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National Electric Power  
Authority of Nigeria



## Unbundling NEPA Finance and Accounts

Seminar  
Sheraton Abuja  
17 May 2001  
10:00 to 16:30

**NEXANT**<sub>INC.</sub>  
A BECHTEL TECHNOLOGY & CONSULTING COMPANY

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**Seminar Agenda**  
**Unbundling NEPA Finance and Accounts**  
**Sheraton Hotel, Abuja**  
**17 May 2001, 10:00 to 16:30**

<b>Time</b>	<b>Topic</b>	<b>Presenter</b>
10:00 - 10:15	Coffee	
10:15 - 10:25	Welcome by USAID	USAID (TBD)
10:25 - 10:40	NEPA Opening Remarks	Chairman Imoke, NEPA
10:40 - 11:10	Lessons in Electricity Restructuring	C. Ebinger, Nexant
11:10 - 11:40	Introduction and Overview	T. Simpson, Nexant
11:40 - 12:15	Unbundling F&A	J. Guy, Nexant
12:15 - 12:45	Cost-based Transfer Pricing	T. Simpson, Nexant
12:45 - 14:15	Lunch	
14:15 - 14:30	F&A Unbundling Process	Akintola Williams
14:30 - 14:45	NEPA Perspective on F&A Unbundling	MD Makoju, NEPA
14:45 - 15:00	Report on F&A Unbundling Implementation Committee Activities	Mr. Agbogun, NEPA
15:00 - 15:15	Lagos Zone Management Perspective	Mr. Osakue, NEPA
15:15 - 16:00	Questions & Answers	All
16:00 - 16:10	Nexant Closing Remarks	C. Ebinger, Nexant
16:10 - 16:20	NEPA Vote of Thanks	Ms. Ojo, NEPA
16:20 - 16:30	USAID Closing Remarks	USAID (TBD)

# Unbundling NEPA Finance and Accounts

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# Why Unbundle F&A?

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- To enhance operational efficiency
- Provide greater autonomy to BUs for financial management of their operations
- Making regional managers accountable for the financial performance of their Bus

# F&A Roles & Responsibilities at HQ

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- Overall responsibility for Corporate finance function
- Reporting to NEPA Management and Board
- Corporate financial policies
- Corporate financial planning & budgets
- Corporate cash management
- Review and monitoring of Sectors

# F&A Roles & Responsibilities at HQ

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- Consolidation of financial returns from Sectors
- Corporate financial statements
- Allocation of HQ costs, assets & liabilities
- Transfer pricing
- Debt management
- FGN funding management
- Taxation

# F&A Roles & Responsibilities at BUs

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- Overall responsibility for BU finance & accounting function
- Reporting to BU management and next level of the organization
- Review and monitoring of operating units
- Preparation and submission of BU budgets
- Cash management of BU



# F&A Roles & Responsibilities at BUs

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- Consolidation of financial returns of OUs
- Maintaining fixed assets registers of BU
- BU financial statements

# Organization of F&A

## Key Issues

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- Skills and job descriptions
- Responsibilities of F&A staff at BU level
- Delegation of authority to BU's
- New processes
  - Information flow
  - Procedures
  - Financial reporting
  - Computerization
- Managing the Transition

# New Functions at BUs

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- Sales/Revenue/Cash Collection Forecasting
- Financial Planning
- Financial Reporting
- Preparing Financial Statements
- Maintaining fixed assets registers
- Accounting for energy sales and purchases
- Evaluating Capital Projects



# Key Cost Initiatives

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- Need to know the costs of owning and operating
- Need to implement new processes for:
  - Forecasting cost-of-service
  - Evaluating capital projects
  - Developing capital budgets
- Headquarters can assist BU's by disseminating guidelines for economic evaluation of projects



# Unbundling of Accounts Objectives

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- Identify BU cost-of-service
- Provide benchmark financial information for transfer pricing and revenue allocation between the BUs
- Establish effective system of budgeting and monitoring
- Make the BUs accountable for their operational *and* financial performance

# Accounts Unbundling

## Key Issues

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- Fair allocation of assets and liabilities
- Allocating the costs of shared services between BUs, for example maintenance crews that work on both transmission and distribution facilities
- Allocation of HQ administration costs, operating costs, fixed assets and liabilities
- Appropriate return on equity
- Periodic revaluation of fixed assets
- Allowance for bad debts



# Capital Budgeting

## Key Issues

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- Development of capital spending plan at BU level
- Economic evaluation of capital and expense projects and programs
- Methodology of centralized allocation of overall capital budget (during transition to privatization)
  - Prioritization based on BU plans (bottom up)
  - Prioritization based on relative efficiency improvements



# Financial Planning

## Key Issues

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- Optimizing development plans
  - Energy forecasting at Business Units
  - Least-cost planning
- Determining financial requirements on a forecast basis using financial modeling
- Estimating costs to “run the business” and compensate investors (“revenue requirements”)
- Integration of financial plan with BU budget

# Implementation - Actions taken so far

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- Nexant report and recommendations
- Akintola Williams report and recommendations
- Implementation Committee set-up to facilitate implementation
- Sector GM F&As appointed

# Implementation - Actions under Process

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- F&A staffing requirements at HQ and Sectors to be determined and recommended by Implementation Committee
- Management to approve organization structures and make staffing appointments
- Open Sector bank accounts
- Chart of accounts to be finalized



# Implementation - Actions under Process

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- Update fixed assets register to 2000
- Finalize NEPA financial statements for 2000
- Procure immediate IT needs for Sectors

# Implementation - Next Steps

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- Allocate assets & liabilities to BUs
- Make BUs operational in terms of cash transfers
- Assign responsibility for implementation of Lagos Pilot Unbundling to Implementation Committee
- Adopt new budget policies and procedures
- Develop operational and financial performance indicators

# Implementation - Next Steps

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- Introduce transfer pricing system
- Establish system of quarterly reporting of operational and financial performance
- Assess basic needs of IT for BUs
- Develop training program to include financial management, budgeting, financial analysis, management reporting and Excel spreadsheet applications



# Action Plan for Unbundling F&A at Lagos Zone Pilot BU

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## Key Actions

- Establish new organization
- Implement training program
- Establish fixed assets register
- Assess accounts receivable
- Allocate liabilities to Business Units
- Write off obsolete stock at Stores
- First financial reporting
- Improve budget processes and tools
- Institute new budget process
- Monitor and reward BU performance
- Identify and fill minimum IT needs



# Corporate Planning Functions at HQ

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- Economic forecasts
- Sales and demand forecasts
- System planning studies
- Resource planning
- Corporate investment evaluations
- Financial planning model
- Corporate strategies
- Transfer pricing

# Corporate Planning Functions at HQ

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- Interface with Regulator
- Negotiations with IPPs
- Restructuring studies, monitoring and coordination

# Corporate Planning Functions at BUs

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- Coordinate BU business plan
- Prepare BU sales, revenue and demand forecasts
- Coordinate budget review consistent with business plan
- Coordinate with HQ Corporate Planning
- Prepare tariff information for HQ
- Evaluate capital project alternatives

# Cost Allocation and Transfer Pricing

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Cost Allocation and Transfer Pricing

# Overview of Presentation

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- Revenue requirements
- Allocating costs to Sectors
- Transfer pricing between Business Units
- Financial and operational performance measures and incentives



# Philosophy of Cost-based Transfer Pricing

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- Power systems are under constant development
- Market participants should be aware of the true electricity costs
- Transfer prices must give right signals to market participants
- Transfer prices must reflect future development costs and revenue requirements

# Revenues and Transfer Pricing

## Key Issues

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- Methodology for transfer pricing by Sector (G, T & D/M)
  - Expense component
  - Capital component
  - Billing determinants
- Transition from central budget allocation to cost-based transfer pricing
- Business Unit Incentive Mechanisms to complement transfer pricing

# Revenues and Transfer Pricing Key Issues

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- Process for revenue transfers between BU's
  - Debit and credit notes
  - Bill determination based on metered power flows
  - Process integration of capital budgeting with transfer price setting



# Sector Revenue Requirements

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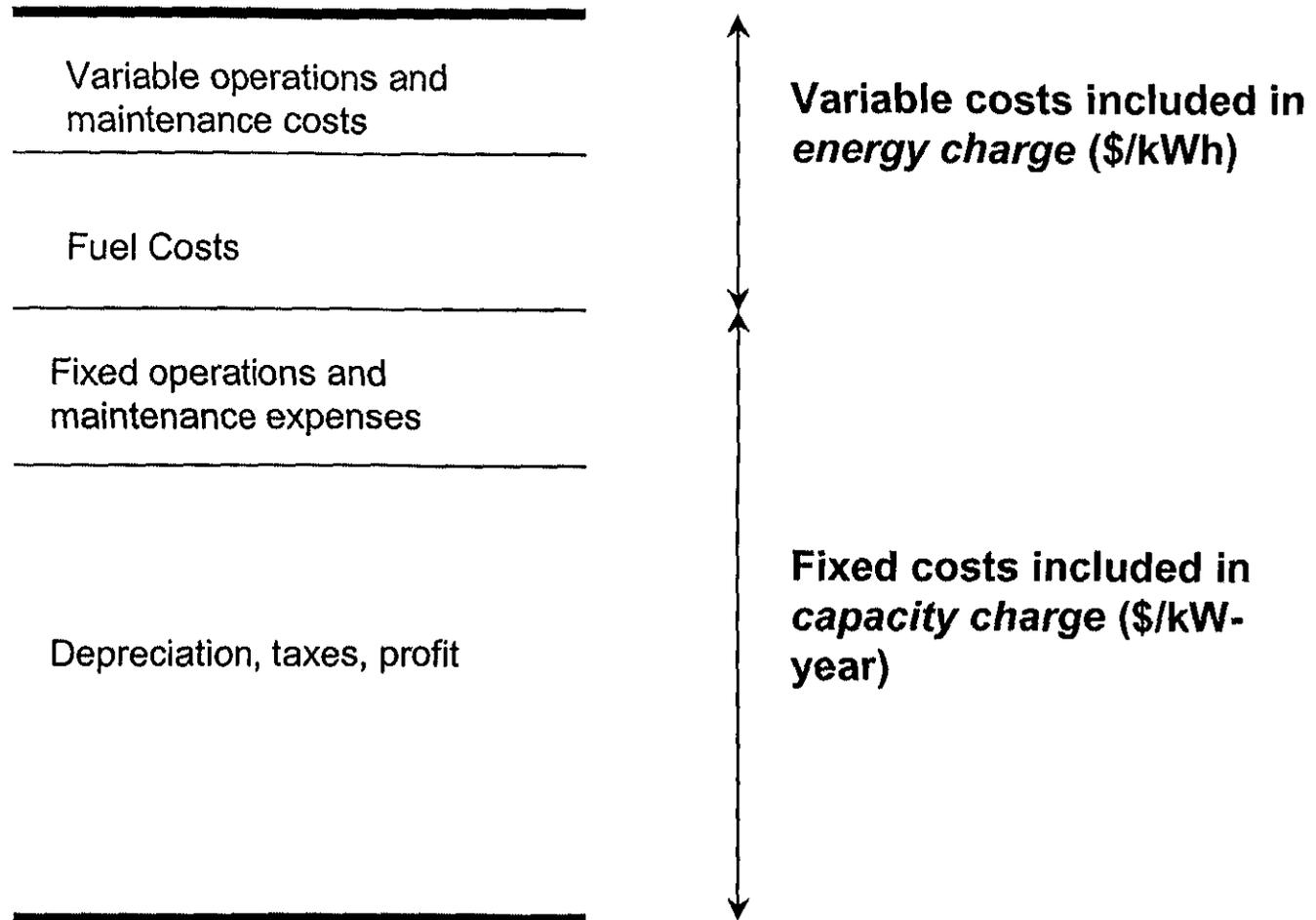
Total revenue requirements  
= Operating expenses  
+ Taxes  
+ Depreciation  
+ Interest on borrowing  
+ Return on assets

# Cost Issues

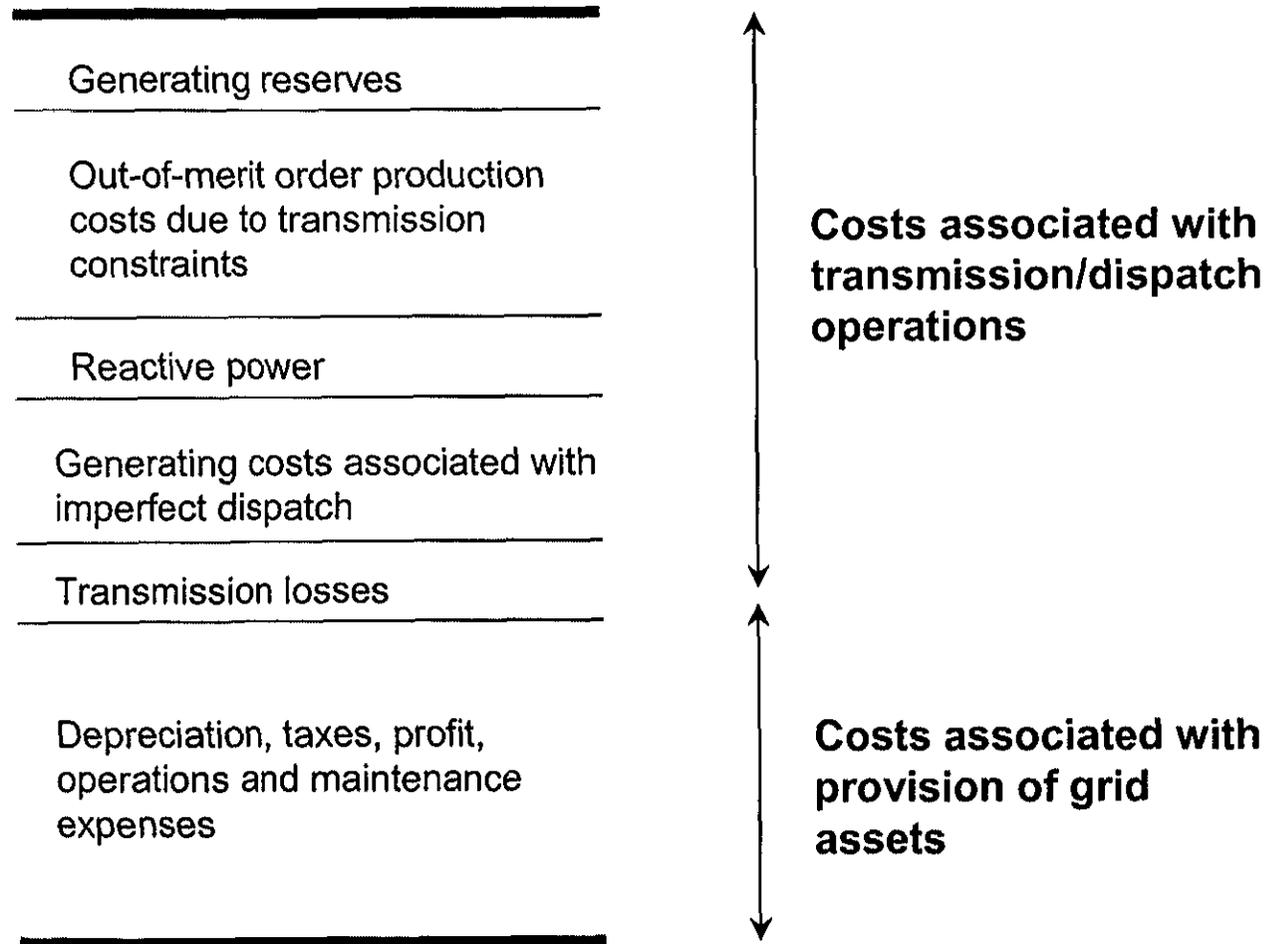
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- What kinds of costs are included
- Which costs are included for a given service
- Approach to aggregating costs
- How to provide incentives while retaining cost basis

# Generation Costs



# Transmission Costs



# Transfer Pricing Benchmarks: NEPA Cost-of-service

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	Cost-of-Service (N/kWh)	Present Retail Tariff (N/kWh)	% Share of CoS
Generation	2.0	1.3	39%
Transmission	0.7	0.5	14%
D/M	2.4	1.5	47%
<b>Total System</b>	<b>5.1</b>	<b>3.3</b>	<b>100%</b>
<u>Split of CoS:</u>			
Demand	81%		
Energy	9%		
Customer Service	10%		

# NEPA Cost-of-Service International Comparison

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	<u>2001 \$/MWh</u>				<u>% of Total Cost</u>		
	<u>Gen</u>	<u>Trans</u>	<u>Distr</u>	<u>Total</u>	<u>Gen</u>	<u>Trans</u>	<u>Distr</u>
<b>Nigeria *</b>	<b>20</b>	<b>7</b>	<b>24</b>	<b>51</b>	<b>39%</b>	<b>14%</b>	<b>37%</b>
Greece	47	3	17	67	70%	5%	26%
Italy	50	4	34	88	57%	4%	39%
Portugal	58	7	42	106	55%	6%	39%
Bulgaria	42	6	15	62	67%	9%	24%

\* Note: Generation costs for Nigeria are low because of low cost fuel supply.



# Cost-of-Service Methodology

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- Define enterprise activities
- Define period of study (“test year”).
- Identify expenses (fuel, purchased power, labor etc)
- Estimate cost-of-service “revenue requirements”
- Separate costs by function
  - Generation
  - Transmission and dispatch
  - Distribution and marketing
- Classify costs
  - Independent of sales (fixed)
  - Variable with sales
  - Variable with number of customers
- Allocate costs to tariff categories and time periods according to LRMC

# Transfer Pricing Methodology

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- Identify Sector cost-of-service
- Determine Sector marginal cost
- Determine appropriate transfer prices
  - Financial reporting to demonstrate profit/loss
  - Budgeting
- Develop a complementary BU performance incentive scheme

# Example: Allocating Costs to Transmission Function

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- Transmission functions
  - Transmission substations and lines
  - System operations
- Shared functions
  - Generation providing ancillary services
  - Energy storage
  - Backup generation e.g. SCGT
  - Step-up transformers
  - Generation ties
  - Transmission direct connects

# Classifying Costs as Energy-, Demand- or Customer-related

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<b>Functions</b>	<b>Classes</b>		
	Energy	Demand	Customer
Production			
Thermal	<b>x</b>	<b>x</b>	
Hydro	<b>x</b>	<b>x</b>	
Other	<b>x</b>	<b>x</b>	
Transmission		<b>x</b>	
Distribution			
Lines	<b>x</b>	<b>x</b>	<b>x</b>
Substations	<b>x</b>	<b>x</b>	<b>x</b>
Services			<b>x</b>
Meters			<b>x</b>
Customer Services			<b>x</b>

# Example Postage Stamp Transmission Pricing Formula

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- $R_t = TC * P_t / P_{peak}$

Where:

- $R_t$  is transmission price for transaction t
- TC is total transmission charges
- $P_t$  and  $P_{peak}$  are load for t and for entire system

# Transfer Pricing Policy Issues

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- Should uniform bulk transfer prices apply to all D&M Zones?
- Subsidy scheme for unprofitable D&M Zones?
- Recommendation: the transfer pricing framework will need to account for cross-subsidies between D/M Zones

# Performance Measurement and Incentives

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- Current Situation
  - Loose monitoring of BU operating performance
  - No financial reporting at BU level
  - Minimal provision for employee rewards
  - Current annual bonus of one month salary is unrelated to individual or BU success — all employees in good standing receive same
  - Individual achievement under-recognized, even for promotions



# Performance Measurement and Incentives

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- Recommendations
  - Create two-tier performance measurement and incentive scheme:
    - Monitor financial and operational performance of BUs quarterly
    - Establish annual merit-based performance bonus
  - Fill job openings strictly on merit basis and open interviews
  - Empower managers to reward top employees
  - Establish pay-for-performance with concurrence from union

# Performance Measures for NEPA

	<i>Operational Indicators</i>			<i>Financial Indicators</i>
	<i>Generation</i>	<i>Transmission</i>	<i>Distribution &amp; Marketing</i>	<i>All Sectors</i>
<i>Indicators for Incentives</i>	<ul style="list-style-type: none"> <li>▪ Plant availability</li> </ul>	<ul style="list-style-type: none"> <li>▪ No. of transmission caused voltage collapse incidents</li> <li>▪ Response time to clear faults</li> </ul>	<ul style="list-style-type: none"> <li>▪ % losses (energy received less billed over energy received)</li> <li>▪ Collection rate (collection over billing)</li> </ul>	
<i>Indicators for Performance Measurement (in addition to the above)</i>	<ul style="list-style-type: none"> <li>▪ Energy generated</li> <li>▪ Auxiliary losses (energy generated less sent out)</li> <li>▪ Peak generation</li> <li>▪ Heat rate</li> <li>▪ No. of employees</li> </ul>	<ul style="list-style-type: none"> <li>▪ No. of faults</li> <li>▪ Load transmitted</li> <li>▪ % losses (energy sent out less delivered to distribution over energy sent out)</li> <li>▪ Key line segment availability</li> <li>▪ No. of employees</li> </ul>	<ul style="list-style-type: none"> <li>▪ Energy received</li> <li>▪ Energy billed</li> <li>▪ No. of Customers</li> <li>▪ No. of employees</li> <li>▪ No. of new connections</li> <li>▪ No. of disconnections</li> <li>▪ No. of reconnections</li> <li>▪ No. of illegal connections identified</li> <li>▪ Last month billed</li> <li>▪ Interruptions (hours)</li> <li>▪ No. of faults</li> <li>▪ Ave time to clear faults</li> </ul>	<ul style="list-style-type: none"> <li>▪ Average revenue per kWh sales</li> <li>▪ Average cash operating expenses per kWh sales</li> <li>▪ Working ratio (operating expenses excluding depreciation over operating revenue)</li> <li>▪ Return on fixed assets</li> </ul>

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# Lessons in Electricity Restructuring

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# Power Sector Restructuring Global Trends

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## **Traditionally**

- Electricity considered a strategic and publicly-provided good
- People have the right to reliable supplies at low prices

## **Thus**

Electricity sectors worldwide have historically been organized as vertically integrated monopolies either owned or heavily regulated by the Government

# Power Sector Restructuring Global Trends

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## ***Electricity Business Dilemma:***

- The technology requires centralized control:
  - Safety and reliability
  - Central dispatch
  - Maintenance needs to be coordinated system-wide
  - Investment must be planned far in advance

## ***But***

- Management efficiency requires decentralization
  - The sector is too big for detailed central direction
  - Consumer needs are diverse
  - Technology is rapidly changing
  - Centralization discourages innovation and flexibility

# Checklist of Objectives in Power Sector Restructuring

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## ***What Does the Country Want to Accomplish?***

- Enhance sector coordination and planning
- Broaden access to capital
- Improve technical and operational performance
- Introduce competition
- Improve enterprises' financial viability
- Improve effective regulation of the sector
- Permit private participation/ownership

# A New Alternative is Emerging

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- Decentralized competition is allowed where practical
- Separate generation entities compete to sell power
- Distribution companies and large customers may shop for power
- Even small consumers may have competitive suppliers

# Reforms in Ownership

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- Commercialization: The conduct of business activities based on commercial principles as regards accounting standards, market discipline, pay scales, payment of taxes and dividends, etc.
- Corporation: The treatment of a publicly-owned enterprise as a company or corporation operating on commercial principles, ie., As would be applied to a privately-owned business, corporation would be permitted to issue shares to the public.
- Privatization: The transfer of ownership from the public to the private sector.

# Restructuring Critical Issues

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- I. Assessing current structure of industry, including accumulated history of legislation and regulation
- II. How to organize new competitive markets matching buyers and sellers of electricity
- III. Regulation and pricing of transmission services
- IV. Effect on industry of separating generation from transmission and distribution
- V. Stranded costs: losses that utilities may confront as a result of the implementation of a competitive market
- VI. Implications of competition and restructuring for environmental quality, renewable energy and conservation

# RESTRUCTURING

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- Critical Components
  - Change in existing industry structure
  - Change in ownership
  - Change in regulatory institutions
  
- Objectives
  - Increase efficiency
  - Raise revenue for government
  - Wider share ownership
  
- What is meant by increased efficiency?
  - Reduction in cost of goods and services

# RESTRUCTURING

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- Competition
  - Introduce competition in generation
  - Separate long distance transmission from generation
    - Creation of "common carrier" network used by competing generators, including manufacturing companies with surplus power
    - N.B. An independent transmission network is vital if a competitive generating industry is to develop
  - Separate local distribution from both generation and transmission
    - Separate wire services from distribution
- Introduce Independent Regulation
  - Protect public and private interests

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# Reforms In Regulation

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- Objectives of Power Regulation

- Induce efficiencies
- Protect consumers against monopolistic abuses

*Thereby fostering an adequate, reliable and coordinated supply of electric service at the lowest possible cost*

- Throughout the world, government ministries are usually responsible for regulating the power sector
- This has been ineffective: Government's objectives are at odds with running a commercially-viable enterprise

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# Restructuring: Key Policy Ingredients

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- I. Delineate clearly why Government wants to restructure
- II. Assess short-term potential costs versus long-time gains  
*Make sure that all key actors, e.g., managers of state utilities support government policy*
- I. Have clear restructuring plan in mind
- II. Do reforms as quickly as possible, not piecemeal
- III. Government objectives may conflict

# Identifying Effective Policies & Procedures Industry & Regulatory Model

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- Argentina & Peru- the two countries with the highest EV per customer values- are the ones that had in place a stable regulatory framework and industry model for the longest time before most of their privatization:
  - the most critical issues (in particular, tariff specification and adjustment) were settled by the time of the first transaction;
  - most of the transactions occurred several years after completion of the first transaction.
- The investment community had time to confirm that systems and procedures were functioning well.



# Identifying Effective Policies & Procedures

## Macroeconomic Reform

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- Most successful countries implemented broader macroeconomic and political reforms along with power sector reforms:
  - Argentina defeated inflation through a program of fiscal austerity;
  - Guatemala ended a decades long civil war;
  - Peru drafted a new Constitution and brought the Shining Path under control.
- Least successful countries sold power assets within a fragile macroeconomic and political environment
  - Georgia
  - India

# Identifying Effective Policies & Procedures

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## *Tale of Two Countries*

- Colombia appears to have achieved (surprisingly) good results:
  - civil war, long recession, and failed govt. programs to attract private investment;
  - but implemented a well-functioning industry and regulatory model in advance of asset sales.
- Brazil appears to have done (surprisingly) badly:
  - high living standards with great potential for economic development;
  - but industry and regulatory models not well developed; some tariff risks;
  - and transaction process often not well administered.
- Sector issues have the most direct impact on transaction results.

# Identifying Effective Policies & Procedures

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## *Price of non-conformance*

- Hungary took many of the right steps in support of successful transactions:
  - implemented an effective and easily understandable industry model;
  - privatized within the context of broader economic and political reforms;
  - administered a transparent and well-organized sales process.
- But achieved results that were, according to both measures, relatively unsuccessful:
  - regulatory agency organized within Ministry, i.e., no independence;
  - government retained strategic shares with special voting rights on strategic issues;

# Identifying Effective Policies & Procedures Summary

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- Investors' expectations a mixed bag of old and new.
- Investors continue to expect certain features of a privatization:
  - effective industry model
  - transparent regulatory framework
  - well administered sales process
  - management control
- Investor focus has broadened to encompass other issues:
  - more concerned with overall macroeconomic conditions
  - more determined to establish portfolios of complementary assets
  - more willing to accept risks
- Investors are more entrepreneurial – financing at the corporate level.

# Restructuring Results Overview

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- Sales proceeds increase when industry and regulatory models are in place early.
- But this is a narrow measure of success- i.e., transaction proceeds.
- Ultimate objective is maximizing social welfare.
- Goals of maximizing proceeds and social welfare are not always aligned.
- Opportunity costs of delaying privatizations can be high.

# Conclusions and Next Steps

## Macroeconomic and Political Environment

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- Investors more sensitive to broader economic and political forces.
  
- Primary concerns often cited by investors are as follows:
  - taxes
  - corruption
  - unpredictability of judiciary
  - crime and theft
  - inadequate infrastructure
  - inflation.

# Conclusions and Next Steps

## Industry Model and Regulatory Framework

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- Waiting for institutions to be tested against costs of delay.
- Adapting successful models displays commitment:
  - passage of laws;
  - willingness of regulators and other government officials to discuss issues with potential investors;
  - hiring consultants and financial advisors responsible for design of successful programs.
- Contractual arrangements, tailored to the distinct requirements of individual transactions, can sometimes fill the gaps within the broader regulatory model.

# Conclusions and Next Steps

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- Communicate with Potential Investors
- Address Labor Concerns
- Financial Restructuring
- Corporate Reform

# Conclusions and Next Steps

## Addressing Labor Concerns

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- Employee concerns are extremely important.
- Governments have addressed these concerns in many different ways:
  - training programs
  - severance benefits
  - service contracts
  - participating ownership programs
  - support fund financed with transaction proceeds
  - shares to employees on right-of-first refusal basis
- Public awareness campaigns are very effective.

# Conclusions and Next Steps

## Financial Restructuring

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- Creation of distinct business units or companies from a larger company.
- Establish a clear assignment of assets and liabilities to the companies to be sold.
- An extremely important step when existing organizations do not have adequate systems for properly allocating financial accounts.

# Conclusions and Next Steps

## Corporate Reform

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Resist the temptation to reform inefficient companies before privatization:

- Exception to this general rule
- Laws and regulations must ensure
  - Private management has effective management control;
  - Tariff regime must promote loss reduction and efficient operation .

# Advantages of the Phased Strategy

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- Market implementation can begin immediately and proceed in parallel with supporting economic reforms
  - Electricity Law revisions to introduce wholesale competition
  - Financial market reforms to allow advanced risk hedging mechanisms
- Allows time for skills and institutional capacity to be developed
  - Risk management and contract management skills
  - Market management and operating skills
  - Regulatory capabilities and skills
- Allows time for industry restructuring to be undertaken
  - Transmission reorganized as separate regional entity
  - Distributors formed as separate commercial companies
  - Generation ownership and asset concentration to be reduced

***However success depends on keeping momentum (too long transition could derail the process) and focusing on the long term vision (unsuspected problems could arise)***



# What have we learned?

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1. To design and implement the basic processes and systems required to introduce competitive power markets is the easy part.
2. Need to focus on **changing** the “command and control” culture at the very early stages of the reform process to achieve an effective transition to an efficient, transparent and sustainable market. “Old-style” government regulation/supervision becomes very quickly the major barrier to reforms.
3. Capable “new-style” regulation is an essential necessity.
4. Managing the price transition without social disruption is a must.
5. The “weakness” of a local financial market and an absence of financial instruments, especially risk hedging instruments, impede the pace of power sector reform.
6. The gradual approach is better than the “boom and bust” cycles experienced in some countries where reforms were “forced.”
7. Improvement of service quality and/or the extension of service prior to tariff increase is vital.

# Conclusions

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- There is no one single restructuring option good for all countries. The success/failure of a restructuring program hinges on (1) a clear objective of where the country utility wants to go, (2) the political will to stay the course, and (3) the support of all relevant actors in carrying out the reform program.
- There must be a clear recognition that restructuring programs are technically and politically difficult to implement. Quite often well designed programs granting autonomy to management on decisions to hire, fire, and price commodities; restructuring boards of directors to diminish the role of sector ministries and civil servants; costing out non-commercial objectives and compensating the enterprise for these programs and keeping commitments on pricing and investment fall far short in implementation.

# Conclusions (cont.)

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- Performance often improves when a full package of reforms is put in place but the requisite reforms are numerous, difficult to coordinate and “entire” reform programs are seldom enacted. For example, achievement of financial discipline through hard budget constraints are difficult if the State Enterprise has few or no constraints on its borrowing. Similarly, without increased management autonomous and accountability, enhanced compensation and employment reforms yield few results.
- Performance improvements often are difficult to retain once the crisis that started the reforms has passed.



Unbundling NEPA Finance and Accounts

# Overview of Presentation

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- Restructuring NEPA into Business Units
- Unbundling F&A
- Business Unit F&A Functions
- Key Transition Issues

# Project Background

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- NEPA Chairman initiated study to unbundle F&A in October 2000
- Nexant and Akintola Williams appointed as consultants, and NEPA counterpart team formed
- Consultants' reports issued March 2001
- NEPA Implementation Committee appointed April 2001



# Unbundling to Business Units

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- Definitions
  - Operating unit – a cost center subject to headquarters administrative controls
  - Business unit – a semi-autonomous profit center with formalized relations with other units
- During the transition to restructuring and privatization, NEPA may create business units
  - Generation Sector, Regions or Plants
  - Transysco (Transmission and Dispatch)
  - Power purchase agency
  - Distribution and Marketing Regions and Zones



# Objectives of Unbundling

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- Regional BUs take greater responsibility
  - Operational performance
  - Financial performance
- Transition from OUs to BUs to subsidiaries to private companies
- Improve operational efficiency
  - Track the financial performance of D&M based on energy actually distributed
  - Reform process of centralized administration of budgets and expenditures

# GON Restructuring Policy (NCP, December 2000)

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1. Separation of transmission and dispatch from generation
2. Establishment of a transmission company
3. Establishment of a number of competing, privately owned generation companies from existing NEPA generating facilities
4. Establishment of a number of distribution and sales companies which will also be privatized

# Establishing Business Units

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- Decentralizing for operational efficiency
- New functions required at BU level
- Transfer pricing
- BU Incentive Mechanisms for:
  - Cost efficiency
  - Customer service
  - Safety and environment

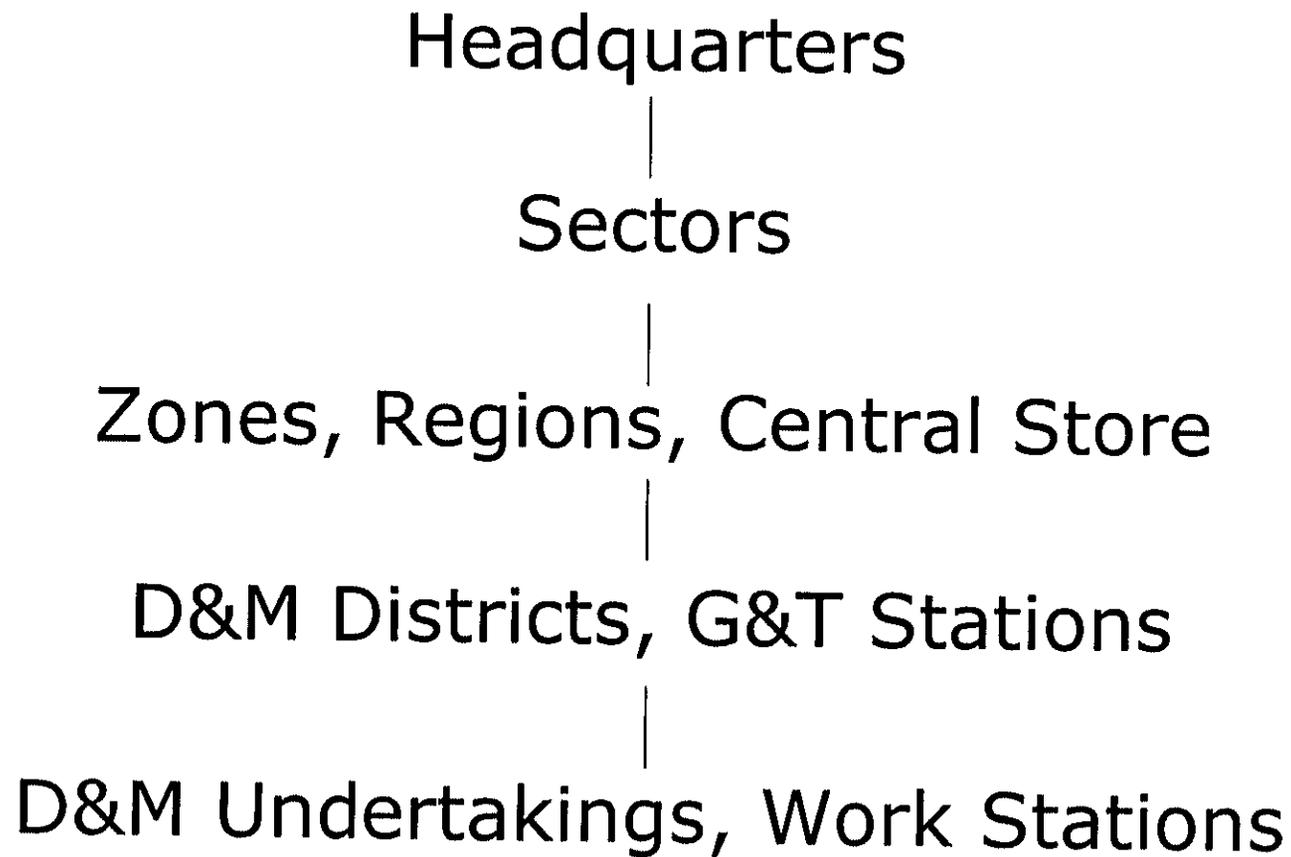
# Phased Implementation of Business Units

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- First Stage
  - Four BUs: G, T and D Sectors and Lagos Zone Pilot D&M BU
  - Capacity building needed at BU level
- Second Stage
  - Additional BUs at:
    - Generation Regions (Egbin TPP, Delta Region and Hydro) or Plant-by-plant
    - Other large D&M Zones or Districts

# F&A Hierarchy for Initial Unbundling

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# Key Issues for Establishing Business Units

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- Centralized versus regional
- Establishing Zones and Regions as BUs
- Staffing recruitment and training
- Reengineering core functions
- Spending authority limits
- Separating wires business from retail supply
- Incentives to BUs for performance
- Transfer pricing

# Bottlenecks for Decentralizing NEPA

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- Regional management capabilities
- Revenue predictability
- Budgeting
- Spending authority
- Financial management capabilities
- MIS and IT Systems

# Near Term Activities for F&A to Support Unbundling

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- Unbundle costs
- Improve capital budgeting
- Financial planning
- Establish transfer pricing
- Implement performance incentive program
- Reorganize F&A Groups at Business Units
- Build capacity at Zones and Regions

# Key Tasks to Unbundle NEPA F&A to Business Units

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- Empowering F&A staff at the BU level
- New procedures, reporting and information flow
- Computerization and IT
- Job descriptions and staffing
- Training
- Budgeting process
- Spending authority limits at BUs and OUs
- Reorganize Internal Audit
- Operational and financial performance measurements
- Performance monitoring and reporting

# Summary

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- F&A organization will be increasingly decentralized to the Business Units
- Finance and accounting systems should reflect unbundled company structure
- Accounts unbundling will help BUs to manage their financial performance
- New F&A functions will be required at the Business Unit level