

**MINUTES OF THE 6<sup>TH</sup> STATE ADVISORY COMMITTEE MEETING HELD  
ON 20.12.2005 at 11.00 HOURS AT COMMISSION'S OFFICE**

1. Dr. Pramod Deo, Chairman, MERC welcomed the members of the State Advisory Committee. He pointed out that the agenda for the meeting intends to discuss the advice proposed to be given by the Commission to the Government of Maharashtra on Rural Electrification Policy under Section 86(2) of the EA 2003. The draft paper on advice and technical report prepared by the consultants in this regard has already been circulated to the members of the SAC.
2. During the meeting first, presentation was made by Shri Subodh Wagle of Prayas.
3. Shri.Wagle submitted that the objective behind Prayas presentation is to share their concerns and make a few suggestions. Prayas highlighted following points in their presentation.
  - i) The Report outlines certain implicit and explicit assumptions. One such explicit assumption as stated in the Report is that the conventional size big utilities have significant disincentives for giving good service to rural consumers.
  - ii) The Report does not adequately cover aspects such as interest of consumers, other critical aspects such as transparency and accountability etc. Further, the implicit assumption in the Report is that once the health of franchisee is insured and some safeguards are introduced then, the interest of whole sector and consumers would be taken care of.
  - iii) In addition, Prayas cautioned that it needs to be checked whether finding of single study of Mula Pravara provides adequate basis for statewide implementation of franchisee.
  - iv) He further observed that, the reforms experienced till now shows that any kind of dramatic structural changes are attractive, however, the same need to have reality check. As such creation of another 'behemoth' organization solely for Rural Electrification may not be advisable. Based on past experiences of reforms, he claimed that such innovations when implanted at field level, the social, cultural, political, institutional and procedural issues affect its performance. In view of this, he opined that more balanced assessment of franchisee option is necessary with respect to 'institutional aspect' and adequacy of the same. He further claimed that local co-operative or Panchayat Raj Institution, which is intended to have local involvement, is actually hijacked by local, powerful, economic and political sections. He feared that this would lead to non-transparent and un-accountable behavior of franchisee citing an example of Water Users Association in Marathwada.
  - v) He also expressed concern regarding reliance on contractual arrangement envisaged under Franchisee option.
  - vi) He also expressed concern that under new structure, with circle level franchises (20 to 29) and under each circle having village level franchisee (around 100), it is not clear how 'accountability' and control be established. He feared that, un-established and un-clear conduits for accountability, its reliability and feasibility thereof, would be a main problem that needs to be addressed upfront.

In view of above, Prayas made following key suggestions:

- a) Analytical foundation of the advice should be further strengthened by conducting various studies on franchisee model as well as exploring other neglected options.
  - b) If franchisee-REAM option is unavoidable then, proper precaution should be taken as regards roll out, with limited experimentation to cover one/two village level franchisee, one taluka level franchisee and one circle level franchisee to begin with. A care should be taken to involve only local institutions with demonstrated track record of efficient management.
  - c) Whatever design or contractual arrangement is adopted, there should be in-built mechanism and automatic process for review at specified time intervals. The review should not be left to the discretion of any political entity or any bureaucratic entity.
  - d) Further, State-wide debate should be conducted before finalizing the advice to the Government.
4. Chairman, MERC pointed out that the Ministry of Power has come up with a draft National Rural Electrification Policy. The model proposed in this policy is different than what has been proposed in the technical report prepared by the Commission.
  5. Shri Anish De, Ernst & Young presented draft policy document prepared by them for MERC and draft National Rural Policy circulated by the Government of India.
  6. Dr. Anil K. Rajvanshi, Nimbkar Agricultural Research Institute (NARI) submitted that the major issue to be addressed is the non-availability of electricity in rural areas, and the need to provide the same. Since electricity is like any other consumable item/commodity, we need to look at market forces to make more electricity available in rural areas. He suggested that the Commission may provide necessary mechanism whereby private sector players/licenseses such as TPC and REL will be able to take up rural electrification. He stressed the necessity to create a new model, which would enable participation of both private sector and local community. He also suggested that the Commission may conduct public awareness campaign by carrying out debate with various stakeholders.
  7. According to Shri. Prabhakar Kukde, Executive Director Tata Power Company (TPC), the issues related to rural electrification pertains to both - commercial aspects and quality of supply. As far as commercial issues are concerned, cost of supply in rural areas is very high as compared to urban areas. The gap between the cost of supply and cost realized through tariff is as high as 300% in some cases. This gap between cost of supply and cost realized through tariff is the real issue. As regards quality of supply, he submitted that quality and reliability of supply continues to be poor. Although the consumers in rural areas express willingness to pay higher tariffs if quality and reliability of supply is improved, in reality this has not been the case in the past, due to several socio- economic reasons. For the distribution licensee, both issues are important as it has to run its distribution business on commercial grounds and at the same time, it has to ensure quality and reliability of supply. Naturally, for distribution companies, priority consumers would be HT industrial and commercial consumers, and least priority is accorded to rural consumers.

8. Shri. Prabhakar Kukde, ED – TPC also submitted that in the initial cases, the existing infrastructure should be transferred to the franchisees in consultation with the existing distribution licensee. Once experience is gained in a few cases, the future course of action may be decided. The draft Rural Electrification Policy prepared by the MERC is a great endeavor in this direction. He, however, expressed doubts over the draft policy circulated by the Central Government as new policy covers mere combinations of existing policies.
9. Chairman, MERC pointed out that Dr. Anil Rajvanshi has been suggesting that TPC/REL should take up few rural areas for franchisee development. Would TPC be interested in taking up franchisee operation in some areas? He further pointed out that Dr. Rajvanshi has been suggesting this in view of the technical and managerial competence available with TPC.
10. Dr N D Patil queried about the nature of franchisee operation contemplated, which would deliver the goods. Mr. Kukde pointed out that the franchisee needs to ensure that not only the commercial role is fulfilled but also quality and reliability of supply is maintained. Franchisee has to provide better services than those provided by the licensee. He further opined that franchisee couldn't develop own generation capacity as franchisee is not a licensee.
11. The Commission opined that in the model discussed in the draft policy document, the franchisee can set up decentralized generation. Further, distribution assets, could be given on lease. Even the draft National Policy has endorsed this mechanism. At the same time, giving the instance of Mula Pravara, the Commission pointed out that the problem being faced by Mula-Pravara is that they do not want to become franchisee as they fear assets will be taken over by MahaDiscom.
12. Shri N D Patil, Maharashtra Rajya Veej Grahak Shetkari Sabha pointed out that the issue as to who could be the franchisee, still remains. When we already have other government bodies such as Gram Panchayats, Panchayat samitis and Zilla Parishads, it is not clear what purpose would be served by newly appointed district committees by Government. This issue needs to be addressed.
13. Dr. N. D. Patil questioned the ability of the Zilla Parishads to undertake this task as they are not able to do justice to their functions within their own jurisdiction. They are not able to provide adequate teachers, doctors for health centers etc. As regards cooperative sugar factories as a possible institution, he added, more than 50% of them are sick. Sugar factories themselves are not in a position to pay sugarcane prices to their members. He felt that existing arrangement is far better than involving sugar cooperatives as franchisee.
14. He further stated that with load shedding increasing to more than 12 hours, crops are in danger. Further, voltage is usually very low whenever electricity is available causing damages to pump sets. Irrigation schemes are designed for more than 12 hours of operation and electricity being available for less than 12 hours is going to put all such crops in danger.
15. He further emphasized that when it is not possible to supply power for agriculture purposes, electricity should not be supplied to hoardings, air-conditioning and other such non-productive usage. He suggested that while apportioning energy among

available consumers, distinction should be made on the basis of productive and non-productive usage and all productive usage including agriculture should be given highest priority.

16. Dr. Subodh Wagle, Prayas suggested that to start with small beginning could be made with franchising some areas as pilot projects in areas like Chandrapur, Bhandara, Yavatmal and based on experience gained in these pilot projects, further course of action be firmed up.
17. The Commission queried whether private sector licensees would be interested in taking up such a pilot project. The Commission also opined that lift irrigation schemes should consider distributed generation and look for supply apart from grid option. Option of renewal energy should be considered.
18. Shri P.S. Pandya, Senior Advisor REL, in his response indicated that such pilot projects could be taken up. He further indicated that creating a mechanism in the State for facilitating rural electrification is a need of the hour.
19. Dr. Anil Rajvanshi suggested that pilot RE project could be implemented in a typical village with load of about 500kW. Private licensees should provide technical and managerial support to NGO while MSEB would hand over existing infrastructure. He stressed that two issues are important in the case of RE. Firstly, power requirement at the taluka level would be 10-20MW; this requires huge capital. However, for village level, about 500kW of power is required, which could be made available at village level. Secondly, local generation would enhance quality of supply. He requested that while deciding policy, MERC should promote generation both at taluka and village level, necessary concessions in tariff may be provided, so that such schemes are economically viable for private companies to come and set up.
20. Shri Jayant Kawale, Managing Director, MSETCL submitted that three things are important in respect of Distributed Generation (DG) model, (i) whether it can contribute to the present generation capacity, (ii) extension and strengthening of the rural infrastructure and how it can be brought about by franchisee model or others (iii) sustaining of rural services through franchisee or other modes. He submitted that it was not necessary to look at the franchisee model for all the three things. DG can come up independent of a franchisee model. Franchisee need not necessarily be a DG. When there is appointment of a franchisee and also generator, we are talking of two separate transactions i.e. generation of electricity and purchase by utility/franchisee on one hand and supply of electricity to consumers on another. Since Franchisee is part of utility services, utility's tariff/ cost will apply to it. When he is a generator also, as a Generator he is selling the power to the utility and as a franchisee taking the power independently. We can have a franchisee without generation and can have DG without being a franchisee, or have both in one entity in which case both the transactions are separate.
21. He underlined the issue: to what extent would DG take place? If we assume that 20% of future load would be supplied through DG, one would have to look at how to strengthen the rural infrastructure. He submitted that in trying to extend supply to all villages, available infrastructure has been extended though quality of supply has not. He informed that MahaDiscom has estimated a requirement of Rs 1200 Crore to strengthen distribution network in order to provide quality service. But from where

to kick-start is the main problem, whether franchisees or not, Rs 1200 Crore have to be raised from somewhere. In the existing model, money is raised by the utilities, servicing of loan is spread over the consumers. He doubted the ability of franchisees to raise money in the proposed model.

22. Shri Sanjay Bhatia. Managing Director, Maharashtra Electricity Distribution Company Limited submitted that pilot projects could be taken immediately. After gaining experience of a couple of pilot projects, we could discuss pros and cons and scaling up of the scheme. Zilla Parishads, private agencies already operating micro franchisees are potential candidates for franchisees. He informed that while franchisee projects were taken up in several States, most States have stopped work on the same. He cited Gujarat as an example. He also added that inadequate generation capacity is probably more serious problem than rural electrification. He informed that the State is facing shortage of more than 4000 MW.
23. As regards REAM, he submitted that it would create one more authority, but when main question is funding, one more authority may not serve the purpose. He further stated that political interference would be major problem for REAM as it will be difficult for it also to remain insulated from the same. He stated that MSEDCL has division-wise plans ready for implementation for system improvement and separate authority at this stage may not be required.
24. He also opined that the T&D loss is another major issue and franchisee model should be considered for areas where it is not possible for existing utility to reduce losses. The idea should be to create success story first. As such worst areas, where improvement can be demonstrated easily and quickly be taken up. He cited example of Bhiwandi. He informed that MSEDCL would like to franchise to someone who can manage it. Pilot projects should be carried out in these areas where it is really required.
25. The Commission asked whether any policy changes are required to set up franchisee, or is the existing policy sufficient for the purpose.
26. In response to both the above, Shri Anish De, Ernst and Young, submitted that, ability of licensee to borrow money is not the real issue, the issue is whether the money raised in whatever manner is being administered properly? We might be having one time focus, the plan prepared has to be implemented, and appropriate monitoring mechanism should be in place. Internationally accepted practice is to create a body which specifically focuses on these issues, so that RE does not become one time activity but a continuous activity. Idea of REAM being a franchisee is an interim arrangement.
27. Shri Jayant Kawale. MD, MSETCL pointed out that all the investment proposals of MSEDCL and other entities are subject to approval of the Commission, so all plans forming part of Rs 1200 crores investment would be submitted to the Commission for approval and the Commission also monitors them through ARR process and other mechanisms. He further informed that MSETCL has nothing against policy document prepared by the Commission; he was simply explaining practical difficulties in implementing the policy.

28. Shri Sanjay Bhatia, MD – MSEDCL suggested that private sector companies with experience in distribution should come forth to supply power to rural areas by setting up further generation capacity so that overall shortage could be reduced.
29. The Commission suggested that based on the suggestions of the members, the draft policy document would be modified. Marathi version of the same would be prepared and published so that large section of the consumers would have access to the same. The Commission also informed the members about its intention to conduct public hearings before it is submitted to the Government of Maharashtra. The Commission also sought the co-operation of members in disseminating the revised document, and distributing the same in rural areas and obtaining the feedback on the same.
30. The meeting ended with vote of thanks to all participants.
31. List of participants is annexed hereto.

X-----X

**List of Persons present at the SAC Meeting held on 20.12.2005 at 11.00 hours**

1. Dr. Subodh Wagle, Member Core Group, Prayas
2. Shri D.S. Nausare, Admn. MPECS Shirampur
3. Shri B.Y. Pagare, Admn. MPECS Shirampur
4. Shri R.V. Kulkarni, MD, MPECS
5. Shri S.B. Galande, MPECS
6. Shri E.B. Kapse, OSD/CA, MPECS
7. Shri V.D. Pangavhane, S.E. MPECS
8. Dr M.Ramamoorthy, Director, ERVA
9. Shri R.T. Dambal, Dy. CEE, Central Railway
10. Shri A.G. Patil, Dy. Chief Engineer, BEST
11. Shri N.D. Patil, Maharashtra Rajya Veej Grahak Shetkari Sabha
12. Shri A.K. Rajvanshi, Director, NARI
13. Shri Prabhakar Kukde, Executive Director, TPC
14. Shri D.V. Joshi, ICWAI (WIRC)
15. Shri J.D. Kulkarni, Dy.General Manager, TPC
16. Shri P.S. Pandya, Sr. Consultant, REL
17. Dr S.L. Patil, Secretary General, TBIA
18. Shri Anil Kelkar, Institution of Engineers, Pune
19. Shri Anup Verma, Manager, KPMG
20. Shri Sanjay Bhatia, MD, MSEDCL
21. Shri Jayant Kawale, MD, MSETCL
22. Shri S.V. Bapat, OSD, GoM (Energy Dept.)
23. Shri U.S. Bhoite, Dy. Secretary (Energy Dept.)
24. Shri Nitin S. Ghapale, Sr. Manager, TBIA
25. Shri Anish De, Vice President, E&Y
26. Shri Madhura Bedarkar, Economist, Indian Merchant Chamber