



# Business Update

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*Stakeholder Briefing*

*March 2020*

Port of Melbourne



# Agenda

1. Introduction and Purpose
2. Trade Update
3. Key Port Initiatives
  - Big Ship Strategy
  - 2050 Port Development Strategy
  - Our Plan for Rail - Port Rail Transformation Project
4. Regulatory Update

# Trade Update



# Trade Update

## Container trade

	<b>FY18</b>	<b>FY19</b>	<b>FYTD Dec 2019</b>
Import full containers	8.5%	1.9%	-3.0%
Export full containers	7.1%	-7.8%	-3.3%
Bass Strait	4.6%	2.0%	-1.0%
Transshipment	14.5%	6.3%	-18.7%
Empty containers	10.4%	19.0%	-2.2%
<b>TOTAL containers</b>	<b>8.6%</b>	<b>3.2%</b>	<b>-3.6%</b>

# Trade Update

## Other trade

	<b>FY18</b>	<b>FY19</b>	<b>FYTD Dec 2019</b>
Import motor vehicles	17.6%	-5.6%	-12.9%
Wheeled Unitised (Tasmanian)	26.3%	8.3%	-16.4%
Cement/Gypsum	12.1%	2.5%	-1.1%
Bulk grain	-2.2%	-82.3%	-16.4%
Liquid bulk	-0.4%	4.3%	-7.4%
<b>TOTAL Revenue Tonnes</b>	<b>8.5%</b>	<b>2.6%</b>	<b>-4.4%</b>

# Trade Update

## Containerised commodities

	FY18		FY19		FYTD Dec 2019	
Import	Growth	Ranking	Growth	Ranking	Growth	Ranking
Furniture	18.4%	1	-0.9%	2	0.7%	2
Miscellaneous Manuf.	4.7%	2	20.8%	1	1.9%	1
Metal Manufactures	11.9%	3	2.5%	3	-9.3%	3
Machinery – Non-elec.	9.4%	4	-5.6%	4	-9.8%	5
Domestic Appliances	13.9%	5	5.7%	5	1.1%	4
Clothing	4.9%	6	-7.0%	7	-4.5%	7
Electrical Machinery	30.7%	7	7.5%	6	4.4%	6
Export						
Timber	23.1%	1	2.0%	1	11.4%	1
Meat	24.7%	2	12.3%	2	9.9%	2
Paperboard	39.2%	3	-53.0%	10	-6.9%	10
Wheat	-14.9%	4	-77.8%	24	-35.8%	27
Pulp and Waste Paper	-24.4%	5	2.0%	3	-32.4%	8
Scrap Metal	19.8%	6	7.9%	5	41.0%	3
Hay, Chaff and Fodder	6.6%	7	-11.5%	9	-20.7%	9



# Trade Outlook

- Trade has softened over the past 12 months
  - Seasonal slowdown
  - Impact of bushfires and Corona virus
- **Discussion**
  - What are your views for the next 12 months?

# Key Port Initiatives



# Our Big Ship Strategy

## Webb Dock East Berths 4 & 5

- The Victorian Ports Corporation Melbourne (VPCM) Harbour Master has completed a phased trial implementation process for the deployment and handling of larger vessels into Webb Dock East Berths 4 and 5.
- Managed by the VPCM, vessels of up to **347m LOA** with a maximum draught of **13.25m** can now be accepted.
- Vessels with a **maximum displacement of 140,000 t** can be accepted.

## Yarra River & Swanson Dock terminals

- Following vessel simulations and pilot training completed in December, VPCM Board has approved trials for vessels of up to **337m LOA and 45.6m beam** into Swanson Dock (SD).
- Successful trials of five large container vessels up to **334m LOA and 43m beam** into SDE.
- **New 150 t bollards** installed on SD West.
- Work on SD East is well underway to increase wharf capacity and enable berthing of vessels up to **140,000 t displacement**.
- The **maximum displacement of 98,000 t** remains in place until the completion of the 150 t bollards and the implementation of a Docking Aid System; **max displacement of 140,000 t will apply thereafter**.



# Our Big Ship Strategy

## Port of Melbourne Dredging Program 2020

- The majority of dredging works in the port area now completed.
- Some associated dredging maintenance activities will now commence during daylight hours only.
- The night-time closure of the Yarra River Channel effecting shipping operations removed.
- The daytime Yarra River Channel closure will continue (0800-1300 hours AEST) up to and including 1 March 2020.
- Dredger **'Brisbane'** to carry out DMG capping and maintenance dredging in the South Channel from 09 March to early April 2020.
- No Impact on shipping movements.



# Port Development Strategy



# The 2050 Port Development Strategy

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## *A roadmap for the future*

*The 2050 Port Development Strategy (PDS) is our plan to guide the Port of Melbourne's growth and development over the long-term*

”

International container demand will exceed

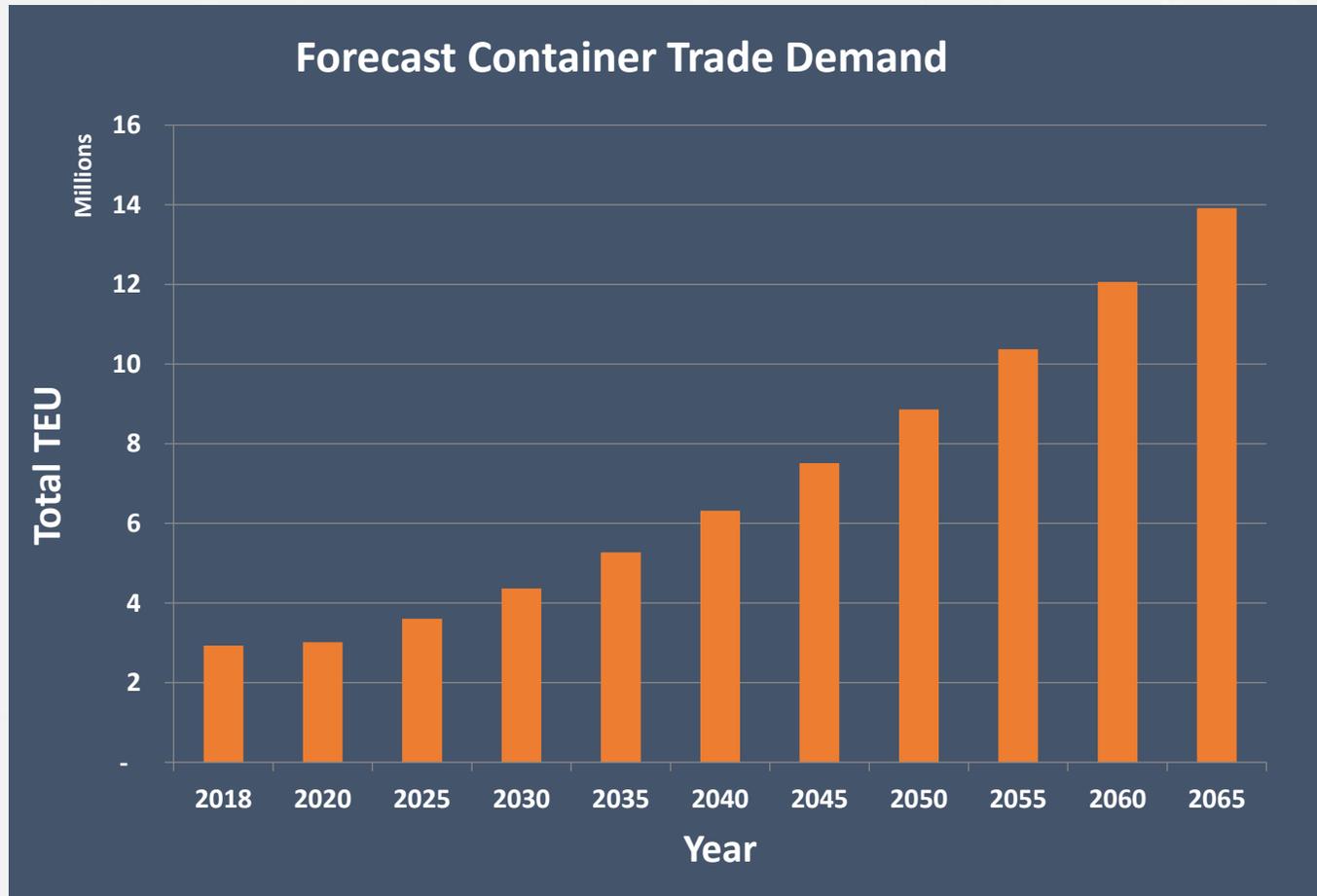
**8.7mTEU**

by 2050



# Future Trade Outlook

Containers



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*Port of Melbourne container trade is forecast to grow by 3 to 4% annually over the medium to longer term*

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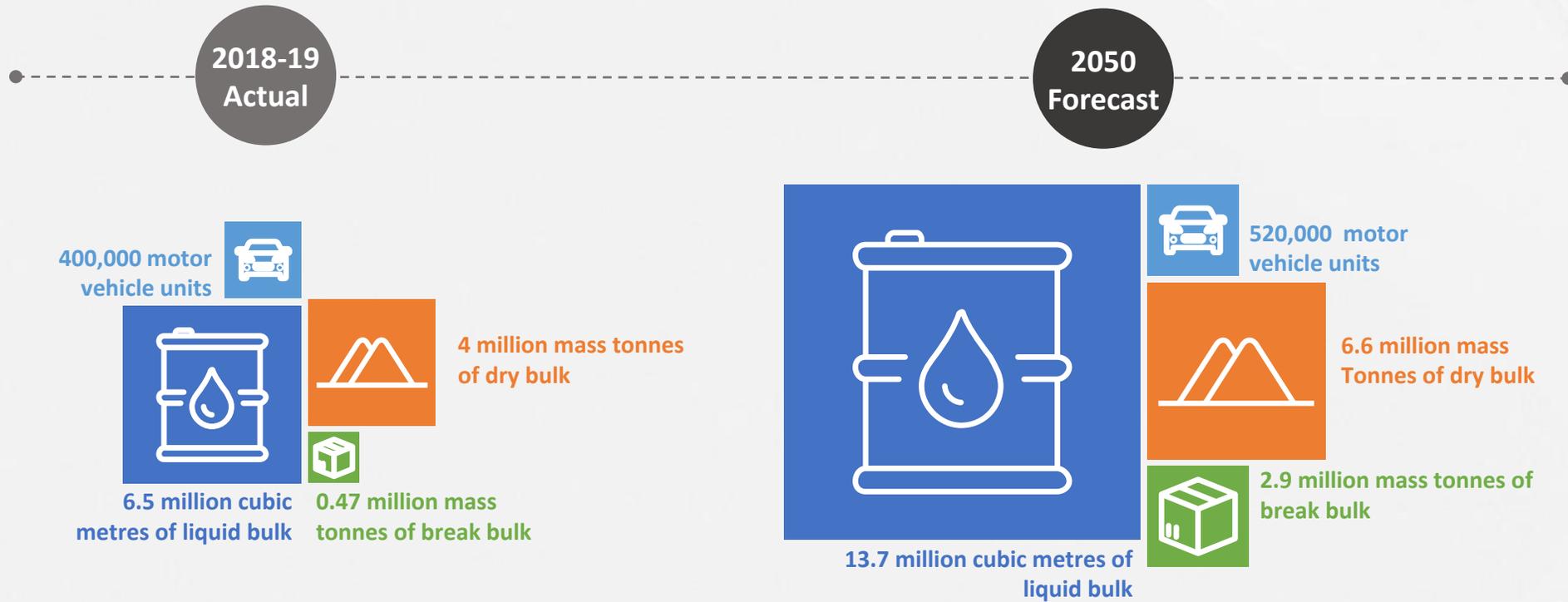
*Note: Total Port of Melbourne Container Trade – International, Mainland and Tasmanian*

# Future Trade Outlook

Non-container trades

“Melbourne’s population is expected to grow through to 2050 and the same is forecast for Port of Melbourne’s trades”

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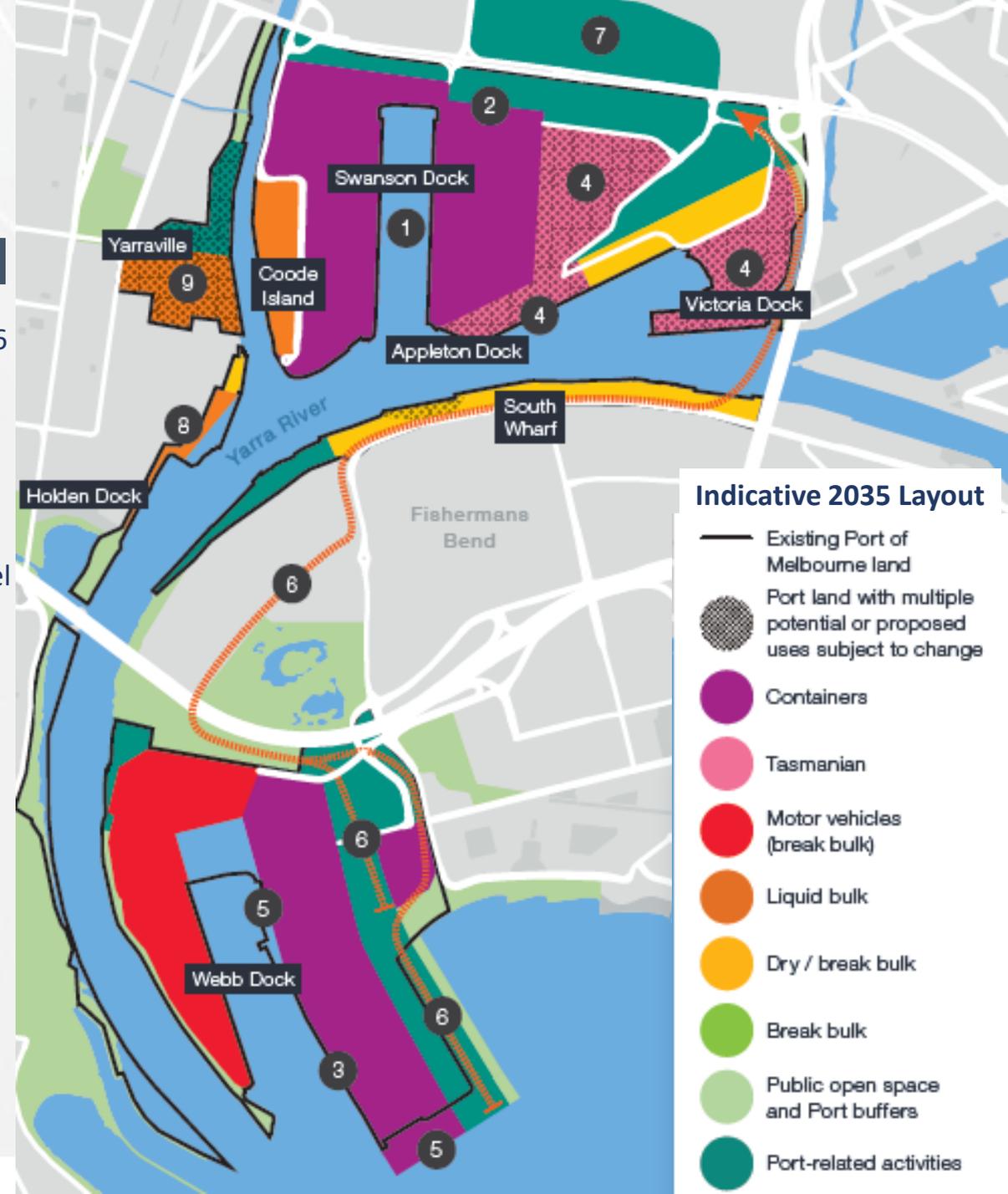
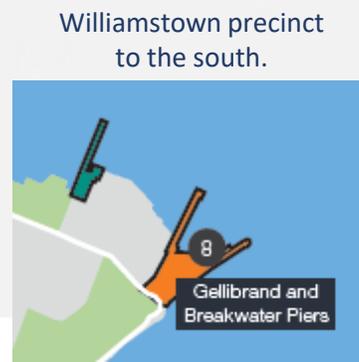


# 2050 Development Strategy

The 2050 Port Development Strategy (PDS) guides the port's high level plans and approach for developing capacity and efficiency over the next 30 years

## Overview

- The PDS lays out how the port will handle a doubling of containers to circa 6 million a year by 2040 and also accommodate growth in all the bulk trades and Bass Strait volumes.
- In addition, the PDS considers land side connection beyond the port gate. PoM, in conjunction with the State has commenced planning for a new rail connection to Webb Dock and is improving the rail assets in Swanson dock. This rail work combined with the State's investment in the West Gate Tunnel has PoM well serviced by the land transport network out to around 2050.
- Key projects:
  1. Upgrading Swanson Dock East & West berths
  2. Port Rail Transformation Project
  3. Expanding Webb Dock East
  4. Relocation of Tasmanian terminals
  5. Developing Webb Dock North
  6. Webb Dock Freight Link
  7. Northward integration with Dynon
  8. Develop new liquid bulk berth
  9. Develop Yarraville precinct



# Port Rail Transformation Project

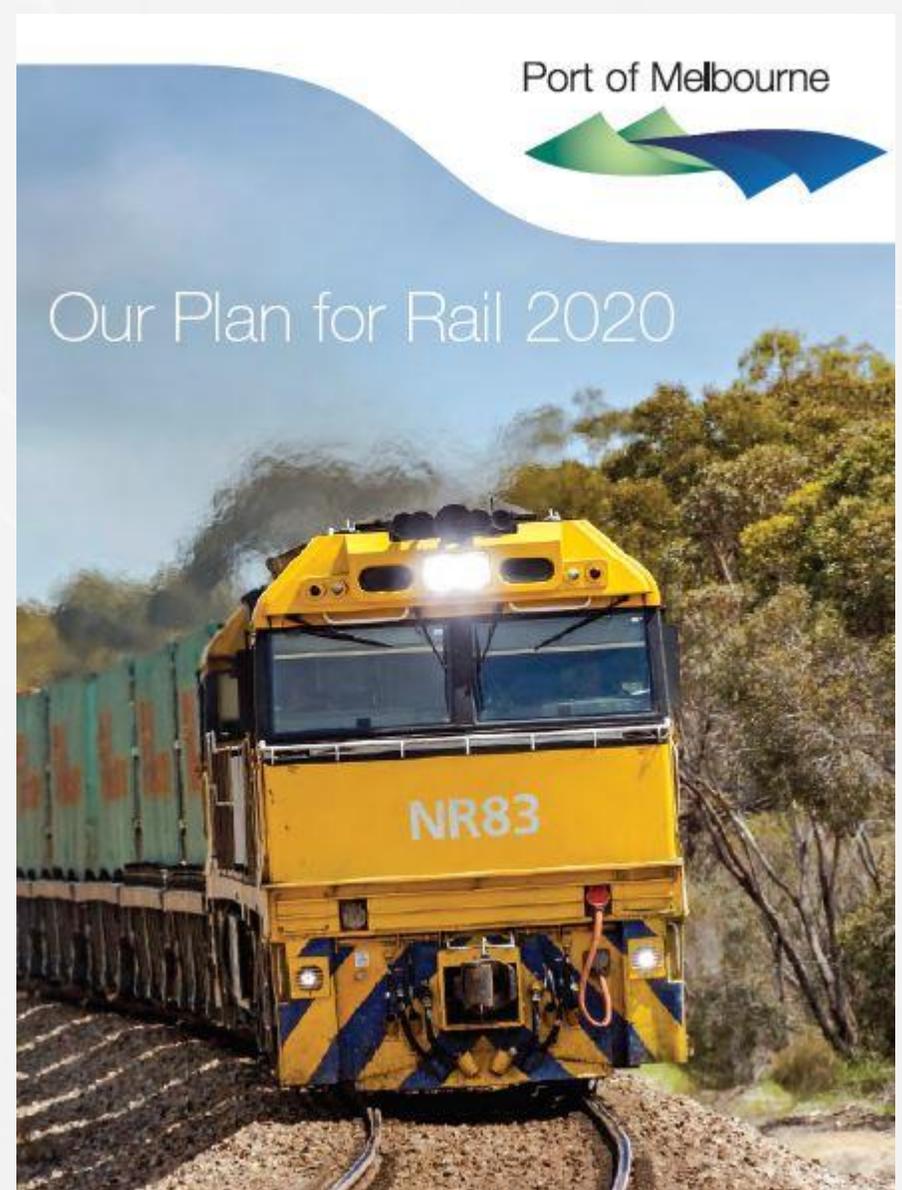
Port of Melbourne



# Our Plan for Rail

The Victorian Government has charged PoM with improving rail at the Port through the preparation of a Rail Access Strategy (RAS)

- Our overview of the RAS is *Our Plan for Rail* (the Plan)
- The Plan has 12 Actions and 44 initiatives
- The delivery period is short to medium term and delivery agents include PoM, Government and Industry
- PRTP is first Action announced

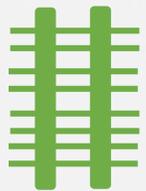


# Port Rail

MODE SHIFT INHIBITORS

1

Infrastructure



## Infrastructure

- Infrastructure capacity
- Infrastructure availability
- Shared users
- Flexibility for operations

2

Access Arrangements



## Access Arrangements

- Open access arrangements
- Certainty of access
- Lack of coordination across infrastructure access

3

Cost



## Cost of Rail

- High cost of establishment
- Cost comparisons to road
- Economies of scale
- Last mile cost

4

Service Levels



## Service Levels

- Certainty of service levels
- Performance monitoring
- Transparency of performance

# Port Rail Transformation Project

OVERVIEW

## Port Rail Transformation Project – Infrastructure Components

**1** Swanson Dock East Rail Terminal  
A new rail terminal at Swanson Dock East that directly connects into the Swanson Dock East Container Terminal. This rail terminal will consist of two tracks, each able to handle a 600m long train

**2** Rail Access, Connections and Sidings  
Upgraded access, connections and sidings within the Port. These modifications are designed to support up to 1,500m long regional Victoria and interstate trains and provide operational flexibility for all trains accessing the Port.

 Swanson Precinct

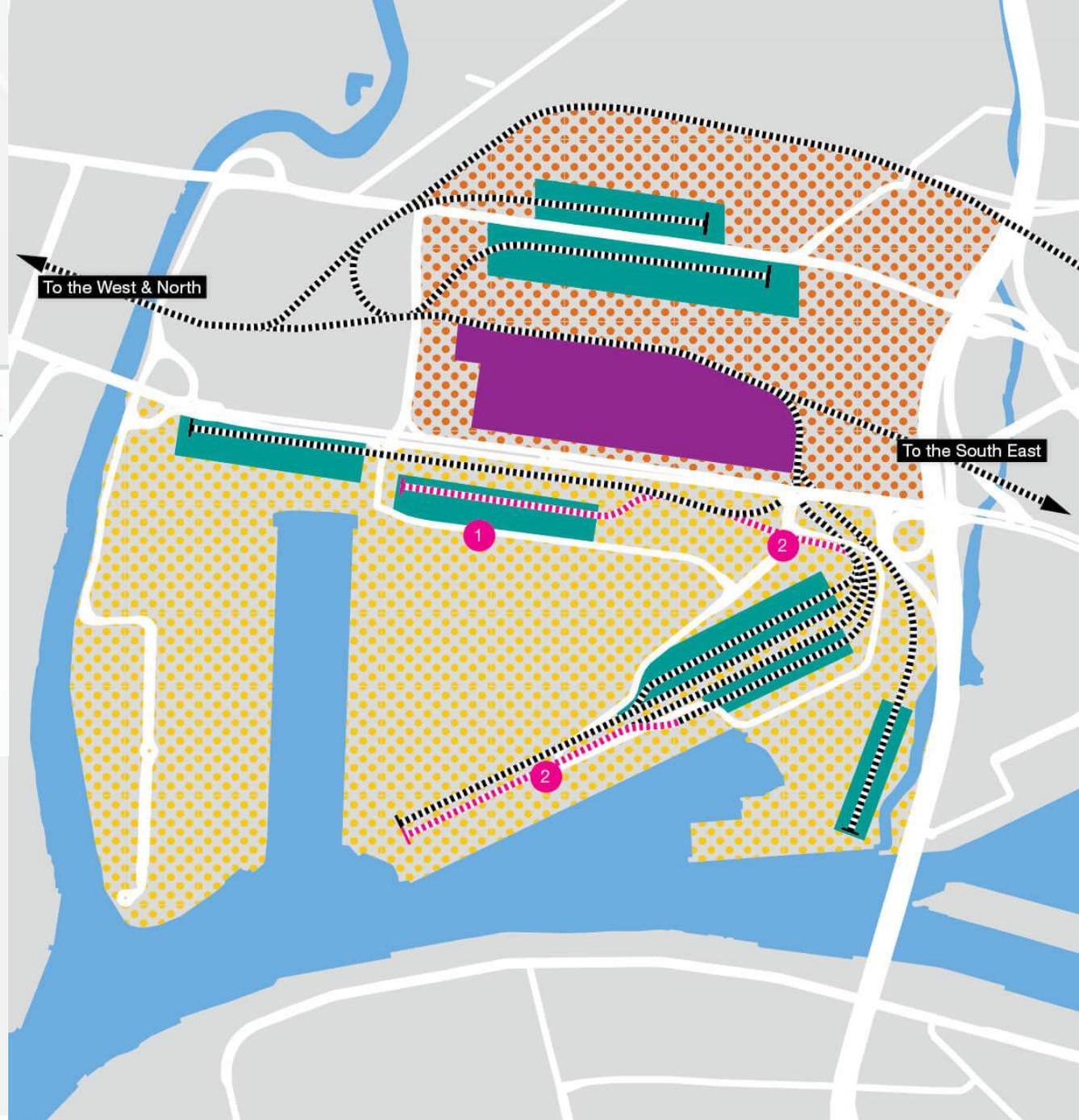
 Dynon Precinct

 Existing rail infrastructure

 Former Melbourne Wholesale Market Site

 On-Port and near-Port rail terminals

 Proposed rail infrastructure



# Port Rail Transformation Project

INVESTMENT and FUNDING

The project investment is \$125 million, due for completion in 2023

- Port of Melbourne intends to amend the current Reference Tariff Schedule (RTS) to increase the Prescribed Service Tariff for:
  - ‘Full – inward’ wharfage
    - from \$110.77 (GST-exclusive) to \$120.52 (GST-exclusive) – a \$9.75 increase
- This can take place on and/or from the later of 1 April 2020 and the date of gazettal of the amendment to the Pricing Order.
- It will also increase by CPI each year on 1 July per current regulations
- Fee increase is perpetual

# Regulatory Update



# Port of Melbourne pricing

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

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

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

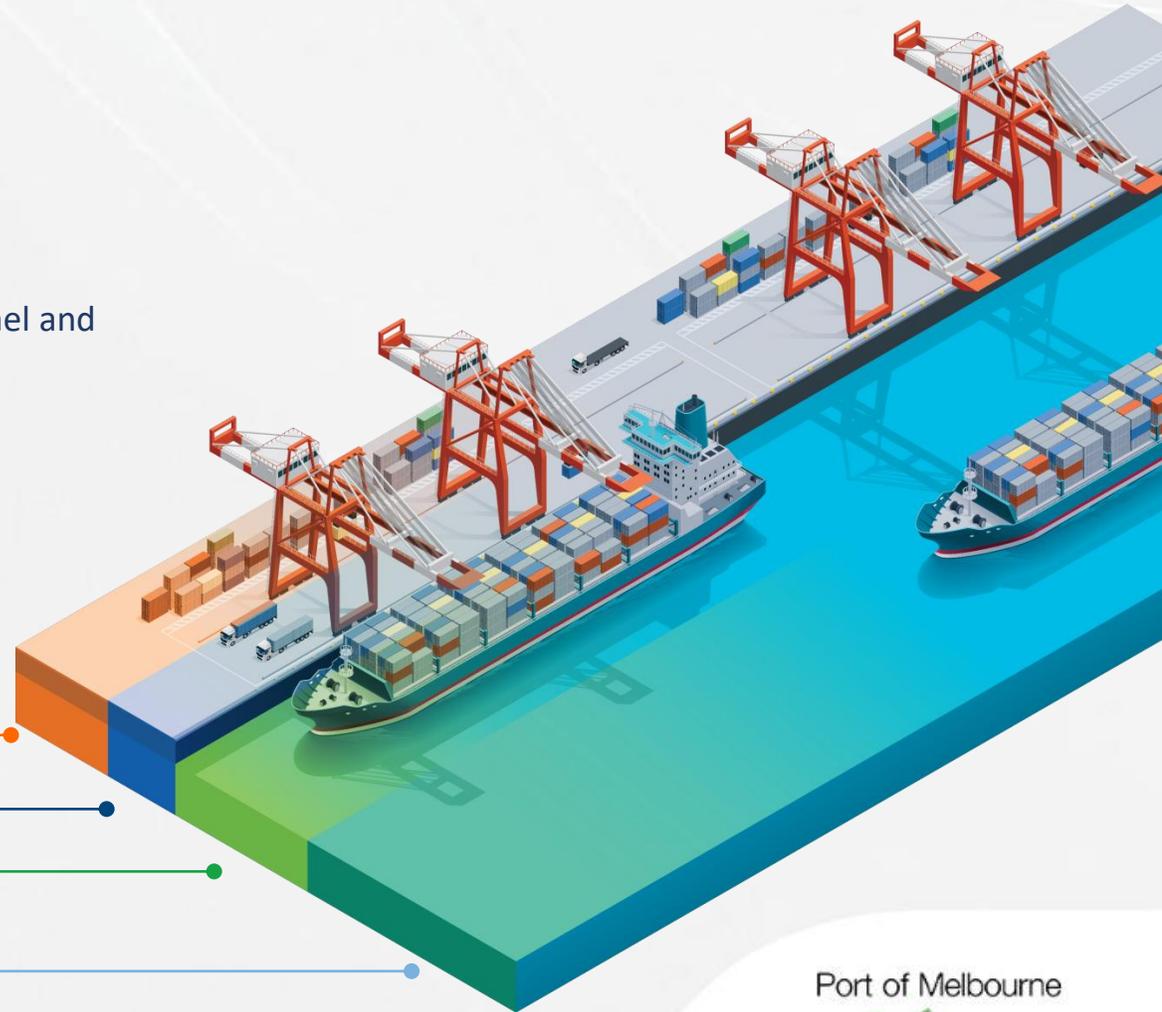
All container ports typically have a charging structure that involves wharfage, channel and berth hire fees. Berth hire fees apply to bulk cargo ships.

**Leasing of Land & Facilities – Non-prescribed**

**Wharfage Fees – Prescribed**

**Berth Hire Fees – Prescribed**

**Channel Fees – Prescribed**



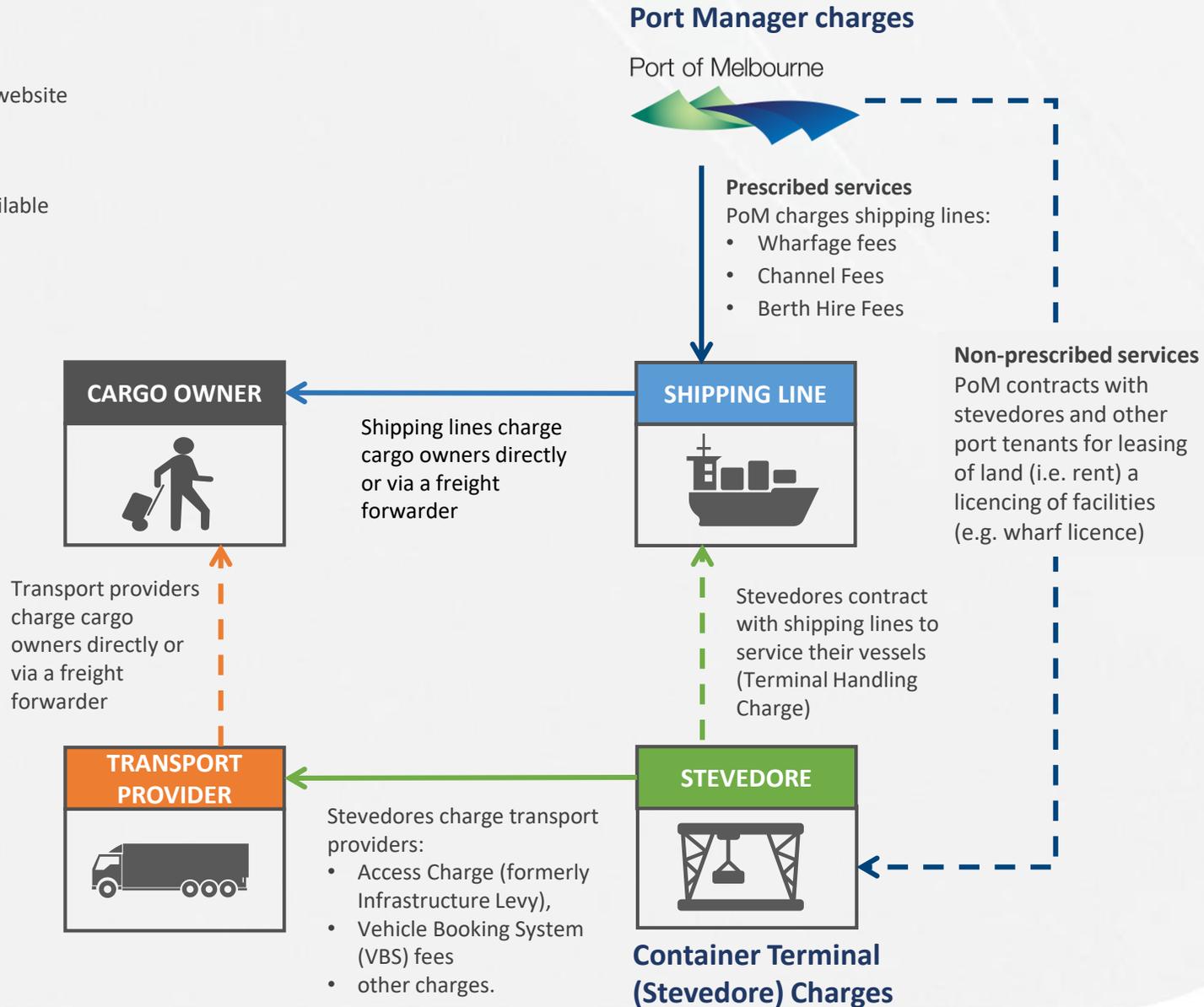
# Port Manager and Stevedore charges



Public tariff, available on service provider website



Contracted service, prices not publicly available



# Prescribed Services – Pricing Principles

We calculate tariffs based on the following key pricing principles:

## 1. Price Smoothing<sup>(1)</sup>

Tariffs<sup>(2)</sup> 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 wharfrage service tariffs – these will decrease by 2.5% p.a. until 30 June 2020.*

# Regulatory Process – Tariff Compliance Statements

## 2020-21 Tariff Compliance Statement

- Public and transparent process - documentation is available on the ESC website
- ESC Interim Commentaries have been released by the ESC on the 2017-18, 2018-19 and 2019-20 TCS submissions. The ESC will conduct its first 5-yearly inquiry on compliance in 2021
- Key proposals for the 2020-21 TCS:
  - **Prices** – prices are proposed to increase by CPI
  - **Length of regulatory period** – 1 year regulatory period, implying annual forecasts
  - **Treatment of deferred depreciation** – the impact of deferred depreciation on prices after the TAL period (i.e. post 2037) is unknown. However, PoM’s core principle is that in recovering any deferred depreciation it will minimise any volatility in tariff levels through price smoothing.
  - **Service standards** - should relate to prescribed services and be within control of PoM; and reflect what Port Users and other stakeholders value

## Summary of roles in relation to key processes

Stakeholder	Three key processes		
	Tariff compliance statement	Five-yearly compliance review	Rebalancing applications
<b>Port licence holder</b>	<ul style="list-style-type: none"> <li>• Consult with users on tariffs prior to submission</li> <li>• Annually submit tariff compliance statement to the Commission by 31 May</li> <li>• Apply tariffs from 1 July</li> </ul>	<ul style="list-style-type: none"> <li>• May make a written submission in response to the draft report</li> </ul>	<ul style="list-style-type: none"> <li>• Consult with users on rebalanced tariffs prior to submission                             <ul style="list-style-type: none"> <li>• Submit tariff rebalancing application to the Commission by 1 January</li> </ul> </li> <li>• Apply tariffs from 1 July (if accepted)</li> </ul>
<b>Port users</b>	<ul style="list-style-type: none"> <li>• Engage with port licence holder</li> </ul>	<ul style="list-style-type: none"> <li>• Engage in the review process</li> </ul>	<ul style="list-style-type: none"> <li>• Engage with port licence holder</li> </ul>
<b>Essential Services Commission</b>	<ul style="list-style-type: none"> <li>• Receive annual tariff compliance statement</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct inquiry of port licence holder’s compliance with Pricing Order</li> <li>• Provide a draft report to the port licence holder                             <ul style="list-style-type: none"> <li>• Produce a final report, which may find significant and sustained non-compliance</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Accept or reject the application</li> </ul>

Source: ESC, Regulatory Approach to the Pricing Order



# Summary of key issues

Stakeholder feedback is important in shaping the Tariff Compliance Statement and development of the Port

Topic	What we would like to know from you:
Services	<ul style="list-style-type: none"> <li>• What new services do you need?</li> <li>• What changes to existing services and or service standards do you want?</li> <li>• What existing services do you no longer need?</li> </ul>
Service standards and performance targets	<ul style="list-style-type: none"> <li>• What are the service standards and performance targets that you would like to see PoM report on?</li> <li>• Is there any additional data or information on prescribed services that PoM can supply?</li> </ul>
Market changes	<ul style="list-style-type: none"> <li>• What emerging market changes might PoM need to respond to in the coming years?</li> </ul>
Tariff structures	<ul style="list-style-type: none"> <li>• Are there tariff structures you want changed?</li> <li>• How should these structures be changed?</li> </ul>
Investment priorities	<ul style="list-style-type: none"> <li>• What should the investment priorities of the port be?</li> <li>• In addition to the Port Development Strategy, are there other forms of planning or engagement with port users PoM should undertake to inform its investment strategy?</li> </ul>



# Open discussion



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THANK YOU