

MEDIA RELEASE



MEDIA STATEMENT

21 May 2010

Master of Ceremonies

Esteemed Members of the Media

Ladies and Gentlemen

Allow me to welcome you to NamPower Centre. We always appreciate your willingness to report on activities of NamPower and I hope this partnership will grow from strength to strength as we are entering a very critical stage in the regional and local electricity supply industry. We have called this media conference to *inform you about the progress of our plans to meet the power supply challenges facing Namibia and to state our position on the 2010/11 tariff adjustments to our customers.*

Before I elaborate on these issues it is appropriate to shed light on the role and position of NamPower in the electricity supply value chain. This, I hope, will create a basic understanding of the issues that dominated the media during the last few weeks.

NamPower is mandated to supply reliable electricity to Namibia and has been fulfilling this mandate religiously amidst the challenges such as imminent shortage of electricity in the region, below cost reflective tariffs, limited

financial & human resources, and limited investment in power generation infrastructure.

NamPower's core business is the generation, transmission and trading of energy. We supply electricity in bulk to REDs and Local authorities. The latter institutions are responsible for retailing of electricity to households and end-users. NamPower is still involved in distribution to some villages and commercial farmers in areas where the REDs are not operational. The establishment of the REDs was a result of the distribution restructuring process that was carried out by GRN in 1998.

Given our limited generation capacity we rely heavily on imports, and therefore exposed to external price fluctuations on which we have limited control, if any. I know that the pricing issue is of more interest to you at this point in time and I will elaborate more on this later in this statement.

PROGRESS ON OUR PLANS TO MEET THE POWER CHALLENGES:

Without running the risk of boring you, allow me to highlight the following projects that are in the implementation stage:

- **Caprivi Link Interconnector:** this project will be commissioned by 11 June 2010. This will be the date when we shall commence with the commercial operation of the power line linking Namibia directly with its northern neighbours, just in time for the World Cup in South Africa. In fact as we are talking now, all tests are being carried out and the line will be energised for further testing as from Monday, 23 May 2010. As indicated to you at various forums the Caprivi Link is one of the regional strategic projects opening up power trading opportunities for many countries in the SADC region in addition to creating alternative import route to Namibia. Total cost: N\$3.2 billion.
- **Anixas Diesel Power Station:** On Wednesday, 19 May 2010, number of my colleagues and I in NamPower we had a stakeholders meeting at

Walvis Bay where we shared critical information on the project with the local community. The work has commenced and every aspect of the 22.5 MW diesel power project is on track for commissioning by the end of December 2010 or early 2011. Total cost: N\$375 million (of which N\$ 250 million is a subsidy from GRN while N\$ 125 million is the contribution from the NamPower balance sheet)

- **Ruacana 4th Unit:** The 90 MW project at a cost of N\$750 million is now at the implementation phase and is expected to be commissioned in March 2012. Most of the key equipments (generator, turbine, etc) will be delivered on site by October 2010.

The rest of the projects, particularly those at feasibility study phase, have been publicised in the media and more details about them can be obtained from our website.

TARIFF ADJUSTMENTS

The second aspect that I want to talk about is the recent tariff adjustment which caused confusion and alarmed the public so much. In this regard I want to point out a few things in an attempt to put the issue into the right perspective:

- All companies that are legally involved in the electricity supply industry in Namibia are licensed by the Electricity Control Board (ECB) in accordance with the Electricity Act of 2000.
- The Electricity Act of 2000 provides that any tariff or any increase of such tariff must be approved by the ECB. Therefore, NamPower and all other REDs, local authorities, municipalities, etc. are subject to this legal provision.
- The procedure that is followed before any tariff comes into being is the same to all companies, i.e. a written submission is prepared and given to ECB for consideration. Such submission is accompanied by supporting documents on planned, current and future power supply activities.

- The increases of electricity prices by Local Authorities, Municipalities and REDs are outside the control of NamPower, although they are likely to be influenced by the increases effected by NamPower through the ECB.
- As it was pointed out at many forums, including SADC, the price of electricity in the SADC region and by extension in Namibia is not cost-effective. This means that utilities are in fact subsidising electricity prices in the countries and NamPower is no exception. In fact, the below cost tariffs is the main reason for the lack of investment in power generation infrastructure that has been experienced in the region over the past few years. No investor will be prepared to risk his capital in the industry where no return on investment is guaranteed. Clearly, this is the situation over which NamPower has no control.
- In the case of Namibia, NamPower therefore finds itself in the situation where it has to generate and import power at a high cost and selling it at a low price to its customers. In some cases NamPower is forced by circumstances outside its control to import emergency power from the region at a price of more than N\$ 2,00 per unit and selling it at a price of only N\$ 0,39 per unit in terms of the latest ECB approved tariffs. Clearly, this is a situation that is not sustainable, especially under the circumstances when the utility is also expected to invest billions of dollars in new power supply infrastructure and to power the national economy into Vision 2030 and beyond.
- During the 2009/2010 financial year, in terms of its annual financial statements, NamPower recorded a pre-tax profit of N\$ 673 million. This profit was driven by the investment income of N\$ 400 million, the income of N\$ 165 million from the sale of our shares in Powercom and the gains as result of fair value adjustments of firm commitments. If you look critically at the financial figures, even a non-financial person will notice that NamPower does not make profit from electricity sales. In fact the company recorded an operational loss during the period under review, a clear indication that we are not cost reflective.

It is unfortunate that the proposed 35% tariff increase by NamPower was interpreted in such a way that it caused such public outcry. Clearly, there is a misunderstanding amongst stakeholders in the ESI about this matter, and the challenge will be to clarify this matter as a way forward. It is therefore my patriotic duty to explain the real meaning of the 35% below cost reflectivity as follows:

NamPower made a submission to the ECB and presented various scenarios ranging from 21% - 35%. The 35% was the highest and means that this is the percentage that NamPower would need for it to be cost-reflective in accordance with the target as agreed previously. This gap of 35% between the cost of supply and the selling price like in any other commercial business has an impact on the business's ability to sustain its operations, including the servicing of its loan obligations let alone acquiring of new loans for its over N\$ 15 billion medium term investment program.

We are mindful of the transition period in which we find ourselves, from a region of excess power to a region whose power demand has outgrown supply. However, as we seek solutions to ensure new generation capacities in Namibia, and in the Region, NamPower will always be guided by the ECB in determining its electricity prices. We are currently busy looking at ways how we will cope up with the 18% tariff increases without compromising the reliability and security of supply. With the 18% tariff increase we will be selling power to distributors at 39 cents per unit while we generate and import the same power at between 45 and 54 cents per unit. This means selling below cost. The challenge to the country as a way forward will be how to narrow this gap and to move towards cost reflectivity. Our understanding is that the date of cost reflectivity has now been postponed to 2012, meaning that customers will have to be prepared to expect another large tariff adjustment proposal next year. There is no other way around cost reflectivity if the current situation of the power supply deficit has to be turned around and become something of the past.

In conclusion, NamPower wishes to inform its customers and the nation at large that it is committed to powering the nation and beyond and to ensure development and prosperity for all, in line with the goal of Vision 2030.

I thank you