



FFS REFINERS (PTY) LTD ("FFS")

TARIFF APPLICATION

FOR 3 PERIODS

- 1) PERIOD ENDING DECEMBER 2020**
- 2) PERIOD ENDING DECEMBER 2021**
- 3) PERIOD ENDING DECEMBER 2022**

PATTERSON ROAD TANK FARM (PE)

LICENCE PPL.sf.F3/80/1/2008

FOR NERSA REVIEW ONLY

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1 Preamble

The following sections are for NERSA’s review only.

Please refer to request for confidentiality - Annexure A. A sanitized version is also submitted for public comment needs.

2 Executive Summary

FFS submits its application petroleum Loading and Storage facilities tariff application in terms of section 4(f) of the Petroleum Pipelines Act, 2003 (Act No. 60 of 2003) (“PPA”) for the following periods:

- 1) Period ending – December 2020
- 2) Period ending – December 2021
- 3) Period ending – December 2022

FFS further wish to point out that on or about May 2016, the Energy Regulator made a determination on what constituted a bulk storage facility under the Bulk Storage Determination document. The Bulk Storage Determination document states the following:-

3. On 26 May 2016 and after considering all comments submitted, the Energy Regulator decided as follows:
 - (a) Storage facilities that **do not fall under the categories listed below** are, in terms of section 15(2)(a) of the Petroleum Pipelines Act, **eligible for exclusion from licensing.**

CATEGORY 1	all crude oil and condensate storage facilities
CATEGORY 2	all petroleum products storage facilities - excluding Liquefied Petroleum Gas (LPG) storage facilities: (a) connected to a marine loading facility; (b) connected by pipeline to a marine loading facility; (c) connected to the Transnet petroleum pipeline system; and (d) excluding those contemplated in (a) to (b) above, with a design capacity exceeding 1.5 million litres.

The total capacity for the facility under consideration is 318m³(318 000litres). The facility is therefore eligible for exclusion from licensing as it does not fall under the categories listed in the Bulk Storage Determination document.

An application for revocation for the aforementioned license commenced but was subsequently withdrawn pending resolution of legal matters relating to the determination. FFS would therefore like to place on record that the application for revocation is reinstated. A formal letter was

forwarded to the offices of the Energy Regulator on 29 April 2019 in terms of which FFS has not received a response or feedback to date.

This tariff application has been guided by the National Energy Regulator of South Africa's ("NERSA") "Tariff Methodology for Petroleum Loading Facilities and Petroleum Storage facilities" 2nd edition March 31st 2011 ("the methodology").

In FFS's opinion it has complied with the NERSA methodology in all material aspects.

FFS specific business considerations:

FFS's specific issues compared to Loading Facilities and Petroleum Storage facilities owned by other bulk liquid storage operators:

- FFS designs, builds and operates its own storage facilities. The facilities at Prospecton, Brackenfell and Patterson Road (Lube Depots") allow for waste lube oil ("Lube Oils") collected to be separated from other waste oils such as ship slops.
- The above is achieved by directing suppliers typically known to bring in Lube oils to the appropriate Lube Depot
- The lube depots analyse the incoming material and separate oil from water. The dry product is transferred for further processing.
- As FFS is primarily a manufacturer and supplier of cost effective, fit for purpose industrial heating fuels, it does not account separately for its storage facility. The current FFS information is based on best available information obtained through manual interventions in the FFS accounting system. It is expected that over time the quality of this information will improve.

Basis of the Application

This application has been prepared for the currently licensed loading facilities and Petroleum Storage facility located in Port Elizabeth and known as Patterson Road Depot.

In arriving at the 2020, 2021 & 2022 Allowable Revenue ("AR"), FFS has adhered to the PPA, the Regulations made thereunder and the methodology.

Annexure B to E provides an excel spread sheet supporting the many calculations involved with this application based on the original NERSA calculations sheets and updated for FFS specific requirements.

FFS / NERSA Alignment

The approach taken by FFS is to ensure complete compliance and buy in from NERSA on the arithmetic calculations and the key inputs. The adjustment to the Ke will be in terms of the Energy Regulator's determination in terms of license number PPL.sf.F3/80/10/2008.

RAB Considerations:

In arriving at the Regulatory Asset Based ("RAB") for the application, the calculation will be in terms of the Energy Regulator's determination in terms of license number PPL.sf.F3/80/10/2008.

3 Approach and base of assumptions used

FFS has complied with the NERSA methodology relating to the calculation of Allowable Revenue.

The building blocks of the methodology are reflected in the following formula¹:

$$\text{Allowable Revenue} = (\text{RAB} \times \text{WACC}) + \text{E} + \text{T} + \text{D} \pm \text{C}$$

Where:

RAB = Regulatory Asset Base

WACC = Weighted average cost of capital

E = Expenses: operating and maintenance expenses for the tariff period under review

T = Tax: estimated tax expense for the tariff period under review

D = Depreciation: the charge for the tariff period under review

C = Clawback adjustment (to correct for differences between actuals and forecasts in formula elements as well as efficiency gains and volume differences) from a preceding tariff period in relation to the latest estimates for that tariff period

The formula allows for the calculation of an AR for the petroleum storage assets. A detailed spread sheet is included in this application – refer to **Annexure C** for full calculations.

In terms of the methodology, the value of the RAB is the inflation-adjusted historical cost or “trended original cost” (“TOC”) of property, plant, vehicles and equipment less the accumulated depreciation for the period under consideration, plus net working capital and adjusted for deferred tax.

The formula for the RAB is as follows:

$$\mathbf{RAB = (V - d) + w \pm dtax^2}$$

Where:

V = Value of property, plant, vehicles and equipment

D = accumulated depreciation up to the commencement of the tariff period under review

w = net working capital

dtax = deferred tax

3.1 Property, Plant Vehicles & Equipment (V)

Property, plant, vehicles and equipment are valued on the Trended Original Cost (“TOC”) basis using the consumer price index (“CPI”) as the inflation measure. Property, plant, vehicles and equipment expected to become used during the forthcoming tariff period have been admitted to the RAB in proportion to the share of the tariff period under review in which they will be used.

Table 1 – RAB (V) – Rands

DESCRIPTION	Rands
BUILDINGS & IMPROVEMENTS	
LAND	
TANKS	
TOTAL	

3.1.1 Indexation

FFS has applied an inflation rate of 5.60% for the periods in question.

3.1.2 Useful Lives

The useful lives of the storage assets have been considered to be 25 additional years (see Annexure B), based on date of instalment with additional refurbishment required on a periodic basis (large scale recurring capital expenditure and maintenance) to ensure useful life is achieved.

3.1.3 Summary of RAB asset values

Summary of the RAB values used in the tariff application is shown in the table below. (Refer to Annexure B for full details).

Table 2 - RAB summary

REGULATORY ASSET BASE SUMMARY			
ITEM	2020	2021	2022
HISTORICAL COST			
ACCUMALATED DEPRECTION			
INFLATION WRITE UP			
WORKING CAPITAL			
OPERATING CASH			
STOCK			
CREDITORS			
DEBTORS			
DEFERRED TAX			
TOTAL RAB			

The table above provides the full historical RAB calculations for the 3 tariff periods – period ending December 2020, 2021 and 2022.

3.2 Borrowing costs

FFS currently does not have any significant borrowings and has an overdraft facility which is available but not currently used. This is due to FFS being able to fund most of its Capital Expenditure requirements from current cash flow. The current cost of the unutilised overdraft facility is SA prime interest rate - [REDACTED]

3.3 Net working capital (w)

Net working capital refers to various regulated business operations, funding requirements other than utility plant in service. These funding requirements include inventories, prepayments, minimum bank balances, cash working capital and other non-plant operating requirements. Working capital funding requirements funded by investors are legitimate Regulatory Asset Base allowances on which a return may be granted.

Net working capital is included in the RAB and is calculated according to the formula provided in the methodology which is as follows:

Net working capital = inventory + receivables + operating cash + minimum cash balance – trade payables³

The components are recognised as follows:

- No inventory is considered – spares procured based on required demand
- Trade receivables are based on 30 days of turnover based on the current customer contract. Allowances for irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. Other receivables include prepayments; (Based on the Debtors Days calculation)
- External Trade payables are settled within 30 days with majority based on intercompany with no credit terms; and
- The allowance for operating cash is taken as a standardised factor of 30 days operating expenditure, excluding depreciation and income tax.

Set out below is an extract of the working capital projected to December 2022 for the FFS storage facility:

³ Refer to section 4.3.2 of tariff methodology

Table 3: Working Capital Summary (Rands)

ITEM	2020	2021	2022
WORKING CAPITAL			
OPERATING CASH			
STOCK			
CREDITORS			
DEBTORS			

Source: PATTERSON DEPOT TARIFF CALC

3.4 Deferred Tax (dtx)

FFS has adopted the notional tax approach as discussed in section 7 of the tariff methodology. FFS has assumed no difference between the tax and accounting treatment thus resulting in zero deferred tax treatment.

4 Weighted Average Cost of Capital (WACC)

The approach taken by FFS in this application is fully compliant with Regulation 4(5). Also, in line with NERSA guidelines, FFS has applied the calculation & methodology that was accepted by the Energy Regulator for the facility at the Cape Harbour Tank Farm.

The post-tax WACC figures that was approved by the Energy Regulator in the Cape Harbour Tank Farm application of [REDACTED] in 2015 and [REDACTED] in 2016 and 2017 was applied.

5 Expenses

Expenses are those planned for the efficient operation and maintenance of the core business. These expenses are to be categorised in accordance with the Regulatory Reporting Manual (Volume 4). The fully allocated cost attribution approach for the allocation of costs is used.

FFS's operating expenses are recognized and reported in terms of the International Financial Reporting Standards ("IFRS"). Approximately 80% of the operating expenses are fixed and consequently are not driven by the volume of petroleum products stored. Expense forecasts are based on the latest actual information available.

A summary of FFS's expenses is shown in the table below.

ITEM	2020	2021	2022
FIXED COST			
VARIABLE COST			
TOTAL COST			

Source: PATTERSON DEPOT TARRIFF CALC

No detailed split has been made between fixed and variable.

Set out below are the expense allocations for the site:

Table 4: Site Expense Summary (ZAR '000)

EXPENSE SUMMARY	UNITS	2020	2021	2022
UTILITIES	R000			
MAINTENANCE	R000			
PERSONNEL	R000			
TELECOMS	R000			
HEAD OFFICE ADMIN FEE	R000			
VISSERSHOK STAFF - ALLOCATION	R000			
VISSERSHOK STAFF - LAB SUPPORT ALLOCATION	R000			
NERSA COMPLIANCE COSTS	R000			
TOTAL COSTS	R000			

Source: PATTERSON DEPOT TARRIFF CALC

As noted previously FFS accounting systems are unable to allocate expenses per category of petroleum or based on actual capacity. The costs above are allocated based on a reasonable allocation either on a percentage based on an estimate of the time spent or based on direct costs that can be identified

Set out below is a high level comparison of FFS Storage facility cost base as a % of the total costs base along with revenue:

Table 5: Cost vs. Revenue Distribution

Item	Non-Licensed	Licensed	Total
Revenue			
Expenses			

The FFS licensed storage facility (Patterson Depot) does not generate any revenue, as the facility is used entirely for our own use. The licensed activity accounts for [REDACTED] of the Total Group's expenses, allocated according to throughput percentage.

6 Income Taxation

An election between the use of either (a) flow through (actual tax) payment or (b) notional tax payment needs to be made. Once the election has been made; the selected option will be used in future for all the licensee's assets.

FFS elects to use the normalised (notional) tax approach in its tariff application. Normalised tax refers to an estimated normalised tax expense with respect to the regulated activity for the tariff period under review. In accordance with the methodology it is calculated based on the following formula:

$$\text{Tax} = (\text{NPBT (excluding tax allowance)} / (1 - \text{tr})) \times \text{tr}$$

Where:

$$\text{NPBT (excl. tax allowance)} = \{(RAB \times WACC) + E + D \text{ (of total TOC asset base)} \pm C\} - \{E + D(\text{historic})\}$$

$$\text{tr} = \text{prevailing corporate tax rate}$$

7 Depreciation

Depreciation is calculated on a straight line basis over the useful lives of the assets as per the methodology. This is a conservative assumption and could be reduced which would increase the AR.

Table 6 - Depreciation values applied

Item	Unit	2020	2021	2022
40 Year Capex	ZAR '000	[REDACTED]	[REDACTED]	[REDACTED]
30 Year Capex	ZAR '000	[REDACTED]	[REDACTED]	[REDACTED]
25 Year Capex	ZAR '000	[REDACTED]	[REDACTED]	[REDACTED]
20 Year Capex	ZAR '000	[REDACTED]	[REDACTED]	[REDACTED]
15 Year Capex	ZAR '000	[REDACTED]	[REDACTED]	[REDACTED]
10 Year Capex	ZAR '000	[REDACTED]	[REDACTED]	[REDACTED]
Financing Fees 1	ZAR '000	[REDACTED]	[REDACTED]	[REDACTED]
Financing Fees 2	ZAR '000	[REDACTED]	[REDACTED]	[REDACTED]
Total	ZAR '000	[REDACTED]	[REDACTED]	[REDACTED]

8 Allowable Revenue Calculation

Set out below is the Allowable Revenue projection for 2020 to 2022 for the FFS Patterson Road Depot:

Table 7: Allowable Revenue (Rands)

DETAILS	2020	2021	2022
ALLOWABLE REVENUE			
Ke			
Kd			
RETURN ON WACC			
EXPENSES			
DEPRECIATION (COST)			
AMORTISATION OFF WRITE UP			
AR BEFORE TAX ALLOWANCE			
TAX ALLOWANCE			
TOTAL ALLOWABLE REVENUE			
AR PER MONTH PER M3			

Source: PATTERSON DEPOT TARRIFF CALC

Refer to **Annexure C** for detailed excel calculations supporting the calculations above

9 Volumes

As the FFS Patterson Depot is totally committed to receiving, segregating and separating lubes for further processing at the FFS process facilities, no estimate of volume throughput can be given. The throughput depends totally on the availability lubes and bottlenecks in the process facilities. FFS, therefore, requests that NERSA allows a Tariff based on the capacity of the Tank Farm.

10 Conclusion

FFS has endeavoured to meet the draft MIRTA requirements in this application. In arriving at its AR requirement, FFS has applied the methodology in all respects.

FFS is cognisant that this is a maximum tariff and that FFS takes on the risk if a lower monthly tariff is charged, along with the lower revenue. The requested tariff for the 2020-2022 period is shown below as detailed by the methodology, escalated annually with applicable inflation rate.

Item	Unit	2020	2021	2022
Heavy Fuel Oil	ZAR/cbm/Month			
Used Lube Oil	ZAR/cbm/Month	1306	1376	1449
Bio-Diesel	ZAR/cbm/Month			

The current contract charges an effective tariff per cbm per month for the various tanks. A blended rate across all tanks has been considered as the core expenses cannot be split between the various tanks. Accounting at this level will be impractical.

APPENDIX A

APPENDIX B

APPENDIX C

APPENDIX D

APPENDIX E