CENTRAL ELECTRICITY REGULATORY COMMISSION

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Press Release

CERC announces trading margin for electricity traders

In a move aimed at protecting the consumers as well as providing reasonable return to traders, the Central Electricity Regulatory Commission (CERC) has decided to fix the trading margin to 4 Paise/kWh for electricity traders who have been given licences for engaging in inter-state trading of electricity. In this margin, transmission charges, application fees, Unscheduled Interchange (UI) charges and transmission losses would be excluded.

2. The Electricity Act 2003, vide Section 79 (1) (j) enables the CERC to fix trading margin for inter-state trading of electricity, if considered necessary. The Commission has decided to exercise its powers under this Section to fix trading margin in view of the rising trend in trading margins being charged by the electricity traders.

3. The Commission has found that nearly 90% of trading during 2004-05 was done at a trading margin of 5 P/kWh or less, but the same had increased to a weighted average of 10 Paise/kWh in the first half of the 2005-06. Up to the year 2004-05, trading margin of 5 P/kWh or less was a pre-dominant trend. However, trading margins

shot up in the first half of the 2005-06 and 68% of volume traded by the electricity traders carried a margin of 6 Paise/KWh or more in spite of the fact that the Commission had simplified the Open Access regulations in 2005. The instance of highest trading margin in a single transaction in 2004-05 was 43 Paise/kWh and in the first half of the 2005-06, it was 128 Paise/kWh.

4. There is an overall power shortage in the country and the scenario is likely to continue for quite some time. Most of the electricity is sold to the distribution utilities at regulated prices only, but about 2 to 3 percent of sales/purchase, amounting to about 15 billion units per annum, takes place through the bilateral trading route. There are short time surpluses mainly in the Eastern and North Eastern Regions which are being tapped by traders for selling power to deficit States of Northern and Western Regions. Traders by themselves are not producers, and competition among them to capture the meager surplus power for sale has resulted in raising the prices rather than bringing them down. Thus there is a need to ensure that the traders do not take undue advantage of the deficit situation.

5. Some of the traders have pointed out that in order to reserve the transmission path, they have to pay the entire transmission charges up-front based on contracted power. They also have to pay application fees. However, if trade takes place below contracted amount due to default by buyer or supplier, they are not able to recover the amount paid up-front by them. Accordingly, in fixing the trading margin of 4 Paise/kWh, the Commission has decided to exclude the transmission charges, application fees, Unscheduled

Interchange (UI) charges and transmission losses. The transmission charges and application fees would be recoverable by trader as per actuals. As per the commercial mechanism in place, transmission losses and UI charges are not borne by the trader. Moreover, earlier, the traders were exposed to some risk since the transmission charges were not refundable, if the transaction could not last for the entire contracted duration. This risk has been taken care of in the revised regulations relating to open access, issued by the Commission in February 2005, by providing that transmission charges for 7 days or balance period of transaction, which ever period is shorter, are to be paid in such cases. The Commission's regulations on inter-state trading lay down that all trading arrangements shall be through Letter of Credit or any other superior financial instrument and accordingly, there is no risk of recovery for traders unless the traders choose to ignore the regulations. The traders would be required to bear the banking charges and operating expenses out of the trading margin fixed for them and they would be free to optimize these two expenses in order to earn a reasonable profit for themselves.

6. Some of the stakeholders had suggested that the trading margin should be fixed in specific cases where the Commission finds that the traders are abusing their position. It was also suggested that the trading margin should be on percentage of traded electricity rather than on Paise/kWh basis. Some of the stakeholders suggested that the trading margin should applicable only to dominant traders and small traders should be exempted from trading margin. The Commission came to the conclusion these suggestions were not

practical. The Commission has decided not to apply intrusive cost based regulations on trading operations.

7. The Commission had originally proposed a trading margin of 2 P/kWh and invited comments from various stakeholders in September, 2005. A total of 24 stakeholders including ten traders and six distribution utilities had sent their comments and suggestions. The electricity traders were generally not in favour of fixing of trading margin but on the contrary the buyer distribution utilities and consumers had welcomed the proposal of fixing trading margin. After taking in account the comments and suggestions of various stake holders, the Commission has come to the conclusion that there is a need to fix trading margin and it would be reasonable to limit it to 4 Paise/KWh.

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