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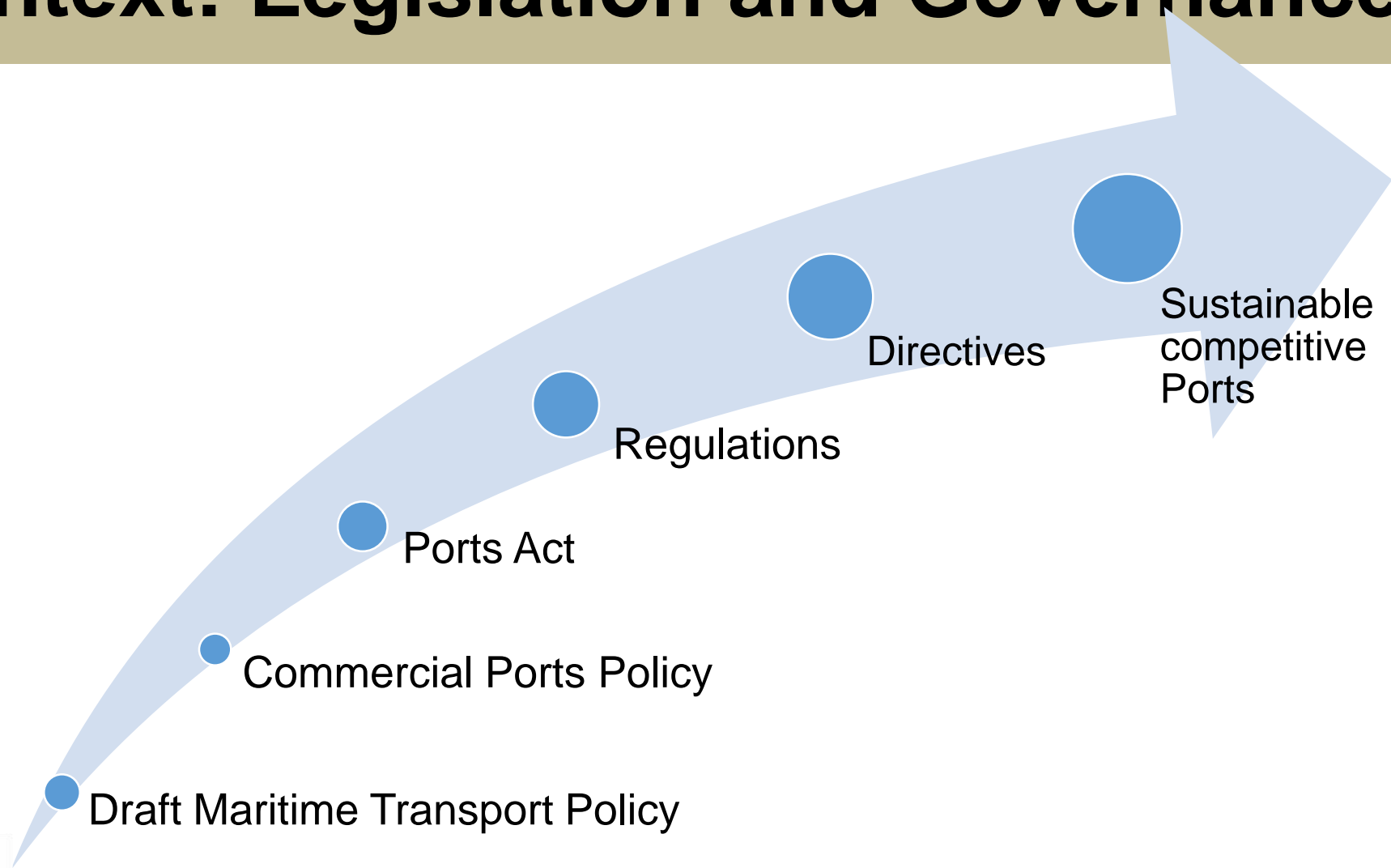
Ports Regulator South Africa 2018/2019 Ports Authority Tariff Methodology Roadshow NPCC Submission

24 – 31 October 2016

Agenda

- 1 Context: Legislation and Governance
- 2 PCC Members per Port & NPCC Representatives
- 3 Tariff Methodology: Compliance with the Act, Regulations, Directives
- 4 Port Performance
- 5 Recommendations

Context: Legislation and Governance



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Context: Ports Act Chapter 11

1. Draft Maritime Transport Policy/ Ports Policy / Ports Act / Regulations / Directives
2. Ports Act Chapter 11 – Mandate and Composition
3. Operationalising the Act: Protocol of Meetings
4. Issue escalation process
5. Schedule of Meetings

Mandate: Ports Act Chapter 11

		Functions and Duties of the PCCs and NPCC				
		Forum for Exchange of Views	Advice on expansions and developments of ports	Advice on Policy Matters	Advice on Regulatory Framework	Advice on alterations to the NPA tariff
Key perspectives	Relevance	Relevance Membership /Relevance of PCC Discussions to the Mandate	PCC inputs relevance and consideration.	Relevance on Policy matters	Relevance of advice.	Relevance and impact of inputs.
	Effectiveness	Effective representation of all stakeholders	Discussion impact at port level.	Policy changes post PCC inputs.	Regulatory Framework changes post PCC input.	NPA tariff adjustments post PCC inputs.
	Efficiency	Efficiencies of PCC meetings in addressing core issues. CSFs	PCC system relevance in delaying or enhance port developments.	PCC system delay / enhance policy development.	PCC system delay or enhance regulatory framework adjustments.	PCC system delay or enhance appropriate tariff adjustments?
	Impact	Evidence of forum impact	Evidence of PCC impact on expansion and development	Evidence of PCC impact on policy	Evidence of PCC impact on the Regulatory Framework	Evidence of PCC impact on the NPA tariff adjustments
	Sustainability	Sustainable of forum outcomes	PCC inputs into port expansion and development debates.	Sustainability of policy inputs / need for refinement.	Regulatory framework inputs sustainability / additional refinement.	TNPA adjustment advice input sustainable or do they require additional input?

PCC Members per Port & NPCC Representatives

1. [Port of Mossel Bay](#)
2. [Port of Saldanha](#)
3. [Port of Cape Town](#)
4. [Port of Richards Bay](#)
5. [Port of Durban](#)
6. [Port of East London](#)
7. [Port of Ngqura](#)
8. [Port of Port Elizabeth](#)
9. [NPCC Membership](#)

- Harbour Master
- Two Representatives from the Authority
 - ❖ Port Manager
 - ❖ Port Planner / Port Engineer
 - ❖
- Local Government
- Provincial Government
- SAMSA
- Labour
- Port User Representative (STP)

Port of Richards Bay PCC Port User Reps

Cargo Owners	Terminal Operators	Shipping Lines / Agents / Oil & Gas / Ship Repair / Freight Forwarders / Lessees/ Stevedores
<p>Mr Garth Wilson Tel: 0826552913 Email: garth.Wilson@glencore.com</p>	<p>Mr. Casper Mbuyazi Tel: 0823802806 Email: cmbuyazi@rbct.co.za</p>	<p>Mr. Roelof Camminga (NPCC) Tel: 0832514969 Email: roelof@ivs-int.com</p>
<p>Election process underway</p>	<p>Mr. Mandla Mpungose Tel: 0837032900 Email: mandla.Mpungose@Transnet.net</p>	<p>Mr. Christo Coetzer Tel: 0834639333 Email: christoc@grindrod.co.za</p>



Port of Durban PCC Port User Reps

Cargo Owners / Freight Forwarders / Road Hauliers / Container Depots/ Landside Logistics	Terminal Operators / Stevedores / Lessees	Shipping Lines / Agents / Oil & Gas / Ship Repair /Bunkers / Fishing
Mr. Fanie Pretorius (NPCC) Tel: 083 310 6896 E: Fanie@alfalogistics.co.za	Ms. Bridget Bishenden Tel: 082 806 0318 E: bishenb@sapref.com	Mr. Philip Simpson Tel: 082 570 5000 E: pas@murship.com
Mr. Mervin Webb Tel: 083 6301794 E: Mervin.Webb@hulamin.co.za	Mr. Zeph Ndlovu Tel: 0833068367 Zeph.Ndlovu@Transnet.net	Mr. Peter Besnard (NPCC) Tel: 031 266 1384 E: peter@saaso.com



NPCC Representatives

- National Ports Authority
- Department of Transport
- Department of Public Enterprises
- The Dti
- Labour
- National Port Users Forum
- A Representative from each of the PCCs

Port	Name	Contact Details
Mossel Bay	Ms. Thembisa Silwana	Tel: 0728989878 - Email: thembisa.Silwana@petrosa.co.za
Saldanha	Mr Arthur Martin Mr Steve Hrabar	Tel: 0836426423 - Email: arthur@mogs.co.za Tel: 0825588656 - Email: stefanzh@iafrica.com
Cape Town	Mr Julian Hurrie Captain Sumeet Bhardwaj	Tel: 0827855368 - Email: julianh@servest.co.za Tel: 0836085511 - Email: Sumeet.Bhardwaj@mol-liner.com
Richards Bay	Mr Roelof Camminga	Tel: 0832514969 - Email: roelof@ivs-int.com
Durban	Mr Fanie Pretorius Mr Peter Besnard	Tel: 083 310 6896 - Email: Fanie@alfalogistics.co.za Tel: 031 266 1384 – Email : peter@saaso.com
East London	Ms Telrita Jacobs	Tel: 083 660 1870 - Email: telrita.jacobs@daimler.com
Ngqura	Mr Arthur Waters	Tel: 0824932223 - Email: awaters@msc.co.za
Port Elizabeth	Mr Paul Klackers Ms Noxolo Fipaza	Tel: 0825532379 - Email: Paul.klackers-external@hamburgsud.com Tel: 0820542796 – Email: Noxolo.Fipaza@dot.ecprov.gov.za

Tariff Methodology: Compliance

1. Compliance with the Act, Regulations, Directives
 - i. Section 72(2) of the National Ports Act stipulates that the Authority must, prior to any substantial alteration of tariffs consult with the NPCC.
 - ii. Directives 22(3) b-c: This directive articulates the need for sufficient information to the PRSA to reflect on total costs and the amounts to be invested and revenues to be utilised in port development, safety, security and environmental protection.
 - iii. Directives 23 (1) a-f: This directive considers balancing key considerations such as a consistent and comparable tariff methodology, fairness, avoidance of discrimination such as when same is in the public interest, simplicity and transparency, predictability and stability, avoidance of cross subsidisation save where same is in the public interest,
 - iv. Directives 23(1)g: Promotion of access to ports, efficient and effective management and operation in ports.

Tariff Methodology: Compliance

2. Methodological Approach and Consistency:

- i. Approach based on the RR model in the absence of any other model. Question remains whether this is the correct Model?
- ii. Multi Year approach – final year of current methodology
- iii. Introduction of level of predictability and stability

Tariff Methodology -The RR Formula and implications

1. Regulatory Asset Base (RAB): RAB a key determinant in the tariff methodology and all related calculations
 - a. Unprecedented artificial upward evaluation:
 - I. Historically trended RAB remains questionable: R12bn – R60bn between 2009 – 2012 etc.
 - II. This happened at a time when real estate values were negatively impacted by the global economic crises.
 - III. Unprecedented artificial upward evaluation heightening the negative impact on the economy at the time and continues to influence the tariff strategy price determination.
 - IV. Significant work done to date to clean up the RAB
 - b. Confirmation of TNPA RAB portfolio.
 - c. Confirmation of boundary line TNPA assets which may or may not have been moved out of the TNPA asset register.
 - d. Close scrutiny in terms of reasonably utilised assets and returns earned on same assets accordingly.

Tariff Methodology -The RR Formula and implications

2. Weighted Average Cost of Capital (WACC)
 - a. Understood that the Vanilla WACC is commonly used internationally.
 - b. Gearing impact on WACC: Same should consider the Authority's level of borrowing instead of the Groups.
 - c. Authority's Risk exposure vs. Groups risk exposure.

Tariff Methodology -The RR Formula and implications

3. Operating Costs
 - a. Need for higher level of disclosure of information.
 - b. Savings through increased efficiencies to be encouraged and to be appropriately rewarded when such savings are achieved. Not at the risk of compromising safety. The existence or otherwise of transfer pricing within the broader Transnet group needs to be interrogated, since it could, if it existed, have a significant impact on required revenue.
 - c. Value proposition in respect of skills developed and employed to contribute to an improved and productive port system.
4. Depreciation
 - a. Consideration be given to the life cycle of the assets.
 - b. Differentiation between assets neglected and assets refurbished.



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Tariff Methodology -The RR Formula and implications

5. Taxation expenses
6. Claw-back
 - a. Mechanism for over and under recovery to be used cautiously.
 - b. Importance of accurate volume forecasting jointly with commodity and activity owners.
 - c. Concerns regards under recovery expressed and impact same may have on industry.
7. Excessive Tariff Increase Margin Credit (ETIMC)
 - a. Buffering tool to smooth out tariff spikes supported.
 - b. Application to be considered holistically.
8. Net Profits



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Tariff Methodology – Port Performance

1. Port Performance incentives and penalties

I. Status Quo

II. A different perspective

I. Operational Efficiencies

- a. Management of Terminal Operator Performance target setting and monitoring (Durban example – Congestion a ticking time bomb)
- b. Marine Operator Performance target setting and monitoring
- c. Trigger point for capex investment

II. Financial efficiencies

- a. Opex / Copex management
- b. Reconciliation process operational efficiencies / Opex / Copex / Capex

III. CAPEX Investment Efficiencies

- a. Management of capex investments.
- b. Lagging investments to be prioritised / challenges to be managed proactively such as Q 700, dredging etc.

IV. Asset Maintenance Efficiencies

- a. Prioritisation of assets maintenance – e.g used where maintenance noted in
- b. Maintenance dredging challenges to be resolved which directly impacts on optimization of payloads of vessels.

III. Prioritization of Introducing Incentives and penalties

Recommendations

1. Independent Valuation of the RAB to be prioritised.
 - List of asset register to be made available up to and including 2005 and assets added / removed thereafter to be noted separately.
2. Consideration to be given as to the true Revenue Requirement need.
3. Net Profit Challenge
 - reinvestment of net profits, and percentage to be reinvested.
 - Governance of net profits reinvested within Transnet.
4. Calculation must consider Port performance introducing penalties and incentives.
5. Authority has an obligation to exercise its oversight role which is perceived to be dormant.
6. Compliance with the Act
7. Regulatory Empowerment



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Thank You



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Q & A