New CERC regulations mildly credit positive for Transcos

July 21, 2020 I Ratings

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The tariff mechanism for the Inter-State Transmission System (ISTS) projects with Power Grid Corporation of India Limited (PGCIL; rated 'CARE AAA; Stable / CARE A1+') as a pool operator has built up a track record of efficient payment security mechanism delivering high collection efficiency. However, in order to simplify the pricing structure and to improve the sharing of inter-state transmission charges and make it more sensitive to distance, direction and quantum of flow, Central Electricity Regulatory Commission (CERC) in May 2020 notified revised regulations on sharing of transmission charges and losses. (CERC-Sharing of Inter-State Transmission Charges and Losses Regulations, 2020).

In CARE Ratings opinion, the new guidelines are mildly credit positive for the operational and under-construction transmission assets, bring in more clarity on the process of clearing of bills, encourage better grid discipline and partly mitigate the counter party credit risk.

The new regulations will apply to all Designated Inter State Transmission System Customers (DICs; mainly Discoms), ISTS licensees (Transcos), National Load Despatch Centre, Regional Load Despatch Centres, State Load Despatch Centres and Regional Power Committees with the basic principle of sharing of transmission charges amongst the DICs and ensuring that the Yearly Transmission Charges (YTC) of the pool are fully recovered.

After 2010, the power sector in India has witnessed significant changes with rapid growth in generation and transmission infrastructure. The power deficit in India is on a declining trend and has fallen from 11.07% as at end of FY09 (refers to period April 1st, 2008 to March 31st 2009) to 0.40% by the end of FY20. As per Central Electricity Authority, the ISTS pool has grown from YTC of around Rs.9,000 crore in FY12 to Rs.42,000 crore in FY20, with increase in the number of ISTS licensees from thirty four as at the end of FY14 to fifty seven as at the end of FY19 and the number of DICs from fifty eight as at the end of FY13 to one hundred and twenty five as at the end of FY19. Furthermore, investments to the tune of Rs.260,000 crore are lined up till end of FY22 for envisaged addition of 100,000 circuit kilometres of transmission lines and over 290,000 MVA of transformation capacity.

The new guidelines aim to ensure proper allocation of the transmission charges to various participants with introduction of granularity in charges, improve grid discipline through precise forecasting, fine-tune the tariff mechanism, rationale charges in cases of delays, incentivise timely completion of systems, better cost allocation of systems critical to the grid, instil a level playing field and bring in more transparency in billing and collection.

Furthermore, the new guidelines are also expected to improve payment security mechanism. Under the previous guidelines, ISTS licensees had a payment security mechanism with the state Discoms in the form of Letters of Credit (LC) backed by the Tri-Partite Agreements (TPA). As per the TPA, the Discoms were required to establish LC covering 105% of the average monthly billing of the ISTS licensee over previous twelve months. The TPA is signed amongst Government of India (GoI), Reserve Bank of India and the individual state governments which provides that if there is any default in payment of current dues by any state Discom, the outstanding dues beyond ninety days can be deducted from the respective state's RBI account and paid to the Central Transmission Utility (CTU) or ISTS licensees.

The TPA has been signed by twenty nine states/union territories (UT), and the matter is being pursued with the remaining states/ UT. Meanwhile, under the new guidelines, in case of absence of TPA, the Discom shall open the LC for an amount of 210% of the average monthly billing. However, letter of credit has not been effective as payment security mechanism, as most of the Discoms are grappling with precarious financial health position.

The summary of impact on Transcos is tabulated below:

Sr. No.	Point of difference	Impact on Transco
1.	Increase in letter of credit coverage in absence of tripartite agreement	Neutral to Positive
2.	Fixing up of charges in case of delay in commissioning of upstream / downstream system	Positive
3.	Clearing of bills on FIFO basis	Positive
4.	Treatment of delay in commissioning of transmission system	Positive
5.	Inclusion of lines up to 110 kV in basic network	Positive
6.	Treatment of delay in commissioning of generating station	Neutral
7.	Apportionment of transmission losses entirely to Discoms	Neutral
8.	Breakup of YTC into four components	Neutral
9.	Start-up power for generating system	Positive
10.	Increase in reliability support charge from 10% to 30% for HVDC lines	Neutral
11.	Part operationalization of transmission system	Negative
12.	Tightening of transmission deviation	Better grid discipline
13.	Shift in method of pricing from projection based to actual scenario based pricing	Better grid discipline

While analyzing the power transmission projects, CARE Ratings focuses on evaluating the following risk parameters for arriving at the rating. The below table indicates the extent to which the below risks are mitigated with the introduction of the new policy:

Risk	Extent of risk mitigated through the new policy	
Project Risk	Relaxation in case of delay in commissioning of transmission system	
Pre-construction Risk	No Impact	
Construction Risk	Ahead of schedule projects: On schedule projects: Behind schedule projects:	No Impact No Impact If the transmission licensee is able to make alternate arrangements for dispatch of power, it will not be liable to pay any charges to the generator
Industry Risk	Rational allocation of transmission charges through introduction of granularity in charges and emphasis on level playing field is expected to improve credit profile of inter-state transmission projects and promote healthy competition within the industry.	
Management Risk	No Impact	
Operational Risk	Partial mitigation of counter party credit risk	
Demand and supply risk	No Impact	
O&M risk	No Impact	
Counter party credit risk	Increase in payment security of transmission charges with increase in amount of letter of credit in absence of tripartite agreement is expected to curtail the counter party credit risk to an extent	
Financial Risk	No Impact	

Though the power transmission systems are the backbone of the entire power system, the allocation of transmission charges and losses is a critical issue worldwide. Furthermore, the Indian electricity market is mired with the weak financial health of the state Discoms and hence it is important to ensure an efficient payment security mechanism for timely payment of transmission charges to the transmission system developers.

Annexure

Detailed impact analysis is tabulated below:

Point of difference	Old guidelines – 2010	New guidelines – 2020	Impact of changes
1. Letter of credit	Payment security mechanism shall be governed as per TSA (Generally 1.05x or 1.10x of monthly transmission charges)	In case tripartite agreement with the Government of India for arrears exists, the Letter of Credit (LC) shall be for 1.05x of the average amount of the first bill of a year. Provided that where such tripartite agreement does not exist, the Discom shall open the LC for an amount of 2.10x.	Increased payment security of transmission charges for the transmission licensees. However, letter of credit has not been effective as payment security mechanism, as most of the Discoms are grappling with liquidity issues and COVID pandemic has further deteriorated health of Discoms.
2. New clause inserted	-	In case of a transmission system where COD has been approved or where deemed COD has been declared, the Yearly Transmission Charges for the transmission system shall be: (a) paid by the inter-State transmission licensee whose transmission system is delayed till its transmission system achieves COD, or (b) paid by the generating company whose generating station is delayed, till the generating station achieves COD, or (c) Shared in the manner as decided by the Commission on case to case basis, where more than one inter-State transmission licensee is involved or both transmission system and generating station are delayed.	It will ensure level playing field and also ensure that when a transmission licensee has achieved COD for its transmission elements but is prevented from putting it to use due to non-availability of upstream / downstream system (like a substation or a generating switchyard), it is not liable to bear the transmission charges for the system till the period of delay in commissioning by other transmission licensee or generating company or both.
3. New clause inserted	-	The charges collected shall be first adjusted towards late payment surcharge (LPS) on the outstanding transmission charges and thereafter towards outstanding transmission charges, starting from the longest overdue bill.	This will lead to increased transparency as clearing of bills on FIFO basis with priority on LPS.
4. Treatment of delay in commissioning of transmission system	Treatment for delay in commissioning of transmission line to be governed as per TSA (Generally transmission licensee was liable to pay 3.33%-5% of monthly transmission charges per day up to 6 months of delay. Delay beyond 6 months is considered as transmission licensee's default and TSA could be terminated on that account).	In case a generating station has achieved COD and the transmission line is delayed, the concerned transmission licensee shall make alternate arrangement at its own cost for despatch of power of the generating station. Until such an alternative arrangement is made, the transmission licensee will have to pay the charges proportionate to LTA to the transmission system that is delayed.	If the transmission licensee is able to make alternate arrangements for dispatch of power, it would not be liable to pay any charges to the generator. Risk of Termination of license would be mitigated if concerned transmission licensee makes alternate arrangement at its own cost.
5. Basic Network	Includes power system of the country at voltage level 132 kV and above and 110 kV where generators are connected.	Includes power system of the country at voltage level 110 kV and above.	This would expand the ISTS network.
6. Treatment of delay in	In case the commissioning of a generating	• Where COD of a generating station is delayed and the	Increase in liability of generators in case of delay in

	commissioning of generating station	station or unit thereof is delayed, the generator shall be liable to pay Withdrawal Charges corresponding to its Long term Access (LTA) from the date the LTA granted by CTU becomes effective.	Associated Transmission System has achieved COD (which is not earlier than its SCOD), the generating station shall be liable to pay Yearly Transmission Charges. • However, where LTA is granted to a generating station on existing margins (i.e., no additional investment is required) and COD of the generating station is delayed, the generating station shall pay 10% of the applicable transmission charges. This is because the existing system is allocated to such generator from a specific date which may lead to construction of new elements for Applicants who apply for LTA post this generator. Hence, to ensure that generating stations apply for date of start of Access prudently and other entities do not suffer, it is proposed to levy 10% transmission charge to the generator for the period of delay of the generating station.	commissioning of the unit where the LTA was granted on existing margins.
7.	Transmission Losses	Transmission losses were determined for generating station as well as Discoms.	Transmission losses are apportioned only to Discoms.	No Impact on any entity as even if the Gencos used to pay for transmission losses earlier, the same was recovered through energy charge and was ultimately paid by Discoms.
8.	Components of Yearly Transmission Charge (YTC)	One part tariff	YTC is divided in 4 components, viz., National component, Regional component, transformer component and AC system component.	Division in four parts is to ensure that, if some part or element has been planned keeping in view the entire grid, the tariff of same should be shared by all the Discoms of the grid. However, if they are planned for the benefit of a particular region, same should be shared by Discoms of that particular region only. This will lead to better allocation of the transmission charges.
9.	Start-up power	When a generating station draws start-up power or injects infirm power before commencement of LTA, withdrawal or injection charges corresponding to the actual injection or withdrawal shall be payable by the generating station	Generating stations drawing start-up power from ISTS shall pay transmission charges at the rate of Transmission Deviation Rate for the state in which they are located.	Generators are now ought to pay more (i.e., 1.05x of transmission charges) for drawl of start-up power.
10.	Clause removed	Reliability Support Charge at the rate of 10% of PoC charge to be levied	This clause has been removed.	This is now impacted through increase in reliability charge of HVDC system which is apportioned to all

			Discoms as HVDC systems are planned keeping in view the entire grid.
11. Part operationalization	Where the operationalization of LTA is contingent upon commissioning of several transmission lines or elements and only some of the transmission lines or elements have been declared commercial, the generator shall pay the transmission charges for LTA operationalized corresponding to the transmission system commissioned.	• Where operationalization of LTA is contingent upon COD of Associated Transmission System consisting of several transmission elements and only some of the transmission elements have achieved COD, the generating station may seek part operationalization of LTA. The Yearly Transmission Charges for such transmission elements shall be billed to Discoms as per the Regulations. Provided that for cases not covered above, when only some of the elements of the Associated Transmission System have achieved COD and if such transmission system is certified by the respective Regional Power Committee for improving the performance, safety and security of the grid, such transmission system shall be included in YTC to be billed to the Discoms as per the regulations. • Similarly, if any transmission element of the Associated Transmission System is required by the generating station prior to COD of the Associated Transmission System, the Yearly Transmission Charges for such transmission element shall be payable by the generating station from the COD of the said transmission element of the Associated Transmission System till the generating station achieves COD.	As per new guidelines, when only some of the transmission elements have achieved COD till the COD of ATS, CTU should operationalize LTA partly only when LTA Customer seeks such part operationalization up to its transmission capacity and the YTC pertaining to those elements shall be billed to Discoms as per the regulations. However, if such elements are certified by regional power committee as required for improving the performance, safety and security of the grid security, such elements shall be included in ISTS pool and billed to Discoms even if LTA customer has not sought full or part operationalization.
12. Transmission deviation	No additional charges for deviation to the extent of 20%, beyond which the transmission charges were to be paid at 1.25x.	Any transmission deviation shall be payable at 1.05x of the transmission charges.	This will ensure a better grid discipline as any deviation would attract higher transmission charges.
13. Method of pricing	Ex-ante (i.e., based on projected scenario)	Ex-post (i.e., based on actual scenario)	Under the old guidelines, the states were able to project lower load and higher generation (which led to lower transmission charge), as there was no penalty for incorrect projections. Hence, now the transmission charges would be computed based on actual load scenario.