

## **2019 Draft roadshow message: CEO OF THE PORTS REGULATOR**

Good morning Ladies and Gentlemen and welcome to the 11<sup>th</sup> tariff application process of the Regulator in which we consult the public on the proposed NPA port tariff increases for the coming year (2020/21) and beyond. Today we gather here in Durban, on Monday we will be in Johannesburg, PE on Tuesday and finally we will conclude the tariff roadshow in Cape Town on Wednesday.

Each year we have given port stakeholders this public consultation opportunity to air your views on the NPAs tariff application which we have made public on our website, and as usual the Regulator will take into account what is said at these hearings, as well as the written submissions that many of you will make. The deadline for written submissions this year is 16 September.

As the Regulator, we apply our minds in deliberating on these submissions, as well as the application made by the Ports authority in terms of the current methodology, and issue a record of decision by 1 December 2019 – this year we intend having a press conference at our offices in Durban on 29 November at which we will release the decision on the tariffs for 2020/21 and our outlook for the following two years. We thank you for your efforts in compiling and providing us with comments in previous years and we appreciate that they have assisted us and have made a difference in the decision-making of the Regulator.

Regarding our last tariff decision, the Ports Regulator answered President Ramaphosa's call to reduce administered prices in the economy, in approving a decrease in Port Authority tariffs of - 6,27% for 2019-20, as announced at our press conference on 30 November 2018.

Mindful of our slowing economic growth over the tariff period, coupled with the need for investment in the country's port infrastructure, the Regulator also opted to add R539 million to the Excessive Tariff Increase Margin Credit (ETIMC) to ensure that overall average tariffs in the

outer two years of the period under review and beyond, remain close to the inflation target band, bringing the balance in the ETIMC savings facility to over R3,15 bn.

Also in support of economic development, the Port Tariff Incentive Programme (the PTIP) which was developed in the previous year continues. Whilst no award was made in this respect, The PTIP continues to serve as a mechanism by which cross-subsidies within the port tariff structure may be implemented, quantified, as well as be fair and in the public interest. A reduction in tariff, if justified and approved, will be granted through the amendment of a specific tariff line. Interested parties may apply via the PRSA website where the application process is explained in detail and forms are available.

The performance incentive system, published as part of the current tariff methodology, called Weighted Efficiency Gains on Operations (WEGO), allows the Ports Authority as a regulator of operators, to gain or lose up to 5% profit for up to 10% increase or decline (respectively) on year on year performance for a basket of measurable indicators. This tariff application process heralds the first time in which a WEGO award/disincentive will be determined under this important programme.

We recently concluded the PCC kpi subcommittee meetings at all the commercial ports where fruitful discussions were held on WEGO. The WEGO results for the recently concluded tariff year (2018/19) actually reflected a preliminary positive outcome for the NPA of additional profit of R 131 million (note that this still requires to be audited by PRSA). The results published on our website reflects a marked improvement in vessel service delays at anchorage for the 2018/19 tariff year. It must be noted that the best incentive system in a tariff context will almost always have a delayed impact and the current problems will impact on the next WEGO assessment due next year. But this also allows the flexibility of WEGO to come to the fore and renewed focus with respect to higher weights was placed on the areas of worst performance. This process will continue. We hope that the system will allow the Authority to play its role as the regulator of all operators in the port system, both public and private, without fear or favour.

Over recent years, the PRSA produced the first Port Sector Review, and Regulatory Review done by stakeholder consultation and surveys. Other studies over the years included the ongoing Global Ports Pricing Comparator Study (now the 7th iteration of the study) , the Capacity Utilisation study for SA ports, and the Ports Efficiency Benchmarking Study; all valuable analyses in decision-making and reducing administered prices and vital to the success of the National Development Plan and our economic success as a country.

The Regulator's compliance monitoring work included research on BBBEE and equity of access in our ports, and analysing Ports Act compliance. In this regard, the Regulator has published its Baseline Equity of Access Report which analyses B-BBEE implementation by companies in our port system and analyses the extent of transformation in the various categories that make up the structure of the ports industry in South Africa. This 'baseline' report based on 2015/16 B-BBEE certificate information will serve as a yardstick for measuring progress on transformation in the ports sector in future years.

The Ports Regulators' regulatory framework documents as well as selected research reports have been printed and made available to you today. Those who have not been able to receive these can still email requests and make arrangements to pick these up from our offices in Durban.

The Ports Regulator aims to reduce the cost of living as well as the cost doing business through a fair and well-structured tariff methodology on which tariff determinations are based. This is the last tariff that will be approved in terms of our second multi-year tariff methodology which the Regulator approved after an extensive public consultation process to develop the methodology. My colleague Chris Lotter will speak more about methodology and the important public process we will be embarking upon to develop the new multi-year methodology (MYM3) later in the programme.

In July 2015 the Ports Regulator published South Africa's long term Port Tariff Strategy, which seeks to reform port infrastructure pricing over a 10 year period, bringing greater fairness, cost reflectiveness and predictability in South Africa's port system. However, the tariff strategy is not unresponsive to South Africa's economic growth and job creation imperatives. The Tariff Strategy continues to maintain much lower prices for highly beneficiated South African manufactured cargo in export containers as well as SA manufactured export vehicles, in support of local manufacture and industrialization.

Also in support of economic development, the Regulator introduced an incentive for the registration of cargo carrying commercial vessels on the SA flag for 3 years, and in the tariff record of decision, it has decided to continue this incentive for another three years. Take up on this opportunity will improve SA involvement in the maritime sector, increasing jobs, skills and supply chain opportunities to South Africans beyond our boundaries.

The Regulator has also in the past ensured that automotive industry cargo dues were equalized at full 60% discounted level. This reduces the cost of doing business to smaller SA auto manufacturers. Last years' reduction in tariffs resulted in automotive export tariffs for the first time achieving cost reflective levels, increasing SAs competitiveness in bidding to manufacture new vehicle models, and thus improving investment in our country, and retaining jobs in our automotive hubs.

The existence of the Ports Regulator has been to significantly lower approved tariffs resulting in a saving of more than R8bn to port users over the few years of its existence whilst maintaining the continued sustainability of the National Ports Authority. The Regulator continues to be proactive and risk mitigating and maintains an Excessive Tariff Increase Margin Credit (ETIMC) of more than R3bn available to offset future increases. In fact the tariff adjustment to a below inflation increase in some years would not have been possible if it were not for the use of the ETIMC.

South Africa's first formal Methodology for the Valuation of the Regulatory Asset Base of the National Ports Authority was completed and published recently, and the 2019/20 tariff announced on 30 November 2018 was the first in which a tariff was based on the new regulatory asset base valuation framework. This has allowed the Regulator to significantly lower tariffs resulting in savings to port users whilst maintaining the continued sustainability of the National Ports Authority. In this regard I would like to refer you to my press statement of 30 November 2018 as this is pertinent to tariffs going forward, as it embodies what was stipulated in the Regulator's Record of Decision:

"The Regulator approved the new RAB Valuation Methodology in March 2018 and determined that a "financial Capital Maintenance" approach will be applied to all future tariff assessments rather than a "physical capital maintenance" approach as represented by the previous DORC valuation.

Whilst the approved methodology has set out a specific treatment of historical assets, the Regulator has now deemed it appropriate (for the 2019/20 tariff application) to amend the specific application of the "financial capital maintenance" approach on all assets included on the RAB prior to 1990 as well as those capitalised post 1990. The methodology specified that a historical cost (HC) approach should be applied to all assets capitalised pre 1990. However, the Regulator, has decided to use a Trended Original Cost (TOC) methodology applied to all assets both pre 1990 as well as post 1990 in its application of the financial capital maintenance principle. This is because it is aware of the pending intention of the state to incorporate the NPA into a wholly owned subsidiary of Transnet in fulfilment of Section 3(2) of the National Ports Act. As such, the NPA is likely to be assessed on a standalone basis from a credit rating perspective rather than as a division, giving credence to its sustainability concerns. The Regulator has therefore adopted this prudent approach for the 2019/20 year in which it will:

1. over the 2019/20 financial year, re-assess the impact of the specific approach adopted in the valuation of the RAB in relation to the sustainability concerns expressed by the NPA

2. consult further with port stakeholders as well as the NPA on the applicability of the historical cost component of the RAB valuation in the context of the implementation of S3(2)
3. assess the actual progress of the implementation of S3(2) of the National Ports Act
4. finalise the specific approach of RAB valuation within the next multi-year tariff methodology (MYM3) which the Regulator will be conducting in 2019/20.

The Regulator however retains the right to implement the HC approach pending a detailed assessment of all the historical pre-1990 assets as well as the full impact thereof on the NPA's financial position in relation to its corporate structure. The cooperation of the NPA as well as Transnet will be critical in finalising this matter.”

You will note that the current tariff application includes a RAB calculation based on an interim RAB Valuation allowed by the Regulator that treats it like a corporatized subsidiary that requires borrow and be mindful of credit metrics. This is contingent on progress being made by the DPE, Transnet Group and the NPA in ensuring implementation of section 3(2) of the National Ports Act. The Regulator will consider a full implementation of the approved RAB valuation in the next tariff application if no progress is being made in this regard.

However, I am pleased to hear that some steps are being taken to finalise this matter.

In a speech by Minister Pravin Gordhan on his 2019/20 Public Enterprises Budget Vote, on 11 July 2019 he spoke of:

“Monitoring progress and working with Transnet in improving the cost-effectiveness, efficiency and reliability of its freight transportation system and achieving a modal shift from road to rail as well as investigating the implications of giving effect to Section 3(2) of the National Ports Act, i.e. corporatisation of Transnet National Ports Authority;”

Minister Fikile Mbalula on 24 July 2019, said in his statement on Transport Priorities and Appointment Of Director-General:

“The National Ports Regulator (NPR) plays a critical role in unlocking potential in maritime. Our priorities in this regard include the urgent appointment of the Board and expediting the full implementation of the National Ports Act of 2005 which requires the separation of the National Ports Authority from Transnet and placing it under the regulatory authority of the NPR. We will engage with the Minister of Public Enterprises to address these matters.”

I would like to welcome our new Minister, Hon. Fikile Mbalula, our new Deputy Minister, the Hon. Dikeledi Magadzi, as well as the new Director-General of the Department of Transport, Mr Alec Moemi. I ask for their guidance, support and assistance in the funding and capacitation challenges that we face as a Regulator, in the journey ahead. Whilst we have no board at this stage, you may have noticed, that the DoT has advertised and is in the process of appointing Regulator members to the PRSA (as well as other transport entities without Boards). In the meantime, the work has continued and the required authorisations and delegations of authority have ensured that the work of the Regulator continues unabated as far as possible. More information will be made available on our website as it becomes available.

With respect to PRSA as an organisation, 100% of its delivery targets have been met in the past year now for the third year in a row, improving on its 85% status in the first two years of my term. In the years ahead the Regulator intends to expand its role in transformation and BBBEE participation of the sector, the analysis of lease and rental pricing in ports, greater scrutiny and prudency assessment of capital investments, as well as the development and implementation of the new tariff methodology. All these issues will be attended to whilst we still continue with our other ongoing analytical and compliance work. We hope to be able to enhance the capacity of the Regulator as required by the NDP for all economic regulators, fill key unfunded posts and strive to retain the skills we have assembled as greater financial resources become available.

The Tariff application received from the NPA for the 2020/21 tariff year (which is published on our website) requests an 4.8% increase for the next tariff year. We look forward to the presentation of the Authority for the motivation and reasoning behind the application. Of course, the focus on capex implementation remains and the Regulator will keep focusing on the NPA's turnaround with regards to infrastructure project identification, planning, approvals and implementation. We look forward to hearing what is being done in this regard as the Authority is first and foremost the port owner and landlord, and therefore the country's only port infrastructure agency, with the responsibility of developing and maintaining our commercial ports.

I wish you all well in the deliberations ahead, in this important task of the determination of tariffs for the ports of South Africa. We hope that that our engagements of this nature will over time result in greater productivity, and ultimately a reduction in the cost of South African entrepreneurs doing business with the world, as well as lower port prices for the many poor South Africans paying for products they need to improve their lives, which daily come through our ports and our logistics network as a whole. We look forward to working with all of you as the Ports Authority, various government departments and most importantly port users to ensure we leave a sustainable, efficient and modern port system for future generations.

It thus gives me great pleasure to hand over to the programme director, Ms Jowie Mulaudzi who will take you through today's proceedings.

I thank you.