Record of Decision

Tariff Application by the National Ports Authority for the Tariff Year 2012/2013

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1. **The National Ports Authority ("the NPA") has applied to the Ports Regulator of South Africa for approval of the increase in tariffs for services and facilities offered by the Authority for the 2012/13 tariff year, which commences on 1 April 2012 and ends on 31 March 2013. The application was a request for approval of the Required Revenue.**

2. **The Ports Regulator has considered the Tariff Application and has rejected the proposed 18.06 % tariff increase sought by the NPA for the tariff year 2012/2013.**

3. **The Ports Regulator concluded that a 2.76 % tariff increase was a reasonable increase and therefore appropriate for the 2012/2013 tariff year.**

4. **The Ports Regulator's reasons for rejecting the proposed 18.06% tariff increase sought by the NPA for the tariff year 2011/2012 are set out in Appendix 1 below.**

APPENDIX 1

1. The Tariff Application

The NPA requested an 18.06% tariff increase for the tariff year 2012/2013 commencing 1 April 2012 and ending 31 March 2013. This resulted was based on a Revenue Requirement of R10.142 Billion. This excluded consideration of the real estate business of the NPA. The applicant converted the above revenue requirement into a tariff increase as shown in the table below:

DESCRIPTION	R Million
Revenue Requirement 2012/2013	**10 142**
Revenue Requirement 2012/13 (Post Clawback)	**9 645**
Expected Revenue 2011/12	7 807
Expected Volume Increase (%)	4.65 %
Expected Volume adjusted Revenue 2012/2013	8 170
Tariff Increase	18.06 %

The Applicant further submitted an exposition of the Tariff Application, should the Regulator insist on including the Real Estate business of the NPA in its determination in accordance with the ROD issued for the 2011/2012 tariff year. This resulted in a Revenue Requirement of R10.024 Billion. The applicant converted the above revenue requirement into a tariff increase as shown in the table below:

DESCRIPTION	R Million
Revenue Requirement 2012/2013	**10 024**
Revenue Requirement 2012/13 (Post Lease Premium Differential Adjustment and post clawback)	**9 224**
Expected Revenue 2011/12	7 807
Expected Volume Increase (%)	4.65 %
Expected Volume adjusted Revenue 2012/2013	8 170
Tariff Increase	12.90 %

2. The Regulator's Mandate

2.1. The Regulator's approval is required for the tariffs charged for services and facilities offered by the NPA in accordance with section 72 of the Ports Act.

2.2. In considering the NPA's proposed tariffs the Regulator was guided by the National Ports Act, Regulations issued under such Act and the Directives. The Regulator considered the submissions contained in the application and all subsequent submissions, written and oral comments received in the consultation process including the responses thereto and its own information and research.

2.3. In this regard it should be noted that the Ports Regulator has promulgated Directives in terms of section 30(3) of the National Ports Act (Government Notice 825, Gazette No. 32480, and 6 August 2009). These were amended in the Directives Amendment Notice, promulgated in Government Notice 37, Gazette No. 32898 on 29 January 2010.

3. The Methodology used by NPA

3.1. The NPA elected to use a "revenue requirement approach" as the basis for its tariff application.

3.2. The tariff application is for a single year - 1 April 2012 to 31 March 2013 – and is for an 18.06% tariff increase (the submission initially requested an 18.06% decrease, which was allowed to be corrected to "increase" by a later submission as the substance of the entire application was in fact based on an 18.06% increase).

3.3. The formula used by the applicant to calculate the revenue requirement is:

Revenue Requirement = [cost of capital x regulatory asset base ("RAB")] + operating cost + depreciation + taxation expense – clawback – financing requirement costs previous year x (1 + cost of capital previous year) + financing requirement cost current year. (1)

3.4. The revenue requirement was then converted into tariffs, which were presented in the form of a detailed tariff book for the FY 2012/13. The proposed tariff increase has been applied across the board in the existing tariff structure.

3.5. The revenue requirement formulae are different from previous years in that a financing requirement is added. This has not been dealt with by the Regulator as although it purports to have a financing requirement in its proposed formulae, this is not applied anywhere else in the application and its calculations. As the Applicant has not utilised the "new" financing requirement no determination as to applicability was made in this regard.

4. Compliance with the Directives, Regulations and National Ports Act

4.1. The application is largely compliant with the Act, Regulations and Directives with a few notable exceptions given below.

4.2. The applicant has only included high level data on the Real Estate business. The data was adequate for purpose of calculating the over-recovery. However, the requirement of the Regulator as articulated in the 2011/12 Record of Decision is that full disclosure is required for all NPA business – i.e., both the Marine and the Real Estate business.

4.3. The NPA has submitted a tariff application based on the rate of return methodology – i.e., used the 'revenue requirement' approach. The Regulatory framework does not set a methodology, nor does it constrain the Regulator from adopting a methodology different to that proposed by NPA. The Regulator therefore decided to accept the general methodology that has been used by the applicant; though in some of the parameters, the Regulator differed with the applicant.

4.4. There other are key areas where the application falls foul of the Regulatory framework:

4.4.1. Directive 22(3)(a) requires that the application set out the manner in which the tariffs have been calculated and the model used for determining them. The NPA did not do so and indicated that they calculate the overall revenue required and the required tariff increase therefrom. They indicated that the methodology to calculate individual tariffs is the subject of the on-going "Tariff Review Project" or Tariff Strategy. As this process is at an advanced stage and they shall consult all stakeholders on the outcomes prior to the next tariff application, the Regulator agreed to await the outcomes of the process, on condition that the matter is resolved expeditiously.

4.4.2. Directive 22(3)(b) requires that all operating costs, expenses and revenues incurred or generated from a port service or port facility, as well as the value of the capital stock related to such services or facilities are to be declared in the application. The model used to calculate the tariffs was not submitted. The CAPEX programme provided has not been provided with the level of granularity necessary to make an accurate assessment on these matters. As these are further the subject of extensive processes that are to be engaged upon in the PCC's and the NPCC, the Regulator accepts the information as provided for the purposes of this tariff application, subject to the outcomes of the PCC and NPCC processes. The applicant maintains that detailed information per service offering may not necessarily be available and is being

addressed as part of the "Tariff Review Project". The Regulator accepts this assertion for the purposes of this tariff application.

4.4.3. Directive 22(3)(c) requires that the amounts to be invested and revenues that are to be utilized in port development, safety, security and environmental protection must be provided and the manner in which the tariffs will affect the cost of doing business in the ports. The safety, security and environmental expenditure was submitted. The applicant finds that the section requiring the NPA to report revenue generated from these investment and returns to be inappropriate because the NPA does not charge on this basis. In the absence of a clear methodology presented as to what basis the NPA uses to charge any particular tariff, the Regulator awaits the outcome of the processes referred to in 4.41 and 4.42 above.

4.4.4. Directive 22(6) requires that the NPA shall maintain such accounting and financial systems that are necessary to provide the Regulator with sufficient information to verify the pricing principles and models used by the NPA to calculate tariffs. The comment on the lack of a tariff model and principles above refer. The generalized corporate level information was adequate for the purposes of the analysis within the context of the particular approach selected by the NPA, and the information provided was not independently verified by investigating the financial and accounting systems directly.

4.4.5. Directive 23(1) requires that the Regulator must have regard to whether the requested tariffs reflect and balance a range of considerations:

(i) 23(1)(a) - ***a systematic tariff methodology that is applicable on a consistent and comparable basis***. No explanations were given as to a methodology that explains the variance between tariffs for the same cargo type but different commodities. The comments relating to the lack of a tariff methodology above refer. The applicant states that it is reviewing a methodology for calculating tariffs and the Regulator awaits the outcome of that process.

(ii) 23(1)(b) - ***fairness***. No explanation was furnished for differential tariffs for different commodities using the same handling classification. This is relevant to comments on a consistent methodology. The applicant submits that the methodology for calculating tariffs currently under review will include assessing compliance with the fairness requirement.

(iii) 23(1)(c) - ***the avoidance of discrimination, save where such discrimination is in the public interest***. No explanation was given for any price discrimination and no price discrimination was identified. The differential tariffs for commodities or facilities were not explained. The applicant submits that the methodology for calculating tariffs currently under review will include assessing compliance with the Directive 23(1)(c).

(iv) 23(1)(f) - ***the avoidance of cross-subsidisation, save where in the public interest.*** The low level of information detail with respect to services or facilities pricing and cost relationships etc, makes it difficult, if not impossible, to determine where and in which direction subsidisation takes place or if it does not. No claim or denial was made that any subsidisation existed, or that such subsidization that existed was in the public interest and on which grounds public interest was determined.

(v) 23(1)(g) - ***promotion of access to ports and efficient and effective management and operation of ports***. The information provided in the application was not sufficient to determine this, as no information was given on the access, efficiency and effectiveness. The applicant submits that the methodology for calculating tariffs currently under review will include assessing compliance with the Directive 23(1)(g).

5. The Application Specifics

5.1. The application submitted is based on the Required Revenue for the NPA. The Regulator assessed the Application on this basis, and largely used the methodology applied by the NPA, except where the application was not appropriate, or was incorrectly applied, in the opinion of the Regulator.

5.2. The NPA used the following formula (in its calculations, although differing from its stated methodology) for required revenue:

"Revenue Requirement = (cost of capital x regulatory asset base ("RAB") + operating costs + depreciation + taxation expense – clawback" (2)

5.3. This is in accordance with the standard approach to Revenue Requirement and is the one used by the Electricity Division of the National Energy Regulator of South Africa.

5.4. The standard exposition is:

$$RR = (v - d + w)r + D + E + T + C \quad (3)$$

Where:

RR	= Revenue Requirement
v	= value of the assets used in the regulated services
d	= accumulated depreciation on such assets
w	= working capital
r	= return on the capital reasonably expected
D	= depreciation accounted for in the period of the tariff
E	= operating expenses
T	= taxation expense
C	= Clawback
v – d + w	= Regulated Asset Base

5.5. The Regulated Asset Base (RAB)

5.5.1. The RAB submitted by NPA was R 67 509 billion. This was comprised of:

DETAIL	R MILLION
NBV at March 2011 (including Real Estate business)	59 925
NBV inflated to 31 March 2012	63 403
Less: Depreciation for FY 2011/12	(1 227)
Add: CAPEX for FY 2011/12	2 450
Closing NBV at 31 March 2012	64 625
Inflation	5.4 %
Opening NBV inflated to 31 March 2013 terms	68 114
Less: Depreciation for FY 2011/12	(1 330)
Add: CAPEX for FY 2011/12	3 320
Closing NBV at 31 March 2013	70 126
Average opening and closing RAB	67 365
Add: Working Capital	145
RAB for Tariff Application 2012/13	67 509

5.5.2. In the 2010/11 and 2011/12 tariff determinations, the Regulator accepted the DORC method used by the applicant to determine a starting regulator asset base. The Regulator did state, that it had a low level of confidence in the RAB determined through the 2008 DORC method, which gave rise to a steep increase to the RAB, but regulatory certainty was required in the absence of any alternative. This therefore forms the base of the assessment.

5.6. RAB determined by The Regulator.

5.6.1. The Regulator has approved that the Trended Original Cost (TOC) be used for future RAB determination – i.e., the 2010/11 tariff decision establishes the starting regulatory asset base (SRAB).

5.6.2. The Regulator determines the RAB in accordance with its decision to trend the initial RAB to subsequent years.

5.6.3. The following adjustments have impacted on the RAB:

(i) The RAB was amended to reflect the final impact of forecast inflation (in the NPA 2010/2011 Application) v actual inflation(measured by the South African Reserve Bank), utilised in trending the RAB for the 2010/2011 tariff decision. As this year is now completed and the actual

impact of inflation is now known, the inflation adjustor is corrected to reflect the actual impact on the RAB.

(ii) This obviously affects the starting RAB for the 2011/2012 Tariff Decision and adjustments have also been made accordingly, that impact on the starting RAB for 2012/2013.

(iii) In the 2011/2012 ROD, the Regulator calculations had incorrectly used the Average RAB of the 2010/2011 tariff assessment as the starting RAB for the 2011/2012 tariff assessment. This had resulted in NPA being granted a lesser return than they had been entitled to under the approach. Although this point was not raised by the NPA or the stakeholders in their submissions, the Regulator believes it correct to amend the starting RAB for 2011/2012 accordingly and by implication amend the starting RAB for the 2012/2013 tariff year appropriately. The over-recovery has wiped out the historical impact of the incorrect calculation, but it must be removed to prevent any future impacts.

5.6.4. The RAB value for the period under review was determined using the following formulas

$$\boldsymbol{RAB_y = \frac{1}{2}\left[RAB_{c,y} + RAB_{o,y}\right] + w_y} \quad (4)$$

$$\mathrm{RAB}_{o,y} = \mathrm{RAB}_{c,y-1} - \boldsymbol{w_{y-1}} \quad (5)$$

$$\mathrm{RAB}_{c,y} = RAB_{o,y} x(1 + CPI_Y) + CWIP_Y - D_y \quad (6)$$

Where:

$\mathrm{RAB}_{o,y}$	is the opening value of RAB for the period y;
$\mathrm{RAB}_{c,y}$	is the closing value of RAB for the period y;
$\mathrm{RAB}_{c,y-1}$	is the closing value of RAB for the period y-1 (i.e., last year);
w_y	is the forecast average net working capital over the review period;
$\boldsymbol{w_{y-1}}$	is the forecast average net working capital for the previous year;
$CWIP_Y$	is the value of expected capital investment over the review period;
D_y	is the depreciation allowance for assets within the RAB over the review period;
CPI_Y	is the annual rate of general inflation expected over the review period.

Based on previous tariff assessments and adjustments thereto, the Real Estate RAB information in the application and the Regulator decisions for the current application as well as application of the above equations, the RAB is as per the table below.

TRANSACTION TYPE	RAB (R million)
Closing RAB as at March 2012	56 889
Adjustment for CAPEX reduction in 2011/12	-1 149
Opening RAB - 1 April 2012	55 740
Inflation , CPI	5.6 %
TOC of the opening RAB to 31 March 2013	58 861
Less: Depreciation	-1 330
Add: CWIP for 2011/12	3 320
Closing Balance	60 851
Average RAB:	59 858
Add: Net Working Capital	145
TOTAL RAB	**60 001**

5.7. Cost of Capital

5.7.1. The NPA application follows the Capital Asset Pricing methodology (CAPM) to determine the cost of capital. The applicant used the vanilla WACC approach. The regulatory framework does not dictate or preclude this approach. The application requested that the real vanilla WACC for NPA be assessed as being 8.97 %. The Regulator determined that the real vanilla WACC should be 6.13 %, when applying all its determinations on the elements below.

5.7.2. The formula for calculating the weighted average cost of capital under the CAPM is as follows:

$$WACC_{vanilla} = k_d \, x \, g + k_e(1 - g) \qquad (7)$$

Where:

k_d = pre-tax cost of debt;
k_e = post tax cost of equity;
g = gearing, which is debt over total capital (a target gearing of 45% in the case of the NPA);

5.7.3. Cost of Equity

(i) The requested real post-tax cost of equity requested in the application was 12.62 %. The Regulator determined that the real post-tax cost of equity was 7.45 %.

(ii) The CAPM cost of equity methodology used by the application is as follows:

$$k_e = R_f + \beta x(MR - R_f) \quad (8)$$

Where:

k_e = cost of equity (post tax – dividends are not taxable in South Africa);
R_f = nominal risk free rate;
MR = market return;
$(MR - R_f)$ = Market Return Premium calculated over long term;
β = beta coefficient.

(iii) Risk Free Rate

a) The applicant considers the South African risk free rate to be a post-tax rate. Both the pre-tax and the post tax risk free rates have been used in a range of jurisdictions and applications across the world. However, as returns in government bonds (used as the risk free rate proxy) are post tax, the Regulator accepts the applicant's classification of the R_f as post-tax.

b) The applicant requested a nominal risk free rate of 8.81%. This risk free rate is based on a twenty year government bond – namely, the R186 10.5% 2026 bond. The Regulator accepts that R 186 as a proxy for the risk free rate in SA. The average risk free rate calculated by the Regulator over a 1 year period (250 day averages from 12/10/10 to 10/10/11) was found to be slightly lower at 8.46 %. The Regulator used the 8.46% as it is preferred to the spot rate (April 2011) suggested by the applicant.

(iv) Beta Co-efficient

a) The NPA's equity is not publicly traded and therefore it is not possible to calculate its beta directly. The approach that is commonly followed in estimating the beta for such companies is to identify listed companies that are very similar to the NPA.

b) The application had quoted an asset Beta of 0.826 which was determined by reference to ports quoted in the application and subsequent submissions by the applicant. The ports or port systems quoted were a list of 120 ports determined by the NPA, of which 17 ports were finally selected to determine the proxy beta. The applicant did not provide a convincing case that the 17 ports represented a good proxy for the NPA, and that they represent the best possible beta comparators.

c) The Regulator opted to remain consistent with last year's decision to use the Queensland Competition Authority (QCA) asset beta for ports as a proxy. The main reason being that the study of global listed ports beta conducted by the QCA covers a much larger sample of comparators. The results are also supported by the study of 38 ports done by the Allen Consulting Group.

d) Consequently, the asset beta approved by the Regulator is 0.5 and using the Hamada equation to re-lever the beta based on the NPA's target gearing of 45%, the approved equity beta for the NPA is 0.7945.

e) The Regulator, because of the large divergence between the Beta proposed by NPA and that used by the Regulator, as well as the sensitivity of the resultant returns to changes in Beta, believes it critical that the Tariff Methodology process to be commenced after publication of this ROD resolve this matter with all stakeholders prior to the next tariff application.

(v) Market Risk Premium

The requested Market Risk Premium in the application was 7.2 %. This was rejected because the Regulator's research revealed that the average market risk premium for South Africa is currently estimated at 6.0%. A study of the historic returns of the JSE over the last 75 years gives the mean of the MRP as 6.3%, which is the value used by the Regulator for this tariff determination.

5.7.4. Cost of Debt

The application requested a nominal pre-tax cost of debt of 10.36 %, which results in a real pre-tax cost of debt of 4.51 %. The cost of debt applied for was accepted by the Regulator as it is comparable to the cost of debt of equivalent South African infrastructure State Owned Enterprises.

5.8. Operating Costs

5.8.1. The expenses in the 2012/2013 application amounted to R 3 162 billion. The Regulator is concerned about the trend by the NPA to apply for higher than inflation operating

expense increases and yet their actual expenses are lower even with a significantly higher volume increase than that forecast in their application. Consequently, the expenses were reduced by 5.56%, resulting in allowed expenses of R 2 986 billion being approved by the Regulator.

5.8.2. In determining the reduction in requested expenses, the Regulator applied the following principles:

(i) The NPA gave adequate justification that the labour expenses may be higher than inflation. The increase that was approved was for forecast inflation of 5.6% and an additional 3%. This resulted in total approved labour expenses of R 1 490 million. The Regulator's concern with vacant posts remains.

(ii) For the energy category of expenses, an increase of 4.65 % was permitted for volume growth plus an increase of 23%, which takes into account the NERSA, approved electricity increases, resulting in total energy expenses of R 336 m.

(iii) For computers and stationery the approved expenses of R71 m were based on 4.65 % volume growth and 5.6% inflation.

(iv) The rest of the expenses were approved as per the applicants' request. They were all below the inflation forecast for 2012/13.

5.9. Depreciation

The requested depreciation of R 1 330 million was accepted, although the actual expended in the financials would be assessed and the various processes around determination of elements of the tariff approach would assess the depreciation allowance and methodology to be applied to subsequent applications.

5.10. Taxation Expense

The application requested the corporate tax rate of 28.00 %. The Regulator accepted the corporate tax rate as requested for this assessment. In the future, the Regulator would progress toward the effective tax rate.

5.11. Claw-backs

As the 2010/2011 tariff year is now complete, the Regulator can make the final adjustments to the impacts of any forecasts and recoveries for that year. With respect to the over-recovery of revenue for the 2010/2011 tariff year, based on revised return that resulted from the changes in RAB(- R 261million) and required revenue that resulted from under-spending on capital expenditure against those forecast in the application(- R 236 million), as well as the impact of amending the gearing to the actual as against target

gearing for the year, the Required Revenue was R 5.726 Billion(2010/2011 ROD Required Revenue was R 6.020 Billion) while the actual revenue recovered was R 6.584 Billion.

This over-recovery of R 858 million was reduced by the interim clawback that was made in the 2011/2012 tariff year(R 186 million). The initial revenue residual clawback (R 672 million) had the then prevailing WACC added to it to result in a revenue over-recovery residual clawback of R 704 million. In addition, R 169 million was clawed back for expenses that were allowed in the calculation, but not expended in that tariff year.

With respect to the 2011/2012 tariff year, the Revised Required Revenue is R 6.674 Billion as against the R 6.710 billion that was decided in the 2011/2012 ROD. This revision is due to the impact of the amendments to the 2010/2011 tariff year, as well as the impact of correcting the starting RAB for the 2011/2012 tariff year. The NPA revenue forecast for 2011/2012 is R 7.807 Billion, a R1.133 Billion over-recovery against the Revised Required Revenue. The Regulator in accordance with its practice of the previous ROD (2011/2012) shall clawback 50% of the forecast over-recovery, an amount of R 566 million.

The total clawback amount is therefore R 1.440 Billion. The Regulator is concerned about the impact of future capital expenditure spikes that are forecast in various announcements, the total impact which has not as yet been communicated to industry or the Regulator on a year by year basis for the next medium or long term planning periods. The Regulator regulates in the long term interest of the industry in spite of the immediate perceived impact of its decisions. As such, the Regulator considers it prudent to retain an Excessive Tariff Increase Margin Credit (ETIMC) inside of the NPA to offset against future large, but justified, tariff increases resulting from the capital expenditure spikes envisaged, but not as yet articulated to a level of granularity and phasing that allows accurate prediction. In the event that the Regulator is required to grant an excessive annual tariff increase that would impact very negatively on the industry by a rapid escalation of pricing, it shall utilise the credit in phasing in tariff spikes over a longer period of time to allow industry to adjust to such an increase at a more sustainable rate. The Regulator considers this “smoothing” critical in the light of the lumpy nature of port infrastructure. For purposes of clarity, The Regulator shall retain the ETIMC inside of the NPA, which shall earn the WACC allowed to the NPA for every period that it remains unutilised. As such, the ETIMC shall automatically increase every year that it is not utilised, by the WACC granted to NPA as a means of preserving the value of the ETIMC against time. The Regulator may, if it deems it prudent, increase the value of such ETMIC if the circumstances require that it is sustainable to retain such additional amounts and that the future capital expenditure requirements would require such higher levels of ETIMC. In the event that medium to long term clarity is provided on the capital

expenditure programme and its phasing, and the ETIMC is considered to be greater than that which is required for the smoothing of tariffs over reasonable periods, the Regulator may decide to reduce the ETIMC or retain it at its then current level.

In this decision, the Regulator shall retain R 900 million of the R 1.44 Billion clawback in the ETIMC. The effective clawback is therefore R 540 million.

5.12. Transnet Market Demand Strategy

Transnet and NPA as part of their Market Demand Strategy have targeted the raising of efficiencies in their infrastructure and specifically in this instance port infrastructure. As a component of their initiatives in this regard, that would operate within the tariff year 2012/2013, they have decided to provide a R 1billion discount to exporters of motor vehicles on wheels and full containers. This has been done to balance out traffic flows as the imports are much greater than exports in these traffic categories and this is leading to inefficient utilisation of the facilities and thereby increasing the rate at which new facilities need to be built when the new facilities may be delayed (thereby reducing the tariff increases) by better utilisation resulting from increased efficiencies. They also indicate that the tightening of container handling capacity resulting from dredging of berths in the Durban container terminal needs to be allocated in a more balanced manner to ensure efficient utilisation of what is available. The Regulator acknowledges the intent to not amend the tariff book other than in accordance with Regulator's decision herein, but this programme shall operate as a rebate against the new tariff (2011/2012 plus 2.76%).

As this R 1 billion discount does affect the volume growth adjusted revenue utilised in the tariff percentage increase calculation, the Regulator has taken the R 1 billion rebate into account in its determination of the tariff increase.

The NPA shall provide the Regulator with an account by the 15th day of every month, commencing 15 May 2012 to 15 April 2013, for the then year to date utilisation of the rebate, or until such time that the total R 1 billion has been rebated. At the submission of the next tariff application, the NPA shall provide an independent audited opinion on the amount of the total rebate provided under this programme over the 2012/2013 tariff year.

6. Required Revenue and Tariff Increase

6.1. The application of the above amendments and adjustments to the NPA 2012/2013 tariff application has the following result:

Return on Capital:		R 3 675 m
Depreciation:	+	R 1 330 m
Operating Expenses:	+	R 2 986 m
Tax Expense:	+	R 342 m
Clawback:	-	R 1 440 m
ETIMC retained in NPA	+	R 900 m
NPA Required Revenue 2012/2013:	**=**	**R 7 793 m**
Real Estate Business Income	=	R 1 643 m
Marine Business Income	=	R 6 150 m

6.2. The resulting increase in tariffs is therefore calculated as follows:

2012/2013 Volume growth (in application):	4.65 %
Approved Marine Revenue 2012/2013:	R 6 150 m
2012/13 Volume adjustment:	R 6 985 m
Less: NPA Tariff discounts	R 1 000 m
2011/12 Volume Adjustment	R 5 985 m
Revenue increase:	-7.86 %
Tariff Increase:	**2.76 %**

7. Post ROD processes or requirements

7.1 The Tariff Methodology process shall commence immediately after the tariff book process is finalized to deal with the methodology in its entirety, but shall specifically engage all stakeholders on the following matters that have to be resolved prior to the next tariff application:

- The Beta comparators used in the tariff determinations and the methodologies and formulas for their calculation, and or the accepted interim asset Beta
- The valuation methodology for all assets procured and or constructed after the initial RAB was accepted
- The process for PCC and NPCC input into the capital expenditure programme and how it is engaged with in the tariff assessment process
- The manner in which the expenses of the NPA are requested, monitored and assessed
- The treatment of tax in the methodology
- The possibility of multiple- year tariff approvals to ensure medium term certainty for all parties including NPA
- The specific form of weighted average cost of capital to be used if the outcome of the methodology process suggests that CAPM is appropriate for the long term

7.2 The following concerns or activities need to be addressed as well:

- Higher level of granularity of the NPA capex programme, in particular what the impact of individual projects shall be on throughput, efficiency, pricing, revenue and the demand case for such projects
- A further level of detailed exposition on transfer pricing and internal transfers/payments within the Transnet group that affect NPA
- Review the NPA's depreciation policies and their compliance to regulatory norms. The financial accounting policies may be correct, but in certain areas (depreciation included) Regulators require the information to be treated differently from what is in the reported financials
- The Tariff Strategy should be engaged with stakeholders publicly on its completion and the multi-year implementation programme needs to be articulated, so that it can be submitted to the Regulator for approval
- Clarity on the cash holdings and benefits resulting therefrom be articulated
- The annual capex projections of the NPA over the 5 and ten year cycles

7.3 The Regulator requires that the NPA submit its next and all future applications with a complete set of AUDITED financial statements.