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Tariff Application 2016/17

Road Show 1-6 October 2015 Q&A

The questions and answers asked and responded to during the 2016/17 Tariff Application Road Show are recorded below. Care was taken to provide as accurate as possible reflection of the questions raised however, repetition of questions were excluded. The questions and responses follow no particular order, but were grouped according to topic under consideration

Tariff Strategy

Question

As indicated the phased implementation of tariff strategy will make ports very competitive, and has potential for shipping lines. However, shipping lines don't absorb costs as they pass them onto cargo owners. How will the new distribution assist cargo owners? What is the point of this whole exercise?

PRSA Answer:

NPA composed of people with performance agreements. It is not job of PRSA to manage NPA in doing their job. PRSA required to clarify economic signals that go to management of the NPA. PRSA agrees that ship owners pass on costs to cargo owners. What are investment signals that come from revenue, a consequence of too low a tariff on shipping could be reason why someone doesn't dredge. Where investments signals are clear, NPA would know to spend this proportion of revenue to this activity. If we align tariff incidence with revenue, we make a conscience decision to subsidise one activity over another. In addition, it is to unravel what was a long time a mystery, how did we arrive at the prices we have in the tariff book. As NPA is an infrastructure company, there is no difference in the use of infrastructure in handling similar goods. We still need to look at asset valuation and beneficiation as the next stage of the tariff strategy. We are moving towards rationalising the tariff book.

For the first time we have the possibility that we can export some infrastructure costs to international shipping lines. If any foreign shipping line absorbs some costs, those will be exported in a sense.

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Question:

Recognizing that tariff in institutional mechanisms. Has consideration been given to unintended consequences of operations into an out of the port? One important thing is supply chain efficiency.

PRSA Answer:

We don't foresee unintended consequences of Tariff Strategy on the city of Cape Town specifically. In the previous volume based discount we saw for example a lot of cargo moving into reefer containers as a result of volume based rebate. PRSA doesn't want to upset the applecart in any way through tariffs. When we deal with incentives, the risk lies with the NPA, in they don't recover required revenues as a result of the incentive, and those revenues will be recovered from their profits.

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Question:

Is the PRSA taking into account the rapid changes in the ports and economic environment?

PRSA Answer:

We acknowledge that ports system will look different from what it does now. The Tariff Strategy is designed to reflect the ports system at a particular point in time, so it is forward looking in that sense. Also intermodal changes have an impact on volume forecast and contribution on users in the port. Also technological changes need to be taken into consideration. Tariff Methodology for 3 years has been published. Tariff strategy brings in certainty into process, PRSA wants to remove uncertainty. Economic situation also changes very quickly, sensitivities of different industries to changes in economic environment.

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Question:

Vessel sizes calling is increasing. If the size of vessels calling is bigger, therefore less vessels are calling, should marine revenue not be falling per ship.

Answer NPA:

NPA has seen lack of growth in vessel numbers. NPA taking a more optimistic view in the number of vessels that will come in future based on contracts they have with shipping lines.

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Question:

Given that the tariff strategy is finalised. Is there any consideration given to differentiate tariffs more in line with the strategy. Knowing that Ro-Ro and container tariffs will decrease in the long term, is it not counter-productive to increase them now when they will fall later?

Answer NPA:

If u look at what we asking for we looking for differentiated tariff increase. There will be winners and losers.

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Question:

In terms of deviations from base rate, can deviation go down? Can there be a deviation based on the value of a commodity? How will PRSA ensure that deviation will be revenue neutral? And how will PRSA ensure that a shortfall in revenue will not sneak into the following tariff year?

Answer PRSA:

Tariff strategy establishes a cost of infrastructure, it does not take into account the value of commodities. The reason for current anomalies is because of previous ad valorem system. Why should similar cargos pay differently when they use same infrastructure? If a government policy requires a change in any of the base tariffs, the PRSA through a beneficiation programme would support that policy. The NPA does not know what is inside a container. Trying to find out might incur them significant administrative costs.

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Question:

Asset base going more towards shipping lines, and cargo owners will get relief. Tariffs set at rands, shipping lines cost in dollars, have the PRSA worked out the implications for cargo owners?

Answer PRSA:

If u look at GPPCS report, we start off with a discussion of the impact of devaluation of the Rand, so we have to ramp up tariff paid by shipping lines. Currently the benefit stands at 38% to shipping lines as a beneficiary of a weaker rand. We will monitor convergence towards base rate.

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Question:

Do we take value of cargo into consideration? Is contribution to GDP also taken into consideration? Is beneficiation of products taken into account?

Answer PRSA:

PRSA takes all such economics into consideration, and final impact of this on volumes.

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Question:

On subsidisation given to exporters and planned beneficiation. Is it the role of the NPA to award those discounts? In interactions with Treasury, we got the view that they want to eliminate decisions to subsidise from business.

Answer PRSA:

The question is to define what role the ports can effectively play in supporting beneficiation beyond the embedded incentives in the tariff strategy. The NPA doesn't know what is in a container, they are an infrastructure provider. That's why this needs to be a full collaborative project. It can't cost us R1.20 to save R1 from an NPA point of view. When we use tariffs to support industry we must ensure that admin costs don't exceed the benefit to that industry. What is the administrative burden of having a cost reflective tariff book? Current ongoing processes working with a number of stakeholders is important in finding a solution which will arguably take time.

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Question:

When will the volume based discount fall away?

PRSA Answer:

The PRSA is currently modelling different ways to minimize the impact of it. We do not envisage that it will take more than 5 years to implement.

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Question:

Vessel sizes increasing, meaning higher GRT, so NPA will get more money. Shipping lines believe that the 6.8% increase they face is not the whole truth, they believe that they face a higher increase because bigger vessels are calling to the port.

NPA Answer:

Larger vessels that come in are recognised. PRSA tariff strategy looking to increase contribution of shipping lines, the increase is in line with the long-term view of the strategy.

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Question:

Cargo owners still have to deal with TPT increases above inflation with no platform for negotiation.

Answer NPA:

We are conscience of this in the Pricing strategy, it is a challenge.

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Tariff Application/Tariff Methodology

Question:

Why does tariff double in the following year, after this one?

Answer NPA:

We will be coming from a lower base from 2016/17 going to 2017/18, the effect of the clawback predicted also contributes to a higher indicative tariff for 2017/18.

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Question:

In terms of the Asset base, it is unclear how for example quay walls being refurbished because they have come to the end of their life. Have they been depreciated to zero, otherwise you might be putting capex on capex. We don't see what happens when you sell tugs for example, are they subtracted from the asset base?

Answer NPA:

As much as an asset is being depreciated, it also accounts for a provision for the asset to be replaced. Tugs in process of being sold. If one looks at RAB, depreciation is worked over 40yrs, and this takes into account the life of assets, the fact that an asset's life is coming to the end of its life, this is weighted into the 40 year life used to calculate. Not a case of putting capex on capex, this is monitored by independent auditors strictly.

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Question

Clarity required wrt the use of revenue within Transnet group, must all revenue not be reinvested in the port system?

PRSA Answer:

NPA is division of Transnet Group, all profits of the NPA go to Transnet as dividend. This will be dealt with in the review of the Tariff methodology. It may need to change, as part of the Ports Act has not been implemented yet, dealing with corporatization of NPA. You are correct, Section 71 says all port user money must be used within the Ports Sector.

Slide 12 shows an important point, Reinvestment of profits into ports system. PRSA sense is that revenues have been extracted, that is part of discussion

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CAPEX

Question:

Port deepening of PE. Users are not happy with deferment of deepening of PE. Users foresee a backlog of investment in PE. Ngqura will soon overtake PE as a result of Operation Phakisa. What is NPA's thinking around this, beyond the numbers? Users believe that the two ports are supposed to complement one another.

Answer NPA:

NPA doesn't want to see itself in the position that Eskom is in. The fact that there is excess capacity in Ngqura is something that we must address. Concern is around the timing of investment in PE, where we are seeking to ensure that capacity meets demand. We will do minimum investment at PE until we reach the trigger point of investing.

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Question:

Concern raised wrt the timing of investments where the NPA doesn't have demand for investment before pouring concrete. Has Transnet Master-planning process influenced this process?

Answer NPA: NPA capital programme is subsequent to long term master-planning process. Earlier in the year there were discussions with the PCCs and the NPCC, also at the customer sessions where the pieces of the puzzle were put together. But projects are sensitive to economic conditions which are volatile at the moment.

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Question:

Have the larger Ro-Ros coming into ports been taken into account

Answer NPA:

On the issue of bigger bigger Ro-Ro vessels, these are recognised especially at the Port of East London. There are plans to improve the entrance channel there.

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Question:

Is there appetite for private-public partnerships in NPA's investments?

Answer NPA:

Type of funds on PSP, we have brought on services of advisor as some skills we don't have. Type of funding needed is FDI, looking to leverage on their networks. Certainly in pipeline.

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Question:

In terms of MDS, is the projected increase in autos related to imports or exports and how will it be done?

Answer NPA:

Fair amount of capacity available for automotives. In order to encourage both imports and exports, we focusing on DBN and PE, especially with the moving of the manganese and tank farm from PE we are looking to utilize that capacity for autos.

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Question:

You've put up capital projects and there is no mention of the dig-out port. Can you say something about it?

Answer NPA:

The PRSA ruled that the Dig out has not been deemed a port or promulgated as such. That status has not changed. Only assets within port limits should be funded by users through tariffs. It has been transferred to Transnet Properties as it is currently not within port limits.

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Operational Efficiencies

Question:

How will the Regulatory Framework address inefficient port operations?

PRSA Answer:

PRSA has identified that the absence of an efficiency factor is a shortcoming of the current methodology and is trying to address this. Once there are credible numbers coming from efficiency measures of the NPA, these will be included in the methodology.

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Question:

The other elements of the role of the PRSA outside of the tariff assessments. One of the roles of PRSA is to promote efficiency. When will we see efficiency be benchmarked?

Answer PRSA:

By its very nature the methodology we use incentivises the pouring of concrete, through what is called the Averch-Johnson effect. The Methodology doesn't clearly define the role of efficiency in tariffs. PRSA has said that it wants a performance measurement benchmark it can trust. TOPS and MOPS have been implemented. As soon as these monitoring systems can be trusted by the PRSA, then these will be included in the tariff methodology. NPA will become a player and referee in marine operations. If for example NPA works faster and is more efficient and makes more money, PRSA would like retain the incentive for the landlord.

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Question: Although there has been a huge labour increase, industry has not experienced an increase in efficiency despite this. Are these new labour increases going to improve efficiency given to industry?

Answer NPA:

labour increase, fair portion of it is around technical skills. A lot of engineers and project management. Well sought after skills set, looking to develop ports internally by having well skilled people within Transnet.

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Question: Noises being heard by Sasol from industry is that leases are increasing by 25-30%

Answer NPA:

Once lease is in place, the normal escalation rate is 9%. There is a lease review period after 5 yrs where a lease is assessed to see if it is market related, could possibly result in higher escalation if not market related. Can't comment on the reported 25%

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Question:

Want to confirm in terms of berth strategy in Durban, when will it be finalised?

Answer NPA:

We need to clarify strategy around Island View. Therefore berth strategy might be delayed because of having to wait for the Island View strategy to be finalised.

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Question:

Key drivers behind increases is to ensure that there are enough pilots. What recourse do users have if helicopter service is not operating?

Answer NPA:

We want to believe that it's an isolated occurrence if users don't have helicopter service available. MOPS are there to monitor this kind of thing and ensure that it does not happen. We want to have continuous service available without disruption. So plans to get to 120% helicopter staff availability. Plans to do helicopter service in-house. Full maintenance and operation of them will be in house.

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Question:

Has a study been done to show that it is more feasible to insource pilotage service?

Answer NPA:

The decision to insource helicopter service, is multi-faceted one, it's a specialised business, and there are very few companies that do it on a one to one basis with customers. It has been a bit disappointing that the service has been available for 15 years but the level of transformation has been almost zero in the past. As a result of insourcing there are people who would never have flown a helicopter before but now they can.

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OTHER

Question:

What is the latest in the process of moving freight from road-to-rail?

NPA Answer:

Plans are still in progress for that movement. But we realise that there is still a role for road to play in the supply given the unique service it offers.

Answer (PRSA):

In the near future a single transport regulator will be established, so all elements of road to rail will become part of the framework.

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Question:

Buildings that are occupied by tenants become the properties of NPA after lease expires even though tenants build them with their own money. I have a question around the depreciation of those buildings because the person who built it is not the owner so they cannot depreciate it, so is it not the NPA who should look after those buildings as the owner of them?

PRSA Answer:

Contractual agreements between all tenants and landlords that specify how to deal with such issues. Valuation will define the method of how these assets are looked at. Part of asset valuation process should have public stakeholder engagement.

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Question:

What are the localisation initiatives around the 42bn for the different ports?

Answer NPA:

Supplier development is critical issue for NPA and Transnet. Coming out of operation Phakisa there's a directive from National Treasury that they should be looking at 60% localization for public enterprises. Have started to have round table discussion with suppliers.

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Question:

Is Saldanha tipler also going be involved in localization?

Answer NPA:

TPT has to follow same localization guidelines applicable to NPA.

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Question:

To what extent have you integrated with the border management agency, and what is the impact of this agency on the NPA's activities?

Answer NPA:

No link at this stage with the Border management agency. But aware of it as there is potential for collaboration

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Question:

Haven't seen any plans for wind turbines, solar energy and clean energy in the ports, is the NPA doing anything about that?

NPA Answer:

NPA actively participating in that process and we are looking to see we can bring in those suppliers into the market. On our website we have put up a CO2 device monitor. The idea behind this is to get freight logistics companies to monitor CO2 levels in and around the port.

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