

Umgeni must overcome power hikes, demand fall in recession

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UMGENI Water will need to balance sharply higher electricity costs and a drop in demand volumes due to the recession to ensure it can stick to its infrastructure and maintenance commitments.

Mzimkulu Msiwa, the chief executive of Umgeni Water, said yesterday the main challenge facing the

business was the recession and the likelihood that an economic recovery would only materialise in 2013.

"So volumes could start dropping," said Msiwa. "Our business is very sensitive to volume, so we will have to manage costs carefully to ensure infrastructure investments can continue."

In the year to June volumes grew by 3 percent

against an expectation of 4 percent growth.

Nica Gevers, the utility's finance manager, said this could be attributed to the eThekweni municipality's pipe replacement programme, which would have reduced the substantial water loss in the city. But factory closures or a fall in manufacturing could also be behind the fall in demand for bulk water:

It is bracing for further sharp increases in electricity costs. Gevers said over five years electricity would cost an additional R200 million. In the year under review electricity costs were R43m.

This would partly be due to the increase in the number of pump stations as Umgeni Water expands its network, but a larger part would be a result of the Eskom price

hikes, she said.

But the utility is in a sound financial position. In the 2008/09 financial year it reported a R527m profit.

Its tariff increase for the current financial year is an average of 6.5 percent, but Gevers said in subsequent years tariff increases were likely to be higher due to the higher electricity costs that will be incurred.

