

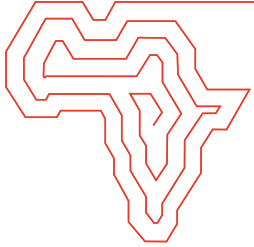


REVIEW OF PORT TARIFF METHODOLOGY APPLICABLE FOR FY 2027/28 TO FY 2029/30

ROADSHOW PRESENTATION:

16 – 23 FEBRUARY 2026

CONTENTS

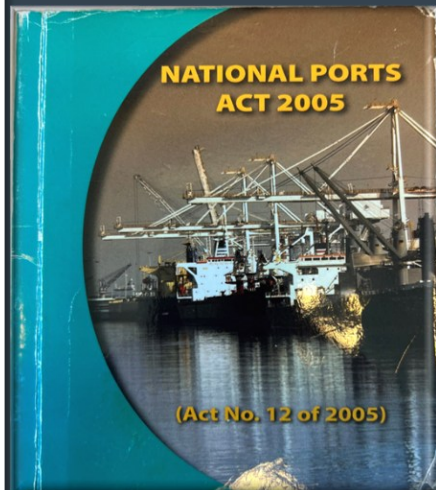


01	INTRODUCTION
02	LEGISLATIVE PROVISIONS
03	EVOLUTION OF THE TARIFF METHODOLOGY
04	REVIEW OF TARIFF METHODOLOGY COMPONENTS
05	CONCLUSION





National Ports Act 2005



❑ Section 11: Functions of the Authority

Own, manage, control and administer ports to ensure safe, efficient, and effective economic functioning



❑ Section 72 (1): Tariff Application

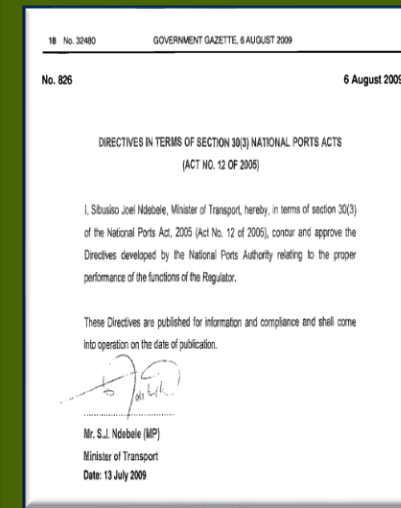
Charges for Services and Facilities Offered using approved tariffs



❑ Section 30 (2) (d): Record of Decision

Regulator to Consider and Approve Tariffs

Port Directives



❑ **Directive 22 (1)**
Tariff Application to be submitted by 01 August

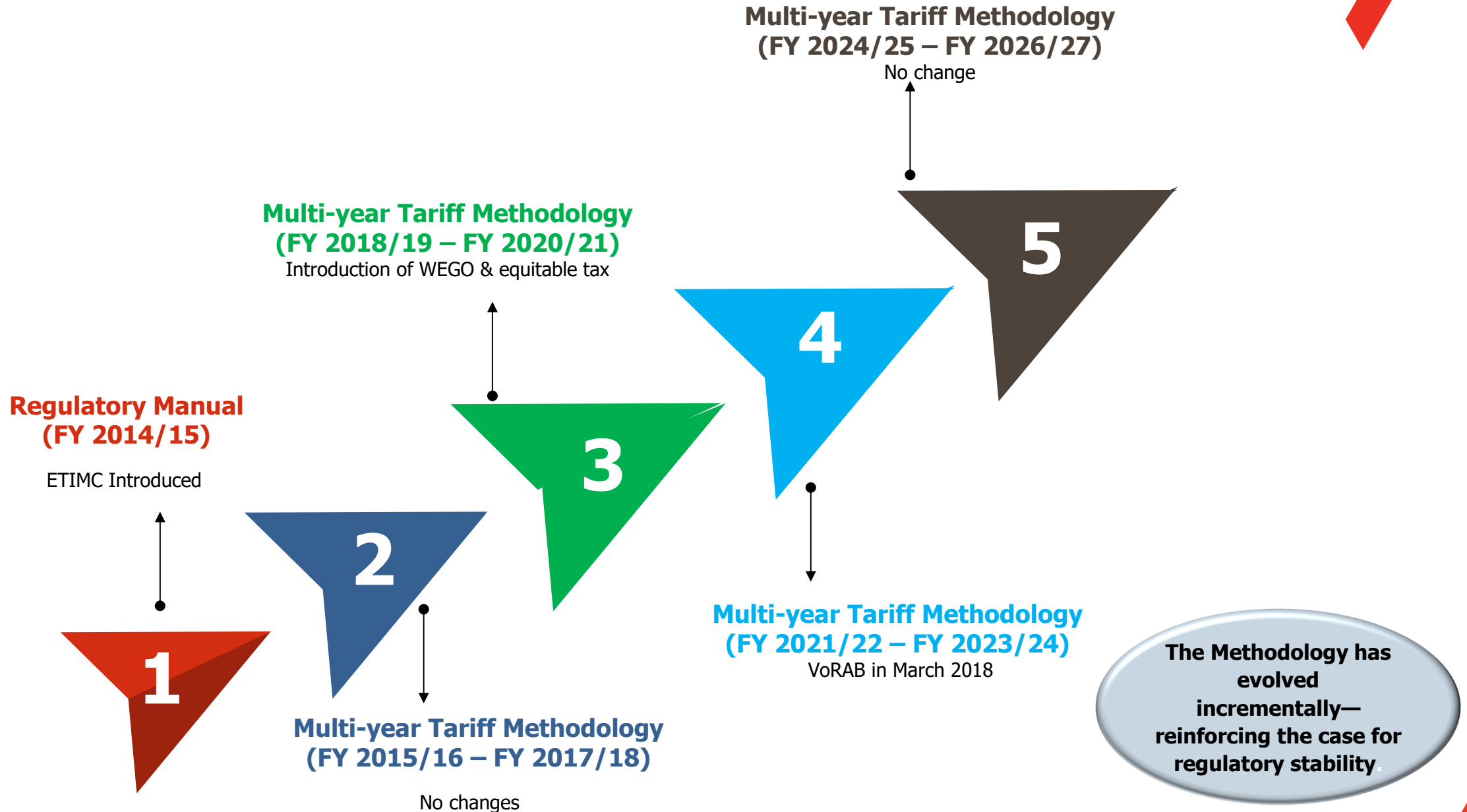


❑ **Directive 23 (1)**
Fair, Affordable, Predictable & Stable
Simple & Transparent, avoid cross subsidization, systematic Tariff Methodology



❑ **Directive 23 (2)**
Recover investment, recover costs, make a profit commensurate with the risk

EVOLUTION OF THE TARIFF METHODOLOGY



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CATEGORY 1: ELEMENTS & AREAS OF NON-ALIGNMENT WITH THE REGULATOR



PROPERTIES AND IMPROVEMENTS OUTSIDE PORT LIMITS



Authority's Proposal

Considerations

- ☐ Port planning often precedes formal proclamation
- ☐ Delays in proclamation defer critical infrastructure delivery
- ☐ Safety, security and capacity risks increase
- ☐ Financial sustainability and predictability

Proposal: Recognition of PoPL & improvements based on the defined categories

Categories



Safety Projects



Risk Mitigation Projects



Environmental & Statutory Compliance Projects



Capacity Enhancement (Expansionary) Projects



Operational Efficiency & Productivity Projects



Storage & Back-of-Port Logistics Infrastructure

CAPITAL EXPENDITURE (CAPEX) & CAPITAL WORKS IN PROGRESS (CWIP)



Authority's Proposal



- ❑ Aligned with Regulator's Capex Process:
 - ❖ Submission of business cases
 - ❖ Consultation with PCCs and NPCC



- ❑ Capex performance/ execution to be **assessed over a rolling three-year period** (annual claw-back):
 - ❖ Alignment with Project Lifecycles
 - ❖ Improved Strategic Planning
 - ❖ Enhanced Risk Management



- ❑ Recognition of actual cash expenditure incurred on approved infrastructure projects
- ❑ Recovery of CWIP financing costs to avoid cashflow distortion

Annual assessment of multi-year infrastructure distorts performance signals

Rules must incentivise investment in long-lead infrastructure

Our proposal doesn't reduce accountability — it aligns performance assessment with how infrastructure is actually delivered



WEIGHTED EFFICIENCY GAINS FROM OPERATIONS (WEGO)

Authority's Proposal

THE AUTHORITY'S PROPOSAL

The WEGO Methodology be Placed on Pause Pending the Finalisation of the Legal Process re. Cascading of WEGO which is Sub Judice



Structural Concerns :
Raised through
PCC's

WEGO
Methodology
requires
reassessment

OTHER COMMENTS "WITHOUT PREJUDICE"

1

Previous Best Performance:

- ☐ Does not incentivise/ penalise improvements or regressions in operational performance.

2

Incentive Cap:

- ☐ Not supportive of increasing the incentive cap from 7.5% to 10% (a 33.33% increase)

3

Maximum Allowable Efficiency Gains/Loss:

- ☐ Not supportive of:
 - ❖ increasing the limit on efficiency gains or reductions from 15% to 20% (a 33.33% increase) & unilateral regulatory discretion.

4

Downtime Adjustment/OPRR:

- ☐ Already captured within existing WEGO KPIs (double penalty/ incentive).

REGULATORY ASSET BASE: VALUATION OF ASSETS

Authority's Proposal

1

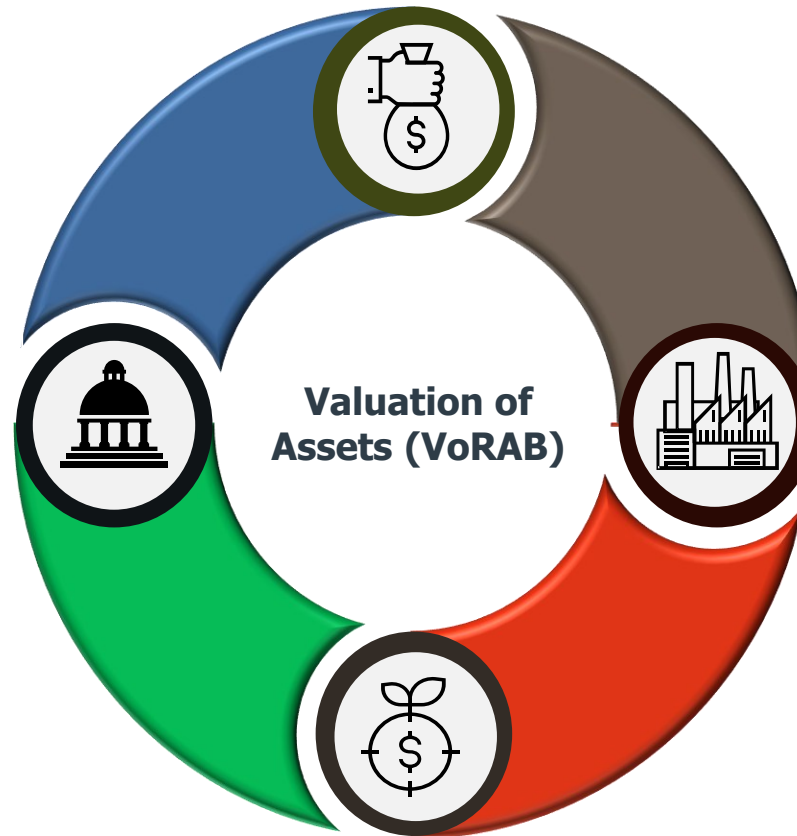
FINANCIAL IMPACT

- ❑ VoRAB reduces RAB and RR
- ❑ Adverse impact on financial position in light of impending corporatisation.

2

LINK BETWEEN CORPORATE STRUCTURE AND ASSET VALUATION

- ❑ Legislation: No provision does not provide for the use of asset valuation mechanisms to encourage corporatisation.



3

IMPENDING CORPORATISATION

- ❑ Credible asset valuation methodology: Critical for the establishment of a corporatized Authority.

4

FINANCIAL CAPITAL MAINTENANCE

- ❑ HC, under VoRAB method:
 - ❖ Does not progress principles of FCM
 - ❖ Does not account for cumulative effect of inflation

No
guidance
provided
on caps

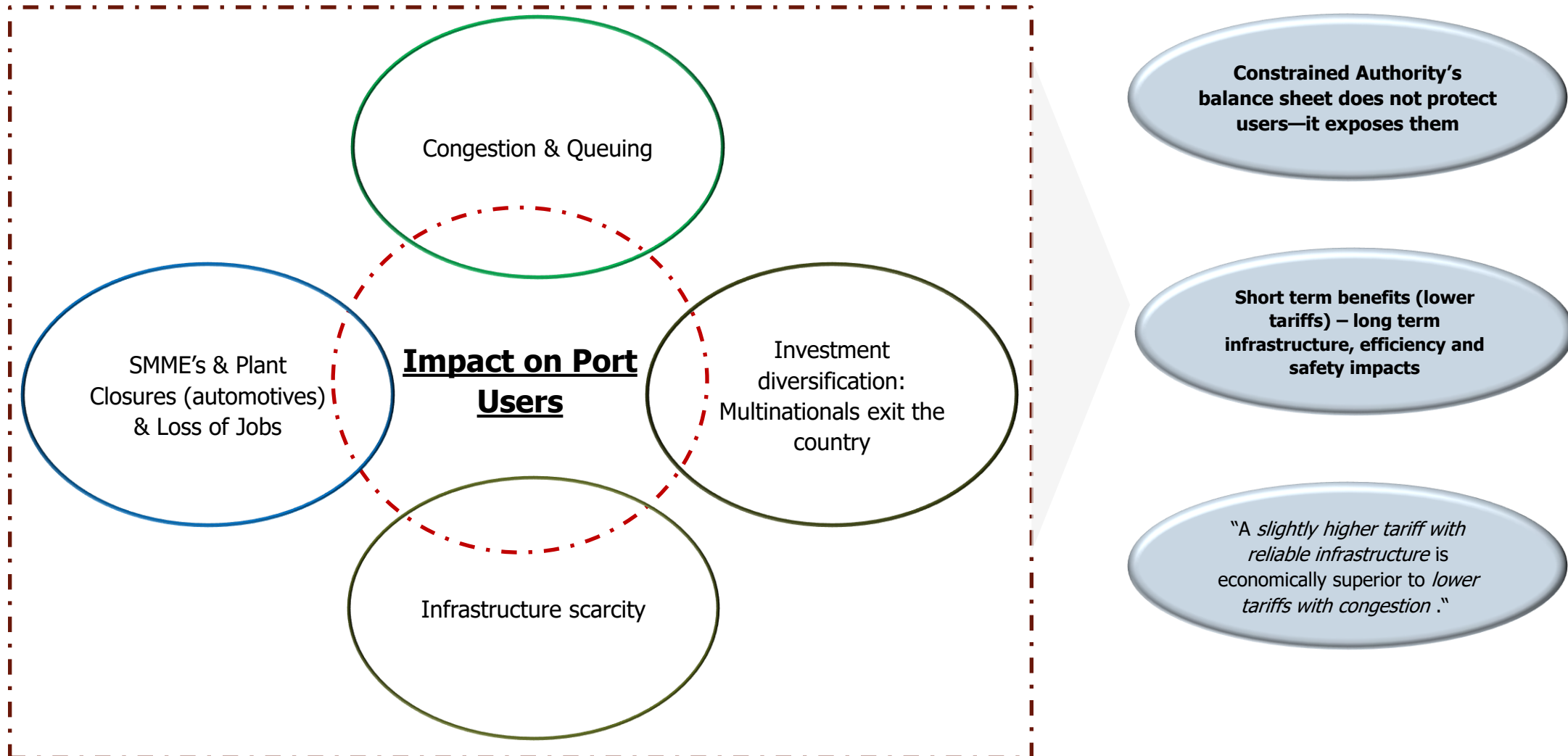
PRSA
Financial
Modelling to
be
completed

Regulatory
Discretion
Increased

REGULATORY ASSET BASE: VALUATION OF ASSETS (CONTINUED...)



User affordability is delivered through reliability, not under-investment



REGULATORY ASSET BASE: VALUATION OF ASSETS (CONTINUED...)



Authority's Proposal



RETAIN TRENDING ORIGINAL COST

- ☐ Removal of VoRAB from Tariff Methodology
- ☐ Guidance to be provided by Ministerial Task Team
- ☐ Alignment with the corporatisation implementation plan



WACC: MARKET RISK PREMIUM (MRP)

Authority's Proposal

JSE All Share Index

- ☐ Not readily available
- ☐ Increased risk of human error.
- ☐ Short-term dataset (1995) publicly available
 - ❖ limited historical coverage.
 - ❖ Increased sensitivity (post-1995 structural changes)

JSE All Share
Total Return
Index (J203-TRI)

Dimson, Marsh
and Staunton
(DMS)

**Proposal: Continued
use of DMS**

DMS

- ☐ Provides South Africa-specific estimates.
- ☐ Longer time horizon and considers:
 - ❖ Economic cycles
 - ❖ Market regimes
- ☐ Globally recognised through Credit Suisse Report



Authority's Proposal

Structure	Tax Treatment	Clawback Treatment
Operating Division	<ul style="list-style-type: none"> ☐ Budgeted tax expense ☐ Inclusive of all tax related costs: Leasehold improvements & Section 12 (f) 	<ul style="list-style-type: none"> ☐ Equitable Tax + Other tax related costs
Subsidiary		<ul style="list-style-type: none"> ☐ Actual tax paid to SARS

- ☐ Ensure correct pricing signals are sent to the market
- ☐ Prevent volatility



Authority's Proposal

01

Alignment:

- ☐ Agreed with Line-by-line assessment
- ☒ **However,** Regulator to provide reasons for any deviations from costs as applied for.

02

Considerations:

- ☐ Controllable costs: Subject to administered pricing.
- ☐ Limitations of CPI: Basket of goods representative of households
- ☐ Labour costs: Driven by negotiated wage settlements.

03

Introduction of Incentives:

- ☐ Cost saving sharing mechanism/ ratio: Justified costs savings to be shared with port users
- 70:30 (Authority: Port Users) basis.

Group Costs

- ☐ Post Corporatisation operating model yet to be defined
- ☐ Reasonable Market Cost: unreasonable

Prudency

- ☐ Framework for assessment required.



 COMPONENT	 THE REGULATOR	 THE AUTHORITY
<ul style="list-style-type: none"> • Clawback 	<ul style="list-style-type: none"> ❑ No proposed changes 	<ul style="list-style-type: none"> ❑ Shift from mechanical claw-back to the embedding of incentive-based measures
<ul style="list-style-type: none"> • Excessive Tariff Increase Margin Credit (ETIMC) 	<ul style="list-style-type: none"> ❑ The Authority will no longer be permitted to apply for ETIMC in its tariff application. 	<ul style="list-style-type: none"> ❑ Proposes retaining ETIMC in tariff applications, in line with criteria contained in Tariff Methodology. <ul style="list-style-type: none"> ❖ Enables information symmetry ❖ Does not impede Regulators' decision making ❖ Removal of ETIMC impacts regulatory certainty ❖ Impacts deviations between application and Regulator's decision.

REPORTING REQUIREMENTS: INCORPORATION & VALUATION OF ASSETS



THE REGULATOR'S DISCUSSION DOCUMENT

Submission of detailed list of documentation: MOI, Proof of Registration etc.

Submission of Incorporation Documentation



THE REGULATOR'S DISCUSSION DOCUMENT

Retains discretion to moderate HC-related adjustments, subject to:

- ☐ Ministerial task team written motivation; or
- ☐ Authority's Board engagement - **six months** prior to tariff application.

Written Motivations & Engagements



THE AUTHORITY'S PROPOSAL

- ☐ Retain a **three-month** pre-application engagement.
- ☐ Remove the requirement for a Ministerial Task Team motivation on asset valuation - exogenous to the Authority.

Retain Current Engagement process with the Authority's Board

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CATEGORY 2: ELEMENTS REQUIRING CONSIDERATION BY THE REGULATOR





ELEMENTS REQUIRING CONSIDERATION BY THE REGULATOR

1

Regulator's "Amendment" to Port Directive 23(2)

- ❖ Correction of citation of Port Directive 23(2) required – with removal of words "if prudent"
- ❖ Transparent assessment framework required for Prudency

2

Alternative Investments

- ❖ Recognition of Section 68 as a complementary investment mechanism.
- ❖ Support timely infrastructure delivery where RAB funding alone would place undue pressure on tariffs.

**3**

F-Factor

- ❖ Revenue adjustment mechanism
 - ☐ Meet debt obligations
 - ☐ Financeability
- ❖ Triggered based on defined credit metric limits:
 - ☐ Interest Cover Ratio
 - ☐ Debt Service Coverage Ratio
- ❖ Support corporatisation
- ❖ Alignment with other Regulators (NERSA)

These items, while technical, materially affect predictability and financeability.

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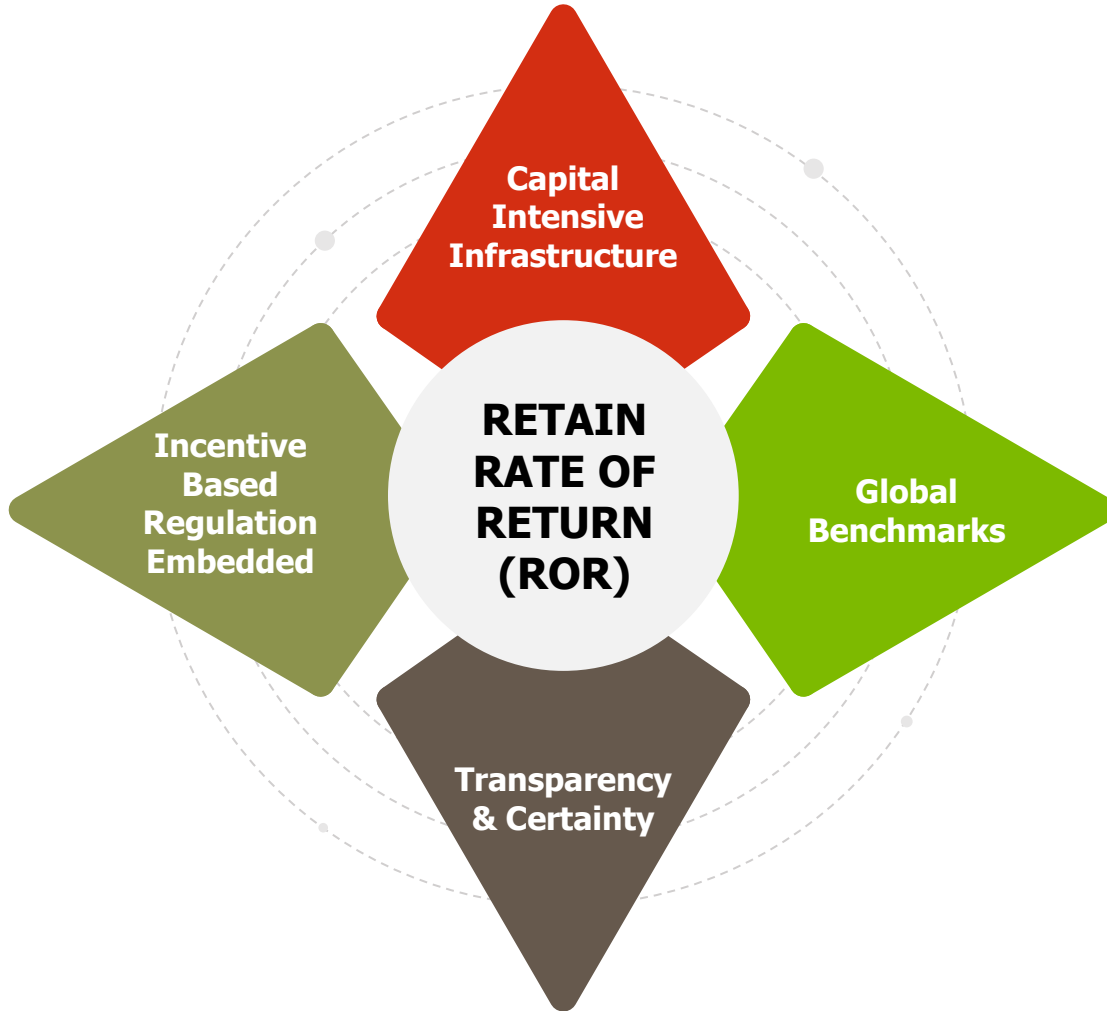


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CATEGORY 3: ELEMENTS & AREAS OF ALIGNMENT WITH THE REGULATOR



APPROPRIATE TARIFF METHODOLOGY

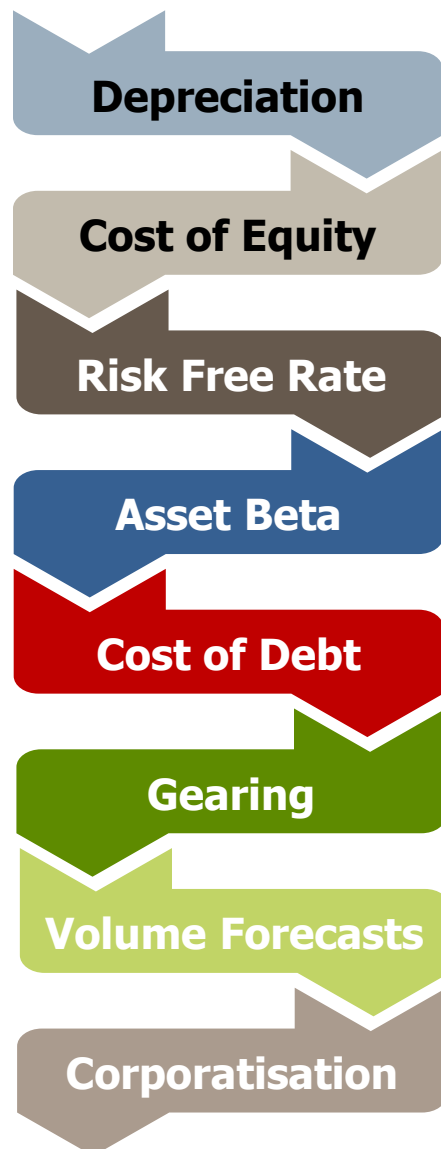


PROPOSED RR FORMULA

$$\text{RR} = \text{RAB} \times \text{WACC} + \text{Operating Costs} + \\ \text{Depreciation} + \text{Taxation Expense} \pm \text{Claw} \\ \text{back} \pm \text{ETIMC} \pm \text{WEGO} + \text{F-Factor}$$

F-Factor introduced
by the Authority

ALIGNMENT WITH THE REGULATOR: OTHER COMPONENTS



- 1** • Retain the existing depreciation methodology with no changes proposed.
- 2** • Retain Capital Asset Pricing Model (CAPM).
- 3** • South African Reserve Bank's (SARB) long-term government bond yield series, calculated using Geometric mean.
- 4** • Set at 0.35 – requires reconsideration upon corporatisation.
- 5** • TNPA's actual, embedded debt costs as allocated by Transnet.
- 6** • At least 50%, based on historical tariff applications
- 7** • Submission of detailed volume forecasts and updated with latest estimates.
- 8** • Further refinement upon corporatisation

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CONCLUSION



CONCLUSION



1

Continued application of a multi-year Rate of Return methodology.

2

Principle-based Tariff Methodology:

- ☐ Promotes transparency, certainty & predictability
- ☐ Aligned with FCM principles
- ☐ Balance sustainability with efficiency and affordability
- ☐ Promote reliable service delivery and competitiveness of SA ports

3

Maintain Trended Original Cost Asset Valuation Methodology & Alignment with corporatisation implementation plan

4

WEGO Methodology to be paused until finalization of the pending legal process

5

Prudency Assessment Framework required & Introduction of F-Factor

PROPOSED RR FORMULA

RR = RAB X WACC + Operating Costs + Depreciation + Taxation

Expense ± Claw back ± ETIMC ± WEGO + F-Factor

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THANK YOU

