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Submission to the National Ports Regulator of South Africa

<u>Reference:</u> Transnet National Ports Authority (TNPA) Tariff Application FY2016/17

Submission 1: 14th October 2015

Presented by: The FSA Port Tariffs and Regulatory Committee

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Preamble

The Fruit South Africa (FSA) Port Tariffs and Regulatory Committee (hereon referred to as The Committee) has drafted this submission on behalf of constituents of Fruit South Africa. Constituents of FSA comprise The Citrus Growers Association of Southern Africa (CGA), The South African Table Grape Industry (SATI), Hortgro Services (HORTGRO), The Subtropical Association of South Africa (SUBTROPS) and The Fresh Produce Exporters Forum (FPEF). Members of these associations comprise all producers and marketing agents of fruit for exporting purposes; this is a statutory requirement as approved by the Minister of the Department of Agriculture, Forestry and Fisheries in terms of sections 15, 18 and 19 of the Marketing of Agricultural Products Act no. 47 of 1996.

The Committee urges the Ports Regulator to exercise due diligence in consideration of the Authorities tariff application for 2016/17. The Committee further implores the Regulator to exercise its mandate to ensure that utilization of the national asset "the ports" is commensurate to the Authorities policy statement, "Transnet's commitment to reducing the cost of doing business in South Africa".

The Committee has identified the following criteria to be of importance in response to the 2016/17 tariff application by the Authority,

1. Comments on the National Ports Act, 2005 (Act No. 12 of 2005) and the Implementation of the Requirements by the Authority in Adhering to the Act,
2. Comments on the Authorities Pricing Strategy,
3. Comments on the Authorities (TNPA) Application for FY 2016/17,
    3.1. Comments on the Revenue Required (RR) Components in the Context of the Application,
    3.2. Comments on the Authorities Operating Expenditure,
    3.3. Comments on Authorities Projected Volumes,
4. Change in Container Vessel Sizes (GRT),
5. Submission on Fruit Export Port Tariff Charges,
6. Submission on Fruit Export Related Supply Chain Costs with Special Emphasis on Transnet SOC Revenue Generated from Fruit Exports,
7. Conclusion.

These points are considered hereunder.

1. Comments on the National Ports Act, 2005 (Act No. 12 of 2005) and the Implementation of the Requirements by the Authority in Adhering to the Act

In terms of section (2) of the Act, the Committee wishes to express that it is of the view that the Authority has not effectively met certain objectives as outlined in the Act, specifically with regards to-

a) not sufficiently promoting an effective and productive South Africa ports industry that is capable of contributing to the economic growth and development of our country; specifically in regards to the Durban port system,
b) promote and improve efficiency and performance in the management and operation of ports; specifically in regards to the Durban port system,
c) facilitate the development of technology, information systems and managerial expertise through private sector involvement and participation, and
d) promote the development of an integrated regional production and distribution system in support of government's policies.

In terms of Section 12 (c) of the Act, it stipulates that the aim of the Authority is to - enable the port users to access the port system in the most efficient way possible. The Committee wishes to highlight the continual and reoccurring congestion in the Durban port. It is deemed by the Committee that the Authority has ***still*** not applied sufficient measures to adhere to this requirement as required by the Act.

In terms of Section 72 (1) (a) of the Act, Transnet National Ports Authority, a division of Transnet SOC Limited is required, with the approval of the Ports Regulator, to determine tariffs for services and facilities offered by the Authority and to annually publish a tariff book containing those tariffs. The Port Directives were approved on 13 July 2009 (gazetted on 06 August 2009) and amended on 29 January 2010. In terms of these Directives, when considering the proposed tariffs for the Authority, the Regulator must ensure that such tariffs allow the Authority to:

I. Recover its investment in owning, managing, controlling and administering Ports and its investment in port services and facilities;
II. Recover its costs in maintaining, operating, managing, controlling and administering Ports and its costs in providing port services and facilities; and
III. Earn a return commensurate with the risk of owning, managing, controlling and administering ports and of providing port services and facilities.

The Committee agrees in part that the authority should:

I. Recover its investment in port services and facilities; provided the recovery is not deemed excessive and a burden to the country. The Committee wishes to express that the cost of the Regulatory Asset Base (RAB) as determined in the ports Tariff Methodology contained within the Required Revenue (RR) methodology is considered excessive. It is understood that the Regulator will be commencing a process to properly evaluate the Authorities Regulatory Asset Base.
II. Recover its cost of operations to provide a service; provided the recovery is fair and equitable and in line with those services rendered to operate the ports efficiently and effectively. The committee would like to convey that the Authorities annual Operating Costs are continually overstated.

The Committee however does not agree in full that the authority should:

I. Earn a return commensurate with the risk of owning, managing, controlling and administering ports and of providing port services and facilities. The South African ports are national strategic asset operated to facilitate trade. The cost for services provided by the authority should be an enabler and contributor toward the competitiveness of South African trade. The financial structure of the national strategic asset should not be balanced against the recovery of opportunity cost of capital employed but rather be structured to enhance the competitiveness of the economy. The Committee calls for a review of this directive with the view of an amendment of such directive in the interest of protecting and enhancing the competitiveness of Southern African trade.

2. Comments on the Authorities Pricing Strategy

The Committee wishes to express solidarity toward the Regulators approved Port Pricing Strategy. However caution must be emphasised towards the apportionment of the port pricing structure. With a shift in apportionment from Cargo Dues towards Marine Services and Leases, the effect of the shift may cause an increase in freight costs and terminal handling costs; which may exceed the apportionment of cargo dues over the course of the phased implementation period. A level of oversight is required to evaluate that the total apportionment of costs achieves the set objective, to apportion costs to the correct areas by port users.

3. <u>Comments on the Authorities (TNPA) Application for FY 2016/17</u>

3.1 <u>Comments on the Revenue Required (RR) Components in the Context of the Application</u>

Revenue Requirement = Regulatory Asset Base (RAB) x Weighted Average Cost of Capital (WACC) + Operating Costs + Depreciation + Taxation ± Claw-back ± Excessive Tariff Increase Margin Credit (ETIMC).

The major revenue components of the RR is the Return on Capital (RAB x WACC) and the Operating Costs. These specific components of the RR should be extensively scrutinized to ensure that the tariff adjustments are defendable.

<u>Regulatory Asset Base (RAB) and Vanilla WACC in determining the Return on Capital</u>

The Authority has determined the RAB in FY 2016/17 to be R73.5bn giving a Return on Capital of R3, 902m by applying the Vanilla WACC determined by the Authority to be 5.31%. The Committee cannot make a determination of the RAB and therefore rely on due diligence and the discretion of the Regulator and the Authority in its determination. The Return on Capital (RAB x Vanilla WACC) contribution to the Revenue Requirement for FY 2016/17 application is 32.8%.

Description (Rbn)	FY2014/15	FY2015/16	% Diff FY2015/16 vs. FY 2014/15	FY2016/17	% Diff FY2016/17 vs. FY 2015/16	FY2017/18	% Diff FY2017/18 vs. FY 2016/17	FY2018/19	% Diff FY2018/19 vs. FY 2017/18
RAB	64 485	66 789	3.57%	73 486	10.03%	80 329	9.31%	89 206	11.05%
WACC	5.47%	6.38%	0.91%	5.31%	-1.07%	5.56%	0.25%	5.63%	0.07%
Return of Capital	3 528	4 261	20.78%	3 902	-8.43%	4 466	14.45%	5 022	12.45%
Revenue Allowed	10 674	11 109	4.57%	11 895	7.08%	13 688	15.07%	15 089	10.24%
RAB as a % of Revenue Allowed	33.21%	38.36%		32.80%		32.63%		33.28%	

Table 1: Return on Capital Projections (Excl. ETIMC and Clawback)

The Committee would express concern at the increase in the RAB determination from FY2015/16 to FY2018/19. The Authorities RAB as shown is set to increase by R15.70bn being an incremental increase of 10.0%, 9.31% and 11.05% respectively during the following 3 year tariff cycle. Of even greater concern is the increase in the Return on Capital as reflected by the Authority in the tariff application. The Return on Capital is reflected to increase by R761m being an increase of 18% over this period. The Committee would implore the Regulator to scrutinize these calculations in the determination of the Record of Decision in terms of the Authorities application. The projected Return on Capital (RAB x WACC) is forecast to escalate beyond what can be deemed as reasonable.

3.2 Comments on the Authorities Operating Expenditure

The Committee wishes to express grave concern regarding the forecast budget leading to FY2017/18 compared to the actual operating costs of FY2014/15. The Authority has indicated that the total operating expenditure is forecast to increase by R2, 043m (63.1%) over this period. The Authority has sited the reasons for the increased expenditure from FY2014/15 to FY2017/18 due to the following specific costs,

i. Table 39 of the application suggests that the number of employees is due to rise significantly. The Authorities labour cost is due to increase by R874m from R1,909m to R2,783m (45.8%). This requires further substantiation as well as indications of actual number of employees during FY2013/14 and FY2014/2015.

ii. Energy costs are indicated to increase by R182m from R440m to R622m (41.4%). The Committee would request the Regulator to bring a level of oversight to the consumption of electricity and fuel by the Authority. The Authority should report within tariff applications appropriate measures adopted to reduce the overall energy consumption.

In summary and as illustrated in table 2 below, the Authorities forecast on budgeted operating costs are specified to increase by R2,332m from an actual total operating cost of R3,403m in FY2014/15 to R5.967m in FY2017/18 including group costs. (59.6%). The Committee wishes to express that the Authorities reporting on forecasted operating costs are unduly and severely overstated as compared to actual operating costs of historical actual operating costs (FY2013/14 and FY 2014/15). The cost items as highlighted above must come under strict review by the Regulator to ensure that operating expenses reported are defendable. Based on historical actual operating expenditure, the Committee proposes that for the tariff year 2016/17 a budgeted operating expenditure of R4, 381m be used. This considers the actual operating expenditure of FY2014/2015 of R3, 912m accrued at 10% p.a.

The Committee further requests that the Authority include in the application the actual operating costs for the previous 3 financial years. This is fundamental for port users to evaluate the stated budgeted operating costs against historical actual expenditure.

3.3 <u>Comments on the Authorities Projected Volume</u>

The Committee urges that the Authority include in the tariff application, the actual cargo volumes for the previous 3 years. It is difficult to determine the accuracy of the forecasted volume without comparing against previous years.

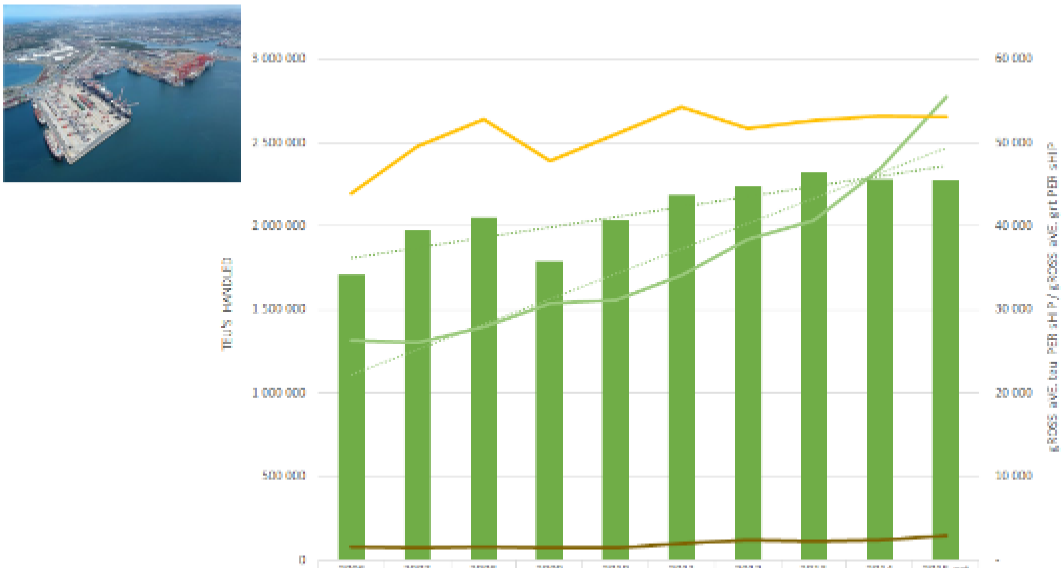
The committee agrees with the Authorities view on Vehicles, Bulk and Breakbulk volumes declining and/or stagnating in the short term. The Committee is of the opinion that containers volumes are more likely to stagnate at 4.6m – 4.8m Teu's p.a in the medium term. Given the outlook of subdued global demand for raw minerals and the state of the South African economy, the Authority is urged to be cautious on overstating volume growth.

Cost Category	Budget 2013/14	% of OPEX	Actual 2013/14	% of OPEX	Actual 2014/15	% of OPEX	Dev 2014/15 vs. 2013/14	Dev % 2014/15 vs. 2013/14	Forecast 2015/16	% of OPEX	Dev 2015/16 vs. 2014/13	Dev % 2015/16 vs. 2014/13	Forecast 2016/17	% of OPEX	Dev 2016/17 vs. 2015/16	Dev % 2016/17 vs. 2015/16	Forecast 2017/18	% of OPEX	Dev 2017/18 vs. 2016/17	Dev % 2017/18 vs. 2016/17	**Dev 2017/18 vs. 2014/15**	**Dev % 2017/18 vs. 2014/15**
	R'm	Percentage	R'm	Percentage	R'm	Percentage	R'm	Percentage	R'm	Percentage	R'm	Percentage	R'm	Percentage	R'm	Percentage	R'm	Percentage	R'm	Percentage	**R'm**	**Percentage**
Labour Costs	1 781	50.4%	1 767	54.6%	1 909	56.1%	142	8.0%	2 219	52.8%	310	16.2%	2 439	50.4%	220	9.9%	2 783	52.7%	344	14.1%	**874**	**45.8%**
Rates & Taxes	250	7.1%	290	9.0%	316	9.3%	26	9.0%	363	8.6%	47	14.9%	345	7.1%	-18	-5.0%	443	8.4%	98	28.4%	**127**	**40.2%**
Maintenance	355	10.0%	296	9.1%	260	7.6%	-36	-12.2%	329	7.8%	69	26.5%	468	9.7%	139	42.2%	452	8.6%	-16	-3.4%	**192**	**73.8%**
Contracts Payments	65	1.8%	56	1.7%	71	2.1%	15	26.8%	138	3.3%	67	94.4%	73	1.5%	-65	-47.1%	119	2.3%	46	63.0%	**48**	**67.6%**
Energy	445	12.6%	399	12.3%	440	12.9%	41	10.3%	488	11.6%	48	10.9%	565	11.7%	77	15.8%	622	11.8%	57	10.1%	**182**	**41.4%**
Professional Services	37	1.0%	20	0.6%	18	0.5%	-2	-10.0%	51	1.2%	33	183.3%	54	1.1%	3	5.9%	73	1.4%	19	35.2%	**55**	**305.6%**
Material	97	2.7%	85	2.6%	76	2.2%	-9	-10.6%	85	2.0%	9	11.8%	114	2.4%	29	34.1%	112	2.1%	-2	-1.8%	**36**	**47.4%**
Computer & Info Systems	81	2.3%	100	3.1%	122	3.6%	22	22.0%	147	3.5%	25	20.5%	180	3.7%	33	22.4%	175	3.3%	-5	-2.8%	**53**	**43.4%**
Rental	60	1.7%	61	1.9%	60	1.8%	-1	-1.6%	66	1.6%	6	10.0%	71	1.5%	5	7.6%	85	1.6%	14	19.7%	**25**	**41.7%**
Security Costs	68	1.9%	64	2.0%	71	2.1%	7	10.9%	82	2.0%	11	15.5%	71	1.5%	-11	-13.4%	107	2.0%	36	50.7%	**36**	**50.7%**
Pre-feasibility Studies	82	2.3%	47	1.5%	43	1.3%	-4	-8.5%	118	2.8%	75	174.4%	194	4.0%	76	64.4%	129	2.4%	-65	-33.5%	**86**	**200.0%**
Sundry Operating Costs	215	6.1%	51	1.6%	17	0.5%	-34	-66.7%	113	2.7%	96	564.7%	265	5.5%	152	134.5%	181	3.4%	-84	-31.7%	**164**	**964.7%**
Total Operating Costs (Excl. Depreciation)	3 537	100.0%	3 237	100.0%	3 403	100.0%	167	5.1%	4 200	100.0%	797	23.4%	4 840	100.0%	640	15.2%	5 280	100.0%	440	9.1%	**2 043**	**63.1%**
Group Costs	653	15.6%	398	10.9%	509	13.0%	111	27.9%	619	12.8%	110	21.6%	650	11.8%	31	5.0%	687	11.5%	37	5.7%	**289**	**56.8%**
Total Operating Costs (Incl. Group Costs)	**4 190**	**115.6%**	**3 635**	**110.9%**	**3 912**	**113.0%**	**278**	**7.6%**	**4 819**	**112.8%**	**907**	**23.2%**	**5 490**	**111.8%**	**671**	**13.9%**	**5 967**	**111.5%**	477	**8.7%**	**2 332**	**59.6%**

Table 2: TNPA Operating Expenditure between FY 2013/14 – FY2017/1

4. Change in Container Vessel Sizes (GRT)

The committee wishes to bring to the attention of the Regulator that development of container vessel sizes calling at South African ports. Container shipping lines have in recent months withdrawn and consolidated certain services thus increasing vessel sizes. To such an extent that in Durban it is expected that container vessel calls will decrease to 1, 000 vessel calls in FY2015/16, down from 1,109 vessel calls in FY2014/15. The average GRT per vessel is likely to increase from 46,000 GRT to 55,500 GRT in the present year. This development is likely to affect the revenue from marine services quite drastically. The Authority has determined that the revenue from Marine Services (and other) is forecast at R2, 063m. The Committee would suggest the Authority consider a 5% deflation in Marine Services revenue for FY2015/16 brining the revenue from Marine Services to R1, 960m. Although data reflected in Figure 1 pertains to the Durban port, this development is likely to be experienced at all ports.



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 est
DUR Grand Ttl Deep-Sea & Coastal TEU's Handled	1708 844	1979 115	2051 514	1791 132	2042 404	2187 919	2239 888	2321 747	2285 250	2273 200
No. of Container Ships Calling at Durban Port	1 359	1 610	1 647	1 618	1 667	1 375	1 057	1 149	1 109	900
Gross Ave. GRT / Ship	26 380	26 089	27 917	30 762	31 236	34 207	38 479	40 684	46 930	55 556
Gross Ave. TEU / Ship	1 618	1 540	1 604	1 480	1 532	1 973	2 424	2 291	2 404	2 948
Durban Grand Total TEU's Handled	2198 600	2479 232	2642 165	2395 175	2533 392	2712 975	2586 886	2632 513	2664 330	2653 200

Figure1: Average Container Vessel Sizes calling at the Durban Port (Source: TNPA Data)

5. **Submission on Fruit Export Port Tariff Charges**

The TNPA are in a process of implementing (as approved by the Ports Regulator) a port pricing strategy aimed at restructuring costs recovered from Leases, Marine Services and Port Cargo Tariffs. In the interim of this process, the Committee would request that the tariffs for breakbulk exports for Citrus and Deciduous and Exotic fruit be equalized to the Citrus export tariff in the FY2016/17 period. The Committee has made reference to this matter in previous submissions to the Regulator and have not received a response. The Committee hereby requests assistance in terms of the process required to address this request.

6. **Submission on Fruit Export Related Supply Chain Costs with Special Emphasis on Transnet SOC Revenue Generated from Fruit Exports**

The cost of the South African fruit export logistics chain has increased exponentially over the course of 5 years. Figure 5 below shows the average increased costs in the chain for the exporting of fruit in containers to Europe. The average total cost per pallet has increased by R1, 720 per pallet from 2010 to 2015 (57%). The main reasons for the increased cost can be attributed to the following:

i. *Transport costs as a result of a steep increase in fuel costs,*
ii. *Port costs due to increased cost of cold storage (rising electricity costs and labour), Transnet cargo dues and container terminal handing fees,*
iii. *Freight costs due to specific increases imposed by shipping lines to the reefer sector globally,*
iv. *Bunker costs due to rising oil and bunker costs globally,*
v. *Weakening Rand/USD exchange rate pushing up freight and bunker costs. Going forward the weakening of the Rand will have significant impact on export costs.*

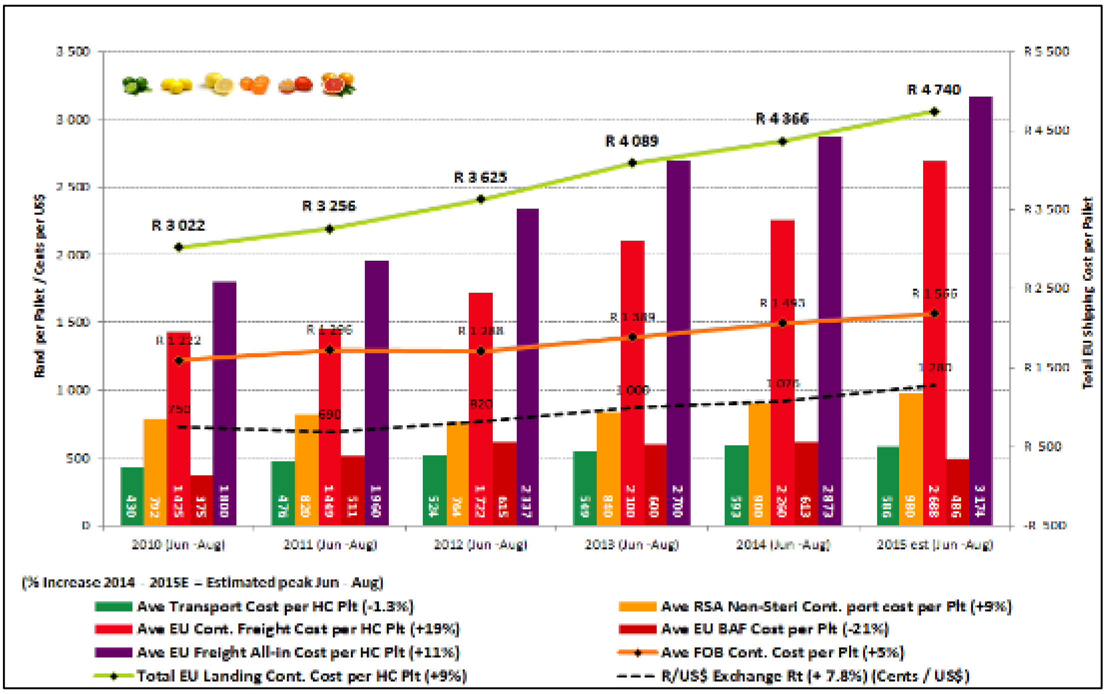


Figure 2: Average South African Fruit Export Logistics Costs for container of fruit to Europe Market (Source: FSA Data)

Transnet SOC port revenue from fruit exports increased by 42% from R375 million in FY2010/11 to a calculated R530 million in FY 2015/16 – mainly due but not limited to-

i. *Increased fruit export volumes by 16%,*

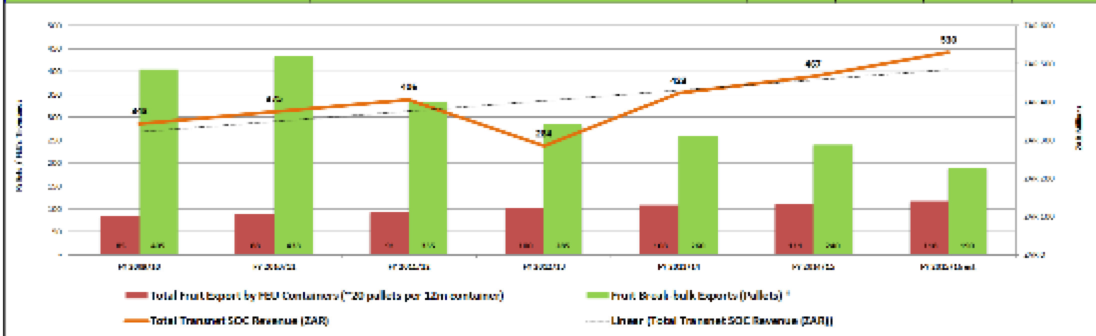
ii. *Increased fruit containerized volume by 34%,*

iii. *containerized cost per pallet is exponentially higher compared to breakbulk,*

iv. *Transnet increased revenue per pallet basis from R170 to R207 (22%).*

The trends in pallets exported by the fruit industry (six year period) and Transnet's revenue from these exports are illustrated in table 3 below.

Transnet SOC Gross Tariff Revenue Generation from Fruit Exports								
Year	Commodity Group	FY 2009/10	FY 2010/11	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16 est
Fruit Containerised Exports (Pallets) *	Citrus	[illegible]	[illegible]	[illegible]	1 063 236	1 208 232	1 227 170	1 300 000
	Table Grapes	217 408	233 304	235 371	243 776	272 224	268 345	270 000
	Stone and Pome	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Subtropical	40 122	47 068	22 621	55 770	62 796	73 331	80 000
	Total	1 708 751	1 780 186	1 820 785	2 004 055	2 160 708	2 232 261	2 253 500
Total Fruit Export by FEU Containers (~20 pallets per 12m container)		88 108	88 089	91 440	100 243	108 458	111 113	117 500
Fruit Break-bulk Exports (Pallets) *	Citrus	434 153	432 068	334 525	285 143	260 001	240 296	190 000
	Table Grapes	11 913	3 014	1 170	5 067	22 823	18 330	20 000
	Stone and Pome	20 860	10 748	11 897	19 474	8 618	3 501	3 600
	Subtropical	0	0	0	0	0	0	0
	Total	427 626	428 310	330 682	310 484	292 297	267 946	213 600
Fruit Break-bulk Exports Ave. Gross Tons per Pallet	Citrus (1.2 tons per Pallet)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Table Grapes (0.8 tons per Pallet)	8 530	2 051	536	4 534	19 125	14 640	15 300
	Stone and Pome (1 tons per Pallet)	20 660	10 740	14 657	19 074	8 645	3 301	3 500
	Subtropical (0.9 tons per Pallet)	-	-	-	-	-	-	-
Total Fruit Export by Break-bulk Gross Tons		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Fruit Exports (Pallets)		**2 140 377**	**2 212 702**	**2 179 417**	**2 315 339**	**2 461 349**	**2 484 207**	**2 563 000**
Containerised TNPA Cargo Dues Tariff Export 12m FEU		1 935.37	2 014.65	2 105.11	316.43	1 223.70	1 301.19	1 347.39
Containerised TNPA Cargo Dues per Ton Equivalent		145.76	123.58	126.37	18.59	72.72	78.07	80.64
Containerised TPT Export THC Reefer 12m FEU **		1 900.00	2 127.00	2 247.00	2 440.00	2 601.00	2 842.00	3 112.00
Gross Fruit Export - Containerised TNPA Cargo Dues Revenue		164 261 835	177 307 735	[illegible]	31 719 013	132 539 138	144 579 196	158 348 320
Gross Fruit Export - Containerised TPT THC Revenue		[illegible]	[illegible]	[illegible]	244 592 348	[illegible]	315 783 206	[illegible]
Gross Fruit Export - Total Containerised Revenue		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Break-bulk Cargo Dues Tariff Citrus Export / Ton	Citrus	[illegible]	18.91	19.70	20.30	[illegible]	[illegible]	[illegible]
	Table Grapes	32.69	34.44	35.96	[illegible]	[illegible]	[illegible]	[illegible]
	Stone and Pome	32.69	34.44	35.96	[illegible]	[illegible]	[illegible]	[illegible]
	Subtropical	32.69	34.44	35.96	[illegible]	[illegible]	[illegible]	[illegible]
Gross Fruit Export - Breakbulk TNPA Cargo Dues Revenue		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Transnet SOC Revenue (ZAR)		**343 316 850**	**374 975 362**	**406 459 017**	**284 153 404**	**422 650 202**	**467 266 750**	**528 024 055**
Transnet SOC Ave. Revenue per Pallet		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Revenue Percentage Change		**0%**	**9%**	**8%**	**-30%**	**40%**	**11%**	**13%**



Tariffs do not include commercial revenue from lease agreements between TNPA and fruit export terminals
Tariffs do not include revenue by Transnet Freight Rail

Table 3: Transnet SOC Gross Tariff Revenue Generation from Fruit Exports FY2009/10 – FY2015/16 (Source: FSA Data)

Additional to the revenue illustrated in the table above – Transnet also earns revenue from:

i. *Lease agreements with fruit port terminal operators*

ii. *Freight rail (fruit)*

iii. *Exports of frozen fruit and pulp concentrates*

7. Conclusion

In terms of the proposed adjustment to the operating expenditure and the proposed adjustment to the revenue from marine service; as highlighted in previous sections. The Committee hereby proposes an average tariff adjustment for FY2016/17 of 1%. ***The adjustment should be applied as the Authority has stated being a higher adjustment to Marine Services and a higher adjustment for exports of dry bulk with a 0% increase on all other cargo dues.***

The Committee would also request that the Authority apply in future tariff applications, realistic budgets and volume forecasts based on historical actual data. A further request is for future tariff applications to include at least 3 years of historical actual operating costs and 3 years of historical actual volumes handled.

Details	FY 2015/16 Application	FY 2015/16 ROD	FY 2016/17 Application	FY 2016/17 Proposed
	Fixed Tariff Year		Indicative Tariff Years	
	R'm		R'm	R'm
RAB	**67 000**	**66 789**	73 483	73 483
Vanilla WACC	**5.59%**	**6.38%**	5.31%	5.31%
Return on Capital	**3 745**	**4 261**	3 902	3 902
Plus: Depreciation	**1 807**	**1 791**	1 928	1 928
Plus: Operating Costs (Incl. Group Costs)	**5 020**	**5 020**	5 487	**4 735**
Plus: Taxation Expense	**964**	**768**	1 191	1 191
Plus/Less: Clawback	**-328**	**-581**	-680	-680
TPT Assest Retained				
ETIMC Retained		**-150**	67	67
Revenue Income Requested	***11 208***	***11 109***	***11 895***	*11 143*
Less: Real Estate	**-2 449**	**-2 449**	-2 600	-2 600
Tariff Book Revenue Income / Required	**8 759**	**8 660**	9 295	8 543
Prior Year Budgeted Revenue			8 571	**8 468**
Estimated Volume Growth			2.40%	0.00%
=			206	-
Revenue after volume growth			***8 777***	***8 468***
Additional Required Revenue			518	75
Average Tariff Increase			*5.90%*	***0.89%***

Table 4: Proposed Tariff Adjustment.