



*NATIONAL FRANCHISEE
TRAINING PROGRAM
Of
Ministry of Power*

Reference Book

Program Manager: Rural Electrification Corporation Ltd.



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I. COURSE OBJECTIVE

Pursuant to reforms being implemented under the Indian Electricity Act (2003), improving the efficiency of electricity distribution includes efforts to restructure the activities of distribution companies (and electricity boards) through the selective use of franchising. In several states, franchising of selected operations in both urban and rural areas has begun, and other states are at various stages of reviewing and planning implementation of the same.

This course material has been prepared by Feedback Ventures under an assignment from Rural Electrification Corporation Ltd. (RECL). The objective is to assist REC in implementation of its main objective of promoting Rural Electrification projects all over the country and fulfilling its commitments to provide reliable & affordable power to villages and continuously creating entrepreneurship in the villages which further create job opportunities. REC aimed at strengthening and supplementing the government's on-going efforts to improve the country's Electricity Distribution Services especially in the Rural Areas of India and supporting their motive of "Electrifying Villages, Energizing India".

The objective of this course is to help the participants understand the conceptual framework for various models of Rural Franchise Agreements, to impart knowledge on the basics of distribution business covering management, technical, commercial and legal aspects and to help them understand and apply mechanisms for quick efficiency gains and improved customer service. The course would also help the participants to understand the business of undertaking the franchisee work and the process of franchisee appointment.

II. TARGET AUDIENCE

The target audience for the programme will be the midsize and small firms that have the resources and capability to diversify into distribution franchisee business or firms on the growth path with the aspiration and confidence to scale up and equip themselves to be able to operate a distribution franchise and reap the rewards of being early entrants into this new business line. While these sections constitute prospective franchisees that can operate at division/ sub-division level, small entrepreneurs who see themselves in a similar role at feeder/ transformer level will also benefit from this programme. The target audience will also include the trainers drawn from the training institutes participating in this programme, who will in turn impart training to the final target audience.

It is hoped that during the programme the participants will bring to the forum their own experience and insights and thereby help to build improvements in the existing models and develop new ones and at the end of the programme, find themselves well equipped to bid for and manage Distribution Franchises successfully.

CHAPTER 1: WHAT IS ENTREPRENEURSHIP?

Entrepreneurship is the practice of starting new organizations or revitalizing mature organizations, particularly new businesses generally in response to identified opportunities. Entrepreneurship is often a difficult undertaking, as a vast majority of new businesses fail. Entrepreneurial activities are substantially different depending on the type of organization that is being started. Entrepreneurship ranges in scale from solo projects (even involving the entrepreneur only part-time) to major undertakings creating many job opportunities. Many "high-profile" entrepreneurial ventures seek venture capital or angel funding in order to raise capital to build the business. Angel investors generally seek returns of 20-30% and more extensive involvement in the business. Many kinds of organizations now exist to support would-be entrepreneurs, including specialized government agencies, business incubators, science parks, and some NGOs

Characteristics of an Entrepreneur

- The entrepreneur has an enthusiastic vision, the driving force of an enterprise.
- The entrepreneur's vision is usually supported by an interlocked collection of specific ideas not available to the marketplace.
- The overall blueprint to realize the vision is clear, however details may be incomplete, flexible, and evolving.
- The entrepreneur promotes the vision with enthusiastic passion.
- With persistence and determination, the entrepreneur develops strategies to change the vision into reality.
- The entrepreneur takes the initial responsibility to cause a vision to become a success.
- Entrepreneurs take prudent risks. They assess costs, market/customer needs and persuade others to join and help.
- An entrepreneur is usually a positive thinker and a decision maker.
- An entrepreneur needs inspiration, motivation and sensibility.

Advantages of Entrepreneurship

Every successful entrepreneur brings about benefits not only for himself/ herself but for the municipality, region or country as a whole. The benefits that can be derived from entrepreneurial activities are as follows:

- Enormous personal financial gain
- Self-employment, offering more job satisfaction and flexibility of the work force
- Employment for others, often in better jobs
- Development of more industries, especially in rural areas or regions disadvantaged by economic changes, for example due to globalization effects

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- Encouragement of the processing of local materials into finished goods for domestic consumption as well as for export
 - Income generation and increased economic growth
 - Healthy competition thus encourages higher quality products
 - More goods and services available
 - Development of new markets
 - Promotion of the use of modern technology in small-scale manufacturing to enhance higher productivity
 - Encouragement of more researches/ studies and development of modern machines and equipment for domestic consumption
 - Development of entrepreneurial qualities and attitudes among potential entrepreneurs to bring about significant changes in the rural areas
 - Freedom from the dependency on the jobs offered by others
 - The ability to have great accomplishments
 - Reduction of the informal economy
 - Emigration of talent may be stopped by a better domestic entrepreneurship climate

CHAPTER 2: RAJIV GANDHI GRAMEEN VIDYUTIKARAN YOJANA (RGGVY)

At a Glance

- Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) was launched in April-05 by merging all ongoing schemes.
- Under the programme 90% grant is provided by Govt. of India and 10% as loan by REC to the State Governments.
- REC is the nodal agency for the programme.

The RGGVY Aims at:

- Electrifying all villages and habitations as per new definition.
- Providing access to electricity to all rural households.
- Providing electricity Connection to Below Poverty Line (BPL) families free of charge.

Infrastructure under RGGVY:

- Rural Electricity Distribution Backbone (REDB) with 33/11 KV (or 66/11 KV) sub-station of adequate capacity in blocks where these do not exist.
- Village Electrification Infrastructure (VEI) with provision of distribution transformer of appropriate capacity in villages/habitations.
- Decentralized Distributed Generation (DDG) Systems based on conventional & non conventional energy sources where grid supply is not feasible or cost-effective.

Implementation Methodology and Conditions under RGGVY:

- Preparation of District based detailed project reports for execution on turnkey basis.
- Involvement of central public sector undertakings of power ministry in implementation of some projects.
- Certification of electrified village by the concerned Gram Panchayat.
- ***Deployment of franchisee for the management of rural distribution for better consumer service and reduction in losses.***
- Undertaking by States for supply of electricity with minimum daily supply of 6- 8 hours of electricity in the RGGVY network.
- Making provision of requisite revenue subsidy by the state.
- ***Determination of Bulk Supply Tariff (BST) for franchisee in a manner that ensures commercial viability.***

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- Three tier quality monitoring Mechanism for XI Plan Schemes made mandatory.
 - Web based monitoring of progress
 - Release of funds linked to achievement of pre-determined milestones
 - Electronic transfer of funds right up to the contractor level
 - Notification of Rural Electrification Plans by the state governments.

Progress so far: (as on 31.03.2008)

- Completed works in 47826 un-electrified Villages
- Completed intensive electrification works in 40838 already electrified villages
- Released free electricity connection to 22.93 Lakh BPL households.
- Deployed various types of franchisees in 75368 villages.
- Completed construction of 130 new substations.

Definition of Electrified Village

New definition of village electrification came into effect from the year 2004-05

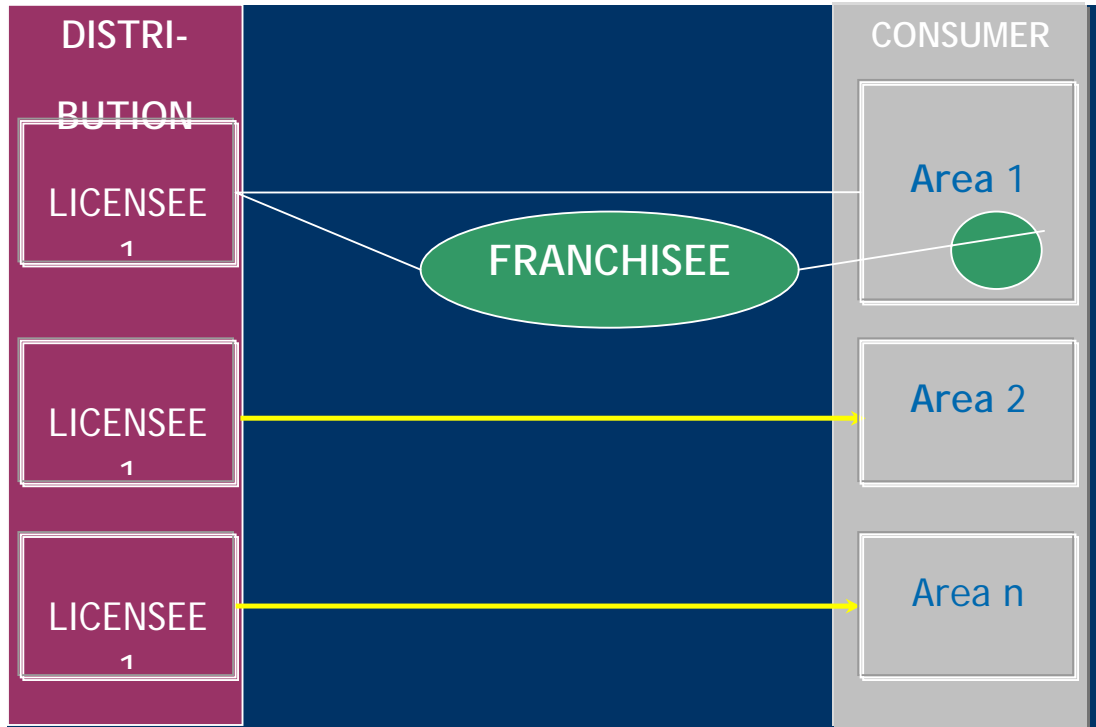
(Issued by MOP, vide their letter No. 42/1/2001-D (RE) dated 5th February 2004 and its corrigendum vides letter no. 42/1/2001-D (RE) dated 17th February 2004.)

As per the new definition, a village would be declared as electrified, if:

- Basic infrastructure such as Distribution Transformer and Distribution lines are provided in the inhabited locality as well as the Dalit Basti/ hamlet where it exists.
- Electricity is provided to public places like Schools, Panchayat Office, Health Centers, Dispensaries, Community centers etc.
- The number of households electrified should be at least 10% of the total number of households in the village.

CHAPTER 3: OBJECTIVES OF FRANCHISING AND IT'S APPLICABILITY TO ELECTRICITY DISTRIBUTION SECTOR

One of the measures, which has been stipulated as a pre-requisite in *rural areas* through its RGGVY guidelines and driven by the need of controlling losses and manpower replacement in *urban area*, is the outsourcing of distribution networks through “**Franchisee**” arrangement. While the process is still evolving, it is important to take up this activity in a methodical and integrated manner to ensure that the various layers of information are properly documented and understood by both the franchisor (Distribution Company) and the franchisee (Private entrepreneur/ company). For quick understanding of the relationship that would exist in such a mechanism, a broad structure of the franchisee arrangement is depicted as below:



➤ **Key Role of Electricity in Economy**

Electricity powers economic development and shortage of electricity has a negative impact on the economy. For the country to march ahead on the growth path, the supply – demand gap must be bridged and indeed supply must get ahead of demand, not the other way round, as we are accustomed to live with. Electricity is needed not just in the urban centres, but equally in the rural sector as well. Bharat Nirman

Yojana, of which Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) is an integral part, aims to bridge the infrastructure gap between the rural and urban India to bring about socio-economic transformation of rural India in order to achieve our developmental goals.



Electricity for All

Making power available on demand to all by 2012 is part of our national programme. Ending discrimination between power supply to rural and urban areas is an important objective embedded in the programme. The programme envisages setting up of rural electricity infrastructure consisting of rural electricity distribution backbone with at least one sub-station in every block, connected appropriately to state transmission system, setting up of at least one distribution transformer in every village with necessary supply feeders and decentralized distributed generation facility together with distribution network wherever grid connectivity is not feasible.

Establishing rural electricity distribution infrastructure is not an end in itself. It is only the first major step to achieve our objective of viable and reliable electricity services in rural India, which will inevitably result in increased productivity in agriculture, and labour, improvement in delivery of health and education services and enable the use of modern communication devices. The importance of rural electricity on the quality of life is now well recognized. Women in particular gain the most from rural electrification as it opens up a wide range of employment opportunities and empowers them.



Supply –Demand Gap and Quality of Power Supply

Distribution infrastructure must be adequate to deliver reliable, uninterrupted power supply on demand – both in urban and rural areas. While in urban areas power distribution infrastructure exists, and the challenge is to upgrade it so as to make it fit to deliver increasing requirements of energy, the rural sector requires creation of new infrastructure and large scale augmentation of existing infrastructure. The quality of power in terms of deviation from declared voltage and frequency has to be maintained not only in urban areas but in rural areas as well, and the waveform deviation should remain within acceptable limits.



Revenue Sustainability and Need for Reform

The existing model of urban electricity distribution has proved deficient in many respects, chiefly on account of the unacceptably high aggregate technical and commercial (ATC) losses. These results in incapacity of distribution utilities to make

the much-needed investments required to meet the load growth, and proper maintenance of the networks is also not carried out. There are only three ways to bridge the gap between revenue and expenditure – to raise the tariff, meaning the consumer pays more than he should, or, the government subsidises, which means the tax payer pays – again not acceptable, or the company goes on taking the losses till it no longer can, and it folds up. None of the three approaches provide a solution whence the need to bring about major changes in the electricity delivery system.

Clearly, revenue sustainability is an imperative requirement for running an electricity distribution network. This is true for both urban and rural networks and requires reduction of ATC losses to minimum levels feasible. While reduction of technical losses can be achieved by measures like strengthening of feeder capacities and power factor compensation, reduction of commercial losses calls for bold changes in the methods of metering, billing, revenue collection and effective measures to minimize theft and pilferage of electricity.

Rationale/Objective of Distribution Franchisee

While the context of distribution franchisee under which the distribution companies engage private participation through this arrangement has been discussed in earlier sections, we shall now attempt to have a detailed look at some of the elementary concepts/definitions for understanding this concept further.

Definition

"Franchisee means a person authorized by a distribution licensee to distribute electricity on its behalf in a particular area within his area of supply." [Electricity Act 2003: Clause 2 (Definitions): Sub-clause 27]

How does distribution franchising differ from franchising in other sectors

Retail Franchisee: Franchising in retail business has been around for a long time and in different sectors of industries. It is seen that where a large company has ambitions to expand its business by opening retail outlets but finds it difficult or not profitable enough to set up its own branches, it may find the franchising operation attractive.

Franchisee gains by using the brand equity of the franchiser and his technical and marketing expertise. Franchising of the retail business is one of the biggest examples like the Spencer's or Big Bazaar's spread all avers the country. The kind of franchise depends on the nature of the arrangement between the franchisee or franchiser.

Depending on the franchise agreement, the franchiser gains by receiving:

- Royalty for the brand name
- Fees for technical and marketing support
- Share in profits or turnover

A retail franchise and a power distribution franchise have differences and similarities in the way they operate.

While each element of the distribution franchisee is discussed in detail in subsequent chapters, the table below gives the main differences between the distribution franchisee and a retail franchisee in broad terms:

Table 1: Retail V/s Electricity Distribution Franchisee

Point	Electricity Distribution Franchisee	Retail Franchisee
Genesis	Need to cut unsustainable losses	Business growth
Consumer Base	Franchisee gets the consumer base of the franchiser within the franchised area	No defined consumer base or franchised area. Franchisee gets business from consumers drawn by the franchiser's brand name
Franchiser's risk	Non performance of the franchisee is tantamount to non performance of the franchiser	There is no such obligation towards consumers or the society on the part of the franchiser
Franchisee's risk	Has to perform better than the franchiser in the franchised area to be able to break even	Such a criterion does not apply to the franchise agreement



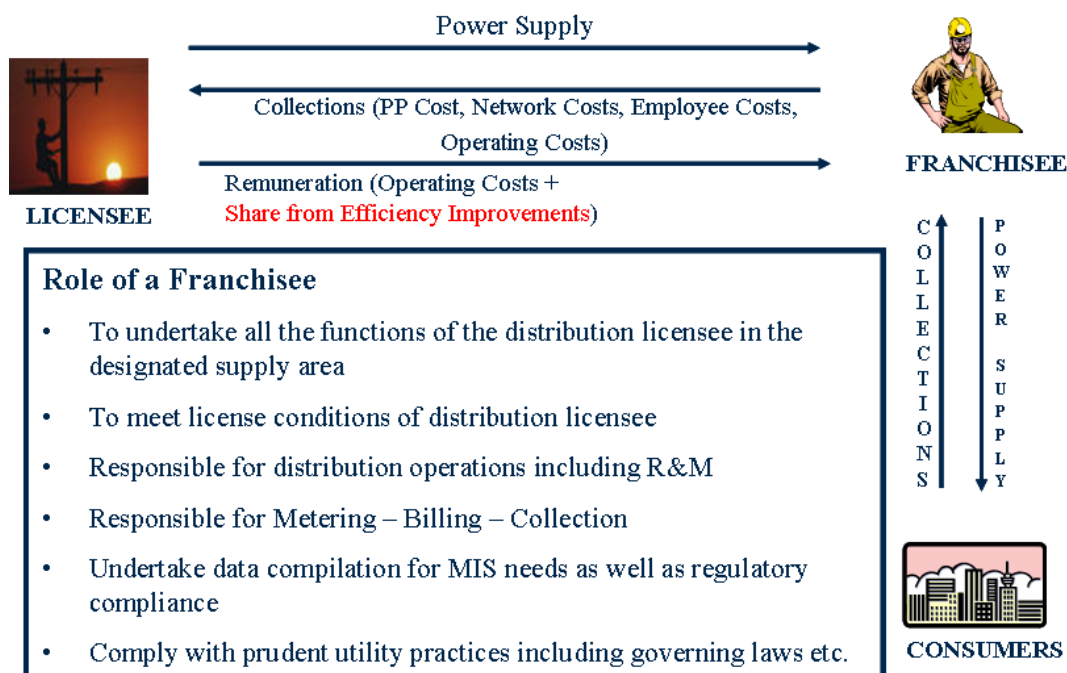
Distribution Franchisee: Rural

An appropriate mechanism that will ensure revenue sustainability has led to the idea of developing rural electricity franchisees. Indeed it has been made a cornerstone of our rural electrification programme. The sustainability of the programme hinges on successful deployment of franchisees.

Franchisees, besides opening up new employment opportunities to rural men and women, will also instill a sense of ownership among the rural people. The management of rural distribution will be through franchisees, who can be individual entrepreneur, NGOs, women self-help group, Users' Association, Co-operatives etc. The Panchayati Raj institutions will have an important role of overseeing, in the advisory capacity, the delivery of services by franchisees.

Some states like UP, Haryana, Rajasthan, Bihar, Chhattisgarh, West Bengal, Nagaland, Karnataka, Assam and Uttaranchal have already initiated steps for installing franchisee system in distribution network. Wherever the franchisees have been installed already such as Nagaland, Assam, Karnataka, West Bengal and Uttaranchal, we have received encouraging results such as reduction in losses, increase in collection efficiency and increased employment generation. Women are also playing a leading role in West Bengal and Uttaranchal as franchisees. It is expected that the franchisees who have been awarded contracts would not only provide the requisite services satisfactorily, but would also provide valuable inputs to the utilities to further improve the working of utilities, particularly in relation to setting up and operating the franchise arrangements.

The figure below depicts the concept and the franchisee framework:



CHAPTER 4: MANAGEMENT, TECHNICAL AND COMMERCIAL FEATURES OF ELECTRICITY DISTRIBUTION BUSINESS

It is very important for the prospective franchisee to know the various elements of electricity distribution business related management, technical and commercial aspects. The following section highlights the various dimensions of the distribution business so that the franchisee can assess the nature and the amount of effort required to undertake distribution franchisee business.

Characteristics of Electricity

Some of important characteristics of electricity are:

- a) Electricity cannot be stored in large quantities and, therefore, has to be used as it is produced
- b) Transporting electricity over long distances is economical when compared to other sources of energy
- c) It can be easily converted to heat, light and mechanical power, the form in which the consumer actually needs energy
- d) It cannot be seen, heard, smelt or touched

The Power System

The electricity which reaches our premises passes through a long chain of processes. The process can be divided into three broad sections;

- Generation
- Transmission
- Distribution

Generation

Generation is the process by which electric power is produced or generated. The ways by which electricity can be generated is classified by the kind of fuel used for driving the generator. Different sources of generating energy can be thermal (coal or gas), hydro (water), nuclear, and renewable energy sources (wind, solar, or biomass). It has also been suggested that for rural electrification 'distributed

generation' can be one of the sustainable sources of generating power. Distributed generation aim at generating power at the point of use or near to it.

Transmission and Distribution

It is the process by which generated power is transmitted from the generating station over a long distance and finally distributed to the end consumer. The elements of transmission and distribution involve the following elements:

Transmission system

A transmission system consists of transmission lines and substations. Transmission lines transmit the bulk of electricity operate at high voltages. Transmission lines connect two sub-stations at the same voltage.

Transmission substation

A transmission substation consists of transformers, bus bars, circuit breakers, isolators, protection and communication equipment and control room. The substation is known by its capacity and the highest voltage it handles and the step up or step down voltage.

Distribution system

Distribution system operates at a lower voltage as compared to the transmission system and consists of electric substations, distribution transformers and distribution lines. It can be further categorized as primary distribution system which connects the transmission system at 33 kV or 11 KV voltage levels and forms the backbone of the distribution system. The other is secondary distribution system which is at a lower voltage of 415 V (volts) and/or 240 V and connects to the end consumer.

Distribution substations

A pole mounted distribution substation mainly consists of a step-down transformer, gang operated switch, three HT (high-tension) fuses, three lightning arrestors, LT (low-tension) distribution box containing fuses corresponding to the number of LT feeders and metering arrangement for each feeder, stay wires to keep the pole structure in proper position, HT and LT insulators to connect the distribution lines and feeders with the pole structure, earthing arrangement, etc.

The 11/0.4 kV DT (distribution transformer) is a device to step down an AC (alternating current) input voltage from 11000 V to an AC output of 415 V. The standard rating of DTs in areas is 10, 25, 50, 63, 75, 100, 150, 200 kVA (kilovolt amperes), and so on.

Single-phase system

Generally in small homes, a single-phase supply system is made available. A single-phase supply system consists of a two-wire system, one phase and one neutral wire.

In Indian power systems, the voltage between a phase and neutral is 240V, which is the standard voltage for household equipment.

Three-phase system

A three-phase system combines three single-phase systems..

A three phase system has some advantages over the single-phase system, the main one being that three-phase motors are more rugged and efficient, as compared to single-phase motors.

The three-phase system is usually colour-coded. It is a four-wire system – three phase wires are colour-coded as red, yellow, and blue, a neutral wire is normally colour-coded as green.

The LT distribution voltage between any two phases is 415V. The voltage between a phase and neutral is 240V.

If the current in all three phases are equal and the voltage of all three phases to neutral are also equal, then a three-phase system is called balanced system. If not, it is called an unbalanced system. An unbalanced system creates problems in operation and there is unwanted technical loss. Efforts should be made to keep the system balanced.

Transmission and Distribution Losses

T&D (transmission and distribution) loss, in terms of energy, is the difference of energy between the energy available at the source and the energy supplied to the consumers over a period of time. This loss is usually expressed as a percentage of the input energy. There are several reasons why the total energy for which revenue is realised from the consumers does not add up to the energy received from the transmission network and paid for by the distribution company.

- The technical loss in the power system is the active energy loss which occurs due to physical characteristics of the equipment such as energy loss in power lines, transformers, substation equipment, etc. The loss can be reduced but cannot be totally avoided.
- The technical loss in the distribution feeder (line) is directly proportional to the feeder resistance and the square of power flowing through the feeder, power being proportional to the current drawn, voltage remaining the same.

In other words, the T&D losses increases with (i) an increase in the length of the feeder, (ii) a rise in the current flowing through the feeder, and (iii) increase in the resistance of the line/feeder conductor due to decrease in the cross section of the conductor, the conductor material remaining the same.

- Further, the Utility also loses revenue due to billing and bill collection problems. Sometimes, the measured energy is not billed or wrongly billed. Moreover, some billed money is not collected at all or not collected on time, resulting in revenue loss.
- Sometimes, meters are read incorrectly due to either human error or because of the meter not working properly or not being read on time thereby causing further loss to the revenue.
- Taking into account all the above reasons, the total losses are termed as AT&C (aggregate technical and commercial) losses. Thus AT&C losses are the total T&D losses, which take into account metering and collection efficiency.

Revenue Management

Revenue management is the most crucial part of operating a power distribution franchise arrangement. It needs well designed systems, well organised and maintained databases, an efficient workforce, efficient management and good vigilance. The important aspects of revenue management are discussed below:

Billing and collection process:

The most important step towards getting the system adapted to the existing system of the franchiser is by understanding the billing and collection system of the franchiser. In a typical utility the billing is done by the utility itself or by some outsourced agencies which have the billing logics set as per the regulatory guidelines or the tariff orders in operation.

Consumer numbering and the bill numbers

In a utility having a large number of consumers it becomes very important to assign a unique identification number for each consumer so that there is no overlapping of account and the identification of the consumer becomes easy as well. The numbering system should be designed based on a sequential logic which makes locating them very easy. However there is no hard and fast rule for this. This number becomes the identity of the consumer in all communications and for tracking of requests. Bill numbers however are unique altogether and no two bills generated within an utility

have the same number. This helps in easy identification of the bill. Even if some bills are revised or corrected, the new bills bear different numbers

One of the principal aims of consumer indexing is to link it to a distribution transformer or an LT feeder. The other aim is to map it geographically. While the first helps to make energy accounting easier, the other helps to generate rapid response to consumer complaints.

Meter number and billing

The consumers who apply for a new connection are allotted new connection numbers which are permanently linked with the site where the connection is given. The utility then installs a meter with a particular meter number and links it to the connection number of that consumer. The consumer avails the electricity supply to his house or premises through this meter which records the units consumed. The consumer based on the applicable tariff rates is provided with the consumption charges and service charges in the form of the bills. The consumer presently has many modes of payment to the utility bill. The consumer categories have certain level of minimum consumption which he needs to pay. The existing tariff for domestic consumers generally is so designed that the rates go up as the consumption goes up.

Meter rent and other charges

The utility charge the consumers a small amount of the meter rent which is dependent on the type of meter and the load sanction for the consumer. This could vary from state to state and Discom to Discom.

Billing Cycle

The billing cycles are devised to optimise the time and billing quantum within the utility. This is done by evenly spreading the different consumer billings so that at one particular time there is not much of capacity required and it is evenly distributed. The billing cycles are so sequenced that no consumer is left unbilled or no meter is left unread. The meter readers ensure that all the consumers are regularly read and their billing done by the billing staff are sent on time. The cycle completes in the sequence of meter reading, reading checks and error correction, bill preparation and printing, bill distribution and finally the bill collection from the consumers.

Late payment surcharge

In case the consumer fails to make the payment before or on the due date of the bill, he is liable to pay a known rate of surcharge called the late payment surcharge. The

consumer is then required to pay the billed amount plus the surcharge levied on his bill due to his delay in payment. Further delay can result in the disconnection of the connection of consumer if he fails to make the surcharge as well as bill amount even after reminders. This is to ensure that the consumers do not default in their payments as the business of electricity works on credit payments and the present status of Indian power sector is not that healthy to bear more burdens from these delays.

Maintaining consumer billing database

In order to manage the billing cycles and the consumer's efficiently, it becomes very useful for the franchisee to understand the billing process correctly and design its own database based on the requirements of the system with which it is working. The consumer database within the area served by a franchisee should be updated regularly. The franchisee should record all relevant information in the formats which are easy to understand and replicate like the consumer numbers, addresses and billing details. Business imperatives require that a large amount of technical and commercial data be maintained in well organised databases. In earlier times a vast amount of paper work was required with correspondingly large workforce to manage the database but in today's scenario, this is not a practical option. Franchisee must keep all the information's in his database up-to-date and in the most logical manner, using powerful capabilities of database software.

CHAPTER 5: Laws/ Regulations/ Directives of the appropriate Electricity Regulatory Commission:

The Distribution Franchisee is required to accept all liabilities and perform all obligations of the distribution licensee in the Franchise Area as a franchisee of the licensee, in compliance with the law, regulations and directives of the appropriate electricity regulatory commission issued from time to time as if they were to apply to licensee and directives of the licensee for compliance of laws, regulations, orders and directives of the appropriate regulatory commission.

Compliance with standards

i. *Electricity Supply Code*

The Distribution Franchisee is required to comply with Electricity Supply Code and other conditions of supply as approved and modified by the appropriate electricity regulatory commission from time to time, bring to the notice of the Consumers the existence of the Supply Code and make it accessible to the consumers for their inspection and provide copy to any person requesting it at a reasonable charge.

ii. Besides the supply code, the franchisee shall also comply with the provisions of distribution code as approved by the Commission, safety code to be specified by CEA and metering code

iii. *Consumer Complaint Handling*

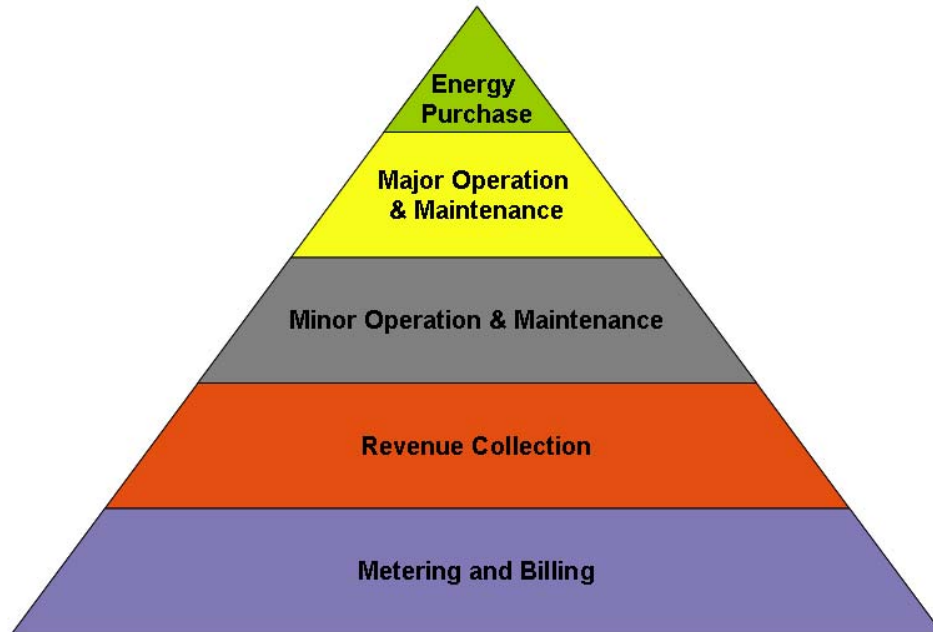
- The Distribution Franchisee is required to comply with the complaint handling procedure laid down by the appropriate electricity regulatory commission and set up a consumer complaints and redressal system, make available to the consumer on demand a copy of the complaint handling procedure for inspection and provide copy to any person requesting it a reasonable charge.
- The franchisee is required to comply with the orders and directions of Consumer courts under Consumer Protection Ac 1986.

iv. *Obligation to Connect Consumers*

- The franchisee is obliged to give power supply to owner or occupier of any premises within one month of application.
- The franchisee is responsible for incurring capital expenditure in order to provide new connections in the franchise area.

CHAPTER 6: EVALUATING VARIOUS FRANCHISEE OPTIONS AND CHOOSING THE MOST APPROPRIATE OPTION

Franchising is an outsourcing activity and hence the proposed models vary from each other based upon the degree of responsibility sharing and the payment structure of the franchise. This section details the various franchisee options available with the utilities for franchising. The responsibilities that define a particular franchisee model can be one or a combination of the activities shown in the figure below:



Model A: Collection-Based Revenue Franchisee

The role of franchisee under this model is limited to billing, revenue collection, complaint redressal, facilitating release of new service connection and keeping vigil on the distribution network in the franchised area for providing appropriate feedback to the utility.

Such collection franchisees would be appointed for an area and be given a target for revenue collection every month (which depends on the baseline collection in the area).

The remuneration methodology involves:

- i) Paying the franchisee margins (which will be a percentage of collections) on achievement of the target,
- ii) Levy of penalty for not achieving the target

iii) Incentives for exceeding the target.

Drawback of this system is that the franchisee is not a partner in loss reduction - since its compensation is linked to the revenue collections made - and not on the energy input coming into the area. This model is the most basic of all franchisee models and is recommended for areas which suffer from poor collection efficiency.

Primary duty of the franchisee is revenue collection as the incentives are based on the revenue which he collects on behalf of the utility. In this model the franchisee only acts as a facilitator cum enabler in increasing the revenue collection through his efforts towards reaching more consumers and motivating them to pay their dues in time. The franchisee can help to make the consumers aware of the collection procedures and provide them with convenient payment options, so that the incidences of defaults in payments are reduced. The utility needs to specify the targets that are required to be achieved during the course of operation of the franchisee so that there is clear understanding between the parties about the targets and the responsibility to achieve them. The franchisee would be required to achieve these targets as early as possible as the incentives are given once he crosses the set targets by the utility. In the process of revenue collection the franchisee has no rights or responsibilities towards system improvement or loss reduction. Though he gets benefit from such improvements but the Utility is not liable to take up such works just for the franchisee on his request.

The franchisee needs to facilitate the consumers to make their payments, while the consumer related complaints would still be handled by the utility as the billing and rest of the commercial activities would still be with them. The utility may not carry out the system augmentation or improvement works in the franchisee area depending on the need of the area and status of the network. The complaint centre would still be handled by the franchiser. The only aim of the Franchisee is to increase the revenue so as to maximize his earnings with activities within the scope agreed in the agreement done between the franchiser and the franchisee.

Example: The Targets set by a Utility can be shown in the table below;

S. No.	Collection Efficiency	Incentive (% of the collected revenue)
(1)	Upto 60%	No incentive
(2)	= < 70%	3% of the revenue over the 60%
(3)	= < 80%	(2) + 4% of the revenue over the 70%

(4)	= < 90%	(3) + 4% of the revenue over the 80%
(5)	= < 100%	(4) + 4% of the revenue over the 90%

Model B: Input-Based Revenue Franchisee

In case of the input based franchisee, the input energy into the area covered by the franchisee is measured by the utility and the targets set for revenue collection are based on the collections made as a percentage of the input energy supplied to the consumers beyond the point of metering by the utility.

The operations and remuneration methodology of the input based franchisee is similar to that of the collection franchisee. The basic difference is in the target setting mechanism by the utility.

The input based franchisee's area may be decided based on:

- i) Energy supplied by the utility through 11 kV feeder(s) as a point/ location of measurement of energy supplied to franchisee and will need a metering unit in the individual 11 kV feeders.
- ii) Above system can also be distribution transformer wise located in the villages having smaller area of franchisee operation.

The advantage of the Input Based Revenue Franchisee Model (model B) over the Collection Based Franchisee Model (Model A) is that the franchisee also becomes a partner in loss reduction and tries to reduce theft in the system. The franchisee's primary duties and responsibilities are greater than in the previous models detailed above. This is due to the linkage of the incentives with the T&D losses in the franchised area. The incentives for attaining collection efficiency targets which are linked to T&D loss level would be higher when the T&D loss level is less and vice versa. In this way the franchisee becomes a direct beneficiary of loss reduction. The utility fixes the targets according to the existing loss levels in the area. The utility monitors the targets and the achievements at regular intervals to assess the performance of the franchisee.

In other words it can also be said that this models takes into account the reduction in AT&C losses rather than just monitoring collection efficiency as in the case of the collection based model. The target setting for the franchisee in this model shall also include the ration of the energy input to the energy billed. Hence besides improving

collection efficiency, this model shall also improve the billing efficiency thereby reducing unauthorized connection and hooking or any other means of theft.

Suppose the existing level of AT&C losses is 60%. Hence the incentive structure can be designed as below:

S. No.	Collection Efficiency	Incentive (% of the incremental revenue from the existing level)
(1)	=>60%	No incentive
(2)	50% - 55%	3% of the incremental revenue
(3)	40% - 50%	(2) + 5% of the incremental revenue
(4)	30% - 40%	(3) + 6% of the incremental revenue
(5)	20% - 30%	(4) + of the incremental revenue

Model C: Input-based Franchisee

In this model the franchisee buys electricity from the utility at defined input point(s), which may be any voltage level and pay electricity charges to it at a pre-determined rate. The price at which the franchisee wishes to buy electricity from the utility is termed as "Bulk Supply Tariff". The electricity supplied/purchased is metered regularly at weekly or monthly intervals. The franchisee collects revenue from the consumers by raising bills at the tariff decided by the appropriate electricity regulatory commission and pays to the utility as per the contracted BST for the electricity measured at the input point(s).

Once a franchisee signs an input based franchise agreement, he has to pay the utility for all the energy he receives at an agreed bulk supply tariff. . After collecting revenue from consumers, he keeps with him the surplus left after paying the utility for the energy received. More efficient he is in reducing losses and making collection and recoveries, more profits he earns. The franchiser, on the other hand, is insulated from any losses arising from the working of the franchisee in the area. The franchisee naturally has full powers to control pilferage of energy and improve billing and collection in the area. The tariff is determined keeping in mind various costs that would be borne by the franchisee in order to carry out the duties in the franchisee area. The level of investments and expenses that the franchisee anticipates are incorporated in the Bulk Supply Tariff.

The earnings of the franchisee are directly affected by the quantum of energy that is billed. A franchisee needs to pay for the amount of energy which is fed in the area and thus it is his goal to reduce the losses and bridge the gap between the energy input and the energy billed. This ensures a higher potential for the franchisee collections. As the collection from the consumers would be the earnings of the franchisee, the collection would not be shared with the Utility. The electricity duty however belongs to the government and is to be transferred to the government through the Utility only.

The franchisee would be required to attend to the complaints of consumers and take corrective action which would otherwise have been done by the utility. The consumers need to be billed by the franchisee at the tariffs as approved by the appropriate regulatory commission. The franchisee needs to facilitate the consumers in getting their problems solved relating to the billings, connections, disconnections etc so as to improve his services in the franchised area. Franchisee can set up collection cum customer care offices to make sure that that no complaints are left unattended or inadequately attended.

➤ **Example:-**

a) If a franchisee agrees to pay **Re. 0.90/kWh** to the Utility and the Energy input is 1,00,000 units, then he needs to pay
 = Rs. 1,00,000 x 0.9 = Rs. 90,000.00 to the Utility

b) If the **Average tariff** is Rs. 3.00/kWh then assessment would be
 = Rs. 3x1,00,000.00 (1-T&D losses=say30%)
 = Rs. 3x70,000.00 = Rs. **2,10,000.00**

Franchisee earns = 2,10,000.00 x Collection efficiency (say 70%)
 Franchisee earns = Rs. **147,000.00** (for all expenses and profits)

c) If the Franchisee decreases the loss to 20% his earning goes to
 = Rs. 3x1,00,000x(1-(20%))xCE=Rs. 2,40,000.0x(70%)
 = Rs. **1,68,000.00**(for all expenses and profits)

Model D: Operation and Maintenance Franchisee

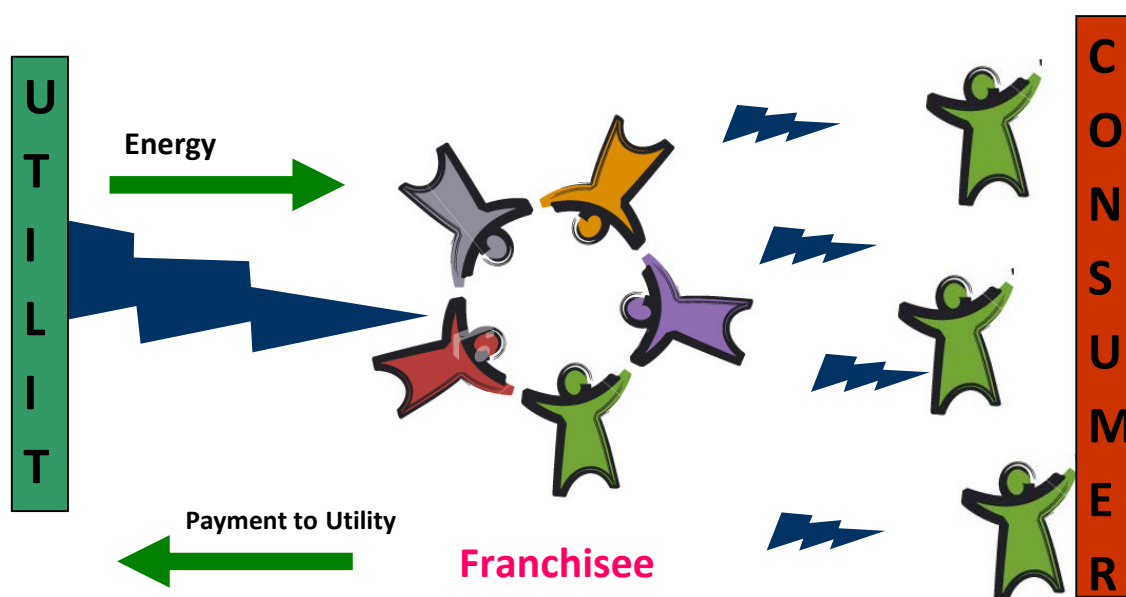
In this model, in addition to the franchisee operation indicated above in Model C, the utility may also hand over the O&M (operation and maintenance) of the network. In other words, this model covers the entire gamut of activities under franchisee framework and is applicable for both rural and urban areas.

This franchisee model is similar to the model described in the earlier paragraph; he needs to purchase electricity at a predefined BST, he needs to reduce the T&D losses

and improve the collection efficiency in order to have higher gains. The input rate is dependent on the anticipated cost of operation and maintenance of the 11 kV and LT networks in the franchised area. These costs must be considered while calculating the BST by the franchisee. In addition, following points may be noted:

- Consumer complaints need to be attended by franchisee and necessary action taken by him for redressal.
- The income is dependent on the level of billing & collection which are the areas of prime focus of the franchisee
- The billing and billing system could be involved in his scope

This is a more model where the franchisee can make investments for improvement and set up the system himself with minimal interventions from the utility.



Model E: Rural Electric Co-operative Societies

This approach calls for the state to authorize the creation of traditional electric cooperative society that is organized, owned and operated by its members. The society owns the distribution utility assets and is responsible for all utility functions including operations and maintenance, metering, billing and collections, accounting and finance, procurement, stores and system planning and expansion.

The operations of the co-operative society include:

- Organizing the community and recruiting the members.
- Owning the distribution system and carrying any debt on the assets.
- Responsibility for all facets of managing and operating the utility.
- Purchasing power from the state power utility

This model is applicable only for rural areas as the community based success is seen to work in areas where collective social groups exist with support from the government and social bonds between among the people is strong. However there is nothing that should come in the way of its adoption in urban areas if cooperative societies having the kind of social cohesion and structure that panchayats have were to come up in urban areas too

Model F: Electric Co-operative Society-Operations Management through Contracting

This is a variant of Model E, where the cooperative society may decide to run its operations through an external experienced agency/organization with suitable fee structure. This can be achieved through an appropriate 'operations contract' with built-in performance criteria. This model is also applicable only in rural areas. The important features of this kind of model are;

The Co-operative society may take the help of outsourcing of the activities to other agency/organization through operation contracts.

- The Society shall carry all the activities of the Input Based Franchisee by itself or through its agency; however the sole responsibility still remains on the franchisee towards the franchiser.
- Input rate predetermined for the Franchisee as in other models based on the expenses and the revenues envisaged.
- Cooperative carries out all the roles similar to other Models of the Franchisee.

The revenue and system related activities will also be the part of the scope of work of the franchisee as in case of other Input based models. However if the franchiser feels the need of any deviation in the roles and responsibility it can be agreed by both the parties before the designing of terms and conditions of the model.

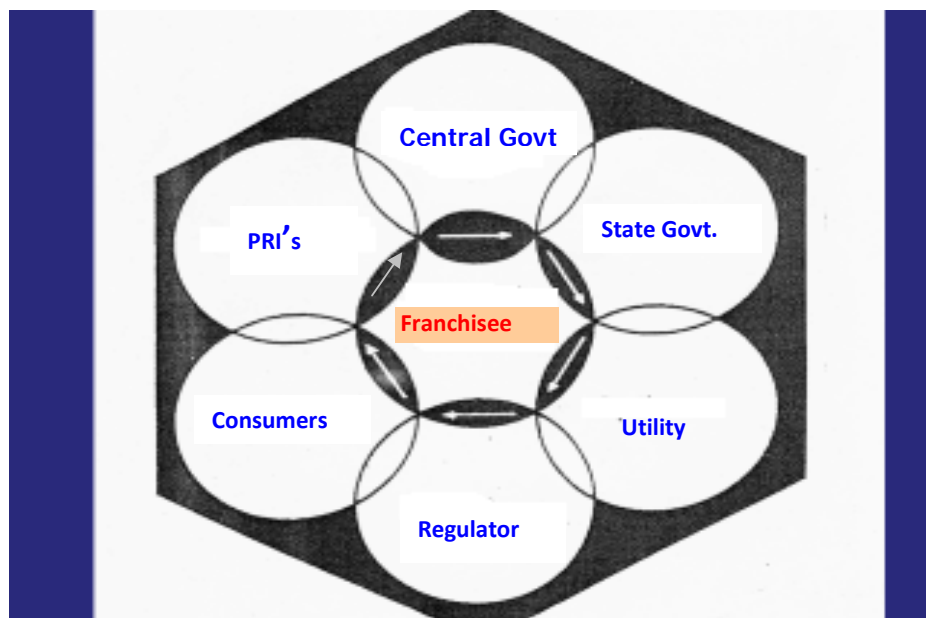
CHAPTER 7: REGULATORY INTERFACE AND RESPONSIBILITY OF VARIOUS PARTIES UNDER DIFFERENT FRANCHISEE MODELS

The franchisee system has the following important stakeholders who must go hand in hand to make a successful Rural/Urban Franchisee system. These parties of the rural franchisee system are:

- Franchisee
- Franchiser
- Consumers
- Regulator
- Panchayati Raj Institution (PRI's)
- Government – Central/State

The figure below depicts the various stake holders of the franchisee arrangement system:

Stakeholders of Franchisee Arrangement



RGVY (Rajiv Gandhi Grameen Vidyutikaran Yojana) defines the franchisee models A, B, C, D, E and F. While these models serve as guides for laying down the roles and responsibilities of a franchisee and correspondingly, the roles and responsibilities of the franchiser, an actual franchise agreement needs to be tailored to meet the specific requirements that make a franchise agreement attractive for the franchiser and viable for the franchisee at the same time. In other words, a franchise model should strike the right balance between the interests of the franchiser and those of the franchisee.

A suitable mix of the roles, responsibilities and performance indicators needs to be chosen corresponding to the extent of operational and management control that the franchiser is willing to pass on to the franchisee. Structuring of the franchisee model will address risk sharing between franchisee and utility and therefore, the compensation structure for the franchisee. Here it is quite important that the party who has the control on the risk should be asked to bear the risk. Any over and under risk situation should be avoided. A fine balance will have to be struck between the complexity of measuring specific parameters and the fact that all risks are subsumed when the franchisee purchases power at a single point at a pre specified bulk rate.

Role and Responsibilities under Franchisee Arrangement

In case of the Collection Based Franchisee models the roles that could be played by the franchisee may begin and end with the commercial activities involving only the revenue collection. However this role has not been the only role that a collection based franchisee can play, but depending on the system, bill distribution, meter reading and similar activities can be a part of the model. The necessity of the activities that need to be part of the roles is to be decided by the implementers depending on the model envisaged.

Similarly Input Based Franchisee system also requires clear and defined roles for the franchisee besides a clear role of the other stakeholders. The various stakeholders of the franchisee and their role are as below:

Role of Franchisee:

The scope of work of the franchisee may include the following:

- Consumer Management & Consumer Related Services
- Revenue Management including reduction in AT&C Losses

For Input Based Franchisee in addition to the above, the following activities can also be

included in the scope.

- Operation of Sub-Station and Maintenance of the Distribution System like lines, transformers etc.
- System Improvement Works
- DSM Activities

(i) Customer Management

- ❖ Release of new connections, enhancement of load and ledgerisation and other related activities
- ❖ Disconnection and reconnection
- ❖ Installation and replacement of consumer meters

The services relating to release of new connections, load enhancement/reduction, ledgerisation, disconnection and reconnection, installation and replacement of consumer meters, etc shall be provided by the franchisee through its employees.

It shall be the duty of franchisee to ensure that new connections falling under various categories be provided to the consumers following the existing revenue/commercial instructions of utility and the rules/regulations/standards issued by SERC.

Service line/connection charges, development charges, if any, consumption deposit and any other charges and/or fees set by the Commission shall be chargeable to the consumers. The cost and deposits for new connections, reconnections, penalties, etc. may be included in the activities collected by the franchisee in the first instance and deposited within specified days of such collection with Utilities nodal officer.

For the franchisee models involving O & M (**Model C & D**) in the scope of work the following activities can be included;

- All material required for new connections/reconnections, as per the norms of utility, shall be arranged by the franchisee at its own cost in the first instance meeting the specifications prescribed there for by utility and through utility's approved vendors of the same, if any.
- In case it is agreed that the cost is to be borne by the utility in the terms and conditions agreed franchisee may claim for the material the costs incurred by him from the utility.

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- The franchisee shall submit within a prescribed timeline a claim with utility towards the material provided for connections released by them during the month. The claim submitted by the franchisee can be scrutinized by utility within next few days and payment due to the franchisee towards the material used for release of connections including meter, as per the norms fixed by utility, shall be made on the basis of the material issue rates of utility in respect of items for which such rates are available and in respect of other items, as per the rates claimed by the franchisee.
 - The norms are required to be followed in procuring the materials so that the set standards by the utility are not diluted by the franchisee and the system remains in line with the Utilities systems network thereby delivering similar operating conditions in the franchisee area of operation.

Disconnection/Reconnection activities

It will be the responsibility of the franchisee to issue disconnection notices, take legal action etc. against the consumer for non payment of dues and effect disconnection as per the commercial/revenue instructions of utility and guidelines /regulations /standards issued by SERC and Electricity Act- 2003. However, any legal action including Land Recovery cases required to be taken in respect thereof shall be initiated by utility on the report of the franchisee

Complaint Management

The complaint management may be handled by the franchisee partially or fully. It includes the following:

- Redressal of consumer complaints related to 'No Supply' and maintenance including replacement of transformers, fuse, jumpers, service cable etc.
- Redressal of consumers' complaints related to commercial issues including, meter replacement/checking, new connections, disconnection, reconnection, bill correction and bill settlements etc. should be handled in a way so as to make the consumer feel that his complaint is being handled earnestly. This requires appropriate delegation of authority.

All the disputes related to billing and payments etc. will be settled by the franchisee itself. In case of any dispute remaining unsettled between the franchisee and the consumers, the same will be referred to utility for settlement.

All the Consumer Complaints shall be redressed by the franchisee within the time frames prescribed by utility norms or under the standards of performance issued by SERC. In case of failure to do so, all the penalties, fines, etc imposed on utility under the Standards of Performance or any other directives issued by SERC shall be borne by the franchisee.

In case of the collection based franchisee these activities can be partially shared between the utility and the franchisee depending on the onus of the activity.

Customer Care Centre

The franchisee/utility shall establish a Customer Care Centre required for redressing Consumer Complaints relating to no supply and maintenance, spot billing, meter, load, new connections, disconnection, reconnection, etc. This centre shall be established at the office of the franchisee or the utility can be suitably equipped with man, computers, printers, telephone, fax, internet, Tools and Plants, etc. so that the operations as per the standards of the utility. Franchisee/Utility taking care of the complaint management needs be responsible for handling and attending all the Consumer's complaints. The franchisee shall man and operate all the complaint centres in his area and shall provide sufficient manpower for maintenance of the distribution network. The franchisee shall provide competent and trained manpower fully equipped with vehicles, material, tools and plants, mobile phones, etc. for attending No supply and maintenance related consumer complaints.

(ii) Revenue Management including reduction in AT&C Losses

The activities that are involved in the revenue management of the franchisee are to be carried by the franchisee completely or partially depending on the terms and conditions. These mainly include the following activities;

- Meter Reading, Bill Preparation, Bill Distribution and Revenue Collection
- Recovery of arrears including past arrears of utility accrued before the date of Agreement

For the Models C&D, it is important to carry out the following activities in addition to those listed above:

- Energy Accounting at 11 kV and DT level subject to availability of meters
- Meter reading of the Input Energy meter

Billing Process:

- The billing system of the franchisee and record keeping shall ensure separate accounting of current bill, arrears and capture all other information/details as are required under the commercial/revenue instructions of utility and guidelines /regulations/standards issued by the appropriate government/ SERC.
- While hand held machines can also be used for billing, the main billing system shall be installed and maintained by the franchisee at a central level from where the billing data shall be uploaded and downloaded on to the hand held machines on daily basis. This system can also be integrated with the existing system to bring the system online. This will facilitate regular Information exchange with the utility which can be useful in monitoring the performance of the franchisee.
- During first billing after taking over from utility, the franchisee should assess the status of meters on all the consumer premises and install additional meters or replace the defective meters. The material cost however could be part of the expenses that the franchisee needs to bear.
- Franchisee may, in its discretion, accept payment of bills in installments in case of deserving cases. This facility may or may not be passed on to the franchisee under the models C&D, whereas the collection based franchisee's role could be limited to collection of the full amount from his consumers, and accepting payment in installments should not be allowed by him.

Recovery of Arrears

- Recovery of arrears from both connected and disconnected consumers should be incorporated in the Agreement for which the right to collect the arrears shall be transferred by utility to the franchisee at the time of signing of Agreement.
- The franchisee is required to make efforts towards collecting past arrears

(connected as well as disconnected). All supporting documents in respect of old outstanding bills need to be made available to the franchisee to facilitate recovery. While legal and administrative support shall be provided by utility, wherever required, all notices, etc. need to be served by the franchisee. These notices in the collection based models should be on the utilities' stationary as the consumers still are the consumers of the utility and the franchisee is performing his role as a facilitator who gets commission based on his performance.

- The collection can be deposited by the authorized person in the bank on the prescribed days and time if mandated in the agreement. However mechanism designed can vary from model to model. The collection based franchisee usually deposits all his collection in the bank This does not apply to the Input Based Franchisee or an O&M Franchisee.
- Recoveries effected through land revenue arrears or courts in respect of arrears pertaining to the period before the date of agreement would be entirely to the credit of the utility and, therefore, incentives based on the role of the Franchisee cannot be included.
- The franchisee needs to understand the requirement of maintaining and updating the asset register which will be required to communicate to the franchiser as part of MIS, and will become a critical document at the time of termination of the franchise agreement.

Enforcement Activities

The Enforcement activity is very important in order to curb theft of electricity. The collection based franchisee is typically involved in the revenue related activities and thus the activity of enforcement is usually not under the purview of the franchisee.

In case the franchisee is required to take the activity of Enforcement he shall carry out enforcement activities in the area of operations subject to all anti theft or loss prevention rules/policies/regulation of the utility. Any individual consumer found indulging into unlawful abstraction of the electricity, shall be booked by franchisee. Utility shall provide stationary for such notices. All such amounts shall be recovered by the franchisee from the consumers/others but the franchisee's share or the incentive for this activity again depends on the agreed terms and conditions.

Energy Accounting & Audit

Energy audit becomes critical in case of the franchisee models C and above, as the energy is sold to the franchisee and the payment due to the franchiser is determined by energy supplied over a predefined period, usually a month. The franchiser can maximize his profit by billing every consumer the exact amount he has drawn from the franchisee's network. Any shortfalls in metering, billing and collection will result in depletion of his revenue since the input energy cost remains the same. The franchisee must determine where the energy is consumed within his own network, and whether the corresponding amounts are being metered, billed and recovered.

Franchisee, in his own interest and the interest of utility, may be required to carry out energy audit feeder-wise and/or distribution transformer-wise every month in the shape of energy Input, energy billed to consumers under these feeders/DTs, amount assessed and amount collected and takes suitable measures for improving the revenue and reducing AT&C Losses. The franchisee is required to maintain the commercial records for his own management and for reporting to the utility. The energy audit would facilitate the monitoring of the consumption in the franchisee areas and will be used by both the franchisee and the utility for identifying the loss pockets in the distribution network.

(iii) Operation of 66/33/11 KV Sub-station and Maintenance of Distribution System (Under Model D)

The operation and maintenance activities can be passed on to the Input Based Franchisee, which could be on contracted basis or be a part of the adjusted cost in the input rate that needs to be decided before the Agreement of the franchisee area. The activities that are required to be addressed by the party dealing with the areas O&M are the following:

- Operation of the substations.
- Augmentation of the distribution system from 66/11KV or 33/11 sub-station to the consumer.
- Repair and maintenance of all lines and sub-stations falling under the franchisee area including conductors, cables, transformers, etc.
- Replacement of defective conductors or cables, defective transformers, defective pole and cross-arms, etc. and for that purpose maintaining rolling stock of transformers and other necessary material.

The utility needs to provide the past information about the expenses incurred by them in carrying out the O&M activities in the areas. Franchisee will take over and start operating the area within an agreed time frame needed to set up a new establishment to commence the operations. During this period the

franchisee shall mobilize and set up the organization for performance of his functions and responsibilities under the Agreement and preparation of Asset Register. Utility can take the following measures for the smooth take over by the franchisee

- Inform suitably the consumers and other authorities about the arrangement they have made with franchisee
- Prepare and make available register of existing assets to the franchisee for their verification
- Hand over existing assets to franchisee
- Transfer all other employees working in the franchised area to other areas served by the utility
- Hand over spares for the existing assets, O & M spares and other current assets to the franchisee
- Install meters on all DT's, feeders, etc which utility is required to do under the agreement
- Hand over the consumer database, billing database including the up to date arrears database (both connected and disconnected consumers)

The distribution franchisee/utility shall be required to update the asset register based on investments being carried out in the area and submit the same to share the information from time to time.

Utility should remain the sole owner of existing distribution Assets and those that will be added during the continuance of the Agreement, in case investments have been made by the utility. The franchisee shall only have the "Right to Operate, Maintain and Improve" the utility's owned distribution assets during the term of the agreement.

Also if substations are kept under the control of the franchisee he shall comply with the directions given by State /Regional Load Despatch Centre from time to time, on issues like arranging load release etc

In case the franchisee has made investments for the assets created as a result of Improvement Works, then in respect of such assets he shall remain the sole owner during the term of the Agreement. However at the end of the tenure there needs to be a mechanism of transfer of assets following the norms and valuation standards that should be stipulated in the agreement.

Utility may, in its discretion, allow the franchisee to utilize the existing premises of utility presently being used by the field staff for field related activities such as complaint centres/call centres, stocking of material, etc. for performance of his functions and responsibilities under the Agreement.

Utility shall handover "Operating instructions for lines and substations' and 'Schedule of maintenance' are followed by the utility so far.

Franchisee shall be responsible for undertaking operations and maintenance of all sub-stations of the franchised area in case of the Model C to F. The maintenance of the existing distribution assets needs to be carried out by the franchisee as per the Standards prescribed by and Regulations issued by SERC/Utility from time to time. The material used for the purpose should, as far as possible, meet the specifications laid down by the utility and through utility's approved vendors for the same, if any. The operation and maintenance related activities shall include:

Transformers

Whether maintenance of transformers installed in the franchised area and /or the responsibility for replacing transformers should or should not be included in the franchisee's scope are issues that must be addressed while deciding the respective roles of the franchisee and the utility. The transformer oil replacement shall be done by the franchisee at his own cost as per the norms of utility.

Lines

Maintenance of lines including tightening of loose joints, cable jumpers, and replacement of insulators etc. can be carried out by the franchisee/utility based on the terms and conditions agreed prior to the commencement of operations. There needs to be a clear demarcation of what needs to be maintained by which party. Under the models D, E and F this activity may be included in the franchisee's scope of work and the cost of maintenance can be adjusted in the BST decided for the energy input into the franchisee area.

Materials & Resources

A range of materials and resources are required for operating a distribution network efficiently and reliably. It is therefore important to demarcate the responsibilities of the franchisee and the franchiser for providing such materials and resources. Where the franchiser bears the cost, the effect is to increase the cost of input energy supplied to the franchisee and it is vice versa where the franchisee bears the cost. Which costs are to be borne by the franchisee and which by the franchiser should be decided after an evaluation of the cost of the materials and resources the and degree of freedom required by a franchisee for efficient operation of the franchised network.

The franchisee/utility must comply with all the standards of performance and other norms/directives/rules/regulations relating to operation, repair, replacement and maintenance of the distribution system to ensure continuity and quality of supply as prescribed by utility or SERC. In the case of franchisee carrying out maintenance work of assets owned by the franchiser, then on termination/ expiry of the agreement, he is required to hand over physical possession/ custody of the such assets in the same condition, subject to normal wear and tear. The franchisee shall also hand over physical possession/custody of the distribution assets created out of Improvement Works and owned by him to utility subject to payment of depreciated cost.

The franchisee, while quoting the Input Energy Rate, shall take into account the Operation & Maintenance expenses in respect of the franchised area that he will have to incur during the continuance of the agreement keeping in view the expenses presently being incurred by utility, the distribution network, O&M norms of utility, the O&M job involved, manpower required, material including spares required, etc. utility may appoint a third party to oversee that all the O&M jobs are being actually performed by the franchisee and expenses actually incurred as projected by him. Alternatively, utility may fix the expenses towards O&M which shall be separately allowed to the franchisee for performing O&M activities with utility appointing a third party to oversee the jobs being performed and the expenses being incurred by the franchisee.

(iv) Improvement Works

In case network improvement is included in the scope of the franchisee, he shall be responsible for upgradation, augmentation, renovation and maintenance of existing network, system and assets including installation of new transformers and strengthening of conductors through additional investments, wherever required. However these are not mandatory, and if the franchiser feels that certain activities are better retained in the control of the franchiser, then improvement works may be excluded from the purview of the franchisee.

The system improvement works in the franchised area include those aimed at enhancing efficiency, improving reliability of power supply, upgrading the infrastructure, reducing technical losses and for technical interventions for avoiding chances of hooking in the system. Investments for the said purpose may either be made by the franchisee or the utility.

In case the utility has earmarked certain funds for any of the improvement works which the franchisee intends to carry out on turnkey basis, such funds may be reimbursed to the franchisee against monthly progress to be submitted by the

franchisee to that effect and, therefore, his investments will get reduced to that extent. The credit and responsibility for network augmentation in this case remains with the utility.

During execution of the improvement works, the franchisee shall take shut down whenever required after informing the consumers and utility and take required safety permit etc. This right will not be given to the franchisee under the model where the operation of the distribution network is not in the purview of the franchisee.

In case of the Input Based Franchisee, while quoting the input energy rate, he shall take into account the investment in improvement works that he will be required to make keeping in view the investment plan of the utility, the investment required for carrying out improvement works relating to upgrading, augmentation, renovation and maintenance of existing network, system and assets etc. In case no funds are earmarked by utility to fully or partly fund such improvement works, the franchisee may estimate the funds required, the debts required to be raised including the debt servicing i.e. timely repayment of interest and principal amount, depreciation to be charged vis-à-vis the principal repayment, etc and quote his input energy rate accordingly.

(v) DSM Activities

DSM Activities like adoption of energy conservation techniques, use of CFL, use of energy efficient motors & pump set amongst franchisee consumers can also be incorporated in the roles of the franchisee as in the long run it benefits everyone - the consumer benefits as his bills become lower and the franchisee/utility benefits as the supply demand gap gets narrowed, and the need for load shedding reduces. These activities can be adequately advertised by the franchisee in the Franchised Area and monitored from time to time.

Roles and responsibility of Franchiser/Utility

The franchiser/utility has a critical role in establishing the stable franchisee system with its support. The roles vary depending on the model envisaged for a given franchise.

Following activities may be included in the scope of the franchiser:

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- Utility must provide information including a list of all consumers with connection nos., names and addresses to the franchisee at the commencement of his operation so that he understands the status of the area and the commercial strength of the system in place. Irrespective of the model, the franchiser is required to provide all the relevant information to the franchisee to enable him in conducting the business in a structured and efficient manner.
 - **Electricity availability:** Franchiser/utility is responsible for ensuring guaranteed duration of supply and comply with the directives of SERC regarding power supply and load shedding schedule applicable to a given area. In case of any unscheduled shortage of power from the grid, utility must ensure proportionate hours of supply as is being given to other areas of utility. In case the franchisee and the franchise agree for improved availability of power than what is decreed by the SERC, the same can be incorporated in the franchise agreement appropriately.
 - **O&M activity:** Utility can also carry out the operation and maintenance activities of all the sub-stations in the franchised area to ensure uninterrupted power supply to the consumers as per the norms sets by the SERC in case it is understood as not very viable to burden or share the responsibility with the franchisee. These activities can later be extended to the scope of the franchisee once the franchisee system becomes stable enough. In such a situation the utility shall provide sufficient numbers of sub-station operators for the purpose and keep sufficient rolling stock of materials and tools to be used for maintenance.
 - **Awareness among Consumers:** Utility shall notify all the residents in the franchised area about the rights and obligations of the franchisee to act on behalf of utility and the rights and obligations of consumers of the area through public announcement or other communication channels. This becomes critical in the rural areas where there is a greater need to make the consumers a part of the franchisee system considering the fact that in rural areas the consumers are not that literate enough.
 - **Support:** Franchiser/utility may also arrange/extend government support on the request of franchisee to enable him to implement new systems and carry out improvement works and collection of current payment and old outstanding dues from consumers.
 - **Force Majeure Cost:** Franchiser/utility may/may not reimburse to the franchisee all costs incurred by him towards restoration of damages caused to the distribution system because of thunder/ wind storms, cyclone, rains, floods, lightning strokes, or any other act of God, any damage beyond the reasonable control of franchisee to prevent including riots, arson, terrorist act, etc. However,

in case the damage is due to acts of omissions or commissions, the franchisee should be held responsible.

Supply of Energy and its Payment (applicable to Input Based Franchisee)

- Utility shall supply electrical energy to the franchisee at the Point of Supply for onward supply to consumers in the area of supply.
- As far as possible, the utility will give program for power cuts/shut downs to the franchisee to enable him to inform the consumer well in time and as far as possible carry out major repairs and improvement works involving shut down during that time. Franchiser should not control the supply of electricity by switching off or cutting off the power to the franchised area more/less than the directed duration of supply in the area for any reason other than uncontrollable faults and breakdown maintenance.
- HT Metering: Utility shall install meters at the input points of supply at the 11 kV lines or the desired points and also provide metering at DT level for proper energy accounting by the franchisee. There can be a double metering system at all the interface points so as to act as a backup system. This system can be established by utility before the commencement of operation of franchisee.
- Franchiser/utility shall also ensure proper working of the meters at 33KV, 11KV and DT Meters at all times. In case of 33 KV and 11 KV meters becoming defective, the franchisee shall intimate the utility as soon as possible so as to correct the defects in the metering system, the billing being based on the readings of the input meters.
- Billing: Franchiser/utility shall responsible for raising a monthly Invoice for drawal of energy as per the meter reading of the HT meter, at the Point of Supply. Such monthly invoice shall be prepared by franchiser/utility, in accordance with the agreement and the applicable laws.

Role of other stakeholders

It's not only the franchisee and the franchiser who will make this overall success of the concept of the rural/urban franchisee in these areas but the other stakeholders who directly

or indirectly control/contribute to the functioning of the franchisee system. The urban franchisee has the advantage of the densely established household and other consumers and the franchisee need not put in extra efforts to reach out to the consumers as compared to the rural areas. The roles and responsibilities of other important stakeholders are as follows:

➤ **Role and Responsibility of Franchiser's Staff**

One of the biggest stakeholders in the entire process of franchising is the utility's staff who fear losing their jobs and control over franchised area. They play the role of the interface between the franchisee/franchiser. The role of franchiser's staff should be by way of:

- Providing timely help to the franchisee whenever needed;
- Helping to create a conducive environment for the franchisee to work; and
- Treating the franchisee as a partner or associate rather than a contractor as the franchisee needs to be made an integral part of the system and extending the required help would be crucial for making the franchisee system stable enough to run well.

➤ **State Government**

It is the responsibility of the state government to ensure continuous supply of electricity in the state. Even if there was no the utility or franchisee, the government would not be able to shun its responsibility of providing electricity to the people. It is, therefore, imperative for the government to play its enabling role in a constructive manner. The role of the state government is in the form of:

- Creating the policy framework for establishing distribution franchisees in the state
- Advocacy of the franchising policy
- Providing administrative support;
- Subsidizing those who need electricity but don't have the ability to pay;
- Timely payment of subsidies and other dues;
- Regular and timely payment of dues of government connections;
- Setting up special Courts for speedy trial of electricity theft related offences; and
- Setting up of special police stations

➤ **Panchayati Raj Institutions (PRIs) /Cooperative societies**

The Panchayati Raj/ Cooperative society's machinery can be used as the primary interface for communication and advocacy of a participatory approach towards rural/urban distribution management. The role of cooperatives is, therefore, envisaged for overseeing the intended action of the utility for development of the franchisee and when established, overseeing the franchisee in advisory capacity to deliver according to their responsibility. Cooperatives may be closely associated with the franchisee arrangement primarily as link between the franchisee and the villagers / consumers as well as concerned state authorities.

This is important because of the influence that the cooperatives/ panchayats have over the consumers of the rural areas. However, this is different in case of the urban franchisee. Cooperatives can be helpful by participation and ownership of the process by the cooperatives that rural electricity will ultimately become sustainable. The role of the cooperatives is in the form of:

- Rendering all help to the utility and franchisee for sustainable rural electricity supply;
- Advocacy of franchisee arrangement;
- Creating awareness amongst consumers about the theft of energy and timely payment of bills and its impact on their economic prosperity.

➤ **Regulators**

In the power sector the regulator has the responsibility and the authority to regulate the working of the utilities. Being placed in such a critical position, the regulator needs to examine the feasibility of the franchisee models over long run considering the financial and operational parameters - existing and projected. The regulator's role is not limited to safeguarding the interests of the consumers but extends to safeguarding the long- term interests of the electricity sector as a whole. Franchisers need to keep the regulator informed about the performance of a franchisee on a regular basis, particularly in regard to consumer complaints and their resolution. It has also to be kept apprised of any disputes arising out of poor quality or reliability of power supply or service standards provided by the franchisee.

Without the active support and recognition of the long term advantages of the franchisee system by the regulator, no franchisee will ever become successful and no utility will be able to structure the contract of the franchisee in a manner beneficial for both the parties. The role of the regulator as defined under RGGVY guidelines is:

- a) To ensure adequate arrangements for supply of electricity by the licensee and that there is no discrimination in the hours of supply between rural and urban areas.

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- b) To ensure that the Bulk Supply Tariff (BST) for the franchisee is determined considering the consumer mix connected load, prevailing consumer tariff, improvements to be made in revenue and reasonable costs to be incurred by the franchisee, with a view to enabling franchisee to have commercially viable operations.
 - c) To ensure that the BST is arrived at in line with the above and is fully factored into the submissions of the DISCOM to the state Electricity Regulatory Commission (SERC) for revenue requirement and tariff determination.

➤ **Consumers**

The consumer has to recognize that the franchising had to be resorted to because the utility could not pay adequate attention to the requirement of the consumers and could not sustain its financial viability because of practices adopted by the consumers. It is the ultimate ownership by the consumer of the franchisee system and his support to the concept, which will determine the success of the franchisee system. The role of the consumer is:

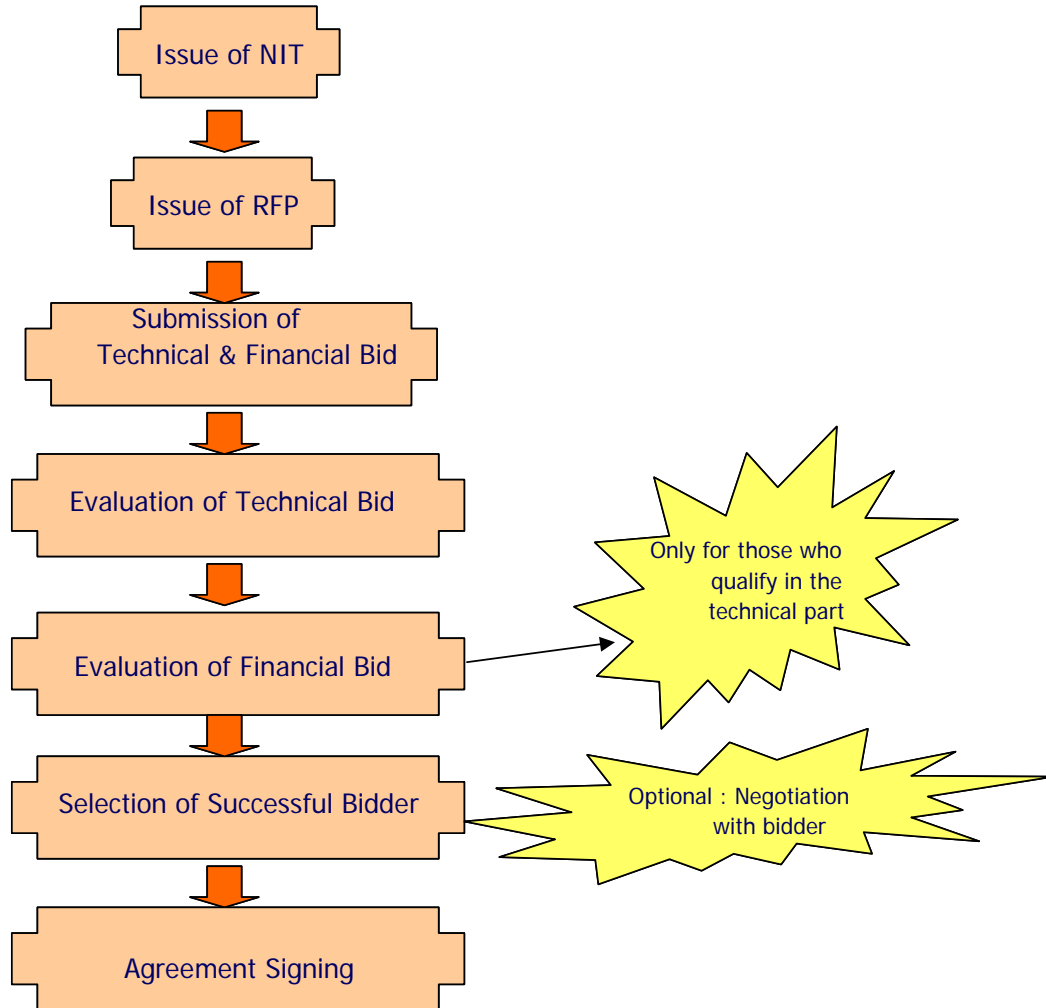
- To obtain and use a regular connection;
- Not resort to meter tampering, bypassing of meters, illegal tapping
- Timely payment of dues; and
- Cooperating in the process of franchising to ensure its success and thereby the sustainability of the power sector
- Providing feedback to the relevant utility and the Commission, on the standard of the performance prevailing in that area from time to time and how the provisions of citizen's chart are being complied with.

CHAPTER 8: FRANCHISEE SELECTION PROCESS

The broad principle of franchisee selection shall be competitive bidding based on the most favorable BST for the utilities subject to supply of power at previous year's level. The same has also been stipulated under RGGVY guidelines. In case of collection based franchisee compliance to incentive structure along with the adherence to technical and financial qualification criterion shall form the basis of selection of franchisee. The following procedure may be adopted for franchisee selection:

- Utility shall notify intent to select franchisee for particular areas / tasks. Notification in local and state newspapers (at least two issues), notify District Electricity Committee; notify Zila Parishad, Panchayat Samiti and all concerned Panchayats.
- Interested persons / organizations should submit application for "Request for Proposal".
- Bidders shall submit their technical and financial proposal. The proposal shall contain documentary evidences of the minimum qualification criterion, approach and methodology and the financial quotes for undertaking the franchisee.
- Once the technical and the financial bids have been submitted by the bidders, Utility shall carry bid evaluation process. First technical would be opened and evaluated. Financial bids of only those bidders who qualify in the technical bid shall be opened.
- Bidder achieving the maximum techno-financial score shall be awarded the franchisee contract. In some cases utility may call the bidders for price negotiation also.
- Once the bidder is selected signing of the contract shall take place between the utility and the successful franchisee.

The figure below depicts the process flow for franchisee selection:



It is very important for the franchisee to understand each and every detail mentioned by the utility in the RFP document and carry out the due diligence of the area based on the information as provided by the utility and from the field survey.

CHAPTER 9: DUE DILIGENCE OF THE FRANCHISEE AREA AND BID PREPARATION

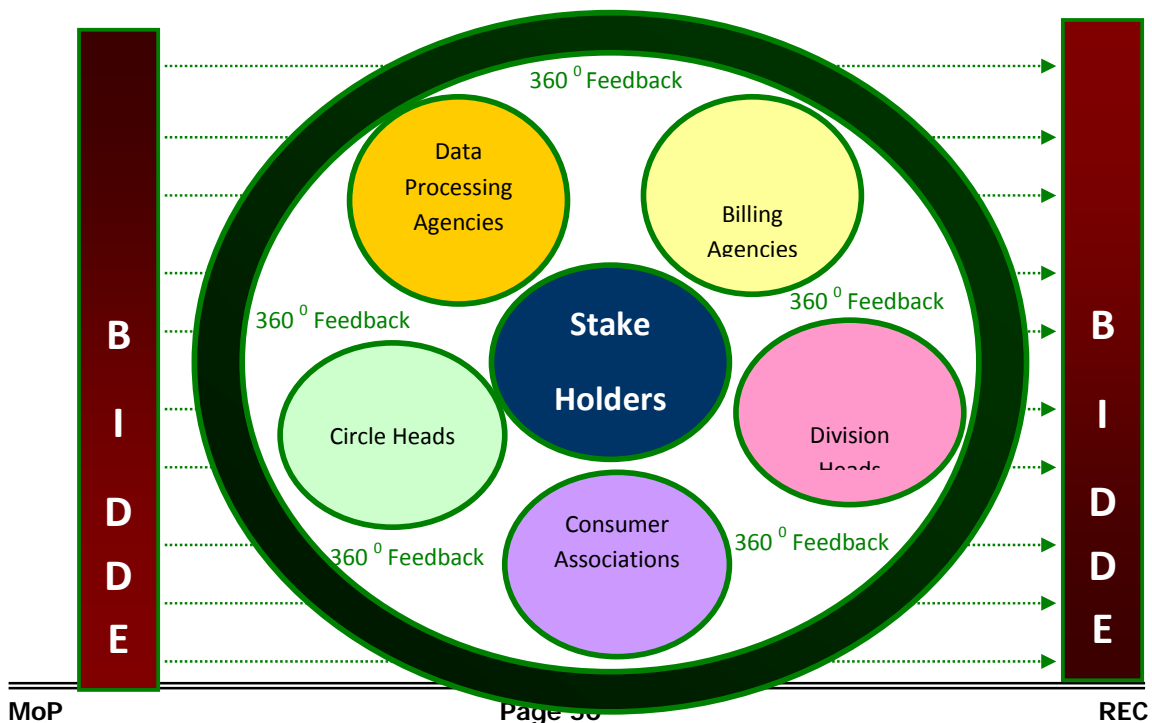
Objective

With the type of risks involved in the distribution business it is quite necessary to understand the distribution area thoroughly and create a base for the assumptions such as the sales growth, consumer growth, distribution losses, employee conditions, network conditions, etc to be followed during the financial analysis of the business proposition. Therefore, the project should be conceptualized in a practical manner and implemented thereafter with full understanding of the franchised area.

Approach & Methodology

The bidder should interact with the people feed in a 360-degree approach and obtain feedback from all those who are stakeholders in one way or the other. The issues and concerns should be understood from the points of views of supplier/utility side, consumer side and market players such as the contractors and solution providers. Interactions should also be had with the sub-agents of the utility to understand the ground realities.

The figure below describes the 360 degree approach best and can be viewed as a extensively practical approach in the electricity distribution sector as the viewpoints usually remain different for two sides with conflicting interests – Consumer and the Supplier.



Interaction at different levels

Bidder should figure out all the issues and discuss with heads of the division - Executive Engineer (EE) and the Superintendent Engineer (SE). The objective of meeting these officials would be to understand the basic issues of the divisions and their solutions.

The second level of meetings can be held with the data processing agencies and billing agencies if any. The main objective of these meetings would be to understand the operations of these agencies and their importance in the field. Further, assessment on practical issues in the ground can be done during discussions with these agencies.

Third level discussions can be done with the members of industrial association or vyapar mandals. The objective of meeting these people would be to understand the growth of the industrial consumption and future load growths in the franchised area due to industrial loads. Also issues related to HT consumers could be discussed and probable solutions explored for better service.

Risk Profiling

It is to be noted the risk involved in taking over of such distribution area is immense and should be analyzed before hand. The risk involved is categorized into operational & financial risk, the details of which are described in the sections below.

Operational Risk

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- **Supply Security:** Growth pattern of consumption would finally be a decider in the energy requirement of the franchised area, which is uncertain and cannot be estimated accurately for a particular period. If the growth is higher and the energy requirement goes beyond the committed energy input it would pose a high risk to the Distribution Franchisee.

 - **External Power Purchase:** Although there can be an option of external power purchase if it is provided by the utility in the RFP, it should be kept in mind that the rates at which power is available in the market is very high and dependence on external power purchase for requirement over and above the committed by utility would pose a serious risk.

 - **Distribution Loss Target:** The loss target defined is dependent on the baseline distribution loss. Losses claimed by the utility in the RFP document might be much lower than the actual losses due to under reporting. If this baseline loss gets changed and goes up then the achievement of the target would be very difficult.

 - **Investment plan:** The investment plan is estimated based on the cost effectiveness of loss reduction measures. If the measures undertaken do not lower the loss due to untimely implementation there would be a huge impact in the revenues and cost of the distribution franchisee. In addition to this, the risk of non-approval of the investment plan would result in either investment in capital expenditure projects being shelved or refund of depreciated value of the investments not being allowed at the end of the tenure of the DF.

 - **Modern Metering Implementation:** It has been seen that use of newer technology in metering such as electronic metering result into resistance by the consumers due to the immediate jump in consumption due to the accuracy of metering vis-à-vis the legacy of slow and inaccurate mechanical metering. This resistance can create repercussions in the implementation of electronic metering and revenue losses thereof.

 - **Administration of Employees:** The distribution franchisee may have an option of replacing or retaining all employees. But reduction of employees could effect the operations of distribution franchisee and also replacing them with new employees poses a risk of lack of knowledge of networks and consumers by the new employees.

Financial Risk

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- **Reliability of baseline data:** The reliability of baseline data would hamper the financial working and assumptions made for arriving at the bidding rates. The risk in inaccuracy of baseline data exists in all the electricity distribution business in the country and cannot be relied on fully although the MIS systems state utilities are quite strong. Therefore, appropriate risk factoring needs to be done at the financial analysis stage.

 - **Collection Efficiency:** The data for collection efficiency specifies that the collection efficiency at times is even above 100% since it cannot be bifurcated into collection for current bill and arrears. Further, since the target for collection efficiency is very high as compared to collection efficiency existing in any utility in the country, achieving high collection efficiency for the entire tenure would be a major risk for the distribution franchisee.

 - **Load Growth:** The growth of consumer load and sales has to be estimated practically to get a proper revenue stream to sustain the business model of franchisee. If the growth estimate goes wrong, that may result in lower revenues.

Other Risks

- The utility employees would resist the change in administration. Hence the takeover has to be smooth to reduce the risk of resistance of employees.

- Resistance from the consumers.

Bid Preparation

Once the franchisee has done the due diligence of all the parameters mentioned above and has done the financial modeling for quoting the best price for undertaking the franchisee arrangement, bid preparation should be done. Bid preparation shall involve two steps:

1. Preparation of Technical Bid
2. Preparation of Financial Bid

Preparation of Technical bid

Technical bid would involve:

- 1) Arranging documentary evidences for compliance to the pre-qualification criterion as mentioned in the RFP document.

- 2) Preparing approach and methodology for undertaking franchisee of a given area.

- 3) Detailing about the team that shall carry out the desired activities.

- 4) Specifying deviations if any.

- 5) Filling the forms as annexed with the RFP document.

- 6) Bidder should also go through bid evaluation criteria and various types of loadings proposed to be adopted in the bid evaluation.

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- 7) Bidder should also check in the RFP document the procedure for submitting the bid and also Earnest Money deposit requirements.

 - 8) Once the bidder has prepared the bid he should cross check with the check-list of mentioned in the RFP document so as so ascertain that the bid is complete in all aspects.

Preparation of Financial bid

- a. Financial bid shall only involve quoting the bulk sale tariff at which the franchisee buys power from the discom. This price determination shall involve analysis as done during the due diligence of the area and business modeling as explained in the next chapter.

CHAPTER 10: BUSINESS PLAN OF FRANCHISEE

To define and assess the viability of undertaking electricity distribution franchisee for a particular area, it is essential to prepare a business plan especially when adopting an advanced franchisee model which may be input based model with or without O&M. The business plan should facilitate:

- The nature of activity of the franchisee.
- How the activities would be carried out and at what cost?
- What shall be the price of electricity at which the franchisee is able to buy to have a viable commercial operation?
- Identify the potential consumers and the price of electricity that may be affordable by them.
- An estimation of franchisee's own cost vis-à-vis surplus it intends to keep for itself.

It is also essential to have some sensitivity analysis done on the plan under varying expectations of business parameters including variant cost of electricity, as also tariff that may be charged to the consumers in situations "likely", "optimistic" and "pessimistic".

10.1 Franchisee Model

The franchisee model followed determines the business plan of a franchisee. Let us discuss the various franchisee models and develop a typical business plan for each.

i. Revenue Based Franchisee

This would involve the franchisee in revenue realization and related services and income would be derived from incentives related to achievement of revenue collection targets in terms of revenue realization and arrear collection by the franchisee.

ii. Energy Purchase, Sale, Billing and Collection Franchisee

Under these models a franchisee purchases energy from a distribution utility at an agreed bulk supply tariff, and sells it to consumers in the franchised area as per tariff determined by the appropriate state electricity regulatory commission (SERC).

iii. O&M Franchisee

Under this model a franchisee is responsible for operation and maintenance (O&M) of the local distribution network within the franchised area in addition to purchasing, selling, billing and collecting revenue from consumers

10.2 Business Parameters

The business plan should take into account the following parameters:

- i. Franchisee model
- ii. Scope of services and responsibilities of the franchisee
- iii. Maximum bulk supply tariff (BST) that permits viable commercial operation
- iv. Survey of consumers and tariff that they will be able to afford
- v. Estimated costs to be incurred to run the franchised operations
- vi. Surplus that the franchisee intends to generate from the operations

10.3 Sensitivity Analysis

The franchisee must carry out a sensitivity analysis under different scenarios that take into account:

- Variation in cost of electricity
- Tariff that may be charged to the consumers under different situations:
 - Business as usual (BAU)
 - Optimistic
 - Pessimistic

10.4 Estimation of Demand

- The energy consumption and maximum demand of a given area may be ascertained from the existing data available with the franchiser. Depending upon the metering arrangements and standards of record keeping, annual energy consumption, maximum demand and load curve in terms of seasonal and hourly variations may be available. This data should be analysed thoroughly, and will help estimate the amount of energy that is consumed in a given franchised area, and its pattern of consumption

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- The pattern of energy consumption of a given category of consumers will generally differ from other categories, and this needs to be taken note of. It should also be noted that the consumption pattern is affected by the hours of supply available in a given area.

 - Where little data is available, or in case of un- electrified rural areas, the following assumptions will provide a rough estimation:
 - i. For BPL (below poverty line) households: 60W
 - ii. For non-BPL households: 500 W
 - iii. For other consumer categories, such as commercial, rural industries, agricultural pump sets etc., load profiles of neighbouring areas may be followed for estimation of maximum demand and energy consumption.

 - Load growth: Load growth is determined by the pace of economic growth and the demographic profile of the area. While past data gives an indication of what the growth might be in the future, major shifts in demographic profile or quantum jumps in growth of certain industries may cause the growth to be rapid. The best estimate taking all known factors that may affect load growth should be taken into consideration for preparing the business plan.

10.5 Formulation of Business Plan

A business plan must consider the business parameters set out in Section 7.2 earlier. A prospective franchisee should take the following steps for making his business plan on the basis of which he prepares his bid, aimed at determining the highest bulk supply tariff (BST) he would be comfortable with.

1. **Own business assessment:** The prospective franchisee should assess his own business strengths and see if these would be to his advantage in operating a distribution franchise (Go No Go)

The risk appetite of the present business of the franchisee should be assessed. In case the risk is found to be acceptable, the prospective franchisee should move on to the next step.

2. **Technical and managerial expertise required:** It needs to be determined whether

the expertise would be available from within the organization or through joint ventures or collaborations, in which such a joint venture or collaboration arrangement with a suitable partner should be worked out.

3. **Eligibility Criteria:** A joint venture or collaboration may be required to meet the eligibility criteria laid down in the tender document for the franchise. If a prospective franchisee is unable to meet the eligibility criteria, he may need to go in with a partner.

4. **Manpower Planning & Organisation Structure**

A prospective franchisee should assess the manpower requirement for performing the functions defined in the franchise agreement. Depending upon the franchisee model, this may include manpower required for:

- Operations
- Maintenance
- Administration
- Establishment
- Billing
- Revenue Collection

10.6 Formulation of Business Plan: Sample

Step 1:

Assess the following for the franchised area:

- Category wise number of consumers
- Energy consumption with seasonal variation
- Connected load
- Simultaneous maximum demand
- Hours of supply
- Load curve: hourly and daily, wherever available

The table below illustrates a typical calculation:

Table 2: Table: Assessment of Total Sale of Energy per Annum

Category	Number of consumers	Average Connected Load per consumer (kW)	Total connected load (kW)	Maximum demand (kW)**	Usage (Hours) per day	Total Sale of Annual Energy Per Annum (kWh)
Domestic	1000	0.5	500	400	8	1168 x 10 ³
Commercial	50	2	100	100	12	438 x 10 ³
Agriculture	100	4	400	320	8	1168 x 10 ³
Small Industries	20	5	100	100	8	292 x 10 ³

Total	1170					3066×10^3
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** *Demand factor = Maximum Demand/ Connected Load:* Determines the maximum demand when the connected load is known. It varies from one type of consumer to another. Given here are typical values.

Step 2: Assessment of category-wise sale of energy, billing, revenue collection, and input energy

Based on estimated category-wise annual energy consumption, and projected load growth for the duration of franchise, input energy is calculated as follows:

- i. Distribution loss (as % of sale of energy): 15%
- ii. Energy input = Sale of energy/ 0.85
 $= 3066 \times 10^3 / 0.85 = 3607 \times 10^3 \text{ kWh}$

Table 3: Example – Assessment of Total Sale of Energy per Annum

Category	Total Sale of Annual Energy Per Annum (kWh)	Billing of energy sold considering 100% billing (kWh)	Average consumer tariff per kWh	Gross revenue per annum (Rs.)	Net revenue per annum considering collection efficiency of 90% (Rs.)
Domestic	1168×10^3	1168×10^3	2.5	2920×10^3	2336×10^3
Commercial	438×10^3	438×10^3	3	1314×10^3	1051×10^3
Agriculture	1168×10^3	1168×10^3	2	2336×10^3	2102×10^3
Small Industries	292×10^3	292×10^3	4	1168×10^3	934×10^3
Total	3066×10^3	3066×10^3		7738×10^3	6964×10^3

Step 3: O&M Cost

O& M Cost will be determined by the cost of manpower including:

- Operations

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- Maintenance
 - Administration
 - Establishment
 - Billing
 - Revenue Collection

Table 4: Table: Possible Expenditure Patterns

Head of expenditure	Amount (Rs.)
Rent of hired premises	1000
Staff salary	9000
Telephone cost	500
Electricity cost	500
Transport cost	1000
Line maintenance	1500
Miscellaneous	1000
Total O& M cost per month	14,500

Step 4: Assessment of Fund Requirement

This step involves assessment of required capital investment, working capital, and anticipated rate of return on investment.

- Working capital requirement = Cost of O&M for two months = $2 \times 14,500 = \text{Rs. } 29,000/-$
- Capital investment = Anticipated revenue realization per month
 $= 6964 \times 10^3 / 12 = \text{Rs. } 580,350/$
- Cost of capital investment and working capital = Interest @11% on (capital investment plus required working capital)= $\text{Rs. } 67,029/-$

Step 5: Computation of bulk supply tariff (BST) for sustainable operation:

- i. Net revenue collection by franchisee = $\text{Rs. } 6964 \times 10^3$
- ii. Total expenses:
 - Cost of O&M = $\text{Rs. } 14,500 \times 12 = \text{Rs. } 174,000/-$
 - Cost of capital investment and working capital = $\text{Rs. } 67,029/-$
- iii. Anticipated return on capital investment @ 15% = $\text{Rs. } 87,052$
- iv. Net revenue after deduction of expenses and return = $\text{Rs. } 6636 \times 10^3$
 $[(i) - (ii) - (iii)]$
- v. Total estimated energy input = $3607 \times 10^3 \text{ kWh}$

vi. Estimated BST = (iv)/ (v) = Rs. 1.84/ kWh

Thus, for the above example, the BST that would be viable to the franchisee, giving him 15% return on investment would be Rs.1.84/kWh or lower. [Reference: *Handbook for Franchise Development in the Rural Electricity Distribution Sector: Tata Energy Research Institute 2007*]

CHAPTER 11: CONSUMER SERVICE AND CARE

One of the reasons for implementing franchisee is the expectation of Utility for enhanced consumer services. Franchisee should understand the consumer shall pay in time only when he is satisfied with the ease of services provided by the supplier. If the franchisee is able to maintain consumer satisfaction level to a remarkable position it is likely that non-paying consumers may also start paying their bills. Few areas where the franchisee can put efforts to meet the consumer expectations in terms of services are:

Customer Service Centre

Customer Service Centres can be set up by the franchisee to provide a Single Window interface for all the customer related activities. Customers are thus spared for the tedious process of approaching several offices for getting their work done. Customers can approach the Customer Service Centres for availing new service connections; resolving their complaints related to metering, billing, disconnections, reconnections, etc; and for processing their service requests related to category changes, title transfers, load changes, etc. Generally these customer service centers work on extended and convenient timing for the benefit of the customers. The entire process of registration of complaints / service requests, dispatch, status updating, closure is managed through custom designed Software solutions or Software Products. In case the complaint / service request is not resolved within a specified time limit, the same is escalated to the notice of higher authorities for expediting the resolution process. The escalation process is enabled through the intelligent components of the software.

These service centres are generally setup with good ambience to enhance the customer interaction experience. Customer service centers have been successful in bringing down the processing time and have thus significantly enhanced the customer satisfaction levels.

Customer Service Centres have been implemented in the states of Andhra Pradesh, Delhi and Karnataka. With the help of these service centers the distribution utilities have been able to conform to the stringent service levels defined by their respective State Electricity Regulatory Commissions.

Electricity Call Centre

To address the power supply related complaints on a proactive basis and provide effective, assured and timely services to the customers several power distribution companies and state electricity

boards have set up an Electricity Call Centers. These call centers work round the clock to receive customer complaints through several channels such as telephone, fax, email, etc.

The customer complaints are registered and forwarded to the field personnel for timely action and rectification. The status of the complaint is periodically tracked and updated. The customer can know the status of the complaints registered by contacting the call centre personnel. In case the complaint is not resolved within a specified time limit, the complaint is escalated to the notice of higher authorities for expediting the resolution process.

The Electricity Call Centers are managed through specially designed software solutions, which form the backbone of operations. The software deployed may vary from technically advanced to simple solutions. The software generally comprise of Contact Management Solution and/or Process Monitoring Solution. These call centers are either managed by the utility's personnel or outsourced to third parties.

Electricity Call Centers have been implemented in the states of Tamil Nadu, Andhra Pradesh and Karnataka. In the states such as Rajasthan, Delhi, Madhya Pradesh, etc the call centers are at the various stages of implementation.

Collection through Banks, Post Offices and Camps

Payment of electricity bills has generally been an unpleasant & time-consuming experience for the customers. Long queues, inconvenient timings, limited modes of payment have made payment of electricity bills a difficult task for the customers.

Collection Centers could be setup by franchisee under proper governance to enable customers to make payments in an easy and convenient manner. Collection centers work on extended timing and payments can be made in any of the centers either through cash, cheques, demand draft, credit cards, debit cards, etc. Collection centers have been successfully implemented in many states. Similarly some banks and post offices can be contact for their services for collecting electricity bills from the consumers. Customers can go to these banks or post offices and pay their bills either various payment modes.

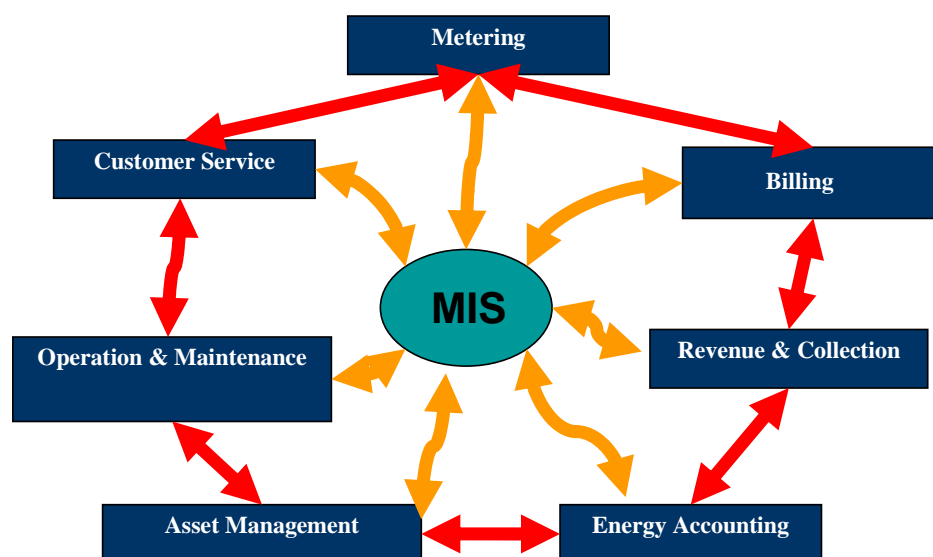
CHAPTER 12: MANAGEMENT INFORMATION SYSTEM (MIS)

Introduction

It is important to realize that by awarding a franchise the distribution utility is delegating its work to the franchisee. Hence, there is no dilution in its responsibility for satisfactory operation, maintenance, upgradation and growth of the franchised distribution network. The franchiser has to therefore put in place an appropriate management information system (MIS), and make it a part of the franchise agreement. This requires, in turn, that the information required to be furnished by the franchisee and their format and frequency be clearly spelt out in the bid document.

MIS FORMATS

Some of the MIS formats suitable for both rural and urban franchise agreements regardless of the scale of operation are shown in **Annexure 1**. Some are suitable only for a large and full scale urban franchise agreement. For instance, details of new connections released, pending connections, accidents, consumer grievances, distribution transformer failures, distribution losses and collection efficiency etc. will be appropriate for inclusion in MIS of a rural or an urban franchise, regardless of its scale of operation. On the other hand, information like reliability indices (SAIFI, SAIDI and CAIFI), energy audit of express feeders are appropriate only for a large urban franchise, but not for a rural franchise where there are no HT consumers, and the hours of supply being what they are, reliability indices are not relevant. Hence, for a given franchise, the appropriate ones must be chosen out of the total range of MIS formats.



CHAPTER 13: FRANCHISEE AGREEMENT

The intended franchisee Agreement should clearly contain the detailed provisions in regard to the following:

- Whether contract protects the franchisee and the franchiser?
- Are the rights and obligations of both parties clearly stated?
- What is the legal framework within which both franchisee and franchiser have to function?
- Is the contract specific about the type and size of operation that the franchisee is expected to manage?
- Is the nature duration and extent of training to be imparted by the franchiser outlined in the contract?
- Whether the various payments to be made to the franchiser by the franchisee have been specified?
- Other fixed payments.
- Source of essential supply for proper O&M of the system.
- If interrupted supply is provided by the utility, what are the arrangements for compensation to the franchisee?
- Various MIS reports needed to be submitted to the franchiser by the franchisee.
- Duration of the franchisee contract and terms for renewal of the contract.
- Area allocated to the franchisee for the intended franchisee operation.

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- Reasons for termination of the contract and its terms and conditions.

 - If there is any default in the contract, what are the measures that can be permitted to rectify the situation?

 - Arbitration clause.

 - Whether franchisee is prevented from engaging itself in any other business activity for the duration of the contract?

 - Time period for various payments to be made by the franchisee to the franchiser and penalties that can be levied.

 - Force majeure conditions applicable for both franchisee and franchiser.

 - Jurisdiction of courts where legal remedies can be had.

 - Conditions governing discharge of performance security bank guarantee, at the end of the contract period

Based on the above and other pertinent aspects, a draft (sample) Franchise Agreement applicable to Model - D (Operation & Maintenance Franchisee) is enclosed as Appendix-IV.

In the event the states, for some reasons, opt for franchisee Models - A&B (Revenue Collection Franchisee), such state Power Utilities / state governments may have their own documentation procedure, specifically incorporating the nature of franchisee's responsibility for collection of revenue and the associated mode of compensation / remuneration that would be paid to them after achieving prescribed benchmark targets. However, such franchisee models may not be effective for creation of sustainable operations under the existing framework of distribution of electricity by the utilities in their rural areas.

Principles of Input Based Franchisee Agreement

The following terms and conditions are indicative of the broad principles of the Input based Distribution Franchisee Agreement (DFA) under which the Input Based Distribution Franchisee (DF) shall be appointed and which may form the basis of the DFA required to be entered into by a successful bidder with DISCOM.

1. Legal Structure of the Franchisee

The DF shall be a company duly incorporated under the Companies Act, 1956 (or a corporate body or an Association of Persons or Body of Individuals).

2. Legal Status of the Franchisee

The DF shall act as an agent of the [NAME OF UTILITY] and in no case shall be treated as a Licensee under Section 14 of the Electricity Act 2003.

3. Term of the DFA

3.1 Distribution Franchisee would be appointed for a period of [say 5] years from the date of execution of the DFA, after which it could be extended by mutual agreement.

3.2 Franchisee shall not sell power to any consumer outside the franchise area except with the specific direction from the Discom utility.

3.3 Appropriate provision to terminate this Agreement any time before the expiration of the Franchise Period on the occurrence of an Event of Default as set out herein.

4. Performance Guarantee

4.1 Within 30 days of signing of the Agreement, the DF is required to submit a Performance Guarantee in the form of a Bank Guarantee (in a form satisfactory to DISCOM) from any nationalized bank for an amount equal to one and a half month revenue realization based on a average over a period of preceding 12 months

4.2 This Performance Guarantee shall remain valid until the expiry of this DFA. The amount of the Performance Guarantee would be modified each year based on the revised quantum determined similar to that under 4.1 with the year 2005-06 being replaced by the previous year and the Input Rate/Revenue Collected being that applicable for the ensuing year.

5 Exclusivity

The DF will be the exclusive agent of the DISCOMS in the Franchisee Area (to be defined electrically and geographically in the Agreement). The DF can appoint the sub-contractor (s) for outsourcing some of the activities forming its scope of work with a prior written intimation to DISCOM but cannot assign its rights and obligations under DFA to its affiliate or any third party.

6 Dispute Resolution

Any dispute arising out of, in connection with or with respect to this agreement shall be resolved as per the provisions of the Arbitration and Conciliation Act, 1996 and the venue of Arbitration shall be [NAME OF THE PLACE TO BE FILLED].

7 Supply of Energy

7.1 DISCOM shall supply the power at Input Point as per its aggregated power supply and load shedding schedule planned periodically, and subject to any directives that may be issued by State Electricity Regulatory Commission on supply regulations.

8 Distribution Assets

8.1 Ownership of the existing assets as well as assets to be created during the term of the Franchisee Agreement even if executed by Franchisee shall remain the property of DISCOM.

8.2 DF shall use and maintain such assets at its own cost to keep them in good working condition as per Prudent Utility Practice. The DF shall not dispose off or alienate or in any way encumber such assets.

8.3 If the event that there is need for scrapping of any asset, the process thereof shall be managed under DISCOM guidance and approval and sale proceeds shall be credited to the account of DISCOM.

8.4 DISCOM and DF shall jointly prepare an asset register within 1 month of signing of the Agreement. The DF shall be required to update the asset register based on investments being carried out in the Area and submit the same to DISCOM on periodic basis.

8.5 On termination/ expiry of the DFA, the DF shall without demur hand over physical possession/ custody of the Distribution Assets belonging to DISCOM in the same condition, subject to normal wear and tear.

9 Current Assets (Optional in case of O&M activities as part of scope)

9.1 DISCOM will hand over the inventory of O&M spares to the DF within one month of signing of this Agreement. Upon termination/expiration of this Agreement, the DF shall return the same level of Inventory of O&M spares as handed over as per provisions of this Clause.

10 Capital Investment

10.1 Within one month of signing of this Agreement, DISCOM shall provide the details of the ongoing investments, their proposed source of funding and the expected completion date based on present status.

10.2 From the next financial year, the DF shall be required to submit at least 2 month's prior to completion of the year, its Capital Investment Plan separately outlining schemes of on-going nature as well as new proposed investments. For the proposed investments, detailed justification in the form of a Cost-Benefit analysis shall be undertaken. Based on the above, but not limited to the same, DISCOM shall provide an approved Capital Investment Plan for the coming year at least 15 days prior to the end of the Financial Year.

10.3 The DF shall be responsible for undertaking the implementation of the above capital expenditure in a timely manner as well as undertake the investments if any for providing new connections in the Franchisee Area. Where applicable, such expenditure shall be sourced from the Service Connection Charges and Service Line Charges collected from the consumers.

11 Personnel

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- 11.1 The Franchisee shall manage the area using its own personnel. In case felt of mutual agreement, DISCOM and DF could consider secondment of DISCOM personnel to the DF under appropriate commercial terms.
- 11.2 Notwithstanding the above, DISCOM reserves the right to nominate such number of personnel to monitor the performance of the Franchisee on a continuous basis.
- 11.3 The DF shall have the right to employ any number of personnel on such terms as it may desire to discharge the day-to-day functions relating to distribution of power in Franchisee Area. The DF's personnel shall not become either permanent or contract employees of DISCOM at any point in time during and after expiry of this agreement.

12 Responsibilities of Franchisee

- 12.1 DF shall undertake all liabilities and obligations of the Distribution Licensee in the Franchisee Area as an agent of DISCOM, in compliance with the Act, Regulations and directives of State ERC and DISCOM issued from time to time. The broad duties and responsibilities would include, but not limited to, the following activities:

Technical

- ❖ Operation and maintenance of network assets in field from the start of outgoing 11 kV feeders; (presume this is the technical boundary and not input to the sub-station)
- ❖ Planning and implementation of capital expenditure to improve efficiencies, upgrade infrastructure etc.
- ❖ Repair, Maintain and replace failed distribution transformers within prescribed time frame that may be specified by State ERC or DISCOM, as the case may be.
- ❖ Allot and carrying out all necessary activities for release of new connections;
- ❖ Maintain rolling stock of transformers and other necessary material as per the norms that may be prescribed by DISCOM;
- ❖ Upgrade, renovate and maintain the existing distribution network/ systems/assets as per prudent utility practice and the standards that may be prescribed by State ERC;

Commercial

- ❖ Meter reading & billing to the consumers as per applicable retail tariffs;

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- ❖ Collections from the consumers as per the billing
 - ❖ Collection of arrears on behalf of DISCOM
 - ❖ Make payments to DISCOM as per the terms and conditions of DFA.
 - ❖ Replacing defective meters with new meters.
 - ❖ Redressal of commercial and billing complaints
 - ❖ Maintain consumer database and billing records
 - ❖ Initiate necessary action, in accordance with the agreed procedure for anti-theft, disconnection and control of commercial losses.
 - ❖ Energy Accounting at 11 kV and DT level subject to availability of meters
 - ❖ Complaint Handling of activities under scope

General

- ❖ The Franchisee shall bear the entire responsibility, liability and risk relating to coverage of its workforce under different statutory regulations including Workman's Compensation Act, Factories Act, 1948, the Contract Labor (Regulation and Abolition) Act 1970, and any other relevant regulations as the case may be.
- ❖ Franchisee shall be solely responsible for the payment of all benefits such as Provident Fund, Bonus, Retrenchment Compensation, Leave etc. applicable as per various statutory rules and regulations, as well as any damage/loss to consumers' and shall keep DISCOM indemnified in this regard against any claim. DISCOM shall be entitled to deduct from any money due to or to become due to Franchisee, money paid or payable by way of compensation as aforesaid or cost or expenses in connection with any claims thereto. The Franchisee shall abide by the decision of DISCOM to the sum payable by Franchisee under the provisions of this clause.
- ❖ The Franchisee shall also make efforts towards collecting past arrears and the amount collected against arrears occurring after the date of Agreement shall be to the credit of the Franchisee and all arrears pertaining to the period prior to the date of Agreement shall be passed on by the Franchisee to the Licensee within a period of 3 days of such realisation. In consideration of collecting licensees past arrears the Franchisee shall be given an incentive of 10% of the amount so recovered.
- ❖ Franchisee shall receive electrical energy up to a load specified at the Point of Supply from DISCOM for onward supply to Consumers in the Area of Supply. The above load is calculated based on the Load Norms and the number of Consumers connected. In the event that the Franchisee intends to supply beyond the above – mentioned load, the Franchisee shall obtain a specific written approval from DISCOM.
- ❖ The Franchisee shall pay all Monthly Invoices within 72 hours of receipt of invoice by DISCOM by the due date mentioned in such Invoice after adjusting the direct payments made by Consumers at the DISCOM during the applicable Billing Period, else DISCOM shall have the right to adjust the same against the Performance Security, referred to in

this Agreement, paid by the Franchisee, without prejudice to any other right of DISCOM.

13 Duties and Responsibilities of DISCOM

The broad duties and responsibilities would include, but not limited to, the following activities:

- ❖ Ensure the supply of power to DF at Input Point for periods not inferior to that applicable for similar areas;
- ❖ DISCOM shall carry out meter reading jointly with DF on a monthly basis at input point of the Franchisee Area.
- ❖ DISCOM shall carry out capital expenditures as per the “Minimum Investment Plan”. [One option is for DISCOM to undertake the investments in Franchise Area, in which case, the franchisee has revenue management scope only; If this is what is preferred, then Investment can be kept with DISCOM].
- ❖ Installation of metering devices and carry out meter reading, monitoring all power transformers, feeders and distribution transformers;
- ❖ DISCOM will provide a list of all Consumers with Connection Nos., Name and Addresses to the Franchisee who are receiving supply of power from DISCOM through authorized connection at the commencement of this Agreement.
- ❖ The consumer’s bills shall be prepared by DISCOM with the help of information provided by the Franchisee at the required interval of time.
- ❖ DISCOM will apprise and approve the quality and competence of Franchisee’s personnel engaged for carrying out the maintenance, operation and commercial activities in the Franchisee area.
- ❖ DISCOM to ensure guaranteed duration of supply as per the existing schedule based on an average of past 12 month with a variation of not more than 5%[Subject to discussion]. In case of any unprecedented shortage of power from the Grid, DISCOM shall ensure proportionate hours of supply as is being given to other areas of DISCOM. As far as possible, the Franchisee shall be notified in advance of such an eventuality.

14 Payment and Collection

14.1 A joint meter reading is proposed on the last day of the month by both the Parties, which shall form the basis for interim billing by DISCOM.

14.2 The net monthly amount to be remitted by DF to DISCOM shall be termed as interim Monthly Revenue, which shall be computed as a product of:

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- ❖ Energy input in the Franchisee Area.
 - ❖ Input Rate finalized under this Agreement for the relevant year;
 - ❖ Ratio of prevailing average tariff as applicable to the consumers of the Franchisee Area and the prevailing average tariff in FY 2005-06. Average tariff shall be computed as sum product of total billed units and approved tariff in each consumer category divided by total billed units in all consumer categories.

14.3 DF shall make the payment to DISCOM within 3 days of submission of bills by DISCOM.

14.4 Delay in payment to DISCOM against invoice shall attract a penal interest at the rate of 18% per annum computed quarterly compounded.

14.5 Any taxes and duties levied and recovered by DF from consumers in the Franchisee Area, shall be separately to DISCOM on receipt. DF shall maintain a record of total amount collected from consumers and intimate the same to DISCOM along with payment.

14.6 Any change in taxes and duties as notified by GoUP, so collected by DF from the consumers in Franchisee Area shall be adjusted appropriately and paid to DISCOM in addition to its payment obligation computed as per clause 14.2 above.

14.7 DF shall be responsible for payment of all taxes, duties, and statutory /local levies arising as a result of commercial transaction under this contract, such as, service tax, sales tax etc. DISCOM shall not be responsible for any tax related liability.

15 Service Connection Charges

DF shall retain the service connection charges (SCC) collected from the consumers for giving new connections.

16 Service Line Charges:

DF shall retain the service line charges (SLC) collected from the consumers for giving new connections.

17 Security Deposit (SD)

DF shall collect the security deposit from the consumers for giving new connections, which shall be immediately transferred to DISCOM.

18 Indemnification

DF shall have to indemnify and hold harmless DISCOM for any claims raised on it with respect to/arising out of its performance/non-performance of its rights and obligations.

19 Penalty

Non-performance on service shall attract appropriate penalty.

20 DF Event of Default

The following shall constitute a DF Event of Default:

- ❖ Failure or refusal by DF to perform its obligations under the DFA
- ❖ Failure on account of DF to make payments as per principles of DFA.
- ❖ Failure to submit periodic performance report (Billing and Collection report, updation of Assets register on monthly basis) to DISCOM after a period of four months from signing of Agreement (Agreement to be effective only after 1 month of signing when the datum line is agreed between parties)
- ❖ Failure to comply with Standards of Performance laid down by State ERC and the same is in default for more than six months
- ❖ Failure to comply with State ERC's "Electricity Supply Code and Other Conditions of Supply" and the same is in default for more than six months.
- ❖ DF is in material breach of any of its obligations outlined in the DFA.
- ❖ Failure to maintain a performance guarantee as per the clause 4 of principles of DFA.
- ❖ Any representation or warranty made by the DF is found to be false and misleading.
- ❖ A resolution for winding up has been passed by the majority shareholders of the DF or an act of Insolvency occurs with respect to the DF or the DF is adjudged bankrupt;

21 DISCOM Event of Default

DISCOM is in material breach of any of its obligations under the proposed agreement.

22 Force Majeure

Without limiting the general limitations of liability in any way arising under this Agreement neither party is responsible for failure or delay in performance of services or obligations

hereby undertaken due to occurrence of any event of force Majeure in the nature of acts of God, beyond the parties control, which cannot be reasonably forecast or prevented, thereby, hindering the performance by the parties of any of their obligations hereunder.

23 Termination

- 23.1 A preliminary notice of termination may be served by the non-defaulting party on the defaulting party.
- 23.2 Upon receipt of preliminary termination notice the defaulting Party shall mitigate the consequence of such default within a Cure Period of 2 months, failing which the DFA may be terminated after serving the final termination notice to the defaulting Party.
- 23.3 Both the parties shall continue to perform their respective obligations until the serving of final termination notice.

24 Termination Payment

Termination due to DF's Event of Default

- 24.1 Without prejudice to the other rights of DISCOM in case of termination, DF shall pay all the dues payable to DISCOM on the date of termination. DISCOM shall be entitled to draw down the entire performance guarantee.
- 24.2 DISCOM unconditionally reserves the right to claim from DF any costs, expenses or loss that it may have incurred by reason of breach of failure on the part of DF to observe and perform any of the terms and conditions of the agreement.
- 24.3 On termination of this Agreement however occasioned, the DF shall forth with deliver to DISCOM all papers including the forms used, partially used and unused receipts books, all promotional materials and documents which may have come into its position or custody under the terms of this Agreement or otherwise.

Termination due to DISCOM's Event of Default

- 24.4 Without prejudice to the other rights of DF in case of termination, DISCOM shall pay all the dues payable to DF on the date of termination.

24.5 On termination of this Agreement however occasioned, the DF shall forth with deliver to DISCOM all papers including the forms used, partially used and unused receipts books, all promotional materials and documents which may have come into its position or custody under the terms of this Agreement or otherwise.

25 Step in Rights

Under the event of default by DF, DISCOM shall have right to step-in and take charge of the operations and maintenance of the Area.

26 Governing Law

This Agreement will be executed and delivered in India and its interpretations, validity and performance shall be construed and enforced in accordance with the laws of India. Any proceedings relating to arbitration shall be subject to the exclusive jurisdiction of the courts in Lucknow.

27 Miscellaneous

27.1 DISCOM shall refrain from unreasonably interfering with the DF in exercising of its rights or the performance of or compliance with its obligations under this Agreement.

27.2 DISCOM shall make all reasonable efforts to ensure that its staff assigned to the distribution circle area does not impede the Franchisee from exercising its rights or performing its obligations under this Agreement.

27.3 The DF may consider the use of innovative systems and solutions for loss reduction, theft prevention, credit enhancement, etc under intimation to DISCOM. If such a system is being implemented then the DF will submit such plans, processes and procedures to DISCOM. DISCOM can intervene to modify new procedures only when the new procedures lead to violation of certain regulatory or licensee conditions.

27.4 Both the parties have to represent and warranty that they are duly authorized to enter into this agreement and to perform all the obligations under this agreement.

27.5 DISCOM shall facilitate the authorization of Distribution Franchisee under section 135 of Electricity Act 2003 for taking necessary action to prevent the theft & pilferage of electricity in Franchisee Area.

CHAPTER 14: UTILITY SUPPORT TO FRANCHISEE

Developing franchisees in distribution system and managing relationships is important for the success of franchising. While the utilities need to apprise the prospective franchisees of the business processes involved in distribution of electricity, they should also help to develop the management skills of the franchisee's personnel as this constitutes a prerequisite for efficient delivery of quality power supply to the consumer.

In this section we shall discuss the skills, techniques and competencies that the utility should help develop amongst the franchisee's personnel to achieve the objectives stated above. It contains material that may be fruitfully used to train the franchisees and sharpen their management skills.

Areas to be covered under franchisee development

Utility should train the prospective franchisees in a way that the franchisee should feel confident about his know how about the electricity distribution business both technical and commercial aspects and should be able to assess the business opportunities out of undertaking distribution franchisee. The following are the areas which the utility should address to the franchisee so as to develop the required skill set for undertaking the franchisee:

- Good business opportunity in terms of costs, revenues, returns, etc
- Credibility of the baseline parameters – approval by the concerned office
- Transparent information about responsibilities to be handled by franchisee and the utility
- Phased and complete integration of the franchisee in the utility's system with clear cut demarcation of the roles and responsibilities of the utility and the franchisee
- Continued Support of the employees and the system at all levels.
- Administrative support of the Govt machinery
- Timely payment of incentives/fees as per the Contract.
- Minimum intervention in day to day functioning
- Complete dissemination of the franchisee arrangement to all stakeholders viz Consumers, Govt, Employees and the Regulators

Capacity building of the prospective and existing franchisee in terms of:

- Electrical system in general
- Meter – equipment, working, detection of defects/manipulation, etc

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- Distribution/Power Transformers – equipment, working, maintenance involved, checks to be kept regarding overloading, heating, etc
 - Conductors – Types i.e. rabbit/weasel, losses involved, checks to be kept, etc
 - Poles – types, structures, etc.
 - Cables – types- AB/armoured/XLPE cable, advantages, etc
 - Earthing – advantages and method of doing
 - Other elements

Awareness of distribution system including:

- Understanding of the equipment installed at the sub-station
- How electricity is received from the transmission system
- Working of the feeders, feeder metering, etc
- How electricity is sent further i.e. from feeders-lines-DTs-Poles-Service Cables-Meters,etc

Commercial Activities including metering, billing and collection:

- Survey of Consumers- Elements to be captured especially the address, father's name, milestone, connected load, consumption and billing history, meter status, etc
- Kundi/Katiya connections
- Indexing of consumer to pole, DT, line, Sub-station, Sub-division, etc and updation thereof from time to time to maintain the integrity of the information on any event requiring change in the existing indexing e.g. new sub-station, bifurcation of the feeders, Load on the DT, installation of poles, etc
- Route survey and sequencing to minimise time taken to read meter, distribute bills and collect bill payment – productivity maximisation
- Filling up meter reading sheets, advices, etc
- Understanding of the commercial instructions impacting billing
- Calculation of bills and other penalties / relief's applicable to the consumers under various circumstances – minimum, average, fixed charges, etc
- Reading and understanding ledgers and reports
- Handling consumer complaints and handling the same based on the understanding i.e. connection, load, meter status, bill calculation, average billing, etc
- Handling supply related complaints/break-down from DT to sub-station including the safety precautions

CHAPTER 15: RURAL POWER DISTRIBUTION FRANCHISEES AND THEIR INTERFACE WITH THE CONSUMERS

Under the ongoing reform process in India in general and in this case in power sector in particular, the Electricity Act 2003 and the RGGVY guidelines envisage the requirements for utilities to create conditions under which communities, NGOs, PRIs or private sector organisations are enabled to participate in the production and/or delivery of electricity services and in meeting the basic needs of rural consumer. This has been termed enablement or an 'enabling type of government by Helmsing (2000). It is about the conditions for a 'facilitating' rather than 'providing' type of governance, where efficiency and effectiveness are achieved by delegating tasks to community, NGOs or commercial organisations, and where communities can identify and prioritise their needs leading to a better match between what people need and what they actually obtain. This implies partnerships, relatively long-term working relationships marked by a vision and shared objective. Involving people in policy formulation and implementation makes excellent sense, especially for developing countries. [Ostrom1996]. Since we are now looking at initiating the reform process in the rural electricity sector, the delineation of a definitive role for local institutions in the reform process and evolving a strategy for effective outreach to the consumer becomes increasingly important and relevant.

We need to learn from the experiences in other sectors especially rural water supply and sanitation sector, which has universalised the participatory role of rural communities in the Swajaldhara programme launched in December 2002. The introduction of common man into the planning and management of the programme was mainly aimed at fostering a deep sense of ownership of the assets created and responsible and informed use of the same. These bodies always had adequate representation from all sections of society so that their concerns were not ignored or by-passed. Similar strategies and involvement mechanisms will need to be reviewed in case of electricity sector as well wherein the consumer's involvement is sought actively, information is distributed in a transparent manner, local resources are used in operation and maintenance increasing employment avenues in the area and quality in service is ensured.

Social groups and mechanisms are very effective in rural settings but as outsiders or providers we never look into them as means of ensuring accountability of people. Outreach to consumer is never viewed as a topic of great importance except for the times when collections are to be ensured. It is important for the utility and the franchisee to collectively look for a 'Communications Strategy' to reach to maximum number of people and create buy-in for their product. The provider has to be made into a more approachable and friendly face, where the grievances are heard and solved in time. Institutions like Panchayats can be effectively used to influence target groups and solve conflicts if a mechanism worked out for their involvement in a systematic manner. Women SHGs if motivated can act as effective peer groups to ensure people have legal connections and pay on time.

Means are many but the need of the hour is to have a will to explore options with a fresh mind and allow participation of maximum number of stakeholders so that there are self imposed checks and balances in the system to be sustainable.

CHAPTER 16: DISPUTE RESOLUTION

In the course of operating a franchise, disputes between the franchisee and the utility are only to be expected, no matter how clearly the agreement has been worded. Hence there should be an agreed method to resolve disputes, which should not be allowed to reach the stage of litigation and breakdown in relations in so far as it can be helped.

The distribution franchise agreement should lay down the mechanism to resolve a dispute, arbitration being the final step and its award binding to both parties. Hence, if an issue cannot be solved by correspondence or discussion between the representatives of the franchisee and the franchiser, and becomes a matter of dispute, attempts should be made to resolve the dispute at the first level of dispute resolution mechanism. If the dispute cannot be resolved at the first level, it would be required to be escalated to the next level. Referring a dispute for arbitration should be looked at as a solution of the last resort.

A sample of a dispute resolution mechanism is given below:

DISPUTE RESOLUTION MECHANISM

1. Governing Law

- 1.1 This Agreement has been executed and delivered in India and its interpretations, validity and performance shall be construed and enforced in accordance with the laws of India and also the laws applicable to the State of
- 1.2 Any dispute arising out of compliance/ non-compliance of this Agreement shall be exclusively under the jurisdiction of court at.....
- 1.3 Disputes between the consumers in the Franchise Area and Franchiser shall be referred to the existing relevant Consumer Grievance Redressal Forums.

2. Amicable Settlement

- 2.1 Either Party shall be entitled to raise any dispute or differences of whatever nature arising under, out of or in connection with this Agreement including its existence or validity by giving a written notice To the other Party, which shall contain:

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- (i) The details of the Dispute;
 - (ii) The grounds for such Dispute; and
 - (iii) All documentary evidence in support of its claim
- 2.2 The other Party shall, within thirty (30) days of receipt of dispute notice issued under Article....., furnish:
- (i) Counter-claim and defences if any regarding the Dispute; and
 - (ii) All documentary evidence in support of its defences and counter-claim
- 2.3 Both the parties shall constitute a Permanent Dispute Resolution Body having equal representation from each of the parties. The disputes or differences arising under this Agreement shall be referred for resolution to this body, which shall communicate its decision within Thirty (30) days.
- 2.4 In case of non-settlement of dispute by the Permanent Dispute Resolution body, such dispute or differences shall be referred for decision to a body constituted of MD, Franchiser and Head, Distribution Franchisee (by whatever name called) which shall communicate its decision within a period of 15 (fifteen) days.
- 2.5 Any dispute arising out of, in connection with or with respect to this agreement, the subject matter hereof, the performance or non-performance of any obligation hereunder, which cannot be resolved by negotiation between the Parties and the Dispute Resolution procedure as stated in the foregoing Articles, shall be exclusively submitted to arbitration at the request of either party upon written notice to that effect to the other party and. The proceedings shall be conducted subject to the provisions of the Arbitration and Conciliation Act, 1996 (the Arbitration Act) by a panel consisting of three arbitrators.
- 2.6 While submitting the dispute or difference to arbitration in accordance with this Article the Party so submitting shall, in its notice, specify the name of one arbitrator appointed by it. Within 30 (thirty) days of the receipt of notice, the other Party shall appoint an arbitrator. The third arbitrator (who will act as the chairman) shall be nominated by the two arbitrators appointed as aforesaid or, failing such nomination within 30 (thirty) days of the appointment of the second arbitrator, shall be appointed in accordance with the Arbitration Act.
- 2.7 The language of the arbitration shall be English. The venue of Arbitration shall be

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- 2.8 The arbitration award shall be in writing. The arbitrators shall also decide on the costs of the arbitration proceedings.
- 2.9 The Parties agree that the award of the arbitrators shall be final and binding upon the Parties.
- 2.10 Notwithstanding anything to the contrary contained in this Agreement, the provisions of this Article 2 shall survive the termination of this Agreement.
- 2.11 Both the parties shall continue to perform their respective obligations during the conduct of the Dispute Settlement Procedure.

3. Disputed Payments

An invoice raised by Franchiser in terms of Article-7 can be disputed by the Distribution Franchisee; however, the Distribution Franchisee shall remit the payment under protest against the same to Franchiser within the stipulated time. Cases of excessive billing, if any, during the last three months shall be jointly identified by the Franchiser and DF and shall be referred to the high level committee envisaged under Annexure: 'Procedure for recovery of arrears' in the Distribution Franchisee Agreement. Such excessive amount shall be excluded from the payment responsibility within three months

In case the dispute is resolved in the favour of the Distribution Franchisee, Franchiser shall within 7 days of settlement of such dispute refund the excess amount along with an interest of 12% per annum on this amount, for a period from the date of remission of payment by the Distribution Franchisee and the date of refund of the excess amount.

The information submitted by Distribution Franchisee and forming a basis for the Invoice can also be disputed by Franchiser.

In case the dispute is resolved in the favour of Franchiser, the Distribution Franchisee shall within 7 days of settlement of such dispute refund the additional amount along with an interest of 12% per annum on this amount, for a period from the date of remission of corresponding payment by the Distribution Franchisee and the date of remittance of the

additional amount.

4. Severability

If any section, provision or Article of this Agreement is held by a court of competent jurisdiction to be invalid or unenforceable, or is pre-empted by central or state laws, regulations or regulatory agencies, the remainder of this Agreement shall not be affected, except as is otherwise provided in this agreement. However if the implication of such a situation is significant, both the parties may mutually decide the future course of action.

CHAPTER 17: FREQUENTLY ASKED QUESTIONS

While details of each element in the Franchisee process has already been discussed, this chapter attempts to document the FAQ's on Franchisee concepts. All such questions - small & big, minor & major have been categorised into five different heads as below for better understanding.

General

Who is a franchisee?

A Franchisee may be defined as an individual, group of individuals and / or Business entity, who is granted a special right or privilege to conduct a business and specially to exercise the power of another empowered entity such as, marketing its goods or services in a particular territory under the entity's trade mark, trade name or service mark and that often involves the use of Rules and Procedures, designed by it (Parent entity) and services and facilities provided by parent entity in return for fees, royalties or other suitable compensation.

Who is a franchisee in the context of electricity distribution?

In the context of electricity distribution, a Franchisee may be a Panchayati Raj Institution, Non-Govt Organisation(NGO), Self Help Group, Cooperative, Individual Entrepreneur, Firm or Company appointed by an electricity distribution licensee to act as an agent of such licensee in the franchised area to carry out all the jobs specified under his scope of work.

Why are franchisees required?

Franchisee are required for improving the operational efficiency of the distribution system, quality of service to customers and for bringing in management expertise. Moreover, under the Rajiv Gandhi Grameen Vidyutikaran Yojna, appointment and deployment of franchisee is a mandatory condition for sustainable rural electricity supply.

Does a franchisee require a distribution license?

No, under the provisions of Section 14 of the Electricity Act, 2003, if any distribution licensee proposes to undertake distribution of electricity for a specified area within his area of supply through another person, that person is not required to obtain any separate licence.

Who do we call a Consumer in the context of electricity distribution?

Consumer is any person who is supplied with electricity for his own use by the licensee. It even includes any person whose premises are connected to the distribution system of the licensee for the purpose of receiving electricity. It also includes persons who have applied for an electricity connection and persons whose supply electricity supply has been disconnected.

Will the franchisee obliged to take over the personnel of the utility or be free to engage personnel as per his choice?

The franchisee may employ suitable and competent personnel at his level to perform his obligations and need not take over the staff of the utility. But, if taken over, he will have to comply with all the obligations towards the staff so taken as the utility may be performing prior to franchisee's taking over. The franchisee will be responsible for all labour and other related legislations towards the staff so hired by him without any liability whatsoever on the utility.

Will the franchisee the only agent in the Franchised Area?

Yes, the franchisee will be the only agent of the utility in the franchised area and his obligations are not transferable to any third party.

Contractual

What is the Scope of Work of a franchisee?

The Scope of work depends upon the franchisee model whether it is collection based or input based. In the collection based model, the franchisee is primarily expected to look after the Customer,

Revenue and Complaint Management while in the case of Input based franchisee, the scope may extend further to include setting up Customer Care Centres, Operation and Maintenance of the Distribution system and 33/11 kV Sub-stations, System Improvement works and even promotion of DSM activities.

What will be the role and responsibilities of the utility?

The utility will be obliged to:

3. Providing consumer database for updation and billing.
4. Ensure guaranteed duration of supply as per the aggregated power supply and load shedding schedule based on past averages with an agreed upon variation limits and to ensure proportionate hours of supply as being given to other areas of the utility in case of unprecedented shortage of power.
3. Depending upon the Franchisee Agreement, Operation and Maintenance of sub-stations including manpower, material and tools.
4. Extending Govt/Local administrative support.
5. Ensuring minimise intervention and smooth functioning of the franchisee.

Since the Input Rate for the energy supplied is derived on the basis of present or average consumption of the franchised area and expected growth, can the franchisee get his energy supply increased beyond this level?

The load of the franchisee is calculated based on the Load Norms and the number of Consumers connected. If the Franchisee intends to supply beyond the above – mentioned load, the Franchisee will require a specific written approval from the utility for increasing his supply.

What will be the contract period of the franchisee?

It depends upon the agreement between both the parties. Some utilities prefer to have one year contract at a time to be reviewed every year while some utilities, in order to provide stability and assurance to the franchisee, enter into long term contract, say 5 to 7 years.

Can the utility or the franchisee terminate the contract before the contract period?

Of course, upon non-fulfilment of the obligations by either party, the affected party can terminate the contract by giving reasonable notice of his intention to do and after resolving the conflict in the first instance. The contract may have to be terminated even on the order of the State Govt or the Regulatory Commission.

In case any accident happens, who will be held accountable?

Normally, the franchisee shall be fully responsible for any accidents or issues relating to safety and security of the system, his employees and third parties. He will have to abide by the Supply and Safety Code prescribed by the Regulatory Commission.

Are there any other obligations to be complied by the franchisee?

The Franchisee will have to adhere to the Electricity Act, 2003, rules and regulations notified there under, all policies and guidelines issued by the State Govt or the Govt. of India including any regulations relating to standards of performance, safety, supply codes, etc prescribed by the Regulatory Commission.

Technical

What do we understand by the term Franchised Area?

Franchised Area means the area which is proposed to be handed over to a franchisee for performing the work covered under his scope. The Franchised Area could be as small as a area covered under a particular Distribution Transformer or 11 kV Feeder or it may be large enough to cover an entire area falling under a 33/11 or 66/11 or 132/11 kV Sub-station, sub-division, division, Circle, District, town, village, etc.

What do we understand by Distribution of Electricity?

It means the supply and conveyance of electricity by means of distribution system.

What is Distribution System?

Distribution System is the system of wires and associated facilities between the delivery points on the transmission lines or the generating station connection and the point of connection to the installation of the consumers

What do we mean by the term Distribution Asset?

Distribution Assets include Distribution Transformers, overhead LT and HT lines, underground and overhead cables, service lines, electrical plant, control switch gear and meters having design voltage 33 KV and below.

What do we mean by Current Assets?

Current Assets refers to the inventory of spares for the existing assets, O&M spares and other current assets such as meters, T&P articles, etc which are maintained by the distribution licensee or the franchisee at any point of time.

What do we mean by Low/High Tension Consumer?

A consumer availing supply at low or medium voltage is called Low Tension (LT) consumer whereas a consumer availing supply at High Voltage is known as High Tension (HT) consumer.

What do we mean by the term Input Energy?

It refers to the sum total of energy input in the Franchised Area accounted as per the meter installed at the Input Point i.e. interface metering point depending upon the size of the franchised Area.

What are the obligations of the franchisee towards operation and maintenance of distribution system including the sub-stations?

Well, the Franchisee shall be responsible for the augmentation of the distribution system, Repair and Maintenance of all lines and sub-stations falling under the franchised area including conductors, cables, transformers, etc. He shall even be responsible for Replacement of defective conductors or cables, defective transformers, defective pole and cross-arms, etc. But all this depends upon the agreement between the utility and the franchisee.

Can you tell us as to how the hand over of the distribution system shall take place from the utility to the franchisee?

The utility will:

- Inform suitably the consumers and other authorities about the arrangement they have made with franchisee
- Prepare and make available register of existing assets to the franchisee for their verification
- Hand over existing assets to franchisee with a right to operate, maintain and improve with no rights to sell, dispose off, alienate or encumber any such asset without the prior permission of the utility.
- Transfer all other employees working in the franchised area to other areas of the utility
- Hand over spares for the existing assets, O&M spares and other current assets such as meters, T&P articles, etc to the franchisee
- Install meters on all DTs, feeders, etc which the utility is required to do under the Agreement.
- Hand over the consumer database, billing database including the up to date arrears database (both connected and disconnected consumers)

The utility may also accord permission to the franchisee to utilize the existing premises of the utility presently being used by the field staff for field related activities such as complaint centres/call centres, stocking of material, etc

Is the franchisee obliged to take care of the distribution assets of the utility?

Yes, the Franchisee will be required to take due care of all distribution assets handed over by the utility and protect the same from theft, damage or loss which can ordinarily be prevented by taking due care and precaution. Unless the utility decides otherwise, any loss or damage of such assets shall be the liability of the franchisee.

Is the franchisee obliged to under improvement works?

Yes, the franchisee should conduct a survey of the franchised area and suggest improvements in the system that will help reduce the overall technical and commercial losses. This will help the franchisee himself in improving his performance making theft or pilferage of electricity difficult through introduction of technical interventions like High or Low Voltage Distribution System. However, the same as well the investments to be made for the purpose shall depend upon the Agreement between the utility and the franchisee.

What are the DSM Activities to be performed by the franchisee?

Demand Side Management activities like adoption of energy conservation techniques, use of CFL, use of energy efficient motors & pumpset may also be performed by a franchisee depending upon the Franchisee Agreement. However, the role of the franchisee in this shall be more or less limited to propagation and monitoring

Commercial

What are the activities of a Customer Care Centre?

Customer Care Centre acts as a single window service point for the customers/applicants for all types of services like release of new connections, load enhancement/reduction, billing, disconnection, reconnection, installation and replacement of meters, etc and redressal of all types of consumer complaints

What are the activities to be performed by the Franchisee towards under Customer Management?

These include Release of New Connection, Enhancement of Load and ledgerization and other related activities, Disconnection and Reconnection, Installation and Replacement of Consumer Meters, etc

What are the connection related charges payables by a customer and who collects the same?

The charges are as per the schedule of charges approved by the State Electricity Regulatory Commission. Depending upon the contract, these charges may be collected and retained by the franchisee or may be collected by the franchisee but passed on to the utility.

Who provides the meter and other material required for release of connections?

Generally, if the franchisee is acting as a facilitator, the material is either provided by the utility or provided by the franchisee and reimbursed by the utility in terms of material or cost of such material. However, if the franchisee is collected and retaining all the charges collected from the consumer, he will provide all the material required for release of such connections.

Why should a franchisee provide extra services without extra remuneration?

This again depends on the contract between the utility and the franchisee. However, the utility do generally pay some service charges to the franchisee for acting as a facilitator. However, in case the franchisee is completely responsible for release of connection, he does this activity in his own interest because he gets the connection charges as also regular payment of bills which otherwise he will loose if the consumer starts unauthorised abstraction of energy from the utility's system the cost of which is being paid by the franchisee.

What are the Revenue Management activities?

It covers Meter Reading, Bill Preparation, Bill Distribution and Revenue Collection, Recovery of Arrears including past arrears of the utility before the date of Agreement, Energy Accounting at 11 kV and DT level, etc.

Is there a possibility that consumers appearing on the ledger may not be found in the field and there may be consumers connected to the system but not in ledger?

Yes, it is very much possible. That's why, the franchisee immediately after taking over the system has to carry out a survey of all consumers in the franchised area. He will have to then update the consumer database in terms of address, sanctioned load, meter status, previous readings, billing history, arrears, milestone to reach the address, etc for the purpose of correct billing.

Who will set up the billing system?

The billing system may be set up by the franchisee afresh or he may use the utility's billing system, depending upon the comfort level of both parties and ultimately the contract.

Will the name of the franchisee appear on the bills?

Yes, in either of the billing system, the bills are to be collected by the franchisee and, therefore, his name will appear on the bills to enable him to collect payments from the consumers.

Can the franchisee accept part payments?

Subject to agreement with the utility, the franchisee may accept payments in instalments towards the current billing and within the limits, if any specified by the utility towards the past arrears.

What if the consumer refuses to pay his bills?

The franchisee can disconnect the supply of such defaulting consumer after issuing disconnection notices as per the prescribed rules and regulations and take legal action etc against the consumer. The franchisee may even resort to action under Land Recovery Act through the utility.

Will the franchisee have authority to effect recovery of Arrears?

For recovery of arrears occurring during his contract, the franchisee has full authority to recover his arrears. However, to recover the utility's past arrears from both Connected and Disconnected Consumers, the utility will transfer the right to collect the arrears and notify the same to the general public.

Will the utility provide adequate administrative support for recovery of past arrears from difficult areas?

Yes, the utility will provide all possible Legal and administrative support to the franchisee for serving notices and effecting recovery.

How will the adjustment of recovery take place in the records if past arrears are collected from a connected consumer?

If any amount is recovered from a connected consumer, the utility's outstanding amounts shall be adjusted fully in the first place and the balance, if any will be to the credit of the franchisee. However, depending upon the contract, the utility may decide to allow adjustment of current bill amount to the credit of the franchisee first and balance to its own account to ensure financial sustainability of the franchisee.

Why should a franchisee bother to collect the past arrears of the utility?

Well, this is the reason for putting a franchisee in place. However, many utilities also give incentive to the franchisee for collecting its past arrears excluding those effected through a Court of Law.

What happens to the outstanding arrears, occurring during the contract period of the franchisee, when the utility takes back the system from the franchisee?

Well, before the contract period of the franchisee ends, the utility will start taking over the system back from the franchisee. During this period, although the franchisee will continue to operate the system, the utility will start activities like Meter reading, billing, bill distribution and collection along with the Franchisee. But, after the handing over of the system back to the utility, the right of franchisee to recover the arrears, whether current or disconnected, from the franchised area will cease.

How will the enforcement activities take place?

Well, the franchisee shall carry out enforcement activities in the area of operations subject to all anti theft or loss prevention rules/policies/regulation of the utility. Although the stationery for this purpose shall be provided by the utility, the booking of any such case found indulging into unlawful abstraction of the electricity shall be done by the franchisee with the legal, administrative and law & order support from the utility. In due course, however, the utility may, in its discretion or as per the policy of the State, extend authorization to the franchisee under Section 126, Section 135(2) and Section 152 of Electricity Act, 2003 for taking necessary action to prevent the theft & pilferage of electricity in the Franchised Area.

Will the franchisee be allowed to retain all the money recovered through enforcement activities because he is paying for the energy lost through theft or pilferage?

Yes, the money belongs to the utility. But if theft or pilferage period includes any period prior to the agreement with the franchisee, the same shall belong to the utility. However, all this depends upon the agreement between the utility and the franchisee.

What are types of complaints which a franchisee will have to resolve?

The franchisee may, through the Customer Care Centre, need to redress all consumer complaints related to Supply and maintenance including replacement of transformers, fuse, jumpers, service cable, etc as per State Electricity Regulatory Commission Standards and also those relating commercial issues i.e. billing, meter replacement/checking, new connections, disconnection, reconnection, etc.

Will the franchisee have to provide manpower and material for complaint handling?

Yes, the franchisee shall be responsible for handling and attending all the Consumer's complaints and will have to also provide any material required for attending such complaints.

The Franchisee will have to man and operate all the complaint centres in his area and will have to provide sufficient manpower for maintenance of the distribution network along with vehicles, material, tools and plants, mobile phones, etc for attending supply related complaints.

Whose decision shall be final in case the billing dispute between a consumer and the franchisee cannot be settled?

Normally, all such disputes related to billing and payments etc will be settled by the franchisee itself. However, if required, the same may be referred to the utility or through arbitration.

Is it mandatory for a franchisee to purchase electricity from the licensee?

There are broadly two types of franchisees, Collection based and Input based. In the case of former, the franchisee does not purchase electricity. He carries out meter reading, billing (through licensee's billing centre), bill distribution and collection of bills whereas in the case of Input based franchisee, he has to purchase and pay for the Input Energy at the Input Rate besides carrying out other functions which a collection based franchisee carries out.

What will the billing be done to the franchisee towards the Input Energy supplied at the Input points?

Depending upon the Franchisee Agreement, the utility will install meters at the input points at the incoming side of all 33/11KV sub-stations or 11 kV sub-stations or the Distribution Transformer, as the case may be. There will be a joint meter reading of the energy supplied at the end of each month with the help of Meter Reading Instruments (MRIs). Thereafter, an invoice shall be prepared by the utility and delivered to the franchisee for payment within the prescribed period.

Since the billing to the franchisee depends on the energy recorded at meters at 33 kV, 11 kV or DT, as the case may be, who will ensure the proper working of these meters?

The utility will ensure proper working of these meters. In case of meters getting defective, the Franchisee will have to promptly intimate the utility about the same so that the defective meters can be replaced.

Financial

What do we mean by Input Rate?

It means Rupees per unit of input energy supplied by the franchisee at the Input Point which is either quoted by the franchisee in case he is selected through a bidding process or is mutually decided between the licensee and the franchisee, in other cases.

What is Energy Accounting?

Energy Accounting is done for assessing the total energy received from various sources and its usage by various segments. It means accounting of electricity to various segments of electrical system for the purpose of carrying out further analysis to determine the consumption and loss of energy.

Why is Energy Accounting required?

The franchisee in his own interest should carry out energy audit feeder-wise and/or distribution transformer-wise in the shape of Energy Input, Energy billed to consumers under these feeders/DTs, Amount Assessed and Amount Collected and take suitable measures for improving the revenue and reducing AT&C Losses.

What do we mean by Distribution/T&D losses?

It refers to the energy either lost in the distribution system due to technical reasons or not billed to consumers due to commercial or other reasons including pilferage, unauthorised or dishonest abstraction of energy by a consumer. It is defined as the percentage of input energy fed to the franchised area minus energy billed to all categories of consumers divided by input energy fed to the franchised area.

What do we mean by the term Revenue Assessment?

It refers to the total amount billed to the consumers of all categories for a specified period on the basis of actual or assessed consumption at prevailing electricity tariff and schedule of charges approved by the State Electricity Regulatory Commission.

What do we mean by the term Revenue Realisation?

It refers to the total amount collected from the consumers of all categories for a specified period including tariff, penalties, arrears, fuel surcharge, municipal taxes, electricity duty, cess and other charges covered under the Schedule of charges payable by the consumers.

What do we mean by the term Collection efficiency?

In simple terms it means how much of the billed amount has been collected from the consumers. In percentage terms, it means revenue collected from all categories of consumers divided by revenue assessed for all such consumers for the given period.

What do we mean by the term AT&C?

It refers to Aggregate Technical and Commercial Losses. It helps us to know as to how much energy input has been realised. It means the percentage of input energy fed to the franchisee area minus energy realized from all categories of consumers divided by input energy fed to the franchisee area where energy realised is energy billed X collection efficiency.

Is the franchisee expected to achieve reduction in T&D Losses and improvement in collection efficiency?

While a collection based franchisee will be expected only to improve the collection efficiency which he will do in his own interest to get maximum incentives, the very existence of an Input based Franchisee depends on how quickly he is able to reduce the T&D losses and improve collection efficiency. In fact, he may either be given improvement targets by the distribution franchisee failure to achieve which may lead to termination of the franchisee contract or his input rate may be fixed by the distribution franchisee taking into account such improvements failure to achieve which may render the franchisee economically unviable.

Should an input based franchisee not take into account his cost and returns while quoting his input rate?

Yes, in fact the input based franchisee apart from the costs to be incurred by him in terms of Capital Costs including Investment in improvement works, Recurring costs including Operation & Maintenance expenses, employees cost, Administration & General cost, finance cost and depreciation, should also take into account a reasonable return on his investments while quoting his Input Energy Rate. The input based franchisee should also take into account the other costs, charges, taxes, cess, levies and duties to be collected by him from the consumers which he will need to pass on to the distribution licensee.

Please elaborate the charges, duties and taxes, etc which the input based franchisee will be required to pass on to the licensee?

- (i) In case the input based franchisee is to act merely as a facilitator for release of connections, Service Line/Connection Charges, Processing charges, Development

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- Charges, if any, Consumption Deposit and any other charges, penalties, and/or fees set by the Regulatory Commission towards new connections, reconnections, etc.
- (ii) Electricity Duty, Municipal Taxes, Cess or levies
 - (iii) Depending upon the nature of the Contract with the licensee, Meter/Service Rentals, Arrears whether connected or disconnected (pertaining to the period prior to the franchisee's take over), Penalties on unauthorised Extension of load/Exceeding contract demand/Low power factor, steel furnace charges, LT surcharge, capacitor surcharge, Fuel Surcharge Adjustment (FSA), Meter Checking /Testing charges, charges, if any for using licensee's pole or system by cable operators, etc charged through electricity bill or otherwise.
 - (iv) Depending upon the nature of the contract entered into with the licensee, also the proportionate share of the licensee in all recoveries on account of enforcement activities for detecting unauthorised use of or theft of energy.

Who will retain the subsidy to be received from the State Govt?

The input rate is generally quoted on the basis of the present and future revenue realisations per unit of input energy which in turn is proportionately reduced on account of lower realisation from the subsidised consumers. Therefore, the distribution licensee generally retains the subsidy received from the State Govt.

What is the Security mechanism available to the Utility for a possible non-payment of bills by the franchisee?

The franchisee, immediately after or at the time of signing Franchisee Agreement has to deposit security either in the form of cash or an unconditional and irrevocable Bank Guarantee for a certain amount equal to a certain number of months revenue realisation, say 2 to 3 months, based on an average over a period of preceding 12 months. This security can be forfeited by the utility in case the franchisee defaults in payment of his energy bill to the utility.

In case the baseline parameters given to the franchisee do not match with the actual ground level parameters after the commencement of the Agreement, how will the matter be resolved?

The franchisee can apply to the utility for a revision of the baseline parameters and revision of his obligations under the Agreement including the Input Rate, if the variations are substantial. The revision may be effective either in the same year or from the next year, depending upon the agreement reached.

Can the Input Rate be also revised?

On the representation of the franchisee or due to revision of consumer tariff by the Regulatory Commission, the Input Rate may also be revised on a revision formula to be formulated and mutually decided between the franchisee and the utility.

Who will take care of the Taxes and Duties?

The franchisee will have to keep a record of taxes & duties collected from the consumers and the same shall be passed on to the utility. Further, depending upon the agreement, the utility or the franchisee may be responsible for payment of other taxes such as service tax, sales tax, etc, duties and statutory /local levies arising as a result of Franchisee Agreement.

Transition

Will the help of utility personnel be available to deal with power theft?

Yes. They will explain various ways in which electricity is stolen, and the techniques adopted by consumers – large and small, to escape detection. They will also provide guidance in respect of preparation required to raid a consumer's premises and the legal safeguards necessary to avoid getting into litigation that involves heavy administrative costs.

What if we are blamed for resorting to load shedding due to shortage of power at the input side for which we are not responsible?

If such a problem persists, it may be required to issue press notes or media messages informing the public of the load shedding and its reasons. However, the franchisee should be able to assess his demand requirements in advance and keep the utility informed of it.

With open access facility being made available to large consumers, some may decide to source their own power requirement from a third party. This will lower the profitability of the franchisee's operations. How to cope with this situation?

One way is to seek a dual bulk supply tariff – one rate for LT and another rate for HT consumers. This way the calculation of the LT bulk supply tariff does not require any assumptions regarding quantum of power drawn by HT consumers, and the franchisee is less affected by HT consumers sourcing their own power from elsewhere than it would have been with a single bulk supply tariff. However, with this arrangement the franchisee may pay more for HT supply than he would were a common bulk supply tariff to be adopted. The enterprising franchisee may like to take the risk with a single bulk supply tariff and assume that he would be able to retain the HT consumers with better service and make more profits over a period of time.

Can we utilize the services of utility personnel by integrating them in our own organization?

Generally the utility offers an option to its employees working in the territory being franchised – they may opt to stay within the utility's own organization, in which case they face transfer to another place which they may not like or they may opt to go on deputation to the franchisee's organization. The terms and conditions of deputation are defined in the RFQ. It is the franchisee's prerogative to decide who they want to take on deputation. The cost would be known from the terms of deputation.

ANNEXURE 1

PERFORMANCE INDICATORS

1. CUSTOMER AVERAGE INTERRUPTION DURATION INDEX - (CAIDI)

Month	Total duration of sustained consumer interruptions during the month: (In Minutes)	Total No. of sustained interruptions during the month	CAIDI = B/C CAIDI = SAIDI/ SAIFI
A	B	C	D

2. SYSTEM AVERAGE INTERRUPTION FREQUENCY INDEX - (SAIFI)

Month	Total No. of sustained consumer interruptions during the month	Total No. of consumers	SAIFI = B/C
A	B	C	D

3. SYSTEM AVERAGE INTERRUPTION DURATION INDEX - (SAIDI)

Month	Total duration of sustained interruptions during the month: Minutes	Total No. of consumers	SAIDI = B/C
A	B	C	D

4. NUMBER OF PENDING CONNECTIONS

Sr. No.	Division/ Franchise Area	Consumer Category			Remarks
		Residential	Commercial	Industrial	

A	B	C	D	E	F
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5. NUMBER OF PENDING CONSUMER GRIEVANCES

Sr. No	Division/ Franchise Area	Number of Grievances	Remarks
A	B	C	D

6. DISTRIBUTION LOSSES

Sr. No	Division/ Franchise Area				Remarks
		Monthly	Half Yearly	Annual	
A	B	C	D	E	F

7. NEW CONNECTIONS RELEASED

Sr. No	Division/ Franchise Area	New Connections released		First Bill Issued		Remarks
		During Month	Upto	During Month	Upto	
A	B	C	D	E	F	G

8. COLLECTION EFFICIENCY

Sr. No	Division/ Franchise Area	Month			Remarks
		Demand	Collection	% Efficiency	
A	B	C	D	E	F

9. REDUCTION IN PD ARREARS

Sr. No.	PD Arrears -Effective Date		PD Arrears -Every Month end		Remarks
	No. of consumers	Rs. crores	No. of consumers	Rs. crores	
A	B	C	D	E	F

10. PENDING AGRICULTURAL CONSUMERS

Sr. No	Division/ Franchise Area	Pending	Test Report Submitted	Remarks
A	B	C	D	E

11. DETAILS OF ACCIDENTS IN FRANCHISE AREA

Sr. No	Number of fatal accidents						Number of non-fatal accidents						Remarks (Shall Include Actions taken for avoiding similar accidents/reporting done to all concerned as per the guidelines)	
	DF Employees		Other Persons		Animals		DF Employees		Other Persons		Animals			
	During month	Cumulative	During month	Cumulative	During month	Cumulative	During month	Cumulative	During month	Cumulative	During month	Cumulative		
A	B	C	D	E	F	G	H	I	J	K	L	M	N	

12. ENERGY AUDIT OF EXPRESS FEEDERS

Sr. No.	Name of Substation	Name of Feeder/ Consumer & Consumer Number	Month	Energy recorded by substation meter	Energy recorded by consumer meter	Difference	% loss	Remarks
A	B	C	D	E	F	G	H	I

13. DETAILS OF FAILURES OF DISTRIBUTION TRANSFORMERS

Month	Transformers Failed/ Total Number															Total	
	25	50	63	100	160	200	250	315	400	500	630	750	1000	1250	1600	Nos.	kVA

The above format may also include:

- (i) Percentage transformer failures in the same month of the previous year
- (ii) No. of transformers which have failed at least two times within a period of six months
- (iii) No. of locations where more than one transformer has failed within a period of six months

14. COMPLAINTS

Sr. No.	Particulars	During the month	Cumulative
<u>Consumer Grievance Redressal Forum</u>			
1	Number of complaints/ grievances received		
2	Number of complaints/ grievances solved		
3	Balance complaints/ grievances remaining to be solved		
SERC			
1	Number of complaints/ grievances received		
2	Number of complaints/ grievances solved		
3	Balance complaints/ grievances remaining to be solved		

15. INFRASTRUCTURE AUGMENTATION

Sr. No.	Description	Unit	Cumulative Progress Achieved
1	Number of towns as per 2001 census		
	Number of villages as per 2001 census		

	Number of towns electrified		
	Number of villages electrified		
	Number of towns remaining to be electrified		
	Number of villages remaining to be electrified		
2	33kV and 11kV Overhead Lines: As on.....		
	Added during the month		
	Added during the year		
	Added cumulatively till date		
3	33kV and 11kV Underground cables: As on.....		
	Added during the month		
	Added during the year		
	Added cumulatively till date		
4	LT Overhead Lines: As on.....		
	Added during the month		
	Added during the year		
	Added cumulatively till date		
5	LT Underground cables: As on.....		
	Added during the month		
	Added during the year		
	Added cumulatively till date		
6	Distribution Transformers		
	Added during the month		
	Added during the year		
	Added cumulatively till date		

	Failed during the month		
	% Failure		

[Reference: Request for Proposal for Appointment of Distribution Franchisee for Nagpur urban Circle issued by Maharashtra State Electricity Distribution Company Ltd (Bid Specification No. DF-1/2007-08 issued in June 2007)]

16. Stuck-Up Meters

Month	Franchisee area/division	Stuck up meters pending to be replaced at the end of previous month	Meters got stuck up additionally during the month	Stuck up meters replaced during the month	Balance meters to be replaced at the end of the month	Reasons for pendency