

CONFIDENTIAL

**PETROLEUM STORAGE TARIFF APPROVAL FOR LICENCE NO:
PPL.SF.F3/130/2013**

**STORAGE TARIFF APPLICATION OF SASOL OIL (PTY) LTD AND BP SOUTHERN
AFRICA (PTY) LTD FOR THE ALRODE WHITE PRODUCTS STORAGE TANKS FOR
FINANCIAL YEAR ENDING 30 JUNE 2016**

24 February 2015

LIST OF ACRONYMS

1. CPI	--	Consumer Price Index
2. MIRTHA	--	Minimum Information Requirements for Tariff Applications
3. RAB	--	Regulatory Asset Base
4. RRM	--	Regulatory Reporting Manual
5. WACC	--	Weighted Average Cost of Capital
6. CAPM	--	Capital Asset Pricing Model
7. EMRP	--	Equity Market Risk Premium
8. NRV	--	Nett Replacement Value
9. MOT	--	Method of transport
10. OUTBOUND	--	Depot facilities and secondary storage and distribution

PREAMBLE

SASOL Oil (Pty) Ltd (Registration number 1981/007622/07) and BP Southern Africa (Pty) Ltd (Registration number 1924/002602/07), jointly own the operation licence of a petroleum storage facility operation at cnr Garfield Road and Clark St North, Alrode, Gauteng.

On 14 October 2013, the National Energy Regulator of South Africa (Nersa) granted licence PPL.SF.F3/130/2013 to Sasol Oil and BP South Africa. The licence was granted for the storage of petroleum products: Diesel and Petrol.

The licence covers the following 11 tanks and capacities:

Tank ID	Tank Type	Product	Operational Capacity (m³)	Design Capacity (m³)
3	Fixed Roof	Diesel	306	322
4	Fixed Roof	Diesel	435	504
5	Floating Roof	Petrol	1,200	1,570
6	Fixed Roof	Petrol	1,472	1,570
7	Floating Roof	Petrol	2,200	2,660
8	Floating Roof	Diesel	2,200	2,560
9	Floating Roof	Petrol	4,200	4,820
14	Fixed Roof	Petrol (ULP 93)	7,840	9,896
15	Fixed Roof	Petrol (ULP 95)	7,840	9,896
18	Fixed Roof	Diesel	7,030	7,811
19	Fixed Roof	Diesel	4,150	4,647
Total			38,873	46,256

Mode of Operation

There are two operation modes linking the Alrode depot; these are used for moving the products into the depot

Mode	Intake flow Rate (litres/minute)	Discharge flow rate (litres/minute)
Road Gantry	1,400	2,200
Pipeline	10,000	None

The expanding of the depot at Alrode has two phases for full completion. Currently phase 2, which entails construction of 4 additional storage tanks, is under review. The layout of the storage facility is shown in the approved licence document.

TARIFF METHODOLOGY

The tariff methodology used by Sasol Oil and BP South Africa is as proposed by Nersa based on the Petroleum Pipeline Act 2003 (Act No 60 of 2003). The formula as prescribed by the Energy Regulator:

$$\text{Allowable Revenue (AR)} = (\text{RAB} \times \text{WACC}) + \text{E} + \text{T} + \text{D} + \text{C}$$

Where:

AR = Allowable Revenue

RAB = Regulatory Asset Base

WACC = Weighted average cost of capital

E = Expenses: maintenance and operating expenses for the tariff period under review

T = Tax: estimated tax expense for the tariff period under review

D = Depreciation and amortization of inflation write up: the charge for the tariff period under review

C = Claw back adjustment (to correct differences between actual and forecasts in formulae elements as well as efficiency gains and volume differences) from a preceding tariff period

Regulatory Asset Base (RAB)

Assets on the asset register for Alrode depot were recalculated based on the Trended Original Cost (TOC) model prescribed by Nersa. All the tanks currently on the asset register were restated with their expected remaining useful lives applying the TOC methodology. Only assets in use were included in the asset base calculation. Assets under construction have not been included in the asset base as these assets have not been brought into use. The general assets have been included according to the approved Cost Allocation Manual.

Regulated Asset Base		
Assets bases on TOC		
Deferred tax		
Working capital		
Inventory		
Receivables		
Operating Cash balance		
Trade payables		
Total RAB		

Net working capital:

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

Working capital was calculated for the depot as follows:

- Inventory consists of line fill stock and dead stock in the tanks
- Accounts receivable is calculated using monthly volume at tariff rate
- Accounts payable is due after 30 days.

- Operating cash was calculated to be 45 days cover of operating expenses excluding depreciation and taxes.

Weighted average cost of capital (WACC)

The Nersa WACC methodology is as follows:

$$WACC = K_e \cdot (E / (D + E)) + K_d \cdot (D / (D + E))$$

Where:

K_e = The cost of equity derived from the Capital Asset Pricing Model

K_d = The cost of debt

E = Equity

D = Debt

Sasol Oil and BP consolidated WACC

<u>WACC Calculation</u>		<u>BP</u>	<u>SASOL</u>	<u>CONSOLIDATE</u>
		<u>Input/formula</u>	<u>Input/formula</u>	<u>Input/formula</u>
Cost of equity (ke)				
SA risk free rate	Rf	4.53%	4.09%	4.31%
Beta	β			
Equity market risk premium	EMRP	6.11%	5.20%	5.66%
Small stock premium	SSP			
Liquidity premium	LP			
Country Risk adjustment	CRA			
Alpha	α			
$[Rf + (\beta * EMRP) + SSP] * (1 + M)$	K_e			
Cost of debt (kd)				
Pre tax cost of debt	kd			
Tax rate	t	28%	28%	28%
Inflation rate		5.60%	5.60%	5.60%
Real kd * (1-t)	K_d			
Capital structure				
% of equity				
% of debt				
WACC				

Operational expenses (E)

All operational costs at Alrode depot were included in the expenses of the tariff application for the financial year July 2015 to June 2016.

The approved cost allocation manual allocates the corporate costs and other support costs from Sasol limited which was included in the total expenses for the tariff. Other support costs include the outbound cost specifically related to the depot facility.

Rehabilitation cost provision is not included, as Sasol Oil is assessing the impact of the requirement and will follow the required approval process with NERSA.

Expense summary	
Outbound	
Depot	
Corp cost	
Admin and security	
Total cost R Mil	

Tax (T)

The corporate tax rate of 28% was used to calculate the tax expense on the allowable revenue.

Depreciation (D)

Depreciation cost originates from the trended original cost (TOC) calculation as per the Nersa methodology.

Claw back adjustment (C)

There is no claw back applicable for this tariff application.

Tariff calculation:

Alrode Storage facility - Tariff Calculations			
Allowable revenue = (RAB x WACC) + E + T + D + C			
		2015	2016
RAB	R Mill		
WACC			
E	R Mill		
T	R Mill		
D	R Mill		
C			
Allowable revenue			
RAB X WACC			
E			
T			
D			
C			
Volumes to be pumped per annum			
Tariff	R/m ³	81.41	78.75
Tariff	c/l	8.14	7.87