



Industry Consultation

March 2022

Port of Melbourne



Our Vision

“ The better the port works, the better Victoria works. And that’s better for all of us. ”



As private manager of the port, Port of Melbourne is aligned with the commercial interests of our customers and the strategic interests of the state.

We are committed to working with industry and the State to grow the port and deliver least cost infrastructure to ensure a sustainable, competitive supply chain.

Port of Melbourne





What we want to achieve

- Ensure industry is informed and up to date
- Share information and improve respective understanding of key issues, challenges and priorities
- Gain feedback to inform PoM decision making



How we will run the session

- This session will be recorded for our record keeping purpose.
- All participants will be muted (audio and video) whilst the presenter is talking
- We will unmute audio and allow for Discussion and Q&A throughout
- Please use the 'Raise your hand' function to communicate with the presenter
- At the end of the presentation, we will have a further Q&A



What happens next

- This is not the only opportunity for you to engage, written responses can be made to rts@portofmelbourne.com and you can also request a one-on-one meeting with the PoM team.

Feedback will be used to inform:

- Our 2022-23 Tariff Compliance Statement
- How we engage in the future, including on matters of port development



Anti-Competitive statement



The Australian *Competition and Consumer Act* strictly prohibits anti-competitive behaviour. This is behaviour that limits or prevents competition.

Examples of anti-competitive behaviour prohibited under the Act include:

- contracts, arrangements or understandings that are likely to substantially lessen competition in a market;
- agreements by businesses with their competitors to fix prices, rig bids, share markets or restrict outputs;
- acting collectively with competitors when making decisions about pricing, which firms they do business with, and the terms and conditions of doing business.

Participants at today's session are prohibited from discussing with competitors pricing, tenders, terms of supply and any other commercially sensitive information that may be connected with anti-competitive behaviour.

Agenda

- 1 Purpose of engagement**
- 2 Opening address**
- 3 Context: trade update and prices**
- 4 Port development update**
- 5 Port performance data and metrics**
- 6 Deferred depreciation and other regulatory issues**
- 7 Future engagement**
- 8 Next steps**



1: Purpose of engagement

This section provides an overview of our engagement objectives, our regulatory and investment obligations, and a recap of outcomes from our last engagement.



Purpose of engagement

Port of Melbourne regularly engages with port users and stakeholders. The 2022 Industry Consultation is another opportunity for stakeholders to hear about and provide feedback on matters that are important to them.

We have published an Industry Consultation paper, available on our website, which provides more detail on key topics that PoM would like stakeholders to provide feedback on.

The 2022 Industry Consultation is designed to assist us to:

- Inform stakeholders about our regulatory and investment obligations, and provide an update on the ESC's recently concluded 5-year inquiry into Pricing Order compliance
- Consult stakeholders on our approach to engagement on port development
- Consult stakeholders on our plans for publishing port performance data and metrics
- Inform stakeholders about prices for the next financial year and consult them about preferences for tariff reform
- Consult stakeholders on depreciation and the length of the regulatory period

The 2022 Industry Consultation is intended to complement our engagement activities on longer term capital planning (such as the Port Development Strategy (PDS)), engagement on specific projects and programs, and day to day engagement on project delivery



Our consultation program

- **What we heard last year**

- Issues of interest varied by stakeholder group;
- Topics rated to be of relatively more importance included Webb Dock East, PDS, Web Dock Freight Link and the Big Ships program;
- There is a preference towards engaging through face-to-face meetings and briefings;
- Participation of online tools (surveys and live polls) was not high.

- **Our approach this year**

- We are keen to engage in more face-to-face ways, however the pandemic has been a limiting factor;
- One-on-one meetings are available;
- Written submissions are welcome.

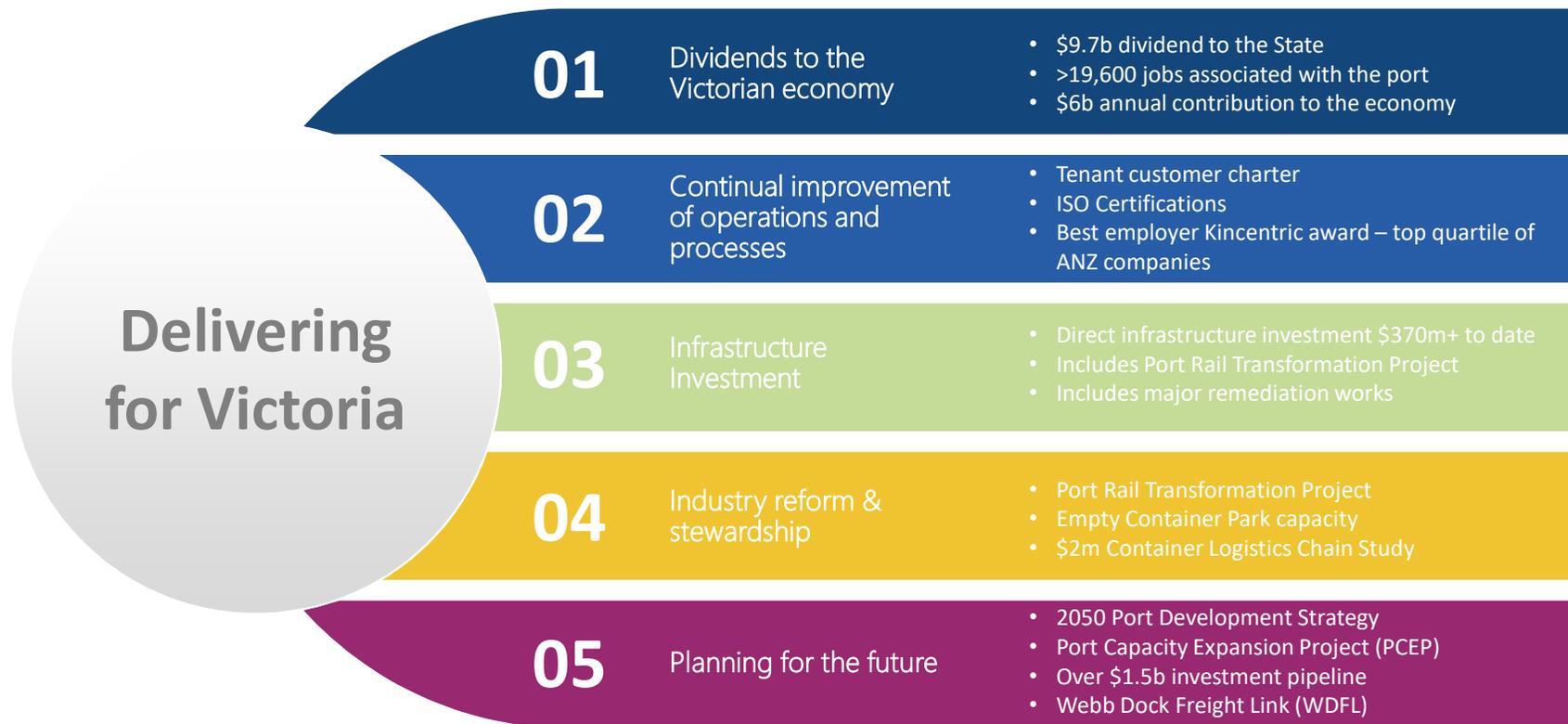


2: Opening address

Saul Cannon, CEO Port of Melbourne



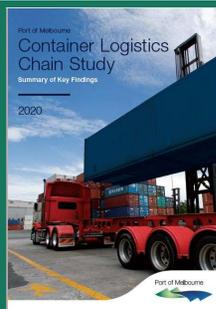
Delivering for Victoria



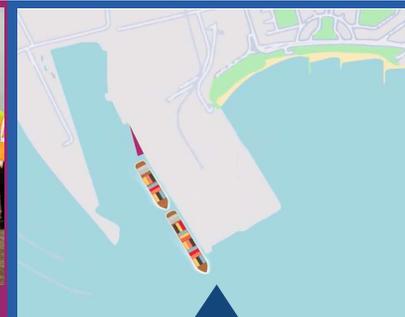
The year at a glance



COVID continues to affect our trade, supply chains, and how we work



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Lost time injuries or medical injuries (PoM and direct contractors)



We launched the Container Logistics Chain Study – September 2021

Launch of the Tenancy Customer Charter in November 2021

We commenced the Port Rail Transformation Project, with construction under way in December 2021

We commenced the Webb Dock East Extension Project February 2022

3: Context: trade update and prices

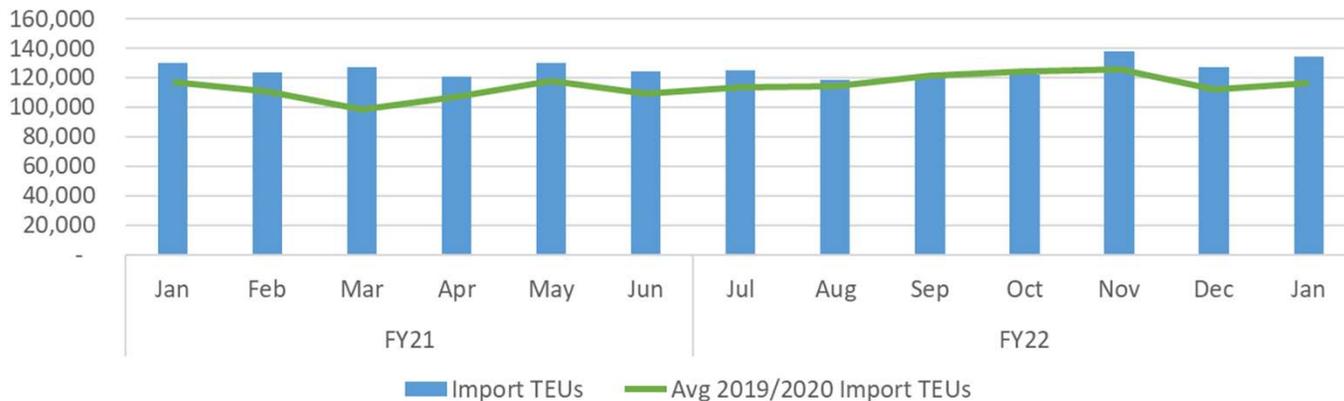


This section provides an overview of the current trade issues and updates on tariffs to apply from 1 July 2022.



Trade Overview

Full Container Imports (TEUs)



Full Container Exports (TEUs)



- Trade data for the period January 2021 to January 2022, with highlighted line showing average values for the same period across the years 2019 and 2020.
- Import volumes remained strong throughout CY2021
- Containerised imports of Miscellaneous Manufactures continue as the strongest category in addition to Furniture, with the largest YoY growth being Toys, Sporting Goods and Clothing.
- Export volumes remained reasonably consistent throughout CY2021 with a strong grain season post years of drought.

Trade Update

2022 | INDUSTRY UPDATE

Container trade, Financial Year-to-Date comparison

	FY20 (EoM Jan)	FY21 (EoM Jan)	FY22 (EoM Jan)
Import full containers	-4.1%	10.4%	-1.0%
Export full containers	-3.8%	1.2%	-4.4%
Bass Strait full containers	2.1%	6.2%	-1.2%
Transshipment full	-18.2%	31.9%	-12.7%
Empty containers	-3.8%	10.5%	6.2%
TOTAL containers	-4.3%	9.1%	-0.6%

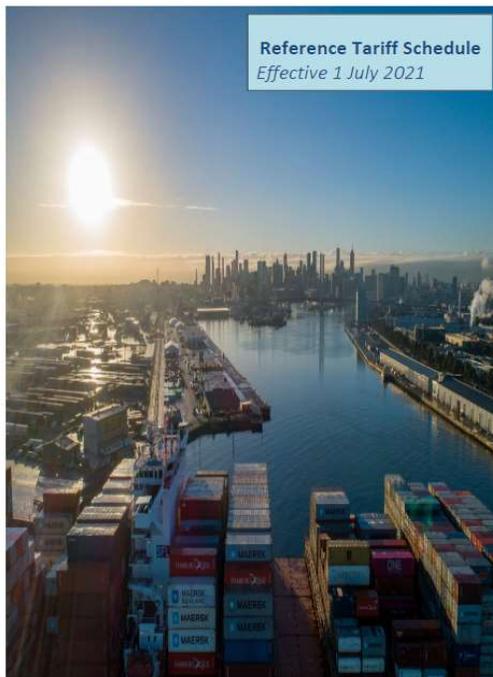
Non-containerised trade, Financial Year-to-Date comparison

	FY20 (EoM Jan)	FY21 (EoM Jan)	FY22 (EoM Jan)
Motor vehicles	-13.5%	0.3%	21.1%
Wheeled Unitised (Tasmanian)	-18.6%	-0.8%	16.7%
Cement/Gypsum	-0.2%	2.4%	-3.0%
Bulk grain	-22.1%	325.0%	149.5%
Liquid bulk	-8.0%	-8.7%	-5.2%
Revenue Tonnes	-10.1%	0.0%	11.8%

Key trade drivers:

- January FYTD22 volumes for both import and export containers, comparative to the prior period, have all been impacted by ongoing shipping service delays and congestion. In addition, COVID-19 related labour shortages continue to impact international shipping services and the global supply chain, in general.
- Empty container movements reflect imbalances in trade and cargo type (20' vs. 40').
- Motor vehicle imports are strong January FYTD22 compared to the prior period with supply shortages for semi-conductor chips improved and easing of lockdowns between states opening up travel.
- Grain exports reflect strong growth for a second year.
- Liquid bulk remains down January FYTD22 however are expected to be back at pre-COVID-19 levels by the end of CY22.

FY23 Reference Tariff Schedule



- The Port of Melbourne (PoM) will publish its Reference Tariff Schedule for 2022-23 on 31 May 2022, which will set out prices to apply from 1 July 2022 to 30 June 2023.
- PoM's prescribed services tariffs will again be subject to the Tariff Adjustment Limit (TAL) in the Pricing Order, which caps price increases at the rate of inflation until at least 30 June 2032 and at the latest, 30 June 2037.
- In line with the TAL, we will uniformly increase all tariffs based on the March-to-March change in the Consumer Price Index.
- We do not intend to make any changes to tariff structures, to introduce any new tariffs or discontinue any existing tariffs in 2022-23.

4: Port development update



This section provides an overview of our approach to infrastructure planning and investment, including information on our proposed approach to the next PDS update.



Port stewardship obligations

Our stewardship obligations under the Port Lease require us to:

- Manage, operate and maintain the Port in accordance with Good Operating Practice;
- Ensure the Port is capable of providing access to shipping, including being able to reasonably accommodate changing vessel sizes;
- Develop the Port land and infrastructure to:
 - Cater for actual and reasonably anticipated growth;
 - Provide quality and efficiency standards expected of a major port;
 - Maintain the Port's leading position among major Australian ports in terms of its quality, efficiency and effectiveness.

Planning horizons and stakeholder engagement

Planning

Decades

Years

Present



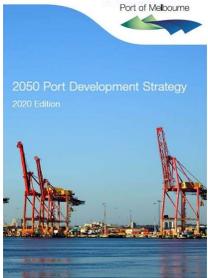
- 2050 Planning horizon
- 30-Year PDS outlook
- Port growth scenarios
- Aligned planning for network capacity

- Adjusted planning outcomes
- 5 yearly PDS update / RAS review
- Timing changes to key trade demands
- Adjustment timing to supporting trades

- 5-year outlook
- Monitor market changes
- Pipeline planning to position for delivery

- Delivery planning & execution

Engaging



Consult | PoM consults extensively with industry and key stakeholders to develop its overarching investment plans via the Port Development Strategy 2050 (PDS).

Collaborate | On projects to implement the PDS, PoM collaborates on options analysis with port tenants directly affected by those projects.

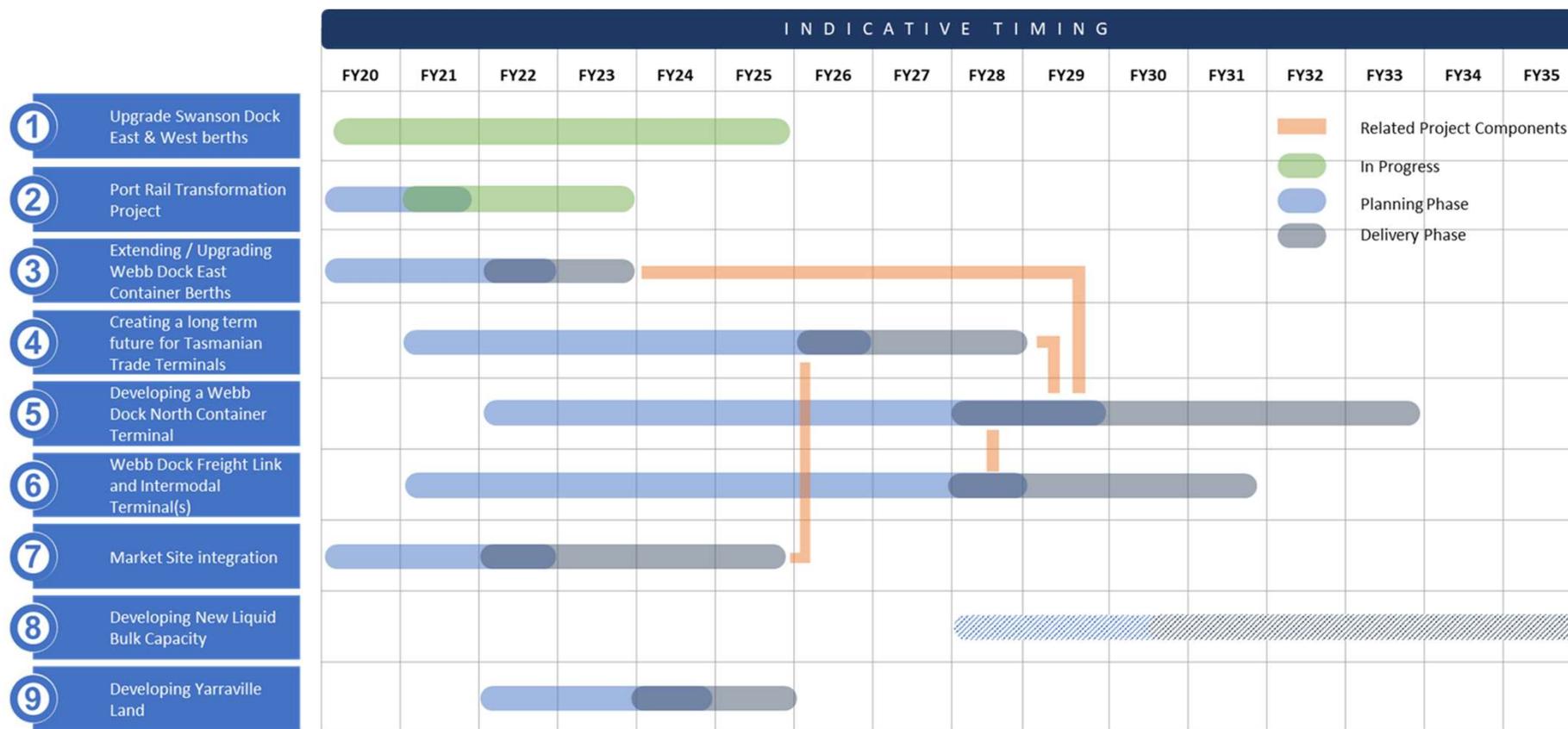
Consult | PoM consults industry on timing and operational impacts of delivery for major individual projects.

Inform | PoM notifies the market when individual projects will occur, their scope, and purpose.

Port Development Strategy update

PDS investment pipeline

Investment pipeline from the PDS at the date of the PDS Delivery Program document (April 2021)



Port development engagement – Q&A and discussion

2022 | INDUSTRY UPDATE

We are seeking feedback on the approach to engagement on port development to meet growth in demand and accommodate changing vessel size.

Timing of the next PDS

- The next PDS is planned for completion by December 2025.
- However, we are entering the planning phase for the next major increment in capacity
- Therefore, we consider that it would be beneficial to commence engagement on planning for this investment this year

What should we engage on?

- Demand — PoM is required to cater for actual and reasonably anticipated growth
- Vessel fleet — future vessel sizes must be able to be reasonably accommodated
- Port capacity – volumes and vessel sizes
- Does a precinct approach work for defining changing requirements?

2022 Industry Consultation Paper questions

- What matters should PoM give priority to when engaging on port development?
- How should we include port users' development plans in our engagement?
- How should we manage claims of commercial sensitivity from stevedores in the context of calls from port users for greater transparency on matters that drive investment?
- Does the PDS Delivery Program provide sufficient detail on PoM's investment pipeline? Are there any other details would you like to see?



5: Port performance data and metrics



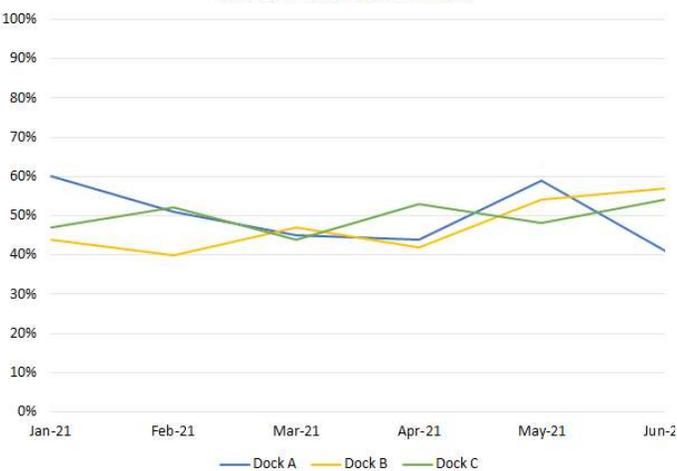
This section provides an overview of our plan to publish port performance data and metrics.



Sample outputs – capacity and productivity (dummy data)

Berth utilisation

Average dock utilisation per month

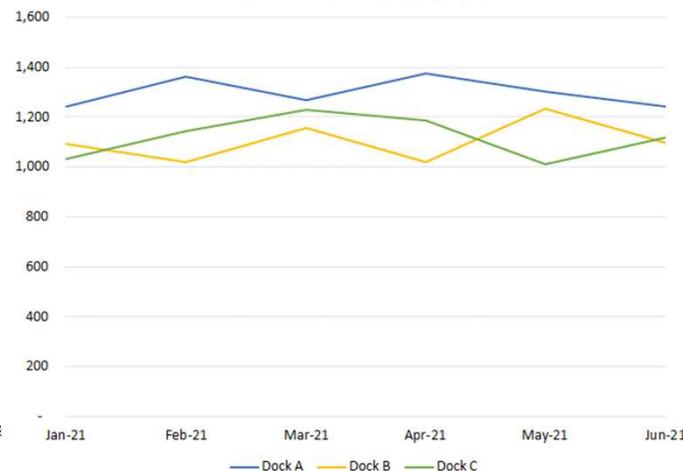


Comparing berth utilisation to efficient benchmarks for comparable operations could provide useful information about the need to invest in additional capacity.

Possible benchmarks: 55% – 65%

Quay line productivity

TEU per annum / Total quay length (m)

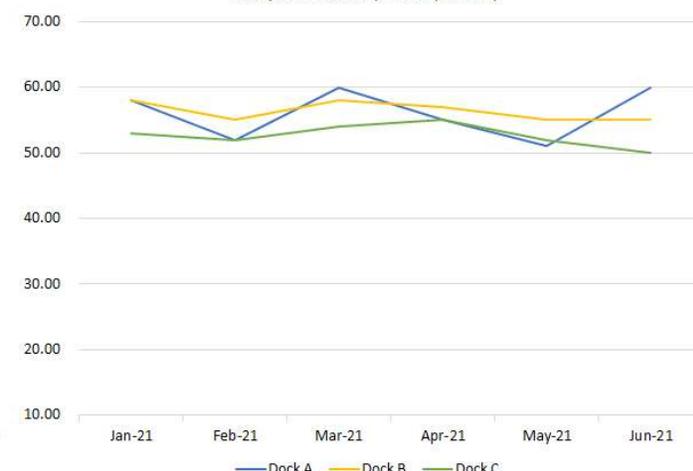


Quay line productivity could be informative in considering whether capacity issues require an investment response from PoM.

Possible benchmarks: 1,400 TEU p.a. / metre

Terminal productivity

Lifts per month/Ship hour (lifts/hr)



Terminal productivity could provide useful information in considering whether port infrastructure or terminal productivity should be targeted.

Possible benchmarks: historical trend

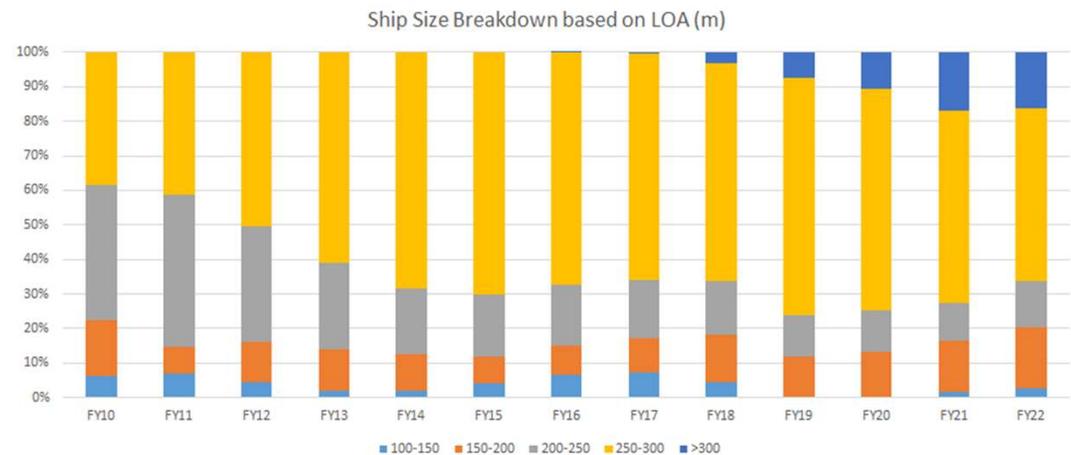
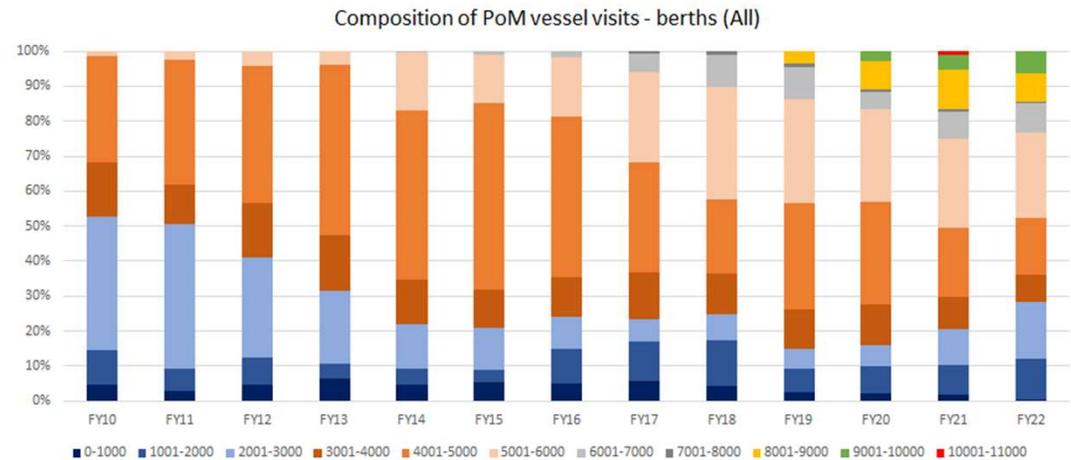
Sample outputs – vessel size

Basis for reporting

- Under the Port Lease, PoM is required to ensure the Port is capable of providing access to shipping, including being able to reasonably accommodate changing vessel size

How should we report?

- At this stage, we are not proposing to report this data on a terminal-specific basis



Source: PoM

Note: FY22 is based on 6 months of data

Port performance data – Q&A and discussion

2022 | INDUSTRY UPDATE

We will use feedback from port users to decide what performance metrics and data to publish, how we publish the data, and the frequency of reporting

Provide input into our decision

- We will be making a decision on publishing performance data and metrics for inclusion in the 2022-23 TCS, to be submitted by 31 May 2022.

We're seeking feedback on

- The performance data and metrics port users and other stakeholders value
- Whether we should report data and metrics publicly, and if so, the manner, timing and frequency of reporting.

2022 Industry Consultation Paper questions

- Is there value in PoM publishing the proposed (or other) performance data and metrics set out in this paper?
- Do you have a preference for reporting at a whole of port level, terminal-specific level, or both/neither?
- What is your view on benchmarks for these or other metrics?
- How should PoM provide appropriate context when publishing performance data and metrics?
- How frequently should PoM publish performance data and metrics?



6: Deferred depreciation and other regulatory issues



This section outlines our proposed approach to the recovery of deferred depreciation and touches on other regulatory issues covered in the consultation paper.

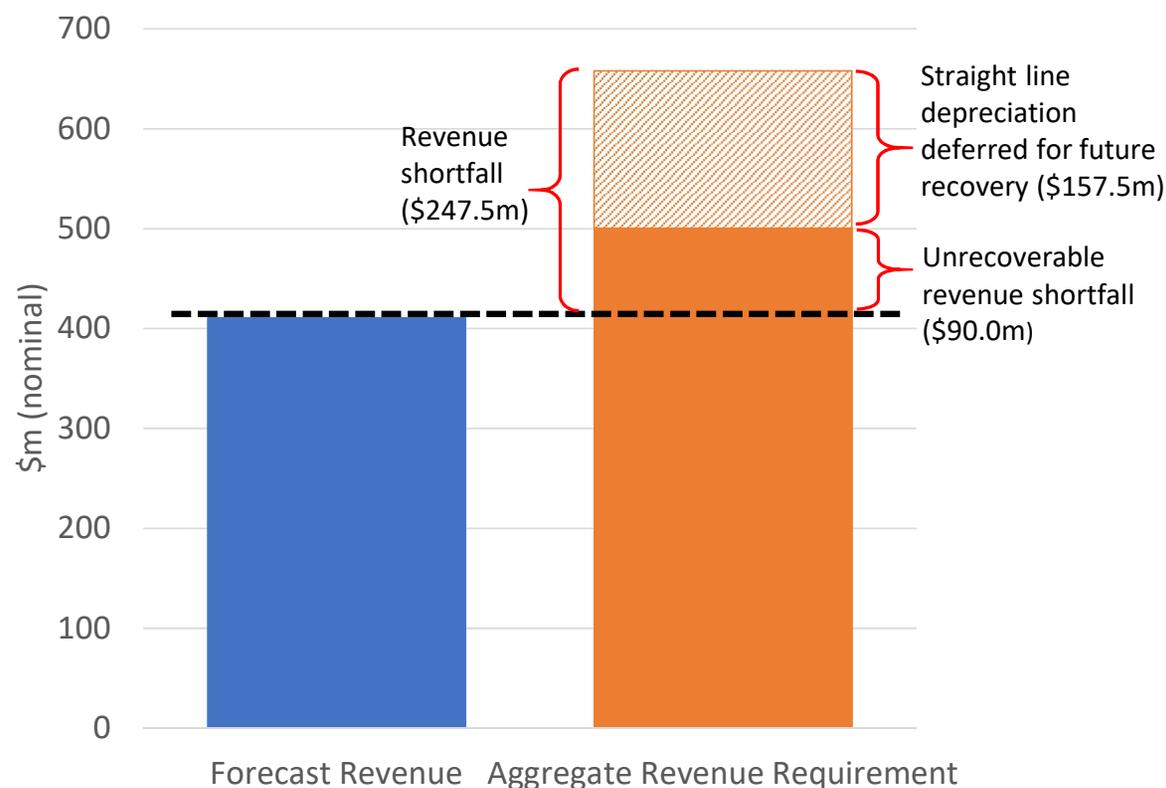


PoM is deferring the recovery of depreciation

2022 | INDUSTRY UPDATE

- Until the end of the TAL period (likely 2037) tariff adjustments are capped at CPI
- To date, this price cap has meant PoM has under-recovered its efficient costs
- To partially address this revenue shortfall, the Pricing Order allows PoM to adopt an 'alternative depreciation methodology' and defer the recovery of depreciation
- The balance of deferred depreciation to be recovered after 2037 will be substantial

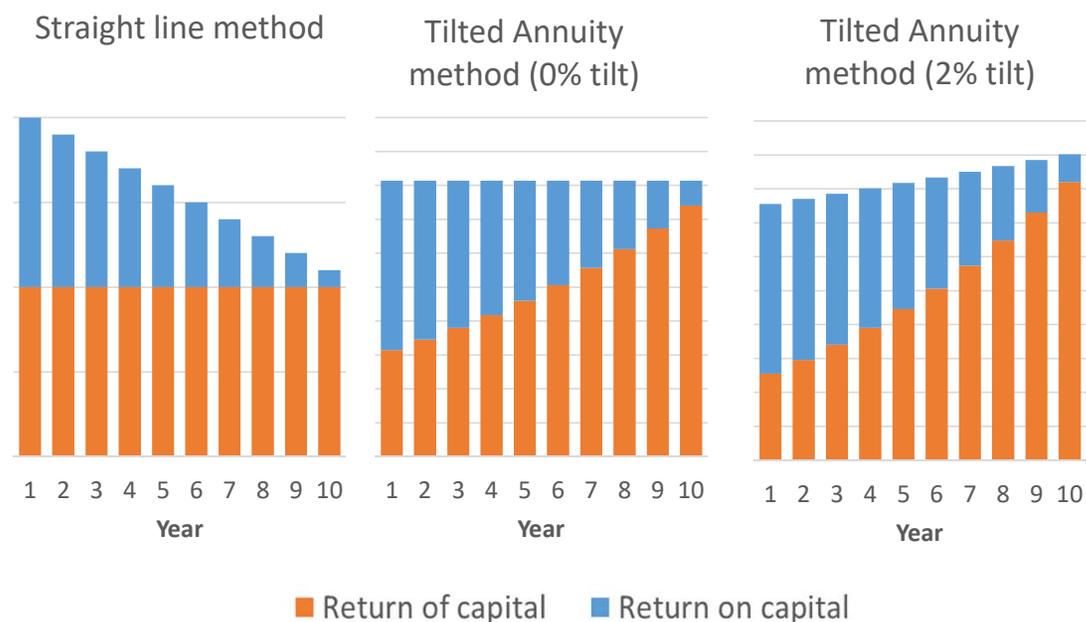
Revenue and revenue requirement, TCS 2021-22



PoM's proposed methodology

2022 | INDUSTRY UPDATE

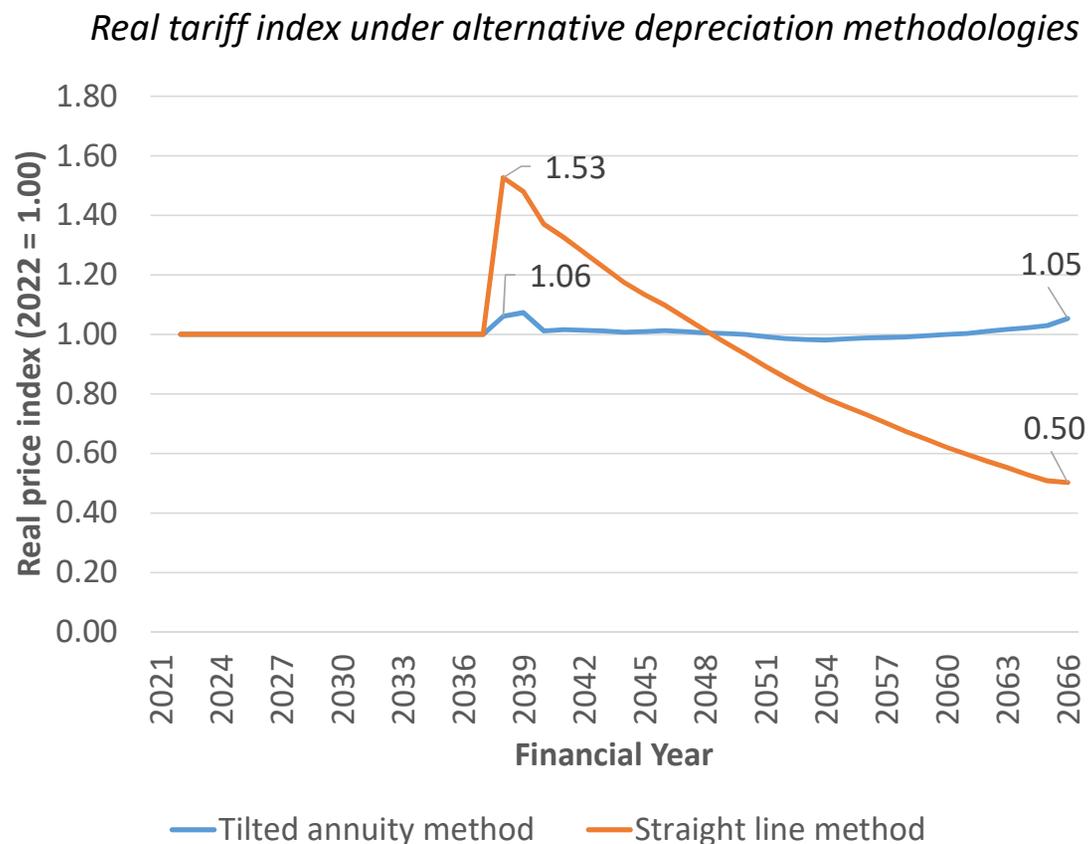
- PoM is keenly aware of the need to recover depreciation in a way that reduces price volatility
- All recovery methodologies considered return the same capital charge in NPV terms, but different recovery profiles lead to different price paths when the TAL ends
- Our preliminary position is to maintain the approach to the recovery of depreciation adopted in the 2021-22 TCS for the 2022-23 TCS
- After the TAL period ends, a **tilted annuity depreciation method** will be applied, with the tilt factor designed to minimise price volatility



Potential tariff impacts under alternative methodologies

2022 | INDUSTRY UPDATE

- To provide an indication of potential impacts, PoM developed indicative projections comparing tariffs under different approaches
- The proposed tilted annuity approach is projected to result in a relatively flat tariff profile in inflation-adjusted terms
- These projections are indicative only and rely on projecting many uncertain variables over long periods
- Projections are most sensitive to changes in variables like demand growth and the cost of capital.



Other regulatory issues

	Length of regulatory period	Future tariff structure
Overview	The regulatory period is the timeframe over which prices are calculated and set in advance.	PoM is able to make an application to the ESC to rebalance its tariffs by an amount that differs from CPI.
PoM's Plan	<ul style="list-style-type: none"> • Commit to a one-year regulatory period for 2022-23 • Aim to transition to a longer regulatory period beginning 1 July 2023. 	<ul style="list-style-type: none"> • PoM is considering making a tariff rebalancing application in December 2022. • If submitted, it would apply to prices from 1 July 2023.
Stakeholder input	<ul style="list-style-type: none"> • We are seeking early feedback on PoM's transition to a longer regulatory period. • This will feed into PoM's planning for a longer regulatory period. • PoM will make a decision on a longer regulatory period following further detailed consultation with port users before next year's TCS is submitted in 2023. 	<ul style="list-style-type: none"> • We are seeking feedback on: <ul style="list-style-type: none"> ○ any tariff reforms that PoM should consider; ○ the principles PoM should consider in reforming tariffs; ○ appropriate consultation on any proposed tariff reforms. • If PoM decides to make a tariff rebalancing application this year, further detailed consultation will take place later in 2022.

Deferred depreciation and other regulatory issues – Q&A and discussion

2022 | INDUSTRY UPDATE

Consultation – for feedback and engagement

- We recognise that the depreciation provisions in the Pricing Order are complex
- We want to make sure everyone has an opportunity to understand the issue and its impacts
- Your feedback will assist PoM in designing its approach to the recovery of deferred depreciation, and continuing to ensure that port users have appropriate information on the topic
- PoM will make a decision on the alternative depreciation methodology it will adopt in time for inclusion in the 2022-23 TCS to be submitted by 31 May 2022.

2022 Industry Consultation Paper - depreciation questions

- Do you have any feedback on PoM's proposed approach to recovering deferred depreciation?
- Is there any further information that you would like on PoM's approach to deferring depreciation and the recovery of deferred depreciation?



7: Future engagement



This section provides an outline of future engagement opportunities



Future engagement

Engagement with Port of Melbourne stakeholders underpins our decision making

Port of Melbourne stakeholder engagement program is informed by:

- What we heard from stakeholders last year, during the 2021 Industry Consultation, when we sought feedback about how stakeholders want to be engaged and the issues they want to be engaged on
- Experience from earlier programs and projects
- Feedback from the ESC and government stakeholders

Structured stakeholder engagement program

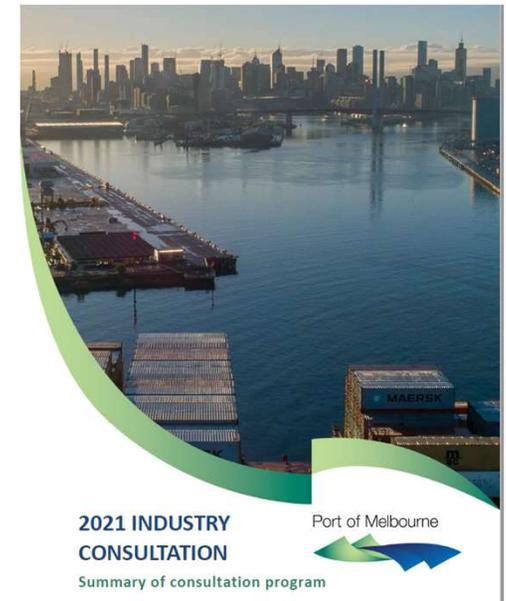
- Port of Melbourne is developing a structured stakeholder engagement approach that will guide ongoing engagement on all regulatory engagement activities and port development activities
- This will include finalisation and publication of our Stakeholder Engagement Framework and Pricing Order Engagement Protocol
- We will consult with stakeholders as the Framework and overall program progress

Forthcoming engagement opportunities

PoM Stakeholder Engagement Framework and Pricing Order Engagement Protocol

Port Capacity Enhancement Project: fleet forecast, capacity and demand analysis

Project-specific engagements (e.g. Port Rail Transformation Project)



8: Next steps



We encourage stakeholder input and feedback

How you can participate and provide feedback:

Based on feedback from our 2021 Industry Consultation (available on our website) stakeholders indicated they would like a range of options for engaging with the port, including briefings and face-to-face engagement. Stakeholders can participate in the 2022 Industry Consultation by:

- Making a written submission
- Attending an online forum (these sessions)
- Requesting a one-on-one meeting with the PoM team

Written submissions

We encourage stakeholders to make a written submission.

You can make a written submission by **8 April 2022** via:

- Our website at www.portofmelbourne.com download a template that includes the questions in the consultation paper
- Email at rts@portofmelbourne.com

One-on-one meetings

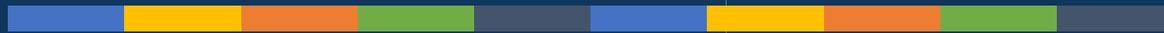
We are pleased to accommodate any stakeholders who would prefer a one-on-one meeting with us to provide feedback.

We are scheduling meetings between **11 March 2022** and **8 April 2022**, meetings will be held either online or face-to-face.

Please contact us at rts@portofmelbourne.com if you would like to arrange a one-on-one meeting.



Appendix – background information



Background – Port of Melbourne services

Port of Melbourne (PoM) provides two types of **services**:

1. **Prescribed** services that are subject to regulation
2. **Non-prescribed services** that are not subject to direct regulation

Port of Melbourne is the only port with formal price regulation.

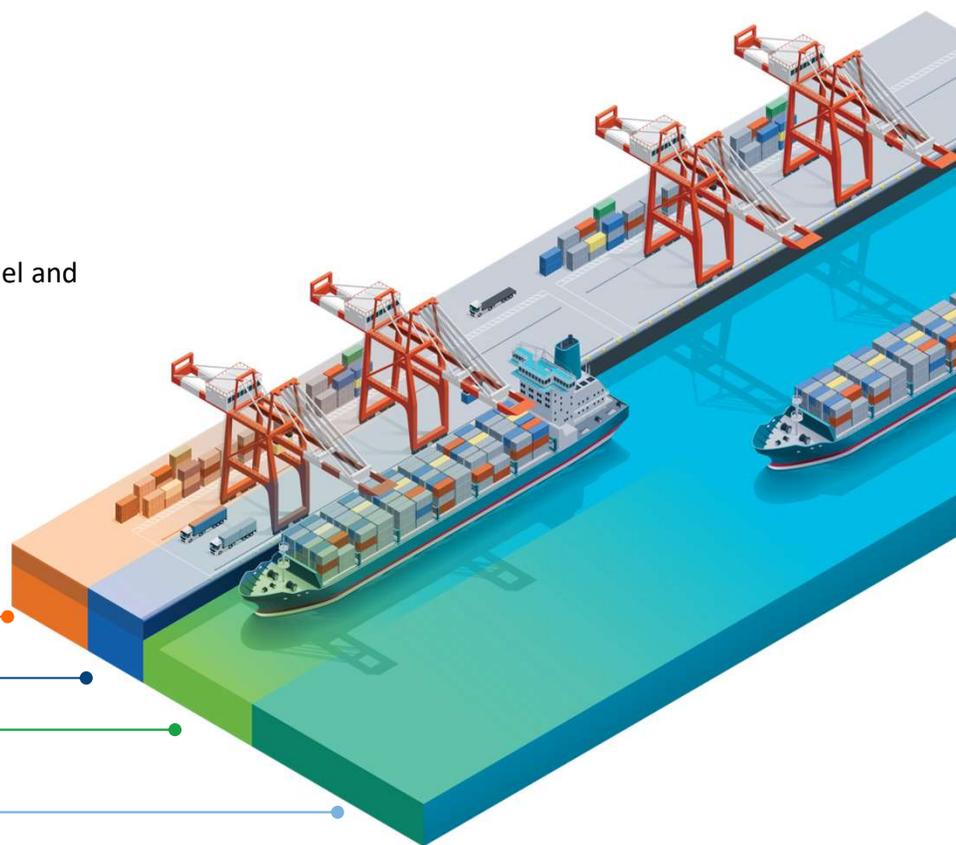
All container ports typically have a charging structure that involves wharfage, channel and berth hire fees. Berth hire fees apply to bulk cargo ships.

Leasing of Land & Facilities – Non-prescribed

Wharfage Fees – Prescribed

Berth Hire Fees – Prescribed

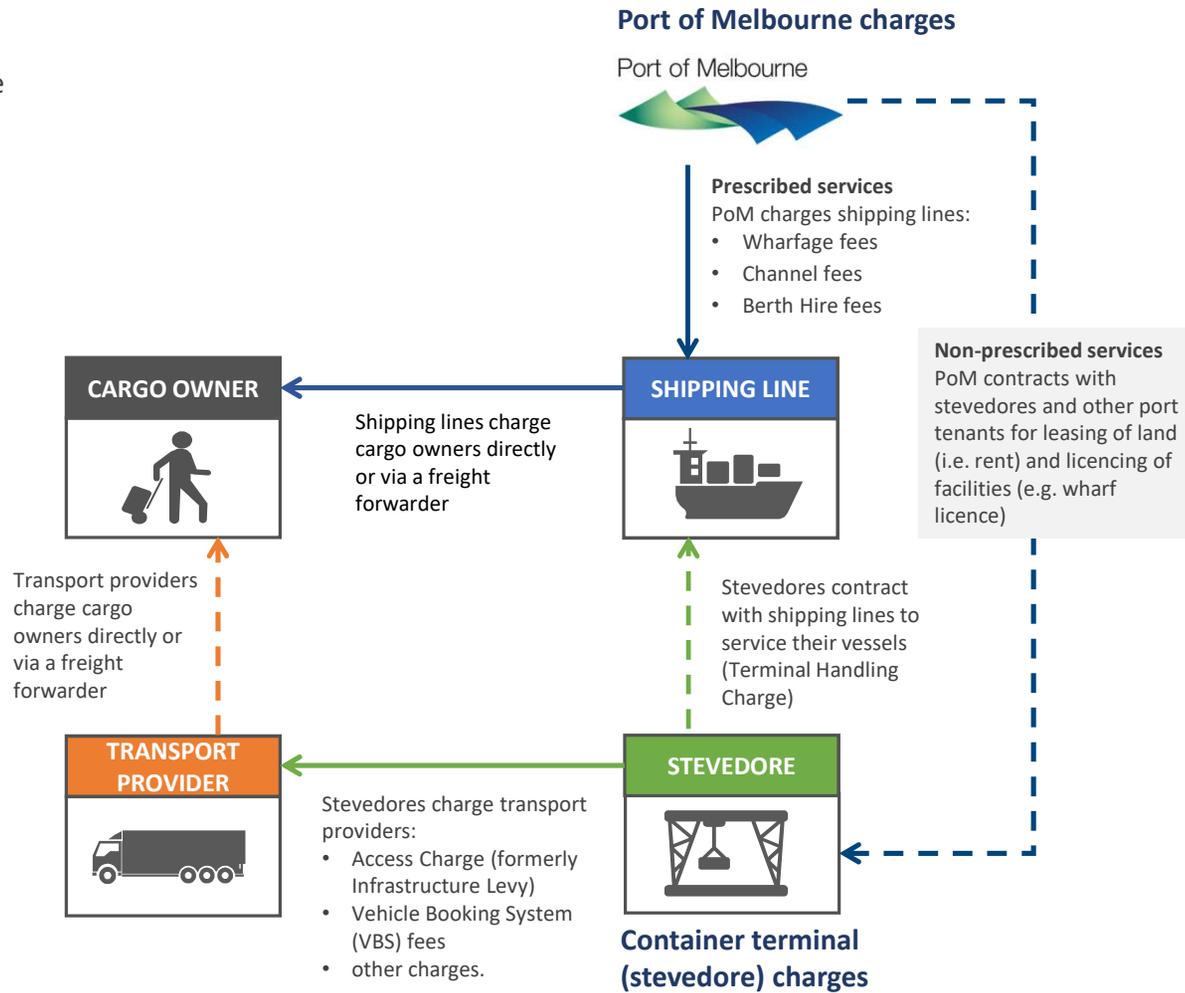
Channel Fees – Prescribed



Background – Port Charges

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Public tariff, available on service provider website

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Contracted service, prices not publicly available



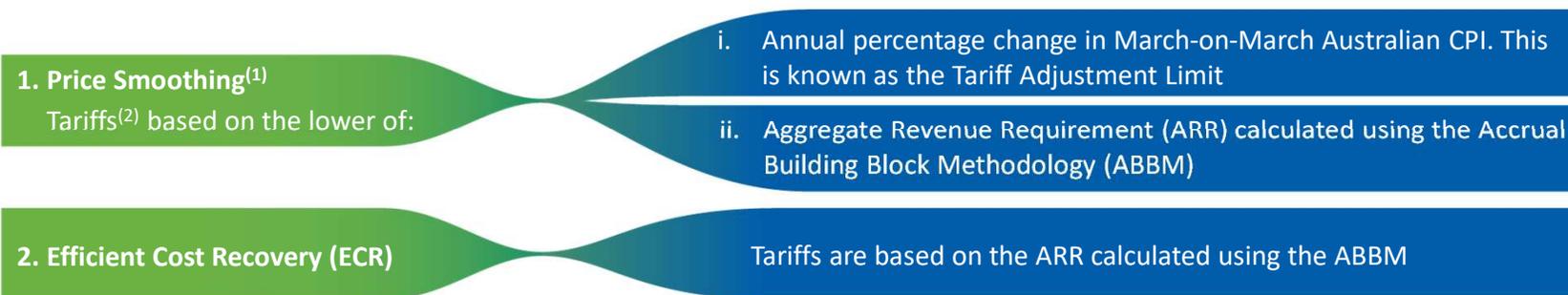
Background – Prescribed Services Tariffs

All Prescribed Service Tariffs will increase by CPI on 1 July 2022.

Until at least 2032, and at the latest 2037, the weighted average annual increase in tariff is capped by CPI.

This provides price certainty for Port Users. The CPI increase is applied to our tariffs in our Reference Tariff Schedule.

We calculate tariffs based on the following key pricing principles:



Port Users can also seek to establish negotiated contracts for Prescribed Services – tariffs under these contracts reflect commercial negotiations and are therefore may differ from the Reference Tariff Schedule.

PoM has several of these contracts, which are commercial in confidence.

(1) Applies until at least 30 June 2032 and at the latest 30 June 2037.

(2) Except full out outbound container wharfage service tariffs, which decreased by 2.5% p.a. from 1 July 2017 until 30 June 2020.