

Losing bidder enters fray on pipeline tariff

The controversy around Transnet's application for a big increase in pipeline tariffs has taken a new turn, with a leading member of the iPayipi consortium, the losing bidder for the right to construct the Durban-to Gauteng petroleum pipeline, joining the fray.

By [Siseko Njobeni](#) 16 Mar 2009

Transnet's application for a 82.5% tariff adjustment for this year and 73.5% for next year to cover the costs of the R12,7bn multiproduct petroleum pipeline has raised the ire of the petroleum industry.

In an [article](#) published in today's *Business Day*, Clifford Elk, director of Benhove Investments, part of the iPayipi consortium that lost out to Transnet, said despite “a host of unanswered questions”, the National Energy Regulator of SA (Nersa) had granted the licence to Transnet.

The “unanswered questions” included the absence of an indication of how Transnet was going to finance the pipeline, and a lack of visible and transparent pricing, Elk said.

Transnet spokesman John Dlodlu said on Friday that Elk's complaint was “clearly a case of sour grapes” and that iPayipi's proposal was “fundamentally flawed”.

Elk maintained Nersa used Benhove's size and balance sheet to “discredit” iPayipi's bid.

“Completely ignored was the fact that the project funding model was prefaced on commercial terms backed by user pay agreements entered into with the relevant coastal based oil companies,” he said.

When it rejected iPayipi's application in September 2007, Nersa pointed to iPayipi's lack of technical and operational experience in operating pipelines for petroleum products, among other things. Nersa said the lack of experience raised the level of risk in awarding the licence to the consortium.

Elk said when the companies were still vying for the licence, the continued operation of the existing Transnet pipeline from Durban to Johannesburg was cast in doubt, frustrating iPayipi's plans to use it between Vredendorp in the Free State and Secunda.

Contrary to initial presentations to Nersa, Transnet had increased the carrying capacity of the existing pipeline “by some 25%” through the introduction of drag agents, Elk said. “One can only conclude that Transnet intentionally misled the public and the regulator in an effort to protect its dominant position as the natural monopoly supplier at the expense of the national interest.”

Dlodlu said on Friday: “One of the many weaknesses of iPayipi's application was that it was based on the continued use of the (existing pipeline), the very pipeline that Transnet is replacing.

“This pipeline, although close to the end of its useful life, is being carefully managed until the (new pipeline) is constructed. As required by Transnet's licence conditions, the entire (new pipeline) system will be constructed and be in operation by the end of 2011. Therefore the claim that we misled the public is rejected as false and malicious,” Dlodlu said.

Transnet had introduced the drag-reducing agents to boost the existing pipeline's capacity “to ensure security of supply in the inland market until the (new pipeline) is commissioned”.

Before the introduction of the drag-reducing agents, Transnet had done “extensive” testing with the oil industry “and confirmed that product quality would not be affected”, Dlodlu said. Nersa was aware of Transnet's use of agents, he said.

Source: Business Day

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