



INFORMATION ON REGIONAL ELECTRICITY DISTRIBUTORS (REDs)

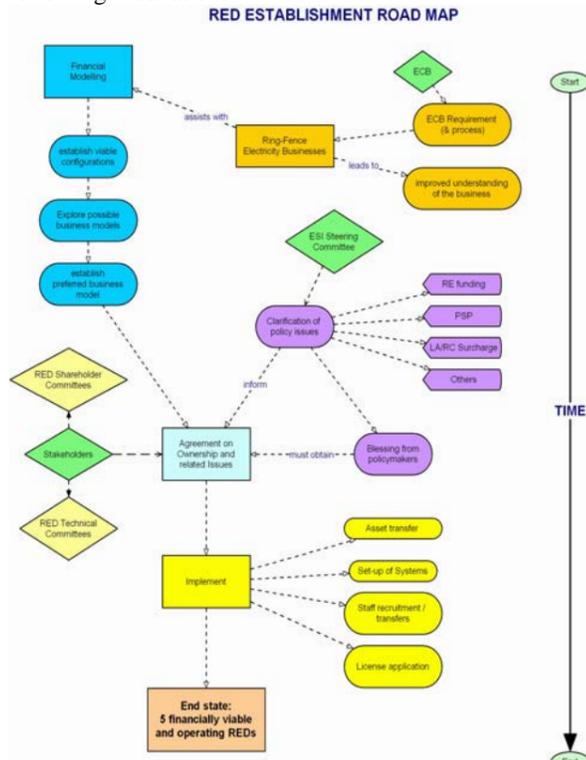
3. DETAILED RED MODEL

Article 3 of 6, compiled by the Electricity Control Board (ECB) to clear misconceptions about REDs & related electricity matters.



Formation Process

The formation process of a RED is depicted in the following illustration:



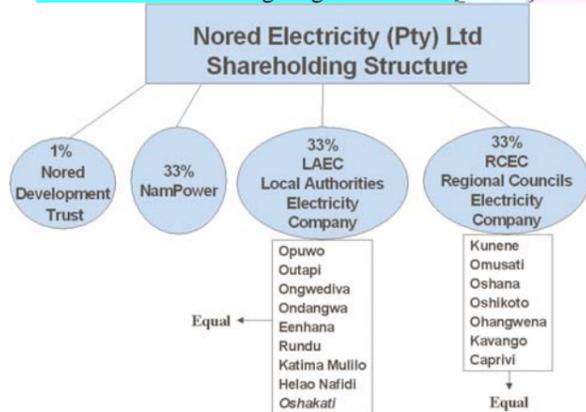
The Technical Committee consists of technical representatives of the RED shareholders. The Technical Committee deliberates on technical and administrative matters and makes recommendations to the Shareholders Committee, which consists of policy representatives from the shareholders.

The Shareholders Committee is the highest decision making authority during and after registration & operationalisation of the RED as a company. When the RED is established the Shareholders Committee evolves into the Shareholders of the RED company and the Technical Committee is replaced with a Board of Directors and the RED Management & staff.

The Electricity Supply Industry (ESI) Steering Committee consists of high-level administrative representatives from the Ministry of Mines & Energy (MME), Ministry of Regional & Local Government, Housing & Rural Development (MRLGHRD), NamPower & the ECB (since 2006 established REDs have also been incorporated into this committee). The ESI Steering Committee is responsible for giving guidelines on and clarifying policy issues.

Determination of Shareholding

NORED was the first RED to be established in Namibia (and Southern Africa). Shareholding in NORED, as agreed upon between NORED's shareholders, is illustrated in the following diagram:



The directors of NORED are: Mr S Kayone (Chairperson), Ms BR Hans (Deputy Chairperson), Mr BW Mwaningange, Mr W OJ Jetschko, Mr EI Negonga, Mr LS Negonga & Ms HT Udjombala.

Shareholding in all other REDs is based 50% on the market value¹ of the shareholder's assets and 50% on the electricity unit sales of the shareholder. As an example of this methodology the following table illustrates the shareholding in Erongo RED.

Based on their shareholding, the shareholders elected the following directors for Erongo RED's Board of Directors: Mr G Koseb (Vice-Chairperson – currently acting), Mr M Haingura, Mr T Kaimbi, Ms O Netta, Mr T Gurirab, Mr R Horsthemke, Mr W van Rooyen & Mr D Klazen.

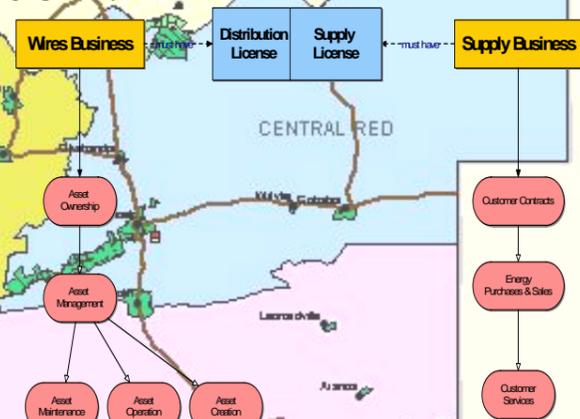
Shareholder	Depreciated Replacement Value		Sales to Shareholders		Shareholding
	Value (N\$)	% of Total	kWh/yr	% of Total	
Arandis	4 628 597,19	1,6%	4 808 000	1,7%	1,7%
Erongo RC	448 240,00	0,2%	1 363 281	0,5%	0,3%
Henties Bay	17 907 355,98	6,3%	8 072 000	2,8%	4,6%
Karibib	3 129 079,32	1,1%	5 095 000	1,8%	1,4%
NamPower	36 447 519,94	12,9%	21 188 376	7,4%	10,1%
Omaruru	5 242 351,63	1,9%	5 354 000	1,9%	1,9%
Swakopmund	90 833 144,40	32,1%	71 597 440	25,0%	28,5%
Uis	575 970,40	0,2%	1 444 800	0,5%	0,4%
Usakos	2 460 226,66	0,9%	4 751 180	1,7%	1,3%
Walvis Bay	121 488 045,75	42,9%	162 603 126	56,8%	49,9%
Total	282 541 091,10	100%	286 277 208	100%	100,0%

The shareholders of CENORED are Otjiwarongo, Grootfontein, Tsumeb, Outjo, Otjozondjupa Region, Kunene Region, Khorixas, Okakarara, Otavi, Kamanjab and NamPower. The directors of CENORED are: Ms F Namene (Chairperson), Mr S Haulofu, Ms S Naanda, Mr M Uxamb, Mr A Benjamin, Mr D J Hugo & Mr J A Urub.

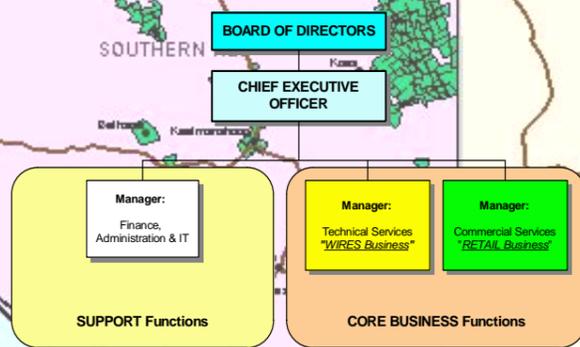
The Shareholders of Central RED will be Windhoek, Witvlei, Gobabis, Okahandja, Otjozondjupa Region, Khomas Region, Omaheke Region & NamPower. The Shareholders of Southern RED (SORED) will be Stampriet, Mariental, Keetmanshoop, Karasburg, Luderitz, Rehoboth, Hardap Region, Karas Region, Omaheke Region, Aranos, Aroab, Berseba, Bethanie, Gibeon, Gochas, Kalkrand, Koës, Leonardville, Maltahöhe, Tses & NamPower.

Business Model

Any RED's core business structure is best illustrated graphically as follows:



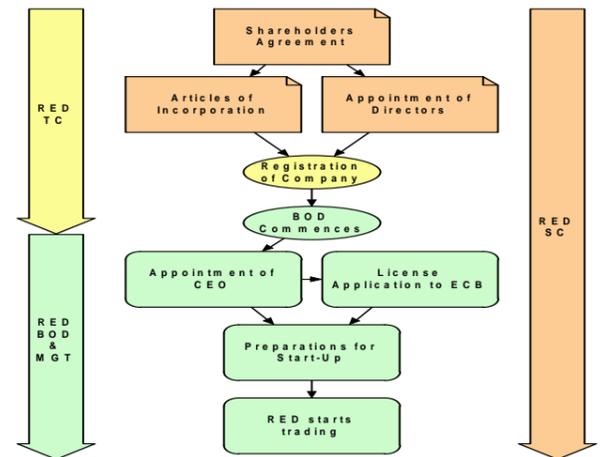
Based on the core businesses of any RED, the following generic company structure is applicable to all REDs:



The above business model & structure are based on international best practices for distributors. For each RED, staff previously employed by the various shareholders when they were running the electricity business, will fill most of the positions. Due to a general shortage of skills in Namibia some of the positions are difficult to fill.

Corporate Governance

The RED has to be a locally incorporated company registered with the Registrar of Companies. It therefore has to be governed in terms of the Companies Act. The effective corporate governance of any company has three distinct role players (shareholders, board of directors, management & staff), which have to operate independently from each other to ensure the success of the RED company. This is illustrated as follows:



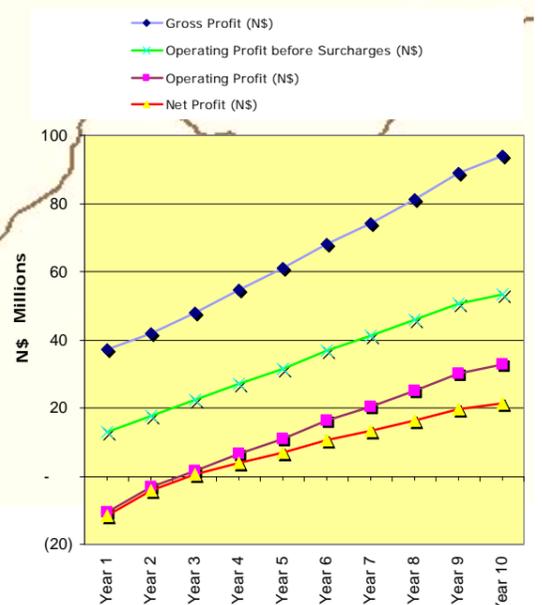
Shareholders: The shareholders are the proportionate and joint owners of the RED. Each shareholder has the right to be represented in shareholder meetings. Primary role is to share in profit of the company through dividends payout at the end of the financial period. Shareholders have to appoint a board of directors to, on its behalf, run the affairs of the company. Shareholders contribute to start-up capital proportionally according to their shareholding.

Board of Directors (BoD): Are appointed by shareholders to oversee the affairs of the company, to provide strategic direction, to manage risk and to earn shareholders required return on investment. All directors are non-executive and have fiduciary duties towards the company. In order to minimize expenses, the BoD is limited to 5-8 members, broadly appointed by the shareholders based on their shareholding. Nomination of Directors must be based on their expertise (technical, financial, legal, HR or business).

Management: Are responsible for the day-to-day operations of the company. Management should not serve as members of the board of directors. The board of directors should appoint the Chief Executive Officer. The chief executive officer in consultation with the board of directors should appoint the rest of the executive management team. Appointment of all other staff members is the responsibility of management.

Commercial Viability

The initial boundaries of the REDs have been chosen through pre-feasibility studies to ensure that each RED is commercially viable on its own. Subsequently the boundaries were refined based on detailed business plans, which included full feasibility analyses. As an example, the income statement over 10 years for Southern RED is depicted in the following graph:



The following should be noted:

- ✓ Southern RED becomes profitable after 3 years; amongst all REDs break-even occurs between 3-5 years.
- ✓ REDs would be profitable right from the start in the absence of Local Authority (LA) Surcharges.
- ✓ The illustration is applicable to all REDs except NORED, where LA Surcharges do not form such a large component due to electricity supply not having been conducted by LAs in NORED historically.

Article 4 next week will give more details on the prevalent electricity price regulation methodologies being applied by the ECB.

¹ The market value is calculated using the "depreciated replacement value" method.