



2019-20 TCS – APPENDIX P

Compliance with Pricing Order - Cross-Reference Table

31 May 2019



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REFERENCE TABLE LINKING PRICING ORDER PROVISIONS

This document provides a summary of where Port of Melbourne (PoM) has addressed the requirements of the Pricing Order in its 2019-20 Tariff Compliance Statement (TCS) which comprises the General Statement (GS) and Appendices A to P being:

Appendix A - PoM, 2019-20 Reference Tariff Schedule (RTS)

Appendix B - PoM, Regulatory Model

Appendix C - PoM, Regulatory Model User Guide

Appendix D - PoM, Cost Allocation Model

Appendix E - PoM, Cost Allocation Model User Guide

Appendix F - PoM, Efficient Cost Bounds Model

Appendix G - PoM, Efficient Cost Bounds Model User Guide

Appendix H - KPMG, Report of factual findings – Prescribed Services Revenue – 30 June 2018

Appendix I - PoM, Port User and other stakeholder consultation

Appendix J - PoM, Stakeholder Overview of Rebalancing Process

Appendix K - BIS Oxford Economics, Port of Melbourne Trade Forecasts – Forecasts to FY 19, April 2019

Appendix L - BIS Oxford Economics, Trade Volumes Forecasting Model

Appendix M - BIS Oxford Economics, Port of Melbourne Forecast Mechanics

Appendix N - Synergies Economic Consulting, Determining a WACC estimate for Port of Melbourne, May 2019

Appendix O - PoM, Contracts with Port Users (Confidential)

Appendix P - PoM, Compliance with Pricing Order – Cross-Reference Table

REFERENCE TABLE LINKING PRICING ORDER PROVISIONS

Pricing Order Clause	Summary of requirement	PoM's TCS cross-reference
1	COMMENCEMENT AND APPLICATION	Not applicable (N/A)
2.	PRICING PRINCIPLES: GENERAL	
2.1	Prescribed Service Tariffs Pricing Principles	
2.1.1	(a) Prescribed Service Tariffs must be set so PoM has a reasonable opportunity to recover the efficient costs of providing Prescribed Services determined by the building block methodology in clause 4	TCS GS - section 9 and Appendix A
	(b) Prescribed Service Tariffs must be set so PoM has a reasonable opportunity to recover for each prescribed service bundle revenue between the stand alone and avoidable costs	TCS GS - section 10 and Appendices B, F and G
2.1.2	PoM may set different Prescribed Service Tariffs for different Port Users provided they are consistent with section 48 of the Port Management Act and clauses 2.1.3, 2.2.1 and 2.3.1	TCS GS – section 10
2.1.3	PoM must set Prescribed Service Tariffs having regard to: (a) its efficient costs; (b) transaction costs; and (c) the ability of Port Users to respond to price signals	TCS GS – section 10 and Appendix B
2.1.4	Clause 2.2.2(b) does not apply if PoM expects to receive revenue from: (a) Initial Prescribed Service Tariffs; (b) during the period in which clause 3.1.1 applies, any subsequent increase to any Initial Prescribed Service Tariffs; and (c) in any period in which clause 3.1.1 no longer applies, any subsequent increase to Initial Prescribed Service Tariffs that would exceed the standalone cost of providing the Prescribed Service Bundle.	TCS GS - section 10 and Appendices B, F and G
2.1.5	This Order establishes maximum tariffs for Prescribed Services and PoM will not be in breach of this Order if it sets actual tariffs for Prescribed Services at a level that is lower than permitted under clause 2.1.1(a) in any relevant period	TCS GS – sections 9 and 10 and Appendix B
2.2	Specific Shared Channel Tariffs Pricing Principles	
2.2.1(a)	(a) Prescribed Service Tariffs for Shared Channels must be set using the same building block methodology in clause 4 (b) so as not to discriminate between Port Users	TCS GS – section 9 and Appendix B
2.3	PoM container export pricing decision	

REFERENCE TABLE LINKING PRICING ORDER PROVISIONS

Pricing Order Clause	Summary of requirement	PoM's TCS cross-reference
2.3.1	PoM must comply with the Export Pricing Decision for full outbound container wharfage services	TCS GS – section 10 and Appendix B
3	PRICING PRINCIPLES: PRICE SMOOTHING MECHANISM	
3.1	Tariffs Adjustment Limit	
3.1.1	The Weighted Average Tariff Increase in Prescribed Services in any financial year on or after 1 July 2017 must not exceed the Tariffs Adjustment Limit (TAL)	TCS GS – section 10 and Appendix B
3.2	Rebalancing	N/A (TCS GS – section 10 and Appendix B)
3.3	Duration of application of clause 3	N/A
3.4	Specification of Pricing Order transition period	N/A
4	PRICING PRINCIPLES: COST BASE FOR SETTING PRESCRIBED SERVICE TARIFFS	
4.1	General – Accrual Building Block Methodology	
4.1.1	PoM to determine Aggregate Revenue Requirement using accrual building block over the Regulatory Period comprising: <ul style="list-style-type: none"> (a) Return on capital; (b) Return of capital; (c) Opex; and (d) Indexation allowance 	TCS GS – section 9 and Appendix B
4.2	Capital Base	
4.2.1	Must be determined based on a roll-forward by: <ul style="list-style-type: none"> (a) taking the value at the start of the financial year; (b) adding indexation allowance; (c) adding efficient capex; and (d) deducting depreciation 	TCS GS – section 9 and Appendix B
4.2.2	Initial capital base value is determined using clause 4.7	TCS GS – section 9 and Appendix B
4.2.3	Port Capacity Project (PCP) capex is added to the capital base in accordance with 4.2.1	TCS GS – section 9 and Appendix B
4.2.4	PCP capex and capex required by Port Lease or other Transaction agreement obligations is prudent for clause 4.2.1	TCS GS – section 9 and Appendix B

REFERENCE TABLE LINKING PRICING ORDER PROVISIONS

Pricing Order Clause	Summary of requirement	PoM's TCS cross-reference
4.2.5	Clause 4.2.4 does not preclude an assessment of where the capex is efficient	TCS GS – Attachment 2
4.2.6	The capital base must not include capital contributions from a public sector entity for Prescribed Services	Confirm. TCS GS – Attachment 2 and Appendix B
4.3	Return on Capital	
4.3.1	PoM must calculate a weighted average cost of capital (WACC) using one or a combination of well accepted approaches that distinguish the cost of equity and debt	TCS GS - section 9, Appendix B and Appendix N
4.3.2	The WACC must be based on pre-tax nominal basis	TCS GS - section 9, Appendix B and Appendix N
4.4	Return of Capital	
4.4.1	Apply straight-line depreciation for asset groups providing Prescribed Services using a period: <ul style="list-style-type: none"> (a) no shorter than the economic life or the remaining term of the Port Lease; (b) no longer than the remaining term of the Port Lease; and (c) only once 	TCS GS - section 9 and Appendix B
4.4.2	PoM may use an alternative depreciation if: <ul style="list-style-type: none"> (a) applying straight line would not allow it to recover its depreciation in that financial year; or (b) alternative depreciation is likely to reduce variance in Prescribed Service Tariffs over the lease 	TCS GS - section 9 and Appendix B
4.4.3	Depreciation must not be below zero in any financial year	TCS GS - section 9 and Appendix B
4.5	Opex	
4.5.1	Opex for the Aggregate Revenue Requirement is to include the Port Licence Fee and any Cost Contribution Amount payable under the Port Concession Deed for the financial year in which they are incurred	TCS GS – Attachment 1
4.5.2	Actions required to comply with Port Concession Deed are prudent	As above
4.6	Indexation Allowance	
4.6.1	Indexation for each financial year is calculated as the sum of: <ul style="list-style-type: none"> (a) percentage change in CPI multiplied by the value of the capital base at the commencement of the financial year; and (b) one half of the percentage change in CPI multiplied by the efficient capex for that financial year. 	TCS GS - section 9 and Appendix B
4.7	Initial Capital Asset Values	

REFERENCE TABLE LINKING PRICING ORDER PROVISIONS

Pricing Order Clause	Summary of requirement	PoM's TCS cross-reference
4.7.1	The initial capital asset value at 1 July 2016 is: Shared Channel Services: \$592 million + Bundled Services: \$2,913 million = Total \$3,505 million	TCS GS - section 9 and Appendix B
4.7.2	Initial capital asset value at clause 4.7.1 excludes PCP capex which is to be added under clause 4.2.3	TCS GS - section 9 and Appendix B
5	COST ALLOCATION PRINCIPLES	
5.1	Cost Allocation Principles Objectives	
5.1.1	To provide a transparent and consistent methodology for allocating costs to establish Prescribed Service Tariffs	TCS GS - section 9 and Appendices D and E
5.2	Principles for allocating costs to set Prescribed Services Tariffs	
5.2.1	Costs must be allocated so that: (a) costs that are directly attributable to Prescribed Services are attributed directly to them; and (b) costs that relate to Prescribed Services and other services are allocated to Prescribed Services based on their share of total revenue	TCS GS - section 9 and Appendices D and E
6	REFERENCE TARIFF SCHEDULE (RTS)	
6.1	Provision/Publication of RTS	
6.1.1	By 31 May each financial year PoM must: (a) publish its RTS for the following financial year	Appendix A
	(b) provide a copy to the ESC	Confirm
	(c) provide any contracts with Port Users to the ESC	Appendix O
6.1.2	PoM will satisfy clause 6.1.1(a) if it publishes its RTS on its web-site	PoM will publish its RTS on its web-site on 31 May 2019.
6.1.3	PoM must provide its RTS to any Port User who requests it within five business days	Ongoing requirement
6.1.4	The RTS must specify: (a) the Prescribed Service Tariff for each Prescribed Service; and (b) a description of the Prescribed Service	Appendix A
6.1.5	Prescribed Service Tariffs in the RTS must: (a) not include charges for services that are not Prescribed Services; and (b) separately identify Prescribed Service Tariffs for Shared Channel Services	TCS GS - section 9 and 10 and Appendices A, B, D and E

REFERENCE TABLE LINKING PRICING ORDER PROVISIONS

Pricing Order Clause	Summary of requirement	PoM's TCS cross-reference
6.1.6	PoM must offer to provide Port Users with Prescribed Services based on the RTS	Ongoing requirement
6.1.7	PoM must not require a Port User to acquire non-Prescribed Services in order to receive Prescribed Services	Ongoing requirement
6.2	CONTRACTS FOR PRESCRIBED SERVICES	
6.2.1	PoM may have contracts with Port Users on terms and conditions that: <ul style="list-style-type: none"> (a) differ from the RTS; or (b) do not satisfy clause 6.1.5; but only if (c) PoM has made an offer based on the RTS; and (d) the contract complies with clause 2.1.1- 2.1.3 and 2.3.1. 	Appendix A and Appendix O
6.2.2	Notwithstanding contracts under 6.2.1, <ul style="list-style-type: none"> (a) the services remain Prescribed Services (b) revenue earned under the contract must be included in the Aggregate Revenue Requirement under clause 2.1.1 	TCS GS – sections 9 and Appendix B
6.3	CHANGES TO PRESCRIBED SERVICES	
7	TARIFF COMPLIANCE STATEMENT (TCS)	
7.1.1	PoM must provide its TCS: <ul style="list-style-type: none"> (a) to the ESC by no later than 31 May each year; and (b) to Port Users under clause 6.3 if it has new or varied Prescribed Service Tariffs 	Confirm. PoM will submit its 2019-20 TCS to the ESC by 31 May 2019
7.1.2	PoM's TCS must: <ul style="list-style-type: none"> (a) set out its Prescribed Service Tariffs for the upcoming financial year; (b) detail the basis on which PoM has (i) made any adjustments to its Prescribed Service Tariffs or (ii) introduced any new Prescribed Service Tariffs; (c) provide information on all contracts with Port Users; (d) detail how PoM has consulted and incorporated feedback from Port Users in developing its TCS; (e) explain how Prescribed Service Tariffs comply with the Pricing Order; (f) contain any other information required under clause 9; and (g) comply with Clause 8 	TCS GS and Appendices A to O
8	INFORMATION REQUIREMENTS	

REFERENCE TABLE LINKING PRICING ORDER PROVISIONS

Pricing Order Clause	Summary of requirement	PoM's TCS cross-reference
8.1	Basis on which financial information is to be provided	
8.1.1	Financial information in the TCS must be in constant or current price terms	Confirm. TCS GS – section 2 and Appendix B
8.2	Forecasts and estimates	
8.2.1	Estimates and forecasts must be supported by a statement of their basis	TCS GS Attachments 1 and 2
8.2.2	Estimates and forecasts must (a) be arrived at on a reasonable basis (b) be the best in the circumstances	TCS GS Attachments 1 and 2
8.3	Inferred or derivative information	N/A
9	COMMISSION MAY DETERMINE FORM AND CONTENT OF SUPPORTING DOCUMENTATION	None provided
10	COMMISSION MAY DETERMINE INDICES TO BE USED	N/A – None provided
11	INITIAL PRESCRIBED SERVICE TARIFFS	No action required
12	PROTECTED PROVISIONS	No action required
13	REGULATORY PERIOD	
13.1.1	PoM may determine the regulatory period and may adopt different lengths over the term of the Port Lease	TCS GS – section 6