



CENTLEC (SOC) Ltd.

BUSINESS PLAN

2022 - 2027

1. OFFICIAL SIGN-OFF

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

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



Mr. MS Sekoboto

Chief Executive Officer

Centlec (SOC) Ltd

Date: 2023/05/26

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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
MGDS	Mangaung Growth & Development Strategy
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
FBE	Free Basic Electricity
MTREF	Medium term Revenue and Expenditure Framework
IDP	Integrated Development Plan
TID	Token identification

2. EXECUTIVE SUMMARY

CENTLEC (SOC) Ltd embarked on a review of the business strategy (2018 - 2023), as mandated by EXCO in December 2022. The strategy development process was initiated due to the Entity's clear need to review the current path it was taking, with several factors contributing to this need. These factors were both systemic in nature, affecting the electricity distribution industry, as well as specific to the Entity's situation.

From inception, as an Entity of Mangaung Metropolitan Municipality (MMM), CENTLEC (SOC) Ltd has been mandated to exist as a mechanism for service delivery. During this period, the Entity performed on its mandate, however potential for improvement will always exist.

The Entity redistributes electricity to Mangaung Metropolitan Municipality (MMM) and in two Southern Free State municipalities through service delivery agreements entered.

Through this, the Entity drafted its vision, mission, and values to articulate its aspirations. The Entity took into cognisance the existing dynamics within the Entity, the Municipal, Provincial and National Development Plans to determine the framework within which the following questions could be answered:

- How should CENTLEC (SOC) Ltd 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 the Entity to re-think its strategy?
- What are the short-term challenges that the Entity is facing and what could be the way forward to solve these?
- What are the growth opportunities available to the Entity?
- What will be the impact of ESKOM unbundling on the Entity?
- How are we viewed by our customers and broader stakeholders?
- The impact of loadshedding?

- Just Energy transition
- Disaster Regulations
- Integrated Energy Resource Plan

During the strategic session held in August 2021 the VUCA 2026 turnaround strategy was introduced. The turnaround strategy was reviewed and reaffirmed during the strategic session held on the 08th to the 10th of March 2023.

The VUCA 2026 turnaround strategy aims to:

- ❖ **V (vision)** - keep lights burning
- ❖ **U (understanding)** - sustainable game strategy
- ❖ **C (caring)** - for the community and the
- ❖ **A (agility)** - of our employee recognition & diversity

To support the turnaround strategy, the Entity has developed the following priorities:

- ❖ Improve and sustain a positive financial position for the Entity,
- ❖ Establish the Entity's own alternative renewable energy to reduce over-reliance on ESKOM,
- ❖ A technology and innovation-driven Entity by establishing the research and development unit,
- ❖ Strategic collaborations for funding and energy delivery,
- ❖ Develop and maintain a reliable network infrastructure asset,
- ❖ Good governance practices and stakeholder engagement,
- ❖ Capacitated and empowered workforce.

The Entity through its various Directorates will develop operational plans to ensure the implementation of the VUCA 2026 turnaround strategy. The plans will be monitored and evaluated on a quarterly basis. The Entity will on an annual basis review this business plan to ensure that it is still in line with the relevant legislations and its mandate.

3. LEGISLATIVE AND POLICY 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.

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, NRS048 and NRS097.

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

Other legislative duties and responsibilities of CENTLEC (SOC) Ltd are set out in Chapter 10 of the Local Government: Municipal Finance Management Act, 56 of 2003.

Figure 1: Legislative Mandates

4. 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”). The Entity was established both in terms of the Municipal Systems Act 32 of 2000 (hereinafter referred to as the “Systems Act”) and the Companies Act 71 of 2008 (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 56 of 2003 (hereinafter referred to as the “MFMA”).

The Entity 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 the Executive Committee (hereinafter referred to as the EXCO). The Board has an approved Charter which regulates the parameters within which it should operate and ensure the application of principles of good corporate governance in all its dealings on behalf of the Entity.

CENTLEC (SOC) Ltd is one of the few municipal distributors that have embedded generation capacity. The Entity is intending to resuscitate the use of the Power Station to generate alternatives energy supply such as the solar PV. This is intended to be done through private partnership where options will be tabled on the best energy supply in terms of sustainability and cost efficiency to be carried forward. This is supported by the RFI on renewable energy models that was advertised by the Entity. These new initiatives could see the Entity reducing 100% reliance on Eskom bulk purchase.

OVERVIEW OF CENTLEC (SOC) LTD STATISTICS

The below picture depicts the Entity's current customers, assets, revenue, infrastructure, and employee profile.

OVERVIEW OF CENTLEC STATISTICS

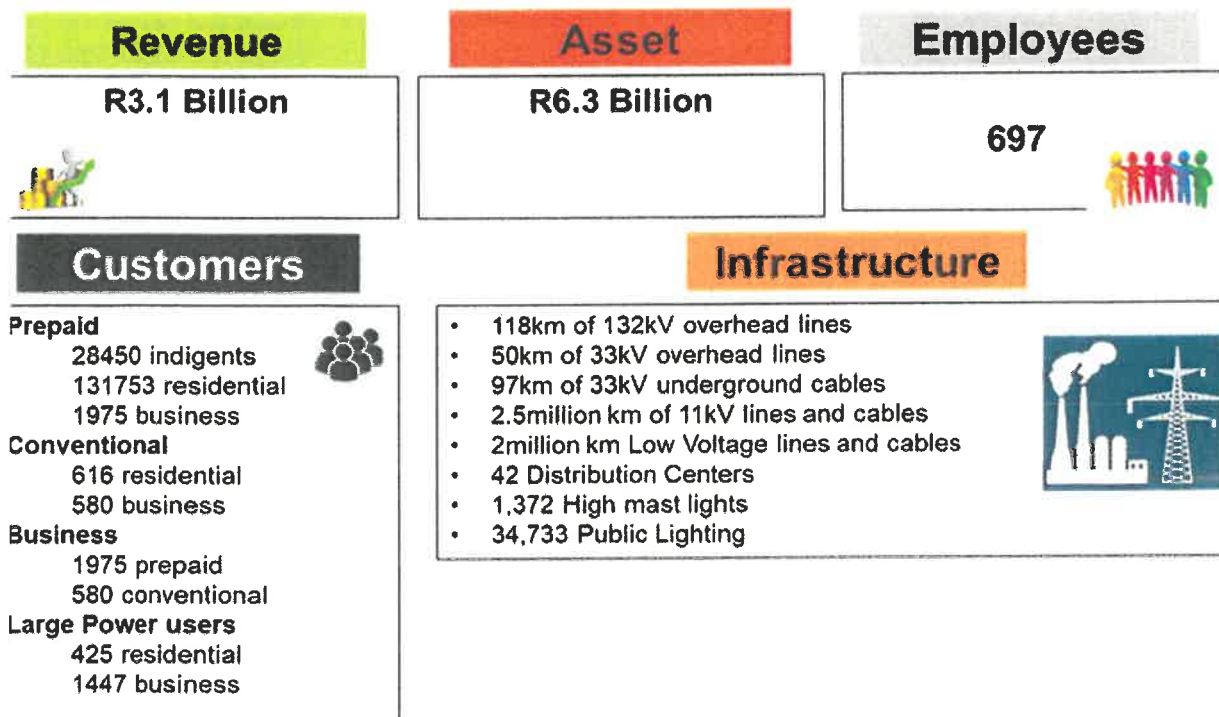


Figure 2: customer, asset, revenue, infrastructure, and employee profile

5. STRATEGIC OVERVIEW

The Entity drafted its vision, mission, and values to articulate its aspirations. However, for the previous strategic sessions held in 2021 and 2023, the Entity came to the realisation that the vision, mission and values are still relevant. The Entity took into cognisance the existing dynamics within the Entity, the Municipal, Provincial and National Development Plans to determine the framework within the following vision and mission:

Vision

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

Mission



Figure 3: Centlec's mission

Values

In working towards the achievement of its vision and mission, CENTLEC (SOC) Ltd subscribes to the following internal values which are in line with the Entity's strategy. The Entity believes in providing excellent, efficient, and effective service to all customers and stakeholders. In terms of the values, an acronym was used to make it easier for the employees to remember and be in a position identify with them. The acronym decided on

was “CENTLEC”, as this would assist in entrenching the values into the Entity. The values are as follows:

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

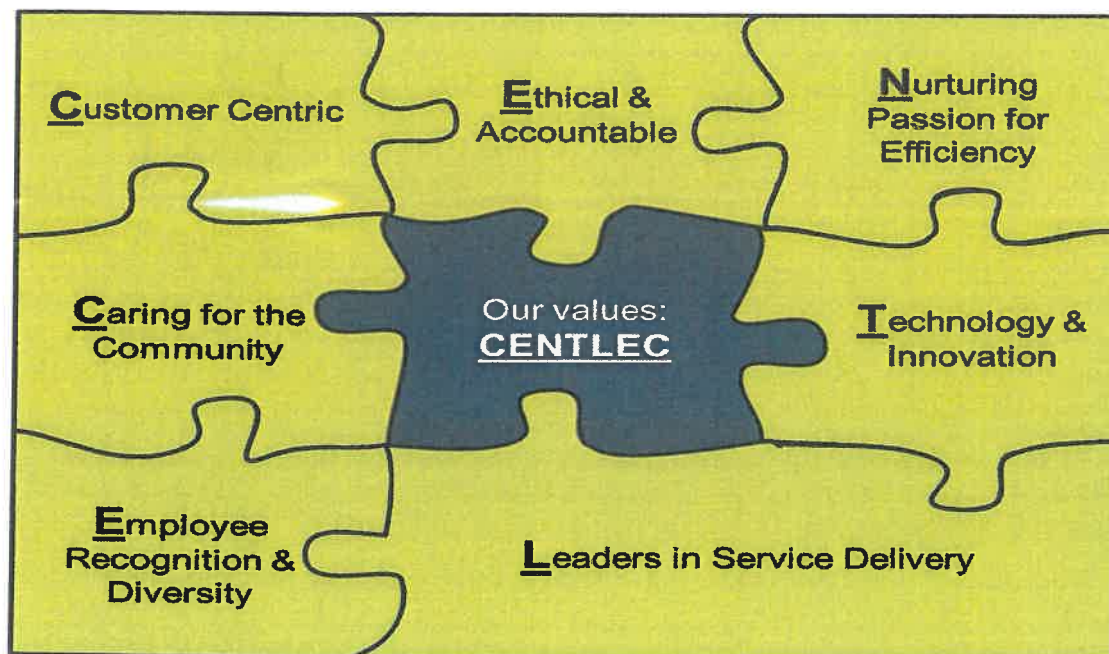


Figure 4: Centlec's Values

6. CORPORATE GOVERNANCE

To ensure that accountability and governance arrangements are in place, Section 121(2) (c) of the MFMA supports the requirements of Section 18(1) (d) of the MSA: information on matters of governance should be communicated to communities. This should according to Sections 65(1) (a) of the MFMA and Section 46 of the MSA be undertaken through the compilation and publication of the Annual Report. The purpose of such an annual report is to show accountability to communities for decisions taken by the Board and matters relating to administrative structures, throughout a budget year.

CENTLEC (SOC) Ltd Board of Directors serve as the primary direct stakeholder influencing corporate governance. The Entity's Board of Directors are appointed by the shareholder which is Mangaung Metropolitan Municipality. The Board is tasked with ensuring that high standards of corporate governance through the Entity are upheld for the delivery of the Entity's strategic objectives whilst ensuring shareholder value and long-term protection of stakeholder interest.

To stabilize corporate governance in the Entity, the Shareholder has embarked on the recruitment process to appoint the Entity's new Board of Directors.

7. PESTLE ANALYSIS

The PESTLE analysis was used as a framework for the identification of external influences that affects the Entity's competitive position and sustainability in the context of continuous change in the external environment. Pertinent areas that were discussed included aspects such as the effect of new digital technologies, distributed energy options, changes in customer expectation, changes in work environment, regulatory impact and the role of innovation were considered.

The aspects covered within a PESTLE analysis include the impact of politics, economics, social, technology, legal and environmental develops on the Entity. Table one below depicts the aspects of external analysis.

TABLE 1: PESTLE ANALYSIS

NO	EXTERNAL FACTOR	DESCRIPTION
1.	Political	<ul style="list-style-type: none"> 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 Mangaung Metropolitan Council (MMC), as the shareholder of the Entity, has a high impact on the Entity's decision in line with the service delivery agreement.
2.	Economical	<ul style="list-style-type: none"> The reduction in energy consumption continues due to economic pressures. Energy price increased severely in the past years and continue to grow annually. The slow economic growth, high unemployment, and rapid increase of tariffs rate in South Africa has a negative impact on CENTLEC electricity sale and revenue. The impact of load shading on the economy in general and on CENTLEC specifically has been severe. In addition, consumers are increasingly moving towards own generation of electricity, to avoid the impact of load shading, leading to a loss of sales and revenue.
3.	Social	<ul style="list-style-type: none"> South Africa has sustained high unemployment rate due to low economic growth. Lack of unemployment leads to an increase demand for Free Basic Electricity (FBE), illegal connections, theft, and vandalism of critical electrical infrastructure. An Increase in urbanization leads to ever growing needs for new electricity connections
4.	Technological	<ul style="list-style-type: none"> Technological advances in smart grid and robotics affect the way in which people work. It enhances the Entity's ability for smooth service delivery. The Entity's needs to integrate the innovative technologies in such a way that it becomes more effective and efficient
5.	Legislative	<ul style="list-style-type: none"> Declaration of electricity as a National State of Disaster.

8. SWOT ANALYSIS

After a thorough institutional review, the Entity was able to identify its strengths, weaknesses, opportunities, and threats as detailed on the table below.

Table 2: SWOT ANALYSIS

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Unqualified audit opinion • Human capital (skilled and dedicated) • Relationship with community leaders (Strong stakeholder management) • 95% collection rate • Constant reliable supply for strategic events • Inhouse infrastructure design capacity • Teamwork • Effective training center 	<ul style="list-style-type: none"> • Ageing infrastructure • Limited human capital • Ineffective technical forum (workstreams) • Slow implementation of automated systems • Inadequate Board composition • Submetering from third party vendors
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Alternative power generation and new technologies • Training center as a center of excellence • Strategic partnerships to improve revenue streams. • Explore renewable energy programmes. • Digital billboards • Training opportunities for employees in renewable energy 	<ul style="list-style-type: none"> • Vandalism of infrastructure • Loadshedding • Incentives on solar panels • Ineffective corporate governance • Loss of potential income (insurance) because of loadshedding • Decline in revenue. • Unauthorized access to electrical infrastructure • Increasing Eskom tariffs • Incomplete and unapproved indigent register

9. SERVICES RENDERED

CENTLEC as an Entity provides the following services in its area of supply:

- **Electricity Distribution/Energy Services:** CENTLEC procures 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 Entity's design and construction sections and where additional capacity is required it is done through the tender process and appointment of private service providers.
- **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 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 1 July 2011.

10. MARKET OVERVIEW

Background

The Entity distributes electricity to 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 196 773 customers in the areas of Mangaung, Kopanong and Mohokare and 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's electricity sales revenue.

Through a 24-hour Call Centre, the Entity 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 80% 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 2079 customers with readings taken every 24 hours and published on the Entity's 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 of the larger entities.

Map area of operation

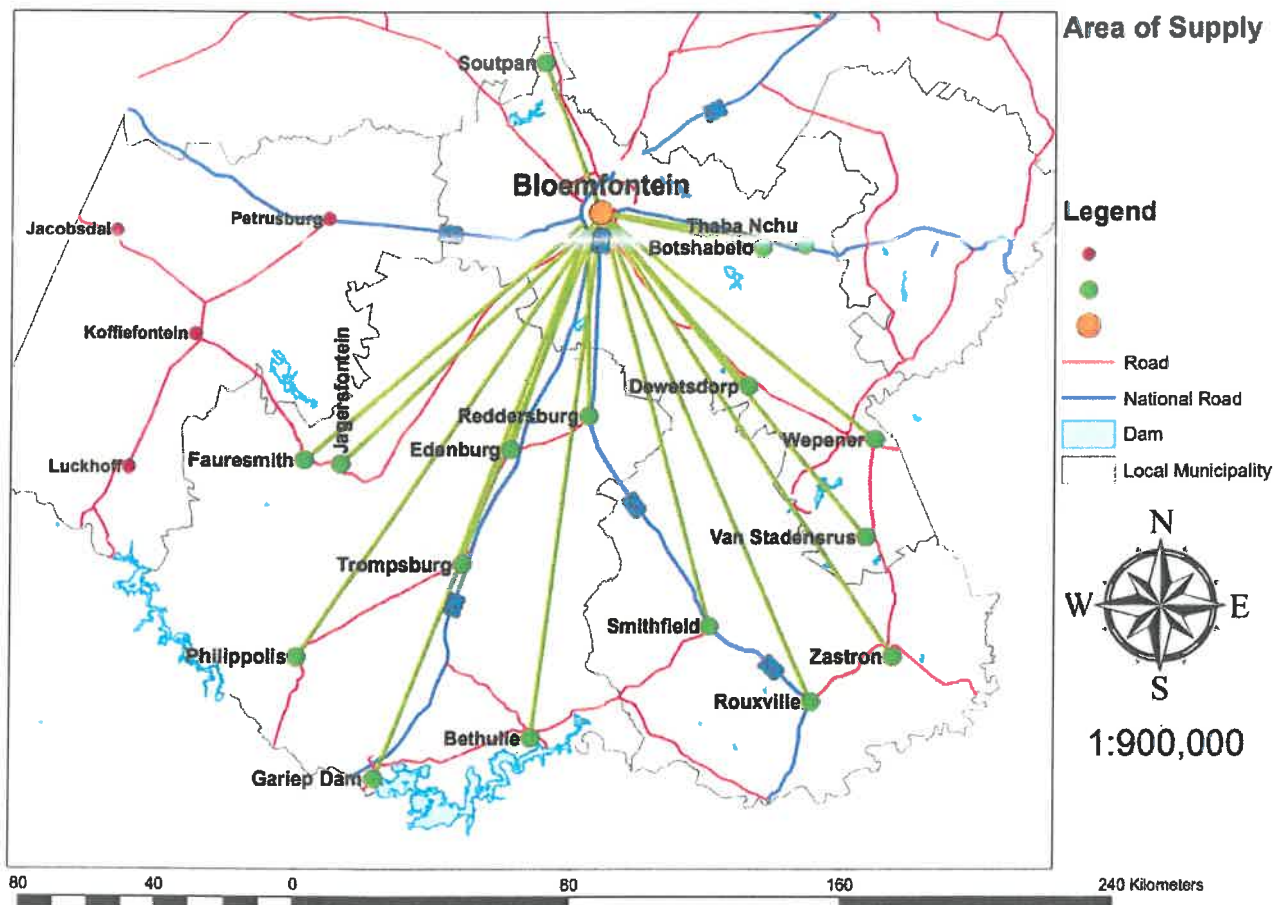


Figure 5: Area of operation

Customer Classification per category

Table 3: Customer per tariff group

Tariff Group: 2021-2022 baseline	Number of Consumers			
	MMM	KOPANONG	MOHOKARE	TOTAL
INDIGENT	29 928	2 370	668	32 966
INCLINING BLOCK	148 682	6 575	3 653	158 910
FLAT RATE BUSINESS	2 475	275	175	2 925
BULK RESLL 2	32	0	0	32
BULK RESELL 3	193	0	0	193
BULK RESEIDENTIAL 2 SFS	0	0	0	0
BULK RESIDENTIAL 3 SFS	0	2	1	3
CENTLEC (SOC) LTD DEPARTMENTAL TOU	7	0	1	8
SFS DEPARTMENTAL TOU	0	4	0	4
COMFLEX - SINGLE PHASE	57	0	0	57
COMFLEX - THREE PHASE	700	0	0	700
COMFLEX - SFS SINGLE PHASE	0	4	0	4
COMFLEX - SFS THREE PHASE	0	33	5	38
ELEC FLEX 1	3	0	0	3
ELEC FLEX 2	172	0	0	172
ELEC FLEX 2 - SFS	0	4	0	4
ELEC FLEX 3	514	0	0	514
ELEC FLEX 3 - SFS	0	15	9	24
HOME FLEX - SINGLE PHASE	33	0	0	33
HOME FLEX - THREE PHASE	167	0	0	167
HOME FLEX - SFS SINGLE PHASE	0	2	0	2
HOME FLEX - SFS THREE PHASE	0	5	0	5
SPORT STADIUMS	7	0	0	7
SPORT STADIUMS SFS	0	2	0	2
TOTAL	<u>182 970</u>	<u>9 291</u>	<u>4 512</u>	<u>196 773</u>

Demand Analysis

The Entity currently has an agreed Notified Maximum Demand (NMD) of 323 MVA with Eskom. Constant monitoring of demand values is done to ensure that the demand does not surpass the NMD. However, as per the records and values outlined in the table below, it shows that annually there has been negative demand growth. The contributing factors associated with the decline in demand is due to the prolonged power failures and load shedding.

Table 4: Maximum demand

MAXIMUM DEMAND (MW) - VALUES									
Year	2018 /	2019 /	Percentage	2020 /	Percentage	2021 /	Percentage	2022 /	Percentage
Month	2019	2020	growth	2021	e Growth	2022	Growth	2023	age Growth
July		259.86		253.46	-2.46%	253.46	0.00%	237.9	-6.14%
Aug		239.73		243.39	1.53%	235.9	-3.08%	235.16	-0.31%
Sep		222.35		230.58	3.70%	215.94	-6.35%	213.2	-1.27%
Oct	211.37	211.37	0.00%	200.39	-5.19%	196.73	-1.83%	193.07	-1.86%
Nov	210.45	214.11	1.74%	195.81	-8.55%	191.24	-2.33%	185.75	-2.87%
Dec	220.52	220.52	0.00%	179.34	-18.67%	188.49	5.10%	178.43	-5.34%
Jan	225.09	201.3	-10.57%	194.9	-3.18%	183	-6.11%	186.66	2.00%
Feb	215.94	209.54	-2.96%	196.73	-6.11%	193.98	-1.40%	179.34	-7.55%
Mar	213.2	204.96	-3.86%	195.81	-4.46%	192.15	-1.87%		
Apr	223.26	196.73	-11.88%	209.54	6.51%	216.86	3.49%		
May	232.41	239.73	3.15%	233.33	-2.67%	218	-6.57%		
Jun	249.8	256.2	2.56%	255.29	-0.36%	251.63	-1.43%		
Average (Yearly)	222.45	223.03	-2.43%	215.71	-3.33%	211.45	-1.86%	201.19	-2.46%

11. HUMAN RESOURCE OVERVIEW

Organisational Structure

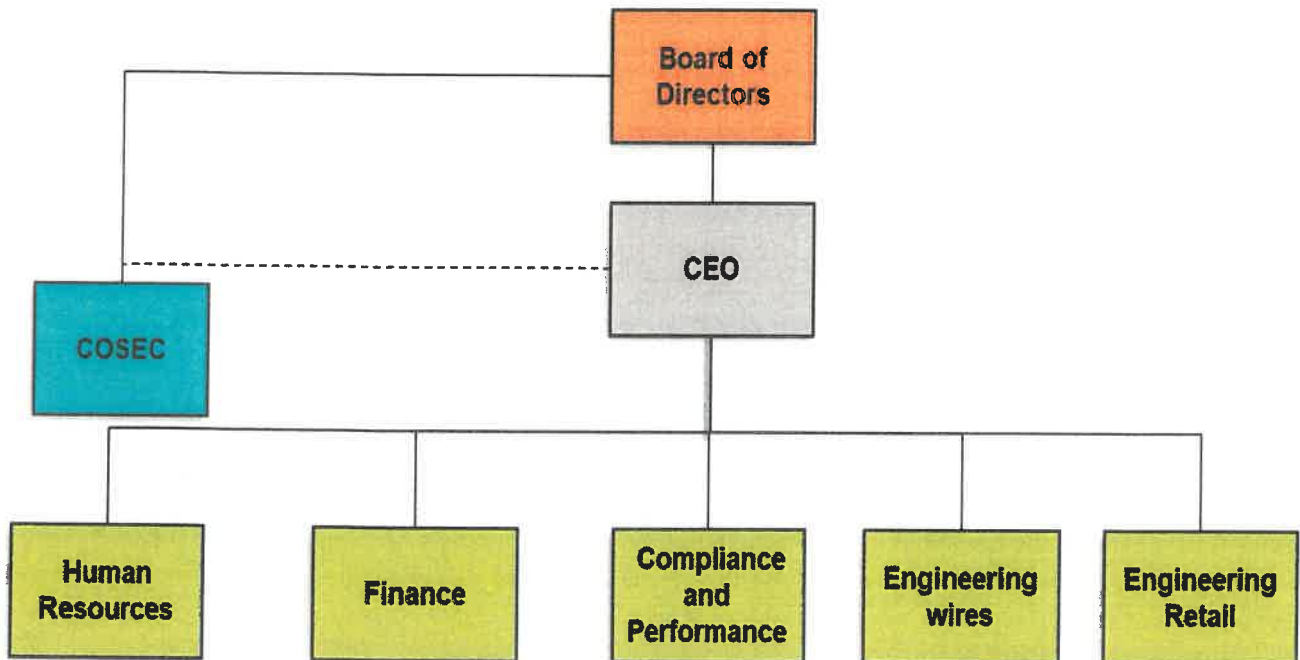


Figure 6: Organisational Structure

HUMAN RESOURCES

The purpose of Human Resource Directorate is to ensure that the Entity makes optimum use of its human resources. The Directorate ensures that the Entity's employees are suitably skilled and competent to add value to the strategic goals and objectives of the Entity. The functional areas of Human Resource Directorate are divided into Human Resources Management and Human Resources Development.

The Human Resource Management Directorate serves to support the implementation of the Entity's strategies through human resources activities such as HR planning, attraction, recruitment, rewards, recognition, performance management, retention, succession, wellness, training, and development.

Staff Compliment

The current staff compliment is six hundred and ninety-seven (697) employees, of which six hundred and ninety-five (695) are permanent employees and two (2) are contract employees.

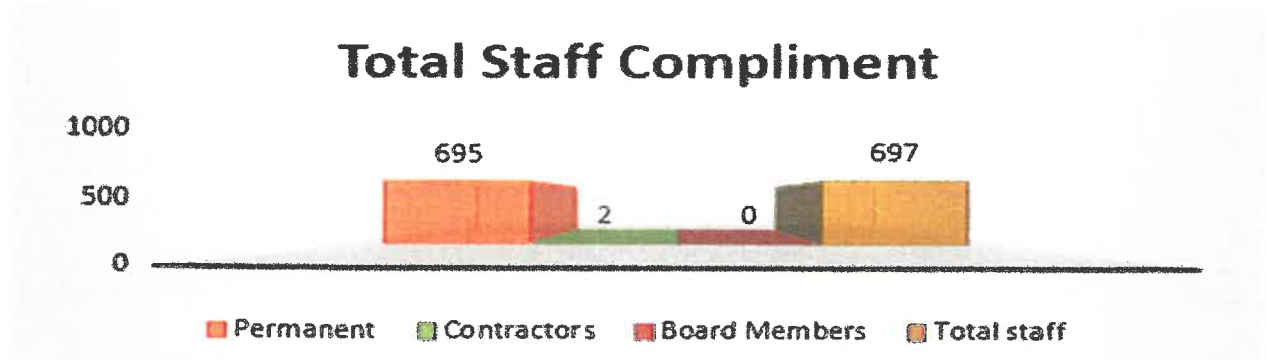


Figure 7: Analysis of Staff Compliment

WORKFORCE AGE ANALYSIS

The workforce age analysis:

- Two (2) employees are within and age group (19-23)
- Two hundred and twenty- eight (228) employees are with and age group. (24 -39)
- Two hundred and seventy-one (271) employees are within the age group (40-49)
- One hundred and sixty- two (162) employees are within the age group (50-59)
- Thirty-four (34) employees are within the age group (60-65)

11.5. Human Resources Strategy

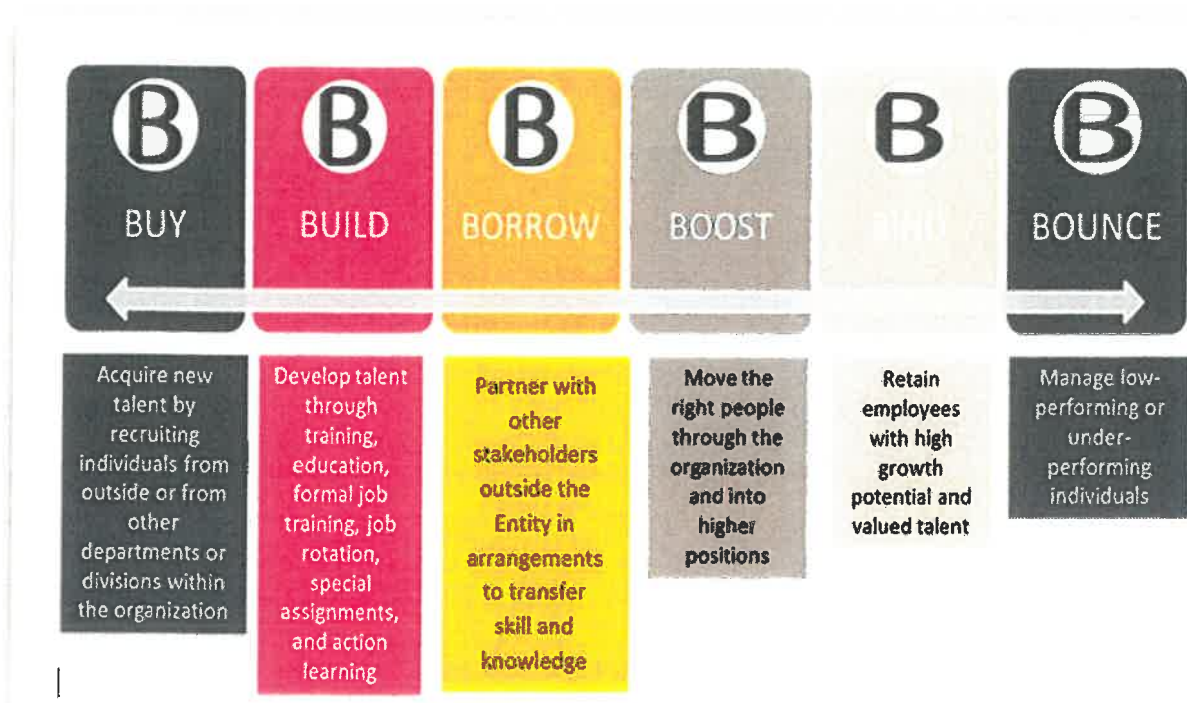


Figure 8: Human Resource Strategy source (Ulrich 2003)

BUY: The Entity, through the revisiting and the approval of the organogram, must embark in the process of recruitment and selection. Adverts must be drafted to ensure that the best candidate with the necessary skills and experience is attracted. It is advisable that the Entity source external talent as far as possible to complement the internal skills that the employees already possess.

BUILD: The Entity must ensure that opportunities are created to ensure that employees are skilled through formal training, on the job training, job rotations, and on the job training. The Training Centre must be utilized to provide theoretical and practical training to employees within the technical divisions to ensure that they are on par with their day-to-day functions. Divisions should ensure that technical employees are rotated within the Retail and Wires Directorate to ensure that employees know the Entity's network to be able to perform their functions optimally. Through personal development plans, the human resource development division together with the Finance Directorate should ensure that

training providers are procured to facilitate training that cannot be performed in the Training Centre.

BORROW: In cases where the Training Officers lacks knowledge in a specific field, the Entity will partner with other external stakeholders who have the know-how to enable the employees to be trained and capacitated effectively.

BOOST: As a way of motivating employees, the Entity must ensure that deserving employees are promoted to higher positions whenever positions are advertised. This must be followed through normal recruitment and selection processes. This will improve and boost employees' morale within the Entity.

BIND: The Entity should develop retaining strategies to be able to retain skilled personnel with critical competencies to sustain institutional memory within the Entity. This will assist in ensuring that there is business continuity.

BOOST: The Entity through the performance management system should ensure that poor performance is addressed, and plans put in place to address non-performance. The Entity should also have programmes to address the re-skilling of employees with old skills sets. Human Resource together with other Directorates within the Entity should ensure that they work together to address this initiative.

11.6 RETENTION STRATEGY

The Entity will strive to ensure that the retention plan is drafted and implemented. The Entity should strive to ensure that there are extra benefits and incentives as a way of retaining its employees. There should be recognition of hard work by employees to motivate them to perform to the best of their ability. The Entity should create a culture where there is respect amongst line managers and their subordinate to build on employees' self-esteem. Strides should be made to work towards maintaining a good working relationship between employees and management to ensure that the involved parties work towards achieving the Entity's mandate.

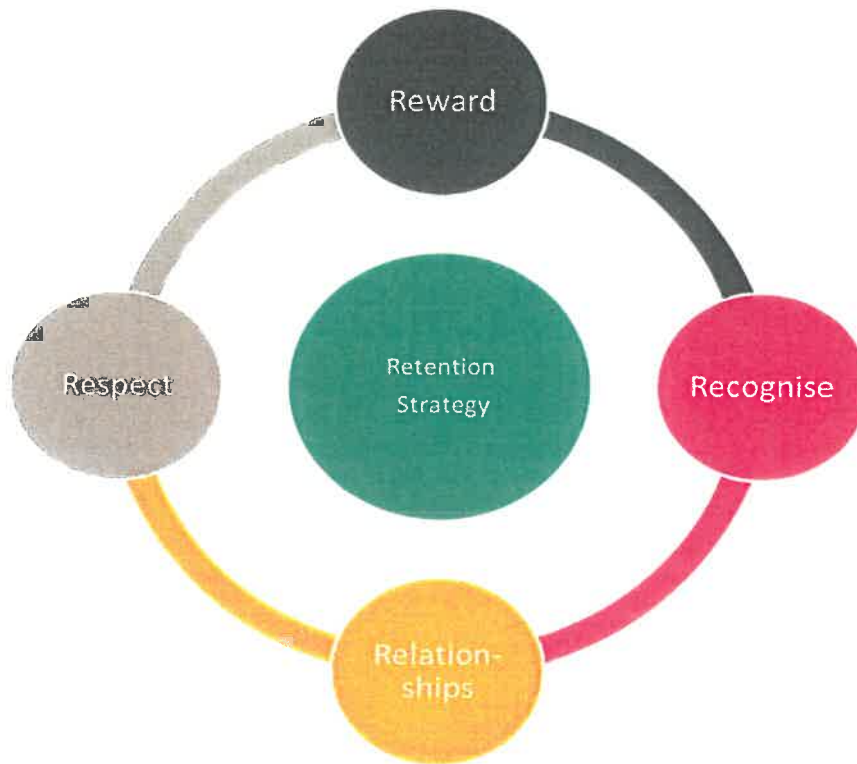


Figure 9: Retention Strategy

11.7 Skills Development

The Entity has partnered with the Central University of Technology to develop ten (10) of its employees in Renewable Energy. The qualification is a twelve-month programme that fits to the energy mix initiative within the Entity's VUCA strategy. The Entity further partnered with Motheo TVET College to develop its Trade Workers level V in N2 Electrical Engineering.

Centlec (SOC) Ltd has received a discretionary grant from Local Government SETA to provide Adult and Education Training (AET) for twenty-five (25) of its employees. Six (6) female employees have been selected to attend woman in leadership programme at the Northwest University (NWU) through SALGA.

The above-mentioned programmes and others to follow will further capacitate the employees to be able to perform their functions effectively and be able to achieve the overall Entity's mandate. The training committee continues to work closely with various directorates within the Entity in ensuring that employees are trained and developed according to their skills needs. The Entity anticipates broadening its partnerships with external stakeholders to explore other avenues in relation to training and development of its human capital.

12. STRATEGIC PRIORITIES

To support the VUCA 2026 turnaround strategy, the Entity has developed 7 priorities as stated below.

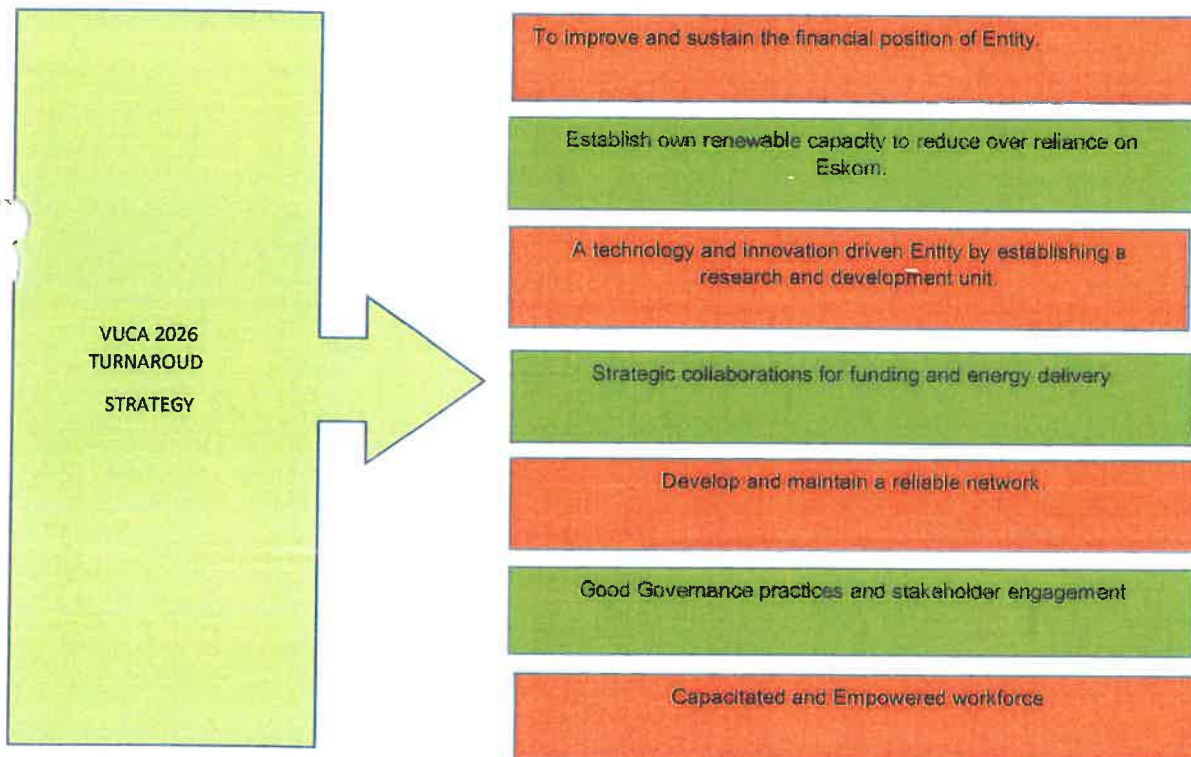


Figure 10: Strategic Priorities (VUCA 2026 Turnaround Strategy)

13. STRATEGIC TIMELINES

The picture below depicts the timelines that evolved over the years in alignment in the implementation of VUCA 2026 turnaround strategy.

Table 5: VUCA Turnaround Strategy 2022 - 2027

REVENUE AND ASSURANCE	
On-going	
❖ Aggressive credit control policy	❖ Aggressive prepaid meter conversion
❖ Regular meter inspections and follow ups for tampering	❖ Adherence to 95% revenue collection
❖ Adherence to NRS service standards	❖ Public lightning 90% Visibility
❖ Date Purification that led to successful TID implementation	❖ Revised Business Model
❖ Staff engaged and aligned with CENTLEC vision	
SECURITY OF SUPPLY AND NETWORK STABILITY	
2022/2023	
❖ Cost reflective tariff	❖ Public lightning regular maintenance
❖ Preventative Maintenance "as" the norm	❖ Reduce technical and non-technical losses
❖ Energy mix implementation	❖ Stable electrical infrastructure network
❖ Effective governance	❖ Competent staff driving results
❖ TID roll out plan	❖ Alternative energy player
ENTERPRISE AND FINANCIAL SUSTAINABILITY	
2023/2024	
❖ Energy mix implementation	❖ Smart CENTLEC
❖ Refurbished distribution centers	❖ Happy customer
❖ Guaranteed energy capacity	❖ Energy mix pilot projects
❖ Revenue Collection target	❖ Complete TID implementation
SMART CITY ENERGY UTILITY	
2024/2025	
❖ Smart meter vending and building	❖ Smart renewable energy trade-off
❖ Smart grid	❖ Energy mix implementation
SYSTEM STABILISATION	
2025/2026	
❖ Risk and business intelligent Entity	❖ Empowered Entity management lead the change agenda

14. RISK MANAGEMENT

The Entity has established and maintained a system of risk management in accordance with the provisions of the Municipal Finance Management Act no 56 of 2003, the King IV report on Corporate Governance and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) ERM Framework. Oversight over risk governance in CENTLEC (SOC) Ltd is carried out by the Board of Directors through the Audit and Risk Committee.











The Audit and Risk Committee meets on a quarterly basis and operates in accordance with approved Audit and Risk Charter. An annual risk assessment is conducted for strategic, ICT and Fraud risks, these risks inform the annual audit plan where risk controls are then tested. The risks are documented accordingly and monitored on an ongoing basis in relation to risk treatment strategies, relevance of existing risks and the identification of additional and new/emerging risks. Risk treatment plans are developed and implemented to ensure that strategic objectives and budgets are met. Each of the strategic risks is allocated to risk owners to ensure accountability and ownership.

Monitoring and review are done on quarterly basis and presented to EXCO and the Audit and Risk Committee exercising oversight as mandated by ARC Charter. The Entity aims to be a risk intelligent organisation and, a maturity ranking tool has been developed to assess the current stage of Enterprise Risk Management culture within the Entity. The current state of maturity indicates that foundational risk management elements are in place, but the Entity needs to transition from risk management to management of risk.

Robust engagements with risk owners and increased accountability as well as, effective application of the framework as part of normal business will move the Entity to systemic and risk intelligent stages.

15. TOP STRATEGIC RISKS

Table 6: Top ten (10) Strategic Risks

RISK	IMPACT	MITIGATION
A collapse in key stakeholder relations		The appointment of the Board of Directors by the Council
Theft and vandalism of the electrical infrastructure		Collaboration with relevant stakeholders such as SAPS and Justice
Cyber attacks		Rolling out of the anti-virus, malware, and general awareness
Loss of critical business information		Establishment of the off-site data centre, etc
Decline in revenue.		Robust disconnection programme (RDP)
Extended/Prolonged downtime leading to loss of public confidence.		Increase in preventative maintenance budget
Revenue forgone.		Minimizing downtime possible.
Inability to provide basic services		Expenditure management and prioritization
Consistency: objectives, indicators and targets between planning and reporting.		Continuous monitoring and evaluation of strategy against related reports
Loss of benefits accompanied by the current industrial reforms		Energy Plan (Collaboration with strategic partners)

16. STAKEHOLDER MANAGEMENT, COMMUNICATION, AND PUBLIC PERCEPTION POSITIONING

Relationship Management

The Entity has developed a system that seeks to integrate different methods and approach towards the communication approach with specific focus to the Entity's employees as well as the internal stakeholders such as labour and appointed service providers.

The strategy further caters to the aspirant needs of the Entity's customers, key customers and the broader general communities it serves. This is done in various ways and interventions including all medium forms of communication such as regular and continues updating of the social age accounts, the use and partnering with local media houses, developing, printing of pamphlets and posters to keep employees and customers updated and informed.

Some of the internal methods of communication to be fully maintained by the Entity relates to and not limited to:

- Monthly Newsletter to employees
- Wellness programmes
- Employee team building sessions.
- The use of online communications (emails, WhatsApp's, and Facebook)

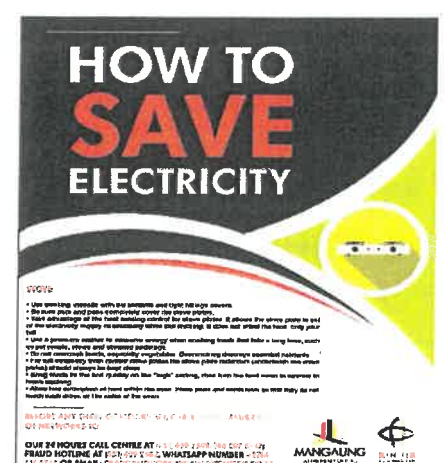


figure: Internal and external communication

16.1 Integrated communication approach

Engagements with various media houses has been one of the Entity's key cornerstones as the Entity, this relates to the kind of working relations we have built and the special working relationship we have with many of the local media houses. This has afforded the Entity more opportunities to engage and reengage on various aspects of mutual interest such as marketing, advertising spaces and coverage of the Entity's programmes, projects, and the ability to communicate and give feedback the Entity's broader client base.

16.2 Media Relations

The Entity has established a vibrant, interactive stakeholder management programme and has done this through the process of identifying amongst its key customers a contact sessions and information sessions, on various services it offers and the establishment of a forum that allows the key customers an opportunity to interact and directly engage with the senior management up to the level of the CEO.

The forum is shared and led in the main by the Entity's Chief Financial Officer, Executive Managers, and middle managers, who can give and provide immediate responses on matters raised.

For the period under review, the Entity has had engagements with community-based stakeholders, such as anti-crime groups who have initiated programmes to work with the Entity towards combating and fighting cable and cooper theft including meter tampering. Currently the Entity is working on launching a memorandum of understanding with these groups of interest.

The Entity has further established an active participatory partnership with one of its strategic stakeholders and a very important arm of its operations which is the Councilors WhatsApp's group. Various groups have been established catering to different legs of the Councilors, such as PR and Ward Councilors.

16.4 Stakeholder Management

The Entity has established a vibrant, interactive stakeholder management programme and has done through the process of identifying amongst its key customers a contact sessions and information sessions, on various services it offers and the establishment of a forum that allows our key customers and opportunity to interact and directly engage with the senior management up to the level of the CEO.

16.5 Internal Communication

The system of internal communication is mainly based on various engagement platforms that the Entity has created internally which allows and gives more user-friendly employer and employee relations. The Entity has in its internal processes given an open platform to sectoral based structures internally such as the labour unions to fully engage with members. The Entity's internal communications services such as email communications, which seek to inform and update employees from time to time, the use of employees' intranet services as well as staff notices on noticeboards etc.

The Entity has an in-house newsletter bulletin which also assists in communication and disseminating information to the employees. Many of the directorates have now formalized their engagement as both departmental and inter departmental through means of official WhatsApp's links.

16.6 Community social investment

The Entity has imitated various community social investment programmes and roll out more to some parts of its distribution areas and towns, the objective herein is to establish social relations with the communities and stakeholders, partnering and join programs.

17. FINANCIAL PLAN

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 no 56 of 2003 (MFMA), Municipal Systems Act no 32 of 2000 (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 15th of March annually, after which an extensive consultation between the Entity and MMM will take place to reach consensus on the proposed budget.

OVERVIEW OF BUDGET AND FUNDING

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

- *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.*
- a) Funding measures used to determine whether operating and capital expenditure are funded in accordance with section 18 of the Act: 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) Tariffs and other charges on energy and services are developed and submitted as part of MTREF and submitted to the parent municipality.
- c) The debtors' collection levels that have been estimated: electricity debtors' collection rate set at 95% factored in the revenue projection.
- d) 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

PROVISION OF FREE BASIC ELECTRICITY (FBE) / INDIGENT SUBSIDY

Free Basic Electricity is supplied to indigent households as per Indigent register compiled and maintained by MMM. FBE of 50kWh per month is provided by the Entity to qualifying households as a measure to provide access to basic electricity.

18. COMPLIANCE AND 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.

MFMA Implementation and Monitoring

The Entity complies with the implementation priorities as per the National Treasury implementation and monitoring checklist.

Budget Statements Reporting

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

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.

Delegations

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

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.

19. MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) 2023/26

The MTREF2023/26 represents the operating and capital budget of the Entity over the medium term. The 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.

20. 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.

20.1 Declining Revenue Trends

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.

20.2 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.

20.3 Financial Considerations

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

20.4 The Major Sources of Funding are as follows:

Electricity sales to consumers namely, residents; government and commercial customers. Government grants for infrastructure. The new focus areas are to expand on solar energy and related ICT services. The Entity's key to success involves satisfying its customers, producing a quality product, and delivering excellent service.

20.5 Sales Forecast

The table below show CENTLEC's projected Sales Forecast. Annual projections for three years are tabled.

Table 7 - Sales Forecast

Sales Forecast					
	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026
Sales	2 886 778 015	3 309 163 160	3 578 510 707	3 743 122 200	3 915 305 821
Total Sales	2 886 778 015	3 309 163 160	3 578 510 707	3 743 122 200	3 915 305 821
Direct Cost of Sales	2 038 346 454	2 101 176 437	2 199 931 730	2 301 128 590	2 406 980 505

20.6 Break-even Analysis

For the break-even analysis, the monthly revenue needed to break-even is R264, 830,910. 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 264 830 910
Assumptions:	
Average Percent Variable Cost	28%
Estimated Monthly Fixed Cost	R 171 821 902

21. PROJECTED CASH FLOW

The following table displays CENTLEC's budgeted cash flow

Table 9 - Cash Flow

- Table D5 Budgeted Cash Flow

Description	2019/20	2020/21	2021/22	Current Year 2022/23			Medium Term Revenue and Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
R thousands									
CASH FLOW FROM OPERATING ACTIVITIES									
Receipts									
Property rates									
Service charges	2 945 112	2 668 052	2 668 052	3 160 269	3 160 269	3 160 269	3 399 585	3 555 966	3 719 541
Other revenue		13 982	13 982	18 950	18 950	18 950	20 560	21 505	22 495
Transfers and Subsidies - Operational							67 300	66 108	64 999
Transfers and Subsidies - Capital	3 183	69 433	69 433	60 300	60 300	60 300			
Interest		17 086	17 086	25 412	25 412	25 412	32 619	34 119	35 688
Dividends									
Payments									
Suppliers and employees	(2 755 702)	(2 432 471)	(2 432 471)	(2 739 032)	(2 739 032)	(2 739 032)	(3 345 213)	(3 336 066)	(3 494 837)
Finance charges	(1 073)	(57)	(57)	(217)	(217)	(217)	(229)	(239)	(250)
Transfers and Subsidies		(120 000)	(120 000)	(120 000)	(120 000)	(120 000)	(120 000)	(120 000)	(120 000)
NET CASH FROM/(USED) OPERATING ACTIVITIES	191 519	216 025	216 025	405 682	405 682	405 682	54 621	221 393	227 635
CASH FLOWS FROM INVESTING ACTIVITIES									
Receipts									
Proceeds on disposal of PPE		349		329	329	329	9 285	9 712	10 159
Decrease (increase) in non-current receivables									
Decrease (increase) in non-current investments									
Payments									
Capital assets	(95 948)	(164 633)	(164 633)	(295 007)	(295 007)	(295 007)	(228 884)	(235 339)	(242 222)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(95 948)	(164 284)	(164 633)	(294 678)	(294 678)	(294 678)	(219 599)	(225 627)	(232 064)
CASH FLOWS FROM FINANCING ACTIVITIES									
Receipts									
Short term loans									
Borrowing long term/refinancing									
Increase (decrease) in consumer deposits		(4 333)					(1 774)	5 665	5 925
Payments									
Repayment of borrowing	(70 000)								
NET CASH FROM/(USED) FINANCING ACTIVITIES	(70 000)	(4 333)	-	-	-	-	(1 774)	5 665	5 925
NET INCREASE/ (DECREASE) IN CASH HELD	25 571	47 407	51 391	111 005	111 005	111 005	(168 753)	1 431	1 496
Cash/cash equivalents at the year begin:	73 481	99 053	146 460	88 751	197 851	88 751	197 851	31 099	32 529
Cash/cash equivalents at the year end:	99 053	146 460	197 851	199 756	308 856	199 756	31 099	32 529	34 026

22. PROJECTED BALANCE SHEET

Table 10 – Financial Position

• Table D4 Budgeted Financial Position

Description	Ref	2019/20	2020/21	2021/22	Current Year 2022/23				Medium Term Revenue and Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
R thousands											
ASSETS											
Current assets											
Cash and cash equivalents		32 393	15 821	12 256	37 677	37 677	37 677		31 099	32 529	34 026
Trade and other receivables from exchange transactions	1	866 024	557 337	536 996					589 107	616 205	644 551
Receivables from non-exchange transactions	1	2 670 040	3 069 498	3 468 218	601 127	601 127	601 127		93 330	97 623	102 114
Current portion of non-current receivables											
Inventory	2	107 776	(3 454)	85 397	83 260	83 260	83 260		103 306	108 058	113 029
VAT											
Other current assets											
Total current assets		3 676 233	3 639 202	4 102 867	722 065	722 065	722 065	-	816 841	854 416	893 719
Non current assets											
Investments	3	1 124	849	573							
Investment property											
Property, plant and equipment		6 684 549	6 333 690	6 250 471	6 408 353	6 408 353	6 408 353		6 213 973	6 191 969	6 168 932
Biological assets											
Living and non-living resources											
Heritage assets											
Intangible assets	1	81 638	86 214	80 151	92 826	92 826	92 826		85 169	74 254	62 838
Trade and other receivables from exchange transactions											
Non-current receivables from non-exchange transactions											
Other non-current assets		1 296 498	1 288 904	1 342 778	1 227 610	1 227 610	1 227 610		1 279 967	1 338 640	1 400 104
Other non-current assets											
Total non current assets		8 063 809	7 709 656	7 673 973	7 728 789	7 728 789	7 728 789	-	7 579 109	7 604 854	7 631 874
TOTAL ASSETS		11 740 042	11 348 858	11 776 841	8 450 854	8 450 854	8 450 854	-	8 395 950	8 459 270	8 525 594
LIABILITIES											
Current liabilities											
Bank overdraft					26 464	26 464	26 464		27 708	28 982	30 316
Consumer deposits		127 725	125 968	129 279	124 918	124 918	124 918		123 143	128 808	134 733
Trade and other payables from exchange transactions	4	5 066 062	5 415 771	6 023 871	683 548	683 548	683 548		886 159	926 922	969 561
Trade and other payables from non-exchange transactions	5										
Provision		36 024	43 884	44 076	38 035	38 035	38 035		39 823	41 654	43 571
VAT											
Other current liabilities											
Total current liabilities		5 229 802	5 585 623	6 197 226	872 965	872 965	872 965	-	1 076 833	1 126 367	1 178 180
Non current liabilities											
Financial liabilities	6		5 313	3 499							
Provision	7	1 504 032	1 409 574	1 385 748	1 564 910	1 564 910	1 564 910		1 465 600	1 532 185	1 603 631
Long term portion of trade payables											
Other non-current liabilities											
Total non current liabilities		1 504 032	1 414 886	1 389 247	1 564 910	1 564 910	1 564 910	-	1 465 600	1 532 185	1 603 631
TOTAL LIABILITIES		6 733 833	7 000 509	7 586 473	2 437 875	2 437 875	2 437 875	-	2 542 433	2 658 553	2 781 811
NET ASSETS	2	5 006 209	4 348 349	4 190 368	6 012 979	6 012 979	6 012 979	-	5 853 517	5 800 717	5 743 783
COMMUNITY WEALTH/EQUITY											
Accumulated surplus/(deficit)	8	668 520	254 438	96 960	1 862 577	1 862 577	1 862 577		1 700 133	1 688 867	1 673 052
Reserves and funds	9	4 337 689	4 093 911	4 093 407	4 150 402	4 150 402	4 150 402		4 153 384	4 111 850	4 070 731
Other											
TOTAL COMMUNITY WEALTH/EQUITY	2	5 006 209	4 348 349	4 190 368	6 012 979	6 012 979	6 012 979	-	5 853 517	5 800 717	5 743 783

23. REFERENCES

- *CENTLEC Annual Report: 2020/2021*
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- *2021 SALGA Energy Summit*
- *Free State Growth and Development Plan*
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