

## **Background**

In terms of Section 72 (1)(a) of the National Ports Act, 2005 (Act No. 12 of 2005) (“the Act”), the Transnet National Ports Authority (“the Authority”), a division of Transnet SOC Limited (“Transnet”) is required, with the approval of the Ports Regulator of South Africa (“the Regulator”), to determine tariffs for services and facilities offered by the Authority and to annually publish a Tariff Book containing those tariffs. In determining the tariffs, the Authority applied the Tariff Methodology (“the Tariff Methodology”) applicable for the Financial Years 2021/22 to FY 2023/24, issued by the Regulator on 06 March 2020. The Tariff Methodology forms an integral part of the regulatory framework and sets out the requirements of the tariff application process. The Tariff Methodology considers a multi-year approach and is applicable from the 2021/22 to 2023/24 tariff years. It further allows for an annual review and an annual adjustment of tariffs within the three-year period as opposed to fixing the tariffs for the full period. In accordance with the Tariff Methodology, the proposed tariff adjustment for FY 2023/24 is 9.24%. The indicative tariff adjustments for FY 2024/25 and FY 2025/26 are 25.84% and 3.64% respectively.

In order to deliver on the Authority’s Strategy and mandate, significant capital expenditure will be required in the short to medium term. Though the Authority remains committed to the Transnet objective of lowering the cost of doing business in South Africa, whilst it seeks to create a reimagined port system that transcends the landlord role by stimulating the country’s maritime economy driven by a vision to become a world class sustainable port system, making South Africa and the region a competitive location for doing business. This is adequately reflected in the Authority’s business strategic approach and the Tariff Application submission.

## Western Region – 9 September 2022

1. Fast Tracking of projects and cost overruns. Is TNPA running an efficient process? How do you cater for efficiencies when you have cost overruns? In future, how is TNPA going to deal with cost overruns?

TNPA does not have cost overruns; it has accelerated spend to deliver on projects. TNPA identifies projects that it might not be able to execute and substitutes with projects that it can. There is significant interest in ensuring delivery of value.

There is a corporate plan that includes a list of projects TNPA wishes to undertake. The Authority is not chasing random projects that don't have value or benefit. Whichever project TNPA spends money on was identified by the end user. Having an overrun does not mean there will not be any value derived.

2. Most CAPEX relates to fleet. Why is TNPA spending more 50% of its budget on fleet when it is an infrastructure provide?

TNPA has three core businesses i.e., marine services, cargo dues and real estate. In terms of marine, the helicopter used by TNPA are highly specialised as they fly over water and does pilotage. In the last 21 years, this service was outsourced and there was a single service provider (no competition – single bidder). TNPA moved to insourcing of the service which required recapitalisation. The same was applicable to tugboats, they also required recapitalisation. A tugboat has a life of approximately 40 years. All tugboats have reached their life span.

3. What is the allocation of Tariffs for Research and Development? Which projects has TNPA identified for climate change effects? Why is TNPA's R&D function in the Chief Engineers Office?

There was an acknowledgement that the R&D function was misplaced and that it would be moved to the CE's office for all projects.

There was a submission made to the PRSA by TNPA in the week preceding 09 September 2022, advising the budget for R&D. there is a significant amount budgeted for R&D. Over

the recent years there hasn't been much budget for R&D. This was identified and more work was done, particularly for the KZN region and for feasibility studies. There are a number of projects identified for environment as well as technological studies.

4. Dual regulation between TNPA and NERSA for petroleum tariffs. How is this managed?  
The recovery from NERSA is for energy assets i.e., the pipeline. When it comes to tariffs in the tariff book, those deal with the recovery of basic port infrastructure i.e., cargo dues.

NERSA is not the supreme structure that gives instruction to the Ports Authority. TNPA is empowered by the Ports Act to perform its functions.

If there are concurrent issues, there is a memorandum of understanding to deal with such issues.

5. There is a focus to reduce the cost of shipping. Ports in RSA exist because of cargo. The true cost of shipping is per ton moved in Ports. How can TNPA tangibly show that there is a reduction in costs because all costs of the shipping value chain find themselves back to the cargo owner.

This relates more to freight rates and impacts they have on the cargo owner. There was an acknowledgement that from a TNPA tariff point of view, we need to see an increase in marine services.

In terms of the Regulatory framework, we have a tariff strategy that guides us how to implement increases; and is based on the user pay principle and guides cost to be recovered from infrastructure and/or service. Implementation of the tariff strategy started in FY 2017/18. FY 2023/24 marks the fifth year of implementation leaving only five more years to implement the tariff strategy. There is still a huge under recovery of marine services and continues to be cross subsidised significantly.

### **PS Response**

To reduce costs, we need to increase staff productivity i.e., for the same cost of labour you're producing more. This would mean that producing more for less. And also improving efficiency overall.

6. Increases implemented at the Dry-Dock and Syncrolift Tariffs. These need to be looked into.

The penalty is only applicable to bookings not cancelled within 60 consecutive days prior to the booking date. If you take your booking per the slot allocated, you will not be liable.

7. True economic growth can come through increase in capacity. What tangible area or plans exist to unlock capacity. Capacity in RCB has been lost to Mozambique. RBCT lost about 10m in export capacity. Half a million tons are lost per month is SLD in the last 12-18 months.

There are various expansion projects at the PoSLD i.e., top 6 projects. These are generated at port level so that the desired end state covers the needs and wants of the different ports. These are to make sure the efficiency objectives are met. The port was developed in the 1970's to move dry bulk and iron ore. As diversification went by, we had to include oil importation. If you look at the current port plans, they are to increase capacity from 58mtpa to about 67mtpa. Land reclamation is to deal with the stock pile.

We are currently trying to obtain land parcels in order to ensure our ports are less suffocated in terms of core port generated operations. We need to build capacity ahead of demand to ensure that our customers and stakeholders do not get frustrated by lack of infrastructure.

#### **PS Response**

To unlock capacity: In the western cape there are hydraulic mooring systems that are being purchased. This is implemented for the entire port system. There is standardisation of equipment to ensure same training can be provided across ports.

8. How is TNPA ensuring its data integrity and volume growth?

There was an acknowledgement that data integrity might be a problem, and not necessarily from a TNPA point of view, but from the logistics value system. A number of stakeholders have taken interest in ensuring that data integrity is improved.

#### **PS Response**

If you were to classify TNPA in terms of data maturing, we would be close to level 1. Data is scattered and not integrated. We need to move our data to an information system to assist in decision making. This is actually in the process.

We shouldn't be having a truck that is coming into a port that we don't know in advance when it is actually coming, what cargo it is carrying, what the weight is and which area in the port precinct it is.

9. FY 2022/23 ship repair increases were approx. 12%, in FY 2023/24 TNPA is proposing 22.33%, the following year is 25.44%, that is a total of 69%. How will ship repair grow? Why should ship repair be part of marine services, when the bulk of CAPEX is towards marine and there's no ship repair facilities? We cannot compare the exchange rate as ship repair is charge in Rands.

Thus far, the implementation of the tariff strategy has mainly focused on rebalancing of marine charges and cargo dues on a holistic level. In the remaining five years PRSA and

TNPA will start delving into individual components within marine charges and you would get more differentiated tariffs for those different components within those marine charges, and you would find that ship repair is one of those charges.

10. Reduction in CAPEX over the years. Is it a function of lack of skills and expertise?

### **PRSA response**

Over the last 5 years, PRSA has placed significant attention to lack of CAPEX spend and continued to shine light to the issue. TNPA then came with that was called the Game-Changer, which started analysing what the challenges are, which the CE has continued on and now is looking at a delivery model to address those challenges. PRSA cannot continue to allow TNPA CAPEX it is not implementing; a new approach needs to be taken in terms of how CAPEX will be approved going forward.

11. What is the progress of corporatisation?

- Pronouncement by President of RSA;
- Appointment of Board (by Shareholding Minister);
- Articles of Association sent to DPE for acceptance/ modifications.

TNPA is currently making its decision independent of Transnet and operating as a subsidiary.

12. Does PRSA and Competitions Commission still have an MoU.

MoU is still in place, PRSA still works with the Competitions Commission where there is concurrence, however; haven't done so in the recent past as there hasn't been matters of concurrent jurisdiction between the two entities. It was only the Sunrise and Avedia matter where the high court ruled and provided PRSA with the authority.

In the matter of the excessive port prices that was recently investigated, PRSA conducts a port comparator study annually and has a tariff strategy to deal with excessive pricing. The other aspect relates to TPT prices wherein PRSA has no mandate to regulate.

**Written Responses required:**

13. RCB was the world leader as a bulk export in coal. Now it is nowhere near the world class. What happened?
14. A revenue formula for the Ship Repair

### **Economic Hub Region (Ekurhuleni) – 12 September 2022**

1. In the next two weeks PoDBN and PoCPT are increasing fuel charges, which industry has rejected. This coupled with marine charges increases of 22.33% for FY 2023/24 and 25% average tariff adjustment for FY 2024/25. Issue around service delivery where shipping lines are still struggling with availability of helicopters and tugboats.

You cannot separate your capital expenditure for marine services from total costs of running a business. It is common cause that the fuel costs have increases significantly in a short space of time. When you move a vessel, our tugboats consume a lot of fuel (80 litres of diesel per hour multiplied by two tugboats). The tariffs we've had previously have been eroded by fuel increases. The 7% increased approved in the previous financial year, within the first quarter of the year that 7% was eroded by fuel increases.

We've also had to restructure our marine personnel packages. After covid-19 impact, TNPA started to lose employees. To try and retain staff as well as attract new employees in future, packages were revised in June this year.

The prices of fleet currently being recapitalised have increased by approximately 38%. The 22.33% increase in marine services is conservative, and one cannot postpone it any longer. If we do not act now, there will be a huge tariff adjustment in future.

TNPA sympathises with customers in terms of the current services it offers, however, we cannot detach it from the tools of trade. Currently we have 12 tugboats that are 50 years of age. Getting spares for those spares is a challenge hence it takes longer to maintain and service those tugboats. TNPA is attempting to make the fleet current so as to respond to breakdowns and provide services efficiently.

2. Comment on a decrease in free storage days

This relates to Terminal Operators (TOs). TO's have contractual relationships with their customers wherein issues of storage and free storage were discussed. From a TNPA oversight responsibility, it is not to look at the commercial aspect of their relationship with their cargo owner or a port user.

3. What is the proposed marine increases for FY 2024/25?

In terms of how the methodology is structured, it requires an application be based on three years, wherein the first year is fixed and the two outer years being indicative. The FY 2024/25 will be re-assessed when we file our tariff application in the next financial year as we submit our application based on the new methodology.

- a. Follow up question: The average tariff adjustment is 9.24% for FY 2023/24, and the average for FY 2024/25 is 25.84%. What creates the huge jump, what component is creating this anomaly.

It is the clawback and projected capital expenditure of approximately R6 billion.

4. What was learnt from the Cyber-attack and what comfort is there that it won't happen again?

From a sever security perspective, one of the initiatives implemented was to upgrade the server to ensure there is no outdated infrastructure hosting critical operation applications. Another initiative was improving on the security controls in terms of who accesses and how they access.

We are working to bring security services skills in-house, and not just the infrastructure to predict, detect and prevent.

5. At what point did the Authority consult with the cargo owners and shipping lines to gain perspective from the industry whether the rationale held by the Authority benefit cargo owners and shipping lines. From which revenue source are funds allocated relating to infrastructure development?

We have business to business roadshows conducted (these were done recently), where cargo owners and shipping lines were consulted in terms of the upkeep of current infrastructure and future infrastructure plans to be able to deliver a service that is appropriate to what our users expect.

Currently, a process to finalise port development plans is underway, which mainly covers the aspect of industry development and creation of capacity.

In terms of how the allocation of how the different charges are allocated this takes place in conjunction with the Ports Regulator. User pay principle must apply to recover from the main revenue streams.

6. Most of Sasol's suppliers are on month-to-month contracts in terms of land leases, as such can't make any developments on the land. Having increases per square metre in March, and

again recently due to issuance of new contracts. This affects cargo owners, as well as increases in marine service. It's the cargo owners that end up bearing the brant

On the month-to-month leases, these would have received their annual adjustments that are based on Consumer Price Index (CPI). We have recently revalued our properties and it was established that the value of our properties was low, resulting in rentals recovering lower than market values. This was an independent revaluation and has not been done in the last five years.

7. No use spending money on a port if it doesn't increase efficiency. Conveyor belt has been out of commission since the fire last year.

During the walkabouts at the PoRCB it was identified that some of the inefficiencies relate to disfunctioning berths. Part of the decision made was that TNPA needs to issue a section 61 notice to the terminal operators requiring them to report to TNPA on a regulator basis in terms of progress being made. Furthermore, a task team within TNPA was established to ensure progress is being made. At this stage, timelines cannot be communicated, however progress is monitored.

When one looks at the Port of RCB and PoSLD, these two ports were designed to handle cargo that is coming through rail. So at PoRCB when TFR is experiencing challenges with cable theft and unavailability of locomotives and other rail network challenges. This automatically rolls over to the port operations and loss of volumes because the aforementioned ports are automatically configured to handle cargo through rail. This is further exacerbated the conveyor system not working. This creates a situation where there is a need to use trucks which creates congestion within ports and also creating skips. This really has an impact on the infrastructure including roads.

It would be an optimistic expect fuel decreases in future. In the last year, fuel prices increased from around R18/l to approximately R25/l. However, TNPA initiated an internal initiative to identify major cost drivers and to have a plan on how to deal with high costs accordingly so that in future we can reflect on the benefits to the industry.

8. A lot of mention has been made in terms of fuel price increases. If fuels prices reduce, will marine service come down as well in the next application?

We endeavour to monitor and reassess in the next tariff application. We will also leave it to PRSA to determine whether to apply a clawback of some sort. We are currently paying high fuel charges but do not have the associated tariff. We are subsidizing the industry as we speak.

9. There is a mention of moving bulk from PoDBN to PoRCB. An example is the PoDBN, in terms of WEGO, it is the worst performing port. Will moving bulk services do not affect PoRCB performance as it has a few greens and capital expenditure associated.



Ports dealing with bulk are distressed, as opposed to container ports. What is making bulk ports unsustainable? Are there issues associated with terminal operators? Containers seem to be an easy flow.

We are moving bulk connections in particular to consolidate in the designated chrome terminal that has been identified in the PoRCB particularly in the 7 series. However, it is still premature to talk about this strategy as it is part of a transaction that is being finalised between bulk connections and TPT.

The reason to relocate bulk connections is due to the repositioning of PoRCB as a dry-bulk port. In addition, a piece of land in the East-side of PoRCB has been identified and TNPA is going out onto market through an RFP for anyone willing to develop and operate that land. It is a strategic injunction of Transnet to have both ports in the Eastern region play to their strengths. PoDBN is being repositioned to be a Container hub. Moreover, it will continue to play in the liquid bulk sector by virtue of Island View.

It was commitment that once there is a much clearer picture on the ask on the part of TNPA in relation to enabling infrastructure at PoRCB to service the dry bulk strategy we can then have a discussion with the PRSA between the workstreams.

In terms of dealing with distressed ports, there's been engagements by TNPA CE with all ports to understand issues, as well as requesting proposals for turnaround strategies to deal with distressed ports. It is not a function of the commodity itself but rather operations as a whole. Part of the reason why some of the ports are distressed is because they were created to receive cargo through rail, and have now resolved to trucks as the rail system is currently experiencing challenges.

10. Since 2015, TNPA took delivery of 9 tugs in the system which were 90 bollard pull, which are better than older tugs in terms of fuel consumption.

Affirmative. The 9 tugs we have taken delivery of are fuel efficient, however, the issue is about fuel prices going up and not the fuel consumption efficiency of the tugs. In addition, salary packages of the crew for the tug have increased significantly recently (further exacerbated by COVID-19 impact where there's a demand for staff).

11. Marine fleet plan was requested to be shared with PRSA and port users.

We have the fleet strategy as approved by the Board of Transnet, we will make the document available. The document dates back to 1996 and gives a view of the entire fleet of Transnet, at what stage the fleet needs to be recapitalised and age analysis of each and every craft we own and informs our capital expenditure and rotation of the fleet.

## **Comment**

- **A request was made by one of the Board Members of PRSA, requesting a meeting to understand “Accelerated CAPEX”**
- **TNPA was commended for its “quick” recovery of damage caused by KZN Floods**

## **Eastern Region – 13 September 2022**

1. Volume expectations or projections seem to be off for dry-bulk and containers  
TNPA acknowledged that there is a need to update the models it is currently using in order to determine and project volume growth as these models feed into the annual Tariff Application that is filed with PRSA.

Customers and other stakeholders were requested to participate in the processes as they are key in formulating these models as some of the data are received from them, and then translated into forecasts. Such data relates to market & economic developments, and other policy issues.

2. The transition of costs from cargo owners to shipping lines

This is as a result of a refurbishment of two workboats. Two weeks preceding the Eastern Region roadshow two launches were replaced. A week ago, a contract was awarded to a service provider for the renewal of engines for two workboats; one at the PoMSB and PoRCB (total of four engines). During the proceedings of the Eastern Region roadshows there was a tender briefing session for the refurbishment of four tugboats. In the week of 19 to 23 September 2022 another session for the bidding of four tugboats would be conducted.

3. Purchase of tugs and National Treasury Guidelines (exemptions from purchasing outside the country)

On 11 September 2022, TNPA acquired the National Treasury exemption to acquire five fully fledged tugboats. There will be another tender issued to acquire five tugboats that will be built internally.

**This was welcomed by a customer.**

4. Durban Drydock and rates being high

The first issue was length of stay, as at the time no more than three vessels could be accommodated. It was envisaged that revenue would reduce, however, TNPA aimed at providing frequent and reliable access. The burning issue was to make the service functional before translating it into a tariff.

During the PoDBN walkabout earlier this year, PS gave an instruction that he would not allocate CAPEX for that business until there is a complete turnaround of that business. From there the team aligned with the TNPA operating model and as it stands the model is in its finalisation stage. The operating model looks at three areas i.e.,

- what are we doing currently to fix the core (current infrastructure);
- optimising the core (acquisition of 10 Jib Cranes);
- growing the core (Masterplans are positioning the Port of Durban to be an international hub)

5. In terms of environmental compliance, private facilities are held at a different standard than that of TPT

The status quo has changed significantly as TPT is not treated any different. PS confirmed that during his tenure at TNPA, he has not received any instruction from Transnet for TNPA not to exercise its oversight role over TPT. So everything that TPT ought not to do that TNPA has oversight over which it did not do was incompetence and nothing else.

It is incorrect for TNPA to misrepresent facts and state that which it is not doing which it ought to do is due to the shareholder.

TPT was issued with a section 61 by TNPA wherein they are required to provide weekly feedback to TNPA in terms of mitigating factors and progress reports.

A colleague from TPT confirmed that indeed a section 61 was issued, and that they are now treated as any other operator and are abiding by the provisions. TPT is a public entity and faces procurement challenges in procuring equipment just like TNPA.

6. What are plans to upgrade berth 208 and 209 at PoRCB

There are plans per the Masterplans – there are six berth development plans that will be implemented that include rehabilitations.

7. Penalty and incentive programme: The Authority has not shared the policy framework outlined in the penalty incentive mechanism. When will this become available? What is the end state of what the performance and at what point will the Authority share this road map?

At the end of March 2022, the Authority did make a formal presentation implicitly at the time and that presentation was not offering a complete framework of the penalty and incentive model that we currently have which directly impacts our terminal operators.

At that session there wasn't sufficient time for port users or members of the NPCC to respond,

and possibly have the dialogue. The understanding is that at the next session of the PCCs, that dialogue will continue and that platform.

It's safe to say that the penalty incentives that have been issued to the various terminal operators by TNPA remains effective from 1 April 2022. To reiterate, the framework that was shared at the National Ports Consultative Committee was also shared at the various ports at the PCCs, including terminal operators that have been consulted. TNPA still remains open to share the same going forward.

A workshop will be help with port user, TNPA, terminal operators and PRSA. Incentive models considers the cascading of penalty or incentive. This would not be passed on to cargo owners as there will be investigations and stringent measures.