

INTRODUCTION

With the approval of the Prime Minister the Planning Commission in July 2010 appointed a High Level Panel to look into the financial problems of SEBs and identify corrective steps. The Terms of Reference (ToR) of the Committee are at **Annexure– I**.

The composition of the High Level Panel is as follows :-

(i)	Shri V.K. Shunglu, former CAG	-	Chairman
(ii)	Shri S.K. Tuteja	-	Member
(iii)	CMD/PFC	-	Member
(iv)	CMD/REC	-	Member
(v)	Member (E&C), CEA, representative of CEA-	-	Member
(vi)	Pr. Advisor (Energy), Planning Commission	-	Convener
(vii)	Secretary (P), Govt. of West Bengal	-	Member
(viii)	Managing Director, MSEDCL	-	Member
(ix)	Managing Director, APGENCO	-	Member

It would be recalled that the Electricity Act in its present form was enacted in 2003. An important change envisaged in the Act i.e. separation of three interlinked activities namely generation, transmission and distribution was to take place in all the States. This part has by and large been completed by 10th June 2010 with the exception of Bihar, Jharkhand, Kerala and those States where supply of electricity has not been corporatized. It was expected that considerable gains would result from this separation. It is observed that even though the separation has taken place it is only in the form and not in substance. The ownership, the maintenance, the financial well being and the cash flow in particular are so interlinked that it cannot be said that there is separation in any real sense of the word. This is so across all the States. The inefficiencies of generation and transmission are passed on at cost plus basis to the distribution companies which have no choice but to procure power from State generating units through State transmission lines for the purposes of distribution. Thus a second element of the amendments carried out in 2003, Open Access, in its broadest sense, remains a dead letter. It would not be wrong to say that between 2003 and the present time, very little has changed and therefore problems remain as they were. No doubt certain States have made progress in reducing T&D losses and so on and their financial position as a result is much better as reflected in the balance sheet of the Distribution Utilities. However, these gains are not connected in any meaningful manner to the structural change and in fact what seems to have happened is that the improvements

have taken place in power sector of a particular State which shows up in the result of the Distribution Utilities. Some changes, e.g., emergence of truly autonomous State Load Dispatch Centers are, at best, in infancy.

In this background in order to better understand the ills of electricity sector a number of studies were mounted by the High Level Panel. The performance of generation and transmission sectors has been ignored as being outside the terms of reference. It is generally assumed that ills of generation and transmission are subsumed in the distribution sector and hence it is this sector which has been the focus of the study.

The problems faced by Distribution Utilities are, some times, laid at the door of the Regulator. It is stated that periodic tariff increases to meet ever increasing costs have not taken place and therefore Discoms are unable to cover costs from tariff. Alternatively the cost of generation keeps increasing without there being a concomitant increase in tariffs. In order to better understand issues connected with fixation of tariff and the regulatory regime, which commenced about 15 years back and which is now operational in all the States, was studied. The study connected with issues covered by ToR(c) was led by Mr. Divakar Dev, erstwhile Chairman of Uttarakhand Electricity Regulatory Commission.

It has also been argued that it is not appropriate to expect tariffs to pay for operational inefficiencies and with T&D losses standing at around 30% or more, it is wrong to blame tariff per se for these problems. At present the Central Govt. has two schemes to address this issue. For urban areas Power Finance Corporation Ltd. (PFCL) is the nodal agency to implement the Restructured – Accelerated Power Development and Reform Programme (R-APDRP) scheme which covers 1400 towns with population of over 30,000 (2001 census) accounting for 40% of the energy consumed. Besides rural electrification is being administered by the Rural Electrification Corporation Ltd. (RECL) through Rajiv Gandhi Gramin Vidyutikaran Yojna (RGGVY). The High Level Panel engaged Mr. R.K. Narayan (retired Chairman, Powegrid) who has long years of experience in the electricity sector including transmission and distribution for these issues [ToR (d), (e) and (f)]. The operations of the two schemes have been studied and a number of measures for further improvements recommended.

There are some who suggest that so long as ownership of distribution is in the public sector the kind of improvements required to accomplish break-even / profits cannot take place. In other words efficiency may well be a function of ownership. In order to address this issue, the four models operational at present were studied namely Public Ownership (Jaipur Vidyut Vitran Nigam Ltd., Jaipur); Private ownership (BSES Ltd., Mumbai); Public Private Partnership (NDPL, Delhi); and Franchisee Model (Torrent Power, Bhiwandi). The study report is appended at **Annexure – VI** and its conclusions are discussed in our report.

Having said all this it may be noted that a true and fair picture of the electricity sector is simply not available because accounts have been in arrears, books of accounts have not been maintained, a number of statements made as part of the accounts are inaccurate and it cannot be said that reliable information is provided by the Distribution Utilities as to reflect the true state of affairs based on annual financial statements which they are expected to publish. A diagnostic study was mounted in those States (Uttar Pradesh, Bihar, Chhatisgarh and Jharkhand) where the problems are particularly acute. The results of the diagnostic study are appended in the form of a report at **Annexure – III & IV**. Additionally efforts were mounted by the Panel to facilitate completion of accounts of all Distribution Utilities upto the financial year ending 31st March 2010. Most of the work in relation to Chapter – I was the responsibility of Shri K.N. Khandelwal, Former Dy. CAG and Shri Sachin Jain, Chartered Accountant.

Accounts for all the States have been audited upto that date with the exception of Bihar, Jharkhand and Uttar Pradesh. In other words accounts are available for all States and for most States audited accounts are available. However, the diagnostic studies undertaken by the panel elucidate that the quality of accounts is seriously in-question and that it would be inappropriate to draw firm conclusions on the basis of accounts in particular as to the health of the Distribution Utilities. The Report addresses these problems at the appropriate place. These efforts cover issues encompassed by ToR (a) and (b). It should be noted that the studies were not restrictive, there is some overlap and ToR (g) was the concern of all studies.

The HLP was assisted by a number of individuals and institutions listed in the **Annexure- II**.

States visited for assignments related to HLP

HLP officials visited Uttarakhand, Madhya Pradesh, West Bengal, Gujarat, Maharashtra, Punjab, Haryana, Meghalaya, Assam, Uttar Pradesh, Delhi, Rajasthan, Andhra Pradesh, Tamil Nadu, Karnataka, Bihar, Jharkhand and Chhatisgarh. Discussions were held with the Secretary (Power) of the States and Chairpersons / Managing Directors / officials of the utilities to gauge the problems in the power sector and steps required to be taken for possible solutions.

Meetings held for assignments related to HLP

The Panel held discussions with various stakeholders in power sector for accomplishing the task assigned to HLP. The meetings were held with Ministry of Power, CERC, SERCs, Forum of Regulators, Discoms, Franchisees (SPANCO, Nagpur and Torrent, Bhiwandi & Agra), NDPL, Banks/FIs and Private Equity Funds (to assess the climate of investment viz-a-viz Franchisee Model). The Panel also held discussions with the Planning Commission and exchanged views on the various actions required to be taken for financial viability of the power sector.

We express our sincere thanks to Chairman & Managing Director, Power Finance Corporation Ltd. (PFC) for administrative and functional support provided to the Panel and also to the Board of Directors, PFC for extending financial assistance for accomplishing the tasks assigned to it.

The report is organized in the chronological order as the Terms of Reference.

Terms of Reference	
Chapter - I	(a) Review accounts of SEBs' and State Distribution Companies as on March 31, 2010 or earlier if updated accounts for the year ended March 31, 2010 are not available.
-	(b) Review their Financial Position as on March 31, 2010, and in particular, losses incurred and projected distribution losses over the period April 2010 to March 2017.
Chapter - II	(c) Review Electricity Tariff including the role of (i) State Governments; (ii) State Tariff Regulator; and (iii) SEBs' /State Distribution Companies in periodic tariff revision.

Terms of Reference

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| Chapter – III | (d) Assess system improvement measures accomplished in distribution of power, in particular, in urban areas as well as future needs / plans.
(e) Examine geographical and spatial compulsion and determine their operational impact.
(f) Review organizational and managerial structure, manpower, employed and future requirements / plans. |
| Chapter-IV | (g) To recommend plan of action to achieve financial viability in distribution of power by 2017. |