

***Progress Report***  
***regarding Establishment &***  
***Operationalisation of REDs in Namibia***

**Fourth Quarter 2004**

**Submitted by:**

**Electricity Control Board**



**Submitted to:**



**Ministry of Mines and Energy**

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## 1 INTRODUCTION

The Ministry of Mines and Energy has outsourced the project to establish REDs in Namibia to the ECB, who is now managing this process. The ECB has appointed EMCON Consulting Group (Pty) Ltd as consultants to assist with the process. This appointment was made based on a transparent and open tender process. The consultants have assumed their role effective 1 September 2004.

This progress report is submitted to the Ministry of Mines and Energy regarding progress made and difficulties experienced by the fourth quarter of 2004.

Detailed information such as minutes of committee meetings, reports and discussion papers regarding each RED process are available from the ECB upon request.

## 2 PROGRESS UPDATE

### 2.1 OVERARCHING ISSUES

- Mr Hansmann of the City of Windhoek has identified serious weaknesses in the provisions of the Local Authorities Act allowing Local Authorities to participate in REDs. According to him the existing REDs have been formed illegally and will not stand up to challenges that may be brought against them. The ECB is in the process of addressing this with proposed changes to the relevant legislation. **This may however have an impact on the formation of further REDs if legislation changes are not promulgated soon, and may delay the program beyond stated deadlines. We thus wish to bring to the Ministry's attention that the Electricity Bill must be fast tracked through the legislative procedures to allow the REDs to become operational by mid-2005 as planned.**
- NamPower has indicated that they will not transfer their staff to the REDs (although staff members will be free to apply for RED positions, but will have to resign from NamPower). NamPower has, because of a shortage of technical operational staff in transmission, transferred all previous distribution staff to transmission and is using this as justification for not transferring technical operational staff to the REDs. **This will have a negative impact on the technical capacity of the REDs**, even if the immediate effect can be mitigated through service level agreements being entered into between RED and NamPower for the provision of the services required to operate and maintain the rural distribution networks. It should be born in mind that it takes at least 2 years to train a fully qualified electrician to become a fully qualified Medium/Distribution Voltage Operator.
- The dispute between SELCo and the entities they have contracts with in Southern Namibia has cast some questions over the timeous formation of Southern RED. It is doubtful whether the dispute between SELCo and its contracting parties will be resolved amicably and within a reasonable time frame. There is significant resistance to SELCo, which may pose a threat to the process. **The SELCo disputes, if not solved reasonably well, may send a negative message to other potential private sector players regarding participation in REDs.** The issue should therefore be handled with care if the Government's aims of increasing private sector participation is to be furthered.

- Although Local & Regional Authority Surcharges are implicitly allowed in the current Electricity Act, some Local Authorities (Windhoek, Walvis Bay, Swakopmund) have indicated that their participation in the REDs is subject to the explicit allowance for Surcharges in the Electricity Act. **It is therefore important that the Amendments to the Electricity Act be promulgated as a matter of urgency.**
- NamPower has indicated its preference that shareholding calculations should be based upon the same principles and formula for all REDs within Namibia. Shareholding in NORED and Erongo RED has been calculated differently (no-one knows exactly how shareholding in NORED was calculated), which make it impossible for the shareholding of all REDs to be calculated on the same principles and formula unless the Shareholding structure of NORED is changed. Therefore NamPower's preference might only be able to be implemented in all REDs excluding NORED. This has notably become a bone of contention in CENORED, the only RED where NamPower will have a majority shareholding should the same principles and formula of Erongo RED be applied. **The owners of NamPower and Local & Regional Authorities (MME & MRLGH) should make a ruling on whether the Erongo RED principles and formula should be applied to all other REDs and if so, whether NORED should be excluded or not.** If this is not done the shareholding dispute in CENORED will delay the operationalisation of CENORED to beyond the current target date of 1<sup>st</sup> July 2005.
- Asset transfers to REDs pose major financial implications for REDs because VAT is applicable on the transfer of assets. In addition legal transfer duties is also payable on the transfer of fixed assets. In the short term this problem is addressed through Asset Lease agreements between the RED Companies and the RED Companies' shareholders. **The support of the MME & MRLGH is required to find a long-term solution to the problems associated with asset transfers.**
- The capitalization of REDs faces significant challenges: with no assets the REDs may find it difficult to provide guarantees to lenders unless guarantees are supplied by the asset owners, there is a lack of financial capacity in especially smaller Local Authorities and there is inadequate business financing expertise within LAs & RAs. **The ECB is hosting a workshop on "Financing the operationalisation of REDs" during March 2005 and the MME & MRLGH are encouraged to attend.**
- The Farmers Cooperative Schemes, especially in the Cenored area, have indicated their preference to continue on their own under a RED license. The current Electricity Act does not make provision for an electricity entity to operate under the license of another electricity entity. **Hence this is an additional issue to be incorporated in the proposed amendments to the Electricity Act.**
- During the first week of November 2004 the ECB (with SADELEC as its consultants) held a "roadshow" on "the proposed surcharges methodology and asset lease and service agreements" for REDs in the four regions (Erongo, Central, Southern and a combined one for Nored and CENORED). The objectives of this roadshow were to inform & explain the proposals as well as obtaining comments on the proposals made by the ECB and SADELEC. The ECB is satisfied to report that it was a huge success with Local and Regional Authorities in general agreement with the proposals.

## **2.2 CENORED**

### **2.2.1 Key Issues**

- The main issue delaying the operationalisation of CENORED is a dispute regarding shareholding: NamPower has indicated its preference for the principles and formula used in the Erongo RED to be applied to CENORED (which will give NamPower the majority shareholding [52-54%]) whereas the Local & Regional Authorities do not accept any principles and formula that gives NamPower the majority shareholding. This issue has been plaguing CENORED since its inception in 2003.

### **2.2.2 Committee Meetings**

- The Shareholders Committee has met on a monthly basis, concentrating mostly on issues regarding shareholding allocation, start-up capital for the RED company and appointment of the Board and the CEO.
- The Technical Committee has met on a monthly basis and deliberated mainly on the start-up capitalisation of the company, appointment of the Board and the CEO as well as principles for shareholding allocation.

### **2.2.3 Data Collection & Asset Register Establishment**

- The final feasibility study undertaken by PriceWaterhouseCoopers for CENORED has been received and approved by CENORED.
- The Shareholders have been requested to update the asset registers and provide commercial information as input for the short term business plan. Information has been received from Otjiwarongo, Grootfontein and Outjo only so far.

### **2.2.4 Shareholding Agreement and Company Registration**

- The Company is registered (2003).
- The shareholders agreement is to be revised since the existing agreement is not considered to be appropriate.
- The shareholders have negotiated extensively regarding the allocation of shareholding among them. Despite the various meetings dedicated to this issue the shareholders have so far failed to reach a final agreement regarding shareholding allocation. The key issue of contention appears that under some scenarios NamPower would qualify for a shareholding exceeding 50%, effectively putting it in control of the RED. This scenario appears not to be acceptable to the remaining shareholders.

### **2.2.5 Company Capitalization**

- CENORED shareholders have decided that each shareholder contributes 1c per every kWh sales monthly towards defraying initial company expenses as well as capitalization. This fund has accumulated to over N\$1million in cash.
- It is estimated that CENORED will need initial capital of N\$10 million to enable it to start operations. The shareholders are investigating options of raising these funds through the 1c/kWh sold fund, equity contributions, Government grants & loans.

### **2.2.6 Appointment of Board and Management**

- The shareholders have appointed seven directors during November 2004. NamPower has nominated three directors, Otjiwarongo, Grootfontein and Tsumeb

have each appointed one director and the remaining shareholders have jointly appointed one director.

- The position of chief executive officer has been advertised. However applicants have not been interviewed yet because of the shareholding dispute.

#### **2.2.7 Business Plan and Licensing**

- A short term business plan is to be developed by EMCON. This is still pending the submission of data by the remaining shareholders, specifically NamPower.
- CENORED is in possession of a distribution and supply license issued by the ECB in July 2003 for a period of 10 years. The previous licensees operating in the CENORED licence area continue operations in terms of agreements concluded with CENORED until such time as CENORED becomes operational.

#### **2.2.8 Change Management**

- The ECB is sensitising the Shareholders & Technical Committees on the importance of Change Management with regard to electricity consumers and the staff of the current shareholders. The shareholders should start communicating the envisaged changes (and reasons why) to the Electricity Distribution Industry to electricity consumers and all employees of all shareholders.

#### **2.2.9 Start of Operations**

- The intended start of operations for CENORED is middle 2005. The CEO is to be appointed in January 2005 subject to shareholding being resolved.

## **2.3 CENTRAL RED**

### **2.3.1 Key Issues**

- The CENTRAL RED formation process has been lagging behind Erongo & CENORED. This appeared to be due to a lack of commitment from City of Windhoek Management on account of outstanding legal issues identified by their in-house lawyer and consultants they have instructed on this matter. A series of meetings was held on Council level and it appears that this RED formation process is now kick-started.
- The outstanding legal issues (mentioned in Section 2.1 OVERARCHING ISSUES) appear to be substantial and the ECB Legal Advisor has drafted the necessary amendments to be included in the Electricity Amendment Bill to resolve these issues.

### **2.3.2 Committee Meetings**

- The Shareholders Committee has met once during November 2004.
- The Technical Committee has met twice during the fourth quarter and has commenced deliberating the following issues:
  - Shareholding allocation basis
  - Staff transfer issues
  - Legal constraints to RED establishment
  - Governance Framework for the RED

### **2.3.3 Data Collection & Asset Register Establishment**

- The consultant has collected data from most shareholders and has commenced processing this data. Commercial data has been requested from NamPower but not yet received.
- The consultant has obtained asset data from Windhoek and Okahandja. Asset data for Omaheke RC and Witvlei are to be obtained from Government. Asset data for Gobabis is to be provided by a consultant appointed by Gobabis Municipality early in 2005. Asset data for NamPower has been requested from NamPower but not yet received.

### **2.3.4 Shareholding Agreement and Company Registration**

- The Technical Committee has been sensitised to the issues of shareholding and company registration and have commenced discussing them.

### **2.3.5 Company Capitalization**

- Company capitalization will be discussed at the next Technical Committee meeting scheduled for 24 January 2005.

### **2.3.6 Appointment of Board and Management**

- Activity not yet started.

### **2.3.7 Business Plan and Licensing**

- The business plan will be drafted in the first quarter of 2005.

- Licensing awaits completion of data collection and processing as well as company registration.

**2.3.8 Change Management**

- The ECB is sensitising the Shareholders & Technical Committees on the importance of Change Management with regard to electricity consumers and the staff of the current shareholders. The shareholders should start communicating the envisaged changes (and reasons why) to the Electricity Distribution Industry to electricity consumers and all employees of all shareholders.

**2.3.9 Start of Operations**

- Anticipated by December 2005.

## **2.4 ERONGO RED**

### **2.4.1 Key Issues**

- The Erongo RED shareholders have opted to appoint their own consultants to assist them to become operational. Substantial delays were experienced in the appointment of the consultant (due to a host of different consecutive reasons) but fortunately Africon has recently been finally appointed as the consultant. Despite these delays, Erongo RED appears currently to be the first RED to become operational after NORED.

### **2.4.2 Committee Meetings**

- Regular, monthly Shareholders and Technical Committee meetings were held throughout 2004 thrashing out all relevant issues for the RED to become operational.

### **2.4.3 Data Collection & Asset Register Establishment**

- Africon is in the process of completing this as inputs into the Business Plan and final shareholding.

### **2.4.4 Shareholding Agreement and Company Registration**

- The shareholders have agreed upon the principles and formula for Shareholding. Shareholding will be finalised after completion of the asset registers by Africon.
- The company was registered in June 2004.

### **2.4.5 Company Capitalization**

- Required capitalization funds are estimated to be N\$27million. Erongo RED approached MME & MRLGH for grants but was unsuccessful.
- Erongo RED will use a combination of equity & loan funds for capitalization.

### **2.4.6 Appointment of Board and Management**

- The Board was appointed and commenced duties in September 2004, holding monthly meetings since then.
- The CEO position was advertised, interviews were held and the successful candidate chosen. The CEO is to commence duties on 1<sup>st</sup> February 2005.

### **2.4.7 Business Plan and Licensing**

- Africon is busy compiling the Business Plan after which the formal license application will be submitted to the ECB.

### **2.4.8 Change Management**

- The ECB is sensitising the Shareholders & Technical Committees on the importance of Change Management with regard to electricity consumers and the staff of the current shareholders. The shareholders should start communicating the envisaged changes (and reasons why) to the Electricity Distribution Industry to electricity consumers and all employees of all shareholders.

**2.4.9 Start of Operations**

- The target for start of operations is 1<sup>st</sup> July 2005.

## **2.5 SOUTHERN RED**

### **2.5.1 Key Issues**

- The ESI Steering Committee resolved that the contractual disputes between SELCo and Southern RED shareholders are private matters, should be resolved between the parties themselves and should not delay the RED formation process any further.
- Southern RED has the largest number of private farmer owned networks. It also incorporates the towns of Rosh Pinah and Oranjemund, where the infrastructure is privately owned and operated. Southern RED therefore has by far the most significant challenges in coming to terms with these existing private actors.
- Southern RED has the unique situation where Stampriet Village Council does not own any electricity distribution assets since NamPower is distributing electricity within the village. This may deny the Stampriet VC participation in the RED if not addressed. A similar situation exists at Grunau, Noordoewer and Ariamsvlei which fall under auspices of the Karas Regional Council. Negotiations are being held to resolve the issues.

### **2.5.2 Committee Meetings**

- The Technical Committee has met regularly on a monthly basis. Much time has been expended deliberating the conflicts with SELCo and whether or not SELCo should participate in meetings. The committee has now however been focusing on matters of shareholding and staff transfer issues which need to be resolved in order to move forward.
- The Shareholders Committee met regularly on a monthly basis. The basic issues such as terms of reference of the committee have been resolved and the committee has commenced considering issues such as shareholding and staff transfer principles.

### **2.5.3 Data Collection & Asset Register Establishment**

- Commercial data collection has been completed for all stakeholders in Southern RED and the data is being processed into a financial model which will underpin the short term business plan for the RED.
- Asset information has been compiled for many of the stakeholders, but is still being acquired for some of the older electrified rural towns such as Maltahohe and Gochas.

### **2.5.4 Shareholding Agreement and Company Registration**

- The Shareholders & Technical Committees have been sensitised to the issues of shareholding and company registration and have commenced discussing them.

### **2.5.5 Company Capitalization**

- The Shareholders & Technical Committees have been sensitised to the importance of adequate company capitalization.

### **2.5.6 Appointment of Board and Management**

- Activity not yet started – needs to be preceded by basic shareholding issues being agreed.

### **2.5.7 Business Plan and Licensing**

- The business plan will be drafted in the first quarter of 2005.

- Licensing awaits completion of data collection and processing as well as company registration.

**2.5.8 Change Management**

- The ECB is sensitising the Shareholders & Technical Committees on the importance of Change Management with regard to electricity consumers and the staff of the current shareholders. The shareholders should start communicating the envisaged changes (and reasons why) to the Electricity Distribution Industry to electricity consumers and all employees of all shareholders.

**2.5.9 Start of Operations**

- Anticipated by December 2005.

### **3 CONCLUSIONS**

#### **3.1 PROGRESS**

- Progress in CENORED has been good. If the shareholding allocation issue can be resolved in January 2005 CENORED could be operational by the middle of 2005.
- Progress on re-starting the process in Central and Southern REDs have been reasonable in general. Some possibly serious issues have been identified. Neither of these two REDs is likely to operate by middle 2005. Both REDs could be operational by end 2005 provided that legal and contractual hurdles are resolved.
- Progress on Erongo RED is well on track and this RED should be operational by July 2005 subject to legal hurdles being overcome in time.

#### **3.2 OUTLOOK**

- Urgent attention will need to be given to the proposed Amendments to the Electricity Act as well as Local and Regional Authority Acts to ensure that the REDs have a proper legal basis and to ensure that these amendments are passed in law before July 2005.
- Urgent attention will need to be given to find and train technical operators for the medium voltage distribution systems.
- Committee meetings will be focused on informing participants about issues and driving towards concrete recommendations and decisions. This will be driven actively by the ECB and its consultants.
- The Central and Southern RED will be encouraged to reach early agreement on a shareholding formula and register a nominal company so that at least basic structures come into place and a company exists which can be licensed (as per CENORED and Erongo RED).
- REDs in an advanced stage of development (Erongo RED & CENORED) will be urged to initiate formal Change Management Programs.

## 4 IMPLEMENTATION SCHEDULES

### 4.1 CENORED

| DESCRIPTION                                    | PLANNED  | ACTUAL      |
|--|----------|-------------|
| Agreement on interim Shareholding Structure    | Sep-2004 | 21-Sep-2004 |
| <b>Appointment of Board of Directors</b>       | Oct-2004 | 19-Oct-2004 |
| Approach MME & MRLG&H for financial assistance | Oct-2004 |             |
| Appointment of Company Secretary               | Oct-2004 |             |
| Appointment of Company Auditor                 | Oct-2004 |             |
| CEO position to be advertise                   | Oct-2004 |             |
| CEO to be appointed                            | Nov-2004 |             |
| Finalize CENORED Shareholding Structure        | Dec-2004 |             |
| <b>CEO to commence work at CENORED</b>         | Jan-2005 |             |
| Finalize CENORED Business Plan                 | Feb-2005 |             |
| Start implementation process                   | Mar-2005 |             |
| <b>CENORED start operations</b>                | Jul-2005 |             |

**4.2 CENTRAL RED**

| <b>MILESTONE</b>                           | <b>PLANNED</b> | <b>ACTUAL</b> |
|--|----------------|---------------|
|  |                |               |
| Agreement on Shareholding Principles       | Feb 2005       |               |
| Estimate start-up Capital needed           | Mar 2005       |               |
| Draft short term business plan available   | Mar 2005       |               |
| Commence contributions to start-up capital | Apr 2005       |               |
| Company registration submitted             | Apr 2005       |               |
| Company registered                         | Jun 2005       |               |
| License application submitted to ECB       | Jun 2005       |               |
| <b>Appointment of Board of Directors</b>   | Jul 2005       |               |
| CEO position to be advertised              | Jul 2005       |               |
| CEO to be appointed                        | Sep 2005       |               |
| <b>CEO to commence work</b>                | Oct 2005       |               |
| Start implementation process               | Oct 2005       |               |
| <b>CENORED start operations</b>            | Dec 2005       |               |

**4.3 ERONGO RED**

| DESCRIPTION  | PLANNED                       | PLANNED           | ACTUAL                 |
|--|-------------------------------|-------------------|------------------------|
|  | BEST CASE                     | WORST CASE        |                        |
| Company registration   | June 2004                     | July 2004         | 29 June 2004           |
| All shareholders to apply for extension of existing licences up to 1 July 2005 | June/July 2004                | August 2004       | July 2004              |
| BOD to commence duties   | July 2004                     | August 2004       | 13 September 2004      |
| Tender 139/2003 to start   | August 2004                   | September 2004    | October 2004           |
| Capitalization funds to be made available<br>Part 1 – 20 %                     | 30 August 2004                | 30 September 2004 | 50% by December 2004   |
| Tender 139/2003 all data to be collected by                                    | 30 October 2004               | 30 November 2004  | 31 March 2005<br>????? |
| CEO position to be advertised  | 30 August 2004                | 30 September 2004 | 15 -29 October 2004    |
| CEO to be appointed  | 30 October 2004               | 30 November 2004  | 23 December 2004       |
| CEO to commence work   | 1 January 2005                | 1 February 2005   | 1 March 2005           |
| Tender 139/2003 to be completed  | April 2005                    | May 2005          | 30 June 2005           |
| Capitalization funds to be made available<br>Part 2 – 80 %                     | Part 1 – 20 %<br>30 June 2005 | 1 July 2005       | 50% by March 2005      |
| Erongo RED to start trading  | 1 July 2005                   | 1 July 2005       |                        |

**4.4 SOUTHERN RED**

| MILESTONE                                  | PLANNED  | ACTUAL |
|--|----------|--------|
|  |          |        |
| Agreement on Shareholding Principles       | Feb 2005 |        |
| Estimate start-up Capital needed           | Mar 2005 |        |
| Draft short term business plan available   | Mar 2005 |        |
| Commence contributions to start-up capital | Apr 2005 |        |
| Company registration submitted             | Apr 2005 |        |
| Company registered                         | Jun 2005 |        |
| License application submitted to ECB       | Jun 2005 |        |
| <b>Appointment of Board of Directors</b>   | Jul 2005 |        |
| CEO position to be advertised              | Jul 2005 |        |
| CEO to be appointed                        | Sep 2005 |        |
| <b>CEO to commence work</b>                | Oct 2005 |        |
| Start implementation process               | Oct 2005 |        |
| <b>CENORED start operations</b>            | Dec 2005 |        |