



ELECTRICITY CONTROL BOARD

LOCAL AUTHORITY / REGIONAL COUNCIL AND RED COMPANY INTERACTION GUIDELINE

FOR LOCAL AND REGIONAL AUTHORITIES

January 2006

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Compiled for the ECB by
EMCON Consulting Group
in association with
Futuregrowth Financial Consultants

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ABBREVIATIONS

BOD	– Board of Directors
CEO	– Chief Executive Officer
EDI	– Electricity Distribution Industry
ESI	– Electricity Supply Industry
ECB	– Electricity Control Board
GRN	– Government of the Republic of Namibia
kWh	– kilowatt-hour (measure of energy, also referred to as a “unit”)
LA	– Local Authority
MME	– Ministry of Mines and Energy
MRLGH	– Ministry of Regional and Local Government and Housing
RC	– Regional Council
RED	– Regional Electricity Distribution
SC	– Shareholders Committee (of the RED company)
SLA	– Service Level Agreement
TC	– Technical Committee (of the RED company)
QOS	– Quality of Supply (Electricity Quality)

1 INTRODUCTION

1.1 PURPOSE OF THIS GUIDELINE

This guideline was developed for the Electricity Control Board (ECB) as part of the process to establish regional electricity distribution (RED) companies in Namibia. It is to provide guidance to both Local Authorities (LAs) and Regional Councils (RCs), and foster understanding with regard to:

- the RED company's business framework
- the RED company's establishment
- the transitional period interactions with the newly established RED company
- long term interactions with the RED company

LAs and RCs will have to establish a cooperative relationship with the RED company. In some instances this will be challenging. This '*LA and RED Company Interaction Guideline*' is therefore providing information and recommendations to assist the LAs/RCs to effectively address and deal with these changes.

1.2 WHAT IS A RED COMPANY?

After intensive studies of the electricity industry in Namibia, the Government of Namibia (GRN) decided to restructure the electricity distribution industry to improve its efficiency, viability and long term sustainability.

Up to five RED companies will be established. These are to be independent from the regional and local authorities, as well as NamPower. In practice, this implies that

- the electricity supply function is removed from the regional and local authority. Therefore, the LA/RC will no longer have the responsibility to supply electricity to consumers, and it will no longer bill electricity consumers.
- the LA/RC will transfer ownership of all electricity related assets to the RED company, and will no longer be responsible for the maintenance and upkeep of such assets.
- the RED company will acquire new assets, some of which will be co-financed by the LA/RC.
- the LA/RC will also no longer have its own electricity department, and staff from the previous LA/RC departments will be transferred to the RED company.

The RED company will

- take over full responsibility for electricity distribution and supply to consumers
- own the required assets, employ staff to utilise, operate and maintain such assets, and operate all required systems to provide electricity services to consumers
- purchase electricity in bulk from NamPower (or other sources)
- be responsible for payment of the bulk supply bill
- retail electricity to consumers, bill them for their use and collect the money due
- manage the development of new electricity infrastructure, while liaising closely with the LA/RC regarding development plans, priorities and funding of assets.

The LA/RC will be a shareholder of the RED company, along with other LAs/RCs in the area, as well as NamPower, and other persons/entities who may have assets and participate in the RED company's business, such as the owners of private farm networks. As a shareholder, the LA/RC will have a say in the appointment of Directors to the Board of the RED company. The relationship between the shareholders in the RED is governed by a Shareholders Agreement, as well as the Articles of Incorporation of the RED company, and relevant company laws. These issues are discussed in chapter 2 of this guideline.

1.3 A BRIEF HISTORY OF EDI RESTRUCTURING IN NAMIBIA

Traditionally, the distribution of electricity has been the domain of Local Authorities, the Ministry of Regional and Local Government and Housing (MRLGH), and NamPower Distribution. LAs were responsible within their areas, the MRLGH in rural areas, while NamPower Distribution was responsible for farming areas, some smallholding and village areas, as well as bulk supply to other distributors.

During the 1990's it became increasingly apparent that the MRLGH was not adequately geared towards providing rural electricity distribution services. The provision of distribution services was therefore put out on tender for some of the important northern Namibian regions, and awarded to Northern Electricity, who proceeded to vastly improve revenue management and network maintenance during their tenure. The MRLGH was also tasked with assisting the many smaller LAs in their tasks, but this was not successful, and resulted in many such authorities being burdened with deteriorating networks requiring large refurbishment investments.

LAs tended to maximise their use of electricity revenue to pay for other services, and have often neglected the maintenance, improvement and expansion of their electricity networks. A result of this is that the budget allocated by many LAs towards running their electricity networks is inadequate, and that many are now accustomed to a revenue stream from electricity to cross-subsidise their other activities, which in the long term is an unsustainable practice.

NamPower has changed from the traditional vertically integrated company into a ring-fenced entity with clear accounting separation between generation, transmission and distribution. NamPower's distribution activities have benefited from substantial subsidies from its other businesses. Effectively, there have been *de facto* cross subsidies flowing within NamPower, mainly from the large customers including large municipalities and therefore urban electricity consumers, to the rural distribution customers.

NamPower has been building extensive rural networks supplying commercial farms during the last 15 years or more. While this has improved the living conditions and economic possibilities of many farmers and their staff, it has had a detrimental effect on the financial viability of NamPower Distribution. This can be traced back to high capital and operating costs per connection, and generally low electricity consumption per customer.

Since 1990, the Government has been vigorously pursuing rural electrification, and has made great strides in providing electricity supply to Namibia's rural population. This programme has added a significant burden on the ongoing viability of the distribution sector. Rural electrification connections are inevitably more expensive to create and maintain than urban connections, and this trend is worsening as electrification progresses to ever more remote and sparsely populated areas.

The GRN's White Paper on Energy Policy lays down a policy framework for development in the energy sector. Emanating from this policy, the Electricity Act was promulgated in 2000, the ECB was created and operationalised, and the Electricity Distribution Industry (EDI) restructuring process was launched. Following Cabinet approval in November 2000, the GRN adopted the principle of asset based REDs, which would be created to facilitate the efficient distribution of electricity to consumers, and continued expansion of electricity services. The establishment of REDs in Namibia is thus squarely aimed at restructuring the distribution and supply industry with a view to improving the sector's viability and long-term sustainability.

Upon expiry of Northern Electricity's contract with the MRLGH in early 2002, the new company NORED Electricity took over distribution in northern Namibia. NORED is an amalgamation of the Regional Councils and LAs (except Oshakati) of the respective regions, as well as NamPower. NORED has so far operated successfully, however a major concern lies in the fact that to date NORED has not started to bear the full asset related costs, nor have the LAs raised claims to levies on the electricity revenue streams generated by NORED in their areas at levels that some other authorities currently operate at.

Generally, the ESI restructuring aims to fulfil the following objectives:

- The new entities must become financially viable; the duplication of services must be eliminated.
- Network assets are a national asset, and must be managed as such.
- Industry complexity is to be reduced, thus reducing costs, and regulations are to be made easier.
- Continued increase in access to electricity must be ensured, including the maintenance of non viable networks so as to ensure the long term quality of supply and services to consumers.
- The cross subsidisation of rural networks from urban networks must be transparent.
- The new entities are to ensure that human resources are available to the entire industry.
- Private sector participation is encouraged.

1.4 THE RED COMPANY'S STAKEHOLDERS

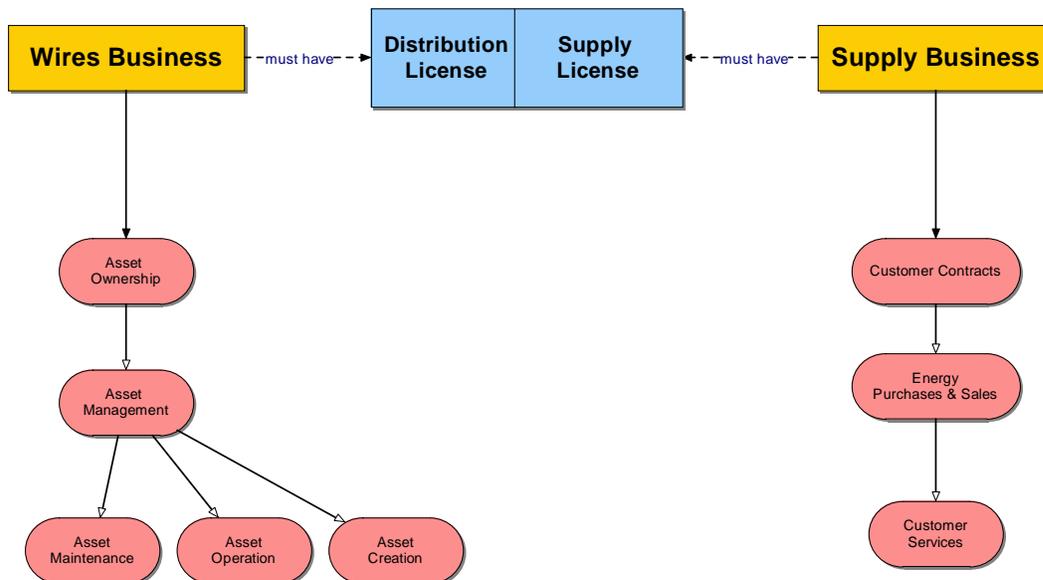
The RED company's most important stakeholders are:

- **Customers**, who expect affordable, reliable, and safe energy, which implies that the RED company is to ensure that tariffs are harmonised, quality of supply standards are adhered to, electricity prices are cost reflective, and customised tariffs are offered.
- **RED company shareholders** will provide the company's capital and assets, and expect returns on assets and their investments. They are the LAs/RCs in the area of the RED company, NamPower, and other persons/entities who may have assets and participate in the RED company's business, such as the owners of private farm networks.
- **Local Authorities and Regional Councils**, who will receive surcharges (for a limited time only, and LA/RC income from surcharges is eventually to be replaced with income from dividends as the RED company grows), and provide development opportunities in collaboration with the RED company.
- **External trading financiers and suppliers**, who expect fair trading opportunities and legal conduct.
- **Government of Namibia**, who expect assets to be maintained and operated efficiently, and that quality of supply and service standards are maintained. In addition, economic growth and social prosperity outcomes as per Vision 2030 are sought.
- **Electricity Control Board**, who is the industry's regulatory body, and protects all industry participants, while ensuring the ESI's and EDI's continued economic sustainability.

1.5 OVERVIEW OF THE RED COMPANY BUSINESS MODEL

There are two distinct functions associated with the electricity distribution sector's value chain, namely the wires business and the retail/supply business. The RED company is responsible for both, within one business.

Figure 1: RED Company Business Components

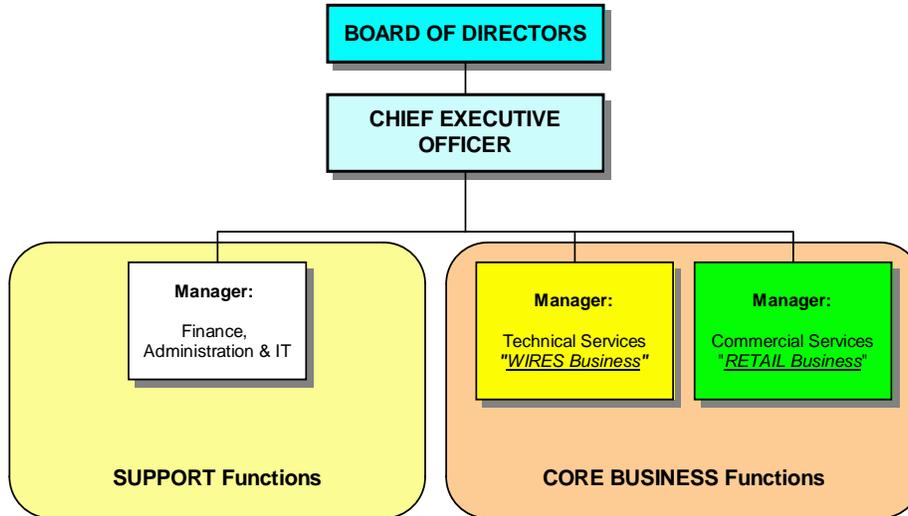


The **wires business** is concerned with the physical network infrastructure: managing it, maintaining it, operating it and expanding it. To operate this business requires a distribution license from the ECB.

The **supply/retail business** is concerned with the product, namely electricity (or more specifically electrical energy): purchasing it, metering it, selling it, collecting revenue for it, and providing associated services. To operate this business requires a supply license from the ECB.

The RED company's structure is to be aligned with its two distinct business components, i.e. the wires and retail business components. This adds focus and clarity of roles, while promoting accountability by way of a clear demarcation of roles and responsibilities. Interactions between the various departments/business units are to be governed by separate Service Level Agreements. The structure depicted in Figure 2 is based on this principle.

Figure 2: RED Company Structure



1.6 OVERVIEW OF THE RED COMPANY ESTABLISHMENT PROCESS

The RED company establishment process is both complex and lengthy. To facilitate this process, every RED company is supported by two separate committees, namely the Technical committee (TC), and the Shareholder Committee (SC). These provide a forum for the potential shareholders, and to resolve issues that need to be addressed in the run-up and during the RED company's establishment.

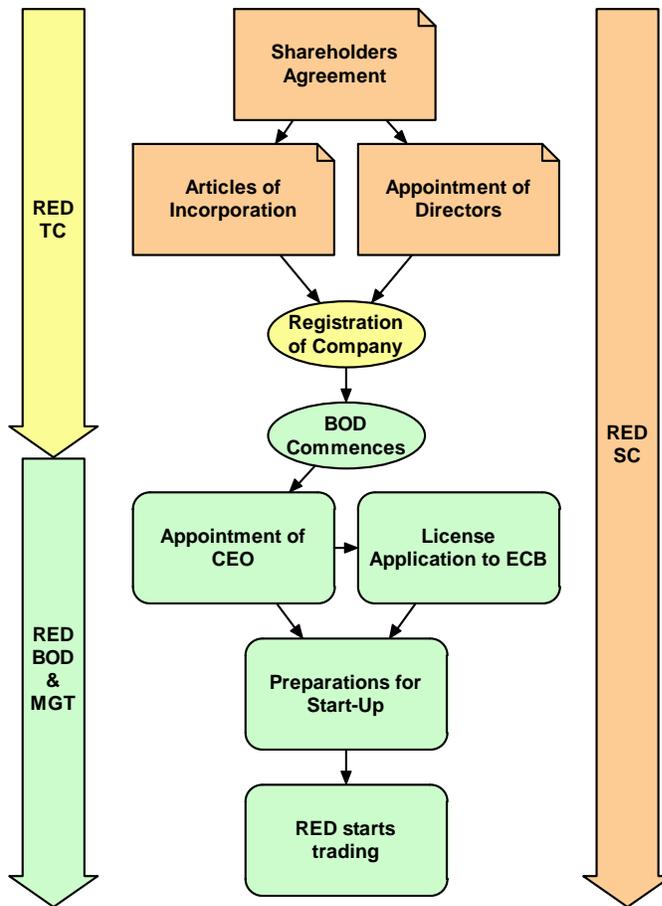
Specifically, the TC consists of management of the shareholder organisations, and addresses detail issues which are then brought to the SC. The SC on the other hand comprises political leadership and top management of the shareholder organisations, who are responsible to decide on all issues presented by the TC. The TC is dissolved when it has completed its task up to the point where it can hand over responsibility for the RED company to the company's Board of Directors. The SC continues to exist, however possibly in smaller form, as forum for the RED company's shareholders. It is expected to meet only once per year at the annual general meeting of the RED company.

Key activities during the RED company establishment process are listed below, and illustrated in Figure 3.

- draft Shareholders Agreement (summarising issues of agreement between the shareholders which govern their relationship among each other and towards the RED company – confidential document)
- draft and sign Articles of Incorporation (documents forming part of the application for registration of the company – public document)
- appoint the Directors of the RED company
- register the RED company as a (Pty) Ltd (requires Articles, appointed Directors, appointed auditor and company secretary)
- sign Shareholders Agreement (usually after registration and before trading commences)

- obtain Distribution Licence from ECB (required for trading)
- appoint the Chief Executive Officer
- determine an official business commencement date
- prepare business start-up negotiations and preparations (on behalf of the RED company and the LA/RC and other shareholders)
- conclude Sale of Assets Agreement
- conclude Surcharge and Service Level Agreements (if not included in shareholders' agreement)

Figure 3: RED Company Creation Process Overview



Note: TC refers to Technical Committee, SC to Shareholders Committee.

1.7 OTHER DOCUMENTS OF RELEVANCE

This section lists other documents which may be of relevance during the RED company establishment phase.

1.7.1 ECB Ring Fencing Guide (RFG) & Operational Reporting Manual (ORM)

The ring fencing guideline and operating and reporting manual have been developed by the ECB to assist licensees with the details of financial ring fencing of their electricity distribution activities. These include guides of financial reporting which are supported by spreadsheets, which must be completed annually and submitted to the ECB as part of an entity's tariff application.

While these guides deal with the detail mechanics of financial ring fencing, they do not describe the managerial challenges and processes associated with ring fencing and do not deal with the RED companies.

1.7.2 ECB Local Authority Surcharge Methodology

The local authorities surcharge methodology developed by the ECB provides a framework on how a LA will be compensated for proven loss of income on the sale of electricity once the RED companies are in operation. It provides guidance on how the surcharge will be calculated, and how it will be paid over by the RED company.

1.7.3 The RED Company Business Plan

High level business plans have been developed for CENORED, SORED and Central RED. These business plans are to be used by the RED companies' incoming Board, CEO and Management. It also contains information of relevance to LAs and RCs. Some of that information has been included in this document. Should further information be required it is recommended that the reader refer to the business plan of the appropriate RED company.

In addition, business plans have been or are being developed for NORED and Erongo RED. These can also be of interest to the respective LA/RC shareholder, and may contain information pertinent to the RED company not covered in this document.

2 THE RED COMPANY AND ITS SHAREHOLDERS

2.1 AUTONOMY OF THE RED COMPANY

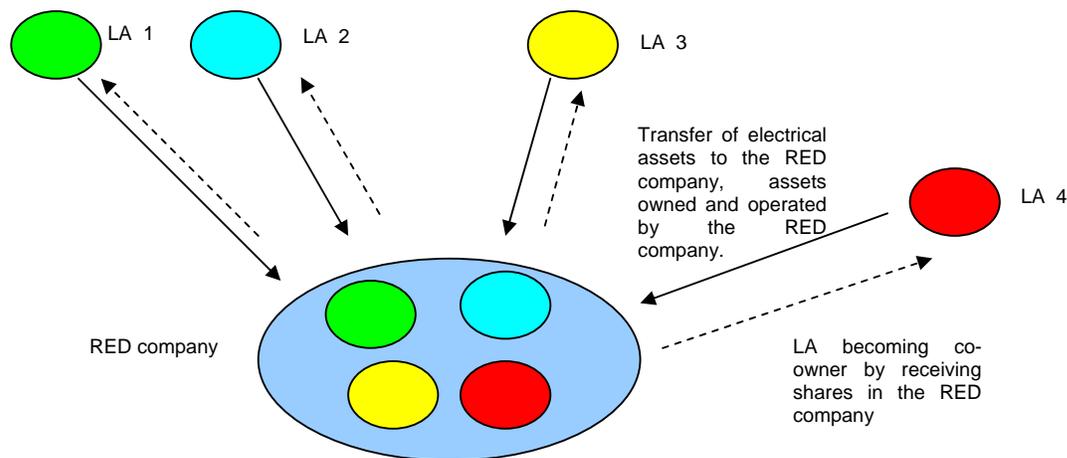
The RED company will be conducting business as a registered company under the Companies Act of Namibia. This in short means that the RED company will be a legal person, it can enter into contracts, it can own assets and incur liabilities, and it will be subject to taxation on trade profits.

The RED company is owned by its shareholders, who on their part must appoint Directors who will be responsible for the business conduct of the company. Also, the Directors are to ensure that a capable management team is appointed to run the day to day affairs of the RED company.

2.2 SHAREHOLDERS' EQUITY

Shareholders attain proportional ownership of the RED company by receiving shares. Shares will be issued based on an agreed formula which relates – in most cases – to the current value of assets and trading volume of the shareholders. In other words: local authorities, regional councils, NamPower and possibly private network owners will be “pooling” their respective businesses into the RED company to form one new business entity, which in turn undertakes all distribution activities as one business.

Figure 4: Proportional Ownership of the RED Company



The following principle determines how many shares will be issued to each RED company shareholder:

Weighted average (50% each) of the following two key production components, expressed as a percentage of the total RED company's activities:

- Network electrical assets in terms of the present day replacement value less depreciation according to age of the asset.*
- Energy trading in terms of the total units (as measured in kWh) sold to customers.*

This principle is illustrated in the example in Table 1 below.

Table 1: Example: determining the percentage shareholding in the RED company

SHAREHOLDER	Depreciated Asset Replacement Value	Monthly Energy (Average) Sold to Customers	Shareholding
	N\$	kWh	Percentage
Share holder 1	52,000,000	2,450,000	35%
Share holder 2	38,000,000	2,360,270	30%
Share holder 3	35,000,000	1,742,804	25%
Share holder 4	17,000,000	577,515	10%
TOTAL			100%

2.3 SHAREHOLDERS' RESPONSIBILITIES

2.3.1 Shareholders Agreement

The Shareholders Agreement regulates the relationship between the parties holding shares in the company. Shareholders enter into a contract with the RED company via a Shareholders Agreement. The contractual relationship between shareholders and the RED company as a legal person is spelled out in such an agreement. Shareholders should acquaint themselves thoroughly with the contents of this document, and ensure that they as well as the RED company comply with the agreement.

Issues addressed in a Shareholders Agreement may include:

- Business of the Company
- Shareholding
- Appointment of Directors
- Duties and Procedure of Directors
- Company Financial Policy
- Business Plan
- Capital and Loan Accounts
- Suretyships and Guarantees
- Conflict with Articles
- Dividend Policy
- Finance and Reports
- Restriction on Sale or Encumbrance of Shareholding
- Access to Records
- Breach
- Binding Arbitration
- Resolutive Condition
- Confidentiality
- Applicable Law

2.3.2 Sale of Business Agreement

A Sale of Business Agreement is required to regulate the transfer of assets, liabilities, rights and obligations between the transferring parties (e.g. LA/RC) and the RED company. This agreement is specific to each

shareholder; therefore each shareholder must ensure that the agreement is drawn up to their satisfaction, and that all clauses have been understood and agreed to.

As each party is responsible for its own Sale of Business Agreement, members of the SC and other political office bearers are encouraged to debate issues amongst their counterparts to ensure that all members are informed and updated regarding all issues affected by the various transfers.

The Sale of Business Agreement is a legal document governing the asset transfer whereby the assets are being "bought" by the RED company, in exchange for a percentage shareholding. This means that the assets are considered fully paid for, and applied in the business conduct of the RED company. These assets can then be depreciated against company tax liabilities, which will result in significant tax benefits for the RED company.

Due to the uniqueness of electricity assets and the substantial quantities of assets to be transferred, this transfer is to be governed by the new Electricity Act, expected to be passed in 2006.

2.4 CORPORATE GOVERNANCE

Effective corporate governance is considered to be founded on the four pillars of legitimacy, transparency, accountability and morality - principles that many contemporary businesses find challenging to achieve, even under well-established and stable business conditions.

Corporate governance imposes processes and procedures that act as the boundaries of accepted behaviour for both organisations and societies, as well as, if appropriately applied, an opportunity-creating environment. Good governance should be pluralistic in nature, inclusive in decision making, empowering the weaker sections of society, and be geared to achieve the generally accepted common good (quoted from Frederikson, 1992).

It should be of interest that the King II Report on corporate governance, published in South Africa in 2002, acknowledges that there is a move away from the more traditional single bottom line (that is, profit for shareholders) to a triple bottom line, which embraces the economic, environmental and social aspects of a company's activities. In the words of the King Committee:

"...successful governance in the world in the 21st century requires companies to adopt an inclusive and not exclusive approach. The company must be open to institutional activism and there must be greater emphasis on the sustainable or non-financial aspects of its performance. Boards must apply the test of fairness, accountability, responsibility and transparency to all acts or omissions and be accountable to the company but also responsive and responsible towards the company's identified stakeholders. The correct balance between conformance with governance principles and performance in an entrepreneurial market economy must be found, but this will be specific to each company."

In particular, corporate governance is about the following issues, which are discussed in more detail below:

- Directors and their responsibilities
- Risk management (Internal and external)
- Internal audit
- Integrated sustainability reporting
- Accounting and auditing
- Compliance and enforcement (legislative)

Directors and their responsibilities

The Directors appointed by the shareholders serve as members of the Board of the RED company. Directors are ultimately responsible for the RED company's strategic direction, sustainable business conduct and legal compliance. Directors should therefore be selected for their expertise, and not for their political acceptability and/or popularity.

Risk management

Risk management is the identification and evaluation of actual and potential areas of risk as they pertain to a company, followed by a procedure of termination, transfer, acceptance (tolerance) or mitigation of each risk.

Internal audit

According to the South African Institute of Internal Auditors, an internal audit is defined as *“an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

Integrated sustainability reporting

The concept of sustainability is increasingly recognised and adopted in contemporary business, and refers to the achievement of balanced and integrated economic, social and environmental performance ("triple bottom line"). As such, integrated sustainability reporting is aimed at improving the company's disclosure practices and recognises the importance of the relationship between an enterprise and the community in which it exists.

Accounting and auditing

In addition to being a statutory requirement, an external audit provides an independent and objective assessment of the way in which the financial statements have been prepared and presented by the Directors. An annual audit is an essential part of the checks and balances required for a company and is one of the cornerstones of corporate governance.

Compliance and enforcement with Code of Corporate Governance

The Law is an existing legal remedy, principally under the Companies Act (such as the sections dealing with liability of Directors and others for the fraudulent or reckless conduct of a company's business) and the common law.

In order to prevent the code from becoming too burdensome, compliance is for the most part treated as a matter between Boards and the stakeholders of companies. As such, recent regional trends, as summarised in the King II report mentioned above, encourage greater activism by shareholders, business and the financial press and relies heavily on disclosure as a regulatory mechanism.

The Board should implement effective measures to achieve compliance with the code; and should monitor corporate governance issues closely in order to ensure that they are not caught unaware by changes and developments.

Table 2: Implementation of Corporate Governance Code

Issue	Recommended Action	Responsible
Corporate Governance	Ensure that the Board understands the provisions of Corporate Governance, and that it is implemented	Shareholders
Implementation	Obtain professional guidance on the various practicalities on effective governance	Board of Directors

2.4.1 Board Composition

The general recommendation for the RED companies has been to appoint non-executive Directors. This means that the Directors appointed to the RED company should not be employed by the company and should not have any full-time management function in the company. This is however only a recommendation and the shareholders of the individual RED companies may decide to include executive Directors at their discretion as they deem beneficial.

In the past there has been a tendency to appoint Directors from the ranks of the councils or employees of the shareholder organisations. While this is permissible and brings some advantages, shareholders are encouraged to find a balance between independent Directors (i.e. those not directly linked to the shareholder organisations) and those Directors coming from within the shareholder organisations. It must be noted that there is an irretrievable internationally accepted trend to appoint non-executive and independent Directors to companies.

It is critical to note that the Directors have their first duty towards the RED company. This duty is laid down by the law and implies that the Director is required to look after the interests of the company first and not after the interests of an individual shareholder, especially where this interest may be in conflict with the interest of the company.

In some instances it will be difficult for Directors from shareholder organisations to fulfil this duty properly. They may be under pressure from their employer (the shareholder organisation, say a LA) to look after the interest of the shareholder, which may not be the same as looking after the best interest of the company.

Example:

Say the CEO of a LA is appointed as Director of a RED company. Some council member of that LA does not pay their electricity account to the RED and is cut off. The council member may put pressure on the Director (who as LA CEO reports to the council) to be reconnected without paying. This puts the Director in a very difficult position because it is not good for the RED company to reconnect customers who do not pay. The Director however may fear for his/her job at the LA if he/she does not bow to the pressure from his/her councillor. The Director may then act in a way that is not in the best interest of the RED company and try to convince the RED company's CEO or Board to reconnect the customer in question, thereby compromising the RED company's business.

2.4.2 Responsibilities And Functions Of The Board

Local Authorities, who are effectively co-owners of the RED company, need to understand the key role that the Board has to play to make the company successful. Therefore, the importance of the composition and quality of the Board can not be overstressed. An effective Board will execute responsibilities as set out below:

- The Board must retain full and effective control over the company, and is responsible for monitoring management in respect of implementation of Board plans and strategies. The Board, with the guidance of the company secretary, has the duty of ensuring that the company complies with all the relevant laws, regulations and codes of business practice.
- The Board is ultimately responsible for the affairs of the company. The delegation of authority to any committee does not discharge the responsibility of the Board in respect of the actions and decisions of a committee.
- The Board must give strategic direction to the company.
- The Board is responsible for the appointment of the chief executive officer and the succession process.
- It is recommended that the Board have an agreed procedure whereby Directors are able to seek independent professional advice, should the need arise. The professional services procured should be at the company's expense.
- The Board should develop a corporate code of conduct that addresses issues that relate, inter alia, to conflicts of interest, particularly relating to Directors and management.
- Insofar as it is practical, the Board is responsible for assessing and rectifying issues in respect of the size, diversity and demographics of the company.
- The Board is responsible for identifying risk areas and performance indicators in respect of the company. The Board must regularly monitor these issues.
- The Board is also responsible for the monitoring and assessment of the non-financial aspects pertaining to the company.
- The Board should aim to conform to the governance constraints while simultaneously performing in an innovative and entrepreneurial way.

2.4.3 Directors Are Responsible For Risk Management

The Board is responsible for ensuring that the RED company has implemented an effective ongoing process to identify risk, measure its potential impact against a set of assumptions, and then activate what it believes is necessary to proactively manage these risks. Risk management goes beyond the control of financial risks. Reputation and a company's future survival may also be at stake.

Risk management is a continuous process of identifying, evaluating and managing risk. Unless the RED sees risk management as more than just an act of compliance, it is unlikely to reap the benefits this process can offer. Companies must ensure that governance of the risk management process is transparent and disclosed to its stakeholders.

The risk management review processes may identify areas of opportunity, such as where effective risk management can be turned into a competitive advantage for the company. As such, risk management should not have a singularly negative connotation, but should also be used to provide valuable additional perspectives on new opportunities.

2.5 APPOINTMENT OF DIRECTORS AND CEO

2.5.1 The Chairperson vs the Chief Executive Officer

The chairperson is responsible for the effective functioning of the Board, while the chief executive officer (CEO) is responsible for the running of the company's business. The two roles are to be clearly distinguished.

2.5.1.1 Chairperson's Function

The chairperson's primary function is to preside over meetings of Directors and ensure the smooth functioning of the Board. The chairperson usually also presides over the company shareholders' meetings. The core functions performed by the chairperson include inter alia:-

- the overall leadership of the Board
- participating in the selection of Board members
- monitoring and evaluating Board and Director appraisals
- formulating an annual work plan for the Board
- acting as the main informal link between the Board and management
- maintaining relations with the company's shareowners.

2.5.1.2 Chief Executive Officer's Function

The chief executive officer's task is to run the day-to-day business and to implement the policies and strategies adopted by the Board.

2.5.2 Directors

Types of Directors

The capacity of the Directors of the Board should be categorised as follows:

- **Executive Director:** a Director involved in the day to day management and/or in the full time employ of the company, and/or any of its subsidiaries;
- **Non-Executive Director:** a Director not involved in the day to day management of the company and, not a full time salaried employee of the company or any of its subsidiaries;
- **Independent Director:** a non-executive Director who is not a representative of a shareholder, has not been employed by the company in any executive capacity for the preceding three financial years and has no significant contractual relationship or interest in the company or group.

Director Orientation

A formal orientation program is recommended to familiarise new Directors with the company's structure, operations and policies. New Directors must receive developmental and educational training in respect of their duties and responsibilities to the company.

Director Continuing Update

Directors should be regularly updated on any new or pending legislation, regulations or codes of best business practice.

Term of Office

An executive Director's fixed terms service contract should not exceed three years. Should it exceed such period, full disclosure of the reasons pertaining to such decision must be provided to the shareholders, and the shareholders' consent must be obtained.

Remuneration Policy

A formal and transparent remuneration policy must be developed by the company in respect of Director remuneration. Such a policy is best supported if published as a Statement of Remuneration Philosophy in the company's Annual Report.

2.6 GROWTH AND DIVIDEND EXPECTATIONS

The income base of the RED company consists of the revenues generated by the electricity consumption of the same customers that are rate payers to the LA (plus those consumers who were not customers of local or regional authorities). Most RED companies in Namibia will face negative cash flows during the first three to four years of their existence. Income growth depends on two main components:

- Increase in tariffs is generally due to:
 - Inflation
 - Network improvements
 - Network capacity requirements
 - Other network related costs (control, maintenance, protection)
 - Tariff changes are subject to regulation

- Increase in energy and maximum demands:
 - Growing number of customers
 - Growing energy demand and needs that might require re-investment of excess funds

Generally, the growth of the local economy acts as a determinant for increase in demand for energy. Therefore, only if the local economy expands is the RED company likely to increase its real sales volume. It is this growth that will effect real growth, and hence enable the RED company to make dividend payments.

Shareholders will be receiving a surcharge as compensation for some years, however ultimately the shareholders should be compensated via dividend payments. Due to the continued funding requirements of most RED companies, shareholders should not expect high (or any) dividend payments during the first five to six years of the RED company in operation.

The LA is cautioned to not merely impose pressure on the RED company to increase tariffs as a means to instigate dividend payments.

Growth can be expressed as follows:

$$\text{Growth} = \text{Rate of retention} \times \text{Return on Equity}$$

or;

$$\text{Growth} = (1 - \text{Rate of dividend payments}) \times \text{Return on Equity}$$

The Return on Equity is the comprehensive result of the company's financial performance, and hence partly a result of all the factors mentioned above. It therefore follows that Local Authorities need to appreciate that many external factors influence growth of the RED company's financial resources. Dividend payments should only be expected when the RED company disposes of unused funds and no internal use of those funds are foreseen for the future.

Table 3: Assessment of Dividend Payments

Issue	Recommended Action	Responsible
Dividend Payments	<ul style="list-style-type: none"> Obtain professional services in determining dividend payment ability of the RED company. 	Board of Directors
Surcharge agreement as a method of compensation	<ul style="list-style-type: none"> Observe the future of the surcharge as proposed by the ECB, as it represents proceeds from the RED company towards the LA/RC as shareholder. In the long term it is foreseen that the surcharge becomes obsolete, to be replaced by formal receipts from dividends as declared by the RED company's Board of Directors. 	Board of Directors

2.7 LA/RC SUPPORT OF THE RED COMPANY

Traditionally the LA/RC has provided electricity services to all consumers within its area of jurisdiction. The LA/RC had full control over this function and could manage it in any way it deemed fit. With the coming of the RED company this changes. The RED company is now an autonomous company, and the individual LA/RC has only part ownership of that company. Further, the RED company is governed by Directors which have to serve the company first, even though they are appointed by the shareholders.

It is therefore possible and even likely that the RED company will implement business practices with which the LA/RC shareholders may not be very comfortable because they may be different from the practices which the LA/RC used to embrace. For example, the RED company may implement credit control measures which are necessary to run a healthy business but which are different and maybe more stringent than those previously applied by the LA/RC. Also the RED company may need to apply substantial tariff increases especially during its first few years, in order to get its business operational and be able to pay the LA surcharge.

This may lead to resistance in the community, as has already been seen in some areas where electricity services were outsourced to private companies by LAs. It is critically important that when this happens the LA/RC leadership takes a neutral and conciliatory approach which can be seen as hearing the complaints of the community on the one hand but also supporting the business approach of the RED company on the other hand. If councils and/or individual councillors find it necessary to take the side of the community and speak publicly against the business practices of the RED company without a very good reason, then a very unhealthy situation will arise in which the RED company may find it very difficult to establish financial viability. LA and RC councils are therefore encouraged to at all times provide the political backing the RED company needs to become and remain successful.

On the other hand the LA/RC councils have the duty towards their voters to ensure that the RED company is run in a responsible and efficient manner, and provides good quality services at affordable prices. The shareholders should therefore hold the company's Board and management accountable for producing good

results and operating effectively and efficiently – but they need to publicly support the actions of the RED company which enable it run properly.

The LA/RC leadership also needs to recognise that many LA/RC entities receive substantial LA surcharges through the RED company, and that the RED company will not be in a position to pay these surcharges if its good business practices are not politically supported. The LA/RC will thus undermine its own surcharge income if not supporting the RED company in its efforts to be viable and stable.

Table 4: LA Support of the RED Company

Issue	Recommended Action	Responsible
Support for the RED company in LA area	<ul style="list-style-type: none"> • Actively promote public support for the RED company in LA area • Observe that voters still have influence on RED company via shareholder ship of their LA • Shareholders are co-owners of RED company, and should guard against the development of conditions that are detrimental to the viability of the company 	Local Authority and council members

3 TRANSITIONAL ARRANGEMENTS

3.1 ISSUES DURING RED COMPANY ESTABLISHMENT

There are numerous issues that need to be resolved before the RED company can commence commercial operations, many of which are described in more detail in the company-specific business plans (CENORED, SORED and Central RED). These include:

- Selection of Company Name (the name must represent the business of the company, but also be catchy for the public)
- Selection of Directors (who have to steer the company and have significant duties and must be carefully selected in the interest of the company)
- Separation of electrical activities pertaining to:
 - Management
 - Operations
 - Financial systems
 - Financial Resources
 - Existing Loans
 - Meter reading
 - Invoice processing
 - Billing
 - Debt Collection and Cashier services
 - Legal
- Transfer of staff
- Share capital contribution to be deposited by shareholders
- Raising external financing where necessary
- Asset transfer from LA/RC to RED company

3.2 RED COMPANY REPRESENTATION

The issue of representation is the most serious while the RED company has not yet employed its own staff. The members of the technical and shareholder committees are still employed by the local authorities and therefore will primarily look after the interests of the authorities.

It is therefore necessary for the RED company to employ staff before any serious negotiations are initiated. Alternatively, an interim management team can be appointed, consisting of temporarily seconded staff from shareholders' organisations until such time the first CEO and strategic management team have been established in office.

It is recommended that the local authorities do not attempt to negotiate Service Level Agreements or other contracts with the RED company too early.

3.3 SKILLS REQUIREMENTS TO NEGOTIATE SETTLING AGREEMENTS

Individuals who will negotiate agreements between the authorities and the RED company need a sufficient understanding of the issues at hand, and the nature of the proposed agreements. Well-honed negotiation skills are another pre-requisite for the process to be successful.

It is recommended that the LA carefully examines whether the necessary skills and knowledge are available within its own ranks, or if this function needs to be outsourced to a specialist. If outsourcing is considered then this specialist must be recruited with care, ensuring that sufficient understanding of the needs of the authority is present.

Major issues to be discussed and agreed on are:

- **Human resources transfer from the Authority to the RED company**

The migration of staff from the LA/RC to the RED company can be expected to be an extremely sensitive process, and need to be managed with caution, refer to section 3.5 of this document.

- **Asset valuation and transfer (refer to the notes on Sale of Business Agreement)**

This undertaking is of extreme importance both for the immediate and longer term purposes.

RED company establishment: All the assets that are either to be transferred to the RED company or to be used by the RED company have to be identified and recorded in such a methodology that affords various uses of the information. Recording must typically enable uses such as:

- Financial orientated calculations to determine accounting values and depreciation. This is essential both for the RED company's accounting books and for the Sale of Business Agreement.
- Technical information to serve for establishing the RED company's records on installations and systems – especially the electrical network.
- Adequate information to enable the new RED company management to establish operational procedures, maintenance planning and immediate action required where applicable – in short; efficient asset management.
- Enabling system planning and technical analysis.
- Enabling asset utilisation decisions – for example to sell, upgrade and how to be utilised by the RED company.

- **Interim agreements on usage of assets not transferred, possible rental agreements**

Agreements will be required for assets that are to remain within ownership of the LA/RC but used by the RED company. Workshops and offices are examples.

- **Extraction of customer data from the Authority's information system(s)**

This is one of the first and most important tasks. The LA/RC must assist with knowledgeable staff, where and when required. The RED company will in most cases employ the services of specialists in this activity.

- **The timing and arrangements for meter reading, billing and debt collection by the LA/RC**

It is unlikely that the RED company will be prepared to execute these functions in full by itself from the first day of operation. It is therefore extremely important that these arrangements and agreements are put in place before the operational date of the RED company.

- **The timing and arrangement related to the take-over of the prepaid sales system**

Management of the token issuing and moneys from sales need to be well coordinated to prevent potential losses.

- **The authority providing interim services as “agent” of the RED company for functions such as meter reading, bill preparation, bill distribution, cashier points and other customer related functions**

It might make business sense to provide these services to the RED company on a more permanent basis. In such case, service agreements are to be drafted and implemented.

- **Agreements related to streetlights, water pumping, traffic lights and any other urban services consuming electricity: operation, maintenance and cost carrying liabilities**

This emerged as a cumbersome situation to solve between RED companies and LAs. Although standard guidelines are developing as RED companies are established, each case must be reviewed on its own. The service level agreements governing these activities are very important to ensure keeping these services up to standard and well functioning.

- **Public relations, official press statements, public information distribution**

The LA/RC and RED company must always communicate from a united platform. Any conflicting messages are bound to create potential public upheaval. Both staff and customers should be briefed well in advance of the RED company taking over electricity supply from the LA/RC.

- **The handling of current capital development projects: project coordination, cost liabilities, contribution responsibilities and other matters related to the supply of the electrical infrastructure**

It is most likely that capital development projects are in progress at the commencement of the RED companies operations. These projects are normally conducted by using contractors under strict contractual conditions. A lack of coordination and financial management of these projects can not be allowed, therefore cooperation between the RED company and LA/RC must be settled well in advance. The relevant capital sourcing, payback or whatever arrangements must be negotiated before any structural changes.

3.4 EXPECTED TRANSITIONAL SERVICES

During the transition, the following services are likely to be required by the RED company from the LA/RC:

- Prepayment vending services
- Cashier services
- Provision of office space
- Provision of workshops space
- Secondment of staff
- Meter reading and billing

Each of these services must be priced realistically and scoped carefully to meet the needs of the RED company, and fall within the capacity of the LA/RC.

It is recommended that the financial manager of the LA/RC be tasked with taking responsibility for the process to determine reasonable rates for these services.

3.5 STAFF MIGRATION

The LA/RC must prepare itself for staff members whose employment will be transferred to the RED company. There are many human resource aspects that need to be clarified before such transfer can take place.

Transfer of staff between the present employers and the RED company is a critical undertaking, and must be treated with sensitivity as people's livelihood is at stake. It is recommended that the transfer of staff is to take place using a phased approach. It will be essential to retain the services of HR and IR professionals so as to ensure that proper procedures are followed throughout, and staff are treated with the necessary consideration, dignity and respect and kept informed at all times.

Unless the necessary expertise can be made available by the RED company's shareholders, it is recommended that the company retains the services of a reputable HR firm to assist with the entire staff recruitment drive, including the compilation of job specifications and remuneration structures.

This should be done under the auspices of the RED Technical Committee, so that the HR assistance is also available to the organisations from whom employees are to be transferred.

The principles which are to govern the transfer of staff from existing employers to the RED company have been developed by the RED Technical Committee, and typical points are summarised in **Error! Reference source not found.** below.

Table 5: Staff Transfer Principles (as per the RED Technical Committee)

Principle	Explanation / Implications
Recruitment processes will be transparent	Existing employees will be briefed extensively about the entire process and about positions available in the RED company. Employees will continue to be briefed throughout the process until it has been completed.
All vacancies will be advertised internally first and the remaining ones externally	Information briefs about the positions available in the RED company will first be circulated in all existing employee organizations to all affected employees. This may exclude lower level positions. However employees from lower levels do have the opportunity to apply for higher positions.
All electricity (ring-fenced) employees will be interviewed (provided that they apply for a position)	This implies that existing parties will be short listed and will be interviewed for any position that they apply for. This does not mean that they will automatically be employed in positions applied for. The RED company reserves the right to place people in positions where it deems them to fit best.
Existing personnel must apply for positions they wish to fill	With the possible exclusion of lower level employees who may be transferred directly to avoid insecurity and confusion
The RED company Board and Management will use best fit methodology will be used to place applicants	The RED company retains the right to look after its own interest in placing employees.
No ring-fenced electricity employee will become unemployed as a direct result of the establishment of RED company	The only way someone may become unemployed is if they refuse to apply for any position in the RED company or refuse to be transferred.
No-one will be financially worse-off when assuming positions at RED company	Remuneration packages in the RED company will be equivalent to those offered by current employers.
Mix of salary and benefits may vary however	The RED company should immediately structure salary packages to make a provision for performance management and performance related pay packages.
Applications for vacancies in different areas will be entertained	Employees may take this opportunity to apply for positions in different locations and also to apply for higher positions than they currently occupy.
Some employees may be relocated to areas of need	The RED company does not guarantee that employees will be placed in their positions or locations of first choice.
Employees who are less than five years away from retirement age may be given the choice not to be transferred but instead be seconded or contracted from the existing employer.	Such employees are detrimentally affected by being transferred and this could be seen as being unreasonable. They should therefore be allowed to remain in the existing entities to ensure that their retirement benefits are preserved.

The recommended staff transfer process is shown in Figure 5.

Figure 5: Overview of Recommended Staff Transfer Approach and Process

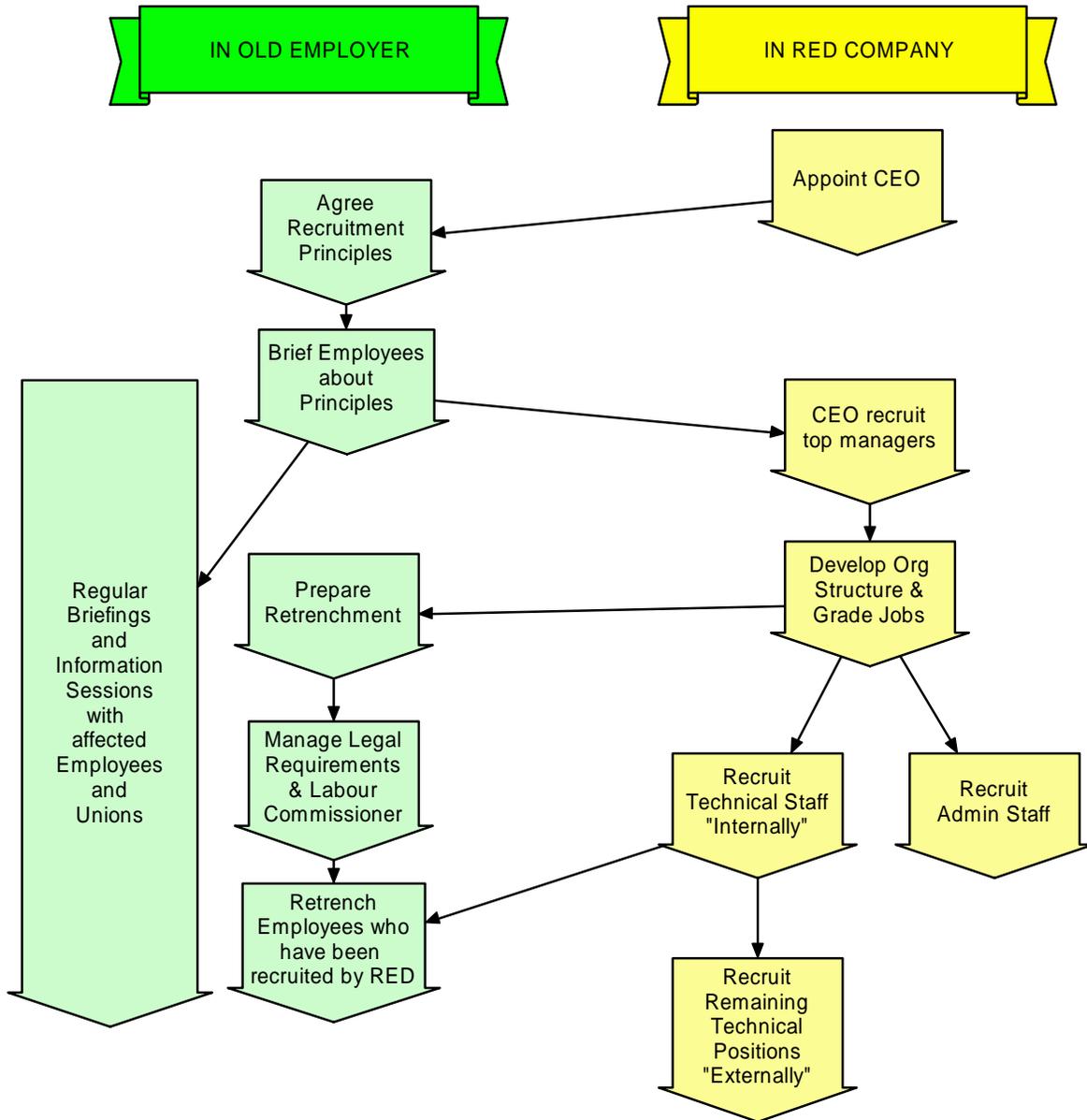


Figure 5 also illustrates the sequence in which events should take place.

In addition to the principles detailed in **Error! Reference source not found.**, the recommended staff transfer approach is based on the following rationale:

Table 6: Recommended Staff Transfer Approach, and Rationale

Recommended Approach	Rationale
<p>Use a process where employees are retrenched from the previous employers and freshly recruited by the RED company (in contrast to a direct transfer). Retrench employees only after they have been placed in the RED company</p>	<ul style="list-style-type: none"> ▪ This approach ensures that the RED company will not be constrained by provisions of the Labour Act when structuring the new packages, and will not be burdened with having to keep track of historical information about employees¹. ▪ The RED company has a clean start legally with its employees. ▪ Employee uncertainty is mitigated through timing of retrenchments.
<p>A comprehensive communication plan which all stakeholders commit to is to ensure that extensive and continuing communication with employees and unions will take place.</p>	<ul style="list-style-type: none"> ▪ Communication is the only way to manage concerns and fears of employees and the unions representing employees. ▪ Having a communication plan and sticking to it maximises the probability that communication will actually happen as intended. ▪ All processes and procedures are to be corroborated with the Labour Commissioner to mutual endorsement.
<p>Ensure full compliance with the legal requirements through the appointment of an expert in this field.</p>	<ul style="list-style-type: none"> ▪ Neither the existing employers nor the RED company can afford to treat their employees without regard to the law. ▪ Employees' rights must not be infringed upon in any way.
<p>Allow the RED company management and supervisors maximum opportunity to participate in selection and placing of staff</p>	<ul style="list-style-type: none"> ▪ This will ensure that the incoming managers and supervisors take full ownership of the organisational structure under their control, as well as staff selected and placed, and will serve to motivate management and staff collaboration.
<p>Approach organisational design, job descriptions and grading in a professional manner</p>	<ul style="list-style-type: none"> ▪ This will minimise the risk that major changes will have to be made shortly after establishing the RED company, leading to possible restructuring/re-grading (both of which cost a lot of money and can cause loss of key employees due to uncertainty).

In keeping with the above rationale, Table 7 provides details of the key steps of the staff transfer plan, as depicted in Figure 5.

¹ The cost of retrenchment packages has been identified as a problem which the LAs may not be able to cope with. While the recommendation is to adopt a retrenchment process to give the RED a clean start with its employees it is also possible to transfer staff, recognising their prior service in the new employer. This would have the disadvantage of the RED being constrained legally in how it can change conditions of employment. It would however have the advantage of eliminating the need for retrenchment packages to be paid.

Table 7: Key Elements of Staff Transfer Process

Description of Activity	Responsible
The RED Technical Committee to advance staff transfer principles to a draft final version.	RED TC Chair
Board to appoint CEO.	BOD
CEO to give final inputs into staff transfer principles.	CEO & BOD
The RED company appoints HR consultant to assist with staff transfer process.	CEO
Councils to share staff transfer principles transparently with all affected employees.	RED TC, assisted by HR consultant
CEO and Board to select and appoint top managers.	CEO
Councils, assisted by HR consultant, to prepare retrenchment process.	Councils, assisted by HR consultant
The RED Technical Committee, assisted by the ECB, to facilitate and coordinate staff transfer process.	RED TC Chair
The RED company's management to finalize organizational structure, and ensure that all staff recruitment pre-requisites (e.g. brief job descriptions and grading) are in place.	CEO, Managers
Recruitment of all technical staff to proceed internally, i.e. all existing electrical department employees within the RED company's area will have an opportunity to apply for identified positions in the RED company ² .	CEO, Managers
Councils to formally retrench employees only once they have secured a position in the RED company, or have accepted a retrenchment package. (This will alleviate a lot of anxiety and ensure that employees know where they are going before they are retrenched.)	Councils, assisted by HR consultant
Only once all existing electricity department employees have been successfully placed in the RED company is an external recruitment drive undertaken to fill the remaining positions.	Managers

Note: Should the above staff transfer process take longer than the targeted timeframe (this is a definite possibility as RED company establishment deadlines are tight) it is recommended that staff be transferred on a secondment or agency basis. This will allow the RED company to become operational, while still conducting the staff transfer process in an orderly and professional manner.

² Employees of lower ranks may not wish to follow such an application process, but rather opt to be transferred directly to the RED, as this will minimise staff uncertainty and avoid confusion. Provision should however be made to allow those employees to also apply for higher positions.

The transfer and recruitment approach put forward in **Error! Reference source not found.**, Table 6 and Table 7 raises a number of issues which are summarised in Table 8.

Table 8: Issues Arising from the Staff Transfer Plan

Issue	Recommended Mitigation Measure
<p>The retrenchment packages to be paid by Councils may incur costs to the existing employers. The Councils may require time until their next financial year to make budget provision or may not be able at all to procure funding.</p>	<p>This must be weighed up against the benefits derived by The RED company from having a clean start with all its employees. In the consultants' view this benefit far outweighs the costs because the costs are a short-term issue, whereas the RED company's relationship with its employees is a long-term issue. Long-term strategic advantages should not be sacrificed for short-term financial gain. However in some cases it may be necessary to transfer staff instead of retrenching.</p>
<p>The recommended staff transfer process will take longer than other less thorough staff transfer options (such as not clearly defining and grading jobs and/or transferring staff without management in place)</p>	<p>This can be mitigated through an extended secondment period. While protracted secondment is not an attractive consequence of the recommended staff transfer plan, it is still better than having structures and salary packages that are not properly designed.</p>
<p>The recommended staff transfer process will probably result in costs being incurred for retaining external consultants to deal with some of the critical components of the process</p>	<p>Having access to external resources is considered a good investment. If the process is not handled with the required skill, the RED company is likely to employ consultants in the near future anyway to do the same work.</p>
<p>Failure to find suitable candidates for senior positions at the first attempt will delay the process, and make it necessary to keep interim arrangements in place for longer</p>	<p>This can be addressed through extending the secondment period without any significant detrimental effects on the RED company.</p>

3.6 CUSTOMER TRANSFER

The RED company has to enter into new electricity supply contracts with the entire customer base within the company's operational area. This is one of the major risk areas towards both the RED company and the Authority.

With respect to the RED company, the customers are expected to accept the new contract, and continue with payments on invoices presented by the company for supply services rendered. The RED company will be extremely dependent on a smooth transfer, because sound income is crucial from the start. In case of customers failing to pay their accounts, the company will experience cash flow problems.

With respect to the LA/RC, the possibility exists that accounts for electricity supplied remains unpaid, and the Authority also lose the cut-off option as a tool to persuade customers to settle accounts.

The one factor that will have a profound influence on the above mentioned risks is proper communication and information release. The customer base should be educated by the RED company and the LA/RC in a joint effort, and all arrangements ought to be agreed in good time so as to avoid any possible confusion.

3.6.1 Recommended Customer Transfer Approach

It is virtually impossible to attempt to get each and every customer to sign a new contract in the short-term. Many of the existing customer contracts, especially in the Local Authorities, are based on regulations and bylaws, and not on actual direct contracts.

It is recommended to transfer customers by way of a bulk notification process. Different customer categories are proposed to be treated differently, as detailed in Table 9. It is further proposed that compulsory standard conditions of supply (as oppose to individual contracts) be drawn up subject to which the RED company will supply electricity to customers. Large customers may, however, require separate individual contracts.

The customer transfer process needs to be initiated before the date on which the RED company officially commences operations. In fact, the notification of change of electricity supplier must be given by the previous supplier, since it is a previous supplier who has an existing contract with the customer. This process is to be undertaken at least one month before the RED company starts operating so that customers are given a reasonable notice of the impending change.

The RED company should make copies of the new standard supply agreement/conditions of supply available at all service centres and post copies on all notice Boards for customers to view.

Table 9: Recommended Customer Transfer Approach

Customer Category	Recommended Approach
Pre-payment	A general announcement is to be made through the media and at customer service centres and cashier points. This notification will contain the wording of the new supply agreement/conditions of supply, or where customers can inspect them. The notification can invite customers to voice concerns/direct queries to an identified person in the RED company. Suppliers who have address details of pre-payment customers should also send individual notification letters.
Single-phase domestic Single-phase business Three-phase business	Customers are to be informed of the change in electricity supplier through a letter spelling out the change, and its implications for the customer. This notification will also contain information where the wording of the new supply agreement/conditions of supply can be inspected, in case it cannot be attached. The notification can require customers who wish voice concern or ask questions to direct them to the RED company by a certain date.
Large power user	Same written approach as previous category. In addition these customers should be invited to a briefing meeting at which the old and new suppliers will jointly present details of the change and effects on the customer. It is important to note that in many instances these LPU have individual contracts with NamPower/LA/RC which will terminate when NamPower/LA/RC discontinues supply. These contracts are NOT automatically ceded to the RED company and, even if they are actively ceded, they may be inappropriate for the RED company. In the latter instance the RED company may wish to renegotiate a new contract.

Those customers who voice concerns are to be considered on an individual basis. By applying this methodology it is expected that only a very small percentage of customers will require individual attention. It is recognised that customers do not have much choice in this matter as legally, the old supplier cannot continue to supply when it no longer has a licence. This implies that the only option the customer has is to accept supply from the RED company, or to stop taking electricity supply.

Table 10: Customer Transfer Issues

Issue	Recommended Action	Responsible
Risk of customer backlash and/or failure of transfer process	<ul style="list-style-type: none"> ▪ Ensure that the intended process is legally sound and carries the approval of the ECB. ▪ Carefully develop the customer notification and information process, ensuring that appropriate and sufficient information is provided to customers. ▪ Allow sufficient time for customers to raise objections to ensure that administrative justice is not violated. 	Technical Committee / CEO
Tariff diversity	<ul style="list-style-type: none"> ▪ Leave customers on their existing tariff structures initially so as to minimise the complexities and complications in the customer transfer process. ▪ Commission a tariff harmonisation study as soon as possible which must develop a tariff harmonisation plan. 	Commercial Manager
Customer notification	<ul style="list-style-type: none"> ▪ Media announcement ▪ Notification letter to customers whose address is known ▪ Meeting with key customers 	LAs (assisted by technical committee)
Preparation of new contracts/conditions of supply ³	<ul style="list-style-type: none"> ▪ Exploit work done at others RED companies to fast track the new customer contract 	RED company CEO / Technical Committee
Handling objections	<ul style="list-style-type: none"> ▪ Develop a solid legal position that will be put to customers raising objections, including an interaction framework for handling meetings ▪ Assign designated officials who will handle objections according to pre-determined interaction framework 	LAs (assisted by Technical Committee)

3.7 BILLING SYSTEM SEPARATION

The RED company, as a company in its own right, will at some point run its own billing system. However, the extraction of the current customer information from existing LA/RC systems is a cumbersome and complicated process, especially to preserve the integrity of data and its use within the new system of the RED company. During the establishment phase, it is most likely that billing of electricity supply by the RED company will be "outsourced" to the LA/RC because the existing systems in most cases make provision for the electricity portion of the services rendered by the Authority.

The entry and processing of consumption readings, as well as checking and posting to the information and billing system needs to be established between the RED company and the LA/RC.

The commercial transfer mainly entails the transfer of metering, meter reading, billing and collection information from the old entities to the RED company.

The main objective for the commercial transfer is for the RED company to gain control over the commercial activities as early as possible so that it can directly influence its revenue streams. It would be possible to retain the billing function in the LAs/RCS for a time, but this is not recommended because of the many administrative and other problems that are likely to arise from such an arrangement.

The recommendations in this section are therefore aimed at achieving an early transfer of commercial activities to the RED company.

³ Note that during the course of 2006, the Ministry of Mines and Energy will issue Technical Electricity Regulations under the Electricity Act to replace the local authority Model Supply Regulations. These Technical Regulations will determine the supply environment in addition to supply contracts/conditions of supply of the RED companies.

3.7.1 Conventional Billing System

Many of the RED company predecessor entities use Fintel as financial and billing system. NamPower uses SAP. The customer information and billing information from these diverse systems will need to be combined and integrated into a single system, for the RED company to take over and execute the full billing function. This raises a number of issues which are summarised in Table 11 .

Table 11: Conventional Billing Transfer

Issue	Recommended Action	Responsible
The RED company billing system selection	<ul style="list-style-type: none"> ▪ Liaise with other RED companies (specifically NORED) regarding suitable approach and systems. ▪ Determine cost of preferred option(s). ▪ Select a solution using cost-benefit criteria, taking the need for quick implementation, cost, and long-term needs of the RED company into account. 	RED company CEO / Technical Committee
Data transfer & verification	<ul style="list-style-type: none"> ▪ Appoint an IT company to transfer the data for the RED company – preference would apply to the vendor of the selected billing system and/or the vendor of the system used by LAs. 	RED company CEO / Technical Committee

3.7.2 Pre-Payment Billing System

It is expected that the existing pre-payment vending systems in use in the RED company's area will be handed over to the RED company as soon as the company has staff in place to operate them. These systems will be sufficient to get the RED company started.

The timing of the hand-over is critical. The RED company must have appointed and trained cashiers, and must have offices in its various points of presence.

It is recommended that the RED company arranges with the Local Authorities currently operating the vending systems to continue doing so on behalf of the RED company until such time that it has its own staff, and established its offices. Revenue collected using this procedure ought to be paid over to the RED company on a regular basis, and it is recommended to do this at least weekly.

Table 12: Prepayment Billing Transfer

Issue	Recommended Action	Responsible
Interim vending operations	<ul style="list-style-type: none"> ▪ The RED company to arrange with LAs and RCs for interim operation of existing vending systems (agreement one month before actual transfer). 	RED company CEO
Training of RED company vending staff	<ul style="list-style-type: none"> ▪ The RED company vending staff to be trained by LA/RC staff once the RED company staff is in place. 	RED company Commercial Manager

3.7.3 Meter Reading

The previous electricity distributors from whom the RED company takes over will take a final meter reading either on their normal meter reading date, or on the last day of the month before the RED company takes over. These readings must be provided to the RED company, where possible in the form of the meter books (where paper based meter books are used). These readings will then serve as start reading for the RED company. All meters must be read before the RED company takes over.

The RED company must then arrange to have human resources to read meters during the first month of its operations. This leaves the RED company very little time to put these resources in place. It is recommended

that the RED company initially make use of the meter readers of the previous distributors in each area of operation until such time as the RED company has recruited its own meter readers and they have been trained adequately. The RED company also needs to get administrative systems in place for the meter reading process. This entails ensuring that meter books or meter cards are produced on which meter readings can be entered, and also that the process of creating these cards, distributing them to the meter readers and retrieving them again for capture into the billing system is clarified and understood by all involved.

It is critical that meter reading resources and systems are in place when the RED company starts to operate. Failure to achieve this will delay billing and will increase the cash flow burden on the RED company. Significant delays in meter reading can cause the RED company to run out of cash during its first few months of operation.

Table 13: Meter Reading Transfer

Issue	Recommended Action	Responsible
Closing reading by old supplier	<ul style="list-style-type: none"> ▪ Agree with the old suppliers on date of closing reading. ▪ Agree how the closing readings will be provided to the RED company who needs them as start readings. ▪ Agreements to be in place one month before d-day. 	CEO / Technical Committee
The RED company meter reading process	<ul style="list-style-type: none"> ▪ The RED company to either have some meter readers seconded from LAs to do its meter readings or contract with the LAs to read on behalf of the RED company. ▪ The RED company to have bill processing staff seconded from LAs or on contract from billing system supplier until own staff is in place. ▪ Arrangements to be in place one month before d-day. 	CEO / Technical Committee

3.7.4 Collection Transfer

On the day of take-over – also referred to as D-day – it is expected that the RED company will take possession of all pre-payment vending systems in its area. The company needs to be geared to run these systems and vend electricity immediately. This further implies that bank accounts must be in place, including banking and cash handling procedures. These must therefore be designed and arranged before the start of operations, and the people handling these functions must be trained.

Payment of electricity accounts will only commence after the first bills have been sent out, i.e. probably one month after the RED company has started operating. This implies that in the main centres where payment facilities are currently available the RED company must have cashiers available to handle payments. This implies that receipting functionality must be available, if possible on-line so that the billing system is directly updated.

This implies that on-line links (or off-line computer facilities with batch update function) must be in place at all major cashier locations. The necessary computer equipment must be procured in good time and communication links established and trialled. Failure to achieve this system will create **major problems** since manual receipting is only a last resort option – considering the number of customers involved. Getting this component of the billing system working reliably is therefore a **critical issue which would warrant a delay in implementation date**.

Failure to accomplish the correct receipting procedure may lead to customer bills which show outstanding amounts despite customers having paid. This will lead to confusion at best, or even a customer backlash and/or non-payment problems. Failure to process receipting may also impede the RED company's ability to cut supplies for non-payment if the underlying information is not credible. All of these will place an additional burden on the cash flow of the RED company.

Table 14: Collection Transfer

Issue	Recommended Action	Responsible
Receipting system	<ul style="list-style-type: none"> ▪ Procure the required hardware and communications links, implement and test before billing function is taken over. ▪ Ensure that operators / cashiers are available on contract from the LAs, including space for hardware. Provide training if an unfamiliar system is implemented. 	CEO / Technical Committee
Cash handling	<ul style="list-style-type: none"> ▪ Ensure that cash handling procedures and controls are in place and understood by staff involved and that banking and security arrangements are in place. 	CEO / Technical Committee

3.8 FINANCIAL SYSTEMS SEPARATION

The RED company will most likely establish its own financial system of the most urgent matters. Therefore, historical financial information on electrical activities, budgets, capital project budgets and ongoing projects are crucial to be analysed and provided to the company. The LA/RC will be playing a key role in assisting in this goal and be supportive to the RED company in every aspect.

The LA/RC needs to realise that the electrical operations are taken over as “going concerns”, there is no change for suspending operations, establish new structures and then “starting up” again. All the changes must occur subject to a fully operational system.

Therefore, all possible information required by the RED company in order to serve as reference and basis for establishing its own financial information system must be supported by the LA/RC in question.

Table 15: Establishing the RED Company’s Financial System

Issue	Recommended Action	Responsible
Financial Information	<ul style="list-style-type: none"> • Make available dedicated, knowledgeable staff to assist the RED company in extracting specific information as required • Ensure that all transactions are up to date 	Technical Committee

3.9 FACILITIES OWNERSHIP AND UTILISATION AGREEMENTS

The existing electrical departments in the LAs/RCs may be using offices, workshops, stores, erven and other physical assets. The RED company may require similar facilities for its operations in the respective towns. In order to transfer use to the RED company, the legal owner of the facility needs to be established, so to determine the required transaction to be entered into.

Various options are possible:

- Sale of the asset to the RED company (consistent with LA and RC Acts procedures in the event of sale of movable and immovable assets)
- Short notice rental agreement
- Longer term lease agreement
- Making land available to the RED company, who will erect its own structures

The typical conditions are to be established for a rental/lease agreement:

- Maintenance liabilities
- Security of the premises

- Insurance liability
- Default of any of the two parties
- Payment terms
- Contract renewal
- Rental amount escalation

Table 16 : Facility Utilisation Agreements

Issue	Recommended Action	Responsible
Rental and lease contracts	<ul style="list-style-type: none"> • Obtain professional legal services for drafting agreements 	Technical Committee

3.10 FIXED ASSET TRANSFER

The ESI Steering Committee has recently decided that assets should be transferred to the RED company as soon as possible, and that no formal lease agreements should be entered into. This matter requires further clarification from the ESI Steering Committee regarding the details of their proposed approach.

In most cases, detailed and up to date asset registers do either not exist, or are totally inadequate. This implies that the RED company must commission a consultant through a tender process to enumerate and assess all electricity assets in the area of the RED company, to compile an asset register and value the assets (as per the decision of the RED company Shareholders Committee). The terms of reference should have the following as goals:

- Done to a standard that meets the requirements of GAAP
- Comply with ECB regulations and requirements
- Usability of the register and valuations for both the financial and legal transactions involved in the transfer of the assets, as well as future tariff applications and financial reporting to the ECB.
- The asset register is to be compiled in such a manner that the RED company can keep it updated and expand it as a proper technical asset register.

The transfer of the assets can then be affected along the legal guidelines which are to be developed by the ESI Steering Committee.

An accurate asset survey will be required to serve the following purposes:

- Asset pricing for basis in Sale of business agreement
- Clarification of ownership on all utilized, so that specific arrangements can be made for each
- Technical – and other data verification, for use in technical planning, maintenance planning, financial records updating and detecting possible eminent system failures

The asset transfer should be treated as a sale transaction and should be underpinned by a sale of business or sale of assets agreement.

It should be noted that the sale of the electricity assets affects the VAT status of the LA/RC in a very significant way. Since much of the electricity income of the LA/RC is subject to VAT the LA/RC can claim the same proportion of VAT on purchases. With the removal of electricity from the LA/RC the VAT ratio of the LA/RC is affected. **It is highly recommended that the LA/RC obtain professional advice on how this affects the VAT status of the LA/RC.**

4 POST-ESTABLISHMENT INTERACTIONS

The post-establishment success of the RED company will be underpinned by the following key factors:

- a) a political environment respecting and supporting the Board's decisions
- b) the ongoing support by the RED company's shareholders
- c) the recognition of the explicit independence of the RED company
- d) interference-free operations and day to day management of the company
- e) the recognition that the RED company faces a challenging business environment characterised by long term uncertainties and slow-growth economic and socio-demographic realities
- f) sound decision-making based on financial and economic circumstances.

To this end, the LAs/RCs need to establish a clear understanding among its members of the coordinated manner in which customers are to be served in future. In addition, while the RED company is a business on its own, and looking after its own interests, it must always act in such a manner that its business conduct in support of the LA's goals. Likewise, LAs/RCs need to closely collaborate and act in partnership with the RED company to provide the best and most affordable electrical energy to all customers.

The following are areas of likely operational interaction and coordination, and are discussed in more detail in this chapter:

- LA/RC skills retention
- Services provided by the LA to the RED company
- LA Surcharge
- Cutting electricity supply to defaulted customers
- Services provided by the RED company to the LA
- Infrastructure development
- Development of the local economy
- Socio-economic issues and the mutual impact on the RED company and LAs/RCs

4.1 LA/RC SKILLS RETENTION

The ring fencing process, i.e. the separation of the electrical department from the LA, is expected to be managed by the financial department of the LA. While it is correct that the primary focus of the ring fencing process is on the financial separation of the electricity department from the rest of the Authority, there are also many other aspects to consider. It is therefore recommended that the Authority also involves people other than financial staff in the process, for example human resources, technical and information technology experts.

The ring fencing process can be an enormous learning experience for everyone involved. There is a significant risk that the most knowledgeable financial personnel, especially those involved in the ring fencing process, may seek employment at the RED company, where they will be welcome because of the specialist knowledge they have. It is recommended that the LAs/RCs ensure that this learning experience is shared by a number of people and is not left in the hands of a single person.

4.2 SERVICES PROVIDED BY THE LA/RC TO THE RED COMPANY

In the medium to long term, the RED company is likely to require the following services from the LA/RC:

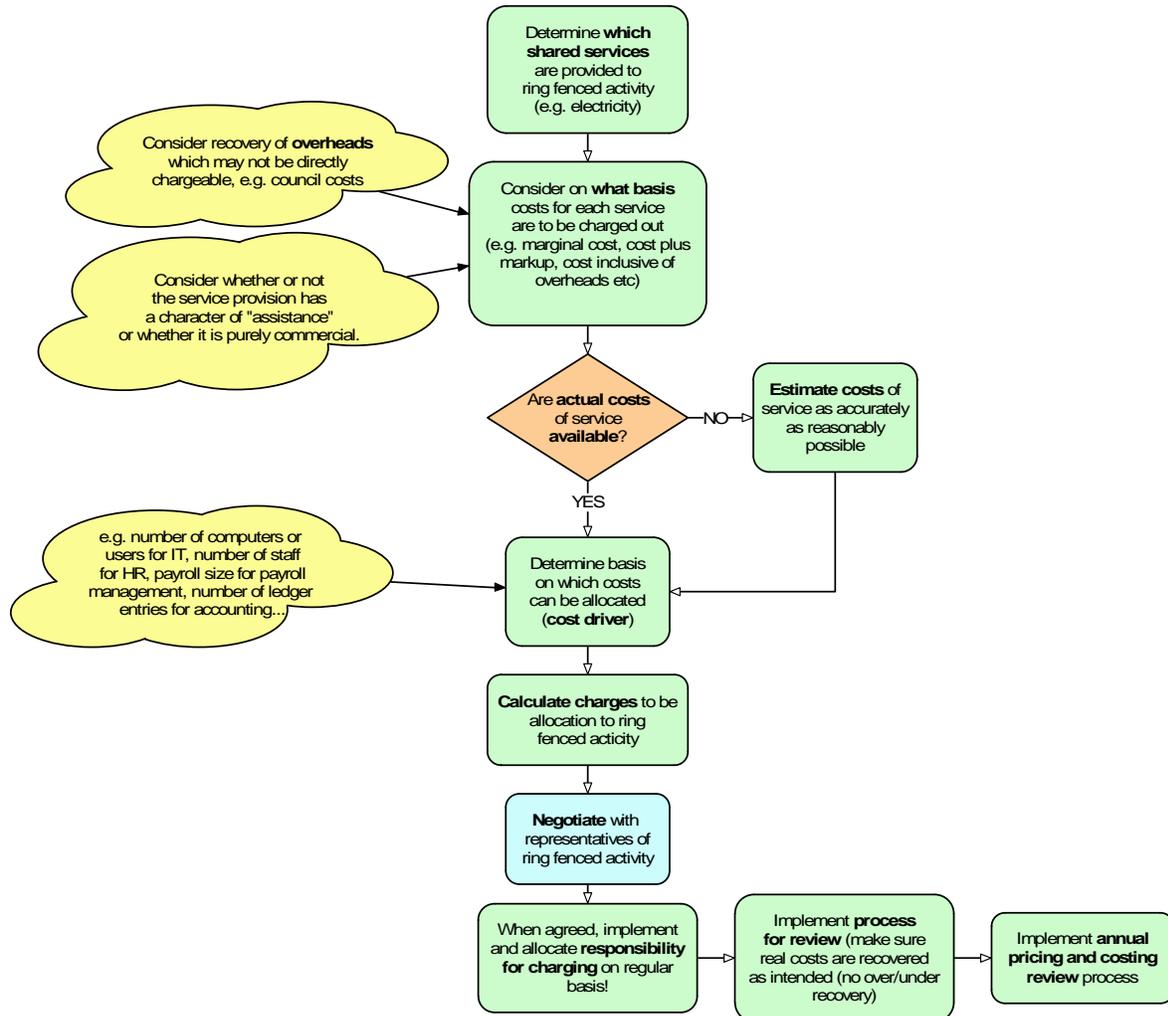
- Provision of cashier services
- Meter reading services
- Rent of buildings, and workshops

Providing services to the RED company using existing LA/RC resources (staff, infrastructure) can be an attractive way to better utilise internal resources, and generate some additional income. The LA/RC is therefore encouraged to offer the delivery of such services to the RED company.

Whatever services the RED company decides to source from the LA/RC will have to be competitively priced, and provided in a professional manner at an acceptable standard. The RED company as a commercial entity will need to secure all services on a commercial basis, and is likely to make acquisitions and enter into service agreements with whoever provides the best performance at the most competitive price. Every LA/RC will therefore have to take a critical look at where it wants to place itself in this regard.

Figure 6 below illustrates a possible process for determining which services are provided and how they should be charged out to the ring fenced unit / RED company.

Figure 6: Charging for Shared Services



The following notes relate to Figure 6:

- When determining which services are provided to the ring fenced unit, think of them as a separate entity and what other departments/people/services they would need to exist/operate. Also refer to the organisational structure for the RED company, specifically the support services unit. List the services to be provided by the LA/RC and ensure that each service is adequately served.
- If the RED company is already operational one will need to negotiate with the RED company as to which services they will require and for how long. Pricing will also be a matter of negotiation – if the services are not market related then the RED company will in all likelihood source them elsewhere.
- When considering the cost basis of each service, one has to consider whether to merely recover incremental costs, i.e. the costs that are incurred because one also supplies the service to the RED company, and which one would not have incurred had they not been provided to them (e.g. extra materials, staff, equipment), full direct costs (i.e. fair proportion of the full direct costs of the service) or even full total costs (i.e. fair proportion of full direct costs plus portion of overheads such as council costs etc). The approach chosen may differ between services. Consider whether one can adequately motivate the chosen option to the council, as well as the RED company.
- If the costs of a service are not separately accounted for in one's books, calculate an estimate. Consider all the direct recurring costs incurred by providing the service (staff costs, consumables, mileage). Consider the indirect costs (equipment required, software, office space). Compare the resulting costs with market related charges for the same service (if available) to see where such costs are running.
- Determine the cost driver for each service (e.g. number of computer users for IT services). Say there are 100 users, 20 of which in electricity, then 20% of the IT costs should be borne by the electricity department / RED company. In some cases there may be more than one cost driver. Do not make things too complicated – rather go for a simpler formula for a start and revise after some months if needed.
- Ensure that services provided are billed, or process internal charges against the ring fenced unit.

Example: simplified costing estimate

A cashier, employed on a full time basis by the LA/RC is on a basic salary of N\$5,000 per month, and needs to perform duties for the RED company for 15 hours per month. The following formula is applied:

Monthly Charge =

$$\text{Employee's Basic Salary} \times 0.01 \times \text{hours per month spent on RED company's activities} + 10\% \text{ for overheads}$$

The calculation to determine the monthly charge to be paid by the RED company to the LA/RC is as illustrated in Table 17 below.

Table 17: Example calculation of cashier services to RED company

Basic Salary:	5,000.00
Factor:	0.01
Hourly charge:	50.00
Hours per month:	15
Monthly charge	750.00
Add 10% OVHD	75.00
Total Charge	825.00

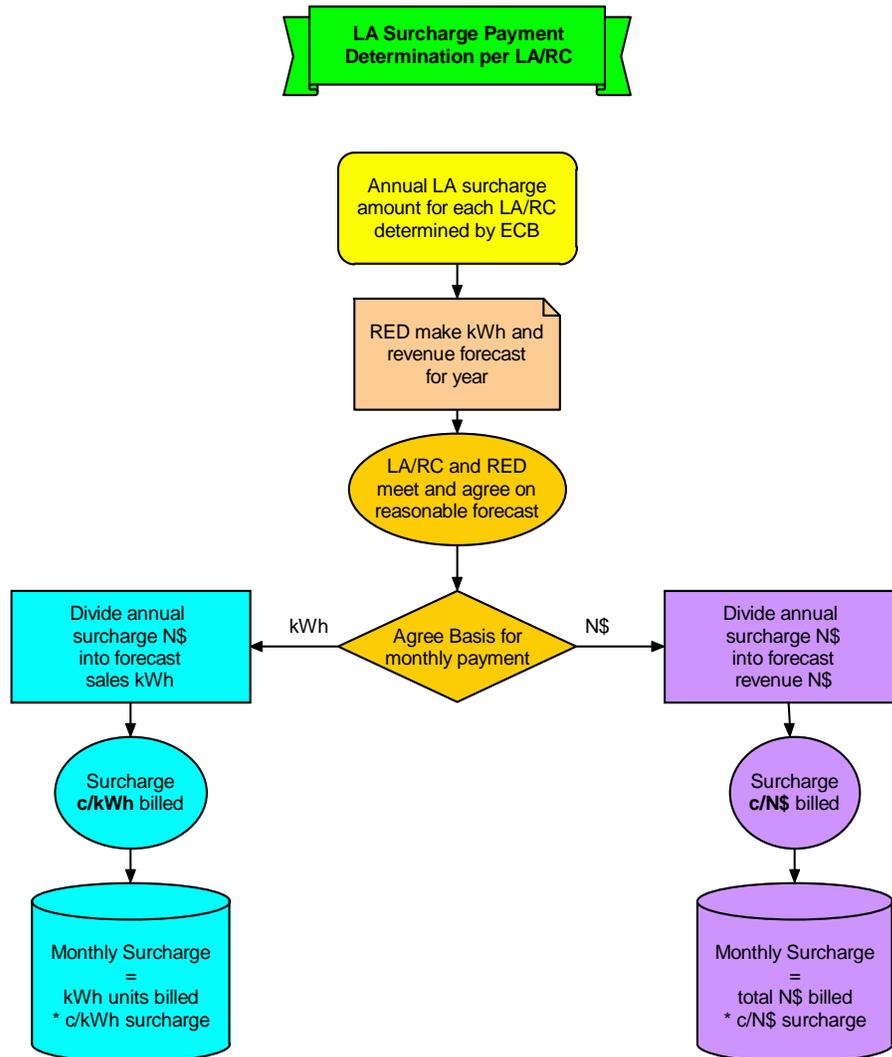
Table 18: Charging for Services

Issue	Recommended Action	Responsible
Costing of service	<ul style="list-style-type: none">▪ Apply a mutually agreed formula to arrive at a cost for the particular service	RED company management and LA/RC Council
Delivery of service	<ul style="list-style-type: none">▪ Ensure that the service deliverables are clearly determined, as well as the quality (or performance) required.	RED company management and LA/RC Council

4.3 THE LOCAL AUTHORITY SURCHARGE

The LA/RC and the RED company will need to find a clear understanding of how the local authorities surcharge will be collected and paid over. The new Electricity Act to be promulgated in 2006 will regulate some details of the surcharge and give the ECB the power to determine and enforce surcharges. While the annual LA/RC surcharge amount is determined by the ECB and therefore regarded as fixed, the question remains how the practical monthly arrangements are to work. It is therefore recommended that the LA/RC and the RED company negotiate a mutually agreeable solution to address and resolve the details and mechanism of the surcharge payments. Figure 7 below illustrates a possible process for determining the monthly surcharge payment.

Figure 7: Proposed LA/RC Surcharge Payment Process



Both of the above options are based on the LA/RC and RED company sharing a “volume risk”. The expected sales volume of the RED company is determined up front, on an agreed forecast figure, and the per unit surcharge for a given financial year is then based on that forecast. In case the actual figures of the RED company fall below the forecast, both the RED company and the LA/RC ‘feel the pinch’. In case the RED company performs better than forecast, both parties benefit. Such an arrangement would also serve as an incentive to the LA/RC to promote development leading to increased sales of electricity. It also implies that if consumers reduce their consumption (often as a result of unfavourable economic conditions) the

LA/RC and the RED company will both see reduced income. This is in line with the current experience of the LA/RC, which implies that the above arrangement will not cause the LA/RC to be worse off than before.

Table 19: Local Authority Surcharge Action Points

Issue	Recommended Action	Responsible
Practical basis for collection and payment of surcharge	<ul style="list-style-type: none"> ▪ The ECB provides the annual amount of surcharge payable by the RED company to each LA/RC, which must then be divided into forecast unit (kWh) sales to arrive at a surcharge per kWh sold each month. ▪ It is recommended that the RED company and LA/RC agree on a method for apportionment, and agree on a kWh forecast and c/kWh which is to be paid over as monthly surcharge based on monthly kWh sales. 	LA/RC and RED company management
Information to be provided by the RED company to the LA when billing has been completed	<ul style="list-style-type: none"> ▪ It is recommended that a regular process (monthly) is negotiated whereby the RED company provides billing summary information to the LA/RC, which is to underpin the LA surcharge payable by the agreed payment date. 	LA/RC and RED company management
Number of days after billing when the surcharge must be paid over	<ul style="list-style-type: none"> ▪ This issue is crucial for both the LA/RC and RED company cash flow, and does require concrete agreement. ▪ While the ECB surcharge methodology provides guidelines on this issue (which can be made compulsory under the new Act) it is recommended that a concrete agreement be reached between the LA/RC and RED company to ensure that there are no misunderstandings and recurring disagreements. 	LA/RC and RED company management

4.4 CUTTING OF ELECTRICITY SUPPLY FOR LA/RC NON-PAYMENT

The ability to discontinue the electricity supply following the non-payment of accounts has in the past been the preferred tool to control debtors. As soon as the RED company is operational this option will no longer be available to the LA, and it will therefore be essential that the LA/RC develops other means to enforce debt collection.

However, it may be possible for the LA/RC and the RED company to negotiate an agreement under which the RED company may cut the electricity supply to LA/RC customers who are in serious default on their account payments (i.e. rates and taxes). Any such arrangement must take due cognisance of the current legal framework which places some limits on the parties. Besides the legal implications and repercussions associated with such arrangements, it is generally considered poor business practice for the RED company to enter into such an arrangement since it will alienate its customers and could seriously undermine the company's image. This implies that the LA/RC is strongly encouraged to cultivate other means of enforcing debt collection in future.

4.5 SERVICES PROVIDED BY THE RED COMPANY TO THE LA/RC

The RED company is likely to provide the following services to the LA/RC:

- Public lighting
- Maintenance of the electrical equipment owned by the LA/RC

If the RED company is to become commercially sustainable, any services rendered must be paid for. As with services provided by the LA/RC to the RED company, the services offered by the RED company must be made available at competitive rates, and be of acceptable standard. The RED company must compete with other service providers for rendering services to the LA/RC, and the latter should make a choice based on quality and price offered.

For example, all LAs/RCs have buildings, water pumping equipment and other infrastructure housing electrical equipment. Previously such installations were mostly maintained by the LA's/RC's electricity department. LAs/RCs will therefore have to determine who is to maintain such infrastructure in future. One option could be to retain some staff (if financially justifiable). Another option could be to outsource any and all such services to the RED company, which now employ the staff who are well-acquainted with the systems. A third option could be to outsource such services to another service provider.

Table 20: Services Provided by the RED Company

Issue	Recommended Action	Responsible
Urban services equipment	<ul style="list-style-type: none"> ▪ The support needs of urban electrical equipment, such as water pumping equipment and streetlights are to be thoroughly analysed. Specific operation and maintenance functions are most likely to be performed by the RED company. 	LA/RC and RED company management
Service Level Agreements	<ul style="list-style-type: none"> ▪ Agreements to govern services provided by the RED company need to be drawn up. Service standards, service delivery, payment terms and default issues are to be covered by such agreements 	LA/RC and RED company management

4.6 INFRASTRUCTURE DEVELOPMENT

Infrastructure development is to become one of the most important areas of cooperation between the RED company and the LA/RC. It is therefore essential that the parties establish effective communication channels and effective working relationships as a matter of urgency. In particular, agreement must be reached as to who will be responsible for the required capital costs of future electricity infrastructure. The LA/RC and the RED company should agree on the key infrastructure development aspects, as set forth in Table 21.

Table 21: Infrastructure Development

Issue	Recommended Action	Responsible
Planning coordination	<ul style="list-style-type: none"> ▪ Set up planning forum between LA/RC and RED company. ▪ Meet regularly to assess projects, discuss standards and approaches, discuss and agree on possible funding sources. 	Council and RED company management
Capital funding of developments	<ul style="list-style-type: none"> ▪ Any capital which the LA/RC can recover through e.g. sales of erven should be provided by LA/RC as a non-refundable capital contribution to the RED company. ▪ Capital which LA/RC cannot recover should be negotiated between the RED company and the LA/RC for funding. It is to be noted that capital funded by the RED company affects tariffs, while capital funded by the LA/RC usually impacts on rates. ▪ System upgrading funding responsibility should be negotiated between the LA/RC and the RED company. By default this should rest with the RED company since upgrading needs indicate load growth which implies that the RED company's business increases, which should be able to support capital funding of upgrading. 	Council and RED company management
Operational cost of a underutilised new networks	<ul style="list-style-type: none"> ▪ Needs to be negotiated between the LA/RC and RED company. By default this should be carried by the RED company, but in extreme cases or where the LA/RC has an opportunity to recover these through levies and rates these should be paid over to the RED company. 	Council and RED company management
Execution of development projects	<ul style="list-style-type: none"> ▪ Determine liabilities and responsibilities towards the external contractors. ▪ Determine contract management tasks between the RED company and the LA/RC. 	Council and RED company management
Quality Assurance	<ul style="list-style-type: none"> ▪ Jointly establish quality assurance and monitoring functions 	Council and RED company Management

4.7 DEVELOPMENT OF THE LOCAL ECONOMY

Energy is one of the most important factors in any growing economy. Affordable, reliable and safe electricity supply is essential in attracting those participants who contribute to economic growth.

The LA/RC and the RED company are bound to operate in very close partnership to maximise economic growth in their area of operations, and interaction between them should be structured in such a way that growth is promoted. The LA/RC is an elected body and is responsible for good and effective public services, and for good governance. The RED company on the other hand seeks to provide electricity services on a sustainable basis, while pursuing financial sustainability using sound business principles.

The RED company's success hinges on factors such as:

- Retaining existing customers
- Addition of new customers
- Full payment for all services rendered
- Ideally no losses other than pure system losses
- Growing the local economy, resulting in increasing energy demand
- Increasing its customer base, and reducing non-payment

The LA/RCs should always orient themselves to best support development of their respective local economies. The RED company will be in a good position to provide much needed cooperation, especially to the smaller LAs/RCs. The key elements of such an orientation are captured in Table 22 below.

Table 22: LA/RC and RED Company Orientation Towards Development

Issue	Recommended Action	Responsible
Maintain an environment conducive to development	<ul style="list-style-type: none"> ▪ Maintain awareness of local economy growth points, and the specific electrical energy requirements ▪ Keep the RED company up to date with all potential opportunities and plans, both from investors abroad and Government initiation ▪ Regard the RED company as valuable partner whose interests and contributions could form the foundation required in many cases 	LA/RC Council
Build development incentives	<ul style="list-style-type: none"> ▪ Structure agreements with the RED company in such a way that both LA/RC and RED company have joint incentives to drive development (i.e. seek win-win approaches where both LA/RC and RED company gain from development) ▪ Both LA/RC and RED company need to accept responsibility for driving development through their activities, rates and tariffs. 	LA/RC Council and RED company management
Ensure effective joint service provision	<ul style="list-style-type: none"> ▪ Ensure that planning is done jointly between the LA/RC and RED company, so as to ensure that developers requiring services can obtain them at reasonable cost and within a reasonable time. 	LA/RC Council and RED company management

4.8 SOCIO-ECONOMIC IMPACT ON THE RED COMPANY AND LA/RC

The LAs/RCs can find much benefit from participating and cooperation with the RED companies, particularly in pursuit of their social upliftment goals. The RED company will be combining various resources and assets in a larger area in order to attain better economies of scale, and is therefore better positioned than the LA/RC on its own. As a consequence the RED company has the potential to contribute to the general upliftment of peoples' living conditions, particularly due to the following reasons:

- The RED company may be able to finance electrification projects.
- It may be able to attract additional project funding from third parties.
- Opportunities for better electrical infrastructure development due to resources pooled into the RED company.
- As part of the RED company's social responsibility, it could provide assistance in areas such as education and other social upliftment projects.
- The RED company is expected to be region orientated, thus it should develop regional resources, in particular focusing on human resources. These can then be used in the more underdeveloped areas and smaller towns and villages to provide services and enhance service quality which the LA/RC on its own would hardly have been able to provide or afford in the past.

The above draws attention to the larger influence the RED company will have on its region. It is with this in mind that political office bearers are urged to acquaint themselves with the mission and activities of the RED company in their respective authority areas, and to interact positively with the RED company to bring benefits to their areas. The RED company can and will exercise an influence on the region's socio-economic sphere, and should therefore be supported in all respects. In the same light however, the RED company should realise its social responsibility and initiate projects to demonstrate its good corporate citizen's intentions.

5 CONCLUSION

This document provides a high level description of the road ahead for LAs/RCs, and their interactions with the RED company in their area of responsibility. The views expressed herein only serve as a broad introduction to the numerous issues and challenges in forming this new relationship, and are by no means comprehensive or final. This emphasises the critically important role the LAs/RCs play in ensuring that the RED company start-up and business establishment phase is supported wherever possible. Table 23 below summarises some of the key impacts that the RED company formation is likely to have on the LA/RC.

Table 23: LA/RC Impacts Summary

Issue	Recommended Action	Responsible
LA/RC has the opportunity to provide services to the RED company, and thereby improve utilisation of its resources	<ul style="list-style-type: none"> ▪ Ascertain what services are needed by the RED company, determine which of these can be provided by the LA/RC using existing resources/infrastructure, and negotiate with the RED company in this regard. 	LA/RC management
LA/RC has the opportunity to improve local economic development through co-operation with the RED company	<ul style="list-style-type: none"> ▪ Establish a regular discussion forum with the RED company, both as individual LA/RC as well as on a regional basis to ensure that planning is co-ordinated and economic and social development is jointly driven by LA/RCs and the RED companies. 	LA/RC management and RED company management
LA/RC VAT status changes with electricity trading and assets being removed from the ambit of the LA/RC	<ul style="list-style-type: none"> ▪ Retain the services of a tax expert to assess the impact on the individual LA/RC and to assist with complying with legislation. 	LA/RC Finance Manager
LA/RC does no longer have the ability to discontinue electricity services to enforce payment of accounts	<ul style="list-style-type: none"> ▪ Develop other means of collecting debt ▪ Work towards developing a culture of payment for services rendered ▪ During the RED company establishment phase, co-operate with the RED company to ensure that consumers owing significant amounts to the LA/RC are not reconnected unless prior arrangements for payment have been made. 	LA/RC management
LA/RC is likely lose the staff who were previously responsible for the electrical infrastructure owned by the LA/RC	<ul style="list-style-type: none"> ▪ Outsource such services to the RED company or private service providers. ▪ Larger LAs may find it worthwhile to retain a small number of electricity staff to provide these services in-house. 	LA/RC management
LA/RC is no longer in charge of electricity portion of new developments	<ul style="list-style-type: none"> ▪ Set up a planning forum between LA/RC and the RED company to coordinate joint long and short term development and services planning. ▪ Through the planning forum address funding sources for individual projects to ensure that developments are not hampered by lack of funding. 	LA/RC management and RED company management

The formation of RED companies in Namibia has the potential to enhance and improve the electricity supply in the country. LAs/RCs are to benefit substantially in the medium to long term if they assist, support and cooperate with the newly formed RED companies in the various areas highlighted in this guideline.