



2014 ESC Review of Victorian Ports Regulation

2 June 2014

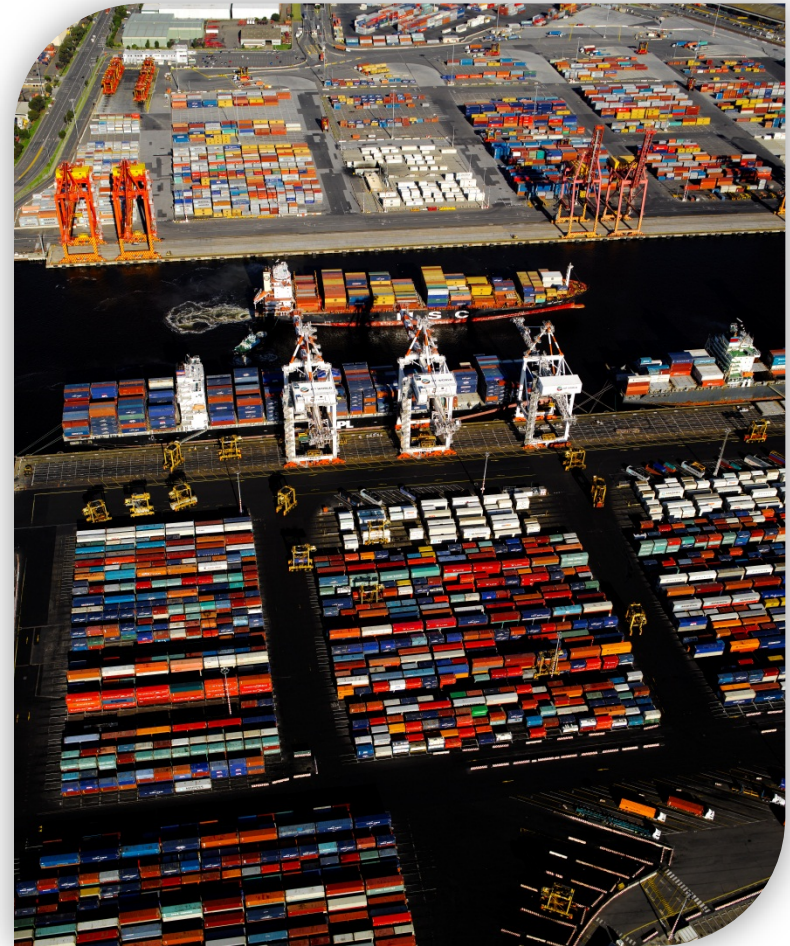
Caryn Anderson, Executive General Manager

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Corporation



Port of Melbourne – an introduction

- Australia's largest container and automotive port
- 37% of national container trade
- 2.5 million containers per year
- 3200 ship visits annually
- Up to 7000 containers a day on average
- Over 1000 motor vehicles a day on average



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Trade hub for south-eastern Australia

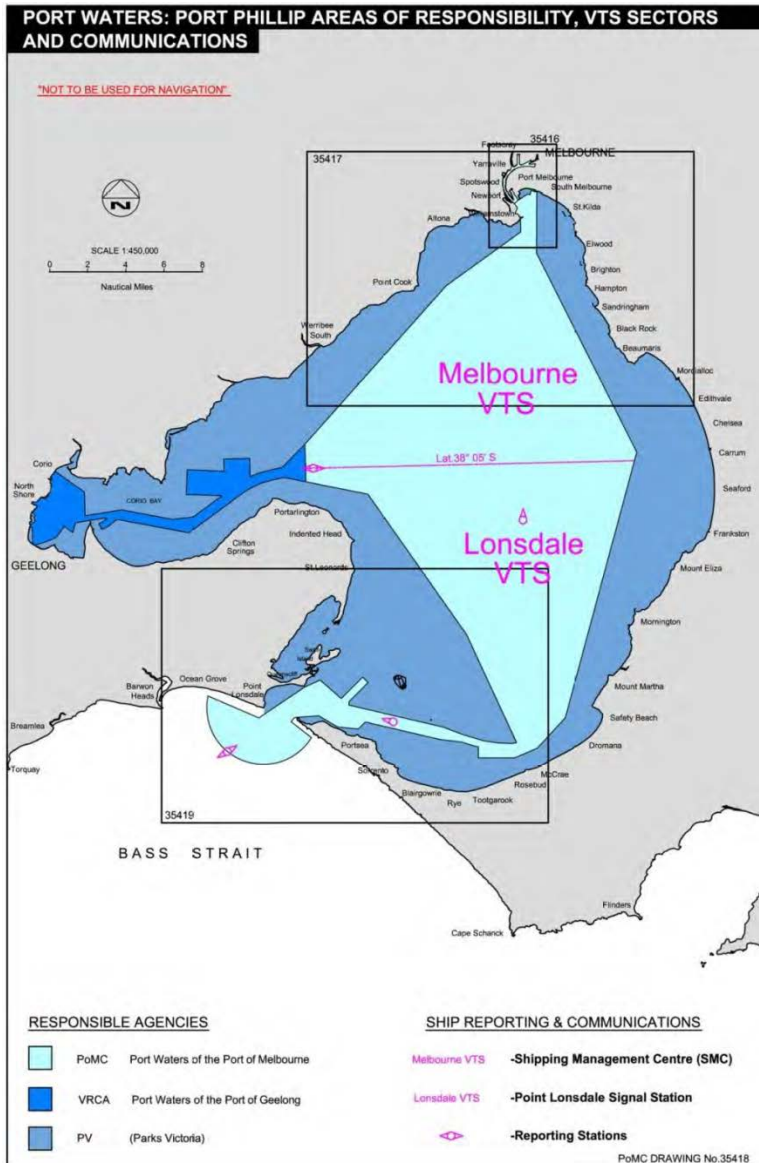
- Not just a port for Melbourne
- Trade hub for SE Australia
- Dedicated offices in:
 - Tasmania
 - Regional New South Wales
- Working with other parts of the supply chain



Port of Melbourne – facilities overview



Port of Melbourne – channels



- More than 40 commercial shipping lines call at the Port of Melbourne. They make around 3200 ship visits each year and give importers and exporters vital access to ports and markets all around the globe
- PoMC provides the Melbourne Vessel Traffic Service (VTS) from its shipping management centre located adjacent to the Swanson Dock swing basin.

Navigation Services

Dredging

Vessel Traffic System VTS

Survey

Navigational Aids

Navigation Areas

Entrance Channel

South Channel

Port Melbourne Channel

Yarra River Channel

Berth Pockets

Supporting Areas

Dredge Material Disposal Grounds

Anchorage

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Port infrastructure investment

A strong track record



- Over \$1 billion reinvested by PoMC over the last decade
- Landside and marine infrastructure
- Over \$1 million a week was invested in 2012-13
- Investment in safety, environment and operational technologies

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Port of Melbourne divestment

- On 5 May 2014, the Victorian Coalition Government announced its intention to issue a medium term lease for the Port of Melbourne
- Expressions of interest in early 2015
- Business as usual for PoMC



Port pricing regulatory environment in Victoria

A number of PoMC's services are regulated by the Essential Services Commission (ESC):

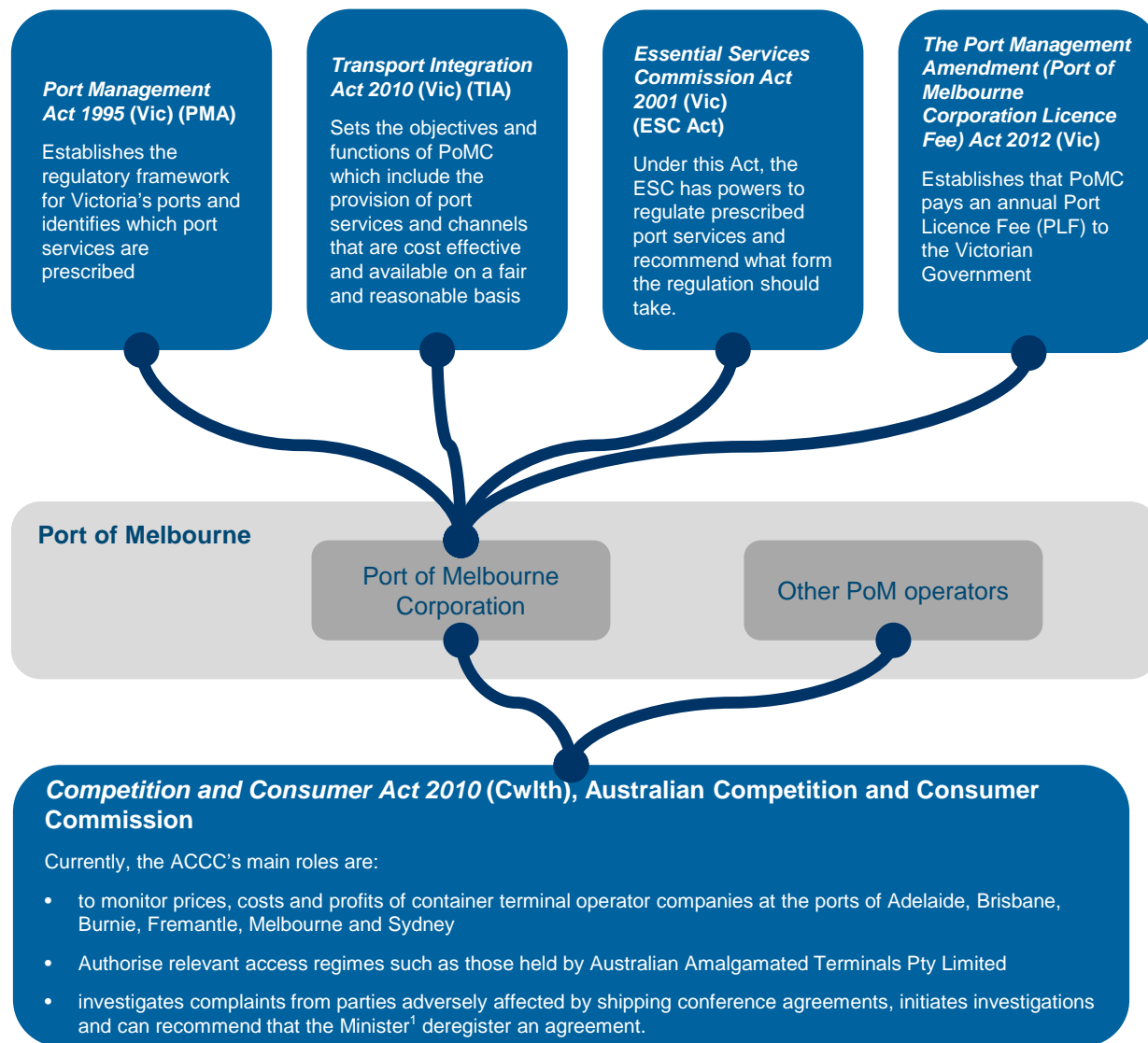
- channels for use by shipping in the Port of Melbourne, including the Shared Channels
- berths, buoys or dolphins connected with the berthing of vessels carrying container or motor vehicle cargoes in the Ports of Melbourne
- short term storage or cargo marshalling facilities connected with the loading or unloading of vessels carrying container or motor vehicle cargoes at berths, buoys or dolphins in the ports of Melbourne.

The ESC operates in accordance with the *Essential Services Act 2001 (Vic)* (ESC Act) and has the power to regulate prescribed port services and choose what form the regulation should take.

In addition to the ESC Act, the regulatory framework governing PoMC's service pricing includes the following legislation:

- *Port Management Act 1995 (Vic)* (PMA), formerly the *Port Services Act 1995 (Vic)* (superceded in 2010)
- *Port Management Amendment (Port of Melbourne Corporation Licence Fee) Act 2012 (Vic)*
- *Competition and Consumer Act 2010 (Cwlth)* (CCA), formerly the *Trade Practices Act 1974 (Cwlth)*

Currently, the Port of Melbourne is the only port in Victoria that is subject to regulation of the prices charged for prescribed services (channels, containers, motor vehicles (as defined by section 49 of the PMA).



1. Currently, the Federal Minister for Infrastructure and Regional Development

The Port of Melbourne competitive environment

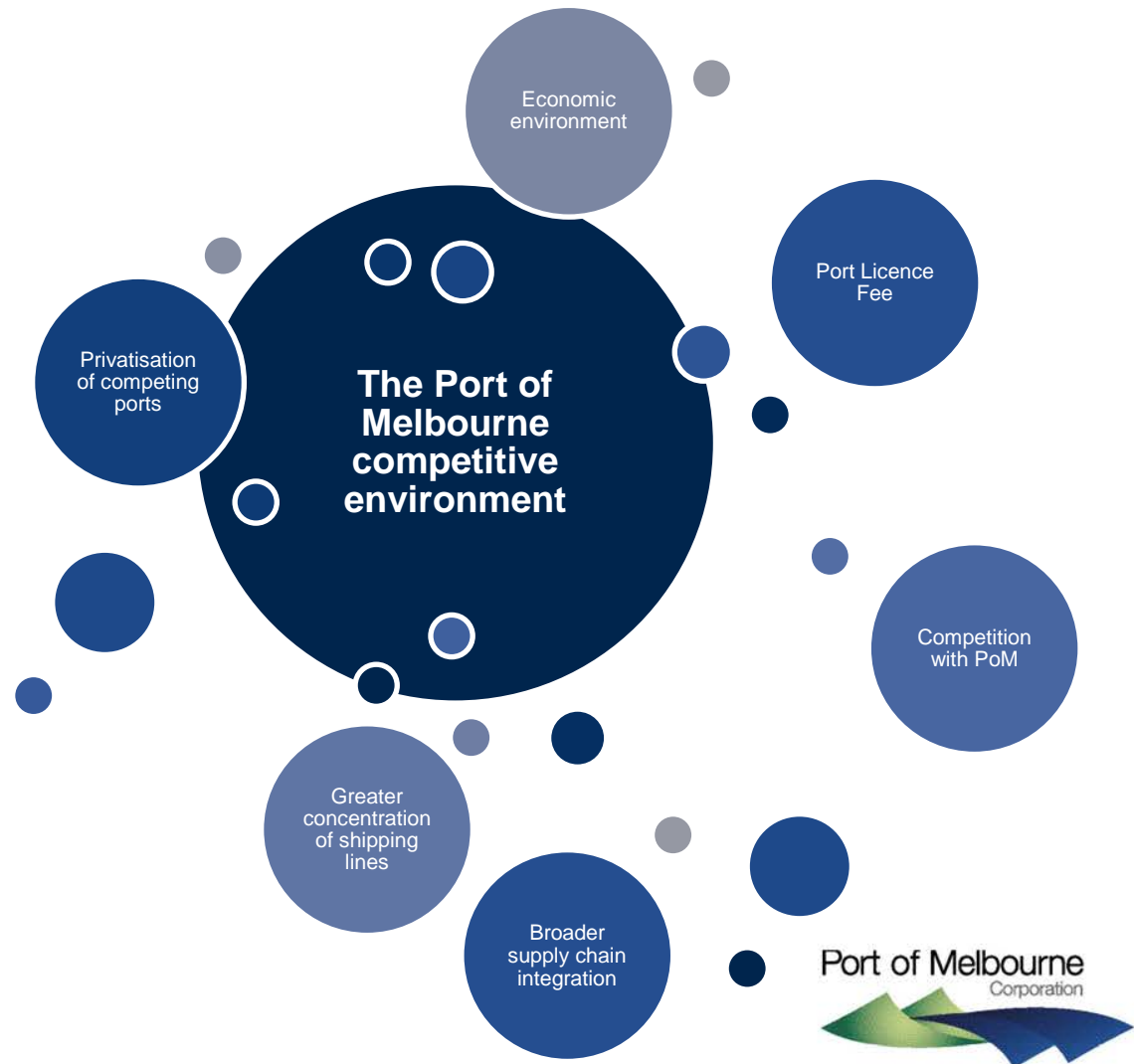
Since the release of the Price Monitoring Determination 2010 (PMD), changes have occurred in the economic environment in which Port of Melbourne operates that further supports and substantiates the position previously taken by PoMC.

Cargo-based year-on-year percentage price increases by competitor ports, 2010 to 2013 (\$/TEU)

| Port | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|-------------------|---------|--------------------|--------------------|---------|
| Regulated ports | | | | |
| Melbourne | 4.1% | 3.8% | 29.8% ¹ | 3.3% |
| Adelaide | 2.5% | 3.5% | 1.8% | 2.8% |
| Unregulated ports | | | | |
| Sydney | 13.7% | 2.3% | 3.1% | 2.5% |
| Brisbane | 6.0% | 12.9% ² | 4.8% | 2.5% |

1. Increase is due to the PLF

2. Increase is due to the addition of the port access charge, which was previously a charged based on tonnage



Port Licence Fee



- Port Licence Fee introduced by the Victorian Government with a starting rate of \$75 million from 1 July 2012
- PoMC undertook an extensive engagement process with industry
- All tariffs increased by approximately 50% (with the exception of the Channel Deepening Project Infrastructure Fee)
- Significantly reduced PoMC's competitive price advantage

Increased competition within the Port of Melbourne

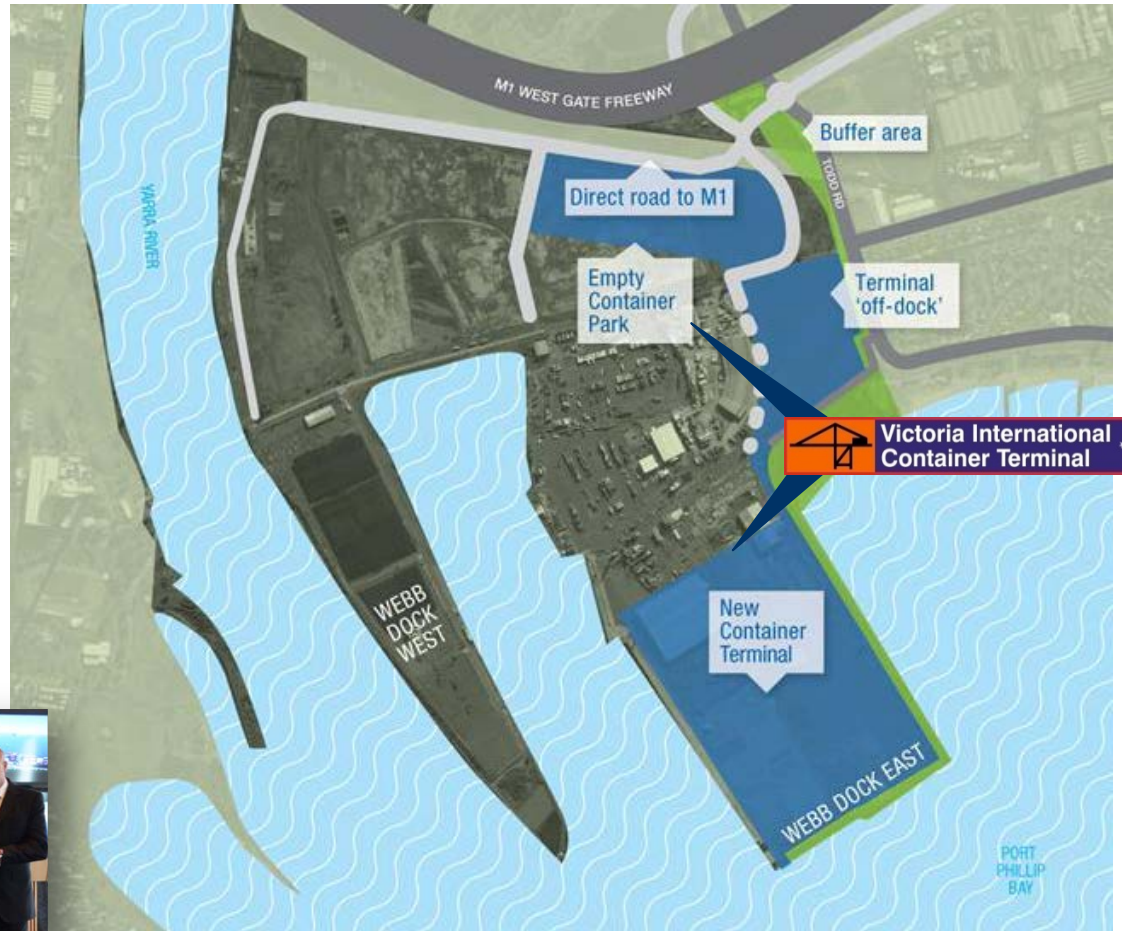


Port Capacity Project

- New Container Terminal and Empty Container Park at Webb Dock
- Capacity of over 1 million TEU p.a. + 200,000 TEU empty container park
- Biggest landside port project in a generation
- Focus on: innovation, productivity, efficiency, traffic management

Container Terminal

- New Container Terminal and Empty Container Park at Webb Dock
- > 1 million TEU p.a. for Terminal
- 200,000 TEU p.a. Empty Container Park
- Biggest landside port project in a generation
- Swanson Dock expansion
- On 2 May 2014, the Minister for Ports David Hodgett announced the appointment of Victoria International Container Terminal Limited as the winning bidder for the new third international container terminal. The bidder, who will set up its Australian base in Melbourne, is wholly owned by experienced ports operator International Container Terminals Limited Inc and Australia's Anglo Ports.

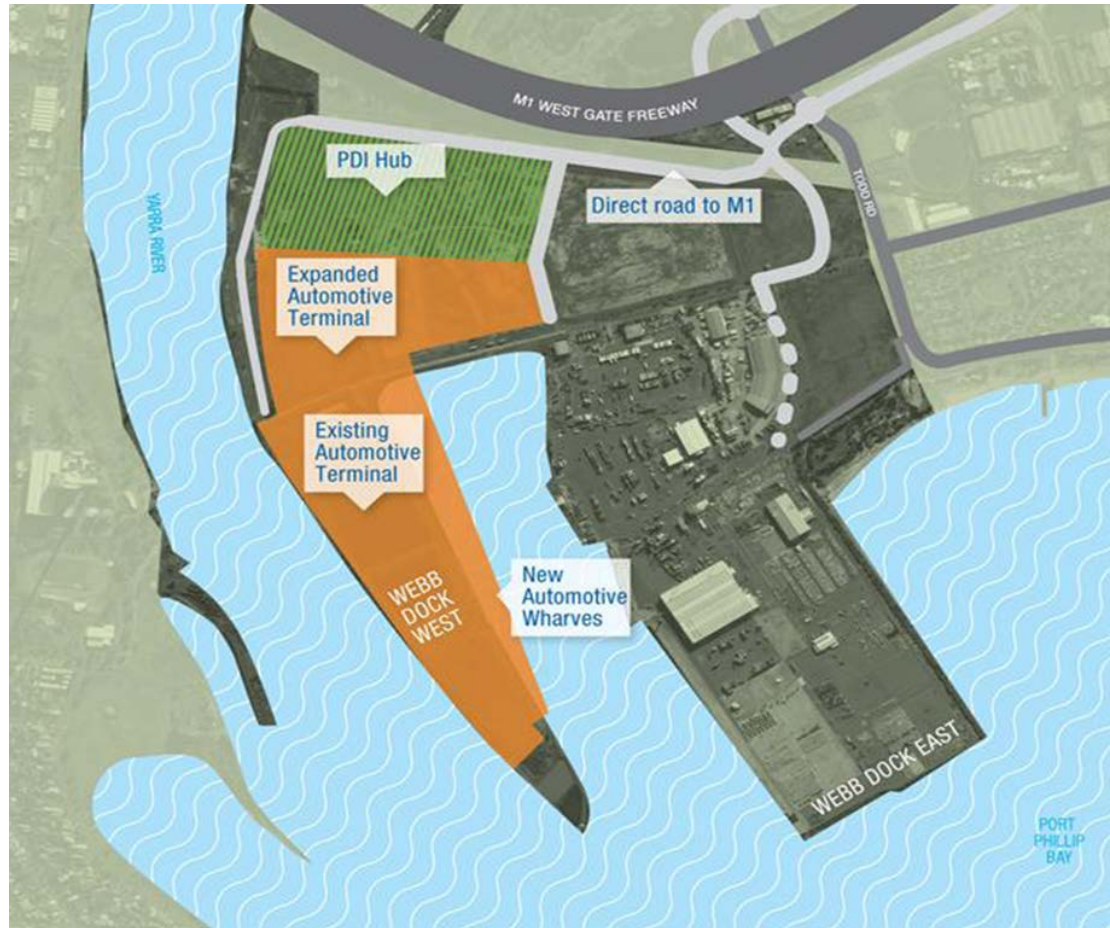


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Webb Dock Auto Terminal

- Government review to consolidate automotive trade in Melbourne
- Capacity to handle at least 1 million new motor vehicles annually
- Additional shipping berths at Webb Dock West
- Approximately **920** metres of continuous quayline
- Up to **18** hectares of dedicated on-dock pre-delivery inspection facilities
- On 17 December 2013, the Minister for Ports David Hodgett announced the appointment of Patrick Autocare and Prixcar as operators of the Pre-Delivery Inspection (PDI) hub



Port of Melbourne operates within a broader competitive transport system

| | % of port interface costs |
|----------------------------------|---------------------------|
| Ship-based charges | |
| Tonnage | 1% |
| Pilotage | 1% |
| Towage | 1% |
| Mooring/unmooring | 0% |
| <i>Total ship-based charges</i> | 2% |
| Cargo-based charges | |
| Wharfage | 7% |
| Harbour dues | 4% |
| <i>Total cargo-based charges</i> | 13% |
| Other charges | |
| Stevedoring | 17% |
| Customs' brokers fees | 15% |
| Transport charges | 52% |
| <i>Total other charges</i> | 84% |
| Total | 100% |

- PoMC's fees (cargo-based and tonnage charges) contribute approximately 14% of the total port interface costs
- The majority (52%) of port interface costs come from transportation charges

Source: Bureau of Transport, Infrastructure and Regional Economics, Waterline 53, page 64 to 65, Port of Melbourne Jan - Jun 2013 port interface costs



PoMC's Pricing Principles

- Generate an Internal Rate of Return on its predicted future net cash flows approaching its Weighted Average Cost of Capital (WACC) measured over a period of up to 30 years - this incorporates necessary future investment or other operating expenditure
- Price regulation and adjustments for CPI
- Assessment of PoMC's returns by trade sector (each trade sector should contribute to the infrastructure provided for that trade)
- Capital program funding
- 'Smoothing' of price changes due to significant capital developments (e.g. Port Capacity Project)
- Trade growth estimates and economic conditions
- Recovery of the Port Licence Fee

PoMC pricing considerations

In addition to meeting the requirements of the ESC's 2010 Price Monitoring Determination, PoMC also takes into consideration a range of other issues when determining the annual adjustments to its price levels and/or structures.

While most of these factors are not directly affected by the price monitoring determination, they do form an important element of PoMC's pricing structure and pricing objectives, and so are presented here to provide a full context in which the discussion on regulation can be undertaken.

One of these factors is achieving a rate of return commensurate to the level of risk involved in operating the port.

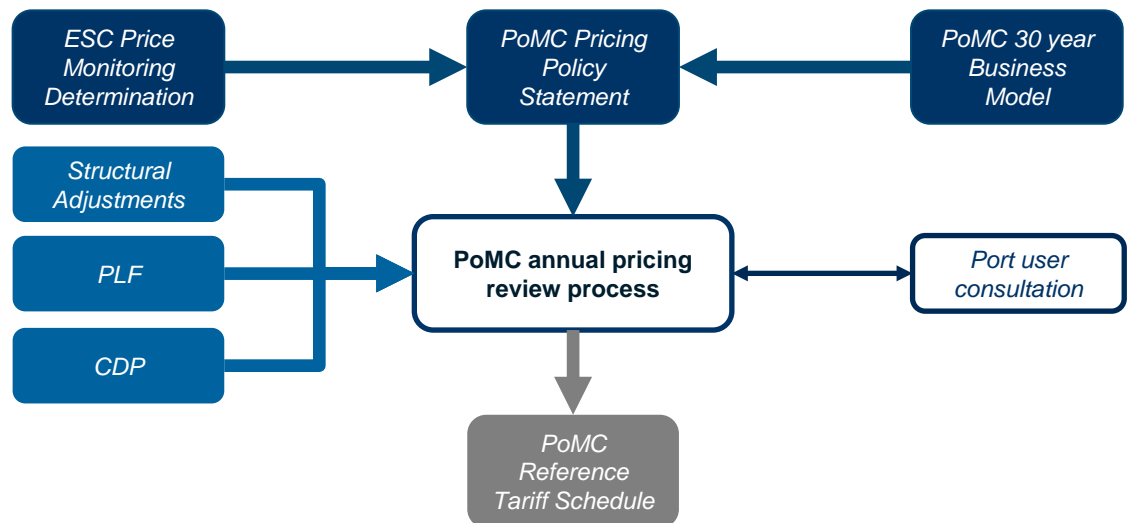
This is captured in PoMC's 30 year Business Model in which PoMC aims to achieve an internal rate of return over the next 30 years in line with its Weighted Average Cost of Capital (WACC).

An annual approximation of this is the rate of return on capital (ROCE).

During periods of significant infrastructure investment (such as PCP), the ROCE will be low as the port goes through a period of high capital spend relative to the revenue generated.

Rather than adjust prices to match the "lumpy" nature of infrastructure investment, PoMC's approach to price setting enables a smooth adjustment of prices over time.

PoMC considerations in price setting



Reference Tariff Schedule - review process

- Overview
 - PoMC's tariffs and charges, the Reference Tariff Schedule (RTS) are reviewed on an annual basis
 - The review process begins in February and includes an industry engagement program to inform industry and gain its views
 - Industry Information Papers are published that outline a number of issues under consideration and requests are requested from industry to gain their views



Reference Tariff Schedule



- PoMC's Board approved the annual RTS tariffs in May 2014
- Industry was notified of the new RTS rates end May
- The new RTS tariffs and charges apply from 1 July

Port pricing regulatory environment in Australia

| Regulatory requirement | Port of Melbourne (Current) | Port of Melbourne (Proposed) | NSW Ports (Port Botany and Port Kembla) | Port of Brisbane | Flinders Ports | Port of Fremantle | TasPorts | Geelong Port | Port of Portland |
|--|-----------------------------|------------------------------|---|------------------|----------------|-------------------|----------|--------------|------------------|
| Publish an RTS | ✓ | ✓ | ✓ | ✓ | ✓ | ✗ | ✗ | ✗ | ✗ |
| Develop and publish a Pricing Policy Statement | ✓ | ✓ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ |
| Submit an annual report to a regulator | ✓ | ✗ | ✗ | ✗ | ✓ | ✗ | ✗ | ✗ | ✗ |
| Submit an annual report to Government | ✗ | ✗ | ✓ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ |
| Publish KPIs related to regulation on website | ✗ | ✓ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ |
| Publish pricing submissions from industry | ✗ | ✓ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ |

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