



## Consumer Participation in Electricity Regulation: Rajasthan Experience

– Rajesh Kumar

*Consumer participation in electricity regulation is necessary and important to ensure that the process is transparent and accountable. The Electricity Act 2003 requires electricity regulator to consult consumers on important policy and regulatory matters before arriving at any decision. However, in the absence of pro-active support on part of the regulatory bodies and lack of capacity of the consumers, public participation has not been effective in many Indian states.*

*This briefing paper examines the status of consumer participation in the regulatory reform process in the electricity sector with special focus on Rajasthan. It concludes that though necessary steps were taken by the regulator in certain cases, due to lack of capacity to understand complex issues, consumer participation did not produce the desired results. The briefing paper lays emphasis on the need to make consumers aware by organising training programmes, seminars to ensure that they get the right support from the regulatory bodies.*

### Introduction

Consumer participation in the regulatory reform process in the electricity sector is highly desirable because of essential nature of the service as well as its crucial role in rapid economic development. Apart from the household use, electricity is basic input for agricultural, commercial and industrial activities. All category of consumers i.e. domestic, agricultural, industrial and commercial play a vital role in the sector, making consumer participation in the regulatory decision-making process important, as also recognised by the Electricity Act, 2003 (Act).

Under the electricity reform process, about 25 states constituted the State Electricity Regulatory Commissions (SERCs) to regulate the power sector at the state levels. Electricity Regulatory Commissions (ERCs) are mandated by the Act to invite consumers to participate in the decision-making process. The views of consumers need to be taken into consideration while framing regulatory decisions.

### Electricity Reforms in Rajasthan

#### *Pre-Reforms Scenario*

The Government controlled all aspects (generation, transmission and distribution) in the electricity sector. Regular political interventions further deteriorated the

situation. Though as per the provisions of the Electricity (Supply) Act, 1948, the State Electricity Boards (SEBs) were constituted as autonomous and independent bodies. However, under the pretext of policy matters, the state governments were controlling the SEBs indirectly. Lack of independence and financial constraints, resulted in complete failure of the SEBs.

The Rajasthan State Electricity Board (RSEB) faced problems similar to the other SEBs, such as frequent service interruptions, high system losses, unexpected voltage and frequency swings and restrictions on demand, poor cost recovery and heavy commercial losses. This led various state governments to adopt reform process.

#### *Post-Reforms*

The Government of Rajasthan issued Broad Reform Policy Statement in 1995 to promote the role of private sector in electricity generation. Continuing with the reform process, Rajasthan Electricity Reforms Act, 1999 was implemented on June 01, 2000. Few positive developments that were achieved with the adoption of the reform process:

- Establishment of Rajasthan Electricity Regulatory Commission (RERC) – an independent agency to regulate the generation, transmission and distribution (T&D) of electricity at the state level.

- Unbundling of integrated RSEB into separate generation, transmission and distribution entities.
- Policy for promoting generation of electricity through Non-conventional Energy Sources was issued in 2004 to encourage the use of non-conventional energy sources, such as solar and wind-based energy
- Formulated “Open Access Code” to boost competition.
- Formulated Captive Power Plants Policy

## Public Participation in Regulatory Process

Under the provisions of Electricity Act 2003, ERCs have been assigned important regulatory functions. These functions include issuing of licences, approving Annual Revenue Requirement (ARR) and tariff payable, standards and norms of service, monitoring the quality of service and promoting competition in the sector. Regulatory decisions on these issues are crucial and directly affect the interest of consumers at large. Hence, the Act envisages providing an opportunity to consumers to participate in the regulatory decision-making process. Regulators are required to take views of the consumers into account before passing orders on various proposals such as ARR and tariff applications filed by the utilities.

Under the regulatory reform process, consumers are supposed to play pro-active role to protect their interests in the sector. After its constitution, RERC has issued decisions on about 200 important proposals, including ARR, tariff applications, regulations, licencing etc. In each case, the Commission invited consumers to express their views/opinions. Public notices were published laying down salient features of the proposals and mentioning the places from where consumers may get a copy of the relevant documents. The notices specified the process and the time for submitting comments to the Commission.

In spite of the relevant opportunity provided by RERC, consumer participation was not adequate or absent in many cases. RERC even directed the distribution companies to undertake wide publicity of the public notices. During the tariff-making process for the ARR for 2006-07, a copy of public notice was circulated to consumers with the electricity bill. Only two consumers responded to the Commission on the subject. However, there are exceptions, for example, in response to public notices for the ARR and tariff application for 2004-05, about 105 consumers submitted comments to the Commission<sup>1</sup>.

Though consumer interventions were invited on the specific issues such as ARR, tariff proposal etc, the Commission found that in most of the cases, the

interventions were addressing general problems faced by the consumers as given below:

**Poor quality of Service:** Including the agriculture consumers, rural domestic consumers have raised the issue on number of occasions. The consumers mentioned that the supply of electricity was inadequate to meet their minimum requirements. Agricultural consumers demanded that the present schedule of supply, i.e. 6-8 hours per day should be enhanced to 10-12 hours.

**Poor Complaint Redressal Mechanism:** The consumers opined that in spite of the directions issued from the regulatory commission from time to time, there are hardly any improvements in the complaint handling procedures being followed by the distribution companies.

**Defective Metering and Billing System:** Consumers expressed dissatisfaction for the newly installed electricity meters. They mentioned that the meters had been overestimating the energy consumption, thereby increasing the electricity bills. They demanded that Commission should engage an independent agency to test the functioning of the meters.

**Other Issues raised by Consumers:** Consumers raised concerns over the ARR, high T&D losses, etc. They mentioned that the present average level of loss is about 40 percent (2004-05) which is very high and unacceptable. They requested the Commission to reduce the approved level of loss so that honest consumers are not burdened due to the inefficiencies on the part of distribution companies.

The Commission provided a platform for the consumers to engage with the officials of the distribution companies. The distribution companies in response to the complaints raised by the consumers agreed that the complaints made by the consumers are genuine and need to be addressed in a proper manner. It was mentioned that utilities are in transition process, efforts are being made to ensure better quality of service and relevant measures undertaken to improve the operational efficiency including reducing the level of T&D losses.

Apart from protection of the consumer’s interest, there are other benefits of public interventions:

- Transparent decision-making process is helpful in ensuring accountability in the system. It holds the regulator as well as suppliers of service accountable to their decisions and performance-related actions.
- It also holds the respective government accountable to its functioning. When decisions are made in a transparent and participatory mechanism, it reduces the scope of unnecessary political interference in the decision-making process. As a result, the regulators

are able to enjoy the required autonomy in discharging the important regulatory functions.

- Consumers provide a feedback to the regulators on the quality of service available in their respective areas. Regulatory bodies may incorporate this alternate viewpoint in the process of making fair and balanced decisions.
- The decisions might be more acceptable to the consumers when views of various stakeholders are incorporated in it. Therefore, it also reduces the scope of challenging the decisions before the higher authority, such as Appellate Tribunal for Electricity.
- In India, where pilferage of electricity is a serious problem in many states, consumer participation and support is a must in the process of plugging the theft of electricity. In certain cases, involvement of the consumers has helped the distribution companies in reducing the energy losses substantially, refer to Box 1.

#### **Box 1: Plugging Power Theft: A Success Story of Piplod Village**

The experience of Piplod village located in Jhalavar district of Rajasthan in reducing power theft is quite interesting. The villagers had been suffering from acute shortage of power and poor quality of service for a long time. On the other hand, due to huge electricity theft and low recovery of electricity dues from consumers, it was unprofitable for the company to ensure better quality of service in the village. Consequently, frequent failure of service lines and transfers was a continuous problem in the village.

A meeting to resolve the problem through dialogue process was organised by CUTS International, Jaipur (Rajasthan), a non-governmental organisation (NGO) working towards consumer advocacy and research. *Village Panchayat* and officers of the distribution company discussed the problem and finally, it was resolved. The villagers will support the company to curb the power theft and pay the pending electricity dues. A committee comprising villagers and employees of the company was constituted to monitor the quality of supply and discourage the theft of power.

According to the plan, the total village area was divided into different segments. Sub-meters were installed for each of the segments. Further, tamper proof cables were installed to supply the electricity at consumer ends. Within a period of two years, significant improvement was reported in the system. Transformer failure rate and energy losses came down drastically that further resulted into the improvement in the quality of service to the villagers.

Source: <http://www.cuts-international.org/psr-04.htm>

## **Threats to Effective Consumer Participation**

There are hurdles which limit the capacity of consumers to participate in the regulatory decision-making process. These include financial constraints, poor regulatory response, information asymmetry and lack of training programmes to consumer groups/civil society organisations (CSOs). Since, the regulatory model is common across various states; similar problems are faced by consumers in making interventions in regulatory process.

## **Financial Constraints**

Participation in the regulatory process impose costs on the interveners. The services of legal, economic and administrative expertise are required to make effective intervention in the regulatory process. Funds are also required to collect information and make interventions before the regulatory body. As mentioned, there is a lack of formal arrangement supporting the consumer interventions. This is one of the major problems faced by consumer organisations. It adversely affects their capacity to intervene and results into poor outcomes.

## **Poor Regulatory Response**

The role of regulatory bodies is very important in promoting consumer participation in the decision-making process. They may promote CSOs and consumer groups by making wider information dissemination through public notices. Most of the regulatory bodies have been very formal in this regard. Though, they allowed consumers to participate, but no attention was provided to ensure adequate participation and enhance quality of public interventions, as given below:

- No proactive steps were taken by the regulatory bodies to increase public awareness on new regulatory mechanism. Most of the people especially in rural areas are unaware of the functioning of the regulatory bodies<sup>2</sup>.
- Public hearings are often conducted at places where office of the regulatory body is located. Consumers (agriculture and poor domestic) cannot afford to travel distant places to participate in it.
- The time allocated to the consumers/CSOs to submit their comments are inadequate.

## **Information Asymmetry**

Another major hurdle is non-availability of reliable information to consumers. Participation in the regulatory process requires information pertaining to the performance, revenue and cost of utilities. In many states, including Rajasthan, major portion of power supply to agriculture sector is un-metered. Therefore, the data on sale of electricity and distribution losses are unreliable.

Further, few of the regulatory commissions have specified guidelines including formats for the purpose of filing ARR and tariff application. However, it is experienced that utilities quite often do not follow the necessary guidelines and formats. The regulatory bodies as well as the utilities have not taken any steps to improve the quality of information.

### **Lack of Training and Capacity Building Activities**

Electricity sector is very technical and complex one. Adequate training facilities are required to train the CSOs/ consumer for the purpose of making interventions on issues relevant to economic, legal and technical. Unless the consumer groups are trained and made aware, interventions on behalf of consumers are not going to be effective. Government or regulatory bodies needs to take necessary steps to enhance the capacity of consumer groups<sup>3</sup>.

### **Conclusion and Recommendations**

The Electricity Act, 2003 was enforced to ensure a transparent, participatory and credible regulatory mechanism in the electricity sector. Earlier, consumers had no role to play in the decision making process. The decisions on important matters, such as licencing, tariff payable, quality of service regulation were taken on the behalf of respective SEBs without any involvement of consumers.

The scope of consumer participation has been recognised in the new regulatory mechanism. However, as mentioned in the briefing paper, the present status of consumer participation is inadequate which needs to be enhanced. Certain measures/stpes needs to be taken by the regulatory bodies and the Government to ensure adequate participation of consumers. To increase consumer participation in regulatory process, following recommendations are suggested:

- Constitution of an office of public advocate (OPA) within the regulatory body, as few states such as Karnataka and Delhi have done the same.
- Training programmes should be organised to enhance the capacity of consumers/CSOs.
- ERCs should approach the respective state governments to get funding for conducting trainings, awareness workshops, seminars etc.
- Proactive steps should be taken by the regulatory bodies to create awareness on the regulatory issues among consumers.
- The regulatory bodies as well as utilities should supply reliable information to the consumers/CSOs at reasonably low charges/fees.
- The regulatory bodies should incorporate the views/ comments of consumers while framing the final decisions on tariff and other matters. It will motivate the consumers to effectively participate in the regulatory decision-making process.

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### **Endnotes**

- 1 Rajasthan Electricity Regulatory Commission, Annual Report 2004-05 Pg 6
- 2 Sudha Mahalingam and Others (2006), 'Electricity Sector Governance in India: An Analysis of Institutions and Practice', Project Report, sponsored by WRI (Washington DC), NIPFP (New Delhi) and PRAYAS (Pune)
- 3 World Bank (2005), 'Consumer Participation in Infrastructure Regulation: Evidence from the East Asia and Pacific Region', by Elisa Muzzini, Working Paper No. 66

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