Press Statement

Ports Regulator Record of Decision on the Tariff Application by the National Ports Authority for the Tariff Years 2019/20-2021/22

On 30 November 2018, Mr. Mahesh Fakir, CEO of the Ports Regulator of South Africa stated as follows:

"TARIFF HIGHLIGHTS

On 01 August 2018, the National Ports Authority applied to the Ports Regulator of South Africa in terms of Section 72 of the National Ports Act, 12 of 2005 for approval of the tariffs for services and facilities offered by the NPA of an average increase of 4.21% for the period 01 April 2019 to 31 March 2020, together with indicative tariff increases of 18.57% and 6.34% for 2020/21 and 2021/22 respectively.

After considering the application and the written and oral submissions by all stakeholders, and based on latest available data, the Ports Regulator has concluded that an appropriate overall adjustment in average tariffs for the financial year 2019/20 is a decrease of 6.27%, and has approved that the following specific changes to the Tariff Book will apply from 1 April 2019/20:

1. Marine services and related tariffs (Sections 1-8 of the Tariff Book, excluding Section 7 that deals with cargo dues) are to remain unchanged at 2018/19 levels
2. All Container cargo dues are to decrease by 10%
3. All RoRo cargo dues are to decrease by 10%
4. Coal dry bulk export cargo dues are to increase by 10%
5. The following tariffs are to be reduced to upper limit caps applicable as follows:
   i) All break-bulk cargo dues are to be capped at R31.50/ton
   ii) All dry bulk cargo dues are to be capped at R20.00/ton
   iii) All liquid bulk cargo dues are to be capped at R40.00/KL
   iv) The tariffs below these upper limit caps in the categories above will remain at 2018/19 tariff levels, excluding coal dry bulk export cargo dues as set out above.

In line with the Department of Transport's Comprehensive Maritime Transport Policy, the incentive for South African flagged commercial vessels will be extended for three years. All marine tariffs (Sections 1-8 of the Tariff Book, excluding Section 7 that deals with cargo dues) for:

1) existing commercial South African flagged vessels as well as commercial vessels registered in South Africa in 2019/20 will receive a 30% discount applicable year on year up to 31 March 2022;
2) commercial vessels registered in South Africa in 2020/21 will receive a 20% discount up to 31 March 2022 and;
3) commercial vessels registered in 2021/22 will receive a 10% discount up to 31 March 2022.

The incentive for South African flagged commercial vessels will thereafter be reviewed.

In line with the Multi-Year Tariff Manual of March 2017 the Ports Regulator projects that the indicative overall average tariff adjustment for the 2020/21 and 2021/22 tariff years will be below the 6% upper limit of the inflation target band.

METHODOLOGY FOR THE VALUATION OF THE RAB

In March 2018, the Regulator published a Methodology for the Valuation of the NPA Regulatory Asset Base (RAB). The NPA did not initially implement the methodology and did not provide the relevant information in its tariff application, citing sustainability concerns. As discussed by the Regulator at the public roadshows held in September 2018, the Regulator requested a meeting with the Transnet board as well as a submission of the relevant information, and at this meeting a confidential submission in line with the correct methodology, was made to the Regulator, and the required information submitted. These were taken into consideration in the assessment of the NPA's tariff application, as per the Regulator's report-back notice to the public published on 23 November 2018.

The Ports Regulator, while attempting to increase regulatory certainty, must retain a degree of regulatory discretion to respond to unforeseen economic or other events, as well as corrections, anomalies and unintended consequences of a strict and autonomic application of a methodology that may impact on the sustainability of the South African ports system. This principle has been applied in this tariff application in arriving at a balanced decision, that takes into account the need to address the re-valuation of the RAB, as well as the sustainability of the NPA and the port system of South Africa.

In the previous tariff determinations, the Ports Regulator had accepted the Depreciated Optimised Replacement Cost (DORC) method used by the NPA to determine the value of a starting Regulatory Asset Base, albeit that this gave rise to a steep increase in asset values. However, at the time, regulatory certainty was required, and in the absence of any alternative valuation methodology, the NPA's RAB valuation was previously accepted.

The Regulator approved the new RAB Valuation Methodology in March 2018 and determined that a "financial Capital Maintenance" approach will be applied to all future tariff assessments rather than a "physical capital maintenance" approach as represented by the previous DORC valuation.

Whilst the approved methodology has set out a specific treatment of historical assets, the Regulator has now deemed it appropriate (for the 2019/20 tariff application) to amend the specific application of the "financial capital maintenance" approach on all assets included on the RAB prior to 1990 as well as those capitalised post 1990. The methodology specified that a historical cost (HC) approach should be applied to all assets capitalised pre 1990. However, the Regulator, has decided to use a

Trended Original Cost (TOC) methodology applied to all assets both pre 1990 as well as post 1990 in its application of the financial capital maintenance principle. This is because it is aware of the pending intention of the state to incorporate the NPA into a wholly owned subsidiary of Transnet in fulfilment of Section 3(2) of the National Ports Act. As such, the NPA is likely to be assessed on a standalone basis from a credit rating perspective rather than as a division, giving credence to its sustainability concerns. The Regulator has therefore adopted this prudent approach for the 2019/20 year in which it will:

1. over the 2019/20 financial year, re-assess the impact of the specific approach adopted in the valuation of the RAB in relation to the sustainability concerns expressed by the NPA
2. consult further with port stakeholders as well as the NPA on the applicability of the historical cost component of the RAB valuation in the context of the implementation of S3(2) of the National Ports Act
3. assess the actual progress of the implementation of S3(2) of the National Ports Act
4. finalise the specific approach of RAB valuation within the next multi-year tariff methodology (MYM3) which the Regulator will be conducting in 2019/20.

The Regulator however retains the right to implement the HC approach pending a detailed assessment of all the historical pre-1990 assets as well as the full impact thereof on the NPA's financial position in relation to its corporate structure. The cooperation of the NPA as well as Transnet will be critical in finalising this matter.

TARIFF ASSESSMENT

In conducting its assessment, the Ports Regulator takes a view on a number of cargo volume and market-related factors, including the inflation outlook and the cost of debt, the operational and cash flow requirements of the National Ports Authority, as well as the implementation of the published tariff strategy aiming to rebalance the tariff structure to closer reflect the underlying cost and benefit to specific users of port infrastructure.

For 2019/20, the NPA will be allowed to recover R12.563 billion vs the R13.681 billion applied for, or 92% of applied for revenue. The Ports Regulator is confident that this will result in a 1.2% *increase* over last year's allowed revenue to the NPA, ensuring their sustainability and also providing the financial space to ensure that the capital program included in the application totalling R4.413 billion is fully implemented. In this context, the wider economic environment remains a concern, because whilst it may be tempting to cut back on capital expenditure in a downturn, it is critical as a facilitator of trade for the port system to be ready for the eventual upswing in economic growth.

As such, it must again be noted that besides capital expenditure allowed, operational cost amounting to R 6.291 billion, including Group overhead costs amounting to R629 million was allowed for fully, thus ensuring both the sustainability and further development of the South African ports infrastructure system.

In addition, the Ports Regulator took cognisance of the expected subdued economic activity over the tariff period coupled with a strong capital expenditure program included in the application, and opted to add R539 million to the Excessive Tariff Increase Margin Credit (ETIMC) bringing its balance to R3.153 billion to allow future revenue space to maintain overall average tariffs close to the inflation target band, over the outer years of the 3 year tariff period.

The change from a physical capital maintenance approach to a financial capital maintenance approach in the valuation of the regulatory asset base (RAB) has been a major factor in the significant average tariff correction of -6.27%. Key attributable changes have been:

1) a reduction in the value of the RAB from an estimated R86bn to R69bn
2) a total calculated return on equity of R 2.790 billion as opposed to the R 3.511 billion request
3) R 2.074 billion as a depreciation allowance (return of capital), as opposed to the applied for amount of R 2.279 billion

We hope that this tariff correction in port administered prices will contribute towards the much needed stimulus to South Africa's economic growth over the medium term, noting at the same time that the reduced tariffs still prudently allow for the large infrastructure expenditure required for the acceleration of economic growth, if wisely targeted by the Authority towards high future return port capacity projects, local employment, local procurement, and local innovation and expertise.

PTIP ROD

The Regulator will shortly publish the very first Record of Decision on the first Port Tariff Incentive Programme (PTIP) application, and the public is reminded of the application deadline of 31 January 2019 for new PTIP applications.

TRIBUTE TO THE MEMBERS OF THE REGULATOR

I would like to thank the Chairperson, Mr Thaba Mufamadi, and Members of the Ports Regulator, for their commitment to the Regulator and to the maritime transport sector and to the health and growth of the South African economy as a whole. I would like to pay tribute to the wise decisions they have made over the years in the various tariff determinations and tribunals they have presided over, as well as in their oversight of the Ports Regulator Secretariat.

The Ports Regulator is committed to reducing the cost of living and the cost of doing business through fair pricing within the South African ports system, and this balanced tariff decision is considered the most prudent course of action for the 2019/20 period."

End.