Tariff Methodology roadshow

February/March 2026

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Introduction

Process to date

- Multi-year tariff methodology forms the cornerstone of the ports regulation framework, as it sets out the details of the regulatory framework which the Authority is required to comply with
- Methodology is set for a three-year tariff period, and the current methodology is in its last year of utilisation (applicable to the 2026/27 tariff period)
- Starting point of the revision process was the publication of a discussion document end November 2025
- Six formal written comments on the discussion document have been received, as follows:
  - The National Ports Authority (NPA)
  - Port Users through the National Port Consultative Committee (NPCC) Secretariat
  - South African Association of Ship Operators and Agencies (SAASOA)
  - Maritime Business Chamber
  - Mediterranean Shipping Company (MSC)
  - Confidential Submission
- Roadshow is the next phase of the public consultation process, heading towards finalisation of the tariff methodology for publication by 31 March 2026

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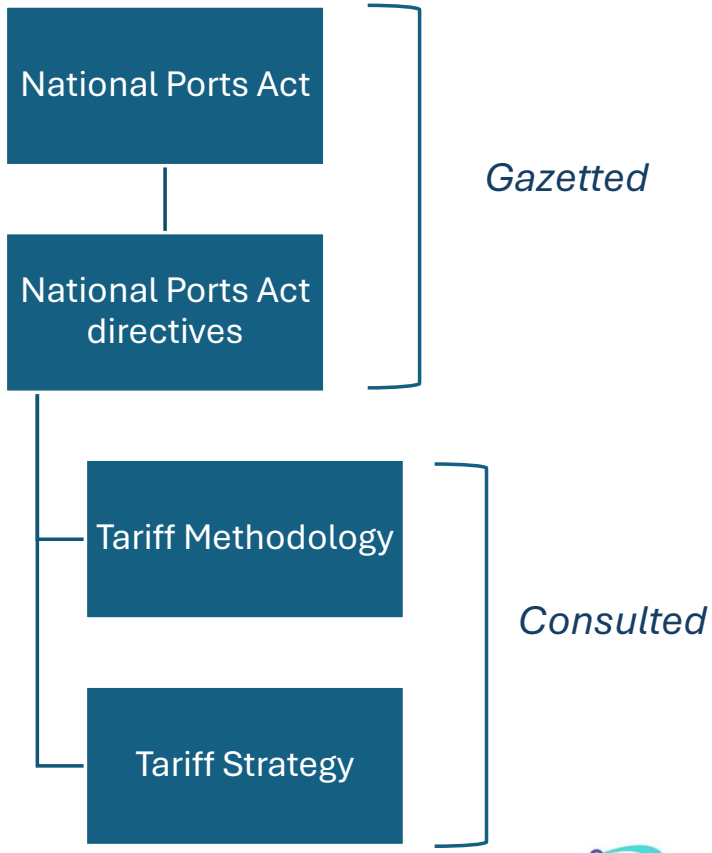
The role of the tariff methodology in regulation

- Primary framework for regulatory decisions is the Act
- Directives provide greater clarity on the manner in which legislation is interpreted
- Majority of the detail of tariff is however in the methodology, supported by regulatory precedent
  - Tariff strategy follows a similar process and is due for revision in 2026/27



Wider regulatory environment

- Economic Regulation of Transport Act
  - Significant progress has been made towards establishment of the Transport Economic Regulator, which will incorporate PRSA
  - Schedule 2: “a tariff or similar method of price regulation in effect immediately, before the effective date…. remains in effect ….until the date on which the Regulator first determines and publishes a new price control”
  - In the process of planning public consultations on the transition to the TER
- Corporatisation of the NPA
  - Achievement of incorporation of the NPA is a regulatory priority
  - Ongoing discussions with corporatisation task team to ventilate any potential issues

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The regulatory framework

23 (1) In considering the proposed tariffs …, the Regulator must have regard to whether the proposed tariffs reflect and balance the following considerations:-

(a) A systematic tariff methodology that is applicable on a consistent and comparable basis;

(b) Fairness;

(c) The avoidance of discrimination save where discrimination is in the public interest;

(d) Simplicity and transparency;

(e) Predictability and stability;

(f) The avoidance of cross subsidisations save where cross subsidisation is in the public interest; and

(g) The promotion of access to ports and efficient and effective management and operation in ports.

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Choice of regulatory methodology

Price cap versus required revenue

- At present the regulatory methodology used is rate of return
  - Regulated entity is allowed to recover revenue sufficient to cover costs incurred, plus a fair profit margin to reward shareholders
  - Extra profits will be clawed back – no incentive to pursue them
  - May be incentives to pad costs, to increase allowed revenue
- Choice would be to shift to price cap regulation
  - Designed to incentivise efficiency: operator can keep any excess profits it makes, and thus is strongly incentivised to keep costs under control
- On paper the choice between the two looks extremely simple
- In practice, its much less clear

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Incentive systems already imposed

- Common cause that efficiency performance at South African ports is currently poor
- In order to bolster efficiency incentives, the Regulator implemented the weighted efficiency gains from operations (WEGO) mechanism in the 2020/21 tariff year
- Goal of the mechanism is to penalise operational inefficiency, and conversely allow the Authority to make additional profits for over-performance
- Size of the penalty/incentive has to date been capped at 7,5% of profits (return on equity)

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WEGO impact

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Weighted efficiency gain/(loss)	8,3%	-4,4%	-9,4%	-12,0%	-14,2%	-15,0%	-15,0%
WEGO (Rm)	130	-62	-152	-204	-226	-217	-247

- WEGO has been in place since 2020/21, net cumulative penalty imposed to date is approaching R1 billion
- Efficiency losses have been getting worse over time
- Problem seems to be the corporate structure: incentive to comply with overall group imperatives is stronger than the pressure to comply with regulatory incentives

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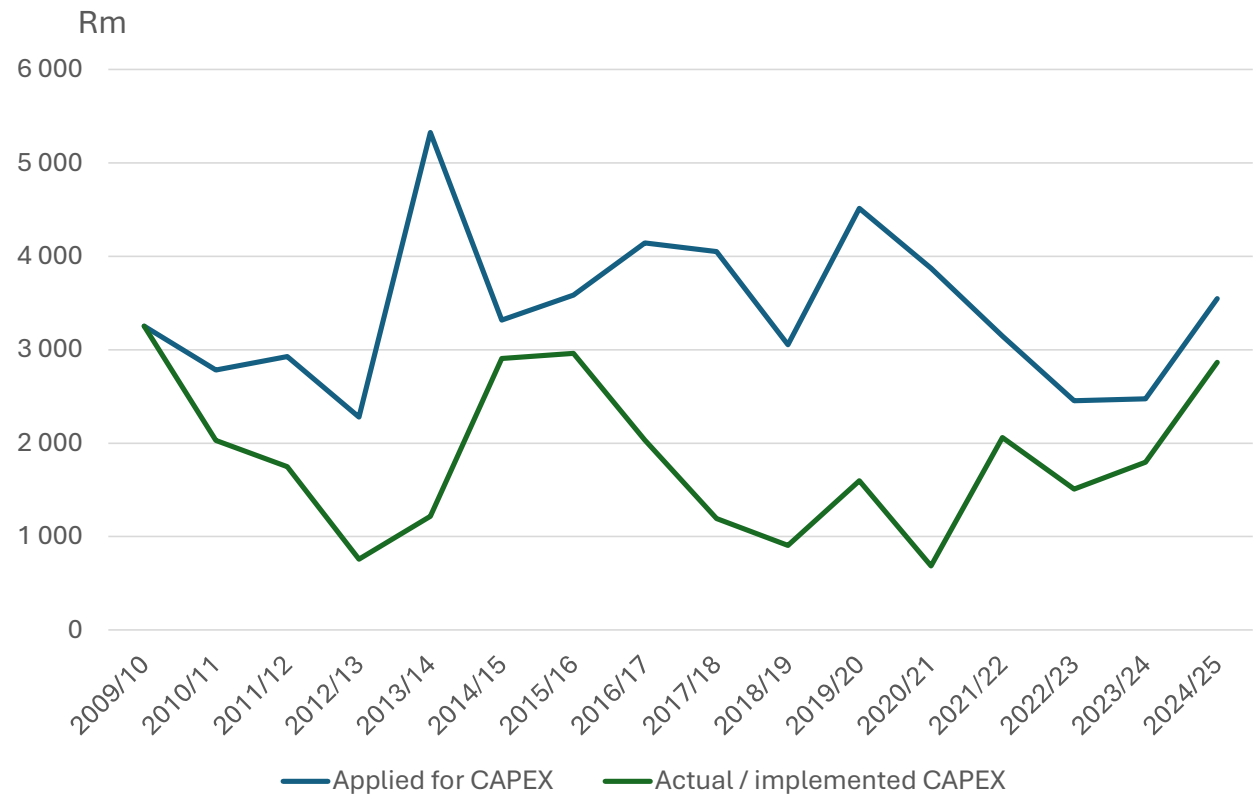
CAPEX underspend

- Largest contributor to efficiency issues is probably CAPEX underspend
- Full CAPEX request has always been granted by the regulator
- Since 2009/10, only 54% of allowed CAPEX has been achieved (improved to 71% in last four years)
- Ports Regulator has placed a target of 90% for the NPA to spend its approved CAPEX budget



Practical issues with price caps

- Are a number of practical issues as well with implementation of price caps:
  - Technical complexity of determining an appropriate/efficient cap
  - Prediction difficulties over a multiyear price cap period
  - Pressure to re-open the tariff if profits are extremely high or losses are incurred, and the impact that has on the incentive structure
  - May also be issues with excessive cost containment leading to under-investment in assets or service standards - material concern given need for increased ports investment, current efficiency/service standards issues
- Priority at present should be achievement of corporatisation, which is likely to make existing efficiency incentives more effective

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Proposed way forward

- Any major change to the tariff methodology poses risks to stability and predictability
  - Needs to be clear that:
    - It would have a substantial positive impact to offset these risks
    - It is correctly aimed at the nature of the regulatory problem involved
  - Not clear that either standard is met
- As the structural reform is implemented, and the regulatory regime responds to those changes, price cap regulation may become appropriate
  - Investment backlog largely addressed
  - Clear evidence of responsiveness to efficiency incentives
- In the current circumstances a move to price cap regulation is not supported

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Assets outside port limits

Regulating a firm with unregulated divisions

- Task of regulating NPA has always been complicated by the fact that it is part of a larger group
  - In order to ensure that tariffs are fair, the cost build-up of the tariff must only include items which are directly relevant to port users
  - Issue of how to segregate non-port costs has thus been of ongoing concern

- Valuation of Regulatory Asset Base (VoRAB) Methodology definition:

4.1.3. Fixed assets must be long-term in nature and must be operationally used and useable;

4.1.4. Fixed and other assets that are not in an operationally used and useable (useful) form will not be included in the RAB;

4.1.5. Used and useable means that assets should be in a condition that makes it possible to supply demand for port services in the short to medium-term (within 12-36 months).

Precedent to date

- Important for the Regulator to build on existing precedent, to ensure decision-making remains predictable and consistent
- To date the Regulator's consistent position has been that land (and associated assets) that has not been proclaimed as within port limits should not be included in the RAB
  - Proclamation gives the NPA legal rights to administer port activities, and is thus typically necessary for the asset to be used and useable
  - However in rare circumstances, assets outside of port limits may nevertheless be used and usable (or necessary to maintain safety and integrity in the system) and thus suitable for inclusion in the RAB
- In these cases, the proposal is that the Regulator should have more discretion to allow inclusion in the RAB

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Areas for future consideration

- Long term, there are a number of complex issues that will need to be addressed around whether the NPA should run a single till or dual till system for ports and non-ports activities
- Not trying to address this level of complexity in the current tariff methodology
  - Primary goal is to find a practical way of allowing the Authority to recover legitimate costs on a small set of assets outside port limits…
  - …and to do so in a way that avoids unanticipated consequences

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Proposed way forward

- A system based on principles and processes, with clearly spelled out standards for inclusion
- NPA proposal is to limit the projects eligible for inclusion to a subset of project types – further discussion is planned
- A multi-stage approval process:
  - Limited range of eligible project types
  - Process for application and standards for inclusion
  - PRSA to assess each eligible project on a case-by-case basis
  - Commitment to review impact in 2029 tariff methodology
- Declaration in port limits must remain the primary method for entering RAB - likely that assets already waiting for promulgation will be excluded from consideration

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Historical cost on older assets

Methodology for the Valuation of the National Ports Authority's Regulatory Asset Base (VoRAB), March 2018

- Regulator concluded that the appropriate elements for setting an appropriate RAB and asset valuation system must meet a number of objectives, including the following:
  - Produce a reasonable asset value for existing assets;
  - Result in an acceptable price-path;
  - Ensure financial capital maintenance
- Regulator concluded that the Trended Original Cost approach (TOC) best meets the criteria
- Concerns related to the older assets capitalised before 1990 remain - assets in existence by 1990 have been in existence for a long period of time and, for most of that time, have been depreciated on a trajectory following the historic cost method
- The Regulator therefore treats these assets on the historic cost method, while treating any assets created from 1991 onwards on the basis of the TOC approach

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Practical concerns in implementation of VoRAB

- NPA directives require the Regulator to set tariffs which meet a number of requirements, some of which are positively affected by VoRAB implementation and some of which are negatively affected
- Positive impact:
  - *Fairness*: VoRAB is very positive for the fairness of the tariff system – addresses issue of users continuing to pay for old assets
- Negative impact:
  - *A systematic tariff methodology that is applicable on a consistent and comparable basis;* and *Predictability and stability*: the substantial change in asset valuation associated with the imposition of VoRAB is potentially a threat to consistency, stability and predictability

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Implications

- Implementing VoRAB would improve the fairness of the tariff regime, but should only be undertaken if it can be done in a way which supports the consistency, stability and predictability of the tariff regime
- Proposal in discussion document: a method for incrementally introducing historical cost for older assets
  - Avoids shocks associated with ~45% VoRAB asset value change
  - Allows sustainability of the Authority to be protected
  - Steady improvement in fairness of tariffs from a user perspective

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Method for introducing historical cost

$$RAB_{o,y} = RAB_{c,y-1} \times (1 - HC)$$

Where:

$RAB_{o,y}$	=	*opening value of RAB for the period y*
$RAB_{c,y-1}$	=	*closing value of RAB for the period y-1*
HC	=	*historical cost adjustment factor*

- HC would be a predetermined maximum rate that would hold for the full three years of the tariff period
- The Regulator would have the discretion to decrease HC, but not increase it
  - Discretion exercised after:
    - consultation with the ministerial task team on corporatisation, in order to complete incorporation
    - request from the board of the Authority, to protect credit ratings of Authority
  - Regulator retains authority to evaluate merits of request
  - Transparency and process requirements

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Initial modelling results

- Have undertaken financial modelling of the proposal, further consultations with the Authority are still planned
- Initial results:
  - At HC = 4.5%, all pre-1990 assets could be transitioned to historical cost by 2039/40, but the value of the RAB would decrease quite sharply, and in some years allowable revenue would shrink
  - At HC = 1%, only ~R13bn of pre-1990 assets would be transitioned to historical cost by 2039/40, but a steady growth trajectory for the RAB and allowable revenue would be maintained
- Lower range for HC is thus significantly lower risk, and achieves slow but steady improvement in fairness of tariff regime

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Proposed way forward

- Analysis of potential impact is ongoing
- Maximum size of HC is proposed at 1%
  - Very slow transition to full implementation of VoRAB, but begins a process which has been on hold for eight years
  - Cap would be set for the three years of the tariff methodology
- Retain Regulator's discretion to reduce HC, subject to clear principles and transparent processes
- Commit to review impact at next tariff methodology revision in 2029

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Market risk premium

Market risk premium and cost of capital

- Market risk premium is the amount of additional return investors demand in order to invest in equities, as opposed to a very low risk asset like government bonds
- This premium changes over time, but good evidence that there is usually an underlying average rate that the market returns to
- The longer the time series you have to estimate the MRP, the closer you get to a true estimate of this underlying average, and the more stable the estimate is
- Impact on tariff:
  - MRP feeds into the calculation of the cost of equity, which together with the cost of debt, makes up the weighted average cost of capital (WACC)
  - WACC x RAB is over a third of allowable revenue

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The Dimson, Marsh and Staunton (DMS) dataset

- To date we have used the DMS estimate of MRP in the tariff methodology
  - Group of British academics who produce an annual time series, starting in 1900
  - Very long time series results in very stable estimate of MRP
- DMS MRP estimate is a high quality, “plug and play” part of existing methodology, but:
  - Use a different estimate of the risk free rate than the rest of the methodology
  - Exposes the methodology to single supplier risk

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Sourcing DMS alternatives

- DMS uses a time series of SA equity returns compiled by two South African researchers, commissioned by Old Mutual
  - Only surviving original researcher has been contacted, and has confirmed that she no longer has the underlying data
  - May be possible to commission research to replicate the data series – longer term and more costly project
- Available data series:
  - Have procured the relevant JSE Actuaries Equity Indices back to 1978 already - analysis shown is based on this data set
  - From ~1960 to 1978, the required data series is the Rand Daily Mail Industrial Index: trying to confirm whether identified vendor has access to the correct data series
  - Prior to 1960 it appears that the index would need to be pieced together from a variety of sources

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NERSA precedent

- NERSA releases two estimates of MRP, for its pipelines and gas divisions
- Both use the Total Equity Return Index - Allshare (J203-TRI) as the estimate of equity returns
- Small methodological differences in calculation between the two, but produce very similar results
- Both divisions of NERSA use a much shorter time series to estimate MRP than DMS
  - Only 30 year average
  - Issue seems to be an anomaly in 1980s data

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The 1980s issue

- Decades of the 1980s appears to have been anomalous, and including it in the average distorts results
  - High inflation, bond yields and return on equity
  - Rising political tensions, disinvestment and sanctions
  - Gold price went from around USD100 per ounce in 1976 to over USD600 by 1980, and then moved around the USD400 mark for the next decade

	Nominal annual bond yield	Nominal annual return on equity	Inflation	MRP
1978-2025 average	11,8%	20,3%	8,5%	7,8%
30 year average (2025-1995)	10,3%	15,2%	5,7%	4,7%
Average 1978-1995	14,6%	29,5%	13,6%	13,1%

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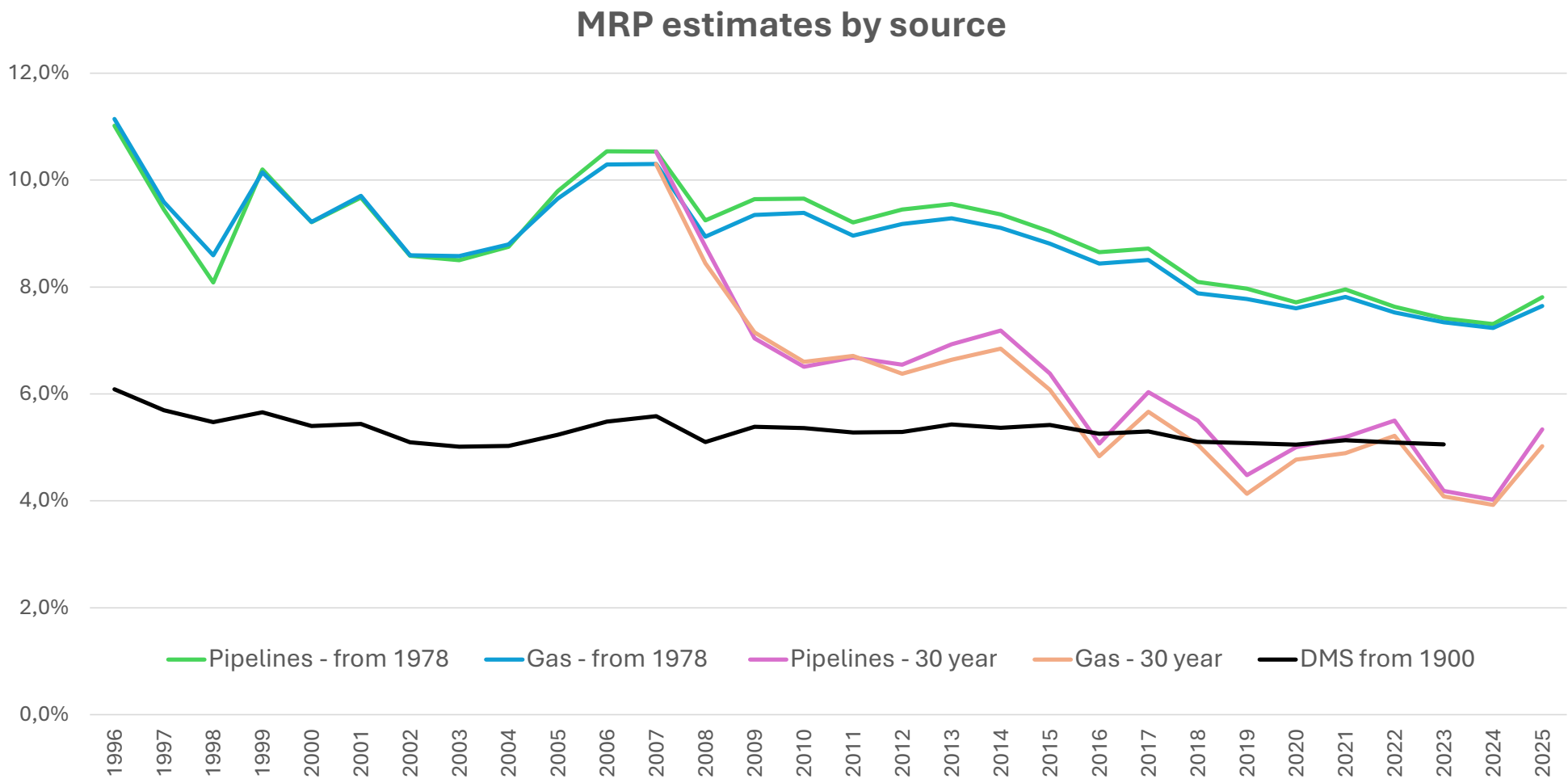
MRP estimates by source
12,0%
10,0%
8,0%
6,0%
4,0%
2,0%
0,0%
Pipelines - from 1978
Gas - from 1978
Pipelines - 30 year
Gas - 30 year
DMS from 1900
1996
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Proposed way forward

- Move to an alternative source of MRP remains desirable, but is not urgent
- Current available option of changing to a 30 year time series would introduce more volatility in the tariff system
- Proposal:
  - Retain use of DMS dataset for following three years
  - Reconsider the issue at next revision of tariff methodology
  - Undertake research to extend time series of available MRP dataset in the interim

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Equitable tax rate

Estimating tax expenses for an unincorporated division

- Large part of required revenue is a tax allowance
- For an incorporated company, tax is estimated at 27% of forecast profit
- For an unincorporated division, the effective tax rate is determined by overall profitability of the whole company
- NPA is an unincorporated and highly profitable division of a company in which some divisions frequently make losses
  - Estimating tax allowance at the full corporate rate systematically overestimates effective tax rate
  - Over collection can and is clawed back, but there is still a tariff effect that impacts the user

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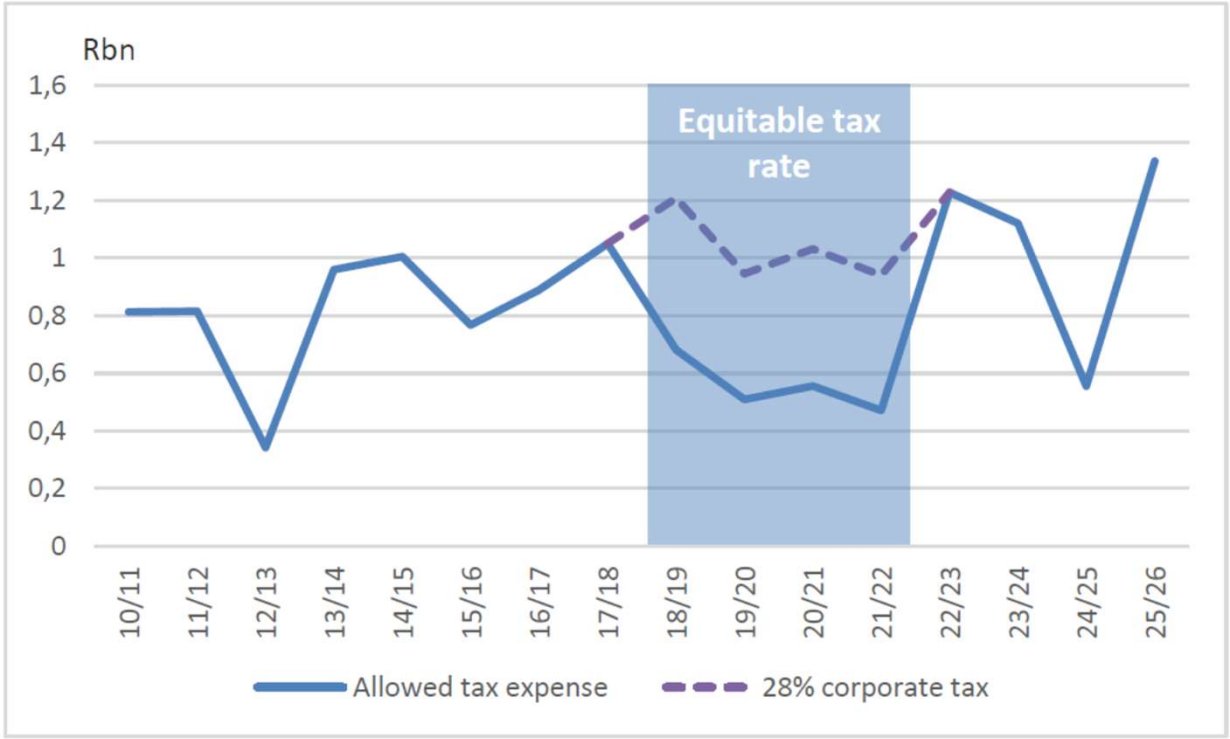
Equitable tax rate

- Equitable tax rate was applied from 2018/19 to 2021/22
- Starts by estimating tax for Transnet as a whole, and then allocating a proportion to each profitable division
- Substantial reduction in:
  - annual tax allowance
  - tariffs
  - size of the clawback



Incorporation and tax

- Once the NPA is incorporated equitable tax will no longer be appropriate
- Incorporation looked imminent at the introduction of the 2024/25 – 2026/27 tariff methodology, so equitable tax was dropped
- Problem is that incorporation is a complex multiyear implementation exercise, the exact timing of which is hard to predict
- Proposed solution:
  - Equitable tax becomes the default again
  - Include a process for introducing corporate tax, so that the adjustment can be made as needed during the three year tariff methodology period

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Proposed mechanism

- 6 months prior to the date of the Tariff Application, the NPA engages with the Regulator to determine the applicable methodology under which to apply, including the tax rate
- In order to meet the standard for application of the corporate tax rate for the period, the NPA will need to meet the following standards:
  - Presentation of a detailed and credible plan for incorporation of the Authority during the application period
  - Evidence of consultation with and concurrence from the Department of Transport and National Treasury, as regards the incorporation plans; which evidence shall be published by the Regulator
- Until then the applicable tax rate will be the equitable tax rate
- Should the switch to the corporate tax rate be agreed to by the Regulator in good faith, and then the incorporation of the Authority does not in fact occur during that tariff period, the Regulator reserves the right to return to use of the equitable tax rate in the next tariff period
- Should that occur, the Regulator will apply a claw back using the equitable tax rate

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Proposed way forward

- 6 month timeline is adjusted to begin in April, to avoid overlap with previous tariff period
- Confirmation with DoT, Treasury that the proposed consultation mechanisms are appropriate and practical
- Continue to implement proposal

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ETIMC

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ETIMC (1)

- First issue with ETIMC:
  - Annually ETIMC funds should grow at the weighted average cost of capital
  - Methodology has been estimating this return using forecast WACC, and then not adjusting for actual WACC
  - Proposal is to tighten up this methodology and use actuals
- Proposed way forward:
  - No concerns raised by stakeholders, and proposed change is logically consistent with the tariff methodology as a whole
  - Propose that the change be implemented

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ETIMC (2)

- Second issue with ETIMC:
  - Use of the ETIMC facility is at the Regulator's discretion
  - When the NPA includes an ETIMC request in its application, it obscures the real increase they are requesting, and creates expectations for the use of ETIMC
  - Proposal is to prohibit the NPA from requesting use of ETIMC going forward
- Proposed way forward:
  - Stakeholders are concerned as to the discretionary nature of the mechanism, and it would be desirable to include more guidance on when and why the facility should be used
  - This would then supplement the proposed changes, which are still supported

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WEGO

Background

- Weighted Efficiency Gains from Operations (WEGO) allows for additional profits to the NPA for an increase in year-on-year performance on a basket of key performance indicators (KPIs), or a decrease in profits for a decline in performance
- Basket of KPIs:
  - Vessel Service Delay: actual berthing time minus planned berthing time divided by number of vessels delayed
  - Ship Working Hours: total volume handled for all vessels during the month divided by total time between last lift and first lift
  - Berth Productivity: sum of volume handled divided by the time between last line untied and first line tied
  - Ship Productivity Indicator: sum of volumes/ship turnaround time
  - Ship Turnaround Time: total hours vessels stay in the port divided by the total number of vessels serviced
  - Truck Turnaround Time: measuring the combined time that trucks spend waiting in port staging areas and terminals

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Proposed change

- Current formula for WEGO sets the incentive cap at 7,5% of the total return earned on equity
- Proposed increase is to 10% of total equity return
- Consistent with continued incentivisation of improved operational performance
- Moderate/cautious size of increase:
  - Corporatisation is pending and likely to change responsiveness to incentive structures
  - Schedule 1 of the ERTA introduces changes to the performance monitoring role of the Regulator

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Proposed way forward

- Desirable to continue to emphasize to the Authority that efficiency is a priority, and increasing IC achieves that
- Proposed change is cautious and proportionate, given the introduction of the ERTA and the anticipated incorporation of the Authority
- Proposal is thus to continue with increase in incentive cap to 10%
- Broader comments on other WEGO components have been noted and will be considered outside this TM process

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Consultation process

Finalising the methodology

Date	Venue	Time
23 February 2026	**The Kelway Hotel** Central Region – Port Elizabeth	09h00 – 13h00
27 February 2026	**Coastlands Sky Hotel - Umhlanga** Eastern Region – Durban	09h00 – 13h00
03 March 2026	**15 On-Orange – Cape Town** Western Region – Cape Town	09h00 – 13h00
06 March 2026	**Virtual Event** Microsoft Teams	09h00 – 13h00

- Publication of the reviewed multi-year Tariff Methodology is expected on 30 March 2026.
- Where required, further engagements will continue to ensure a fully considered Tariff Methodology.

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