THE SOUTH AFRICAN ASSOCIATION OF FREIGHT FORWARDERS

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Submission to the National Ports Regulator

SUBJECTS:

COMMENT ON THE NATIONAL PORT AUTHORITY'S DRAFT MULTI-YEAR TARIFF METHODOLOGY FOR THE YEARS 2018/19 – 2020/21

PREAMBLE:

The South African Association of Freight Forwarders (the Association) makes this submission on behalf of its members and its member's clients.

This submission which refers to the draft document on tariff methodology for the financial years 2019 through 2021 released by the Regulator during March 2017 should be read in conjunction with the Association's submission dated September 2016 on the then current methodology and tariff application for the 2018 financial year.

SUBMISSION:

The Association's September 2016 submission addressed elements of the methodology and revenue requirement formula with which the Association had concerns, they were, inter alia:

The Regulated Asset Base (RAB) valuation and use of the Depreciated Original Replacement Cost (DROC) the Weighted Average Cost of Capital (WACC), Gearing, Beta and the Weighted Average Cost of Debt (WACD).

A comparison of the Regulatory Manual for the Tariff Years 2015/16 – 2017/18 and the current draft document under review reveals that with the exception of an "efficiency incentive" calculation; the "Weighted Efficiency Gains from Operations (WEGO)", there is no change to the basic formulae to be used in arriving at a revenue requirement amount. As such the Regulator's attention is drawn to the comments on the various formulae noted in the Association's 2016 submission and which remain our position to date.
Concerns the Association has with WEGO will be discussed subsequently in this submission.

The Regulated Asset Base

The Association notes and concurs with the Regulator's lack of confidence in the RAB as arrived at in 2008 utilising the DORC method. As the level of RAB has a direct and profound effect on revenue requirement and consequently tariff levels the Association and no doubt all port users are pleased to read that a process to assess the valuations of major assets has commenced. The Association looks forward to the development of a Regulatory Valuation Methodology and the rebasing of the Authority's RAB.
It is noted that there is no planned change to the formula used to inflate the RAB annually.
The Association cannot comment on the RAB without knowledge of any changes to the base value consequent upon the finalisation of the reassessment process.

Weighted Efficiency Gains from Operations (WEGO)

The Association recognises and applauds both the Regulator and the Authority's efforts to improve efficiencies in all aspects of port activity. Equally it appreciates that the current Revenue Requirement formula and particularly the claw back procedure can have a negative impact on the motivation of the Authority's management and staff. Addressing such impact via measured efficiency gains has the Associations support.

The Operator Performance Standards; MOPS and TOPS are important tools in achieving improved levels of port efficiency. Arriving at critical key performance indicators for Terminal and Marine operations, using the performance standards as measuring and monitoring tools for selected KPI's should ensure that desired productivity standards are ultimately reached. However the Association has concerns with the process of assessing efficiency improvement benefits, i.e. volume growth, which will flow down to the Authority's bottom line as outlined in the draft.

There are two major concerns as follows:

a) Whilst South African importers and exporters have very limited choice in port selection being largely confined to the Authority's ports, improved efficiency though impacting positively on port users may not have any worthwhile effect on volumes.

b) When volume increases or decreases do occur differentiating reasonably accurately between those resulting from improved trading conditions and those from the effects of efficiency will be extremely difficult

The Association is surprised that one area, away from operational performance, which is not addressed in the draft and where efficiencies can be measured easily and accurately is operational cost control. Using the regulators records of decision operational expenses increased from R2, 364b in financial 2011 to R5, 020b in financial 2016 an increase of 112% or approximately 16, 5% annually. This appears to be an area where rewarding the Authority for improved operational cost control would feed to bottom line performance, reduce potential tariff increases and be included in adjustments to the claw back regime.

Submission Conclusion

The Assocaition congratulates the Regualtor for its efforts in addressing operational efficiencies and productivity in South Africa's ports and urges it to continue exploring ways in which improvements can be made, recognised and rewarded. The questions regrding the process outlined in the draft require, in our opinion, further investigation with input from port users before final sign off we trust that such opportunities will be afforded.

D.H.Watts,

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South African Association of Freight Forwarders *March 2017*