Nersa urged to check validity of Transnet hike bid

The National Energy Regulator of SA (Nersa) must ensure that Transnet's application for a tariff increase on its petroleum pipelines is indeed required for pipeline infrastructure and is not meant to cross-subsidise its rail projects. This is according to transport economist Andrew Marsay.

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He said yesterday that because Transnet had not managed to raise enough money from its railway operations, it had resorted to cross-subsidising these with revenue from its pipelines and ports.

Earlier this month Transnet applied for a 25.8% increase in allowable revenue for the 2016-17 financial year, which would result in a 21.3% tariff increase on the petroleum pipeline, a cost payable by all the major oil companies in SA. This would push the fuel price in Gauteng up by 6.18c per litre.

Last year, Nersa approved a 6.9% increase in Transnet's petroleum pipeline tariffs for the 2015-16 financial year.

Hike necessitated by new multi-products pipeline

Transnet said its latest request for a hike was necessitated by the expected completion of construction work on significant aspects of the new multi-products pipeline by November this year.

The new 555km pipeline replaces the 48-year-old version and has a 70-year design life. It is meant to transport 93-grade and 95-grade unleaded petrol, low sulphur diesel and ultra low sulphur diesel, as well as jet fuel.

Pipeline cost more than expected

However, delays had led to the cost of the project doubling to more than R23bn from R11.1bn.

Marsay said the new pipeline had cost Transnet more than it expected and the state-owned logistics group most likely wanted to recoup some of that investment. However, Transnet tended to use revenue from pipelines and ports to cross-subsidise its rail investment.

Thus, it was key for Transnet to demonstrate that its request for an increase in the petroleum pipeline tariff was really needed for pipelines and would not be diverted to railway investments under its market demand strategy. The strategy is Transnet's R340bn-R380bn recapitalisation programme to expand and modernise the rail and ports infrastructure of the country. "Transnet's biggest risk is how it is going to fund the massive investment for the railways," said Marsay. "It would be good for Nersa to ask Transnet to demonstrate that the increase is needed for pipelines or to underwrite railway investment under the market demand strategy," he said.

Expansion in pipeline assets under scrutiny

Nersa regulator member responsible for petroleum pipelines, Rod Crompton said the regulator would scrutinise the expansion in pipeline assets and the estimated volumes to be shipped, which are the main drivers for Transnet's application for a tariff increase. Nersa could make a decision on Transnet's application by the end of next month, but this would depend on the regulator receiving additional information from Transnet, said Crompton.

South African Petroleum Industry Association executive director Avhapfani Tshifularo said yesterday Transnet added equipment to the pipeline infrastructure every year and this necessitated an increase in the tariff. "Based on our interactions with them, when an increase does come up we understand why the tariff has gone up" said Tshifularo.

Transnet said the aspects of the new pipeline that were expected to be completed by November were the Durban tightlining assets and the inland accumulation facility near Heidelberg. Tightlining was a "joint innovation with customers in the oil industry", aimed at making the pipeline a "fully-fledged multi-products facility", said Transnet spokesman Mboniso Sigonyela.

Source: Business Day