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Purpose

- To continue the discussion on the regulatory regime from the sessions held in each of the prior 2 years
- To introduce a key feature of the Pricing Order in more detail - *tariff rebalancing*
- This year we are providing an overview of *tariff rebalancing* concepts and related processes, including:
 - How we propose to seek your views and insights
 - How we will table, discuss, assess and action your feedback

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Reminder of our port services

PoM provides two types of services:

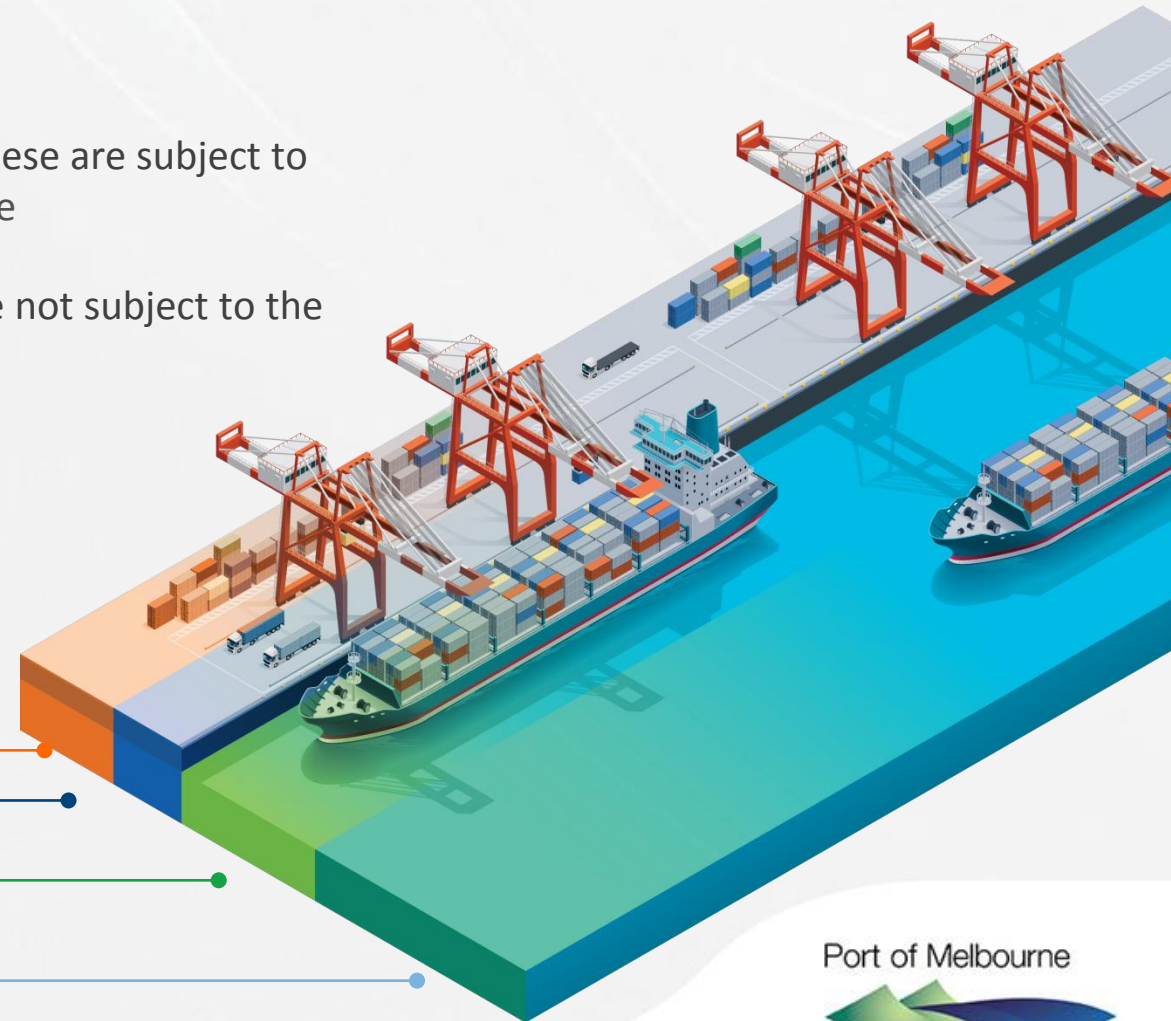
- i. **Prescribed Services** – wharfage, berth hire and channel access. These are subject to the Pricing Order and comprise around 68% of PoM's total revenue
- ii. **Non-prescribed services** - leasing of space and facilities. These are not subject to the Pricing Order and charges are based on commercial agreements

Leasing of Space & Facilities – Non-prescribed

Wharfage Fees – Prescribed

Berth Hire Fees – Prescribed

Channel Fees – Prescribed



Port of Melbourne



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Current tariff structure

Key service	Nature of service	Service bundles	Type of charge	Basis for charge	
Prescribed Services	Wharfage	Access to, and use of, places or infrastructure on port land (wharves, slipways, road, rail, channels etc.)	<ul style="list-style-type: none"> Containerised cargo Non-containerised cargo Motor vehicle cargo Liquid bulk cargo Dry bulk cargo 	Cargo charge	Per unit of quantity, volume or weight of cargo. Levied on cargo transferred between or across vessels berthed at a wharf (including empty containers)
	Berth hire	Access to waterfront edge to berth vessels at common user berths	N/A	Shipping charge	Time based. Calculated based on total time a ship remains alongside a common user berth. Lay-up charges may apply at certain berths.
	Channel access	Port access for commercial vessels	<ul style="list-style-type: none"> Shared channel Dedicated channel 	Shipping charge	Levied once per ship visit, calculated based on size (gross tonnes (GT)) of the vessel
Non-Prescribed Services	Leases	Access to land and facilities on port land	N/A	Rental (port tenants)	Commercial agreements

Tariffs are detailed in PoM's Reference Tariff Schedule. See portofmelbourne.com

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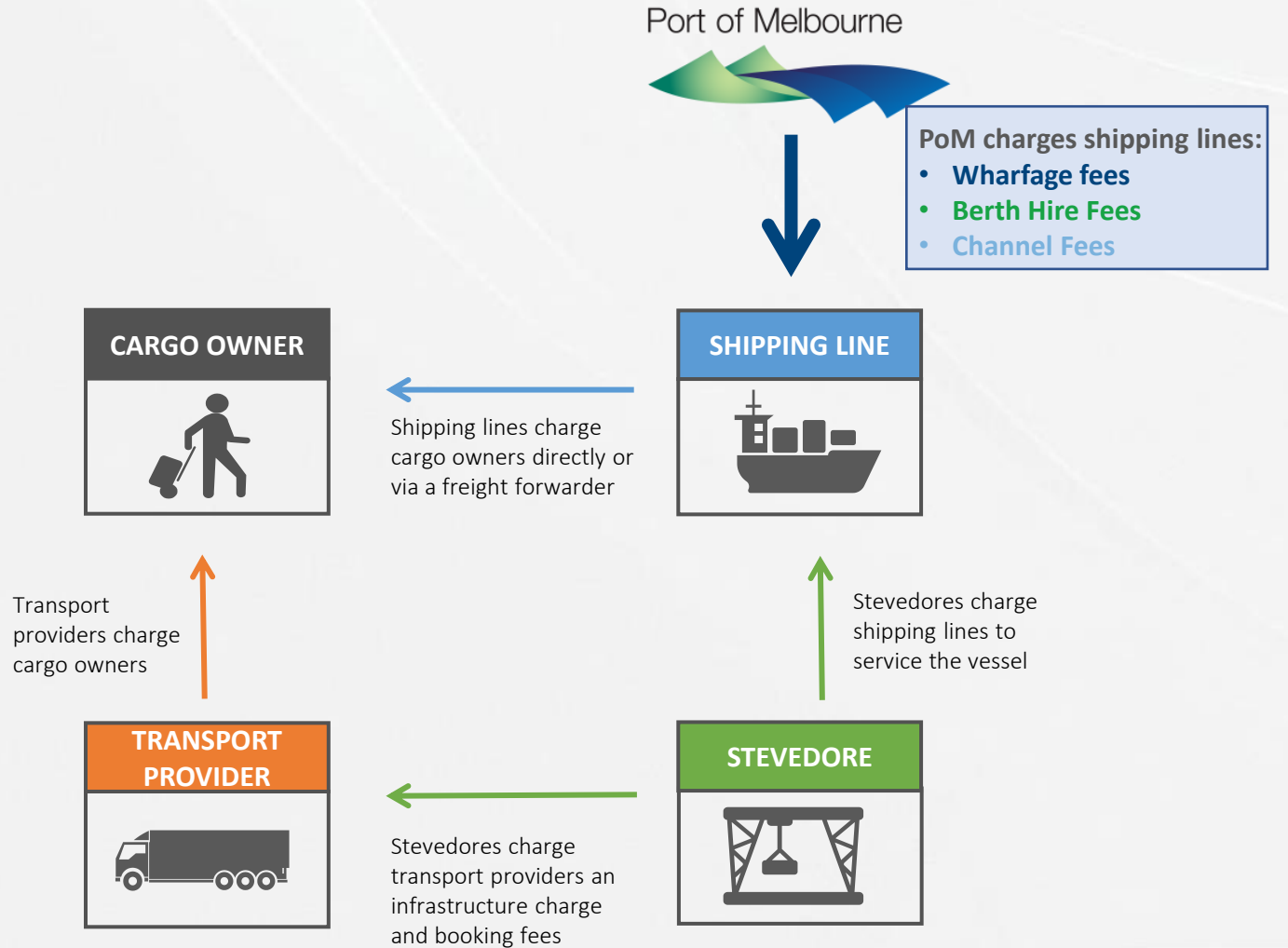
Who pays PoM's tariffs

PoM levies wharfage, channel and berth hire fees on shipping lines

Shipping lines pass these charge through to cargo owners, either directly or through freight forwarder

Stevedores charge shipping lines and landside transport providers. Stevedores' prices, costs and profits are monitored by the ACCC

Note – The Victorian Government is currently undertaking a review of re-balancing in stevedore prices away from shipping lines towards landside transport operators to determine whether a regulatory response is warranted



5 Prescribed Services – Pricing Principles

We calculate tariffs based on the following key pricing principles:

1. Price Smoothing⁽¹⁾

Tariffs⁽²⁾ based on the lower of:

- i. Annual percentage change in March-on-March Australian CPI. This is known as the Tariff Adjustment Limit
- ii. Aggregate Revenue Requirement (ARR) calculated using the Accrual Building Block Methodology (ABBM)

2. Efficient Cost Recovery (ECR)

Tariffs are based on the ARR calculated using the ABBM

Until at least 2032, and the latest 2037, the weighted average annual increase in tariff is capped by CPI. This provides price certainty for Port Users. The CPI increase is applied to our tariffs in our Reference Tariff Schedule.

Port Users can also seek to establish negotiated contracts for Prescribed Services – tariffs under these contracts reflect commercial negotiations and are therefore not constrained by CPI. PoM has several of these contracts, which are commercial in confidence.

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

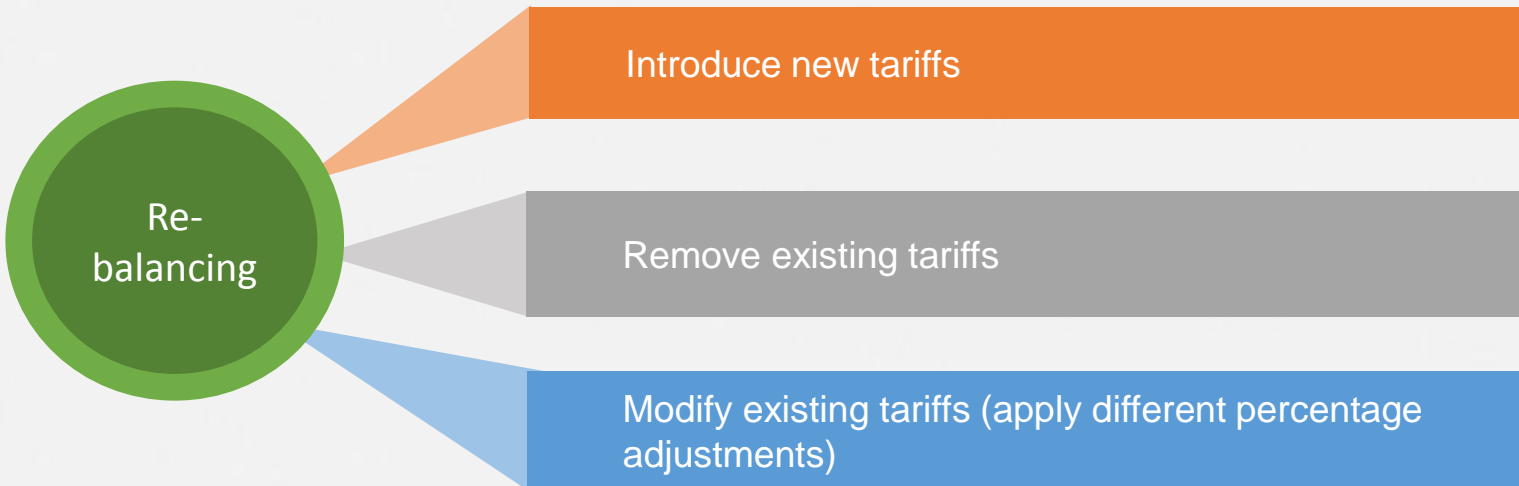
(2) Except full out outbound container wharfage service tariffs – these will decrease by 2.5% p.a. until 30 June 2020.

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What is tariff re-balancing?

Re-balancing is subject to:

- Consultation with Port Users
- Any future tariff changes satisfying the overall Weighted Average Tariff Increase (WATI) i.e. capped by the Tariff Adjustment Limit (= CPI^[1])
- The pricing principles to ensure any future tariff changes promote the long-term interests of Port Users and Victorian consumers
- ESC approval



Pricing Order requirement:

- *Prescribed Service Tariffs Pricing Principles (clause 2)*
- *The TAL (clause 3.1.1)*
- *Cost Base for setting Prescribed Service Tariffs (Clause 4), and*
- *Cost Allocation Principles (clause 5)*

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Objectives of tariff re-balancing

More dynamic tariff structures may be needed to deliver the best long term outcomes for Port Users and Victorian consumer:



Address changing customer expectations



Respond to, or distinguish, different product types or service needs



Cater for new services requiring new tariffs



Ensure our tariffs are cost reflective



Respond to the changing needs of the market and promote trade growth



Allow us to recover our investment costs



Ensure our services remain competitive

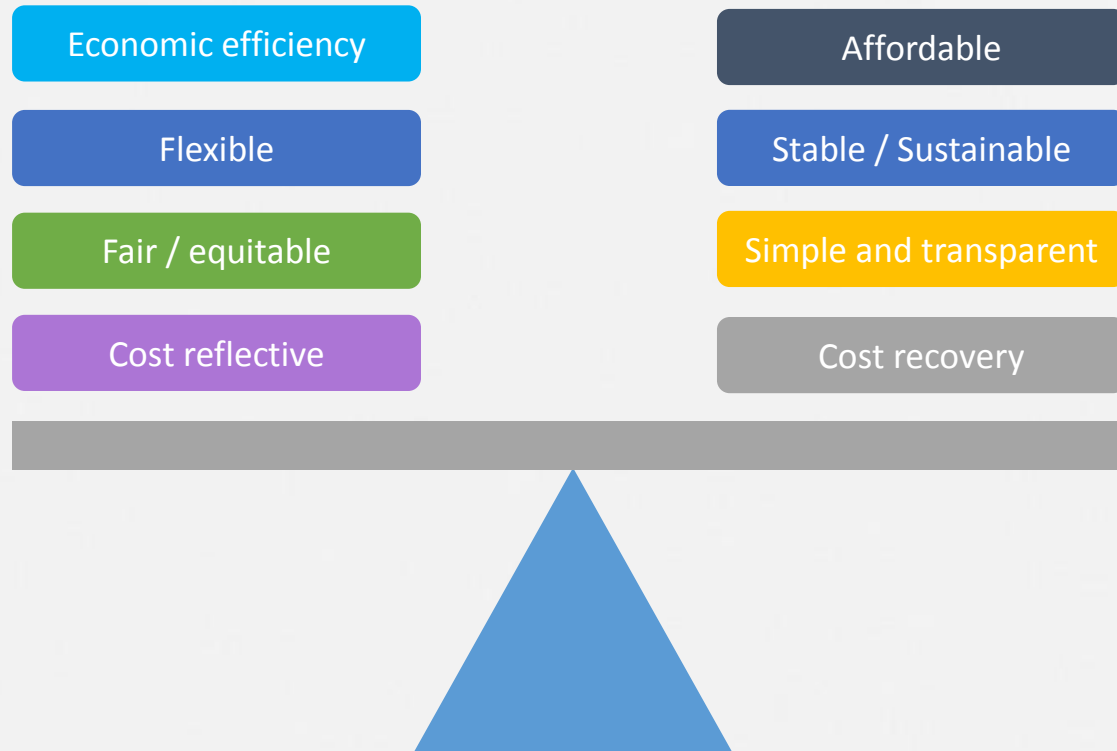


Adapt to new technologies / up stream services (i.e. big ships)

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PoM's tariff objectives

Our tariffs and tariff structures' objectives:



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Seeking your views and insights

- Your feedback is an important input for any future tariff re-balancing application
- We want to understand your views on the following to assess whether there is case for change and re-balancing is justified
- Are there other matters we should discuss?

Topic	What we would like to know from you:
Services	<ul style="list-style-type: none"> • What new services do you need? • What changes to existing services and or service standards do you want? • What existing services do you no longer need?
Market changes	<ul style="list-style-type: none"> • What emerging market changes might PoM need to respond to?
Tariff objectives	<ul style="list-style-type: none"> • Do you agree with our tariff objectives?
Tariff structures	<ul style="list-style-type: none"> • Are there tariff structures you want changed? • How should these structures be changed?
Incentives	<ul style="list-style-type: none"> • Are there different pricing incentives that we should encourage? • Are there opportunities to improve price signals to drive efficiency and thereby reduce costs?
Timing	<ul style="list-style-type: none"> • When / over what time period should changes to tariffs / tariff structures be introduced? • Should changes be introduced gradually (via transitional arrangements) or immediately?
Trade-offs	<ul style="list-style-type: none"> • How should competing interests best be balanced? <p><i>Note - changes in tariffs are subject to the overall CPI constraint. This means decreases in certain tariffs must be offset by increases in other tariffs which could result in winners and losers</i></p>

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How we will work together

We propose to invite views and insights (of relevant stakeholders) through the following engagement channels:

- One-on-one meetings
- Workshops
- Questionnaires
- Consultation paper
- Your written submissions

Are there other engagement pathways that you would like us to follow?



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Proposed process

Build a shared understanding of our current tariffs



Seek insights and views on our current tariffs and tariff structures



Table, discuss, assess and action feedback on tariffs and tariff structures

Jun to Dec 2019

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Next steps

- Settle consultation process based on your feedback
- Advise how and when you can get involved
- Commence consultation
- Submit re-balancing application - only if there is a case for change and re-balancing is justified