

**The Welcome Address of Mr Vinay Kohli, Chairman, Meghalaya State  
Electricity Regulatory Commission.**

25<sup>th</sup> July, 2008.

Ladies and gentlemen I welcome you all to the inauguration of the website of the Meghalaya State Electricity Regulatory Commission. I am very pleased that so many of you are here with us. Today – to use a cliché – is a red letter day for the Commission. We are not just launching our website, we have the privilege of having in our midst Mr Purno Sangma, the Chairman of the State Planning Board to do the honours. Welcome Mr Sangma. Your reputation for making things move precedes you and your very presence delivers a strong message of hope and encouragement. The reforms agenda, stagnating for some time and yet vital for the development of the power sector, needs your special attention.

That our Power Minister, Mr Conrad Sangma is also with us today is further encouragement for us. . Electricity is not just a driver of the economy, its contribution to our quality of life is universally recognised. Under your stewardship we expect a significant departure from the stagnation that has plagued this important sector of our economy. The reform agenda set out in the Electricity Act, 2003 has moved forward only very fitfully. The most important institutional reforms that the Act mandates are yet to be implemented. The Meghalaya State Electricity Board remains in limbo. Its financial health is alarming and the continuing uncertainty is sapping the initiative of its personnel. For the Board to once again play a vital role in the electricity sector, reform must not be delayed any further.

Mr Sangma, on behalf of all of us here at the Commission I welcome you in our midst. The Commission, with its statutory responsibility of creating a level playing field for expanding investment in the power sector, looks forward to working with you and the Government in bringing about an early turn around to the stalemate in the power sector. Through our regulations we have created a framework for transparency, efficiency and competition. We know more needs to be done. We shall shortly commence consultations with stakeholders and interested representatives of civil society and then come out with a fresh batch of regulations. For these to become meaningful we need policies that support competition and free trade.

To put things in perspective it might be useful for us to spend a few minutes on the emerging power scenario for the nation as a whole. A recently published study made by a well known consultancy firm estimates that our country needs to add 40,000 Mws of capacity per annum over the next nine to ten years. This is the minimum energy requirement to sustain our current rate of growth. In physical and financial terms this translates into developing as many as 140 sites across the country, employing approximately 300,000 trained workers and investing \$600 billion (Rs25,80,000 crores) in the sector. For generation alone \$300 billion will be required. \$110 billion is the estimated investment in transmission. The remaining \$190 billion will be required for expanding the distribution network. Given the urgency and complexity of this task training workers, ensuring the availability of equipment, arranging for fuel and establishing a sustainable supply chain pose a challenge to even the most seasoned planners in the country. An unprecedented effort will need to be mounted. Given our federal structure, every State will need to contribute.

The power potential of our State has often been the subject of debate. Most popular estimates put it at 3000 Mws of hydroelectric capacity. Besides this we have coal reserves of the order of 564 million tonnes. Even if this is an overestimation and we assume the exploitable reserve to be half this quantity it is instructive to realise that a 500 Mw coal fired thermal unit consuming 1.5 million tonnes of coal per annum produces about 3500 million Kvh (units) of electricity – more than double our current consumption. When compared with our projected requirement of electricity over the next 3 to 4 years, one such thermal unit alone if established in about 40 months might more than meet our energy requirement. If in the meantime we can take up other identified hydel projects we will be well on the way to achieving a comfortable surplus.

The opportunities are there. What we lack is a sense of urgency, a viable institutional framework and a workable implementation strategy. While the Commission does not have the mandate to go beyond offering policy advice to the Government, given our common commitment to making the State surplus once again, I venture to outline what I feel may be a viable approach.

First of all we must overcome the transmission bottleneck. It is inexcusable that we are not able to draw our allotted quota of electricity from the grid. The Misa-Byrnihat line currently under construction is likely to relieve the situation. We need to monitor its progress and try to compress the implementation timeline. I would suggest that we set up a formal reporting mechanism which keeps the cabinet informed on a fortnightly basis about the progress made. Heading the monitoring cell and reporting to the cabinet should be a senior Principal Secretary. He should be responsible for validating established milestones and should be empowered to resolve all issues that hold up progress. If some outstanding hurdles continue to elude a solution, the periodical report to the Cabinet should underscore these for resolution at the highest level.

On the generation front, thermal capacity is a crying need. Coal has to be harnessed for expanding capacity. As I have already mentioned a 500 MWs plant can realistically be set up in 36 to 40 months. We may need to spend some time on preparatory work. Private ownership over mineral assets and its implication for establishing a coal linkage may require effective consultation at the grass root level. No headway is likely without fostering a feeling of community involvement. The best way to proceed would be to establish a generation company in the public sector for the express purpose of expanding capacity. This entity could ultimately also take over the generation assets of the Me.S.E.B. when unbundling takes place. For practical reasons the Company could be headed by the same Principal Secretary level officer. A lead time of about three months may be used to resolve issues relating to land acquisition, coal and water availability, employment etc. Clarity on these will facilitate the finalisation of the strategy for implementation and provide comfort to prospective investors.

With the 2003 Electricity Act de-licensing generation, the traditional notion that investment in the power sector should be restricted to the Electricity Board or Central public sector companies must disappear. The model for investment could provide space for the entrepreneurship that has, for instance driven the expansion in coal mining activity. It should be possible to design a package which incentivises mine owners to graduate to power generation adding value to their coal. Encouraging input providers to become stakeholders will nurture a psychological feeling of ownership and contribute to the long term sustainability of the project.

On the hydro-electric front investigations have been done, sites have been identified but execution has not progressed at all. The current highlighted hitch is the suspicion pressure groups have had about the selection process and the suitability of the parties selected for construction and operation of these projects. While the Government has reviewed the situation I am not competent to speak about the outcome. Whatever may ultimately emerge as a final decision the fastest way forward would be to allot unassigned projects to the State's power generation company. This company should then be made responsible for locating the best options. The statutory guidelines under section 63 of the Act will ensure transparency, allay suspicions and the stable power purchase agreement will ensure that consumers, the ultimate stakeholders in any fresh capacity created in the State have the assurance that the best deal has been secured.

Another issue that has been on hold for an unreasonable period of time is the unbundling of the State Electricity Board. The Electricity Act, 2003 requires that all State Electricity Boards be replaced by independent companies each separately looking after generation, transmission and distribution. The Act provides for State Governments to take over the assets and liabilities of the existing Boards and reassign them to new entities. Most State Governments have completed this exercise. In Meghalaya work in this regard has been delayed partly because of a set of unresolved issues still requiring inputs from the consultant. Even if these are resolved an inescapable issue that the State will find difficult to confront is the financial mess that the Board is in today. The earlier PFC report provides some data in this regard. Liquidating the accumulated "sins" of the past before unbundling the Board is not a viable option. Citizens are becoming increasingly concerned about the adverse impact this burden is having on the tariff. A situation may soon arise when the Government may have to resort to subsidies. While consumers are willing to pay for electricity and recognise that there is a cost involved in its production and distribution; when the cost includes repayment of debts (including interest) and excessive losses on account of technical and commercial inefficiencies they are naturally upset.

The apprehensions of the employees of the Board to the implementation of reforms are understandable. On the other hand the experience of other States has identified the assurances that need to be extended to them. A negotiated solution should not be difficult. As for the emerging companies, they will need to prepare individual business plans. The regulatory dispensation, already in place will ensure that all legitimate expenses are recovered and the margin of 14% profit on the subscribed share capital is maintained. While arrangements for financing the new companies will have to be made, the liquidation of liabilities assumed by the Government in terms of the Act will need to be negotiated.

To come to our website; I must first of all apologise for the time it has taken us to be available on the internet. A combination of factors held us up. Without dwelling on this any further, we are happy that we have taken the plunge. Our website will be our window to the world. Citizens will also have a convenient way of accessing details of the statutory framework. Information about consumer rights and redressal mechanisms will be readily available. Consultation papers will be easy to access. In fact to once again revert to a cliché, the website will bring us "closer to the people".

Before concluding I must acknowledge the support and assistance that the Commission and I have received over the last two years. The media, so important for disseminating information about our activities, has provided us with a vital link to the citizen. In the years ahead we look forward to forging a closer partnership with the 4<sup>th</sup> estate.

During our formative period the support of the Government – specially the Power Department – and more specially Mr B.K. Dev Verma, the one constant factor in our brief history, proved most vital. We hope to build on this foundation and ensure that we provide a better deal to the people.

The Electricity Board an organisation with which I personally have been closely associated with has been more than cooperative. Responding to a regulatory regime is as new for them as it is for us. The maturity displayed by the Chairman and other officers of the Board has helped to ensure that the Commission is recognised for what it is.

For developing the website to our total satisfaction I must convey my gratitude to the National Informatics Centre and the team headed by Mr Timothy Dkhar. The Commission will need their continuous support in ensuring that our website remains relevant and uptodate.

I do not know whether this is the proper forum for me to talk about Mr Purno Sangma, currently the Planning Board Chairman. I have numerous personal memories going back several years. I cannot forget the numerous occasions on which I have enjoyed his hospitality. His Christmas parties in Delhi were legendary. When he was a Deputy Minister at the Centre I had the privilege of serving as a Director in his Ministry. Subsequently I was Secretary in the Chief Minister's office when Mr Sangma took charge in 1988. While our paths continued to cross less frequently as Mr Sangma moved ahead in his political career, his practical down to earth approach, his leadership style and his essential human approach never deserted him. In many ways this distinguished him from the host of other political leaders that I have been associated with. Meghalaya is lucky to have him in the State. I am confident his contribution will make a significant impact on the future growth and development of the State.

Our Power Minister, Mr Conrad Sangma has a host of heavy responsibilities assigned to him. His practical approach, his academic background and his experience as a successful entrepreneur encouraged me to digress from my main theme. I hope he will take my suggestions in the spirit in which I have made them. A practical down-to-earth approach is what I think we need. Let us try to introduce this in the power sector at least. We cannot allow our energy potential to remain dormant. A practical approach, a dynamic policy and timely decision making is what we expect. I am confident Mr Conrad Sangma is equipped with all these qualities and the Power sector will benefit from the leadership he provides.