2023 Industry Engagement Information Pack

The Information Pack provides in-depth information to accompany industry presentations held on the following dates:

1 March 2023 (Face to Face)

2 March 2023 (Online)

Port of Melbourne

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Introduction and overview – background to this document

About the Port of Melbourne

The Port of Melbourne is Australia's largest container, automotive and general cargo port. The port handles Australian imports and exports, a number of Tasmanian trades, and cargoes moved to and from South Australia and southern New South Wales. Major trades include containers, motor vehicles, liquid bulk, dry bulk and breakbulk. The Port covers a land area of around 505 hectares, and 52km of shipping channels within Port Phillip Bay and the Yarra River.

The Port of Melbourne is privately managed by Port of Melbourne Operations Pty Ltd (PoM) under a 50-year lease from the Victorian Government. We are responsible for maintaining and developing the Port's lands and waters and overseeing the development of port facilities and infrastructure which include 30 commercial berths and wharves, terminal and trade handling facilities and connections to surrounding road and rail networks.

About this pack

This information pack forms part of our 2023 Industry Engagement.

The purpose of this engagement is to afford Port Users and other stakeholders an opportunity to be informed about, and influence, matters that impact the services that we offer to Port Users and the prices charged for those services. Our 2023 Industry Engagement program is complemented by tailored engagements on major projects and other key topics (as detailed later in this information pack).

The primary audience for this document is **Port Users – defined as a 'person who requests or receives Prescribed Services'**, which include the provision of channels, berths, short-term storage and access to wharves, roads and rail. The purpose of this information pack is to provide Port Users and other stakeholders with the necessary information to effectively engage with the topics herein and provide informed feedback on these issues to us.

We are committed to engaging with our stakeholders in an inclusive, timely, genuine and transparent manner with a focus on the issues that are important to them. The form and content of this information pack was directly influenced by early engagement with key stakeholders held in late 2022.

This pack also includes information on topics identified by the us, which we are considering in the lead up to submission of the 2023-24 Tariff Compliance Statement. The pack includes detailed information about these topics so that you can be informed about the potential implications of the issues at play and provide feedback to influence the positions that we adopt.

Sections on rail, sustainability and engagement have been included in response to suggestions from stakeholders. Sections on regulatory period and tariffs are included as a result of commitments we have made, and our desire to get feedback for improvement. The section on the regulatory period is a mandatory inclusion because we have previously committed to adopting a multi-year regulatory period, and we are seeking your views on our proposal to move from price re-setting every year to setting five-year price paths to improve certainty.

Introduction and overview – engagement approach

The content and approach to this engagement has been shaped by our stakeholders

We want everyone to benefit from this Industry Engagement. For that to happen, it needs to cover the topics that you want to hear about and have input on; not just an agenda set by us. To that end, in late 2022 we interviewed more than a dozen different stakeholders to seek views on the topics they wanted to include. Most of the topics and questions in this 2023 Industry Engagement were requested by stakeholders via this process.

This engagement program is being conducted in accordance with the Pricing Order Engagement Protocol (POEP) developed with input from industry stakeholders in 2022.

The POEP provides clarity on our approach to consulting Port Users on matters under the Pricing Order and articulates our consultation commitments and the process by which we incorporate Port User feedback into our decision making (see right*).

Further information about the POEP and how it was developed are described later in this information pack.

Our Regulatory Consultation Process

Identify need	• Identify Port Users and their consultation needs • Clearly identify consultation goals • Apply lessons from previous consultation activities
Plan approach	• Identify priority matters that might significantly impact Port Users • Be clear on what we are seeking feedback on and how feedback will be used • Provide opportunities to participate when plans are at a formative stage • Tailor the form of consultation to suit the matter being engaged on
Implement consultation	• Provide a reasonable time period for engagement • Provide appropriate, tailored information so Port Users may make meaningful contributions • Capture evidence of consultations • Establish mechanisms for Port Users to provide feedback
Seek feedback	• Request feedback from Port Users, either written of via other means, through each consultation activity
Consider feedback in decision making	• Use feedback to inform decision making • Publish a stakeholder consultation report on each material matter which details issues raised, feedback received and how we have considered Port User feedback in our decision making • Provide a response to substantive written submissions from Port Users describing how we have had regard to their feedback

* this is an abridged version of our approach. Refer to the POEP for full details.

Introduction and overview – our engagement promise

Our IAP2 promise

One of the commitments in the POEP is that we will apply the IAP2 Quality Assurance Standard to undertaking engagement (where it is not inconsistent with the requirements of the regulatory framework).

In accordance with the IAP2 Quality Assurance Standard, we are committing to providing stakeholders a 'consult' level of participation for this engagement. This means we will keep you informed, listen to and acknowledge your concerns and aspirations, and provide feedback on how your input influences our decisions.

IAP2 Spectrum of Public Participation

Increasing impact on the decision

	Inform	Consult	Involve	Collaborate	Empower
Promise to stakeholders	We will keep you informed.	We will keep you informed, listen to and acknowledge concerns and aspirations, and provide feedback on how public input influenced the decision.	We will work with you to ensure that your concerns and aspirations are directly reflected in the alternatives.	We will look to you for advice and innovation in formulating solutions and incorporate your advice and recommendations into the decisions to the maximum extent possible.	We will implement what you decide.

Our commitment for this engagement

Introduction and overview – early engagement results

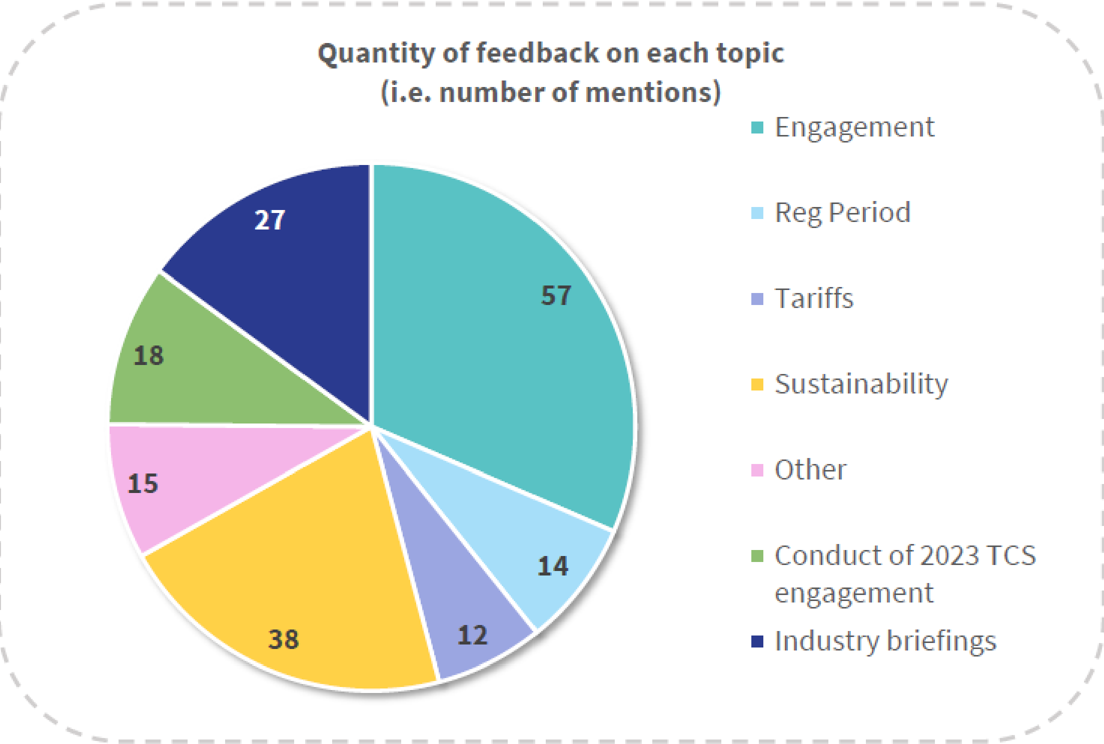
The form and content of this Information Pack is the result of input from industry stakeholders

In November and December 2022, we invited Port Users and stakeholders from our database to participate in the early engagement. The purpose was to ensure the content and format would meet the needs of all parties, not just ours. The invitation was to meet with an interviewer from Insync (our engagement consultants) for a wide-ranging discussion on what matters should be covered, what questions should be asked, and how the engagement should be rolled out. Fifteen interviews were conducted with industry bodies, stevedores, shipping lines, bulk trades tenants, freight forwarders, unions and rail transporters.

The interviewer asked about several different port-related topics, testing the interviewees on their degree of interest, the information they would need from us to enable meaningful dialogue, and what questions we should be asking. The chart at right provides an indication of the degree of interest among stakeholders for dialogue on different topics.

This Information Pack addresses each of the topics named in the diagram, with the content and requests for feedback tailored to address the comments and concerns raised by interviewees.

A full summary of the interviewee responses is provided in the supporting documents section.



Introduction and overview – engagement process

Your views are important to us

This structure of this Information Pack is mirrored in the online Feedback Form that your organisation has received a link to. If you have not received, or are unable to access the Feedback Form, please contact us at rts@portofmelbourne.com.

Each section of the Information Pack is matched to a section in the Feedback Form where you can make your views known.

At the end of each section of the Feedback Form there is the option to ask for a follow-up with us. This could be so that you can share confidential information, or to ask us to respond to specific issues or questions that you've raised.

At the end of the Feedback Form there is an option to keep all of your responses confidential. This means that your quantitative responses will be used to calculate averages, and that we will see your responses (for example, so that we can respond to any requests you have made for further information and/or a meeting). However, although your quotes may be used in reporting, they will not be attributed to your organisation. Any quotes will simply be referenced by your industry type, such as "'Our organisation has a net zero target for 2030', Freight Forwarder".

The Feedback Form may require input from multiple people in your organisation due to the range of topics that it covers. For this reason, if you attended the online or in-person presentations, then your organisation has been provided with a password to access the feedback form. It can be shared so that your responses can be kept together.

We have engaged an independent third-party researcher, Insync, to help us with the 2023 Industry Engagement. If you would prefer, our researcher will take down your views in a one-on-one interview. Please contact Jane Tyquin at Insync on jtyquin@insync.com.au to arrange. If you have any questions or reservations about how your data will be used, please contact Insync to discuss.

Engagement activities	Timing
Interviews with stakeholders to influence the design, content and conduct of the 2023 annual industry engagement	Nov to Dec 2022
Face-to-face and online presentations	1 & 2 March 2023
Information Pack and Feedback Form sent out	3 March 2023
Closing date for Feedback Form responses	31 March 2023
Follow-up meeting with PoM (where requested)	3 April to 28 April 2023
Release of engagement summary report along with the 2023-24 Tariff Compliance Statement	31 May 2023

02 Port of Melbourne's role

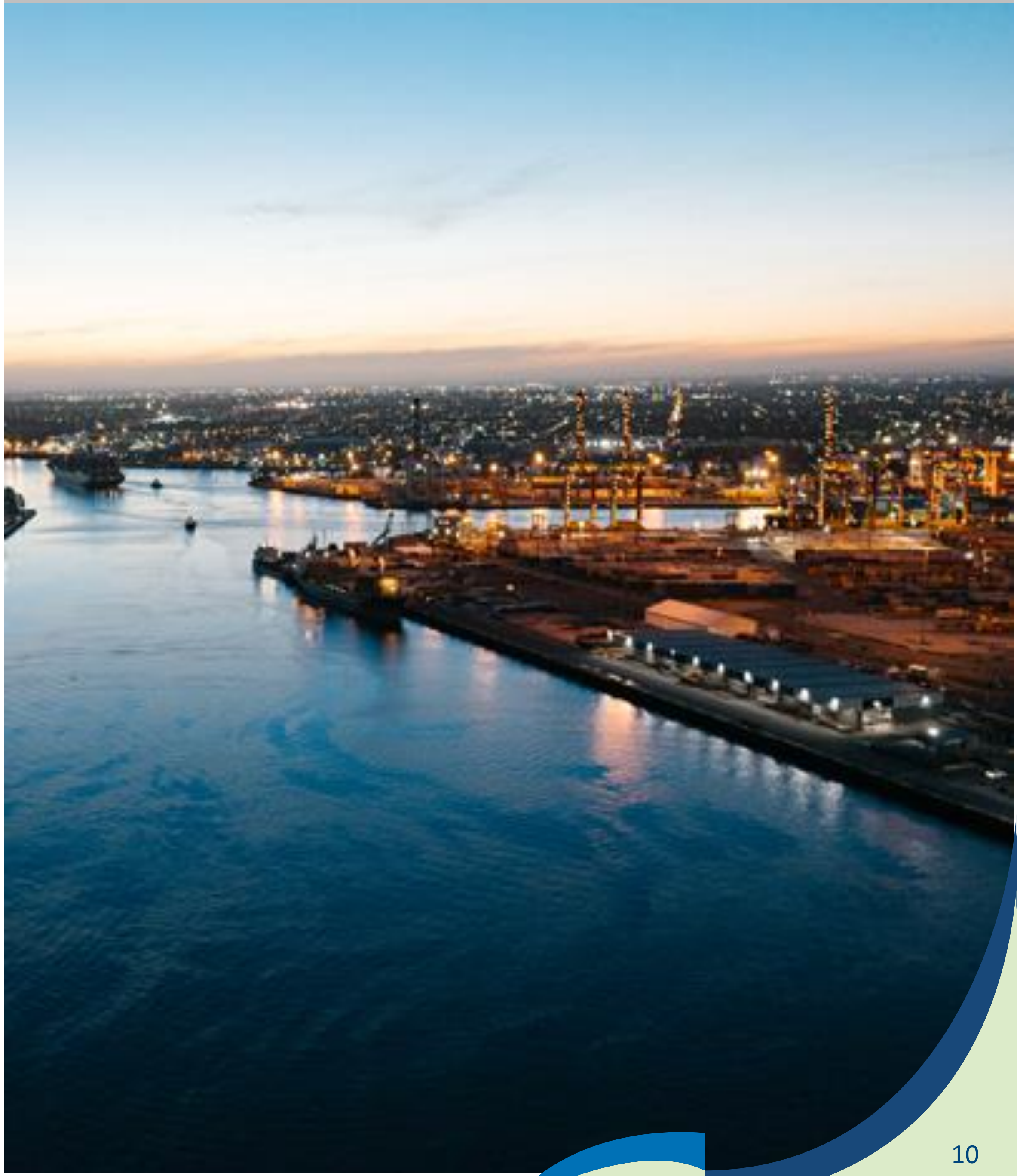
Obligations and responsibilities

Port of Melbourne's role – summary

It is important for stakeholders to have an understanding of our regulatory framework and investment obligations, because they establish the requirements for how we set prices and make investments in services and provide the basis for assessing whether our investments are prudent and efficient:

- The Port Lease and the Port Concession Deed set out ***what*** we must do and the services we are required to deliver
- The Pricing Order sets out ***how*** we must deliver on our obligations (e.g. through prudent and efficient expenditure).

In the Feedback Form there is a question about whether your needs for information on our role have been met, and provides an opportunity seek further information. The purpose is information sharing, so that you have what you need to participate in the engagement.



Port of Melbourne's role – Port Lease obligations

The Port Lease and Port Concession Deed set out *what* we must do and the services we are required to deliver.

Port stewardship obligations under the Port Lease

The Port Lease establishes our overarching stewardship obligations to manage, maintain, operate and develop the Port consistent with Port Lessor's Port Objective for the Port to be a major seaborne trade gateway to the benefit of the economy of the State (Port Objective).

The stewardship obligations of the Port Lease are of significant importance and guide our planning and investment.

Under these stewardship obligations, we must:

- Manage, operate and maintain the Port in accordance with Good Operating Practice;
- Ensure the Port is capable of providing access to shipping including being able to reasonably accommodate changing vessel size;
- Ensure port infrastructure is no less capable of access for road and rail than at the commencement of the Port Lease; and
- Use reasonable endeavours to maintain amenity, manage environment impacts and maintain public open space areas.

Development obligations under the Port Lease

The Port Lease also includes a general obligation for us to develop the leased area (Development Obligations), under which (and subject to certain exceptions) we must develop the Port land and infrastructure to:

- Cater for actual and reasonably anticipated growth;
- Provide quality and efficiency standards expected of a major port;
- Maintain the Port's leading position among major Australian ports in terms of its quality, efficiency and effectiveness;
- Comply with good operating practice and applicable laws; and
- Achieve the Port Objective.

Good Operating Practice

'Good Operating Practice' means:

> *adherence to a standard of practice which includes the exercise of that degree of skill, diligence, due care, prudence and foresight which would reasonably be expected of a reasonably experienced, competent, prudent and qualified operator of the Port; and provision of appropriate services and facilities for the ease of access to, expeditious and safe movement in and efficient use of the concession area and port infrastructure by vessels, vehicles and other users of the Port.*

Port of Melbourne's role – Pricing Order

Pricing Order under the Port Management Act

The Pricing Order came into effect on 1 July 2016 and regulates the setting of tariffs for prescribed services, which relate to the provision of services by investing in wharves, berths and channels for shipping. It was amended in May 2020 to adjust prices to fund the Port Rail Transformation Project.

Among other things, the Pricing Order requires that:

- Prices are set to allow PoM a reasonable opportunity to recover our efficient costs.
- During the 'Pricing Order transition period' which runs until 2032, or latest 2037, tariffs are limited to the lesser of two binding constraints:
  - The Tariffs Adjustment Limit (TAL), which limits weighted annual tariff increases to inflation (CPI) ; or
  - To recover no more than PoM's prudent and efficient costs, determined by application of an accrual building block methodology.
- We are required to demonstrate annually to the regulator (the Essential Service Commission) how we have complied with the Pricing Order, including how we effectively consulted and had regard to comments from Port Users.

Undertaking to the Victorian Government

The ESC Minister has accepted a binding undertaking from us, which responds to matters on which the ESC found significant and sustained non-compliance in its five-year compliance inquiry. The undertaking:

- Specifies the approaches that will be applied by us to calculate the Weighted Average Cost of Capital (WACC), a key input to the cost base; and
- Outlines our commitment to develop and publish a Pricing Order Engagement Protocol which clarifies and articulates our engagement approach and commitments.

The Feedback Form provides an opportunity for you to indicate whether you believe you have a sufficient understanding of our role and to identify any further information you would like.

Port of Melbourne's role – supporting documents

Please refer to additional materials for more information on our role:

- Port Lease extract – PoM's Stewardship Obligations
- Pricing Order (Amended)
- Undertaking to the ESC Minister
- Pricing Order Engagement Protocol

03 Looking ahead

Now and in the future

Looking ahead – summary

An incredibly diverse array of businesses rely on the Port of Melbourne. Although the tides of the global economy affect them all, each business is also subject to a unique set of influences and dynamics.

By sharing views about the future, all parties can become more prepared.

This section of the Information Pack begins by covering some of the industry trends that the Port is subject to, which most stakeholders will find interesting.

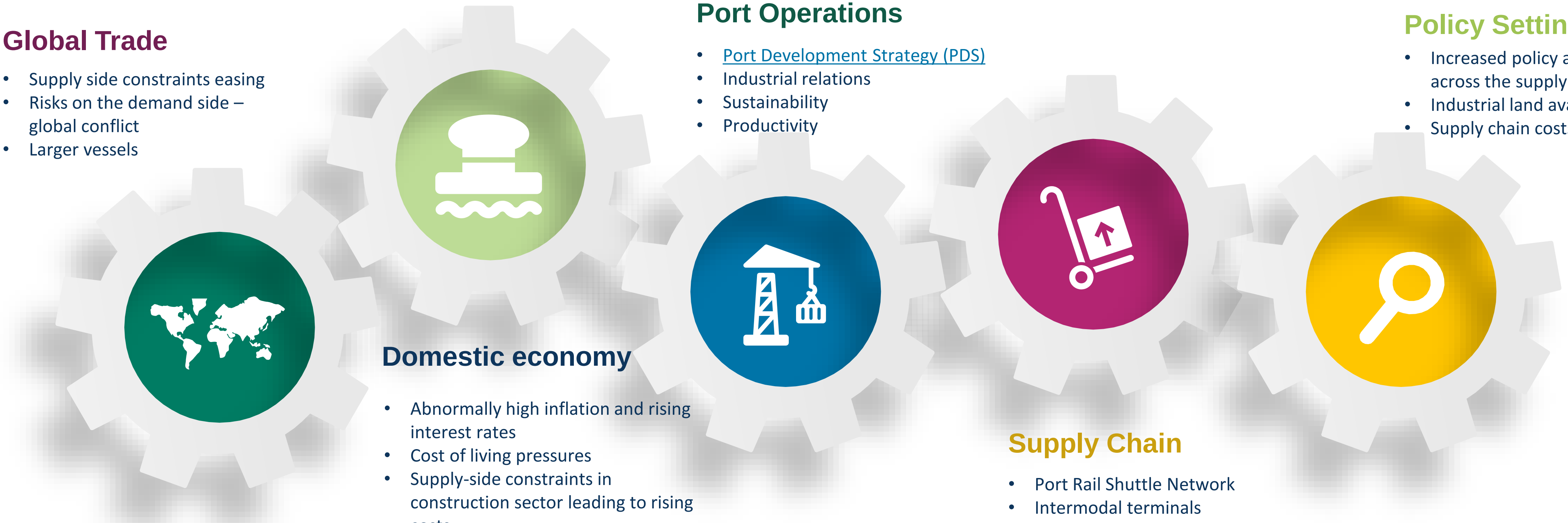
The matching part of the Feedback Form will ask you to tell the Port about the megatrends in your industry that could impact you in the years to come.

The purpose is information sharing, so that where possible we can all make plans for the future that help each other to succeed.

Looking ahead – industry trends

We operate in a dynamic environment. A range of trends influence our operating environment, with some examples provided below. Many of these issues were given prominence through the Productivity Commission's Maritime Logistics System Inquiry. We are engaging on two of these trends (sustainability and rail) in this Information Pack.

The Feedback Form provides an opportunity for you to identify what you see as the megatrends that will impact your organisation over the next five to 10 years, and any implications for what is required of us.



Global Trade

- Supply side constraints easing
- Risks on the demand side – global conflict
- Larger vessels

Domestic economy

- Abnormally high inflation and rising interest rates
- Cost of living pressures
- Supply-side constraints in construction sector leading to rising costs
- Risks to the economy and domestic demand

Port Operations

- Port Development Strategy (PDS)
- Industrial relations
- Sustainability
- Productivity

Supply Chain

- Port Rail Shuttle Network
- Intermodal terminals
- Inland rail

Policy Settings

- Increased policy and regulatory scrutiny across the supply chain
- Industrial land availability
- Supply chain costs

2021-22 Economic contribution of the Port of Melbourne

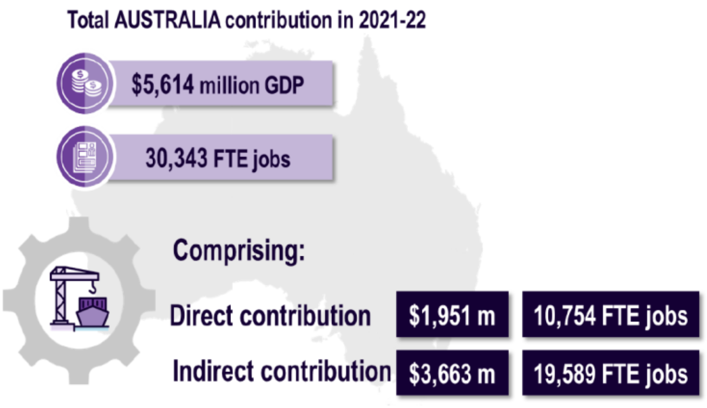
We recently engaged ACIL Allen to conduct an economic contribution study of the Port of Melbourne.

A survey of Port of Melbourne users, service providers and other organisations that interacted with the port was conducted in November and December 2022 to measure cargo movements through the Port and associated employment, revenue and expenditure. This was further verified and complemented through Port of Melbourne Operations and third-party information including the Australian Bureau of Statistics and Australian Tax Office.

The study will be released in March 2023, with key findings on the contribution to the Australian and Victorian economies as follows:

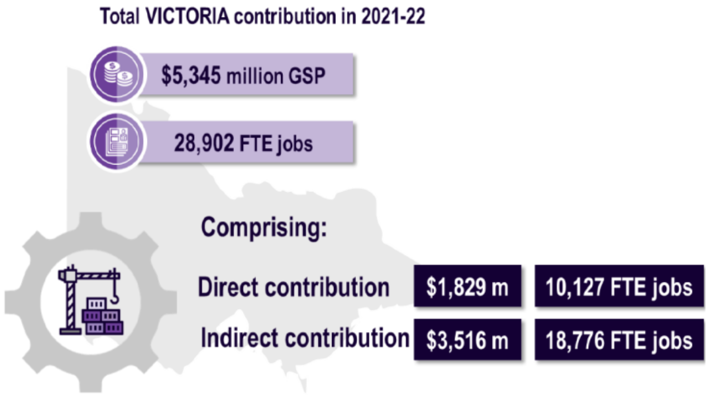
Contribution of the PoM to the Australian economy

- A total of $5,614 million to Australian GDP, comprising $1,951 million directly from the port-related activities (direct value-added) and $3,663 million indirectly from its flow-on effects;
- Contribution of cargo pack type comprised $3,731 million from container trade, $575 million from motor vehicles trade, $564 million from break bulk trade, $380 million from liquid bulk trade and $363 million from dry bulk trade; and
- Total employment of 30,343 full time equivalent (FTE) jobs throughout Australia, comprising 10,754 FTE jobs directly from the port-related activities and 19,589 FTE jobs indirectly from its flow-on effects. This implies that, in 2021-22, for every 1 million dollars of revenue received by the port service providers due to the PoM, there are up to 7.6 FTE jobs directly or indirectly supported throughout the Australian economy. In comparison to the last study conducted in 2017-18, the PoM contributed a direct employment contribution of 9,214 FTE jobs and a total employment contribution of 29,773 FTE jobs to the Australian economy.



Contribution of the Port to the Victorian economy

- Around 95 percent of the Australian total economic contribution was attributed to the Victorian economy, followed by Tasmania at 2.18 percent. The remaining was attributed to all other jurisdictions in Australia;
- A total of $5,345 million to Victorian Gross State Product (GSP) comprising $1,829 million directly from the port-related activities and $3,516 million indirectly from its supply chain activities (flow-on) in Victoria. It contributed around 1.04 percent to Victorian GSP in 2021-22;
- From a local government area (LGA) perspective, the greatest contribution of the PoM is to the Melbourne LGA with an estimated $2.2 billion in value-added, $1 billion in household income, and employment of around 11,245 FTEs. This is followed by Port Phillip, Hobsons Bay and Maribyrnong; and
- The PoM contributed a total employment of 28,902 full time jobs throughout Victoria.



04 Tariffs

Pricing outlook

Tariffs – summary

We charge tariffs to cover the efficient cost of providing ‘prescribed services’. This includes the provision of channels, berths, short-term storage and access to wharves, roads and rail. Tariffs for prescribed services are regulated under the Pricing Order, a regulatory instrument created under section 49A of the Port Management Act.

The Pricing Order requires that tariffs are set to allow PoM a reasonable opportunity to recover the efficient cost of providing prescribed services. Until at least 2032, or 2037 at the latest, the Pricing Order also requires that tariffs increase by no more than the rate of inflation (the Tariff Adjustment Limit). When the Tariff Adjustment Limit is the binding constraint, this means we are not able to fully recover the cost of providing prescribed services.

Based on current forecasts, we expect that the Tariff Adjustment Limit will be a binding constraint on tariff adjustments over each of the next five years under the proposed five-year regulatory period (discussed in Section 5 – Regulatory Period of this Information Pack). This means prices will increase at the same rate as inflation each year for the next five years. However, tariffs for 2023-24, and the price path over the next five years, will depend on a range of variables (including inflation figures) that will not be finalised until May 2023.

When the Tariff Adjustment Limit is binding, the Pricing Order allows us to defer the recovery of depreciation until a later date. We are committed to recovering depreciation after 2037 in a manner that minimises price volatility. We’re also committed to keeping Port Users up-to-date about the potential impact of depreciation recovery on tariffs after 2037.

Our latest projections suggest tariffs could increase by 11 per cent in real terms in 2038 and by 30 per cent in real terms by 2066. However, these projections are highly speculative and small changes in assumptions can significantly impact the long term price trajectory. **If you would like any further information about the recovery of depreciation and tariffs after 2037, please indicate this in the Feedback Form.**

Until 2037, the Pricing Order also requires that we adjust all tariffs by the same percentage each year unless we submit, and the Essential Services Commission approves, a Tariff Rebalancing Application. We will not make a rebalancing application for the tariffs to apply in 2023-24, but we would like to hear from you about any ideas or preferences you have for potential tariff reforms in the future. **If there are any tariffs reforms you would like us to consider going forward, please indicate this in the Feedback Form.**

Tariffs – what are the charges that we levy?

Our prices are just some of the tariffs that are levied in the logistics supply chain

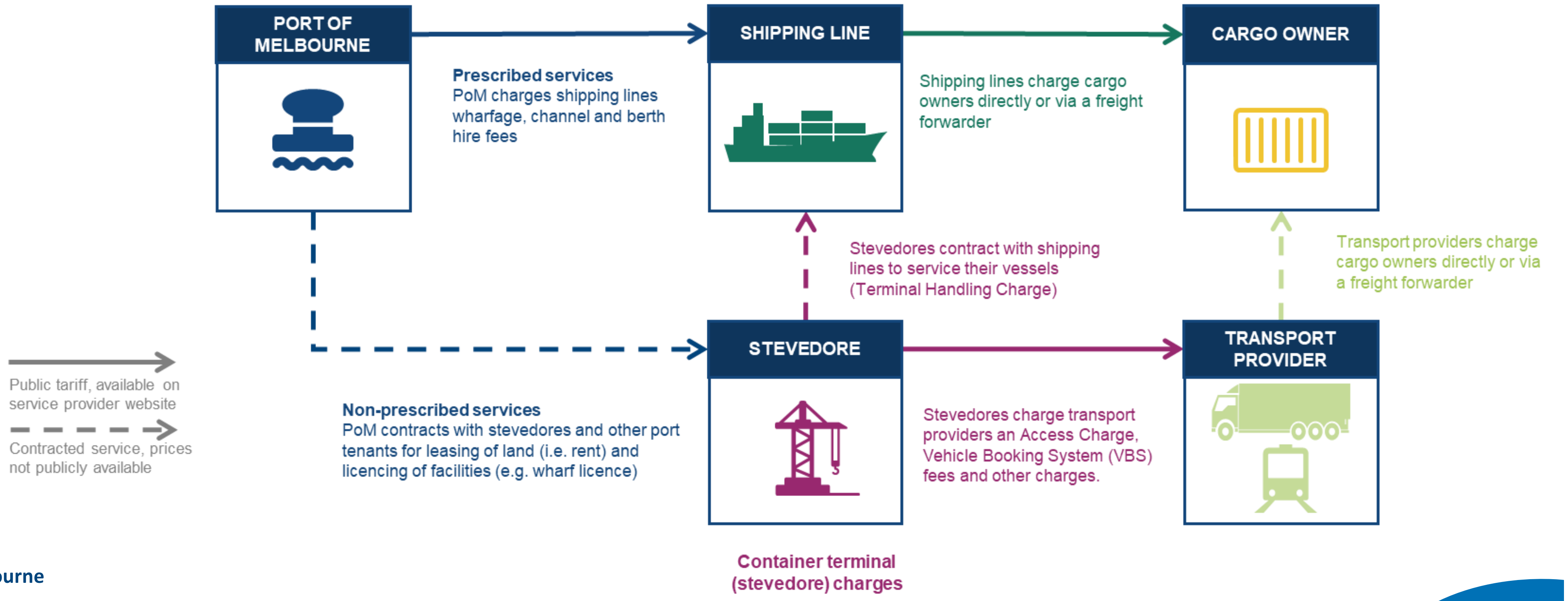
As the leaseholder for the port of Melbourne, we are responsible for managing over 500 hectares of land, the operation of wharves and berths and the maintenance and operation of shipping channels. We are one of many players responsible for providing services in and around the port.

We provide two types of services:

- Prescribed services – including the provision of channels, berths, short-term storage and access to wharves, roads and rail
- Non-prescribed services – including the leasing of port land and facilities.

Prescribed services tariffs include wharfage fees, channel fees and berth hire fees. These fees are subject to regulation under the Pricing Order by the Essential Services Commission.

Non-prescribed services are generally provided under (typically) long-term lease and licensing arrangements, which are commercial agreements between us and our tenants.



Tariffs – how do we set tariffs for prescribed services?

There are two key mechanisms under the Pricing Order which determine the tariffs that we set for prescribed services (such as wharfage fees, channel fees and berth hire fees): the Tariffs Adjustment Limit and the Aggregate Revenue Requirement.

The Tariffs Adjustment Limit (TAL)

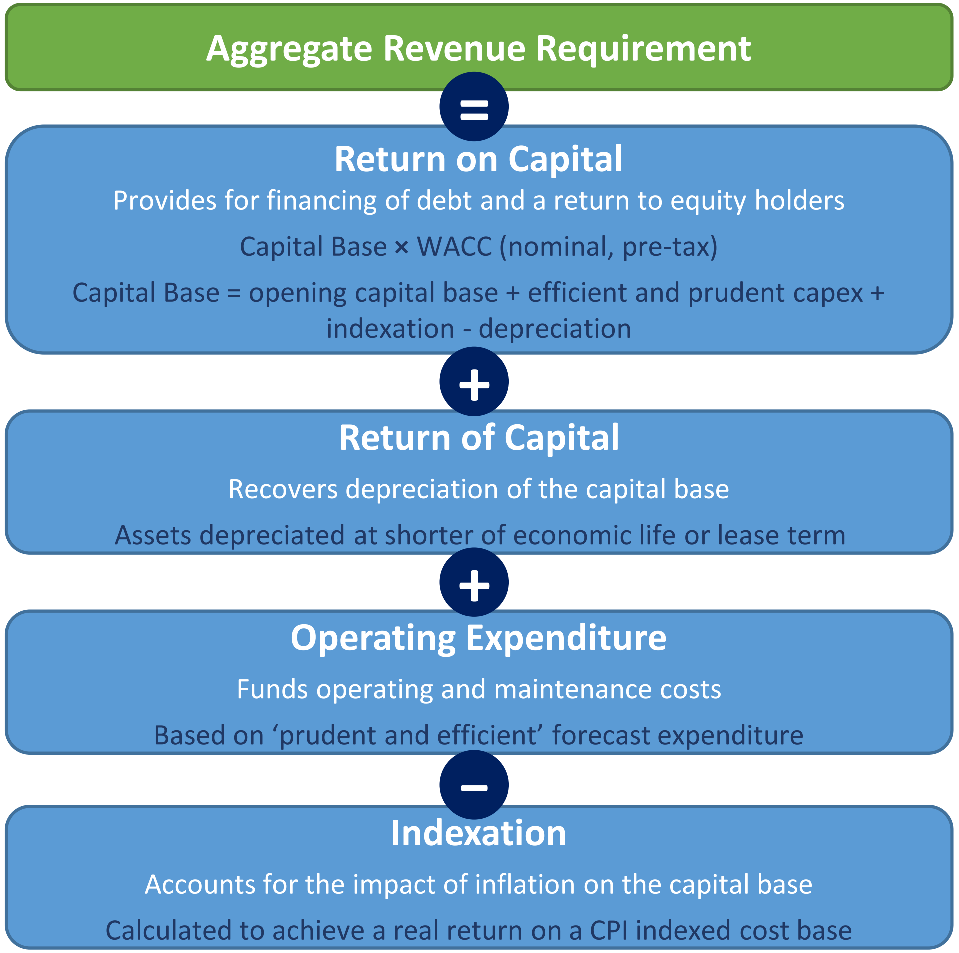
The Tariffs Adjustment Limit (TAL) requires that the weighted average tariff increase for prescribed services tariffs must be no greater than the annual percentage change in the March-on-March Australian Consumer Price Index (CPI) in the preceding year. In other words, prices cannot rise faster than inflation.

The Aggregate Revenue Requirement

The Aggregate Revenue Requirement (ARR) places a limit on the maximum amount of forecast revenue we may recover through tariffs over a regulatory period. The ARR must be set so as to allow us a “reasonable opportunity to recover the efficient cost of providing all Prescribed Services”. As set out in the Pricing Order, the ARR must be calculated as the sum of four ‘building blocks’ (see right). Implied tariffs can then be calculated by dividing the ARR over the regulatory period by forecast demand for prescribed services over that period.

Tariff setting during and after the ‘Pricing Order transition period’ or ‘TAL period’

The TAL only applies during the 'Pricing Order transition period' which runs from the commencement of the Pricing Order in 2016 until 2032 at the earliest, or 2037 at the latest. During this period, both the ARR and TAL mechanisms apply concurrently and tariffs are set according to whichever mechanism results in lower forecast tariff revenue. After the end of the TAL period, only the ARR applies for tariff setting.



Tariffs during the next regulatory period

We expect tariffs to continue to be set by the TAL in the next regulatory period

Across the first seven years of the Port Lease, the Tariff Adjustment Limit has been the binding constraint on tariffs, so tariffs have increased at the rate of inflation.*

Our tariffs for 2023-24†, and the price path for the remaining years of the next regulatory period, will be included in the Tariff Compliance Statement submitted to the Essential Services Commission on 31 May 2023 and in the Reference Tariff Schedule published on our website on the same day.

On current forecasts, we expect that prices will increase at the same rate as CPI across the proposed five-year regulatory period^ (2023-24, and each subsequent year to 2027-28).

PoM's 2023-24 TCS will set out:

- **Actual tariffs for 2023-24** – these will be based on inflation data released in late April
- **Forecast tariffs for the remainder of the proposed five-year regulatory period** (up to 2027-28). This will be a 'real' price path. That is, in each year prices will still adjust for CPI, and the price path will set out whether there will be any other adjustment (up or down) from CPI in each year. This is known as a "CPI minus X" price path, and is commonly adopted for regulated infrastructure in Australia (e.g. water, electricity and gas).

Our current forecasts are that the price path would be **CPI minus 0%**, that is, tariffs to change by inflation each year for the next five years, with no adjustment up or down.

However, there are some important caveats to this:

- Tariffs and the price path will depend on a range of variables including inflation figures released in April and May, interest rates (and the Weighted Average Cost of Capital). Forecasts of demand and expenditure could also have an influence.
- An extension to the Port Rail Transformation Project (including Swanson Dock West) would involve a tariff adjustment on the same basis as the first stage (where there was a price adjustment to fund the development at Swanson Dock East).

*excepting a once-off adjustment to fund the Port Rail Transformation Project in 2020.
†tariffs are set for the period 1 July to 30 June
^ please refer to the next section of this pack for further details about our proposed regulatory period.

Tariffs after 2037 (1 of 2)

We will under-recover our costs during the TAL period

Some revenue shortfalls during the TAL period are able to be deferred and recovered in prices after the end of the TAL period, but a large portion will not.

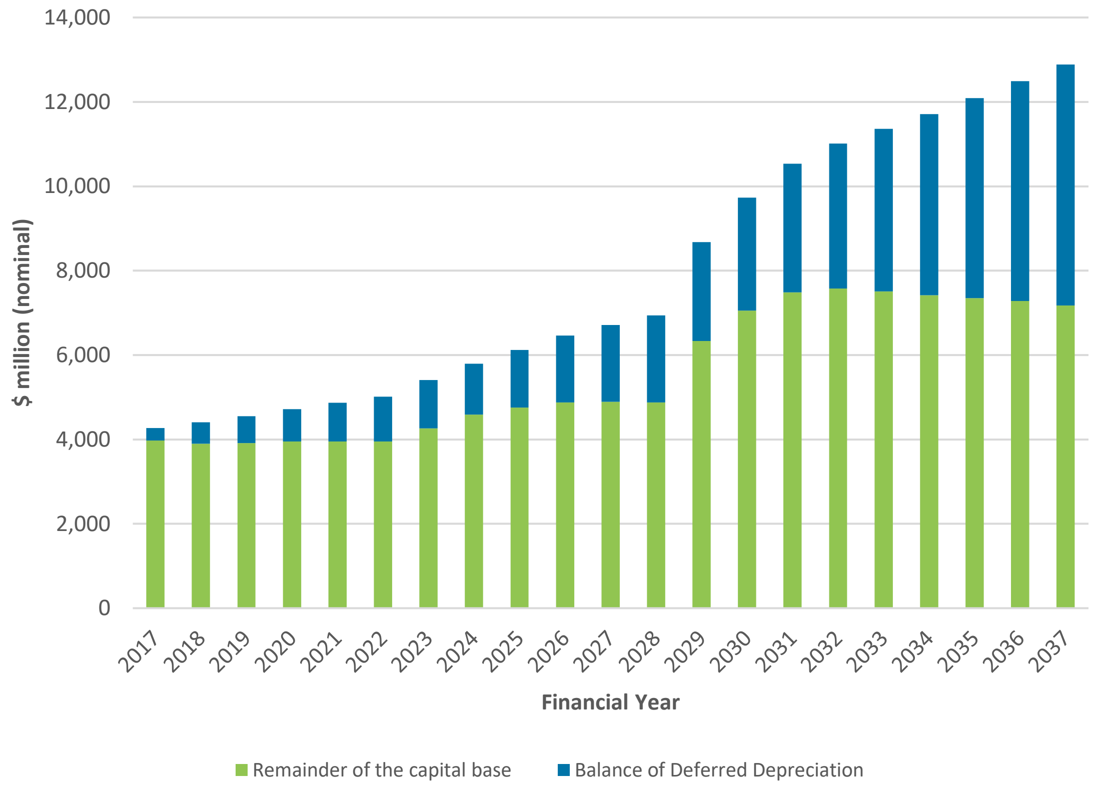
The Pricing Order partly addresses the potential for revenue shortfalls during the TAL period via a mechanism to change the timing of the recovery of depreciation costs. If the operation of the TAL means that straight-line depreciation costs cannot be recovered in any year, we may use an 'alternative depreciation methodology' to change the profile of the recovery of depreciation costs. To date, we have deferred the recovery of some or all depreciation costs in most years of the Port Lease. We anticipate that most depreciation accrued during the TAL period will be deferred, and there will be a substantial deferred depreciation balance to be recovered through tariffs after the end of the Pricing Order transition period (figure 1).

After 2037, the Tariff Adjustment Limit will no longer apply and tariffs will be set with respect to the efficient cost of providing prescribed services, including the recovery of deferred depreciation. The timing and approach of the recovery of deferred depreciation in the post TAL period will define the tariff profile after 2037.

In 2022, following extensive engagement with Port Users, we adopted a 'tilted annuity depreciation methodology' for the recovery of depreciation in the post TAL period. We are committed to applying this methodology in a manner that minimises price volatility in the post TAL period. Further details about this methodology are contained in the 2022-23 Tariff Compliance Statement.

In the 2022-23 Tariff Compliance Statement, we also committed to provide updated projections at the commencement of each regulatory period so you are informed about the potential impact of the deferred depreciation balance and its recovery on future tariffs.

Figure 1 - Indicative projection of the capital base to the end of the TAL period



Tariffs after 2037 (2 of 2)

Tariffs will be smoothed after the TAL period

Figure 2 provides an indicative projection of tariffs to the end of the Port Lease under different demand projections. As shown in the figure, under the base case assumptions, tariffs are projected to:

- remain constant in real terms (i.e. change at the rate of inflation) for the remainder of the Pricing Order Transition period (TAL period)
- increase by 11 percent in real terms in 2038 (under a five-year regulatory period, we would anticipate being able to smooth such an increase further, to address any potential price shocks)
- increase by a total of 30 per cent in real terms by 2066.

These tariff projections are higher than those produced for the 2022-23 Tariff Compliance Statement. This is due to increases in forecasts of inflation, interest rates, the cost of capital, and capital expenditure over the next 40 years.

Trade volumes also materially impact expectations for future prices.

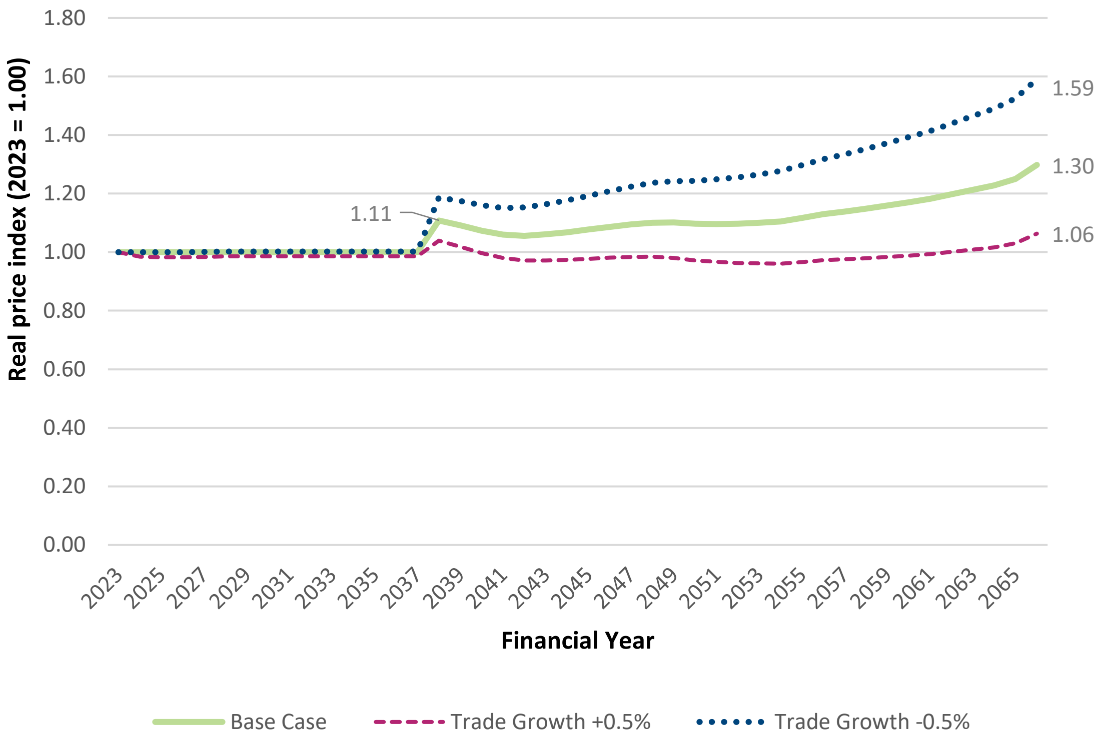
Given the uncertainty in making forecasts of these variables over a very long time horizon, there is inherent uncertainty with prices. As shown in the figure, a modest change in the long-term trade growth rate (for example) could significantly change the future tariff profile.

In developing these projections, we have sought to adopt realistic assumptions that we consider reflect a feasible future state. However, given the number of variables involved and long forecast horizons, there are a range of possible future outcomes, and these projections represent just one of many possible future states. These projections should be considered illustrative only and should not be relied upon for any purpose.

We will provide updated projections in the 2023-24 Tariff Compliance Statement.

If you would like any further information about the recovery of depreciation and tariffs after 2037, please indicate this in the Feedback Form.

Figure 2 - Real tariff index under different demand projections



Our plans for rebalancing tariffs

We are seeking input on future tariff reform opportunities

During the TAL period, when tariffs must increase by no more than inflation, the Pricing Order requires that we adjust all tariffs by the same percentage each year unless we submit, and the Essential Services Commission approves, a Tariff Rebalancing Application.

A ‘tariff rebalancing’ would not allow us to increase the weighted average tariff by more than CPI during the TAL period, but it would allow us to make different percentage adjustments to different tariffs, to introduce a new tariff or to discontinue an existing tariff.

A ‘tariff rebalancing’ can only be made after extensive engagement, and while we will not make a rebalancing application for the tariffs to apply in 2023-24, we would like to hear from you about any ideas or preferences you have for potential tariff reforms in the future.

Based on the feedback we get from you on tariff reform, we may proceed with further engagement on a public tariff strategy during 2023 and 2024 which could progress to a tariff rebalancing application at a later date.

If there are any tariffs reforms you would like us to consider going forward, please indicate this in the Feedback Form.

Tariffs:
Supporting Documents

Please refer to additional materials for more information on how we set or tariffs under the Pricing Order, and the treatment of depreciation and tariffs after the end of the TAL period:

- General Statement, 2022-23 Tariff Compliance Statement, sections 10 and 11 , available on our website here [Regulatory Quick Links | Port of Melbourne]

05 Regulatory period

Proposal for a five-year regulatory period

Regulatory period – summary

Summary, scope and purpose of engagement

The regulatory period is the length of time that we set prices for in advance, based on forecasts of inputs like demand, expenditure and the cost of capital (WACC). Currently, this happens annually (i.e. the regulatory period is one year).

Last year, after consulting with you, we made a commitment in our Tariff Compliance Statement of May 2022 to move to a longer than one-year regulatory period.

This year, we are proposing to adopt a five-year regulatory period. We will make a final decision on the length of the regulatory period after consulting with you. We will have regard to your views when making this decision.

We have been collecting opinions on the length of the regulatory period for some time. We engaged on the topic in 2021 and again in 2022, when we heard from stakeholders that the regulatory period should support prudency and efficiency. On a number of occasions, our regulator, the Essential Services Commission, has indicated its preference for us to adopt a longer regulatory period to promote stability and certainty.

This feedback has led us to the conclusion that on balance, a five-year period is the best approach.

This section of the Information Pack provides our reasoning for proposing a five-year regulatory period and seeks your views on our proposal and reasoning.

We have also made available on our website a technical report by independent experts, Incenta Economic Consulting (Incenta), on the economic principles behind the choice of regulatory period length, for those who want more detail on concepts referred to in our proposal.

In the Feedback Form there is a question about whether you have been provided with enough information to participate in the discussion, and questions that allow you to share your views on our proposed regulatory period and our reasoning.

As set out in the introduction to this pack, we are providing a 'consult' level of participation for this engagement. This means we will keep you informed, listen to and acknowledge your concerns and aspirations, and provide feedback on how your input influences our decisions.

Regulatory period – background information

What is the regulatory period?

The regulatory period is the period of time over which the Pricing Principles and Cost Allocation Principles in the Pricing Order apply. Essentially, it is the period of time over which we forecast our costs and prices.

Prices are set for the regulatory period based on forecasts of the efficient costs (i.e. the 'Aggregate Revenue Requirement', or ARR), and then shortly before the end of the regulatory period, prices are re-set again for the next regulatory period based on new forecasts of the ARR and demand.*

This periodic fixing and re-setting of prices has a number of roles in the regulatory framework:

- It defines the period over which we are required to develop and publish forecasts of the cost of capital (WACC), expenditure, demand and prices;
- It provides incentives for us to minimise costs and creates a mechanism through which cost reductions are passed through to customers.
  - It is the fixing of prices that give us an incentive to achieve efficiencies. All else equal, if we out-perform the forecasts that were the basis of the prices, we retain the difference (likewise, if we under-perform against forecasts, we incur additional costs)
  - It is the re-setting of prices that passes benefits through to customers. Over a regulatory period, if we deliver the same services at lower cost, when prices are re-set they are based on those lower costs, resulting in lower prices.

How does the length of the regulatory period get determined?

Under the Pricing Order, PoM is required to set the length of the regulatory period.

Why is the length of the regulatory period important to you?

The length of the regulatory period is an important part of the regulatory framework. It has an impact on Port Users because its implications for:

- **Prices** – it can affect price stability, certainty, and even price levels. Longer regulatory periods provide greater price stability and certainty.
- **Costs and investment** – it can affect incentives for cost reduction and incentives for efficient investment. Longer regulatory periods create stronger incentives for efficiency, and these efficiency gains ultimately pass through to customers through lower costs and/or better services.

Further detail on the role of the regulatory period in our regulatory framework is set out in this Information Pack, and in supporting materials from independent experts Incenta Economic Consulting (Incenta).

Incenta's report provides a detailed assessment of the economic principles behind the choice of regulatory period length and is available on our website: Industry Engagement 2023 - Port of Melbourne.[#]

* Prices are set in 'real' terms, which means they are still adjusted annually for changes in CPI.

^ As noted by Incenta in its report, if a firm does not expect to recover costs and earn a normal return on investment it will, to the extent it is able, seek to avoid making new investments even when it is efficient to do .
[#] https://www.portofmelbourne.com/news-publications/industry-engagement-2023/

Regulatory period – what have we heard so far?

What we heard in past engagement on the regulatory period

We asked for your views on the regulatory period in 2021 and 2022. A summary of these consultations is included in our Tariff Compliance General Statements from those years (2021-22 and 2022-23, respectively), which are available on our website, here [Regulatory Quick Links | Port of Melbourne](https://www.portofmelbourne.com/regulatory-information/regulatory-quick-links/).[#]

In 2021, we received feedback stating that we should consider principles of stability, transparency and consistency in choosing the length the regulatory period.

In 2022, following the ESC's inquiry, we noted our intention to transition to a longer regulatory period from 1 July 2023 and consulted stakeholders on:

- their preferences for PoM's regulatory period length and the timing of the transition; and
- how they would like to be consulted on implementation issues.

Submissions indicated a preference for the regulatory period to support prudency and efficiency of investment, and interest in being informed going forward.

Based on the feedback from Port Users and the ESC, in our 2022-23 TCS (released 31 May 2022), we committed to transitioning to a longer regulatory period from 1 July 2023.

[#] https://www.portofmelbourne.com/regulatory-information/regulatory-quick-links/

What are the regulator's views on the length of the regulatory period?

In its 5-year Inquiry into compliance with the Pricing Order (released 28 January 2022), the ESC encouraged PoM to consider adopting a longer regulatory period, as it would promote stability and predictability of prescribed service tariffs for Port Users within the applicable tariff limit.

The ESC also stated that:

- a one-year regulatory period for an infrastructure asset such as the Port is unusual and creates uncertainty for port users
- it considered a longer regulatory period, such as a five-year period, would be in the best interests of port users and Victorian consumers compared to a one-year period.*

On 20 December 2022, the ESC published a revised Statement of Regulatory Approach (SoRA), in which it reiterated its previous commentary promoting the adoption of a regulatory period of longer than one-year, and also noted the conventional practice of a five-year regulatory period^:

> *… We consider that a longer than one-year regulatory period promotes a stable rate of return estimate and an aggregate revenue requirement based on long-term demand and expenditure forecasts.[117] This, coupled with greater insight into the Port's forward capital planning, would create greater certainty for port users and support their long-term investment decisions compared to rolling one-year regulatory periods.*
>
> *[Footnote 117: The conventional practice in other large infrastructure asset regulatory regimes is to adopt five-year regulatory periods]*

* ESC, Inquiry into the Port of Melbourne compliance with the pricing order, December, p.35
^ ESC, Statement of Regulatory Approach v3.0, 20 December 2022, p.38.

Regulatory period – we are seeking your views on our proposal

Our proposal is to transition to a five-year regulatory period

We currently operate on a one-year regulatory period. This means we re-forecast all inputs to the building block model and re-set prices on an annual basis.

Last year, after consulting with you, we made a commitment in our Tariff Compliance Statement to adopt a longer regulatory period (see our 2022-23 TCS here*).

This year, we are proposing to adopt a five-year regulatory period. We are doing this because we believe that a five-year regulatory period will:

- Provide more certainty and stability for prices and service delivery;
- Improve cost recovery, and provide stronger incentives for us to make efficient investments in the long-term interests of Victorian consumers (noting that this implies higher prices in the short-term than a counterfactual situation^).

We also note that five-year regulatory periods are the conventional practice for most regulated infrastructure in Australia for these reasons. They are used in port access regimes in South Australia and Queensland, electricity and gas distribution and transmission Australia-wide, and in the Victorian Water sector.

We are seeking your views on our proposal

We are seeking views on our proposal, because:

- We consider that the choice of regulatory period could have a significant impact on you
- We recognise that there are matters we may not have considered that are relevant to the decision.

We will make a final decision on the length of the regulatory period after consulting with you, and implement our decision in the upcoming 2023-24 TCS. We will have regard to your views when making this decision.

* https://www.portofmelbourne.com/regulatory-information/regulatory-quick-links/
^ Over the long-term, under a scenario where more efficient investments in infrastructure were made (e.g. with respect to the cost and/or timing of those investments), overall supply chain costs would be expected to be lower.

Regulatory period – summary of reasons (1 of 3)

Our reasons for proposing a five-year regulatory period

The ESC sets out a range of factors that it expects us to consider in deciding on the length of the regulatory period, including (in summary):

- How our proposed regulatory period achieves the objectives of the regulatory regime (as set out in section 48 of the Port Management Act); and
- Various factors concerning the pros and cons of longer versus shorter regulatory period.*

We recognise this is a complex issue. However, we believe it is important, so we have attempted to provide an accessible summary of the key impacts of the regulatory period and reasons we have proposed a five-year term in the next three slides. This is intended to maximise the opportunity for you to participate in the decision.

The key impacts and reasons we have identified are:

- Prices – stability and certainty
- Efficiency – incentives to minimise costs
- Cost recovery – efficient investment and fair and reasonable prices
- Allocation of risk – how increased forecasting risk are to be managed.

For completeness, after this summary section we set out in detail our reasoning against all of the factors identified by the ESC.

Prices – stability and certainty

A five-year regulatory period would provide greater certainty to Port Users about outcomes to be delivered and prices to be charged, as they are fixed at for the duration of the period.

It will also provide greater stability on cost inputs to the revenue requirement. One of the key inputs affecting price is the WACC, which accounts for the vast majority of the Aggregate Revenue Requirement (ARR). Currently we re-estimate the WACC on an annual basis, which can result in large movements in the ARR from matters outside of our control (in particular, interest rates, which are a key input into the cost of equity component of the WACC).

A five-year regulatory period would fix the cost of equity component of the WACC and so increase stability and certainty of the key building block cost affecting prices. Although we would update the cost of debt on an annual basis (as per conventional practice), given this is calculated using a 10-year trailing average, it is already reasonably stable.

Efficiency – incentives to minimise costs

Prices are set at the start of each regulatory period based on forecasts of the building block inputs and demand. This has the effect of rewarding PoM for reducing costs below forecast, since efficiency gains are retained during the regulatory period before prices are re-set.

It also delivers benefits for Port Users and Victorian consumers, because any efficiency improvements we make will be used to re-set forecasts in subsequent regulatory periods, driving down costs and prices.

Longer regulatory periods provide stronger incentives for efficiency, but also generate greater risks of windfall gains or losses if forecasts are wrong. Incenta has noted that a five-year period appears to appropriately balance these two factors, and the prevalence of five-year regulatory periods in regulated infrastructure supports this position.^

* For further detail, see ESC, Statement of Regulatory Approach v.3.0, 20 December 2022, p.39. We also set out each of these factors in the following slides.

^ Incenta, Transitioning to a multi year regulatory period, February 2023.

Regulatory period – summary of reasons (2 of 3)

Cost recovery – efficient investment and fair and reasonable prices

Typically, the length of the regulatory period is inversely related to certainty in cost recovery – in that longer regulatory periods increase risks to cost recovery because there is more scope for actual costs and actual demand to deviate from forecast. As noted on the previous slide, this is a key property of regulatory regimes designed to incentivise efficiency, and also forms part of our regime.

However, while the TAL is in place, longer regulatory periods will also enhance our ability to recover our efficient costs in two ways:

Firstly, by reducing the likelihood that the TAL will not bind

- In the current very high inflation environment, there is a reasonable prospect that the TAL will not bind for 2023-24 under a one or two-year regulatory period, but would bind thereafter. That is, at first, prices may need to increase by less than CPI to meet the ARR (i.e. a real price reduction), but would still be constrained to be no more than CPI going forward (i.e. no real increases in prices).
- This outcome could create significant under-recovery of efficient costs during the TAL period by reducing prices below their efficient level for the entire period. This would create an incentive for PoM to inefficiently avoid or defer new investment.
- A longer regulatory period would increase our ability to smooth prices (as discussed on page 42 of this Information Pack, and in Incenta's report), which would reduce the likelihood of the above occurring.

Secondly, by reducing under-recovery of costs across a regulatory period

- When the TAL binds, there may be instances where there is the potential for a mix of positive depreciation allowance in some years, and a (notional) negative depreciation allowance in other years. As the Pricing Order prohibits negative depreciation outcomes (which will be set to zero), this could increase the extent to which efficient costs are unable to be recovered, and reduce incentives for efficient investment.
- A longer regulatory period would provide an opportunity to scale or adjust depreciation to generate a depreciation allowance for the regulatory period that is positive in every year (or negative in every year, in which case, depreciation would be set to zero), enhancing cost recovery.

As noted by Incenta, this would avoid the potential for a positive depreciation allowance to be generated in some years and a negative depreciation allowance in others. It would also result in higher deferred depreciation than the counterfactual situation (since the amount of potentially negative depreciation, which is zeroed out, would be reduced) and a higher asset base in the long-term.

Improving cost recovery implies higher short-term prices

Based on the above, we think a longer regulatory period could improve cost recovery (by reducing under-recovery of efficient costs). Improving cost recovery brings with it two important aspects:

1. It is consistent with the objectives of the regulatory regime to give us a reasonable opportunity to recover our efficient costs, and to promote efficient investment.*
2. It would typically mean higher prices (at least in the short-term) than a counterfactual situation that involved more under-recovery of costs, noting that prices must still stay within the TAL (i.e. increase by no more than inflation).
3. We have considered the possible magnitude of a price impact. Given the range of uncertain variables involved, these numbers are indicative only, however our current base-line assessment is that:

- A one or two-year regulatory period could result in a **real price reduction of around 1% in FY24.** Material movements in inflation in the coming months (e.g. 0.5 percentage points higher) or interest rates (e.g. 50 basis points lower) could see this price reduction reach as high as 7% (all else equal). Alternatively, if inflation falls or interest rates increase, there could be no price impact;
- A regulatory period of 4 years or more would likely result in the TAL binding, and **prices staying constant in real terms over the regulatory period (i.e. CPI – 0%)**.

Note that over the long-term, under a scenario where more efficient investments in infrastructure were made (as intended under a longer regulatory period), overall supply chain costs would be expected to be lower.

* As noted by Incenta, if a firm does not expect to recover costs and earn a normal return on investment it will, to the extent it is able, seek to avoid making new investments even when it is efficient to do so.

Regulatory period – summary of reasons (3 of 3)

Allocation of risk and dealing with uncertainty

We have identified several mechanisms for managing the risks of a multi-year regulatory period. These include, primarily:

- Demand forecasting risk
- Opex forecasting risk
- Major project forecasting risk.

As set out in the following sections, we have implemented a range of measures to ensure that our forecasts are robust. However, it is inevitable that actual outcomes will deviate from forecasts. Our treatment of these forecasting risks is intended to provide an efficient allocation of risk and also contribute to the establishment of efficient incentives.

Demand forecasting risk

Under the price cap form of price control imposed by the TAL, the risks of demand forecasting errors are borne by us on behalf of Port Users.

Opex forecasting risk

Our approach to fixing deferred depreciation at the commencement of the regulatory period (described on page 42 of this Information Pack and in Incenta's report) means that PoM bears the risk of forecasting errors in opex.

Our approach also means that PoM bears the risk of forecasting errors in other inputs to the ARR that *are not* updated throughout the regulatory period, or 'trued up' at the end of the regulatory period. These items are the cost of equity and interest rates – PoM will bear the risks of forecast errors.

Items that *are* adjusted for actuals (and so the risk of forecasting errors is passed through to Port Users) include:

- the cost of debt (which is updated annually, in accordance with standard practice – noting that the cost of debt is quite stable due to the use of a 10-year trailing average); and
- inflation, which is passed through in annual price adjustments and the regulatory asset base is also indexed for actual inflation at the end of the regulatory period.

Capex forecasting risk

With respect to uncertain capital projects, we are taking a risk-based approach to forecasting. Where capital projects are not fully scoped, costed or internally approved (via an approved business case, for example) at the time of preparing the Tariff Compliance Statement, then we will ensure that Port Users are not asked to bear the full cost should the project scope or timing change, via:

- Including only a portion of the total expected capex in the forecast. For example, this might include design and planning costs, but not full construction costs; and
- Optimising contingency allowances. For example, projects that are forecast to occur late in the regulatory period may have higher contingencies due to higher levels of uncertainty about project scope, site condition, etc. Where this occurs, we will optimise the contingency allowances such that the full contingency is not included in the TCS capex forecast.

We consider that construction expenditure under the Port Capacity Expansion Project (PCEP) is a prime candidate for this treatment.

Our view is that these approaches have the effect of providing significant benefits to Port Users from the adoption of a five-year regulatory period, because there will be a strong incentives for us to deliver the service outcomes from capital projects at the lowest efficient cost.

Objectives of the regulatory regime (1 of 3)

The SoRA states that the ESC expects us to outline how our preferred regulatory period will achieve the objectives of the regime (i.e. the objectives of the Port Management Act 1995 (Vic)) (PMA).

The objectives of the regulatory regime are contained in section 48 of the PMA, as follows:

48 Objectives of this Part

(1) The objectives of this Part are—

(a) to promote efficient use of, and investment in, the provision of prescribed services for the long-term interests of users and Victorian consumers; and

(b) to protect the interests of users of prescribed services by ensuring that prescribed prices are fair and reasonable whilst having regard to the level of competition in, and efficiency of, the regulated industry; and

(c) to allow a provider of prescribed services a reasonable opportunity to recover the efficient costs of providing prescribed services, including a return commensurate with the risks involved; and

(d) to facilitate and promote competition—

(i) between ports; and

(ii) between shippers; and

(iii) between other persons conducting other commercial activities in ports; and

(e) to 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.

Key objectives related to the length of the regulatory period

Of these objectives, the length of the regulatory period will have little effect on the efficiency of use (first component of clause (a), which depends more on tariff structures), competition (clause (d)) and resource allocation in the case of entry to the market by a State sponsored port (clause (e)).

The requirements of the objective that are most relevant to the choice of regulatory period are:

- Clause (a), “to promote efficient … investment in, the provision of prescribed services for the long-term interests of users and Victorian consumers”
- Clause (b) “to protect the interests of users of prescribed services by ensuring that prescribed prices are fair and reasonable”; and
- Clause (c) “to allow a provider of prescribed services a reasonable opportunity to recover the efficient costs of providing prescribed services, including a return commensurate with the risks involved”.

The following slides set out our assessment of how the proposed regulatory period of 5-years would achieve these objectives.

The Feedback Form provides an opportunity for you to provide your views on our proposed length of regulatory period of 5-years with respect to how it will achieve the objectives of the regulatory regime.

Objectives of the regulatory regime (2 of 3)

<table>
<tr><th>PMA objective</th><th>How a five-year regulatory period would achieve the objectives</th></tr>
<tr><td>Clause 48(a) of the PMA:

“to promote efficient … investment in, the provision of prescribed services for the long-term interests of users and Victorian consumers”</td><td>The regulatory period relates to the period over which Pricing Principles in the Pricing Order apply. Prices are fixed for the regulatory period (based on forecasts of the Aggregate Revenue Requirement and demand), and then shortly before the end of the regulatory period, prices are re-set and fixed again for the next regulatory period, based on new forecasts of the ARR and demand.
This has the effect of:
• Rewarding PoM for reducing costs below forecast, since efficiency gains are retained during the regulatory period before prices are re-set;
• Delivering benefits for Port Users and Victorian consumers, because any efficiency improvements we make will be used to re-set forecasts in subsequent regulatory periods, driving down costs and prices.
All else equal, the longer the regulatory period the higher the incentive to achieve efficiency gains, since PoM will retain benefits longer before prices are re-set at the lower level. However, a longer regulatory period will also expose PoM and Port Users to the risk of windfall gains or losses, on the basis that there is a higher risk of material differences emerging between forecast and actual costs and demand.
Incenta has noted that a five year period appears to appropriately balance these risks, in that it is long enough to drive efficiency gains, while not over-rewarding PoM at the expense of customers. The prevalence of five-year regulatory periods in regulated infrastructure supports this position.</td></tr>
<tr><td>Clause 48 (b) of the PMA:

“to protect the interests of users of prescribed services by ensuring that prescribed prices are fair and reasonable”</td><td>A five-year regulatory period is expected to:
• Create stronger incentives for PoM to improve cost efficiency and utilisation (compared to a shorter regulatory period), with these benefits passed on to Port Users through lower prices (again, compared to a shorter regulatory period);
• Improve the prospects of allowing PoM a reasonable opportunity to recovery its efficient costs, by reducing the likelihood that the TAL will not bind in the early years of the next regulatory period (see the following slide for further detail);
• Limit the potential for material differences between forecast and actual costs (or demand), which might arise under a much longer regulatory period (i.e. 10-years).
PoM considers that these outcomes (being the promotion of efficient investment and opportunity for efficient cost recovery) will achieve the objective of generating fair and reasonable prices.</td></tr>
</table>

Objectives of the regulatory regime (3 of 3)

<table>
<tr><th>PMA objective</th><th>How a five-year regulatory period would achieve the objectives</th></tr>
<tr><td>clause 48(c) of the PMA:

“to allow a provider of prescribed services a reasonable opportunity to recover the efficient costs of providing prescribed services, including a return commensurate with the risks involved”</td><td>Normally, the length of the regulatory period is inversely related to certainty in cost recovery – longer regulatory periods increase risk because actual costs and demand can deviate by more from forecast. As noted above this is a key property of regulatory regimes designed to incentivise efficiency.

In the current very high inflation environment, there is a reasonable prospect that the TAL will not bind for 2023-24 under a one or two-year regulatory period, but would bind thereafter. That is, at first, prices may need to increase by less than CPI to meet the ARR (i.e. a real price reduction), but would still be constrained to be no more than CPI going forward (i.e. prices fixed in real terms).

This outcome could create significant under-recovery of efficient costs during the TAL period by reducing prices down below their efficient level for the entire TAL period. This would create an incentive for PoM to avoid new investment. As noted by Incenta:*

The requirement for the promotion of efficient investment indicates that in extending the regulatory period there should be a reasonable expectation that costs will be recovered given this is a requirement for promoting efficient investment. That is, if a firm does not expect to recover costs and earn a normal return on investment it will, to the extent it is able, seek to avoid making new investments even when it is efficient to do so.

Based on current CPI and interest rate forecasts, the TAL may not bind under a shorter period (e.g. one or two-years), but would bind under a longer period (e.g. four or five-years or longer). These outcomes rely on CPI and interest rate data that is not yet available^, and could also be influenced by changes in other inputs to the building block model (e.g. demand and expenditure forecasts, other market data influencing the WACC). Therefore, these outcomes are uncertain.

However, in order to provide stakeholders with an appreciation for the possible magnitude of price impacts, we have prepared indicative estimates based on current CPI and interest rate information, and preliminary forecasts of other building block inputs, which suggest:
• A one or two year regulatory period could result in a real price reduction of around 1% in FY24 (then constant in real terms). Material upward movements in inflation (e.g. 0.5 per centage points higher) or interest rates (e.g. 50 basis points lower) could see this price reduction reach as high as 7% (all else equal). A decrease in inflation or increase in the risk free rate would likely mean there would be no price impact.
• A regulatory period of four years or more would likely result in the TAL binding, and prices staying constant in real terms over the regulatory period.

Note that with current inflation forecasts indicating CPI is likely to be around 7.3% for the relevant year, all of these scenarios would involve nominal price increases.

Based on the above, PoM’s view is that a five-year regulatory period best balances the objective to allow a reasonable recovery of efficient costs with incentives for efficiency, because it will:
• Reduce, although not eliminate, the risk that the TAL will not bind (compared to a shorter regulatory period, where the risks of the TAL not binding are higher);
• Provide for a reasonable degree of certainty and stability in forecasts of both prices and key building block inputs, and so create incentives for efficient investment but not expose PoM or Port Users to undue risk of actuals deviating materially from forecasts and the associated windfall gains or losses (compared to a longer regulatory period, where there are risks that actual outcomes could deviate materially from forecasts).</td></tr>
</table>

^ Incenta, Transitioning to a multi year regulatory period, February 2023

^ The TAL for 2023-24 is defined by March-March inflation data released by the ABS in late April, and our intention is to base the remaining forecast inflation on the latest available RBA figures, which will be released in May. Interest rate data from the end of March is used in the estimation of the WACC

Other factors influencing the choice of regulatory period (1 of 4)

In addition to the PMA Objectives, the SoRA outlines other factors that the ESC considers we should take into account when making a choice on regulatory period, including the comparative benefits of longer versus shorter regulatory periods:

- Ensuring certainty for Port Users and stakeholders about the outcomes to be delivered and prices to be charged;
- Providing sufficient time for PoM to focus on service delivery and achieving the Port User outcomes it has set for the period
- Demonstrating efficient compliance with the in-period tariff compliance statements and effective engagement with the stakeholders
- Avoiding unwarranted continuation of any non-compliance that we identify during a compliance review;
- Confidence that forecasts are efficient and robust
- How the risks of the forecast errors (for example, overestimating demand forecasts) are allocated between PoM and Port Users
- How to deal with the uncertainty of major unforeseen events that may affect its annual revenue requirement
- Port Users' views on the proposed length of regulatory period and PoM's reasoning for choosing the length of that period
- Ensuring appropriate time and opportunity provided to Port Users to effectively consult with PoM during the proposed regulatory period.*

The following slides set out our assessment of how our proposed regulatory period of five-years in line with these factors.

The Feedback Form provides an opportunity for you to provide your views on our proposed length of regulatory period of five-years with respect to the comparative benefits of longer versus shorter regulatory periods, and/or any other factor you consider relevant.

* ESC, Statement of Regulatory Approach v3.0, 20 December 2022, pp.38-39

Other factors influencing the choice of regulatory period (2 of 4)

The following table details the factors the ESC considers we should take into account, the comparative benefits of longer versus shorter regulatory periods and the reasoning for the proposed five-year regulatory period

Factors considered	Benefits of longer regulatory periods and reasoning for five-year regulatory period
Ensuring certainty for Port Users and stakeholders about the outcomes to be delivered and prices to be charged	We consider that a five-year regulatory period would provide greater certainty to Port Users about outcomes to be delivered and prices to be charged. One of the key inputs affecting price is the WACC, which accounts for the vast majority of the revenue requirement. A five-year regulatory period would fix the cost of equity, while the cost of debt would be updated annually (though on a 10-year trailing average). This would increase stability and certainty of the building block costs. The outcomes to be delivered are a function of the capital program. A longer regulatory period will support PoM in providing more certainty about the capital program and therefore the services and outcomes to be delivered. In general, Port Users have certainty that prices will not increase by more than CPI out until 2037, due to the operation of the TAL. However, as noted on the previous slides, there are circumstances in which this does not apply (e.g. very high inflation, and/or low WACC). A longer regulatory period would also allow more time for engagement with Port Users on their preferences for tariff reform in between TCS submissions and ESC Inquiries.
Providing sufficient time for PoM to focus on service delivery and achieving the port user outcomes it has set for the period	We consider that a five-year regulatory period would provide more time for us to focus on service delivery and outcomes by reducing the administrative burden associated with regulatory submissions. This administrative burden falls on PoM, Port Users and other stakeholders participating in the engagement process, and the ESC. Our view is that TCS submissions within a regulatory period should require significantly less administrative effort (from all parties) and leave more time for service delivery and engagement.
Demonstrating efficient compliance with the in-period tariff compliance statements and effective engagement with stakeholders	We consider that a five-year regulatory period would allow for greater lead-times for effective engagement with our stakeholders.
Avoiding unwarranted continuation of any non-compliance that we identify during a compliance review	We consider that a five-year regulatory period can perform equally as well as (if not better than) a shorter regulatory period in avoiding continuation of any non-compliance identified by the ESC if the start and end dates of the regulatory period are appropriately staged with respect to the timing of the ESC's reviews. A five-year regulatory period commencing from 1 July 2023 would end on 30 June 2028. Assuming that the ESC will finalise and publish its Inquiry report in early 2027, this would give us just over a year's lead-time to address the ESC's findings in the next regulatory period. Given that lead times for price submissions in other jurisdictions often exceed 2 years, we consider that this is an appropriate timeframe to avoid unwarranted continuation of non-compliance. Further, as noted in the SoRA, there is the potential to use adjustments to deferred depreciation in lieu of re-opening provisions, to allow for certain non-compliances (such as those that affect the Aggregate Revenue Requirement) to be remedied before there is any impact on Port Users.

Other factors influencing the choice of regulatory period (3 of 4)

Factors considered	Benefits of longer regulatory periods and reasoning for five-year regulatory period
Confidence that forecasts are efficient and robust	In general, making robust forecasts of the building block inputs (particularly expenditure and demand) becomes more difficult as the regulatory period gets longer. Nevertheless, PoM considers that the improvements made to its forecasting approach since the ESC's five-year inquiry demonstrate that there can be confidence that the forecasts are efficient and robust: • Capex – as noted in the ESC's Interim Commentary, a range of process improvements have been made to PoM's capital planning process, with the ESC noting that "the measures undertaken by PoM with respect to prudency and efficiency appear to reflect capital planning processes appropriate for PoM's proposed capital works" (ESC, Interim commentary – Port of Melbourne Tariff Compliance Statement 2022–23, 20 December 2022, pp.16-17). We have also engaged extensively on major projects with a growth (rather than strict compliance) driver, as set out in section 8 of this Information Pack. • Opex – we have adopted the Base-Step-Trend approach to forecasting opex, which is consistent with the ESC's recommended approach from the five-year Inquiry, and we are in the process of considering its response to the ESC's suggestion to adopt 2019-20 as the base year for the forecast. • Demand – the ESC found our demand forecasts compliant with the Pricing Order in its Inquiry. As part of the PCEP engagement process, forecasts of demand, vessel sizes and capacity have gone through a rigorous consultation to ensure they are the best possible in the circumstances. Further, while demand can fluctuate materially from one year to the next, over the longer-term demand patterns appear more stable, suggesting that a five-year regulatory period is not affected by significantly more uncertainty on demand, and demand forecasts may even be more accurate over that timeframe.
How the risks of the Port making forecast errors (for example, overestimating demand forecasts) are allocated between PoM and Port Users.	Under the price cap form of price control imposed by the TAL, the risks of demand forecasting errors are borne by us on behalf of Port Users. With respect to uncertain capital projects, we are taking a risk-based approach to forecasting. Where capital projects are not fully scoped, costed or internally approved (via an approved business case, for example) at the time of preparing the Tariff Compliance Statement, then we will ensure that Port Users are not asked to bear the full cost should the project scope or timing change, via: • Including only a portion of the total expected capex in the forecast. For example, this might include design and planning costs, but not full construction costs; and • Optimising contingency allowances. For example, projects that are forecast to occur late in the regulatory period may have higher contingencies due to higher levels of uncertainty about project scope, site condition, etc. Where this occurs, we will optimise the contingency allowances such that the full contingency is not included in the TCS capex forecast. Our view is that these approaches have the effect of providing significant benefits to Port Users from the adoption of a five-year regulatory period, because there will be strong incentives on PoM to deliver outcomes via capital projects at the lowest efficient cost.

Other factors influencing the choice of regulatory period (4 of 4)

Factors considered	Benefits of longer regulatory periods and reasoning for five-year regulatory period
How to deal with the uncertainty of major unforeseen events that may affect PoM's annual revenue requirement	We note that the ESC commented on the issue of mechanisms to deal with uncertainty (such as re-opening mechanisms) in its updated SoRA as follows: *Under the tariffs adjustment limit, we consider that the deferment of depreciation allows the Port to manage any readjustments of prices to reflect efficient costs the same way as reopening provisions allow. Hence, we do not necessarily foresee a need for explicit reopening provisions during the tariffs adjustment limit period. (ESC, Statement of Regulatory Approach v3.0, 20 December 2022, p.40)* In our view, this mechanism, by operating in the same way as a re-opening mechanism, would promote the objectives of the regulatory regime by reducing the likelihood that we would be subject to: • Material windfall gains where a forecast major capital investment was delayed or did not proceed; or • Material windfall losses, where a major capital investment is required to be brought forward. As noted by Incenta, provided that the threshold for accessing this mechanism is clear, and set at an appropriately high level, there should be no adverse effect in the form of reducing PoM's incentive to promote the utilisation of the port. On the contrary, Incenta's view is that the incentive properties of the regime would be enhanced by this mechanism.
Port Users' views on the proposed length of regulatory period and the Port's reasoning for choosing the length of that period.	The 2023 Industry Engagement has been designed to obtain Port Users' views on the proposed five-year regulatory period and our reasoning for choosing the length of that period. The TCS will include an engagement summary report and set out our consideration of Port Users' views , including how these views have been considered in the choice of length of regulatory period.
Ensuring appropriate time and opportunity provided to Port Users to effectively consult with PoM during the proposed regulatory period	We consider that a five-year regulatory period would allow for greater lead-times for effective engagement with stakeholders on issues of importance to them.

Regulatory period – Other implementation issues

Implementation issues

We propose to adopt the standard approach to implementing a multi-year regulatory period, as described by Incenta in its report (and shown at right).

Other, specific implementation approaches that we would adopt include:

- Price smoothing over the regulatory period, rather than following the annual components of the ARR (noting that prices could not exceed CPI when the TAL applies)
- When the TAL binds, scale depreciation to generate a depreciation allowance for the regulatory period that is either positive in every year, or negative in every year (in which case, depreciation would be set to zero, as per clause 4.4.3). As noted by Incenta, this would avoid the potential for a positive depreciation allowance to be generated in some years and a negative depreciation allowance in others, and so minimise the extent PoM would not be afforded a reasonable opportunity to recover efficient costs and the consequent detrimental incentives for investment from such an outcome.
- Using actual depreciation to roll-forward the RAB. As noted by Incenta, during the TAL period this would involve locking in the 'shortfall in depreciation' (i.e. deferred depreciation) at the start of the regulatory period, to produce the same incentive properties for efficiency improvements as under a standard regulatory regime without a TAL.*

Approach to implementing a five-year regulatory period^

Incenta outlines the standard approach in infrastructure regulation to setting a multi-year price path in its report as follows:

- First, establish an Aggregate Revenue Requirement for the regulatory period, following the requirements of the Pricing Order. This will involve making forecasts of, amongst other things, operating expenditure, capital expenditure, the WACC and inflation.
- Secondly, forecast demand over the regulatory period.
- Thirdly, determine a price path that is expected to generate a revenue stream (given the forecast of demand) over the regulatory period that is equal to the Aggregate Revenue Requirement.
    - Price controls are typically such that the price path is smoothed over the regulatory period (i.e., rather than following the annual components of the Aggregate Revenue Requirement) and to provide inflation protection.
    - This would imply setting a price control under which prices follow actual inflation, (i.e., CPI - X%).
- Fourthly, at the end of the regulatory period, prices are reviewed, following the same process. The important features of this process are that:
    - the RAB from the start of the last regulatory period is updated to include actual capital expenditure and indexation based upon actual inflation, and
    - the new forecasts of expenditure and demand take account of the actual performance over the previous regulatory period

* Incenta, Transitioning to a multi year regulatory period, February 2023.

^ Incenta, Transitioning to a multi year regulatory period, February 2023.

Regulatory period – supporting documents

Please refer to the following additional materials for more information on the topics discussed in the introduction and project overview

- Incenta, Transitioning to a multi year regulatory period, February 2023, available on our website, here Industry Engagement 2023 - Port of Melbourne
- General Statement, 2022-23 Tariff Compliance Statement, section 2.4, available on our website, here Regulatory Quick Links | Port of Melbourne

06 Rail

Current situation and plans for rail

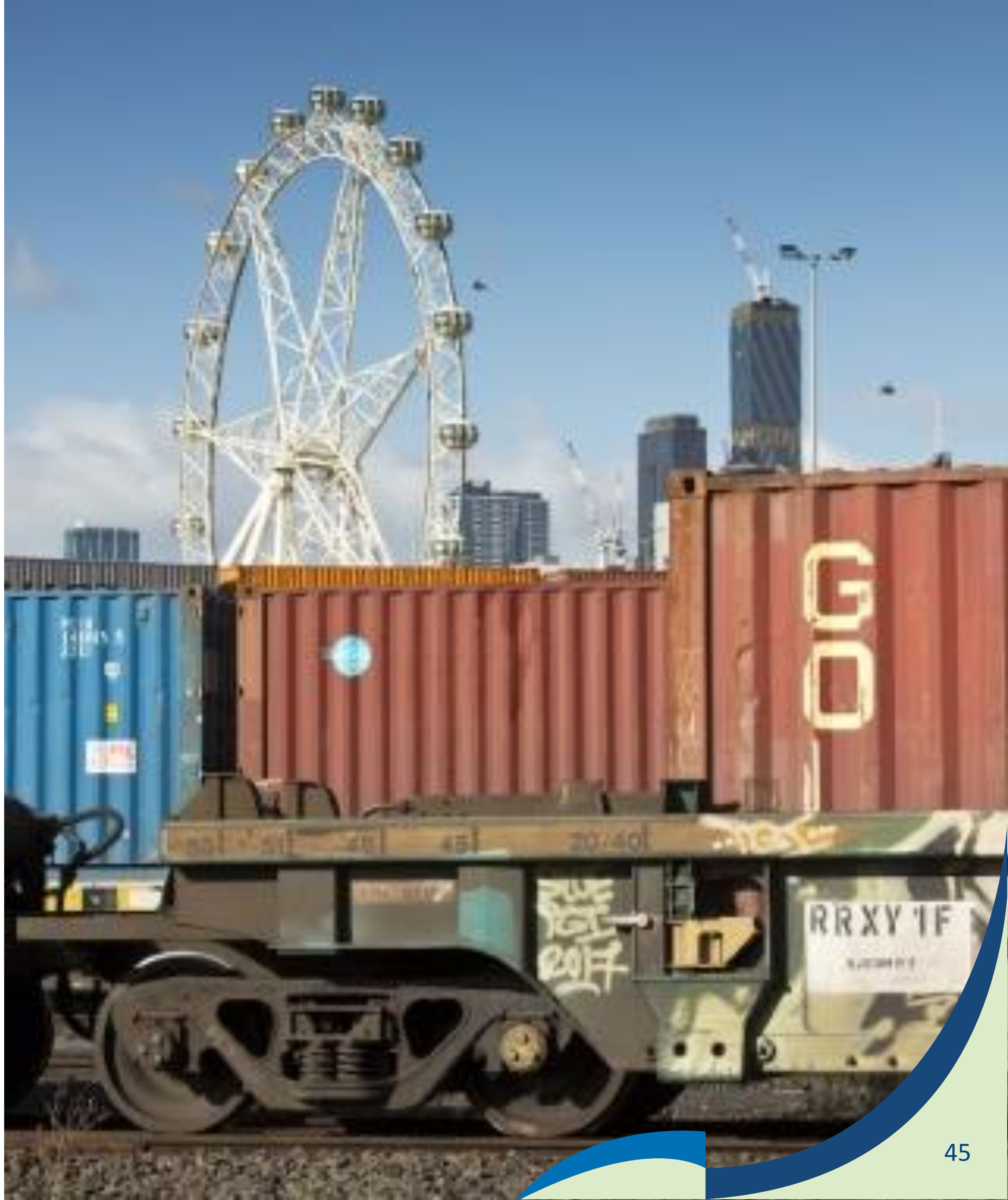
Rail – summary

If you have visited the Port in the last two years you will most likely have noticed construction work related to rail. In the early interviews that preceded this engagement, some stakeholders asked for more information about rail. They wanted to know more about the plans for rail; and they wanted a chance to tell the us about their needs, so that those needs could be taken into account.

This section of the Information Pack details the current situation, the costs and future plans for rail at the Port. There are also links to all the important documents for those who want more information.

In the Feedback Form there is a question about whether your needs for information have been met, and also space for you to tell us about your own plans that concern rail. Your feedback will be used to:

- **Influence our approach to engagement on rail operations**
- **Our plans for updating the Rail Access Strategy for its next iteration.**



Rail – current situation

Port of Melbourne is home to 3 existing intermodal rail terminals and 1 bulk grain rail terminal

- Existing intermodal rail terminals are operated by Qube and ACFS Port Logistics (which are both part of the Port Rail Transformation Project) and DPW Logistics;
- The Port Rail Transformation Project purchased rail infrastructure from Qube and ACFS and in return these operators agreed to operate as Open and Non-Discriminatory Access terminals in accordance with the Port Rail Access Principles and pricing principles (available on our website, here https://www.portofmelbourne.com/port-operations/rail-operations/); and
- We are currently building a new intermodal rail terminal to interface with Patrick's Swanson Dock East international container terminal.

As part of the Port Rail Transformation Project we are currently in the process of building new rail infrastructure within the port as follows:

- A new intermodal rail terminal to interface with Swanson Dock East, which contains two 600m sidings, storage and interchange areas;
- A new track linking the Swanson lead track to the Appleton lead track;
- The common user sidings at Swanson Dock have been increased in length to each cater for 600m trains; and
- This new rail infrastructure will be completed by mid-2023

Rail Operations within Common User Sidings

- We will shortly commence engagement with rail operators regarding the use of common user sidings within the port, to support the new rail infrastructure being constructed;
- This will consider shunting movements within the port and include a risk assessment process involving the port's Rail Infrastructure Manager, Australian Rail Track Corporation.

Rail – funding

How is rail infrastructure within the port charged for and funded?

- The common user rail infrastructure (lead tracks, common user sidings and associated equipment) and land rental within the port is funded through wharfage fees (that is, PoM does not apply any direct charges for rail operators to use this);
- The provision of a Rail Infrastructure Manager to manage maintenance and provide train control within the port common user rail infrastructure is contracted by PoM to ARTC.

Rail Intermodal Terminal prices

- The rail intermodal terminals participating in the Port Rail Transformation Project (Qube, ACFS & Patrick) charge fees directly to users of their services via Reference Prices
- The rail intermodal terminals participating in the Port Rail Transformation Project are required to publish their Reference Prices.
- These Reference Prices are set by the operators, and must comply with the Pricing Principles (contained within the Port Rail Key Principles). For example, the Reference Prices are not to incorporate the costs being borne by PoM (i.e., infrastructure provision and land rental) – since these are recovered through wharfage fees.

3.2 Pricing Principles*

Rail terminal operators' pricing will be reasonable, including by a rail terminal operator ensuring:

a. Reference Prices and Access Charges are consistent with the Port Rail Access Principles and are reasonable in light of all relevant factors, including:
   i. reflecting operations of an efficient terminal that operates with optimal lifts and storage requirements;
   ii. incorporating a return on investment commensurate with the commercial risks involved; and
   iii. not incorporating costs otherwise incurred, recovered or that should be borne by third parties (including PoM, the State and related businesses of the RTO); and

b. Access Charges allow multi-part pricing and price discrimination when it aids efficiency and competition, but only where differentiation of Access Charges reflects:
   i. differences in costs (direct or indirect) of supplying the relevant services;
   ii. differences in risks associated with the supply of relevant services;
   iii. demand for the services and prevailing market conditions at the time of entering into the relevant agreements; or
   iv. discounting pricing behaviour of the RTO that is consistent with outcomes in a competitive environment, **(Pricing Principles)**.

* Extract from Port of Melbourne, Port of Melbourne Rail Operations – Port Rail Key Principles , April 2020, pp.4-5.

Rail – future plans

Port Rail Transformation Project:

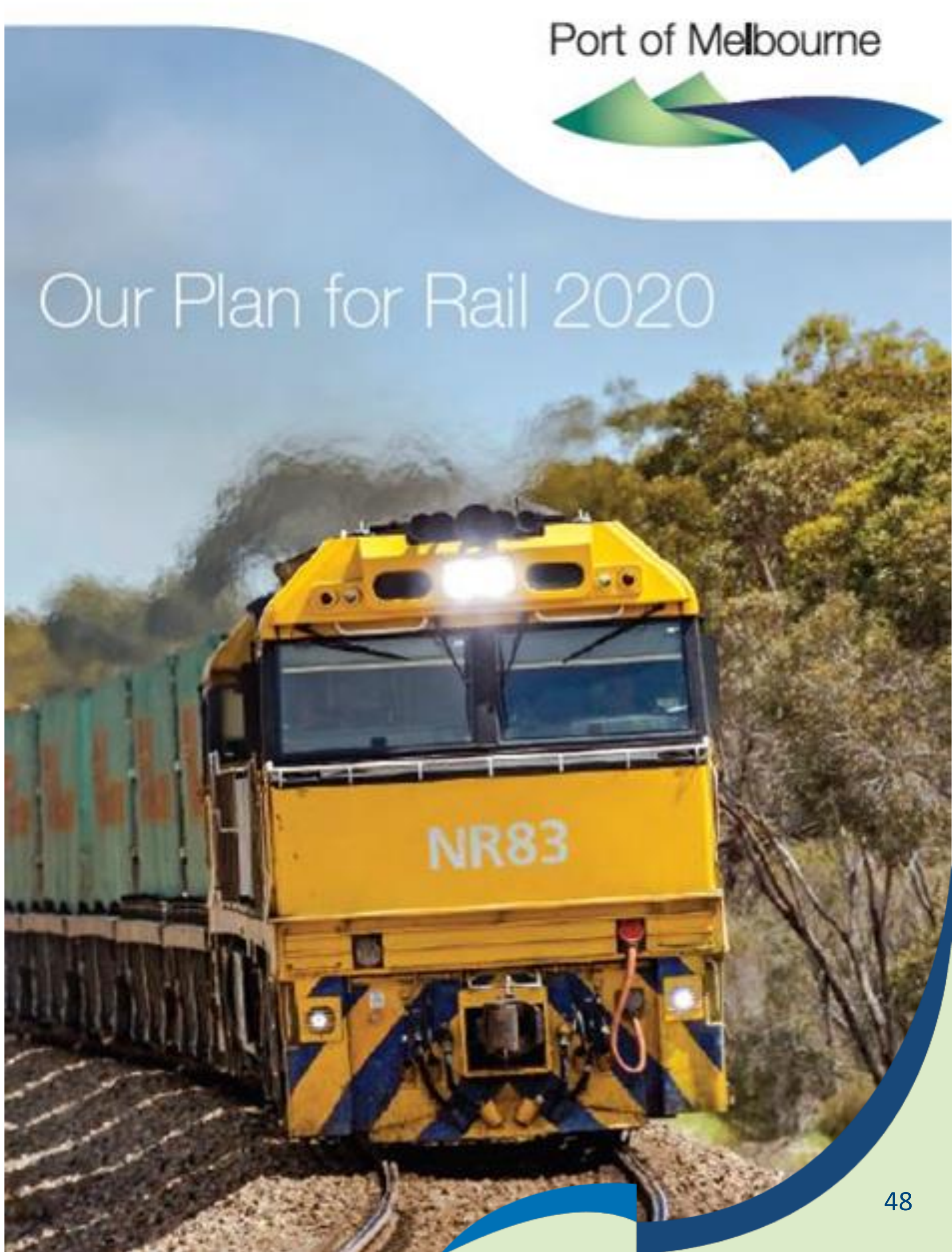
- The Port Rail transformation Project does include the potential involvement of DP World;
- The funding for these inclusion of DP World in the Port Rail Transformation Project would be subject to a tariff adjustment, consistent with the approach adopted for ACFS, Patrick and Qube.

Port of Melbourne Rail Plan

- The Victorian Government has charged PoM with improving rail at the Port through the preparation of a Rail Access Strategy;
- 'Our Plan for Rail 2020' is PoM's overview of the Rail Access Strategy; and
- This Strategy is to be revised every 5 years and work will commence in the next 12 months on the preparation of the updated strategy for release in 2025.

Webb Dock Freight Link

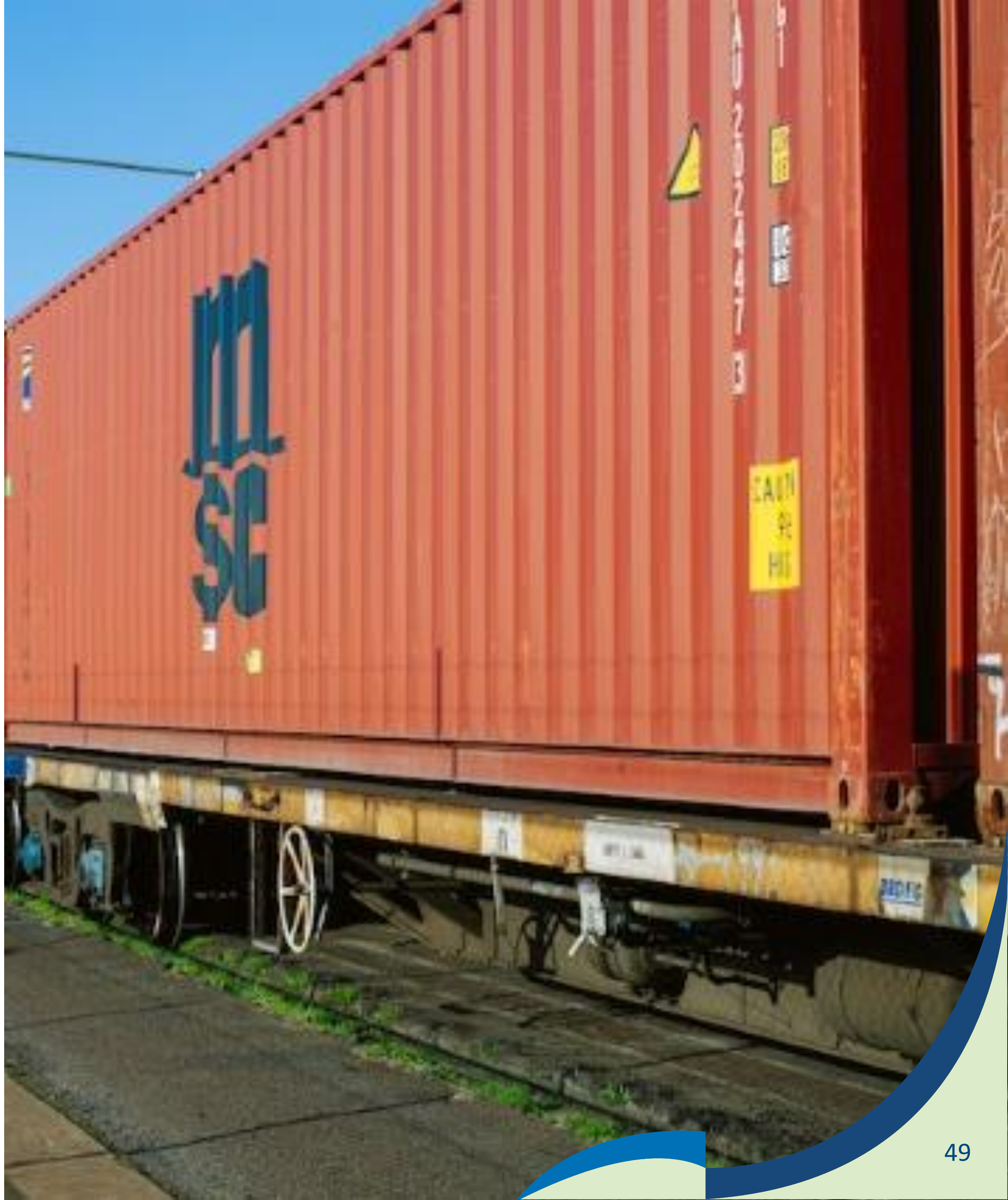
- PoM has identified a preferred corridor in conjunction with the State and the Fishermans Bend taskforce has updated its key precinct plan documents to include the agreed Freight link; and
- PoM will continue to progress planning work in conjunction with the Victorian government to determine the best way to connect Webb Dock to the rail freight network



Rail – supporting documents

For more information on the topics discussed in the Rail section of the Information Pack, please refer to the following resources available on our website:

- Our Plan for Rail 2020
- Port Rail Transformation Project - Overview - Port of Melbourne
- Rail Operations - Port of Melbourne
- Port of Melbourne Rail Operations – Port Rail Key Principles



07 Sustainability

Strategy and progress

Sustainability - summary

In the early engagement, everybody we heard from wanted to talk more about sustainability and Environmental, Social and Governance (ESG) initiatives.

Our focus on sustainability is core to our purpose and strategy, and critical to our future success. In 2021 we formalised our approach through our new Sustainability Policy and three-year sustainability strategy. Our strategy sets the foundation for us to achieve our sustainability goal to build a sustainable port for the benefit of the Victorian economy and liveability of Melbourne.

While we have made significant progress in sustainability in recent years, there are many opportunities to do more. In particular, we is open to working with you to meet shared sustainability challenges. These could be related to decarbonisation projects, assisting with input for ESG reporting, and other initiatives.

To build momentum for a more collaborative approach to sustainability, the Feedback Form has questions about your current focus areas and reporting requirements. We want to know whether you see the potential for collaboration, and what role you would like to see us play in progressing this.

An overview of our sustainability strategy and priorities is contained in this Information Pack. This may include initiatives your organisation would like to collaborate on. We look forward to better understanding your interests, concerns and priorities.

Sustainability strategy

In 2021 we finalised our Sustainability Policy and three-year sustainability strategy. Our focus on sustainability is core to our purpose and strategy, and critical to our future success. Sustainability underpins the delivery of our strategic goals and is integrated into our corporate strategy as a key business priority. Our sustainability strategy articulates what sustainability means in the context of our business and responds to those issues most material to our stakeholders.

Our overarching sustainability goal is to work with our stakeholders to build a sustainable port for the benefit of the Victorian economy and liveability of Melbourne. Our sustainability strategy's key objectives, themes and sustainability focus areas are shown in the figure below.

Our strategy is aligned to those United Nations Sustainability Development Goals most relevant to us and our stakeholders, and is supported by objectives, three-year targets and indicators.

A key focus for us in delivering the sustainability strategy is to embed sustainability into all aspects of our business, including infrastructure operations and maintenance and port development planning and delivery.

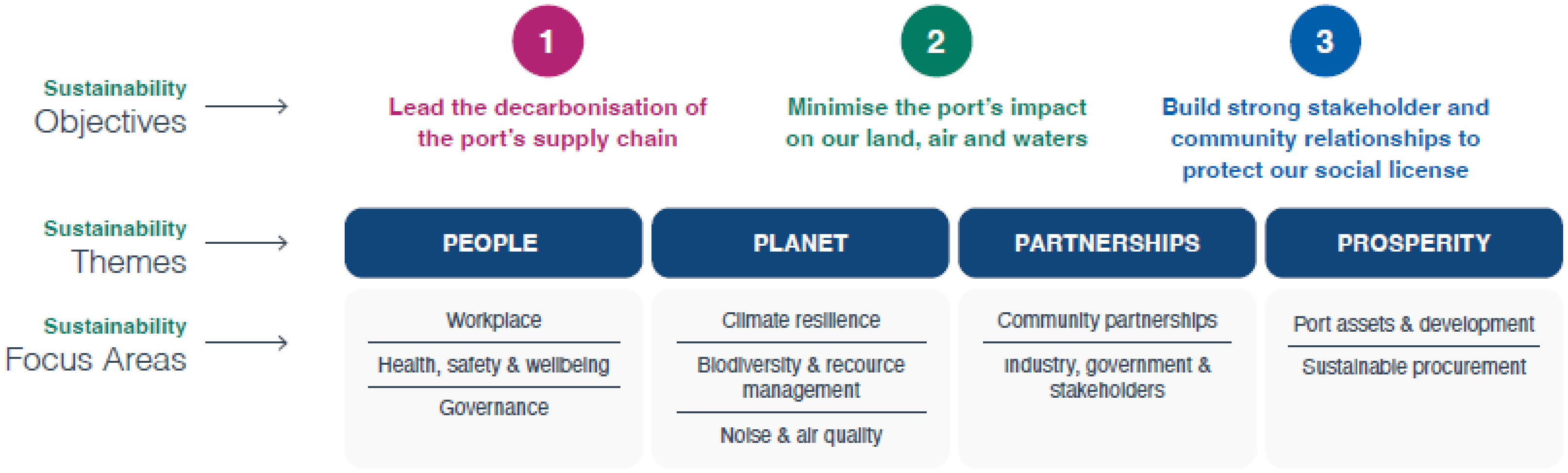
Material sustainability topics

In 2022 we undertook a comprehensive assessment to identify the economic, social and environmental topics our stakeholders consider to be most material to our business. We identified 17 topics which were prioritised based on their impact and importance to our business and our stakeholders.

The top five material topics identified were:

- Port development to meet future trade needs
- Health, safety and wellbeing
- Stakeholder engagement
- Energy use and greenhouse gas emissions; and
- Decarbonisation of the supply chain.

These topics form part of our sustainability strategy and inform our future priorities.



Sustainability progress

Our key highlights in sustainability over the past financial year are shown in the figure to the right.

Our areas of focus in the coming year are:

- Establish Scope 1&2 net zero target
- Work with stakeholders to identify and implement sustainability initiatives, particularly emissions reduction opportunities
- Develop new Community Investment Strategy and broader community engagement to strengthen PoM's social license
- Continue focus on safety and wellbeing
- Strengthen climate risk assessment
- Progress implementation of the noise and air management strategy
- Identify priority biodiversity initiatives
- Progress implementation of the Reconciliation Action Plan
- Strengthen modern slavery risk assessment and mitigation
- Continue to embed sustainability, innovation and climate resilience into new projects and existing assets

Climate change and decarbonisation

In FY22, we measured our full supply chain Scope 3 emissions for FY21 and FY22 and undertook analysis to enable a Scope 1&2 net zero target to be announced in 2023.

We also engaged with a number of stakeholders to understand emerging low and zero emissions fuels that may be used in shipping, road and rail transport in the future, together with alternate energy sources that are likely to play a role in decarbonisation.

This is an ongoing area of focus for us, including the following workstreams:

- Analysing existing and emerging policy initiatives and industry developments for low and zero emissions fuels.
- Engaging and collaborating with tenants, shipping lines, transport providers and other port users to understand their priorities and how we can facilitate plans for the use of low and zero emissions fuels and broader port decarbonisation.
- Engaging and collaborating with industry and Governments on the development of emerging fuels and alternate energy sources and the role they may play in the port's supply chain.
- Considering the inclusion of enabling infrastructure for low-emissions fuels in the design and delivery of new port infrastructure as part of the 30-year Port Development Strategy.

Sustainability reporting

Sustainability Report

We publish an annual Sustainability Report on our website.

The FY22 report will be published in early March 2023. Going forward, the annual report will be published by December each year.

The FY22 report has been prepared in accordance with the Global Reporting Initiative (GRI) 2021 Universal Standards. The report is also informed by recommendations from the Task Force on Climate-related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB) and the United Nations Sustainable Development Goals (UN SDGs).

The FY22 report has received independent assurance and verification over material data presented in the report.

We support global trends towards integrated reporting of financial and non-financial information and will evolve our reporting over time to reflect emerging standards in this area, including the International Sustainability Standards Board's disclosure standards.

We is not required to report energy or emissions data under Commonwealth Government regulation. This data is voluntary reported in our annual Sustainability Report.

Modern Slavery Statement

We publish an annual Modern Slavery Statement on our website by December each year. This is regulatory requirement under the *Modern Slavery Act (Cth) 2018*.

Sustainability recognition

Our sustainability efforts have been recognised by the Global Real Estate Sustainability Benchmark (GRESB). We achieved a 5-star rating in the GRESB Infrastructure Asset Assessment and were recognised as the most improved in the ports sector in 2022.

Sustainability - supporting documents

For more information on the topics discussed in the Introduction and Sustainability sections of the Information Pack, please refer to Port of Melbourne's Sustainability Reports, Modern Slavery Statement, and Reconciliation Action Plan available on our website

- Sustainability - Port of Melbourne
- Modern Slavery Statement - Port of Melbourne
- Reconciliation Action Plan - Port of Melbourne

08 Engagement

Engagement in the past 12 months
Industry forecast

Engagement – summary

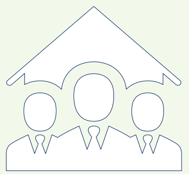
Our commitment to engagement means that want to meet your needs, not just our needs or those of our regulator. This section of the Information Pack describes our approach to finding out how to engage better with you. It gives seven examples of engagement we did in 2022, and four examples of upcoming engagement.

In the following pages we also talk about an important document, the Pricing Order Engagement Protocol (POEP). It was developed in response to ESC feedback that we weren't engaging well enough, and is effectively our public promise for how we will improve. For example, the way that the agenda and content of this Industry Engagement was developed was guided by the commitments we made in the POEP.

In developing the POEP we drew on guidance from stakeholders in earlier engagement, and specific feedback on the POEP itself. There's a summary of that feedback and the way it has been incorporated into the POEP on our website. There are also links to all the most important documents about engagement.

In the Feedback Form there are questions about how much participation we give you, and how much you'd like to have; and other questions about timeliness, consistency, and best practice. We also want to know about how we can make our industry briefings more useful, and whether we're currently engaging in ways that are aligned with our values. Thanks in advance for your feedback.

Building our Stakeholder Engagement Practice (SEP)



Dedicated Resources

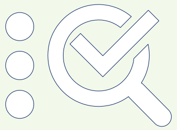
Established Corporate Relations Division

Dedicated Executive GM and Stakeholder Engagement resource

Listened & Learned

Pricing Order Engagement Protocol (POEP) Feedback

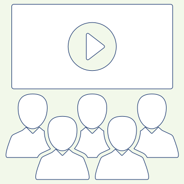
Independent Internal Stakeholder Engagement Review and Stakeholder Research



Framework & Policy

Updated Stakeholder Engagement Policy and Framework

Launched updated Stakeholder Engagement Framework internally & published externally



Set Internal Targets

Internal Stakeholder Engagement KPIs linked to performance payments

30% of PoM staff targeted for tailored IAP2 training

2022 Stakeholder Engagement

2022 TCS Industry Engagement - October to May 2022

Our 2022 TCS engagement program ran from October 2021 to May 2022.

The ESC reported that ‘overall, our preliminary view is that it appears that the Port has undertaken engagement …that is consistent with generally accepted practices and approaches for effective consultation. The Port also appears to have had regard to port users’ comments, which have informed its decisions.’

PoM Industry Evening – July 2022

We hosted a face-to-face industry evening in July 2022 which provided an opportunity for stakeholders to meet with us and the wider industry outside our regular formal engagement programs.

Pricing Order Engagement Protocol (POEP) August to November 2022

We worked with key stakeholders in the development of our Pricing Order Engagement Protocol from August 2022 with the final version incorporating stakeholder feedback published in November 2022.

Swanson Dock West – August to November 2022

We held two online engagement sessions with industry in August 2022 with feedback received until mid September 2022. An independent report was published in November 2022.

2022 Stakeholder Engagement

Wider industry engagement – November 2022

We collaborated with Committee for Melbourne and Melbourne Chamber of Commerce in November 2022 to co-create briefing sessions and boat tours to engage the broader business community.

Port Capacity Enhancement Project Stage 1 – September 2022 to February 2023

September 2022: Sought feedback on three technical reports (ship fleet forecast, trade forecast and port capacity forecast through face-to-face meetings and online webinars).

October 2022: Follow up meetings with select stakeholders to discuss inputs into technical reports. Timelines were extended to allow for additional responses from stakeholders.

February 2023: Provided formal responses to stakeholder feedback about three technical reports and set-up follow up meetings with select stakeholders.

Stakeholder Perception Survey - September 2022

We asked our key stakeholders about their topic of interest and their views on our how we have engaged. This information helped us to develop our internal performance measurements and our stakeholder engagement practice.

Pricing Order Engagement Protocol (POEP)

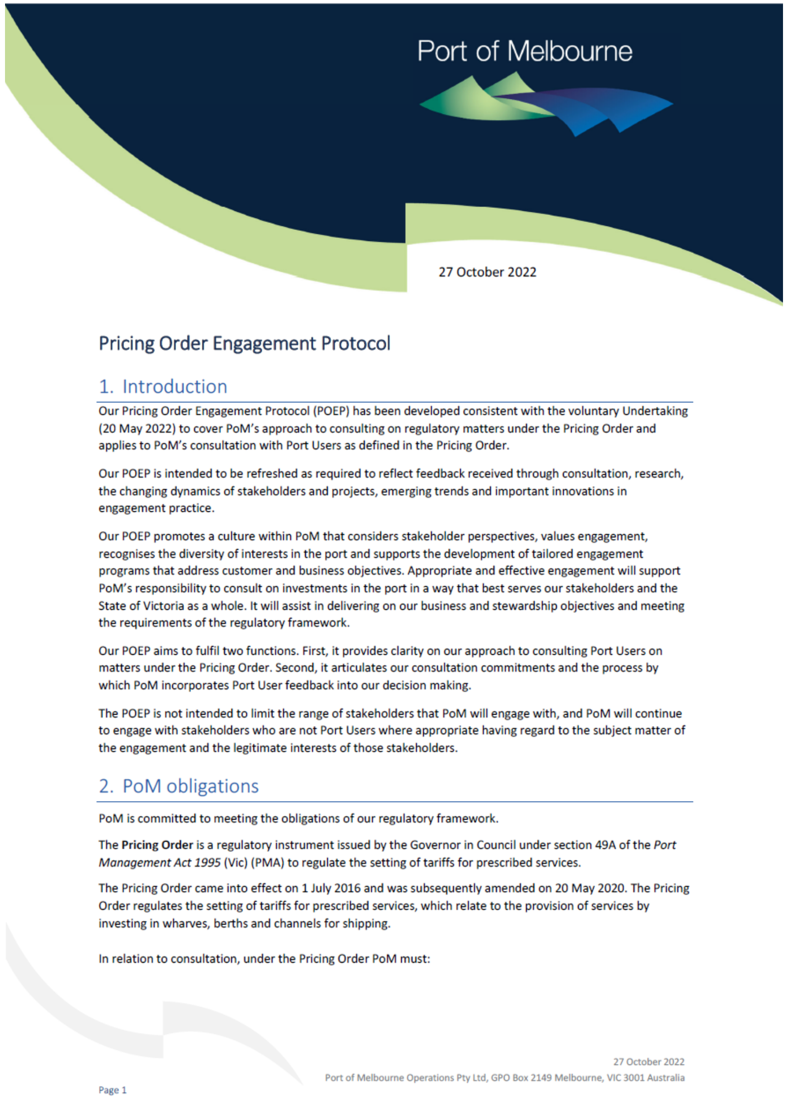
In May 2022, we committed to an Undertaking in response the ESC's Pricing Order Review which incorporated a POEP.

The POEP fulfils two functions:

- provides **clarity on our approach** to consulting Port Users on matters under the Pricing Order.
- articulates our **consultation commitments and the process** by which PoM **incorporates** Port User **feedback into our decision making.**

Our stakeholder engagement practice uplift will support implementation of the POEP and includes staff training to support its implementation.

We will continue to grow our stakeholder engagement capability as we operate and develop the port in the interests of the Victorian economy and consumers.



Port of Melbourne

27 October 2022

Pricing Order Engagement Protocol

1. Introduction

Our Pricing Order Engagement Protocol (POEP) has been developed consistent with the voluntary Undertaking (20 May 2022) to cover PoM's approach to consulting on regulatory matters under the Pricing Order and applies to PoM's consultation with Port Users as defined in the Pricing Order.

Our POEP is intended to be refreshed as required to reflect feedback received through consultation, research, the changing dynamics of stakeholders and projects, emerging trends and important innovations in engagement practice.

Our POEP promotes a culture within PoM that considers stakeholder perspectives, values engagement, recognises the diversity of interests in the port and supports the development of tailored engagement programs that address customer and business objectives. Appropriate and effective engagement will support PoM's responsibility to consult on investments in the port in a way that best serves our stakeholders and the State of Victoria as a whole. It will assist in delivering on our business and stewardship objectives and meeting the requirements of the regulatory framework.

Our POEP aims to fulfil two functions. First, it provides clarity on our approach to consulting Port Users on matters under the Pricing Order. Second, it articulates our consultation commitments and the process by which PoM incorporates Port User feedback into our decision making.

The POEP is not intended to limit the range of stakeholders that PoM will engage with, and PoM will continue to engage with stakeholders who are not Port Users where appropriate having regard to the subject matter of the engagement and the legitimate interests of those stakeholders.

2. PoM obligations

PoM is committed to meeting the obligations of our regulatory framework.

The **Pricing Order** is a regulatory instrument issued by the Governor in Council under section 49A of the *Port Management Act 1995* (Vic) (PMA) to regulate the setting of tariffs for prescribed services.

The Pricing Order came into effect on 1 July 2016 and was subsequently amended on 20 May 2020. The Pricing Order regulates the setting of tariffs for prescribed services, which relate to the provision of services by investing in wharves, berths and channels for shipping.

In relation to consultation, under the Pricing Order PoM must:

27 October 2022

Port of Melbourne Operations Pty Ltd, GPO Box 2149 Melbourne, VIC 3001 Australia

Page 1

POEP engagement

What we heard	How we responded
Consultation Commitment PoM should publish a statement outlining its approach to consultation and commit that consultation will meet this standard moving forward.	The POEP is a published protocol that outlines PoM's approach to consulting on regulatory matters. PoM's commitment to the POEP and its application is outlined in **Section 1** of the POEP**.**
Consultation Standards PoM should identify a recognised consultation standard or framework that it will adhere to.	We have a commitment to apply the IAP2 Quality Assurance Standard when consulting with Port Users on material matters and formal consultation programs where it is not inconsistent with the requirements of the regulatory framework.
Consultation Audience PoM should identify who it will consult and at what stage.	Given the broad nature of the POEP it is difficult to identify specific Port Users at specific stages of consultation. Rather, the POEP recognises the need to identify Port Users and their particular consultation needs and to consider the level of interest of different Port Users as part of the approach to consultation planning.
Consultation Timeframes A reasonable timeframe is required for consultation and for stakeholders to consider and respond to suporting information.	On material matters and formal consultation programs, provide a reasonable time period for engagement to ensure Port Users are given a reasonable opportunity to participate. For most matters this is expected to be: – 2 weeks' notice prior to commencement of consultation with the notice to be provided in a form appropriate to reaching Port Users, and – 4 weeks for a formal consultation period.
Confidential Information PoM should explain how it will use confidential information to inform its decision making.	***Section 6*** of the POEP explains how PoM will treat commercially sensitive information.
Port User Feedback Greater transparency on how feedback is used by PoM to inform decision making including providing some level of visibility to stakeholders about how feedback was adopted or disregarded	The POEP recognises the need to allow appropriate consultation when proposals are still in the formative stage and explains the mechanisms through which Port Users can provide feedback. The POEP also outlines the mechanisms for us to communicate how feedback has been used to inform our decision making.
Consultation Materials An agreed level of minimum supporting information which will be provided to support consultation.	The POEP covers our approach to consulting on regulatory matters under the Pricing Order and therefore needs to be broad in nature. However, the need to ensure that consultation materials provide appropriate information to enable Port Users to make meaningful contributions has been captured under ***Section 5*** *Our Regulatory Consultation Process* (Implement consultation).
Consultation planning Where topics are substantial they may warrant separate and more detailed analysis in a standalone consultation process.	**Section 5** *Our Regulatory Consultation Process* addresses this point of feedback by identifying the key matters for us to consider as part of our consultation including for example giving consideration to the topic of consultation and ensuring the consultation materials and form of consultation are appropriate to the topic.

Engagement – future activities

Our formal engagement program will be guided by the needs of each project as well as stakeholder feedback.

As part of our commitment to applying lesson learnt, relevant feedback collected as part of this engagement will be used to input into the following planned formal engagement activities for 2023.

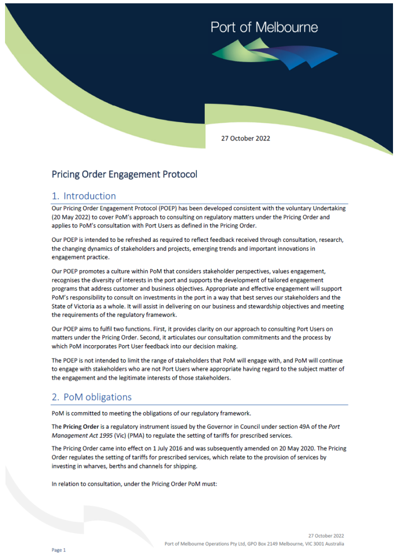
- Port Capacity Enhancement Project
- Annual Stakeholder Pulse Survey 2023
- 2055 Port Development Strategy preliminary engagement
- Industry Briefings and Events

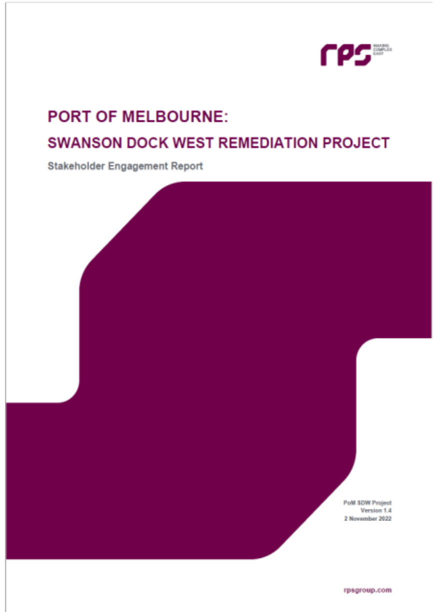
Your responses to our survey are important inputs into our engagement planning.

Engagement - supporting documents

Please refer to additional materials for more information on the topics discussed in the introduction and project overview

- 2022 Industry Consultation
- Pricing Order Engagement Protocol (POEP)
- Swanson Dock West remediation engagement
- Stakeholder Engagement Framework





09 Have your say

How you can provide feedback

How you can provide feedback

- You will receive a link to the **Feedback Form** via email on **Friday 3 March**. If you have not received, or are unable to access the Feedback Form, please contact us at rts@portofmelbourne.com.
- The closing date for Feedback Form responses is **Friday 31 March**.
- If you would prefer, Insync will record your views in a one-on-one interview. Contact details for Insync are provided in the Feedback Form.
- Within the Feedback Form you have the option to request a follow-up meeting with PoM.
- PoM's Tariff Compliance Statement (released 31 May) will include a full summary of the feedback we received and how the feedback informed our decision making.

Thank you

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Head of Regulation

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Port of Melbourne