

NATIONAL ENERGY REGULATOR OF SOUTH AFRICA (NERSA)

DECISION

On 23 November 2017, the National Energy Regulator of South Africa (NERSA) decided as follows:

1. to **approve** the multi-year trading margin applied for by Sasol Gas (Pty) Ltd ('Sasol Gas') for the periods 1 July 2017 to 30 June 2018 and 1 July 2018 to 30 June 2019, in so far as it relates to the trading margin applicable to end user customers as follows:

FY 18	FY 19
R5.99/GJ	R7.66/GJ

2. **not to approve** the multi-year trading margin applied for by Sasol Gas for the periods 1 July 2017 to 30 June 2018 and 1 July 2018 to 30 June 2019, in so far as it relates to the trading margin applicable to traders and reticulators, with the decision based on NERSA's view that the multi-year trading margin application is not in line with the objectives of the Gas Act, 2001 (Act No. 48 of 2001) ('the Gas Act'), as set out in sections 2(a), 2(d), 2(e), 2(h) and 2(j) of the Gas Act, which is due to the likely detrimental impact of the trading margin applied for on Sasol Gas' rival gas traders and their end user customers;
3. that the approved maximum price is exclusive of VAT; and
4. to approve the Reasons for Decision document attached hereto as **Annexure A [Annexure A – Sasol Gas (Pty) Ltd Application for Trading margin for the period July 2017 to June 2019]**.

REASONS FOR DECISION

1. APPLICABLE LAW

- 1.1 The legal basis for the National Energy Regulator of South Africa (NERSA) 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

- 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) ('the 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, NERSA 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 NERSA website at www.nersa.org.za.

A. Determination of Inadequate Competition

2.6 Approving maximum prices and the use of the Methodology are contingent on NERSA 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 Energy Regulator to approve 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 Maximum Pricing Methodology also provides for the determination of a trading margin, which is referenced to the Tariff Guidelines.

2.9 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 29 March 2016 and is reviewed every three years.

2.10 For the purposes of this assessment, NERSA has also considered changes and developments in the South African gas industry since its determination of inadequate competition in March 2016, and whether these developments might impact on the assessment of whether there is adequate competition in the piped-gas market.

2.11 To this end, NERSA notes the following developments in the industry since the determination of inadequate competition in March 2016:

2.12 The South African gas industry has not seen significant changes in the availability of gas supply or infrastructure since the previous determination of inadequate competition.

2.13 Investments have been made by the Republic of Mozambique Pipeline Investment Company ('ROMPCO') to increase supply of natural gas from Mozambique into South Africa with 7.8mGJ/a. However, Sasol Gas submits that all gas supplies available to it have been committed to customers through long-term contracts, and that it is therefore unable to supply additional volumes of gas to traders and end users. It further submits that this position is unlikely to change

in the short to medium term. These volume constraints are likely to limit the degree of competition between Sasol Gas and other traders for the supply of gas to end users. Traders are unlikely to be able to conclude long-term supply contracts with Sasol Gas' end user customers and vice versa on the basis that they do not have sufficient volumes available to do so, thus limiting the degree of competition between Sasol Gas and other gas traders for end user customers. This limited degree of competition was further confirmed by NERSA's review of the actual prices charged by Sasol Gas and other traders to end users, which revealed very limited price competition between these players for the supply of gas to end users.

2.14 It is also noteworthy that Reatile Gastrade has started to supply gas to another trader, namely VGN/NGV, with gas procured from Egoli Gas. However, Reatile Gastrade's ability to compete with Sasol Gas for the supply of gas to other traders is severely limited as all of its gas supply is ultimately procured from Sasol Gas either directly, or indirectly through Egoli Gas. In any event, the volume of gas supplied by Reatile Gas to VGN remains small, accounting for less than 5% of total gas volumes supplied to traders in South Africa.

2.15 In respect of gas infrastructure, NERSA has approved applications for licences to construct and register gas transmission activities to two industrial gas users, namely by Nampak and SAB.¹ These activities are exclusively for Nampak and SAB's own use, in order to connect them directly to Sasol Gas' transmission pipeline and to bypass Sasol Gas' distribution tariffs, and therefore do not affect the market dynamics and competition in the gas industry.

2.16 In addition, NERSA also approved an application by SL-CNG (a wholly owned subsidiary of SLG) for the construction and operation of CNG infrastructure, as well as a distribution pipeline to connect its operations to Sasol's distribution pipeline. However, SL-CNG only recently commenced with the operation of its infrastructure and trading activities, and it currently only trades in gas with one customer. As such, the firm is yet to have an impact (if any) on the market dynamics and competition in the industry.

2.17 New entrants at the time of the previous determination such as Reatile Gas, Tetra4, Columbus Steel and NGV have since commenced with their trading operations. NERSA has also since approved applications by some trading licensees (VGN, Reatile Gastrade, Tetra4, and SLG) to add additional areas of operation to their gas trading licences. However, the volume of gas traded by these licensees remain relatively small and account for less than 5% of the total

¹ Similarly, NERSA also approved applications for licensees to construct and the registration of gas transmission and/or distribution activities for own use by Columbus, PG Glass and Petro SA. However, such applications were approved prior to March 2016. The impact of these developments on competition in the gas industry were therefore already considered in NERSA's determination of inadequate competition in March 2016.

volumes supplied to end users (both industrial and vehicular) in South Africa. As such, their entry and expansions have not yet had a material impact on the market dynamics and competition in the gas industry.

2.18 Two new trading licences have also been granted by NERSA recently, namely to SL-CNG and Evraz Highveld Steel and Vanadium Limited ('Evraz') on 7 November 2016. Both firms only recently commenced with their trading activities and as such, these licensees are yet to have an impact (if any) on the market dynamics and competition in the industry.

2.19 It is clear from the above that there has been some developments in the gas industry since NERSA's determination of inadequate competition in March 2016. However, these developments have not yet had a material impact on the market dynamics and competition in the industry. Sasol Gas remains a vertically integrated monopoly, or near monopoly at all levels of the gas supply chain, with the current gas supply constraints in the sector entrenching this position.

B. Relationship to the Tariff Guidelines

2.20 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*'.

2.21 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.

2.22 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).

C. The Piped-Gas Regulations

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

2.24 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.

2.25 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.

2.26 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.

2.27 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 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		

2.28 These legislative aspects, as prescribed by the Gas Act are essential in defining the scope and nature of the Maximum Pricing Methodology developed by NERSA.

D. Approving maximum prices of piped-gas

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

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

- 2.30 The process of piped-gas maximum prices application is as follows:
- a) 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.
 - b) To ensure the consistency of applications and the predictability of the analysis of the applications, NERSA has specified the following:
 - i. prescribed sources of information that must be used for the input variables in the maximum price calculations;
 - ii. prescribed weights applied to energy price indicators; and
 - iii. the methodology to determine trading margins.
 - c) Applicants must provide information regarding the assumptions as well as the details of the calculation.

2.31 This application must:

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

2.32 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 Sasol Gas (Pty) Ltd (registration number 1964/006005/06) ('Sasol Gas' or 'The Applicant') is wholly owned by Sasol Gas Holdings (Pty) Ltd (registration number 2000/013669/07), a limited liability company incorporated in terms of South African company law. Sasol Gas Holdings (Pty) Ltd is in turn a wholly owned subsidiary of Sasol Limited.

3.2 Sasol Gas is vertically integrated in the gas industry supply chain in South Africa, i.e. it is active in gas transmission, gas distribution and gas trading. Sasol Limited has also secured rights to natural gas from the Republic of Mozambique through a series of agreements with the Mozambican Government.

3.3 Sasol Gas trades in:

- a) piped natural gas from the Mozambican gas fields; and
- b) piped methane-rich gas produced at Secunda.

3.4 This is Sasol Gas's trading margin application for the various areas in which it is licensed to conduct trading activities. The number of licences and areas to which the trading margin applies is listed in the trading margin application, hereto

attached as **Annexure B**. In summary, the trading margin will apply to all areas where Sasol Gas has been issued with a trading licence.

- 3.5 In accordance with the Regulatory Reporting Manuals (RRM), Sasol Gas has unbundled its accounts into three licensed activities, namely trading, transmission and distribution. Thus cost allocation and reporting are done per licensed activity.
- 3.6 As at the date of the application, the applicant is supplying gas to traders and reticulators (traders) as well as end use customers (end users or end user customers). Sasol Gas applied for separate trading margins for the traders and end users.

4 SASOL GAS' TRADING MARGIN APPLICATION

- 4.1 On 12 May 2017, the Energy Regulator received a multi-year trading margin application from Sasol Gas for the periods 1 July 2017 to 30 June 2018 and 1 July 2018 to 30 June 2019.
- 4.2 The first Sasol Gas trading margin was approved on 31 March 2013 for the periods 26 March 2014 to 30 June 2014, 1 July 2014 to 30 June 2015 and 1 July 2015 to 30 June 2017.
- 4.3 Sasol Gas' trading margin is for the periods 1 July 2017 to 30 June 2018 and 1 July 2018 to 30 June 2019. The application is split into two periods aligned with Sasol Gas' financial years. In terms of the previous Sasol Gas applications for the approval of maximum Gas Energy (GE) prices, NERSA approved a distinguishing feature that allowed Sasol Gas to apply a discount off the actual GE Price equivalent to [REDACTED] of the prevailing trading margin for traders and reticulators. The objective of this distinguishing feature was to acknowledge that traders and reticulators are placed differently in the market than customers who purchase gas for their own consumption.
- 4.4 In the current application, Sasol Gas applied for different trading margins for traders and reticulators and end user customers. Sasol Gas used direct cost allocation and volumes to determine the applicable trading margins for traders/reticulators and end-users.
- 4.5 Sasol Gas further indicated that the direct allocation of costs were used where the information was available and for all other elements volume was used as a driver for the allocation between traders and reticulators and end users to calculate the trading margin. The approach is different from the previous application where costs and assets were consolidated to determine one trading margin.

4.6 Sasol Gas applied for the approval of the trading margins as indicated in Table 1 below.

Table 1: Trading Margin Applied for FY18 – FY19

CUSTOMER	FY18	FY19
Traders & Reticulators	R5.26/GJ	R6.90/GJ
End Users	R5.99/GJ	R7.66/GJ

4.7 Tables 2 and 3 below provide a summary of the allowable revenue to be recovered through the trading margins over the periods 2017/18 and 2018/19 as well as the forecast volumes for the respective periods for traders and for end users.

Table 2: Allowable Revenue for Traders and Reticulators for FY18 – FY19

Reference		FY18	FY19
Regulatory asset base (RAB) [R]	Opening balance + prorated additions		
Working capital[R]	Per methodology		
Cost of sales[R]	Opening stock + purchases less closing stock		
Weighted average cost of capital (WACC) components	Ke		
	Kd		
	Gearing		
	WACC		
(TRAB + COS) x WACC			
Operational Costs[R]	E		
Depreciation[R]	E		
Corporate tax[R]	T		
Clawback (±) on volumes	Giveback		
ALLOWABLE REVENUE (R/GJ)			

Source: Sasol Gas Trading margin application

Table 3: Allowable Revenue for End Users for FY18 – FY19

Reference	RREFERENCE	FY18	FY19
Regulatory asset base (RAB) [R]	Opening balance + prorated additions		
Working capital[R]	Per methodology		
Cost of sales[R]	Opening stock + purchases less closing stock		
Weighted average cost of capital (WACC) components	Ke		
	Kd		
	Gearing		
	WACC		
(TRAB + COS) x WACC			
Operational Costs[R]	E		
Depreciation[R]	E		
Corporate tax[R]	T		
Clawback (±) on volumes	Giveback		
ALLOWABLE REVENUE (R/GJ)			

Source: Sasol Gas Trading margin application

5 NERSA'S ANALYSIS OF THE APPLICATION

5.1 When assessing trading margin applications, NERSA is guided by section 3.6.3 of the Methodology which states that:

The trader's margin (as a percentage) will be calculated in nominal terms. The nominal Weighted Average Cost of Capital (WACC) of the trader will be the trading margin (%), 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 margins 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.

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

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

Where:

TRAB = approved historical trading services assets 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 = Trading margin (%) determined in nominal WACC terms

T = Corporate tax expense for the period

C = Clawback (+/-)

5.3 The above formula illustrates that the allowable revenue calculation is essentially the estimation of the cost of providing trading services to customers.

5.4 The paragraphs below provide the analysis of each component of the allowable revenue used in calculating the trading margin for traders and end users. Tables 4 and 5 illustrate the summary of NERSA's and Sasol Gas' calculations of each component of the allowable revenue and trading margin. The difference between NERSA's and Sasol Gas' calculations is less than 10% and is explained below.

Table 4: Traders & Reticulators

ITEMS	NERSA FY 18	SASOL FY 18	DIFF IN %	NERSA FY 19	SASOL FY 19	DIFF IN %
Total RAB			0.00%			0.00%
WACC			1.5%			1.5%
Return (RAB*WACC)			10.81 %			10.80%
Operating Costs (E)			0.00%			0.00%
Depreciation			0.00%			0.00%
Nominal Tax (T)			0.00%			0.00%
Clawback (C)			0.00%			0.00%
Allowable Revenue (AR)			9.47%			7.59%
Volumes (GJ)			0.00%			0.00%
Trading Margin(R/GJ)	R4.76	R5.26	9.47%	R6.38	R6.90	7.59%

Table 5: End Users

ITEMS	NERSA FY 18	SASOL FY 18	DIFF IN %	NERSA FY 19	SASOL FY 19	DIFF IN %
Total RAB			0.00%			0.00%
WACC			1.5%			1.5%
Return (RAB*WACC)			10.81%			10.81%
Operating Costs (E)			0.00%			0.00%
Depreciation			0.00%			0.00%
AR before Tax			9.06%			9.08%
Nominal Tax (T)			0.00%			0.00%
Clawback (C)			0.00%			0.00%
Allowable Revenue (AR)			8.32%			7.80%
Volumes(GJ)			0.00%			0.00%
Margin(R/GJ)	R5.49	R5.99	8.32%	R7.13	R7.66	7.80%

Trading Regulatory Asset Base (TRAB)

5.5 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.*

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

$$\text{Regulatory Asset Base} = \text{Original Cost of Property, Plant \& Equipment (v)} - \text{Accumulated Depreciation (d)}$$

5.7 In addition, the Tariff Guidelines provide that 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 recovered through the trading margin.

5.8 According to Sasol Gas, the trading assets include such items as vehicles, software and other general assets, such as leasehold improvements. These assets are allocated to the trading portion of Sasol Gas' business as per the

NERSA-approved Cost Allocation Manual (CAM) principles using appropriate drivers for allocation. The useful lives and depreciation of the assets are the same as per International Financial Reporting Standards ('IFRS') rules. Trading assets expected to be commissioned during the forthcoming trading margin period have been admitted to the trading regulated asset base in proportion to the share of the period under review in which they will be used, i.e. pro-rated.

5.9 Sasol Gas is applying for the RAB in Property, Plant and Equipment (PPE) of [REDACTED] for End Users and [REDACTED] for Traders in FY 18. Sasol Gas is also applying for the PPE of [REDACTED] for End Users and [REDACTED] for Traders in FY 19.

5.10 In the analysis of the RAB, NERSA determined that the increase in RAB is less than 10% between FY 18 and FY 19 and is due to additions required in order for Sasol Gas to render the service of gas trade to customers. NERSA requested Sasol Gas to provide an asset register to analyse detailed assets and asset additions. The trading assets on the asset register consist of transport equipment, energy advisor fleet vehicles, tools and work equipment and computers.

5.11 In assessing the RAB, NERSA performs a prudency tests on the investment to be included in the RAB for the trading margin determination. According to section 4.4.1 of the Tariff Guidelines, Prudency means that the investment is reasonable based on cost-minimisation to avoid unnecessary over investment. The following criteria followed is assessing the prudency of investment to be undertaken:

- The investment is prudent if it was prudent at the time the decision was made, meaning that this requires accurately assessing what information management had available and used to make its decision.
- The investment is prudent if management acted to minimise cost by fully considering the changing conditions that would affect the investment. This requires assessing what management should have known and should have considered in making this decision.
- Aligned to prudency is the used and useful concepts. Used and useful means that the plant is actually being used to provide a service and that it is contributing to the provision of the service.

5.12 NERSA assed the RAB as submitted by Sasol Gas and decided to approve Sasol Gas RAB.

Net Working Capital (w)

5.13 Net working capital refers to the various regulatory asset base funding requirements other than trading utility plant in service. This is determined using the following formula:

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

5.14 According to the applicant, Sasol Gas has not conducted a lead lag study and has opted for the assumption of a 45-day operating cash cycle as indicated in section 4.6 of the Guidelines. The working capital determined by Sasol Gas for FY 18 is [REDACTED] and [REDACTED] for FY 19. Sasol Gas followed the prescribed Methodology in determining the working capital. NERSA has accepted the amounts determined by Sasol Gas in its application. The amounts are split between the traders and end users as per tables 6 and 7 below.

Table 6: Working Capital: Traders & Reticulators

Item	FY18	FY19
Inventory	[REDACTED]	[REDACTED]
Receivables	[REDACTED]	[REDACTED]
Operating cash	[REDACTED]	[REDACTED]
Payables	[REDACTED]	[REDACTED]
Working Capital	[REDACTED]	[REDACTED]

Table 7: Working Capital: End-Users

Item	FY18	FY19
Inventory	[REDACTED]	[REDACTED]
Receivables	[REDACTED]	[REDACTED]
Operating cash	[REDACTED]	[REDACTED]
Payables	[REDACTED]	[REDACTED]
Working Capital	[REDACTED]	[REDACTED]

5.15 NERSA has accepted the amounts determined by Sasol Gas in its application according to tables 6 and 7 above. NERSA recalculated the above figures using a 45-day period and determined that they are correct.

Cost of Sales (COS)

5.16 Section 3.6.3 of the Methodology states that 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. The cost of sales and expenses submitted by Sasol Gas were prepared in terms of the principles of its CAM approved by NERSA in 2012. Sasol Gas is using this approved CAM to determine the allocation of costs between licensed activities namely Trading, Transmission and Distribution.

5.17 According to the applicant, the cost of sales is determined through an at-arms-length contract between Sasol Gas and the producers of gas. Sasol Gas' forecasted cost of sales is based on the adjustment mechanism contained in the respective contracts using Sasol Group assumptions for forecasts of economic indicators.

5.18 Tables 8 and 9 below show the cost of sales forecasts split allocated between traders and end users. The split is based on volumes directly relating to traders and end users.

Table 8: Cost of Sales for Traders

Item	FY18	FY19
Opening inventory	██████████	██████████
Gas purchases	██████████	██████████
Less Closing inventory	██████████	██████████
Cost of Sales	██████████	██████████

Source: Sasol Gas Trading margin application

Table 9: Cost of Sales for End Users

Item	1 July '17– 30 June '18	1 July '18 – 30 June '19
Opening inventory	██████████	██████████
Gas purchases	██████████	██████████
Less Closing inventory	██████████	██████████
Cost of Sales	██████████	██████████

Source: Sasol Gas Trading margin application

5.19 The Cost of Sales figures show the cost of gas as purchased by Sasol Gas, which consists of gas purchases from Sasol Petroleum International in Temane, Synfuels methane rich gas and Infrachem syngas in Sasolburg.

5.20 NERSA accepted the forecast cost of sale applied for by Sasol Gas for FY18, however for the FY 19 NERSA identified that the closing inventory for the FY 18 is not the same as the opening inventory for FY 19. As a result, NERSA adjusted for the difference in order to determine cost of sales. The difference between Sasol Gas' and NERSA's recalculated cost of sales is ██████████ for Traders and ██████████ for End Users as shown in Table 10 below.

Table 10: Cost of Sales Difference for FY 2019

TRADERS AND RETICULATORS			
	SASOL	NERSA	DIFFERENCE
Opening inventory			
Gas purchases			
Less closing inventory			
Cost of Sales			
END USERS			
	SASOL	NERSA	DIFFERENCE
Opening inventory			
Gas purchases			
Less closing inventory			
Cost of Sales			

5.21 The above difference in cost of sales resulted in the difference in total RAB figure between NERSA and Sasol Gas for the FY 19.

5.22 Table 11 below is the RAB summary for both FY 18 and FY 19 as determined by NERSA and Sasol Gas.

Table 11: RAB Summary

RAB – END USERS						
<u>RAB Calculation</u>	NERSA		SASOL GAS		DIFFERENCE	
	2017 / 2018	2018 / 2019	2017/ 2018	2018 / 2019	2017 / 2018	2018 / 2019
(RAB= Assets +Cos + net working capital)						
Trading Assets						
COS						
Net Working Capital						
Total RAB						
RAB - TRADERS						
	NERSA		SASOL GAS		DIFFERENCE	

<u>RAB Calculation</u>	2017 / 2018	2018 / 2019	2017/ 2018	2018 / 2019	2017 / 2018	2018 / 2019
(RAB= Assets +Cos + net working capital)						
Trading Assets	██████████	██████████	██████████	██████████	█	█
COS	██████████	██████████		██████████	█	██████████
Net Working Capital	██████████	██████████	██████████	██████████	█	█
Total RAB	██████████	██████████	██████████	██████████	█	██████████

5.23 The volumes breakdown used to determine RAB and allocation between end users and traders is as per Table 12 below. In total volumes, are expected to increase by █████ between FY 18 and FY19.

Table 12: Volumes

	FY 18 Volume (GJ)	FY 19 Volume (GJ)	Movement in %
SPT	██████████	██████████	█
Synfuels	██████████	██████████	█
Infrachem	██████████	██████████	█
Total	██████████	██████████	█

Depreciation

5.24 Sasol Gas depreciated the assets on its straight line depreciation over the useful lives of assets. The estimated useful lives of trading assets range between 5 to 7 years. The depreciation is split between the traders as █████ in FY18 and █████ for end user customers. In FY19 the split between traders is █████ and █████ for end users. The depreciation will be confirmed during the audit process during the year end procedure.

5.25 It must be noted that the depreciation amounts applied for by Sasol Gas under the trading activities is higher in comparison to the transmission related activities due to the shorter useful lives of assets. Trading assets have shorter useful lives and are depreciated over a shorter period, resulting in high depreciation values.

5.26 NERSA allowed the depreciation determined by Sasol Gas based on a straight line depreciation method over the useful lives of assets. The allowed values will be verified at year end when the regulatory financial reports are audited. Any differences between the forecasted information used for trading margin determination and actual audited values can be corrected through the claw back

mechanism. NERSA also determined that the increase in depreciation between FY 18 and FY 19 is attributed to the additions in assets.

Tax (T)

- 5.27 Section 4.3 of the Tariff Guidelines allows the licensee a choice between the flow-through and normalised tax approaches. However, once a licensee has chosen an approach, it is not permitted to change. The flow-through tax approach is the Energy Regulator's preferred tax methodology.
- 5.28 Tax refers to a licensee's estimated tax payable to the tax authority with respect to taxable allowable revenue from the regulated activity for the tariff period under review. NERSA allows the licensee a choice between the flow-through and normalised tax approaches. However, once a licensee has chosen an approach, it is not permitted to change. The flow-through tax approach is the Energy Regulator's preferred tax methodology.
- 5.29 The flow-through approach is an approach whereby only current income taxes payable are factored into the allowable revenue and recovered in the tariff during the period under review.
- 5.30 According to the applicant, Sasol Gas applied the flow through approach for the treatment of the tax expense in accordance with the preference given to this approach in Section 4.3 of the Guidelines and because it facilitates simple practical implementation.
- 5.31 Sasol Gas applied for a flow through tax of [REDACTED] in FY18 and [REDACTED] in FY19 for Traders & Reticulators; and flow through tax of [REDACTED] in FY18, [REDACTED] in FY19 for end users.
- 5.32 NERSA accepted the flow through tax applied for by Sasol Gas, the tax expense will be audited during the year-end audit procedure. Any difference between the forecasted figure and actual tax will be adjusted through the claw back mechanism.

Operating Costs (E)

- 5.33 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's.

5.34 Sasol Gas applied for operating expenses of ██████████ for FY18 and ██████████ for FY19 in relation to the Traders & Reticulators. In addition, it applied for operating expenses of ██████████ for FY18 and ██████████ for FY19 in relation to the End user customers. NERSA used the principles as articulated in the Methodology and assessed each expense item as provided by Sasol Gas and used the same figures as Sasol Gas. The operating expenses include items such as operations and maintenance, sale promotions, administrative expenses etc. All these expenses will be reconciled to the relevant business unit of Sasol Gas during the year-end audit of regulatory financial reports.

5.35 NERSA analysed the expenses as submitted by Sasol Gas and determined that the FY 18 expenses have decreased by a projected 47% as compared to inflation adjusted cost of FY 16. The actual amounts for FY 17 will be confirmed on the completion of FY 17's regulatory financial reporting. Table 13 below summarises the movement of expense between Sasol Gas' financial years and NERSA has accepted the increases to be reasonable.

5.36 In assessing the operating expenses, NERSA is guided by section 4.2.3 of the Tariff Guidelines, which states that expenses must be prudently and efficiently incurred. The following criteria is followed in determining whether expenses were prudently incurred:

- a) determination if the expenses were arm's length bargaining;
- b) expenses must be legitimate for providing regulated services;
- c) the costs should be incurred through efficient company processes;
- d) expenses should represent the normal operations of the licensee and may be adjusted for pending increases or decreases; and
- e) Expenses that will not be allowed by other commissions or authorities.

5.37 In addition, NERSA may undertake prudence checks on the efficiency of the expenses, including using the previous year's actual values as a benchmark.

Table 13: Analysis of Operating Expenses

Items	FY 16	Projected FY 2017	FY 18	FY 19
Operations Expenses	██████████	██████████	██████████	██████████
% Increases	n/a	6%	-47%	6%

Weighted Average Cost of Capital (WACC)

5.38 The nominal WACC will be calculated as prescribed in **Appendix 1** of The Methodology (***Appendix 1 – Determination of WACC***).

Beta

- 5.42 Sasol Gas determined beta $\beta(e)$ with reference to the average beta of six international pipeline companies, following the steps as set out in Section 4.7 of the Methodology. Sasol Gas submits that it followed Section 2.2 of the Methodology as indicated below.
- 5.43 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 Tariff Guidelines. The following US companies were used by the Sasol Gas as proxies:
- a) New Jersey Resources;
 - b) UGI Corporation;
 - c) South Jersey Industries;
 - d) WGL Holdings Inc.;
 - e) The Laclede Group; and
 - f) Piedmont Natural Gas Company Inc.
- 5.44 Sasol Gas used the above companies and the below mentioned data to derive a beta of [REDACTED]
- a) weekly returns observations;
 - b) an estimation window using returns measured over the five-year period, where in the previous tariff application, Sasol Gas used a five-year period; and
 - c) raw equity betas which were not adjusted for proxy companies' tax.
- 5.45 The beta was calculated using the Hamada methodology. NERSA used the same companies as those selected by Sasol Gas and updated its beta as at 15 May 2017 to be [REDACTED].
- 5.46 The difference between NERSA and Sasol Gas' beta arises from the fact that NERSA extracted the beta for proxy companies from Bloomberg on 15 May 2016 whereas Sasol Gas extracted its beta from Bloomberg on 8 December 2016. The relative size of each proxy company, measured as the sum of the average market capitalisation and average debt, was used as the weights applied in this weighted average calculation. Finally, the Sasol Gas' asset beta was re-levered, using the Hamada formula and assuming a gearing level of [REDACTED] to obtain the Applicant's equity beta. Sasol Gas' calculated equity beta is [REDACTED].
- 5.47 The difference between NERSA and Sasol Gas beta data is due to the difference in the time when the data was extracted. As indicated above, NERSA used weekly observations over two years whereas Sasol Gas used weekly observations over five years

MRP & Rf

- 5.48 The market risk premium (MRP) is the return investors can expect to earn over and above the risk-free rate by investing in the stock market.
- 5.49 For this application, Sasol Gas applied the same principles and logic used in the 2016 and 2017 approved application. This has resulted in a MRP of 7.06% and a risk-free rate of 11.72% when using the Arithmetic method. The MRP is calculated based on the month-on-month difference between the stock market returns and risk free asset. The Johannesburg Stock Exchange (JSE) All Share Index [ALSI – Total Returns Index (J203)] was used as the proxy for stock market returns, and Government Bonds of 10 years and longer as the proxy risk-free rate.
- 5.50 Sasol Gas has used 34 years (408 months) from March 1982 to February 2016 in calculating the MRP and the RFR which is the longest time period of available information.
- 5.51 Sasol Gas submits that this trading margin application and its future trading margin applications and thus future calculations of the MRP estimate should continue to utilise the longest time period possible. With regard to the Government Bonds used as a proxy for risk free assets, the Guidelines state: 'Generally the spot prices of selected 5 to 10-year government of South Africa bonds are used for the expected risk-free return when estimating the cost of equity capital'. Sasol Gas agrees on the use of Government bonds as proxy risk free assets. However, the maturity period of the bond and the investment horizon of the business should align. Therefore Government Bonds of 10 years and longer have been used as the proxy risk-free rate.
- 5.52 NERSA calculated the mark-to-market risk free rate of a selected 10 years government of South Africa bonds and used it to determine the expected risk free return (Rf) in the estimation of cost of equity. This yielded a nominal risk free rate of 11.17% over 360 months (30 years) and the MRP of 5.85%. The difference is due to NERSA using the 360 months period as prescribed by the Revised Guidelines for Monitoring and Approving Piped-Gas Transmission and Storage Tariffs in South Africa.

Cost of Debt (Kd)

- 5.53 As a subsidiary of Sasol Limited, Sasol Gas debt is sourced through the Sasol Group. The Sasol Group cost of debt is [REDACTED] (nominal pre-tax). The nominal post tax cost of debt is [REDACTED]

Claw back

5.54 Sasol Gas has recalculated the net effect of claw back for the FY15 and FY 16 to be [REDACTED] as per the audited regulatory financial reports as at 30 June 2016. The net amount of [REDACTED] is made up of [REDACTED] give back for FY15 and [REDACTED] clawback for FY16. The clawback has been allocated to Traders and End users proportionally using the volumes as the drivers for allocation as [REDACTED] for Traders and [REDACTED].

5.55 NERSA has confirmed the clawback of Sasol Gas’ recovery by reconciling Sasol Gas’ calculations to the audited regulatory financial reports for FY15 and FY16. Table 15 below is the recalculation of the claw back amount as applied by Sasol Gas.

Table 15: Clawback Recalculations Summary FY 18

REFERENCE		Rands
Regulated Asset		[REDACTED]
Regulated Liability (Over Recovery)		[REDACTED]
FY16 Clawback		
Regulated Asset (Under Recovery)		[REDACTED]
Regulated Liability		[REDACTED]
Net Asset		[REDACTED]
Total net Effect		[REDACTED]
Volume Allocation method		
Traders and Reticulators Volumes		[REDACTED]
End users volumes		[REDACTED]
Total volumes		[REDACTED]
CLAW BACK		
Traders and Reticulators Volumes		[REDACTED]
End users volumes		[REDACTED]

5.56 In line with the above, NERSA has accepted the reasonability of Sasol Gas’ giveback amount of [REDACTED] as recalculated.

Trading Margin Calculation

5.57 The applicant is applying for separate trading margins for traders and reticulators and a separate trading margin for end users as shown in table 16 below.

Table 16: Trading Margin Applied for the Period FY18 – FY19

CUSTOMER	FY18	FY19
Traders & Reticulators	R5.26/GJ	R6.90/GJ
End Users	R5.99/GJ	R7.66/GJ

5.58 In calculating the trading margin split between traders and reticulators and end users; Sasol Gas indicated that it used the direct cost allocation and volumes to determine the applicable trading margins. The method used is based on the NERSA-approved CAM guidelines and principles.

6 ECONOMIC IMPACT OF THE PROPOSED TRADING MARGIN

Overview

6.1 The trading margin applied for by Sasol Gas has significant increases and decreases to its trading/reticulator customers and end users respectively for the period until 30 June 2019. Table 17 below shows the increases and decreases of the trading margin for FY 18 and FY 19.

Table 17: Sasol Gas Tariff Movement Analysis

ITEMS	END USERS	TRADERS & RETICULATORS
Trading Margin for FY June 17- R/GJ	8.97	4.49
Trading Margin for FY June 18- R/GJ	5.99	5.26
Trading Margin Increase (Decrease) in %	(33%)	17%
<hr/>		
Trading Margin for FY June 18- R/GJ	5.99	5.26
Trading Margin for FY June 19- R/GJ	7.65	6.90
Trading Margin Increase (Decrease) in %	28%	31%

6.2 The increase of 17% to the traders in FY 18 is due to the change of the allocation of allowable revenue between traders/reticulators and end users. The previous trading margin was determined based on the total allowable revenue for Sasol Gas trading business and traders being awarded a [REDACTED] discount. The current approach by Sasol Gas is to separate assets and costs in the allowable revenue for end users and traders. End users experienced a 33% decrease in the FY 18 due to the giveback that Sasol Gas allowed in the FY 18 allowable revenue.

6.3 The subsequent increase of 28% and 31% for end users and traders respectively in FY 19 is due to the giveback realised in FY 18 not being available for FY 19. In total the trading margin applied for by Sasol Gas shows a steep increase for the traders for both FY 18 and FY 19.

6.4 Table 18 below shows the impact of the current approach of separating the allowable revenue versus the consolidated approach that was used by Sasol Gas in the last application for the trading margin.

Table 18: Sasol Gas Trading Margin Separate and Combined Allowable Revenue Approach

ITEMS	END USERS	TRADERS & RETICULATORS
Trading Margin (Consolidation) for FY June 18- R/GJ	5.93	2.96
Trading Margin (Proportional Application) for FY June 18- R/GJ	5.99	5.26
Trading Margin Increase (Decrease) in %	1%	78%
Trading Margin (Consolidation) for FY June 19- R/GJ	7.59	3.80
Trading Margin (Proportional Application) for FY June 19- R/GJ	7.65	6.90
Trading Margin Increase (Decrease) in %	1%	82%

6.5 The above table shows that by changing the approach of calculating the allowable revenue, the trading margin increased by 78% for traders and 1% for end users in the FY 18 as compared to the previous combined approach. In the FY 19, the trading margin will increase by 82% for traders and 1% for end users.

6.6 Moreover, by changing the approach in the calculation of the allowable revenue, the difference between the trading margin Sasol Gas provides to end users, and the maximum trading margin provided to Sasol Gas' rival traders ('the maximum trading margin differential' or 'the maximum discount off the trading margin') will be significantly reduced from the current ██████ to 12% in FY18 and to 10% in FY19.

6.7 It is therefore clear from the above that, in terms of the current application, the trading margin applicable to Sasol Gas' trading/reticulator customers will increase significantly, particularly when compared to the trading margin applicable to Sasol Gas' own end user customers. The paragraphs below will assess the impact of these increases on the costs of Sasol Gas' rival gas traders and their respective end user customers, and on competition at the trading level of the gas industry.

Impact on Sasol Gas' rival gas traders

6.8 The maximum discount off the trading margin (which, per the paragraphs above, will be reduced from ██████ to 12% in FY18 and to 10% in FY19 in terms of this application) is a key mechanism that positions Sasol Gas' rival traders to eventually grow into viable competitors at the trading level of the South African gas supply chain.

- 6.9 According to the submissions made to NERSA by one of Sasol Gas' independent rival traders, it is the maximum discount off the trading margin that provides them (and other independent rival traders) with some scope to undercut the prices that Sasol Gas charges to its end user customers, in order to encourage end user customers to switch away from Sasol Gas. The submissions of this stakeholder are discussed in more detail in Section 7 below. However, it is useful to note at this juncture that it is clear from these submissions that there is a direct relationship between the size of the maximum discount off the trading margin, and the ability of traders to effectively compete with Sasol Gas to supply gas to end user customers. Specifically (all other factors held constant), when the discount off the trading margin is reduced, the scope for independent gas traders to match or undercut Sasol Gas' prices will also be reduced.
- 6.10 It therefore follows that the reduction in the trading margin differential from [REDACTED] to levels of 12% and 10% in FY18 and FY19 will (all other factors held constant) significantly reduce the scope for Sasol Gas' rival traders to match or undercut Sasol Gas' prices.
- 6.11 NERSA notes that competition between Sasol Gas and its rival traders is currently constrained, even with the [REDACTED] discount off the trading margin currently in place. To this end, Sasol Gas submits that all gas supplies available to it have been committed to its customers (including rival traders, reticulators and end user customers) through long-term contracts, and that it therefore does not have sufficient capacity to meet current gas demand levels. It further submits that this position is unlikely to change in the short to medium term.
- 6.12 These volume constraints are likely to limit the competitive constraint placed by rival traders on Sasol Gas' trading operations. Specifically, traders are unlikely to be able to conclude long-term supply contracts with Sasol Gas' existing end user customers (and vice versa) on the basis that they do not have sufficient volumes available to do so, thus limiting the degree of competition between Sasol Gas and its rival gas traders for existing end user customers. This limited degree of competition was further confirmed by NERSA's review of the actual prices charged by Sasol Gas and other traders to end users, which revealed very limited price competition between these players for the supply of gas to end users.
- 6.13 A decision by NERSA to approve the trading margin applied for by Sasol Gas may serve to perpetuate this position of limited competition between Sasol Gas and its rival traders for the supply of gas to end users. Specifically, the costs incurred by Sasol Gas' rival traders as a result of the trading margin applied for herein will be higher, and it may negatively impact on the ability of such traders to supply gas to end users in an affordable manner, in competition with Sasol Gas. This is especially so, given that the trading margin applicable to Sasol Gas'

own end user customers will not increase as significantly as the trading margin applicable to Sasol Gas' rival traders.

6.14 Thus, even though competition at the trading level of the gas supply chain is already limited, the trading margin applied for by Sasol Gas may serve to perpetuate this position, and entrench Sasol Gas' dominance at this level of the gas supply chain, especially during times when more gas supplies become available.

6.15 In addition to this, and to the extent that Sasol Gas' rival traders are unable to pass on the increases in their costs as a result of the increases in the trading margin applicable to them in terms of this application onto their end user customers, the profit margins of these rival traders will effectively be squeezed.² This may, for example, have an effect on the ability of those rival traders that have started to expand their operations to supply gas to customers in areas that would not have ordinarily been served by Sasol Gas as a result of, for example, the distance of their operations from Sasol Gas' transmission and distribution pipeline infrastructure. For example, SL CNG, a wholly owned subsidiary of SLG, which is currently Sasol Gas' largest rival trader, has recently started to supply gas to certain industrial customers located far away from Sasol Gas' gas transmission and distribution pipeline infrastructure via virtual gas pipelines [i.e. Compressed Natural Gas (CNG)].

6.16 The supply of gas by rival traders to customers who would have ordinarily not been served by Sasol Gas is a positive development in the gas sector, and is in line with the objectives of the Gas Act, which seeks to *inter alia* promote access to gas in an affordable and safe manner.³ However, the increase in the costs of Sasol Gas' rival traders as a result of the significant increases in the trading margins applicable to them (as outlined above) is likely to impact on their ability to supply customers who would have not ordinarily been served by Sasol Gas in this manner.

6.17 In addition to this, and where rival traders are able to pass such cost increases onto their end user customers, the costs of the end user customers of rival traders will increase relative to that of Sasol Gas' own end user customers. The paragraphs below will further assess the likely impact of the revised trading margin on the costs and operations of the end user customers of Sasol Gas' rival traders.

² Rival traders using the cost pass through approach in the determination of their GE price is more likely to be able to pass through these cost increases onto their end user customers. Rival traders using the price indicators approach in calculating their GE price is likely to be unable to do so, as their prices are based on specific price indicators such as coal, diesel, electricity, heavy fuel oil and liquefied petroleum gas, rather than on the actual costs associated with supplying gas to end user customers.

³ In terms of Section 2 of the Gas Act.

Impact on the end user customers of Sasol Gas' rival gas traders

- 6.18 As indicated in the paragraphs above, the increases in the trading margin applicable to Sasol Gas' rival gas traders and of reticulators will have the effect of raising the costs of such reticulators and rival traders of gas. If these reticulators and rival traders are able to pass these cost increases on to their end user customers (either fully or partially), this will, in turn, increase the costs of the end user customers of reticulators and of the end user customers of Sasol Gas' rival traders.⁴ NERSA's review of the customers of Sasol Gas' rival traders have revealed that these traders have end user customers in certain energy intensive sectors.⁵ The impact of the potential increases in the gas costs of the end user customers of some of Sasol Gas' rival traders (as a result of increased trading margins passed on to them) would be particularly significant for these energy intensive customers, whose energy costs are likely to make up a large proportion of their total costs.
- 6.19 The detrimental effects of these increases in the costs of end user customers of Sasol Gas' rival traders are further aggravated by the fact that Sasol Gas' own end user customers will not face the same cost increases (see paragraphs 6.1 to 6.6 above). Specifically, some of the end user customers of Sasol Gas' rival traders are likely to compete with Sasol Gas' own end user customers in the relevant downstream markets in which they operate. These end user customers will therefore have to compete with Sasol Gas' end user customers who will face lower gas costs compared to them as a result of the new structure of the trading margin.
- 6.20 This will have the potential to distort competition between Sasol Gas' end user customers and the end user customers of Sasol Gas rival traders in the relevant downstream markets in which they operate. The fact that Sasol Gas currently does not have sufficient gas volumes to supply the current demand levels further limits the ability of other traders' customers to switch to Sasol Gas for their gas supplies to reduce their gas costs, thus leaving them with no other option but to absorb these price increases.

⁴ Rival traders using the cost pass through approach in the determination of their GE price is more likely to be able to pass through these cost increases onto their end user customers. Rival traders using the price indicators approach in calculating their GE price is likely to be unable to do so, as their prices are based on specific price indicators such as coal, diesel, electricity, heavy fuel oil and liquefied petroleum gas, rather than on the actual costs associated with supplying gas to end user customers.

⁵ The US Energy Information Administration's International Energy Outlook for 2016 lists these industries as the most energy intensive manufacturing industries. See table 7.1 on page 113, available at <https://www.eia.gov/outlooks/ieo/pdf/industrial.pdf>

Conclusion: Economic impact of the maximum trading margin application

6.21 There is currently limited competition between Sasol Gas and rival traders for the supply of gas to Sasol Gas' existing gas customers. The trading margin applied for by Sasol Gas will have the effect of raising the costs of its rival traders, and perpetuate this position of limited competition between it and its rival traders for the supply of gas to end users.

6.22 Moreover, the increase in the costs of Sasol Gas' rival traders as a result of the revised trading margin will have the following detrimental effects on the end user customers of these rival traders:

- a) Where reticulators and rival gas traders to Sasol Gas are able to pass their increased costs resulting from this trading margin application onto their end user customers, the costs of such end user customers are likely to increase relative to Sasol Gas' own end user customers. This will have detrimental effects on the operations of those customers, especially for energy intensive customers whose gas costs are likely to make up a large proportion of their total costs. Moreover, since Sasol Gas' own end user customers will not face the same level of cost increases, the trading margins applied for will have the potential to distort competition between Sasol Gas' own end user customers and the end user customers of Sasol Gas' rival traders in the relevant downstream markets in which they operate.
- b) Rival gas traders' ability to service customers that would not ordinarily be serviced by Sasol Gas due to the distance from Sasol Gas' transmission and distribution networks will be negatively affected.

6.23 The above effects are not in line with the following key objectives of the Gas Act.⁶

- a) The increases in the costs of Sasol Gas' rival traders, as a result of the trading margin applied for in this application, and the detrimental effects thereof on the operations and competitiveness of such rival traders may negatively affect the ability of Sasol Gas' rival traders to provide efficient, effective and sustainable trading services to their end-user customers. This is not in line with the provisions of section 2(a) of the Gas Act, which seeks to 'promote the efficient, effective, sustainable and orderly development and operation of gas transmission, storage, distribution, liquefaction and re-gasification facilities and the provision of efficient, effective and sustainable gas transmission, storage, distribution, liquefaction, re-gasification and trading services'.
- b) Some of Sasol Gas' rival traders (notably SLG) are owned or controlled by historically disadvantaged South Africans. The increases in the costs

⁶ Section 2 of the Gas Act

of Sasol Gas' rival traders, as a result of the trading margin applied for in this application, and the detrimental effects thereof on the operations and competitiveness of such rival traders are therefore not in line with the provisions of section 2(d) of the Gas Act, which seeks to 'promote companies in the gas industry that are owned or controlled by historically disadvantaged South Africans by means of licence conditions so as to enable them to become competitive'.

- c) The trading margin applied for does not take into consideration the interests and needs of all stakeholders in the gas industry, notably that of reticulators, Sasol Gas' rival traders, as well as the interests of the end user customers of such reticulators and rival traders. To this end, the trading margin applied for will serve to increase the costs of these reticulators and rival traders. This may also have a detrimental effect on the end user customers of these reticulators and rival traders, where they are able to pass the increased costs onto their respective end user customers. This is not in line with the provisions of section 2(e) of the Gas Act, which seeks to 'ensure that gas transmission, storage, distribution, trading, liquefaction and re-gasification services are provided on an equitable basis and that the interests and needs of all parties concerned are taken into consideration'.
- d) The trading margin applied for will serve to perpetuate the current position of limited competition between Sasol Gas and its rival traders for the supply of gas to end users. Moreover, where Sasol Gas' rival traders are able to pass the revised trading margin may lead to distortionary effects on competition between the end customers of Sasol Gas' rival traders relative to Sasol Gas' own end customers. This is not in line with the provisions of section 2(h) of the Gas Act, which seeks to 'promote the development of competitive markets for gas and gas services'.
- e) The trading margin applied for is likely to affect and increase the costs of traders and reticulators. This, in turn, may affect their ability to supply gas to their end user customers in an affordable manner. Moreover, it may also affect the ability of Sasol Gas' rival traders to service customers that would not ordinarily be serviced by Sasol Gas due to the distance from Sasol Gas' transmission and distribution networks will be negatively affected. This is not in line with the provisions of section 2(j) of the Gas Act, which seeks to 'promote access to gas in an affordable and safe manner'.

6.24 NERSA recognises that Sasol Gas has based its WACC calculations in this application on the principles of cost reflectiveness and causality, as contained in the RRM and the Maximum Price Methodology. In addition, the application conforms to the principles set out in Section 22 of the Gas Act, which states that '(1) Licensees may not discriminate between customers or classes of customers regarding access, tariffs, prices, conditions or service except for objectively

justifiable and identifiable differences regarding such matters as quantity, transmission distance, length of contract, load profile, interruptible supply or other distinguishing feature approved by the Gas Regulator'. To this end, the application differentiates between traders, reticulators and end user customers using quantity consumed as a driver of the trading margins applicable to them. Moreover, the differences between NERSA and Sasol Gas' calculations in this application are less than 10%.

6.25 Nevertheless, the trading margin applied for by Sasol Gas in respect of reticulators and its rival traders does not adequately acknowledge that such traders and reticulators (as the suppliers of end user customers) are placed differently to end user customers in the market. The trading margin applied for in respect of reticulators and rival traders is therefore likely to have adverse effects on their costs, as well as the costs of their respective end user customers, in the manner outlined above. Moreover, the trading margin applied for in respect of Sasol Gas' rival traders is likely to have the effect of entrenching Sasol Gas' dominant position at this level of the gas supply chain.

6.26 These effects are not in line with the objectives of the Gas Act, as set out in sections 2(a), 2(d), 2(e), 2(h) and 2(j) of the Gas Act.

7 STAKEHOLDER CONSULTATION

7.1 Sasol Gas' trading margin application and discussion document were published on the NERSA website on 17 July 2017 for public comments. The notices for the public hearings were published in the *Business Day*, *Mail & Guardian*, *the Star* and *Sunday Times* newspapers during the week ending 22 July 2017. A public hearing was subsequently held on 7 September 2017.

7.2 Stakeholders were invited to provide written comments to the Energy Regulator, which were considered before taking a final decision on this matter. The deadline for submitting comments was set at 11 August 2017 and extended to 1 September 2017 in response to requests for extension from the stakeholders. In addition, a workshop to discuss NERSA's preliminary decision on Sasol Gas's application for the trading margin was held on 14 July 2017.

7.3 The paragraphs below give a summary of the main issues raised by stakeholders and responses thereto.

Reduction in the trading margin differential will affect independent rival traders' ability to place a competitive constraint on Sasol Gas' operations

7.4 As indicated in Section 6 above, one of Sasol Gas' independent rival traders submitted an objection to the Sasol Gas trading margin application, on the basis

that the approval of the application will lead to a significant reduction in the maximum trading margin differential.⁷ Specifically, in terms of Sasol Gas' application, the maximum trading margin differential will be reduced from the current [REDACTED] to 12% in FY2018 and to 10% in FY2019.

- 7.5 The independent rival trader submits that the significant reduction in the maximum trading margin differential will undermine its (and other traders') ability to place a competitive constraint on Sasol Gas in respect of the sale of gas to end users, especially in respect of those customers in volume classes 4, 5 and 6.
- 7.6 On this basis, the independent rival is of the view that NERSA should not approve Sasol Gas' trading margin application and that the current [REDACTED] trading margin differential should remain in place.

Response

- 7.7 As indicated in paragraph 4.4 above, in terms of the previous Sasol Gas applications for the Approval of Maximum GE Prices, NERSA approved a distinguishing feature that allowed Sasol Gas to apply a discount off the actual GE Price equivalent to [REDACTED] of the prevailing trading margin for traders and reticulators. The objective of this distinguishing feature was to acknowledge that traders and reticulators are placed differently in the market to customers who purchase gas for their own consumption, and with the intention to stimulate competition at the trading level of the natural gas value chain.
- 7.8 NERSA notes that the determination of the current [REDACTED] maximum trading margin differential was not informed or calculated using a particular methodology. In the current application, Sasol Gas sought to differentiate end customers and traders by using direct cost allocation and volumes to determine the applicable trading margins for traders and end-users.
- 7.9 In addition, NERSA notes that the degree of competition between Sasol Gas and its rival traders for the supply of end user customers is currently limited. The primary reason for this appears to be that Sasol Gas' gas supplies are currently limited, and that it does not have sufficient gas volumes to meet current demand levels. Sasol Gas argues that the revised trading margin is unlikely to have an affect on the degree of competition between it and its rival traders for the supply of gas to end user customers, on the basis that such competition is already limited as a result of these supply constraints.⁸

⁷ The maximum trading margin differential is also referred to herein as the "maximum discount off the trading margin".

⁸ Public hearings of 7 September 2017

7.10 During the public hearings held on 7 September 2017, the independent rival trader conceded that the degree of competition between it and Sasol Gas is currently limited due to the limitations in Sasol Gas' volumes, but that it nevertheless remains concerned about distortions that may come about as a result of the reduction in the trading margin over the medium to long term, when additional volumes are available.

7.11 NERSA agrees that the approval of the trading margin applied for by Sasol Gas may serve to perpetuate this position of limited competition between it and its rival traders for the supply of gas to end users. The increase in the trading margin to Sasol Gas' rival traders will have the effect of raising their costs, and the costs of their end user customers relative to that of Sasol Gas' own end user customers. This will further limit the ability of Sasol Gas' rival traders to place a competitive constraint on Sasol Gas' trading operations, and will serve to entrench Sasol Gas' dominant position at this level of the gas supply chain, and in respect of the supply of gas to all classes of end user customers.

7.12 In addition to this, and as set out in paragraph 6.22 above, NERSA is also concerned about the following detrimental effects of the revised trading margin on the end user customers of Sasol Gas' rivals:

- a) Where rival gas traders to Sasol Gas are able to pass their increased costs resulting from this trading margin application onto their end user customers, the costs of such end user customers are likely to increase relative to Sasol Gas' own end user customers. This will have detrimental effects on the operations of those customers, especially for energy intensive customers whose gas costs are likely to make up a large proportion of their total costs. Moreover, since Sasol Gas' own end user customers will not face the same level of cost increases, the trading margins applied for will have the potential to distort competition between Sasol Gas' own end user customers and the end user customers of Sasol Gas' rival traders in the relevant downstream markets in which they operate.
- b) Rival gas traders' ability to service customers that would not ordinarily be serviced by Sasol Gas due to the distance from Sasol Gas' transmission and distribution networks will be negatively affected.

7.13 To this end, as set out in paragraph 6.23 above, NERSA is of the view that these effects are not in line with some of the key objectives set out in sections 2(a), 2(d), 2(e), 2(h) and 2(j) of the Gas Act.

Adverse impact of increases in the trading margin on Sasol Gas' end user customers

7.14 One of Sasol Gas' end user customers submitted that in the current economic environment, it is the end-users (rather than traders/reticulators of gas) that are

mostly affected by supplier margins. On this basis, this stakeholder submitted that it is not fair to distinguish between trading margins for traders/reticulators of gas and end user customers of gas, and noted its concerns with the 28% increase in the trading margin applicable to end users in FY19. To this end, the stakeholder submits Sasol Gas should apply a lower margin to both traders/reticulators and end user customers.

Response

7.15 NERSA acknowledges that end user customers of gas are affected by supplier margins. However, NERSA is also concerned about the need to:

- a) recognise that Sasol Gas' rival traders and reticulators, as suppliers of gas to end users, are placed differently in the gas value chain as compared to end user customers themselves; and
- b) foster competition at the level of the value chain where Sasol Gas and its independent rival traders operate, in line with the provisions of section 2(h) of the Act, which seeks to promote the development of competitive markets for gas and gas services.

7.16 As set out in paragraphs 6.8 to 6.9 above, the maximum trading margin differential between Sasol Gas' end user customers and its independent rival traders is a key mechanism that positions Sasol Gas' rival traders to eventually grow into viable competitors at the trading level of the South African gas supply chain. NERSA notes that the trading margin applied for in this application reduces the maximum trading margin differential as between Sasol Gas' own end user customers and its trader/reticulator customers significantly from the current 50% to 12% in FY18 and to 10% in FY19.

7.17 NERSA is of the view that such a reduction in the maximum trading margin differential will serve to perpetuate the current position of limited competition between Sasol Gas and its rival traders for the supply of gas to end users, in the manner set out in paragraphs 6.8 to 6.17 above.

7.18 In addition to this, NERSA is concerned not only with the trading margin applicable to Sasol Gas' own end user customers, but by the effect of the revised trading margin on the end user customers of Sasol Gas' rival traders, as well as the end user customers of reticulators, as set out in paragraphs 6.18 to 6.20 above.

Allocation of costs between traders/reticulators and end user customers

7.19 Stakeholders submitted that NERSA's 'Methodology to Approve Maximum Prices of Piped-Gas in South Africa-', October 2011 ('the Maximum Pricing Methodology') does not give guidance as to how costs should be allocated in the

determination of the trading margin, and that NERSA has not approved the 'cost to serve' principles used by Sasol Gas in allocating shared costs between traders and end users. According to stakeholders, if the 'cost to serve principles' approach is followed, then the allocation of shared costs on a proportional basis using volume as a driver is inappropriate. In addition, stakeholders submitted that, when using the cost to serve principles, it is important to reliably identify the factors that are relevant drivers of these costs.

- 7.20 Some of the stakeholders (including one of Sasol Gas' rival traders) indicated that volume is not likely to be a relevant driver for cost for Sasol Gas in servicing customers and that Sasol Gas has not provided a reasonable justification as to why these costs are driven by volumes.

Response

- 7.21 NERSA approved a Cost Allocation Manual which allocates costs fairly between activities based on the cost drivers. Volumes is one of the ideal cost drivers that is acknowledged by the CAM and in this instance, Sasol Gas opted for volume as a base for cost allocation.
- 7.22 Direct allocation of costs was used in splitting operational costs between reticulators/traders and end user customers. For all other elements, such as cost of sales, working capital and RAB, volume was used as a driver for allocation. NERSA considers volume as a suitable driver for cost allocation because all these costs elements (e.g. cost of sale, working capital and RAB) are volume related. In terms of the approved CAM, the following principles must be allowed in the allocation of costs:
- a) Costs are recorded according to activities (i.e. construction or operation of transmission, storage or distribution facilities and trading of gas).
 - b) The fully allocated cost approach to be used and as proposed in the RRM is the process whereby direct costs are assigned directly to the products and services, while indirect costs are traced to an activity centre or cost pool from where the primary cost driver must be identified and used to allocate costs to the four activities namely transmission, distribution, trading and non-regulated activities. The fully allocated cost approach aims to eliminate arbitrary cost allocations and the promotion of the use of causal cost drivers and direct assignment methods such as works orders.
 - c) Allocation based on a Cost Allocator (drivers) using the functional step approach and other applicable drivers: Cost allocation will apply where a cost is incurred that can be allocated to more than one activity, but the portions of the cost that relates to each activity cannot be directly established. In this case, a cost driver must be identified and a cost allocator assigned to distribute such costs. Volumes and revenue are classified as cost drivers. Volumes represents sales volume in gigajoules per license activity and

revenue represents the sales turnover expressed in rand value per license activity.

NERSA's mandate in approving trading margin

- 7.23 Stakeholders submitted an objection to Sasol Gas' trading margin application, on the basis of their views that there is no statutory basis for NERSA to allow Sasol Gas to charge a trading margin. The stakeholders believe that the addition of the trading margin is irrational since the prices of the other fuels in the basket of alternatives already include the trading margin of their suppliers. According to Norton Rose, this is demonstrated by both the 2013 and the current application, which allows Sasol Gas to double count to the tune of R1.02 billion in FY2018.
- 7.24 Some stakeholders also submitted that the trading margin applied for by Sasol Gas is too high, and will serve to entrench Sasol Gas; which translates to a monopoly pricing policy to the detriment of downstream customers.

Response

- 7.25 NERSA does not agree that there is no statutory basis for NERSA to allow Sasol Gas to charge a trading margin. NERSA has the mandate to approve the trading margin from Piped-Gas Regulations 4 (3), which provides that maximum prices for gas energy and the trading margins must enable the licensee to recover all efficient and prudently incurred investment and operational costs and make a profit commensurate with its risks. This is operationalised as follows:
- 7.26 **Recovery of investment.** Ordinarily, 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.
- 7.27 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, is recovered through the trading margin.
- 7.28 **Recovery of operational costs.** In determining the trading operating cost components, the Energy Regulator believes the costs should approximate that incurred by an efficient gas trading business and should therefore, by definition, exclude the costs of any other service provided, which is not considered to be incurred as a result of gas trading.

7.29 Therefore, all operating costs, including depreciation that is efficient and prudently incurred by the piped-gas trading licensee is allowed as a pass-through in the trading margin. The operating costs to be allowed relate to charges by the trading licensee covering a range of trading services. These operating costs must be as reported to the Energy Regulator in accordance with the RRM.

7.30 **Profit commensurate with risk (trading margins) for piped-gas trading.** The margin that a gas trading business earns should reflect the business risk it is facing. It is noteworthy that businesses in a market where there is inadequate competition typically face lower risks than businesses facing significant competition. In seeking to attract competition the Energy Regulator seeks to balance between: providing enough 'headroom' (margin above minimum cost) to attract competition and investment; and ensuring the existing customers do not fund excessive returns to the gas trader. Therefore, when approving a trading licensee's trading margin, NERSA assesses the application by conducting its calculations as detailed below.

7.31 The trader's margin (as a percentage) is calculated in nominal terms. The nominal WACC of the trader will be the trading margin (%), since all other expenses are allowed to the licensee as a pass-through. In so doing, the Energy Regulator ensures the return on investment as derived in the cost of capital calculation explained below is achieved.

- a) Gas trading margins is applied to the sum of 'Cost of Sales' plus 'Trading RAB' of that trader plus 'Working Capital'.
- b) 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.

8 SUMMARY OF FINDINGS

8.1 NERSA recognises that Sasol Gas has based the WACC applied for in this application on the principles of cost reflectiveness and causality, as contained in the RRM and the Maximum Pricing Methodology, and that the differences between NERSA and Sasol Gas' calculations in this application are less than 10%. In addition, the application conforms to the principles set out in Section 22 of the Gas Act, in that it differentiates between traders, reticulators and end user customers using quantity consumed as a driver of the trading margins applicable to them.

8.2 However, NERSA's assessment of the application has revealed that the trading margin applied for by Sasol Gas will have the effect of raising the costs of its rival traders, and perpetuate the position of limited competition between it and its rival traders for the supply of gas to end users.

8.3 Moreover, the increase in the costs of Sasol Gas' rival traders as a result of the revised trading margin will have the following detrimental effects on the end user customers of these rival traders:

- a) Where rival gas traders to Sasol Gas are able to pass their increased costs resulting from this trading margin application onto their end user customers, the costs of such end user customers are likely to increase relative to Sasol Gas' own end user customers. This will have detrimental effects on the operations of those customers, especially for energy intensive customers whose gas costs are likely to make up a large proportion of their total costs. Moreover, since Sasol Gas' own end user customers will not face the same level of cost increases, the trading margins applied for will have the potential to distort competition between Sasol Gas' own end user customers and the end user customers of Sasol Gas' rival traders in the relevant downstream markets in which they operate; and
- b) Rival gas traders' ability to service customers that would not ordinarily be serviced by Sasol Gas due to the distance from Sasol Gas' transmission and distribution networks will be negatively affected.

8.4 Similarly, the costs of gas reticulators will also increase as a result of the increase in the trading margin applicable to them, and impact negatively on their margins, and/or on their end user customers, where such cost increases are passed onto the end user customers of reticulators.

8.5 NERSA notes that the above effects are not in line with the following key objectives of the Gas Act.⁹

- a) The increases in the costs of Sasol Gas' rival traders, as a result of the trading margin applied for in this application, and the detrimental effects thereof on the operations and competitiveness of such rival traders may negatively affect the ability of Sasol Gas' rival traders to provide efficient, effective and sustainable trading services to their end-user customers. This is not in line with the provisions of section 2(a) of the Gas Act, which seeks to 'promote the efficient, effective, sustainable and orderly development and operation of gas transmission, storage, distribution, liquefaction and re-gasification facilities and the provision of efficient, effective and sustainable gas transmission, storage, distribution, liquefaction, re-gasification and trading services'.
- b) Some of Sasol Gas' rival traders (notably SLG) are owned or controlled by historically disadvantaged South Africans. The increases in the costs of Sasol Gas' rival traders, as a result of the trading margin applied for in this application, and the detrimental effects thereof on the operations and competitiveness of such rival traders, are therefore not in line with the

⁹ Section 2 of the Gas Act

provisions of section 2(d) of the Gas Act, which seeks to ‘promote companies in the gas industry that are owned or controlled by historically disadvantaged South Africans by means of licence conditions so as to enable them to become competitive’.

- c) The trading margin applied for does not take into consideration the interests and needs of all stakeholders in the gas industry, notably that of reticulators, Sasol Gas’ rival traders, as well as the interests of the end user customers of such reticulators and rival traders. To this end, the trading margin applied for will serve to increase the costs of these reticulators and rival traders. This may also have a detrimental effect on the end user customers of these reticulators and rival traders, where they are able to pass the increased costs onto their respective end user customers. This is not in line with the provisions of section 2(e) of the Gas Act, which seeks to ‘ensure that gas transmission, storage, distribution, trading, liquefaction and re-gasification services are provided on an equitable basis and that the interests and needs of all parties concerned are taken into consideration’.
- d) The trading margin applied for will serve to perpetuate the current position of limited competition between Sasol Gas and its rival traders for the supply of gas to end users. Moreover, where Sasol Gas’ rival traders are able to pass the revised trading margin may lead to distortionary effects on competition between the end customers of Sasol Gas’ rival traders relative to Sasol Gas’ own end customers. This is not in line with the provisions of section 2(h) of the Gas Act, which seeks to ‘promote the development of competitive markets for gas and gas services’.
- e) The trading margin applied for is likely affect to increase the costs of traders and reticulators. This, in turn, may affect their ability to supply gas to their end user customers in an affordable manner. Moreover, it may also affect the ability of Sasol Gas’ rival traders to service customers that would not ordinarily be serviced by Sasol Gas due to the distance from Sasol Gas’ transmission and distribution networks will be negatively affected. This is not in line with the provisions of section 2(j) of the Gas Act, which seeks to ‘promote access to gas in an affordable and safe manner’.

8.6 Section 21(1)(p) of the Gas Act clearly distinguishes between distributors/traders, reticulators and end user customers/consumers of gas where it 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)’. In its decision to approve, or not approve the current trading margin application, NERSA may therefore distinguish between the trading margin application made in respect of gas traders/reticulators, and that made in respect of end user customers.

8.7 As is clear from the analysis set out above, NERSA's concerns in respect of Sasol Gas' trading margin application relates principally to the significant increase in the trading margin applicable to gas reticulators/traders, and not to the trading margin applied for in respect of Sasol Gas' end users. On this basis, and in line with the provisions of Section 21(1)(p) of the Gas Act, it is recommended that:

- a) The multi-year trading margin applied for by Sasol Gas (Pty) Ltd ('Sasol Gas') for the periods 1 July 2017 to 30 June 2018 and 1 July 2018 to 30 June 2019, insofar as it relates to the trading margin applicable to end user customers be **approved** as follows:

FY 18	FY 19
R5.99/GJ	R7.66/GJ

- b) The multi-year trading margin applied for by Sasol Gas for the periods 1 July 2017 to 30 June 2018 and 1 July 2018 to 30 June 2019, insofar as it relates to the trading margin applicable to traders and reticulators **not be approved**. The decision is based on NERSA's view that the multi-year trading margin application for traders and reticulators is not in line with the objectives of the Gas Act, 2001 (Act No. 48 of 2001), as set out in sections 2(a), 2(d), 2(e), 2(h) and 2(j). This is due to the likely detrimental impact of the trading margin applied for on gas reticulators/traders and their end user customers. In addition, the increase in the trading margin applied for in respect of Sasol Gas' rival traders will serve to perpetuate Sasol Gas' dominance at the trading level of the gas supply chain.

8.8 Sasol Gas is requested to revise its trading margin application insofar as it relates to traders and reticulators, with the view to minimise the likely negative effect of the trading margin on Sasol Gas' rival traders and their end user customers, so as to better reflect the spirit of the objectives of the Gas Act.

9 CONCLUSION

9.1 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.

