

## INDEPENDENCE PLAN OF DISTRIBUTION COMPANIES THE NEW APPROACH IN ELECTRICAL INDUSTRY IN IRAN

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### ABSTRACT

*During the recent decades, governmental organizations have tried to make competitive condition and oppose with limitation so that increases the productivity. With regard to such international policy, during the recent two decades, Iranian authorities have tried to grant economic activities and service rendering units to private sectors. With regard to such movement in the Islamic Republic of Iran, it was arranged that Ministry of Energy to grant distribution company to private sectors.*

*Such restructuring created the new management of the distribution companies with the real influence on the development strategy of the company. Following two decades of confrontation between monopoly and competition, the need for a new approach now appears and more clearly in many regions of the world. [1] This paper aims to open a debate on a new approach. The independence plan for distribution companies is a new approach, which is contemplated in this essay.*

### INTRODUCTION

The electrical industry has played very important role developed economic systems and also is considered as a key factor on development plans of many countries. Thus, the important factors in the economic development are developments of energy generation and consumption as well as assurance in rendering services with high quality.

The main index of industrial development, is rapid development of industry system efficiency to be decreased and accordingly continuous investment in this respect is always required . Due to lack of necessary in this respect in macro- investment timetable in energy generation, the electrical industry generally encounters with problems and increase of costs .

One of the most important problems of developing countries and the countries which are rapidly being industrialized, is the price of generated energy. Regarding that electrical industry is governmental industry in the most countries thus such governments are encountered with limitation of energy sources

The legal status of the electricity industry is very different from one country to the next , insofar as it is closely related to the institutional from work and to the to the legal system of the country.[1]

The industrial organization of the power sector includes sharp international contrasts with a variety of structures ranging from integrated state monopolies and private companies , to local state – controlled firms , etc

### GOVERNMENT MONOPOLIZATION IN DISTRIBUTION SECTOR

The industrial organization and the legal status of the electricity sector are actually tantamount to a political and ideological marker of a given period. The regulatory changes in the branch read as a sort of summary of the major economic, social, and political debates.

Within the two previous years, Government Monopolization in electricity section in developing countries was regarded as an essential matter, because electricity industry was one of the main fields for the presence of the governments representing their capability of controlling the country, and it was one of the most reliable tools for applying power and jurisdiction. Iran was not an exception in this regard.

The only changes that was observed in the government monopolization period was the development and separation of some of district electricity companies because of its high development and the extensive expansion of rural channels for providing villages with their need of electricity.

### Privatization as an Approach

The main factor of (industrial and non-industrial) development in each country is the quick growth of energy consumption and it demands a high rate of investment in the related section. Obviously, incoordination between timing the macro-investments on industries and the consumption growth and the energy production has made the country to cope with serious challenges. Considering the expansion of energy domains and its related activities in the modern world and regarding the fact that no government can go through this on its own, therefore, privatization was selected as a tool for economical revolution. The execution of privatization with the final developmental purpose was successful only when it was processed in a long-term policy and all the activities in this field should be coordinated with it. Considering this matter and by studying it within four 5-year development programs, we realized that

programmers in each one of the 5-year programs have paid much attention on this matter following the emerged problems.

For example, one of the hindrances that is curbing against the way of distribution companies in applying privatization within 1990s was the legal prohibition of assigning the governmental institutes (distribution networks) to the private sector.

Consequently, the distribution companies have maintained their dependence to district electricity centers. After a while, with the unclarify of their legal rights position, many structural and human resource problems emerged. Along this crucial problem, the lack of general electricity resources because of the incongruity between the increase of costs and incomes (because of legal prohibitions) and the lack of suitable investment in channels made us not to act successfully in reaching to our privatization purpose.

Considering the fact that during this decade, the main substructures of electricity industry (generation and transmission) that was not supported with enough needed investments absorbed much more attention and insured the government from the security of the channel and this was a great opportunity for privatization of companies.

Another incident that took place in the middle of this decade was the application of exclusion policies by the privatized distribution companies in such a way that the companies that are the contractor party of the government for preserving and developing the distribution networks assigned some of their competitive duties to sub-contractors that were fully private or half-governmental. This matter curbed the development path of the main frameworks of these companies. Considering the fact the legal position of these companies was not clear in this period exclusion could be regarded as a success helping them to avoid from being voluminous in such a way that it posed another idea in electricity industry and strengthened it. The anti-privatization group and their resistance when accompanied by the incomplete success of the plan distribution companies after passing propounded the idea of tendency toward governmental system. Through an exclusion stage and minimizing their volume turned to province distribution management and they are liable to simply come back the bosom of the government if face with the opposition words of the protestors ..

To avoid from the development of such an idea that could impose irrecoverable damages on the similar companies in other industrial and service fields and with the purpose to solve some of the emerged problems (for e.g. to provide the parliament members with their need of response for their questions), the independence design of province distribution companies that was offered by the parliament was posed and applied after applying some

changes on it.

### **The study of macro-strategy in the distribution of state electricity and its flow in the eyes of Organizational Growth Model of distribution companies**

Electricity distribution companies similar to all other organizations follow the life cycles of organizations [2] and in each stage, it copes with special problems of that stage. As it was mentioned, at the end of 1970<sup>th</sup> in Iran, the electricity distribution section in the country that was completely governed by the state government, displayed the specifications and signs of an inflexible organization from itself.

The caretakers of electricity industry, regardless to their imitation of the vast policy of the country in case of privatization, used this mechanism as a solution for changing the system in a best fashion and on no time.

If we consider the first of 1990s as the commencement date of the establishment of distribution companies in the state provinces, we will face with the establishment of the above organizations in the frameworks of the Organizational Development Model of Distribution Companies. (fig. 1)

In first five years, these companies left behind an eminent maturity period through the logic supports of the government and sovereignty. After this period, however, because of the non-disposal of the ownership of industries (legal prohibitions) and incomplete execution of privatization process resulted in the interference of the government in many of the decision-making stages of the companies. One of the consequences of this process is the disregard of the managers to the casualties and the bigness of the organization that were the most initial signs of fall in maturity period. In this stage, some of the opposites of government exclusivity for the second time wanted to join to the government system, but the related authorities in this regard adopted an on time strategy and paved the path for transferring from maturity road to the completion.

This course was coincides with the sovereignty of those systems who wanted to offer services to the people of the country. The most important outcome of such a space because of the "Economical Pressures" was to avoid from expansiveness of welfare and social services such as electricity in the third and fourth development program. In such a way that in the third development program, regardless to the permit for 25% increase in tariffs in each year, the annual budget did not be permitted to experience the increase more than 10 percent. Meanwhile in the fourth state development program, this space was deteriorated, and although the price of oil increased and followed with the extension of public expectations, but the country did not experience any increase in the incomes of electricity industry, while the electricity consumption had an increase of 7 percent.

This period was one of the most difficult periods for the electricity industry especially in distribution section of electricity. Therefore, those companies that were newly established and headed towards completion and development failed again because of the decrease in their income.

Naturally, along this limitation, the development in independence matter of the province distribution companies was posed and it was approved after an expertise assessment since 2003. The most significant advantage of this law that brought hope for the distribution section of electricity industry was the submission of a legal article for the compensation of shortage of the electricity industry resources. We hope that with the execution of this law (article) companies for the second time find the power to head towards progress and completion. A new type of a united management is on the way that is gone offer services to the people of the most of the countries, which is to be separated form the governmental approach.

We should consider that if the changes that were applied on the system had taken place in a short time period, it would have left irrecoverable damages concerning the system. In addition, the dependence of the time of changes to the macro-managements inside the country that is used to happen in developing countries is the one of the weakness point and shows the casualness of the changes.

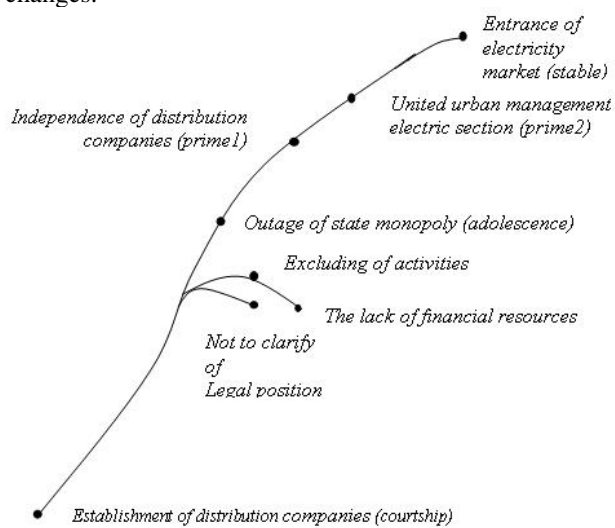


Fig (1): Growing model of distribution companies

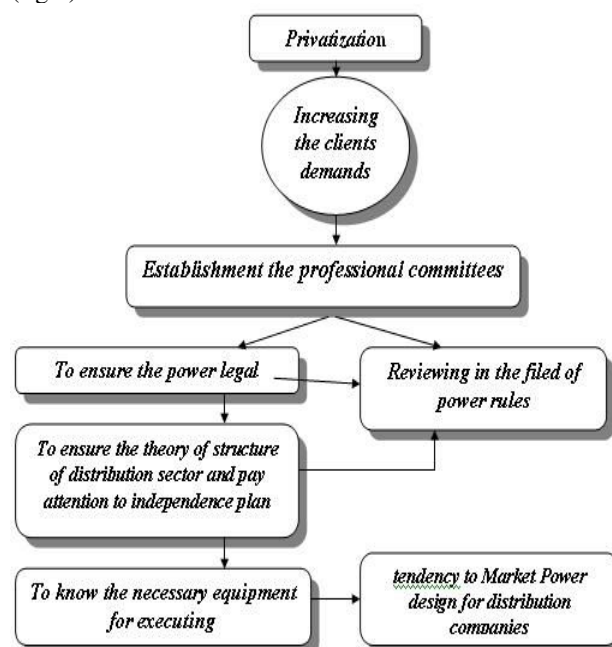
### COMPLETE INDEPENDENCE PLAN FOR DISTRIBUTION COMPANIES AS A NEW STRATEGIC APPROACH

Following the intense depression of substructure activities within the different electricity industry sections because of the intense shortage of financial resources and its reflection between the legislative parliament agents in the local country, the complete independence plan for

distribution companies and its little dependence to governmental systems was posed and noticed to the Ministry of Power as an act (law) at the beginning of 2005. Except to the advantages resulted from compensating parts of resource shortage through this act, we can see the independence of these province companies from the district electricity companies.

The estimation of the entrance of distribution companies to the electricity markets of the country that has been officially approved since two years ago is one of the other eminent points of this act, which has brought several advantages such as paying attention to the electricity wastages control, which will grant economical benefits to the companies. In addition, the assignment (or sale) of the ownership of the electricity distribution institutes to the province private companies in lieu of their book value without deducting taxes can be beneficial and effective on their gradual entrance to bourse markets in future. Moreover, there is another trend along the pervious one that tends towards the governmental system and that is to support the entrust of the activities of the privatized distribution companies along and avoid them from bulking by separating the executive activities following the turn of these companies to small organizations of province distribution management under the supervision of the government. This idea was little paid because of the hardly good record of governmental systems in combining and coordinating with the private section.

(fig.2)



Fig(2)The chart of Moving toward "Independence plan of Distribution Co." by change in technology and structure

## System Change Management Design

After this act was noticed to the ministry of power and Tavanir Company, the distribution management was determined as the executor of act seller and commenced its activity. This management board invited 100 electricity industry professionals and the university professors, studied all the executive aspects of this design.

- The duty of the structural and human resources group with the aim to study the new structure of distribution companies and its communications with other organizations
- The task of the programming group that is to design approaches for technical and budget programming in these companies and the fashion of controlling them
- The task of the legal documentations group that are to prepare company memorandum and executive bylaws that are to be authenticated by the Board of Ministers
- The task of the subscriber service group and electricity market with the duty to separating the subscribers and transferring them from district electricity to distribution companies and the manner of communication for these companies with electricity market
- The task of the financial group that is to apply the transfer matter of properties and institutes to distribution companies and designing financial communications within the new situation
- The task of technical group that is provide the instructions for technical communication and exploitation of these companies with the district electricity up energy delivery locations (ultra-distribution systems)

An induction council consisting of senior managers of state electricity industry is also assigned to study and approve the documents provided by the above groups. With this suitable organization, the primary studies and needed channels are provided for the execution of the plan. The executive management of the project, besides delivering an explanation about the prioritized duties for each working group, has noticed following principles as the main principles dominating over the independence design of distribution companies:

### Principles dominating over the independence of distribution companies

- Full- scale preservation of interests and unification of electricity industry in economical, technical and management point of view
- Optimization and non-development of structure

Considering the decentralization factor

- Developing the management, engineering, and direction capacities in the country
- Improving manpower combination and paying a logical attention to human resources
- Creating suitable mechanism for executing the activities related to the electricity market.
- Special attention to the programming in all levels and branches
- Improvement of technical indexes considering the economical engineering principles
- Developing engineering systems and applying new technologies in distribution
- Developing consultative capacities and applying competitive contractors in the private section in provinces
- Improving the level of customers' satisfaction
- Facilitating processes in offering services to the members
- Suitable Channeling for improving the commercial capacity of electricity and its resale matter

The working groups provided the required documents and instructions for the settlement of the Distribution Companies' Independence Design after holding several sessions during several months.

### Preparing the organizational situation for accepting the system change:

The provision of legal channels will not be possible without designing flowcharts and timing. Therefore, in this regard we launched the initial operations and the design management besides determining pilot companies started to define its goals and activities. .

### Problems of the system in executive phase:

- The way of communicating between the distribution and ultra-distribution (centers)
- The way of communicating between the distribution and electricity market
- Financial problems in company centers because of low income
- Resistor of the district electricity and some of local and district flows
- The resistance of the distribution deputies
- Insecurity (non-provision) of the continuous electricity in passing period

### ASSESSMENT AND EVALUATION OF OUTPUTS FOR INCREASING THE PRODUCTIVITY

Considering the fact that quality and productivity

improvement matter is one of the main programs of the fourth development programs and special bonuses are allotted for this matter for reaching to the assigned purposes in organizations, therefore, authorities should pay high attention on this matter.

The ancient methods of evaluating that were based on comparing the companies regardless of their facilities and the only purpose of determining higher and the most eminent companies, was not responding methods.

Tendency towards self-assessment methods among the distribution companies is commences throughout the country, and if they are properly guided and avoided from the competitions between companies in this regard, they will be followed with the most results in the future.

## CONCLUSION

It clearly appears that contrary to the thinking of some ideologists concerning electricity, there is no superior system applicable at all times and in all places certain systems that could be worth while in the short term would not fit the requirements for a longer period of time, this is a handicap for countries where the growth in electricity consumption is high and where investments for capacity could not be delayed.

Recent experiences illustrate that developing countries may be well advised not to attempt to "leap frog" to such exceedingly sophisticated models if they wish to avoid problems, but rather to move along a gradual reform path that combines the best of the tried and tested with the new models:

### **"Independence Plan of Distribution Companies"**

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