



Our Ref No: SG/23034

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Dear Mr Mahlalutye

**Re: PRAYER FOR THE POSTPONEMENT OF THE IMPLEMENTATION OF THE METHODOLOGY FOR THE VALUATION OF THE NATIONAL PORTS AUTHORITY'S REGULATORY ASSET BASE MARCH 2018 ("VOA")**

On 29 March 2018, the Ports Regulator of South Africa ("the Regulator"/"PRSA") issued a methodology for the valuation of Transnet National Ports Authority's ("the Authority") Regulatory Asset Base ("RAB"). The methodology establishes a Starting Regulatory Asset Base ("SRAB") and subsequent RAB determination, applicable from the FY 2019/20 tariff application due on 01 August 2018.

Correspondence dated 12 July 2018 addressed to your office acknowledged the VoA and its planned implementation date. In this correspondence we advised that the implementation of the VoA runs the risk of destabilising the Authority and Transnet weighing negatively on an already burdened South African economy. For this reason Transnet requested a workshop with the Regulator to assess the impact of the new Asset Valuation Methodology, revisit the RoD and agree on an appropriate approach and implementation plan to achieve a fair tariffing basis for port users whilst ensuring the financial sustainability of the Authority. To this end, the Regulator was advised that the Authority planned to submit an application on the basis of the current approved Tariff Methodology with the RAB value determined as in the past i.e. ROD FY 2018/19 RAB trended forward.

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The request to hold a workshop between the parties to unpack the VoA was further communicated to your office by the Authority (7 September 2018) as part of the response to the Regulator's request for additional information to the Tariff Application FY 2019/20.

At the PRSA Public Consultation on the National Ports Authority's Tariff Application for 2019/20-2021/22 ("Roadshow") which commenced on 14 September 2018, the CE of the Regulator reminded the Authority and audience of that which is contained in the VoA Record of Decision ("ROD") dated 28 March 2018 and more specifically its implementation date. The CE of the Regulator went on to quote the following from the ROD:

*"This methodology is applicable in its approach to the valuation of the RAB and the calculation of the Required Revenue from the date of the application for the 2019/20 tariff expected on 01 August 2018 and future tariff years until reviewed or updated by the Regulator. Any part of the current applicable Multi-Year Tariff Methodology (published March 2017) that contradicts this Valuation Methodology is hereby replaced by this Methodology."*

Transnet and the Authority respects the Regulator and its processes and continuously endeavours to meet the expectations of the Regulator in the spirit embodied within the National Ports Act. We acknowledge the PRSA's VoA and the call for its implementation. However given our concerns associated with the implementation of the VoA in its current form and the envisaged timing thereof this serves as an official prayer to the Board of the Regulator. Our prayer is that the Authority be allowed not to implement the VoA for Tariff Application FY 2019/20, that the workshops are allowed to proceed in order to find a consensus on the methodology and to introduce the new approach for the Tariff Application FY 2020/21.

As organs of state there remains a common objective of furthering the well-being of the South African economy, country and its citizens. The prayer for postponement will allow Transnet, the Authority and the Regulator to align through the requested workshop/s on details around the significant financial impact the current VoA would bring to Authority, Transnet and the South African economy. Such postponement can still be complemented with a tariff determination for FY 2019/20 by 1 December 2018 based on the tariff application submitted by the Authority on 1 August 2018, albeit on the basis of the Tariff Methodology of March 2017. In fact, given the



discussions at the Roadshows, further comments may be solicited on the VoA from stakeholders which may not have been received previously. This input could further assist in formulating the way-forward in terms of the VoA. It would be a real pity if the implementation of the VoA would favour foreign owned entities and not translate to real costs savings for the people of South Africa. Therefore the requested postponement will allow teams to align on an appropriate Tariff Strategy to achieve fair tariffing for port users whilst ensuring financial stability of the Authority.

The Authority and Transnet reassures the Regulator of its commitment to reducing the costs of doing business in South Africa for the benefits of the South African consumer. We look forward to your favourable consideration of our requested prayer to postpone the implementation of the VoA planned for FY 2019/20.

Yours sincerely



Siyabonga Gama  
(Acting) Group Chief Executive  
Transnet SOC Ltd

**Date: 21 September 2018**