

VGC MAINTENANCE & MANAGEMENT CO. LIMITED

RC NO. 504288

Management House

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Our Ref: VMMCL/GEN.MATTS. /ALEX/01/2007

July 16th 2007

Mrs. Funke Adekoya, SAN
Plot I-5 Road 34
Victoria Garden City
Lekki-Peninsula, Lagos

Dear Madam,

RE: NEW PHCN PLC POWER SUPPLY ARRANGEMENT FOR VGC – MATTERS ARISING:

We are in receipt of a letter dated 13th July 2007 on the above subject signed by Gideon Agbedo on behalf of your Solicitors, ALEX (Legal Practitioners & Arbitrators).

After careful consideration of the contents of the letter written on your behalf, we have decided to provide you with more information in addition to that provided in our general circular dated July 3rd 2007 to VGC residents in the hope that it would endear you to give our company and indeed the VGC Property Owners and Residents Association ("VGCPORA") the additional time required to properly analyze and determine the true cost implications of the electricity supply and billing arrangement recently introduced at the Estate.

Before going into further detail we feel that it is important for us to highlight and emphasize the following:

1. Notwithstanding the frequent interruptions in power supply recently experienced on the 33/11KV power supply line to which the Estate was connected in May 2007, power supply from that line still remains significantly and substantially more reliable than that which obtains on the 11KV electricity supply line to which the Estate was previously connected. It is therefore our expectation that the overall energy cost (including the amount spent on running their Generators) of the residents of VGC would be lower than it used to be, even at the current price of ₦12.00/KWH being charged for public mains supply.
2. The new public mains power supply and bulk billing arrangement that was recently introduced at the Estate was thrust upon us by the Power Holding Company of Nigeria Plc ("PHCN") as a condition precedent for connecting our Estate to the 33/11KV line through our 33KV/11KV 15MVA Injection Substation. We would have been quite happy and indeed wanted PHCN to continue with its individual relationship with each of its customers at VGC after the transfer of our power supply source to the 33/11KV Line but as you will see below, PHCN insisted that it was an incontrovertible policy that it must bulk meter/bill any estate that is connected to the 33/11KV Line.
3. Our company, VGC Maintenance and Management Company Limited is wholly owned by the VGCPORA and is not allowed to distribute profit or dividends to any person. Any surplus or deficit in this company ultimately belongs to the property owners and residents of VGC collectively.

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4. The initial rate of ₦12.00/KWH being charged for public mains power supply was informed by the primary objective of ensuring that we do not find ourselves in a situation where the entire estate is cut off by PHCN and thrown into darkness because of our inability to settle the bulk bill received from PHCN and was based on the information given to us by our electricity distribution consultants to the effect that the technical and non-technical losses in the system that we were inheriting from PHCN could be as high as 25%. In other words that we could find ourselves in a position where our aggregate collections from individual customers in VGC could be up to 25% less than the amount billed by PHCN for any given period. We also had to think of our repayment obligations under the financing arrangements we entered into to facilitate the take-off of the new power supply and billing arrangement. Finally we took into consideration the fact that it would be our responsibility to pay for repairs and replacement of electricity distribution infrastructure within the Estate.
5. The circumstances and pressure under which we were forced to accept the power supply/bulk billing arrangement or continue with the near non-existent power supply from the 11KV Line were such that we did not avert our minds to the need to obtain a Licence from the Nigerian Energy Regulation Commission ("NERC"). We are extremely surprised that this issue has never been raised by the PHCN who were obviously just interested in relieving itself of the responsibility of dealing with individual customers within VGC. In fact it is our information that none of the other estates who are on the bulk metering arrangement recently introduced at VGC have a Licence from the NERC. Since we are not in this venture to make a profit the cost of obtaining the Licence will ultimately come out of the pockets of property owners and residents.
6. The VGCPORA has appointed its auditors to act as independent evaluators of the administration of the new billing system being handled by our company and we sincerely believe that with their assistance and that of our electricity distribution consultants in blocking all identified loopholes in the distribution system we should be able to reduce the rate for public mains power supply to around ₦10.50/KWH which is the rate charged at similar Estates to ours that are being bulk metered by PHCN PLC. Any surplus generated in the interim would be applied to the benefit of residents as directed by VGCPORA.

GENERAL BACKGROUND AND ADDITIONAL INFORMATION

As you may recall the new power supply arrangement was introduced at a time when public mains power supply was at an all time low and such that, the residents were expressing strong concern at the epileptic electricity supply to the Estate. Based on series of discussions held with the Management of the PHCN by representatives of our company, the VGCPORA and HFP Engineering (g.) Limited ("HFP"), the progenitors of the Estate, we were advised that one of the immediate steps that could be taken to achieve an appreciable improvement in electricity supply to the Estate was to commission the 33KV/11KV 15MVA Injection Substation which would guarantee more steady supply to the Estate than that hitherto enjoyed on the 11KV dedicated electricity supply lines feeding the entire Estate from the Ajah Transmission Station of PHCN PLC.

Based on concerted efforts by all stakeholders, we were notified vide a letter dated 14th February 2007 from PHCN PLC (see attached copy) of the imminent commissioning of the Substation and the fact that the Estate would be bulk metered under the new electricity supply arrangement in line with the PHCN PLC policy. From the information provided by PHCN PLC in their letter, it became clear that if the Estate's electricity supply was to be changed to the 33/11KV supply line, it would charge more for power supply to the residential sector and our company would have to assume the responsibility of charging individual consumers within the Estate for electricity.

The position of PHCN PLC was communicated to the VGCPORA and it was agreed that a meeting should be convened with PHCN PLC Management to discuss the matter in further details. The meeting comprising the representatives of the VGCPORA, HFP, our company and the PHCN PLC Management was held at our office on Wednesday February 28th 2007. At the meeting, it was quite clear that all the necessary arrangements that would ensure proper takeoff of the new system had not been considered by PHCN PLC and in order to ensure that the advantage inherent in changing our electricity supply source was not lost, we were left with no choice but to agree a take off date for the new system in the hope that emerging issues would be satisfactorily dealt with subsequently. One would have expected that officials of PHCN PLC as operators of the system would have informed us about and ensured that all necessary provisions of the Electric Power Reform Act which was mentioned in the letter from your Solicitor's were complied with before takeoff of the current system.

We would like to emphasize that we were constrained to agree to the new electricity supply system because we were assured that the 33/11KV supply line would guarantee more stable electricity supply for the Estate and as part of our commitment to the provision of improved services to our esteemed residents.

We would like to state categorically that there was never any intention on the part of any individual or organization to profit from the exercise. Based on the information we received from our technical consultants on the project as part of our due diligence, we were informed that the technical and non-technical losses in the system that we were going to inherit from PHCN PLC could be as high as 25% and if the ₦8.50 (eight naira fifty kobo) tariff per KWH tariff which we were eventually constrained to agree with PHCN PLC was applied, there would be substantial losses incurred by our company.

We have attached for your information a copy of the letter dated March 2nd 2007 that was written to PHCN PLC Management by our company after the meeting held on February 28th 2007 to request further review of some of the concerns of our company. In the letter, we had also requested for a pre-effective billing period to enable us adequately audit the existing system on the Estate and identify possible areas of losses and plug them before taking over from PHCN PLC. When all efforts to get PHCN PLC to respond and agree to all the issues raised in our letter failed and they were insistent on immediate commencement of the new system, we decided to err on the side of caution after consulting with the VGCPORA by adopting a rate which we admit is significantly higher comparative to the previous tariff for residential consumers in order to ensure that we do not fail to meet our obligations to PHCN PLC and to have sufficient time to complete the necessary technical audit to identify and block the existing loopholes in the system as well as establish the proper tariff.

The VGCPORA has been actively involved in all the discussions with PHCN PLC and have taken the additional step of appointing their auditors to act as independent evaluators of the administration of the new billing system being handled by our company. The whole purpose of involving the external auditors by the VGCPORA as clearly stated in the letter dated July 3rd 2007 signed by the Chairman of the Association is to assist our company in determining the proper rate to charge in order to ensure that we are not collecting more nor less than what is fair taking into consideration all the relevant considerations.

For the avoidance of any doubt, since the VGCPORA owns our company 100%, if it is established after completion of the ongoing audit that residents were excessively charged for electricity consumption, any revenue accruing therefrom would be to the benefit of all stakeholders since the Memorandum and Articles of Association of the company does not allow payment of dividend or profit.

While we have duly noted and agree with some of the points that have been made in the letter received from your Solicitors, we would like to crave your indulgence that you look at the larger picture in the interest of the entire Estate because the logical conclusion of following through on the arguments and stance in the letter is that we would be forced to withdraw from the current arrangement with PHCN PLC and PHCN PLC in turn would return the Estate to the unreliable 11KV supply line because only bulk metered customers can enjoy supply on the 33/11KV line.

Alternatively, PHCN PLC like it attempted to do previously could decide to appoint an external company to handle the administration and billing of customers in VGC which would put us at a disadvantage as stakeholders would not have any leverage over the external company as they do over VMMCL.

The above scenario if allowed to play out would throw us back to the days when most residents were spending huge sums in purchasing diesel for their generators with the attendant nuisance and inconvenience to their neighbors while still paying high estimated bills to PHCN PLC for irregular electricity supply from the public supply system than the ₦12.00/KWH that is being charged by our company in the interim pending completion of the audit.

As all residents were assured in the letter dated July 3rd 2007 from the Chairman of the VGCPORA, Dr. Olufemi Mobolaji-Lawal, we would like to reiterate that once the identified loopholes in the system are completely plugged, we will revert to a rate comparative to what is charged at similar Estates like rs that are being bulk metered by PHCN PLC.

If at the end of the audit exercise, it is established that surplus funds were generated from the tariff that was applied during the initial 6 (six) months of the system, we would abide by the decision of the VGCPORA even if it means granting refunds by way of electricity credit to affected consumers.

Our Company as part of our commitment to the provision of efficient services to all consumers under the new arrangement has made substantial financial investment to facilitate the procurement of the necessary equipment and resources, both human and material, to ensure speedy and efficient implementation. It may interest you to note that we were constrained to secure a loan from our Bankers to ensure that all the necessary tools that would facilitate early completion of the audit, including 1,000 (one thousand) units of prepayment meters and sophisticated meters for the electrical transformers are delivered on time to assist in determining the appropriate pricing under the new system.

We would like to conclude by thanking you in anticipation of your cooperation and understanding whilst assuring you that our company as a law abiding corporate body is currently discussing with the duly constituted authorities on the fastest means to regularize the subsisting arrangement between us d PHCN PLC to ensure strict compliance with the subsisting laws of the Country.

We assure you of our highest esteem and regards as always.

Yours faithfully,

For: **VGC MAINTENANCE AND MANAGEMENT COMPANY LIMITED**


Debo Onabanjo
General Manager

cc: DGMD (Admin. /Legal) HFP Engineering (Nig.) Limited

The Chairman, VGC Property Owners & Residents Association

Mr. Gideon Agbede



Power Holding Company Of Nigeria Plc

EKO DISTRIBUTION ZONE

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Zonal Headquarters,
24/25, Marina,
Lagos State.

Ref:

PHCN/23105/BM/LK.01/.....997/2007

Date:
14th Feb., 2007

The Managing Director,
HFP Engineering Nigeria Ltd.
VGC, Lagos.

ATTENTION: MR. DELE MARTINS

COMMISSIONING OF THE 33/11KV 15MVA INJECTION STATION AT VICTORIA GARDEN CITY, AJAH.

This is to inform you that the above mentioned injection station has been commissioned; the injection station is built for exclusive use of Victoria Garden City.

Please note this implies that the Victoria Garden City shall be metered from one source (Bulk 33KV metering-on-import) and bulk payment is expected to be made to PHCN by your Management. This is as stipulated by our regulation on such categories of customers.

While awaiting the task of completion of the 11KV connection to the outgoing SF6 Breakers by your contractors (ABB), we pledge our commitment to deliver better services to you.

Thank you.

Yours faithfully,

for: PHCN


N. H. ABUBAKAR (MRS)
BUSINESS MANAGER, LEKKI.

Our Ref: VMMCL/GEN.MATTS. /PHCN/03/2007

March 2nd 2007

The Chief Operating Officer
Power Holding Company of Nigeria PLC
Eko Distribution Zone
Zonal Headquarters
Marina, Lagos



ATTENTION: ENGR. K. ONI:

Dear Sir,

RE: COMMISSIONING OF THE NEW 33/11KV 15MVA INJECTION STATION AT VICTORIA GARDEN CITY, AJAH – MATTERS ARISING:

We refer to the meeting held with the Management of PHCN PLC, Eko Distribution Zone led by Engr. Adegboyega Osideinde on Wednesday February 28th 2007 at the office of VGC Maintenance and Management Company Limited in Victoria Garden City. We would like to express our appreciation to your Management for the positive response to our request for the meeting and the cordial atmosphere during the deliberations with our delegation comprising the Chairman of the VGC Property Owners and Residents Association, Dr. Olufemi Mobolaji-Lawal, the Deputy Group Managing Director (Admin. /Legal) HFP Engineering (Nig.) Limited, Mr. 'Dele Martins and the undersigned.

As you are no doubt aware, the meeting which was held at our instance was primarily to discuss the imminent upgrading of the electricity supply to VGC from the current 11KV supply to 33/11KV sequel to the recent completion of the 15MVA Injection Substation at VGC which was fully funded by HFP Engineering (Nig.) Limited.

Please find below a summary of the issues discussed at the meeting:

1. Connection of the Estate to the 33KV supply line via the recently completed 15MVA Injection Substation located within VGC. It was agreed after extensive discussion that the connection of the 33KV supply line should be with effect from April 1st 2007 after which the electricity bill for the entire Estate would be included in a single invoice that would be settled by our company.
2. PHCN PLC proposed to sell electricity to the Estate at a fixed rate of ₦8.00/kwhr. In addition, PHCN PLC would grant a 10% discount to VGC Maintenance and Management Company Limited (VMMCL) to cover the cost of administration associated with generation of individual bills for the existing electricity consumers.
3. PHCN PLC would continue to offer technical support to the Estate to facilitate prompt repairs of faults/damages to existing electrical distribution equipment. We would however like your Management to reconsider the request we made at the meeting that responsibility for the

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repairs of the installed electrical equipment at VGC should continue to be that of your organization, moreso as they legally belong to PHCN PLC, even though they were installed at huge cost by HFP Engineering (Nig.) Limited with the contribution of its allottees.

4. VMMCL would assist PHCN PLC to ensure speedy recovery of all outstanding sums payable to it up to the agreed cut off date.
 5. Agreement to be worked out between PHCN PLC and VMMCL on the modalities for the installation of already paid for meters by property owners at VGC. It was the consensus at the meeting that VMMCL would have to invest the necessary capital to facilitate the installation of uniform pre-paid electricity meters for all consumers at VGC to ensure easier administration of the billing system after takeoff.
 6. The VGC representatives expressed reservations on the likely occurrence of power loss during distribution within the Estate which could result in revenue loss to VMMCL.
 7. It was agreed that PHCN PLC would allow VMMCL a grace period of at least 14 (fourteen) days to settle the electricity bill prior to disconnection.
- Preparation of a Memorandum of Understanding to reflect the terms of the agreement between PHCN PLC and VMMCL.

After the meeting and as part of the due diligence being carried out by our company preparatory to the takeoff of the bulk metering arrangement on April 1st 2007, it has been brought to the attention of our Management by our technical consultants that the electricity rate which PHCN PLC intends to charge our company on commencement of bulk metering i.e. ₦8.00/Kwhr would result in revenue shortfall which would be difficult for our company to recover from the final consumers. While we are comfortable with the 10% discount offered by your organization, we are of the opinion that the tariff proposed by your organization needs to be revisited and a more realistic figure closer to the current rate of ₦6.50/kwhr charged residential consumers at VGC arrived at.

In addition, we propose that PHCN PLC should agree a pre-effective billing period whereby the Estate would be immediately upgraded to the 33KV supply for a minimum period of 3 (three) months during which responsibility for the generation of electricity bills to existing consumers at VGC would remain that of your organization. The pre-effective billing period would allow our technical consultants to carry out a proper study to assess the percentage loss in electricity supply on the Estate during distribution and also afford us enough time to finalize all arrangement for the installation of uniform pre-paid electricity meters for all consumers at VGC.

In view of the importance attached to the matter, we hereby request a follow up meeting with you to discuss the issues raised in further details.

Subject to your confirmation, our representatives would be available for a meeting at your office between the hours of 10.00 -11.00 am from Tuesday March 6th to Friday March 9th 2007. The undersigned can be reached on telephone numbers 01-4616127 (tel. /fax) and 08056182209.

We shall be grateful to receive early confirmation of a convenient date within the period specified.

Yours faithfully,

For: **VGC MAINTENANCE AND MANAGEMENT COMPANY LIMITED**



Debo Onabanjo
General Manager

cc: DGMD (Admin. /Legal) HFP Engineering (Nig.) Limited
The Chairman, VGC Property Owners & Residents Association
The Head, Customer Services, PHCN PLC, Eko Distribution Zone
The Business Manager, PHCN PLC, Lekki Business Unit

cc: File Copy ✓