



**REGULATING COMMITTEE for Airports Company and Air Traffic
and Navigation Services Company**

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0001
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RE: PERMISSION TO LEVY AIRPORT CHARGES FOR 2018/19 – 2022/23

In this Schedule any word or expression to which a meaning has been assigned in the Aviation Act, 1962 (Act No. 74 of 1962) or the Airports Company Act, 1993 (Act No. 44 of 1993), shall have the meaning so assigned to it, unless the context otherwise indicates.

Subject to the provisions of the Airports Company Act, 1993 (Act No. 44 of 1993), the Airports Company of South Africa SOC Limited (the Company) is hereby authorised to levy airport charges and conduct relevant activities from 1 April 2018 to 31 March 2023 on the following conditions:

1 Limits on airport charges

- (1) The tariff structure will be of the same mathematical format and apply under the same circumstances as immediately before the date of the issuing of this permission.
- (2) In the event of the Company contemplating modifying the structure of airport charges, the Company shall satisfy the Regulating Committee that the resultant charges will have the same material effect as the conditions on airport charges of this permission.
- (3) Notwithstanding subsection (5), the Company shall submit annually to the Committee a report on the implementation of the adjusted tariff structure.

- (4) (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:

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

Where:

$RWPTI_t$ = 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)
- K_t = the K factor for year *t* set out in subsection (d)

$$CF_t = (CPI_{t-2} - X_{t-2} + CF_{t-2} - (RWPTI_{t-2} - K_{t-2})) \times (1 + Pr_{t-2})$$

Where

- CPI_{t-2} = actual CPI for the year (*t* - 2)
- Pr_{t-2} = predominant prime overdraft rate in year (*t* - 2)
- RWPTI_{t-2} = the sum of the permitted revenue weighted percentage tariff increases in year (*t*-2)

The Regulating Committee may, in exceptional circumstances only, implement a further regulatory adjustment to tariffs, where it deems such an adjustment necessary in fulfilling its duties per the Airports Company Act, 1993 (Act No. 44 of 1993).

(b) The CPI as determined by the independent forecast shall be:

- 5.5% in financial year 2018/19
- 5.1% in financial year 2019/20
- 5.4% in financial year 2020/21
- 5.6% in financial year 2021/22
- 5.3% in financial year 2022/23

The Regulating Committee will provide an independently obtained forecast CPI each year by November prior to the period to which the tariff increases relate for use by the Company in calculating the tariff increases for that period.

(c) X shall be:

- 0.3% in financial year 2018/19
- 5.1% in financial year 2019/20
- 5.4% in financial year 2020/21

-13.9% in financial year 2021/22

-14.2% in financial year 2022/23

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 and cost efficiencies as well as the rates of return anticipated.

An efficiency factor of 0%, 1.0%, 1.0%, 1.0% and 1.0% for 2018/19, 2019/20, 2020/21, 2021/22 and 2022/23, respectively, has been applied.

In estimating a reasonable rate of return for the Company, the Committee has taken into consideration the 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.

Clearly, the rate of return is only one of several considerations in applying the price-cap regulation and factors such as actual inflation, capital expenditure, cost efficiencies and traffic volumes would affect the anticipated returns.

The forecast RAB has been calculated based on Management's budget as at February 2017, increased by the forecast capitalisation of capital expenditure as included in the ACSA Permission application.

The nominal claw-back amounts have been escalated using the WACC of 10.98% take time value of money into account. The claw-back was allocated in such a way as to maintain the previously approved tariff for 2019 while recouping 75% of the total claw-back in the first three years.

The claw-back amount remaining in the last two years of the permission, which amounts to R558 million in 2018 money, will roll over into the first two years of the next permission. However, given that time value of money is considered, the Regulating Committee is of the view that users are compensated for the opportunity cost of the claw-back not being implemented immediately. Moreover, by deferring some of the claw-back, the Regulating Committee is of the view that some stability in tariffs can be achieved.

(d) 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, delayed until the next permission. Similarly, where a major capital expenditure programme is significantly curtailed or cancelled, a negative K factor may be required.

At the time of publishing this permission, the K factor is set at nil.

If such circumstances arise during the period of this permission that the Regulating Committee deems it necessary and appropriate, a K factor may be published by the Regulating Committee during the period of this permission.

(e) Correction factor

A correction factor has not yet been calculated in respect of the 2015/16 and 2016/17 years.

(f) Base tariffs

The 5.8% increase determined as set out in section 1 (4) (a) to (e) of the Schedule for the financial year 2017/18 shall be applied to the tariffs set out in Annexure **A**.

(g) Regulatory Asset Base

In arriving at the X factors for the Permission period, the Committee has applied the principles for the valuation and implementation of the Regulatory Asset Base as published by the Committee in the Approach Document dated 2018/19 to 2022/23.

(5) The Company shall furnish the Regulating 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 Regulating Committee in order to enable the Committee to apply the conditions of this permission.

(6) Notwithstanding subsection (5), 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 compare to actual events. In addition, the Company shall furnish an audited certificate setting out the actual revenue weighted percentage tariff increase for the period.

(7) The Regulating 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 restraint in implementing its tariff increases where it anticipates that excessive profits will be generated.

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

- (9) During the review of the permission application, it came to the attention of the Committee that certain amendments had to be made to the model submitted by the Company. An updated model was submitted by the Company, which was used in the final tariff determination.

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. Provided that the Company may alter a level of service only if –
- (a) The Company has applied to the Regulating Committee for the approval of such an alteration;
- (b) The Company has satisfied the Regulating Committee that such an alteration will not materially 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 Regulating Committee. In the absence of such an agreement, the Regulating Committee shall determine those relevant activities at Company airports to be monitored. The Company shall report the results of such monitoring to the Regulating Committee in the format and at such intervals as the Committee may prescribe from time to time.

3 Closing Date

Kindly note that the closing date for comments is 09 May 2019

ANNEXURE A

The tariffs to which the revenue weighted percentage tariff increase for the financial year 2017/18 may be applied are set out below.

AIRPORT CHARGES: LANDING CHARGES

1. The landing charge in respect of an aircraft which lands at a company airport and which has been engaged in a flight where the airport of departure of that aircraft was within the Republic:

Maximum certificated mass in kg of the aircraft up to and including: -	Per single landing VAT Exclusive
	R
500	55.82
1 000	82.76
1 500	105.80
2 000	127.77
2 500	150.80
3 000	173.82
4 000	242.60
5 000	309.53
6 000	377.19
7 000	447.01
8 000	514.35
9 000	578.73
10 000	650.02
and thereafter, for every additional 2 000 kg or part thereof	98.29

2. The landing charge in respect of an aircraft which lands at a company airport and which has been engaged in a flight where the airport of departure of that aircraft was within Botswana, Lesotho, Namibia or Swaziland:

Maximum certificated mass in kg of the aircraft up to and including:-	Per single landing VAT Exclusive
	R
500	62.94
1 000	97.53
1 500	137.82
2 000	174.54
2 500	211.98
3 000	250.46
4 000	341.17
5 000	430.84
6 000	519.72
7 000	610.77
8 000	699.28
9 000	788.22
10 000	879.25
and thereafter, for every additional 2 000 kg or part thereof	146.13

3. The landing charge in respect of an aircraft which lands at a company airport and which has been engaged in a flight where the airport of departure of that aircraft was within the State of territory other than those mentioned in paragraph 1 or 2:

Maximum certificated mass in kg of the aircraft up to and including:-	Per single landing VAT Exclusive
	R
500	70.22
1 000	112.64
1 500	169.52
2 000	220.61
2 500	272.83
3 000	326.42
4 000	440.51
5 000	551.75
6 000	661.86
7 000	773.82
8 000	883.55
9 000	995.87
10 000	1 108.51
and thereafter, for every additional 2 000 kg or part thereof	193.96

AIRPORT CHARGES: PARKING CHARGES

Maximum certificated mass in kg of the aircraft up to and including:-	Per single landing VAT Exclusive
	R
2 000	42.20
3 000	86.78
4 000	123.56
5 000	169.66
10 000	249.80
15 000	328.47
20 000	414.06
25 000	494.24
50 000	653.81
75 000	813.78
100 000	975.66
150 000	1 227.39
200 000	1 481.12
300 000	1 693.38
400 000	2 132.82
and thereafter , for every additional 100 000 kg or part thereof	328.47

AIRPORT CHARGES: PASSENGER SERVICE CHARGES

	VAT Exclusive R
1. Passenger service charge per embarking passenger where such passengers will disembark from the aircraft at an airport within the Republic	71.93
2. Passenger service charge per embarking passengers where such passengers will disembark from the aircraft at an airport within Botswana, Lesotho, Namibia or Swaziland	148.25
3. Passenger service charge per embarking passenger where such passengers will disembark from the aircraft within any State or territory other than those mentioned in paragraphs 1 and 2	195.61

All definitions and clauses set out in general notice 1669 of 2009: Publication of airport charges dated 30 December 2009 will continue to apply.