

TRANSNET



delivering freight reliably

TNPA TARIFF APPLICATION FY 2021/22 TO FY 2023/24

Transnet National Ports Authority
Roadshow Presentation

August/ September 2020

Transnet Mandate

Our Mandate

Assist in lowering the cost of doing business in South Africa;

Enable economic growth; and

Ensure the security of supply by providing appropriate port, rail and pipelines in the most cost-effective and efficient manner, within acceptable benchmarks

Mandate and strategic objectives are aligned with national plans and the Statement of Strategic Intent.

Core Functions of Authority: Ports Act, Sec 11

O
P
T
I
M
A
L
I
Y

S
E
R
V
E

T
H
E

E
C
O
N
O
M
Y

Landlord

Promote the use, improvement and development of ports, and control land use within the ports, having the power to lease port land under conditions it determines

Master planner

Plan, improve, develop and maintain port infrastructure

Regulator and Controller

Make and apply rules to control navigation within port limits and approaches, ensure protection of the environment and ensure safety and security within port limits

Controller of ports services & facilities

Ensure that port services and facilities are provided, and may enter into agreements or license other parties to provide these

Marketer & administrator

Ensure that adequate, affordable, equitable and efficient port services and facilities are provided for port users

Change agent

Ensure non-discriminatory, fair, transparent access to port services and facilities; advancement of previously disadvantaged people; promotion of representivity and participation in terminal operations; enhanced transparency in port management

Coordinator with other state agencies

Advise on all matters relating to the port sector, and liaise with all stakeholders

Port Investment Planning

- The main functions of the Authority as per the Port Act is to **own, manage, control** and **administer** ports to ensure their **efficient and economic** functioning, and in doing so the Authority must
 - a) *plan, provide, maintain and improve port infrastructure;*
 - b) *prepare and periodically update a port development framework plan for each port, which must reflect the Authority's policy for port development and land use within such port;*
 - c) *control land use within ports, and has the power to lease land under such conditions as the Authority may determine;*
 - d) *provide or arrange for road and rail access within ports;*
 - e) *arrange for such services such as water, light, power and sewerage and telecommunications within ports; and*
 - f) *maintain the sustainability of the ports and their surroundings.*
 - g) *To ensure that affordable, adequate and efficient port services and facilities are provided, including regulatory oversight over all port activities*






Vision for Ports

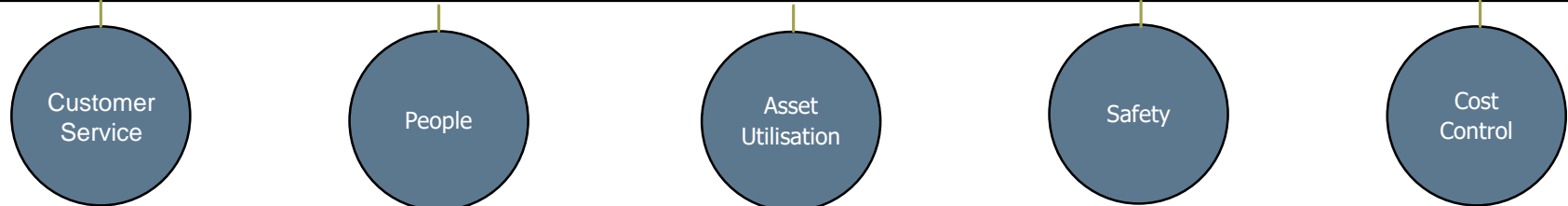
"A system of ports, seamlessly integrated in the logistics network that is jointly and individually self-sustainable through delivery of high levels of service and increasing efficiency for a growing customer base, enhancing South Africa's global competitiveness and facilitating the expansion of the South African economy through socially and environmentally sustainable port development"

- The Authority's business strategy is framed within the context of the National Commercial Ports Policy and the National Ports Act, taking into account the changing dynamics in the global economy and trends in the port environment.
- The strategy seeks to enhance the ports role in the economy by galvanizing the entity and the nation towards realizing the goals of the policy and shareholder, thus making South Africa and the region a competitive location for doing business.



The Authority's Strategy (Contd...)

 <p>Port Infrastructure</p>	<ul style="list-style-type: none"> ❑ Providing modern and adequate port infrastructure capacity ahead of demand, aligned to robust and effective demand plans and financial evaluations.
 <p>Landside Transport Connections</p>	<ul style="list-style-type: none"> ❑ Collaborating for seamless connectivity of landside transport networks and value adding logistics facilities with ports and hinterlands, including special economic zones.
 <p>Vessel Connectivity</p>	<ul style="list-style-type: none"> ❑ Improving vessel connectivity by configuring ports to attract new generation vessels where feasible, promoting regional integration and economic activity.
 <p>Port Operations Performance</p>	<ul style="list-style-type: none"> ❑ Maintaining port infrastructure, fleet and equipment quality. ❑ Improving port and price efficiencies through benchmarked standards and effective oversight. ❑ Ensuring ports are safe, green, secure and compliant through innovation and effective governance.
 <p>Import/Export Processing Efficiency</p>	<ul style="list-style-type: none"> ❑ Exploiting digital technology to improve export and import processing efficiency.



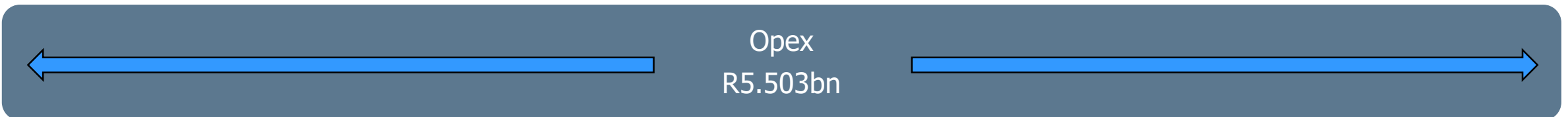
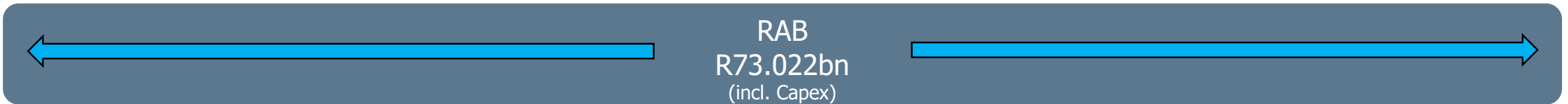
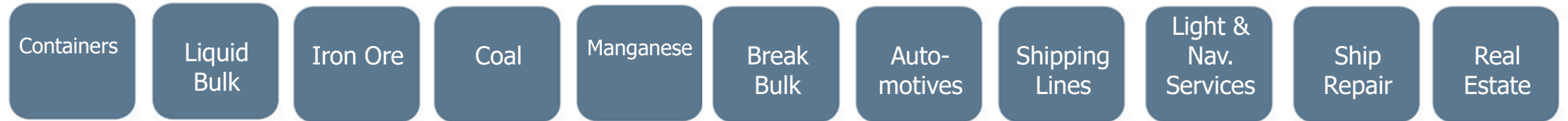
Tariff Methodology

Revenue Required Computation FY2021/22

R13.569bn

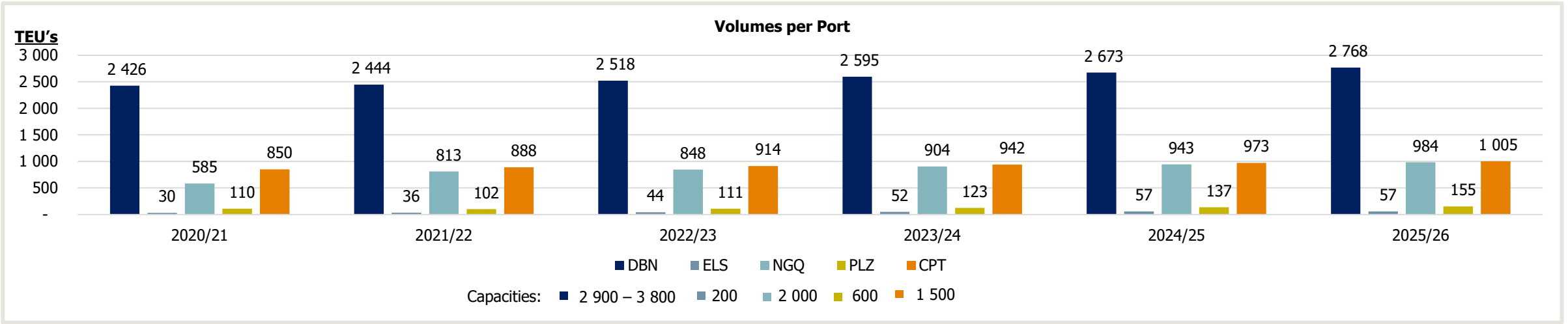


19.74%

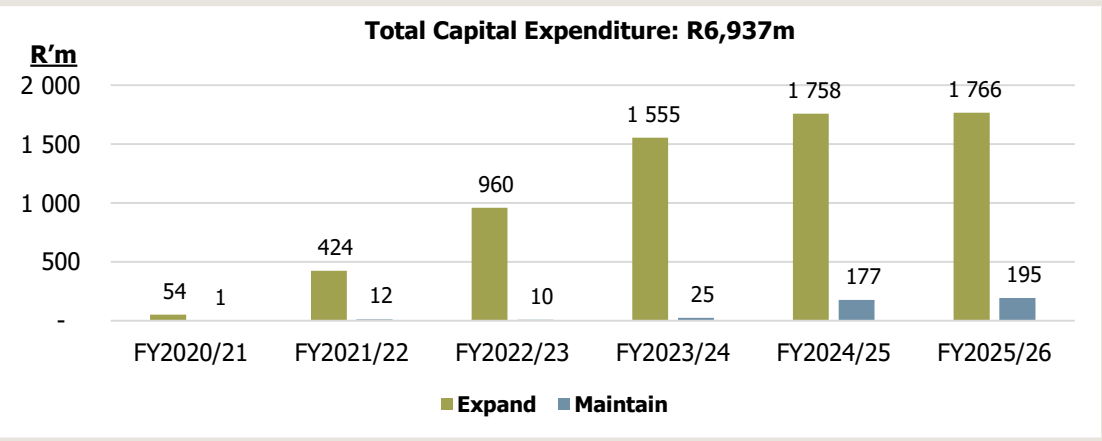




Containers



Capex



Infrastructure

MAJOR CAPEX PROJECTS

- Execution: DCT Berth deepening 203 to 205 (DBN)
- Execution: Pier 1 Phase 2 Infill(Salisbury Island)
- Expansion of container terminal : Phase 2B – FEL 3 (CPT)
- Marine Infrastructure Upgrade

SECTION 56 PROJECTS

- Exploration of Container Terminal Handing Facility in Maydon Wharf precinct, Durban



Maintenance

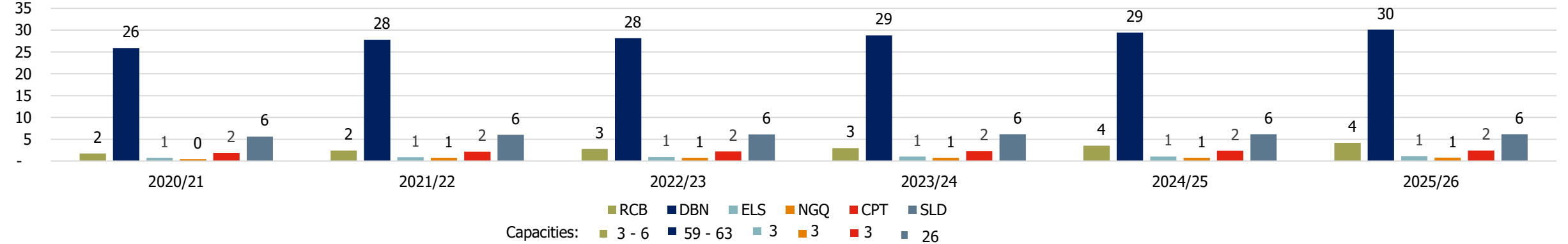
- Dredging
- Fenders, Bollards and supporting Bulk Services



Liquid Bulk

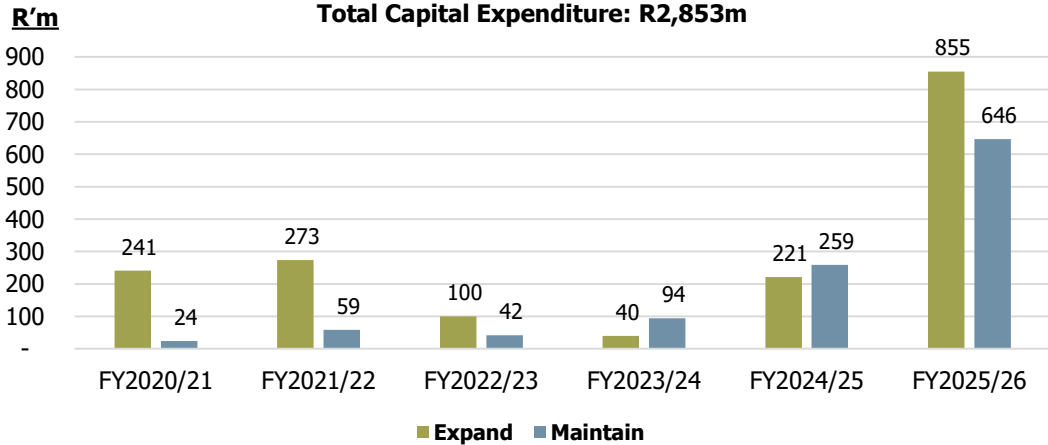
mkl

Volumes per Port



Capex

Total Capital Expenditure: R2,853m



Infrastructure

MAJOR CAPEX PROJECTS

- Provide additional Bulk Liquid berth 207 (RCB)
- Execution: Fire fighting infrastructure at berth 9 Island View (DBN)
- Tank farm Equip Berth B100, roads, port entrance and services (NGQ)
- Maintain Island View seawall's (DBN)
- Upgrade various Berths at Island View(DBN)

SECTION 56 PROJECTS

- Liquid Bulk Terminal at South Dunes (Greenfield Project) RBay, Bunkering Terminal (Brownfield Project) RBay
- Liquid Bulk (Petroleum & Chemicals) Terminal - Island View Precinct: Brownfield Project
- Heavy Fuels Oil Site: Brownfield/Greenfield Project (E.London)
- Energy Precinct: Greenfield Project (Ngqura)
- Liquid Bulk Terminals x 3: Brownfield Projects, Cape Town

Maintenance

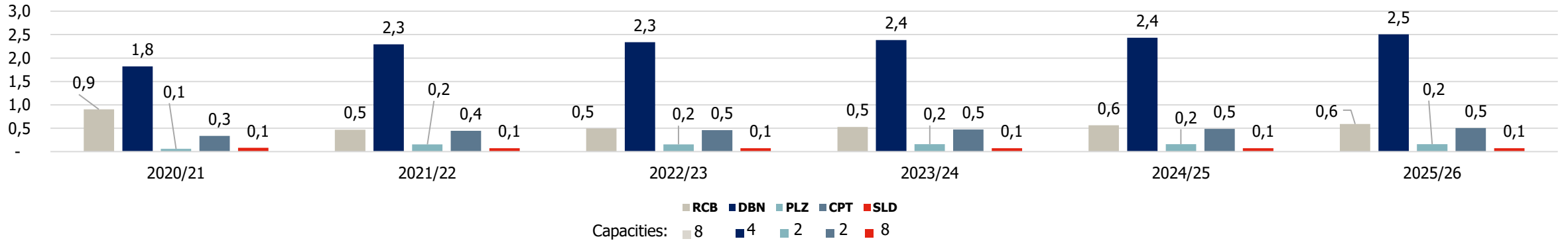
- Dredging
- Quay Wall Repairs (Jetties)
- Upkeep of CFI Systems and Equipment



Break-Bulk

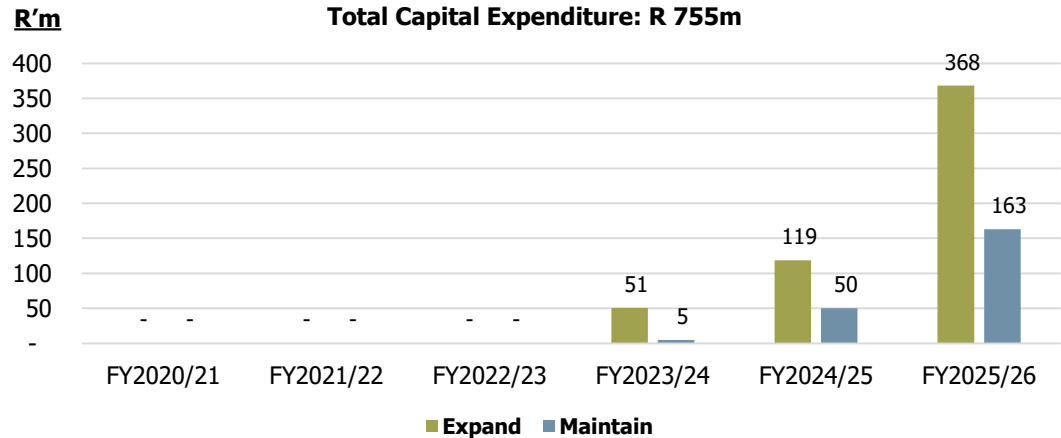
m Tons

Volumes per Port



Capex

Total Capital Expenditure: R 755m



Infrastructure

MAJOR CAPEX PROJECTS

- Maydon Wharf Channel Deepening (Feasibility)
- Construction of Break bulk Berth B101 and associated services (NGQ)
- FEL 4 Quay 4 refurbishment (MSB)
- Provision of dedicated facilities for Rig repair (Mossgas quay) (SLD)

SECTION 56 PROJECTS

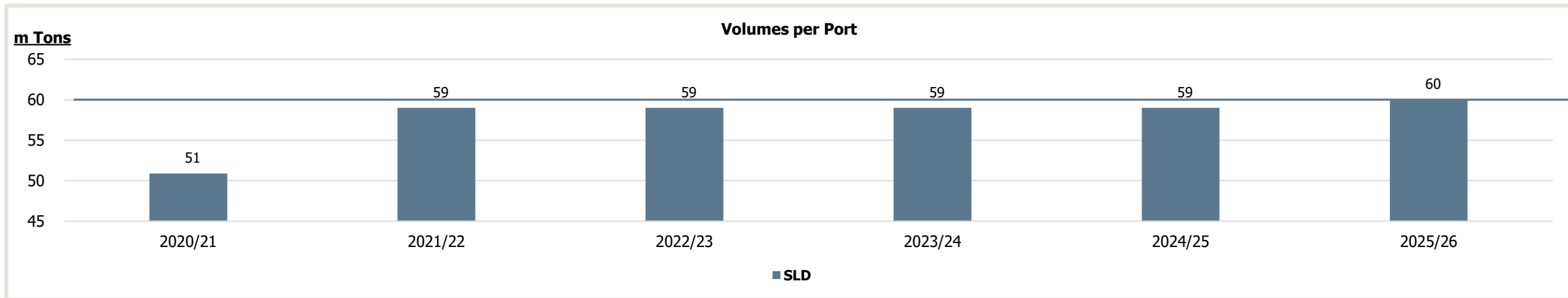
- Maydon Wharf Agri-Bulk Terminal: Greenfield Project

Maintenance

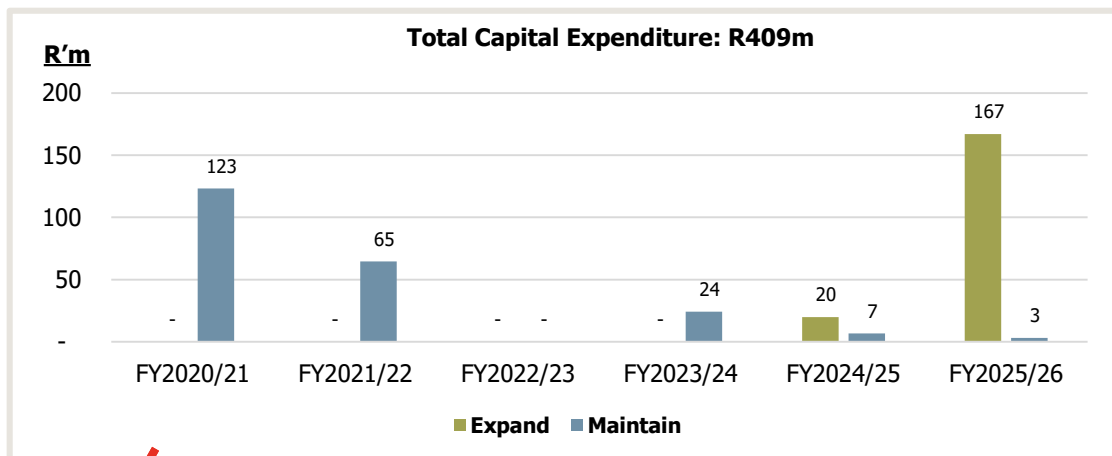
- Dredging
- Quay Wall Repairs
- Quay Walls, Fenders and Bollards
- Road and Rail Networks



Iron Ore



Capex



Infrastructure

MAJOR CAPEX PROJECTS

- Bulk electrical power supply related to Third tippler (SLD)
- Ore Expansion Phase 2 Berth Construction (SLD)
- Pneumatic Fender Maintenance & Storage Area - Phase 2 (SLD)

Maintenance

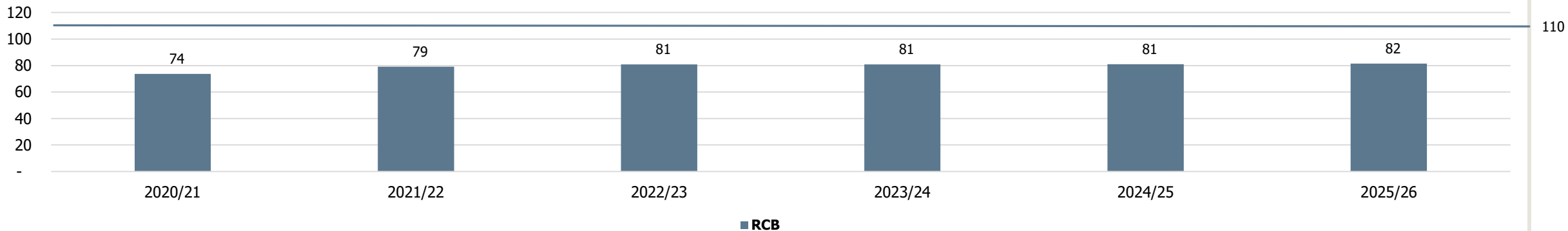
- Fenders, mooring hooks, staircases, gangway platforms
- Upkeep of Electrical and Water Networks
- Building Structures (Substation Security, etc.)



Coal

m Tons

Volumes per Port

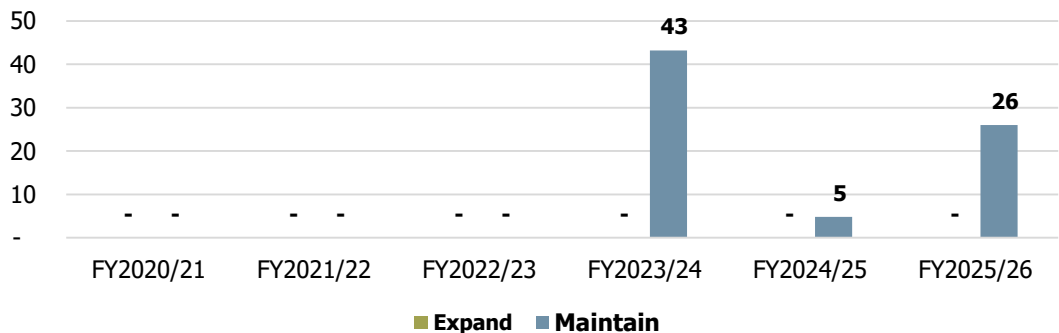


Capex

Infrastructure

Total Capital Expenditure: R 74m

R'm



MAJOR CAPEX PROJECTS

- Deepening of RBCT Berth (RCB)
- Refurbish fenders: Berths 301 to 306 (RCB)

Maintenance

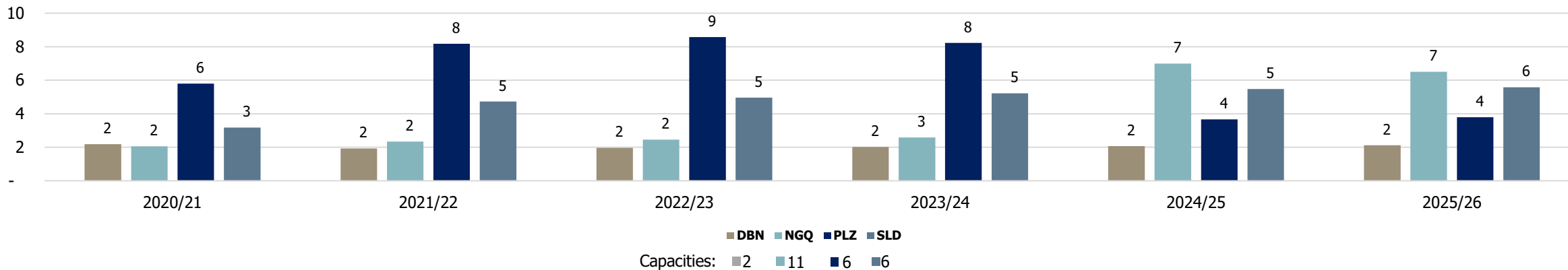
- Dredging
- Upkeep of Electrical and Water Networks
- Road and Rail Networks



Manganese

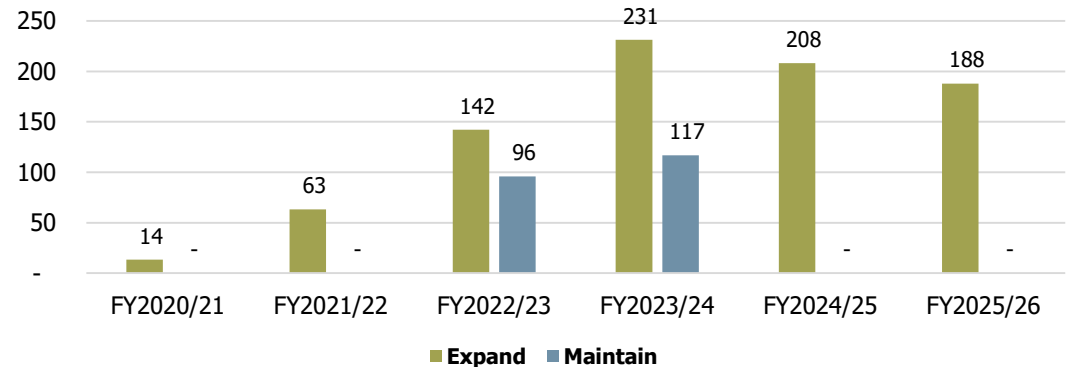
m Tons

Volumes per Port



Capex

Total Capital Expenditure: R1,059m



Infrastructure

MAJOR CAPEX PROJECTS

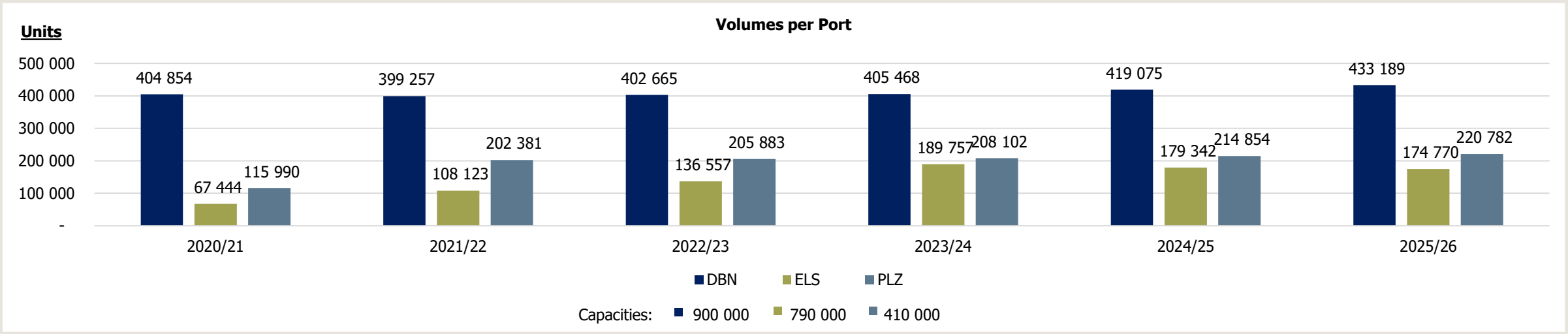
- Manganese Terminal (NGQ)
- Capital Maintenance of Terminals

Maintenance

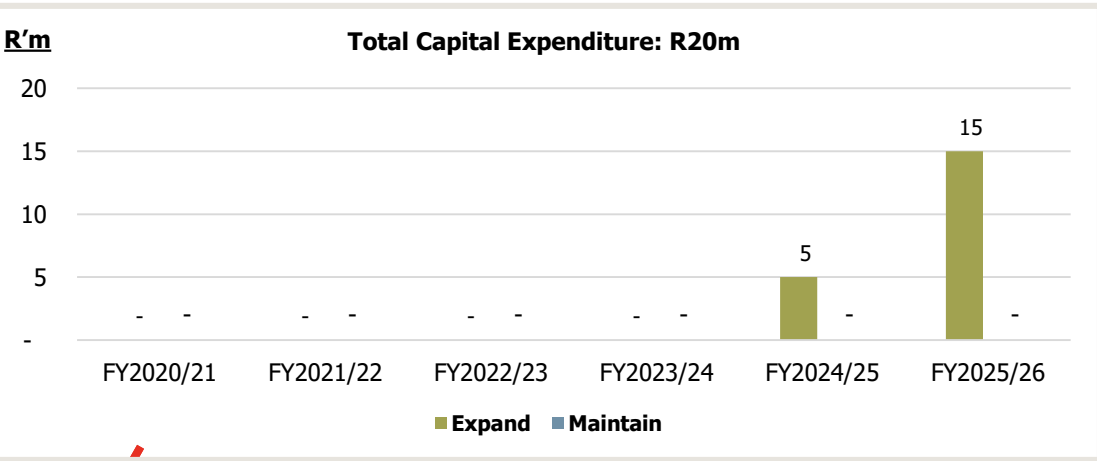
- Dredging
- Quay Surfacing Repairs
- Building Structures (Substation)



Automotives



Capex



Infrastructure

- MAJOR CAPEX PROJECTS**
- New Automotive Terminal (PE)

Maintenance

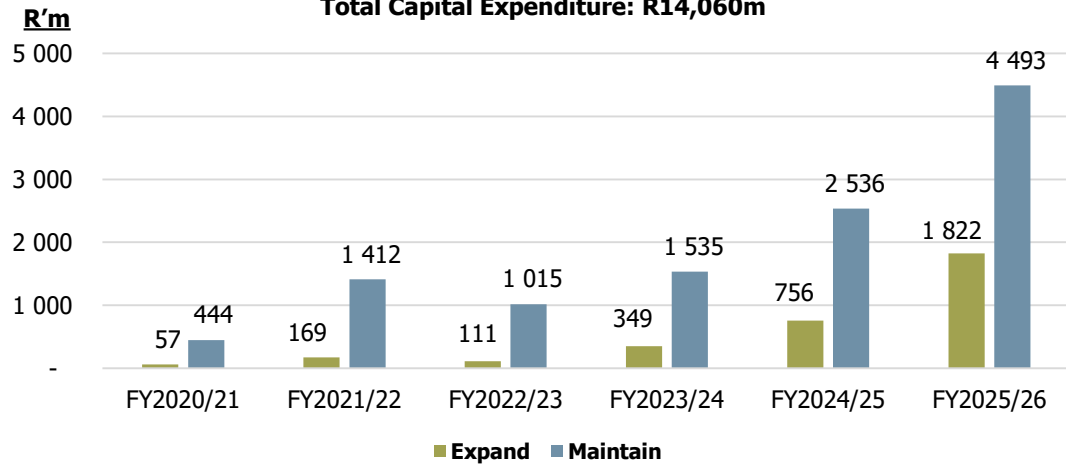
- Dredging
- Quay Wall Repairs
- Quay Wall, Fenders & bollards

Other (Incl. LHS & Bulk Services)

Infrastructure Investment

Other (Incl. LHS & Bulk Services)

Total Capital Expenditure: R14,060m



Infrastructure

MAJOR CAPEX PROJECTS

- Purchase of flight simulator - DBN
- Provide new Admin facilities at B berth (FEL3 & 4) - DBN
- Extend main breakwater and deepen entrance - ELS
- Reconstruction of Quay 3 - ELS

MAJOR PHAKISA PROJECTS

- Refurbishment of Graving Dock - Jib Cranes - ELS
- Replacement of 10 cranes for Ship Repair facilities - CPT
- Sturrock Dry Dock Pump System Upgrade – FEL 3&4 - CPT
- Provision of dedicated facilities for Rig repair (Mossgas quay) - SLD

Maintenance

- Navigational Aids
- VTS Equipment
- Break Water Crane
- CCTV
- Access Control systems
- Civil Related Works
- Bulk Services - Water, Electrical, Sewers, Roads

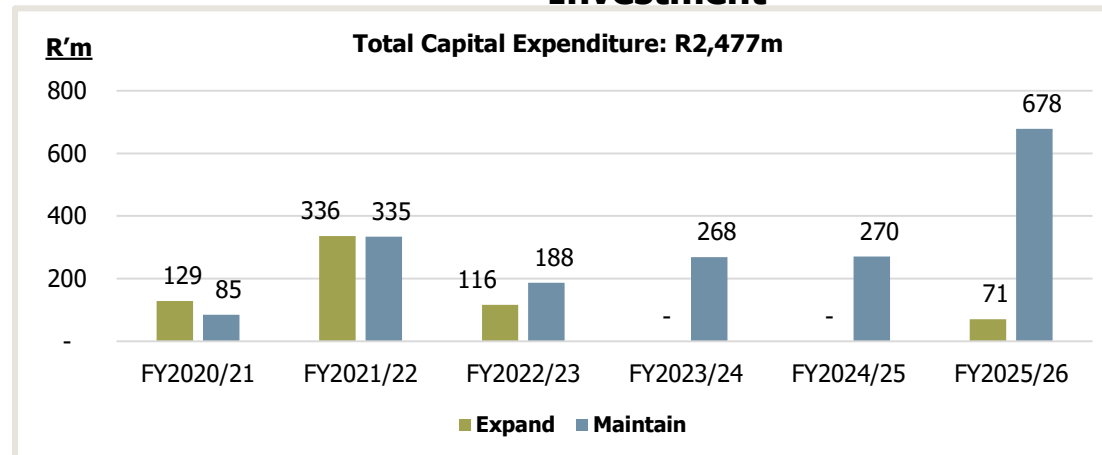


Fleet - Craft & Dredging Services

	20/21	21/22	22/23	23/24	24/25	25/26
RCB		10-01-23 Helicopter ZS-RRB	22/23 Replace 1 Tug		24/25 Launch+ Diving Boat	25/26 Provide Pilot Boat
DBN		10-01-23 Helicopter ZS-HDP				
EL					24/25 Replace 2 Tugs	
PE						
PoN						25/26 70 Ton Bollard Tug
MSB						25/26 Provide Launch Boat
CTN	20/21 Replace 2 Work Boats	10-01-23 New Helicopter	23/24 Replace 2 Tugs	24/25 Purchase & return to RCB	24/25 2 Launches	
SLD						
DRS		21/22 Cutter Suction & Grab Hopper Dredger	22/23 Excavator			Replacement of Plough Tug

- Boats
- TUG
- Work Boat
- Excavator
- Helicopter
- Dredger
- Pilot Boat

Fleet - Craft & Dredging Services Investment



MAJOR CAPEX PROJECTS

- Replacement of helicopter ZS-RRB (RCB)
- Replacement of tug, Launch & Pilot boat
- Replacement of helicopter ZS-HDP (DBN)
- Two replacement tugs (EL)
- New tug (Ngq)
- Acquisition of new Helicopter (CPT)
- Replace two work boats, two tugs and two launches (CPT)
- Acquisition of 3 replacement Tugs (SLD)
- 2nd Grab hopper dredger (DRG)

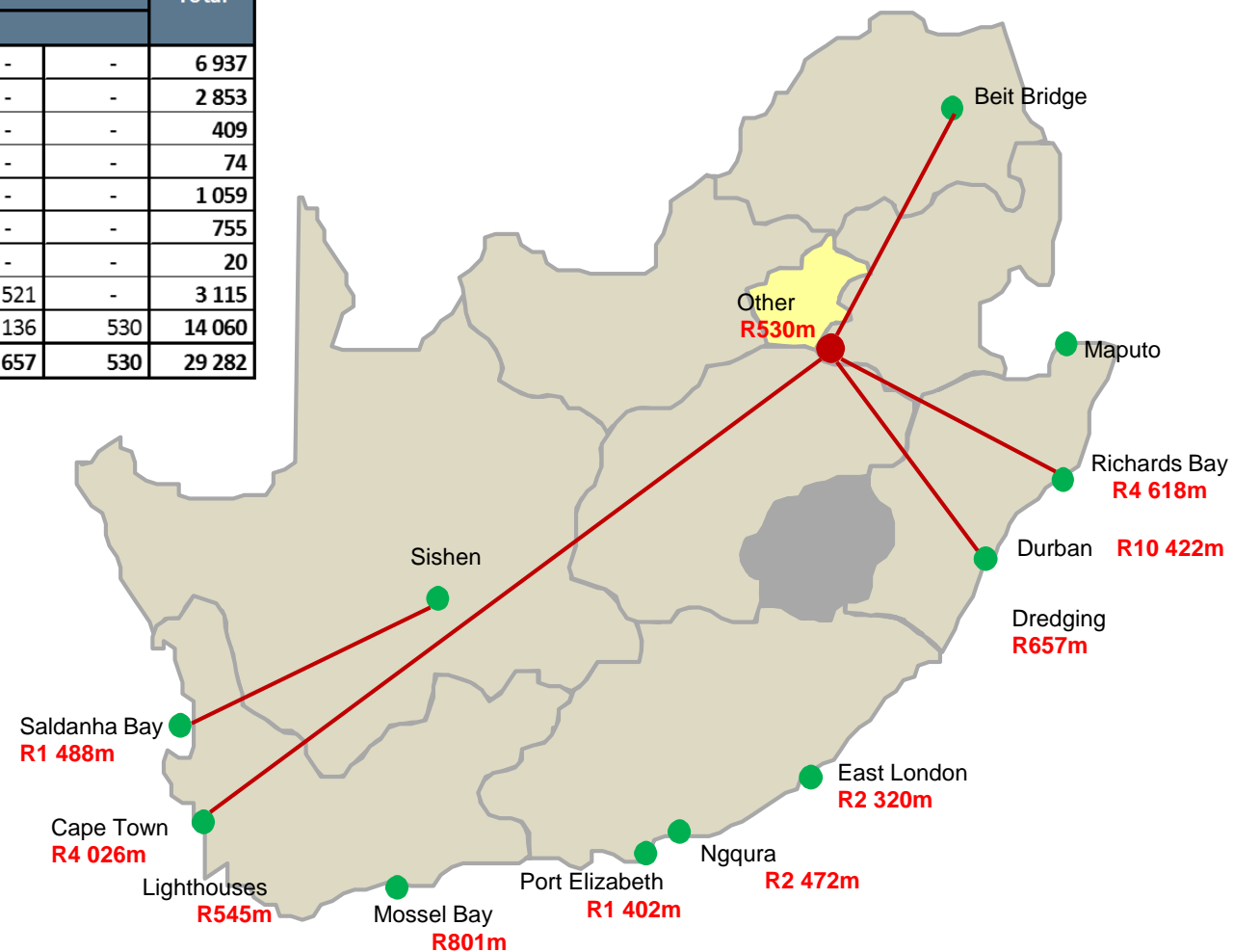
Maintenance

- Modifications to the new pilot boats to address stability issues.
- Craft Maintenance into Fleet Maintenance Plans



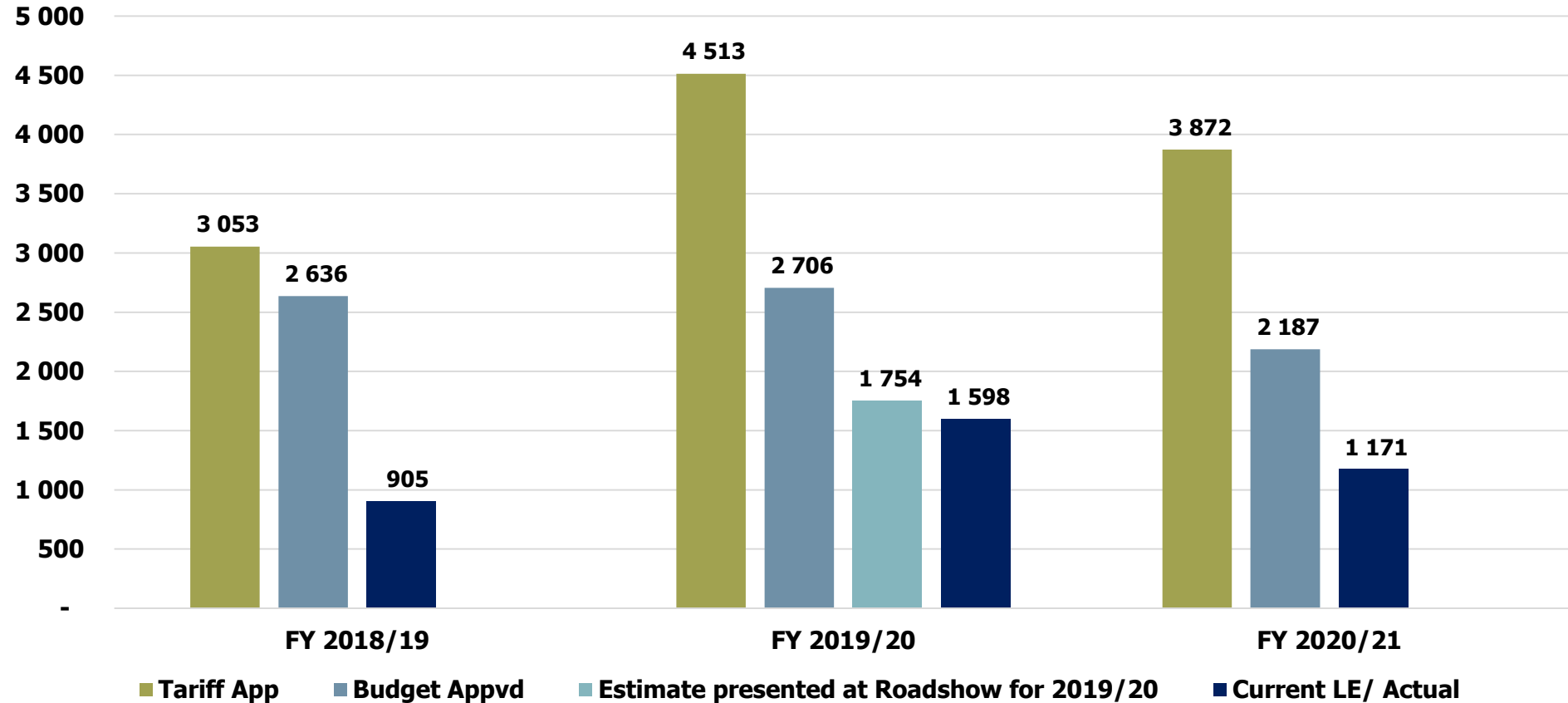
Port Investment Planning – Port Distribution

	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO	Total
	FY 2020/21 to FY 2025/26											
	R'm											
Containers	-	5 900	-	190	254	-	592	-	-	-	-	6 937
Liquid Bulk	736	881	-	961	45	143	-	86	-	-	-	2 853
Iron Ore	-	-	-	-	-	-	-	409	-	-	-	409
Coal	64	10	-	-	-	-	-	-	-	-	-	74
Manganese	-	-	-	846	213	-	-	-	-	-	-	1 059
Break Bulk	-	127	-	120	-	170	38	300	-	-	-	755
Automotive	-	-	-	-	20	-	-	-	-	-	-	20
Fleet - craft	417	360	609	97	49	27	920	110	5	521	-	3 115
Other	3 400	3 143	1 712	257	820	462	2 476	583	540	136	530	14 060
Total	4 618	10 422	2 320	2 472	1 402	801	4 026	1 488	545	657	530	29 282



Capital Expenditure: Tariff App vs Budget vs Actual

Historical 3 Year View



Underspend in FY 2018/19:

- Berth deepening placed on hold

Underspend in FY 2019/20:

- Berth deepening termination of main marine contract.

Underspend in FY 2020/21 Budget vs LE:

- COVID-19 and lockdown of economic activity

Capex Highlights: FY 2019/20

Liquid Bulk

- Ngqura tank farm infrastructure in progress
- Refurbishment of PE Tanker Berth completed

Break Bulk & Dry Bulk

- Shed Repairs in Durban completed
- Upgrade of bulk power supply in Port of Saldanha Bay underway

Ship Repair & Other

- Refurbishment of caissons in DBN and EL – final commissioning in progress
- Concrete repairs within Sturrock Dry-dock completed
- Land acquisition in Ngqura
- Mossel Bay Administration Building completed
- Upgrades to various lighthouse infrastructure
- VTS upgrades at various ports

Fleet Craft and Marine

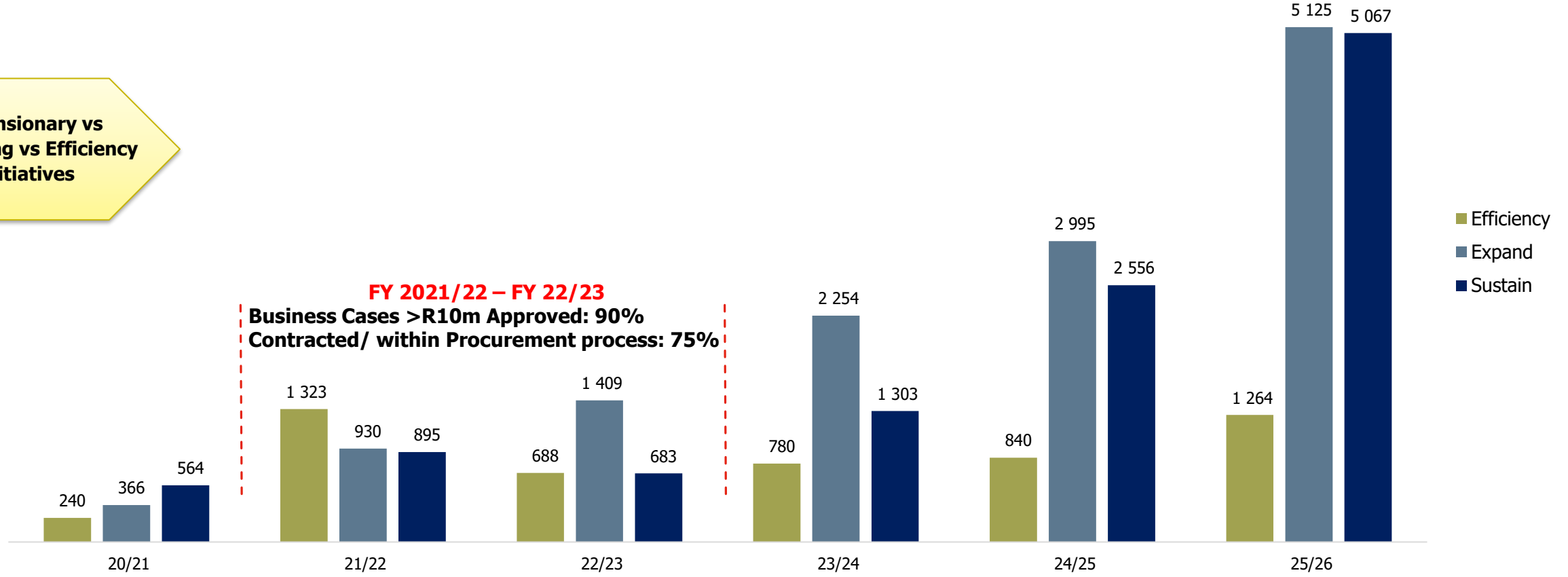
- Delivery of helicopters Richards Bay and Durban
- Replacement of workboats in Cape Town



Port Investment Planning – FY 2020/21 + 5 Year Look Ahead

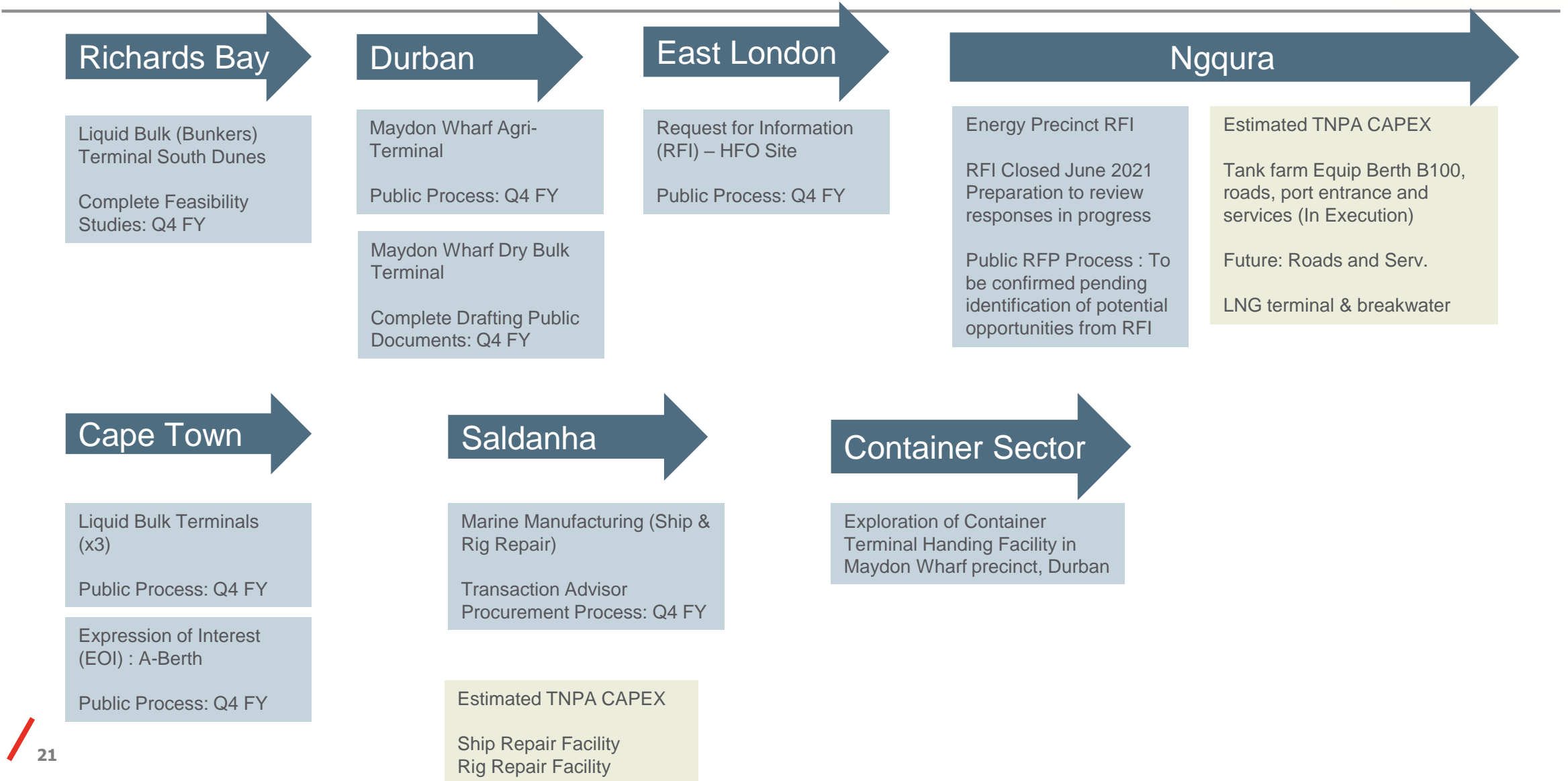


Expansionary vs Sustaining vs Efficiency Initiatives





Section 56 Project Pipeline



Operations Highlights: FY 2019/20

1	Implemented JOC interface and port stakeholder collaboration initiatives to enable integrated planning, performance tracking and incident management
2	"Integrated Decongestion" Team - Port of Durban: Bringing all stakeholders together in identifying challenges, opportunities & developing solutions
3	Comprehensive joint stakeholder engagement platforms developed and in place across the ports.
4	Terminal Performance: Development of incentive/ penalty process
5	Introduction of a dynamic Ship Turnaround Time process where stakeholders were engaged for effective vessel planning process
6	Improvements in Marine Services Delays through close monitoring of operations and Continuous Improvement initiatives.
7	Marine Fleet Asset Maintenance improvements resulting in higher percentage for tugs availability
8	Simulations to assess stability of pilot boats completed in the Port of Cape Town

1. Customer Value Creation

- **Regular customer engagements on the impact of COVID-19:**
 - Monitoring terminals' recovery plans;
 - Identify and address challenges, as well as to reflect on the performance of each terminal
 - Identify possible opportunities to attract volumes

2. Asset Utilization and Cargo Flow

- **Port of Port Elizabeth:**
 - Focus on expanding automotive export capacity
 - Continue Fruit Exports through MPT & PECT (possibly into Oct/Sept) in light of "bumper" fruit season
- **Port of Cape Town:** Continue Fruit Exports through other facilities in the port like TPT's MPT, FPT's MPT and A-Berth due to upcoming fruit season
- **Port of Durban:** intensify the "Integrate to Decongest" initiative to support free flow of trucks in the Durban Precinct

3. People - Employee Value Creation

- Awareness initiatives targeting behavioral change and embedding the new COVID-19 culture
- Fixed term contractors (FTC) backup in the event that COVID-19 infections increase in a particular port
- Use of technology to maintain and enhance business performance through the Joint Operations Centres

Port Operations 2020-2022

General

- **Stakeholder Engagements:** Enhance relationships through regular communication/ meetings with port users and license holders.
- **IPMS Data Integration Project:** Seamless flow of data and reporting between the terminal and Authority to increase efficiency in planning and improvement plans

Containers

- **Port of Ngqura:**
 - Increase number of Gangs from 7 to 8
 - Hydraulic tension unit (D101) to alleviate surge by next winter – complete by June 2021
- **Port of Durban:** “Integrate to Decongest” - full implementation of the multi-stakeholder initiative.
- **Port of Cape Town:** Hydraulic Mooring Units

Liquid Bulk

- **Port of Durban:** Integrated Bayhead decongestion which involves:
 - Island View Booking system within Terminal
 - Truck staging area outside the port limit – Terminal Operators
- **Port of East London:** engagement with terminal operators and future planning with TOA’s expiring 31 Dec 2021

Automotives

- **Port of Durban:** Point Precinct Truck Booking System to incorporate trucks destined to FPT and TPT (go live September 2020)
- **Port of East London:** Plans to deepen N berth at the Car Terminal from the existing 8.5m to around 10.4m.
- **Port of Port Elizabeth:** Commissioning of 2nd rail line at berth 100 to expedite and increase export of Automotive units via automotive terminal

Coal, Iron Ore & Manganese

- **Ports of Richards Bay, Saldanha, Ngqura**
 - Terminal Maintenance Audits

Marine

- **Recruitment:** Critical positions to strengthen the functions of fleet maintenance, marine safety inspections:
 - Marine Technical Managers
 - Maintenance Planners
 - Chief Marine Engineers



Compliance & Oversight Initiatives 2020-2022

General

- **Port Oversight:**
 - POC engages monthly on performance/efficiencies of the port, as well as quarterly monitoring of Terminals on key performance areas as per the agreed TOPS targets.
 - Recruitment of Occupational Safety Officers, to enable ad-hoc oversight
 - Recruitment of Marine Safety Inspectors
- **Compliance:**
 - Formulation and implementation of a risk based audit methodology
 - Development of an Investigation protocol as per Section 62(5) of the National Ports Act
 - Development & implementation of a “duly authorized” management system in terms of Section 63 of the National Ports Act
- **Digitisation:**
 - Dedicated Oversight Portal
 - Dedicated Licensing Portal
 - Virtual Oversight Audits

Liquid Bulk

- **Safety and Best Practice:**
 - Development and implementation of:
 - Leading Indicator Process Safety Engineering program
 - Tank Hydrostatic testing approval process
 - Technical standards:
 - Physical Petro-Chemical Pipeline Identification
 - Mandatory Requirements for Decommissioning
 - Mandatory Requirements for Safety, Health, Environment, Process Safety, Civil, Structural, Mechanical & Electrical Engineering

Tariff Application Approach: Port Directives

- The Port Directives were approved on 13 July 2009 (gazetted on 06 August 2009) and amended on 29 January 2010.
- Directives require the Regulator to ensure that the Authority's tariffs allows it to:

- **recover its investment;**
- **recover its costs;**
- **make a profit commensurate with the risk.**

Tariff Application Approach: Tariff Methodology

- On 06 March 2020, PRSA issued a Tariff Methodology (third iteration MYM3) applicable for the period FY 2021/22 to FY 2023/24.
- The Tariff Methodology prescribes a “multi-year” approach with a fixed tariff adjustment required for each year under review and indicative tariff adjustments for the two outlying years.

Key Changes to Tariff Methodology FY 2021/22 to FY 2023/24

- Valuation of Asset Methodology: Hybrid/ VoA with pre 1990 assets considered at Historical Cost and post 1990 assets considered at Trended Original Cost Method
- Change in Asset Beta: from 0.50 to 0.35
- WEGO: Change in KPIs and introduction of downtime adjustment will be applicable in Tariff Application FY 2023/24

Tariff Application Approach: Revenue Requirement

- The tariff methodology considered a multi-year approach and prescribed the following Required Revenue formula:

Revenue Requirement

$$\begin{aligned} &= \text{Regulatory Asset Base (RAB)} \times \text{Weighted Average} \\ &\quad \text{Cost of Capital (WACC)} + \text{Operating Costs} + \\ &\quad \text{Depreciation} + \text{Taxation Expense} \pm \text{Clawback} \pm \\ &\quad \text{Excessive Tariff Increase Margin Credit (ETIMC)} \pm \\ &\quad \text{Weighted Efficiency Gains from Operations (WEGO)} \end{aligned}$$

Key Principles of the Tariff Methodology

Component	Details
Regulatory Asset Base (RAB):	<ul style="list-style-type: none"> The RAB represents the value of assets that the Authority is allowed to earn a return on.
Vanilla Weighted Average Cost of Capital (WACC)	<ul style="list-style-type: none"> A real WACC is applied, given that the RAB is indexed by inflation.
Operating Costs	<ul style="list-style-type: none"> The Authority is required to provide a detailed and complete motivation for each of the expenses applied for.
Depreciation	<ul style="list-style-type: none"> The depreciation of the assets in the RAB will be calculated as a straight line 40 year on the average balance of the RAB.
Taxation Expense	<ul style="list-style-type: none"> The RR formula considers the tax expense on an equitable basis assumption based on the Transnet OD's profits before tax contribution.
Claw-Back	<ul style="list-style-type: none"> The Regulator will spread the total impact of over/under recovery of revenue over a period of two tariff determinations.
Excessive Tariff Increase Margin Credit (ETIMC)	<ul style="list-style-type: none"> The Regulator considers it prudent to avoid future tariff spikes by retaining and increasing the Authority's ETIMC.
Weighted Efficiency Gains from Operations (WEGO)	<ul style="list-style-type: none"> It is an agreed efficiency gain through operations, excluding the effect of market driven volume growth.

Revenue Requirement Components

- Valuation of the RAB takes into consideration Depreciation, Inflation Trending, Capex and Working Capital:

REGULATORY ASSET BASE	2021/22	2022/23	2023/24
	R'm		
Opening Book Value	72 715	76 400	80 542
Inflation Index	2 713	3 451	3 154
Indexed Opening Asset Base	75 428	79 851	83 696
Indexation of CAPEX	104	274	417
Indexed Asset Base	75 532	80 125	84 113
Add: CAPEX	3 147	2 780	4 337
Depreciation	-2 280	-2 362	-2 362
Closing Book Value	76 400	80 542	86 087
Average Asset Base	74 557	78 471	83 315
Less: Working Capital	-1 536	-1 534	-1 683
Regulatory Asset Base	73 022	76 938	81 632

Revenue Requirement Components (Continued...)

- The Real Vanilla WACC is determined as follows:

REAL RATE OF RETURN	2021/22	2022/23	2023/24
Inflation forecast	3.80%	4.80%	4.50%
Nominal Risk-free rate	8.95%	8.95%	8.95%
Real risk free rate	4.97%	3.96%	4.26%
MRP	5.09%	5.09%	5.09%
Asset beta	0.35	0.35	0.35
Equity beta (using Hamada)	0.65	0.65	0.65
Gearing	50.00%	50.00%	50.00%
Debt/equity ratio	100.00%	100.00%	100.00%
Nominal Weighted Average Cost of Debt (WACD)	10.85%	10.85%	10.85%
Equitable Tax rate	14.03%	14.03%	14.03%
Real Cost of equity (post-tax)	8.28%	7.28%	7.57%
Real WACD (pre-tax)	6.79%	5.77%	6.07%
Real Vanilla WACC	7.53%	6.52%	6.82%

Explanatory notes:

Risk Free Rate: KBP2003M, calculated over a five yearly average from March 2015 to February 2020 for FY 2021/22

MRP: Geometric mean with the use of the DMS studies over the full period available dataset (118 years)

Inflation: BER Forecasts

Cost of Debt: NPA's actual, embedded (adjusted for an effective weighting) debt costs

FY 2021/22 MRP & RFR figures are used as proxies for MRP & RFR figures for indicative years FY 2022/23 & FY 2023/24

Revenue Requirement Components (Continued...)

- Taxation is calculated on an equitable basis assumption based on Transnet OD's profit before tax contribution. The calculation of the equitable tax is as follows:

Details	5 Years Total
Total Profit Before Tax	28 023
Total Profit Making Divisions	55 913
Equitable Tax = (Total Profit before tax / Total profit making divisions) * 28%	14.03%

- Taxation calculation is highlighted below:

Taxation	2021/22	2022/23	2023/24
Equity Return	3 022	2 799	3 092
Depreciation	2 280	2 362	2 362
Opex	5 503	5 961	6 399
Gross income	10 805	11 122	11 853
Depreciation	2 280	2 362	2 362
Opex	5 503	5 961	6 399
Total Deductions	7 782	8 323	8 762
Taxable Income	3 022	2 799	3 092
Grossup factor	0.86	0.86	0.86
Grossed up taxable income	3 516	3 256	3 596
Tax @ 14.03%	493	457	505



Revenue Requirement Components (Continued...)

- Operating Expenditure is highlighted in the table below:

Cost Category	Actual 2019/20 R Million	Forecast 2020/21 R Million	Forecast 2021/22 R Million	Dev '20/21 vs 21/22 R Million	Dev '20/21 vs 21/22 Percentage	% of Opex 21/22	Forecast 2022/23 R Million	Forecast 2023/24 R Million	CAGR 2021/22 - 2023/24
Labour Costs	2 518	2 635	2 845	210	8%	57%	3 057	3 350	9%
Rates & taxes	400	421	456	36	8%	9%	499	541	9%
Maintenance	335	397	451	54	14%	9%	539	554	11%
Contract Payments	12	15	15	-0	-3%	0%	16	17	8%
Energy	593	586	627	41	7%	13%	678	740	9%
Professional services	58	45	47	2	5%	1%	57	59	12%
Material	87	91	100	10	10%	2%	112	122	10%
Computer & Info systems	115	117	125	8	7%	3%	127	136	4%
Rental	56	63	60	-3	-4%	1%	62	67	5%
Security costs	112	123	129	6	5%	3%	139	151	8%
Pre -Feasibility Studies	34	58	71	12	21%	1%	96	95	16%
Sundry operating costs	-13	19	59	39	204%	1%	60	61	2%
Total operating cost (excluding depreciation)	4 306	4 570	4 985	416	9%	100%	5 443	5 891	9%
Group Costs	422	514	517	3	1%		518	508	-1%
Total operating cost (Including Group Costs)	4 728	5 084	5 503	419	8%		5 961	6 399	8%

Revenue Requirement Components (Continued...)

- Key Drivers for the increase in Operating Expenditure is as follows:

Cost Driver	Details
1. Labour	<ul style="list-style-type: none"> • Meeting minimum manning levels of marine at 100% service and matching manning levels with number of tugs required per shift linked to meet the MOPS requirements; • The key operations functions filled with staff include Marine operations, Port Engineering, Port operations; • Trainees required for marine pipeline in scarce marine grades, i.e. Chief Marine Engineering Officers and Tug Masters; • Employment of port engineering personnel in order to create adequate port infrastructure capacity ahead of demand and maintaining existing and new assets; • Increase Fire Services personnel to ensure correct manning levels i.t.o. operating of new fire trucks; • Enterprise Risk Management ("ERM") personnel to ensure oversight and compliance with risk management requirements; • Given the rapid changes in maritime practices and technology, ICT specialist positions have been earmarked;and • Additional support services staff to complement increase in core operational personnel and ensure compliance to increased legislative/ regulatory requirements.
2. Energy	<ul style="list-style-type: none"> • Increase in electricity costs; and • Larger bollard pull capacity of the new craft for improved efficiencies, which results in higher fuel consumption.
3. Maintenance	<ul style="list-style-type: none"> • Ports handle larger container vessels than they were designed to accommodate, necessitating a higher frequency of maintenance dredging; • Ports are handling bigger with increased vessel draft and a very small under keel clearance. This has led to scouring of seabed which then requires additional dredging; and • Ongoing maintenance of ageing infrastructure and marine dredging fleet.

Revenue Requirement Components (Continued...)

- Key Drivers for the increase in Operating Expenditure is as follows:

Cost Driver	Details
4. Rates and Taxes	<ul style="list-style-type: none"> • Rates and taxes relate to municipal rates.
5. Computer and Information Systems	<ul style="list-style-type: none"> • Implementation of the Smart People’s Port programme: This is an all-encompassing, integrated digital platform created to enhance efficiencies and improve port operations control; • Support and maintain the Order to Cash System, Integrated Port Community System, eSubmissions System and Port Community System (Single Window Platform).
6. Rental	<ul style="list-style-type: none"> • Rental costs relates to the hiring of construction equipment, the hiring of internal land and buildings, leasing of vehicles, equipment, computers and furniture.
7. Pre-Feasibility Studies/ Professional Fees	<ul style="list-style-type: none"> • Includes: Hydraulic Tensioning System at the Cape Town Container Terminal; Decommissioning of Tank Farm (PE); Port Development Framework Plan; Maydon Wharf truck stage FEL4; Island View 3 Berth upgrade; Maydon road upgrade; Truck Staging Study / Positioning Way bridges; CSIR Breakwater photographic survey; FEL 2 Tug Jetty Refurbishment.
8. Sundry Operating Costs	<ul style="list-style-type: none"> • Sundry Costs include expenses relating to insurance, stationery and printing, transport, promotions and advertising, and other miscellaneous operating expenditure.

Revenue Requirement Components (Continued...)

- Claw-back is the difference between allowed and actual revenues.
- The audited results for FY 2019/20 and the latest estimates for FY 2020/21 results in a Net Clawback of R146m in favor of customers and is determined as follows:

CLAWBACK	2019/20	2019/20
	ROD	Actuals
R'm		
Recomputation of Required Revenue		
Return on asset	4 570	5 023
Depreciation	2 074	2 312
Opex + Group Costs	6 291	4 728
Tax	509	431
Clawback	-1 419	-1 419
ETIMC	539	539
Re-computed Revenue Allowed	12 564	11 614
AFS Revenue		12 172
Clawback FY 2019/20		-558
Clawback as per above		-558
SIOC: Bilateral Agreements		-106
Reverse FY 2019/20 Clawback taken in FY 2020/21		-184
Add: Estimated Clawback for FY 2020/21 (50%)		764
Add: Return on clawback for FY 2019/20 and FY 2020/21		-62
Net Clawback		-146



WEGO Results FY 2019/20

2019/20 Financial Year - WEGO Annual Report								
WEGO Key Performance Indicators	Port of Richards Bay	Port of Durban	Port East London	Port of Ngqura	Port of Port Elizabeth	Port of Mossel Bay	Port of Cape Town	Port of Saldanha
Vessel Service Delays	-9.5%	7.3%	-14.0%	10.2%	0.5%	30.0%	-1.3%	-0.1%
Ship working Hour ave	-0.9%	-1.4%	3.7%	-5.4%	0.6%	0.0%	-4.1%	-1.6%
Berth Productivity	-1.5%	-1.8%	2.4%	-5.9%	-2.1%	0.0%	-5.6%	-4.9%
Ship Productivity Indicator	-6.2%	-3.1%	-2.2%	-5.4%	-1.9%	-14.9%	-2.8%	-4.6%
Ship Turnaround Time	-2.8%	-0.4%	-2.2%	-2.0%	-5.3%	4.7%	-4.2%	-5.5%
Port Efficiency Gain	-21%	1%	-12%	-8%	-8.3%	20%	-18%	-17%
Capped at 10%	-10%	1%	-10%	-8%	-8.3%	10%	-10%	-10%
Revenue Weighting	13%	49%	2%	6%	5%	1%	14%	9%
Weighted Port Performance	-1%	0%	0%	-1%	0%	0%	-1%	-1%
TNPA WEGO	-4.44%	LEGEND:		White	No Change from Previous Year's Performance			
				Green	Improvement from Previous Year's Performance			
				Red	Decline from Previous Year's Performance			

RAB FY 2019/20	69 737
Ke	8%
Gearing	50%
Return of Equity	2 790
Composite Port Efficiency Gain	-4.44%
WEGO Multiplier	-0.444
WEGO Multiplier Cap	5.00%
Gain/(loss)	-62

- Composite port efficiency "loss" of 4.44%
- Change in KPIs and introduction of downtime adjustment will be applicable in Tariff Application FY 2023/24

$R2\ 790m * 0.444 * 5\%$



Revenue Requirement Calculation

DETAILS	2020/21	2021/22	2022/23	2023/24
	ROD	Fixed Tariff Year	Indicative Tariff Years	
	R'm	R'm		
RAB	73 241	73 022	76 938	81 632
Vanilla WACC	7.17%	7.53%	6.52%	6.82%
Return on Capital	5 248	5 500	5 018	5 570
Plus: Depreciation	2 321	2 280	2 362	2 362
Plus: Operating Costs	6 149	5 503	5 961	6 399
Plus: Taxation Expense	556	493	457	505
Plus/Less: WEGO	130	-62	-	-
Plus/Less: Clawback	-1 201	-146	764	-
Plus/Less: ETIMC	-567	-	-	-
Revenue Allowed	12 635	13 569	14 562	14 837
Less: Real Estate	-3 548	-3 861	-4 152	-4 522
Marine Revenue	9 088	9 708	10 410	10 315

Total Revenue Requirement of R13 569m comprising of Marine Business Revenue of R9 708m and Real Estate Business Revenue of R3 861m for FY 2021/22

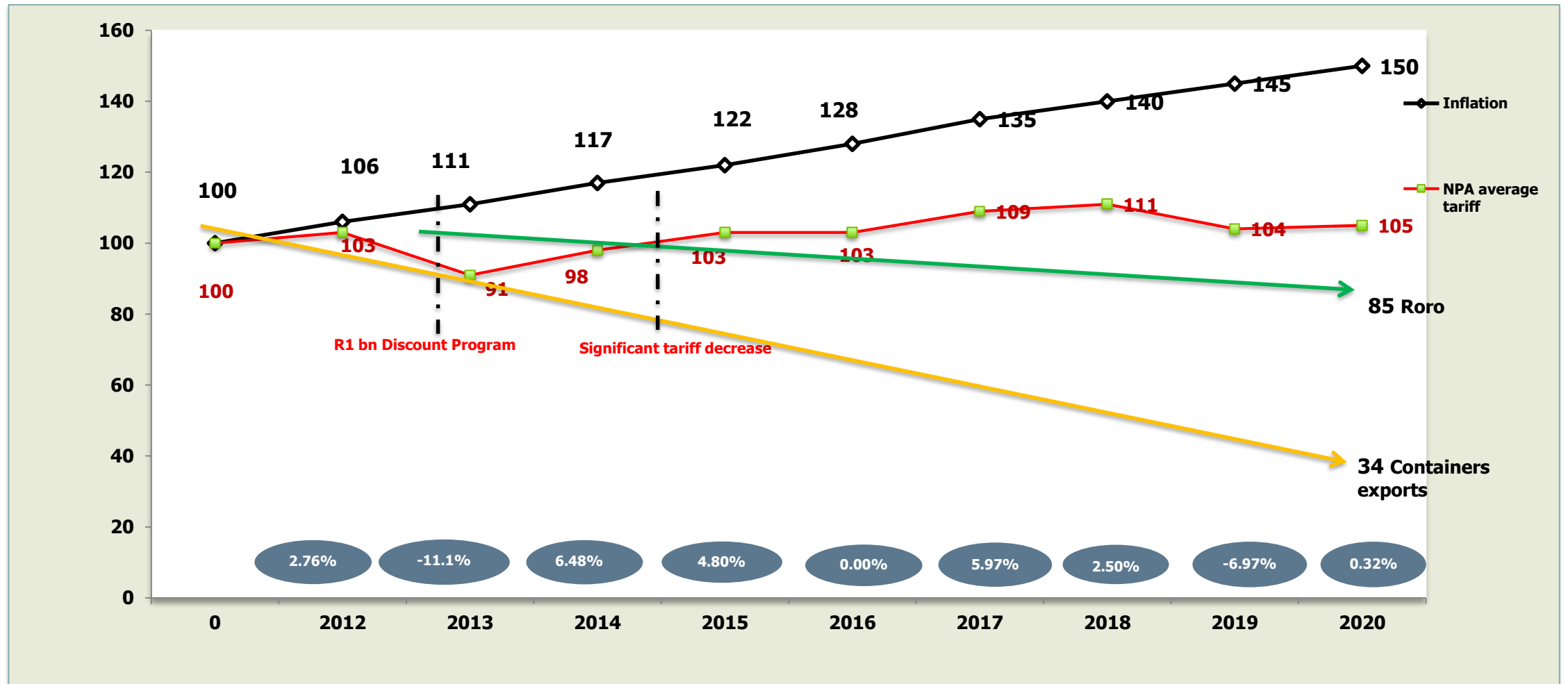
Tariff Adjustment FY 2021/22

MARINE REVENUE	2021/22	2022/23	2023/24
	Fixed Tariff Year	Indicative Tariff Years	
	R'm		
Prior Year Revenue	7 540	9 708	10 410
Estimated Volume Growth	7.54%	7.54%	7.54%
Revenue after volume growth	8 108	10 440	11 195
Required Revenue	9 708	10 410	10 315
<i>Tariff Increase</i>	19.74%	-0.29%	-7.86%

- Total Revenue Requirement of R13 569m comprising of Marine Business Revenue of R9 708m and Real Estate Business Revenue of R3 861m for FY 2021/22 translates to a weighted average tariff adjustment of 19.74% for FY 2021/22.
- Given current economic conditions and the objective of lowering the cost of doing business in SA: Requesting PRSA to consider an inflationary tariff adjustment (e3.80%) for FY 2021/22 using levers available to it such as ETIMC.



The Authority's Administered Pricing



Tariff Strategy & Differentiated Tariff Increases

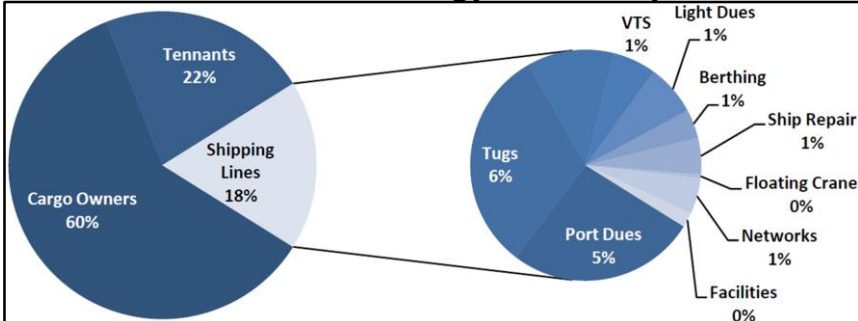
- Tariff Strategy:
 - Sets out a strategic direction for the South African port system;
 - Provides a transparent view of port tariffs over the next couple of years;
 - Premised on the user-pay principle;
 - Moving towards infrastructure based charges; and
 - Implementation results in differentiated tariff increases for marine services and within the various cargo dues categories.
- Whilst implementation of the Tariff Strategy remains a priority, providing support to the vulnerable SA economic sectors (such as the automotive and manufacturing sectors) to enable economic recovery, is vital.
- Proposed Differentiated tariffs consider a fine balance between implementation of Tariff Strategy and encouraging trade

**Asset Valuation Critical in
determining cost reflective
tariffs**



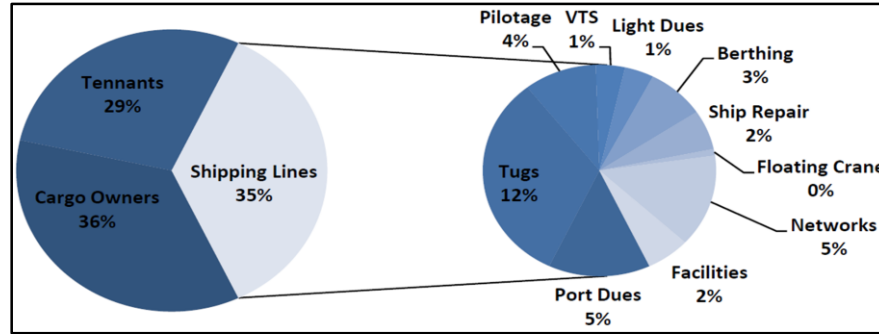
Tariff Strategy

Pre-Tariff Strategy Revenue Split



Tariff Strategy 2015

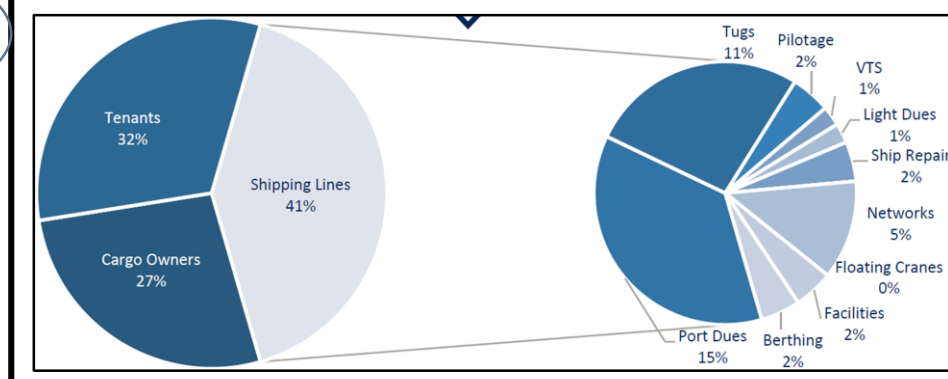
Post-Tariff Strategy Revenue Split



Revision of Tariff Strategy FY 2015/16: Values updated whilst principles remain the same.

Revised Tariff Strategy 2020

Post-Tariff Strategy Revenue Split



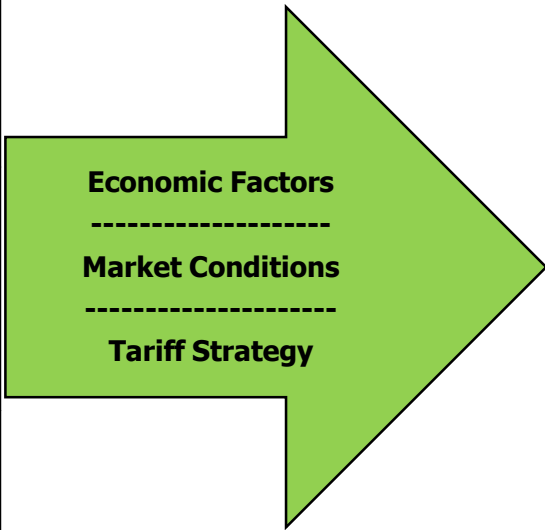
Reducing Overall Revenue Requirement Trend over time

Update of values based on the Trended Original Cost valuation methodology.

- Cargo Owners
- Tennants
- Port Dues
- Tugs
- Pilotage
- VTS
- Light Dues
- Ship Repair
- Floating Crane
- Networks
- Facilities
- Berthing

Tariff Strategy and Tariff Differentiation

<p>Containers</p> <ul style="list-style-type: none"> Imports: Below RSA forecast CPI of 3.80% to ensure support to local manufacturers that import raw material/ components; Exports: Below RSA forecast CPI of 3.80%, support the export/consumption of locally manufactured/produced goods.
<p>Break Bulk</p> <ul style="list-style-type: none"> Imports: Aligned to RSA forecast CPI of 3.80% to support local manufacturers that import raw material. In addition, forecasted recovery of the Rand (R/\$) may provide some relief; Exports: Aligned to RSA forecast CPI of 3.80% to support beneficiation and localisation. Further aligned to Tariff Strategy that requires increase in break bulk tariffs.
<p>Dry Bulk</p> <ul style="list-style-type: none"> Imports: Aligned to RSA forecast CPI of 3.80% to support local manufacturers that import raw material. In addition, forecasted recovery of the Rand (R/\$) may provide some relief; Exports: Aligned to RSA forecast CPI of 3.80% to aid volume growth. Further aligned to Tariff Strategy that requires increase in dry bulk tariffs.
<p>Liquid Bulk Imports & Other and Exports</p> <ul style="list-style-type: none"> Aligned to RSA forecast CPI of 3.80%. Furthermore support to the liquid bulk sector is provided by the market in the form of lower oil prices.
<p>Automotive</p> <ul style="list-style-type: none"> Imports: Differentiation between automotive export tariffs to ensure competitive advantage of local Original Equipment Manufacturers ("OEM") is maintained. Forecasted recovery of the rand to accommodate the below RSA forecast CPI of 3.80%; Exports: Supporting local OEM's competing with global sister companies, encourage localization and recovery of exports.

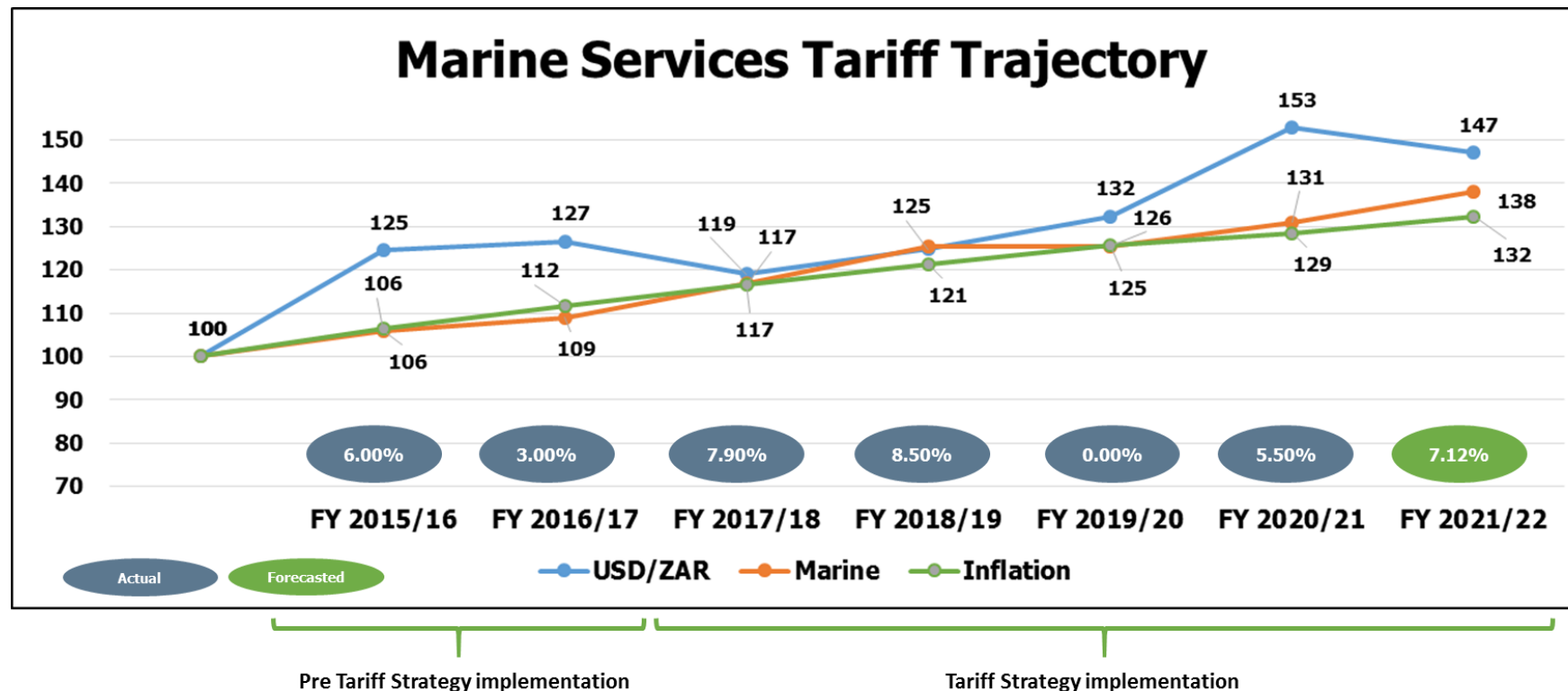


Tariff Differentiation	Tariff Adjustment	
	Imports	Exports
Cargo Dues	2.56%	
- Containers	2.23%	0.00%
- Break Bulk	3.80%	3.80%
- Dry Bulk	3.80%	3.80%
- Liquid Bulk	3.80%	3.80%
- Automotives	2.23%	0.00%
Marine Charges	7.12%	
Inflationary tariff adjustment	3.80%	

Tariff Strategy and Tariff Differentiation

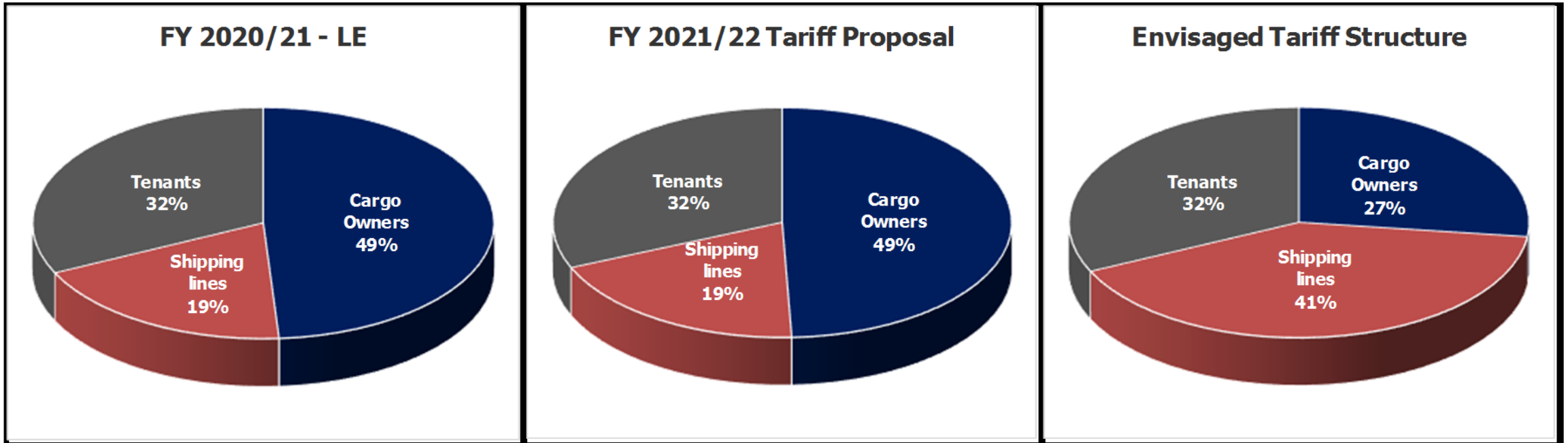
Marine Services

- Differentiated tariff increase above RSA forecast CPI of 3.80% as shipping lines have enjoyed the benefit of the depreciating Rand against the Dollar.
- Despite forecasted recovery of the Rand, shipping lines may continue to benefit from the strong US Dollar.



Transition to the Regulator's Strategy

- The proposed tariff differentiation is depicted in the diagram:



Tariff Book Amendments

The proposed Tariff Book changes for FY 2021/22 are as follows:

Issue	Current read	Proposed Changes
Tariffs		
1. Definitions: Transhipment <i>Page 07</i>	“Transhipment” means an act of off-loading cargo from one ship (generally at the hub port) and loading it onto another ship to be further carried to the final port of discharge.	Amendment “Transhipment” means an act of off-loading cargo from one ship (generally at the hub port) and loading it onto another ship to be further carried to the final port of discharge outside SA ports . Rationale Enhancement of definition to provide distinction between the definition of coastwise and transhipments.
2. Berth Dues <i>Page 23, Section 1.2 (first paragraph)</i>	Currently there is no fee for non-submission of Statement of Facts.	Amendment New wording to be introduced: <i>Statement of facts for each voyage must be submitted to the Authority within 24 hours after vessel departure.</i> <u>Non-submission of Statement of Facts</u> <i>The fee for non-submission of Statement of Facts will be R1 655.31 per Statement of facts.</i> (Currently quoted at FY 2020/21 tariff book rates) Rationale To encourage customers to comply, as the Statement of Facts is used in calculating whether berth dues are payable or not. Basis of tariff quantum: Aligned to tariff rate for non-submission of the Manifest.

Tariff Book Amendments (Continued...)

Issue	Current read	Proposed Changes
Tariffs		
<p>3. Cargo Dues Order</p> <p><i>Page 49, Section 8, Clause 1, last paragraph</i></p>	<p>Any cancellations and amendments on this order will be applicable per each container on the list.</p> <p>Any applicable fees will be levied per cargo dues order.</p>	<p>Amendment</p> <p>Any cancellations and amendment fees on this order will be applicable per cargo dues order.</p> <p>Any applicable fees will be levied per cargo dues order.</p> <p>Rationale</p> <p>To provide clarity as the fee is applicable per cargo dues order and not per container, e.g. some cargo dues orders may have between 100 and 500 containers per order.</p>
<p>4. Timing of Documentation</p> <p><i>Page 51, Clause 1.2</i></p>	<p>1.2 Timing of Documentation</p> <p>Inbound Transshipment / Coastwise</p> <p>1. Cargo dues must be submitted within seven (7) days after vessel arrival</p>	<p>Amendment</p> <p>1.2 Timing of Documentation</p> <p>Inbound Transshipment / Coastwise</p> <p>1. Cargo dues must be submitted within three (3) days after vessel departure</p> <p>Rationale</p> <p>To have all cargo dues aligned with vessel departure.</p>



Tariff Book Amendments (Continued...)

Issue	Current read	Proposed Changes
Tariffs		
5. Non-submission of Cargo Dues Orders <i>Page 53, Section 8, Clause 3.2</i>	Where cargo documentation is submitted, whether timeously or not subsequently amended for whatever reason and resubmitted, late order fee charges if applicable will be levied from the date of the new order, on the difference in value, in addition to the amendment fee of R331.05 per order.	<p>Amendment</p> <p>3.2.2 Amendment to cargo dues order submitted</p> <p>Where an amendment of a cargo dues order is submitted, late order fee charges if applicable will be levied from the date of the new order <i>on the under declared quantum</i>, in addition to the amendment fee of R331.05 per order.</p> <p>(Currently quoted at FY 2020/21 tariff book rates)</p> <p>Rationale</p> <p>To provide clarity in terms of under declaration for an order that was previously processed and to accommodate for the difference in volumes.</p>
6. Amending Orders <i>Page 53, Section 8, Clause 4</i>	Incorrect orders amended within seven (7) days from the date of submission (inclusive of public holidays) will not attract an amending fee for any changes to container/engine numbers/country of origin or country of destination/Bill of lading or Mates receipt/Port of loading and discharge/Terminal/Container Operator or Shipping Agent. (Note that the same order number and invoice number will be retained and an updated confirmation will be issued).	<p>Amendment</p> <p>Cargo dues orders amended within seven (7) days from the date of submission (inclusive of public holidays) will not attract an amending fee for any changes to container/engine numbers/country of origin or country of destination/Bill of lading or Mates receipt/Port of loading and discharge/Terminal/Container Operator or Shipping Agent. (Note that the same order number and invoice number will be retained and an updated confirmation will be issued).</p> <p>Rationale</p> <p>To provide clarity on how the charge will be levied.</p>

Tariff Book Amendments (Continued...)

Issue	Current read	Proposed Changes
Tariffs		
7. Port Revenue Offices <i>Page 54, Section 8, Clause 6.1</i>	Port of Durban 1st Floor 45 Bay Terrace Point	Amendment Port of Durban 2nd Floor 45 Bay Terrace Point Rationale Correction of revenue office floor.
8. Order-to-cash <i>Page 54, Section 8, Clause 6.2</i>	Registered customers may submit electronic cargo dues or EDI Data.	Amendment Registered customers must submit electronic cargo dues and/ manifest or EDI Data (cargo dues, outturns, manifest) via the electronic platforms. Rationale To ensure online submission of documents and where possible via the same platform. This will enable a uniform approach to document control throughout the ports.

Conclusion

- The Authority submitted a Tariff Application for FY 2021/22 to FY 2023/24 (based on Tariff Methodology) with resultant Required Revenue of R 13 569m:
 - Translating into a weighted average tariff adjustment of 19.74% for FY 2021/22
 - Indicative tariff adjustments of -0.29% and -7.86% for FY 2022/23 and FY 2023/24 respectively.
- The Authority requests the PRSA to consider an inflationary tariff adjustment (e3.80%) for FY 2021/22 using levers available to them (ETIMC)
- Should the Regulator consider an inflationary adjustment forecasted at 3.80% for FY 2021/22, the following is the proposed tariff differentiation:
 - An average of 2.56% increase in Cargo Dues differentiated as follows:
 - ❑ 2.23% on Containers Imports & Other;
 - ❑ 0.00% on Container Exports;
 - ❑ 3.80% on Break Bulk, Dry Bulk & Liquid Bulk Cargoes;
 - ❑ 2.23% on Automotive Imports & Other;
 - ❑ 0.00% on Automotive Export;
 - Tariff increase of 7.12% on Marine charges (shipping lines).

TRANSNET



delivering freight reliably

THANK YOU

