Department:
Transport
REPUBLIC OF SOUTH AFRICA

SOUTH AFRICAN MARITIME SAFETY AUTHORITY

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To	**:**	**The Chairman: Ports Regulator South Africa**
From	**:**	**The National Ports Consultative Committee**
Subject	**:**	**Proposals in response to Transnet National Ports Authority Application for Alteration of 2015/16 Tariffs**

PROPOSALS TO THE PORTS REGULTOR OF SA IN RESPONSE TO THE NATIONAL PORTS AUTHORITY ALTERATION OF TARIFFS FOR 2015 / 2016

1. Purpose

The purpose of this memorandum is to submit proposals and recommendations in response to the Ports Authority's Tariff Application for the 2015/16 financial year to the Ports Regulator of South Africa from the National Ports Consultative Committee.

2. Background

Section 82(1) of the National Ports Act, Act 12 of 2005, empowers the Minister of Transport in the appointment of the National Ports Consultative Committee (NPCC). The function of the NPCC, amongst others, is to consider the National Ports Authority's (NPA) tariff applications, to comment on those, and to propose meaningful alterations where it is felt that it is necessary to do so.

The current tariff application is the fourth submitted to be considered by the PRSA since the institution of the NPCC. As had been agreed on the first occasion, an ad-hoc meeting of the NPCC was convened to discuss the tariff application, and to formulate and record any alterations for submission to the Ports Regulator of South Africa (PRSA).

3. NPCC Tariff Response Discussions

The meeting referred to above was convened in Cape Town Thursday and Friday 9 -10 October 2014 supported by NPCC Representatives. Participants had intensive deliberations on the Port Authority's tariff application with reference to the anticipated draft Tariff book. The meeting resolved that the NPCC's response to the PRSA should be consistent with previous submissions. The headings are as follows:

i. Compliance with the National Ports Act, Port Regulations, Directives and the issues raised by the PRSA in the 2014/15 Record of Decision
ii. Content and Completeness: If there was sufficient information provided in the tariff application, or not.
iii. To judge whether the Application was Methodological Consistent, or not
iv. To comment on the Pricing Methodology applied by the NPA
v. To comment on the Level of Content Detail provided in the Application
vi. To analyse and comment on the draft Tariff Book
vii. To make Recommendations deemed necessary

3.1 Compliance with the Act, Regulations, Directives and the Records of Decisions for 2014/15

Section 72(2) of the National Ports Act, indicates that the Authority must, prior to any substantial alteration of its tariffs, consult with the NPCC. The NPA's Tariff Application for 2015-2016 was submitted to the PRSA 1 September 2014 with prior approval from PRSA for the extended submission. It was explained to the PCCs that the extended date sought to make allowance to include the Capex submissions presented to the 2nd quarter PCC meetings initially scheduled to happen in August 2014. Inputs from the 2nd quarter PCC meetings to be taken into account in the TNPA Tariff Application process from the onset.

a. Directive 22 (3) b-c: Given the lack of disclosure it is difficult to reconcile what was requested in the previous financial year with the execution programme to date in relation to what is being requested in this Application for 2015/16 .

b. Port Performance – The PCC sought to create an environment for meaningful inputs in response to the NPA plans. The NPA in-turn has shown a willingness to allow for broader consultation with industry. Port Consultative Committee Roadshows took place during the May 2014 across the Port system with the exception of the Port of East London. Having a detailed understanding of the business and the strategic importance of consulting widely, Mr. Ricky Bhikraj and Mr. Herbert Msagala ensured that the process remained on course from a NPA perspective. The consultation sessions covered the following:

   i. Port Development Framework Plans
   ii. Port Capital programme
   iii. **P**ort **O**perations **P**erformance **S**tandards (**T**erminal **O**perator **S**tandard **P**erformance **S**ystem, **H**aulier **O**perator **P**erformance **S**ystem, **R**ail **O**perator **P**erformance **S**ystem and **M**arine **O**perator **P**erformance **O**perator **S**ystem)

   Following the PCC Port Performance roadshow, further consultation sessions happened per port where requested. The TOPS consultation process took place across the Port system with the exception of the Port of Mossel Bay where there are no licenced Terminal Operators. This process was repeated in the Ports of Richards Bay, Durban and Cape Town respectively. Ultimately it is the role of the PCC to scrutinise the Port Plans and indicate its support or objections.

c. Directives23 (1) a-g: The lack of financial resources on the PRSA side continue to benefit the NPA and Transnet whilst negatively impacting the broader economy across the port system. It further compromises the PRSA in that it initially accepted the RAB value (using the DORC method) as a starting Regulatory asset base opening value to which there has not been any measured steps taken resulting in same being corrected.

i. The Tariff methodology is flawed with the current valuation value which sets the tone in the RAB formula. This further violates the principle of fairness amongst others.

d. Promotion of access to Ports and efficient and effective management and operation of Ports: The NPCC observes that the Ports Authority has taken several steps to improve operational efficiencies. It is further observed that the current labour cost and the additional request for consulting fees and professional services suggest that the efficiency gains in respect of processes and equipment may be eroded by a poor strategic fit of some of the current human resources within the Ports Authority.

3.1.1 NPCC Recommendations

a. Capex consultation at a PCC level constitutes either approval or rejection of Capex Plans. Penalties and Incentives should be applied to underutilised or optimised / maximised assets respectively. The entrance channel in Durban is an example where the Shipping lanes into the port silted-up and reduced the draft from 12.5m to 12.2m. This has a direct impact on vessels calling or leaving (discharging and loading) the port with fewer containers. Tariffs should be applied accordingly. The example below illustrates the impact on shipping lines.

i. A vessel size of 9000 TEU's the difference in the 30 cm in not being able to optimize the vessel to full capacity would equate to having to ship around 3600 / 4000 tons less i.e. 200 full export containers and even with a bad revenue of USD 500 / container amounts to USD 100000.00 loss in potential revenue per voyage to shipping line.

ii. NPCC therefore strongly believe that for port of Durban with this limitation in draft, the shipping lines are being unfairly penalised as the NPA tariff structure is raised in accordance of vessel's GRT. Since the large container vessels are limited (due to draft restrictions) and are not able to load to the summer draft mark due to continued, and in some cases recently reduced draft allowance, the marine charges should rather be applied to the draft that the vessel is allowed to load to, rather than the gross deadweight of the vessels as is presently the case.

b. The National Ports Authority's Regulated Asset Base (using the DORC model) has to be acknowledged as incorrect and therefore incorrect in its calculation. It has to be further acknowledged that this is a matter of national importance which requires urgent attention. We recommend that the PRSA prioritise the valuation of the Ports Authority's Regulated Asset Base. The incorrect Regulated Asset Base incorrectly informs the Revenue Required Model which contributes to the cost of doing business in South Africa.

c. The NPCC maintains its stance as stated in the previous submission: The NPCC continues to question the use of the Revenue Requirement (RR) Model as the most appropriate method on which its tariff adjustment application is based. It appears that not only does it seek to ensure NPA's sustainability and profitability, but also that of the entire business of Transnet. Admittedly this could be seen as speculative, but that is because there is not a high enough level of transparency that would enable assessors to determine the facts with any degree of precision, so that anomalies inherent in the model, are not easy to understand, or resolve. The RR Model continue to present an opportunity to NPA to continuously upwardly evaluate its regulated asset base to increase its revenue requirement. It appears that in this process, the main motivation is profit enhancement and we have our doubts whether that takes into account the responsibilities imposed on the Authority in terms of broader benefits to the economy and the need to create an environment that facilitates trade.

3.2 Content and Completeness

3.2.1 NPCC Comments

The NPCC maintains the following position. The NPCC gathers from the Tariff application that the current Real Estate tariff model is premised on typical land valuation approaches without much regard to the nature of the business operated thereon. Furthermore, by virtue of Transnet Port

Terminals (TPT) being one of the divisions of Transnet Ltd, assets leased to this organisation by the Authority are not recorded at fair value as these are considered owner occupied in terms of the accounting standards. Hence, in calculating the revenue requirement of the real estate business on this basis and combining the outcome with the balance of the authority's business, the risk exists that cross subsidisation could occur, which cannot be interrogated. While the NPCC accepts that a case can be made for cross-subsidisation in certain areas, as stipulated in the Ports Act, it must be transparent and open to examination. Otherwise it is possible that low productivity and inefficiencies could develop in certain areas of Transnet's business. It is a concern that the NPA is perceived to compare / valuate its port property in relation to the V & A Waterfront Property in Cape Town which is not comparable and should not benchmarked accordingly. The Port is operated as an operational port and should not have the same property value as a tourist/leisure area.

3.2.2 NPCC Recommendations

The NPCC therefore recommends that the land leased to TPT should be leased at the same rates as it would be to non- Transnet port operators and would like to encourage the Authority in future to be transparent on the total value of rentals acquired. Prolonging the position where TPT enjoys preferential lease rentals continues to negatively impact the rest of the leaseholders who ultimately subsidises the TPT business. In much the same way as the cargo dues and marine tariffs are published, we feel that the income to be derived from rentals should similarly be published.

3.2.3 Regulatory Asset Base

3.2.3.1 Depreciation

3.2.3.1.1 NPCC Comments

More clarity has to be provided as to what constitutes a useful life period when determining depreciation of assets. Establishing a regulated asset fair value will have to be prioritised. This is an area where more information will have to be made available.

3.2.3.1.2 NPCC Recommendations

Establishing a fair valued Regulatory Asset Base will require that the NPA and the PRSA prioritise the independent valuation of the RAB and link what constitutes a useful life period per asset to same. NPCC recommends that guidelines regards depreciation be clearly defined in step with a fair valued RAB.

3.2.3.2 Inflation Trending

The inflated RAB creates a skewed asset replacement value.

3.2.3.3 Weighted Average Cost of Capital (WACC) – Vanilla WACC

3.2.3.3.1 Cost of Equity

3.2.3.3.1.1 NPCC Comments

Components of the cost of equity is questioned within the Vanilla WAAC.

3.2.3.3.1.2 NPCC Recommendations

The NPCC proposes that this be reviewed in relation to NPA's risk profile.

3.2.3.3.2 Risk Free Rate

3.2.3.3.2.1 NPCC Comments

The NPCC supports the calculation of the Risk Free Rate as calculated.

3.2.3.3.2.2 NPCC Recommendations

The NPCC supports the calculation of the Risk Free Rate as calculated.

3.2.3.3.3 Market Risk Premium

3.2.3.3.3.1 NPCC Comments

The Market Risk premium consists of the Execution risk, Revenue Risk and Competition risk. NPA has had challenges in responding to market developments. In doing so it has experienced challenges in executing some of its capital investment projects with no penalties.

NPA's slow response to market developments has highlighted its secure monopolistic environment within which it operates. Although SA has lost cargoes to other countries, it has shown very little interest in responding to such "competition". The issue of bunker callers have tapered down dramatically has not had a marked effect on the NPA's revenue line. The same is applicable to the Port of Ngqura being touted as a Transhipment hub. NPA has been rather secure in respect of not having been exposed to market risks unlike cargo owners, shipping lines, etc.

3.2.3.3.3.2 NPCC Recommendations

It is proposed that NPA has had very little if any exposure to market risks and should therefore have a very low market risk premium.

3.2.3.3.4 Beta Coefficient

3.2.3.3.4.1 NPCC Comments

The NPCC considers the proposed Beta factor to be too high. Issue of benchmarking and the parameters for benchmarking to be reviewed for consistency. It is a further concern that as a division of Transnet the NPA has to pay all its profits to Transnet Group.

3.2.3.3.4.2 NPCC Recommendations

The NPCC proposes that the Beta coefficient be adjusted to .2 (point two) for the following reasons:

i. The NPA operates within a monopolistic environment and as the only Ports Authority it has a very, very low risk profile if any.
ii. The NPA's revenue profile is designed in such a way that it has a guaranteed income regardless of whether it performs efficiently or not or makes target or not.

3.2.3.3.5 Gearing

3.2.3.3.5.1 NPCC Comments

In respect of the gearing ratio the NPCC observed that the Transnet Group operates on a gearing preference of 50%. The Transnet Group gearing preference of 50 % is not unusual for an established company, but in an organisation that generates such a strong positive cash flow, we question whether NPA needs to follow suit. With an EBIT margin of around 60%, it is felt that the gearing ratio is excessive and should be modified accordingly. However, the intentions and application of value generated is what must be understood. Direct correlation to the NPA's strong and reliable cash flow track record and in particular its push for what it considers in its Revenue Required Model for 2014/15. We continue to maintain the proposed gearing ratio is not appropriate

3.2.2.1.4.2 NPCC Recommendations

The NPCC maintains its position that the gearing ratios is excessive and should be modified accordingly. The NPCC considered material changes regarding the prime rate, inflation and R/$ rate of exchange.

3.2.3.3.6 Cost of Debt

3.2.3.3.6.1 NPCC Comments

It is difficult to differentiate as to what is NPA's cost of Debt and how same is linked to Transnet's cost of debt.

3.2.3.3.6.2 NPCC Recommendations

That a process to separate NPA's true cost of debt from the Transnet cost of debt.

3.2.3.3.7 Taxation

3.2.3.3.7.1 NPCC Comments

The issue of corporate tax at 28% is accepted.

3.2.3.3.7.2 NPCC Recommendations

No additional recommendations.

3.3 Methodological consistency

a. The Tariff Methodology as approved by the Ports Regulator SA, published 13 August 2013, serves as a mandatory guideline. The main concern remains the incorrect valuation of the NPA's Regulated Asset Base which informs the Revenue Requirement Model. This further linked to NPA disregarding the persistent request for full disclosure steadily increased the cost of doing business in SA.

b. The methodology applied in this tariff application is the Revenue Requirement approach of determining the opening regulatory asset base and depreciation. The Revenue Requirement approach takes into consideration the calculation of the revenue required in the tariff review year and the conversion of the revenue requirement into a tariff increase, taking into account estimated revenue for the current financial year.

   The following formula used to calculate the Required Revenue: *= (cost of capital x RAB) + operating costs + depreciation + taxation expense – claw back – financing requirements costs of the previous year x (1 + cost of capital previous year) + financing requirements costs current year*

c. The NPCC Supported the efforts made to ensure a greater level of transparency and consistency in the tariff setting process. It is observed that the NPA complied with the methodology as set out by the PRSA of which the basis as it pertains to the Regulated Asset base has to be acknowledged as incorrect.

3.3.1 NPCC Recommendations

i. It was initially considered that accepting the DORC method, which resulted in an extraordinary steep increase in asset value, was to be used as an interim measure only. This being the fourth submission together with the PRSA resource limitations with no change insight suggests that this may not be a temporary measure. The

NPCC now request urgent intervention which would lead towards the valuation of the NPA Regulated Asset Base. The NPCC observed that the NPA complies with the methodology as prescribed by the PRSA. However, the methodology continues with the DORC RAB calculation which is incorrect and unacceptable.

ii. The following assertion was made previously and still holds: The TNPA's RAB is at the centre of this calculation and has been upwardly evaluated several times previously. This unrestricted upward evaluation for the same asset base is vehemently opposed. It is understood that this is a widely accepted method of calculation. Consistent with our previous submission, it appears that there are no restrictions in terms of how NPA justifies a revenue requirement in excess of R10b.

iii. The NPA continues to use the current incorrect Regulated Asset Base. This calls for a strong motivation disclosing each and every item in the asset register and serves as a call for action to correct the RAB.

iv. The NPCC questions the R 67 bn.

v. The asset register should contain all assets up to 2005 and the value at the time. A separate register should list assets added per annum thereafter.

3.3.2 Multi Year Tariff Methodology

3.3.2.1 NPCC Comments

The PRSA efforts to establish a multi-year tariff methodology towards creating regulatory certainty is welcomed. However, in retaining fundamental elements such as the current calculation of the NPA's Regulated Asset Base as an important component of the Revenue Requirement model so setting the tone for unrealistically inflated tariffs.

3.3.2.2 NPCC Recommendations

The fundamental elements of the Tariff Methodology requires urgent intervention. The Regulator's allowance for annual reviews and annual adjustment of tariffs within the three year period are supported.

3.4 Pricing Strategy

The pricing strategy requires a sound Tariff Methodology which in-turn requires a sound RAB and a clear understanding and motivation as to the Revenue Required. The RAB has to be valued at what is considered to be fair value first hence the urgent request to prioritise the RAB analyses and assessment.

3.5 Application Specifics

3.5.1 NPA's Regulated Asset Base

3.5.1.1 NPCC Comments

The NPCC maintain its observation that over a three year period the NPA moved from a RAB of R12bn to R48bn without adding any significant additional assets. This was primarily through a re-valuation of existing assets. This re-valuation was carried out during a period when real estate values were negatively impacted by the global financial crisis. The NPCC questions the dramatic upscale of the NPA RAB. This unprecedented artificial increase in the NPA's RAB presents a serious concern as it continue to impact the tariff calculations. It has to be acknowledged that this further adds to the cost of doing business in SA.

3.5.1.2 NPCC Recommendations

i. It once again recommended that a more realistic valuation of historic assets be used in calculating NPA's RAB when preparing future tariff applications. Furthermore that a RAB workshop be held as a first step where NPA has to disclose all its assets to begin the process of correcting the RAB.

ii. It is further observed that NPA has not entirely cleaned up its asset base, with assets belonging to TFR and TPT still taken into account despite the migration of assets from NPA to TPT that was effected on 1 April 2012. This further increases an already inflated RAB.

iii. E.g. Durban – Bay head shunting yard is only used by TFR. According to information available does TFR not pay any rental for the area? Reason given: - TNPA as landlord must provide access to their facility. This is not valid as it is only TFR using the rail and is not a multi user principle as with the road act.

iv. *Valuation of the RAB has to be prioritised.*

v. *The NPCC supports that the RAB reviewed as a matter of urgency. . It is understood that PRSA's approach in revaluating a sample of assets forms part of the process of cleaning up the TNPA RAB. It must be noted that during the period in which TNPA upwardly evaluated its Asset Base most commercial property prices dropped sharply given the macro economic climate at the time and to date. Property prices are still on the road to recovery. Furthermore Port property should not be compared with the for example V&A property prices.*

vi. The TNPA asset base has to be scrubbed and separated from other Transnet divisions. All additions in the current RAB impacts positively on the TNPA strengthening its Revenue Required Methodology whilst negatively impacting Port users and increasing the cost of doing business in South Africa.

3.5.2 Operating Costs

3.5.2.1 Labour Costs:

3.5.2.1.1 NPCC Comments

a. Positions increased by 12.7% from the 2011/12 to 2012/13 year and with 9.02% in 2012/13 to 2013/14 financial year, while vacancies was 11.4% and 13.8% respectively.
b. Labour costs requires more detail as it does not provide a complete picture. The NPA stated in its application that Labour cost is a function of delivering on the Authority's mandate in terms of operational efficiency, oversight and maintenance. It is difficult to reconcile positions previously requested in relation to positions filled year to date. It is further questioned whether all of the NPA appointments contribute positively to it delivering on its mandate. A good example is the current Operations centres where many of the Senior Operations Managers are battling with coming to grips with what they expected to both understand and have some level of authority on. Vacancies year on year being 10% and more (Positions being vacant for longer than 6 months should be re-investigated in terms of who is / has been doing the work and if the planned work creates value and is needed and scrapped if not needed.
c. Creation of more positions year on year – the drive to create jobs is understood. NPA's drive to embed jobs previously e.g. helicopter pilot program, in sourcing of security services.

d. The number of additional senior positions being created represents somewhat of a concern. It is for example difficult to understand the positions created on the Marine sides and how that links to pre-empting some of the challenges and adding value to the NPA's mandate. The challenge in the Port of Durban illustrates that safety and efficiencies remain a concern even though the head count increased and continue to increase with marginal if any additional value. It has to be considered whether activities allocated to these additional positions and others not possibly have been done by current harbour masters team as part of current incumbents portfolio

e. NPCC's comments:

3.5.2.1.2 NPCC Recommendations

The NPCC supports job creation and employment. It maintains that there has been no detailed breakdown to assess duplication of services to date. It seeks to further understand how this will stem the current level of inefficiencies which has added cost to the chain. In the current climate the NPCC cannot support any increase that is in excess of inflation. The NPCC supports that there be a meaningful relationship between the NPA's mandate, its deliverables and a meaningful structure that creates an enabling environment to execute and deliver on the Authority's mandate.

The NPCC supports that the Labour cost component increase be consistent with that determination. Previous and new appointments made must contribute positively to the NPA's mandate and deliverables.

The NPCC supports that a recon be done in terms of appointments made year on year in relation to efficiencies and proposed increased consulting fees.

3.5.2.2 Maintenance

a. The NPCC acknowledges that maintenance constitutes a very important part of any business. The number presented in the Application poses several questions. New equipment carry warranties which should reduce the need for maintenance in the same year. Not enough detail is provided. It is difficult to reconcile this number with what was requested previously and actually followed through on. Similarly it is difficult to link this back to each of the Port PCC key projects.

3.5.2.3 Contract Payments

Too little information provided. A greater level of detail required.

3.5.2.4 Professional Services

3.5.2.4.1 NPCC Comments

The proposed budget suggest that NPA may have become over-reliant on consultants. This begs the question as to the status of some of the budgeted and proposed labour costs and particularly skills and competencies within the NPA.

The NPCC is of the opinion that NPA must explain this deviation and further explain projected expenses in this category. Once again It is required that the expenses be specified per port. The requested amount for HR consulting is considered an over estimation. This requires further explanation. The proposed consultancy raises red flags.

The question of confidentiality comes under scrutiny when TNPA allows many varied consultants access to sensitive information relating to Terminal Operator Performance submissions from various port users who operate in competition with each other, which may be perceived as being in direct conflict of the provisions as set out in Competitions Commission Act

3.5.2.4.2 NPCC Recommendations

It is recommended that the NPA provides more detail and reviews the HR component in respect of this work being done in-house.

Rental

a. NPCC's Comments:

   The NPCC maintain that NPA should provide a detailed breakdown per Port for each of the sub categories, i.e. internal and external land and buildings, machinery, equipment and furniture, etc. This should be further unpacked in respect of Rentals catered for linked to

Transnet and or other divisions. A Rental breakdown to further explain NPA Buildings etc. that have been standing vacant is required.

3.5.3 Re-engineering, Integration, Productivity and efficiency

3.5.3.1.1NPCC Comments

The NPCC questions as to the purpose of the current engineers and the engineers in training serve. It is a concern that human resources may not be optimised.

3.5.3.1.2 NPCC Recommendations

It is requested that a greater level of detail be provided.

3.5.3.2 Sundry Costs

3.5.3.2.1 NPCC Comments

The proposed increase of 240% on 2014/15 is astronomical. More detailed to be provided under Revenue generated under Sundry Operating costs. It is a concern that the NPA may create additional revenue streams as penalties etc. adding to the cost of doing business.

3.5.3.2.2 NPCC Recommendations

This increase is not supported. The NPCC requires a greater level of detail. It raises several concerns.

3.5.3.3 Group Costs

3.5.3.3.1NPCC Comments

The NPCC resolved that increases in group costs remains excessive and previously requested a detailed breakdown of all related costs, as well as how this apportionment compares with the other Transnet Divisions. This view still holds. It is also difficult to extract the value currently generated by Group and to reconcile same with what the NPA has to deliver in respect of its mandate and deliverables.

3.5.3.3.2NPCC Recommendations

The NPCC recommends that there be a zero increase in this category. Furthermore that a detailed explanation be provided regards previous increases and value added.

3.6 Tariff Book

3.6.1 Transhipments

3.6.1.1 NPCC Comments

It is noted that provision was made for flexibility in tariffs applying to transhipment charges between the Ports of Ngqura and Durban as approved by the PRSA. This however does not include Marine Charges.

3.6.1.2 NPCC Recommendations

The NPCC recommends that TNPA subsidize these additional expenses incurred, or provide incentives by way of reducing the marine charges in order to compete against other global hubs ports offering similar transhipment facilities as the reduction in cargo dues for transhipment containers adds little significance to the additional costs incurred by the Shipping lines.

Unfortunately transhipments are volatile – here today gone tomorrow where already lost 250000 TEUS West Africa containers now routed through Valencia resulting in less vessels calling at Ngqura, reducing marine revenue.

The two biggest criteria when appointing a transhipment hub port is:-

i. **Port efficiencies**
ii. **Cost effectiveness**

To avoid any further deviations in vessels / volumes one needs to incentivise The Port of Ngqura continues to be touted as a transhipment hub port servicing Sub Sahara Africa by way of reduction in Marine charges together with preferred cargo dues transhipment charges.

We previously illustrated the actual costs incurred by a shipping line to tranship containers which were normally transhipped at Durban port (current berth congestion) to now tranship same containers at Ngqura:-

A typical feeder vessel consumes 135 / tons of fuel on average per day.

Transit time Durban / Ngqura / Durban = 2 days

2 days x 135 tons x USD 700/ ton = USD 189000.00

This is just the price for the bunkers incurred, extra per vessel and excludes the additional port call expenses, which highlights the need to have incentivising of marine tariffs for vessels carrying transhipment containers via port of Ngqura.

3.6.2 Marine services

3.6.2.1 Pilotage

3.6.2.1.1 NPCC Comments

a. The NPCC maintains that the applied methodology requires further explanation. Cape Town is generally lower than all the ports; Ngqura and PE appear to be penalised per 100 ton increments, and the Richards Bay anomaly was mentioned previously.
b. The Tariff Book currently indicates that Pilotage can either be done with a helicopter or a Pilot boat. This creates several questions.
c. The NPCC Reflected on the period earlier this year when the Helicopters were out of service which resulted in all Pilot Boats being used.

3.6.2.1.2 NPCC Recommendations

The NPCC supports that the NPA explains the Pilotage variances across the Port system. The NPCC further recommends that the NPA differentiate between the Helicopter services and Pilot boat services tariff lines. The NPA is further requested to unpack its helicopter service tariff and explain same.

3.6.2.2 Tugs

3.6.2.2.1 NPCC Comments

a. The NPCC noticed that the Richards Bay surcharge is historical which has to be explained. The Port of Ngqura is being marketed as a transhipment hub, yet it appears to be penalised in the NPA's tariff application.

3.6.2.2.2 NPCC Recommendations

The NPCC resolves that NPA explains same. It is required that there be a differentiation in tug fees for different vessel sizes in the Port of Saldanha Bay.
The NPCC further recommends a 20% discount in Marine charges for the Port of Ngqura for all Transhipment vessels only. NPCC's Recommendation: NPA to explain this variance.

3.6.2.3 Berth Dues

3.6.2.3.1 NPCC Comments

Similarly, delays on the berths are billed directly to the Shipping Lines even though the Terminal Operator may be at fault. Previously shipping lines appointed the Stevedores whereas currently the Terminal Operator, in this instance TPT, appoints Stevedores and are responsible for arranging the docking, undocking of the container vessels. Suggestion Tariff book needs to be amended where NPA invoice the Terminal Operator and not the Shipping Line for delays where vessels do not commence / sail within free period of 2 hours from docking / completion of operations.

3.6.2.3.2 NPCC Recommendations

The NPCC supports that NPA consider this issue within the ambit of its oversight role and address same as a further priority. Proposed that the Tariff Book be amended to NPA billing the Terminal Operator instead.

3.6.3 Cargo Dues

3.6.3.1 NPCC Comments

The NPCC previously expressed support for the rebalancing of the NPA's tariff book. Significant works still has to be done in respect of bulk vs. break bulk commodity tariff lines. As recorded previously the NPCC maintains that "one size fits all" approach often adopted in NPA's tariffs are not appropriate and does not serve the economy. To date cargo dues represents the "cash cow" within the NPA's revenue portfolio matrix and within this quadrant the container segment in particular has allowed for opportunities for cross subsidisation. This is an area that requires a review. The Automotive industry and particularly completely knock down (ckd's) units imported to build cars in SA to be exported require a hold on cargo dues. These industries in itself employees large scores of people.

3.6.3.2 NPCC Recommendations

The NPCC supports that the "one size fits all" approach be reviewed.

3.6.4 Liquid bulk

3.6.4.1 NPCC Comments

The cargo dues on liquid bulk, especially on crude oil and petroleum products need to be benchmarked and assessed given that the cargo dues on these commodities increases the costs of all products in the value chain and impacts on the cost of investments.

3.6.4.2 NPCC Recommendations

It is further proposed that the benchmarking of crude oil and petroleum products be prioritised.

3.6.5 Bunker Only Callers

3.6.5.1 NPCC Comments

Bunker Port Calls have dropped considerably. This market is similarly price and productivity sensitive.

3.6.5.2 NPCC Recommendations

The PCC recommends that Bunker only port calls be reviewed in terms of offering incentives that will attract bunker calls to South African Ports.

4. Recommendations

4.1 Previous Recommendations

4.1.1 Labour costs

Remains the biggest contributor. This highlights the importance of the right skills at the right level etc. Furthermore there is a clear indication that NPA did not fill all its previous vacancies. It is a concern that inefficiencies in the Port system remains costly whilst NPA increases its headcount.

The NPCC previously questioned levels of employment in respect of getting the right skills at the right levels. It is further recommend that NPA explain the ration between bargaining council employees, middle management and senior management and the operational and strategic fit to TNPA.

4.1.2 Group Costs

The Group's overhead labour cost increased represents several discrepancies in terms of what was previously requested. However, with the numbers as reflected in the current application personnel costs for 2015/16 constitutes 40% of the total Transnet Corporate Overhead costs? This represents a 71% increase on 2014/15 personnel costs.

The NPCC expresses its concern with this increase in head count at a group level particularly of NPA's increased need for Professional services and the long decision making process that adds to the cost of doing business in SA.

4.1.3 Summary of Recommendations

Overall level of transparency and granularity – NPA to provide a greater level of detail throughout its Application as has been requested several times previously.

i. The status requires that feedback be provided in respect of the progress made to corporatize the NPA. NPA's corporatisation has to be prioritised in line with the Ports Act of 2005.

ii. The NPCC is supportive of a Single Transport Economic Regulator to avoid any cross subsidisation between the various divisions within the Transnet Group. The work done to date by DOT is supported.

iii. The current Revenue Requirement Model does not take efficiencies into account. Great strides have been made and more has to be done. It is proposed that the RAB valuation process be prioritised and in doing so that funds be made available to the PRSA to prioritise same.

iv. The TNPA asset base has to be scrubbed and separated from other Transnet divisions. All additions in the current RAB impacts positively on the TNPA strengthening its Revenue Required Methodology whilst negatively impacting Port users.

v. NPCC therefore recommends that the land leased to TPT should be leased at the same rates as it would be to non- Transnet port operators and would like to encourage the Authority in future to be transparent on the total value of rentals acquired. Prolonging the position where TPT enjoys preferential lease rentals continues to negatively impact the rest of the leaseholders who ultimately subsidises the TPT business. In much the same way as the cargo dues and marine tariffs are published, we feel that the income to be derived from rentals should similarly be published. As a division of Transnet NPA may have to be subjected to valuation targets as set by Propnet and Transnet Group. This too has to be investigated.

iii. Rentals - The NPCC resolved that NPA should provide a detailed breakdown per Port for each of the sub categories, i.e. internal and external land and buildings, machinery, equipment and furniture, etc. This should be further unpacked in respect of Rentals catered for, linked to Transnet and or other divisions. The Rental breakdown to further explain NPA Buildings etc. that have been standing vacant.

iv. The NPCC recommends, similarly to the recommendation previously, that a detailed study be carried out as to the number of people employed by all i.e. the Authority, Terminal Operators, Shipping lines, Shipping agents, Ship Repair / Building and Port Users across all Ports, so that an integrated picture of employment in the sector can be derived.

v. Previous recommendation that a world-wide comparative study be carried out assessing liquid bulk as the Ports Regulator has thus far benchmarked dry bulk items, coal and iron, only. Liquid bulk port fees and costs to be prioritised.

vi. "Bunkers only callers" port fees and cost to be benchmarked - in 3.6 Tariff Book. This to be prioritised. Vessels calling for "bunkers only" - incentives to be reviewed as a matter of urgency.

vii. NPA increases have been motivated on the basis of improving efficiencies and poor productivity. The current situation in Durban could have been avoided had the NPA been more proactive. The draft of the Port of Durban has been reduced from 12.5m to 12.2m which has resulted in vessels previously calling fully laden can no longer do so until the keel clearance issue have been resolved. It is further proposed that the Port of Durban not be charged on GRT until such time that the draft restriction challenges have been resolved. The impact is that vessels calling the port can no longer arrive fully laden on depart fully laden. Discounts be considered based on GRT for vessels calling / departing Durban until such time that the port can accommodate vessels with total GRT loaded.

viii. The NPCC proposes that Marine charges be discounted by 20% for the Port of Ngqura only. This discount should be applicable to Transhipment vessels only

ix. Pilotage - It is further proposed that Helicopter and pilot boat services be separated and that NPA unpacks the Helicopter service tariff. IT is further recommended that the pilotage variances be explained by NPA.

x. Berth Dues – that the Tariff book be amended to allow NPA to invoice the Terminal Operator and not the Shipping Line for delays when vessels do not commence / sail within the two hours from docking or completion of operations.

xi. Cargo Dues – That the bulk vs. break-bulk tariffs be reviewed. Significant work has been done in respect of the automotive tariffs however, there is still scope for further reductions to contribute towards sustaining the automotive sector. The one size fits all approach has to be reviewed. The container cargo dues component which has subsidised various other commodities / activities to date has to be reviewed.

xii. Group overhead costs: Given the current challenges in the Port system it is difficult to understand the value Group adds. We have seen a drop in what was requested in respect of what was budgeted for and actually costs. This set the tone for an almost 71% increase in 2014/15 personnel costs. The increase in Head count at a group level together with increases professional services and consulting services has to be reviewed.

xiii. The NPCC further propose there be a process allowing for reconciliation of what was requested previously in comparison to what was executed and followed through and finally the relationship with what is being requested for the Application year.

1. Labour costs have escalated. Labour costs has escalated. It should be considered where vacancies have not been filled within 6 months that the need for such positions be reviewed. Several additional positions have been created within the Harbour Portfolio as an example. It is difficult to understand how same positions would for example contribute to delivering on the NPA mandate when looking at the precipitated draft challenge in the Port of Durban that could have been avoided. The NPCC proposes that the NPA carefully considers its need for ongoing hiring in of consultants across its business and particularly where it borders on deliverables of executives and relevant senior staff who are required to have certain competencies. Concern that NPA may be over-staffed in some areas.

4.2 Final Recommendation

The NPCC proposes that the PRSA consider the comments and recommendations throughout this submission. The NPCC carefully considered current market conditions and the projections for 2015/16 taking into account the growth estimate for the current financial year which is 1.2% and 2015/16 which has been adjusted downwards from 2.7% to 2.3%. To this end the NPCC proposes that a zero percent increase or negative increase be offered across the revenue lines.

Submitted for the Chairman's consideration.