1. The National Ports Authority (the NPA) has 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 2013 to 31 March 2014.

2. The Ports Regulator, after considering the application and all submissions submitted in this regard by all parties, declines the proposed 5.4% tariff increase and the additional individual tariff increases.

3. After considering all information, the Regulator concludes that the following are appropriate tariff book adjustments for the tariff year 2013/14:

4. Cargo dues tariffs
   i. Container full export cargo dues to be reduced by 43.2%;
   ii. Container full import cargo dues to be reduced by 14.3%
   iii. Motor vehicles exported on own wheels (Ro-Ro) cargo dues to be reduced by 21.1%; and
   iv. The remainder of the tariffs in the tariff book are to be retained at the same level as for the 2012/2013 tariff year.
1. The Tariff Application

The NPA requested a tariff increase of 14.2 per cent for the 2013/14 tariff year. However, the NPA capped the tariff increase application at 5.4 per cent due to “the non-finalisation” of the tariff methodology and the assumption that a multi-year tariff application of CPI + 3 per cent would be submitted next year:

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>R Million</th>
<th>R Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tariff Increase</td>
<td>5.4 %</td>
<td>14.2%</td>
</tr>
<tr>
<td>Expected Revenue 2012/13</td>
<td>7 490</td>
<td>7 490</td>
</tr>
<tr>
<td>Expected Volume Increase (%)</td>
<td>5.87 %</td>
<td>5.87%</td>
</tr>
<tr>
<td>Expected Volume adjusted Revenue 2012/2013</td>
<td>7 988</td>
<td>7 988</td>
</tr>
</tbody>
</table>

2. The Regulator's Mandate

2.1. The Regulator’s approval is required for the tariffs charged for services and facilities offered by the NPA in accordance with section 72 of the Ports Act.

2.2. The Ports Regulator has also promulgated Directives in terms of section 30(3) of the National Ports Act (Government Notice 825, Gazette No. 32480, and 6 August 2009). These were amended in the Directives Amendment Notice, promulgated in Government Notice 37, Gazette No. 32898 on 29 January 2010.

2.3. In considering the NPA’s proposed tariffs the Regulator was guided by the National Ports Act (the Act), Regulations issued under the Act and the Directives (jointly referred to as the “regulatory framework” in this document).

2.4. 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.
3. The Methodology used by NPA

3.1. The NPA elected to use a “revenue requirement approach” as the basis for its tariff application.

3.2. The tariff application is for a single year - 1 April 2013 to 31 March 2014, and is for a 5.4% (capped) tariff increase.

3.3. The formula proposed in the application to calculate the revenue requirement is:

\[
\text{Revenue Requirement} = [\text{cost of capital} \times \text{regulatory asset base ("RAB")}] + \text{operating cost} + \text{depreciation} + \text{taxation expense} - \text{claw back} - \text{financing requirement costs previous year} \times (1 + \text{cost of capital previous year}) + \text{financing requirement cost current year}. +(-) \text{ETIMC}
\]

3.4. The revenue requirement was then converted into tariffs, which were presented in the form of a detailed tariff book for the FY 2013/14. The proposed tariff change had been applied to the relevant lines in the existing tariff structure, with certain identified tariffs increasing at rates greater than the requested 5.4% and certain tariffs being reduced.

3.5. The revenue requirement formula submitted in the application contained a financing requirement component, however, as in the previous application, this component of the formula was not used in the application including in the calculation of the required revenue and of the tariff book. It was therefore not dealt with by the Regulator and no determination as to its applicability was made. The Tariff Methodology Review currently under consideration by the Regulator will consider whether a financing component should be included in the revenue requirement.
4. **Compliance with the Directives, Regulations and National Ports Act**

4.1. The application is substantially but not substantively compliant with the Act, Regulations and Directives. The lack of 100% substantive compliance, with formal compliance being mostly achieved, has been raised before. These do not detract absolutely from the Regulator’s ability to perform an assessment of the NPA tariff application, but need to be addressed subsequent to the publication of this ROD. The processes currently ongoing will address most of the issues, while the remaining issues will be addressed by the pending development a regulatory manual and regulatory accounts by the regulator. This process of regulatory manual and accounts development shall commence immediately after the tariff methodology and strategy processes are complete. The manual and regulatory accounts will assist NPA to ensure 100% substantial and formal compliance.

4.2. The applicant has still only included high level data on the Real Estate business. The data was adequate for purposes of calculating the over-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 the Marine and the Real Estate business. The Regulator’s view on this matter has not changed. It will be dealt with in future, after the medium-term Tariff Methodology is determined, through the formulation of a set of regulatory accounts and regulatory manual. These regulatory instruments will aim to define the disclosure requirements that are being placed on the NPA, in order to enable their improved compliance therewith.

4.3. The NPA has submitted its tariff application based on the rate of return methodology – i.e., it used the ‘revenue requirement’ approach. The Regulatory framework does not set a tariff methodology, nor does it constrain the Regulator from adopting a methodology different to that proposed by NPA. The process for determining the medium term Tariff Methodology has already commenced, and a one year regulatory manual, which shall be published in due course, will set out the methodology pertaining to the 2014/15 tariff year.

4.4. The Regulator therefore decided to accept, in this application, the general methodology that has been used by the applicant, though in some of the parameters, the Regulator differed with the applicant with respect to either the methodology or its application in this instance.
4.5. There are other key areas where the application falls foul of the Regulatory framework are as follows:

4.5.1. Directive 22(3)(a) requires that the application set out the manner in which the tariffs have been calculated and the model used for determining them. The NPA did not do so in their application, but indicated that they only calculated the overall revenue increase required and the overall tariff increase required to achieve this revenue increase. In the previous application the NPA indicated that the methodology to calculate individual tariffs is the subject of the on-going “Tariff Review Project” or Tariff Strategy. This has however not formed part of the current application and could not be considered. The Regulator acknowledges the subsequent submission of the proposed NPA tariff strategy and will consider it in the current medium term Tariff Strategy review process.

4.5.2. 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. The application did not break down their application to the extent required by the regulatory framework. The CAPEX programme provided has not been provided with the level of granularity necessary to make an accurate assessment on these matters. As these are further the subject of extensive processes that are to be engaged upon in the Ports Consultative Committees (PCC’s) and the National Ports Consultative Committee (NPCC), the Regulator accepts the information as provided for the purposes of this tariff application, as an outcome of the PCC and NPCC processes. The applicant maintains that detailed information per service offering may not necessarily be available and is being addressed as part of the “Tariff Review Project”. The Regulator accepts this assertion for the purposes of this tariff application. However, the level of engagement at PCC and NPCC level has not delivered the requirements of stringent assessment of the capex programme. This is not due to any particular fault of the NPA, but more related to the way in which they have been responded to. If this platform fails to deliver the kind of robust engagement that the Regulator requires, a clear set of parameters and process would need to be set out in the regulatory manual to assist with compliance on this issue.

4.5.3. 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 and the manner in which the tariffs will affect the
cost of doing business in the ports. The safety, security and environmental expenditure was submitted. The applicant finds that the section requiring the NPA to report revenue generated from these investment and returns to be inappropriate because the NPA does not charge on this basis. In the absence of a clear methodology presented as to what basis the NPA uses to charge any particular tariff in this application, the Regulator awaits the outcome of the processes referred to in the clauses above, to finalise its perspective on this matter. The cost of doing business impact assessment requirement, as indicated, has not been articulated clearly. The Regulator shall, following the medium-term Tariff Methodology determination, establish rules for disclosure under this requirement that shall assist the NPA in complying more fully in this regard.

4.5.4. Directive 22(6) requires that the NPA shall maintain such accounting and financial systems that are necessary to provide the Regulator with sufficient information to verify the pricing principles and models used by the NPA to calculate tariffs. The comment on the lack of a tariff model and principles above refer. The generalized corporate level information was adequate for the purposes of the analysis within the context of the particular approach selected by the NPA (i.e. increasing tariffs across the board to achieve the revenue requirement). The information provided was not independently verified by investigating the financial and accounting systems directly. However, the post submission engagements and verification indicated a high degree of correlation. Furthermore, the credibility of the information provided has increased markedly over the tariff periods.

4.5.5. Directive 23(1) requires that the Regulator must have regard to 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 a Tariff Strategy that aims to address this shortcoming. Included in this is their acknowledgement that their current pricing structure as articulated in the tariff book attached to the application is flawed.

(ii) 23(1)(b) - fairness. As in the clause above, although there are certain flaws in the tariff structure, they are attempting to address it in their Tariff Strategy proposal. In the reductions and increases the applicant requests above and below the requested general tariff increase, the applicant attempts to address some of the most glaring of these flaws.

(iii) 23(1)(c) - the avoidance of discrimination, save where such discrimination is in the public interest. As in the clause above, although there are certain flaws in the tariff structure, they are attempting to
address it in their Tariff Strategy proposal. In the reductions and increases the applicant requests above and below the requested general tariff increase, the applicant attempts to address some of the most glaring of these flaws. The applicant submits that the methodology for calculating tariffs currently under review will include assessing compliance with the Directive 23(1)(c).

(iv) 23(1)(f) - the avoidance of cross-subsidisation, save where 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 this. Although this is not clearly articulated in the application, the internal processes of the applicant and the processes that the applicant is undergoing in the Ports Consultative Committees address some, but not all, of the concerns that arise under this provision. The other issues that remain outstanding will be further addressed in the disclosure components in the regulatory manual referred to above, as well as the Regulator’s compliance and monitoring processes.

5. The Application Specifics

5.1. The application submitted is based on the Required Revenue requested for the NPA. The Regulator assessed the Application on this basis, and largely used the methodology applied by the NPA, except where the application was not appropriate, or was incorrectly applied, in the opinion of the Regulator.

5.2. In effect the NPA used the following formula in its calculations (although it differs from its stated methodology provided in the exposition of their approach) 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:

\[ RR = (v - d + w)r + D + E + T + C \]

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
- \( C \) = Clawback

\((v - d + w) = \text{Regulated Asset Base}\)

5.5. The Regulated Asset Base (RAB)

5.5.1. The RAB submitted by NPA was as follows:

<table>
<thead>
<tr>
<th>DETAIL</th>
<th>R MILLION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening NBV at 31 March 2013</td>
<td>62 097</td>
</tr>
<tr>
<td>Durban international Airport adjustment</td>
<td>1 850</td>
</tr>
<tr>
<td>Restated opening including DIA</td>
<td>63 947</td>
</tr>
<tr>
<td>TPT asset transfer</td>
<td>-985</td>
</tr>
<tr>
<td>NBV trended 31 March 2014</td>
<td>66 362</td>
</tr>
<tr>
<td>Add Capex 2013/14</td>
<td>5 326</td>
</tr>
<tr>
<td>Less depreciation 2013/14</td>
<td>-1 659</td>
</tr>
<tr>
<td>Inflated Capex for half year</td>
<td>144</td>
</tr>
<tr>
<td>Closing NBV at 31 March 2014</td>
<td>70 173</td>
</tr>
<tr>
<td>Average opening and closing RAB</td>
<td>66 568</td>
</tr>
<tr>
<td>Less working capital</td>
<td>-253</td>
</tr>
<tr>
<td>RAB Final 2013/14</td>
<td>66 315</td>
</tr>
</tbody>
</table>

5.5.2. The NPA’s opening RAB value was calculated by taking its closing ROD value for 2010/11 and rolling this forward according to actual and forecast capital
Expenditure for 2011/12 and 2012/13 and allowed (rather than actual) depreciation for those years. The opening value includes an addition for the Durban International Airport ("DIA") totaling R1 850 million, which Transnet expended to purchase the land for the as yet un-proclaimed Dig-out Port at Durban. In addition, a deduction off the asset base is applied for the Transnet Port Terminal ("TPT") asset that was incorrectly included in the NPA RAB in past years. This asset was transferred to TPT to correct this error and a reduction of R985 million is applied.

5.6. **RAB determined by The Regulator.**

5.6.1. In the previous tariff determinations, the Regulator accepted the DORC method used by the applicant in certain assets to determine a starting regulatory asset base. The Regulator did state 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 incorrect average RAB in a prior year, correcting for the actual capex and actual depreciation for the subsequent years and indexed according to actual CPI for these years and forecast CPI for the 2012/13 and 2013/14 years and including the real estate business) to arrive at an opening balance for the 2013/14 year of R 60 877 million.

5.6.3. The inclusion of the DIA site purchase price was reversed, as the site has not been legislatively incorporated and established as a port within the ambit of the National Ports Act. The removal of the value of the TPT asset transferred as well as the trending and depreciation over the period on this asset has been dealt with in the calculation.

5.6.4. The RAB value for the period under review was determined using the following formulas
\[ RAB_y = \frac{1}{2} [RAB_{c,y} + RAB_{o,y}] + w_y \]

\[ RAB_{c,y} = RAB_{o,y} \times (1 + CPI_y) + CWIP_Y - D_y \]

Where:
- \( RAB_y \) is the value of the RAB that is used to determine the returns for the period \( y \);
- \( RAB_{o,y} \) is the opening value of RAB for the period \( y \);
- \( RAB_{c,y} \) is the closing value of RAB for the period \( y \);
- \( w_y \) is the forecast average net working capital over the review period;
- \( CWIP_Y \) is the value of expected capital investment over the review period;
- \( D_y \) is the depreciation allowance for assets within the RAB over the review period;
- \( CPI_y \) is the annual rate of general inflation expected over the review period.

Based on previous tariff assessments and adjustments thereto, the Real Estate 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>
<thead>
<tr>
<th>TRANSACTION TYPE</th>
<th>RAB (R million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>60 877</td>
</tr>
<tr>
<td>Indexing (CPI = 5.4%)</td>
<td>3 274</td>
</tr>
<tr>
<td>Capex</td>
<td>5 326</td>
</tr>
<tr>
<td>Depreciation</td>
<td>-1 570</td>
</tr>
<tr>
<td>Closing balance</td>
<td>67 908</td>
</tr>
<tr>
<td>Average balance</td>
<td>64 393</td>
</tr>
<tr>
<td>Working capital (trended off 2011/12 actuals)</td>
<td>-1 589</td>
</tr>
<tr>
<td>Total RAB for year</td>
<td>62 803</td>
</tr>
</tbody>
</table>
5.7. **Cost of Capital**

5.7.1. The NPA application follows the Capital Asset Pricing methodology (CAPM) to determine the cost of capital. 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 8.33%. The Regulator determined that the real vanilla WACC should be 5.21%, when applying all its determinations on the elements below.

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

\[
WACC_{\text{vanilla}} = k_d \times g + k_e (1 - g)
\]

Where:

\[k_d\] = pre-tax cost of debt;
\[k_e\] = post tax cost of equity;
\[g\] = gearing, which is debt over total capital;

5.8. **Cost of Equity**

(i) The requested nominal post-tax cost of equity in the application was 10.69% (although the subsequent explanations presented in the roadshows articulated this as a 10.69% real post-tax cost of equity). The Regulator determined that the real post-tax cost of equity was 7.39%. This real post tax cost of equity was determined using the subsidiary elements below:

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

\[k_e = R_f + \beta x (MR - R_f)\]

Where:

\[k_e\] = cost of equity;
\[R_f\] = risk free rate;
\[MR\] = market return;
\[MR - R_f\] = Market Return Premium calculated over long term;
\[\beta\] = beta coefficient.
(iii) Risk Free Rate

The applicant considers the South African risk free rate to be a post-tax rate. Both the pre-tax and the post tax risk free rates have been used in a range of jurisdictions and applications across the world. The Regulator applies the risk free rate as post-tax in accordance with its previous decisions on this element.

The applicant requested a nominal risk free rate of 8.36%. This risk free rate is based on a long term government bond – namely, the R186 10.5% 2026 bond. The Regulator accepts the R 186 as a proxy for the risk free rate in SA. The Regulator used a 5 year period (from August 2008 to July 2012) to calculate the risk free rate in order to accord with the shift in monetary policy that occurred at the outset of the period, and with the expectation that the period under review that will operate under the same monetary regime rather than that which applied before. The average risk free rate calculated for this period was found to be slightly higher than the NPA value at 8.63%. The corresponding Real Risk free rate was calculated to be 1.97% by applying the same inflation rate as was used to index the RAB over the same period.

(iv) Beta Co-efficient

a. The NPA obtained an equity beta from Bloomberg. The basis of this was the JSE Top 40. The Regulator has some reservations regarding the use of a composite indicator which uses as an element the composite gearing and found some anomalies when comparing the re-levered equity beta with those of some private sector companies that have a similar industry profile to the applicant. The NPA obtained an equity beta from Bloomberg. The basis of this was the JSE Top 40. The Regulator has some reservations regarding the use of a composite indicator which uses as an element the composite gearing. The Regulator found some anomalies when comparing the re-levered equity beta with those of some private sector companies that have a similar industry profile to the applicant, effectively indicating that the NPA, a state owned entity, is more risky than private companies in the same industry, therefore placing doubt on the applicability of this variable as a proxy for the equity beta coefficient.

b. The tariff methodology is currently being reviewed. The resultant outcome will determine a standard approach to the establishment of the beta coefficient applied in subsequent determinations, as this is commonly the largest factor impacting on the differential between the tariff requested and the tariff increase granted. As such, the Regulator decided to continue on the trend established by previous tariff determinations and determined an asset beta of 0.5 was to be applied, that equated to an equity beta of 0.86 using the Hamada equation to re-lever the beta.
(v) Market Risk Premium

The Regulator, in line with regulatory consistency, and cognisant of the current process underway to establish a tariff methodology, approves the use of a market risk premium of 6.3% as proposed in the application.

(vi) Gearing

The Regulator, taking into consideration the application, previous patterns of variation in the applications, various submissions and its own analysis when determining an assessment of the NPA’s gearing, determined that an appropriate gearing for the entity prior to the finalization of the medium term tariff methodology was 50%.

5.9. Cost of Debt

The application requested a nominal cost of debt of 9.76%. The cost of debt applied for was accepted. By using a five year average CPI deflator, the real cost of debt is calculated to be 3.03%.

5.10. Operating Costs

5.10.1. The Regulator adjusted the operating cost estimate for 2013/14 by lowering the growth in estimated labour cost from 12.7% to 12%(CPI plus 3% which allows for cost of living related increases and the filling of vacancies) and reducing the energy costs provision to a 9.6% increase (in line with Nersa’s MYPD 3 determination) instead of the applied for 27.2%. The cost escalations were determined by reference to the Regulator prior decisions rather than the NPA revised budget bases. This resulted in total allowed expenses of R3 876 million for operating costs, below the applied for R3 953 million.

5.10.2. The Regulator allowed the inclusion of the R620 million group costs in the total allowed expenses subject to certain conditions as set out in section 7.2 below.

5.11. Depreciation

The requested depreciation of R 1 659 million was adjusted for the revised Regulatory Asset Base. The allowed depreciation for the 2013/14 determination totals R1 570 million.
5.12. Taxation Expense

The application requested the corporate tax rate of 28.00%. The Regulator accepted the corporate tax rate as requested for this assessment. The revised RAB and returns resulted in a lower tax allowance of R959 million being determined as opposed to the R1 242 million in the application.

5.13. Claw-backs

As the 2011/12 tariff year is now complete, the Regulator can make the final adjustments to the impacts of any forecasts and recoveries for that year, resulting in a revised total claw back of R1 115 million.

An interim claw back was made in the 2012/2013 tariff year (R 566 million) resulting in a residual claw back of R549 million. The return on the residual claw back in terms of the WACC rate for that period totals R41 million. The total residual clawback for 2011/12 is therefore R590 million.

The claw back calculated for the 2012/13 FY is R893 million. A provisional claw back of R447 million as well as a claw back of the return earned on the TPT assets removed from the RAB totaling R181 million resulted in a total claw back of R1 218 million in the 2013/14 tariff determined by the Regulator (NPA forecast clawback value was R 1 402 million).

| Revised total claw back 2011/12 | R 1 115 million |
| Interim claw back 2011/12 (clawed back 2012/13) | R 566 million |
| Residual claw back 2011/12 | R 549 million |
| Return on residual claw back 2011/12 | R 41 million |
| Total residual claw back 2011/12 (to be clawed back in 2013/14) | R 590 million |
| Total claw back 2012/13 | R 893 million |
| Provisional claw back 2012/13 (50% of R893 million) | R 447 million |
| Return on TPT assets reversed | R 181 million |
| **Total claw back (R590 + R447 + R181 million)** | **R 1 218 million** |

The unutilised portions of the 2012/13 R 1 billion rebate scheme must still be dealt with. The NPA is required to submit to the Regulator by the end of August 2013, an audit of the utilised portion of the R 1 billion rebate scheme for 2012/13. They are also required to submit a proposal as to how they will equitably return the unexpended portions to cargo owners in those categories that were the intended beneficiaries of the scheme. This unexpended portion shall then be repaid to the cargo owners, plus the pro-rata WACC.
(2013/2014 WACC) for the period until the monies are paid. The impact of the discount under-recovery on the 2012/13 revenue calculations (extracted from 2013/14 revenue) shall be accounted for by adjusting the residual clawback in the 2014/15 tariff determination.

5.14. ETIMC

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 that are capable of being managed sustainably within the space that is available for such intervention. As such, the Regulator considers it prudent to continue to retain and increase 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 spikes envisaged, but not as yet articulated to a level of detail and phasing that allows accurate prediction.

In the 2012/13 decision, the Regulator retained R 900 million of the clawback in the ETIMC. The ETIMC retained for the 2013/14 period shall be R 1 378 million. The table below sets out the calculation of the WACC and the resultant value of the ETIMC at the end of the 2013/14 tariff year.

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/13 ETIMC retained</td>
<td>R 900 million</td>
</tr>
<tr>
<td>2012/13 WACC return on ETIMC (average ETIMC across year)</td>
<td>R 28 million</td>
</tr>
<tr>
<td>2013/14 ETIMC opening total</td>
<td>R 928 million</td>
</tr>
<tr>
<td>2013/14 ETIMC retained in 2013/14</td>
<td>R 1 378 million</td>
</tr>
<tr>
<td>2013/14 ETIMC closing total</td>
<td>R 2 306 million</td>
</tr>
<tr>
<td>2013/14 Average ETIMC</td>
<td>R 1 617 million</td>
</tr>
<tr>
<td>2013/14 WACC return on Average ETIMC</td>
<td>R 84 million</td>
</tr>
<tr>
<td>2013/14 ETIMC closing balance</td>
<td>R 2 390 million</td>
</tr>
</tbody>
</table>
6. Required Revenue and Tariff Increase

6.1. The application of the above amendments and adjustments to the NPA 2013/2014 tariff application has the following result:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Capital</td>
<td>R 3 272 m</td>
</tr>
<tr>
<td>Depreciation</td>
<td>+ R 1 570 m</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>+ R 3 876 m</td>
</tr>
<tr>
<td>Tax Expense</td>
<td>+ R 959 m</td>
</tr>
<tr>
<td>Claw back</td>
<td>- R 1 037 m</td>
</tr>
<tr>
<td>TPT Asset return earned claw back</td>
<td>- R 181 m</td>
</tr>
<tr>
<td>ETIMC retained in NPA</td>
<td>+ R 1 378 m</td>
</tr>
</tbody>
</table>

**NPA Required Revenue 2013/2014:** = R 9 838 m

- Real Estate Business Income = R 1 856 m
- Marine Business Income = R 7 982 m
- Total Forecast Revenue = R 9 838 m
- Revenue shortfall/surplus = R 0 m
- Required tariff increase = 0%

*1 The marine business income that is forecast in this line is the current tariff book marine revenue modeled for a reduction in full export container cargo dues by 43.2%; a reduction in full import container cargo dues by 14.3%; a reduction in motor vehicle export on own wheels cargo dues by 21.1% and a weighted volume growth for the period of 5.87%.

6.2. NPA requested specific tariff decreases and increases in addition to the general capped tariff increase of 5.4%. Due to the latitude allowed by the sizes of the clawback and over recovery, and based on the Regulator’s own research that raised significant concerns about the specific anomalies with respect to the container and automotive tariffs, the Regulator decided to approve the specific reductions that had been requested by the NPA. In light of the impending tariff strategy process and taking into consideration the various comments of stakeholders, the Regulator determined that the specific increases for certain commodities requested by the NPA would be refused. It is the Regulator’s view that the comprehensive restructuring of port tariffs in due course shall more appropriately deal with the requested increases in the total context of the restructuring of all tariffs.

6.3. The impact of these specific tariff reductions coupled to the forecast volumes has a significant impact on the forecast tariff book revenue predicted by the NPA for the 2013/14 FY. The re-calculated forecast revenue for this period of non real estate income will result in total revenue of R7 982 million. This recalculated revenue is used in the
table above for the purposes of determining the appropriate tariff increase for NPA tariffs in its tariff book for the tariff year 2013/14.

7. Post ROD processes or requirements

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

- A higher level of granularity of the NPA capex programme is required, as previously highlighted. In particular more information is required on what the impact of individual projects shall be on throughput, efficiency, pricing and revenue. A clear statement of the details underpinning the market demand case for capital projects is also required.

- A higher level of detailed information (compare to what was previously disclosed) on transfer pricing, and internal transfers or payments within the Transnet group, that affect the NPA, is required.

- 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 from what is in the norm for statutory financial reporting.

- Clear details on the cash holdings and benefits resulting therefrom must be provided.

- Details of the annual capex projections of the NPA over five and ten year cycles must be provided and it must be tied to the related demand and traffic forecasts.

7.2 The Regulator requires that by 1 December 2013 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 R620 million group costs that have been expended for the first half of the 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 R620 million group costs that have been expended for the 2013/2014 NPA financial year by 1 August 2014. 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.

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