30 May 2025

2025-26 Tariff Compliance Statement

General Statement

Port of Melbourne

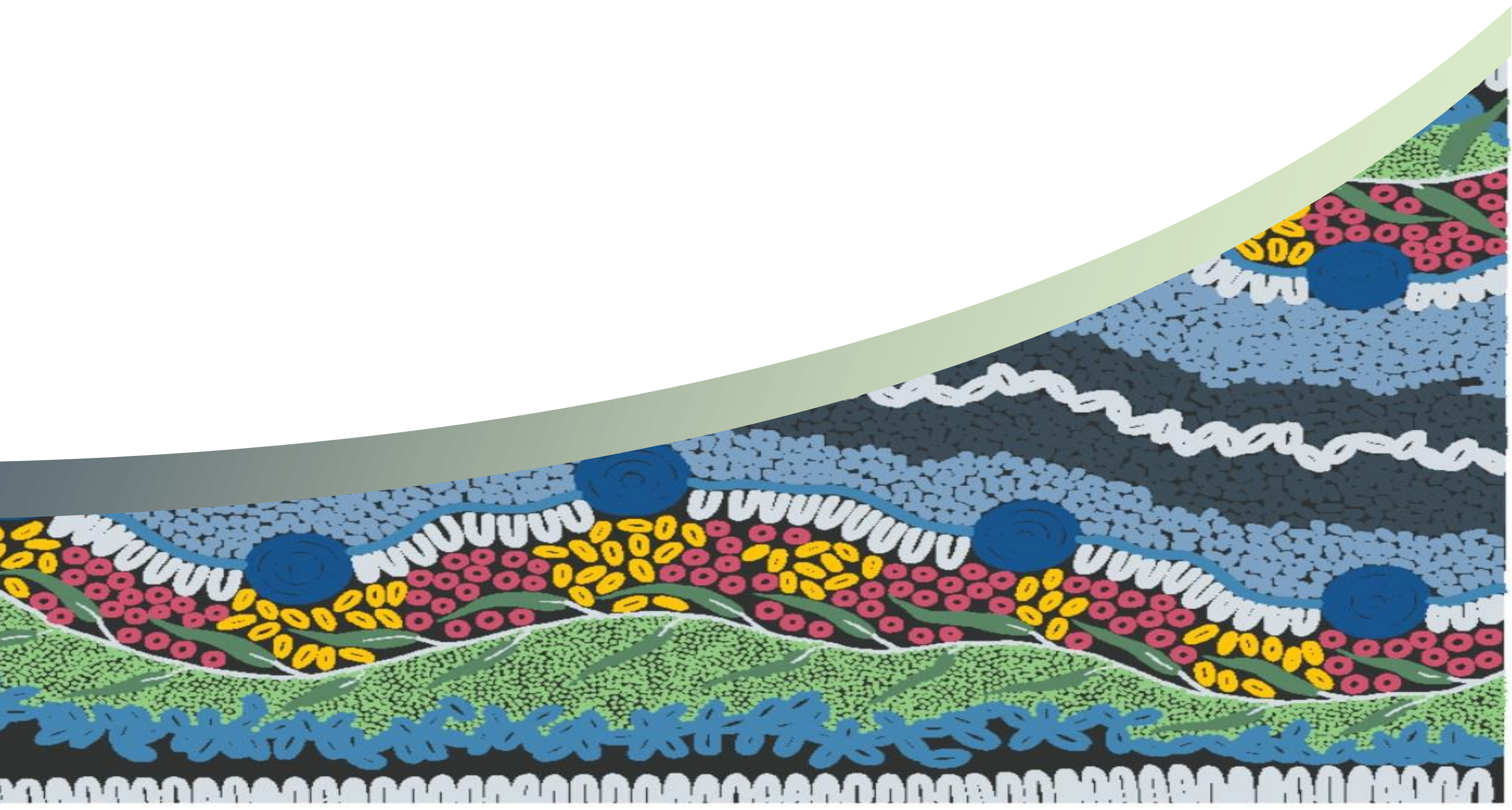
Acknowledgement of Country

Port of Melbourne acknowledges Bunurong, Wadawurrung, and Wurundjeri Peoples of the Kulin Nation as the Traditional Custodians of the land and waters on which our business operates.

We recognise and value their unique cultural heritage, customs, spiritual beliefs and relationship with the land. We pay our respects to their Elders past, present and emerging, and to all Aboriginal and Torres Strait Islander peoples across the communities in which we work.

We acknowledge that we work on the unceded land of Aboriginal and Torres Strait Islander peoples. We recognise the past wrongdoings and injustices against Aboriginal and Torres Strait Islanders and the ongoing inequalities that continue today.

Artwork credit: Kamara Morgan (Yorta-Yorta, Gunai-Kurnai, Dja Dja Wurrung, Boonwurrung, Taungurung and Baraparapa), 2022, ‘Connection to Country’.



Contents

CEO foreword

I am pleased to present Port of Melbourne's 2025-26 Tariff Compliance Statement (TCS).

The Port is one of Australia's most critical infrastructure assets, serving as the key trade gateway that underpins economic growth. Located in the heart of Melbourne, the Port delivers goods that are part of our everyday lives — from new vehicles to food, clothes, and medical products.

This TCS presents our first full year of actual data on trade and expenditure for our five-year regulatory period (2023-24). The TCS complements our Reference Tariff Schedule which outlines tariffs implemented on 1 July 2025, for the financial year 2025-26.

In 2023-24, total trade increased by 2.8 per cent, driven by continued growth in containerised and non-containerised trade. We saw this trend continue through the 2024 calendar year, achieving the highest annual container trade volume ever recorded. This signifies a historic milestone for Victoria, with 3.396 million twenty-foot equivalent units (TEUs) – more than 9 per cent up from 2023 volumes – passing through the Port.

Our stewardship obligations require us to ensure that port capacity can meet the future demands of Victoria's growing economy and this TCS includes updates on projects to maintain and improve port infrastructure, and how we've engaged with our stakeholders. Further detail on these projects is contained in the Draft 2055 Port Development Strategy.

As the manager of the Port, we are committed to delivering capacity and supply chain efficiencies to meet the growing needs of our economy.

We look forward to working with port users, our tenants, government, the Essential Services Commission, and our broader stakeholder network to accommodate future growth at the port.

Saul Cannon

Chief Executive Officer

Port of Melbourne

Executive summary

Our 2025-26 Tariff Compliance Statement

This document forms part of our annual Tariff Compliance Statement (TCS) to the Essential Services Commission (ESC). It demonstrates how our tariffs for Prescribed Services for the next financial year comply with the Pricing Order. Prescribed Services include the provision of channels, berths, short-term storage, and access to wharves, roads and rail.[1] Leasing of space and facilities on port land is classified as a non-prescribed service and is not covered by this TCS.[2]

The 2025-26 financial year is the third year of our established five-year regulatory period, which runs from 1 July 2023 until 30 June 2028. This TCS includes details on tariffs for 2025-26 and provides updates on stakeholder engagement, major projects, sustainability and our trade and expenditure.

Our prices are set to increase at the rate of inflation

In our 2023-24 TCS (released May 2023)[3] we determined that our Prescribed Services Tariffs for the regulatory period from 2023-24 to 2027-28 would be subject to the Tariffs Adjustment Limit (TAL), which requires that our Weighted Average Tariff Increase (WATI) be no more than the annual change in the Consumer Price Index (CPI).

Accordingly, in 2025-26 all tariffs for Prescribed Services will increase by 2.40% (subject to rounding), which is the rate of increase in CPI over the year to 31 March 2025. We have not made a rebalancing application to the ESC for the tariffs to apply in 2025-26, so all tariffs have been increased by the same percentage amount (before rounding) and there are no new or discontinued tariffs.

Our 2025-26 tariffs are set out in the accompanying Reference Tariff Schedule (RTS) and are effective from 1 July 2025 (Appendix A).

Table E.1 WATI and TAL, 2023-24 to 2027-28 regulatory period

	2023-24	2024-25	2025-26	2026-27	2027-28
Weighted Average Tariff Increase	7.02%	3.62%	**2.40%**	CPI - 0%	CPI - 0%
Tariffs Adjustment Limit	7.02%	3.62%	**2.40%**	CPI (March 2025 to March 2026)	CPI (March 2026 to March 2027)

[1] Prescribed Services are defined in section 49(1)(c) of the *Port Management Act 1995* (Vic).
[2] The ESC undertakes periodic reviews of our rental agreements with port tenants in accordance with section 53 of the *Port Management Act 1995* (Vic).
[3] Our 2023-24 Tariff Compliance Statement is available on our website. Please refer to this document for further details on how Port of Melbourne's 2025-26 Prescribed Service Tariffs comply with the Pricing Principles and Cost Allocation Principles defined in the Pricing Order.

We are continuing to invest in the port to deliver services to Port Users and progress the long-term interests of Victorian consumers

At the start of the five-year regulatory period we committed to a capital expenditure program of over $700m to deliver projects that are in the long-term interests of Victorian consumers.

We outlined nine major capital projects and programs that we planned to commence or deliver during the regulatory period. This TCS adds a tenth major capital project – 'Market Site'. In 2024 we entered a long-term lease for 29 hectares of the former Melbourne Wholesale Market Site, with this land to be incorporated into the port.

As of March 2025, two of the ten major projects have been completed:

- The **Webb Dock East Berth Extension** restored operational capacity at the Webb Dock East International Container Terminal, allowing it to accommodate two large vessels simultaneously – goods can move through the port to market faster, improving efficiency of trade activity into and out of Melbourne and supporting future economic growth
- The **Port Rail Transformation Project** delivered a new rail terminal and supporting road and rail works, enabling more direct container movement between vessels at the Swanson Dock East International Container Terminal and rail networks.

Of the remaining projects, four are currently in Delivery Stage, one is in Planning Stage and scheduled to transition into Execution Stage in 2025-26, and the rest are in the early Discovery or Concept Stages.

Sustainability is core to PoM's purpose and strategy, and critical to our future success

Sustainability underpins the delivery of our strategic goals and is a key business priority in our corporate strategy. We are committed to reaching net-zero emissions for our own operations by 2030 (scope 1 and 2 emissions) and to managing risks and opportunities arising from climate change to ensure the Port's long-term sustainability and the ongoing resilience of our assets.[4]

In 2023-24 we reduced our Scope 1 and 2 emissions by 43% compared to the prior year, with further reductions on track in 2024-25 driven by commencement of a Renewable Power Purchase Agreement. We also ranked first among Australian and international ports in the 2024 Global Real Estate Sustainability Benchmark (GRESB) Infrastructure Asset Assessment for the second year running and maintained the Port's 5-star rating, scoring the maximum possible 100 points.

Our adoption of a five-year regulatory period provides strong incentives to deliver outcomes for Port Users at the lowest efficient cost

Under the incentive properties of the five-year regulatory period, PoM bears the risks of deviations between actual and forecast trade and expenditure during the period. This TCS includes a comparison of regulatory period forecasts with the most recent full year of actual data. In summary, in 2023-24:

- Trade outcomes were broadly in line with expectations: actual containerised trade of 3.16 million TEU was 0.2% below the forecast of 3.17 million TEU; actual non-containerised trade volumes exceeded the forecast across most categories (with the exception of break bulk); and channel volumes were below forecast
- Actual prescribed capital expenditure ($169.8 million) was 16.0% below forecast ($202.2 million), mainly due to lower than forecast expenditure on growth projects, particularly the Port Capacity Enhancement Program (where an alternative delivery schedule was adopted following stakeholder engagement) and the Webb Dock East Berth Extension (where efficiencies in the dredging program led to significant cost reductions)

[4] See our 2024 Sustainability Report and our Climate Change Statement, available on our website.

- Controllable prescribed operating expenditure ($33.0 million) was 12% lower than forecast ($37.5 million), due to lower than forecast expenditure on professional services and labour.

We continue to effectively engage with stakeholders and build internal capability

During 2024-25 we engaged stakeholders by providing access to relevant and timely information, and through industry updates, briefings, facilitated discussions and regular project updates. Key engagement highlights for 2024-25 include:

- Delivery of Stage Two of the Port Capacity Enhancement Program (PCEP) engagement program. We sought stakeholder feedback on the draft Cost Benefit Analysis for the project – what we heard from stakeholders throughout the engagement is published on the PCEP webpage.
- Additional staff training on IAP2 Engagement Essentials. Since 2022-23, 94 staff have received training as part of our continuing efforts to improve our engagement processes and embed practices across our business.

1 About this TCS

1.1 Purpose

Every year, the Port of Melbourne (PoM) is required to submit a Tariff Compliance Statement (TCS) to the Essential Services Commission (ESC). In the TCS we demonstrate how tariffs for the upcoming financial year comply with the Pricing Order, a regulatory instrument issued by the Governor in Council under section 49A of the *Port Management Act 1995* (Vic).

The Pricing Order regulates tariffs for Prescribed Services, which include the provision of channels, berths, short-term storage, and access to wharves, roads and rail.[5] Leasing of space and facilities on port land is not classified as a Prescribed Service and is not covered in this TCS.

In the 2023-24 TCS (released May 2023), we adopted a five-year regulatory period covering 2023-24 to 2027-28 ("regulatory period"). The regulatory period is the span of time over which over which we forecast the revenue required to recover the prudent and efficient costs of providing Prescribed Services — the Aggregate Revenue Requirement (ARR). This is done in accordance with the Pricing Principles and Cost Allocation Principles set out in the Pricing Order.

This year's TCS covers tariffs for 2025-26, the third year of our five-year regulatory period. Our rate of return and our forecasts of costs and trade volumes — which determined the ARR established at the beginning of the regulatory period — have been set for five years and have not been revisited.

This TCS focusses on elements of compliance that must be demonstrated annually, as well as other information to keep the ESC and Port Users informed about relevant matters. This includes:

- Setting out the Prescribed Service Tariffs for 2025-26 (**chapter 2**)
- Providing updates on engagement with stakeholders (**chapter 3**), progress on major projects (**chapter 4**) and progress against our Sustainability Strategy (**chapter 5**) over the past 12 months
- Reviewing our trade and expenditure outcomes for 2023-24 (the most recently available full-year actual data) (**chapters 6** and **7**)
- Presenting an estimate of the prevailing cost of debt (**chapter 8**).

Accompanying this General Statement are several supporting appendices:

- The Reference Tariff Schedule for 2025-26 (**Appendix A**)
- A Tariff Compliance Model demonstrating how 2025-26 tariffs comply with key Pricing Order requirements (**Appendix B**)
- Details of our TCS governance and assurance processes (**Appendix C – confidential**)
- Further analysis comparing actual trade, capital expenditure and operating expenditure to forecasts (**Appendices D, E** and **F – confidential**)
- Details of prescribed services contract revenue and capitalised costs **(Appendices G** and **H – confidential)**
- An independent expert report on the prevailing cost of debt estimate for 2025-26 (**Appendix I**)
- Details of Channel Fees (**Appendix J – confidential**)
- A summary of how this TCS complies with each clause of the Pricing Order and commitments under PoM's 2022 Undertaking with the Victorian Government[6] (**Appendix K**)
- A register of other supporting documents provided to the ESC (**Appendix L – confidential**).

[5] Prescribed Services are defined in section 49(1)(c) of the *Port Management Act* 1995 (Vic).
[6] See p. 11 of our 2023-24 TCS for further details on our Undertaking with the Victorian Government.

1.2 Financial information and terminology

All financial information provided in this TCS is denominated in nominal dollars (referred to as “current price terms” in clause 8.1.1 of the Pricing Order), unless otherwise stated. Financial information for 2021-22 to 2023-24 are actual values and financial information for 2024-25 to 2027-28 reflect forecast values for the five-year regulatory period (as provided in the 2023-24 TCS), unless otherwise stated. Numbers in tables may not sum due to rounding.

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

2 Tariffs in 2025-26

In 2025-26 all tariffs for Prescribed Services will increase by 2.40% (subject to rounding), equal to the increase in the Consumer Price Index (CPI) over the year to 31 March 2025. Our 2025-26 tariffs are set out in the accompanying Reference Tariff Schedule (RTS) and are effective from 1 July 2025 (Appendix A).

Tariffs have been set to comply with the requirements of the Pricing Order.[7] The Pricing Order defines a 'Pricing Order transition period' which runs until 2032 at earliest, or 2037 at latest.[8] During the Pricing Order transition period, a price smoothing mechanism limits tariffs to the lesser of two constraints:

- The Tariffs Adjustment Limit (TAL), which limits weighted average annual tariff increases to the rate of inflation (CPI),[9] or
- To recover no more than PoM's prudent and efficient costs of providing Prescribed Services, determined by the application of an accrual building block methodology over the regulatory period.[10]

In the 2023-24 TCS, in accordance with these requirements, we determined a weighted average tariff increase of 0% in real terms for each year of the five-year regulatory period (Table 2.1).[11] This means that the average tariff increase in each year of the regulatory period (2023-24 to 2027-28) cannot exceed the rate of inflation.

Consistent with the requirements of the Pricing Order, we confirm that, for 2025-26:

- All tariffs have been increased by the same percentage (before rounding)
- There are no new or discontinued tariffs
- The tariff for full outbound container wharfage services is set at the same percentage discount to the tariff for full inbound container wharfage services that was applicable in the 2020 Financial Year
- The Weighted Average Tariff Increase (WATI) does not exceed the TAL.[12]

Table 2.1 WATI and TAL, 2023-24 to 2027-28

	2023-24	2024-25	2025-26	2026-27	2027-28
Weighted Average Tariff Increase	7.02%	3.62%	**2.40%**	CPI - 0%	CPI - 0%
Tariffs Adjustment Limit	7.02%	3.62%	**2.40%**	CPI (March 2025 to March 2026)	CPI (March 2026 to March 2027)

[7] The Pricing Order and the *Port Management Act* are available on our website.
[8] Pricing Order, clause 3.4
[9] Pricing Order, clause 3.1
[10] Pricing Order, clause 2.1.1(a)
[11] Refer to the 2023-24 TCS for further details on how PoM's 2024-25 Prescribed Service Tariffs comply with the Pricing Principles and Cost Allocation Principles defined in the Pricing Order.
[12] Our calculations demonstrating that the Weighted Average Tariff Increase does not exceed the TAL are provided at Appendix B.

3 Stakeholder engagement update

3.1 Overview

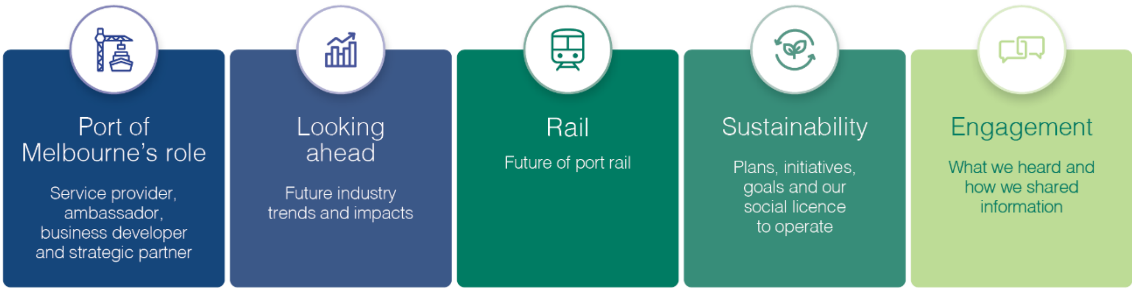
This chapter describes how we have effectively communicated and engaged with stakeholders since the last TCS[13] and had regard to feedback in our decision making.[14]

In this TCS we report on our stakeholder engagement against stakeholders' preferred topics of interest, which were established as part of the five-year regulatory period (Figure 3.1). We have aligned our reporting to these topics for consistency and clarity.

The reporting covers our engagement processes with Port Users, the issues they raised and the feedback we have received. It also outlines how we have considered the views of Port Users.

The ESC's Interim Commentary on the 2024-25 TCS acknowledged our efforts to "effectively engage and continue improving stakeholder engagement".[15] We remain committed to continuous refinement as we further embed our established internal process and engagement-focused culture.

Figure 3.1 Stakeholder engagement topics of interest



3.2 Our process and regulatory requirements

We develop bespoke strategic communications and engagement plans under the umbrella of our Stakeholder Engagement Framework principles, and apply:

- Our Pricing Order Engagement Protocol (POEP), based on the requirements in the Pricing Order, which allows us to chart out our process and approach including stakeholder mapping
- The IAP2 Public Participation Spectrum to appropriately assign a relevant level of involvement to each identified stakeholder
- The ESC's Statement of Regulatory Approach (SoRA v4.0) which guides us to demonstrate how we have engaged effectively and identified what we heard, how we closed the loop, and how Port Users inform our decision making (Table 3.1).[16]

[13] Covering stakeholder engagement activity that took place between 1 April 2024 and 31 March 2025.
[14] As required under clause 7.1.2(d) of the Pricing Order.
[15] Essential Services Commission 2024, Interim Commentary on the 2024-25 TCS, 24 July 2024, p. 1
[16] Essential Services Commission 2024, Statement of Regulatory Approach — version 4.0: Port of Melbourne Pricing Order, 8 May.

Table 3.1 Process and regulatory requirements

<table>
<tr><th colspan="30">Stakeholder Engagement Framework
Our principles</th></tr>
<tr><th colspan="5">Genuine</th><th colspan="5">Inclusive</th><th colspan="5">Timely</th><th colspan="5">Transparent</th><th colspan="5">Accountable</th><th colspan="5">Continuous Improvement</th></tr>
<tr><th colspan="30">Pricing Order Engagement Protocol</th></tr>
<tr><th colspan="6">Identify need</th><th colspan="6">Plan approach</th><th colspan="6">Implement</th><th colspan="6">Port User feedback</th><th colspan="6">Consideration and decision making</th></tr>
<tr><th colspan="30">IAP2 Public Participation Spectrum</th></tr>
<tr><th colspan="6">Inform</th><th colspan="6">Consult</th><th colspan="6">Involve</th><th colspan="6">Collaborate</th><th colspan="6">Empower</th></tr>
<tr><td colspan="6">We will provide balanced, objective, accurate and consistent information to support stakeholders to understand issues, opportunities, and solutions.</td><td colspan="6">We will seek feedback from stakeholders, listen to concerns and aspirations and inform them of the outcome of their feedback.</td><td colspan="6">We will work directly with stakeholders to ensure their needs are directly and consistently understood and considered, and provide feedback on the outcome of their contribution.</td><td colspan="6">We will partner with stakeholders, including: development of alternative plans, decision-making, and identifying preferred solutions.</td><td colspan="6">We will engage with stakeholders to build networks, create opportunities and empower groups to lead the development of initiatives. Stakeholders are enabled / equipped to actively contribute to the achievement of outcomes.</td></tr>
<tr><th colspan="30">Statement of Regulatory Approach v4.0</th></tr>
<tr><td colspan="10">Details of consultation process with Port Users</td><td colspan="10">Issues raised and feedback provided by Port Users</td><td colspan="10">How the Port has taken into account the views of Port Users when making decisions</td></tr>
</table>

3.3 Continuing our stakeholder engagement uplift

Our stakeholder engagement program is underpinned by continuing efforts to improve our engagement processes and embed engagement practices across our business. In this reporting period we have delivered additional IAP2 Engagement Essentials training to PoM staff, achieving training for 94 PoM staff since 2022-23.

3.4 Stakeholder engagement in 2024-25

At the start of this regulatory period we outlined nine major capital projects and programs that we planned to commence or deliver over the next five years, and this within-period TCS adds a tenth major capital project – 'Market Site'. Three of these projects were the subject of engagement programs in 2024-25, the details of which are described below. An update on the status of all major projects is provided in chapter 4.

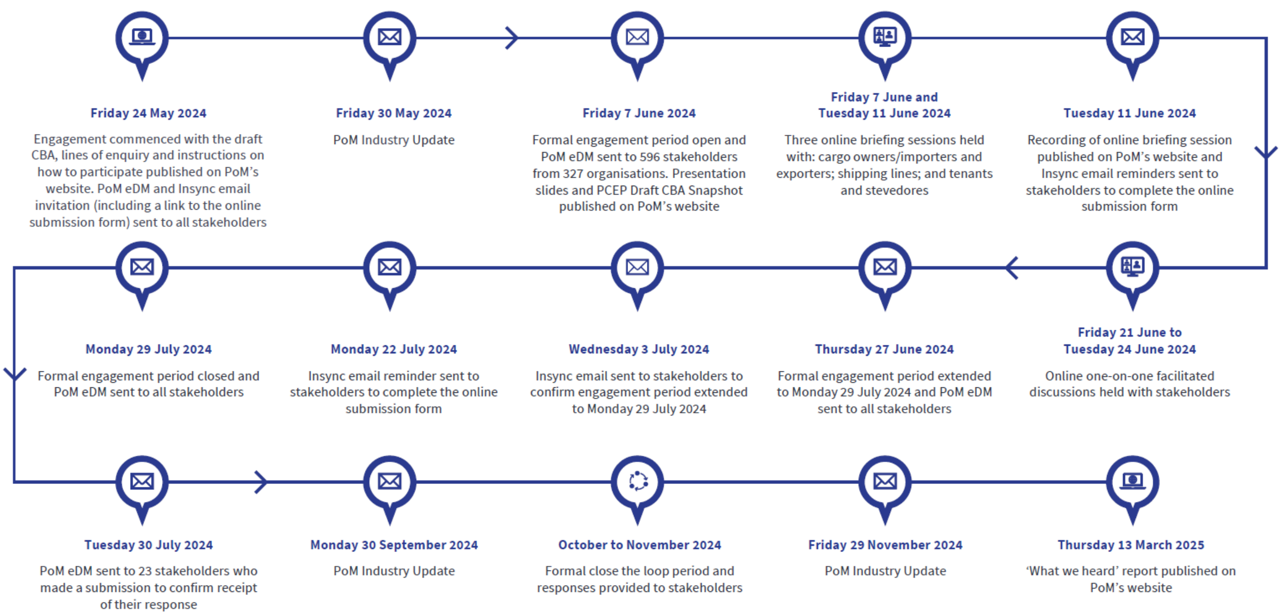
3.4.1 Port Capacity Enhancement Program

In September 2022, PoM began 12 months of engagement to collect feedback on three technical reports as part of the process to plan for the next stage of port capacity: the Port Capacity Enhancement Program (PCEP).

In May through to July 2024 we delivered further engagement focused on the draft Cost Benefit Analysis prepared by Deloitte Access Economics, seeking feedback on a draft assessment of the possible costs and benefits for Victoria of delivering a fourth international container terminal at Webb Dock North.

The engagement program, delivered at the *consult* level of the IAP2 Public Participation Spectrum is highlighted in Figure 3.2 below.

Figure 3.2 PCEP Engagement overview



What we heard as part of this engagement is available on our website at [Port Capacity Enhancement Program - Port of Melbourne].

Table 3.2 provides a summary of how our engagement aligns to the ESC's principles for assessing compliance as outlined in the SoRA v4.0.

Table 3.2 PCEP Stage Two engagement program delivery outline

SoRA v4.0 principle	How we followed this principle
Start engagement early in its planning of projects, programs, and other initiatives. The engagement should be ongoing, to keep testing proposals with Port Users and stakeholders.	Stage one engagement was delivered over 12 months from September 2022 to September 2023. Stage Two engagement (covered by this submission) focused on a draft Cost Benefit Analysis. It was delivered from May to July 2024 and included access to the report and lines of enquiry two weeks in advance of the formal engagement process commencing. Since closing the loop throughout October and November 2024 (responding to each individual submission), PoM focused on additional insights provided by stakeholders to inform the draft 2055 Port Development Strategy (PDS), a mandated process in PoM's long-term planning.

<table>
<tr><th>SoRA v4.0 principle</th><th>How we followed this principle</th></tr>
<tr><td></td><td>We also heard our stakeholders and noted some aspects of the draft Cost Benefit Analysis that Deloitte will undertake further work on. This includes identifying details relating to other States, environmental elements, additional sensitivity analysis and reviewing some key assumptions.</td></tr>
<tr><td>Ensure engagement process prioritises matters that have a significant impact on the Port's services and prices.</td><td>The engagement received 23 stakeholder submissions and PoM responded to each of these individually. PoM established a number of related workstreams following the engagement period, including ongoing bilateral discussions with stevedores in response to feedback received and other processes to understand potential capacity and productivity enhancement options.</td></tr>
<tr><td>Demonstrate that the engagement is genuine and clearly communicates the level of influence stakeholders will have on the decision.</td><td>'What to expect' was published on the PCEP webpage at the commencement of the engagement program:
<table>
<tr><th>Briefing sessions</th><th>One-on-one discussions</th><th>Submissions</th></tr>
<tr><td rowspan="2">Scene setting and presentation on Deloitte's findings

Do you need any other information to understand the PCEP Draft Cost Benefit Analysis, to contribute and complete a submission?</td><td>An opportunity to ask questions in a facilitated one-on-one session with PoM, helping to shape submissions and validate cost and benefit inputs</td><td>Formal written submissions can be completed via a unique weblink prior to 5.00pm Monday 29 July 2024</td></tr>
<tr><td colspan="2">To inform discussions and submissions please consider:
• What are your reactions and thoughts on the PCEP Draft Cost Benefit Analysis?
• Is there anything that would improve the accuracy of the final PCEP Cost Benefit Analysis? (excluding inputs from forecast reports engaged on between September 2022 and September 2023)
• In the context of benefits and impacts to the Victorian economy, is there anything that is not in the PCEP Draft Cost Benefit Analysis, that should be in the (final) cost benefit analysis?
• Do you have any anticipated or developed business decisions that may directly help or affect Webb Dock North being implemented?
• How would you like to be engaged with about PCEP in the future?</td></tr>
</table>
Engagement was delivered at the 'consult' level of IAP2, PoM will "…keep you informed, listen to and acknowledge concerns and aspirations, and provide feedback on how stakeholder input influenced the decision".</td></tr>
<tr><td>Tailor the form of engagement to suit the content on which it is seeking to engage, and to the circumstances facing Port Users and stakeholders.

Provide participants in its engagement process with appropriate information, given the purpose, form and the content of the engagement.</td><td>The engagement methodology was designed to provide simple through to detailed information to increase participation, this was achieved by providing access to:
• A two-page draft Cost Benefit Analysis snapshot published on the PCEP webpage
• Detailed report published on the PCEP webpage
• Briefing session slides and recording published on the PCEP webpage
• Clear lines of enquiry at announcement of the engagement program
• Three briefing sessions (including Deloitte presenting) with particular information called out for relevant cohorts (cargo owners, importers & exporters; shipping lines; and tenants & stevedores)
• An offer of one-on-one facilitated discussions
• Unique organisational webform submissions to allow for multi-staff member populating
• Access to a PCEP specific inbox for timely communications</td></tr>
</table>

SoRA v4.0 principle	How we followed this principle
Demonstrate how stakeholder feedback has influenced its decisions, including communicating to participants how their input influenced the decision.	At the conclusion of the Stage Two engagement program, PoM responded to each submission and highlighted: • There are some aspects of the draft Cost Benefit Analysis that Deloitte will undertake further work on (which includes identifying details relating to other States, environmental elements, additional sensitivity analysis and reviewing some key assumptions) • Additional insights will form part of the 2055 PDS engagement program • Ongoing bilateral discussions with stevedores in response to feedback received through the draft Cost Benefit Analysis and other processes to understand potential capacity and productivity enhancement options. What we heard throughout the engagement was published on the PCEP webpage in March 2025.

3.4.2 Beacon Pile Replacement Program

Stage One of the project commenced in August 2024. Key stakeholders were notified of the project in advance of the works commencing and were provided information (a fact sheet) with an overview of the project and what to expect throughout the works period. Our approach extended beyond government, Port Users, and passenger vessels, to include almost 30 local stakeholders and yacht clubs.

Project updates were again provided in July 2024 and included in the January 2025 PoM Industry Update, reaching approximately 1,200 stakeholders, and once more directing stakeholders to the relevant webpage to find out more or enquire via email.

Delivered at the 'inform' level of IAP2, *provide stakeholders with balanced and objective information to assist them in understanding the problem, alternatives and/or solution.*

3.4.3 Roads Program

In late 2024, PoM worked to establish an appropriate audience for regular updates throughout the 2025 delivery program. This included:

- PoM Industry Update to approximately 1,200 stakeholders, with direction to the roads webpage and a call to action for requesting a briefing
- Briefing with key stakeholders to seek advice and identify best notification methods and collaboration for messaging / timing
- Additional stakeholder briefings
- Presentation at PoM's Landside Logistics Working Group, offering stakeholders more information and/or briefings
- Reminder of works commencing to an identified, opted-in, audience.

Targeted tenant communications and engagement will be undertaken based on works locations with broader updates provided via PoM's future Industry Updates.

Delivered at the 'inform' level of IAP2, *provide stakeholders with balanced and objective information to assist them in understanding the problem, alternatives and/or solution.*

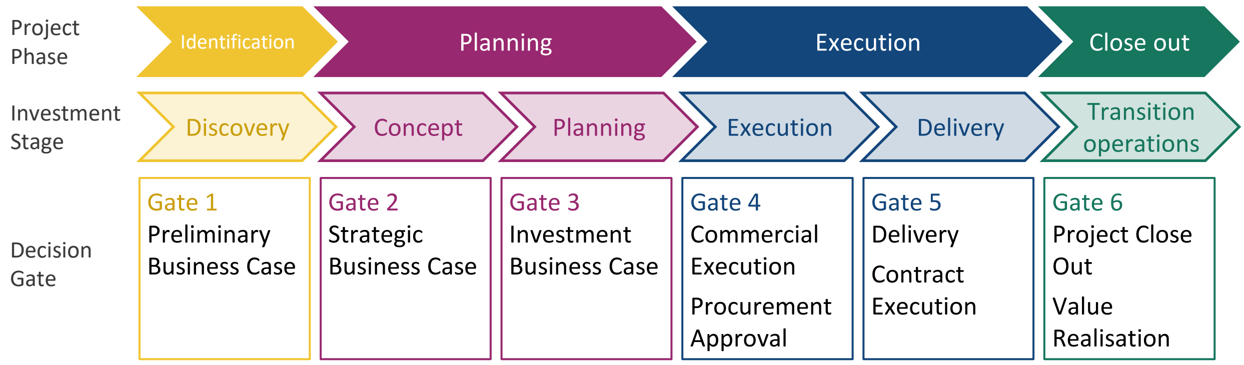
4 Major projects update

4.1 Our major projects and programs

In the 2023-24 TCS, we outlined nine major capital projects and programs that we planned to commence or deliver during the regulatory period. These projects and programs account for approximately 77% of the five-year capital expenditure forecast for the regulatory period.[17] The next section provides an update on progress made on our major projects over the year to March 2025.

Our major projects are managed under a rigorous Enterprise Project Management Framework (EPMF) to ensure the successful delivery and effective management of capital projects consistent with prudent and efficient capital expenditure. A key element of the EPMF is our Project Lifecycle, Investment Stage and Decision Gate process (summarised in Figure 4.1) which sets out four project phases and six investment stages, supported by a decision gate approval process to provide a staged approach to expenditure approval with specific controls and considerations at each investment stage.

Figure 4.1 EPMF Project Lifecycle Phase, Investment Stage and Decision Gate



4.2 Progress in 2024-25

Table 4.1 sets out our progress on major capital projects and programs over the last 12 months, including a new (tenth) major capital project, 'Market Site'. In 2024, PoM entered into a long-term lease with the Victorian Government for 29 hectares of the former Melbourne Wholesale Market Site with this land to be incorporated into the port. This is the port's largest expansion since the long-term lease was entered into in 2016.

As at March 2025, two of our ten major projects have been completed, Webb Dock East 4 & 5 Berth Extension and the Port Rail Transformation Project. Four projects are currently in Delivery Stage, one project is in Planning Stage and scheduled to transition into Execution Stage in 2025-26 and the remaining projects are in the early Discovery or Concept Stages.

Of the major projects and programs yet to be completed, three are proceeding with changes to expected completion dates:

- The schedule for the **Swanson Dock West Remediation Project** has been extended to accommodate changes to project requirements and stakeholder feedback and is now expected to be completed in 2029-30.

[17] Based on forecast capital expenditure as submitted in the 2023-24 TCS. Refer to chapter 5 of our 2023-24 TCS for further details of our five-year capital expenditure forecast.

- The timeline for the **Stony Creek Pipe Bridge Replacement** has been revised due to refinement of the project scope following detailed options analysis and design review, and is expected to be completed in 2026-27.
- An alternative delivery schedule has been adopted for **PCEP**, following stakeholder engagement.

Notable progress in 2024-25 included:

- Continued works on the first stage of the **Beacon Pile Replacement Program**, which is nearing completion.
- Commencement of the initial tranche of works under the **Roads Program** (remediation of Mackenzie Road and Anderson Road) which are expected to be completed by the end of May 2025.
- Progressing to the Concept Stage for the development of a container terminal at Webb Dock North as part of **PCEP**.
- The successful conclusion of an international procurement process under the **Maintenance Dredging Program**. A new maintenance dredging campaign is scheduled to commence in April 2025.

Table 4.1 provides an overview of each of the major projects and programs, and the progress that took place during 2024-25.

Table 4.1 Major project updates

Swanson Dock West Remediation Project

EPMF Investment Stage as at March 2025:

Project type:
Renewal

Expected completion:
2029-30 (Originally 2027-28)[18]

About the project:

Swanson Dock West is an International Container Terminal comprising 944m of container handling berths, which were constructed in several stages between the 1960s and 1980s. This project involves remediation of wharves and retaining walls, and upgrades to bollards, to allow the terminal to continue to handle container vessels for the next 50 years.

Progress in 2024-25:

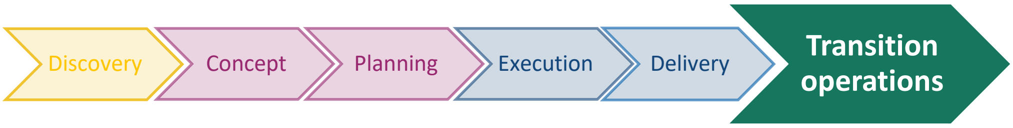
Stage One of the three-stage remediation program, focusing on Berth 1, is underway and scheduled for completion by June 2025. Main deck concrete pours and sheet pile remediation have been successfully completed.

The project has been extended due to project requirements and stakeholder feedback and is expected to be completed in 2029-30.

[18] Expected completion dates are compared against those provided in the 2023-24 TCS.

Port Rail Transformation Project

EPMF Investment Stage as at March 2025:



Project type:
Growth

About the project:

This project involves the acquisition of existing rail assets and rail terminal land within the Port, the construction of a new Coode Road rail terminal interfacing with the Swanson Dock East International Container Terminal, and other improvements to rail and road access infrastructure.

Expected completion:
2024-25 (originally 2023-24)

Progress in 2024-25:

The project reached practical completion and was successfully handed over to PoM’s tenants in August 2023. The site is now fully operational.

Detailed designs for the additional ancillary works, to transition from manual to automated rail signalling, have been refined with Australian Rail Track Corporation (ARTC) and works will be completed by end 2024-25.

Webb Dock East 4 & 5 Berth Extension

EPMF Investment Stage as at March 2025:

Project type:
Growth

About the project:

This project is designed to restore the operational capacity of Webb Dock East and allow it to accommodate two large vessels simultaneously. It involves demolition of a redundant section of concrete known as 'the knuckle', extraction and replacement of timber piles with steel, construction of a new wharf and hardstand, and dredging of the berth pocket.

Expected completion:
Completed in 2023-24 (no change)

Progress in 2024-25:

No change.

South Wharf Berth 28-29 Rehabilitation

EPMF Investment Stage as at March 2025:

Project type:
Renewal

About the project:

South Wharf berths 28-29 are commercial wharf facilities managed by PoM, located in the South Wharf precinct on the south bank of the Yarra River. This project consists of various rehabilitation works to allow customers to continue to use the berths and enable larger vessels to once again be serviced there, consistent with the original design expectations.

Expected completion:
2027-28 (no change)

Progress in 2024-25:

A feasibility assessment is underway into the future use of South Wharf berths 28-29, which will determine infrastructure investment requirements. Any major capital works are expected to take place later in the regulatory period. The results of the feasibility assessment may impact the expected completion date.

Stony Creek Pipe Bridge Replacement

EPMF Investment Stage as at March 2025:

Project type:
Remediation

About the project:

The Stony Creek Pipe Bridge is located underneath the West Gate Bridge and supports multiple petroleum pipelines. The bridge is at the end of its design life.

This project involves periodic remediation works to extend the bridge's service life to 2055 and ensure pipeline operators can continue to operate, inspect and maintain product pipelines in accordance with current arrangements.

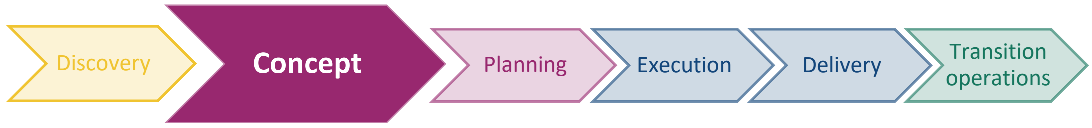
Expected completion:
2026-27 (originally 2025-26)

Progress in 2024-25:

The project scope has been refined following outcomes from detailed options analysis and design review during 2024-25. Remediation works will commence in 2025-26 and are expected to be completed in 2026-27.

PCEP

EPMF Investment Stage as at March 2025:



Project type:
Growth

Expected completion:
Targeting new capacity at Webb Dock North in 2036

About the project:

This project involves the development of a container terminal at Webb Dock North to ensure that port capacity can meet the future demands of Victoria's growing economy, and the relocation of Tasmanian terminal operations to secure their future. Further details can be found on the PCEP webpage.

The capital expenditure forecast included for this regulatory period included only the scope of works required for the planning and design activities necessary to enable the preparation of an Investment Business Case.

Progress in 2024-25:

The project moved from the Discovery Stage to the Concept Stage in 2024-25.

Further engagement with stakeholders, focused on the draft Cost Benefit Analysis for the project, was completed in July 2024 and a consolidated report detailing what we heard was published on our website in March 2025. Further details about our engagement with stakeholders for this project are provided in chapter 3.

Market Site

EPMF Investment Stage as at March 2025:

Project type:
Growth

Expected completion:
2029-30

About the project:

Located on Footscray Road in the Dynon precinct.

Potential uses being considered include, but are not limited to, rail freight and intermodal activities, freight logistics and storage, and empty container storage.

As the long-term lease for the site was secured in 2024, the project has been added to this TCS.

Progress in 2024-25:

PoM entered a long-term lease with the Victorian Government for 29 hectares of the former Melbourne Wholesale Market Site with this land to be incorporated into the port.

PoM expects to access this land in 2026 once the West Gate Tunnel and Melbourne Metro projects currently using the site have been delivered.

Maintenance Dredging Program

EPMF Investment Stage as at March 2025:

Project type:
Dredging

Expected completion:
Ongoing

About the project:

PoM has an ongoing program of periodic dredging campaigns to maintain channel depths and berth pockets to ensure that customers can continue to safely navigate the Port.

Progress in 2024-25:

In January 2025, following an international tender, PoM signed a 12-year Collaborative Framework Agreement with Boskalis for the provision of maintenance dredging.

A maintenance dredging campaign will commence, with works in mid-April to mid-May 2025 with the next major campaign scheduled for 2026-27.

Beacon Pile Replacement Program

EPMF Investment Stage as at March 2025:

Project type:
Renewal

Expected completion:
2027-28 (no change)

About the project:

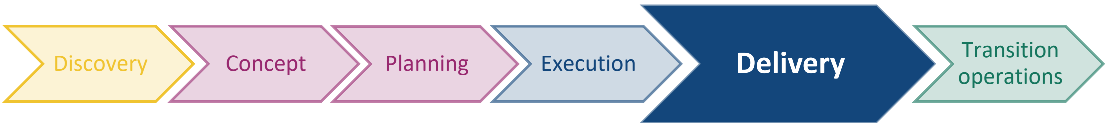
A program for the replacement and repair of Aids to Navigation which provide navigational assistance to vessel traffic while in Port waters.

Progress in 2024-25:

The Beacon Pile Replacement Program will take place in two stages with Stage 1 expected to be completed by the end of June 2025. Stage 2 planning has commenced with procurement of long lead items underway and works scheduled to commence in July 2025.

Roads program

EPMF Investment Stage as at March 2025:



Project type:
Renewal

Expected completion:
Ongoing

About the project:

A rolling, ongoing and annual program of road remediation and reconstruction works. This program will allow for the continued access to the Port and places of infrastructure as heavy vehicles continue to grow in volume and, potentially, in axle loads over time.

Progress in 2024-25:

The initial tranche of works – including remediation of Mackenzie Road and Anderson Road – has commenced and is expected to be completed by the end of May 2025. Appleton Dock and Coode Road signal and intersection works are complete. See our Road Network webpage for updates. Information about how we've engaged with our stakeholders is detailed in chapter 3.

Design and planning activities have commenced for infrastructure upgrades, including road safety barrier upgrades, potential speed reduction and road infrastructure upgrades.

5 Sustainability update

5.1 Our commitment to sustainability

Sustainability underpins the delivery of our strategic goals and is a key business priority in our corporate strategy. The objectives of our Sustainability Strategy are to:

- Facilitate decarbonisation of the Port's supply chain
- Minimise the Port's impact on our land, air and waters
- Build strong stakeholder and community relationships to protect our social license.

We are committed to reaching net-zero emissions for our operations by 2030 (Scope 1 and 2), and to managing risks and opportunities arising from climate change to ensure the Port's long-term sustainability and ongoing resilience of our assets.[19]

We report our approach to climate change within our annual Sustainability Report,[20] and will continue to evolve this reporting in future to meet the new Australian Sustainability Reporting Standards for mandatory climate-related financial disclosures.

To adapt and remain resilient to potential future climate impacts, we manage a range of risks and opportunities:

- **Port infrastructure resilience:** Climate and weather are already a key factor in port infrastructure design standards and our asset planning strategies. We will ensure these planning and operational measures continue to account for current and future climate conditions expected through the life cycle of the infrastructure.
- **Port operations and supply chain resilience:** Port operational continuity is subject to a range of present-day risks from global economic activity, geopolitics, local industrial operations, supply chain activity, and present-day climate conditions. We ensure that capacity planning includes flexibility to adapt to short-term disruption, and will review this planning over time to adapt to changing climate impacts. We also implement a range of preventative and reactive maintenance to mitigate disruption or recover from weather events.
- **Trade and supply chain composition:** the Port is a diversified port serving a range of industries and commodities. The Port Development Strategy ensures long term planning to meet future trade needs, including forecasting and adapting to changes in trade volume, commodity type and infrastructure services required. We are also investigating a range of future industry needs, such as our Green Methanol Bunkering feasibility study, to explore opportunities for us to support economic transition to future fuels and commodities.
- **Finance and regulation**: Climate change is integrated within our corporate risk register and has oversight from the Board. We have pursued climate change risk and GHG emissions actions in advance of mandatory legislation, which has improved our readiness for these changes.

[19] Our Climate Change Statement is available on our website.
[20] Our 2024 Sustainability Report is available on our website.

5.2 Progress in 2024-25

Our 2024 Sustainability Report was released in November 2024 and details our progress over the past year.[21] Some of our key sustainability milestones include:

- Reducing Scope 1 and 2 emissions by 43% in 2023-24 compared to the prior year, with further reductions on track in 2024-2025 driven by commencement of a Renewable Power Purchase Agreement
- Ranking first among Australian and international ports in the 2024 Global Real Estate Sustainability Benchmark (GRESB) Infrastructure Asset Assessment[22] for the second year running and maintaining the Port's 5-star rating, scoring the maximum possible 100 points
- Co-funding the Victorian Environment Protection Authority (EPA) report on an air monitoring project in Melbourne's inner-west
- Delivering 36 port education school sessions to 1,170 students
- Achieving "Tier 1 Skilled Workplace" certification in the Mental Health First Aid Australia Workplace Recognition Program.

[21] Our 2024 Sustainability Report is available on our website.

[22] The GRESB Infrastructure Asset Assessment assesses environmental, social and governance (ESG) performance at the asset level for infrastructure asset operators, fund managers and investors that invest directly in infrastructure, and is the leading ESG benchmark for real estate and infrastructure investments globally.

6 Trade insights for 2023-24

6.1 Trade overview

Port of Melbourne is the largest container and general cargo port in Australasia by throughput. The Port handles a wide variety of cargo types including containers, motor vehicles, dry bulk, liquid bulk and break bulk (Figure 6.1).

Figure 6.1 Trade composition and cargo type, 2023-24[23]

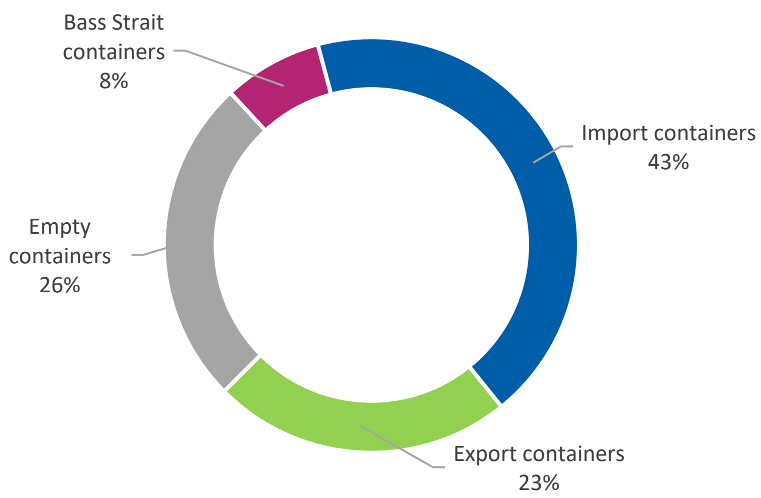
Cargo Type	Containers	Motor vehicles	Dry bulk	Liquid bulk	Break bulk
Key Trades	Highly diversified product base which can be divided into broad economic categories: consumer, intermediate and capital goods.	Port of Melbourne has the only dedicated roll-on, roll-off (RoRo) and Pure Car Carrier (PCC) terminal for motor vehicles in the State, servicing Victorian and Tasmanian markets.	Main imports are dry bulk volumes which largely include building materials: mostly cement and gypsum. Exports include cereal grains (wheat and barley) and canola.	Refined petroleum products and other liquid products (including chemicals and agricultural products).	Primarily agricultural equipment, machinery, iron, steel, timber and RoRo cargo.
Total Trade Composition					
Revenue Tonnes	90.3m	6.4m	5.7m	5.9m	3.7m
Percent of Total	81%	6%	5%	5%	3%

Note: Break bulk includes Wheeled Unitised cargoes.

In 2023-24, a total of 112.0 million revenue tonnes of trade passed through the port, of which the majority was containerised. The largest component of container trade is overseas imports (Figure 6.2). Imports are dominated by consumer goods such as furniture, domestic appliances, and clothing. Containerised exports also figure prominently in the port's trade mix. The port's primary export commodities are agricultural products originating from regional areas of south-eastern Australia.

[23] Source: 2024 Sustainability Report.

Figure 6.2 Percentage of container trade by category (TEU)

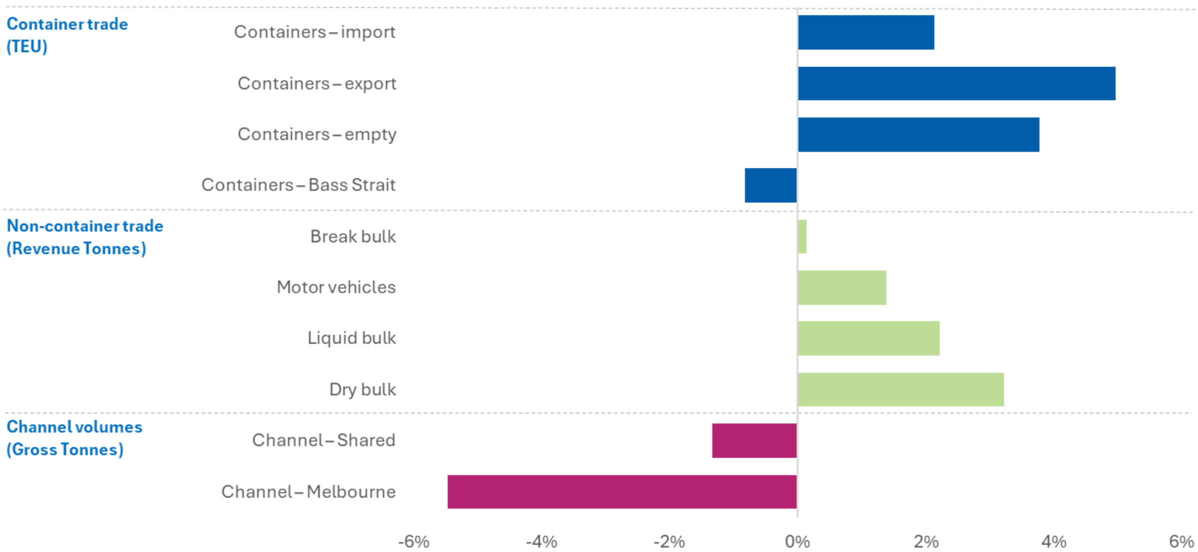


6.2 Trade performance

In 2023-24, total trade increased by 2.8%, driven by continued growth in containerised and non-containerised trade (Figure 6.3).

Trade outcomes in 2023-24 were broadly in line with expectations: actual containerised trade of 3.16 million TEU was 0.2% below forecast trade of 3.17 million TEU; actual non-containerised trade volumes exceeded the forecast across most categories (with the exception of break bulk); and channel volumes were below forecast.[24]

Figure 6.3 Year-on-Year change in trade volumes, 2023-24 versus 2022-23



Notes: Containers – Bass Strait excludes empty containers, which are not subject to a tariff. Break bulk includes Wheeled Unitised cargoes.

[24] See Appendix D – Trade outcomes (CONFIDENTIAL) for analysis of 2023-24 actual versus forecast trade outcomes.

6.3 Container trade

In 2023-24, container trade increased from 2022-23, driven by year-on-year growth across both full import and export volumes during the latter half of the financial year.

Import containers +2.1%

In 2023-24, containerised import volumes grew from 1.34 to 1.37 million TEU. Key year-on-year changes in containerised imports include:

- a decline in consumer goods
- a rise in containerised paper, plastics, and metal and ores
- strong growth in containerised motor vehicles.

Export containers +5.0%

In 2023-24, containerised export volumes grew from 0.70 to 0.74 million TEU. Growth in containerised exports benefited from the removal of trade barriers in key export markets. Through 2023, China lifted tariffs and other restrictions first imposed in 2020, benefiting export commodities like barley, timber, beef and wine; while the India-Australia Free Trade Agreement significantly boosted exports of lentils to India. In addition, exports of meat reached record levels in 2023-24.

Empty containers +3.8%

In 2023-24, there was an increase in the empty container trade from 0.78 to 0.81 million TEU. A key driver of growth was the disruption to maritime trade caused by the Red Sea Crisis which began in October 2023. The crisis led to a shortage of empty containers in key export markets including China. To address the shortage, empty containers were repositioned to China.

Bass Strait containers[25] -0.8%

The Port is the primary mainland port for the transfer of Tasmanian cargo. Containerised trade with Tasmania declined in 2023-24 from 0.25 to 0.24 million TEU. This decline was driven by a shift from containerised cargo towards wheeled units (included in the break bulk trade category) rather than a decline in overall Bass Strait trade.

6.4 Non-containerised trade

Non-containerised trade is comprised of four categories: liquid bulk, motor vehicles, dry bulk and break bulk. PoM experienced growth across all four non-containerised trade categories in 2023-24.

- **Liquid bulk** +2.2% – The increase in liquid bulk trade was driven by a significant rise in diesel imports, which was partially offset by a large drop in unleaded fuel imports.
- **Motor vehicles**[26] +1.4% – Motor vehicles volumes are comprised of non-containerised motor vehicles, transhipment motor vehicles and break bulk.[27]

[25] Containers – Bass Strait excludes empty containers, which are not subject to a tariff.
[26] Motor vehicles excludes containerised motor vehicle volumes which are included within Containerised Trade.
[27] Transhipment refers to cargo that is unloaded from one vessel in the port and reloaded onto another vessel.

    - Non-containerised motor vehicles experienced strong growth of 12.7% from 7.23 to 8.15 million revenue tonnes. During COVID-19, motor vehicle imports increased significantly and continued to grow throughout 2023-24. This growth was primarily driven by imports from Japan, Thailand and China.
    - Transhipment – motor vehicles and break bulk declined by 62.4% from 1.28 to 0.48 million revenue tonnes. This reflects a return towards normal volumes for these types of shipments (noting they are typically a small proportion of overall motor vehicle volumes) following a sharp increase between 2020-21 and 2022-23 due to COVID-19 related supply chain issues.
- **Dry bulk** +3.2% – The growth in dry bulk trade in 2023-24 was driven by strong growth in exports, which grew by 9.9%. This growth was partially driven by grain exports which have recovered strongly from a drought-induced low in 2018-19. Notably, barley has become a strong grain export in 2023-24 following the lifting of tariffs by China. Dry bulk imports, which mostly consist of cement and gypsum, were relatively flat with growth of 0.6% in 2023-24.
- **Break bulk** +0.1% – Overall, break bulk remained relatively stable in 2023-24. This category does not include motor vehicle break bulk, which is captured above.

6.5 Channel volumes

Shared channel volumes declined by 1.3% and dedicated channel volumes declined by 5.5% in 2023-24.[28] Lower channel volumes were driven by several factors, most notably:

- fewer containerised vessel visits driven by a reduction in excess capacity among container vessels due to general consolidation of cargoes on existing fleets
- a reduction in motor vehicle carrier visits due to a shift from multi-port calling/multi-shipment vessel visits towards dedicated vessel visits to Port of Melbourne by some global motor vehicle suppliers.

[28] Shared channels are used by vessels bound for either the Port of Melbourne or for the Port of Geelong; Dedicated channels are used by vessels bound for the Port of Melbourne (Section 49(1)(c) of the Port Management Act 1995 (Vic)).

7 Expenditure Insights for 2023-24

7.1 Capital expenditure

Gross prescribed capital expenditure in 2023-24 was $169.8m (Table 7.1), the second highest level of gross prescribed capital expenditure since the start of the Port Lease. In 2023-24 gross prescribed capex was below forecast by 16.1%.[29]

Table 7.1 Actual and forecast capital expenditure from 2022-23 to 2023-24
$m, nominal

Driver	2022-23 (Actual)	2023-24 (Forecast)	2023-24 (Actual)	Difference (Act – For)
Dredging	16.0	4.8	11.8	▲ 7.0
Growth	139.0	81.2	56.4	▼ 24.8
Renewal	59.2	116.2	101.6	▼ 14.6
Gross Prescribed Capex	**214.3**	**202.2**	**169.8**	▼ **32.5**

Note: Capex is expressed in gross prescribed terms (i.e. before capital contributions and asset disposals are removed).
Numbers in table may not sum due to rounding.

In 2023-24, actual gross prescribed capex for growth and renewal was below forecast while dredging was above forecast. Major drivers of the differences between forecasts and actuals are as follows:

- Increased capital expenditure compared to forecast for dredging is mainly a function of the following factors:
  - additional scope resulting from updated guidance from the Harbour Master
  - supplementary dredging conducted due to a flood event
- PCEP, the Webb Dock East Berth Extension and PRTP account for the majority of growth capital expenditure, with deviations between forecast and actual as follows:
  - PCEP – following Stage One stakeholder engagement, an alternative delivery schedule was adopted resulting in deferred staging of some design and planning works.
- Webb Dock East Berth Extension – the assistance of a backhoe dredge greatly reduced the time and expense for timber pile extraction, resulting in significant efficiencies in anticipated expenditures.
- PRTP – a portion of the planned expenditure (on signalling upgrades to improve safety and efficiency) was deferred to 2024-25 due to extended procurement.
- Renewal is comprised of a substantial number of minor capital works projects, with no one project accounting for a significant portion of actual or forecast capital expenditure. The reduced capital expenditure compared to forecast is a function of several factors, most notably a shift in the timing of projects to future years.

[29] Refer to Appendix E – Capital expenditure outcomes (CONFIDENTIAL) for further analysis and discussion of 2023-24 actual versus forecast major project expenditure.

7.2 Operating expenditure

Actual prescribed operating expenditure in 2023-24 of $149.0m was below forecast by $6.3m (Table 7.2).[30]

7.2.1 Non-Controllable prescribed operating expenditure

The majority of PoM's prescribed operating expenditure is related to three non-controllable costs:

- The Port Licence Fee
- The Cost Contribution Amount
- Port Rail Transformation Agreement (PRTA) costs.

Total non-controllable prescribed operating expenditure in 2023-24 of $116.0m was slightly below forecast. The Cost Contribution Amount was below forecast due to lower than anticipated channel volumes.[31] PRTA costs were lower than forecast, driven by lower than anticipated council rates and land tax.

Table 7.2 Actual and forecast prescribed operating expenses from 2022-23 to 2023-24
$m, nominal

	2022-23 (Actual)	2023-24 (Forecast)	2023-24 (Actual)	Difference (Act – For)
Port Licence Fee	90.8	96.7	96.7	0.0
Cost Contribution Amount	17.4	15.8	14.2	▼ 1.6
PRTA costs	4.8*	5.2	5.0	▼ 0.1
Non-controllable prescribed opex	**113.0**	**117.7**	**116.0**	▼ **1.7**
Controllable prescribed opex	**35.5**	**37.5**	**33.0**	▼ 4.5
Prescribed opex	**148.5**	**155.2**	**149.0**	▼ **6.3**

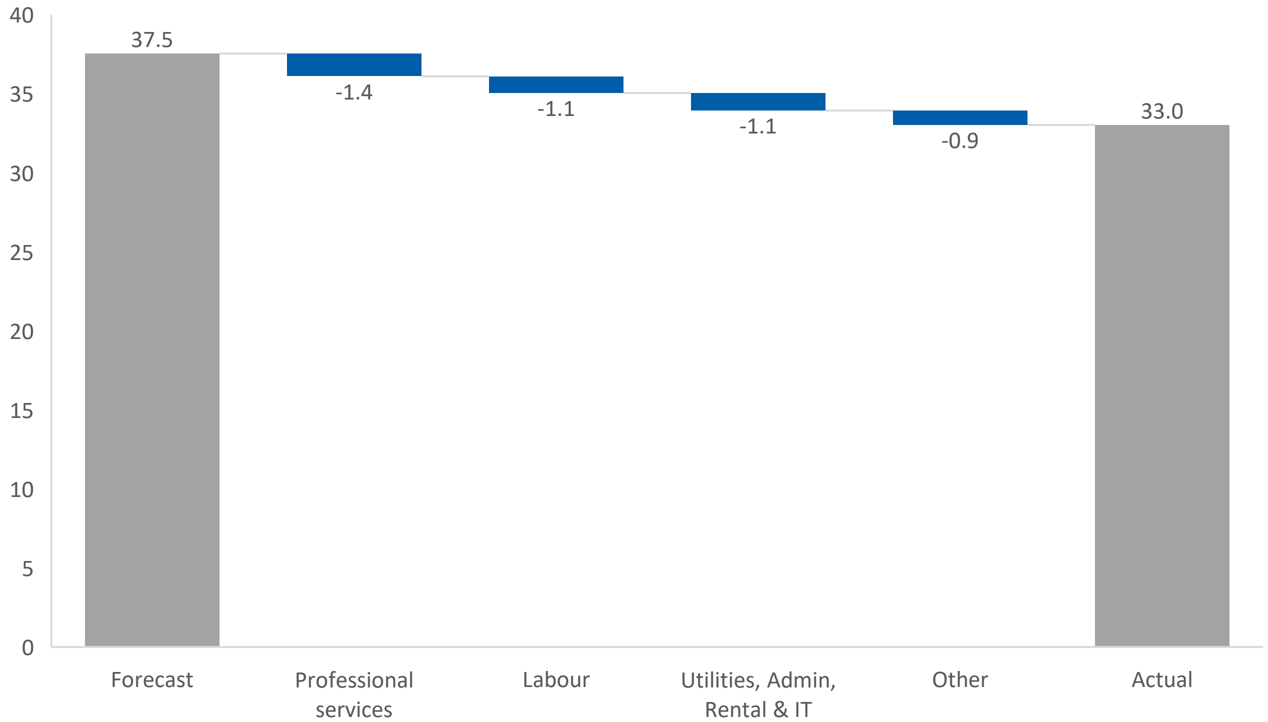
*2022-23 PRTA costs were incorrectly reported as $4.3m in the 2024-25 TCS due to understated council rates and land tax.
Numbers in table may not sum due to rounding.

7.2.2 Controllable prescribed operating expenditure

In 2023-24, actual controllable prescribed operating expenditure was below forecast. The main drivers of the difference between actual and forecast were professional services, labour and utilities, administration, rental and IT (Figure 7.1). The major drivers of the differences between actual and forecast outcomes for these items are set out below.

[30] Refer to Appendix F – Operating expenditure outcomes (CONFIDENTIAL) for further analysis and discussion of 2023-24 actual versus forecast controllable operating expenditure.
[31] Pursuant to Port Concession Deed, Clause 27.1, from 1 July 2023 onwards, the Cost Contribution Amount is calculated as 20% of total channel charges.

Figure 7.1 Actual and forecast controllable prescribed operating expenses, 2023-24
$m, nominal



Professional Services

Professional services costs were lower than forecast due to an organisational shift in the planned execution of certain tasks from external service providers to in-house resources, reducing the overall expenditure for professional services.

Labour

Labour costs were lower than forecast due to higher than anticipated level of operational staff resources dedicated to capital projects (while continuing to deliver operational responsibilities at lower cost).

Utilities, Administration, Rental & IT

Expenditure was below forecast due to several factors, namely lower-than-anticipated costs for IT projects due to capacity constraints and realignment of identified IT initiatives with strategic priorities and resource availability.

8 Rate of return on capital

In the 2023-24 TCS we adopted a pre-tax nominal Weighted Average Cost of Capital (WACC) of 9.34%, which was prepared by independent experts HoustonKemp using well accepted approaches.[32] This WACC was used to determine the allowance for the rate of return on capital for the purposes of determining the ARR for the current regulatory period.

The allowance for the rate of return on capital has been set for the five years of the current regulatory period and is not revisited in this TCS.

8.1 Cost of debt

The cost of debt estimate for the current regulatory period was based on a trailing average approach, which was the same approach adopted in previous regulatory periods. The 2023-24 TCS included an on-the-day estimate of the cost of debt for the first year of the regulatory period and used the same estimate for each subsequent year, with the intent that the on-the-day estimate would be calculated for each subsequent year when available and then the WACC and ARR would be updated at the end of the Regulatory Period (i.e. 'trued up').[33]

As set out in our 2024-25 TCS, we note that the trailing average approach may not be able to be given effect under the Pricing Order.[34] Therefore, we decided that we will not implement updates to the cost of debt in the absence of further clarity as to whether this approach is available under the Pricing Order, or an amendment is made to the Pricing Order that provides for this approach. That is, we will retain the cost of debt estimate from the 2023-24 TCS for the remainder of the regulatory period.

However, to provide a comparison between the approaches, we engaged HoustonKemp to calculate an updated 2025-26 cost of debt estimate using data up to 31 March 2025 (Appendix I). HoustonKemp calculated a benchmark BBB prevailing cost of debt of 5.73% as at 31 March 2025, excluding debt raising costs. This translates to a trailing average cost of debt of 4.97% (including debt raising costs).

We note that:

- The trailing average cost of debt calculated by HoustonKemp as at 31 March 2025 is nine basis points higher than the trailing average cost of debt from the 2023-24 TCS of 4.88%
- If we did update the trailing average cost of debt for the latest on-the-day estimate and subsequently update the WACC for 2025-26, it would be one basis point higher at 9.35% (pre-tax nominal).

Table 8.1 below provides a comparison of changes in the prevailing cost of debt against the regulatory period estimate, and the implications for the overall WACC. As shown in the table, the use of a fixed estimate of the trailing average cost of debt for the current regulatory period has a very small impact on the WACC compared to a counterfactual of updating the cost of debt annually.

[32] Refer to chapter 9 of our 2023-24 TCS General Statement for a description of the approach to determining the WACC.
[33] Refer to pp. 92–93 of the 2023-24 TCS General Statement for further description of the proposed approach.
[34] See discussion in chapter 6 of our 2024-25 TCS.

Table 8.1 Comparison of regulatory period cost of debt and WACC estimate with changes in the prevailing cost of debt

	Trailing average cost of debt	Pre-tax nominal WACC	Difference from regulatory period WACC estimate
Regulatory period	4.88%	9.34%	NA
2024-25	4.93%	9.34%	0 basis points
2025-26	4.97%	9.35%	1 basis point