regulations, 2010 defines Back-to-Back deals under OTC Contracts through electricity traders as under:

Quote:

"4 (i) (b) OTC Contracts through Electricity Traders –

I. Back to Back deals – The interstate transaction 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 the 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."*

Unquote:

In case of National Solar Mission Scheme, solar power is bundled with thermal power and supplied to Discoms through a separate PSA. PPAs have been signed by NTPC/NVVN with the Solar Power Developers (SPDs) for procuring solar power. NTPC makes payments to SPDs for power purchased irrespective of realization of payment from sale of that power to the Discoms. In other words, the payment is not on back-to-back basis and the entire credit risk lies on NTPC/NVVN. It may be mentioned here that "back-to-back deals" as defined in the Power Market Regulations 2010, provides that these arrangements may expose traders to credit and operational risks. Therefore, as per the Power Market Regulations, the deals where there credit risk is with the trader are termed as "back to back deals". However, the Statement of Reasons accompanying the Draft Trading Regulations states that in the "back-to-back deals" considered in the proposed Draft Trading Regulations; trader is a mere facilitator without any credit risks. Accordingly, it shall not charge trading margin exceeding 1 paisa / kwh. Therefore, "Back-to-Back deals" as defined in the Power Market Regulations 2010 and as intended in the Draft Trading Regulations are different altogether. If credit risk in any such transactions is with the trader, the proposed margin of 1 paisa per kWh is grossly insufficient to cover the credit risk due to delayed payments / defaults made by the Discoms.

The agreements PPAs/PSAs under the National Solar Mission have been signed by the Parties long ago considering credit and default risks on the traders with a corresponding trading margin of 7 paisa per kWh. It may be mentioned that extant CERC Regulations do not specify any trading margin for long-term contracts. Changing trading margin on such arrangements agreed long back by all Parties now, which have been entered on long-term basis for 25 years based on the Guidelines of GOI, shall completely wipe out the entire earnings of the trader and put him under loss. It would be unfair to change the provisions of contracts, where terms and conditions have been mutually agreed and have been in operation for many years without any dispute.

The PPA/PSA are not back to back deals and are essentially long term arrangements where NTPC/NVVN is exposed to credit / default risk by the Discoms. In view of the above, it is suggested that the term "Back to Back Deals" may be replaced with the term "Trading arrangements without credit risk"

It is therefore proposed that Regulation 8 (1) (e) may be reworded as under:

(e) In case of trading arrangements that are made after 01.10.2019 without any credit risk on the Trading Licensee, such Trading Licensee shall charge a minimum trading margin of zero (0.0) paise/kWh and a maximum trading margin of one (1.0) paise/kWh.

2. **Regulation 9 Proviso 10 (a)**

The Trading Licensee shall make payment of dues upon the agreed due date to the seller for purchase of the agreed quantum of electricity through an escrow arrangement or 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:

(a) two point one (2.1) times the average monthly bill amount (estimated average of monthly billing amounts for three months or actual monthly billing amount for preceding three months as the case may be) with a validity of one year for long term contracts;

(b) one point zero five (1.05) times of contract value for short term contracts.

Comment:

Bills for supply of power by the Seller to the Trader is raised on monthly basis in case of long-term contracts. In case bills raised by the Seller on the Trader are negotiated by the Seller through LC on the due date, LC equivalent to 1.05 times the monthly bill is sufficient as the billed amount is for the power supplied for duration of one month. As LC opened is on revolving basis, there is no need for LC equivalent to 2.1 times the average monthly billing.

All the contracts of NTPC / NVVN have been signed after a transparent tariff bidding process where the Developers have bid the price factoring in the terms and conditions which, inter-alia include LC equivalent to one month billing. Providing a two-month LC now would give an unfair advantage to these private developers.

It is therefore, submitted that payment security mechanism provided by the trader to the Seller shall be through an escrow arrangement or irrevocable unconditional and revolving LC equivalent to 1.05 times the average monthly bill amount with a validity of one year for long-term contracts.