CHAPTER VII

GOVERNANCE OF POWER SECTOR AND REFORMS: ENABLING FACTORS

7.1: Introduction

On the basis of the data collected on different aspects of Orissa power sector performance after the reforms, it can be said that the reforms of Orissa have failed to produce the expected results. The reforms in power sector have also failed in many states of India. Even the central and state governments have admitted such a failure. In spite of that failure, the state and the central governments have expressed the willingness to go along with reforms. The Minister of State for Planning, Mr. M V Rajashekharan has stated,” It is clear that privatisation is neither a necessary nor a sufficient condition in itself for power sector reforms. However, privatisation remains part of the solution to achieving these reforms,” (http://www.hindu.com/thehindu/holnus/001200608040311.htm accessed on 04.08.06). As power sector is a capital-intensive industry, there is a need for huge amount of private investment. As there is a need of private investment in the sector, the government is determined to reform the sector in order to invite private investment. Against this background it is essential here to highlight the factors, which hinder or facilitate the reforms. Again, power sector reform is a worldwide phenomenon. There are many factors, which have contributed to the failure of power sector reforms in the state. In this chapter the factors that have come in the way of success of reforms, are discussed.

7.2: Factors Responsible for Success/Failure of Reforms

7.2.1: Poor Quality of Service and Lack of Accessibility

One of the main failings of electricity reform has been a lack of emphasis on service. Poor quality of service has direct impact on the consumers. The consumers have to spend more for alternative arrangements when there is power cut or if the voltage is poor. When consumers face problems in metering and billing and for that matter have to visit the
electricity office again and again, they develop a feeling that reforms have not been able to help them. In Orissa it is found that the quality of service and service delivery has not improved. This is the reason why there is lot of opposition to the reform process. Consumer activists have taken up this issue and consumer organisations are opposing the privatisation of electricity distribution on the ground of poor quality. In Orissa the progress in rural electrification is not satisfactory. Only 29 percent households have electricity connection. The standing committee on electricity in Orissa, however, has given a figure i.e. 22 per cent. As private companies have not taken interest in rural electrification, public perception has gone against the reforms. The consequence has often been a loss of public support for reform. Service provision that balances cost recovery with measurable improvements in access, quality, reliability, and affordability needs to be reiterated as the basis of sound commercial operation in the sector. One approach is to incorporate service-based incentives for increasing new connections and for reducing outages, customer complaints, and installation lead-times into private management contracts and regulated performance criteria for utilities.

7.2.2: Opposition to Reform by Consumer Organisation

Electricity reform is not only an economic process; but it is also a social and political one. Public perceptions of costs and benefits, and politics on that basis have an impact on the acceptance and rejection of the reforms. Reforms in Orissa power sector has failed the test of social legitimacy as many social organizations, consumer organizations and worker associations, particularly employees associations in the state, are opposing for repealing reforms by ending the contracts with the distribution companies. These bodies argue that the distributors are more interested in collection of revenue than taking steps to make this essential service accessible to the millions in the remote areas in the state and also in enhancing the quality of service. Tariff increase has not been accompanied by the corresponding increase of the quality of service. Electricity Grahaka Manch, Orissa, backed by the CPI, has gone to the extent of telling consumers not to pay electricity bill till the private distribution companies were taken to task with the argument that private companies owe crore of rupees to the state, they have not renewed their agreement or licence and therefore they have no right to collect money from consumers (The
The NESCO Biduyt Grahaka Manch raised voice against the Reliance Energy, which it demanded to be brought out of the NESCO purview. The convener of Bidyut Grahak Mancha Jayanta Das was of the opinion that “Reliance Energy has begun looting 17 lakh customers in the NESCO areas. Most of the villages are still deprived of the rural electrification programme” (The Statesman, 20.03.06). There are many instances where the consumers locked up the electricity offices for poor quality of service. Purkayastha (2006) writes, “Therefore, to again hawk the discredited privatisation of distribution under the guise of mega power projects makes very little sense today. But the brutal fact that the power ministry needs to accept is that their neo-liberal vision of booming private power and a sick state sector has completely failed”. On the issue of AES leaving the distribution business, it can be said that local mindset and the people’s perception of reforms in the sector are important for the sustenance of reforms. A study states, “Being an Indian company, BSES management is well aware of the local mindset, which does not seem to apply for AES. This acts both ways. While the understanding of local human sentiments and its idiosyncrasies provide with a practical base for human resource management, occasionally BSES gets caught in the whirlpool of events influenced by the local environment. On the other hand, AES (as indicated earlier) is consistently trying to enculturise the organization with a different outlook. In this process and in addition to other processes, for example, they are even bringing in non-Indian nationals to work side by side with the locals. This is definitely a laudable determined effort towards moulding the mindset, but unless carefully introduced it might create an unnecessary dissonance” (Rao 2002).

This kind of situation has adverse impact on the investment climate and already AES, an American company, has walked out from the scene and Reliance Company which has taken WESCO, SOUTHCO and NESCO has expressed to quit.

7.2.3: Lack of Responsiveness of the Staff

The staff response to the consumer problems has not improved which is evident from the field study undertaken in the state. The manner of dealing with the problems in billing, metering and other problems has made service delivery ineffective. Power theft is rampant
which is evident from the higher percentage of the distribution loss. Beneath the formal policy in the sector, corruption and non-transparent dealings has failed the reform expectations. The role of the staff is very important to address the problems of the consumers in supplying quality service to them. As compared to the performance of the staff of the employees, that of the franchisee staff is better which is found in the study. It is found that there is lack of responsiveness on the part of the officials to render timely service to the consumers. There is still demand for the speed money. The inefficiency of the DISTCOs in metering, billing and collection reveal the low work culture and lack of commercial outlook of the employees; this has been mentioned in detail in chapter V. This explains the importance of the work culture or environment procedure in a commercial organisation. Thus, lack of responsiveness on the part of the staff in solving consumer problems is a serious cause for concern.

7.2.4: Lack of Effective Implementation of Rules and Standards
Public benefits such as access, reasonable pricing, and quality service have rarely been included in actual reform design. The analysis of the study findings reveals the fact that the expectation that privatization as a strategy can solve all the ills of power sector, is not reflected in practice. The expectation that the competition in the sector will reduce price and provide quality service has not been attested by facts. The state government’s assumption that privatization will lead to competition and price reduction proved wrong and, in fact, the issues of accessibility of the electricity service remained an issue of concern as the private distribution companies showed less interest in expanding the service to the remote rural areas as it involves a lot of financial cost with low return. Though the service standards were well spelt out in the regulatory principles, their enforceability caused a concern so far as the effective service delivery is concerned. Reforms have failed to serve public interests as the private entities focus on cost recovery.

7.2.5: Unrealistic Assumptions on Ground Level Situation
The failure of Orissa’s power sector reform is attributable to unrealistic assumptions and less attention given to the feasibility of the reforms. The ground level factors like law and order situation, the responsiveness of the officials, rent seeking attitude of the officials,
theft of the electricity, opposition to reforms by the employees, opposition to reforms by consumer bodies are some of the factors which were not given adequate consideration when the reforms were planned and a framework of reform programme was outlined. The reason of such unrealistic outlining of reform programme is the assignment of such tasks to the foreign consultants having less idea about the ground level situation of Orissa.

The case study in Orissa proves that the ideological inclination either for state or for market is no way an attribute for efficiency of the sector or for the provision of quality service in the state. During the period when OSEB, an agent of the state, took the role of the policy maker, regulator and the distributor of the electricity service, the power sector of the state was not doing well in efficiency or equity parameters which is mentioned in the chapter four of this dissertation and it is due to the poor performance of the sector, the reforms in the sector was envisaged. Thus, the assumption that the state is the best actor in producing good performance is not proved. Similarly, the post reform performance of the Orissa power sector has not been up to the expected outcomes when the market is entrusted with a leading role. Therefore, the onus is not either on the state or market. It is with the quality of governance – how the decisions are implemented, how performances are regulated, how the officials are made accountable, whether or not the corrupt practices are checked, whether the accessibility concerns are taken care of, whether the reasonable prices are fixed and collected and how the equity questions are addressed. The Rajadhyakshya Committee report, 1980 recommended certain steps for the improvement of the country’s power sector. The Committee found the problems with the manner the SEBS were functioning. No accountability measures were effective, no effective work culture of the employees, and the faulty accounting system followed by the SEBs. The committee, therefore, recommended for some internal reforms to be within the SEBs and there was no mention of privatisation. The Kannan and Pillai (2003) attribute the failure of the power sector of India to the inefficiency of the SEBs caused mainly by factors like corruption and mismanagement. This study prescribes for the internal restructuring rather than privatising. Thus, the real challenge for the policy making in the infrastructure lies with making it consistent with the actual conditions of the sector, and social and institutional capacities of the country. Policymaking influenced by ideological orientation delivers no
good. For the power sector of the developing country, particularly for India, the privatisation has become indispensable for the fact that it is a capital intensive enterprise and needs huge capital for generation, transmission and distribution of electricity in order to cater to the needs of the increasing population for the domestic, commercial, industrial and agricultural purposes. Governments are not having good financial condition. Thus, there is a need for private investment. But requirement for private investment should not lead to the end of role of the government and regulation. The task is to determine where, when and how private sector can do better and what role government has to take for the purpose of delivering quality service with reasonable price and making the sector financially viable. Reform based on this approach is likely to deliver expected results.

7.2.6: Conflicting Roles of the Actors
The reforms in the sector have not achieved expected success due to the conflicting roles and interests of various players – government, regulatory commission, private entities, employees and consumers – in the sector. While the DISTCOs are expected to expand service to rural areas and bring the quality in service, they have failed to do so and therefore seek government support and assistance. They expect higher tariff, which is evident from the tariff proposals submitted by them to the Orissa Electricity Regulatory Commission. While the government of Orissa has thought that after reforms everything will be taken care of by the DISTCOs, and stopped providing subsidy, the DISTCOs are complaining against the government’s lack of support in ensuring proper law and order for collection of bills and in controlling the theft by punishing the illegal consumers. The government of Orissa has given responsibility of regulating the DISTCOs to OERC and retained the power of broad policy making in power sector development and rural electrification. OERC has no power or jurisdiction to regulate the behavior of the DISTCOs to take steps for rural electrification. Though there is certain provision to include the consumers in decision-making process through the instrumentality of CAC, the consumers have failed to take advantage of this because of less expertise on the technicalities of tariff and lack of knowledge on the complexities of the logic of market behaviour. Consumer organizations have, from time to time, raised their voice, sometimes against DISTCOs and sometimes against government and raised concern over
poor quality of service and price hike and poor accessibility. This has influenced neither DISTCOs nor the government. While the employees of the erstwhile SEB who got absorbed in DISTCOs, GRIDCO and generating companies, have shown much interest on their promotion, pay scale, pension and other facilities and have opposed the privatization process with the apprehension that the privatization process would cost their job and other job related facilities. They have not shown commercial acumen by adopting their work culture to the changing requirements and have not shown interest in consumer benefit. The consumers have been the worst casualties of the on going reforms in the sector.

7.2.7: Lack of Effective Regulation
Despite the formation of regulatory bodies in the state, the prevalence of IPP scandals, insider privatisation schemes, and non-compliance of the rules and regulations laid down by the commission on the part of the DISTCOs make the regulation ineffective. That points to the fact that making of laws and regulations alone does not guarantee success. Very less percent of the consumers studied know about a body like electricity regulatory commission working in the state to protect their interest. The commission has not been effective in protecting the public interest in the state from the standpoint of ensuring quality service to the consumers. Regulatory commission as an instrument of accountability has not been effective to make the DISTCOs accountable by making them increase the quality of service. A healthy and vibrant civil society is an essential complement to independent regulation. For civil society to fulfill its role, sustained investment in capacity building of public interest groups to participate fully in the regulatory process is essential. These issues demand attention by politicians, policy-makers and regulator.

7.2.8: Employees’ Opposition to Reforms
The study found that the employee issue is one of the factors for the poor performance of the sector. The opposition to reforms in the state became so severe that the matter was taken to the Supreme Court of India. Following is an extract from the Supreme Court’s judgment in *Orissa Electrical Engineers Service Association Vs. State of Orissa*, “It becomes apparent that what the State Government has thereby tried to ascertain was the
preference and not the willingness of such employees to remain in the service of the State Government or to get permanently absorbed in GRIDCO or OHPC. The employees were told that their preference in matter of permanent absorption would be considered before taking a final decision…The fact that the State Government retains with it the power of taking a final decision in the matter clearly indicates that it wanted to ascertain preferences only…..We hold that actions taken or orders passed on the basis of such ascertained preference are bad and therefore of no effect. ….We direct the State Government to consider the willingness of the Electrical Engineers, who are State Government employees on deputation with OSEB, to revert to the State Service or to get permanently absorbed in GRIDCO or OHPC afresh.” (Rao 2002).

Accordingly, the willingness was ascertained and when the employees opted for State Service, they were told that they would be declared surplus and retrenched. Threats like these ensured that all of them fell in line. A survey (Rao 2002) to assess the employees’ perception of reforms which found that 48 per cent of them felt that there is no improvement in working conditions while 40 per cent said that conditions turned to worse after reforms. Priority was accorded to revenue collection without the necessary infrastructure resulting employees facing reprisals from public (one employee of WESCO was murdered; one lineman of CESCO lost his teeth). Almost 70 per cent of employees felt that there is no improvement in pay & allowances after the reforms, 25 per cent felt that the situation is bad after reforms. Problems of Residential House Rent Allowance of officers have not been resolved, particularly Engineers were very sure the way transfer scheme is interpreted by the management while extending allowances like HRA. Discriminatory salary structures were introduced by AES at all levels including the Directors on the Board. For example, Directors nominated by AES were getting rupees two hundred thousand per month, whereas the directors appointed by the Govt. of Orissa were paid only rupees eighteen thousand per month. Sixty eight percent of the employees feel insecure about their future. The employees perceived power sector reforms as a blindfolded jump into the arena of uncertainty. The business model of *Privatisation ⇒ competition ⇒ efficiency* was perceived by the employees as *Privatisation ⇒ competition ⇒ hire and fire policy ⇒ exploitation*... Near absence of
any social security system also makes it difficult for an employee of any organization to even contemplate premature retirement. Employees apparently have found that the pension scheme preferred by them, and adopted by the companies, has turned out to be disadvantageous…There is an apprehension that liabilities of Government/GRIDCO towards Pension Trust may not have been assessed correctly. Promotions have been totally stopped after the introduction of reforms and several employees are not sure about their promotional avenues and prospects. Many of the posts are declared surplus. As much as 37 per cent of employees felt that accountability has gone down after reforms while 47 per cent of them felt there is no change. Moreover, 25 per cent of employees felt that the training after reforms is good whereas 33 per cent of them felt there is no improvement, while 38 per cent of them were of the view that it is bad.

In the Post-reforms era, GRIDCO introduced several training programmes for personnel development. But, the unbundling of GRIDCO into 4 distribution companies and transfer of a majority of staff to these companies again brought the situation to a grinding halt. Only 1 per cent of employees felt that the new schemes are good, whereas 82% felt that there was no change in other welfare measures. Various trusts like provident fund etc., have been formed for pension, but without any opening balances. The liabilities on these are met out of current revenues. Employees expressed concern that if companies continue to suffer losses, they may not get even their terminal benefits. As many as 53 per cent of employees did not prefer voluntary retirement.

Employees sometimes go on strikes and dharanas to oppose reforms. National Coordination Committee of Electricity Employees & Engineers (NCCOEEE), demands the review of Electricity Act 2003. Nearly 10,000 employees participated in the march. It has gone to the extent of marching towards Parliament of India. President of Electricity Employees Federation of India and president of Akhil Bharateeya Vidyuth Mazdoor Sangh, general secretary of All India Power Engineers Federation, general secretary of All India Power Diploma Engineers Federation, and convenor of NCCOEEE demanded review of the Electricity Act 2003. They demanded that provision for cross subsidy to be
maintained and the responsibility of rural electrification, including its maintenance, to be under the responsibility of the centre and state governments. The interim report of the experts and the latest order of the Orissa state Electricity Regulatory Commission against the private distribution companies reveals the fact that the unbundling and privatisation of Electricity Boards have not helped in any manner in the improvement of power sector, on the contrary it served its deterioration (People's Democracy, 2003, Vol. XXX No. 12 March 19).

Thus, the employees of the electricity sector have not accepted the reforms wholeheartedly. The job guarantee of the employees provided to them during the privatisation process of the power sector of Orissa can be attributed to the dismal performance of the employees. The tripartite arrangement among OPGC, GRIDCO, and the State Govt. envisaged CESCO's receivables being escrowed to GRIDCO on the one hand and OPGC on the other hand having an escrow against GRIDCO's receivables to the extent of the bills raised by OPGC for supply of power. With CESCO defaulting to GRIDCO, the latter were seriously constrained in meeting their escrow obligations to OPGC who started reducing power supply to GRIDCO. When OPGC management did not respond even to the urgent requests of the State Government for a discussion to sort out the matter, GRIDCO obtained interim orders from the High Court restraining OPGC from imposing power cuts. GRIDCO also moved OERC (No. 31/2000) praying for directions to CESCO to honour their various contractual commitments including escrow. The case was finally disposed of by OERC in an order-dated 19.04.2001 in which the Commission directed CESCO to abide by their contractual commitments.

7.2.9: Employees’ Work Culture Issue
The study has found high performance in case of franchise. The SEBs suffered losses, as these lacked commercial work culture. The OSEB lacked commercial culture (Rajan 2003 and Khilar 2005). This study finds that lack of capacity on the part of officials to take immediate action to solve the billing, metering and mechanical problems like transformer burning is another reason for delay. The procedures, which are followed in processing complaints, is time consuming and it can be said that the reforms, which
intend to run the sector on commercial lines, have not been materialized due to the old procedures which are still followed. In this regard there are some studies on how consumers suffer due to the delays, which is caused by the file processing. Ruet writes,

“.. at every level of hierarchy, officers spent a substantial part of their time clearing formal requests. This need for multiple sanctions implies that every officer has tall files of documents to sign, in which a clerk shows the officer where to sign. Both direct observation in offices and the fact that the basic errors remain show that these reports are not read when signed. The day is finally rhythmmed by tides of the helpers moving files of files. In addition, the time taken to have decision cleared can be very wrong. On close examination, it is clear that the separation of two levels of sanction and the framing of the decision process within a book currency system leads to the de facto absence of formal discretionary power left with the field” (Ruet, 2005 p.103).

In this regard, another example is given. “In certain States, the frequency of power cuts is explained by the fact that the distribution transformers often ‘burn’. There are not enough of them, and the ones in the network are overloaded. Hence the need for frequent repairing. ‘There is ostensibly lack of funds for buying new transformers’, ‘there are political orders to devote resources to other fields’, are the explanations advanced. And hundreds of damaged transformers are strewn on the ground. There may be tens of thousands at the scale of a state. They are not seriously damaged; at times it would suffice to change the coil. Put on the network at a low cost, they would instantly cut down most of the power cuts, smoothen the peak demand over a larger number of transformers, and thus would cut the future need to repair and ultimately save money!” (Ruet 2005).

7.2.10: Corruption and Theft

According to a study conducted by Transparency International India on corruption and public services, Indians pay out Rs 21,068 crore every year as bribes for various public services and Electricity was the second most corrupt among the basic public services. Nearly 65% of the corruption here involves billing and granting new connections (Hindu, July 1, 2005). Corruption at the delivery level is still a reality in Orissa as per findings of the
study. The present study finds that the consumers pay bribe to electricity officials to get quick services from them. The matter of the concern is that in some cases the officials take bribe from the consumers to reduce the actual amount of the bills to be paid by the consumers for the electricity they consume. In other words, the losses, which occur to the private companies, are contributed by the bribery, which takes place at the consumer level.

Apart from theft, bribery is another factor that hinders the growth of power sector. Out of the 300 sample respondents, 19 percent admitted that they had to pay bribe to get services from the officials. Therefore, this is an important factor, which affects the commercial viability of the sector. In 1997-98, the extent of loss due to technical inefficiency was calculated to be 15 per cent. But the total loss including theft was around 40 per cent. Thus, the rest of the losses are due to theft of electricity, which is Rs. 10705 crore and Enron’s power project disaster in Maharashtra and other power sector contract deals in different states in the name of reforms tell the story of corruption and non-compliance to rules and regulations in which bureaucrats and politicians are involved (Kannan 2002) and it has been estimated that the theft alone causes a loss of RS. 20,000 crore (Reports on India’s Power Sector 2003). The rural electrification issue in Orissa was hindered by the corruption involved in the award of contracts (proceedings of the winter session of Orissa Legislative Assembly 2005).

7.2.11: Lack of Political Unanimity on the Issue of Reforms

The political party in power in Orissa is justifying the reforms whereas the opposition parties are criticizing the government for encouraging reforms on the plea that the reforms have not improved the quality of service and financial viability in the state. Energy Minister claims that the reforms substantially helped the cash-starved State. So, he rejects the idea of going back on this front. The minister blames the former government for all the problems in the sector. He accuses the Opposition Congress party for entering into 'wrongful' agreements with the energy distribution companies
(DISTCOs), while it was in power. According to him, that was the reason why the Orissa Government was facing problem in attracting investment in the energy distribution areas and as per the terms of the agreements they can not be forced to comply with certain issues like rural electrification and service standard as in the agreement it was mentioned that ‘the DISTCOs will endeavour’. Had the phrase been ‘DISTCOs will make efforts’; legal action could have been taken according to the party in power in Orissa. Congress party of the state, on the other hand, complains that the State Government meddles with Reliance, one of the private companies in Orissa power distribution business for pecuniary benefits. On the other hand, Biju Janata Dal (BJD) and Bharatiya Janata Party (BJP) appreciate the efforts of the State Government for streamlining the power sector. Orissa Gana Parishad (OGP), another political outfit, however, is critical to the power reforms in the state and demands rollback of power reforms (http://www.orissadiary.com/Shownews.asp?id=2810). Thus, in Orissa there is no political consensus over power sector reforms. While the party in power justifies for whatever it is doing and blames opposition party for whatever the wrongs. The opposition party, on the other hand, criticizes the ruling party for the problems of power sector. The need of political willingness for the success of reforms is well realised. The offer of free power to farmers and lack of political willingness to punish the theft of electricity, to collect revenue from big industrialist and ensuring proper law and order situation are some of the reasons for the less progress of power sector reforms.

7.2.12: Consumer Participation

From the study in Orissa it was found that the village committees have been formed and helping the officials to collect revenue, check theft and help the consumers having billing and metering problems and in providing new connections. Some village committees are of course not doing well due to the dominance of some people in the village and due to the negligence of officials when committee approaches them to interfere in some conflict situations in the village arising out of the activities of the village committee while controlling and monitoring theft or hooking. Village Electricity Committee is an institutional arrangement providing an opportunity to the consumers to participate in the
service delivery process. Most of the village committees are doing well. This is at the village level. There is another institutional arrangement at the state level in the form of the State Advisory Committee (SAC), which is formed by members representing various stakeholders involved in the distribution and use of electricity. The committee gives its valuable comments on any decision taken by the regulatory commission like standards of service delivery, tariff structure and consumer grievances. As per the reports of the OERC, which has come in various Tariff orders, members of the committee raise various questions and ask certain issues and this deliberative process brings transparency and subject DISTCOs accountable and answerable to the questions of the members.

7.2.13: Investment Climate

According to a senior official AES, “In the absence of a conducive environment for running commercial ventures, it would be very difficult to run power retail business in the state.” (Interview taken for the study ). Vexed with the non-cooperation of the state government, AES Corporation abandoned the management of CESCO in 2003. The Reliance Ltd. which controls the remaining three distribution companies — NESCO, SOUTHCO and WESCO — has already expressed its intention to leave the distribution business. According to a senior REL official, “As such, the power distribution business is just not remunerative in the state,” (Interview taken for the study). The Reliance Energy Ltd’s decision to pull out of Orissa’s power sector is a sad finale to the state’s attempts at the sector’s reform. The state government, on its part, has alleged that REL is not servicing bonds issued in favour of the Grid Corporation of Orissa (Gridco) in lieu of bulk supply rate dues. In view of the impasse, the company has, not surprisingly, decided to cut its losses and exit altogether from the business, if needed. Reliance Energy’s threat to exit electricity distribution in Orissa hurts the credibility of the state’s reforms.

7.3: Chapter Summary

In this chapter, what is found from the description of these factors relating to the performance of Orissa power sector is that only by framing policies and constituting institutions cannot improve the situation? In the review of the literature section in the
Chapter I of this dissertation, a mention has been made on how development process is hindered by non-implementation of rules and regulations, prevalence of corruption, dominance of the vested interest groups and political elites. Most pertinent example has been the case of land reforms in India. The implementation of the land reforms was not effective, as the officials implementing the rules were not doing it effectively as they felt that they would be the losers. Power sector cannot be seen in isolation from the overall development process of a country. The Power sector involves interests of many stakeholders like politicians, bureaucrats and consumers. The sector is intimately related to Indian politics. Power sector, most often, determines the power of a political party as winning an election depends on how a political party or government deals with the power policy. Free power offer to voters is a well-known factor in India. In the words of Myrdal (1970) economic development is hindered in a state ‘soft’ characterized by a general lack of social discipline, deficiencies in legislation and, in particular, in law observance and enforcement, lack of obedience to rules and directives handed down to public officials on various levels and corruption. Kohli, (1987) finds that the failure of the Indian land reforms was essentially a political failure, because the congress elites in aligning themselves with the rural power configurations ipso facto allowed these elites to capture political power and subvert the reformist policies at will. Frankel (1978) finds that government policies are determined by political compromises made by influential political leaders to the powerful interest groups.

As elections are fought on the promises made for providing electricity free of cost to the electorate the net losers are those poor who are not in a position to avail electricity services on account of lack of purchasing power (Kannan and Pillai 2001). From the case study of Orissa, these theoretical observations are found to be true in case of power sector reforms. The analysis of the factors have raveled that the lack of proper implementation of rules by the officials, employees opposition to reforms and low level of work culture, corruption at the distribution level, state apathy for the state of affairs in respect to the power sector etc. are some of the factors which have hindered the reforms. Though all of these factors are not directly related to the performance of the sector, these have affected indirectly the outcome of the reform.