

Casting, Forging and Machining Cluster of South Africa NPC



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Consultation document: REVIEW OF THE METHODOLOGY TO APPROVE MAXIMUM PRICES OF PIPED GAS IN SOUTH AFRICA

To whom it may concern,

Thank you for the opportunity to participate in a topical workshop with NERSA, which we believe was mutually beneficial. The contents of this letter are informed by our April 2022 letter addressed to NERSA (included in our submission as an attachment), by the draft methodology published as a discussion document, by discussions at the September 2022 workshop, and by our technical assessment.

Introduction to CFMC

The Casting, Forging, and Machining Cluster of South Africa NPC (CFMC) is a not for profit company, that functions as an industry-led cluster initiative, to engage with other industry stakeholders to resolve challenges and unlock opportunities. In this instance, to present an industry view that will help NERSA to facilitate balanced methodology to be used for the setting of gas tariffs. More information on the CFMC is provided at the tail end of this letter, or is available from our website.

Enabling Public Participation

The NERSA Discussion Document is detailed. Thank you. We appreciate the manner in which this process is being managed, the direction in which finalising of the methodology is going, and NERSA for listening and giving consideration to the feedback provided to you in April 2022 by ourselves and others.

We support the methodologies selected, and understand some of the challenges that NERSA has had to work through to develop a calculation model. That said, we suspect that further work is needed to improve the model, as we have struggled to understand the workings, as presented, and are concerned that if not addressed, the model might unintentionally serve to drive-up the maximum price, and open the door

for windfall profits in the supply of gas. In the spirit of our collaboration, we would like to draw your attention to the following concerns that we have identified. .

Determination of margin or a markup

There are two issues.

The 1st pertains to the selection of companies and gross margins.

- A. In the table provided it is evident that the average margin would change significantly depending on the region in which the company selected is based. We observed that the gross margin for North American companies is significantly higher than in other regions, and that the inclusion of North American companies in the selection distorts the average gross margin upward to 50%. Similarly, by adding more Asian companies and reducing the number of North American companies in the selection, would have the effect of lowering the gross margin average to about 35%.

We suggest a review of the manner in which the companies are selected, and how the calculator is weighted to account for regional differences, is needed.

The second pertains to calculating the margin to be used to calculate the maximum price.

- B. Based on information contained in the calculation table provided, it would be impossible to calculate a suitable margin without having access to sufficient information. We cannot see how the price would be calculated without estimating, or knowing, the trading and distribution costs.

We suggest that this calculation should be revisited once NERSA has calculated or gained access to these input costs.

- C. In our April 2022 letter to NERSA, we suggested that a fair margin of no more than 10% should be allowed. This is the margin that is being suggested to the NERSA Electricity Tariff DEpartment for an efficient service. We do not see that there is much difference between the two.

WE suggest that a 10% margin should be applied to calculate the profit component.

Gas Prices

We note in the Discussion Document that the intention of NERSA is to establish one price for piped gas (if understand it correctly) We refer you back to our comments in our April 2022 letter to NERSA, in which we raise the concern that the gas being supplied to Middelburg is in fact a methane gas, residue from the SASOL operating process, and is in effect a waste produce for which special contract prices were set.

Other concerns

1. Transmission and Distribution costs are an important part of the bigger cost discussion, but are not referenced in the NERSA documents.
2. Consideration should be given in the methodology to gas efficiencies (per kWh). By our analysis, the conversion efficiency rate for electricity generated

from gas, or for the melting of copper (a non-ferrous metal) is similar, at between 38% and 42%.

About the Casting Forging and Machining Cluster

The CFMC is an industry-led cluster initiative to develop and grow manufacturers and associated service providers in the casting, forging, machining and associated manufacturing industries. Members of the CFMC are committed to working together to address the challenges facing them and the local industry in South Africa. CFMC is committed to strengthening linkages between manufacturing companies and institutions, including economic regulators, like NERSA. Also necessary is relationship building and collaboration alliances with the government and industry support structures, with the aim to stimulate capacity development and improve competitiveness of South African companies and the products that they make locally. Localization and import replacement are the major focus points that will headline the cluster's plans to initiate this process of change.

The CFMC and its members are primed to play their part in the revitalisation of the South African metals industry. Together the collective bargaining power, great structures and open cooperation of the cluster and its members can forge forth a South Africa first industry, which rewards locally produced cast and forged core products, improving local manufacturing and contributing toward job creation. CFMC has a Board, and is managed by a Steering Committee of elected leaders.

Our members consist of mini-mills, foundries, forges, heat treatment plants, machine shops, metal processing plants, as well as component manufacturers. Most are high energy users and utilise gas. through by. This group of industrial users serves to provide a significant portion of the employment opportunities in the country.



Regards
Steve Jardine
Managing Director
30 September 2022
