



Privatization of electricity distribution

**the Orissa
experience**

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Foreword

The electricity sector in different parts of the world has developed under different structures at different stages of growth and development. As against 80% of this industry being in the form of investor owned public utilities in the U.S., in most developing countries the power sector has been essentially under Government control. However, in recent years, this sector has been subjected to major initiatives in reform and restructuring in countries of the developed as well as the developing world. Several segments of vertically integrated monopolies are being broken down into separate segments with ownership moving from the public to the private sector. The objectives of such efforts are essentially to promote competition and provide economic choices and higher levels of efficiency in supply.

In India, the process of reforms in the electricity sector was initiated in 1991 with the opening up of the sector for private-sector participation in generation. This was in tune with the policy of economic liberalization launched by the government. But very soon the need for more comprehensive reforms was realized, because merely opening up generation to private investments in the absence of meaningful reforms downstream proved ineffective. Reforms were required across the board. Orissa was the first state to take up a pioneering step in this regard. This was largely driven by the weak operational and financial health of the OSEB (Orissa State Electricity Board), the Orissa government's lack of finances to support electricity development, and the multilateral donors' funding guidelines, which proved shortsighted & restrictive. In 1996, the vertically integrated monopoly of the OSEB was unbundled. Separate entities for generation, transmission, and distribution were created; an independent regulator was established; and the distribution business was split into four companies and subsequently privatized. Well-known international consultants were appointed to assist in designing these reforms, and a communication strategy was launched to win over different stakeholders to the cause of the reforms. It was expected that the reforms would improve the efficiency and

availability of power supply and make the sector financially viable.

Three years later, the benefits expected from the reforms remain elusive. Were the expectations pegged too high? Is it too early to pronounce judgement? Are mid-course corrections required? These are some of the hotly debated questions to which answers are important. In many ways, the Orissa experience should provide many lessons to other states in India and also to other developing countries that are in the process of reforming their power sector.

A comprehensive documentation of the Orissa experience assumes importance in this context. With this in mind, the authors have tried to present the developments in the Orissa power sector since the early nineties to date. A judgemental analysis has been consciously left out at many places so as to give the flavour of an objective & analytical case study to this book. Nevertheless, a brief summary of the findings of some of the committees that have looked into the reform process in Orissa is provided. In the end, the authors have also briefly commented on the influence of the Orissa experience on other Indian states, referring in particular to the privatization of distribution in Delhi. It is hoped that the book would serve a useful addition to the literature on power sector reforms and provide enough food for thought to policy-makers and researchers working on the implications and future of electricity reforms in developing countries.



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