

PRESS NOTE FOR SHUNGLU COMMITTEE REPORT

The Planning Commission had appointed a High Level Panel headed by Shri V.K. Shunglu, former Comptroller & Auditor General in July, 2010 to look into the financial problems of State Electricity Boards and to identify corrective steps. The terms of reference of this Committee included reviewing the accounts of State Electricity Boards and State Distribution Companies as on March, 2010 and to project their losses by 2017, reviewing the electricity tariff and also examining the role of the State Governments, Electricity Regulatory Commissions and Distribution Companies, assessing system improvement measures accomplished in distribution of power etc. and finally, to recommend a plan of action to achieve financial viability in distribution of power by 2017.

The Shunglu Committee presented its Report to the Deputy Chairman, Planning Commission on 15th December, 2011. The salient features of the Report are as follows:

- The accumulated losses for the preceding 5 years is Rs.1,79,000 crore before subsidy and Rs. 82,000 crore after subsidy. For the year 2009-10 alone, the financial loss of all distribution companies is Rs.57,000 crore before subsidy and about Rs.27,000 crore after subsidy.
- These losses are primarily on account of poor managerial and operational practices of distribution companies compounded by irrational tariffs fixed by regulators.
- The Panel has recommended that the State Electricity Regulatory Commissions should be made independent financially as well as in their functioning. Selection of Chairman and Members of Electricity Regulatory Commissions needs to be fine tuned and further, their functioning should be scrutinized by an Expert Group in order to determine to what extent the Commissions have discharged their statutory duties like timely and regular revision of tariffs.
- The Panel has suggested that in areas where losses are high, a loss surcharge should be imposed over and above the basic tariff.
- Losses of Discoms have been financed by commercial banks substantially and a large part of such loans have been guaranteed by the State Governments. The Report has suggested that subject to the State Government and its utilities agreeing to and implementing a set of measures listed in the action plan, these loans could be suitably rescheduled. In case of failure to meet the rescheduled obligations, such assets should be taken away from the banks and placed with the Special Purpose Vehicle (SPV) to be set up for the purpose. The SPV should be owned by the Reserve Bank of India and shall be empowered to suitably deal with the defaulting utilities/State Governments including debiting of State Government accounts.
- Some other important recommendations include introducing input based franchise models in about 255 more towns as listed in the Report, cautious use of Section 108 of the Electricity Act, 2003 relating to issue of Policy directions and proper energy accounting of all consumers.

Annexure - I

Most Immediate

F. No. 1-22/2/32/2010-P&E
Planning Commission
(Power & Energy Division)

Yojana Bhavan,
Sansad Marg,
New Delhi-110 001.

Dated 28-07-2010

OFFICE MEMORANDUM

Subject: High Level Panel on financial position of distribution utilities.

Prime Minister has approved a High Level Panel on 'Financial Position of Distribution Utilities' to look into the financial problems of the SEBs and to identify potential corrective steps particularly in relation to their accounting practices.

2. The composition of the above High Level Panel will be as follows.

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| (i) Shri V.K. Shunglu, former CAG | - Chairman |
| (ii) Shri S.K. Tuteja | - Member |
| (iii) CMD/REC | - Member |
| (iv) CMD/PFC | - Member |
| (v) Chairman, CEA or his representative | - Member |
| (vi) Three representatives from SEBs/Discoms | - Members |
| (vii) Pr. Adviser (Energy), Planning Commission | - Convenor |

3. The Terms of Reference of the Committee will be :

- 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.
- 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.
- Review Electricity Tariff including the role of (i) State Governments; (ii) State Tariff Regulator; and (iii) SEBs'/State Distribution Companies in periodic tariff revision,
- Assess system improvement measures accomplished in distribution of Power, in particular/in urban areas as well as future needs/ plans.
- Examine geographical and spatial compulsions and determine their operational impact.
- Review organizational and managerial structure, manpower employed and future requirements / plans.

(g) To recommend plan of action to achieve financial viability in distribution of power by 2017.

4. The above Panel will submit its report prior to the commencement of the preparation of the Twelfth Plan. i.e. by 28th February, 2011.

5. Administrative and functional support will be provided by the Power Finance Corporation.



(R.K. Kaul)
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1. Shri V.K. Shunglu, former CAG
2. Shri S.K. Tuteja
3. Secretary, Ministry of Power, Shram Shakti Bhavan, Rafi Marg, New Delhi.
4. Chairman, Central Electricity Authority, Sewa Bhavan, R.K.Puram, New Delhi-66
5. CMD, Power Finance Corporation Ltd., Urjanidhi, 1, Barakhamba Lane, Connaught Place, New Delhi-110001.
6. CMD, Rural Electrification Corporation Ltd., Scope Complex, Core No.4., Lodhi Road, New Delhi-110003

Copy forwarded for information to:

1. PS to Deputy Chairman
2. PS to Member (BKC)
3. PS to Member Secretary
4. PS to Principal Adviser (Energy)