REGULATION OF ROMPCO PIPELINE



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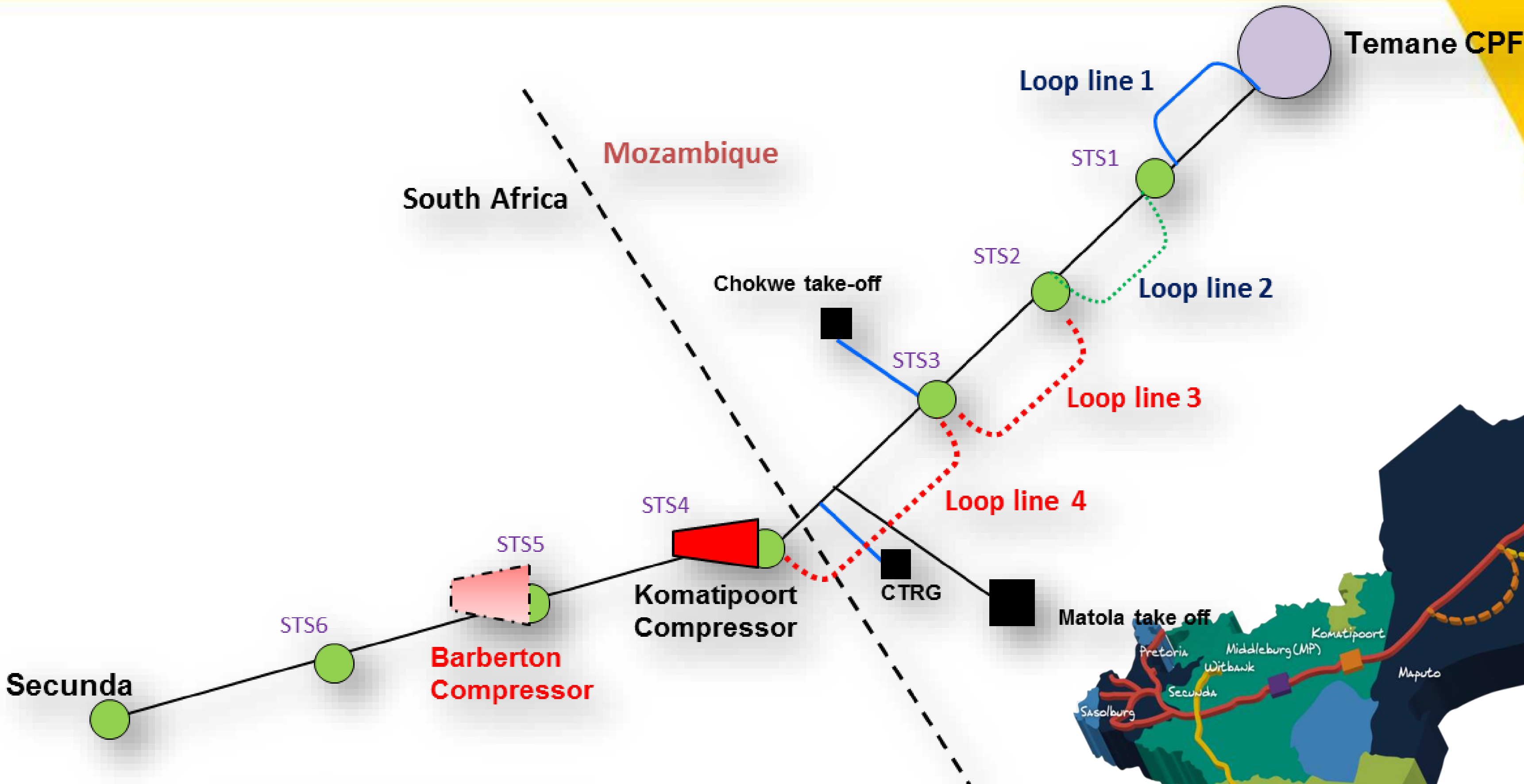
NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

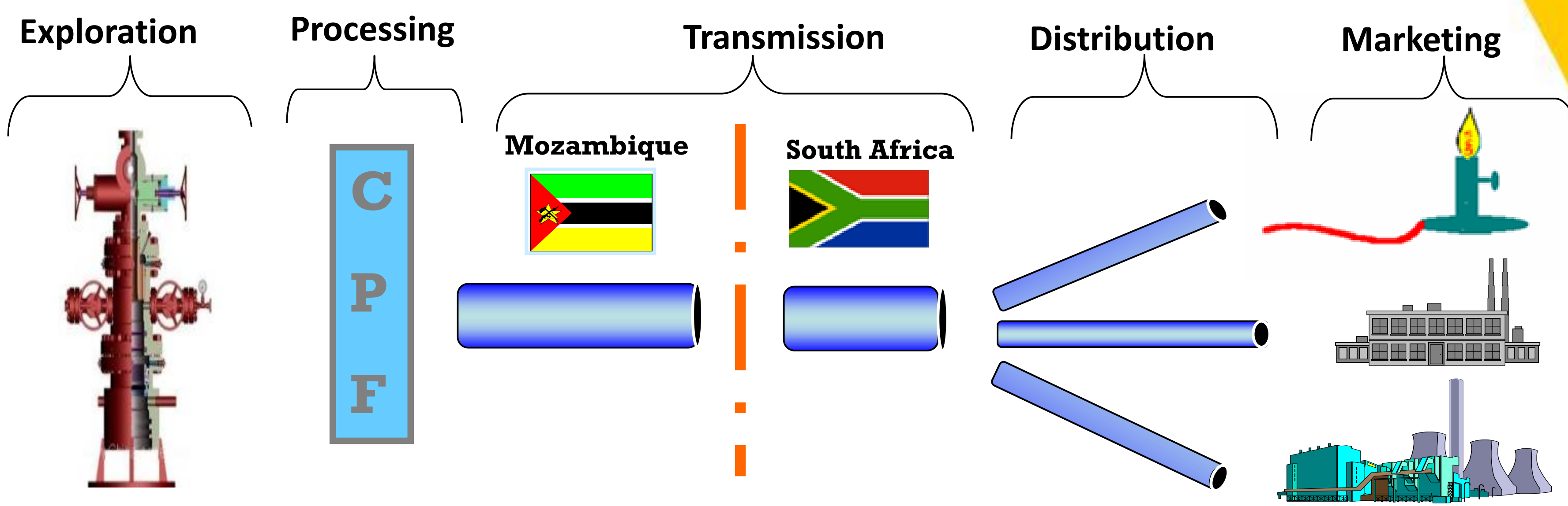
CONTENTS

ROMPCO pipeline and capacity expansion plans



Note: STS = Scraper trap station

JURISDICTION & PROJECT OWNERSHIP



INP (Regulator in Mozambique)		NERSA (Regulator in SA)	
Field	***CPF***	***Pipeline (ROMPCO)***	***Market***
▪ **Sasol Petroleum Temane 70%** ▪ **Moz Govt 25% (Via ENH/CMH)** ▪ **World Bank / IFC 5%**	▪ **Sasol Petroleum Temane 70%** ▪ **Moz Govt 25% (Via ENH/CMH)** ▪ **IFC 5%**	▪ **Sasol Gas Holdings *(50%)*** ▪ **SA Govt 25% (via iGas)** ▪ **Moz Govt 25% (via ENH/CMG)** ***NB: Shareholding structure to change due to the impending sale of 30% of Sasol's shares***	▪ **Sasol Gas internal markets:** • Sasol Synfuels • Sasol Oil • Sasol Chemical Industries ▪ **Sasol Gas external markets**

Source: INP & NERSA

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Project history and cooperation framework

Key enablers of the Sasol Mozambique natural gas project

Pande/Temane gas resources

- Discovered in the 1960s
- Original proved reserved of 3.5 Tcf
- Operator - Sasol Petroleum International
- Commercialised in 2004

RSA/Mozambique governments

- Political will to support the Sasol Moz gas project
- Policy objectives to promote of regional growth and trade; diversify energy sources
- Political will to eradicate poverty

Agreements/ Cooperation framework

- Gas Trade Agreement between governments of RSA and Mozambique
- Pipeline Agreement between the Gov of RSA and Sasol
- Regulatory Agreement between the gov of RSA and Sasol
- Pipeline Agreement between gov of Mozambique and Sasol
- Suits of Agreements between Sasol and Mozambique including the PPA for Pande/Temane
- Gas Transportation Agreements

Market

- Sasol factories in Secunda and Sasolburg anchored the project (70% of the volumes)
- External market (30%)

Infrastructure capital investment

- Sasol investment for the development of Pande/Temane and CPF
- ROMPCO pipeline investment

Sasol (project developer)

- Strategic objective to
  - ensure security of fuel and feedstock supply for the Sasol factories
  - reduce carbon emissions from coal operations

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Background and Key Timelines

2002

- In **2002**, a cross border pipeline that straddles both South Africa and Mozambique was constructed
- A Pipeline Agreement existed that covered the tariff to be charged for volumes up to 120 MGJ/a, and period of validity of this Agreement
- A Regulatory Agreement also existed that contained provisions including the minimum volumes to be supplied to SA per annum, and the period of validity of this special agreement

2004

- First year that gas was delivered to South Africa
- Tariff started as R4.64/GJ in 2004 for volumes up to 120 mGJ/a **(under GTA1)**

2010

- In **2010** a compressor station was built in Komatipoort and GTA2 signed to bring volumes above **120**mGJ/a to **153**mGJ/a
- Capacity expansions were not covered in the Pipeline Agreement
- A tariff of **R8.87**/GJ was approved by ER in March **2013 (GTA2 tariff)**

2014

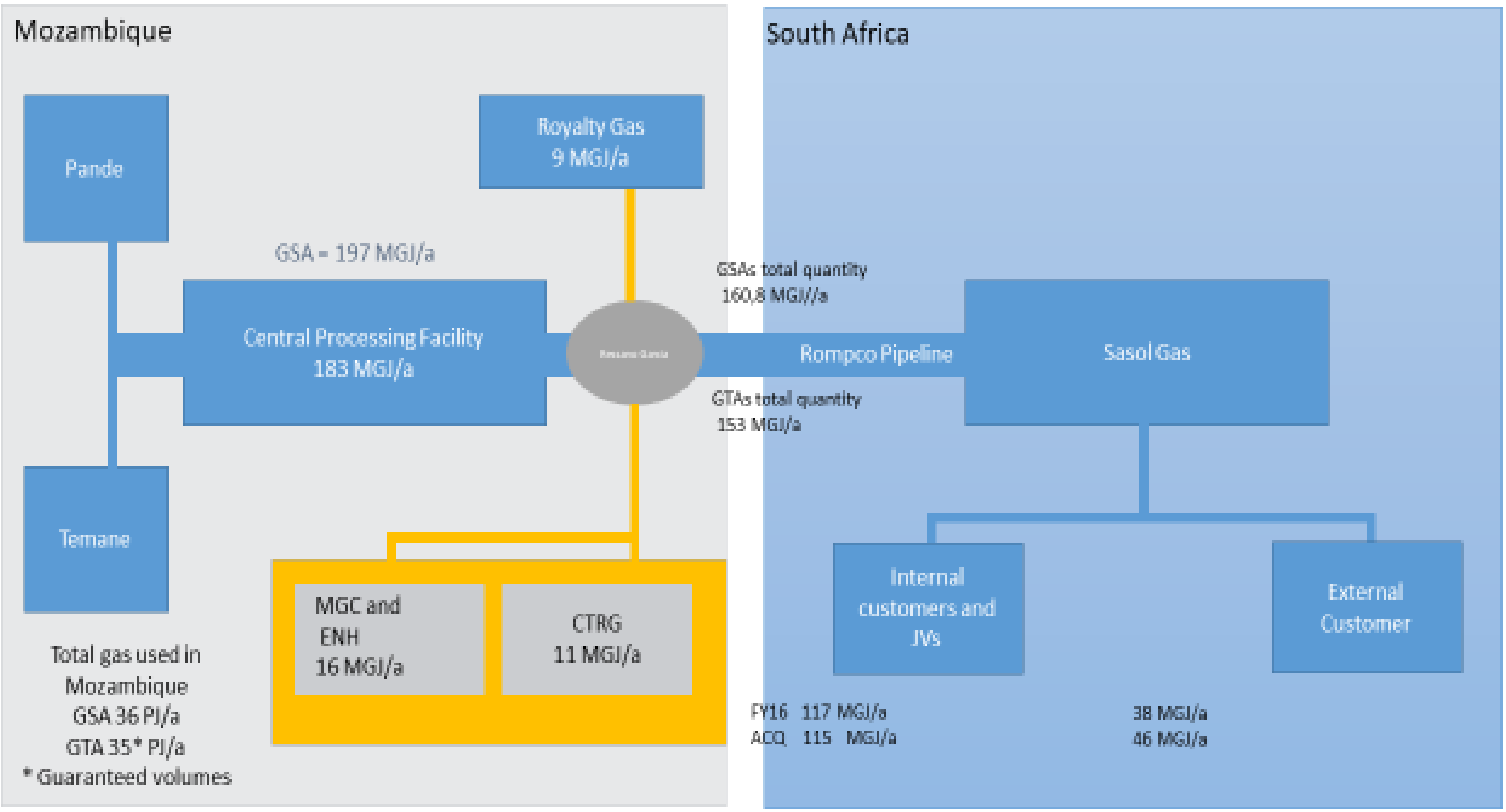
- In 2014, the Pipeline Agreement, including the Regulatory Agreement expired due to the effluxion of time

Regulatory Dispensation

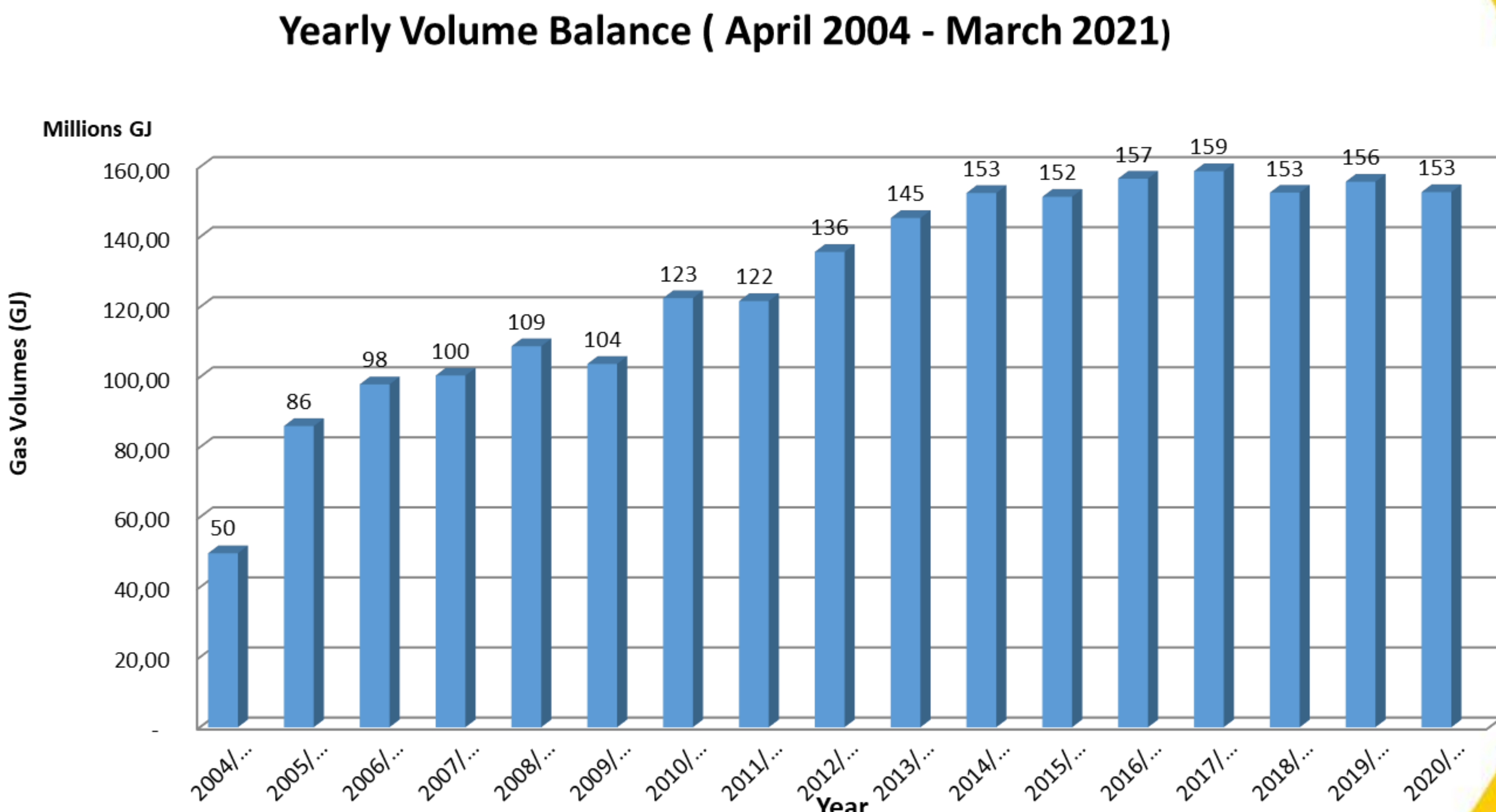
2016

- In **2016**, ROMPCO constructed a loop line 2 in Mozambique
- NERSA approved a tariff of **R49.87**/GJ for volumes above **153mGJ**/a up to **177mGJ**/a enabled by this loop line 2 in February 2017 but ROMPCO legally challenged one aspect of this decision **(GTA3 tariff). The** dispute was settled by court order in November 2017

GAS ALLOCATION ALONG THE VALUE CHAIN



GAS VOLUMES SUPPLIED TO SA MARKET



CHALLENGES OF REGULATING CROSS BORDER PIPELINE

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Cross-border Regulatory Challenges

(1) Remnants of contract regulation

- NERSA still managing the remnants of contract regulation which lasted for 10 years until 25 March 2014 vs carefully exercising the limited regulatory mandate contained in the Gas Act:
  - ✓ NERSA has no powers to approve/set tariffs for the main pipeline (linked to the initial 120 MGJ/a of natural gas transported from Mozambique), but only monitors what parties determined privately;
  - ✓ Multiple tariff system employed in the MSP -
    - **GTA 1 tariff** privately determined using a formula imposed during the regulatory dispensation and still applied beyond its valid period. This limits regulatory powers, NERSA cannot apply its regulatory discretion in terms of the Gas Act;
    - **GTA 2 & GTA 3** tariffs approved by NERSA.
    - ROMPCO tariff approach further discussed below

ROMPCO Tariff approach

GTA 1

Gas Vol - 126 MGJ/a

Tariff - R16.36/GJ

GTA 2

Gas Vol - 27 MGJ/a

Tariff - R13.76/GJ

GTA 3

Gas Vol - 7.8 MGJ/a

Tariff –R59.48/GJ

Future expansion or addition treated as separate tariff

The GTA1 is not cost reflective

NERSA prefers an approach that could pave way for one tariff

Proposed NERSA approach

NERSA proposal to have one ROMPCO Tariff and one RAB as opposed to numerous GTA tariffs

Any asset addition will be added to existing pool

Transition to one tariff

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Multiple tariff system	Pooling/aggregated capacity approach
❖ Multiple tariffs imposed on one pipeline system are inefficient and inconsistent with the existing regulatory and legal framework ✓ Does not enjoy any legal protection under the current legal and regulatory framework ✓ The 10 yr dispensation period that allowed for the separate tariff determination has expired	❖ Pipeline expansions intend to increase capacity and efficiency of the pipeline for the benefit of both countries ❖ Aggregated capacity is consistent with the regulatory and legal framework ✓ Would ensure fair and reasonable return on capital to the investor i.e. will not compromise appropriate returns on investment deserved by ROMPCO ✓ No risk of revenue loss envisaged as the investor / ROMPCO will earn cost reflective tariffs and enjoy appropriate reward ✓ NERSA tariff guidelines will ensure that ROMPCO does not loose out on any funds that the shareholders invested ✓ Customers would pay one cost reflective tariff pertaining to the MSP instead of 3 or more tariffs on one invoice ❖ This will facilitate entry and development in the gas markets, while ensuring cost efficiencies

Ideal solution

- Amendment of the existing ROMPCO Licence Conditions to align all the regulatory requirements with the provisions of the Gas Act.
- This requires bilateral consultation in terms of the Gas Trade Agreement signed between the governments of RSA and Mozambique.
- Why licence amendment?
  - ✓ To achieve full compliance with the objectives of the Gas Act
  - ✓ To ensure that existing licence condition set the standard equal to or envisaged in the Gas Act for compliance
  - ✓ To ensure that the outcome of tariff levels approved by NERSA are in line with the regulatory framework (Gas Act, Regulations & methodologies)
  - ✓ To remove reference to the now expired Pipeline Agreement in the licence conditions
  - ✓ To provide regulatory certainty and transparency in the determination of tariffs for the transportation of gas via the pipeline by all parties, including other third parties

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Impact if we do nothing?

- ROMPCO multiple tariff system remains in place
- Potential discrimination on tariffs charged to Sasol Gas vs. tariffs to other customers (tariff formula predefined in the Agreement was applicable to only the gas volumes up to 120 MGJ/a transported by Sasol Gas)
- High gas transportation tariffs will persist, whereas the original ROMPCO pipeline assets (anchored by the initial 120 MGJ/a) have already been depreciated significantly.
- Negative ripple effect on energy costs for SA industries dependant on gas to fuel their manufacturing and steel operations, amongst others.

(2) Other challenges with the cross-border pipeline

- Jurisdictional issues - multi jurisdictional requirements and misaligned licensing and tariff regimes
- Information asymmetry and lack of transparency on project activities (e.g., on cost recovery and revenue disclosure)
- Legal challenges on regulating assets located in another country
- Regulatory and policy gaps - treatment of incremental capacity
- No Rules on capacity and cost allocation - to host and beneficiaries of the infrastructure
- Mechanism for management of concurrent jurisdiction on regulatory matters - MoU between Regulatory authorities in SA and Mozambique
- Gas Trade Agreement fell short of addressing regulatory gaps identified

Ideal solution

- ❖ Harmonization of legislation and regulatory systems
- ❖ Co-planning and management for strategic cross-border gas infrastructure projects and investments (through Gas Commission, Interstate Technical Energy Committee)

GEO-POLITICAL DEVELOPMENTS - INSURGENCY

INSURGENCY AND POTENTIAL THREATS

- Islamist insurgency is localized to the northern part of Mozambique in the Cabo Delgado region
- Approximately 2000 km away from Pande & Temane gas fields and the ROMPCO pipeline
- Insurgency is currently under control through combination of SADEC and Rwandan security forces
- There has not been any evidence to suggest that the threat could spread out to other regions
- Only real threat pertains to:
  - ✓ Political stability in the region
  - ✓ Potential threat to future gas supply of LNG from new gas finds in northern Mozambique

GEOGRAPHIC DISTANCE BETWEEN AREA OF INSURGENCY IN NORTH AND CPF LOCATION

REGULATORY IMPLICATIONS OF THE PENDING SALE OF SASOL’S 30% SHARES IN ROMPCO

Issues affecting the ROMPCO pipeline

❖ Disposal of Sasol's assets

- Sasol to sell a portion of its stake in ROMPCO
- Sasol to potentially dispose of some transmission and distribution networks – details not yet confirmed
- This may lead to a degree of vertical unbundling in the piped-gas industry
- NERSA's role: to be an information resource during the merger/restructuring processes, licensing and regulation of new infrastructure owners

❖ Ongoing engagements

- Ongoing engagements with Mozambican counterpart regarding;
  - ✓ Harmonization of processes for regulation of cross border assets
  - ✓ Amendment of licence conditions to allow for opening of GTA1
  - ✓ Potential decline of gas supply from Mozambique

POTENTIAL IMPACT

- The Pipeline Agreement concluded between Sasol and the governments of South Africa and Mozambique for the development of the ROMPCO pipeline expired in 2014
- Only clause 4.2.7 still remains valid – pertains to obligation for supply of 120 MGJ/a to SA market
- No clear mechanism was provided in the Agreement on how the parties would deal with the surviving obligations in the event of changes that are likely to threaten the fulfilment of such obligation.
- ROMPCO holds licences issued by NERSA and INP for operation of the MSP
- NERSA and INP will conduct individual assessments on the regulatory implications/impact of the ROMPCO sale transaction on the respective licences issued in both countries
- The aim of this collaborative effort is to facilitate regulatory coordination between the two authorities to deal with any cross-border issues arising from the proposed sale OF Sasol’s interest in ROMPCO

POTENTIAL IMPACT cont.

- Impact of the sale on competition in the industry in relation to Sasol Gas' dominance and vertically integrated monopoly position.
- Opportunities for new entrants in the industry.
- Change in control of the Pipeline Company may trigger regulatory processes pertaining to licence issued by NERSA.
- Potential impact on the tariff(s) to be charged for using the ROMPCO pipeline
- Likely impact on Sasol's obligation to supply a minimum 120 MGJ/a from Mozambique to the South African markets until 2029.

Thank you

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