



# **The Ports Regulator of South Africa**

**Tariff Application 2017/18 Road Show**

**2-7 September 2016**

**Garden Court Kings Beach, Port Elizabeth**

# Program

9:00-9:10	Opening and Welcome
9:10-9:20	Introduction: Mr. Mahesh Fakir
9:20-9:45	Overview of Ports Regulator's Reports: Ms. Jowie Mulaudzi
9:45 -11:00	NPA Tariff Application 2017/18: Mr. Mohammed Abdool & Mr. Pule Mothiba
11:00-11:30	Tea Break
11:30-12:00	Questions and Comments
12:00:-12:20	Tariff Methodology Review: Mr. Chris Lötter
12:20-12:30	Closing Remarks, Vote of Thanks and lunch invitation

# Overview of Regulator's 2015/16 reports

1. Port Capacity and Utilisation
2. Port Performance Benchmarking
3. Port Sector Review
4. Five year public regulatory review
5. Port Pricing Benchmarking

# South African Port Capacity and Utilisation report 2015/16



SOUTH AFRICAN PORT CAPACITY AND UTILISATION REPORT

2015/16

**PUBLIC CONSULTATION ROADSHOW  
DISCUSSION DOCUMENT**

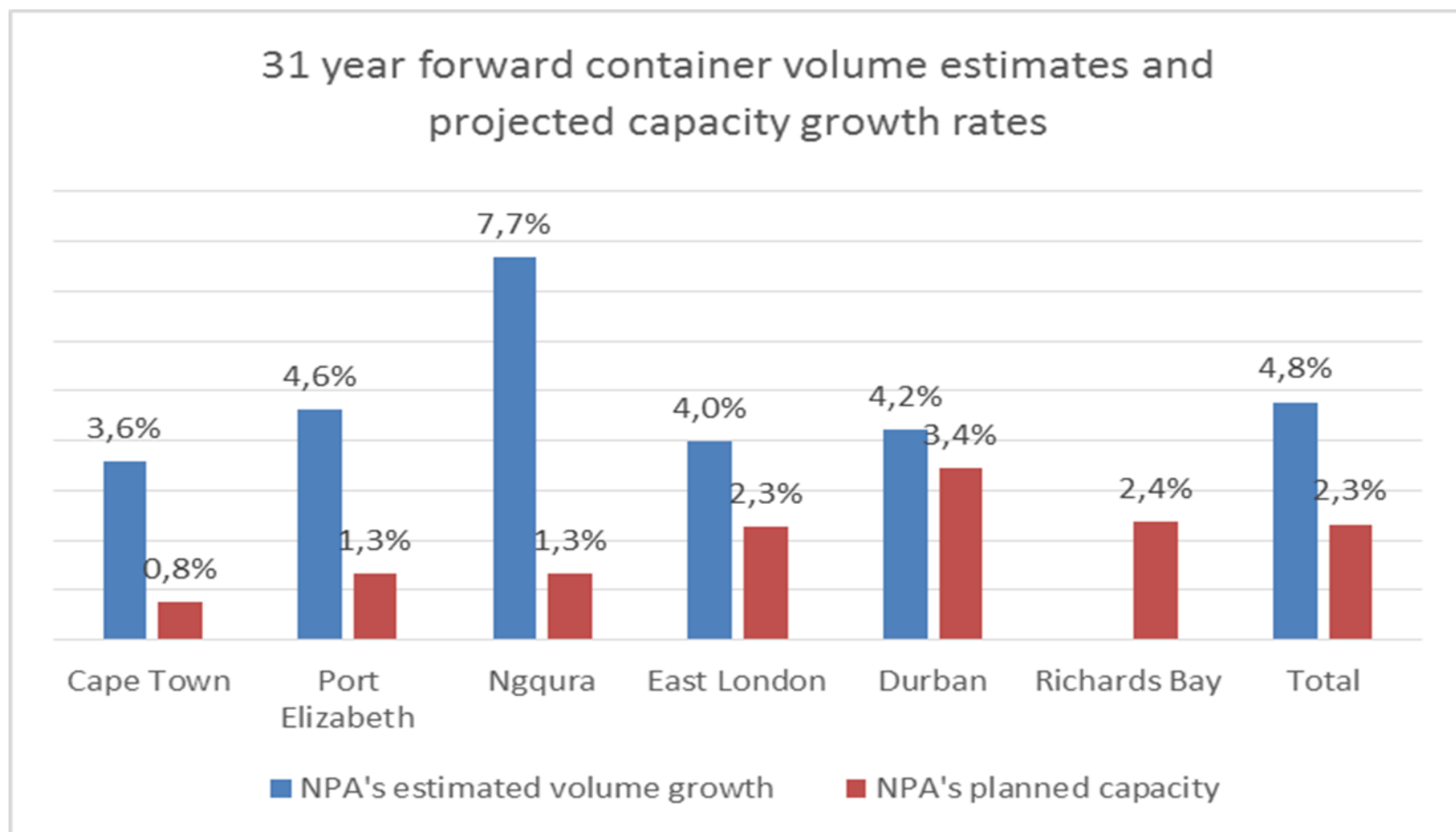
Comment is invited via written submission by:  
30 June 2016, addressed to: The Chairperson,  
Ports Regulator, Private Bag X54322, Durban, 4000  
Or email submissions to: [info@portsregulator.org](mailto:info@portsregulator.org).

64 page document providing the following on each of the 5 cargo handling types:

- Volumes: historical (since 2002), current and projected future volumes (up to 2042)
- Authority's reported port capacity per commodity handling type
- Assessment of the use of capacity: throughput vs. design and installed capacity and trends over 5 years
- The Authority's expansion programme
- Some reported performance against selected indicators

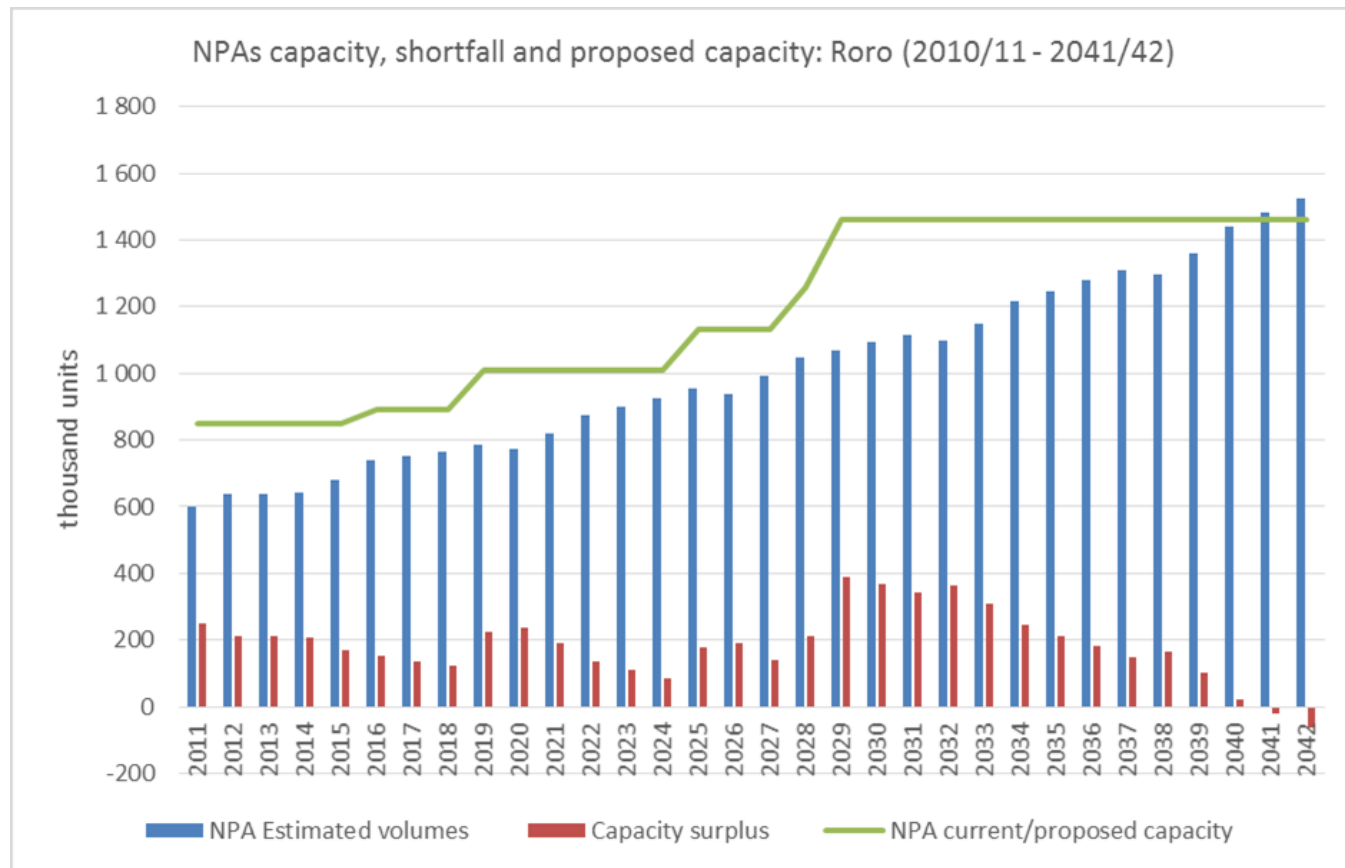
# Volumes

## CAGR, YoY & projections e.g. containers



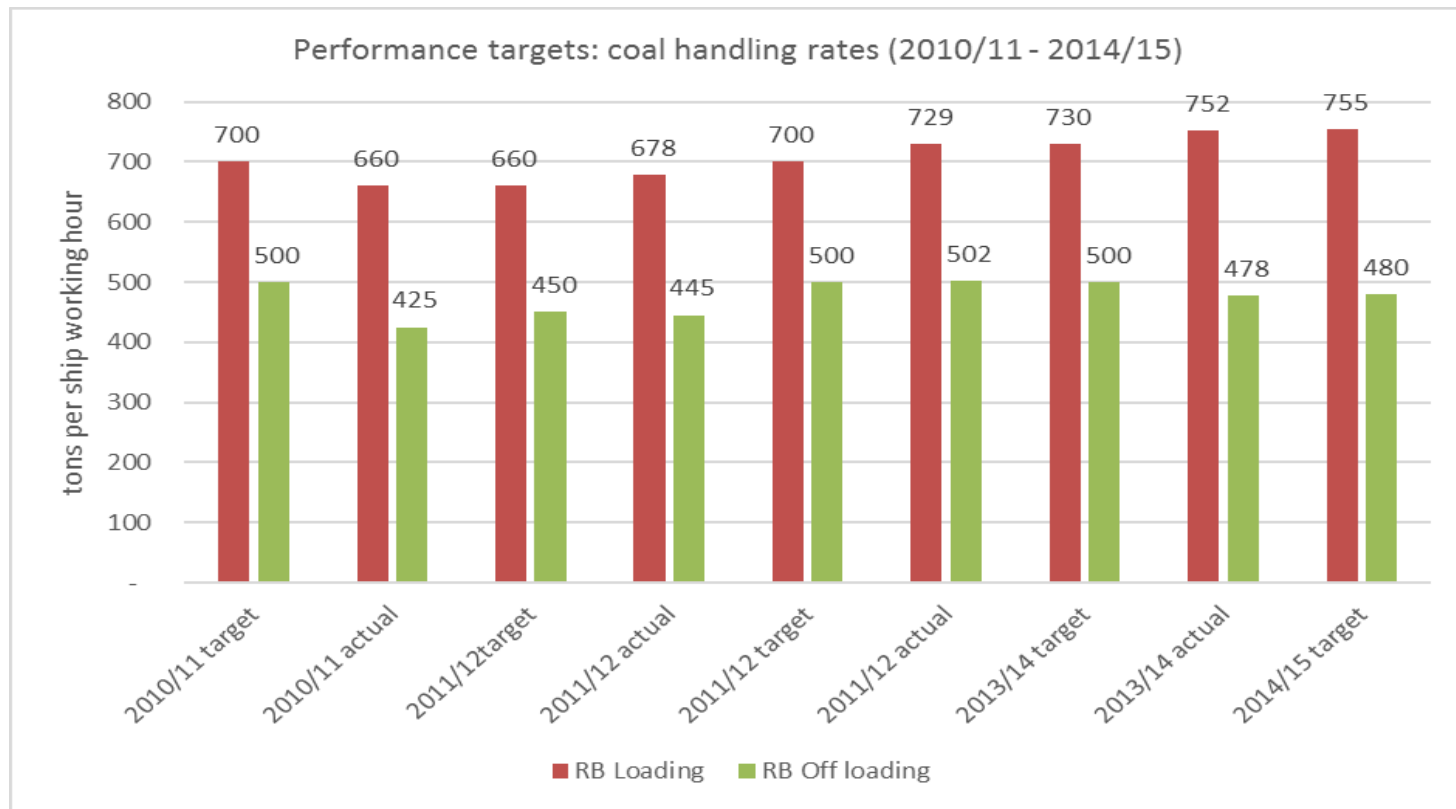
# Use of capacity and future plans

- E.g. Roro terminals



# Performance

- Port system and across selected indicators for commodity types



# Observations

- Value in **collating and disseminating** port system information/data for information based decision making
- Trends show variation in capacity and utilisation levels: implications at system, port and cargo handling level
- Monitoring Authority's performance: volumes, capex projects and port performance (efficient use of terminal capacity)

# Port benchmarking

# Port Benchmarking Report: SA terminals 2015/16



- Shorter report – 37 pages.
- Applies observations on terminal performance from capacity and utilisation report to compare SA terminals performance to a global sample on ff indicators:
  - Berth productivity
  - Cargo dwell times
  - Crane moves per hour
  - Ship turnaround times
  - Time spent at anchorage
- Captures overall efficiency scores from **secondary sources**

# Comparing performance

- Berth Productivity, cargo dwell times, GCH, STAT....

## Overall efficiency

- Terminals scores:
  - Efficient terminals: score = 1
  - Efficiency norm: between 0.60 & 0.70
- Selected SA terminals:
  - Container (volume by dwt & TEU) = 0.423
  - Container (teu) = 0.429
  - Crude oil (dwt) = 0.177
  - Iron ore (dwt) = 0.476
  - Coal (dwt) = 0.291
  - Grain(dwt) = 0.007

# Observations

- SA terminals have made significant strides in reducing cargo dwell times, the port of Durban is performing on par with sample averages on throughput per meter of berth and but there is room for improvement in performance on ship turnaround times and other indicators.
- Overall efficiency gleaned on from OECD study places the selected SA terminals at the lower end of efficiency rankings.
- Performance targets to reflect capacity of terminals, but more work to be done in analysing specific terminal performance as per TOPS.

# Overall

- Within a regulatory framework, how do we determine performance measures and indicators for the SA system - building incentives based on port performance and efficiency in tariff methodology?
  - How should the performance targets be set and incentivised in the tariff methodology where capacity is provided ahead of demand and thus there will not be full utilisation of capacity?
  - Can the outcomes of the various Operator Performance Standards (Terminals, Marine, Rail, Hauliers) assist in the process?
  - If so, which and how are performance standards being set in these processes – should targets be set against installed capacity or realised capacity in each of the terminals

# Port sector review



PORTS SECTOR REVIEW 2015/16

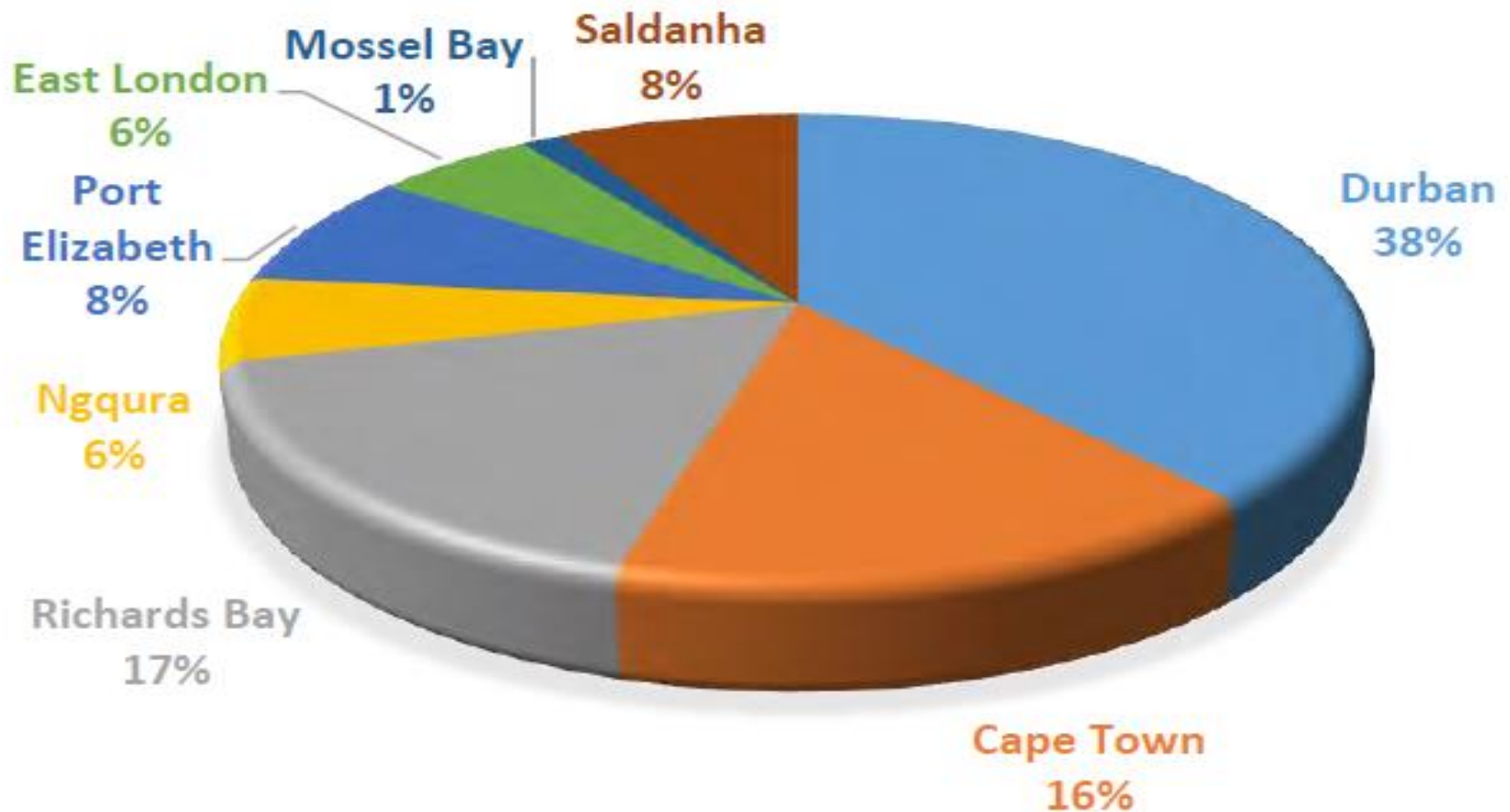
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- 87 page report providing an overview of SA port system:
- Shows role and contribution of ports, cargo and non-cargo handling sectors to Authority's
  - Volume
  - Revenue
  - Costs
  - Returns
- Captures trends in regulation, financial performance and pricing of the port sector
- Port by port overview

# Tariff determination and contribution to revenue

Figure 26 By Port Operating Cost Contribution



# Five Year Public Regulatory Review



## Five Year Public Regulatory Review (2015/16)

- 64 page capturing feedback by port users on the quality and relevance of the Regulators activities and outputs and likelihood in achieving Regulators desired outcomes
- Covers:
  - Who Regulator is
  - “Theory of Change”
  - Feedback and findings from port users (surveys and interviews)
  - Changes and improvements to be considered

# Port user feedback

	Tariffs	Tribunal
<b>Responsiveness</b>		
Responded within a reasonable time period	47%	33%
Responded within legislated timeframes	36%	27%
Did not respond within a reasonable time period	7%	11%
Did not respond at all	0%	0%
N/A	10%	29%
<b>Neutrality or independence</b>		
The Regulator's conduct and decisions appeared neutral	77%	58%
The Regulator's conduct and decisions appeared slightly biased	13%	8%
The Regulator's conduct and decisions appeared biased	1%	4%
N/A	9%	30%
<b>Quality of Decisions</b>		
The decision was of a high quality	34%	22%
The decision was of a satisfactory quality	54%	38%
The decision was poorly taken	5%	7%
N/A	7%	33%

# Global Port Pricing Comparator Study



Global Pricing Comparator Study (GPCS)

For the South African Ports System

Tariff sample date: 1 April 2015

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- 34 page report
- This is the fourth update of the Global Pricing Comparator Study (GPCS) looking at 2015 tariffs
- The results show that significant potential cross-subsidisation from cargo owners towards primary exporters and vessel owners in the tariff structure persist.
- improvements are noted over the 4 years, but cargo owners still face relatively high prices
- vessel owners face costs below the global sample average
- the total NPA costs to users in container ports comes at a still high premium above the global sample average
- Similar results for the automotive sector applies
- the report again shows that bulk commodities are charged much lower total port costs than the global sample averages.
- Tariff structure to change with the implementation of the Tariff Strategy over the next 10 years

# Observations

Figure 19: South African Vessel Costs (as deviation from the sample global average)

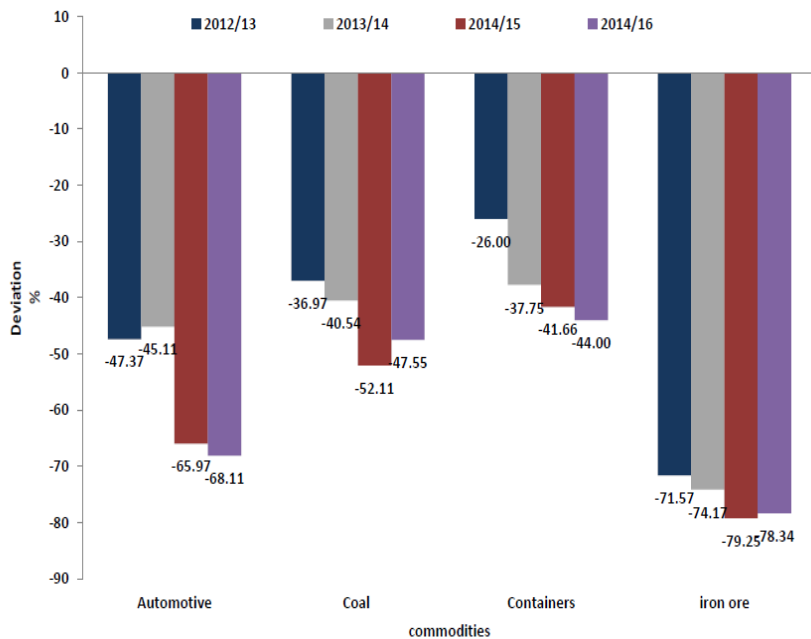
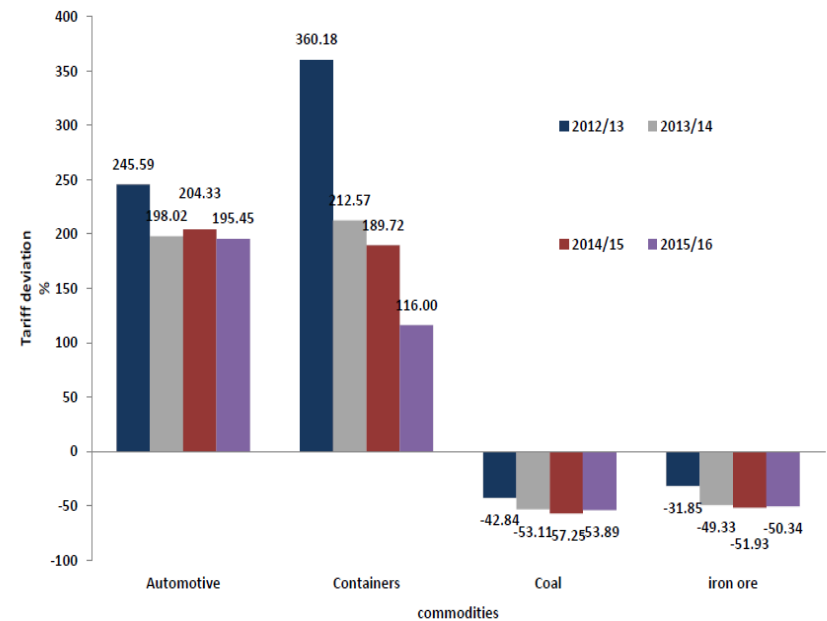


Figure 21: South African total Port Costs across all Commodities (as deviation from the sample global average)



# Observations

Figure 8: South African Coal Port Cost (as deviation from the sample global average)

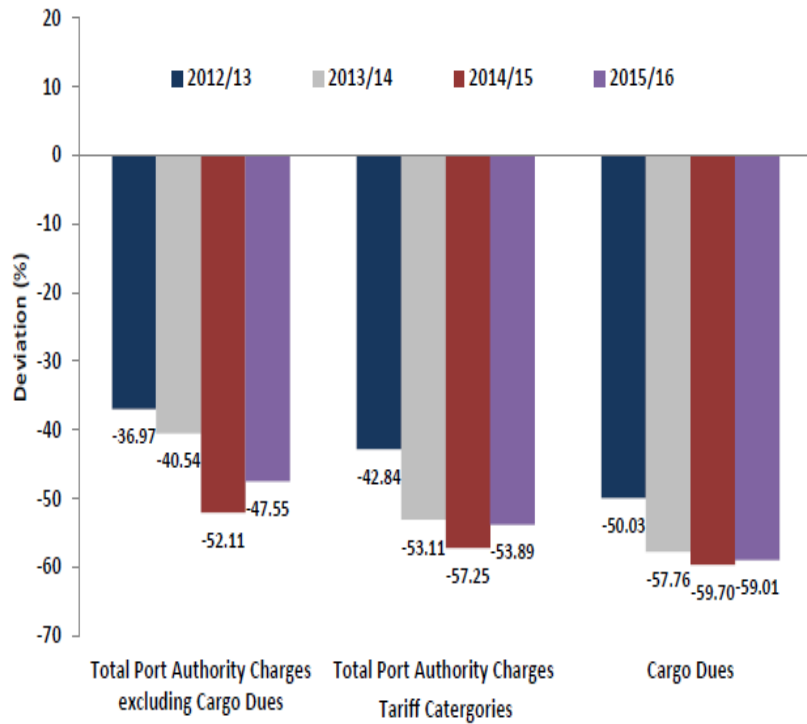
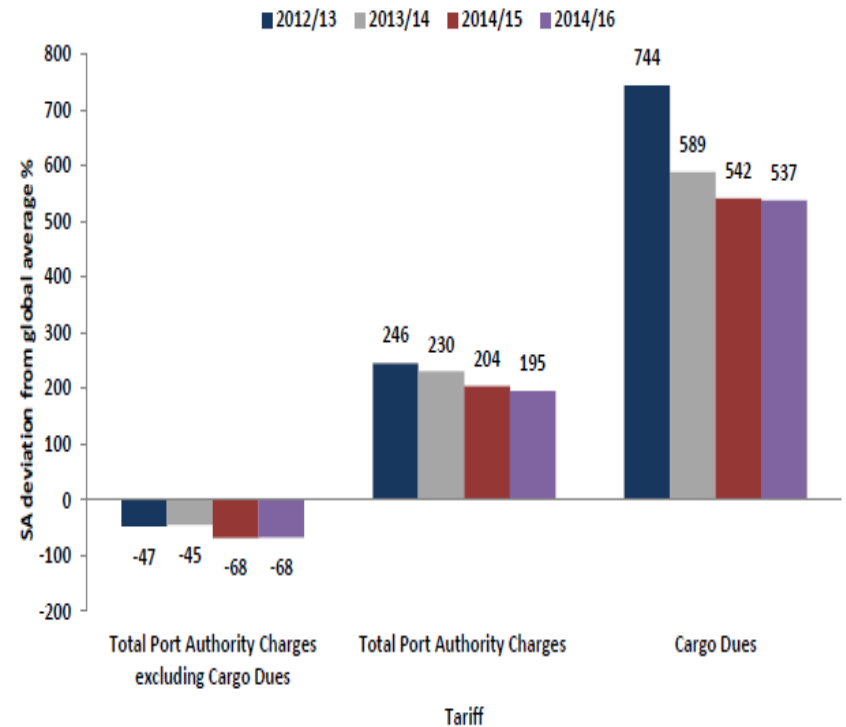


Figure 15: South African Automotive port costs (as deviation from the sample global average)



# Overall

- Port Sector and Regulatory review
- Research: within a regulatory framework, how do we determine performance measures and indicators for the SA system - building incentives based on port performance and efficiency in tariff methodology?
  - How should the performance targets be set and incentivised in the tariff methodology where capacity is provided ahead of demand and thus there will not be full utilisation of capacity?
  - Can the outcomes of the various Operator Performance Standards (Terminals, Marine, Rail, Hauliers) assist in the process?
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# Review of the Tariff Methodology

# Current Methodology

- Multi-year Tariff Methodology 2015/16-2017/18
- A process is underway to adopt or make changes to the methodology for the period beyond 2017/18
- This process seeks to continue and strengthen the transparency and effectiveness of the regulatory tariff setting methodology whilst expanding the scope and provide more focus on the embedded incentives inherent to the methodology.
- The current approach, whilst fraught with challenges remain arguably the best fit for the developmental stage of the South African port regulatory system
- However, a broader discussion at this point in the development of the regulatory framework is warranted.

# Tariff Methodology vs. Tariff Strategy

- Tariff Methodology
  - 2013 Interim Methodology
  - 2014 Multi-year Methodology (applicable to 2017/18)
  - Overall Revenue Requirement
  - Determines the “size of the cake”
  - Calculates the *average* tariff change
  - ROD is the implementing mechanism for the Tariff Strategy

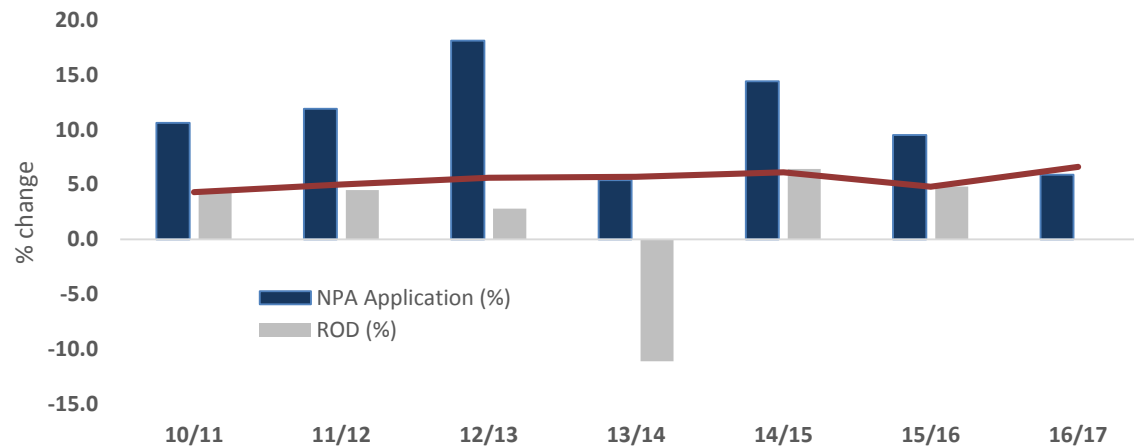
# Tariff Methodology vs. Tariff Strategy

- Tariff Strategy
  - Answers the question: Who pays for what? And why?
  - Determines “how the cake should be cut”
  - Sets the structure of the tariff book
  - Must be considered with the RR methodology in mind – “zero-sum game”
  - Formalisation of existing tariff trajectory
  - Aims to “clean up the tariff book” – status quo
  - Current tariff application already proposes tariff differentiation in line with the Tariff Strategy

# Why a Tariff Methodology?

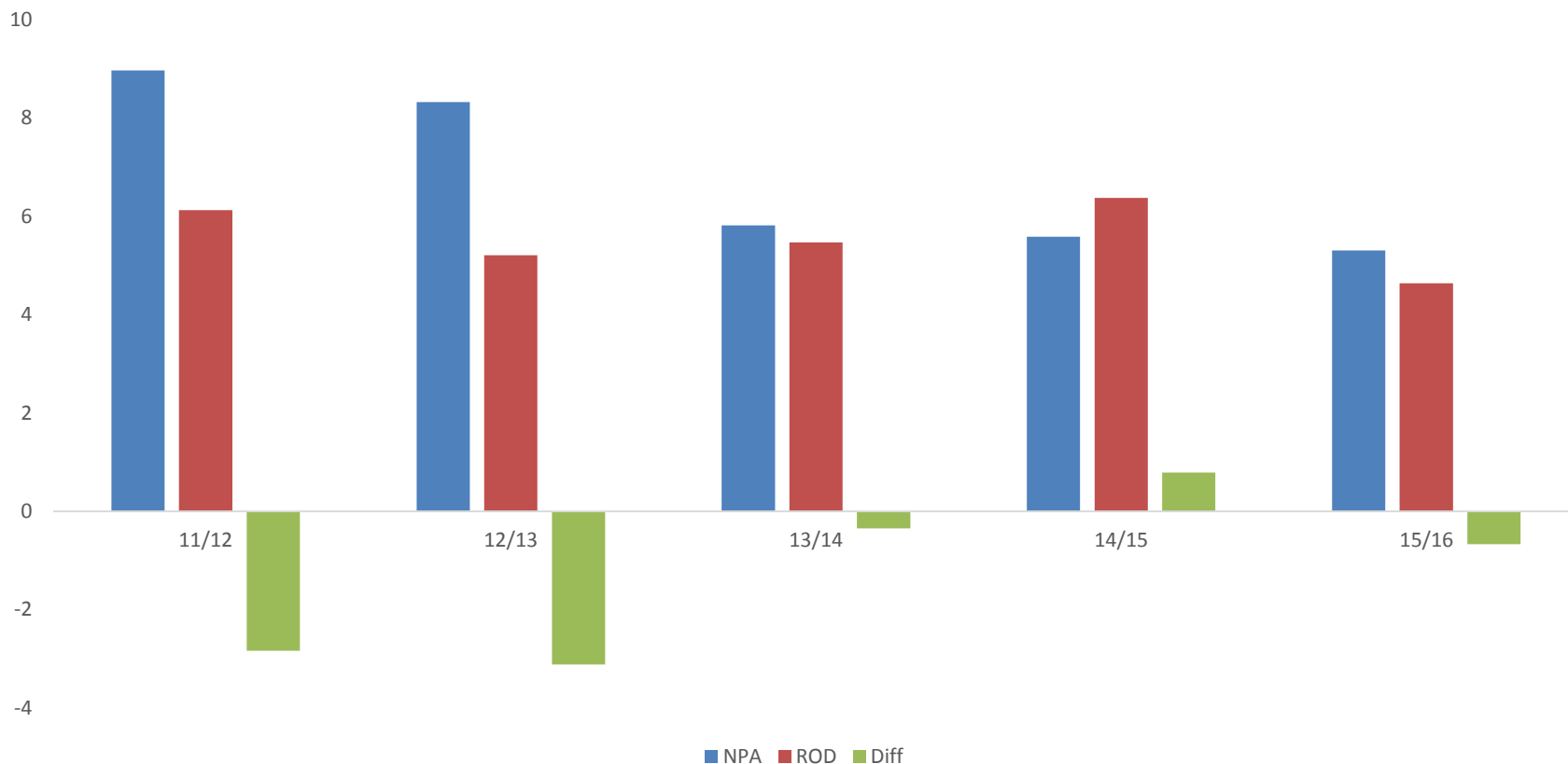
## Previous Records of Decision

Tariff Year	NPA Application (%)	ROD (%)	Inflation (%)
10/11	10.6	4.4	4.3
11/12	11.9	4.5	5.0
12/13	18.1	2.8	5.6
13/14	5.4	-11.1	5.7
14/15	14.4	6.4	6.1
15/16	9.5	4.8	4.8
16/17	5.9	0.0	6.6

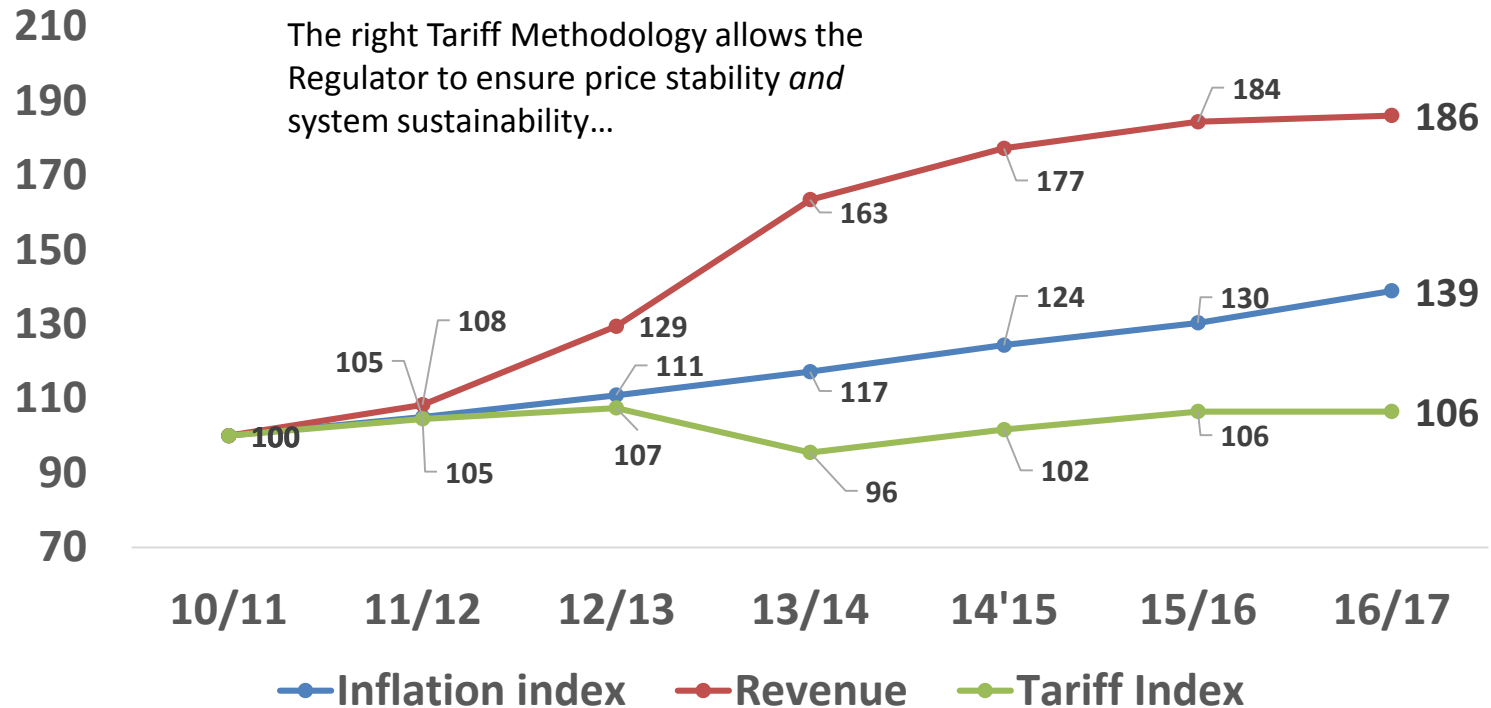


# Why a Tariff Methodology?

## Return on Capital



## A (slightly) different view...



## **Points to ponder... towards a Tariff Methodology update..**

- **IMPORTANT:** Please do not read anything into these comments...they are to help stimulate the discussion and assist in your commenting processes. They are not the Regulator's view!

## Points to ponder...

- The overall methodological approach
  - Is a Revenue Requirement still the best fit?
  - Alternatives? Price cap etc.
- If we retain the RR approach
  - Lets relook at the cost of equity (Profits allowed)
    - Capital asset pricing model CAPM
  - Gearing
  - Approach to the cost of debt conundrum
- Trending of the RAB
  - Valuation of the asset base
  - Treatment of Capex

# Additional points to ponder...

- Tax...pass-through or taking into account annual revenue effects?
- Three year rolling Claw-Back mechanism - still the best option?
- ETIMC...the purpose and intention of the instrument?  
Unintended effects?
- Methodology period...3 years rolling?
- Bringing in an efficiency variable(s)/ incentivising performance...
  - Operational efficiency
  - Financial efficiency

# Process

- Step 1: Commenting deadline 30 September 2016  
Comments to be published on PRSA website
- Step 2: Regulator will publish a draft methodology for comment
- Step 3: Methodology Road Show to be held end of October. Dates and venues to be confirmed
- Step 4: Comments will be published on PRSA Website
- Step 5: Final Tariff Methodology applicable to the 2018/19 Tariff Year published by 31 March 2017

# Concurrent Process:

## Valuation of the Regulated Asset Base

- History of uncertainty around valuation of the RAB
- Regulatory valuation of asset bases problematic for many regulators
- No clear approach-many regulators use the RAB as buffer or tool to in/decrease cash flow
- Importance of the RAB and depreciation
  - Return and depreciation depends on the RAB
  - Depreciation periods affect cash flow (especially if CAPEX exceed depreciation allowances)
  - RAB serves as benchmark for investors (uncertainty etc.)
  - RAB in regulatory accounts differ from statutory accounts

# Approaches

- Basically boils down to a few approaches:
  - How much did it cost to build?
  - How much would it cost to rebuild?
  - How much profit can it generate in its current use?
  - How much can I make out of selling or renting it out?
- Financial capital maintenance
- Physical capital maintenance
- Economic maintenance

# Regulatory approach

- Regulators objective:
  - Reflect capital invested-allocative efficiency
    - Value of the investment
  - Replicate “competitive signals”-productive efficiency
    - Replacement costs
  - Maintain low tariffs-“social” efficiency
    - Historic costs
- No one-size-fits-all approach

# Project Objectives

- Development of suite of valuation methodologies for different asset classes and the effect / impact on RAB
- Development of appropriate of valuation methodologies for different asset classes and the effect / impact on RAB
- How do we then deal with the valuation going forward?

# Resources

- The Regulator website can be accessed at [www.portsregulator.org](http://www.portsregulator.org)
- All research, Records of Decision and documentation w.r.t. the Application (including comments) can be found under the Economic Regulation drop down menu.
- Tribunal ROD's available online as well as Compliance Reports.
- To be added to the PRSA data base (mailing list) please send an email with your request to [info@portsregulator.org](mailto:info@portsregulator.org)
- Remember: Comments close Friday, 30 September 2016
- Submit comments to [tariffcomments@portsregulator.org](mailto:tariffcomments@portsregulator.org)
- Contact details:
  - 11<sup>th</sup> Floor, The Marine Building, 22 Dorothy Nyembe Str, Durban
  - Tel 0313657800

**Ke ya leboga**

**Ke a leboha**

**Ke a leboga**

**Ngiyabonga**

**Ndiyabulela**

**Ngiyathokoza**

**Ngiyabonga**

**Inkomu**

**Ndi khou livhuha**

**Thank you**

**Dankie**

Go to <http://www.portsregulator.org> for documents including Records of Decision, Regulatory Manual, consultation submissions and reports, and other useful documents