

Department of Minerals and Energy

Working Rules to Administer the Basic Fuels Price Methodology

Date effective: 2 March 2003 (revised 28 October 2005)

1. BASIC PRINCIPLES AND WORKING RULES OUTLINE

The implementation of the Original Working Rules to administer the price of regulated fuel, originated from recommendations of the Liquid Fuels Industry Task Force (LFITF) and Cabinet approval thereof on 28 September 1994, and are now updated to comprehend the determination of the Basic Fuels Price of all petrol and diesel grades to be marketed in South Africa from 1 January 2006.

Underlying principles for the basis of determination of the Basic Fuels Price are to represent the realistic, market-related costs of importing a substantial portion of South Africa's liquid fuels requirements, and it is therefore deemed that such supplies are sourced from overseas refining centres capable of meeting South Africa's requirements in terms of both product quality and sustained supply considerations. (See Annexure A for a full explanation and guideline on the calculation of the Basic Fuels Price and specific factors relating thereto.)

These Working Rules make provision for the prices of all grades of petrol, diesel and illuminating paraffin to be adjusted on the first Wednesday of each month, in line with the principal objectives: (a) that amounts of price change will at all times be determined and implemented in such a manner that over or under recoveries incurred during the previous period caused by Basic Fuel Price (BFP) movements will be cleared during the following period, and (b) that Cumulative Slate balances which have built up during preceding calendar months be managed to maintain such balances within reasonable limits.

The amounts of the monthly price adjustments determined by these Working Rules are confined to the following:

- Calculation of the Basic Fuels Price average unit over / (under) recoveries for the period from the first applicable working day of the previous month to the last applicable working day of the month preceding (refer to paragraph 2 below) the price adjustment, determined on the basis detailed in these Working Rules and resultant indicated price change requirement expressed to three decimals of a cent and rounded in terms of paragraph 5;
- In addition to these unit over / (under) recoveries, further adjustments will be applied as required and as described in paragraph 5 below i.e. 1,0 c/l Slate Adjustment Factor and rounding - being the mechanisms employed to assist in maintaining Cumulative Slate balances within acceptable levels;
- Determination of all price element adjustments is to be based on actual / current data.

2. FUEL PRICE REVIEW PERIOD

Fuel price adjustments will be based on a 3-working day optimization mechanism. This will mean that the number of days between the first Wednesday of each month when fuel prices are adjusted and the last working day in which fuel price data is collected to determine these price changes, will be restricted to 3 working days. For example, fuel prices will be adjusted on 5 October 2005. The last working day of the fuel price review period will thus be 29 September 2005.

3. DETERMINATION OF THE BASIC FUELS PRICE ADJUSTMENT VALUE

Calculation of the Basic Fuels Price unit over / (under) recovery adjustment values are done for:

Petrol	95	Octane Unleaded
Diesel	0,3%	Sulphur (3000ppm)
Diesel	0,05%	Sulphur (500ppm)
Diesel	0,005%	Sulphur (50ppm)
Illuminating Paraffin		

The formula applied to the applicable product as above to calculate the unit over / (under) recovery value is:

$$UR = BFP^C - BFP^N$$

Where:

UR = the average unit over / (under) recovery value in South African cents per litre, for the price determination period.

BFP^C = the "Contribution to Basic Fuel Price" as published on the DME Media Statement applicable during the current price determination period.

BFP^N = the average of the daily BFP values calculated in accordance with Annexure A during the current price determination period

If BFP^N is bigger than BFP^C a unit under recovery is realised (the price must increase), and when BFP^N is smaller than BFP^C a unit over recovery is realised (the price must decrease).

The calculation of the unit over / (under) recovery for the price determination period is done as above on a daily basis and averaged for the fuel price review period (refer paragraph 2 above).

For example using 95 Octane Unleaded values for price determination period 02/09/2005 to 29/09/2005:

$$UR = BFP^C - BFP^N$$

Where:

$BFP^C = 326.113$ ("Contribution to the BFP^N 02/09/2005 to 29/09/2005)

$BFP^N = 335.870$ (average BFP 02/09/2005 - 29/09/2005)

$UR = 326.113 - 335.870$
= (9.757) under recovery (therefore price must increase)

The resultant unit over / (under) recovery as calculated above is expressed to three decimals of a cent and rounded in terms of paragraph 5.

4. FREQUENCY AND AMOUNT OF ADJUSTMENT

The adjustment will take place monthly at 00h01 on the first Wednesday of every month and will be announced publicly by CEF (Pty) Ltd on the Friday or Monday prior to the price adjustment.

It is noted that the amounts of petrol price adjustments (resulting from these Working Rules and from other factors) need to comprehend the requirement for the setting of pump prices to the nearest whole cent (see Annexure B paragraph 10).

5. CALCULATION OF THE MONTHLY PRICE ADJUSTMENT, INCLUDING ROUNDING AND 1,0 c/l SLATE ADJUSTMENT FACTOR

The amounts of the Basic Fuels Price adjustments determined in terms of these Working Rules will be the sum of the amounts determined in paragraphs 5.1 and 5.2 below.

- I. **The average unit over / (under) recovery caused by daily movements in Basic Fuels Price (BFP)** - as calculated in terms of paragraph 3 and Annexure A to three decimals of a cent for the price determination period (refer paragraph 2 above) and these unit over / (under) recovery adjustments are then rounded as follows:

If the individual product grouping (i.e. sum of Cumulative slates for all petrol grades, or sum of Cumulative slates for all diesel grades or for illuminating paraffin) cumulative slate balance at the beginning of the month preceding the month of the fuel price adjustment, is negative the price adjustment value will be rounded upwards to the nearest full cent in the case of a price increase and downwards to the nearest full cent in the case of a price decrease. If such Cumulative Slate balance at the beginning of the month is positive the price adjustment value will be rounded downwards to the nearest full cent in the case of a price increase and upwards to the nearest full cent in the case of a price decrease.

Cumulative Slate
Unit (under) recovery [Price Increase]
Unit over recovery [Price Decrease]
Negative
Round up 9.757 ~ 10.0
Round down 9.757 ~ 9.0
Positive
Round down 9.757 ~ 9.0
Round up 9.757 ~ 10.0

- II. **The 1,0 c/l Slate Adjustment Factor for each fuel**, is determined on the following basic criteria, and will be added or subtracted from the adjustment per paragraph 5.1 viz: the 1,0 c/l Slate Adjustment Factor (positive or negative) will be applicable only when the Cumulative Slate balances (positive or negative) of the individual product groups (i.e. (a) for all petrol grades, or (b) all diesel grades, or (c) illuminating paraffin) at the beginning of the month preceding the month for which the fuel price adjustments are calculated, exceed R10 million for petrol, R5 million for diesel and R1 million for illuminating paraffin.

The applicability of the 1,0 c/l Slate Adjustment Factor is determined each month, and is not carried forward from one month to the following month.

Unit over / (under) recovery rounded and adjusted for slate

1,0 c/l Slate Adjustment Factor
Unit (under) recovery rounded [Price Increase]
Unit over recovery rounded [Price Decrease]
Petrol cumulative slate < (R10 million) negative
= 10.0 + 1.0 = 11.0
= 9.0 - 1.0 = 8.0
Petrol Cumulative slate > R10 million positive
= 9.0 - 1.0 = 8.0
= 10.0 + 1.0 = 11.0

III. Implementation of changes to other fuels price elements:

The amounts of price change determined in terms of these Working Rules are confined to (a) over or under recoveries resulting from Basic Fuels Price (BFP) movements and (b) recovery of Cumulative Slate balances via the rounding adjustment and 1,0 c/l Slate Adjustment Factor mechanisms.

Changes to other price structure elements authorized by the Department of Minerals and Energy (DME) (i.e. to Dealer and Wholesale margins, Service -, Illuminating Paraffin Router -, and Zone Differentials, as well as to Government imposts) will also be implemented on the first Wednesday of each month, the amounts of which will be communicated by the DME to CEF (Pty) Ltd for inclusion in media statements which will indicate the total amounts of price changes.

It is noted that in the event that changes to such price structure elements are expressed in amounts to one or more decimals of a cent, the procedures and treatment for implementation will be in accordance with the guidelines given in paragraph 10 of Annexure B.

6. AUDIT BY INDEPENDENT AUDITORS

CEF (Pty) Ltd will perform the calculations for determination of amounts for the monthly price change in terms of these Working Rules. An independent auditor appointed by the Department of Minerals and Energy will, in terms of guidelines issued by the Department of Minerals and Energy, audit the relevant calculations and certify them to be correct.

7. ANNOUNCEMENT OF PRICE ADJUSTMENT

CEF (Pty) Ltd will publicise the audited price adjustments on the Friday or Monday before it become effective.

8. DAILY PUBLICATION OF INFORMATION

For each regulated product, CEF will publicise the following information daily:

- Calculated unit over / (under) recovery based on the product prices and exchange rate of the previous day;
- Average over / (under) recovery since the previous price adjustment; and
- Analysis of changes in the unit over / (under) recovery since the previous price changes.