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Management of Public Utilities – Key Facet of Public Administration

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ABSTRACT *Public enterprises are operated with the main motive of public welfare. Public enterprises are organised as monopolies under government control. Since public enterprises are operated with their main motto of public welfare they charge reasonable prices to ensure wider access, affordability and reach to their products and services. Public utilities produce and supply goods and services which are indispensable for human life. Society would be put to severe hardship if these services are not made available. Public utilities provide goods and services which are essential for human life. They provide goods and services relating to water supply and sewerage, electricity, transport, gas supply etc. To ensure stability and continuous service as well as to enable access, public utilities are owned and run by the government. If the private sector is allowed to operate public utilities, there is possibility of disruption in supply, hike in prices etc., which would affect the common man.*

KEYWORDS: Public Welfare, Service Motive, Essential Services, Monopoly

While maintenance of the sovereignty and integrity of a country is the prime responsibility of an elected Government, it also has the responsibility to ensure a decent standard of living to its citizens. Ensuring access to the basic necessities of life is a fundamental duty of the government and to achieve this objective, public utilities are set up and run by the government. Public enterprises are operated with the main motive of public welfare. Public enterprises are organised as monopolies under government control. Since public enterprises are operated with their main motto of public welfare they charge reasonable prices to ensure wider access, affordability and reach to their products and services.

Characteristics of Public Utilities. The following are the characteristics of public utilities:

(a) Provision of essential goods and services: They produce and supply goods and services which are essential for human life. Society would be put to severe hardship if these services are unavailable.

(b) Need for uninterrupted supply: Since the services provided by public utilities are essential for human life, their supply should be uninterrupted. Any disruption in their supply would put the common man into lot of hardship. For instance if public transport does not operate or if there is disruption in education, healthcare, power etc provided by public utilities, life would come to a standstill.

(c) Government ownership: To ensure stability and continuous service as well as to enable access, public utilities are owned and controlled by the government. If the private sector is allowed to operate public utilities, there is possibility of disruption in supply, hike in prices etc., which would affect the common man.

(d) Public interest motive: The main motto behind running public enterprises is that they should benefit the common man. The motive is to maximise public welfare by providing access to essential services at affordable prices.

(e) Ease of access: The procedures and formalities required to use public utilities should be simple and minimum. Only then, the common man can access them.

(b) Local in character: Public enterprises are local in character. They operate in specified local areas. Each particular locality would have a public utility serving its needs.

(c) Organised as monopolies: Public utilities provide essential goods and services to the common man. They operate with a service motive keeping in mind the primary objective of social welfare. If competition is allowed it may lead to unfair practices and wastage of resources in marketing. Therefore public utilities are organised as monopolies under government control.

(d) Strict regulation: Public utilities are organised as monopolies under government control. They provide essential goods and services to satisfy the essential needs of the consuming public. Any deficiency in service would lead to serious social problems. For e.g. if the water supplied is contaminated, it may lead to diseases or even an epidemic

(e) Large investment: Public utilities require huge capital outlay. Setting up a public utility calls for heavy capital investment. Investment cannot be made in stages. The entire amount of funds needs to be invested, before a public utility can commence its operations.

(f) Inelastic demand: The demand for goods and services provided by public utilities is inelastic in nature. They provide essential goods and services which are required by every member of the society. Any disruption in production would lead to shortages and severe problems.

(g) Non-transferability of demand: A consumer of a public utility cannot transfer his demand to any another. It is because, public utilities operate as monopolies, and therefore transfer of demand is not possible.

(h) Lower risk: There is significantly lower risk in operating public utilities. There is no competition as they are organised as monopolies. There is no fear of change in consumer tastes and preferences as they supply goods and services indispensable for human life.

(i) Economies of scale: Most of the public utilities operate on a large scale. It is because they have to cater to the requirements of a large segment of the population. By operating on a large scale, they are able to reap the benefits of economies of scale. They are able to spread their fixed costs over more number of units and consequently enjoy low costs.

(j) Government franchise: Franchise can be said to be a contract between the public utility and the government company. The franchise is given for a specified period of time. The franchise permits the public utility to use public places such as roads and government building to lay cables, run wires etc.,

(k) Pricing: The prices of public utilities need not equal their marginal cost of production. The reason being supplementary costs cannot be allocated among different units of production.

(k) Price Discrimination: Price discrimination can be practiced based on the quantity of usage, purpose of usage etc., For instance per unit cost of electricity is lower for domestic customers and higher for commercial use. The same is the case with LPG.

Privileges of Public Utilities

a. Monopoly power: Public utilities enjoy monopoly power in their area of operation. Private competition was not allowed in areas that were reserved for operation of public utilities. But this situation is changing with the policy of liberalization.

b. Right of Eminent Domain: Public utilities enjoy the right of eminent domain. They can acquire property in good faith and in public interest on payment of compensation.

c. Right to Acquire Public Property: Public utilities have the right to use public property. For instance water supply company or a sanitation unit can dig public roads to lay pipes etc.,

Rights of Public Utilities: The following are the rights of public utilities:
(a) Right to charge reasonable prices for services provided. The price can be set to cover operating expenses and earn a fair return on investment.
(b) It can use public places, streets and buildings for fixing appliances.
(c) Right to charge different prices from different buyers based on their price elasticity.

Duties of Public Utilities: The following are the duties of public utilities:
(a) Duty to provide services to all consumers without any discrimination.
(b) Duty to use the full capacity to provide services to all consumers requiring the product or service produced by the public utility.
(c) Duty to provide safe and adequate service in a timely manner.
(d) To follow just pricing practices and not to overcharge consumers.
(e) Not to indulge in highly discriminatory pricing practices.

Problems of Public Utilities: Public utilities face special kind of problems which are quite unique in nature. They are:

(a) Location: The location is decided by the public authorities and the public utility has no say in the matter. They are thus deprived of the benefit of selecting an appropriate choice of location according to the business requirements.

(b) High Investment in Plant: The entire investment has to be made before the plant can become operational. Public utilities do not enjoy the privilege of investing funds in a staggered manner. For e.g. in the case of electricity generation, the transformers, power grid and cable network have to be fully functional before electricity can be generated and distributed.

(c) Regulation: Public utilities serve as monopolies. Any deficiency in products and services produced by public utilities would have far reaching negative impact. Therefore strict rules and regulations have been laid down with regard to their functioning.

(d) Selling: The pricing in public utilities can be based on marginal costs plus a certain percentage of overheads incase of inelastic demand and based on marginal costs, in case the demand is elastic.

(e) Social control: Public utilities are subject to high degree of social control. They are setup and run with public money. Any deficiency in quality or service would immediately result in a problem. For e.g. if the electricity wires are hanging in an exposed manner or railway tracks are not properly laid, there would be considerable loss of human life.

Ownership and Management: Public utilities can be owned and managed by the government in the following forms:
(a) Government department
(b) Municipal Council
(c) Public Corporation

(a) Departmental undertaking: The public utility is managed by a government department under the direct control of a ministry. E.g. Are the Railways managed by the Central Government and Roadways under the State Government.

The advantage of this form is that the public utility is under Parliamentary scrutiny. It would have to operate in a careful and conscious manner. Any lapse in functioning would result in questions being raised in the Parliament and explanations would be sought.

The disadvantage of this form is there would be no flexibility in operations. It would face the problems of red-tapism, frequent interference of politicians in its affairs, policies and plans being changed to suit the whims of the government in power, projects incomplete and unviable projects announced etc.

(b) Municipal Council: Generally in towns, services such as electricity and water come under the control of municipalities. Subcommittees might be set up to oversee the functioning of these public utilities.

The idea of municipal councils managing public utilities is a theoretically sound one. Public utilities have been set up with public funds to meet the needs of the public. The municipal councilors are the elected representatives of the public. Therefore they would be aware of problems faced by the public and would strive to remedy public grievances. The public can also meet the councilors and seek remedy in case of deficiency in services provided by public utilities.

In real life, the situation is different. Councilors might indulge in corrupt practices and the funds set aside for the public utilities might be diverted. There might be delays in sanctioning of funds if the councilor belongs to the opposition party. The delay in sanctioning of funds would result in unnecessary delays in project completion. In many places, councilors seldom visit their wards and listen to grievances. Political wrangling, incompetence of the councilor to manage would lead to problems in managing the public utility in an efficient manner.

(c) Public Corporations: Public Corporations are created by a Special Act of Parliament. They combine the flexibility of private enterprises with the accountability of government undertakings. Public corporations have their own share capital and also can raise their own resources. Their accounts are to be submitted to the legislature for audit and review. Among the forms of managing public utilities, public corporations are the most ideal.

Conclusion: With the onset of the liberalization process, the role of the government in provision of goods and services if on the decline. There is a trend toward privatization of many spheres of governmental activity. The fact that needs constant reiteration is that India is home to a large segment of people who are below the poverty line. Therefore the role of public utilities should be expanded and not curtailed in order to ensure that the masses are provided with a decent quality of human life.