



TRANSNET NATIONAL PORTS AUTHORITY
TARIFF APPLICATION FOR FINANCIAL YEAR 2020/21

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ABBREVIATIONS AND ACRONYMS

AFS	Annual Financial Statements
APDP	Automotive Production Development Program
BER	Bureau of Economic Research
BESA	Bond Exchange of South Africa
BRICS	Brazil, Russia, India, China & South Africa
CAGR	Compounded Annual Growth Rate
CAPEX	Capital Expenditure
CAPM	Capital Asset Pricing Model
CMEO	Chief Marine Engineering Officer
CPI	Consumer Price Index
CPT	Cape Town
CSI	Corporate Social Investment
CWIP	Capital Work In Progress
DBN	Durban
DBT	Dry Bulk Terminal
DCT	Durban Container Terminal
DDOP	Durban Dig Out Port
DIA	(Old) Durban International Airport
DMS	Dimson, Marsh and Staunton
DMTN	Domestic Medium Term Note
DORC	Depreciated Optimised Replacement Cost
DoT	Department of Transport
DRS	Dredging Services
EIMS	Enterprise Information Management Services
EL	East London
EPMO	Enterprise Programme Management Office
ETIMC	Excessive Tariff Increase Margin Credit
FEL	Front End Loading
FMCSA	Ford Motor Company of Southern Africa
FY	Financial Year
GDP	Gross Domestic Product
GMTN	Global Medium Term Note
GPPCS	Global Port Pricing Comparator Study
GRT	Gross Registered Tonnage
HC	Historic Cost
HCM	Human Capital Management
HOPS	Haulier-Road Operations Performance Standards
IAS	International Accounting Standards
IDZ	Industrial Development Zone
IMF	International Monetary Fund
IPAP	Industrial Policy and Action Plan
IPMS	Integrated Port Management System
JOC	Joint Operations Centres
JSE	Johannesburg Stock Exchange
KAM	Key Account Manager
KPI	Key Performance Indicators
LE	Latest Estimate
LNG	Liquefied Natural Gas

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LTPF	Long-term Transnet Planning Framework
MDS	Market Demand Strategy
MIDP	Motor Industry Development Plan
MOPS	Marine Operations Performance Standards
MPT	Multi-Purpose Terminal
MRP	Market Risk Premium
MSOE	Marine School of Excellence
MTBSA	Man Truck and Bus South Africa
Mtpa	Millions tonnes per annum
NAAMSA	National Association of Automobile Manufacturers of South Africa
NBV	Net Book Value
NGQ	Ngqura
NIMS	National Infrastructure Maintenance Strategy
NPA	National Ports Authority
NPCC	National Port Consultative Committee
NPP	National Ports Plan
OD	Operating Divisions
OEMs	Original Equipment Manufacturers
OPEC	Organisation of Petroleum Exporting Countries
Opex	Operating Expenses
PCC	Port Consultative Committee
PRSA / The Regulator	Port Regulator of South Africa
PETROSA	Petroleum South Africa
PE	Port Elizabeth
PLP	Project Life Cycle Process
RAB	Regulatory Asset Base
RR	Revenue Requirement
RFR	Risk Free Rate
RBCT	Richards Bay Coal Terminal
RCB	Richards Bay
ROD	Record of Decision
ROPS	Rail Operations Performance Standards
RORO	Roll on Roll off
SA	South Africa
SAMSA	South African Maritime Safety Association
SARB	South African Reserve Bank
SARS	South African Revenue Services
SBIDZ	Saldanha Bay Industrial Development Zone
SLD	Saldanha Bay
SOC	State Owned Company
SOE	State Owned Enterprise
SRAB	Starting Regulatory Asset Base
TCC	Transnet Corporate Centre
TEU	Twenty-foot Equivalent Unit
TOC	Trended Original Cost
TONS	Tonnages
TOPS	Terminal Operator Performance Standards
TP	Transnet Property
TPT	Transnet Port Terminals
TSHD	Trailing Suction Hopper Dredger

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UK	United Kingdom
USA	United States of America
VoA	Methodology for the valuation of the Authority's RAB
VWSA	Volkswagen South Africa
WACC	Weighted Average Cost of Capital
WEGO	Weighted Efficiency Gains from Operations
WTO	World Trade Organisation

1. Executive Summary

In terms of Section 72 (1) (a) of the National Ports Act, 2005 (Act No. 12 of 2005) (“the Act”), the Transnet National Ports Authority, a division of Transnet SOC Limited (“the Authority”) is required, with the approval of the Ports Regulator of South Africa (“the Regulator”), to determine tariffs for services and facilities offered by the Authority and to annually publish a Tariff Book containing those tariffs. The Port Directives were approved on 13 July 2009 (gazetted on 06 August 2009) and amended on 29 January 2010 (“the Directives”). In terms of the Directives, when considering the proposed tariffs for the Authority, the Regulator must ensure that such tariffs allow the Authority to:

- a) recover its investment in owning, managing, controlling and administering ports and its investment in port services and facilities;
- b) recover its costs in maintaining, operating, managing, controlling and administering ports and its costs in providing port services and facilities; and
- c) earn a return commensurate with the risk of owning, managing, controlling and administering ports and of providing port services and facilities.

The Authority shall on an annual basis on or before 1 August submit its application setting out its proposed tariffs for all services and facilities offered by the Authority for the following financial year for approval by the Regulator. The Directives also allows the Authority to submit to the Regulator a proposal for the amendment of any tariff for any services and/or facilities offered by the Authority at any port from time to time. The Directives prescribe a period of 4 months from the date of receipt of the submission upon which the Regulator shall make a decision.

In determining the tariffs, the Authority applies the prescribed Tariff Methodology issued by the Regulator on 30 March 2017 (“the Tariff Methodology”). The Tariff Methodology allows the Regulator to administer the Authority’s tariff setting process and considers a multi-year approach, applicable from 2018/19 to 2020/21 tariff years. It further allows for an annual review and an annual adjustment of tariffs within the three year period as opposed to fixing the tariffs for the full period. Whilst the Authority remains mindful that the Tariff Methodology is only applicable up to FY 2020/21, the Tariff Application for the indicative years of FY 2021/22 and FY 2022/23, has been prepared on the basis of the 30 March 2017 Tariff Methodology as the new Methodology is not yet finalised.

The approach applicable to the tariff period FY 2020/21, per the Tariff Methodology, is based on the Revenue Requirement (RR) formula as follows:

Revenue Requirement

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

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On 29 March 2018, the Regulator issued the “Methodology for the Valuation of the National Ports Authority’s Regulatory Asset Base” (VoA). The methodology considers a hybrid approach where assets with capitalisation dates pre-1990 are valued at Historical Cost (HC), whilst assets in existence post 1990 are valued at Trended Original Cost (TOC).

The Regulator required implementation of the VoA in the FY 2019/20 Tariff Application. However, the Authority, cognizant of the significant financial risks associated with the implementation of the VoA, determined the RAB, in accordance with the approved Tariff Methodology of March 2017 (original method). Subsequently, in its Record of Decision (ROD) on the Tariff Application for FY 2019/20, the Regulator decided to apply the TOC methodology to all assets, inclusive of assets pre-1990 and post-1990, in its application of the financial capital maintenance principle. The Regulator, in its ROD, further determined that it will “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 determination of the RAB in the tariff application for FY 2020/21 has therefore been prepared on the TOC Methodology, with each asset depreciated according to its own useful life.

The table below demonstrates the RR determined by the Authority, based on the Tariff Methodology, the aforementioned RAB principles and the latest available information, assumptions and parameters.

Table 1: Revenue Requirement FY 2020/21 to FY 2022/23

DETAILS	2019/20	2020/21	2021/22	2022/23
	ROD	Fixed Tariff Year	Indicative Tariff Years	
	R'm	R'm		
RAB	69 732	73 473	79 060	85 926
Vanilla WACC	6.55%	7.04%	6.94%	7.24%
Return on Capital	4 570	5 175	5 489	6 223
Plus: Depreciation	2 074	2 331	2 369	2 465
Plus: Operating Costs	6 291	6 149	6 769	7 414
Plus: Taxation Expense	509	555	591	665
Plus/Less: WEGO	-	154	-	-
Plus/Less: Clawback	-1 419	-1 219	115	-
Plus/Less: ETIMC	539	-	-	-
Revenue Allowed	12 563	13 145	15 333	16 767
Less: Real Estate	3 284	-3 548	-3 839	-4 132
Marine Revenue	9 279	9 597	11 494	12 635

The Authority has determined a Required Revenue of R13 145m for FY 2020/21 comprising of Marine Business revenue of R9 597m and Real Estate Business revenue of R3 548m.

Table 2 below illustrates the required tariff adjustment taking into account a projected volume growth of 1.31% for each of the years.

Table 2: Marine Revenue for FY 2020/21 to FY 2022/23

MARINE REVENUE	2020/21	2021/22	2022/23
	Fixed Tariff Year	Indicative Tariff Years	
	R'm		
Prior Year Revenue	9 039	9 597	11 494
Estimated Volume Growth	1.31%	1.31%	1.31%
Revenue after volume growth	9 158	9 723	11 645
Required Revenue	9 597	11 494	12 635
Tariff Increase	4.80%	18.22%	8.50%

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The resultant tariff adjustment for FY 2020/21 is 4.80%. Accordingly the indicative tariff adjustments for FY 2021/22 and FY 2022/23 are 18.22% and 8.50% respectively. In applying the approved Tariff Strategy, the Authority proposes the following tariff differentiated adjustments in order to make up the weighted average tariff adjustment of 4.80% for FY 2020/21:

In summary, the Authority proposes the following tariff differentiation:

- Tariff increase of 9.70% on Marine charges (shipping lines);
- An average of 2.85% increase in Cargo Dues differentiated as follows:
 - 5.00% on Liquid Bulk and break bulk cargoes;
 - 1.50% on Containers;
 - 1.50% on Automotives;
 - Dry Bulk Cargoes differentiated as follows:
 - Coal to increase by 7.4%;
 - Ores and Minerals: Magnetite to increase by 7.4%; and
 - Other Dry bulk to increase by 5.00%.

2. Introduction

The Authority is responsible for the safe, efficient and effective economic functioning of the national ports system which it manages, controls and administers. The key business activities of the Authority are to provide and manage port infrastructure, maritime services and real estate. In a broader context, the Authority also undertakes to facilitate the development of trade and commerce through market collaboration for the economic benefit of the national economy of SA.

As stated in the State of the Nation Address of 25 June 2019, and as outlined in the National Development Plan, *“SOE’s are central to advancing national objectives through providing economic and social infrastructure. If this is done in an equitable and cost-effective way, SOE’s can contribute to both deliver a quality and reliable service at a cost that enables South Africa to be globally competitive.”*

The aforementioned national objectives coupled with Transnet’s objective of lowering the cost of doing business in South Africa, provides the context of the Authority’s strategic focus and planned execution thereof. This translates into an affordable tariff adjustment, marginally below the forecasted inflation rate for FY 2020/21. In addition, the Authority remains mindful of the need to ensure that efficient pricing signals are generated to stimulate market growth.

3. Legal Basis and Regulatory Requirements

The regulatory framework for the Authority’s tariffs is informed by the Act, and the Directives promulgated by the Regulator.

4. Tariff Methodology

The Tariff Methodology was issued on 30 March 2017 and is applicable for a period of 3 years, from FY 2018/19 to FY 2020/21.

The Tariff Methodology prescribes an approach that requires an annual review and an annual adjustment of tariffs within the three year period as opposed to fixing the prices for the full period. This means that a tariff determination is requested for year one of the three year tariff period, and indicative tariff adjustments are provided for the subsequent two years.

This approach has simplified the revenue and tariff determination for the Authority and allows for effective participation by industry stakeholders. In addition, the Tariff Methodology narrows the gap between what is requested and subsequently granted as it is based on rules which are uniformly applied by both the Authority and the Regulator.

The Tariff Methodology is premised on the RR approach with the formula set out below:

Revenue Requirement

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

4.1 Methodology for the valuation of the Authority's RAB

On 29 March 2018, the Regulator issued the VoA methodology, which was intended to be used to establish the Starting Regulatory Asset Base (SRAB). The VoA considers a hybrid approach where assets with capitalisation dates pre-1990 are valued at HC, whilst assets in existence from and post 1990 are valued at TOC.

The Regulator required implementation of the VoA in the FY 2019/20 Tariff Application. However, the Authority, cognizant of the significant financial risks associated with its implementation, determined the RAB in accordance with the approved Tariff Methodology of March 2017 (original method). Subsequently, in its FY 2019/20 Tariff Application, the Regulator applied the TOC methodology to all assets, irrespective of the capitalization dates.

In the ROD, the Regulator further determined that it will “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 determination of the RAB in the tariff application for FY 2020/21 has therefore been prepared on the TOC Methodology, with each asset class or category, depreciated according to its associated useful life.

5. The Business of the Authority

5.1 Introduction

The Authority operates within the port industry, providing services to its target market comprising of port users, which includes (but is not limited to) terminal operators, shipping lines, ship agents, cargo owners and the clearing and forwarding industry. The Authority owns and manages nine commercial ports within South Africa namely, Port Nolloth, Saldanha Bay, Cape Town, Mossel Bay, Port Elizabeth, Ngqura, East London, Durban and Richards Bay.

Port Nolloth is currently not a fully operational commercial port and renders maritime services of a basic nature supporting fishing and supply vessels.

Port infrastructure and maritime services are provided in five market segments namely, containers, dry bulk, liquid bulk, break-bulk and automotive. The major commodities handled at the ports are coal, iron ore, manganese, containers, automotive, steel, fruit, ferrochrome and petroleum products. Growth of these commodities is a function of global demand, logistics infrastructure capacity and supply chain efficiencies which include port efficiencies.

Port users fall into three main categories, namely, terminal operators, shipping lines and cargo owners. While numerous other parties utilise the port, they do so to a lesser extent than these principal port users.

The Authority's operating strategy is premised on facilitating trade and unlocking the economic growth of the country; through reducing the cost of doing business and facilitating a globally competitive Transport and Logistics system. This is illustrated in the following figure:

Figure 1: Customer Centred World Class Logistics and Industrial Hubs



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 Authority's strategic focus 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 key elements of the strategy are centred on:

- Providing adequate, reliable, futuristic port and marine infrastructure capacity ahead of demand

- Improving port efficiencies through benchmarked standards and effective oversight
- Influencing the development of globally competitive integrated supply chain solutions
- Advancing real estate property development and value added offerings
- Innovative port pricing to support economic development and growth

The overarching aspiration of the Authority’s strategy, consistent with shareholder expectations, is to transcend beyond landlordism and unlock economic growth by contributing to reducing the cost of doing business and influencing the development of globally competitive ports, transport and logistic systems for the country and the region. Successful implementation of the strategy will enhance inclusive economic growth and social transformation.

5.2 Functions of the Authority

The National Commercial Ports Policy requires that the Authority be responsible for the management of the national commercial port system as a landlord port authority. Being the Authority means that the Authority:

- Owns, develops and maintains port infrastructure;
- Does not engage in landside port operations (except as operator of last resort);
- Does not employ cargo handling labour;
- Fulfils a port regulatory function including oversight and port landowner function; and
- Owns all port land.

The Authority’s core functions (as set out in Section 11 of the Act) can be summarised in the table as follows:

Table 3: The Authority’s Core Functions

Function	Detail
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.
Controller of ports navigation	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 and facilities	Ensure that port services and facilities are provided, and may enter into agreements or license other parties to provide these.
Marketer and administrator	Ensure that adequate, affordable, equitable and efficient port services and facilities are provided for port users.

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Function	Detail
Change agent	Ensure non-discriminatory, fair, transparent access to port services and facilities; advancement of previously disadvantaged people; promotion of representation 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.

5.3 Tariffs in Perspective

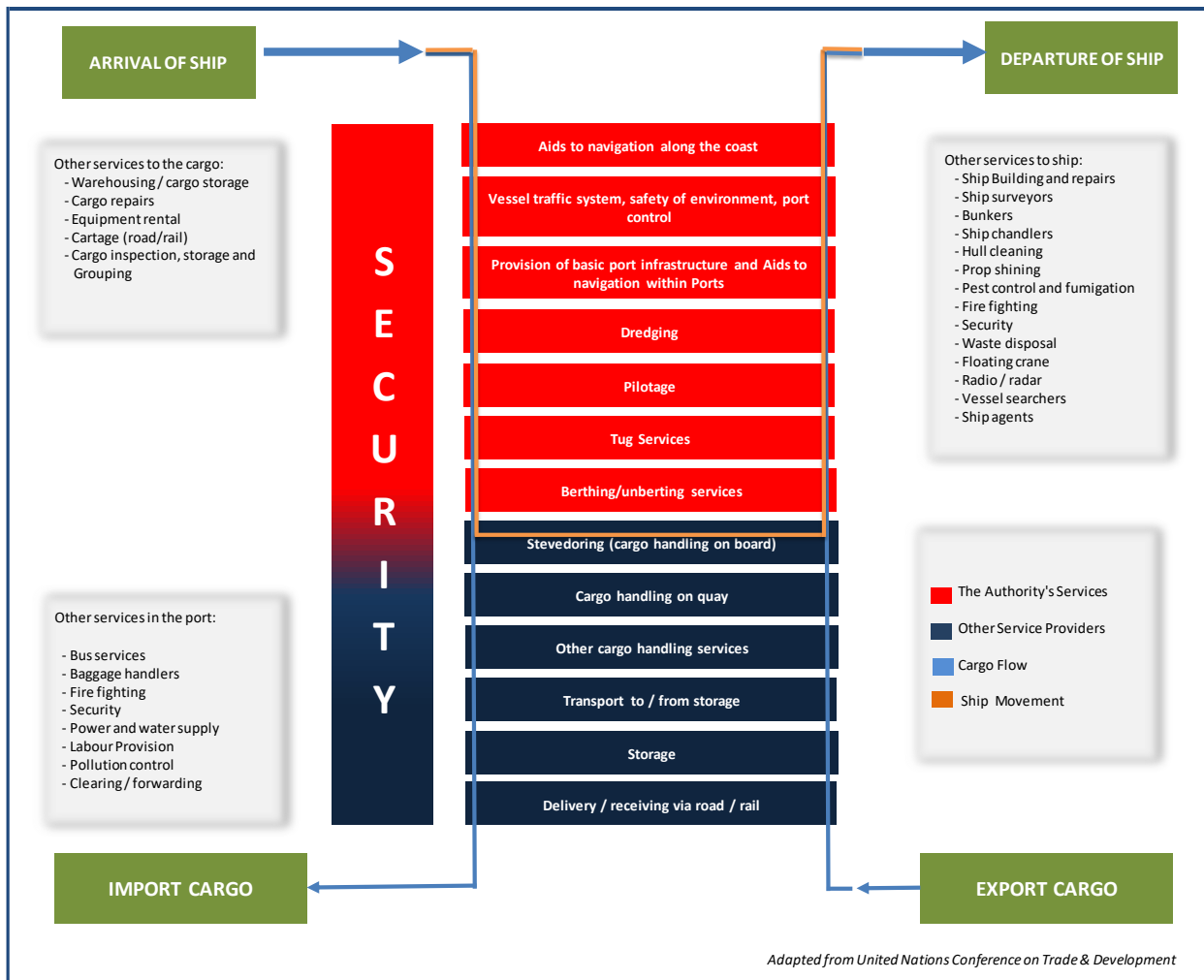
Like any other entity providing commercial port operations, the Authority needs to generate revenue by charging tariffs for the services provided. The Authority generates revenue by charging fees, in accordance with tariffs approved by the Regulator in order to fulfil the functions it must perform in terms of the Act.

The Authority's core services, as specified in the Act, result in a number of revenue streams, which are utilised by the Authority to fulfil its responsibility for the safe, efficient and effective economic functioning of the national ports system.

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Figure 2 presents various services provided within a port (adapted from the United Nations Conference on Trade and Development) and it illustrates the flow of cargo and ships through the port system:

Figure 2: Port Services



The Authority's services at the ports can be divided into two basic groups:

- Basic port infrastructure; and
- Operational services to port users.

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The Authority's services and their respective revenue streams are set out in Table 4 below.

Table 4: The Authority's Services and Corresponding Revenue Streams

Port Infrastructure		Revenue Stream
Port land and terminals	Lease port land to terminal operators and other port service and port facility providers in the port(s).	Lease income (rentals)
Wet infrastructure	Lighthouse services infrastructure (lighthouses, buoys, beacons and electronic / radio navigation equipment) , port control and safety, entrance channels, breakwaters, turning basins, aids to navigation within port limits, vessel traffic services, maintenance dredging within ports.	Light dues, port dues, vessel traffic services fees
Dry infrastructure	Quay walls, roads, rail lines, buildings, fencing, port security, lighting (outside terminals), bulk services and in certain cases terminal infrastructure,	Cargo dues, berth dues
Ship repair services	Provide and maintain ship repair facilities	Preparation fee, docking and undocking fees (vessels at repair facilities), berth dues (vessels at repair quays)
Marine services	Pilotage, tug assistance, berthing, running of lines, floating cranes	Pilotage dues, tug assistance fees, berthing fees, running of line fees, floating crane hire fees

In the context of the South African ports system and the Act, the revenue generated from the Authority's services is utilised inter alia to:

- Maintain basic port infrastructure;
- Provide future port infrastructure;
- Maintain and provide the current and future marine fleet; and
- Maintain and provide current and future ship repair facilities

This makes the South African port system distinct from most ports internationally, where typically, some port capital costs are funded through State or Municipal budgets. The Authority's Tariff Book sets out the various tariffs that are charged by the Authority to maintain and develop the South African port system (Refer to **Annexure A**).

6. Port Infrastructure Development Plan and Capital Expenditure

Section 11(1) of the Act sets out the main functions of the Authority, amongst others, the responsibilities with respect to the provision of port infrastructure.

6.1 Port Investment planning

“Functions of the Authority”

Section 11(1) the main function of the Authority 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;*
- (f) Maintain the sustainability of the ports and their surroundings;*

6.2 The Authority’s Capital Investment Programme

The Authority’s investment spending is primarily influenced by its detailed strategic and planning initiatives which aim at providing adequate port infrastructure ahead of demand, improve vessel and cargo turnaround; and improve the productive use of assets to sustain the existing business.

In developing the Capex Plans, the following activities are considered by the Authority:

- **Long-term Port Development Framework Plans:** The Authority in accordance with the National Ports Act has to develop and periodically update port framework plans. The Authority publishes its National Ports Plan (“NPP”) which contains individual port development plans for each of the Authority’s 9 commercial ports. The NPP is updated every two (2) years and rebased every five (5) years. The last rebased NPP was completed in FY 2014/15. The next rebased NPP will be published as the NPP 2020. The draft NPP 2020 is currently available on the Authority’s website for stakeholders review and comment; prior to finalisation.
- **Capacity studies:** The Authority uses simulation tools to assess the capacity of current infrastructure and to simulate future infrastructure capacity. The capacity studies are updated annually and as required.

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- **Volume Studies:** The forecasted volumes used in the Authority's development plans are based on the latest available information for the short-term investment guidelines. The long-term investment guidelines utilises the forecasted volumes from Transnet's Freight Demand Model.
- **Prioritization:** Projects are aligned to strategy and prioritized by compliance, sustainability and to meet demand forecasted.
- **Port Consultative Committees:** The Authority adopts a consultative approach to the drafting of the Port Development Framework Plans and the execution of the resultant Capital Investment Plan. Port Development Framework Plans projected for the short, medium and long term as well as 7-year Capital Investment. Plans have been consulted with port users. This consultation was conducted on a port-by-port basis during a process facilitated by the DoT, with SAMSA as secretariat, during the first quarter of FY 2019/20. These plans are informed, inter alia, by the aforementioned Transnet Freight Demand Model.

6.3 Key Focus Areas of Capital Investment Program in FY 2020/21 to FY 2022/23

The Capital Investment Program for FY 2020/21 to FY 2022/23 amounts to R3 872m, R4 921m and R6 630m respectively. These amounts are included in the Authority's RAB as capital expenditure in the years in which they are incurred. The key projects listed below are continuing into this tariff focus period. On aggregate the following projects contribute 75% of the planned capital expenditure over the next 3 years:

- Port of Richards Bay: Provide additional rail facility for Duine area;
- Port of Richards Bay: Bayvue rail yard expansion;
- Port of Richards Bay: Replacement of helicopters
- Port of Richards Bay: Dredging and construction of berth infrastructure for Floating Dry Dock;
- Port of Richards Bay: Replace 1 tug
- Port of Richards Bay: Provide additional Bulk Liquid berth 207
- Port of Durban: DCT berth deepening 203 to 205;
- Port of Durban: New Tug Jetty FEL 4;
- Port of Durban: Replace Water Pipelines & Billing System;
- Port of Durban: Acquisition of 6 tugs (4 replacement and 2 additional);
- Port of Durban: Upgrade of Asbestos Kings rest yard;
- Port of Durban: Island View sea walls;
- Port of Durban: Fire-fighting infrastructure at berth 9 Island View;
- Port of Durban: Island View berth 1 upgrade;
- Port of Durban: Replacement of helicopter
- Port of East London: Reconstruction of Quay 3;
- Port of Ngqura: Tank farm equipment Berth B100, roads, port entrance and services;
- Port of Ngqura: Manganese project;
- Port of Cape Town: Two Replacement Tugs;
- Port of Cape Town: Acquisition of new helicopter;
- Port of Cape Town: Expansion of container terminal Phase 2B FEL3
- Port of Saldanha Bay: Bulk electrical power supply related to Third tippler; and
- Dredging Services: Second Grab hopper dredger.

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In addition, the Table below highlights the major Operation Phakisa projects to be undertaken at the various Ports.

Table 5: Operation Phakisa Major Projects

Project name	Port
Replacement of Robinson Drydock floating caisson	CPT
Replacement of 10 cranes for Ship Repair	CPT
Sturrock Dry Dock Infrastructure Upgrade	CPT
Sturrock Dry Dock Pump System Upgrade	CPT
Sturrock Dry Dock Electrical Infrastructure Upgrade (Detail Design)	CPT
Replacement of Capstans on all docks	CPT
Drydock Jib Cranes	DBN
Dry dock Pump House upgrade, Civil works- Trenching and Resurfacing & Ancillary Plinths	DBN
Dry dock Fire System upgrade	DBN
Dry Dock Capstans Upgrade	DBN
Slipway upgrade	MSB
Modifications of 1200 ton slipway cradle	PE
Dredging and construction of Marine infrastructure for Floating Dry Dock	RCB
Provision of dedicated facilities for Rig repair (Mossgas quay)	SLD

The Authority's capital investment goals are to increase productivity and efficiency, ensuring a safe, secure and compliant port system whilst optimising human resources.

Table 6: Strategic Capital Investment Objectives

Strategic objective	Details	LE	Projections					Total 6yr
		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	
		R'm						
Re-engineering, Integration, Productivity and Efficiency	To maximise return on investments by obtaining additional volumes	627	1 403	1 386	2 649	3 324	6 710	16 099
	To maximise return on investments by improving operating efficiencies	104	181	212	239	173	97	1 006
	To preserve current revenue streams without obtaining additional volumes (ie. revenue protection)	866	1 999	2 394	2 853	3 186	3 060	14 357
Safety, Risk and Effective Governance	Ensure Safety Optimisation	63	257	495	469	528	285	2 097
	Optimise Business Enterprise Offerings	9	-	140	37	6	23	214
	Optimally Satisfy Social Investments (non economic value creating projects)	6	2	91	152	169	-	421
	Environmental	3	30	153	87	195	216	683
Human Capital	Optimise Human Resources	77	1	51	143	77	377	725
Total (excl. borrowing cost)		1 754	3 872	4 921	6 630	7 657	10 768	35 602

The detailed capital expenditure schedule is highlighted in **Annexure B**.

7. The Authority's Total Revenue

7.1 Real Estate Revenue

The vision of the Authority's Real Estate business is to ensure the property portfolio is managed adequately, efficiently, effectively and in accordance with organization policies and a mandate as outlined by the National Ports Act. It also aims to maximize value and support for the Authority's core business.

The Real Estate Strategy drives the management of the property portfolio. There are five key pillars of the Real Estate Strategy:

- (a) Revenue Growth;
- (b) Portfolio Optimisation;
- (c) Land use and strategic developments;
- (d) Total Facilities Management; and
- (e) Human Resources Capacity Building.

The Authority currently manages port land in excess of 46.0 million square meters of which 23.5 million square meters is the Gross Lettable Area (GLA). Roads, rails, common areas, environmentally sensitive areas and related land makes up for a total of 22.4 million square meters.

The Authority manages four categories of leases:

- (a) Complimentary leases;
- (b) Supplementary leases;
- (c) Commercial leases; and
- (d) Leases with other Government entities.

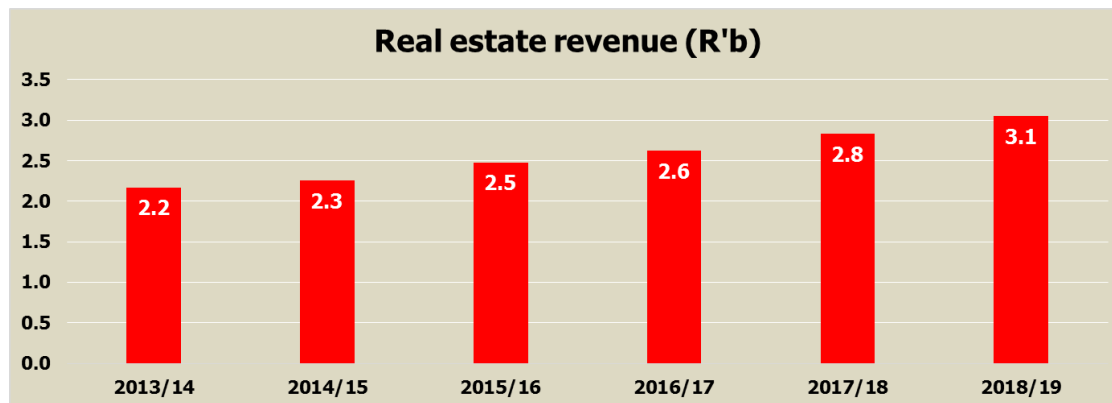
These leases ranges from short to long term leases which are inclusive of terminal operators, licensed service providers and government entities executing legislative functions. The Lease Management Manual ("LMM") provides a guideline on the management and related principles of leases. The process of lease management principally follows an open, transparent, competitive and fair process. All vacant sites are advertised to the public for broader participation.

The Authority currently manages approximately 683 leases across the nine (9) commercial ports. The Port of Durban, as the Authority's biggest port, holds the bulk of the leases, with a total of 339 leases. The average lease tenure ranges between 5-10 years, with expired leases generally, extended on a month to month basis, pending the completion of the lease renewal process.

The Authority achieved a lettable land vacancy rate of approximately 6% in FY 2018/19, which compares favourably with the industry average of 10%.

The land rental budget for FY 2019/20 is R3 293m which represents a growth of approximately 7.97% from the actual land rental of R3 050m obtained in FY 2018/19. The land rental revenue forecast for FY 2020/21 is R3 548m.

Figure 3: Historical Real Estate Performance



The significant details of the Authority’s Real Estate portfolio are highlighted in Table 7 below.

Table 7: Real Estate Salient Features

Salient Features of Real Estate Business	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
	Current Tariff Year	Fixed Tariff Year	Projected Tariff Years	
Number of Ports	8	8	8	8
Gross Lettable Area	Approx 24 million sqm	Approx 24 million sqm	Approx 24 million sqm	Approx 24 million sqm
Number of Leases	683	683	683	683
Total No. of Terminal Operators	90	90	90	90
Vacancy Factor	6%	6%	6%	6%
Average term of Leases	5 - 25 Years	5 - 25 Years	5 - 25 Years	5 - 25 Years
Estimated Revenue (Current Financial Year)	R3 293 m	R3 548 m	R3 839 m	R4 132 m
Estimated Revenue (Subsequent Financial Year)	R3 548 m	R3 839 m	R4 132 m	R4 482 m
Forecast Revenue Growth	R255 m	R291 m	R293 m	R350 m

Further to the above, in terms of Section 11(1)(r) of the Act, the Authority must promote greater representation, in particular to increase participation in terminal operations of historically disadvantaged persons. In order to achieve compliance with the Act, the Authority as part of its ports transformation program has considered measures to achieve in excess of 75% of Level 4 B-BBEE status in lease contracts and strives for a greater occupation of its lettable properties.

As stated in the Tariff Application ROD FY 2019/20, the Regulator requires more granular information relating to the Real Estate business of the Authority. In this regard, it is worth noting that discussions with the Regulator have commenced and are ongoing to ensure that the requirement is met.

7.2 Private Sector Participation in the Port Sector (Concession Programmes)

The Authority is mandated by the Act to ensure that activities within ports encourage the development of trade and commerce for the economic benefit and interest of the South African economy. The Authority thus plays a critical role in balancing public interests and commercial interests while executing its mandate.

In many instances, the Authority enters into concession agreements (i.e. a contract in which government or a state owned enterprise transfers operating and/or business rights to an entity for a defined period of time) with the private sector in order to facilitate economic development in the port environment. Private sector participation for the funding, execution and operation of these infrastructure projects is critical to expediting and ensuring holistic delivery of the Authority’s corporate objectives, as well as the broader development of national infrastructure.

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The concession agreements (Section 56 projects) entered into by the Authority aims to amongst others, introduce new activities into the port system; enable renewal of old port facilities; facilitate supply development programmes aligned to national economic objectives; and encourage participation in port activities by businesses owned by Historically Disadvantaged Persons.

To entrench broad participation and liberalization of port capacity, the Authority requires bidders to comply with a set criteria for black ownership.

To date seven Terminal Operator agreements have been concluded where black ownership was a mandatory requirement.

The seven concluded terminal operator agreements are as follows:

- a) Sunrise Energy LPG – Port of Saldanha Bay, signed on 03 June 2013
- b) Burgan Cape Liquid Bulk – Port of Cape Town, signed on 03 July 2013
- c) Cape Town Cruise Terminal – Port of Cape Town, signed on 14 December 2015
- d) Oil Tanking Grinrod Calulo (OTGC) – Port of Ngqura, signed on 16 December 2016
- e) Durban Cruise Terminal – Port of Durban, signed on 17 September 2018
- f) Saldehco OffShore Supply Base – Port of Saldanha Bay, signed on 23 April 2018.
- g) Bidfreight Port Operations – Port of Port Elizabeth, signed on 30 September 2018

Details of the Authority's efforts around concessioning are presented in the table below:

Table 8: FY 2020/21 Concession Programme

A. WESTERN CAPE REGION	
CAPE TOWN	SALDANHA
1.Liquid Bulk Terminal x 3 •Brownfields Project	1.Ship Repair Facility / Floating Dock •Greenfield Project •Operation Phakisa Project
	2. Rig Repair facility •Greenfield Project
B. EASTERN CAPE REGION	
NGQURA	
1.Energy Precinct •Greenfield / Brownfield Project	
C. KWAZULU NATAL REGION	
DURBAN	RICHARDS BAY
1.Maydon Wharf Agri-Bulk Terminal •Greenfields Project •Maydon Wharf Precinct	1.Liquid Bulk Terminal at South Dunes (Including Bunkering, if viable) •Greenfield Project
2. Liquid bulk Terminal Lot 100 •Greenfield Project	2. Ship Repair Facility / Floating Dock •Greenfields Project •Operation Phakisa Project
3. Maydon Wharf Entsembeni Terminal •Greenfield Project •Dry Bulk Cargo	
4. Maydon Wharf High Flush Liquid Bulk Terminal •Greenfield Project	
5. Liquid Bulk (Petroleum & Chemicals) Terminal •Brownfields Project. •Island View Precinct.	

7.3 Marine Business Revenue

The Authority generates revenue by providing services to port users, which include terminal operators, shipping lines, ship agents, cargo owners and the clearing and forwarding industry. Port Infrastructure and maritime services are made available for use in the five commodity market sectors namely; containers, dry bulk, liquid bulk, break-bulk and automotive. The main source of revenue is tariffs, which is determined and administered by the Regulator, and charged by the Authority for providing the aforementioned services. In determining the tariffs, various economic factors, including the volume growth of the Authority is considered. The anticipated volume growth serves as an indicator of economic activity and trade.

7.3.1 The Authority's Volumes

The volumes as presented in this part of the application, showcases the commodity cargoes that go through the commercial ports as well as the movements of the marine vessel traffic entering the ports.

Projections for the Authority's volume budget process, on an annual basis, usually commence in October and continues to be refined until the Transnet Board approves the budgets in February of the following year. These forecasts present the annual probable demand, on commodities which are handled through the Authority's infrastructure within the port system. This process normally depicts the current year's latest estimates, taking into account the previous year's performance. Forecasts extend to the following year's volumes (budget period) with projected volumes for the next six years. This volume demand is one of the critical elements as it guides the organisational planning to ensure the availing of capacity ahead of demand whilst at the same time facilitating efficient and optimal utilisation of current capacity.

The cargo volumes budget compilation follows a bottom-up approach from the port level to the Authority's validated budget. The process starts with the Authority's Key Account Managers (KAM's) communicating and liaising with customers on their operational and strategic plans (i.e. how this translates into volume forecasts for the tariff period under review). The KAM's also liaise across the port system with Port Terminals and other operators, to achieve alignment within all cargo categories. This process ends with a central consolidation of volumes and includes the budget evaluation process such as historic, prevailing and anticipated market conditions, operational efficiencies, and infrastructure capacity levels and anticipated improvements.

Transnet also enforces a formal interaction platform with key customers to validate customer volume forecasts. All divisions of Transnet participate to ensure synchronisation across the entire commodity value chain.

7.4 Cargo

Over the years, South African economic growth has been drifting away from major regional economies and its peers, including Africa, illustrating some evidence of a weaker connection to the rest of the world. This economic pattern has, over recent years, led to minimal market exposure of local exporting sectors. Recovering from a technical recession, experienced in the first half of the year, South Africa's real GDP recorded an overall growth of just 0.8% in 2018. Despite escaping full recession, domestic economic activities remain at low levels, after recording one of the highest quarterly declines during first quarter of 2019 (Q1 2019) and it is expected to continue struggling for the rest of the first half of the year.

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During 2018, major exporting sectors suffered the most as their respective economic productions contracted, while the economic activities for the importing sectors recorded a slight improvement. Agriculture and mining economic productions contracted by 4.8% and 1.7%, respectively. These two sectors together with manufacturing have recorded the highest declines in the Q1 2019, which could be due to policy uncertainties in the key sectors. South Africa's weak integration with global and regional value chains has restricted the country's exporting sectors from benefiting on economic opportunities driven by the recent global demand.

After shrinking by 3.2% during Q1 2019, South Africa's economic forecast is likely to be further downward revised to less than 1% for 2019. According to the National Development Plan (NDP), for South Africa to gain and sustain a decent export growth rate, the country's real GDP would need to grow by an average of 5.4% per annum. However, this looks unlikely in the short to medium term as South Africa's economic outlook points at an average of 1.5% over the next three years. The current economic outlook is expected to remain modest and insufficient to address the country's main challenges.

Adding to domestic economic growth uncertainties, is the anticipated slow global economic activities coupled with the escalation of US-China trade tensions, which is likely to have further adverse effects on South Africa's exporting sectors.

In the past financial year, a number of factors, including slow economic growth, had an adverse effect on a number of commodity volumes passing through the ports. During FY 2018/19, these commodity volumes experienced contractions compared to how they have performed in the previous financial year. The most affected commodities were break bulk and liquid bulk. With the anticipated persistent slow economic growth, coupled with some global uncertainties, it remains unlikely that the Authority will see any significant recoveries in volumes over the next two financial years or so. Liquid Bulk volumes are likely to remain at low growth levels, while other commodities are expected to improve.

All of these factors described above have an impact on various categories of cargo that traverse port infrastructure. The Authority's volumes are estimated as follows:

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Table 9: Authority's Volume Projection

Details	Actual	LE	%	Forecast	%	Forecast	%	Forecast	%
	2018/19	2019/20	Deviation	2020/21	Deviation	2021/22	Deviation	2022/23	Deviation
Container (TEUs)									
Deepsea Full: Imports	1 575 530	1 594 740	1%	1 622 247	2%	1 673 885	3%	1 729 645	3%
Deepsea Full: Exports	1 187 289	1 233 683	4%	1 271 845	3%	1 311 917	3%	1 349 935	3%
Transshipments	945 359	959 473	1%	965 741	1%	963 178	0%	947 591	-2%
Other	973 857	984 922	1%	1 014 714	3%	1 049 276	3%	1 079 531	3%
Total	4 682 035	4 772 818	2%	4 874 547	2%	4 998 255	3%	5 106 702	2%
Vehicles (Units)									
Vehicles: Imports	331 820	321 235	-3%	336 442	5%	345 771	3%	351 027	2%
Vehicles: Exports	345 368	362 347	5%	367 935	2%	340 680	-7%	393 928	16%
Other	45 603	40 475	-11%	35 722	-12%	38 545	8%	37 377	-3%
Total	722 791	724 057	0%	740 099	2%	724 996	-2%	782 332	8%
Break Bulk (Metric Tons)									
Break Bulk: Imports	1 970 324	2 331 862	18%	2 354 860	1%	2 395 518	2%	2 437 254	2%
Break Bulk: Exports	4 083 464	4 782 298	17%	4 910 071	3%	4 956 694	1%	4 956 877	0%
Other	158 763	129 846	-18%	133 683	3%	136 476	2%	139 356	2%
Total	6 212 551	7 244 006	17%	7 398 615	2%	7 488 688	1%	7 533 486	1%
Dry Bulk (Metric Tons)									
Coal Exports	76 427 842	82 212 000	8%	86 213 010	5%	88 214 030	2%	90 215 060	2%
Iron Ore Exports	55 689 242	56 170 000	1%	56 500 000	1%	56 500 000	0%	61 250 000	8%
Manganese Ore Exports	16 598 709	15 806 679	-5%	17 138 500	8%	17 317 150	1%	17 499 719	1%
Other Dry Bulk	30 683 401	34 277 696	12%	35 104 257	2%	36 769 620	5%	37 631 384	2%
Total	179 399 194	188 466 375	5%	194 955 768	3%	198 800 801	2%	206 596 163	4%
Liquid Bulk (kl)									
Petroleum	32 422 543	31 786 811	-2%	32 049 928	1%	32 634 535	2%	32 726 798	0%
Chemicals	2 320 966	2 533 197	9%	2 599 389	3%	2 618 665	1%	2 638 103	1%
Other Liquid bulk	6 334 683	5 988 103	-5%	6 168 871	3%	6 256 747	1%	6 347 419	1%
Total	41 078 193	40 308 110	-2%	40 818 188	1%	41 509 947	2%	41 712 320	0%

7.4.1 Containers

"World trade will continue to face strong headwinds in 2019 and 2020 after growing more slowly than expected in 2018 due to rising trade tensions and increased economic uncertainty. WTO expect merchandise trade volume growth to fall to 2.6% in 2019 — down from 3.0% in 2018. Trade growth could then rebound to 3.0% in 2020; however, this is dependent on an easing of trade tensions." (WTO: April 2019).

In recognition of the high degree of uncertainty associated with trade forecasts under current market conditions, the World Trade Organization (WTO) anticipates merchandise trade volume growth of 3.0% in 2020. The outlook is bleak due to continuing trade tensions running high. Global trade cannot be expected to play its full role in driving growth due to high levels of uncertainty around the aforementioned trade tensions.

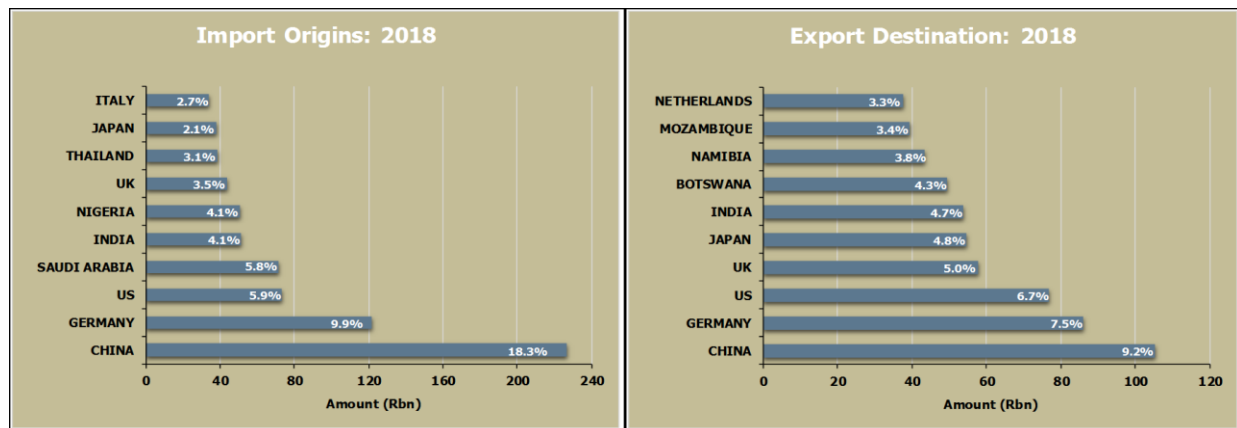
Assuming the current global outlook, WTO expects world merchandise trade volumes to increase in 2020 supported by a slightly higher growth in developing economies in both exports (3.7%) and imports (3.9%). According to the WTO projections, developed countries are expected to see slightly lower growth for both the export side (2.5%) and the import side (1.9%) in 2020. Thus developing countries are somehow still expected to benefit from the current economic conditions.

As the Authority's container volumes are affected by the global economic outlook, the global merchandise trade projections discussed above is expected to have an impact an adverse the Authority's volumes.

The full picture on the Authority's container business is informed and impacted on by growth prospects of the trading partners and countries that do business with the Republic of South Africa ("RSA"). The continued trade improvements also depends on the trading partners governments pursuing appropriate monetary, fiscal and trade policies. Figure 3 highlights SA's main trading partners, as developments in these countries will have a significant impact on container prospects in SA.

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Figure 4: South Africa's main trading partners in 2018 (Source: Department of Trade and Industry)



The current forecasts by the WTO are mainly based on the current global economic conditions with the hope of seeing improvements in trade tensions. Considering the current lower than expected economic growth, coupled with the poor domestic economic conditions, the Authority expects container volumes to grow by 2% in the FY 2020/21.

7.4.2 Automotives

Economic outlook is forecasted to remain bleak in most major advanced economies. In line with this forecast, South Africa's economic growth is also anticipated to remain at its lowest levels, in the short-term. Slow economic developments, amid trade tensions between the USA and China, and the 'no-deal' withdrawal by Britain from the European Union (EU), are bound to cause further delays for potential new trade settlement deals. Despite these factors the global automotive market outlook remains positive in the short-term.

South Africa's automotive market has benefited from the relatively strong global demand. Automotive exports rebounded by 6.8% in 2018, which represented a significant recovery from a contraction of approximately 19% experienced in 2017. On the other hand, domestic sales have contracted, reflecting subdued economic development, low consumer and business confidence levels and declining household disposable income. In anticipation of improved economic growth for 2019, better performance in terms of local new vehicle sales is expected, with the export side also expected to improve. Once the revised Automotive Production and Development Programme (APDP) is effected as planned, industry vehicle production levels will be expected to benefit from export sales.

Despite South Africa's current low economic performance, the Authority experienced a significant increase in vehicle volumes passing through its ports in the past financial year. The overall Automotive volumes increased by 4.4% in FY2018/19. Over the next four financial years, the Authority anticipates that automotive volumes, passing through its ports, will increase on average by 2.1%. The Authority's targets illustrate that Automotive volumes will slightly improve by 0.2% in FY2019/20 with exports increasing by 5.0%, and imports declining by 3.2%. It is further anticipated that these volumes will gain some recovery in FY2020/21 (2.2%), before contracting by 2.0% in FY2021/22. A substantial increase of 8.0% is targeted for FY2022/23, with significant growth for automotive exports of 16%, due to the anticipated full implementation of the revised APDP.

7.4.3 Break Bulk

Projected cargo volumes of key commodities for the break-bulk sector from clients in the oil, gas, and mining sectors is dependent on global economic performance. Despite current uncertainty in the sector, trade demand is expected to improve as the trade war between China and the United States of America recedes further (with the USA and China tentatively agreeing to a truce). Metals and Mineral prices have increased marginally in the first quarter of 2019. Overall the prices reflected supply concerns, progress in trade negotiations between the United States and China, and fiscal stimulus in China. The break bulk sector is forecasted to improve marginally, from 2019 to 2020, due to the slightly rising project cargo demand/traffic. Overall, the Authority expects volume growth for the breakbulk sector to increase marginally by 2% in FY 2020/21, before slowing to a 1% increase in FY 2021/22.

7.4.4 Coal

Coal consumption faces long-term structural changes in several consuming regions for both economic and policy reasons. China, the world's largest coal consumer, is investing in cleaner energy sources, reforming its electricity sector to reduce inefficient production, and reducing the energy intensity of its economy, all at the expense of coal. Policies implemented by China, to address environmental issues and overcapacity in the coal industry paints a bleak picture for coal exports and coal prices for FY 2020/21. However, higher demand for thermal power generation may continue to support increased demand for seaborne coal imports into China. Contrary to the developments in China, domestic production in India has played a major role in determining seaborne import demand and the momentum is expected to grow in FY 2020/21.

It is worth noting that Indonesia is the biggest exporter of coal to India, followed by South Africa and Australia. However, Indonesian coal exporters are expected to face challenges with the Indonesian coal producers being obligated to provide around 25% of their production to the domestic market. According to Fitch Solutions, South Africa has been cited by Indian mining and industrial companies as the alternative supplier, as Indonesia's coal is of poor quality, and extraction costs in Australia are high. The challenges facing Indonesia and Australia should translate into a positive outlook for the South African coal exports to India. In essence, India is expected to drive the coal export growth in the upcoming years. Against these developments, the Authority's coal export volumes for FY 2020/21 is expected to grow by approximately 5%.

7.4.5 Iron Ore

Iron ore and manganese trends closely follow the steel trends. Global iron ore prices are projected to increase by 11.4% in 2019. Iron ore prices increased sharply by approximately 16.2 % during Q1 2019, which is higher than the 13% increase observed during Q1 2018. The increase in price was mainly due to production/supply disruptions in Brazil (iron ore production disrupted due to the Tailings Dam disaster in which a mining dam collapsed and unleashed a tidal wave of waste and mud that engulfed homes, businesses and residents in its path). In Australia, BHP and Rio Tinto's production were impacted by tropical cyclone Veronica, and iron ore shipments have been disrupted due to a fire at the latter's export terminal.

With the implementation of the new Chinese fiscal stimulus program, steel use in China could be strengthened which may lead to greater demand for iron ore in China. Despite the possible increase in

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the iron ore prices, some downside risks are envisaged, such as the renewed tightening of environmental policies in China that may reduce/restrict steel production.

Whilst prices recovered in the beginning of 2019, they are expected to reflect a declining trend from 2020 onwards, which may once again force diversification among other mining producers. Iron ore prices are forecast to drop from \$75/tonne in 2019 to \$48/tonne by 2028¹, underpinned by a waning Chinese demand.

South African iron ore production contracted marginally by 0.1% over 2018 as prices decreased on a yearly basis. However, South African iron ore production should possibly rebound slightly in 2019 to reach 83.4mnt, up from 81mnt in 2018 as prices rise on a yearly basis. Iron ore prices in South Africa are expected to average \$75/tonne in 2019, up from \$66/tonne in 2018, and then progressively drop in the coming years, reaching \$57/tonne by 2023, as Chinese demand wanes.

The Authority forecasts a 1% volume growth in iron ore volumes for FY 2020/21 and a possible static trend for the FY 2021/22.

7.4.6 Manganese Ore

Chinese steel demand continues to decelerate as the combined effect of economic rebalancing and trade tension is leading to slowing investment and sluggish manufacturing performance. The Chinese government's interventions cushioned the economic slowdown in 2018. In 2019, the Chinese government is likely to heighten the level of interventions, which is expected to boost steel demand. Thereafter, a minor contraction in Chinese steel demand is forecasted as the effects of the interventions are expected to subside.

The Authority forecasts an 8% growth in manganese ore volumes for FY 2020/21.

7.4.7 Liquid Bulk

South Africa's fuel demand has remained under pressure over the recent years due to a combination of both international and domestic factors. These factors include high crude oil prices, low economic growth and the weak Rand/Dollar exchange rate. However, domestic fuel demand slightly improved by 0.1% in 2018 after two years of consecutive decline. Despite this performance, it remains unlikely to see any significant improvement for the country's fuel demand in the short to medium term as the local economic outlook remains at low levels. Furthermore, crude oil prices are forecast to remain at above US\$65/bbl coupled with some uncertainties amongst oil major producing countries and escalating trade tensions between the USA and China. The domestic currency exchange rate is anticipated to remain at weaker levels, averaging at R15/US\$ for the remainder of 2019.

Volumes of liquid bulk passing through the Authority's ports have mostly suffered over the years with the recent contraction of 6.8% recorded in FY 2018/19. In the short-term, the country's persistent low fuel demand is expected to continue to have adverse effects on the volumes of liquid bulk imported through the Authority's port system, hence the moderate forecast for the next two years. Despite the challenges, the Authority is projecting to grow liquid bulk volumes by 1.3% in FY2020/21. This will further improve to 1.7% in FY2021/22 as petroleum is expected to gain some momentum.

¹ Forecast by Fitch Solutions Mining Report

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According to the Chemical Industries Education & Training Authority (CHIETA), the South African basic chemicals sector and other chemicals sectors are expected to grow by approximately 0.6% and 1% respectively in the years 2020 and 2021. The situation may change if the Industrial Policy and Action Plan (IPAP) materializes, with one of its focus areas being to develop the chemical and related sectors. The chemicals industry is, however, dependent on imports, which makes it vulnerable to global economic changes such as competition from rapidly growing chemical producers like China and India, and the exchange rate fluctuations. Given the current struggling domestic economy and demand, the Authority expects chemicals volumes to increase by 3% in the FY2020/21. Government’s commitment to prioritise sectors with potential growth such as chemicals, bodes well and is strategically aligned with the Authority’s projections.

Other liquid bulk volumes are projected to rebound from negative growth by increasing to 3% in FY2020/21. This increase is expected to be driven by imports in vegetable and animal oils, and sunflower seed oil.

7.5 Marine Services

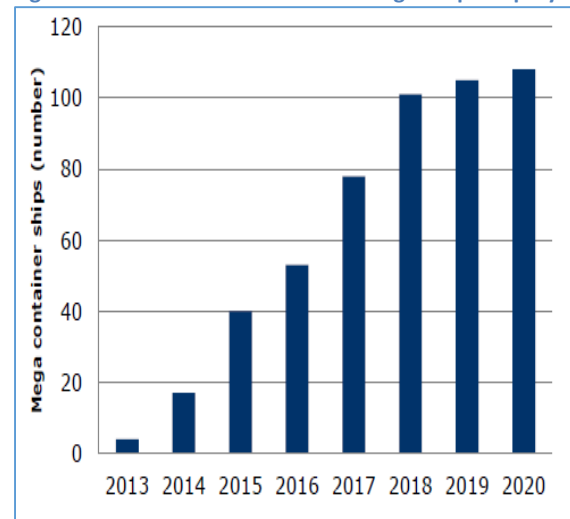
Marine volumes comprise of the number of vessels arriving at SA ports and their associated Gross Registered Tonnage (GRT). The revenue in this category is influenced by the average vessel size and ship turnaround time. When the average number of calls decrease as larger vessels call into the Authority’s ports, a trend, which has emerged recently, revenue remains relatively static despite growing cargo volumes. Lesser vessel calls with longer stays attract additional charges, however, this is not a substitute for revenue earned from more frequent vessel calls with shorter stays.

Globally, the impacts of the new wave of container vessels are starting to become visible with shipping companies continuing with orders of mega ships (a mega-ship is defined as a ship with a capacity of 18 000 TEUs or more). According to the International Transport Forum (ITF), around 50 mega-ships were operational in the beginning of 2017; more than double that amount of mega-ships is predicted to be available and operational in 2020. Figure 5 and Figure 6 highlight the number of mega vessels being built as well as the evolution of mega vessels respectively.

Figure 5: New built orders of containerships (2015-18)



Figure 6: Evolution of number of mega-ships deployed

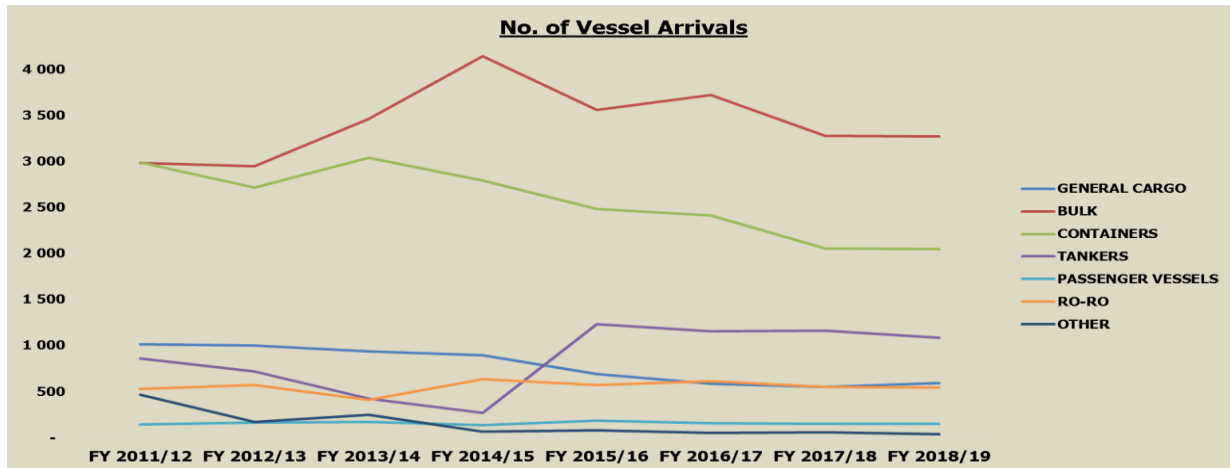


Source: ITF 2018

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Figure 7 below presents TNPA historic number of vessel arrivals until the FY2018/19.

Figure 7: Port vessel calls



A closer look at the vessel movements over the past three years indicates the following:

- The Authority has been experiencing a downward trend in the number of vessel calls. This is due to larger vessels consolidating cargoes across many ports and major hubs. Specifically, liner shipping carriers take advantage of mergers and acquisitions, alliances and the use of larger ships to achieve both scale of economies and greater market power so as to increase income and profits.
- The larger the carrier or alliance, the larger the influence it can have on a port. The threat that a carrier could divert its vessel means a shipping line can effectively eliminate a port’s position in global trade. As a result, to benefit from the process of concentration in liner shipping, SA ports must ensure that port infrastructure and water depth is adequate for bigger vessels. This will result in ports becoming major hubs, creating transshipment opportunities and remaining competitive within the global supply chain network.
- The slightly lower global and domestic economic outlook for the FY2020/21 has potential to translate into relatively lower vessel calls and somehow affect marine revenue negatively.

The vessel traffic is demand-driven as it depends on growth in volumes per cargo commodity. The current outlook for economic activity is moderate to low. However, with the expected slight volume increase in containers, RoRo’s, dry bulk and liquid bulk cargo categories for FY 2020/21, marine services activity is expected to decrease by 1%.

8. Tariff Application Approach

8.1 Revenue Requirement Formula

The RR approach is as per the “Port Tariff Methodology for Tariff Years 2018/19 - 2020/21”, dated March 2017, which forms the basis upon which the Regulator will determine the appropriate revenues for the Authority. For the purpose of this application, the indicative tariff years of FY 2021/22 and FY 2022/23 has been modelled on the basis of the 30 March 2017 Tariff Methodology as the new Methodology is not yet finalised. The formula as prescribed is as follows:

Revenue Requirement

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

The application of this formula is demonstrated in the sections that follow.

8.1.1 Regulatory Asset Base

Methodology for the valuation of the Authority’s RAB

According to the ROD, the Regulator stated that it will “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 determination of the RAB in the tariff application for FY 2020/21 has therefore been prepared on the TOC Methodology, with each asset class or category, depreciated according to its associated useful life.

Asset Base

The RAB represents the value of assets that the Authority is allowed to earn a return on and is based on the approved Tariff Methodology.

The formula for the determination of the value to be allowed in the RAB for the tariff period as per the approved tariff methodology is as follows:

$$\begin{aligned}
 RAB_y &= \frac{1}{2} [RAB_{c,y} + RAB_{o,y}] + w_y \\
 RAB_{c,y} &= RAB_{o,y}(1 + CPI_y) + CWIP_y \cdot (1 + CPI_y) - D_y
 \end{aligned}$$

Where:

RAB_y	=	value of the RAB used to determine the returns for the period y
$RAB_{o,y}$	=	opening value of RAB for the period y
$RAB_{c,y}$	=	closing value of RAB for the period y
w_y	=	forecast average net working capital over period y
$CWIP_y$	=	value of expected capital investment over the period y
D_y	=	depreciation allowance for assets over the review period y
CPI_y	=	annual rate of general inflation expected over the period y

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In order to determine the value of the RAB, the Authority has developed a Fixed Asset Register (FAR), which is essentially a list of all used and useful assets owned by the Authority. The FAR considers assets, on a line by line basis, that have been capitalised since 1990. In line with the Tariff Application ROD for FY 2019/20, the assets are trended and depreciated, annually. The FAR further accounts for assets acquired, disposed-off and transferred in and out of the Authority.

Depreciation

Depreciation for existing assets has been determined based on the useful life of each asset whilst depreciation for Capital Works in Progress (CWIP)/Capital Expenditure has been considered based on the average useful life of 40 years. This results in a depreciation expense of R2 331m for FY 2020/21, R2 369m for FY 2021/22 and R2 465 m for FY 2022/23.

8.1.1.1 Inflation Trending

The Tariff Methodology prescribes the use of the CPI for the tariff period based on the latest forecast published by the National Treasury or alternatively the Bureau of Economic Research (BER) inflation forecast for the purposes of trending the RAB. The Authority has utilised the latest forecasts published annually by the BER (Source: BER July 2019).

8.1.1.2 Capital Works in Progress/ Capital Expenditure

The formula for determination of the RAB includes CWIP/Capex. Capex refers to capital works in progress for assets that are under construction. Capex is informed by the Capex program which is projected at R3 872m for FY 2020/21, forecasted at R4 921m for FY 2021/22 and R6 630m for FY 2022/23. Detailed information relating to capital expenditure is demonstrated in **Annexure B: Capital Expenditure**.

8.1.1.3 Working Capital

In line with the Tariff Methodology, net working capital is to be included in the RAB and is determined as follows:

Table 10: Working Capital

Working Capital	2018/19	2019/20	2020/21	2021/22	2022/23
Indexation					
Volume Growth		2.00%	1.31%	1.31%	1.31%
Inflation		5.40%	5.00%	5.10%	4.80%

AFS 2018/19 - rolled forward to FY 2019/20	R'm	R'm
Current Assets		
Trade receivables	642	655
Inventories	43	45
Current Liabilities		
Trade Payables (including VAT liability)	2 435	2 566

Working Capital Calculation for FY 2019/20 - FY 2021/22	R'm	R'm	R'm
	2020/21	2021/22	2022/23
Current Assets	711	722	733
Trade receivables	663	672	681
Inventories	48	50	52
Current Liabilities	3 017	3 242	3 521
Trade Payables (including VAT liability)	2 695	2 832	2 968
CWIP Payables (1/12)	323	410	553
Working Capital	-2 306	-2 520	-2 787

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8.1.2 Weighted Average Cost of Capital

in accordance with the Port Directives, the weighted average cost of capital represents an estimate of a return commensurate with the risk of owning, managing, controlling and administering ports and providing port services and facilities,. The rate of return is determined on a real basis with a weighted average cost of debt and cost of equity.

The key components used to determine the Vanilla WACC are highlighted in the table below.

Table 11: Weighted Average Cost of Capital (WACC)

REAL RATE OF RETURN	2020/21	2021/22	2022/23
Inflation forecast	5.00%	5.10%	4.80%
Nominal Risk-free rate	8.79%	8.79%	8.79%
Real risk free rate	3.61%	3.51%	3.81%
MRP	5.31%	5.31%	5.31%
Asset beta	0.50	0.50	0.50
Equity beta (using Hamada)	0.92	0.92	0.92
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	15.08%	15.08%	15.08%
Real Cost of equity (post-tax)	8.52%	8.42%	8.71%
Real WACD (pre-tax)	5.57%	5.47%	5.77%
Real Vanilla WACC	7.04%	6.94%	7.24%
Explanatory notes:			
<i>Risk Free Rate: KBP2003M, calculated over a five yearly average from June 2014 to May 2019 for FY 2020/21</i>			
<i>MRP: Geometric mean with the use of the DMS studies over the full period available dataset (118 years)</i>			
<i>Inflation: BER Forecasts</i>			
<i>Cost of Debt: NPA's actual, embedded (adjusted for an effective weighting) debt costs</i>			
<i>FY 2020/21 MRP figure is used as a proxy for MRP for indicative years FY 2021/22 & FY 2022/23</i>			

The RFR is calculated over a five yearly average from March 2014 to February 2019 for FY 2020/21 from Government bonds (KBP2003M). The RFR is not available for FY2021/22 and FY2022/23. For projection purposes the nominal RFR of 8.79% for FY2020/21 has been utilized.

8.1.3 Valuation of the RAB

The opening RAB for FY 2019/20 is highlighted in Table 11 as follows:

Table 12: Opening Regulatory Asset Base

Opening Regulated Asset Base	2019/20	2020/21	2021/22
	R'm		
Opening NBV 01 April	69 881	73 170	78 388
Indexation	3 814	3 678	3 832
Depreciation	-2 279	-2 331	-2 369
Capex	1 754	3 872	4 921
Closing NBV 31 March	73 170	78 388	84 773

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The valuation of the RAB is highlighted in Table 13 as follows:

Table 13: Regulatory Asset Base

REGULATORY ASSET BASE	2020/21	2021/22	2022/23
	R'm		
Opening book value	73 170	78 388	84 773
Inflation Index	3 581	3 707	3 557
Indexed Opening Asset Base	76 751	82 095	88 330
Indexation of Capex	97	125	159
Indexed Asset Base	76 848	82 221	88 489
Add :Capex Latest Estimate	3 872	4 921	6 630
Depreciation	-2 331	-2 369	-2 465
Closing Book Value	78 388	84 773	92 653
Average Asset Base	75 779	81 581	88 713
Less :Working Capital	-2 306	-2 520	-2 787
Regulated Asset Base	73 473	79 060	85 926

8.1.4 Taxation

The RR formula considers the equitable tax rate in determining the tax expense for the Authority. In line with the Tariff Methodology, the equitable tax rate is determined as the average over five (5) years. A segmental financial report which considers the profit before tax contribution for the Operating Divisions of Transnet is utilized to determine the equitable tax rate. The effective rate is calculated as a ratio of the Transnet taxation liability due under the current corporate structure. The calculation of the equitable tax is as follows:

Table 14: Equitable Tax calculation

Details	5 Years Total
Total Profit Before Tax	29 533
Total Profit Making Divisions	54 850
Equitable Tax = (Total Profit before tax / Total profit making divisions) * 28%	15.08%

Application of the Tariff Methodology, results in the Authority determining a tax allowance on the equity portion of the return, only. Depreciation, operating expenditure and interest expense are considered as tax deductible expenses. Any under or over recoveries between the five (5) year average estimated equitable tax rate and the actual equitable tax rate determined from the recent Transnet Annual Financial Statements (Transnet AFS) will be clawed back.

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The calculation for tax is illustrated as follows:

Table 15: Tax Calculation

Taxation	2020/21	2021/22	2022/23
Equity Return	3 128	3 327	3 743
Depreciation	2 331	2 369	2 465
Opex	6 149	6 769	7 414
Gross income	11 608	12 465	13 623
Depreciation	2 331	2 369	2 465
Opex	6 149	6 769	7 414
Total Deductions	8 480	9 138	9 879
Taxable Income	3 128	3 327	3 743
Grossup factor	0.85	0.85	0.85
Grossed up taxable income	3 684	3 918	4 408
Tax @ 15.08%	555	591	665

8.1.5 Operating Costs

The Authority's Operating Costs (Opex) is a reflection of the organisation's expenditure, required, amongst others, to sustain its day to day operations; as well as support its strategic initiatives aimed at improving productivity, efficiency and enhancing port safety. Consequently, most of the Authority's operating costs are largely of a fixed nature.

The cost elements contributing significantly to the total operating expenditure includes Labour Costs, Energy, Maintenance, Rates & Taxes, Sundry Operating costs, Computer & Rental and Pre-Feasibility Studies.

The table below highlights the Authority's Operating Expenditure ("Opex"). The Authority's total Opex for FY 2020/21 is made up of R 5 668 and an allocation of R 481m from Group overhead costs.

Table 16: Operating Costs Including Group Costs

Cost Category	Actual 2018/19 R Million	LE 2019/20 R Million	Forecast 2020/21 R Million	Dev '19/20 vs 20/21 R Million	Dev '19/20 vs 20/21 Percentage	% of Opex 20/21	Forecast 2021/22 R Million	Forecast 2022/23 R Million	CAGR 2020/21 - 2022/23
Labour Costs	2 383	2 634	3 120	486	18%	55%	3 476	3 840	11%
Rates & taxes	375	392	429	37	9%	8%	475	511	9%
Maintenance	285	455	508	53	12%	9%	582	656	14%
Contract Payments	38	21	23	2	8%	0%	25	26	7%
Energy	534	603	706	103	17%	12%	777	874	11%
Professional services	29	52	54	2	5%	1%	57	61	6%
Material	82	95	117	22	23%	2%	128	142	10%
Computer & Info systems	130	215	226	11	5%	4%	247	263	8%
Rental	50	64	70	6	10%	1%	76	80	7%
Security costs	102	107	107	1	1%	2%	117	126	8%
Pre -Feasibility Studies	43	112	155	43	39%	3%	134	134	-7%
Sundry operating costs	80	133	152	19	14%	3%	171	177	8%
Total operating cost (excluding depreciation)	4 130	4 883	5 668	785	16%	100%	6 265	6 890	10%
Group Costs	384	487	481	(6)	-1%		503	524	4%
Total operating cost (Including Group Costs)	4 514	5 370	6 149	779	15%		6 769	7 414	10%

More details relating to Opex is provided in **Annexure D**.

8.1.6 Revenue Claw-back

In line with the approved Tariff Methodology, the claw-back mechanism is a tool used to manage excess or inadequate revenues realised as a result, inter alia, of incorrect forecasting, inaccurate information and system shocks. It aims to ensure that the Authority and port users are fairly treated and not subjected to unfair gains or losses.

8.1.6.1 Re-computed Claw-back FY 2018/19

The actual revenue for FY 2018/19 is R12 450m as per the AFS. The calculation of the claw-back is illustrated in the Table below.

Table 17: Re-computation of RR for FY 2018/19

CLAWBACK	2018/19	2018/19
	ROD	Actuals
	R' m	
Return on asset	5 134	5 425
Depreciation	2 099	2 112
Opex + Group Costs	5 938	4 514
Tax	682	580
Clawback	-1 779	-1 779
ETIMC	345	345
Revenue Allowed/Actual Revenue	12 419	11 198
AFS Revenue		12 450
Clawback		-1 252
Clawback as per above		-1 252
Contract Revenue		-128
Reverse FY 2018/19 Clawback taken in FY 2019/20		136
Estimated Clawback for FY 2019/20 (50%)		115
Plus return on clawback account for FY 2019/20 @ 6.80% RoR		-89
Net Clawback		-1 219

The net clawback determined is R 1 219m, in favour of port users and is calculated as follows:

- Firstly, the recomputed revenue of R11 198m is compared with the actual revenue of R12 450m, as stated in the AFS, results in a clawback in favour of port users to the value of **R1 252m**;
- Secondly, the revenue relating to bilateral contracts, that is not allowed by the Regulator, determined as **R128m**, is added to the aforementioned computed clawback;
- Thirdly, the clawback calculation considers the reversal of the interim clawback (which was favourable to Port Users), amounting to **(R136m)**, provided for in FY 2018/19;
- Fourthly, the estimated clawback for FY 2019/20, in favour of the Authority, is calculated at **R115m**; which represents 50% of the projected under-recovery for FY 2019/20; and
- Lastly, the interest on the clawback account is computed at **R89m** (calculation based on last approved WACC of 6.80%).

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8.2 Revenue Requirement

The Revenue Requirement is determined in accordance with the Tariff Methodology and further considers the best available information, assumptions and parameters.

Table 18: Revenue Requirement from FY 2020/21 to FY 2022/23

DETAILS	2019/20	2020/21	2021/22	2022/23
	ROD	Fixed Tariff Year	Indicative Tariff Years	
	R'm	R'm		
RAB	69 732	73 473	79 060	85 926
Vanilla WACC	6.55%	7.04%	6.94%	7.24%
Return on Capital	4 570	5 175	5 489	6 223
Plus: Depreciation	2 074	2 331	2 369	2 465
Plus: Operating Costs	6 291	6 149	6 769	7 414
Plus: Taxation Expense	509	555	591	665
Plus/Less: WEGO	-	154	-	-
Plus/Less: Clawback	-1 419	-1 219	115	-
Plus/Less: ETIMC	539	-	-	-
Revenue Allowed	12 563	13 145	15 333	16 767
Less: Real Estate	3 284	-3 548	-3 839	-4 132
Marine Revenue	9 279	9 597	11 494	12 635

The Authority determined a required revenue of R13 145m comprising of Marine Business revenue of R9 597m and Real Estate Business revenue of R3 548m for FY 2020/21. Indicative required revenues for FY 2021/2022 and FY 2022/23 are R15 333m and R16 767m respectively.

Volume growth for FY 2019/20 of 1.31% is determined per Table 19 below.

Table 19: Revenues related to volume growth (FY 2020/21)

REVENUE	FY 2019/20	FY 2020/21		
	Revenue LE	Weighted Average Revenue Volume Increase	Revenue: Volume Increase	Revenue: Before Tariff Increase
	R'm	%	R'm	R'm
Containers	3 882	2.0%	77	3 958
Break Bulk	198	2.3%	5	203
Dry Bulk	1 253	3.3%	41	1 294
Liquid Bulk	719	1.3%	10	729
Automotive	353	3.9%	14	367
TOTAL CARGO DUES	6 406	2.3%	146	6 552
Marine & other revenue	2 633	-1.0%	-27	2 606
TOTAL TARIFF BOOK REVENUE	9 039	1.31%	118	9 158
Real Estate revenue	3 293	0.4%	14	3 307
TOTAL REVENUE	12 332	1.1%	133	12 465

Table 20 below illustrates the required tariff adjustment taking into account the projected volume growth of 1.31% for FY 2020/21 and assumed volume growth of 1.31% for each of the following two (2) years:

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Table 20: Marine Revenue for FY 2020/21 to FY 2022/23

MARINE REVENUE	2020/21	2021/22	2022/23
	Fixed Tariff Year	Indicative Tariff Years	
	R'm		
Prior Year Revenue	9 039	9 597	11 494
Estimated Volume Growth	1.31%	1.31%	1.31%
Revenue after volume growth	9 158	9 723	11 645
Required Revenue	9 597	11 494	12 635
Tariff Increase	4.80%	18.22%	8.50%

In summary, the Authority has determined a required revenue of R13 145m comprising of marine revenue of R9 597m and Real Estate revenue of R3 548m for FY 2020/21. This translates to a weighted average tariff adjustment of 4.80% for FY 2020/21.

The indicative tariff adjustments for FY 2021/22 and FY 2022/23, based on a similar volume growth rate, of 1.31% are 18.22% and 8.50% respectively

8.3 The Tariff Strategy

The approved (31 July 2015) tariff strategy sets out the strategic direction for the SA port system, in order to provide port users and stakeholders with a clear view of the port tariffs over the next couple of years. Included in the tariff strategy are guiding principles for setting base tariffs for different cargo categories and port users. Most importantly the port industry has opted for a progressive tariff strategy that establishes an appropriate level of tariffs that reflects the underlying costs, based on use and benefit. Essentially, implementation of the tariff strategy will result in some cargo dues categories increasing, with other categories such as Containers and Automotives decreasing.

The underlying principle of the tariff strategy is the user pay principle where cost based tariffs are formulated as guided, by the asset cost allocations on the next page.

8.3.1 Asset Cost Allocations

In the Tariff Strategy, the Regulator follows a coherent cost infrastructure model that considers the allocation of assets in the similar manner prescribed by the Authority. The Regulator's Tariff Strategy for the SA ports is premised on the following principles:

- **Cost causation:** To provide port users with the correct pricing signals when utilising port facilities;
- **Cost minimisation:** An approach seen to minimise costs;
- **Distribution of benefits:** To achieve equity and reasonability between causers and beneficiaries of costs; and
- **Practicality:** For practicality and ease of implementation of Tariff Strategy.

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Furthermore in the allocation or attribution of the cost of port assets, the Regulator takes into consideration which user classes depend more on a particular asset type and the extent to which they would be affected if the infrastructure did not exist. Therefore, in considering where the burden of this asset class allocation should be, the Regulator also looked at the activities of the different users and the benefit they derive there from. The Regulator has categorised port users as follows:

- Shipping Lines
- Cargo Owners
- Terminal operators (and all cargo working lessees)
- All other lessees in the port system

The general underlying logic is that the seaward side benefits mostly shipping lines and cargo owners, while the interface benefits mostly shipping lines and tenants, and the landward side benefits mostly tenants.

As per the Tariff Strategy, Figure 8 that follows identifies the key port assets and allocates these assets to user groups in order to determine a more equitable share of infrastructure and cost sharing between the broad groups.

Figure 8: Ports Regulator's Asset Allocations

Port User Asset Class	Lessees	Terminal Operator	Cargo Owners	Shipping Lines
Breakwaters	33% shared on a NBV basis		33%	33%
Channels, Fairways, basins			50%	50%
Quay walls, berths and jetties		50%		50%
All ship working vessels and aids to navigation				100%
Vessel repair infrastructure	40%	15%	15%	30%
All movable NPA assets, buildings and structures (not part of lease agreements) and unused land	50% shared on a NBV basis		25%	25%
Terminal land and staging areas		100%		
Non-Terminal Land including recreational and yachting	100%			
All common access infrastructure	66% Shared on a NBV basis		33%	
Overheads	50% shared on a NBV basis		25%	25%

This pricing structure which is cost reflective is envisaged to be phased-in over a period of at least 10 years and the Regulator has highlighted the following factors for a prolonged implementation period to be accommodated:

- Contractual agreements and binding leases prevents the Regulator from changing tariffs too quickly;
- Large shifts in tariffs may lead to unintended consequences and as such, a more gradual approach is favoured; and
- The cost structure of the port system by its very nature changes and evolves over time.

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The phased approach, as envisaged by the Regulator, will lead to the following tariff increase over the envisaged 10 year period:

- **Cargo Owners:** - 5.2% real price decrease on an annual basis;
- **Shipping Lines:** 7.2% real price increase on an annual basis; and
- **Tenants:** 2.8% real increase on lease revenue on an annual basis.

The change in the valuation approach of the Authority’s RAB, which commenced last year, will impact on the projected Tariff Strategy outputs. The approved Tariff Strategy will therefore need to be aligned to the revised cost structures and this discussion has commenced with the Regulator. Whilst the end tariffs are expected to be different, the tariff trajectory directions of the various tariff categories are expected to remain the same. On this basis, the Authority proceeds to propose differentiated tariff adjustments in accordance with the approved Tariff Strategy.

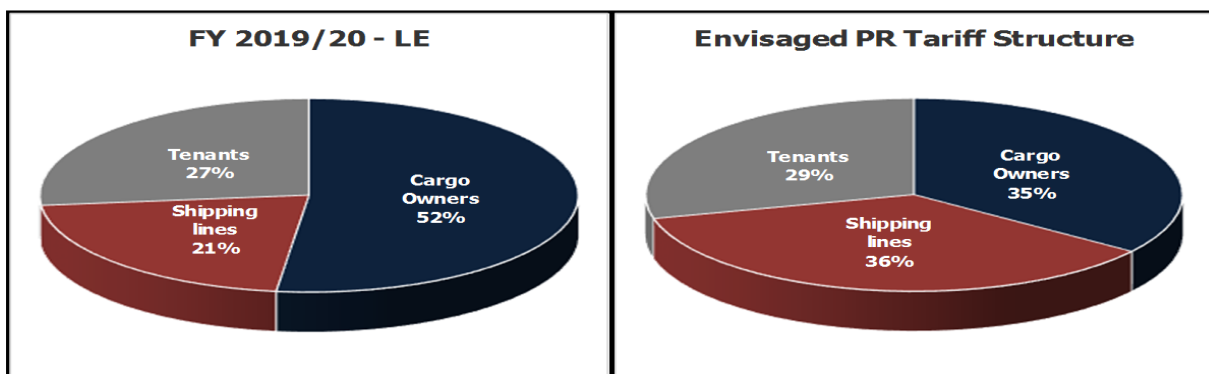
The continued implementation of the tariff strategy requires consistently higher tariff increases for marine services in the foreseeable future with a declining pattern of tariffs in cargo dues, applicable to cargo that goes over the quay.

8.3.2 Tariff Book Proposal for FY 2020/21

The tariff strategy is intended to guide the annual setting (or revision) of port tariffs and charges. After the determination of the required revenue for FY 2020/21, the differentiated tariff adjustments for cargo dues are formulated in line with the tariff strategy. In aligning the tariffs to the tariff strategy (which is an exercise expected to be finalised in the medium to long term), the impact (i.e. feasibility and affordability) of these adjustments are considered for each user group; whilst also ensuring that the Authority remains revenue neutral.

The transition to the Regulator’s tariff strategy is depicted in figure 9 below.

Figure 9: Transition to the Regulator’s Tariff Strategy



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8.3.2.1 Cargo Dues

The Tariff strategy prescribes that cargo owners should contribute 35% of the revenue stream, whilst Shipping Lines and Real Estate/Tenants should contribute 36% and 29%, respectively.

8.3.2.2 Shipping Lines

In the review of tariff lines for Marine Services, the vessel owners are required to contribute partially for breakwaters, channels, fairways, basins, quay walls, berths, jetties, all ship working vessels, aids to navigation, vessel repair infrastructure, as well as assets not earning lease revenue and overheads. These allocations increase the revenue contribution required from Marine Services to approximately 36%.

8.3.2.3 Real Estate /Tenants

The real estate revenue category contributes appropriately to the envisaged revenue contribution, in accordance with the tariff strategy.

8.3.2.4 Differentiated Tariff Proposal

As guided by the Tariff Strategy, the Authority's proposed tariff differentiation is highlighted in Table 21 below.

Table 21: Differentiated Tariff Approach results

REVENUE	FY 2019/20	FY 2020/21				
	Revenue LE	Weighted Average Revenue Volume Increase	Revenue: Volume Increase	Revenue: Tariff Increase	Weighted Average Revenue Tariff Increase	Projection
	R'm	%	R'm	R'm	%	R'm
Containers	3 882	2.0%	77	59	1.50%	4 018
Break Bulk	198	2.3%	5	10	5.00%	213
Dry Bulk	1 253	3.3%	41	75	5.80%	1 369
Liquid Bulk	719	1.3%	10	36	5.00%	765
Automotive	353	3.9%	14	6	1.50%	373
TOTAL CARGO DUES	6 406	2.28%	146	187	2.85%	6 738
Marine & other revenue	2 633	-1.0%	-27	253	9.70%	2 859
TOTAL TARIFF BOOK REVENUE	9 039	1.31%	118	439	4.80%	9 597
Real Estate revenue	3 293	0.43%	14	298	9.00%	3 548
TOTAL REVENUE	12 332	1.07%	133	737		13 145

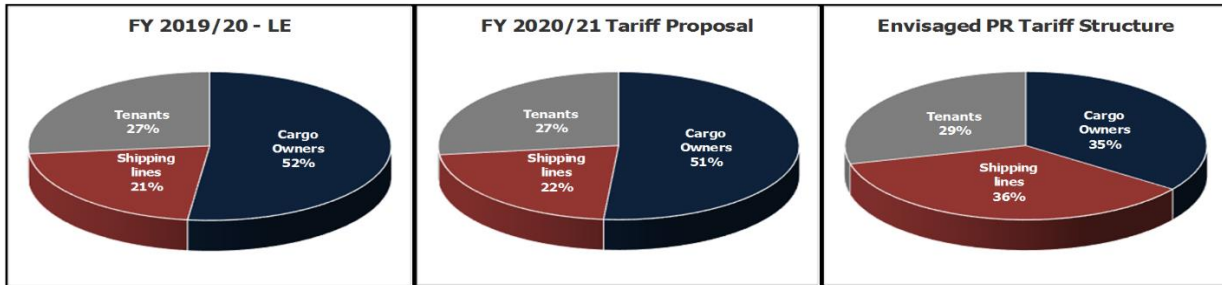
In summary, the Authority proposes the following tariff differentiation:

- Tariff increase of 9.70% on Marine charges (shipping lines);
- An average of 2.85% increase in Cargo Dues differentiated as follows:
 - 5.00% on Liquid Bulk and break bulk cargoes;
 - 1.50% on Containers;
 - 1.50% on Automotives;
 - Dry Bulk Cargoes differentiated as follows:
 - Coal to increase by 7.4%;
 - Ores and Minerals: Magnetite to increase by 7.4%; and
 - Other Dry bulk to increase by 5.00%.

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The result of the proposed tariff differentiated adjustments is depicted in the following diagram:

Figure 10: Transition to the Regulator's Tariff Strategy



Whilst the contribution by tenants does not shift, cargo owners and shipping lines see a 1% shift toward the envisaged tariff structure.

8.4 An update on clauses in the Tariff Book

The tariff book is a document that contains all the tariffs that are payable by port users for the use of facilities and/or services offered by the Authority. The tariff book includes all the terms and conditions the cargo dues and marine service charges applicable on each service or port infrastructure utilised in the port. The tariff book is therefore subject to change with each tariff application and resultant ROD. In order to ensure alignment with the tariff strategy and that the cost recovery and user pay principles are given effect to, the tariff terms and conditions are reviewed, on an annual basis. It has become evident that some terms and conditions require urgent enhancements. These enhancements include definitions, exemptions and most importantly business processes and documentation (i.e. Section 8 of the tariff book). These changes are reflected in **Annexure E (Tariff Book Changes)**.

In addition, in line with the theme digitisation, the Authority plans to publish the Tariff Book FY 2020/21 in electronic format only.

8.5 Port Tariff Incentive Programme (PTIP)

PTIP is a scheme put forward by the Port Industry to support the government policy environment that seeks to bolster the country's economic output by incentivising beneficiation, industrialisation and localisation of manufactured goods through discounts on port tariffs. The Authority is regulated on a tariff methodology and its tariffs are determined in accordance with the tariff strategy that is premised on a cost reflective, user pay principles. These methodologies are keen on limiting cross subsidisation across the tariff categories. However, the industry still wishes to support government imperatives of incentivising beneficiation and aiding economic growth through limited subsidisation inter-tariff categories.

The PTIP is a mechanism that is based on the amount and size of funds made available to the public before the scheme can be explored for discounts. It is envisaged that the scheme will be based on a percentage of the revenues granted to the Authority, which will then be used to provide discounts and subsidies to the tariffs successfully enlisted for incentives.

No applications have been received by the Authority for consideration in the FY 2020/21 Tariff Application.

9. Port Efficiency

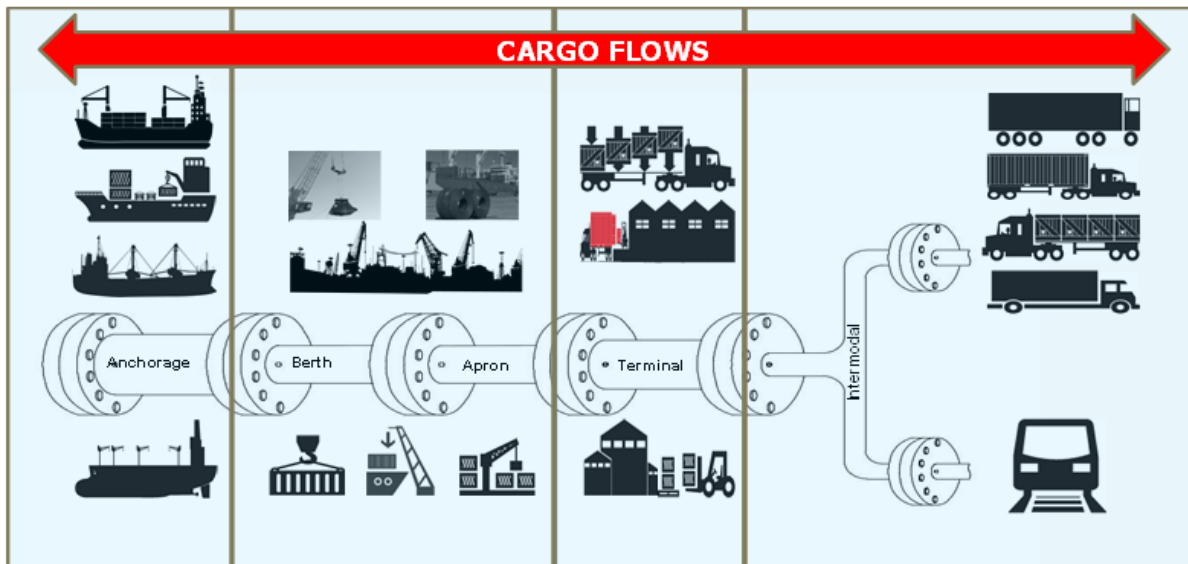
The ports system is central to SA’s ability to effectively engage in international trade and promote economic growth. Ports exist at the coastal end of supply chains and play a critical role in the effectiveness of respective hinterlands served by these supply chains. The overall performance of ports is therefore a matter of national strategic importance.

The primary role of the Authority is to provide port capacity and further to ensure that the full set of productive services exists at a port in order to serve demand. The provision of capacity is necessary but is in itself not sufficient to ensure that the objectives of the Authority are achieved. The levels of efficiency realized in the operation of such capacity have shown to be a key determinant of success and attractiveness of a port.

The efficiency of ports has long been recognized by the National Commercial Ports Policy of 2002 and several subsequent pieces of national transport and related policy, as a key factor in the extent to which ports can fulfil a strategic role in growing the economy through imports and exports. The drive to improve operational efficiency at the ports is also contained in various pieces of national policy and related instruments.

The main initiatives of the Authority’s operating model are shown in the figure 11 below:

Figure 11: Port Performance Model



It is important that the Authority’s operating model maintains a set of performance indicators. The Authority maintains a set of performance indicators through the establishment of TOPS, ROPS, HOPS and MOPS performance standards.

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In order for the Authority to continue executing that mandate the following initiatives will continue to be rolled out in 2020/21.

9.1.1.1 *Enforcement of Ports' Oversight*

With the Terminal Operator Performance Standards (TOPS) system well embedded across the port system, the focus will shift to enforcing compliance to all the provisions of the Terminal Operator Licence (TOL), as well as the Act. It has therefore become necessary, as the next step in the growth of TOPS, to include an enforcement process and a standard operating procedure for the ports, as envisaged in terms of clause 20 of the TOL.

The enforcement process will serve as a guideline, to be used by the Port Oversight Committees ("POC") and the National Oversight Committee ("NOC") for all aspects of Terminal Operator Oversight, including but not limited to TOPS, assessment and enforcement of remedial actions as a results of poor performance and audit findings.

9.1.1.2 *Capacity Study*

In accordance with the Act, the Authority is required to ensure that Ports are being utilized to full capacity by port users. Capacity studies were therefore conducted between 2014 and 2015 by an independent body and, after due engagement, accepted by all stakeholders. It has, however, been recommended that Terminal capacity studies be reviewed and updated to reflect the continuous operational handling changes. It is worth noting that these changes have a direct impact on the TOPS targets, giving rise to the need for reliable, validated Terminal capacities to inform the setting of performance standards such as TOPS, ROPS, MOPS and HOPS.

9.1.1.3 *HOPS*

The Authority will be reviewing the HOPS framework for the Ports of Durban, Cape Town and Richards Bay. The Authority will also engage all ports stakeholders to develop and agree on a HOPS framework to ensure that the correct Key Performance Indicators (KPIs) and targets are identified. Identified KPIs and targets will drive the Authority's processes to ensure that landside operations are efficient and address stakeholder requirements.

10. **Weighted Efficiency Gains from Operations**

The Regulator introduced an efficiency incentive in the form of the Weighted Efficiency Gains from Operations (WEGO) aimed at regulating port performance and tariff determination, allowing up to 5% additional return on equity to the Authority for an increase of 10% year-on-year performance improvements. Similarly, a 10% reduction in performance can result in a 5% reduction of return on equity. The previous best performance will be the baseline for the next year's measurement. Performance of the port system during 2017/18 is regarded as the initial base for measurement.

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In terms of the ROD on WEGO, published by the Regulator in March 2018, a basket of five KPI's of equal weighting were selected. These include the following:

- Ship Turnaround Time (20%)
- Ship Productivity (20%)
- Vessel Delays at Anchorage (20%)
- Berth Productivity (20%)
- Ship Working Hours (20%)

A Technical Working Committee (TWC) was established by the Ports Regulator consisting of the Authority, PCC, and the Ports Regulator. The TWC has been responsible for the monitoring and verification of the performance of the set five KPI's.

The first year of the WEGO assessment was completed on 31 March 2019, for FY 2018/19. The Authority's WEGO results were submitted to the Regulator for consideration. This is illustrated in the table below:

Table 22: WEGO Results for FY2018/19

2018/19 Financial Year - WEGO Annual Report									
Port Aggregated Performance - 18_19 Annual Report	Weight	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
Anchorage Waiting Time	20%	13.3%	13.6%	10.0%	-0.4%	3.9%	-0.9%	13.3%	0.0%
Ship working Hour ave	20%	1.2%	0.8%	1.8%	-1.4%	0.7%	0.0%	-0.5%	0.5%
Berth Productivity	20%	0.1%	1.0%	4.3%	-0.9%	-1.3%	0.0%	-0.5%	-1.0%
Ship Productivity Indicator	20%	-3.8%	3.6%	-0.2%	1.1%	-0.7%	6.8%	3.6%	1.1%
Ship Turnaround Time	20%	0.3%	0.0%	-3.3%	4.1%	-0.5%	5.0%	-0.7%	1.6%
Port Efficiency Gain		11.2%	19.1%	12.5%	2.5%	2.1%	10.9%	15.1%	2.2%
Capped at 10%		10%	10%	10%	2.5%	2.1%	10%	10%	2.2%
Revenue Weighting		14%	51%	2%	5.8%	4.7%	1%	14%	9%
Weighted Port Performance		1.35%	5.10%	0.19%	0.14%	0.10%	0.07%	1.37%	0.19%
Composite Port Efficiency Gain		8.52%							
						White	Performance		
						Green	Improvement from prior years		
						Red	Decline from prior years performance		

Whilst some ports such as the Ports of Richards Bay, Durban, East London, Mossel Bay and Cape Town, exceeded the 10% efficiency cap, other ports reported efficiency levels below the 10% cap. In accordance with the WEGO methodology, the efficiency gains (for those ports that have exceeded) has been capped to 10%. The capped efficiency gain per port is then multiplied by the revenue weighting for the respective port, to arrive at the Weighted Port Performance. The sum of the weighted port performance for each port results in the total port efficiency gain of 8.52%. As per the WEGO Methodology, the incentive/penalty is to be capped at 5.00%. As the Authority has achieved an efficiency gain, the revenue incentive has been capped at 5.00%, translating into a WEGO revenue gain of R154m and factored into the RR for FY 2020/21.

11. Conclusion

As stated in the State of the Nation Address Debate of 25 June 2019, and as outlined in the National Development Plan, *“SOE’s are central to advancing national objectives through providing economic and social infrastructure. If this is done in an equitable and cost-effective way, SOE’s can contribute to both deliver a quality and reliable service at a cost that enables South Africa to be globally competitive.”*

The aforementioned national objectives coupled with Transnet’s objective of lowering the cost of doing business in South Africa, provides the context of the Authority’s strategic focus and planned execution thereof. This translates into an affordable tariff adjustment, marginally below the forecasted inflation rate.

In accordance with the approved Tariff Methodology, the Authority has determined a required revenue of R13 145m for FY 2020/21 comprising of Marine Business revenue of R9 597m and Real Estate Business revenue of R3 548m. This translates into tariff adjustment of 4.80% for FY 2020/21.

In order to ensure alignment with the principles of the Tariff Strategy, the Authority further proposes that the weighted average tariff increase for FY 2020/21 is differentiated as follows:

- Tariff increase of 9.70% on Marine charges (shipping lines);
- An average of 2.85% increase in Cargo Dues differentiated as follows:
 - 5.00% on Liquid Bulk and break bulk cargoes;
 - 1.50% on Containers;
 - 1.50% on Automotives;
 - Dry Bulk Cargoes differentiated as follows:
 - Coal to increase by 7.4%;
 - Ores and Minerals: Magnetite to increase by 7.4%; and
 - Other Dry bulk to increase by 5.00%.

An The indicative required revenues and resultant tariff adjustments for FY 2021/22 and FY 2022/23 are R15 339m (18.14%) and R16 774m (8.50%) respectively.

ANNEXURE A: The Authority's Tariff Book

Table 23: The Authority's Tariff Definitions

Tariffs	Services Rendered	Application
Light Dues	The provision of navigation aids to vessels along the SA coast	Raised per vessel (per gross ton) at the first port of call (Tariff Book Section 1)
Vessel Traffic Services	The provision of vessel traffic services, safety of the port environment and port control	Raised per vessel (per gross ton) at all ports (Tariff Book Section 2)
Port Dues	The provision and maintenance of entrance channels, breakwaters, turning basins, navigational aids (beacons and buoys inside port limits) and maintenance dredging inside the port	Raised per vessel (per gross ton), linked to the time that the vessel remains in port (Tariff Book Section 4)
Berth Dues	The provision and maintenance of repair quays and other non-cargo quay (berth) infrastructure	Raised per vessel (per gross ton), per 24-hour period (Tariff Book Section 4)
Cargo Dues	To recover the cargo contribution towards the provision and maintenance of basic port infrastructure	Raised per unit of cargo, differentiated between different commodities (Tariff Book Section 7)
Rentals	Lease of port land to terminal operators, port service and port facility providers	Rental arrangements including escalations are negotiated on a case-by-case basis and are not reflected in the tariff book.
Pilotage	Pilotage assistance to vessels entering/leaving the port	Raised as a basic fee per service, plus per vessel (per gross ton) (Tariff Book Section 3)
Tug Assistance	Tug assistance to vessels entering/leaving and shifting within the port	Raised per service, based on the size of the vessel (per gross ton) (Tariff Book Section 3)
Miscellaneous Tug/Vessel services	Tanker fire watch, firefighting and standby services	Raised per service, per hour (Tariff Book Section 3)
Berthing Services	Berthing services to tie/untie vessels at the berth	Raised per service (Tariff Book Section 3)
Running of Vessel Lines	Running of lines for vessels entering, leaving or shifting	Raised per service (Tariff Book Section 3)
Floating Crane Services	Floating crane services rendered to the vessels	Raised per service, per hour (Tariff Book Section 3)

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Ship Repair Facilities	Preparation, Docking and Undocking of vessels at repair facilities	Raised per service (Tariff Book Section 6)
Dry-dock, floating dock, synchrolift and slipways	Dry-dock, floating dock and synchrolift fees	Raised per service for the use of a facility, based on the size of the vessel (per gross ton) (Tariff Book Section 6)

The Authority has created a separate section in the Tariff Book, Section 5, where the licence, registration and permit fees are specified. This is summarized in the following table:

Table 24: The Authority's License Fees

Fees	Services Rendered	Application
Port Service Licence, Port Rule Licence, Port Rule Registrations and Port Rule Permit Fees	Fees payable for licences, registrations and permits in accordance with section 57 of the Act and with Port Rules issued in terms of section 80(2) of the Act.	Raised as a fee for the respective licences, registrations and permits issued (Tariff Book Section 5)

ANNEXURE B: Capital Expenditure

The Authority's investment spending is primarily influenced by the strategic initiatives, which are aimed at providing adequate port infrastructure, ahead of demand.

The capital expenditure for FY 2019/20 to FY 2024/25 is segregated into various categories in order to demonstrate the strategic objectives, major projects considered and the impact of such capital expenditure. The tables that follow provide an analysis of the capital expenditure:

Table 25: Strategic Capital Investment Objectives

Strategic objective	LE	Projections					
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Total 6yr
Re-engineering, Integration, Productivity and Efficiency	627	1 403	1 386	2 649	3 324	6 710	16 099
	104	181	212	239	173	97	1 006
	866	1 999	2 394	2 853	3 186	3 060	14 357
Safety, Risk and Effective Governance	63	257	495	469	528	285	2 097
	9	-	140	37	6	23	214
	6	2	91	152	169	-	421
	3	30	153	87	195	216	683
Human Capital	77	1	51	143	77	377	725
Total (excl. borrowing cost)	1 754	3 872	4 921	6 630	7 657	10 768	35 602

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Table 26: Major Capital Investment Projects

Project	Corridor	Commodity
Provide additional rail facility for Duine area	RCB	Other
Bayvue rail yard expansion - Outcome from ECICS feasibility	RCB	Other
Replacement of helicopter ZS-RRB	RCB	Other
Dredging and construction of Marine infrastructure for Floating Dry Dock	RCB	Other
Replace 1 tug	RCB	Other
Provide additional Bulk Liquid berth 207	RCB	Liquid Bulk
Execution: DCT berth deepening 203 to 205	DBN	Containers (Maritime)
New Tug Jetty - FEL 4	DBN	Other
Replace Water Pipelines & Billing System	DBN	Other
Acquisition of 6 tugs for Dbn (4 Replacement & 2 additional)	DBN	Other
Asbestos Kings rest yard upgrade	DBN	Other
Execution: IV sea walls	DBN	Liquid Bulk
Execution: Fire fighting infrastructure at berth 9 Island View	DBN	Liquid Bulk
Execution: IV berth 1 Upgrade	DBN	Liquid Bulk
Reconstruction of Quay 3	EL	Other
Tank farm Equip Berth B100, roads, port entrance and services	NGQ	Liquid Bulk
Manganese project	NGQ	Manganese
Two Replacement Tugs	CPT	Other
Bulk electrical power supply related to Third tippler	SLD	Export Iron Ore
2nd Grab hopper dredger	DRS	Other
Replacement of helicopter ZS-HDP	DBN	Other
Acquisition of new Helicopter	CPT	Other
Expansion of Container Terminal : CPT Phase 2B - FEL3	CPT	Containers (Maritime)
Phakisa projects	All	

Table 27: Operation Phakisa Major Projects

Project name	Port
Replacement of Robinson Drydock floating caisson	CPT
Replacement of 10 cranes for Ship Repair	CPT
Sturrock Dry Dock Infrastructure Upgrade	CPT
Sturrock Dry Dock Pump System Upgrade	CPT
Sturrock Dry Dock Electrical Infrastructure Upgrade (Detail Design)	CPT
Replacement of Capstans on all docks	CPT
Drydock Jib Cranes	DBN
Dry dock Pump House upgrade, Civil works- Trenching and Resurfacing & Ancillary Plinths	DBN
Dry dock Fire System upgrade	DBN
Dry Dock Capstans Upgrade	DBN
Slipway upgrade	MSB
Modifications of 1200 ton slipway cradle	PE
Dredging and construction of Marine infrastructure for Floating Dry Dock	RCB
Provision of dedicated facilities for Rig repair (Mossgas quay)	SLD

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Table 28: Expansion Business vs. Maintenance of Current Business

FY 2019/20

Details	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO	
	LE												
	2019/20												
	R'm												
Expand Business :													
- Growth initiatives	882	211	38	-	322	-	17	1	42	-	250	-	
Maintain current Business :													
- Replacement Efficiency/ Service Quality	872	125	264	79	10	34	11	111	186	39	2	11	
Total (excl. borrowing cost)	1 754	336	303	79	332	34	28	112	227	39	252	11	

FY 2020/21

Details	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO	
	Projections												
	2020/21												
	Rm												
Expand Business :													
- Growth initiatives	1 568	170	202	-	1 000	-	-	0	-	10	186	-	
Maintain current Business :													
- Replacement Efficiency/ Service Quality	2 303	240	632	56	3	138	11	740	406	71	2	3	
Total (excl. borrowing cost)	3 872	410	834	56	1 003	138	11	741	406	81	189	3	

FY 2021/22

Details	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO	
	Projections												
	2021/22												
	Rm												
Expand Business :													
- Growth initiatives	1 727	447	532	6	285	14	8	125	105	8	173	25	
Maintain current Business :													
- Replacement Efficiency/ Service Quality	3 194	395	706	60	94	183	168	1 147	215	73	32	120	
Total (excl. borrowing cost)	4 921	842	1 238	65	379	198	176	1 272	320	81	205	145	

FY 2022/23

Details	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO	
	Projections												
	2022/23												
	Rm												
Expand Business :													
- Growth initiatives	3 078	784	1 540	1	319	66	-	271	87	9	-	-	
Maintain current Business :													
- Replacement Efficiency/ Service Quality	3 553	280	1 234	151	228	104	264	915	174	75	62	66	
Total (excl. borrowing cost)	6 630	1 064	2 774	152	546	170	264	1 186	261	84	62	66	

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Table 29: Ports Related Spending by Asset Type

FY 2019/20

	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO
	LE											
	2019/20											
	Rm											
Buildings and structures	212	102	61	8	-	-	20	5	16	1	-	-
Aircraft	124	62	62	-	-	-	-	-	-	-	-	-
Land	-	-	-	-	-	-	-	-	-	-	-	-
Machinery, equipment and furniture	129	19	29	3	3	4	1	9	9	39	2	11
Permanent way and works	133	133	-	-	-	-	-	-	-	-	-	-
Vehicles, Rolling stock & containers	1	-	-	1	-	-	-	-	-	-	-	-
Port Facilities	1 156	20	151	67	330	30	7	98	203	-	250	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Pipelines networks (etc)	-	-	-	-	-	-	-	-	-	-	-	-
Total (excl. borrowing cost)	1 754	336	303	79	332	34	28	112	227	39	252	11

FY 2020/21

	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO
	Projections											
	2020/21											
	Rm											
Buildings and structures	83	14	58	0	-	-	8	2	0	-	-	-
Aircraft	456	147	147	-	-	-	-	163	-	-	-	-
Land	-	-	-	-	-	-	-	-	-	-	-	-
Machinery, equipment and furniture	278	11	126	3	3	15	1	4	30	81	2	3
Permanent way and works	162	162	-	-	-	-	-	-	-	-	-	-
Vehicles, Rolling stock & containers	27	-	-	27	-	-	-	-	-	-	-	-
Port Facilities	2 867	76	504	27	1 000	124	2	572	376	-	186	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Pipelines networks (etc)	-	-	-	-	-	-	-	-	-	-	-	-
Total (excl. borrowing cost)	3 872	410	834	56	1 003	138	11	741	406	81	189	3

FY 2021/22

	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO
	Projections											
	2021/22											
	Rm											
Buildings and structures	577	77	83	28	25	84	20	137	120	-	-	3
Aircraft	347	102	102	-	-	-	-	143	-	-	-	-
Land	47	47	-	-	-	-	-	-	-	-	-	-
Machinery, equipment and furniture	834	59	272	3	3	28	21	168	28	76	32	143
Permanent way and works	148	148	-	-	-	-	-	-	-	-	-	-
Vehicles, Rolling stock & containers	28	5	7	5	8	3	-	-	-	-	-	-
Port Facilities	2 940	404	774	30	344	81	135	824	171	5	173	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Pipelines networks (etc)	-	-	-	-	-	-	-	-	-	-	-	-
Total (excl. borrowing cost)	4 921	842	1 238	65	379	198	176	1 272	320	81	205	145

FY 2022/23

	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO
	Projections											
	2022/23											
	Rm											
Buildings and structures	748	70	205	83	117	87	7	65	89	-	-	26
Aircraft	-	-	-	-	-	-	-	-	-	-	-	-
Land	63	23	-	-	-	40	-	-	-	-	-	-
Machinery, equipment and furniture	897	92	352	3	3	5	1	234	21	84	62	41
Permanent way and works	301	271	30	-	-	-	-	-	-	-	-	-
Vehicles, Rolling stock & containers	11	-	-	-	10	1	-	-	-	-	-	-
Port Facilities	4 610	608	2 187	66	417	37	256	888	151	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Pipelines networks (etc)	-	-	-	-	-	-	-	-	-	-	-	-
Total (excl. borrowing cost)	6 630	1 064	2 774	152	546	170	264	1 186	261	84	62	66

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Table 30: Capital expenditure and throughput per commodity

Containers

DETAILS	Containers						Major Capital Projects
	FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	
	R'm						
Containers	70	107	631	1 845	1 904	2 674	- Execution: DCT berth deepening 203 to 205 (Dbn) ; Expansion of Container Terminal : Phase 2B (Cpt)
- Expand	70	107	603	1 766	1 864	2 574	
- Maintain	-	-	27	78	40	100	
Volumes ('000 TEUs)							- Automated mooring system at NCT D101 - 103 (Ngq)
- Budget and Projections	4 773	4 875	4 998	5 107	5 216	5 308	
- Capacity	7 650	7 650	7 650	7 650	8 150	8 150	
Total Capex spend over the 6 Year period						7 230	
Indicative return on capital						1146	
Depreciation						415	
Total cumulative Revenue Required over the 6 year period						1 562	

Liquid Bulk

DETAILS	Liquid Bulk						Major Capital Projects
	FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	
	R'm						
Liquid Bulk	299	859	297	525	943	1 479	- New Entrance, Roads and Services (Ngq) - Provide additional Bulk Liquid berth 207 (Rcb) - Execution Fire fighting infrastructure IVS berth 9 - Execution: IV berth 1 Upgrade (Dbn) - Execution: IV sea walls (Dbn)
- Expand	261	745	44	190	544	1 018	
- Maintain	38	114	253	335	399	461	
Volumes (mKl)							
- Budget and Projections	40	41	42	42	42	47	
- Capacity	93	93	91	94	96	96	
Total Capex spend over the 6 Year period						4 402	
Indicative return on capital						932	
Depreciation						337	
Total cumulative Revenue Required over the 6 year period						1 269	

Iron Ore

DETAILS	Iron Ore						Major Capital Projects
	FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	
	R'm						
Iron Ore	141	328	48	23	203	427	- Ore Expansion Phase 2 Berth Construction (Sld) [commencing in 2023/24] - Bulk electrical power supply related to Third tippler (Sld) [Ending in FY 2021/22] - Pneumatic Fender Maintenance & Storage Area - Phase 2 (Sld) [Commencing in FY 2023/24] - [Anomaly being capped by air emission license]
- Expand	-	-	-	20	167	397	
- Maintain	141	328	48	3	36	30	
Volumes (mt)							
- Budget and Projections	56	57	57	61	62	62	
- Capacity	60	60	60	60	60	60	
Total Capex spend over the 6 Year period						1 170	
Indicative return on capital						277	
Depreciation						100	
Total cumulative Revenue Required over the 6 year period						377	

Coal

DETAILS	Coal						Major Capital Projects
	FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	
	R'm						
Coal	-	-	7	6	21	185	- Deepening On RBCT Berth (Rcb) - Land preparation for Coal export facility (EL)
- Expand	-	-	3	1	5	119	
- Maintain	-	-	3	5	16	66	
Volumes (mt)							
- Budget and Projections	82	86	88	90	92	92	
- Capacity	114	114	114	114	114	114	

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Manganese

Manganese							Major Capital Projects
DETAILS	FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	
	R'm						
Manganese	20	252	348	323	90	-	- Manganese project (Ngq) [The berth exists but additional expenditure needs to be incurred for roads, electrical appliances e.tc]
- Expand	20	252	268	237	90	-	
- Maintain	-	-	80	86	-	-	
Volumes (mt)							- Boundary wall Manganese terminal (PE) [maintenance costs for land rehabilitation at the Port of PE]
- Budget and Projections	16	17	17	17	18	20	
- Capacity	30	24 *	24	24	24	24	
<i>* The Port of Port Elizabeth Manganese Terminal will be closed in this financial year</i>							
Total Capex spend over the 6 Year period						1 032	
Indicative return on capital						302	
Depreciation						109	
Total cumulative Revenue Required over the 6 year period						410	

Break-Bulk

Break Bulk							Major Capital Projects
DETAILS	FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	
	R'm						
Break Bulk	-	-	70	168	235	1 465	- Feasibility Maydon Wharf channel deepening (Dbn) - FEL 4 Replacement of sheet piles for Q3 (Msb) - Berth 205 Marine Manufacturing Facility (Slid) - Provision of dedicated facilities for Rig repair (Mossgas quay) (Slid)
- Expand	-	-	20	95	180	1 430	
- Maintain	-	-	50	73	55	35	
Volumes (mt)							
- Budget and Projections	7	7	7	8	8	8	
- Capacity	26	26	26	26	28	28	

Automotives

Automotives							Major Capital Projects
DETAILS	FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	
	R'm						
Automotives	-	-	-	-	-	-	
- Expand	-	-	-	-	-	-	
- Maintain	-	-	-	-	-	-	
Volumes (units)							
- Budget and Projections	724 057	740 099	724 996	782 332	801 994	822 342	
- Capacity	2 100 000	2 100 000	2 100 000	2 100 000	2 100 000	2 100 000	

Other

Other (incl LHS & Bulk Services)							Major Capital Projects
DETAILS	FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	
	R'm						
Other (incl LHS & Bulk Services)	944	1 791	2 825	3 100	3 553	3 766	
- Expand	281	279	615	769	987	848	
- Maintain	664	1 513	2 210	2 331	2 566	2 918	

Fleet – Craft and Dredging Service

Fleet - Craft and Dredging Services							Major Capital Projects
DETAILS	FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	
	R'm						
Fleet - Craft	28	346	490	579	676	770	- Acquisition of 2nd Grab hopper dredger & Cutter suction dredger - Acquisition of 2 replacement tugs (Cpt) - Acquisition of 2 replacement tugs (PE)
- Expand	-	-	-	-	71	370	
- Maintain	28	346	490	579	605	400	
Dredging Services	252	189	205	62	33	3	- Acquisition of 3 replacement tugs (Slid) - Acquisition of 2 replacement tugs (EL)
- Expand	250	186	173	-	-	-	
- Maintain	2	2	32	62	33	3	

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Table 31: Multi-Year Strategic Objectives

Strategic objective	Details	LE	Projections					Total 6yr
		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	
		R'm						
Re-engineering, Integration, Productivity and Efficiency	To maximise return on investments by obtaining additional volumes	627	1 403	1 386	2 649	3 324	6 710	16 099
	To maximise return on investments by improving operating efficiencies	104	181	212	239	173	97	1 006
	To preserve current revenue streams without obtaining additional volumes (ie. revenue protection)	866	1 999	2 394	2 853	3 186	3 060	14 357
Safety, Risk and Effective Governance	Ensure Safety Optimisation	63	257	495	469	528	285	2 097
	Optimise Business Enterprise Offerings	9	-	140	37	6	23	214
	Optimally Satisfy Social Investments (non economic value creating projects)	6	2	91	152	169	-	421
	Environmental	3	30	153	87	195	216	683
Human Capital	Optimise Human Resources	77	1	51	143	77	377	725
Total (excl. borrowing cost)		1 754	3 872	4 921	6 630	7 657	10 768	35 602

Table 32: Multi-Year Capex per Port Service

Capex spend per Port Service / Facility	LE	Projections						Total 7yr
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	
		R'm						
Infrastructure	1 436	3 256	4 144	5 904	6 852	9 850	7 871	11 208
Marine services	28	346	490	579	676	770	3 011	-
Lighthouse services	39	81	81	84	96	146	152	172
Dredging services	252	189	205	62	33	3	3	3
Total (excl. borrowing cost)	1 754	3 872	4 921	6 630	7 657	10 768	11 037	11 383

Table 33: Multi-Year Ports Related by Asset type

Asset Type	LE	Projections					Total 7yr	
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25		2025/26
		R'm						
Buildings and structures	212	83	577	748	816	1 327	1 121	
Aircraft	124	456	347	-	-	-	-	
Land	-	-	47	63	175	-	-	
Machinery, equipment and furniture	129	278	834	897	765	388	510	
Permanent way and works	133	162	148	301	306	830	250	
Vehicles, Rolling stock & containers	1	27	28	11	-	5	18	
Port Facilities	1 156	2 867	2 940	4 610	5 595	8 218	9 137	
Other	-	-	-	-	-	-	-	
Pipelines networks (etc)	-	-	-	-	-	-	-	
Total (excl. borrowing cost)	1 754	3 872	4 921	6 630	7 657	10 768	11 037	

Table 34: Multi-Year Port Related per Commodity

Major Commodity	LE	Projections						Total 7yr
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	
		Rm						
Containers	70	107	631	1 845	1 904	2 674	2 726	9 847
Liquid Bulk	299	859	297	525	943	1 479	870	3 131
Iron Ore	141	328	48	23	203	427	1 288	870
Coal	-	-	7	6	21	185	10	249
Manganese	20	252	348	323	90	-	-	1 081
Break Bulk	-	-	70	168	235	1 465	2 892	800
Automotive	-	-	-	-	-	-	-	-
Fleet - craft	28	346	490	579	676	770	150	3 147
Dredging Services	252	189	205	62	33	3	3	520
Other (incl LHS)	944	1 791	2 825	3 100	3 553	3 766	3 097	14 271
Total (excl. borrowing cost)	1 754	3 872	4 921	6 630	7 657	10 768	11 037	33 918

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ANNEXURE C: Volumes

Table 35: Cargo Dues Revenue from Volume Increase Before Tariff Increase

DETAILS	2019/20	2019/20	2020/21	2020/21
	Volumes: Latest Estimate	Revenue: Tariff Book Latest Estimate R'm	Volumes: Increase Budget	Revenue: Volume increase before Tariff Increase Budget R'm
Containers TEU's				
Deepsea Full: Imports	1 594 740	3 081	27 508	53.15
Deepsea Full: Exports	1 233 683	701	38 161	21.67
Transshipment	959 473	56	6 268	0.36
Other	984 922	44	29 792	1.35
Total Container (TEUs)	4 772 818	3 882	101 729	77
Vehicles (Units)				
Vehicles: Imports	321 235	245	15 207	12.02
Vehicles: Exports	362 347	107	5 588	2.00
Other	40 475	1	-4 753	-0.17
Total Ro-Ro (Units)	724 057	353	16 042	14
Breakbulk (Metric Tons)				
Breakbulk: Imports	2 331 862	58	22 998	0.80
Breakbulk: Exports	4 782 298	139	127 773	3.75
Other	129 846	1	3 837	0.03
Total Breakbulk (Tons)	7 244 006	198	154 609	5
Dry Bulk (Metric Tons)				
Coal Exports	82 212 000	351	4 001 010	17.08
Iron Ore Exports	56 170 000	377	330 000	2.86
Manganese Ore Exports	15 806 679	149	1 331 822	12.52
Other	34 277 696	377	826 561	9.02
Total Dry Bulk (Tons)	188 466 375	1 253	6 489 393	41
Liquid Bulk (Kl)				
Petroleum	31 786 811	512	263 117	4.28
Chemicals	2 533 197	80	66 193	2.08
Other	5 988 103	127	180 768	3.16
Total Liquid Bulk (Kilo litres)	40 308 110	719	510 077	10
Cargo Dues Revenue	-	6 406		146

ANNEXURE D: Operating Expenditure (“Opex”)

Table 36: Operating Expenditure

Cost Category	Actual 2018/19 R Million	LE 2019/20 R Million	Forecast 2020/21 R Million	Dev '19/20 vs 20/21 R Million	Dev '19/20 vs 20/21 Percentage	% of Opex 20/21	Forecast 2021/22 R Million	Forecast 2022/23 R Million	CAGR 2020/21 - 2022/23
Labour Costs	2 383	2 634	3 120	486	18%	55%	3 476	3 840	11%
Rates & taxes	375	392	429	37	9%	8%	475	511	9%
Maintenance	285	455	508	53	12%	9%	582	656	14%
Contract Payments	38	21	23	2	8%	0%	25	26	7%
Energy	534	603	706	103	17%	12%	777	874	11%
Professional services	29	52	54	2	5%	1%	57	61	6%
Material	82	95	117	22	23%	2%	128	142	10%
Computer & Info systems	130	215	226	11	5%	4%	247	263	8%
Rental	50	64	70	6	10%	1%	76	80	7%
Security costs	102	107	107	1	1%	2%	117	126	8%
Pre -Feasibility Studies	43	112	155	43	39%	3%	134	134	-7%
Sundry operating costs	80	133	152	19	14%	3%	171	177	8%
Total operating cost (excluding depreciation)	4 130	4 883	5 668	785	16%	100%	6 265	6 890	10%
Group Costs	384	487	481	(6)	-1%		503	524	4%
Total operating cost (Including Group Costs)	4 514	5 370	6 149	779	15%		6 769	7 414	10%

The Authority’s total costs is R6 149m for FY 2020/21. This includes the Transnet Group overhead costs of R481m.

Opex represents all the expenses incurred on a day to day basis in order for the Authority to fulfil its mandate. TNPA operating costs are planned to grow by approximately 16% (R785m) in FY 2020/21.

The sections that follow provides a high level explanation for cost items as per Table 34 above.

Labour Cost

The Authority is labour intensive and as such labour costs forms a substantial portion of the overall operating expenditure, comprising of 55% of the total operating costs for FY 2020/21.

The expected growth in labour costs from FY 2019/20 to FY 2020/21 is approximately 18% (R486m). For the three (3) year tariff period, this averages at an increase in costs of approximately 11%. The growth is attributed to increase in headcount; and salary increments over the three (3) year tariff period. The costs are further unpacked as follows:

o **Headcount**

Resourcing of the Authority is informed by its mandate which includes the operational requirements, oversight role in the port system; as well as execution of projects in an efficient manner.

The forecasted total number of permanent employees for FY 2020/21 to FY 2022/23 is highlighted in the Table below:

Table 37: Total Number of Employees

Cost Category	Actual 2018/19	Budget 2019/20	Forecast 2020/21	Deviation 9/20 vs 20/21	Deviation % 9/20 vs 20/21	Forecast 2021/22	Forecast 2022/23
Total Number of Employees	4 345	5 214	5 363	149	2.9%	5 497	5 550

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Not much progress has been made in FY2018/19 in terms of recruiting the required personnel (4 999 planned FY 2018/19 vs 4 345 actual FY 2018/19) and hence the planned increase in headcount from FY 2019/20 to FY 2020/21.

The focus of the Authority remains on filling the critical vacancies for key operational personnel required. The operational personnel makes up for approximately 70% of the vacancies; whilst support personnel makes up the remaining 30%.

The key reasons for increase in headcount is due to the critical vacancies as follows:

- Employment of port engineering personnel in order to create adequate port infrastructure ahead of demand and maintaining existing and new assets;
- Additional Aviation personnel required due to helicopter services being extended to the Port of Cape Town;
- 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;
- Security personnel required to ensure CCTV monitoring/ maintenance and the overall safety within the ports;
- Additional support services staff to assist with the administration within the ports system;
- Marine seafarer and MEO personnel;
- Trainees required for marine pipeline in scarce marine grades, i.e. Chief Marine Engineering officers and Tug Masters;
- Manning of the port operational centres to ensure systematic views of port performance;
- 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;
- Environmental practitioners required to ensure that Ports are compliant with all environmental and safety regulations;
- Trainers required for marine engineering schools in the Port. Training in the Port of Ngqura is scheduled to commence in January 2020 with 25 learners and will increase by 25 learners each year to reach a full capacity of 100 learners;
- New business and Section 56 personnel required in order to continuously attract new business which is crucial for the sustainability of the Port system.

○ **Remuneration**

Remuneration is made up of annual salary adjustments. It is also worth noting that the increase in headcount further leads to an increase in remuneration.

○ **Training**

Adequate training and development of human capital is a core focus area for the Authority. This ensures continuous growth, upskilling and advancement of the Authority and therefore remains a priority. The Authority continues with various training initiatives including cadet training, pilot training, tug master training and chief marine engineer officer training.

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The Authority has extended the Operation Phakisa programme by establishing Marine Engineering training schools. The schools are intended to create opportunities for the communities to participate in the port sector with the aim to address poverty, unemployment and inequality.

The Authority has entered into a SLA with the Petroleum, Oil and Gas Corporation of South Africa SOC Ltd (“PetroSA”), who provides training to 12 learners recruited by the Authority. Furthermore, the Authority has entered into a partnership with the Umfolozi Further Education and Training (FET) College to train 20 x Artisans (Electricians and Plumbers). This training commenced in FY 2019/20.

Additional training is planned for leadership across all the ports. The Authority will further continue with its normal training initiatives relating to cadet training; helicopter pilot training, aircraft maintenance and aircraft avionics training.

Rates and Taxes

Rates and taxes relate to municipal rates and are based on the methodology employed by the municipalities in accordance with the Municipal Rates and Taxes Act. Normally the increase in this cost category is above inflation rate. The increase in the current financial year is set at 9% and is mainly attributed to the Ports property values.

Rates and taxes are expected to increase by approximately 9% per annum, over the 3 year period.

Maintenance

The maintenance cost covers the upkeep of aged infrastructure as well as routine maintenance for newer infrastructure assets, newer marine craft and increased maintenance focused on the ship repair business. It is necessary to ensure that Aids to Navigation infrastructure and other assets are maintained to ensure general safety of navigation and protection of the marine environment.

The Authority did not manage to spend the maintenance budget for 2018/19. The main reasons for the underspending was due to the following:

- The CCTV maintenance contract not being renewed;
- Scheduled layup activities for the dredgers were delayed extensively, due to sourcing challenges of specific mechanical components during the repair process;
- Helicopter repairs did not take place as planned due to deferring of the Maintenance Periodic Inspection (MPI) repairs;
- Unplanned work and breakdowns resulted in the re-focusing of infrastructure resources that resulted in the re-deployment of staff, that was responsible for the planned work;
- Various issues with Rehabilitation Maintenance & Emergency Services (RME) were experienced resulting in non-delivery on planned maintenance;

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The increase on maintenance costs from FY 2019/20 to FY 2020/21 is approximately 12%. The average growth in maintenance over the three year tariff period is approximately 14% and is mainly attributed to the following:

- Ports handle larger container vessels than they were designed to accommodate, necessitating a higher frequency of maintenance dredging;
- Ports are handling bigger, deeper ships with a very small under keel clearance. This has led to scouring of the seabed which then requires additional dredging.
- Ongoing maintenance of ageing infrastructure and marine dredging fleet, including:
 - Rail infrastructure;
 - Rehabilitation of Seawalls;
 - Sinkholes;
 - Road maintenance;
 - Navigational Aids;
 - Ship Repair infrastructure;
 - Quay wall repairs;
 - Hazmat drain flush;
 - Storm water jetting;
 - Building Repairs;
 - CFI Mechanical Valves, hydrant repairs and general Statutory inspections;
 - Break water cranes;
 - Repairs to cranes, pumps and valves at dry-dock;
 - Maintenance of marine craft, ensuring compliance to SAMSA requirements and craft being operational at all times;
 - Increase in the Maintenance of electrical network (High masts and substations);
 - Floating Craft Repairs- Enseleni & Red Bishop;
 - Access Control, Closed Circuit Television (CCTV) Repairs and Maintenance;
 - Generators , High mast lights, Diving Equipment, Forklift & Tractors;
 - Refurbishment of Mess & ablution facilities at Ship Repair Facilities;
 - Condition Assessment of SDD Sliding Caisson;
 - Electrical Maintenance of the high mast poles;
 - Fleet Repairs & Maintenance;
 - Track Maintenance;
 - Repairs on Port Infrastructure (Existing IDA with RME); Roads, Buildings, Underground Services; and;
 - Vessel Tracking System (VTS) Maintenance (Oynetec).

Contract Payments

The increase on contract payments from FY 2019/20 to FY 2020/21 is approximately 8%; with the average increase over the three year tariff application period of approximately 7%.

Contract payments relate mainly to the helicopter pilot services in the Port of Durban and Richards Bay. The amount budgeted for this cost has been reduced significantly between FY 2018/19 and FY 2019/20

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due to the end of the external operational and maintenance helicopter contracts. The Authority introduced a new maintenance strategy that makes use of an external supplier to procure and deliver strategic helicopter spares sourced from abroad; whilst repairs and maintenance is completed internally. The costs budgeted for in FY 2020/21 relates to Maintenance Periodic Inspection (MPI) repairs of the old and new helicopter fleet. Wave monitoring services and Integrated Ports Office Support Services (IPOSS) upgrade payments are also included.

Energy

Energy costs are mainly attributable to the fuel and electricity consumption of the Authority. The increase in costs from FY 2019/20 to FY 2020/21 is approximately 17% (R103m). Three average increase in energy costs over the 3 year tariff application period amounting to 11% and is mainly due to the following:

- Increase in electricity costs estimated at 8% over the 3 year period; and
- Larger bollard pull capacity of the new craft for improved efficiencies, which results in higher fuel consumption.

Professional Services

Professional fees relate to Operational Audits & Transnet Certification, and Real Estate projects relating to Land use audit projects, Anticipated Section 56 consultants and Investment Property Valuation Fees. Professional fees increased from FY 2019/20 to FY 2020/21 by 5%, with the average increase in professional fees over the 3 year tariff application period amounting to 6%.

Key pre-feasibility studies have been planned as follows:

- Development of Liquid Natural Gas (LNG) Import Facilities at the ports of Richards Bay as part of the country's medium to long term energy supply strategy;
- Port of Cape Town Desalination Plant Studies;
- Structural inspections of buildings (asset condition);
- ISO 14001 & OHSAS 18001 Certification;
- NDT Tests;
- Professional fees consulting on bridge inspection;
- Ergonomic studies;
- Occupational Hygiene Survey for the new Admin building;
- Biodiversity Survey;
- TIMS Certification / BCM System;
- Land use plans;
- External structural engineers for the buildings & evaluations;
- Infrastructure assessment sewerage, water, storm water and rail network; and
- Island view land development, consultants will be assisting with Conditional assessment of the facilities, transactional advisory on the land use as well as commodity mix.

Material

Material costs relate to material used in the maintenance of marine fleet and civil maintenance and are therefore directly influenced by maintenance activity. The material costs increased from FY 2019/20 to FY 2020/21 by 23%, with the average increase in material costs over the 3 year tariff application period amounting to 10%. It must be borne in mind that the explanations provided above under Maintenance have a direct bearing on material as well.

Computer and Information Systems

Computer and information systems include network costs, software licences, information system support, development cost, computer consumables and on-going maintenance thereof. The increase in Computer and Information Systems from FY2019/20 to FY2020/21 is 5%. The average increase over the three year period is approximately 8%.

A significant portion of the cost increase is due to the 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. It encompasses functions such as Smart People's Ports capacity planning, Smart People's Ports logistics location and scheduling control, Smart Ports traffic management and Smart Ports container management.

The Smart People's Port programme is aimed at availing many key enablers to enhance Port operations in that it serves the following:

- All port function activities are aggregated into a single repository creating a single source of information
- It provides operations insight, digitized infrastructure and operations automation as it enables real time communication to all port operations and this assists in securing a stable network coverage for all land and sea activities
- Tracking of all assets required to ensure full visibility to better manage port operations and incident management activities
- Mapping of all port processes to create visualisation of all activities from the control centre
- The human resources in the ports are able to achieve a far richer visibility of the port operations continuously and this assists in management decisions and creating a safer environment
- Improving turnaround times of vessels, trains and trucks.

Rental

Rental costs relates to the hiring of internal land and buildings, leasing of vehicles, equipment, computers and furniture. The increase in rental costs from FY2019/20 to FY 2020/21 is 10%. The average increase over the three year period is approximately 7%.

Security

Security costs relate to the use of private security firms at the ports and the expected increase from FY 2019/20 to FY 2020/21 is 8%; with the 3 year average growth of 8%.

Pre-Feasibility Studies and Research & Development

Pre-feasibility studies are undertaken to determine future capital investments in a pre-feasibility phase to discover the best alternative for construction, preliminary design work and costing to assess overall viability of the project.

The increase in pre-feasibility costs from FY 2019/20 to FY 2020/21 is 39% (R43m), with an average decrease of 7% over the three year tariff period.

The Authority will be embarking on pre-feasibility projects including:

- Maydon Wharf channel deepening;
- Schoemans bridge modification;
- Bayhead road roads upgrades;
- IV berth 4 upgrade;
- Berth Deepening M/Wharf 5-11 & 15;
- Upgrade Island view Roads;
- Access Road to South Breakwater;
- Replacement Millenium Tower Cowl;
- Maydon Wharf truck stage FEL 4;
- Provision of additional office space at OTB & Tween Deck;
- Reconstruct Bluff Berths;
- Durban Hangar refurbishment;
- Air Quality Monitoring System;
- Air-conditioning Plant at TNPA Buildings;
- Pre Electrical Shore Supply to Vessels;
- Upgrade Maydon Wharf Roads;
- Reconstruct Bluff Berths;
- Increase Electricity Power Supply Capacity;
- Port of Ngqura Precinct Plans;
- Sand Bypass Studies;
- Studies on Charl Malan Quay Refurbishment;
- Port of Port Elizabeth: Investigation on alternative uses of Tanker Berth;
- Continuation of PE Waterfront study;
- Richards Bay Expansion Program (RBEP);
- Bayvue Railyard Configuration FEL 2;
- South Dunes Liquid Bulk Services;
- Reconfiguration of the Oil Jetty; and
- Land Acquisition Due Diligence.

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The Authority will be embarking on research and development projects including the following:

- Best Practices Marine Operations;
- Upgrade Of MSOE Main Campus 'Simulator Rooms;
- Collaboration Decision Making;
- Investigating of Environmental Aspect for DBN;
- Best practice security models;
- System & Network Testing;
- ISO accreditation and 'Safety risk and quality training;
- Document Tracking System;
- Climate Change (wind & waves);
- International Performance Benchmarking;
- Allowable Quay Wall Loading;
- Wind mitigation studies; and
- Strategic Environmental Assessments.

Sundry Operating Costs

The detailed costs relating to sundry expenses are highlighted in Table 36 below. Sundry Costs include expenses relating to insurance, stationery and printing, transport, promotions and advertising, and other miscellaneous operating expenditure.

The main cost drivers relating to sundry expenses are as follows:

- Legal Costs:
- Health and Sanitation
- Insurance
- Other (i.e. mainly consulting)

Further to the above, the request for proposals for the Section 56 projects and public hearings thereof will lead to increased environmental management; legal costs; printing/stationery; promotions and advertising; and feasibility studies.

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Table 38: The Authority's Sundry Operating Costs

Cost Category	Actual 2018/19 R Million	LE 2019/20 R Million	Forecast 2020/21 R Million	Dev '17/18 vs 18/19 R Million	Dev '17/18 vs 18/19 Percentage	% of Opex 20/21	Forecast 2021/22 R Million	Forecast 2022/23 R Million	CAGR 2020/21 - 2022/23
External property auxiliary costs revenue	-279	-305	-327	-22	7%	-6%	-353	-377	7%
Intra NPA recoveries	-262	-479	-502	-24	5%	-9%	-528	-554	5%
Intra cc recoveries	136	354	372	17	5%	7%	390	408	5%
Intra cc charges	60	62	65	4	6%	1%	69	74	6%
Miscellaneous revenue	-54	-33	-39	-6	19%	-1%	-41	-43	5%
External Audit Fees	11	16	15	-1	-9%	0%	16	17	7%
Entertainment	6	9	9	-0	-3%	0%	10	11	7%
Environmental management	12	17	26	9	51%	0%	29	26	1%
Fines and Penalties	82	0	-0	-0	0%	0%	-0	-0	-29%
Health and Sanitation	41	48	52	3	7%	1%	56	60	7%
Insurance Operations	33	50	51	1	2%	1%	55	59	8%
Legal Costs	21	23	23	-0	0%	0%	25	26	7%
Internal Audit	18	35	35	-1	-2%	1%	37	40	7%
Membership Fees	7	10	11	1	9%	0%	11	12	7%
Bank Charges	0	0	0	-0	-2%	0%	0	0	7%
Catering Costs	3	6	6	-0	-2%	0%	6	7	7%
Claims Paid	19	16	16	-0	-2%	0%	17	18	7%
License Fees	3	4	4	-0	-3%	0%	5	5	7%
Magazines, Books and Periodicals	0	1	1	-0	-2%	0%	1	1	7%
Nursery / Flower Expenditure	10	12	12	1	6%	0%	13	14	7%
Water	93	89	105	16	17%	2%	115	123	8%
Other 1	23	27	28	0	1%	0%	30	32	8%
Navigation, Landing and Parking	-16	4	4	-0	-2%	0%	5	5	7%
Printing and Stationery	6	16	18	2	12%	0%	19	20	7%
Promotions and Advertising	29	41	48	7	18%	1%	52	55	7%
Telecommunication Services : External	15	16	17	1	3%	0%	18	19	7%
Transport Cost : External	2	2	2	-0	-3%	0%	3	3	7%
Travel - Local	58	64	66	2	3%	1%	72	76	7%
Travel - Overseas	4	9	10	1	10%	0%	11	12	7%
Other operating expenses : 2 (Consulting fees)	-1	16	25	9	59%	0%	27	28	8%
Total sundry operating expenses	80	133	152	10	7%	3%	171	177	8%

Other 1

Other 1 costs refers mostly to consulting fees, corporate identity, corporate social investment, conferences and intra charges.

Table 39: Breakdown of Other 1 Cost

Cost Category	Actual 2018/19 R Million	LE 2019/20 R Million	Forecast 2020/21 R Million	Dev '19/20 vs 20/21 R Million	% of Opex vs 20/21 Percentage	% of Opex 20/21	Forecast 2021/22 R Million	Forecast 2022/23 R Million	CAGR 2020/21 - 2022/23
Total Other 1	23	27	28	0	1%	0%	30	32	8%
Corporate Identity	1	2	2	(0)	-3%	0%	2	2	7%
Sponsorships	2	3	3	(0)	-1%	0%	3	3	7%
Corporate Social Investment	4	8	8	(0)	-2%	0%	9	9	7%
Accounts Pay Clearance Account	-	2	2	0	30%	0%	2	2	7%
Conference	6	2	2	(0)	-2%	0%	3	3	7%
Intra NPA Charges	10	10	10	(0)	0%	0%	11	12	9%

Group Overhead Costs

The services provided by each Transnet corporate cost centre to the respective Operating Divisions (ODs) vary in accordance with the OD requirements and the nature of its activities. Shared costs are based on a top down costs centre allocation approach as opposed to a top down expenditure line item allocation approach.

Meaning that the total costs relating to a particular cost centre are allocated to the ODs using a cost driver predetermined by and agreed with the cost centre managers for that particular cost centre. Consequently, this informs the allocation of the expenditure line items such as personnel costs, fuel costs etc. within that cost centre.

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Furthermore, where possible, identified costs per general ledger account that could be traced to ODs are allocated directly without the use of predetermined cost drivers. These may include but are not limited to the incentive bonuses provision, impairments on trade receivables and other internal income and expense recoveries.

Year on year differences in allocated corporate overhead costs or differences between budgeted cost and actual cost allocations emanate as a result of changes in spending priorities due to cost optimisation, as well as changes in cost driver percentages (per cost centre).

The actual and projected corporate overhead cost allocations are audited by Transnet's external auditors to assess whether the allocation was carried out in a manner compliant with Transnet's policy and to ensure that the allocation is reasonable and fair.

A total of 15.21% of the total Group Corporate overhead costs for FY2020/21 has been allocated to the Authority. The remaining 84.79% has been allocated to other Transnet ODs. It is worth noting that the allocation to the Authority has decreased by approximately R6 million from R487 million in FY 2019/20 to R481 million in FY 2020/21. This decrease is mainly attributable to changes in corporate overhead costs. Transnet is continuously striving to contain the increase in group corporate overhead costs to be within a reasonable inflationary range.

Table 40: Group Overhead Costs

Transnet Group Corporate Overhead Costs allocated to TNPA							
Description	FY 2018/19 Actual	FY 2019/20 LE	FY 2020/21 Projection	FY 2019/20 vs FY 2020/21 Diff (R)	FY 2019/20 vs FY 2020/21 Diff (%)	FY 2021/22 Projection	FY 2022/23 Projection
Revenue external	(769 904)	(601 785)	(616 794)	(15 009)	2%	(642 924)	(679 803)
Revenue internal		(1 465 298)	(1 515 118)	(49 820)	3%	(1 562 087)	(1 641 754)
Internal recoveries	(26 666 253)	-	-	-	0%	-	-
Revenue	(27 436 157)	(2 067 084)	(2 131 912)	(64 829)	3%	(2 205 011)	(2 321 557)
Net operating expenses excluding depreciation and amortisation	322 179 138	378 909 452	393 301 468	14 392 016	4%	419 905 185	442 462 858
Personnel costs	112 674 973	121 323 132	127 625 958	6 302 826	5%	144 363 124	152 593 230
Fuel costs	146 318	131 203	135 555	4 352	3%	141 251	149 116
Electricity costs	3 374 909	2 713 872	2 781 557	67 685	2%	2 899 395	3 065 710
Material costs	6 845	71	73	2	2%	76	80
Other operating costs	205 976 091	254 741 173	262 758 325	8 017 152	3%	272 501 339	286 654 721
<i>Accommodation and Refreshments</i>	3 581 194	3 831 974	3 990 136	158 162	4%	4 145 149	4 376 581
<i>Professional Fees</i>	54 863 882	60 706 095	62 863 434	2 157 339	4%	64 698 914	67 932 596
<i>Electronic Data Costs</i>	57 939 648	79 782 518	81 795 253	2 012 735	3%	85 246 793	90 131 810
<i>Internal Audit</i>	17 069 970	16 509 289	17 070 605	561 316	3%	17 599 793	18 497 383
<i>Social Investment</i>	14 513 860	17 911 783	18 501 572	589 788	3%	19 099 821	20 088 325
<i>Miscellaneous Costs</i>	58 007 537	75 999 513	78 537 325	2 537 812	3%	81 710 870	85 628 027
Profit from operations before depreciation, amortisation and items listed below	294 742 980	376 842 368	391 169 556	14 327 188	4%	417 700 174	440 141 301
Depreciation and amortisation	60 127 695	67 143 912	44 887 519	(22 256 393)	-33%	29 898 584	25 746 835
Profit from operations before the items listed below	354 870 675	443 986 280	436 057 075	(7 929 205)	-2%	447 598 759	465 888 137
Profit on sale of interest in businesses				-	0%		
Impairment of assets	2 506 599	-	-	-	0%	-	-
Dividends received	(204)				0%		
Post-retirement benefit obligation costs	26 421 439	23 625 580	24 233 208	607 628	3%	25 235 964	26 669 775
Fair value adjustments	317 977	423 363	433 921	10 559	2%	452 304	478 249
Income from associates					0%		
Profit from operations before net finance costs	384 116 485	468 035 223	460 724 205	(7 311 019)	-2%	473 287 027	493 036 161
Transnet Capital Projects	86 524	19 323 385	20 289 555	966 169	5%	29 825 645	31 316 928
Transnet Foundation	-	-	-	-	0%	-	-
Total Overhead Costs	384 203 009	487 358 609	481 013 759	(6 344 849)	-1%	503 112 672	524 353 089
YOY % Increase		26.85%	-1.30%			4.59%	4.22%

ANNEXURE E: FY 2020/21 Tariff Book Changes

Table 41: Proposed Tariff Book changes

Issue	Current read	Proposed Changes
Tariffs		
<p>1. Definitions "Coaster" "Coastwise cargo" Page DEF1</p>	<p>"Coaster" refers to vessels carrying cargo exclusively between the SA ports, on a regular schedule. To qualify as a bonafide coaster, an application must be lodged and approved by the Authority.</p> <p>"Coastwise cargo" means cargo moving by sea between SA ports.</p>	<p>Amendment "Coaster" refers to vessels carrying cargo between SA ports and Namibia, on a regular schedule. To qualify as a bonafide coaster, an application must be lodged and approved by the Authority.</p> <p>"Coastwise cargo" means cargo moving by sea between SA ports and Namibia.</p> <p>Rationale To incentivise cargo flow between Namibian ports and SA ports</p>
<p>2. Correction of company registration No. Page DEF 3</p>	<p>DEF 3 – "Transnet" means Transnet SOC(Ltd) registration No. 1990/00900/06</p>	<p>Amendment DEF 3 – "Transnet" means Transnet SOC(Ltd) registration No. 1990/00900/30</p> <p>Rationale Update of registration number</p>
<p>3. Vessel Traffic Services (VTS) for bunkering vessels at anchorage Page 2.1</p>	<p>Vessels calling all Ports under the control of the Authority.....</p>	<p>Amendment Vessels calling all Ports under the control of the Authority, and vessels performing port related services within port limits</p> <p>Rationale To provide clarity as to when VTS charges will be applicable</p>
<p>4. Berthing Services Page 3.7</p>	<p>For berthing staff in attendance during or outside ordinary working hours on board tanker vessels discharging oil at the Port of Mossel Bay, per hour or part thereof.</p>	<p>Amendment For berthing staff in attendance during or outside ordinary working hours on board tanker vessels, discharging crude and petroleum products (including LPG vessels) at the Port of Mossel Bay and Port of Saldanha Bay, per hour or part thereof.</p> <p>Rationale This additional service has been extended to the Port of Saldanha Bay</p>
<p>5. Running of Vessel Lines Page 3.8</p>	<p>Running of vessels' lines or standing by to run lines for vessels entering, leaving or shifting per service during or outside ordinary working hours</p>	<p>Amendment Running of vessels' lines is where a launch/mooring boat is used to run the vessels' lines (steel wire lines/mooring ropes) from the ship to the bollard.</p>

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Issue	Current read	Proposed Changes
Tariffs		
		Running of the vessels' lines or standing by to run lines for vessel entering, leaving or shifting; per service during or outside ordinary working hours: Rationale To give a clear understanding of the service being performed.
6. Split Account Fees (credit and re-debit) Page 4.10	11 Split account fees Prior to vessel sailing per party.....339.44 Amending fee applicable on any changes on marine order Amending fee per order.....331.07 Administrative fees for photocopies per page.....10.37	Amendment 11. Administrative Fees 11.1 Amending Fees Amending fees will be applicable for all changes to marine order post invoicing which arise from customer initiated requests Amending Fee per request.....331.07 11.2 Split Account Fees PRIOR to vessel sailing per party.....339.44 AFTER vessel sailing will result in the split account fee being levied twice per party. Credit & Re-debit of marine invoice as per client's request after vessel sailing will result in a fee being levied twice. Rationale The aforementioned amendment provides a better understanding of the administrative fees applicable. Removal of admin charge for photocopies as ports no longer provide clients with hard copies. Copies available on OTC system.
7. Business Processes and documentation: Cargo Dues Order Page 8.1	Cargo Dues Orders must be presented at the port where the consignment will be landed/shipped/transhipped. Overborder offices will still accept cargo dues orders for containers.	Amendment <ul style="list-style-type: none"> • Cargo Dues Orders must be presented at the port where the consignment will be landed/shipped/transhipped. Rationale The orders are no longer hand delivered.
8. Business Processes and Documentation: cargo Dues Order Page 8.1	Any cancellations and amendments on this order will be applicable per each container on the list. Any applicable fees will be levied per container.	Amendment Any cancellations and amendments on this order will be applicable per each container on the list. Any applicable fees will be levied per cargo dues order. Rationale Certain cargo dues orders may have between 100 to 500 containers per cargo dues order.

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Issue	Current read	Proposed Changes
Tariffs		
<p>9. Types of documentation Page 8.2</p>	<p>Bulk and Breakbulk Imports:</p> <ul style="list-style-type: none"> • Cargo Dues Order • Bill of Lading/ Delivery Order • Vessel Manifest 	<p>Amendment</p> <ul style="list-style-type: none"> • Bulk and Breakbulk Imports: <ul style="list-style-type: none"> ▪ Cargo Dues Order ▪ Bill of Lading/ Delivery Order ▪ Vessel Manifest ▪ Landing Order <p>Rationale</p> <p>Landing order documents are required in order to reconcile the volumes handled.</p>
<p>10. Timing of Documentation: Import Documentation Page 8.3 (Point 2.1)</p>	<p>2.1 Manifests in respect of empties must be submitted within fourteen (14) day before vessel arrival.</p>	<p>Amendment</p> <p>Manifest in respect of empties must be submitted within three (3) days after vessel departure.</p> <p>Rationale</p> <p>The 14 day period has proven to be excessive with clients being unable to supply the manifest timeously .</p>
<p>11. Late Order Fees Calculation Page 8.4, clause 3.1</p>	<p>Total cargo dues Payable R10 338.37 (the formula supplied as an example does not result in the total given)</p>	<p>Amendment</p> <p>Total cargo dues Payable R10 038.37</p> <p>Rationale</p> <p>Correction of print error. Tariff System was based on correct rates.</p>
<p>12. Non Submission of Cargo dues orders: Page 8.5 Clause 3.2</p>	<p>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 in the event of under declaration, in addition to the amendment fee of R331.05 per order.</p>	<p>Amendment</p> <p>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> <p>Rationale</p> <p>The tariff book does not make mention of raising only the difference. There is no need to charge a 100% penalty.</p> <p>Removal of the words “in the event of under declaration” is proposed in order to adequately process incorrect orders.</p>

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Issue	Current read	Proposed Changes
Tariffs		
<p>13. Amending Orders Page 8.5</p>	<p>Incorrect orders amended within seven (7) days from the date of submission (inclusive of weekends and public holidays) will not attract an amending fee for all non-revenue items e.g. container number.</p>	<p>Amendment 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> <p>Rationale To provide clarity as to when the amendment fee is not applicable</p>
<p>3. Crew transportation (will fall under section 3, page 4-9, point 4 (security services))</p>	<p>Currently not in tariff book</p>	<p>Amendment</p> <p>4. SECURITY SERVICES</p> <p>4.1 Crew Transportation</p> <p>Port of Durban:</p> <p>Vehicle provided by TNPA security to crew members for vessels at Island View berths 1-8 to transport crew members from vessel to Check Point</p> <p>Crew Transportation per day.....R906.41</p> <p>4.2 Fees for other security services are available on application</p> <p>Rationale</p> <p>Require inclusion in Traiff book to formalize tariffs as the service has always been available on application,</p>

End.