

Ref No: IGX/2020-21/36

14 August 2020

To,
The Secretary,
Petroleum & Natural Gas Regulatory Board,
1st Floor, World Trade Centre, Babar Road,
New Delhi – 110 001

Subject: Comments on “Petroleum and Natural Gas Regulatory Board (Levy of Fee and Other Charges) Second Amendment Regulations, 2020”

Respected Madam,

This has reference to the public notice Ref No.: S/Admin/197/2019, dated 24th July 2020, soliciting views from stakeholders on the draft “Petroleum and Natural Gas Regulatory Board (Levy of Fee and Other Charges) Second Amendment Regulations, 2020.

In this regard, we have provided our comments herein on the proposed draft Amendment. We observe that both the application fees and annual fees proposed for the gas exchanges under the draft amendment seem to be on a higher side when you consider that the gas exchanges will be a nascent market segment and that it will take lot of efforts and resources in terms of manpower and costs to bring it to level of maturity as it stands for securities, commodity or power exchanges in the country today. The specified fees are higher compared to the fees applicable to matured exchanges in the country. Rather, the fees proposed under the draft Amendment if notified will be amongst the highest fees applicable to any major exchanges in the country (whether delivery based or stock exchange).

- Application Fee: Under both SEBI and CERC regulations the application fee for seeking authorization has been kept nil to minimal (nil and Rs. 3 lacs for stock and power exchanges respectively) as compared to Rs. 50 Lacs proposed for Gas Exchange.
- Annual Fee: Under the relevant regulations of the SEBI and CERC the minimum annual fees applicable is Rs. 1 Lac and Rs. 6 Lacs respectively against a minimum annual fee of Rs. 50 Lacs proposed to be applicable to a Gas exchange.
 - Further the percentage linkage of 0.02% of the trade value for the annual fees for a Gas exchange is also on a higher side when compared to such linkage for a stock exchange or a power exchange.

A comparison of the proposed fees for a Gas Exchange and regulatory fees under Securities and Exchange Board of India (SEBI) and Central Electricity Regulatory Commission (CERC) regulation is provided as part of **Annexure-1**.



We wish to humbly submit that high cost at a gas exchange with low trades in the initial phase will put considerable burden on a start-up exchange. High costs and low trades in the initial period will also reflect in the higher cost of transactions. The above will create entry barriers to new exchanges. This could dissuade potential entry of new exchanges and therefore adversely impact the development of gas marketplace and liquidity.

We humbly submit to the Hon'ble Board to reduce the application fees and annual fee charges as per the suggestion made under Annexure-1 & 2 of this letter.

We hope you will find merit in our suggestions and consider our submissions. We will be happy to discuss these points during the open house.

Yours sincerely,

For Indian Gas Exchange Ltd.

A handwritten signature in blue ink that reads 'R. Mediratta' with a horizontal line underneath.

Rajesh K Mediratta Director

Annexure-1: Comparison of Levy of Fees with other exchanges

1. Application Fees

S.No	SEBI (Stock Exchange)	CERC (Power Exchange)	PNGRB draft proposal (Gas Exchange)
1.	Nil	Rs. 3 Lacs	Rs. 50 Lacs

- 1.1.** No application fee is applicable for seeking authorization at SEBI. Under CERC's regulation for power exchanges, the application fees fall under the category of Miscellaneous application which is Rs. 3 Lacs only. This is significantly lower compared to the proposed application fees of Rs. 50 Lacs under draft amendment for Gas exchanges.
- 1.2.** Even under the PNGRB's own regulation, the registration fees for establishing or operating LNG terminal is Rs. 5 Lacs and the fees for granting authorisation for a capital-intensive infrastructure project such as city gas distribution is in the range of Rs. 8 - 12 lacs.
- 1.3.** As mentioned earlier, in the initial phase, exchange will be establishing itself and the trades could be lower as market would gradually adopt to the new concept. Accordingly, such high initial costs will further burden/ increase the initial start-up cost for a gas exchange.
- 1.4.** We therefore humbly submit that for the purpose of filing an application seeking authorization for a Gas exchange, a fee of Rs. 3.0 Lacs could be considered.

2. Annual Fees

- 2.1.** Excerpt of regulation from **Securities And Exchange Board Of India (Regulatory Fee On Stock Exchanges) Regulations, 2006**

Quote

Rate of Regulatory Fee (Regulation 4 of Securities and Exchange Board of India (regulatory fee on stock exchanges) regulations, 2006

<i>Sl. No. (1)</i>	<i>Annual Turnover (Rupees in crores) (2)</i>	<i>Amount of fee (Rs.) (3)</i>
1.	<i>Less than or equal to 10,000</i>	<i>1,00,000/-</i>
2.	<i>More than 10,000 but less than or equal to 1,00,000</i>	<i>10,00,000/-</i>

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Indian Gas Exchange Limited

Unit no.3,4,5 & 6 Fourth Floor, Plot No.7, TDI Center, District Center, Jasola, New Delhi 110 025

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3.	More than 1,00,000 but less than or equal to 5,00,000	50,00,000/-
4.	More than 5,00,000 but less than or equal to 10,00,000	1,00,00,000/-
5.	More than 10,00,000	1,00,00,000 plus 0.000012 per cent of the annual turnover in excess of 10,00,000 crores

Explanation: For the purposes of this sub-regulation, the expression “annual turnover” shall mean the aggregate value of the transactions 2[excluding turnover on agricultural commodity derivatives] which took place on the recognised stock exchange during the relevant financial year:

Unquote

2.2. Excerpt of regulation under **Central Electricity Regulations Commission (CERC) (Payment of Fees) Regulations, 2012**

Quote

Regulation 8 Annual Registration Charge for Power Exchange

(1) Notwithstanding anything contained in any other regulation in force, the Power exchanges shall pay annual registration charge by 30th April of each year at the rates specified hereunder:

Annual Turnover of Power Exchange (in Million Units)	Annual Registration Charges (Rs. Lakhs)
Above 10,000	52
Above 5,000 and up to 10,000	20
Upto 5,000	6

Annual Turnover shall be calculated considering the total number of units cleared in all types of transactions on a Power Exchange in a financial year and shall be expressed in million units (MUs)

Explanation: If a transaction of 10 MUs is cleared, the turnover considered will be 10 MUs only and not a cumulative addition of 10 MUs as buy quantity and 10 MUs as sell quantity of that transaction.

Unquote

2.3. Annual Fees Comparison

#	SEBI (Stock Exchange)	CERC (Power Exchange)	PNGRB draft amendment (Gas Exchange)
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1.	Annual Regulatory fees payable is linked to Annual turnover (which is aggregate value of transactions in Rs. Crs) (5 annual turnover slabs have been maintained) • Annual fees represent approx. ~0.00015% of the value of annual turnover ¹	Annual Registration Charges linked to annual quantity of electricity cleared in Million units (3 quantity slabs have been maintained) • Annual fees represent approx. 0.006% of the value of total trade ²	0.02% of the trade value
2.	Minimum Regulatory fees payable by a stock exchange is Rs. 1 Lacs only in the lowest slab.	Minimum Annual Registration Charges payable by a Power Exchange is Rs. 6 Lacs only in the lowest slab.	Minimum Annual charges proposed for a Gas Exchange is Rs. 50 Lacs

- (i) SEBI for each category of Annual Turnover charges a Regulatory fee which reflects around 0.00015% of the value of trades. CERC applies Annual Charges linked to quantity of electricity traded and not on the trade value (in Rs.). However, considering an average price of electricity, the annual registration charges reflect a ~0.006% of the trade value. The draft amendment for gas exchanges proposes to levy 0.02% of the trade value which is higher compared to the annual fees applicable at both the exchanges.
- (ii) The minimum annual fees applicable to stock exchanges (falling in the lowest slab of Annual Turnover i.e. Less than or equal to Rs. 10,000 Crs) is Rs. 1 Lac only. Similarly, at CERC the minimum annual fees applicable to power exchanges (falling in the lowest slab of electricity traded i.e. upto 5000 MUs) is Rs. 6 Lacs only. This fee is considerably lower compared to the proposed minimum annual fees of Rs. 50 Lacs for a gas exchange under the draft amendment.
- (iii) In fact the **maximum fees applicable to an established power exchange** as per CERC regulations (i.e. 10,000 MUs & above) is Rs. 52 lacs, which is **similar to the minimum fees proposed to be charged to a gas exchange** under the draft amendment.
- (iv) It can be seen from above that under SEBI regulations, regulatory fees for the initial period when the trades are low is Rs. 1 Lac only and fees is then gradually increased to Rs. 1 Crs. Similarly, under CERC's regulation also, the annual fees in the initial years/ trades for a power exchange is kept low at Rs. 6 Lacs and is then gradually increased to Rs. 52 Lacs, which is the highest payable annual fees by the power exchange. The principle is to not levy high fees in the initial years when exchange is in a start-up phase and markets are adapting to the new concept. Accordingly, a lower annual fee initially will support the exchange to effectively setup the platform without and will allow focussing its financial resources towards market development.

¹ Considering Annual turnover as midpoint of each turnover range

² Considering average price of power at 4.26 Rs./ kWh (as per CERC report, price of electricity transacted through Power exchanges DAM+TAM) and volumes as mid-point of each volume range

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3. Submission to Hon'ble Board on Annual charges for Gas Exchange

3.1. Based on the points above (under Pt. No 1 & 2), we humbly submit to Hon'ble board to consider one of the following two approaches for levy of annual charges.

(i) **OPTION-1: Annual charges linked to trade value**

Annual charges applicable to Gas exchange may be 0.006% of the trade value in the immediately preceding financial year at the exchange (excluding taxes and transportation and any other charges) with a floor of Rs. 5 Lacs and a ceiling of Rs. 50 Lacs.

- ✦ **Advantage:** the suggested methodology provides a linear linkage to trade value i.e. as value of trades increase, revenue to exchange and annual fees to the Board increases. This can also be correlated that as volume grow on exchange it would mean more oversight by PNGRB.
- ✦ **Disadvantage:** The trade value could increase with increase in gas prices without any increase in trade volumes. We at IGX, on our GTP, have linked our transaction fee linked to trade volume (MMBTU) rather than trade value. In such a scenario, the annual fees to Board could increase without any actual increase in trade/revenue to the exchange.

(ii) **OPTION-2: Annual charges linked to quantity of gas traded at exchange**

Annual charges applicable to Gas exchange may be as per following slabs:

- a. Annual gas traded upto 20 Mn MMBtu (1.5 mmscmd): Rs. 5 lacs
- b. Annual gas traded above 20 and up 50 Mn MMBtu (3.7 MMCMD): Rs. 20 lacs
- c. Annual gas traded above 50 and up 70 Mn MMBtu (5 MMCMD): Rs. 30 lacs
- d. Annual gas traded above 70 Mn MMBtu (5 mmscmd): Rs. 50 lacs

- ✦ **Advantage:** increase in traded quantity represent higher revenue for exchange and accordingly higher fees to the Board.

3.2. We suggest Option-2 as our preferred option for implementation as it is more relevant to a delivery-based exchange. Under Option-1, as highlighted the price of commodity could play a role in the value of trade but may not represent actual increase in trading activity at the exchange.

3.3. With regards to a standalone clearing corporation:

- The gas exchange will be performing the clearing and settlement function for foreseeable future. The proposed draft Gas Exchange Regulations (Regulation 39) also mentions that every authorised gas exchange shall use the services of authorized clearing corporation for clearing & settlement of the trades **with effect from the date specified by the Board**. It is therefore suggested that the annual fees for a standalone clearing corporation can be decided closer to such date considering relevant regulations for the operations of a standalone clearing corporation at that point in time.

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3.4. The changes in the draft amendment as per above two proposed options have been incorporated and provided as part of **Annexure-2**.

Annexure-2: Proposed changes to the draft Amendment

- Please note: ○ Proposed insertions in an existing clause are marked in *blue font* ○ Proposed deletions have been ~~strike through~~

OPTION-1: Annual Charges Linked to Trade Value

(c) in regulation 3 sub-regulation (1), the following entries would be inserted in the Table after S. No. 10, namely: -

S.No.	Activity under the provisions of the Act and the regulations framed thereunder	Amount (Rs.)
11.	Application fee for seeking authorisation under regulation 9 of the Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020: a) for a Gas Exchange with Clearing Corporation; or b) for a standalone Gas Exchange; or a) for a standalone Clearing Corporation	Rs. 50,00,000 3,00,00/- Rs. 50,00,000 3,00,00/- Rs. 20,00,000 3,00,00/-
12.	Application fee for seeking renewal of authorisation under regulation 14 of the Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020 a) for a Gas Exchange with Clearing Corporation; or b) for a standalone Gas Exchange; or e) for a standalone Clearing Corporation	Rs. 15,00,000 Rs. 15,00,000 Rs. 6,00,000

“2A. , The following annual and other charges shall be payable by a gas exchange with clearing corporation, a standalone gas exchange and a standalone clearing corporation from the financial year immediately succeeding the financial year in which authorisation has been granted to it by the Board under Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020:

S.No	Particulars	Amount (Rs.)
1.	Annual and other charges under regulation 15 of the Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020: a) for a Gas Exchange with Clearing Corporation; or b) for a standalone Gas Exchange;	Rs. 50,00,000 or 0.02% 0.006% of the trade value in the exchange (excluding taxes, transportation and any other charges) during the relevant financial year, whichever is higher. • provided further that the Annual charges payable in any given year shall not be lower than Rs. 5 Lacs and shall not be higher than Rs. 50 Lacs.

	e) for a standalone Clearing Corporation	Rs. 20,00,000 or 0.01% of the clearing value in the clearing corporation (excluding taxes) during the relevant financial year, whichever is higher.
<p>Explanation:</p> <p>1. The trade value in the exchange shall be worked out by considering only one part of the transaction (either buy or sell) and not the sum of value of buy and sell transaction cleared by the exchange during the immediately preceding financial year.</p> <p>2. The clearing value in the case of clearing corporation shall be the amount cleared i.e. the amount received or the amount disbursed and not the sum of amount received, and amount disbursed.</p>		

Option-2: Annual Charges Linked To Quantity Of Gas Traded At Exchange

(c) in regulation 3 sub-regulation (1), the following entries would be inserted in the Table after S. No. 10, namely: -

S.No.	Activity under the provisions of the Act and the regulations framed thereunder	Amount (Rs.)
11.	Application fee for seeking authorisation under regulation 9 of the Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020: c) for a Gas Exchange with Clearing Corporation; or d) for a standalone Gas Exchange; or b) for a standalone Clearing Corporation	Rs. 50,00,000 3,00,00/- Rs. 50,00,000 3,00,00/- Rs. 20,00,000 3,00,00/-
12.	Application fee for seeking renewal of authorisation under regulation 14 of the Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020 a) for a Gas Exchange with Clearing Corporation; or b) for a standalone Gas Exchange; or e) for a standalone Clearing Corporation	Rs. 15,00,000 Rs. 15,00,000 Rs. 6,00,000

“2A. , The following annual and other charges shall be payable by a gas exchange with clearing corporation, a standalone gas exchange and a standalone clearing corporation from the financial year immediately succeeding the financial year in which authorisation has been granted to it by the Board under Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020:

S.No	Particulars	Amount (Rs.)
1.	Annual and other charges under regulation 15 of the Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020:	

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<p>a) for a Gas Exchange with Clearing Corporation; or</p> <p>b) for a standalone Gas Exchange;</p>	<p>Rs. 50,00,000 or 0.02% of the trade value in the exchange (excluding taxes) during the relevant financial year, whichever is higher</p> <table border="1" data-bbox="826 389 1417 685"> <thead> <tr> <th>Annual traded quantity at Gas Exchange (in Mn MMBtu)</th> <th>Annual Registration Charge (Rs. In Lac)</th> </tr> </thead> <tbody> <tr> <td>Above 70</td> <td>50</td> </tr> <tr> <td>Above 50 and up to 70</td> <td>30</td> </tr> <tr> <td>Above 20 and up to 50</td> <td>20</td> </tr> <tr> <td>Up to 20</td> <td>5</td> </tr> </tbody> </table>	Annual traded quantity at Gas Exchange (in Mn MMBtu)	Annual Registration Charge (Rs. In Lac)	Above 70	50	Above 50 and up to 70	30	Above 20 and up to 50	20	Up to 20	5
Annual traded quantity at Gas Exchange (in Mn MMBtu)	Annual Registration Charge (Rs. In Lac)										
Above 70	50										
Above 50 and up to 70	30										
Above 20 and up to 50	20										
Up to 20	5										
<p>c) for a standalone Clearing Corporation</p>	<p>Rs. 20,00,000 or 0.01% of the clearing value in the clearing corporation (excluding taxes) during the relevant financial year, whichever is higher</p>										
<p>Explanation:</p> <p>3. The trade value in a in the exchange shall be worked out by considering only one part of the transaction (either buy or sell) and not the sum of value of buy and sell transaction.</p> <p>4. The Annual Traded quantity shall be calculated considering total number of MMBTUs cleared under all types of transaction at Gas Exchange and/ or clearing corporation in immediately preceding financial year expressed in Mn MMBtus</p> <p>5. The clearing value in the case of clearing corporation shall be the amount cleared i.e. the amount received or the amount disbursed and not the sum of amount received, and amount disbursed.</p>											

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