

MAXIMUM PRICE APPROVAL APPLICATION FORM

Application for maximum price of gas in terms of section 21(1) (p) of the Gas Act, 2001 (Act No. 48 of 2001)

Instructions:

1. Before completing this form, you are advised to read the following documents:
(a) the Gas Act, 2001 (Act No. 48 of 2001) and its regulations;
(b) the Rules made in terms of the Gas Act, specifically rule 4; and
(c) the Methodology to Approve Maximum Prices of Piped-Gas.
2. Please note that this form has five chapters. An applicant must provide all information and supporting documentation required. Incomplete applications will not be accepted.
3. The completed form with supporting documentation must be delivered to the Energy Regulator:
 - by registered mail to: P O Box 40343, Arcadia 0007;
 - OR
 - by hand at: Kulawula House, 526 Vermeulen Street, Arcadia, Pretoria.
4. An electronic version of the completed form may also be e-mailed to pipedgas@nersa.org.za.
5. If you want to request the confidential treatment of certain information in your application, you must do so in accordance with rule 4 of the Rules made in terms of the Gas Act.

ENQUIRIES:

Contact: Executive Manager: Gas Regulation
Contact no.: (012) 401 4600
Fax no.: (012) 401 4700

Official Use Only

Date received _____

Reference number _____

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Glossary of Terms

Distribution	The distribution of bulk gas supplies and the transportation thereof by pipelines with a general operating pressure of more than 2 bar gauge and less than 15 bar gauge or by pipelines with such other operating pressure as the Gas Operator may permit according to criteria prescribed by regulation to points of ultimate consumption or to reticulation systems, or to both points of ultimate consumption and reticulation systems, and any other activity incidental thereto, and "distribute" and "distributing" have corresponding meanings;
Gas Act	Gas Act, 2001 (Act No. 48 of 2001)
NERSA Act	National Energy Regulator of South Africa Act, 2004 (Act No. 40 of 2004)
Gas	All hydrocarbon gases transported by pipeline, including natural gas, artificial gas, hydrogen rich gas, methane rich gas, synthetic gas, coal bed methane gas, liquefied natural gas, compressed natural gas, re-gasified liquefied natural gas, liquefied petroleum gas or any combination thereof
Tariff guidelines	Guidelines for Monitoring and Approving Piped-Gas Transmission and Storage Tariffs in South Africa, NERSA, 1 May 2009
Price	The charge for gas to a distributor, reticulator or final customer
Piped-Gas Regulations	Piped-Gas Regulations, promulgated in terms of the Gas Act, 2001 (Act No. 48 of 2001), gazette No 29792, 20 April 2007
Reticulation	The division of bulk gas supplies and the transportation of bulk gas by pipelines with a general operating pressure of no more than 2 bar gauge to points of ultimate consumption, and any other activity incidental thereto, and "reticulate" and "reticulating" have corresponding meanings
Tariff	The charge for gas services to any customer
Trading	The purchase and sale of gas as a commodity by any person and any services associated therewith, excluding the construction and operation of transmission, storage and distribution systems, and "trading services" has a corresponding meaning
Transmission	The bulk transportation of gas by pipeline supplied between a source of supply and a distributor, reticulator, storage company or eligible customer, or any other activity incidental thereto, and "transmit" and "transmitting" have corresponding meanings;

CHAPTER 1: GENERAL INFORMATION

SECTION A

1. Full registered name of the applicant

Virtual Gas Network (Pty) Ltd

2. Trading name of the applicant (if different from the registered name)

3. Licence number

Gala.tr.F1/1447/2009

4. Physical address.....

**Fancourt Office Park Block 16 1st Floor c/o Northumberland & Felstead Avenue
Northriding 2169**

5. Postal address

P.O. Box 1555 Northriding 2162

6. Telephone number : 011 704 0670

7. Fax number : **086 550 2008**

8. E-mail address: finance@cng Holdings.co.za; Stephen@cng Holdings.co.za

9. Details of the mandated representative of the applicant:

(a) Designation: **Managing Director / Financial Manager**

(b) Family name: **Rothman / Tsiki**

(c) First name: **Stephen / Lerato**

(d) Telephone number 011 704-0670

(e) Fax number: 086 550 2008

(f) E-mail address: Stephen@cng Holdings.co.za; finance@cng Holdings.co.za

SECTION B: DETAILS OF THE LICENSEE

1. Type of Application	Application for Maximum price of Gas
2. Licence Number	Gala.tr.F1/1447/2009
4. Licence Area	20 Geographic areas as set out in the licence conditions
5. Type of Activity	Trading in gas as set out in the licence conditions
6. Type of Gas	Compressed Natural Gas
7. Approach Used: 7.1 Price indicators approach 7.2 Pass through (cost build up) approach	Pass through approach

CHAPTER 2: ASSESSMENT OF MAXIMUM GAS ENERGY PRICE

SECTION A: PRICE INDICATOR APPROACH

The maximum prices of piped-gas proposed by an applicant or licensee will be assessed using the following formula:

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

where:

GE = Maximum price for gas energy (ZAR/GJ)

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;

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

Reference	Information to be supplied by the applicant/ licensee
<p>1. Price Indicators used as per the NERSA approved formula</p>	<p>Price indicator 1 Price indicator 2 Price indicator 3 Price indicator 4 Price indicator 5</p>
<p>2. Weights of the different price indicators</p>	<p>Weight of price indicator 1 Weight of price indicator 2 Weight of price indicator 3 Weight of price indicator 4 Weight of price indicator 5</p>
<p>3. conversions of the energy indicators (the calorific energy value equivalents) to gas</p>	<p>Conversion of price indicator 1 Conversion of price indicator 2 Conversion of price indicator 3 Conversion of price indicator 4 Conversion of price indicator 5</p>
<p>4. Average price for the preceding 12 months for each of energy indicators</p>	<p>Average price for energy indicator 1 Average price for energy indicator 2 Average price for energy indicator 3 Average price for energy indicator 4 Average price for energy indicator 5</p>
<p>5. Average Foreign exchange rate for the preceding 12 months</p>	

6. TOTAL GAS ENERGY PRICE (GE)	
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SECTION B: PASS THROUGH APPROACH

Where the licensee deems the price determined by the price indicator's approach to be materially lower or higher than its preferred and appropriate gas price in that it impacts the ability to compete and/or recover efficiently and prudently incurred costs and make a profit commensurate with risk, then the Energy Regulator will allow such a licensee to opt for the use of the 'pass-through' approach.

This approach requires a cost-based price build-up, including at the least the cost of the procured or produced gas, and any transportation or regasification costs, to justify the price for gas energy applied for. Applicants must provide a breakdown of all direct and assignable costs incurred, including the costs listed in (1) to (6) below.

Furthermore, applicants/ licensee must provide documents which demonstrate that:-

- applicants/ licensee procures gas from lower cost gas sources in preference over high cost gas sources for comparable terms of supply (e.g. when the supply concerns imported gas); and/or
- costs of indigenous (domestically procured or produced) gas are efficient and prudently incurred (e.g. when the supply concerns domestically produced gas).

Reference	Information to be supplied by the applicant/ licensee
1. Cost of imported gas	Gas is bought from Egoli Gas (Pty) Ltd and the cost is reflected in the cost build up schedule.
2. Transport cost	Virtual Gas Network receives gas directly from the Egoli pipeline, therefore there is no transport cost to the Mother station. However, there is road transport cost payable for gas to be delivered to the customer sites. This cost is included in operations expenses.

Reference	Information to be supplied by the applicant/ licensee
3. Re-gasification (network) tariff	<i>Not Applicable</i>
4. Liquefaction (network) tariff	<i>Not Applicable</i>
5. Trading margin	R154.95
6. NERSA levy	Virtual Gas Network is not a producer and the proposed levy of R0, 301657 is therefore not applicable.
Trading Margin	R154.95

SECTION C: MAXIMUM PRICES FOR GAS TRADERS WHO ARE PURCHASING GAS FROM SASOL GAS PRIOR TO 26 MARCH 2014

The implementation of the methodology is effective upon approval by the Energy Regulator for all licensees other than Sasol Gas. For Sasol Gas, the implementation is effective from 26 March 2014, which marks the end of the Special Regulator Dispensation Period provided for in Clause 3 of Schedule One to the Agreement concerning the Mozambican Gas Pipeline between the Government of South Africa and Sasol Ltd ("Schedule One to the Agreement").

Gas traders who are purchasing gas from Sasol Gas prior to the end of the validity of the Special Regulatory Dispensation Period will use this methodology to base their gas price approval requests on (referring to prices of gas to their customers), provided that the maximum price of gas as contemplated in clause 9 of Schedule One to the Agreement is below the price calculated as per this methodology.

If the price in terms of Schedule One to the Agreement is above the price calculated according to this methodology, the Energy Regulator will allow the use of the "pass-through approach" as per section A of Chapter 3 of this form and provided in the table below.

Reference	Information to be supplied by the applicant/ licensee
1. Maximum price for reticulators and distributors as prescribed by clause 9 of Schedule One to the Agreement	[REDACTED]
2. Trading margin	R176,39/GJ
TOTAL GAS ENERGY PRICE(GE)	[REDACTED]

CHAPTER 3: ASSESSMENT OF GAS TRADING MARGINS

Reference	Information to be supplied by the applicant/licensee
1. Trading regulatory asset base (RAB)	[REDACTED] – Annexure B
2. Working capital	[REDACTED] – Annexure C
3. Weighted Average cost of Capital (WACC) Components	[REDACTED] Annexure D
4. Operational costs	[REDACTED] Annexure D
5. Volumes	[REDACTED] GJ
6. Cost of sales	[REDACTED]
7. Corporate tax	7,372,054
8. Clawback (±) on volumes	NIL
9. TOTAL TRADING MARGINS	[REDACTED]

CHAPTER 4: DETERMINATION OF THE TOTAL MAXIMUM CHARGES FOR GAS

Reference	Information to be supplied by the applicant/ licensee														
1. GAS ENERGY PRICE (GE)	As determined in Chapter 2 and Chapter 3 above														
2. Maximum prices for each customer category.	<p>NERSA will in terms of the methodology approve a single maximum price based on which each licensee's customer category maximum prices will be approved. Annexure A of the Piped-gas Regulations prescribes the different classes of customers for which maximum prices must be approved.</p> <p>A licensee must apply for maximum prices for each customer category and each customer category's price must be below the maximum price as approved by the Energy Regulator for that licensee.</p> <ul style="list-style-type: none"> • Maximum prices for Reticulators; • Maximum prices for Distributors; and • Maximum prices for all classes of customers as prescribed in Annexure A of the piped-gas regulations and as reflected below: <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="text-align: left;">CLASS</th> <th style="text-align: left;">ANNUAL GAS CONSUMPTION</th> </tr> </thead> <tbody> <tr> <td>Class1</td> <td>Less than 400 GJ pa</td> </tr> <tr> <td>Class2</td> <td>401 GJ pa to 4 000 GJ pa</td> </tr> <tr> <td>Class3</td> <td>4001 GJ pa to 40 000 GJ pa</td> </tr> <tr> <td>Class4</td> <td>40 001 GJ pa to 400 000 GJ pa</td> </tr> <tr> <td>Class5</td> <td>400 001 GJ pa to 4000 000 pa</td> </tr> <tr> <td>Class6</td> <td>>4 000 000 GJ pa</td> </tr> </tbody> </table>	CLASS	ANNUAL GAS CONSUMPTION	Class1	Less than 400 GJ pa	Class2	401 GJ pa to 4 000 GJ pa	Class3	4001 GJ pa to 40 000 GJ pa	Class4	40 001 GJ pa to 400 000 GJ pa	Class5	400 001 GJ pa to 4000 000 pa	Class6	>4 000 000 GJ pa
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Class1	Less than 400 GJ pa														
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Class4	40 001 GJ pa to 400 000 GJ pa														
Class5	400 001 GJ pa to 4000 000 pa														
Class6	>4 000 000 GJ pa														
3. Gas Trading Margins	As determined in Chapter 2 and Chapter 3 above														

Reference	Information to be supplied by the applicant/ licensee
<p>4. Discounts applied to each customer category based on any objectively justified and identifiable differences regarding such matters as volumes, transportation distance, length of contract, load profile, or other distinguishing feature provided in point 2 above.</p>	<ul style="list-style-type: none"> • Reticulators; • Distributors; and • Discounts for each licensee's customer category as prescribed in Annexure A of the piped-gas regulations
<p>5. Transmission tariff</p>	<p>As approved by NERSA in terms of the Tariff guidelines</p>
<p>6. Distribution tariff</p>	
<p>7. Storage tariff</p>	<p>As approved by NERSA in terms of the Tariff guidelines</p>
<p>8. NERSA Levy</p>	<p>As approved by the Minister of Energy in terms of the Gas Levies Act</p>
<p>9. TOTAL MAXIMUM CHARGES FOR GAS</p>	

CHAPTER 5: DOCUMENTS TO BE ATTACHED

1. As part of documents required for Chapter 3 licensees must provide a report which justifies the competitiveness of the requested price and its impact on facilitation entry into the piped-gas industry.
2. A document which justifies/clarifies the discounts applied to each customer category based on any objectively justified and identifiable differences regarding such matters as volumes, transportation distance, length of contract, load profile, or other distinguishing feature.

ANNEXURE A

VIRTUAL GAS NETWORK

TRADING MARGIN CALCULATION SUMMARY TABLE

		Annualised costs	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
			< 400 GJ p.a.	401 - 4 000 GJ p.a.	4 001 - 40 000 GJ p.a.	40 001 - 400 000 GJ p.a.	400 0001 - 4 000 000 GJ p.a.	> 4 000 000 GJ p.a.
ε	Volume in GJ	371,555						
		Rands	R/GJ	R/GJ	R/GJ	R/GJ	R/GJ	R/GJ
b	GE Price							
d	Working capital							
e	Cost of Sales							
f	Total assets							
g	(d+e+f)							
h	WACC							
i	Return on Investment (g*h)							
j	Operating expenses							
k	Depreciation							
l	Taxable Revenue							
m	Taxation							
n	Trading Margin (Allowable Revenue/Volume) = (i+j+k+m)/a	65,539,611	176.39	176.39	176.39	176.39	176.39	176.39
c	Gas Price before discount and other expenses							
p	Distribution Tariff	-	-	-	-	-	-	-
q	Storage Tariff	-	-	-	-	-	-	-
r	Gas Price before discounts							
s	Discount%		0%	0%	0%	0%	0%	0%
t	Discount (Rands/GJ)		0%	0%	0%	0%	0%	0%
u	Total Price charged (Rands/							

*****Discount rates are based and dependent on the customers distance from the compression station, capital expenditure on the customers' site, customers' equipment requirements and volume of gas transported via road per day or per week.**

Volumes

	Actual sold 2014	Actual sold 2015	Forecasted 2015/2016
Total Annual GJ			

The volumes for the 2015/2016 are based on projections for new commercial and industrial customers.

ANNEXURE B

REGULATORY ASSET BASE

	Cost	Accumulated depreciation	Carrying Value
July 2015	[REDACTED]	[REDACTED]	[REDACTED]
Additions	[REDACTED]	[REDACTED]	[REDACTED]
RAB	[REDACTED]	[REDACTED]	[REDACTED]

Fixed assets consist of the following items:

Compression equipment and trailers

[REDACTED]

Installations costs and civil work

[REDACTED]

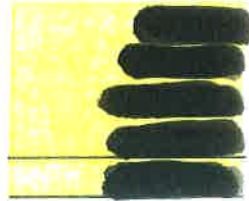
Total Cost

[REDACTED]

ANNEXURE C

WORKING CAPITAL CALCULATION

Inventory
Receivables
Operating cash
Trade payables
Net Working capital



ANNEXURE D

WACC Calculation and commentary

$$WACC = \left[\frac{E}{D + E} \times K_e \right] + \left[\frac{D}{D + E} \times K_d \right]$$

WACC was calculated at [REDACTED] + SSP of [REDACTED]* = [REDACTED]

- The SSP is as per the PWC Survey 2014

Equity	[REDACTED]	[REDACTED]
Debt	[REDACTED]	[REDACTED]
Debt/equity ratio	[REDACTED]	[REDACTED]

Cost of debt pre-tax [REDACTED]

Tax 28%

Cost of debt after-tax [REDACTED]

Cost of Equity Calculation	
Rf (Nominal)	11.66%
MRP	6.32%
Beta estimate	[REDACTED]
Ke=Rf+(MRP*beta)	[REDACTED]

The beta (β) was determined by proxy. As a proxy the average of six gas pipeline

Companies chosen by NERSA and listed on stock exchanges were used as set out in the Methodology. The following US companies were used:

- AGL Resources Inc.
- UGI Corporation
- South Jersey Industries
- WGL Holdings Inc.
- The Laclede Group
- Piedmont Natural Gas Company Inc.

Source	AGL Resources Inc.	UGI Corporation	South Jersey Industries	WGL Holding s Inc.	The Laclede Group	Piedmont Natural gas Company Inc	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Total Capital	8,758.82	7,830.84	2,227.07	2,418.20	3807.65	3,296.27	29,338.85
Debt/Equity Ratio	105%	126.00%	134%	87.88%	128.00%	117%	
Effective Tax rate	0.376	0.307	0.1208	0.3454	0.2735	0.3656	
Proxy Beta (B1)	0.2832	0.6307	0.7531	0.5518	0.3628	0.4828	
Unlevered/Asset Beta (B _a)	0.17	0.34	0.35	0.35	0.20	0.28	
Weighted Average Beta(WB)	0.057	0.090	0.026	0.029	0.026	0.031	

OPERATING EXPENSES

Operating expenses are made up of the following:

Distribution Costs	
Admin Costs	
Employment Costs	
Other operating Costs	
Total Operating Costs	

ANNEXURE E

Taxable Revenue

Taxable Revenue	[REDACTED]
Applicable rate	28%
Taxation	[REDACTED]

NBPT = 1/.72	[REDACTED]
Taxable revenue	[REDACTED]
Applicable tax rate	28%
Taxation	[REDACTED]

NERSA used the flow-through tax approach to determine the estimated tax payable figure in the allowable revenue. To estimate tax, NERSA used the following formula:

Net Profit Before Tax (NPBT) = {Exp + Dep + ((Cost of Sales + RAB + Working Capital)* Margin +- C) less {Expenses+ Depreciation}

Taxation = {(NPBT) / (1-Tax Rate)}*Tax Rate