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Evaluation of Franchise system in selected districts of Assam, Karnataka and Madhya Pradesh

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T E R I Report No. 2006ER39

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CHAPTER 1 Introduction

The Rajiv Gandhi Grameen Vidyutikaran Yojana was launched in April 2005 with the objective of providing 100% household coverage in next five years. Subsidy towards capital expenditure to the tune of 90% is being provided. A key feature of the scheme relates to deployment of franchisees for distribution of electricity and revenue collection in the rural areas. For projects to be eligible for capital subsidy under the scheme, the states are required to provide a prior commitment of establishment of franchisee system for management of rural distribution system within two years of sanction of project. In case of non-compliance, the capital subsidy could be converted into interest bearing loans. Guidelines have been issued by REC for franchisee deployment and the states are required to follow these guidelines. It has been more than a year since the scheme was launched and funds have been released to a number of states. As shown in Table 1.1, franchisees are already in place in a number of states and in the process of installation in other states.

Table 1.1: Franchise status in the country (as on September 2006)

State	No of franchisees engaged	No of villages covered/ proposed to be covered
Assam	231 IBFs	816
Bihar	NIT Issued at DT level	34821
	29 at 11 kV feeder level	600
Chattisgarh	NIT Issued on 18.12.2005	19720
Haryana	1	173
Karnataka	3652 (revenue collection)	17125
	40 IBFs	800
Nagaland	285 IBFs	285
Punjab	NIT issued for all 17 districts	12278
Rajasthan	2 at 11 kV feeder level	60
Uttar Pradesh	87	10391
Uttaranchal	41 SHGs	5321
West Bengal	196	1169
Madhya Pradesh	7	114
Andhra Pradesh	2	8
Orissa	7 at 11 kV feeder	675
Total	4580	37537 (Operational)

Source: Report of the sub group 3 of the working group on power for the 11th Five-year plan

Hence, it becomes crucial at this stage to carry out an evaluation process of the system to get an insight into the success factors and critical issues of the operational franchisee models.

Keeping the above in view, the Rural Electrification Corporation vide their letter no REC/RGGVY/Franchisee Evaluation/2006-

07 dated 22nd January 07 awarded the study for evaluation of franchisee system in the states of Assam (Nagaon district), Karnataka (Gulbarga district) and Madhya Pradesh (Damoh) to TERI.

1.1 Objective and Scope of the study

The objective of the study was to carry out evaluation of franchisee system in Nagaon district of Assam, Gulbarga district of Karnataka and Damoh district of Madhya Pradesh to identify the strengths and weaknesses of the existing models of franchisee operation and suggest a road map for strengthening and sustainability of the franchisee models operational in the country. The scope of the study and the terms of reference are attached as Annexure I.1.

1.2 Study Methodology

The study methodology include the following:

- Collection of secondary data from the utility such as franchisee details, no of villages covered, information base of distribution system under purview of franchisee, connected load and energy consumption pattern in the franchisee operational area, monthly energy injected and revenue generated in the franchisee operational area and secondary data on organization of various franchisees in the study area.
- Collection of primary data (quantitative and qualitative) based on the attached questionnaire was collected from the utility and the franchisee. Focussed group discussion were conducted targeting all categories (domestic, commercial, agricultural and industrial) of electricity consumers in selected sampled villages and key persons in these villages were interviewed to get an insight of issues relating to electricity distribution system and working of franchisees in area. Further 2-3 consumers in each of the sampled villages were interviewed during the evaluation. The interview schedule guide and survey matrix for the study is presented in Fig 1.1 and Table 1.2. UG, FG, FDG, KPI and CS are annexed in Annexure IV.
- The quantitative and qualitative data collected through secondary sources and primary surveys was analysed to evaluate franchisee system in the study states.

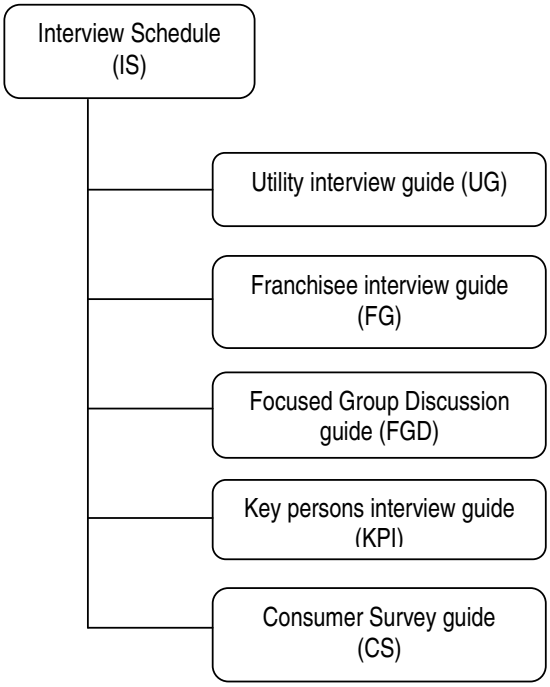

Figure 1.1: Evaluation interview schedule

Table 1.2: Matrix for conducting survey

District	UG	FG[1]	FGD	KPI
Damoh	1	4	4	10
Nagaon	1	13	30[2]	60
Gulbarga	3	10	10	60

1.2.1 Selection of sample villages

1.2.1.1 Damoh

There are 4 franchisees working under Input base model of franchising in Damoh. Excluding repair and maintenance, each franchisee is allotted one Distribution Transformer (DT) of 100 KVA capacity. These four revenue villages under franchisees fall in the category of Non-RGGVY villages. The team surveyed all the four villages. Based on the site visits and field surveys, a wrap up meeting was held at Jabalpur with Chief Engineer (Distribution) of the Discom on 7th March 2007.

1.2.1.2 Nagaon

The evaluation consisted of discussion with the Utility officials at various levels (DISCOM corporate office, Electricity Distribution Circle at the district level and Electricity Distribution Division), discussion with the operational

[1] One franchisee guide for each franchisee covered in the sample
[2] 1 FGD per village; each FGDs attended by 8-10 consumers of different categories (domestic, commercial etc)

franchisees (both franchise owner and employees) and FGDs and consumer survey at the villages. 41 franchisees have been installed as on January 31, 2007 (one franchisee is non functional since January 2007) and the operational franchisees are currently managing 113 DTs in the district. The evaluation covered 4 electrical sub division in the district, 13 franchisees out of the 40 operational franchisees and a total of 30 villages falling in the franchisees' operational area (Table 1) as per the terms of reference. FGDs were conducted in each of the surveyed villages covering all categories of consumers to get a better understanding of the franchise system and its operation in the district. In addition to the FGDs, consumer survey was also conducted through questionnaire-based approach, covering key persons (such as village headman, teachers etc), commercial and domestic consumers in each of the surveyed village. More than 160 respondents were covered through FGDs and interviews and the distribution also represented variations in the socio economic profile (BPL, APL, SC etc) of the villages.

1.2.1.3 Gulbarga

Random sample of 12 franchisees were selected out of 297 working franchisees across all the three divisions in the district. The section of franchisees from various divisions was taken to capture the variations in the samples. A total of 31 villages were covered where franchisees are functional and in the same villages survey of consumers was undertaken. Based on the site visits and field surveys, a wrap up meeting was held at Hubli with Chief Managing Director (CMD) of the Discom on 21st March 2007.

1.4 Structure of the report

Finding from each of the district is elaborated in the subsequent chapters. The chapters are structured in order to provide an overview of the following

1. Business model of franchisee operating in the district including selection process and details on the agreement between utility and franchisee.
2. Experience in the existing model, highlighting
    a. Benefits of the scheme to the consumers, franchisee and utility.
    b. Failures and limitations of the system, if any
3. Remodelling of the system required, including
    a. Possibility of expansion/improvement in the existing system
    b. Barriers in such expansion/improvement
    c. Recommendations to overcome such barriers
4. Conclusions and Recommendations

CHAPTER 2 Damoh – Madhya Pradesh

The Government of Madhya Pradesh (GoMP) vide order dated 1st July, 02, has incorporated Madhya Pradesh Poorv Kshetra Vidyut Vitran Company Limited (MPPKVVCL) as a wholly owned Government of Madhya Pradesh Corporation under the Companies Act, 1956 to undertake activities of distribution and retail supply for and on behalf of Madhya Pradesh State Electricity Board in the areas covered by the Commissionaires of Jabalpur, Sagar and Rewa.

Go MP proposed a transient phase in which the assets and liabilities would continue to be serviced by the Board, with only the operational activities being vested onto this new Company. Madhya Pradesh Electricity Regulatory Commission (MPERC) in the order dated 16th July, 02 has granted approval to this Operation and Management arrangement for facilitating the process of reform and reorganization and bringing in economy and efficiency in the operational activities of electricity sector. The *Poorv Kshetra* encompasses an area served by 59,489 kms of HT and 1,02,231 km of LT distribution network. The size of the administrative set-up is as below:

Table 2.1 Administrative set-up of Poorv Kshetra

Number of Regions	3
Number of Circles	13
Number of Divisions	39
Number of Sub-divisions	189
Number of Distribution Centers	368
Number of Fuse Call Centers	1,888

2.1 Background

District Damoh comes under Damoh (O&M) circle, having two O&M Divisions namely, O&M Division South and North, with 18 Distribution centres at different places in the district. There are total 7 blocks in the district: Damoh, Jabera, Tendukheda, Pathariya, Batiyagarh, Hatta and Patera. On an average all the blocks have an electrification rate of 95% as per the old definition.

The power supply of Damoh district is fed through 132 / 33 KV Sub-stations (S/S) and 220/33 KV S/S, Damoh has 396 kms of 33 KV line and 2650 kms of 11KV line with 26 33/11 KV S/S. In the rural context, the district has 1123 electrified villages and 1144

electrified habitations. On the other hand, there are 52 un-electrified villages and 487 un-electrified habitations. The total number of electrified rural household is 53725 including 26871 BPL households and there are 126121 un- electrified rural households including 63319 BPL households. These un-electrified villages and habitations are envisaged to be electrified under the RGGVY scheme.

CMD, MP Poorv Kshetra Vidyut Vitran Co. Ltd introduced the franchisee scheme in rural areas through his letter (letter no. CMD/SO/1594) dated 12.06.2006 for a better revenue management system (for reducing of loss of revenue) and prompt and quality services to its consumers. There have been 4 franchisees working under Input base model of franchising. Excluding repair and maintenance, each franchisee is allotted one Distribution Transformer (DT) of 100 KVA capacity. These four revenue villages under franchisees fall in the category of Non-RGGVY villages. The total number of consumers covered by the franchisees in these villages is 289, (including domestic, commercial, agriculture, street light and industrial).

The evaluation of the district was completed with a wrap up meeting held with Chief Engineer at Jabalpur on 7th March 2007.

2.2 Business Model

2.2.1 Selection process

The procedure adopted by the utility for the selection of franchises in Damoh district (M P) is as follows:

1. The utility officials initiated a round of stakeholder consultations with the local community and collected applications from willing entrepreneurs.
2. A list of entrepreneurs and their respective villages were short listed for further evaluation
3. A team was formed to evaluate the financial, social status and other related selection parameters to select the final franchisees.

This procedure however was a very informal one, and it lacked a critical component - of spreading community awareness. The scheme was not advertised appropriately (no advertisement was published in the local newspaper), and subsequently the scheme failed to ensure the participation of all, as is evident from the result – set up of only four franchisees.

2.2.2 The agreement

The agreement between the franchisees and utility was first signed for a working period of 24 months (Annexure II.1). This agreement comprised of

- Responsibilities of the franchisee and the utility
- Tariff structure for the collection of revenue
- Security deposit
- Duties of the franchisee e.g. recovery of old arrears, revenue collection, and
- Other terms and conditions.

Number of consumers to be served by each franchisee in the district is listed in Table 2.2; further details with regards to the progress of rural area franchisee development in Damoh are given in Annexure II.2.

Table 2.2 Consumers under franchisees in Damoh district in 2006-07

SL	Franchisees	Total consumer when handover	Total consumer as on 21.02.2007
1	Mr. Rajesh Singh	83	104
2.	Mr. Satendra Singh	67	110
3.	Mr. Maghraj Singh	56	72
4.	Mr. Chandra Bhan Singh	52	52

2.2.2.1 Duties responsibilities and penalties

As per the agreement drawn with the utility, franchisees are responsible for

1. Meter reading,
2. Bill distribution,
3. Collection of revenue, and
4. Serving of new connections

The responsibilities of the utility are as follows:

1. They would ensure and would also bear the cost of routine maintenance of distribution transformers (Figure 2.1).
2. The utility shall install and commission new DTRs and would bear the cost of the same.
3. The utility would carry out the maintenance of HT / LT lines including attending to faults.
4. Transformers failed up to 12 % of the total number of DTRs installed in the franchisees area shall be replaced and the cost would be borne by the utility, while the transformers failed beyond the above limit shall be replaced by the utility but the cost would be borne by the franchisees.
5. Before handing over the area, the company shall carry out the maintenance of the DTRs to ensure that proper fusses, LT cut outs and earthing is provided. The utility will also ensure that the load on the DTRs is not more than 80 % of the authorized load, including load on account of temporary agricultural pump connection in Rabi season.

Figure 2.1 Transformer with an installed meter

2.2.2.2 Tariff

The franchisee is billed for all the units supplied at the base line tariff @ Rs 1.00 per unit (excluding Duty & cess), and the franchisee has to pay the amount of bill within 7 days of the issue of the bill. In addition to the base rate as mentioned above, sum of the duty and cess as billed to the consumers in the franchised area is also payable by the franchisee. The bills are issued by the Executive Engineer (Operation & Maintenance) of the area and as mentioned above, under the mandate of the franchisees are required to be settled within seven days of issuance of the bill.

Tariff for consumers are applicable as per the respective tariff order by MPERC (Table 2.3-2.7).

Table 2.3 Energy Charges (domestic[3])

Monthly consumption in units	Energy cost charge for all units consumed with no telescopic benefit (Paise / unit)	Minimum charges (Rs per connection per month
First 30 unit	265	
31 to 50	270	
51 to 100	300	30
Above 100	340	
Temporary connection	510	350
Through DTR meter	245	Nill

[3] Tariff for domestic is applicable for lighting, space conditioning and power for residential use only

Table 2.4 Fixed Charges

Monthly consumption	Fixed charges Rs per month	
	In area with continuous supply[4]	In other area
First 30 unit	Nil	Nil
31 to 50	5	2
51 to 100	10	5
100 to 200	30	15
Above 200	15 per ½ KW	10 per ½ KW
Temporary connection	30 per ½ KW	20 per ½ KW

Table 2.5 Tariff for irrigation pumps for agriculture[5]

SL	Sub - Category	Energy cost charges paise per unit
	Metered consumers	
1	Permanent connection	
a.	First 300 unit per month	200
b.	Rest of the units in the month	250
c.	Temporary connections	300
2	**OYT DTR metered consumers**	
a.	For all units	220

Table 2.6 Incentives given to agricultural consumers[6]

S. No	Particulars	Rate[7] of rebate in tariff
1.	For Installation of motors for pump sets	10 paise per unit
2.	For Installation of ISI motors for pump set and use of frictionless PVC pipes and foot valve	20 paise per unit
3.	For Installation of ISI motors for pump set and use of frictionless PVC pipes and foot valve along with installation of shunt capacitor of appropriate rating	30 paise per unit

[4] Continuous supply is taken as mean supply for an average duration of 23 and half hours or more per day.
[5] These tariff are applicable to agricultural pump connections, chaff cutters, threshers, winnowing machines and irrigation pumps for lift irrigation schemes
[6] These incentives would be given to agricultural consumers on the installation of energy saving devices, subjective to the satisfaction of the licensee
[7] These rates are for a period of six hours of three phase supply, six days a week

Table 2.7 Duty and cess

SL	Sub - Category	Duty	Cess
1	**Domestic**		
	a. First 100 unit	14 %	10 paise per unit
	b. 100 –300 units	15%	10 paise per unit
	c. Above 300 units	23%	10 paise per unit
2.	Irrigation Pumps for Agriculture	Free	10 paise per unit

2.2.2.3 Revenue collection

The roles and responsibilities of the utility and the franchisee for the collection of revenue are as follows:

1. The company shall issue electricity bills to the consumers on the basis of meter reading submitted by the franchisee.
2. The franchisee cannot however demand a sum, or a tariff higher than that indicated on the bill.
3. Revenue received from the consumer shall be retained by the franchisee.

2.2.2.4 Disconnection of Electricity supply

On non-payment / part payment of bill by due date by the franchisee, the electricity supply may be discontinued by the company with a grace period of 15 days. In case of continued default of electricity bills, the franchisee may be terminated with a 30 days notice, given by the company. In case of continued non-payment of bill by the franchisees, the company may adjust the security deposit against the arrears of electricity bills. In such an event, the franchisee shall be required to furnish fresh security deposit for such sum as may be demanded by the company within 15 days of the issue of the demand.

2.2.2.4 Security Deposit

The franchisee is required to deposit security amount equal to 2-month average bills based on assessed consumption. Following is an account of security deposit paid to the utility:

Table 2.8 Security deposit paid to utility

SL	Name of Franchisee	Security deposit in IRS
1	Mr. Rajesh Singh	-
2	Mr. Satendra Singh	18000
3	Mr. Maghraj Singh	28398
4	Mr. Chandra Bhan Singh	21000

2.3 Consumer survey

As per the work plan, 4 villages in the district were visited to carry out the requisite consumer surveys.

2.3.1 Selection of villages

A total of five franchisees have been appointed in the district, however only four franchisees are presently functioning covering four villages. Since, there were only four franchisees operating in the district the evaluation team undertook a survey in all the afore-cited villages.

2.3.2 General discussions

Out of the total villages surveyed, 100% of the respondents knew about the franchisee scheme. These respondents were aware that under the franchisee scheme, a 'contractor' is carrying out meter reading, bill distribution and bill collection. Consumers felt that the 'contractors' should be given additional task of line maintenance, as the line maintenance work is presently carried out by utility.

In the villages surveyed, 100% of the respondents received bills regularly after the franchisee came in place, and have no complaints about the same. Most of the respondents also informed that all the employees of the franchisee belong to franchisee village thereby resulting in improvement in employment.

Some of the responses/suggestions given by consumers were

1. Electricity supply has become relatively regular, as opposed to erratic and intermittent
2. Franchisees, apart from the responsibilities taken up by them, should be given other works to ensure their sustainability and full time employment
3. Training for local youth should be organised for line maintenance etc.
4. Franchisees should be given line maintenance only when all meters and line equipments have been scrutinised for conformance and are in good condition.

2.3.3 Capacity building of stakeholders

The franchisees during the survey also reported that no formal training on meter reading, revenue collection, bookkeeping and technical aspects was provided by the utility. After commencement of operation by the franchisees the lineman and Junior Engineer provided only an informal training. The franchisees have displayed an active interest to receive training on technical, financial and commercial aspects of franchising.

2.4 Experience in the existing model

When Chopra village franchisee started, there was no electricity supply in the village. This was on account of non-payment of dues, as the village had a number of defaulters. In addition to the above, there were huge distribution losses, mostly on account of theft (upto 80%), whenever the electricity supply was continued. The remaining three villages also reported high proportion of theft and revenue collection very poor. Before handing over to franchisee, utility had undertaken the following works in the area:

1. Installed a meter on the DT (LT side).
2. Improved the quality of the LT Lines with help of franchisee
3. Provide insulated wire in theft prone areas
4. Operated the franchisee set up for a period of 7 to 10 days handholding) on a trial basis. This also formed the basis for the finalisation of the security deposit, to be paid by the franchisee to the utility.

Table 2.9 Franchisees working in the district (Damoh)

SL	Franchisees	Name of Village	Date of Agreement	Status
1	Mr. Ritesh Shah	Pipariya	26.07.2006	Not working[8]
2	Mr. Rajesh Singh	Vishnakhedi	Aug 06	Working
3.	Mr. Satendra Singh	Roand	18.10.06	Working
4.	Mr. Maghraj Singh	Kaniyaghat Pati	09.11.2006	Working
5	Mr. Chandra Bhan Singh	Chandi Chopra	27.12.02006	Working

2.4.1 Benefits of the scheme

2.4.1.1 Increase in collection of revenue

The most significant impact of the franchise system was made by enhanced revenue collection (Table 2.10). The amounts shown in the table represent the amounts deposited with utility against the respective invoices raised by the utility. Prior to franchisee the revenue realised in these four villages ranged between Rs.0.21 to 0.25 per unit against the rate of Re 1 per unit being charged from the franchisee.

[8] Left because he was unable to control theft and was unable to collect the requisite revenues. Subsequently, he was incurring heavy losses and did not see the contractual (input based model) system as a sustainable business opportunity.

Table 2.10 Revenue collection against invoices raised by the utility (in Rs)

Sl	Franchisees	Aug 06	Sept 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07
1	Mr. Rajesh Singh	4338	4666	6901	12274	16297	15773	
2.	Mr. Satendra Singh				5651	8952	9082	
3.	Mr. Maghraj Singh					13376	24271	
4.	Mr. Chandra Bhan Singh						5376	

Franchisees paid for all invoices, raised by the utility and the same were deposited with utility. The franchisee, however collected far greater amounts from consumers as mentioned below.

Table 2.11 Amounts collected by franchisees from consumers

Sl	Franchisees	Aug 06	Sept 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07
1	Mr. Rajesh Singh	8315	31019	36603	13581	8510	9829	
2.	Mr. Satendra Singh				20476	10748	8135	
3.	Mr. Maghraj Singh					25681	15935	
4.	Mr. Chandra Bhan Singh						14922	

There are gaps in billing and collection amount during certain months (Table 2.10 and 2.11) (e.g. a difference of Rs. 26353 in September 2006, under the franchisee being operated by Mr. Rajesh Singh). This is in part due to the advance collected by the franchisee (@ 130 units per month per HP) for the provision of temporary pump sets to agricultural consumers.

2.4.1.2 Increased energy sales and purchase

Energy purchase and sales have also seen a substantial increment. Gap in purchase and sales unit, same as Table 2.12, is during those months when due to irrigation requirements, farmers took up temporary connections on a flat rate basis and without any meter.

Table 2.12 A log of energy sales and purchase

Franchisees	Aug 06		Sept 06		Oct 06		Nov 06		Dec 06	
	Purchase	Sales	Purchase	Sales	Purchase	Sales	Purchase	Sales	Purchase	Sales
Rajesh Singh	3483	2412	3150	2924	7404	4148	11970	2538	15714	2540
Satendra Singh							4632	3073	7572	5053
Maghraj Singh									32685	9224

2.4.1.3 Increase in consumers

A further impact was the steady increase in both domestic and BPL consumers because of the prompt and grievance free service and target orientation of the franchisee.

Table 2.13 Increase in number of consumers

SL	Franchisees	Total consumer when handover	Total consumer as on 21.02.2007	Increment in agricultural connections	Increment in temporary connections	Increment in other connections
1	Mr. Rajesh Singh	83	104	11	13	1
2.	Mr. Satendra Singh	67	110	3	9	3
3.	Mr. Maghraj Singh	56	72	8	9	1
4.	Mr. Chandra Bhan Singh	52	52	9	-	2

2.4.1.4 Control of theft

The franchise system has been successful to an extent in checking the unauthorised connections and control of theft of electricity in these operational areas. A few innovative interventions have been introduced in the franchisee areas:

1. Cabling of LT network to prevent hooking (Figure 2.2)
2. Installation of meters to prevent the tampering of the same (Figure 2.3)

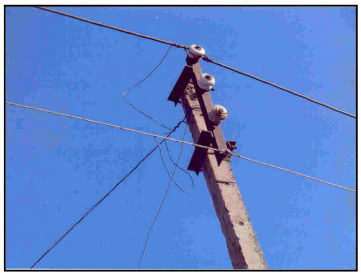

Figure 2.2 Insulated line for control of theft

Figure 2.3 Pole with meter (to stop theft)

2.4.1.5 Increase in local employment

The franchise system has been able to generate local employment and business opportunities. All franchisees operate out of the entrepreneurs' home and on an average each franchisee employees about 3-5 persons for different assigned activities including minor line maintenance works.

2.4.1.6 Increase in consumer satisfaction

Consumer satisfaction has considerably improved under the franchise system as earlier the consumers hardly used to get bills from utility in time.

- The consumers can now pay the bill at the franchisee office in village.
- The consumers also get a better service as franchisees promptly attend to fuse-off call and other minor service complaints.

- Though power shedding has not changed since all consumers complained about the duration of electricity supply (~8-12 hours), but, were satisfied with the work of the franchisees and wanted that franchisees should be made responsible for all work including major line maintenance.

2.4.2 Failures and limitations

Though, overall the franchisees are performing well in the area, the following are a few limitations of the system:

- The cause of failure of one of the franchisee appointed by utility was mainly due to his part time interest in the activity. Further, the collection in his area was poor because of low income of the villagers. In addition to the above, the franchisee was unable to control theft by villagers probably because he received little technical training before appointment. All the above factors along with a limited work domain (input based model) probably, convinced the entrepreneur otherwise, and he did not see the set-up as a sustainable business opportunity.
- Damoh district has only a single distribution centre (Nohta) where franchisees work because of the personal interest and efforts taken by the Asst. Engineer, which are not to be seen in other distribution centres.
- Further, there has been no capacity building of franchisees with regards to the REC's Franchisee Scheme Guidelines, nor have they been given any formal training. They have only been imparted informal training along with a lineman covering meter reading and minor repair and maintenance.
- Neither have the recent appointees been given any training with regards to bookkeeping. So most of their record keeping has to be done at the utility by Asst Engineer concerned. This requires to be changed by giving them proper training /course before the utility hands over responsibility to the franchisee.
- Asst. Engineers had great difficulty in procuring necessary materials like meter, insulated cable, distribution box etc from various utility stores to release new connections and for operation and maintenance of existing connections.
- Franchisees are also given a single transformer due to which they will not be able to expand their network and subsequently would not be able to augment their revenues and earnings. In other words this franchisee system is not sustainable on long-term basis.

2.5 Remodelling of the system

All franchisee villages in located in Nohta distribution centre have certain common constraints, which can be addressed through the following to ensure the sustainability of the same:

- Open tendering should be done.
- Franchisee should verify and check all the meters (whether functioning or not). They should target to achieve 100% billing and collection efficiency. They should check for proper meter sealing to avoid thefts.
- Energy audits should be made compulsory to reduce distribution losses.
- It is proposed to make capital investments in the network to reduce losses and to have more reliable quality supply.
- For more profitability, franchisee should be given a larger area preferably a distribution centre comprising of all 11 KV feeders or on distribution centre basis

CHAPTER 3 Nagaon - Assam

3.1 Background

The Assam State Electricity Board (ASEB) was established in the year 1958 in the composite state of Assam under the Electricity Act 1948. The ASEB was responsible for providing electricity to both urban and rural areas of the state. The number of electricity consumers (excluding industrial consumers) served by ASEB is more than one million of which more than 60 % are in the rural areas. The ASEB was bundled into five companies in 2004 by separating the Generation, Transmission and Distribution companies (DISCOMs). Three DISCOMs namely Lower Assam Electricity Distribution Company Ltd (LAEDCL), Upper Assam Electricity Distribution Company Ltd (UAEDCL), and Central Assam Electricity Distribution Company Ltd (CAEDCL) have been formed after the restructuring of the ASEB (Fig 3.1 and Table 3.1 and 3.2)

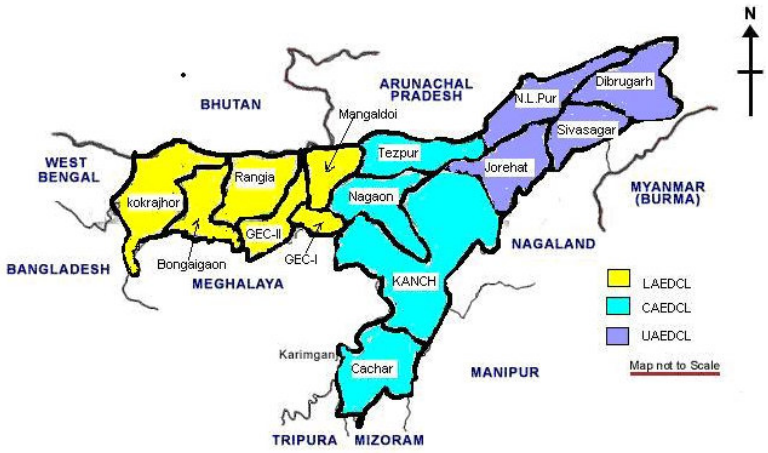

Fig 3.1: Command area of DISCOMs in Assam

Table 3.1: Profile of DISCOMs in Assam

Discom	No of Sub divisions	No of employees	No of consumers	Total connected load (MW)	T & D loss (%)
UAEDCL	41	3378	3,56,883	710	37
LAEDCL	58	4427	5 27 850	935	31
CAEDCL	51	3721	3,99,082	638	39

Source: Assam State Electricity Board 2006

Table 3.2 Billing efficiency and average revenue realisation by DISCOMs in Assam

Discom	Billing efficiency 2004-05	Percentage of billing	Energy injected - peak demand (MU)	Energy billed (MU)	Av Revenue Realisation (Rs/kWh)
UAEDCL	58%	94	85.11	49.69	2.62
LAEDCL	66%	89	100.01	65.60	2.78
CAEDCL	60%	91	69.27	41.28	2.85

Source: Assam State Electricity Board, 2005

To achieve the objectives of providing access to electricity to all households by 2012 in line with the National Rural Electrification Policy 2004, the Govt of Assam formulated Rural Electrification Policy 2005. The policy includes short term and long-term measures to achieve the goals and objectives set for rural electrification in the state as mentioned below:

- To establish a framework to achieve a more efficient rural electricity distribution system.
- To facilitate easy access to electric power by all rural households of Assam.
- To provide electricity to all citizens on a sustainable and economically viable basis.
- To create an enabling environment for the Govt of Assam to meet it's obligation to supply electricity to all areas including villages and hamlets.
- Responsibility of operation and maintenance and cost recovery to be discharged by utilities through appropriate arrangement with panchayat, local authorities, NGOs and franchisee etc.

In line with the objectives of the Rural Electrification Policy 2005, the Single Point Power Supply (SPPS) scheme through agents/ franchisees was introduced in the state with a view to provide better electricity service to rural population, reduce loss and prevent pilferage, proper billing and collection and at the same time ensuring that it is a commercial proposition for DISCOMs. The SPSS follows the *Input Based Franchise* model and was initiated as a pilot project in Margherita Electrical Sub-division under Digboi division in 2003 covering rural households falling under 5 distribution transformers (DT). On getting a positive response from the pilot project, a total of 22 villages with DTs ranging from 16 kVA to 100 kVA were taken up under the same sub division. It has been reported by ASEB that during 18 months period from August 2004 to January 2005, a sum of Rs.11.81 lakhs was generated from 1100 rural domestic consumers as compared to Rs.4.27 lakhs in the previous system in these 22 villages. As the response was good and there was

substantial increase in revenue for the ASEB the scheme was extended to the whole state of Assam (Fig 3.2 and 3.3).

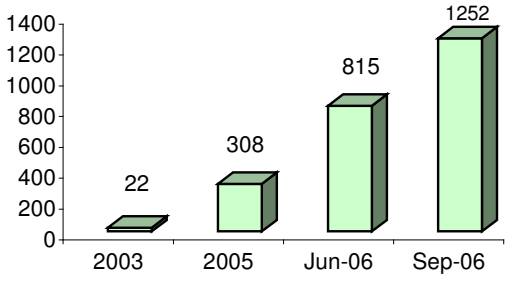

Fig 3.2a: Number of DTs franchised in Assam

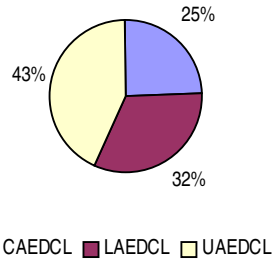

Fig 3.2b Distribution of franchised DTs under DISCOMs

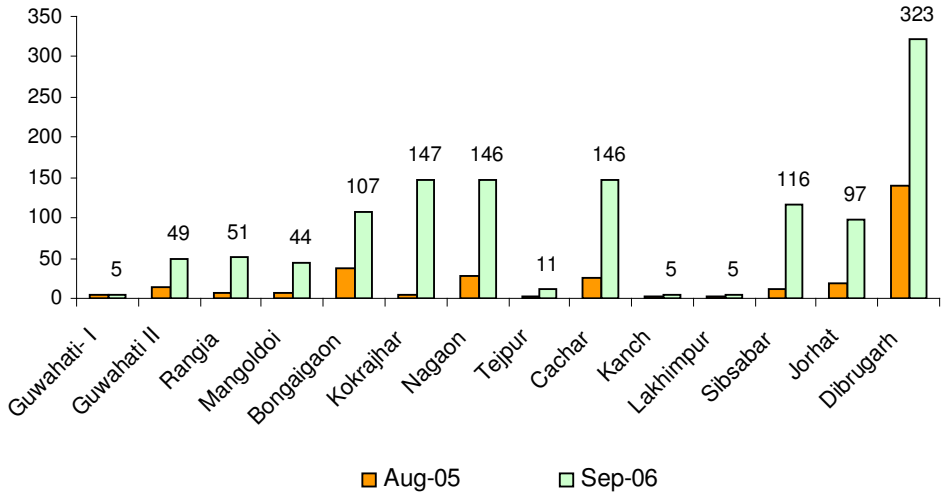

Fig 3.3: Number of DTs franchised under different electrical circles in Assam

3.2 Business model in the study area

The Electricity Distribution Circle (EDC), Nagaon is under the CAEDCL and covers electricity distribution in two districts viz Nagaon and Morigaon. The Nagaon district has 2 Electricity Distribution Divisions (EDD) that are responsible for the distribution of electricity in the district. Out of the 1375 inhabited villages in the district, 74% are electrified, 13% are de-electrified and 13% are unelectrified villages (Table 3.3). The average AT&C loss in the district is 30.76% as reported by the DISCOM for the month of December 2006.

Table 3.3 Status of electrification in Nagaon district (as on November 2005)

Revenue Circle	No of villages	Already electrified villages			Unelectrified villages
		Electrified	De-electrified	Total	
Kaliabor	209	154	18	172	37
Samaguri	138	106	11	117	21
Rupahi	107	77	23	100	7
Dhing	100	70	26	96	4
Nagaon	158	126	14	140	18
Raha	127	75	37	112	15
Kampur	135	92	22	114	21
Hojai	184	152	16	168	16
Lanka	217	162	19	181	36
Total	**1375**	**1014**	**186**	**1200**	**175**

Source: Chief General Manager (Rural Electrification) ASEB 2006

The Input based franchise model is being followed in the Nagaon district similar to all the other districts of Assam. The guideline mentions that the scope of work shall be for systems (a) beyond and including feeders from substation or (b) from and including DTs. However, currently only DTs are considered as a unit for franchising. Under the scheme, a three phase static meter is installed at the LT (low tension) end of the DT (Fig 3.4). A single DT may cover the complete village or the village may be covered by a number of DTs. The scheme is for rural consumers only and a minimum of 80% of the connected load in a particular area has to be domestic to qualify for the scheme. DTs upto maximum 250 kVA are handed over to the franchisees. The franchisees are called 'SPSS Agents' and they are empowered to bill the consumers (domestic and commercial), collect revenue and carry out minor LT line maintenance work.

The Deputy General Manager (DGM) of Nagaon EDC is the nodal officer for franchise system and is responsible for the overall functioning of the franchise system in the district. A total of 40

franchisees are currently operational in the district and managing 113 DTs of capacity ranging between 16 kVA to 250 kVA (Refer Annex 1).

Fig 3.4: Energy meter installed at transformer under SPSS system

3.2.1 Selection process

The franchisee in the state could be individual entrepreneurs, users association, NGO (Non Governmental Organisation), cooperatives or panchayat institutions. Advertisement was published in both English (The Assam Tribune) and Assamese daily newspapers (Dainik Agradoot) in the state inviting potential entrepreneurs, societies, user associations etc to become franchisee under the SPPS scheme in the state. The advertisement was in public domain and all the franchisees contacted informed the TERI team that they approached the DISCOM on seeing the advertisement in the newspaper. However, neither the franchisee nor the DISCOM could provide the TERI team a copy of the said advertisement. The advertisement mentioned that interested persons could contact the respective DISCOM for application. There was neither competitive bidding nor any stringent selection criteria followed for franchise selection. However, interviews are organised to ascertain the applicant's interest in the franchise system before being selected. As the number of people applying for the franchise system is less, usually the franchisees are selected based on first cum first served basis. In the context of the economic and social set-up in Nagaon district, individuals, firms and NGOs currently working as SPSS agents seems to be fully appropriate for the role of franchisee.

3.2.2 Scope of work

The scope of work for the franchisees includes preparation of statement of all premises – existing and prospective, maintain adequate infrastructure for keeping consumer data, preparation and serving of electricity bills to consumers as per approved tariff of regulatory commission and collect revenue from the consumers. The franchisees receive electricity in bulk at the LT end of DT and

make monthly payment to DISCOM based on the energy charge and fixed charge fixed for the franchisees. The scope of work also includes facilitating new connections, maintaining consumer ledger as per DISCOM's format, submitting a copy of monthly ledger sheet to the DISCOM, attend fuse off calls, undertake disconnection and reconnection on default and accordingly inform the DISCOM and ensure no unauthorized use of electricity within their operational area.

The scope of work for the DISCOM includes providing electricity to franchisee's area, major LT line maintenance, maintenance of DTs/sub-stations, provide new service connection on priority in franchised area, supply and install meter at franchisee input point, serve monthly bills to the franchisee for payment and notify all consumers in the area about the franchisee's responsibilities.

Salient Points of SPPS scheme in Assam

Energy Charge	= @ Rs. 2.55/ kWh
Fixed charge	= @ Rs 30.00/kW of connected load

3.2.3 Benefit to the Agent

- Allowable LT line loss= 10 %
- Commission/profit allowed = 15 %
- LT line maintenance cost allowance = 2 %
- Rebate of 3 % subject to full payment within due date
- Cash incentive of Rs 100.00 per new consumer processed through the Agent.

3.2.4 Penalties

- Rebate of 3 % is not admissible for non-payment within due date
- Surcharge @ 1.5% is levied for non-payment of bills within due date

3.2.5 Key responsibilities of CAEDCL

- Enter into agreement against each DT indicating clearly the DT number, rating, DT location, and feeder name in each agreement.
- Record meter reading on schedule date and serve DT wise bill to SPPS agent within 10th of every month.
- Checks ledger of SPSS agent and bill prepared by the agent every month.
- Assess load security against a DT based on 2 months assessed consumption.
- Review load security deposit every three months on the basis of current connected load.
- Revise load security bill in the event of revision of tariff.

- Monitor performance of SPPS agent to avoid accumulation of outstanding bills.
- Assist SPPS agent in disconnection of defaulting consumers.
- Motivate SPPS agent to realize arrear bills from consumers prior to handover to agent.
- Pay interest @ 5% per annum to SPPS agent against the security held by the DISCOM as per AERC tariff order.
- Conduct surprise survey of the consumers under the agent to check any unauthorized connection provided by the agent.

3.2.6 Key responsibility of the franchisee

- Responsibility of safe keeping of meter and meter equipments
- Maintenance of LT distribution networks
- Removal of unauthorized service connection/ hooking
- Disconnection of defaulting consumers with approval from concern sub-division
- Take meter reading of individual consumers regularly. Prepare and serve the bill accordingly as per AERC approved tariff
- Submit certify copy of ledger to concern SDE every month.
- Produce ledger periodically for checking by SDE/ SMR/DAO
- Assist the DISCOM in getting details about prospective new consumer and subsequently release connection to avail cash incentive
- Make regular payment of the bill serve by the Sub-Division within due date to avail rebate
- Report immediately to concern Sub-Division about any defect/damage, that may occur to the DT, meter equipment, HT & LT network within the jurisdiction of the Agent

3.2.6 Commission and Incentive to the franchisee

The franchisee is allowed to retain 15% of the DT meter bill amount as profit/commission and gets 2% of the DT meter bill amount for undertaking maintenance of LT network. The franchisee also gets a rebate of 3% of net amount payable to DISCOM if monthly bill is paid within due date. The delayed payment surcharge is 1.5 % of net amount payable to DISCOM per month and on non-payment, the DISCOM may terminate contract with 7 days notice. In case the franchisee fails to fulfil its contractual obligation, the DISCOM may resort to buy back and the agreement may be terminated with two-month notice from either side.

The franchisee commission is estimated as described below:

Total connected load of domestic consumers (kW)	:	A
Total energy supplied to the franchised area (kWh)	:	X
Less 10% Distribution loss (kWh)	:	0.1 X
Energy available for sale (kWh)	:	0.9 X
Energy billed for non-domestic consumers by franchisee (kWh)	:	Y
Energy consumed by domestic consumers (kWh)	:	Z = (0.9X - Y)
Energy bill amount for domestic consumption (Rs)	:	Fcd*A+Z*Ecd =B
Energy bill served for consumption for other categories (Rs)	:	C
Total bill amount served by DISCOM to franchisee (Rs)	:	D = B+C
Electricity duty payable by franchisee to DISCOM (Rs)	:	0.05(X - Y) = **F**
Meter rent payable by franchisee to DISCOM (Rs)	:	**G**
Profit allowed to franchisee (Rs)	:	15% of D = 0.15D
Maintenance cost allowed to franchisee (Rs)		2% of D = 0.02D
Amount payable by franchisee to DISCOM excluding electricity duty and meter rent (Rs)	:	0.83D = **E**
Net amount payable to DISCOM by franchisee (Rs)	:	**E+ F+ G**

Fcd - Fixed charge for domestic category: Rs 30/kW
Ecd - Energy charge for domestic category: Rs 2.55/ kWh
G – Sum of total of the meter rent charged against the individual domestic consumers

Note: A rebate of 3% is allowed on E (net amount payable to discom) for making full payment within the due date of payment.
Bills that are not prepared based on meter reading at DT are not entitled for 2% maintenance cost allowance and 3% timely payment rebate

3.3 Experience in the existing model

3.3.1 Consumer response

Out of the total consumers surveyed during the FGDs in the target villages, majority of the consumers reported that they knew about the SPPS system in Assam though they have not heard about the franchise system. The respondents informed the TERI team that 'agents' are being engaged for meter reading, bill distribution, minor LT line maintenance and consumers now have to deposit the bills at the agent's office. Though different sections of consumers have different version about the role of franchisee and their expectation from franchisees is also varied, no one is unhappy with the system and the consensus view is continuance of the system. On being asked whether any meeting was organised by the DISCOM in the villages before introduction of franchise system, only 14.29% of the respondents replied in positive and said that awareness camps have been organised in some villages about the new system and role of agents. It was also found during the survey that almost 98% of the households in the surveyed area are metered and majority of the houses have electronic meters. The consumers complained about the chronic power-shedding problem and informed that they get electricity for about 12-15 hours daily.

3.3.2 Impact on revenue

The billing cycle followed is monthly for domestic and commercial consumers in the state. The figures provided by the DISCOM indicate that the monthly average revenue realisation (ARR) in the operational areas of the franchisees has increased after the initiation of the SPSS in the district, though there is still better scope of higher revenue collection. The average revenue per month, which was Rs 4,99,388 before installation of franchisees, has increased to Rs 9,76,142 for the 113 DT being managed by franchisees as on Dec 2006 indicating an increase of almost 95%. (Refer Annex 1). The average billing efficiency (ratio of energy billed to energy injected in the network) in the district ranges from 42.27% to 76.67 % as reported by the DISCOM for December 2006 whereas the average billing efficiency in the surveyed area was found to be 81.83%. The percentage of billing (ratio of number of consumers billed to the total number of consumers) under the SPSS system is almost cent percent whereas the average percentage of billing for the district (considering both franchised and non-franchised area) is about 96%. Further, after introduction of franchise system, both current bill and outstanding bill collection in the franchised areas has also increased. SPPS scheme has also reduced the overhead cost incurred by the DISCOM such as vehicle and fuel cost for visiting rural areas, disconnection/reconnection charge, line maintenance cost, anti theft drive etc helping in the overall revenue increase for the DISCOM.

The motivating factor behind the increase in revenue is convenience of the consumers in depositing the bills at the franchise's office and consumer camps organised at the villages and also due to extensive campaign by the franchisee in recovering the dues. Sometimes the franchise staffs also visit the consumer's house to collect the revenue. The defective meters in the franchised area has also been rectified with franchisee taking active interest in the same. The percentage of defective meter considering all consumers in the district is about 5.53%, whereas the same is 2.58% in the franchised area. Further, it was also found during the survey that most of the electro-mechanical meter has been converted to electronic meter in the franchised area by the franchisees.

The ARR for electricity supplied in the Nagaon district is Rs 2.6 per kWh for all consumers including rural, urban, commercial and industrial consumers as per data provided by the DISCOM. The survey indicates that the ARR in franchised area is Rs 2.4 per kWh considering rural consumers only. As the DISCOM could not provide the data related to the ARR for rural consumers before the installation of franchisee, the same could not be estimated. However, the small difference between the two ARR values mentioned above clearly indicates that the DISCOM is earning almost same from the rural consumers in the franchised area for every kWh of electricity sold as compared to all consumers including urban and industrial consumers in the whole district.

3.3.3 Increase in number of consumers

The franchise system has been very successful in checking the unauthorised connection in areas served by the franchisees and also increasing the number of consumers. The survey indicates that almost 87% of the consumers in the franchised area fall under domestic category. It was learnt from the survey that in some villages' unauthorised connections were ranging from 10% to 30% of total consumers (authorised and unauthorised). The franchisees have been able to reduce the unauthorised connections and convert them into regular connections through continuous motivation. However, it is learnt that at times some households resort to hooking, but it never increases beyond 1-2% of total consumers. Figures available from DISCOM indicate that the number of consumers has increased by about 16% as on January 2007 after the starting of franchise system under the SPSS system in the district.

During the survey, it was found that the franchisees are motivating people in the villages for regularising connections and has been approaching all categories (APL, BPL, SC etc) of consumers. The main hindrance for regularisation of connection and the operation

of agents seems to be from the junior level staffs of the DISCOM who are not cooperating fully with the agents in many cases.

3.3.4 Impact on socio economic development

The franchise system has also generated local employment and business opportunities in the district. All franchisees have office room located at block HQ/peri urban location or in the village in which they are operating (Fig 3.5). Further, some franchisees (4 out of the surveyed 13 franchisees) have also installed computers in their offices for ease of operation and management of the business. All billing and data management is done using the computers by these franchisees. Almost all the franchisees are recruiting local youths for meter reading, bill collection, theft checking, fuse off call and LT line maintenance. The village youths attached to the franchisee are also provided with an identity card, which also generates respect for the youth in the village. Further, as the agreement stipulates that ITI trained people should be on the roll of the franchisee, many ITI trained youths have been absorbed by the franchisee for technical work. All the surveyed franchisee has appointed employees for noting meter reading and bill distribution and an accounts staff for maintaining books of account. It was found that franchisees engage 3-12 persons for different work including line maintenance works. The average staff strength per franchisee is 4 whereas staff strength per DTs was found to be 1-2 persons.

Fig 3.5: Franchisee offices in Nagaon district

The franchise venture has become a mainstay business for all those surveyed, though they have other business also. As considerable amount of time has to be provided to run the franchisee, the surveyed units are unable to concentrate much on their other business activities and are giving more time to make the venture successful.

Under the SPPS scheme the variable energy charge to the franchisee is Rs 2.55 whereas the franchisee charges the consumers according to the tariff fixed by the regulatory commission. The monthly consumer bill varies between Rs 50 to Rs 400 depending on the village and category of consumer and

accordingly the revenue collection of the franchisee per DT ranges from Rs 2000 to as high as Rs 60 000. The average commission income for the surveyed franchisees was found to be Rs 2600 per DT and a franchisee managing about 5 –10 DTs is earning about Rs 10 000 to Rs 26 000. In extreme cases, the commission is as high as Rs 10 000 for a 250 kVA DT and less than Rs 1 000 for a 16 kVA DT.

The costs involved in distribution and revenue collection varies from franchisee to franchisee. In case of franchised areas nearer to the town, the cost incurred is less whereas in case of remote areas the cost is high. This is because in case of remote areas the maintenance cost of the line is very high as the franchisee has to frequently prune the leaves and trees coming in contact with the line as well as do the rectification work. Further, as distribution line and DTs are very old there is frequent breakdown. The franchisee does the required maintenance and rectification work to ensure quality service to the consumers and for this all franchisees maintain 2-5 technical staffs. The survey indicated that the cost incurred by the franchisee towards room rent, staff salary and line maintenance ranges between Rs 1 000 to Rs 12 000/- per month.

3.3.5 Reduction in consumer grievances

The complaint redressal mechanisms followed before the installation of franchisee was not satisfactory and there was communication gap between the DISCOM and consumers which led to a vicious cycle of reluctance by the consumers to pay bills and DISCOM not undertaking maintenance work for not getting any revenue from villages. The survey indicates that the consumer satisfaction has considerably improved under the SPSS system as earlier the consumers hardly used to get bills from DISCOM in time. With the installation of the franchisees, the consumers can pay the bill at the villages itself at the collection camps or at the agent's office.

The consumers also get a better service as agents promptly attend to the fuse call and service complaints in the areas under the SPSS system. Almost 90% of the consumers reported that the line maintenance and servicing fuse off call has improved and DT failure rate has reduced after the franchise has started operation. Further, the same person is engaged in meter reading, maintenance as well as collection; so he is more involved with the desires of consumers then those engaged with a specific work. The franchisees have also started help line in their operational area and all key employees has been provided mobile telephone for efficient consumer complaint redressal.

3.4 Limitations

3.4.1 Capacity building of stakeholders

About 80% of the surveyed franchisees said that no formal training on billing, maintenance aspects and revenue collection was provided by DISCOM at the time of signing of agreement. The bill clerk at the sub division office informally explained the franchisee the billing calculation and different slabs and the franchisee has to learn from their own experiences. Further, it was seen during the survey that the franchisees who do not have any prior experience about the electricity business or those who are not conversant with technical loss etc are finding it difficult to run the business compared to those who have experiences of working as electrical contractors. The concept of distribution loss has not been explained properly to many franchisees and these franchisees thought that they will be provided 15% commission on the billed amount and the meter reading at the DT end and consumer end will nearly be the same. The distribution loss @10% provided by the DISCOM would be an incentive if the distribution line can be cleared of tree contact etc and unauthorised hooking connections. So they entered the venture without knowing much of mechanism of electricity distribution, distribution loss etc.

Capacity building of the franchisees on the various technical aspects of electricity distribution is an immediate need. Otherwise, the scheme may fail in the long run and casualties may also occur as the franchisee technicians are currently undertaking the line maintenance work. The franchisees during the survey reported that no formal training on meter reading, revenue collection, bookkeeping and technical aspects was provided by the DISCOM after commencement of operation by the franchisees. A workshop on franchise system was organised in Guwahati and was attended by few franchisees from the district. The franchisees showed active interest to receive training on technical, financial and commercial aspects of franchising.

The interactions with the DISCOM officials also indicate that capacity building of officials on commercial aspects of franchise system is needed. Many of the junior level officials are not aware of franchise system and its working and are of the opinion that the 'agents' have been involved to recover arrear bills and after couple of years the scheme might be closed down. Further, many of the lower level technical staff has a misconception that their job is at stake and it is a step towards privatisation, so they are also reluctant to cooperate with the franchisees.

3.4.2 Financial sustainability

The DT level determined by the DISCOM for the franchise system though is good for input based franchise system; there should be adequate number of DTs under a franchisee for economic viability. During the survey, it was found that in some cases 1-3 DTs have also been franchised and such arrangement does not seems to be economically viable proposition for franchising as the number of consumers per DT in rural areas is usually low. In such cases, the franchisee commission was found to be around only Rs 300 – Rs 1000. Further, in some cases same franchisee has been provided DTs in different locations and not under the same feeder that is increasing their overhead costs. However, the costs incurred by the franchisee are maintaining technical manpower and other overhead expenses are higher, making the franchisee business unviable in such cases.

3.4.3 Technical

The franchisees reported that loss in the LT network is more than the allowed 10%. Though the franchisees have been able to reduce the commercial loss through reduction in hooking and improving the billing and collection rate, the technical loss in the LT line is still high. The comparative meter reading of the single point meter at the LT end of the DT and the cumulative reading of all the consumers indicates that the average distribution loss of the surveyed franchisee is 18.32% (Table 3.4 and Annex 2). One of the reasons of the high technical loss may be because of the haphazard growth of load over the years and long LT line length extending to 3 km and even to as high as 5-6 km from the DT. Further, the distribution network in many cases is in a very bad shape, thereby increasing the losses (Fig 3.6). The franchisees also reported that the load on the DTs is unbalanced, there by resulting in flow of current in the neutral wire, which is also significantly contributing to the distribution loss.

Fig 3.6: A view of the distribution network

Further, it was also found that there is shortage of DT meters in the district and in some cases especially in the Dhing electrical sub division meters have not been installed in the DTs. The franchisees

are getting 15% commission on the fixed and variable energy cost to the consumers and the meter rent paid by the consumers. Non-availability of meters is cited as the reason for such an arrangement. This is defeating the whole concept of the input based franchisee and the three franchisees surveyed in Dhing sub division are also not complaining as they don't have to reduce the loss and their commission is based fixed and variable energy cost to the consumers.

Table 3.4 Summary of distribution loss

S N	Franchisee	No of DTs surveyed	Average loss (%)
1	Bhupendra Singh, Sialmari	4	12.05
2	Narul Amin, Nagaon	3	20.01
3	Biswakarma Electrical, Lanka	2	16.44
4	Samabharat Sanstha, Lanka	2	27.42
5	Fakrul Islam, Juria	1	18.13
6	Habibur Rahaman, Fakuli Pather	2	20.24

3.5 Re modelling of the system

The evaluation of the input based franchise system in the Nagaon district indicates that the state has chosen a good model for augmenting revenue and for reducing the losses. However, there are some limitations of the current implementation arrangement. The success of franchise system in the state in general and the district in particular would require cooperation of all i.e DISCOM staff, franchisees and consumers. Some success has been achieved in the form of enhanced revenue generation, reduction of consumer grievances and impact on socio economic dynamics of the franchise operational area. However, it seems currently the DISCOM is bothered only about the revenue increase. Though village electrification and intensification work are planned to be taken up under RGGVY, the current distribution network in the district is in a very poor state. In this background, it is felt that there is need to pro actively implement the scheme in the state and the following recommendations are suggested for strengthening the franchise system.

3.5.1 Size of the operation

The size of operation is a very important parameter for success of the franchise system in any state. For economic viability, it is recommended that DTs in a particular area under the same feeder should be grouped and handed to the franchisee in such a way that the number of consumers is not less than 1000 or the revenue demand is not less than 1.0 lakh for a franchised area.

3.5.2 Installation of energy meters

Electronic energy meters for installation at the DTs should be made available by the DISCOM so that all franchisees are billed according to the energy injected in the network.

3.5.3 Capacity building of all stakeholders

It is recommended that capacity building of the franchisees on various technical aspects as well as commercial, financial, social and managerial aspects is an immediate need. Otherwise, the scheme may fail in the long run and casualties may also occur as the franchise technicians are undertaking line maintenance work and fuse off repairs. There should also be continuous consumer awareness about the franchise system and capacity building of DISCOM officials at different levels and exchange of thought programme involving all stakeholders on a regular basis for the success of the scheme. Capacity building of DISCOM staff is also important given the fact that lower level technical staff has a misconception that their job is at stake and franchise system is a step towards privatisation, so they are reluctant to cooperate with the franchisees in attending breakdown call etc.

3.5.4 Building a strong franchise development team

For success of the scheme, a strong team for franchise development is needed. The DISCOM should consider building up a strong team headed by a General Manager (franchise development) with set goals and the GM should be supported by the DGM at the zone/district level. Number of EDCs could be clubbed to form a zone and a official of the rank of DGM, may be made responsible for all activities including capacity building of all stakeholders, monitoring of franchise activities, consumer complaint redressal against franchisee if any and appraisal and selection of new franchisees. Further, stability is an important parameter and so the team made responsible for franchise development should be given a term appointment for a minimum period of 2 years. As most of the linemen are not cooperating with the franchisees, the DISCOM may consider transferring the linemen from their current operational area to nearby areas. This will bring freshness in the whole system and the franchisees will also get a chance to work according to their set goals.

3.5.5 Competitive bidding

For selection of new franchisees in the virgin areas, advertisement should be published in local papers. Competitive bidding should be preferred to determine the energy charge/bulk supply tariff. For the current model of franchise system adopted in the state, the DISCOM could ask applicants to quote the energy charge, line maintenance charge and minimum allowable distribution loss. The franchisee quoting the higher energy charge and lower

maintenance charge and having a better managerial qualification and experience may be given the contract. During the selection process the DISCOM can weigh their cost per consumer vis-à-vis income from franchisee for every unit of energy injected in the LT network.

3.6 Conclusion

The franchisees in Nagaon district are working in a best possible way to augment the revenue and reduce the commercial loss. The system has led to new avenues for business and employment, reduction in electricity consumer grievances, and contribution to the socio economic development of the district. The DISCOM has benefited through increased billing efficiency and collection efficiency thus leading to enhanced revenue generation. The input based model being followed in the state could be developed into a blend of commercial and entrepreneurial approach to electricity distribution and rural transformation for revenue sustainability and success and sustaining the franchise system in the state.

CHAPTER 4 Gulbargha - Karnataka

GESCOM initiated franchisee system in its jurisdiction in early 2004 to improve service and revenue from the rural areas as part of rural electricity reforms initiated by the government. The franchisee system came into existence as a follow up of recommendations made by a study undertaken by Xavier Institute of Management, Bhubaneshwar (XIMB). The prime motivation for its establishment was customer non- satisfaction in getting services from the utility and reduction in revenue generation.

As per administrative set up of GESCOM is concerned, it has two zones called Gulbarga and Bellary. Bellary zone covers three districts namely Bellary, Koppal and Raichur and in total, there are four Electrical divisions covered in Bellary zone. These are Bellary, Hospet, Koppal and Raichur. While, Gulbarga zone covers two districts namely Gulbarga and Bidar. Bidar district has one Electrical division called Bidar while Gulbarga district covers three Electrical divisions namely Gulbarga division Yadgir, and I, Gulbarga division II. There are about 30-35 Gram Panchayat (GP) in each sub division of GESCOM and each GP covers about 5-8 villages under its jurisdiction. The Gulbarga district covers 1344 villages of GESCOM distributed as 348, 379 and 617 respectively under each of its divisions.

A Gram Vidyut Pratinidhi (GVP) is selected based on the recommendations of the steering Committee appointed by utility to short list candidates from GPs for the role of franchisee in the villages under a GP. The main function of franchisee in GESCOM is to carry the out the following revenue related activities:

- Meter reading, bill distribution and revenue collection on behalf of GESCOM
- Registering and redresses complaints
- Attending to the consumers grievances
- Giving feedback about field realities to the GESCOM on regular basis.

Post January 2007, the same existing GVPs are renamed as Micro feeder franchisees (MFFs) due to implementation of modified proposal in GESCOM. A letter stating conversion of GVPs to MFFs issued by GESCOM corporate office is attached as Annexure 1. These MFFs are exclusively operating for the rural areas with GPs only.

Since, it is more than a year ago that RGGVY scheme was launched, but no work could be initiated in any of the RGGVY

villages covered by GESCOM. In fact, the deployment of franchisees in GESCOM is not part of RGGVY scheme as these existing MFFs, set up under REC guidelines, and have been working since 2004.

The following section discusses in detail the business model and experiences of consumers, franchisees and utility in the district.

4.1 Background

Micro feeder franchisee (MFF) model that was called GVP earlier is operating in GESCOM since early 2004. It is based on collection of revenue i.e. and this is a Revenue Franchisee Collection Based.

As of February 2007, there are 297 franchisees working out of 339 MFFs appointed in May 2004, in Gulbarga district and that are spread over three Electrical Divisions of Gulbarga circle. The utility informed that there has not been any increase in MFFs number since inception due to various reasons discussed in the franchisee feedback section of this chapter.

Details on the rural sub-divisions under each division of Gulbarga circle are shown in Table 4.1 below.

Table 4. 1: Details on the sub-divisions of Gulbarga circle

S. No.	Division	Sub division	
		Rural	Urban
1.	Gulbarga division I	Gulbarga rural sub division, Aland, Kadaganchi and Afzalpur	City 1, City 2
2.	Gulbarga division II	Jaiworgi, Shahbad, Chitapur and Chincholi	
3.	Yadgir	Yadgir, Sedam, Shahpur and Shorapur	
	Total	12	2

Deployment of franchisees in Gulbarga circle in Gulbarga district is not part of RGGVY scheme. A complete list of franchisees, village and sub division wise, operating in different divisions of GESCOM is given in Annexure IV.2. In fact, in Gulbarga division-I, we found that there are three women MFFs functional out of the total 92 MFFs.

Table 4.2: Details on MFFs operating in Gulbarga district as on February 2007

S. NO.	Division	GPs covered	GVPs appointed	MFFs functional
1	Gulbarga division I	92	99	92
2	Gulbarga division II	100	100	90
3	Yadgir	140	140	115
Total	Gulbarga district	332	339	297

As per the study ToR, a random sample of 12 MFFs in the district (across Gulbarga division I, Gulbarga division II and Yadgir division) was selected for the evaluation of MFFs. The section of MFFs from various divisions was undertaken to capture the variations in the samples. About 31 villages, in total, were covered where such MFFs are functional and in the same villages survey of consumers was undertaken. The list of MFFs, villages and consumers surveyed is given in table X at the end of this chapter.

The evaluation of the district was completed with a wrap up meeting held with Chief Managing Director (CMD) at Hubli on 21st March 2007.

4.2 Status of Village Electrification under RGGVY

The utility officials informed that RGGVY scheme for power sector development covers 90% Central government subsidy and 10% subsidy by GESCOM. The subsidy is given towards creation of infrastructure, i.e., HT/LT lines, installation of distribution transformer, providing 100% electrification for rural households so that no household is left un-electrified. There are two types of households proposed to be covered under this and that includes below poverty line and above poverty line families. For BPL families, internal wiring is covered under Kutir Jyoti/ Bhagya Jyoti scheme where connection of a light bulb is given while for the APL families, an applicant has to bear the cost of internal wiring himself but the ultimate objective of RGGVY scheme is to electrify 100% of the houses in all the villages. The facilities such as schools, dispensaries, and health services are also covered in this scheme.

The utility officials provided the scope of work and estimated cost prepared with respect to RGGVY scheme for Gulbarga district (refer Annexure 3). So far, tenders for the selection of companies to be given contract to take up this work are floated and evaluated. The company with the lowest quotations has been short-listed, the letter of award of contract is awaited, and as soon as it is given to the short-listed company, the implementation work under RGGVY scheme will start in Gulbarga district.

The data conveys that out of 1344 villages covered in Gulbarga district, 100% of the villages are electrified as on 31 March 2005. In fact, out of 2774 village habitations, about 1683 (61%) habitations are electrified and about 68% of households are electrified as of March 2005. For each consumer category including domestic, commercial, agriculture, small industries, streetlights and water works, there is proposal prepared by GESCOM for implementation over the next two years under RGGVY scheme.

Out of 1344 villages covered by GESCOM in Gulbarga district, none of these villages are yet covered under RGGVY scheme. However, RGGVY scheme for this district has been approved for execution; the work has not started by the contractor as the approval letter from GESCOM corporate office is awaited. However, the utility informed that none of the existing franchisees would be utilised for the RGGVY work in future.

The data shown in Table 4.3 shows that Yadgir has highest BJ/KJ and other domestic consumers. While IP sets are highest in Gulbarga division I in Gulbarga district.

Table 4.3: Statement showing the details of consumers served by GESCOM in Gulbarga district

S. No	Tariff	Number of consumers				Consumption in MU for the December 2006			
		Gulbarga-I	Gulbarga-II	Yadgir	Total	Gulbarga-I	Gulbarga-II	Yadgir	Total
1	LT-1 (BJ/KJ)	45539	44425	55601	145565	0.799	0.798	1	2.597
2	LT-2 (Domestic)	74422	75749	89873	240044	1.68	1.66	2.59	5.93
3	LT-3 (Commercial)	8054	8573	12861	29488	0.25	0.33	0.542	1.122
4	LT-4 (IP sets)	28417	6603	12932	47952	11.66	5.46	8.4	25.52
5	LT-5 (Industry)	2934	3342	3793	10069	1.27	1.3	0.887	3.457
6	Water supply (WS)	1378	1445	1848	4671	0.64	1.5	1.568	3.708
7	Street lighting (SL)								
8	LT-7 (Temporary connections)	148	15	283	446	0.02	0.04	0.024	0.084
9	HT	44	13	24	81	0.83	7.23	5.246	13.306
	Total	160936	140165	177215	478316	17.149	18.318	20.257	55.724

Note: No HT industry is covered in rural feeder by any MFF.

Annexure 4 shows the growth in connected load and consumption in the last 5 years in Gulbarga district for each consumer category of GESCOM. There has been 7% increase in commercial consumers, 3% growth in domestic consumers and 4% increase in agriculture and industrial consumers followed by about 6% growth in others categories including SL, WS and temporary connections.

Details about power supply, demand and other energy details for Gulbarga district is shown in Table 4.4.

Table 4.4: Statement showing the details of quantity of power supply and demand for Gulbarga district in GESCOM

Name of the division	Energy supply in MU	Energy demand	Energy sold in MU			Supply to demand gap	Energy un-accounted in MU	T&D Losses	% Metered sales	% Un-metered sales
			Metered	Un-metered	Total					
Gulbarga-I	428.17	550	198.31	131.23	329.5	121.83	98.63	23.04	46.32	30.65
Gulbarga-II	217.07	280	82.57	71.41	155	62.93	62.08	28.60	38.04	32.90
Yadgir	253.45	324.41	57.47	95.39	152.9	70.96	102.12	40.05	22.68	37.64
Total	898.69	1154.41	338.35	298.03	637.4	255.72	261.3	29.08	37.65	33.16

The interactions with the utility revealed that there is about 9 hours of supply of power in single phase and three phase while there is load shedding undertaken on rotation basis in the villages during the week for about 6 hours daily. About 78% of the demand is met by GESCOM in Gulbarga district and the system experiences mild frequency fluctuations in 33KV, 11KV, LT3 and LT single phase supply to the rural areas.

4.3 Business Model

4.3.1 Selection process

The selection process of this Revenue Franchisee – Collection Based (as per REC guidelines) model is based on the applications received by the utility against the advertisement published in local newspaper for franchisee position. About 4-5 candidates from each village applied for this work. The eligibility criteria set for franchisee included that the person should be a resident of the panchayat, should be in age between 18-40 years, and has

minimum SSLC with preference to be given to the qualified candidates.

In specific, the selection method involved interview after short listing of applications received by the candidates from all GPs in the district. The final selection of franchisee is made by a Selection committee comprising of the Superintending Engineer (SE) of concerned O&M circle who is appointed as the Chairman of this Committee, Executive Engineer, sub division officer and Accounts Officer of the concerned division, appointed as members in the Committee. Preference is given to candidates with technical qualification but whenever such people are not available, others with lower educational qualifications are also taken for the franchisee work. There are less than 50% people technically qualified for franchisee operations in Gulbarga district and most of them are SSLC passed.

4.3.2 The agreement

The person selected as GVP/MFF entered into a contract called the Memorandum of Understanding with GESCOM (Refer Annexure 5) for a period of one year. The agreement between the MFF and utility was first signed in 2004 for a period of 12 months. It was then renewed once again in 2005. This agreement comprised of

- Scope of work
- Rate of compensation
- Other terms and conditions.

The appointed franchisee pays either cash or bank guarantee as security deposit to the utility. There are two types of security deposits given by the franchisee. Those who belong to general category pay Rs 50,000 as bank guarantee or cash, while franchisees belonging to ST/ SC or reserved category pay Rs 25,000 towards this. As per guidelines given by REC and MOP, applicants are not capable of depositing one month demand as security deposit.

4.3.3 Responsibilities, incentives and penalties of Franchisee

The utility informed that though GVP is now converted into MFF, there is no change in roles and responsibilities of MFF except the new name being given to already existing GVPs. The main role of MFF is to read meters, preparation & distribution of bills, and collect revenue on monthly basis for all categories of consumers in their jurisdiction. The billing and revenue collection by franchisees is done on a monthly basis and they are not responsible for minor/major technical repairs, providing new connections or redressal of consumer grievances regarding minor repairs. However, we observed that in few cases the franchisees

assist the linesman of GESCOM in undertaking reconnection/disconnection of meters.

Guidelines set by the KPTCL govern remuneration for the franchisees and these guidelines have been changing since inception and now include the following details:

- Base line collection target to be fixed based on the billing & collection achieved during last six months.
- Incentive fee of 8% of the collected amount subject to a maximum of Rs. 4000/- is payable if the GVP achieves monthly base line collection target.
- For collection over & above the base line, an amount of 8% of the incremental collection is payable to the GVP.
- Penalty of 2% of the incentive fee payable is levied for every Rs. 10000/- of the shortfall in collection from the base line target.

In Gulbarga district, the franchisee failure rate is 2% and the major reason given for dropouts in MFFs is non-satisfactory remunerations given to them for this work. Out of 42 MFF who stopped working as franchisee, only three were disqualified or their contract was terminated by GESCOM due to cash mishandling, while all the others left the job due to better job prospects and more remunerations in other places.

There are few limitations felt in this system

- Unsatisfactory complaint redressal system due to staff shortage
- Consumers refusing to pay & unawareness to pay the dues
- Communication gap between the utility and consumers
- Rural consumers feel that they are not treated at par with the urban consumers.

4.4 Problems specific to the Utility

In specific, there were few problems expressed by the utility officials about the franchisee operations in GESCOM.

4.4.1 Utility has less control over the MFFs

One of the main problems reported by the utility was that it has very little control over the MFFs, as they do not come under them. Though they reported that most of the MFFs in the three divisions are functioning reasonably well there have been a few cases when the MFFs are terminated.

4.4.2 Monitoring and performance evaluation of MFFs

The utilities have a problem, as there is no mechanism for evaluation of franchisees in the absence of which the MFFs cannot function properly. The utility also mentioned that it is difficult to monitor the performance of the MFFs. In fact, it

was suggested that a separate agency should be entrusted for the same.

4.4.3 Individual v/s agency

The MFFs cannot appoint people to help them in meter reading, etc, as is the case of the Input based Franchisee model in other areas in Karnataka. The utility was of the opinion that a group function better than an individual and a group can be more effective. It was suggested that Self Help Groups (SHGs) could also be looked at as workable models for MFF work so that the responsibilities are shared between the members.

4.5 Consumer survey

A random sample of 31 villages was selected as a part of primary surveys so as to capture the feedback from the consumers of the villages where MFFs are functioning. All 31 villages come under the Gulbarga circle. These included 16 villages of Gulbarga-I division, 11 villages of Gulbarga II division and 5 villages from Yadgir sub division. 16 Villages from Gulbarga Rural Sub Division (RSD) of Gulbarga I division, 10 villages of Jewargi sub division in Gulbarga II division and 5 villages of Shahpur sub division of Yadgir division were surveyed. The list of villages surveyed is provided in table X attached at the end of this chapter. A total of 119 consumers were surveyed in these 31 villages. 50% of the total surveyed consumers were from Gulbarga I division while 30% were from Gulbarga II division and 20% from Yadgir division.

The criteria to select these villages were a mix of various parameters. These included distribution of RGGVY or non-RGGVY villages but since in this district no village is yet covered under RGGVY scheme, all non-RGGVY villages were selected for the survey. The other parameters that governed village selection included year of village electrification, geographical spread within the district, and finally the feedback received from the utility.

The consumers in these villages selected for the survey represented different tariff categories. The distribution of tariff categories surveyed reveals 68% in agriculture, 6 % commercial and 26% domestic consumers.

A total of 12 MFFs (four each from each division) were interviewed. Of the 12 MFFs interviewed 11 started operations from June 2004 while one MFF started in December 2006.

Figure 4.1: Consumer survey in Gulbarga district in progress

4.5.1 Awareness

All villages surveyed in Gulbarga are electrified for around 25-30 years. Almost all the villages have a reasonably good number of households electrified under the Bhagya Jyoti scheme and a few households (mainly new colonies) are not even given regular connection by the utility.

Of the 119 consumers surveyed in 31 villages almost 50% are aware of the franchisees working in their areas. Those who are aware of the scheme see these MFFs as local agents employed by the utility for billing and collection. Majority of those who are not aware of the scheme see these GVPs as a part of the utility itself.

4.5.2 General Discussions

Discussions with the consumers reveal that the power situation is not very bad in this region. They get at least one phase current supply for a min of 15 hours. The households interviewed have reported that the power supplied for domestic purpose is on an average for around 15 hours while that for agricultural purpose, it is only 4 hours on an average. In some areas, for instance, the villages under Aurad panchayat have reported that the 3phase supply is in the night and hence cannot be used for agriculture. 74% of the consumers surveyed said that they get electricity when required or in other words there is no problem with regard to getting electricity supply in crucial times such as agricultural seasons. Agriculture is the main activity in the entire region. Majority of the villages in Gulbarga I and II depend on electricity for irrigating their agricultural lands. Most of the villages surveyed in Yadgir division do not rely on electricity supply for agriculture as canals are meeting their irrigation needs and majority of the farmers here do not have pump sets. Farmers here directly irrigate from canals or have pot irrigation. These are lower lying regions cultivating paddy.

65% of the surveyed consumers reported problems with regards to voltage and this was attributed to transformer problems, loose connections, and in some villages in Gulbarga I division it was reported that the high consumption by flour mills in the region has affected power supply for residential purpose in the region. Majority of the consumers surveyed have reported that the linesmen in their respective villages attend to complaints immediately (within 1-2 days) in fact, 26% of these interviewees did not feel the need of the MFF addressing their complaints as they have good accessibility with the linesmen in most of the villages with a few exemptions.

4.5.3 Problems related to power sector

The survey has brought out that most of the villages in the circle was facing drought, As per the farmers, 12 hour three-phase power supply should be maintained in the rural areas, so that farmers could irrigate their fields specifically in two divisions of Gulbarga I and Gulbarga II divisions where the farmers depend on power for irrigation. However, the 3-phase supply is only 5 hours on an average. Quality power supply was a concern mainly for the agriculture category of consumers. Problems related to transformers leading to disruption in power supply, particularly in the villages of Gulbarga I and Gulbarga II is of grave concern to all consumers.

In all the surveyed villages, meter reading is carried out regularly every month ever since the GVPs started functioning, prior to which the consumers have reported that they would receive bills on an average for three months. Almost 100% of the consumers reported that the bills are given on monthly basis now. On an average, the monthly bill of these consumers is Rs. 100. The payment is also mostly done on monthly basis. In fact, people are very happy with the MFFs who visit house to house to collect the payment on a date suitable for the consumers as this prevents dues for months together. Prior to the functioning of the MFFs the consumers would receive bills only once in 3 months and since the amount would be higher; the payment would be difficult to made. In the case of households who were initially reluctant of paying, the MFFs have motivated them to make payments monthly.

However during the course of the survey it was noted that most of the households under the Bhagya Jyoti scheme do not make any payments as they assume that it is subsidised or are expecting subsidies to come in from the government.

Figure 4.2: Condition of existing power sector infrastructure in Gulbarga district

4.6 Experience in the existing model

Apart from the utility and consumers, franchisees were also interviewed in Gulbarga district as part of our study methodology to capture their views on the system. Of the total operational 297 MFFs, random samples of 12 franchisees were surveyed.

4.6.1 Benefits of the scheme

A MFF is to act as one point customer care for the rural consumers and is supposed to service customers and thereby improve collections. The primary survey undertaken highlighted a few benefits of MFFs.

4.6.1.1 Enhancement in revenue collection

Overall, there has been enhancement in revenue collection, which is about 94-95% with reference to base collection

Table 4.5: Details on improvement in billing efficiency in GESCOM

S. No	Name of the division	Billing efficiency (May 2004, before franchisee)	Billing efficiency (Dec 2006, after franchisee)
1	Gulbarga -I	83%	98%
2	Gulbarga II	83%	95%
3	Yadgir	88%	94%

Table 4.5 above gives the billing efficiency for the three divisions for two points- before and after franchisees started functioning. It can be seen that in all three divisions, it has increased.

The MFFs interviewed have also reported an increase of 20-50% of revenue realisation after their functioning.

4.6.1.2 Increase in billing and collection efficiency:

All the MFFs surveyed produce the bills and collects revenue monthly. Therefore, all the MFFs have reported an improvement in billing and collection since their inception. In all the 31 villages, surveyed consumers have reported that monthly billing and collection is being done now. Earlier bills were issued in 2-5 months time and people hesitated in making payments as the amount was higher thus the dues would keep on increasing.

4.6.1.3 Employment opportunities for rural youths

The MFF scheme has served as an employment opportunity for the rural educated youths. All these villages surveyed are totally dependent on agriculture and the region does not have any employment opportunity for technically qualified youths. The MFFs who were surveyed said that they have taken up this as a source of income generation not motivated by the income from the activity but rather by the job structure. Most of the MFFs felt that although the income from the activity is low, the job suited them and was a decent employment in the village itself. The MFFs are satisfied with their job pattern. However, most of these MFFs are in the hope that they will be absorbed by the utility and will become regular employees with GESCOM eventually. This was one reason that they have not sought other opportunities despite low income from the activity. Though the MFFs were satisfied with the nature of job there is no overall socio economic development in the villages as only one person has been employed. It has to be pointed out by most of the MFFs that the reason for joining this business is that they expect a regular job/income with the utility and regular salaries in the future.

4.6.1.4 Link between utility and consumer

The role of the franchisee involves only revenue collection, meter reading, printing, distribution, and billing. The MFFs are not accountable for minor or major repairs. However, they do address the complaints of the consumers by reporting the fault to the utility or linemen. In some villages people already have direct accessibility with the linesmen, however many villages do not have such accessibility and hence the consumers find it convenient to lodge complaints to the MFFs. Some of the MFFs surveyed reported that they would like to have some training so has to handle minor faults, as this would gain more confidence in them by the consumer thus enabling them to do a better job in collection.

4.6.1.5 Increase in number of consumers

The study claims that there is an increase in domestic and IP sets connection over the past 3 years. The MFFs surveyed reported an increase of 10-20% in consumers. In correspondence to this the revenue collection has also increased by 15%. However most

MFFs were of the opinion the revenue collection is much more since counter collections have also improved after the functioning of the MFFs. Since the consumers have started receiving bills regularly on monthly basis they come and pay directly at the utility. This is more so in the case of those villages nearer to the collection counters and not the case of the remote villages.

4.6.1.6 Door to door collection of revenue

To the consumers, the biggest advantage of the MFF scheme was the door-to-door collection of receipts. This has saved their time and money on travel to the counter collection centre. All the consumers surveyed have reported that the MFF project has made it very convenient for them.

Figure 4.3: MFFs undertaking billing and printing work in GESCOM

4.6.2 Failures and Limitations

The MFF project has brought about many advantages as mentioned above, however the problems associated are also to be noted as mentioned by the stakeholders.

4.6.2.1 Insufficient remuneration

The main problems reported by all the MFFs surveyed are insufficient remuneration. Their average income has been reported to be around 1500 rupees. On an average, these MFFs cover five villages. All these MFFs surveyed complained that while they have been performing the duties of meter reading, bill printing, bill distribution they do not get any benefit from the counter collections as it is not shown in their collections. Their income depends on their target and in some cases they are not able to fulfil the target due to direct counter collections.

4.6.2.2 Target realisation

The MFFs receive the baseline targets every quarter, if their achievement is higher then the target increases for the next quarter. However in some cases they cannot realise the targets due to seasonal reasons and hence would have to penalty. Most of the MFFs reported that they are not remunerated based on their work.

4.6.2.3 Delay in payment by utility

Most of the MFFs reported that they do not receive their payment on monthly basis. In most cases, the payment is made only after 2-3 months. Some of the MFFs incur as high as Rs. 1200 on travel and hence delay in payments means serious financial implications to the MFFs.

4.6.2.4 Lack of training to MFFs

All the 12 surveyed MFFs said that they received one training programme when they started functioning. This training included meter reading, billing for units, bill collection, personal interaction skills with consumers, and consumer motivation for bill collection. However, the MFFs were of the opinion that they required more training such as training to handle minor repairs at the households as well.

4.6.2.5 Drawback of employing local people

Though the employment of a local person as MFF has increased accessibility and has had various advantages, it was found that in some cases it is difficult for a local person who has been staying there for years to ask the people to pay the electricity bills. In a few cases, it was reported that since the MFF is a local person itself nobody listens to them.

4.6.2.6 Less supply of spot billing machines

One hand held machines is shared by two MFFs in the entire region. Most of the MFFs reported that the supply of spot billing machines was a major problem. The MFFs said that it would be convenient if each of them was given one each spot billing machines. In a few cases, the MFFs reported that they have to do collection for up to eight villages and hence it becomes extremely difficult to share the machine.

4.6.2.7 Issue of non performing MFF

The data reveals that 12% of the MFFs formed left and less than 1% was terminated. Among those MFFs who left, the main reason for leaving was better job opportunities. Majority of the utilities report that their income is on an average Rs 1500/ month. Since the cost on travel was high and the work involved is tiresome, majority of the MFFs were of the opinion that they should receive at least Rs. 2000/month.

4.6.2.8 Decline in MFF formation over years

It can be noted, in June 2004, 339 MFFs started operating in the three divisions of which 39 MFFs have left and three were terminated. However, the number of MFFs has not increased. This is as a due to the fact that people are highly resistant to become MFFs due to the following reasons.

- Insufficient remuneration
- Delay in reimbursement of payments to them by utility
- High cost to be incurred on transportation and in some cases there is no access to some of the interior villages by public transport
- Difficulty to pay bank deposit or produce bank guarantee

4.6.2.9 Awareness of RGGVY scheme

The RGGVY scheme has been approved for Gulbarga district. The scheme involves the creation of infrastructure such as HT lines, LT lines and provision of 100% electrification to rural households. However all the MFFs interviewed were not aware of the RGGVY scheme.

4.6.2.10 Subsides as hindrance to make electricity payments

In some cases, the subsidies have been acting as hindrance towards the collection of payments. For instance, in the case of Bhagya Jyoti scheme, some minimum payment has to be made for using power. However, among those consumers interviewed only one consumer under the scheme reported that he does a payment of Rs. 10 per month.

4.6.2.11 Inability for payment of security deposit/bank guarantee

As per the norms a payment of Rs. 50,000 for general category and Rs. 25000 for SC/ST category as either security deposit or bank guarantee is necessary for the MFFs. In many cases people find it difficult to pay this amount. All the 12 MFFs interviewed have made a bank guarantee of the required amount.

4.7 Remodelling of the system

As opined by the utility in order to tackle problems of GVPs, some modified proposal called MFF proposal is launched by GESCOM covering Gulbarga district from January 2007.

The proposed MFF proposal requires minimum educational qualification as:

- Pass in SSLC/ PUC with knowledge of billing and collection, candidates with ITI or Diploma in Engineering preferred.

- Consent letter from local Gram Panchyat.
- Candidate should be provide a Bank Guarantee for 30 days average revenue demand of LT-1, LT-2, LT-3 & LT-5 less than 40 HP category of preceding financial year.

The roles and responsibilities of proposed MFF include:

- Meter reading, billing, bills distribution and revenue collection.
- Deposit the collected amount on same day or next working day to the designated office of the GESCOM without any excuse.
- Giving feedback about field realities to the utility periodically.
- Bringing awareness among consumers about electricity saving and safely measures.
- Identify rural households and assist them in getting power supply connections.

As per new proposal, the duration of contract will be initially for the period of one year and may be extended for such other period as deemed fit, based on the performance evaluation and as decided by the MD of the GESCOM. A slightly different incentive fee structure is to be followed for reimbursements to MFFs.

However, despite changes proposed by the new proposal, the utility expressed that no major change has been made in franchisee operations in the district. The earlier existing GVPs are continuing to carry out the same work as MFF and no additional responsibility or extension of scope of work is executed to these MFFs by GESCOM. The main reason for non implementation of actual MFF proposal is the lack of technical manpower and un-affordability of people to pay towards security deposits.

In order to support the franchisee operations, the utility has given MFF an option to take help of technical people available to him in the field from utility. The utility informed that monthly meetings at sub division office are held to take an account of the problems of franchisee and consumers in GPs.

Post discussions with the franchisees, utility officials and consumers it is felt that the system maintains transparency in selection of MFF and as such there are no major concerns with MFF working as an individual and most of the people are largely satisfied with such system. However, it is suggested that franchisee should be diploma or graduate at least to work as a franchisee in power distribution sector. The person should be financially capable, trained thoroughly in the work, and it is important that incentives are fixed based upon their performance at work. The last suggestion becomes important as sometimes it is

found that penalty paid by a MFF has worked out to be more than the incentives received due to the seasonal variations in bill collection.

4.8 Conclusion

Given the objectives of franchisee system in GESCOM and coming up of RGGVY scheme, there is lot of gap discovered during our field visit to the district. Based on our interactions with stakeholders, the following comments can be made on existing MFF model:

- There is increase in revenue collections. The bills are prepared & distributed in time resulting in increased billing and collection efficiency (from 87% in December 2004 to 94% in December 2006) in the district.
- There is employment gain for few less educated persons.
- A person taking up the role of MFF should be technically strong, knowledgeable, and economically strong and should have some staff to assist them in these operations.
- There is need to impart training every quarter on technical and financial aspects of the MFF role.
- The option of utilising the already existing set up of SHGs in the villages as MFFs could be explored.
- The remuneration of franchisee is not attractive to make it sustainable.
- Franchisees should be made responsible to maintain feeder lines and to electric faults both for long & short duration faults and to keep a record of the same. The utility advised sub contracting the franchisee from transformer level. It is also proposed that commission to franchisee should be given @ Rs500 per transformer per month and Rs 200 per km per month for line maintenance.

CHAPTER 5 Conclusion and Recommendations

The franchisee systems operating in the identified districts of the three states, exhibit an attempt to address the ailing electricity distribution business in rural areas. The system has generated avenues for business and employment for the local people. It has resulted in reduction of consumer grievances and has contributed to the socio economic development in all the four districts. Utility has also benefited in terms of their interface with consumers. The districts have seen improvements in revenue realisation and reduction in theft and pilferage. However, under the requirements as per RGGVY guidelines, there is a need to remodel the system in all the three states. It is proposed that the states adopt the Input Based Franchise system where electricity is sold to the franchisee at the Bulk supply tariff and complete distribution business is handed over to them. It is required to develop the model into a blend of commercial and entrepreneurial approach to electricity distribution and rural transformation for revenue sustainability and success of the franchise system in the states. Following are some of the recommendations to ensure the same

Management

- A strong team for franchise development is needed for success of the scheme. The utility should consider building up a strong team of 5-6 members headed by a General Manager (Franchise Development) at the corporate level. The GM should be supported by a DGM at the zone/district level depending on the requirement of a particular state. This team can be given with set goals and duration to achieve the same. Further, the team should be given a term appointment for a minimum period of 2 years to ensure security and stability to the operating/potential franchisees.

Selection

- Selection process to ensure competency and transparency is going to be a key for success of the system. This process needs to take into account the technical and financial strengths of the applicant, active interest and long-term business goals, good attitude, capacity to learn and good business acumen. Prior experience on working in the electricity or public utility sector would be an added advantage.

Contract design

- The agreement signed between franchisee and franchiser should contain a clearly defined scope of work and roles and responsibilities of both the parties. There should be a clause on franchiser's initial obligation towards the franchisees and franchiser's ongoing obligation in the agreement. Generally common areas of conflict include, perceived misrepresentation

by franchiser, verbal understandings which are not written into formal agreement, unequal treatment, arbitrariness, non-compliance of guidelines and inadequate support from franchiser. An ill-defined partnership can lead to losses to both franchisee and franchiser.

Infrastructure assessment

- The franchise contract should clearly mention the franchisee a defined time frame from the date of signing the agreement for commencement of operation. The period could be utilised by the franchisee to conduct survey and compilation of all physical infrastructures of the distribution network in the franchise's operational area. During the same period the franchisor should also compile all information (such as consumer list, consumer wise load profile, defaulting consumers etc) from their end and provide the same to the franchisees.

Duration of contract

- Internationally, typical franchise contract is for duration of 3-6 years. Franchise contract in the rural electricity distribution sector should be for a minimum of 3 years with two-way exit clause and compensation mechanism for exiting the venture built in the agreement.

Capacity building

- Capacity building of the franchisees on various technical aspects as well as commercial, financial, social and managerial aspects is an immediate need. Otherwise, the scheme may fail in the long run and casualties may also occur as the franchise technicians are currently undertaking some of the line maintenance work and fuse off repairs. There should also be continuous consumer awareness, capacity building of utility officials at different levels and discussion forums for experience sharing and complaint redressal involving all stakeholders on a regular basis.