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Tariff Application 2017/18

The questions and answers asked and responded to during the 2017/18 Tariff Application Road Show are recorded below. Care was taken to provide as accurate as possible reflection of the questions raised. The questions and responses follow no particular order, but were grouped according to city under consideration

Questions and Answers from Durban, 02 September 2016.

1. Has the recent decision by Futuregrowth to withdraw its funding to Transnet being considered as this has occurred post tariff application. Can the Regulator then expect a new tariff application in six months as funding has changed. Furthermore, should this practice gather momentum, how would this impact the cost of services or will it impact in terms of an adjustment to CAPEX projection as either the NPA will have less funding or they will have the same amount of funding with a massive risk premium.

   NPA's response:

   From the NPA's perspective, they do not have their own treasury desk as this function operates at group level therefore they cannot have a communication with these investors. It goes without saying that if there is further momentum of other funders following suite it will definitely have an impact. The nature of the NPA's funding model is 80/20; 80% from operations and 20% from funding. In terms of the economic climate, their cash-flow is impaired. They have had an increased funding in the past however going forward they will look at 'value engineering' around projects; are they getting value for money. Furthermore, there will be an increased focus on feasibility studies, and their operations in terms of efficiency. Transnet is undertaking a reshaping of the core and how they deliver on their mandate and at the extreme end, they would have to put a brake on some of their CAPEX. They are able to fund the 2016/17 programme based on their financial position however if this continues longer there will be a problem.

   Furthermore, the funders are funding the users as well. There would be a balancing act that will prevail in their decisions; if they pull out of SOE's, it has a knock on effect on those who invest in the port and in turn on the users.

2. Considering the change to the Tariff Methodology, how real is the tabled proposal from the National Ports Authority for the 25% increase in the 2nd year, and the 9% in the third year, given that it's going to change.

   NPA's response:

   If the current tariff methodology were to continue those figures would prevail; it isn't something the NPA has gone into detail about. When it comes to 2018/19 they haven't gone into much detail, they will do that at a later time. Asking for a 25% increase would be an interesting conversation, merely for indication purposes.

3. It seems as though the chickens have come home to roost. In a situation where there is a declining growth in volumes, the NPA still requires the same amounts. At the end of the day, the customers are paying instead of the shareholders asking a hit which would've been the normal case. He agrees that

volume growth will not increase but may the overall way that things are being done should be looked at.

4. Regarding cargo dues on containers, currently the cargo dues are pretty much above the world average. Although these imbalances are being addressed, why are the cargo dues increasing; shouldn't they be maintained rather?

   NPA's response:

   As per the tariff book, 60% of the total pie is contributed by container users. If the required revenue is R 12 billion, then R 10 billion comes from the tariff book. If 60% of that comes from containers, how does the NPA balance the situation. It is agreed that it isn't the most ideal situation but that is the combination they have come up with.

5. What is the progress on the Valuation of NPA Assets?

   PRSA's response:

   This will be discussed in the upcoming presentation

6. Why is the increase in marine charges more than double the increase of other charges?

   NPA's response:

   Guided by the pricing strategy of the PRSA, there is to be a gradual increase. In formulating the Required Revenue into the different slices, they have calculated a 13% increase for the shipping lines. It actually only moves by 1% when it should be moving by 10% and in this move they have been supported by both their own studies as well as the PRSA's.

7. Over the years, the NPA has simply been making a profit. How much of that have been giving back to NPA or are they just giving the profit back to Transnet. The money could be used to fund development or fund port users as the economy isn't doing well at the moment.

   NPA's response:

   Regarding profits, the NPA are funding their capital programme from profit of previous years. E.g. If they require R 4 billion, they need to get funding of R 800 million and the rest needs to come from their profit; that needs to be taken into account.

8. Regarding marine charges and scanning the market globally; the question is, 'What is the update in terms of time and motion studies?'

   NPA's response:

   Regarding marine tariffs, the NPA presentation mentioned the Tariff Strategy that spoke about a 7% increase in real terms. At this point, regarding activity based costing they have done the costing and analysis. That not necessarily going to be given the increase, they would rather implement this as there is an end goals of balance to achieve user pay principle but that isn't done overnight. Lowest cash generating model needs to be taken into account as it addresses this.

   As the Tariff Methodology evolves, how would TOPS blend into the tariff methodology. To the extent that if there is a clawback, but the NPA has provided a good service then this claw-back should be shared with the authority.

9. Regarding Operation Phakisa; it's really about cleaning up what was done a long time ago. From a productivity process, what does mean from an aging infrastructure process?

   NPA's response:

   Yes, they should've done a lot of it before but they are going way over that. In terms of Operation Phakisa, the journey hasn't been perfect. After four initial initiatives they finally understand what they are supposed to be achieving. Whilst they were quite sceptical at first, the benefits of the programme are starting to be seen

Questions and Answers – Johannesburg, 05 September 2016

1. The NPA has indicated that 22 helicopter pilots have been trained. How many of these are still trained as they encounter numerous problems with the helicopter service.

   NPA's response:

   They are currently in training and it will take time until these individuals are capable. In the interim however, the NPA are dependent on an outsourced service supplier i.e.: Denel, whom are also providing the training to the 22 pilots. NPA assumes the mentioned issues is in regards to those experience in Durban and RCB. The NPA have found that the helicopter is getting damaged but they are coming up for renewal. They are in the process of securing a supplier for a new helicopter for Durban which should be available by 2017 and helicopter for Richards Bay which should be available the following year.

2. With regard to real estate, they have already encountered huge increases of 60%. What is the benchmark being used?

   NPA's response:

   In terms of slicing up the pie when it comes to the NPA's revenue requirement, there is a need for the real estate fees to increase. They should be fetching much more as the average on a global scale is 60%. Therefore, they are rebalancing user payments to balance the tariff. Once leases are coming up for renewals, the NPA is doing something about / reviewing the tariff. Furthermore, the NPA conducts market research regarding user pay principles and cargo. The increase is across the board regarding tenants. S56 projects are lease based and the NPA are asking users to open up regarding their financials in order to determine an appropriate value.

3. Is there any plan on updating berth infrastructure (berth 1)? The current infrastructure is not capable of handling the increased volume of fuel which is expected.

   NPA's Response:

   Initially the project was not going ahead, however there was a change to the sequence of the berths; it isn't about doing all the berths at the same time. Berth 5 and berth 6 were given priority. Berth 1 is certainly part of the rollout and is being discussed at PCC level.

4. With regards to the tariff strategy, it is expected that Operation Phakisa will result in more port calls. Does the strategy deal with more coast wise and trans-shipment for the auto industry?

   PRSA's Response:

   The Tariff Strategy takes into consideration the various strategic objectives including promotion of coastal objectives, as well as transhipment cargo. Vessel calls is one of the areas of the strategy that the PRSA will keep a close eye on. Reviewing the calls as well as the associated risks is important and has been articulated in the Tariff Strategy as well as the associated impacts.

Questions and Answers –Port Elizabeth, 06 September 2016

1. Regarding the concept of S.M.A.R.T. ports, is there someone from P.E. / Ngqura who can talk about how well the S.M.A.R.T. ports are doing here in P.E.?

   NPA's response:

   Referring to the slide explaining the S.M.A.R.T. ports, the various interface points in the process each deal with a different service provider. Whilst many of these systems are being done on paper, the idea is to automate these processes. The new system will allow port managers to converse with vessels on a real time basis rather than through a fax.

   The Port of P.E. has truly embraced this concept and can be used as a competitive advantage, it is viewed as an integration of the port with the city. The Port of P.E. has implemented an electronic interface between themselves and their customers. They have implemented a Joint Operations Centre that's both manages and monitors the flow of cargo in and out of the system; currently they only have NPA operational in the system but it is their plan to integrate others. Further, they have a very modern and sophisticated CCTV system in their ports as well as a fully-fledged security control room. Furthermore, they are looking at implementing dynamic under clearance management; virtual real time data which manages the amount of water under a vessel keel which is very important in terms of safety and security management. The Port of P.E. intends on establishing solar panel energy within their port as well as water recycling. Last but not least, they are looking at developing the mariner and have already awarded to long term leases to restaurants.

   In terms of the Port of Ngqura, whilst the IPMS is operational, it will not be the focus as this was a national programme. Regarding the JOCS, e.g. in Jhb, ACSA has established an OPS centre in which all airlines have a desk. They focus on establishing the barriers and challenges as a joint operations centre and come up with processes regarding how to deal with them. Therefore, in the port system they need to improve their ship turnaround time. If a vessel is in anchorage, what is the reason for the vessel being there, is it berth unavailability? The JOCs then take a decision in order to improve decision making and efficiency. In the Port of Ngqura, they are looking at having a Joint Business Centre in which all clients (Maersk, MSC, etc.) will have a desk, including bunkering personnel. Therefore, if there is a challenge in the port, they will be able to take a decision. There will be desks for manganese personnel, port terminal personnel, container terminal personnel, etc. as the longer the liners spend in our territorial waters, the higher the costs involved. The second element of the S.M.A.R.T. port in Ngqura is the community involvement. How does the NPA ensure that the communities within the Nelson Mandela Bay are aware of the business opportunities in the port; they need a system that will link them with their communities. They have started a project whereby they went to Soweto on Sea, which is part of their philanthropic activities. Next year they intend on rolling out a process for other schools aas well. It is important that the people and the community take ownership and pride of the port.

   The order to cash project is a lot closer to home. As a part of the tariff strategy they are looking for a new way to charge marine services.

2. The NPA, in its presentation, makes reference to a 'game changer', can this be expanded on?

   NPA's response:

   Until this point, one could classify LNG as a liquid bulk but it is different as LNG is on a different scale. Looking at the berthing of vessels, the storage of liquid, and then the gassing of the liquid in order to feed it into the power grid, the process becomes a game changer due to the amount of effort and infrastructure that is required.

3. There is a stated objective of the NPA of lowering the cost of doing business in S.A. This is a little in contradiction with the NPA asking for a 13.1% in the case of marine services. If that is their objective, how does the stated objective match a specific increase?

   NPA's response:

   As a part of the Market Demand Strategy, the NPA would ultimately like to lower the cost of doing business in South Africa, however they do need to invest in infrastructure. There would certainly be a sacrifice of costs initially. Four years ago, in order for them to invest they required a tariff increase of CPI + 3%. As the Capital Project is developing, it is becoming clear that they require more than just inflation. If the NPA increases their infrastructure, others in turn could make a better profit as it would be a lower cost. Over time, studies have shown that some commodities have been paying too much and some have been paying too little (on a per unit basis).

4. The headcount of the NPA is going to increase by 14.1% and yet, in line with the S.M.A.R.T. ports comments and being technologically advanced, one talks of a reduction in labour; that's usually how it works and in this case the two concepts do not seem to be talking to each other.

   NPA's response:

   Whilst there are some areas that will be automated, there will always be numbers required.

5. If the growth and volumes are projected to increase by 1%, why would the NPA request an 8% increase?

   NPA's response:

   It's because the growth of volumes is only 1% that the NPA need to request 8%. If the NPA had a 2.8% volume growth, then they would only have to ask for 7%. However, if they can bring in more volumes this year than expected, there will be the clawback mechanism for port users to get their money back.

6. Regarding the feasibility studies being done for LNG for three ports as mentioned in the NPA's presentation, the tariff application notes that this project will only be done in Richards Bay. The question is just regarding clarity.

   NPA's response:

   If one looks closely at the CAPEX document, at the tail end there is money allocated for Richards Bay. It is a small amount of money and it isn't for the next two years and may still be moved around. They are in fact working closely with the Department of Minerals and Energy. The outcomes all depends on the outcomes of the feasibility studies.

7. The NPA is looking to complete the manganese project by 2021, when one reviews the volumes for manganese, they have exceeded their volumes. If manganese is performing in that manner, but the allocated budget is only R 500 million, can the alignment be clarified.

   NPA's response:

   Berth C100 and C101 have already been built. The R 500 million that has been requested is actually in fact required to operationalise those berths. The actual construction of these berths have been completed.

8. A comment from the shipping lines is that they do not necessarily view the tariffs as being expensive. The international shipping company operates in dollars and as of today the U.S dollar is worth R 14.40. with an increase of 8% it will result in R 15.50 which is still cheap in terms of international prices. The tariff would be expensive for South African flagged vessels as they pay in ZAR and for them an 8% increase is rather expensive. By dropping rates, they will not be increasing their business, the NPA should rather favour South African flagged vessels.

PRSA's response:

The PRSA is currently looking at an incentives framework which will take this into account.

9. Are there any figures available that would the tariffs across the world in dollars?

   PRSA's response:

   The Global Port Pricing Comparator Study is available on the Regulator's website

10. Congratulations to the NPA on their wonderful presentation and their openness to discussion is very welcoming. Furthermore, they shouldn't take any comments personally. The OECD was mentioned regarding benchmarks, does it provide any other benchmarks more specifically with labour costs.

11. The sundry expense under the operation expenses is quite a significant amount, is that spend being monitored by anyone?

    NPA's response:

    Slide 76 of NPA's presentation deals with the sundry expense and details its components. The PRSA reviews this sundry expense as well.

12. Regarding the increase for shipping lines as far as marine costs are concerned, an article once stated that in the past five years, the shipping companies have lost R 500 billion dollars. Under that context, how can the NPA justify such a high increase in marine charges? Marine charges are calculated on the size of a ship and five years ago, the ships were much smaller (approximately 400 TEUs). The more modern ships are now 900 TEUs resulting in a 100% increase already.

13. The shipping lines are suffering tremendously and there is no shipping line that can sustain a 13% increase. Due to the inefficiency of the Port of Durban, the shipping lines are required to re-route etc, which in turn costs them enormous amounts of money.

    NPA's response:

    The NPA is aware of the bad environment, however together with the PRSA they have come up with a tariff methodology. There are three main lines in terms of users and over the years, the shipping lines have not been paying as much as they should have. The NPA needs to spend billions in order to upgrade the port system and that comes at a cost. Initially, the ports weren't created to handle such big vessels. Furthermore, regarding the inefficiency issues in Durban, they are reviewing it from a management perspective in terms of how it went wrong and how they can fix it.

Questions and Answers: Cape Town, 7 September 2016

1. There are three dry docks not working in the Port of Durban and the users would like feedback.

   NPA's Response:

   Regarding the non-functionality of the three docks, the only dock that is currently not working is the Sturrock Dock which was flooded on Sunday due to the non-functionality of the valves. The water in the dock is currently being pumped out and this process is expected to take about three days. There are only two ships which have been affected and both these ships have been informed of the situation and are happy to wait. The other two docks are fully functional.

2. Thanks to the PRSA for the opportunity and thanks for the subsidy on export cargo dues. We are required to create employment and that what exports do. Durban is creating major problems for the exporters, the American weekly service cannot get to Cape Town because it is stuck in Durban, in turn, his export cannot get through to America and the buyers ask questions and want answers. Why are things not being transferred to Cape Town? In Durban, if it is windy, the port closes a backlog is created, in Cape Town, the backlog created by wind delays is quickly dealt with.

   NPA's Response:

   The management of NPA encourages more efficiency in the Port of Durban. The Chief Operating Officer of NPA meets with all port managers every Tuesday in order to discuss operations as well as challenges. The Join Operations Centre aims to improve on these issues as currently, data isn't available on demand. With the implementation of the JOCS, management will be aware of any situation very quickly.

3. Regarding the CAPEX investment and OPEX, they require more clarity about what they are doing to reduce OPEX and increase efficiency. As a shipping line, they are constantly looking for efficiency gains.

   NPA's Response:

   Whilst there is a planned increase of 15% at NPA level, group costs decrease by 22% resulting in the overall costs decreasing by 10%. In previous years, issues arose regarding group costs as certain functions do not occur at NPA level but rather at group level. In terms of the higher costs, they can be attributed to labour, maintenance and pre-feasibility study costs. In terms of labour costs, the NPA needs to bring in people in order to deliver on their mandate but these numbers do stabilise for years going forward. In terms of petrol, the NPA is a price taker, just like other users. Regarding maintenance costs, the current amount is only 1%, the goal however is 5%. The NPA has been requested by the Regulator to provide more information regarding maintenance of the assets etc. the professional fees figure talks directly to the CAPEX programme of the NPA. For longer term projects, it is extremely important to have pre-feasibility studies, without proper studies projects are known to increase exponentially as they grow from the initial start (a one billion ZAR project can end up costing three billion ZAR), hence it is important to reduce 'optimism bias'.

4. Regarding Operation Phakisa, initiative 1 was on the financing of the NPA and how it would occur. In 2015, President Zuma said that he was giving the NPA R 9.2 Billion for Saldanha Bay. There is no reference to this money. Operation Phakisa was developed on the basis that projects will be special, not business as usual. Now the NPA treats it as 'business as usual'. The Saldanha Bay facilities should be completed by 2017 according to NPA but he can vouch it will not be completed by then. The NPA is still adjudicating and the SCM process has not really started. It will finish in 2020 of they are lucky and there seems to be no urgency from the NPA.

   NPA's Response:

   Prior to Operation Phakisa, the NPA had a different approach in terms of strategy, but what came out of the Oceans Lab was almost an interruption that was necessary. There are numerous initiatives including 2, 5, 7, and 8 and Saldanha falls into Initiative 2 as a new initiative for the private sector. The NPA is fairly optimistic that the quay will be operational in 2017. The NPA is cognisant of the oil price, the oil and gas industry is not investing the way they used to. Regarding the RFP for the moss quay, it has been positioned in such a manner so as to be flexible in order to allow people to get a foot into the door. Operation Phakisa is being taken very seriously by the NPA, the projects have been ring-fenced and there is a manager dedicated to Phakisa. Feedback on Phakisa is presented to the EXCO every Monday.

5. In the proposed rates, there is no penalty on the NPA on not providing the facilities as they should be provided. Refereeing to the dry dock questions, and their non-functionality, the NPA is still being paid for the CAPEX and OPEX so there is no penalty being imposed.

   NPA's Response:

   Regarding penalties, no everything is going to work 100% of the time. On some days some things work and on other days, they don't work. The Market Demand Strategy is closing the gap between what is being demanded from them and what they deliver, to the extent that if they are not delivering on their mandate and they are still asking for funds, then the Regulator must have the conversation with them.