

Privatization of electricity distribution

**the Orissa
experience**

**K Ramanathan
Shahid Hasan**

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Foreword

The electricity sector in different parts of the world has developed under different structures at different stages of growth and development. As against 80% of this industry being in the form of investor owned public utilities in the U.S., in most developing countries the power sector has been essentially under Government control. However, in recent years, this sector has been subjected to major initiatives in reform and restructuring in countries of the developed as well as the developing world. Several segments of vertically integrated monopolies are being broken down into separate segments with ownership moving from the public to the private sector. The objectives of such efforts are essentially to promote competition and provide economic choices and higher levels of efficiency in supply.

In India, the process of reforms in the electricity sector was initiated in 1991 with the opening up of the sector for private-sector participation in generation. This was in tune with the policy of economic liberalization launched by the government. But very soon the need for more comprehensive reforms was realized, because merely opening up generation to private investments in the absence of meaningful reforms downstream proved ineffective. Reforms were required across the board. Orissa was the first state to take up a pioneering step in this regard. This was largely driven by the weak operational and financial health of the OSEB (Orissa State Electricity Board), the Orissa government's lack of finances to support electricity development, and the multilateral donors' funding guidelines, which proved shortsighted & restrictive. In 1996, the vertically integrated monopoly of the OSEB was unbundled. Separate entities for generation, transmission, and distribution were created; an independent regulator was established; and the distribution business was split into four companies and subsequently privatized. Well-known international consultants were appointed to assist in designing these reforms, and a communication strategy was launched to win over different stakeholders to the cause of the reforms. It was expected that the reforms would improve the efficiency and

availability of power supply and make the sector financially viable.

Three years later, the benefits expected from the reforms remain elusive. Were the expectations pegged too high? Is it too early to pronounce judgement? Are mid-course corrections required? These are some of the hotly debated questions to which answers are important. In many ways, the Orissa experience should provide many lessons to other states in India and also to other developing countries that are in the process of reforming their power sector.

A comprehensive documentation of the Orissa experience assumes importance in this context. With this in mind, the authors have tried to present the developments in the Orissa power sector since the early nineties to date. A judgemental analysis has been consciously left out at many places so as to give the flavour of an objective & analytical case study to this book. Nevertheless, a brief summary of the findings of some of the committees that have looked into the reform process in Orissa is provided. In the end, the authors have also briefly commented on the influence of the Orissa experience on other Indian states, referring in particular to the privatization of distribution in Delhi. It is hoped that the book would serve a useful addition to the literature on power sector reforms and provide enough food for thought to policy-makers and researchers working on the implications and future of electricity reforms in developing countries.



R K Pachauri
Director-General, TERI

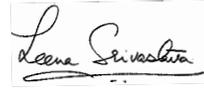
Preface

The reforms and privatisation in the Indian power industry has been underway since 1991 when government of India first opened up the electricity industry for private sector participation in generation business. The restructuring typically involves moving from integrated, monopoly utility structure to competitive industry structure and shift from government / public owned utilities to private utilities. The decisions to taper off public financial support, introduction of cost based tariffs and promotion of economic efficiency were expected to ensure financial self-reliance and autonomy to the power utilities. This was considered the essence of the “paradigm shift’ which the power reforms seek to introduce into power utility systems.

The state owned power utilities are also undergoing de-regulation and restructuring to increase managerial and financial autonomy, improve physical performance, and develop commercial viability. Orissa was the first state in India and South Asia to restructure its state owned electricity industry and privatise distribution business. Being the pioneer in initiating the reforms, it obviously encountered several unforeseen challenges. Some of the outcomes of Orissa reforms did not turn out to be as envisaged. Even after three years of electricity distribution privatisation, the efficiency improvements i.e. both operational and financial have not shown any tangible improvement. Distribution companies continue to suffer huge financial losses as a result of high transmission and distribution loss having a significant share of theft in it, and poor operational practices.

It, however, provided an opportunity to the other reforming states to correct their recourse in terms of choice of restructuring model, approach to reduction in losses, methodology for asset valuation given the constraints, financial restructuring plans, personnel issues, preferred strategy for private sector participation, and minimising regulatory uncertainties through policy announcements etc.

This book is an attempt to give a comprehensive but a concise presentation of the distribution privatization experience in Orissa starting with the reform context to the process and strategy for privatization to post privatization experience. It has been prepared as a case study document and hence a judgmental analysis of the developments has been consciously avoided. Nevertheless, a brief account of the findings of different committees which went into ex-post facto analysis of the events has been presented. The book also presents the salient features of the distribution privatization approach being adopted by Delhi.



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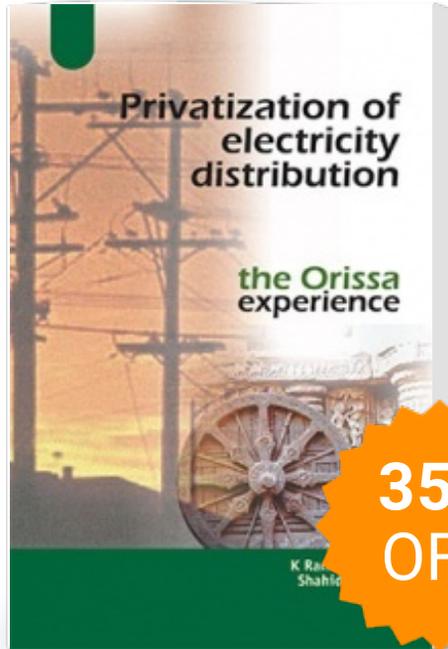
We deeply appreciate the expert views received from Dr Leena Srivastava, Director, Regulatory Studies and Governance Division, TERI; Dr S K Sarkar, Senior Fellow, TERI; and Mr Rakesh Kacker, Senior Fellow, TERI; Dr A R Sihag, Senior Fellow, TERI; and other colleagues.

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