

2020 PORTS PRICE MONITORING REPORT

PORT OF DARWIN

October 2020

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Glossary

CPI	Consumer Price Index
commission	The Utilities Commission of the Northern Territory
designated port	Has the same meaning as is given to that term in <i>the Ports Management Act 2015</i>
DPO	Darwin Port Operations Pty Ltd (ABN 62603 472 788), the private port operator for the Port of Darwin
GT	gross tonnage
LNG	liquefied natural gas
MSB	Marine Supply Base
National CPI	The consumer price index (all groups weighted average of 8 capital cities) published by the Australian Bureau of Statistics
NT	Northern Territory
PM Act	<i>Ports Management Act 2015</i>
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 2019-2022 Prescribed Port Services Price Determination for the Port of Darwin
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
Regulations	Ports Management Regulations 2015
regulator	The Utilities Commission of the Northern Territory
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

CHAPTER 1

Introduction

Purpose of this report

- 1.1 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, over the five year period from 2015-16 to 2019-20.
- 1.2 This is the second price monitoring report published by the commission since the Port of Darwin became privately operated in November 2015. It is intended that the report will continue to be published annually, informing on trends in charges and revenue from prescribed services at the Port.

About the Utilities Commission

- 1.3 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 Territory. The commission seeks to protect the interests of consumers of services provided by regulated industries with respect to price, reliability and quality.
- 1.4 The commission is responsible for the economic regulatory framework for regulated industries that promotes and safeguards competition as well as fair and efficient market conduct. In the absence of a competitive market, the commission's aim is to promote the simulation of competitive market conduct and prevent the misuse of monopoly power.
- 1.5 The commission has functions under various Acts (and associated regulations) including the *Utilities Commission Act 2000*, *Electricity Reform Act 2000*, *Water Supply and Sewerage Services Act 2000* and the *Ports Management Act 2015* (PM Act).

Ports Access and Pricing Regime

- 1.6 The PM Act and Ports Management Regulations (Regulations) commenced in 2015 and establish the ports access and pricing regime for 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.
- 1.7 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.
- 1.8 As set out in regulation 12 of the 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

- 1.9 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.
- 1.10 The Port of Darwin is composed of several distinct areas (see Map 1 below); however, not all areas were leased to Landbridge. East Arm Wharf and Fort Hill Wharf are operated by DPO while Fisherman's Wharf, Hornibrook Wharf and Frances Bay Mooring Basin continue to be owned and operated by the Territory Government. The MSB is leased and operated by ASCO Australia Pty Ltd. DPO provides pilotage and harbour navigation management for the Port of Darwin.

Map 1: Port of Darwin (extract)



CHAPTER 2

Standard Charges for Prescribed Services

Background

- 2.1 As stipulated by the Regulations, the form of price regulation for prescribed services at the Port of Darwin is price monitoring. On 13 February 2019, the commission issued the 2019-2022 Prescribed Port Services Price Determination Port of Darwin Final Determination (Price Determination)¹, which 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. The Price Determination covers the three years from 16 February 2019 to 15 February 2022 and replaced the previous determination made by the commission in 2016.
- 2.2 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 the commission with 20 days' notice of the planned changes.²
- 2.3 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.³
- 2.4 The commission uses the National Consumer Price Index (CPI) as the benchmark for monitoring and reporting on prices.⁴ The National CPI is used as a reference point, but is not intended to measure the efficiency of prices. Rather, the commission uses change in the National CPI to evaluate the reasonableness of changes in DPO's standard charges for prescribed services.

Benchmarking

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

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

- 2.6 DPO commenced as the private operator for the Port of Darwin in November 2015.
 - No changes to port charges during this period.

¹ In accordance with section 132 of the PM Act and regulation 16 of the Regulations. Price Determination available at https://utilicom.nt.gov.au/__data/assets/pdf_file/0010/767944/2019-2022-Prescribed-Port-Services-Final-Price-Determination-Port-of-Darwin.pdf.

² Clause 8 of the Price Determination.

³ Clause 8 of the Price Determination.

⁴ Clause 6(b) of the Price Determination.

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

- 2.7 This was the first time 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 per cent
 - the charge for Bulk Liquid Fuels Inbound Wharfage increased by 3.6 per cent
 - DPO introduced a new levy for large vessels using the Bladin Channel.
- 2.8 In general, the majority of the standard charges for prescribed services for the Port of Darwin rose by 1.1 per cent, which was less than the National CPI increase of 2.1 per cent, but more than the CPI increase for Darwin (0.5 per cent). DPO advised its higher increase for the Bulk Liquid Fuels Inbound Wharfage charge (3.6 per cent) was so that it could receive an acceptable rate of return for infrastructure upgrades it had undertaken.
- 2.9 DPO advised the new tariff, the Bladin Channel Port Dues Levy, was introduced for vessels larger than 20,000 gross tonne (GT) accessing the Bladin Channel as a recovery mechanism for investment in pilotage, harbour control and management facilities to support the safe management of increased large vessel traffic once the INPEX Ichthys LNG project commenced gas export operations.

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

- 2.10 Changes to prices commenced on 1 August 2018, as listed below:
- DPO increased port charges by 1.9 per cent, 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 tariffs schedule were made to provide additional information and clarity to port users about tariffs.
- 2.11 The 1.9 per cent 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

- 2.12 Changes to prices commenced on 1 July 2019, as listed below:
- with the exception of port induction fees, all charges increased by 2 per cent
 - 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.
- 2.13 The 2019 Price Monitoring Report noted that the 2 per cent increase to DPO's port charges was marginally higher than an increase in National CPI for the 12 months to the March quarter 2019 of 1.8 per cent. This comparison was, however, based on the year-on-year change in CPI (this compares the four quarters up to and including the March 2019 quarter with the previous four quarter period up to and including March

2018) rather than the annual change in CPI (this compares the March 2019 quarter with the March 2018 quarter), which had been the benchmark measure in prior years.⁵

- 2.14 This price monitoring report uses a consistent benchmark based on the annual change for the March quarter in each year. Accordingly, the 2 per cent increase in port charges in 2019-20 was higher than the annual increase in National CPI (1.3 per cent in the March quarter 2019).⁶
- 2.15 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 per cent, with the National WPI increasing by 2.3 per cent.⁷

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

- 2.16 Changes to prices commenced on 1 July 2020, as listed below:
- with the exception of port induction fees, all charges increased by 1.6 per cent.
- 2.17 The 1.6 per cent increase to DPO's port charges was lower than the annual increase in National CPI in the March quarter 2020 of 2.2 per cent.
- 2.18 Table 1 summarises the annual change in DPO's prices over the five years since it became the operator of the Port of Darwin, benchmarked against the annual rise in National CPI. Figure 2 provides a graphical comparison of changes in DPO's price and the National CPI.

Table 1 Differences between DPO average price increases and change in the National CPI benchmark⁸

Year	DPO's average price increase (%)	National CPI annual increase (%)	Difference (percentage points)
2016-17	No change in prices	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

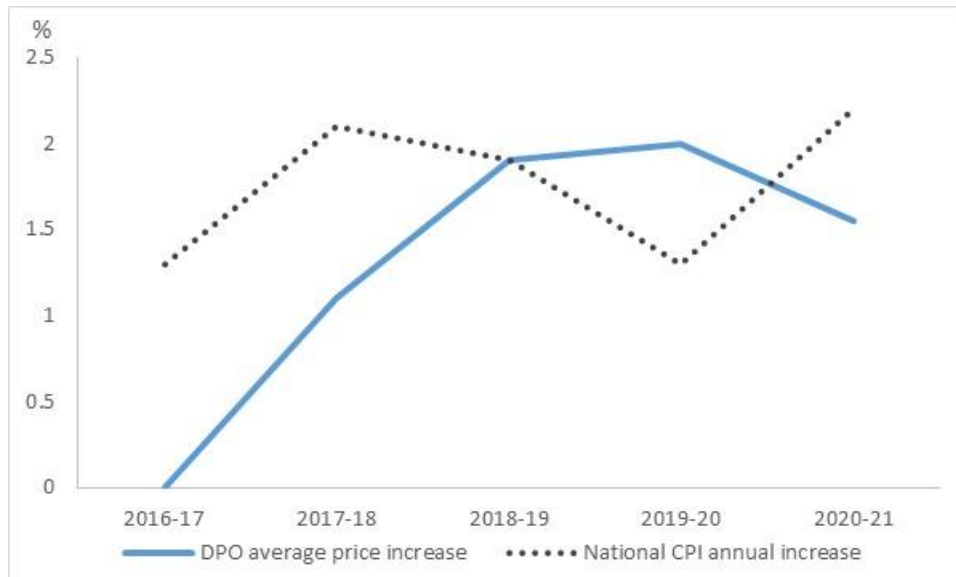
⁵ Department of Treasury and Finance. Economic Brief Consumer price index March quarter 2019. Accessed 29 September 2020 <https://treasury.nt.gov.au/dtf/economic-group/economic-briefs>.

⁶ Ibid

⁷ Department of Treasury and Finance. Economic Brief Wage price index March quarter 2019. Accessed 29 September 2020 <https://treasury.nt.gov.au/dtf/economic-group/economic-briefs>.

⁸ 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.

Figure 1 Comparison of DPO's average price increase with change in National CPI



Findings

- 2.19 The growth in charges for prescribed services at the Port of Darwin is not inconsistent with trends in the National CPI.
- 2.20 Furthermore, since commencing as the private port operator for the Port of Darwin, DPO has met its reporting and publication requirements for prices each year, in accordance with the Price Determination.

CHAPTER 3

Revenue for Prescribed Services

Background

- 3.1 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.
- 3.2 The following sections draw on the information provided in the annual reports providing a comparison of the total revenue for prescribed services by revenue source.

Trends

- 3.3 Figure 2 shows total revenue received by DPO for all prescribed services for the five years from 2015-16 to 2019-20 while Figure 3 provides a breakdown of total revenue by service category.
- 3.4 Total revenue was relatively stable over the first three years of private operation of the Port of Darwin, averaging \$33.1 million per annum. Total revenue for prescribed services peaked in 2018-19 at \$40.6 million, before declining to \$39.4 million in 2019-20.

Figure 2 Total Revenue for Prescribed Services

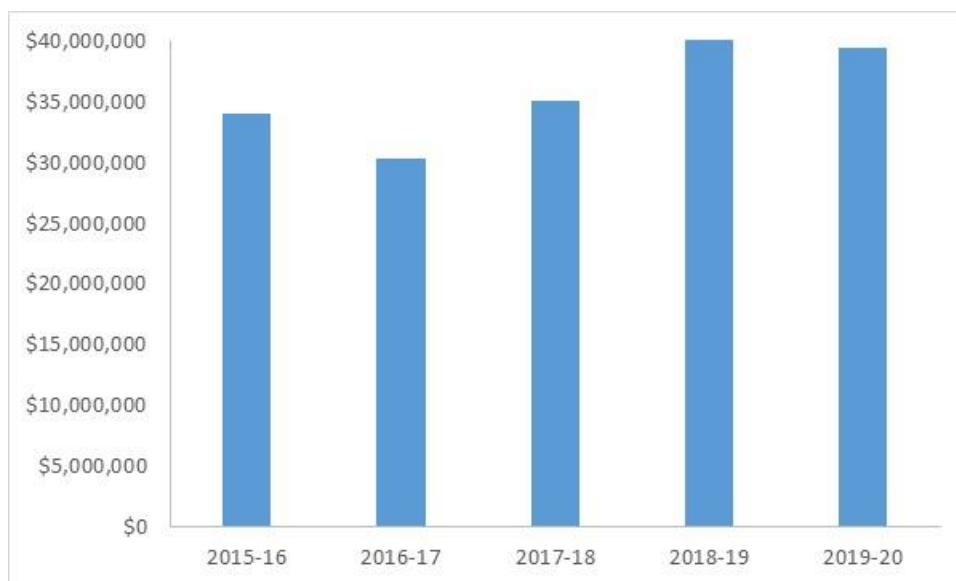
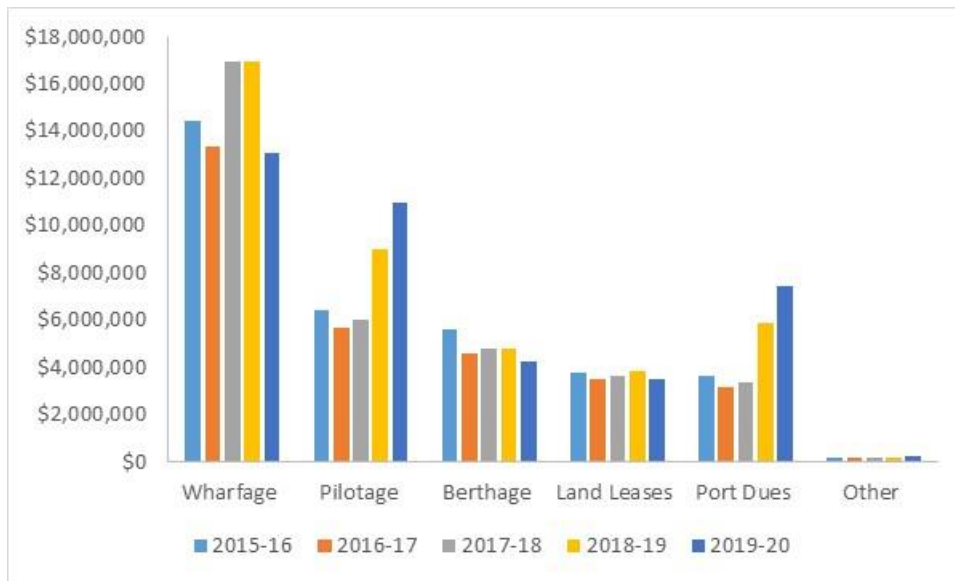


Figure 3 Revenue Sources for Prescribed Services

- 3.5 Wharfage has been the leading source of revenue each year generating more than \$13 million each year. Its relative importance has, however, declined from a peak in 2017-18 where wharfage revenue accounted for 48 per cent of total revenue down to 33 per cent in 2019-20.
- 3.6 The change in 2019-20 reflects a shift in the primary sources of revenue with income from pilotage services and port dues increasing over the past two years. In 2019-20, total revenue from pilotage was \$11.0 million compared with \$6.4 million in 2015-16. Revenue from this source now accounts for 28 per cent of total revenue compared with 19 per cent in 2015-16. Total revenue from port dues has risen from \$3.6 million in 2015-16 to \$7.4 million in 2019-20 and these charges now account for 19 per cent of total revenue up from 11 per cent in 2015-16.

General Factors Impacting Revenue

- 3.7 Just prior to the commencement of the private operation of the Port of Darwin there was a progressive downturn in total trade through the port due to reduced commodities exports (particularly iron ore and manganese) and the completion of the construction phase of the INPEX Ichthys liquefied natural gas (LNG) plant. The construction stage of the INPEX LNG plant substantially increased port activity, due to imports of building materials for construction of the plant. The construction stage of the project began phased reduction in 2014-15 and was completed in mid-2018.
- 3.8 The increase in revenue for prescribed services over the past two years is largely due to an increase in the number of LNG vessels as the Ichthys LNG project transitioned to the production phase. This increased the number of vessel calls and pilotage requirements associated with gas exports.

Further Information

- 3.9 The purpose of this report is to provide port users, industry and stakeholders with a summary of changes to port prices for standard charges and an overview of the revenue received by the private port operator in relation to prescribed services at the Port of Darwin. More information on port tariffs, trade statistics and revenue for the Port of Darwin is available on DPO's website: <https://www.darwinport.com.au/>.
- 3.10 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.
- 3.11 Further information about the ports access and pricing regime is available on the commission's website www.utilicom.nt.gov.au.