



10 December 2018

Dr Patrick Walsh
Utilities Commissioner
Utilities Commission of the Northern Territory

C/O email: utilities.commission@nt.gov.au

Dear Dr Walsh

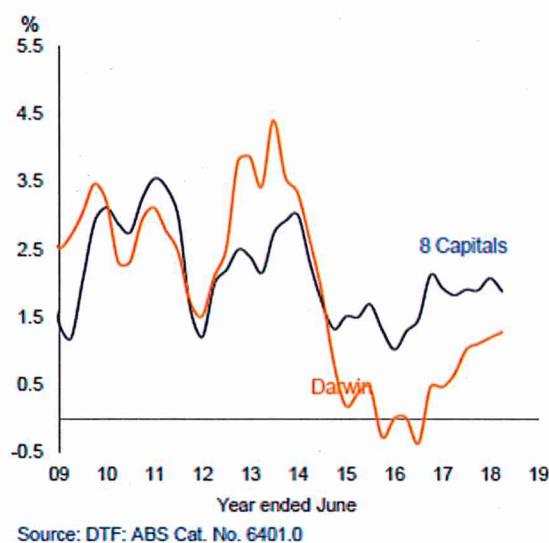
2018-2022 Prescribed Port Services Draft Price Determination: Port of Darwin

The Association of Mining and Exploration Companies (AMEC) is pleased to comment on the *2018-2022 Prescribed Port Services Draft Price Determination for Port of Darwin* (the Draft Determination).

AMEC is the peak national industry body representing hundreds of mining and mineral exploration companies, some of which are port users and future port users in Darwin.

The benefits to the Northern Territory of ensuring that mining companies have a cost-effective point of egress are jobs, royalties and revenue. It is the role of the Utilities Commission to safeguard this outcome.

The decision to benchmark the port price levels to the National CPI is supported by AMEC. The Darwin CPI is too volatile, as clearly seen in the Chart from the Consumer Price Index September Quarter 2018 published by the Northern Territory Treasury¹:



¹ Accessed from Northern Territory Treasury website:
https://treasury.nt.gov.au/_data/assets/pdf_file/0003/590457/Consumer-Price-Index-2018-September.pdf

Association of Mining and Exploration Companies

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However, it must be noted that benchmarking against CPI rather than a performance metric such as an internal rate of return or weighted average cost of capital does not encourage the optimal use of the port asset. This approach could guarantee a fixed National CPI port price increase year on year at Darwin Port.

It is the role of the Utilities Commission to ensure that this does not eventuate.

Across Australia the transparency of a port's financial performance decreases noticeably when a port is privatised. In some cases, the only details available are those published via the price monitoring regime.

It is positive that the Utilities Commission will publish an Annual Port Price Review as per 13 (k) in the Draft Statement of Reasons in the Draft Determination.

The Utilities Commission's proposal is supported by AMEC and delivers on Recommendation 7 (H) of the *2018 Port Pricing and Access Review Draft Report*.

Ports are natural monopolies and have the ability to generate substantial rents from Port users. A measure that should be documented in the implementation of this Annual Port Price Review is the weighted average cost of capital (WACC) for the Darwin Port. The WACC can assist in identifying whether price gouging is occurring and ensure that the economically efficient price is being charged. To calculate a meaningful WACC, the Utilities Commission would need greater line of sight of the Darwin Port's financial statements. Without the context a layer of analysis, such as a WACC, provides the Annual Port Price Review document could be less valuable.

Industry remains highly supportive of the implementation of a number of recommendations from the 2018 Port and Access Pricing Draft Report. These include:

- The establishment of a negotiate and arbitrate scheme in the Act rather than in the Access Policy as per Recommendation 7(F);
- The creation of a series of published Reference Tariffs (Recommendation 7 (V) in the Draft Report). The creation of reference tariffs for bulk minerals will assist developing mining companies as they need to be able to demonstrate certainty of pricing to attain finance; and
- The ability to define which services are considered "prescribed services", as outlined by Recommendation 7 (W) of the Draft Report.

I would be pleased to discuss the content of this submission, if considered necessary.

Yours sincerely



Warren Pearce
Chief Executive Officer