MANGAUNG
AT THE HEART OF IT ALL

CENTLEC
Reg No. 2003/011612/30

CENTLEC (SOC) Ltd.
BUSINESS PLAN
2021 - 2023

AGREEMENT

The undersigned confirms that the information provided by Centlec (SOC) Ltd in this business plan is public. The reader agrees to acknowledge Centlec (SOC) Ltd if any of the data and information is to be used by the reader preferably with expressing written permission of Centlec (SOC) Ltd.

It is acknowledged by the reader that information to be furnished in this business plan is in all respects for public benefit; hence it is published on our website and is approved by council for public consumption. Accordingly, Centlec (SOC) Ltd would welcome any constructive criticism and inputs in this regard.

Upon request, this document is to be immediately returned to Centlec (SOC) Ltd.

[Surname & Initials]: _____ Signature: _____

Chief Executive Officer

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LIST OF ACRONYMS

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

1. EXECUTIVE SUMMARY

In line with the Municipal Finance Management Act (MFMA) CENTLEC management undertook an ongoing process to develop and revise our existing strategy. This will allow CENTLEC to achieve its objectives, considering our capabilities, constraints, and the environment in which we operate. Electricity systems around the world are balancing a diverse set of challenges, ranging from energy security and access to environmental and public health concerns.

At the same time, the energy landscape is changing rapidly as a result of three trends disrupting the status quo. These include:

- Renewable energy technologies and energy efficiency services
- Small distributed generation and storage that are being deployed at larger scale.
- Unprecedented growth and cost improvements in renewable energy sources.

Individual homeowners and commerce are fast becoming our 'competitors' through off-grid solutions. The affordability of renewable energy will lead to growing demand from consumers. This trend will continue as solar panels continue to be more efficient. Government policies that support these non-utility generators and aim to increase clean energy use are expanding as noticed during the Eskom's announcements on increasing renewables. These trends are happening in both high income countries and lower income countries. These trends are increasingly challenging the traditional way in which the network operates, with implications for regulators, planners, utilities, and individuals alike. While these challenges can be seen as a threat, they also present many opportunities if they are considered and planned for accordingly.

2. 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.

2.1.1 VISION

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

2.1.2 MISSION

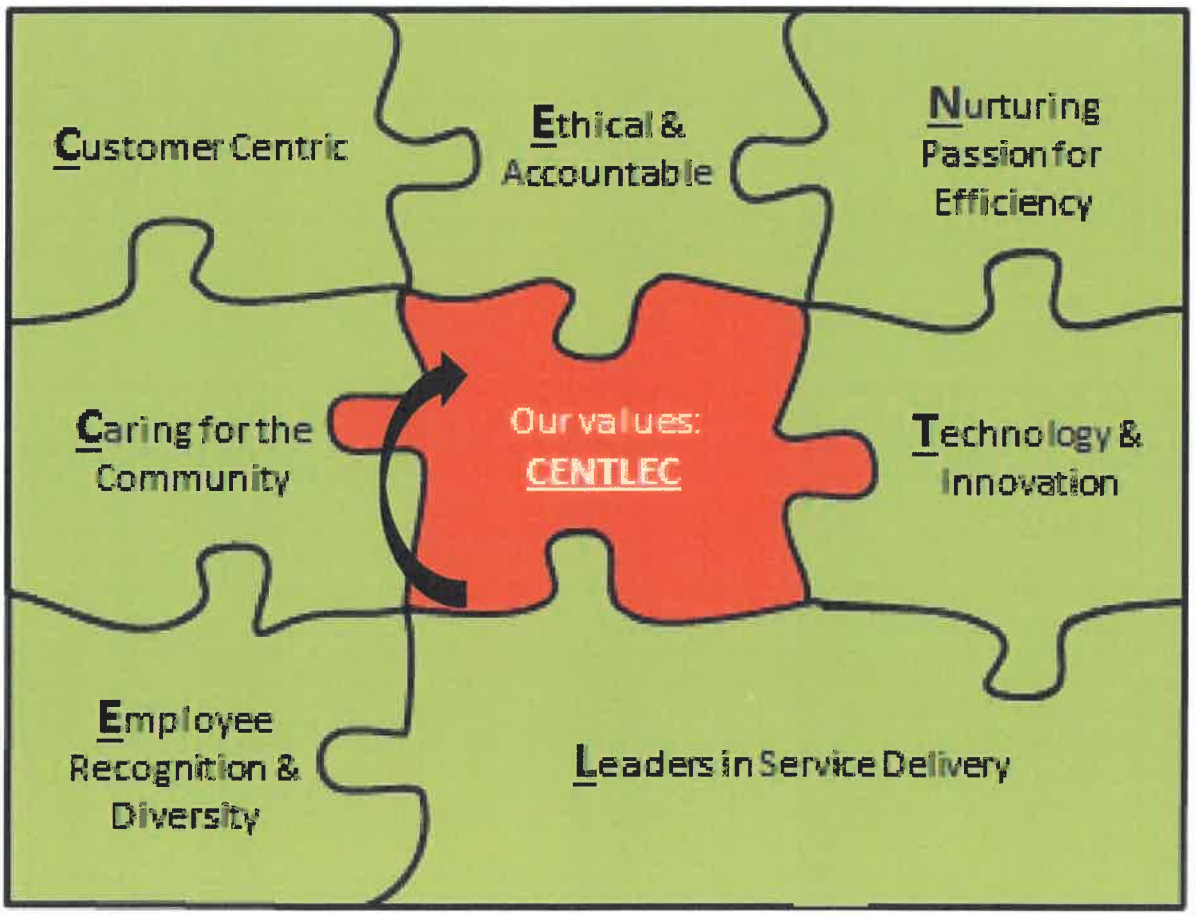
- To provide optimal service delivery as mandated by the Mangaung Metropolitan Council
- To strategically manage our operations in an effective, efficient and financially prudent manner, as measured against relevant indicators
- To seek the most cost effective and innovative energy solutions in partnership with relevant stakeholders in order 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

2.1.3 VALUES

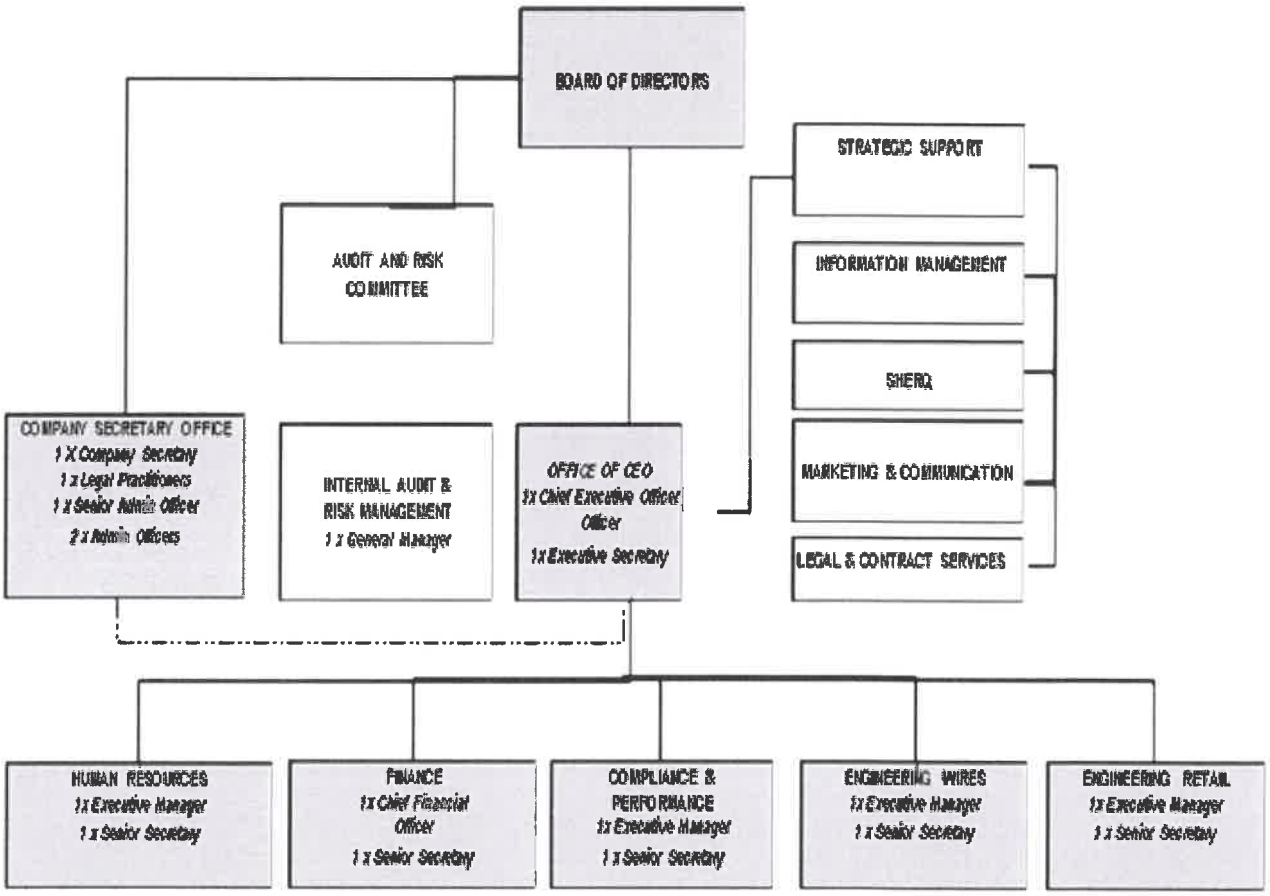
The chart below details the values of the entity:

Figure 1 - *Values of the entity*



2.1.4 HIGH-LEVEL ORGANISATIONAL STRUCTURE

Figure 2 (*High-level organisational structure)*



3. OPERATIONS OVERVIEW

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 were CENTLEC operates, which will ultimately translate into better businesses, below is an overview key operation.

3.1.1 Retail Overview

The Engineering Retail Directorate consists of three divisions as indicated in the structure of the entity and these are:

- **Customer Services & Revenue Management:** which deals with all customer related issues and metering with associated functions,
- **Energy and Trading Services:** is transactional in that it manages the ESKOM
- bulk purchase accounts, all sales systems and metering, and
- **Systems engineering:** focuses on technology and ensuring that all systems integration happens and that CENTLEC matures to a smart organization.

The directorate is responsible for revenue generation in Centlec and also manage customer relationship. Engineering Retail aligned itself with the new structure and has budgeted accordingly to ensure readiness of the divisions moving forward.

The Strategic plan includes strategic initiatives of the directorate and of the entity which are reported against the business plan tabled for 2019- 2023.Streamlining purposes of CENTLEC initiative in the FS, advance a wave of innovative technologies to uplift efficiency, increase productivity, and reduce redundancy. Operations improvements were realized in the various municipalities were CENTLEC operates, which will ultimately translate into better businesses, below is an overview key operation.

3.1.2 Strategic objectives and goals

3.1.2.1 Short term goals

- Engage on stakeholder management with customers and suppliers (Process started already) Communication strategy enhancement (Internal and External communications). This will ensure that employees understand business process thoroughly and they contribute towards a firm customer relationship. This will also ensure that the values of the Centlec are maintained.

  A dedicated revenue team created with Engineering Retail and Finance (Revenue Management). Amongst the functions of the above mentioned team is to deal with the followings:

- Disconnection due to Non payment
- Debt analysis and reduction of aging debt to current debt by clearing 120, 90, 60 and 30 days accounts
- Conventional meters to prepaid for residential to and businesses
- Eradicating the estimated billing to warrant clean collectable revenue to correcting the billing system on accounts.
- Meter inspection on Bulk and prepaid meters to minimise non-technical losses in line with the Revenue enhancement strategy of Centlec, in accordance to metering standard of NRS 055,057 and the SANS 094.

3.1.2.2 Mid-term goals

- The Energy industry is evolving to be more web like system with a massive implementation of Distributed Energy Resources (DER) and home generation. The power flow is no longer going to be unidirectional, but can flow in any direction from the distribution system.

- This new topology opens the door to new capabilities such as power exchange between customers, forcing Centlec to find new revenue sources. This will largely impact the existing business model of Centlec and the energy industry.
- The introduction of Net metering tariff to accommodate Centlec's customers on the Small Scale Embedded Generation (SSEG) is in place. The tariff is approved by National Energy Regulator of South Africa (NERSA).

3.1.2.3 Long term Goals

- During the coming years, the nature of business will change dramatically for the energy sector. It will be affected by different challenges such as disruptive technologies, aging infrastructure, aging workforce and a new generation of customers.
- Digitization, distributed generation, renewable integration and domestic generation will all affect different aspects of Centlec's business model.
- Luckily, the new technologies present tremendous opportunities for Centlec and electrical energy to redefine a new business model.
- CENTLEC has got a generation licence for 103.00 MW. This could have been adequate to supply about 35% of CENTLEC's current energy needs, notwithstanding maximum demand periods. The highest maximum demand for the period between (2017/18) and (2020/21) financial year was 266.00 MW and 256. MW.

3.1.3 Wires

3.1.4 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 land owners, content of the conditions are 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.

3.1.5 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 is 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.

3.1.6 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 main 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

4. STRATEGIC OBJECTIVES AND GOALS

4.1.1 Service Delivery Project Accelerations and Forward Planning for Electrical Infrastructure projects

To ensure that all priority project related to service delivery are identified and allocated in the electrical master plan of each town and received all required approvals before they are placed on the budget.

Table 5: *Planning and Service Delivery for Electrical Infrastructure projects*

No	Performance Target	Time frame
4.1.1	To acquire land for placing and housing of electrical equipment	FY 21/23
4.1.2	To create capacity based on the existing and future development's electrical demands.	FY 21/23
4.1.3	To align the planning, asset creation with the IDP and NDP requirements.	FY 21/23

4.1.2 Capital Projects Prioritization and Funding

To ensure that all identified capital projects are correctly estimated and within affordable budgetary parameters before they are submitted for budget approval.

4.1.3 Table 6: *Capital* Projects Prioritization and Funding

No	Performance Target	Time Frame
4.2.1	Conduct market analysis for estimating project cost.	FY 21/22
4.2.2	Compile detailed work specification to procure quality services and goods at the market related prices.	FY 21/22
4.2.3	Continuous monitoring, evaluation and reporting on project progress for budgeting purposes.	FY 21/22
4.2.4	Replacement of existing 32V and 110V Batteries and Chargers at a rate of 10% per annum.	FY 21/22
4.2.5	Replacement and/or refurbish existing Ripple Control equipment, Protection and SCADA equipment on as needed basis.	FY 21/22
4.2.6	Replacement and/or refurbish existing Medium and High Voltage Test equipment including Overloaded Transformers on the distribution network on as needed basis.	FY 21/22

4.1.4 Improve Infrastructure Performance

Table 7: *Improve Infrastructure Performance*

No.	Performance Target	Time frame
4.3.1	Perform Short Term routine maintenance and services on all Distribution transformers once every 3 months.	FY 21/22
4.3.2	Perform routine maintenance and tests on all Distribution centres protection equipment once every year.	FY 21/22
4.3.3	Perform Planned Interruptions of the supply to perform planned maintenance should be restored as per NERSA license requirement. Unplanned Interruptions of the supply to be used to	FY 21/22

	bring forward the unforeseen maintenance as results of equipment failures.	
4.3.4	Adhere to schedules for both maintenance and refurbishment of all overhead and underground infrastructure networks from 132kV to 230V.	FY 21/22
4.3.5	Follow up on all trip reports, prioritise reoccurring faults, regularly inspect and repair identified faults.	FY 21/22

A regular maintenance schedules as per the maintenance plans to be executed including correct application of infrastructure protection settings.

4.1.5 Infrastructure Management and Control

To ensure that the entity meets its infrastructure standards with regards of quality of service as stipulated by NRS standards.

Table 8: *Infrastructure Management and Control*

No.	Performance Target	Time frame
4.4.1	Monitoring and reporting on the actual data against the standard on the performance of the network.	FY 21/23
4.4.2	Weekly meetings to inform management and all involved parties of the status network and infrastructure.	FY 21/23
4.4.3	Timeously identifying and report risks to the network and infrastructure.	FY 21/23
4.4.4	Introduce automated systems moving towards smart grid to enhance quick response.	FY 21/23

4.1.6 Optimal Customer Service

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

Table 9: *Optimal Customer Service*

No.	Performance Target	Time frame
4.5.1	Ensure the flow of reliable information to various platforms.	FY 21/23
4.5.2	CRM system that provide customer integration and two-way information sharing in real-time with the assistance of an automated smart grid real-time reporting systems.	FY 21/23
4.5.3	To have a reliable customer data base.	FY 21/23
4.5.4	To provide reliable information and timely, courteous customer service.	FY 21/23

4.1.7 Human Resources Management

The functional areas of Human Resource Directorate are divided into:

4.1.7.1 Human Resources Management

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

4.1.7.2 Human Resources Development

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

4.1.8 FINANCE DIRECTORATE

The Directorate is responsible for performing various financial management functions of the entity including budgeting, accounting analysis, financial reporting, cash management, debt management and supply chain management. This directorate consist of the following divisions which perform functions guided by the MFMA:

- Revenue Management
- Supply Chain Management
- Accounting & Compliance
- Expenditure Management
- Payroll Management

4.1.9 PERFORMANCE AND COMPLIANCE DIRECTORATE

The Directorate delivers supporting services to the entity and consists of the following divisions:

- Facilities Management
- Security,
- Fleet,
- Occupational Health Safety, and
- Compliance Management
- Performance Facilities.

5. LEGISLATIVE AND OTHER MANDATES

5.1.1 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.

5.1.2 Policy Mandates

In terms of the Service Delivery Agreement (SDA) entered into by and between Mangaung Metropolitan Municipality and CENTLEC (SOC) Ltd, CENTLEC 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.

5.1.3 Planned Policy Initiatives

In line with the SDA provisions as outline above, the entity plans to continue or initiate the following most important policy initiatives for the period under review, which are necessary to achieve developmental objectives:

- Operational and Capital Optimisation: (i.e. Embrace Culture of Continuous Improvement);
- Revenue Enhancement and Continuous Exploration of Growth Options;
- Capacitate and Empowered Workforce;
- Optimal Service Delivery; and
- Good Governance Practices & Stakeholder Engagement.

5.1.4 Strategic Imperative

Although CENTLEC is commonly referred to as being in the electricity distribution business, it is important to note that its core business is delivering reliable energy at a reasonable cost to its customers' sites. The Engineering Wires business (the business of distributing electricity) is a conduit through which it achieves its objectives but it's not core business per se. CENTLEC will develop a new strategic plan in order to redefine its business and deal with the current challenges and the future demands of the customers. Central to the strategy, will be the revival of electricity generation using renewable feed stock and other sources of clean energy development as well as gas reticulation as the thrust of that strategy.

CENTLEC will investigate, draft and adopt an ambitious strategy to generate 100% of the energy consumed by indigent customers in the FS Province from gas and renewable means as a secondary strategy in support of its main business. Such a drive would benefit the province and most companies operating in the province.

Strategies for consolidating the municipal distributors in the province will be formulated as it will be the first step in the restructuring of electricity distribution in the municipalities of the FS. Innovative ways of addressing the province's capital backlogs for network upgrades will be explored and implemented quickly in order to solve some of the current distribution challenges in the province.

6. FS PROVINCE DISTRIBUTION NETWORK

Municipalities in the FS Province have got an estimated R3.9 billion capital backlog. The municipalities will not be able to address the backlog on their own, unless government provides the required capital. The EDI Restructuring process has paralysed the whole industry into inaction as there seems to be some thinking that the backlog will only be addressed once restructuring occurred, and since restructuring has failed it's time for CENTLEC to provide thought leadership and lead from the front. The country cannot afford such delays, and CENTLEC must take the initiative and kick start addressing the backlog in the FS Province. This will be a provincial initiative geared to provide the necessary electricity infrastructure at the desired growth points in the province. CENTLEC can translate this dangerous state of affairs into a business case and pursue it with vigour such that it becomes a national agenda of some form.

CENTLEC should opt to enter into an annuity concession agreement for an extended period of about 10 to 15 years with FS municipalities, their design, construction and maintenance functions to be taken over by CENTLEC. Staff members working in those areas can either be seconded to CENTLEC in order to up-skill them as CENTLEC converts regional services to a division that will offer engineering services to government departments and other electricity users in the FS Province. This will

create additional revenue and if managed appropriately could lead to the Engineering Services being self-sustaining.

6.1.1 Defining our Current Market

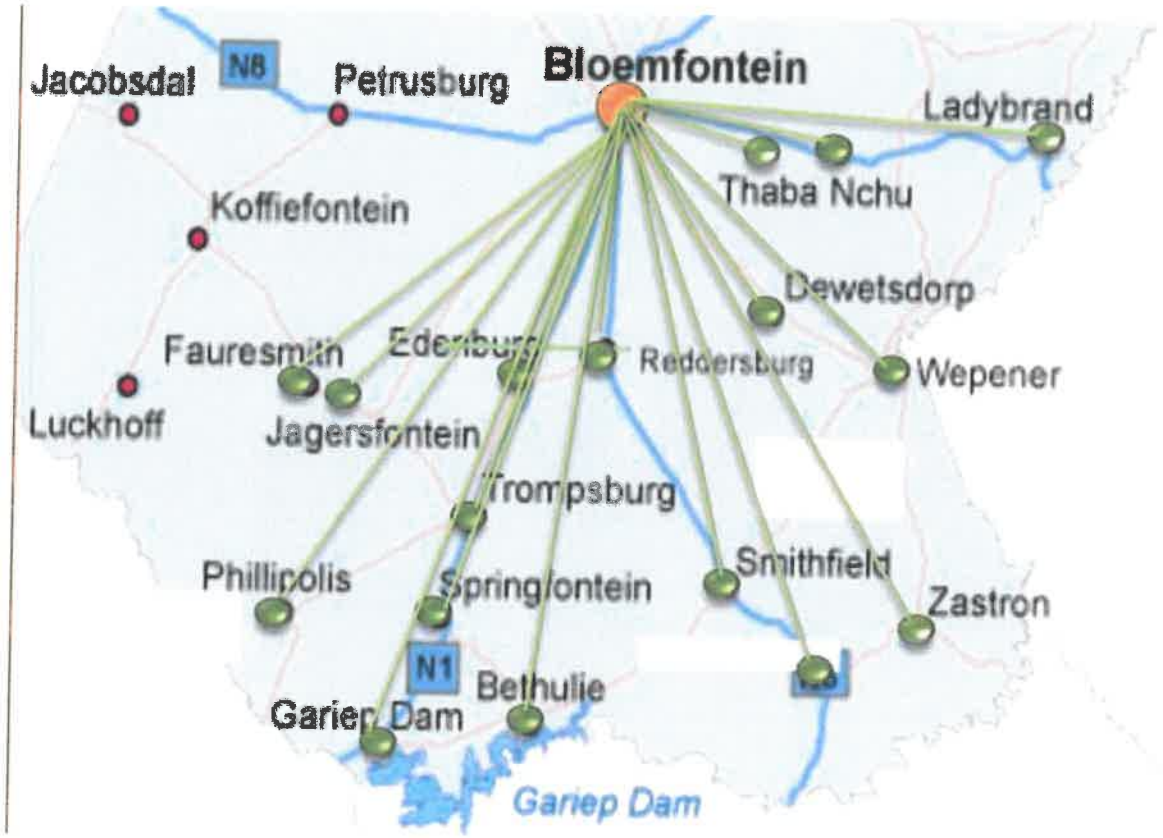
CENTLEC distributes electricity to the Mangaung, Kopanong, Mantsopa and Mohokare local municipalities. Ordinance 8 of 1962 was assigned to the FS in 1994 and is the enabling regulatory framework which allows the provision of electricity distribution services outside MMM's political boundaries.

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 the majority of 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 2** - Our current market*



6.1.2 Electricity Generation

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 been adequate to supply about 50% of CENTLEC's energy needs, notwithstanding maximum demand periods. The highest maximum demand for the period 2017/18 financial year was 266.00 MW. The previous year (2019/20) the figure was 256.00 MW.

6.1.2.1 *Self-Sustainability Model*

For the Free State (FS) government to achieve its economic growth strategy, it needs to pursue a self-sustainability model. The province needs to become a net exporter of goods and services to other provinces and countries. This can be achieved by maximising on its strengths, addressing its weaknesses and developing mitigation strategies for current and potential risks. The development and value adding of mineral resources within the province is one of the strengths that can be capitalised on. However, this cannot be realised if the country cannot supply adequate cheap electricity in order to enable the development.

There is a need for FS to generate its own electricity in order for it to have greater control of its destiny. Power generation becomes a value adding activity in the value chain for the exploitation of the FS potential. The province can become a net exporter of electricity to neighbouring provinces and Lesotho if it position itself well in areas such as solar farm and gas reticulation.

6.1.2.2 *Market for Electricity in the FS Province*

According to the Department of Energy, in 2012 the municipalities alone consumed about 3,753 Gigawatt-hours as shown in the table below. About 63% of the power consumed in the FS is distributed by Eskom, with the FS municipalities distributing the balance of about 37%. Eskom supplies mostly the mining, industrial and commercial customer whilst municipalities supply predominantly domestic customers. The FS customer base is anticipated to grow once infrastructure projects such as the development of the coal reserves have commenced.

Table 1 – *Usage of municipalities*

Year	Municipalities	Customers	MWh
2012	EC	673 010	15 942 483
2012	FS	490 160	3 753 872
2012	GP	1 639 607	34 348 169
2012	KZN	915 114	16 102 344

2012	LMP	180 107	2 612 654
2012	MP	305 426	2 851 607
2012	NC	144 699	1 061 979
2012	NW	222 677	4 268 590
2012	WC	983 017	15 595 621

6.1.2.3 Social Impacts

Creating power generation capacity in whatever form as a provincial initiative will have benefits to South Africa and the FS province. Some of the expected impacts are listed below:

- Employment generation during construction and operation;
- Boost the province and country's Gross Domestic Product;
- Poverty reduction;
- Create new industries;
- Contribute towards BEE;
- Skills development

7. CENTLEC'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 in order 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 in order to paint the government in bad light. This can be achieved through bad strategies and or poor execution of sound strategies.

8. 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 is 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 also fits between risks and expectations.

8.1.1 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.*

8.1.2 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.

8.1.3 Strengths

Strengths - internal attributes and resources that support a successful outcome

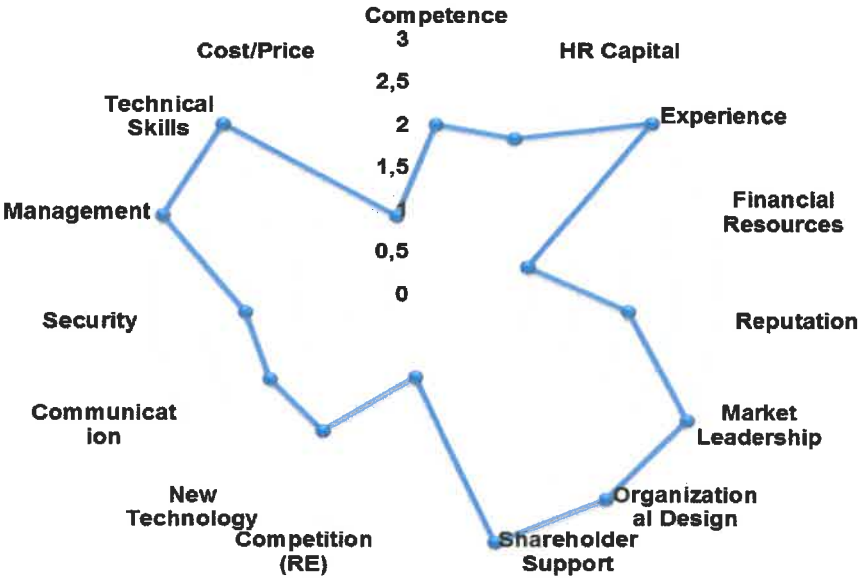


Figure 3 *– Strengths*

Table 2 *- Strengths*

COMPONENT	MEASUREMENTS	RATING
HR Capital	Managerial, technical and administrative competence; Staffing adequacy, experience, organizational design and management	15/6 = **2.5**
Technology	Technology, security and competition	5/3= **1.7**
Finance	Financial resources and cost or price advantage	2/2 =**1**

Marketing/ Communication	Communication channels, positioning, reputation and shareholder support	10/4 = **2.5**

8.1.4 HR Capital Interpretation

Resource balancing notwithstanding, we have adequate staff for the size of our company, we are also ahead on the experience curve in comparison to all other Free State (FS) municipalities in as far as electricity distribution industry (EDI) is concerned; We have well-conceived functional areas with relative all round managerial, technical and administrative skills;

HR Capital Challenges: What seem to pull us back is the modern skills that are required for the smart electrical networks of not so far, in future. The long-time stability of the EDI has enabled longevity of employment unparalleled in most other businesses. As a result, CENTLEC finds itself with an aging workforce that has begun to rapidly dissipate. The retiring workers take with them decades of institutional knowledge and expertise. This leaves us with the challenge of reaching, recruiting, training and retaining new employees. Secondly, as described above, entirely new expertise and experience is needed for CENTLEC to deal with the new components and complexities of the modern grid. This means new kinds of employees, with more and more information and communications technology (ICT) capabilities than ever before.

8.1.5 Interpretation of Technology Dimension

Our assessment suggests that CENTLEC can't do without some aspects of horizontal integration when it comes to strategy development. For that to happen CENTLEC must grapple with the subject of "Grid Edge." The most important and impactful developments in the EDI will be at the distribution edges of the grid, and not in the bulk power grid. Many if not most of these developments will be on the customers' sides of the meters.

This means tremendous challenges for CENTLEC, but at the same time it brings with it fantastic opportunities to bring a new and better products and services to our consumers and communities.

This means not only more complexity of planning, operations and management, it means handling big data. Real-time data that must be instantly sensed, analyzed and acted upon. The not so distant future will compel us to sell products and services that were traditionally not our forte.

***Technology Challenges*:** Whilst we have adopted new technologies namely smart metering, and dynamic vending solutions through third parties. We remain challenged by managing what we don't really know rendering us vulnerable to service providers. Paying particular focus on the modernization and upgrading ICT skills for our workforce must take centre stage. We are yet to define and adequately understand new services that will be required by our new generation of technologically competent customers. The new narrative of green economy has lowered entry barriers in our industry, putting pressure on us through renewable energies (RE).

As the grid becomes more digital, with greater automation, cyber security is beginning to pose a great threat to grid reliability and customers' data. When it comes to the latter we are found wanting with our security department -*let alone physical fitness*- not having a clue of the risks in this area. What is more disturbing, we are still unable to bring cable theft and related crimes under control causing insecurity to the digital and physical grid. Detecting and responding as well as anticipating and preventing physical attacks will be increasingly important due to dependability of automated grids on reliable supply. Put differently we need adequate all-round security enclosure;

8.1.6 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.

8.1.7 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.

Challenges: Besides being an acknowledged market leader within the EDI, we also have effective communication channels, and shareholder support. We did suffer a setback when it comes to reputation. The cause of reputational damage was due to power failures and response times as a result of ageing infrastructure.

8.1.8 Weaknesses

Weaknesses - internal attributes resources that work against a successful outcome.

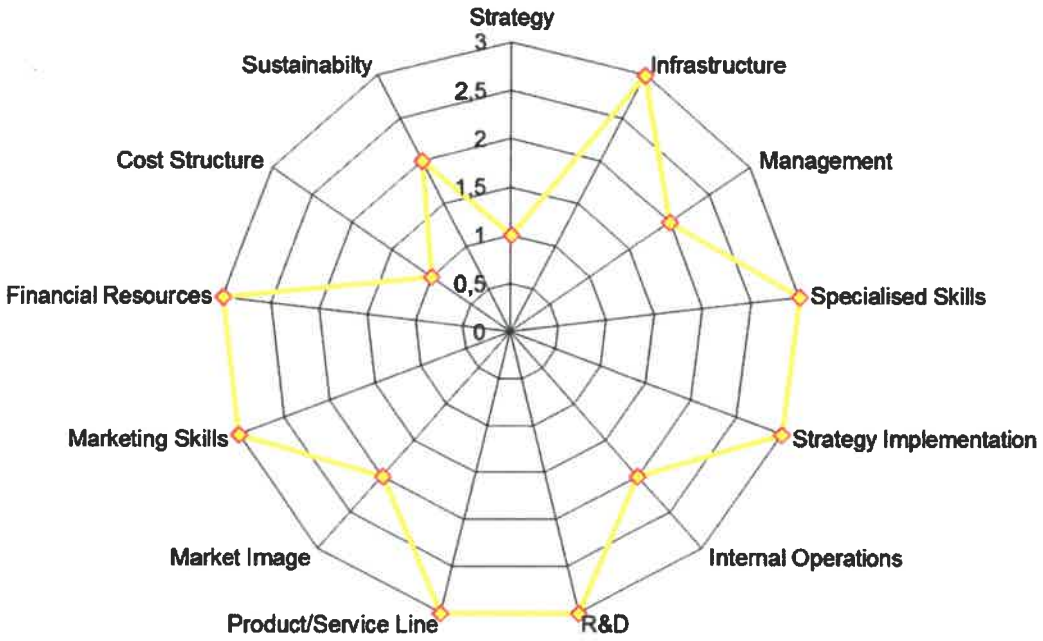


Figure 4 – *Weaknesses*

Table 3 *- Weaknesses*

COMPONENT	MEASUREMENTS	RATING
Sustainability	Sustainability, funding of changes and operational costs	6/3 =**2**
Operations	Infrastructure, depth, skills and operations	10/4=**2.5**
Strategy	Strategic direction and implementation; marketing and image, and service line.	12/5=**2.4**
R&D	We are falling behind on research and development	**3**

8.1.9 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.

8.1.10 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.

8.1.11 Strategy

We have a poor track record in implementing strategy and whilst our strategy was once great we appear to be lacking clear strategic direction for the modern network and enterprise due to lack of digital plan. On the marketing front we have below average marketing skills and a narrow service line with a weak market image;

8.1.12 Research and Development (R&D)

When it comes to R&D we are non-existent. In whatever small way or through partnership we have to undertake activities in the R&D environment. We can enhance our training center to include a R&D section equipped with a complete testing rooms and laboratory. In doing so we could complement our vending efforts amongst others by harnessing research skills to specialize in software, microelectronics, telecommunications, power electronics, structural design and other professional fields such as researching on smart grid power grids.

8.1.13 Opportunities

Opportunities - external factors the project can capitalize on or use to its advantage.

Figure 5 *-Opportunities*

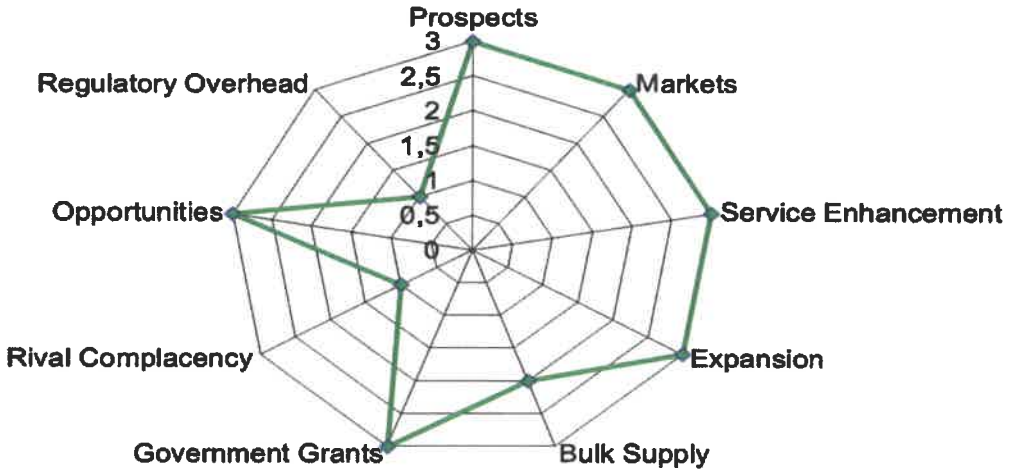


Table 4 - *Opportunities*

COMPONENT	MEASUREMENTS	RATING
Opportunities	Prospects, markets, enhancement, expansion, vertical integration and opportunities	18/6=**3**
Regulation	Regulatory burden	**1**
Government Support	Grants	**3**
Competition	Rival complacency	**1**

8.1.14 Interpretation of Opportunities' Component

We have additional customer groups that we could serve through for an example beyond the meter energy services and data offerings; Through on the other side of meter services that are not regulated we can exploit new market segments; We can enhance our service line to meet customer needs by way of example video telephony using our expanded broadband infrastructure; and Wi-Fi services through our metering infrastructure. We are already embarking on provincial services as per the SOPA directive;

Plans are also underway to play a role in the bulk supply space for purpose of controlling price through vertical integration. The market is growing faster than in the past with more opportunities. Modernization of grids brings with it opportunities with new methods of sensing, analyzing and operating electric distribution systems in the presence of probabilistic rather than deterministic variables. More independent moving parts will require a truly smart distribution grid, not just so called "smart" meters and time of use pricing schemes.

8.1.15 Regulation

Without doubt fewer regulatory requirements will make doing business easier for us. But we can never wish regulatory protection on our part due to a major component of public good in our business. To that extent, we will seek ways to lobby policy makers

to ensure recovery of lost revenues in future rate cases. As an industry leader in our own right we will make call for future tariff structures for non-DER customers to pay for lost revenues.

***Regulatory Challenges*:** As DER penetration increases, the proposed cost-recovery structures in the preceding paragraph will lead to political pressure to undo these cross subsidies and may result in EDI utility stranded cost exposure.

8.1.16 Government Support

We continually take advantage of the available government grants for electrification, smart grid initiatives and pilot projects e.g. MSCOA.

8.1.17 Competition

Competition Challenges: Our unconventional rivals are not becoming complacent and they are not professional.

8.1.18 THREATS

Threats - external factors that could jeopardize the project

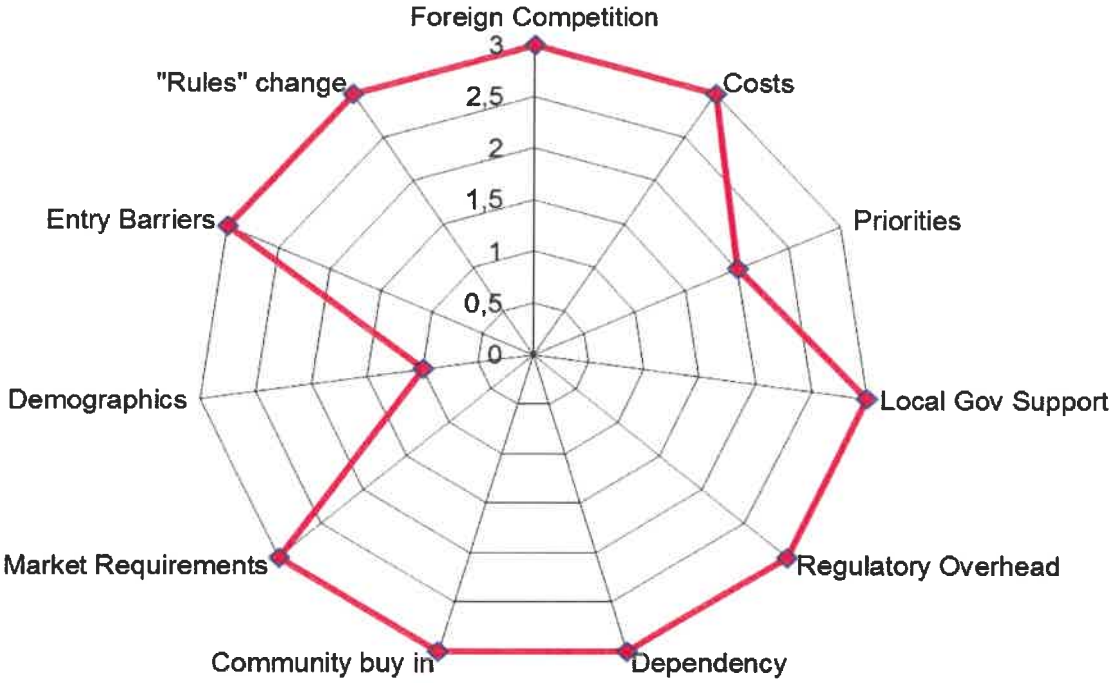


***Figure 6** – Threats*

***Table 5** - Threats*

COMPONENT	MEASUREMENTS	RATING
Stakeholders	Shareholder support on new strategic direction, and broader stakeholder buy in.	6/2=**3**
Demographics	Market requirements and demographics	4/2= **2**
Foreign Competition	Low-cost foreign competitors, rising costs and entry barriers	9/3=**3**
Dependency	Priorities, regulatory costs, changing rules and dependency	11/4= **2.8**

8.1.19 Stakeholders

In the absence of a detailed business plan with detailed projections it might be near impossible to secure shareholder support for the new strategic direction. The latter should be followed by massive stakeholder engagement to increase buy in and support. The value preposition should be premised on the benefit to the society at large followed by sustainability aspects.

8.1.20 Demographics

Community needs are changing in directions that point away from our current expertise e.g. *PV technology, internet of things; and 24/7/365* better than human contact web-based service. Whilst physical demography favours us due to being natural provincial entity, human demographics are having a negative impact on our business due to juniorised and millennial cohort. Millennials grow up in an electronics-filled and increasingly online and socially-networked world exposing any business that is technologically backward as undesirable.

8.1.21 Low-cost foreign competitors

Foreign players of renewable energies need not be local as they are sought through internet by middle class and commercial consumers who continuously look for affordable, reliable and alternative energy solutions. These make entry for foreign competitors through products to lower costs due to demand, whilst entities such as CENTLEC continue to experience rising cost due to high maintenance costs as a result of ageing infrastructure. The narrative of green is good continue to create low barriers to entry forcing us to review our strategy such that we begin to play a role on the bulk supply i.e. vertical integration.

8.1.22 Priorities

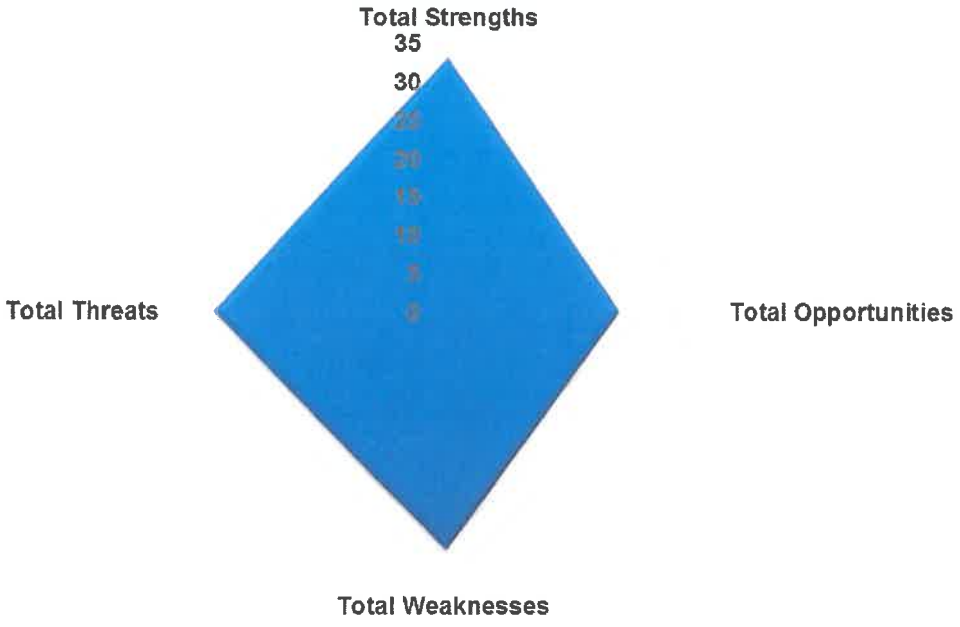
Government priorities on renewables are not needs driven per se as much as they are politics of popularity; CENTLEC by developing R&D capacity in the areas of renewables could lead to affordable renewable technologies that are home brewed rather than internationally produced finished products. Regulatory requirements are becoming onerous on the one hand whilst they assist on the other acting as barriers for new entry; By design CENTLEC is vulnerable to government due to founding articles and funding models and as such government could change the "rules" with little or no warning.

9. ESTABLISHED PERSPECTIVE(S)

9.1.1 Internal environment i.e. Total Strengths and Total Weakness

We appear to have more strengths with weaknesses closely rallying behind us. That means we can take advantage of our current strengths in order to minimize our current weakness. Our current strengths are derived from our managerial, technical and administrative expertise, though we need skills upgrade and/or build-up in the ICT in order to be competent when it comes to systems and network automation.

***Figure 7** –Established perspectives*



Whilst our current weaknesses appear to be slightly less than our current strengths it must be understood that, they are more complex e.g. development of specialized skills with a digital component wherein higher education institution have not started to review current curriculum. Secondly, competing priorities such as ageing infrastructure with limited budgets. Central to this is the need for a robust and dynamic strategy with R&D as enabler for effective response.

9.1.2 External environment i.e. Total Opportunities and Total Threats

Our future opportunities appear to be rallying behind our future threats. Our immediate strategic direction must move towards immediate conversion of CENTLEC to a provincial entity (i.e. expansion), enhancement of our services this means we must employ a combination of vertical and horizontal integration as our strategic thrust.

On the other hand, our future threats are premised on 'uncontrollable' legislative and executive orders in the regulation and policy environments. Learning from the old adage: *'perception is reality'* the narrative of green-good will continue leading to lowered entry barriers in EDI space. The latter will ultimately lead to foreign dominance of local EDI due to technological and cost advantage they possess.

9.1.3 Recommendation

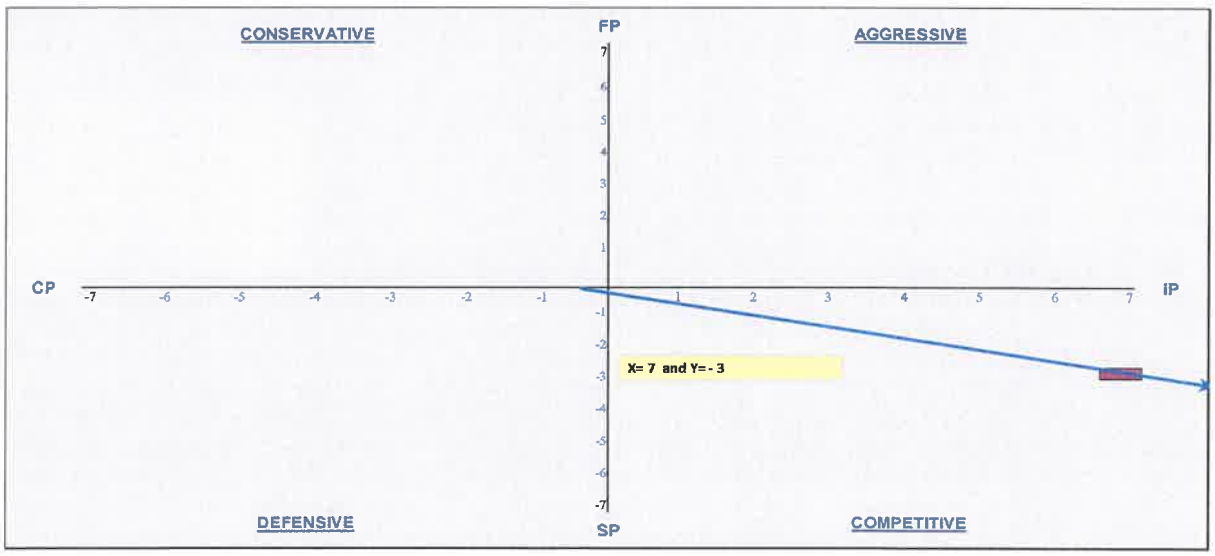
Customers are finding other alternatives on their side of the meter, notably distributed generation: conventional backup generators, rooftop solar arrays, combined heat and power facilities, even micro grids. Even the ways that customers utilize and manage their electric energy is changing drastically with the advent of electric vehicles, battery storage, smart homes / buildings, etc. The key thing to recognize is that while a customer may be totally satisfied with the price, performance, and provenance of a product or service, that doesn't mean that they won't readily swap to an alternative if it offers a value proposition that they find attractive. In other words, customer satisfaction does not mean customer loyalty.

Major problems, threats, weaknesses, and/or opportunities require particularly high priority attention by CENTLEC's leadership and management. The starting point being strategy development/review followed by prioritization of activities for implementation purpose. Being at the cross-roads knowing which direction to take we employed a scientific tool called Strategic Position and Action Evaluation (SPACE)

matrix. The tool is used to determine what type of a strategy a company should undertake as depicted below.

The outcome of our assessment suggests that we have major competitive advantages in a high-growth industry. Being an acknowledged provincial market leader-*though not sustainable at this stage*- gives us an advantage because we are able to 'localize' services through adaptation and responsiveness. In order to have sustainable competitive advantage we must one, employ **Focus Differentiation Strategy** meaning we must understand and service our target market better than anyone else.

Figure 8 - *Strategic Position and Action Evaluation*



Two, we have to form strategic alliances in both our vertical (backward) and horizontal (forward) integration endeavours.

This will help us in sourcing capabilities that we don't possess. In South Africa, there is no single utility that have all the capabilities needed to compete effectively in our world of fast-paced change hence we can't do without alliances. Our alliances it must be stated need not be those that are parasitic but once that will over time transfer skills and know how. This must be at the centre of any partnership we enter into.

Further diagnostic tests suggest that CENTLEC needs a growth strategy that combines vertical and horizontal integration and the two are briefly explained below:

Vertical Integration: This type of strategy is good for CENTLEC because we have a strong competitive position in a growing, attractive industry namely energy space. In doing so we will grow by playing a role in the energy generation through renewables e.g. PV parks. This strategy has advantages, e.g., in cost, stability and quality of supply, and making operations more difficult for our unconventional competitors.

Horizontal Integration: We also aim to grow by taking over functions forward in the value chain previously provided by final manufacturers e.g. vending in the case of meter manufactures and distribution network operations in the case of automated network equipment. This strategy will provide us with more control over services and distribution network operations, but it involves new critical success factors that we currently don't master e.g. software development, data handling, and telecommunications and programing skills.

To be able to follow this new trajectory we have to prioritize our strategic activities as follows:

Expansion: By extending our services to the rest of FS municipalities amounts to expanding sideways at the point in the value chain that we are currently engaged in. One of the primary advantages of this approach is that it enables us to start with low hanging fruits such as in-house vending, electrification, tariff design from a fairly continuous range of choices, meaning we move from modest extensions of present services to major expansions like 24/7/365 online control-room, and structural-legal form of provincial entity.

Digital CENTLEC: It may eventually be possible for a distribution utility to do everything that it needs to do on the public internet provided that it is ubiquitously available throughout. If it's not, it should be the starting point for CENTLEC's technology plan to enable a successful business strategy. Put differently, the internet is impossible without electricity, however soon a modern, intelligent grid will be

impossible without the Internet. That means CENTLEC if it still wants to be around 10 to 20 years from now, CENTLEC must transform itself to a digital enterprise.

The latter should not be misinterpreted to mean a website, but rather transformation into a virtual enterprise. This means being able to do any of our business activities online better than in person. It means being on social media in a big way, being bigger in the cyberspace than in the physical world from an after sales, marketing and communication point of view. The EDI's new competitors will come into existence as digital enterprises, not constrained by the need to overcome an incumbent, non-digital business structure and culture. There is no way our bricks and mortar culture will be able to compete successfully with a digital one.

For CENTLEC becoming digital is non-negotiable, because a modern, intelligent grid will be a digital grid. Information technology (IT) and operations technology (OT) are expanding and merging. The modern distribution grid is a convergence of the electric grid with the Internet of Things. To stay competitive, CENTLEC **MUST** transform into a fully digital enterprise. Only digital enterprises will be able to operate 24/7/365 with the optionality, customization and responsiveness that customers are already accustomed through the internet of things.

Research and Development: However small, whether through third parties and/or jointly CENTLEC must begin to harness research skills and activities. Be it in the soft or technical environments we can no longer afford absence or passivity in the R&D space.

On the technical side, we must mainly engage in the intelligent power distribution system research, development, design, production and rollout.

For technological innovation, especially in the ICT space, CENTLEC has to have excellent R&D team with comprehensive software and hardware development capability. This will help the entity not to be held ransom by services providers

especially in the vending, automated electrical network operations; electrical and ICT network protection and finance environments.

10. FUTURE STRATEGY

The electricity distribution industry is undergoing tremendous transitional change. This requires new strategies in order 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.

In order 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

10.1.1 Enabling Environment

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

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

The ***Economic*** outlook is glim 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.

10.1.2 Tariff Harmonization

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

10.1.3 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, analyzing 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 roles 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 pipe-line include taking advantage of the technology to enhance service delivery by ensuring that customers find it easy to access the entity's services.

10.1.4 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 in order 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 at all times be on the radar screen.

10.1.5 Opportunities

10.1.5.1 Solar (Solar Farms, Embedded Generation)

Given the current trends in the Electricity energy industry, the entity can longer solely rely on the revenue from electricity alone. As an alternative the entity should consider 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

In order 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

10.1.5.2 Stored Energy

The possibility of using batteries technology as an alternative supply.

10.1.5.3 Fibre Communication Route

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.

10.1.5.4 Vending Capacity increase and routes

The entity is currently operating the vending system that provides some opportunities for the expansion and increasing capacity of the system through the creation of its own vending platform from which customers can buy prepaid electricity directly from the entity. This will contribute significantly to cost reduction as the commission paid to private vendors will be an option that can be avoided.

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 make a contribution to these municipalities' debts collection process by using the vending system to collect outstanding debts at a reasonable fee

10.1.5.5 Electrification Construction

As learnt from the past experience, the entity is in a better position to review the costing of projects and tariffs charged to new and existing customers. In this regard cost reflective tariffs have been developed to ensure that the entity is able to recover the costs of providing the services to the public.

10.1.5.6 Training Centre Equipment and Staff

With the existing facilities at the training Centre the entity is in a position to 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 into 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.

10.1.5.7 Direct Metering (Complexes)

Given the ever changing environment in the electricity industry, the entity has revised its policy on the metering of complexes with an aim of eliminating body corporates who act as a go between the entity's line of supply and the ultimate customer. In this regard the policy of number of meters per erf has already been reviewed to allow individual customers to have their own meters directly from the entity. An office dealing with direct metering has already been established and is due to be capacitated.

10.1.5.8 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.

10.1.5.9 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.

10.1.6 Collaborative leadership

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.

10.1.7 Financial Considerations

The current financial plan for CENTLEC is to generate funding through energy in order 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.

Table 6 *- Past Performance*

Past Performance			
	2015/2016	**2016/2017**	**2017/2018**
Sales	2 070 809 190	2 102 062 992	2 235 503 431
Gross Margin	895 857 358	688 311 430	757 263 195
Gross Margin %	43%	33%	34%
Operating Expenses	1 920 146 684	2 099 349 874	2 339 946 743
Balance Sheet			
Current Assets			
Cash	450 792 807	361 530 141	207 869 198
Accounts Receivable	280 505 166	522 451 230	569 434 546
Other Current Assets	130 340 920	153 567 890	131 862 272
Total Current Assets	861 638 893	1 037 549 262	909 166 016
Long-term Assets			
Long-term Assets	3 172 247 288	3 493 590 159	3 803 972 385
Accumulated Depreciation	640 573 545	509 342 739	383 446 284
Total Long-term Assets	3 812 820 833	4 002 932 898	4 187 418 669
Total Assets	4 674 459 726	5 040 482 160	5 096 584 685

Past Performance			
	2015/2016	2016/2017	2017/2018
Current Liabilities			
Accounts Payable	337 325 664	412 330 933	498 999 891
Other Current Liabilities (interest free)	70 796 810	127 743 335	115 353 089
Total Current Liabilities	408 122 474	540 074 268	614 352 980
Long-term Liabilities			
Long-term Liabilities	2 048 204 830	2 211 009 450	2 256 245 415
Total Liabilities	2 456 327 303	2 751 083 718	2 870 598 395
Paid-in Capital	100	100	100
Retained Earnings	1 066 897 111	1 155 957 809	1 114 509 788
Reserves	1 151 235 212	1 133 440 534	1 111 476 402
Total Capital	2 218 132 423	2 289 398 443	2 225 986 290
Total Capital and Liabilities	4 674 459 726	5 040 482 161	5 096 584 685

10.1.8 Sales Forecast

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

***Table 7** - Sales Forecast*

Sales Forecast					
	2018/2019	**2019/2020**	**2020/2021**	**2021/2022**	**2022/2023**
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

10.1.9 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 8** - Break-even Analysis*

Break-even Analysis	
Monthly Revenue Break-even	R 194 459 450
Assumptions:	
Average Percent Variable Cost	21%

Estimated Monthly Fixed Cost	R 154 124 600

10.1.10 Projected Cash Flow

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

Table 9 - *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
Revenue by Source							
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 - outstanding debtors	30,832	25,405	13,107	25,341	25,341	26,861	28,473
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
Total Revenue (excluding capital transfers and contributions)	**2,454,325**	**2,608,362**	**2,765,605**	**2,529,114**	**2,529,114**	**2,678,660**	**2,848,996**
Expenditure By Type							
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		
Total Expenditure	**2,441,391**	**2,704,077**	**2,445,069**	**2,413,064**	**2,413,064**	**2,556,855**	**2,719,418**
Surplus/(Deficit)	**12,935**	**(95,716)**	**320,536**	**116,050**	**116,050**	**121,805**	**129,578**
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 Corporatons, Higher Educational Institutions)	21,913	16,133	11,933	11,933	11,933	12,649	13,408
Transfers and subsidies - capital (in-kind - all)							
Surplus/(Deficit) after capital transfers & contributions	**34,848**	**(56,974)**	**389,969**	**178,475**	**178,475**	**191,953**	**167,854**
Taxation							
Surplus/ (Deficit) for the year	**34,848**	**(56,974)**	**389,969**	**178,475**	**178,475**	**191,953**	**167,854**
References							
1. Revenue includes sales of: (insert description)							
2. Bulk purchases - electricity							
2. Bulk purchases - water							
3. Expenditure includes repairs & maintenance of:							

10.1.11 Projected Balance Sheet

-Table D4 Budgeted Financial Position								
Description	2017/18	2018/19	2019/20	Current Year 2020/21			Medium Term Revenue and Expenditure Framework	
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2021/22	Budget Year +1 2022/23
ASSETS								
Current assets								
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						

Table 15: Projected Balance Sheet

-Table D4 Budgeted Financial Position								
Description	2017/18	2018/19	2019/20	Current Year 2020/21			Medium Term Revenue and Expenditure Framework	
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2021/22	Budget Year +1 2022/23
ASSETS								
Current assets								
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
Total current assets	**888,230**	**937,402**	**3,676,233**	**1,001,771**	**1,132,535**	**1,132,535**	**1,178,969**	**1,230,844**
Non-current assets								
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
Total non-current assets	**4,215,570**	**4,406,943**	**8,063,809**	**4,431,099**	**8,151,542**	**8,151,542**	**8,384,320**	**8,595,926**
TOTAL ASSETS	**5,103,800**	**5,344,345**	**11,740,042**	**5,432,870**	**9,284,077**	**9,284,077**	**9,563,289**	**9,826,769**
LIABILITIES								
Current liabilities								
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
Total current liabilities	**680,084**	**1,022,688**	**5,229,802**	**698,572**	**894,318**	**894,318**	**930,985**	**971,948**
Non-current liabilities								
Borrowing								
Provisions	594,245	687,953	1,504,032	654,341	1,564,542	1,564,542	1,628,688	1,700,351
Total non-current liabilities	**594,245**	**687,953**	**1,504,032**	**654,341**	**1,564,542**	**1,564,542**	**1,628,688**	**1,700,351**
TOTAL LIABILITIES	**1,274,328**	**1,710,641**	**6,733,833**	**1,352,913**	**2,458,860**	**2,458,860**	**2,559,673**	**2,672,299**
NET ASSETS	**3,829,471**	**3,633,704**	**5,006,209**	**4,079,957**	**6,825,217**	**6,825,217**	**7,003,616**	**7,154,471**
COMMUNITY								

WEALTH/EQUITY								
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
TOTAL COMMUNITY WEALTH/EQUITY	**3,829,471**	**3,633,703**	**5,006,209**	**4,079,957**	**6,825,217**	**6,825,217**	**7,003,616**	**7,154,471**

11. IN 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 10** - Vision*

Year	DISTRIBUTION		GENERATION
2018	⇦ Establish a Project Management & Implementation Team ⇦ Presentation to Provincial Executive and Municipal Stakeholders ⇦ CENTLEC to assume electricity distribution in all FS Municipalities in terms of SLA's with Local Municipalities	⇦ Preparation of Provincial Electricity Management Risk Strategy (Business Continuity Strategy) ⇦ Change & stakeholder management strategy ⇦ AMI System Implemented ⇦ Smart Metering System	⇦ FS sustainability energy strategy (Renewable energy strategy) ⇦ Develop Carbon credit revenue strategy

Year	DISTRIBUTION		GENERATION
	• Provincial Legislation to establish Schedule 3 Part D Provincial Entity (in terms of the PFMA) – Obtain National Treasury Approval • FS shared system /infrastructure strategy • CENTLEC re-constituted as a Provincial distributor in terms of enabling legislation • Funding Strategy Approved & Implemented	• Provincial ICT, Network Design & Acquisition • Acquire contract management system • Use the Asset management system • Phase 1 – In house training for Vending Staff • Upgrade SCADA system • Optimise financial system • Integrate all systems • Design & Establish CENTLEC FS Call centre	
2019	• Smart Technology Metering Implementation – Phase 2 Implemented • Phase 2 – Smart Street lighting • Phase 2- In-house Vending Staff operational	• Provincial ICT, Network Implementation – Phase 1 • Priority area 1 - networks upgraded	• Carbon credit revenue strategy
2020	• Smart Technology Metering Implementation – Phase 3 Implemented • Phase 3 - Smart Street	• Provincial Communications Network Implementation – Phase 2	

Year	DISTRIBUTION		GENERATION
	lighting	Priority area 2 - networks upgraded	
2021	Smart Technology Metering Implementation – Phase 4 Implemented		25% Renewable energy in FS
2022	LV network Automation Strategy Approved – Phase 1 Implemented Priority area 3 – networks upgraded	Phase 4- In-house Vending Staff fully competent and operating independent of the service provider	
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

12. NORMATIVE REFERENCES

As stated above, for the Vision, Mission, and Value statements the reader is encouraged to look into the existing and approved CENTLEC strategic documents. It is not the author's intention to recycle the reported narrative. For ease of reference the documents referred herein are the following:

- 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
- 2018 SALGA Energy Summit