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1. Preface

Meghalaya State Electricity Board (MeSEB), appointed Power Finance Corporation (PFC) as Consultants to assist the Board in reforming and restructuring the power sector in Meghalaya. It intends to Corporatise its power sector as well establish an appropriate Electricity Regulatory Commission. In order to achieve this end PFC has to:

- i. Study and review the existing structure and working of the Board
- ii. Study and review the Industry structure with a view to creation of New Entity (ies) and opening Balance Sheets
- iii. Estimate the future deficits and transitional cost to be borne during the reform process
- iv. Prepare Memorandum of Association & Articles of Association for the new entity (ies) and assist in corporatisation and registration of the new entity (ies)
- v. Prepare and implement a suitable and an acceptable financial restructuring plan
- vi. Prepare and assist in approval of necessary transfer scheme(s) for the transfer of the Board's assets, liabilities and employees to new entity (ies)
- vii. Review the capital structuring of the new entity (ies) to ensure that the resultant entity (ies) would over the time be in a position to access commercial debt and are commercially viable
- viii. Prepare the opening Balance Sheet of the new entity (ies) based on valuation of assets and liabilities using appropriate methodology covering current assets (like receivables, stocks and stores), current liabilities, unfunded liabilities, if any and any contingent liabilities; Carry out a detailed Revenue Accounting Unit wise allocation and clean up of the balance sheet before transfer of the assets to dis-aggregated utility (ies)
- ix. Prepare long term financial projections for disintegrated entities
- x. Prepare liability restructuring plan including unfunded /contingent liabilities

- xi. Draw up a suitable methodology for recovery/settlement of all outstanding loans drawn by the Board from the State Government, interest due thereon and the amount of electricity duty collected by the Board and not deposited with the Government along with settlement of liabilities in respect of all borrowing by the Board and guaranteed by the State Government and
- xii. Prepare a suitable plan regarding the continuation of payments to the pensioners who have retired/shall retire prior and after the corporatisation of the Board.

2. Objectives

Government of Meghalaya has decided to reform and restructure its power sector with the twin objectives of creating the conditions for the sustainable development of the electricity supply industry and improving the efficiency and quality of such services in Meghalaya. The ultimate goal of the reform process is to ensure that:

- i. Electricity is supplied under the most efficient conditions in terms of quality and cost to support the economic development of the State and
- ii. The power sector ceases to be, through its Electricity Board, a burden on the State's budget and eventually become a net generator of financial resources.

3. Existing Scenario & Recommendations

Bulk of the revenue as of now is flowing from the industrial consumers (57% of total energy consumed in the State during 2003-04, 48% in 2004-05 and 45% in 2005-06) and the tariff in this segment needs to be rationalized which has been done in the past to some extent. As the functioning of SERC and the reform process may take some time to show its impact, the following may be adopted in the interim period:

1. The State can introduce an ordinance immediately, amending the electricity duty charged to industrial consumers by Rs.0.50 per unit to offset and recover the cost of electricity sold along with a margin for overhead cost as the present industrial tariff is much lower than the power purchase cost and even the average cost of power to MeSEB as a whole. This will also indirectly help GoMe to clear its dues to MeSEB for RE and other subsidies if any; or
2. It can negotiate the present rate charged with the Industries Association by recommending a rate based on cost plus 20% and extend the rate formula of cost plus 20% for 10 years to encourage industrialization in the State
3. If the above is not possible to implement, the Industries Association meeting may be conveyed to inform that as soon as the current agreement with them expires in the next 2 to 3 years, the tariff would be hiked in such a manner that it would have a built in a factor to recover the losses incurred by MeSEB from the date of the existing agreement till the expiry of the agreement as well hike in tariff by 10% to 20% each year on cost plus basis.

Moreover, the constant increase demand for power in the State by industries and others can be well planned and catered through more power purchase from outside the State on long term basis and by rationalizing the tariff rates to increase the net revenues of MeSEB.

We have availed the option of a stand-alone Company, as the other models as outlined in the Inception Report were not considered feasible by MeSEB. As per this though we have opted for a single Company for Generation, Transmission and Distribution, it would be pertinent to emphasize that we should operate these activities as Strategic Business Units (SBUs) within one single entity so that each SBU can be an independent profit center within the single entity. The operations and administration of the SBUs' is taken in the same manner and spirit as if these are three independent entities. This will further facilitate the hiving-off/ de-merger of the proposed corporation in these SBUs in future too.

The Financial Restructuring Plan (FRP) is also prepared based on the above premise and accordingly the opening Balance Sheet and Profit & Loss Accounts for the financial years 2003-04, 2004-05 and 2005-06 have been bifurcated in these SBUs to estimate future projections. The assumptions taken for the same have been discussed and deliberated upon with MeSEB several times and necessary changes/suggestions have been incorporated to achieve the desired results.

The benefit of treating the SBUs, as separate entities would be quite similar to three separate entities as if created as envisaged earlier. **The benefits of SBUs are enumerated below:**

1. These specialized and functionally bifurcated SBUs, within the single entity will be able to reap the fruits of:
 - a. Compact organization structure leading to faster decision making
 - b. Effective controls
 - c. Specific accountability
 - d. Better management of operations
 - e. Focused project development
 - f. Committed to renovation and modernization
 - g. Increased efficiency and productivity
 - h. Advantage of experience of existing and dedicated staff
 - i. Financial innovation, maintenance of financial discipline and
 - j. Overall betterment of service to consumers and benefits to all the stakeholders.



2. In the long term when these three separate SBUs are settled in their specialized business activity, these will concentrate on more potential/progressive areas. A separate entity for Generation to tap the abundant resources so as to cater to the fast growing demand for power within the State, separate entity for Transmission (as for more of power trading and non-discriminatory open access facilities) and Distribution entity (ies) to focus on customer segment/industrial to bring about healthy competition within such companies and ultimately achieve the main object of generating/transmitting/distributing quality power, achieving greater efficiency and consumer satisfaction. It will also help in achieving the objective of healthy financials and self-sustainability of the entities.

3. The newly formed entities may look forward to enter into joint ventures with companies like NTPC, NHPC, SJVNL, NEEPCO, Power Grid Corporation, Trading Companies to exploit the power generation, transmission and trading opportunities in order to service the vast demand for power within the State and may be in long run selling the power to other States.

4. This entity can also enter into joint venture agreements with companies in other states to exploit the abundant raw material resource of those states like gas, oil, coal, etc. and thereby not only meet the State's shortfall of power but also trade in power to generate surplus funds to augment the future growth and also to use its assets of transmission and distribution to optimum level.

The advantages of Strategic Business Units (SBUs) are illustrated as below:

A. GENERATION SBU

1. Ability to focus on development & growth without having to spread resources available over other functional areas of transmission & distribution
2. Able to control operational losses (if at all) and concentrate on efficiency parameters to use assets more effectively.
3. Dedicated staff experienced in generation to provide better results.

4. Would be a profitable venture from the inception as minimal losses are associated with this activity & with no purchase cost of raw materials for hydro projects, recurring cost would be minimal.
5. Elimination of licensing results in removal of cumbersome procedures making investment scenario attractive & profitable for investors.
6. Tariff rationalization will lead to stronger cash flows making new projects viable and even the cost plus factor will allow it to always recover its cost of generation.
7. May supply electricity to any licensee in case of surplus power
8. **For Meghalaya where demand for power is likely to outstrip supply for the next 10 years or so, focus on creation of more generation capacity has to be made to meet the demand of power inside the state.**
9. Will eventually lead to focused project development, renovation & modernization and timely operations & maintenance to achieve efficiency and increased productivity.
10. Overall betterment of all concerned i.e. stakeholders, management, company, employees, customers, State & Nation.
11. Having a compact business unit structure will lead to faster decision making, effective controls and efficient monitoring.
12. Will lead to specific accountability, innovations in financial management and maintenance of financial discipline.
13. JVs with other generation companies can be entered into both within and outside the State to achieve the above objectives faster.

B. TRANSMISSION SBU

1. As a stand-alone business unit it can focus on growing the transmission network in the State improving the capacity and quality of transmission.
2. Improving the quality of lines would help reduce the transmission losses.
3. Problem areas can be addressed more effectively and efficiently.
4. Able to control transmission losses and concentrate on efficiency parameters to use assets more effectively.

5. Will eventually lead to focused project development, renovation & modernization and timely operations & maintenance to achieve efficiency and increased productivity.
6. Overall betterment of all concerned i.e. stakeholders, management, company, employees, customers, State and the Nation.
7. Having a compact organization structure will lead to faster decision making, effective controls and efficient monitoring.
8. JV s with other transmission companies can be entered into to achieve the above objectives faster.

C. DISTRIBUTION SBU

1. As a stand-alone business unit can focus on demand and consequential distribution network growth.
2. Emphasis on Metering to help reduce distribution losses (100% metering). This will provide financial stability to operator and facilitate fresh investment, as identifying & controlling Distribution losses will become easier.
3. Once metering helps in raising correct demand, focus on collection of revenue to reduce commercial losses and improve cash flow can follow.
4. Concentrated efforts into computerization of billing for efficient billing and in turn better and faster recovery.
5. Focus on power theft and correct metering and energy audit to improve efficiency.
6. Ability to absorb manpower for meter reading and assistance in achieving higher collection of revenues
7. Can trade in power on a commercial basis to further enhance profitability, if need be by increasing profitability.
8. Gradual removal of cross-subsidies & concentrating on consumer awareness & strengthening vigilance.
9. Business to become more attractive for future investments due to increase in accountability of Distribution losses.
10. Segmental/Geographical JVs can be thought of as a viable competitive and long-term alternative.

Initiatives Taken

To overcome the above situation, the Board has taken the following initiatives in the recent past:

- Successful swapping of high cost loans
- Beneficial one time settlement of outstanding dues
- Rationalization of Tariff
- Better recovery rates from Industrial consumers
- Reduction in AT&C losses
- Initiatives to augment the installed capacity (by 126.75 MW) by almost 70% of the present installed capacity (presently 185.20 MW) by the year 2012. Prospective plans have been drawn up and action taken in few cases for such significant increase in installed capacity by 2012 and beyond.
- Recovery of old outstanding dues from Assam

5. Single Corporation

As decided by MeSEB, a single company is to be formed to take over the existing business of generation, transmission and distribution of the Board. Accordingly the enclosed financial restructuring plan (FRP) has been prepared. We have, however, made an effort to trifurcate the financials of the Board into **three ‘Strategic Business Units’ (SBU), within the single entity**, for Generation, Transmission and Distribution on the basis of certain assumptions for drawing up the Balance Sheet and Profit & Loss Account. Over a period of time these assumptions have been debated, discussed and improved upon during several meetings with MeSEB and have accordingly been incorporated.

The consolidation of the three SBUs is also projected along with their individual and consolidated cash flow in order to assess and determine the quantum of transitional funding required for each such SBU. The following is enclosed for creation of a single entity along with the financial restructuring plan (FRP) and transfer scheme in respect thereto.

6. Financial Restructuring Plan

6.1 Summary

Back Ground & High Lights

MeSEB has been facing financial concerns in the past years. Although the Board has earned a temporary reprieve in FY 2003-04 but the surplus generated has been purely due to prior period credits accounted for in 2003-04. Audited figures of Profit & Loss Account for the F.Y. 2004-05 also show a minor profit of Rs.2.10 Crores during the year while there is again a major loss figure shown as Rs. 41.18 Crores in the F.Y.2005-06.

Financial stringency has been caused by the interplay of a number of factors such as: (based on 2005-06 vs. 2004-05 audited financial figures)

- Though tariff has improved from last years but still average tariff of Rs.2.86 per unit is inadequate (P.Y. Rs. 2.19 average) to recover the cost of supply of power
- Non-remunerative investments in rural electrification schemes to serve the social obligations of the State Government and huge pending recovery of Rs. 125.58 Crores of RE subsidy from GoMe.
- Operations of the Board that are reflected by high T&D losses 35.76% (P.Y.25.97%) and AT&C losses 42.29% (P.Y. 32.90%) and the lower plant availability factor (PAF) of its generating stations
- Need for system up-gradation & modernization, to augment PAF & to reduce O&M expenditure
- Non-recovery of dues from neighboring states as high as Rs.69.87 Crores including from Assam Rs.69.64 Crores (P.Y. Rs.65.47 Crores, out of which from Assam Rs. 65.24) including DPC of Rs. 24.24 in 2005-06 (P.Y. Rs. 19.69 Crores) against an annual turnover of Rs. 314.96 in 2005-06 (P.Y. Rs.259.12)
- Billing and collection inefficiency within the State
- Long outstanding Un-recovered subsidies and dues from GoMe and others
- High cost of borrowing 12.75% average (P.Y.11.63%)

- Lack of own generation to meet demand within the State and consequential purchase of power from outside the State at a much higher cost per unit including the cost of administration and others. The direct cost of purchase at Rs.2.10 per unit (P.Y. Rs. 1.75) than the average tariff recovery rate of Rs.2.86 per unit (P.Y. Rs. 2.19)

All these factors have combined to create a 'liquidity crunch' in the past which resulted in and may result in future too:

- Deferment of payment obligations to its lenders like REC, LIC and the State Government besides the trade creditors and therefore MeSEB has had to resort to re-scheduling of these loans
- Reducing investments despite the huge hydro/thermal potential in the State
- Non-augmentation of Transmission and Distribution network
- Incurring non-matching expenditure on its R&M and O&M and
- Reduction in investments on computerization to improve the billing and collection efficiency and also investment in other Assets.
- Matching tariff to the power purchase rates, as most of our demand is being met through power purchase till such time our generation capacities are augmented to meet the power demand substantially.

Fact sheet of the Meghalaya

Parameters	As on 31.3.2006	As on 31.3.2005
Restricted Peak demand	199.60 MW	199.44 MW
Unrestricted Peak demand	280 MW	260 MW
Energy shortages	871.66MUs	757.96Mus
Peak shortages	94.80 MW	74.80 MW
T&D Losses	35.76%	25.97%
AT&C Losses	42.29%	32.90%
Plant Load Factor	31.85%	39.08
Energy Generated	516.72MUs	637.65MUs

A broad review of the historical financial statements of MeSEB shows that the Board has been partially meeting its cash flow needs by

-
- Defaulting in payment obligation to its suppliers and lenders and
 - By reducing investments in augmenting Generation, Transmission and Distribution capabilities.

This position has improved since 2004-05 and is further improving. In the past the defaults to lenders have resulted in the inability of MeSEB to raise the desired level of additional resources for financing its investment requirements and the Board has become increasingly dependent on the subsidies/financial support from the state government. Due to non-availability of adequate funds in cash, operational efficiency and performance has also been adversely affected.

An attempt has been made by the Board to initiate streamlining of functions so as to improve the overall efficiency of operations; however it is quite clear that a structured solution to the various problems plaguing the Board is the only way forward. The proposal to formulate a suitable FRP is a step in this direction which is not a one time solution but an ongoing process till the time the financial health of the Board finally improves.

In order to improve the financial position of the board, MeSEB and the GoMe have embarked upon a comprehensive reform process with the following key objectives:

- Ensure long term financial viability of the new entity
- Improve the reliability and quality of power supply
- State Government's involvement in broad policy directives.

Financial planning is a crucial part of the reform process. Therefore financial projections for MeSEB were developed based on some assumptions and also derived from/based on the opening Balance Sheet of MeSEB as on 31.03.2006. The important assumptions used in the Financial Projections are stated below:

- Energy input into the system to increase to 4210.342MUs till 2012 from 1386.10MUs in 2006 (P.Y. 1393.31MUs in 2005)
- Sales to increase by 3386.513MUs till 2012 from 890.37MUs in 2006 (P.Y. 1031.43MUs in 2005).

- AT&C (Aggregate technical & Commercial losses) to reduce from 42.29% in 2006 (P.Y. 32.90% in 2005) to 27.89% in 2012
- Technical losses assumed to reduce from 35.76% in 2006 (P.Y. 25.97% in 2005) to 23.76% till 2012
- Commercial losses projected to reduce from 4.73% in 2006 (P.Y. 5.03% in 2005) to 2.93% till 2012
- Collection efficiency to increase from 98.20% in 2006 (P.Y. 98.10% in 2005) to 98.80% till 2012
- Capital investments of around Rs.2708.98 cores assumed in the system till 2012
 - Generation -- Rs. 2459.77 Crores
 - Transmission -- Rs. 56.19 Crores
 - Distribution -- Rs. 193.02 Crores
- Total sales in units to increase by 280.35% from 2006 to 2012
- Average increase of 7 % in rate of power sold (tariff hike) each year for various categories of Consumers on the basis of the Consumer-mix in the year 2006. Average increase in such tariff during F.Y. 2005-06 31% (P.Y. 11% in 2004-05).
- Average 25% increase for energy consumed by the existing consumers till 2012. Decrease in F.Y. 2005-06 14% (P.Y. 28% increase in 2004-05)
- Interest rate on new loans assumed at 9.50% p.a.

FRP has considered category wise tariff rationalization, which is highly sensitive matter.

Approval sought from GoMe

Cash deficit to be funded through 90% grant and 10% interest bearing loans for the transitional period at an interest rate of 9.50 % (Total funds required to the tune of Rs.1900 Crores, out of which grant of Rs. 1710 Crores and Loans of Rs. 190 Crores)

POINTS NOT CONSIDERED IN CASH FLOW PRESENTLY, RECOMMENDED TO BE CONSIDERED, IF APPROVED/ACCEPTED BY GoMe, ARE AS UNDER:

- All support from GoMe except tariff subsidy assumed to be in the form of equity.
- Outstanding amount of REC loan rescheduled/paid off and transferred to GoMe and to be treated as equity from GoMe in MeSEB books

- **Bonds outstanding as on 31.03.2006 amounting to Rs.52 Crores is to be taken over by the State Government. The interest liability has been cleared up to 31.03.2006.**
- The outstanding dues on account of Tariff subsidies of Rs.125.58 Crores (as on 31.3.2006) receivable from GoMe is shown as received in cash from GoMe in the year 2006-07 itself.
- Recovery of inter-state dues and other old outstanding to be paid by GoMe to MeSEB, as the recoveries are not coming forth from Assam and other states.
- The dues on account of retirement benefits to the retired employees of MeSEB and the future retirement benefit liabilities to be funded by a trust to be created for the purpose and existing investments in this regard, if any to be transferred to this trust.
- The present liability on account of retirement benefits is taken as provided by MeSEB without any actuarial valuation for the same.

The financial projections developed provide view of the financial health of MeSEB and highlight the need for *a significant amount of financial support from GoMe*. Therefore with the objective to chart a course for the gradual transformation of the finances of the sector from today's position, to one of full financial viability where the sector is no longer reliant on state support, a Financial Restructuring Plan (FRP) has been prepared. The following benefits are likely to accrue once the proposed FRP is implemented:

1. MeSEB will be able to meet its 50% of the energy requirement of the state by the year 2012-13, if the presently envisaged new generation facilities are created as per investments proposed in Generation, Transmission and Distribution segments. Balance demand of the State will still need to be met through power purchase from other states and/or free power if some new central generation schemes are implemented and/or through additional planning of investment in Generation, Transmission and Distribution segments which is actually an ongoing process.
2. MeSEB is likely to meet-
 - (i) All expenses excluding depreciation by the F.Y.2009-10
 - (ii) All expenses including depreciation by the F.Y.2011-12
3. MeSEB will turnaround by the F.Y.2011-12
4. After the transition period up to F.Y.2009-10, MeSEB is likely to become a net revenue earner for the state/GoMe
5. MeSEB will be a net revenue earner of Rs 136.40 Crores during the F.Y.2011-12
6. MeSEB would be in a position to pay dividend to GoMe after the F.Y.2011-12.

The targeted turnaround can be achieved with GoMe support to the Board by agreeing and committing to the following proposals contained in the FRP:

1. Cash support of Rs.1710.00 Crores for the planned future capital expenditure and operational deficit of MeSEB in the form of grants and/or policy loans till 2012;
2. Electricity duty outstanding as on March 2005 due to GoMe has been shown as paid in the year 2006 and accordingly considered in the cash flow. Future Electricity duty is shown as recovered at Re. 0.05 per unit (as per MeSEB) in cash through the Profit & Loss Account and paid to GoMe during the same year.
3. The contingent liabilities of MeSEB (estimated to around Rs 2 Crores on 31.03.2006) are considered nominal to be retained by MeSEB in their books.
4. **Pay outstanding bills and payments including old outstanding tariff subsidies of GoMe Departments/Local Bodies in total or in phased manner as may be decided by GoMe. All such future bills and dues have to be paid in cash each month on time by GoMe.**

It can, therefore, be inferred that by agreeing to the FRP proposals in absolute terms, the GoMe would be committing to a total cash outflow of approximately Rs. 1710.00 Crores in addition to point no 4 above. This, however, is based on and is subject to the various assumptions on which the financial projections are made.

If the measures outlined in the FRP are not agreed to, then the possible implications would be: -

- In case of no cash support from GoMe, the average tariff hike required in the first year itself would be as high as 105% (average rate at Rs.5.86 in place of Rs. 2.86 in the year 2006). The entire tariff hike would have to be borne by domestic and Industrial consumers which may not be sustainable
- Deterioration in financial health due to underperformance in operations and debt servicing
- MeSEB would not be able to wipe –off the overdue liabilities.
- MeSEB/Successor entity creditworthiness would go down.
- MeSEB would be unable to attract needed investments.
- Hindrance in strengthening/improving the T&D system resulting not being able to provide quality and reliable power supply.

-
- Inadequate investment in the billing and collection system will aggravate the situation by resulting in increase in AT&C losses
 - Inability to pay the outstanding retirement benefit liabilities will result in poor employee morale of the existing employees and may lead to unrest thereby affecting the overall performance of the Board
 - Tariff hike without perceived increase in quality and reliability of power supply is likely to be severely criticized by the consumers
 - Adverse effect on the State Economy by way of insufficient industrial and commercial growth resulting in lower tax growth and employment opportunities and
 - Power Sector may completely cripple.

It needs to be clearly understood that FRP is a part of the continuous process of reform in the power sector and its creation is not an end in itself but the means to achieve the overall objectives.

6.2 Introduction

Power utilities in India were neither designed nor structured as entities amenable to a modern managerial or commercial ethos. They are products of an evolution from ‘unregulated competition’ prior to Independence to ‘unregulated monopoly’ soon after. They then moved on to a ‘regulated monopoly’ and are now trying to emerge into an era of ‘regulated competition’ MeSEB is one of them. Under this evolutionary process, the generation of electricity and its transmission took place on an urgency-based system rather than in a manner to take care of “Regulated Competition”. Since the Governments owned the Electricity Boards, electricity was treated as one more commodity that an all-pervasive State should provide to its subjects. This explains the absence of stakeholder participation in managing this essential service, which ultimately became the major cause of deterioration of the financial health of the Boards.

MeSEB is now trying to emerge out of this situation by restructuring its Power Sector. This seems to be the right path for sustainable development of the sector. The State has decided to initiate comprehensive power sector reforms by restructuring its working so as to facilitate informed decision making. The primary objectives of reforms is to develop a modern managerial and commercial environment to achieve long term financial viability of the sector entity (ies) as well as to improve the reliability and quality of power supply, enhance service standards for its customers and to limit the role of the State Government to broad policy directives. Every decision to be taken during the reform process has financial implications, both for the State Government and the Board. It is therefore imperative to ascertain such financial implications so that informed decisions can be taken. Financial planning and projections are, therefore a critical element of the business process and more so while undertaking reforms.

6.3 The Need for Financial Restructuring

- **The need for Financial Restructuring**

A review of the historical financial statements of MeSEB reveals that the board has been meeting its cash flow needs by deferring its payment obligations to its suppliers and lenders and by reducing investments. These defaults have resulted in the inability of MeSEB to raise additional resources for financing much needed investment requirements. This position temporarily improved in 2003-04 due to adjustment of prior period credits while as per the audited profit & loss account for the year 2004-05, the profit is Rs.2.10 Crores and in F.Y. 2005-06 again a provisional loss of Rs. 41.18 Crores. The Financial Projections for MeSEB have been developed using the derived opening Balance Sheet as on 31st March 2006. This provides a view of the financial health of the Board and needs financial support from the GoMe. A brief status of the present situation is tabulated below:

Consolidated Balance Sheet of MeSEB

CONSOLIDATED BALANCE SHEET Of MeSEB	2003-04 (Rs. in Lacs)		2004-05 (Rs. in Lacs)		2005-06 (Rs. in Lacs)	
NET ASSETS						
Gross Block	48424.74		48662.70		49580.53	
Less: Accumulated Depreciation	20859.78		20964.54		22236.03	
Net Fixed Assets		27564.96		27698.16		27344.50
Capital Expenditure in Progress		7006.97		14105.35		28225.88
Assets not in use		37.01		36.55		36.54
Deferred cost		1169.87		1451.89		1714.09
Intangible Assets		0.00		0.00		6.12
Investments		4490.69		5183.93		5270.84
Net Current Assets		26612.13		32594.61		27655.40
Total Current Assets						
Stocks	5712.23		8963.22		9287.11	
Receivables against supply of Power	23064.46		26777.37		19923.83	
Cash & Bank balances	1560.81		1269.56		2759.11	
Loans & Advances	64.48		89.92		119.27	
Sundry receivables	6422.80		6726.67		7397.53	
	36824.78		43826.74		39486.85	
Less: Total Current Liabilities						
Security Deposit from customers	43.23		42.99		42.43	
Other current liabilities	0.00		0.00		0.00	
Liabilities for	3664.45		3141.25		3192.11	

purchase of power						
Liabilities for capital supplies/works	586.63		535.95		539.07	
Liabilities for O& M Supplies/works	355.09		337.89		342.90	
Deposits & retention from						
Suppliers & Contractors	153.24		287.92		609.59	
Staff related liabilities & Provisions	319.71		409.67		247.20	
Electricity duties & other levies	1306.38		1495.60		1829.98	
Liabilities for expenses	1593.19		1904.45		1632.07	
Other liabilities & provisions	1708.17		2401.50		2693.88	
Deposits for electrification service						
Connections	482.56		674.91		702.22	
	10212.65		11232.13		11831.45	
Subsidy receivable from Government		0.00		0.00		0.00
NET ASSETS		66881.63		81070.49		90253.37
FINANCED BY						
Borrowings for working capital		0.00		0.00		0.00
Payment due on Capital Liabilities		32363.13		30478.16		31917.28
Capital Liabilities		22448.97		27770.23		32452.57
Funds from State Government		11562.79		35436.36		35807.87

Contribution, Grant and subsidies towards cost of capital assets		27501.15		14170.55		20978.88
Reserve & Reserve funds		156.18		78.09		78.09
Surplus/(deficit)		-27150.59		-26863.10		-
TOTAL FUNDS		66881.63		81070.49		90253.37

In order to address the above situation, MeSEB has initiated the preparation of a Financial Restructuring Plan (FRP).

6.4 Objective

The objective of the FRP is to chart a course for the gradual transformation of the finances of the sector from today's position to one of full financial viability where the sector is independent of State support. This will enable the State Government to channelise the available funds to support the necessary development of other sectors in the State in the long run.

The FRP is to be used as an evolving tool for the management of this transformation process by the power sector. ***However, it must be clearly understood and recognized that this Plan is part of a continuous process for reform and that its creation is not an end in itself.***

6.4.1 This report highlights the need for such a Plan, provides the details of the plan/ measures and the support commitment required from various stakeholders (Board, its successor Company, the Regulatory Commission, GoMe, GoI, Donors, Lenders, Consumers & Employees) for the successful implementation of the Plan. FRP measures undertaken in other states have resulted in support from Donors/ Multilateral funding agencies.

6.4.2 The Need for Action

The financial position of MeSEB and its successor company leaves much to be attended to. The Board's financial position needs to be improved and hence the GoMe's financial support is vital for the profitable functioning of the Board in the transitional phase. Power is a vital and strategic service for the Industrial and overall development of the state apart from an opportunity to generate employment. The primary reasons prevalent over the years and responsible for the present state of affairs of the Board is:

- **Tariff Rationalization**

Traditionally the financial performance of the Board has been adversely affected by the low level of tariffs inadequate to recover even the operating costs. The Board has now resorted to a 10% increase in tariff since 2001. While the higher cost of purchase from other states (including the cost of operations), due to no investments to increase our own generation has also contributed adversely to the financial situation of the Board clubbed with lower tariff even against cost of purchase of power.

- **Uncovered subsidies**

The subsidy payable by the GoMe has been increasing on account of more subsidized power supply to rural areas and other priority sector consumers. Over the past ten years or so the GoMe is paying a portion of this subsidy in cash and the balance has not been paid and even accounted for in the books of MeSEB. MeSEB is accounting for this subsidy on cash basis.

An estimate made by us in conjunction with MeSEB has accounted for ***Rs.125.58 Crores as unpaid subsidy till date.***

The following subsidy related issues with respect to MeSEB and its financial position is:

- Subsidy not received on time
- RE subsidy due to the tune of Rs. 269.94 Crores, only subsidy actually received is booked amounting to Rs.144.36 Crores, resulting in a significant backlog of subsidy receivable amounting to Rs. 125.58 Crores.

The outstanding dues on account of Tariff subsidies of Rs.125.58 Crores (as on 31.3.2006) receivable from GoMe has been considered to be paid by GoMe and is considered received in cash during the F.Y. 2006-07.

- **Non-remunerative investments in the past**

Over the years MeSEB has made significant non-remunerative investments considering the social obligations of the state government. For example, number of schemes funded by Rural Electrification Corporation (REC) was not commercially viable. But the Board had to invest in such schemes in order to meet the social obligations of the promoter, i.e. GoMe. In many cases *it has been observed that the distribution network set up to serve the rural load are very lightly loaded even to the extent that in some cases the loading on the transformers is more or less equivalent to the no load energisation loss of the transformer itself*. The debt servicing obligations of interest bearing loans of REC continued to have a negative impact on the financial health of the Board.

- **Operations of the Board**

There have been many operating constraints in MeSEB that have increased its costs. By far the most important is the high level of commercial and technical losses, currently around 42.29% of the total energy input into the system while *the actual loss of many other states are around 40%*.

- **Adverse consumer mix**

As can be seen from the table below, a significant proportion of the Board's consumers are Industries who are paying lower than the others and this trend has been arrested due to certain initiatives taken in the last two-three years, still MeSEB needs to reduce the impact already incurred due to this. This has resulted in lower average revenue per unit sold by the Board although it might have contributed to the overall industrial development of the State resulting in more tax recoveries and employment generation.

6.4.3 Impact of the above listed factors

A broad review of the financial statements of MeSEB reveals that the Board has been finding it hard to meet its cash flow needs and has deferred its payment obligations to its suppliers and lenders and is constrained in making the necessary capital investments. Subsequently during 2004-05 outstanding loans were suitably rescheduled to facilitate the cash flows of the Board. As on March 31, 2005, MeSEB had capital liabilities overdue amounting to Rs. 304.76 Crores including the defaults of overdue interest to GoMe as well as bond redemptions.

(Rs. Crores)

	Overdue Interest	Overdue Capital	Total Overdue Interest & Overdue Capital	Principal due after 31.03.2006	Total Capital Liabilities
Bonds	0.00	0.00	0.00	52.00	52.00
REC	11.18	12.15	23.33	126.85	150.18
LIC	0.00	0.00	0.00	0.00	0.00
Banks	0.35	1.35	1.70	73.00	74.70
Others (JIBC)	0.00	0.00	0.00	67.71	67.71
GoMe	264.86	7.97	272.83	358.08	630.91
CSS	17.27	4.04	21.31	4.96	26.27
Total	293.66	25.51	319.17	682.60	1001.77

In order to improve the situation in the Power Sector in the State, GoMe has embarked upon power sector reforms in the State with financial support from all stakeholders in one form or the other. The program is expected to lead to gradual improvement in the power situation in the state and MeSEB would realize the benefits of this reform program over the next few years. As a part of the reform process GoMe has initiated the formation of a new company for generation, transmission and distribution to succeed in the operations of the Board.

The above will provide more transparency and accountability, which is expected to lead to focus on efficiency in operations but will not solve the financial problems of the sector. As per the Electricity Act, 2003, the new company has to be fully functional by **December 2005**.

In order to address some of these problems, a financial restructuring plan has been prepared for MeSEB. While tariff rationalization is an option to alleviate some of the problems, the extent of tariff correction/ rationalization required is such that it would be unrealistic to assume that the required tariff adjustments could be carried out in the near future. Further, any tariff increase carried out at present would be expected to first cover the revenue deficit and the debt servicing obligations. Only surplus available after meeting the costs would be available for financing the new investments, which is a remote possibility during the initial years of reform. The Board's current income remains at a level below the level necessary to cover the operational expenditure. The important components of the plan are described below.

These plan which calls for certain commitment for financial and administrative support from GoMe during the transition period requires cabinet approval. The proposed plan shows that, based on certain challenging but achievable assumptions/targets, the complete financial viability is achievable by the year 2011-12.

6.5 Financial Restructuring Plan (FRP)

The FRP sets out the road map for the entity by suggesting and proposing measures to clean up the Balance Sheet so as to make the entity viable, operationally efficient and able to raise resources on its own strength.

In view of the above, the objectives of the financial restructuring plan would be to:

- Improve the creditworthiness of MeSEB and its successor company through addressing the overdue liabilities with a view to carry out normal commercial activities with suppliers and lenders
- Restructure the liabilities so as to manage the cash flows in the transition period

-
- Structure the GoMe support
 - Ensure that the successor entity starts on a sound financial footing
 - Enable the transition to fully develop a viable power sector in the state
 - Ensure quality and required quantity of Power to the consumer
 - Rationalize Tariff

Where

- The improvement in creditworthiness would essentially enhance the possibility of funding future requirements
- Restructuring the liabilities in a manner so as to improve the cash flow requirement of MeSEB and

The structural adjustments would encompass:

- Recognizing the staff related unfunded liabilities
- Treating the contingent liabilities
- Addressing working capital issues
- Development of an appropriate capital structure for MeSEB and its successor entity
- Look into Tariff related issues and rationalization
- Enhancing the financial strength to meet future investment requirements.

6.6 The FRP Measures

The FRP of MeSEB has been developed for the period 2006-12 using the MeSEB financial data for 2005-06 to the extent possible. The FRP measures have been broadly divided into the following areas:

- **Liability Restructuring (to be done once approved): Liability restructuring measures include:**

- **Transfer of REC loan to GoMe by way of adjustment against receivables from State government departments and balance treated as equity from GoMe in MeSEB books.**

- Clean up of Balance Sheet:

----- Adjustment in provisioning for inter-state receivables of Rs. 69.87 Crores including from Assam Rs. 69.64 Crores has yet to be considered in FRP.

----- Writing off assets not in use and physically non-existing assets of Rs.37.01 lacs and deferred cost written off of Rs. 1720.21 lacs has been considered in the year 2007.

6.7 Liability Restructuring

The Liability Restructuring Plan seeks to present avenues for MeSEB that allow for settlement of overdue liabilities, reduction of costs, rationalizing of tariff as well as restructuring of the cash flows in line with the requirements of funds for operations and future investments to become a power self sufficient state. In view of the importance of settlement of the overdue in restoration of the creditworthiness of MeSEB, the overdue liabilities have been transferred separately.

Overdue current liabilities, if any towards supplies of power purchase, etc

These are to be converted to bonds with a long-term repayment.

Overdue Capital Liabilities

The key lender where overdue are there is mainly REC. The tentative quantum against each of these lenders has been stated earlier in Table.

The basic objective of restructuring these liabilities is to ensure that all over due payments are settled, both on the interest and repayment fronts. In addition, the cash flow on account of this financial restructuring can be structured suitably thereby supporting MeSEB and its successor entity through the transition period of reforms.

The following have not been considered in FRP though the same is desired, if so decided by GoMe:

As regards REC over-due liabilities, it is proposed to be considered that the GoMe would take over the same so as ease the cash flow of the new company as well as improve its debt servicing capabilities.

To give a sound capital structure to the successor company, it is proposed that the overdue liabilities including interest thereon towards GoMe be treated as GoMe equity in the books of MeSEB.

Future Strategy

Possible strategy would be to:

- Discuss and negotiate with the lenders for
 - Conversion of overdue payments into loans preferably with a moratorium, suitable repayments profile and lower interest rates
 - Waiver of surcharge on overdue payments
 - Partial write- offs/waivers or conversion into non-interest bearing funded loans
 - Negotiations for settlement of Bonds

Existing Capital Liabilities

MeSEB has capital liabilities (Total debt liabilities of Rs.1001.77 Crores due after 31.3.2006) out of which to the tune of Rs. 682.60 Crores on account of principal and Rs. 319.17 Crores on account of overdue capital & interest as detailed in an earlier section.

To give a sound capital structure to the successor companies, it is proposed that the capital liabilities including overdue interest of Rs.630.91 Crores thereon towards GoMe (out of the total debt liability of Rs, 1001.77 Crores) be treated as equity in the books of MeSEB.

Future Strategy

In view of its financial position, it may be prudent to try reducing the financial burden of these loans. Possible strategy could be to:

- Renegotiate to reduce the interest rates especially for the loans taken during higher interest periods
- Refinance the old expensive loans by new cheaper loans through release of existing security or mortgages as well as providing enhanced security measures
- Renegotiate moratorium for the earlier years to decrease pressure on the cash flows.

In view of the existing financial position of MeSEB, the above options would need to be made attractive through innovative support mechanisms like additional securities, guarantees from multilateral agencies, etc. These options would also need active support of GoMe in both negotiating and implementing. As stated earlier, while GoMe would be impacted in inheriting the loans, it would go a long way in reducing costs as well as improving the financial health for MeSEB and its successor entity.

As with overdue capital liabilities, these options would need to be discussed with the lenders and would in all probability be discussed as a package.

6.8 Clean-up of Balance Sheet

This activity is aimed at assessing all other components of the Balance Sheet that need addressing in order to create a healthy Balance Sheet for MeSEB. This activity is based on the details as provided in the balance sheet and has not attempted to clean up the accounting information system itself except to the extent as provided in 2007 on provisional basis. The key components of the clean up of the balance sheet are as follows:

- Unfunded (Pension) Liabilities
- Contingent Liabilities
- Working Capital
- Inventories
- Fixed Assets
- Receivables
- Payables

Unfunded (Pension) Liabilities

The unfunded liabilities primarily represent liabilities towards employees to meet terminal benefits and pension. Statutorily all organizations including SEBs and other government owned organizations are required to create a reserve and contribute on a year-to-year basis so that the funds become self sustainable and are able to meet these present and future liabilities.

MeSEB has created a corpus and made contributions for the employee's pension. **As per study to be carried out (through Actuary), the liability on this account is to be estimated as on March 31, 2006.** Presently the figures of retirement benefits are taken as provided by MeSEB and the same are charged off to Profit & Loss Account on year-to-year basis in F.Y.07-12 and a lump sum amount during the year 2006-07 to cover the outstanding liability till 2005-06 on account of retirement benefits.

Now when the company is formed, it will be mandatory for this company under the Companies Act, 1956 to contribute and provide for the pension fund for its existing employees and already retired employees on actuarial valuation basis. In addition to the contribution to the fund, there will be a regular cash outflow to the existing pensioners and employees retiring over the coming years. In order to meet the shortfall on account of this head, it is assumed for the purpose of FRP that the GoMe shall provide subsidy to meet the shortfall on this account as well as during the transition period. The estimated flow presently considered in the FRP as employee cost for pension payments as well as provisioning over the projection period is provided in the table below:

Tentative flow on A/c of Pension payments and Pension Provisioning

(Rs. In Lacs)

Financial Year ending 31st March	2007	2008	2009	2010	2011	2012	Total
Pension Payment including pension benefits	4484.76	4664.15	4850.72	5044.75	5246.53	5456.40	29747.30
Pension Provisioning 4% of above	18896.00	755.84	786.07	817.52	850.22	884.23	22989.87
Total	23380.76	5419.99	5636.79	5862.26	6096.75	6340.62	52737.18

The above liability is considered after taking into account 33% increase in the calculated pension liability payments and outstanding retirement liability provisions as on 2005-06 (as per the figures provided by MeSEB which are yet to be calculated as per Actuarial valuation). A further increase each year after the F.Y. 2006-07 is considered @ 4%. The pension payments are considered in the relevant year itself while the pension provision of Rs. 229.90 Crores is well represented by the investments figure in the Balance Sheet.

Contingent Liabilities

As per the information available liabilities worth Rs.2 Crores are contingent (only liabilities which are above Rs.1 Lac) for MeSEB as on 31.3.2006.

These contingent liabilities proposed to be retained by MeSEB

Working Capital

In order to achieve a healthier Balance Sheet, MeSEB needs to follow commercial norms of provisioning for non-recoverable, non-moving items of the balance sheet such as bad and doubtful debts, obsolete stocks, non-recoverable claims, non-payable liabilities, etc. The FRP has tried to estimate such provisioning requirements and correct irregularities by making suitable adjustments in the balance sheet so as to make adequate provisions. While such adjustments could also be written off, as a matter of prudence, all adjustments are currently provided for to allow for a detailed analysis of such items before effecting such decisions.

Based on the available information, a write off of Rs.1757.22 lacs is proposed and given effect to in the first year of the financial restructuring period i.e., 2007.

6.9 Highlights of the Plan

The financial restructuring plan of MeSEB has been developed for the period F.Y. 2007-2012 using MeSEB data for F.Y.2005-06 and making certain assumptions, which have been described later in this report.

The highlights of the plan are as below. The details are provided in the annexure enclosed as also in the table below

1. MeSEB will be able to meet 50% of its energy requirement of the state by the year 2012-13, if the new generation facilities are created as per investments proposed in generation, transmission and distribution segments.
2. MeSEB is likely to meet-
 - i) All expenses excluding depreciation by the F.Y.2009-10
 - ii) All expenses including depreciation by the F.Y.2011-12
3. MeSEB will turnaround completely by the F.Y.2011-12
4. After the transition period i.e. from F.Y.2011-12, MeSEB is likely to become a net revenue earner for the State/GoMe
5. MeSEB will be a net revenue earner of Rs 136.40 Crores during the F.Y.2011-12
6. MeSEB would be in a position to pay dividend to GoMe after the F.Y.2011-12.

Projected Financials of MeSEB

(Considering the impact of FRP measures)

(Rs. in Crores)

Financial ending...>	Year	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12
Total income		386.42	503.99	659.82	810.90	1165.01	1546.75
Revenue Subsidy & Grants (included in total income above)		11.13	13.91	17.39	20.10	27.17	33.87
Less: Operating Expenses		480.75	600.29	748.80	813.87	1298.94	1383.98
PBDIT		2.62	5.41	24.75	110.17	17.75	334.52
Less: Interest		82.94	83.92	81.14	109.55	104.75	124.81
Less: Depreciation		14.01	17.79	32.58	33.59	46.94	46.94
PBT		-94.33	-96.30	-88.97	-2.97	-133.94	+162.77
Tax Provision		0.09	0.09	0.09	0.10	0.10	0.11
PAT		-94.42	-96.39	-89.06	-3.07	-134.04	+162.66
Net prior period credit/charges		0	0	0	0	0	0
Provisions		-212.31	-14.84	-16.99	-18.71	-22.65	-26.26
Net Surplus/(Deficit)		-306.73	-111.23	-106.06	-21.78	-156.69	+136.40

Achievements of the above-mentioned targets are dependent on the following:

- i) Load growth, Capacity expansion, Efficiency improvements, Tariff rationalization, Increase in consumers and consumption, Increase in investments and Other assumptions as projected; and
- ii) GoMe's commitment for FRP support during the transition period.
- iii) Support of other stakeholders required other than GoMe

The acceptance of the above mentioned FRP proposals would impact the finances of the GoMe and the Board.

It merits mentioning that by implementing the FRP measures, the GoMe would be providing assistance to MeSEB in reducing the gap between average income per unit and the average cost of supply per unit. This will reduce the subsidy requirement and thereby GoMe support to MeSEB in future.

6.10 Assumptions and risks

The above plan has been developed by making the following assumptions about key factors that will have an impact on the future financial, commercial and operational performance of the Board/ Company.

Capital expenditure

Total investment of Rs. 2708.98 Crores is assumed during the transition period to satisfy the expected demand and control the losses in the system. Investment Plans have been prepared considering the following assumptions:

- i) Investment in Transmission: Major part of the 10th plan fund requirement has been tied up. Hence the need based investments can be termed as resource based investments.

The investment of Rs. 10 Crores has been shown in transmission activity in the year 2006-07 as envisaged for the Misa-Barnihat JV Company with PGCIL

ii) Investment in Distribution: It has been assumed that APDRP and GoMe contribution/assistance would be available each year and hence investment can be termed as resource based. To meet the requirements of various improvements in the system, investments in distribution are unavoidable. Therefore, for the untied portion of the funds required for investments, further resources will have to be explored. Hence it is proposed to consider entire need based investment.

iii) Investment in Generation: 1.50 MW Shillong Heritage Project, Leishika Hydel Project-I (42x2 MW), Umtru (2x20 MW) and Ganol HEP (1*25 MW) have been considered and the investment is resource based.

Capital Expenditure year wise

(Rs. in Crores)

Financial Year ending 31 st March	2007	2008	2009	2010	2011	2012	Total
Generation	119.00	579.50	462.65	409.50	409.50	312.00	2459.77
Transmission	2.50	13.08	26.32	14.30	0.00	0.00	56.19
Distribution	63.96	60.43	17.21	0.00	0.00	0.00	193.01
Total	185.46	653.01	506.18	423.80	409.50	312.00	2708.98

Tariffs

The year wise average tariff hike and increase in consumption and consumers comes out to be as tabulated below:

Year	FY07	FY08	FY09	FY10	FY11	FY12
Av. Tariff hike	7%	7%	7%	7%	7%	7%
Hike in Consumers & Units consumed	25%	25%	25%	16%	35%	25%

Establishment costs

Per employee cost has been assumed to increase by 33% in the year 2006-07 (due to revision of pay scales) and thereafter by 4% on account of normal annual increments.

Others

- **The assumption for the bifurcation of the Balance Sheets and Profit & Loss accounts of the years 2003-04, 2004-05 and 2005-06 including the assumptions for projections are enclosed with the FRP projections**
- Generation for new projects is considered at 40% PLF i.e. 3.504 MUs per MW for 1.50 MW Shillong Heritage Project from F.Y.2007-08 Leishika Valley-I (2*42 MW) from F.Y.2009-10 and Umtru (2*20 MW) and Ganol HEP (1*25 MW) from F.Y. 2011-12 as per new projections while Leishika-II (NOW DROPPED DUE TO TECH. UN-VIABLE) and others will start generating only after F.Y. 2011-12). While for old plants the PLF is considered at 35% i.e.3.066 Mus per MW
- Interest on loans to be based on 9.50%.
- Net prior period debits/ credits to be ignored and taken as Nil except for average balance recovery of outstanding subsidy assumed to be received from GoMe.
- The total consumption of power increase each year is assumed as per MeSEB's figures provided in the projections and divided under each consumer category on a pro rata basis based on F.Y.2005 figures.
- Future tariff rationalization has assumed as 7% every year from 2007 till 2012
- Out of the T&D losses as on 2005-06 of 35.76%, transmission losses have been assumed to be 3.29% and distribution losses to be 32.47%) (P.Y. 2004-05 of 25.97%, transmission losses have been assumed to be 3.39% and distribution losses to be 22.58%)

Financing costs

- It is assumed that MeSEB will be able to raise finances for funding its capital expenditure. Counterpart fund is expected to come from GoMe in the form of equity/grants.
- Interest rate on new loans is assumed at 9.50%.
- All support from GoMe has been considered in the form of equity (including outstanding liability as on 31.03.2006)

Risks Involved

Various issues, which may have an impact on the successful implementation of the FRP, have been analysed and possible mitigation measures are indicated as follows:

Risks Involved and Possible Mitigation Measures

Risk Factors	Relevant Parties	Implications	Possible Mitigation
1.Minimise additional purchases of power	MeSEB, New Company	Load growth target would suffer. Shortages will continue in the short run	MeSEB/Company to clearly indicate to GoMe about the financial implications of additional purchase.
2.Capacity addition not materializing	New Company, MeSEB	Supply policy to be clearly defined- Commercial focus necessary Economic impact on other sectors.	MeSEB/Company to get Capex support from GoMe on time. MeSEB/Company to work towards financial Closure of the various projects in the pipeline.
3. Investment Financing not coming through	MeSEB/ New Company GoMe/Lenders	Efficiency improvement targets severely affected. Quality and reliability of supply at stake. Consumer discontent.	FRP Proposal envisages GoMe shall provide Counterpart funding in cash. Loan proposals for proposed projects are already approved / tied up.

4. Investment approval from MeSERC	MeSEB/ New Company/MeSERC	If the FRP investment plan is not approved by MeSERC, projections may differ	MeSEB/Company may be required to submit cost-benefit analysis of every project for getting approval of MeSERC.
5. Tariff Rationalization	MeSEB/ New Company GoMe/MeSERC/ Consumers	Discontentment among subsidized Categories, Commercial losses may increase and Collection efficiency might suffer	Buy-in by subsidized categories. GoMe support for collection drive. Provide reliable and quality power supply at rationalized power tariff.
6. Freeze on wage revision	MeSEB/ New Company	Employee commitment to reform might suffer Need for incentive based on performance	MeSEB/Company to buy in approval and Confidence of its employees.
7. FRP Funding-support from GOI/FIs/ Other multi lateral Agencies	Lenders	Strategy development for discussing active participation by GoMe	Proactive approach of MeSEB/Company and GoMe Formation of Task force to interact with Planning Commission/ Finance Commission, FIs and multilateral agencies.

8.Efficient Operations and maintenance of Plants	MeSEB/New entity	Additional power purchase in case of power plant shut down. Additional cost to MeSEB/ Company Probable Load shedding	Investment for R&M of the old Plants.
9.VRS costs	MeSEB/ New Company	Upfront financial impact on gross GoMe support level.	GoMe should support the VRS schemes if Implemented by MeSEB/ New Company
10.High cost power from (Seller)	MeSEB/ Seller	High cost power would adversely affect the Financials of MeSEB/Company in the power surplus period.	MeSEB/Company could consider surrendering the power purchase from these units in power surplus period subject to approval of seller.
11.Tariff Hike	MeSERC/GoMe/ MeSEB/ New Company	Subsidizing consumers leaving the grid	GoMe to provide tariff subsidy in case it wants to continue to provide cross subsidy to subsidized categories. MeSERC to approve the tariff hike.

12.Unfunded liability on account of terminal Benefits	MeSEB/ New Company GoMe/MeSERC	In the event of recognizing the same in the Balance Sheet and expenditure Statement of MeSEB/ New Company the impact is expected to be substantial.	MeSEB/Company should get the unfunded liability pass through in ARR
13.Increase in Electricity Duty and Cess	GoMe/MeSEB/ New Company	Net GoMe support shall decrease during the FRP period.	GoMe may need to increase/double the ED & cess initially And later during the FRP period.

6.11 Roles and responsibility of stakeholders for the successful implementation of the FRP

All stakeholders have a role to play in the successful implementation of the FRP. The success of the FRP depends very clearly on the shared sacrifices to be made by various other stakeholders in the power sector, as also by the State and Central Governments. Without adequate and timely commitments from these, the FRP's implementation may be put in jeopardy. It is, therefore, necessary that MeSEB obtain the necessary guarantees and get the financial benefits flowing before pursuing the implementation of the FRP. The State Regulatory Commission shall need to be fully satisfied with the compliance of the corresponding assumptions of assistance from these stakeholders before allowing the FRP to run its course.

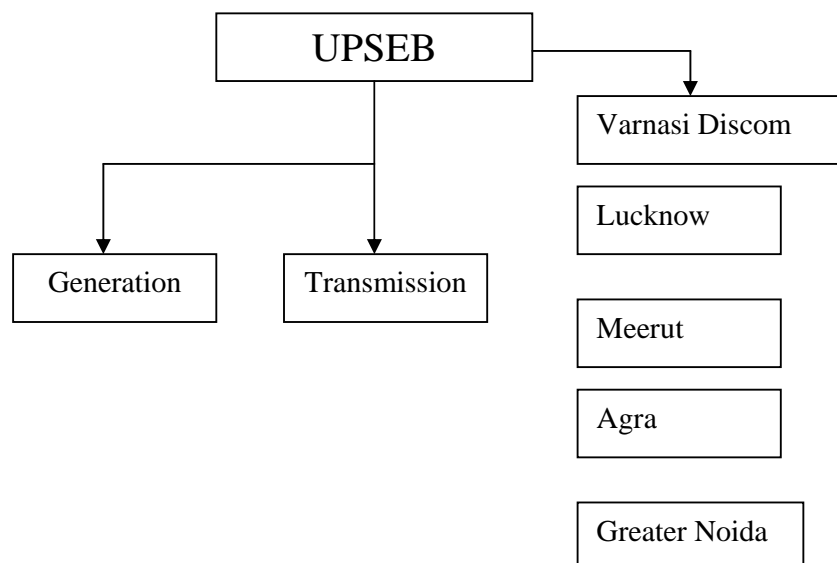
6.12 FRP Measures undertaken in other States

Similar FRP measures have already been considered and implemented in other States and the State Governments of the respective States have supported the formation of the SEB's successor entities in the transition period. Some of these are detailed as under:

6.13 Restructuring models of other states

a. Uttar Pradesh

UPSEB was reorganized in 2000 along the following lines



UPSEB was unbundled into seven companies. Being a populous and a large geographically dispersed state the number of companies was increased for functional reasons. While generation and transmission were hived off into two separate companies, distribution was segregated and transferred to five separate companies on geographical lines. Kanpur and Greater Noida discoms have been privatised.

- Dues from GoUP departments settled against dues payable by UPSEB aggregating to Rs.2000 Crores.
- Write-off of subsidy receivable against outstanding loans-Rs.12000 Crores.
- GoUP loans converted into equity-Rs.3000 Crores.
- Contingent liabilities aggregating to Rs.600 Crores taken over by GoUP.

-
- Unfunded liabilities estimated at Rs.4000 Crores recognized in the books of UPSEB.
 - Future CPA converted into loan and written off against subsidy receivable-Rs.200 Crores.
 - Investment of GoUP in Hydel projects routed through UPSEB, as loans were settled-Rs.2200 Crores.

b. Karnataka

- The loan outstanding in the books of KEB as on 31.3.2000 and due to the State Government set-off through adjustments carried out in the Balance Sheet restructuring.
- Funding of Unfunded pension liabilities of Rs.3850 Crores during 2000-01(to pension trust).
- Total liabilities retained by GOK amount to Rs1007.23 Crores which includes
 - Residuary liabilities-Rs.793.4 Crores
 - Contingent liabilities-Rs.213.92 Crores.
- Interest dues of Rs.147.69 Crores of IP set consumers retained by GOK.
- Total financial support kept at Rs.12140 Crores during 10 years

The following states have already passed the necessary Acts facilitating and promoting the reform process:

1. The Orissa Electricity reform Act, 1995 (Orissa Act No.2 of 1996)
2. The Haryana Electricity Reform Act, 1997 (Haryana Act No.10 of 1998)
3. The Andhra Pradesh Electricity Reform Act, 1998 (Andhra Pradesh Act No.30 of 1998)
4. The Uttar Pradesh Electricity Reform Act, 1999 (Uttar Pradesh Act No. 24 of 1999)
5. The Karnataka Electricity Reform Act, 1999 (Karnataka Act No. 25 of 1999)
6. The Rajasthan Electricity Reform Act, 1999 (Rajasthan Act no. 23 of 1999)
7. The Delhi Electricity Reforms Act, 2000 (Delhi Act No.2 of 2001)
8. The Madhya Pradesh Vidyut Sudhar Adhiniyam, 2000 (Madhya Pradesh Act No.4 of 2001)
9. The Gujarat Electricity Industry (Reorganisation and Regulation) Act,2003 (Gujarat Act No. 24 of 2003)

6.14 Resource Mobilization Options

Cash deficit to be funded through 90% grant and 10% policy loans for the transitional period at an interest rate of 9.50% (Total funds required to the tune of Rs. 1900 Crores)

S.No.	Option (s)	Issues
1	Policy Loans from Multi lateral Agencies up to Rs. 190 Crores	GoMe to approve the FRP
2	Policy Loans from PFC * (upto Rs. Crores per annum)	GoMe to approve the FRP GoMe to be a party to the loan agreement to be signed between MeSEB and PFC.
3	JV with CPSUs	Formulation of Balance Sheet for individual Genco stations Appropriate capital structuring Simulating various contractual terms and options thereof. Establishing long-term tariff profile for the stations. Settling the payment security issues. Valuation not only from the cash flow angle but also from other methods of valuation.
4	APDRP incentives for improvement in Book losses	Finalization of the Closing Balance Sheet as on 31 st March, 2006
5	Grants	From Government

* As per information available PFC Policy loan would be provided to the utility and not the State Government. It has been reported that Rajasthan has obtained around Rs.500 Crores and AP has obtained around Rs.750 Crores of policy loan form PFC for their transitional (non-investment) financing requirements.

There is a possibility to broadly garner up to Rs.1900 Crores (in the first 6-7 years of the FRP period) through options such as GoMe Grants, ADB/PFC Policy loans and APDRP incentives. For the FRP period from 2006-07 to 2011-12, the gross GoMe support requirement is substantial; however, it can be met through possible avenues as may be decided from time to time.

Annexure: Roles and Responsibilities of various Stakeholders

The following table summarizes the role and responsibility of various stakeholders

S.No.	Stake holder	Roles & Responsibilities
1	MeSEB & its successor entity	<ul style="list-style-type: none"> • Work towards consumer satisfaction by providing quality supply at an affordable price • Need to implement performance linked incentive/penalty structure • Commercial & Financial autonomy to the new company and delegation of authority at lower levels • Need to employ appropriate staffing at senior level as well as in the field offices • Consistency of FRP and ARR filing • Formation of Task Force • Dis-aggregation of FRP targets in to the company-input to Business Plan for the new entity. • Seek financing support from GoI & GoI owned funding agencies as well as ADB Policy Loans • Reduction in T&D Losses as estimated in FRP • Improving billing and collection efficiency from the present level. • Augment resources for investments in R&M and O&M expenditure. • Improvement in PAF • Explore Resource Mobilization Options • Establish Systems & Procedures to meet the requirements of the Regulator, Companies Act, 1956 and meet other statutory/mandatory requirements • Ensure timely filing of ARR and tariff rationalization

		<ul style="list-style-type: none"> • Create awareness among consumers and employees • Develop communication strategies
2	GoMe	<ul style="list-style-type: none"> • Assume the role of policy maker and ensure commercial and functional autonomy to the new Company • Ensure necessary legal, administrative, commercial and regulatory arrangements are in place to enable the unbundled MeSEB to operate effectively and efficiently specially in revenue collection and reduction of commercial losses • <i>Take over the overdue financial liabilities like bonds, REC etc.</i> • <i>Pay the present outstanding dues of GoMe and other Govt. departments</i> • Implementation of performance agreements with the new company to ensure that it meets the necessary efficiency improvements, and other stakeholders including GoMe also commit themselves to definitive stipulations • <i>Provide tariff subsidy and payments towards free power supply in cash (if any)</i> • Support the Debt Restructuring Plan • Support for negotiation with donors and other creditors about restructuring debts and raising funds for Capex • <i>Provide Guarantee for servicing unfunded liabilities (as on Transfer date) of employees with respect to Pension, Gratuity and Provident Fund, etc.</i> • Provide counterpart funding for Capex as equity

		<ul style="list-style-type: none"> • Provide support for operational cash deficit as grant • To undertake periodic review and refinement of FRP based on developments and Regulatory environment.
3	Lenders and Investors	<p>Discuss & negotiate for</p> <ul style="list-style-type: none"> • Waiver of surcharge on overdue payments • Funding of new investments • Policy loans from PFC & ADB • Partial write-offs/waivers including re-scheduling of Loans, if so desired.
4	Consumers	<ul style="list-style-type: none"> • Support to MeSEB in reducing Commercial losses • Subsidized categories to reduce the gap between tariff and cost of supply/purchase of power • Timely payment of bills • Voluntary declaration of additional load • Regularize the connections • Provide over all support during the transition period for getting quality & quantity of power at rational tariff ultimately.
5	GoI Planning Commission/Finance Commission	<ul style="list-style-type: none"> • Maximum available support to MeSEB/GoMe during the transitional period mainly during the first 5-6 years of the FRP period) • Provide APDRP incentives
6	MeSERC	<ul style="list-style-type: none"> • Need to issue tariff order in time • Ensure that the tariffs are cost reflective i.e. the tariffs are sufficient to cover the allowable operating costs of the successor company including the cost of necessary capital expenditure and considering the cost of power

		<p>purchase.</p> <ul style="list-style-type: none">• Need to set up performance targets for the utility which are practically achievable• Enforce GoMe to pay the desired subsidy on time• Formulate policy for open access and adopt multi year tariff regime
7	Donor Agencies	<ul style="list-style-type: none">• Provide funds for Capex• Provide grants for technical assistance• Provide necessary support for debt-restructuring and rescheduling

Annexure: Subsidy Receivable from State Government as on 31.03.2005

(Rs. in Lacs)

Year	R.E. Subsidy Claimed	Amount of Subsidy Released by the State Govt.
1975-76	4.36	-
1976-77	8.72	-
1977-78	13.73	-
1978-79	38.27	-
1979-80	62.46	-
1980-81	134.96	-
1981-82	106.59	-
1982-83	154.91	-
1983-84	233.11	-
1984-85	252.11	-
1985-86	278.43	-
1986-87	287.98	353.00
1987-88	310.39	300.00
1988-89	391.08	390.43
1989-90	436.81	517.63
1990-91	678.72	550.00
1991-92	750.11	600.00
1992-93	848.31	650.00
1993-94	981.72	700.00
1994-95	1131.83	700.00
1995-96	1393.83	800.00
1996-97	1444.76	850.00
1997-98	2041.06	900.00
1998-99	2076.43	950.00
1999-2000	2345.07	930.00
2000-01	2325.48	950.00
2001-02	2445.22	1100.00
2002-03	1941.26	1080.00
2003-04	1632.78	1035.00
Total	24644.99	13356.06 Balance due – 11288.93
2004-05	2349.00	1080.00
Total	26993.99	14436.06 Balance due – 12557.93



7. Transfer Scheme for Meghalaya Power Sector

Government of Meghalaya has to notify transfer scheme rules under Sec-131 and 133 of the Electricity Act 2003. The Transfer Scheme covers the transfer of property, rights and liabilities and officers and employees of the MeSEB to the Newly formed Entity.

The draft notification for transfer scheme is as follows:

GOVERNMENT OF MEGHALAYA POWER DEPARTMENT

No.

Shillong

Dated :

NOTIFICATION

Meghalaya Power Sector Reforms Transfer Scheme, 2006 notified on has been amended by notifications issued by the State Government from time to time, in exercise of powers conferred by sections 14, 15, 16 and 58 of the Meghalaya Power Sector Reforms Act, 2004 (Act No. of 2004) and under rule 9 of the Meghalaya Power Sector Reforms Transfer Scheme, 2006. The amended transfer scheme incorporating above amendments is further notified for general information as under:

THE DRAFT MEGHALAYA POWER SECTOR REFORMS TRANSFER SCHEME 2006

(Published in Official Gazette, Extraordinary)

In exercise of the powers conferred by sections 14, 15, 16 and 58 of the Meghalaya Power Sector Reforms Act, 2004 (Act No. of 2004) the State Government hereby makes the following Scheme for providing and giving effect to the transfer of assets, properties, liabilities, obligations, proceedings and personnel of Meghalaya State Electricity Board to **Meghalaya State Power Corporation Limited (MeSPCL)**

CHAPTER I - PRELIMINARY

1. Short title, extent and commencement.

(1) This Scheme may be called the Meghalaya Power Sector Reforms Transfer Scheme, 2006.

(2) This Scheme shall extend to the whole of the State of Meghalaya and also to such Assets, Liabilities, Proceedings and Personnel of the Meghalaya State Electricity Board outside the State of Meghalaya

(3) This Scheme shall come into force from the date of its publication in the Official Gazette. (Published in Official Gazette, Extraordinary (Ga) sub-clause (1) dated

2. Definitions.

(1) In this Scheme, unless there is anything repugnant in the subject or context.

(a) "Act" means the Meghalaya Power Sector Reforms Act, 2004 (Act No. of 2004);

(b) "MeSPCL." means the Meghalaya State Power Corporation Limited, which is incorporated with the principal object of engaging in the business of generation, transmission and distribution and supply of electricity in the areas as specified in Part II of Schedule – L of this Scheme;

(c) "Assets" include dams, dykes, reservoirs, tunnels, intake and outlet structures of water conductor systems, generating stations with associated plants, machineries, equipments, transmission and distribution systems, lands, buildings, offices, stores, furniture, fixtures, vehicles, residential quarters and guest houses and amenities and installations pertaining thereto and other movable and immovable assets, cash in hand, cash at bank, investments, book debts, corporeal or incorporeal, tangible and intangible assets, benefits, licences, consents, authorities, registrations, liberties, patents, trade marks and powers of every kind, nature and description whatsoever, privileges, easements, advantages, benefits and approvals, contracts, deeds, schemes, bonds, agreements and other instruments and interest of whatever nature and wherever situated;

(d) "Board" means the Meghalaya State Electricity Board constituted under section 5 of the Electricity (Supply) Act, 1948 (Central Act No. 54 of 1948);

(e) "Effective date of transfer" means the date of publication of this scheme in the Official Gazette;

(f) "Liabilities" include all liabilities, debts, duties, obligations and other outgoings including statutory liabilities and Government levies of whatever nature including the contingent liabilities, which may arise in regard to dealings before the effective date of transfer in respect of the specified Undertaking (s);

(g) “Personnel” means existing and retired workmen, employees, staff and officers of the Board by whatever name called including those on deputation to other organizations or institutions, but shall exclude persons on deputation from other organizations to the Board;

(h) “Proceedings” include all proceedings of whatever nature including suits, appeals, complaints, petitions, applications, conciliatory or arbitration, whether civil or criminal, or otherwise in which ‘Board’ is one of the parties;

(i) “Schedule” means the schedules appended to this Scheme;

(j) “State Government” means the Government of Meghalaya;

(p) “Transferee” means **Meghalaya State Power Corporation Limited (MeSPCL)**, in whom the Undertaking or Undertakings are vested;

(q) “Undertaking (s)” mean a block or blocks of assets and liabilities of whatever nature of the Board and State of Meghalaya, as the case may be, concerning generation, transmission, distribution or supply of electricity, and unless the context otherwise requires shall include the concerned personnel;

(2) Words and expressions used and defined in the Act but not defined in this Scheme shall have the same meaning as assigned in the Act.

3. Transfer of Assets etc. to the State Government

(1) On and from the effective date of transfer, all claims of the Board against the State Government shall stand extinguished and cancelled and in consideration thereof all claims of State Government against the Board shall stand extinguished and cancelled, which consideration shall be in full and final settlement of all the claims of the Board and all the remaining assets and liabilities of the Board shall stand transferred to and vest in the State Government absolutely.

(2) Nothing in sub-rule (1) shall apply to rights, responsibilities, liabilities and obligations in respect of the Personnel and matters relating thereto including statutory dues such as salary, wages, gratuity, pension, provident fund, compensation and retirement benefits and these shall be dealt with in the manner provided under rule 6 of this Scheme.

4. Classification of Assets etc. into Division (s)

(1) The Assets and Liabilities vested in the State Government in terms of rule 3 and such other Assets and Liabilities as the State Government considers appropriate but excluding those specified in sub-rule (3) of this rule shall stand classified into:

- (a) Generation Division as set out in Schedule – A
- (b) Transmission Division as set out in Schedule – B
- (c) Distribution Division as set out in Schedules – C

(2) If the assets under sub-rule (1) above are subject to security documents or arrangements in favour of third parties for any financial assistance or obligation taken by the Board and the liabilities in respect thereof are to be classified in different Divisions, the State Government, may by order, provide for the apportionment of the liabilities secured by such properties, assets and rights between the different Division (s) and upon such apportionment the security shall be applicable to the apportioned liability only.

(3) The liabilities specified in Schedule – I shall not form a part of the liabilities classified as Generation, Transmission and Distribution Divisions in Schedules – A to C but shall form part of residuary liabilities to be retained by the State Government.

5. Transfer of Assets, Liabilities, etc. by the State Government

(1) The Assets and Liabilities forming part of Generation Division as set out in Schedule- A shall stand transferred to and vest in **MeSPCL** on and from the effective date of transfer without any further act or thing to be done by the State Government or the Board or **MeSPCL** or any other person, subject, however, to the terms and conditions of this Scheme.

(2) The Assets and Liabilities forming part of Transmission Division as set out in Schedule – B shall stand transferred to and vest in **MeSPCL** on and from the effective date of transfer without any further act or thing to be done by the State Government or the Board or **MeSPCL** or any other person, subject, however, to the terms and conditions of this Scheme.

(3) The Assets and Liabilities forming part of Distribution Division as set out in Schedules – C shall stand transferred to and vest in **MeSPCL** on and from the effective date of transfer without any further act or thing to be done by the State

Government or the Board or MeSPCL or any other person, subject, however, to the terms and conditions of this Scheme.

(4) On such transfer and vesting of the Assets and Liabilities in terms of sub-rule (1) to MeSPCL or in terms of sub-rule (2) to MeSPCL or in terms of sub-rule (3) to MeSPCL, as the case may be, the Transferee shall be responsible for all contracts, rights, deeds, schemes, bonds, agreements and other instruments of whatever nature pertaining to the Undertaking (s) transferred to it, to which the Board was initially a party, subsisting or having effect on the effective date of transfer, in the same manner as the Board was liable immediately before the effective date of transfer, and the same shall be in full force and effect against or in favour of the Transferee and may be enforced as fully and effectively as if the Transferee had been a party thereto instead of the Board.

(5) As consideration for the transfer and vesting of the Assets and Liabilities to MeSPCL, as mentioned in sub-rules (1), (2), (3) and (4) and Schedules – A to I as the case may be, the State Government will be issued shares and/ or instruments as specified in Schedules – A to C respectively.

6. Transfer of Personnel

(1) The transfer of personnel in terms of this Scheme shall be subject to the terms and conditions contained in the Act.

(2) Subject to sub-rule (1), the personnel on the effective date of transfer shall stand transferred as under: -

- (a) The personnel classified in Schedule-D to F shall stand transferred to and permanently absorbed in MeSPCL in its various divisions of Generation, Transmission and Distribution.

(3) On such transfer and subject to the provisions of the Act and other provisions of this Scheme the personnel shall form a part of the services of MeSPCL as the case may be, but their rank, scale of pay and inter se seniority as existing in the Board on the effective date of transfer shall be maintained.

(4) Notwithstanding the provisional nature of transfer of personnel to MeSPCL, as per sub-rule (1) of rule 10, the personnel shall discharge the duties and functions as may



be assigned to them from time to time by MeSPCL, as the case may be, and MeSPCL, shall have the power to exercise all administrative and disciplinary control over such personnel transferred to them as per this Scheme.

(5) The transfer of personnel shall be further subject to the following conditions, namely, -

- (a) That the terms and conditions of the services applicable to personnel on the effective date of transfer, shall not in anyway be less favourable than those applicable to them immediately before the said effective date of transfer. Accordingly the salary, allowances and other pecuniary benefits including terminal benefits applicable on the effective date of transfer shall be protected and shall not be adversely changed;
- (b) All such personnel shall have continuity of service in all respects;
- (c) All benefits of service accrued before the said effective date of transfer shall be fully recognised and taken into account for all purposes including the payment of terminal benefits;
- (d) To any orders that may be passed by the Courts in the proceedings pending on the said effective date of the transfer in regard to seniority or other matters concerning the service conditions of the Personnel;
- (e) Subject to this Scheme, the personnel shall cease to be in the service of the Board and shall not assert or claim any benefit of service under the State Government or the Board.

(6) Subject to the Act and this Scheme, the Transferee shall frame regulations governing the conditions of personnel transferred to the Transferee under this Scheme and till such time the existing/(as suggested for modification) service rules/regulations of the Board shall apply mutatis-mutandis.

(7)

- (i) Subject to sub-rule (8), in respect of all statutory and other schemes and employment related matters including the provident fund, gratuity fund, pension and any other Superannuation fund or any other special fund created or existing for the benefit of the personnel, the relevant Transferee shall stand substituted for the Board for all purposes and all the rights, powers and



obligations of the Board in relation to any and all such matters shall become those of the Transferee concerned and the services of the personnel shall be treated as having been continuous for the purpose of the application of this sub-rule.

(ii) The investments and receivables as contained in Schedule – G, which represent the contributions towards GPF and Pension shall be transferred by the State Government to the GPF and Pension Trust as the funded part of the liability of the trust to the personnel.

(8)

(i) **MeSPCL** shall be responsible to ensure that the pension and gratuity trusts of the Board personnel as on _____ are adequately funded to meet the pension and gratuity payments pertaining to the years of service rendered by the personnel of the Board including retired personnel in the Board as on _____;

(ii) In the event of any shortfall of funds with the trusts at any point of time relating to the period of services as on, the State Government shall ensure availability of the required funds in the trusts subject to a maximum amount to be determined as per actuarial valuation to be done for the purpose;

(iii) The management of **MeSPCL** shall be responsible to ensure that the contribution to the Trusts relating to personnel related funds, for the services after the effective date of transfer, of their respective personnel are made as required from time to time.

(9) All obligations in respect of pension and other retirement benefits including provident fund, Superannuation and Gratuity to the employees, who have retired from the services of the Board before the effective date of transfer, shall be discharged by **MeSPCL**.

(10) All proceedings including disciplinary proceedings pending against the personnel prior to the effective date of transfer from the Board to Transferee (s) or from Transferee (s) to other Transferee (s), as the case may be, or which may relate to misconduct, lapses or acts of commission or omission committed before the effective date of transfer shall not abate and will be continued with the Transferee (s) consistent with the applicable service Rules.

(11) Rights and obligations of third parties restricted. -Upon the transfer being effected in accordance with the Act and this Scheme the rights and obligations of all persons shall be restricted to the Transferee (s) to whom they are assigned to and notwithstanding anything contained in any deed, documents, instruments, agreements or arrangements which such person has with the Board, the person shall not claim any right or interest against the State Government or the Board or any other Transferee.

(12) Pending proceedings. - All proceedings of whatever nature by or against the Board pending on the effective date of transfer shall not abate or discontinue or otherwise in anyway be affected prejudicially by reason of the transfer scheme mentioned in the Act and in provisions of this Scheme, and such proceedings may be continued and prosecuted by or against the Transferee (s) to whom the assets and liabilities relating to such proceedings are assigned in accordance with this Scheme only and nobody else. Such proceedings may be continued in the same manner and to the same extent as it would or might have been continued and prosecuted by or against the Board if the transfers specified in this Scheme had not been made.

7. Classifications and Transfer of Assets and Liabilities provisional in the first instance

- (1) The classification and transfer of Division (s) under the rule 4, unless otherwise specified in any order made by the State Government, shall be provisional and shall be final upon the expiry of 18 months from the effective date of the transfer.
- (2) At any time within a period of 18 months from the effective date of the transfer, the State Government may by order to be notified amend, vary, modify, add, delete or otherwise change terms and conditions of the transfer including items included in the transfer or the value thereof, and transfer such properties, interests, rights, liabilities and forming part of a Division of one Transferee (s) to that of any other Transferee (s) or to the State Government in such manner and on such terms and conditions as the State Government may consider appropriate. Upon such orders having being passed the relevant Schedule shall stand amended accordingly.



(3) On the expiry of the period of 18 months from the date of the transfer but subject to any directions given by the State Government, the transfer of Undertaking's, properties, interests, rights and liabilities made in accordance with this Scheme shall become final.

(4).

8. The transfer of the personnel to be provisional in the first instance

(1) All transfer of personnel from the Board to the **MeSPCL**, under rule 6 shall be provisional for a period of six months and after this period the transfer shall be treated as final, subject to any order passed by the State Government under the sub-rule (3).

(2) The State Government shall, within fifteen days from the effective date of transfer, constitute a committee to receive representations from personnel. The committee shall consider representations so received based on the need of the transferee (s), suitability of personnel, organisational requirements and other relevant factors, keeping consistency with the overall objectives of the Act and make recommendations to the State Government.

(3) (a) At any time within a period of six months from the effective date of transfer, the State Government may, by order to be notified, amend, vary, modify, or otherwise change the transfer of personnel to transferee (s), under sub-rule (2) of rule 6, as the State Government may consider appropriate. Upon such orders having been passed, the relevant Schedules shall stand amended accordingly.

(b) The transfer and absorption of personnel to the transferee (s), in accordance with the amended Schedules, shall be final and shall be effective as if it has been made on the effective date of transfer.

9. Rights and powers of the Transferees

(1) Within 60 days of the effective date of transfer **MeSPCL** shall apply to the Commission for grant of license/ deemed license under section 18 of the Act to undertake the business of bulk supply power (including generation, transmission and distribution) of electricity in the State: Provided, however,



that on and from the effective date of transfer and till the grant of license by the Commission, MeSPCL shall be entitled to exercise the rights and powers exercisable by the Board under the Electricity (Supply) Act, 1948 (Central Act No. 54 of 1948), and undertake the business of bulk supply of power (including generation, transmission and distribution) of electricity in the State, in the same manner as the Board was entitled to exercise prior to the effective date of transfer

10. Decision of State Government final

- (1) If any doubt, dispute, difference or issue shall arise in regard to the transfers under this Scheme subject to the provisions of the Act, the decision of State Government thereon shall be final and binding on all parties.
- (2) The State Government may, by order published in the Official Gazette, make such provisions, not inconsistent with the provisions of the Act, as may appear to be necessary for removing the difficulties arising in implementing the transfers under this Scheme.

By the order of the Governor

Pr. Secretary (Power)

SCHEDULE - 'A' – PART I

(See Rule 4(1) (a))

GENERATION DIVISION

The Generation Divisions shall comprise of all the Assets, Liabilities and proceedings concerning Generation consisting of

I. POWER STATIONS:

HYDEL POWER STATIONS:

(a)

MINI HYDEL POWER STATIONS:

II. POWER PROJECTS UNDER CONSTRUCTION:

(a)

(b)

III. GENERAL ASSETS:

(a) The following, if they exclusively or primarily pertain to the generating stations or projects referred to in Paras I and II above or activities related to such generating stations or projects: Special tools and equipment, material handling equipment, earth movers, bulldozers, concrete mixtures, cranes, trailers, heavy and light vehicles, furniture, fixtures, office equipment, air conditioners, refrigerators, computers and signal systems, spares, consumables, raw materials, lands and civil works installations including roads, buildings, staff quarters, rest houses, properties and structures and their associated buildings, schools, dispensaries, testing laboratories and equipment, training centers, workshops, works in progress, machinery and equipment sent for repairs, scraps and obsolete.

(b) The office establishment and other buildings and lands, not covered elsewhere in this schedule which are predominantly occupied/used for the activities of Generation Divisions as on the effective date of transfer.

IV. MISCELLANEOUS:

1. Contracts, agreements, interest and arrangements to the extent they are associated with or related to Generation activities or to the Divisions or assets referred to in Para I to III above.
 2. Loans secured and unsecured to the extent they are associated with or related to Generation activities or to the Divisions or assets referred to in Para I to III above.
 3. Cash and bank balance to the extent they are associated with or related to Generation activities or the Divisions or assets referred to in Para I to III above.
 4. **Provident Fund, Pension Fund, Gratuity Fund and any other Funds based on servicing capability of the Division (s).**
 5. Recognition of receivables for sale of energy to **MeSPCL** (Distribution division) to the extent of acceptable norms of Working Capital.
 6. Other current assets to the extent they are associated with or related to Generation activities or to the Divisions or assets referred to in Para I to III above.
 7. Other Current liabilities and provisions to the extent they are associated with or related to Generation activities or the Divisions or Assets referred to in Para I to III above.
 8. Share capital of State Government to the extent required to match the assets and liabilities referred to in Para I to III above.
 9. Other liabilities to the extent they are associated with or related to Generation activities or to the Divisions or Assets referred to in Para I to III above.
 10. Proceedings to the extent they are associated with or related to Generation activities or to the Divisions or Assets referred to in Para I to III above.
- V. In consideration of the transfer as mentioned above, the State Government shall be issued shares of face value of Rs 10/- each in the **MeSPCL**.

SCHEDULE - 'A' – PART II

(See Rule 4(1) (a))

Aggregate Assets and Liabilities to be vested in the Generation Division of **MeSPCL**

Rs. in crores

NET ASSETS	
Gross Block	
Less: Accumulated Depreciation	

Net Fixed Assets	
Capital Expenditure in Progress	
Assets not in use	
Deferred cost	
Intangible Assets	
Investments*	
Net Current Assets	
Total Current Assets	
Stocks	
Receivables (for supply of Power)*	
Cash & Bank balances	
Loans & Advances	
Sundry receivables	
Less: Total Current Liabilities	
Security Deposit from customers	
Other current liabilities	
Liabilities for purchase of power	
Liabilities for capital supplies/works	
Liabilities for O& M Supplies/works	
Deposits & retention from	
Suppliers & Contractors	
Staff related liabilities & Provisions	
Provision for Pension Payments	
Electricity duties & other levies	
Liabilities for expenses	
Other liabilities & provisions	
Deposits for electrification service	
connections	
Provision for FBT	
Subsidy receivable from Government	
NET ASSETS	
FINANCED BY	
Promoter's Equity	
State Government Equity	
Borrowings-Financial Institutions/banks	
Grants/Subsidies for New Projects	
Bonds	
REC (MLHEP)	
Others (JBIC)	
CSS	

REC	
GoMe (Equity)	
GoMe (Loan)	
Transitional Grant	
Transitional Loan	
Borrowings for working capital	
Payment due on Capital Liabilities	
Capital Liabilities	
Funds from State Government	
Contribution. Grant and subsidies	
towards cost of capital assets	
Reserve & Reserve funds	
Surplus/(deficit)	
TOTAL FUNDS	

SCHEDULE - 'B' – PART I

(See Rule 4(1) (b))

TRANSMISSION DIVISION

The transmission Division shall comprise of all Assets and Liabilities belonging to the Meghalaya State Electricity Board concerning the transmission of electricity and others not otherwise included in Schedules A and C, including but not limited to the following: -

I. TRANSMISSION ASSETS:

All the transmission lines having the capacity to carry electricity at voltages of 66 kV and above (not withstanding the same are presently charged at voltages below 66 kV) on double circuit/single circuit/ single circuit on double circuit towers with Grid sub-stations of various capacities with all associated and related equipment, including step-up, step-down transformers, circuit breakers, metering arrangements and other protective devices with power-line communication system, allied control rooms, load dispatch center, lands (including right of way), buildings, roads and other auxiliary assets spread over within and outside the territory of the State including such assets under construction and assets acquired , transferred or rights of which were vested with the Board by transfer, sale, lease or otherwise, but excluding such constructions or installations lawfully owned and operated by others. In addition to the above, the 33 kV and below distribution system which are in the 66 kV and above Grid Sub-

stations and are integral part of the transformation from 66 kV and above voltages to 33 kV and below voltages shall be part of the transmission system and they shall not form part of the distribution Division notwithstanding anything contained in other schedules.

II. SHARED GENERATING STATIONS

III. GENERAL ASSETS:

(a) The following, if they exclusively or primarily pertain to the above mentioned transmission systems properties or projects or activities related to such transmission systems, properties or projects: Special tools and equipment, material handling equipment, earth movers, bulldozers, concrete mixtures, cranes, trailers, heavy and light vehicles, furniture, fixtures, office equipment, air conditioners, refrigerators, computers and signal systems, spares, consumables, raw materials, lands and civil works installations including roads, buildings, staff quarters, rest houses, properties and structures and their associated buildings, schools, dispensaries, testing laboratories and equipment, training centers, workshops, works in progress, machinery and equipment sent for repairs, scraps and obsolete.

(b) The following pertaining to the shared generating stations to the extent of rights which vested in the Board Special tools and equipment, material handling equipment, earth movers, bulldozers, concrete mixtures, cranes, trailers, heavy and light vehicles, furniture, fixtures, office equipment, air conditioners, refrigerators, computers and signal systems, spares, consumables, raw materials, lands and civil works installations including roads, buildings, staff quarters, rest houses, properties and structures and their associated buildings, schools, dispensaries, testing laboratories and equipment, training centers, workshops, works in progress, machinery and equipment sent for repairs, scraps and obsolete.

(c) All independent and stand-alone Rest houses, which are not parts of any substations/installations of the Board.

(d) All Old Power house office buildings, not covered elsewhere in this scheme, and their associated structures, surrounding land belonging to the Board, including other assets inherited by the Board from Electrical & Mechanical Department of the State



Government, and any unutilised vacant land of the Board, Head Office building of the Board at Shillong.

(e) The office establishment and other buildings and lands, not covered elsewhere in this schedule which are predominantly occupied/used for the activities of Transmission Division as on the effective date of transfer.

IV. MISCELLANEOUS:

1. Contracts, agreements, interest and arrangements to the extent they are associated with or related to transmission activities or to the Division or assets referred to in Paras I, II and III above.

2. Loans, secured and unsecured to the extent they are associated with or related to transmission activities or to the Division or assets referred to in Paras I, II and III above.

3. Cash and bank balance to the extent they are associated with or related to transmission activities or the Division or assets referred to in Paras I, II and III above.

4. Recognition of payables for purchase of Energy from MeSPCL -(GENERATING DIV) to the extent of acceptable norms of the Working Capital.

5. Other Current Assets to the extent they are associated with or related to transmission activities or to the Division or assets referred to in Paras I, II and III above.

6. Other Current liabilities and provisions to the extent they are associated with or related to transmission activities or the Division or Assets referred to in Paras I, II and III above.

7. Contingent liabilities to the extent they are recognised and are associated with or related to transmission activities or to the Division or Assets referred to in Paras I, II and III above.

8. Share capital of the State Government to the extent required to match the assets and liabilities referred in Paras I, II and III above.

9. Other liabilities to the extent they are associated with or related to transmission activities or to the Division or Assets referred to in Paras I, II and III above.

10. Proceedings to the extent they are associated with or related to transmission activities or to the Division or Assets referred to in Paras I, II and III above.

V. In consideration of the transfer as mentioned above, the State Government shall be issued _____ shares of face value of Rs 10/- each in the Transmission division of **MeSPCL**.

SCHEDULE - 'B' – PART II

(See Rule 4(1) (b))

Aggregate Assets and Liabilities to be vested in the Transmission Division of **MeSPCL**

Rs. in crores

NET ASSETS	
Gross Block	
Less: Accumulated Depreciation	
Net Fixed Assets	
Capital Expenditure in Progress	
Assets not in use	
Deferred cost	
Intangible Assets	
Investments*	
Net Current Assets	
Total Current Assets	
Stocks	
Receivables (for supply of Power)*	
Cash & Bank balances	
Loans & Advances	
Sundry receivables	
Less: Total Current Liabilities	
Security Deposit from customers	

Other current liabilities	
Liabilities for purchase of power	
Liabilities for capital supplies/works	
Liabilities for O& M Supplies/works	
Deposits & retention from	
Suppliers & Contractors	
Staff related liabilities & Provisions	
Provision for Pension Payments	
Electricity duties& other levies	
Liabilities for expenses	
Other liabilities & provisions	
Deposits for electrification service	
connections	
Provision for FBT	
Subsidy receivable from Government	
NET ASSETS	
FINANCED BY	
Promoter's Equity	
State Government Equity	
Borrowings-Financial Institutions/banks	
Grants/Subsidies for New Projects	
Bonds	
REC (MLHEP)	
Others (JBIC)	
CSS	
REC	
GoMe (Equity)	
GoMe (Loan)	
Transitional Grant	
Transitional Loan	
Borrowings for working capital	
Payment due on Capital Liabilities	
Capital Liabilities	
Funds from State Government	
Contribution. Grant and subsidies	
towards cost of capital assets	
Reserve & Reserve funds	
Surplus/(deficit)	
TOTAL FUNDS	

SCHEDULE -‘C’ – PART I

(See Rule 4(1)(c))

DISTRIBUTION DIVISION

The Distribution Division of **MeSPCL** shall comprise generally of all the Assets, Liabilities and proceedings belonging to the Board concerning the distribution of electricity in the area of supply consisting of:

I. DISTRIBUTION ASSETS:

All 33 kV, 11 kV, LT. (Single phase 2 wire to 3 phase 5 wire) lines (with overhead lines, Aerial Bunched cables and underground cables) and Sub-stations on different types of supports with various sizes of conductors and step up/step down transformers, breakers, protective and metering devices and control rooms, testing laboratories, lands (including right of way), buildings, roads, diesel generating sets or other conventional and non-conventional generating units, service connections and installations inside consumer’s premises, street lighting and signal systems owned by or leased to the Board but excluding fittings, fixtures and installations owned, by private persons or local authorities, including any of the above assets under construction as on effective date of transfer.

II. GENERAL ASSETS:

(a) The following, if they exclusively or primarily pertain to the above mentioned distribution systems, properties or projects or activities related to such distribution systems, properties or projects: Special tools and equipment, material handling equipment, earth movers, bulldozers, concrete mixtures, cranes, trailers, heavy and light vehicles, furniture, fixtures, office equipment, air conditioners, refrigerators, computers and signal systems, spares, consumables, raw materials, lands and civil works installations including roads, buildings, staff quarters, rest houses, properties and structures and their associated buildings, schools, dispensaries, testing laboratories and equipment, training centers, workshops, works in progress, machinery and equipment sent for repairs, scraps and obsolete.

(b) The following, if they are predominantly occupied/used for the activities of Distribution as on the effective date of transfer: All Old Power house office buildings excluding the surrounding unutilized vacant land owned by the board.

(c) The office establishment and other buildings and lands, not covered elsewhere in this schedule which are predominantly occupied/used for the activities of Distribution Division as on the effective date of transfer.

III. MISCELLANEOUS:

1. Contracts, agreements, interest and arrangements to the extent they are associated with or related to distribution activities or to the Division or assets referred to in Paras I and II above.

2. Loans, secured and unsecured to the extent they are associated with or related to distribution activities or to the Division or assets referred to in Paras I and II above.

3. Cash and bank balance to the extent they are associated with or related to distribution activities or the Division or assets referred to in Paras I and II above.

4. Recognition of payables for purchase of Energy from MeSPCL-Transmission division to the extent of acceptable norms of the Working Capital.

5. Other Current Assets to the extent they are associated with or related to distribution activities or to the Division or assets referred to in Paras I and II above.

6. Other Current liabilities and provisions to the extent they are associated with or related to distribution activities or the Division or Assets referred to in Paras I and II above.

7. Contingent liabilities to the extent they are recognised and are associated with or related to distribution activities or to the Division or Assets referred to in Paras I and II above.

8. Share capital of the State Government to the extent required to match the assets and liabilities referred in Paras I and II above.

9. Other liabilities to the extent they are associated with or related to distribution activities or to the Division or Assets referred to in Paras I and II above.

10. Proceedings to the extent they are associated with or related to distribution activities or to the Division or Assets referred to in Paras I and II above.

IV. In consideration of the transfer as mentioned above, the State Government shall be issued _____ shares of face value of Rs 10/- each in **MeSPCL**.

SCHEDULE - 'C' – PART II

(See Rule 4(1) (c))

Aggregate Assets and Liabilities to be vested in the Distribution Division of **MeSPCL**

Rs. in crores

NET ASSETS	
Gross Block	
Less: Accumulated Depreciation	
Net Fixed Assets	
Capital Expenditure in Progress	
Assets not in use	
Deferred cost	
Intangible Assets	
Investments*	
Net Current Assets	
Total Current Assets	
Stocks	
Receivables (for supply of Power)*	
Cash & Bank balances	
Loans & Advances	
Sundry receivables	
Less: Total Current Liabilities	
Security Deposit from customers	
Other current liabilities	
Liabilities for purchase of power	

Liabilities for capital supplies/works	
Liabilities for O& M Supplies/works	
Deposits & retention from	
Suppliers & Contractors	
Staff related liabilities & Provisions	
Provision for Pension Payments	
Electricity duties& other levies	
Liabilities for expenses	
Other liabilities & provisions	
Deposits for electrification service	
connections	
Provision for FBT	
Subsidy receivable from Government	
NET ASSETS	
FINANCED BY	
Promoter's Equity	
State Government Equity	
Borrowings-Financial Institutions/banks	
Grants/Subsidies for New Projects	
Bonds	
REC (MLHEP)	
Others (JBIC)	
CSS	
REC	
GoMe (Equity)	
GoMe (Loan)	
Transitional Grant	
Transitional Loan	
Borrowings for working capital	
Payment due on Capital Liabilities	
Capital Liabilities	
Funds from State Government	
Contribution. Grant and subsidies	
towards cost of capital assets	
Reserve & Reserve funds	
Surplus/(deficit)	
TOTAL FUNDS	

SCHEDULE D

(See Rule 6 (2) (a))

**ARRANGEMENTS FOR THE TRANSFER OF PERSONNEL TO THE
GENERATION DIVISION**

Personnel belonging to the units of the Board along with its subordinate offices will stand transferred to **MeSPCL-Generation Division** on the effective date of transfer as shown in the list below.

List of all officers working/ would be working with the generation function of the board
--

SCHEDULE E

(See Rule 6 (2) (a))

**ARRANGEMENTS FOR THE TRANSFER OF PERSONNEL TO THE
TRANSMISSION DIVISION**

Personnel belonging to the units of the Board along with its subordinate offices will stand transferred to **MeSPCL-Transmission Division** on the effective date of transfer as shown in the list below.

List of all officers working/ would be working with the transmission function of the board
--

SCHEDULE F

(See Rule 6 (2) (a))

**ARRANGEMENTS FOR THE TRANSFER OF PERSONNEL TO
THE DISTRIBUTION DIVISION**

Personnel belonging to the units of the Board along with its subordinate offices will stand transferred to **MeSPCL-Distribution Division** on the effective date of transfer as shown in the list below.

List of all officers working/ would be working with the distribution function of the board
--

SCHEDULE G

(See Rule 6 (7) (ii))

Transfer of Investments/Receivables

Item	Rs. Crores (Rounded off)
GPF Investments to GPF Trust	
Pension Fund Investments to Pension Trust	
Receivables from CPF Trust to GPF Trust	
Receivables from CPF Trust to Pension Trust	
Total	

SCHEDULE H

(See Rule 6 (2))

Notifications on Staff Transfer

1. Notification No. _____/ dated
2. Notification No. _____/ dated
3. Notification No. _____//Part dated
4. Notification No. _____/-part dated
5. Notification No. _____/-part dated
6. Notification No. _____/ dated

SCHEDULE I

(See Rule 4 (3))

Retained Liabilities

Item	Rs.in Crores
Retained Liability	Nil

8. Creation of 'Regulatory Affairs Cell'

In the process of power sector reforms in the State of Meghalaya under the provisions of Electricity Act, 2003, the State Electricity Regulatory Commission has already been established which is expected to be made functional shortly after the appointment/joining of members.

1. The next step towards achieving reforms is the determination of ARR/Tariffs by the Commission, for which the Board has to furnish the petition to the Commission in the formats prescribed. The State Government is simultaneously required to take steps for reorganisation of the Board by corporatising it into one company / licensee for generation, transmission and distribution. In the first phase, the company (s) shall be Government companies. It is understood that the State Government for the time being, has decided to incorporate the Board into one vertically integrated company for all the functions of the Board related to generation, transmission and distribution. In future this may be followed by unbundling the company into different companies / licensees separately for generation, transmission and distribution.
2. The generation company does not require any license from the Commission under the provision of Electricity Act, 2003, where as the transmission/distribution business by the company shall require license from the SCRC under section 14 of above Act, for which a petition has to be filed to the Commission by the company (Successor of the Board).
3. The above work shall cast tremendous responsibilities on the Board, which in a nut shell are summarized below:
 - (i) To collect data from different wings of the Board including the Finance and Accounts wing, in the formats prescribed by the Commission for filing petition by the Board with the help of consultants for determination of ARR/Tariffs, which for all practical consideration, shall be for the F.Y.2006-07. The Board shall also be required to furnish replies to the queries by the Commission, have technical and other sessions with the Commission, furnish comments on the objection /suggestions received in the public hearings and also



to take steps to implement the Tariff Order issued by the Commission. Timely steps shall be required to be taken by the Board to develop computer programming to implement the tariff order in the time limit prescribed by the Commission.

- (ii) The Board shall also be responsible to assist the State Government to prepare a transfer scheme and finalise the details of properties, interests in the properties, rights and liabilities, assets valuation, etc., in compliance of and as per details under section 131 of the Electricity Act. 2003. In this respect at least some authenticated figures of assets and their valuation along with liabilities, preferably separately for generation, transmission and distribution for the Board shall have to be finalised. All the properties, interest in the properties, rights and liabilities belonging to the Board shall be first vested in the State Government and then revested in the said company (Successor of the Board). This is a huge and time-consuming job requiring regular data and feed backs from different wings of the Board.
4. To cope up with the above work, an exclusive 'Regulatory Affairs Cell' shall have to be created in the SEB, headed by a senior officer of the rank Chief Engineer. The structure of the cell is suggested as per the chart appended herewith.
5. The officers in the suggested organization shall be independently responsible to do the assigned jobs. The officers of the level of the Executive Engineer and Assistant Engineer shall not only work independently under the guidance of senior officer but shall also assist each other, so that in case of absence of one officer, the other colleague may do the additional job in order to avoid creation of any vacuum. The officers of the level of EE and AE should have good computer proficiency, particularly in MS Office and preparing dynamic models. Other senior officers of the ranks of SE and above should also have basic computer knowledge. EE and AE level officers shall have only one steno/computer typist. The suggested organizational setup may be assisted by only four clerks to keep office record and put up files.



6. The Chief Engineer (Head of the Cell) shall coordinate with the Heads of different wings of the Board to collect the data/information from them and compile them in the cell. The CE shall, however, be directly reporting to Member (transmission & distribution). In case of any difficulty in obtaining information even from the Heads of different wings, the Member (T & D) shall coordinate with the Members of the other wings of the Board who shall ensure that the required data/information is furnished to the cell. The Chief Engineer shall be the 'Contact Officer' for the State Government and the Commission.