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Rethinking Franchisee Efficacy in India's Power Sector

A Critique of Input-Based Distribution Models

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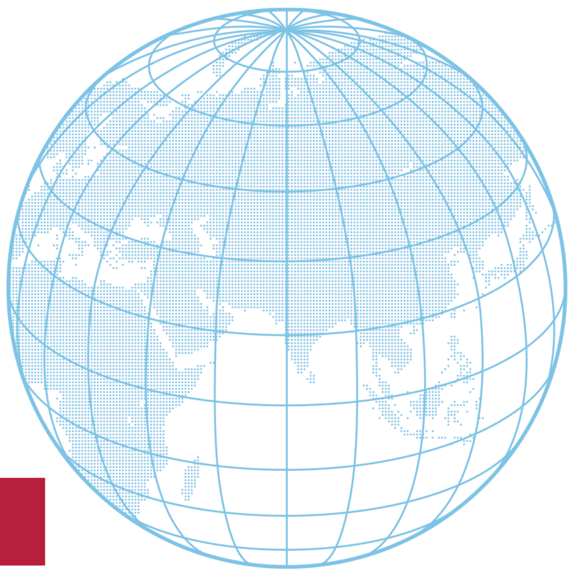

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Rethinking Franchisee Efficacy in India's Power Sector

A Critique of Input-Based Distribution Models

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Table of Contents

List of Tables

List of Figures

Abbreviations and Acronyms

ABR	Average Billing Rate
AT&C	Aggregate Technical and Commercial (loss)
ATE	Appellate Tribunal for Electricity
ATR	Average Tariff Rate
AVVNL	Ajmer Vidyut Vitaran Nigam Limited
BERC	Bihar Electricity Regulatory Commission
BESL	Bharatpur Electricity Services Limited and BiESL
BiESL	Bikaner Electricity Supply Limited
CAG	Controller and Auditor General
Capex	Capital expenditure
Central Discom	Madhya Pradesh Madhya Kshetra Vidyut Vitaran
CESU	Central Electricity Supply Utility
CGL	Crompton Greaves Ltd
DF	Distribution Franchisee
DFA	Distribution Franchisee Agreement
DVVNL	Dakshinanchal Vidyut Vitran Nigam Ltd.
East DISCOM	Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited
ED	Electricity duty
GoI	Government of India
GoO	Government of Odisha
GTL	GTL Infrastructure
IBDF	Input-Based Distribution Franchisee
IBF-IRS	Input-Based Franchise with Incremental Revenue Sharing
IPDS	Integrated Power Development Scheme
JBVNL	Jharkhand Bijli Vitran Nigam Ltd
JdVVNL	Jodhpur Vidyut Vitaran Nigam Limited
JSEB	Jharkhand State Electricity Board
JUSCO	Jamshedpur Utility & Supply Company
JVVNL	Jaipur Vidyut Vitaran Nigam Limited
KEDL	Kota Electricity Distribution Limited
KESCO	Kanpur Electricity Supply Company Ltd.
MERC	Maharashtra Electricity Regulatory Commission
MoP	Ministry of Power
MSEDCL	Maharashtra State Electricity Distribution Company Limited
MVVNL	Madhyanchal Vidyut Vitaran Nigam Ltd
NBPDCL	North Bihar Power Distribution Company Limited
NGO	Non-Governmental Organisation
NPCs	No power complaints
PFC	Power Finance Corporation Limited
PPP	Public-Private Partnership
RDSS	Revamped Distribution Sector Scheme
RERC	Rajasthan Electricity Regulatory Commission

RFP	Request for Proposal
RGGVY	Rajiv Gandhi Grameen Vidyutikaran Yojana
RUPL	Riverside Utilities Private Ltd.
SAC	State Advisory Committee
SBPDCL	South Bihar Power Distribution Company Limited
SMK	Shil, Mumbra & Kalwa
SNDL	Spanco Nagpur Discom Ltd.
SUPL	Seaside Utilities Private Ltd.
TIR	Tariff Indexing Ratio
TOSE	Tax on Sale of Electricity
TPC	Tata Power Company Ltd.
TPL	Torrent Power Ltd
UPERC	Uttar Pradesh Electricity Regulatory Commission
UPPCL	Uttar Pradesh Power Corporation Limited
West DISCOM	Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited

Abstract

In the Indian electricity business, a franchisee is an entity appointed by a distribution company to undertake all distribution operations within a specified area, except for power procurement and planning. The distribution company remains responsible for regulatory and legal compliance. It supplies electricity to the area, and the franchisee pays a fixed, predetermined rate per unit of the electricity supplied, known as the "input rate." The franchisee aims to make profits by reducing losses to a lower degree (and quicker) than the level indicated by the input rate quoted in their bid. This arrangement is known as the "Input-Based Distribution Franchisee" (IBDF) model.

Inspired by the success of Bhiwandi, franchisees have become a major element in the electricity distribution reform toolkit. They are prescribed as a standard measure for reducing technical and commercial losses to all the loss-making electricity distribution companies. Bailout packages, ranging from the Financial Restructuring Plan of 2012 to the latest Revamped Distribution Sector Scheme (RDSS) in 2023, have advocated implementing franchisees as a solution for reducing distribution losses. Although policymakers favour the franchisee model for loss reduction, evidence from on-the-ground experiences suggests otherwise.

Currently, the IBDF model and its variants are implemented in about twenty-eight divisions or circles across nine states. Of these, only twelve are operational, and the status of four remains uncertain due to the absence of publicly available data. Although operational franchisees often claim significant loss reduction, most of this data is self-reported. Despite contractual requirements and regulatory directives, independently verified third-party audits of their performance are frequently delayed or not publicly available. Data regarding their capital expenditure plans and actual capitalisation is also not available in the public domain; unlike similar data for the distribution company, which is usually publicly available through the tariff revision process.

The analysis also reveals serious limitations in the distribution company's ability to enforce contractual terms and conditions that safeguard its financial interests. It reveals that most state regulatory commissions view the franchisee as a vendor or subcontractor of the distribution company and hence they do not monitor its operations or performance. In cases where commissions have intervened, such as in Uttar Pradesh, their jurisdiction has been challenged, with the matter pending before the Supreme Court of India. Contractual disputes between distribution companies and franchisees have also arisen, leading to complex and protracted legal or arbitral proceedings with financial impacts on consumers.

Considering these experiences across various states, the paper advises caution in prescribing the IBDF model as a "standard" policy solution for loss reduction. While the franchisee was once viewed as an alternative to privatisation, which was deemed more difficult and challenging to implement, the ground reality shows that without political support for the franchisee—a private player—the model is unlikely to even take off, let alone be sustainable. In other words, the franchisee model does not circumvent the need for political support, arguably the toughest challenge in the privatisation process.

With the rapidly unfolding energy transition, the nature and role of the traditional distribution company is also evolving. In this context, when considering a shift in ownership structure to attract investments or enhance managerial efficiency, a stronger case emerges for privatisation as opposed to the franchisee model. In privatisation, greater ownership provides a stronger incentive not only to reduce losses, but also to enhance the overall network, service delivery, and introduce innovative practices to stay relevant in the industry. More importantly, in privatisation, the accountability of the licensee to the regulatory commission, consumers, and the public at large is more direct and hence greater and much stronger.

1. Brief History and Background

The term "franchisee" in the regulated utility space refers to the outsourcing of certain functions to a third party. The concept of a franchisee in electricity distribution has been around since the early 1990s reforms (Ministry of Power [Mop], 1996). Initially, it aimed to facilitate electrification by enabling last-mile connections and aiding billing and revenue collection in newly electrified areas. Under the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), state governments needed to appoint rural franchisees to manage the distribution system created through RGGVY funds to access capital subsidies. These franchisees could be non-governmental Organisations (NGOs), local self-help groups, cooperatives, individual entrepreneurs, or Panchayat institutions (MoP, 2005). However, these rural franchisees did not take off in the manner that was envisaged under the scheme (Nhalur & Dixit, 2011).

Over time, the franchisee's scope evolved into the 'Input-Based Distribution Franchisee' (IBDF) model, first implemented in 2006 in Bhiwandi, a city in Maharashtra's Thane district. In the IBDF model, the franchisee undertakes *all* functions of the distribution licensee, except power procurement and planning. The distribution licensee supplies input energy to the franchisee area at pre-determined input points, and the franchisee pays a fixed per-unit rate for this power, determined through a bidding process. The franchisee contract includes mechanisms to account for changes in tariff and consumer mix over its term. The licensee receives a fixed revenue from the formerly loss-making franchised area, which is ideally more than its previous revenue realisation from this area. The franchisee must reduce losses to a level below the input rate at which it purchases power from the licensee to recover costs and make profits. The quicker the loss reduction, the more beneficial it is for the franchisee, allowing it to recoup the investments necessary for achieving the required loss reduction. This is the theoretical expectation of the model.

The IBDF is the most common franchisee model and has been attempted by many states. It is important to note that, as far as the Electricity Regulatory Commission is concerned, the franchisee has no legal recognition and is treated like any other vendor of the distribution licensee. The licensee remains responsible for ensuring compliance with all relevant laws, rules, and regulations. Two other franchisee model versions are the 'Input Plus Investment Based Distribution Franchisee' and 'Input-based Franchise with Incremental Revenue Sharing' (IBF-IRS). As implied by its name, the input plus investment-based model requires the franchisee to commit to a certain minimum level of investment at the bidding stage. This model has been adopted by Rajasthan, as discussed further in the paper. The IBF-IRS model is discussed in the section on Odisha, where it was implemented.

1.1 Franchisee and Distribution Reforms

The distribution sector is the weakest link in the power sector and continues to be a loss-making enterprise. According to the latest data published by the Power Finance Corporation (PFC), the aggregate losses for distribution utilities in FY 2021-22 stood at Rs 31,026 crore, while the accumulated losses (as per the Balance Sheet) were Rs 5,52,507 crore (PFC, 2023). Three main factors are responsible for such high levels of financial losses: a) tariffs not reflective of the costs; b) inability to recover revenue for electricity sold, due to metering, billing, and collection inefficiencies; and c) inefficiencies in power purchase planning and operations. Due to the huge magnitude of the discom losses, they must be repeatedly bailed out by the state and/or central government. Most of these bail-out packages have highlighted the need to operate the discoms on commercial terms and to improve their efficiency by reducing aggregate technical and commercial (AT&C) losses. However, this objective has often eluded the discoms.

The distribution reforms have attempted to address all three factors responsible for the distribution companies' financial troubles using a mix of structural, legislative, and financial measures with varying degrees of success. The structural reforms included changes such as unbundling, introducing independent regulatory agencies, and privatising generation and distribution companies. Legislative reforms included the enactment of the Electricity Regulatory Commissions Act 1998, the Electricity Act, 2003, and the formulation of various national policies and rules thereunder. These in turn have established a regulatory framework for enabling competition and facilitating market operation in the sector. The Acts also improved transparency and public participation in the sector's functioning. Financial measures have been in the form of bailout packages such as FRP

(GoI, 2012), UDAY (GoI, 2015), etc., or large central sector schemes such as the RGGVY, APDRP and R-APDRP, IPDS, and the most recent Revamped Distribution Sector Scheme (RDSS) through which the central government has made grants available to the state discoms to improve certain specific area of their business. For instance, to further rural household electrification, grants were given under RGGVY, for improving metering and billing infrastructure in urban and semi-urban areas, funds were provided under APDRP and R-APDRP, and so on.

Since 90% of the distribution companies are state-owned, the emphasis of the reforms has been on increasing private-sector participation and encouraging competition and market operation. Outright privatisation of discoms was tried in Odisha and Delhi. In Odisha, the first round of privatisation was a total failure, whereas, in Delhi, it succeeded in significantly improving supply and service quality and reducing losses. However, the Delhi discoms face the challenge of huge regulatory assets,[1] but that is more of a regulatory challenge than a discom ownership issue. Critiques of these reform experiments are available in the public domain and are beyond the scope of this paper (Prayas, 2017) (Dubash, Kale, & Bharvirkar, 2018).

After Odisha and Delhi, no state has attempted to privatise its distribution sector. Some, such as UP, have tried but have met with stiff resistance from employee unions and have had to drop their plans (Economic Times, 2020). In contrast to outright privatisation, franchisees are seen as a benign alternative that can be implemented without any fundamental change in ownership and within the current legal and regulatory framework. Additionally, they can also help in reducing AT&C losses. There has been opposition to franchisees as well, but since the ownership remains with the discom, it is seen as a more palatable option. It was also hoped that if franchisees could turn around some of the higher loss-making pockets, it would become easier for the discom to reduce its overall losses. Based on such assumptions perhaps the franchisee (mostly IBDF) has become a part of the standard prescription of distribution reforms for reducing AT&C losses and attracting private capital in distribution.

This working paper is part of a project that evaluates various ownership options for the discoms, including public ownership, private ownership, and distribution franchisees. The objective is to recommend the most optimal solution for the changes that might be needed in organisational structure, in the context of the given state and discom's realities. Apart from this paper, which focuses on the franchisees, there will be papers that evaluate other ownership options such as private and public ownership, and a review of the national and international experience with privatisation reforms in distribution. Finally, there will be a paper that ties together the findings from these individual papers and draws conclusions, which can inform the broader policy and regulatory processes at both the state and central levels.

1.2 Present Context and Relevance

From the Ahluwalia Committee report in 2001 (Planning Commission, 2001), to the Shunglu Committee report in 2011 (Shunglu Committee Report, 2011), and the latest report by the NITI Aayog (NITI Aayog, 2021), all have recommended appointing franchisees to reduce distribution losses and improve revenue recovery. Distribution franchisees are also part of the indicative list of reform measures suggested under the strategies for New India @ 75 (NITI, 2018) and the latest, Revamped Distribution Sector Scheme (RDSS) (MoP, 2022). While the prescription seems unequivocal, the experience on the ground is less so. Starting with Bhiwandi in Maharashtra in 2006, so far, eight other states have implemented franchisees in around 28 divisions/circles. However, there are more examples of failed franchisees than operational ones.

Table 1 and Table 2 respectively give the details of operational and non-operational franchisees across the different states. As can be seen, out of the total 28 franchisees, only 12 are operational today. The remaining 16 have been terminated due to financial issues or non-fulfilment of conditions precedent. Despite such poor performance, there is little analysis in the public domain in this regard, except for a couple of studies which have closely reviewed certain specific franchisee experiments, namely, Bhiwandi (Prayas, 2009), and Agra (TERI, 2018). Given

[1] In the context of a discom, a regulatory asset is an amount recorded on the company's balance sheet as an asset. It represents costs that are incurred by the discom and approved by the regulatory commission to be recovered through tariffs. However, to avoid tariff shock or for other reasons, the recovery of this approved expense is deferred by the Commission. The discom is allowed carrying costs or interest on the regulatory assets till the time they are recovered and there is regulatory certainty for its recovery, which means that the discom's borrowing capacity may not be adversely impacted by it.

this context, this paper aims to provide a broad status overview of the operational and financial performance of the currently functioning franchisees, for which data is available in the public domain. It highlights the challenges faced by them and the concerned distribution licensees. It also examines the failed franchisees to understand the reasons for their failure and to see if any common lessons can be learned from them. It seeks to identify regulatory and governance challenges that arise in the context of franchisee appointment and operation. Based on this analysis, it identifies factors and conditions, if any, under which a franchisee could be a solution for the many challenges faced by the distribution sector today.[2]

Table 1: Details of Presently Operational Franchisee

State	Area(s)	Franchisee operator	Remarks
Maharashtra	Bhiwandi	Torrent Power Ltd	Operational since 2006, renewed in 2017
	Malegaon	CESC Limited	effective from March 2020 to March 2040
	Shil, Mumbra & Kalwa (SMK) sub-divisions under Thane Urban Circle	Torrent Power Ltd	effective from March 2020 to March 2040. Distribution operations were handed over to M/s. TPL on 1st March 2020 (MSEDCL, 2023).
Uttar Pradesh	Agra	Torrent Power Ltd	An investigation into the DF's functioning was ordered. The matter is pending before the Supreme Court.
Rajasthan	Ajmer	TP Ajmer Distribution Limited (TPADL)	DFA is valid for 20 years from the date of handing over, i.e., July 2017 (AVVNL, 2016)
	Kota	CESC Limited	Operational since Sep 2016
	Bharatpur	CESC Limited	Operational since Dec 2016
	Bikaner	CESC Limited	Operational since May 2017
Meghalaya	Mawkyrawat, Mawsynram, Nangalbibra and Phulbari	FEDCO	Status not known
	Dalu subdivision	Sai Computers	Status not known
Tripura	Kailashahar	Sai Computers	Status not known
	Ambassa, Manu, Mohanpur and Sabroom	FEDCO	Status not known

Source: Author's compilation.

[2] Some of the key challenges being faced by the distribution sector include: rising financial losses and regulatory assets, loss of revenue due to consumer migration, rising share of renewable generation which brings with it the challenge of managing intermittency of supply with limited demand flexibility and limited resources such as hydro and storage, institutional and governance issues.

Table 2: Details of Non-operational (Cancelled) Franchisees

State	Area(s)	Franchisee operator	Remarks
Maharashtra	Aurangabad	GTL Infrastructure	Franchisee could not pay for the input energy
	Jalgaon	Crompton Greaves	
	Nagpur	Spanco Limited	
Bihar	Muzaffarpur	Essel Vidyut Vitaran	Sub-par performance
	Gaya	India Power Corporation Ltd.	Franchisee could not pay for input energy
	Bhagalpur	SPML Infrastructure Ltd	
Madhya Pradesh	Gwalior	Essel Utilities	Franchisee could not take over operations
	Ujjain		Unsatisfactory performance
	Sagar		Unsatisfactory performance
Uttar Pradesh	Kanpur	Torrent Power Ltd	Franchisee could not take over operations
Jharkhand	Jamshedpur	Tata Power Ltd.	Franchisee could not take over operations
	Ranchi	CESC Ltd.	Franchisee could not take over operations
Odisha	Dhenkanal, Chainpal and Angul	ENZEN-DHENKANAL	Contract terminated after TPC took over
	Cuttack, Athagarh and Salipur	Riverside Utilities Private Ltd. (RUPL)	CESU terminated the contract in 2019
	Nimapara	Seaside Utilities Private Ltd. (SUPL)	CESU terminated the contract in 2019
	Khurda, Puri, Balugaon and Nayagarh	FEDCO	Contract terminated after TPC took over

Source: Author's compilation.

Table 3: Types of Distribution Franchisee Models

Franchisee scheme	Responsibilities	Revenue model	Suitable for
Collection-based Revenue Franchisee	Meter reading, bill distribution, and revenue collection (REC, 2012).	A fixed percentage of collection on achievement of the target.	Small areas, rural and remote areas.
Revenue Collection with O&M	Like collection-based Revenue Franchisee but with the additional responsibility for the operation and maintenance of the network (REC, 2012).	Fixed commission plus incentives based on achievements.	Small areas, rural and remote areas.
Input-based distribution franchisee (IBDF)	All functions of the distribution licensee except for power procurement. Distribution licensee is responsible for ensuring all legal and regulatory compliance (AERC, 2018).	The franchisee pays a fixed revenue to the licensee based on the input rate it has quoted. For loss reduction beyond the quoted input rate, the franchisee keeps the profits.	Large circle or multiple divisions.

Franchisee scheme	Responsibilities	Revenue model	Suitable for
Input plus investment distribution franchisee	Like input-based franchisee bidding is conducted based on the input rate and certain minimum capital expenditure that the franchisee must undertake in the first five years of its operation (Indian Infrastructure, 2016)	Like input-based franchisee.	Large circle or multiple divisions.
Input-based Franchise with Incremental Revenue Sharing (IBF-IRS)	Like an input-based franchisee, bidding is conducted based on revenue sharing per unit. The input energy is free of cost to ease the demand and price fluctuation-related risks (pManifold, 2014).	The incremental revenue realised beyond the baseline revenue per unit (RPU) is shared between the franchisee and the licensee at a pre-defined ratio. The penalty is imposed for not realising the base RPU on the franchisee (pManifold, 2014).	Multiple divisions.

Source: Author's compilation from various sources.

1.3 Understanding the Franchisee Landscape

The Electricity Act of 2003 defines a franchisee as "a person(s) authorised by a distribution licensee to distribute electricity on its behalf in a particular area within his area of supply" (GoI, 2003). Thus, the role of the franchisee is essentially that of a subcontractor, limited to the distribution of electricity. This is a key reason why the franchisee cannot engage in power procurement. The franchisee has no locus before the regulatory commission and therefore, cannot undertake any power purchase on behalf of the licensee or seek the Commission's approval for capital investment plans in the franchisee area. For all legal and regulatory purposes, it functions as a vendor or a subcontractor of the licensee with a limited role. This is also the reason why despite appointing a franchisee, the licensee remains responsible for all legal and regulatory compliances.

Distribution franchisees can be set up in many ways. Table 3 highlights the key features and differences between some of the more common franchisee models. The roles and responsibilities listed in the table are indicative rather than exhaustive. In practice, the functions and responsibilities of franchisees can vary and be tailored to the specific needs of a given area and context. Additionally, contracts within a given franchisee model can be designed differently. For example, the first franchisee contract in Bhiwandi was signed for ten years, aligning with the average useful life of most assets in the distribution business, which is about ten to twelve years. In contrast, Uttar Pradesh, which appointed franchisees right after Maharashtra, set the contract term for twenty years, only five years shorter than the distribution license term. Thereafter, franchisees have been awarded contracts ranging from 15 to 20 years. While each franchisee model and its contract can have unique aspects, the most prevalent type is the input-based distribution franchisee, which is discussed in more detail in this section.

1.4 Input-Based Distribution Franchisee (IBDF)

As stated earlier, in the IBDF arrangement, the licensee supplies power to the franchised area, while the franchisee undertakes all functions of the discom. The franchisee pays a fixed predetermined rate, called the "input rate," per unit of the energy supplied (Rs/kWh) to it by the licensee. The franchisee is selected through a bidding process based on the input rate, hence the name. In 2012, the Ministry of Power issued standard bidding documents to streamline the bidding process for the appointment of IBDF (MoP, 2012). According to these documents, a single-stage bidding process can be undertaken, wherein bidders are asked to submit both technical and financial bids. The technical bid is usually based on two criteria: experience and track record in the sector, and the financial capability of the bidder. The financial bids are based on an annualised input rate that the bidder must quote for the entire term of the franchisee contract, which ranges from 10 to 20 years. Having a single bidding parameter (input rate) simplifies the process significantly. The licensee can establish its benchmark input rate, below which it would not accept any bids. The bid that fetches the highest revenue for the licensee (i.e., the highest quoted input rate) is selected as the winner, subject to the technical bid evaluation.

Once the winning bid is identified and the Distribution Franchisee Agreement (DFA) is signed, the area is handed over to the franchisee, after completion of the conditions precedent specified in the Request for Proposal (RFP) and the DFA. While quoting the annualised input rate, bidders need to consider the minimum loss reduction requirements stipulated in the RFP, if any. They also need to incorporate into their quote any capital expenses required to achieve the necessary loss reduction. Most franchisee contracts require the franchisee to submit an infrastructure rollout plan aiming at lowering losses and improving supply and service quality. The discom is expected to facilitate the franchisee in approaching the regulatory Commission, as the franchisee has no locus before the Commission to seek approval for the capital expenditure. It is important to note that the regulatory approval does not entail any upfront reimbursement to the franchisee for the capital expenditure that it wants to undertake. The approval only ensures that at the end of the term of the agreement, the licensee would compensate the franchisee for the assets approved by the Commission as per the applicable depreciation schedule declared. The franchisee must maintain a separate record of the assets purchased by it in the asset register, and there are audit requirements under the agreement to ensure that the asset register and physical assets match. Some franchisee contracts prohibit the franchisee from making any new investments in the last four years of the contract term.

After the franchisee begins operations, it must make timely payments to the licensee as per the terms and conditions of the DFA. Table 4 outlines the major responsibilities and risks shared by the licensee and the franchisee under the IBDF model.

1.5 Selecting the Franchisee Area

In general, the more rapid the loss reduction, the faster the recovery of the capital expenditure and the higher the profits for the franchisee. Given the fixed trajectory of the input rate, the licensee only receives a slightly better revenue realisation than what it used to receive before the franchisee was appointed. The entire premise of adopting the franchisee model from a licensee's point of view rests on the assumption that it does not hope to improve its revenue realisation from the area beyond a certain minimum trajectory and that the input rate offered by the franchisee is better than that. Apart from the input rate offered by the franchisee, the other avenue for cost saving for the licensee is the avoided distribution cost. If the franchisee operates and serves the area, the licensee does not need to maintain the same number of employees, and it does not need to make as much capital investments in the area. However, the savings on employee expenses can be there only if the licensee is understaffed and can easily absorb the excess employees. If the licensee is already overstaffed, the franchisee will not make any dent in its employee expenses (Prayas, 2009). Similarly, only if the highest loss-making areas are bid out to franchisees and input rates discovered are reasonably above the revenue realisation that the licensee was able to achieve, only then the arrangement will make financial sense for the licensee.

To ensure that the payments made by the franchisee reflect changes in consumer mix and/or tariff, the input rate is multiplied by a factor known as the Tariff indexing ratio (TIR). TIR is the ratio of the Average Billing Rate (ABRn) for a given year to ABR of the base year (ABRbase) for the franchisee area. The Base year is usually the last financial year before the franchisee starts its operation. Both, the base year, and the base year ABR are defined in the DFA.

$$\text{Tariff indexing ratio (TIR)} = \frac{\text{Average Billing Rate for the year ‘n’ } (ABR_n)}{\text{Average Billing Rate for the Base year } (ABR_{base})}$$

The ABR of the franchisee area is calculated by dividing the total billed revenue (including all components that form part of the revenue as per the tariff order for the given period for all categories) by the total billed units for the designated Distribution Franchise area for all consumer categories. It however excludes all components of tariff which are billed to consumers but are remitted to the Government or other agencies e.g., Electricity Duty (ED), Tax on Sale of Electricity (TOSE) etc.

$$\text{ABR} = \frac{\{(\text{Total revenue billed + Subsidy}) - (\text{Electricity Duty + TOSE + Any other taxes paid to the govt})\}}{\text{Total billed units}}$$

Table 4: Responsibilities and Risks Shared by the Licensee and the Franchisee under the IBDF Model

	Licensee	Franchisee	Joint
Responsibilities	• Procure and supply energy at input points as per agreed terms. • Ensure compliance with due regulatory and legal requirements. • Provide any other support to the franchisee as may be necessary from time to time.	• Undertake all functions of the licensee within the franchisee area. E.g., supply, metering, billing, collection, new connections, complaints handling, fault repair, etc. • Plan and undertake capital expenditure as needed to expand or strengthen the distribution network in the franchisee area. • Make timely payments to the licensee as per the DFA. • Maintain asset register and all other documents and reports as required under the DFA. • Implement electricity-related government schemes in the franchisee area in a timely and efficient manner and maintain separate accounts for the same.	• Inspection of the franchisee area and existing assets before handing over the operations. • Calibration of the interface meters at the Input points. • Meter reading of input points. • Audit of various parameters as specified in the DFA. • Review of permanently disconnected consumers and arrears collections regularly, as specified in the DFA.
Risks	• Payment default by the franchisee. • Franchisee does not comply with its responsibilities under the contract such as undertaking required capital expenditure, maintaining a proper asset register, cooperating with due audit requirements, promptly fulfilling conditions precedent and subsequent, etc.	• Failure to reduce losses below the input rate. • The licensee does not comply with its responsibilities under the contract such as helping the franchisee to obtain regulatory sanction for its capital expenditure plans, undertaking the minimum capital expenditure that it had committed to in the RFP/DFA, fulfilling conditions precedent and subsequent on time, etc.	• Force majeure events, natural calamities, war, etc.

Source: Author's compilation.

Correct evaluation of Base year ABR is extremely important as the licensee's revenue from the franchisee for the entire term of the contract is governed by it. For this purpose, the DFA provides for an independent third-party audit of the Base year ABR within three months of the franchisee starting its operations. Additionally, the annual ABR and many other important parameters such as subsidy claims made by the franchisee (based on sales claimed to subsidised consumers), asset register, billing data, complaints handling system, etc. need to be audited by third-party independent auditors at various frequencies as per the DFA. These audits are the most crucial mechanisms for ensuring accountability of both the licensee and the franchisee, and to ensure that the arrangement is indeed working in the financial interest of the licensee's consumers. Since the regulatory commissions do not undertake any review of the franchisee operation, apart from the independent third-party audits, there is no other mechanism to review or evaluate the franchisee's operational performance.

2. Maharashtra

Maharashtra was the first state to try out the input-based distribution franchisee (IBDF) model in 2006-07. The Ahmedabad-based Torrent Power Ltd (TPL), a long-standing private sector distribution company in Gujarat, was appointed as the franchisee for Bhiwandi, a major power loom hub located in the Thane district of the state. At the time of the handover, it had a customer base of about 1.6 lakh consumers, and more than half (55%) of the total sales were to the power loom sector, which is subsidised by the state government. The town was notorious for its high losses, power theft, and illegal connections. The aggregate technical and commercial[3] (AT&C) losses were pegged at around 58% and the transformer failure rate was as high as 40%.[4] Since the state was facing a severe power shortage at that time, and the load-shedding protocol was based on AT&C loss levels, the residents of Bhiwandi had to bear a mandatory power cut of 6 hours each day (MERC, 2006). Apart from the planned load-shedding, supply quality was generally poor and there were frequent incidents of power outages and appliance failure. For almost a decade, no capital investment was made in the area, which resulted in a high level of network overloading. Acquiring a new official connection was extremely challenging and there were many permanently disconnected consumers and huge arrears.

2.1 Bidding and Changes to the Bhiwandi DFA

Against this backdrop, Torrent Power Ltd (TPL) took over the operations of Bhiwandi as the franchisee on 26 January, 2007, by signing the Distribution Franchisee Agreement (DFA) with Maharashtra State Electricity Distribution Company Limited (MSEDCL). Only two bidders had qualified for the technical bid and TPL emerged as the winner of the financial bid, bagging the contract. The Request for Proposal (RFP) required the bidders to factor in a minimum reduction of distribution losses by 5% in the first three years; 3% in the next four years and 1% every year thereafter till the expiry of the contract. Interestingly, this RFP requirement was excluded from the final signed DFA. There were some other notable changes between the RFP and the actual signed DFA. These included dropping a profit-sharing clause that required the franchise to share half of its profits with MSEDCL if its net annual revenue for any financial year exceeded twice that of the Base Year, and the obligation to recover 100% arrears from current live consumers was lowered to at least 65% of these arrears. It is not clear if all bidders were aware of these changes that were to be made to the final DFA (Prayas, 2009).

2.2 Loss Reduction in Bhiwandi

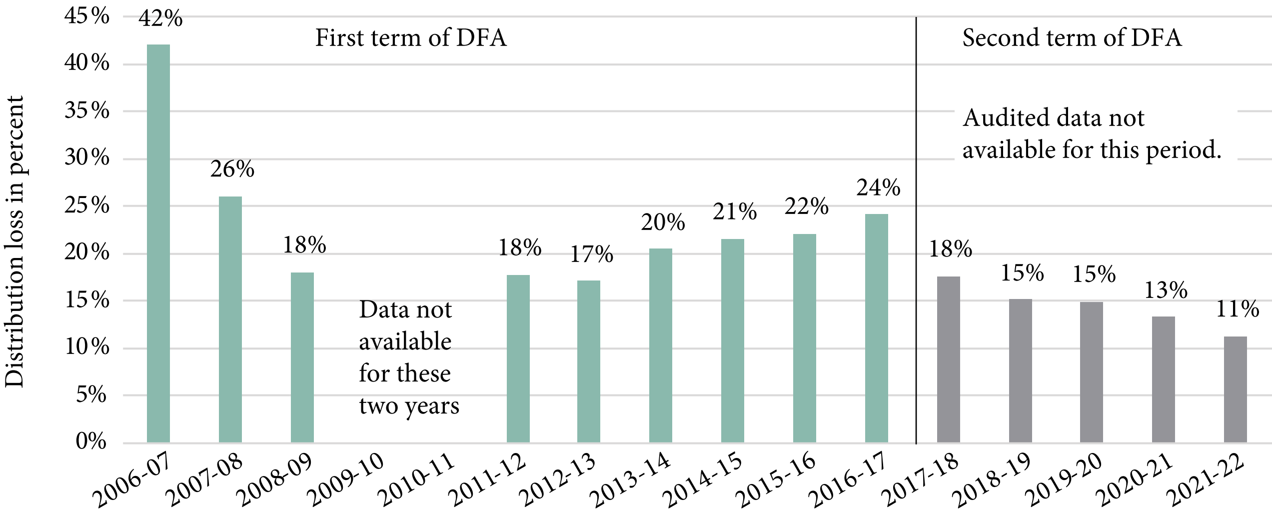
Once it took over the operations, TPL achieved a distribution loss[5] reduction of almost 24%, (from 42% to 18%), in the first two years itself. The transformer failure rate dropped from 40% to 7.5% by the end of FY 2009 and the duration of load shedding

[3] Aggregate Technical and Commercial (AT&C) losses include technical losses, billing and collection losses, including theft, and are calculated as follows: AT&C loss (%) = (1 – (1 – distribution loss) x Collection efficiency) x 100

[4] In normal working conditions, this should be less than 3%.

[5] Distribution loss is the difference between energy supplied at the Input Points and Energy Billed to Consumers in percentage terms (AVVNL, 2016).

Figure 1: Distribution Loss Reduction Trajectory for Bhiwandi



Source: Data submitted by MSEDCL in the tariff processes before the MERC in case no. 195 of 2017 and 226 of 2022.

Note: Data for FY 2006-07 to FY 2016-17 is based on audit reports submitted by the MSEDCL before the MERC as a part of the multi-year tariff revision process under case no 195 of 2017. The distribution loss numbers for FY 2017-18 to FY 2021-22 are as reported by MSEDCL in its submission to the MERC in case no 226 of 2022. These are not audited figures, but as reported by the franchisee/MSEDCL.

reduced from 6 hours a day to 3.5 hours a day. As per the 2009 Prayas study, 66% of consumers who were surveyed reported that the service and supply quality improved substantially after the franchisee took over. It also became a lot easier to acquire a new official connection. This was also because the franchisee effectively got a clean slate to work with and while it was supposed to collect the arrears, it was not clear how much it insisted upon them. It also had a lot more flexibility in dealing with issues of illegal settlements and reconnecting permanently disconnected consumers.

After dropping substantially in the first few years, Figure 1 shows that the distribution losses increased in the later part of the franchisee contract, especially towards the end of the first-term of the DFA, i.e., from 2014 to 2017. The loss numbers shown in the figure for 2006-07 to 2016-17 are based on the audit reports submitted by MSEDCL to the Maharashtra Electricity Regulatory Commission (MERC) as part of its tariff revision process (MSEDCL, 2017). The data for the years 2009-10 and 2010-11 is not available in these filings. For the remaining period, i.e., from FY 2017-18 to FY 2021-22, the loss figures are as reported by MSEDCL in its latest tariff petition (MSEDCL, 2022). These are figures reported by TPL/MSEDCL, not audited numbers. It is interesting to note that losses start rising as the (first) term of the franchisee ends, and soon after renewal, they start sharply reducing again.

It needs to be noted that while the performance of the Bhiwandi franchisee in terms of loss reduction was spectacular in the first few years, MSEDCL only got (fixed) revenue as per the quoted input rate for the respective years. Thus, even if the franchisee achieves rapid loss reduction, the benefits for the licensee remain limited. The 2009 Prayas study also notes that in the case of Bhiwandi, for the first two years, there was a slight reduction in the revenue realisation for MSEDCL before it improved from the third year onward.

2.3 Renewal and Extension of Bhiwandi DFA

It is important to note that the term of the DFA signed in 2006-07 was ten years and it was about to expire in January 2017. On December 2, 2016, MSEDCL renewed its contract with TPL for an additional period of ten years, extending it till 25 January, 2027, without undertaking any fresh bidding process. This renewal was based on a clause in the DFA[6] which allows the licensee to grant an extension of the term to the franchisee, provided it seeks so a year before

[6] Clause 3.2 of the DFA states that the Distribution Licensee may at its discretion renew the duration of the DFA by such further period as may be considered appropriate by the Distribution Licensee, provided that the Distribution Franchisee has formally applied in writing to the Distribution Licensee for renewal of the DFA, 1 (one) year before the expiry of the DFA (MSEDCL, 2006).

the expiry of the contract. MSEDCL had set up an internal negotiation committee to deliberate on the franchisee's proposal. Neither the proposal of the franchisee, nor the deliberations of the committee are available in the public domain, but the renewed DFA is. It is not clear what kind of negotiations were undertaken and why MSEDCL chose to renew the contract without undertaking a fresh bidding process. Additionally, if losses had indeed reduced to the level indicated by MSEDCL and the franchisee, why did MSEDCL not take over the operations and manage the circle on its own? These are important questions which need to be answered with data and analysis. Unfortunately, neither MERC has asked such questions nor has MSEDCL published the techno-economic reasons for its decision to continue with the franchisee arrangement for a period of another ten years. Further, the so-called "non-committed" capital expenditure undertaken by the franchisee raises more questions about the decision to renew the contract, as explained in the next section.

2.4 Capital Expenditure in Bhiwandi

At the time of signing of the first franchisee contract, MSEDCL committed to spend Rs 60 crore spread over five years (Rs. 12 crore per year for five years). As per the DFA,[7] any capital investment made by the franchisee needs to be recovered through the input rate alone. Upon expiry of the contract, the franchisee should hand over all the distribution assets to MSEDCL in working condition, subject to normal wear and tear. MSEDCL should compensate the franchisee for the assets added by it at the time of handover, as per the depreciation rates declared by the MERC (MSEDCL, 2006).

The renewed DFA notes that the franchisee has incurred a "non-committed" capital expenditure of approximately Rs. 625 crore during the first term of the DFA (MSEDCL, 2017). Since there is no data on when and how the non-committed expenditure was made, the matter becomes more serious. The amount is also very high. To get a sense of the quantum, consider that it is roughly ten times what MSEDCL had committed to invest in Bhiwandi over five years and thrice what TPL has claimed to have spent in the first two years of its operation when the need for fresh investments was the highest. It is important to note that Bhiwandi DFA was only for 10 years and there was no regulatory approval required for the capital expenditure undertaken by the franchisee, as is the case in some later DFAs. Thus, in the absence of the contract renewal, the franchisee would have had to either recover its capital expenditure within the last few years of the contract period or through depreciated assets that it could have claimed in return. This makes one wonder if the non-committed capital expenditure has played any role in the DFA renewal and whether the franchisee would have recovered this amount without the contract extension.

The renewed DFA further states that during the term of renewal, the franchisee has agreed to not incur any additional capital expenditure, over and above the Rs. 625 crore that is already spent, without prior written permission of MSEDCL. Unfortunately, even after discovering that the franchisee had made significant investments without its knowledge or permission, MSEDCL has still not chosen to include a prerequisite of regulatory approval for any fresh capital expenditure, as is the case in other franchisee agreements. Regulatory approval of the capex plan can at least ensure whether the proposed investment is necessary and/or sufficient to meet the stated objectives in the best possible manner. In the absence of any regulatory scrutiny or independent assessment of the franchisee's capital expenditure, it is not possible to answer these crucial questions.

2.5 Other Franchisees in MSEDCL's Area of Supply

Following the initial success of Bhiwandi, MSEDCL attempted to replicate the IBDF model in many other areas. Table 5 lists the currently operational franchisees in MSEDCL's area of supply. TPL has also won the franchisee contracts for Shil, Mumbra & Kalwa (SMK) sub-divisions under the Thane Urban Circle and CESC Limited is the franchisee in the Malegaon Corporation area. While these are the recent and operational franchisees, several earlier attempts to set up franchisees have also failed. Table 6 lists the various franchisees that were set up but had to be terminated for various reasons, the most common being payment default and financial unviability of the company operating the franchisee. One such example of a failed franchisee attempt is discussed briefly in the next section.

[7] Clause 5.2.3 of the DFA states that "The cost of all such capital investment shall be borne by Distribution Franchisee" (MSEDCL, 2006).

Table 5: List of Operational Franchisees in MSEDCL's Area of Operation and the Status of their Performance

Franchisee Area(s)	Franchisee operator	Date of Handover	Input (MUs)		Distribution loss (%)		Collection efficiency (%)	
			Before handover	FY 21-22	Before handover	FY 21-22	Before handover	FY 21-22
Bhiwandi	M/s. Torrent Power Ltd	26-Jan-07	2521	3502	42%	11%	68%	102%
Shil, Mumbra & Kalwa (SMK)	M/s. Torrent Power Ltd	1-Mar-20	689	739	49%	40%	93%	103%
Malegaon	M/s. CESC Limited	1-Mar-20	1054	1208	49%	40%	95%	88%

Source: (MSEDCL, 2023).

Table 6: List of Non-Operational (Terminated) Franchisees in MSEDCL's Area of Supply

Area(s)	Franchisee operator	Date of DFA	Termination date	Reason for termination	Remarks
Aurangabad Urban Division I & II	GTL Infrastructure	1-May-11	10-Nov-14	Payment default by franchisee	GTL has initiated arbitration proceedings. The status of the proceedings is not known.
Jalgaon Urban & Rural division	Crompton Greaves Ltd	1-Jun-11	10-Aug-15	Payment default by franchisee	MSEDCL settled all claims of CGL on 28 March, 2018
Nagpur (Gandhi Bagh, Civil Lines, and Mahal)	Spanco Nagpur Discom Ltd. (SNDL)	1-May-11	9-Sep-19	Precarious financial condition of the parent company, Essel Group.	The settlement of the final termination account of the franchisee is in progress.
Nagpur (Gandhi Bagh, Civil Lines, and Mahal)	Crompton Greaves Ltd	26-Oct-07	Not known	Dispute over billing rate and other data provided in RFP	Franchisee never took over the operations. There was litigation by civil society challenging the franchisee's appointment and concerns regarding the viability of the bid submitted by the franchisee (Prayas, 2009).

Source: Compilation from various regulatory filings and reports.

Two attempts were made to set up a franchisee at Nagpur, and unfortunately, both failed. The first one never took off on the ground. The contract was awarded to Crompton Greaves in 2007, however, the award of the contract was challenged by a civil society organisation[8] before the Nagpur Bench of the Bombay High Court.[9] Following this litigation, disputes also arose between MSEDCL and the

[8] Citizen Forum Maharashtra, Nagpur.
[9] Writ Petition No. 3701 of 2007 along with Writ Petition Nos. 5100 of 2007 and 5855 of 2007

franchisee, and the company never took over the operations on the ground. There was speculation that the bid submitted by Crompton Greaves was unviable and that is why the company was reluctant to start operations (Prayas, 2009).

The second DFA for Nagpur was signed in 2011 with Spanco Nagpur Discom Ltd. (SNDL), and within one year of its operation, the company was already defaulting on payments to MSEDCL. As per MSEDCL's submission to MERC, as of March 31, 2012, SNDL dues stood at Rs. 209 crore (MERC, 2012). During this time, SNDL began talks with the Essel group, which saw an opportunity to take over the distressed company. Even before MSEDCL could approve this takeover, Essel appointed an auditing firm and reportedly invested about Rs. 50 crore in the company. Meanwhile, the dues to MSEDCL kept rising and MSEDCL issued a takeover notice to SNDL. Amidst this chaos, the Essel group decided to become a direct partner of SNDL and to run the Nagpur franchisee. In September 2012, news reports claimed that MSEDCL had approved the deal between SNDL and Smart Wireless Ltd., the special-purpose vehicle of the Essel group that had won franchisee contracts in Madhya Pradesh (Times of India, 2012). Soon it became apparent that SNDL had effectively exited from Nagpur as the new shareholding pattern was 95% Essel group, 3% Bessemer Venture Partners, a US-based equity group that had invested Rs. 80 crore, and SNDL's share was merely 2% (Times of India, 2012). Eventually, the Essel group lost its contracts in Madhya Pradesh as well and could not sustain its franchisee business. While SNDL left Nagpur in 2012, it took MSEDCL seven years to officially terminate the contract and the final financial settlement arising on account of this termination is yet to take place.

Not only did some of the franchisee experiments in Maharashtra fail, but some have also turned into financial liability for MSEDCL. For instance, as per MSEDCL's latest financial audit report, GTL—the erstwhile franchisee in Aurangabad—owes it Rs. 533 crore (MSEDCL, 2022). As per the audit report, MSEDCL has initiated litigation to get its money back, but since it is not sure about the outcome, it has considered this amount as a "100% Expected Credit Loss". In other words, it would write off this amount as losses. Such a loss for MSEDCL is a loss for its consumers at large. Such failures highlight the need for regulatory oversight, and regular and timely independent audits of the franchisees to ensure timely interventions and mid-course corrections.

3. Uttar Pradesh

Like Maharashtra, Uttar Pradesh (UP) was also an early entrant in the franchisee game, and it too has had a similarly mixed experience. In 2006, the UP Electricity Regulatory Commission (UPERC) issued a suo-moto order regarding the appointment of M/s CESS as an input-based franchisee by one of the state electricity Distribution Companies (discoms for short), Madhyanchal Vidyut Vitaran Nigam Ltd (MVVNL). In the said order, the UPERC states that it came to know about the appointment of the franchisee through newspapers and a complaint filed by a consumer organisation (UPERC, 2006). The Commission through the said order prevented MVVNL from enforcing the franchisee agreement with CESS at the time. The tussle between the UPERC and the state discoms regarding jurisdiction issues concerning franchisee accountability and monitoring continues to play out even today. Unfortunately, it has taken an adversarial turn as we will see.

In 2009 Uttar Pradesh Power Corporation Limited (UPPCL), on behalf of the four state discoms,[10] floated tenders for appointing input-based distribution (IBDF) franchisees in several major cities such as Kanpur, Agra, Aligarh, Meerut, Varanasi, Bareilly, Moradabad, Gorakhpur, and Allahabad. While the state tried to attract private investments into the power sector, the interest remained limited. As per news reports, some fifteen companies attended the pre-bid conference that was organised for introducing franchisees in these areas, but only five bidders eventually submitted bids and that too for only three of the nine candidate cities, namely, Kanpur, Agra, and Bareilly (Financial Express, 2009) (Indian Express, 2009). Interestingly, the Uttar Pradesh Rajya Vidyut Karmachari Samiti, an umbrella organisation comprising power sector employees and engineers, also submitted bids for five cities. While it could not qualify as per the technical requirements, it had promised one paisa higher than the winning bid to obtain the contracts (Times of India, 2009).

[10] Apart from the Kanpur Electricity Supply Company Limited (KESCO), there are four distribution companies in Uttar Pradesh, namely, Dakshinanchal Vidyut Vitran Nigam Limited (DVVNL), Madhyanchal Vidyut Vitran Nigam Limited (MVVNL), Paschimanchal Vidyut Vitran Nigam Limited (PVVNL) and Purvanchal Vidyut Vitran Nigam Limited (PuVVNL). The state has a single buyer model with UPPCL buying power for all the discoms in the state.

3.1 Kanpur Distribution Franchisee

For Kanpur, Ahmedabad-based Torrent Power Limited (TPL) and Jamshedpur Utility and Supply Company (JUSCO), a Tata enterprise, qualified at the technical stage. TPL won the contract by quoting a levelised input rate of Rs. 2.17 per unit for the 20-year contract term (Times of India, 2009). The franchisee agreement between TPL and UPPCL was signed on May 18, 2009. However, due to strong resistance from the unions, TPL could not take over the operations on the ground and the franchisee contract remained only on paper. Meanwhile, the unions tried to demonstrate good performance and the AT&C losses in Kanpur started reducing.

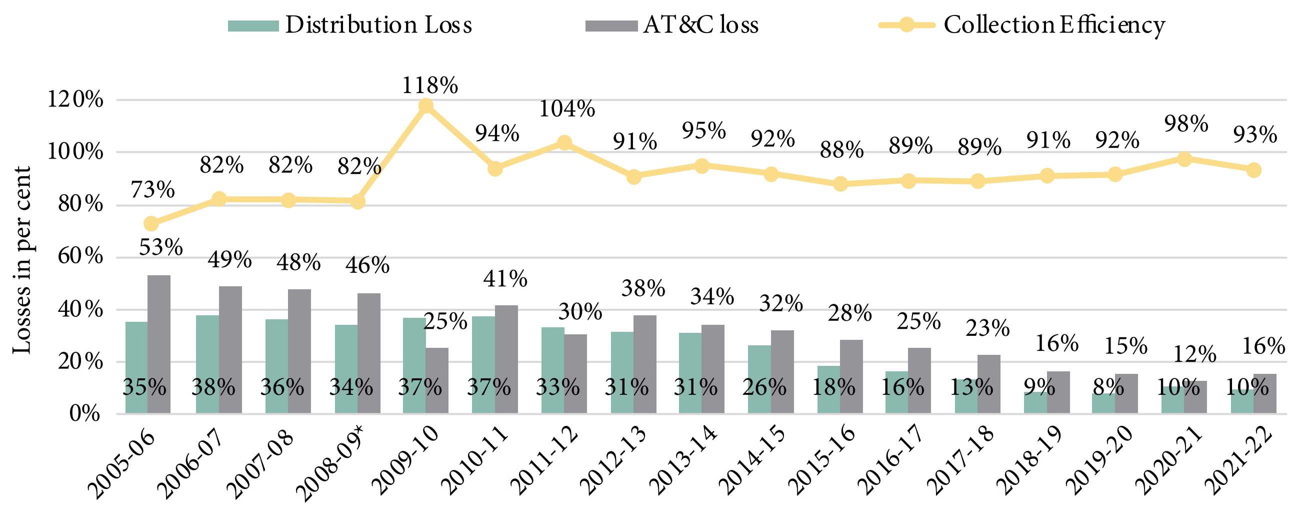
As shown in Figure 2, the AT&C losses were as high as 53% in FY 2005-06 and 46% at the time when the DFA was signed. Since then, they have been dropping progressively. In FY 2009-10 when the franchisee was supposed to take over the operations, there was a sudden drop in AT&C losses as the collection efficiency for this year is reported as 118%. As per the latest PFC report, they were below 16% for FY 2022, and as per the tariff petition filed before the UPERC by Kanpur Electricity Supply Company Ltd. (KESCO), the distribution loss for FY 2022 is reported as 9.61%. This is indeed a remarkable improvement as far as the loss levels are concerned, but it also begs the question of whether and how soon the status quo would have changed in the absence of a threat from the franchisee or privatisation.

Since TPL could not take over the operations as per the terms of the DFA signed in 2009 and the situation on the ground kept on changing such that the quoted input rate did not remain relevant, the DFA was finally terminated by UPPCL and TPL with mutual consent in June 2015 (Business Standard, 2015). Fortunately, Kanpur has been able to manage loss reduction without opting for the franchisee route or privatisation. This is always a desirable option, as in this case the public utility retains all the gains from the efficiency improvements, which ultimately benefits its consumers, and thus, the public at large. However, whether the success achieved in Kanpur can be replicated elsewhere, is an open question.

3.2 Agra Distribution Franchisee

In the case of Agra, there were three technically qualified bidders. Torrent Power Limited (TPL) being the highest bidder, won the contract. The DFA for Agra was signed between TPL and Dakshinanchal Vidyut Vitran Nigam Ltd. (DVVNL) in May 2009, following which there was some delay in completing the formalities for the handover. Subsequently, a supplementary agreement was signed in March 2010 and the distribution network was handed over to TPL on April 1, 2010 (CAG, 2013). Unlike Bhiwandi, in this case, the term of the franchisee is 20 years, just five years short of the distribution license period. Being an IBDF, the responsibilities of the licensee and the franchisee are as shown in Table 4. Some of the salient features of the Agra DFA are as follows:

Figure 2: Distribution Loss, Collection Efficiency and Aggregate Technical & Commercial (AT&C) Loss Trajectories for Kanpur Discom (KESCO)



*Source: Losses for FY 2005-2008-09 are taken from the RFP document for the Kanpur franchisee. *Data for 2008-09 is only till October 2008. Losses for the remaining years from the 'Performance of Distribution Utilities' published by the Power Finance Corporation (PFC, 2023).*

- The DFA mandates the franchisee to:
    - Achieve a loss level of 15% ATC Losses within the first seven years of operation (i.e., by March 31, 2017), otherwise, a penalty would be recoverable by the licensee.
    - Invest a minimum of Rs 200 crore to improve and upgrade the distribution network, out of which at least Rs 150 crore shall be invested in the first 5 years and the remaining Rs 50 crore in the next 5 years.
    - Establish within one year from the effective date at least one consumer-service centre as per the minimum specification placed for a system of consumer complaint and redressal.
    - Submit metering, billing, and collection data every month, but apparently, the licensee needs to keep it confidential and can use it only under conditions of default.

It needs to be noted here that the Agra DFA is not available on the UPPCL or DVVNL website. The salient features highlighted have been culled out from various reports and orders, such as Prayas, 2009; CAG, 2013; Expert Committee, 2017 and UPERC, 2017.

Like Kanpur, the unions opposed the Agra franchisee as well, which was partly responsible for the delay in TPL taking over the operations. Though, unlike Kanpur, in Agra, TPL could successfully take over and even today continues to operate the distribution business there even today. However, it has not been smooth sailing.

3.3 CAG Audit Finding on Agra Franchisee

In 2013, the Comptroller and Auditor General (CAG) of India, in its audit of DVVNL that was prepared for submission to the state government, made some serious adverse observations regarding the appointment as well as the functioning of the Agra franchisee (CAG, 2013). The key concerns raised by the CAG included the change in the Average Tariff Rate (ATR), and base year ABR, which led to a change in the tariff indexing ratio, and hence revenue loss to the discom. It also raised other issues such as not considering the right level of losses, employee costs, etc. while drafting the RFP and not accounting for the changes in these parameters during the delay that followed in the franchisee taking over the operations.

According to the CAG "*…by accepting incorrect change of ATR of base year from Rs. 3.98 per unit to Rs. 4.59 per unit and by allowing increase in ATR by Rs. 0.26 per unit instead of Rs. 0.51 per unit; the DVVNL has incurred revenue loss of Rs. 232.63 crore up to March 2012; this would go up to Rs. 3,681.90 crore in next 18 years. … Thus, it is evident that due to irregularities in the bid evaluation process and the supplementary agreement as well as deviation from ETF's recommendations have already caused losses to the extent of Rs. 421.12 crore up to March 2012, which will lead to further losses of Rs. 4601.12 crore in the remaining 18 years*[11] *of the contract besides non-fulfilment of the objective of reduction of AT&C losses*" (CAG, 2013).

Thus, according to the CAG the Agra DFA is not beneficial for the state discom and because of the incorrectness of the Base ABR, the revenue loss is going to persist till the end of the contract.

3.4 Proceedings before the UPERC

A consumer in UP challenged the appropriateness of TPL's appointment and demanded that the UPERC appoint a committee to investigate the franchisee's operations and performance. The maintainability of the petition, the locus standi of the consumer, as well as the jurisdiction of the Commission, if it chose to entertain the application, were challenged by TPL. Concluding that the petition was maintainable and within its jurisdiction, the UPERC decided to appoint a committee to evaluate the benefits of the franchisee scheme based on certain specific questions that it put forth to an expert committee that it appointed for this purpose (UPERC, 2015). TPL challenged the UPERC order in this regard before the Appellate Tribunal for Electricity (ATE) on the same grounds (lack of jurisdiction and locus standi). Its appeal was dismissed by the Tribunal. The ATE upheld the Commission's jurisdiction and the consumer's locus standi. It observed that the grievances raised by the petitioner were important from a public interest point of view and hence needed to be considered by the Commission (ATE, 2016). Thus, the matter was referred to UPERC by the ATE. TPL has challenged the ATE judgement before the Supreme Court, where it is still pending. Meanwhile, the Supreme Court stayed the ATE judgement (and hence the relevant proceedings before the UPERC) till it issued a final verdict on the matter (Supreme Court, 2018).

[11] As per the CAG report, a recurring per day loss of Rs. 0.72 crore for the next 18 years is expected.

In the proceedings before the UPERC and the ATE, UPPCL and DVVNL have been on the franchisee's side. Based on a plain reading of the ATE judgement, neither UPPCL nor DVVNL seems to refute the allegation that the DFA was signed and the distribution assets were transferred without any prior regulatory approval. Further, during the proceedings before the UPERC in 2014, the Commission had directed DVVNL to submit certain information related to the franchisee appointment and performance, which was not submitted by DVVNL (UPERC, 2014). It is disconcerting to note that UPPCL supported TPL's contentions regarding jurisdiction and locus, indicating a lack of shared understanding between the licensee and the regulator on these crucial issues.

3.5 Findings of the Expert Committee set up by the UPERC

As stated above, the UPERC had set up a two-member expert committee comprising Sri Arun, former Ombudsman and Director, UPPCL, and Sri Sandeep Das, Chartered Accountant, on 27 July, 2015, to review the franchisee's performance in Agra. The committee was asked to ascertain answers to the following questions along with any other observations that it may have, within two months from the date of its appointment:

(i) What has been the yearly reduction in loss levels since 2009-10 to date?

(ii) What has been improved in the collection efficiency from 2009-10 level?

(iii) How much arrears have been recovered from the due amount of 2009-10?

(iv) Have the benefits of such improvements, if any, been passed on to the consumer and if yes, how (UPERC, 2015)?

Due to delays on the part of DVVNL/UPPCL and TPL in submitting data and some other issues, it took the committee more than a year and a half, instead of the stipulated two months, to submit its report. Following are its key findings and observations as noted in the committee report (Expert Committee, 2017):

a. **Loss levels:** AT&C losses for FY 2015-16 were reported at 32% by TPL and as of August 2016, the loss reported by the consultant appointed by DVVNL was 22%. The Committee noted concern regarding loss reduction not being as expected and felt that the franchisee would not be able to achieve the target loss level of 15% (or lower) by FY 2016-17, as was mandated under the DFA. It alerted DVVNL to enforce the penalty provisions if the franchisee failed to achieve the target, which in its opinion seemed inevitable.

b. **Collection efficiency:** While there is no benchmark for improvement in collection efficiency in the DFA, the Committee noted that it seemed to have improved from 80% in FY 10-11 to 99% in FY 15-16. It was also noted that non-revenue items such as meter damage charges, fuse charges, and other miscellaneous charges were included in the revenue collected, and hence, the actual revenue realised toward energy bills might be lower than the collection figures reported.

c. **Recovery of arrears:** The Committee was shocked to find that the franchisee, DVVNL-appointed consultant CRISIL, and UPPCL-appointed consultant KPMG, all three had different views and figures regarding actual arrears collected and even more shockingly, the opening balance of arrears as on the effective date. The Committee noted that the situation was alarming, and the final figures needed to be worked out, audited, verified, and finalised as soon as possible.

d. **Consumer perception:** The Committee conducted select group discussions and hearings as well as onsite inspections of the franchisee area. It observed that the consumers do appreciate positive changes in supply and service quality, though they were not happy with the increase in the cost of new connections and the process of arrear collection.

e. **Opening level of assets:** The process was meant to be conducted jointly by the franchisee and DVVNL before the franchisee started its operations. However, since the transfer of the franchisee area to TPL in 2009, DVVNL has not carried out this task. The Committee noted that DVVNL does not identify assets removed from the site by TPL against its asset register. The Committee was appalled to note that DVVNL considered all assets deposited at the store as scrap without evaluating the useful life of such assets.

Thus, the expert committee highlighted some serious issues and discrepancies in terms of benchmarking as well as monitoring and tracking of the franchisee's performance by DVVNL. It once again highlighted the recurring issue that despite the contractual provisions, discoms are not able to hold franchisees accountable for their operational and/or financial performance.

3.6 Infrastructure Roll-out Plan for Agra Distribution Franchisee

As per the Agra DFA, the franchisee is expected to make an infrastructure roll-out plan for reducing losses and strengthening the distribution network. It is required to submit this plan to DVVNL, which will then facilitate the franchisee in approaching UPERC to secure approval for the plan. Any investment that is not approved by the UPERC will not be compensated by DVVNL at the end of the contract period. As per one report, the DFA mandates the franchisee to invest a minimum investment of Rs 200 crore, out of which at least Rs 150 crore shall be invested in the first 5 years and the remaining Rs 50 crore in the next 5 years[12] (TERI, 2018). The draft DFA, annexed to the Request for Proposal dated February 14, 2009, which is available in the public document, does not mention such a requirement.

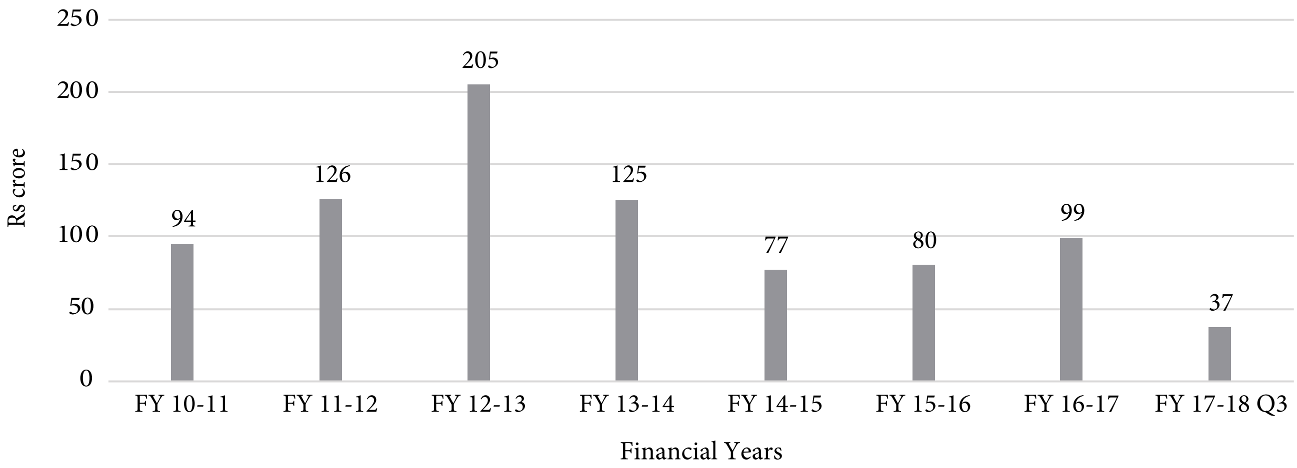
Figure 3 shows the year-wise capital investment (total of around Rs. 840 crore) that TPL claims to have invested in the Agra franchisee area till FY 2017-18. Out of this, only 420 crore (50%) have been approved by the UPERC so far (UPERC, 2017). In its order approving this capex, the commission has raised many questions regarding the need and/or prudence of this expenditure. For instance, consider the following excerpts from the order:

"On preliminary examination of the application, the Commission observed the following deficiencies/ infirmities in the application: …

- *From FY 2010-11 to FY 2012-13, **the cable / DT ratio is quite high & and shocking, reasons thereof, have not been provided**.*
- *From FY 2010-11 to FY 2012-13, 213,632 meters have been replaced, wherein the total no. of consumers with M/s TPL is less than 200,000, **it is shocking to observe that number of replacement of meters in 3 years is more than the number of consumers itself,*** detailed justification on this was not provided.
- *It appears from **such a large-scale revamping of service cable that 50% of the total service cable consumers have been revamped, which seems quite unlikely.** Further, **new consumers that are being added by Ms/ TPL must have been charged for service cable** given new connection …"* (Emphasis added).

As can be seen from the observation made by the UPERC, there is a good reason to carefully monitor and evaluate the capital expenditure undertaken by the franchisee, especially towards the end of its contract period.

Figure 3: Year-Wise Capital Expenditure as Reported by Agra Franchisee (TPL)



Source: UPERC appointed Expert committee report (Expert Committee , 2017) and TERI report on Performance Assessment of the Electricity Distribution Franchisee of Agra (TERI, 2018).

[12] Since the final signed DFA is not available in the public domain this cannot be verified.

3.7 UPPCL and DVVNL Commissioned a Study of Agra Franchisee

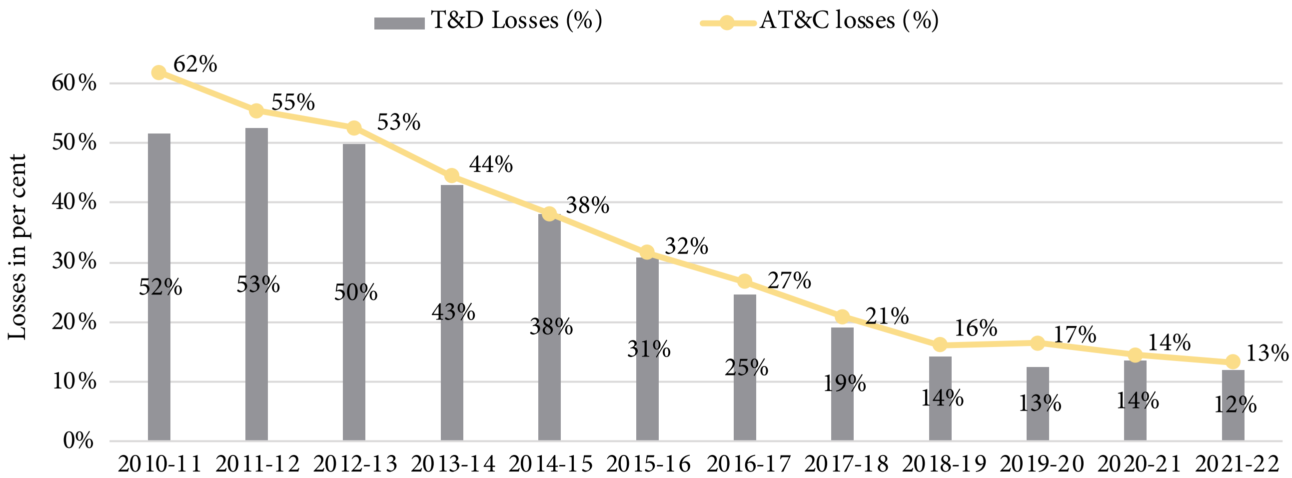
Following the expert committee report, DVVNL and UPPCL undertook a 'Performance Assessment of the Electricity Distribution Franchisee of Agra' (TERI, 2018). While it was expected to be an independent assessment of the operational and financial performance of the franchisee, the study mainly relied on the data submitted by the franchisee. Unlike the expert committee report, this study does not refer to any data from independent third-party audit reports for loss reduction or arrear collection, etc., to comment on the franchisee's financial or operational performance. It observes that AT&C losses have reduced from 62% to 27% in the seven years of franchisee operation, while also noting that they have not reached the target level of 15% as mandated by the DFA for FY 2016–17. It does not discuss why penalties were not imposed when loss reduction targets were not met.

A consumer perception survey based on a few focus group discussions was also conducted as part of this study. It revealed a high degree of satisfaction regarding service-delivery mechanisms such as; time taken to address 'No power complaints' (NPCs), ease of bill payment, grievance redressal, and fault restoration.

As of FY 2022, TPL has reported an AT&C loss of 13% in its annual report. Figure 4 shows how the distribution and AT&C losses have changed over time in the franchisee area. The data till FY 2015-16 is as per the audit reports of KMPG as annexed in the expert committee report. For the years thereafter, the data is compiled from annual reports of the franchisee and hence there is no independent evaluation of these claims. UPERC has been issuing directives to DVVNL to conduct an audit on various aspects of the franchisee, including operational parameters, billing and collection, infrastructure and service delivery, status of defaults and dues etc. They are also required to submit the report to the Commission. However, as per the latest tariff order, DVVNL has not complied with this directive (UPERC, 2023). It needs to be noted that apart from the directives from UPERC, independent third-party audits of the franchisee's various operations and functions are also required as per the DFA. Despite this, presently, there are no reports in the public domain regarding any independent assessment of the loss reduction figures reported by the franchisee nor any third-party monitoring of its capital expenditure.

To summarise, the UP franchisee experience offers two very different lessons. In the case of Kanpur, the state-owned company successfully managed to reduce its losses over time. Multiple factors such as the consumer mix, load growth, management support, capital expenditure, motivation of the employees and unions, the potential threat of privatisation, etc. all might have contributed to different degrees towards this success. This paper has not analysed these factors but has merely observed the reported loss reduction, and hence it is difficult to comment on whether the success achieved by Kanpur is replicable.

Figure 4: Loss Reduction Trajectory as Reported in the Case of Agra Distribution Franchisee



Source: Compilation from the UPERC-appointed Expert Committee report and Annual reports of the franchisee, Torrent Power Limited.

Agra's experience on the other hand exposes the many challenges of managing and regulating a franchisee. It too has claimed loss reduction, but there is no third-party independent assessment of the same. The franchisee's legal challenge to regulatory jurisdiction and consumer's locus standi are before the Supreme Court and the verdict in this regard will have long-term implications for the sector's governance. The issues regarding capital expenditure, lack of audits, and the adverse observations made by the CAG and the expert committee, raise questions regarding the discom's capacity and ability to enforce contractual terms, especially, those about safeguarding its financial interests.

4. Rajasthan

Rajasthan power sector has been reeling under serious financial losses for more than a decade. The 2012 central government scheme for financial restructuring under which the state got support for debt restructuring required it to prepare a roadmap for involving the private sector in power distribution, either through the franchisee route or any other mode (GoI, 2012). In February 2015, the Rajasthan government constituted a state task force to advise it on the power sector reforms. Citing constraints in implementing the Public-Private Partnership (PPP)[13] models in the state, the task force suggested the state government to implement franchisees in a phased manner (CAG, 2022).

4.1 Input Plus Investment Model

There are three discoms in Rajasthan, namely, Jaipur Vidyut Vitaran Nigam Limited (JVVNL), Jodhpur Vidyut Vitaran Nigam Limited (JdVVNL), and Ajmer Vidyut Vitaran Nigam Limited (AVVNL). Out of these three, Jaipur discom (JVVNL) has appointed two franchisees, in Kota and Bharatpur. Both the contracts have been won by CESC Ltd. Jodhpur (JdVVNL) and Ajmer (AVVNL) discoms have appointed one franchisee each in Bikaner and Ajmer city respectively. These contracts have been won by M/s CESC Ltd. in the case of Bikaner and Tata Power Ltd. in Ajmer City. Table 7 provides the details of these four franchisees.

The state discoms opted to choose the Input plus investment-based distribution franchisee model. This is essentially the same as the IBDF model except that at the time of the bidding itself, the franchisee needs to commit to a certain minimum investment plan as may be prescribed by the discom in the RFP document. This investment amount needs to be factored into the input rate quoted by them. Accordingly, the RFPs specified a minimum amount of capital expenditure (capex) to be carried out by the franchisee over the initial period of five years. Table 7 provides the details of the minimum capex that was mandated for Bharatpur, Bikaner and Ajmer. The RFPs also included an indicative list of works that should be undertaken as part of this minimum capex. This list included items and activities such as setting up consumer care centres, feeders, and DTs, 100% consumer metering, installation/augmentation of DTs, strengthening of distribution network, reactive power management, etc.

Since these are the standard tasks that any distribution company needs to undertake to manage its distribution system, the discom aims to ensure that the franchisee invests in these core operations in the first five years as it brings down the losses in the area. From a contract design point of view, this certainly is a step in the right direction. However, given the twenty-year term of the franchisee contract, the minimum amount of investment that is mandated seems quite modest, especially considering that between FY 2015 and FY 2019, the discoms invested an estimated Rs.21,400 crore in the state distribution network (Prayas, 2020) and for FY 2022 to FY 2024, the discoms have proposed capital expenditure of more than Rs.16,000 crore (RERC, 2023). Given the massive scale of capital expenditure undertaken and planned by the state discoms, they do not seem dependent on the franchisees for making investments in these areas.

[13] Commonly adopted models of PPPs include Build-Operate-Transfer (BOT), Build-Own-Operate (BOO), Build-Operate-Lease-Transfer (BOLT), Design-Build-Operate-Transfer (DBFOT), etc.

Table 7: Details of Franchisees Awarded by Rajasthan Discoms

Franchisee	Kota*	Bharatpur	Bikaner	Ajmer
DISCOM	JVVNL	JVVNL	JdVVNL	AVVNL
Awarded to	CESC Ltd	CESC Ltd	CESC Ltd	Tata Power Ltd
Operational from	Sep 2016	Dec 2016	May 2017	Jul 2017
Term of contract	20 years	20 years	20 years	20 years
Sales in MU (FY 22-23)	1432	284	745	548
Share in Discom Sales (FY 22-23)	8%	1%	7%	3%
Minimum capital expenditure as per RFP	NA	Rs. 68 crore	Rs. 115 crore	Rs. 38 crore

Source: Compilation from the Request for Proposals (RFP) and annual reports of the companies operating the franchisees.

**RFP for Kota franchisee is not available in the public domain. The data for Kota is based on general information that is available through news reports and other public documents.*

4.2 Access to Government Grants for Capital Expenditure

The draft DFA annexed to the RFPs states that franchisees can avail of funds granted through schemes such as IPDS or other GoI initiatives.[14] For this purpose, there would be a separate back-to-back arrangement between the discom and the Franchisee with negotiated terms and conditions along with the requisite bank guarantee mechanisms for meeting the finance cost and loan liabilities of such schemes (AVVNL, 2016). The arrangement will be formalised through a separate agreement, independent of the DFA, and it would cover payment of the interest, repayment of the loan to the funding agency, conversion of loan into a grant, transfer of assets on termination of such funding scheme, and any other incidental terms and conditions. While it may seem acceptable to allow consumers in the franchisee areas to benefit from such government schemes, the whole point of bringing in franchisees is to bring in private investments and private sector operational efficiency. Plus, given the lack of monitoring of the franchisee's operations and performance, making it responsible for implementing government schemes makes it further challenging.

4.3 Selection of Areas Given to the Franchisees

Typically, the areas that are given to franchisees should be the ones where distribution losses are high and collection efficiency is low and has been so over a long period. These areas also tend to have huge arrears which the discoms do not hope to collect. As in the case of Bhiwandi or Agra, there are often serious governance challenges faced by the discoms in terms of improving their chances of increasing revenue realisation from such areas. It is in such situations that the franchisee can be considered as an option, provided the discom can manage and enforce the contract in letter and spirit. However, in the case of Rajasthan discoms, it is not clear what criteria were applied to select the franchisee areas. While the discoms opted for the input plus investment model of the franchisee, they seem perfectly capable of making these investments on their own. More importantly, they have not chosen the most loss-making areas, which is more perplexing.

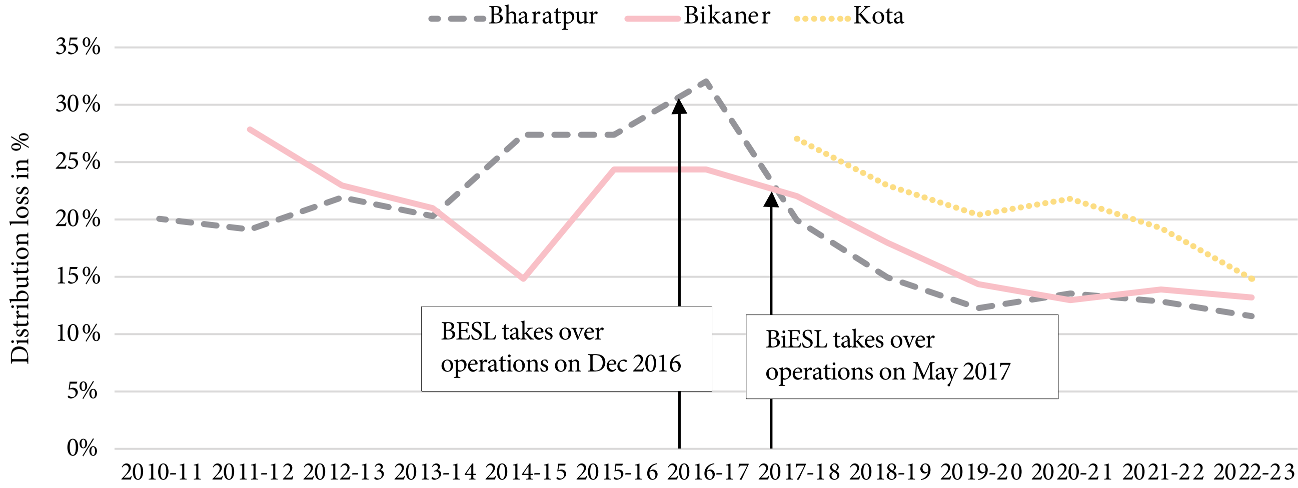
Going by the RFP documents, except for Kota,[15] all other areas have moderate loss levels and collection efficiencies are greater than 90%, and in some cases, such as Ajmer and Bharatpur, almost close to 100%, indicating that arrears may not be a major issue. Figure 5 and Figure 6 show the distribution loss and AT&C loss trajectories[16] before and after the franchisees took over the operations in the respective areas. In the case of Bikaner, the distribution losses were decreasing steadily and had reduced from 28% to 24% even before the franchisee was appointed. In Bharatpur, it was the reverse scenario. The losses were 20% in

[14] Clause 5.2.7 of the draft Distribution Franchisee Agreement as annexed to the Request for Proposal documents deals with this issue.
[15] In case of Kota, the Request for Proposal is not available in public domain and hence pre-franchisee period losses and collection efficiency could not be known.
[16] CESC Ltd. only reports distribution loss in its annual reports whereas Tata Power Ltd. reports AT&C loss.

FY 2010-11 from which they reportedly increased to 32% in FY 2016-17, just before the franchisee took over the operations. Ajmer too had quite low loss levels to begin with. Its AT&C losses were 18% in FY 2012, which reduced to 14% in FY 2015, but then increased back to 18% before TPC took over in FY 2017.

As per the CAG report, there were other lossmaking circles within Jaipur Discom which could have been candidates for the franchisee experiment, but the state chose relatively better-performing areas (CAG, 2022, p. 75). One of the reasons that were given by the state government to the CAG for its choice of areas was that the bidding process (for Kota and Bharatpur) being the initial phase of private sector engagement, it was felt more important to choose an area where the model can be successful and pave way for more franchisees. However, the CAG was not convinced

Figure 5: Distribution Loss Trajectory for Kota*, Bharatpur and Bikaner Franchisee Areas

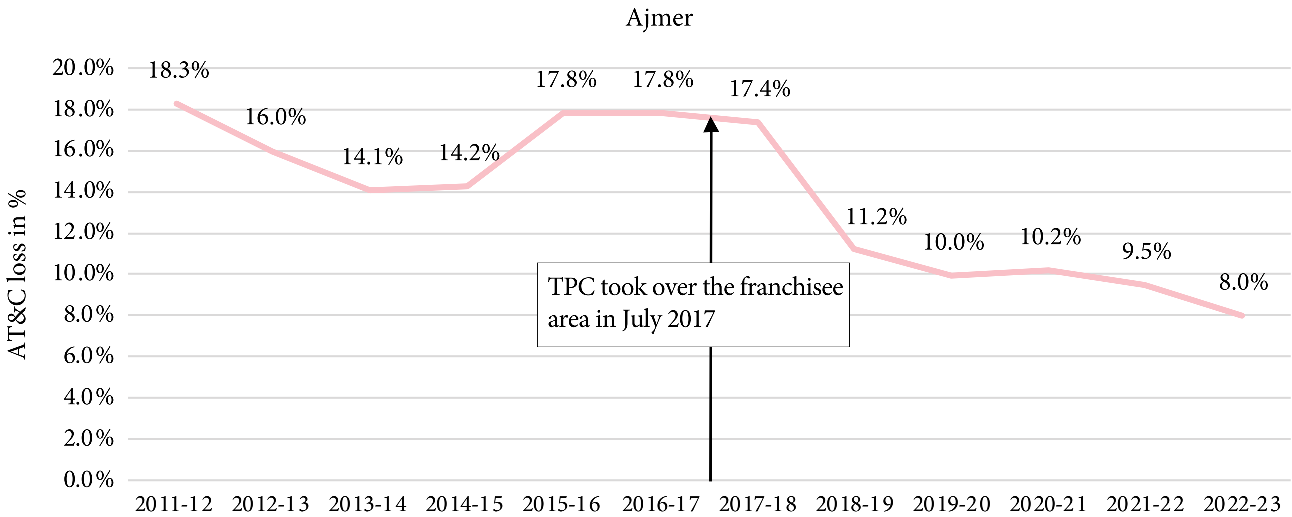


**RFP for Kota is not available in the public domain and hence pre-franchisee period (2010–11 to 2017–18) losses and collection efficiency could not be known.*

Source: Request for Proposals (RFPs) for Bharatpur and Bikaner Franchisee for FY 2010–11 to FY 2016–17 and Annual reports of CESC Ltd for the remaining years.

Note: BESL (Bharatpur Electricity Services Limited) and BiESL (Bikaner Electricity Supply Limited) are the fully owned subsidiaries of CESC Ltd functioning as the distribution franchisees in these areas. The franchisee in Kota is called Kota Electricity Distribution Limited (KEDL).

Figure 6: Aggregate Technical & Commercial Loss Trajectory for Ajmer Franchisee Area



Source: RFP for Ajmer Franchisee for FY 2011–12 to FY 2015–16 and Annual reports of TPC Ltd for the remaining years.

by this reply since the areas that were chosen later in the subsequent bidding processes were also not the most loss-making ones.

4.4 Observations by CAG

The CAG in its Compliance Audit of JVVNL (Jaipur Discom) made certain observations about its selection and implementation of distribution franchisee arrangements (Kota and Bharatpur). As stated in the report, the audit objectives were as under (CAG, 2022, p. 74):

- *to evaluate the efficacy of the DF* [Distribution Franchisee] *model adopted and the DF area selected;*
- *to evaluate whether the provisions/clause of the agreements executed with DFs were well defined and applied adequately to safeguard the financial interest of the Company;*
- *to assess the performance of the Company in the selection of DFs, execution of the DF agreements and achievements of the envisaged benefits; and*
- *to evaluate the performance of DFs concerning implementation of the DF agreement.*

Salient observations of the CAG audit report:

- **Installation of check meters and main meters:** It was observed that the DFs took inordinate time in installing the check meters[17] ranging from nine months to 12 months in Bharatpur City and 9 to 14 months in Kota City. Due to this delay, JVVNL could not ensure proper and consistent metering of input energy supplied to the DFs from the inception of the DFAs till the installation of these meters. In the absence of installation of both types of meters since inception, inaccuracy in metering the energy supplied to the DF during the initial period cannot be ruled out.
- **Ambiguous formula for computing Average Billing Rate (ABR):** It was noticed that while calculating the ABR, the DFs deducted the amount of provisional billing from the assessment amount without deducting the corresponding units of billed energy. Further, the DFs did not intimate the discom about this adjustment they had made. The fact came to the notice of the discom in July 2019, which led to a billing dispute. Based on the computations carried out (December 2019) by the independent auditor, JVVNL belatedly raised (May 2020) demand of Rs. 25 crore on KEDL and Rs. 4 crore on BESL for the period that ended up to June 2019. It is not clear if the dispute has been resolved and whether the amount has been settled. The audit held the discom responsible for not defining the ABR formula clearly and unambiguously.
- No timeframe for submission of data to independent auditor: As with the DFs in other states, the DFs in Rajasthan are also lagging in terms of compliance with the mandatory third-party independent audit requirements as per the DFA. While the discom appointed an independent auditor in May 2018 to conduct the audits as per the DFA, the audit could not be completed as the DFs did not provide the necessary data to the auditor. The CAG observed that the JVVNL had neither prescribed a timeframe for submission of requisite information to the independent auditor by the DFs nor incorporated penal provision for non-submission of data by them. As a result, audits of the ABRs could not be finalised. It is important to note that the discom's revenue recovery from the DF depends on the accuracy of the ABR estimation.

The audit observations highlight weak contractual provisions that could potentially allow the franchisee to evade accountability for substandard performance and serious negligence on the part of the discom in taking the steps necessary to protect its commercial and financial interests.

[17] As per the CEA Regulations, 2005 on Installation and Operation of Meters, a 'Check Meter' is a meter, which shall be connected to the same core of the Current Transformers (CTs) and Voltage Transformers (VTs) to which the main meter is connected and shall be used for energy accounting and billing in case of failure of the main meter. In the absence of the check meter, if there is any fault or error in the main meter, the same will go unnoticed or unaccounted for. Hence, for all commercially sensitive operations, check meters are mandatory (CEA, 2005).

4.5 Status of Independent Audits

Unlike Maharashtra and Uttar Pradesh, the Rajasthan discoms do not report consumer category-wise sales and revenue in the tariff petition. In the 2022 tariff order, the Rajasthan Electricity Regulatory Commission (RERC) issued directives to the discoms to finalise the independent audit reports of the franchisees and to publish them on the websites along with the tariff petitions of the current year (RERC, 2022). The status reported by each discom in the latest tariff order is as follows (RERC, 2023):

- JVVNL submitted that the independent auditor (M/s KPMG) has finalised the ABR figures for FY 2019–20 and FY 2020–21, however, it is yet to finalise and approve the same. For the period from April 2021 onwards, it is submitted that the audit is in process and the discom should receive the draft report by December 2022. Notably, the discom has not put any timeline as to by when it will submit the report to the Commission or by when it will be put up on the website.

- AVVNL in its response simply states that the franchisees are performing very efficiently and that it is reviewing their performance, without giving any details about the audit status or the auditing agency. Further, without mentioning any timelines it states that the report on the performance audit is in the process of finalisation and when it is completed, the report would be submitted.

- JdVVNL has the most peculiar response of all the three discoms. It states that the notice inviting tender for the appointment of an independent auditor was published on the 18th of November 2021. However, no bids were received. Nine times an extension date was given for bid submission, but still no bid was submitted. After much delay and extensions, they seem to have found two bidders in 2022 but it is not clear if the contract has been awarded. More importantly, there is no timeline for the audit since the auditor is yet to be found.

It is a matter of grave concern that the discoms do not seem to be serious about independent audits of ABR and other crucial aspects of the contract as mandated in the DFA. The revenue that the discom receives from the franchisee is by design lower than what it would have received had it been able to efficiently operate the area on its own. Given this, it should be very much concerned about the accuracy and correctness of the ABRs to ensure that the franchisee is at the very least paying its due share after accounting for the changes in consumer and sales mix, and tariff. In this context, the role of the independent audit cannot be overstated. And yet, the discoms seem almost reluctant to undertake this very crucial task that safeguards their financial interest, in a timely and efficient manner.

5. Bihar

The Census of India 2011 indicated that close to 89% of the rural households in Bihar relied on kerosene for lighting. Such was the magnitude of the electrification challenge before the state at the beginning of the last decade. It was during this difficult period that the Bihar discoms opted to appoint franchisees in the state around 2012.

5.1 Appointment of Franchisees

There are two discoms in the state, namely, North Bihar Power Distribution Company Limited (NBPDCL) and South Bihar Power Distribution Company Limited (SBPDCL). Even before NBPDCL and SBPDCL came into existence via the unbundling process in 2012, the erstwhile Bihar State Electricity Board had initiated the process of appointing franchisees for Patna and Muzaffarpur, which got entangled in litigation (Times of India, 2012). Subsequently, in 2013 M/s SPML Infra Ltd. was appointed as the franchisee for Bhagalpur based on competitive bidding (Economic Times, 2013). This was followed by the appointment of franchisees for Gaya and Muzaffarpur through a similar process. Table 8 provides the details of the franchisees that were appointed by the two discoms as well as their termination dates.

Table 8: Details of Franchisees Appointed and Terminated by Bihar Discoms

Franchisee	Muzaffarpur	Bhagalpur	Gaya
DISCOM	NBPDCL	SBPDCL	SBPDCL
Awarded to	ESSEL	SPML Infra Ltd	India Power Corporation
Operational from	Nov 2013	Jan 2014	Jun 2014
Term of contract	15 years	15 years	15 years
Sales in MU (FY 2016–17)	592	408	321
Share in Discom Sales (FY 2016–17)	8%	5%	4%
No of Consumers (FY 2016–17)	313,499	190,408	183,258
Share in Consumer Base (FY 2016–17)	5%	5%	5%
Contract terminated on	06.08.2018	26.11.2017	04.07.2018

Source: Compilation by Author from various regulatory orders and news reports.

5.2 Suo Moto Process by BERC to Evaluate Franchisee Capex Plans

In a remarkable move in 2015, the Bihar Electricity Regulatory Commission (BERC) using the provisions of the DFA and the 7th Proviso to Section 14 of the Electricity Act, 2003,[18] issued directives to NBPDCL and SBPDCL to submit details regarding the capital expenditure planned by the respective franchisees appointed by them. Specifically, BERC sought details of the approved investment roll-out plan for five years of the assets added year-wise by the franchisees and certified by the licensees, and improvement achieved concerning the quality of supply. When the discoms failed to submit the required information, the Commission initiated a Suo-Motu proceeding (BERC, 2016).

During the proceedings, some dispute over the inclusion of costs of meters in the investment plan arose between the franchisees and the discoms. Eventually, it became evident that even two years after signing the DFA, the discoms and franchisee had failed to finalise the minimum investment plan that was required under the DFA. Further, both parties failed to submit any compliance reports as per Article 5.2.10 of the DFA related to the review and certification of assets added by the franchisee.

It is important to note that the BERC categorically made it clear that *"The Commission directs SBPDCL and NBPDCL that as per provision of the DF agreement between Licensee and the respective Franchisee,* ***the CAPEX Plan for initial five years should contain expenditure of those materials only whose recovery is not made through rentals and/or the CAPEX is not contributed by consumers.*** *There is no role of this Commission in its approval."* (Emphasis added)

Further in the order, the Commission highlights its role in reviewing the investment plan by stating as follows: *"The Article 5.2 of Distribution Franchisee agreement (DFA) provides that the* ***input energy rates quoted by the Distribution Franchisee shall be deemed to have taken into account the cost of finance and depreciation on account of the investments*** *referred under the Article 5.2. Therefore,* ***Capital expenditure plan ought to have been implemented by the franchisee in accordance with the provisions under the agreement*** *as financial impact of the same has already been accounted for in the input energy rates quoted by the Distribution Franchisee. As mentioned in Article 5.2 of DFA such capital expenditure plans are to improve efficiencies, upgrade infrastructure etc. and* ***due to non implementation of Capital expenditure plan referred to in the agreement not only the provisions of DFA has been violated but concerned consumers have also been deprived from expected benefit in terms of improvement in reliability and quality of supply which could have been achieved by implementing such plans"*** (Emphasis added).

[18] The said proviso allows the distribution company to appoint a franchisee to undertake operations on its behalf while it remains responsible for ensuring the distribution of electricity in its area of supply.

Thus, BERC has taken a very balanced view whereby it tried to evaluate whether adequate efforts were being made by the franchisees to fulfil their obligations under the DFA. It correctly pointed out that if the franchisees were appointed to improve efficiency, then ensuring their appropriate performance was essential in larger consumer interest, and any failure in doing so would adversely affect the same. It is perhaps the only Commission in the country to have taken such Suo motu steps to protect the consumer interest in the case of franchisees. Unlike Uttar Pradesh, in Bihar, the discoms and the regulator seem to be on the same page as far as the regulatory role and jurisdiction are concerned, which helped.

5.3 Contract Termination and Litigation

Unfortunately, the franchisees did not or could not make the necessary investments. This led to an event of default and ultimately, contract termination.

100% household electrification was a huge political issue in Bihar in the second half of the last decade and hence the failure of the franchisees was a major setback for the state. Even the Chief Minister remarked on their failure (Times of India, 2017). The Bhagalpur franchisee, SPML Infra Ltd and the discom SBPDCL got into a protracted dispute over the termination of the franchisee contract in 2017. The dispute was taken for arbitration, but there were disputes over the appointment of arbitrators, extension of the arbitration period, etc. As per the latest information available, the Patna High Court on April 26, 2023 has set aside the earlier orders[19] and the arbitral proceedings are being ordered to be started afresh (Patna High Court, 2023).

The Gaya franchisee also initiated a similar dispute with SBPDCL over contract termination in 2018. It was also escalated via similar channels from the arbitral tribunal to the High Court and the Supreme Court of India. The Supreme Court ruled against the franchisee, making it possible for the discom to take back control of the franchisee area (Times of India, 2018). The financial impacts of these disputes and terminations are not clear. In the case of Bhagalpur, the impact will be apparent after the arbitral process concludes. The Bihar story highlights the serious dangers of the franchisee process going wrong. While the BERC played a remarkably vigilant and proactive role in safeguarding consumer interest, the experiment still failed. The primary motivation for the Bihar discoms in appointing franchisees was that they would make investments and cater to the rapidly growing consumer base. Had these experiments succeeded, the state would have been keen to award even more franchisee contracts (Times of India, 2014). But that did not happen.

It can be seen from Table 8 that franchisees were given a sizable portion of the consumer base and sales. It is also important to note that on account of village electrification, the discoms were witnessing an unprecedented increase in consumer numbers and so were the franchisees. The 4-year CAGR of the growth rate of the SBPDCL consumer base between FY 2012–13 to FY 2016–17 was a whopping 26% (BERC, 2019, p. 144). Without the swift deployment of significantly large investments into network infrastructure, much of which came from government support, it was not going to be possible to manage this rapidly growing and aspiring new consumer base. Expecting such large-scale front-loaded investments to emerge from a franchisee model was perhaps not an appropriate policy decision. The reason for this is that a franchisee can at best operate within an established set-up, which has a modest capex requirement and thus allows the franchisee to make profits to cover its investment costs by cutting losses and otherwise meeting the targets upon them. IBDF model cannot support the kind of meteoric growth in consumer numbers, load, and sales that rural Bihar witnessed in the last decade. Supporting that scale of electrification needs massive upfront investments that can be recovered only in the long run (that too perhaps with the help of revenue subsidy or some such measures). Thus, the franchisee model was not an appropriate choice to support such a system, as Bihar learned the hard way.

[19] Relevant extract of the High Court judgement: In the light of the discussions made in paragraphs hereinbefore, the order dated 25.09.2021 passed by the learned District Judge in Misc. Arbitration Case No.01 of 2017 wherein the learned District Judge allowed the extension of time for completion of arbitration proceeding and the mandate of the Arbitrators is set aside. Similarly, the order dated 25.09.2021 passed by the learned District Judge in Misc. Arbitration Case No. 164 of 2017 is also set aside. The order dated 25.09.2021 passed by learned District Judge in Misc. Arbitration Case No.165 of 2017 wherein it upheld the extension of the arbitral tribunal by consent of the parties is also set aside.

6. Other State Experiences

Bihar is not the only state where franchisees failed to take off. Madhya Pradesh and Jharkhand are the two other such examples, albeit for very different reasons. In the case of Odisha, the franchisees filled in for an absent discom for a few years, but were later replaced by a new discom. This section briefly looks at these state experiences.

6.1 Madhya Pradesh

There are three distribution companies in Madhya Pradesh (MP), namely, Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited (East DISCOM), Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited (West DISCOM), and Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited (Central DISCOM). With mounting loss levels, in 2011 all three distribution companies floated tenders for the appointment of input-based distribution franchisees in their respective areas. Table 9 gives the details of the franchisee contracts that were awarded by these companies in 2012. As can be seen, all three contracts were won by the Essel group. Regrettably, all of them were terminated around 2015 and ended up in litigation.

In the case of Gwalior, the termination happened before the franchisee could take over the operations on the ground. As one of the preconditions to start its operations, the DFA required the franchisee to undertake a joint inspection of the area along with the discom. The franchisee claimed that the discom did not cooperate with it in this regard and the franchise's failure to fulfil this precondition was used as one of the grounds for terminating the contract (MP High Court, 2015). The discom countered this charge by claiming that the franchisee's performance was not satisfactory.

In Sagar, billing disputes arose between the franchisee and the discom which led to the discom issuing a default notice under the DFA. As the dispute escalated, it turned out that the discom had not set up the Dispute Resolution Committee, as provided under Article 34 of the DFA. Aggrieved by the actions of the discom, the franchisee sought legal intervention (MP High Court, 2015). Ultimately, the DFA was terminated and the discom took over the operations.

In Ujjain too, disputes arose between the franchisee and the discom and the discom issued a default notice under the DFA. Here too, the dispute escalated, and a termination notice was issued by the discom, which was challenged by the franchisee. The franchisee claimed that the discom unlawfully took over the operation and management of its area of supply and a legal battle ensued (MP High Court, 2015). The discom claimed that the franchisee had failed to undertake necessary repair and maintenance work after some floods in 2015. The termination decision was taken ahead of the 2016 Simhastha Kumbh Mela when a lot of pilgrims were expected to visit Ujjain. The administration claimed that it did not have confidence in the franchisee's ability to manage the supply during this critical period (Times of India, 2015).

On the other hand, the Essel Group claimed that it succeeded in reducing the AT&C losses of around 45–47% to 25–30% in Ujjain and Sagar respectively,

Table 9: Details of the Franchisee Contracts Awarded by MP Discoms in 2012

Franchisee Area	Gwalior	Sagar	Ujjain
Discom	Central Discom	East Discom	West Discom
Franchisee Operator	Smart Wireless (Essel Group)	Smart Wireless (Essel Group)	Smart Wireless (Essel Group)
Date of DFA	10/5/2012	10/5/2012	10.05.2012
Term of the contract	15 years	15 years	15 years
Consumer base (FY 2012)	184,000	55,000	95,000

Source: Compilation from the RFP for Gwalior franchisee and World Bank report (MP Central discom, 2011), (World Bank, 2014).

in the first year itself. As they insisted on consumers paying their bills, they faced a lot of resistance from all quarters including, political pressure. The company claimed that it did not receive the necessary support and cooperation from the state authorities, which did not help the situation and adversely affected public perception (T&D India, 2018).

In all three cases, the specific details of the dispute are not available in the public domain and hence it is not clear why an amicable solution could not be reached. It is also not clear if there were any financial impacts due to these terminations. There are no audit reports, independent assessments of the franchisee's claims of loss reduction, or regulatory orders that are available in this regard. Thus, apart from the High Court judgement(s) and news reports, there is no credible data available in the public domain to assess the reasons for the failure of these franchisees. This once again highlights the opacity in the management of franchisees by the discoms and the lack of regulatory oversight compounding the issue.

6.2 Jharkhand

The decision to appoint franchisees was taken by the erstwhile Jharkhand State Electricity Board (now Jharkhand Bijli Vitran Nigam Ltd) in 2011. Ranchi, Jamshedpur and Dhanbad were the areas selected for appointment of input-based distribution franchisees. As the bidding process was going on, the state electricity board was also being unbundled. After bids were received and evaluated, contracts were signed only for Ranchi and Jamshedpur, as the bid selected for Dhanbad was deemed unresponsive, though it is not clear on what grounds. Table 10 gives the details of the franchisees awarded for Ranchi and Jamshedpur.

A company called Direct Media Distribution Ventures (P) Ltd had apparently qualified and was supposedly deemed unresponsive hence only two contracts were awarded. Aggrieved by this decision of the state electricity board, Direct Media filed a writ petition challenging the decision to appoint Tata Power and CESC as the two franchisees (Jharkhand High Court, 2012). And thus, right from the beginning, the process was marred by litigation.

As Table 10 shows, the DFA was signed towards the end of 2012 during which period the state power sector was also being unbundled. Perhaps because of this flux, the state board or the newly formed discom took some time to respond to this petition. Meanwhile, the state government decided to cancel the bidding process based on allegations made by Direct Media. Arguing that the government's decision is not binding on the (newly formed) state discom and stopping it from terminating the DFA, Tata Power Ltd filed an interlocutory application seeking to prevent the state discom from cancelling its contract (Jharkhand High Court, 2014).

There were also other major political changes taking place in the state at this time. These included a change in the state leadership, six months of President's rule and changes leading to a new coalition government in 2014. Following the major political upheaval, the slew of litigation regarding franchisee appointment and contract enforcement continued with cases being filed by almost all stakeholders, including the Jharkhand Rajya Vidut Board Abhiyanta (JSEB engineers' union) seeking to protect the employee rights under the franchisee regime (Jharkhand High Court, 2014). Eventually, the franchisee contracts were terminated by the discom, and the termination was challenged by both Tata Power and CESC. The status

Table 10: Details of the Franchisees Appointed by Jharkhand Bijli Vitran Nigam Ltd (Erstwhile JSEB) in 2012

Franchisee Area	Jamshedpur	Ranchi
Discom	Jharkhand Bijli Vitran Nigam Ltd	Jharkhand Bijli Vitran Nigam Ltd
Date of DFA	Dec 2012	Dec 2012
Franchisee Operator	Tata Power Ltd (TPC)	CESC Ltd
Date of termination	06.05.2015	06.05.2015
Term of the contract	15 years	15 years
Consumer base (FY 2012)	300,000	350,000

Source: (TPC, 2013) and (CESC, 2013).

of these various litigations could not be ascertained. There is also a view that the major changes in the political regime led to discord between the new government that came into power post-2014 and the franchisees (who were appointed in 2012 by the earlier government), as an amicable understanding could not be worked out between the two (Chandra, 2017).

Franchisees are sometimes seen as a benign form of privatisation when the latter seems politically infeasible. However, the Jharkhand experience makes it clear that without political will and support, it is not possible to set up franchisees, let alone sustain them. Such political will is also crucial to the success of any reform in ownership structures.

6.3 Odisha

Odisha was one of the first states in India to unbundle, adopt an independent regulatory model and privatise its distribution sector. The first round of privatisation in Odisha began in 1995–96, failed and one of the private discoms, AES that oversaw the Central Electricity Supply Company, abandoned its business and fled (Prayas, 2017). After this debacle, the Central Electricity Supply Utility (CESU) was formed to manage the distribution area of AES. However, the Utility was in very bad shape, both financially and technically, and managing the distribution business was a huge challenge for it. It needs to be noted here that Odisha at that time was also dealing with a huge electricity access challenge, which made matters worse.

Against this backdrop, with a shortage of funds and manpower, CESU turned to the franchisee route as a solution for its problems. Unlike the other big states, instead of IBDF, it adopted the Input Based Franchisees with Incremental Revenue Sharing (IBF-IRS) model. As briefly explained in Table 3, under this model the incremental revenue above a pre-determined baseline revenue (per unit) is shared between the franchisee and the discom in a predefined ratio. If the franchisee fails to realise baseline revenue, a penalty is applicable, and it is revised every year based on the tariff indexation formula. The franchisee contracts in Odisha were only for five years and the franchisee was expected to maintain all assets below the distribution transformer. Table 11 gives the details of the franchisees appointed by CESU under the IBF-IRS model.

By FY 2017-18, more than 80% of CESU's consumers were catered to by the franchisees. CESU claimed that it was able to achieve a significant loss reduction on account of the franchisees. This claim was repeatedly made in all the tariff filings before the Odisha Electricity Regulatory Commission (OERC) between 2013 to 2018 (OERC, 2016). Even the NITI Aayog in one of its reports on distribution reforms hailed the CESU model as a success story, stating that between 2013 to 2017 FEDCO, which was one of the franchisees, had helped CESU achieve an average loss reduction of 23% (NITI Aayog, 2021, p. 21).

However, the State Advisory Committee (SAC) appointed by the OERC held a different view on the matter. In the tariff proceedings, it pointed out that

Table 11: Details of the Franchisees Appointed by CESU under the IBS-IRS Model in 2012–13

Franchisee	Areas covered	Commenced operations in	Number of consumers as of Sep 2015
ENZEN-Dhenkanal	Dhenkanal, Chainpal and Angul	2012	3,59,783
Riverside Utilities Private Ltd. (RUPL)	Cuttack, Athagarh and Salipur	2013	2,71,209
Seaside Utilities Private Ltd. (SUPL)	Nimapara	2013	1,22,355
FEDCO	Khurda, Puri, Balugaon and Nayagarh	2013	5,12,525
ENZEN-Paradeep	Kendarapara, Marshaghai and Jagatsinghpur	2013	3,16,262

Source: Central Electricity Supply Utility (CESU) of Odisha ARR petition for FY 2016–17, Page 27 of 77.

though expenditure on operation and maintenance had been increasing by around 25% to 30%, a commensurate reduction in AT&C losses had not been achieved. It also highlighted the lack of system-level energy audits or other means of authenticating and verifying loss reduction claims by franchisee and/or CESU. Concerns were raised regarding the franchisees not investing in asset creation, without which, there can be no fund inflow into the sector. It was speculated that this was due to the short tenure of the franchisee contract (five years) (OERC, 2016).

In 2020, Odisha embarked on a second round of distribution privatisation and Tata Power Limited became the distribution licensee for all four distribution utilities in the state. After taking over the distribution business, it terminated the franchisee contracts for FEDCO and ENZEN. As per its annual reports, even before it took over the distribution business from CESU, the utility had terminated the franchisee contracts with RUPL and SUPL following directions from the High Court based on its order dated 27 March, 2019. The franchisees had filed a writ petition before the Orissa High Court for renewal of their contracts and claimed Rs. 404 crore (Rs. 302 crore by RUPL and Rs. 102 crore by SUPL). CESU refuted the claims of the franchisees and filed an appeal with a counterclaim of Rs. 599 crore (Rs. 397 crore against RUPL and Rs. 202 crore against SUPL). After directing CESU to terminate the contracts the Court directed the parties to try and reconcile the dues amicably. However, after the attempts at amicable reconciliation failed, the Court ordered them to settle the claims through arbitration proceedings. Presently, the matter is pending before the Arbitration Tribunal for adjudication (TPC, 2023).

In the case of Odisha, the franchisees proved to be a mixed bag. Given the difficult situation that CESU found itself in after AES left, the franchisees helped to continue operations and make some improvements. However, given the serious challenges of low rates of electrification, poor network infrastructure, high losses, etc., faced by the Odisha distribution sector, it would be inappropriate to expect the franchisees to deliver where the discoms had failed. The short duration of the franchisee contract and the limited capital investments that they brought in, only made the matters worse. Further, as with franchisees in other states, monitoring and compliance issues, financial disputes, and termination became sore points in Odisha too.

7. Insights and the Way Forward

The experience of different states with various types of distribution franchisees makes one rather cautious about this mode of private-sector participation. The experience certainly does not merit the unequivocal status that distribution franchisees have been granted in the reform prescription. The key issues that emerge from the experiences analysed in this paper can be summarised as follows:

7.1 Key Issues and Challenges

- **Lack of transparency regarding franchisee selection, operation, and termination:** The rationale for selecting a given area for franchisee operation is often not explicitly outlined. Except for Maharashtra, no other state has put out all the contractual documents such as RFPs and signed copies of DFAs, supplementary agreements, etc. on the discom website. No state has published minutes of pre-bid conferences, a list of bidders, and details of qualified bids. Only MSEDCL publishes the performance (sales and AT&C losses) of the currently active franchisees on its website (based on MERC directive). In other states, this is very difficult to find, unless some consumer has raised a query in this regard during the tariff process. In the case of terminated DFAs, there is very little information, if any, in terms of the nature of the dispute, reasons for the contract termination, and financial impacts, if any.

- **Discom's inability to enforce contractual provisions:** Almost all state experiences highlight the discom's failure to enforce contractual terms pertaining to third-party audits and other provisions that would secure its financial interests. The discom's monthly revenue from the franchisee depends on an accurate assessment of the Average Billing Rate (ABR) for the base year, which forms the foundation for its revenue calculation. As per the DFA, it should be audited and verified within 90 days from the signing of the contract. Despite this, it has been found that the third-party independent audit of the base-year ABR was not conducted on time in almost all states. Annual ABR audits for most of the operational franchisees are similarly pending or at least the reports are unavailable in the public domain. Despite regulatory directives for undertaking these audits which would secure their revenue from the franchisees, the discoms seem almost reluctant to take steps in this regard.

- **Lack of accountability towards capital expenditure:** According to the DFA for franchisees in Maharashtra, Uttar Pradesh, and some other states, franchisees must mandatorily submit an infrastructure roll-out plan for the first five years. Further, with the help of the discom, the franchisee needs to secure approval for the plan from the regulator. However, despite this provision, in Maharashtra, TPL has spent more than Rs.600 crore under "uncommitted capex," and in UP, it claims to have incurred more than Rs. 800 crore. In most states there has been no regulatory scrutiny of the prudence of the franchisee's capex plans, let alone the efficacy of its implementation. The issue is made only worse by imprudent utility practices, such as not maintaining a proper asset register (e.g., in the case of UP and Rajasthan discoms) and lack of third-party audits of capital expenditure and the asset register.

- **Inability to ascertain franchisee performance:** In the absence of reliable third-party audits of crucial operational parameters such as distribution loss, collection efficiency, arrear collection, etc., the available data on franchisee performance is self-declared, and hence, not entirely reliable. Except in the case of Bhiwandi till FY 2016, when the distribution loss was 24%, and in the case of Agra till FY 2015–16, when it was 32%, there is no audited data on distribution losses in the franchisee areas. The data reported everywhere else is from the annual reports of the companies running the franchisees, and hence, self-reported. Thus, while the franchisees are ostensibly introduced with the intent of loss reduction, neither the discoms nor the policymakers seem keen to verify their actual performance.

- **Stable political support is crucial to franchisee success:** The first term of the Bhiwandi franchisee is perhaps the only example of a somewhat successful franchisee experiment if one chooses to overlook for a moment the various critiques regarding the governance and regulatory challenges it throws up. However, even this limited success was possible due to the political support that the franchisee enjoyed. While such support is seldom explicit, it can be seen in the form of the cooperation that the franchisee receives from the state administration and the flexibility that is allowed to it in executing its plans and operations. In the absence of such support, it is impossible for the franchisee to even function, let alone be successful. The Madhya Pradesh and Jharkhand experiences demonstrate this quite clearly. This need for political support puts the franchisee at par with privatisation when evaluated from a structural reforms point of view.

- **Terminating bad contracts is expensive:** It is bad enough to discover a non-serious bid or to be stranded in a contract that is not honoured by one of the parties. But as the Jharkhand, Bihar, Madhya Pradesh, Odisha, and Maharashtra experiences demonstrate, the cost of litigation and the liabilities caused by such termination could be non-trivial. Given the nature of the arbitration and judicial proceedings in our country, the cases may take several years before reaching finality. Instead of receiving any benefits from efficiency gains by appointing franchisees, the discom may end up with dues and bad debts and is likely to be financially worse off after a failed franchisee experience.

- **Limited competition:** The UP, MP, Bihar and Rajasthan experiences show that there is not much interest in the private sector to take up smaller towns or rural and/or newly electrified areas as franchisees. As with distribution privatisation, even in the franchisee space, the same few companies have emerged as winning bidders. Lowering the entry barrier, as tried by Maharashtra in the subsequent rounds after Bhiwandi, poses its own challenge of discovering new players who may not be financially and/or technically competent to run the distribution business. Striking a balance between healthy competition without compromising on quality, experience and expertise has proved to be a challenge so far. Also, given the experience with some of the troubled projects in the past, most international players have stayed out of the distribution business. Due to all these factors, the franchisee market is dominated by a handful of domestic companies, which also happen to be privately owned distribution companies in some states.

7.2 Way Forward

Given the experiences with the franchisee model discussed in this paper, it is difficult to suggest it as a policy measure for discoms to improve their efficiency and reduce losses. The model, in its current form, has numerous shortcomings, and the existing legal, regulatory, and governance mechanisms are insufficient to address these issues. Therefore, promoting the input-based distribution franchisee model as a tool for improving discom health is not advisable unless there is a certainty that the contract can be implemented in both letter and spirit.

Following the failure of Odisha's first round of privatisation in 1996, the lukewarm response to Delhi reforms, and the ongoing opposition to distribution privatisation across various states, the franchisee model was viewed as a middle ground to introduce private sector investments and managerial efficiency into the distribution segment without giving up state ownership. Unfortunately, this Public-Private Partnership model has not worked out well for the sector. One of the key reasons for this is that like privatisation, the franchisee model also needs state support and political will, as the experiences in Madhya Pradesh and Jharkhand clearly demonstrate. Interestingly, the consumers do not make much of a distinction between a franchisee and a private licensee, as observed in the few surveys conducted in the Bhiwandi and Agra franchisee areas.

Given these constraints and realities, if any change in ownership is to be considered, it would be better to choose privatisation over the franchisee model because of the following reasons.

- **Economies of scale:** Privatisation is undertaken over a larger area and that facilitates economies of scale. This in turn can help in optimising costs for the company and for the consumers.
- Franchisee being a **sub-contractor has no skin in the game** so to speak. Irrespective of its performance, the ultimate blame or credit rests with the discom. This is not the case with privatisation where the **company is directly responsible** and is also seen as responsible for the outcomes.
- There is **direct ownership of assets** and hence a greater incentive for investments in network strengthening and improvement.
- Given the **longer nature of the business**, there is a stronger and deeper motivation for loss reduction and better service delivery.
- Being a licensee, means there is **direct accountability to the regulatory commission, consumers, and the public at large**.

With the energy transition unfolding, the role of the distribution company is rapidly changing. With the large and high-paying consumers migrating away and/or managing their supply on their own, the distribution company of the future might be largely a wires licensee that would also be catering to small and rural consumers. In such a system, there needs to be a robust framework for incentivising efficient distribution network development and management while ensuring non-discriminatory access to all consumers. The discom of the future needs to be agile to be able to respond to the much higher levels of uncertainty, both in terms of changes in consumer sales and load mix as well as those caused by new technologies, extreme weather events, and other such factors. Furthermore, the key challenge before the future discom would be to not only respond to these challenges in a timely and nimble way but to also do so in a cost-effective manner. The experience with franchisees so far does not generate confidence that the model will be able to deliver as per the requirements of the changing times.

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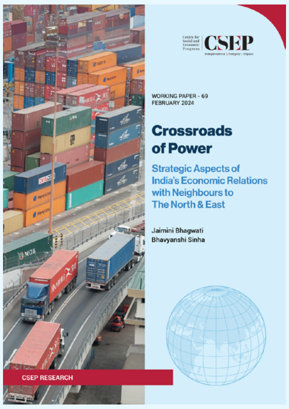
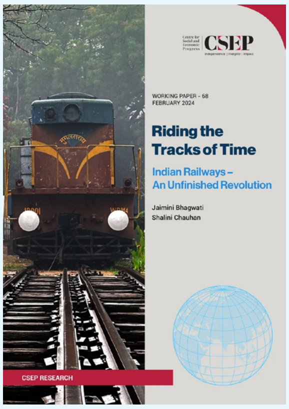
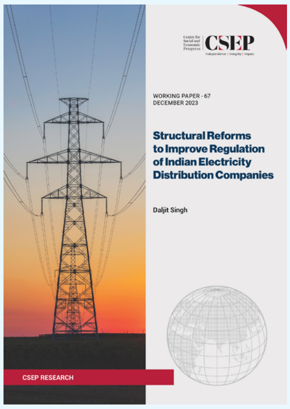
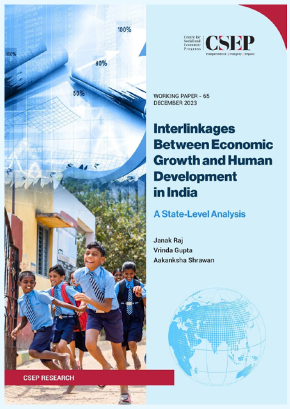
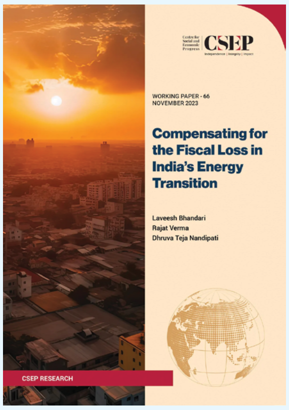
Other publications

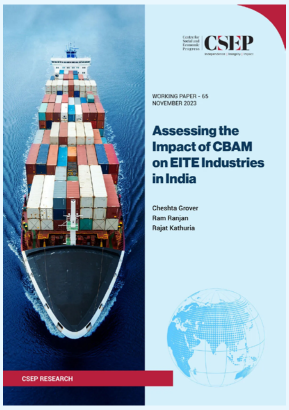


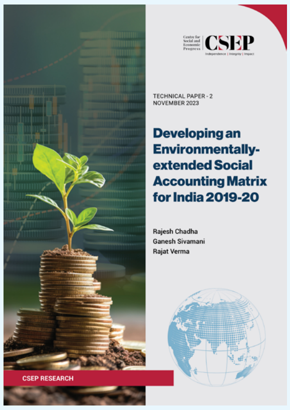


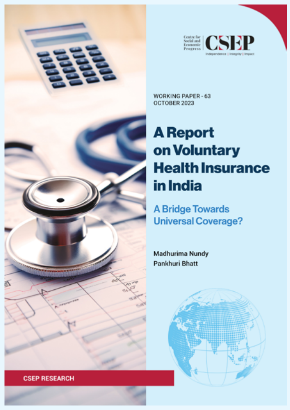


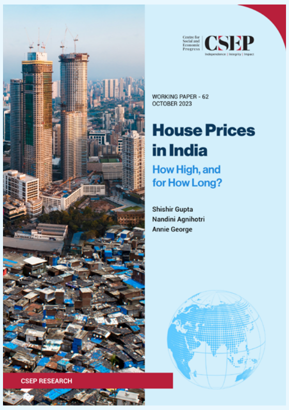


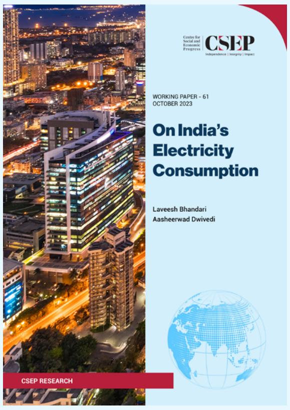


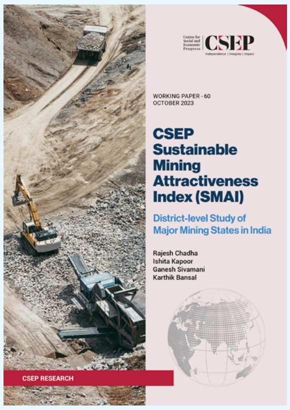


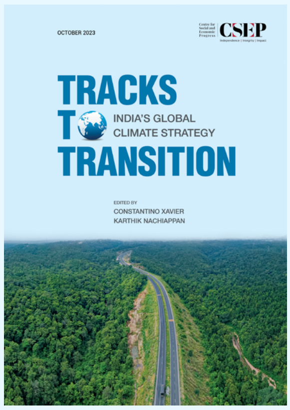


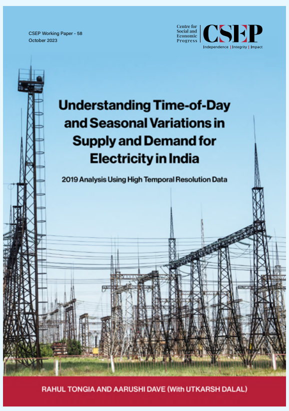


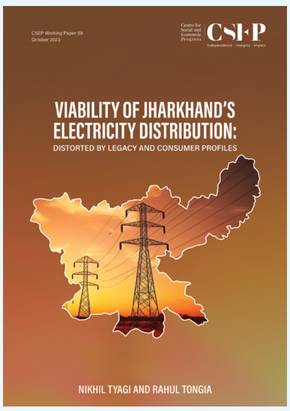


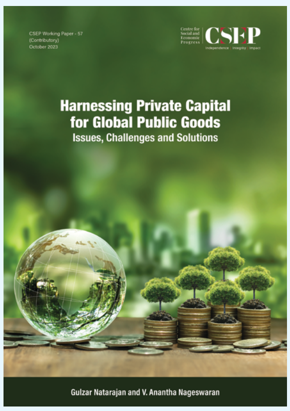












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