mineral resources
& energy

Department:
Mineral Resources and Energy
REPUBLIC OF SOUTH AFRICA

REASON FOR DECISION (RFD) FOR THE RAS MARGIN DETERMINATION OF DECEMBER 2023

RAS is a regulatory methodology used to determine industry margins (Wholesale, Retail, Secondary Storage, and Secondary Distribution). Nineteen (19) companies participated in the Regulatory Accounting System (RAS) for the year 2022, for implementation in December 2023. These 19 companies includes both refining and non-refining wholesalers.

After submission of their RAS data templates and accompanying letters from the company CFO/Financial Manager, one on one engagements were held with each of these participating companies to enable the Department to satisfy themselves of the accuracy of these numbers, while also ensuring that all costs submitted are justifiable.

The 2022 calculated margins are indicative of the pressures the country underwent in 2022 with rising costs of doing business. Various factors in the international and domestic market contributed to the increases in the operational costs while there were decreases in retail volumes pumped by the companies. Substantial increases in the different RAS variables, the biggest noticeable increase being the Producer Price Index (PPI) which was the largest contributor to overall increases in 2023 margins.

The following refining and non-refining wholesalers participated in the 2022 RAS margin determination effected on 06 December 2022, namely:

- Astron Energy
- BP South Africa
- Bright Idea Projects 66 (Pty) Ltd t/a All Fuels
- Engen Petroleum Limited
- Eastern Cape Branded Marketer t/a Seven Bridges Trading 23 (Pty) Ltd
- Free State Petroleum Distributors t/a FPD

- KZN Oils
- Limpopo Branded Fuel Marketer
- Moove Fuel (Pty) Ltd
- Mpumalanga North Branded Marketer t/a Pine Glow Investments (Pty) Ltd
- North-West Branded Marketer t/a Future Pambili Petroleum
- Northern Cape Branded Marketer t/a Desert Oil
- Royale Energy
- Puma Energy
- Sasol Oil Proprietary Limited
- Shell Downstream SA
- TOTAL South Africa Proprietary Limited
- MBT

Exclusion(s):

- PetroSA also submitted RAS data, however their data was excluded from the margin calculation as the costs were deemed not prudent.

The following RAS templates were consolidated by the Department of Mineral Resources and Energy, namely:

- Volume Data
- Overhead costs
- Non-Depo Distribution costs
- Secondary Storage Costs
- Secondary Storage Capacities and Throughput
- Secondary Distribution
- Wholesale Rate Base
- Wholesale costs

1. The RAS templates referred to above were accompanied by letters from each participants CFO/Financial Manager, placing assurance on the data submitted by the entity.

2. Approval was sought and obtained to change the following variables in the 2022 margin determination:
   - The utilization of 95 Octane instead of 93 Octane in the calculations
   - The utilization of D50 instead of D500 in the calculation
   - The Risk-Free Rate of R2030 instead of the R186. The Department is of the view that an alternative long-term bond to the R2030 will be determined as part of the RAS review process which is set to commence in 2024.

3. The percentage of Return on each of the benchmark assets (i.e., the Benchmark Service station [Investor margin and Entrepreneurial Compensation (EC)], Secondary Storage (SS), Secondary Distribution (SD), and Wholesale Assets were based on the application of the Weighted Average Cost of Capital (WACC) for each of these ring-fenced activities. Based on the above application, the SA Risk Free Rate (R2030) applied was 10.34%, the Pre-tax cost of debt at 11.5% (prime of 10.5% +1%), and the tax rate of 28%. In line with the said adjustments, the following Return on Assets were applied in the Margin determination, namely:
   - BSS (investor Margin): 14.06%
   - BSS (Entrepreneurial Margin): 6.05%
   - Secondary Storage: 15.60%
   - Secondary Distribution: 20.35%
   - Wholesale: 17.50%

4. Benchmark Service Station (BSS) Retail Margin

   The Capex: The CAPEX value for a BSS applied in the RAS margins for 2023 was increased by the average annual Producer Price Index for 2022 of 14.40% from R11,376,430.66 to R13,014,636.67 which equates to a R1.7 billion increase.

   Based on the 2022 BSS Capex-value and the Rate of Return on Assets applied the Investor and EC values were adjusted to 91,13c/l and 39,21c/l respectively.

   The OPEX values for BSS applied in the RAS margins for 2022 (for implementation December 2023) were adjusted as follows:

   - Utility costs were increased in line with the NERSA approved electricity tariff of 18.65%

- Wages for service station staff, staff welfare and owners' remuneration were adjusted in September 2023.
- Based on the average coast and inland Wholesale prices for 95 (ULP) Octanes for 2022 of 2015.61c/l, the values for Evaporation and for Operational Gains and Losses amounted to R14,0581M;
- The annual consolidated cost associated with (i) Oil company Rates & Taxes and with (ii) Oil company Maintenance and Repairs were obtained from the consolidated Wholesale Cost Template and the following values incorporated into the BSS OPEX, namely R52,188.16M for Rates and Taxes and R184,991M for Repairs & Maintenance;
- All other BSS OPEX elements were increased by the average Consumer Price Index for 2022, amounting to 6.9%;
- The Total OPEX amounts to R4,336,244.00 with effect from December 2023;
- The OPEX margin recovery with effect from December 2023 amounts to 155.4c/l (Rounded to the first decimal point)
  (R4,336,244.00/ 2789851 litres=155,4)
- The total petrol retail margin effective from December 2023 amounts to 285,7c/l (155.4c/l+91.1c/l+39.2c/l)

5. <u>Consolidated Volume Data Template</u>

- The consolidated retail petrol volumes (common denominator in the margin calculation, except for Retail): 8386ML
- The Retail Petrol Share of Retail: 64%
- The Retail Petrol Share of Total: 36%
- The Retail Petrol Share of all Petrol Volume: 90%
- Retail petrol stock: 882.5 ML
- The Total number of sites: 4609
- Retail petrol volumes pumped per site: 1,819,581 litres
- The A/R outstanding days were limited to 2 days

6. <u>Consolidated Overhead Cost Template</u>

- Total consolidated overhead cost amounted to R3,879.01M

- The overhead costs associated with Petrol were allocated as follows:
  i. Retail Wholesale: R3,879.01M*0.64*0.35=R863.5M
  ii. Secondary Storage: R3,879.01M*0.64*0.12= R296.00M
  iii. Secondary Distribution: R3,879.01M*0.64*0.12= R296.00M

7. Consolidated Non-Depot Distribution operating and non-operating costs

- The consolidated Secondary Storage (SS) costs amounted to R233.0M
- The consolidated secondary Distribution (SD) costs amounted to R129.0M
- In line with the Retail Petrol share of total volumes, the retail petrol share of allowable costs was calculated as follows for:
  i. Secondary Storage: R233.0M*0.36= 83.8M (transferred to SS OPEX)
  ii. Secondary Distribution: R129.0M*0.36=46.5M (transferred to SD OPEX)

8. Secondary Storage Margin

- The total SS OPEX populated into the margin calculation of R1213.5M was the sum of:
  i. The consolidated SS operating cost reported: R2072.8M*0,36=R745.40M
  ii. The transfer of SS Overhead cost as derived from the Consolidated Overhead Cost template (refer paragraph 5 above): R296.0M
  iii. The transfer of Non-Depot operating and operating costs as derived from the consolidated Non-Depot operating cost template (refer paragraph 6 above): R83.8M
  iv. The value of the Double Handling is: R88.3M
- In line with the Consolidated Secondary Storage nameplate capacities reported, the consolidated SS Asset base was calculated to amount to R8568.26M for 2022. This value was populated in the margin calculation
- In line with the above, a Secondary Storage margin of **36.60c/l** was implemented into the price structures of petrol grades.
- The same value was applied to the Secondary Storage Margin for Diesel and IP

9. Secondary Distribution Margin

- The total SD operation costs amounted to R1021.05M and populated into the SD Margin. This cost culminated from:
    i. Fixed and Variable Costs application of the Rand-values reflected in the VCI index (Concept 10) of October 2022 as published by the RFA, multiplied by the number of trucks required.
    ii. To this the transfer of allocated SD overhead costs from the consolidated Overhead costs (paragraph 5 above) was added: R296M.
    iii. To this the transfer of allocated SD Non-Depot operating costs from the Consolidated Non-Depot operating cost template (refer paragraph 6 above) was added: R46,5M
- In line with the SD truck determination methodology, it was determined that the total number of trucks required to transport 8386.40 million litres of petrol from secondary storage facilities to 4609 service stations amounted to 296 trucks, which was equal to a consolidated asset investment of R1496.98M.
- Based on the asset value for the prime mover, trailer and to provide for essential equipment, the total asset value of R1496.98M was populated into the SD margin calculation model.
- In line with the above, a Secondary Distribution margin of **17.22c/l** was implemented into the price structures of petrol grades.
- The same value was applied to Secondary Distribution Margin for Diesel and IP

10. Wholesale Margin

- RAS data was received from the RAS participants, where after one-on-one engagements were held with each of the participating companies.
- Some companies were asked to make amendments to their data submissions and align to what is required as per the RAS manual, thereafter resubmit their data to the Department
- The Wholesale Margin for 2022 increased substantially due to the following contributors:
    i. The Asset Base increased from R 12 365,00M to 14 088.41M in 2022.

ii. The Average BFP in DEC increased from 9,61 in 2021 to 12,34 in 2022. It should be noted that in 2021 the BFP for 93 Octane was utilised in the margin calculation, while in 2022 the BFP for 95 Octane was utilised.

iii. The Wholesale List Price of Petrol for DEC in Zone 14B increased from 18,09 in 2021 to 20,9 in 2022

- The increased stock value as a result of higher petrol prices in 2022 resulted in an increase from R9222 to R10 894
- Allowable wholesale operating cost populated into the wholesale margin calculation amounted to R2,434.41M which was determined as follows:

  iv. Consolidated wholesale margin cost: R4,297.59M

  v. To this we subtract the Consolidated Repairs and Maintenance Costs: R1,340.6M

  vi. To this we subtract the Consolidated Rates & Taxes: R378.2M

  vii. Resulting in the Total Allowable Wholesale operating costs: R2,578.8M

  viii. This amount is then multiplied to The Retail Petrol Share of Allowable Costs: R2,578.8M*0.64=R1,640.1M

  ix. The result is then added to the Operational gains and losses: 8,386ML*0.25%*R12.3449 (BFP of 95 Octane in December 2022) = R258.8M

  x. Then subtract the Convenience store costs not allowed (20% of R1,640.1M) = R328M

  xi. Added to the Retail Wholesale overhead cost transferred from the consolidated Overhead Cost template: R863,5M (refer paragraph 5)

- The Allowable Wholesale asset base populated into the wholesale margin calculation:

  i. Allowable Retail Wholesale Rate base: R3,513.0M*0.64= R2,234.0M;

  ii. To this we add the Retail petrol stock value: (Retail stock value culminating from the Consolidated Volume template of 882ML) *R12.3449 (BFP of 95 Octane in December 2022) = R10,894.0M.

Note the BFP 95 Octane was utilised in the 2022 consolidations, while the BFP 93 Octane was utilised in 2021

iii. To this we add the retail petrol debtor value: (retail petrol volumes/365 days*AR days) =8,386.45ML/365*2= 46.0ML

iv. Then 46.0ML*R20.9 (Wholesale List Price of 95 octane in Zone 14B for December 2022=R960.0M (Debtor Value)

v. The sum of (i) to (iv) above, namely R 14,088.41M was populated into the Wholesale margin calculation

vi. In line with the margin calculation, a wholesale margin of **69.8c/l** was implemented into the retail petrol price structures.

Yours Sincerely

TB MAQUBELA

DDG: MINERAL AND PETROLEUM REGULATION

DATE 19|12|2023