PORTS REGULATOR OF SOUTH AFRICA

Record of Decision

Tariff Application by the National Ports Authority for the Tariff Years 2020/21-2022/23

- **On 01 August 2019, the National Ports Authority applied to the Ports Regulator of South Africa in terms of Section 72 of the National Ports Act, 12 of 2005 for approval of the tariffs for services and facilities offered by the NPA of an average of 4.80% increase for the period 01 April 2020 to 31 March 2021, together with indicative tariffs of 18.22% for the period 01 April 2021 to 31 March 2022 and 8.5% for 01 April 2022 to 31 March 2023.**

- **After considering the application, the submissions by stakeholders during the consultation period, and the latest available data, the Ports Regulator has concluded that an appropriate overall increase in average tariffs for the financial year 2020/21 is 0%. In particular:**
  - **Marine services and related tariffs (Sections 1-8 of the Tariff Book, excluding Section 7 that deals with cargo dues) are to increase by 5.5%**
  - **Container (full) export cargo dues to decrease by 20% and all other container cargo dues to remain unchanged**
  - **All RoRo cargo dues to remain unchanged**
  - **Coal export cargo dues to increase by 10%**
  - **Magnetite export cargo dues to increase by 10%**
  - **All other cargo dues are to remain at 2019/20 tariff levels with caps applicable as follows:**
    - **All Break bulk cargo dues are to be capped at R31.50/ton**
    - **All Dry bulk cargo dues are to be capped at R18.00/ton**
    - **All Liquid bulk cargo dues are to be capped at R37.00/kl**

- **All marine tariffs (Sections 1-8 of the Tariff Book, excluding Section 7 that deals with cargo dues) for existing commercial South African flagged vessels as well as commercial vessels registered in South Africa in 2019/20 will receive a 30% discount applicable year on year up to 31 March 2022. Vessels registered in South Africa in 2020/21 will receive a 20% discount up to 31 March 2022 and similarly a vessel registered in 2021/22 will receive a 10% discount up to 31 March 2022. The incentive will thereafter be reviewed.**

  In line with the Multi-Year Tariff Methodology of March 2017 the Ports Regulator projects that the indicative overall average tariff adjustment for the 2021/22 and 2022/23 tariff years will be at or below the 6% inflation target band.

1. The Tariff Application

The National Ports Authority ("NPA" or "the Authority") submitted to the Ports Regulator its Tariff Appliation ("the Application") on 01 August 2019. The Application requested an average tariff increase of 4.80% for the 2020/21 tariff year. In addition, and in line with the Tariff Methodology of March 2017, the NPA has applied for an indicative average tariff of 18.22% and 8.50% for 2021/22 and 2022/23 respectively. This follows an application for 2019/20 of 4.21% after which the Regulator considering, updated information, approved an average tariff decrease of 6.27%.

Table 1: Overview of NPA Tariff Application and Previous Decisions (R million as applicable)

NPA Tariff Application					
WACC	Previous Year (19/20)		Current Tariff Application		
Year	Tariff Application 2019/20	ROD 2019/20	2020/21	2021/22	2022/23
Risk-Free Rate (nominal)	8,.8%	8.63%	8.79%	8.79%	8.79%
Risk-Free rate (real)	3.31%	3.06%	3.61%	3.51%	3.81%
MRP	5.30%	5.35%	5.31%	5.31%	5.31%
Asset Beta	0.5	0.5	0.5	0.5	0.5
Equity Beta (using Hamada)	0.92	0.92	0.92	0.92	0.92
Gearing	50%	50%	50%	50%	50%
Debt/equity ratio	100%	100%	100%	100%	100%
Cost of Debt	10.78%	10.78%	10.85%	10.85%	10.85%
Inflation forecast	5.10%	5.40%	5.00%	5.10%	4.80%
Tax Rate	15.42%	15.08%	15.08%	15.08%	15.08%
Real Vanilla WACC	6.80%	6.55%	7.04%	6.94%	7.24%
Revenue Requirements Calculation					
Return on Asset	3 511	2 790	3 130	3 329	3 745
Depreciation	2 279	2 074	2 331	2 369	2 465
OPEX	6 291	6 291	6 149	6 769	7 414
Tax	640	509	555	591	665
Sub-Total	**12 721**	**11 667**	**12 165**	**13 058**	**14 289**
Claw- back	-1 353	-1 419	-1 219	115	-
ETIMC		539	-	-	-
Allowable Revenue	13 681	12 567	13 145	15 333	16 767
Y/Y growth	10.16%		-0.29%	16.65%	9.35%
Real Estate	-3 284	-3 284	-3 548	-3 839	-4 132
Marine Business Income	10 398	9 283	9 597	11 494	12 635
Prior year's Revenue	9 706	9 400	9 039	9 597	11 494
Volume Increase	2.8%	2.00%	1.31%	1.31%	1.31%
Average Tariff Increase Required	**4.21%**	**-6.27%**	**4.80%**	**18.22%**	**8.50%**

2. The Port Regulator's Mandate

In considering the NPA's proposed tariffs, the Ports Regulator was guided by the National Ports Act, Act No.12 of 2005 ("the Act"), the Regulations[1] , together with the Directives[21] and the Regulatory Tariff Methodology ("the Methodology"), including the Methodology for the Valuation of the NPA's Regulatory Asset Base published on 28 March 2018 as well as the Tariff Strategy (hereinafter jointly referred to as the 'Regulatory Framework').

Further, the Ports Regulator considered the submissions related to the Application and all written and oral comments received in the consultation process, including the responses thereto, as well as its own information and research. It must be noted that the information at the disposal of the Ports Regulator postdates the Application and as such some differences in calculation are due to the updating of data and forecasts.

3. The Methodology

In order to continuously improve the level of transparency and consistency in the tariff setting process, the Ports Regulator has, since its establishment, undertaken extensive consultations with all port stakeholders, including the NPA, through consultation hearings (road shows), meetings, and the receipt of submissions on the appropriate Tariff Methodology to be used. An interim methodology, published on 13 August 2013, was applicable to the 2014/15 tariff year. This was followed by the the first multi-year tariff methodology (applicable to the tariff period 2015/16-2017/18, published in August 2014) and thereafter the second multi-year tariff methodology applicable to the 2018/19-20/21 tariff years was published in March 2017.

The guidance provided within the Tariff Methodology is aimed at assisting the NPA with submitting an application with a three-year view thereby providing greater certainty to the NPA in its investment decisions and to port users in their budgeting process. In addition, the methodology assists stakeholders in formulating responses to the application which the Ports Regulator considers in its decision-making. The publication of the Methodology has increased transparency, accountability, as well as regulatory certainty.

However, the Ports Regulator must retain a degree of regulatory discretion to respond to unforeseen economic or other events, as well as corrections, anomalies, and unintended consequences of a strict and autonomic application of the methodology that may impact on the sustainability of the South African ports system. This has been captured in the Tariff Methodology and taken into consideration. Further, the Regulatory Framework has matured

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[1] Regulations in terms of section 80(1) of the National Ports Act, Act No.12 of 2005 in Government Notice 1091, Gazette Number 30486 dated 23 November 2007.

[2] The Directives were promulgated in terms of Section 30(3) of the Act in Government Notice 825, Gazette No. 32480 dated 6 August 2009, and as amended in the Directives Amendment Notice, promulgated in Government Notice 37, Gazette No. 32898 on 29 January 2010.

significantly over the period of regulation and provisions have been included which deals with previously ambiguous issues.

In addition, in March 2018, the Regulator published a Valuation of Assets ("VoA") Methodology which sets out the manner in which the regulatory asset base (RAB) is determined. The Regulator, in its November 2018 Record of Decision allowed a varied implementation of the methodology for the valuation of assets pending the implementation of Section 3(2) of the Act. This Record of Decision therefore allows this varied implementation of the VoA methodology for the 2020/21 tariff period. However, the conditions for the varied implementation remain as set out in the 2019/20 Record of Decision.

4. Compliance with the Directives, Regulations and National Ports Act

The Tariff Application submitted by the Authority achieved procedural and substantial compliance with the Act, the Regulations, the Directives and the Tariff Methodology. The data contained within the Application as well as confidentially submitted information, was adequate for purposes of calculating the revenue and the over/under-recovery.

The NPA submitted its Tariff Application, in line with the Tariff Methodology which is based on the 'Revenue Requirement' approach. Further compliance requirements as outlined in the Directives, and the NPA's status in response, is set out below:-

- Directive 22(3)(a) requires that the NPA shall set out the manner in which the tariffs have been calculated, and the model used by the NPA for determining and calculating the tariffs. This has been fully complied with in this Application.

- Directive 22(3)(b) requires that all operating costs, expenses and revenues incurred or generated from a port service or port facility, as well as the value of the capital stock related to such services or facilities, are to be declared in the Application.

  Greater disclosure than in previous applications was apparent, including the submission of confidential data, allowing the Ports Regulator to conduct a more thorough assessment.

  The CAPEX programme information provided by the Applicant was sufficiently detailed to make an assessment. As the CAPEX information is the subject of further extensive processes that are to be engaged by the Ports Consultative Committees (PCC) and the National Ports Consultative Committee (NPCC), the Ports Regulator accepts the information provided for the purposes of this tariff application as an outcome of the PCC and NPCC processes, as well as a higher level of compliance by the Applicant. In this regard, continued information requirements, as set out first in the 2015/16 and subsequent ROD's, will continue to apply on a quarterly basis. The Regulator intends on placing a continued and increased focus in the near future on the Authority's significant CAPEX underexpenditure.

- Directive 22(3)(c) requires that the amounts to be invested and revenues that are to be utilised in port development, safety, security and environmental protection, must be provided, as well as (i) the manner in which the tariffs will affect the cost of doing business in the ports; and (ii) the proposed profit margin or rate of return, together with the motivation to show why this margin or return is commensurate with risk.

Port development initiatives, investments, and revenues have been addressed. Safety, security, and environment protections costs / investment objectives have been satisfactorily addressed. The requirement has been met.

- Directive 22(6) requires that the NPA shall maintain such accounting and financial systems necessary to provide the Ports Regulator with sufficient information to verify the pricing principles and models used by the NPA to calculate tariffs.

  The generalised corporate level of information, including audited financial statements, were adequate for the purposes of the analysis. The reviewed Tariff Methodology will set out future information requirements.

- Directive 23 (1): In considering the proposed tariffs in terms of Directive 22, the Regulator must have regard to whether the proposed tariffs reflect and balance the following considerations: -

(a) A systematic tariff methodology that is applicable on a consistent and comparable basis:
The NPA has submitted an application that takes into account the outcomes of the published Tariff Strategy and is line with the requirements set out in the Record of Decision 2019/20. This requirement has therefore been met.

(b) Fairness:
The Regulator, in conjunction with the Authority, has made great strides in achieving increased levels of fairness in the port tariff structure with the implementation of the Tariff Strategy, as published 31 July 2015. Through the tariff amendments included in this Record of Decision as well as in previous tariff determinations, the Ports Regulator attempts to address some of the most glaring of these imperfections; however, the full implementation of the Tariff Strategy will give effect to Directive 23(1)(b) more comprehensively.

(c) The avoidance of discrimination, save where discrimination is in the public interest and fair:
The Tariff Strategy as well as the Port Tariff Incentive Programme (PTIP) deals with concept of discrimination in the public interest. No PTIP applications were received for consideration for the 2020/21 tariff period.
This requirement has been met.

(d) Simplicity and Transparency:
The NPA have made significant strides in improving their levels of transparency. The requirement has been met.

(e) Predictability and stability:
The maturity of regulation in the SA port industry has resulted in a tariff process that is both predictable and stable. This requirement has been met.

(f) The avoidance of cross-subsidisation save where cross subsidisation is in the public interest:
The Tariff Strategy has set out the manner in which cross subsidisation will be addressed. The Regulator will continue to guide the NPA in this regard, including the continued implementation of a Port Tariff Incentive Programme (PTIP) which sets out a framework for the application and approval of cross-subsidies and the level thereof that would be considered to be affordable and in the public interest. This requirement has been met.

(g) The promotion of access to ports and efficient and effective management and operations in ports:

The information provided in the application was not sufficient to determine compliance with this provision. Although this is not clearly stated in the Application, the internal processes of the NPA, including the Section 56 and 57 processes in terms of the Act and the processes that the NPA is undergoing in the PCCs, addresses some, but not all, of the concerns that arise under this provision. The other issues that remain outstanding will be addressed in the disclosure components of the Regulatory Manual referred to above, as well as in the Ports Regulator's compliance and monitoring processes. In this regard, Section 11 of this Record of Decision outlines future information reporting requirements by the NPA to the Ports Regulator.

Further, it is imperative that Section 3(2) of the Act dealing with the corporate form of the NPA be implemented in order for it to be effective in regulating operators to achieve efficiency and effectiveness in the port system.

5. The Application Specifics

The Application submitted is based on the Required Revenue methodology, as contained within the Tariff Methodology, and was assessed using same. The following formula was used in the calculation of the Required Revenue:

Revenue Requirement = (cost of capital x Regulatory Asset Base (RAB) + operating costs + depreciation + taxation expense ± claw-back ±ETIMC ± WEGO

This approach accords with rate-of-return revenue requirement calculations by regulators in South Africa and internationally (as modified in the ports regulatory practice over time) and has been used as the basis for assessments in preceding applications.

The standard exposition is:

RR = (v – d + w) r + D + E + T +/- C +/-ETIMC +/-WEGO

Where:

RR	=	*Revenue Requirement*
v	=	*value of the assets used in the regulated services*
d	=	*accumulated depreciation on such assets*
w	=	*working capital*
r	=	*return on the capital reasonably expected*
D	=	*depreciation accounted for in the period of the tariff*
E	=	*operating expenses*
T	=	*taxation expense*
C	=	*Claw-back*
ETIMC	=	*Excessive Tariff Increase Margin Credit*
WEGO	=	*Weighted Efficiency Gains from Operations*
(v – d + w)	=	*Regulatory Asset Base*

5.1. The Regulated Asset Base (RAB)

The regulatory asset base contained within the Application is as follows:

Table 2: NPA Regulatory Asset Base Calculation (R million)

Table 2: NPA Regulatory Asset Base Calculation (R million)					
	Tariff Appli.	ROD	Tariff Application		
	2019/20	2019/20	2020/21	2021/22	2022/23
Opening RAB Value	84 473	68 740	73 170	78 388	84 773
Inflation Index	4 308	3 712	3 581	3 707	3 557
Trended RAB	88 781	72 452	76 751	82 095	88 330
Add: Capex	4 513	4 513	3 872	4 921	6 630
Less: Depreciation	2 279	2 074	2 331	2 369	2 465
Closing RAB value	91 131	75 135	78 388	84 773	92 653
Average Opening and Closing	87 802	71 937	75 779	81 581	88 713
Less: Working Capital	-2 205	-2 205	-2 306	-2 520	-2 787
RAB Final	85 597	69 732	73 473	79 060	85 926

The Ports Regulator has applied a number of adjustments (correcting the actual CAPEX resulted adjustments) to arrive at an opening balance for the 2019/20 year of R 69 721 million.

The components of the RAB calculation, as per the Tariff Assessment, is set in Table 3 below.

Table 3: Regulatory Assessment of the Regulatory Asset Base (R million)

Regulatory Assessment of the Regulatory Asset Base (R million)	
FY 2020/21	RAB
Opening Net Book Value	73 015
Inflation Index	3 516
Less: Depreciation	-2 321
Add: CAPEX	3 872
Closing NBV	78 081
Average Opening and Closing	75 548
Less: Working Capital	-2 306
RAB Final	73 242

5.2. Cost of Capital

The NPA's Application follows the Capital Asset Pricing Methodology (CAPM) in order to determine the cost of capital, as per the requirements of the Regulatory Manual. The Authority used the Vanilla Weighted Average Cost of Capital (WACC) approach and calculated 7.04% for 2020/21, and 6.94% and 7.24% respectively for the following years.

As per the Tariff Model, the real vanilla WACC for 2020/21 was calculated at 7.17%, and 7.13% and 7.23% for the outer years respectively. The difference can mainly be ascribed to the updated inflation forecast.

5.2.1 Cost of Equity

The Tariff Methodology sets out the calculation of the Cost of Equity. The Application, in line with the Methodology, contains a real post-tax cost of equity of 8.52%. Using an updated inflation forecast and a lower Market Risk Premium, the Assessment calculated a real post-tax cost of equity of 8.56%. The result thereof is a total calculated return on equity of R 3 134 million available to the NPA as profit/maximum dividend, as opposed to the R 3 128 million requested.

5.2.2 Risk Free Rate (RFR)

As per the Tariff Methodology, the South African Reserve Bank's published time series KBP2003M "Yield on loan stock traded on the stock exchange: Government bonds - ten years and over" is used for the calculation of the RFR. The series is seen to adequately reflect the market's perception of sovereign risk and inflation over the regulatory period. The RFR is calculated as a monthly average over a sixty month period in order to avoid possible anomalies contained within a shorter single data series bond

The RFR used in the NPA 2020/21 application is a nominal number of 8.79%. The latest SARB data available, at the time of assessment, is for the period September 2014 – August 2019. The resultant nominal risk free rate is 8.82%.

5.2.3 Beta Co-efficient

The Tariff Methodology sets out an asset beta of 0.5, which equates to an equity beta of 0.92. The Hamada equation is used to re-lever the beta taking into account the equitable tax rate of the Authority.

5.2.4 Market Risk Premium

As per the Tariff Methodology, and the latest available Dimson, Marsh and Staunton (DMS) data, a market risk premium of 5.11% was calculated. this is lower than the 5.31% contained within the Application.

5.2.5 Gearing

The gearing used in both the Tariff Application and the Tariff Assessment was 50%, as per the requirements of the Tariff Methodology.

5.2.6 Cost of Debt

The Nominal Weighted Average Cost of Debt (WACD) contained in the Application was 10,85% and same was used in the assessment thereof. However, due to the updated inflation forecast, the resultant Real WACD is 5.77%.

5.2.7 Inflation

The National Treasury inflation forecast, as per the Medium Term Budget Policy statement October 2019 for the period was used, viz. 4.8% for 2020/21, 4.8% for 2021/22, and 4.7% for 2022/23.

5.3. Operating Costs

The Authority's Tariff Application contains a figure of R 6 149 million for operating expenditure (OPEX) for the 2020/21 financial period, including group costs of R 481 million.

Port users have expressed concern regarding the need for the Authority to implement cost saving measures under the current economic conditions. The Regulator supports the views of port users.

The Authority has submitted a more conservative application for OPEX. The OPEX of the NPA is analysed on a line item basis during the course of the Tariff Assessment and trends are taken into consideration. Any under spending during the previous tariff period has, as per existing practice, been clawed back to the total of R 1 423 million.The Regulator continutes to urge the Authority to implement cost-saving measures as well as implement its maintenance plans in order to maximise port efficiency and minimise downtime.

5.4. Capital Expenditure (CAPEX)

Concern is raised regarding the under expenditure on CAPEX, a key component of the sustainability of the port system. Various measures to encourage the implementation of CAPEX will be considered in the review of the Tariff Methodology.

For the 2020/21 tariff period, the Regulator has allowed the Authority the right to spend R 3 872 million on capital infrastructure and equipment and will closely monitor the implementation thereof.

5.5. Depreciation

The Tariff Assessment has resulted in a figure of R 2 321 million as a depreciation allowance, as opposed to the applied for amount of R 2 331 million, mainly due to an updated inflation forecast.

5.6. Taxation Expense

The equitable tax rate will be applied in the tax calculation (for the NPA as a profitable division) in the revenue required model as the average equitable tax rate over five years; the clawback mechanism will be used to correct for the actual equitable tax rate in any year when audited segmental financial statements become available.

The calculation of the equitable tax rate (t_e) applicable to any profit-making division in any financial year is 28% x (Transnet profit/ sum of profits of profitable divisions or segments). Note that this calculation has nothing to do with deferred taxes or any other tax liability or tax arrangement that the group has with SARS. The calculation of t_e only covers tax on profit for any one year applicable to profit making segments/divisions/business units.

The calculation of the equitable tax rate is contingent on Transnet publishing (or providing) audited segmental financials each year that shows the group profit as well as the profits and losses, costs and revenues, for each division/segment/business unit as well as any adjustments. Failure to do this will result in the Regulator not providing for taxation in the revenue required calculation, and revenue required for tax will be deemed to be a part of the allowed return on equity. See Section 11 on information requirements.

The actual tax rate for the 2018/19 tariff period was calculated as 15.84% and was effected in the claw back calculation. An equitable tax rate of 15.08% for the 2020/21 tariff period was used in both the Tariff Application and assessment thereof.

5.7. Volume Adjustments

A volume based revenue growth forecast for 2020/21 of 1.76% was used in the Tariff Assessment process. This figure reflects the latest 2019/20 estimates as well as an updated forecast.

5.8. Claw-back

As the 2018/19 tariff year is now complete, the Ports Regulator can make the final adjustments to the impacts of any forecasts and recoveries for that year, resulting in a revised total claw-back of R 1 201 million in favour of port users.

Table 4: Claw-back Calculation (R million)

Claw Back Calculations	R'm
Re-computed Revenue Requirement 2018/19 (adjusted for the equitable tax rate)	11 183
Clawback: 2018/19	-1 395
NPA application 2018/19 AFS Revenue	12 450
Bilateral Agreements	-128
2018/19 AFS Revenue (adjusted for bilateral Agreements)	12 322
Return on Claw back FY 2018/19	-40
Provisional allowed in ROD FY 2019/20 for 2018/19	136
Final Claw back FY 2018/19	-1 385
Allowed Revenue per ROD FY 2019/20 (adjusted for equitable tax rate)	12 563
Latest Estimate Revenue	12 196
Estimated Claw back	367
50% Claw back Adjustment in FY 2020/21	184
Claw back FY 2018/19	-1 385
Net Claw back FY 2020/21	**-1 201**

Note: '-' indicates claw back to users '+' indicates claw back to NPA

An interim claw-back (in favour of port users) was made in the 2019/20 tariff year (R 136 million), resulting in a residual claw-back of R 1 259 million. The return on the residual claw-back in terms of the WACC rate for that period totals R 85 million.

The expected claw-back (in favour of port users) calculated for the 2019/20 FY is R 367 million. A provisional claw-back (in favour of port users) of R184 million, as well as the residual claw-back of R 1 385 million for FY 2018/19, results in a total claw-back of R 1 201 million in the 2020/21 tariff year. (Please note: Differences due to rounding).

The claw back calculated includes an adjustment for actual taxation expense through the calculation of the "equitable" tax rate as per section 5.6 to the amount of R 99 million in favour of port users.

5.9. ETIMC

Table 5: ETIMC Calculation (R million)

Transaction Type	R million
2012/13 ETIMC Retained	900
2012/13 WACC Return on ETIMC (average ETIMC across year)	20
2013/14 ETIMC Opening total	920
2013/14 Estimated ETIMC retained in 2013/14	1 378
2013/14 ETIMC Closing total	2298
2013/14 Average ETIMC	1609
2013/14 WACC Return on Average ETIMC	60
2013/14 ETIMC Closing balance	2 358
2014/15 Average ETIMC	2 358
2014/15 WACC Return on average ETIMC	108,3
2014/15 ETIMC Closing balance	2 466
2015/16 ETIMC Utilised	-150
2015/16 WACC Return on ETIMC	108,5
2016/17 WACC Return on ETIMC	112
2016/17 ETIMC Total	2 537
2017/18 WACC Return on ETIMC	110
2017/18 ETIMC Utilised	-681
2017/18 ETIMC Total	1 966
2018/19 WACC Return on ETIMC	147
2018/19 ETIMC Retained	345
2018/19 ETIMC Total	2 458
2019/20 WACC Return on ETIMC	161
2019/20 ETIMC Retained	539
2019/20 ETIMC Total	3 158
2020/21 WACC Return on ETIMC	206
2020/21 ETIMC Retained/Utilised	-567
2020/21 ETIMC Total	**2 797**

The Ports Regulator regulates in the long-term interest of the industry and therefore should not confine itself to the immediate tariff decision, but should also consider ways to ease any future shocks or tariff spikes to the system which can be managed sustainably. It is thus considered prudent to retain the Excessive Tariff Increase Margin Credit (ETIMC) inside of the NPA through a revenue adjustment in a tariff period as the ETIMC may be used to offset tariff increases. Table 5 above sets out the calculation of the ETIMC and the resultant value at the end of the tariff year.

6. Required Revenue and Tariff Increase

The application of the above amendments and adjustments to the NPA 2020/21 Tariff Application has the following result:

Table 6: Assessment Results (R million)

Assessment Results (R million)	
Transaction Type R Million	**2020/21**
WACC Return	5 248
Depreciation	2 321
Operating Expenses	6 149
Tax Expense	556
Claw Back	-1 201
ETIMC	-567
WEGO	130
NPA Required Revenue 2020/21	12 685
Real Estate Business Income	-3 548
Required Revenue from Marine Tariffs	9 088
Estimated Marine Business Income	9 059
Revenue deficit 2020/21	**29**

The forecast calculates a revenue deficit of R 29 million translating into a tariff increase requirement of 0.32%.

The marine business income that is forecast above is the current tariff book marine revenue modelled for a weighted average revenue volume growth rate of 1.76% for all cargo types and marine services for the period.

The following assumptions are included in the tariff assessment:

Risk Free Rate	8.82%
Market Risk Premium	5.11%
Gearing	50%
Beta Coefficient (unlevered)	0.5
Revenue Effect of Volume growth 2020/21	1.76%
Inflation	4.8%

7. Tariff Differentiation

The NPA requested specific tariff increases in addition to the general adjusted tariff increase of 4.80%.

- An average 9.70% increase for Marine Services tariffs applicable to shipping lines
- An average 2.85% increase for cargo dues tariffs differentiated as follows:
  - 5.00% on liquid bulk and break bulk cargoes
  - 1.50% on containers
  - 1.50% on automotives
  - Dry bulk cargoes differentiated further as follows:
    - Coal to increase by 7.40%;
    - Ores and Minerals: Magnetite to increase by 7.4%; and
    - Other dry bulk cargo dues to increase by 5.00%.

Based on the assessment of the Tariff Application, the volume forecast, independent research, as well as stakeholder engagement, the following amendments are to be applied to the Tariff Book for the 2020/21 tariff period:

- **Marine services and related tariffs (Sections 1-8 of the Tariff Book, excluding Section 7 that deals with cargo dues) are to increase by 5.5%**
- **Container (full) export cargo dues to decrease by 20% and all other container cargo dues to remain unchanged**
- **All RoRo cargo dues to remain unchanged**
- **Coal export cargo dues to increase by 10%**
- **Magnetite export cargo dues to increase by 10%**
- **All other cargo dues are to remain at 2019/20 tariff levels with caps applicable as follows:**
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All marine tariffs (Sections 1-8 of the Tariff Book, excluding Section 7 that deals with cargo dues) for existing commercial South African flagged vessels as well as commercial vessels registered in South Africa up to and including 2019/20 will receive a 30% discount applicable year on year up to 31 March 2022. Vessels registered in South Africa in 2020/21 will receive a 20% discount up to 31 March 2022 and similarly a vessel registered in 2021/22 will receive a 10% discount up to 31 March 2022. This incentive will thereafter be reviewed.

In line with the Multi-Year Tariff Methodology of March 2017, the Ports Regulator projects that the indicative overall average tariff adjustment for the 2021/22 and 2022/23 tariff years will be at or below the 6% inflation target band. Due to the expected subdued economic activity over the tariff period, the Ports Regulator will, if required, use the ETIMC to maintain overall average tariffs close to the inflation target band, as defined by the South African Reserve Bank's mandate.

It is the Ports Regulator's view that, in due course, the comprehensive restructuring of port tariffs, through the full implementation of the Tariff Strategy more accurately deals with the price anomalies evident in the tariff structure.

8. Tariff Strategy Implementation

The Tariff Strategy sets out guiding principles for setting the base tariff for the various categories port users. These guiding principles aim to introduce a more flexible approach to facilitating pricing in the ports sector than what has been proposed earlier, in order to establish an appropriate level of tariffs that better reflects the underlying costs based on use and benefit. These principles are aimed at enforcing transparency and certainty.

The implementation of the Strategy and its principles is meant to bring real benefit to customers through charging cost reflective tariffs. On this basis, those customer categories currently over-charged would see tariffs reduced, whereas those categories that are currently subsidized (under charged) would see their tariffs rebased to a fair level. These principles must be taken into consideration during the gradual adjustment of the Tariff Book over the period up to and beyond 2026/27.

In order to provide a continuous update of the implementation of the Tariff Strategy and the changes to base tariffs due to changes in port structure, asset values, and volume forecasts etc. Updated base rates for the tariff year will be published in the Record of Decision.

These tariffs, as set out in Table 7 provide an indication of the tariff trajectory during the implementation period in current terms. Over the implementation period, tariffs will thus converge towards these annually updated base rates. For example, a dry bulk tariff above the dry bulk base rate will gradually, as conditions allow, converge towards the R 6.39 in today's prices, unless there is significant change in the infrastructure, capacity or underlying costs attributable to the different categories.

Table 7:Tariff Strategy Base Rates

Tariff Strategy	Updated Tariff Strategy "base rate"	2020/21 ROD based NPA tariff book rate	
Cargo Type	i.e. target tariff to be achieved over ten year implementation	Import	Export
Break bulk	R 36.07	R 8.98 - R 31.50	R 4.27 - R 31.50
RoRo's (p/m)	R 65.93	R 168.94	R 66.65
Liquid bulk	R 23.54	R 7.06 - R 37.00	R 3.60 - R 37.00
Dry bulk	R 6.39	R 6.32 – R18.00	R 4.27 – R18.00
Containers	R 204.60	R 1 931.40	R 508.32

No distinction is made between inbound and outbound tariffs in the 'Tariff Strategy base rate' as any deviation from the base rate should clearly indicate whether a tariff rate is subsidising other rates, i.e. above the base rate, or being subsidised, or below the base rate.

As the certainty in relation to the regulatory asset base has increased, commodity specific tariff changes can, and will be implemented in the current and future tariff assessments.

9. Changes to the Tariff Book

The Tariff Application proposed changes to the wording in the Tariff Book as well as amendments to certain clauses. These proposals are contained in Annexure E of the Application (Page 60 of 69).

- Issue 1, the amendment to the definition of 'Coaster' 'Coastwise Cargo' is not approved.
- The remaining amendments contained (Issue 1 – Issue 14) are approved for inclusion in the 2020/21 Tariff Book.

10. Weighted Efficiency Gains from Operations (WEGO)

The Authority achieved a preliminary composite port efficiency gain of 8.34% in the 2018/19 financial year. This results in a WEGO of R 130 million in favour of the NPA. The Regulator will on an ongoing basis continue to audit and refine its performance audits in relation to WEGO rewards and any changes to the preliminary WEGO allowance will be dealt with through the claw-back mechanism.

The Authority together with the PCC's of the respective ports must engage with the Regulator before the end of February 2020 on the new KPI's including landside measures as well as weights for the 2020/21 tariff year.

11. Information and Reporting Requirements

Quarterly Reporting

The Ports Regulator continues to expand its monitoring role and as such requires quarterly progress reports from the NPA (as per the Ports Regulator's templates). Based on the provisions of Regulation 16(2), as well as Directive 22, the NPA is required to submit to the Regulator the following:

10.1 All CAPEX projects (infrastructure and capital acquisitions) underway (to include, but not limited to, information pertaining to project stage, tender specifics, construction progress etc.);Itemisation of Contractors and Consultants with regard to NPA projects undertaken by TGC/TCP;

10.2 All acquisition of land and other capital assets (including motivation thereof);

10.3 All disposal/or removal of land and assets (including motivation thereof);

10.4 Lease Register setting out all lease information;

10.5 List all land paid for by the NPA/port users funds, transferred to Transnet properties or any other division.

10.6 Copies of all new agreements and licences entered into or issued in the quarter, as well as the supporting documentation thereof, including Sections 79s, 72s, 56s, 57s, and lease agreements (inclusive of all annexures, including but not limited to updated rentals and terminal operator tariffs);

10.7 All applicable B-BBEE certificates for the abovementioned licences and agreements as well as major CAPEX projects;

10.8 Data, results and progress applicable to the implementation and monitoring of operator performance standards, as per TOPS/ MOPS/ ROPS/ HOPS;

10.9 Itemized maintenance schedules for the next three years for all planned and unplanned maintenance projects above R1 million, categorized as OPEX as well as "capitalized maintenance";

10.10 All NPA relevant annual debt stock levels, annual debt redemption payments itemised, as well as the relevant debt instruments and applicable interest/coupon rates;

10.11 Key performance indicators relating to port capacity,port performance,volumes and maintenance programmes per port;

10.12 All due diligence and other information pertaining to the implementation of Sections 3(2),26 and 27 of the National Ports Act;

10.13 All infrastructure assets on the NPA RAB,not operated by the NPA and for which the NPA does not charge an operator for rental / lease; and

10.14 Compliance Risk Management Plans and its quarterly progress report for all mandatory legislative provisions in the National Ports Act.

All quarterly progress information must be submitted to the Ports Regulator by no later than the end of the month after the end of the applicable quarter, based on the reporting templates provided to the NPA by the Ports Regulator on 16 March 2016. The Ports Regulator reserves the right to amend these on an ongoing basis.

The Ports Regulator remains bound by the confidentiality provisions of the directives.

The Ports Regulator strives to assure that all information, including internal, third party, personal and electronic data, is treated with complete confidentiality; maintain integrity of all such information; ensure that our information system and the information contained threin meet the needs of our core and supporting business operations; comply with all applicable statutory and regulatory requirements and perform reliable access control to protect our information system against unauthorised access.

12. Annual Financial Statements

As per current practice, a full set of annual financial statements must accompany all future tariff applications to the Regulator, as well as port level financials. A full set of segmental financial statements of the Transnet Group must be included.

13. Overarching strategies in the ports system

Formal submission of all overarching strategies or policies, including but not limited to the following must be made to the Regulator by 31 March 2020:

13.1. Container Strategy

13.2. Island View Strategy

13.3. Transformation/BBBEE Strategy

13.4. All Group policies relating to the allocation of quantification of debt to the NPA;

13.5. Port Development Framework

13.6. Ship Repair Strategy

13.7. Updated Market Demand Strategy

13.8. Rental and Leasing Strategy

14. Implementation of section 3(2) of the Act

In line with the Regulator's stated intention in the November 2018 RoD to fully implement the VoA methodology (as approved), pending the implementation of S 3(2) of the Act;

- the NPA, in consultation with Transnet Group and the Department of Public Enterprises must provide quarterly updates on the progress with regards to the implementation of section 3(2) of the Act.
- Submissions must be made on a monthly basis, starting on 31 January 2020.
- The reports must include a detailed progress report on any work conducted in this regard, estimated completion dates and costs carried by the NPA.

A final assessment on the full implementation of the VoA will be concluded by the end of June 2020 in time for the 2021/2022 tariff application to determine the appropriate RAB value to be included in the 2021/2022 tariff application.

*Please note: All information as stipulated above must be provided to the Regulator in electronic format.

29 November 2019

Mr. Thabadiawa Mufamadi
Chairperson: Ports Regulator of South Africa