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Comments on the National Ports Authority Revenue Required Tariff Methodology 2021/22 and Beyond

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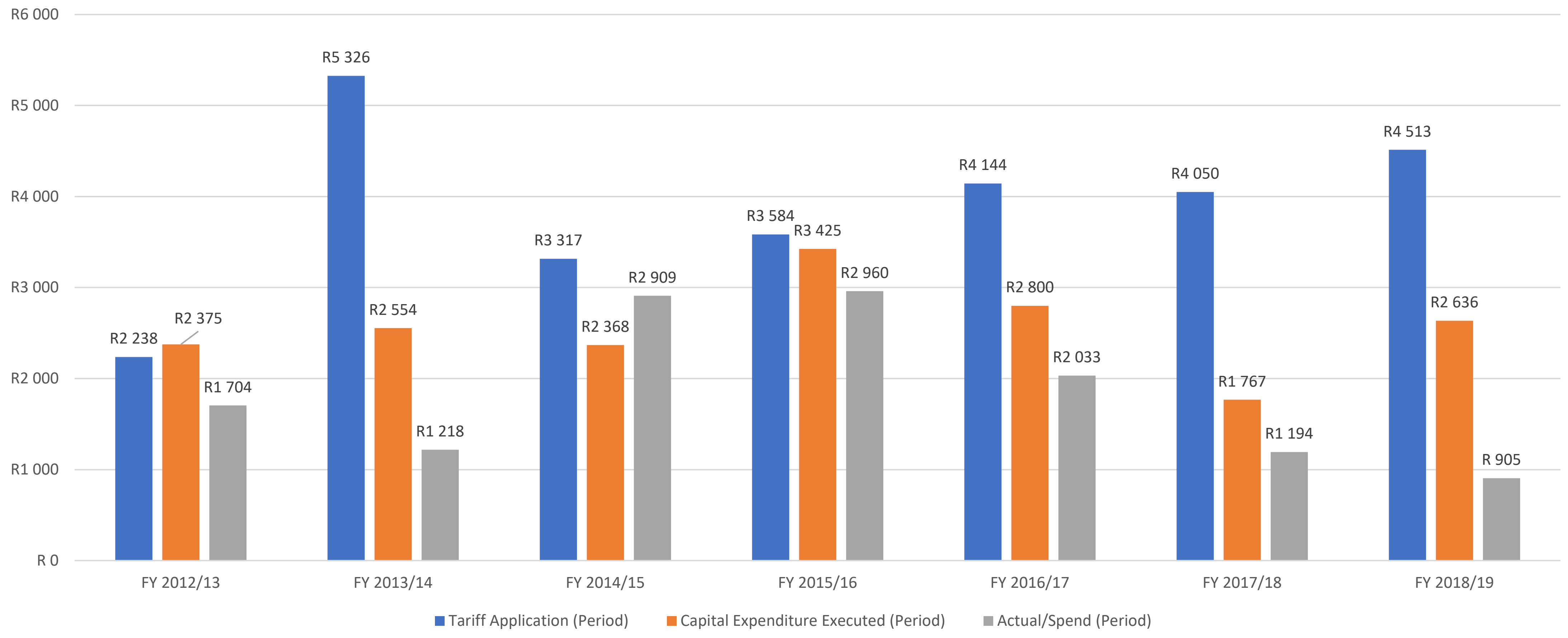
INSPIRING GREATNESS

TNPA Port Investment (CAPEX)

- There is significant underinvestment in South Africa’s ports.
- TNPA revenues and profits are not being sufficiently re-invested into the ports system.
- For example, the Ports Regulator (2016) showed over the six year period from 2010 to 2015 that TNPA had a cumulative underspend on their Capital expenditure programme of more than R8.6 billion.”

Figure 1. TNPA Capital Expenditure in South Africa’s Ports, 2012/13 to 2018/19



Source: Gumede and Chasomeris (2020) generated using data from TNPA (2019)

NPA Rising Profits and Declining Investment

- TNPA makes significant profit margins.
- Chasomeris and Gumede (2020) show that "from 2016/17 to 2018/19 TNPA annual profit before tax increased 155% from just over R2.9 billion in 2017 to more than R7.4 billion in 2019.
- Over the same period, TNPA was granted an increase in CAPEX from R4.1 billion to R5.4 billion.
- Actual capital expenditure, however, declined 55% from just over R2 billion to R905 million (see Figure 1).
- The decline in investment into the ports system is not consistent with TNPA's planned increases in capital expenditure and is a major concern to port users, the Ports Regulator and TNPA".

RAB - VoA Calculation and Consequence

- NPA estimated that the Port Regulator Valuation of Assets (VoA) reduces the NPA's calculated opening RAB value at 1 April 2019 by approximately R45 billion from R83.5 billion to R38.1 billion.
- This reduced the calculated Allowable Revenue attributable to RAB by R3.8 billion/ 46% from R8.2 billion to R4.4 billion for FY 2019/20 and every year thereafter perpetually.
- NPA state: Given this significant revenue reduction, together with the commitments of the Authority, the financial sustainability of the Authority would be at risk.

RAB Valuation

- In 2018/19, a change in the valuation of assets methodology resulted in the R15.8 billion reduction in the RAB, and contributed towards an overall average tariff decrease of 6.27%.
- So, R45 billion minus R15.8bn = R29.2bn. What happened to this R29bn difference? It appears there is still scope for RAB value reduction – and that this may be further pursued by the PRSA, especially if TNPA fail to implement Section 3(2) of the National Ports Act (2005).

Revenue Required Methodology – Asset Beta

- PRSA historically allowed an asset beta of 0.5.
- Nevertheless, Port users like SAASOA, and academic articles like Chasomeris (2015) and Gumede and Chasomeris (2017) argued for an asset beta lower than 0.5.
- PRSA propose to apply an asset beta of 0.35 over the period 2021/22-2023/24.
- 0.35 is significantly below the 0.5 that was historically allowed by PRSA.
- Indeed, PRSA state: “The actual calculated beta of the NPA is closer to 0 due to the reasons set out above” (explained in section 4.11).

So, if the evidence shows that the actual beta should be closer to 0, then why persist with a higher beta of 0.35? There could be merit in planned annual reductions in the value of the asset beta.

RR methodology – Taxation Expense

- I support the PRSA proposal in the draft port tariff methodology section 4.14 about Taxation Expense.

TNPA Incorporation -
A solution to improve port governance, investment, pricing, productivity and regulation

Chasomeris and Gumede (2020) state: “Several competition concerns and conflicts of interest are evident within Transnet and the ports sector. These are perpetuated and exacerbated by the failure to implement Section 3(2) of the National Ports Act (2005).

In essence, TNPA should be incorporated under the name “National Ports Authority (Pty) Ltd” with Transnet as the sole shareholder. More than 14 years since the passing of the Act, TNPA remains, controversially, a division rather than a subsidiary of Transnet SOC Ltd. This has hindered sound governance, pricing and regulation of South Africa’s ports (Gumede, 2018).

TNPA Incorporation

- “A further perceived conflict of interest is that currently the members of the TNPA Deemed Board are the same as the members of the Transnet Board. (Transnet, 2019). Therefore, there may be instances where board decisions of the Transnet group supersede the best interests of the TNPA division and port stakeholders.
- Indeed, from 2010 to 2014, about R16.7 billion was transferred from the TNPA division to the Transnet group. Hence, port users argue that they are cross-subsidising less profitable divisions of Transnet.” (Chasomeris & Gumede, 2020).

- If there are sound evidence based arguments in favor of keeping the status quo with NPA as a division of the Transnet Group, then it would be useful to hear them debated in the public domain so that we can engage with the merits and demerits of such arguments. However there are sound arguments for the incorporation of TNPA - including “best practice” as recommended by the World Bank Port reform toolkit as well as the NPA Act 2005.

Question?

- Over the years of tariff regulation from 2009/10, it became clear with evidence – that several of the variables used to calculate the revenue required were incorrect/overinflated. For example, the RAB was, and arguably still is, higher than it should be; the asset beta was set at 0.5, much higher than is now proposed and justifiable; tax allowed was 28%, much higher than the Transnet Group “equitable tax rate”.
- Hence, TNPA were allowed to recover arguably “excessive” (higher than risk related) revenues and profits from port users through the application of the RR model. Consequently, port authority prices and increases were arguably higher than they should have been. So, is there anything that should/could be done to compensate or adjust for these past practices?

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Any Questions?

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