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An Update on the USAID Sponsored Management of the Georgian State Owned United Energy Distribution Company (UEDC)

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The Historic Context

By 2002, the donor community and Government of Georgia shared a goal to increase private sector participation in the Georgian electricity sector

- Management contracts had been awarded for the transmission, dispatch and wholesale market operations
 - ESBI was awarded transmission and dispatch
 - Iberdrola, OMEL and IPA too on the wholesale electricity market.
- But distribution was still lagging, as efforts at privatization had failed
 - The IFC concluded that the Government of Georgia should use a five-year private management contract approach for distribution. But that would take time to develop and tender...



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The Historic Context

Following GoG and donor discussion, USAID agreed to finance an 18-month interim management contract for the United Energy Distribution Company...

- PA Consulting was retained in May 2003 to manage the utility
- Somewhat unusually for a management contract, PA was given full executive over the company – rights to hire, fire and control all aspects of the company’s operations. Even the Supervisory Board’s governance role was “constrained.”
- The initial 18-month interim role was extended for another two year’s and is set to expire in about three month’s time.



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The United Energy Distribution Company (UEDC) Management Contract

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What is the UEDC?

The UEDC is the single largest electricity utility in Georgia...

- It serves 730,000 customers, covering 70% of the Georgia land mass and is state-owned at present.
- It was created in 2002 following a consolidation of 59 municipal utilities
 - The donor community as a whole strongly advocated for the UEDC's creation as a way to consolidate the fragmented sector, gain efficiencies and concentrate management talent.
- But it's early management and operations were simply a mess... and that's when USAID stepped in...



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The UEDC Service Territory





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Our Customers ...

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საგს

Georgia

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Just How Bad was it?

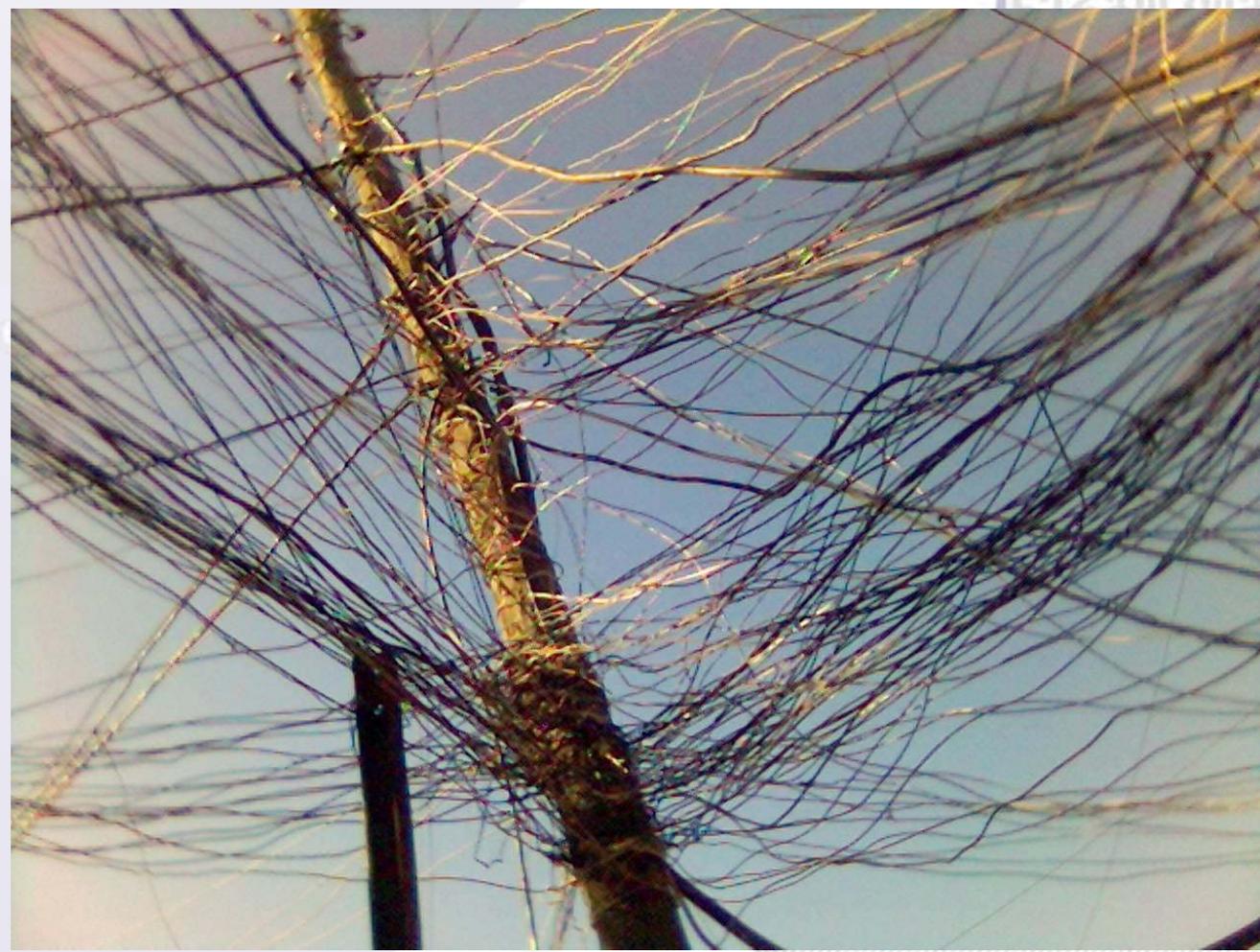
The UEDC was dysfunctional at every level...

- It could not meet basic payroll, pay for maintenance or procure electricity supply
 - Even with an average salary per employee of \$50 per month, it could not meet payroll!
- It often could not provide electricity to customers and the electricity that was provided was unpredictable and without schedule.
- Theft of electricity was widespread; customers took matters into their own hands.
- The company was corrupted at every level from the lowly cash collector to the top management; even the Supervisory Board was involved.



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Condition of the Network



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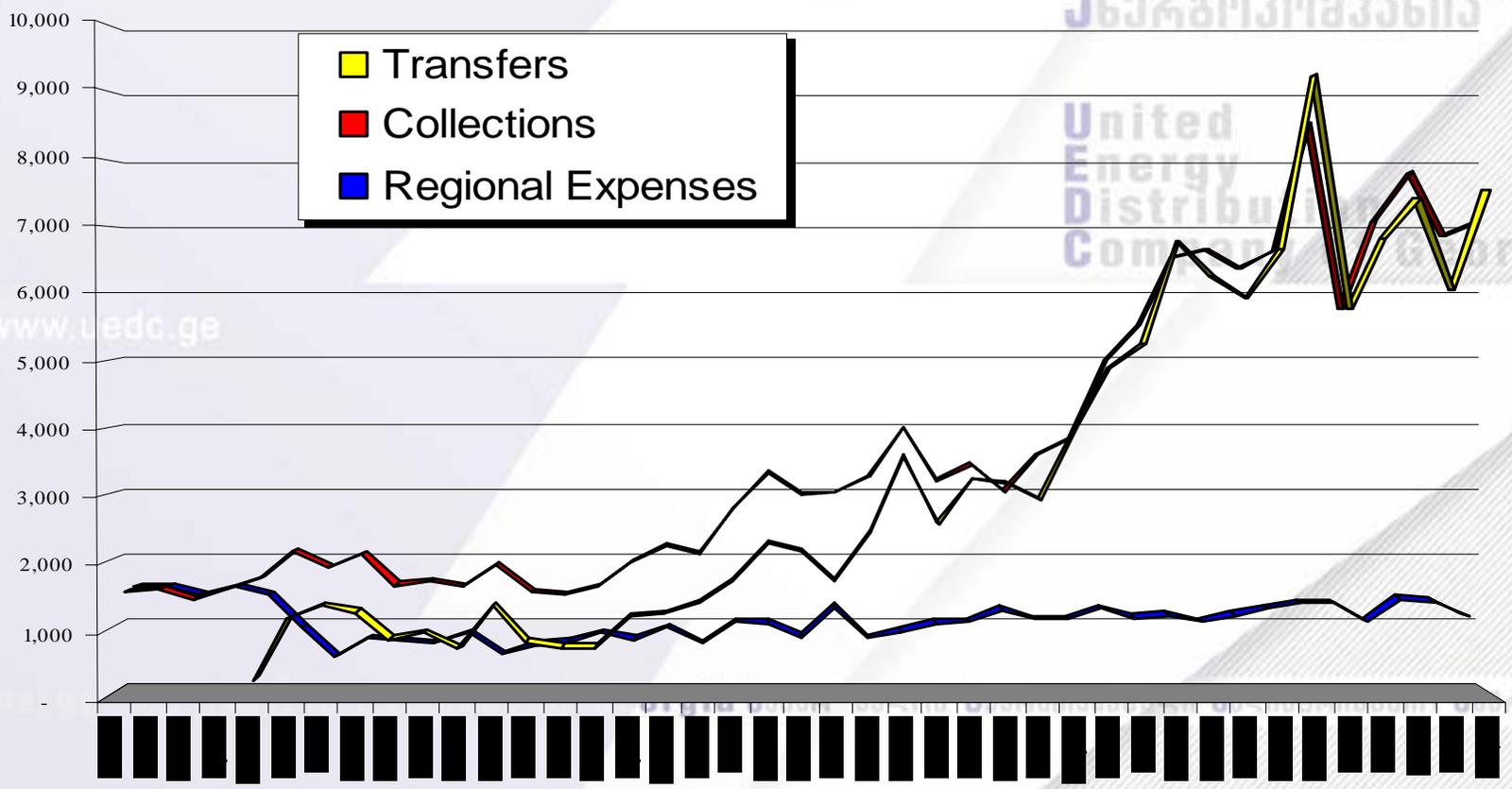
Challenges Facing the UEDC Management Team

<i>Challenge</i>	<i>What we did</i>	<i>Results</i>
<ul style="list-style-type: none">• Corruption at all levels (few internal controls or accountability)• Collections as low as 11%• Poor financial and technical performance• Poor customer service; little concept of consumer protection	<ul style="list-style-type: none">• Massive staffing changes, dismissals for failure to meet targets• IT systems (billing, accounting) to buttress internal controls• End-user, communal and wholesale metering• Consumer protection and customer service advancements	<ul style="list-style-type: none">• Collections up (~80%)• 24-hour supply of electricity restored for the first time in a decade• Staffing levels reduced by 30%; turnover ~ 70%• Improved payments for electricity supply, taxes and salaries paid in full• Investment in the company, more than in the past decade combined



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Financial Performance – Cash Collected



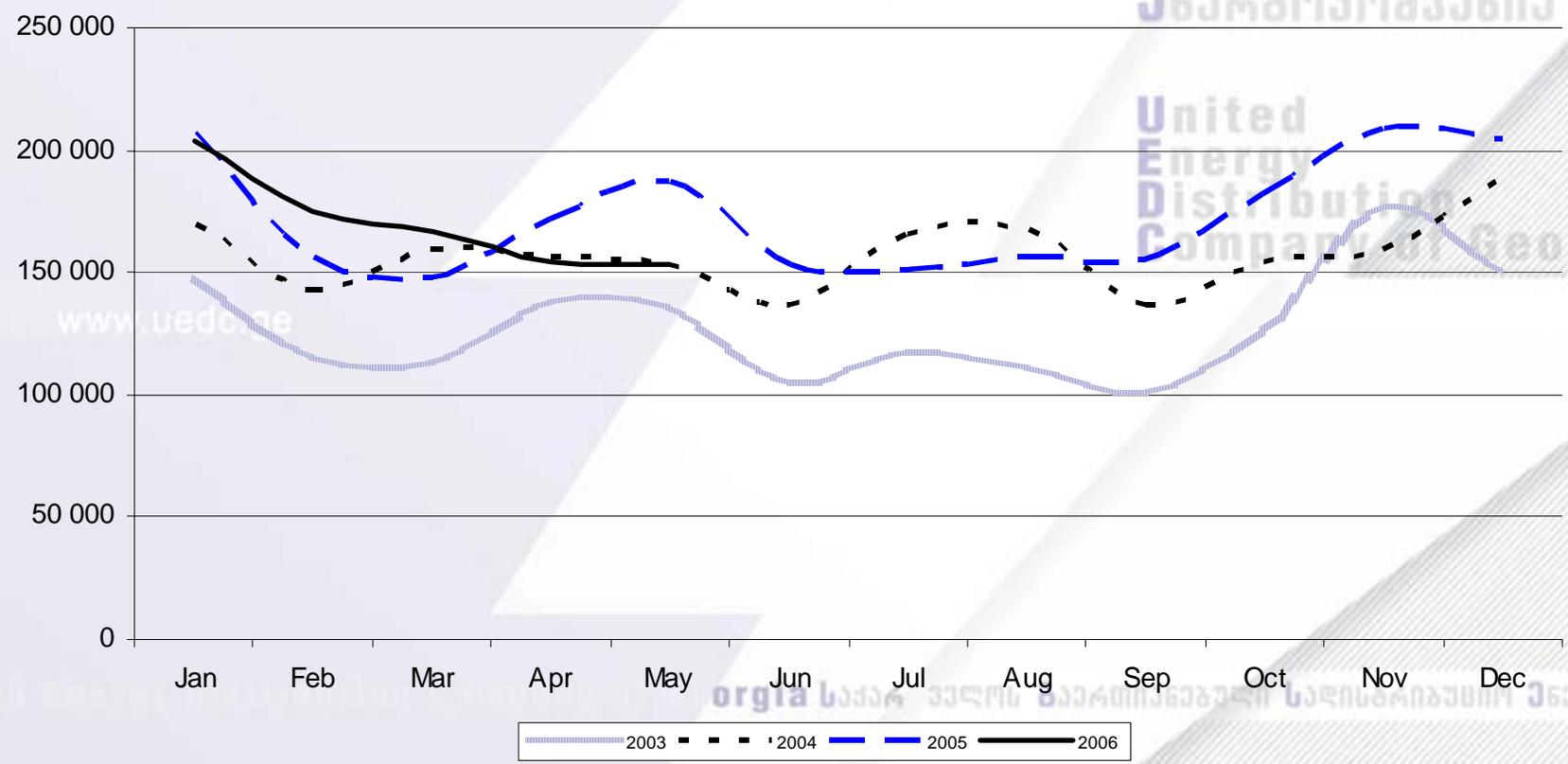
GEL
000's

Cash collected is way up, while expenditures have held relatively constant – June collections reached 80%



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Power Supply (MWh per Month by Year)



Now, we are providing 24-hour supply using the same energy as two years earlier. But back then, we only had four to six hours of supply...



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Restoring Power Supply

- **First, targeted predictability of supply, then moved towards reliability.**
- **Distinguished paying customers from non-payers through improved metering, starting with communal metering in most locations.**
- **Metered all wholesale inlets and outlets.**
- **Gained government support for strict disconnection policy.**
- **But, in return for payment, ensured much improved levels of service.**

Communal Metering



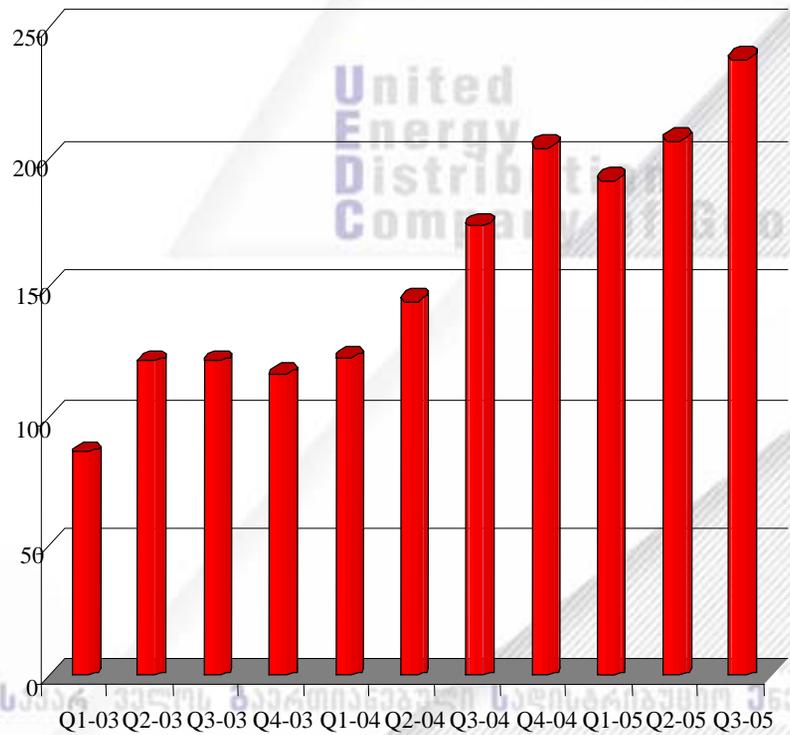


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Human Resources

- Immediate sacking of incumbent management.
- Qualification testing for all staff, followed by dismissals.
- Massive reorganization
 - Downsizing the organization by half
 - Turnover of 70%.
- Apprenticeship and training programs.
- Detailed job descriptions developed.
- Improved salary structure.
- And, of course, paying salaries in full and on-time.

Average Monthly Salary (GEL)



The UEDC is now the most productive utility (based on customers per Employee ~ 183) and employees are earning a living wage...



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Anti-Corruption

- PA formed a commercial security service within the company
- Incumbent management sacked.
- Internal controls put in place, buttressed through IT infrastructure.
- 990 cases of electricity theft investigated recovering over \$1 million.
- Criminal prosecution of over 70 former management, employees and customers.



Our work has led to over 30 convictions...



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Where is this Effort Heading?

The end is in sight, with the possibility of a successful sale of the company's assets...

- In mid-June, the company received a bid of \$85 million from a Czech firm – Energo-Pro – well beyond government expectations.
- Efforts are now focused on closing with Energo-Pro so that the USAID funded management team can transition management authority and ownership to Energo-Pro later this year.

In summary, combined donor and government efforts have allowed the Georgian energy system to turn the corner. Power supply is restored, investments are being made, customers are paying for electricity and receiving vastly improved service – all in all, a success story by any measure.



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The "Scorecard"

Objective	Limited Progress	Major Success
<i>Service Quality</i>		✗
<i>Financial Performance</i>		✗
<i>Efficiency of Services</i>		✗
<i>Transparency</i>		✗
<i>Attract Investment</i>		✗
<i>Customer Service</i>	✗	



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A Few Reflections



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Our Success Drivers

- We focused on management first and investment second.
 - If the management of the UEDC had spent the same funds prior to having adequate control of the company, they would have been wasted.
- We knew that a small amount could go a long way.
 - With less than \$8 million in USAID investment over two years, the company was “turned around”
 - The monies only started to move once management control and proper human resources were in place. We didn’t rush into spending.
- We sacked the incumbents.
 - There was no way to build a cohesive team from the corrupted management and staff that existed prior to PA’s takeover.
 - The faster, the better....



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Our Success Drivers

- It's one thing to talk about reflecting local conditions, but its another to actually do so.
 - We hand-picked talent with somewhat unusual backgrounds for managing an electric utility (e.g., criminal justice, prosecution, human trafficking to name a few) to best respond to the challenges facing us.
- We recruited managers, not so-called “technical specialists.”
 - It is the management skills that are frequently lacking much more than the technical skills.
- We set out clear expectations between ourselves and our government counterparts
 - We negotiate memorandums of understanding with the government on an as-we-go basis rather than agreeing contractually at the outset to a number of explicit performance targets.



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Our Success Drivers

- We worked hard to understand local dynamics and decision-making processes.
 - Whether it was the Imam for the ethnic Azeris, the bishop for the ethnic Armenians or other religious and community leaders, we spent considerable effort identifying leaders who could support our work and help tailor our activities to better meet local conditions.
- We went for the “big bang” rather than an incremental approach.
 - We determined early on what it would take to achieve the loftiest of objectives in the shortest period possible and the entire organization was redesigned in a manner to accomplish those objectives.



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Our Success Drivers

- We did not settle for less than full executive authority before taking on this assignment.
 - There was no advisory role, or “shadow management”
 - USAID and ourselves insisted on full authority to hire, fire and make any executive decision required to turn around the company.



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In Closing



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A Few Testimonials...

“Everything has changed upon their (the Americans’) arrival. People have learned how to be thrifty. A person must know that everything has a price, including electricity, and it needs to be economized too. We receive bills now and we always pay. We should say the truth: those people, foreigners, have kept their promise... Now we need to support them.” *Mrs Eter Tsitskashvili, a grandmother residing in Rustavi*

“When the energy crisis was at its peak, Kutaisi was dead, its people were dreary, enterprises could not function... Soon after the consultants came, metering started, illegal connections were cut, power started to flow. I was offered a job at the company and took it, hoping to contribute to the positive changes that were becoming apparent. For a year we continued to battle corruption, energy theft and threats from criminal gangs. Today I am proud, Kutaisi is alive again. It has power, business is developing, and its people are grateful” ... *Temur Suladze, UEDC*

“We consider the reform of the UEDC to be one of the most – if not the most – important successes to date in our energy reform program”...
Alexander Khetaguri, First Deputy Minister of Energy



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2006 Management Consulting Association Awards



Our team won for best international project of the year and was also awarded the overall best consulting team performance...

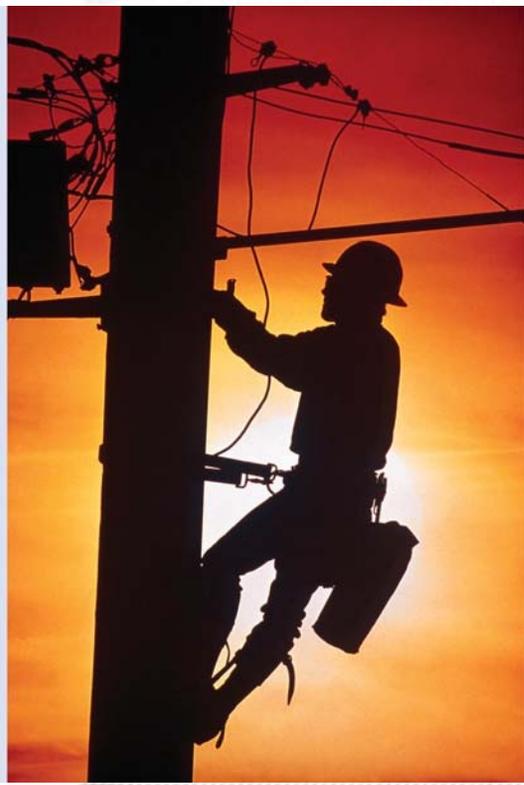


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Thanks for Your Attention



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Translation: "Taking Steps Towards a Brighter Future"