

## ANNEXURE A

**NATIONAL ENERGY REGULATOR OF SOUTH AFRICA (NERSA)**

**In the matter regarding**

**THE REQUEST FOR EXTENSION ON THE APPROVED MAXIMUM PRICES OF  
R249.44/GJ FOR PERIOD 01 JULY 2014 to 30 JUNE 2015**

**By**

**NOVO Energy (PTY) LTD (“NOVO”)**

---

**DECISION**

---

2.1 On the 23<sup>rd</sup> of January 2015, the Energy Regulator approved:

- 2.1.1 the request for extension on the approved maximum price of R249.44/GJ applicable for period 01 July 2014 to 30 June 2015 by NOVO Energy Pty Ltd (“NOVO”).
- 2.1.2 that discounts from the maximum prices are allowed and must be applied in accordance with the non-discrimination provisions of section 22 of the Gas Act;
- 2.1.3 that the approved maximum price is exclusive of Value Added Tax; and
- 2.1.4 that the Energy Regulator decision remains in effect until the date of approval of another maximum price by the Energy Regulator

---

## Reasons for Decision

---

### 1. APPLICABLE LAW

- 1.1 The legal basis for the Energy Regulator to regulate prices of piped-gas is derived from the National Energy Regulator Act, 2004 (Act No. 40 of 2004) ('the NERSA Act'), read with the Gas Act, 2001 (Act No. 48 of 2001), ('the Gas Act').

### 2. BACKGROUND

- 2.1 NOVO Energy (Pty) Ltd (NOVO Energy) (registration number 2006/038598/07) is a company incorporated in terms of the Companies Act No 61 of 1973 as *amended* and wholly owns the following subsidiaries:
- i. NOVO Gas (Pty) Ltd (NOVO Sebenza (Pty) Ltd and NOVO Lincoln (Pty) Ltd);
  - ii. NOVO Turnkey Solutions (Pty) Ltd;
  - iii. NOVO Operations (Pty) Ltd; and
  - iv. NOVO Investments (Pty) Ltd.
- 2.2 NOVO Energy obtained a licence to operate gas storage and distribution facilities in South Africa on the 8<sup>th</sup> of December 2009. NOVO Energy's business model is the sourcing, processing, compressing, distributing and supplying of natural gas or compressed natural gas to various private and public dispensing sites (industrial users).
- 2.3 NOVO Energy commenced its operations by operating a demonstration plant in Germiston in 2010. In November 2012, NOVO Energy began operating its first commercial plant in Benoni and its customers are vehicle fleet owners. Any internal combustion engine (diesel or petrol) can use the NOVO Energy solutions including forklifts, trucks, locomotives, buses, and public transport vehicles among other users.

- 2.4 NOVO Energy's model is essentially similar to operating petrol filling stations, only differing in that its station will dispense natural gas and not petrol. The request for extension of maximum price implementation is for its two licensed facilities, one in Benoni and another in Germiston.
- 2.5 This specific submission is about NOVO Energy's request for extension of the effective period of the R249.44/GJ maximum price of piped gas, which was approved on 09 December 2013.

### **3. NOVO ENERGY'S REQUEST FOR EXTENSION OF ITS MAXIMUM PRICE**

- 3.1 On 7 November 2014, NOVO Energy submitted a letter to the Energy Regulator requesting approval for extension of the effective period of its maximum price. NOVO Energy requires that its maximum price of gas of R249.44/GJ remains effective for the year 01 July 2014 to 30 June 2015.
- 3.2 According to NOVO Energy, the reasons for requesting extension of the effective period for the maximum price are as follows:
- The information that was submitted in the initial application for the period of 01 July 2013 to 30 June 2014 is still applicable; and
  - The maximum price approved on 09 December 2013 is still relevant.
- 3.3 NOVO Energy's pricing strategy is to charge a price which is around 20% to 30% below the retail fuel (diesel and petrol) price. NOVO Energy's customers are predominantly minibus taxis in the Benoni area. Its strategy is to target a market that was using petroleum products and offer natural gas as a substitute fuel in that market. Therefore, the actual fuel prices of diesel and petrol act as natural caps for NOVO Energy's gas prices.

#### **4. NERSA ANALYSIS OF THE APPLICATION**

- 4.1 According to Section 3.4 of the Methodology to Approve Maximum Prices of Piped Gas in South Africa, 2011 (“the Methodology”), a licensee can choose the frequency of a price review, based on commercial agreements with customers, in which case the preceding equivalent average price of energy indicators will be used to review the maximum price.
- 4.2 NOVO Energy used the pass through approach in applying for a maximum price. Therefore if the gas trader had requested an adjustment to its molecule price of gas, it would have used the actual price that it would be charged by its supplier, Sasol Gas.
- 4.3 In this instance, NOVO Energy is only requesting that it continues on the approved maximum price for another year, 01 July 2014 to 30 June 2015.

#### **5. IMPACT OF EXTENDING THE MAXIMUM PRICE PERIOD**

- 5.1 Extending the period of the maximum price is likely to have the following impact:

##### ***Impact on NOVO Energy***

- a) NOVO Energy’s current maximum price is for its two operations in Benoni and Germiston. The Benoni station is a commercial operation with a capacity of [REDACTED] but in the period 01 April 2013 to 31 March 2014, it managed to sell [REDACTED] of gas which translates to about [REDACTED] of the operating capacity. The Germiston station is still operating as a demo model. Despite the low capacity usage, NOVO Energy has already incurred costs to set up and run the business at its full operational capacity.
- b) NOVO Energy is a small trader of gas, as a result it requires time to establish itself by sourcing new customers and entering into new gas supply agreements.

### ***Impact on NOVO Energy Customers***

- c) Using the operational capacity of the NOVO Energy assets ensured that the maximum price is reduced and levelled so that when NOVO Energy reaches maximum capacity, there will not be a huge swing in the maximum price.

## **6. STAKEHOLDER CONSULTATION TAKEN IN THE DECISION MAKING PROCESS**

6.1 The National Energy Regulator's preliminary assessment of the request for an extension was published on 04 December 2014. Certain elements of the assessment were deemed by the National Energy Regulator to be confidential and were excluded from the published document. The closing date for written comments was 12 January 2014.

6.2 On 09 December 2014, an invitation to attend and/or make representations at the public hearing scheduled for 15 January 2015 was published in the following newspapers: *Business Day*, *The Star*, *Mail and Guardian*, and *Sunday Times*.

6.3 The Energy Regulator did not receive any comments or objections on the extension request.

## **7. CONCLUSION**

On the conspectus of the facts and evidence, it is appropriate and in compliance with the requirement of the National Energy Regulator Act, 2004 (Act no .40 of 2004) to make the decision set out above.