



# CENTLEC (SOC) Ltd. BUSINESS PLAN 2022-2023



## OFFICIAL SIGN-OFF

It is hereby certified that this Multi-Year Business Plan:

- Was developed by the management of the CENTLEC (SOC) Ltd in consultation with Margaung Metropolitan Municipality as the sole parent municipality.
- Considers all the relevant policies, legislation and other mandates for which the CENTLEC (SOC) Ltd is responsible
- Accurately reflects the strategic outcome-oriented goals and objectives which CENTLEC (SOC) Ltd will endeavour to achieve over the period this plan.

Signature \_\_\_\_\_

A handwritten signature in black ink, appearing to be "M.S. Sekoboto", written over a horizontal line.

Date: \_\_\_\_\_

2022/03/25

**M.S Sekoboto**

**CHIEF EXECUTIVE OFFICER**



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## List of Acronyms

<b>BEE</b>	Black Economic Empowerment
<b>CEO</b>	Chief Executive Officer
<b>DER</b>	Distributed Energy Resources
<b>DSM</b>	Demand Side Management
<b>EDI</b>	Electricity Distribution Industry
<b>ERP</b>	Enterprise Resource Planning
<b>EXCO</b>	Executive Committee
<b>FS</b>	Free State
<b>ICT</b>	Information, Communication and Technology
<b>ICT</b>	Information & Communications Technology
<b>kV</b>	Kilo Volt
<b>LV</b>	Low Voltage
<b>MFMA</b>	Municipal Finance Management Act
<b>MMM</b>	Mangaung Metro Municipality
<b>MV</b>	Medium Voltage
<b>MW</b>	Mega Watt
<b>MWh</b>	Mega Watt hour
<b>NRS</b>	National Rationalisation Specifications
<b>PV</b>	Photo Voltaic
<b>R&amp;D</b>	Research & Development
<b>RE</b>	Renewable Energy
<b>SCADA</b>	Supervisory Control and Data Acquisition
<b>SoB</b>	Sale of Business
<b>SOPA</b>	State of the Province Address
<b>SUPE</b>	System Utilisation & Process Engineering
<b>SWOT</b>	Strengths, Weaknesses, Opportunities and Threats
<b>V</b>	Volt



## 1. EXECUTIVE SUMMARY

CENTLEC (SOC) embarked on a review for their business strategy (2018-2023), mandated by the Exco in August 2021. The strategy development process was initiated due to a clear need to review the current path the organisation was on, with several factors contributing to this need. These factors were both systemic in nature, affecting the electricity distribution industry, as well as specific to CENTLEC's situation.

From inception, as an entity of Mangaung Metropolitan Municipality (MMM), CENTLEC has been mandated to exist as a mechanism for service delivery. During this period CENTLEC has performed on this mandate, however potential for improvement exists. Likewise, potential to improve financial performance, and thus enhance the financial viability of CENTLEC and MMM itself, exists.

In 2014 the strategic direction of the entity shifted from solely providing electricity to moving towards being an energy provider for the Mangaung Municipality and the broader Free State Province. The vision, mission and values of the entity have been developed to articulate the aspiration of the CENTLEC **“To be a reliable energy utility that enables social and economic upliftment”**

Taking cognisance of the historical situation, the existing dynamics of the organisation, together with Municipal, Provincial and National Development Plans have served to provide a framework within which the following questions could be answered:

- How should CENTLEC be best utilised as a vehicle for service delivery?
- Since the development of the vision are we on the right path?
- Has there been significant changes in the industry that requires CENTLEC to re-think its strategy?
- What are the short-term challenges that CENTLEC is facing and what could be the way forward to solve these?
- What are the growth opportunities available to CENTLEC?



- What will be the impact of ESKOM unbundling on CENTLEC?
- How are we viewed by our customers and broader stakeholders?
- How has the Covid-19 pandemic affected CENTLEC?

The strategy conference held in Kopano-Nokeng in August 2021 indicated various challenges that the entity is faced with:

- a) Individual homeowners and commercial businesses are fast becoming our 'competitors' through off-grid solutions.
- b) The affordability of renewable energy will lead to growing demand from consumers.
- c) The demand for electricity is declining due to tough economic climate and increasing tariffs.

There main guiding principles identified and discussed at the Strategy Conference is that service delivery and financial sustainability are not competing objectives and are not mutually exclusive. Rather, they are complimentary ideals for CENTLEC to strive towards. By ensuring a financially sustainable entity that delivers a service effectively and reliably to all citizens, allows for CENTLEC and MMM to continue subsidising the indigent population by providing free basic electricity. Essentially, promoting optimisation and financial sustainability ensures a higher level of service delivery. In addition, a financially sustainable CENTLEC would also contribute to the economy of MMM and be seen as a vehicle for economic development and growth.

The impact of leadership cannot be over-emphasized. Leadership should be broadened to ensure collaboration between the key players in the local government environment which include CoGTA, the departments of Energy, Public Enterprises, Finance and National Treasury to ensure interventions are dove-tailed and seamless to achieve the required outcomes. It is also essential for Eskom and municipalities to engage and collaborate to enhance revenue management. In executing this mandate, it remains critical to keep SMME's on the radar screen and execute radical economic transformation at all levels of Supply Chain.



## 2. LEGISLATIVE AND OTHER MANDATES

### Legislative Mandates

Section 86D (2) of Local Government: Municipal Systems Amendment Act 32 of 2000 as amended states that a private company which is a municipal entity

- Must restrict its activities to the purpose for which it is used by its parent municipality in terms of section 86E (1)(a); and b) has no competence to perform any activity which falls outside the functions and powers of its parent municipality contemplated by section 8.
- Other legislative duties and responsibilities of CENTLEC (SOC) Ltd are set out in Chapter 10 of Local Government: Municipal Finance Management Act, 56 of 2003.

### Policy Mandates

- In terms of the Service Delivery Agreement (SDA) entered by and between Mangaung Metropolitan Municipality and CENTLEC (SOC) Ltd. The Entity is responsible for electricity distribution, which shall include the following obligations:
- Development of an integrated detailed service plan within the framework of Mangaung Metropolitan Municipality's Integrated Development Plan.
- Operational planning and management of electricity distribution services in line with NRS047 and NRS048.
- Undertaking social and economic development that is directly related to the provision of electricity distribution services.
- Developing a customer management plan.
- Managing its own accounting, financial management, budgeting, and investment activities within a framework of transparency, accountability, reporting and financial control determined in terms of the SDA and applicable municipal finance management legislation.



- Levying service delivery fee to customers in accordance with the NERSA approved tariffs.
- Provide its own Safety, Health, Environment, Risk and Quality (SHERQ) services; and
- Provide street and area lighting on behalf of Mangaung Metropolitan Municipality.

### 3. BACKGROUND

CENTLEC (SOC) Ltd (hereinafter referred to as “CENTLEC”) was established as a municipal entity wholly owned by Mangaung Metropolitan Municipality (hereinafter referred to as “MMM”). CENTLEC was established both in terms of the Municipal Systems Act, 2000 (hereinafter referred to as the “Systems Act”) and the Companies Act, 1973 (hereinafter referred to as the “Companies Act”) and by virtue of being a municipal entity, it is obliged to comply with the provisions of the Municipal Finance Management Act, 2003 (hereinafter referred to as the “MFMA”).

CENTLEC is governed by the Board of Directors, duly appointed by MMM from time to time and its day-to-day business is conducted under the leadership of the Chief Executive Officer (CEO) and Executive Committee (hereinafter referred to as the EXCO). The board has an approved Charter which regulates the parameters within which the Board operates and to ensure the application of the principles of good corporate governance in all its dealings, on behalf of the entity.

CENTLEC is one of the few municipal distributors that have embedded generation capacity. The power station is currently mothballed for safety and economic reasons. Producing electricity at the power station became very expensive resulting in the only time it made business sense to run it was during winter peak demand hours. Since 2007 the power station has not been in use.

CENTLEC has got a generation licence for 103MW. This could have reduced 100% reliance on Eskom bulk purchase.





## 4. STRATEGIC OVERVIEW

### VISION

*To be a reliable energy utility that enables social and economic upliftment*

### MISSION

- To provide optimal service delivery as mandated by the Marga Mangrove Metropolitan Council
- To strategically manage our operations in an effective, efficient, and financially prudent manner, as measured against relevant indicators
- To seek the most cost effective and innovative energy solutions in partnership with relevant stakeholders to maximize shareholder value
- To achieve and maintain our operational autonomy as specified in the relevant legislation
- To train, develop, attract, and retain a highly skilled workforce and to promote sound relations with organized Labour.
- To ensure a safe and healthy environment for our workforce and the community
- To be a socially responsible corporate citizen that is concerned with improving the lives of the community and the environment in which we operate

### VALUES

- Customer Centric
- Ethical & Accountable
- Nurturing Passions for Efficiency
- Technology Innovation
- Employee Recognition & Diversity
- Leaders in Service Delivery
- Caring for community



## 5. PESTEL ANALYSIS

An analysis of the environment in which CENTLEC (SOC) Ltd operates shows that:

**Politically**, there are several areas that will need to be managed to get buy-in from all stakeholders.

The **Economic** outlook is grim as the economy continues to slow down, putting further downward pressure on the bottom-line. Hence the need (i) to be aggressive in driving efficiencies, especially in the collection and the mechanisation therefore e.g., vending, smart collection solutions, with ICT 'segregation' and interface; (ii) automation with the intent to lower overheads and (iii) venturing into new services and/or products.

On a **Social** front, CENTLEC continues to be involved in the electrification of schools, clinics, and households in and around the FS Province. Indigent customers continue to receive 50kWh per month of free basic electricity.

On **Technology**, the organisation continuously looks for new technologies---*namely smart metering, smart street lighting, gas reticulation etc.* --- to implement in the hope of improving efficiencies.

## 5.1 External Environment Analysis

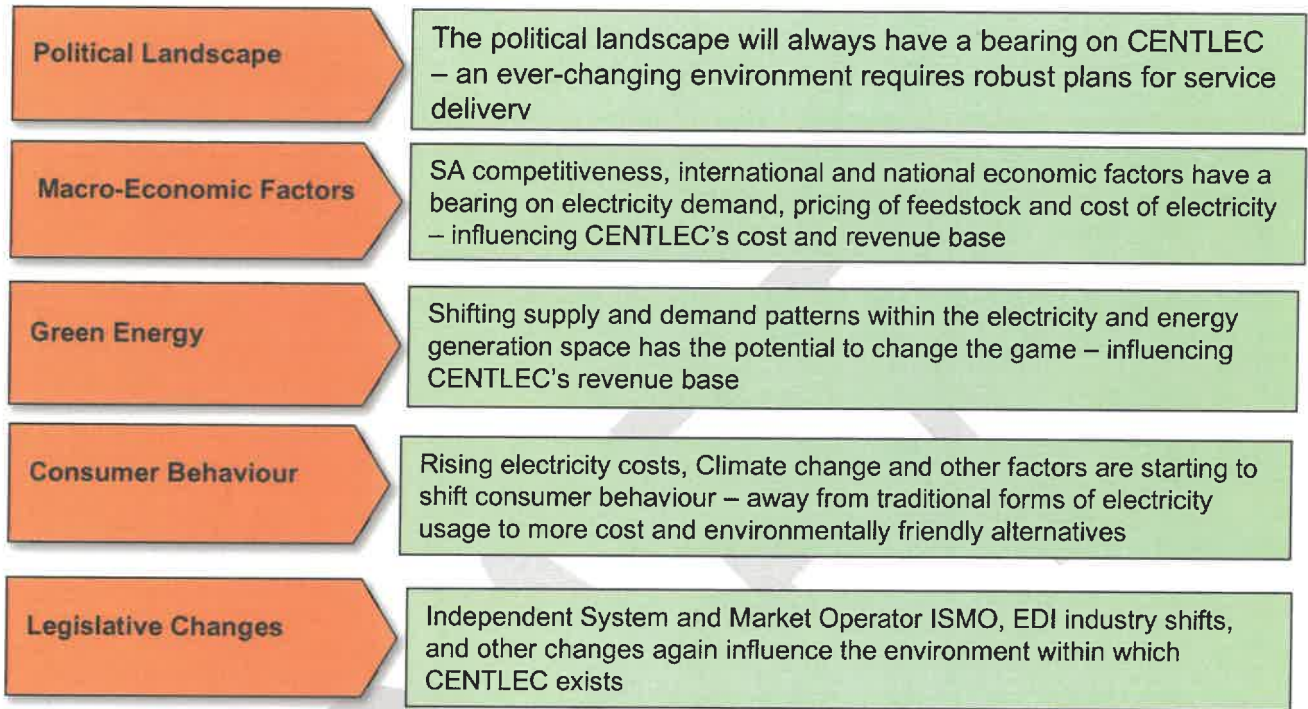


Figure 1: PESTEL Analysis



## 5.2 INTERNAL REVIEW ANALYSIS

The current operating and governance structure of CENTLEC needs to be safe guarded and entrenched namely separate bank accounts between CENTLEC and the parent municipality, and independent board of directors and executive management for accountability and good governance. Such a structure will make it possible for CENTLEC to operate as a free standing, provincial entity providing electricity and related services to the entire FS community.

FACTOR	EFFECT ON CENTLEC
Human Resources Deficiency	Service backlogs and increased dependence on external consultants.
Senior Management Turnover / Unfilled Senior Management Vacancies	Lack of effective robust implementation of departmental plans and programmes
High distribution losses	Decline in the surplus margins because of revenue losses due to distribution losses
Material / Stock theft	Financial losses as the same stock items must be re-purchased over.

**Table 1: Internal Analysis review**

## 6. SWOT ANALYSIS

CENTLEC used the tried and tested SWOT scientific tool to review its current strategy. SWOT analysis namely strengths, weaknesses, opportunities, and threats analysis are a framework for identifying and analysing the internal and external factors that can have an impact on the viability. CENTLEC has a clearly defined captive market and have differentiated itself by offering a solid solution to fulfilling its clients' needs now and into the future. Reasonable sales targets have been established with an implementation plan designed to ensure the goals set forth below are achieved.

The business plan starts by defining various elements within each SWOT component followed by modification of the current objectives and strategies in ways to make CENTLEC successful. This includes the creation of sustainable competitive advantage. Although most of our competitive advantages are eroded steadily by the efforts of 'competitors. The most critical part of this document is recommendations. We make good recommendations, meaning they are effective in solving the stated problem(s), practically implying they can be implemented in this situation, with the resources that are within reach, feasible within a reasonable time frame, cost-effective, not overly disruptive, and acceptable to key stakeholders. We have also considered "fits" between resources plus competencies with opportunities and fits between risks and expectations.

**Table 2: SWOT ANALYSIS**

STRENGTHS	WEAKNESSES
a) Established Distribution Infrastructure	a) Key-Customer Neglect
b) Reliable Metering and Vending systems	b) Lack of coordinated monitoring and evaluation mechanism,
c) Excellent Training Centre and Facilities	c) Lack of Project Management office
d) Competitive Tariff Structure	d) Inadequate Service Delivery fleet
e) High Level of Electrification	e) Lack of SSEG implementation and embarking of IPP/renewable energy
f) Improved cyber security	f) Adequate Financial Resources to perform basic services
g) Experienced Management	g) ICT skills
	h) Inadequate and aging ICT infrastructure
	i) Lack of skills that are required for the smart electrical networks
	j) Aging workforce that has begun to rapidly dissipate

OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>a) Expansion and growth of the city</li> <li>b) Potential to expand services beyond the current baseline</li> <li>c) Potential to convert the Training Centre to a Centre of Excellence.</li> <li>d) Opportunities to develop a commercial arm</li> <li>e) Ability to take advantage of technological advancements.</li> <li>f) Own generation (103 Mw) generation license</li> <li>g) Renewable energy</li> <li>h) Community Involvement and Engagement</li> </ul>	<ul style="list-style-type: none"> <li>k) The retiring workers take with them decades of institutional knowledge and expertise.</li> <li>a) Poor Customer Services</li> <li>b) Loss of expertise</li> <li>c) Mandatory load shedding which affects revenue streams</li> <li>d) Inability to create new revenue sources</li> <li>e) Growing numbers in use of alternative energy sources other than electricity</li> <li>f) Increased cable theft</li> <li>g) Declining utility revenues,</li> <li>h) Infrastructure theft and Vandalism</li> <li>i) Illegal connections</li> <li>j) Decline customer base</li> </ul>

### 6.1 Strengths and Weaknesses:

These are internal factors within an organization viz. Human resources - staff, volunteers, board members, target population; Physical resources - location, building, equipment; Financial - grants, funding agencies, other sources of income; Activities and processes - programs, and systems; Past experiences - building blocks for learning and success, reputation in the community.

## 6.2 Opportunities and Threats:

These are external factors stemming from community or societal forces. Future trends in the industry; The economy - local, national, or international; Funding sources - foundations, donors, legislatures; Demographics - changes in the age, race, gender, culture of clientele; The physical environment; Legislation; Local, national, or international events.

## 7. ORGANISATIONAL OVERVIEW

HIGH-LEVEL ORGANISATIONAL STRUCTURE – improve the quality

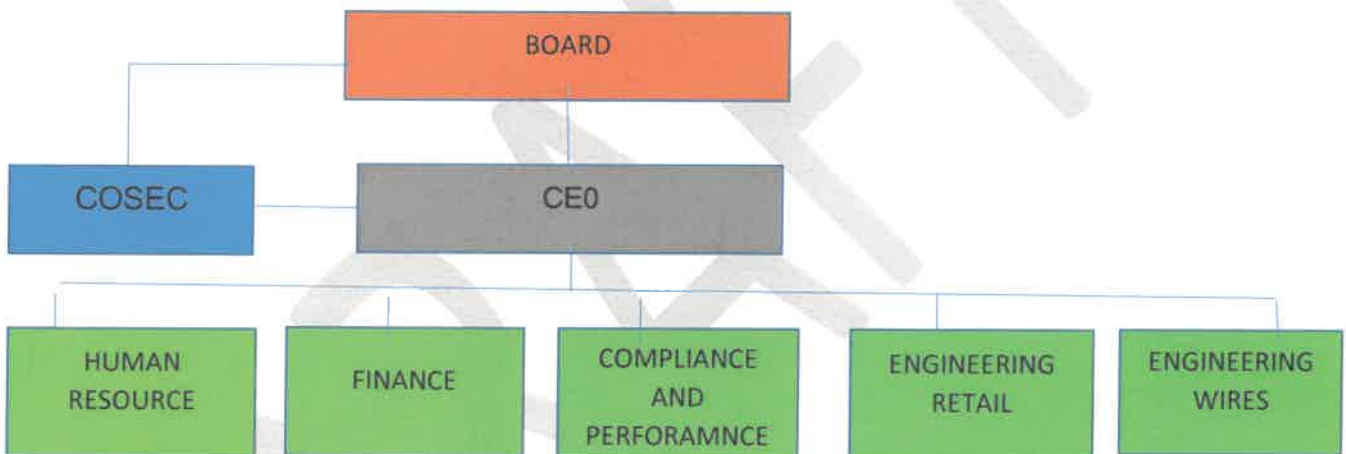


Figure 2 (High-level organisational structure)

Restructuring efforts, such as the CENTLEC initiative in the FS, advance a wave of innovative technologies that boost efficiency, increase productivity, and reduce redundancy. Operations improvements were realised in the various municipalities where CENTLEC operates, which will ultimately translate into better businesses, below is an overview key operation.



## 8. OPERATIONAL OVERVIEW

### 1.1 Services Rendered

It's important that CENTLEC should define its services clearly and concisely. Unless services are clearly defined, it may be difficult to cost them to any degree of accuracy. Consequently, it may also be impossible to accurately allocate resources to the provision of services or calculate with any degree of certainty the likely demand. CENTLEC provides the following services in its area of supply:

- **Electricity Distribution/Energy Services:** CENTLEC procures most of its energy from Eskom at 20 supply points in 18 towns in the Southern Free State and Mangaung Metropolitan Municipality (MMM).
- **Construction of Electrical Networks:** All new electrification networks, upgrading of existing networks is handled by the CENTLEC design and construction sections and where additional capacity is required it is done through the tender process and appointment of private companies.
- **Operation, Maintenance and Extension of Networks:** The maintenance of electricity distribution networks forms a large part of CENTLEC operations. A 24-hour standby service ensures that customers are not inconvenienced by long power outages. Ongoing evaluation is performed on existing networks to detect any overloading or failure, and this is addressed with upgrading and/ or extension of the particular network.
- **Metering, Pre-payment Vending and Billing Services:** Modern metering systems are employed to meter the various categories of customers. Prepayment and credit metering systems are in use. Extensive pre-payment vending facilities are available to customers to always ensure convenience and availability. Credit meter reading and billing is done in-house from 01 July 2011.





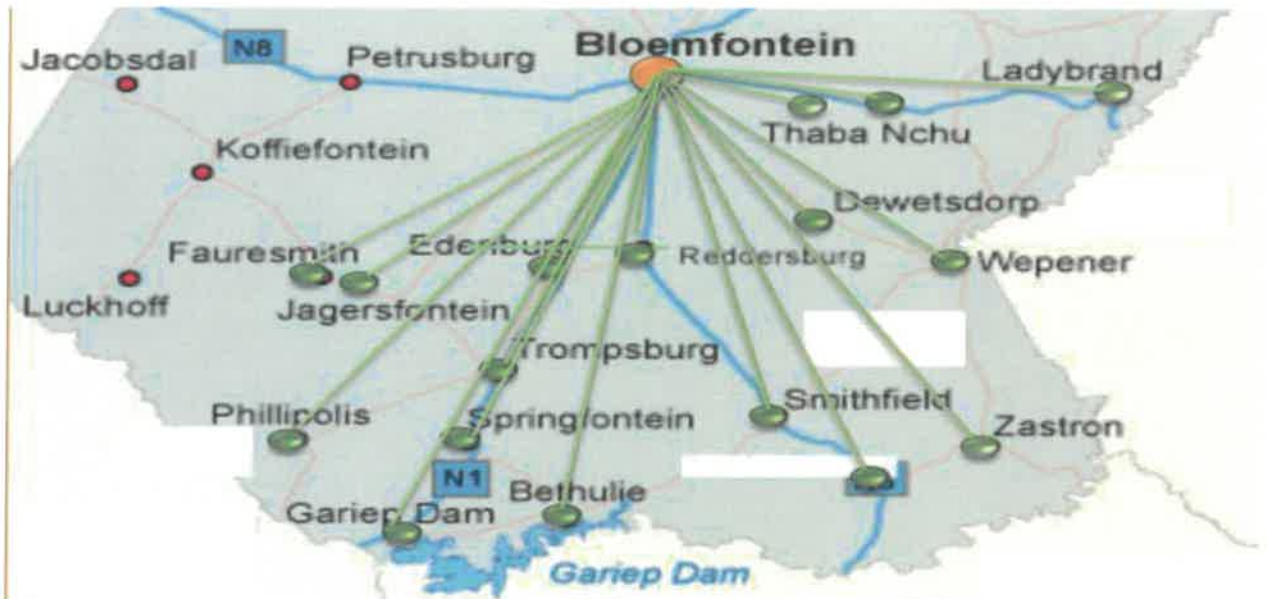
## 8.2 Current Market

CENTLEC distributes electricity to the Mangaung, Kopanong and Mohokare local municipalities. Ordinance 8 of 1962 was assigned to the Free State in 1994 and is the enabling regulatory framework which allows the provision of electricity distribution services outside MMM's political boundaries.

CENTLEC (SOC) Ltd is currently the license holder and distributes electricity to over 174 721 customers in the areas of Mangaung, Kopanong, Mohokare and Mantsopa in the Southern FS Towns depicted below. CENTLEC's customer base consists of domestic customers and commercial users, with each category of users contributing approximately 50% of CENTLEC electricity sales revenue.

Through a 24-hour Call-Centre CENTLEC has succeeded in maintaining a stable electricity network with far below national average power failure statistics and a quick response time according to NRS requirements. Tariffs have been kept comparatively low with many domestic customers approximately 70% having been converted to pre-paid meters with customer access to an online vending system.

An automated metering system has been installed to service the top 1695 customers with readings taken every 24 hours and published on the CENTLEC website to assist customers to manage their energy costs. All these customers are charged on a Time-of-Use Tariff system to promote efficient energy consumption and management by the larger entities.



*Figure 3 (Area of Operation)*

### 8.3 DIRECTORATE OVERVIEW

#### 8.3.1 Office of Chief Executive

This office is responsible for the overall strategic direction, executive and administration leadership of the entity. The following divisions fall directly under the office of the CEO.

- Strategic Support.
- Information Management.
- SHERQ.
- Marketing & Communication; and
- Legal & Contract Services
- Audit & Risk Management

#### 8.3.2 Office of Company Secretary

The office of the Company Secretary is responsible for facilitating accountability, good corporate governance, and oversight by ensuring that the Board follows



correct procedures and that it complies with its obligations under law and the entity's Memorandum of Incorporation.

### **8.3.3 Human Resources**

The Human Resource Directorate's intention is to ensure that CENTLEC (SOC) Ltd makes optimum use of its human resources, anticipate and manages surpluses and shortages of staff. The Directorate ensures that the Entity's employees are suitably skilled and competent to add value to the Entity in delivering sustainable solutions, advice, capacity building and achieve its strategic goals and objectives.

The functional areas of Human Resource Directorate are divided into:

#### **a) Human Resources Management (HRM)**

- Recruitment & Employment Equity
- Remuneration & Benefits
- HR Line Support: Wellness
- Labour Relations: Labour Relations Consulting & dispute Resolution

#### **b) Human Resources Development (HRD)**

- Training Centre
- Training / Skills Development
- Organizational Development
- Talent & Retention Management



### **8.3.4 Finance**

The Finance Directorate consists of the following Sub-Directorates which perform functions guided by the MFMA:

#### **a) Revenue Management:**

- Merchant Management Division
- Billing Division

#### **b) Financial Management, SCM and Assets**

- Asset Management Division
- Supply Chain Management Division
- Financial Management and Support Division

#### **c) Budget and Treasury**

- Accounting and Compliance Division
- Budget Preparation and Reporting Division

### **8.3.5 Engineering Wires**

Engineering Wires is a Directorate that comprises of the asset creation, operations and maintenance of the electricity distribution systems. This Directorate plays a pivotal role to enable the Entity to meet service delivery mandate. It ensures that projects listed and approved as per the IDP are executed. In broad, the Directorate is involved in asset creation, operations, and maintenance on networks as well as service delivery to the communities. The Directorate carries this mandate through four divisions namely: Planning, Network Operations & Maintenance (NOM), System Utilization & Process Engineering (SUPE), and Southern Free State (SFS).



The functional areas of Engineering Wires Directorate are divided into:

**a) Planning Division**

- **Development:** In the main, the section deals with all bulk connection application, requirements for township establishments, land and servitude issues and Comments to other departments, way leave to other service provider and load monitoring and forecasting of load growth, to ensure the entire infra-structure would be able to supply or be upgraded in time to accommodate the anticipated loads.
- **Design and Projects:** Its mainly focuses on short to medium term planning activities that arise from the four municipalities which CENTLEC (SOC) Ltd is a service provider for. The section comprises of four sub-sections namely drawing office, customer care, design/project office and connections office. It is responsible for ensuring that services required by customers that is within or according to CENTLEC (SOC) Ltd norms and standards are provided within a required time. It is also responsible for ensuring that all projects as set out in the SDBIP are implemented within the specified period.
- **The Geographic Information System (GIS):** It has the responsibility to capture data of all existing infrastructure as well as new projects, to convert and place it in the GIS database. This data would also once it is up to date be used to verify the assets of the enterprise. Limited view only fields would be made available on the CENTLEC Web page, for clients to verify their address and erf numbers.
- **Land Affairs:** It deals with all land acquisitions and land administration processes that includes registration of electrical servitudes. In this case,



negotiations with each individual legal landowner affected is conducted to acquire the servitudes. During the negotiation stage with the landowners, content of the conditions is covered as well as any special conditions the landowner may have. Land Affairs office assist the planning Division with all land & environmental matters before projects are being executed.

**b) Network Operation and Maintenance Division (NOM)**

- **Infrastructure and Support Services (ISS):** It is responsible for infrastructure at 132kV, 33kV and 11kV Voltages (Overhead and underground Networks) including the construction of new capital projects and routine and corrective maintenance.
- **Network Maintenance Section (Low Voltage):** It is responsible for infrastructure at 400V and 230V (Overhead and underground networks) including all construction of new capital projects as well as routine and corrective maintenance.
- **Public lighting and Maintenance:** It are responsible for all the street and area lighting including all construction of new capital projects as well as routine and corrective maintenance.
- **Regional Services: Botshabelo / Thaba Nchu and SFS:** It is responsible for infrastructure at 132kV, 33kV and 11kV Voltages (Overhead and underground Networks) including construction of new capital projects and routine and corrective maintenance. It is also responsible for metering, street and area lighting and maintenance thereof.

### c) **System Utilization and Process Engineering**

- **Network Optimisation:** The responsibility of the section above is to ensure that protection systems on medium and high voltage electrical networks within CENTLEC (SOC) Ltd area of jurisdiction are in order and functional. Through SCADA systems monitors the state of the network and gathers information for use in planning and decision making.
- **Primary Plant and Maintenance:** The focus of the section is to construct and maintain the electrical equipment utilised for isolation, switching, transforming, and measuring of the energy throughout the CENTLEC (SOC) Ltd jurisdiction.
- **Energy and Network Control (Standby and Call Centre):** The section operates and control the use of the electrical infrastructure also captures and monitors complaints from the users thereof (consumers).
- The business unit receives the phone calls from the public and utilities about the incidents and occurrences that are in nature relating to CENTLEC (SOC) Ltd operations, they can be direct or indirect. The unit assist the caller(s) by capturing and issuing reference number for their calls, redirect the enquiries/queries to the relevant business units for appropriate response

### 8.3.6 **Compliance and Performance**

The Performance and Compliance Directorate's intension is to develop, establish and coordinate corporate performance management processes. These processes include IDP, SDBIP, and Business Plan, Back to Basics, Annual Report, and Audit Reports. The Directorate's responsibility is to guide the implementation of measurement approaches and tools. This is to ensure that the organisation is in substantial compliance with its internal operating policies, procedures, external legal, regulatory, and corporate governance codes.



Compliance and Performance Directorate provides support services within CENTLEC (SOC) Ltd, through the following divisions:

- **Facilities Management**

The practice of coordinating the physical workplace with the people and work of the organization. It integrates the principles of business administration, architecture, and the behavioural and industrial sciences.

- **Security Management**

Protection of institution integrity, people, processes, and assets from loss, ensuring business continuity crisis management by responding within the CENTLEC area of supply to ensure a safe and secured environment.

- **Fleet Management**

To manage fleet effectively, efficiently, and economically to ensure that a prompt and speedy service is delivered to CENTLEC customers.

- **Organisational Performance**

Developing, establishing, and coordinating Organisational performance management processes as well as guiding the implementation of measurement approaches and tools (e.g., Integrated Development Plan (IDP), Service Delivery Budget Implementation Plan (SDBIP), and The Business Plan, Back to Basics, Annual Report, and Audit Reports).





- **Compliance**

Ensuring that the organisation is comprehensively compliant with all applicable legislation, policies, standards, and regulations.

The strategic initiatives were consolidated and grouped under the strategic imperatives while attempting to be as all-encompassing as possible. The prioritisation of the initiatives was done according to a weakness and opportunities identified in our SWOT Analysis. The departmental strategy will be implemented over a period of the remaining five (5) years.

### **8.3.7 Engineering Retail**

Engineering Retail Directorate is responsible for revenue generation, manage customer relationships and bulk purchase contracts. CENTLEC (SOC) Ltd.'s initiative in the Southern Free State, is to advance a wave of innovative technologies to uplift efficiency, increase productivity, and reduce redundancy.

The functional areas of Engineering Retail Directorate are divided into:

**a) Customer Services & Revenue Management:**

Deals with all customers related issues and metering with associated functions,

**b) Systems engineering:**

Focuses on technology and ensuring that all systems integrations happens and that CENTLEC matures to a smart organisation.

### c) Energy and Trading Services

It is responsible for transactional of energy sales and ESKOM bulk purchase accounts, all sales systems and metering

## 9. STRATEGIC OBJECTIVES AND GOALS

### 9.1 Strategic Imperatives

The proposed CENTLEC strategy follows a roadmap of initiatives in the short, medium and long term based on achieving the strategic imperatives. The strategic imperatives, which provides the foundation of the strategy is presented in the image below:



The proposed strategy focuses on the basics first and ensuring optimal operations, thereby realising full potential from the core in the short to medium term, before concentrating on growth in the long term. The roadmap calls for a “consolidate, optimise, grow” approach to be adopted. To implement the strategy, there will be immediate budgetary implications which will need to be considered and included in the organisation’s budget, ideally for the next financial year 2022/23.

The report also highlights potential implementation risks and proposes mitigating actions. Finally, to ensure that there is continuity between the formulation of the strategy and the strategy implementation, several performance metrics are proposed. The



performance metrics have been aligned to the Executives current performance targets, promoting the implementation of the initiatives and therefore the strategy.

The industry within which CENTLEC operates is dangerous by nature. This requires a strong safety focus from the utility to prevent injuries and fatalities. An increase focus on the reduction of emissions and pollution has led to more stringent environmental regulatory requirements and puts more focus on environmental impact assessments. This includes aspects such as emissions, water disposals, the use of PCG and the disposal of batteries chemical. Fossil fuel power generation is under pressure due to environmental factors. The South African IRP specifies the future technologies mix. Nuclear generation remains an option for the provision of base load power generation.

## **9.2 Sustainability**

The short to medium term that is 1-5 yrs. we appear to be sustainable with a declining outlook if we don't take a digital enterprise direction. The serious backdrop is the fact that we are unable to fund needed strategy changes. The natural response on our side is to continue to drive efficiencies. However, we must be clear in our understanding that customer satisfaction whilst necessary does not translate to loyalty as our customers are driven by cost reduction brought about by subsidized renewables.

## **9.3 Operations**

Our current electric distribution system infrastructure will be unable to ensure a reliable, cost-effective, secure, and environmentally sustainable supply of energy for the next decade is nearing the end of its useful life. Depreciation exceeds new investment. New investment is not keeping up with grid deterioration. As a result, the legacy distribution grid, is showing its age and is increasingly operated in a "run to fail" mode.

The cost of new distribution network is increasing, and any significant new construction means higher rates to consumers in an increasingly competitive environment.



Our infrastructure is ageing and whilst we have the know-how of yester-year networks we will soon be found wanting on managerial depth and talent when it comes to modern technology unless we modernize and upskill ourselves and the general workforce with a degree of specialization in critical areas such as ICT, network protection, provincial automated control room etc. Due to technological limitations, we appear to be getting plagued with operational problems.

## **9.4 Initiatives**

### **9.4.1 Short term goals (2022-2023)**

#### **a) Office CEO**

- Establishment of R&D unit.
- Removal of asbestos from all CENTLEC buildings to adhere to health and safety regulations
- Implementation of NOSA Integrated Five Star Safety System.

#### **b) Office of Company Secretary**

- Provide continued training and development for Non-Executive Directors on governance and any other related field which will assist the board members to satisfy and fulfil their fiduciary duties.
- Provide continued training and development for Cossec staff on governance and any other related field which will assist them in fulfilling their duties.
- Review of all governing documents including but not limited to Board and committee charters.
- Capacitate the office in accordance with the staff establishment.

**c) Finance**

- Implement a proper demand management system within Supply Chain Management that ensures the assessment of current and future needs.
- Provide clear, timely, accurate reports and guidelines to directorates for the preparation of annual plans.
- To ensure that the correct quality of goods and services is procured.
- Develop a performance management tool to monitor performance of service providers.

**d) Human Resource**

- Conduct Skills Audit to capacitate employees in their particular field.
- Development and submission of Work Skills Plan (WSP) to enable the Entity to receive grants in order to develop its employees.
- Partnership with organisation for people with disability to enable the Entity to comply with Employment Equity Plan.

**e) Compliance and Performance**

- Development of policies, procedural manual, and implementation.
- Up skilling Security personnel to improve the safety of CENTLEC employees and assets.
- Development of integrated systems for Security Case/incident management.
- Installation of perimeter fencing to CENTLEC NKP premises
- Provision of additional office space and ablution facilities to support the growth of personnel and improve hygiene services.
- Installation LED lights offices, Centralised air-conditioning, installation of JoJo tanks.
- Installation of automated hygiene systems.



- Maintenance of CENTLEC fleet as per approved maintenance schedule.

**f) Engineering Retail**

- Improved communication with customers and various stakeholders on new developments in the electricity industry.
- Create database for seamless flow and monitoring of Revenue Protection and Management functions.
- A dedicated revenue collection to carry out the following functions and (Revenue Management).
- Analysis and reduction of long outstanding debt by clearing 120-, 90-, 60- and 30-days accounts.
- Convert remaining conventional meters to prepaid for residential and businesses.
- Achieve accurate billing of post-paid accounts by eradicating estimated accounts.

**g) Engineering Wires**

- To ensure that all priority project related to service delivery are identified and allocated in the electrical master plan of each town and receive all required approvals before they are placed on the budget.
- Ensuring that all identified capital projects are correctly estimated and within affordable budgetary parameters before they are submitted for budget approval.
- Improving infrastructure performance by ensuring that regular maintenance schedules as per the maintenance plans are executed including correct application of infrastructure protection settings.
- To ensure that the entity meets its infrastructure standards with regards of quality of service as stipulated by NRS standards.



- To deliver great customer service by following best practices like valuing customers' time, having a pleasant attitude, and providing accurate and reliable information.

## **10. MID-TERM GOALS (2023 -2024)**

### **a) Office of CEO**

- Provide training for managers and supervisors in Root Cause Analysis. (RCA), to improve safety within the organisation
- Conduct emergency evacuation training and drills to ensure the employees are aware of what action to take in an emergency.

### **b) Office Company Secretary**

- Provide continued training and development for Non-Executive Directors on governance and any other related field which will assist the board members to satisfy and fulfil their fiduciary duties.
- Provide continued training and development for Cossec staff on governance and any other related field which will assist them in fulfilling their duties.

### **c) Finance**

- Implement a proper demand management system within Supply Chain Management that ensures the assessment of current and future needs.
- Provide clear, timely, accurate reports and guidelines to directorates for the preparation of annual plans.
- To ensure that the correct quality of goods and services is procured.
- Develop a performance management tool to monitor performance of service providers.



**d) Human Resource**

- Procurement of HR Focus system to ensure that HR functions effectively and efficiently.
- Building of Mezzanine floor for training centre to assist in revenue enhancement.
- Develop and Implementation of 11 KV simulator to assist in revenue enhancement

**e) Compliance and Performance**

- Development and Implementation of automated Performance and Compliance system to improve the monitoring and evaluation of the performance of the entity.
- Development of integrated systems for Facility Maintenance to ensure that our facilities comply to facilities regulations
- Provision of additional office space and ablution facilities to support the growth of personnel and improve hygiene services

**f) Engineering Retail**

- Roll out the Data Concentration Unit installation pilot project to have smart two-way pre-paid meter communication. This will be achieved through the AMI capability on the CENTLEC Vending system. The ultimate end goal of this project is to have a smart grid in the CENTLEC jurisdiction.
- The Implementation of web like system of Distributed Energy Resources (DER) and home generation.



**g) Engineering Wires**

- Introducing more automated systems to the business processes, culture, and customer experience to improve efficiency
- To have an energy plan which outlines various alternative energy mix and associated funding models. This is in a bid to accelerate security of reliable power supply for the residents and business
- To pilot the battery energy storage solution in a bid to provide load shedding backup, peak load shaving and load shifting.
- Retrofitting of streetlights and high mast lights with LED technology.

**11. LONG TERM GOALS (2025-2027)**

**a) Office of CEO**

- Develop a NOSA five-star grading system to ensure that the entity complies with industry standards in terms of safety.

**b) Office of Company Secretary**

- Obtain an efficient and effective level of operation within the Company Secretary office as per Terms of Reference (TOR).

**c) Human Resource**

- Digitization of Human Resource process to ensure efficiency and effectiveness.

**d) Compliance and Performance**



- Development of integrated systems for Fleet Maintenance to ensure that fleet is maintained on time, thus allowing for continuous service delivery.
- Replacement of ageing Fleet to ensure continuous service delivery.

**e) Engineering Retail**

- Alignment of CENTLEC ICT infrastructure with the new development in the energy sector.
- Digitization, distributed generation, renewable integration, and domestic generation will all affect different aspects of CENTLEC's business model.
- The new technologies present tremendous opportunities for CENTLEC and electrical energy to redefine a new business model.
- CENTLEC has got a generation licence for 103MW. This could have reduced 100% reliance on Eskom bulk purchase.

**f) Engineering Wires**

- To rollout the Battery Energy Storage Solutions on the critical points of the electrical distribution network. This is in a bid to be able to control and manage the peak demand values to avoid notified maximum demand penalties
- To pursue alternative energy sources to secure and improve revenues for business sustainability. The alternative energy mix will include, namely; solar farms, solar rooftops, private small scale embedded generation on the grid through wheeling and trading with our customers and gas powered electricity generation
- Distributed energy generation and energy storage facilities to be the core business for the entity. This will see the entity transitioning from an electrical distribution company to an energy service provider



12. RISK MANAGEMENT

RISK IDENTIFICATION					
Risk Register					
Risk ID	Key Performance Area	Strategic Objective(s)	Event	Cause	Consequence
1	Operational and Capital optimisation		Infrastructure not optimally used to ensure maximum returns from investments made (Desired ROI not achieved)  Theft and Vandalism	Inadequate Capital (Budget) Allocation Limited External Funding (USDG) On Demand Side Management (Customer's becoming energy-wise) Limited visibility of the Security Personnel on and around the Distribution Centres and the key areas of our infrastructure. Limited monitoring of Alarms as a result of stretched resources	Procurement of goods and services at inappropriate price(s) and quality leading to slow moving item(s) or redundant stock (Fruitless and Wasteful Expenditure).
2	Revenue Enhancement and Continuous exploration of growth options		Decline in Revenue	Increase in Demand Management Technology Illegal Consumption (meter tampering) Non-Technical losses	
4	Capacitated and Empowered Workforce		Low Staff Morale Failure to attract and retain highly skilled personnel for a sustainable period Network deterioration	Misalignment of skills and the position held	
5	Optimal Service Delivery Good Governance Practices and Stakeholder Engagements		Non-Compliance with applicable legislation, policies and standards		

### 13. ENTLEC'S STAKEHOLDER MANAGEMENT, COMMUNICATION AND PUBLIC PERCEPTION POSITIONING

Understanding how the public views CENTLEC is important as it influences the political landscape and might impact the ease with which CENTLEC will secure funding of new infrastructure, and acquisition of new municipalities.

With the internet as a major communication channel globally, it is important for CENTLEC to understand the perceptions that are being created by the various publications, articles, and blogs on the internet. The appropriate interpretation of the perceptions created is critical for CENTLEC to understand its best response to its various challenges. Currently, the public has got several views of the organisation that have been built based on the articles they read. This has led some members of the public to believe that CENTLEC is not revealing the whole truth or simply does not have a clue on what is going on.

This perception will need to be corrected for CENTLEC's reputation to remain intact. Publications such as the Daily Maverick publish such articles that read as follows:

*"There are few things which unite South Africans better than a shared hatred. It is usually crime, ill-treatment at the hands of Kiwi rugby referees, and of late, the e-toll roads around Johannesburg. Oh, and load shedding. We hate load shedding."*

The article was paddling a message that utilities such as CENTLEC do not care and the public is on its own. It is not uncommon for the performance of public entities like CENTLEC to be directly linked to the performance of the government of the day. These public entities' image in the public domain all depends on how the media shape them in their way of reporting. Public opinions will then form after citizenry get exposed to different kind of information from the media. The creep of media bias in transmitting the messages can thus shape the emotive response towards these public entities, and ultimately turn to the authorities that are responsible for managing them, whether operationally or politically. The selective perception and selective retention can then set



limits towards how people can be influenced to support a particular political agenda or manifesto.

In the case of CENTLEC, some sectors of the society can capitalise on the emotions created by such articles and through their own publications ---*incorrectly*---ensure that there is no distinction between CENTLEC, the public utility and the ruling party. Unless such a distinction is made its easier to even instigate sabotage from within the utility to paint the government in bad light. This can be achieved through bad strategies and or poor execution of sound strategies.

## **14. FINANCIAL PLAN**

### **14.1 BUDGET PROCESS OVERVIEW**

MFMA, section 87 provides guidance on the steps in the annual budget process for a municipal entity. The National Treasury has also issued Circular 70 and 72, which also serves as an elaborative guidance for municipalities and municipal entities for preparation of budgets and MTREF.

Critical to the development of a credible budget are:

- the way the business planning process is integrated.
- the input of policy directions; and
- consultation with the relevant stakeholders.

The budget preparation and Business Plan review process should be conducted mainly in line with the legislative and regulatory frameworks prescribed by the Municipal Finance Management Act (MFMA), Municipal Systems Act (MSA) and National Treasury Guidelines. The format and contents of the budget document must be in accordance with the Municipal Budgeting and Reporting Regulations, 2009

The Board is required to submit the draft budget to the parent municipality (MMM) by 28 February annually, after which an extensive consultation between the entity and MMM will take place to reach consensus on the proposed budget.

## 14.2 OVERVIEW OF BUDGET FUNDING

The overview of budget funding must explain how the annual budget is to be funded, which must include at least the following:

**a) *a narrative summary of***

- *the funding of operating and capital expenditure.*
- *financial plans.*
- *reserves.*
- *the fiscal viability of the municipal entity.*
- *the overall impact on rates and tariffs; and*
- *allocations from or distributions to the parent municipality.*

The budget of the entity will be funded from the revenue raised internally as well as conditional Grants from the Department of Energy. The entity has no intentions to use the previous year accumulated surplus to fund any of the budgeted expenditure in the MTREF, it is important to note that the energy bulk purchases represent more than 55% of the entity's operational budget. The revenue from the sale of electricity represents more than 88% of the operating revenue for the entity.

**b) *Particulars of funding measures used to determine whether operating and capital expenditure are funded in accordance with section 18 of the Act;***

Details of the proposed tariffs on energy and Services are attached as Annexures



**c) *Particulars of tariffs and other charges.***

Details of the proposed tariffs on energy and Services are attached as Annexures

**d) *The debtors' collection levels that have been estimated.***

Electricity debtors' collection rate set at 80% factored in the revenue projection

**e) *Particulars of planned savings and efficiencies for the medium term as detailed in the multi-year business plan.***

- Data Purification
- Meter maintenance
- Conversion to pre-paid metering
- Increase Automated Meter Reading (AMR)
- Streetlight Management
- Meter audits

**f) *Particulars of the municipal entity's monetary investments by –***

- type, and
- maturity date;

### **14.3. BUDGET RELATED & ACCOUNTING POLICIES: REVIEW AND AMENDMENTS**

The budget related and accounting policies have been reviewed in the 2021/22 financial year for implementation in the 2022/23 financial year and these are as follows:

**Table 3: Policies**

NO.	NAME OF POLICY	OPERATIONAL FOCUS
1	Asset Management Policy	Assets
2	SCM Policy	Expenditure
3	Bad Debts Policy	Revenue
4	Banking & Investments Policy	Revenue & Accounting Services
5	Connection & Disconnection	Revenue & Revenue Protection
6	Estimation Policy	Revenue & Retail
7	Revenue Policy	Revenue
8	Credit Control & Debt Collection Policy	Revenue
9	Tariff Policy	Revenue & Retail
10	Customer Care Policy	Revenue & Retail
11	Long-Term Debtors Policy	Revenue & Accounting Services
12	Sundry Income Policy	Revenue & Accounting Services
13	Pre-paid Electricity Vending Policy	Revenue
14	VAT Policy	Accounting Services
15	Borrowings Policy	Accounting Services
16	Commitments Policy	Accounting Services
17	Provisions, Contingencies & Accruals Policy	Accounting Services
18	Related Parties Policy	Accounting Services
19	Subsequent Events Policy	Accounting Services
20	Petty Cash Policy	Expenditure
21	Irregular, Fruitless & Wasteful Expenditure	Expenditure & SCM
22	Subsistence & Travel Policy	Payroll
23	Overtime Policy	Payroll
24	Budget & Reporting Policy	Budget
25	Virements Policy	Budget





#### **14.4 PROVISION OF FREE BASIC ELECTRICITY (FBE) / INDIGENT SUBSIDY**

FBE is provided by the entity to qualifying households as a measure to provide access to basic services. FBE is supplied to indigent households as per Indigent Register compiled and maintained by MMM. The cost of provision of FBE is recovered through Equitable Share allocation from the National Treasury. A qualifying household is supplied with 60kWh per month.

### **15. COMPLIANCE AND IMPLEMENTATION OF MFMA**

#### **15.1 Disclosure on Implementation of MFMA**

This section provides disclosure regarding progress in implementing various related legislation including the MFMA and how this affects the budget and budget process.

#### **15.2 MFMA Implementation and Monitoring**

The entity is generally complying for the majority of the implementation priorities as per the National Treasury implementation and monitoring checklist

#### **15.3 Budget Statements Reporting**

All monthly, quarterly, and annual MFMA returns are submitted by the entity to the parent municipality (MMM) as required.

#### **15.4 Implementation of Supply Chain Management**

The supply chain management policy of the entity is reviewed annually and serves as the basis for all the procurement and disposal activities of the entity.



All bid committees as required by the SCM regulations are in place, and the composition thereof is compliant with the Regulations. Supply Chain Management reporting is done on a monthly, quarterly, and monthly basis as prescribed by legislation.

### **15.5 Delegations**

Financial delegations and sub-delegations are not in place and are still to be developed and presented to the board for approval.

### **15.6 Asset register**

The entity maintains registers for both its infrastructure assets and other fixed assets and the register is updated regularly. The registers are GRAP compliant.

## **16. 2021/23 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF)**

The 2021/23 MTREF represents operating and capital budget of the entity over medium term. This budget was developed in line with the requirements of Municipal Financial Management Act and Municipal Budgeting and Reporting Regulations, 2009.

Both the MFMA and the regulations provide for uniform norms and standards for ensuring transparency, accountability, and appropriate lines of responsibility in the budgeting and reporting process within the entity.

### **16.1 Budget Summary**

A summary of the operating and capital budget proposals over the medium-term, is provided in the schedules below. The tabled budget represents the projected financial proposal of this business plan over medium term.

## **Interpretation of the Financial Component**

Recent technological and economic changes are expected to challenge and transform the EDI. These changes arise due to a convergence of factors, including falling costs of distributed generation and other distributed energy resources (DER); an enhanced focus on development of new DER technologies; increasing customer, regulatory, and political interest in demand-side management technologies (DSM); government programs to incentivize selected technologies; the lower price of natural gas; slowing economic growth trends; and rising electricity prices.

Taken together, these factors are potential “game changers” to the South African EDI. As technological innovation e.g., solar photovoltaic (PV) becomes economically viable due to this confluence of forces, the industry and its stakeholders must proactively assess the impacts and alternatives available to respond to these disruptive technologies in a timely manner.

**Financial Challenges:** The financial risks created by disruptive technologies include declining utility revenues, increasing operational costs, and lower profitability margins, particularly over the long-term. As DER and DSM programs continue to capture our market share, CENTLEC revenues will be reduced. Adding the higher costs to integrate DER, increasing subsidies for DSM and direct metering of DER will result in the potential for a squeeze on profitability and, thus, credit rating.

## **Interpretation of Marketing and Communication Components**

The digitalization of our networks has seen what was classified as soft outputs being transformed to core technical outputs namely marketing and communication. The basis for a digital enterprise is the universal access to high speed, two-way, digital communications, namely broadband Internet. It will be impossible to be a digital enterprise or have a modern, intelligent grid without it.



It will not be possible to ensure integration and interoperability of all devices, applications, data, and activities unless they all plug directly into the Internet and have at their center human interactivity of some sort.

The plethora and complexity of the Grid Edge will require the monitoring, analysis and automation of the distribution lines and devices and of the Grid Edge components. It will not be possible to accomplish this through closed proprietary silos of devices, communications systems, data bases, and applications. It requires “3-D” integration and interoperability.

Every device and application and communications channel must interoperate seamlessly with every other one. This transcends vendor specific protocols. Everything must be on the same platform and that platform must be broadband Internet.

## **17. FUTURE STRATEGY**

The electricity distribution industry is undergoing tremendous transitional change. This requires new strategies to be able to cope with the changing environment and challenges in the industry. The challenges identified include but are not limited to embedded generation, alternative sources of energy such as gas, unpredictable economic trends that are affecting the country, illegal connections and tampering with the electricity infrastructure as well as the rapid change in technology.

To address the challenges listed above, management has adopted a strategic and visionary approach with a consideration and review of the following:

- Enabling environment,
- Customer centricity,
- Efficiency of operations,
- Opportunities
- Collaborative leadership



## **Enabling Environment**

An analysis of the environment in which CENTELC (SOC) Ltd operates shows that:

**Politically**, there are several areas that will need to be managed to get buy-in from all stakeholders.

The **Economic** outlook is grim as the economy continues to slow down, putting further downward pressure on the bottom-line. Hence the need (i) to be aggressive in driving efficiencies, especially in the collection and the mechanisation therefore e.g. vending, smart collection solutions, with ICT 'segregation' and interface; (ii) automation with the intent to lower overheads and (iii) venturing into new services and/or products.

On a **Social** front, CENTLEC continues to be involved in the electrification of schools, clinics and households in and around the FS Province. Indigent customers continue to receive 50kWh per month of free basic electricity.

On **Technology**, the organisation continuously looks for new technologies---namely *smart metering, smart street lighting, gas reticulation etc.* --- to implement in the hope of improving efficiencies.

The current operating and governance structure of CENTLEC needs to be safe guarded and entrenched namely separate bank accounts between CENTLEC and the parent municipality, and independent board of directors and executive management for accountability and good governance. Such a structure will make it possible for CENTLEC to operate as a free standing, provincial entity providing electricity and related services to the entire FS community.

## **Tariff Harmonization**

The possibility of harmonizing energy tariffs in the Free State region to lower the cost of bulk purchases.



## **Customer Centricity**

The main backbone of the entity is its customer base. As a result, the entity needs to provide a service to the customer that creates a positive experience. This can be achieved by creating awareness, analysing purchasing patterns and increasing customer care services. Customers' satisfaction should remain at the core of the entity's business focus.

The customer of the future will exercise more rights and have more choices to goods and services.

In the process of realizing radical economic transformation, the entity will ensure that the local community plays a crucial role in the sale of prepaid electricity as well as getting them involved in the small-scale embedded electricity generation. This will assist in creating a sense of ownership of the entity and the contribution it makes.

Other considerations in the pipeline include taking advantage of the technology to enhance service delivery by ensuring that customers find it easy to access the entity's services.

## **Efficiency of operations**

It is critical for operations to be streamlined and be more efficient. Streamlining can be done through benchmarking with other utilities including water utilities and entities in other countries. On top of this the business model needs to be changed to create a surplus. Other Metros should follow the example of CENTLEC to support small municipalities and increase their viability and sustainability through shared knowledge and capacity. Focus should be given to asset management and ensure that existing assets live-span is increased to lower capital expenditure on refurbishment. In executing all the latter, the principle of cost containment should always be on the radar screen.



## **Opportunities**

playing a critical role in the Solar energy industry with a focus on generating as well as supplying solar power to the public,

Other opportunities available include the utilization of the entity's electricity infrastructure to play the role of connecting and distributing solar energy generated by the independent power producer at a fee.

The entity's current licence not only provides for distribution of electricity but energy in broad. This creates an opportunity for the entity to start playing a crucial role in the distribution and sale of Gas energy as a wholesaler as well establishing a depot for Gas in the Free State Province

To realize the above the entity in collaboration with other role players is considering reviewing the existing policies and by laws. In this regard the entity has already started on a feasibility study to assess the viability and requirements for the successful implementation of alternative revenue sources

The possibility of using batteries technology as an alternative supply.

Given the current developments in the communication industry, the entity is strategically positioned to use its existing fibre cable networks to either lease it out as a means of communication and transfer of data.

Other options available from the entity's vending system is that it opens opportunities to be able to provide auxiliary services such as vending for water. This could be a source of alternative revenue for the entity.

As the entity has Service delivery agreements with other municipalities, it can contribute to these municipalities' debts collection process by using the vending system to collect outstanding debts at a reasonable fee.

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### **17.1 Training Centre Equipment and Staff**

With the existing facilities at the training Centre the entity can become a centre of excellence in the provision of training to current and future electricians in the province as well as nationally. The provision of these services will contribute significantly to the alternative revenue. Consideration will be made to enter memorandums of understanding with the municipalities within the province for the provision of training.

Plans are already underway to register the institution with Skill Education Training Authority and have the training centre recognised as a trade test testing centre.

### **17.2 Data (Information) Mining**

Data mining is the process of sorting through large data sets to identify patterns and establish relationships to solve problems through data analysis. Data mining tools allow enterprises to predict future trends to shape the business model of the organisation and better customer service whilst at the same time increase profits.

### **17.3 Revenue (Advertising)**

The entity has the potential to generate revenue from advertising through using the existing old power station towers. A light emotive diode (LED) screen has been procured and has been mounted on the old power station building with an intention of providing advertising facilities to businesses and the community.

### **17.4 Financial Considerations**

The current financial plan for CENTLEC is to generate funding through energy to expand into new products viz. gas, solar and related ICT services. This over time can be achieved through efficiency initiatives, cutting on losses and effective revenue management.





**The Major Sources of Funding are as follows:**

- Consumers namely, residents; government and commercial customers
- Government grants for infrastructure
- Our new focus areas are to expand on solar energy, gas and related ICT services

CENTLEC's key to success involves satisfying its customers, producing a quality product, and delivering excellent service.

**17.5 Sales Forecast**

The chart and table below show CENTLEC's projected Sales Forecast. Annual projections for three years are shown here, with first year monthly figures in the appendix.

**Table 4 - Sales Forecast**

<b>Sales Forecast</b>					
	<b>2018/2019</b>	<b>2019/2020</b>	<b>2020/2021</b>	<b>2021/2022</b>	<b>2022/2023</b>
Sales	2 371 570 849	2 513 865 100	2 664 696 206	2 811 254 497	2 965 873 495
Total Sales	2 371 570 849	2 513 865 100	2 664 696 206	2 811 254 497	2 965 873 495
Direct Cost of Sales	1 469 051 259	1 549 849 078	1 635 090 778	1 725 020 771	1 819 896 913

**17.6 Break-even Analysis**

For the break-even analysis, the monthly revenue needed to break-even is R194,459,450. The break-even analysis has been calculated on the "burn rate" of CENTLEC.

**Table 5 - Break-even Analysis**

<b>Break-even Analysis</b>	
Monthly Revenue Break-even	R 194 459 450
Assumptions:	
Average Percent Variable Cost	21%
Estimated Monthly Fixed Cost	R 154 124 600

## 17.7 Projected Cash Flow

The following table displays CENTLEC's cash flow and the chart illustrate monthly cash flow in the first year. Monthly cash flow projections should also be included in the appendix.

**Table 6 - Cash Flow**

Description	2018/19	2019/20	Current Year 2020/21			Medium Term Revenue and Expenditure Framework	
R thousands	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2021/22	Budget Year +1 2022/23
<b>Revenue by Source</b>							
Property rates							
Service charges - electricity revenue	2,392,451	2,567,898	2,724,359	2,477,915	2,477,915	2,617,151	2,784,096
Interest earned - external investments	4,267	2,938	4,507	5,177	5,177	5,487	5,817
Interest earned -	30,832	25,405	13,107	25,341	25,341	26,861	28,473

Description	2018/19	2019/20	Current Year 2020/21			Medium Term Revenue and Expenditure Framework	
outstanding debtors							
Dividends received							
Fines, penalties and forfeits	2,974	1,574	6,801	3,801	3,801	3,957	4,131
Other revenue	21,925	6,661	16,471	16,521	16,521	25,082	26,353
Gains	1,876	3,886	360	360	360	122	127
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>2,454,325</b>	<b>2,608,362</b>	<b>2,765,605</b>	<b>2,529,114</b>	<b>2,529,114</b>	<b>2,678,660</b>	<b>2,848,996</b>
<b>Expenditure By Type</b>							
Employee related costs	347,494	370,630	369,360	379,651	379,651	433,382	459,385
Remuneration of councillors	406	597	1,832	1,347	1,347	1,421	1,506
Debt impairment	(52,208)	87,129	9,298	8,392	8,392	8,736	9,121
Depreciation & asset impairment	135,052	142,487	74,148	43,765	43,765	45,559	47,564
Finance charges	9,340	17,443	57	57	57	59	62
Bulk purchases	1,501,610	1,675,544	1,641,072	1,725,241	1,725,241	1,814,953	1,952,484
Other materials	31,043	32,211	30,335	24,277	24,277	25,568	26,957
Contracted services	157,052	105,601	126,999	126,577	126,577	131,759	135,557
Transfers and subsidies			120,000	50,000	50,000	39,707	28,615
Other expenditure	306,411	260,689	71,969	53,512	53,512	55,711	58,168
Losses	5,190	11,746		245	245		

Description	2018/19	2019/20	Current Year 2020/21			Medium Term Revenue and Expenditure Framework	
<b>Total Expenditure</b>	<b>2,441,391</b>	<b>2,704,077</b>	<b>2,445,069</b>	<b>2,413,064</b>	<b>2,413,064</b>	<b>2,556,855</b>	<b>2,719,418</b>
<b>Surplus/(Deficit )</b>	<b>12,935</b>	<b>(95,716)</b>	<b>320,536</b>	<b>116,050</b>	<b>116,050</b>	<b>121,805</b>	<b>129,578</b>
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		22,609	57,500	50,492	50,492	57,500	24,869
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)	21,913	16,133	11,933	11,933	11,933	12,649	13,408
Transfers and subsidies - capital (in-kind - all)							
<b>Surplus/(Deficit ) after capital transfers &amp; contributions</b>	<b>34,848</b>	<b>(56,974)</b>	<b>389,969</b>	<b>178,475</b>	<b>178,475</b>	<b>191,953</b>	<b>167,854</b>

Description	2018/19	2019/20	Current Year 2020/21			Medium Term Revenue and Expenditure Framework	
Taxation							
<b>Surplus/ (Deficit) for the year</b>	<b>34,848</b>	<b>(56,974)</b>	<b>389,969</b>	<b>178,475</b>	<b>178,475</b>	<b>191,953</b>	<b>167,854</b>
<i>References</i>							
1. Revenue includes sales of: (insert description)							
2. Bulk purchases - electricity							
2. Bulk purchases - water							
3. Expenditure includes repairs & maintenance of:							



## 18. PROJECTED BALANCE SHEET

Description	2017/18	2018/19	2019/20	Current Year 2020/21			Medium Term Revenue and Expenditure Framework	Budget Year 2021/22	Budget Year +1 2022/23
				Original Budget	Adjusted Budget	Full Year Forecast			
<b>R thousands</b>	<b>Audited Outcome</b>	<b>Audited Outcome</b>	<b>Audited Outcome</b>	<b>Original Budget</b>	<b>Adjusted Budget</b>	<b>Full Year Forecast</b>	<b>Budget Year 2021/22</b>	<b>Budget Year +1 2022/23</b>	
<b>ASSETS</b>									
<b>Current assets</b>									
Cash	81,468	13,556	32,388	61,140	84,119	84,119	87,568	91,421	
Call investment deposits	53,265		5	66,211	1,136	1,136	1,182	1,235	
Consumer debtors	586,442	768,845	866,024	780,621	887,921	887,921	924,326	964,996	
Other debtors	275		2,670,040		64,083	64,083	66,710	69,645	
Current portion of long-term receivables	67,030	67,337							
Inventory	99,749	87,664	107,776	93,799	95,276	95,276	99,182	103,546	
<b>Total current assets</b>	<b>888,230</b>	<b>937,402</b>	<b>3,676,233</b>	<b>1,001,771</b>	<b>1,132,535</b>	<b>1,132,535</b>	<b>1,178,969</b>	<b>1,230,844</b>	
<b>Non-current assets</b>									
Long-term receivables	4,566	4,190							
Investments									
Investment property									
Investment in Associate			1,124						
Property, plant and equipment	3,809,367	3,851,457	6,684,549	4,090,781	6,806,984	6,806,984	6,985,685	7,137,087	
Biological									
Intangible	100,820	96,863	81,638	86,237	99,070	99,070	102,393	105,863	
Other non-current assets	300,817	454,433	1,296,498	254,080	1,245,487	1,245,487	1,296,242	1,352,976	
<b>Total non-current assets</b>	<b>4,215,570</b>	<b>4,406,943</b>	<b>8,063,809</b>	<b>4,431,099</b>	<b>8,151,542</b>	<b>8,151,542</b>	<b>8,384,320</b>	<b>8,595,926</b>	
<b>TOTAL ASSETS</b>	<b>5,103,800</b>	<b>5,344,345</b>	<b>11,740,042</b>	<b>5,432,870</b>	<b>9,284,077</b>	<b>9,284,077</b>	<b>9,563,289</b>	<b>9,826,769</b>	
<b>LIABILITIES</b>									
<b>Current liabilities</b>									
Bank overdraft									
Borrowing		20,282		24,257	24,257	24,257	25,252	26,363	
Consumer deposits	114,471	115,053	127,725	100,627	120,279	120,279	125,211	130,720	

Trade and other payables	565,613	855,978	5,066,052	538,824	714,917	714,917	744,229	776,975
Provisions		31,374	36,024	34,864	34,864	34,864	36,293	37,890
<b>Total current liabilities</b>	<b>680,084</b>	<b>1,022,688</b>	<b>5,229,802</b>	<b>698,572</b>	<b>894,318</b>	<b>894,318</b>	<b>930,985</b>	<b>971,948</b>

<b>Non-current liabilities</b>								
Borrowing								
Provisions	594,245	687,953	1,504,032	654,341	1,564,542	1,564,542	1,628,688	1,700,351
<b>Total non-current liabilities</b>	<b>594,245</b>	<b>687,953</b>	<b>1,504,032</b>	<b>654,341</b>	<b>1,564,542</b>	<b>1,564,542</b>	<b>1,628,688</b>	<b>1,700,351</b>
<b>TOTAL LIABILITIES</b>	<b>1,274,328</b>	<b>1,710,641</b>	<b>6,733,833</b>	<b>1,352,913</b>	<b>2,458,860</b>	<b>2,458,860</b>	<b>2,559,673</b>	<b>2,672,299</b>
<b>NET ASSETS</b>	<b>3,829,471</b>	<b>3,633,704</b>	<b>5,006,209</b>	<b>4,079,957</b>	<b>6,825,217</b>	<b>6,825,217</b>	<b>7,003,616</b>	<b>7,154,471</b>
<b>COMMUNITY WEALTH/EQUITY</b>								
Accumulated Surplus/(Deficit)	2,369,341	755,147	668,520	1,424,153	1,291,755	1,291,755	1,525,489	1,731,124
Reserves	1,460,130	2,878,556	4,337,689	2,655,803	5,533,462	5,533,462	5,478,128	5,423,346
<b>TOTAL COMMUNITY WEALTH/EQUITY</b>	<b>3,829,471</b>	<b>3,633,703</b>	<b>5,006,209</b>	<b>4,079,957</b>	<b>6,825,217</b>	<b>6,825,217</b>	<b>7,003,616</b>	<b>7,154,471</b>

## 19. CONCLUSION CENTLEC VISION 2027

Managers should create a learning appetite for employees as an essential requirement for a robust lifelong learning strategy. In a way, this approach will assist with redeployment of employees from areas of the organisation that are uncompetitive and moving to those which are stable or growing. Focus on staff development will assist CENTLEC by linking its long-term business strategy to ensure that 'skill flight' does not lead to insufficient skills mix in years to come.

The table below provides a ten-year step by step view of the journey that CENTLEC intends to take in redefining its business. The immediate focus will be on CENTLEC's vision for 2027.

**Table 1 - Vision**

Year	DISTRIBUTION		GENERATION
2018	<ul style="list-style-type: none"> <li>☞ Establish a Project Management &amp; Implementation Team</li> <li>☞ Presentation to Provincial Executive and Municipal Stakeholders</li> <li>☞ CENTLEC to assume electricity distribution in all FS Municipalities in terms of SLA's with Local Municipalities</li> <li>☞ Provincial Legislation to establish Schedule 3 Part D Provincial Entity (in terms of the PFMA) – Obtain National Treasury Approval</li> <li>☞ FS shared system /infrastructure strategy</li> <li>☞ CENTLEC re-constituted as a Provincial distributor in terms of enabling legislation</li> <li>☞ Funding Strategy Approved &amp; Implemented</li> </ul>	<ul style="list-style-type: none"> <li>☞ Preparation of Provincial Electricity Management Risk Strategy (Business Continuity Strategy)</li> <li>☞ Change &amp; stakeholder management strategy</li> <li>☞ AMI System Implemented</li> <li>☞ Smart Metering System</li> <li>☞ Provincial ICT, Network Design &amp; Acquisition</li> <li>☞ Acquire contract management system</li> <li>☞ Use the Asset management system</li> <li>☞ Phase 1 – In house training for Vending Staff</li> <li>☞ Upgrade SCADA system</li> <li>☞ Optimise financial system</li> <li>☞ Integrate all systems</li> </ul>	<ul style="list-style-type: none"> <li>☞ FS sustainability energy strategy (Renewable energy strategy)</li> <li>☞ Develop Carbon credit revenue strategy</li> </ul>



Year	DISTRIBUTION		GENERATION
		☛ Design & Establish CENTLEC FS Call centre	
2019	<ul style="list-style-type: none"> <li>☛ Smart Technology Metering Implementation – Phase 2 Implemented</li> <li>☛ Phase 2 – Smart Street lighting</li> <li>☛ Phase 2- In-house Vending Staff operational</li> </ul>	<ul style="list-style-type: none"> <li>☛ Provincial ICT, Network Implementation – Phase 1</li> <li>☛ Priority area 1 - networks upgraded</li> </ul>	☛ Carbon credit revenue strategy
2020	<ul style="list-style-type: none"> <li>☛ Smart Technology Metering Implementation – Phase 3 Implemented</li> <li>☛ Phase 3 - Smart Street lighting</li> </ul>	<ul style="list-style-type: none"> <li>☛ Provincial Communications Network Implementation – Phase 2</li> <li>☛ Priority area 2 - networks upgraded</li> </ul>	
2021	Smart Technology Metering Implementation – Phase 4 Implemented		☛ 25% Renewable energy in FS
2022	<ul style="list-style-type: none"> <li>☛ LV network Automation Strategy Approved – Phase 1 Implemented</li> <li>☛ Priority area 3 – networks upgraded</li> </ul>	☛ Phase 4- In-house Vending Staff fully competent and operating independent of the service provider	

Year	DISTRIBUTION		GENERATION
2023	☞ Phase 1- Security Monitoring Mechanism (CCTV cameras) installation.		☞ 50% Renewable energy in FS
2024	☞ Phase 2- Security Monitoring Mechanism (CCTV cameras) installation.		
2025	☞ Phase 3- Security Monitoring Mechanism Control Room Operational.		☞ 60% Renewable energy in FS
2026			70% Renewable energy in FS
2027			☞ 80% Renewable energy in FS

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## 20. NORMATIVE REFERENCES

- *CENTLEC Business Plan: 2015-2017*
- *CENTLEC Annual Report: 2016/2017*
- *CENTLEC Annual Report: 2017/2018*
- *CENTLEC Annual Report: 2018/2019*
- *CENTLEC Annual Report: 2019/2020*
- *CENTLEC Annual Report: 2020/2021*
- *2018 SALGA Energy Summit*
- *Free State Growth and Development Plan*
- *Mangaung Integrated Development Plan (IDP) 2022 -2027*

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