

# Tariff Methodology Workshop

## Stakeholder Comments

October 2016

Presented to:

**Ports Regulator of South Africa**

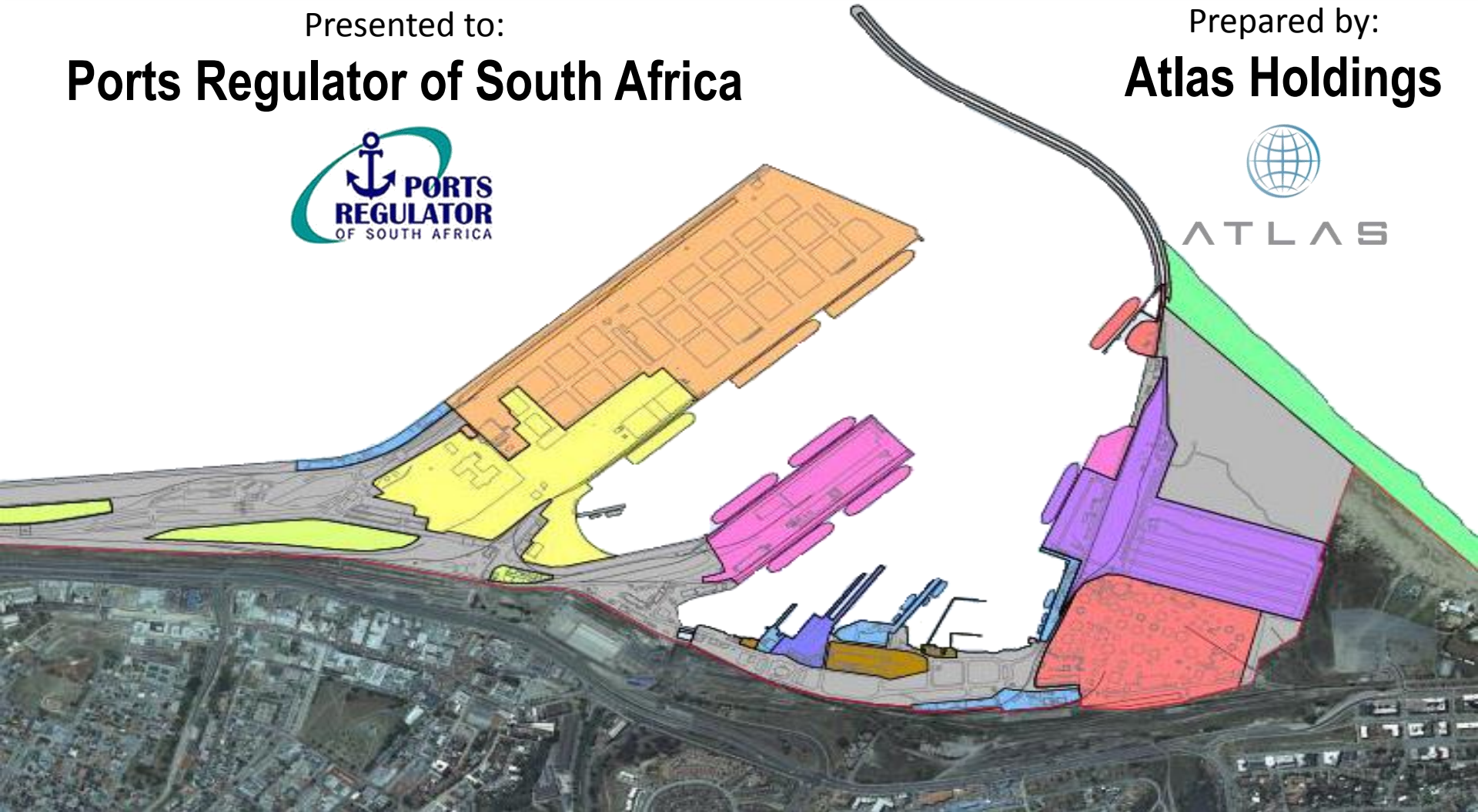


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# NPA Function

## ► NPA Function

- The main function of the Authority is to: own, manage, control and administer ports to ensure their efficient and economic functioning.
- NPA is therefore primarily an infrastructure provider and oversight authority.
- It may also perform other functions as may be necessary in order to achieve the objectives of the Ports Act

# Required Revenue Model

## ▶ Required Revenue (RR)

- Model deemed rational to provide revenue security
- Risks are mitigated through revenue allowance and clawback mechanism
- Enables competitive financing
- Ensures asset replenishment, development & maintenance

# Role of Regulator, PCC's and Port Users

- ▶ **If the RR Model is assumed, the roles of the Regulator, PCC's and Port Users are crucial to:**
  - **Assist NPA to ensure that asset development is reflective of demand.**
  - **Continue to interrogate the model to ensure resultant tariffs:**
    - **Promote equitable accessibility to national port infrastructure**
    - **Do not inhibit port users' ability to trade competitively**

# Efficiencies & Incentives using RR Model

- ▶ **There remains a concerns that the RR Model:**
  - **Does not incentivise the NPA**
  - **Does not promote efficiency**
- ▶ **Consider linking certain Revenue Allocations to Targets**
  - **i.e. Budgeted Operating Costs VS Actual Operating Costs**
  - **Once the budgeted target is approved:**
    - **Cost efficiencies achieved could be enjoyed by NPA**
    - **Cost overruns could similarly be borne by the Authority**

# Regulatory Asset Base

- ▶ **We await outcome of the revaluation of the RAB by the Regulator**
- ▶ **However, we note the following:**
  - **Prior to the current Tariff Manual, NPA had proposed recording its assets in the RAB at “fair value”**
  - **Our view is that the RR Model is intended to recover the “True Cost” of the assets and provide a reasonable return thereon.**
  - **We therefore support recording the assets at their depreciated cost for RAB purposes.**

# Excessive Tariff Increase Margin Credit (ETIMC)

## ► Regulator to consider

- Pro-rating the ETIMC in line with projected capital investment
- Revised annually to account for changes in carrying balance (utilisation, interest earned, clawback additions) as well as updated CAPEX programme(s)

## In Addition

- Consider utilising a portion of ETIMC to expedite Pricing Strategy.

*Any increase for a CHT paying above it's port asset utilisation could be considered an "Excessive Tariff Increase"*

# Beneficiation Promotion Programme (BPP)

► **NPA and Regulator both agree with the principle of supporting Beneficiated Exports, however:**

- **Implementation has been delayed due to the DTI process required to identify value-addition per product per sector**
- **This should be motivated as a Top Priority**
- **Logistics costs (including port charges) remain prohibitively high for local manufacturers**

**BUT**

- **There needs to be an agreed methodology to ensure that the resultant revenue shortfall is not simply recovered from import equivalents within the same Cargo Handling Type.**



# Funding from the Fiscus

- ▶ **Regulator should consider motivating for port funding directly from the Fiscus**
  - **Global comparator ports are, in part, Government funded**
  - **Port Costs for particular CHTs (Automotive being one) remain uncompetitive globally, even at the Pricing Strategy's deemed "end-state"**
  - **A direct fiscus allocation could be ring-fenced to support Beneficiated Exports i.t.o. BPP**
  - **As such, BPP would not need to be funded by other Port Users already facing prohibitively high port costs.**

# Single Transport Economic Regulator(BPP)

- ▶ **We are supportive of the proposed Single Transport Economic Regulator (STER)**
  - In our view, the Authority is currently unable to fully execute its mandate in terms of Ports Act, regarding port terminal operations and pricing
  - There remains a lack of competition (or regulation) for some tenants of key national infrastructure
  - We believe that Terminal Operators, for every Cargo Handling Type (CHT), should be subject to:
    - Private Sector Competition; or
    - Regulation
  - STER will provide the required regulatory oversight



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