

24 February 2022

MEDIA STATEMENT

NERSA'S DECISION ON TRANSNET SOC LIMITED'S APPLICATION FOR PETROLEUM PIPELINES SYSTEM TARIFF FOR THE 2022/23 TARIFF PERIOD

The Energy Regulator, at its meeting on Thursday, 24 February 2022, set the petroleum pipelines system tariffs that will allow Transnet SOC Limited (Transnet) to realise a 9.10% increase, from R5 503.24 million to R6 004.08 million, in Allowable Revenue (AR) compared to the 2021/22 tariff period. This translates to an 8.02% tariff increase for the Durban to Alrode (Johannesburg) route, which will result in an increase of approximately 4.18 cents per litre (cpl) in the fuel price in the 2022/23 financial year (from 52.20 cpl to 56.39 cpl).

If the Minister of Mineral Resources and Energy decides to use the pipeline tariff as a proxy for the cost of transporting fuel from Durban to Johannesburg, the increase of 8.02% will result in an increase of approximately 4.18 cpl in the petroleum transportation levy for the Durban to Alrode route.

On 30 September 2021, the Energy Regulator received Transnet's tariff application for the 2022/23 tariff period as a condition of its licence to operate its petroleum pipelines system (PPL.p. F3/20/1/2006).

The tariffs are set for one year, from Friday, 1 April 2022, to Friday, 31 March 2023.

Transnet applied for an AR of R9 770.72 million, which is an increase of 77.54% (R4 267.48 million) compared to the AR of R5 503.24 million in the National Energy Regulator of South Africa's (NERSA) tariff decision for the 2021/22 financial year. The AR applied for translates to an increase of 83.15% in the Durban-to-Alrode tariff, which would have resulted in an increase of approximately 43.41 cpl in the fuel price in the 2022/23 financial year (from 52.20 cpl to 95.62 cpl).

The increase in the AR is mainly due to a clawback of R2 538.99 million in favour of Transnet, emanating from:

- a) **lower volumes** realised in the 2020/21 tariff period;
- b) higher operating expenditure incurred in the 2020/21 financial year mainly due to clean-up costs as a result of **product theft incidents on the Transnet pipeline system**; and

Regulator Members:

Mr SS Mokoena (Chairperson) *Adv NP Sithole (Chief Executive Officer)
*Mr N Gumede *Ms N Maseti *Mr MW Mkhize Ms Z Mpungose Mr FK Sibanda
*Full-Time Regulator Members

- c) the AR deferred by NERSA in the 2019/20 determination¹.

The increase in tariffs is due to the lower volumes forecast for the 2022/23 FY (14 700 ML) as compared to volumes of 15 850 mega litres (ML) used in the 2021/22 tariffs determination.

The Energy Regulator's decision results in a 9.10% increase in the AR from R5 503.24 million in 2021/22 to R6 004.08 million in 2022/23. The Alrode tariff will increase by 8.02% (4.18 cpl) to 56.39 cpl in 2022/23 from R52.20 cpl in the 2021/22.

In assessing the Transnet tariff application, the Energy Regulator considered the following key issues:

- a) The Multi-Product Pipeline (MPP) project's status, considering delays and cost overruns;
- b) NERSA prudency assessment on the MPP assets;
- c) Volume risk sharing/management between Transnet and its customers;
- d) Deferment of Allowable Revenue; and
- e) Market analysis, especially the comparison of alternative modes of transport for petroleum products.

The key issues mentioned above are discussed in detail in the Decision and the Reasons for Decision (RfD) document, which will be posted on NERSA's website (www.nersa.org.za) once the Energy Regulator has decided on the treatment of confidential information.

The pipeline system is generally the most cost-effective mode of transportation of petroleum and petroleum products from the coast to the inland area instead of using rail or road transport. The Energy Regulator will continue monitoring the shifting of fuel volumes away from road and rail transport to the pipeline system.

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¹ In the 2019/20 tariff decision, NERSA decided to phase in the AR increase of R1 217.32 million over four years, resulting in the addition of R304 million in the 2022/23 clawback determination.