

Utility Management Consulting EDI Restructuring Services



Section 78, Ringfencing and Due Diligence

Position your Municipality optimally for the REDs

With the Electricity Distribution Industry (EDI) restructuring gaining new impetus, now is the opportunity to position your Municipality optimally for transition into the Regional Electricity Distributor (RED).

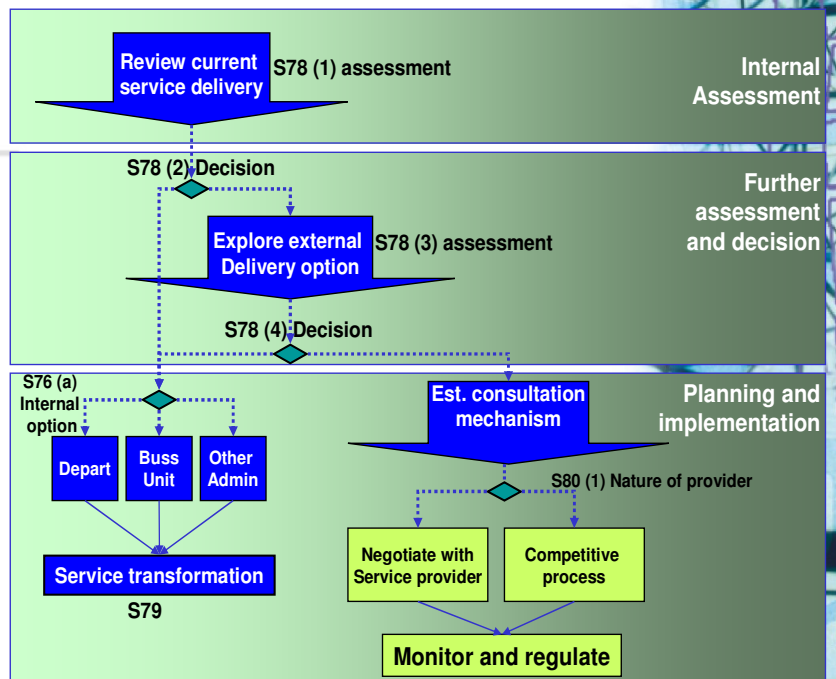
NETGroup has the experience to assist you with the required Municipal Systems Act Section 78 and Ringfencing assessments, as well as a Due Diligence exercise if necessary. Together with our local and international partners, we have conducted a number of such assessments and we have a deep understanding of the South African electricity sector. We can assist you to proactively leverage the best opportunities for your municipality and your community.

MSA Section 78

The MSA section 78 is a requirement for municipalities to **inform, communicate and facilitate proper consultation and participation** of all stakeholders and communities in the investigations and preparations for better service delivery.

The process comprises of 4 components: an internal assessment (s.78(1)), a decision to remain as-is, move to an internal mechanism or investigate an external mechanism (s.78 (2)), an external mechanism assessment (s.78 (3)), and finally a decision to pursue the internal or the external mechanism (s.78 (4)).

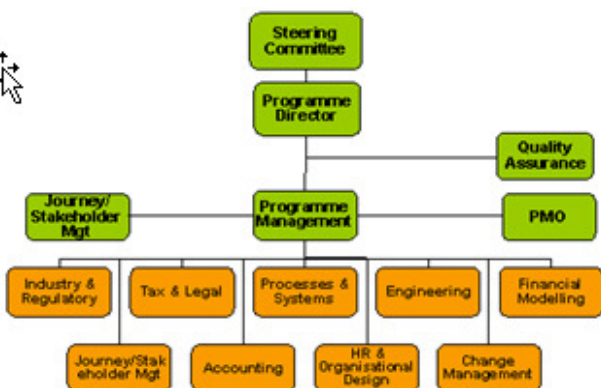
EDI Holdings currently requires at least the section 78(1&2) processes to be performed to comply with the legislative requirements for the establishment of an Internal Business Unit (IBU)



The Section 78 process

Depending on the size and complexity of your municipality a typical project organisational structure, with an overseeing steering committee will be created in which all the elements - normally together with a ringfencing exercise - will be undertaken. It is a fully participative process that will empower your municipality to comply with legislative requirements and support the initiatives of Government.

EDI Holdings will fund this process. Let us help you to become 'Ready for the REDs'

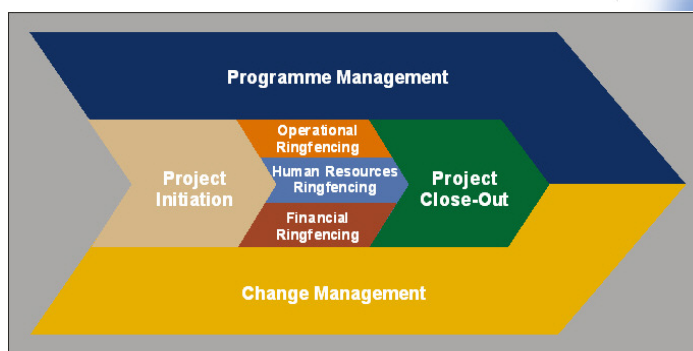


Ringfencing

Ringfencing is the initial step in the process towards RED formation, during which all existing electricity distribution activities are separated and ringfenced within their current parent organizations.

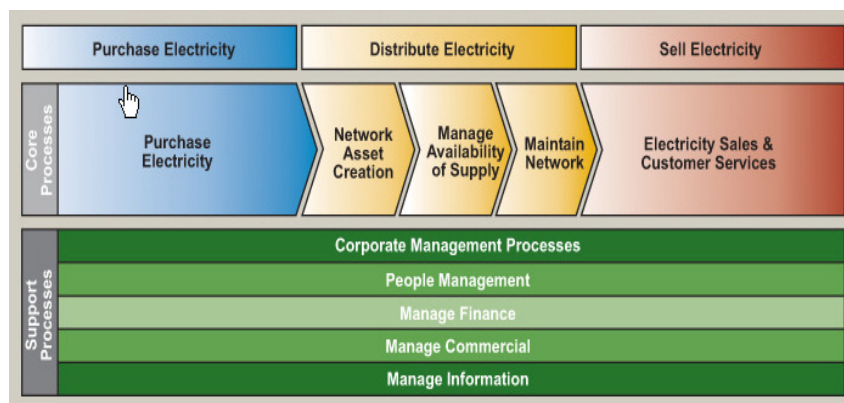
By conducting such an exercise you will not only support the governments initiative to create REDs, but will also identify the true and correct nature of your electricity business and the revenue stream that can be achieved from it. Although ringfencing is a comprehensive exercise, the process consists of three main types of separation namely financial, operational (identifying core and non-core activities) and human resource separation.

Ringfencing is of paramount importance to prepare for RED creation, to understand your electricity undertaking as an independent business and, together with an asset valuation exercise, to know what value you can derive from it.



Due Diligence

A Due Diligence exercise is a third party audit/verification of the ringfenced information provided by the Municipality to be transferred into the RED. The objective is to align the claimed versus actual financial and operational performance of the entities to be transferred into the RED. Specifically it is intended to deal with; the physical network and other tangible assets, to validate revenue, costs and liabilities, HR and other defined core and non- core activities as outlined in the ringfencing process.



Why NETGroup as your restructuring partner?

NETGroup has a deep understanding of the South African electricity sector and, together with our local and international partners, we have conducted a number of such assessments, gaining significant experience in the required MSA Section 78, Ringfencing and Due Diligence assessments required for the RED transformation process. We have further updated the EDI Holdings toolkit specially designed to assist municipalities to become RED compliant.

EDI Holdings will fund these exercises. Allow NETGroup to assist your Municipality to become compliant and ready to support Government in its pledge to provide more efficient electricity services for all.