

# Roadshow - Tariff Application 2020/21

## Programme



Date: 7 August 2019

Time: 9h00 – 12h00

|                              |   |
|------------------------------|---|
| 09:00 - 09:15                | Opening and Welcome                                     |
| 09:15 - 09:30                | CEO's Remarks   |
| 09:30 - 10:30                | National Port Authority Tariff Application Presentation |
| 10:30 - 10:50                | Tea Break   |
| 10:50 - 11:20                | PRSA Presentation                                       |
| 11:20 - 12:00                | Questions and Comments                                  |
| 12:00 - 12:30                | Closing Remarks and Lunch thereafter                    |
| Submission of Feedback forms |   |



# Tariff Application 2020/21

07 August 2019

Cape Town

# Overview

- Weighted Efficiency Gains from Operations (WEGO) update
- Port Tariff Incentive Program (PTIP) update
- Review of the Tariff Methodology
- Tariff Application 2020/21
  - Capex implementation
  - Valuation of Regulatory Asset Base – VoA Methodology and Corporatisation process
  - Comments due – focus areas
- The process going forward

# WEGO Update

- There was R154 million in the WEGO “kitty” for 2018/19 tariff year.
- Unaudited non-verified results show a R131 million benefit to the NPA.
- Is it starting to make a difference?
- New problems identified - time lag to consider
- PCC KPI subcommittee (including NPA) looking at verification of data
- 2019/20 KPI’s published by the Regulator

# Port Tariff Incentive Programme (PTIP)

- Supporting beneficiation, industrialisation, and localisation through port tariff regulation
- The process is intended to serve as a mechanism by which beneficiation, in the form of cross-subsidies (which are in “*the interest of the public*”) may be introduced into the port tariff system
- Developed in conjunction with the Department of Transport, the Department of Trade and Industry, and the National Ports Authority and was launched in 2017
- Results in an amendment to a tariff line(s) within the tariff book
- Relevant documents are available on the Regulator’s website

# Port Tariff Incentive Programme

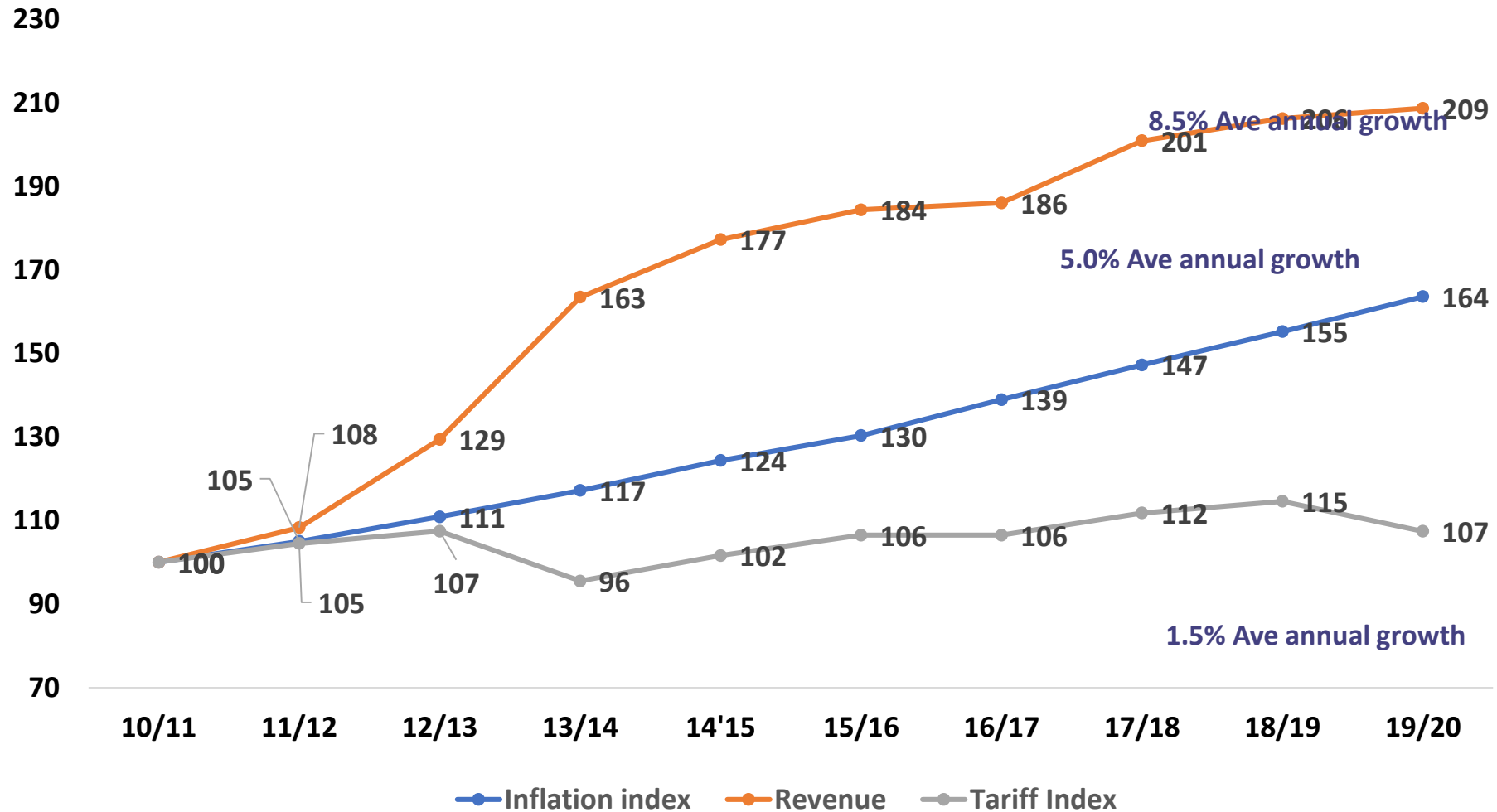
- Applications for the next round closes 31 January 2019
- PTIP available in the published Framework that has been handed out
- Contact us for more information or email [ptip@portsregulator.org](mailto:ptip@portsregulator.org)

# Review of the Tariff Methodology

- Second Multi-year Tariff Methodology coming to an end next year.
- Public consultation process to “dove-tail” with tariff process
- Call for public comments will be made in September 2019
- First round of comments close: 04 November 2019
- Regulator to publish a draft methodology for comment on 29 November 2019
- Will include further public engagements
- Final Methodology due March 2020

# Outcome of Regulation thus far...

The correct Tariff Methodology allows the Regulator the space to ensure price stability *and* system sustainability...





# Observations on the Application

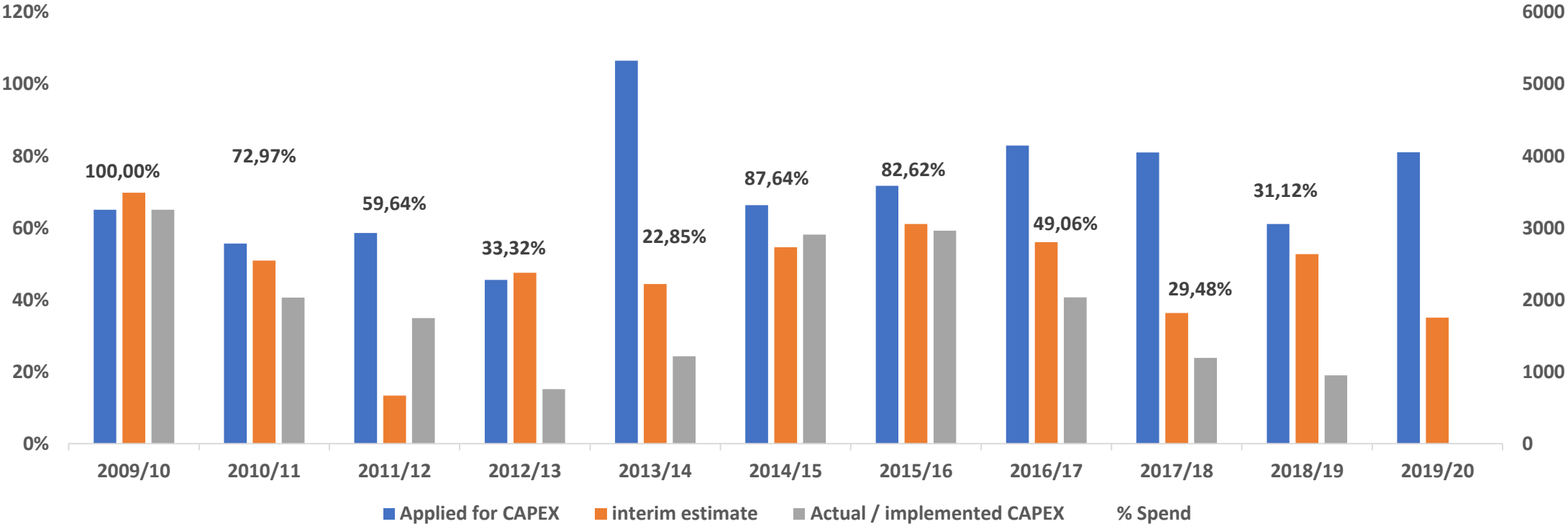
- Capex Implementation
- Implementation of the Valuation of the Regulatory Asset Base (VoRAB) Methodology – The Corporatisation process

We will briefly deal with each separately...

# Concerns on the Application

## Capex Implementation

- Is the PCC process providing sufficient CAPEX input and implementation oversight?
- Stronger tariff incentivization for CAPEX? Methodology review



# Valuation of Regulatory Asset Base

- In March 2018, the Regulator published a Methodology for the Valuation of the NPA Regulatory Asset Base (RAB)
- Previously the PRSA accepted the Depreciated Optimised Replacement Cost (DORC) method used by the NPA to determine the value of a starting RAB
- This gave rise to a steep increase in asset values.
- However, at the time, regulatory certainty was required, and in the absence of any alternative valuation methodology, the NPA's RAB valuation was previously accepted
- The Regulator approved the new VoRAB Methodology in 2018 and determined that a “financial capital maintenance” approach will be applied to all future tariff assessments rather than a “physical capital maintenance”.

# Valuation of Regulatory Asset Base

- After consultation, the Regulator deemed it appropriate (for the 2019/20 tariff application) to amend the specific application of the “FCM” approach on all assets included on the RAB prior to 1990 as well as those capitalised post 1990.
- Specifically: historical cost (HC) applied to all assets capitalised pre 1990.
- However, the Regulator opted to use a Trended Original Cost (TOC) methodology applied to all assets in its application of the ‘FCM’ principle.
- This approach was retained for the 2020/21 tariff year.

# Valuation of Regulatory Asset Base: Why Not a Full Implementation?

- PRSA is because it is aware of the 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 will:
  - 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
  - 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) of the National Ports Act
  - assess the actual progress of the implementation of S3(2) of the National Ports Act
  - 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.

# From the Application: Table 1

|                          | 2019/20 | %      | 2020/21 | %     | 2021/22 | %     | 2022/23 | %     |
|--------------------------|---------|--------|---------|-------|---------|-------|---------|-------|
| <b>Return on Capital</b> | 4570    | 36.5%  | 5175    | 39.4% | 5489    | 35.8% | 6223    | 37.1% |
| <b>Depreciation</b>      | 2074    | 16.5%  | 2331    | 17.7% | 2369    | 15.5% | 2465    | 14.7% |
| <b>OPEX</b>              | 6219    | 50.1%  | 6149    | 46.8% | 6769    | 44.1% | 7414    | 44.2% |
| <b>TAX</b>               | 509     | 4.1%   | 555     | 4.2%  | 591     | 3.9%  | 665     | 4%    |
| <b>WEGO</b>              | 0       | 0%     | 154     | 1.2%  | 0       | 0%    | 0       | 0%    |
| <b>ClawBack</b>          | -1419   | -11.3% | -1219   | -9.3% | 115     | 0.8%  | 0       | 0%    |
| <b>ETIMC</b>             | 539     | 4.3%   | 0       | 0%    | 0       | 0%    | 0       | 0%    |
| <b>Revenue Allowed</b>   | 12564   | 100%   | 13145   | 100%  | 15333   | 100%  | 16767   | 100%  |
|                          |         |        |         |       |         |       |         |       |
| <b>Return + Dep</b>      | 6644    | 52.9%  | 7506    | 57.1% | 7858    | 51.2% | 8688    | 51.8% |

# The Application: Comments

Please focus your comments on the following:

- Volume forecast
  - Cargo and vessel numbers and trends
- Inflation expectation
- Strategic use of the ETIMC
  - A facility created for Port users
  - Regulator utilizes it in case of tariffs in excess of inflation
  - ..or to support the NPA
  - Smoothing mechanism

# The Application: Comments (continued)

## Tariff Book Amendments

- Please note that application includes some changes to wording etc. This may impact you business-we need to hear about it (Annexure E)
- WEGO
- PTIP
  - Any cross subsidy allowed (or even just accelerated tariff correction) will see everyone else pay slightly higher – we need to hear your views – including your thoughts on the process
  - CMTF envisaged opportunities for incentives



# Tariff Process

- 01 August 2019: Tariff Application received by the Regulator
- 02 – 07 August 2019: Stakeholder Engagement Roadshows
  - 2 August 2019: Durban                      Garden Court Marine Parade
  - 5 August 2019: Johannesburg      Southern Sun OR Tambo
  - 6 August 2019: Port Elizabeth      Garden Court Kings Beach
  - 7 August 2019: Cape Town              Southern Sun Cape Sun
- 16 September 2019: Written Comments due (from stakeholders)
- 29 November 2019: Port Regulator Tariff Record of Decision

Q & A