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

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RE: PERMISSION TO LEVY AIR TRAFFIC SERVICE 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 ATNS Company Act, 1993 (Act No. 45 of 1993), shall have the meaning so assigned to it, unless the context otherwise indicates.

Subject to the provisions of the ATNS Company Act, 1993 (Act No. 45 of 1993), Air Traffic and Navigation Services SOC Limited (the Company) is hereby authorised to levy air traffic services charges, provide air navigation infrastructure and conduct air traffic services and air navigation services from 1 April 2018 to 31 March 2023 on the following conditions:

1. Limits on air traffic service 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) The regulating formula is discussed below:

(a) The Company may during the period of validity of this permission alter the level of air traffic service 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 balancing and efficiency factor set out in subsection (c)

K_t = the capital expenditure factor for year *t* set out in subsection (d)

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

Where

CPI_{t-1} = actual CPI for the year *(t - 1)*

Pr_{t-1} = predominant prime overdraft rate in year *(t - 1)*

$RWPTI_{t-1}$ = the sum of the permitted revenue weighted percentage tariff increases in year (*t - 1)*

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 ATNS Company Act, 1993 (Act No. 45 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:

-2.0%	in financial year 2018/19
4.4%	in financial year 2019/20
-1.7%	in financial year 2020/21
1.5%	in financial year 2021/22
1.1%	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 the year to date Management Accounts as at February 2018, increased by the forecast capitalisation of capital expenditure as included in the ATNS Permission application.

The nominal claw-back amounts have been escalated using the WACC of 10.94% in order to 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 55% 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 R121 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 Correction 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) 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) Other issues

In the interest of a more equitable balance amongst all stakeholders, the phasing out of origin-destination differentiation over 10 years as set out in section 10.14 of Notice 145 of 2006: Publication of Air Traffic Service Charges (published by the Company on 3 February 2006) will continue to be applied.

(8) 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.

(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.

The Company shall be responsible for the monitoring on a regular basis of the level of any air traffic service or any air navigation service, 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 the air traffic service and air navigation service 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 2018

ANNEXURE A

The tariffs to which the revenue weighted percentage tariff increase for the financial year 2016/17 may be applied are set out below. The final permission will be updated with the 2017/18 tariffs once the information has been received.

AIR TRAFFIC SERVICE CHARGES: TARIFF FORMULAS AND COEFFICIENTS

1. An air traffic service charge is composed of the sum of VC, BSC and FC for each discrete Aerodrome, TMA Access and Area movement undertaken, according to the following mass categories and locations:

Main Mass Category	**Cost Component**	**Formulas & Coefficients**		
		Aerodrome Charge	**TMA Access Charge**	**Area Charge**
FAOR ≤ 5 000kg	VC BSC FC	R30.41 R123.56/10 000.MCM R65.19	R30.41 R123.56/10 000.MCM R120.43	
5 000kg < MCM ≤ 15 000 kg	VC BSC FC	R30.41 R123.56/10 000.MCM R130.40/10 000.MCM	R30.41 R123.56/10 000.MCM R24.09/1 000.MCM	R30.41 R123.56/10 000.MCM R17.28/l00 000.MCM.d
> 15 000 kg	VC BSC FC	R30.41 R151.30/l00.√MCM R159.72/100.√MCM	R30.41 R151.30/l00.√MCM R295.01/100.√MCM	R30.41 R151.30/100.√MCM R211.78/10 000.√MCM.d

2. Each Rand-value coefficient in the table above is multiplied by:

   (a) 100% for a domestic flight;

   (b) 100% for a regional flight; and

   (c) 100% for an international flight,

except in the case of FCs for Aerodrome and TMA Access Charges at FAOR for aircraft with MCM ≤ 5 000 kg where the coefficient as stated in the table applies.

3. As an illustration, assume the following flights:

Example 1

Domestic flight from FAOR to FACT, with aircraft with MCM = 100 000 kg and d = 686 miles

Charge = [Aerodrome Charge at FAOR + TMA Access Charge at FAOR + Area Charge + TMA Access Charge at FACT + Aerodrome Charge at FACT] x 100%

= [[VC_{Aero} + BSC_{Aero} + FC_{Aero}] + [VC_{TMA} + BSC_{TMA} + FC_{TMA}] + [VC_{Area} + BSC_{Area} + FC_{Area}] + [VC_{TMA} + BSC_{TMA} + FC_{TMA}] + [VC_{Aero} + BSC_{Aero} + FC_{Aero}]] x 100%

= [[R30.41 + (R151.30/100 x √100 000) + (R159.72/100 x √100 000)] + [R30.41 + (R151.30/100 x √100 000) + (R295.01/100 x √100 000)] + [R30.41 + (R151.30/100 x √100 000) + (R211.78/10 000 x √100 000 x (686-35-35))] + [R30.41 + (R151.30/100 x √100 000) + (R295.01/100 x √100 000)] + [R30.41 + (R151.30/100 x √100 000) + (R159.72/100 x √100 000)]] x 100%

= [(R30.41 x 5) + (R151.30/100 x √100 000 x 5) + (R151.30/100 x √100 000 x 2) + (R295.01/100 x √100 000 x 2) + (R211.78/10 000 x √100 000 x 616)] x 100%
= R9,545.65

Example 2

International flight from FAOR to international gateway, with aircraft with MCM = 4 500 kg and d = 211 miles

Charge = [Aerodrome Charge at FAOR + TMA Access Charge at FAOR] x 100%
= [[VC_{Aero} + $BSCAe_{ro}$] x 100% + FC_{Aero}] + [[VC_{TMA} + BSC_{TMA}] x 100% + FC_{TMA}]
= [[R30.41 + (R123.56/10 000 x 4 500)] x 100% + R65.19] + [[R30.41 + (R123.56/10 000 x 4 500)] x 100% + R120.43]
= [(R30.41 x 2) + (R123.56/10 000 x 4 500 x 2)] x 100% + R65.19+ R120.43
= R357.65