Record of Decision
28 March 2014

Tariff Application by the National Ports Authority for the Tariff Year 2014/2015

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1. **On 13 September the National Ports Authority (the NPA) applied to the Ports Regulator of South Africa for approval of the tariffs for services and facilities offered by the NPA for the period 1 April 2014 to 31 March 2015.**
2. **After considering the application and the submissions by all stakeholders during the consultation period, the Ports Regulator declined the proposed average 14.39% tariff increase.**
3. **After considering all relevant information at its disposal the Regulator concluded that the following tariff book adjustments are appropriate for the tariff year 2014/15: -**
4. **Specific tariffs:**

   I. **All cargo dues to increase by 5.9%, except:**

   II. **8.15% tariff increase in Dry Bulk Cargo Dues for Coal, Iron Ore and Manganese**

   III. **8.15% tariff increase on all Marine Services and related tariffs (sections 1-8 of the tariff book excluding section 7 that deals with cargo dues).**

1. The Tariff Application

The NPA requested a tariff increase of 14.39% for the 2014/15 tariff year. However, as an alternative the NPA proposed a tariff increase of 8.5% and a reduction of the ETIMC of R454 million. The two application scenarios are illustrated in Table 1 below.

Table 1: NPA Tariff Application

DESCRIPTION R Million, %	Scenario 1	Scenario 2
Tariff Increase	**14.39%**	**8.50%**
Expected Revenue 2013/14	7 462	7 462
Expected Volume Increase	3.50%	3.50%
Expected Volume Adjusted Revenue 2014/15	7 988	7 723
ETIMC Release	0	-454
Required Revenue	8 834	8 380

2. The Regulator's Mandate

2.1 In considering the NPA's proposed tariffs the Regulator was guided by the National Ports Act (No 12 of 2005), the Regulations issued under the Act, and the Directives[1] (jointly referred to as the 'Regulatory framework' in this document).

2.2 The Regulator also 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.

[1] The Directives were promulgated in terms of section 30(3) of the Act in Government Notice 825, Gazette No. 32480 dated 6 August 2009 as were amended in the Directives Amendment Notice, promulgated in Government Notice 37, Gazette No. 32898 on 29 January 2010.

3. The Methodology

3.1 In order to continue to improve the level of transparency and consistency in the tariff setting process the Regulator undertook extensive consultations with all port stakeholders, including the NPA, through consultation hearings (road shows), meetings and receipt of submissions, on the NPA proposed Tariff Methodology. This mandated interim methodology published on 13 August 2013 is applicable to the 2014/15 tariff year.

The guidelines within that document were aimed at assisting the NPA with submitting an application that will narrow the gap between the tariff requested and that subsequently granted by the Regulator. It also assisted stakeholders in formulating responses to the application which assisted the Regulator in making a decision. The publication of the guidelines increased Regulatory certainty.

3.2 The approach decided upon (applicable to the 2014/15 Tariff year) is based on the Revenue Required (RR) approach. The Regulator, while attempting to increase Regulatory certainty, must retain a degree of Regulatory discretion to respond to unforeseen economic or other events, as well as corrections, anomalies and unintended consequences of a strict and autonomic application of the methodology that may impact on the sustainability of the South African Ports system. This has been captured in the guidelines and taken into consideration, resulting in a deviation from the Manual; specifically with regards to the methodology for determining the Market Risk Premium as well as the calculation of Depreciation.

3.3 The NPA used the Tariff Manual to calculate and submit the application as set out below:

Revenue Requirement = [cost of capital x Regulatory asset base (RAB)]

+ operating cost
+ depreciation
+ taxation expense
+/- claw-back
+/- ETIMC

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

4.1 Although the application achieved formal compliance with the Act, Regulations and Directives, components of the application do not yet meet full compliance as there is not full disclosure. The NPA has still only included high level data on the Real Estate business. The data was adequate for purposes of calculating the over/under-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 Marine and Real Estate business. The Regulator's view on this matter has not changed.

4.2 The non-disclosure of these matters needs to be further addressed following the publication of this ROD. The current processes for determining a medium term tariff methodology will address most of the issues, while the pending development of a further Regulatory manual and Regulatory accounts by the Regulator will support this. These Regulatory instruments will aim to define the disclosure requirements being placed on the NPA, in order to enable their improved compliance.

4.3 The NPA submitted its tariff application based on the rate of return methodology as outlined in the interim manual, (the 'revenue requirement' approach). The Regulatory framework does not set a tariff methodology, nor does it constrain the Regulator from adopting any particular methodology. The Regulator therefore decided to accept, in this application, the general methodology that has been used by the applicant in this instance, though in some of the parameters the Regulator differed from the applicant with respect to either the methodology or its application.

4.4 The other important key areas are: -

4.4.1 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. While greater disclosure than in previous applications was apparent, more detail would be required in future applications.

4.4.2 The CAPEX programme information provided was sufficiently detailed to make an accurate assessment. As the CAPEX information is the subject of further extensive processes that are to be engaged by the Ports Consultative Committees (PCC's) and the National Ports Consultative Committee (NPCC), the Regulator accepts the information provided for the purposes of this tariff application, as an outcome of the PCC and NPCC processes as well as a higher level of compliance by the NPA.

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 as well as the manner in which the tariffs will affect the cost of doing business in the ports. The safety, security and environmental expenditure submitted were more detailed than in past applications. The cost of doing business impact assessment requirement, as indicated, has still not been articulated clearly. The Regulator shall, following the medium-term Tariff Methodology determination, establish rules for disclosure under this requirement to assist the NPA in complying more fully.

4.4.4 Directive 22(6) requires that the NPA shall maintain such accounting and financial systems necessary to provide the Regulator with sufficient information to verify the pricing principles and models used by the NPA to calculate tariffs. The generalized corporate level of information was adequate for the purposes of the analysis. Furthermore, the credibility of the information provided has continued to increase markedly over the tariff periods. Notwithstanding that the generalised corporate level information was adequate, greater breakdown of cost information on port sector level will be required in future for tariffs to be more accurately cost reflective.

4.4.5 Directive 23(1) requires the Regulator to consider 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***. The applicant has submitted the tariff application based on the requirements set out in the Regulatory Manual and, in addition, submitted a Tariff Strategy which aims to address this shortcoming and further development which is currently under consideration by the Regulator. Included is their acknowledgement that the current pricing structure, as articulated in the tariff book, is imperfect. This view is also supported by the Regulator's research.

(ii) 23(1)(b) - ***fairness***. As stated in the clause above, although there are certain flaws in the tariff structure, that is the focus of the Tariff Strategy process. By the reductions and increases granted in this and previous tariff determinations the Regulator attempts to address some of the most glaring of these imperfections.

(iii) 23(1)(c) - ***the avoidance of discrimination, save where such discrimination is in the public interest***. As emphasised in the clause above, although there are certain imperfections in the tariff structure, the NPA is attempting to address this in its Tariff Strategy proposal. By the reductions and increases granted by the Regulator in this ROD as well as previous determinations, the Regulator supports the applicant's attempts to address this. The applicant submits that the methodology for calculating tariffs currently under review will include assessing compliance with Directive 23(1)(c).

(iv) 23(1)(f) - ***the avoidance of cross-subsidisation, save where it is in the public interest.*** The comments with respect to the Tariff Strategy have reference under this assessment.

(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 compliance with this provision. Although this is not clearly stated in the application, the internal processes of the applicant, including the section 56 and 57 processes in terms of the Act and the processes that the applicant is undergoing in the PCC's, address some, but not all, of the concerns that arise under this provision. The other issues that remain outstanding will be addressed in the disclosure components of the Regulatory Manual referred to above, as well as in the Regulator's compliance and monitoring processes.

5. The Application Specifics

5.1 The application submitted is based on the Required Revenue requested by the NPA. The Regulator assessed the Application on this basis, and largely used the methodology outlined in the Regulatory Manual, except where the Manual was incorrectly applied; or in the opinion of the Regulator, a deviation was necessary.

5.2 In effect the NPA used the following formula in its calculations for the required revenue:

Revenue Requirement = (cost of capital x Regulatory asset base (RAB) + operating costs + depreciation + taxation expense – claw-back +ETIMC

5.3 This approach accords with rate-of-return revenue requirement calculations by Regulators in South Africa and internationally (as modified in the ports regulatory practice over time) and has been used as the basis for assessments by the Regulator in the preceding applications.

5.4 The standard exposition is:

$RR = (v – d + w)r + D + E + T +/- C +/-ETIMC$

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	=	Claw-back
ETIMC	=	Excessive Tariff Margin Credit
(v – d + w)	=	Regulated Asset Base

5.5 The Regulated Asset Base (RAB)

5.5.1 The RAB submitted by NPA was as follows:

Table 2: NPA Regulatory Asset Base calculation

FY 2014/15	R Million
Opening Net Book Value (NBV)	63 120
Indexing	3 724
Inflated Asset Base	66 844
Less: Depreciation	1 671
Add: CAPEX	3 317
Closing NBV	68 490
Average Opening and Closing	65 805
Less: Working Capital	-1 111
RAB Final	**64 694**

5.6 RAB determined by the Regulator

5.6.1 In the previous tariff determinations, the Regulator accepted the Depreciated Optimised Replacement Cost method used by the applicant to determine a starting Regulatory asset base. The Regulator stated that it had a low level of confidence in the RAB determined through the 2008 DORC method, which gave rise to a steep increase in the asset values, but Regulatory certainty was required in the absence of any alternative. The Regulator continues to hold this view and has commenced a process to assess the application and appropriateness of these valuations for major assets, to inform subsequent assessments of RAB.

5.6.2 The Regulator has previously determined that the 2010/11 ROD value establishes the starting point for trending the RAB in future tariff determinations. Nonetheless, the Regulator applied a number of adjustments (correcting for the actual CAPEX and corrected calculation of depreciation for the subsequent years, and indexed according to actual CPI for these years, and forecast CPI for the 2013/14 and 2014/15 years) to arrive at an opening balance for the 2014/15 year of R64 485 million.

5.6.3 The RAB value for the period under review was determined using the following formulas:

$$RAB_y = \frac{1}{2}\left[RAB_{c,y} + RAB_{o,y}\right] + w_y$$
$$RAB_{c,y} \;=\; RAB_{o.y}(1 + CPI_Y) + CWIP_Y - D_y$$

Where:

RAB_y	= value of the RAB used to determine the returns for the period y;
$RAB_{o,y}$	= opening value of RAB for the period y;
$RAB_{c,y}$	= closing value of RAB for the period y;
w_y	= forecast average net working capital over the review period;
$CWIP_Y$	= value of expected capital investment over the review period;
D_y	= depreciation allowance for assets over the review period;
CPI_Y	= annual rate of general inflation expected over the review period

5.6.4 Corrected calculation of depreciation

The Regulatory Manual states:“The depreciation of the assets in the RAB will be calculated as straight line 40 year depreciation on the opening balance of the RAB ($RAB_{o,y}$).” The Regulator found that this does not satisfy the principle of financial capital maintenance and adjusted the methodology applied to take into account capital expenditure and inflation. This resulted in a Depreciation allowance of R1 709 million as opposed to the NPA application of R1 671 million.

5.6.5 Based on previous tariff assessments and adjustments thereto, 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:

Table 3: Regulatory Assessment of the Regulatory Asset Base

Transaction type	R million
Opening Net Book Value (NBV)	62 888
Indexing	3 808
Inflated Asset Base	66 696
Less: Depreciation	-1 706
Add: CAPEX	3 317
Closing NBV	68 304
Average Opening and Closing	65 596
Less: Working Capital	-1 111
RAB Final	64 485

I. Cost of Capital

i. The NPA application follows the Capital Asset Pricing Methodology (CAPM) to determine the cost of capital as set out in the Regulatory Manual. 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 5.81 %. The Regulator determined that the real vanilla WACC should be 5.47 %, when applying all its determinations on the elements below.

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

$$\boldsymbol{WACC_{vanilla} = k_d \cdot g + k_e(1 - g)}$$

Where:

k_d = pre-tax cost of debt

k_e = post tax cost of equity

g = gearing, which is debt over total capital

II. Cost of Equity

i. The requested real post-tax cost of equity in the application was 8.4%. The Regulator determined that the real post-tax cost of equity was 7.7%, which was determined using the subsidiary elements listed below.

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

$$k_e = R_f + \beta(MR - R_f)$$

Where:

k_e	=	cost of equity
R_f	=	risk free rate
MR	=	market return
$(MR - R_f)$	=	Market Return Premium calculated over long term
β	=	beta coefficient

(i) Risk Free Rate

The 20 year government bond is an appropriate measure of the risk free rate, and, in particular, the R186 bond instrument (yield) as it adequately reflects the market's perception of sovereign risk and inflation going forward. The average risk free rate is calculated over a 5 year period (from August 2008 to July 2013). The Risk Free Rate used in the application is therefore 8.31%.

(ii) Beta Coefficient

The Regulator used an asset beta of 0.5, as set out in the Regulatory Manual, that equated to an equity beta of 0.86 using the Hamada equation to re-lever the beta.

(iii) Market Risk Premium

The Regulator, in line with Regulatory consistency, cognisant of the current process underway to establish a medium term tariff methodology, and considering the continued concern with regards to appropriate definition of the MRP; approves the use of a market risk premium of 6.3% as accepted in the 2013/14 ROD. The uncertainty that remains around the correct methodology for to the use of the MRP will be addressed in the medium term tariff methodology.

(iv) Gearing

The Regulator in its assessment used a Gearing of 0.5 as set out in the Regulatory Manual.

(v) Cost of Debt

The Regulator calculated the real cost of debt to be 3.24%.

5.6.6 Operating Costs

The Regulator accepted the operating cost estimate for 2014/15. However, the Regulator wishes to express its concern regarding to the impact of under spending of CAPEX and continued high vacancy rates on operational expenses. The Regulator will also address any over allowance on operational expenses through the claw-back mechanism in the next tariff year.

The Regulator allowed the inclusion of the R620 million group costs in the total allowed expenses subject to certain conditions in the 2013/14 ROD. The submission by the NPA did not fully satisfy the requirements as set out in the 2013/14 ROD. However, with additional requests for information the Regulator received sufficient information to make an assessment related to the group cost allowance.

The Regulator considered three questions: Was the allocation from the NPA to Group in terms of the applicable policy? The Regulator deemed it to comply with the policy as submitted to the Regulator. Are the share allocations in the policy a fair reflection of the services rendered by the Group to the NPA? Based on available information, the Regulator is largely satisfied with the fairness of the share allocations in the policy. The applicability of some of the line items in the policy. The Regulator found that further assessment is necessary and this will be adequately addressed in a set of Regulatory accounts over the medium term.

The Regulator thus approves the Group cost allowance for 2013/14 and gives conditional approval for 2014/15 tariff years based on the conditions set out in par 7.2, which allows for future claw-back if deemed necessary.

5.6.7 Depreciation

The requested depreciation of R1 671 million was adjusted for the revised Regulatory Asset Base and corrected methodology (see 5.6.4). The allowed depreciation for the 2014/15 determination totals R1 709 million.

5.6.8 Taxation Expense

The Regulator accepted the corporate tax rate of 28% for the 2014/15 Tariff Year. The Regulator used the pass-through tax approach, where the vanilla WACC was applied to the average RAB for the period under consideration, less the interest cost of debt and the capital expenditure payments impact. The corporate tax rate was used to determine the tax liability, which was treated as an expense in the RR calculation.

Tax allowance = (Net revenue before tax allowance)/(1-t)*t

‘Net revenue before tax allowance’ is the revenue after all costs, including interest and depreciation, have been accounted for. This resulted in a total taxation expense of R1 005 million.

‘Net revenue **Volume adjustments**

The Regulator adjusted the volume forecast for the 2013/14 financial year taking into account the latest estimates available (including actual data for 11 of 12 months and latest estimates for the full year). This resulted in a revised revenue forecast of R7 549 million for 2013/14 (from an estimated R7 462 million as per the application).

The Regulator adjusted the volume forecast for the 2014/15 tariff year to 5.5% based on its own, National Treasury, World Bank, and other forecasts, for the 2014/15 tariff year.

5.7 Claw-backs

5.7.1 As the 2012/13 tariff year is now closed, the Regulator has made final adjustments based on the realised outcomes compared to the forecasts. This results in a revised total claw-back of R396 million.

Since an interim claw-back of R447 million was made in the 2013/14 tariff year the result is a residual negative claw-back of R51 million. The return on the residual claw-back in terms of the WACC rate for that period totals R1 million. The total residual claw-back for 2012/13 is therefore -R52 million (the NPA to receive the claw-back).

This claw-back calculated for the 2013/14 FY is -R102 million. A provisional claw-back of -R51 million has resulted in a net claw-back of –R103 million in the 2014/15 tariff determined by the Regulator (NPA forecast (negative) claw-back value was R 118 million).

Table 4: Claw-back calculation

Transaction Type	R Million
Revised total claw-back 2012/13	396
Interim claw-back 2012/13(clawed back in 2013/14)	447
Residual claw-back 2011/12	-51
Return on residual claw-back 2011/12	-1
Total residual claw-back 2012/13 (to be clawed back in 2014/15)	-52
Total claw-back 2013/14	-102
Provisional claw-back 2013/14 (50% of –R102 million)	-51
Total claw-back (-R52 million + (-)R51 million)	-103

5.8 ETIMC

5.8.1 The Regulator regulates in the long-term interest of the industry. This requires that the Regulator not only confine itself to the immediate tariff decision, but also consider ways to ease any future shocks to the system which can be managed sustainably within the space that is available for such intervention. The Regulator considers it prudent to continue to retain the Excessive Tariff Increase Margin Credit (ETIMC) inside of the NPA to offset against future large, but justified, tariff increases resulting from the capital expenditure increases envisaged in the NPA's Long Term Port Planning Framework; but not as yet articulated to a level of detail and phasing for accurate prediction.

5.8.2 In the 2012/13 decision, the Regulator retained R900 million of the claw-back in the ETIMC. The ETIMC retained for the 2013/14 period totalled R1 378 million. Table 5 sets out the calculation of the WACC and the resultant value of the ETIMC at the end of the 2014/15 tariff year.

Table 5: ETIMC calculation

Transaction type	R million
2012/13 ETIMC retained	900
2012/13 WACC return on ETIMC (average ETIMC across year)	20
2013/14 ETIMC opening total	920
2013/14 Estimated ETIMC retained in 2013/14	1 378
2013/14 ETIMC closing total	2298
2013/14 Average ETIMC	1609
2013/14 WACC return on Average ETIMC	84
2013/14 ETIMC closing balance	2 382
2014/15 ETIMC retained	0
2014/15 Average ETIMC	2 382
2014/15 WACC return on average ETIMC	*130.3*
2014/15 ETIMC closing balance	**2 512**

5.8.3 The Regulator does not consider it prudent to use the ETIMC facility for the current tariff year as the tariff change is not deemed to excessively exceed inflation expectations on an average weighted level. The Regulator will in due course set out the criteria for future use of the facility, as well as the necessary treatment of the facility, to address any tax or related issues that might arise from its creation and management.

6 The Required Revenue and Tariff Increase

6.1 The application of the above amendments and adjustments to the NPA 2014/2015 tariff application has the following result:

Table 6: Assessment Results

Transaction type		R million
Return on Capital	+	**3 528**
Depreciation	+	**1 709**
Operating Expenses	+	**4 329**
Tax Expense	+	**1 005**
Claw-back	-	**-103**
NPA Required Revenue 2014/2015	=	**10 674**
Real Estate Business Income	=	**2 113**
Marine Business Income	=	**8 032**
Total Forecast Revenue	=	**10 144**
Revenue Shortfall/Surplus	=	**530**

6.2 The marine business income that is forecast above is the current tariff book marine revenue modelled for a weighted average volume growth rate of 5.5% for all cargo types for the period.

6.3 The following assumptions are included in the tariff assessment:

- Risk Free Rate 8.31%
- Market Risk Premium 6.3%
- Gearing 0.5%
- Beta Coefficient 0.5%
- Volume growth 2014/15 5.5%
- Inflation 5.9%

6.4 The NPA did not request specific tariff decreases and increases in addition to the general adjusted tariff increase of 14.39% (8.5% with the ETIMC withdrawal request). Based on the Regulator's own research which raised significant concerns about specific anomalies regarding tariff imbalances evident in the tariff book; as well as the cost levels facing other users, and the impact that the recent depreciation of the South African Rand has on costs; the Regulator decided to approve the following specific reductions applicable to the tariffs as set out in the tariff book:

I All cargo dues to increase by 5.90%, except

II 8.15% tariff increase on all Marine Services and related tariffs; (sections 1-8 of the tariff book excluding section 7 that deals with cargo dues)

III 8.15% tariff increase in Dry Bulk Cargo Dues for Coal, Iron Ore and Manganese

6.5 The tariff changes were informed by the continued cross-subsidisation of vessel costs and specific dry bulk commodities by mainly container and automotive cargo dues. The relative movement of tariffs is similar to the changes effected in the 2013/14 decision increase in container and export automotive cargo dues while all other tariffs remained, based on the results from the Ports Regulator's benchmarking study indicating that South Africa's tariffs are among the highest in the world particularly regarding containers and automotives). The adjustments do take a higher inflation, as well as the expected under recovery, into account. Whilst the methodology leaves little room to affect the overall tariff level, which is due mainly to the under recovery of expected volumes, the correcting of cross-subsidisation between commodities is an important step in the tariff strategy process towards a more equitable and fair port tariff book.

6.6 Because of the ongoing tariff strategy process and taking into consideration the various comments of stakeholders, the Regulator determined that the specific changes for certain commodities will be implemented. It is the Regulator's view that in due course the comprehensive restructuring of port tariffs will more accurately deal with the price anomalies evident in the tariff structure to further realign the tariff book.

6.7 The impact of these specific tariff changes coupled to the forecast volumes has a significant impact on the forecast tariff book revenue of the NPA for the 2014/15 financial year. The recalculated forecast revenue on non-real estate income for this period will result in total revenue of R8 561 million. This recalculated revenue is used in Table 5 above for the purposes of determining the appropriate tariff increase for NPA tariffs in its tariff book for the tariff year 2014/15.

6.8 Post ROD processes or requirements

The following concerns or activities need to be addressed following the publication of this ROD:

Whilst a more detailed NPA CAPEX programme was submitted, more information is required on the impact of individual projects on throughput, efficiency, pricing, and revenue. The Regulator trusts that the Terminal Operator Performance System and the PCC / NPCC processes will assist in this matter. Details of the annual CAPEX projections of the NPA over 5, 10 year and longer term cycles must be provided and tied to the related demand and traffic forecasts.

A review of the NPA's depreciation policies and of their compliance to Regulatory norms is required. In certain areas (depreciation included) Regulators require information to be reported differently to statutory financial reporting.

As per the 2013/14 ROD, the Regulator requires that by 1 December 2014 the NPA submits an externally audited financial report (with all supporting documentation and detailed explanations including basis of allocation and policy documents that support such allocation) on all line items that form part of the group costs spent in the first half of the 2014/15 NPA financial year.

In addition, the NPA shall provide an externally audited financial report (with all supporting documentation and detailed explanations, including basis of allocation and policy documents that support such allocation) on all line items that form part of the group costs spent by 1 August 2014 in the 2013/2014 NPA financial year. The Regulator reserves the right to claw-back all or any portion of the amount in future tariff decisions, should the Regulator not be satisfied that the expenditure is within the scope and mandate of the NPA, and that the amounts are reasonable, or reasonably allocated to the NPA. The Regulator will extensively deal with the manner in which Group related costs are treated in the Regulatory accounting rules.

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