Prayas (Energy Group)'s Comments and Suggestion on draft UPERC (Terms and Conditions for determination of Transmission Tariff) Regulations, 2025

Prayas (Energy Group) *14th May 2025*

The Uttar Pradesh Electricity Regulatory Commission, has published the draft notification on the Transmission Tariff Regulations for the control period from 1st April 2025 to 31st March 2030 on 21st April 2025, and invited public comments on the same till 14th May, 2025.

The tariff regulations primarily aim to revise the pricing framework for intra-state transmission systems. Prayas (Energy Group) has the following comments and suggestions on the proposed tariff regulations:

1. Limitations of Composite Tariff (Pooling Mechanism):

As per MYT regulation of 2019, the long term charges were to be determined on the basis of allotted transmission capacities to all long-term transmission customers of state transmission system and short-term transmission charges were to be determined based on average capacity (MW), which was sum of generating capacities connected to transmission system and contracted capacities of other transactions handled by the system of transmission Licensees. However, the regulations also provided for both long-term and short-term charges to be computed in Rs/kWh using energy transmitted (in kWh) as the denominator. This continues to remain the practice in the state given that the exact contracted capacity of transmission users is not known. Hence, they are currently being recovered on Rs/kWh basis, leading to identical rates for all categories. This undermines two well-established principles that long term transmission charges should be recovered on the basis of contracted capacity in terms of Rs/MW/month and short-term transmission charges should be higher than long-term charges.

As per Regulation 29 of the draft Multi-Year Tariff (MYT) Regulations for Transmission, 2025, UPERC proposes to recover intra-state transmission charges through a pooling mechanism. The pooled or composite transmission charge mechanism, where the ARR of all intra-state transmission licensees is aggregated, helps simplify transaction complexities, especially in states with multiple licensees. Accurate allocation of network usage across multiple users is otherwise impractical without conducting detailed load flow studies. Under this framework, the pooled ARR of all transmission licensees in the state is combined, and their respective transmission capacities are also aggregated.

Transmission charges are then determined by dividing the pooled ARR by the total transmission capacity, and costs are allocated to users in proportion to their allocated transmission capacity.

However, pooled mechanism also means that the costs incurred by an individual transmission licensee are shared across all transmission system users, regardless of whether they are directly connected to or using that licensee's network. This can lead to socialisation, where some users may bear the cost of infrastructure they do not utilize. This has also been identified by the Commission in Conspectus of this proposed regulation.

Here, we would like to highlight that the National Electricity Policy and Tariff Policy emphasize to adopt a pricing mechanism sensitive to distance, direction and the quantum of power flow and also highlight nationwide uniformity and consistency in transmission pricing mechanism ensuring that states should also adopt a pricing mechanism similar to that at central level within two years.[1,2] It has been more than 12 years since such a framework (PoC) was implemented at the ISTS level. Further, Regulation 37 of the UPERC MYT Regulations, 2019 empowers the Commission to revise the transmission pricing framework following a detailed study and due regulatory process, considering factors such as voltage levels, distance, direction, and flow quantum, or adopt methodologies specified by the Central Electricity Regulatory Commission (CERC) at central level.[3] However, no reasonable progress has been made in this regard till date and a similar provision (Regulation 32) has been incorporated in the proposed regulation.

Further, the state transmission system is evolving with 9 transmission licensees in the state, out of which 8 are under Section 63. Also, many more transmission projects are expected to come under TBCB mode.

In light of this, we urge the Commission to initiate the process of adopting a pricing methodology sensitive to factors such as distance, direction, and the quantum of flow. The pricing mechanism will also ensure fair allocation of transmission network costs, avoids socialization/cross-subsidization, and appropriately reflects reliability and usage.

A more equitable solution would be transitioning away from postage stamp method, identifying the actual users of the transmission system through load flow studies and recover the costs based on their actual utilization. This would ensure that only the beneficiaries of the transmission system bear the costs, establishing a fairer and more accurate mechanism for transmission cost recovery. In addition, STUs should identify transmission elements and differentiate these elements based on their nature (objective) as common elements (being developed for strengthening whole state transmission network) and user specific elements. For example, if a transmission element is planned for the entire state, the associated costs should be shared by all the users of the state. Conversely, if an element is planned for a specific utility (or a city), the associated costs should be paid only by that user. We suggest that the proposed transition should be operationalized in a

period of one year of notification of these regulation. During this one year, the STU can be tasked to identify and categorize the network elements based on the objectives and develop required capacity building for load flow study. During the same period, the Commission can detail out the pricing framework, with stakeholder consultation.

2. Recovery of Transmission Charges from various users:

As per Clause 21 of the Conspectus to Draft UPERC (Multi Year Tariff for Transmission) Regulations, 2025, *"it is proposed that the transmission tariff is to be determined in Rs. / MW/month however, it would be prudent that in first phase and for smooth transition, Rs. /MW/month charges are made applicable for Distribution Licensees only and for the time being, Open Access Customers other than Distribution Licensees are continued as per earlier methodology considering energy units transmitted and denominating the transmission tariff in Rs/kWh."*

The shift from per-unit to per-MW based transmission charges is a positive development; however, the regulation lacks a defined timeline for this transition. The regulation should include a clear provision specifying the timeline for extending this transmission pricing mechanism to customers other than distribution licensees. We suggest that the transition should be done within a period of one year. Further, it is suggested that open access consumers be categorized as either long-term or short-term, with charges being applied based on the nature of their agreements (short-term and long-term). Long-term open access consumers (such as railways) should be charged similarly to long-term consumers such as distribution licensees on the basis of their contribution in peak demand with immediate effect, while short-term consumers should be charged on a per-unit basis at a higher rate than long-term charges.

3. Accounting for Revenue from short-term transmission charges:

The mechanism for adjusting revenue from short-term transmission charges within the Aggregate Revenue Requirement (ARR) is currently unclear. However, after reviewing the true-up order, we have observed that the revenue from open access is being adjusted during the true-up process.

Few SERCs, in their respective tariff regulation, mention that projected revenue from short-term transmission charges, based on audited figures, is deducted from the ARR to reduce the transmission charges for long-term consumers. For e.g., GERC is following this approach in its MYT Regulations, 2024 under Regulation 68.1, which is reproduced below:

"68.1 Aggregate Revenue Requirement of a transmission licensee shall comprise the following components, viz.

…… minus:

(f) Non-Tariff Income;

(g) Revenue from short-term transmission charges projected on the basis of latest audited figures; and

(h) Income from Other Business, to the extent specified in these Regulations.

……" (emphasis added)

It is suggested that the proposed regulation also include a specific provision explicitly outlining the treatment of revenue from short-term charges.

4. TBCB Threshold

Clause 6.1 of the UPERC (Modalities of Tariff Determination) Regulations, 2023 specifies that *"…. All new greenfield intra-State transmission projects of 220 kV & above voltage level, being part of the STU Transmission Plan, shall be implemented through Tariff Based Competitive Bidding (TBCB) in accordance with the guidelines issued under Section 63 of the Act and any deviation from the guidelines should have prior approval of the Commission. The tariff of such intra-State transmission projects shall be discovered under Section 63 of the Act."*[4]

The threshold for TBCB projects in the state has been defined based solely on voltage levels. However, we suggest that the threshold for TBCB should consider both voltage and project cost and should be specified in MYT regulations itself. Specifically, all projects with voltage levels above 220 kV and projects below 220 kV with a cost exceeding Rs. 200 crores should be implemented through TBCB.

Additionally, we propose the formation of an empowered committee (similar to the one formulated by APERC)[5] appointed by the state government. This committee would be responsible for evaluating the cost of transmission projects and determining the appropriate mode of implementation (TBCB or RTM). Establishing such a body would enhance transparency and facilitate more effective implementation of the TBCB framework. Moreover, it would serve as a platform to address issues and challenges in the development of transmission projects within the state.

5. Clarity about Asset Monetization Studies

Conspectus states that "*Asset monetization is crucial for a Transmission Licensee as it may help in improving profitability, cash flow, and support in operational efficiency. The Commission has directed the Transmission Licensees to* ***undertake an asset monetization study within six months*** *of the notification of the final Regulations as it may help unlock new revenue streams for Transmission Licensees."*

This is a step in right direction. Considering GFA of UPPTCL is around ₹12,000 crores as on 31st March 2023[6], this step can open up new sources of capital for transmission licensees in the state.

However, we suggest that this should be a comprehensive study and should capture aspects like assessment of monetization potential, identification of transmission assets which can be monetized, implementation phases of monetization, etc. The study should be placed in the public domain for consultation after it is submitted to UPERC. After due public consultation on the study, the Commission should propose a draft framework or guidelines to operationalise such monetization of assets.

6. Reconsider need of Modalities of Tariff Regulation 2023

Clause 4(1) of the regulation states that "... Regulation 7.2 of the UPERC (Modalities of Tariff) Regulations, 2023 shall stand superseded."

The Modalities of Tariff Regulation 2023 broadly deals with power procurement by DISCOMs under section 62 & 63, STU transmission plan and tariff determination for Sec 62 and 63 transmission projects. However, with separation of Tariff regulations for Distribution and Transmission, there will be no need of separate modalities regulation.

To avoid ambiguity, we suggest that business specific provisions related to generation, transmission, and distribution be incorporated into their respective tariff regulations rather than within the Modalities of Tariff Regulations.

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[1] National Electricity Policy, 2005; (Clause 5.3.5)
https://powermin.gov.in/en/content/national-electricity-policy
[2] Tariff Policy, 2006; (Section 7.1)
https://cea.nic.in/wp-content/uploads/legal_affairs/2020/09/Tariff%20policy.pdf
[3]UPERC: MYT (Distribution and Transmission) Regulations, 2019
https://www.uperc.org/App_File/NotifiedMultiYearTariffforDistributionAndTransmissionRegulations2019-pdf1121201942418PM.pdf
[4] UPERC (Modalities of Tariff Determination) Regulations, 2023
https://www.uperc.org/Notified_User.aspx
[5] https://aperc.gov.in/admin/upload/Regulation5of2024gazette.pdf
[6] UPPTCL True up order for FY 2022-23, APR for FY 2023-24 and ARR for FY 2024-25,
https://www.uperc.org/App_File/TariffOrderPetition2044of2023(UPPTCL)-PDF1010202461542PM.pdf