

2021 INDUSTRY UPDATE

Port of Melbourne Operations Pty Ltd

APRIL 2021

Port of Melbourne



Our Vision

“The better the port works,
the better Victoria works.
And that’s better for all of us.”



As private manager of the port, Port of Melbourne is aligned with the commercial interests of our customers and is keen to work with industry and the State to grow the port and deliver least cost infrastructure to ensure a sustainable competitive supply chain.





What we want to achieve

- Ensure industry is informed and up to date
- Share information and improve respective understanding of key issues, challenges and priorities
- Gain feedback to inform PoM decision making



How we will run the session

- All participants will be muted (audio and video) whilst the presenter is talking
- We will unmute audio and allow for Q&A
- Please use the 'Raise your hand' function to communicate with the presenter
- At the end of the presentation, we will have a further Q&A



What happens next

- A follow up survey will be distributed on key questions and opportunities for input
- Written responses and general feedback can also be made to information@portofmelbourne.com

Feedback will be used to inform:

- Our Stakeholder Engagement Framework
- How we engage in the future
- How we develop the port





The Australian *Competition and Consumer Act* strictly prohibits anti-competitive behaviour. This is behaviour that limits or prevents competition. Examples of anti-competitive behaviour prohibited under the Act includes:

- contracts, arrangements or understandings that are likely to substantially lessen competition in a market;
- agreements by businesses with their competitors to fix prices, rig bids, share markets or restrict outputs;
- acting collectively with competitors when making decisions about pricing, which firms they do business with, and the terms and conditions of doing business.

Participants at today's session are prohibited from discussing with competitors pricing, tenders, terms of supply and any other commercially sensitive information that may be connected with anti-competitive behaviour.

1. **Industry Updates**
2. **Our Framework of Obligations**
4. **Prescribed Services & Pricing**
5. **Non-Prescribed Services Update**
6. **Investment Planning Overview**
7. **Project in Focus – Webb Dock East Berth 4 & 5 Extension**
8. **How We Engage**
9. **Next Steps**

Items for feedback & engagement:

*Deferred depreciation
Regulatory period
Service standards*

*Need for investment
Timing of investment
Funding for investment*

Our proposed engagement principles, scope and frequency of engagement

1: Industry Updates



This section provides an update on topical issues since our last general industry updates and particularly reflects on what has been achieved through 2020.

Delivering for Victoria

01 Dividends to the Victorian economy

- \$9.7b dividend to the State
- >19,600 jobs associated with the port
- \$6b annual contribution to the economy

02 Business & operational efficiency

- Supply chain resilience through COVID
- New lease arrangements including long term lease arrangements with stevedores
- ISO Re-Certification
- Best Employer category staff engagement 2020

03 Infrastructure Investment

- Direct infrastructure investment of >\$280m
- Port Rail Transformation Project >\$125m
- Swanson Dock wharf remediation >\$150m
- Completion of the Swanson Dock East (SDE) Berth 1&2 remediation and concept design for Swanson Dock West (SDW) remediation

04 Industry reform & stewardship

- Port Rail Transformation Project
- Empty Container Park capacity
- \$2m Origin Destination Study

05 Planning for the future

- 2050 Port Development Strategy
- Rail Access Strategy – Our Plan for Rail
- Over \$1.5b investment pipeline
- Webb Dock Freight Link



At a glance, what a year!



We published our 30 year infrastructure plan

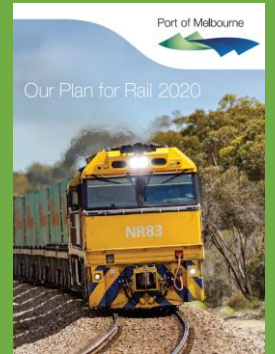
COVID affected our trade, supply chains, how we work



An update of the Container Logistics Supply Chain Study is well advanced with over 3 million data points collected. The report is planned for release before the end of June 2021








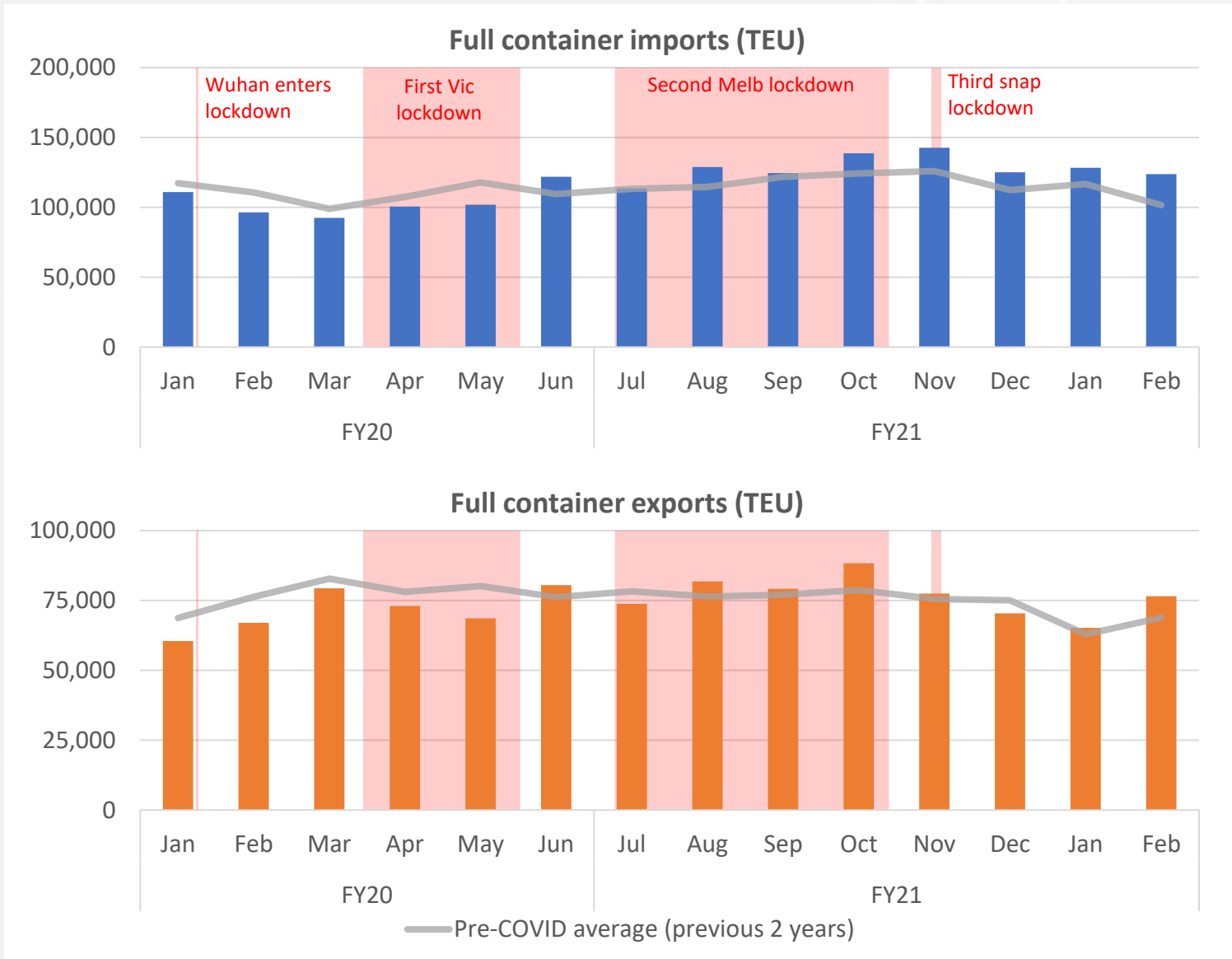
Our big ship program has seen ships of 10,600 TEU enter the port



We commenced the Port Rail Transformation Project, with new rail operating arrangements and appointment of contractors to start construction

Across the port supply chain there have been a number of activities by a range of agencies and organisations. A number of significant initiatives are outlined below.

	<h3>Victorian Ports System Review</h3>	<ul style="list-style-type: none"> • Independent Review of Victoria's Ports System which commenced in January 2020. • The Review has recommended a number of changes to the governance and operational structure of Victoria government ports and operational arrangements across all ports.
	<h3>Voluntary Port Performance Monitoring</h3>	<ul style="list-style-type: none"> • Freight Victoria undertook a review of the efficiency of pricing and access at the Port of Melbourne in the first state-based review of the stevedore infrastructure charges. • In response, the Voluntary Pricing Protocol has been developed. The Protocol establishes protocols for notification periods for price increases or the introduction of any new landside charges, explanation of price increases, and the timing of price changes.
	<h3>Rail Initiatives</h3>	<ul style="list-style-type: none"> • Intermodal Terminal development in Altona, Lyndhurst and Somerton are progressing under the Port Rail Shuttle Network. • Port Rail Transformation Project – operating framework commenced • The current Mode Shift Incentive Scheme has been extended to June 2021.
	<h3>Policy</h3>	<ul style="list-style-type: none"> • Infrastructure Victoria released their draft 30 year strategy • Freight Victoria commenced a review of empty container park logistics • Review of the Principal Freight Network • Changes to Major Hazard Facility planning controls
	<h3>Major Projects</h3>	<ul style="list-style-type: none"> • Westgate Tunnel construction well advanced on Footscray Road and port interface. • WIFT Business Case nearing completion



- Trade through 2020 and 2021 has been heavily impacted by COVID-19 in Australia and our key trading partners
- From January to May 2020, exports and imports were down on prior years with record blank sailings from North Asia and bushfires lowering timber exports
- From August onwards, imports were up driven by strong spending on household furnishings, domestic appliances, toys and sporting goods, and food ingredients
- At the end of March 2021, Federal government COVID-support payments will come to an end. At that point, more than \$167bn will have been paid out, including \$36.4bn in early super withdrawals, \$20.5bn from the Coronavirus supplement and \$88bn in JobKeeper payments.
- From August, exports were also up driven by good crop harvests (particularly wheat and barley).
- From November, Chinese trade suspensions on timber, meat and cotton offset growth in other exports.

Container trade, Financial Year-to-Date comparison

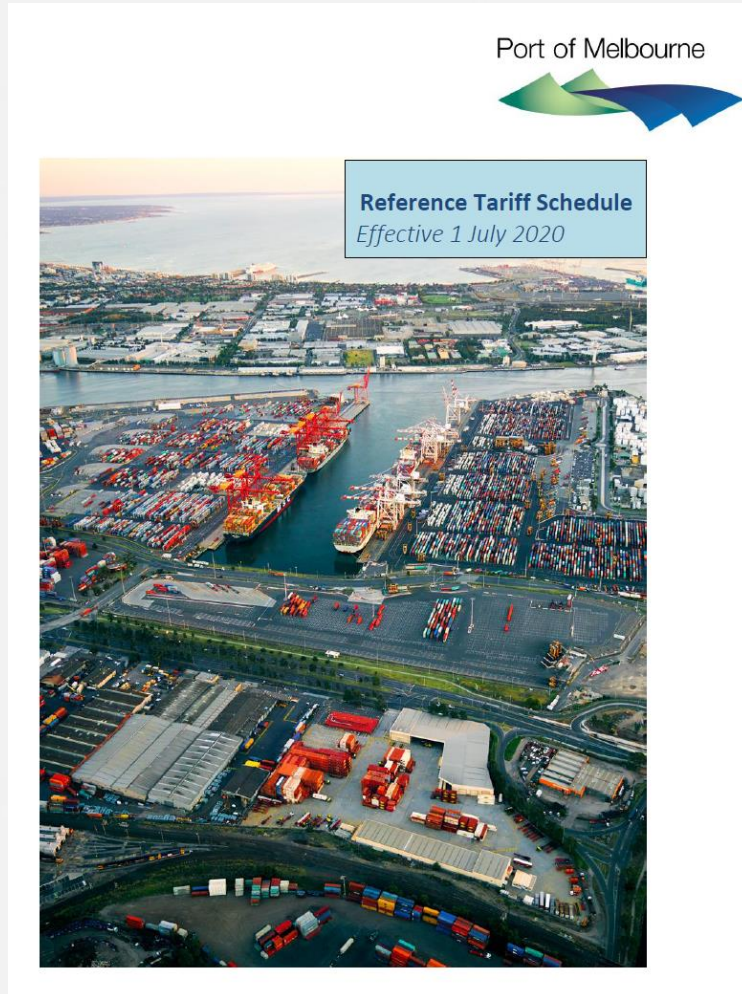
	FY19 (EoM Jan)	FY20 (EoM Jan)	FY21 (EoM Jan)
Import full containers	5.9%	-4.1%	10.4%
Export full containers	-6.6%	-3.8%	1.2%
Bass Strait full containers	3.1%	2.1%	6.2%
Transshipment full	14.9%	-18.2%	31.9%
Empty containers	21.1%	-3.8%	1.04%
TOTAL containers	6.2%	-4.3%	9.0%

Non-containerised trade, Financial Year-to-Date comparison

	FY19 (EoM Jan)	FY20 (EoM Jan)	FY21 (EoM Jan)
Motor vehicles	-4.7%	-13.5%	0.4%
Wheeled Unitised (Tasmanian)	15.0%	-18.6%	-0.8%
Cement/Gypsum	2.0%	-0.2%	2.4%
Bulk grain	-86.1%	-41.5%	466.7%
Liquid bulk	6.6%	-8.0%	-8.7%
Revenue Tonnes	-3.1%	-10.2%	0.2%


Key trade drivers:

- Import full container growth indicates consumers have increased spending on homewares, entertainment and tech
- Strong winter crop harvest has boosted wheat and barley exports
- Empty container movements reflect imbalances in trade and cargo type (20' vs. 40')
- Vehicle industry is reporting demand for cars has risen after a number of years of low demand and lifting of lockdown restrictions
- Grain exports reflect strong growth from a very low base following breaking of the drought
- Liquid bulk is down due to travel restrictions



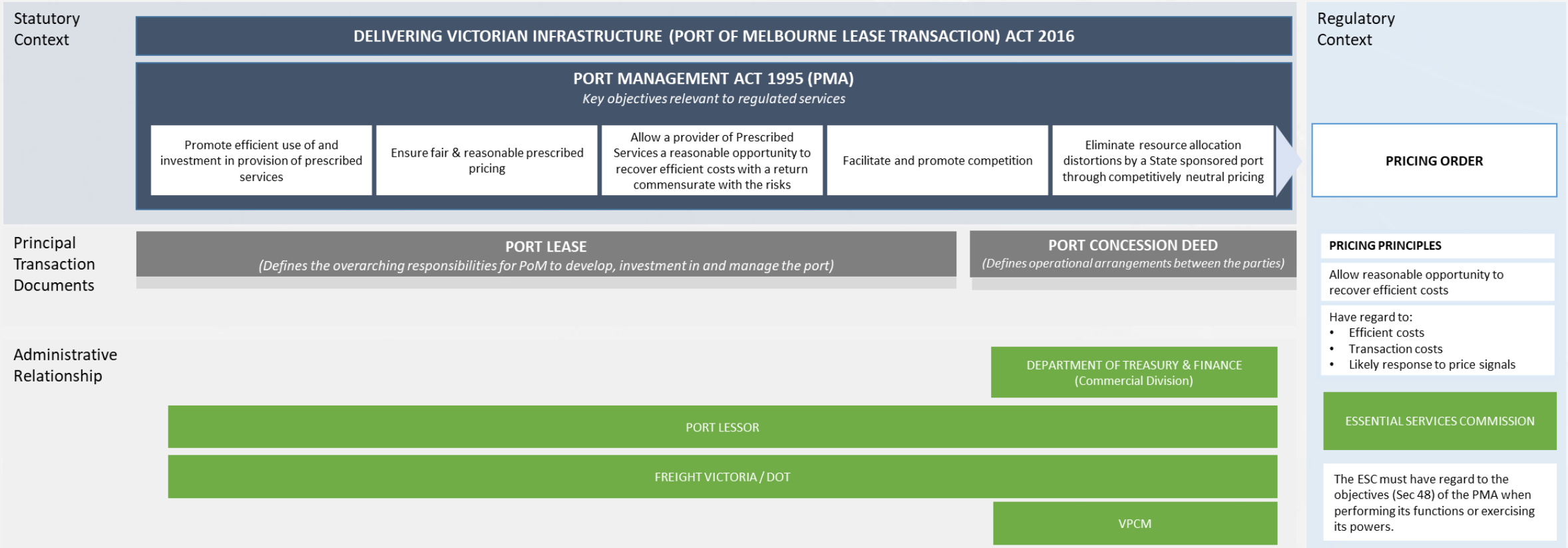
- The Port of Melbourne (PoM) will publish its Reference Tariff Schedule for 2021-22 on 31 May 2021, which will set out prices to apply from 1 July 2021 to 30 June 2022.
- PoM's prescribed services tariffs will again be subject to the Tariff Adjustment Limit (TAL) in the Pricing Order, which caps price increases at the rate of inflation until at least 30 June 2032 and at the latest, 30 June 2037.
- In line with the TAL, we will uniformly increase all tariffs based on the March-to-March change in the Consumer Price Index.
- We do not intend to make any changes to tariff structures, to introduce any new tariffs or discontinue any existing tariffs in 2021-22.

2:Our framework of obligations



This section provides an overview of our regulatory and investment obligations as context for further discussion and engagement on planned investments.

PoM's obligations to develop the port are established through a hierarchy of legislated, contractual, and regulatory arrangements



Port Management Act

INTENT

The Port Management Act 1995 establishes the operations of PoM and overarching responsibilities and establishes the Pricing Order and regulation of Port Services.

OBLIGATIONS

The Port Management Act 1995 establishes the regulatory framework for the provision of port services and seeks to:

- promote efficient use of, and investment in, the provision of prescribed services for the long-term interests of users and Victorian consumers
- ensure that prescribed prices are fair and reasonable whilst having regard to the level of competition in, and efficiency of, the regulated industry
- allow PoM a reasonable opportunity to recover the efficient costs of providing prescribed services, including a return commensurate with the risks involved
- facilitate and promote competition
 - between ports;
 - between shippers; and
 - between other persons conducting other commercial activities in ports
- eliminate resource allocation distortions by prohibiting a State sponsored port operator from providing a relevant service at a price lower than the competitively neutral price for that service

(Extract from Section 48 of the PMA)

KEY STRATEGY DOCUMENTS

Port Development Strategy (30 years)
 Rail Access Strategy (5 years)
 Safety and Environmental Management Plan



3: Prescribed services & pricing

This section provides an overview of our regulatory framework and provides background and context of prescribed services and pricing.

FOR DISCUSSION & FEEDBACK:

- Deferred depreciation
- Length of regulatory period
- Service standards

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.

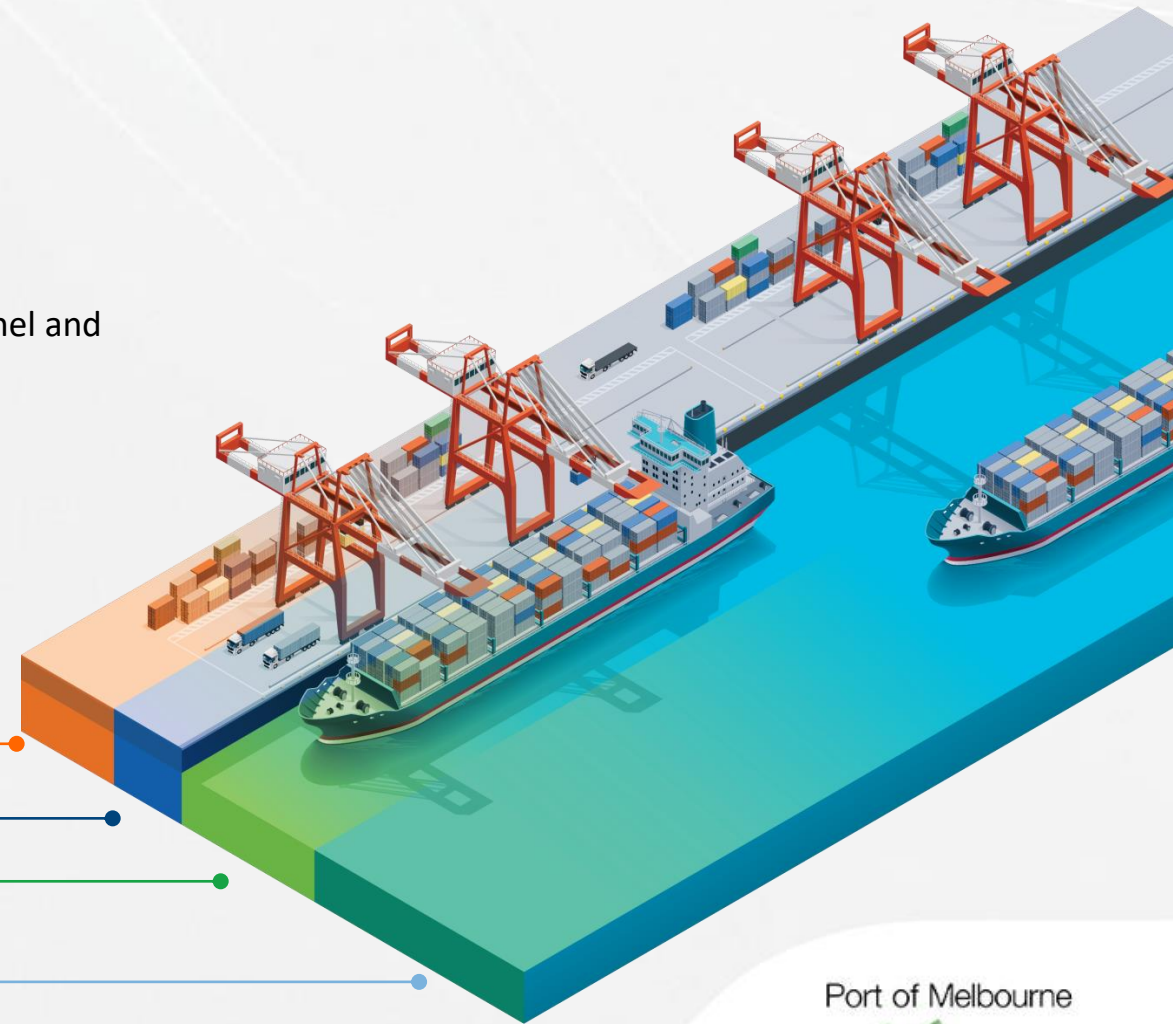
All container ports typically have a charging structure that involves wharfage, channel and berth hire fees. Berth hire fees apply to bulk cargo ships.

Leasing of Land & Facilities – Non-prescribed

Wharfage Fees – Prescribed

Berth Hire Fees – Prescribed

Channel Fees – Prescribed



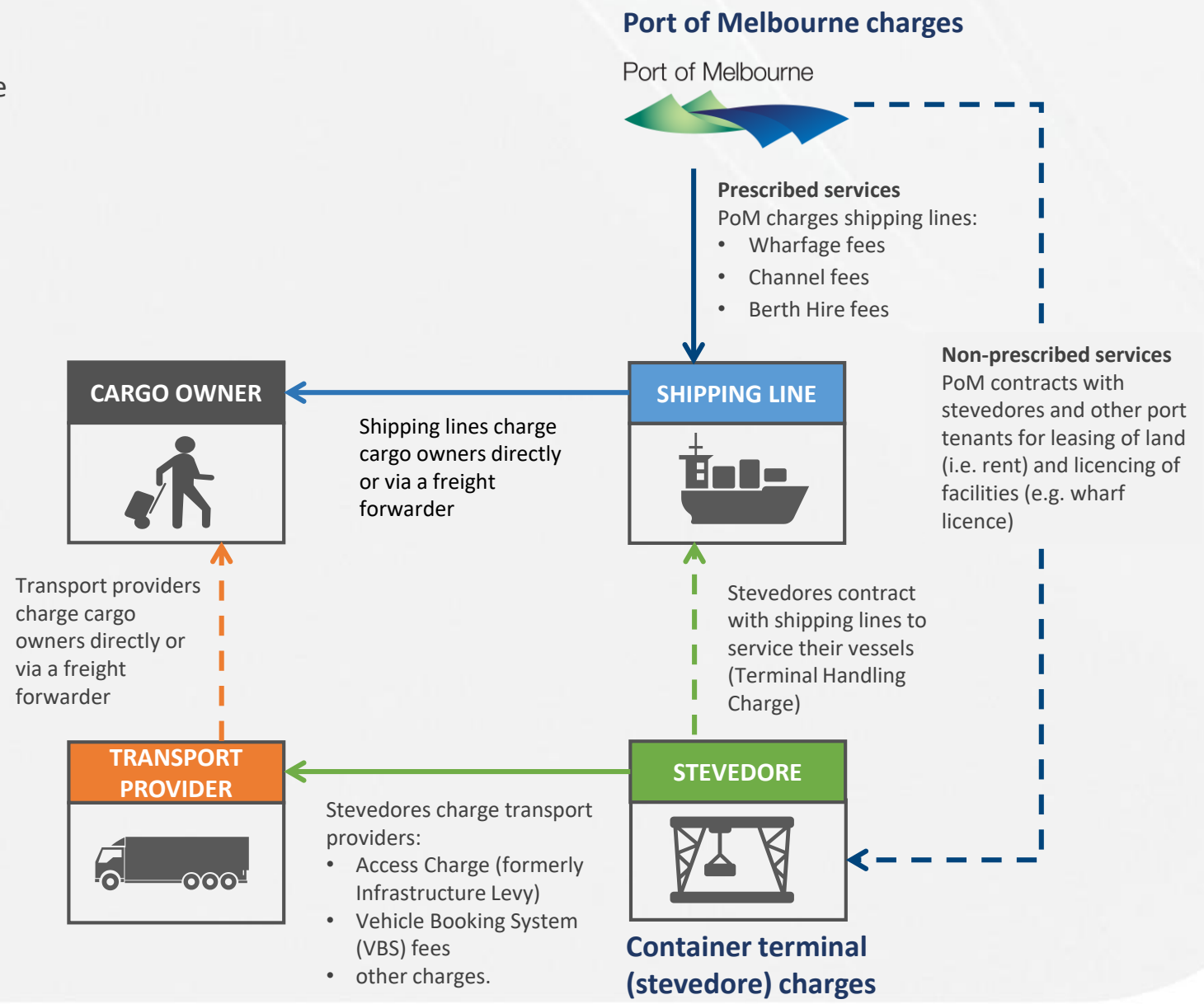
Port of Melbourne



3.2 Background – Port Charges

—————→
Public tariff, available on service provider website

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Contracted service, prices not publicly available

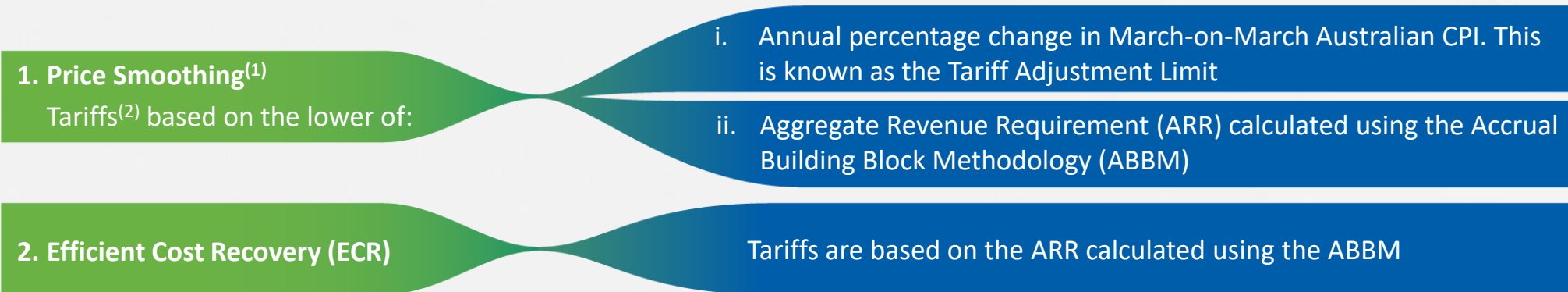


All Prescribed Service Tariffs will increase by CPI on 1 July 2021.

Until at least 2032, and at 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.

We calculate tariffs based on the following key pricing principles:



Port Users can also seek to establish negotiated contracts for Prescribed Services – tariffs under these contracts reflect commercial negotiations and are therefore may differ from the Reference Tariff Schedule.

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, which decreased by 2.5% p.a. from 1 July 2017 until 30 June 2020.

3.4 Tariff rebalancing – update for information

Overview of rebalancing proposal

During the TAL period, PoM can make an application to the ESC to rebalance its tariffs.

The 2020 tariff rebalancing proposal was designed to send an incremental price signal to larger vessels, signalling the additional cost imposed on the port of providing services, via:

1. A new wharfage tariff for full import containers **\$10/TEU** higher than the current rate, applying to vessels that exceed either 300m LOA or 40m beam; and
2. Reductions in the wharfage fee for full – outward containers (approx. **\$4/TEU**) to support export trade growth.

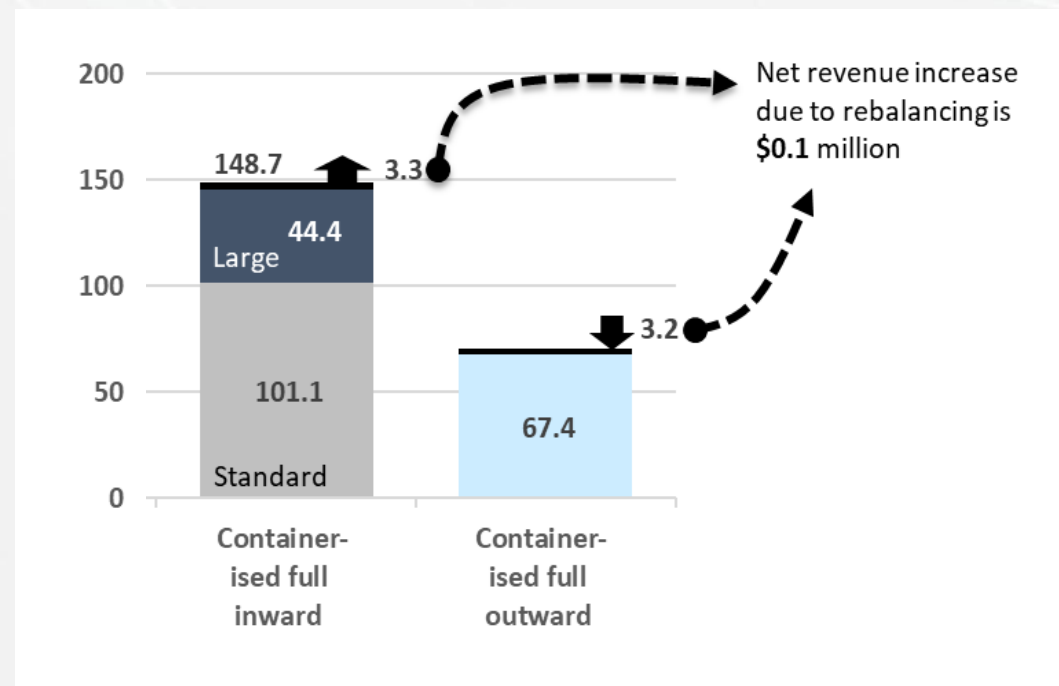
PoM has delayed the proposed tariff rebalancing

PoM's 2020 tariff rebalancing application has been temporarily withdrawn to consult further with industry.

PoM's current intention is to resubmit its Rebalancing Application in 2022, for tariffs to apply from 1 July 2023. Industry will be consulted with prior to resubmitting the Rebalancing Application.

Under a Rebalancing Application, the weighted average annual increase in tariff remains capped by CPI.

Forecast revenue movement under rebalancing (2021-22)



Actual tariff and revenue movements will be subject to changes in CPI, data on historical actual revenues (i.e. the weights in the WATI), and demand.

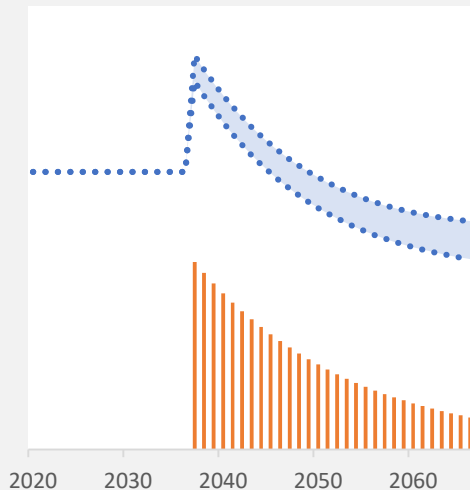
Overview

HOW DOES THIS IMPACT YOU?

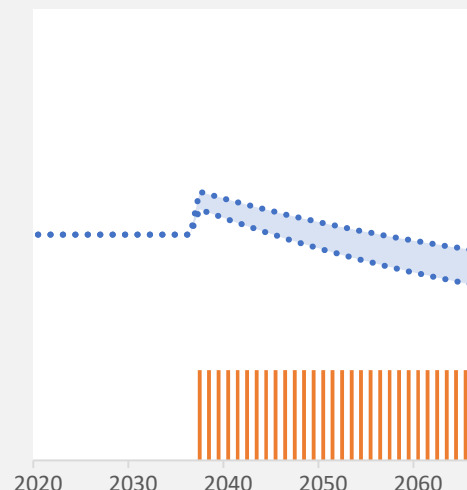
The approach to deferred depreciation will have an impact on prices from the end of the TAL period (earliest 2032, likely 2037) until the end of the Port Concession (2067).

- **PoM is seeking the views of Port Users on its approach to recovery of depreciation**
- Over the past four years, the application of the Tariff Adjustment Limit (TAL) has meant that depreciation has not been capable of being recovered in the applicable financial year, and so has been deferred.
- The TAL will mean that PoM will again defer depreciation in FY22.
- PoM's approach to recovering depreciation involves:
 - Recovery during the TAL period when forecast revenue is high enough, subject to not exceeding the TAL; and
 - Recovery after the TAL period ends, in manner that achieves price stability.
- Regardless of whether depreciation becomes recoverable during the TAL period, PoM's prices will be capped at CPI during this time
- Once the TAL period ends, the profile of depreciation recovery is just one of many factors that will affect prices for prescribed services, however in general:
 - **front-ended** recovery would lead to a **larger price change** at the end of the TAL period. Post-TAL prices would be relatively **higher initially**, but **lower on average** across the post-TAL period.
 - **back-ended** recovery would lead to a **smaller price change** (maybe none at all) at the end of the TAL period and **greater price stability**. Post-TAL prices would be **lower initially**, but **higher by the end** of the post-TAL period.
- PoM considers that back-ended recovery is likely to best align with the requirements of the pricing order to minimise price shocks (i.e. price stability).

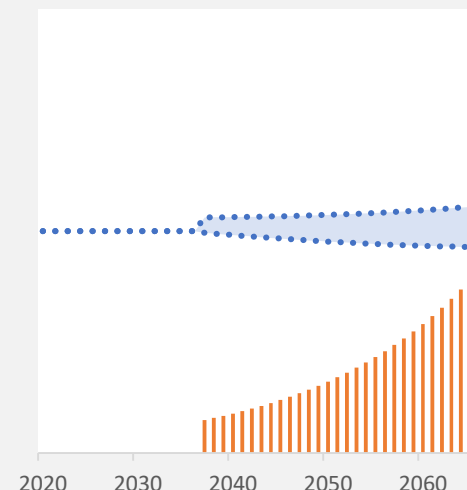
Front ended recovery



Even recovery



Back ended recovery



Profiles are illustrative only. The size and direction of any price change will depend on future: trade growth, CPI, WACC, capex, etc

Illustrative depreciation profile

Illustrative price path (real dollars)

Consultation – for feedback and engagement

Consultation questions

- Is PoM's treatment of deferred depreciation, which impacts prices after the end of the TAL period (likely 2037), an important issue for your business?
- Do you agree with PoM's proposal that it should seek to minimise price shocks (pursue price stability) in recovering deferred depreciation?
- How would you like to be consulted further on PoM's decisions around the treatment of deferred depreciation?



3.7 Length of the regulatory period (1 of 2) – for discussion

Overview

HOW DOES THIS IMPACT YOU?

The regulatory period is the timeframe over which prices are calculated and set in advance, which means PoM must also make forecasts of expenditure and demand for the same period.

During the TAL period, PoM's prices will be capped at CPI regardless of the length of the regulatory period.

- Under the Pricing Order, PoM determines the length of its regulatory period. This is the period over which PoM forecasts demand and expenditure, and sets tariffs for prescribed services.
- Over the past four years, PoM has adopted one year regulatory periods because:
 - key longer term plans (such as the Port Development Strategy) were yet to be finalised
 - the operation of the TAL means the typical benefits of longer regulatory periods (price stability and incentives for efficient investment) are already present.
- PoM intends to commit to a one-year regulatory period for 2021-22 and while the ESC is undertaking its first 5-yearly compliance review, but is open to adopting longer regulatory periods in future years.

Factors and principles in selecting regulatory period length

In choosing the length of future regulatory periods, PoM will take into consideration:

- the preferences of Port Users;
- the accuracy and reliability of forecasts;
- the promotion of efficient investment and price stability;
- the scope for mechanisms to share forecasting risk (e.g. annual cost of debt adjustments); and
- alignment with regulatory processes (particularly the ESC's five yearly compliance reviews).

3.8 Length of the regulatory period (2 of 2)

Consultation – for feedback and engagement

Consultation questions

- Is the length of the regulatory period (i.e. the period over which prices are set in advance) an important issue for your business?
- Should PoM consider adopting a longer regulatory period?
- What principles should PoM consider in choosing the length of future regulatory periods?
- How would you like to be consulted further on PoM's decisions around regulatory period length?



Overview

HOW DOES THIS IMPACT YOU?

In most regulatory frameworks, service standards are agreed with customers, committed to for a number of years, and arrangements are put in place to monitor their achievement.

PoM's investment drivers

	Competition & efficient use
	Good operating practice
	Accommodate changing vessel size
	Maintain core port infrastructure
	Cater for actual and reasonably anticipated growth
	Quality and efficiency standards
	Maintain the ports leading position
	Comply with good operating practice and applicable laws
	Benefit the economy of the State

The services provided by PoM to its customers are linked to its investment program.

PoM's obligations to develop the port are established through a hierarchy of legislated, contractual, and regulatory arrangements, including:

- Under the Port Lease, an obligation to:
 - Manage, operate, maintain and develop the port to be a major seaborne trade gateway to the benefit of the economy and the State (Stewardship Obligations, or Port Objective)
 - During the Term, Port Lessee must develop the port and core port infrastructure, including any necessary dredging activity, to satisfy the Port Development and Investment Obligations
- Under the Port Concession Deed, obligations to:
 - Prepare a Port Development Implementation Plan for the Government.
 - Meet certain standards in asset maintenance
 - Dredging.
- Going forward, PoM will continue to provide the service standards it is obliged to deliver under the transaction documents, and seek stakeholders' views whether additional service standards would be desirable
- PoM will continue to consult with Port Users and other stakeholders on service standards.

Consultation – for feedback and engagement

Consultation questions

- Are PoM's service standards an important issue for your business?
- What is your view on the level of reporting by PoM on service standards?
- Are there any matters are missing from PoM's service standards that it should seek to include in future years?
- How would you like to be consulted further on future revisions to service standards?



4: Non-prescribed services update

This section provides an overview of our non-prescribed services and an update on our Tenancy Customer Charter.

FOR INFORMATION:

- Tenancy Customer Charter

Reviewing rents

How do we ensure rents are reasonable and reflect market conditions?

We are committed to ensuring that rents reflect market conditions, and will support this in three ways:

- Commencing rent | the starting rent that we offer for leases with a term longer than 5 years (including options) will not exceed a Reasonable Market Rent. [PCD cl.18.1(a)(i)]
- Market rent reviews | for all leases with a term longer than 5 years (including any options in favour of the tenant) we will offer to have the rent reviewed every 5 years to ensure that it reflects a Reasonable Market Rent. [PCD cl.18.1(a)(ii)]
- Binding determinations | in the event that PoM and the tenant are unable to reach agreement on a commercial outcome in a market rent review, tenants can refer the determination of a Reasonable Market Rent to an Independent Valuer. [PCD cl.18.1(a)(iii)]

What is meant by Reasonable Market Rent?

The documents between the Victorian Government and PoM define a Reasonable Market Rent as set out in Box 1. The factors that must be had regard to in establishing a Reasonable Market Rent reflect the things that make a given area of port land more or less commercially attractive to different tenants.

In addition, a lease of port land may:

- provide that the Reasonable Market Rent determined by a rent review cannot be less than the rent payable immediately before the date of the market rent review; [PCD cl. 18.1(b)]
- provide for escalation of rent by more than increases in CPI between market rent reviews; [PCD cl.18.1(f)(ii)] and/or
- require a separate rent or reasonable increases to the Reasonable Market Rent for improvements PoM makes to the land for the tenant's benefit. [PCD cl.18.1(f)(iii)]

Definition of Reasonable Market Rent

The rent that would reasonably be expected to be realised if the relevant land was offered for lease in the open market by a willing but not anxious landlord to a willing but not anxious tenant and assuming the land will be used for the permitted use under the lease, and having regard to:

- the condition that the land and any existing improvements are in at the time of the rent review;
- the location and area of the land and the proximity to relevant facilities and transport links;
- the cost of reclaiming or otherwise developing the land (including constructing improvements) and the value of any other works to be performed or incentives offered by PoM;
- the nature of the permitted use;
- the whole term of the lease, excluding options; and
- information that can reasonably be obtained about rents then applicable for tenants of the port and tenants of comparable land or premises and the value of the port land and that comparable land or premises.

Source: Port Concession Deed

Purpose

PoM has developed a charter to explain the rights and responsibilities of PoM, tenants and prospective tenants, and the processes that apply to different types of lease negotiations and agreements.

Contents


The charter:

- Outlines the rights and responsibilities of PoM and tenants for lease negotiations
- Explains the steps and the timeframes involved in lease negotiation processes
- Provides for determination of rents for new leases under certain conditions, in addition to rent review rights in existing leases.

Timing

Following feedback from tenants and the Government, the charter is intended to be implemented in the coming months.

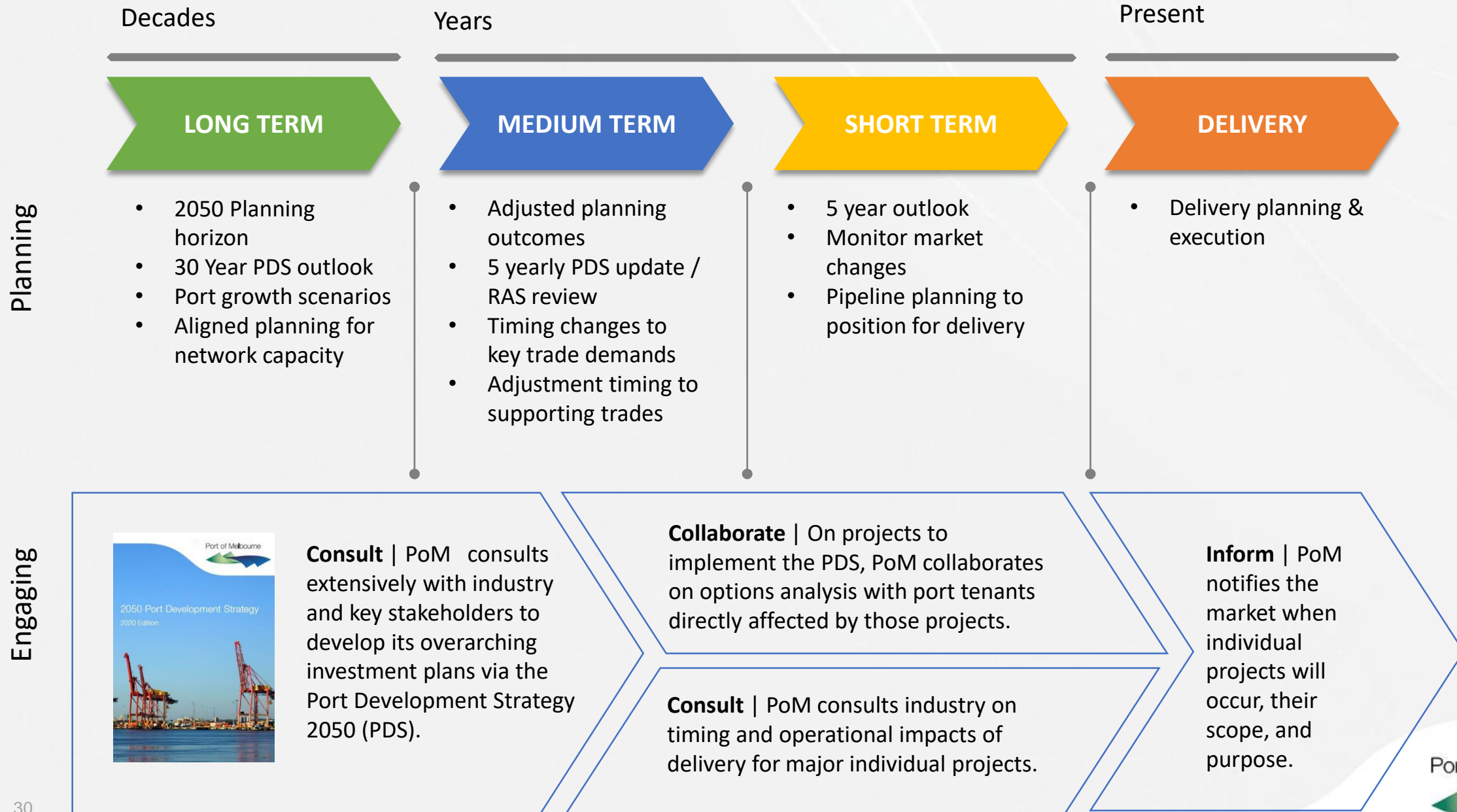
5: Investment Planning Overview



This section provides an overview of our approach to infrastructure planning and investment

FOR DISCUSSION & FEEDBACK:

- *Is this increased level of information of interest and value?*



Capital investment program overview

PoM's capital investment program is categorised into two areas:

1. Renewal / remediation – legislative / contractual requirements, service levels and safety
2. Growth – port stewardship and development obligations

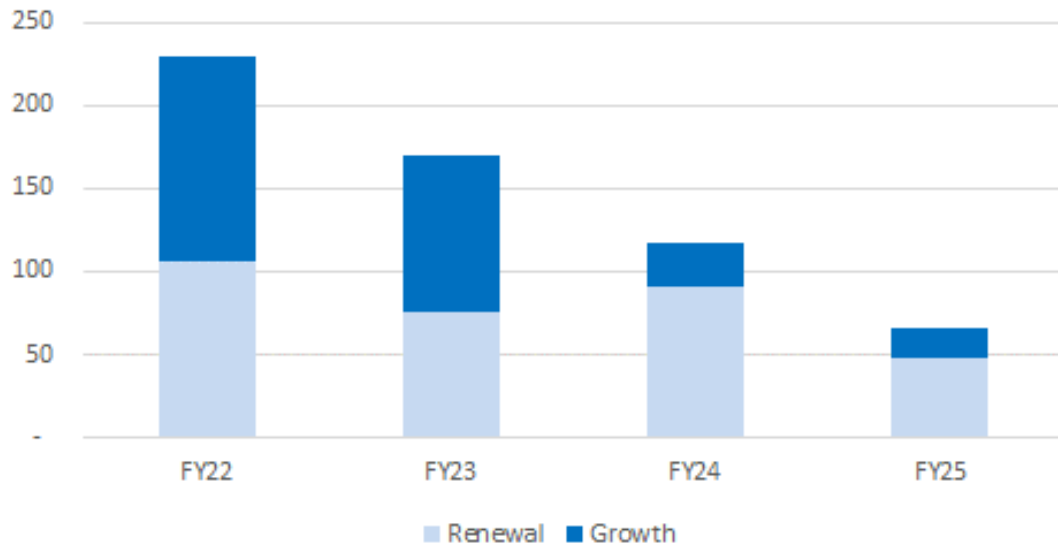
Investment category	RENEWAL / REMEDIATION	GROWTH
Investment driver		
Competition & efficient use		
Good operating practice		
Accommodate changing vessel size		
Maintain core port infrastructure		
Cater for actual and reasonably anticipated growth		
Quality and efficiency standards		
Maintain the ports leading position		
Comply with good operating practice and applicable laws		
Benefit the economy of the State		

Four projects account for the majority of expenditure in the next four years:

- Improved rail efficiencies, promoting competition in rail and providing infrastructure to enable increased rail mode share (Port Rail Transformation Project)
- Remediation activities to maintain and improve operational efficiencies (Swanson Dock & Dredging)
- Accommodating larger vessels (Swanson Dock and Webb Dock)
- Dredging, in line with PoM's obligations to maintain channel depths to accommodate large vessels

Note: the indicative 4-year forecast does not include potential expenditure to commence works in preparation for a new container terminal at Webb Dock North

Indicative 4-year capex forecast, \$M



Project	Driver	FY22	FY23	FY24	FY25
Port Rail Transformation Project	Growth	79.2	40.0	-	-
Swanson Dock West - wharf rehabilitation	Renewal	47.5	51.9	48.9	21.1
Webb Dock East 4 & 5 Berth Extension	Growth	28.0	34.9	-	-
Dredging	Renewal	13.8	0.5	18.2	5.1

6: PROJECT IN FOCUS

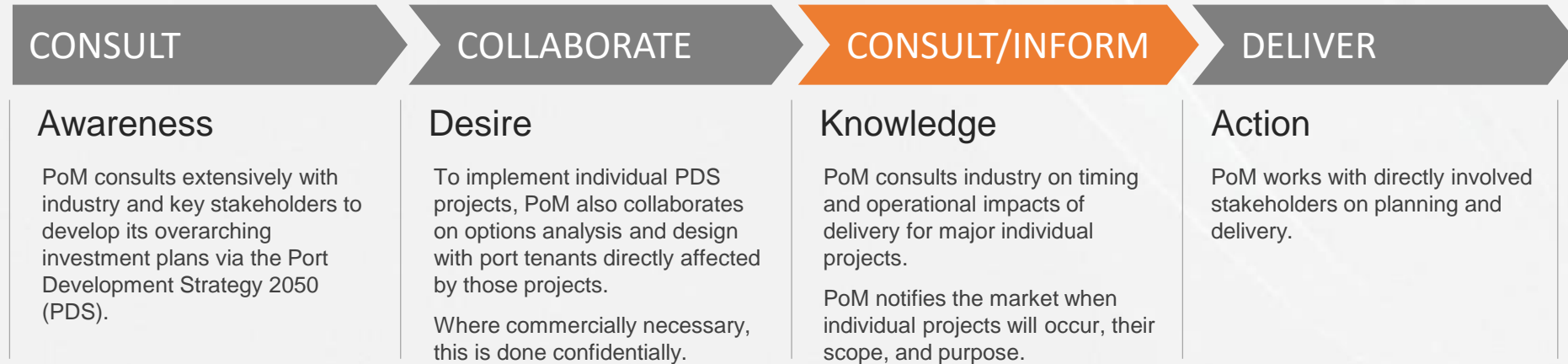
Webb Dock Berth 4&5 Extension

This section provides an update on the planned Webb Dock Berth 4&5 extension (knuckle removal) and seeks feedback and engagement on specific aspects of the project.

FOR DISCUSSION & FEEDBACK:

- Need | What is driving the need for this investment?
- Timing | When should the investment occur?
- Scope | What investment solution best meets this need?
- Who pays | How will PoM recover the investment?

Overview



1. Purpose of PoM's engagement on this topic
2. Key aspects of the investment for **Information**:
 - **Scope** | the preferred investment solution
3. Key aspects of the investment for **Consultation**:
 - **Need** | What is driving the need for this investment?
 - **Timing** | When should the investment occur?
 - **Funding** | How should the investment be recovered?
4. Feedback and next steps

PoM has recently completed its project scoping and options analysis for the Webb Dock East Berth 4 and 5 extension project and is now considering its final decision on the timing to commence this investment.

This engagement round seeks to:

- **Inform** you about the scope of the project, arrived at through consultation with VICT;
- Explain and **seek your views** on the rationale supporting the project including;
- Explain and **seek your views** the timing considerations for the project;
- Explain and **seek your views** about how PoM proposes to recover this investment.

CONTEXT | The WDE project is consistent with PoM's long-term strategy to accommodate larger vessels and meet the capacity needs of the port

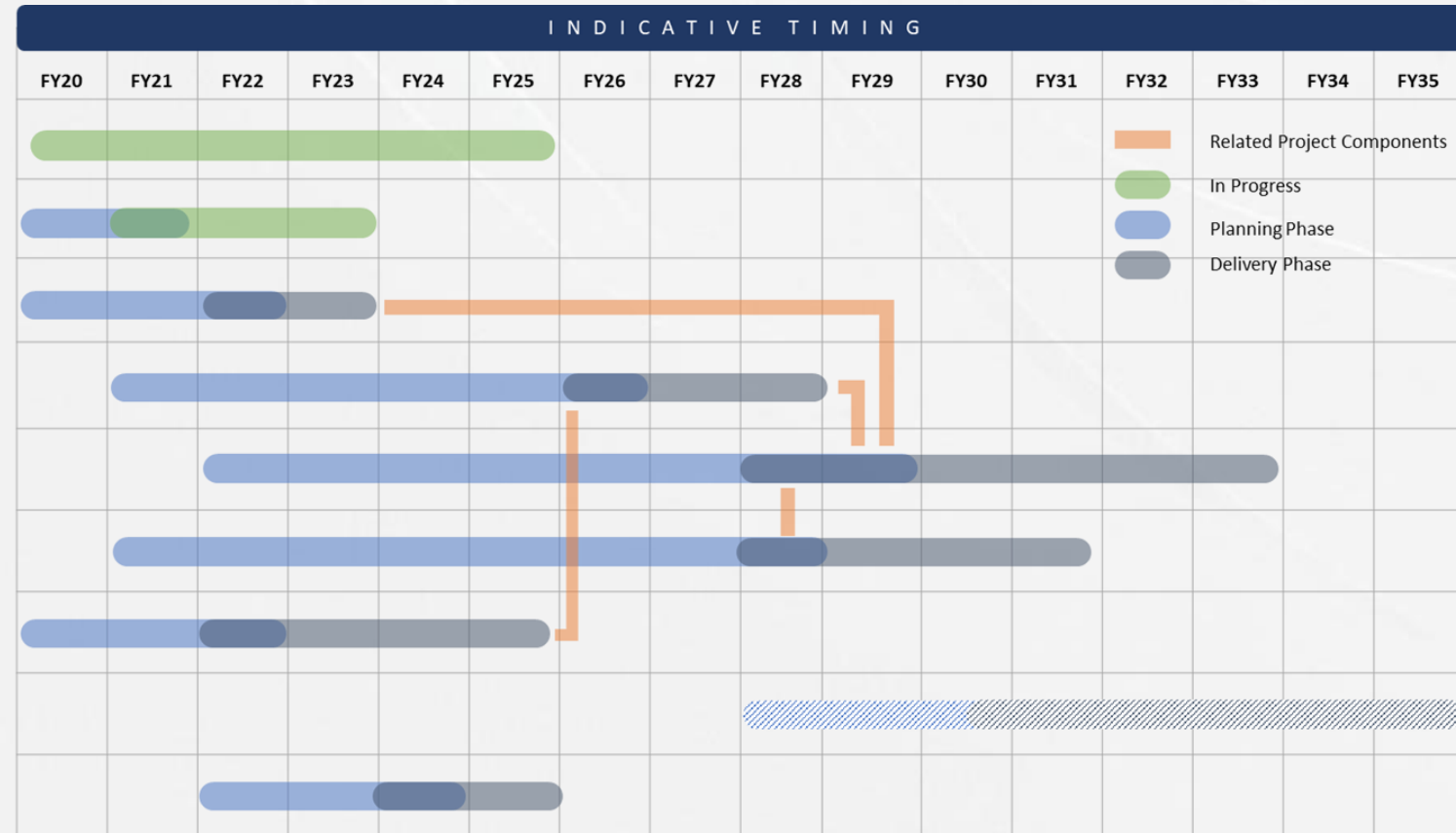
Sequencing capital works across the port

Port Development

PoM seeks to manage and sequence its program of works:

- to ensure sufficient redundant capacity is available in the port to accommodate the disruptions caused during major works, and
- so that major tranches of port capacity are commissioned with sufficient lead time to accommodate the forecast growth in trade volumes and vessel sizes.

There are a range of investment drivers that will need to be considered to ensure the optimal sequence and timing of delivery.



SUMMARY | The project is designed to address operational and competition issues at the port

PoM considers this work should commence as soon as possible, however seeks feedback on timing

Project need

- WDE was designed as a two berth terminal but has been artificially constrained due to the arrival of larger vessels sooner than expected, reducing efficient use of the infrastructure and reducing VICT's ability to compete for new trade
- The project will improve efficiency, reduce supply chain costs, and restore the ability of WDE to effectively compete for new trade

Project scope

- Demolish a portion of the WDE berth 3 structure (the 'knuckle')
- Extend WDE berth 4 by around 71m to the north, supported by a mooring dolphin to the south, which will provide an operational berth length of 746m, enabling the operation of two container vessels in parallel.
- Increased terminal area for VICT of approximately 2%, to enable safe operation of cranes and service vehicle access behind the extended berth

Project timing

- PoM considers this work should commence as soon as possible, however seeks feedback on timing

Project funding

- PoM considers this work should be funded through Prescribed Services Tariffs, rather than negotiated contracts with individual users

Consultation questions

- Do you value competition between the international container stevedores?
- What do you see as the competitive consequences of restoring WDE's berth capacity to the original dual berth intent?
- What impacts do you think this will have for Victorian consumers?
- When PoM should commence the investment?
- How should PoM fund this investment?

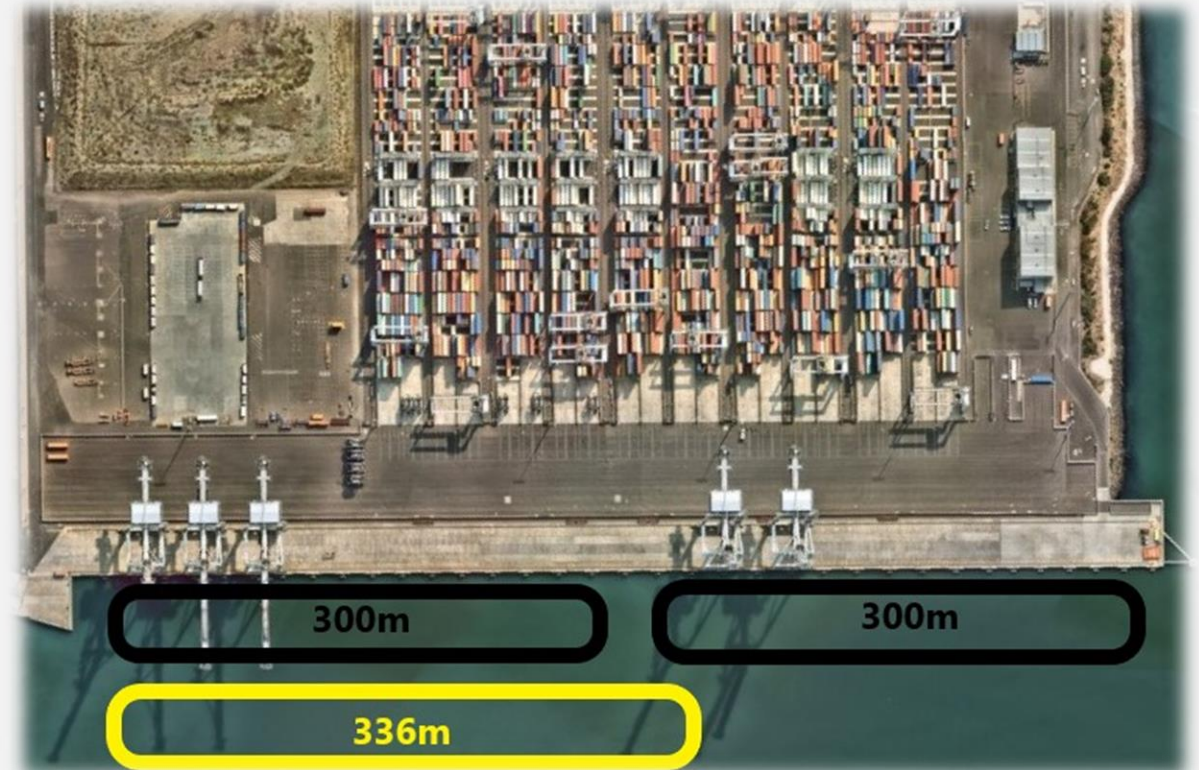


NEED | What is driving this investment | OPERATIONAL Considerations

Large vessels materially reduce available berths and capacity at WDE

- The WDE berths 4 & 5 ICT operated by VICT, was designed as a two berth operation to accommodate two design vessels. **(Note: Port of Melbourne's design vessel is 300m length overall (LOA) x 40m beam x 14m draught)**
- With vessels of ~336m LOA already regularly calling at WDE, this change in vessel size results in a misalignment between the required services and the existing berth design.
- Vessels >300m LOA limit VICT to be operated as a single berth terminal instead of a two berth terminal as it was designed for.
- With the increased vessel size now calling VICT is experiencing significant vessel queueing and delays.
- With charter costs of up to USD42,000 per day for a 8,500TEU vessel (excl. fuel), these delays can see significant costs passed through to consumers via freight rates or congestion surcharges.
- Designed as a 1.2 million TEU/year terminal, the reduced vessel serviceability has VICT capacity limited to circa 800,000 TEU. VICT has met this capacity – which will reduce/limit competition between stevedores in addition to limiting the overall capacity of the port.
- While addressing port-wide capacity is not a primary driver of the project, PoM notes that with the berth-driven capacity constraint at VICT, the investment is appropriate having regard to port-wide container capacity needs.

WDE overview with 300m design vessels vs actual 336m vessels resulting in the terminal becoming a one berth terminal.



NEED | What is driving this investment | **COMPETITION** Considerations (1 of 2)

The project promotes and facilitates competition because it:

1. Restores the ability of WDE to effectively compete for new trade
2. Is consistent with PoM's long-term planning to cater for big ships and develop port capacity, which includes the development of a Webb Dock North container terminal (which will promote competition for vessels that exceed the up-river limit)

Obligations

The Port Management Act 1995 (Vic) requires that PoM must:

facilitate and promote competition— (i) between ports; and (ii) between shippers; and (iii) between other persons conducting other commercial activities in ports.

The government intent of the Port Capacity Project reflected this objective by introducing a third stevedore to the port.

Current situation

The competitive benefits of a third stevedore risk being eroded due to the artificial capacity constraint faced by VICT.

These constraints mean:

- VICT's ability to compete with other terminal operators for additional trade is significantly limited – undermining price competition between the stevedores.
- VICT terminal design capacity is not realised, significantly reducing terminal (and port) cost efficiency.
- vessels frequently queue at VICT – which affects the costs of vessels that visit VICT by adding queuing costs to vessels that visit PoM.

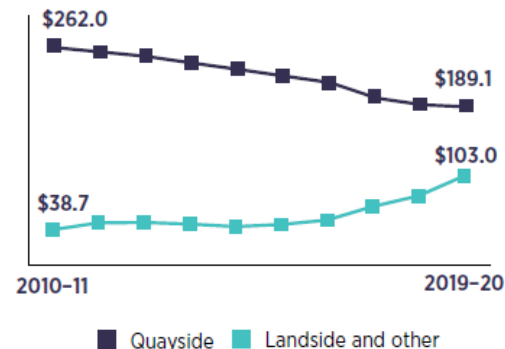
Outcomes of competition

The ACCC's 2020 [stevedore monitoring report](#) found:

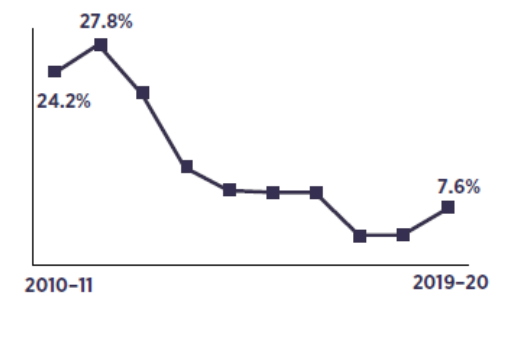
VICT's emerging strength in the market and investment into fully automated terminal infrastructure has been driving greater competition between the stevedores ...

The ACCC reported that at an industry wide level, over the last decade with the enhancement of competition through the introduction of a third stevedore at major Australian ports, industry total per lift revenue has fallen, and return on tangible assets has decreased.

Per lift revenue



Return on tangible assets



Source: ACCC 2020

NEED | What is driving this investment | **COMPETITION** Considerations (2 of 2)

Consultation questions

- Do you value competition between the international container stevedores?
- What do you see as the competitive consequences of restoring WDE's berth capacity to the original dual berth intent of the Victorian Government's Port Capacity Project?
- What impacts do you think this will have for Victorian consumers?



NEED | What is driving this investment | Pace of the large vessels cascading into Australian routes

Accelerating vessel size trend

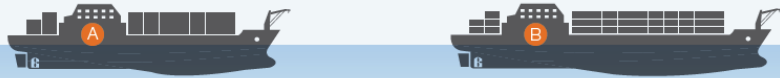
The PDS sets out updated forecasts of container vessel sizes (based on forecasts provided by GHD) and describes the existing and future container vessel handling capabilities of PoM (based on hydrodynamic modelling, simulation and vessel interaction studies and structural analysis undertaken by Danish Hydrology Institute (DHI), Australian Maritime College (AMC), Pivot Maritime and engineering consultant, Jacobs).

Design vessels

Design vessels are used to inform a port's layout and infrastructure designs, referencing dimensions and operational characteristics. The largest design vessels are typically used for the major port layout and infrastructure designs, while specific trade-related design vessels are usually only used for layout and design for the relevant individual berths.

	TEU	Length	Beam	Draught
A	6,500	300m	40m	14m
B	8,500	320m	43m	14m
C	Up to 10,500	Up to 347m	Up to 48m	14m
D	Up to 14,000	Up to 370m	Up to 51m	14m

Existing design vessels

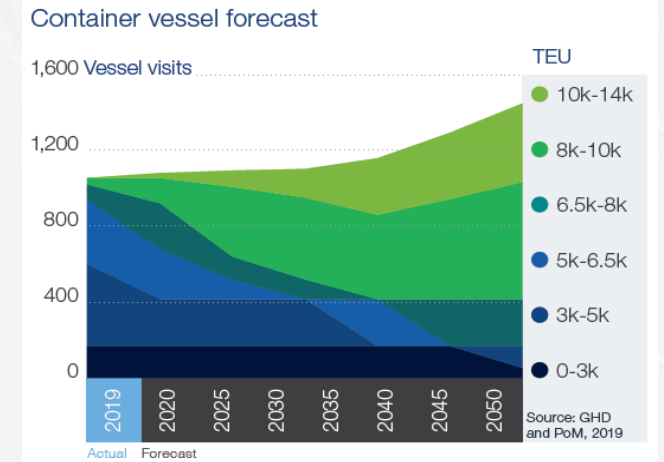


Future design vessels



Recent Ship Call Changes

- The largest ships to ever call at PoM visited in 2020. This included ships larger than 10,600 TEU at Webb Dock and 9,600 at Swanson Dock. Ships of this size did not call in 2018 so the change has been rapid. Large ship visits grew by more than 10% between 2019 and 2020. This is the start of an expected decade of ship size growth.



Vessel size is pushing past the up-river limit

- PDS found Westgate Bridge and Yarra River channel vessel size constraints likely to result in a 10,000 to 10,500 TEU up-river limit.
- East Coast ports' ability to handle these vessels was tested in 2020 when the 10,500 TEU CMA CGM *Ural* called at Melbourne, Sydney and Brisbane.
- Shipping Australia's Annual Review confirms deployment of 14,000 TEU vessels on the East Coast is likely.
- WDE expansion will enable PoM to accommodate these vessels which are now seeking to service the Australian trade routes and maintain its position as the largest Australian port for containerised and general cargo.
- The development of the Webb Dock North terminal will promote and facilitate competition in the stevedoring market for providing services to vessels that exceed the up-river limit.

Port of Melbourne



SCOPE | What investment solution best meets this need?

Port-wide response to large vessels



PoM has engaged extensively on its port-wide response to larger vessels in the PDS (see pages 29–30 and 51) and discussed how consultation informed this in its PDS consultation report.

The need to invest in services for larger container vessels was identified in the four key principles that underpin the PDS.

The PDS sets out forecasts of container vessel sizes (based on forecasts provided by GHD) and describes the existing and future container vessel handling capabilities of PoM (based on simulation and analysis undertaken by Danish Hydrology Institute (DHI), Australian Maritime College (AMC), Pivot Maritime and engineering consultant, Jacobs).

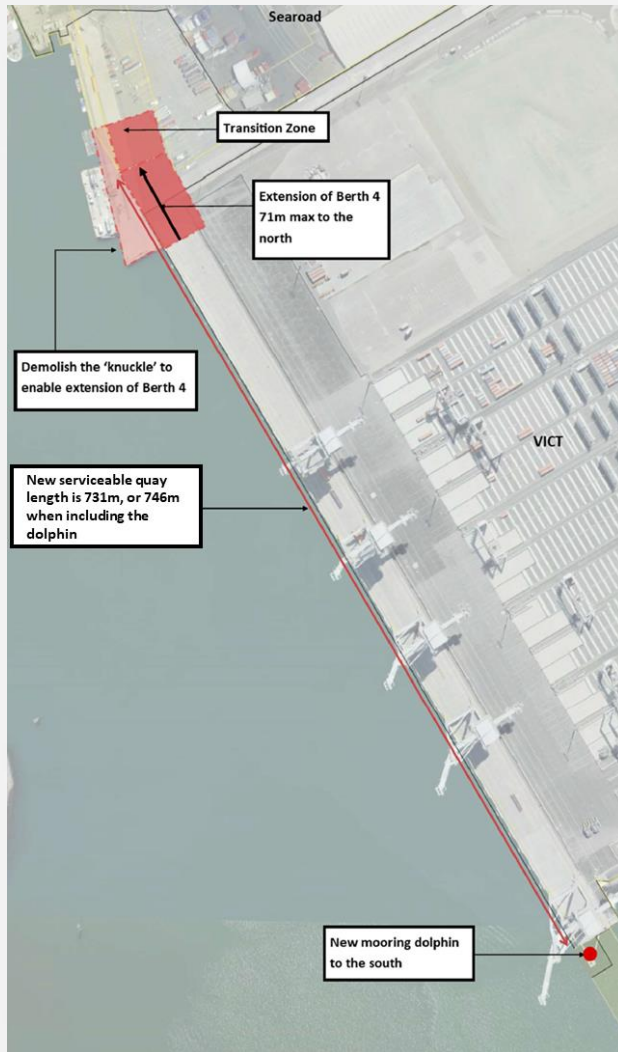
Port capacity was one of the key issues raised by stakeholders in their feedback on the draft PDS. In particular, there was a strong call to accelerate key projects in direct response to capacity demand to accommodate larger container ships.

Informed by the findings of the PDS, PoM has undertaken significant infrastructure improvements and analysis to facilitate acceptance of larger ships including:

- Vessel simulations program, hydrodynamic modelling, vessel interaction studies and berth structural assessment;
- Yarra River channel and Swanson Dock Swing Basin selected deepening;
- Swanson Dock Berths 3 (East and West) Mooring Bollards upgrade;
- Detailed designs for SDE & SDW Berths 2 Mooring Bollards upgrade (scheduled for completion in 2021);
- Rehabilitation of SDE Berths 1 & 2 (completed Dec 2020);
- Detailed planning and design for SDW rehabilitation underway (works scheduled to commence in Sept 2021);
- Commencement of Webb Dock East – Southern Mooring Dolphin (due for completion in second quarter of 2021); and
- Detailed design and planning for Webb Dock East Berths 4 & 5 Extension.

SCOPE | What investment solution best meets this need?

Options analysis and investment solution



PoM considered a range of options for addressing efficiency issues at Webb Dock East, with some of the key options outlined in the table below.

The **preferred option (\$67M)** was arrived at in consultation with VICT. It addresses immediate operational issues, while retaining flexibility around future development of Webb Dock North, as follows:

- Demolish the WDE berth 3 structure the ‘knuckle’, and extend WDE Berth 4 by **71m to the north**, supported by a mooring dolphin to the south to provide an operational berth length of **746m (with vessel warping)**.
- Increased terminal area for VICT of **approximately 2%**, to enable the safe operation of cranes (including safe service vehicle access) behind the extended berth

The preferred option is lower cost than VICT’s preferred approach, and maintains greater flexibility for future development of WDN (due to less overlapping development to the North).

Option	Cost	Description	Comment
Minimum berth extension	~\$56M	Demolish the “knuckle” and extend Berth 4 by 45m to the North	<u>Total berth = 705m</u> , allow two 336m LOA vessels, with some impact on future Webb Dock North (WDN) development
Full big ship functionality	~\$111M	Demolish the “knuckle” and extend Berth 4 by 115m to the North (VICT preferred option)	<u>Total berth = 775m</u> , allow two large ships (367m LOA) to be berthed simultaneously, with some impact on future WDN development
Extend Berth 5 South	~\$192M	Partial “knuckle” demolition of 30m to align berth pocket with existing VICT lease boundary, and construct 135m of new wharf to extend south of WDE Berth 5.	<u>Total berth = 825m</u> , allow two large ships (367m LOA) to be berthed simultaneously. Retains flexibility for WDN development

TIMING | When should investment occur?

PoM considers this work should commence as soon as possible, however we are seeking feedback on timing

The project timing is based on:

- the operational and competition issues outlined in the prior slides; and
- having completed an extensive consultation process with VICT including an option assessment and refinement exercise during the detailed design phase over 2020.

PoM estimates that the project will take approximately 18-24 months to complete from time of approval.

PoM intends to make a decision on the timing of commencing construction after having regard to the feedback provided through this current consultation process.

Consultation questions

- What feedback do you have on when PoM should commence this investment?



FUNDING | How will PoM recover the costs of the investment?

PoM is proposing to recover the investment in Webb Dock East from Prescribed Services Tariffs, which are subject to ESC compliance assessment.

Investments in Prescribed Services can be recovered via:

- The **Prescribed Services Tariffs** in the Reference Tariff Schedule (RTS) – all Port Users are subject to the same tariffs for the same service (as defined in the RTS)
- **Negotiated contracts** with Port Users for Prescribed Services – tariffs under these contracts reflect commercial negotiations and are therefore may differ from the Reference Tariff Schedule

PoM considers that Prescribed Services Tariffs are the appropriate mechanism for recovery for this investment, on the basis that:

- Prescribed Services Tariffs treats Port Users (and stevedores) equally with respect to funding investments in marine infrastructure
- The Swanson Dock stevedores have previously opposed direct contributions for investments at Swanson Dock
- Linking investment to the ability to achieve a direct contribution from Port Users or individual stevedores might jeopardise PoM's ability to deliver on its port stewardship obligations.

In addition, we have developed a **rebalancing proposal** to improve the fairness and efficiency of cost recovery of investments in accommodating larger vessels from Prescribed Services Tariffs. We will consult with Port Users and other stakeholders before re-submitting a future Rebalancing Application.

Consultation questions

- What feedback do you have on how PoM should recover the costs of this investment?



7: Our engagement approach

This section provides an.

FOR DISCUSSION & FEEDBACK:

- Level of engagement
- Scope and frequency of engagement

7.1 Our engagement approach

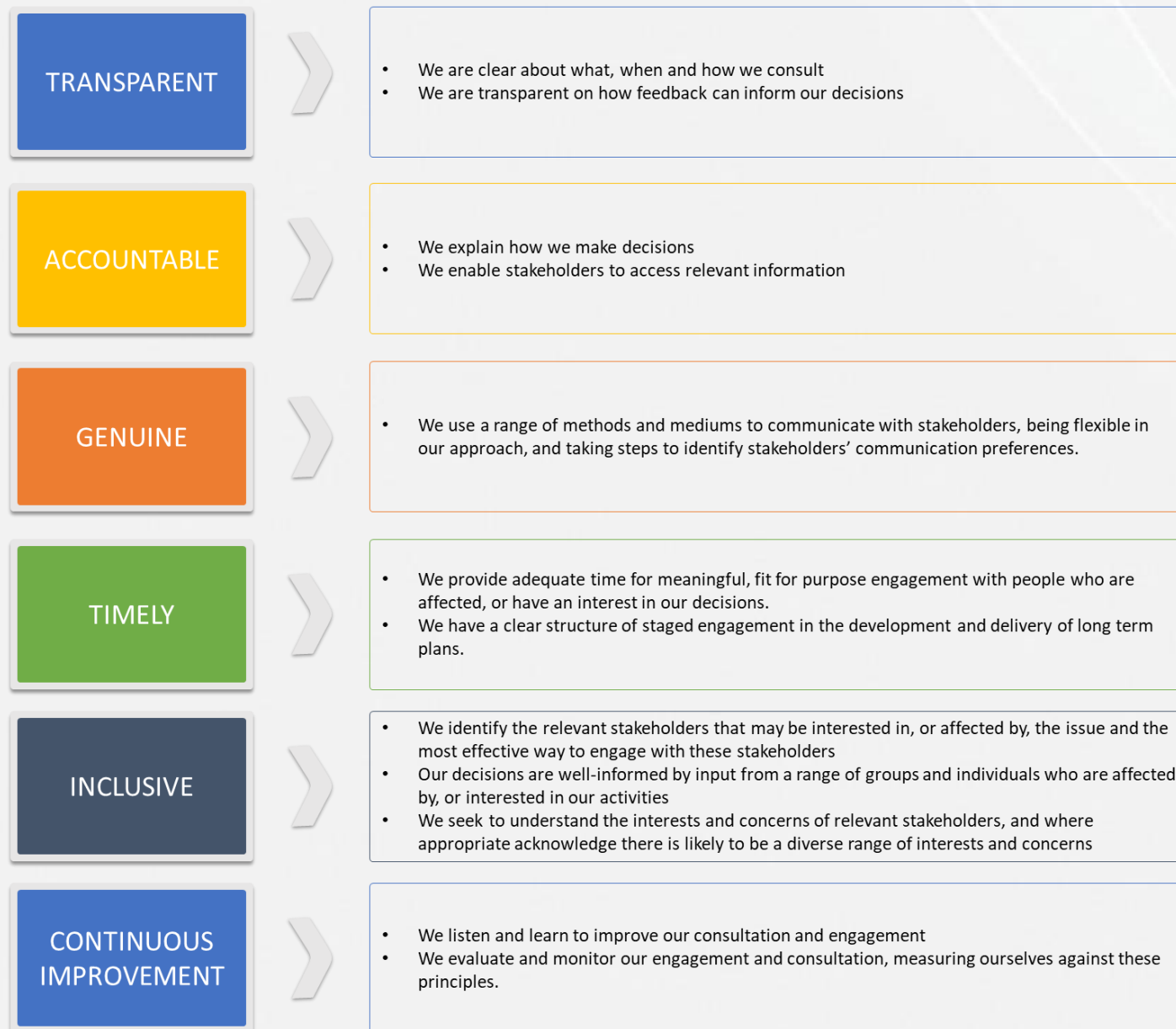
Our Values

Our Values	How we behave	What this means for stakeholders
Accountability	We fulfil our commitments, take responsibility for our actions, and celebrate success	<ul style="list-style-type: none"> ▪ We schedule meetings and follow-up in a timely manner ▪ We fulfil our commitments ▪ We identify success and value and share openly with our stakeholders
Adding Value	We embrace excellence, and innovation in what we do and how we do it	<ul style="list-style-type: none"> ▪ We actively identify solutions to stakeholder problems that are aligned with PoM objectives ▪ We actively align our priorities with stakeholders where appropriate ▪ We proactively share insights and information
Integrity	We build trust by acting with honesty and transparency	<ul style="list-style-type: none"> ▪ We build trust with our stakeholder relationships ▪ We are honest and transparent in our dealings with stakeholders
Collaboration	We achieve more by engaging and working together	<ul style="list-style-type: none"> ▪ We identify opportunities for collaboration ▪ We actively seek out opportunities to work with stakeholders on matters of mutual benefit

PoM's corporate values underpin how everyone in PoM behaves and interacts, both internally and externally.

These Values have been interpreted in relation to how we will engage with stakeholder and will underpin the delivery of our Stakeholder Engagement Framework

Stakeholder engagement (draft) principles



Over the last four years we have all been learning how best to engage with stakeholders. Each year we have reflected on our approach with the view to introduce improvements.

This year is no different. We are developing a Stakeholder Engagement Framework to ensure transparency and clarity of expectations around how we can strengthen and improve our engagement in the future.

Underpinning our Stakeholder Engagement Framework will be our engagement principles.

Our Stakeholder Engagement Principles

- Are these principles appropriate?
- Is there anything missing?





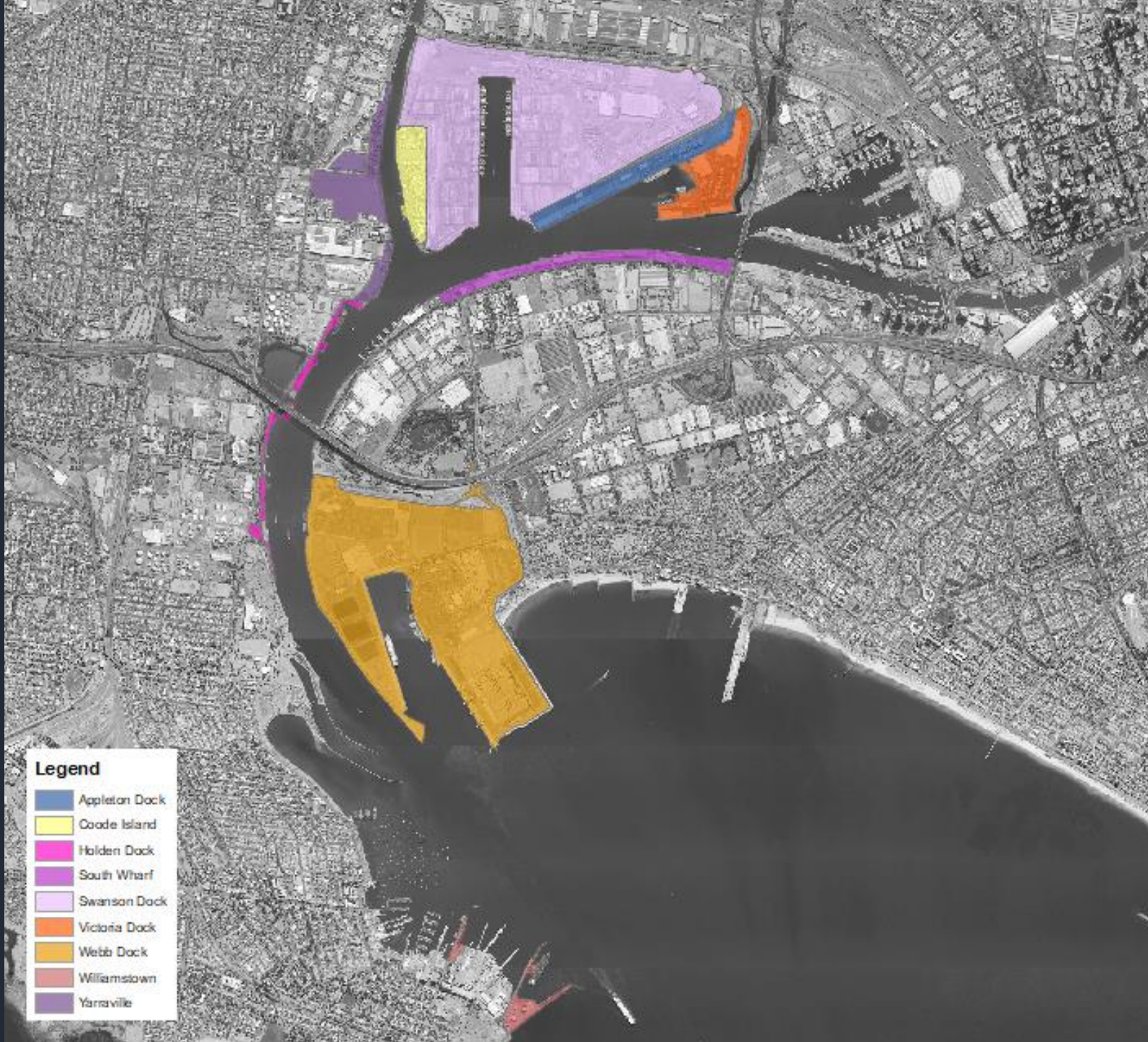
● What happens next?

- A follow up survey will be distributed on key questions and opportunities for input.
- Written responses and general feedback can also be made to information@portofmelbourne.com

Feedback will be used to inform:

- Our Stakeholder Engagement Framework
- How we engage in the future
- How we develop and invest in the port

OUR PORT



Legend

- Appleton Dock
- Coade Island
- Halden Dock
- South Wharf
- Swanson Dock
- Victoria Dock
- Webb Dock
- Williamstown
- Yarraville

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365 DAYS A YEAR**

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SOUTH-EASTERN AUSTRALIA

CONTRIBUTING **19,600 JOBS** &
\$6,000,000,000
TO THE VICTORIAN ECONOMY

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THANK YOU

Port of Melbourne

