

PRESS STATEMENT – PUBLIC APOLOGY FOR INCONVENIENCE CAUSED BY TEMPORARY RESTRICTION OF PURCHASE OF PREPAID ELECTRICITY

On behalf of both the Council and the Administration of the City of uMhlathuze I wish to convey my sincere apologies for the inconvenience caused to all residents during the period 18 to 30 June 2010, as a result of the imposition of the restriction of sales to electricity prepaid consumers, which consequently impacted on other consumers, and as a result residents were held up in long queues.

The lack of effective public communication by the municipality is truly regretted. The following are the full details of the reasons that necessitated such an intervention by the municipality to clarify the matter:

1. The objective of the intervention was to prevent the exploitation of the prepaid vending system. The Municipality had to implement measures to mitigate the risk associated with consumers who could afford to purchase electricity in advance at reduced prices in anticipation of consumption from August 2010 onwards.
2. The electricity usage of consumers was not blocked but only restricted to an individual consumers monthly average purchase based on the past twelve months consumption.
3. Due to the nature of the restriction imposed, only one purchase during this period was allowed. If further purchases were required the consumer had to have the account unblocked
4. In an attempt to reduce the inconvenience an additional 20% was added to the monthly average.
5. The third party vendors (service providers) were never blocked from vending during this period, exactly the same restrictions were imposed on their computer systems. However during this period, the networks of these service providers and our own were erratic and on occasions totally off-line.
6. SMS`s were circulated to registered residents for service notifications on the 18, 21 and 25 of June 2010. Notices were also placed on all the public notice boards as from 18 June.
7. Additional personnel were provided during the weekend of the 26 and 27th of June 2010 in Richards Bay and Empangeni to assist the public with this demand in service.
8. Due to the nature of the prepaid system, any public notification prior to the intervention would have obviously been contrary to the objective of the intervention in the first place.
9. The statements contained in the press were skewed in that the comments made by myself were not published in their entirety.

10. The statement made in the press that the Municipality is already paying for the higher electricity tariff to Eskom is incorrect; this only came in effect from 1 July 2010.
11. All consumers whose average was R300.00 and less per month, were excluded from this intervention,
12. The perception that the Municipality may have taken an unethical decision here is incorrect for the following reasons:
 - The process by default sensitised the public to the opportunity to buy electricity for the whole of the following month i.e. exploit a situation which is an inherent advantage of the prepaid system and which shall always be. This for the public who wish to hedge against inflationary increases. However the increases that Council was forced to impose as from the new financial year are not inflationary but extra-ordinary. Therefore allowing some consumers who can afford to do so , and to buy for many months if not years in advance could not be allowed.
 - The Municipality has an overall mark up (Gross Profit) of 28 % on Eskom cost for the new years tariffs. This in rand terms amount to R194m per annum. The serious concern is that this profit is an estimated one, as past trends could not be used as accurate measures. This because it is impossible to judge what the impact is on our consumption patterns will be with these extra-ordinary increases over the next twelve months together with the economic recession. The situation is simply unprecedented. What is known however is that the current (30/06/2010) gross profit margin of 16% or R83m per annum, is simply not sufficient to finance the electricity Department and the 10% of turnover contribution it makes to the General Services Departments. Therefore, any further risk of prejudicing the projected 28% margin for the new year needs to be mitigated.
 - It was estimated that at least R1m to R3M would be lost due to purchase of electricity at current prices , but which would be used from August 2010 onwards. This amounts to between 0.5 % or and 1.5% of the anticipated gross profit. This loss together with the inherent risk of not achieving such margin in the first place, had to be prevented.
13. The Municipality was legally competent to initiate this intervention in terms of both the Constitution and the Municipal Finance Management Act.

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