Port of Melbourne

2021 – 2022

CONSULTATION DRAFT

TARIFF REBALANCING APPLICATION

November 2020

Contents

Abbreviations and acronyms

Abbreviation / acronym	Description
ABBM	Accrual building block methodology
AiG	Australian Industry Group
ARR	Aggregate Revenue Requirement
CPI	Consumer Price Index
CSCL	Centre for Supply Chain and Logistics
ESC	Essential Services Commission of Victoria
GRT	Gross registered tonnage
IFCBAA	International Forwarders and Customs Brokers Association of Australia
LOA	Length over all
PDS	Port Development Strategy
PLT	Port Lease Transaction
PMA	*Port Management Act 1995* (Vic)
PoM	Port of Melbourne
RTS	Reference Tariff Schedule
SDE	Swanson Dock East
SDW	Swanson Dock West
TAL	Tariffs Adjustment Limit
Tariffs	Tariffs for Prescribed Services
TCS	Tariff Compliance Statement
TEU	Twenty-foot Equivalent Unit
VPCM	Victorian Ports Corporation (Melbourne) Harbour Master
WATI	Weighted Average Tariff Increase

Supporting documents

Table i lists the supporting documents that are incorporated within, and form a part of, Port of Melbourne's (PoM) 2020-21 Tariff Rebalancing Application.

Table i: 2021-22 Tariff Rebalancing Application supporting documents

Appendix	Title
A	PoM, Compliance with Pricing Order – Cross-Reference Table
B	Draft 2021-22 Reference Tariff Schedule
C	PoM, Regulatory Model
D	PoM, Cost Allocation Model
E	PoM, Efficient Cost Bounds Model

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Overview

The Port of Melbourne (PoM) has prepared this draft Tariff Rebalancing Application to further consult Port Users and other stakeholders on its plans to rebalance certain containerised wharfage prescribed service tariffs in 2021-22.

This overview sets out what PoM is proposing, the regulatory regime applicable to tariff rebalancing, how and why PoM developed this proposal, how it has engaged Port Users to date, and next steps. The balance of the draft application sets out how PoM has complied with its regulatory requirements.

What is PoM proposing?

The proposed tariff rebalancing relates only to wharfage fees for overseas full containers. All other Prescribed Service tariffs will be adjusted by inflation in 2021-22 in accordance with the Tariff Adjustment Limit. PoM's estimate for forecast inflation for 2021-22 tariff adjustments is 0.66%, which will be updated when actual inflation is known after March 2021.

The purposes of PoM's proposed tariff rebalancing for containerised trade are twofold:

- To better align its tariff signals with marginal investment costs for larger vessels that some Port Users are driving; and
- To support improved port utilisation by Port Users who are not driving these marginal investment costs, through complementary tariff rebalancing measures to lower the price for containerised exports reducing tariffs, and keep tariffs for smaller vessels constant (in real terms).

PoM's rebalancing impacts around $3.3m of its projected 2021-22 prescribed service revenues of approximately $387.5m (i.e. 0.9% of regulated revenues), is projected to lead to a net increase in revenue of around $100,000 in 2021-22, and PoM does not expect this to have material impacts on Port Users or other stakeholders.

The rebalancing required to achieve these purposes involves rebalancing three prescribed service tariffs:

- The current wharfage fee for full – Inward containers will be discontinued and replaced with:
  - a wharfage tariff for full – inward containers that is $10/TEU higher than the current wharfage fee, which applies to vessels that exceed the port design vessel;
  - a wharfage tariff at the same rate as the current wharfage fee for full – inward containers (adjusted for CPI), which applies to vessels that do not exceed the port design vessel. This is effectively a continuation of the discontinued tariff for these Port Users because the inflation adjustment is the default tariff increase that would have applied in 2021-22 absent this Tariff Rebalancing Application.
- The wharfage fee for full – outward containers will be decreased by an estimated $3.77/TEU from the current export wharfage tariff.[1]

PoM has no further plans to rebalance the above Prescribed Service tariffs in the medium term (i.e. over the coming five years).

How does tariff rebalancing work under the regulatory regime?

The Pricing Order regulatory regime limits the tariffs PoM can charge port users in two important ways:

- Firstly, total revenues are limited. PoM cannot recover more revenue from its proposed prices than the allowed Aggregate Revenue Requirement, which is a measure of its efficient required revenues. This applies for the whole

[1] The adjustment to the export wharfage tariff is based on the estimated change in the March-March CPI of 0.66%. The final tariff adjustment will be updated to reflect actual CPI outcomes.

port lease period. PoM is not entitled to recover more than its efficient costs. Where it is projected that growth in trade would cause tariffs to over-recover PoM's efficient costs, the tariffs must be reduced to remain within the total regulated revenue allowance.

- Secondly, annual movements in tariffs are currently also capped. Until at least 2032 (and at the latest 2037), the annual changes in the Prescribed Service tariffs that Port Users pay are capped. This cap is called the Tariff Adjustment Limit (TAL) and it limits the weighted average annual movement in PoM's tariffs to inflation, as measured by the consumer price index (CPI) for the weighted average of the eight capital cities.

Within this second constraint, PoM can either:

- Apply the default annual CPI increase to all tariffs as it has done for each year to date; or
- Apply to the Essential Services Commission (ESC) to approve a rebalancing of its tariffs that increases some tariffs by more than CPI and others by less such that the net revenue-weighted outcome across all tariffs is still less than or equal to CPI. This rebalancing must comply with efficient pricing principles set out in the Pricing Order.

The implications of these constraints are that this draft Tariff Rebalancing Application:

- Cannot cause PoM to recover more revenue than it is already entitled to efficiently recover under the regulatory regime in any year of the port lease; and
- Cannot cause the overall weighted average change in PoM's reference tariff schedule between 2020-21 and 2021-22 (or for any year out to 2037) to exceed the annual change in CPI.

The Tariff Rebalancing Application is not the process in which the ESC assesses PoM's efficient allowable aggregate revenue requirement. That process, which includes review of PoM's investments for prudency and efficiency, is separately administered through the annual tariff compliance statement and five-yearly ESC reviews of PoM's compliance with the Pricing Order. PoM does not consider that an additional, independent assessment of the prudency and efficiency of its capital expenditure program is necessary or appropriate in the context of a tariff rebalancing application.

How and why did PoM develop this tariff rebalancing proposal?

It is important that Port Users and other port stakeholders can understand what has driven PoM to propose its tariff rebalancing. This section explains why PoM developed this draft Tariff Rebalancing Application and how it has done so.

Over the course of the last two years, PoM has engaged extensively with stakeholders on its plans and approach for developing the capacity and efficiency of the Port via the 2050 Port Development Strategy (PDS) and the Tariff Compliance Statement (TCS) consultations:

- Port capacity was one of the key issues raised by stakeholders in their feedback on the draft PDS. In particular, there was a strong call to accelerate key projects in direct response to capacity demand to accommodate larger container ships;[2]
- In the 2019-20 TCS consultations (conducted early 2019) and 2020-21 TCS consultations, Port Users and other stakeholders expressed concerns about the risks to their businesses and the Port's position in Australia and globally, if the wharves cannot accommodate larger vessels, and provided support for upgrading infrastructure to do so.[3]

In these consultations, Port Users and stakeholders provided views on both:

…tariff rebalancing in general:

[2] 2050 Port Development Strategy Consultation Summary Report, October 2020, p.17

[3] Appendix I to the 2019-20 TCS at section 4.2.

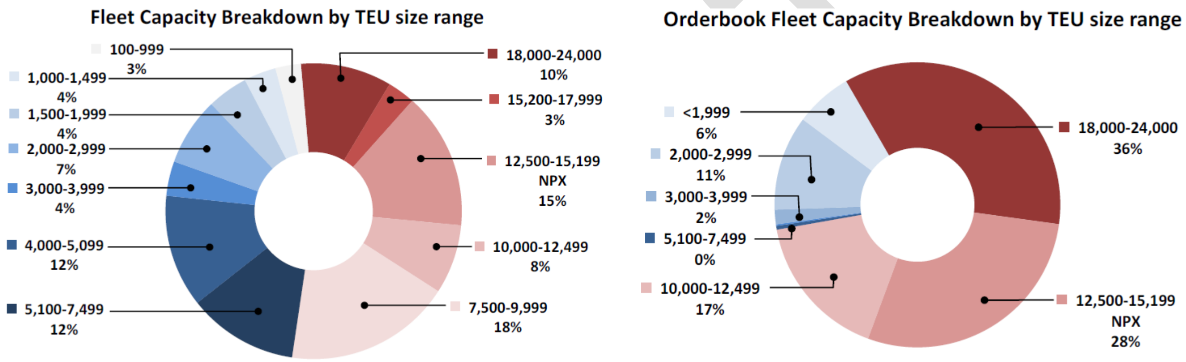
Opportunities for tariff rebalancing raised included reducing empty container wharfage, incentives for rail use, incentives for exporters, or to address where infrastructure development disadvantaged certain trade[4]

…and the matter of big ships specifically in which they:

- *Noted that big ships are resulting in vessels missing berth windows, which has a cascading effect*
- *In relation to charging, queried whether the investment was part of facilitating trade, and noted that big ships should bear the costs of the investments to handle big ships.*[5]

Vessel data suggests further, significant growth in larger vessels is likely. Figure 1 shows current global fleet capacity and the order book for new vessels. As at 1 January 2020, there were no vessels in the range of 7,500 to 8,000 TEU, and only two vessels in the 5,100-7,499 TEU range. This indicates that going forward, vessels below 8,000 TEU (a reasonable proxy for the design vessel at the port of 300m LOA and 40m beam) will become increasingly rare.

Figure 1: Fleet capacity and orderbook



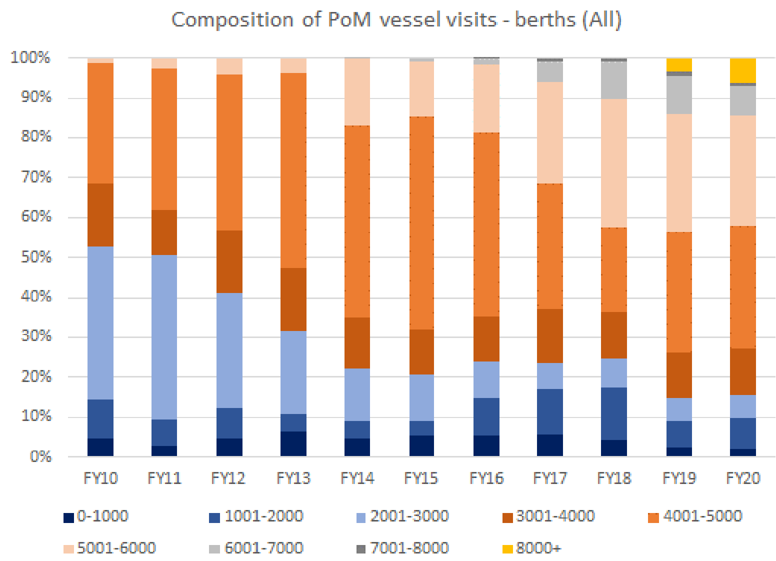
Source: Alphaliner Monthly Monitor Report, January 2020

Historical data shows that vessels in the 8,000+ TEU range have only recently begun to visit the port (Figure 2, below). The potential for significant and rapid change is clear in the dramatic changes seen over the last five years, and the order book situation outlined above. Such increases will require PoM's services, pricing, and investment to adapt to meet this trend.

[4] Appendix I to the 2020-21 TCS at p.13.

[5] Appendix I to the 2020-21 TCS at p.13.

Figure 2: Composition of PoM vessel visits by TEU size across all PoM berths



Source: PoM shipping data.
Note: FY20 data is extrapolated based on 6-months of actuals.

In summary, larger vessels are a growing issue for the port and there is demand from port users to provide services to larger vessels. Although larger vessels can create efficiencies in shipping costs, they drive additional costs for ports by reducing the effective number of berths utilised[6], require berth upgrades and channel deepening, etc.

PoM has commenced and needs to undertake considerable near-term investment to accommodate this larger vessel trend. PoM's investment program to support larger vessels includes:

- Bollards, dredging, and simulations at Swanson Dock (around $20M to date) in addition to significant investments in wharf rehabilitation and upgrades
- Southern Mooring Dolphin (underway) and planned extension of the quay line at Webb Dock and stage 2 of the bollards at Swanson Dock (around $60M – $70M planned).

However, PoM's ability to meet the issues presented by larger vessels is complicated by a number of factors:

- During the TAL period, PoM is already not recovering its efficient allowed costs (see section 5.6) and has adequate capacity for forecast TEUs in the near term;
- Some port stakeholders are emphatic that this investment is urgently needed, and some do not support it, as evidenced in the submissions of Port Users and one stevedore who support the investment, in contrast to those of the other stevedores who do not support it;
- PoM's ability to fund this investment under the regulatory regime is limited. Beyond increasing trade, tariff rebalancing (within its minor allowed annual weighted average CPI adjustment) is its only other option; and
- Since investing to accommodate larger vessels does not materially impact the volume of trade, it would lower the effective utilisation of the port by increasing the regulated asset base without an increase in volumes.

Faced with these circumstances and complications, PoM investigated how it could: (1) rebalance its containerised wharfage tariffs to accommodate those who want the investment, while (2) accounting for the concerns of those who do not, and (3) enhancing overall port utilisation.

PoM's draft rebalancing options were tested in consultation with Port Users and other stakeholders in its phase 1 engagement during September and October 2020.

[6] Stevedore communication to PoM dated 7 July 2020 and 7 August 2020.

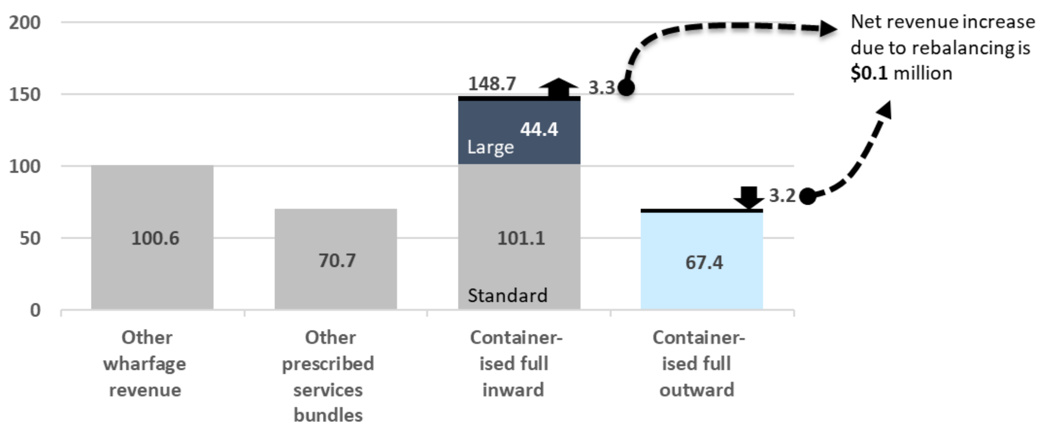
In this draft rebalancing application, PoM has pursued a relatively minor rebalancing option that generates an incremental price signal to larger vessels to make them aware that they place additional cost impost on the port. The proposed rebalancing amounts to a $3.3m reallocation of tariff revenue between two different services, which is 0.9% of its $387.5m of 2021-22 Prescribed Service revenues.

Vessels visiting the port will carry both import and export containers. Therefore, the net impact on vessels that exceed the larger vessel threshold from the tariff rebalancing in this draft application will be less than the import increase of $10/TEU for vessels (given the reduction in export tariffs). PoM considers this to be a relatively minor cost impost on the supply chain, particularly in the context of:

- The opportunities for significant savings to shipping lines through both the deployment of larger vessels, which stakeholders have advised are approximately USD100/TEU[7], and addressing operational and scheduling delays to vessels at Webb Dock; and
- The relative magnitude of other cost changes in the supply chain, such as the port congestion surcharges of USD250-350/TEU recently introduced by some shipping lines due to increased operational costs caused by delays to vessel schedules.

Rebalancing generates incremental revenue growth to the extent that the service with an increased tariff grows faster than the service with a decreased tariff. Figure 3 shows that the net effect of PoM's rebalancing is a $100,000 revenue increase in 2021-22 compared to the default revenue outcome if it did not propose this tariff rebalancing. While growth in larger vessels and containerised exports will continue to contribute to increased revenues in future years, as noted above, PoM is not entitled to recover more than its regulated revenue allowance. If trade growth is projected to cause PoM to over-recover costs, tariffs must be reduced to remain within the regulated revenue allowance determined by clause 4 of the Pricing Order.

Figure 3: Extent of proposed rebalancing within the allowed tariff adjustment limit ($m)



Source: PoM analysis from the regulatory model in **Appendix C**.

How have Port Users and other stakeholders been engaged?

Following the Port Development Strategy and annual TCS engagement that revealed the need for large vessel investment, PoM launched a dedicated rebalancing engagement in September 2020. This engagement sought to:

- Explain the drivers of rebalancing;
- Test the relative demand from different Port Users for the investment that is driving the need for tariff rebalancing; and

[7] CSCL, Response to the Port of Melbourne Tariff Rebalancing Consultation, October 2020, p.4

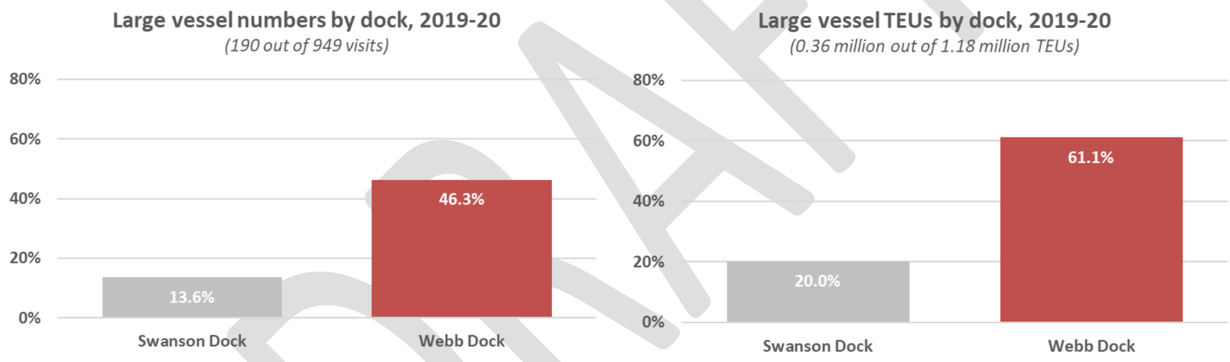
- Test options for how rebalancing can be done, both in terms of:
  - Tariff structure – what tariffs apply to whom and which tariff will increase or decrease; and
  - Tariff levels – three options for the extent to which tariffs go up or down were tested.

PoM is conducting this engagement in two phases. Phase 1 was completed over September and October and involved a series of forums including over 200 participants, and consultation questions that were circulated to 980 recipients. PoM received 12 submissions, which have been used to inform this draft Tariff Rebalancing Application. Phase 2 invites feedback on this draft application.

A key area of contention in stakeholder feedback was the opposing views of international container terminal operators about PoM's proposed investment in and rebalancing for accommodating larger vessels into the port. This contention is unsurprising given the differing extent of large vessel constraints being experienced across the port and the additional competitive tension within the port since a third terminal was opened in 2017.

The number of large vessel visits across the port increased by around 12% from 2018-19 to 2019-20. Figure 4 shows the different impact large vessels are having at each terminal. While there are more larger vessel visits at Swanson Dock overall, a much higher proportion of vessels at VICT exceed the design vessel (46.3% versus 13.6%). Therefore, PoM's targeted rebalancing to split the inbound wharfage fee into standard and large vessels will have much less impact on Port Users that use Swanson Dock (and the Swanson Dock stevedores, who oppose investment in the Webb Dock East Berth 4 Extension and the rebalancing).

Figure 4: Proportion of large vessel numbers and volumes for 2019-20 by terminal



Note: Large vessels defined as vessels that exceed the port design vessel of LOA 300m by beam 40m.

What are the next steps?

PoM has published this draft Tariff Rebalancing Application and associated compliance demonstration materials so that Port Users may comment on this compliance demonstration evidence ahead of its lodgement with the ESC.

The purpose of this second phase of consultation is to ensure stakeholders:

- Understand our proposal and how it will affect them well in advance of the 1 July 2021 implementation date;
- Can test and clarify that PoM has correctly understood their feedback; and
- Can provide feedback on PoM's compliance evidence, noting that ultimately compliance assessment is a matter for the ESC's expert assessment.

PoM is seeking feedback by **11 December 2020**. Written feedback is preferred and can be provided by email to rts@portofmelbourne.com.

PoM must submit its Tariff Rebalancing Application by the end of December 2020. The ESC will then commence its review of the application for compliance with the Pricing Order, and either accept or reject it. If approved, the rebalanced tariffs will apply from 1 July 2021 and be included in the 2021-22 tariff compliance statement.

1. About this 2021-22 Tariff Rebalancing Application

1.1 Purpose of this document

In order to implement PoM's proposed tariff rebalancing in its 2021-22 prescribed service tariffs, PoM is required to submit a Tariff Rebalancing Application to the ESC by no later than 31 December 2020.[8] This draft Tariff Rebalancing Application explains how PoM proposes to:

- Discontinue the existing containerised wharfage imports Prescribed Service tariff.
- Introduce two new Prescribed Service tariffs for wharfage services for full containerised imports: one for a new service provided to vessels that exceed the port design vessel, and one for vessels that do not (effectively continuation of the existing service and tariff), and
- Vary containerised wharfage Prescribed Service tariffs for the upcoming 2021-22 financial year by different percentage adjustments within the allowed weighted average CPI Tariff Adjustment Limit

The draft application demonstrates how PoM's proposed tariff rebalancing for the upcoming financial year complies with the Pricing Order.

1.2 Compliance requirements covered by this document

This is the first time PoM has submitted a Tariff Rebalancing Application to the ESC for approval. The application has been informed by both extensive Port User and stakeholder engagement and collaborative discussions with ESC staff to confirm their expectations for demonstrating compliance with the Pricing Order.

In preparing this draft application, PoM has addressed:

- Clause 3 of the Pricing Order, which details the required contents of a Tariff Rebalancing Application, its timing, the ESC's review process and requirement for compliance with the Tariff Adjustment Limit
- Clause 2 of the Pricing Order, which specifies the Prescribed Service Tariffs Pricing Principles
- Clause 4 of the Pricing Order, which governs the calculation of PoM's cost base for setting Prescribed Service Tariffs, and
- Clause 5 of the Pricing Order, which establishes Cost Allocation Principles for attributing PoM's costs to and amongst Prescribed Services for the purpose of calculating its efficient cost base in accordance with clause 4.

Clause 3.2.7 of the Pricing Order requires that a Tariff Rebalancing Application must include sufficient supporting information so that the ESC can verify compliance with:

- The general pricing principles in clause 2
- The tariff adjustment limit (TAL) in clause 3.1.1
- The cost base pricing principles in clause 4, and
- The cost allocation principles in clause 5.

The ESC's Statement of Regulatory Approach (version 2.0) states the information an application should include:

- *information sufficient to demonstrate compliance with clause 2 (general pricing principles) and clause 3.1.1 (tariffs adjustment limit) of the pricing order*

[8] Under clause 3.2.4 of the Pricing Order.

- *a comprehensive overview of its consultation process with port users about its rebalancing proposals including port users' views regarding the proposals.*[9]

While the Statement of Regulatory Approach also explains that the ESC may issue a determination detailing the form and content of sufficient supporting information required to be submitted as part of the rebalancing application, the ESC has informed PoM[10] that it has elected not to do so for this 2021-22 application.

Appendix A sets out a compliance checklist that cross-references to where in this application and its supporting materials the requirements of the Pricing Order have been addressed.

1.3 Structure of this document

The remainder of this document is structured as follows:

- Section 2 explains PoM's proposed 2021-22 Prescribed Service tariff rebalancing;
- Section 3 details how PoM engaged with Port Users and other stakeholders;
- Section 4 summarises the outcomes of PoM's engagement;
- Section 5 details how PoM's proposal complies with the Pricing Order; and
- Attachment 1 explains the inputs to PoM's regulatory, cost allocation and efficient pricing bounds compliance models.

There are a number of appendices (i.e. **Appendices A** to **E**) that support, and form a part of, PoM's 2021-22 Tariff Rebalancing Application.

1.4 Financial information, and use of terminology, in this document

This document contains the following financial information:

- 2019-20 – actual values[11];
- 2020-21 – forecast values being those that were included in PoM's 2020-21 tariff compliance statement (TCS); and
- 2021-22 – forecast values. These are early versions of the forecasts that will be submitted in PoM's 2021-22 TCS. These values will be revisited prior to submission of the 2021-22 TCS, however, they do not impact the rebalancing.

All financial information provided in this application is denominated in nominal dollars (referred to as "current price terms" in clause 8.1.1 of the Pricing Order), unless stated otherwise. The numbers in the tables may not add up due to rounding.

All clause references are to the Pricing Order, unless otherwise stated. Capitalised terms that are not otherwise defined have the meaning given in the Pricing Order.

In this document:

- "Prescribed Services' revenue (subject to the TAL)" means revenue from Prescribed Services in PoM's Reference Tariff Schedule (RTS). It does not include revenue associated with contracts for Prescribed Services, and

[9] SRA, April 2020, p.10.

[10] ESC, Informational requirements for the Port of Melbourne's rebalancing application, 6 November 2020.

[11] The revenue figures for the 2019-20 financial year are currently unaudited, but will be audited before PoM submits it 2021-22 tariff rebalancing application.

- "ARR" means the Aggregate Revenue Requirement calculated using the ABBM. The initial 2016 capital base included the assets associated with legacy contracts for Prescribed Services that were in place at the time of Port Lease Transaction (PLT). The "ARR" is therefore inclusive of revenue associated with these legacy contracts.

PoM agreed with the ESC that the costs and revenues of all new Prescribed Services' contracts entered into after the PLT should be excluded from the WATI calculation and all comparisons of revenue streams.

PoM is submitting data up to the regulatory year 2021-22. Future calculations, and any modelling input assumptions (e.g. CPI in future years), are included in the regulatory model for illustrative purposes only and may be subject to change in the annual TCS submission in May 2021.

1.5 Next steps

Once the Tariff Rebalancing Application is submitted, the ESC will commence its review of the application for compliance with the Pricing Order, and either accept or reject it. The ESC will either make or be deemed to have made an interim decision by 1 March 2021. If this interim decision is to reject PoM's application, it will state the reasons for doing so, and PoM will be permitted to submit an Amended Rebalancing Application within 30 days. The ESC may vary the timing of an interim decision to account for the time PoM takes to respond to any information requests it issues.

There will also be a process for PoM to submit a Final Rebalancing Application that updates for the actual March 2021 CPI data once that becomes available.

If approved, the rebalanced tariffs will apply from 1 July 2021 and be included in the PoM's TCS for the 2021-22 year.

PoM is happy to also answer any stakeholder questions directly, and can be contacted via the following email address:

rts@portofmelbourne.com

PoM will continue to engage with Port Users and other stakeholders as part of its commitment to engagement, and in preparation for its 2021-22 TCS due in May 2021.

2. What tariff changes is PoM proposing?

PoM's rebalancing proposal applies to three Prescribed Service tariffs in the 2021-22 Reference Tariff Schedule. PoM's proposed tariff rebalancing relates only to containerised trade. All other prescribed service tariffs will be adjusted by CPI in 2021-22 in accordance with the TAL. PoM has no further plans to rebalance these tariffs in the medium term (i.e. over the coming five years).

The purposes of PoM's proposed tariff rebalancing for containerised trade are twofold:

- To better align its tariff signals with marginal investment costs for larger vessels that some Port Users are driving.
- To support improved port utilisation by Port Users who are not driving these marginal investment costs.

The rebalancing required to achieve these purposes involves rebalancing three prescribed service tariffs:

- The current wharfage fee for full – Inward containers will be discontinued and replaced with:
  - wharfage tariff for full – inward containers that is $10/TEU higher than the current wharfage fee, which applies to vessels that exceed the port design vessel;
  - a wharfage tariff at the same rate as the current wharfage fee for full – inward containers (adjusted for CPI), which applies to vessels that do not exceed the port design vessel. This is effectively a continuation of the discontinued tariff for these Port Users because the inflation adjustment is the default tariff increase that would have applied in 2021-22 absent this Tariff Rebalancing Application.
- The wharfage fee for full – outward containers will be decreased by $3.77/TEU from the current export wharfage tariff (with the precise movement subject to actual CPI).

The form of each tariff is set out in the draft RTS provided at Appendix B.

3. How did PoM engage Port Users and other stakeholders?

The following sections explain how PoM designed and delivered its engagement with port users and other stakeholders. Together with section 4, these sections show also how PoM has complied with its regulatory obligations and the ESC's guidance.

3.1.1 Importance of engagement

PoM appreciates that tariff changes are important to Port Users and engagement on these needs to be two-way to be meaningful. Accordingly, PoM drew upon early Port User and stakeholder feedback in the last two years of TCS consultation about large vessel trends and potential for rebalancing, to develop a targeted engagement program for its 2021-22 tariff rebalancing.

The engagement program has also been informed by PoM's regulatory obligations and the ESC's guidance about these.

Clause 3.2.5 of the Pricing Order requires that:

> *Prior to making a Rebalancing Application, the Port Licence Holder must consult Port Users about its proposal to do so and provide a reasonable opportunity for Port Users to express their views to the Port Licence Holder*

The ESC's Statement of Regulatory Approach sets out its expectations for PoM's compliance with this clause:

> *We expect the port to consult port users on how it plans to rebalance prescribed service tariffs over the short and medium term. We expect the port to provide port users with information on how the structure of prescribed service tariffs will change and how this would be compliant with pricing order requirements, including:*

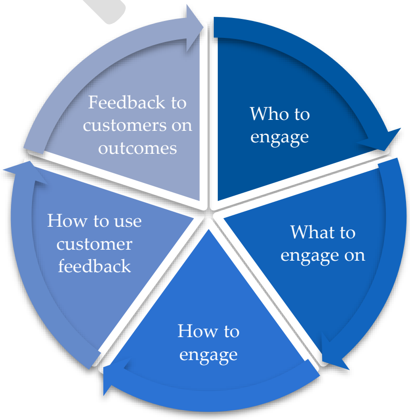
- *how the port has estimated its stand alone and avoidable costs and how this complies with the upper and lower bound pricing rules in clause 2.1.1(b)*
- *if different tariffs are charged to different port users for the same or similar services, how these would comply with the objectives of the regime and the relevant clauses of the pricing order, as per clause 2.1.2*
- *how the port has had regard to the efficient costs caused by port users, transaction costs and the extent to which port users will be able to respond to price signals, as per clause 2.1.3.*[12]

3.2 How PoM designed and delivered its engagement

The purpose of PoM's tariff rebalancing engagement was to obtain feedback from Port Users and other stakeholders on the proposed approach to rebalancing tariffs. PoM used the feedback received to inform the level and structure of Prescribed Services tariffs such that they best meet the requirements of the Pricing Order and promote the objectives set out in section 48 of the Port Management Act 1995 (Vic). In this way, the engagement objective was to engage on how to do the rebalancing.

PoM applied a structured approach to developing its engagement plan and consulted with the ESC on the adequacy of the plan. The approach to designing the stakeholder engagement plan is illustrated in Figure 5 and explained in the following sections.

Figure 5: Approach to engagement design



3.2.1 Who to engage

Port Users are defined in clause 14 of the Pricing Order as persons who request or receive Prescribed Services. All of PoM's Prescribed Services tariffs are levied on shipping lines. For the purpose of this Tariff Rebalancing Application, which applies to wharfage fees levied on shipping lines, Port Users includes the shipping lines that receive Prescribed Services such as the provision of channels and berths, and to access to, or use of, wharves.[13]

In addition to these Port Users, other stakeholders who may be impacted by the tariff rebalancing, include:

- Cargo owners – importers and exporters (and their representatives) who ultimately pay for the shipment of goods through the Port; and
- Stevedores[14] – who have a key operational role in the movement of containers through the port.

A range of other stakeholders were also included in PoM's engagement activities, including transport providers, other ports, industry experts/consultants, and Government.

Figure 6 illustrates the relationship between PoM, Port Users for the provision of Prescribed Services, and other stakeholders.

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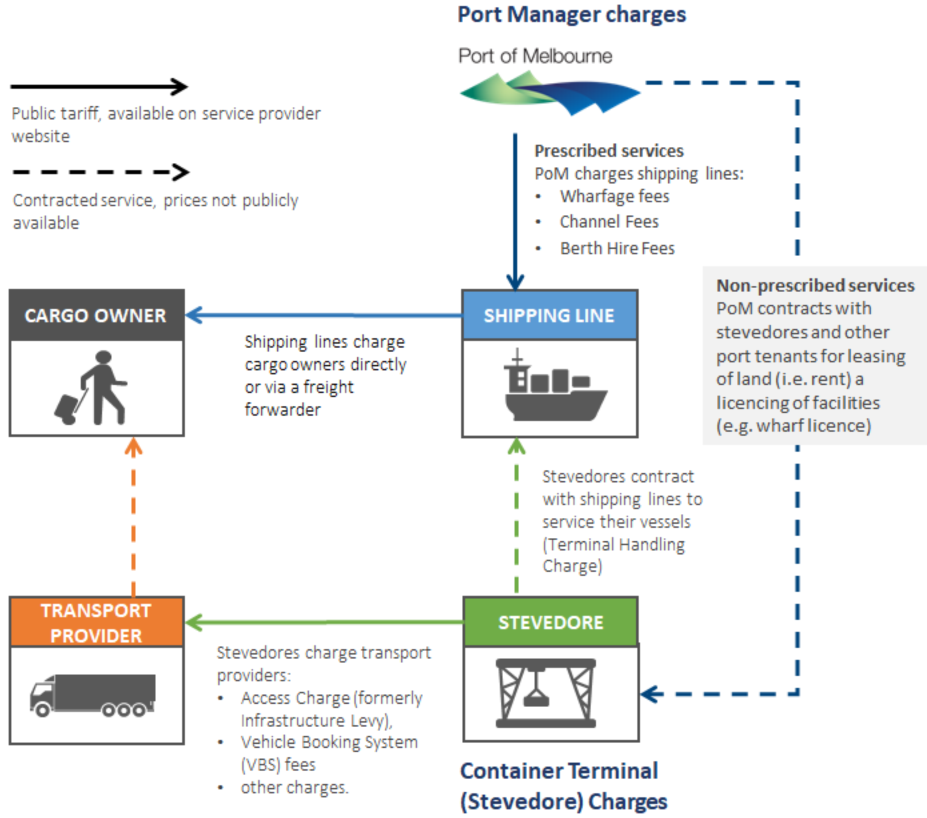
[12] ESC, Statement of Regulatory Approach version 2.0, 28 April 2020, p.10.

[13] See section 49(c) of the Port Management Act 1995 for a complete definition of prescribed services.

[14] PoM leases space and facilities on port land to stevedores (and other Port Users), which is classified as a non-Prescribed Service. Stevedores recover their total costs based on commercial arrangements with shipping lines and transport providers. The Australian Competition and Consumer Commission (ACCC) monitors these stevedore charges and publishes an annual report on its findings.

Figure 6: PoM's relationship with Port Users for Prescribed Services



PoM's engagement approach recognised that, while there is likely to be alignment among Port Users and stakeholders in terms of seeking to support efficiency and reduced costs across the supply chain, the interests and viewpoints of each group will differ. PoM therefore conducted separate engagement activities across two groupings of roles and interests: 1) Shipping lines and their agents and stevedores, and 2) Cargo owners and their agents, freight-forwarders and industry groups. This grouping allowed discussions during engagement to give priority to matters that could have a significant impact on those Port Users or stakeholders.

3.2.2 What to engage on

Previous stakeholder engagement on tariff rebalancing and big ships

In identifying what matters to engage on, PoM first started by identifying its stakeholders and what they have previously said about large vessels and tariff rebalancing.

In consultations undertaken in early 2019 to inform the 2019-20 Tariff Compliance Statement (TCS), PoM provided Port Users and other stakeholders with an introduction to tariff rebalancing concepts and related processes, plus a summary of current and planned investments to support big ships. Port Users and other stakeholders provided views including:

> *Recognition that larger vessels will arrive at the Port, and support, particularly from shipping lines and terminal operators, to upgrade infrastructure for larger container vessels (including channels and wharves at Webb, Swanson and Appleton Docks)*
>
> *Port Users and other stakeholders expressed concerns about the risks to their businesses and the Port's position in Australia and globally, if these wharves cannot accommodate larger vessels*

Support for protecting marine and land environments, and recreational facilities in planning to accommodate larger vessels.[15]

In consultations undertaken in early 2020 to inform the 2020-21 Tariff Compliance Statement (TCS), PoM provided Port Users and other stakeholders with an update and summary of its strategy to accommodate big ships. In these consultations, Port Users and stakeholders provided views on:

…tariff rebalancing in general:

Opportunities for tariff rebalancing raised included reducing empty container wharfage, incentives for rail use, incentives for exporters, or to address where infrastructure development disadvantaged certain trade[16]

…and on the matter of big ships:

Noted that big ships are resulting in vessels missing berth windows, which has a cascading effect on Port Users

In relation to charging, queried whether the investment was part of facilitating trade, and noted that big ships should bear the costs of the investments to handle big ships.[17]

Targeted engagement for the tariff rebalancing application

In deciding what to engage on, PoM gave priority to matters that could have a significant impact on Port Users, namely options for the structure and level of the rebalanced tariffs and how changes in these will affect them.

This targeted engagement focused on elements of the pricing principles in clause 2.1 of the Pricing Order that would aid PoM in identifying which tariff rebalancing options best comply with those principles. This is consistent with the ESC guidance quoted above in section 3.1.1. Key issues where stakeholder input was sought to shape the rebalancing approach include those in clause 2.1.3 of the Pricing Order and how the approach to rebalancing is intended to further the objectives in section 48 of the Port Management Act.

The phase 1 engagement questions shown in Table 2 show how these topics were consulted on.

Drawing on Port User and stakeholder feedback in the prior two years of TCS consultation,[18] PoM also sought to inform stakeholders about the drivers of its decision to pursue a tariff rebalancing application, namely trends in large vessels visit the port and the implications of this for investments to accommodate these vessels.

Table 1: Phase 1 engagement questions

Issues	Questions for consultation
PoM has identified a need to invest in providing services to 'larger vessels' (i.e. vessels that exceed the port design vessel of 300m LOA by 40m beam), and outlined an investment program comprising recent and planned investments.	1) Do you agree on the drivers for, and approach to, PoM's investments to facilitate larger vessels?
PoM's objectives in rebalancing tariffs are to support cost recovery, provide efficient pricing signals, and support trade growth and competitiveness of the port.	2) Are the rebalancing objectives appropriate? 3) Should PoM have regard to or consider other objectives?

[15] Appendix I to the 2019-20 TCS at section 4.2.

[16] Appendix I to the 2020-21 TCS at p.13.

[17] Appendix I to the 2020-21 TCS at p.13.

[18] See Appendix I to the 2019-20 TCS at section 4.2 and Appendix I to the 2020-21 TCS at p.13.

Issues	Questions for consultation
Rebalancing tariffs towards high-growth services provides incremental revenue to fund investment. To promote efficient use of, and investment in, services to larger vessels, PoM has proposed an increase in the wharfage fee for containerised imports on larger vessels.	4) Should cost recovery target larger vessels, or should costs be recovered more broadly from other Port Users (i.e. from vessels that do not meet the 'larger vessel' definition)? 5) Is the definition of a 'larger vessel' (any vessel exceeding 300m LOA or 40m beam) appropriate? Are there alternative definitions PoM should consider?
Under the rebalancing approach, an increase in any one tariff must be balanced by an equivalent decrease in another tariff (weighted by historical revenues from each tariff).	6) Is the increase in the 'larger vessels' tariff justified given the level of investment and operational savings to larger vessels? 7) Is the reduction in export tariffs likely to assist trade growth?
In rebalancing tariffs, PoM's intention is to minimise transaction and administrative costs to the industry.	8) Are cargo-based charges (wharfage fees levied per TEU) preferred over vessel-based charges (channel fees levied on gross registered tonnage (GT))? 9) Are there administrative challenges (i.e. transaction costs) for the proposal? If answered yes, please outline the challenges
PoM understands that larger vessels can create efficiencies in shipping costs and that shipping lines will benefit from investments that support the use of larger vessels.	10) How might shipping lines and/or cargo owners respond to the changes in tariffs being considered? 11) Is an increase in the larger vessels wharfage tariff of the magnitude being contemplated ($10-$20 per TEU) likely to deter shipping lines from deploying larger vessels?
Further engagement.	12) What is your preferred method for further engagement on this topic (e.g. attend presentation on draft proposal / emailed draft proposal for comment / other – please specify)?

3.2.3 How to engage

PoM tailored its methods of engagement to suit the topics it was engaging on and the form of engagement it sought for each topic. PoM's stakeholder engagement approach is based on the International Association for Public Participation's (IAP2) Quality Assurance Standard for Community and Stakeholder Engagement.

Given PoM's engagement objective (set out above) PoM adopted the following fit for purpose engagement forms from the IAP2 public participation spectrum for each engagement phase. We developed two key stages of engagement with Port Users and other stakeholders.

The purpose of the phase 1 consultation was to:

- Inform Port Users and stakeholders about the drivers of PoM's decision to rebalance its tariffs as permitted under the Pricing Order (*IAP2 inform*)
- Consult Port Users and stakeholders on options for the structure and level of the rebalanced tariffs (*IAP2 consult*).

The purpose of the phase 2 consultation is to ensure stakeholders:

- understand our proposal and how it will affect them (*IAP2 inform*)
- can test and clarify that we have correctly understood their feedback (*IAP2 consult*)
- can provide feedback on PoM's compliance evidence (*IAP2 consult*), noting that ultimately compliance assessment is a matter for the ESC's assessment.

PoM prepared information for Port Users, conducted engagement sessions, and called for written submissions on the proposals to provide Port Users and other stakeholders a reasonable opportunity to participate in the consultation.

Recognising the demands on stakeholders' time and the likely challenges of engagement participation during Victoria's response to the COVID-19 pandemic, PoM sought to leverage a number of engagement channels across two engagement phases.

Phase 1 engagement

For the first round of engagement, PoM conducted 11 forums and meetings with Port Users and other stakeholders identified as being impacted by, or likely to have an interest in, the Tariff Rebalancing Application.

Around 980 stakeholders were invited, and around 200 stakeholders participated in these engagement activities. In addition, PoM contacted a number of stakeholders directly in response to queries on the rebalancing proposal that were raised via the communication channels identified in the presentation materials.

Following the sessions – the presentation materials were sent to all invitees (i.e. 980 recipients), and stakeholders were provided with four weeks from the date that materials were circulated to respond.

Table 2: Round 1 engagement sessions

Date	Session	Participants
24 Sept 2020	Shipping lines and agents	A broad range of port users, including shipping lines and their agents/representatives for containerised cargoes, motor vehicle trades, liquid bulk trade, port services and logistics businesses. (31 attendees)
24 Sept 2020	Bass Strait trade and Tasmanian supply chain	A broad range of stakeholders including shipping lines, port operators, logistics businesses, cargo owners, peak industry bodies, and Government. (20 attendees)
25 Sept 2020	NSW cargo owners and supply chain	A broad range of stakeholders including cargo owners, logistics businesses, peak industry bodies, Government and academia. (18 attendees)
25 Sept 2020	Victorian cargo owners and supply chain	A broad range of stakeholders including cargo owners, freight forwarders, shipping agents, logistics businesses, peak industry bodies, Government and academia. (27 attendees)
29 Sept 2020	Container stevedores – VICT	3 VICT executives
29 Sept 2020	Container stevedores – DP World Australia	3 DPWA executives
6 Oct 2020	Container stevedores – Patrick	2 Patrick executives
7 Oct 2020	Essential Services Commission	7 Essential Services Commission staff
13 Oct 2020	Department of Transport – Freight Victoria	4 Freight Victoria executives
14 Oct 2020	Shipping Australia	4 Shipping Australia executives
27 Oct 2020	Freight and Trade Alliance (FTA)/ Australian Peak Shippers Association (APSA) Webinar	A broad range of stakeholders including freight forwarders, ports, cargo owners, transport providers, logistics businesses, peak industry bodies, and Government. (87 registered attendees)

Phase 2 engagement

This draft Tariff Rebalancing Application forms the basis of PoM's second round engagement with Port Users and other stakeholders. It presents the draft rebalancing approach, drawing from feedback provided through phase 1. Stakeholder submissions have been referenced against the relevant pricing principle considerations in section 5.

Consultation on this draft Tariff Rebalancing Application enables Port Users and stakeholders to see and comment on PoM's evidence for compliance with the Pricing Order (see section 5), including the three specific areas called out in the ESC's guidance.[19]

This round of consultation also gives stakeholders the opportunity to clarify how their views have been represented, to understand how those views have influenced the rebalancing approach, and to question any elements of the proposed rebalancing that remain unclear to them.

Port Users and other stakeholders now have an opportunity to provide further comments to PoM by 11 December 2020.

3.2.4 How to use feedback and explain the outcomes of the feedback

PoM has used Port User and stakeholder feedback received to date in three key ways:

- Firstly, to choose among the draft rebalancing options presented in phase 1 and refine its specification of the vessel size threshold for eligibility to the standard vessel tariff;
- Secondly, to record feedback against the relevant pricing principles in section 5 of this draft Tariff Rebalancing Application; and
- Finally, to adjust its phase 2 engagement approach.

PoM had initially planned to run a second engagement session on its draft rebalancing proposal where participants would be provided with a working paper outlining the proposal and how feedback from the earlier sessions was taken into account. In light of stakeholder feedback about the preferred form of engagement (see section 4), PoM is instead now providing stakeholders with this full consultation draft of its Tariff Rebalancing Application.

4. What port users and stakeholders said and how PoM has responded

This section explains the outcomes of PoM's phase 1 engagement.

PoM received 12 submissions to the first round of consultation, from:

- **Shipping lines and their representatives**: Shipping Australia; plus additional submissions from a number of shipping lines
- **Cargo owners and their representatives**: International Forwarders and Customs Brokers Association of Australia (IFCBAA); an export business; and the Australian Industry Group (AiG)
- **International Container Terminal Operators**: All three stevedores made submissions
- **Industry/academia:** Centre for Supply Chain and Logistics (CSCL), Deakin University.

Table 3 summarises feedback PoM received through its phase 1 engagement and its responses to this feedback.

Table 3: Phase 1 engagement outcomes

Questions for consultation	Feedback	PoM response
PoM has identified a need to invest in providing services to 'larger vessels' (i.e. vessels that exceed the port design vessel of 300m LOA by 40m beam), and outlined an investment	▪ The majority of stakeholders indicated support for the need to invest to provide services to larger vessels ▪ Shipping Australia noted that it supports the recent, current, and future investment by the PoM to accommodate larger vessels and considers this prudent investment. However, it	▪ The views of Port Users and other stakeholders on PoM's infrastructure investment plans are important and form part of the business cases PoM uses internally to make investment decisions. To this end, PoM has been engaging extensively with stakeholders on the big ships strategy through Tariff Compliance Statement (TCS) and Port Development

[19] ESC, Statement of Regulatory Approach version 2.0, 28 April 2020, p.10.

Questions for consultation	Feedback	PoM response
program comprising recent and planned investments. 1) Do you agree on the drivers for, and approach to, PoM's investments to facilitate larger vessels?	also noted that PoM has argued that the existing port can meet these future requirements for the next 50 years and the Government has accepted that position, therefore it is up to the port to deliver on the support of larger ships ▪ Large shipping lines: – queried whether PoM had considered other methods of funding investment, and noted that they do not support pre-paying for investments they currently do not yet use. – submitted that the investment predominantly focusses on developing Webb Dock rail connection and increased berth capacity for larger vessels, which is of no benefit to shipping lines that call at Swanson Dock. ▪ Stevedores provided a mixed response: – Support for further investments to cater for larger vessels, noting increased deployment of large vessels since 2018 and possible congestion impacts – Objections to the Webb Dock East components of the big ships strategy, which were said to undermine competition between stevedores and exacerbate terminal excess capacity – Requested PoM provide an independent assessment of its capital expenditure program	Strategy (PDS) consultations over the last two years. During these engagements PoM received a number of requests to provide services to larger vessels, including: – A strong call to accelerate key projects in direct response to capacity demand in regard to accommodation of larger container ships (2050 Port Development Strategy Consultation Summary Report, October 2020, p.17) – Shipping lines and other stakeholders have expressed concerns about the risks to their businesses and the port's position in Australia and globally, if the wharves cannot accommodate larger vessels, and provided support for upgrading infrastructure to do so (Appendix I to the 2019/20 TCS at section 4.2) ▪ As noted in section 5, PoM is currently under-recovering its costs and has considered various approaches to funding investment under the regulatory framework. We also note that shipping lines and international container terminal operators at Swanson Dock are already benefiting from PoM's investments to cater for larger vessels (which have raised the vessel constraints from 300m LOA by 40m beam to allow for larger vessels). ▪ With rebalanced tariffs to commence from 1 July 2021, having already made investments in enhanced services, and the next phase of construction under the big ships strategy anticipated to commence by FY22, PoM considers the timing of the tariff adjustment is appropriate.
PoM's objectives in rebalancing tariffs are to support cost recovery, provide efficient pricing signals, and support trade growth and competitiveness of the port. 2) Are the rebalancing objectives appropriate? 3) Should PoM have regard to or consider other objectives?	▪ Shipping Australia noted that it considers the cost recovery objective seems one-sided, and that cost recovery should only apply to new investment that was not considered as part of the purchase of the port. Shipping Australia also suggested that efficiency should also relate to efficiency of the port from a vessel perspective, by minimising delays in shipping schedules and the costs of visiting the port (value for money for Port Users) ▪ Large shipping lines: – noted that cost recovery should be looked at in terms of 'normal' investment, and that investing to support larger vessels was known at the time of the port lease transaction and so not new. And also suggested PoM's objectives should be value for money for trade and the State economy. – agreed with the objectives, but queried the measurement of competitiveness and suggested that rebalancing tariffs might be contradictory to this objective, and also whether the decrease in export tariffs would match the increase in import tariffs ▪ An exporter noted that all companies need to invest and aren't always able to change tariffs	▪ Cost recovery is one of the key principles of the regulatory framework established by the Victorian Government for the lease of the port in both the objectives of the Port Management Act and the Pricing Order. This principle applies to both assets in place at the time the port lease was granted (via the Initial Capital Asset Values established in the Pricing Order) and all subsequent prudent and efficient investment, regardless of whether it was foreseen at the time of the port lease transaction or not. ▪ PoM agrees that pricing signals should encourage efficient use of the port, and considers that by providing appropriate signals to vessels about the costs of providing services (in this case, the service to larger vessels), this objective will be promoted. ▪ PoM does not agree with the stevedore that the objectives of tariff rebalancing should include to ensure that investments are prudent and efficient. Such decisions are separate from the tariff rebalancing compliance considerations in the Pricing Order and covered by PoM's asset management practices. PoM notes that stevedores do not appear to be advocating a similar review of expenditure undertaken at Swanson Dock under the big ships strategy. PoM undertakes detailed assessments of the prudency and efficiency of capital expenditure (including consulting widely on its expenditure plans), and further, independent reviews are provided for

Questions for consultation	Feedback	PoM response
	to meet expenses, and that objectives should be to provide the most efficient service ▪ CSCL supported the objectives and noted that PoM should ensure its pricing remains competitive in the Australian market to attract and encourage trade ▪ Stevedores provided a mixed response: – One stevedore supported the objectives and noted that investments would benefit all users – One stevedore suggested that the objectives should include to ensure that additional costs imposed on the supply chain are prudent, having regard to the whole supply chain.	through the annual Tariff Compliance Statement submissions to the ESC and the ESC's periodic reviews of PoM's compliance with the Pricing Order. ▪ Competitiveness of the port relates to both service levels and price. Through the big ships strategy and rebalancing application, PoM is seeking to ensure that it is capable of providing the level of service sought by Port Users, and that prices are reflective of this service level and comparable to other ports with similar service levels (e.g. Port Botany). ▪ To comply with the WATI price cap under the Pricing Order, the reduction in the export wharfage fee must at least match the increase in the import wharfage fee (weighted by revenue).
Rebalancing tariffs towards high-growth services provides incremental revenue to fund investment. To promote efficient use of, and investment in, services to larger vessels, PoM has proposed an increase in the wharfage fee for containerised imports on larger vessels. 4) Should cost recovery target larger vessels, or should costs be recovered more broadly from other Port Users (i.e. from vessels that do not meet the 'larger vessel' definition)? 5) Is the definition of a 'larger vessel' (any vessel exceeding 300m LOA or 40m beam) appropriate? Are there alternative definitions PoM should consider?	▪ Shipping Australia noted that its members support the general principle of users pays, however suggested that a more reasonable definition of a larger vessel would be 300m LOA <u>and</u> 40m beam, on the basis that some ships with lower TEU capacity exceed the 40m threshold ▪ Large shipping lines: – did not consider a rebalancing is necessary. Opposed a multi-tier approach to wharfage because the charge is not specifically related to investment in the future but recovery of cost over many decades. – submitted that vessels able to utilise existing infrastructure should not be penalised, and suggested that the threshold for larger vessels should reflect the current restrictions at Swanson Docks of LOA 325m by beam 42.9m. – stated that the investments in services to large vessels are essential, and as the port operator PoM has a responsibility to deliver. However this should be funded by the PoM without the imposition of the proposed higher import wharfage for larger vessels. Also noted that channel fees already differentiate between larger and smaller vessels. ▪ Small shipping lines supported larger vessels paying for investments to accommodate larger vessels ▪ An exporter noted that exporters are not able to control the vessel used, as this is controlled by the customer (i.e. importer) ▪ IFCBAA disagreed with the approach to recovering costs from imports only ▪ A stevedore noted that the investments and wharfage change for larger vessels was supported, and that the threshold is appropriate as it represents the next step of larger vessels from those that have been calling at the port	▪ PoM notes that most stakeholders support the principle of user pays. Under the regulatory framework, PoM is entitled to recover its prudent and efficient investment costs – and not more than those costs. One of the core principles of the regulatory framework is that PoM funds infrastructure investments up-front and then recovers the efficient costs of these investments from Port Users over time through regulated tariffs. The Port Users that benefit from investments in services to larger vessels have objected to the rebalancing proposal. Absent rebalancing, the costs of investments to support larger vessels would be spread more broadly across tariffs levied on all Port Users, including smaller vessels, automotive, liquid bulk operators, and the Tasmanian trades, who do not use or benefit from the infrastructure in question. ▪ PoM notes Shipping Australia's submission that some vessels may exceed beam but not LOA of the design vessel. However, there are also costs associated with providing services to vessels with beam that exceeds the design vessel. As a ship's length or beam increases, it enables it to carry more cargo and thereby leads to a rise in displacement (total weight of the ship). Additional investment is required to upgrade the wharf infrastructure to allow safe berthing of heavier ships. There are also operational challenges and weather limitations, particularly at Swanson Dock, with servicing vessels with a broader beam. We also note that some very wide ships, such as the Bosporus Max class (up to 10,600 TEU), that regularly call at the port, and which drive increased costs, would fall outside Shipping Australia's suggested definition. ▪ PoM also notes shipping lines' comments that Swanson Dock is capable of handling vessels of LOA 325m and beam 42.9m. To enable this capability and beyond, PoM made substantial investments progressively since the port lease commenced. PoM considers it appropriate that Port Users who are benefiting from these investments be included in the concept of user pays.

Questions for consultation	Feedback	PoM response
	▪ A stevedore supported users that benefit from the service paying for the service ▪ CSCL supported recovering costs from larger vessels and the definition of a larger vessel as exceeding 300m LOA by 40m beam as appropriate, as those vessels benefit most from improved infrastructure.	▪ Shipping lines have suggested that channel fees already provide financial benefit to PoM for servicing larger vessels. However, as noted above, the majority of investments in providing services to larger vessels relate to berth and wharf infrastructure for container ships, not channel dredging. ▪ Noting cargo owners' comments that exporters cannot control which vessels are used, since freight is determined by the customer (i.e. the importer), PoM considers that providing a reduction to wharfage fees for all full export containers (rather than just larger vessels) is appropriate ▪ The ICFBAA has raised concerns that importers should not alone be targeted for cost recovery. The head-haul direction of trade (in this case, imports) determines the required level of shipping capacity. Therefore, the level of infrastructure investment required to cater for larger vessels is driven by import trade. On this basis, we consider that an increase to the import tariff, rather than the export tariff, is consistent with user pays principles and the Pricing Order.
Under the rebalancing approach, an increase in any one tariff must be balanced by an equivalent decrease in another tariff (weighted by historical revenues from each tariff). 6) Is the increase in the 'larger vessels' tariff justified given the level of investment and operational savings to larger vessels? 7) Is the reduction in export tariffs likely to assist trade growth?	▪ Shipping Australia: – submitted that investments that were clearly identifiable prior to the port lease should not require a rebalancing to be financed – raised concerns about over-recovery of costs (which it estimated to be between $850 million to $1.8 billion by the end of the lease) – suggested that PoM considers it has a right to claim operational savings from vessels, which it disagrees with since Shipping Lines will need to invest more in vessels than PoM will in infrastructure – noted that larger vessels already pay more for channel fees than smaller vessels – noted that reductions in export tariffs could increase exports over time, it is not considered a major catalyst ▪ Large shipping lines: – did not consider rebalancing necessary. Also noted that exports are very cost sensitive concerning choice of port (in some locations) and even whether to export at all, and that the port should facilitate growth in exports – submitted that there is very little operational saving from larger vessels and that the increase in 'larger vessel' tariffs would have a much greater (negative) impact and would further solidify Australia as one of the most expensive shipping locations. There is no value for the shipping line and there is no ability to strategize if the majority of the container vessels would	▪ As noted above, while cost recovery is one of the key tenets of the regulatory framework (regardless of whether investments were foreseen prior to the port lease), PoM is not entitled to recover more than its prudent and efficient investment costs. As noted by stakeholder submissions, both demand and the deployment of larger vessels are uncertain, making the forecasting of cost recovery over long periods challenging. However, the situation described by Shipping Australia cannot occur under the regulatory framework that applies to PoM: – PoM is not entitled to recover more than its efficient costs, and if it was projected to do so, tariffs would be required to be reduced to avoid over-recovery – as set out in section 5, given the relatively minor adjustment to tariffs under the rebalancing, PoM is unlikely to achieve full cost recovery during the TAL period, let alone over-recover its costs. ▪ The impact of larger vessels on operational savings is well-established, with CSCL indicating substantial savings in the order of USD100/TEU. Shipping lines' comments that there are very limited operational savings from larger vessels is at odds with other submissions. Nevertheless, PoM notes that cost structures of shipping lines are likely to vary. As such, we consider that the approach of differentiating charges for shipping lines that choose to deploy larger vessels (on the basis of operational savings) and those that do not (where the operational savings do not justify it) is both fair and efficient, and more likely to support effective competition between shipping lines. ▪ PoM has no claim on operational savings to vessels. Rather, to the extent that the efficiencies from deploying larger vessels exceed the tariff adjustments required by PoM to finance the facilitating

Questions for consultation	Feedback	PoM response
	become classified as 'larger vessel' under the proposed definition ▪ Small shipping lines noted that tariff reductions will only assist where the port competes with other ports, and that it is a good will gesture to Australian exporters ▪ AiG queried whether increasing the import tariff by more than the export tariff reduction would have negative consequences for Australian businesses (particularly given many exporters are also importers) ▪ An exporter raised concerns that exporters might face higher tariffs since they are not able to determine the choice of vessel. They also noted that reductions in export tariffs will assist trade growth ▪ IFCBAA noted that there was no evidence that reductions in tariffs would assist trade growth, with port rates less significant than the cost of goods and freight charges. IFCBAA also suggested that importers and exporters should contribute equally to cost recovery, while noting that \$10-\$20/TEU might not have a significant impact on cargo owners, but that there were risks to PoM becoming more expensive than other ports ▪ A stevedore noted it considered savings would be sufficient even with higher wharfage on larger vessels, and that reductions in export tariffs could attract cargoes from Sydney or Adelaide ▪ CSCL proposed that tariff adjustments be kept to a minimum, while noting that the savings of a 10,000 TEU vessel over a 5,000 TEU vessel are approximately USD100/TEU based on a 28-day round voyage, depending on load factors and bunkering costs.[20]	investment, PoM considers that this demonstrates both the prudency and efficiency of the investment and the reasonableness of the tariff adjustment. ▪ Channel fees are in place to recover channel investments, which are greater for larger vessels, due to their greater draught. As larger vessels also required greater investments in wharves and berths, due to greater LOA and/or beam, PoM considers that it is appropriate that a similar approach be applied to wharfage fees. ▪ Cargo owners' comments about exporters facing higher tariffs due to being unable to influence vessel choice are aligned with PoM's decision to apply the reduction to wharfage to all full export containers. While feedback on whether tariff reductions would assist exports was mixed, PoM notes that there is evidence that exports do vary in response to price (as set out in section 5.5). ▪ PoM notes concerns from stakeholders about potential over-recovery and that increases in tariffs might impact deployment decisions. PoM also notes that stakeholders have indicated that exporters are price sensitive, and that reductions in export charges could assist with competition with other ports, however stakeholders did not suggest that higher reductions would materially impact this outcome. We also note that some stakeholders have raised concerns about cost competitiveness with other ports. Therefore, PoM has opted to adopt a tariff adjustment at the lower end of the range considered in the phase 1 engagement. ▪ We note that some port users have recently adopted port congestion surcharges of USD250-350/TEU due to increased operational costs caused by delays to vessel schedules. In this context, PoM considers that a \$10/TEU increase in import wharfage fees to some vessels (offset by a \$3.77/TEU reduction in export wharfage fees to all vessels) is readily justifiable in the context of an investment program that delivers opportunities for significant economies of scale and also addresses operational delays. PoM considers that combined with operational efficiencies available to Port Users, the rebalancing should deliver benefits to Australian businesses.
In rebalancing tariffs, PoM's intention is to minimise transaction and administrative costs to the industry. 8) Are cargo-based charges (wharfage fees levied per TEU) preferred over vessel-based charges (channel fees levied on gross registered tonnage (GT))?	▪ Shipping Australia noted the wharfage charge is an efficient and transparent charge, whereas channel fees are more difficult to process and more likely to attract additional processing costs adding to the overall costs of moving cargo through the port. However it also raised concerns that PoM would be the only port to vary wharfage based on vessel size, and that importers may demand their cargo be carried on smaller ships or impact the ability for large vessel operators to fully recover wharfage rates from their customers	▪ Most stakeholders indicated a preference for TEU-based charges on vessels (i.e. wharfage charges). While we recognise that some stakeholders expressed a preference for GT-based charges (i.e. channel fees), this appeared to be mainly based on the perception that channel fees are a charge on the ship and wharfage fees are a charge on the cargo, and that the former would be more likely to be absorbed by shipping lines and the latter passed through. ▪ Vessels visiting the port will carry both import and export containers. Therefore, the net impact on

[20] CSCL, Response to the Port of Melbourne Tariff Rebalancing Consultation, October 2020, p.4

Questions for consultation	Feedback	PoM response
9) Are there administrative challenges (i.e. transaction costs) for the proposal? If answered yes, please outline the challenges	▪ Large shipping lines: – favoured cargo-based charges as a well-known and accepted practice, but that the tiered system of wharfage would add another layer of complexity – submitted that they could suffer losses due to being unable to pass costs of increased tariffs to importers, who would expect cost reductions with the use of larger and more efficient vessels ▪ Small shipping lines queried whether the threshold would be based on nominal, actual, full or empty TEU, but did not consider there would be administrative challenges if the approach was simple ▪ IFCBAA preferred channel fees since it is the size of the vessel driving the need to invest, and noted its view that cost savings gained by shipping lines would not be passed through to end use customers ▪ An exporter preferred wharfage fees levied per TEU, and noted that it can be difficult to identify reasons for changes in tariffs ▪ A stevedore noted that gross tonnage does not reflect container volumes and revenue drivers for shipping lines (i.e. wharfage fees preferred) ▪ A stevedore noted that there is no evidence that operational savings from larger vessels are passed on to shippers ▪ CSCL submitted that costs should be recovered through channel fees, since large vessel owners are the major beneficiaries, and that there would be minimal transaction costs.	vessels that exceed the larger vessel threshold from the tariff rebalancing in this draft application will be less than the import increase of $10/TEU for vessels (given the reduction in export tariffs). PoM considers this to be a relatively minor cost impost on the supply chain. The basis for a shipping line's comments that it would be unable to pass through changes in port charges is unclear in the context of recently introduced congestion charges of USD250-USD350/TEU.[21] ▪ Wharfage fees and channel fees are both charges on vessels. However, PoM remains of the view that an adjustment to wharfage fees is more consistent with the Pricing Order in this case because: – The main infrastructure costs relate to wharves that provide services to large container vessels to serve import trade, rather than channels. No vessels have faced draught limitations in the last two years, and a channel fee would also capture other vessels visiting the port, such as liquid bulk vessels that have not driven significant investment costs to service larger vessels; and – wharfage fees are more transparent to supply chain participants. Therefore, to the extent changes in costs (including cost reductions from the export tariff and efficiency gains from larger vessels) are passed through to cargo owners, this will be more transparent under a wharfage fee adjustment (and less likely to attract additional processing costs). ▪ PoM considers that Shipping Australia's concern that cargo owners will put pressure on shipping lines to use smaller vessels (on the basis of lower costs), indicates that shipping lines that deploy larger vessels will have a strong incentive to compete on price (i.e. pass through cost savings), facilitating and promoting competition in this way is in line with the objectives of the Port Management Act (see section 5.2.2.4).
PoM understands that larger vessels can create efficiencies in shipping costs and that shipping lines will benefit from investments that support the use of larger vessels. 10) How might shipping lines and/or cargo owners respond to the changes in tariffs being considered? 11) Is an increase in the larger vessels wharfage tariff of the magnitude being contemplated ($10-$20 per TEU) likely to deter	▪ Shipping Australia raised concerns about the overall level of cost at PoM, and indicated that there may be less schedule choice for cargo owners who demand their cargos be carried on smaller vessels (on the basis of cost). Shipping Australia also indicated that the rebalancing could impact decisions on vessel deployment, along with factors including partners, average utilisation, peak season utilisation, competition, relative costs at all ports, charter rates, etc. ▪ Large shipping lines: – noted that larger vessels provide cost efficiencies, but these are subject to utilisation, and that market forces can lead to these gains being passed through to customers. Uncertainty of pass through	▪ PoM notes: – Stakeholders have indicated that there are many variables influencing individual shipping lines' cost base and decisions on deploying larger vessels, including vessel utilisation, and the tariff change could impact deployment decisions. However, the impact of larger vessels on operational savings is well-established, with CSCL indicating substantial savings in the order of USD100/TEU – While exports were recognised as being price sensitive, and the export tariff was recognised by some stakeholders as having an impact on port competitiveness and trade, no stakeholders indicated a strong preference for larger decreases in the export tariff (which would need

[21] See for example, https://www.maersk.com/news/articles/2020/09/29/port-congestion-surcharge-sydney; https://www.msc.com/cri/notices/2020-september/melbourne-brisbane-port-congestion-surcharge; https://www.anl.com.au/news/1319/port-congestion-surcharge-sydney-update; https://www.oocl.com/australia/eng/localinformation/localnews/2020/Pages/Transport-Additional-Surcharge-(TAD).aspx;

Questions for consultation	Feedback	PoM response
shipping lines from deploying larger vessels?	may impact deployment decisions (which are complex decisions with many variables such as partnerships, vessel availability, market supply, trade flows) – suggested that the tariff rebalancing would result in shipping lines using smaller vessels, reduce imports and increase exports ▪ Small shipping lines noted that shipping lines will have different cost bases, but if larger vessels provide better economy for vessel operators then extra costs for infrastructure should not affect vessel deployment ▪ An exporter indicated that it expected shipping lines to pass through increased charges to end customers but not cost reductions ▪ CSCL submitted that the benefit to shipping lines of deploying large vessels is substantial, and noted that the savings of a 10,000 TEU vessel over a 5,000 TEU vessel are approximately USD100/TEU based on a 28-day round voyage, depending on load factors and bunkering costs.[22]	to be facilitated by larger increases in the larger vessels tariff). ▪ As noted above, PoM considers Shipping Australia's comments around cargo owners seeking to use shipping lines deploying only smaller vessels on the basis of cost suggests that the rebalancing will facilitate and promote competition. ▪ Shipping lines' view that shipping lines would favour smaller vessels rather than deploy larger vessels due to the change in tariffs also suggests competition between shipping lines will be promoted by tariff differentiation – those shipping lines that find it economical to deploy larger vessels will need to pass through at least some operational savings to compete with smaller vessels on price. ▪ PoM considers it unlikely that the size of the tariff adjustment would unduly impact shipping lines' decisions to deploy larger vessels, particularly in light of the savings identified by CSCL. However, we note the concerns raised by some stakeholders, and significant uncertainty around utilisation (driven by trade uncertainty) and other costs (e.g. fuel and charter rates). ▪ Therefore, PoM's draft proposal is for the wharfage fee for full – inward TEUs to be increased by the lower end of the range under consideration ($10/TEU), with the offsetting reduction provided to wharfage fee for full – outward TEUs (estimated at $3.77/TEU based on estimated Mar20-Mar21 CPI of 0.66%).
12) What is your preferred method for further engagement on this topic (e.g. attend presentation on draft proposal / emailed draft proposal for comment / other – please specify)?	▪ Shipping Australia preferred four weeks' notice (minimum of two weeks) of industry presentations and provision of detailed documents relating to the presentation or proposal at the time of the notification, to allow it to consult with members, become familiar with the information and develop proper questions to be addressed during a meeting ▪ A shipping line supported the approach taken to consultations with attendance at presentations as well as wider sharing via email ▪ A shipping line preferred a detailed proposal in advance of presentations to discuss the proposal ▪ An exporter supported attending a presentation on the draft proposal ▪ One stevedore noted PoM had consulted extensively and no further engagement is required, while two submitted that they considered PoM had not consulted sufficiently, and that developing a draft rebalancing proposal before a detailed, independent assessment of proposed capital expenditure is undertaken would be premature.	▪ PoM is providing its full draft application ahead of further presentations and discussions with stakeholders. ▪ Stakeholders will have four weeks from the provision of the draft application to make any further comments or submissions to PoM. ▪ As noted above, PoM has a robust process for developing its capital expenditure program and has consulted on the service requirements for larger vessels extensively over the last two years. The ESC will also review the prudency and efficiency of PoM's capital expenditure in its periodic reviews of compliance with the Pricing Order. PoM does not consider that an additional, independent assessment of the prudency and efficiency of its capital expenditure program is necessary.

[22] CSCL, Response to the Port of Melbourne Tariff Rebalancing Consultation, October 2020, p.4

5. How does PoM's proposal comply with the Pricing Order?

This section explains how the proposed tariff rebalancing complies with the Pricing Order requirements, including the pricing principles. Importantly, the rebalanced tariffs will better advance these efficient pricing principles and the objectives of the Port Management Act than the existing tariffs do.

This section explains:

- How PoM has modelled that its rebalanced 2021-22 price increases comply with the weighted average tariff increase of CPI (clause 3.1.1 of the Pricing Order) in section 5.1;
- How the price differentials for different users of containerised wharfage services are consistent with the objectives in the Port Management Act (clause 2.1.2) in section 5.2;
- How PoM's rebalanced tariffs have regard to pricing efficiency in terms of:
  - The efficient costs caused by different Port Users (clause 2.1.3.i) in section 5.3;
  - Transaction costs of its tariff structures (clause 2.1.3.ii) in section 5.4;
  - Possible Port User response to the rebalanced tariffs (clause 2.1.3.iii) in section 5.5;
- How PoM's forecast revenues:
  - Are less than the efficient regulated cost base determined using the Accrual Building Block Method (clause 4) in section 5.6, determined in compliance with the cost allocation principles (clause 5) in section 5.8; and
  - Fall within the efficient cost bounds of standalone cost and avoidable cost (clause 2.1.1(b)) in section 5.7.

5.1 PoM has complied with the Weight Average Tariff Increase

PoM's proposed weighted average tariff increase (WATI) in 2021-22 across all its Prescribed Service tariffs is no more than the CPI increase for the year to March 2021 as required by clause 3.1.1 of the Pricing Order.

PoM notes that the December 2020 timing of the rebalancing application means it must adopt a reasonable estimate of the upcoming March CPI for the purpose of the rebalancing application. For this estimate, PoM has relied on an independent expert forecast of March CPI from Deloitte Access Economics as at October 2020, which gives an estimate annual inflation of 0.66%. This forecast will be updated for actual March quarter CPI in the Final Rebalancing Application once the CPI is published.

The calculation of the WATI is required to be based on historical audited revenues from the 2019-20 financial year for each prescribed services tariff.[23] For the proposed new tariffs, the share of revenue between the 'larger vessels tariff' and 'standard tariff' is based on historical shipping data – which clearly identifies the proportion of TEUs imported on larger vessels. This data allows the historical containerised inbound wharfage revenues to be apportioned between these two new tariffs using the actual weights underpinning those 2019-20 revenues.

PoM confirms that:

- its draft WATI for Prescribed Services is 0.66 per cent for 2021-22;
- all tariffs except for full outbound wharfage and larger vessel full inbound wharfage will increase by the TAL of 0.66 per cent, being the annual change in the CPI to March 2021[24]; and

[23] The revenue figures for the 2019-20 financial year are currently unaudited, but will be audited before PoM submits it 2021-22 tariff rebalancing application.

[24] As agreed with the ESC, PoM has calculated its 2020-21 tariffs by applying the cumulative CPI index to the Initial Prescribed Services Tariffs, rather than by apply the annual CPI to the previous year's tariffs (with the exception of wharfage fees for inward full containerised cargo – given that this tariff was amended during 2019-20 under the Port Rail Transformation Strategy, the CPI adjustment is applied to the 2019-20 tariff). This results in minor aggregate rounding differences that are self-correcting over time, as demonstrated in Appendix C.

- after accounting for the proposed rebalancing (decreased full outbound wharfage and increased larger vessel full inbound wharfage), PoM's proposed tariffs comply with the WATI.

PoM's proposed 2020-21 tariffs are set out in the draft RTS provided at **Appendix B** and, if the Tariff Rebalancing Application is approved, the tariffs will be updated for actual March quarter CPI and will apply from 1 July 2021.

5.2 PoM's rebalancing supports Victoria's Port Management Act objectives

Over time, the Port User responses to PoM's targeted containerised wharfage tariff rebalancing can be expected to advance the objectives of Section 48 of the Port Management Act regarding efficiency, fairness, cost recovery, and competition. This makes the proposed rebalancing preferable to the status quo tariffs (i.e. not rebalancing).

Clause 2.1.2 of the PO outlines that the PoM:

> *may set different Prescribed Service Tariffs for different users of the same or similar Prescribed Service, provided that such differences are consistent with the objectives set out in section 48 of the Act and clauses 2.1.3 [pricing considerations], 2.2.1 [channel principles] and 2.3.1 [export pricing decision].*

Compliance with the three clause 2.1.3 pricing considerations is explained below in sections 5.3, 5.4 and 5.5.

The channel principles are not applicable to wharfage services.

The export pricing decision has expired, although PoM's proposed downward rebalancing for the containerised export tariffs is consistent with continuing to give effect to the intent of that decision.

Below PoM explains how its proposed rebalancing will advance the Port Management Act objectives.

5.2.1 What are the objectives?

Section 48 of the Port Management Act specifies five objectives for the regime. These are:

1. **Efficiency** | to promote efficient use of, and investment in, the provision of prescribed services for the long-term interests of users and Victorian consumers; and
2. **Fairness** | to protect the interests of users of prescribed services by ensuring that prescribed prices are fair and reasonable whilst having regard to the level of competition in, and efficiency of, the regulated industry; and
3. **Cost recovery** | to allow a provider of prescribed services a reasonable opportunity to recover the efficient costs of providing prescribed services, including a return commensurate with the risks involved; and
4. **Competition** | to facilitate and promote competition— (i) between ports; and (ii) between shippers; and (iii) between other persons conducting other commercial activities in ports; and
5. **Competitive neutrality** | to eliminate resource allocation distortions by prohibiting a State sponsored port operator from providing a relevant service at a price lower than the competitively neutral price for that service.

Only the first four of these are relevant to this tariff rebalancing application, as PoM is not, and does not compete with, a state sponsored port operator.

5.2.2 PoM's rebalanced tariffs would support the Port Management Act objectives

5.2.2.1 Efficiency

Promoting efficient use of, and investment in, the provision of prescribed services for the long-term interests of users and Victorian consumers requires PoM to consider and seek to advance all three forms of efficiency. The following explains how PoM's proposed tariff rebalancing does this.

Dynamic efficiency

Dynamic efficiency involves supporting efficiency over time. Improving dynamic efficiency can involve innovations that may raise costs in the near term, but ultimately lower costs in the long term. The large vessels trend in maritime transport is an example of dynamic efficiency in the sector, and that drives efficiencies in parts of the supply chain other than in ports and landside services. Shipping lines are investing in larger vessels that require a large capital outlay at the outset, but are expected to deliver cost savings over time that more than offset that higher investment. Stakeholders have advised that these savings are substantial, at approximately USD100/TEU.

PoM investing to accommodate large vessel visits in Melbourne will support this form of efficiency for the long-term interests of Port Users and Victorian consumers, provided that the cost of that investment does not exceed the expected supply chain savings.

Allocative efficiency

Allocative efficiency involves distributing resources according to their highest value uses. This applies both to end products and services, as well as those involved in early stages of the supply chain. The structure and level of PoM's Prescribed Service tariffs can support this efficiency objective by ensuring different Port Users face tariff signals that reflect how they impact PoM's costs of providing Prescribed Services.

Relative to the status quo (i.e. not rebalancing) and available rebalancing alternatives, PoM's three rebalanced tariffs will better support efficient use of the port. It does this in two ways: 1) users driving costs (large full import vessels) face an increased price signal for doing so, and 2) users not driving costs and whom are underutilising the port (exporters) face a price discount to increase their use.

Efficient use of the port requires that where particular Port Users are driving PoM's marginal costs (as is the case with large vessels), these users should face a pricing signal for driving growth in PoM's costs. PoM's proposed rebalancing achieves this by:

- separating the full inward containerised wharfage into two vessel cohorts (standard vessels and larger vessels);
- increasing the relative prices paid by the larger vessels that are driving PoM's marginal investment costs; and
- holding tariffs constant (in real terms) for standard vessels (i.e. the same default outcome as they would have otherwise seen under the TAL).

This seeks to ensure that the Port Users driving its investment to accommodate large ships pay a greater contribution to its costs than those who are not driving new investment, and thereby helps reduce the extent to which this investment exacerbates PoM's under recovery of its regulated revenues.

Productive efficiency

Productive efficiency involves producing Prescribed Services for the lowest cost. Large vessels presently challenge the productive efficiency of the port in two ways:

1) PoM's berths were designed around the provision of services to the specifications of the port design vessel. Vessels that exceed these specifications lock up more quay line than design standard vessels, preventing vessels berthing where two standard vessels otherwise could and contributing to delays in berthing, and
2) investment to accommodate large vessels will increase PoM's costs without driving higher volumes of TEU. Other things being equal, this can raise the cost per TEU of containerised wharfage prescribed services at the port.

PoM's investment to accommodate large ships will support better utilisation of available berths, but is not the compliance subject of this Tariff Rebalancing Application.[25]

This Tariff Rebalancing Application will help improve productive efficiency by supporting growth in TEUs, albeit a potentially minor impact due to the relatively small size of the tariff changes.

In order for the weighted average increase in PoM's tariffs to remain within the Tariffs Adjustment Limit, PoM must to apply a commensurate reduction to one or more other tariffs to offset the large vessel increase. Consistent with the prior operation of the export pricing decision, PoM has applied the reduction to full outward containerised wharfage fee, which aims to grow the volume of full export TEUs.

This class of trade is recognised to face a downward sloping demand curve, which means the tariff reduction will support increased trade and therefore improved utilisation of the port. The Reserve Bank of Australia has estimated that Victorian manufactured exports have a price elasticity of between -0.36 and -0.27.[26]

Victoria is currently a net importer of containerised trade. In 2020-21 PoM forecasts that 750,000 containers left PoM empty after having been imported full.

Importers are generally price makers, being able to pass on the costs of importing their goods whereas Victorian exporters compete in global markets and are price takers of a net-back price after accounting for the costs of transportation and exchange rate differences. A consultation submission from a large shipping line identified that 'The PoM needs to ensure that the port remains cost competitive and tries to facilitate growth in exports which are very cost sensitive as to whether cargo is exported at all and in some locations which port is chosen.'[27] Another shipping line also submitted that the reduction in export tariffs was likely to assist trade growth.[28]

The long-term interests of port users and Victorian consumers will be advanced where port utilisation is improved by encouraging the highest TEU volumes that the port's capacity can accommodate. Based on the RBA elasticity estimates, PoM expects that rebalancing prices to lower export tariffs and increase large vessel import tariffs should result in a net increase in trade (e.g. more exports and constant or increased imports), and port users will collectively be better off.

Increased trade means fixed port costs can be spread over a larger usage base to support lower average port prices over time. This should have flow-on benefits to Victorian consumers, including that:

- the delivered price of imported goods should reduce by that shared reduction in port prices;
- the delivered price of imported goods should reduce where larger ships drive cost efficiencies in shipping and land-side costs; and
- where greater export volumes support lower prices for those same goods in Victoria due to scale economies in their production.

5.2.2.2 Fairness

This objective seeks to protect the interests of users of prescribed services by ensuring that prescribed prices are fair and reasonable whilst having regard to the level of competition in, and efficiency of, the regulated industry.

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[25] The efficient investment limb of this objective is regulated through clause 4 of the Pricing Order, which is administered through calculation of PoM's forward looking Aggregate Revenue Requirement for a given regulatory period. A tariff rebalancing application does not change PoM's forward looking Aggregate Revenue Requirement because it can only change PoM's revenue base not its cost base. Moreover, during the period of the Tariff Adjustment Limit which is causing PoM to materially under recover its Aggregate Revenue Requirement, permitted tariff rebalancing within that limit cannot cause PoM's prescribed revenues to exceed the Aggregate Revenue Requirement (from legacy investments already in PoM's RAB, let alone the impact of any forecast future investments such as those to accommodate larger vessels).

[26] David Norman, RBA Research discussion paper | Modelling manufactured exports: evidence from Australian states, April 2006, p.16.

[27] Shipping line submission, 7 Oct 2020, p.3.

[28] Shipping line submission, 2 Nov 2020, p.3.

PoM considers that the proposed rebalancing improves the fairness of PoM's tariffs, and maintains consistency with those requirements of the Pricing Order which support the achievement of this objective:

- The rebalancing to introduce a dedicated large ship containerised cargo import customer cohort improves the fairness of PoM's reference tariff schedule to all port users by allowing PoM to better ensure that those customers who are driving its investment costs (within the context of existing capacity adequacy for other users) face a higher price signal for doing so. Absent this rebalancing and targeted price increase, the costs of investments to support larger vessels would be spread more broadly across tariffs levied on all Port Users, including smaller vessels, automotive, liquid bulk operators, and the Tasmanian trades, who do not use or benefit from the infrastructure in question. PoM notes that most stakeholders in their submissions, including Shipping Australia, supported the general principle of user pays,[29] which is what PoM's rebalancing achieves. This is explained further in section 5.3 below.
- PoM's allowed revenues are subject to regulation using a fair depreciated replacement cost asset value established by the Government with additions subject to prudency and efficiency review. PoM is not permitted to earn additional revenue from the proposed tariff rebalancing where such revenue would be in excess of the Aggregate Revenue Requirement calculated in accordance with clause 4 of the Pricing Order. PoM is required to demonstrate this to the ESC annually in its tariff compliance statement for each year of the port lease.
- The efficient pricing bounds shown in Figure 10 below (and calculated in **Appendix E**) show that there are no uneconomic cross-subsidies from or to other prescribed service bundles as a result of this tariff rebalancing application as required by clause 2.1.1 of the Pricing Order.

5.2.2.3 Cost recovery

This objective seeks to allow PoM a reasonable opportunity to recover the efficient costs of providing prescribed services. As explained in section 5.6, this rebalancing will provide a net improvement in PoM's level of cost recovery. However, PoM is still forecast to under recover its allowed Aggregate Revenue Requirement calculated in accordance with clause 4 of the Pricing Order.

5.2.2.4 Competition

This objective seeks to facilitate and promote various forms of competition. PoM considers that its proposed rebalancing will aid all these forms of competition as explained below.

Competition between ports will be supported by:

- Reducing containerised export prices to promote competition between PoM and Port Botany for containerised trade exports – especially for exporters based in the Riverina area that can choose between the two ports – without undermining competition for imports (as there is less scope to switch between ports);
- Separating the full inward containerised wharfage into two vessel cohorts and only increasing large vessel tariffs will maintain PoM's competitiveness relative to the alternative option of charging all vessels for the additional costs of large vessels. The competitiveness for large vessels should be maintained due to the offsetting efficiency savings those large vessels are expected to realise, which submissions have indicated are approximately USD100/TEU.[30] This view was supported by a stevefore who stated: "we believe there's sufficient savings based on the larger vessels even with the additional proposed import wharfage applied to each container"[31]; and

[29] Shipping Australia Submission, 28 Oct 2020, p.6.

[30] CSCL, Response to the Port of Melbourne Tariff Rebalancing Consultation, October 2020, p.4

[31] Stevedore submission, 8 Oct 2020.

- Providing higher revenues from large vessels to support PoM's investment in being able to accommodate those vessels and thereby remain competitive with other Australian ports that can already accommodate these large vessels.

Competition between shipping lines will be supported by enabling shipping lines to differentiate their prices based on the vessel sizes they employ. Most stakeholders supported the concept of user pays, including Shipping Australia.[32] In this context, the user pays principle is clear:

- Shipping lines that do not deploy larger vessels are not driving additional infrastructure costs, and therefore are subject to lower prices; and
- Shipping lines that do deploy larger vessels do drive additional infrastructure costs and are therefore subject to higher prices.

This is not only fair and efficient, but supports competition between shipping lines, by supporting smaller shipping lines to compete with larger shipping lines, and also providing a strong incentive for shipping lines to pass through cost efficiencies to compete with smaller shipping lines on price. We note that cargo owners' submissions indicated that they were sceptical that shipping lines would pass through any cost reductions – the tariff rebalancing will go some way to addressing this. These competitive implications are clear in the submissions received from shipping lines:

- Shipping lines that do not use larger vessels also supported tariffs differentiating between larger and smaller vessels, noting that 'only those vessels of size that require the additional infrastructure spending, should be paying for the costs to support the vessels' port call.[33]
- Shipping lines that do use larger vessels (even those that indicated they support the principle of user pays) objected to tariffs that differentiate between larger and smaller vessels – this is not surprising, given the incentive provided by the differentiated tariffs for these shipping lines to pass through cost efficiencies.

Competition between other persons conducting other commercial activities in ports is particularly relevant to the three stevedores operating across PoM's container terminals. PoM has only had a third stevedore since the port capacity project was completed in 2017 and VICT took occupancy of Webb Dock East with Australia's first fully automated container terminal.

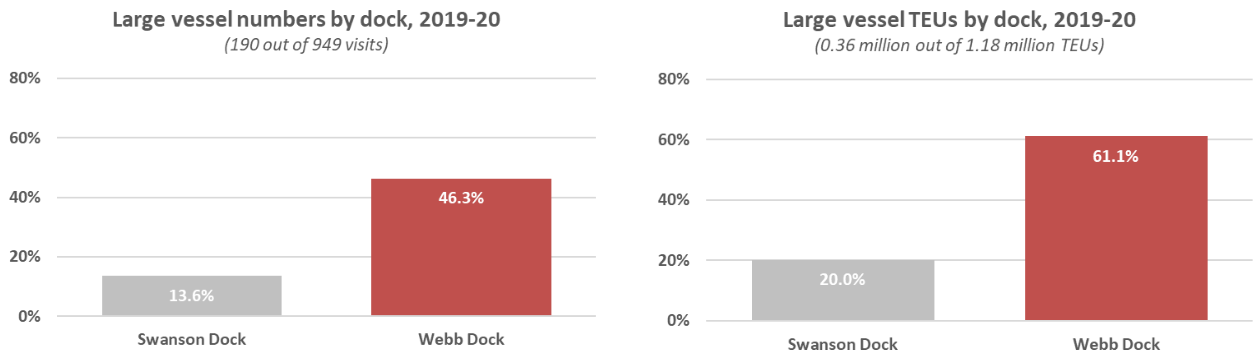
The potential for the outcomes of large vessels utilising PoM to affect competition among the stevedores is evident in the emphatic and opposing views they each expressed in PoM's phase 1 consultation. One stevedore supports the future investments proposed under the big ships program and rebalancing, while others object to future investments (at Webb Dock) under the big ships program and the rebalancing proposal.

Figure 7 shows the difference in large vessels handled at each terminal. While Webb Dock has a smaller number of vessel visits compared with the Swanson Dock terminals, it is growing in market share and has a higher proportion of large vessels than its competitors. PoM's targeted rebalancing to split the inbound wharfage into standard and large vessels will have less impact on Port Users that use Swanson Dock and mean that on average, vessels visiting Swanson Dock will pay lower tariffs for regulated services than Port Users that use Webb Dock.

[32] Shipping Australia submission, 28 October 2020, p.6.

[33] Shipping Line submission, 7 Oct 2020.

Figure 7: Proportion of large vessel numbers and volumes for 2019-20 by terminal



Note: Large vessels defined as vessels that exceed the port design vessel of LOA 300m by beam 40m.

One stevedore has indicated strong support for big ships investments and support for tariff rebalancing. It is reporting capacity constraints and operational issues from larger vessels and has requested that PoM bring forward planned investments to support big ships.[34]

Swanson Dock operators have capacity to handle additional TEU throughput. While PoM seeks to promote competition at the port it is not always possible to enhance all terminals with the same features at the same time.

Swanson Dock stevedores have benefitted from large vessel investments in the past, such as the dredging, bollards and hydrodynamic modelling, to ensure large vessels can be serviced at Swanson Dock. A second stage of bollard works will also provide benefits to Swanson Dock. Further, Swanson Dock stevedores benefit from rail infrastructure whilst VICT does not have direct access to rail.

Given the various factors affecting the relative competitiveness of different terminal operators, PoM considers that competition is best supported by its proposal to separate the full inward containerised wharfage into standard vessels and larger vessels. By doing this and only increasing the larger vessel tariff, PoM is facilitating competition between both standard versus larger vessel shipping lines and the terminals that service them.

5.3 PoM's rebalanced tariffs better reflect the investment costs caused by different users

Separating the full inward containerised wharfage to more accurately reflect the difference in service requirements of Port Users deploying larger vessels enables PoM to better:

- Ensure the prices for larger vessels reflect the additional costs driven by those vessels; and
- Avoid price increases for vessels for which PoM has adequate existing capacity.

Increasing the relative prices paid by the larger vessels that drive PoM's marginal investment costs is an efficient rebalancing of PoM's tariffs consistent with clause 2.1.3(a) of the Pricing Order. It applies the user pays principle to help fund the large ship investment required by a subset of Port Users. Such targeted price increases are important for fairness across Port Users because the port has adequate capacity for forecast TEUs for the foreseeable future for Port Users with standard vessel sizes.

Box 1 below describes the costs that larger vessels are expected to drive, with a focus on those PoM is planning in the near term.

[34] Stevedore communication to PoM dated 7 July 2020 and 7 August 2020.

> **Box 1 | What costs are large vessels expected to drive in the near term?**
>
> PoM's investment program to support larger vessels include:
>
> - Bollards, dredging, and simulations at Swanson Dock (around $20M to date) in addition to significant investments in wharf rehabilitation and upgrades at Swanson Dock
> - Southern Mooring Dolphin (underway) and planned extension of the quay line at Webb Dock and stage 2 of the bollards at Swanson Dock (around $60M – $70M planned).

PoM's phase 1 consultation sought feedback on whether rebalancing should target larger vessels, or should be more broadly across other Port Users, and its draft large vessel threshold of any vessel exceeding 300m LOA or 40m beam – the specifications of the 'port design vessel', which forms the basis for the infrastructure in place at the time of the Port Lease.

Stakeholder submissions and PoM's responses are set out in section 4.

As noted above, most stakeholders supported the concept of user pays, including Shipping Australia.[35] In this context, the user pays principle is quite clear:

- Shipping lines that do not deploy larger vessels are not driving additional infrastructure costs, and therefore are subject to lower prices; and
- Shipping lines that do deploy larger vessels do drive additional infrastructure costs and are therefore subject to higher prices.

As set out in section 4, PoM has adopted a large vessel threshold of 300m LOA or 40m Beam to:

- Reflect the port design vessel specifications and provide a clear signal to Port Users concerning drivers of infrastructure costs since the Port Lease (consistent with the user pays approach); and
- Recognise that investment has already occurred to improve the capability of Swanson Dock ICT operators to handle vessels that exceed the port design vessel.

5.4 PoM has considered transaction costs

Transaction costs can arise from the administration of different tariff structures (e.g. different charging parameters, introduction of new tariffs or variation to tariff eligibility criteria).

PoM's rebalancing will not create any meaningful new transaction costs for Port Users because it relies on existing billing systems and vessel size data already provided by shipping lines.

The costs of administering different prices to different port users are negligible for both Port Users and PoM (clause 2.1.3(b)). This is because:

- PoM already collects LOA and beam data and already charges wharfage fees to container vessels on the basis of TEUs; and
- Shipping lines already manage differential charging for different container cargo types and trades (with, imports, exports, empties and transhipments all currently subject to different rates) and vessel sizes (channel fees vary by vessel draft and gross registered tonnage). The task of passing these prices through to end customers, typically in the form of cargo-based charges, is made no more challenging under the proposed rebalancing.

[35] Shipping Australia submission, 28 October 2020, p.6.

In its phase 1 engagement PoM tested with port users whether charges to vessels based on TEUs (i.e. wharfage fees) were preferable to charges based on gross registered tonnage (GRT) (i.e. channel fees) and whether there would be administrative challenges in the form of transactions costs involved in implementing the rebalancing.

As set out in section 4, most submissions, particularly those from Port Users, supported TEUs as the basis of charging.

5.5 PoM has considered Port Users' price responsiveness

PoM's rebalancing is designed to reflect the price responsiveness of Port Users for different containerised wharfage services in order to accommodate large vessels whilst also supporting better port utilisation. PoM has considered how different Port Users can and will respond to the rebalanced tariffs in accordance with clause 2.1.3(c) of the Pricing Order.

In arriving at the level of the tariff rebalancing, PoM has consulted on several options and had regard to the savings available to large vessels. From this we settled on the lowest of the options consulted on, which is an 8% increase in the inward tariff. PoM considers that this is likely to have a minor impact on customers in the context of the savings available to larger vessels. As noted above, stakeholders have advised that these savings are substantial, at approximately USD100/TEU.

Port Users (i.e. shipping lines) control their vessel sizes, and exporters face net-back pricing constraints on their delivered containers. Port Users are therefore able to respond to the rebalanced price signals.

PoM's engagement with Port Users has shown a strong demand from shipping lines and some stevedores to be able to accommodate larger vessels. Larger vessels improve the efficiency of shipping lines' operations. Large vessels that are driving port investment will face higher tariffs. Offsetting this, they will also be able to access greater scale efficiencies through more TEUs per vessel.

Differentiating charges by vessel size can be expected to incentivise shipping lines over time to compete on price and pass through savings from deploying larger vessels. Shipping lines can avoid the higher containerised import wharfage tariffs where they use vessels that do not exceed the port design vessel.

As noted earlier, larger vessels improve efficiency for shipping lines and PoM's investments to accommodate them can also improve port utilisation by avoiding berth delays currently caused by vessels exceeding the design vessel and thereby preventing two vessels docking concurrently.

It is also possible for PoM's targeted rebalancing to further improve port utilisation through complementary tariff rebalancing measures to lower the price for containerised exports.

Because containerised exporters are generally price takers from international markets, other things being equal, reducing their costs of getting to international markets should increase exports and lessen the volumes of empty container exports. This price responsiveness of containerised exports was the basis of the Victorian Government's policy reflected in the Pricing Order to enhance PoM's competitiveness with the Port of Botany and other Australian container ports by establishing and maintaining a minimum pricing discount for containerised exports relative to imports for several years. This price responsiveness (in the form of a downward sloping demand curve for Victoria's manufactured exports) is also confirmed in RBA research discussed in section 5.2.2.1.

5.6 PoM will not recover more revenue than it is allowed

Under the rebalancing, PoM will still recover less than its efficient costs (as confirmed in the Regulatory Model in **Appendix C**). However, increasing prices to larger vessels is expected to lessen the under recovery associated with investments in providing services to large vessels, and thereby improve compliance with the Pricing Order and better achieve the objectives of the Port Management Act in this regard.

PoM's proposed rebalancing shifts $3.3m of the 2021-22 allowed revenue to wharfage fees for larger containerised import vessels and makes commensurate reductions to wharfage fees for all vessels carrying containerised exports. As containerised trade on larger vessels is expected to grow faster in the future, this should lower the level of under recovery over time, and thereby provide critical additional cashflow to underpin investment in accommodating larger vessels. In addition, growth in revenue during the TAL period will reduce the need for any price increases after the TAL period expires between 2032 and 2037.[36]

5.6.1 Efficient cost recovery

Efficient cost recovery is required to promote the objectives in section 48(1)(a) of the PMA:

- that PoM should have a reasonable opportunity to recover its efficient costs of providing Prescribed Services, including a return commensurate with the risks involved; and
- to promote efficient use of, and investment in the port for the long-term interests of Port Users and Victorian consumers.

Clause 2.1.1(a) of the Pricing Order reinforces these requirements through the efficient cost recovery principle, which requires:

> *Prescribed Service Tariffs must be set so as:*
>
> *to allow the Port Licence Holder a reasonable opportunity to recover the efficient cost of providing all Prescribed Services determined by application of an accrual building block methodology of the type described in clause 4 (Aggregate Revenue Requirement)*

Importantly, there is no express qualifier on this principle in relation to the application of the TAL. This means that the principle that PoM should have a "reasonable opportunity" to recover its efficient costs and commensurate return is independent of the obligation to apply the TAL during the period until at least 2032 and at the latest 2037.

Allowing PoM to recover its efficient costs of, and commensurate return on, investment is important to avoid compounding PoM's under-recovery of its efficient costs and having a higher capital base and tariffs at the end of the TAL period.

PoM is also required to promote efficient investment. It is not reasonable to expect that any port operator (whether regulated or unregulated) would undertake investment where it is not commercially sustainable, due to an inability to recover efficient costs and a commensurate return.

This rebalancing application, and the Regulatory Model in **Appendix C**, shows that because PoM's tariffs are subject to the TAL, PoM will not recover its efficient and prudent costs of providing Prescribed Services as calculated by the accrual building block methodology in clause 4 of the Pricing Order in 2021-22.

Figure 8 shows that even with this rebalancing, PoM is still materially under recovering its allowed regulated revenues. The rebalancing marginally improves this in 2021-22. The materiality of the residual under recovery shows that even with future growth in large vessels (see Figure 9), it will be many years before PoM is recovering its costs.

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36 Once the TAL period expires, PoM can start to recover depreciation that it was not able to recover during the TAL period because it constrained the revenues it could earn. If PoM can increase revenues during the TAL period, it may be able to lessen the need to defer depreciation during that period.

Figure 8: Potential impact of rebalancing on PoM's regulated cost recovery – illustrative revenue increase per year (A$M, Nominal)

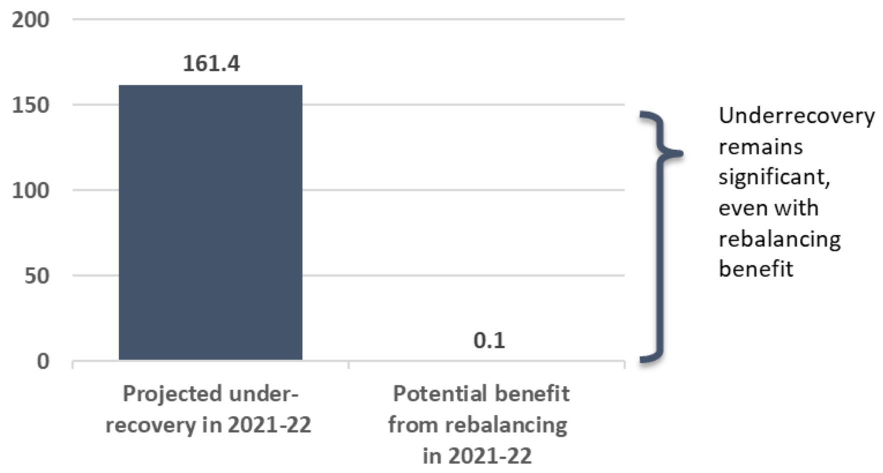
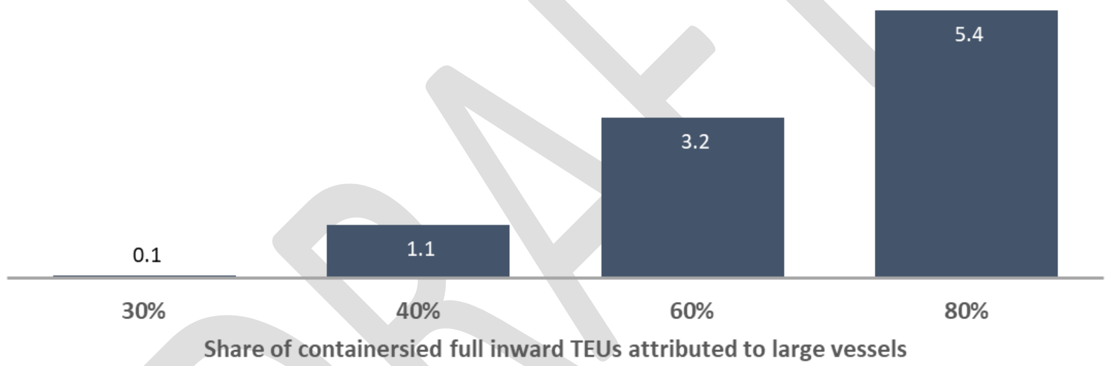


Figure 9: Potential impact of rebalancing on PoM's regulated cost recovery – illustrative revenue increase per year if the share of containers full inward TEUs carried by large vessels increases (A$M, Nominal)



Note: Large vessels defined as vessels that exceed the port design vessel of LOA 300m by beam 40m. Our forecast for the 2021-22 year assumed 30.49% based on actual data for the 2019-20 year. The analysis in the chart holds total TEUs constant and updates the share of TEUs from large vessels.

5.7 PoM's revenues will remain within the efficient pricing bounds

PoM's revenue from containerised cargo wharfage services will remain within the efficient pricing bounds, which is to be expected because:

- all the rebalancing is occurring within the same prescribed service bundle to which the efficient pricing bounds apply (the relevant prescribed services bundle being 'wharfage services for containerised cargo', as defined in clause 14 of the Pricing Order);
- PoM was already well within its efficient pricing bounds for this prescribed service bundle as shown in its prior TCSs which showed revenues were over $100m less than estimated standalone cost; and
- This rebalancing is shifting $0.1m of net additional revenue within this prescribed service bundle in 2021-22.

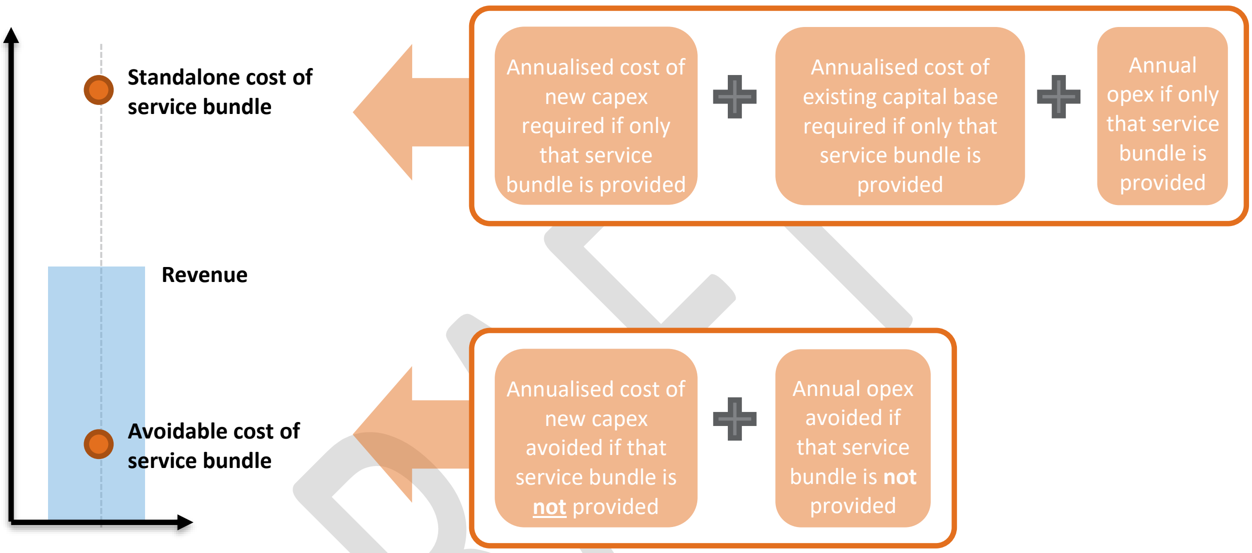
Clause 2.1.1 of the Pricing Order requires that revenue for each Prescribed Service Bundle should be on, or between, the upper bound (clause 2.1.1(b)(i)), which represents the stand-alone cost of providing each Prescribed Service Bundle, and the lower bound (clause 2.1.1(b)(ii)), which represents the avoidable cost of not providing the Prescribed Service Bundle. These thresholds are commonly known as the "efficient pricing bounds".

As in its prior TCSs, PoM has prepared an Efficient Cost Bounds Model (see **Appendix E**). The Efficient Cost Bounds Model demonstrates PoM's compliance with clause 2.1.1(b) of the Pricing Order by:

- estimating the indicative standalone and avoidable costs of supplying each Prescribed Services Bundle, based on the most recent available data; and
- demonstrating that forecast revenue for each Prescribed Services Bundle falls within those efficient pricing bounds in accordance with the Pricing Principles in the Pricing Order.

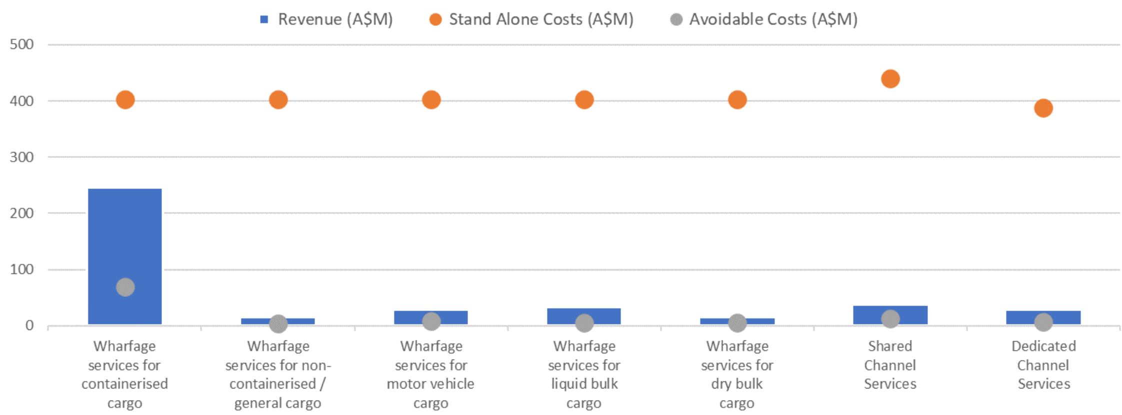
Figure 10 shows the conceptual approach that is used in the model. The blue bar represents the revenue from a given Prescribed Services Bundle, while the two orange circles represent the standalone and avoidable costs for that bundle. The two boxes to the right illustrate what components are used in the efficient cost bounds model to make up the two cost measures, respectively.

Figure 10: Illustrative representation of the efficient cost bounds



PoM has tested that its total revenues from all containerised cargo wharfage services remain within the efficient pricing bounds (PO clause 2.1.1(b). All of PoM's proposed rebalancing is contained within the prescribed service bundle for containerised cargo wharfage services. This means both the increases and off-setting decreases in tariffs are contained within the same prescribed service bundle, and unsurprisingly, PoM's revenue remains compliant with that requirement. This is shown in the following chart.

Figure 11: Containerised trade | Efficient cost bounds test | 2022 financial year



5.8 PoM has applied the Pricing Order cost allocation principles

PoM’s actual historical costs and forecast 2021-22 costs have been appropriately allocated to and among prescribed services for the purpose of calculating PoM’s efficient costs recoverable under the Aggregate Revenue Requirement.

Clause 5.2.1 of the Pricing Order requires that PoM’s costs must be allocated between Prescribed Services and all other services provided by PoM in a manner consistent with the following Cost Allocation Principles:

> *a. Costs that are directly attributable to the Prescribed Service must be attributed to that Prescribed Service*
>
> *b. Costs that are not directly attributable to the provision of the Prescribed Service, but which are incurred in the course of providing both one or more Prescribed Services and other services must be allocated to the Prescribed Service on the basis of its share of total revenue from all services provided by PoM.*

PoM submits its cost allocation model to the ESC each year as part of its TCS. Compliance with the cost allocation principles is an input to compliance with other pricing requirements (e.g. recovering total efficient costs from all prescribed services), and is not deterministic of compliant individual Prescribed Service tariffs.

PoM has prepared a compliant Cost Allocation Model that it provided to the ESC as part of the 2020-21 TCS, which sets out the allocation of costs to Prescribed Services tariffs. As part of this draft Tariff Rebalancing Application, the model has been updated for the new tariffs using a notional revenue allocation from the prior or discontinued tariff and to include (a) actual expenditure and revenue for 2019-20 and (b) projected expenditure and volumes for 2021-22.

A consequence of PoM’s compliant application of the cost allocation principles is that most costs are allocated to different prescribed services – and between prescribed and non-prescribed services – based on revenue shares.

Costs properly allocated in accordance with the cost allocation principles are used to determine the aggregate revenue requirement (clause 4), and PoM has also used these to estimate the efficient cost bounds discussed in section 5.7.

Appendix D provides PoM’s Cost Allocation Model.

Attachment 1 | Explanation of model inputs

PoM's tariff rebalancing application is supported by the following PoM models:

- The regulatory model
- The cost allocation model
- The efficient cost bounds model.

These models are updated versions of those which PoM has submitted with its past TCSs. The table below explains how they have been updated and their inputs.

Model included with application	December 2020 Interim Application
Regulatory model – for clause 4 compliance	• Start with the model used for the 2020-21 TCS • Reset it to cover the 2021-22 TCS year • Amend tariff structure to reflect rebalancing • Input actual volumes / revenues for the 2019-20 year • Input actual capital and operating expenditure for the 2019-20 year • Retain 2020-21 volume and expenditure forecasts and update forecast volumes and expenditure for 2021-22 based on preliminary analysis in advance of the detailed TCS submission in May 2021. Split full outward containerised volumes across standard and larger vessel sizes • Input estimated inflation for the year to March 2021 of 0.66%
Cost allocation model – for clause 5 compliance	• Start with the model used for the 2020-21 TCS • Reset it to cover the 2021-22 TCS year • Amend tariff structure to reflect rebalancing • Link inputs to the regulatory model (as with past TCS submissions)
Efficient cost bounds model – for clause 2 compliance	• Start with the model used for the 2020-21 TCS • Reset it to cover the 2021-22 TCS year • Amend tariff structure to reflect rebalancing • Link inputs to the regulatory model • Include simple trended forecasts of expenditure, volumes, and inflation beyond the 2021-22 year (as with past TCS submissions)

Appendix A | Compliance checklist

The following table provides cross references to where in this draft Tariff Rebalancing Application and supporting materials PoM has provided its compliance demonstration for relevant clauses of the Pricing Order.

PO clause	Summary of requirement	Location in this application
	General submission requirements	
Clause 3.2.4	Timing and scope of Rebalancing Application Prior to 1 January of any Financial Year commencing on or after 1 July 2017, PoM may make a written application to the ESC which proposes that, subject to compliance with clauses 2, 3.1.1, 4 and 5: (a) certain Prescribed Service Tariffs for the upcoming Financial Year be revised by different percentage adjustments; (b) that a new Prescribed Service Tariff be introduced; and/or (c) that an existing Prescribed Service Tariff be discontinued	This is a draft of the application PoM will submit by the end of December 2020
Clause 3.2.5	Consultation Prior to making a Rebalancing Application, PoM must consult Port Users about its proposal to do so and provide a reasonable opportunity for Port Users to express their views. Port Users are defined in clause 14 of the PO as "a person who requests or receives Prescribed Services". Prescribed Services, as defined in s.49 of the PMA, are provided to shipping lines.	Section 3 and 4
Clause 3.2.7	Supporting information The Rebalancing Application must contain sufficient supporting information to enable the ESC to verify that the proposed Prescribed Service Tariffs comply with clauses 2, 3.1.1, 4 and 5.	This is a draft application and supporting appendices
	Pricing Principles	
Clause 2.1.1(a)	Prescribed Service Tariffs must be set so as to allow PoM a reasonable opportunity to recover the efficient cost of providing all Prescribed Services (Aggregate Revenue Requirement)	Section 5.6
Clause 2.1.1(b)	Subject to clauses 2.1.1(a), 2.2, 2.3.1 and 3, Prescribed Service Tariffs must be set so as to allow PoM a reasonable opportunity to recover, for each Prescribed Service Bundle, revenue that: (i) does not exceed an upper bound representing the stand alone cost of providing the Prescribed Service Bundle; and (ii) does not fall below a lower bound representing the avoidable cost of not providing the Prescribed Service Bundle.	Section 5.7
Clause 2.1.2	PoM may set different Prescribed Service Tariffs for different users of the same or similar Prescribed Service, provided that such differences are consistent with the objectives set out in section 48 of the Act and clauses 2.1.3, 2.2.1 and 2.3.1	Sections 5.2.2, 5.3, 5.4, 5.5, 5.6, and 5.7
Clause 2.1.3	PoM must set the level and structure of Prescribed Service Tariffs having regard to: (a) the efficient costs caused by Port Users of the relevant Prescribed Service; (b) transaction costs; and (c) the extent to which Port Users are able or likely to respond to price signals.	Sections 5.3, 5.4 and 5.5

PO clause	Summary of requirement	Location in this application
Clause 3.1.1	The Weighted Average Tariff Increase (WATI) implied by the Prescribed Service Tariffs set by PoM in must not exceed the Tariffs Adjustment Limit (TAL), where: The TAL is means the percentage change in CPI between the March quarter immediately preceding the relevant Financial Year and the March quarter in the Financial Year two years preceding the relevant Financial Year The WATI is the expected weighted average increase in Prescribed Service Tariffs using weightings based on historical revenues derived from the Prescribed Service Tariffs in the most recent Financial Year for which audited data are available or, if there is no historic audited data available, an alternative estimate of revenue for the purpose of calculating weightings on a basis determined by the Commission.	Section 5.1
	Cost base and cost allocation	
Clause 4	Cost base for setting prescribed service tariffs	Appendix C
Clause 5.2.1	PoM's costs must be allocated between Prescribed Services and all other services provided by PoM in a manner consistent with the following cost allocation principles: Costs that are directly attributable to the Prescribed Service must be attributed to that Prescribed Service Costs that are not directly attributable to the provision of the Prescribed Service, but which are incurred in the course of providing both one or more Prescribed Services and other services must be allocated to the Prescribed Service on the basis of its share of total revenue from all services provided by PoM.	Appendix D
	Inputs	
Clause 3.2.6	CPI The Port Licence Holder must utilise a reasonable estimate of the upcoming March CPI for the purpose of calculating the Tariffs Adjustment Limit in a Rebalancing Application submitted prior to the March CPI Release Date.	Section 5.1
Clause 14	Historic audited revenue data The WATI is the expected weighted average increase in Prescribed Service Tariffs using weightings based on historical revenues derived from the Prescribed Service Tariffs in the most recent Financial Year for which audited data are available or, if there is no historic audited data available, an alternative estimate of revenue for the purpose of calculating weightings on a basis determined by the Commission.	Appendix C