

# Rural Electricity Cooperatives Reform and Restructuring

## Scoring of Key Issues – Survey of NEA and ECs

**Name:** \_\_\_\_\_

**Organisation:** \_\_\_\_\_

For NEA, please enter name of division and department.

For ECs, please enter short name / acronym of EC

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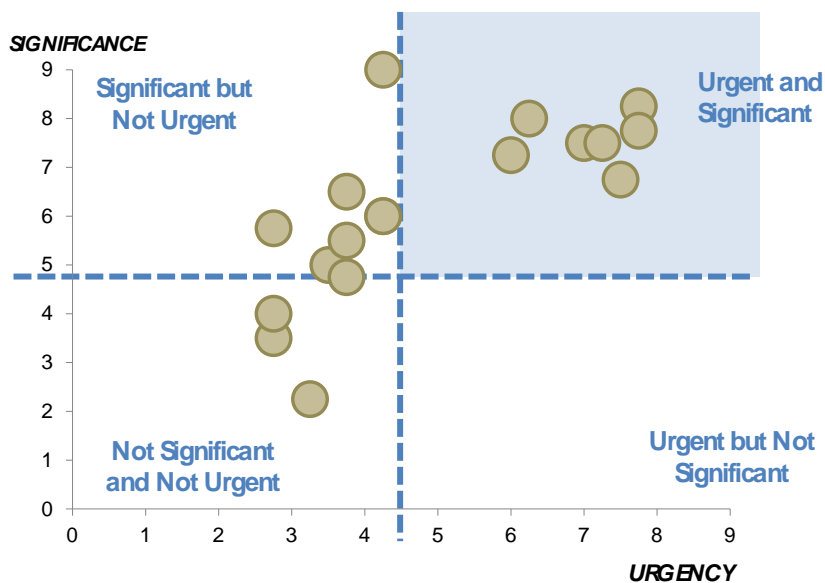
### Introduction

Under a technical assistance project funded by the World Bank, NEA is currently being supported by a consultant team comprised of Economic Consulting Associates (ECA) and The Lantau Group (TLG) in developing options as to how NEA and ECs might respond to key challenges and issues. The consultant team has undertaken an initial exercise to identify these issues through a process of site visits to ECs, discussions with stakeholders and document reviews and has identified 18 key issues. These key issues were discussed with representatives of NEA and selected ECs at a workshop held on 12<sup>th</sup> July 2012, which selected six issues to be further developed under the next phase of the project which will prepare recommended approaches and actions for NEA and ECs in respect of these issues.

The issues were selected through a three-stage process:

1. Score the relative importance of the identified issues. Importance was defined as a mixture of urgency and significance and used to plot the individual issues as illustrated overleaf. Those falling in the top-right quadrant are those identified as most important (urgent and significant).

**Figure 1: Assessing importance (Consultant team scores)**



- Rank the most important issues (those identified as both urgent and significant) in order of NEA's ability to influence the individual issues and select the six which NEA is best able to influence.
- Amend the resulting list to avoid duplication with other ongoing initiatives to support NEA.

### Purpose of this survey

The purpose of this survey is provide an opportunity for other NEA employees and ECs to select those challenges and issues which they consider most important. The results of the survey will be presented at the annual NEA-ECs Consultation Meeting on 1<sup>st</sup> August 2012.

### Completing this survey

This survey contains a total of 20 identified issues (the 18 issues originally identified by the consultant team along with a further two issues identified during the 12<sup>th</sup> July meeting). The issues are listed in the following table along with a summary description provided by the consultant team.

For each identified issue, please use the following table to provide your assessment of the **urgency** and **significance** of the issue (which together

define the **importance** of the issue) and the ability of NEA to **influence** the issue.

The assessment should be in the form of a score from 1 to 9 as summarised below. The issues should be ranked *relative* to each other. As a guide, under each category approximately one-third of the issues should be ranked 1-3, one-third should be ranked 4-6 and one-third 7-9.

Scoring Guide			
SCORE	URGENCY	SIGNIFICANCE	NEA ABILITY TO INFLUENCE
1 – 3	Less urgent than other issues	Not as significant as other issues	Less NEA ability to influence
4 – 6	Similar urgency	Similar significance	Similar NEA ability to influence
7 - 9	More urgent	More significance	Greater NEA ability to influence
Urgency	How important is it that the issue is addressed now, compared to other issues?		
Significance	How important is the issue to the efficiency, effectiveness and viability of ECs compared to other issues?		
NEA ability to influence	Can NEA through its actions have an impact on the issue or is its resolution largely outside NEA's control?		
An issue can be urgent but not significant and vice-versa. For example, the consultant team identified GM appointment processes and succession planning as being very significant to the performance of ECs, but not urgent as there are no immediate external pressures to			

If you consider that additional issues should also be included, please list these at the bottom of the table and provide your assessment of these issues in the same way as for identified issues.

Thank you for your participation.

Issue	Importance		NEA ability	
	Urgency	Significance		to influence
GOVERNANCE				
<b>Effectiveness of Board of Directors</b> This issue relates to measures to improve the professional competence and independence of Directors. Possible options identified at this stage include certification of Directors, more rigorous training requirements, the use of NEA-appointed external Directors selected for their professional competence and encouraging networking among Directors and Board Presidents.				
<b>GM succession planning</b> Understandably, most ECs currently appoint new GMs from within their existing management team. This issue relates to how succession planning can be made more formalised and how the pool of potential GM candidates could be widened. Possible options identified include creating a cadre of qualified GM candidates on which all ECs can draw and guidelines on selection of candidates.				

Issue	Importance			NEA ability to influence
	Urgency	Significance		
<b>NEA interventions in cases of financial difficulties</b> At present, NEA generally exercises its step-in powers in cases of maladministration and corrupt behaviour. This issue relates to how NEA can use its powers to intervene where ECs are facing financing difficulties including how the risk of an EC falling into difficulties can be identified in advance and what options are open to NEA to help resolve these.				
<b>Harmonisation of rating systems</b> NEA currently operates three main rating systems—the Key Performance Standards (replacing the existing A+ to E performance categorisation), the Color Coding and the ECAD Audit Score. In addition, the DOE is developing a separate Credit and Governance Risk Rating System (CGRRS). This issue relates to whether these various systems can be harmonised to remove overlaps and duplications and amended to better fit the current challenges faced by ECs. It also considers the arrangements for auditing of ECs.				

Issue	Importance		NEA ability	
	Urgency	Significance		to influence
AGGREGATION and PRIVATE SECTOR PARTICIPTION				
<b>Incentives for joint action by ECs</b> EPIRA specifically encourages ECs to under joint action initiatives to improve efficiency and reduce costs. Examples of such initiatives include joint procurement, common systems, sharing of GMs all the way up to full merges. This issue relates to the incentives for such initiatives (eg, how do tariffs change following an initiative) and how NEA can support ECs engaging in joint action.				
<b>Aggregation of power demand for power supply contracting</b> ECs will increasingly need to contract for new generating capacity to meet demand growth. Individually, the demand of each EC is unlikely to be sufficient to make such contracting feasible. To date, there is only one example of such an initiative (AMRECO – PSAG). This issue looks at models as to how ECs can aggregate their demand for power supply contracting purposes and how NEA can facilitate this (eg, through providing model documents or managing a central contracting process).				

Issue	Importance		NEA ability to influence	
	Urgency	Significance		
<b>Aggregation of networks</b> ECs will increasingly become responsible for operating and investing in sub-transmission networks serving multiple ECs. To date, there is no experience of this although the Region VIII ECs are developing proposals. This issue looks at models for how ECs can combine planning of, investment in and operation of sub-transmission (and distribution) networks in order to improve efficiency and reduce costs and how NEA can facilitate this.				
<b>Development of EC-to-EC cooperation to improve performance</b> In addition to joint action to reduce costs and improve efficiency, there is scope for ECs to work together to help challenged ECs improve their performance and overcome weaknesses as a complement to NEA's own powers to directly intervene. The issue would look at the models for such cooperation and, in particular, how ECs providing such support can be involved and how their costs can be compensated.				
<b>Management contracting</b> Another approach to improving the performance of challenged ECs is to make use of external private managers hired under management contracts. Previous attempts to do so through the IMC were unsatisfactory but that does not necessarily mean the concept should be ruled out in future. This issue would look at how management contracts might be used and, in particular, how the difficulties experienced with the IMC could be overcome in future.				

Issue	Importance Urgency      Significance		NEA ability to influence
<p><b>Leases, concessions and other PPP options</b></p> <p>ECs currently access commercial financing through bank loans. However, there are many other models for introducing commercial financing of assets such as leasing assets or having a private partner finance, construct and operate assets under Build-Operate-Transfer (BOT) and concession models. This issue relates to how such models might be applied in ECs, the measures needed to introduce them and how NEA can facilitate their use.</p>			



Issue	Importance		NEA ability	
	Urgency	Significance	to influence	
EMERGING ISSUES				
<b>Power trading in the WESM following RCOA</b> One year after the introduction of RCOA, the existing Transitional Supply Contracts will end. ECs will be forced to negotiate new bilateral contracts or procure directly from the WESM. ECs will also need to develop ways of managing the risks of RCOA such as the loss of load as customers switch supplier. This issue relates to the support that NEA might provide to ECs such as training and capacity-building and advice on contracting strategies.				
<b>Implications of RCOA for ECs as suppliers</b> The introduction of RCOA has the potential to fundamentally change the relationship of ECs to their customers. ECs will remain the owners and distribution networks but may not be the supplier to end-users. This issue relates to the identification of the implications and how to manage them. For example, should smaller ECs continue to be both supplier and distributor or transfer the supply function? What is the legal status of a member-consumer who is connected to the EC's network but buys power from another supplier?				

Issue	Importance		NEA ability to influence	
	Urgency	Significance		
<b>Prudential requirements and guarantees for ECs</b> To participate in the WESM, ECs need to meet prudential requirements (eg, by posting guarantees). Under bilateral contracts they also need to provide the necessary security cover (eg, through escrow arrangements). This issue considers how NEA can assist including the ability of NEA to provide guarantees, the assessment of liabilities and the pricing of these and how NEA can support ECs in developing adequate security cover under bilateral contracts.				
<b>Supplier of Last Resort arrangements under RCOA</b> With the introduction of RCOA, there is always the potential for a supplier, including ECs, to go bankrupt or to cease supply for other reasons. When such events occur, a Supplier of Last Resort (SOLR) needs to step in to ensure continuing service. ERC has issued rules for appointing SOLRs and these are currently being reviewed by a TWG. This issue would look at what advice NEA might offer on these rules and what actions NEA could take in the event a SOLR needs to be appointed to serve customers of an EC.				
<b>Reforms to the rate-setting methodology (RSEC – WR and tariff glide-path)</b> The revised rate-setting methodology under RSEC-WR and the accompanying tariff glide-path has left many ECs facing financing difficulties. This issue would cover the development of proposals for changes to the methodology to address the concerns of ECs which can be submitted as a petition to ERC to consider.				

Issue	Importance		NEA ability to influence	
	Urgency	Significance		
<b>Sources of financing</b> Better-performing ECs are increasingly able to access commercial bank loans under mechanisms such as the EC-PCG or directly. These loans can offer lower costs than those of NEA. This issue considers how NEA can facilitate such commercial borrowing and whether NEA should then redirect its own limited funds to poorer-performing ECs who cannot borrow commercially. It also considers what due diligence, conditionality and risk management processes NEA can use to manage its resulting increased credit risk.				
<b>Renewable energy projects</b> Many ECs have potential renewable energy, especially hydro, projects that are embedded in their own distribution networks. Such projects can improve supply security, system reliability and lower the costs of power supply. However, ECs generally lack the expertise to develop these projects to a level where external financing can be sought, are slow to participate in DOE's registration processes and lack funds. This issue considers how NEA can facilitate ECs in developing such projects and seeking external financing for them.				
<b>Missionary electrification through QTPs</b> The EPIRA framework provides for missionary electrification in unviable areas to be undertaken by QTPs, following a waiver issued by the respective EC. Unlike ECs, QTPs are able to access subsidies under the UC-ME. However, to date, only one QTP is operating. This issue considers how ECs can make better use of QTPs to electrify their franchise areas including whether ECs should establish their own subsidiary QTPs.				

Issue	Importance		NEA ability to influence
	Urgency	Significance	

### ADDITIONAL ISSUES

*Enter any additional issues below with a brief explanation and score as for the identified issues above*
