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DEPARTMENT OF MINERAL AND PETROLEUM RESOURCES

THE PRICING FRAMEWORK FOR PETROLEUM PRODUCTS

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mineral & petroleum resources
Department:
Mineral and Petroleum Resources
REPUBLIC OF SOUTH AFRICA

G20
SOUTH AFRICA 2025

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PRESENTATION OVERVIEW

- 1. Forms of Fuel Pricing
- 2. The South African Context
- 3. Composition of Fuel Prices

4. Fuel Price Composition:

- Basic Fuel Price (BFP)
- Levies
- Margins
- Transport Tariffs

5. Summary of Discussions

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FORMS OF FUEL PRICING

- **<u>Three</u>** basic forms of fuel pricing globally:
- **Ad hoc pricing** - Prices set irregularly, No transparency – common in countries that have own oil (highly subsidized). *{It is an illusion – keeping the prices constant even when the markets are bullish, hoping that the prices will go down e.g. Bolivia.}*
- **Formula based / automatic pricing adjustments** – Prices are published (but not the formulas in some countries) e.g. RSA publish both prices and the formula
- **Liberalized pricing system** – the market set the prices (depoliticized) but there is a formula e.g. Australia.

THE SOUTH AFRICAN CONTEXT

- The published fuel price in South Africa is made of 2 components:
- International component – The Basic Fuel Price (BFP)
- Local/Domestic component-
    - Margins
    - Levies
    - Transport Tariffs/Costs
- Movement in fuel prices are updated and published by CEF daily
- The Authority for setting the price is the Minister and the Minister uses a Formula that provides Regulatory Certainty.

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THE SOUTH AFRICAN CONTEXT cont…

- **April:**
  - Transport tariffs
  - fuel levy and RAF adjustments (Minister of Finance announces these levies in the budget vote speech)
- **September:**
  - Forecourt attendants wage adjustments
- **December:**
  - Annual margin adjustments in line with RAS.
  - Annual Adjustment of the Pricing Elements in the Maximum Retail Price Structure of Liquefied Petroleum Gas (LPGas)
- **Quarterly :**
  - Octane differential adjustments.

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COMPOSITINO OF PETROLEUM PRODUCT PRICES

COMPOSITION OF THE RETAIL PRICE OF PETROL AND THE WHOLESALE PRICES FOR DIESEL AND IP IN GAUTENG FOR THE PERIOD 02/04/2025 TO 06/05/2025 WILL BE AS FOLLOWS:

	Petrol 95 ULP c/l	Petrol 93 ULP & LRP c/l	Diesel 0.05% S c/l	Diesel 0.005% S c/l	Illumi-nating Paraffin c/l
Wholesale margin	73,700	73,700	94,990	94,990	94,990
Secondary Storage	38,000	38,000	38,000	38,000	38,000
Secondary Distribution	18,800	18,800	18,800	18,800	18,800
Router Differential	0,000	0,000	0,000	0,000	7,400
Retail margin	299,500	299,500	0,000	0,000	0,000
Zone differential in Gauteng	**87,000**	**87,000**	**87,000**	**87,000**	**105,300**
IP Tracer levy	0,000	0,000	0,500	0,500	0,000
Fuel levy	**399,000**	**399,000**	**387,000**	**387,000**	0,000
Customs & excise duty	4,000	4,000	4,000	4,000	0,000
RAF levy	218,000	218,000	218,000	218,000	0,000
Petroleum Products levy	0,330	0,330	0,330	0,330	0,000
Slate levy	0,000	0,000	0,000	0,000	0,000
Pump Rounding	(0,200)	(0,200)	0,000	0,000	0,000
Sub-total	1 138,130	1 138,130	848,620	848,620	264,490
Contribution to the Basic Fuel Price	1 023,870	1012,870	1 083,630	1 086,030	1 071,128
Retail Price	2 162,00	2 151,00			
Wholesale price			1 932,250	1 934,650	1 335,618

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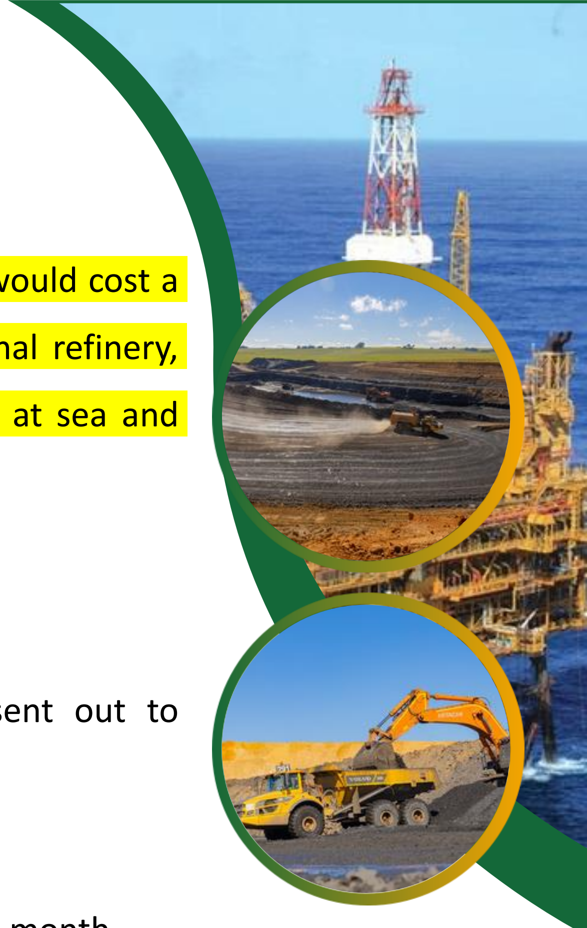
BASIC FUEL PRICE (BFP)

1. BASIC FUEL PRICE



- The Basic Fuel Price (BFP) is based on the **import parity pricing principle** i.e., what it would cost a South African importer of petroleum product to **buy** the product from an international refinery, then **transport** the product from that refinery, **insure** the product against any losses at sea and finally **land** the product on South African shores.
- BFP Calculations are done according to Working Rules
- BFP calculations done daily
- Information on BFP movements done daily by Central Energy Fund (CEF) and sent out to Stakeholders
- The BFP Figures are audited monthly by external auditors (Appointed by the DMRE)
- Press Release normally sent out on the Monday before the 1st Wednesday of every new month
- Published product prices in the Press Release: Mogas 95 LRP & ULP, Mogas 93 LRP and ULP, Diesel 0,05% and 0,005% Sulphur (500 ppm and 50 ppm), Illuminating Paraffin (Wholesale and SMNRP) and MRP for LPGas.
- Both Coast (1A) and Inland (Zone 9C/Gauteng) prices are published

BASIC FUEL PRICE cont… BFP ELEMENTS

- BFP calculated by adding:
  - **FOB**- Price of product loaded on to vessel
  - **Freight**-costs associated with vessel travelling to its destination
  - **Insurance**- cost of insuring petroleum products while they are at sea
  - **Ocean Loss**-costs associated with loss of product through evaporation (currently at 0,3%)
  - **Cargo dues**-Dues to be paid by vessel owners for utilising the harbour infrastructure. Rate Determined by TNPA.
  - **Coastal Storage**: to cover the cost for providing storage and handling of fuels at coastal terminals
  - **Stock Financing Cost**-25 Days allowable for storage, financing the stock that you stored
  - **Demurrage**-costs associated with vessel being delayed at port (whether loading or offloading product)
- In price determination, daily spot prices of petroleum products reported by Platts (an international fuel price reporting agency) are utilised
- Singapore, Mediterranean (Med) & Arab Gulf used as reference markets
- FOB Petrol: 50% Singapore & 50% Med
- FOB Diesel/Kerosene: 50% Singapore & 50% Arab Gulf

BASIC FUEL PRICE cont… FACTORS THAT INFLUENCE BFP

- International crude oil prices
- Weather
- International product supply/demand balances
- Product inventory levels (how much petroleum products are produced at any given time)
- Geo-politics (Russia/Ukraine, Israel/Hamas wars etc.)
- Rand/US Dollar exchange rate

LEVIES

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SLATE LEVY

Under/over recoveries and the Slate Account

- A month’s unit over/under recovery rate is the average difference between the actual daily BFP and the BFP reflected in the Monthly Price structure
- The cumulative under/over recovery in a month is the sum of each petrol, diesel and IP grades’ average unit over/under recovery, **multiplied by the volumes sold**
- Once the cumulative slate balance (in the slate account) is equal to **negative R500 million**, then a payment (reimbursement) needs to be made to industry
- In the same scenario a slate levy will also be implemented in line with the self adjusting Slate Levy Mechanism e.g., a -250mil cumulative balance will result in a slate levy of **4,38c/l**
- The reimbursements mentioned will be in line with the contributions made by each industry player towards the negative slate balance.

SLATE RULES & GUIDELINES

- Reimbursements to individual member companies are calculated by the CEF then once calculations are complete CEF will ensure payment to each company (after receiving authorization from the Department, once the Department has verified the calculations)
- It should be noted that if any individual industry player made no contribution to the negative slate balance, then no reimbursement will be made to them
- The maximum accumulated funds available in the Slate account will be **used in full** to finance a negative slate balance
- A positive cumulative slate balance means the funds in the slate account will not be utilised
- Note: with all over recoveries oil companies/Importers then pay money back into slate Acc, contributing to the slate balance.
- The Slate levy is currently at **0.00c/l**

IP TRACER LEVY

- Diesel and illuminating paraffin (IP) can be mixed up to a 50/50 percent basis and be utilised in diesel-driven engines.
- Noting that this huge price differential is an incentive to bulk diesel consumers to save fuel costs and therefore mix diesel and IP. This becomes an incentive to mix the two products
- The Advisory Body on Indirect Fuels Taxation, in 2002, recommended to the Ministers of Minerals and Energy and of Finance, in order to curtail the mixing of diesel and IP, and consequently to minimise the loss in income to the National Revenue Account that an IP Tracer Dye be injected into IP;
- IP Tracer Levy is there to reimburse the oil industry for buying IP tracer dye and to inject it into IP to curtail the mixing of IP and diesel (loss to the Fiscus)
- The Levy is currently at **0.5c/l** in the price structure of **Diesel**
- The Minister of Mineral Resources & Energy with the concurrence of the Minister of Treasury approved the increase of this levy from 0.01c/l to 1,0c/l, effective March 2024 to cover levy claims whereafter the levy will be reduced to .0.5c/l from March 2025. This has since been implemented ,

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FUEL LEVY, CUSTOMS & EXCISE LEVY, ROAD ACCIDENT FUND (RAF)

- These levies are **administered** by South African Revenue Services **(SARS)** in terms of the provisions of the Customs and Excise Act
- SARS collects these taxes and levies in line with the so-called "Duty at Source" mechanism. **This means that these levies become payable to SARS when petrol and diesel passes the refinery gate earmarked for local consumption**
- The oil industry must declare these earmarked volumes to SARS on a monthly basis and proof of exported volumes is required by SARS.
- In line with SARS' legislation, refiners deposit the cumulative taxes and levies into a bank account nominated by SARS.
- Refineries have a 60-day period to deposit the cumulative levies into the SARS' account. Fifty percent of the cumulative levies are paid 30 days after the declaration of volumes passing the refinery gate and the other fifty percent is paid 60 days later
- The Fuel Levy and the RAF are **determined** by the **National Treasury** and announced during the Budget Speech
- The Fuel Levy amount to **396.0c/l** for petrol, **384.0c/l** for Diesel
- Customs & Excise levy and RAF levy amount to **4.0c/l and 218,0c/l** respectively.

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PETROLEUM PRODUCTS LEVY

- In terms of the provisions of the Petroleum Pipelines Levies Act, the National Energy Regulator of South Africa (NERSA) imposes a petroleum pipelines levy on each litre of product, including crude oil and blending material, transported through petroleum product pipelines
- to reimburse the pipeline users for the applicable National Energy Regulator (NERSA) tariff on transporting fuel through the pipeline - levy set by the Ministers of Energy and of Finance in line with the expenditure budget of NERSA
- Levy Amount is currently at **0.33c/l**

MARGINS

3. MARGINS

- The Department calculates Margins in terms of Regulatory Accounting System (RAS)
- The objective of RAS is to ensure that **each participant in the petroleum value chain receives an appropriate return on their investment, and for the recovery of allowable operating costs that was incurred by them**
- All 4 margins below relate to the 4 ringfenced activities in Regulatory Accounting System (RAS)
    - Wholesale Margin
    - Retail Margin
    - Secondary Storage Margin
    - Secondary Distribution Margin

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MARGINS cont… WHOLESALE

- Wholesale is the function of marketing of petroleum fuels, lubricants and related products and services, under a wholesale licence
- The term generally covers the marketing of refined petroleum products to end users or to re-sellers of petroleum products such as service stations, or other resellers
- A wholesale margin is thus calculated to be a return on investment for wholesalers. Margin is currently **73.7c/l** for petrol and **94,99c/l** for Diesel

MARGINS cont… RETAIL

- Retail is the activity carried out through licensed retail service stations
- The principal activity is the sale of petrol and diesel to consumers
- A retail margin is thus calculated to be a return on investment for retailers. Margin is currently **299,5c/l**

MARGINS cont… SECONDARY STORAGE

- Secondary Storage facilities (depots) carry out the function of secondary storage and handling
- This consists of the **receipt** of bulk refined products by pipeline, rail or road from a supply point (refinery or terminal), **storage** of the products and breaking bulk into smaller parcels/loads **before delivery** by road to service stations or end-users
- A Secondary Storage margin is thus calculated to be a return on investment for those involved in secondary storage. Margin currently **38,00 c/l**

MARGINS cont...
SECONDARY DISTRIBUTION

- Secondary Distribution activity commences at the loading gantry of the depo or terminal where the break-bulk of product occurs
- Distribution refers to the delivery of products to service stations, commercial or bulk customers or another storage facility
- A Secondary Distribution margin is thus calculated to be a return on investment for those involved in secondary distribution. Margin is currently **18,8c/l**

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MARGINS cont…
MARGIN CALCULATION MODELS

- The objective of the margin calculators is to determine the required margin using the formula:

Permissible Revenue= (Asset Base)*RoR+ Expenses+ Depreciation+ Taxes

Note:

1. **Asset Base**: for regulatory purposes is typically determined on a benchmark basis by reference to physical benchmark service station, benchmark storage, benchmark delivery vehicles and in terms of wholesale working capital from the actual balance sheet of the oil companies
2. **Rate of Return**: refers to the Weighted Average Cost of Capital (WACC) which is applied to the rate base
3. **Expense base**: costs of operating the physical benchmark assets
4. Although Depreciation appears in the regulatory formula, this does not apply in RAS as the replacement costs are used for the values in the asset base

TRANSPORT TARRIFS / MDZ

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3. TRANSPORT TARRIS MDZ

- The country is divided into 54 fuel pricing zones, and a transport tariff for each of those zones (Ministerial District Zones) is calculated by the DMRE annually in April
- The calculation comprises of a road transport element and a pipeline transport element
- Road transport element: relies on the Vehicle Cost Schedule (VCS) issued by the Road Freight Association (RFA)
- Pipeline transport element: relies on the Pipelines Tariff Determination (Reason for Decision Document) issued to the DMRE annually by NERSA

TRANSPORT TARRIS MDZ cont…

- Road transport element/VCS Schedule details:
- All costs of transporting petroleum products by road:
  - Trucks
  - Fuel costs
  - Insurance
  - On Vehicle Staff (Driver costs)
  - Overheads - Administration
  - Maintanance
  - Licence fees

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TRANSPORT TARRIS MDZ cont…

- Pipeline Transport element details:
  - Pipeline Tariffs determined by NERSA
  - Tariffs provided from the different supply points (Durban MPP, Sasolburg & Secunda)
- Both Road and Pipeline tariffs together are used to determine the transport cost of moving petroleum product from supply point/storage facility to the end user, in each of the 54 zones.
- MDZ list available on the DMRE website

SUMMARY

- Petrol is regulated at retail level
- Diesel is not regulated; the Department publishes the wholesale reference price (as a guide for pricing)
- Illuminating Paraffin is regulated at retail level (SMNRP)
- LPGas is regulated at Retail level and the MRGP is determined by government
- Industry margins are determined by using the Regulatory Accounting System (RAS) methodology every year in December
- The wages of the Forecourt staff are adjusted in September annually.

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THANK YOU

QUESTIONS

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