



## Discussion Document

### Review of the Port Tariff Methodology and call for submissions – Due 4 November 2019

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The multi-year methodology applicable to the 2017/18 -2020/21 tariff years is coming to an end. A process of reviewing the methodology is required in accordance with the following steps:

Step 1: (9/10 September 2019)	A call for public comments on the tariff methodology.
Step 2: (4 November 2019)	Comments close.
Step 3: (29 November 2019)	Draft Methodology published for comment.
Step 4: (29 November - 6 December 2019)	Public consultation on draft methodology (Roadshows)
Step 5: (3 February 2020)	Comments close.
Step 6: (31 March 2020)	Final approved Methodology Published.

The sole purpose of this document is for providing a guideline for comments and proposals on the Review of the Multi-Year Tariff Methodology. In no way must the document (and its contents) be construed to reflect the view of the Regulator or any of its Members. Whilst it aims to highlight some of the practical constraints faced in the regulation of port tariffs, it does not preclude any proposals, alternatives, suggestions, or comments that may not be covered in this document.

**The Regulator requests that public comments include a focus on the following areas:**

1. The appropriate period the methodology should apply.
2. The appropriate methodology (the current methodology is a hybrid Revenue Cap)
3. Whilst the valuation of assets methodology has recently been concluded and included in the methodology, the Regulator will consider the detailed components of the Financial capital Maintenance approach and comments are requested. The Regulator will, however, not consider a return to the Replacement methodology (e.g. a DORC) for the valuation of port assets. In addition, comments on the full implementation of the VoA methodology on the basis of potential non-corporatisation is sought.
4. Proposals on the alternative calculation of depreciation to encourage CAPEX implementation.
5. Comments on the appropriateness inclusion and calculation of working capital in the RAB calculation in the tariff methodology are required
6. Comments on the appropriateness and calculation of the “vanilla” WACC in the Revenue Requirement methodology are required.
7. Comments on the appropriateness of the general use of the CAPM in the calculation of the cost of equity in the tariff methodology are required.
8. Comments on the appropriateness of the current variable used as a proxy for the RFR, including the appropriate calculation (average periods etc.) of the input into the CAPM are required.
9. Comments on the appropriateness of the current variable used as a proxy for the MRP, including the appropriate calculation of the mean and the period thereof for input into to the CAPM are required.
10. Comments on the appropriateness of the current use of the asset beta (versus the use of a debt beta etc.) to calculate the equity beta, including the appropriate method for the calculation of the leveringing/re-levering are required. If a proposal of a different beta is made, please provide the calculations and sample of comparisons (including the criteria for the comparison sample)
11. Comments on the appropriate level of the beta variable within the context of an infrastructure heavy regulated entity.

12. Comments on the appropriateness of the current assumed gearing for use in the WACC are required. It must be noted that the regulatory gearing level does not necessarily reflect the actual gearing of the regulated entity, but rather a gearing that is seen as the most efficient from a *regulatory* perspective.
13. Comments on the appropriateness of allowing a return (profit) in the instance the NPA is not corporatised and remains an operating division of Transnet. (note the directives assume a corporatised entity and therefore allow a return “commensurate with risk” in the context of the NPA as a subsidiary or stand-alone entity)
14. Comments on the appropriateness of the current approach (including alternative options) used as a proxy for the  $k_d$  are required.
15. Comments on the appropriateness of the current “equitable tax” approach used as a proxy for the taxation allowance, including alternatives and the treatment in the claw back mechanism are required
16. Comments on the current analysis of operational expenditure as well as the key items that the methodology should focus on as submitted by the NPA (keeping in mind that the Regulator does receive detailed confidential submissions related to specific expenditure items, including group costs) are required.
17. Specific comments on how the Regulator currently deals or should deal with the group cost component are required.
18. Specific comments on how the Regulator implements the claw back mechanism as well as how it should be dealt with (if different) are required
19. Specific comments on how or when the Regulator should deal with the ETIMC are required. Specific proposals around the criteria or hurdle rates for regulatory use of the ETIMC mechanism would be helpful
20. Comments on the design, “size” and implementation of the WEGO program, as well as proposals for land-side KPI’s
21. Proposals on the inclusion of mechanisms to incentivise lower vacancy rates in port properties, poor capex implementation and lack of terminal regulation by the NP.
22. Comments on the stipulation on the public disclosure of the Ports Authority full audited financial statements and segmental statements by port.

Please note that this is not an exhaustive list but may serve as a guideline. Proposals for example may be to use a totally different approach than the current methodology but should be to be read with the current tariff methodology, the methodology on the valuation of Regulatory assets and WEGO.

**Written submissions should be addressed to:**

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Tel.: (031) 365 7800 or E-mail: [comments@portsregulator.org](mailto:comments@portsregulator.org).

All persons are invited to submit written comments by Monday, 06 November 2019.

Copies of the current Tariff Methodology may be found on the Regulator's website at [www.portsregulator.org](http://www.portsregulator.org) including the Valuation of assets methodology and WEGO related documents

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