



The Ports Regulator of South Africa

Tariff Application Road Show

Durban 1 October 2015

Johannesburg 2 October 2015

Port Elizabeth 5 October 2015

Cape Town 6 October 2015

October Transport Month 2015

An Introduction to the National Ports Act

- Sea transport is an essential vehicle of international trade
- With the bulk of SA's trade being by sea, efficient ports are catalysts for trade growth
- The National Ports Act, 12 of 2005 (the Act) was established with the purpose of ensuring affordable, internationally competitive, efficient and safe port services based on a transparent and cost-effective nature that is economically and environmentally sustainable
- The Act contains the mandates and functions of the Ports Regulator, National Ports Authority, and the Ports Consultative Committees
- Sets out the powers of the Ministers of Transport and Public Enterprises
- Sets the overall governance framework for the ports system
- Regulatory hierarchy:
 - Act – Parliament
 - Regulations – Minister of Transport
 - Directives – Ports Regulator
 - Rules - NPA

Objects of the National Ports Act

- The objects of the Act include but are not limited to:
 - The development of an effective and productive ports industry for economic growth and development
 - Promote and improve efficiency and performance in the management and operations of ports
 - Promote the development of an integrated regional production and distribution system in support of government policies
 - Enhance transparency in the management of ports

Who is the Ports Regulator?

- It consists of eleven non-executive Members and one executive Member that constitute the Economic Regulator for the ports system in South Africa
- The Regulator is independent in the performance of its mandate from the Department of Transport, DPE, and other state departments and entities
- The Regulator is one of the key institutions envisaged by the Ports Policy, and the Act
- Responsible for the approval of the tariff book

Functions of the Ports Regulator in terms of the National Ports Act, 12 of 2005

- Exercise economic regulation of the port system in line with government's strategic objectives
- Promote equity of access to ports, facilities and services provided in ports
- Monitor the activities of the National Ports Authority to ensure compliance with the Act
- Adjudicate complaints and appeals against the Authority
- Approve or reject the Authority tariffs
- Promote regulated competition
- Regulate the provision of adequate, affordable and efficient port services and facilities

The Regulator is guided by the following principles, amongst others

- Consultation with Stakeholders in all Regulator processes
- Promotion of efficiency
- Promotion of appropriate investment
- Protection of port users
- Prevention of pricing and service discrimination, without justification
- Prevention of anti-competitive practices
- Competitive, efficient and affordable tariffs

Require input from users through
commenting process

Regulator's Tariff Role

The Regulator must ensure that:

- The tariffs are affordable to port users, assessed in a manner that allows the NPA to recover its investment; recover its costs in managing and providing port services and facilities and make a return commensurate with the risk involved in ports services and facilities
- The tariffs are predictable and non-discriminatory
- NPA tariffs are utilised in ensuring that the port system is efficient
- It prevents the utilisation of tariffs for cross-subsidisation unless in the public interest
- As part of its Regulatory function, the Ports Regulator addresses access and equity issues in the port system and provides redress mechanisms for all complaints, and appeals through the Tribunal

Purpose of NPA tariffs

- To enable the NPA to-
 - Recover its investment in owning, controlling and administering ports and its investment in port services and facilities
 - Recover its costs in maintaining, operating, controlling and administering ports and its costs in providing port services and facilities
 - Make a profit commensurate with the risk involved in ports services and facilities

Economic Regulation

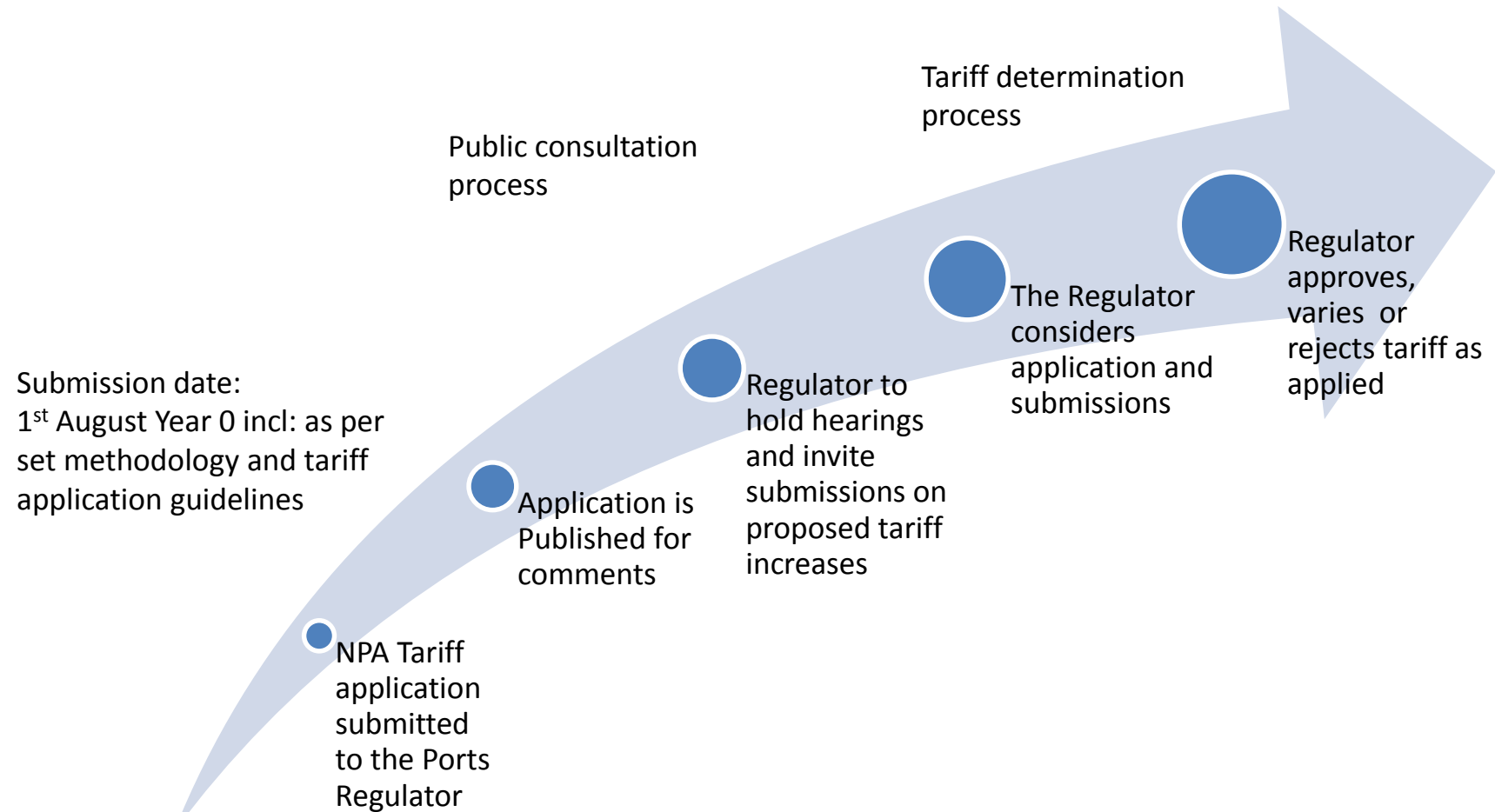
- Tariff Setting Process
 - Assessment of tariff application and public submissions
 - Own assessments
 - Tariff methodology: based on Revenue Required building blocks
- Tariff Book Restructuring/Port Pricing Reform
 - Tariff Strategy
- Research
 - Port pricing-benchmarking South African Ports Internationally
 - Cargo traffic flows
 - Efficiency and capacity utilisation

Assessment of Authority's Tariffs

- In terms of the Act, NPA to submit proposed tariffs to the Regulator
- Tariffs cover all NPA activities as a Port Authority
- Elements of tariff application proposed by the NPA should include:
 - Manner of calculation and model
 - All financial information and valuations
 - Reinvestment of profits and revenues
 - Impact on port activity cost structures
- Regulator Publishes NPA application for comment (www.portsregulator.org)
- Regulator holds public hearings and invites submissions on proposed tariff increases
- The Regulator applies the accepted multi-year Tariff Methodology and after consideration of its own assessment and public submissions on the application, the Regulator issues a Record of Decision.
- The Tariff Strategy will also begin to be considered within the assessment of the different tariffs as applied to different cargo and user types

Tariff Determination Process

Prior to 31st
March Year 1



Components of the Tariff Methodology

- The tariff methodology accepted is a revenue required methodology
- It provides a return (Weighted Average Cost of Capital (WACC)) on the Regulatory Asset Base (RAB)
- The WACC in relation to the cost of debt, is based on the Transnet average debt costs; and on the cost of equity, the capital asset pricing model in relation to the market is used
- The Methodology takes into account some of the following elements:
 - Depreciation
 - Working Capital
 - Asset Valuation
 - CAPEX
 - Inflation
 - Market risk premia
 - Taxation
 - Operating Expense
 - Claw Back
 - Excessive Tariff Increase Margin Credit (ETIMC)
 - Volume forecast

Tariff Methodology Overview

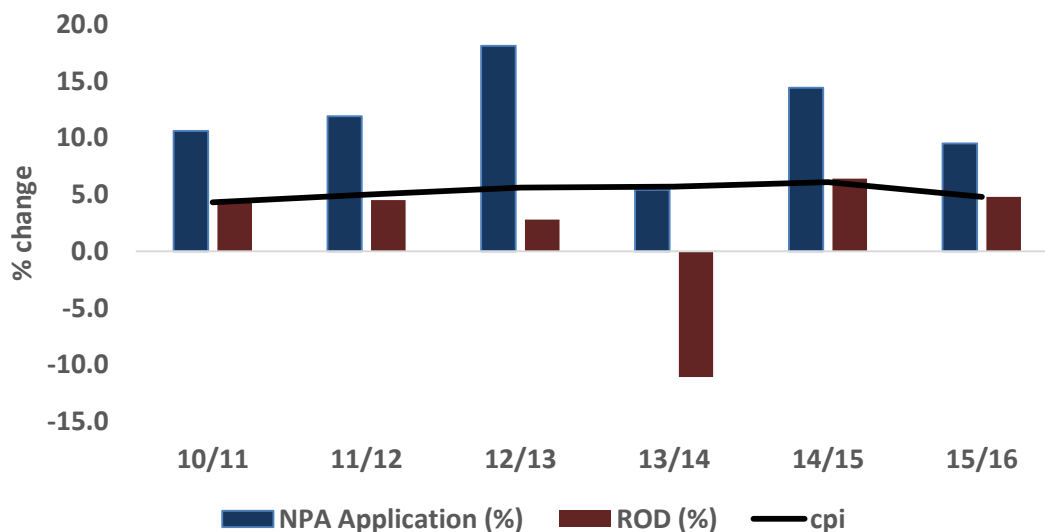
Revenue Requirement

$$\begin{aligned} &= \text{Regulatory Asset Base (RAB)} \\ &\times \text{Weighted Average Cost of Capital (WACC)} + \text{Operating Costs} \\ &+ \text{Depreciation} + \text{Taxation Expense} - (+)\text{Claw back} \\ &+ (-)\text{Excessive Tariff Increase Margin Credit (ETIMC)} \end{aligned}$$

- It requires that the NPA estimate its operating costs, depreciation, tax expense and return on capital (a product of the weighted average cost of capital and the value of assets in the Regulatory Asset Base for the period under review).
- In addition, there is a claw-back mechanism that corrects for over or under recoveries in previous tariff periods, as well as the excessive tariff increase margin credit (ETIMC).
- More details on the methodology can be obtained from our website:
[www.portsregulator.org/images/documents/Regulatory Manual for the Tariff 6 Year 2014 2015.pdf](http://www.portsregulator.org/images/documents/Regulatory_Manual_for_the_Tariff_6_Year_2014_2015.pdf)

Previous Records of Decision

| Tariff Year | NPA Application (%) | ROD (%) | Inflation (%) |
|-------------|---------------------|---------|---------------|
| 10/11 | 10.6 | 4.4 | 4.3 |
| 11/12 | 11.9 | 4.5 | 5.0 |
| 12/13 | 18.1 | 2.8 | 5.6 |
| 13/14 | 5.4 | -11.1 | 5.7 |
| 14/15 | 14.4 | 6.4 | 6.1 |
| 15/16 | 9.5 | 4.8 | 4.8 |



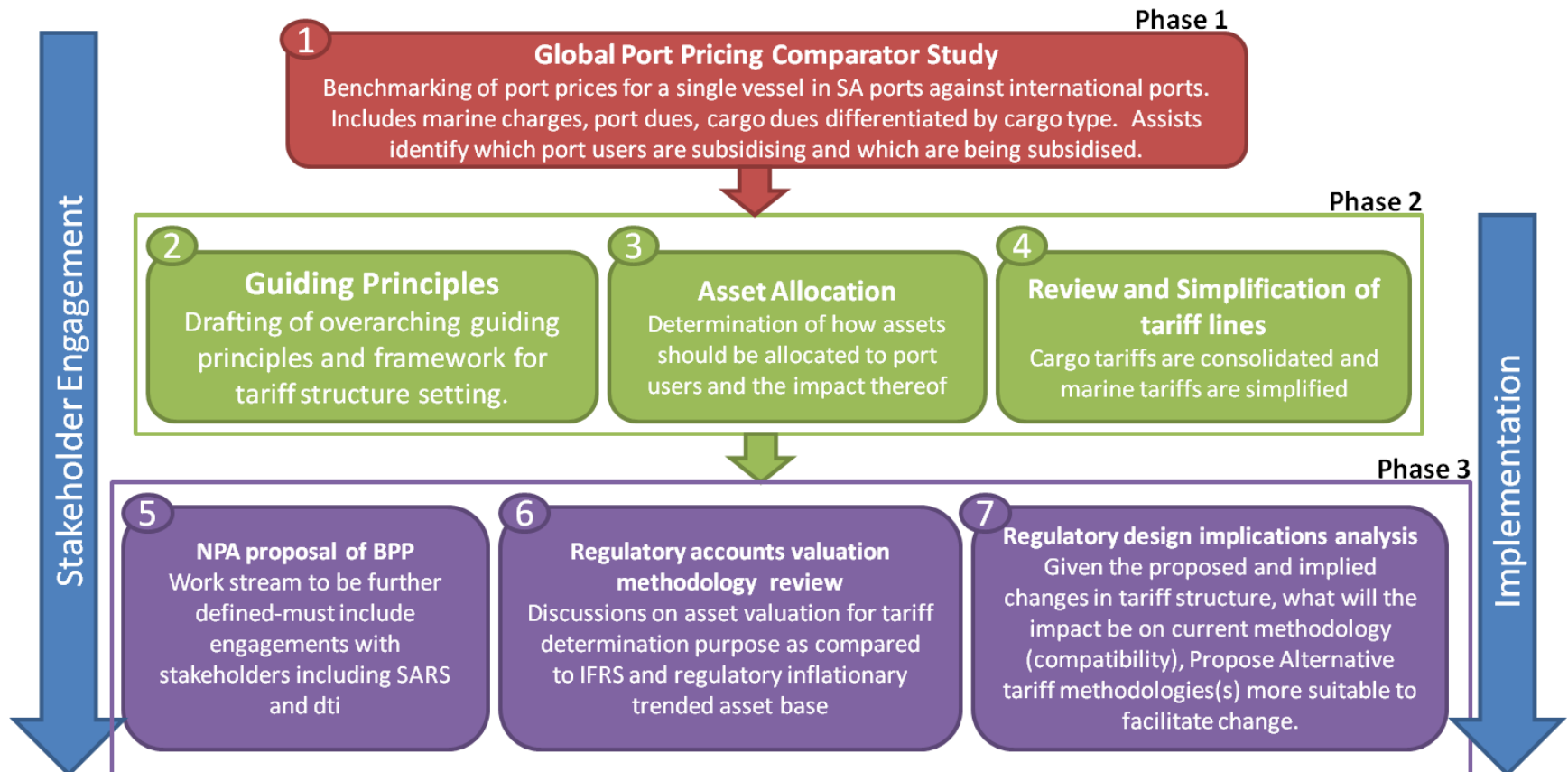
Tariff Methodology vs. Tariff Strategy

- Tariff Methodology
 - 2013 Interim methodology
 - 2014 Multi-year methodology (applicable to 2017/18)
 - Overall Revenue Requirement
 - Determines the “size of the cake”
 - Calculates the *average* tariff change
 - ROD is the implementing mechanism for the Tariff Strategy

Tariff Methodology vs. Tariff Strategy

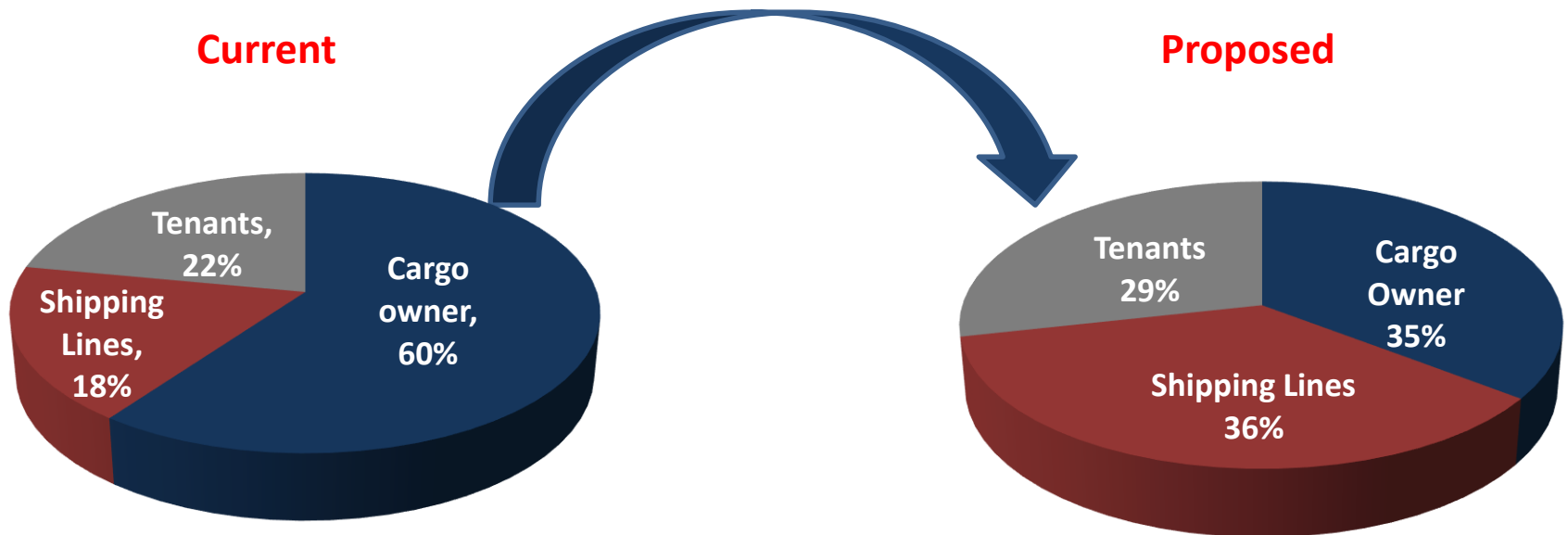
- Tariff Strategy
 - Answers the question: Who pays for what? And why?
 - Determines “how the cake should be cut”
 - Sets the structure of the tariff book
 - Must be considered with the RR methodology in mind – “zero-sum game”
 - Formalisation of existing tariff trajectory
 - Aims to “clean up the tariff book” – status quo
 - Current tariff application already proposes tariff differentiation in line with the Tariff Strategy
 - Tariff Simulations planned for 2016/17

Tariff Strategy Approach

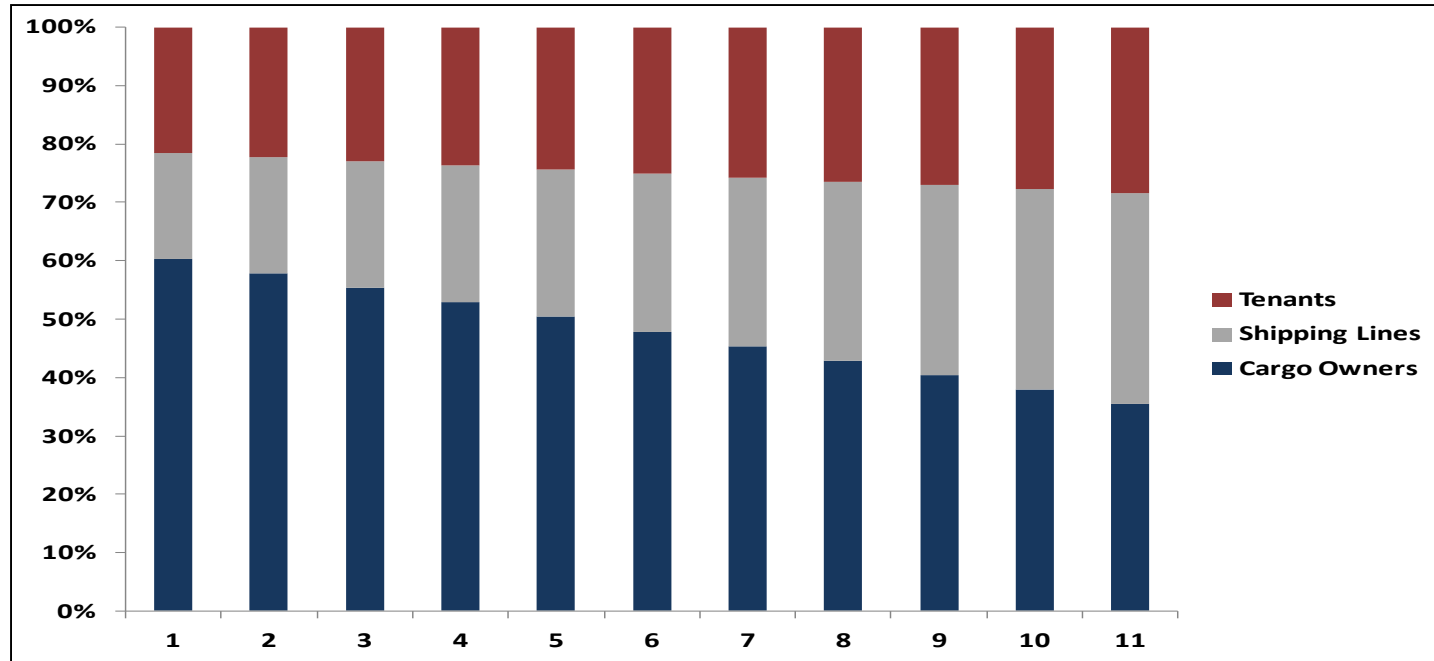


Broad changes in how the cake is sliced

The new asset allocation results in the following changes in required revenue per user group.



Indicative Phased Implementation over ten years



- The changes will be implemented over a period of **ten years**;
- The changes reflected above and below are based on the current tariff structure;
 - **Cargo owners:** real decrease in prices on an annual basis of **-5.2%**;
 - **Shipping lines:** real increase on an annual basis of **7.2%** and
 - **Lease revenue:** increase in real terms by **2.8%** annually.
- These are **indicative numbers only** and will change each year as the value of the asset base changes due to new capital and revaluation of assets.
- The review of this allocation will be published annually and reflected in the tariff determination.

Indicative changes in Cargo Dues contribution to revenue

Current contribution to total revenue Target contribution to total revenue



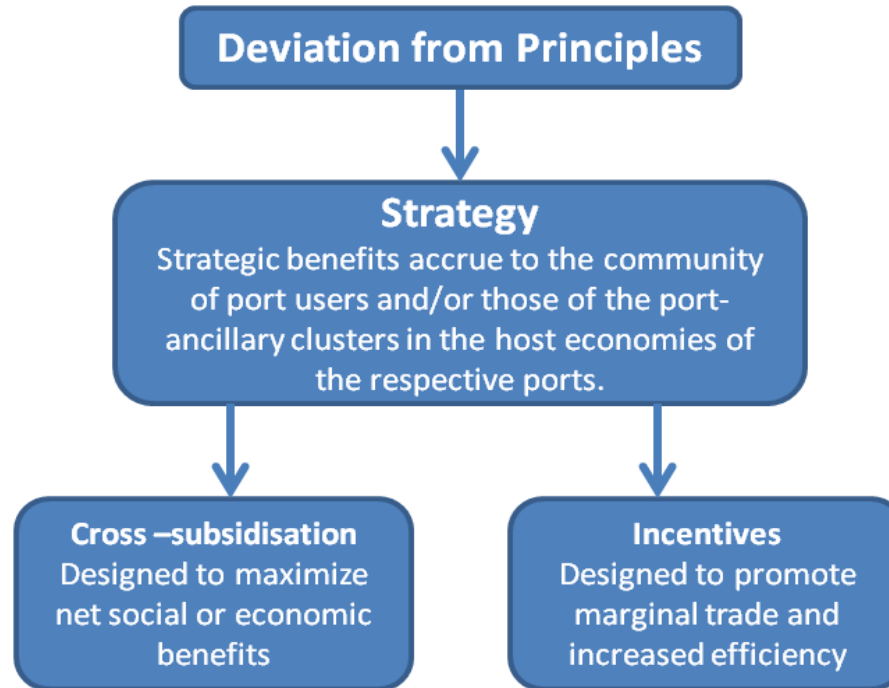
Resulting Base Level Cargo Dues

The table below shows the cargo dues expected after 10 or more years, given the proposed tariff strategy. This is based on today's money, asset valuation, vessel call count and volumes. Ro-ro and containers are differentiated by import and export in line with government's beneficiation promotion agenda.

| Base tariffs (R) in the proposed end state (based on 2013/14 data) | | |
|---|---------------|--------|
| Dry bulk | | 6.53 |
| Break bulk | | 31.03 |
| Liquid bulk | | 15.21 |
| RoRo | Import (Tons) | 51.30 |
| | Export (Tons) | 25.65 |
| Container (full) | Import (TEU) | 651.53 |
| | Export (TEU) | 325.77 |

Deviations from the Base Tariff

The tariff strategy attempts to create a fair pricing system where tariffs are cost reflective and allocated according to benefit as far as possible. However, in special cases, it makes strategic sense to deviate from a cost reflective tariff. The deviations from the base tariff outline these special cases.



More details on the methodology can be obtained from our website:

<http://www.portsregulator.org/images/documents/PRSA-Tariff-Strategy-2015-2016.pdf>

Stakeholder's Role in PCC's

The National Ports Act facilitates stakeholder democracy in the decision making relating to commercial ports through the establishment of the PCC's and NPCC which meet on a quarterly basis at each port and nationally.

Port user participation is critical in considering and supporting the following through the PCC process:

- Direct advice to the Minister of Transport - PCC's and the NPCC can advise the Minister directly on any issue
- NPA Port Development Framework Plan (medium to long term planning)
- Annual Capex plan and expenditure trends (projects)
- Volume: Trade and vessel traffic
- Port productivity and performance (infrastructure and marine performance)
- Operators Performance Standards

Stakeholder input into Regulatory decision making

Company/Industry Specific (user) information critical to ensure all elements are considered by the Regulator in its decision making process

Some companies already participate and information is treated as highly confidential

- Detailed port costs as part of full supply chain
- Detailed volume forecasts
 - E.g. OEM's vehicle forecast useful, as well as mining cargoes etc.
- Other volume forecasts: Trade *and* vessel traffic
- Port productivity and performance (infrastructure and marine performance) including Operators Performance Standards
- Views on the utilisation of ETIMC

The implementation of the tariff strategy requires continuous inputs, any data that may be shared, whether on a confidential or public basis extremely useful. (For example trends in ship sizes or intermodal cargo shifts)

Tariff Roadshow Dates and Venues

- The Regulator annually hosts four public hearings countrywide, where the NPA is provided the opportunity to present its tariff application to port users
- The public is invited to comment on the application at the hearings, or by written submission to the Regulator, which closes on 14 October 2015
- Submit comments to tariffcomments@portsregulator.org

| Port | Venue | Date |
|-------------------------------------|--|--------------------------------|
| Durban, Richards Bay | Garden Court Marine Parade, Durban | 01 October 2015 at 09:00-13:00 |
| Johannesburg | Emperors Palace, Johannesburg | 02 October 2015 at 09:00-13:00 |
| East London, Port Elizabeth, Ngqura | Radison Blu Hotel, PE | 05 October 2015 at 09:00-13:00 |
| Cape Town, Saldanha Bay, Mossel Bay | The Pepperclub Hotel and Spa, Cape Town | 06 October 2015 at 09:00-13:00 |

Ke ya leboga

Ke a leboha

Ke a leboga

Ngiyabonga

Ndiyabulela

Ngiyathokoza

Ngiyabonga

Inkomu

Ndi khou livhuha

Thank you

Dankie

Go to <http://www.portsregulator.org> for documents including Records of Decision, Regulatory Manual, consultation submission and reports and other useful documents