



# INFORMATION ON REGIONAL ELECTRICITY DISTRIBUTORS (REDs)

## 2. THE HISTORY OF REDs

Article 2 of 6, compiled by the Electricity Control Board (ECB) to clear misconceptions about REDs & related electricity matters.

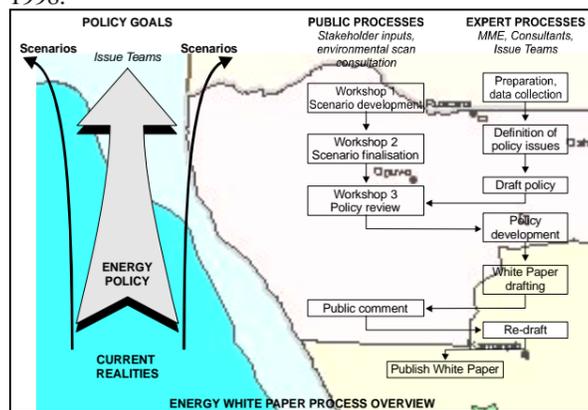


### Introduction

Internationally the concept of REDs is not new and has been successfully implemented in many developed countries. In South Africa the idea of establishing REDs started in the early 1990s, but has not been fully implemented yet mainly due to local authorities there having a constitutional right to supply electricity. In Namibia this is not the case, which is widely regarded as the reason for Namibia's success in establishing and operationalising 3 of 5 REDs so far. The concept of REDs in Namibia started to appeal to electricity industry stakeholders in 1998 almost 10 years ago.

### White Paper<sup>1</sup> on Energy Policy

The process of drafting the Energy White Paper was started in 1997, led by the Ministry of Mines & Energy (MME). The aim was to compile a set of comprehensive, integrated policies to guide the sustainable development of the energy sector of Namibia. Over a 2-year period an extensive process of specialist studies & consultation was conducted as depicted in the following diagram. The Namibian Parliament approved the Energy White Paper in 1998.



The following goals form the framework for the energy policies in the White Paper:

#### Effective governance

Effective governance systems will be in place to provide stable policy, legislative and regulatory frameworks for the energy sector.

#### Security of supply

Namibia will achieve security of energy supply through an appropriate diversity of economically competitive and reliable sources, with emphasis on the development of Namibian resources.

#### Social upliftment

Households and communities will have access to appropriate, affordable energy supplies.

#### Investment and growth

The Namibian energy sector will expand through local and foreign fixed investment, resulting in economic benefits for the country. Particular attention will be given to black economic empowerment.

#### Economic competitiveness and efficiency

The energy sector will be economically efficient and will contribute to Namibia's economic competitiveness.

#### Sustainability

The Namibian energy sector will move towards the sustainable use of natural resources for energy production and consumption.

The following are some of the actual policies extracted from the Energy White Paper that have guided, and are still guiding main developments in the electricity industry of Namibia:

- ✓ Government will investigate options for improving sector efficiency through electricity supply industry restructuring.
- ✓ Government will introduce an institutional system, with both regulatory and policy making functions, to monitor and regulate electricity price developments.
- ✓ Electricity tariff structures and prices will be based on sound economic principles, generally and as a whole reflecting the long-run marginal cost of electricity supply.
- ✓ Government will implement a modern and appropriate legal and regulatory framework for the electricity sector through the Electricity Act and associated regulations, and the creation and resourcing of a competent Electricity Board to regulate the sector's operations.<sup>2</sup>
- ✓ Government will ensure that adequate protection of electricity end-users and licensees is established

through the creation and resourcing of the Electricity Board to be established under the Electricity Act.

### Electricity Supply Industry (ESI) Restructuring Study

Namibia depends on a well-functioning ESI for its economy to prosper and grow, and to be able to deliver on Government's broader socio-economic development objectives. However, the ESI in Namibia faces a number of challenges:

- Major investment requirements in the short to medium term – in generation, transmission and distribution infrastructure and operations;
- Increasing access to electricity among the Namibian population;
- Broadening of local and foreign private sector participation in the ESI;
- Impacts on Namibia of electricity sector reform in Southern Africa;
- Loss of economies of scale due to a fragmented distribution side of the ESI;
- Proliferation of a large number of electricity tariffs, often not cost-reflective, with resulting efficiency losses and unequal treatment of customers;
- Insufficient customer focus, leading to sub-optimal quality of supply and service;
- Human resource constraints impacting on efficiency and delivery;
- Diverse financial performance of electricity suppliers; and
- An inability of many of the current distributors to plan, finance and sustain electrification programs in their areas of supply.

### ESI Restructuring Study Process

In 1997, Cabinet instructed the MME to launch an in-depth investigation into the ESI. The objective was to make recommendations on possible future structures, which would enable the ESI to continue to be the engine for economic growth, development and prosperity in Namibia in an effective and efficient manner.

The ESI restructuring study process was carried out in the following phases:

- Phase 1: Detailed investigation into the current performance of the ESI and relevant international experience. This phase was completed in March 1998.
- Phase 2: Evaluation of a limited number of possible restructuring options, with particular focus on rationalisation of electricity distribution. Phase 2 was completed in July 1998.
- Consultation Phase: Sharing of the results and recommendations of the Phase 1 and 2 investigations with a broad range of Namibian stakeholders. This phase was concluded in April 1999.
- Phase 3: Taking the views and positions of the various stakeholders into consideration, a more detailed and focused investigation into key restructuring aspects commenced in June 1999. Phase 3 was completed in July 2000.

The detailed findings and recommendations of the ESI restructuring study pertaining to electricity distribution can be summarized as follows:<sup>3</sup>

- Establishment of 5 REDs as the basic industry structure;
- Restructuring is based on analysis of customer base, network characteristics and geographic areas of supply;
- Financial viability of licensed REDs must be ensured, also taking into account the need for continued electrification;
- Local Authority (LA) revenue requirements in a restructured distribution industry are safeguarded by means of LA surcharges;
- A defined distribution area will only have one supplier – i.e. the so-called “no island” policy. This means that there will be only one distributor (that is the RED) in a defined RED's area. This is to avoid the continuance of duplication of cost and to reap the benefits of economies of scale. Also, it avoids licensees refusing to join the RED in order to retain “pockets of prosperity”;
- With the exception of certain eligible large users (mainly mines), customers in a defined distribution area will take supply from the RED in that area; and
- Distribution industry rationalisation should be voluntary, but will be guided by Government policy.

The rationale for REDs is primarily to improve operating efficiencies, ensure good customer services, unify tariff structures and levels and promote continued electrification, through the establishment of asset-based REDs. REDs will own and operate all distribution assets and provide electricity supply services to all customers within their distribution area. The REDs are private companies established in terms of the Namibian Companies Act, 1973. Their owners (shareholders) are the participants – these are mainly the LAs, Regional Councils (RCs) and NamPower who transfer their assets and customers to the REDs in exchange for shares. This is expected to lead to a win-win situation for all stakeholders in a particular region.

The Namibian Cabinet approved the findings & recommendations of the ESI Restructuring Study in 2000 and tasked the MME with its implementation.

### Restructuring Implementation & Progress

The implementation of the ESI restructuring was greatly assisted by the Electricity Act 2 of 2000 and by the establishment of the Electricity Control Board (ECB) as the regulator of the ESI at the same time. Due to human resources constraints the MME outsourced the distribution industry restructuring implementation to the ECB in 2004.

The notion that the ECB is establishing REDs is wrong, the ECB has been contracted by the MME to implement the Namibian Government's Policy of establishing REDs.

The policy directives by the Minister of Mines & Energy to the ECB when outsourcing the creation of REDs to the ECB will be dealt with in a future article.

To date NORED (northern Namibia) in 2002, CENORED (central-northern Namibia) in 2003 & Erongo RED (coastal Namibia) in 2005 have been established & operationalised. The remaining REDs to be established & operationalised are SORED (southern Namibia) & Central RED (central Namibia).

Currently the established REDs are experiencing “growing pains” to a varying degree, which are normally associated with the establishment of all new entities. In the medium to long term consumers and ESI stakeholders will reap the benefits of smoothly operating, commercially viable REDs.

### The Link to Vision 2030

Vision 2030 aims to have a prosperous & industrialized Namibia, developed by her human resources, enjoying peace, harmony & political stability.

Two of the characteristics of industrialized, developed countries are high electricity consumption & intensity and high correlations between growths in gross domestic product & electricity consumption. It is therefore crucial for Namibia to develop an effective & efficient ESI to reach industrialized status. An effective & efficient ESI requires an effective & efficient electricity distribution industry especially because distribution is the final stage of the electricity value/supply chain.

Without REDs it will be difficult, if not impossible due to the advanced stage of the process to date, to create a commercially viable electricity industry paving the way for Namibia to reach industrialized status by 2030.

Change is an unavoidable and often unwelcome, painful part of life. However, in order for Namibia to achieve development status change is an absolute necessity and Namibians should embrace change in working towards reaching the noble goal called Vision 2030.

Article 3 next week will give more details on the REDs: formation process, ownership structure, corporate governance structure, etc.

### ELECTRICITY CONTROL BOARD

**VISION:** To be recognised as a leading regulator for achieving optimum viability and competition in the Namibian energy industry.

**MISSION:** To regulate and control the Namibian ESI in the interest of all stakeholders with regard to price, quality and reliability.

#### VALUES:

**Professionalism:** To conduct every task to a standard of excellence and to maintain the highest level of technical competence and personal integrity/efficiency so as to ensure the satisfaction of all stakeholders.

**Integrity:** To be accountable and to act in accordance with government policy and accept full responsibility for all outcomes; to be transparent, open, honest and fair in all dealings and communications with stakeholders.

**Innovation:** To innovate through learning, teamwork and knowledge sharing in order to remain competitive in the market and to continue to deliver excellent service.

**Sustainability:** To ensure the endowment of Namibia's energy resources are available to present and future generations by considering our economic, environmental and social responsibility.

<sup>1</sup> “White” indicates that this was the first energy policy paper for Namibia.

<sup>2</sup> The Electricity Act was subsequently promulgated in 2000 & the Electricity Control Board was established in the same year.

<sup>3</sup> Due to limited space, the findings & recommendations for generation & transmission will not be discussed in this document.