TRANSNET

national ports authority

TRANSNET NATIONAL PORTS AUTHORITY

TARIFF APPLICATION FOR FINANCIAL YEAR 2022/23

Picture: Port of Ngqura

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ABBREVIATIONS AND ACRONYMS

AFS	Annual Financial Statements
BER	Bureau of Economic Research
CAPEX	Capital Expenditure
CAPM	Capital Asset Pricing Model
CPI	Consumer Price Index
CPT	Cape Town
CWIP	Capital Work In Progress
DBN	Durban
DCT	Durban Container Terminal
DMS	Dimson, Marsh and Staunton
DoT	Department of Transport
DRS	Dredging Services
EL	East London
ETIMC	Excessive Tariff Increase Margin Credit
FEL	Front End Loading
FY	Financial Year
GDP	Gross Domestic Product
GRT	Gross Registered Tonnage
HOPS	Haulier-Road Operations Performance Standards
IMF	International Monetary Fund
KAM	Key Account Manager
KPI	Key Performance Indicators
LE	Latest Estimate
LNG	Liquefied Natural Gas
MOPS	Marine Operations Performance Standards
MPT	Multi-Purpose Terminal
MRP	Market Risk Premium
NGQ	Ngqura
NPA	National Ports Authority
NPCC	National Port Consultative Committee
NPP	National Ports Plan
OD	Operating Divisions
OEMs	Original Equipment Manufacturers
Opex	Operating Expenses
PE	Port Elizabeth
RAB	Regulatory Asset Base
RR	Revenue Requirement
RFR	Risk Free Rate

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
SLD	Saldanha Bay
SOC	State Owned Company
TOC	Trended Original Cost
TONS	Tonnages
TOPS	Terminal Operator Performance Standards
VoA	Methodology for the valuation of the Authority's RAB

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 ("the Authority"), a division of Transnet SOC Limited ("Transnet") 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 or at such longer intervals as the Authority and Regulator may agree, 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 applied the Tariff Methodology ("the Tariff Methodology") applicable for the Financial Years 2021/22 to FY 2023/24, issued by the Regulator on 06 March 2020. The Tariff Methodology forms an integral part of the regulatory framework and sets out the requirements of the tariff application process.

The Tariff Methodology considers a multi-year approach and is applicable from the 2021/22 to 2023/24 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 2023/24, the Tariff Application for the indicative year of FY 2024/25 has been prepared on the basis of the 06 March 2020 Tariff Methodology.

The Tariff Methodology prescribes the use of the Revenue Requirement ("RR") formula as follows:

Revenue Requirement

= Regulatory Asset Base (RAB) x Weighted Average Cost of Capital (WACC)

+ Operating Costs + Depreciation + Taxation Expense ± Claw-back

± Excessive Tariff Increase Margin Credit (ETIMC)

± Weighted Efficiency Gains from Operations (WEGO)

On 22 June 2021, President Cyril Ramaphosa announced the establishment of the Authority as an independent subsidiary of Transnet, as part of the Economic Reconstruction and Recovery Plan of the country. The decision will be effective by 01 April 2022 and has a direct bearing on the determination of the Authority's tariffs for FY 2022/23. The determination of the tariff application FY 2022/23, in accordance with the Tariff Methodology, has therefore considered the following:

- **RAB:** TNPA has continued with the implementation of the Trended Original Cost ("TOC") approach as the Tariff Methodology indicates that should the "Authority be corporatized (stand-alone SOC or subsidiary), the Regulator will consider applying TOC until credit metrics like the cash interest cover ratio have been proven to be within sustainable limits"; and
- **Tax Rate:** The Tariff Methodology states that the Regulator will "accept the current corporate tax rate of 28% (to be adjusted if amended by National Treasury) if the Authority is corporatized from a division of Transnet, into a subsidiary or stand-alone entity".
- **WACC:**
  - Cost of Equity (Capital Asset Pricing Model) (CAPM): The instruments utilised to determine the key elements of the CAPM model, namely the Market Risk Premium (MRP) and Risk Free Rate (RfR) which is applicable to the Authority as an Operating Division is likely to be similar with the Authority being a subsidiary of Transnet. As such, no adjustments have been made to the Cost of Equity; and
  - Cost of Debt: The Tariff Methodology states that the Cost of Debt is based on the Authority's actual embedded debt costs. Until such time as the corporate structure of the Authority is amended, the use of the Transnet Group short term vs long term debt

structure will be applied to determine an efficient short-term vs long term debt ratio for the Authority. It is envisaged that the subsidiarisation of the Authority will result in the transfer of the allocated loans with associated loan covenants (where applicable) from Transnet to the Authority. The current debt structure of Transnet is considered to be optimal and considered applicable for the Authority. To this end, the existing debt structure (loan schedule) and actual Transnet Cost of Debt FY 2020/21 has been utilised for the current Tariff Application. For future/new debt incurred, the actual Cost of Debt of the Authority will be observed and adjusted accordingly.

The Authority is of the understanding that the impact on some of the components used in the Tariff Methodology, arising from the subsidiarisation of the Authority, will be considered as part of the Tariff Methodology review in FY 2022/23.

Table 1 below demonstrates the RR as determined using the latest economic data available:

Table 1: Revenue Requirement FY 2022/23 to FY 2024/25

DETAILS	FY 2022/23	FY 2023/24	FY 2024/25
	Fixed Tariff Year	Indicative Tariff Years	
	R'm		
RAB	79 382	82 920	87 431
Vanilla WACC	6,99%	6,83%	6,96%
Return on Capital	5 549	5 660	6 082
Plus: Depreciation	2 560	2 604	2 585
Plus: Operating Costs	5 919	6 221	6 510
Plus: Taxation Expense	1 211	1 238	1 328
Plus/Less: Clawback	-355	7	-
Plus/Less: ETIMC	-	-	-
Plus/Less: WEGO	-151	-	-
Revenue Allowed	**14 733**	**15 731**	**16 504**
Less: Real Estate	4 085	4 339	4 634
Marine Revenue	***10 648***	***11 391***	***11 870***

Application of the RR formula, results in a Required Revenue of R14 733m for FY 2022/23 comprising of Marine Business revenue of R10 648m and Real Estate Business revenue of R4 085m.

Table 2 below illustrates the resultant tariff adjustments, considering a projected volume growth for each of the financial years.

Table 2: Marine Revenue for FY 2022/23 to FY 2024/25

MARINE REVENUE	FY 2022/23	FY 2023/24	FY 2024/25
	Fixed Tariff Year	Indicative Tariff Years	
	R'm		
Prior Year Revenue	8 163	10 648	11 391
Estimated Volume Growth	5,24%	5,07%	1,71%
Revenue after volume growth	8 590	11 188	11 586
Required Revenue	10 648	11 391	11 870
Tariff Increase	***23,96%***	***1,81%***	***2,45%***

Per the Tariff Methodology, the resultant tariff adjustment for FY 2022/23 is 23.96%. Accordingly, the indicative tariff adjustments for FY 2023/24 and FY 2024/25 are 1.81% and 2.45% respectively.

"Several structural weaknesses must be overcome if Africa is to translate rapid growth and higher demand for commodities into rising employment and living standard. Crucially, poor transport links and infrastructure networks, as well as tariff and non-tariff barriers, raise the cost of doing business and hobble both investment and internal trade" (National Development Plan 2030) ("NDP").

The excerpt from the NDP succinctly puts into perspective the need for a focused strategy by the Authority to deliver on its mandate to provide infrastructure timeously and efficiently.

As such, the Authority's business strategy undertakes to advance the states developmental agenda by continuously enhancing and sustainably optimizing the port system as a catalyst for economic development, inclusive growth and global competitiveness. In pursuing this agenda, the organization is mindful of having to navigate an extremely challenging operating and commercial environment amid the COVID-19 pandemic that has and is impacting negatively on demand and capital investment capacity.

Capital investment is the central pillar of the economic recovery and reconstruction plan of the state and underpins the national goal of creating an optimal freight system for enabling economic growth. In this regard, Transnet has fundamentally changed the way it approaches its strategic role in the national freight system, to a supply chain-centric perspective aligned to the strategic posture of the Authority. The key objectives of the new approach, referred to as the Transnet Segment Strategy, is to ensure greater competitiveness for key industry supply chains and to support the growth of Transnet's key market segments. The key market segments are broadly made up of eight (8) segments, namely, Iron Ore, Manganese, Coal, Chrome & Magnetite, Automotives, Containers, Fuel, and Gas.

In order to deliver on the Transnet segment strategy, and fulfil the mandate of the Authority, significant capital expenditure will be required in the short to medium term. This implies that above inflation tariff adjustments will be required and is contrary to the guidance provided by the Regulator (past Tariff ROD's) in that indicative overall tariff adjustments in future years would be within the inflation target band.

The Authority is certainly cognisant of the current economic conditions and hardships that require swift response and support from a State-owned Company. The Tariff Methodology outcome of 23.96% for FY 2022/23 is undoubtedly unaffordable for port users and together with the significantly lower forecasted future indicative tariff adjustments, such a request could be considered illogical.

Accordingly, the Authority considers the utilisation of the ETIMC facility to smooth the tariff trajectory as prudent. The Authority has aggregated the tariff adjustments over the three-year period made up of 23.96% for FY 2022/23, and the indicative tariff adjustments of 1.81% for FY 2023/24 and 2.45% for FY 2024/25, resulting in a simple average of 9.40% per annum, which has been considered in terms of the Revenue Requirement computation. The aforementioned smoothing of the tariff adjustments is limited to the funds available in the ETIMC facility[1] and as such, the Authority requests the use of R 1 251m and R499m of the ETIMC funds in FY 2022/23 and FY 2023/24, respectively.

This results in a Revenue Requirement of R13 482m for FY 2022/23; and R15 232m and R16 504m for FY 2023/24 and FY 2024/25, respectively. The table below provides the detailed calculations:

[1] Per ROD FY 2021/22 ETIMC Total is R 1 750m

Table 3: Revenue Requirement FY 2022/23 to FY 2024/25 after ETIMC

DETAILS	FY 2022/23	FY 2023/24	FY 2024/25
	Fixed Tariff Year	Indicative Tariff Years	
	R'm		
RAB	79 382	82 920	87 431
Vanilla WACC	6,99%	6,83%	6,96%
Return on Capital	5 549	5 660	6 082
Plus: Depreciation	2 560	2 604	2 585
Plus: Operating Costs	5 919	6 221	6 510
Plus: Taxation Expense	1 211	1 238	1 328
Plus/Less: Clawback	-355	7	-
Plus/Less: ETIMC	-1 251	-499	-
Plus/Less: WEGO	-151	-	-
Revenue Allowed	**13 482**	**15 232**	**16 504**
Less: Real Estate	4 085	4 339	4 634
Marine Revenue	***9 397***	***10 892***	***11 870***

The resultant tariff adjustments are highlighted in the table below:

Table 4: Marine Revenue for FY 2022/23 to FY 2024/25 After ETIMC

MARINE REVENUE	FY 2022/23	FY 2023/24	FY 2024/25
	Fixed Tariff Year	Indicative Tariff Years	
	R'm		
Prior Year Revenue	8 163	9 397	10 892
Estimated Volume Growth	5,24%	5,07%	1,71%
Revenue after volume growth	8 590	9 874	11 078
Required Revenue	9 397	10 892	11 870
Tariff Increase	***9,40%***	***10,31%***	***7,15%***

The use of the funds available in the ETIMC facility results in an average tariff adjustment request of **9.40% for FY 2022/23**; and indicative tariff adjustments of 10.31% and 7.15% for FY 2023/24 and FY 2024/25, respectively.

The Tariff Strategy sets out the strategic pricing direction for the SA port system and aims to correct past tariff imbalances. In accordance with the objectives of the Tariff Strategy, amongst others, the following differentiated tariff adjustments (Section 8.3.2.6) are proposed for approval by the Regulator:

- Tariff increase of 17.83% on Marine charges (shipping lines)
- 3.10% on Containers Imports & Exports;
- 9.40% on Break Bulk Imports & Exports;
- 9.40% on Dry Bulk Imports & Exports;
  - *12.00% on Coal & Magnetite Exports*
- 9.40% on Liquid Bulk Import & Export; and
- 0.00% on Automotive Imports & Exports.

- Equates to an average of 5.47% increase in Cargo Dues.

The aforementioned differentiated tariff adjustments result in a weighted average tariff adjustment of **9.40% for FY 2022/23.**

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.

In line with the functions of the Authority, the Tariff Application allows for the effective recovery of the Authority's investment; recovery of costs; and a return commensurate with the risk, and further allows for efficient port pricing signals to be sent to the market.

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 06 March 2020 and is applicable for a period of three (3) years, from FY 2021/22 to FY 2023/24.

The Tariff Methodology is multi-year in nature and requires 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.

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

Revenue Requirement

= Regulatory Asset Base (RAB) x Weighted Average Cost of Capital (WACC) + Operating Costs + Depreciation + Taxation Expense ± Claw-back± Excessive Tariff Increase Margin Credit (ETIMC) ± Weighted Efficiency Gains from Operations (WEGO)

On 22 June 2021, President Cyril Ramaphosa announced the establishment of the Authority as an independent subsidiary of Transnet, as part of the Economic Reconstruction and Recovery

Plan. The aforementioned decision will be effective by 01 April 2022 and has a direct bearing on the determination of the Authority's tariffs for FY 2022/23. The determination of the tariff application FY 2022/23, in accordance with the Tariff Methodology, has therefore considered the following:

- **RAB:** TNPA has continued with the implementation of the Trended Original Costs ("TOC") approach as the Tariff Methodology indicates that "should the Authority be corporatized (stand-alone SOC or subsidiary), the Regulator will consider applying TOC until credit metrics like the cash interest cover ratio have been proven to be within sustainable limits"; and
- **Tax Rate:** The Tariff Methodology states that the Regulator "will accept the current corporate tax rate of 28% (to be adjusted if amended by National Treasury) if the Authority is corporatized from a division of Transnet, into a subsidiary or stand-alone entity".
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  - Cost of Debt: The Tariff Methodology states that the Cost of Debt is based on the Authority's actual embedded debt costs. Until such time as the corporate structure of the Authority is amended, the use of the Transnet Group short term vs long term debt structure will be applied to determine an efficient short-term vs long term debt ratio for the Authority. It is envisaged that the subsidiarisation of the Authority will result in the transfer of the allocated loans with associated loan covenants were applicable, from Transnet to the Authority. The current debt structure of Transnet is considered to be optimal and considered applicable for the Authority. To this end, the existing debt structure (loan schedule) and actual Transnet Cost of Debt FY 2020/21 has been utilised for the current Tariff Application. For future/new debt incurred, the actual Cost of Debt of the Authority will be observed and adjusted accordingly.

The Authority is of the understanding that the impact on some of the components used in the Tariff Methodology, arising from the subsidiarisation of the Authority, will be considered as part of the Tariff Methodology review in FY 2022/23.

5. The Business of the Authority

5.1 Introduction

The Authority owns and manages nine commercial ports within South Africa, namely, Port Nolloth[2], Saldanha Bay, Cape Town, Mossel Bay, Port Elizabeth, Ngqura, East London, Durban and Richards Bay.

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

Port infrastructure and maritime services are intended to provide to the eight (8) key market segments, namely, Iron Ore, Manganese, Coal, Chrome & Magnetite, Automotives, Containers, Fuel and Gas. Growth in these segments is a function of global demand, logistics infrastructure capacity and supply chain efficiencies which include port efficiencies.

5.2 The Authority's Strategy

The Transnet Segment Strategy has fundamentally changed the way it approaches its strategic role in the national freight system, to a supply chain-centric perspective aligned to the strategic posture of the Authority. The key objective of the segment strategy is to ensure greater competitiveness for key industry supply chains and to support the growth of Transnet's key market segments. The segment strategies or initiatives articulate the strategic positioning, tactical response and partnership approaches for developing Transnet's key market segments that account for more than 80% of revenue.

The Authority's business strategy is framed within the context of the aforementioned Transnet segment strategy and informed by the National Commercial Ports Policy and the Act, whilst also considering the changing dynamics in the world economy and trends in the global port and logistics environment.

The Authority's strategy seeks to create a reimagined port system that transcends the landlord role by stimulating the country's maritime economy driven by a vision to become a world class sustainable port system, making South Africa and the region a competitive location for doing business.

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

The key objective of the strategy is to elevate the role of the Authority in the economy by influencing development and growth through adaptable and integrated infrastructure that is fit for purpose, competitively priced and efficiently operated, in line with global benchmarks. To this end the key elements of the Authority's strategy are centered on the following strategic pillars:

1) Port infrastructure: Provide adequate infrastructure capacity aligned to projected demand;
2) Port operations performance: Improve port efficiencies and the quality of port infrastructure and fleet assets;
3) Landside transport connections: Enhance integration of the port system in the transport and logistics network;
4) Vessel connectivity: Improve vessel connectivity through hub ports, cost competitiveness and influencing industrial development;
5) Export/Import processing efficiency: Enhance digitization of operations and digital integration of ports with the port community to improve export/import processing efficiency; and
6) Regulatory compliance and oversight: Ensure legislative and regulatory compliance and effective oversight of operations.

5.3 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 5: 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.
Change agent	Ensure non-discriminatory, fair, transparent access to port services and facilities; advancement of previously disadvantaged people; promotion of representation and participation of Historically Disadvantaged Individuals ("HDIs") 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.

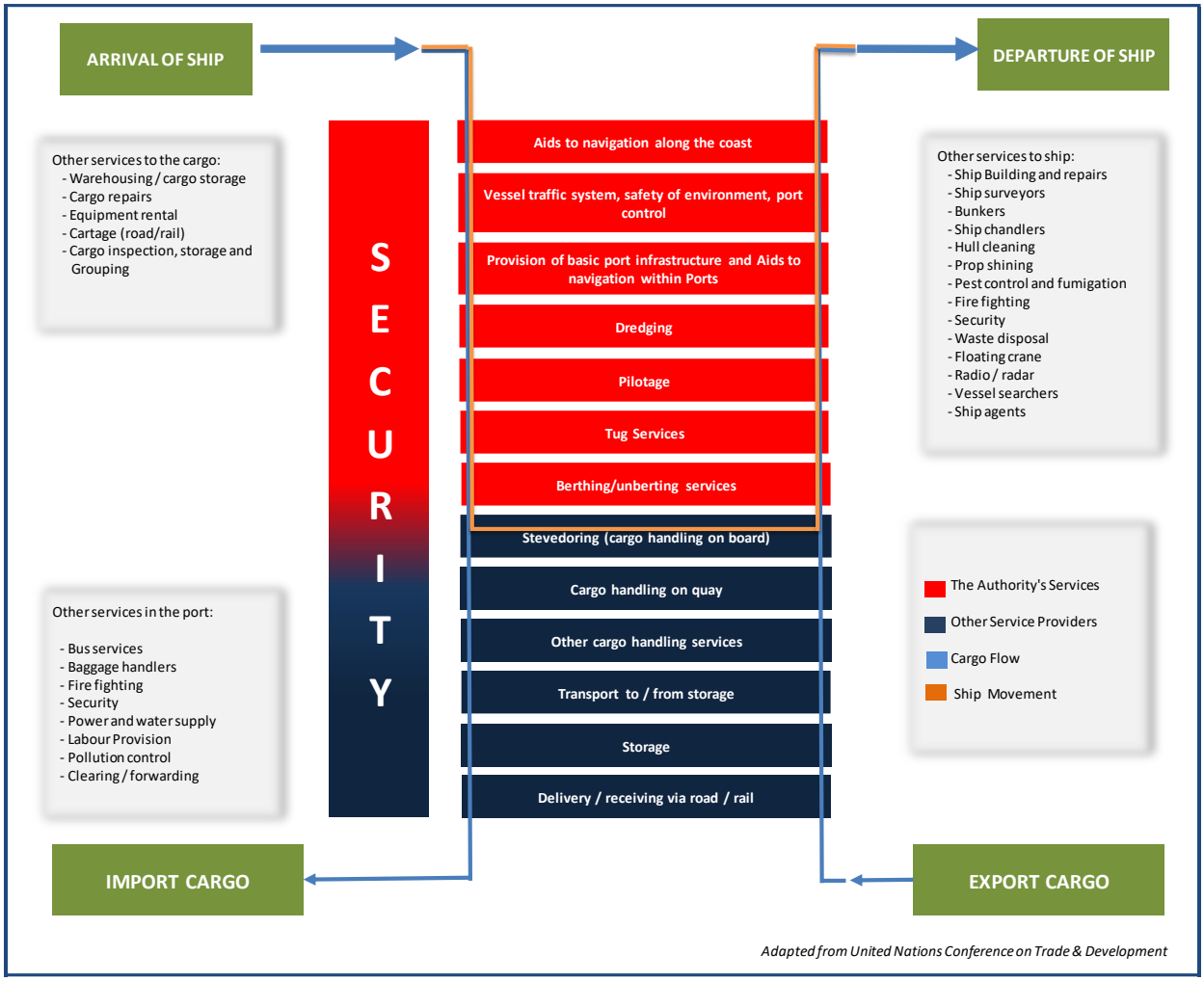
5.4 Tariffs in Perspective

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 few 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.

Figure 1 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 1: 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.

The Authority's services and their respective revenue streams are set out in Table 6 below.

Table 6: 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; and

(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 capital planning and strategic planning initiatives which are aimed 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 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 nine (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 NPP 2019 "update" is currently available on the Authority's website for stakeholder review and comment. It is envisaged that the next rebased NPP will be published in the 2021 calendar year.

- ***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 every two (2) years and revised every five years; or as required.
- ***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 utilise the forecasted volumes from Transnet's Freight Demand Model.
- ***Prioritization:*** Projects are aligned to strategy and prioritized by compliance, sustainability and to meet forecasted demand.
- ***Maintenance Plans:*** Projects are aligned to maintenance programs to sustain existing port capacity and the safety of port infrastructure.
- ***Fleet Plans:*** The Authority has a robust Fleet Plan that informs maintenance, replacement and investment in marine and air fleet (tugs, pilot boats, survey boats, dredging vessels and helicopters).
- ***Port Consultative Committees***: The Authority adopts a consultative approach to the drafting of the Capital Expenditure program 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 have been consulted with port users. This consultation was conducted on a port-by-port basis during a process facilitated by the Department of Transport (DoT), with SAMSA as secretariat, during June/July 2021. These plans are informed, inter alia, by the Transnet Freight Demand Model.
- ***Durban Hub Port***: The Authority is currently consulting on the Container Strategy which includes a revision of the proposed container development in Kwazulu-Natal. The vision is to create a hub container port in the Port of Durban. This entails the relocation of the navy and migration of certain commodities from the Port of Durban to the Port of Richards Bay.

6.3 Key Focus Areas of Capital Investment Program in FY 2022/23 to FY 2024/25

In alignment with the Transnet segment strategy and the Authority's strategy, the capital investment program of the Authority, in terms of the key segment enablers is highlighted in Table 7 below.

Table 7: The Authority's Capital Programme - Segment Enablers[3]

Segment Enablers	Latest Estimate FY 2021/22	CP FY 2022/23	CP FY 2023/24	CP FY2024/25	LE + CP Segment Inside 4 Yr	Segment Inside 4 Yr
Auto Segment Enablers	10	21	33	16	80	1%
Chrome & Magnetite	7	-	-	100	107	1%
Coal Segment Enablers	43	58	40	-	141	1%
Container Segment Enablers	237	190	260	1 584	2 271	20%
Enabling - All Segments	493	723	911	632	2 759	25%
Gas Segment Enablers	-	-	-	-	-	0%
Iron Ore Segment Enablers	101	120	-	7	228	2%
Liquid Segment Enablers	232	452	197	233	1 114	10%
Manganese Segment Enablers	22	69	32	31	154	1%
Other Segments & Supporting Infrastructure	410	821	1 192	1 823	4 246	38%
Total	**1 555**	**2 454**	**2 666**	**4 425**	**11 100**	

The Capital Investment Program for FY 2022/23, FY 2023/24 and FY 2024/25 amounts to R2 454m, R2 666m and R4 425m respectively. These amounts are included in the Authority's RAB as capital expenditure in the years in which they are incurred. The key projects are listed below; some of which have already commenced in prior year/(s) and are continuing into this tariff focus period. On aggregate the following projects contribute 58% of the planned capital expenditure over the next 3 years.

Table 8 below highlights the key projects that have commenced in prior years:

Table 8: Key Projects – Commenced in prior years

Project	Port/ Business Unit	Segment Enabler
Provide additonal rail facility for Duine Area	Richards Bay	Coal
Replacement of helicopter ZS-RRB	Richards Bay	All Segments
Port Fire Installation Expansion & Upgrade	Richards Bay	Other
New Tug Jetty - FEL 4	Durban	Containers
Execution: DCT berth deepening 203 to 205	Durban	Containers
Replacement of helicopter ZS-HDP	Durban	All Segments
Acquisition of new helicopter	Cape Town	All Segments
Reconstruction of Quay 3	East London	Other
Bulk electrical power supply related to Third tippler	Saldanha	Iron Ore
Manganese project	Ngqura	Manganese
Acquisition of new Cutter Suction dredger	Dredging Services	All Segments

The table below highlights the key projects that will commence over the tariff application period:

[3] Other Capital projects that indirectly attribute to the segments have been included

Table 9: Key Projects – Tariff Application Period Commencement

Project	Port/ Business Unit	Segment Enabler
Replacement of one (1) tug	Richards Bay	All Segments
Bayvue Railyard Infrastructure Upgrade	Richards Bay	Chrome/Magnetite
Replacement of water Pipelines & Billing system	Durban	Other
Execution - IV Sea Walls	Durban	Liquid Bulk
Two (2) Replacement Tugs	Cape Town	All Segments
Acquisition of pollution control vessel	Cape Town	All Segments
Two (2) replacement tugs	East London	All Segments
Construction of Liquid Bulk terminal	Ngqura	Liquid Bulk
2nd Grab hopper dredger	Dredging	All Segments

In addition, Table 10 below highlights the major Operation Phakisa projects to be undertaken at the various Ports.

Table 10: Operation Phakisa Major Projects

Project	Port
Modifications of 1200 ton slipway cradle	PE
Replacement of Robinson Drydock floating caisson	CPT
Replacement of 10 cranes for Shiprepair	CPT
Execution : Dry Dock Capstans Upgrade - FEL3&4	DBN
Refurbishment of Graving Dock - Jib Cranes	EL
Sturrock Dry Dock Pump System Upgrade - FEL3&4	CPT
Sturrock Dry Dock Electrical Infrastructure Upgrade (FEL 3	CPT
Replacement of Sturrock Drydock Inner Caisson	CPT
Replacement of Capstans on all docks - FEL3&4	CPT
Robinson Dry Dock Pump System Upgrade - FEL3&4	CPT

The Authority's capital investment goals are to increase productivity and efficiency, ensuring a safe, secure and compliant port system whilst meeting customer needs.

Table 11: Strategic Capital Investment Objectives

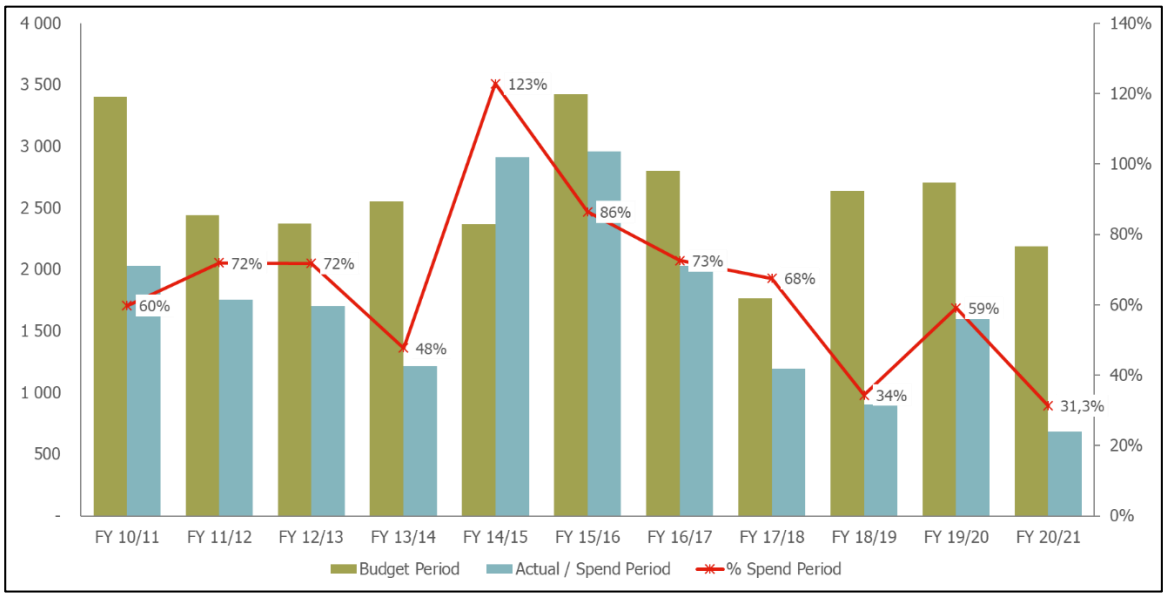
Strategic objective	LE	Projections					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total 6yr
	Rm						
Re-engineering, Integration, Productivity and Efficiency	660	721	273	1 501	1 326	4 397	8 878
	216	184	80	239	254	530	1 504
	514	916	1 740	1 941	2 285	4 504	11 900
Safety, Risk and Effective Governance	79	205	211	364	406	344	1 609
	34	333	186	7	19	45	624
	8	-	6	37	128	192	372
	0	9	81	121	178	172	560
Human Capital	44	86	89	214	234	168	835
Total (excl. borrowing cost)	**1 555**	**2 454**	**2 666**	**4 425**	**4 830**	**10 351**	**26 281**

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

6.4 Capital Delivery Model

Over the past ten-year period (FY 2010/11 to FY 2020/21) as illustrated below, the Authority has been experiencing challenges in delivering capex projects due to various reasons such as Delegation of Authority (DoA), Procurement Processes, Governance, Project Execution Methodology, Resource gap etc.

Figure 2: Budget vs Actual (Historical Performance)



In repositioning the Authority as an efficient capital delivery business and as part of the restructuring underway, the road map illustrated in Figure 3 below has been developed:

Figure 3: Repositioning capital delivery for the business

1 Fixing the Capital delivery performance	2 Optimise our way of doing business	3 Desired End State
Immediate response focusing on:	**Benefits derived from tactical interventions will:**	**Making things happen:**
• Re-engineer the System that develop Capex Corporate Plan • Develop new Capex delivery model • Enhance project delivery methodology • Strengthen contract management • Refocus design capability • Strengthen cost and schedule estimating • Develop technical standards, processes and procedures for the entire port system • Align competency to tasks based on expertise • Resource allocation to projects • Align governance processes to type of contract	• Fundamental review of the of procurement processes • Inappropriate contract management • Use ranking model to prioritise projects and deploy resources • Collapse some governance processes (PLP & committees) • Train committee members • Realign and refocus business case development i.e. Capital vs Sustaining projects	• Quick turnaround time • Agile • Effective and efficient project delivery • Mordenise infrastructure • Reliable capital delivery team • Trendsetter in capital delivery • Instrumental in economic growth of the country • An enabler of port infrastructure. • Future implementing agent • Centre of excellence • Project management maturity • Professional pride • System based organisation

The Authority has reviewed the following Capital Delivery models:

- Project Based organization;
- Project – Support Organization; and
- Project Network organization.

The Project – support organization has been identified as the appropriate model for the Authority, as it enables support to the core functions of the business. The Authority will be approaching its Project – Support in threefold, i.e. In-house; Hybrid; and outsourced. In-house resource capability has been identified as key in ensuring efficient delivery, in designs fit for purpose, with a staff compliment of 78 design engineers and technicians. Table 12 below highlights the current break-down of the internal human capital of the Authority from a capital delivery perspective.

Table 12: Capital Delivery Human Capital

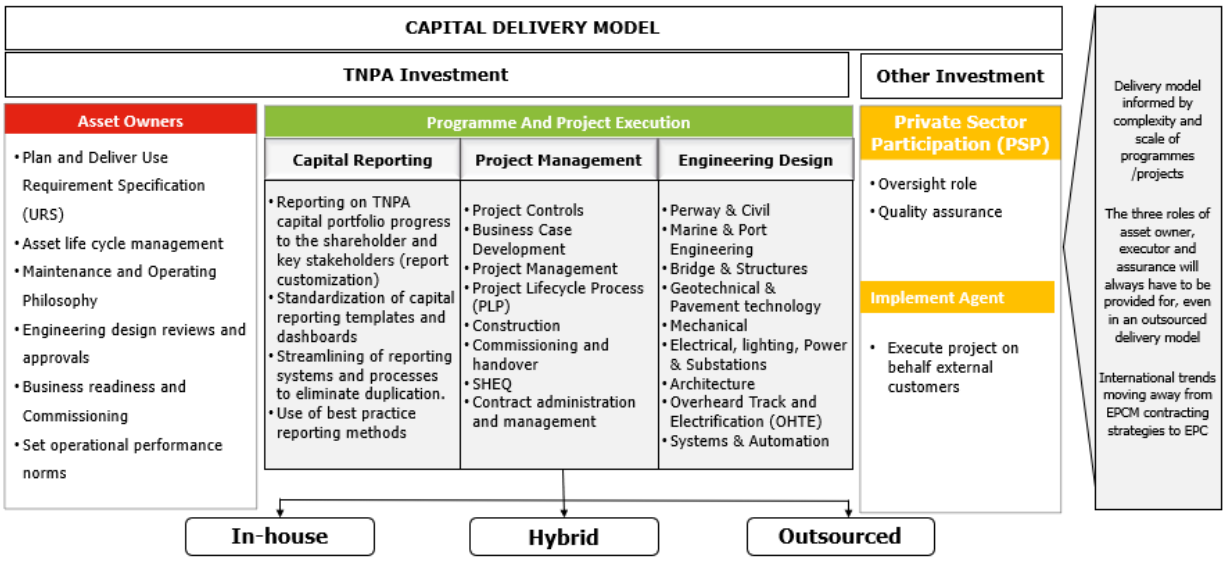
Discipline	Central	Eastern	National	Western	Grand Total
Contracts & Procurement	6	9	5	1	21
Engineering	12	38	12	16	78
Environmental	1	5	2		8
Fin&support		10	3		13
Health & Safety	2	4	2	2	10
Programme & Project Controls	9	18	4	13	44
Programme Management	9	18	4		31
Project & Construction Management	20	37	6	12	75
Secretarial			1		1
Grand Total	**59**	**139**	**39**	**44**	**281**

The Authority has a delegation to approve projects to the value of R500m and conclude engineering contracts to the total value of R700m.

Whilst the changes and reconfigurations are underway, the Authority will be using implementing agents. There are several projects that will be executed using implementing agent(s) whilst the Authority gains traction on its Capital Delivery and re-invention of its Capital Delivery model which is envisaged to be completed and executed within two years.

The figure below highlights the envisaged capital delivery model:

Figure 4: Capital Delivery Model



7. The Authority's Total Revenue

7.1 Real Estate Revenue

The vision of the Authority's Real Estate business is to ensure that the property portfolio is managed adequately, efficiently, effectively and in accordance with organization policies and per the mandate as outlined in the Act. It also aims to optimise 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.

Third party tenants enter leases to enable them to invest and develop facilities for their operations. Rentals are negotiated on a case by case basis and are therefore not reflected in the Authority's Tariff Book.

The Authority's current national Gross Lettable Area ("GLA") extent is estimated at 24.0 million square meters.

The Authority manages four categories of leases:

(a) Commercial lease including wayleave agreements

(b) Incorporated leases[4]

(c) Complementary leases[5]

(d) Leases with other Government entities

Table 13: Different Types of Leases Split across Ports

Port Name	Commercial Leases	Complementary Leases	Incorporated Leases (TO)	Leases with other Authorities & Gov dept.	Wayleave Agreements	Grand Total
Cape Town	92		11		21	**124**
Durban	209	2	79	29	1	**320**
East London	10	2	8	6	5	**31**
Mossel Bay	20					**20**
Ngqura	4		5	1		**10**
Port Elizabeth	56		16		7	**79**
Richards Bay	29	10	8		3	**50**
Saldanha Bay	31		5	1		**37**
Grand Total	**451**	**14**	**132**	**37**	**37**	**671**

The leases range from short to long term leases (tenure ranges from 5-20 years) which are inclusive of terminal operators, licensed service providers and Government entities executing legislative functions.

The management of leases is guided through the Lease Management Manual ("LMM") and considers an open, transparent, competitive and fair process. All vacant sites are advertised to the public to ensure broader participation. Once the lease reaches its expiry date, it continues to run on a month to month basis, subject to the completion of the lease renewal process and the placement of the preferred bidder.

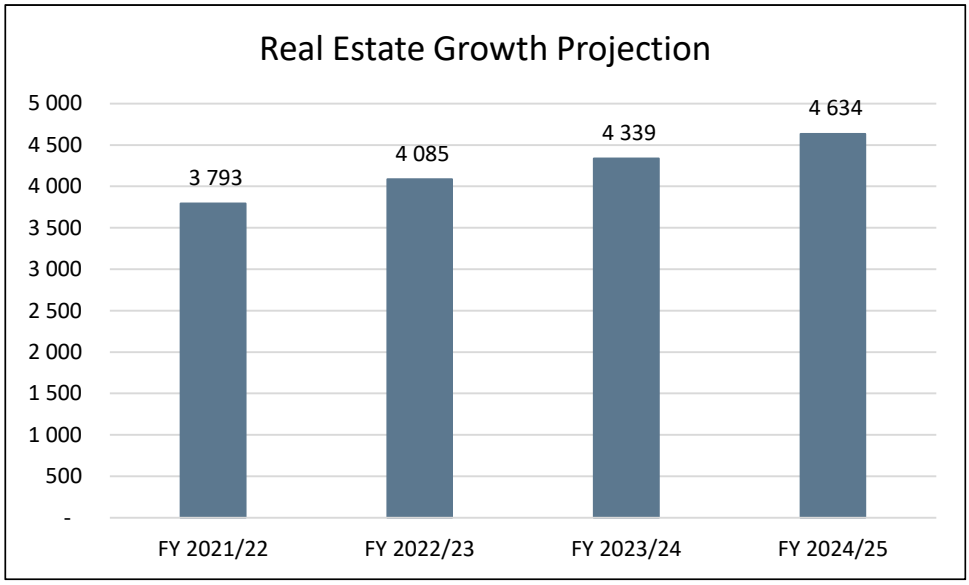
Whilst the Authority continues to maintain and manage its leases, it must be noted that market conditions are currently unfavourable, with most tenants facing economic hardship and requiring business rescue. As such, currently there is not much movement in terms of leasing of vacant properties. The 7% average projected growth rate for the period may therefore be considered ambitious, given current uncertain markets, and the slowing down of the economy in general due to the impact of COVID-19.

[4] Refers to Section 56 agreements and includes agreements with entities responsible for port terminal operations, vessel repairs and offshore cargo handling

[5] Refers to leases with port service providers regulated in terms of Section 57 Licences

The projected real estate performance and revenue is highlighted in Figure 5.

Figure 5: Growth Projection based on average 7.0% Annual Escalation from FY 2022/23 to FY 2024/25



The salient details of the Authority's Real Estate portfolio are summarized in Table 14 below.

Table 14: Real Estate Salient Features

Salient Features of Real Estate Business	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25
	Preceding Tariff Year	Current Tariff Year	Projected Tariff		
Number of Ports	8	8	8	8	8
Gross Lettable Area	Approx. 24 million sqm	Approx. 24 million sqm	Approx. 24 million sqm	Approx. 24 million sqm	Approx.24 million sqm
Number of Tenants	671	671	671	671	671
Terminal Operators	94	94	94	94	94
Vacancy rate including Un-serviced/Virgin land	20%	20%	20%	20%	20%
Vacancy rate excluding Un-serviced/Virgin land	7.7%	7.7%%	7.7%	7.7%	7.7%
Average term of Leases	5 - 25 Years	5 - 25 Years	5 - 25 Years	5 - 25 Years	5 - 25 Years
Actual/Estimated Revenue (Current Financial Year)	R3 571 m	R3 793 m	R4 085 m	R4 339 m	R4 634 m
Estimated Revenue Subsequent Financial Year	R3 793 m	R4 085 m	R4 339 m	R4 634 m	R4 939 m
Forecast Revenue Growth	**R342 m**	**R220 m**	**R290 m**	**R310 m**	**R332 m**

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 is required to enter 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.

Transnet has revised the strategy planning and delivery model. The Capital Planning and Execution model is driven at the Authority level whilst the strategic planning (at a commodity supply chain level) occurs at Transnet Group Strategy and Planning. This considers a portfolio development, structuring and prioritisation process undertaken as a collaborative process between Transnet Group and the various operating divisions and subsidiaries. Delivery against this segment strategy primarily resides within the operating divisions and subsidiary with Transnet Group playing a supporting role.

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 in accordance with legislative requirements.

To entrench broad participation and liberalization of port capacity, the Authority requires bidders to comply with a set criteria, including those under relevant sector codes, for example black ownership.

To date, six active Terminal Operator agreements have been concluded across the port system, and 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) Durban Cruise Terminal: Port of Durban, signed on 17 September 2018
e) Saldehco Off-Shore Supply Base: Port of Saldanha Bay, signed on 23 April 2018.
f) Bidfreight Port Operations: Port of Port Elizabeth, signed on 30 September 2018

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

Table 15: FY 2022/23 New Concession Programme

SEGMENTATION	PORT	PROJECT NAME	GREENFIELD	BROWNFIELD
Liquid Bulk	Cape Town	Liquid Bulk Terminal		X
		Liquid Bulk Terminal		X
	Richards Bay	Bunkering Fuel Terminal		X
	East London	Gately Site		X
Containers	Durban	Point Container Terminal		X
Ship Repair	Durban	Floating Dock	X	
Gas	Ngqura	LNG Terminal	X	
TBA	East London	HFO Site – EOI	X	
TBA	Cape Town	A-Berth – EOI	X	

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 automotives. Revenue is generated through tariffs, which is determined and administered by the Regulator, and charged by the Authority for providing the services. In determining the tariffs, various economic factors, including the volume growth of the Authority is considered

7.3.1 The Authority's Volumes

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

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, considering the previous year's performance. Forecasts extend to the following year's volumes (budget period) with projected volumes for the next five years. The 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. Consolidation of this volume's projection feedback is subject to a budget evaluation process which includes assessment against historic, prevailing and anticipated market conditions, operational efficiencies, and infrastructure capacity levels and anticipated improvements. In conjunction with Transnet, a formal interaction platform with key customers to validate customer volume forecasts is undertaken. All divisions of Transnet participate to ensure synchronisation across the entire commodity value chain which further aids for integrated planning within the Transnet Group thereby affording customers an efficient end-to-end logistic offering.

7.4 Cargo

The effects of the COVID-19 pandemic have been visible on economies globally. The International Monetary Fund (IMF) estimates that the global economy contracted by 3.3% in 2020, whilst South Africa's Gross Domestic Product (GDP) contracted by 7%. Despite the negative growth reported during 2020, the global and domestic economies are projected to recover from 2021 going forward. Global growth is projected at 6% in 2021, moderating to 4.4% in 2022 (IMF, 2021). South Africa's GDP is projected at 4.2% in 2021, moderating to 2.3% and 2.4% in 2022 and 2023 respectively (South African Reserve Bank (SARB), 2021). Similar trends are also projected for global trade, with South Africa's imports and exports depicting a positive outlook.

COVID-19 containment measures posed severe adverse effects on the Authority's port operations. This resulted in significant declines in cargo volumes handled during FY 2020/21. The introduction of lockdown restrictions Level Five (5), resulted in cargo volumes across all segments registering historic declines, especially during Quarter 1 of FY 2020/21. However, trade flows gradually improved in the second half of FY 2020/21 as lockdown restrictions were eased to resume economic activity. Whilst cargo volumes improved during the second and third quarters of the financial year, the overall performance remained negative for FY 2020/21. Weighted volumes passing through our ports contracted by 6.4% in FY 2020/21. This negative growth in weighted volumes was mainly driven by 15.4% decline in imports, whilst exports contracted by 5.4%. Major contractions were recorded in automotives followed by break bulk

and containers. On a positive note, global economic and trade recoveries are expected to boost the rebound of cargo volumes handled by the Authority for FY 2021/22. However, cargo volumes recovery is likely to remain below pre-COVID-19 levels.

The expected economic recovery from the effects of COVID-19 for both the domestic and global markets will have a positive impact on various categories of cargo that traverse the Authority's port infrastructure.

The Authority's volumes are estimated as follows:

Table 16: Authority's Volume Projection

Details	Actual 2020/21	LE 2021/22	% Deviation	Forecast 2022/23	% Deviation	Forecast 2023/24	% Deviation	Forecast 2024/25	% Deviation
Container (TEUs)									
Deepsea Full: Imports	1 328 384	1 355 655	2%	1 463 618	8%	1 597 100	9%	1 626 685	2%
Deepsea Full: Exports	1 082 464	1 147 146	6%	1 230 120	7%	1 325 091	8%	1 355 375	2%
Transhipments	675 917	645 027	-5%	586 952	-9%	564 600	-4%	563 261	0%
Other	946 385	970 847	3%	1 034 068	7%	1 113 137	8%	1 134 157	2%
Total	***4 033 150***	***4 118 675***	***2%***	***4 314 759***	***5%***	***4 599 928***	***7%***	***4 679 479***	***2%***
Vehicles (Units)									
Vehicles: Imports	183 787	208 221	13%	256 708	23%	310 202	21%	327 356	6%
Vehicles: Exports	267 555	301 058	13%	414 699	38%	413 055	0%	417 025	1%
Other	29 808	26 251	-12%	29 949	14%	41 415	38%	45 556	10%
Total	***481 150***	***535 530***	***11%***	***701 356***	***31%***	***764 672***	***9%***	***789 937***	***3%***
Break Bulk (Metric Tons)									
Break Bulk: Imports	2 384 595	1 887 842	-21%	1 988 647	5%	2 089 952	5%	2 154 618	3%
Break Bulk: Exports	1 250 646	1 349 393	8%	1 403 729	4%	1 445 207	3%	1 502 026	4%
Other	95 305	106 941	12%	113 511	6%	118 291	4%	123 401	4%
Total	***3 730 547***	***3 344 176***	***-10%***	***3 505 887***	***5%***	***3 653 450***	***4%***	***3 780 046***	***3%***
Dry Bulk (Metric Tons)									
Coal Exports	70 622 480	78 745 035	12%	81 048 163	3%	83 223 613	3%	84 314 128	1%
Iron Ore Exports	54 312 565	58 500 000	8%	58 500 000	0%	58 500 000	0%	58 500 000	0%
Manganese Ore Exports	18 974 704	17 469 567	-8%	18 572 314	6%	19 553 560	5%	20 570 423	5%
Other Dry Bulk	30 762 970	33 558 105	9%	34 933 058	4%	36 423 530	4%	38 117 503	5%
Total	***174 672 719***	***188 272 707***	***8%***	***193 053 535***	***3%***	***197 700 703***	***2%***	***201 502 054***	***2%***
Liquid Bulk (kl)									
Petroleum	25 964 389	31 713 926	22%	32 988 568	4%	34 382 746	4%	35 008 963	2%
Chemicals	2 233 542	2 359 180	6%	2 406 721	2%	2 480 131	3%	2 523 699	2%
Other Liquid bulk	13 559 563	5 545 990	-59%	5 489 330	-1%	5 823 098	6%	6 291 113	8%
Total	***41 757 494***	***39 619 096***	***-5%***	***40 884 619***	***3%***	***42 685 975***	***4%***	***43 823 775***	***3%***

7.4.1 Containers

"Trade recovered more quickly than expected in the second half of 2020. This rebound has continued, and the WTO's baseline trade forecast foresees an 8.0% increase in the volume of world merchandise trade for 2021.Trade growth is expected to slow to 4.0% in 2022. It's important to note that this would still leave trade below its pre-pandemic trend" (World Trade Organisation (WTO): March 2021).

The impact of COVID-19 on global commodity trade was visible during the first six months of 2020. The volume of world merchandise trade plunged 15.0% year-on-year in the second quarter of 2020, as countries around the world-imposed lockdowns and travel restrictions to limit the spread of COVID-19. However, during the second half of 2020, most countries eased lockdown regulations, allowing shipment of goods to surge back to near 2019 levels by the

fourth quarter of 2020. Despite this background, the global merchandise trade for 2020 declined by 5.3%.

According to WTO, world merchandise trade volume is expected to increase by 8.0% in 2021 and is likely taper to 4.0% in 2022. Although global recoveries are anticipated for the years 2021 and 2022, the WTO warns that the relatively positive short-term outlook for global trade is marred by regional disparities, and lagging vaccination timetables, particularly in poor countries. COVID-19 continues to pose the greatest threat to the outlook for trade, as new waves of infection could easily undermine any hoped-for recovery (WTO, 2021).

Furthermore, the outlook for trade in the medium term is dependent on the major government policy interventions which includes; significant fiscal stimulus measures which are aimed at boosting household income and supporting continued spending on all goods, including imports.

As the Authority's container volumes are affected by the global economic outlook, the global merchandise trade projections discussed above are expected to have an adverse impact on the Authority's volumes. Furthermore, the Authority's container business is also informed and impacted by growth prospects of the trading partners and countries that do business with the Republic of South Africa ("RSA"). The continued trade improvements also depend on the trading partners' governments pursuing appropriate monetary, fiscal and trade policies. SARB projects that the economies of RSAs major trading partners will grow by 6.0% in 2021 before recording slightly lower growth rates of 3.8% and 3.4% in 2022 and 2023 respectively.

The short-term positive outlook for the year 2022 and beyond as reported by the WTO and SARB are mainly based on the current global and domestic economic conditions; and anticipated improvements in the management of the pandemic. The Authority applied a balanced approach in assessing the economic outlook, as well as the associated risks. Considering the current economic outlook for the year 2022, the Authority expects container volumes to grow by approximately 5% in FY 2022/23.

7.4.2 Automotives

The global automotive sector is expected to return to growth after experiencing one of the worst performances due to operational restrictions in 2020. Global vehicle sales are forecast to rebound by 6.3% in 2021, following an estimated contraction of 17.4% in 2020. The growth forecast would see automotive volumes recording 81.1 million units in 2021, compared with an estimated 76.3 million units recorded in 2020, but remains far below the 92.4 million units

recorded in 2019. Geographically, the sector's recovery will be dominated by Asia as it is expected to be the best performing region in 2021. Despite the positive outlook for this sector, it remains far from being considered a recovery, as sales volumes will remain far below pre-pandemic levels.

South Africa's automotive sector was also affected by lockdown restrictions which negatively impacted production and trade flows in 2020. This resulted in a historic decline in terms of automotive volumes handled by South African ports during FY 2020/21. However, both production and vehicle sales are expected to rebound in 2021. Although the outlook remains positive for FY 2021/22 and beyond, automotive volumes passing through our ports are likely to remain below pre-COVID-19 levels. Despite some progress on the finalization and implementation of a revised Auto Master Plan and substantial investment commitments, this sector is still expected to take longer to reach full recovery. Furthermore, the possibility of permanent changes in mobility are likely to hamper any long-term growth in port volumes.

The South African automotive industry is further faced with long-term uncertainty due to a strict deadline to ban the import of petrol and diesel vehicles by 2030 in order to meet environmental goals. The United Kingdom, which imports more than 25% of South African cars, strongly supports the ban of such vehicles. These industry uncertainties are likely to have a significant adverse impact on the exported automotive volumes passing through our ports as South Africa is still lagging in its electric vehicle (EV) programme.

Automotive volumes passing through South African ports are projected to rebound in FY 2021/22 with full recovery expected in FY 2024/25. In FY 2021/22, the Authority's automotive volumes are expected to increase by 11.3% to record 535 530 units. While, over the next three financial years, automotive volumes are projected to grow by an average of 17.1% with significant growth of 31.0% in FY 2022/23. However, over the same period under review, automotive volumes are expected to remain below pre-COVID-19 levels. The Authority's medium-term volume growth will be heavily reliant on the recovery by key international markets, with 60% of South African vehicles exported to Europe, the United States, and Japan.

7.4.3 Break Bulk

Volume projections for the break bulk sector are highly dependent on global economic performance. The halt in economic activity due to the COVID-19 pandemic has taken a toll on industrial commodities.

Volume projections for the break bulk sector are highly dependent on global economic performance. The halt in economic activity due to the COVID-19 pandemic has taken a toll on industrial commodities. Despite the disastrous impact of the pandemic, the global steel industry ended with a minor contraction in steel demand in 2020. This was owing to a surprisingly robust recovery in China, whilst the steel demand contracted in the rest of the world. China's strong recovery has been underpinned by surging activity in heavy industry, namely construction and manufacturing. China's industrial production grew by 14.1% from 2020 to March 2021. With a possible global economic recovery and positive outlook for domestic growth in China, the near-term outlook for global steel production appears positive.

During the early months of 2021, the iron ore price surge reached record highs, due to strong Chinese demand which continues to outpace supply. Furthermore, the World Steel Association forecasts that steel demand will grow by 5.8% and 2.7% in 2021 and 2022, respectively. Thus, metal seaborne trade is expected to remain positive for the years 2021 and 2022.

South Africa's economy bounced back in Quarter 3 of 2020, coinciding with the easing of COVID-19 lockdown restrictions. Since the first quarter of 2020, the agricultural sector has contributed positively to the country's GDP growth, becoming one of the strongest performers during 2020, despite the unpleasant conditions of the COVID-19 pandemic.

Against this background, the Authority envisages that Breakbulk volumes passing through the port system will see a sharp contraction of 10.4% in FY 2021/22. However, a recovery of approximately 4.8% is expected in FY 2022/23 with the boost anticipated from the global economic recovery for exports. The Authority anticipates maintaining a positive outlook, however with a slower growth rate of approximately 4.2% in FY 2023/24 and FY 2024/25.

7.4.4 Coal

Coal consumption faces long-term structural changes in several consuming regions for both economic and policy reasons. Towards April 2020, mining operations were briefly halted as the South African government imposed a lockdown to contain the spread of Covid-19. The demand for coal exports was negatively affected as some of the major importers of South African (SA) coal also imposed lockdowns. Despite the decline in exports, SA coal exporters remain largely dependent on the Asian markets. India, Pakistan, and Vietnam were the largest export market for SA exporters. China was a surprise inclusion in the key markets list in 2020.

Domestically, despite the decline in volumes, owing mainly to the significant drop in seaborne demand, following the coronavirus pandemic in 2020, the Richards Bay Coal Terminal (RBCT) maintained a higher export target for 2021. The strong demand for South African coal exhibited by Asian Markets provides a positive outlook for SA coal exports. The Authority anticipates an increase in India's coal imports from South Africa, despite the risks anticipated from the Indian market. Furthermore, although not as large as India, China's demand for SA coal is also expected to rise throughout 2021 and 2022.

Given the positive outlook in the coal market globally, coupled with anticipated demand of SA coal by the Asian market, the Authority envisages that seaborne coal volumes will continue to recover at a balanced rate during FY 2022/23. The Authority therefore forecasts a growth of 3% in coal exports for FY 2022/23.

7.4.5 Iron Ore

Iron-ore is one of the main ingredients in steel production. China plays a dominant role in the global iron-ore market, as it solely accounts for approximately 70% of the world's iron-ore imports. South Africa's iron ore exports to China accounts for a major share of the country's total iron ore exports.

Whilst steel production in many countries declined markedly as a result of COVID-19 disruptions, China's demand remained a key factor in keeping iron-ore consumption going. China's stimulus package lifted its infrastructure and the renewed strength of its manufacturing activities kept steel demand afloat.

Although China is the major consumer of iron-ore, other importers of iron-ore are also providing indications of a recovery in demand in the wake of the coronavirus pandemic. Recent data also points to a recovery in the world seaborne market. Other major iron-ore buyers other than China (namely Japan, South Korea and Western Europe) are starting to pull their weight and this bodes well for iron-ore exporters like South Africa (Reuters, 2021).

Globally, short-term growth in steel demand is predicted. This will further imply growth in iron-ore demand as iron-ore is one of the main ingredients in steel. The World Steel Association forecasts that steel demand will grow by 5.8% in 2021, after declining by 0.2% in 2020. In 2022, steel demand is forecasted to grow by 2.7% (Worldsteel, 2021).

Given the developments in the global iron ore industry, the Authority forecasts the mining and metal operations in South Africa's iron ore industry to experience a complete recovery during 2021 and 2022. Research by the National Business Initiative (NBI) indicates that there is an emerging opportunity for South Africa to produce so-called "green iron" for export to international steelmakers seeking to transition away from the use of carbon-intensive coking coal in the production of the basic material (NBI, 2021).

Although the Authority expects recoveries in SA's iron-ore exports, the Authority remains mindful of competition from Brazil and Australia. Furthermore, the current forecast assumes that the ongoing waves of COVID-19 infections will stabilise during 2021 as progress is made with vaccinations, allowing a gradual return to normality in major iron-ore importing countries. Despite these risks, the Authority predicts a positive outlook (growth of 8%) for overall SA iron ore exports in FY 2021/22, followed by a flat outlook for FY 2022/23 and FY 2023/24.

7.4.6 Manganese Ore

South Africa is the world's largest producer of manganese, accounting for about 33% of global production annually. This positions South Africa as a key player in the manganese market. Global production of manganese ore for the year 2020 was estimated to be about 6% less than that in 2019 (United States Geological Survey) (USGS,2021). The decline is attributed to the COVID-19 pandemic that resulted in halting of production and consumption of manganese globally. Despite the COVID-19 pandemic, South Africa retained its position as the leading manganese ore producer.

Iron ore and manganese trends are closely linked to steel trends. The global steel demand is expected to increase in the upcoming years mainly driven by China's consumption. Several forecasts point to global steel production gaining a positive momentum in 2021 as national economies rebound from declines in activity caused by the COVID-19 pandemic. Increased steel production will likely translate into a positive outlook for manganese ore in 2022 and going forward.

Though steel will most likely continue to dominate manganese demand, consumption of manganese in batteries is expected to grow rapidly over the next decade. Manganese sulphate demand for lithium-ion batteries is expected to double over the next decade as the EV market penetration ramps up and will have significant impacts on the manganese metal supply chain (Roskill, 2020). Manganese is also emerging as the driving force for all future and widespread

adoption for renewable clean energy in EV, hybrid electric vehicles and backup power storage energy units (Deloitte, Mining weekly, 2020).

The positive outlook for steel, EV's, coupled with the future role of manganese in batteries suggest a positive outlook for manganese in the next decade. Although steel will continue to dominate manganese demand, consumption of manganese in batteries is expected to grow rapidly. The Authority expects these developments to translate into a positive outlook for seaborne manganese exports in the medium to long term. The Authority therefore forecasts a 6% growth in manganese ore export volumes for FY 2022/23.

7.4.7 Liquid Bulk

Reduced economic activity as a result of the COVID-19 pandemic has influenced energy demand and supply trends over the last year and is likely to continue affecting patterns in the future. In 2020, global liquid fuel demand fell by 8.9% to 92 million barrels per day, the lowest level in decades. During this period, the average price for crude oil fell by 32.8% to US$41.26 per barrel, the lowest level since 2004. However, the liquid fuel market showed signs of recovery in the second half of 2020 and is expected to continue with an up-ward trajectory over the medium term for full recovery. World liquid fuel demand is projected to rebound by 5.8% in 2021, followed by a further increase of 3.9% in 2022. On the other hand, liquid fuel production is projected to continue with recovery, but at a slightly slower pace than demand. In 2021, global liquid fuel production is expected to rebound by 3.0%, with a further increase of 4.2% in 2022.

The SA liquid fuel market was also affected by limited economic activity due to strict lockdown regulations as demand contracted by 16.2% in 2020 compared to previous year. According to the Department of Energy, South Africa's fuel sales volume decreased from 27.7 billion litres in 2019 to 23.2 billion litres in 2020. As the South African economy recovers, fuel demand is expected to rebound by 3% in 2021 but remains vulnerable to significant downside risks given the uncertainty with regards to possible medium to long term adverse effects of COVID-19. Since the country remains a net importer, most of the liquid fuel demand will be imported through our ports in order to maintain supply. Gas consumption is projected to increase by 4.0% in 2021, with expected further consumption increases underpinned by anticipated developments in pipeline infrastructure, which drives all South Africa's gas imports. According to Fitch Solutions report (2021), the country's natural gas imports will continue to rise over the next decade, owing to favourable demand dynamics in the region.

Despite significant decline in the country's fuel demand, the lockdown restrictions had the least impact on liquid bulk handled by the Authority's ports, with volumes falling by just 0.3% in FY 2020/21. Although the country's economy and domestic fuel demand market are expected to rebound, liquid bulk volumes passing through our ports are projected to decline by 5.1% in FY 2021/22 with a flat trajectory over the medium term. Liquid bulk volumes are expected to rebound in FY 2022/23 with 3.2% and further improve by 4.4% in FY 2023/24.

7.5 Marine Services

Marine volumes comprise of the number of vessels arriving at SA ports and their associated Gross Registered Tonnage ("GRT"). Marine Services revenue is influenced by the average vessel size and ship turnaround time. Globally, over the past 20 years, vessel sizes have been increasing to optimize costs through economies of scale. According to the United Nations Conference on Trade and Development (UNCTAD), average bulker and container ship sizes have grown significantly since the 1990s. The average size of container ships globally has more than doubled since 1996 (UNCTAD, 2020).

Over the recent years, the trend observed at SA ports, is a decrease in the average number of vessel calls as larger vessels call into the Authority's ports with bigger parcel sizes. Revenue generated from these services remain relatively static despite growing cargo volumes. Lesser vessel calls due to larger vessels and longer port stays due to bigger parcel sizes attract additional charges, however, this is not a substitute for revenue earned from more frequent vessel calls with shorter stays. Furthermore, the UNCTAD (2020) cautions that gains from the economies of scale resulting from the deployment of larger vessels may not necessarily benefit ports and inland transport service providers, as they often increase total transport costs across the logistics chain. A rise in the average call or ship size often leads to peak demand for trucks, yard space and intermodal connections, as well as additional investment requirements for dredging and bigger cranes.

Figure 6 below illustrates the average tonnage per vessel call at South African ports.

Figure 6: Average Tonnage Per Vessel Call

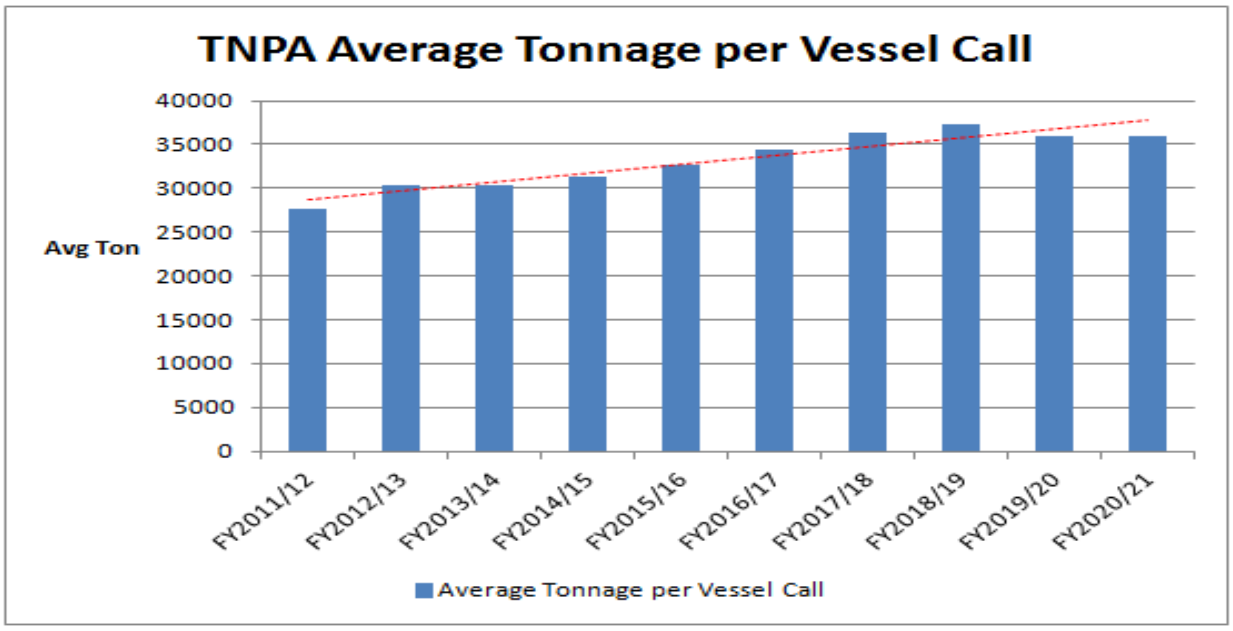
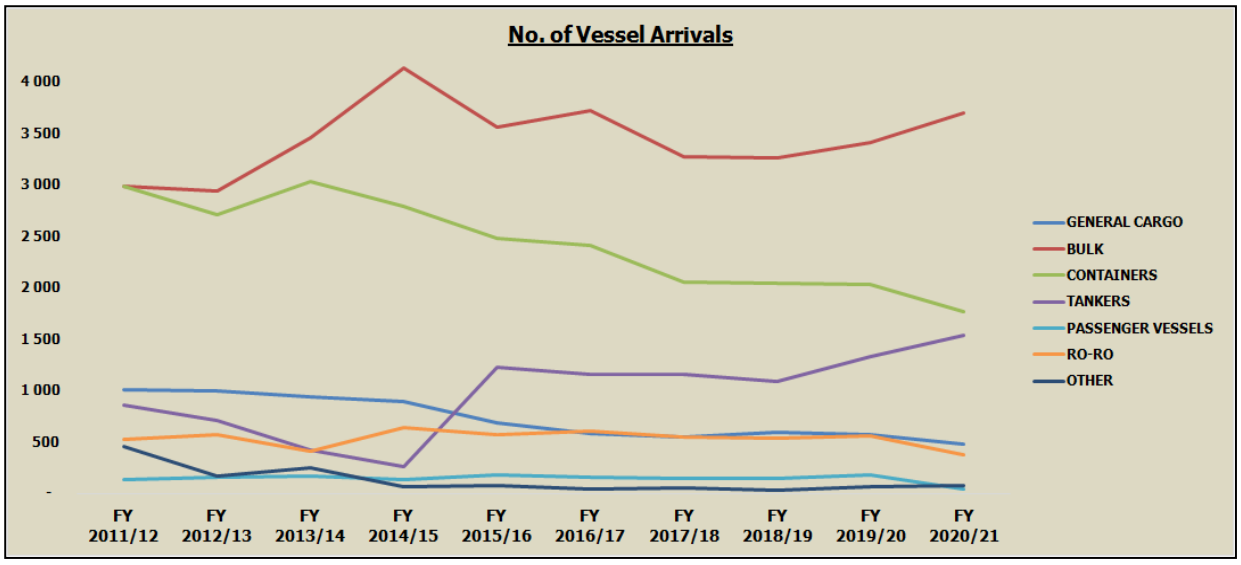


Figure 7 below illustrates the Authority's historic number of vessel arrivals up to FY 2020/21. Over the past ten years, the average tonnage per vessel call at South African ports increased by approximately 30%, whilst, the number of vessel arrivals at SA ports declined from 12 142 in FY 2011/12 to 8 661 in FY 2020/21.

Figure 7: Port Vessel Calls



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

- The Authority has been experiencing a downward trend in the number of vessel calls. This may be 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 economies of scale and greater market power, in order 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. Furthermore, port efficiency levels need to be established to service vessels on demand. This will result in SA ports becoming major hubs, creating transhipment opportunities and remaining competitive within the global supply chain network; and
- Notwithstanding the uncertainty surrounding the COVID-19 pandemic, and whilst global and domestic economic recoveries are expected to continue in FY 2022/23, the possibility of a lower than anticipated global and domestic economic outlook for FY 2022/23 cannot be ruled out. This has the potential to translate into relatively lower vessel calls and may affect marine revenue negatively.

Vessel traffic is demand-driven as it depends on growth in volumes per cargo commodity. The current outlook for economic activity is positive with recoveries anticipated in the years 2021, 2022 and 2023. In line with the economic outlook, the Authority expects volume recoveries in major cargo categories for FY 2022/23, therefore, marine services activity is forecasted to increase by 2.1% in FY 2022/23.

8. Tariff Application Approach

8.1 Revenue Requirement Formula

The Port Tariff Methodology for Tariff Years 2021/22 to 2023/24, dated 06 March 2020, prescribes the RR formula which forms the basis upon which the Regulator will determine the appropriate revenues for the Authority. The prescribed formula is as follows:

Revenue Requirement

= Regulatory Asset Base (RAB) x Weighted Average Cost of Capital (WACC)

+ Operating Costs + Depreciation + Taxation Expense ±Claw-back

± Excessive Tariff Increase Margin Credit (ETIMC)

± Weighted Efficiency Gains from Operations (WEGO)

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

The Tariff Methodology prescribes the use of the Valuation of Assets (VoA) methodology for the determination of the RAB and further states that in the event of corporatisation of the Authority (as contemplated by the Act), the Regulator will consider implementation of the TOC asset valuation methodology.

On 22 June 2021, President Cyril Ramaphosa announced the establishment of the Authority as an independent subsidiary of Transnet, which will be effective by 01 April 2022. Considering this announcement, this Tariff Application continues to be prepared on the basis of the TOC asset valuation methodology. Use of the TOC approach is considered appropriate as the Tariff Methodology indicates that should the "Authority be corporatized (stand-alone SOC or subsidiary), the Regulator will consider applying TOC until credit metrics like the cash interest cover ratio have been proven to be within sustainable limits"

8.1.1.1 RAB

The RAB represents the value of assets that the Authority earns a return on. As indicated above, the Authority has determined the RAB on the TOC asset valuation 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:

$$RAB_y = \frac{1}{2}[RAB_{c,y} + RAB_{o,y}] + w_y$$

$$RAB_{c,y} = RAB_{o,y}(1 + CPI_Y) + CWIP_Y.(1 + CPI_y)/2 - D_y$$

Where:

RAB_y	=	*value of the RAB used to determine the returns for 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 period y*
D_y	=	*depreciation allowance for assets over review period y*
CPI_Y	=	*annual rate of Headline CPI expected over period y*

The Authority maintains a Fixed Asset Register ("FAR"), per the rules stipulated in the Tariff Methodology. The FAR accounts for all acquisitions, disposals and transfers and further considers assets, on a line by line basis, that have been capitalised since 1990. In line with the principles of TOC, all assets are trended and depreciated, annually.

8.1.1.2 Depreciation

Depreciation for existing assets has been determined based on the useful life of each asset. In line with the approved tariff methodology, depreciation for Capital Works in Progress ("CWIP")/Capital Expenditure will only be determined upon commissioning of the assets. This results in a depreciation expense of R2 560m for FY 2022/23, R2 604m for FY 2023/24 and R2 585m for FY 2024/25.

8.1.1.3 Inflation Trending

The Tariff Methodology prescribes the use of the Consumer Price Index ("CPI") for the tariff period based on the latest forecast published by the National Treasury or alternatively the Bureau of Economic Research ("BER") for the purposes of trending the RAB and calculation of the Weighted Average Cost of Capital. The Authority has utilised the latest forecasts published annually by the BER (Source: BER June 2021). The Authority is of the understanding that the Regulator will use the most recent inflation forecast at the time of their decision making. This could most likely result in a different tariff determination than the Authority's application.

8.1.1.4 Capital Works in Progress/ Capital Expenditure

The formula for determination of the RAB includes CWIP/Capex. CWIP refers to capital works in progress for assets that are under construction. Capex is informed by the Capex program which is projected at R2 454m for FY 2022/23 and forecasted at R2 666m for FY 2023/24 and

R4 425m for FY 2024/25. Detailed information relating to capital expenditure is demonstrated in ***Annexure B: Capital Expenditure***.

8.1.1.5 Working Capital

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

Table 17: Working Capital

Working Capital	2020/21	2021/22	2022/23	2023/24	2024/25
Indexation					
Volume Growth		9,89%	5,24%	5,07%	1,71%
Inflation		4,40%	4,35%	4,51%	4,38%

AFS 2020/21 - rolled forward to FY 2022/23	2020/21	2021/22
	R'm	
Current Assets		
Trade receivables	1 458	1 602
Inventories	36	38
Current Liabilities		
Trade Payables (including VAT liabi	2 073	2 164

Working Capital Calculation for FY 2022/23 - FY 2024/25	R'm	R'm	R'm
	2022/23	2023/24	2024/25
Current Assets	**1 725**	**1 813**	**1 845**
Trade receivables	1 686	1 772	1 802
Inventories	39	41	43
Current Liabilities	**2 463**	**2 582**	**2 832**
Trade Payables (including VAT liability)	2 258	2 360	2 464
CWIP Payables (1/12)	204	222	369
Working Capital	**-738**	**-770**	**-988**

8.1.2 Weighted Average Cost of Capital ("WACC")

The WACC 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. As indicated in **Section 4: The Tariff Methodology**, the impending subsidiarisation of the Authority, requires no changes to the datasets or instruments used to determine the Cost of Equity and Cost of Debt; with the exception of the use of the corporate tax rate.

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

Table 18: Weighted Average Cost of Capital ("WACC")

REAL RATE OF RETURN	2022/23	2023/24	2024/25
Inflation forecast	4,35%	4,51%	4,38%
Nominal Risk-free rate	9,33%	9,33%	9,33%
Real risk free rate	4,77%	4,61%	4,74%
MRP	5,10%	5,10%	5,10%
Asset beta	0,35	0,35	0,35
Equity beta (using Hamada)	0,60	0,60	0,60
Gearing	50,00%	50,00%	50,00%
Debt/equity ratio	100,00%	100,00%	100,00%
Nominal Weighted Average Cost of Debt (WACD)	10,75%	10,75%	10,75%
Tax rate	28,00%	28,00%	28,00%
Real Cost of equity (post-tax)	7,84%	7,68%	7,81%
Real WACD (pre-tax)	6,14%	5,97%	6,10%
Real Vanilla WACC	**6,99%**	**6,83%**	**6,96%**

Explanatory notes:

Risk Free Rate: KBP2003M, calculated over a five yearly average from April 2016 to May 2021 for FY 2021/22

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

Inflation: BER Forecasts

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

Tax Rate: Corporate Tax rate of 28% utilised due to imminent subsidiarisation of the Authority

FY 2022/23 MRP & RFR figures are used as proxies for MRP & RFR figures for indicative years FY 2023/24 & FY 2024/25

8.1.3 Valuation of the RAB

The valuation of the RAB is highlighted in Table 19 as follows:

Table 19: Regulatory Asset Base

REGULATORY ASSET BASE	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25
	RESTATED	Fixed Tariff Year	Indicative Tariff Years	
	R'm			
Opening book value	75 944	78 447	81 792	85 587
Add :Capex	1 555	2 454	2 666	4 425
Add: Inflation Index	3 471	3 452	3 733	3 823
Indexed Asset Base	80 971	84 353	88 191	93 835
Depreciation	-2 524	-2 560	-2 604	-2 585
Closing Book Value	78 447	81 792	85 587	91 250
Average Asset Base	77 195	80 119	83 689	88 418
Less :Working Capital	-654	-738	-770	-988
Regulatory Asset Base	**76 541**	**79 382**	**82 920**	**87 431**

8.1.4 Taxation

The Tariff Methodology states that the Regulator will accept the current corporate tax rate of 28% (to be adjusted if amended by National Treasury) if the Authority is corporatized from a division of Transnet, into a subsidiary or stand-alone entity. As such, the tax calculation has been determined on the corporate tax rate.

The tax allowance is determined on the equity portion of the return, only (cost of debt is a pre-tax determination). Depreciation, operating expenditure and interest expense are considered as tax deductible expenses. The calculation for tax is illustrated as follows:

Table 20: Tax Calculation

Taxation	FY 2022/23	FY 2023/24	FY 2024/25
Equity Return	3 113	3 184	3 414
Depreciation	2 560	2 604	2 585
Opex	5 919	6 221	6 510
Gross income	**11 592**	**12 009**	**12 508**
Depreciation	2 560	2 604	2 585
Opex	5 919	6 221	6 510
Total Deductions	**8 479**	**8 825**	**9 095**
Taxable Income	3 113	3 184	3 414
Grossup factor	0,72	0,72	0,72
Grossed up taxable income	4 323	4 422	4 741
Tax @ 28%	**1 211**	**1 238**	**1 328**

8.1.5 Operating Costs

The Authority's Operating Costs ("Opex") reflects 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.

As a cost saving initiative, of utilizing own property versus leasing premises to provide occupancy to employees; and in order to house Head Office (Parktown, Johannesburg and Kingsmead, Durban) closer to operations, the relocation of Head office to the Port of Ngqura will occur in FY 2021/22. The decision to relocate the Authority's Head Office to Ngqura would over time translate to savings in recoverable costs through tariffs. Such savings will be enduring as a permanent benefit to port users.

The relocation of the Authority's Head Office will result in once-off establishment costs at the Port of Ngqura as well as once-off expenditures associated with relocating of personnel. Whilst it's likely that these initial once-off costs will be in excess of the initial rental savings, the Authority forecasts a net overall lower cost-base over time.

The cost elements contributing significantly to total operating expenditure include, amongst others, Labour, Maintenance, and Energy.

The table below highlights the Authority's Operating Expenditure (Opex). The Authority's total Opex for FY 2022/23 is approximately R5 434m; with the allocation of Group overhead costs forecasted at approximately R485m.

Table 21: Operating Costs Including Group Costs

Cost Category	Actual 2020/21 R Million	Budget 2021/22 R Million	Forecast 2022/23 R Million	Dev 21/22 vs 22/23 R Million	Dev 21/22 vs 22/23 %	% of Opex 22/23	Forecast 2023/24 R Million	Forecast 2024/25 R Million	CAGR 2022/23 - 2024/25
Labour Costs	2 589	2 903	2 800	-103	-4%	52%	2 985	3 151	6%
Rates & taxes	411	429	431	2	0%	8%	453	474	5%
Maintenance	295	420	573	153	36%	11%	563	585	1%
Contract Payments	8	49	21	-28	-56%	0%	23	24	6%
Energy	549	639	671	32	5%	12%	724	777	8%
Professional services	20	49	123	74	150%	2%	128	133	4%
Material	52	95	138	43	45%	3%	149	154	6%
Computer & Info systems	113	151	153	3	2%	3%	161	168	5%
Rental	56	56	61	4	8%	1%	64	67	5%
Security costs	144	156	156	0	0%	3%	166	175	6%
Pre -Feasibility Studies	17	93	141	48	51%	3%	104	96	-18%
Sundry operating costs	604	114	164	50	44%	3%	186	187	7%
Total operating cost (excluding depreciation)	***4 859***	***5 156***	***5 434***	***278***	***5%***	***100%***	***5 706***	***5 991***	***5%***
Group Costs	374	491	485	(6)	-1%		515	519	3%
Total operating cost (Including Group Costs)	**5 233**	**5 647**	**5 919**	**272**	**4,8%**		**6 220**	**6 510**	**5%**

Annexure D provides detailed Opex information.

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 of deviations between forecasted and actual information; 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 Net Claw-back Re-computed calculation

The net claw-back adjusts for actual revenue for FY 2020/21 and a provisional adjustment for FY 2021/22. The calculation of the claw-back is illustrated in the table below.

Table 22: Net Clawback Calculation

CLAWBACK	FY2020/21 R'm	
	ROD	ACTUALS
Return on asset	5 248	5 986
Depreciation	2 321	2 476
Opex + Group Costs	6 149	5 233
Tax	556	-
WEGO	130	130
Clawback	-1 201	-1 201
ETIMC	-567	-567
Revenue Allowed/Actual Revenue	**12 635**	**12 058**
AFS Revenue		11 527
Clawback		530
Clawback as per above		530
Contract Revenue		-92
Reverse FY 2020/21 Provisional Clawback taken in FY 2021/22		-764
Estimated Clawback for FY 2021/22 (half)		7
Add return on clawback account for FY 2020/21 and FY 2021/22		-37
Net Clawback		**-355**

8.1.7 ETIMC

The Tariff Methodology provides an ETIMC facility in order *" to allow for the smoothing of unaffordable tariff spikes over multiple periods in the future or to apply a countercyclical tariff decision in time of depressed economic activity."*

Whilst above inflation tariff adjustments are required to support the future capital investment programme of the Authority and the Transnet Segment Strategy, the Authority remains mindful of the current economic conditions, to which immediate solutions are required.

To this end, and in accordance with the Tariff Methodology, the Authority requests the use of the available funds in the ETIMC facility (estimated to be R1 750m), in order to ensure a smooth tariff trajectory which further provides much needed immediate relief to customers. The Authority therefore requests the utilisation of R 1 251m of the ETIMC funds in FY 2022/23 and R499m in FY 2023/24. Determination of the ETIMC utilisation per annum is described in the Revenue Requirement section below.

8.2 Revenue Requirement

The Authority determined a Required Revenue of R14 733m comprising of Marine Business revenue of R10 648m and Real Estate Business revenue of R4 085m for FY 2022/23. Indicative Required Revenues for FY 2023/2024 and FY 2024/25 are R15 731m and R16 504m, respectively.

Table 23: Revenue Requirement from FY 2022/23 to FY 2024/25

DETAILS	FY 2022/23	FY 2023/24	FY 2024/25
	Fixed Tariff Year	Indicative Tariff Years	
	R'm		
RAB	79 382	82 920	87 431
Vanilla WACC	6,99%	6,83%	6,96%
Return on Capital	5 549	5 660	6 082
Plus: Depreciation	2 560	2 604	2 585
Plus: Operating Costs	5 919	6 221	6 510
Plus: Taxation Expense	1 211	1 238	1 328
Plus/Less: Clawback	-355	7	-
Plus/Less: ETIMC	-	-	-
Plus/Less: WEGO	-151	-	-
Revenue Allowed	**14 733**	**15 731**	**16 504**
Less: Real Estate	4 085	4 339	4 634
Marine Revenue	***10 648***	***11 391***	***11 870***

Revenues related to volume growth for FY 2022/23 of 5.24% is determined per Table 24 below.

Table 24: Revenues related to volume growth (FY 2022/23)

Revenue	2021/22	2022/23		
	Revenue LE	Weighted average Revenue Volume increase	Revenue : Volume Increase	Revenue : Before Tariff Increase
	R'm	%	R'm	R'm
Containers	3 120	**7,63%**	238	3 358
Break Bulk	90	**4,86%**	4	95
Dry Bulk	1 340	**2,67%**	36	1 376
Liquid Bulk	690	**3,45%**	24	714
Automotive	247	**28,41%**	70	317
TOTAL CARGO DUES	**5 487**	**6,78%**	**372**	**5 859**
Marine & other revenue	2 675	2,1%	55	2 731
TOTAL TARIFF BOOK REVENUE	**8 163**	**5,24%**	**427**	**8 590**
Real estate revenue	3 793	7,69%	292	4 085
TOTAL REVENUE	**11 956**	**6,01%**	**719**	**12 675**

Table 25 below illustrates the required tariff adjustment considering the projected volume growth of 5.24% for FY 2022/23 and estimated volume growth of 5.07% and 1.71% for FY 2023/24 and FY 2024/25, respectively:

Table 25: Marine Revenue for FY 2022/23 to FY 2024/25

MARINE REVENUE	FY 2022/23	FY 2023/24	FY 2024/25
	Fixed Tariff Year	Indicative Tariff Years	
	R'm		
Prior Year Revenue	8 163	10 648	11 391
Estimated Volume Growth	5,24%	5,07%	1,71%
Revenue after volume growth	8 590	11 188	11 586
Required Revenue	10 648	11 391	11 870
Tariff Increase	***23,96%***	***1,81%***	***2,45%***

In summary, the Authority has determined a Required Revenue of R14 733m comprising of marine revenue of R10 648m and Real Estate revenue of R4 085m for FY 2022/23. This translates into a weighted average tariff adjustment of 23.96% for FY 2022/23.

It must be noted that the weighted average tariff adjustment of 23.96% for FY 2022/23 is an outcome per the approved tariff methodology. It is structured to enable the Authority to achieve the objectives of the Act and Port Directives; and effectively deliver on its mandate. As the Authority embarks on significant capex projects in the short to medium term, it is envisaged that above inflation tariff adjustments will be required to ensure the sustainability of the Authority; as evidenced by the outcomes of the Regulator's approved Tariff Methodology. The above inflation tariff adjustments is underpinned by the segment strategies, despite the lower operating costs, and may further be attributed to tariff increase deferrals by use of the ETIMC in previous tariff periods to temporarily adjust tariffs downwards (for example, use of ETIMC of R1 201m in ROD FY 2021/22 resulted in a 0.0% tariff adjustment as opposed to a 14.81% tariff increase if ETIMC was not utilised – ceteris paribus). Furthermore, the use of the corporate tax rate of 28% results in a higher contribution to the revenue required (approximately 8.51%) versus the equitable tax rate (approximately 3.93% contribution to required revenues).

The indicative tariff adjustments for FY 2023/24 and FY 2024/25, based on a volume growth rate of 5.07% and 1.71% are 1.81% and 2.45% respectively.

The Authority is certainly cognisant of the current economic conditions and hardships that require swift response and support from a State-owned Company. The Tariff Methodology outcome of 23.96% for FY 2022/23 is undoubtedly unaffordable for port users and together with the significantly lower forecasted future indicative tariff adjustments, such a request could be considered illogical.

As such, the Authority considers the utilisation of the ETIMC facility to smooth the tariff trajectory as prudent. The Authority has aggregated the tariff adjustments over the three-year period made up of 23.96% for FY 2022/23, and the indicative tariff adjustments of 1.81% for FY 2023/24 and 2.45% for FY 2024/25, resulting in a simple average of 9.40% per annum. To this end, the aforementioned average tariff adjustment has been considered by the Authority in terms of the Revenue Requirement computation. However, the aforementioned smoothing of the tariff adjustments is limited to the funds available in the ETIMC facility[6]. As such, the

[6] Per ROD FY 2021/22 ETIMC Total is R 1 750m

Authority requests the use of R 1 251m and R499m of the ETIMC funds in FY 2022/23 and FY 2023/24, respectively.

Table 26: Revenue Requirement from FY 2022/23 to FY 2024/25 with ETIMC

DETAILS	FY 2022/23	FY 2023/24	FY 2024/25
	Fixed Tariff Year	Indicative Tariff Years	
	R'm		
RAB	79 382	82 920	87 431
Vanilla WACC	6,99%	6,83%	6,96%
Return on Capital	5 549	5 660	6 082
Plus: Depreciation	2 560	2 604	2 585
Plus: Operating Costs	5 919	6 221	6 510
Plus: Taxation Expense	1 211	1 238	1 328
Plus/Less: Clawback	-355	7	-
Plus/Less: ETIMC	-1 251	-499	-
Plus/Less: WEGO	-151	-	-
Revenue Allowed	**13 482**	**15 232**	**16 504**
Less: Real Estate	4 085	4 339	4 634
Marine Revenue	***9 397***	***10 892***	***11 870***

Table 27 below illustrates the required tariff adjustment considering the projected volume growth of 5.24% for FY 2022/23 and estimated volume growth of 5.07% and 1.71% for FY 2023/24 and FY 2024/25, respectively:

Table 27: Marine Revenue for FY 2022/23 to FY 2024/25 after ETIMC

MARINE REVENUE	FY 2022/23	FY 2023/24	FY 2024/25
	Fixed Tariff Year	Indicative Tariff Years	
	R'm		
Prior Year Revenue	8 163	9 397	10 892
Estimated Volume Growth	5,24%	5,07%	1,71%
Revenue after volume growth	8 590	9 874	11 078
Required Revenue	9 397	10 892	11 870
Tariff Increase	***9,40%***	***10,31%***	***7,15%***

In summary, after utilising the ETIMC facility, the Authority has determined a Required Revenue of **R13 482m** comprising of marine revenue of R9 397m and Real Estate revenue of R4 085m for FY 2022/23. This translates into a weighted average tariff adjustment of 9.40% for FY 2022/23.

In determination of the tariff application, it must be borne in mind that the Authority has utilised the latest inflation forecasts published annually by the BER. The Authority is of the understanding that the Regulator will use the most recent inflation forecast at the time of their decision making. This could most likely result in a different tariff determination than the Authority's application.

8.3 The Tariff Strategy

The approved[7] tariff strategy sets out the strategic direction for the SA port system, in order to provide port users and stakeholders with the envisaged port tariffs over the next couple of years. Included in the tariff strategy are guiding principles for setting base tariffs for different cargo handling modes 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 based on asset cost allocations as follows:

8.3.1 Asset Cost Allocations

The tariff strategy follows a coherent cost infrastructure model that considers the allocation of assets in the similar manner prescribed by the Authority. The 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.

Furthermore, in the allocation or attribution of the cost of port assets, the tariff strategy 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 tariff strategy also looked at the activities of the different users and the benefit they derive there from. The tariff strategy has categorized port users as follows:

- Shipping Lines
- Cargo Owners

[7] Originally approved on 31 July 2015 and revised March 2020)

- 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: Tariff Strategy 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. The tariff strategy further highlights the following factors for a prolonged implementation period to be accommodated:

- Contractual agreements and binding leases prevent the tariff strategy 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.

As envisaged by the tariff strategy, the gradual shift from the current allocation to a more equitable shift in cost allocation will be spread over the long term.

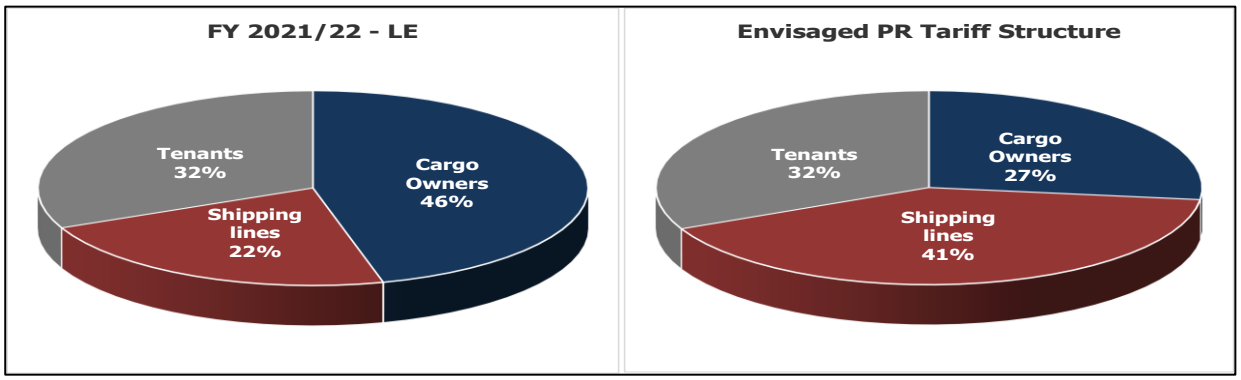
8.3.2 Tariff Book Proposal for FY 2022/23

The tariff strategy is intended to guide the annual setting (or revision) of port tariffs and charges. The differentiated tariff adjustments for cargo dues are formulated in line with the tariff strategy; and envisaged investment informed by the Segment 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 tariff strategy is depicted in Figure 9 below.

Figure 9: Transition to the Tariff Strategy



8.3.2.1 Cargo Dues

The Tariff strategy prescribes that cargo owners should contribute 27% of the revenue stream, whilst Shipping Lines and Real Estate/Tenants should contribute 41% and 32%, 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 41%.

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.

FY 2022/23 Base Rates

Base rates are determined to provide a continuous update of the implementation of the Tariff Strategy. The base rates are updated on an annual basis due to changes in port structure, asset values and volume forecasts. The base rates provide an indication of the tariff trajectory over the implementation period in current terms. It is envisaged that over the implementation period

tariffs will converge to the annually updated base rates. The table below provides a summary of the FY 2022/23 base rates relative to the proposed individual tariff book rates.

Table 28: FY 2022/23 Tariff Strategy Base Rates relative to the proposed individual tariff book rates

Cargo Type	Base Rate FY 2022/23	FY 2022/23 Proposed Tariff Book Rates	
		Import	Export
Containers	158,76	1 932,24	424,93
Break Bulk	61,16	9,82 - 34,46	4,67 - 34,46
Dry Bulk	5,92	6,91 - 19,69	4,68 - 19,69
Liquid bulk	17,95	7,72 - 40,48	3,94 - 40,48
Automotives	45,39	168,94	66,65

8.3.2.4 SA GDP Impact and the Authority's Volume Growth

Over the past five years, there has been an overall negative growth of real GDP and all cargo segments with the exception of dry bulk. Over this period, SA's real GDP contacted by an average of 0,8% with negative growth of approximately 7% in 2020.

Cargo segments with the highest overall declines were Break-Bulk (-15,6%), Automotives (-8,5%) and Container volumes (-2,2%), as highlighted in the table below:

Table 29: SA GDP vs. Volume Growth

Details	2016	2017	2018	2019	2020	Average Growth
GDP	**0,4**	**1,4**	**0,8**	**0,2**	**-7,0**	**-0,8**
Containers	**-5,6**	**6,4**	**5,2**	**-7,1**	**-10,0**	**-2,2**
Dry-Bulk	**-0,2**	**-0,1**	**1,4**	**3,6**	**-4,3**	**0,1**
Automotives	**-22,5**	**4,0**	**1,3**	**10,5**	**-35,8**	**-8,5**
Liquid Bulk	**-3,5**	**6,5**	**-4,2**	**-1,2**	**-1,3**	**-0,07**
Break Bulk	**-23,4**	**-4,4**	**2,9**	**-20,8**	**-32,2**	**-15,6**

Understanding the performance of the various commodity segments is critical in tariff differentiation so as to ensure that the Authority's tariff setting not only addresses tariff imbalances and user-pay principles but ensures that its implementation takes into consideration economic conditions confronting such segments.

8.3.2.5 Differentiated Tariff Proposal

The differentiated tariffs proposed by the Authority are in line with the strategic direction of the Tariff Strategy. As such, consistently higher tariff increases for marine services is required into the foreseeable future, with a declining pattern of tariffs for cargo dues (applicable to cargo that goes over the quay). The proposed tariff differentiation further supports the Segment Strategy and guides the indicative tariff adjustment per segment; and considers economic factors such as the impact of the SA GDP growth on the Authority's volumes (discussed above).

The Authority's proposed tariff differentiation is highlighted in Table 30.

Table 30: Differentiated Tariff Approach results

Revenue	2021/22	2022/23				
	Revenue LE	Weighted average Revenue Volume increase	Revenue : Volume Increase	Revenue : Tariff Increase	Weighted average Revenue Tariff increase	Projection Rm
	R'm	%	R'm	R'm	%	R'm
Containers	3 120	**7,63%**	238	104	3,10%	3 462
Break Bulk	90	**4,86%**	4	9	9,40%	104
Dry Bulk	1 340	**2,67%**	36	140	10,21%	1 517
Liquid Bulk	690	**3,45%**	24	67	9,40%	781
Automotive	247	**28,41%**	70	-	0,00%	317
TOTAL CARGO DUES	**5 487**	**6,78%**	**372**	**321**	**5,47%**	**6 180**
Marine & other revenue	2 675	2,1%	55	487	17,83%	3 218
TOTAL TARIFF BOOK REVENUE	**8 163**	**5,24%**	**427**	**807**	**9,40%**	**9 397**
Real estate revenue	3 793		292	-	0,00%	4 085
TOTAL REVENUE	**11 956**	**6,01%**	**719**	**807**	**6,37%**	**13 482**

In summary, the Authority proposes the following tariff differentiation for the Regulator's approval:

- Tariff increase of 17.83% on Marine charges (shipping lines).
- 3.10% on Containers Imports & Exports;
- 9.40% on Break Bulk Imports & Exports;
- 9.40% on Dry Bulk Imports & Exports;
  - *12.00% on Coal & Magnetite Exports*
- 9.40% on Liquid Bulk Import & Export; and
- 0.00% on Automotive Imports & Exports.
  - Equates to an average of 5.47% increase in Cargo Dues

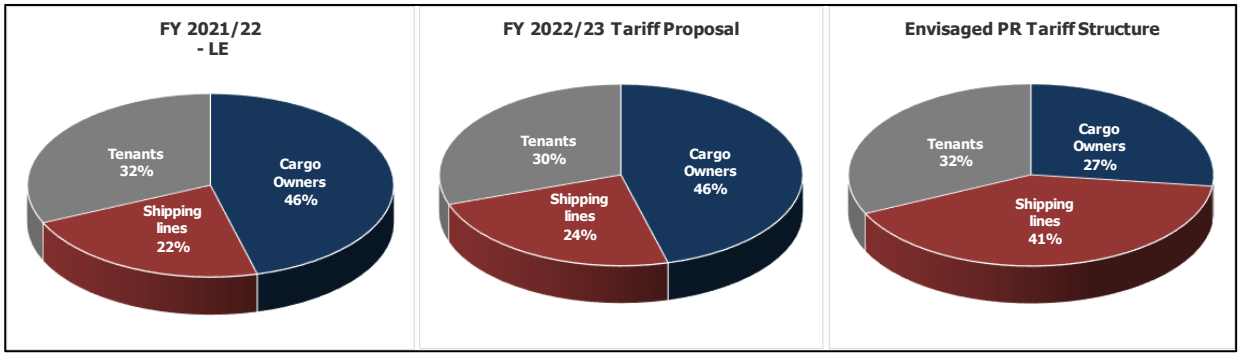
The differentiated tariff adjustments result in a weighted average tariff adjustment of **9.40% for FY 2022/23**.

The rationale for the proposed tariff differentiation is as follows:

- **Marine Charges (Shipping Lines)**:
    - In accordance with the Tariff Strategy envisaged end-state FY 2026/27 (Figure 10) Cargo owners are to contribute 27% of the Total Authority Revenue with Shipping Lines contributing 41%. Based on these contributions 60% of revenue associated with the requested increase of 9.4% i.e. R807m (R9 397m – R8 590m) has been allocated for recovery through Marine Charges. Marine Services tariffs still enjoy the benefits of significantly cross-subsidized tariffs; and the proposed differentiated tariff increase aims to progress the user-pay principle. Additionally, shipping lines have historically enjoyed the benefit of the depreciating Rand against the Dollar.
- **Cargo Dues (Cargo Owners)**
    - Following on from the approach described above, 40% of revenue associated with the requested increase of 9.4% i.e. R807m (R9 397m – R8 590m) has been allocated for recovery through Cargo Dues. Further differentiation into the different cargo handling types are explained as follows:
        - **Containers Imports & Exports**: Below RSA forecast CPI of 4.35%, in accordance with Tariff Strategy (user pays principle); supportive of the Authority's and Transnet segment strategy; and to enable volume growth (illustrated in Table 29 above);
        - **Break Bulk Imports & Exports**: Aligned to Tariff Strategy and FY 2022/23 Base Rates.
        - **Dry Bulk Imports & Exports:** Aligned to Tariff Strategy and FY 2022/23 Base Rates, and supportive of the Authority's and Transnet segment strategy;
        - **Liquid Bulk Imports & Exports**: Aligned to Tariff Strategy and FY 2022/23 Base Rates, and supportive of the Authority's and Transnet segment strategy;
        - **Automotive Imports & Exports**: In alignment with the Tariff Strategy; supportive of local Original Equipment Manufacturers (OEM's) competing with global sister companies; encourages localization and recovery of exports; and enables volume growth.

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

Figure 10: Transition to the Regulator's Tariff Strategy



8.4 Update/ Amendment to 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 regarding 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. These enhancements include, amongst others, 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).

8.5 Port Tariff Incentive Programme ("PTIP")

PTIP is an incentive implemented by the Authority, the Regulator, the Department of Trade and Industry, the Department of Transport, and other government departments, in support of beneficiation, industrialisation and localisation through port tariffs.

The PTIP incentive is available, amongst others, to port users, organisations, and industry bodies to apply for a discounted tariff as per the official tariff book. The discount is then afforded to entire industry in the form of an amendment to the item in the tariff book.

No applications have been received by the Authority for consideration in the FY 2022/23 Tariff Application.

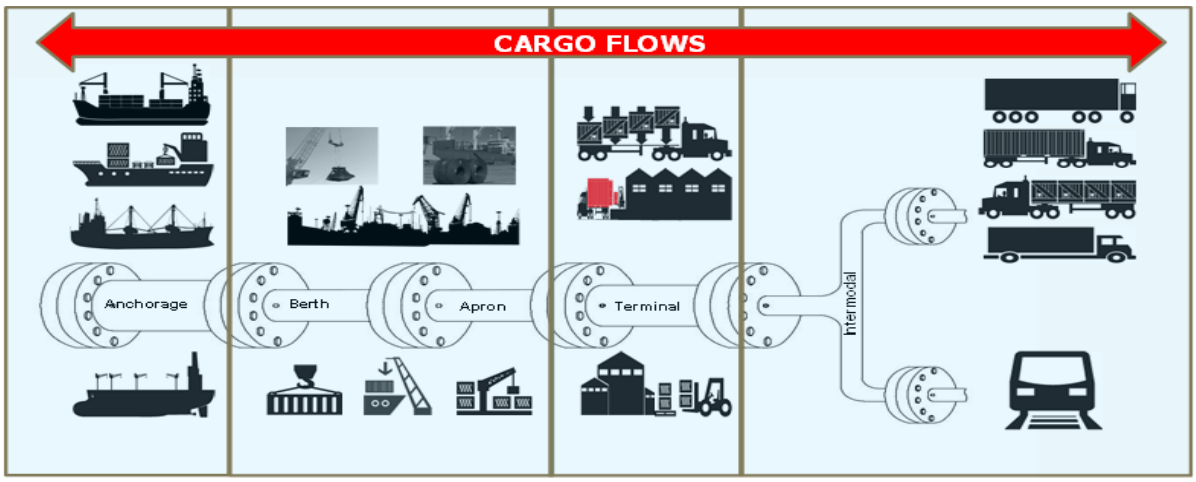
9. Port Efficiency

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 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 main activities of the Authority's operating model are shown in the Figure 11 below:

Figure 11: Port Performance Model



The Authority maintains a set of performance indicators through the establishment of Terminal Operator Performance Standards ("TOPS"), Rail Operations Performance Standards ("ROPS"), Haulier-Road Operations Performance Standards ("HOPS") and Marine Operations Performance Standards ("MOPS"), which have been firmly embedded and is in its 9th year. As part of improvement processes, in consultation with Port Stakeholders, the following initiatives are being implemented:

9.1 Key Performance Indicator (KPI) Alignment

In order for the Authority to continue executing its mandate fully, a review of current key performance indicators to ensure it addresses stakeholder requirements was required.

Stakeholder engagement sessions were held in all ports for different Cargo handling modes and the outcomes of these engagements were communicated; and are currently being implemented as part of initiatives in FY 2021/22.

9.1.1 Optimizing Landside Processes

After engagements with all ports, KPI's for landside operations were confirmed as Terminal Turnaround Time and Port Terminal Turnaround Time for all ports. These identified KPIs and targets will drive the Authority's processes to ensure that landside operations are efficient and address stakeholder requirements. To attain these recommended KPI's, access to truck staging areas and effective truck booking system play a key role, including an alignment to security processes.

9.1.2 Optimizing Waterside Processes

After consultation with all Key Stakeholders, Vessel Service delays; and Dynamic Ship Turnaround Time were identified as the key performance indicators for waterside performance. This requires vessel plans to be submitted to the Authority, before a vessel is berthed.

9.1.3 Creating Visibility in the Port Operations Value Chain

Creating visibility in the Port Operations Value Chain from the time a vessel arrives at port limits to the time it leaves the port, including the time on berth is important to ensure proactive management of deviations and collaboration between different stakeholders.

9.2 Management of Poor Performance

With the TOPS system well embedded across the port system, the focus has shifted to the improvement of port performance. The Authority has engaged all relevant internal and external stakeholders on the Performance Improvement Process ("PIP") for operationalization. The main objective of PIP is to:

- Enhance the existing TOPS Quarterly Assessments process;
- Ensure that remedial actions are undertaken and ultimately closed-out by Terminal Operators in cases of non-performance and other matters or findings; and
- Improve Terminal Operator performance (compliance & efficiency).

PIP will serve as a guideline, to be used by the Port Oversight Committees ("POC") to execute the Authority's oversight role with regards to the management of the terminal operators' performance.

Following the implementation of PIP, the next phase in the implementation of TOPS, will be the development of a penalty/incentive mechanism/scheme that serves to measure performance against pre-determined standards; to which Terminal Operators are held accountable. This is in line with Clause 14 of the Terminal Operators Licence (TOL); and the Terminal Operator Agreements (TOA).

9.3 Capacity Validation

In accordance with the Act, the Authority is required to ensure that Ports are being utilized at optimal 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[8] 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. The element of validating capacity will assist the Ports in performing their oversight role by setting meaningful targets for the Terminal Operators (TOPS) based on the scientifically proven capacity of each terminal, in order to improve port efficiencies

9.4 Benchmarking

The KPI's (endorsed by key stakeholders), recognizes Corporate Plan KPI's, Shareholder compact KPI's and Port Performance Operator standards. This further includes the port value chain, from the time the vessel arrives at Port limits, to the time it sails out; and will include matters that result in regional and international Ports gaining a competitive edge over South African Ports. Through this benchmarking exercise, the Authority will identify the best practice performance levels of comparable and efficient terminals, in order to inform the requisite levels of performance for terminals at South African ports.

[8] Phase 1 - FY 2021/22: Manual validation and sourcing of external service provider & Phase 2 - FY 2022/23: Acquiring and piloting simulation software tool

9.5 Weighted Efficiency Gains from Operations (WEGO)

The Regulator introduced an efficiency incentive in the form of WEGO aimed at regulating port performance, allowing up to 5% additional return on equity to the Authority for an increase of 10% on 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.

In March 2018, the Regulator published the ROD on WEGO which identified the KPI's to be used to determine the weighted port performance. For FY 2018/19 (Year 1), a basket of five KPI's of equal weighting were selected whilst for FY 2019/20 (Year 2), the weightings of the KPI's were revised to individual port level. For FY 2020/21, the individual port level weightings were further refined. The KPIs over the three years (FY 2018/19 to FY 2020/21) are highlighted in the table below:

Table 31: FY 2018/19 to FY 2020/21 WEGO KPIs

WEGO KPIs		WEIGHT (%)															
		Year 1: 2018/19	Year 2: 2019/20							Year 3: 2020/21							
		All Ports	RCB	DBN	ELS	NGQ	PLZ	MSB	CPT	SLD	RCB	DBN	ELS	NGQ	PLZ	MSB	CPT	SLD
1	Vessel Service Delays	20%	10%	10%	10%	25%	10%	30%	10%	15%	10%	10%	10%	15%	10%	30%	10%	15%
2	Ship Working Hour	20%	20%	25%	20%	25%	15%	25%	25%	10%	20%	25%	20%	25%	15%	25%	25%	10%
3	Berth Productivity	20%	30%	25%	20%	15%	25%	0%	25%	25%	30%	25%	20%	25%	25%	0%	25%	25%
4	Ship Productivity Indicator	20%	20%	15%	30%	10%	25%	25%	25%	25%	20%	15%	20%	25%	25%	20%	15%	25%
5	Ship Turnaround Time	20%	20%	25%	20%	25%	25%	20%	15%	25%	20%	25%	30%	10%	25%	25%	25%	25%

The WEGO results for FY 2020/21 based on the KPI's is illustrated in Table 32 below:

Table 32: WEGO Results FY 2020/21

2020/21 Financial Year - Provisional Annual WEGO Report								
WEGO Key Performance Indicators	**Port of Richards Bay**	**Port of Durban**	**Port East London**	**Port of Ngqura**	**Port of Port Elizabeth**	**Port of Mossel Bay**	**Port of Cape Town**	**Port of Saldanha**
Vessel Service Delays	1,2%	-9,2%	-17,6%	-31,4%	0,3%	-20,0%	-3,4%	-65,0%
Ship Working Hour	-0,5%	-1,5%	-3,2%	-4,5%	-2,5%	0,0%	-2,2%	-0,5%
Berth Productivity	-0,6%	0,3%	-3,6%	-5,9%	-4,2%	0,0%	-6,5%	-1,1%
Ship Productivity Indicator	-3,8%	-7,8%	-6,9%	-2,8%	-4,6%	-32,5%	-10,9%	-1,7%
Ship Turnaround Time	-1,9%	-2,2%	-10,7%	-1,5%	-7,4%	-14,2%	-16,2%	-2,4%
Port Efficiency Gain	-5,7%	-20,4%	-42,1%	-46,1%	-18,4%	-66,7%	-39,1%	-70,7%
Capped at 10%	-5,7%	-10,0%	-10,0%	-10,0%	-10,0%	-10,0%	-10,0%	-10,0%
Revenue Weighting	14,5%	49,1%	1,4%	6,0%	4,9%	0,7%	14,3%	9,1%
Weighted Port Performance	-0,8%	-4,9%	-0,1%	-0,6%	-0,5%	-0,1%	-1,4%	-0,9%
TNPA WEGO	-9,37%	**LEGEND:**		**White**	No Change from Previous Best Performance			
				Green	Improvement from Previous Best Performance			
				Red	Decline from Previous Best Performance			

All ports reported below the 10% efficiency cap. The sum of the weighted port performance for each port results in the total port efficiency loss of 9.37%. The WEGO revenue loss of R151m has been factored into the RR for FY 2022/23.

10. Conclusion

"Several structural weaknesses must be overcome if Africa is to translate rapid growth and higher demand for commodities into rising employment and living standards. Crucially, poor transport links and infrastructure networks, as well as tariff and non-tariff barriers, raise the cost of doing business and hobble both investment and internal trade" (National Development Plan 2030) ("NDP").

The excerpt from the NDP succinctly puts into perspective the need for a focused strategy by the Authority to deliver on its mandate to provide infrastructure timeously and efficiently.

As such, the Authority's business strategy undertakes to advance the states developmental agenda by continuously enhancing and sustainably optimizing the port system as a catalyst for economic development, inclusive growth and global competitiveness. In pursuing this agenda, the organization is mindful of having to navigate an extremely challenging operating and commercial environment amid the COVID-19 pandemic that has and is impacting negatively on demand and capital investment capacity.

Capital investment is the central pillar of the economic recovery and reconstruction plan of the state and underpins the national goal of creating an optimal freight system for enabling economic growth. In this regard, Transnet has fundamentally changed the way it approaches its strategic role in the national freight system, to a supply chain-centric perspective aligned to the strategic posture of the Authority. The key objectives of the new approach, referred to as the Transnet Segment Strategy, is to ensure greater competitiveness for key industry supply chains and to support the growth of Transnet's key market segments. The key market segments are broadly made up of eight (8) segments, namely, Iron Ore, Manganese, Coal, Chrome & Magnetite, Automotives, Containers, Fuel, and Gas.

In order to deliver on the Transnet segment strategy, and fulfil the mandate of the Authority, significant capital expenditure will be required in the short to medium term. This implies that above inflation tariff adjustments will be required. This is contrary to the guidance provided by the Regulator (past Tariff ROD's) stating that indicative overall tariff adjustments in future years would be within the inflation target band.

Application of the RR formula as prescribed by the Tariff Methodology results in a required revenue of R14 733m for FY 2022/23 (comprising of Marine Business revenue of R10 648m and Real Estate Business revenue of R4 085m). This translates into a tariff adjustment of 23.96% for FY 2022/23, and bears testament to the above inflation tariff adjustments required.

The Authority is certainly cognisant of the current economic conditions and hardships that require swift response and support from a State-owned Company. The Tariff Methodology outcome of 23.96% for FY 2022/23 is undoubtedly unaffordable for port users and taking into account significantly lower forecasted indicative future tariff adjustments the Authority has utilised the ETIMC facility to smooth the tariff trajectory.

The use of ETIMC results in a Revenue Requirement of **R13 482m for FY 2022/23**; and indicative Revenue Requirements of R15 232m and R16 504m for FY 2023/24 and FY 2024/25, respectively. Furthermore, it translates into a weighted average tariff adjustment of **9.40% for FY 2022/23**, and indicative tariff adjustments of 10.31% and 7.15% for FY 2023/24 and FY 2024/25, respectively. This is the basis of the Authority's Tariff Application FY 2022/23 request to the Regulator for approval.

Furthermore, the Tariff Strategy sets out the strategic pricing direction for the SA port system and aims to correct past tariff imbalances. In accordance with the objectives of the Tariff Strategy, amongst others, the following differentiated tariff adjustments (Section 8.3.2.6) are proposed for approval by the Regulator:

- Tariff increase of 17.83% on Marine charges (shipping lines).3.10% on Containers Imports & Exports;
- 9.40% on Break Bulk Imports & Exports;
- 9.40% on Dry Bulk Imports & Exports;
  - *12.00% on Coal & Magnetite Exports*
- 9.40% on Liquid Bulk Import & Export; and
- 0.00% on Automotive Imports & Exports.
  - Equates to an average of 5.47% increase in Cargo Dues

The aforementioned differentiated tariff adjustments result in a weighted average tariff adjustment of **9.40% for FY 2022/23.**

ANNEXURE A: The Authority's Tariff Book

Table 33: 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)
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 34: 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 segment strategies and initiatives, which are aimed at providing adequate port infrastructure, ahead of demand.

The capital expenditure for FY 2021/22 to FY 2026/27 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 35: Strategic Capital Investment Objectives

Strategic objective	LE	Projections					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total 6yr
	Rm						
Re-engineering, Integration, Productivity and Efficiency	660	721	273	1 501	1 326	4 397	8 878
	216	184	80	239	254	530	1 504
	514	916	1 740	1 941	2 285	4 504	11 900
Safety, Risk and Effective Governance	79	205	211	364	406	344	1 609
	34	333	186	7	19	45	624
	8	-	6	37	128	192	372
	0	9	81	121	178	172	560
Human Capital	44	86	89	214	234	168	835
Total (excl. borrowing cost)	**1 555**	**2 454**	**2 666**	**4 425**	**4 830**	**10 351**	**26 281**

Table 36: Major Capital Investment Projects for Tariff Application Period

Project	Port	Commodity
Provide additional rail facility for Duine area	RCB	Other
Replacement of helicopter ZS-RRB	RCB	Other
Replace 1 tug	RCB	Other
Port Fire Fighting Installation Expansion & Upgrade	RCB	Other
New Tug Jetty - FEL 4	DBN	Other
Execution: DCT berth deepening 203 to 205	DBN	Containers
Replace Water Pipelines & Billing System	DBN	Other
Execution: IV sea walls	DBN	Liquid Bulk
Reconstruction of Quay 3	EL	Other
Manganese project	NGQ	Manganese
Two Replacement Tugs	CPT	Other
Acquisition of a Pollution control vessel	CPT	Other
Bulk electrical power supply related to Third tippler	SLD	Export Iron Ore
Acquisition of new Cutter Suction dredger	DRS	Other
2nd Grab hopper dredger	DRS	Other
Replacement of helicopter ZS-HDP	DBN	Other
Two replacement tugs	EL	Other
Acquisition of new Helicopter	CPT	Other
Bayvue Railyard Infrastructure Upgrade	RCB	Other
Construction of Liquid Bulk terminal Ngq	NGQ	Liquid Bulk
Phakisa projects	All	Other

Table 37: Operation Phakisa Major Projects

Project	Port
Modifications of 1200 ton slipway cradle	PE
Replacement of Robinson Drydock floating caisson	CPT
Replacement of 10 cranes for Shiprepair	CPT
Execution : Dry Dock Capstans Upgrade - FEL3&4	DBN
Refurbishment of Graving Dock - Jib Cranes	EL
Sturrock Dry Dock Pump System Upgrade - FEL3&4	CPT
Sturrock Dry Dock Electrical Infrastructure Upgrade (FEL 3	CPT
Replacement of Sturrock Drydock Inner Caisson	CPT
Replacement of Capstans on all docks - FEL3&4	CPT
Robinson Dry Dock Pump System Upgrade - FEL3&4	CPT

Table 38: Expansion Business vs. Maintenance of Current Business

FY 2021/22

Details	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO
	LE											
	2021/22											
	Rm											
Expand Business :												
- Growth initiatives	726	53	74	-	225	-	0	1	14	-	215	144
Maintain current Business :												
- Replacement Efficiency/ Service Quality	829	21	145	23	178	49	18	124	121	65	17	68
Total (excl. borrowing cost)	1 555	74	219	23	403	49	18	125	135	65	232	212

FY 2022/23

Details	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO
	Projections											
	2022/23											
	Rm											
Expand Business :												
- Growth initiatives	574	54	147	-	100	-	-	-	-	-	274	-
Maintain current Business :												
- Replacement Efficiency/ Service Quality	1 880	190	253	5	438	81	7	258	170	72	2	405
Total (excl. borrowing cost)	2 454	243	400	5	538	81	7	258	170	72	276	405

FY 2023/24

Details	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO
	0											
	2023/24											
	Rm											
Expand Business :												
- Growth initiatives	401	-	215	-	73	5	-	-	9	-	100	-
Maintain current Business :												
- Replacement Efficiency/ Service Quality	2 264	177	590	289	73	101	22	547	180	43	3	241
Total (excl. borrowing cost)	2 666	177	805	289	145	106	22	547	189	43	103	241

FY 2024/25

Details	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO
	0											
	2024/25											
	Rm											
Expand Business :												
- Growth initiatives	1 627	13	1 408	-	104	14	16	25	49	-	-	-
Maintain current Business :												
- Replacement Efficiency/ Service Quality	2 797	338	690	527	86	162	78	553	218	46	3	97
Total (excl. borrowing cost)	4 425	350	2 098	527	190	176	93	578	267	46	3	97

Table 39: Port Related Spending by Asset Type

FY 2021/22

Asset Types	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO
	LE											
	2021/22											
	Rm											
Buildings and structures	78	10	11	1	-	7	15	-	2	-	-	31
Aircraft	25	1	1	-	-	-	-	23	-	-	-	-
Land	145	-	-	-	-	-	-	-	1	-	-	144
Machinery, equipment and furniture	175	10	27	4	3	3	3	4	3	64	17	37
Permanent way and works	49	49	-	-	-	-	-	-	-	-	-	-
Vehicles, Rolling stock & containers	3	3	-	-	-	-	-	-	-	-	-	-
Port Facilities	1 056	1	180	18	400	39	0	74	129	1	215	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Pipelines networks (etc)	-	-	-	-	-	-	-	-	-	-	-	-
Marine craft (tugs,dredgers,workboats, etc)	24	-	-	-	-	-	-	24	-	-	-	-
Total (excl. borrowing cost)	**1 555**	**74**	**219**	**23**	**403**	**49**	**18**	**125**	**135**	**65**	**232**	**212**

FY 2022/23

Asset Types	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO
	Projections											
	2022/23											
	Rm											
Buildings and structures	97	43	29	-	23	-	-	-	1	-	-	-
Aircraft	315	86	89	-	-	-	-	140	-	-	-	-
Land	-	-	-	-	-	-	-	-	-	-	-	-
Machinery, equipment and furniture	592	15	81	3	3	5	3	4	6	67	2	405
Permanent way and works	51	51	-	-	-	-	-	-	-	-	-	-
Vehicles, Rolling stock & containers	8	-	-	-	8	-	-	-	-	-	-	-
Port Facilities	1 353	48	201	-	503	76	4	113	131	5	274	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Pipelines networks (etc)	-	-	-	-	-	-	-	-	-	-	-	-
Marine craft (tugs,dredgers,workboats, etc)	38	-	-	2	1	-	-	1	33	-	-	-
Total (excl. borrowing cost)	**2 454**	**243**	**400**	**5**	**538**	**81**	**7**	**258**	**170**	**72**	**276**	**405**

FY 2023/24

Asset Types	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO
	Projections											
	2023/24											
	Rm											
Buildings and structures	447	-	270	59	24	0	16	35	31	-	-	11
Aircraft	288	124	-	-	-	-	-	163	-	-	-	-
Land	-	-	-	-	-	-	-	-	-	-	-	-
Machinery, equipment and furniture	434	11	93	8	3	7	4	7	27	43	3	230
Permanent way and works	-	-	-	-	-	-	-	-	-	-	-	-
Vehicles, Rolling stock & containers	17	-	7	-	10	-	-	-	-	-	-	-
Port Facilities	1 182	40	435	139	87	99	-	228	54	-	100	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Pipelines networks (etc)	-	-	-	-	-	-	-	-	-	-	-	-
Marine craft (tugs,dredgers,workboats, etc)	298	2	-	82	21	-	2	114	77	-	-	-
Total (excl. borrowing cost)	**2 666**	**177**	**805**	**289**	**145**	**106**	**22**	**547**	**189**	**43**	**103**	**241**

FY 2024/25

Asset Types	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO
	Projections											
	2024/25											
	Rm											
Buildings and structures	874	22	353	167	42	1	7	92	135	-	-	55
Aircraft	-	-	-	-	-	-	-	-	-	-	-	-
Land	-	-	-	-	-	-	-	-	-	-	-	-
Machinery, equipment and furniture	456	11	123	3	3	15	38	152	26	46	3	38
Permanent way and works	-	-	-	-	-	-	-	-	-	-	-	-
Vehicles, Rolling stock & containers	9	-	-	-	-	4	-	-	-	-	-	5
Port Facilities	2 843	100	1 622	354	124	157	46	334	106	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Pipelines networks (etc)	-	-	-	-	-	-	-	-	-	-	-	-
Marine craft (tugs,dredgers,workboats, etc)	243	217	-	3	21	-	2	-	-	-	-	-
Total (excl. borrowing cost)	**4 425**	**350**	**2 098**	**527**	**190**	**176**	**93**	**578**	**267**	**46**	**3**	**97**

Table 40: Capital expenditure and throughput per commodity

Containers

Containers							
Details	**FY 2021/22**	**FY 2022/23**	**FY 2023/24**	**FY 2024/25**	**FY 2025/26**	**FY 2026/27**	**Major Capital Projects**
Containers	**215**	**34**	**184**	**1 499**	**1 034**	**3 221**	**- Execution: DCT berth deepening 203 to 205 DBN**
- Expand	163	19	179	1 394	909	3 054	
- Maintain	52	15	5	105	125	167	
Volumes ('000 TEU's)							
- Budget & Projections	4 119	4 315	4 600	4 679	4 770	5 097	
- Capacity	7 250	7 250	7 250	7 250	7 250	8 150	
Total Capex spend over the 6 year period				6 187			
Indicative return on capital				888			
Depreciation				-			
Total cumulative Revenue Required over the 6 year period				**888**			

Liquid Bulk

Liquid Bulk							
Details	**FY 2021/22**	**FY 2022/23**	**FY 2023/24**	**FY 2024/25**	**FY 2025/26**	**FY 2026/27**	**Major Capital Projects**
Liquid Bulk	**232**	**450**	**197**	**226**	**352**	**607**	**- Execution IV seawalls DBN**
- Expand	203	31	26	51	118	311	**- Construction of Liquid Bulk Terminal NGQ**
- Maintain	29	419	171	175	234	295	
Volumes (mKl)							
- Budget & Projections	40	41	43	44	44	45	
- Capacity	107	107	109	109	112	123	
Total Capex spend over the 6 year period				2 063			
Indicative return on capital				492			
Depreciation				-			
Total cumulative Revenue Required over the 6 year period				**492**			

Iron Ore

Iron Ore							
Details	**FY 2021/22**	**FY 2022/23**	**FY 2023/24**	**FY 2024/25**	**FY 2025/26**	**FY 2026/27**	**Major Capital Projects**
Iron Ore	**101**	**118**	**24**	**23**	**4**	**427**	**- Bulk electrical poer supply related to third trippler SLD**
- Expand	-	-	-	-	-	397	
- Maintain	101	118	24	23	4	30	
Volumes (mt)							
- Budget & Projections	59	59	59	59	59	59	
- Capacity	60	60	60	60	60	60	
Total Capex spend over the 6 year period				696			
Indicative return on capital				138			
Depreciation				-			
Total cumulative Revenue Required over the 6 year period				**138**			

Coal

Coal							
Details	**FY 2021/22**	**FY 2022/23**	**FY 2023/24**	**FY 2024/25**	**FY 2025/26**	**FY 2026/27**	**Major Capital Projects**
Coal	**-**	**-**	**40**	**-**	**10**	**25**	**- Refurbish fenders Berths 301 to 306 RCB**
- Expand	-	-	-	-	-	-	
- Maintain	-	-	40	-	10	25	
Volumes (mt)							
- Budget & Projections	79	81	83	84	87	87	
- Capacity	114	114	114	114	114	114	
Total Capex spend over the 6 year period				75			
Indicative return on capital				15			
Depreciation				-			
Total cumulative Revenue Required over the 6 year period				**15**			

Manganese

Manganese							
Details	**FY 2021/22**	**FY 2022/23**	**FY 2023/24**	**FY 2024/25**	**FY 2025/26**	**FY 2026/27**	**Major Capital Projects**
Manganese	**29**	**68**	**23**	**31**	**96**	**142**	**- Manganese Project NGQ**
- Expand	22	68	23	31	-	25	
- Maintain	7	-	-	-	96	117	
Volumes (mt)							
- Budget & Projections	17	19	20	21	18	19	
- Capacity	30	30	24	24	24	24	
Total Capex spend over the 6 year period				389			
Indicative return on capital				79			
Depreciation				-			
Total cumulative Revenue Required over the 6 year period				**79**			

Break-Bulk

Break-Bulk							
Details	**FY 2021/22**	**FY 2022/23**	**FY 2023/24**	**FY 2024/25**	**FY 2025/26**	**FY 2026/27**	**Major Capital Projects**
Break-Bulk	**3**	**20**	**23**	**25**	**123**	**536**	**- Replacement of sheet piles Quay 3 MSB**
- Expand	3	20	23	10	-	170	
- Maintain	-	-	-	15	123	366	**- Berth 205 Marine manufacturing facility SLD**
Volumes (mt)							
- Budget & Projections	3	4	4	4	4	4	
- Capacity	27	27	27	27	27	26	
Total Capex spend over the 6 year period				731			
Indicative return on capital				78			
Depreciation				-			
Total cumulative Revenue Required over the 6 year period				**78**			

Automotives

Automotives							
Details	**FY 2021/22**	**FY 2022/23**	**FY 2023/24**	**FY 2024/25**	**FY 2025/26**	**FY 2026/27**	**Major Capital Projects**
Automotives	**-**	**-**	**-**	**-**	**1,50**	**5,90**	**- New Automotive terminal PE**
- Expand	-	-	-	-	1,50	5,90	
- Maintain	-	-	-	-	-	-	
Volumes (units)							
- Budget & Projections	535 530	701 356	764 672	789 937	857 464	870 147	
- Capacity	2 100 000	2 100 000	2 100 000	2 100 000	2 100 000	2 100 000	
Total Capex spend over the 6 year period				**7,40**			
Indicative return on capital				0,6			
Depreciation				-			
Total cumulative Revenue Required over the 6 year period				**0,6**			

Other

Other (incl LHS & Bulk Services)							
Details	**FY 2021/22**	**FY 2022/23**	**FY 2023/24**	**FY 2024/25**	**FY 2025/26**	**FY 2026/27**	**Major Capital Projects**
Other (incl LHS & Bulk Services)	**719**	**1 450**	**1 773**	**2 376**	**2 772**	**3 948**	**- Acquisition of helicopters RCB, DBN & CPT**
- Expand	120	162	29	121	307	583	**- Replacement water pipelines & billing system DBN**
- Maintain	598	1 289	1 744	2 255	2 465	3 364	**- Increase electrical supply DBN**

Fleet – Craft and Dredging Service

Fleet-Craft & Dredging Services							
Details	**FY 2021/22**	**FY 2022/23**	**FY 2023/24**	**FY 2024/25**	**FY 2025/26**	**FY 2026/27**	**Major Capital Projects**
Fleet - Craft	**24**	**38**	**298**	**243**	**436**	**1 357**	**- Acquisition of 5 replacement tugs (1 RCB, 2 EL & 2 CPT)**
- Expand	-	1	21	21	2	292	
- Maintain	24	37	277	221	434	1 065	**- Acquisition of 2 additional tugs NGQ**
Dredging Services	**232**	**276**	**103**	**3**	**3**	**83**	**- Acquisition 2nd Grab Hopper dredger & cutter section dredger DRS**
- Expand	215	274	100	-	-	-	
- Maintain	17	2	3	3	3	83	

Table 41: Multi-Year Capex per Port Service

Capex spend per Port Service / Facility	LE	Projections					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total 6yr
	Rm						
Infrastructure	1 234	2 069	2 222	4 134	3 654	8 859	22 173
Marine services	24	38	298	243	1 124	1 357	3 084
Lighthouse services	65	72	43	46	49	52	325
Dredging services	232	276	103	3	3	83	699
Total (excl. borrowing cost)	**1 555**	**2 454**	**2 666**	**4 425**	**4 830**	**10 351**	**26 281**

Table 42: Multi-Year Port Related Spending by Asset type

Asset Types	LE	Projections				
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Rm					
Buildings and structures	78	97	447	874	1 105	1 108
Aircraft	25	315	288	-	-	-
Land	145	-	-	-	-	1 275
Machinery, equipment and furniture	175	592	434	456	437	988
Permanent way and works	49	51	-	-	-	143
Vehicles, Rolling stock & containers	3	8	17	9	22	-
Port Facilities	1 056	1 353	1 182	2 843	2 830	5 480
Other	-	-	-	-	-	-
Pipelines networks (etc)	-	-	-	-	-	-
Marine craft (tugs,dredgers,workboats, etc)	24	38	298	243	436	1 357
Total (excl. borrowing cost)	**1 555**	**2 454**	**2 666**	**4 425**	**4 830**	**10 351**

Table 43: Multi-Year Port Related per Commodity

Major Commodity	LE	Projections					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total 6yr
	Rm						
Containers	215	34	184	1 499	1 034	3 221	6 187
Liquid Bulk	232	450	197	226	352	607	2 063
Iron Ore	101	118	24	23	4	427	696
Coal	-	-	40	-	10	25	75
Manganese	29	68	23	31	96	142	389
Break Bulk	3	20	23	25	123	536	731
Automotive	-	-	-	-	2	6	7
Fleet - craft	24	38	298	243	436	1 357	2 396
Other (incl DRS&LHS)	951	1 726	1 876	2 379	2 774	4 030	13 737
Total	**1 555**	**2 454**	**2 666**	**4 425**	**4 830**	**10 351**	**26 281**

ANNEXURE C: Volumes

Table 44: Cargo Dues Revenue from Volume Increase Before Tariff Increase

DETAILS	2021/22	2021/22	2022/23	2022/23
	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	1 355 655	2 541	107 963	202
Deepsea Full: Exports	1 147 146	495	82 974	36
Transhipment	645 027	37	-58 074	(3)
Other	970 847	46	63 221	3
Total Container (TEUs)	**4 118 675**	**3 120**	**196 084**	**238**
Vehicles (Units)				
Vehicles: Imports	208 221	159	48 487	37
Vehicles: Exports	301 058	87	113 641	33
Other	26 251	1	3 698	0
Total Ro-Ro (Units)	**535 530**	**247**	**165 826**	**70**
Breakbulk (Metric Tons)				
Breakbulk: Imports	1 887 842	54	100 805	3
Breakbulk: Exports	1 349 393	35	54 336	1
Other	106 941	1	6 570	0
Total Breakbulk (Tons)	**3 344 176**	**90**	**161 711**	**4**
Dry Bulk (Metric Tons)				
Coal Exports	78 745 035	388	2 303 128	11
Iron Ore Exports	58 500 000	421	-	-
Manganese Ore Exports	17 469 567	164	1 102 747	10
Other	33 558 105	368	1 374 952	14
Total Dry Bulk (Tons)	**188 272 707**	**1 340**	**4 780 827**	**36**
Liquid Bulk (Kl)				
Petroleum	31 713 926	504	1 274 642	21
Chemicals	2 359 180	67	47 541	1
Other	5 545 990	119	-56 661	2
Total Liquid Bulk (Kilo litres)	**39 619 096**	**690**	**1 265 522**	**24**
Cargo Dues Revenue	**-**	**5 487**		**372**

ANNEXURE D: Operating Expenditure ("Opex")

Table 45: Operating Expenditure

Cost Category	Actual 2020/21 R Million	Budget 2021/22 R Million	Forecast 2022/23 R Million	Dev 21/22 vs 22/23 R Million	Dev 21/22 vs 22/23 %	% of Opex 22/23	Forecast 2023/24 R Million	Forecast 2024/25 R Million	CAGR 2022/23 - 2024/25
Labour Costs	2 589	2 903	2 800	-103	-4%	52%	2 985	3 151	6%
Rates & taxes	411	429	431	2	0%	8%	453	474	5%
Maintenance	295	420	573	153	36%	11%	563	585	1%
Contract Payments	8	49	21	-28	-56%	0%	23	24	6%
Energy	549	639	671	32	5%	12%	724	777	8%
Professional services	20	49	123	74	150%	2%	128	133	4%
Material	52	95	138	43	45%	3%	149	154	6%
Computer & Info systems	113	151	153	3	2%	3%	161	168	5%
Rental	56	56	61	4	8%	1%	64	67	5%
Security costs	144	156	156	0	0%	3%	166	175	6%
Pre -Feasibility Studies	17	93	141	48	51%	3%	104	96	-18%
Sundry operating costs	604	114	164	50	44%	3%	186	187	7%
Total operating cost (excluding depreciation)	***4 859***	***5 156***	***5 434***	***278***	***5%***	***100%***	***5 706***	***5 991***	***5%***
Group Costs	374	491	485	(6)	-1%		515	519	3%
Total operating cost (Including Group Costs)	**5 233**	**5 647**	**5 919**	**272**	**4,8%**		**6 220**	**6 510**	**5%**

The Authority's total costs is R 5 919m for FY 2022/23. This includes the Transnet Group overhead costs of R485m.

The Operating Expenditure represents all the expenses incurred on a day to day basis while running the business of the Authority at ports and business units. The Authority's operating costs are projected to grow by approximately 4.8% (R272m) in FY 2022/23.

As a cost saving initiative, of utilizing own property versus leasing premises to provide occupancy to employees; and in order to house Head Office (Parktown, Johannesburg and Kingsmead, Durban) closer to operations, the relocation of Head office to the Port of Ngqura will occur in FY 2021/22. The decision to relocate the Authority's Head Office to Ngqura would over time translate to savings in recoverable costs through tariffs. Such savings will be enduring as a nett permanent benefit to port users.

The relocation of the Authority's Head Office will result in once-off establishment costs at the Port of Ngqura as well as once-off expenditures associated with relocating of personnel. Whilst it's likely that these initial once-off costs will be in excess of the initial rental savings, the Authority forecasts a nett overall lower-cost base over time.

The sections that follow provides a high-level explanation for cost items per Table 45 above.

Labour Cost

The Authority is a labour-intensive organisation with Labour cost being a function of delivering on the Authority's mandate in terms of oversight functions, project management and maintenance, amongst others. Therefore, Labour costs forms a substantial portion of the overall operating expenditure, compromising of 52% of the total operating costs for FY 2022/23.

○ *Headcount*

The forecasted total number of employees for FY 2021/22 to FY 2024/25 is highlighted in the table below:

Table 46: Total Number of Employees

Cost Category	Actual 2020/21	Budget 2021/22	Forecast 2022/23	Deviation 21/22 vs 22/23	Deviation % 21/22 vs 22/23	Forecast 2023/24	Forecast 2024/25
Total Number of Employees	4 371	4 624	4 624	-	0,0%	4 624	4 624

Not much progress was made in FY 2020/21 in terms of recruiting the required personnel (4 721 planned vs 4 371 actual), mainly due to COVID-19.

The Authority has consciously decided to contain manning levels to minimize port costs. Part of the new process is to position Head Office closer to Operations, devolve authority and functions to Ports and introduce regional structures to consolidate port strategic and support structures. As this process unfolds, headcount has been capped to 4 624 employees with the increase in headcount from FY 2020/21, explained by the following business critical needs:

- Employment of port engineering personnel in order to create adequate port infrastructure capacity ahead of demand and maintaining existing and new assets; i.e. Engineers, Engineering Technicians, Artisans, Trade Workers, Trade Hands, General Workers;
- Meeting minimum manning levels of marine at 100% service and matching manning levels with number of tugs required per shift linked to meet the operational requirements of the Ports & comply to South African Maritime Safety Association (SAMSA) Legislation;
- 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;
- Security personnel to assist with CCTV monitoring, access control and overall safety within the ports. Also assist with the daily operations of the Security Department and align to DoT;
- Trainees required for marine succession pipeline to ensure continuity in specialist marine positions i.e. Chief Marine Engineering Officers and Tug Masters;
- Additional support services staff to complement increase in core operational personnel and ensure compliance to increased legislative and regulatory requirements; and
- Phasing in manning of the Procurement to improve procurement deliverables.

- ***Training***

Adequate training and development of human capital is a core focus area for the Authority. This ensures continuous growth and advancement of the Authority.

The Authority continues with various training initiatives including cadet training, pilot training, tug master training and chief marine engineer officer training.

The Authority will continuously enter partnerships with learning institutions for particular training initiatives e.g. Port of Richards Bay has entered into a partnership with the Umfolozi FET College to train 20 Artisans (Electricians and Plumbers).

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 the inflation rate. The increase in Rates and Taxes for FY 2021/22 is forecasted at 4.5% and is mainly attributed to the Ports property values.

Rates and taxes are expected to increase by approximately 5% per annum, over the three-year tariff application period.

Maintenance

The increase in maintenance costs from FY 2021/22 to FY 2022/23 is approximately 36%.

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.

Capacity to spend the allocated budget over the years is concerning as currently there is a back log on maintenance spent. The Authority did not spend approximately 42.5% (R125.4m) of the maintenance budget in FY 2020/21, due to amongst others, delays attributable to COVID-19 Lock Down; and deferment of scheduled layup activities due to sourcing challenges. The increase in maintenance spending in years FY 2021/22 and FY 2022/23 are related to catch-up of maintenance due to the COVID-19 impact.

The average growth in maintenance over the three-year tariff period is approximately 1% and is mainly attributed to the following:

- CCTV systems and Babylon Access maintenance;
- Maintenance of marine craft, ensuring compliance to SAMSA requirements;
- Maintenance of Port Facilities, Road, Rail & electrical network;
- Quay Infrastructure, Quay Fenders and Quay wall repairs;
- Handling of larger container vessels with a very small under keel clearance, necessitating a higher frequency of maintenance dredging; and
- Ongoing maintenance of ageing infrastructure including:
    - General building maintenance;
    - Navigational Aids;
    - Ship Repair infrastructure (Repairs to cranes, pumps and valves at dry-dock);
    - Mechanical Valves, hydrant repairs and general statutory inspections;
    - Manhole cover and frame repairs;
    - Pothole repairs;
    - Servicing of Air - Conditioning / UPS / Generators;
    - Fleet Repairs & Maintenance;
    - Vessel Tracking System (VTS) Equipment Maintenance;

- Break water crane; and

Contract Payments

The decrease in contract payments for FY 2022/23 is approximately 56%, related mainly to savings on Head office rental in Parktown and Kingsmead. The average increase over the three-year tariff application period is approximately 6%.

Energy

Energy costs are mainly attributable to the fuel and electricity consumption of the Ports. The increase in energy costs from FY 2021/22 to FY 2022/23 is approximately 5% (R32m). The average increase in energy costs over the three-year tariff application period is approximately 8% and mainly due to the following:

- Increase in electricity costs estimated at 8% over the three-year period; and
- Marine Tugboats have been replaced with a larger bollard pull capacity tugs for improved efficiencies, which results in higher fuel consumption. Larger bollard pull capacity of the new craft results in higher fuel (Diesel) consumption, at approximately 350 litres/hour, compared to old generation craft that consumed average of 290 litres/hour.

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 by R74m from FY 2021/22 to FY 2022/23. The average increase in professional fees over the three-year tariff application period amounts to 4%.

Key pre-feasibility studies and use of professional consultant services for the following projects:

- External structural engineer inspections for buildings & evaluations;
- Port of Cape Town Desalination Plant Studies;
- Richards Bay Expansion Program (RBEP);
- Land use plans;
- South Dunes Liquid Bulk Services;
- Zoning Plan Recreational Area Survey;
- TIMS Certification and ISO 45001 Requirements;

- EPIRP, AIS, SART, Radar Survey, Pre-Survey, Radio check;
- Liquid Bulk Transaction Advisors;
- Health Risk Assessment;
- Medical Surveillance Contract; and
- SAMSA surveys.

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 by 45% from FY 2021/22 to FY 2022/23, with the average increase in material costs over the tariff application period amounting to approximately 6%. The significant increase in material costs from FY 2021/22 to FY 2022/23 is mainly attributed to the following:

- Slipway material required to maintain ship repair facility;
- Safety equipment required by the Marine Department; and
- Material for structural maintenance of buildings.

It must be borne in mind that the explanations provided above under Maintenance have a direct bearing on material costs 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 FY 2021/22 to FY 2022/23 is approximately 2% with the average increase over the three-year tariff application period being approximately 5%.

Rental

Rental costs relate to the hiring of internal land and buildings, leasing of vehicles, construction equipment, computers and furniture. Rental costs is expected to increase by R4m (8%) from FY 2021/22 to FY 2022/23. The average increase over the three-year tariff application period is approximately 5%.

Pre-Feasibility Studies and Research & Development

Pre-feasibility studies are undertaken to determine future capital investments in a pre-feasibility phase to determine 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 2021/22 to FY 2022/23 is 51% (R48m), with an average decrease of 18% over the three-year tariff period. The significant increase in pre-feasibility costs in FY 2022/23 is due to the lower FY 2020/21 spend (R76.2m underspend) due to COVID-19.

Ports will be embarking on the following pre-feasibility and R&D projects in order to deliver on future CAPEX plans:

- Replacement of sheet piles for Quay 3;
- Quay 4 refurbishment;
- Development of Service Masterplan and Port Development Precinct/Framework Plans;
- Pre-Feasibility for electrical & water networks;
- Container Terminal Deepening: Port of Port Elizabeth
- IPOSS Maintenance;
- Evaluation of Port Weighbridges;
- Structural Integrity Assessment of Port Control Building;
- Assessment of Berth Availability due to Excessive Wave Motions;
- Foreshore Nourishment and North Seawall Refurbishment;
- Tanker Berth Optimization;
- FEL 2 New Automotive Terminal Study;
- Passenger Liner Terminal Study;
- Relocation of Tug Jetty;
- Dredging sediment analysis;
- Bayview Railyard Configuration FEL 2: Port of Richards Bay;
- South Dunes Liquid Bulk Services;
- Port Commercial Park;
- Bathymetric Surveys;
- Reconfiguration of the Oil Jetty / Refurbishment of Quay and Jetty Infrastructure;
- Climate Change Studies;
- Port Navigation Studies;

- Gas to Power studies;
- Strategic Environmental Assessment (SEA);
- Hull Cleaning Study;
- Offshore Bunkering Risk Assessment;
- Beach profiling;
- Truck Staging Area;
- Sewer Pump System;
- Scada System for Port Systems;
- Hydraulic Tension System study and rental;
- Point Precinct Automotive study: Port of Durban;
- Study for the Development of New Dry Dock;
- Replacement Millennium Tower Cowl: Port of Durban;
- Provide new Admin Facilities at B Berth (FEL 3 & FEL 4);
- Maydon Wharf and Bayhead Park Road Upgrade: Port of Durban;
- IV Berth for Upgrade: Port of Durban;
- Additional Office space Ocean Terminal Building and Tween: Port of Durban;
- Reconstruct Bluff Berth / Fire Compliance Assessment: Port of Durban;
- Durban Hangar Refurbishment: Port of Durban; and
- Pre-Electrical Shore Supply to vessels.

Sundry Operating Costs

The detailed costs relating to sundry expenses are highlighted in Table 47 below. Sundry Costs include expenses relating to dredging, insurance, stationery and printing, transport, promotions and advertising, and other miscellaneous operating expenditure.

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

- Environmental Management Cost;
- Water;
- Health and Sanitation;
- Nursery & Gardening Services;
- Promotions & Advertising; and
- Entertainment.

Table 47: The Authority's Sundry Operating Costs

Cost Category	Actual 2020/21 R Million	Budget 2021/22 R Million	Forecast 2022/23 R Million	Dev 21/22 vs 22/23 R Million	Dev 21/22 vs 22/23 %	% of Opex 22/23	Forecast 2023/24 R Million	Forecast 2024/25 R Million	CAGR 2022/23 - 2024/25
External property anxilary costs revenue	-304,6	-331,1	-319,1	12,0	-4%	-6%	-335,2	-350,9	5%
Intra NPA recoveries	-262,9	-460,0	-446,6	13,4	-3%	-8%	-468,3	-489,1	5%
Intra cc recoveries	147,6	329,3	306,7	-22,6	-7%	6%	338,3	337,9	5%
Intra cc charges	63,9	63,4	63,8	0,3	0%	1%	66,6	70,5	5%
Miscellaneous revenue	547,4	-25,0	-21,8	3,2	-13%	0%	-22,8	-23,6	4%
External Audit Fees	10,9	16,0	15,5	-0,5	-3%	0%	16,2	16,9	5%
	-	-	-	-			-	-	0%
Entertainment	2,1	5,6	6,4	0,8	15%	0%	6,7	7,1	5%
Environmental management	-6,4	20,4	39,6	19,2	94%	1%	41,3	44,3	6%
Fines and Penalties	-5,6	0,0	0,0	-0,0		0%	0,0	0,0	5%
Health and Sanitation	49,8	56,3	65,8	9,5	17%	1%	69,3	72,7	5%
Insurance Operations	53,0	58,5	57,4	-1,1	-2%	1%	60,5	63,5	5%
Legal Costs - Tax Deductible	20,8	24,1	25,9	1,9	8%	0%	27,2	28,3	5%
Internal Audit	28,4	48,0	46,8	-1,2	-3%	1%	49,0	51,1	5%
Membership Fees	4,4	8,3	8,4	0,2	2%	0%	8,8	9,2	5%
Bank Charges	0,7	0,4	0,3	-0,0	-3%	0%	0,4	0,4	5%
Catering Costs	0,5	2,1	2,0	-0,1	-3%	0%	2,1	2,2	5%
Claims Paid	0,1	-	-	-		0%	-	-	0%
Commission Paid	0,4	0,2	0,2	-0,0	-3%	0%	0,2	0,2	5%
Discount Allowed	-	-	-	-		0%	-	-	0%
Gifts	-	-	0,2	0,2		0%	0,2	-	-100%
License Fees	1,6	0,0	0,2	0,2	378%	0%	0,2	0,2	5%
Magazines, Books and Periodicals	0,2	4,8	5,2	0,4	7%	0%	5,4	5,7	5%
Newspapers	-	0,0	0,0	-0,0	-2%	0%	0,0	0,0	5%
Nursery / Flower Expenditure	5,7	12,9	18,6	5,8	45%	0%	19,6	20,5	5%
Water	159,0	105,7	112,1	6,4	6%	2%	118,7	125,3	6%
Other 1	12,9	22,8	22,4	-0,4	-2%	0%	23,6	24,9	5%
Navigation, Landing and Parking	16,2	18,4	18,0	-0,5	-2%	0%	18,8	19,6	5%
Postage	0,0	0,2	0,2	0,0	4%	0%	0,2	0,2	5%
Printing and Stationery	7,2	13,4	13,4	-0,1	0%	0%	14,0	14,6	5%
Promotions and Advertising	6,9	21,9	30,6	8,7	40%	1%	27,9	33,4	5%
RDP Costs / Social Investment	-	-	-	-		0%	-	-	0%
Regional Services Levies	-	-	-	-		0%	-	-	0%
Telecommunication Services : External	15,5	19,3	18,9	-0,4	-2%	0%	20,9	21,8	8%
Travel Benefits / Concessions	-	-	-	-		0%	-	-	0%
Transport Cost : External	1,7	3,0	3,0	-0,1	-2%	0%	3,1	3,3	5%
Travel - Local	27,1	64,6	59,8	-4,8	-7%	1%	62,7	65,6	5%
Travel - Overseas : Deductible	0,0	5,6	5,5	-0,1	-2%	0%	5,7	6,0	5%
Other operating expenses : 2 (Consulting fees)	-	4,7	4,6	-0,1	-3%	0%	4,8	5,0	
Total sundry operating expenses	**604,5**	**113,8**	**163,9**	**50,2**	**44%**	**3%**	**186,4**	**186,8**	**7%**

Other 1

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

Table 48: Breakdown of Other 1 Cost

Cost Category	Actual 2020/21 R Million	Budget 2021/22 R Million	Forecast 2022/23 R Million	Dev 21/22 vs 22/23 R Million	Dev 21/22 vs 22/23 %	% of Opex 22/23	Forecast 2023/24 R Million	Forecast 2024/25 R Million	CAGR 2022/23 - 2024/25
Total Other 1	**12,9**	**22,8**	**22,4**	**-0,4**	**-2%**	**0%**	**24**	**25**	**5%**
Promat Levy	-	-	-	-	0%	0%	-	-	0%
Credit Management Fees	-	-	-	-	0%	0%	-	-	0%
Inter Divisional Miscellaneous Leasing & Contract	-	-	-	-	0%	0%	-	-	0%
Capital Project Clearance	-	-	-	-	0%	0%	-	-	0%
Contributions	0,2	0,2	0,2	-0,0	-3%	0%	0	0	5%
Corporate Identity	0,2	1,4	1,4	-0,0	-2%	0%	1	2	5%
Bouquets & Wreaths	0,0	0,1	0,1	0,0	3%	0%	0	0	5%
Revenue Stamps & Other Taxes	-	-	-	-	0%	0%	-	-	0%
Sponsorships	-	7,3	7,1	-0,2	-3%	0%	7	8	5%
Corporate Social Investment	1,2	2,3	2,2	-0,1	-3%	0%	2	2	5%
Accounts Pay Clearance Account	-	0,0	0,0	-0,0	-2%	0%	0	0	5%
Suspense Account	1,0	0,5	0,5	-0,0	-3%	0%	1	1	5%
General Ledger Clearance Account	-	-	-	-	0%	0%	-	-	0%
Strike Related Cost	-	-	-	-	0%	0%	-	-	0%
Plant Hire Credits Sanction Work	-	-	-	-	0%	0%	-	-	0%
Interest Paid	-	-	-	-	0%	0%	-	-	0%
Conference: Portnet	-0,1	0,5	0,5	-0,0	-2%	0%	0	1	5%
Foreign Exchange Cost	-	-	-	-	0%	0%	-	-	0%
Intra Pad Miscellaneous Charges	10,3	10,6	10,5	-0,1	-1%	0%	11	12	6%

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 cost centre allocation approach as opposed to a top down expenditure line item allocation approach.

This means 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.

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 will be as a result of changes in spending priorities due to cost optimisation as well as changes in cost driver percentages (per cost centre) with cost drivers remaining the same.

The corporate overhead cost allocated for both actuals and projections 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.

An allocation of 13.72% of the total Group Corporate overhead costs for FY 2022/23 has been allocated to the Authority. The remaining 86.28% has been allocated to other Transnet ODs. It is worth noting that the allocation to the Authority has decreased by 1.2% which translate to R5.8 million from R491 million in FY 2021/22 to R485 million in FY 2022/23. Transnet is continuously striving to contain the increase in group corporate overhead costs to be within a reasonable inflationary range.

Table 49: Group Overhead Costs

Transnet Group Corporate Overhead Costs							
	FY 2020/21 Actual	FY 2021/22 Budget	FY 2022/23 Projections	FY 2021/22 vs. FY 2022/23 Diff (Rm)	FY 2021/22 vs. FY 2022/23 Diff (%)	FY 2023/24 Projections	FY 2024/25 Projections
Revenue external	(2 688 739)	(15 184 948)	(14 225 970)	958 978	-6,3%	(14 897 822)	(15 369 817)
Revenue internal	-	(3 134 696)	(3 278 892)	-144 196	4,6%	(3 429 721)	(3 580 628)
Internal recoveries	-	-	-	-	0,0%	-	-
Revenue	**(2 688 739)**	**(18 319 644)**	**(17 504 862)**	**814 782**	**-4,4%**	**(18 327 542)**	**(18 950 445)**
Net operating expenses excluding depreciation and amortisation	**522 634 893**	**423 019 872**	**424 961 056**	**1 941 184**	**0,5%**	**447 238 828**	**463 757 313**
				-	0,0%		
Personnel costs	122 849 867	176 558 522	179 104 043	**2 545 521**	1,4%	189 121 040	196 083 544
Fuel costs	71 185	598 531	571 146	**-27 385**	-4,6%	598 110	618 649
Electricity costs	502 948	842 392	789 192	**-53 200**	-6,3%	826 463	852 647
Material costs	(419)	753	716	**-37**	-4,9%	751	778
Other operating costs	399 211 312	245 019 673	244 495 958	**-523 715**	-0,2%	256 692 463	266 201 695
Accommodation and Refreshments	71 803	1 422 922	1 431 302	**8 379**	0,6%	1 499 912	1 560 485
Professional Fees	26 961 612	41 685 709	43 611 909	**1 926 201**	4,6%	45 626 648	47 639 588
Electronic Data Costs	42 190 438	63 603 732	59 902 235	**-3 701 497**	-5,8%	14 435 155	64 767 048
Internal Audit	15 510 499	13 193 441	13 800 339	**606 898**	4,6%	62 736 063	15 070 301
Social Investment	13 837 650	12 526 583	13 102 806	**576 223**	4,6%	13 705 535	14 308 578
Miscellaneous Costs	298 314 550	112 587 287	112 647 368	**60 081**	0,1%	118 689 151	122 855 694
Profit from operations before depreciation, amortisation and items listed below	**519 946 155**	**404 700 228**	**407 456 194**	**2 755 966**	0,7%	**428 911 286**	**444 806 868**
				-	0,0%		
Depreciation and amortisation	16 060 055	41 832 594	36 098 663	-5 733 932	**-35,7%**	42 525 345	29 306 757
Profit from operations before the items listed below	**536 006 210**	**446 532 822**	**443 554 857**	**(2 977 966)**	-0,6%	**471 436 631**	**474 113 625**
Profit on sale of interest in businesses	-	-	-	-	0,0%	-	-
Impairment of assets	(113 448)	-	-	-	0,0%	-	-
Dividends received	-	-	-	-	0,0%	-	-
Post-retirement benefit obligation costs	28 707 514	44 202 590	41 411 055	-2 791 535	-9,7%	43 366 780	44 740 734
Fair value adjustments	(48 381)	70 081	65 655	-4 426	9,1%	68 756	70 934
Income from associates	-	-	-	-	0,0%	-	-
Profit from operations before net finance costs	**564 551 895**	**490 805 494**	**485 031 567**	**-5 773 926**	**-1,0%**	**514 872 167**	**518 925 293**
Transnet Capital Projects	(190 973 166)	-	-	-	0,0%	-	-
Transnet Foundation	-			-	0,0%		
Total Overhead Costs	**373 578 729**	**490 805 494**	**485 031 567**	-5 773 926	**-1,2%**	**514 872 167**	**518 925 293**
YoY increase		**31,4%**	**-1,2%**			**0,8%**	**3,9%**

ANNEXURE E: FY 2022/23 Tariff Book Changes

Table 50: Proposed Tariff Book Changes

Reference to Tariff Book FY 2021/22	Current Tariff Book Reading /Wording	Proposed Changes
Page 53 Section 8, No 4 'AMENDING ORDERS'	**New addition to Tariff Book**	**Amendment:** The first amendment made to a cargo dues order within 7 days of initial submission, including weekends and public holidays, and which does not impact on the value of the initial invoice, will not attract an amending/cancelling fee. **Rationale:** Provides clear understanding and emphasis that only the first amendment is excluded from the charges.
Section 6 Clause 3. Penalties. Page 34	**Clause 3. Penalties** Should the booking not be taken up or cancelled within 60 consecutive days prior to the booked date, the deposit will be forfeited. If the booking is cancelled greater than 60 days, a full refund will be given	**Amendment:** Vessels that exceed their allocated scheduled booking dates for the dry-dock, floating dock and syncrolift occupancy period will incur a 40% penalty on dry-dock, floating dock and syncrolift dues for each subsequent 12-hour period of the vessel's overstay on the ship repair facility. **Rationale:** The overstay penalty should be applied to encourage adherence to the booking schedules. It would eliminate unnecessary overstay in the ship repair facilities that may result in vessel scheduling backlogs, lack of client confidence, possible reputational risk and revenue loss to the company.
Section 6 Clause 6. Drydock, Floating Dock and Syncrolift Dues. Page 36	**Clause 6. Dry-dock, Floating Dock and Syncrolift Dues** All charges below are subject to the minimum charges as specified in Clause 6.5 on page 38.	**Amendment:** All charges under clause 6 below are subject to the overstay penalties as specified in Clause 3 on page 34. **Rationale:** Footnote to be added to draw the customer's attention to the applicable overstay penalties.
Section 6 Clause 8. Wharf Cranes Page 40	**Clause 8.1 Wharf cranes at the Ports of Cape Town and East London** Outside ordinary working hours only:	**Amendment:** One crane will be provided per vessel if required, inclusive of the dues. **Rationale:** Confirmation of TNPA position and clarification of crane allocation at the ship repair facilities.

Reference to Tariff Book FY 2021/22	Current Tariff Book Reading /Wording	Proposed Changes
	Irrespective of the crane lifting capacity, per hour…… R 1129.46	
Clause 1.2 Berth Dues Page 23	**Clause 1.2 Berth Dues** Exemptions • SAPS and SANDF vessels; • Vessels lying alongside a berth for the sole purpose of taking in vessel's stores and/or coal and liquid fuel for own consumption are exempted for only 48 hours whereafter the fees specified are payable; • Vessels resorting under Section 4, Clause 2 but only at their registered port; • Vessels calling for the sole purpose of landing survivors; • Vessels calling for the sole purpose of obtaining medical assistance; • Passenger vessels on normal business; • Vessels being fumigated prior to taking in cargo.	**Amendment:** Addition of "SA Medical & Research vessels" to the list **Rationale:** Alignment to exemptions relating to Port Dues

End.