

**ANNUAL ASSESMENT OF STORAGE AND LOADING
FACILITIES TARIFF APPLICATIONS
FOR THE YEAR MARCH 2015 TO FEBRUARY 2016
LOUIS TRICHARDT STORAGE FACILITY**

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1. LEGAL BASES FOR APPLICATION

The legal basis for this application can be found in the Petroleum Pipelines Act, 2003 (Act 60 of 2003¹), hereinafter referred to as the Act. Section 28(2) to the Act requires that tariffs must be:

(a) *must be:*

- i. *based on a systematic methodology applicable on a consistent and comparable basis;*
- ii. *fair;*
- iii. *non-discriminatory;*
- iv. *simple and transparent;*
- v. *predictable and stable;*
- vi. *such as to promote access to affordable petroleum products;*

Furthermore, section 28(3) to the Act states:

(3) *The tariffs set or approved by the Authority must enable the licensee to –*

- (a) *recover the investment;*
- (b) *operate and maintain the system; and*
- (c) *make a profit commensurate with the risk.*

Section 28(1)

It is with the above quoted legal framework in mind, that *BF Distributors (Pty) Ltd Ltd* has approached this application.

BF Distributors (Pty) Ltd Ltd's application has been guided by the methodology based on NERSA'S² "*Tariff Methodology for Petroleum Loading Facilities and Petroleum Storage Facilities*", as approved on the 31 March 2011".

The methodology that will be used by NERSA to evaluate applications, can be found in the above mentioned Tariff Methodology. For ease of reference, it is stated as follows:

$$AR = (RAB \times WACC) + E + D +/- C + T$$

Where:

¹ Petroleum Pipelines Act, Act 60 of 2003 as amended.

² National Energy Regulator of South Africa

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AR – Allowable Revenue

RAB – Regulatory Asset Base

WACC – Weighted Average Cost of Capital

E – Expenses; operating and maintenance expenses for the tariff period under review

D – Depreciation and amortisation of inflation write-up: the charge for the tariff period under review

C – Clawback adjustment: to correct differences between actuals and forecasts in formula elements from a preceding tariff period in relation to the actual estimates for that tariff period.

2. SCOPE OF STORAGE FACILITIES

For ease of this application, only storage facilities at the Vaalwater site will be considered for this application.

2.1 DESCRIPTION OF STORAGE FACILITIES

The storage facilities of BF Distributors (Pty) Ltd has been licenced under *PPL.sf.F3/127/2013*, which was issued by NERSA on the 6/01/2014. The storage facility is located at:

*3 Unika Street, Louis
Trichardt, Limpopo*

The licenced storage facilities at the Louis Trichardt facility consists of 8 tanks, each tank is described below, with an indication of its total design capacity.

(13) Diesel	80 000 litres
(14) Petrol	83 000 litres
(15) Illuminating Paraffin	83 000 litres

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(16) Diesel	83 000 litres
(17) Diesel	80 000 litres
(18) Diesel	80 000 litres
(19) Diesel	83 000 litres
(20) Diesel	83 000 litres
 Total Capacity	 655 000 litres

3. PRINCIPLES USED IN THE APPLICATION OF THE TARIFF METHODOLOGY

3.1 REGULATORY ASSET BASE (RAB)

The RAB will be calculated based on the formulas for the different components as set out in the methodology. Please refer to Tariff Methodology for a discussion of the method used in the calculation.

RAB will only take into account assets related to storage facilities that are currently in use or usable.

Deferred tax will not be taken into consideration with the calculation of the RAB. *BF Distributors (Pty) Ltd* has elected the notional tax method as explained in the calculation of the RAB per Annexure A to this section of the application.

3.2 VALUE OF OPERATING PROPERTY, PLANT, VEHICLES AND EQUIPMENT (V)

The value of V will be based on non-current operating assets that have a long term economic lifespan of at least more than one year.

BF Distributors (Pty) Ltd Ltd acquired the aforementioned non-current assets at an arm's length transaction and will accordingly use the purchases of non-current operating assets as its base in determining the value of V.

Due to the fact that the original purchase price related to the company as a whole, an estimate of the cost of the storage facilities was done based on the historic cost price of the facilities depreciated over its useful operating life.

Only those assets relating to the storage facilities was used in this calculation. Assets pertaining to transport and trading was specifically excluded from this calculation.

Assets that are not used in the operations are accordingly excluded.

The value used as the cost of the storage facilities, was ██████████

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3.3 ACCUMULATED HISTORIC AND AMORTISATION OF INFLATION WRITE-UPS (d)

Accumulated historic depreciation and accumulated amortisation of inflation write-ups is the cumulative depreciation against operating property, plant, vehicles and equipment in use.

Trending of Asset Value (TOC)	E
Tariff Period	2016
Remaining Asset Useful Life	█
Depreciated Original Cost b/f	██████████
Depreciation (historic)	██████████
Depreciated original cost (V-d) RAB Bal c/f	██████████
Historic CPI from MRP sheet	6.0000%
Inflation write-up balance	
Inflation write-up bal b/f	██████████
Current period inflation write-up	██████████
Write up balance on which WACC should be earned	██████████
Amortization of write-up	██████████
Write-up bal net of amortization carried forward	██████████
TOC Closing Balance (c/f)	██████████
TOC Opening Balance (b/f) balance to inflate	██████████
Total amount on which WACC should be earned[ADD BACK THIS YEAR DEPRECIATION AND AMORTIZATION]	██████████
Historic Depreciation for the year	██████████
Amortization of TOC for the year	██████████
Total D in formula	██████████

3.4 NET WORKING CAPITAL (w)

The net working capital (w) will be included as determined in the guidelines. The net working capital pertains only to the storage facilities. This will be based on the working capital funding requirements funded by *BF Distributors (Pty) Ltd Ltd*

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BF Distributors (Pty) Ltd Ltd has in line with the NERSA methodology applied the Capital Asset Pricing Model (CAPM) to estimate the cost of equity.

The cost of equity is calculated as per CAPM with reference to the risk free rate, the market risk free premium and the beta.

COST OF EQUITY

RISK FREE RATE

The risk free rate of BF Distributors (Pty) Ltd Ltd was derived from the monthly observations as published by NERSA. The data as published spans the period starting from May 1987 to the end of February 2014, which corresponds with the financial year end of BF Distributors (Pty) Ltd Ltd.

From the published information, an average of 4.08% is derived for the aforementioned period.

MARKET RISK FREE PREMIUM

The market risk free premium of Dreamworl Investments 63 (Pty) Ltd was derived from the monthly observations as published by NERSA. The data as published spans the period starting from May 1987 to the end of February 2013, which corresponds with the financial year end of BF Distributors (Pty) Ltd Ltd.

From the published information, an average of 6.73% is derived for the aforementioned period.

BETA

As indicated under the specific conditions, Dreamworld Investments (Pty) Ltd is faced with unique business challenges. Due to the fact that the operator and owner differs, the Beta as per the table published by NERSA was used as ■■■

DEBT RATIO

The debt ratio as prescribed in the Methodology as published by NERSA, was used in this application. This was done due to the fact that BF Distributors (Pty) Ltd Ltd is not the operator of the facility but the owner. Accordingly, debt is not raised by BF Distributors (Pty) Ltd Ltd at facility level.

A ration of ■■■ equity to ■■■ debt had been issued based on the above mentioned methodology and reasoning.

COST OF DEBT

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The cost of debt of [REDACTED] was used based on the current prime interest rates to borrow money on the open market. This is the figure published by the Reserve Bank of South Africa and reviewed on a quarterly basis.

3.6 EXPENSES – OPERATING AND MAINTENANCE (E)

Operating expenses include those expenses normally associated with the running of a storage facility. These expenses include maintenance of the core business, employee costs and any other cost incurred which relate to the operations of the regulated asset.

These expenses expressly exclude social responsibility and donations made by *BF Distributors (Pty) Ltd Ltd* or any research and development costs.

The major expenses have been listed in table format, for ease of reference.

				2014 Actual	% allocated to licensed storage facility	2016 forecast
BF Distributors (Pty) Ltd						
	Audit Fees			[REDACTED]	[REDACTED]	[REDACTED]
	Bank charges			[REDACTED]	[REDACTED]	[REDACTED]
	Employee costs			[REDACTED]	[REDACTED]	[REDACTED]
	Professionaol costs			[REDACTED]	[REDACTED]	[REDACTED]
	Insurance			[REDACTED]	[REDACTED]	[REDACTED]
	Repairs & Maintenance			[REDACTED]	[REDACTED]	[REDACTED]
	Utilities			[REDACTED]	[REDACTED]	[REDACTED]
						[REDACTED]
						[REDACTED]

CPI Growth rate

The CPIX, as published by NERSA was used in the forecast of the growth in expenses.

3.7 TAX EXPENSES

As previously stated, *BF Distributors (Pty) Ltd Ltd* elects the notional tax payment of taxes, which is based on the actual taxes paid.

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This is in line with *BF Distributors (Pty) Ltd Ltd* policy of pairing its income with expenses in the period incurred.

Tax penalties and interest on overdue taxes will not be taken into consideration.

3.8 DEPRECIATION AND AMORTISATION OF INFLATION WRITE-UP (D)

Depreciation will be calculated on the straight line basis over the service life of each of the qualifying assets in the calculation of the allowable revenue in the RAB formula.

The useful service life of the qualifying assets, was determined to be another [REDACTED] years.

Proper depreciation rates will be used for each of the classes under property, plant and equipment that is reflective of the assets service life and taking into consideration such factors as are known to *BF Distributors (Pty) Ltd Ltd* based on its history and experience. The qualifying assets was depreciated over its remaining useful service life.

4. Volumes:

The volumes used in the application, is based on the actual figures for the storage facility. The volumes specifically exclude volumes in transit and only relates to actual figures of the storage facility itself. The following extract is provided for ease of reference.

Capacity		655,000	
Expected volume per month		[REDACTED]	
Expected volume per annum		[REDACTED]	

5.TARIFF CALCULATIONS

The detail tariff calculation is annexed under Annexure A. The extract has been replicated for ease of reference.

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	Tariff Period		2016
WACC	V-d		
	Working capital		
	Unpumpable		
	Receivables (30 days)		
	Total RAB		
	Equity Financed		
	Debt Financed		
	Inflation		6.00%
	Operational Expenses (E)		
	Minimum Debt Ratio		
	Riskfree (Rf)		4.08%
	MRP		6.73%
	WACC	BETA	
SSP			
Project spesific Risk			
LP			
Return on Equity post tax			
Cost of Debt pretax nom			
Cost of Debt posttax nom			
Cost of Debt posttax nom real			
tax rate			28.00%
Real WACC			
Allowable Revenue			
Allowable Revenue (AR)		Ke	
	Kd		
	Return on Rate base Real WACCxTOC opening bal)		
	Depreciation		
	Amortization of write-up		
	Operational Expenses (E)		
	Total allowable revenue pre taxation allowance		
	Tax Allowance		
	Total allowable revenue including taxation allowance		

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Taxation Calculations	Computation of tax Gross-Up			
	Total Allowable Revenue pre tax allowance			
	Less :Operational Expenses (E)			
	Less: Depreciation (historic)			
	Income before interest and taxes			
	Income gross up for tax			
	Tax Component in income gross-up			
Tariff calculation	Capacity		655 000	
	Expected volume per month			
	Expected volume per annum			
	Tariff per liter (cpl excluding VAT)		7.76	

6.CONCLUSION

The tariff calculation, as per the attached Annexure A, has been calculated based on the guidelines as published by NERSA. This application represents BF Distributors (Pty) Ltd Ltd's commitment to comply with the NERSA requirements as required by law. As part of this submission, BF Distributors (Pty) Ltd Ltd also submits a request for confidentiality.