Tariff Application 2019/20

18 September 2018

Cape Town

Overview

- Weighted Efficiency Gains from Operations (WEGO) update
- Port Tariff Incentive Program (PTIP) update
- Context to review of Tariff Methodology
- Tariff Application 2019/20
  - Capex implementation
  - Valuation of Regulatory Asset Base
  - Comments due – focus areas
- The process going forward

"When it comes to the children I believe in light-touch regulation."

WEGO update

- R154 million in the WEGO “kitty” for the current (2018/19 tariff year)
- Is it starting to make a difference?
- Current process focussed on data collection and verification
- Task team consisting of PRSA and PCC KPI subcommittee (including NPA) will be responsible in each port
- Focus now shifting towards next round of WEGO KPI’s
- Intention to get some level of agreement on the target areas by port

Port Tariff Incentive Programme (PTIP)

- Supporting beneficiation, industrialisation, and localisation through port tariff regulation
- The process is intended to serve as a mechanism by which beneficiation, in the form of cross-subsidies (which are in “*the interest of the public*”) may be introduced into the port tariff system
- Developed in conjunction with the Department of Transport, the Department of Trade and Industry, and the National Ports Authority and was launched in 2017
- Results in an amendment to a tariff line(s) within the tariff book
- Relevant documents are available on the Regulator’s website

Port Tariff Incentive Programme

- One application was received from OSHO Cement for the 2019/20 tariff period.
- Osho Cement (the Applicant) is engaged in setting up a cementitious grinding facility in the Coega IDZ, with a total project cost of R 750 million. The project aims to reduce the dependency on imported cement and stimulate the local economy.
- The application relates to the following import and export tariffs:

Tariff Line	Proposed Cargo Due (R/ton)	Cargo Due as at 2017/18 (R/ton)	Cargo Due as at 2018/19 (R/ton)
1. Clinker (Dry Bulk, (5) Cement and Clinker)	R 1,50	R68,41	R27,04
1. Granulated Blast Furnace Slag (Bulk (dry and liquid) Granulated Blast Furnace Slag)	R 1,50	R68,41	R7,40
1. Limestone (Bulk (dry and liquid) Limestone)	R 5,13	R 25,65	R7,40
1. Gypsum ((2) Dry Bulk, (5) Gypsum & Products thereof)	R 5,13	R 25,65	R27,04

Port Tariff Incentive Programme

- Interested parties encouraged to submit written comments
- Submissions on the application due the 12th of October 2018
- Applications for the next round closes 31 January 2019

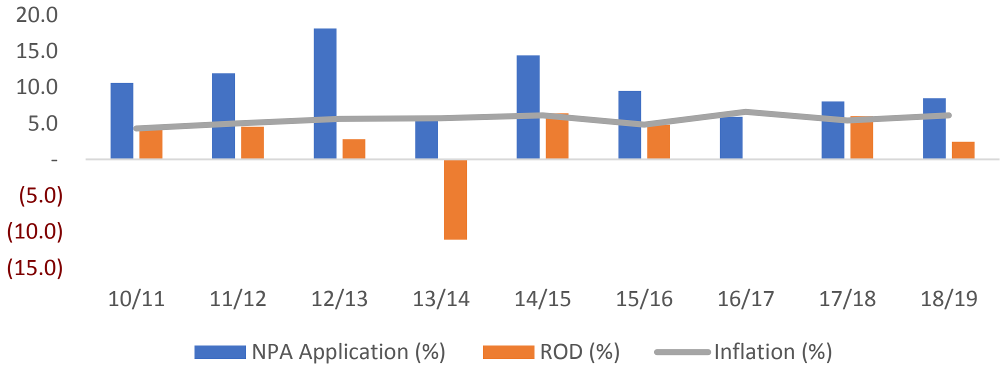
The Tariff Application

Please note…

The following few slides do not reflect any decision or formulated view of the Ports Regulator, but rather should serve as a guide to assist in drafting your submissions and input into the process.

Previous Records of Decision

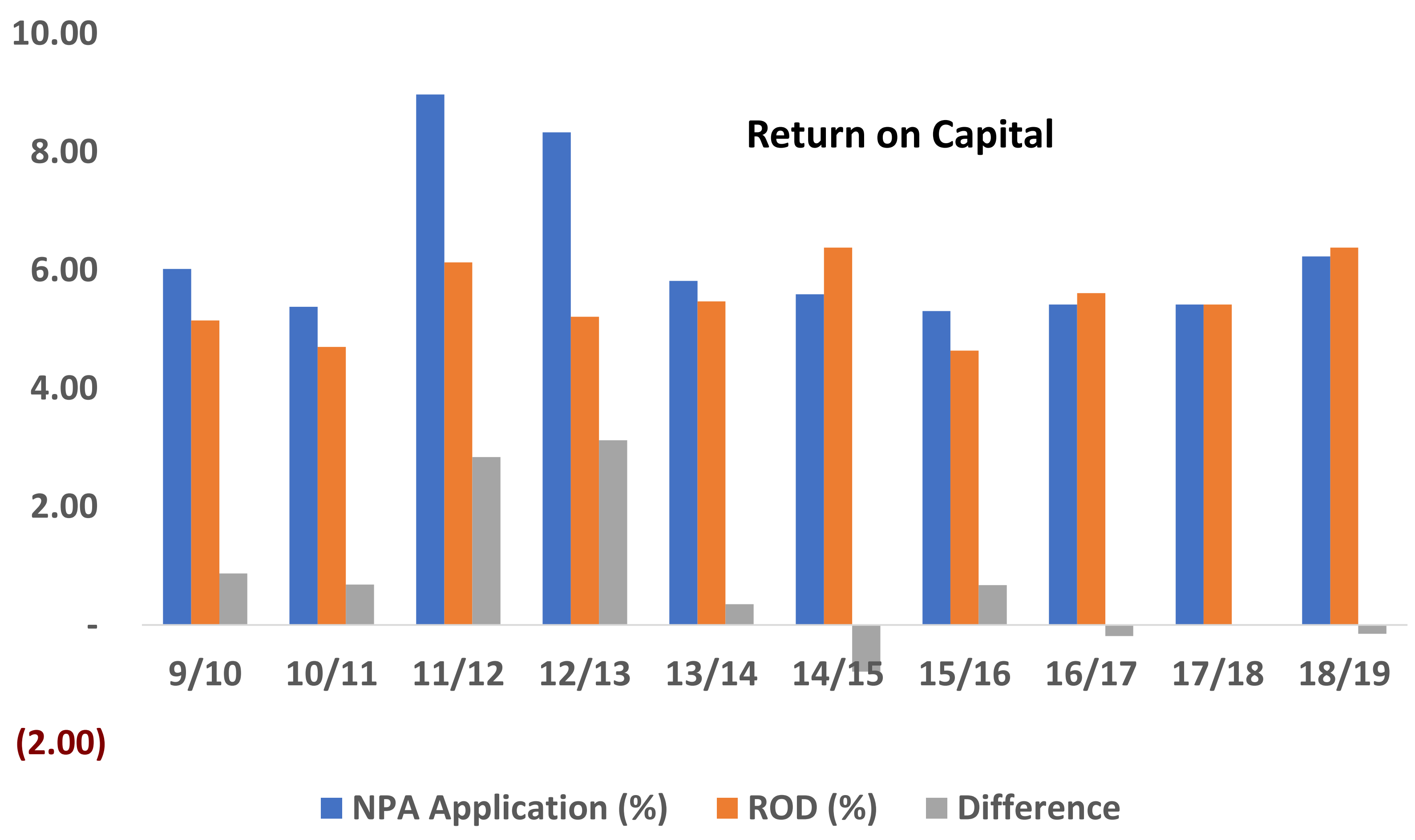
Tariff Year	NPA Application (%)	ROD (%)	Inflation (%)
10/11	10.6	4.4	4.3
11/12	11.9	4.5	5.0
12/13	18.1	2.8	5.6
13/14	5.4	(11.1)	5.7
14/15	14.4	6.4	6.1
15/16	9.5	4.8	4.8
16/17	5.9	-	6.6
17/18	8.0	6.0	5.4
18/19	8.5	2.5	6.1



Review of the Tariff Methodology

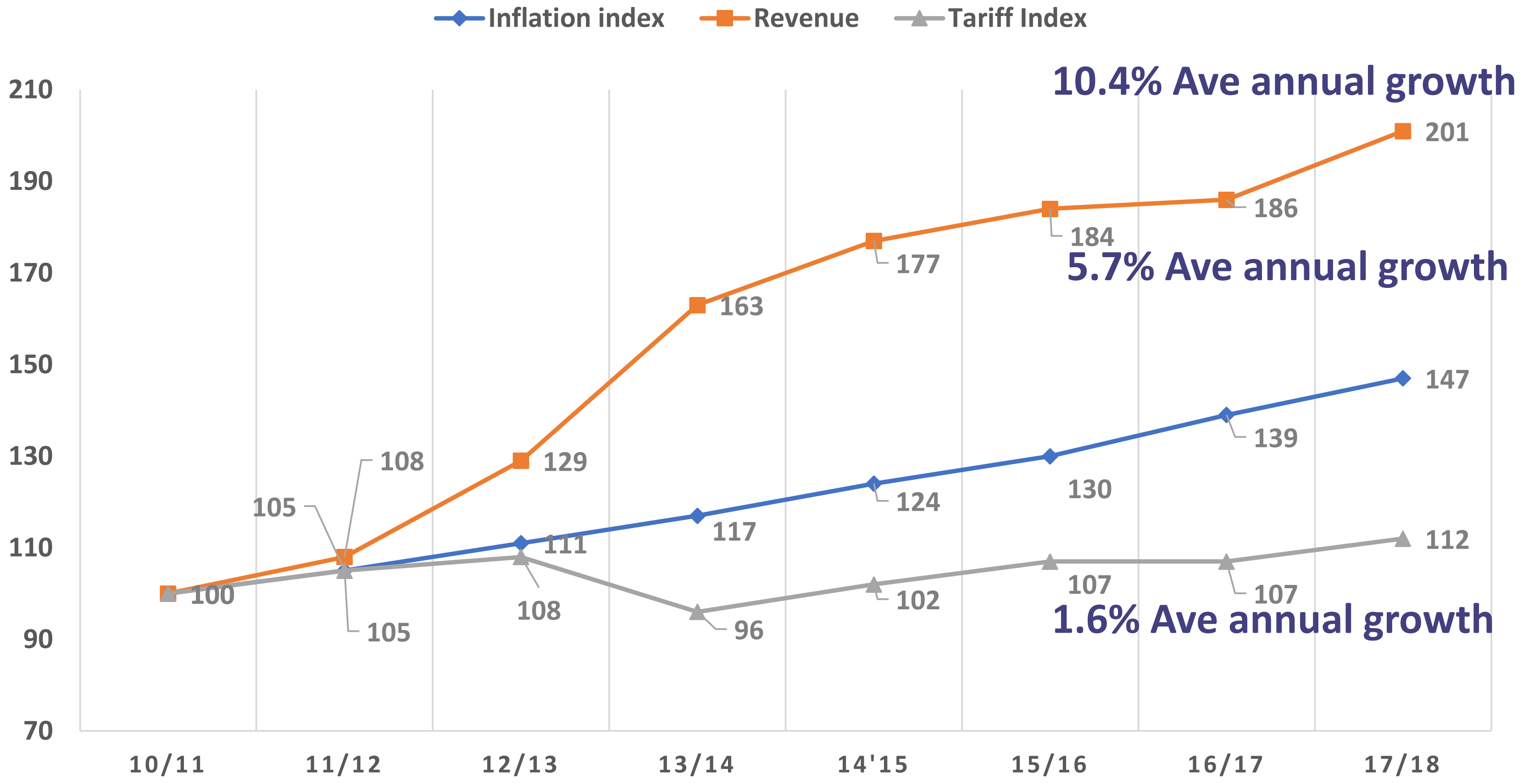
- Second Multi-year Tariff Methodology coming to an end next year.
- 2019/20 to see a review of the Tariff Methodology
- This process is starting now

Why a Tariff Methodology?



NPA sustainability

The right Tariff Methodology allows the Regulator the space to ensure price stability *and* system sustainability…



The Application: some objective comments

- The Authority has applied for a below inflation tariff adjustment of with forecasted CPI being 5.10% (the application)
- This translates to a weighted average tariff adjustment of **4.21%** for FY 2019/20.
- Required revenue of **R13 681m**
- **Tariff differentiation proposed in the application:**
- An average 8.00% increase for Marine Services tariffs applicable to shipping lines
- An average 2.74% increase for cargo dues tariffs with:
  - Containers tariffs to increase by 1.79%;
  - Automotive increasing by 0.00%;
  - Bulk (Liquid and Break) tariffs increasing by 5.00% except:
    - Coal to increase by 8.00%; and
    - Ores and Minerals: Magnetite to increase by 8.00%.
    - Other Dry Bulk cargo dues to increase by 3.75%.

Brief observations…

- **Broadly aligned with Tariff Strategy**
- **Services paid for in USD and commodities priced in USD paying more**
- **Continued support for Roro**
- **All other prices below inflation**

The Application: some concerns

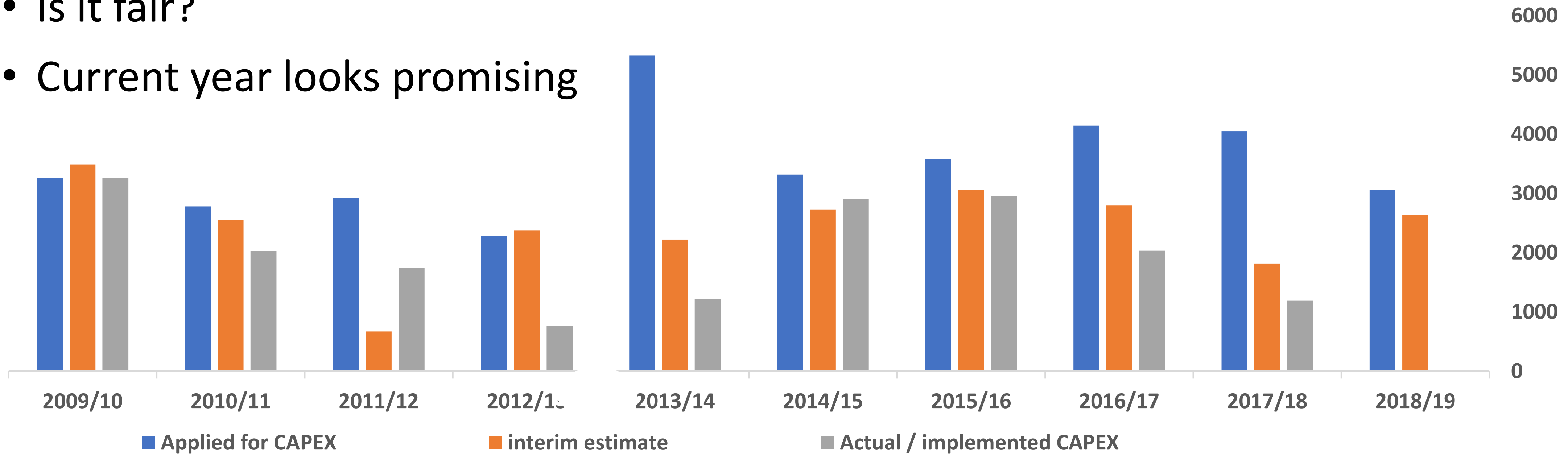
- **Capex implementation**
- **Implementation of the Valuation of the Regulatory Asset Base (VoRAB) Methodology**

We will briefly deal with each separately

The Application: some concerns

Capex implementation

- Is the PCC process providing sufficient capex input and implementation oversight?
- Stronger tariff incentivization for capex? (something like WEGO for Capex?)
- Is it fair?
- Current year looks promising



The Application: some concerns

- **Implementation of the Valuation of the Regulatory Asset Base (VoRAB) Methodology**

- **Why is it important?**

$$RR = WACC*RAB + Dep + Opex + Tax \pm Claw\ Back \pm ETIMC \pm WEGO$$

The Application: some concerns

Valuation of the Regulatory Asset Base (VoRAB) Methodology implementation

A brief background

- Three different approaches considered:
  - Physical Capital Maintenance (*replacement* pricing)
  - Financial capital maintenance (*Repayment* pricing)
  - Economic Capital maintenance (*Opportunity* cost pricing)
- Many factors were taken into consideration:
  - Long lives of port assets
  - Murky history of some of these assets
  - Financial sustainability of the port system
  - Allowance for capacity ahead of demand

The Application: some concerns

Valuation of the Regulatory Asset Base Methodology implementation

The VoRAB Methodology provided for the following:

- VoRAB methodology moving from “*replacement* pricing” to “*repayment* pricing” approach
- Treatment of old (pre 1990) assets to be based on HC
- Post 1990 and new assets to be treated on TOC basis
- The design of the TOC allows for the “backloading” of tariffs – allowing volumes to catch up
- Maintenance incentivised
- Incentives for NPA to enter PPP’s

The Application: some concerns

VoRAB Methodology implementation

- NPA did *not* implement VoA methodology (published March 2018)
- Citing concerns w.r.t. sustainability
  - But have not as yet provided the Regulator with any substantial motivation or data
- Public process critical for ensuring transparency as well as sustainability of the port system.
- Opportunity cost to port users of non-implementation R3.8 billion in 2019/20

-Tariff application 2019/20

- A balanced and pragmatic approach is required

The Application: Comments

And finally, please focus your comments on the following:

- Volume forecast
  - Cargo and vessel numbers and trends
- Inflation expectation
- SA flagged vessel discount to be reviewed after three years
  - Regulator to consider whether to expand/continue at current levels or stop the incentive
  - Has it made a difference? can we target it better?
- Strategic use of the ETIMC
  - A facility created for Port users
  - Regulator utilizes it in case of tariffs in excess of inflation
  - ..or to support the NPA
  - Smoothing mechanism

The Application: Comments

And finally, please focus your comments on the following:

- Valuation Methodology
  - Significant impact on both Port users and Transnet
  - The Regulator needs to take a balanced and responsible decision – your inputs are required
- Amendments to the tariff book
  - Please note that application every year also include some changes to wording etc. This may impact you business-we need to hear about it.
- WEGO feedback
- PTIP submissions
  - Any cross subsidy allowed (or even just accelerated tariff correction) will see everyone else pay slightly higher – we need to hear your views
  - CMTP envisaged opportunities for incentives

Process

- Roadshows:
  - Durban 14 September Garden Court Marine Parade
  - Johannesburg 17 September Emperors Palace Convention Centre
  - Port Elizabeth 18 September Protea Hotel
  - Cape Town 19 September Pepper Club Hotel

- Comments due 12 October 2018

- Decision due Friday 30 November 2018

Q&A