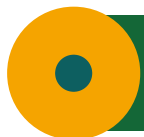


# DEPARTMENT OF MINERAL AND PETROLEUM RESOURCES

## FUEL PRICING MECHANISM IN SOUTH AFRICA



Presented by: ROBERT MAAKE

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# Outline

- Petrol, LPGas and IP prices are regulated
- Basic Fuel Price (BFP) Working Rules
- Regulatory Accounting System (RAS)
- Composition of the pump price
- Emerging Risks
- Maximum Refinery Gate Price (MRGP)
- Maximum Retail Price
- Conclusion



- **Determination of the fuel prices**
  - Petrol, LPGas and illuminating paraffin (IP)
  - Diesel prices are **not** regulated
- **Import parity principle (IPP) applies**

Dfn: The price an importer pays to purchase a product in the world market and have it delivered for domestic sale.

- Deemed pricing
- Zonal pricing – magisterial district zones (MDZ)
- Transport modes – based on least cost mode
- Cost recovery - Pass through cost



# Basic Fuel Price (BFP)

The Basic Fuel Price (BFP) is based on the import parity pricing principle i.e. what it would cost a South African importer of petrol to buy the petrol from an international refinery, transport the product from that refinery, insure the product against losses at sea and land the product on South African shores.

NB: The Central Energy Fund (CEF) (Pty) Ltd was appointed by Cabinet in 1994 as an impartial body to determine BFP's (prevent manipulation by any interested party)

Daily and average monthly BFP's for price regulated fuels are calculated by (CEF) in terms of the Working Rules to administer the BFP

Monthly BFP calculations, price changes to be effected and monthly Fuel Price Media Statement audited by independent auditors appointed by the Department.





- Make provision for all grades of petrol, all grades of diesel and illuminating paraffin (IP)
- BFP to be adjusted on the first Wednesday of a month
- Over/under recoveries incurred in a fuel price review period will be cleared in the next one

## Important months

**April** – transport tariffs, fuel levy and RAF adjustments

**September** – Forecourts attendants wage adjustments - **MIBCO**

**December** – wholesale and retail margins adjustments including secondary storage and transport – **Regulatory Accounting System (RAS)**.

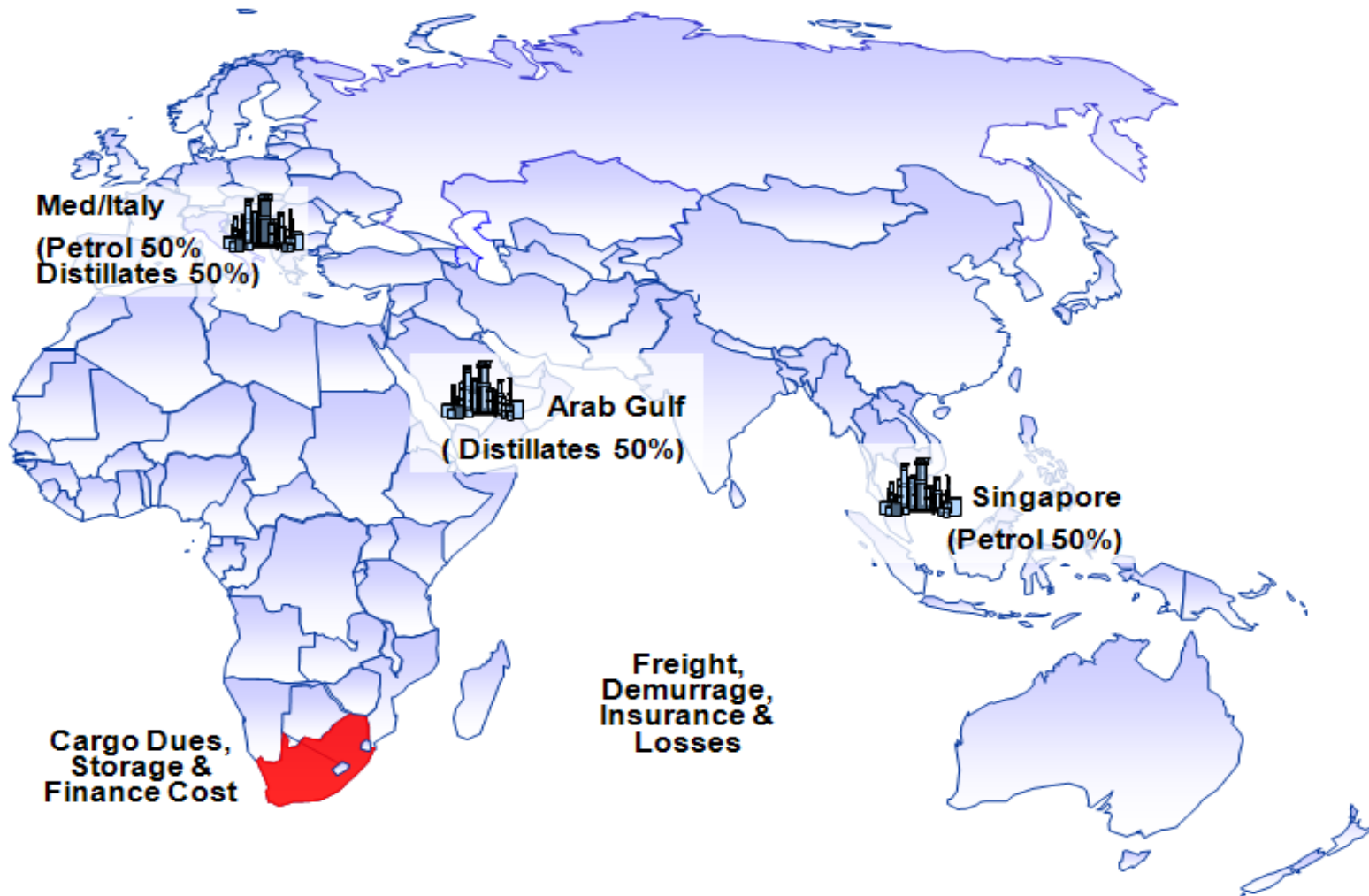
**Quarterly** – Octane differential adjustments

# Elements of the BFP

- Free-on-Board (FOB)-value – *cost of fuel in the markets*
- Freight and Average Freight Rate Assessment – shipping costs
- Insurance
- Ocean loss – *evaporation during transportation*
- Demurrage – *3 days provision for offloading of fuel*
- Cargo Dues – *a fee to use the harbour facilities (by **TNPA**)*
- Coastal Storage – *25 days provision to ensure security of supply*
- Stock Financing costs – *at prime rate minus 2*



# Reference Markets



# Factors that influence the BFP

- International crude oil prices
- International product s/d balances
- Product inventory level
- Geo-politics e.g. Russia-Ukraine, Closure of Suez canal etc.
- Rand/US Dollar exchange rate
- International refining margins
- Weather patterns in the Northern Hemisphere



# Fuel Levies

- **Petroleum products levy:** to reimburse the pipeline users for the applicable NERSA tariff on transporting fuel through the pipeline
- **IP Tracer dye levy:** to reimburse the oil industry for buying IP tracer dye and to inject it into IP to curtail the mixing of IP and diesel (loss to the Fiscus)
- **Slate levy:** to finance the cumulative under recovery of the industry. Only applicable when the cumulative Slate balance exceeds R500 million (under recovery)
- **Fuel levy:** Tax levied by Government (Minister of Finance)
- **Custom and Exercise levy:** a duty collected in terms of the Customs Union Agreement
- **Road Accident Fund (RAF) levy:** To compensate for people involved in vehicle accidents.



# Regulatory Accounting System (RAS)

- ✓ Margins on activities are based on **Regulatory Accounts**
- ✓ Activities post-refinery gate are **ring-fenced**
- ✓ Assets, costs and ROA are ring-fenced to that activity – ABC methodology
- ✓ CAPM and WACC are applied to determine the ROA of each activity
- ✓ Identified activities were:
  - ✓ Wholesale activities
  - ✓ Secondary storage
  - ✓ Secondary distribution
  - ✓ Service station retail activities (BSS)



# Pump price make-up in SA

|                                             | Petrol 95<br>ULP<br>c/l | Petrol 93 ULP &<br>LRP<br>c/l | Diesel 0.05% S<br>c/l | Diesel 0.005% S<br>c/l | Illumi-<br>nating Paraffin<br>c/l |
|---------------------------------------------|-------------------------|-------------------------------|-----------------------|------------------------|-----------------------------------|
| Wholesale margin                            | 73,700                  | 73,700                        | 94,990                | 94,990                 | 94,990                            |
| Secondary Storage                           | 38,000                  | 38,000                        | 38,000                | 38,000                 | 38,000                            |
| Secondary Distribution                      | 18,800                  | 18,800                        | 18,800                | 18,800                 | 18,800                            |
| Router Differential                         | 0,000                   | 0,000                         | 0,000                 | 0,000                  | 7,400                             |
| Retail margin                               | 299,500                 | 299,500                       | 0,000                 | 0,000                  | 0,000                             |
| Zone differential in Gauteng                | 87,100                  | 87,100                        | 87,100                | 87,100                 | 105,300                           |
| IP Tracer levy                              | 0,000                   | 0,000                         | 0,500                 | 0,500                  | 0,000                             |
| Fuel levy                                   | 415,000                 | 415,000                       | 402,000               | 402,000                | 0,000                             |
| Customs & excise duty                       | 4,000                   | 4,000                         | 4,000                 | 4,000                  | 0,000                             |
| RAF levy                                    | 218,000                 | 218,000                       | 218,000               | 218,000                | 0,000                             |
| Petroleum Products levy                     | 0,330                   | 0,330                         | 0,330                 | 0,330                  | 0,000                             |
| Slate levy                                  | 0,000                   | 0,000                         | 0,000                 | 0,000                  | 0,000                             |
| Pump Rounding                               | ( 0,300)                | ( 0,300)                      | 0,000                 | 0,000                  | 0,000                             |
| Sub-total                                   | 1 154,130               | 1 154,130                     | 863,720               | 863,720                | 264,490                           |
| <u>Contribution to the Basic Fuel Price</u> | 1 032,870               | 1 024,870                     | 1 071,630             | 1 077,030              | 1 051,128                         |
| <u>Retail Price</u>                         | 2 187,00                | 2 179,00                      |                       |                        |                                   |

# Emerging risks

- Security of supply threatened by the closure of refineries
- Inability to supply fuel to SACU region
- Conversion of manufacturing warehouse to depots may affect the collection of DAS
- Transportation of fuel from Richards bay by road could threaten the sustainability of the pipeline and lead to price arbitrage
- Increasing fuel imports from Matola
- ***How can we turn some of these risks into opportunities?***



# Maximum Refinery Gate Price (MRGP)

- Use Impot Parity Principle since July 2020
- Saudi Aramco determines the prices of Propane and Butane monthly
- Based on freight from Ras Tanura in Saudi Arabia to Richards Bay
- Vessel size used is 20kt
- Challenges of landing LPGas at the Port of Saldanha Bay (5.5kt) are well documented
- The Department implemented a 14% Supply Cost Recovery as an interim measure for 24 months



# Maximum Retail Price

- The MRP include amongst others, but not limited to the following
  - *Operating Expenses*
  - *Working Capital*
  - *Depreciation*
  - *Gross margin – cylinder filling plant*
- Challenges
  - *Cylinder deposits – legal opinion*
  - *Retail margin linked to MRGP*
- The Department has initiated a process to review all the elements of the MRP



# Conclusion

- The pump price of petrol is regulated in 54 MDZs
- Diesel prices are not regulated
- LPGas and IP are regulated at maximum prices
- Fuel Pricing mechanism incorporates the Import Parity Principle (IPP)
- The Petroleum market landscape is changing in SACU with the emergence of National Petroleum Companies
- There is need to consolidate the SACU market
- The department is monitoring the developments to ensure that the fuel pricing mechanism is robust

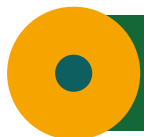


# THANK YOU!

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The logo for the Department of Mineral and Petroleum Resources (DMPR) of South Africa, featuring an orange circle with a blue dot inside.

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