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DEPARTMENT OF TRANSPORT

NO. 3960 **11 October 2023**

REGULATING COMMITTEE

AIRPORTS COMPANY SOUTH AFRICA DRAFT PERMISSION FOR PUBLIC COMMENTS

DRAFT PERMISSION TO LEVY AIRPORT CHARGES FOR 2023/24 – 2027/28 PERIOD

The Regulating Committee, *hereinafter referred to as "the Committee"*, is hereby inviting members of the public and all interested persons to submit comments on the draft Permission for the Airports Company South Africa (ACSA) for the 2023/24 – 2027/28 period. The Committee is a statutory body established in terms of section 11 of the Airports Company Act No. 44 of 1993 to regulate airport charges levied by ACSA to its customers.

The Committee is expected in terms of section 12(10) of the aforesaid legislation to, *inter alia*, **(i)** restrain the company (ACSA) from abusing its monopoly position in such a manner that as not to place undue restrictions on the company's commercial activities; **(ii)** promote the reasonable interests and needs of users of company airports; and **(iii)** in respect of relevant activities, ensure that the company, after taking into consideration any compensation paid or to be paid to the company by the State in terms of the provisions of the Airports Company Act or any other law, is able to finance its obligations and has a reasonable prospect of earning a commercial return for each financial year on capital employed, just to mention a few.

The deadline for submission of comments is **23 October 2023**. The comments should be sent to Ms Charmaine Mathonsi, Email: MathonsC@dot.gov.za; or Ms Motlalepula Kgagudi, Email: OwagengM@dot.gov.za.

PERMISSION TO LEVY AIRPORT CHARGES FOR 2023/24 – 2027/28 PERIOD

In this Permission document, any word or expression to which a meaning has been in the Civil Aviation Act, 2009 (Act No. 13 of 2009) or the Airports Company Act, 1993 as amended or any other relevant legislation, shall have the meaning so assigned to it unless the context otherwise indicates. ACSA is hereby authorised to levy airport charges and conduct relevant activities from 1 April 2023 to 31 March 2028 on the following conditions:

1. Limits on airport charges

(1) In the event of the company contemplating modifying the structure of airport charges, the company shall satisfy the Committee that the resultant charges will have the same material effect as the conditions on airport charges of this Permission.

(2) Notwithstanding subsection (4) below, the company shall submit to the Committee a gazette as a proof that the company had published new airport charges three (3) months prior to coming into effect of such tariffs in accordance with section 5(2)(f) of the Airports Company Act, 1993. This shall be done annually.

(3) *Tariffs determination:*

(a) The company may during the period of validity of this Permission alter the level of airport charges to the maximum limit set by the following formula:

$$RWPTI_1 \leq (CPI_t - X_t + CF_t) + K_t$$

Where:

$RWPTI_1$ = The sum of the revenue weighted percentage tariff increases in year *t*

CPI_t = The CPI forecast at the beginning of period *t* for the period *t*

X_t = The subtractive X factor for year *t* set out in subsection (c) below

K_t = The K factor for year *t* set out in subsection (d) below

CF_t = The correction factor for period *t,* calculated as follows:

$$\mathbf{CF_2 = [CPI_{t-2} - X_{t-1} + CF_{t-1} - (RWPTI_{t-2} - K_{t-2})] \times (1 + Pr_{t-2})}$$

Where: CPI_{t-2} = Actual CPI for year (t-2)

Pr_{t-2} = Predominant prime overdraft rate

$RWPTI_{t-2}$ = The sum of the permitted revenue weighted percentage tariff increases in year (t-2)

The Committee may, after taking into consideration comments from the public and interested parties, amend and implement a further regulatory adjustment to airport charges where it deems such adjustments necessary in fulfilling its duties in accordance with the Airports Company Act, 1993.

(b) The consumer price index (CPI), as per the Bureau for Economic Research (BER) report submitted by ACSA for the next five (5) financial years, shall be as follows:

4.4%	in financial year 2023/24 (*Year 1*)
4.5%	in financial year 2024/25 (*Year 2*)
4.5%	in financial year 2025/26 (*Year 3*)
4.5%	in financial year 2026/27 (Year 4)
4.5%	in financial year 2027/28 (*Year 5*)

(c) The **X-factors** for the next five (5) financial years were calculated as follows after applying efficiency factors of **0%** in year 1; **1.5%** in year 2; **2.75%** in year 3; **2.75%** in year 4; and **0%** in year 5:

- 0.100%	in financial year 2023/24
- 5.534%	in financial year 2024/25
- 2.014%	in financial year 2025/26
- 1.662%	in financial year 2026/27
+ 0.049%	in financial year 2027/28

The Committee uses its regulatory discretion to apply efficiency factors in order to encourage efficiencies within the company. As it can be seen in **Table 1**, the efficiency factors resulted in the weighted tariff increase being slightly lower than the initial amount calculated. In view of the aforesaid, the final airport charge increases to be applied by ACSA from 2023/24 to 2027/28 financial years are as follows, as shown in **Table 1** below:

+ 4.50%	in financial year 2023/24
+ 10.034%	in financial year 2024/25
+ 6.514%	in financial year 2025/26
+ 6.162%	in financial year 2026/27
+ 4.451%	in financial year 2027/28

Table 1: Tariff methodology for ACSA

Description	2023/24	2024/25	2025/26	2026/27	2027/28
RAB beginning of the year	13 679 822	13 157 117	13 001 581	13 869 810	17 105 353
WACC (Allowance rate of return) - Used	11,36%	11,36%	11,36%	11,36%	11,36%
Maximum profit (before interest and tax)	1 554 028	1 494 648	1 476 980	1 575 610	1 943 168
Add: Depreciation	1 081 978	1 040 258	1 040 853	1 231 503	1 618 312
Add: Operating expenses	4 128 111	4 430 108	4 832 081	5 088 578	5 359 157
Opex adjustment	- 27 900	- 27 900	- 27 900	- 27 900	- 27 900
Total OPEX	4 100 211	4 402 208	4 804 181	5 060 678	5 331 257
Add: Tax on operating profit	419 587	403 555	398 784	425 415	524 655
Permission Revenue	7 155 803	7 340 669	7 720 798	8 293 206	9 417 392
less Non-regulated revenue	- 2 885 139	- 2 983 364	- 3 220 792	- 3 435 574	- 3 664 454
less Capital proceeds (Sale of assets/Disposal)					
Total Regulated Revenue	4 270 665	4 357 305	4 500 006	4 857 632	5 752 938
PV of regulated revenue required	**17 125 179**				
Less PV of Clawback	- 637 434				
PV of regulated revenue required	16 487 745				
Total Regulated revenue	3 234 198	4 118 655	4 823 157	5 332 433	5 655 327
Anticipated tariff escalation	4,500%	11,534%	9,264%	8,912%	4,451%
Efficiency factor (**less**)		**-1,500%**	**-2,750%**	**-2,750%**	
Applied tariff escalation (incl. regulating formula cap)	4,500%	10,034%	6,514%	6,162%	4,451%
Final Tariff	4,500%	10,034%	6,514%	6,162%	4,451%

(d) Important to note is that the Committee, in accordance with the "**Approach Document to the 2023/24 – 2027/28 Permissions**" applied a smoothing mechanism to base tariff calculations to minimise undue tariff volatility. This was done on a net present value neutral basis which works hand-in-hand with Goal-seek excel function.

(e) In estimating a reasonable rate of return for the company, the Committee determined the appropriate rate of return based on the principles of Weighted Average Cost of Capital (WACC). The Committee also took into consideration various economic and market indicators, including bond yields, market risk premiums, the industry risk profile, cost of debt and ideal gearing levels, as well as factors specifically applicable to the company. The company's WACC was calculated as **11.36%**. In arriving at the **X-factors** for the Permission period, the Committee has taken into consideration the Permission application presented by the company including, *inter alia*, the anticipated traffic volumes, capital expenditure (capex) projects and cost efficiencies as well as the rates of return anticipated.

(f) *K-factor:*

The K-factor provides for extraordinary or especially lumpy once-off capital expenditures which are so extensive that they can neither be financed under the terms of the Permission in place nor, for strategic reasons or delayed until the next Permission. Similarly, where a major capex programme is significantly curtailed or cancelled, a negative K-factor may be required. At the time of publishing this Permission, the K-factor was set at zero (nil). If such circumstances arise during the period of the Permission that the Committee deems it necessary and appropriate, a K-factor may be published by the Committee during the period of this Permission.

(g) *Correction factor:*

As per the Approach Document, the tariff increases are based on forecasted CPIs and as a result, they are retrospectively measured against published or actual CPIs figures. The tariff increases for the next period are then adjusted to take account of any over- or under recovery due to over- or under-estimates in CPI in the previous period. The performance of the company for the 2018/19; 2019/20; 2020/21 and 2021/22 financial years has been considered. The correction factors for the said financial years were calculated and determined to be insignificant, and were therefore set at zero (nil).

(h) *Base tariffs:*

The tariff increases determined as set out in paragraph 1(3)(a) to (g) of this Permission, shall be applied from 2023/24 financial year. In other words, the conditions of the current Permission that is being implemented (*i.e. Inflationary Permission issued to ACSA in January 2023*) shall be amended by this Permission subsequent to the approval by the Minister of Transport in terms of section 12(11)(b) of the Airports Company Act, 1993, as amended.

(i) *Regulatory Asset Base (RAB):*

There are two possible approaches to arrive at the RAB. The first is the "*fixed asset basis*"; and the other one is the "*enterprise value basis*". The model provided by ACSA uses the fixed asset basis to determine the RAB in each financial year, in which the RAB is built-up by adding the value of the RAB for each asset category.

(j) *Clawback Calculation:*

The Committee calculated the clawback amount of **R637 434 000** which was applied in year 1. The calculated amount was subjected to the present value to cater for time value of money as recommended by the paragraph B.1.2.1 (16) of the Approach Document. Clawback results from the underspending on capex projects by the company.

(4) The company shall furnish the Committee with such information as may be agreed upon from time to time. In the absence of such agreement, any information as may be requested by the Committee in order to enable the Committee to apply the conditions of this Permission shall be furnished to the Committee.

(5) Notwithstanding subsection (4) above, the company shall submit annually to the Committee a detailed audited variance analysis report, including key performance indicators, setting out how the main underlying assumptions of the business plan on which this Permission is based compared to the actual events. In addition, the company shall furnish an audited certificate setting out the actual revenue weighted percentage tariff increase for the period.

(6) The Committee expects the company to set its total revenues such that it reflects an efficient underlying total cost base and a reasonable profit margin. It also encourages the company to exercise a degree of restrain implementing its tariff increase where it anticipates that excessive profits will be generated.

(7) The tariff increases implemented should be fairly balanced between the users (i.e., passengers and airlines). The revenue weighted percentage increase applied to passengers may not exceed the revenue weighted percentage tariff increase applied to airlines.

(8) *Deferral of capex projects:*
In an event whereby the company deems it necessary not to implement (to defer) the remunerated capex projects, the Committee expects the company to consult with both the users and the Committee and provide valid reasons before such decisions are taken.

2. Service Standards

(1) The company shall maintain the level of service of any relevant activity at the same level or higher as that provided immediately before the date of the issuing of this Permission. The company may be allowed to alter a level of service only if:

(a) It has applied to the Committee for the approval of such an alteration; and

(b) It has satisfied the Committee that such an alteration will not materially or negatively affect users of any such relevant activity.

(2) The company shall be responsible for the monitoring, on a regular basis, of those relevant activities at company airports as may be agreed from time to time between the company and the Committee. In the absence of such an agreement, the Committee shall determine those relevant activities at company airports to be monitored. The company shall report the results of such monitoring to the Committee in the format and at such intervals as the Committee may prescribe from time to time.

3. The draft Permission for ACSA for the 2023/24 – 2027/28 period is hereby published for public comments.

Regards,

MS KENOSI SELANE
CHAIRPERSON: REGULATING COMMITTEE FOR ACSA AND ATNS
DATE: 06 OCTOBER 2023

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