REFORM EFFORTS

PROCEEDINGS OF THE GOVERNMENT OF KARNATAKA

Sub: Reforms Policy for the Energy Sector.

PREAMBLE:

With the objective of bringing in additionality of resources for the capacity addition programme in the electricity Sector, Government of India formulated a policy in 1991 to encourage greater participation of the Private Sector in the electricity generation, supply and distribution field. Under this Policy, private sector entrepreneurs can set up enterprises either as licensees or as Generating companies. The necessary changes in the Electricity (Supply) Act 1948 to provide for this as well as changes in the financial and administrative environment to facilitate this policy have been made by the Government of India. It has, however, been seen in the implementation of this policy that the promised private investment in the Power Sector has not been forthcoming because of the poor financial health of the State Electricity Boards. The Government of India has also been making efforts to evolve consensus in order to arrive at a Common Minimum National Action Programme for Power in order to cover such areas as improving the financial viability of the Power Sector, providing incentives for improving operational performance etc.

2. The Government of Karnataka have also seriously considered the issue of bringing in necessary reforms in the Power Sector in the State in order to achieve the objectives of attracting private investment into the generation, transmission and distribution areas, improve the levels of customer service and to free scarce Government resources for investment in other sectors where private investment is not forthcoming. The Government have, after consideration of all these aspects, prepared a detailed Policy Statement outlining the manner in which reforms in the Power Sector in the State are to be brought about.

ORDER NO.DE 99 PPC 96, BANGALORE, DATED 30TH JAN 1997.

Government of Karnataka are pleased to approve the Policy Statement for Reforms in the Energy Sector as appended to this order.

BY ORDER AND IN THE NAME OF

GOVERNOR OF KARNATAKA

Sd/-

(AHMED A.MOKHTADAR)

Under Secretary to Government

Energy Department.

POWER SECTOR POLICY OF THE GOVERNMENT OF KARNATAKA

I. BACKGROUND:

Karnataka today faces an acute scarcity of power. There is a shortage of electricity both in terms of energy availability and meeting the peak load demand.

Following the decision of Government of India to throw open the power generation to private participation the Government of Karnataka has sanctioned a number of projects to be taken up in the private sector. Together with the approved projects of Karnataka Power Corporation Limited, the total capacity thus permitted to be set up is 8,680 MW. The KEB has stated that even if the Board is in a sound financial condition with a projected growth rate of 10% in energy requirements, large short falls in meeting peak demands as well as demands for electrical energy are expected during the next decade. This will have serious negative implications on the industrial and economic developments of Karnataka.

Further, all the Independent Power Producers involved in the State will face difficulty in financing their projects if the overall financial health of the Power Sector is not radically improved. There is also no possibility of Government continuing to support the Power Sector on the same scale as in the past leave alone meeting the enormous funds requirements for building up capacity in the future.

There is, of course, no doubt that demand side management will assist in better management of available power. This can be done by reduction of avoided costs, capacity savings, using energy saving devices, shortlisting of demand side options such as optimal resource, selection, sensitivity and risk analysis and transmission and distribution impacts. However, this alone will not suffice.

The need for fundamental and radical reform in the power sector, which goes far beyond just the permitting of private sector entry into generation is, therefore, obvious.

II. OBJECTIVES:

The objectives which the reform of the Power Sector should achieve will be as follows:

1. Attracting enough private investment to this sector, in generation, transmission and distribution to meet the growing demand for power.

2. Establishing a regulatory environment which will ensure that generation costs are kept at a minimum through a process of competitive bidding for setting up of capacity and also ensure that adequate incentives and

provided for improvements in operational efficiency, cost reduction and enhancement in the quality of customer service in the transmission and distribution sectors.

3. Providing incentives for energy conservation.

4. Releasing scarce Government resources which are now deployed in the power sector for being used in other areas of greater priority (i.e., where private investments will not be available).

III. STEPS OF THE REFORM PROCESS:

While the details of the various arrangements necessary to achieve the above objectives will be worked out after a thorough study, the steps envisaged for achieving the objectives will be as follows:

1. RESTRUCTURING:

Karnataka has been a pioneer in that the generation function was separated from the transmission and distribution function as early as in the 1970 and set up into a separate generating company registered under the Companies Act. It is the intention of the Government of Karnataka to now separate transmission from distribution. While it is envisaged that there will be one entity dealing with transmission throughout the State, the distribution function will be organized into several economically viable units. Both the transmission and distribution entities will be organized as Companies under the Companies Act 1956. This process will involve transfer of the assets and liabilities as well as staff of the KEB to these successor entities. Wherever felt necessary, redeployment and voluntary separation of staff will be implemented for bringing the staff numbers available into alignment with requirement such a process of manpower planning will be finalized after discussions with all concerned.

2. INDEPENDENT REGULATORY COMMISSION:

An independent regulatory commission will be set-up under an appropriate statute. This Commission will be manned by persons of assured independence, qualifications and competence. This Commission will be responsible for licensing of companies providing electricity services, approving the establishment of new capacity at the minimum possible costs through a process of competitive bidding, monitoring the operations of the licensees and establishing tariffs in accordance with the principles laid down in the legislation for achieving objectives of this Policy. The statue will make appropriate provision for determining the procedures to be followed by the commission and the scope for appeals against its decisions. The Regulatory Commission will also set the performance standards for licensees and will settle certain kinds of disputes between licensees and consumers. The basic principles which will guide the Regulatory Commission are that:

(a) licensees operating within the agreed efficiency parameters earn a commercial rate of return on shareholders equity and are able to raise a reasonable share of their investment resources requirement for future investment through internal cash generation, and;

3. TARIFF REFORM:

The Regulatory Commission will introduce necessary modifications in the tariff structure which will progressively reduce cross subsidies and ultimately result in their elimination. As and when the appropriate arrangement are in place, time-of-day tariffs will be introduced for select categories of consumers. To the extent small rural consumers and the rural poor need to be protected, cross subsidies may have to continue to be provided for in the retail tariff structure in the short to medium term. These will, however, have to be gradually eliminated. The tariff will also have appropriate incentives for supporting a programme of load management and Electricity conservation.

4. INTRODUCING COMPETITION:

The Government has already permitted entry of private Independent Power Producers. It is the intention of Government that the Transmission Company should, in the future, contract for new generation capacity and the purchase of power on the basis of competitive bidding. The Tariff Regulatory Commission will supervise this process and lay-down proper ground rules for preventing concentration of activities, collusive price, fixing etc., which are detrimental to the interests of the customers.

5. PRIVATISATION:

In order to improve operational efficiency in distribution and to enhance customer service quality. Government of Karnataka plans to privatize the restructured distribution operations of the KEB. While doing so, an open competitive bidding process will be adopted. In a similar manner, the holding of the Government in the Karnataka Power Corporation Limited will also be diluted by offering shares to the public. To ensure that the necessary framework is in place, privatization would be implemented after the independent Regulatory Commission has become fully operational. As far as the transmission entity is concerned, which will be responsible for purchase of power from the independent power generators and thereafter selling the same to the distribution entities; appropriate safeguards will be build in its ownership and management structures so as to prevent the scope for any single or set of producers/distributors from directing the operations of the transmission company in a manner detrimental to public interest.

IV. REFORM MANAGEMENT:

A senior level steering committee to be chaired by the Chief Secretary to the Government will be set-up to provide policy guidance and monitor the implementation of the Reform Programme. A task force chaired by the Secretary to Government, Energy Department will also be set up to manage the day to day activities of the programme. To study specific areas in detail and to resolve issues relating to each area, working groups will be established. Wherever necessary, the services of external (both domestic and international) consultants will be obtained to study specific issues which need policy options and provide advise on the course of action most suitable.