

# Rand Water Group

**24 April 2012**

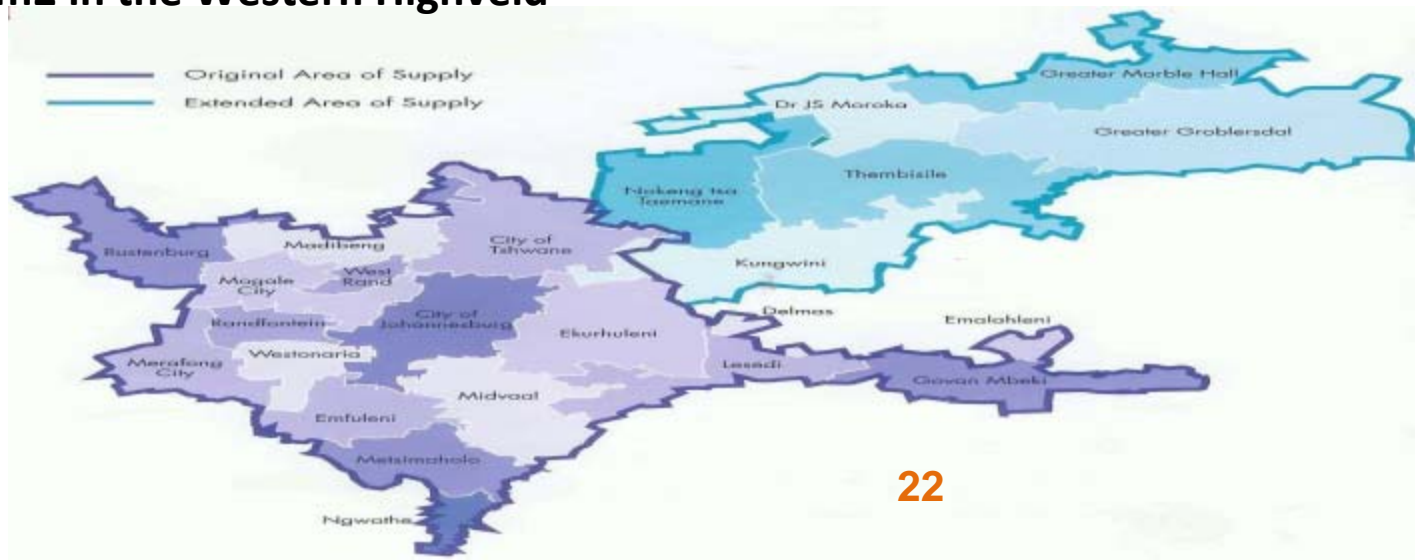
**Parliamentary Portfolio Committee on Water and Environmental Affairs**

**Adv M Petlane  
Acting Chairperson**

**Presentation by  
DKP Sechemane  
Chief Executive**

# About Rand Water

- Rand Water is a public utility wholly owned by government (DWA)
- Rand Water has been existence for 109 yrs
- Bulk Water supplier - 4095 Mℓ/d
- Consumers - Over 12 million
- Total Pipeline Length - 3 056 km
- Total Number of Reservoirs - 58
- Supply Area - 18 000 km<sup>2</sup>
- Additional 13 000 km<sup>2</sup> in the Western Highveld



# Our Strategy

## Rand Water's Vision

To be a provider of sustainable, universally competitive water and sanitation solutions to Africa.

## Rand Water's Mission

The Mission of Rand Water is to deliver and supply world-class affordable, reliable, and good quality water and related services to all stakeholders through:

- Safe, efficient transport, sustainable and innovative business practices;
- Empowered employee;
- Mutually beneficial strategic relationships;
- Legislative compliance and best practice

## Strategic Objectives

**Achieve Growth**

**Achieve Operational integrity and use best fit technology**

**Achieve a High Performance Culture**

**Positively Engage Stakeholder Base**

**Maintain Financial Health & Sustainability**

# Performance snapshot

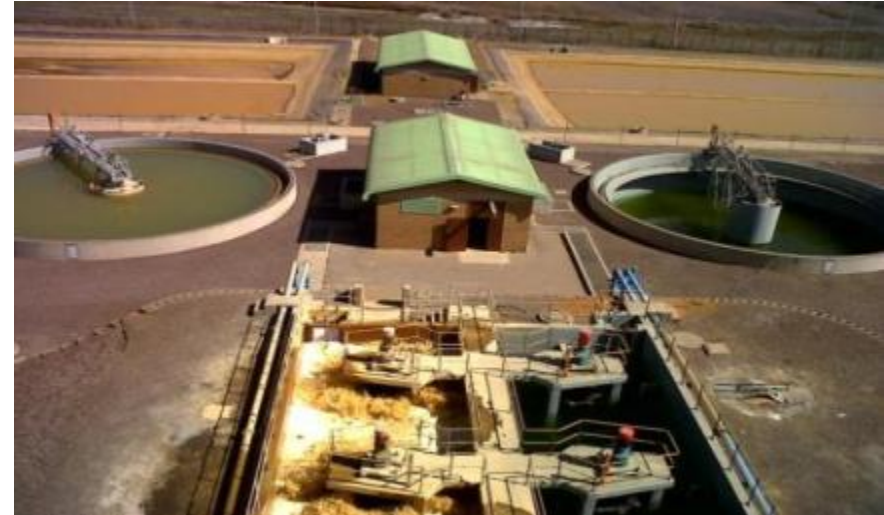
- § **Product Quality - Rand Water consistently maintained delivery to customers on the SANS 0241 Class 1 and 2 specification**
- § **ISO accreditations maintained:**
  - § **Corporate ISO 9001:2000**
  - § **Laboratories ISO 170425**
  - § **All plants ISO 14001 accredited**
- § **Management, operations and maintenance of water and wastewater treatment works and capacity building**
- § **Supply of peak daily demand achieved**
- § **Customer centric approach yielding an overall satisfaction rate of 84%**
- § **Unqualified audit opinion with all compliance and regulations met**
- § **Credit ratings:**
  - § **S&P (A/Local Currency) & (BBB+/ Foreign Currency) – Negative outlook in line with sovereign**
  - § **Fitch Rating (F1+ (zaf) – Short term) & (AA+ (zaf) Long term)**



# Growth projects

## Brugspruit Acid Mine Drainage Plant

- DWA appointed Rand Water for operations and maintenance of Brugspruit Acid Mine Drainage Plant in 2008.
- Plant was successfully refurbished and commissioned in August 2010.
- Rand Water has subsequently been reappointed to operate and maintain Brugspruit where Rand Water remains committed to providing solutions against the threat of acid mine drainage.



## Emfuleni Local Municipality

- Rand Water entered into a 5 year partnership with Emfuleni for operation and maintenance of its sewage pump stations and three of its Wastewater Treatment Plants in 2009.
- These interventions resulted in an improvement in effluent compliance and compliance to Green Drop Certification.
- Rand Water also established an Industrial Effluent Monitoring Programme (IEMP) with Emfuleni.



**green drop**  
CERTIFICATION



# Other growth projects

<b>Grootvlei Raw Water Treatment Plant</b>	Purifies water from Vaal Dam and pumps to Grootvlei Power Station. New management contract for Rand Water commenced 1 September 2010 and runs until 31 August 2013
<b>Sector Support Services</b>	COGTA appointed Rand Water in April 2011 to be an implementing agent for specific programmes. This will entail provision of resources to support municipalities in Municipal infrastructure planning, funding and development & operation and maintenance of water schemes.
<b>Thembisile Hani</b>	Partnership to provide bulk sanitation services, including provision of operational, maintenance and capacity building services to Tweefontein Wastewater Treatment.
<b>Sanitation scheme – Vaal</b>	Rand Water operates & maintains Sebokeng Wastewater Treatment Works in Emfuleni Local Municipality. Also for Meyerton Wastewater Treatment at Midvaal Local Municipality.
<b>Moqhaka Local Municipality</b>	Rand Water appointed as Service Provider for refurbishment of mechanical equipment at Kroonstad Wastewater Treatment Plant. Work was completed in December 2010.
<b>eMalahleni Local Municipality</b>	Rand Water appointed to reinstate and refurbish all damaged and missing mechanical and electrical equipment and to rebuild civil structures.

# Rand Water contributes towards the achievement of the municipalities Blue Drop status



**RAND WATER**



**blue drop**  
CERTIFICATION

drinking water quality  
REGULATION



*You Belong. We Care!*



- § Rand Water supports the programme, by implementing a Water Quality Safety Plan which entrenches principles of integrated water quality management for the municipalities.
- § To achieve a Blue Drop status, water services providers must meet both requirements
  - § Quality of water supplied to consumers
  - § High standard of Water Quality Management System
- § Rand Water maintained its Blue Drop certification during the recent audit, thus ensuring the municipalities and public served by Rand Water of its continued commitment to sustain a safe water supply and quality management systems.
- § Rand Water has also assisted the seven municipalities within its service area of supply to obtain Blue Drop status.
- § Three trophies: for Excellence recognition for top 10 municipalities.
- § Gauteng was rated as the top province



# Performance highlights

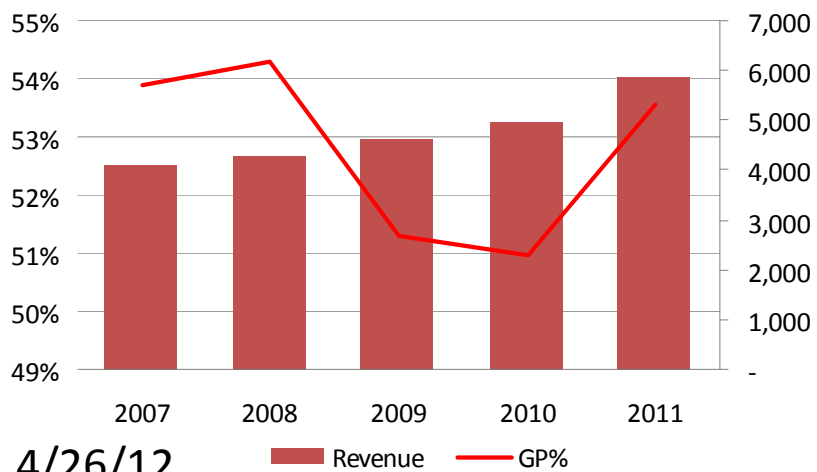
§ Achieved almost R5.9bn in revenue

§ Gross margin improvement from 50.96% to 53.56%;

§ Variable costs increasing by over 29% yoy with energy costs increasing by 27% and chemicals increasing by 49%;

§ 55% increase in EBITDA from R486m to R751m for the 2010/11;

§ Improvement in profit from operations from R302m to R536m;



for the year ended 30 June

	2011 R million	2010 R million
<b>Revenue</b>	<b>5 891</b>	<b>4 998</b>
Net operating expenses	5 140	4 511
<b>EBITDA</b>	<b>751</b>	<b>486</b>
Depreciation and amortisation	201	168
<b>Profit from operations before net finance costs</b>	<b>550</b>	<b>318</b>
Net investment income	(17)	(11)
Taxation	3	(5)
<b>Net Profit for the year</b>	<b>536</b>	<b>302</b>



# Salient matters from the board members report

§ The Group recorded irregular expenditure of R8.7million for the year. Disciplinary measures have been instituted and criminal & civil cases have been opened against the relevant parties:

- § Corruption by employees R4.2 million (two cases) arising from collusion with suppliers.
- § Employee authorised expenditure to the value of R4 million which was over her delegated authority. However, there was no loss for the organisation.

§ Two investigations undertaken through the year:

§ Supply chain management

- § An investigation was conducted by SizweNtsaluba vsp. at the request of the Board to undertake a review of tenders awarded for the period April 2009 to August 2009. The investigation was initiated to confirm whether or not tenders were awarded in line with Rand Water's Supply Chain Management Policy, Treasury Regulations and Delegation of Authority.
- § The findings confirmed that the tender awards were in line with Rand Water's Supply Chain Management Policy, Treasury Regulations and Delegation of Authority.

§ Board

- § An investigation was conducted by SizweNtsaluba vsp. at the request of the Minister of Water and Environmental Affairs. The investigation was initiated to determine if the Board of Directors acted with due diligence, care and skill in exercising their fiduciary duties.

4/26/12 The report is currently being considered by the Minister.

# Performance results against shareholder compact



**RAND WATER**

Performance objective	Key performance indicator	Target	Result
Improved financial performance	Net profit margin	≥ 3.5%	10.9%
Improved financial performance	Gross margin	≥ 51.3%	53.6%
Improved financial performance	Asset turnover	≥ 63%	64.6%
Improved financial performance	Return on assets	≥ 4%	7.2%
Improved financial performance	Debt Equity	<28%	13.3%
Improved financial performance	Current ratio	≥ 2.05 times	1.4 times
<p>The target has not been achieved as a result of declining cash reserves. The cash reserves have been utilised to fund capex and its expected in the foreseeable future that the 2 times levels will not be met as the organisation rolls out its infrastructure plan. The target is still under pressure even though the debtors collection has improved.</p>			
Manage costs within approved budget	Financial reports variance %	≥ 5.0%	19%
Reliability of service	No of days supply disrupted divided by total supply days	0%	1010 0%

# Performance results against shareholder compact



Performance objective	Key performance indicator	Target	Result
Water losses	Water lost as a % of total water produced	4.0%	4.3%

Rand Water is in the process of investigating and identifying ways to improve on water losses. The target was based on the assumption that the financial resources, investigations and alignment would be completed.

Positive internal audit report	Number of repeat findings	0	0
Bulk supply agreements with municipalities/other customers	Municipalities/other customers with bulk supply agreements	100%	100%
Water quality compliance	Compliance with SANS 241 Class 1	≥ 95%	99.26%
Water quality compliance	Compliance with SANS 241 Class 1	≥ 97%	99.27%
Financial reporting compliance	Unqualified external audit report	100%	100%
Financial reporting compliance	Qualified external audit report	0%	0%
Achieve statutory reporting compliance	Statutory submission made on time	100%	100%
Board member performance	Annual performance assessment	≥ 75%	1111 75%

# Performance results against shareholder compact



Performance objective	Key performance indicator	Target	Result
Staff turnover	% of staff leaving	< 5%	2.29%
Increase BBEE spend	Percentage of spend increase	≥ 75%	91%
Employment equity	ACI recruitment rate in management and technical positions	≥ 75%	94.69%
Employment equity	Female recruitment rate in management and technical positions	≥ 45%	46.02%
Increased access to services	Capex spend: Potable water (R m)	≥ R1,260	R1,005
Reasons for the variance from target	provided in the next slide. Capex spend: Growth / Business opportunities (R m)		
Increased access to services	This was Rand Water going out to find projects. However, this is not included in the tariff calculation	≥ R180	Rnil

# Capital expenditure



**RAND WATER**

Financial Year Ending 30th June 2011

**Original capital expenditure**

**R1,260 million**

**Delays in getting approvals for EIAs**

**R160 million**

- This was a matter that was highlighted in meetings with the then Acting Director General of DWA*

**Rand Water's cost saving initiatives**

**R50 million**

- Instead of spending this money, Rand Water recognized that it was more important to extend the life span of these assets*
- Examples: IT software & infrastructure, Vehicles and Security within the organization and other related assets*
- These projects were not for the direct provision of water and services*

**Revised capital expenditure**

**R1,050 million**

**Actual capital expenditure**

**R1,005 million**



## FAILURE TO IMPLEMENT CAPEX PROGRAMME

The consequences of a failure to implement the Capital Expenditure Programme could lead to some of the problems experienced by Rand Water in previous years. The Meredele incident of 2005 comes to mind.

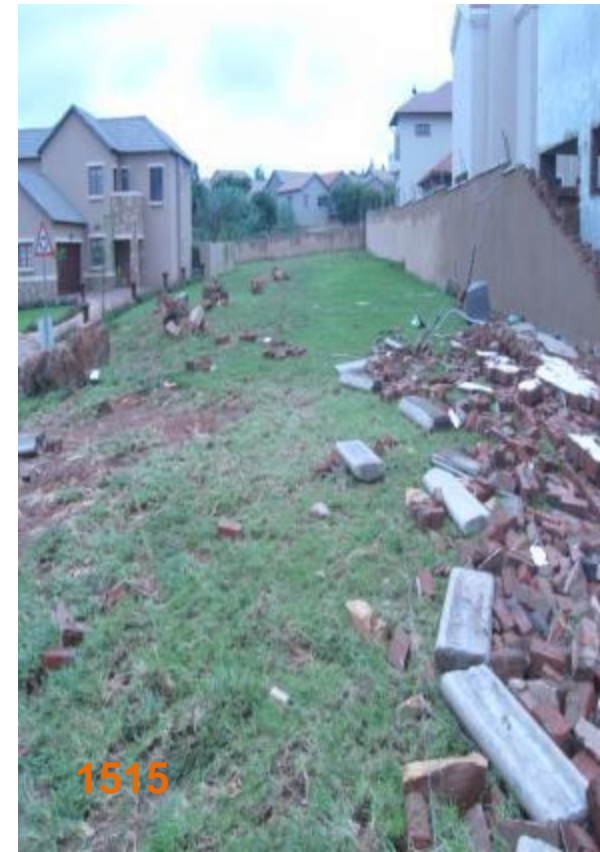


This occurred when one of Rand Water's old infrastructure burst and caused colossal damage.

## FAILURE TO IMPLEMENT CAPEX PROGRAMME cont...

This threat has not disappeared. On 27th December 2011, there was another huge pipe burst in Bronberg, Pretoria causing extensive damage to property.

Therefore, it is important to implement this capex programme supported by a sustainable tariff and borrowing capacity in the capital markets.



# Forecast demand growth to 2030



RAND WATER

Population, income, land use, water use, water supply, water demand, water quality, water quantity, water security, water sustainability, water services

Questionnaire model population, income, land use, water use, water supply, water demand, water quality, water quantity, water security, water sustainability, water services

Metros forecast average growth of 2% per annum

# Projected peak day demands to 2035

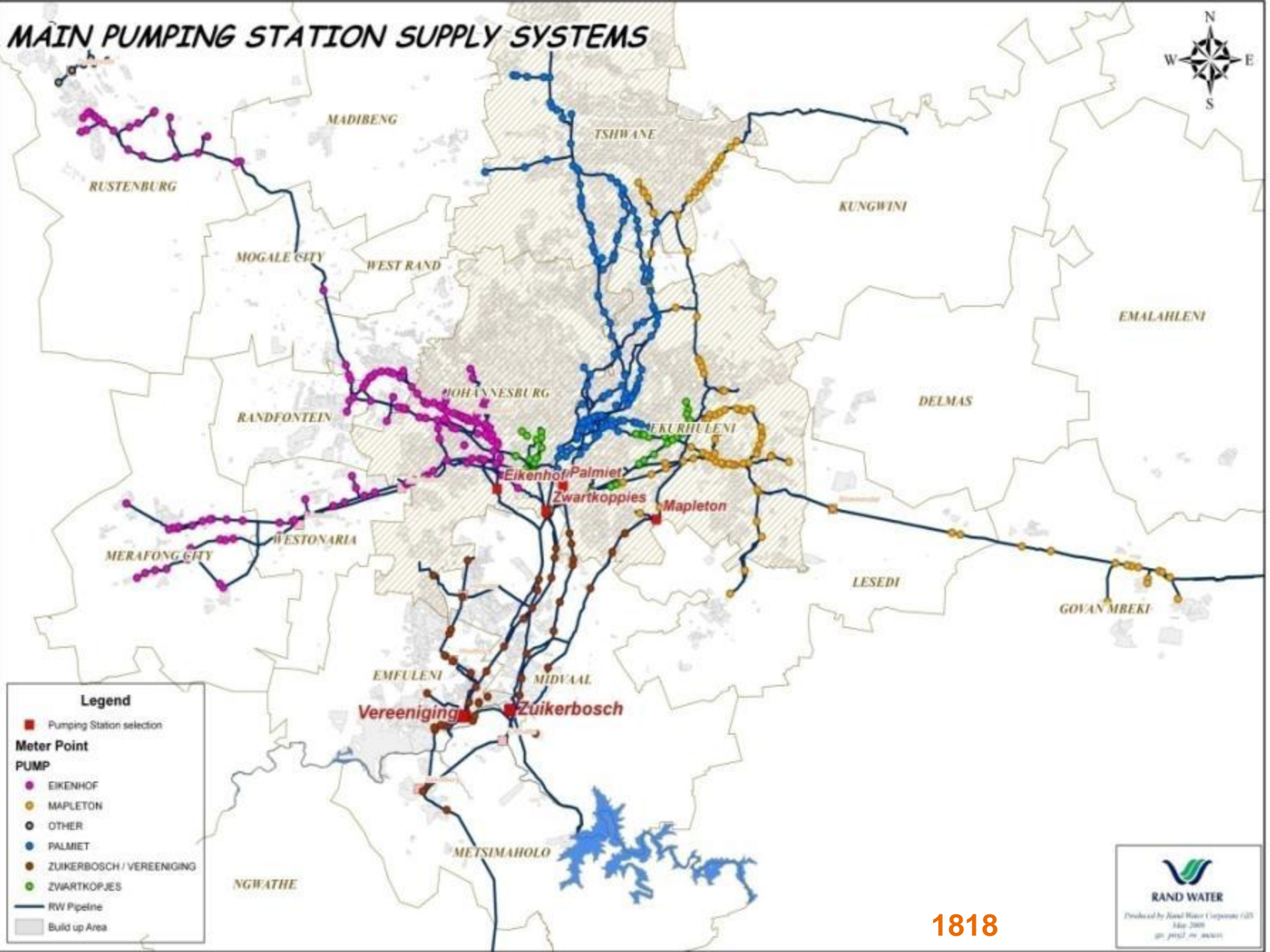


**RAND WATER**

Station	Available capacity	Add capacity	Year to augment	Projected peak day demands				
				2015	2020	2025	2030	2035
Zuikerbosch	3900	1200	2016	3910	4500	4030	4550	4080
Vereeniging	1400	Nil		1400	1400	1400	1400	1400
Clarens P/line	Nil	1000	2025			1000	1000	2000
Eikenhof	2000	Nil		1400	1550	1700	1840	1980
Zwartkopjes	800	200	2013	700	760	820	880	930
Palmiet	1870	600	2015	1880	2100	2300	2500	2700
Mapleton	960	300	2017	920	1040	1140	1240	1340



# MAIN PUMPING STATION SUPPLY SYSTEMS





# Augmenting the network

Augmenting for 2015 with 2030 capacity below projected growth system peak day

Primary system – 1600 MI/d growth

Eikenhof system – 400 MI/d growth    Midrigt system – 600    Mapleton system – 30    Zwartkopjes system – 30

# 5-year Capital Expenditure (2013/17) of R9.5bn



**RAND WATER**

	2012 -2016	2013-2017
	Rm	Rm
Augmentation	6,521	6,133
Renewal	1,538	2,513
Growth Investments	1.880	588
Moveable assets	255	250
	<b>10,194</b>	<b>9,484</b>

## Growth Investments & Green Agendas

Co-Generation

Effluent reuse

Shift towards renewal projects (i.e. rehabilitation & replacement in the rolling 5-year plan expected)

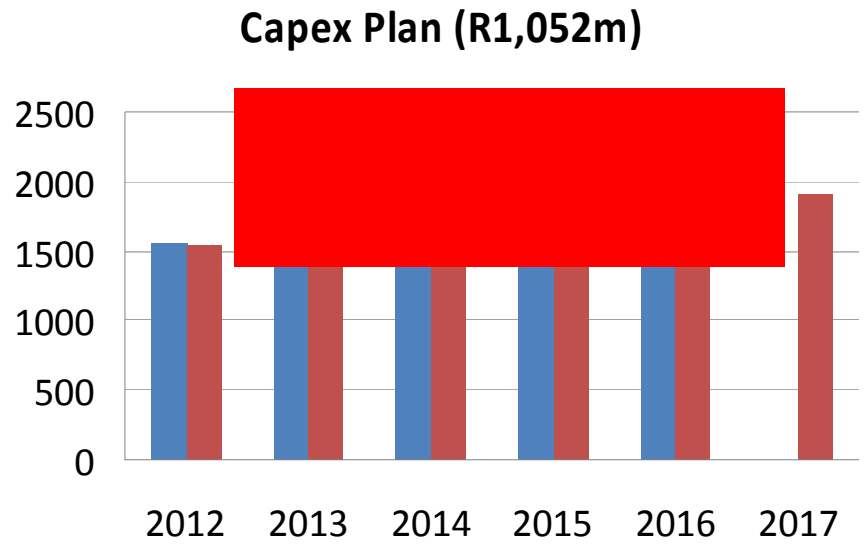
System	Year of completion	Augmentation (Rm)	Renewal (Rm)	Total (Rm)
Eikenhof	2016	237	358	595
Mapelton	2017	420	218	638
Palmiet	2016	1,972	498	2,470
Raw Water	2016	396	114	510
Vereeniging		0	367	367
Zuikerbosch	2016/17	2,959	585	3,544
Zwartkopjes	2015	148	372	520

# Capital Expenditure Reconciliation over 5-year period (2012 to 2016)



**RAND WATER**

RECONCILIATION TO PREVIOUS PLAN		
	Original Plan 2013 -2016	Revised Plan 2013 -2016
	Rm	Rm
Augmentation	5,619	4,907
Renewal	1,113	1,885
Movable assets	200	200
Growth	1,700	588
	<b>8,632</b>	<b>7,580</b>



## Growth Investments & Green Agendas

4/26/12

- Co-Generation
- Effluent reuse

- Regional WWTW has been deferred until decision
- Aug project exp projections have reduced and Renewal projects have increased after reprioritization process.

**2121**

# The Architecture

PRESIDENCY

Honourable Minister, Edna Molewa

National Treasury

DWA

Auditor General

National Parliament

Shareholder Compact

Corporate Business Plan

Rand Water

Strategic Vision

Mission

Strategic Objectives

KPAs

KPIs

Reporting Formats

Annual Report

Annual Assessment of Water Boards

Quarterly Reports

The new shareholder compact template issued by DWA will increase reporting on the alignment with National Government objectives

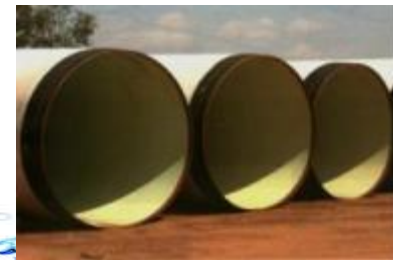
# Job creation (2013 – 2017)



RAND WATER



Year	Number of jobs
2013	400
2014	600
2015	400
2016	100
2017	300
<b>Total</b>	<b>1800</b>



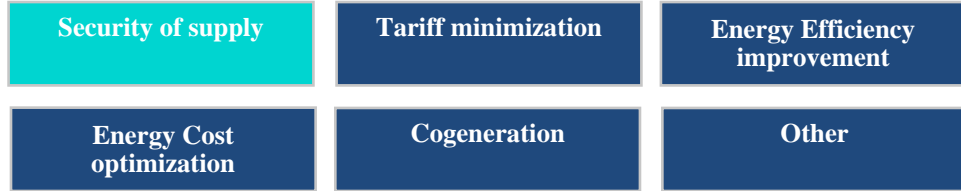
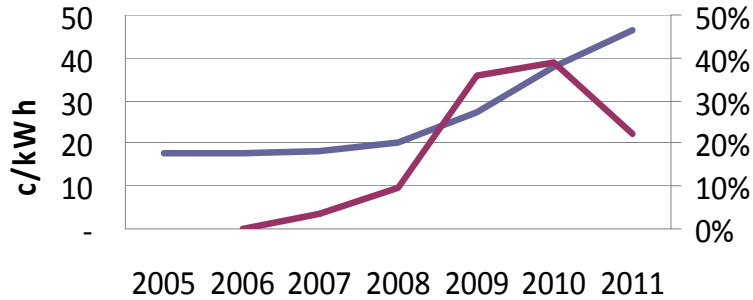


# Tariff Setting - Energy management

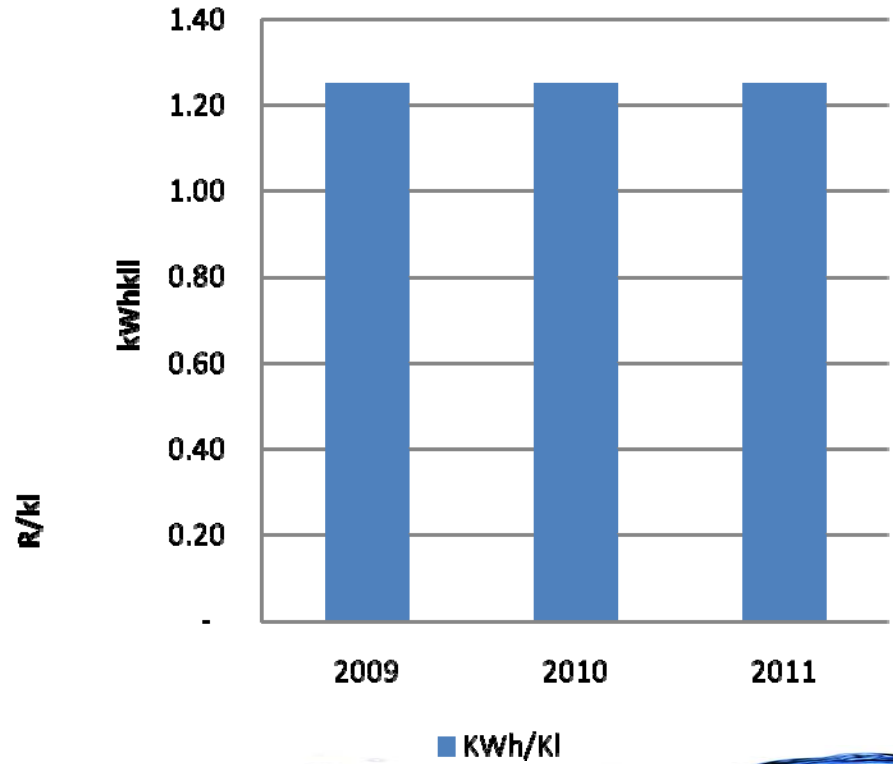


**RAND WATER**

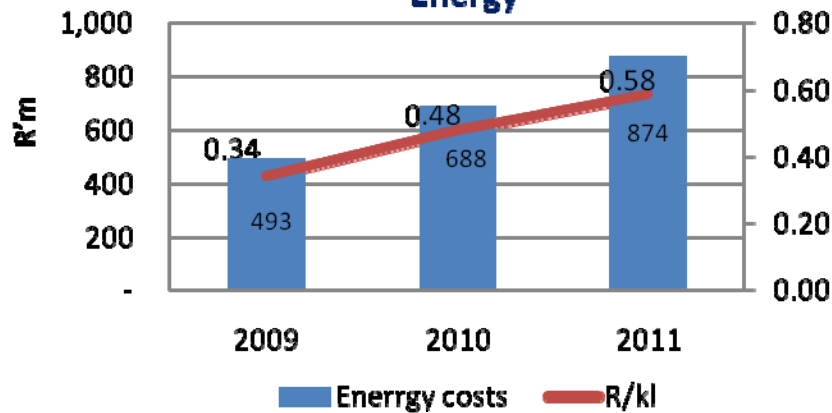
**Cost of energy**



**Energy usage**



**Energy**



# Cash reserves utilisation



**RAND WATER**

* Application of income statement surplus (R/KI)	2012/13	2013/14	2014/15
<i>Opening bank balance</i>	0.51	0.41	0.45
<b>ADD: Surplus</b>	<b>0.46</b>	<b>0.52</b>	<b>0.61</b>
<b>Depreciation</b>	<b>0.12</b>	<b>0.14</b>	<b>0.17</b>
<b>Less:</b>			
<b>Capex</b>	<b>1.08</b>	<b>1.10</b>	<b>1.11</b>
<b>Loan redemption</b>	<b>0.14</b>		
<b>Net interest charge</b>	<b>0.11</b>	<b>0.16</b>	<b>0.20</b>
<b>Required bank balance</b>	<b>0.42</b>	<b>0.46</b>	<b>0.50</b>
<b>Shortfall to be funded externally</b>	<b>(0.66)</b>	<b>(0.64)</b>	<b>(0.59)</b>
<b>Total external funding requirements</b>			
<b>Core business (R'm)</b>	<b>1 068 000</b>	<b>1 055 000</b>	<b>1 000 500</b>

# TCTA Raw Water Tariff Increment



RAND WATER

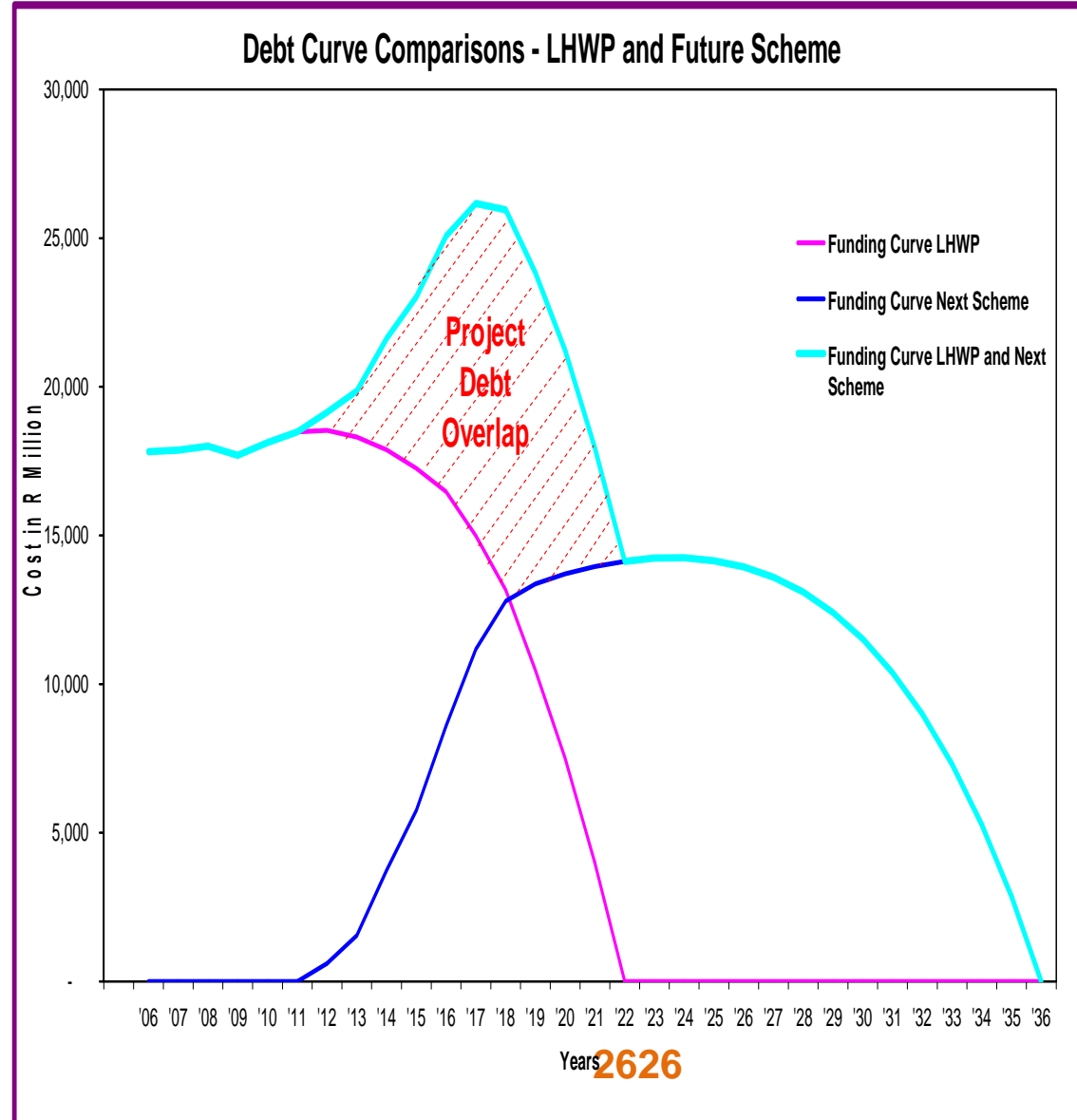
- Rand Water purchases its raw water from DWA and TCTA.

- In the previous tariff negotiating cycle, the 2nd phase of the LHWP was introduced.

- This was coined as the 1st of 6 portions. However, in this current cycle, TCTA introduced nine portions, instead of 6 portions.

- This makes for difficult planning in the water sector. There has been no proper justification for this unilateral extension by 3 more portions.

- There total capital expenditure has progressively increased from R7.5 billion to over R15 billion.



# Tariff Consultation before revised energy tariff

- Rand Water has followed a consistent rationale for increasing its tariff over the years.
- This rationale has been based on assessing the Rand Water internal rate of inflation.
- This is a projection of the expected increase in total costs.
- A breakdown of the total costs and their overall expected rate of price increase is then proposed as the proposed tariff increment.

Rand Water Tariff = Rand Water Internal Inflation for Financial Year Ending 30th June 2013				
Year-End ~ 30 June	Price increase	Forecast 2013	Percent of total	Weighted
	%	R m	%	%
<b>TCTA</b>	<b>8.2%</b>	<b>2888</b>	<b>40.7%</b>	<b>3.5%</b>
DWA	10.3%	590	8.3%	0.7%
Raw Water	8.5%	3478	48.9%	4.2%
Energy - Eskom	26.1%	808	11.4%	3.0%
Energy - Municipalities	38.6%	726	10.2%	3.9%
Chemicals	12.5%	330	4.7%	0.6%
Multi-Partnered Uncontrollable Costs		5342	75.2%	11.7%
Labour	8.2%	1165	16.4%	1.3%
Other	5.4%	598	8.4%	0.5%
<b>Total</b>		<b>7105</b>	<b>100.0%</b>	<b>13.5%</b>
<b>Target bulk tariff increase</b>				<b>13.5%</b>

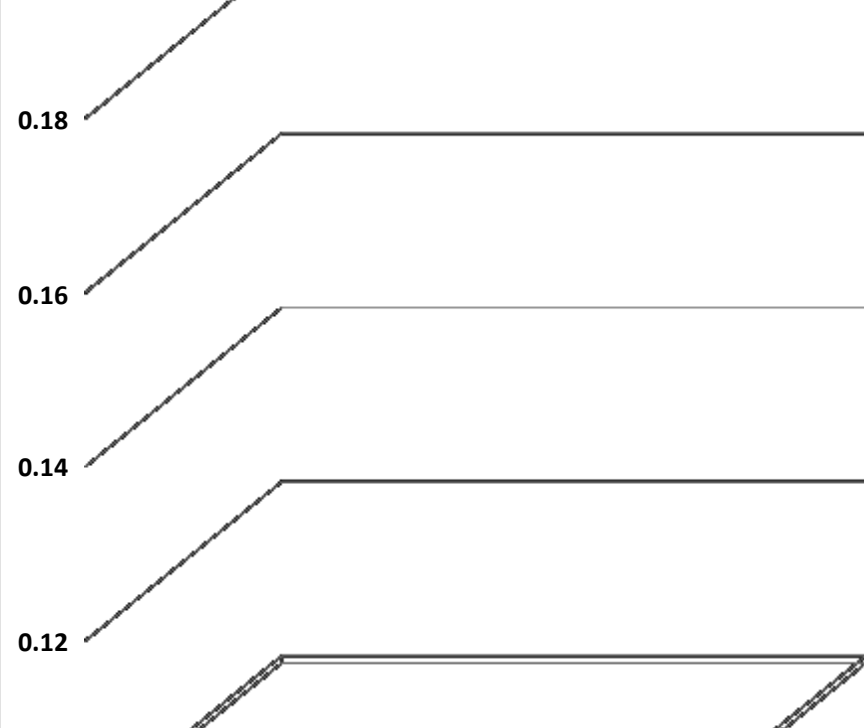
**After extensive consultation and review with Rand Water, National Treasury and the Honorable Minister recommended Rand Water's tariff of 13.5 per cent.**

# Tariff Consultation after revised energy tariff



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## Eskom Tariff Revision – Original Tariff Increment – 26.1%



In line with a consistent rationale for increasing its tariff over the years, Rand Water revised its tariff to 11.3%.

However, if the TCTA component is excluded Rand Water would have requested an 8.8% tariff increase. This discussion is in line with comments made by Portfolio Committee last year.

Rand Water Tariff = Rand Water Internal Inflation for Financial Year Ending 30th June 2013				
Year-End ~ 30 June	Price increase	Forecast R 2,013.00	Percent of total	Weighted
	%	R m	%	%
TCTA	8.18%	2888	41.3%	3.5%
DWA	10.3%	590	8.4%	0.7%
Raw Water	8.5%	3478	49.7%	4.2%
Energy - Eskom	16.7%	747	10.7%	1.8%
Energy - Municipalities	29.2%	677	9.7%	2.8%
Chemicals	12.5%	330	4.7%	0.6%
Multi-Partnered Uncontrollable Costs		5233	74.8%	9.4%
Labour	8.2%	1165	16.6%	1.4%
Other	5.4%	598	8.5%	0.5%
<b>Total</b>		<b>6996</b>	<b>100.0%</b>	<b>11.3%</b>
Target bulk tariff increase				11.3%
<b>TCTA Component</b>				<b>3.5%</b>
<b>Tariff excluding TCTA</b>				<b>8,8%</b>

- **Multi-year tariff** - The current process is very cumbersome and requires a multi-year tariff. The water sector is awaiting the conclusion of DWA's pricing strategy.

- **Demand projections** - Rand Water would like to work with the SALGA Provincial / National office when it consults with local councils on demand projections. Lessons from these consultations could be used by SALGA to capacitate local councils with less capacity to undertake such exercises.

- **Project 15%** - Rand Water would like to offer its assistance with regards to Project 15% which will help to reduce the high growth in demand. SALGA and Rand Water should work closely to impart lessons from other local councils where Rand Water has worked on this matter.

- **Acid Mine Drainage** - This provides an opportunity for SALGA and its members to increase capacity and volume of potable water. This water is decanting within municipal areas. There are international examples where local councils are treating this water. Rand Water would like to work with SALGA to investigate this alternative which would be complemented by potable water from Rand Water, and industrial grade water from sanitation.

- It is important to note that some municipalities have passed on to households Rand Water's original tariff of 13.5 per cent. Rand Water suggests that this differential be utilised by local councils to establish a fund for Project 15%

# Some of the challenges



**RAND WATER**

§ **Environmental Impact Assessments** – Rand Water has experienced significant delays in the approvals of EIAs. These delays impact on the ability to commence and complete capital expenditure projects.

§ **Water Use Licenses** - Rand Water requires the approval by DWA of license applications. The priority application for an increase in abstraction is still outstanding.

§ **Abstraction License** - Rand Water applied for an increase in the water abstraction license. This outstanding license could well be an audit finding.

§ **Catchment Management Agency** - Rand Water has requested the DWA to consider an appointment for Rand Water to undertake the function of a Catchment Management Agency. The management of the Catchment on an Agency basis will enable Rand Water to contribute towards the improvement of the raw water quality thereby decreasing our cost of purification.

§ **Encroachment on Rand Water Servitudes** - The issue of informal settlements imposes a great risk to people close to Rand Water's pipe network and the supply of water. This is an issue that requires urgent assistance to water boards and other state owned utilities.

§ **Raw Water Pricing and Funding Strategy** – DWA is currently working on new pricing and funding strategy. This will help to price raw water appropriately, and also open the market for national capital projects to all interested parties including Rand Water.



# In conclusion



RAND WATER

§ Improving profitability and returns going forward

§ Sustainable tariffs

§ Shareholder support

§ Sufficient headroom for liquidity purposes

§ Improved operational efficiency

**THANK YOU**