







Transnet
Ports Regulator Roadshows
Tariff Application FY 2017/18
02 – 07 September 2016

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Transnet's Market Demand Strategy (MDS)



Transnet's Market Demand Strategy (MDS)





Investment Programme

- expanding and modernising the country's rail, port, and pipeline infrastructure;
- over a period of seven years to promote economic growth in South Africa

Mandate

- assist in lowering the cost of doing business in South Africa;
- enable economic growth; and
- ensure security of supply in port, rail and pipeline infrastructure within acceptable benchmarks.

Strategic Objectives aligned with:

- the National Plans;
- statement of
 Strategic Intent
 issued by the
 Minister of Public
 Enterprises.

Transnet MDS: 5 Strategic Focus Areas





1

FINANCIAL SUSTAINABILITY

Increase asset utilisation and maintain a financially sustainable business

5

DEVELOPMENTAL OUTCOMES

Our social and environmental stewardship will develop our talent, create new jobs, improve health and safety, benefit communities, reduce energy consumption, and promote the adoption of climate change mitigation policies



STRATEGIC

FOCUS AREAS



MARKET SEGMENT COMPETITIVENESS

Reduce the cost of logistics and promote an integrated and aligned regional network that allows for supply chain optimisation



OPERATIONAL EXCELLENCE

Maintain readiness to provide world-class rail, port and pipeline operations

CAPACITY CREATION

Increase both capability and capacity to deliver the capital investment plan



 The MDS will have a marked impact on the cost of doing business in South Africa, in line with Government's New Growth Plan and New Development Plan:

JOBS

MDS will create & sustain direct and indirect jobs over the next seven years

SKILLS DEVELOPMENT

Prioritization of skills development to promote a high performance culture organisation



COMPANY GROWTH

Increase in headcount by 14.1% over the seven years

SUSTAINABLE VALUE

The MDS will deliver lasting economic, social & environmental value to South Africa

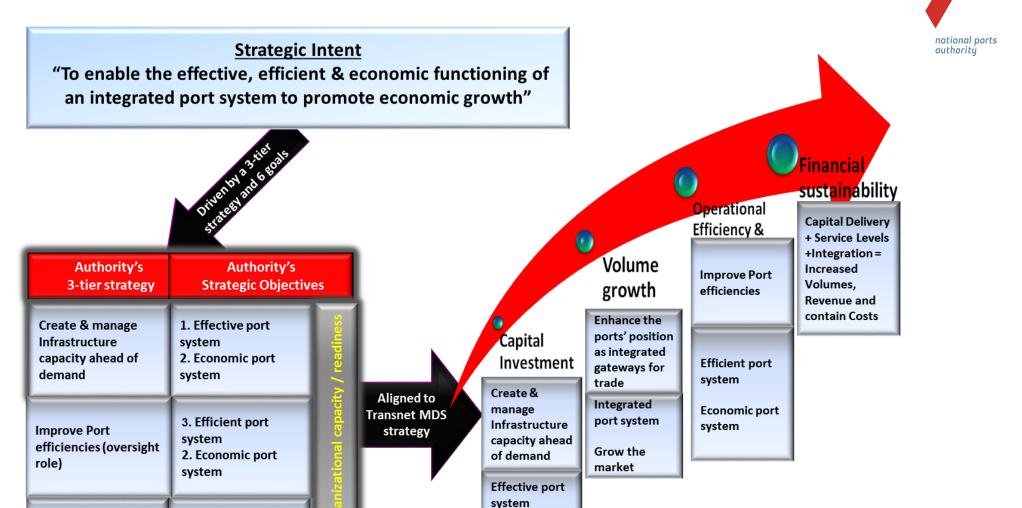
The Authority's Strategic Focus – Aligned to Transnet MDS



The Authority's Strategic Focus – Aligned to Transnet MDS

The Authority's Strategic Focus – Aligned to Transnet MDS





Strategy embodies the landlord functions set out in the Ports Act

Economic port

system

Enhance the ports'

gateways for trade

position as integrated

4. Integrated port

5. Grow the market

system.

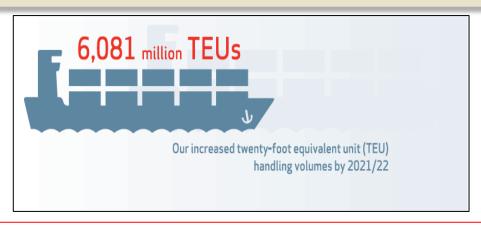
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The Authority will:



Invest R4.1bn in port infrastructure and marine craft in FY 2017/18 and R42.9bn (excluding DDOP) over the seven year MDS period

- Increase container volumes across our ports by 4.0% p.a.
- Create an additional 500 000 TEUs of capacity at Durban Container Terminal Pier 2
- Increase the number of automotives going through our ports annually
- Refurbishments/ expansion of Liquid Bulk facilities & Ship Repair facilities
- Expansion of Dry Bulk facilities
- Launch of SMART People's Port aimed at efficient and technologically advanced ports



MDS CAPITAL INVESTMENT PROGRAMME

- Truck staging facility;
- Reconstruct Island View Berths (5 & 6);
- Pipe racking expansion at Island View and Fynnland;
- Reconstruction of Sheet-Pile Quay Walls at Maydon Wharf;
- Crane Beams for STS cranes at DCT.

FLEET

- Tug Build: 9 tugs first three tugs delivered;
- Dredgers: TSHD Ilembe operational, Plough Tug and Cutter Suction replacement in process.



national ports

Section 56 Projects

- Liquid Bulk (Durban-Lot 100; SLD LPG Terminal, Cape Town Liquid Bulk, Ngqura);
- Passenger Terminals : Durban & Cape Town;
- Phakisa Oil & Gas Projects:
 - Saldanha (OSSB, Rig Repair & Floating Facility)
 - Richards Bay (Rig Repair)
 - East London (Slipway)
- General Cargo: Ngqura;
- Sheds 10 & 11: Port Elizabeth

SMART PEOPLE'S PORTS

- Launch of SMART People's ports aimed at efficient and technologically advanced ports with visibility of cargo across the value chain;
- Information Performance Management Systems (IPMS) and Joint Operation Centres (JOCs) provide a basis for value chain visibility and logistics collaboration;
- Upgraded security with the state of the art surveillance equipment (CCTV) to ensure safe and secure Port System; and
- Launch of the Order to Cash Project.

TRAINING & DEVELOPMENT

- Port Engineers, Planners and Project Management skills focus;
- Port Operations Centres skills evolving into Joint Operations Centres;
- Aviation skills development:
 - 22 Helicopter pilots graduated;
 - o 21 Marine Engineering Officers.

JOB CREATION

• Employment of 588 employees since the inception of MDS to June 2016.





LOCAL SUPPLIER DEVELOPMENT



Current Supplier Development Obligations

Supplier Development Initiatives value:

R1 328 594 390.18

Contract Value:

R 2 998 236 477.82

Supplier Development committed as a % of contract value:

- 44.31% against a target of 39% for FY2016/17.
- To date R 617 958 511.48 has been delivered which amounts to 47% of the committed value

SD commitment achieved to date per initiative:

Skills Development: R153.050m Job Preservation:R24.870m Job creation:R34.100m

Small Business Promotion:R110.170m

Localization:R202.240m

Technology Transfer/ and Sustainability: R58.639m

Rural/Regional

Development: R134.540m

Current Supplier Development Projects

- 1. Grab Hopper Dredger
- 2. Integrated Port Management System (complete)
- 3. Helicopter Operations
- 4. Helicopter Maintenance
- 5. Trailer Suction Hopper Dredger
- 6. Salt Water
 Rehabilitation
 (complete)
- 7. SAP CRM (Complete)
- 8. Operations Centre
 Hardware
- 9. Tug Boats
- 10. Vessel Tracking System (complete)
- 11. Truck Staging Facility (complete)
- 12. Upgrade of Port Control Tower
- 13. Ground Maintenance
- 14. Advertising
- 15. Exhibition stand

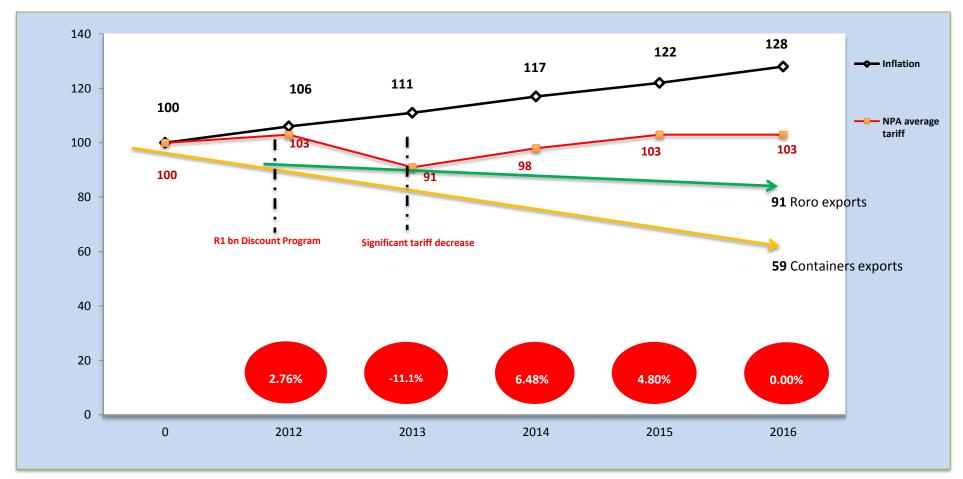
- 16.Transportation of Dredging Crew
- 17.Digital Media Signage
- 18.Fire Pumps
- 19.GMQ
- 20.Transactional Advisory
- 21.Rehabilitation of Outer Caissons Dry Dock
- 22.Dredger Equipment Repairs
- 23.Rehabilitation
 Service to the
 Sheet Pile Wharf at
 the Port of East
 London
- 24. Water Quality Monitoring
- 25.Cleaning Services Port of Richards Bay

The Authority's MDS Plan: Administered Pricing



national ports

The graph below illustrates the Authority's average tariff increase & differentiated container & automotive tariffs





authority

Functions of the Authority

Functions of Port Authority - Ports Act Section 11





Landlord

Promote the use, improvement and development of ports, and control land use within the ports, having the power to lease port land under conditions it determines

Master planner

Plan, improve, develop and maintain port infrastructure

Controller of ports navigation

Make and apply rules to control navigation within port limits and approaches, ensure protection of the environment and ensure safety and security within port limits

Controller of ports services & facilities

Ensure that port services and facilities are provided, and may enter into agreements or license other parties to provide these

Marketer & administrator

Ensure that adequate, affordable, equitable and efficient port services and facilities are provided for port users

Change agent

Ensure non-discriminatory, fair, transparent access to port services and facilities; advancement of previously disadvantaged people; promotion of representivity and participation in terminal operations; enhanced transparency in port management

Coordinator with other state agencies

Advise on all matters relating to the port sector, and liaise with all stakeholders





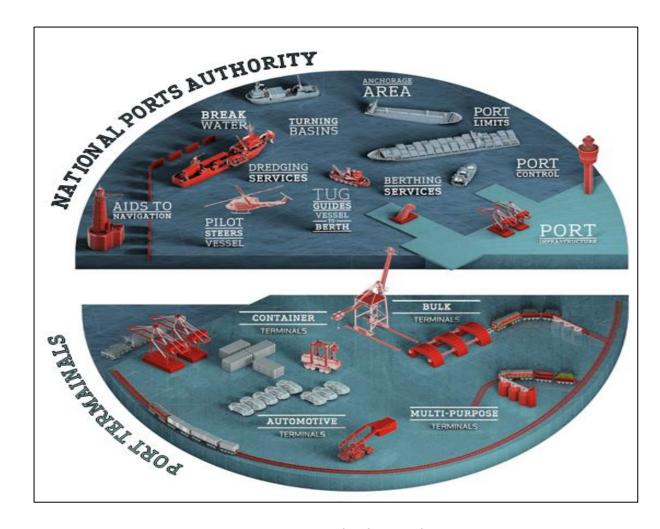
Services within the Ports

Services Provided within the Ports

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Infrastructure/ Services provided within the Ports are illustrated below:





Ancillary Services includes security, bus services, baggage handlers, fire fighting, fire protection, power & water supply, labour provision, pollution control and clearing/forwarding.

Regulation of Port Services & Facilities



Regulation of Port Services & Facilities

Regulation of Port Services and Facilities

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 The Authority exercises control in accordance with the provisions of the Act, by means of agreements, licences and permits.

Port Rule special longer-term access permits Road transport Port Rule licences and registrations operators Licences: Section 57 licences Rail transport operators Fire protection Stevedoring Section 65(5) and 65(3) licences and Bus services and maintenance Waste bus tour Existing operators of: Section 56(1) services disposal operators Cargo terminals agreements Diving Private Labour brokers Waste disposal floating Bunkering Vessel Terminals (at end of cranes Pollution control Private floating contractors current contracts & Existing offcranes Pest control new) shore cargo Registrations: Future ship repair handling facilities Agents (ships, facilities Future off-shore cargo clearing and handling facilities forwarding) High Degree of Regulation Low





Port Investment Planning

Port Investment Planning



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 The main function of the Authority is to own, manage, control and administer ports to ensure their efficient and economic functioning, and in doing so the Authority must —

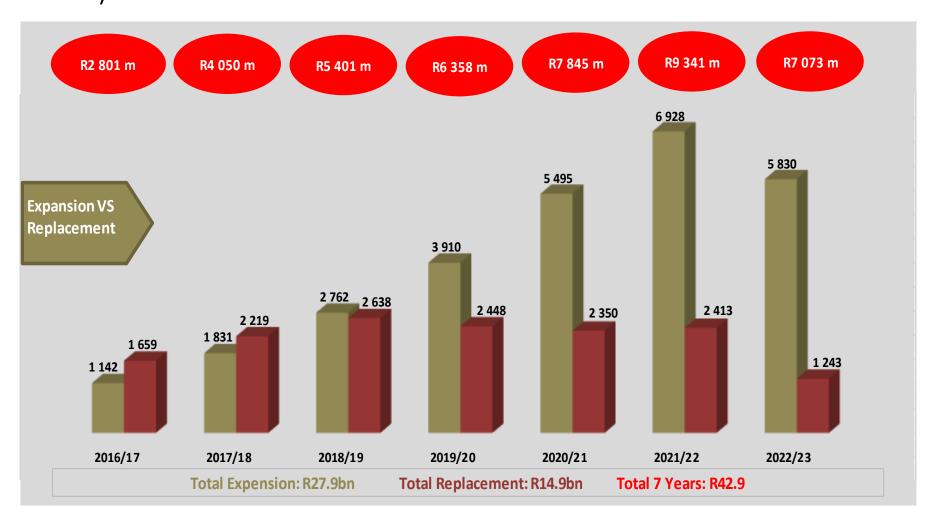
- a) plan, provide, maintain and improve port infrastructure;
- b) prepare and periodically update a port development framework plan for each port, which must reflect the Authority's policy for port development and land use within such port;
- c) control land use within ports, and has the power to lease land under such conditions
 as the Authority may determine;
- d) provide or arrange for road and rail access within ports;
- e) arrange for such services such as water, light, power and sewerage and telecommunications within ports;
- f) maintain the sustainability of the ports and their surroundings;

Port Investment Planning (continued)

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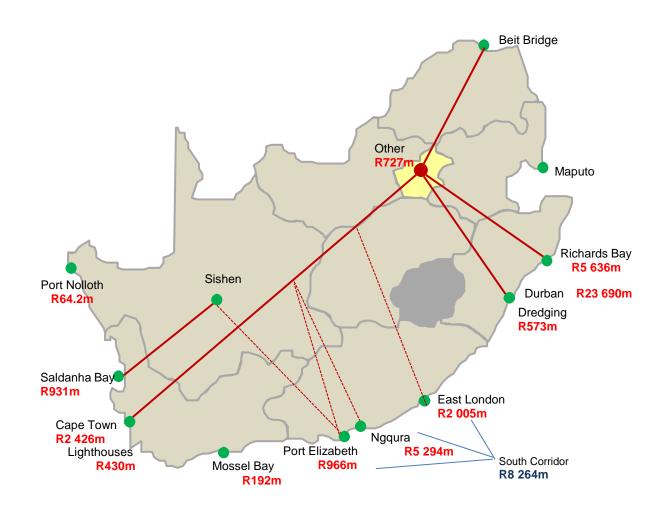
 The Authority's capital plan: R42.9bn (exclusive of land associated with DIA)







 The Authority's capex spending over the seven year period amounts to R 42.9bn:

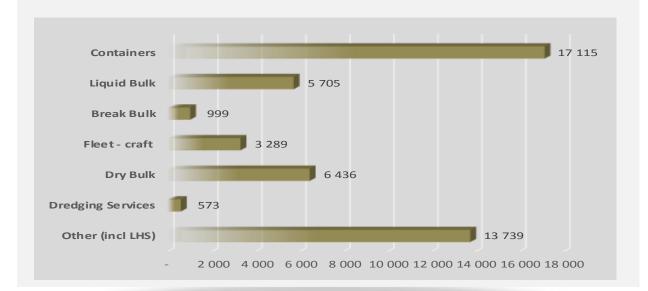


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Port Investment Planning (continued)







Other (incl LHS) includes all other port facilities:

Provide additional rail facility for Duine Area – RCB
Upgrade overhead traction equipment – DBN
Bayhead Road and truck staging – DBN
Upgrade of remaining port HV electrical infrastructure phase 2 – DBN
West bank foreshore protection (feasibility and Execution) – EL
Upgrade of 6,6kV electrical reticulation network – PE
Replacement of lead in jetties slipway - PE

Port Investment Planning (continued)

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Major Capital Projects FY 2016/17 to FY 2021/22



Durban Container Terminal

- Berth Deepening and Lengthening Pier 2 (Berth 203 205)
- Salisbury Island Infill (Pier 1 Phase 2)



Port of Nggura

Operationalisation of the Port





- 16mtpa Manganese Terminal at the Port of Nggura
- Tank Farm Berth A100, roads, port entrance and services at Nggura
- LNG Terminal and additional Bulk Liquid at RCB (envisaged completion FY 2022/2023)
- Bulk electrical power supply related to Third tippler



Break Bulk

• Reconstruct sheet pile quay walls at DBN Maydon Wharf (Berths 1,2, 13 & 14)



Fleet Management

Acquisition of tug boats, pilot boats, launches, dredgers (all ports)



Helicopters

Acquisition of replacement helicopters for DBN & RCB



Operation Phakisa

Operation Phakisa Initiatives at DBN, EL, PLZ, SLD, CPT



Operation Phakisa

Operation Phakisa



- national ports authority
- Operation Phakisa launched by the State President (Oct 2014) resulted in focused initiatives to unlock the economic potential of South Africa's oceans.
- Oceans Economy can contribute to GDP growth and increased employment.
- The Authority will pursue new vessel repair facility opportunities at the Ports of Saldanha, Richards Bay and East London.
- Maintenance and refurbishment of existing vessel repair facilities have been prioritised at the Ports of Durban, East London, Port Elizabeth, Mossel Bay, Cape Town and Saldanha.
- TNPA is supportive of the Ocean's Economy initiatives with specific emphasis on Aquaculture.

Operation Phakisa



Significant Achievements to date:

- Refurbishment of the Durban Dry Dock Outer Caisson DBN;
- The delivery of Workshop 24 equipment DBN;
- The completion of the Boat maintenance area PE; and
- Commissioning of the 90 ton Boat Hoist PE.





OFFSHORE SUPPLY BASE, NEW BERTH 205 AND MOSSGAS QUAY- SALDANHA (PSP)







REFURBISH EXISTING PORT (SHIP REPAIR) FACILITIES





Ship Repair Market Size

- 1. ±13,000 total ship calls at SA ports p.a.
- 2. Potential 2500-5500 ships p.a. for ship repair
- 3. Global demand for dry docks to increase at 13% p.a. from 2015 onwards
- 4. ±33% of bulk carriers, tankers and container ships are dry-docked p.a.

Major Project list

- Replacement of 20 cranes (CPT &DBN)
- Replacement of floating dock (DBN)
- Slip way and boat hoist (PE)
- 4. Slipway facility (MSB)
- 5. Construction of OSSB quay (SLD)
- 6. Upgrade of Dry Docks (DBN, EL &CPT)

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REPAIR FACILITY- RICHARDS BAY (PSP)

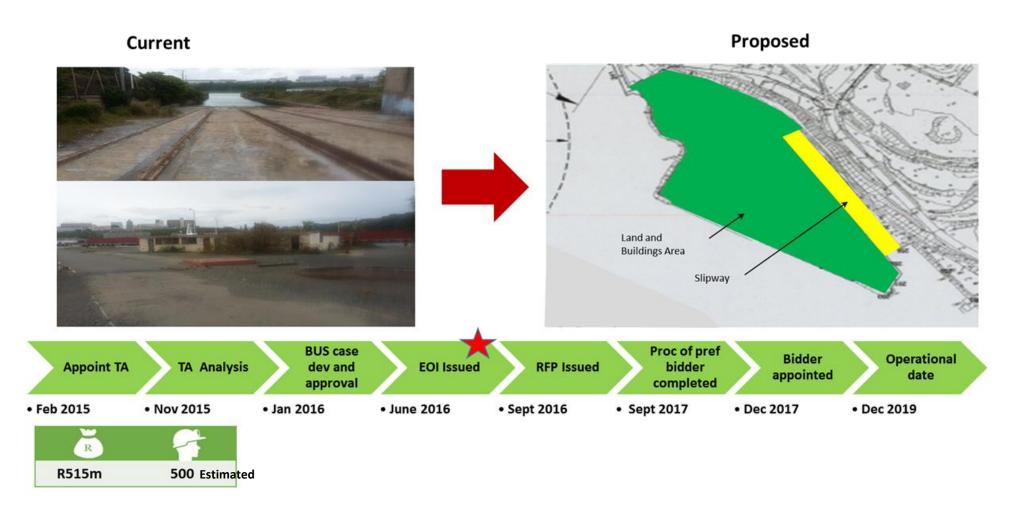








BOAT BUILDING FACILITY – EAST LONDON (PSP)

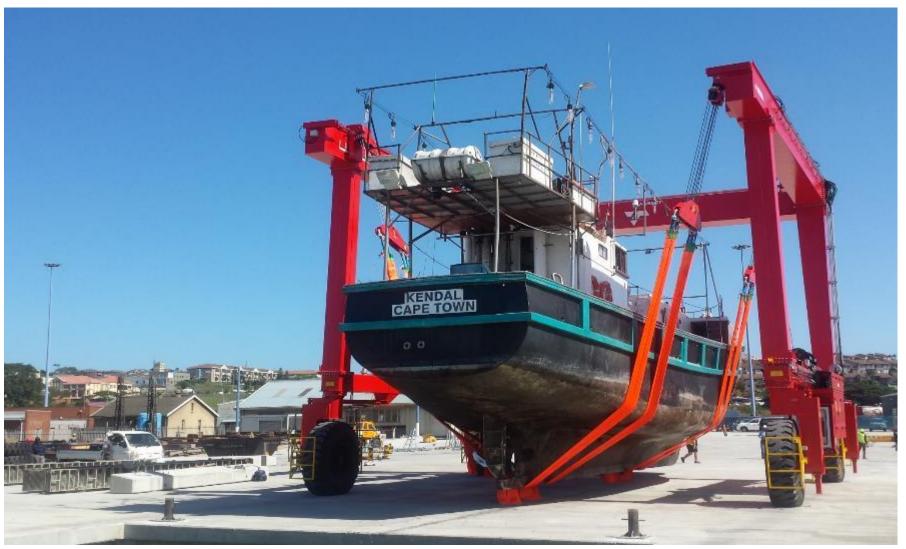


SCHEMATIC PICTURES AND DIAGRAMS OF INITIATIVE 5

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Boat Hoist - Port of Port Elizabeth





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Operation Phakisa: Training Centres (Schools)



Port	Action
Port of Durban	18 Apprentices (10 Millwrights and 8 Welders) Started on 11 April 2016 at TE
Port of Mossel Bay	The plan is to train on the following: Welders; Boiler Makers; Electricians; Fitters and Turners; Rigging
Port of Cape Town	Training program role out plan: Phase 1 –Safety training-Aug 2016 Phase 2- Marine Training-Feb 2017 Phase 3- Dock Master training- June 2017 Phase 4- Boatbuilding training-Feb 2018

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Operation Phakisa: Training Centre (Schools)

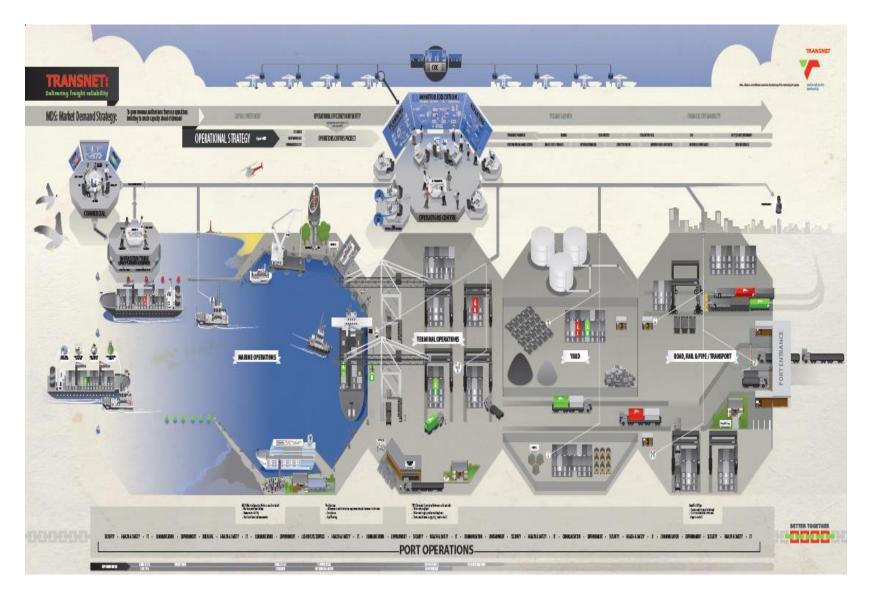


Port	Action
Port of PE & Ngqura	Will be engaging TE, while the building is being completed, for Electrical Apprentices & Millwright training, to commence training with TE- April 2017
Port of Richards Bay	Engaged Richtek TVET College to train 20 Learners, 10 Electrical & 10 Plumbing, to commence April 2017
Port of East London	Training offerings: Ordinary Seaman Deck & Engine, GPR, Cargo Coordinator-Containers, Container Straddle Carrier, Rubber Tyred Gantry Crane, STW Radio Certification

Launch of SMART People's Port







Establishment of Joint Operations Centre's



Progress to date

Physical Joint Operations Centre facilities have been established at the Head Quarters and in the following ports:

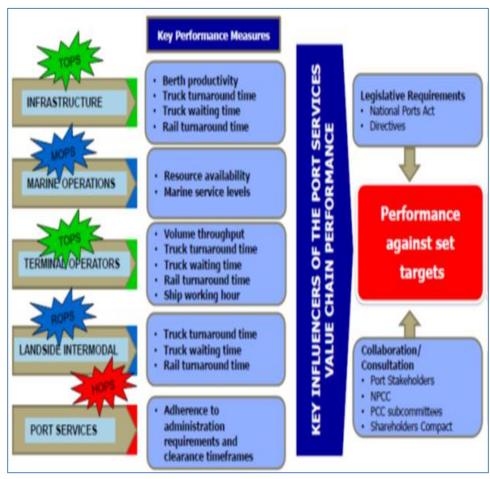
- Richards Bay
- Durban
- East London
- Nelson Mandela Ports (currently sharing one facility in Port Elizabeth and Ngqura will be establishing theirs shortly)
- Cape Town
- Saldanha
- Mossel Bay under construction



Port Efficiency



- The revised Marine Operator Performance Standards (MOPS) to include vessel service time
- IPMS enables effective marine service planning and provides a measurement for achievements
- Rail Operator Performance Standards (ROPS) issued in FY 2016/17 to TFR
- Commissioning of a truck staging area at the Port of Richards Bay
- The "SMART People's Port" initiative has commenced with the implementation of the IPMS
- Haulier Operator Performance Standards (HOPS to address the flow of trucks and ease congestions in the Port of Durban







Tariff Application Approach

Tariff Application Approach





- The Port Directives were approved on 13 July 2009 (gazetted on 06 August 2009) and amended on 29 January 2010.
- Directives require the Regulator to ensure that the Authority's tariffs allows it to:

recover its investment;

recover its costs;

make a profit commensurate with the risk.

Regulatory Framework



- On 31 July 2014 the Regulator issued a Regulatory Manual ("Tariff Methodology") applicable for the tariff years 2015/16 to 2017/18.
- The approved Tariff Methodology is multi-year in its approach (3 years)
- The methodology further allows for an annual review and an annual adjustment of tariffs within the three year period as opposed to fixing the prices for the full period.
- The Authority has applied for a fixed tariff adjustment for FY 2017/18 and indicative tariff adjustments for FY 2018/19 & FY 2019/20.
- Whilst the FY 2017/18 is the final year of the Tariff Methodology, the Authority has included FY 2018/19 & FY 2019/20 in order to demonstrate the tariff trajectory over a three year period.

Regulatory Principles & Previous Records of Decision (ROD's)



- In determining the Tariff Application FY 2017/18, the Authority has been guided by principles included in previous decisions of the Regulator.
- This includes the consideration of bilateral contracts at tariff book rates (as opposed to contract rates).
- The Tariff Application FY 2017/18 has therefore been prepared in accordance with the Tariff Methodology and principles applied in previous decisions of the Regulator.





Tariff Application FY 2017/18



• The Tariff Methodology prescribes the following Required Revenue (RR) formula:

Revenue Requirement

= Regulatory Asset Base (RAB) x Weighted Average
 Cost of Capital (WACC) + Operating Costs +
 Depreciation + Taxation Expense ± Claw-back ±
 Excessive Tariff Increase Margin Credit (ETIMC)

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Key Principles of Tariff Methodology



• The key principles included in the Tariff Methodology is as follows:

Component		Details
Regulatory Asset Base (RAB)	•	The RAB represents the value of assets that the NPA is allowed
		to earn a return on.
Vanilla Weighted Average Cost of Capital	•	A real WACC will be applied, given that the RAB is indexed for
(WACC)		inflation.
Operating Costs	•	The NPA is required to provide detailed and complete
		motivation for each of the expenses applied for.
Depreciation	•	The depreciation of the assets in the RAB will be calculated as
		a straight line 40 year on the opening balance of the RAB.
Taxation Expense	•	The Regulator will use the pass-through tax approach where
		the vanilla WACC will be applied to the average RAB for the
		period under consideration
Claw-Back	•	The Regulator will spread the total impact of over/under
		recovery of revenue over a period of two tariff determinations.
Excessive Tariff Increase Margin Credit (ETIMC)	•	The Regulator considers it prudent to avoid future tariff spikes
		by retaining and increasing the NPA's ETIMC.

Revenue Requirement Components





 Valuation of the RAB takes into consideration Depreciation, Inflation Trending, Capital Works in progress (CWIP)/Capex and Working Capital:

REGULATORY ASSET BASE	FY 2017/18 R'm	FY2018/19 R'm	FY2019/20 R'm
Opening book value	73 846	80 737	88 611
Inflation Index	4 726	4 521	4 785
Indexed Opening Asset Base	78 572	85 258	93 396
Indexation of Capex	130	151	172
Indexed Asset Base	78 702	85 409	93 567
Add :Capex (Corporate Plan)	4 050	5 401	6 358
Depreciation	-2 015	-2 199	-2 414
Closing Book Value	80 737	88 611	97 511
Average Asset Base	77 291	84 674	93 061
Less :Working Capital	-2 815	-3 023	-3 188
Regulated Asset Base	74 477	81 651	89 872

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Revenue Requirement Components(continued)

national ports

The Vanilla WACC is determined is as follows:

REAL RATE OF RETURN	FY2017/18	FY2018/19	FY2019/20
Inflation forecast	6.40%	5.60%	5.40%
Nominal Risk-free rate	8.58%	8.58%	8.58%
Real risk free rate	2.05%	2.82%	3.02%
MRP	5.40%	5.40%	5.40%
Asset beta	0.50	0.50	0.50
Equity beta (using Hamada)	0.86	0.86	0.86
Gearing	50.00%	50.00%	50.00%
Debt/equity ratio	100.00%	100.00%	100.00%
Nominal Weighted Average Cost of Debt (WACD)	10.81%	10.91%	10.97%
Tax rate	28.00%	28.00%	28.00%
Real Cost of equity (post-tax)	6.69%	7.47%	7.66%
Real WACD (pre-tax)	4.14%	5.03%	5.28%
Real Vanilla WACC	5.42%	6.25%	6.47%

Explanatory notes:

Risk Free Rate:Calculated over a five yearly average from June 2011 to May 2016 for FY 2017/18

MRP: Geometric mean with the use of DMS studies

Inflation: BER Forecasts

Cost of Debt: Transnet Weighted Average Cost of Debt

FY 2017/18 MRP figure is used as a proxy for MRP for indicative years FY 2018/19 & 2019/20

Revenue Requirement Components(continued)





• Taxation calculations as per Tariff Methodology is highlighted below:

Details	FY 2017/18	FY 2018/19	FY 2019/20
Gross Income	10 469	11 638	12 792
Equity Return on RAB	2 492	3 048	3 443
Depreciation	2 015	2 199	2 414
Opex	5 961	6 391	6 935
Deductions	7 976	<i>8 590</i>	9 349
Depreciation	2 015	2 199	2 414
Opex	5 961	6 391	6 935
Taxable Income	2 492	3 048	3 443
Gross up for tax	3 462	4 233	4 781
Tax at 28%	969	1 185	1 339

Revenue Requirement Components(continued)

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• Operating Expenditure is highlighted below:

	Actual	Budget	Forecast	Dev '16/17	Dev '16/17	% of Opex	Forecast	Forecast	CAGR
Cost Category	2015/16	2016/17	2017/18	vs 17/18	vs 17/18	17/18	2018/19	2019/20	2017/18 -
	R Million	R Million	R Million	R Million	Percentage	Percentage	R Million	R Million	2019/20
Labour Costs	2 074	2 423	2 802	380	16%	51%	3 042	3 268	8%
Rates & taxes	314	348	375	28	8%	7%	410	517	17%
Maintenance	340	348	396	48	14%	7%	428	487	11%
Contract Payments	80	141	150	9	6%	3%	158	167	6%
Energy	436	530	599	70	13%	11%	645	693	8%
Professional services	19	50	168	118	236%	3%	178	188	6%
Material	76	80	87	7	9%	2%	90	96	5%
Computer & Info systems	125	188	191	3	2%	3%	202	214	6%
Rental	159	193	193	0	0%	4%	204	215	6%
Security costs	74	91	94	3	4%	2%	101	110	8%
Pre -Feasibility Studies	24	92	122	30	32%	2%	103	96	-11%
Sundry operating costs	136	277	274	-3	-1%	5%	282	295	4%
Total operating cost	3 857	4 760	5 452	692	15%	100%	5 843	6 348	8%
(excluding depreciation)									
Group Costs	506	650	509	(142)	-22%		548	587	7%
Total operating cost	4 362	5 411	5 961	550	10%		6 391	6 934	8%
(Including Group Costs)									

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Revenue Requirement Components(continued)

Key Drivers for the increase in Operating Expenditure is as follows:



COST DRIVER	DETAILS
1. Labour	 Increase in minimum manning levels of marine to 100% service and then to 120% to meet MOPS requirements;
	 Additional crew to man new craft being deployed by Dredging and Marine services;
	Additional Port Engineering personell;
	 Trainers required to establish marine engineering schools in the Ports of Cape Town, Mossel Bay, Ngqura, Port of Elizabeth, East London and Durban;
	Manning of port operational centres; and
	Appointment of trainee helicopter pilots to in house.
2. Maintenance	Refurbishment of ageing infrastructure;
	• Ship repairs maintenance and refurbishment which involves the upgrading of existing facilities.

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Revenue Requirement Components(continued)

• Key Drivers for the increase in Operating Expenditure is as follows:

national ports authority

COST DRIVER	DETAILS
3. Energy	Eskom tariff hike and fuel for new craft.
4. Pre-Feasibility Studies / Professional Fees	 Studies relating to ship repair facilities for the port system in terms of the Operation Phakisa initiative; Other projects include; the Richards Bay LNG studies, increased power supply in the Port of Durban; roads study interlinked with metro; the Cape Town Container Terminal expansion; and Studies related to the future capital programme.
5. Sundry Operating Costs	• S56 projects lead to increased legal fees. Other cost increases relate to Health & Sanitation, Insurance, Printing & Stationary, and Advertising.

national ports

- Claw-back considers the differences between allowed and actual revenues.
- The re-computed RR for FY 2015/16 is R10 569m and determined as follows:

Details	FY 2015/16
RAB	66 573
WACC	6.38%
Returns	4 249
Opex	4 304
Depreciation	1 789
	10 342
Tax	959
Re-computed Revenue Requirement	11 300
Clawback	-581
ETIMC	-150
Re-computed Revenue Requirement	10 569

• The "net" claw-back calculations are demonstrated below:



Actual Claudead	FY 2015/16	
Actual Clawback	R'm	
Re-computed Revenue Requirement	10 569	
2015/16 AFS Revenue	11 144	
Contract Revenue	120	
Total Revenue FY 2015/16	11 264	
Clawback FY 2015/16	-695	
Interim Clawback FY15/16 taken in FY16/17	-55	
Final Clawback FY 2015/16	-750	

Clawback is largely driven by lower Opex as a result of the Authority's measures to extract efficiency gains and reduce costs in operations.

Estimated Clawback	R'm
Allowed Revenue per ROD FY 2016/17	11 064
Latest Estimate Revenue	11 043
Estimated Clawback for FY 2016/17	21
2017/18 Clawback	-750
Plus return on clawback account for FY 2016/17@ 4.64% RoR	-35
Provisional clawback	11
Net Clawback 2017/18	-774





DETAILS
RAB
Vanilla WACC
Return on Capital
Plus: Depreciation
Plus: Operating Costs
Plus: Taxation Expense
Plus/Less: Clawback
Plus/Less: ETIMC
Revenue Allowed
Less: Real Estate
Revenue Shortfall
Marine Revenue

FY2016/17		
ROD		
R'm		
73 846		
4.64%		
3 420		
1 948		
5 487		
889		
-680		
-		
11 064		
-2 600		
-7		
8 457		

FY2017/18	FY2018/19	FY2019/20	
Fixed Tariff Year	Indicative Tariff Years		
	R'm		
74 477	81 651	89 872	
5.42%	6.25%	6.47%	
4 036	5 101	5 817	
2 015	2 199	2 414	
5 961	6 391	6 935	
969	1 185	1 339	
-774	11	1	
-	1	1	
12 207	14 887	16 505	
-2 798	-3 028	-3 282	
-	-	-	
9 409	11 859	13 224	

Application of the RR Formula results in a Total required Revenue of R12 207m for FY 2017/18:

Marine Business Revenue: R 9 409m

Real Estate: R2 798m

Volume Growth FY 2017/18





• The Authority's estimated weighted average volume growth for FY 2017/18 is as follows:

	2016/17	2017/18	2017/18	2017/18
Details	Revenue LE R million	Weighted Average Revenue Volume Increase %	Revenue: Volume Increase R million	Revenue: Before Tariff Increase R million
Containers	3 879	1.8%	68	3 947
Break Bulk	229	3.4%	8	237
Dry Bulk	1 086	1.5%	16	1 102
Liquid Bulk	647	2.7%	17	665
Automotive	414	4.2%	17	432
TOTAL CARGO DUES AFTER REBATE	6 256	2.03%	127	6 383
Marine & other revenue	2 213	1.2%	26	2 238
TOTAL TARIFF BOOK REVENUE	8 469	1.80%	152	8 621
Real estate revenue	2 570	8.9%	228	2 798
TOTAL REVENUE	11 043	3.44%	380	11 423





	FY2017/18	FY2018/19	FY2019/20
MARINE REVENUE	Fixed Tariff Year	Indicative Tariff Years	
	R'm		
Prior Year Revenue	8 469	9 409	11 859
Estimated Volume Growth	1.80%	1.80%	1.80%
Revenue after volume growth	8 621	9 579	12 072
Required Revenue	9 409	11 859	13 224
Tariff Increase	9.14%	23.80%	9.54%

- The Latest Estimate Revenue of R8 469m for FY 2016/17 is adjusted with the forecasted weighted average volume increase of 1.80%.
- The difference between this Revenue and the Marine Business Revenue Required for FY 2017/18 results in the tariff adjustment of 9.14%.

Revised Tariff Application

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- The Authority is cognisant of the current economic situation and financial challenges our customers are confronting;
- The Authority's ability to ensure a successful delivery of our MDS;
- The Authority proposes to utilise R98m of the ETIMC facility;
- Therefore, the revised Tariff Application is presented as follows:

Revenue Requirement Calculation – With ETIMC





DETAILS
RAB
Vanilla WACC
Return on Capital
Plus: Depreciation
Plus: Operating Costs
Plus: Taxation Expense
Plus/Less: Clawback
Plus/Less: ETIMC
Revenue Allowed
Less: Real Estate
Revenue Shortfall
Marine Revenue

FY2016/17		
ROD		
R'm		
73 846		
4.64%		
3 420		
1 948		
5 487		
889		
-680		
-		
11 064		
-2 600		
-7		
<i>8 457</i>		

FY2017/18	FY2018/19	FY2019/20	
Fixed Tariff Year	Indicative Tariff Years		
	R'm		
74 477	81 651	89 872	
5.42%	6.25%	6.47%	
4 036	5 101	5 817	
2 015	2 199	2 414	
5 961	6 391	6 935	
969	1 185	1 339	
-774	11		
-98		-	
12 109	14 887	16 505	
-2 798	-3 028	-3 282	
-	-	-	
9 311	11 859	13 224	

Application of the RR Formula results in a Total required Revenue of R12 121m for FY 2017/18:

Marine Business Revenue: R 9 311m Real Estate: R2 798m





	FY2017/18	FY2018/19	FY2019/20
MARINE REVENUE	Fixed Tariff Year	Indicative Tariff Years	
	R'm		
Prior Year Revenue	8 469	9 311	11 859
Estimated Volume Growth	1.80%	1.80%	1.80%
Revenue after volume growth	8 621	9 479	12 072
Required Revenue	9 311	11 859	13 224
Tariff Increase	8.00%	25.11%	9.54%

- The Latest Estimate Revenue of R8 469m for FY 2016/17 is adjusted with the forecasted weighted average volume increase of 1.80%.
- The difference between this Revenue and the Marine Business Revenue Required for FY 2017/18 results in the tariff adjustment of 8.00%.





Pricing Strategy

The Authority's Pricing Strategy



- The Pricing Strategy proposes an allocation of costs on a "user pay" principle to achieve cost reflective tariffs including:
 - Including revising revenue contribution from Terminal Operators in line with International Landlord ports model;
 - Greater incentives to maximise efficiencies and productivity for Terminal Operators; and
 - Higher revenue contribution by shipping lines to remove subsidisation.





Comprehensive

- Covers all revenue and costs
- · Addresses all charges
- · Clarifies all pricing modifiers
- · Provides sufficient detail for regulation

Defendable / compliant

- Based on clear principles
- Aligned with regulatory directives and regulator expectations
- · Supported by a robust methodology

Simple

- · Easy to understand and administer
- · Rationalises charges
- · Simplifies charges for port users

Competitive

- Comparable to ports worldwide
- · Protects regional market share
- Supports SA economic development
- · Fair on all port users
- · Allows for competition within ports

Implementable

- · Full legal and regulatory compliance
- · Addresses impact on port users

Sustainable

- Allows maintenance of existing infrastructure
- · Allows future expansion of infrastructure

Regulators response on the Pricing Strategy

- The Regulators tariff strategy is premised on the following:
 - Cost causation correct pricing signals;
 - Cost minimisation approach to minimize costs;
 - Distribution and benefits equity and reasonability; and
 - Practicality ease of implementation.

Tariff Strategy Phased Approach



- Ports Regulator's tariff trajectory (over 10 year period):
 - Cargo Dues 5.2% real price decrease on an annual basis;
 - Shipping Lines 7.2% real price increase on an annual basis; and
 - Tenants 2.8% real price increase on an annual basis.
- The allocation envisages the following:
 - Steep price reductions for Containers and Automotives; and
 - Marginal increase for Dry and break bulk commodities.

Economic Conditions Affecting Implementation of Tariff Strategy



- Global weak demand and excess supply of commodities;
- Sluggish economic performance of major trading partners (e.g. Germany, China);
- Government objective of supporting the exports of beneficiated goods;
- These limits envisaged steep price reductions on containers and automotives cargo dues tariffs; and
- However, economic conditions for forging ahead with the strategy in Marine Tariffs is conducive given the weaker rand.

The Authority's proposed differentiated tariff increases

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• The Authority proposes the following differentiated tariff increases:

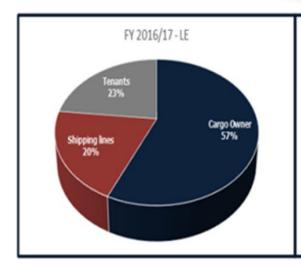


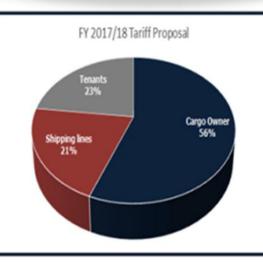
13.25% - Marine Charges (shipping lines);

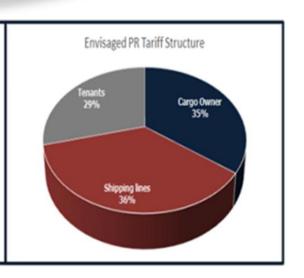
8.30% - On All Bulk;

5.00% - On Containers; and

5.00% On Automotive









Conclusion

Conclusion



In line with the Tariff Methodology and principles per previous ROD's of the Regulator, the Authority applies to the Regulator for the following revenues:



Revenues	FY 2017/18	FY 2018/19	FY 2019/20
	Fixed Tariff Year	Indicative Tariff Years	
Revenue Allowed	12 109	14 887	16 505
- Marine Revenue (R'm)	9 311	11 859	13 224
- Real Estate (R'm)	2 798	3 028	3 282
Tariff Increase (%)	8.00%	25.11%	9.54%

- For FY 2017/18, the average tariff adjustment of 8.00% is differentiated as follows:
 - > 13.25% Marine Charges (shipping lines)
 - > 8.30% On All Bulk;
 - > 5.00% On Containers; and
 - > 5.00% On Automotive

Conclusion (continued)

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- national ports
- In line with Port Directives, the revenues will allow the Authority to:
 - > recover its investment;
 - recover its costs; and
 - > make a return commensurate with the risk involved.

- Thereby sustainably fulfilling its role and delivering on its mandate ito the National Ports Act
- Whilst remaining committed to Transnet's and Governments objective of reducing the cost of doing business in South Africa.

