Overview

Port of Melbourne:

Regulatory Arrangements for Prescribed Services

Port of Melbourne

This summary paper provides a high level overview of the Port of Melbourne's current regulatory arrangements.

The Port of Melbourne's (consolidated group) regulatory framework, which took effect on 1 July 2016, details the basis for setting the tariffs it can charge port users for Prescribed Services.

The framework is set out in the:

- *Port Management Act 1995* (Vic) **(PMA)**
- Pricing Order, issued by the Governor in Council.

Further information can be found at *portofmelbourne.com.*

Regulatory Objectives

The objectives of the regulatory framework are set out in Section 48 of the **PMA** and include:

Efficiency	Promote efficient investment for the long-term interests of port users and Victorian consumers
Fair and reasonable prices	Ensure prices are fair and reasonable having regard for the level of competition and efficiency
Efficient Cost Recovery	Allow the Port of Melbourne to recover its efficient costs of providing Prescribed Services
Competition	Facilitate and promote competition between ports, shippers and third party operators

Prescribed

Prescribed Services are defined in Section 49(c)(i-v) of the **PMA** and include channel services, berthing services, short-term storage and cargo marshalling facility services and other services that allow access or use of certain port infrastructure. Further details about these services, including fees and charges, are contained in the Port of Melbourne's Reference Tariff Schedule **(RTS)**.

Non-prescribed

The Port of Melbourne provides various non-prescribed services including leasing of space and facilities on port land. Fees and charges for some non-prescribed services are contained in the Other Fee Schedule of the **RTS**. Charges for certain non-prescribed services, such as leasing of space and facilities, are based on commercial agreements. These are commercial-in-confidence.

Leasing of Space & Facilities

Non-prescribed

The Port of Melbourne negotiates rental agreements for access to land and facilities directly with tenants. Many leases are long-term, providing certainty for tenants.

Wharfage Fees

Prescribed

The wharf is a common user area for loading and unloading cargo. Wharfage fees are charged per unit of quantity, volume or weight for all cargoes, including empty containers, loaded or unloaded from or between vessels.

Berth Hire Fees

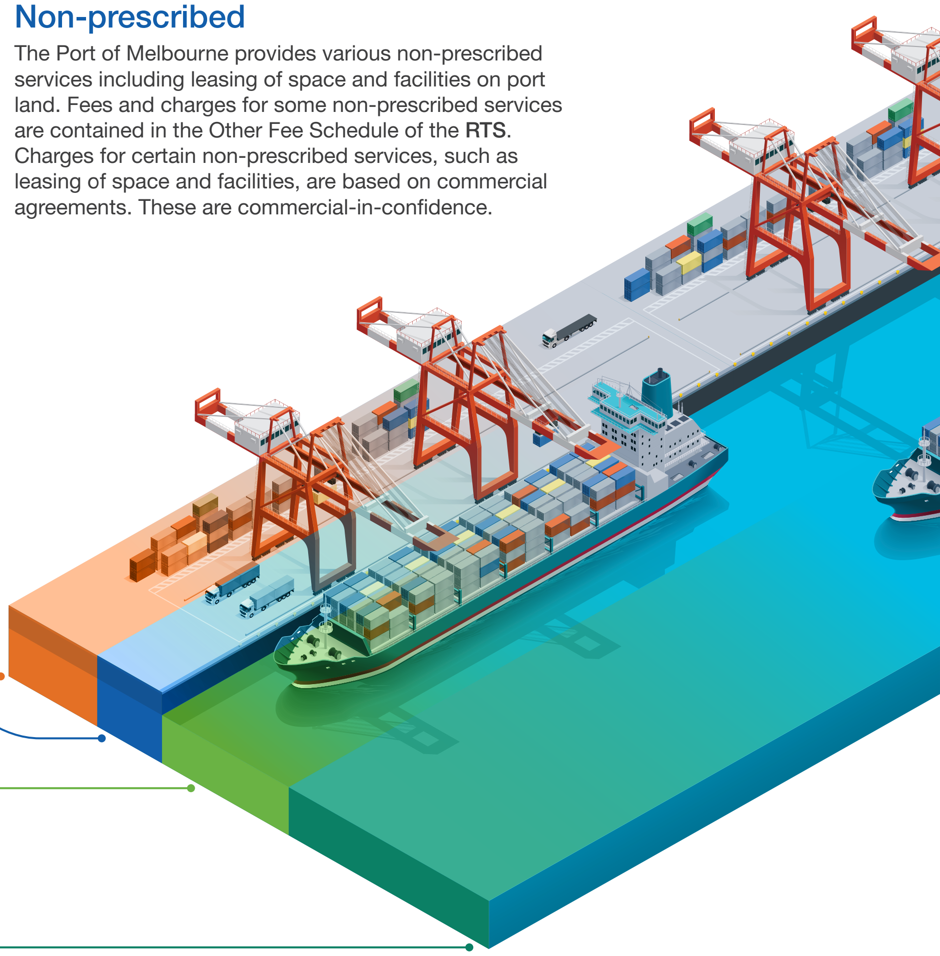
Prescribed

The berth is where vessels are secured at the waterfront edge. Berth hire, for common user berths, is a time based fee.

Channel Fees

Prescribed

The channel provides port access for commercial vessels. Fees are levied once per ship visit, on a gross tonne basis, for use of the channel and associated services.



More information on port charges can be found in the Port of Melbourne's **RTS.**

More information at *portofmelbourne.com*

Key terms used:

ABBM	Accrual Building Block Methodology
ARR	Aggregate Revenue Requirement
CPI	Consumer Price Index
ECR	Efficient Cost Recovery
ESC	Essential Services Commission
PMA	*Port Management Act 1995* (Vic)
RTS	Reference Tariff Schedule
TAL	Tariffs Adjustment Limit
WACC	Weighted Average Cost of Capital

Pricing Principles

The regulatory framework is based on established pricing principles and regulatory mechanisms. Key pricing principles are as follows:

1. **Price Smoothing:*** Tariffs based on the lower of:
   - I. Annual percentage change in March-on-March Australian **CPI**. This is known as the Tariffs Adjustment Limit **(TAL)**
   - II. Aggregate Revenue Requirement **(ARR)**, calculated using the Accrual Building Block Methodology **(ABBM)**, for the regulatory period
2. **Efficient Cost Recovery (ECR)**
   - Implied tariffs are based on the **ARR** calculated using the **ABBM** for the regulatory period

*Applies until at least 30 June 2032 and at the latest, 30 June 2037. Provides price certainty for port users, but may prevent the Port of Melbourne from achieving ECR.

Pricing Principles

The Port of Melbourne currently expects that Prescribed Service Tariffs[1] will be subject to price smoothing through the application of the **TAL** and, therefore, change in line with the annual increase in **CPI** until at least 30 June 2032 and at the latest, 30 June 2037. This is because tariffs implied by the **ARR** are expected to be higher than Tariffs subject to the **TAL** over this period (**TAL** period).

In the post **TAL** period, the Port of Melbourne expects that tariffs for Prescribed Services will be subject to the **ECR** and will be calculated using the forecast **ARR** calculated using the **ABBM** for the regulatory period. The Port of Melbourne is also entitled to recover any "unrecovered" depreciation from the **TAL** period.[2]

1. Other than tariffs for full outbound container wharfage services, which will decrease by 2.5 per cent per annum until the year ending 30 June 2020.
2. The Port of Melbourne will consult with Port Users on options for smoothing tariffs closer to the end of the TAL period once it knows more about the potential impact on tariffs.

Regulatory Process

Under the Pricing Order, the Port of Melbourne is required to submit a Tariff Compliance Statement to the Essential Services Commission **(ESC)** by no later than 31 May each year. The Tariff Compliance Statement must explain how Prescribed Service Tariffs for the upcoming financial year comply with the Pricing Order. The **ESC** is responsible for monitoring and reporting on the Port of Melbourne's compliance with the Pricing Order.

The **ESC** must conduct a public review of the Port of Melbourne's compliance with the Pricing Order every five years and report its findings to the **ESC** Minister.

ABBM

Return on Capital

Capital Base × WACC (nominal, pre-tax)

Capital Base: roll forward calculated based on opening capital base plus efficient and prudent capex plus **CPI** less depreciation

Initial capital base in the Pricing Order: $4.14bn (at 1 July 2016).

WACC: based on one or a combination of well accepted approaches that distinguish the cost of equity and debt.

+

Return of Capital (Depreciation)

Assets depreciated at shorter of useful life or lease term

+

Operating Expenditure

Allowance for 'prudent and efficient' forecast expenditure

−

CPI Indexation

CPI deducted to achieve a real return on a **CPI** indexed cost base

=

ARR ➡ Implied Prescribed Service Tariffs

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The Port of Melbourne is committed to genuine and open consultation. We welcome feedback from all customers and stakeholders with an interest in the port and port-related activities.

Please visit our web-site to learn more about the Port of Melbourne including our regulatory arrangements. Send any insights and feedback to us via the ***contact us*** page.

More information at *portofmelbourne.com*