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CORPORATE BROCHURE

Improvements **at a price**

There's a mining boom in Namibia that is placing extra demands on electricity supply—necessitating a complete restructuring of the industry, as Alan Swaby learns

Let a private company sell below cost for any length of time and it will inevitably end up staring down the barrel of disaster. But when the seller is a public body, it's much easier to fudge the true situation and avoid a similar fate.

Such was the case that existed in the Namibian electricity market until very recently. It's still not completely solved but since the introduction of regional electricity distributors—REDs as they are known—the real costs have become much better understood and loss making has been significantly reduced.

While national supply of electricity was (and still remains) the sole responsibility of NamPower, distribution to the country's two million population was once in the hands of numerous local authorities. As government of the country began to settle down in the 1990s after a generation of battling with a South African administration, the spotlight finally fell on the question of energy supply and highlighted that no one had a clear idea of the true costs involved at any stage of the process. Not only was electricity being supplied at below cost, there was a factor of ten between the tariffs charged by distributors across the country. The whole sorry mess was long overdue for restructuring.

In the case of Erongo RED, the job fell to chief executive officer Gerhard Coeln. "Although we had plenty of time to consider the situation theoretically," he says, "on 1 July 2005, the newly formed company had just four months to prepare for going live. We received no subsidy

from the government and had to rely entirely on an overdraft facility from the bank in order to survive."

After Mongolia, the population density of Namibia is said to be the second sparsest on the globe. Erongo RED serves 74,000 square kilometres of the central-coastal area which includes the cities of Swakopmund and Walvis Bay—both important fishing and tourism centres. It has taken over power distribution and supply

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from 10 shareholders in the area which have now become the shareholders of Erongo RED.

The government's rationale for REDs is that they will provide economies of scale and scope and provide a more professional service to consumers. But the reality behind this undeniably sound proposition is that they must kick the billing, collection and network aspects of electricity distribution into shape and collect more revenue in the process.

"In the first year of operation," says Coeln, "we collected N$184 million. This year, the figure is N$600 million. Within five years we paid off the overdraft and began to accumulate the capital needed to upgrade and expand the ageing networks."

The revenue increase has been brought about by two factors. Prior to REDs, there were huge holes in the data relating to customer accounts. These holes have been painstakingly filled to the point were everyone is now on a meter, everyone receives a bill on time and everyone is expected to pay on time at the risk of being disconnected.

For Erongo RED, 55 per cent of the costs it incurs is accounted for by the electricity it buys

from NamPower. Since the restructuring of the market, NamPower has increased the wholesale cost of electricity by between 12 and 20 per cent per annum in order to get to cost reflectivity, contributing to major increases in charges to the consumer.

Now, the smaller more remote corners of the Erongo region which previously didn't have the money to justify their own technical staff are on a par with the larger centres of Swakopmund and Walvis Bay, which always did have the resources.

On the downside, though, most people are now paying more for their electricity and they understandably don't like it. "Detailed analysis of costs," says Coeln, "revealed that two municipalities were overcharging but that the other eight were undercharging. These anomalies have now been sorted out through tariff harmonisation and everyone is being charged a fair and equitable tariff."

But while nobody likes higher bills, they like blackouts even less. Bearing in mind that there has been no investment in electricity generation in Namibia since the 1970s and that NamPower is reliant on its relationship with the South African generation authority Eskom, Coeln is complimentary about the job that NamPower is doing. "Over and above the electricity that Namibia gets from South Africa," he says, "NamPower has negotiated deals with neighbouring and not-so-neighbouring countries that ensure this country currently gets the 500MW of power it needs. Sixty per cent of the electricity comes via the South African network and the Caprivi link, but it means that we have less need to pay emergency rates to South Africa to cope with unexpected peaks."

Having said that, it's been calculated that the Erongo region alone will need an extra 200MW in the next three years to satisfy the proposed mining projects in the area. There's plenty of debate about where and how this will be generated but Namibia is not short of options—whether this is the Kudu gas field off the southern coast or the Baynes Mountain hydro scheme. Both have the potential to satisfy immediate needs and leave some left over to export.

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Although the REDs don't deal directly with mining operations yet—this remains for now in the hands of NamPower—they still have to cope with the spin-off developments that are associated with the mines. New housing projects and communications networks are springing up that need to be linked to the network. But the level playing field that has now been created is giving confidence to the ventures behind these projects that they will be treated fairly with regards to connection and energy costs.

"The critical year will be 2013," says Coeln, "when the balance between supply and demand will be on a knife edge. But after five years of political infighting among our shareholders which admittedly has slowed progress, there is now a more widely accepted consensus and understanding of how we should proceed.

"We are in better financial shape than ever before and the handbrake on expenditure is being relaxed so that we can continue to expand and refurbish the network and improve the quality of supply and service."

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