

**CENTRAL ELECTRICITY REGULATORY COMMISSION  
NEW DELHI**

**Petition No. 8/SM/2021**

**Coram:  
Shri P.K.Pujari, Chairperson  
Shri I.S.Jha, Member  
Shri Arun Goyal, Member  
Shri P.K.Singh, Member**

**Date of Order: 8<sup>th</sup> July, 2021**

**In the matter of**

Non-compliance of the provisions of the Central Electricity Regulatory Commission (Procedure, Terms and Conditions for grant of trading licence and other related matters) Regulations, 2020.

**And**

**In the matter of**

National Energy Trading and Services Limited,  
Plot No. 397, Udyog Vihar Phase-III,  
Gurgaon – 122 016, Haryana.

**....Respondent**

**ORDER**

National Energy Trading and Services Limited had filed the Petition No. 42/TD/2021 under Regulations 9(4) and 15(3)(a) of the Central Electricity Regulatory Commission (Procedure, Terms and Conditions for grant of trading licence and other related matters) Regulations, 2020 (hereinafter referred to as ‘the Trading Licence Regulations’) for down-gradation of its inter-State trading licence in electricity from Category ‘I’ to Category ‘III’.

2. The Commission after considering the documents placed on record, in its order dated 23.6.2021, observed that as per audited special balance sheet as on 28.2.2021, the Respondent has a net worth of Rs.(-)18.69 crore. Also, as per audited

annual accounts for the year 2019-20, the Respondent company had a net worth of Rs. (-)18.13 crore as on 31.3.2020. Therefore, the Respondent does not meet requirements of net worth for any Category of trading licence as prescribed under Regulation 3 (3) (a) of the Trading Licence Regulations. Accordingly, the Commission directed to initiate appropriate proceedings against the Respondent as per the provisions of the Trading Licence Regulations. Relevant portion of the order dated 23.6.2021 is extracted as under:

*“22. As per the audited balance sheet as on 28.2.2021, the Applicant company has the current ratio of 0.68:1 and liquidity ratio of 0.67:1 (as can be seen in paragraph 14 above). Therefore, the Applicant company does not meet requirements of current ratio and liquidity ratio for trading licence as prescribed under Regulation 3(3) (b) of the 2020 Trading Licence Regulations.*

*23. Accordingly, the prayer of the Applicant for down-gradation of its licence from Category ‘I’ to Category ‘III’ is rejected.*

*24. Further, as observed in paragraph 21 and paragraph 22, the Applicant company does not meet requirements of net worth for any Category of trading licence as prescribed under Regulation 3(3)(a) of the 2020 Trading Licence Regulations and requirements of current ratio and liquidity ratio for trading licence as prescribed under Regulation 3(3)(b) of the 2020 Trading Licence Regulations.*

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*26. As per above-mentioned provisions, trading licensee is obligated to maintain the net worth in accordance with Regulation 3 of the 2020 Trading Licence Regulations at all times and the current and liquidity ratios of 1:1 at the end of every financial year. It also provides that if the current ratio or the liquidity ratio is less than 1:1, the licensee is required to maintain additional net worth of 100% of the net worth stipulated for the respective category of trading licence. Evidently, the Applicant has failed to fulfill its obligations to maintain the net worth and current and liquidity ratios as specified in the 2020 Trading Licence Regulations. The reliance placed on the proviso to Regulation 9(2) of the 2020 Trading Licence Regulations by the Applicant while seeking the down-gradation of its trading licence to Category ‘III’ is also of no avail as not only the Applicant has current and liquidity ratio of less than 1:1, but its net worth is also in negative.*

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*28. Since the licensee has failed to fulfill required net worth to hold the inter-State trading licence for any of category in terms of the 2020 Trading Licence Regulations, we direct the staff of the Commission to initiate appropriate proceedings against the Applicant as per the provisions of the 2020 Trading Licence Regulations.”*

3. Regulations 3(a) and 3(b) of the Trading Licence Regulations provides for net worth requirement for inter-State trading licensee as under:

*“(3) Financial Qualifications – Capital Adequacy and Liquidity Requirements*

*(a) Considering the volume of inter-State and intra-State trading proposed to be undertaken by the Applicant on the basis of the inter-State trading licence, the minimum 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 amount specified hereunder:*

<i>S No.</i>	<i>Category of the trading licence</i>	<i>Minimum Net Worth (Rs. in crore)</i>	<i>Volume of electricity proposed to be traded in a financial year</i>
<i>1</i>	<i>Category I Above</i>	<i>50.00</i>	<i>7,000 MUs</i>
<i>2</i>	<i>Category II</i>	<i>35.00</i>	<i>Not more than 7,000 MUs</i>
<i>3</i>	<i>Category III</i>	<i>20.00</i>	<i>Not more than 4,000 MUs</i>
<i>4</i>	<i>Category IV</i>	<i>10.00</i>	<i>Not more than 2,000 MUs</i>
<i>5</i>	<i>Category V</i>	<i>2.00</i>	<i>Not more than 500 MUs</i>

*(b) The Applicant shall have Net Worth as per clause (a) above and have a minimum Current Ratio of 1:1 and a minimum Liquidity Ratio of 1:1:*

*Provided that the Net Worth, Current Ratio and Liquidity Ratio specified in this regulation shall be computed on the basis of the audited special balance sheet prepared in accordance with the financial reporting framework prescribed under the Companies Act, 2013.”*

4. Regulation 9(2) of the Trading Licence Regulations provides for an obligation of the trading licensee as under:

*“9. Obligations of the Trading Licensee*

*The Trading Licensee shall be subject to the following obligations, namely:-*

*.....*  
*9(2) The Trading Licensee shall maintain the Net Worth in accordance with Regulation 3 of these regulations at all times and shall maintain Current Ratio of 1:1 and Liquidity Ratio of 1:1 at the end of every financial year:*

*Provided that if the current ratio or the liquidity ratio at the end of the financial year is less than 1:1, then the Trading Licensee shall be required to maintain additional Net Worth of 100% of the Net Worth stipulated for the respective category of trading licence. ....”*

As per the above provisions, trading licensee is obligated to maintain net worth in accordance with Regulation 3 of the Trading Licence Regulations at all times and the current ratio and liquidity ratio of 1:1 at the end of every financial year.

5. Regulation 17(3) of the Trading Licence Regulations provides as under:

*“17. Contravention by Trading Licensee*

*Contraventions of the provisions of the Act, Rules and Regulations framed thereunder and non-compliance of the orders of the Commission by a Trading Licensee shall cover the following:*

*...  
(3) Failure to meet the Net Worth criteria specified in these regulations;  
.....”*

As per the above provision, failure to meet the specified net worth criteria constitutes a contravention of the provisions of the Trading Licence Regulations by a trading licensee.

6. Regulation 18 of the Trading Licence Regulations provides for procedure for taking cognizance of the contraventions as under:

*“18. Procedure for taking cognizance of the contraventions*

*(1) The Commission, on being satisfied on the basis of the information in its possession or on basis of the information submitted by any person that a prima facie case exists against any Trading Licensee with respect to any of the provisions of Regulation 17, may initiate suo-motu proceedings against the Trading Licensee and may direct the Trading Licensee to submit such information and explanation as may be considered necessary for the purpose of the proceedings. ....”*

7. Regulation 19 of the Trading Licence Regulations provides for penalties for contravention by the licensee as under:

*“19. Penalties for Contravention and non-compliance:*

*Where the charge of contraventions is established against the Trading Licensee, the Commission may:*

*(1) give warning to the Trading Licensee subject to such conditions as may be deemed fit in the facts and circumstances of the case; or*

*(2) direct that the Trading Licensee shall pay, by way of penalty, a sum which shall not exceed rupees one lakh for each contravention and in case of a continuing failure with an additional penalty which may extend to six thousand rupees for every day during which the failure continues after contravention of the first such direction; and/or*

(3) debar the Trading Licensee from trading in short term market or long term market or through power exchanges or banking or Cross Border Trade of Electricity for a period as may be specified by the Commission; or

(4) suspend the licence for a period as may be specified by the Commission; or

(5) revoke the licence of the Trading Licensee; or

(6) issue such other directions or impose such other conditions as the Commission may deem appropriate:

*Provided that in case of debarment or suspension, National Load Despatch Centre or concerned Regional Load Despatch Centre or State Load Despatch Centre, as the case may be, shall take appropriate action with regard to scheduling and despatch of electricity in respect of the transactions of the Trading Licensee.”*

8. Thus, based on documents available on record in Petition No.42/TD/2021, we are satisfied that a *prima facie* case exists against the Respondent with respect to contravention of Regulation 17(3) of the Trading Licence Regulations since it has failed to maintain the required net worth as prescribed under Regulations 3(3) (a) and 3(3)(b) read with Regulation 9(2) of the Trading Licence Regulations. Accordingly, we direct the Respondent to file its response within one month from the issuance of this order as to why penal provision be not invoked in terms of Regulation 19 of the Trading Licence Regulations for failure to maintain required net worth, current ratio and liquidity ratio for holding any category of inter-State trading licence.

Sd/-  
**(P.K. Singh)**  
Member

sd/-  
**(Arun Goyal)**  
Member

sd/-  
**(I.S. Jha)**  
Member

sd/-  
**(P.K. Pujari)**  
Chairperson