

2022 Ports Price Monitoring Report Port of Darwin

Trends in standard charges
and revenue

November 2022

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Enquiries

Any questions regarding this document should be directed to the Utilities Commission at any of the following:

Email: utilities.commission@nt.gov.au

Telephone: +61 8 8999 5480

GPO Box 915
DARWIN NT 0801

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Abbreviations, acronyms and glossary

CPI	consumer price index
designated port	Has the same meaning as is given to that term in the <i>Ports Management Act 2015</i>
DPO	Darwin Port Operations Pty Ltd (ABN 62603 472 788), the private port operator for the Port of Darwin
LNG	liquefied natural gas
National CPI	The consumer price index, published by the Australian Bureau of Statistics, measures inflation through changes in prices of items in a representative basket of goods over time. For the purposes of comparison, the Commission uses March quarter data from the Percentage change from corresponding quarter of previous year; all groups CPI; Australia, series ID A2325847F. The Commission refers to this data as national CPI.
PM Act	<i>Ports Management Act 2015</i>
PM Regulations	Ports Management Regulations 2015
port user	Has the same meaning as is given to that term in the <i>Ports Management Act 2015</i>
prescribed service	As defined by regulation 12 of the Ports Management Regulations 2015
Price Determination	A determination made by the Commission relating to charges fixed by a private port operator in relation to the provision of prescribed services, currently the 2022-2025 Prescribed Port Services Price Determination Port of Darwin Final Determination.
private port operator	Has the same meaning as is given to that term in the <i>Ports Management Act 2015</i>
regime	Part 11 of the <i>Ports Management Act 2015</i> and Part 3 of the Ports Management Regulations 2015
standard charge	A charge for a prescribed service, which is published in accordance with clause 8(a) and (b) of the Price Determination and is not a negotiated charge
WPI	wage price index

1 | Introduction

Purpose of this report

The purpose of this report is to provide a summary to port users, industry and stakeholders of standard charges for prescribed services and revenue received by the private port operator at the Port of Darwin. The report shows trends in standard charges over the period from 2015-16 to 2022-23 and trends in revenue received over the period 2015-16 to 2021-22.

About the Utilities Commission

The Commission is an independent statutory body established by the *Utilities Commission Act 2000* with defined roles and functions for economic regulation in the electricity, water and sewerage industries, and designated ports in the Northern Territory. The Commission's role is set out under various Acts (and associated regulations) including the *Utilities Commission Act 2000*, *Electricity Reform Act 2000*, *Water Supply and Sewerage Services Act 2000* and *Ports Management Act 2015* (PM Act).

The economic regulatory frameworks administered by the Commission aim to promote and safeguard competition and fair and efficient market conduct or, in the absence of a competitive market, promote the simulation of competitive market conduct and prevent the misuse of monopoly power. The Commission considers its primary objective is to protect the interests of consumers of services provided by regulated industries with respect to price, reliability and quality.

Port access and pricing regime

The PM Act and Ports Management Regulations 2015 (PM Regulations) commenced in 2015 and establish the regime for port access and pricing for Northern Territory ports. The regime appoints the Commission as the regulator of port access and pricing for prescribed services provided by a private port operator of a designated port.

Darwin Port Operations Pty Ltd (DPO) was declared the operator of the Port of Darwin under the PM Act on and from 1 July 2015. On 16 November 2015, ownership of DPO was acquired by Landbridge Port Operations Pty Ltd as part of the 99-year lease of the Port of Darwin. The change of status of DPO to a private port operator activated the regime, including the Commission's role as the economic regulator for ports.

As set out in regulation 12 of the PM Regulations, the regime applies to prescribed services, which are:

- providing, or allowing for, access for vessels to the designated port
- providing facilities for loading or unloading vessels at the designated port
- providing berths for vessels at the designated port
- providing, or facilitating the provision of, pilotage services in a pilotage area within the designated port
- allowing entry of persons and vehicles to any land on which port facilities of the designated port are located.

About the Port of Darwin

The Port of Darwin is a multi-use, mixed cargo and marine services port. It services various markets including livestock exports, dry bulk products, petroleum and other bulk liquids, container cargo, general cargo, cruise vessels, naval vessels, and offshore and gas rig servicing. It is a key support hub for the offshore oil and gas industry in the Arafura and Timor seas as well as waters off Western Australia. The port is linked to Adelaide by the Tarcoola-Darwin Railway and by major road transport highways to other capital cities. It is strategically located as Australia's closest shipping port to Asia.

The Port of Darwin is composed of several distinct areas (**Figure 1**); however, not all areas were leased to Landbridge Port Pty Ltd. East Arm Wharf and Fort Hill Wharf are operated by DPO while Fisherman's and Raptis wharves, Hornibrooks pontoon and the Frances Bay Mooring Basin continue to be owned and operated by the Territory Government. The Marine Supply Base is leased and operated by ASCO Australia Pty Ltd. DPO provides pilotage and harbour navigation management for the Port of Darwin.

Figure 1 Map of Port of Darwin



Source: Department of Infrastructure, Planning and Logistics, Geospatial Services, Land Information, 2022

2 | Standard charges for prescribed services

As stipulated by the PM Regulations, the form of price regulation for prescribed services at the Port of Darwin is price monitoring.

On 16 February 2022, the Commission's 2022-2025 Prescribed Port Services Price Determination Port of Darwin Final Determination (Price Determination) came into effect, replacing the previous determination made by the Commission in 2019. It covers the three years to 15 February 2025. The Price Determination sets out the basis on which the Commission will monitor price levels and information and reporting obligations on the private port operator in relation to charges and revenue for prescribed services.

DPO, as the private port operator, sets the prices for standard charges for prescribed services provided at the Port of Darwin. Each year, DPO reviews its charges with any changes to prices usually coming into effect in the middle of the calendar year. If DPO intends to change the prices, or introduce a new charge for prescribed services, it must provide notice to the Commission at least 20 days before the planned changes.

The Price Determination requires DPO to publish standard charges for the provision of prescribed services on its website at least 10 days prior to them coming into effect.

Price monitoring benchmark

The Commission uses the national consumer price index¹ (CPI) as the benchmark for monitoring and reporting on prices. The national CPI is used as a reference point, but is not intended to measure the efficiency of prices. Rather, the Commission uses the annual change in national CPI to evaluate the reasonableness of changes in DPO's standard charges for prescribed services. The annual change in national CPI for the March quarter each year is the benchmark as this is the data available at the time when DPO typically advises of changes in its prices.

Changes to standard charges

Since DPO commenced as the private port operator in November 2015, the following changes in prices for prescribed services have occurred:

2016-17: Key changes to standard charges for prescribed services

No changes to port charges during this period.

2017-18: Key changes to standard charges for prescribed services

DPO increased its prices and introduced a new charge with the changes commencing on 1 August 2017, as listed below:

- DPO increased all charges for its prescribed services (except one) by 1.1%
- the charge for Bulk Liquid Fuels Inbound Wharfage increased by 3.6%
- DPO introduced a new levy for large vessels using the Bladin Channel.

In general, the majority of the standard charges for prescribed services for the Port of Darwin rose by 1.1%, which was less than the increase of 2.1% in the national CPI in the 12 months to the March quarter 2017. DPO advised its higher increase for the Bulk Liquid Fuels Inbound Wharfage charge (3.6%) was so that it could receive an acceptable rate of return for infrastructure upgrades it had undertaken.

DPO advised the new charge, the Bladin Channel Port Dues Levy, was introduced for vessels larger than 20,000 gross tonne accessing the Bladin Channel as a recovery mechanism for investment in

¹ Australian Bureau of Statistics. 6401.0 Consumer Price Index, Australia. Percentage change from corresponding quarter of previous year; all groups CPI; Australia, series ID A2325847F, March quarter.

pilotage, harbour control and management facilities to support the safe management of increased large vessel traffic once the INPEX Ichthys liquefied natural gas (LNG) project commenced gas export operations.

2018-19: Key changes to standard charges for prescribed services

Changes to prices commenced on 1 August 2018, as listed below:

- DPO increased port charges by 1.9%, except for port induction fees, which did not change
- a lower rate for privately operated cranes was adopted, removing alternative charges based on crane capacity with DPO advising it would reduce the administrative burden for port users
- changes to the Port of Darwin price schedule were made to provide additional information and clarity to port users about prices.

The 1.9% increase was consistent with the rise in national CPI in the 12 months to the March quarter 2018.

2019-20: Key changes to standard charges for prescribed services

Changes to prices commenced on 1 July 2019, as listed below:

- with the exception of port induction fees, all charges increased by 2%
- the port induction and port pass fee was changed to a biennial (rather than annual) charge, which resulted in a \$25 reduction in fees across two years for port pass holders.

The 2% increase in port charges in 2019-20 was higher than the annual increase in national CPI (1.3% in the March quarter 2019). DPO advised the Commission that other factors needed to be taken into consideration in determining charges, particularly increases in labour costs. For comparison, the annual change in the Wage Price Index (WPI) in the March quarter 2019 for the Northern Territory was 2.4%, with the national WPI increasing by 2.3%.²

2020-21: Key changes to standard charges for prescribed services

Changes to prices commenced on 1 July 2020. With the exception of port induction fees, which remained unchanged, all charges increased by 1.6%. The increase in DPO's port charges was lower than the annual increase in national CPI in the March quarter 2020 of 2.2%.

2021-22: Key changes to standard charges for prescribed services

Changes to prices commenced on 1 July 2021. With the exception of port induction fees, which remained unchanged, all charges increased by 2%.

The 2% increase to DPO's port charges was higher than the annual increase in national CPI in the March quarter 2021 of 1.1%. While lower than the increase in port charges, it is noted that growth in national CPI in 2020-21 was subdued as a result of government introduced lockdowns, travel restrictions and grant programs related to the COVID-19 pandemic.

DPO advised the Commission that the increase takes into account increases in labour costs as a result of DPO's enterprise agreement. The Commission notes that DPO's 2018 enterprise agreement provides a 2.25% salary increase to employees, which is higher than national CPI.³

2022-23: Key changes to standard charges for prescribed services

Changes to prices commenced on 1 July 2022, as listed below:

- with the exception of port induction fees, which remained unchanged, all charges increased by 5%
- two new charges were introduced for open air and undercover storage.

² Department of Treasury and Finance. Economic Brief Wage price index March quarter 2019. Accessed on 29 September 2020 at <https://treasury.nt.gov.au/dtf/economic-group/economic-briefs>.

³ Fair Work Commission. Darwin Port Operations Enterprise Agreement 2018. Accessed on 29 June 2021 at <https://www.fwc.gov.au/documents/documents/agreements/fwa/ae502363.pdf>.

The 5% increase to DPO's port charges was slightly below the annual increase in national CPI in the March quarter 2022 of 5.1%. DPO advised the Commission that the increase had been calculated taking into account the increase in labour cost and applying national CPI to other costs on a weighted average basis.

DPO advised that the new charges for storage, which are a non-standard service, were intended to provide an upfront rate so port users benefit from greater transparency and certainty as to cost (previously these services were negotiated on a case-by-case basis). The Commission notes that tariff schedules for other ports in northern Australia include storage charges and the new charges improve visibility of, and facilitate consistency in, pricing for port users.

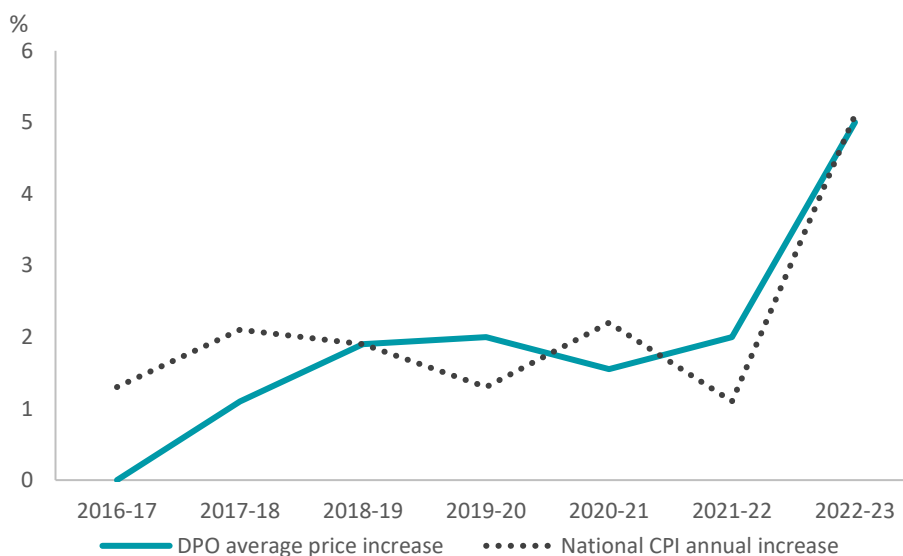
Table 1 summarises the annual change in DPO's prices over the period since it became the private port operator for the Port of Darwin, benchmarked against the annual rise in national CPI. **Figure 2** provides a graphical comparison of the movement in DPO's prices and national CPI.

Table 1 Change in DPO's prices for prescribed services and national CPI, 2016-17 to 2022-23

Year	DPO price increase	National CPI increase	Difference
	%	%	ppts ¹
2016-17	Unchanged	1.3	-1.3
2017-18	1.1	2.1	-1.0
2018-19	1.9	1.9	0.0
2019-20	2.0	1.3	0.7
2020-21	1.6	2.2	-0.6
2021-22	2.0	1.1	0.9
2022-23	5.0	5.1	-0.1

¹ppts – percentage points

Figure 2 Comparison of change in DPO's prices and national CPI, 2016-17 to 2022-23



Findings

The Commission confirms that DPO has met its reporting and publication requirements for prices (in accordance with relevant price determinations) each year since commencing as the private port operator for the Port of Darwin.

The annual increases in DPO's charges for prescribed services at the Port of Darwin move within a band similar to that for the change in national CPI. Caution is needed, however, in comparing differences over the period from 2019 to 2022 due to the economic impact of the COVID-19 pandemic on national CPI.

While the Commission considers the change in DPO's prices to be reasonable, the Commission notes that this should not be interpreted to mean DPO's prices are efficient. While it is necessary for DPO to forecast future cost movements in order to prepare its tariff schedule for the coming year, these will not necessarily be reflective of actual cost increases (which may be higher or lower). If differences between forecast and actual cost increases are not identified and corrections made for significant variations, it may lead to less efficient pricing over time.

3 | Revenue for prescribed services

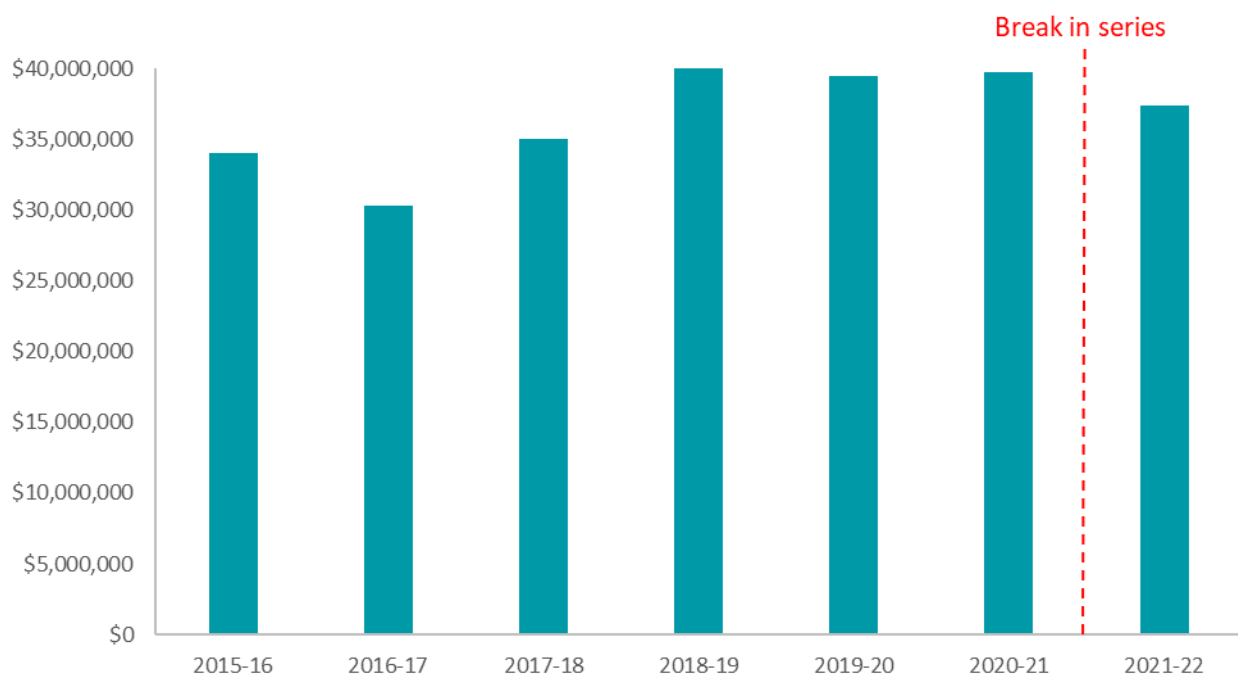
Clause 10 of the Commission's Price Determination requires DPO to submit an annual report to the Commission by 30 September each year, for the prior financial year. The annual report must contain information on the types of standard prices charged, how those prices have changed during the year and the amount of revenue received by the port operator from standard charges (showing the amount of revenue for each separate charge). DPO also provides information on the terms of any agreements to fix a negotiated charge for prescribed services at the Port of Darwin.

The following analysis draws on the information provided in DPO's annual reports to provide a comparison over time for revenue from prescribed services.

Trends in total revenue

Figure 3 shows total revenue reported by DPO over the period from 2015-16 to 2021-22. Total revenue for prescribed services was \$37.4 million in 2021-22. While this appears lower than revenue in the three preceding years, the data is not directly comparable. In 2021-22, DPO reclassified and removed revenue generated from the sublease of port land as this is not a prescribed service; however, revenue from this source is included in prior years (where received).

Figure 3 Total revenue for prescribed services, 2016-17 to 2021-22

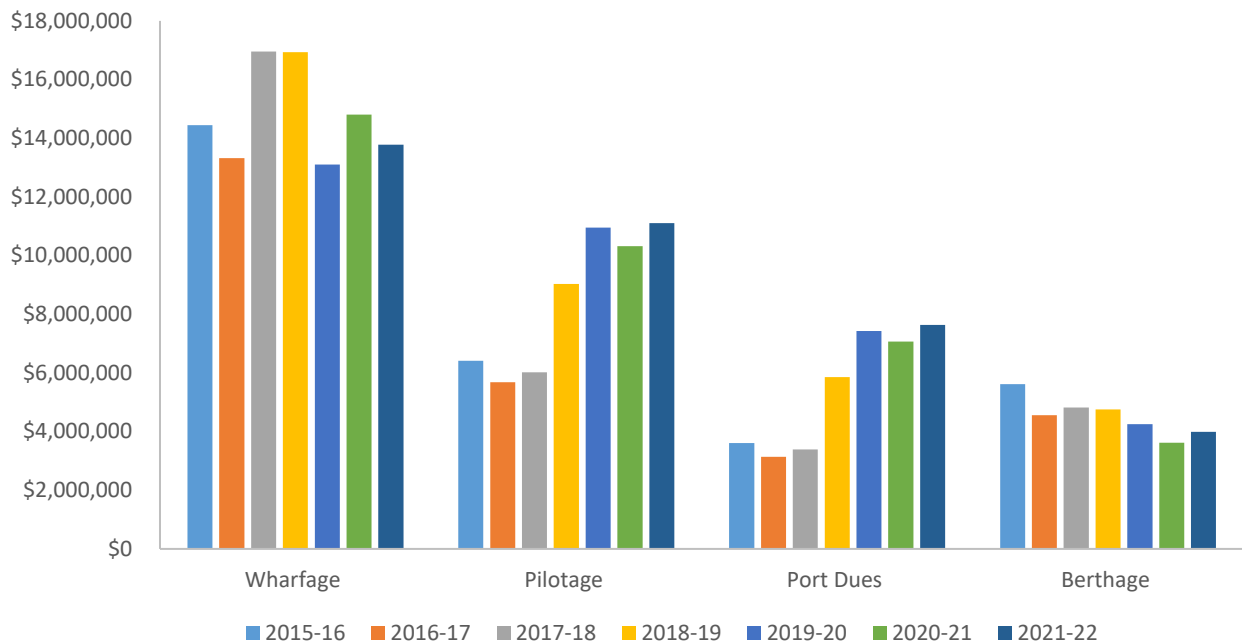


Note: Revenue in 2021-22 is not directly comparable with prior years due to removal of revenue from the sublease of port land, which is not a prescribed service.

Trends in revenue by prescribed service

Figure 4 provides a breakdown of revenue from major prescribed service sources: wharfage, pilotage, port dues and berthage. Wharfage has been the leading source of revenue generating more than \$13 million each year. Its relative importance has, however, declined from a peak in 2017-18 where wharfage revenue accounted for nearly half of total revenue, to 37% of total revenue in 2021-22.

Figure 4 Revenue by prescribed service, 2015-16 to 2021-22



This change in part reflects an increase in revenue from pilotage services and port dues. In 2021-22, total revenue from pilotage was \$11.1 million compared with \$6.4 million in 2015-16. Revenue from this source accounted for 30% of total revenue in 2021-22. Total revenue from port dues has risen from \$3.6 million in 2015-16 to \$7.6 million in 2021-22. These charges accounted for 20% of total revenue in 2021-22.

Revenue from other sources relating to entry to port land and the occupation and use of port land (access related charges) have been omitted as the data is not comparable across years due to the reclassification of revenue relating to the sublease of port land. Revenue from access related charges was less than \$1 million in 2021-22.

General factors impacting revenue

The increase in revenue from pilotage services and port dues reflects the INPEX Ichthys LNG project transitioning to the production phase, which increased the number of vessel calls and pilotage requirements associated with gas exports. In 2020-21, there was a downturn in port activity due to the COVID-19 pandemic, in particular a substantial decline in visits from cruise ships. The lifting of restrictions on the operation of these vessels in April 2022 will see the return of international cruise ships in 2022-23.

Further information

More information on port charges, trade statistics and revenue for the Port of Darwin is available on DPO's website: <https://www.darwinport.com.au/>.

Further information about the ports access and pricing regime is available on the Commission's website www.utilicom.nt.gov.au.

The Commission does not undertake demand forecasting for the Port of Darwin and the private port operator has no obligation to provide forward looking demand projections to the Commission.