BIDVEST TANK TERMINALS ("BTT")

MULTI YEAR TARIFF APPLICATION

FOR THE PERIOD

1 JULY 2020 TO 30 JUNE 2023

Richards Bay: LPG - existing and new

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INTRODUCTION

Bidvest Tank Terminals ("BTT") hereby submits its Petroleum Loading and Storage Facilities tariff application for the period July 2020 to June 2023 in terms of the Petroleum Pipelines Act, 2003 (Act No. 60 of 2003) ("PPA"). BTT has followed the "Tariff Methodology for the Approval of Tariffs for Petroleum Loading Facilities and Petroleum Storage Facilities" Version 4 as approved on 24 August 2017 ("Tariff Methodology").

BTT submitted a tariff application in September 2019 for its fuel tanks and LPG tanks, however the tariff for the LPG tanks was not approved, hence this application.

This application is applicable to licence PPL.sf.lf.F3/323/2017 issued by Nersa to BTT on 19 March 2018.

Detailed calculations are contained in a separate confidential Excel workbook.

This application relates to Storage Facilities and Loading Facilities, comprising a [redacted] cryogenic LPG tank ("LPG existing"), and [redacted] ("LPG new") and associated berth pipelines.

BTT Business

In assessing this application, the following matters need to be considered:

- BTT is an independent bulk liquid terminal operator and does not own any of the product stored within its facilities.
- BTT operates multi-product terminals in three locations (Durban, Richards Bay and Isando) and handles both licensed and non-licensed product (i.e. vegetable oils, chemicals and other non-petroleum products).
- BTT provides its services to any customer dependant on capacity availability and the customer's requirements.
- BTT customers deliver product to the BTT facilities and this same product is dispatched from the facilities (i.e. product is not swopped, replaced or intermingled).
- BTT charges a tariff for product handled and stored based on capacity utilised by the customer to store such product (i.e. If a customer procures a tank of 1 000m^3 but only stores 500 litres of product, the full 1 000m^3 capacity is charged for as the ullage in the tank cannot be used by any other customer).
- BTT recovers certain other costs relating to handling (dependant on service provided) through this storage tariff (there is no specific separation of tariff for these expenses).
- BTT provides services dependant on the client's needs.
- BTT generally does not store large bulk petroleum products but more usually specialist petroleum products (e.g. lubricants, base oils) which may require specialist logistics and storage conditions.
- The licensed capacity of this application accounts for approximately [redacted] of the total tank capacity of BTT.

CALCULATION OF ALLOWABLE REVENUE

The Allowable Revenue calculated using the formula provided in the Tariff Methodology and expressed as a rate per cubic metre of tank capacity per month (excluding VAT) is:

Rate / m^3 / month	Year 1 July 2020 - June 2021	Year 2 July 2021 - June 2022	Year 3 July 2022 - June 2023
Richards Bay: LPG (existing)	R 914.68	R 944.40	R 974.82
- Storage facility	R 794.07	R 822.00	R 850.77
- Loading facility	R 120.61	R 122.39	R 124.05
Richards Bay: LPG (new)	R 513.14	R 530.98	R 549.33
- Storage facility	R 449.20	R 465.75	R 482.84
- Loading facility	R 63.95	R 65.23	R 66.48

BTT applies for the approval of the above maximum average rates per customer to be levied on the licenced Storage and Loading Facilities.

The operation of the Loading Facilities and Storage Facilities are integral and dependent on each other and cannot be treated separately (i.e. product flowing through the Loading Facilities can only come from/to the Storage Facilities). There are dedicated berth pipelines – LPG has its own berth pipelines. The storage tanks are permanently connected to the appropriate berth pipelines which run to a hose manifold situated on the berth approximately 2km away. At this hose manifold, a flexi hose is then connected to the vessel. Nersa views these berth pipelines as Loading Facilities however BTT is of the view that they are extensions of the Storage Facilities. [redacted] BTT has therefore calculated Allowable Revenue in total as a rate per cubic metre of tank capacity per month, and then split between Loading and Storage Facilities based on ratio of capital costs (in order to meet Nersa's requirements).

Separate tariffs have been calculated for "LPG existing" and "LPG new" due to the different infrastructure requirements to handle these products. "LPG existing" is stored in a cryogenic tank at temperatures around [redacted] in order to maintain the product in a liquid state, whereas "LPG new" is stored in a pressure vessel. The approximate construction cost for LPG ranges from [redacted]

Capacity based Tariff

Given the significant infrastructure costs involved in establishing a bulk liquid storage facility, it is vital that adequate investment returns are achieved in order for investment / development to occur. This means that BTT needs to earn constant monthly revenue, and thus is applying for a capacity based tariff. The reasons are as follows:

- A significant portion of monthly costs are fixed and are not directly variable or dependent on volume throughput (e.g. property rental, insurance, labour costs, depreciation).

- Volume throughputs are outside of the control of BTT – the amount of product being imported / exported is determined by customers (the product owners) and the markets in which they operate. Given the large capital investment required it would be unreasonable for BTT's revenue to be dependent on factors outside of its control and which are totally unpredictable.

- Accurate volume forecasts are not readily available, and even if they were, they will always differ to volumes actually handled. This then creates further complications when clawbacks in subsequent years' tariffs are imposed on possible future customers who may not be the same customer as when the original tariff was charged.

- It is an accepted international norm for independent storage companies to invoice their customers based on capacity and not volume.

Regulatory Asset Base ("RAB")

Cost of property, plant and equipment

LPG existing

The trended original cost of the LPG tank is based on a Regulatory Asset Valuation conducted by [redacted] in July 2017 as no accurate original historical cost is available for this infrastructure due to its age and accounting system changes over the years. This cost/valution has previously been provided to Nersa. Based on BTT's experience the useful life of LPG tank has been estimated at [redacted] years and [redacted] years for berth pipelines.

LPG new

The trended original cost of the LPG tanks is based on the anticipated actual costs that will be incurred in terms of the construction licence (PPL.sf.lf.F1/324/2017). The construction project is still in progress however Nersa requires that this application be submitted prior to the tanks being commissioned. Based on BTT's experience the useful life of LPG tanks has been estimated at [redacted] years and [redacted] years for berth pipelines.

Net working capital

Inventory has been determined using the May 2020 management account information and apportioned based on tank capacities. Receivables has been calculated at 30 days of Allowable Revenue. Operating cash has been calculated at 45 days of operating expenses excluding depreciation. Trade payables has been calculated at 45 days of operating expenses excluding depreciation. These closely approximate the standard practice of BTT.

Weighted Average Cost of Capital

BTT has calculated a WACC of [redacted]

The *Small Stock Premium* is as per the "2013 Ibbotson SBBI Risk Premia Over Time Report". [redacted]

A *Project Specific Risk Premium* should be towards the upper end of the average specific risk premium as per the PWC Valuation methodology survey 2016/2017 (page 48) (Annexure C), for the reasons detailed below:

- The petroleum market that BTT operates in is dominated by the major oil companies, some of which are also BTT customers. For BTT that market is insecure in that smaller customers pose a greater credit risk and the major oil companies can easily find alternatives to BTT. The end result is that BTT is left with significant infrastructure which is under-utilised.

- BTT is less technologically advanced than its competitors as it has no international ties that drive leading edge practices/technology. Customer loyalty could be negatively impacted as customers would prefer to deal with a more internationally associated and technologically advanced company. In addition, there are numerous associated risks including potential product quality issues due to contamination and unaccounted for product losses, some of which are not insurable.

- BTT does not trade in a spot market and has fixed long term contracts with its customers. It is therefore not feasible to instantaneously pass on to customers any significant costs which BTT incurs. BTT is therefore required to bear any cost increments for a period of time (sometimes longer than 12 months) as certain contracts have pre-determined escalation formula.

- BTT is critically dependent on the infrastructure belonging to and services of Transnet (National Ports Authority and Freight Rail) in order for BTT to conduct its own business. The ability of BTT to handle product can be severely impacted by factors outside of its control.

- The scarce availability of skilled management resources in the industry is a significant threat to the continued effective operations of BTT.

- Given that BTT handles hazardous products, there is a severe risk of reputational damage should any incidents occur due to the default of BTT or any other port user/stakeholder. The nature of the products handled is environmentally sensitive.

- BTT operates in a highly regulated environment and is subject to a multitude of laws and regulations. The risk of unintentional contravention is high, and any impact of such contravention may be significant, and cannot be recovered from our customers.

However BTT has noted Nersa’s view of balancing the interests of customers and the sustainability of BTT and hence has used a mid-point value.

The *Liquidity Premium* has been applied as BTT is not publicly traded, and operates in a highly regulated environment of port lease obligations and licence conditions which, inter alia, restricts transfer of assets and business ownership. Given the illiquid nature of the assets and the business, we have used a [redacted] addition to the formula.

Expenses

BTT’s operating expenses are recognized and reported in terms of the International Financial Reporting Standards (“IFRS”). The budgeted operating expenses for BTT the year ending 30 June 2021 have been used, and these have then been apportioned based on appropriate ratios. The impact of IFRS16 for leases has been ignored for the purposes of these expenses (ie. actual property rent paid has been used as opposed to the right-of-use asset depreciation and finance charges). As the operation of the Loading Facilities and Storage Facilities are integral, it is difficult to distinguish costs between these facilities. BTT has therefore apportioned operating expenses on the same proportion as the capital asset costs, which is as follows:

LPG existing Storage Facilities [redacted]
LPG existing Loading Facilities
LPG new Storage Facilities
LPG new Loading Facilities

Land Rehabilitation

BTT is of the view that no provision for land rehabilitation is necessary for the following reasons:

[redacted]

[redacted]

[redacted]

- All operational areas where licenced activities are conducted are specifically designed and constructed to ensure that should there be any spillage of product, it would be contained and would not result in land contamination.

- Furthermore, in respect of LPG activities, should there be any spillage, the nature of the product is such that it would evaporate and not result in land contamination.

- All costs and expenses incurred in complying with environmental obligations are dealt with as normal operational expenses by the business. Any spillages are cleaned up as and when they occur. In the event of large scale sudden and immediate pollution from an insurable event, existing insurance policies would respond to cover the clean-up and rehabilitation of the land.

Whilst the National Environmental Management Act (NEMA) places an obligation on BTT to remediate any environmental damage, based on the factors detailed above, it appears highly unlikely that any significant land rehabilitation/remediation would need to be undertaken. Furthermore, the environmental authorisation did not require any form of rehabilitation guarantee. Throughout the lease period BTT will continue to fulfil its duty of care imposed by NEMA in respect of any possible land contamination.

Bearing in mind that the licenced activities comprise a small proportion of the total tank capacity of BTT, the business would be in a position to fund its rehabilitation liabilities and comply with its rehabilitation obligations relating to licenced activities even if not catered for in an approved Nersa tariff.

BTT has taken note of Nersa's requirement for land rehabilitation as well as the current discussion document on financial provisioning published on 19 May 2020. BTT will continue to assess its rehabilitation liability and financial provisioning mechanism, and awaits the formal outcome of the discussion document.

Taxation

BTT has adopted the notional tax approach using the tax rate of 28%.

CONCLUSION

BTT requests the approval of its tariffs for the period July 2020 to June 2023 in terms of this tariff application and as detailed on page 4 of this application.