

**THE MEGHALAYA
STATE ELECTRICITY
REGULATORY COMMISSION**

FOURTH ANNUAL REPORT

2010-2011



**NEW ADMINISTRATIVE BUILDING, 1ST FLOOR, LEFT WING,
LOWER LACHUMIERE, SHILLONG - 793001**

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M S E R C

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**NEW ADMINISTRATIVE BUILDING, 1ST FLOOR, LEFT WING,
LOWER LACHUMIERE, SHILLONG-793001**

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1. INTRODUCTION

The Meghalaya State Electricity Regulatory Commission was notified by the Government of Meghalaya under the provision of Section 82 of the Electricity act 2003 on 26 March 2004. The Commission became functional on 6th of June, 2006 on which date the first Chairperson, Shri Vinay Kohli, IAS(Retd) assumed charge. Shri Kohli demitted office on 11th January, 2009. Chairman, Shri P J Bazeley, IAS(Retd), assumed charge as Chairman of the Commission on 1st July 2009 and demitted office on 22nd February 2011. During the period, the Commission has endeavoured to set up a fair, transparent, and objective electricity regulatory process in the state of Meghalaya. This Fourth Annual Report of the Commission reflects its activities during the fiscal year 2010-11.

2. THE COMMISSION

The Commission was constituted under the provision of the Electricity Act 2003. The commission is a body corporate having perpetual succession and common seal with power to acquire, hold and dispose of property both movable and immovable and to contract and shall by the said name sue or sued. In addition the commission is a quasi-judicial body with effect from 6th June 2006.

This commission is a one member Commission. In recognition of the need for multi-disciplinary approach while addressing issues related to independent regulation, the statute prescribes that the chairman shall be person of ability, integrity and standing who have adequate knowledge of and having shown capacity in dealing with problems relating to engineering, finance, commerce, economics, law or management. The chairman is appointed by the Government of Meghalaya from a panel recommended by Selection Committee constituted as prescribed under the statute. The statute also provides for the appointment of a secretary to the commission whose powers and duties are defined by the commission.

3. MISSION OF THE COMMISSION

The mission of the Commission is to:

- (a) promote reforms in the electricity sector;
- (b) encourage transparency, competition and economy;
- (c) regulate the power purchase and procurement process of the distribution utilities.
- (d) secure that the legitimate interests of all stakeholders including the consumers.

4. FUNCTIONS OF THE COMMISSION

The Commission is vested with the responsibility of discharging the following statutory functions:

- (1) determine the tariff for generation, supply, transmission and wheeling of electricity, wholesale, bulk or retail, as the case may be within the State;
- (2) regulate electricity purchase and procurement process of distribution licensees including the price at which electricity shall be procured from generating companies or licensees or from other sources through agreements for purchase of power for distribution and supply within the State;
- (3) facilitate intra-State transmission and wheeling of electricity;
- (4) issue licenses to persons seeking to act as transmission licensees, distribution licensees and electricity traders with respect to their operations within the State;
- (5) promote cogeneration and generation of electricity from renewable sources of energy by providing suitable measures for connectivity with the grid and sale of electricity to any person, and also specify, for purchase of electricity from such sources, a percentage of the total consumption of electricity in the area of distribution licensee;
- (6) adjudicate upon the disputes between the licensees and generating companies and to refer any dispute for arbitration;
- (7) levy fee for the purposes of the Electricity Act, 2003;
- (8) specify State Grid Code;
- (9) specify or enforce standards with respect to quality, continuity and reliability of service by licensee;
- (10) fix the trading margin in the inter-State trading of electricity, if considered necessary;
- (11) discharge such other functions as may be assigned to it under the Electricity Act, 2003;
- (12) advise the State Government on all or any of the following matters, namely:-
 - (i) promotion of competition, efficiency, and economy in the activities of the electricity industry,
 - (ii) promotion of investment in electricity industry,
 - (iii) reorganisation and restructuring of the electricity industry in the State including, more particularly, matters concerning generation, transmission,

distribution and trading of electricity or any other matter referred to the State Commission by the State Government.

- (13) The State Commission shall ensure transparency while exercising its powers and discharging its functions.
- (14) In discharge of its functions the State Commission shall be guided by the National Electricity Policy, National Electricity Plan and tariff policy published under section 3.

5. CHAIRPERSON

During the period under report, the Commission was headed by Shri. P J Bazeley, IAS (Retd), as Chairperson.

6. CONSULTATIVE BODIES

The Chairman of the Commission is a member of the Forum of Regulators, a statutory body established in accordance with the provisions of sub-section 2 of section 166 of the Electricity Act, 2003.

During the period under review several meetings of the Forum and its subcommittees were held. These meetings helped in coordinating and aligning regulatory matters, policies and practices followed in different states. The MSERC hosted the XVII FOR meeting at Hotel Polo Towers, Shillong with effect from 21st - 23rd April 2010.

The Chairman is also a member of the Forum of Indian Regulators. This is a registered society and predates the Forum of Regulators. The membership of this body is not confined only to regulators in the Power sector. Several members of this forum have a wealth of experience of regulatory processes and procedures and the deliberations provide an opportunity for wide ranging in-depth examination of technical, legal and implementation issues.

7. HUMAN RESOURCES.

At the officer level two posts have been created. The post of Finance and Accounts Officer may be filled up with Smti. Marylene Synrem through an open market selection process. She joined the Commission during November, 2006. The State Government was unable to spare the services of an Officer on full time basis, for appointment as Secretary. The Commission appointed Smti. C.T. Sangma, MCS (Retd) as Secretary on contract. However, Mrs. Sangma resigned with effect from 31st October 2009. Shri J B Poon, Retired Chief Engineer (Electrical) of MeSEB was then appointed as Secretary of the Commission from 1st November 2009 and continue to hold the post.

The other support staff consists of two Stenographers, one Lower Division Assistant, two Drivers, three Peons, one Cleaner and one Chowkidar.

Besides full time employees, the Commission has been utilising the need based services of consultants in the disciplines of law, finance and electrical engineering.

8. OFFICE ACCOMODATION

On September 2007, the State Government allotted one wing of the 1st floor of the New Administrative Building at Lower Lachumiere, Shillong. The Commission moved to these new premises in December, 2007.

9. LAN & WEBSITE

The computers in the Commission's office are connected through networking to Local Area Network (LAN). The system is useful for access of any information. The commission has its own website, www.mserec.gov.in, which is regularly maintained and updated by the NIC. The website is used for hearing schedules, news, updates, tariff related issues, meetings, inviting comments on concept papers, regulations, petitions, tenders, job vacancies, etc. It also provides information on Consumer Grievances Redressal Forum and Ombudsman and guides the consumer for redressal of their grievances. Further information like updating notified Regulations, Orders and Reports are also available and can be downloaded from the website.

10. STATE ADVISORY COMMITTEE

In exercise of the powers conferred under section 87 of the Electricity Act, 2003, the Commission, under a notification dated 5th February 2007, constituted the Meghalaya State Electricity Advisory Committee to advise on questions of policy, protection of interest of consumers, and other matters relating to supply and distribution of electricity in the State. This Committee has been reconstituted by the Commission on 17th March 2010 with the following members:

- | | | |
|------------------------|------|--|
| Chairperson Ex-officio | 1. : | The Chairman, Meghalaya State Electricity Regulatory Commission |
| Member Ex-officio | 2. : | The Principal Secretary/Commissioner and Secretary, Food, Civil Supplies and Consumer Affairs Department, Government of Meghalaya. |
| Members | 3. : | Shri F.K. Mawlot, Ex-MLA, Nongpyndeng, Nongstoin |
| | 4. : | Shri. K.C.Momin, Ex-MLA, Tura; |
| | 5. : | Smti. J.E.Shullai, Shillong; |
| | 6. : | Prof. Eugene D. Thomas, Department of Economics, NEHU; |

7. : Shri Darlington Dympep,
General Secretary Meghalaya State Commission,
AITUC;
8. : Shri S.K. Lato, Jowai;
9. : Shri Ramesh Bawri, Phone(M)9436116456
President Confederation of Industries, Meghalaya,
Bawri mansion, Dhankheti.
10. : Chairman, the Institution of Engineers (India),
Meghalaya Centre, Barik Point, L. Lachumiere,
Shillong - 793001
11. : Director (E&M) HQ,CE Shillong Zone, SE Falls,
Shillong-11, Phone: 2534847
12. : Vice President (BD), IEX, New Delhi).

Convener : The Secretary, MSERC

The fifth meeting of the State Advisory Committee was held on 29th April 2010 at 11 AM in the MSERC Conference Hall. The record of discussions is at **Annexure 1**.

11. OMBUDSMAN

As required under Sub-section (6) of section 42 of the Act and in exercise of powers contained in the Commission's sub-regulation (1) of regulation 8 (Redressal of Grievances) Regulation 2007, the Commission appointed Sri A.V. Rangad as Electricity Ombudsman for the State of Meghalaya. On completion of his service Shri Rangad, demitted office on 30th April 2010. Shri W S Rynjah, Retired Chief Engineer, MeSEB was appointed as the new Ombudsman from 1st April 2010. The responsibilities of the Ombudsman are listed at **Annexure II**.

12. CAPTIVE GENERATION

In its efforts to harness spare capacity of captive power plants (as envisaged in National Electricity Policy), the Commission collected information from the State Industries Department about captive generating plants being established in the State. A meeting was also convened on 6th July 2007 with the senior officers of the State Government, representatives of Meghalaya State Electricity Board and executives of industrial units that have set up, or are taking steps to set up captive power plants.

The meeting revealed that in the near future a total capacity of about 400 megawatts would be created by captive producers. While it was too early to gauge what proportion of this power could be surplus, issues such as selling of excess power to distribution licensees and bulk consumers, open access, fixation of tariff and the several steps that

the Commission would be taking under relevant provisions of the Electricity Act were discussed.

13. REGULATIONS FRAMED BY THE COMMISSION

The Commission has notified four regulations during the period under report which were gazetted as indicated below.

Sl. No	Name of the Regulations	Date of publication in the Meghalaya Gazette
1.	MSERC Power Purchase & Procurement Regulation 2011	21-01-2011
2.	MSERC Electricity Supply Code 2011	24-01-2011
3.	MSERC Determination of Tariff for Transmission & Wheeling of Electricity Regulation 2011	08-02-2011
4.	MSERC Terms & Condition of Open Access Regulation 2011	08-02-2011
5.	MSERC Grant of License for Transmission of Electricity Regulation 2011	08-02-2011
6.	MSERC Grant of License for Distribution of Electricity Regulation 2011	08-02-2011
7.	MSERC Grant of License for Trading of Electricity Regulation 2011	08-02-2011
8.	MSERC State Grid Code Regulation 2011	17-02-2011

14. FINANCIAL RESOURCES

Section 103 of the Electricity Act, 2003 provides for the creation of a State Electricity Regulatory Commission fund. Section 102 of the Act provides for grants and loans to be extended to the Commission by the State Government. In addition any revenue arising out of collection of fees by the Commission is also to be credited to this fund. Against this background the situation for the period under review is as follows:-

1. This Commission received Rs. 1,15,56,000.00 as grants-in-aid from State government in 2010-11.
2. This commission spent about Rs. 14,11,035.00 for implementation of e-governance and computerisation to NIC, Meghalaya.
3. In terms of fees the Commission has so far received Rs. 14,10,000.00 from the Me.S.E.B. for the tariff applications made by them during the period.

15. TARIFF.

The Commission passed the under-mentioned Tariff orders during the period under report.

On 16th February 2010 MeSEB filed the ARR-cum-Tariff (Distribution) for fiscal Year 2010-11. The Board was then asked to publish a summary of their final application for distribution tariff in compliance with the statutory provision providing an opportunity to citizens to express their views on the proposal of the Board. A few petitions objecting to the proposed tariff were received from different groups and individuals.

16. FINANCIAL DISCIPLINE

In terms of sub-section (1) of section 104 of the Electricity Act 2003, the Commission is required to maintain accounts and other records and prepare Annual Statement of Accounts in such forms as may be prescribed by the State Government in consultation with Comptroller and Auditor General of India (CAG). Under the provisions of sub-section (2) of Section 104 of the Act *ibid*, such Accounts are to be audited by the CAG.

The State Government, vide letter No. PE. 102/2005/27 dated 26th June 2006 (copy annexed), informed the Commission that the rules for the maintenance of accounts of the Commission were under consideration in consultation with the CAG. Pending finalisation of the rules the Commission was asked to follow the draft rules of the Assam Government for the Assam Electricity Regulatory Commission.

The Annual Statement of Accounts of the Commission has been prepared in line with the format used by Assam Electricity Regulatory Commission.

17. AUDIT REPORT

The Commission engaged M/s Randall & Co. Chartered Accountant as internal auditor, to audit the accounts of the Commission for the FY 2006-07, 2007-08, 2008-09 and 2009-10. Accordingly, the firm conducted audit and submitted the Audit Reports for the above Financial Years.

18. CONCLUSION

During the period under review, the Commission received considerable support and encouragement from the Government, the Meghalaya State Electricity Board and from all section of the public of Meghalaya. It is expected that this support will continue during ensuing years and the Commission would be in a position to consolidate the work done so far and take further strides towards establishing a sustainable electricity regulatory and reform process in Meghalaya.

Annexure-I

RECORD NOTE OF THE 5TH MEETING OF THE STATE ADVISORY COMMITTEE HELD AT 11 AM ON 29TH APRIL, 2010 AT THE MSERC'S OFFICE PREMISES AT SHILLONG.

Present:-

- | | |
|---|----------|
| 1) Shri P.J.Bazeley, Chairman, Meghalaya State Electricity Regulatory Commission, Shillong. | Chairman |
| 2) Shri. F.K. Mawlot, Former MLA. | Member |
| 3) Smti. J.E. Shullai, Former Chairman MPSC. | Member |
| 4) Shri. S.K. Lato, Jowai | Member |
| 5) Shri. Ramesh Bawri, President, Confederation of Industries, Meghalaya . | Member |
| 6) Shri. M.M. Mehrotra, Jt. Dir (E/M) representing Chief Engineer, Shillong Zone | Member |

Calling the 5th Meeting of the State Advisory Committee to order, the Chairman welcomed the members present and stated that the Tariff(Distribution) Petition for the year 2010-11 had been submitted on 16.02.2010 by the erstwhile Meghalaya State Electricity Board (MeSEB) [known as the Meghalaya Electricity Corporation Limited (MeECL) with effect from 01.04.2010]. The said tariff petition had been published, for general information, in an abridged format in conformity with sub-section 2 of Section 64 of the Electricity Act of 2003 in the local newspapers between 23.02.2010 and 09.03.2010, and a public hearing held thereon on 28.04.2010. Further, on 07.04.2010, a copy of the said tariff petition had been furnished to all the hon'ble Members of the State Advisory Committee (SAC) along with the notice for today's SAC Meeting, as per decision taken at the last SAC meeting. The Commission desired to take on record, the views and comments of the Hon'ble Members of the SAC on the said matter, before considering and disposing of the Tariff(D) Petition for the year 2010-11. The Chairman then called upon the Hon'ble Members to make their comments / suggestions.

Participating in the deliberations of the SAC, the Hon'ble Members raised the following issues.

No.1. Shri. Ramesh Bawri

Shri Ramesh Bawri made an exhaustive presentation from a well prepared statement, which was subsequently submitted to the Commission, on request, as an Aide-memoire. The complete contents of the said Aide-memoire are reproduced below –

I. ARR

1. *It is seen from Page 22 that in respect of Employee costs there is a huge jump of Rs.44.01 crores in the ARR for 2010-11 compared with 2008-09. This reflects an increase of 42% which is most surprising. Moreover, no details or specific reasons have been given to explain this huge increase, other than the few lines mentioned at Page 18. Page 69 clearly shows that the increase in man power is only by 50 heads, from 3600 to 3650, which cannot explain the proposed increase of 42% in employee cost. Further, the Petition which was filed on 12.2.10 ought to have given details of the revised pay scales effective from January 2010, as mentioned at Page 18, but these are significantly missing. Moreover, the Manpower – Energy sold ratio of 3.04 has been calculated on the total energy sold and if calculated on the energy generated works out to 6.77 which is abnormally high and needs to be corrected at least by freezing fresh recruitments.*
2. *Similarly, there is a huge increase of Rs.31.30 crores on account of depreciation in the ARR. This is perhaps because of the Leshka Project which appears to have called for an investment of about Rs.1000 crores as per page 43. However, since the project is yet to be commissioned, depreciation for the entire year on the new assets cannot be loaded onto the ARR for the year.*
3. *The ARR also shows a major increase of Rs.20.44 crores in the interest and finance charges. It needs to be seen whether the loans against which the interest has been calculated have in fact been availed of and whether these were really required to be raised. The loan amounts and the rates of interest also ought to have been shown, in order to evaluate and appreciate the ARR on this head. The major concern is the increase of Rs.18.59 crores in the interest on loan from bank which are presumably for working capital (WC) and, stated at Page 20, W.C. loan has been calculated at 3 months estimated sales revenue. This is quite a departure from the past and, even if accepted, W.C. loan to the extent of one month sales revenue is more than sufficient as bills are payable within a fortnight, beyond which delayed payment charges are raised by the Board. It may be noted that while claiming an increased working capital interest burden, at Page 21 the Board has projected a decrease in income from delayed payment charges to the extent of Rs.12.05 crores, which is contradictory.*
4. *A provision of Rs.9.33 crores has been made for Income Tax in the ARR. This is against all accounting and business norms as Income Tax is not to be taken as a cost and has to be paid by the Board out of its profits for which a sum of Rs.28.28 crores has already been provided for as Return on Equity.*
5. *Provision for bad debts to the extent of Rs.10 crores have been made in the ARR. This is extremely high and is clearly avoidable with improved alertness and efficiency on the part of the Board and the genuine consumers ought not to bear its brunt. Moreover, such bad debts are, in fact, only commercial losses in disguise and go to add to the already high AT & C losses.*

II. TARIFF RATES

1. *Out of the 2.56 lacs consumers of the Board, 90.22% are domestic consumers, drawing 39.80 % of the connected load. In the matter of fixation of tariff, their situation and interests are paramount as the domestic consumers represent almost the entire population of Meghalaya and the tariff affects their personal finances in a big way. In the present inflationary scenario the public, in general, are already finding it difficult to make both ends meet owing to the rising prices. It is therefore suggested that the rates for the domestic sector be retained as at present and no increase be made. As per the calculations shown at Page 44 of the Tariff Petition this will result in a reduction of only Rs.6.61 crores in the Board's Revenue if the rates are not increased.*
2. *It is further suggested that the unit slabs for domestic consumers be revised and the existing Tariff of Rs.2.35 per KWHR be applied to the first 400 units. This will bring immense relief to the domestic users. The impact of this suggestion would be only Rs.9.18 crores at the current rates on the basis of the figures available at Page 44 of the Petition. This sum of Rs.9.16 crores along with Rs.6.61 crores at para 6 totalling Rs.15.77 crore can easily be offset by the cuts in the ARR as suggested at Paras 1 to 5.*
3. *The Government of India and all States Governments have been vigorously encouraging the growth of the Agriculture and food processing sector. In this view, the Board should also desist from increasing the present tariff for the Agriculture and food processing sector. This will only bring down the estimated revenue at the proposed rates by Rs.0.48 crores.*
4. *It is seen from Page 32 that the procedure for calculation of compensation charge for low power factor is proposed to be changed by billing on KVAH units at the rate applicable for KWHR units. This will be practical only if the Board ensures that KVAH meters are installed in the premises of all consumers, failing which the new procedure cannot be implemented, causing huge revenue loss to the Board. It is therefore proposed that in cases where KVAH meters are not installed, compensation charges may continue to be imposed on the earlier basis.*
5. *It is surprising that compensation charges for low power factor have been made applicable only for HT and LT supply. It is not understood why EHT consumers who draw 251.83 MU of energy annually are exempted from these charges.*

III. T & D

1. *Page 15 shows that the T & D losses are estimated at 27.08% as against the target of 15.69% as per the road map under the 11th Plan. These T & D losses are resulting in an annual loss of Rs.180 crores to the Board and it needs to be borne in mind that even on purchased power there is a T & D loss of 27.08% which can clearly be avoided if the larger consumers are asked to draw power from the external suppliers directly.*

2. *The figures given at Page 76 shown that in the year 2007-08, 65% of the non-Kutir Jyoti consumers were un-metered. In addition 17% had defective meters. Thus, alarmingly, only 18% of the non-Kutir Jyoti consumers had operative meters. In 2010-11 the situation has improved but even now 46% of the non-Kutir Jyoti consumers either have no meters or have defective meters. Therefore, the Board cannot justify the high AT & C losses on account of non-metering which is a situation created by themselves.*
3. *At the same time, whereas the percentage of metered consumers has increased from 18% in 2007-08 to 54% in 2010- 11, the T & D losses have not shown a proportionate improvement which clearly shows that there are reasons other than non-metering such as power theft, pilferage and meter tampering leading to such heavy T & D losses, the control of which does not appear to have been suitably addressed by the Board. Hence, in the present year, the mere disallowance of 3% over the T & D losses allowed for FY 2009-10 may not, perhaps, be adequate in order to coax the Board to put its house in order.*

IV. MISCELLANEOUS

1. *The Board ought to have made a 3 part Tariff proposal for its diverse activities i.e. Generation, Transmission and Distribution. In any event, it is felt that it should be made clear that a composite Tariff proposal will not be entertained in F.Y. 2011-12.*

No.2 Smti. J.E. Shullai

Smti J.E.Shullai stated that she fully supported the exhaustive issues raised by the Hon'ble Member Shri Ramesh Bawri and had nothing more to add.

No.3. Shri. F.K. Mawlot.

Shri F. K. Mawlot stated that Shallang area which is a large industrial coal belt growth centre has no metering of electric connection. He wondered how and on what basis electrical charges are collected by the MeECL. He also suggested that billing should be regular and on a monthly basis as provided for in the relevant regulations.

No.4. Shri. S.K Lato

Shri S.K.Lato stated that he also fully supported all the views expressed by Mr.Ramesh Bawri and requested the Commission to take these into consideration while deciding the Tariff(D) for the year 2010- 11.

No.4. Shri. M. Mehrotra.

Shri M.Mehrotra read out written submission as follows:-

1. *In the previous meeting with MSERC, a point regarding fixing of lower tariff rates for Defence at par with domestic consumers was raised. It was*

informed by Commission that vide their order dt.31.10.09 the tariff rates applicable to Bulk Supply Consumers were reduced by 25% at par with domestic consumer. However, it is seen that as per MeSEB notifications dt.09 Feb 2010 and 31 March 2010., the rates have been increased considerable.

The rate is as under:-

Category (HT)	Previous rates		Modified by MsERC		Rates now applicable	
	DC	Unit	DC	Unit	DC	Unit
Domestic	Rs.	300	Rs.	225	Rs.	330
Bulk	Rs.	300	Rs.	225	Rs.	365

2. *It may be noted that Defence is basically a welfare organization involved in operation, training activities or troops. In any Defence Cantt the load is of mix nature and it primarily involves govt. offices, domestic, hospital and water works. Also, there has never been the case of payment default. Thus a special status needs to be given to Defence by putting it in a separate category. Further, at places 33 KV systems are coming up which need extra infrastructure at out end. In other states the tariff rates for 33 KV are lower than that for 11 KV. In view of above, following is proposed:-*

- (a) *Categories Defence in a separate category and fix tariff rates which should be lower than other categories or at least at par with Domestic Category.*
- (b) *The rates in case of bulk supply at 33 KV should be fixed lower than that at 11 KV.*

Summing-up the discussions, the Chairman placed on record his profound gratitude to the Hon'ble Members present, for their valuable suggestions and submissions and assured that these would be kept in view, while finalizing the Tariff(D) for the year 2011-12.

Sd/-
(P.J. Bazeley)
Chairman, MSERC

Annexure – II

Responsibilities of the Ombudsman :

1. If the licensee fails or neglects to remove or set right the fault or defect complained of by the consumer or if the Forum neglects or is otherwise unable to deal with the complaint made to it the aggrieved consumer may, within ten days from the last day of the time set for under sub-regulation (1) of regulation 6 or from the date of seeking redressal from the Forum under sub-regulation (1) of regulation 4, as the case may be, make a representation to the Ombudsman for redressal of the grievance.
2. On receiving a representation, the Ombudsman shall after due examination and consideration settle the grievance of the consumer.
3. In exercising its functions the Ombudsman shall have the powers to call for reply, information data, records and other related documents from the licensee or from any other person who may be concerned with and to hear them.
4. The Ombudsman may, if necessary, engage or consult a person having special knowledge or experience in the matter under consideration for his opinion or advice.
5. Notwithstanding anything contained in this regulation the Ombudsman may suo moto take up any matter which is a subject of general grievance by consumers relating to supply of electricity in any area in the State.