

**DISCUSSION PAPER**

**ON**

**‘DISTRIBUTION FRANCHISEE  
FRAMEWORK’**



**ASSAM ELECTRICITY REGULATORY COMMISSION**



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### **1. INTRODUCTION**

The Electricity Act 2003 (EA 2003), was enacted with the objectives for taking measures conducive to development of electricity industry through Pvt. Participation, promoting competition therein, protecting interest of consumers and supply of electricity to all areas.

Section 5 of the act provides that The Central Government shall also formulate a national policy, in consultation with the State Governments and the State Commissions, for rural electrification and for bulk purchase of power and management of local distribution in rural areas through Panchayat Institutions, users’ associations, cooperative societies, non-Governmental organisations or franchisees.

Further the Franchisee is defined in the act as below:

“Franchisee means a person authorised by a distribution Licensee to distribute electricity on its behalf in a particular area within his area of supply”.

National Tariff Policy 2016 also highlighted the need of Franchisee with involvement of panchayat institutions, user associations, cooperative societies etc. in a consumer friendly way and in effective manner by management of local distribution in rural areas.

The idea of engagement of franchisee is efficient local management processes and practices for technical and commercial activities of electricity distribution for the benefit of the electricity consumers.

### **2. NEED OF FRANCHISEE:**

The state of Assam is having a predominant rural population. Out of Total Population around 85% people live in rural areas. Geographically the rural area is 76156.37 Km sq (97%). and urban area is only of 2281.63 Km Sq.(3%). Total No of Rural Household as per 2011 census was 5374533(85%) out of total household of 6367295. The no of household is likely to increase by around 10% at the end of year 2021.

The responsibility of Power supply in the state has been entrusted with Assam Power Distribution Company Ltd. (APDCL). There are 19 Electrical circles, 45 no of divisions and 156 nos. The following table depicted the different parameters of Electricity Distribution in Rural and Urban Areas.

#### **CONSUMER BASE AND NETWORK PARAMETER (As on March 2018):**

	Rural	Urban	Total
Consumer (No)	3544529(82%)	748116(17%)	4292645
DTR )No)	63278(85%)	10428(15%)	73706

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LT (Ckt Km)	130486 (71%)	52116(28%)	182601.72
11 KV (Ckt Km)	51942(71%)	20745(28%)	72687.07
Energy Sales	5615(79%)	1492(21%)	7107

From the above table it may be seen that around 20 Lakh rural consumers (considering 10% decadal growth) will be added by 2019 as per Government of India Power for all policy. It means that there will be huge network expansion in rural areas in the coming days.

Therefore, to maintain 24X7,uninterrupted quality Power supply to each and every consumer, as well as for recovery of revenue, APDCL will be burdened with huge additional work load.

Further sub-divisional offices are generally situated in the urban areas which is far away from the remote Rural area. So, maintenance of network, attending consumer complaints, meter reading & collection and prevention of theft of Electricity is very difficult on the part of APDCL. Further, the consumers also face inconvenience in paying Electricity bills and to lodge any complaints regarding Power supply as well as errors in Electricity bills due to remoteness of their areas. As a result the consumers are reluctant to pay their dues which ultimately will have a bearing on the AT& C loss of APDCL. To achieve the goal of consumer satisfaction as well as recovery of revenue APDCL has the option to increase the no of subdivision offices by recruiting required manpower to fulfil the aspiration of the Rural consumers.

Having said that the financial viability of APDCL is to be looked into. It will be uneconomical to incur huge expenditure against the infrastructure cost of Sub-division office as well as huge employees cost on the additional increase in employee strength for maintenance of network, attending to complaints, Meter reading, Billing and Collection

Considering all the above situations and without compromising with the Financial viability of APDCL the Rural Consumers can be best served through local Franchisee with suitable franchisee models.

### **OBJECTIVES OF FRANCHISEE:**

1. Improvement in consumer service quality.
2. Improvement in metering, billing and collection efficiency.
3. Reduction in the AT&C losses
4. Reduction in O & M Cost including cost of salaries to employees.
5. Arrest of theft of Power by hooking etc.
6. Ease of payment of Electricity bills at consumer doorsteps.

### **3. ROLE OF STATE ELECTRICITY REGULATORY COMMISSION (SERC):**

The Electricity act 2003, provides that the Commission may, on the recommendations, of the Appropriate Government, in accordance with the national policy formulated under section 5 and in the public interest, direct, by notification that subject to such conditions and

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restrictions, if any, and for such period or periods, as may be specified in the notification, the provisions of section 12 (related to requirement of License to distribute electricity etc) shall not apply to any local authority, Panchayat Institution, users’ association, co-operative societies, non-governmental organizations, or franchisees.

Further, on analysis of various franchisees framework implemented by APDCL the Commission observed that, the franchisee models were not able to meet the objective of setting up franchisee. Now with the increase in focus on rural electrification under various schemes of GoI, the DISCOM may be overburdened with the requirement for network maintenance, metering, billing, collection etc, because the manpower has not been increase to the required level. Therefore, to meet the overall objective of efficient, reliable and 24\*7 power supply ,the DISCOM may have to take support of proper franchisee model.

Considering the above, the Commission decided to prepare a Discussion Paper to outline a broad framework for operationalising Distribution Franchisee Scheme. This Approach Paper is an attempt to analyse and discuss the framework for the Franchisee arrangement and the roles of the Licensee and Franchisee.

The purpose of the Paper is to invite comments and suggestions from utilities, consumer groups and other stakeholders with a view to develop a workable and effective framework.

### **4. DIFFERENT DISTRIBUTION FRANCHISEE MODELS IN INDIA:**

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 below:

#### **4.1 COLLECTION-BASED DISTRIBUTION FRANCHISEE (CBDF):**

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. Even though bills are processed by the Franchisee the same are generated by the DISCOMs. 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.

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### **ADVANTAGE:**

In this model, the franchisee 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.

### **DISADVANTAGE:**

In this system, the franchisee is not a partner in loss reduction - since its compensation is linked to the revenue collections mode - and not on the energy input coming into the area. Therefore the overall objective of loss reduction is not achieved fully.

This model is the most basic of all franchisee models and is recommended for areas which suffer from poor collection efficiency. In the process of revenue collection the franchisee has no rights or responsibilities towards system improvement or loss reduction.

### **4.2 INPUT-BASED FRANCHISEE (IBF):**

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 and the losses especially line losses 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.

### **ADVANTAGE:**

In this model as the Franchisee does not have a fixed incentive and he can keep the extra revenue earned over and above bulk supply Tariff at the input point. Therefore, the franchisee is motivated to reduce all kinds of losses to earn more revenue.

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### **DISADVANTAGE:**

The disadvantage of this model is the Franchisee may over project the investment and expenses to reduce the Bulk Supply Tariff. The base line loss level for the franchisee area need to be fixed before awarding the area to the franchisee so that actual loss level known to the DISCOM/Commission and accordingly BST may be fixed.

Franchisee collects the Revenue and on many occasions he may not make timely deposit with DISCOMs. Proper metering and robust infrastructure is necessary for success of this model of Franchisee. Constant supervision of the operation of the Franchisee is a must for success of the model.

### **4.3 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.

### **COMPARISON MATRIX OF THE FRANCHISEES:**

<b>OBJECTIVE</b>	<b>MODEL</b>		
	<b>Collection Based Distribution Franchisee</b>	<b>Input Based Distribution Franchisee</b>	<b>Rural Electric Co-Operative Societies</b>
Reduction in the AT&C losses.	Partially Met	Yes	Partially Met
Improvement in consumer service quality	Partially Met	Partially Met	Partially Met

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Improvement in metering, billing and collection efficiency	Partially Met	Yes	Partially Met
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### **5. DISTRIBUTION FRANCHISEE SCHEMES IN ASSAM:**

#### **BACKGROUND:**

Assam Power Distribution Company Limited (APDCL), being a state government organisation, is implementing franchisee schemes in the rural areas, in accordance to the principle of Ministry of Power, Govt. of India and as per guidelines formulated by the Rural Electrification Corporation (REC) Ltd., to manage huge consumer base and increased electricity consumption in the rural areas, for improvement of losses, billing, collection, consumer services etc.

#### **HISTORY:**

The franchisee system of APDCL is implemented through two schemes, in which DTRS and 11 KV feeders are handed over to the suitable and competent franchisees. These are:-

1. Input based Distribution Franchisee Scheme (feeder), for 11 KV feeder - approved by Board vide resolution ‘no. 7 dtd. 12.10.2009.
2. Single Point Power Supply Scheme, later renamed as Input Based Distribution Franchisee(DTR) scheme (with changing “of billing procedure to franchisee), for DTRs - approved by Board vide resolution ‘no. 19 dtd. 16.10.2004.

#### **5.1 OBJECTIVES OF IBDF SCHEMES:**

7. Reduction in T&D losses and the AT&C losses.
8. Improvement in consumer service quality.
9. Improvement in metering, billing and collection efficiency.

In both the schemes, all the LT consumers, (except Govt. and HT consumers, which are billed by APDCL), are handed over to the franchisees. The franchisees are billed by APDCL on the basis of Bulk Supply Tariff (BST) rate, calculated on the basis of the consumer mix, the targeted T&D loss and targeted collection efficiency of the franchised area. The LT consumers of the franchised area are billed by the franchisee as per approved tariff rate of AERC.

#### **5.2 PROBLEM AREAS:**

The existing franchisee schemes of APDCL could not achieve much success as expected due to following difficulties in operation.

- To keep the metering system in good condition.
- Timely updating of consumer profile.
- To keep constant monitoring of timely payment.



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- Supply of meters for replacement of stop/defective meters /if the consumers.
- Proper implementation of consumer grievances redressal.
- To keep the area free from theft of electricity.
- Proper metering of HT and Govt. consumers.
- Payment towards renovation works incurred by the franchisee.
- Timely payment by franchisees to avoid accumulation of arrear more than security deposit.
- Proper updating of monthly consumer profile and handing over the same to APDCL.

As a result, a huge amount outstanding arrear has been accumulated against the existing franchisees. The efforts, to realise these amounts, are already being initiated from APDCL side.

### **5.3 PROPOSED NEW FRANCHISEE MODEL BY APDCL:**

Considering the field conditions and the problems faced by APDCL field personnel and for better revenue collection from the franchisee APDCL proposed to introduce new franchisee schemes for I I KV feeders and DTRs.

- These new schemes may be termed as Collection Based Distribution Franchisee (Feeder), in short, CBDF (Feeder) and Collection Based Distribution Franchisee (DTR), in short, CBDF(DTR).
- Collection Based Distribution Franchisee (Feeder) scheme or CBDF (Feeder) scheme, for handing over of I I KV feeders to the franchisees.
- Collection Based Distribution Franchisee (DTR) scheme or CBDF (DTR) scheme, for handing over of DTRs to the franchisees.

### **5.4 ADOPTION OF COLLECTION BASED DISTRIBUTION FRANCHISEE BY APDCL:**

#### **OBJECTIVES:**

Through the appointment of a Collection Based Distribution Franchisee at 11 KV feeder level, APDCL aims to achieve:

- a) Reduction in AT & C losses
- b) Improvement in consumer service quality
- c) Improvement in Metering, Billing and Collection efficiency

### **5.5 KEY POINTS OF CBDF SCHEME OF APDCL:**

- a) Collection Based Distribution Franchisee (Feeder) scheme or CBDF (Feeder) scheme, for handing over of I I KV feeders to the franchisees.
- b) Collection Based Distribution Franchisee (DTR) scheme or CBDF (DTR) scheme, for handing over of DTRs to the franchisees.

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- c) The consumer meter reading, consumer bill dispatch and line maintenance will be done by the franchisees.
- d) The consumer bills will be prepared by APDCL. However, the consumer bills may be allowed to process by CBDF (Feeder) franchisee through their computer but the bill printing shall be done through APDCL server.
- e) The consumer will pay the revenue directly to APDCL office.
- f) provision of consumer spot billing through Spot Billing Machine (SBM) and revenue spot collection through State Bank of India P.O.S are also considered in the proposed scheme'.

### 5.6. MATRIX FORM OF DUTIES AND RESPONSIBILITIES OF FRANCHISEES:

<b>DESCRIPTION</b>	<b>CBDF</b>	<b>IBDF</b>
<b>Recording of monthly energy meter reading of the consumers</b>	<b>YES</b>	<b>YES</b>
<b>Preparation of bill</b>	<b>YES</b>	<b>YES</b>
<b>Printing of bills</b>	<b>NO</b>	<b>YES</b>
<b>Dispatch of Bills</b>	<b>YES</b>	<b>YES</b>
<b>Collection of Revenue from Consumers</b>	<b>NO</b>	<b>YES</b>
<b>Updation of billing/Collection database</b>	<b>YES</b>	<b>YES</b>
<b>Maintain HT and LT Lines (excluding DTRs) of the franchised area</b>	<b>YES</b>	<b>YES</b>
<b>Attending LT consumer complaints and fuse calls with fuse wire</b>	<b>YES</b>	<b>YES</b>
<b>DTR wise consumer indexing</b>	<b>YES</b>	<b>YES</b>
<b>DTR wise load survey of the consumers</b>	<b>YES</b>	<b>YES</b>
<b>Undertake the execution of new service connection</b>	<b>YES WITH APPROVAL OF APDCL</b>	<b>YES WITH APPROVAL OF APDCL</b>
<b>Conduct load survey and Disconnection and Reconnection of Unauthorised LT Consumers</b>	<b>YES</b>	<b>YES</b>
<b>Preparation of List of prospective consumers</b>	<b>YES</b>	<b>YES</b>
<b>To support APDCL in lodging FIR against unauthorised use of Electricity and to assist APDCL in court cases</b>	<b>YES</b>	<b>YES</b>

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<b>Payment to APDCL on BST Tariff</b>	<i>NO</i>	<i>YES</i>
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### **6. WAY FORWARD:**

After analysing the various models of Franchisee the Commission has observed that same type of Franchisee model cannot be adopted for all the areas. This is because of the different types of problems/Challenges of certain areas. Therefore, to point out a single model suitable for the whole state of Assam is difficult and it may perhaps be wise to go with one or two models by categorizing the areas based on types of problems/challenges. The areas may be categorized based on a proper internal study done by the Discom. The key factors that need to be considered while finalizing the franchisee are:

#### **1) TARGETS/GOALS SHOULD BE CLEAR:**

Discoms should clearly identify and define the target it wants to achieve through the franchisee model which is being adopted. For example if the target is for reduction of AT & C loss to a certain level, Discom should first identify the base line AT & C Loss and then only set the area wise AT & C Loss target. On the other hand if the target is for increase the Revenue collection than DISCOM should clearly know the category wise present level of Revenue Collection ( in percentage as well as absolute terms) vis-a-vis how much target to be achieved.

#### **2) THE CONTROL RELATED TO CONSUMER SERVICE SHOULD REMAIN WITH DISCOM:**

As because it is the obligation of Discom to provide quality power to the consumers, therefore service related control should remain with Discom.

#### **3) THE MODEL SHOULD HAVE A CLEAR INDICATION ABOUT THE QUALITY AND EFFICIENCY IMPROVEMENT:**

Discom should clearly define the model identifying the key parameters based on which the efficiency of the franchisee will be measured and payment will be made, in addition to the roles and responsibilities of the Franchisee.

### **6.1 FRANCHISEE SELECTION PROCESS**

For management of local distribution in rural area Panchayat Institutions, users’ association, co-operative societies, non-governmental organizations, womens self help group and franchisee may be engaged.

The broad principle of franchisee selection shall be competitive bidding based on the most favourable 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:

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- 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.

### **6.2 ROLE OF DISTRIBUTION LICENSEE:**

Prior to signing of Franchisee Agreement, a Licensee needs to initiate steps (a) selection of areas to offer to Franchisee organisations; and (b) bid document preparation and bid process management. The Licensee will have to initiate the exercise of gathering data related to each distribution circle or each of the feeders. Criteria for selecting candidate feeders include:

- Key performance indicators like distribution loss, collection efficiency, etc.
- Electrical separation of designated area of supply under consideration
- Composition of load and consumers
- Nature, composition and quality of assets
- Ease of establishing baseline

The Licensee would invite bids for the Franchisee operations on the basis of bid documents. The Bid Document related to designated area of supply will provide all the information in respect to the area, inter-alia:

- Geographical area;
- Description of the existing electricity distribution system (length of HT/LT lines in circuit kilometres, number of distribution transformers, number of poles, substations, etc.), schematic diagram and other related drawings;
- Load data, load profile, load duration curve, annual energy input (in MU), consumer categories and classification;
- Metering status, billing history, distribution loss, and collection efficiency.

### **6.3 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 Substation and Maintenance of the Distribution System like lines, transformers etc.
- System Improvement Works.
- DSM Activities

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This Approach Paper is being presented for discussion and for receiving comments and suggestions on the concept and operating framework.

By order of the Commission  
Sd/-  
Secretary