

## CHAPTER 1

### PUBLIC UTILITY SYSTEM - AN OVERVIEW

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## CHAPTER 1

### 1.1 INTRODUCTION

The concept of public utility is the creation of middle 19th and early 20th centuries and subsequently has gained importance all over the world. Almost all public utility systems in our country are owned by the Union Government, State Government, Public Sector Undertakings, or any autonomous body formed under some statute, to avoid or to save economic or social exploitation and to safeguard the public interest.

The form of business organisation established basically to arrange for the efficient and uninterrupted supply of basic goods and services, which are absolutely indispensable for a civilised community is referred to as a public utility organisation.

Competition in the supply of the essentials of life is obviously undesirable, for any variation in the quality of the products or services supplied to the consumers, and can have serious consequences leading to the dislocation of organised life in urban community. In public interest therefore, the public utility concerns are organised as monopolies working under the control of public authority that can look after such interests competently and effectively. The public interests are safeguarded by the public utility concerns by supplying essential

goods and services to everybody in community, without discrimination and at reasonable prices.

There are several public utility services<sup>1</sup> like the provision of water supply, electricity, gas, passenger transport, post and telegraph, telecommunication, etc. It must be remembered that public utility service or undertaking is a static concept with a changing content because a great deal depends upon the nature of the State. For instance, in England the right of persons to the unhampered use of King's highways has been safeguarded by common law.<sup>2</sup>

## 1.2 CHARACTERISTICS OF PUBLIC UTILITIES

There are three chief characteristics of a public utility service namely, collective demand made by society, efficient and adequate supply, and its ability to exercise the power of discrimination. Fundamentally and even historically, the concept of a public utility belongs more to the domain of law than to the sphere of economics<sup>3</sup>. The organisations charging for the service supplied and investing in equipment and of essential services, arrangement for the supply, and spending on the public utilities exhibit basic economic characteristics which include the following.

- 1) Supply of indispensable services
- 2) Inelastic demand

- 3) Non-transferability of demand
- 4) Heavy fixed capital investment
- 5) Natural monopoly
- 6) Franchise
- 7) Public control and regulation

One of the distinguishing characteristic of public utilities is the need for public regulation of these natural monopolies in the broader interests of the community in general. From this characteristic arises the question as to whether public utilities should be owned and managed by private business interests. Considering the amount of public interest involved in regular, economical and fair supply of essential services, private enterprises appear to be much less suitable for the ownership and the management of these enterprises than public enterprise.

### 1.3 OWNERSHIP & MANAGEMENT

Therefore, the point that remains to be decided then is to what form public ownership of such enterprises can suitably take. As it is, the public ownership and management can take any of the following form.

- A] A Government or Public Administration
- B] Municipal councils, committees, or corporations, or
- C] Public Corporations formed under special statute

A] GOVERNMENT OR PUBLIC ADMINISTRATION

Public administration lies at the centre of a web composed of many different relationships that extend to the citizen, to the state, to society and its values, to the economy and its development, and more<sup>4</sup>. The citizen and the future administrator alike should learn to think clearly about these relationships and the values and balances they affect, for they constitute the synthesis that is public administration.

The two main functions of government are rule and service; in each case public administration is centrally concerned and so is the citizen. The maintenance of law and order is an example of function of rule, or control, and the provision of a Municipal water supply is an example of service.

The broadest definition of public administration was suggested in 1887 by Woodrow Wilson in a celebrated essay.<sup>5</sup> 'Public administration, said Wilson, is the practical or business end of government because its objective is to get the public business done as efficiently and, as much in accord with the people's tastes and desires as possible. It is through administration that government responds to those needs of society that private initiative cannot or will not supply.

Consequently, a main relationship of administration occurs at the point of contract between the Government and the citizen, where public controls and services come to fruition. One of the tests of administration is that it meets the human needs in consonance with the larger interests and values that society praises.

## **B] MUNICIPAL ADMINISTRATION**

For the householder, certain needs are met by public utilities in private or public ownership<sup>6</sup>. Homes must be supplied with a safe and potable supply of water. Electricity and gas utilities are equally essential for lighting and cooking. Private corporations supplying water, gas, and electricity are ordinary monopolies within a city and must make extensive use of city streets for mains and wires. City bus serving the local residents is likewise public utility. Where utility services are provided by private corporations, they have been regulated more and more by state public service commissions rather than municipal franchises. On the other hand, certain utilities, such as water supply, are often municipally owned and operated. It is these municipally owned utilities and near utilities which are of primary concern to the municipal administrator.

The answer to the question of municipal ownership varies with the utility under consideration and many circumstances and facts

*pertaining to the individual community. If a utility is being supplied at fair rates and with adequate service to a community by private enterprise, there may be no good reason for the city to expand its operations through municipal ownership. The financial condition of the community and its capacity to undertake the necessary investment in a municipal utility are factors which weigh heavily in any decision. Another consideration lies in the temper of the citizens, their attitudes towards public and private ownership. Water supply is the utility most frequently owned and operated by cities. It is widely argued that the intimate relationship of safe water supply to the public health presents a reason for municipal ownership more compelling than in the case of other utilities.<sup>7</sup>*

*The public works and utility functions in Indian municipalities encompass street improvement and maintenance, street cleaning and lighting, water supply treatment and distribution, sewage disposal and treatment plants, refuse collection and disposal, construction of public works on contract, and city passenger transport. Administrative problems of planning, organisation, personnel management, measurements, records, reports, and public relations arise. In some cities the municipal ownership of utilities other than water supply necessitates not only departments of public works and water departments but other administrative units related to electricity and distribution, or in a small number of units, transportation systems.*

A long range fiscal policy for a municipal utility can be based on the fact that it is a monopoly; revenues which can be earned through rates can be accurately estimated. As consumption increases, the same rates will produce more net revenue, provided plant expansion is not required and costs of operation are stabilized.

Tenner has summarised the question of rates for municipal utility services by pointing to the need for estimating how much revenue will be needed to take care of all expenses and provide sufficient reserves<sup>7</sup>.

#### C] CORPORATIONS & STATUTORY BODIES

Various corporations, undertakings, and statutory bodies have been formulated by the Central Government and State Governments for rendering varieties of services to the public at large. These include banks, thermal and nuclear corporations, petroleum and other products manufacturing concerns, insurance companies, etc.