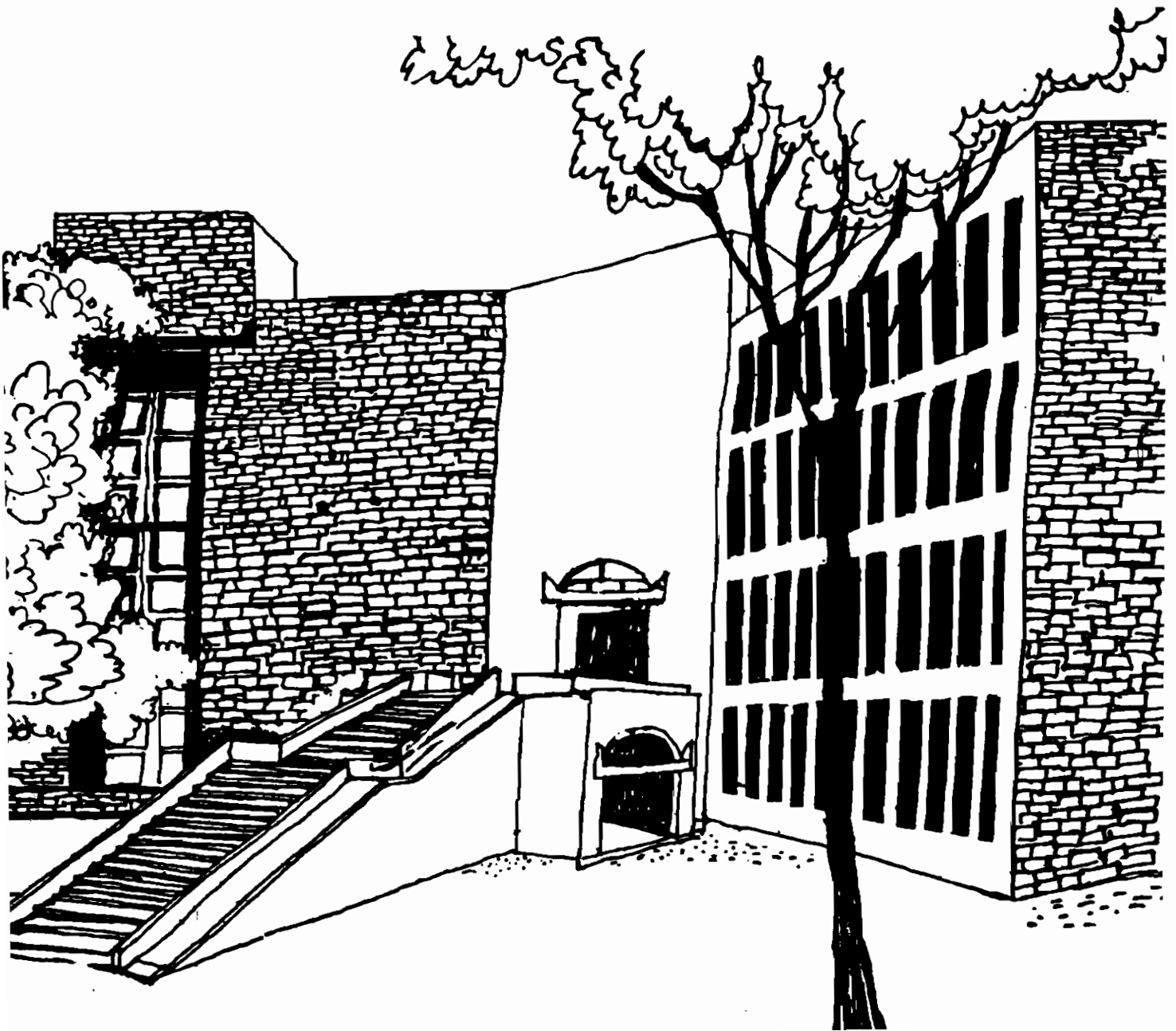




Working Paper



**Restructuring Gujarat Electricity Board:
Outline of a Strategy and Proposal for Action**

Sebastian Morris

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Restructuring Gujarat Electricity Board: Outline of a Strategy and Proposal for Action¹

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Abstract

This note argues that the GEB needs to be restructured urgently. The principal challenge is really to overcome the major 'agency problem' that results in leakage of enormous revenue. Plugging the leakages alone would make the GEB profitable at current average tariffs! The key elements of the restructuring would be to directly administer the agricultural subsidies through a coupon system; so that regulation becomes easy, and management of electricity distribution become entirely viable, and can, therefore, be commercially provided. Privatisation of distribution could be necessary given the entrenched vested interests acting against task orientation within the GEB. Yet, complete unbundling would only be dysfunctional at this stage. Some bundling of generation with distribution assets has value to the reform process, and to the ease of regulation. Other details, like the treatment of stranded (IPP) contracts, contracts with central power corporations (BPSAs), the grid rules, pricing of transmission charges, and the basic structure of the wholesale market for power are discussed.

This note is in five sections. In the first section the reasons for the need and urgency of major reform of the electricity sector and restructuring of the GEB are brought out. In Section II the strategy is outlined. Sections III and IV and V respectively bring out the key proposals, discuss the modalities and lay the scheme in a sequence of events and decisions.

¹ The note was originally prepared on 8.3.2000 for the GIDB to enable them put up a strategy and an agenda for action for the Gujarat Government for restructuring. It draws from an earlier working paper "GEB (Gujarat Electricity Board) Reforms: A Note on Regulatory Strategy and an Approach to Privatisation", by Sebastian Morris, W.P. No. 9.1.1999, November, 1999, Indian Institute of Management, Ahmedabad.

Section I: The Need for Restructuring and Reforms

The privatisation process in the power industry that began in 1991-92 has severe limits, in improving efficiency. They have also made the task of further privatisation difficult. This is because the reforms have not so far addressed the issue of tariffs, and realisations squarely. With continuing problems at the distribution end, whereby the gap between the sold and accounted for electricity and system throughput widens, there is not enough cash flow to justify IPPs. Moreover, the IPPs see high payment risk which inter alia makes IPP power costly. Considerable if not total shifting of business risk on to the state system has taken place in IPP contracts. Limits to escrowability have been reached and the liabilities of the state would further increase as the IPPs come on stream.

There is massive revenue loss from the GEB on account of high T&D losses both technical and commercial (due to theft and non-payment), auxiliary consumption (whether in fact, or due to theft) and overreporting of agricultural consumption. The demands for budgetary support to cover not only the true subsidy (due to government policy to subsidise agriculturists), but also the avoidable leakages and losses, is large and increasing.

Tariffs for industry have already reached unsustainable and dysfunctional levels. GEB rates are already higher than the cost of self generation even at small size (~5 MW). And even within the constraints of the present captive generation policy, it is only the current high interest cost of borrowed funds and generally

recessionary conditions that prevent an exodus of bulk consumers from the GEB system..

High tariffs, affect the competitiveness of Indian industry. Acting through Gujarat's specialisation in power using and power critical industries, they also impose special discrimination against Gujarat as an industrial location.

Low tariffs for agriculture, and more importantly unmetered supply have resulted in excessive and wasteful consumption, consumption for unauthorised uses, besides creating the basis for moral hazard; The agency (GEB) that sells is the same as the one that reports the identity of the consumer to the principal (the government). Since government lacks the ability to verify the identity of the subsidised consumer, and the amount actually consumed by such consumers, exploiting the agency problem becomes a focus of the agent (GEB).

The state electricity system given current leakages is not viable and would soon collapse financially unless set right. Not only the viability of the SEB, but the survival and growth of private provisioning is at stake. Reforms that correct the key agency problem of the GEB, as outlined above are vitally necessary.

No piecemeal or stop-gap arrangement, that allows the continuation of the agency problem and does not rein in the leakages, is possible. Thus, proposals to sell generation assets of the GEB, without a complete reform of distribution are not meaningful. Similarly, proposals to sell assets when there is no regulatory nor strategic clarity, state had PSUs would amount to arm-twisting the few PSUs with cash reserves to cough up these resources to allow the leakages within the GEB system to continue.

The dead weight losses which are true social losses, and not just a transfer problem, are very large. They take the form of losses due to unutilised and underutilised capacity, both within the system (GEB) and outside (other power suppliers, and captive generators). Allocative efficiency loss resulting from inappropriate technology choice, violation of merit order, disincentives that prevent demand from responding appropriately to prices, are even more severe, through difficult too estimate.

The independent regulator viz the Gujarat Electricity Regulatory Commission (GERC) is already in place and would soon be working. GEB has apparently asked for a tariff revision that is upwards of 20%. Since the GERC is independent and is empowered under the law to protect the interests of the consumer, he could in pointing to the vast leakages, rule a tariff increase (or no increase), that would not be substantial to cover even the post subsidy deficit of the GEB.

The issue of capping the subsidy, and separation of the administration of subsidy from the power entities are important. Thus, stopping the leakages and improving efficiency can no longer be ignored.

Section II

The Strategy of Restructuring

We may define the reform as such reorganisation, and the legal and policy changes which would:

- (a) solve the agency and moral hazard problem in the administration of subsidies;
- (b) create incentives for cost saving and efficient generation, transmission and distribution;

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(c) correct the inversions in the tariff, and lead to a scheme that would allow prices to play their economic role of reflecting costs, and being a signal for outputs to respond.

No reform is possible unless the administration of subsidy as such is entirely separated from the entities (whether state owned or private) that manage and operate the electricity business.

Separation of subsidy administration alone would not be sufficient to solve the agency problem. In order to neutralise the vested interests, both within and outside the GEB that have come up around the 'leakages' of revenue, it is necessary that distribution be privatised. The culture of tampering with meters, coming to an agreement with the customer, etc. is too well entrenched to be removable by mere administrative, financial or formal restructuring, such as corporatising the GEB or even trifurcating the organisation, while retaining the ownership structure intact.

Privatisation of distribution that leads to efficiency, and elimination of revenue leakage would result in commercial viability of all backward linkages including generation, transmission and fuel supply, allowing for these to be run on commercial principles, privately or otherwise, and hence for sustainable and autonomous development of the sector, as a whole. Budgetary support except to the extent of a capped subsidy would not be required and could in fact be brought down.

Separation of subsidy from the distribution entity would make it possible to cap and direct the subsidy, so that the distortions are removed and the social returns to the subsidy are maximised.

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Quick privatisation of distribution, even before regulatory clarity and strategy emerges, is the need of the hour, since with every month, the leakages and continuing inefficiency, accumulates, and imposes a severe burden on the state budget. At a rough and conservative estimate the leakages alone every month would exceed Rs 80 crores.

Such quick, and revenue enhancing privatisation, that at the same time does not retard the scope of further reform and change, would call for bundling of some generation assets with distribution. This would simultaneously lower the demand risk for generation assets, allowing them to be privatised easily (without creating PPAs, contingent liabilities etc.) and simultaneously lower the supply risk for distribution entities.

Thereby, and to the extent that the assets are bundled, their value is not dependent crucially on the ability of the restructuring and regulatory processes to unbundle and put the system back together through elaborate market creating processes. Thus, the "regulatory and restructuring risk" can be minimised for bundled entities. Resources can then flow from the capital markets, if the final tariff awards are consistent with recovery of costs (even if they are in error with regard to recovery of particular costs). Thus, the regulator would also have the space to organise and lay out his strategy, and with much caution, and to, in a phased manner, implement the same.

Current capacity within the GEB, in the IPPs, in captive generators and in Gujarat's share from the Central electricity companies are together underutilised. There is much scope to shift demand to off peak hours to raise the system wide PLF higher and improve power quality. Thus, more efficient capacity utilisation possible with workable time of the day tariff (leading to shifting of demand) is not feasible unless distribution and generation company staff have the requisite

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freedom to offer substantial discounts that depend upon the situation. Such freedom in government departments and public sector companies given their rule orientation would be difficult, if not impossible. Functional (rather than the usual formal) monitoring of such discounts would be difficult again, unless the entity is privately managed. The scope for shifting to off peak hours is large in Gujarat given the fact that Gujarat has a large number of power using industries, and a substantial agricultural demand, which could use off-peak power effectively. Most importantly, bringing back accountability and embedding responsibility in the present GEB without change in ownership would be very difficult.

In moving towards a reformed electricity system wherein privatisation of distribution and generation is the crucial aspect, the processes followed to bring about the changes are important. Success would depend upon two critical aspects: It would be necessary to build in complete transparency and information sharing with bidders, consultants, study groups, concerned departments of governments, power users, captive generators and citizens in general. Similarly, the restructuring process would have to be directed by the appointment of a credible person who not only has the necessary skills, but also the independence from GEB, the government, influential politicians, the bidders, consultants and advisers. This is vitally necessary since the incumbent management and staff of GEB, the government, or influential politicians and bureaucrats, cannot be assumed to be uninterested parties.

Equally importantly, complete transparency would result in the best prices from bidders for GEB's businesses and assets. The true status of GEB's assets are hardly known and only complete transparency can ensure that bidders do not bring legal claims after takeovers/assets sale. Transparency and the fairness that can come only with independence and expertise would also attract many more

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bidders, than only those who seek to gain out of government failures, or out of their ability to unduly influence government.

Transmission ought not to be fully privatised. This is to ensure that the option of going for a complete market solution in generation either through pool prices/contracts/etc. is kept open and becomes easier to pursue. It avoids the danger of 'artificial' constraints in transmission segments, that give rise to shortages in particular territories, which in turn result in high realised prices for generators.

Yet, since good transmission performance is always in the interest of the consumer the transmission entity should have substantial participation from consumers, including user industries, while being entirely free of share holding by generation and distribution interests.

Key to enhanced efficiency of the restructured system is the degree of competition among generators.

Section III: The Proposals in Brief

Existing transmission assets of the GEB would be formed into a company (TRANSCO) with 50% Government of Gujarat holding and the remaining held by consumer interests and the general public. Distribution-cum-generating companies (DCGs), generating companies (GCs) and captive generating companies (CPs) would not/should not be allowed shareholding in the TRANSCO.

TRANSCO should lay down detailed guidelines, announce connection, congestion and line-loss charges for various types and sizes of loads connected to the

transmission network and for use of its facilities, in consultation with the regulator. The assets would have to be valued at replacement cost minus the maintenance costs required to bring them to a state of complete repair. The initial price for services through a price cap, or the return to the transmission company at 16% or more would have to be fixed by the regulator.

TRANSCO should not carry out any power trading on its own account, but should be responsible for system integrity and should lay down appropriate rules for optimal operation of the system that is closest to merit order. All DCGs, GCs, IPPs and CPs will have equal access to the grid. TRANSCO should, along with the regulator, facilitate and lay out the rules for the development of a wholesale market.

Surpluses, in the sale of generation and distribution assets of the GEB, and the current capital contributions of the Gujarat Government if any, will go towards enhancing TRANSCO's network and quality of assets as an important priority, since 'extra' transmission capacity would be necessary for ensuring competition among DCGs, and GCs.

With less than majority held by government, the company would not be 'state' in the Courts' view and would have the requisite freedom to pay its staff well enough and in a manner that creates incentives within the organisation for performance. Similarly, if the current constraint of being 'state' in labour management in general, would go.

Privatising the existing distribution zones would not pose any problem when the subsidisation is direct. Attempts to privatise without direct subsidisation would create large distortions in the behaviour of both consumers and the distribution company even if the ministry were to make subsidies to the SCGs. As such, each

DCG would for its distribution business have realisations per KWh of electricity sold that are very nearly the same. Yet, the costs incurred in distribution to urban and bulk consumers would be lower than for rural and small consumers. Except the Bhuj circle, the variation in distribution costs, while significant would not amount to a basic bottleneck against privatisation. If the regulator adopts ROI type regulation, it would mean somewhat different ceiling tariffs for the final consumer. The differences would reflect the varying average cost of distribution alone, arising out of the variation in consumer mix across the zones. This is likely to result in a variation no greater than about 20% in the final price of power to the small consumer. On a price cap based regulation, it would mean different (by about 20% at most) consumer end price caps, for the zones to start with; and in the long run the distribution part of the price cap to be some larger in the more rural and dispersed zones.

It is likely that if farmers can shift their irrigation demands to off peak hours than with cheap time of day metering possible in the near future, they should be able to power at lower rates than domestic consumers.

To arrive at the base cost for distribution, its indexation, or the return, a detailed study of distribution cost (variable and fixed) as a function of the various measures of physical network, and the density and type of consumers, would be necessary. With ROI type regulation, an announcement that the DCGs would on their replacement value of assets earn a return of 16%, would remove any perceived regulatory risk in the sale of both generation and distribution assets. It would then be the regulator's annual task to approve the tariff demands placed upon it by the DCGs. With price cap regulation, the regulator would have to announce his formulae of prices for various cost segments.

Even if the regulatory proposals in their details are not in place at the time of restructuring, the existing model in approving tariffs for the present licenses (AEC, SEC), though with appropriate incentives to control distribution costs, improve efficiency and service quality, could be extended to the new DCGs by the GERC. The best choice for the regulator would of course be a price cap approach to setting prices for different components of transmission and distribution costs; fixed, variable and penalties in exceeding designated loads.

In bundling the particular generation assets to go with the distribution zones, i.e. in the construction of the DCGs, the first consideration would be to ensure broad similarity in terms of the distribution of capacity over variable costs. The second consideration would be the "nearness" to the distribution territory. With appropriate bundling, a little less than half of the average throughput of the DCGs could be internally generated. For the rest they would buy power from the generating companies, ex-IPP and captive generators, through standard negotiated contracts, where the price would vary depending upon the demand and supply position. The nature of the demand (to degree to which interruptible) would also inter alia influence the price.

Increasing demand would ensure that the capacities of most GCs as also the generation assets of the DCGs and CPs would be used at rates on the whole better than at present. Similarly, the complete removal² of all current distortions in the bulk production and sale of power would lower the cost of bulk power below current rates to reflect true costs. The quantum of power as well could increase, as all the capacity, including that of captive generators would come on

² Except to the extent of the distortions created by the IPPs with whom the state has signed long-term contracts favourable to the IPPs.

stream during the peak hours in response to high prices during peak hours for bulk power, when the DCGs would be important buyers.

Allowing all loads at 1MW or above and all CPs with installed capacity 1MW or above, the right of access to the transmission/ distribution lines would be the key to bringing about competitive pressure. For such customers/ entities, the sale and purchase of power is completely separated from its carriage. For them the transmission/ distribution company including DCGs operate as common carriers (which are regulated).

The rules for market making would have to be spelt out by the TRANSCO, after system and market simulation studies, that would alert it to possible pitfalls. But in the meantime simple rules that insist upon matched contracts for sale and supply with less than 5% variation, by the TRANSCO, before allowing use of the grid by all participants, would serve the purpose. They would of course have to be checked for systemic feasibility given the grid capacities through a simple simulation programme.

Hydro-power stations should be bundled together and sold as a separate generating company (HYGEN). The advantage in such a company is that it could specialise in offering power that caters to unforeseen demand. During monsoons when the run off is available HYGEN would have an incentive to lower its price considerably. This would make coal using base stations schedule their annual planned maintenance during this period. HYGEN would then develop as a specialist peak power player and lead the market developments in peaking power.

IPPs hold contracts with the state through their PPAs which allow them a stream of 'certain' revenue flows, as long they are able to show contracted availability

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and meet standard, agreed norms for heat rate etc. Indexation of the price of electricity purchase to fuel prices, have transferred both demand risk, fuel price and exchange rate risk on to the SEB (state). Therefore, change towards a market model would be naturally opposed by the IPPs, if their interests are not 'protected'. The original policy under which the IPPs came about is the guaranteed 16% return at 68.5% PLF. Returns above these are specific to the project and the government is under no legal requirement to protect the same. These are essentially returns to 'regulatory speculation' and to "efficiency". As such only the 16% on equity share capital need be treated as arising out of stranded contracts and provided for.

Several options are possible. One would be to buy out the IPP's equity at a value equal to the capitalised value of a stream of returns at 16% for twenty years (the life of the project). Thus for Re 1 of equity, the cost would be Rs 1.21 approximately, at a discount rate of 12%.

Since IPP costs per MW are higher than current costs, both because of padding of costs, and fall in turbine and equipment costs since the time the IPPs reached financial closure, the net cost of buying up IPPs and starting on a clean state is likely to be between 0.8 crores to 1.3 crores/MW. Thus, if economic pricing of electricity is to be the norm, this loss would have to be covered by the government, unless it wants to renege on IPP contracts. Therefore, a certain provision for 'stranded contracts' would have to be made.

It would be best to provide for this uniformly across all consumers as a separate charge/Kwh of electricity consumed, and the fund so created be used to service the financial cost of extinguishing IPP contracts at between 0.8 crores to 1.3 crores/MW.

This fund would also have an inflow from the BPSA contracts at a rate of approximately Rs 1.0 (difference between average contract price under various BPSA (Rs 1.38 ~ 1.50) and long run marginal cost of bulk power at Rs 2.5/Kwh). Thus, the actual credit on this account per year would be 1293 MW (GEB share of CPCs capacity) * 0.75 (PLF) * (1-0.15) (distribution losses)) = Rs 849 crores per year. Assuming the BPSAs have an average residual life of five years this cash flow would have a present value of approximately Rs 3,000 crores. This would allow the government (who holds these lucrative contracts) to extinguish up between 2300 MW to 3800 MW of IPP capacity, if the appropriate SPV for restructuring can be created.

Thus, the increase in tariffs that would have to be provided for, for the 'stranded contracts' may not be particularly large, if the value of the BPSAs can be nearly fully internalised.

Even before reform along the lines in this note is agreed upon, all further negotiations for IPPs, and all pending negotiations, not yet formally contracted would have to be stopped forthwith.

Alternatively an SPV to recover stranded contracts could be set up, which would buy power from IPPs and CPCs, and pool and sell the same to DCGs and bulk buyers would have to be set up. The SPV needs to be constituted so that it has a life of twenty years, is completely transparent, and entirely open to the regulator and the public. It would have the mandate to sell power at the lowest feasible cost to DCGs and others, and shares to the same could be linked to guaranteed access to power in proportion to the shares held by industry and others including the DCGs. This would only be an inferior solution, to outright purchase and resale of IPPs, since the SPV would have a life of twenty years, and most

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importantly would also lock the system firmly to the cost of the inflexibility of fuel choice embedded in PPA contracts. It would also mean major organisation effort on the part of the restructuring authority to create the SPV with appropriate incentives structure for its owners and managers to perform as anticipated.

Section IV

The Modalities

The success of the restructuring would crucially depend upon the process adopted and on fixing target dates for significant events in the process, much before the process begins.

The first step would be to appoint the disinvestment and restructuring commissioner (RC) with the necessary skills, and to whom the current proposal in its philosophy and details is acceptable; and to define his terms of appointment, granting him complete insulation from the political process, and from day-to-day functioning of government. The government would have to commit to adhere to the overall philosophy of the restructuring, and agree to pilot the required bills in the Assembly, to amend and repeal such acts as necessary, bringing in fresh legislation, and to provide such resources as required for restructuring, and for subsidisation if it so chooses.

The commissioner would have to complete his task in three years. He would have to have extraordinary powers to supersede the Board of the GEB, and transfer top officials if necessary, so that the process of disinvestment is not hindered by vested interests. His office would need to be provided with funds to cover the cost of studies, preparation of legal documents, negotiations,

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consultant services, asset revaluation and modelling studies that may be required.

The commissioner would report once in six months to a Board that would consist of parties representing the government, industrial consumers, and other power consumers; and the Board should be able to modify the proposals of the Commissioner only with 2/3rds majority. This would be necessary to remove any doubts about back tracking, and to be able to implement the restructuring and privatisation in a period of three years.

Even before the RC is set up, the government would have to take a decision to the effect that farmers would be subsidised directly via coupons distributed bi-annually through banks to all such farmers who are issued Id-cards, which also mention their eligibility levels. A special taskforce with officials from the agriculture, finance and home departments would have to be set up to bring about a fool proof direct subsidisation scheme. Consultants and contractors required to implement the scheme, and budgetary provisions to cover the costs of the same, should also be agreed upon.

Demand for power would, in the long term, grow at average rates that can be expected to be no less than 4.5%, with a GDP growth of 5%, which is the least that one can expect. In all likelihood, with the right macro-economic policies for growth, the power sector should grow at rates in excess of 6% per annum for many years to come. Current surplus labour can potentially be absorbed within the system in the long run. Yet, it would be desirable to quickly shed surplus labour to the extent seen fit by the inheritor companies. This would protect systemic efficiency and remove the distortions (in technology choice, managerial practices, and in assessment of costs). Politically though, a median path that allows a liberal VRS for all GEB staff, especially for office and commercial staff

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and in departments where the excess is large, would be appropriate. The government would have to announce upfront that the restructuring would not result in compulsory retrenchment. The actual exercise of implementing the VRS would have to be left to the inheritor companies, since they would be able to best assess the potential and value of employees. A fund to cover the VRS of as much as 25% of the current staff would have to be created by the government, and made available to the inheritor companies.

The total wage, salary and terminal benefit costs of 25% of the employees in 1996-97 (the latest year for which the annual report of the GEB was available) is Rs. 121 crore or Rs. 0.91 lakh per person for approximately 12,130 persons (excess manpower). Assuming a coverage of 50% of current salary for the remaining working life of the employee, and at 50% of the terminal salary for pension, and with a life expectancy of 72 years and retirement age of 58 years, the VRS cost (at 3% real rate of interest) would be Rs. 1119 crore, or Rs. 8.42 lakh per person. At 70% coverage of salary it would amount to Rs. 1567 crore and Rs. 11.8 lakh per person. Thus a fund of between Rs. 1200 to 1600 crore would be required to operationalise a near complete shedding of the excess manpower. A commitment to make available up to that amount for the VRS would have to be made by the government. An incentive of about one-tenth the amount should be allowed to the privatised companies that retain manpower in anticipation of future requirements, for a period of five years. A detailed study to assess the actual distribution of excess manpower across various locations and activities would be necessary. The second charge on the privatisation proceeds would have to be towards coverage of VRS, the first charge being to 'buy' out the stranded contracts.

The government should announce its intention to privatise and restructure the GEB, along the lines in this document, even before the appointment of the

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Restructuring Commissioner (RC) or the Board for Privatisation. The RC would then have the task of implementing the same. The actual details of bundling generating assets with distribution zones or territories, can be left to the bid-process, as long as the overall process and objectives of the reform are clarified early enough, and complete transparency is ensured, through appropriate processes. Thus the terms covering the appointment of the RC should bind him to transparent processes and to disclosure of information. All relevant information generated by the various studies, consultancy studies and other reports should be made public and available to the bidder, and they in turn should be encouraged to make their own investigations and studies, especially with regard to excess manpower, state of assets and equipment, and the extent and nature of demand. There is likely to be much asymmetry in the value of assets and territories to potential bidders depending upon the nature of their complementary assets and skills.

Section V

Stages in the Restructuring Process

- Approval of the white paper (this document) outlining the restructuring strategy of the government of Gujarat.
- Announcement of the overall strategy through the press and other media to the public, and potential bidders, and financial institutions
- Discussions and consultations around the white paper.
- Appointment of a five member Board for Electricity Restructuring and Privatisation.

- Board meets to discuss and select the Restructuring Commissioner (RC); government approval sought for appointment of RC; RC takes over as chairman of the Board of Restructuring. RC submits his objections if any to this agenda and a final agenda for restructuring and privatisation is approved by the Board.
- The task force for the development of a direct subsidisation scheme set up by the RC in consultation with the government.
- Introduction of bills, and amendments in the Assembly; an issuance of appropriate orders to further the restructuring.
- Consultancies for studies, preparation of bid documents, cost studies and valuation, data generation, and laying out the privatisation process. Board accords approval to detailed plans of the RC.
- Regulatory strategy announced by the GERC; including such details as power caps or ROI, the role of power imports from outside Gujarat over the long term. He would also have to announce the degree to which exchange risk, fuel price risk and such other costs are passthru.
- The scheme of direct subsidisation is in place based on power coupons and identity cards for farmers.
- Non financial bids invited and the objectives of privatisation publicised adequately. Bidders allowed near complete access to all available information including that generated by consultancy studies, and encouraged to carry out their own preliminary studies and assessments.

- Non-financial bids are examined by the RC and a shortlist prepared of bidders selected for submission of financial bid.
- TRANSCO is set up and its board and CEO selected by the RC. Other principal officers/ managers selected by its board. TRANSCO takes over the transmission assets of the GEB, and announces the details of transmission rules, connection charges, and penalties in consultation with the RC and GERC.
- IPP Contracts extinguished by retiring equity at 16% over the life of the project. SPV to manage the financial inflows and outflows due to the restructuring set up with the RC as Chairman. SPV receives first installment of VRS funds from the government. SPV to manage (if IPP contracts are not extinguished) stranded contracts, or to recover the cost of extinction through appropriate notes to the GERC.
- VRS policy and strategy announced.
- Detailed and overlapping bids invited; financial assistance for preparation of bids provided to the short listed bidders.
- Clarifications, discussions and consultations take place, between the RC, the GERC, financial institutions and bidders.
- Detailed bids examined and the selected parties invited to take over generation and distribution assets of the GEB.
- Four DCGs, one HYGEN and several GCs (ex-IPPs and CPCs), CPs and Bulk Consumers register as part of the Gujarat Power Market, and sign appropriate

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contracts with the TRANSCO. Market making processes for wholesale power implemented, further refinement and fine tuning of the rules.

- Proceeds of asset sale go into SPV.
- VRS comes into effect.
- Board of Restructuring and the RC wound up. The SPV (if need be) continues till the life of the stranded contracts are over and VRS is closed.

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