

Explanatory Memorandum

**DRAFT METHODOLOGY FOR THE
APPROVAL OF STORAGE AND
LOADING FACILITIES TARIFFS IN
THE PETROLEUM INDUSTRY**

FOR PUBLIC CONSULTATION

SEPTEMBER 2015

EXPLANATORY MEMORANDUM

INTRODUCTION

1.1. The Department of Energy (DoE) has Gazetted an amendment the Regulations made under the Petroleum Pipelines Act, 2003 (Act no: 60 of 2003) which were published in the Government Notice 765 GG 39142 of 28 August 2015. The amendment of the Regulations means that the Energy Regulator is no longer required to use a Trended Original Cost (TOC) method for the valuation of assets. The Energy Regulator currently believes that it would be better for the industry if it changed its tariff methodology approach from the current TOC basis to a Replacement no Depreciation basis, to converge with the DoE practice of fuel price regulation. As a part of the public consultation process, the Energy Regulator is publishing the proposed new tariff methodology in order to solicit comments from the public.

RATIONALE BEHIND THE PROPOSED CHANGES

1.2. In processing tariff applications from the petroleum storage and loading industry over the past eight years, it has become clear that the historic asset information necessary to perform TOC calculations is often not readily available and that the estimations of useful lives of assets are very different between licensees. These factors result in unacceptable variances in the determination of a RAB, resulting in significant tariff differences for the same or similar assets.

1.3. One of the objectives of the proposed changes to the tariff methodology for storage and loading facilities is to align it more closely with the methodology used by the Department of Energy for the same assets. These facilities are regulated by at least two different regulatory regimes (i.e. the Department of Energy and the Energy Regulator). The current Regulations require the Energy Regulator to employ an approach to the Regulatory Asset Base that is different from the one used by the Department of Energy. The same facility is thus regulated differently by the two regulators. The changes to the Regulations now allow NERSA the opportunity to

change its tariff methodology to one similar to that used by the Department of Energy, i.e. replacement cost.

- 1.4. A change to the determination of the Regulatory Asset Base has knock-on effects on tax, deferred tax and depreciation and so these elements are also changed in the draft tariff methodology. There are also changes to the debt ratio and the clawback.
- 1.5. In the interests of simplifying and speeding up the process of getting tariff decisions from the Energy Regulator the draft methodology offers applicants some simpler and quicker options. To achieve this the Energy Regulator has developed a standard costing model to enable licensees to apply for tariffs on a simplified, standard basis should they so choose. Licensees will thus have 3 options to choose from when applying for a tariff, namely:
 - a) Full comprehensive approach (similar to the present approach);
 - b) Standard costing option 1 (standard volumes, costing and tariffs); and
 - c) Standard costing option 2 (applicant's volumes and tariff design)
- 1.6 At this stage the Standard Costing options are only available for petrol, diesel, paraffin, and jet fuel storage which constitute the bulk of the tariff applications processed by the Energy Regulator. Investigations are underway to see if such approaches could be extended to crude oil and LPG storage as well as to loading facilities.
- 1.7 The draft tariff methodology retains the same basic approach to tariff approval. That is, applicants may use whichever tariff methodology suits them but the methodology that the Energy Regulator will use to evaluate those tariff applications will be the one set down in the tariff methodology.

PUBLIC PARTICIPATION AND COMMENT

- 1.6. The proposed changes to the Tariff Methodology for petroleum storage and loading facilities will be published on NERSA's website for public comment between 22 September 2015 and 22 October 2015 and notification thereof advertised in selected newspapers.

1.7. Comment is being solicited from the members of the public on the changes proposed to the tariff methodology as well as the associated Frequently Asked Questions. Changes to tariff methodologies inevitably affect the resulting tariffs and members of the public are asked to consider the effect the proposed changes may have on tariffs.

1.8. Members of the public are requested submit comments in writing to:

Post: Attention: The Executive Manager, Petroleum Pipelines Regulation
The National Energy Regulator
PO Box 40343
Arcadia
Pretoria, 0007

Email: pipelines@nersa.org.za

Fax: (012) 401-4700

The closing date for submission of comments is close of business on **22 October 2015**.