

ANNUAL REPORT 2007

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vision statement

to be a dynamic, efficient and environmentally sensitive regulator by:

- providing effective leadership to the ESI
- being the architect of a sustainable, dynamic and efficient ESI
- achieving a competitive and transparent electricity market in Namibia

mission statement

to control and regulate an efficient Namibian ESI in a transparent and fair manner for the benefit of all stakeholders

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core values

transparency

to be open and honest in all our dealings with stakeholders

integrity

to be impartial in our judgment and treat all stakeholders equally

efficiency

to ensure at all times that our regulatory functions add value to the ESI

sustainability

to ensure that the endowment of the energy resources are available to present and future generations

professionalism

to maintain the highest standards of technical competency and personal integrity



Chairman's

In accordance with section 16 of the Electricity Act, No. 2 of 2000, I have the pleasure to herewith present the Annual Report and Financial Statements for the year ended 31 March 2007. Established in July 2000, the ECB is an independent statutory electricity regulator. This Annual Report (which is not only required statutorily but is also an important link with our stakeholders) forms part of our corporate responsibilities to be transparent and accountable. The financial year 2006/2007 was one of the major watershed years for the ECB since it marked the commencement of our second strategic plan. We have done much introspection on the extension of the ECB's regulatory functions and future role as a possible energy regulator.

The ECB currently only regulates electricity but there is a growing need for the regulation of related energy fields such as gas and renewable energies. In a country such as Namibia, with limited resources and a small economy, it makes much sense to provide for a multi-sector energy regulator rather than establishing separate regulators for each energy sector. As the Electricity Bill was in a late stage of development and the Gas Bill required some further refinement, it was decided to postpone this project to the next financial year.

Speaking of the Electricity Bill, this Bill was submitted to the legislature and it is hoped that the Bill would be passed by Parliament and promulgated during the course of 2007. The Bill addresses major developments in the electricity sector which have taken place since the coming into operation of the current Electricity Act, 2000. More emphasis is placed on the development and promotion of new generation, the ECB's regulatory role will be strengthened and developments such trading within the market are accommodated, provision is made for exemptions from licensing requirements and for enforceable standards of supply and service. The latter are only a few examples of important issues addressed in the Bill.

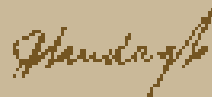
Ensuring sufficient electricity capacity remained a point high on our agenda during 2006/2007. There is an urgent need for major investments in our energy sector and specifically also in the field of renewable energy. The ECB remains firmly committed to the promotion of both conventional and renewable energy generation capacity in Namibia.

Although the formation of regional electricity distribution companies (REDs) has turned out to be rather controversial, they remain part of Government policy and the ECB continued to assist the Ministry of Mines and Energy in the formation and operation of REDs in Namibia.

The activities of the ECB are mainly funded from a levy on the electricity price of 0.45 cents per unit of electricity sold. This levy has remained unchanged since the establishment of the ECB in July 2000. Due to the ECB's increased work load, especially as regards projects of major importance, the ECB has investigated an increase in this levy from .045 cents to 0.6 cents. The increased levy will become effective early in the next financial year.

During the 2006/2007 financial year, the ECB continued to build on its relationship with its regulatory-counterparts in the region. Namibia continues to host the Regional Electricity Regulators Association (RERA) and through RERA we further our relationships with SADC Regulators and other relevant institutions.

Ahead of us is our next 2007/2008 financial year. We do not expect it to be an easy year in the electricity supply industry - Namibia's major challenges remain much needed electricity generation capacity, rising electricity tariffs, restructuring of the electricity distribution industry and extension of the electricity network. But we are expecting it to be a year of progress - progress as individuals and progress as institutions as we push forward with achieving continuous improvement in what we do. And progress in shaping our future as an industry as we take a few steps closer to our goals, thereby gaining respect and living up to expectations.



Mr Jason Nandago
CHAIRMAN

Review



CEO's



Report

The electricity supply industry is a challenging business. It always has been. That is nothing new. But the challenges facing today's electricity regulatory environment are greater in number and greater in complexity than ever before; and, if things go wrong, they involve a greater impact on people, on the environment and on the utility and on the customer. It is against this background I am pleased to report that the ECB has made good progress in mapping out its direction in line with its second Strategic Plan (2006 - 2010) and its mission, goals and vision contained therein during the 2006/2007 financial year.

We at the ECB have long been committed to growing and sustaining our regulatory functions and making a positive contribution to society, the Namibian economy and the environment. We support the principles of good corporate governance and pursue a policy of corporate responsibility.

The publication of this Annual Report will ensure that we present to our stakeholders a fair and accurate account of our contribution to our economy, electricity customers and utilities, environment and community and that we play our part in the promotion of an efficient electricity industry ensuring a balance between the interest of customers and utilities and the long-term sustainability of the industry.

The ECB consists of a small team of around 15 to 18 people. During 2006/2007 the ECB continued to invest in its staff's capacity and our interaction with stakeholder institutions regionally and internationally. Various courses have been attended by our staff and qualifications acquired. The ECB staff members have attended a number of international conferences and seminars. As per our second Strategic Plan we have realigned our staff structure and reduced the number of divisions in the ECB from three to two. We were unfortunate in losing four of our valued staff members.

The General Manager of the Economic Regulation division, Mburumba Appolus, left us for CENORED. We congratulate Mr Appolus on his appointment as CEO of CENORED. Only one of these vacant positions has been filled and I wish to make use of this opportunity to thank

my staff for their dedication to their work in shouldering the increased workload.

The ECB embarked on and/or completed major projects during the financial year in question which include:

- The qualifications of electrical workers
- The finalisation of the Electricity Bill
- The Safety Code
- The revision of the ECB's Corporate Governance Handbook
- A Billing System Workshop as part of a Capacity Building Program for REDS
- The impact of tariff increases and cost-reflectivity on the Namibian economy
- A pro forma connection policy
- The review of the transmission and generation tariff methodology
- Quality of supply and service measurement
- Independent Power Producer & Market Investment Framework for Namibia
- Regulatory Framework for Renewable Energy
- Demand Side Management Study for Namibia

At the end of 2006, the ECB commenced with a project whereby we would yearly allocate awards for exceptional achievements in the electricity supply industry. We wish to congratulate NamPower, Erongo RED, CENORED, NORED and the City of Windhoek again for their outstanding performances during 2006 in shouldering the energy crisis experienced during that year.

To conclude, I wish to thank our Board for the exceptional direction during the course of the last financial year and my staff for their hard work and achievements.



Mr. Siseho C Simasiku
CEO

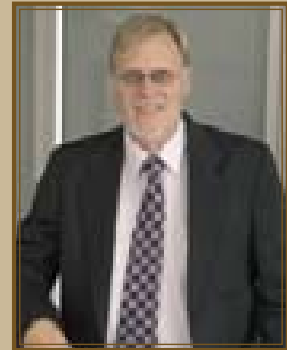
ECB BOARD



Mr. Jason Nandago
Chairman



Mr. Gersom Katjimune
Board Member



Mr. Fritz Jeske
Board Member

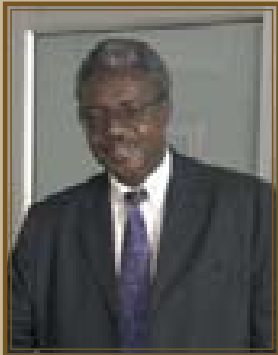


Ms. Anna Matebele
Board Member



Mrs. Uilikka K S Kamboua
Board Member

ECB MANAGEMENT



Mr. Siseho C Simasiku
CEO



Mrs. Mara Uazenga
GM: Finance & Administration



Ms. Jacqueline Scholz
Legal Advisor/Board Secretary

Not Pictured:
Mrs. Helene Vosloo
Mr. Rogers Manyame
Mr. Gerrit Clarke

Corporate Social Responsibility

The role of the ECB extends beyond regulation, beyond the mandate to oversee and control the efficient functioning and development of the Namibian electricity supply industry (ESI), including the formulation and enforcement of rules and codes for the ESI relating to the establishment, operation and administration of the Namibian electricity market, regulate the generation, transmission, distribution, supply, trade and use/consumption of electricity in Namibia. The ECB also has a duty to invest in the community, and contribute to its upliftment and development. The ECB is committed to extending its sphere of influence to social investment initiatives, and fulfils these functions through rendering of sponsorship and donations through material and in kind assistance. Fundamental to selection of a project are its impact and sustainability; the depth and spread of the positive consequences, and whether it has a clear agenda of benefiting the community at large.

In support of key issues emanating from the national agenda, the main areas of focus for the ECB, and examples of the ECB's activities and initiatives in each during the last financial year (2006), are as follows:

- Grootfontein Accident Victims
- Judge Karauhe Trust Fund
- Donation of Computers to schools

For this year under review the ECB has spent close to N\$49 500.00 on social responsibility projects.

Performance Management

At ECB we promote an organisation that supports, recognises and effectively manages all levels of performance. Our performance management system is designed to ensure that the ECB's business strategy is translated into measurable goals for the employees. We believe that constructive performance feedback must be accepted as fair practice across the whole organisation. This increases employee awareness of their performance, which is highly relevant; hence our performance evaluation process is fully leveraged as the

basis for performance management. A competency based model link to our performance management system is adopted throughout the organisation. The competency model is the basis we work to ensure focused training interventions and continuous learning is encouraged throughout this holistic process. The performance appraisal of all staff members of the ECB includes a test on how their work helped execute the organisation's strategic plan. In other words, each member of the ECB has a personal set of Performance Initiatives (PIs) that are derived from the ECB's strategic plan. As such, each member of the management team will develop specific performance indicators for themselves, as well as their subordinates. All employees therefore will be awarded a performance bonus according to the scores allocated to them based on what they achieved for all their respective performance initiatives for the specific year.

Wellness

At the ECB we aim to create an environment where all employees readily take responsibility for their own wellbeing. To promote a wellness culture in ECB; the Occupational Health Services are at the forefront, exemplifying the motto ECB cares. The ECB employee can choose from an array of confidential services ranging from physiotherapy, to exercises, to participating in wellness events as per the wellness benefits integrated within the medical aid. Most of these services are completely free or covered by the ECB Employees Medical Aid.

Training and Development

Our human capital development strategy is based on the following:

- Understanding the educational requirements of the organisation based on competency assessments, through the performance management process and the subsequent development of the individual development plans
- Timely and appropriate learning delivery and
- Assessment of the impact of learning interventions.

We provide for the development of our staff, offering an extensive range of training courses for all employees concentrating on the skills set for each of





the job categories. It is the responsibility of line management in consultation with Human Resources to continually identify employees who require further training to enhance their performance and overall skills. The training cost as a percentage of payroll has increased significantly to N\$379 990.76, given a trend analysis of training costs in the past five years confirms ECB's commitment to the development of its staff. We support the attainment of further qualifications by employees and to this end we provide financial assistance to employees studies at a variety of tertiary institutions.

Staffing

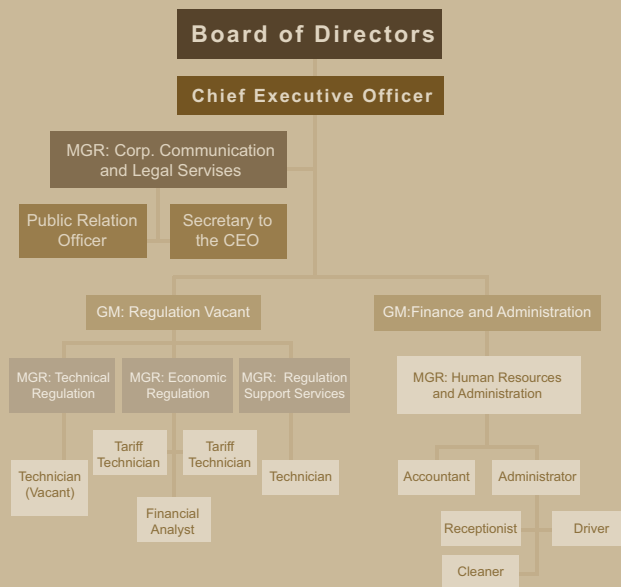
In particular, ECB is aware of the costs associated with employee turnover and the cost of acquiring and training new staff. Consequently, priority is given to staff retention, particularly those who show potential to grow within the organisation. There are a number of tenets to this strategy, one of which is to reward employees who contribute to the success of the organisation and secondly, to create a culture where employees feel a sense of belonging to the ECB.

For this year under review the ECB has experience, significant labour turnover that has ranges from voluntary resignations to retrenchments, necessitated by organisational realignment. The structure consists of three departments, the Office of the Chief Executive Office (CEO), Regulation department and the department of Administration and Finance. The office of the CEO is of course, headed by the CEO. However, two new positions are created for and they are: a Technician in Technical Regulation department and the Public Relation Office/ Personal Assistant in the Office of the CEO.

Staff Movement

Job Title	Reason
GM: Technical Services	Voluntary Resignation
Receptionist	Voluntary Resignation
Secretary to CEO	Retrenchment
Accountant	Retrenchment

Electricity Control Board Organisational Structure



Industry Structure and Performance General

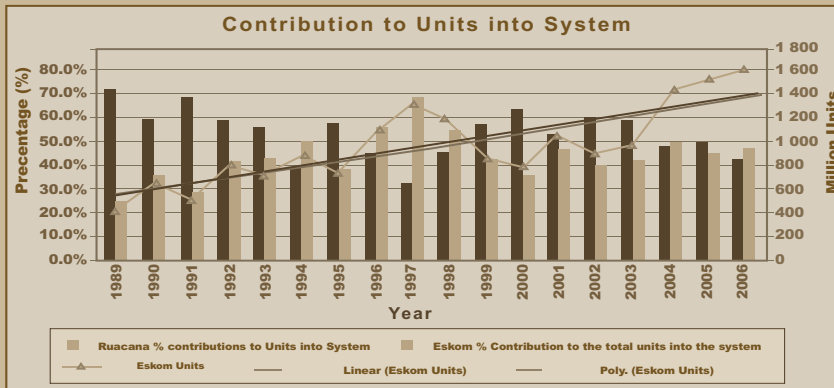
The Namibian Electricity Supply Industry is mainly driven by NamPower (Pty) Ltd, a wholly state-owned vertically integrated monopoly which has been financially separated in Generation, Transmission, Energy Trading and distribution. The accounting separation was necessitated by industry reforms, which included the creation of an independent regulator and ongoing rationalisation of distribution sector into five RED companies.

The ECB in fulfilling its regulatory mandate and ensuring sustainable efficient supply in the industry has embarked upon a project on Licensees' Performance Framework for the period under review. This guideline would be expected to identify credible performance indicators, data requirements and regional & international best practices that would eventually guide the development and implementation of an ESI performance system.

Generation

For the year under review, total units generated into the Namibian electricity system increased from 3,363 million units (2005) to 3,554 million units (2006), which is an overall 6% increase. This increase in generated system units was driven by a 14% increase in total imports (which represents 55% of total generated units) whereby Eskom contributed 46%, and the remaining 2.2%, 5%, 0.2% and 2.3% was imported from Zambia, Zimbabwe, EDM and Short Term Energy Market - STEM, respectively. NamPower Generation Business Unit generated 45% of the total system units, 43% from Ruacana Hydro-Power Station, 5% from Van Eck Power station and 1% from Paratus Power station.

For the third year running imports has dominated total units into the Namibian electricity system, while over the past two years Van Eck and Paratus Power stations significantly increased their contributions into the system mainly due to prevailing regional supply crisis.





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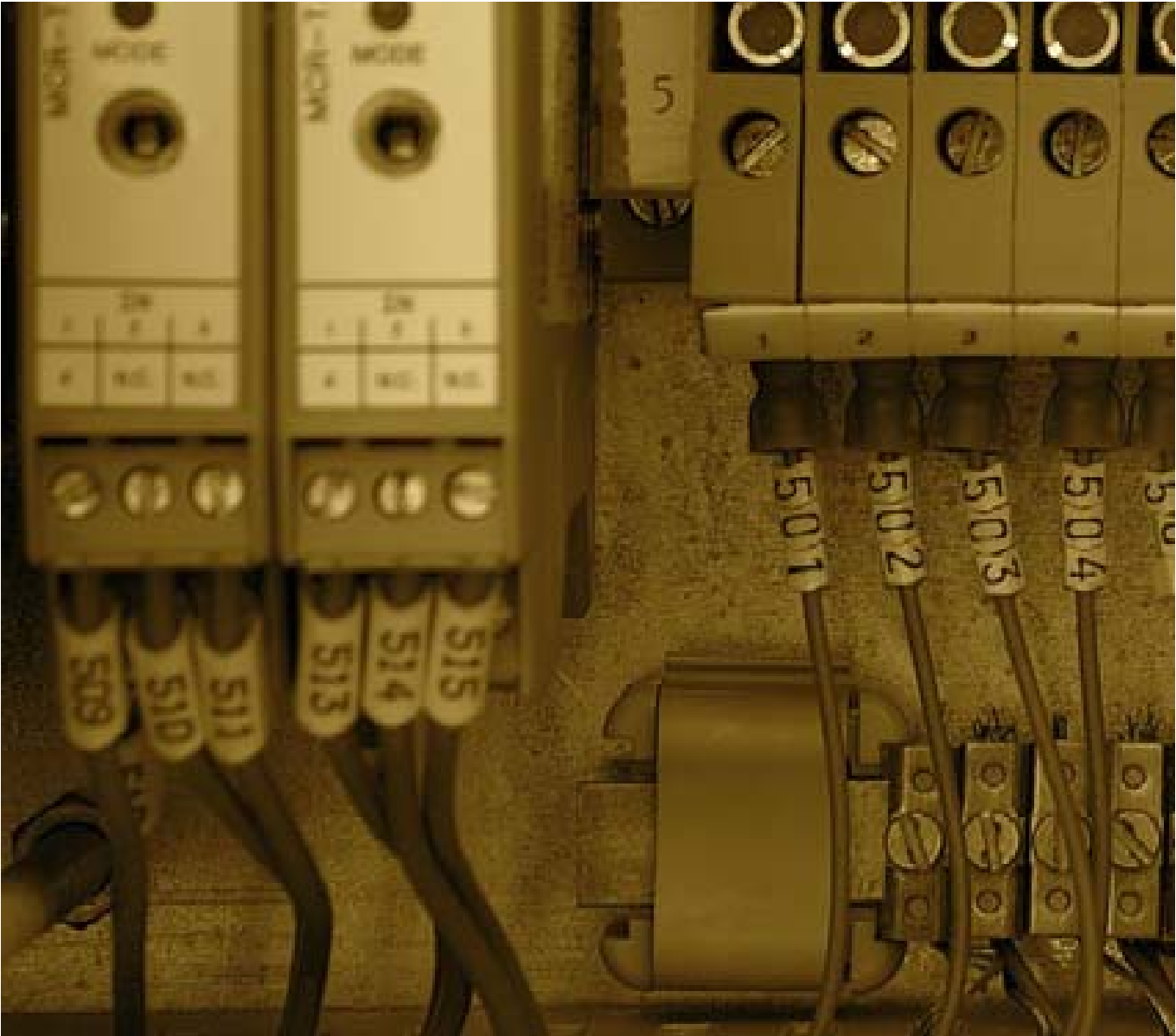
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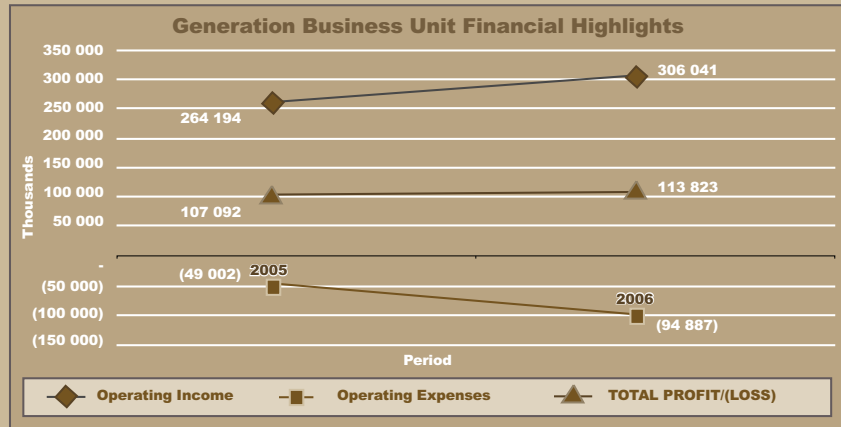
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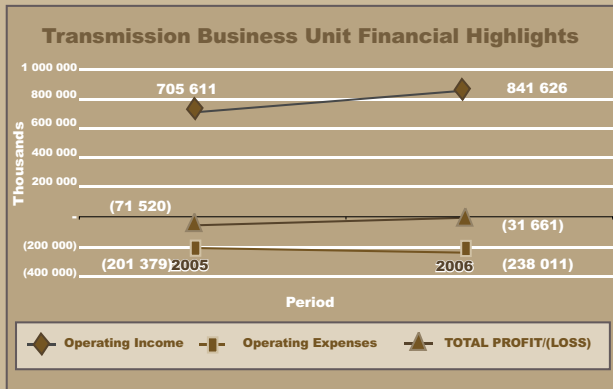
The following Graph depicts NamPower Generation Business Unit highlights for the period ended June 2006:



NamPower Generation business unit performed very well compared to the previous period, as reflected in its' 16% increase in operating income as well as 6% increase in profits. However, the business unit experienced a 94% increase in operating expenses which was driven by the running of the two Thermal Power stations (Van Eck and Paratus). This unfavorable situation would be expected to continue until cheaper electricity (comparing to Namibian emergency power - Thermal power stations) could be sourced from the region.

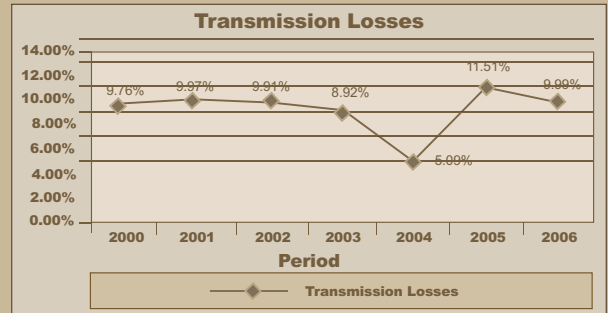
Transmission

NamPower (Pty) Ltd, Government owned utility company owns and operate the transmission business in Namibia. The transmission system hourly maximum demand (including Skorpion) decreased by 0.2% from 491MW in 2005 to 490MW in 2006, whereas the total units sold (including Scorpion & exports) increased by 7% as well from 2 976 million units to 3 199 million units. The following Graph depicts NamPower Transmission Business Unit financial highlights for the period ended June 2006:



NamPower transmission business unit showed improvement in reducing their operating losses from N\$72 million to N\$32 million for the period under review. Overall operating losses in transmission were expected due to revenue insufficient tariffs, but an average increase of 18% in operating expenses (variable operating expenses 6% and fixed operating expenses 40%) continued to exert pressure on the transmission business unit.

The following Graph depicts the transmission losses over the last seven years, for the period under review the losses decreased by 13% and returned to 9.99% which falls within regionally accepted parameters.



Distribution

The Namibian Electricity Distribution Industry (EDI) continued to be rationalised as per government restructuring policy of creating Regional Electricity Distribution Companies, as per the following diagram:

Before Restructuring

- ≈ 45 licensed Distributors
- NP
- LA/RC
- Farmer Co-ops



After Restructuring

Only five licensed RED Co's (NORED, CENORED, E-RED, CE-RED & SORED)

For the period under review, Erongo RED and Central North RED took over operations within their respective licensed areas. An initial report on the

comparative performance of the RED companies would be included in the next period of review; this would allow the newly created companies to provide quality data which conforms to accepted reporting standards. The Northern Electricity Distribution Company (NORED), the first licensed and operational regional electricity distribution (RED) company in Namibia, ended its fourth year of operations and its financial highlights for the period are tabulated below:

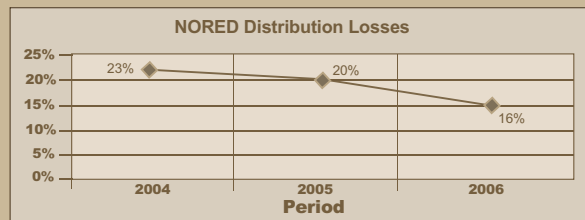
NORED (N\$ Million)			
	2005	2006	% Growth
Revenue (N\$ Million)	112 350	118 706	6%
Gross Profit (%)	51%	56%	8%
Operating Expenses	(52 842)	(51 842)	-2%
Operating Profit	610	857	40%
Finance Costs	(41)	(2)	-95%
Investment Income	3 412	3 772	11%
Royalties to LAs & RCs	5 440	5 730	5%
Profit/ Loss Before Tax	3 981	4 627	16%
Taxation	(2 075)	(1 854)	-11%
Profit/Loss After Tax	1 906	2 773	45%
Debtors collection cycle	22	32	44%
CFO	22 110	17 866	-19%

Source: NORED Audited Financial Statements for 2005/6

For the year under review, NORED's financial performance slightly underperformed the previous period (2004/5) that recorded excellent results since its inception. However, prudent financial management steps continued in reducing the operating expenses by 2%, good profitability trends especially the 40% increase in operating profits and 45% increase in profits after tax which contributed to continuing positive operating leverage in the company.

NORED, for the period under review lost grip of their working capital cycle as reflected in the 44% increase of their debtors' cycle from 22 days to 32 days - though still within accepted parameters, and 19% reduction in CFO (cash generated from operations).

The following Graph depicts the distribution losses over the last three years, for the period under review the losses further decreased from 20% (2005) to 16% (2006) which is commendable taking cognisance of low densities in the far northern areas.



Kudu Gas-to-Power Project

For the period under review, the Kudu project feasibility results revealed clear challenges posed by regional abundant base-load coal power stations competing with the envisaged 800MW Kudu Power Station. Therefore, the following options are being pursued at parallel with much conviction from all stakeholders; different power station configurations, different operating regimes, excess gas exports to Eskom and carbon credit potential from the gas-to-power plant, to make the Kudu project a reality.

The importance of Kudu project to the region was underlined by the South African and Namibian head of state meeting held in November 2006.

At this meeting, the strategic regional importance of Kudu project was reaffirmed and thereby all stakeholders were urged to unlock the value of this project to timely offset the looming Namibian and regional supply crisis.

Regulatory Matters

Licensing

Only one new license has been issued: a 220kVA wind generation license to Erongo Regional Electricity Distributor (RED). The distribution and supply licenses of Reho-Electricity has been transferred to Rehoboth Town Council since Rehoboth Town Council terminated the contract of Reho-Electricity to manage electricity distribution and supply in Rehoboth.

The only other licensing activity was the renewal of Southern RED and Central RED shareholders' licenses for another year, as these REDs have not yet been established. A total number of 39 distribution and supply licenses have been renewed.

The current licensees are indicated in the table on the next page.

Due to the urgent need for new investments in the power generation sector of Namibia, the ECB decided in principle, where appropriate, to fast track the processing of new generation license applications, provided that at least a pre-feasibility/conceptual study has been/is being completed and minimum requirements are met. Should there be other outstanding matters e.g. an Environmental Impact Assessment, Power Purchase Agreement, information, etc. the ECB can recommend licenses to be issued that will be valid for a period of sufficient duration for the licensee to complete the outstanding requirements, which will be clearly defined in the license conditions.

A conditional license can only be issued by the ECB if the prospective investor submits proof to the ECB that the prospective investor has the necessary financial and technical resources to execute the project. Generation Application Guidelines (available on the ECB website) have also been prepared to assist prospective new investors. It is expected that the ECB will issue a number of such conditional generation licenses in 2007-2008.





Licencee	Area	Type of Licence	Date of Issue	Period of Issue (Years)
Anglobase Namibia (Pty) Ltd	Scorpion Mine	Generation	12 October 2001	15
Aranos Village Council	SOUTHERN RED	Distribution and Supply	1 July 2006	1
Aredareigas Homeowners Ass.	CENTRAL RED	Distrubution and Supply	1 July 2006	1
Aroab Electrical Group	SOUTHERN RED	Distribution and Supply	1 July 2006	1
Aroab Village Council	SOUTHERN RED	Distribution and Supply	1 July 2006	1
Berseba Village Council	SOUTHERN RED	Distribution and Supply	1 July 2006	1
Bethanie Village Council	SOUTHERN RED	Distribution and Supply	1 July 2006	1
CENORED (Pty) Ltd	CENORED	Distribution and Supply	12 July 2003	10
Erongo Red (Pty) Ltd	ERONGO RED	Distribution and Supply	1 Augustus 2006	25
Gobabis Municipality	CENTRAL RED	Distribution and Supply	1 July 2006	1
Gochas Village Council	SOUTHERN RED	Distribution and Supply	1 July 2006	1
Hardap Regional Council	SOUTHERN RED	Distribution and Supply	1 July 2006	1
Kalahari Farming Two CC	SOUTHERN RED	Distribution and Supply	1 July 2006	1
Kameelboom Power Supply (Pty) Ltd	SOUTHERN RED	Distribution and Supply	1 July 2006	1
Karas Regional Council	SOUTHERN RED	Distribution and Supply	1 July 2006	1
Karasburg Municipality	SOUTHERN RED	Distribution and Supply	1 July 2006	1
Keetmanshoop Municipality	SOUTHERN RED	Distribution and Supply	1 July 2006	1
Keinab Power Supply (Pty) Ltd	SOUTHERN RED	Distrubution and Supply	1 July 2006	1

Licencee	Area	Type of Licence	Date of Issue	Period of Issue (Years)
Khomas Power (Pty) Ltd	SOUTHERN RED	Distrubution and Supply	1 July 2006	1
Klein Karas Power CC	SOUTHERN RED	Distrubution and Supply	1 July 2006	1
Kokerboom Power Supply (Pty) Ltd	SOUTHERN RED	Distrubution and Supply	1 July 2006	1
Leonardville Village Council	SOUTHERN RED	Distrubution and Supply	1 July 2006	1
Lüderitz Town Council	SOUTHERN RED	Distrubution and Supply	1 July 2006	1
Mariental Municipality	SOUTHERN RED	Distrubution and Supply	1 July 2006	1
Mile 7 WEC Power Station	ERONGO RED	Generation	6 April 2006	10
Namdeb Diamond Corporation	SOUTHERN RED	Distrubution	11 July 2006	10
Namibia Airport Company		Generation	12 October 2006	20
Nampower	CENTRAL & SOUTHERN RED	Distrubution and Supply	1 July 2006	1
Nampower	Export	Export	11 July 2006	20
Nampower	Import	Import	11 July 2006	20
Nampower	Paratus	Generation	11 July 2006	20
Nampower	Ruacana	Generation	11 July 2006	25
Nampower	Stand by 1	Generation	11 July 2006	15
Nampower	Stand by 2	Generation	11 July 2006	15
Nampower	Van Eck	Generation	11 July 2006	20
Nampower		Supply	12 July 2006	20

Licencee	Area	Type of Licence	Date of Issue	Period of Issue (Years)
Nampower		Transmission	11 July 2006	25
Nature Investments (Pty) Ltd	SOUTHERN RED	Distribution and Supply	1 July 2006	1
Naukluft Electricity Invenwstments (Pty) Ltd	SOUTHERN RED	Distribution and Supply	1 July 2006	1
NORED (Pty) Ltd	NORED	Distribution and Supply	13 March 2006	25
Okahandja Municipality	CENTRAL RED	Distribution and Supply	1 July 2006	1
Omaheke Regional Council	CENTRAL & SOUTHERN RED	Distribution and Supply	1 July 2006	1
Ongopolo Mine	Tsumeb Services	Generation	11 July 2006	20
Ongopolo Mine	Tsumeb Smelter	Generation	11 July 2006	15
Ongopolo Mine (Otjihase Mine)	CENTRAL RED	Distribution and Supply	1 July 2006	1
Otjozondjupa Regional Council	CENTRAL RED	Distribution and Supply	1 July 2006	1
Rehoboth Town Council	SOUTHERN RED	Distribution and Supply	1 July 2006	1
Roshkor Township (Pty) Ltd	SOUTHERN RED	Distribution and Supply	1 July 2006	1
Rössing Uranium Limited	SOUTHERN RED	Distribution and Supply	11 July 2006	20
S & S Kragvoorsiening	SOUTHERN RED	Distribution and Supply	1 July 2006	1
Salt Block Power CC	SOUTHERN RED	Distribution and Supply	1 July 2006	1
Swartrand Power Suppliers CC	SOUTHERN RED	Distribution and Supply	1 July 2006	1

Licencee	Area	Type of Licence	Date of Issue	Period of Issue (Years)
Swartwater Power Suppliers (Pty) Ltd	SOUTHERN RED	Distribution and Supply	1 July 2006	1
Telecom Namibia		Generation	12 October 2006	20
Tses Village Council	SOUTHERN RED	Distribution and Supply	1 July 2006	1
Vergelee Power Supply (Pty) Ltd	SOUTHERN RED	Distribution and Supply	1 July 2006	1
Vogelstrausskluft Power (Pty) Ltd	SOUTHERN RED	Distribution and Supply	1 July 2006	1
Windhoek Municipality	CENTRAL RED	Distribution and Supply	1 July 2006	1
Witvlei Village Council	CENTRAL RED	Distribution and Supply	1 July 2006	1
		Number		
	Distribution and Supply	42		
	Distribution	1		
	Transmission	1		
	Generation	12		
	Export	1		
	Import	1		
	Total	58		



Ring Fencing of Electricity Undertakers

The licence conditions of all licensees stipulate that the electricity business has to be ring fenced. This licence condition has proven to be more important than foreseen in that this information is not only necessary for tariff setting and the auditing of financial statements but have also provided valuable information on licensees' operations and cost structures.

During the past year, the ECB has only assisted those local authorities and regional councils that still needed help with the maintenance of the ring fenced accounts to do so since the ring fencing exercise was completed in the previous financial year.

Surcharges for Local Authorities

The ECB has been implementing the Local Authority Surcharge methodology which was developed in CENORED and Erongo RED. The Report on Local Authority Surcharges finalised with the information on SORED and Central RED which became available and was distributed to all stakeholders.

Electricity Pricing And Tariffs

The Electricity Control Board under Section 25 (1) of the Electricity Act 2, 2000 has the duty of approving all electricity tariffs in Namibia. In order to fulfil this role proper tariff methodology was developed for generation, transmission and distribution. The implementation of the tariff methodology started in July 2003.

NamPower applied for an 12.53% tariff increase for the 2006/2007 financial year. After much deliberation NamPower was granted a 10.3% effective tariff increase and distribution utilities were granted a maximum of 3% above the NamPower increase. Cabinet has taken a decision at the end of 2005 that the NamPower tariff should be cost reflective by 2010/2011 and according to this policy decision the ECB will grant real increases over the next few years to ensure that this objective is achieved.

This has lead to high increases not only for bulk customers but also for distribution customers. The new ESKOM contract together with problems

of power supply experienced from South Africa and the need for investment in both generation and transmission has lead to price increases in the electricity industry and will continue over the next four to five years.

Quality of supply and Service Standards Development

Quality of Supply Standards Implementation Update

The Quality of Supply and Service Standards Standing advisory committee continued to give its support to the implementation drive. It held two meetings one in June and the other in November to follow up on various implementation issues. Within the SAC, a small working group called Quality of Supply Technical Committee (QTEC) was formed to follow up on the technical details of the implementation programme. Part of their terms of reference for the period included following up on all implementation outstanding issues including monitoring progress by the contractor who is running the Quality of Supply system on behalf of the operationalised REDs .

The contractor G S Fainsinger appointed to supply, install, commission, operate and maintain the Quality of Supply system on behalf of the operational REDs completed the task and is now running the system. All the meters agreed upon for the first phase have been installed. Procurement of outstanding meters will be done by the REDs in accordance with their available current resources.

The contractor is already generating some reports from the system. The monthly reports have since been submitted to the REDs. However the reporting format still has to be finalised in light of the already received reports. Interim reports will be submitted to the ECB together with the 2007 ORM submissions for information and verifications only. Thereafter annual reporting to be submitted to the ECB covering each calendar year from January to December starting from year 2007.

Quality of Service Standards Implementation Update

Interim quality of service reports as per the standards will be submitted by licensees together with Quality of Supply reports in 2007. Systems setting up finalisation is targeted for June 2007 and annual reporting will commence thereafter.

Technical Standards and Regulations

The above is an important component of the ECB deliverables for effective regulation of the industry. However, The industry does not have harmonised standards yet. A project will be embarked upon to develop the minimum technical standards applicable to the industry in the period 2007/8. Individual licensees will then benchmark their practices against these standards and customise them to their environments.

The initial draft Technical Regulations document was developed and will be completed and gazetted once the new Electricity Bill has been promulgated. Provision has been incorporated in the new Bill for the inclusion of the regulations.

Customer Complaints

Caprivi Supply Problems

The new 220kV interconnector transmission line to Katima from Zambia was completed. However, despite the completion, customers in the Caprivi area continued to complain about frequent power outages. There is still outstanding work including completion of the Zambezi 220/66kV substation to link to Katima substation via a 66kV line. Reactors will also be installed for voltage control. The capacity for Katima substation will also be upgraded to 10MVA for town supply and 5MVA for rural supply. It is envisaged that once all this work is completed and the Zambian works at Livingstone are complete problems in Katima will be a thing of the past. Target completion date for major outstanding items is June 2007.

High Electricity and Connection Charges Complaints

As a result of a complaint from the Ministry of agriculture, Water and forestry on unaffordable electricity costs in NORED area, the ECB appointed Sad-Elec to investigate and give an impartial view on the issue. The investigations were completed and a comprehensive report was submitted to the ECB in February 2007. The report has since been forwarded to both the Ministry and NORED.

The above complaint from Ministry of agriculture, Water and forestry, as well as other consumers, prompted the ECB to embark upon project to develop connection charge policy guidelines. The project was concluded and final report submitted in January 2007. Licensees will be requested to develop or align their connection policies in line with the ECB guideline. Currently licensees have diversified connection policies. It is hoped that the adoption of the guideline by licensees will lead to more acceptable connection policies thereby reducing customer complains to the ECB.

Billing Complaints

There were several complains related to billing errors to the ECB for the various licensees including the City of Windhoek, CENORED and Omaheke Regional Council. These were referred back to the licensees and were resolved amicably between the parties.

Technical Inspections

Rehoboth Inspection Visit

Rehoboth Town Council (RTC) took over electricity supply from Reho-Electricity and the license transfer was effected in April 2006. The ECB made an inspection visit in July to assess their readiness for electricity service provision. In addition to holding a meeting with the Council management for an update on their operations, the customer services centre was inspected and the systems were running satisfactorily. Part of the network was also inspected and it was found to be in a fair state.





VALVE ROOM TEMP.
TCR-3. BTB.4



VALVE ROOM
TCR-3. B1



Rundu Visit

The ECB visited Rundu to witness installation of quality of supply meters, by the Quality of Supply Outsourcing Contractor, as well as to check on their customer services systems. The systems were found to be satisfactory.

Incidents and Safety Code Development

One fatal and three non-fatal electricity related accidents were reported to the ECB during the period under review. It is hoped that once the project to develop the Namibian Safety Code is finalised there will be standardised safety practices in the Namibian ECB leading to a reduction in the rate of accidents. The project draft report is now complete and is ready for submission to the ECB Board for approval. Promulgation will be done thereafter.

Grid Code Developments

A Grid Code is a document (or set of documents) that legally establishes technical and other requirements for the connection to and use of an electrical system by parties other than the owning electric utility in a manner that will ensure reliable, efficient, economic and safe operation. Due to the envisaged increase in the number of users of the Namibian transmission system as a result of new power stations, the ECB developed a Transmission Grid Code in 2005. Implementation of this Grid Code will start once the new Electricity Bill, which makes provision for Grid Codes, is promulgated. It is expected that the new Electricity Bill will be promulgated in the next financial year.

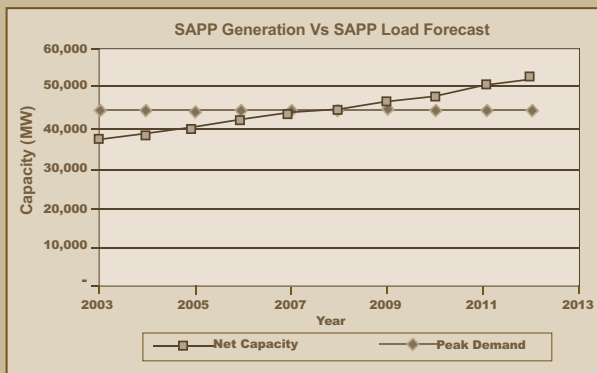
During 2006-2007 an Independent Power Producer (IPP) Framework for Namibia was developed. It was established that, to make provision for small IPPs that sell directly to a RED or Local/Regional Authority a Distribution Grid Code is required. The ECB will develop a Distribution Grid Code during 2007-2008.

Electricity Market Restructuring

Developments Regarding the Power Supply Crisis

Regional

The situation regarding the power supply crisis in Namibia and the Southern African Region remains tight. The Southern Africa Power Pool (SAPP) planning data indicates that the region will run out of surplus capacity after 2007, as indicated in the following graph.



NamPower, Zesco & Zesa, did load shedding during some peak periods and Eskom utilised interruptible load contracts, demand market participation and demand side management to cope with the shortage of power.

Despite additional capacity of 1,140MW being added to the region since 2004-2006, unprecedented high base metals price rises is creating a demand for electricity that is bound to outstrip supply soon. Despite plans to significantly

increase supply capacity (see table below) the situation will remain tight for the next two to four years due to the lead times of building new power stations.

No	Generation Project Category	Capacity (MW)	Estimated Cost (US\$ Million)
1	Projects in Progress	5,031	2 500
2	Rehabilitation	1,790	952
3	Short-term projects	6,686	7 880
4	Long-term projects	32,223	31,800
	Total	45,730	43,132

Local

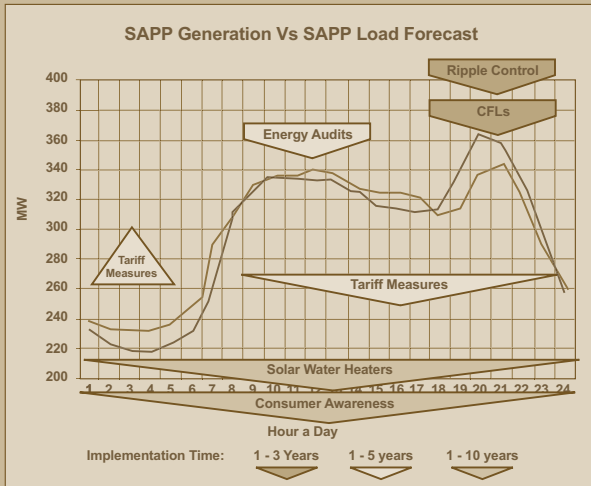
Namibia as a net importer of electricity will be adversely affected by the regional power supply shortage. Consequently the MME, NamPower, ECB & NAMCOR prepared a submission to the Namibian Cabinet outlining possible own generation projects and funding requirements. The submission also included demand side management (DSM) as an immediate action. Feedback from the Namibian Cabinet is expected in 2007-2008.

In addition the ECB completed an IPP Framework for Namibia, Guidelines for Generation License Applications including the issuing of conditional generation licenses (see Section 4.4.4) and electricity prices are being increased above inflation to reach cost reflectivity by 2011 (see Section 4.4.4). These are all measures to attract investment in Namibia's generation sector.

The ECB also intends to, in conjunction with MME, NamPower and REDS, conduct an Integrated Strategic Electricity Resource Plan in 2007-2008. This will ensure that new power stations are introduced at a schedule that is consistent with national energy planning, resources are utilised optimally and the generation mix in Namibia is diversified to mitigate the risk of over-reliance on imports.

Demand Side Management (DSM)

Given the long construction lead times of new power stations, it is inevitable that DSM will play a central role in alleviating supply constraints both in the region and in Namibia for the next four years. The ECB completed a DSM study for Namibia in 2006. The DSM options identified for Namibia are illustrated in the following figure:



The ECB conducted a mini-Compact Fluorescent Light (CFL) radio campaign to alert consumers to the pending power supply crisis. In addition the ECB established a DSM Implementation Steering Committee to drive DSM in Namibia. The committee held three meetings in 2006-2007.

NamPower also decided to pre-finance an "800,000 Free CFL Distribution" project of which implementation will be completed in 2007-2008. NamPower is also starting to implement Demand Market Participation in 2007-2008.

The ECB and NamPower will be implementing the first phase of Time-of-Use Tariffs in 2007-2008.

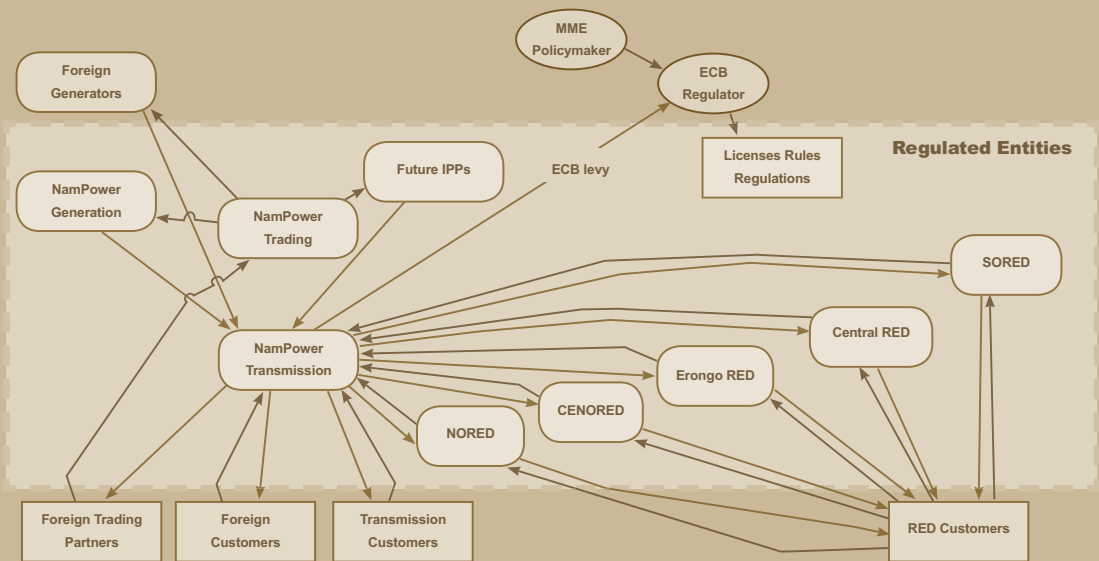
The Ministry of Mines and Energy obtained a Cabinet decision that makes the installation of new/replacement of old electrical geysers in Government and parastatal buildings compulsory.

All stakeholders have started conducting consumer awareness campaigns and the Namibian Government has been requested to finance Geyser Ripple Control Systems for municipalities and towns.

It is important that DSM be continued to alleviate the current power supply crisis and to ensure the economically efficient utilisation of scarce resources for long-term sustainability.

Development of Single Buyer Market and Independent Power Producer (IPP) Framework

The role of the Single Buyer, as approved by Cabinet in November 2000, will be to source power from generators (including independent power producers (IPPs) and imports from the Southern Africa Power Pool) and to on-sell to all distributors, Regional Electricity Distributors (REDs), eligible large users and the export market. NamPower has established a Trading Business Unit that functions as the Single Buyer (see figure on next page).



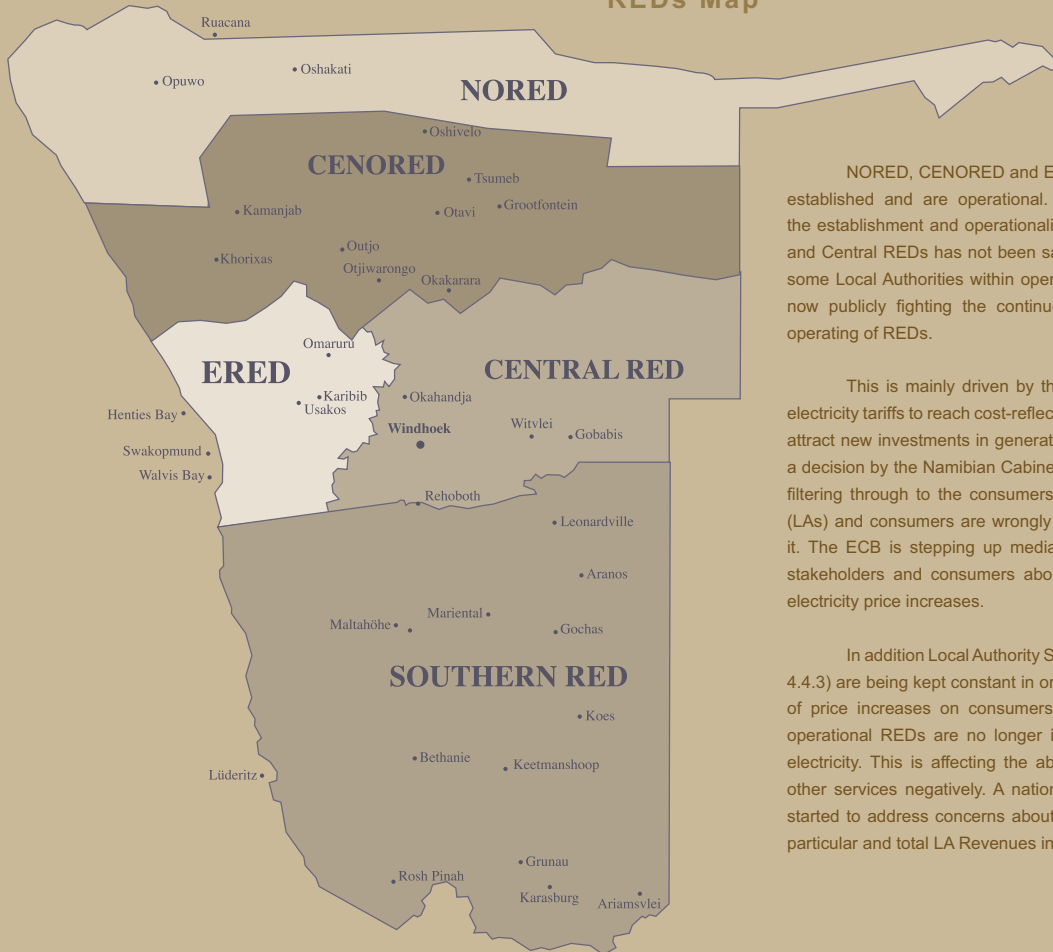
Formal Single Buyer Market Rules have not been finalised yet because the looming generation capacity shortage has taken centre stage and the focus is now on building new power stations and the creation of an enabling environment to attract investment in the form of Independent Power Producers (IPPs).

To this effect the ECB facilitated the acquisition of a grant from the United States Trade Development Agency (USTDA) to the amount of US\$275,700 in August 2005 for an IPP and Investment Market Framework for Namibia. The objective of the study was to make overall recommendations for IPPs in the context of market structure, regulation, institutional framework, business structure, human capital, regional issues and development impacts. This IPP Framework was completed in 2006 and is now being implemented. The final report is available on the ECB website.

Distribution Industry Restructuring

The distribution industry of Namibia consists of a wide variety of stakeholders: local and regional authorities, NamPower and private sector participants. The industry is being restructured into REDs (see Figure below) to rationalise the industry and curtail a proliferation of different tariff structures and levels, improve customer service and the adherence to adequate technical standards, increase efficiency, address resource constraints, exploit economies of scale in distribution and increase access to electricity.

REDs Map



NORED, CENORED and Erongo RED have been established and are operational. However progress in the establishment and operationalisation of the Southern and Central REDs has not been satisfactory. In addition some Local Authorities within operational REDs are also now publicly fighting the continued establishment and operating of REDs.

This is mainly driven by the current increases in electricity tariffs to reach cost-reflectivity in 2011 in order to attract new investments in generation in accordance with a decision by the Namibian Cabinet. These increases are filtering through to the consumers and Local Authorities (LAs) and consumers are wrongly blaming the REDs for it. The ECB is stepping up media campaigns to inform stakeholders and consumers about the root drivers for electricity price increases.

In addition Local Authority Surcharges (see section 4.4.3) are being kept constant in order to soften the effect of price increases on consumers and because LAs in operational REDs are no longer involved in distributing electricity. This is affecting the ability of LAs to provide other services negatively. A national dialogue has been started to address concerns about the LA Surcharges in particular and total LA Revenues in general.

Cooperation with Stakeholders

Local

Importance of Stakeholder Cooperation

The ECB places huge emphasis on cooperation with stakeholders. For this reason, one of the seven mandates of the ECB (as contained in our Strategic Plan 2005) is “Understanding the industry, stakeholders and their needs through regular consultations and investigations:

- Understanding and considering Vision 2030, NDP and GRN policy
- Investigating the ESI and international best practice
- Determining and monitoring stakeholder needs and satisfaction levels
- Communicating effectively with the ESI stakeholders”

The stakeholder environment of the ECB is depicted in the figure below. During 2006-2007 the ECB continued to implement this mandate through regular interactions with the following stakeholders.

Ministry of Mines, Energy and Government

The ECB participated regularly in the ESI Steering Committee meetings chaired by the MME. The mandate of the Steering Committee is to implement the resolutions of the ESI Strategic Summit of 2003. In addition the ECB regularly briefs and consults with the Minister of Mines and Energy and his staff on ESI developments and policy implementations. The ECB always attends workshops organised by the MME on ESI matters as well as inviting the MME to ECB workshops.

The ECB is represented on the National Energy Council as well as the Namibian Renewable Energy Program (NAMREP) and has attended all meetings held in 2006-2007.

On occasions the ECB has been requested to brief the Namibian Cabinet on strategic ESI issues. The ECB also regularly consulted with the Ministry of Regional and Local Government, Housing and Rural Development on issues affecting local and regional authorities especially with respect to the implementation of REDs. Various consultations have also taken place with the

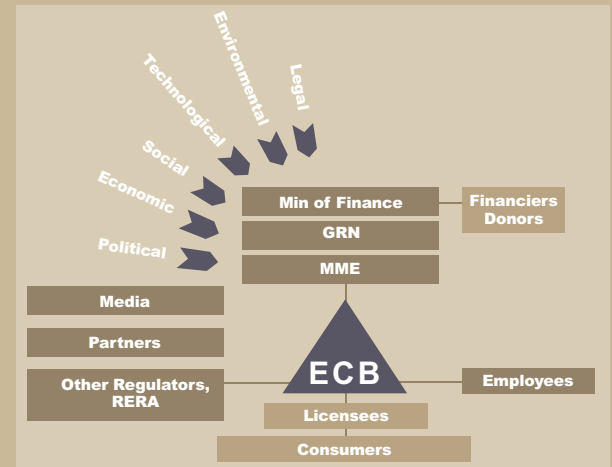
Ministry of Justice with respect to the promulgation of the new Electricity Bill. In addition the ECB regularly liaises with the Ministry of Environment and Tourism regarding establishing a Designated National Authority (DNA) for Namibia to take advantage of carbon credits through the Clean Development Mechanism (CDM) of the Kyoto Protocol.

NamPower

Cooperation with NamPower, as a key stakeholder of the Namibian ESI, has been formalised through regular, monthly Technical Meetings with the ECB for some years now. These technical meetings continued during the year under review and assisted greatly with effective communication between NamPower and the ECB.

Special committees between ECB, NamPower and sometimes MME are also formed to address strategic issues as the need arises e.g. Kudu gas to power project, Tariffs, etc. NamPower also regularly briefs the Board of Directors of the ECB on strategic ESI issues at the request of the ECB.

ECB Stakeholder Environment



REDS and other distributors

Cooperation with REDs and other distributors mainly took place through attendance of the monthly Technical and Shareholders Committees that guide the establishment and operationalisation of REDs. The ECB also conducted various training sessions with all the established/being established REDs on Billing Systems. The ECB will continue with capacity building in the distribution industry.

Consumers

During 2006-2007 the ECB published four issues of our newsletter, Spark, educating mainly consumers and licensees, but also all other stakeholders on current ESI developments. The newsletter has been widely distributed and will continue to be the ECB's quarterly mouthpiece to consumers, licensees and all other ESI stakeholders.

In addition various queries and complaints from consumers and licensees have been attended to. The ECB intends to step up consumer awareness and information campaigns in the next financial year through the addition of a new staff member, the public relations officer (PRO). Amongst the main initial tasks of the PRO will be to conduct stakeholder surveys in order for the ECB to adequately analyse and determine all stakeholders' needs as well as setting up a help-desk for the ECB.

General

Looming generation shortages being on the horizon, the ECB held numerous information meetings with potential local and international investors. The Standing Advisory Committee (SAC) on Quality of Supply and Service Standards (QSSS), consisting of representatives from all ESI stakeholders, continued meeting regularly regarding QSSS implementation. The ECB also established DISC (DSM Implementation Steering Committee) that met three times to coordinate and strengthen DSM implementation in Namibia.

The ECB is committed to continue developing and fostering excellent stakeholder cooperation and relations.

Regional and International Corporation

During 2006/2007 the ECB continued to build on its regional and international relationships. Many of the member countries of the Southern Africa Power Pool (SAPP) are facing the same electricity supply constraints. At the same time, many of the SAPP member country governments have capacity constraints and cooperation between regulators is an efficient manner in which to build capacity, achieve skills transfer and, generally, build on sound relationships. In this regard the ECB has met with various regulators or regulators to be established in the SADC region such as Angola, Lesotho, Tanzania, Rwanda, Zambia and Zimbabwe. The ECB concluded various Memoranda of Understanding with regulators in the region focusing on corporation. In this regard we hosted an attachment staff member from the Lesotho regulator.

The ECB, in conjunction with the Regional Electricity Regulators Association (RERA) of Southern Africa, the United States Agency for International Development (USAID) and CORE International, a renowned international management consulting firm with expertise in power sector reform and transformation in some 40 countries worldwide, conducted a study on IPPs and Investment Framework for Namibia and a course on Change Management in the Electricity Supply Industry. Throughout 2006/2007 the ECB has been very active in participating in RERA events and supporting the functions of RERA which is hosted at the ECB House. With regard to tariffs, an information sharing workshop was held through RERA.

The ECB also continues to be active on the international front. We have attended various international forums such as those of the World Energy Council and AFUR.

With the establishment of REDs in Namibia and the growing interest in Independent Power Producer Generation Projects (IPPs), the ECB regularly interacts with various investment institutions such as the DBSA and similar funding/donor agencies. The ECB is actively involved in the establishment of

carbon credits and a designated national authority for the registration of such credits in Namibia. With increasing world wide focus on cleaner energies, the use of such energies (through the promotion of IPPs) linked to carbon credits holds many benefits for Namibia.

Locally, within Namibia, the ECB has made various donations, as mentioned in corporate social responsibility section above.

Electricity Bill and Development of New Energy Legal Framework

Electricity Bill

During the late 1990s an extensive review was done on the Namibian energy sector. This review culminated in the Energy White Paper of 1998. The White Paper, amongst others, recommended the restructuring of the Namibian electricity supply industry (ESI). In order to achieve such regulation the outdated Electric Power Proclamation of 1922 was repealed and the Electricity Act of 2000 was promulgated to replace the Proclamation. The Electricity Act provided for the establishment of an independent statutory regulator, the Electricity Control Board (ECB) which was tasked with regulating the ESI. For the first time a licensing system for electricity operators and the independent regulation of electricity tariffs by means of a clear, transparent and consistent tariff methodology were introduced.

Within the first year after the promulgation of the Electricity Act it became evident that the Act did not contain sufficient enabling provisions for the issuing of technical regulations. Except for the national utility, NamPower (Pty) Ltd, electricity supply was mainly the domain of local government and thus technical details were regulated by means of municipal by-laws. In view thereof that an Act of Parliament began regulating electricity on national level, it became evident that the municipal by-laws were not efficient and would have to be replaced by national technical electricity regulations which would apply to all electricity licensees and not only local government. So began the drafting of an amendment Bill to deal with this matter. But it soon became apparent that far more reforms were required and that the Electricity Act 2000 should be replaced in its entirety.

At more or less the same time, the restructuring of the electricity distribution industry (EDI), by means of the establishment of regional electricity distribution companies (REDs), began in earnest. The latter evidently required additional revision of the Electricity Act 2000 in order to facilitate the establishment of the REDs. Finally, since the coming into operation of the Electricity Act 2000, various loopholes, regulatory deficiencies and a need to adapt and allow for new policy developments in the ESI necessitated a thorough and comprehensive review of the Act.

During the first five years of the operation of the Electricity Act 2000 it became evident that reform was required not only to achieve performance improvement but also to match changes nationally, regionally and internationally. Such reform would aim at -

- Increasing private sector participation to mobilise finance
- Promoting competition among sector entities
- Increasing the sector's efficiency
- Increasing the penetration and improve the reliability and quality of electricity supply
- Ensuring reasonable and affordable tariffs

This discussion focuses on legal regulatory reforms but there are also various other important projects and studies taking place in Namibia. During 2006/2007, the ECB was involved in studies on demand side management, an Independent Power Producer and Market framework, the economic impact of rising tariffs and the introduction of pro-poor policies, to name but a few.

As with other member countries of the Southern Africa Power Pool (SAPP), Namibia is approaching a situation of supply shortages with serious electricity supply shortfalls. At the same time budgetary constraints hamper investments needed for new generating capacity and transmission and distribution systems. Since electricity is a vital ingredient for economic and social development, Namibia had to revisit its power sector reform processes with the specific goal of creating an enabling environment to attract private investments into its power sector and to rationalise the industry.

As Namibia, to a large extent, depends on electricity to achieve development outcomes set out in Vision 2030 it is imperative for it to achieve the following two interrelated goals:

- (i) Increase efficiency to decrease cost (which is one of the main aims of the establishment of the REDs); and
- (ii) Create an environment that is encouraging to private sector investment.

The Electricity Bill 2007 aims at ensuring the continued cost-effective and efficient functioning of the ESI and will continue to be expedited in order to ensure that reform and goals are achieved.

At the outset it should be made clear that the Electricity Act, and its anticipated replacement, are of an enabling nature. Detailed subordinate regulation will be done by means of regulations, enforceable methodologies, licence conditions and rules of the Regulator.

The Electricity Act 2000 lacks sufficient regulatory measures for the ECB and/or the Minister of Mines and Energy (under whose auspices the ECB and the ESI fall) to govern the industry. For example, currently only licensees are regulated. A person or body who is not a licensee (for example electricity customers and electricity infrastructure developers) falls outside the scope of the Act. Should a fatal accident happen, or an unsafe situation exists, under the control of a customer, the Regulator is powerless.

No provision is made in the Electricity Act 2000 for essential market regulation in the form of grid and transmission codes, market rules, private investment protection, pricing mechanisms, etc. The latter is already proving to pose serious obstacles to the development of new generation capacity in view of the uncertainty and risks the absence thereof creates.

Under the Electricity Act 2000, the EDI inherited the dichotomy of having local government EDI players regulated under both local government legislation and the Electricity Act. For example, electricity tariffs must first be submitted via local government budgets to the Minister responsible for Local Government for approval. Thereafter tariffs are submitted to the ECB for approval. Once

approved by the ECB, control is taken again by local government legislation which determines the requirements for publication of such tariffs before they can become validly enforceable. As this dual (and often contradictory and confusing) regulation is inefficient, it was approved by Cabinet that electricity should exclusively be regulated under national electricity legislation.

Currently NamPower has a monopoly on the generation and import of electricity. A single buyer study has been conducted and has, in principle, been accepted to be introduced in Namibia in the near future. On the longer term a multi buyer model/competitive pool is envisaged. The Electricity Act 2000 does not provide for these types of operators. The Electricity Bill provides for the future issuing of trading licences. Once policies on the introduction of a single market framework have been agreed upon, it would be possible to issue the required licences to allow for trading on such market.

The Electricity Act 2000 lacks in giving the Regulator sufficient investigative and enforcement powers to ensure that electricity legislation is being complied with. The Bill attempts to rectify this deficiency by extending the ECB's investigative and enforcement powers.

The Namibian Government expressed its commitment to provide affordable (cost reflective) and reliable electricity to all citizens. The Namibian Cabinet took a decisive stance that electricity tariffs should be cost-reflective by 2011. Some refinement was done on tariff regulation to allow for the more efficient regulation of tariffs. The Electricity Bill further allows the ECB to set standards for quality of supply and service in the electricity industry and to make such standards compulsory. Penalties may be imposed for non-compliance.

As explained above, there has been serious rethinking of electricity sector policies and reform since the release of the Energy White Paper of 1998 and the promulgation of the Electricity Act 2000. The Namibian ESI faces serious challenges - many of which are unique to Namibia and necessitate creative solutions. But laws and frameworks alone do not guarantee success. While electricity reform is an economic process, it is also unavoidably social and political. To be successful it requires a measure of public acceptance, which

rests on public perceptions of costs and benefits, promises made, transparency, fairness and honesty. For example, a real risk is that tariff increases and payment enforcement overshadow real term benefits, improved service and public benefits.

Real challenges lie ahead to ensure public buy-in in the proposed reforms and to continue to encourage and promote confidence in the sector. However, the Regulator and Government are confident that the new Electricity Bill 2007 will establish a sound and progressive regulatory framework for the electricity sector.

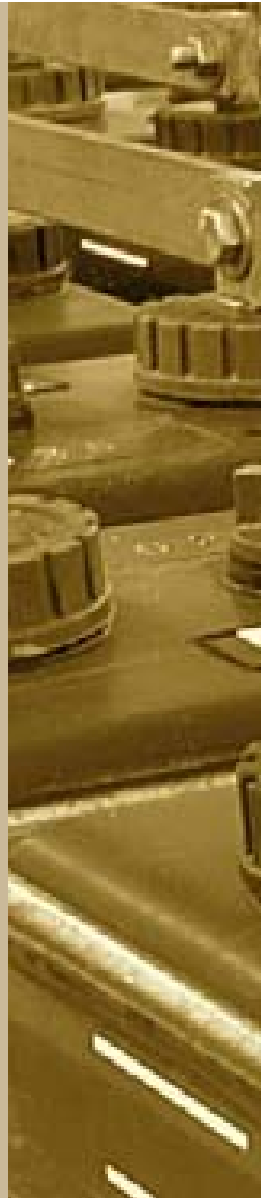
Some Thoughts on the Future Regulatory Framework for the Energy Sector

Notwithstanding various recent updating of, and amendments to, various Energy Acts (for example the Electricity Bill, 2007, the Petroleum Products and Energy Amendment Acts of 2000 and 2003 and the Petroleum (Taxation) Amendment Act), the energy regulatory framework and laws are uncoordinated and fragmented. The ECB is of the opinion that a major revision of this framework and some energy laws is very necessary. The relevant stakeholders are in preliminary discussions with the Ministry of Mines and Energy as to the future regulatory framework for the Namibian energy sector.

Currently, the Petroleum Products and Energy Act of 1990 professes to regulate, in addition to detailed regulation of downstream petroleum products, the overall energy framework in Namibia. However, the latter is not the case. The Act is almost completely silent on the national energy framework and concentrates mainly on downstream petroleum products and the National Energy Fund. Further, the Petroleum Products and Energy Act was based on legislation prior to 1990. Especially in the petrol and diesel environment, such prior-1990 legislation originated from a time when severe restrictions were in place in view of the scarcity of petrol and diesel due to international developments and sanctions. The Petroleum Products and Energy Act, 1990, is clearly outdated and do not allow for the efficient regulation of the energy sector.

In addition, no regulatory framework currently exists for the regulation of energy efficiency, renewable energy and gas. Due to the increasing importance of the latter issues it is imperative that these sources be included within the energy regulatory framework. NamPower is still being regulated under the Powers of the S.W.A. Water and Electricity Corporation Act, 1980, which Act is similarly outdated and requires extensive revision.

Part and parcel to the above revision is the transformation of the ECB (currently an electricity regulator) into a multi-sectoral energy regulator. During 2007 the ECB will continue discussions with the Ministry of Mines and Energy and other stakeholders on a new regulatory framework for the Namibian energy sector.





Annual Financial Statements
for the year ended 31 March 2007

Board Members' Responsibility for Financial Reporting

The members of the Board are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The financial statements have been prepared in accordance with International Financial Reporting Standards. The Board's independent external auditors have audited the financial statements and their report appears on page 43-44.

The board members are also responsible for the systems of internal control. These are designed to provide reasonable but not absolute assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect material misstatement and loss. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the board members to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The annual financial statements are prepared on a going concern basis. Nothing has come to the attention of the board members to indicate that the Board will not remain a going concern for the foreseeable future.

Board Members' Approval of the Annual Financial Statements

The annual financial statements set out on pages 46 to 59 were approved by the board members and are signed on their behalf by:



.....
Board member

03/10/2007
.....

Date



.....
Board member

03/10/2007
.....

Date

Report of the Independent Auditors

to the Members of Electricity Control Board

We have audited the annual financial statements of Electricity Control Board, which comprise the directors' report, the balance sheet as at 31 March 2007, the income statement, the statement of changes in reserves and the cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 50 to 58.

Directors' Responsibility for the Financial Statements

The Board members are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of fair financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting principles used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Board at 31 March 2007 and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report of the Independent Auditors

to the Members of Electricity Control Board - continued

Detailed Income Statement - Emphasis of Matter

Without qualifying our opinion, we draw attention to the fact that the detailed income statement set out on page 59 does not form part of the financial statements and is presented as additional information only. We have not audited this schedule and accordingly we do not express an opinion thereon.



Deloitte & Touche

Registered Accountants and Auditors

Chartered Accountants (Namibia)

Windhoek

Per V J Mungunda

Partner

Report of the Board Members

for the year ended 31 March 2007

The board members have pleasure in presenting their report on the activities of the Board for the year ended 31 March 2007.

Background and Operations

The Electricity Control Board was established by the Government of the Republic of Namibia in terms of the Electricity Act No 2 of 2000, to exercise control over the electricity supply industry and to regulate the generation, transmission, distribution, use, import and export of electricity in accordance with prevailing Government policy so as to ensure order in the efficient supply of electricity.

Results

The results of the Board are fully set out in the attached annual financial statements.

Dividends

No dividends have been paid or declared during the year (2006: Nil) as the Board is a non profit organisation.

Board Members And Secretary

The directors of the Electricity Control Board during the year and at the date of this report were as follows:

Mr Jason Nandago (Chairperson)

Mr Gerson Katjimune

Ms Uilka Kamboua

Ms Anna Matebele

Mr Fritz Jeske

Secretary - Ms J Scholtz

Business address:

No 8 Bismarck Street
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NAMIBIA

Subsequent Events

The board members are not aware of any fact or circumstance, which occurred between the date of the financial statements and the date of this report, which might influence an assessment of the Board's state of affairs.

Going Concern

The Board incurred a deficit of N\$650 136 (2006: N\$268 133) and a surplus of N\$983 654 is forecasted for the 2007/8 financial year. The Board has also accumulated sufficient surplus to absorb the deficits and together with future revision to the levies, these will ensure the operational existence of the Board and this confirms the appropriateness of the going concern basis in the preparation of the annual financial statements.

Income Statement

for the year ended 31 March 2007

	Notes	2007 N\$	2006 N\$
REVENUE	1	12 286 695	11 489 932
Other income		7 221	35 212
Operating costs		<u>(13 326 797)</u>	<u>(12 122 945)</u>
DEFICIT BEFORE INTEREST		(1 032 881)	(597 801)
Interest received		<u>382 745</u>	<u>329 668</u>
DEFICIT BEFORE TAXATION	2	(650 136)	(268 133)
Taxation	3	<u>-</u>	<u>-</u>
DEFICIT FOR THE YEAR		<u>(650 136)</u>	<u>(268 133)</u>

Balance Sheet

At 31 March 2007

	Notes	2007	2006
	N\$	N\$	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	4	4 072 917	4 282 746
CURRENT ASSETS			
Accounts receivable	5	973 683	879 260
Bank balances and cash		6 726 920	6 388 755
TOTAL ASSETS		<u>11 773 520</u>	<u>11 550 761</u>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Accumulated surplus		9 611 814	10 261 950
CURRENT LIABILITIES			
Accounts payable	6	1 623 261	952 965
Trust funds - MME projects	7	538 445	335 846
TOTAL EQUITY AND LIABILITIES		<u>11 773 520</u>	<u>11 550 761</u>

Statement of Changes in Reserves

31 March 2007

	Accumulated Surplus N\$	Total N\$
Balance at 1 April 2005	10 530 083	10 530 083
Deficit for the year	(268 133)	(268 133)
Balance at 31 March 2006	<u>10 261 950</u>	<u>10 261 950</u>
Deficit for the year	(650 136)	(650 136)
Balance at 31 March 2007	<u>9 611 814</u>	<u>9 611 814</u>

Cash Flow Statement

for the year ended 31 March 2007

	Note	2007 N\$	2006 N\$
CASH FLOWS FROM OPERATING ACTIVITIES			
		247 442	165 904
Cash received from government and customers		12 199 493	11 758 548
Cash paid to suppliers and employees		(12 334 796)	(11 922 312)
Cash utilised by operations	A	(135 303)	(163 764)
Interest received		382 745	329 668
CASH FLOW FROM INVESTING ACTIVITIES			
		(111 876)	32 185
Proceeds on disposals of property, plant and equipment		-	130 610
Acquisition of property, plant and equipment		(111 876)	(98 425)
CASH FLOW FROM FINANCING ACTIVITIES			
		202 599	(632 749)
Increase/(Decrease) in Trust Funds - MME Projects		202 599	(632 749)
Net change in cash and cash equivalents			
		338 165	(434 660)
Cash and cash equivalents at the beginning of the year		6 388 755	6 823 415
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
		6 726 920	6 388 755
NOTE:			
A. RECONCILIATION OF DEFICIT BEFORE TAXATION TO CASH UTILISED BY OPERATIONS			
		(650 136)	(268 133)
Deficit before taxation			
Adjusted for:			
Profit on disposal of property, plant and equipment		-	(35 212)
Depreciation		321 705	386 716
Interest received		(382 745)	(329 668)
		(711 176)	(246 297)
Working capital changes		575 873	82 533
(Decrease)/increase in accounts receivable		(94 423)	124 040
Increase/(decrease) in accounts payable		670 296	(41 507)
CASH UTILISED BY OPERATIONS			
		(135 303)	(163 764)

Notes to the Annual Financial Statement

for the year ended 31 March 2007

1. PRINCIPAL ACCOUNTING POLICIES

The annual financial statements are prepared on the historical cost basis, except for financial instruments which are carried at fair value. The principal accounting policies, which have been consistently applied in all material respects, comply in all material respects with International Financial Reporting Standards.

1.1 Adoption of new and revised International Financial Reporting Standards

Standards, interpretations and amendments to published standards that are not yet effective have been published that are mandatory for the Board's accounting periods beginning on or after 1 April 2007 or later periods but which the Board has not early adopted, as follows:

- IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007).
- IFRS 8, Operating Segments (effective from 1 January 2009).
- IAS 23, Borrowing Costs (effective from 1 January 2009).
- IFRIC 10, Interim Financial Reporting and Impairment (effective from 1 November 2006).
- IFRIC 11, IFRS 2: Group and Treasury Share Transactions (effective from 1 March 2007).
- IFRIC 12, Service Concession Arrangements (effective from 1 January 2008).
- IFRIC 13, Customer Loyalty Programmes (effective from 1 July 2008).
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective from 1 January 2008).

The Board anticipate that the adoption of these standards and interpretations will have no material impact on the financial statements in future periods.

Notes to the Annual Financial Statement

for the year ended 31 March 2007

1.2 Revenue

Revenue comprises levies, licence and registration fees collected in terms of the Electricity Act No 2 of 2000 to defray costs necessarily incurred by the Control Board and is recognised on an accrual basis.

1.3 Property, plant and equipment

Property, plant and equipment are accounted for at historical cost less accumulated depreciation. Depreciation is calculated on a straight-line basis to write off assets over their estimated useful lives as follows:

- Buildings
25 years (4% p.a.)
- Office furniture and equipment
5 years (20% p.a.)
- Computer equipment
3 years (33.3% p.a.)
- Motor vehicles
4 years (25% p.a.)

Land is not depreciated.

The residual values and useful lives will be reviewed on an annual basis.

1.4 Retirement benefits

Contributions to retirement funds are charged against income in the year in which they become payable.

1.5 Provisions

Provisions for liabilities are recognised when the Board has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation.

Notes to the Annual Financial Statement

for the year ended 31 March 2007 - Continued

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.6 Impairment of assets

At each balance sheet date, the Board reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, its carrying amount is reduced to its recoverable amount and the impairment losses are recognised as an expense immediately.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but limited to the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised in profit or loss.

1.7 Financial instruments

Initial measurement

Financial assets and financial liabilities are recognised on the balance sheet when the Board has become a party to the contractual provisions of the instrument. Financial instruments carried on the balance sheet include bank and cash balances, accounts receivable and accounts payable.

Subsequent measurement

Fair values and the recognition methods of the different financial instruments are disclosed in the notes to the annual financial statements. Fair value represents an approximation of the year end value, which may differ from the value that will be finally realised.

Off-setting

Financial instruments are offset when the Board has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

1.8 Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Notes to the Annual Financial Statement

for the year ended 31 March 2007 - continued

1.9 Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

1.10 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the rights and rewards of ownership to the lessee. All other leases are classified as operating leases and rentals are charged against trading profit as they become due.

The Board as a lessee

Assets held under finance lease are recognised as assets of the Board at fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of interest on the remaining balance of the obligations for each period.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

1.11 Judgements by management

There were no material judgements made by management that could have a significant effect on the amounts recognised in the financial statements.

1.12 Key sources of estimation uncertainty

There are no key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that could have a significant risk of causing material adjustment to the carrying amounts of the assets and liabilities within the next financial year.

1.13 Trust Funds-MME Project

The Board undertakes projects on behalf of the Ministry of Mines and Energy. The funds received are accounted for as monies held in trust and all expenditure incurred on these projects are accounted for separately from the Board's transactions.

Notes to the Annual Financial Statement

for the year ended 31 March 2007 - Continued

	2007 N\$	2006 N\$
2. DEFICIT BEFORE TAXATION		
Deficit before taxation is arrived at after taking the following items into account:		
Income		
Profit on sale of property, plant and equipment	-	35 212
Interest received	382 745	329 668
Expenditure		
Auditor's remuneration:		
- audit fees - current year	-	15 250
- prior year	51 750	-
Depreciation		
- land and buildings	4 617	48 559
- motor vehicle	137 528	172 332
- computer equipment	69 360	58 362
- furniture and equipment	110 200	107 463
	321 705	386 716
Directors' emoluments		
- services as directors	69 000	69 000
- other services	10 117	42 450
	79 117	111 450
Staff costs	7 187 925	7 196 643
Operating leases		
- office equipment	250 037	156 902

3. TAXATION

The Board is exempt from income tax in terms of section 16(1)(e)(i) of the Namibian Income Tax Act.

Notes to the Annual Financial Statement

for the year ended 31 March 2007 - continued

4. PROPERTY, PLANT AND EQUIPMENT

	Land & buildings N\$	Motor vehicles N\$	Computer equipment N\$	Furniture & equipment N\$	Total N\$
2007					
Cost					
At 01 April 2006	3 727 940	550 118	553 265	867 066	5 698 389
Disposals	-	-	-	-	-
Additions during the year			98 936	12 940	111 876
At 31 March 2007	<u>3 727 940</u>	<u>550 118</u>	<u>652 201</u>	<u>880 006</u>	<u>5 810 265</u>
Accumulated depreciation					
At 01 April 2006	246 162	177 019	488 002	504 460	1 415 643
Depreciation during the year	4 617	137 528	69 360	110 200	321 705
Balance at 31 March 2007	<u>250 779</u>	<u>314 547</u>	<u>557 362</u>	<u>614 660</u>	<u>1 737 348</u>
Net book value at 01 April 2006	<u>3 481 778</u>	<u>373 099</u>	<u>65 263</u>	<u>362 606</u>	<u>4 282 746</u>
Net book value at 31 March 2007	<u>3 477 161</u>	<u>235 571</u>	<u>94 839</u>	<u>265 346</u>	<u>4 072 917</u>

Land and building comprised erf 714, on 8 Bismarck Street, Windhoek. No revaluation has been carried out since the date of purchase.

The Board reviewed the residual values and useful lives of the assets, however, the review did not highlight any requirement for an adjustment to depreciation charged during the year.

Notes to the Annual Financial Statement for the year ended 31 March 2007 - Continued

	2007 N\$	2006 N\$
5. ACCOUNTS RECEIVABLE		
Trade receivables	1 045 874	955 406
Sundry debtors	43 304	45 104
Staff loans and advances	14 505	8 750
	<u>1 103 683</u>	<u>1 009 260</u>
Provision for doubtful debtors	(130 000)	(130 000)
	<u>973 683</u>	<u>879 260</u>
6. ACCOUNTS PAYABLE		
Sundry creditors	206 912	209 848
Accruals	1 416 349	743 117
	<u>1 623 261</u>	<u>952 965</u>
7. TRUST FUNDS - MME PROJECTS		
Balance at beginning of year	335 846	968 595
Funds received	1 796 632	1 318 926
Disbursements	(1 594 033)	(1 951 675)
Balance at end of year	<u>538 445</u>	<u>335 846</u>

MME Projects consist of various projects that are administered by the Board on behalf of the Ministry of Mines and Energy.

Notes to the Annual Financial Statement

for the year ended 31 March 2007 - continued

8. RETIREMENT BENEFITS FOR EMPLOYEES

Retirement benefits are provided for employees through an independent retirement fund known as Ondunda Pension Scheme by Metropolitan Namibia Ltd. The retirement fund is governed by the Namibian Pension Funds Act and is a defined contribution plan. All permanent employees qualify for the retirement benefits. Current year contributions to retirement benefits amounted to N\$531 157 (2006: N\$559 987).

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Interest rate risk management

As part of the process of managing the Board's interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates.

Credit risk management

The Board only deposits cash surpluses with major banks and investment houses of high quality credit standing.

The granting of credit is made on application and is approved by management. At year-end the Board did not consider there to be any significant concentration of credit risk which has not been adequately provided for.

Liquidity risk management

The Board has minimised its liquidity risk by ensuring adequate facilities and reserve borrowing capacity.

Fair value

The directors are of the opinion that the book value of financial instruments approximates fair value.

Notes to the Annual Financial Statement

for the year ended 31 March 2007 - Continued

	2007 N\$	2006 N\$
10. COMMITMENTS		
Capital commitments - authorised but not contracted	298 818	473 329
These capital expenditures will be financed by existing cash resources.		
11. OPERATING LEASE COMMITMENTS		
At the balance sheet date, the Board had outstanding lease commitments under non-cancellable operating lease for its office equipment, which fall due as follows;		
Within one year	38 512	38 512
In the second to five years	110 579	149 091
	<u>149 091</u>	<u>187 603</u>
12. RELATED PARTIES		
The Board regards the RERA, Government and other parastatals as related parties. The following were the transactions entered into during the year:		
Regional Electricity Regulator of Southern Africa (RERA) Subscription fees (membership)	300 000	300 000
	<u>300 000</u>	<u>300 000</u>
Compensation of key management personnel		
Short-term benefits	2 045 048	1 746 749
Post-employment	515 711	257 936
	<u>2 560 759</u>	<u>2 004 685</u>

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