

TRANSNET RECOVERY PLAN



OPERATIONAL PERFORMANCE & RAIL REFORM



REINVENT

for GROWTH

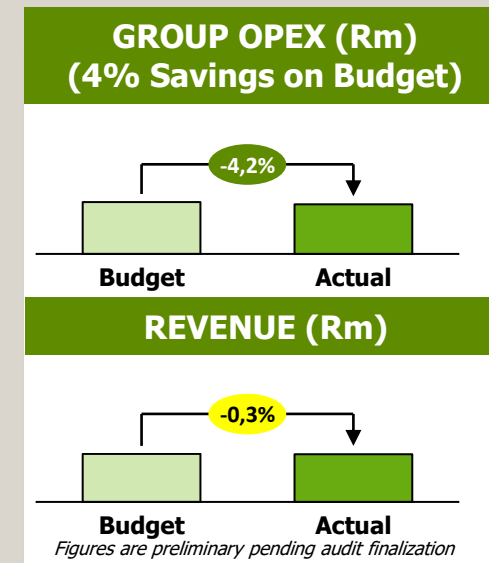
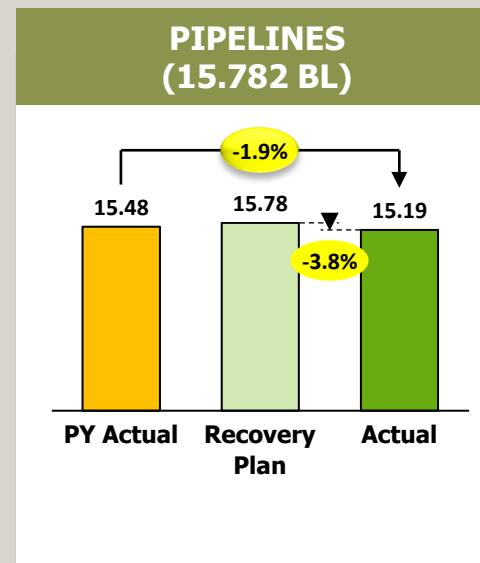
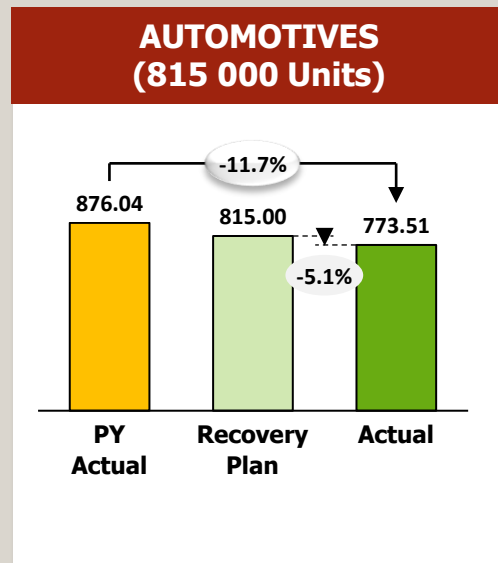
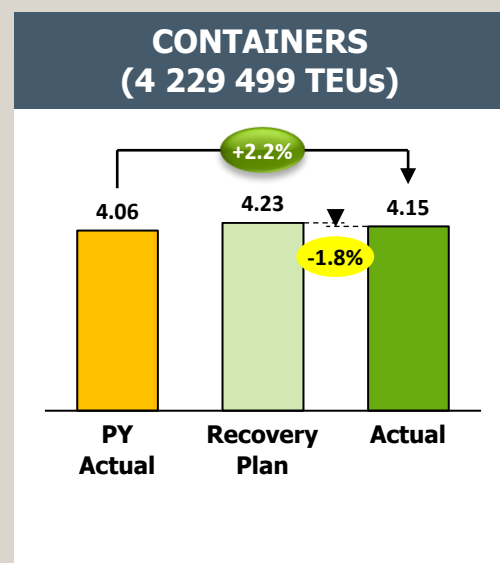
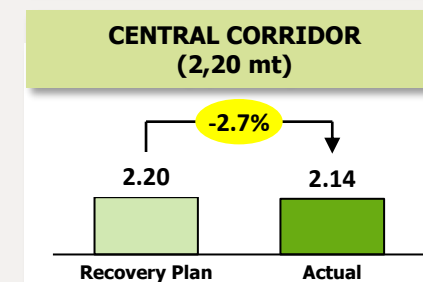
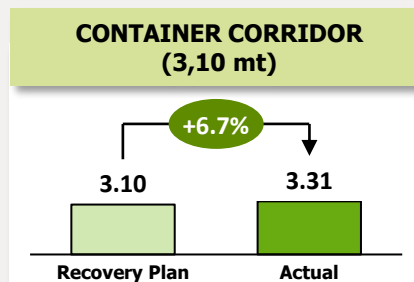
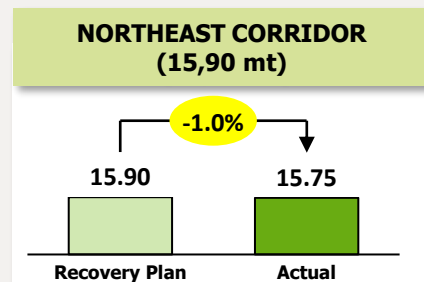
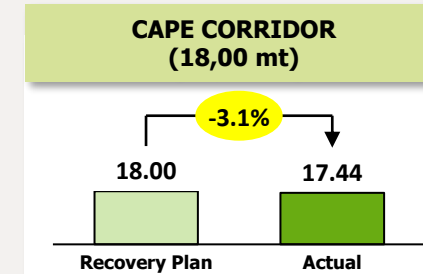
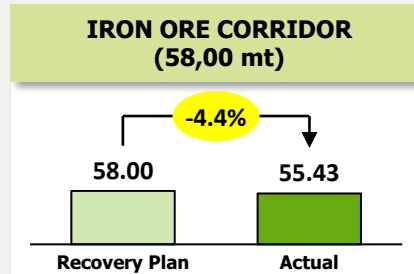
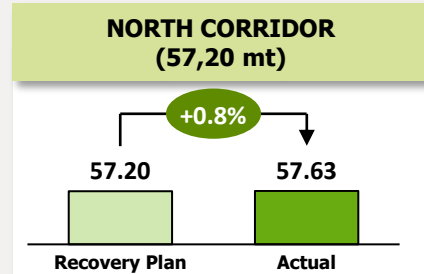
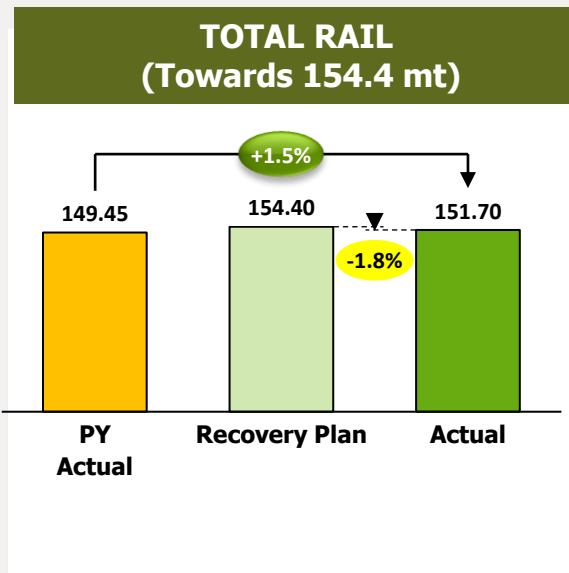
Media presentation

26 APRIL 2024

RECOVERY PLAN SCORECARD PERFORMANCE

2023/24 FINANCIAL YEAR SUMMARY

FINAL REPORT AS AT 31 MARCH 2024



PORTS

LIST OF NEW EQUIPMENT SOURCED FROM CUSTOMER - ALLOCATED

	Delivered
	ETA Confirmed
	No ETA



Terminal	Equipment	Status
Pier 1	10 x Haulers	Delivered
Pier 2	25 x Haulers	Delivered
Pier 2	10 x Haulers	18 May 2024
Pier 1	1 x Reach stackers	Delivered
DBN	3 x Reach stackers	Mid May 2024
	3 x Reach stackers	30 April 2024
	3 x Empty Handlers	30 April 2024
CTCT	4 x Reach Stackers	26 April 2024
	7 x RTG Cranes	Delivered

TRANSNET

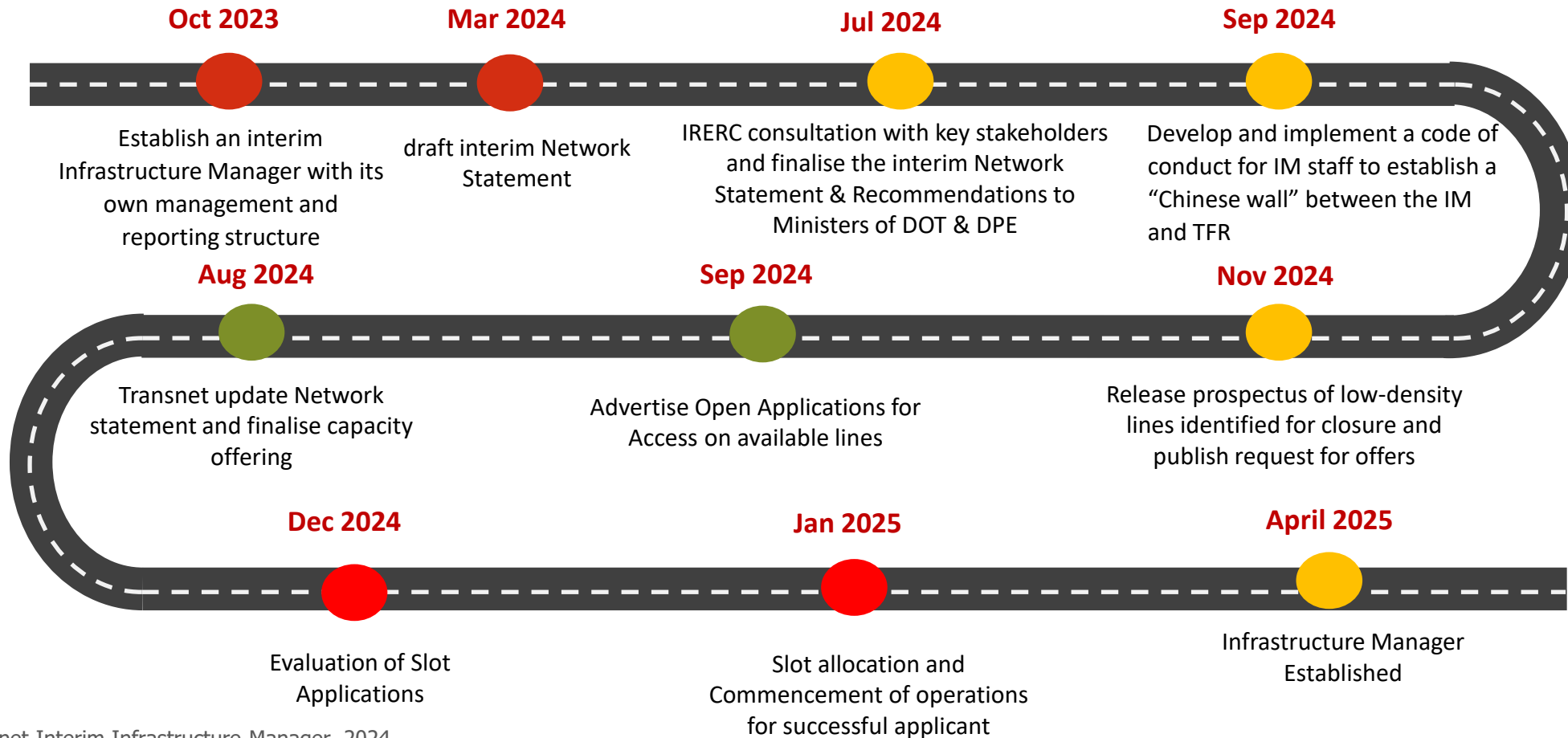


**TRANSNET RAIL REFORM PROGRESS &
NETWORK STATEMENT**

PROGRESS ON REFORM JOURNEY SET OUT IN FREIGHT LOGISTICS ROADMAP



- Timelines are subject to outcomes of the public consultation process
- Engagements with Government stakeholders (the Presidency via the NLCC, the DPE, the DoT and National Treasury) regarding various aspects of the Freight Logistics Roadmap and Options for funding are underway
- Internal governance processes and consultation on reorganisation proposed in the NRP and Freight Logistics Roadmap are underway





- The ERT Bill, National Rail Policy, 2022 and the Freight Logistics Roadmap, 2023, **require that Transnet publish a draft Network Statement for public consultation before the final Network Statement (containing the access regime) can be published to open slots for third party access.**
- The Network Statement **signifies the beginning of a process for Transnet to open access to more operators on the network.** This will assist both Transnet and South Africa to migrate traffic from road to rail and increase density on the network. As more trains run on the network, the overall cost of logistics per unit should reduce and the country can benefit from safer roads.
- It has been noted that in other countries where open access was implemented, **overall rail volumes and employment within the rail sector have increased over time.** Correlation can be drawn between rail sector growth and the enablement of industry sector value chains which has a positive impact on growth in exported volumes.
- Transnet published its draft Network Statement and Proposed Tariff Methodology on **15 March 2024.**






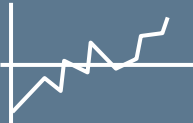


- The IRERC, as stated in the Freight Rail Logistics Roadmap, has, via the Department of Transport, **invited comments on the draft Network Statement by a notice in the Government Gazette** in which the public's attention was drawn to Transnet's publication of the draft Network Statement.
- The IRERC has **allowed stakeholders the period from 19 March 2024 to 20 May 2024 to submit their comments**. The IRERC also intends to hold several workshops to provide stakeholders with the opportunity to make representations. Dates are yet to be communicated.
- The interim IM has been invited to make a presentation at the information gathering sessions.
- Transnet will be provided with copies of the comments received. Upon conclusion of the public consultation, **IRERC will consider comments from stakeholders and Transnet and draft its recommendations to the Ministers of Transport and Public Enterprises**.
- **Once the final Network Statement and tariff are finalised and approved** by the Ministers of the DPE and DoT, **Transnet will publish the final Network Statement and open access** on available parts of the network to interested parties.



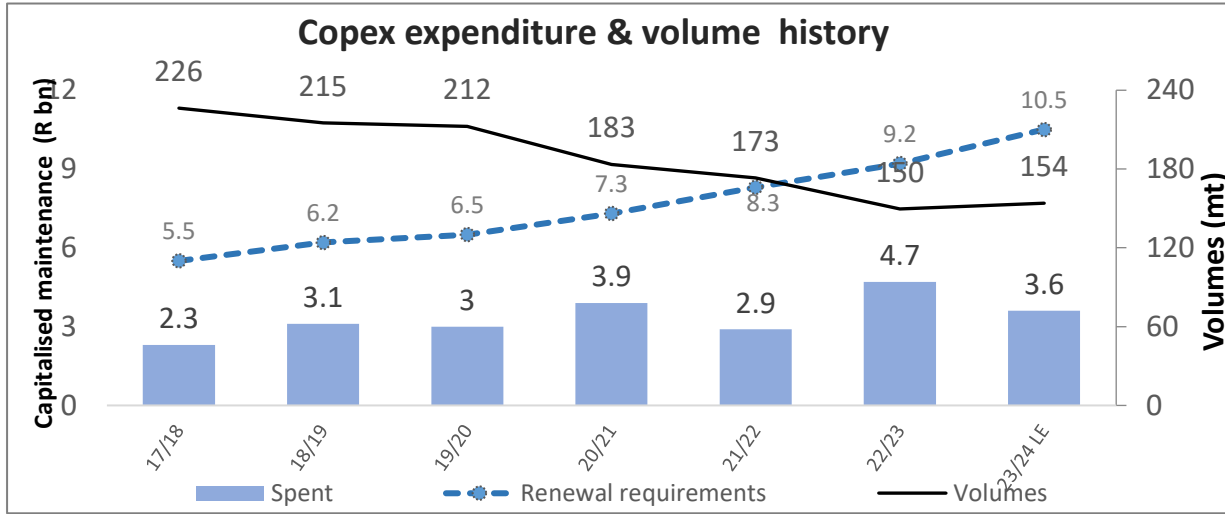
What informed the Proposed Tariffs?



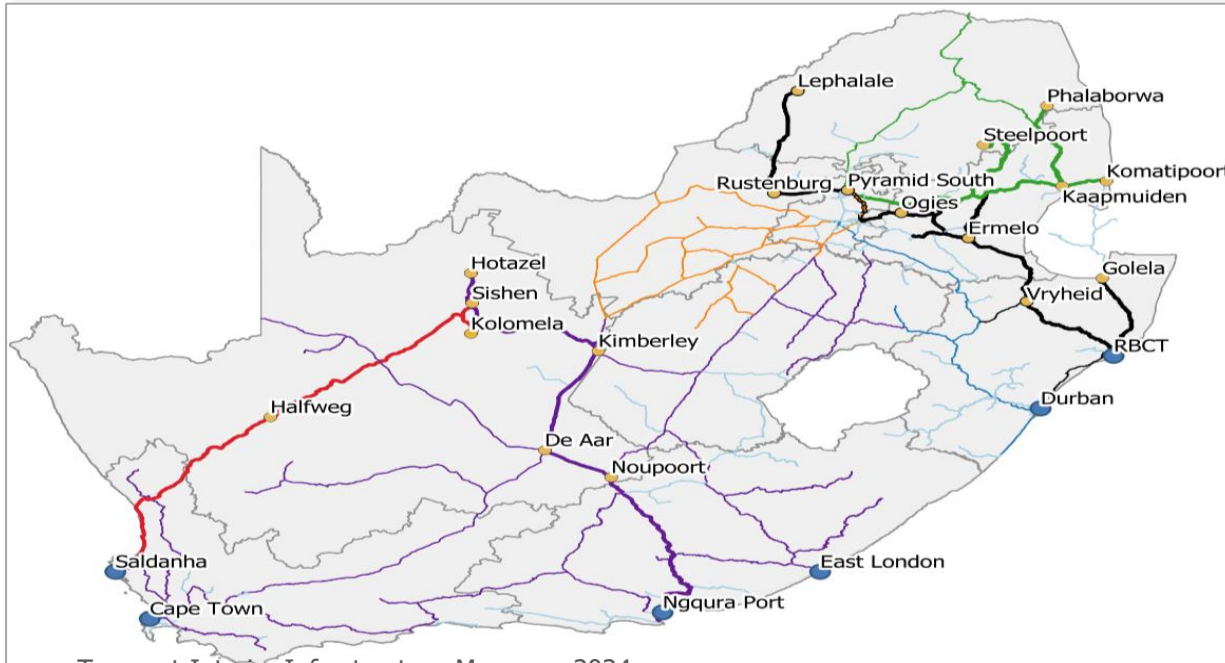
Overview of SA network	Description	Challenge and reform required*	Description
<p>1</p> <p>Size, scale and complexity</p> 	<ul style="list-style-type: none"> Transnet Freight Rail (TFR) operates a vast rail network that measures approximately 21 200km System caters to diverse traffic ranging from relatively lighter passenger and general freight trains (20 t/axle) to heavy haul operations for bulk minerals such as coal and iron ore (26 -30t/axle) It also uses a mix of diesel and electric tractions systems including 3kv, 25kv & 50kv Electric systems 	<p>4</p> <p>Infra maintenance (COPEX) shortfall</p> 	<ul style="list-style-type: none"> Declining performance of rail system and related revenue has limited available funding for sustaining maintenance across the vast network Maintenance priority will be given to key sections of network to protect volumes and system sustainability
<p>2</p> <p>Deteriorating quality</p> 	<ul style="list-style-type: none"> Historic underinvestment on infrastructure and constraints on maintenance affordability have contributed to the resulting decline of network quality and reduction in slots on some routes (e.g., container corridor) 	<p>5</p> <p>Restoration Capex shortfall</p> 	<ul style="list-style-type: none"> Funding constraints have limited the ability to undertake required restorative works on the network Rehabilitation works and improvement on network quality is a key enabler to successful 3rd access and improving rail system performance for the country
<p>3</p> <p>Negative externalities</p> 	<ul style="list-style-type: none"> Negative externalities in particular crime and vandalism (e.g., damage signalling equipment) have also significantly to the contributed decline rail network quality 	<p>6</p> <p>Network rehabilitation*</p> 	<ul style="list-style-type: none"> Transnet will need to collaborate with broader rail community and leverage innovative capital to resolve maintenance and rehabilitation shortfall This will enable rail system reform that draws-in private sector train operating companies to increase and/or grow volumes and densities across network

INADEQUATE NETWORK MAINTENANCE FUNDING IMPACT

VOLUMES HAVE DECLINED AND CAPACITY IS CONSTRAINED



- **NOTE:** Condition categorisation based on the latest Rail Network Condition Reports
- Deteriorating levels of asset reliability & availability result in train delays, cancelled train slots, volume loss and eventual permanent capacity loss;
- Derailments result in loss of assets which in this case may be newly acquired locomotives, wagons and customer product;
- Failure rates of the asset base is increasing. Failure rates increase exponentially at the end of life of the asset, or poorly maintained asset' causing a greater safety risk
- Majority of Train Authorisation Systems are obsolete (some are >60 years old). Train authorisation systems are central to the Train Control interface between the Infrastructure Manager (IM) and Train Operating Companies (TOCs)



Corridor view: Status per Engineering Discipline

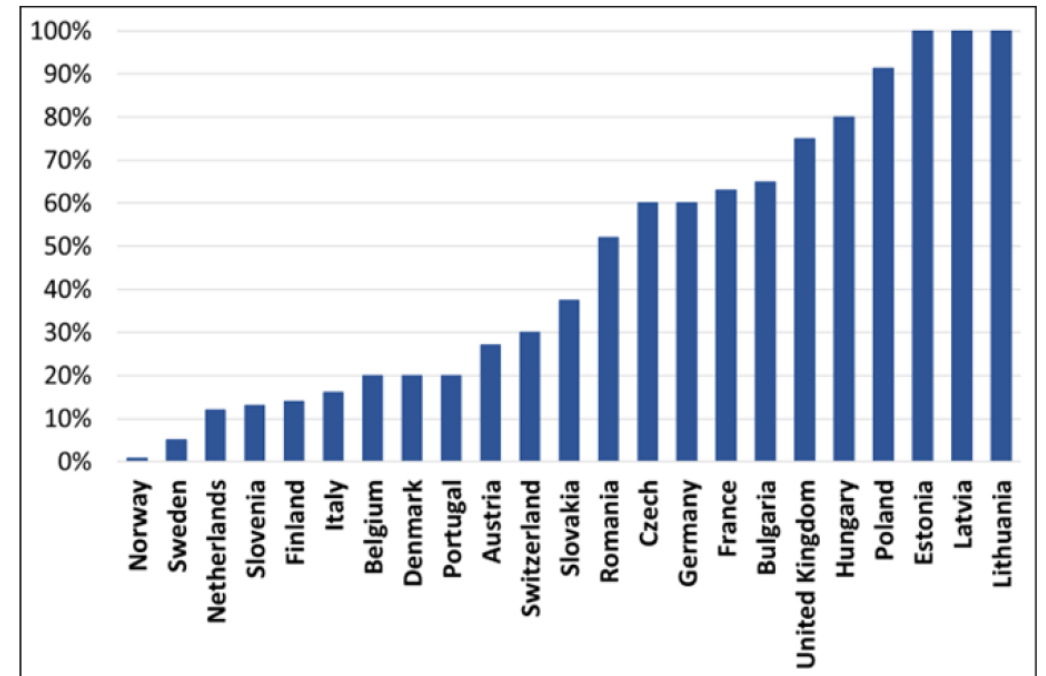
CORRIDOR	Corridor view: Status per Engineering Discipline								
	ORE CORRIDOR	NORTH CORRIDOR		CONTAINER CORRIDOR	CAPE CORRIDOR		CENTRAL	NORTH-EAST CORRIDOR	
		Coal Line	Lephalale - Ogies		Hotazel - PE	De Aar - CPT		Pyramid - Beitbridge	PHAL A to RCB
Perway	Red	Yellow	Yellow	Red	Red	Green	Yellow	Yellow	Red
Structures (Bridges)	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Electrical	Yellow	Yellow	Yellow	Red	Red	Red	Red	De-Electrified (Theft)	De-Electrified
Train Authorisation	Yellow	Red	Red	Red	Red	Red	Red	Red	Red
Condition Assessment & Protection Systems	Red	Red	Red	Red	Red	Red	Red	Red	Red
Radio networks	Red	Red	Red	Red	Red	Red	Red	Red	Red
Transmission networks	Yellow	Yellow	Yellow	Green	Green	Yellow	Red	Red	Yellow
Offtrack (Service roads, etc.)	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Red	Yellow

Source: Transnet Interim Infrastructure Manager, 2024



- The European Union recommends that member states should set rail track access charges at marginal cost, to promote efficient use of the infrastructure. Allowances are however made for member states to set prices high enough to cover the fixed costs of infrastructure, as required for financial sustainability.
- The financing gap created by marginal cost access pricing in the EU is typically covered, at least partially, by state subsidization.
- Figure 30 illustrates the extent of state subsidization of rail in the European Union in 2004, which varies substantially depending to some extent on the ability of each state to afford financing the network.
- As a rule of thumb, the available literature suggests that marginal costs in rail amount to approximately 15–20% of total costs.
- In Norway and Sweden, therefore, subsidization levels in 2004 were such that it is likely that not even the full marginal costs of rail were covered by infrastructure charges. In the Netherlands, Slovenia, Finland, Italy, Belgium, Denmark and Portugal, most or all of fixed costs were covered by the state.
- Only three countries in the sample aimed for total cost recovery from the customer, namely Estonia, Latvia and Lithuania.

Source: an Extract from South Africa’s Freight Logistics Roadmap (2023)



Percentage of total cost covered by infrastructure charges in European Union in 2004

Source: (Nash, Matthews, & Thompson, 2005),

PRICING METHODOLOGY TO DETERMINE RAIL ACCESS CHARGES MUST BE PRESCRIBED BY THE REGULATOR



Transnet proposed the Global Best Practice Required Revenue Methodology which will enable the IM to provide the desired network availability & reliability levels and achieve financial sustainability

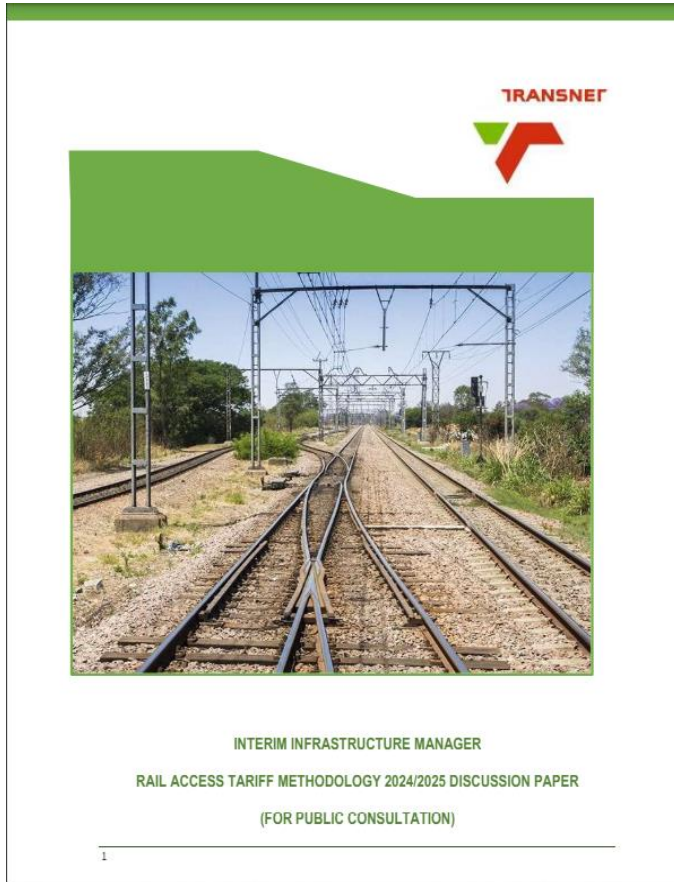
- ✓ Recovery of all operating costs incurred in the efficient provision of services to train operating companies (TOC)
- ✓ Provision adequate capital to undertake capital projects (for expansion and asset rehabilitation)
- ✓ Protected customers from paying monopoly prices
- ✓ In line with global and local best practice for adequately funding network infrastructure
- ✓ Examples of industries using the Required Revenue methodology Water, Energy, Ports, Rail and Aviation

The initial starting tariff before discussions with the various stakeholders comprehensively includes:

- ✓ Capital required to restore the network (maintenance backlog);
- ✓ Capital required for routine maintenance;
- ✓ Operating Costs (include the cost of managing the processes to provide access and associated information flows)
- ✓ Depreciation;
- ✓ security costs (relatively high due to unprecedented levels of theft and vandalism);
- ✓ Provision for tax and
- ✓ Ability to repay current debt and finance charges.

Consideration

- Transnet is hopeful that consultations which have been initiated with various stakeholders will culminate in a appropriate tariff levels suitable for the South African context.
- Based on Global benchmarks and lessons learnt, there are various options available including:
 - Government support to finance current debt
 - Government support on IM set up costs
 - Government equity for backlog maintenance instead of more loans
 - Government equity injection for the maintenance of low-density lines as stated in the national rail policy
 - Government support for developmental mandate on specific routes
 - The last option which is less preferred, is the reduction of planned capital spend which may have unintended consequences in terms of creation of capacity in future years as we have seen in the case of Eskom.



Next Steps

- According to the ERT Bill, the responsibility of the determination of the Tariffs lies with the Regulator.
- The Transport Economic Regulator has not yet been appointed, however the IRERC is fulfilling some of the roles of the Regulator.
- Transnet submitted its proposed tariff methodology and access fee with all its inputs to the IRERC for consideration.
- The final tariff determined must enable the IM to maintain the network to the standard required to ensure availability, reliability and safety as outlined in the NRP and sustain its operations.
- Tariff determination requires careful consideration. Lessons from railways globally and network industries such as ESKOM indicate that lower starting tariffs can result in future funding shortfalls for the network provider which may result in capacity shortages which may force the State to increase the tariffs rapidly to unaffordable levels in the future.
- The IRERC will consult with stakeholders and make determinations on methodology and appropriate price.
- In the absence of an appointed Regulator, the IRERC will make its final recommendations on the tariff to the Ministers of DPE and DoT.
- The tariff determined will inform the final Network Statement access fees to be published by Transnet.

TRANSNET



Thank you

Reinvention and Growth

