

NATIONAL ENERGY REGULATOR

In the matter regarding

THE APPLICATION FOR APPROVAL OF PIPED-GAS MAXIMUM PRICES

By

Spring Lights Gas

DECISION

On 22 January 2015, the National Energy Regulator decided as follows:

1. approved the SLG base maximum Gas Energy (GE) price of R136.58/GJ as at 01 July 2014;
2. a proposed quarterly adjustment of the base maximum GE price by updating the actual average data as contained in NERSA's formula for GE;
3. approved the SLG trading margin of R32.28/GJ;
4. that discounts from these maximum prices are allowed and must be applied in accordance with the non-discrimination provisions of section 22 of the Gas Act, 2001 (Act No 48 of 2001);
5. Spring Lights Gas must provide NERSA with quarterly updates of the prices offered and concluded with customers during negotiations and demonstrate compliance with the price differentiation as contemplated in section 22 of the Gas Act, 2001 (Act No 48 of 2001). All quarterly reports are to be submitted within 1 month of the end of the quarter; and
6. that the date of the Energy Regulator becomes the effective date of the maximum price for monitoring purposes and will remain effective until the date of approval of another maximum price by the Energy Regulator.

REASONS FOR DECISION

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Reasons for Decision

1. APPLICABLE LAW

- 1.1 The legal basis for the National Energy Regulator to regulate prices of piped-gas is derived from the National Energy Regulator Act, 2004 (Act No. 40 of 2004) ('the National Energy Regulator Act'), read with the Gas Act, 2001 (Act No. 48 of 2001) ('the Gas Act').

2. BACKGROUND

A) The Methodology To Approve Maximum Prices For Piped-Gas In South Africa (2011)

- 2.1 In terms of section 4(g) of the Gas Act, the Energy Regulator must, as appropriate, in accordance with this Act regulate prices in terms of section 21(1)(p) in the prescribed manner.
- 2.2 Section 21(1) (p) of the Gas Act prescribes that the Energy Regulator may impose licence conditions within the following framework of requirements and limitations: 'maximum prices for distributors, reticulators and all classes of consumers must be approved by the Gas Regulator where there is inadequate competition as contemplated in Chapters 2 and 3 of the Competition Act, 1998 (Act No. 89 of 1998)'.
- 2.3 The essence of section 4(g), therefore, is that when the licensee holds a licence that contains a condition in terms of section 21(1)(p), then such licensee's maximum prices must be approved by the Energy Regulator in the prescribed manner where there is inadequate competition.
- 2.4 Regulation 4 of the Piped Gas Regulations, 2007 (published under Government Notice No. R. 321 in *Gazette* No. 29792 on 20 April 2007) ("Piped Gas Regulations") dealing with the price regulation principles and

procedures provides as follows under sub regulation (3) and (4), respectively –

- 2.4.1 that the Energy Regulator must, when approving the maximum prices in accordance with section 21(1)(p) of the Act, *inter alia* be objective based on a systematic methodology applicable on a consistent and comparable basis; and
- 2.4.2 that the maximum prices referred to in sub regulation (3) must enable the licensee to –
 - (a) recover all efficient and prudently incurred investment and operational costs; and
 - (b) make a profit commensurate with its risk.
- 2.5 In line with this particular requirement, the National Energy Regulator has developed the Methodology to Approve Maximum Prices of Piped-Gas in South Africa, 2011 ('the Maximum Pricing Methodology' or 'the Methodology'). The Methodology is available on the National Energy Regulator's website at www.nersa.org.za.

B) Determination Of Inadequate Competition

- 2.6 Approving maximum prices and the use of the Methodology are contingent on the National Energy Regulator determining that 'there is inadequate competition as contemplated in Chapters 2 and 3 of the Competition Act, 1998 (Act No. 89 of 1998) ("Competition Act")'.
- 2.7 Therefore, for the National Energy Regulator to regulate maximum prices of piped-gas, it must be of the view that there exist market conditions or market features indicating inadequate competition in line with the provisions of Chapters 2 and 3 of the Competition Act.

2.8 The determination of inadequate competition contemplated in section 21(1) (p) of the Gas Act is made by the Energy Regulator outside of this methodology from time to time. The determination of inadequate competition was approved by the Energy Regulator on 08 February 2012 and may be reviewed every three years.

2.9 The Maximum Pricing Methodology also provides for the determination of a trading margin, which is referenced to the Tariff Guidelines.

C) Relationship to The Tariff Guidelines

2.10 According to section 4(h) of the Gas Act, the Energy Regulator has a duty to *'monitor and approve, and if necessary regulate, transmission and storage tariffs and take appropriate actions when necessary to ensure that they are applied in a non-discriminatory manner as contemplated in section 22'*.

2.11 In order to implement this mandate, the National Energy Regulator developed the Guidelines for Monitoring and Approving Piped-Gas Transmission and Storage Tariffs in South Africa, 2009 ('the Tariff Guidelines'). The Tariff Guidelines are available on the National Energy Regulator's website at www.nersa.org.za.

2.12 Hence, the Tariff Guidelines give guidance on tariff-related activities, which are charges for gas services and which must be added to the piped-gas energy price(s).

D) The Piped-Gas Regulations

2.13 The maximum price determination principles outlined in the Maximum Pricing Methodology, are further informed by the Piped-Gas Regulations.

2.14 Sub-regulation 4(3) prescribes that the Energy Regulator must, when approving the maximum price in accordance with Section 21(1)(p) of the Act:

- a) be objective i.e. based on a systematic methodology applicable on a consistent and comparable basis;
- b) be fair;
- c) be non-discriminatory;
- d) be transparent;
- e) be predictable; and
- f) include efficiency incentives.

2.15 Sub-regulation 4(4) prescribes that the maximum prices referred to in sub-regulation 4(3) must enable the licensee to:

- a) recover all efficient and prudently incurred investment and operation costs; and
- b) make a profit commensurate with risk.

2.16 Sub-regulation 4(6) then requires that, when gas is sold, the accompanying invoice must itemise the constituent elements of the total price reflected on the invoice, including at least the cost of gas, and transport tariffs and any other charges.

2.17 Annexure A of the Regulations provides the definition of the classes of customers as classified by their annual gas consumption in Gigajoules as follows:

CLASS	ANNUAL GAS CONSUMPTION		
Class 1	Less than 400 GJ pa		

CLASS	ANNUAL GAS CONSUMPTION		
		to	
Class 2	401 GJ pa	to	4 000 GJ pa
Class 3	4 001 GJ pa	to	40 000 GJ pa
Class 4	40 001 GJ pa	to	400000 GJ pa
Class 5	400 001 GJ pa	to	4 000 000 GJ pa
Class 6	> 4 000 000 GJ pa		

2.18 These legislative aspects, as prescribed by the Gas Act are essential in defining the scope and nature of the Maximum Pricing Methodology developed by the National Energy Regulator.

Approving maximum prices of piped-gas

2.19 As the Maximum Pricing Methodology highlights, in approving maximum piped-gas prices:

- the National Energy Regulator will not set prices but will review maximum piped-gas price applications prepared by licensees or applicants;
- the National Energy Regulator may request licensees or applicants to amend maximum prices; and
- the National Energy Regulator may approve or decide not to approve maximum prices.

2.20 The process of piped-gas maximum prices application is as follows:

- The Energy Regulator has requested licensees or applicants to submit their maximum piped-gas price applications based on the Methodology approved by the Energy Regulator.
- To ensure consistency of applications and predictability of analysis of the applications, the National Energy Regulator has specified the following:
 - a) prescribed sources of information that must be used for the input variables in the maximum price calculations;

- b) prescribed weights applied to energy price indicators; and
 - c) the Methodology to determine trading margins.
- Applicants must provide information regarding the assumptions made in the price calculation, as well as the details of the calculation.

2.21 This application must:

- be provided on an annual basis, although applicants are allowed to apply for approval of maximum prices for a longer or shorter period; and
- indicate the manner and frequency of price adjustment to be approved by the Energy Regulator.

2.22 SLG provided an annual application for a maximum price and further requested that the price be adjusted quarterly.

2.23 The Methodology further states that, 'NERSA will periodically conduct reviews of approved prices to assess the impact and to verify whether the prices comply with the requirements of the Act and the Regulations'.

3 THE APPLICANT

3.1 Spring Lights Gas (Pty) Ltd ('Spring Lights Gas', 'the applicant' or 'SLG') (registration number 2002/000645/07) is a gas 'trader' in terms of the Gas Act, located in Durban, licensed by the National Energy Regulator.

3.2 Spring Lights Gas was a joint-venture between Sasol Gas Ltd ('Sasol Gas'), a wholly owned subsidiary of Sasol Ltd, and Coal, Energy and Power Resources Limited (CEPR), a Broad-Based Black Economic Empowerment (BBBEE) consortium. Spring Lights Gas management reported that the original shareholders, Sasol Gas and CEPR, sold their stake sometime in 2012/13 and that Spring Lights Gas is now owned 100% by BBBEE shareholders. It was indicated that Spring Lights Gas is

now owned by Adispex Proprietary Limited and Simiglo Proprietary Limited.

3.3 Spring Lights Gas purchases methane-rich gas from Sasol Gas and resells this gas to industrial and commercial customers situated in the Durban South region of KwaZulu-Natal. The gas originates from the Sasol Synfuels plant in Secunda in the Mpumalanga province and is transported to KwaZulu-Natal via Transnet Pipelines' gas transmission pipeline from Secunda to Durban, commonly referred to as the 'Lilly Pipeline'. Spring Lights Gas then supplies the gas to end customers utilising Sasol Gas's gas transmission and distribution network in the KwaZulu-Natal area.

3.4 Spring Lights Gas supplies piped-gas to industrial and commercial customers in KwaZulu-Natal in South Africa. It started trading in 2002 and its major customers are [REDACTED]. SLG stated that it services customers that extend from Northern KZN along the coast down to Durban South.

3.5 In total, Spring Lights Gas's customers consume approximately [REDACTED] of methane-rich gas per annum.

4 SPRING LIGHTS GAS' MAXIMUM PRICE APPLICATION

4.1 On 03 October 2014, the National Energy Regulator received an application for a maximum price of piped gas from Spring Lights Gas. This application is the third application submitted to the National Energy Regulator by Spring Lights Gas. Spring Lights Gas first lodged an application for a maximum price in December 2012 that was not approved by the Energy Regulator. Spring Lights Gas submitted another application for a maximum price of piped gas on 04 September 2013. The Energy Regulator considered the application and decided to only approve the GE component and not the trading margin.

a) Gas Energy Price

- 4.2 Spring Lights Gas' maximum price application is made in terms of the Price Indicators Approach (as opposed to the pass-through approach). The Price Indicators Approach entails a two-stage process where:
- i. a single maximum price is determined; and
 - ii. voluntary discounts may be applied to the above-mentioned maximum price according to the objectively identifiable differences prescribed in section 22 of the Gas Act and each volume class should have a maximum price as prescribed by regulation 4(5) of the Piped-Gas Regulations
- 4.3 Spring Lights Gas is applying for a maximum Gas Energy (GE) price of R136.58/GJ for the period 01 July 2014 to 30 June 2015.
- 4.4 According to Spring Lights Gas, customers will be offered discounts based on their load profile [REDACTED]
[REDACTED] in line with section 22 of the Gas Act. In its application, SLG has not indicated any specific discount and has applied for R136.58/GJ for the different volume customer classes as prescribed in the Regulations.
- 4.5 SLG is also requesting that the maximum price be adjusted quarterly by updating the actual average data as contained in NERSA's formula for GE price. The ensuing adjustments will be applied to the GE price of R136.58/GJ effective from 01 July 2014.
- 4.6 It must be noted that whilst the customer volume categories are prescribed, the percentage discounts are not. This is entirely at the discretion of the individual applicant subject to section 22 of the Gas Act. In this instance, SLG decided not to propose any discounts. SLG application shows that the same maximum price will be applied in all the classes of customers. SLG indicated to NERSA that it will consider the prescribed objective and identifiable differences enumerated in section 22

when it charges gas prices. NERSA will closely monitor this in line with provisions of section 22 in order to ensure compliance.

b) Trading Margin

4.7 In addition to the GE component of the price, a trader is allowed to charge a trading margin so as to recover its trading expenses and earn a return on its trading assets in line with regulation 4(4). In light of this, SLG applied for the following trading margin for the period 01 July 2014 to 30 June 2015:

Table 1: SLG 2014/15 Trading Margin Calculation Summary Table:

Component	Rands (R)
Cost of Sales (CoS)	[REDACTED]
RAB	[REDACTED]
Working Capital (WC)	[REDACTED]
Recoverable Capital (RC) =(Cos+RAB+WC)	[REDACTED]
Nominal WACC	[REDACTED]
Margin (RC x WACC)	[REDACTED]
Expenses	[REDACTED]
Taxation	[REDACTED]
Depreciation and Amortisation	[REDACTED]
Allowable Revenue Rands (R)	[REDACTED]
Volumes (GJ)	[REDACTED]
Trading Margin (R/GJ)	32.28

5 NERSA ANALYSIS OF THE APPLICATION

5.1 To review Spring Lights Gas’s application for maximum price of gas, the energy indicator prices approach as outlined in the Methodology was used since this is the same approach chosen by Spring Lights Gas in its application.

a) THE Methodology (using the price indicators approach)

5.2 According to section 3.1 of the Methodology, the maximum price for gas (at the point of its first entry into the transmission/distribution system) is

referenced to price indicators of certain relevant energy sources as detailed below.

$$GE = w_1 CL + w_2 DE + w_3 EL + w_4 HFO + w_5 LPG$$

Where:

GE = *Maximum price for gas energy (ZAR/GJ) price at the point of its first entry into the piped-gas transmission/distribution system;*

CL = *indicator of equivalent price of coal;*

DE = *indicator of equivalent price of diesel;*

EL = *indicator of equivalent price of electricity;*

HFO = *indicator of equivalent price of heavy fuel oil;*

LPG = *indicator of equivalent price of liquefied petroleum gas;*

Wn = *weighting of the 'nth' indicator in the basket (where, $w_1+w_2+w_3+w_4+w_5=100\%$);*

5.3 The formula above is used exclusively for the GE price and does not include trading margins, distribution tariffs, transmission tariffs, storage tariffs and levies.

5.4 Section 3.1 of the Methodology further states that once the GE price is derived, all other charges (margins, tariffs and levies) mentioned above shall be included to arrive at the total gas charge, inclusive of charges to be invoiced.

5.5 The National Energy Regulator assessed the GE price using the energy indicator prices methodology and yielded a price of R136.59/GJ that is R0.01/GJ higher than Spring Lights Gas's GE price of R136.58/GJ for the same period.

5.6 The difference (of R0.01/GJ) is negligible and was a rounding off difference in the LPG price. NERSA accepts and approves the SLG figure.

5.7 Spring Lights Gas also indicated that customers will be offered discounts based on their load profile in line with section 22 of the Gas Act. In its application, SLG has not indicated any specific discount and has applied for R136.58/GJ for the different volume customer classes as prescribed in the Regulations. NERSA will monitor the implementation of the prices to ensure that they comply with provisions contained in section 22 of the Gas Act.

B) Determination Of The Elements Of The Trading Margin Of The Methodology

5.8 Section 3.6.3 of The Methodology states that:

“The trader’s return (as a percentage) will be calculated in nominal terms. The nominal Weighted Average Cost of Capital (WACC) of the trader will be the traders return (%), since all other expenses are allowed to the licensee as a pass-through. In so doing, the Energy Regulator will ensure the return on investment as derived in the cost of capital calculation explained below is achieved.

Gas trading margin (WACC) will be applied to the sum of ‘Cost of Sales’ plus ‘Trading RAB’ of that trader plus ‘Working Capital’.

Cost of Sales and operating expenses that are allowable in the piped-gas trading business are those determined in terms of the prescribed Volume 1 and Volume 3 of the Regulatory Reporting Manuals for the piped-gas industry.”

5.9 The formula for trading services provided to customers of a trading licensee is:

$$\text{Allowable Revenue}_{(\text{trading})} = \{\text{Expenses} + ((\text{Cost of Sales} + \text{RAB} + \text{Working Capital}) * \text{Margin} + T \pm C)\}$$

Where:

RAB = approved historical trading services RAB less accumulated depreciation

Working Capital = approved 45-day-average trading working capital

Expenses = approved efficient trading operating expenses including depreciation

Cost of Sales = Opening inventory of gas held for sale + Purchases of gas for sale - Closing inventory of gas held for sale

Margin = Trader's return (%) determined in nominal WACC terms

T = Corporate tax expense for the period

C = Claw back (+/-) on volumes

5.10 The paragraphs below provide an analysis of each component of the trading allowable revenue formula.

Regulatory Asset Base (RAB)

5.11 In terms of section 3.6.1 of the Methodology, “trading licensees would not have piped-gas network assets, and if they do it would be insignificant [such assets are referred to as the ‘Piped-gas trading plant in service’ in the Regulatory Reporting Manuals (RMM)]. There may also be limited amounts of non-network assets (referred to as the ‘Piped-gas general plant’ in the RRM). The sum of the two will form the regulatory asset base (RAB) of a trading licensee.”

5.12 The return on investments in such limited and trading-specific piped-gas network assets, which are ordinarily required in the normal course of a piped-gas trading business (plus the general plant used for piped-gas trading), will be earned through a nominal return.

5.13 The RAB value is a historical amount which is not trended. The formula for this is as follows:

Regulatory Asset Base = Original Cost of Property, Plant & Equipment (v) - Accumulated Depreciation (d)

5.14 Spring Lights Gas submitted an asset register that illustrates that the RAB is comprised of a customer list and other gas trading equipment. Worth mentioning is that Spring Lights Gas is a trader that does not own any pipeline network assets with long lives and its RAB is comprised mainly of start-up costs, office furniture and equipment.

5.15 Spring Lights Gas submitted a RAB of [REDACTED] whilst NERSA calculated [REDACTED]. The difference between the NERSA RAB and the SLG RAB is that SLG trended the start-up costs and came up with a figure of [REDACTED]. Instead of applying the trended figure from 2011, SLG used the figure as the original cost of the asset in 2004. SLG then applied straight line depreciation as from 2004. Whereas NERSA adjusted the starting RAB annually using the principles articulated in the RRM that require annual indexation of inflation. The difference in the SLG and NERSA approach resulted in SLG having a higher depreciation figure than NERSA, because of a shorter expected useful and also due to a larger asset figure in 2004.

Depreciation (d)

5.16 The cost of the capital invested in acquiring the RAB will be recovered as part of the cost of providing the trading service as depreciation.

5.17 In accordance with section 2.2 of the Methodology, reference was made to the Tariff Guidelines which provide that accumulated depreciation (d) is the cumulative depreciation against plant property, vehicles and equipment in service and it should be calculated on a straight line basis over the economic life of the asset.

5.18 Since the original cost and the remaining economic life of assets could be determined, NERSA used the original/historical value to calculate the straight line depreciation cost. Spring Lights Gas applied for [REDACTED], which includes the amortisation of the intangible asset described above. NERSA derived and used a depreciation amount of

██████████. The differences is due to the reasons described in paragraph 4.15 above.

Operating Costs (E)

5.19 According to section 3.6.2 of the Methodology, all operating costs, including depreciation for the application year, that are efficient and prudently incurred by the piped-gas trading licensee shall be allowed as a pass-through in the trading margin. The operating expenses shall be grouped and reported to the Energy Regulator in accordance with the RRM. In considering the Spring Lights Gas expenses, NERSA also referred to the tariff guidelines section 4.3 that stipulate that each expenses item should be assessed using principles such as whether the expense was “prudently incurred”, its controllability and efficiency.

5.20 Spring Lights Gas applied for operating expenses of ██████████ for 2014/15. NERSA used the principles as articulated in the Methodology and assessed each expense item as provided by Spring Lights Gas and used ██████████ as operational expenses for 2014/15.

Working Capital

5.21 According to the Methodology, the net working capital refers to the various regulatory asset base funding requirements other than utility plant in service. This is determined using the below formula and it should be on a 45 day basis:

Net working capital = inventory + receivables + operating cash + minimum cash balance – trade payables.

5.22 Operating cash refers to investor supplied funds needed to bridge the gap between the time expenditures are made to provide a service and the time collections are received for that service. Measurement of required operating cash must be based on licensee’s standard practice subject to a maximum 45 days’ operating expenses excluding depreciation and deferred taxes.

5.23 Spring Lights Gas used the above formula to calculate the working capital and submitted [REDACTED] as the working capital figure. The working capital figure includes [REDACTED] for operating cash that was calculated using a 45 day maximum of the estimated cash fixed costs for the year ending 2015. SLG also added a minimum cash balance of [REDACTED]. NERSA accepted the method applied by Spring Lights Gas. NERSA removed the minimum cash balance of [REDACTED] and used [REDACTED] as the working capital figure.

Tax (T)

5.24 In estimating tax, reference was made to section 4.4 of the Tariff Guidelines that provides that the flow-through tax approach is the Energy Regulator's preferred tax methodology. Under this approach, only the current taxes payable are factored into the allowable revenue and recovered during the period under review.

5.25 Spring Lights Gas applied for [REDACTED], its actual taxation expense for 2014. NERSA accepted the flow-through tax approach used to determine the estimated tax to be included in the allowable revenue and used [REDACTED], the actual taxation for 2014 for Spring Lights Gas.

5.26 This is the actual taxation for 2014 and it will not be subject to +/- claw-back in subsequent maximum price period as per the methodology.

Cost of Sales (CoS)

5.27 Section 3.6.3 of The Methodology states that Cost of Sales that are allowable in the piped-gas trading business are those determined in terms of the prescribed Volume 1 and Volume 3 of the Regulatory Reporting Manuals for the piped-gas industry.

5.28 In terms of the methodology, the cost of sales are determined according to the formula below:

Cost of Sales = Opening inventory of gas held for sale + Purchases of gas for sale – Closing inventory of gas held for sale

5.29 SLG applied for cost of sales of [REDACTED]. SLG used its actual purchase price of gas excluding tariffs (because tariffs will be added separately to the maximum price as a pass through) to come up with the cost of sales. Furthermore, Spring Lights Gas provided an invoice from Sasol Gas Ltd, its gas supplier, to support the claimed cost of sales figure. The trader does not hold any inventory. NERSA used the same figure that was provided by the applicant.

Weighted Average Cost of Capital (WACC)

5.30 The Methodology requires that the trader's margin (as a percentage) be calculated in nominal terms. The nominal Weighted Average Cost of Capital ("WACC") of the trader will be the trading margin (%). Appendix 1 of The Methodology (**Appendix 1 – Determination of WACC**) illustrates the preferred NERSA method of determining the WACC.

5.31 The formula to determine the WACC is as follows:

$$WACC_{(nominal)} = \left[\left(\frac{E}{Dt + E} \right) * Ke_{(nominal)} \right] + \left[\left(\frac{Dt}{Dt + E} \right) * Kd_{(nominal)} \right]$$

Where:

E = equity

Dt = debt

Ke_(nominal) = nominal cost of equity derived from the Capital Asset Pricing Model (CAPM)

Kd_(nominal) = the post-tax nominal cost of debt

5.32 In its application, SLG determined its WACC to be [REDACTED] based on a nominal pre-tax cost of debt (Kd) of [REDACTED] and nominal cost of equity (ke) of [REDACTED]. SLG indicated in its WACC calculation that it [REDACTED] and used the minimum prescribed capital structure of debt: equity in the ratio [REDACTED]

5.33 For the risk free rate, SLG used 11.8% indicating that this is in line with the NERSA RfD issued to the gas trader in March 2014. To estimate the market risk premium, the applicant used the 2012 PWC valuation survey report and used 6.6%. SLG used the company beta of [REDACTED] as calculated and provided to the trader in the March 2014 RfD. SLG indicated that there are other risks that are not addressed by the CAPM and added a small stock premium of [REDACTED].

5.34 In assessing the reasonableness of the WACC, NERSA used the Methodology and came up with a nominal post-tax WACC of [REDACTED]. NERSA did not recognise any debt in the SLG books, meaning that its gearing levels are below the minimum level indicated in the Methodology. [REDACTED] was used to calculate the WACC. This is also the same method that SLG used.

5.35 The yield on loan stock traded on the stock exchange of Government bonds with a maturity of 10 years and over were used for the expected risk free return (Rf) in the estimation of cost of equity. This yielded a nominal risk free rate of 11.29% calculated over 25 years as required by the sources of information approved and published by NERSA.

5.36 The market risk premium (“MRP”) was calculated using the JSE ALL Share Index for the previous 25 years up to June 2014 as required by the sources of information approved and published by NERSA. This yielded a nominal MRP of 6.10%. SLG used the 2012 PWC valuation survey report as indicated above and used 6.6%.

5.37 The beta (β) was determined by proxy. As a proxy, the average of six gas pipeline companies chosen by the Energy Regulator and listed on stock exchanges must be used as per the Methodology. The following US companies were used by the NERSA as proxies:

- AGL Resources Inc.
- UGI Corporation

- South Jersey Industries
- WGL Holdings Inc.
- The Laclede Group
- Piedmont Natural Gas Company Inc.

5.38 In line with the Methodology, the beta was calculated using the Hamada formula and yielded a beta of [REDACTED].

5.39 A cost of debt (Kd) of [REDACTED] was provided by SLG and used to calculate the post-tax cost of debt of [REDACTED].

5.40 The table below summarises the WACC calculation:

Table 2: Summary of SLG WACC Calculation

	Component	NERSA	SLG
	Cost of Equity (Ke=Rf+(MRP*beta))		
a	Nominal Market Risk Premium (MRP)	6.1%	6.6%
b	Nominal Risk free rate (Rf)	11.29%	11.8%
c	Beta	[REDACTED]	[REDACTED]
d	Small stock premium	[REDACTED]	[REDACTED]
e	Nominal Cost of Equity (Ke) = (b+(a*c)+d)	[REDACTED]	[REDACTED]
	Cost of Debt		
f	Nominal Cost of Debt (kd)	[REDACTED]	[REDACTED]
g	Post tax nominal cost of debt (kd)	[REDACTED]	[REDACTED]
h	Debt ratio	[REDACTED]	[REDACTED]
i	Equity ratio	[REDACTED]	[REDACTED]
j	Nominal WACC = ((d*h)+(f*g))	[REDACTED]	[REDACTED]

5.41 The table below illustrates the summary of the trading margin calculations taking into account all the required elements discussed earlier. The margins calculated by NERSA are approximately 1% higher than the SLG requested margin. Since forecasts are used in determining the trading margins, these values will be subject to a positive or negative claw-back based on actual audited Regulatory Financial Reports for the year ending 30 June 2015. These claw-backs are implemented in the next maximum price application submitted to NERSA as specified in the Tariff Guidelines.

Table 3: SLG trading margin calculation summary		NERSA	SLG
Trading Margin		(Rm)	(Rm)
a	Working capital		
b	Cost of Sales		
c	Total assets		
d	RAB = a+b+c		
e	WACC		
f	Margin = d*e		
g	OPEX		
i	Depreciation		
j	Taxation		
k	Total Trading Margin (TTM) = sum(f:j)		
l	Volume		
m	Margin (R/GJ) = k/l	32.85	32.28

6 TOTAL PIPED-GAS PRICES INCLUSIVE OF TARIFFS

- 6.1 After determination of the GE price and the trading margin, the Methodology provides for the gas trader to recover the transmission tariffs and the distribution tariff as a pass-through.
- 6.2 The sum total of the above elements becomes the total charges invoiced by the gas trader to its piped-gas customers.
- 6.3 Therefore the maximum price of piped-gas that may be charged by Spring Lights Gas to customers will be the maximum price for gas energy, plus tariffs, plus levies and may be expressed, generically, as follows:

$$\text{Total Price}_{(\text{trader})} = \text{GE} + \text{TX} + \text{DX} + \text{TSM} + \text{LV}$$

Where:

- Trader** = for customers of a trader;
- GE** = Maximum price for gas energy;
- TX** = Pass-through of monitored and approved or regulated Transmission (network) tariffs;
- DX** = Pass-through of Distribution (network) tariffs;
- TSM** = Approved trading service margin

7 STAKEHOLDER CONSULTATION IN DECISION-MAKING PROCESS

- 7.1 The Spring Lights Gas maximum price application was published on 23 October 2014 for public comments. The National Energy Regulator's preliminary assessment of the application was published on 10 November 2014. Certain elements of the maximum price application were deemed by the National Energy Regulator to be confidential and were excluded from the published application. The closing date for written comments was 09 December 2014.
- 7.2 On 11 November 2014, an invitation to attend and/or make representations at the public hearing scheduled for 11 December 2014 was published in the following newspapers: *Business Day, Isolezwe, The Star, Mail and Guardian, and Sunday Times*.
- 7.3 During the public hearing held at NERSA on 11 December 2014, SLG management were asked to clarify how they determined their RAB and why they included the minimum cash balance in the working capital.
- 7.4 SLG responded illustrating that they arrived at the RAB after considering NERSA's guidance from the previous maximum price application. Regarding the minimum cash balance, SLG contended that it is not double counting. However, NERSA did not accept the SLG explanation and removed the [REDACTED] from the working capital.

8 CONCLUSION

- 8.1 On the conspectus of the facts and evidence, it is appropriate and in compliance with the requirements of the National Energy Regulator Act, 2004 (Act No. 40 of 2004) to make the decision set out above. It finds a reasonable balance between the interests of all stakeholders concerned.