

Rethinking Franchisee Efficacy in India's Power Sector

A Critique of Input-Based Distribution Models

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This paper presents a comprehensive and critical evaluation of the Input-Based Distribution Franchisee (IBDF) model as a strategy for reforming India's power sector. It directly confronts the prevailing narrative that portrays the IBDF model as a readily available and universally applicable solution for the chronic financial challenges that plague discoms and for attracting private investment into the critical area of power distribution. Through a rigorous, state-by-state analysis of the experiences of nine Indian states that have experimented with the IBDF model, the paper identifies the significant and often overlooked limitations in its conceptual design, practical implementation, and the regulatory oversight mechanisms designed to ensure its effectiveness. The central argument that emerges is that the IBDF model, in its current form, is far from a guaranteed success and, in many instances, has yielded outcomes that are decidedly sub-optimal, thereby raising fundamental questions about its suitability as a one-size-fits-all policy prescription for the diverse and complex challenges confronting India's power distribution sector.

The paper begins by carefully establishing the crucial context within which the IBDF model has been promoted and adopted. It acknowledges the deeply entrenched and persistent challenges that continue to afflict the power distribution segment, which remains arguably the weakest link in the overall power sector value chain in India. These challenges are vividly manifested in the form of substantial and recurring financial losses incurred by discoms, losses that can be attributed to a complex and often mutually reinforcing set of factors. These factors include electricity tariffs that are often not adequately aligned with the true economic cost of supplying power, a persistent inability to effectively recover revenue due to systemic inefficiencies in metering, billing, and collection processes, and the adoption of suboptimal practices in power purchase planning and operational management, leading to increased costs and reduced efficiency. It was against this backdrop of chronic financial distress and operational inefficiencies that the IBDF model emerged as a potentially viable and politically palatable alternative to the more contentious and often fiercely resisted option of outright privatisation of discoms.

The underlying premise of the IBDF model is relatively straightforward: a private franchisee assumes operational responsibility for all aspects of electricity distribution within



a geographically defined area, with the notable and strategically important exceptions of power procurement, which remains the responsibility of the discom, and long-term strategic planning, which is typically retained by the State government or the discom itself. Under this carefully structured arrangement, the discom continues to supply electricity to the franchised area at a pre-determined “input rate,” a price point that is typically established through a competitive bidding process designed to ensure transparency and value for money. The franchisee’s ability to generate profits, and thus the financial viability of the entire arrangement, is directly and inextricably linked to its success in reducing AT&C losses below the agreed-upon input rate. The lower the losses, the greater the potential for profit, thereby creating a powerful incentive for efficiency and improved performance.

The paper provides a historical overview of the evolution of the franchisee concept in India, tracing its origins back to the early initiatives aimed at accelerating the pace of rural electrification under the RGGVY. While the initial vision centred on empowering local community-based organisations to manage electricity distribution in newly electrified rural areas, the concept gradually evolved into the more structured, commercially oriented, and professionally managed IBDF model that is the focus of this paper. It underscores a critical point: despite its widespread adoption and active promotion by policymakers, government agencies, and even international development organisations, the IBDF model lacks formal legal recognition in the eyes of the Electricity Regulatory Commission. Instead, the regulatory body, which is charged with overseeing the power sector and ensuring fair and equitable outcomes for both consumers and utilities, views the franchisee as essentially a vendor or sub-contractor to the discom, rather than as an independent entity with clearly defined rights and responsibilities. As a result of this regulatory classification, the discom retains ultimate and often unfettered responsibility for ensuring full compliance with all applicable legal and regulatory requirements within the franchised area, a situation that can lead to complexities and potential conflicts of interest.

The paper then presents a comprehensive overview of the current IBDF landscape in India, providing a valuable and empirically grounded snapshot of the extent to which the model has been implemented and the results that have been achieved. While the IBDF model has been attempted in approximately 28 distinct distribution divisions or circles spanning nine states across the country, the sobering statistic is that only 12 of these franchises are currently operational. The remaining 16 franchises have been terminated for a variety of reasons, ranging from severe financial difficulties experienced by the franchisees, rendering them unable to meet their contractual obligations, to a failure to satisfy the stipulated conditions precedent for commencing operations, often due to unforeseen challenges or regulatory hurdles. There is increasing concern over the limited availability of publicly accessible and rigorously analysed information regarding the underlying causes of this alarmingly high failure rate, with the exception of a few isolated

studies that have focused on specific franchisee experiments, often with a limited scope and methodological rigor. This lack of transparency and in-depth analysis makes it difficult to draw definitive conclusions about the effectiveness of the IBDF model and to identify the key factors that contribute to its success or failure.

The subsequent sections of the paper offer a detailed, state-by-state analysis of the experiences with the IBDF model, commencing with Maharashtra, which holds the distinction of being the first state to implement the model in Bhiwandi in 2006. The paper acknowledges the initial successes achieved by TPL in significantly reducing distribution losses in Bhiwandi, a town that had long been plagued by rampant power theft, illegal connections, and exceptionally high AT&C losses. However, the benefits accruing to the discom, MSEDCL, were significantly limited by the fixed input rate structure, which effectively capped the discom’s potential revenue gains, regardless of the extent of the loss reduction achieved by the franchisee. The paper further raises concerns about the decision to renew the Bhiwandi DFA without undertaking a fresh and competitive bidding process, as well as the franchisee’s substantial “non-committed” capital expenditure, the precise rationale and the degree of regulatory oversight applied to which remain shrouded in a degree of opacity. The paper examines other franchisee initiatives undertaken by MSEDCL in various parts of the state, revealing a recurring and troubling pattern of high failure rates and the resulting financial liabilities that have been ultimately borne by the discom, often at the expense of consumers.

The analysis shifts its focus to Uttar Pradesh, examining the contrasting experiences of the Kanpur and Agra distribution franchisees. The Kanpur franchisee, despite being awarded to TPL after a competitive bidding process, never actually commenced operations due to sustained and often violent opposition from labour unions who feared job losses and a decline in working conditions. In contrast, the Agra franchisee, also awarded to TPL, did begin operations but soon encountered a series of significant challenges, including adverse findings from the CAG regarding substantial revenue losses stemming from irregularities in the calculation of the ATR, a key metric used to determine the franchisee’s payments to the discom. The paper also highlights the protracted legal battles surrounding the UPERC’s jurisdiction over franchisee operations, as well as the findings of an independent expert committee that uncovered serious deficiencies in the Agra franchisee’s performance, raising further questions about the overall effectiveness and sustainability of the model. The conspicuous and concerning absence of independent, third-party assessments to validate the claims of significant loss reduction in Agra, rely instead on self-reported data that may be subject to bias or manipulation.

The Rajasthan experience is examined, with a particular emphasis on the “Input plus Investment” model, which mandates that franchisees commit to a minimum level of capital investment upfront, a feature designed to ensure that they have sufficient resources to improve the distribution infrastruc-

ture and reduce losses. The paper questions the rationale for selecting the specific franchisee areas, observing that they were not necessarily the most loss-making areas within the state's distribution network, suggesting that other factors, such as political considerations or ease of implementation, may have played a role in the selection process. The CAG's audit findings reveal the existence of weak contractual provisions and a lack of due diligence on the part of the discom in effectively enforcing these provisions, potentially undermining the financial viability of the entire arrangement. The paper also highlights the persistent delays in conducting independent audits and the discoms' apparent lack of commitment to ensuring their timely completion, raising further concerns about the transparency and accountability of the IBDF model in Rajasthan.

The Bihar experience is presented as a cautionary narrative, serving as a stark reminder of the potential pitfalls of the franchisee model when deployed in particularly challenging circumstances, such as those characterised by weak governance, limited infrastructure, and a history of poor performance. Despite the BERC's commendable and proactive efforts to safeguard the interests of consumers, the franchisees in Bihar failed to make the necessary investments to improve the distribution network and reduce losses, leading to contract terminations and protracted and expensive litigation. The franchisee model was fundamentally ill-suited to support the ambitious and rapid electrification of rural Bihar, which required massive, upfront investments that could only be recovered over an extended period, a timeframe that was incompatible with the short-term focus and profit-driven incentives of the franchisees.

The paper also provides overviews of the franchisee experiences in Madhya Pradesh, Jharkhand, and Odisha, highlighting recurring themes of contract termination, legal disputes, and a lack of transparency, further reinforcing the central argument that the IBDF model is not a guaranteed success and requires careful consideration of the specific context and circumstances in which it is implemented.

There are several key issues and challenges that are consistently associated with the IBDF model across different states and contexts. These include: a persistent lack of transparency in the selection, operation, and termination of franchisees, making it difficult to assess the true costs and benefits of the model; a demonstrable inability on the part of discoms to effectively enforce contractual provisions and safeguard

their own financial interests; a lack of accountability regarding capital expenditure and its effective and efficient utilisation; the difficulty in accurately assessing franchisee performance due to the absence of reliable and independent third-party audits; and the critical importance of stable and sustained political support for ensuring the long-term success of franchisee initiatives.

Key Policy Recommendations

In its concluding sections, the paper persuasively argues that the IBDF model, in its current form, suffers from numerous inherent shortcomings and that the existing legal, regulatory, and governance frameworks are inadequate to effectively address these deficiencies. Consequently, it advises against the widespread and indiscriminate promotion of the IBDF model as a universally applicable solution for improving the financial health and operational efficiency of discoms. If a change in ownership or management structure is deemed necessary, outright privatisation, with appropriate safeguards and regulatory oversight, may represent a more effective alternative to the franchisee model. This is because it offers the potential for greater economies of scale, direct ownership of assets, a stronger and more sustained incentive for loss reduction and service improvement, and direct accountability to the regulatory commission, consumers, and the public at large.

Finally, the paper acknowledges the rapidly evolving dynamics of the power sector, driven by technological innovation, changing consumer preferences, and the imperative to transition to a more sustainable energy future. The discom of the future will need to be agile, adaptable, and responsive to a wide range of challenges, including shifts in consumer demand patterns, the integration of distributed generation resources, and the increasing frequency of extreme weather events. The franchisee model, as it has been implemented to date, lacks the inherent flexibility and adaptability required to meet these evolving needs effectively, suggesting that more comprehensive and innovative models are needed to address the complex and multifaceted challenges facing India's power sector. The paper serves as a valuable contribution to the ongoing debate about power sector reform in India, offering a nuanced and evidence-based perspective on the limitations of the IBDF model and highlighting the need for a more holistic and context-specific approach to addressing the challenges facing discoms.

About the author



Ashwini Chitnis is a Visiting Fellow at the Centre for Social and Economic Progress (CSEP) and has over 15 years of experience in policy formulation and governance issues. She has extensive experience as an intervenor in electricity sector policy and regulatory processes at the state (Maharashtra) and national levels. In addition, she has worked on initiatives aimed at capacity building of civil society actors and other stakeholders to enable them to better engage with the sector policy and regulatory processes.

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