

# **2019 PORTS PRICE MONITORING REPORT**

## **PORT OF DARWIN**

*December 2019*

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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

## 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 at the Port of Darwin, over a four year period. The report also provides a summary of the revenue received by the private port operator for prescribed services.<sup>1</sup>

This is the first price monitoring report published by the commission since the Port of Darwin became privately operated in November 2015. The commission intends on publishing a ports price monitoring report each year.

### 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 Territory.

The commission seeks to protect the long-term interests of consumers of services provided by regulated industries with respect to price, reliability and quality.

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.

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

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.

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 trustee for the Darwin Port Holding Trust. 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.

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<sup>1</sup>Section 7 of the *Utilities Commission Act 2000*, section 120 of the *Ports Management Act 2015* and clause 6 of the 2019-2022 Prescribed Port Services Final Price Determination.

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

The Port of Darwin is a multi-use, mixed cargo and marine services port. It services various markets, including livestock, dry bulk products, petroleum and other bulk liquids, container cargo, general cargo, cruise vessels, naval vessels, and offshore and gas rig servicing. Two high pressure natural gas pipelines pass through the Port of Darwin that service the two gas liquefaction terminals based within the port. It is a major offshore industry support hub for most cargoes used in the oil and gas industry in the Arafura and Timor seas as well as waters off Western Australia.<sup>2</sup>

The port is directly linked to Adelaide by the Tarcoola-Darwin Railway, is connected by major road transport highways to other capital cities and is Australia's closest shipping port to Asia.<sup>3</sup>

The Port of Darwin is composed of several distinct areas including East Arm Wharf, Fort Hill Wharf, the Marine Supply Base (MSB), Stokes Hill Wharf, Fisherman's Wharf, Hornibrook Wharf and the Frances Bay Mooring Basin (see Map 1 below).

Not all areas were leased to Landbridge. Stokes Hill Wharf, Fisherman's Wharf, Hornibrook Wharf and Frances Bay Mooring Basin continue to be owned and operated by the Territory Government, leaving East Arm Wharf, Fort Hill Wharf and the MSB with DPO (noting ASCO Australia Pty Ltd as a tenant of DPO is the operator of the MSB).

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<sup>2</sup> Darwin Port. 2017. 'About Us.' Accessed 14 November 2017. [www.darwinport.com.au/about-darwin-port](http://www.darwinport.com.au/about-darwin-port).

<sup>3</sup> Darwin Port. 2017. 'About Us.' Accessed 14 November 2017. [www.darwinport.com.au/about-darwin-port](http://www.darwinport.com.au/about-darwin-port).

Map 1: Port of Darwin (extract)



## STANDARD CHARGES FOR PRESCRIBED SERVICES

### Background

In accordance with section 132 of the PM Act and regulation 16 of the Regulations, the commission has issued a Price Determination for prescribed port services for the Port of Darwin.<sup>4</sup> As stipulated by the Regulations, the pricing regime is based on price monitoring, which only applies to 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 for all services at the port, with any changes to prices usually coming into effect in the middle of the calendar year. If DPO intends on changing the prices, or introducing a new charge for prescribed services, it must provide the commission with 20 days' notice.<sup>5</sup>

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<sup>4</sup> 2019-2022 Prescribed Port Services Price Determination Port of Darwin Final Determination, 13 February 2019.

<sup>5</sup> Clause 8 of the Price Determination.

The commission reviews DPO's standard charges for prescribed services to determine if they are consistent with the commission's Price Determination. The National Consumer Price Index (CPI) is used as the benchmark for monitoring and reporting on prices.<sup>6</sup>

DPO must also publish standard charges for the provision of prescribed services on its website at least 10 days prior to them coming into effect.<sup>7</sup> Since DPO commenced as the private port operator four years ago, there have been three price increases for prescribed services as discussed below.

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

DPO commenced as the private operator for the Port of Darwin in November 2015.

- No changes to port charges during this period.

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

Changes to prices and the new charge commenced 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.

In general, the majority of the standard charges for prescribed services for the Port of Darwin rose by 1.1 per cent. This price rise was more than the CPI increase for Darwin (0.5 per cent) but less than the National CPI increase of 2.1 per cent. This was the first time DPO increased its prices since becoming the private port operator in late 2015.

The Bulk Liquid Fuels Inbound Wharfage charge rose by 3.6 per cent. DPO informed the commission that the reason for this higher increase was so that DPO received an acceptable rate of return for the Bulk Liquids Fuel Berth infrastructure upgrades it had undertaken.

The new tariff, the Bladin Channel Port Dues Levy, was introduced for vessels larger than 20,000 gross tonne (GT) accessing the Bladin Channel. DPO advised the commission that the purpose of the new tariff was to provide a recovery mechanism for investment in pilotage, harbour control and management facilities to support the safe management of large vessel traffic, which would increase once the INPEX Ichthys LNG project commenced gas export operations.

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<sup>6</sup> Clause 6(b) of the Price Determination.

<sup>7</sup> Clause 8 of the Price Determination.



### *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 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 in order to reduce (according to DPO) administrative burdens for port users
- changes to the Port of Darwin tariffs schedule were made to provide additional information and clarity to port users about tariffs.

The 1.9 per cent increase was consistent with the National Consumer Price Index rise for 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 per cent
- the port induction and port pass fee were changed to a biennial charge (rather than annually), which resulted in a \$25 reduction in fees across two years for port pass holders.

The 2 per cent increase to DPO's port charges is marginally higher than the National CPI rise for the 12 months to the March quarter 2019, which was 1.8 per cent.

DPO informed the Commission that in reviewing its prices, it needs to take other factors into consideration, particularly increases to labour costs, and therefore raised its port charges by 2 per cent, which is slightly higher than the benchmark used by the commission. For comparison, the Wage Price Index (WPI) rise for the 12 months to the March quarter for 2019 for the Northern Territory was 2 per cent, with the National WPI increasing by 2.2 per cent.

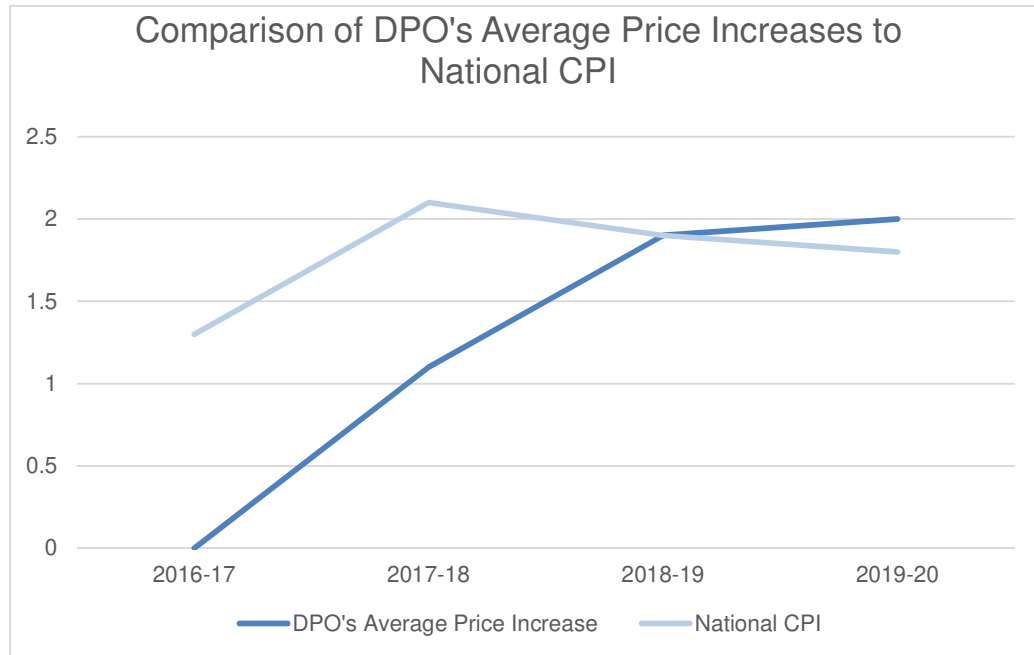
## **Benchmarking**

As discussed above, the Price Determination provides that the benchmark to be used by the commission for monitoring and reporting on prices is the National CPI. The National CPI is used as a reference point and is not intended to measure the efficiency of prices.

To assist port users, industry and stakeholders, Table 1 and Graph 1 below provide a comparison of DPO's average price increases over the four years since it became the private port operator of the Port of Darwin, as benchmarked against the National CPI.

Table 1: Comparison of DPO's average price increases to National CPI<sup>8</sup>

Year	DPO's Average Price Increase (%)	National CPI Increase (%)	Difference (%)
2016-2017	No change to prices	1.3	-1.3
2017-2018	1.1	2.1	-1.0
2018-2019	1.9	1.9	0.0
2019-2020	2.0	1.8	+0.2

Graph 1: Comparison of DPO's Average Price Increases to National CPI<sup>9</sup>

## Findings

In reviewing standard charges for prescribed services at the Port of Darwin for the last four years, the commission has found the increases to the charges were not inconsistent with the relevant Price Determination.

Since commencing as the private port operator for the Port of Darwin, DPO has met its reporting and publication requirements for prices, in accordance with the Price Determination for all four years.

<sup>8</sup> 12 months to the March Quarter.

<sup>9</sup> 12 months to the March Quarter.

## REVENUE FOR PRESCRIBED SERVICES

### Background

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 immediately preceding financial year. The annual report must contain the amount of revenue received by the port operator from standard charges for prescribed services (showing the amount of revenue for each separate charge). Following is a comparison of the total revenue for prescribed services, highlighting the leading revenue sources for DPO.

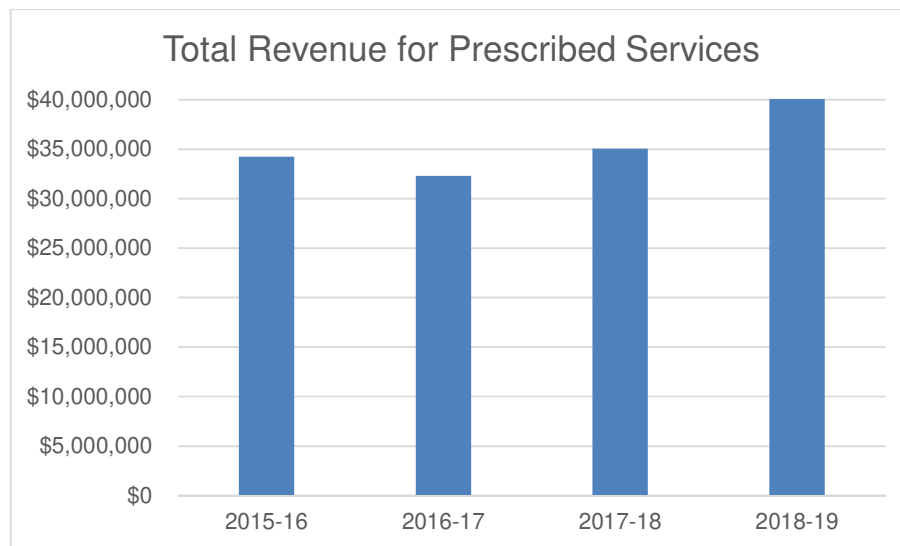
### Comparison

#### *Total Revenue*

Graph 2 (below) shows the total revenue received by DPO for all prescribed services for 2015-16, 2016-17, 2017-18 and 2018-19.

Since the commencement of private operation of the Port of Darwin, revenue has been relatively stable for the last four years. Following a decrease in 2016-17, total revenue for prescribed services has slightly increased year on year. Since the commencement of the regime, the lowest revenue received for prescribed services was \$32.3 million, and the highest was \$40.6 million.

Graph 2: Total Revenue for Prescribed Services

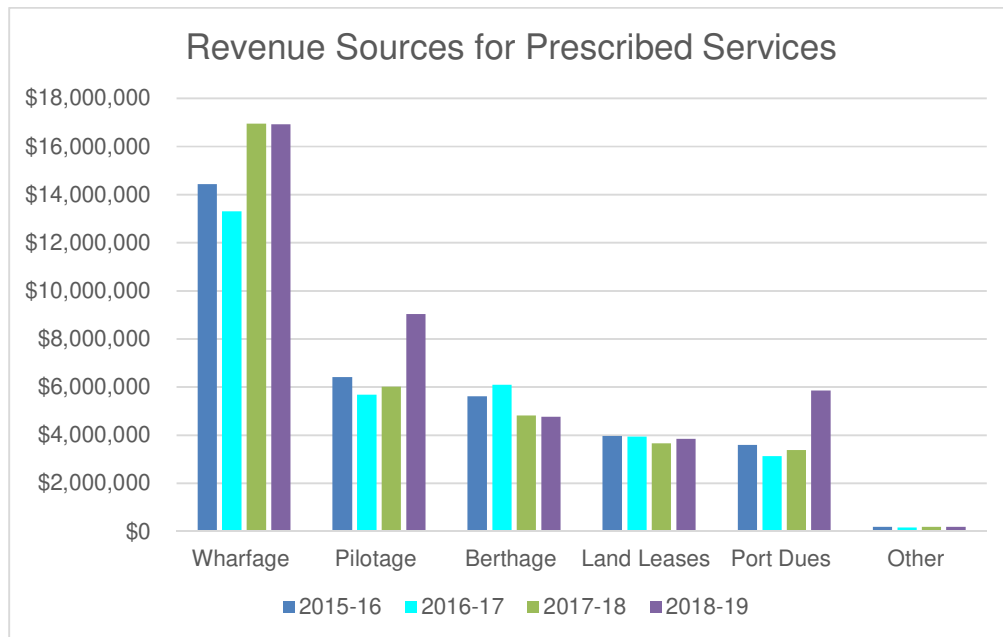


### Revenue by Service Category

Graph 3 (below) breaks down the total revenue received by DPO for prescribed services into the main sources.

For each year, the leading sources of revenue have remained similar, with wharfage as the clear leader, followed by pilotage and berthage. For 2018-19, port dues overtook berthage and land leases and there was an overall increase in the revenue received from pilotage services. This is possibly a reflection of the increase in vessel calls and pilotage requirements due to the INPEX Ichthys LNG project commencing gas export operations.

Graph 3: Revenue Sources for Prescribed Services



### General Factors Impacting Revenue

Just prior to the commencement of the private operation of the Port of Darwin there was a progressive downturn in the total trade through the port. This was a result of the commodities downturn (particularly iron ore and manganese) and the completion of the construction of the INPEX Ichthys liquefied natural gas (LNG) plant. The construction stage of the INPEX project created a substantial increase in port activity, due to the increase in building materials that were imported to construct the plant. The construction stage of the project began phased reduction in 2014-15, coming to completion in mid-2018.

The previous two financial years have seen a steady increase in revenue for prescribed services. This is most likely a reflection of the recovery of the commodities downturn, noting that manganese exports are one of the top commodities for the Port of Darwin. In addition, INPEX has now entered its production phase, which has increased revenue for pilotage and port dues.

## FURTHER INFORMATION

As discussed above, the purpose of this report is to provide port users, industry and stakeholders with a summary of changes to port prices for standard charges for prescribed services at the Port of Darwin. It also provides an overview of the revenue received by the private port operator in relation to prescribed services in general.

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.

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/>.

Further information about the ports access and pricing regime is available on the commission's website [www.utilicom.nt.gov.au](http://www.utilicom.nt.gov.au).