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13 February 2013

PRIVATE & CONFIDENTIAL

Mr. Craig Faulkner
Chief Executive Officer
Australian Amalgamated Terminals Pty. Limited
Level 11
330 Collins Street
Melbourne VIC 3000

Dear Mr Faulkner

INDEPENDENT PRICE EXPERT Determination
Price Increase Proposed for Webb Dock West from 15 February 2013
Price Increase Proposed for Outer Harbour from 15 February 2013

This Determination has been made pursuant to my appointment as the Approved Independent Price Expert ("**the Expert**") under Clause 2.2 of Attachment D of the conditional authorisation granted to Australian Amalgamated Terminals Pty. Limited ("**AAT**") by the Australian Competition and Consumer Commission ("**ACCC**") on 3 December 2009, and varied on 9 February 2010 ("**the Authorisation**"). All subsequent references to the Authorisation will be to Attachment D only, unless otherwise specified.

On 15 November 2012 AAT notified Terminal End-Users of proposed maximum tariffs that will apply to AAT terminals at Webb Dock West in Melbourne and Outer Harbour in Adelaide, commencing 15 February 2013 ("**proposed price increases**"). As required in the Authorisation, the AAT notification advised Terminal End-Users of the name and contact details of the Approved Independent Price Expert and the process for such users to lodge objections with the Expert.

One written objection was received by me from terminal end users within the time period allowed. The objection related to the proposed price increases for both terminals.

In accordance with Clause 2.4.10 of the Authorisation I am required to notify AAT and any party which lodged an objection of my Determination in relation to the proposed price increases.

I note that in making this Determination the Authorisation states that I am acting as an Expert and not an arbitrator and that any determination made by me in that capacity is final and binding on AAT.

Within 2 business days of receiving this Determination AAT must publish it on their website.

Determination by Approved Independent Price Expert

In accordance with the obligations imposed on me as the Approved Independent Price Expert I hereby notify you of my Determination in relation to the proposed price increases advised by AAT to be effective as from 15 February 2013. The original notifications provided by AAT are attached as:

Annexure A - Webb Dock West; and,

Annexure B – Outer Harbour.

Webb Dock West

I have determined that the proposed price increases for Webb Dock West as notified by AAT are not reasonable or justified and have set new prices as allowed by clause 2.4.12 of the Authorisation. The new prices as set out in the table below reflect an average increase over the existing prices of 2.4% as compared to the average of 7.5% proposed by AAT.

Webb Dock West Price Increases	Pre - 15 Feb 2013	Post - 15 Feb 2013	
	Actual	Determination at 2.4% average	Proposed by AAT at 7.5% average
FAC Export vehicles $ per unit	29.95	30.70	32.20
FAC Import vehicles $ per unit	24.40	25.00	26.25
FAC general cargo $ per revenue tonne	4.25	4.40	4.55

Outer Harbour

I have determined that the proposed price increases for Outer Harbour notified by AAT and set out below are reasonable and justified.

Outer Harbour Price Increases	Pre - 15 Feb 2013 Actual	Post - 15 Feb 2013 AAT Proposed & Determination at 2.0%
FAC wheeled vehicles $ per m3	1.45	1.48
FAC general cargo $ per revenue tonne	2.65	2.70

These increased prices will all take effect as of the date notified by AAT, being 15 February 2013.

Detailed Report

The Authorisation does not require me as the Expert to provide any explanation or reasoning for reaching the conclusions drawn. However in the interests of all parties I have set out in the attached Report full details of such matters. In certain circumstances information has been provided to me which is confidential in nature and cannot be disclosed to other parties. Where I have relied on such information I have noted this in the Report.

Submissions and Consultation

I wish to acknowledge the following interested parties who have provided information to assist me in reaching this Determination:

- AAT – as required by the Authorisation
- Federal Chamber of Automotive Industries ("**FCAI**")
- Toyota Motor Corporation Australia Limited ("**Toyota**")
- GM Holden Limited ("**Holden**")
- Port of Melbourne Corporation ("**POMC**")
- Qube Holdings Limited ("**Qube**")
- P & O Wharf Management ("**POWM**")

I thank all the parties listed above for their co-operation and assistance during this process.

Yours Faithfully

Deborah Cartwright
Approved Independent Price Expert

CONTENTS

Report on Determination Considerations

A Background

The background information that resulted in the appointment of the Approved Independent Price Expert is set out in detail in the Authorisation and is well known to all interested parties. As such I do not propose to repeat such detail in this report.

Since my appointment as the Approved Independent Price Expert, I have made three prior Determinations, being:

First Determination	**18 August 2010**
Second Determination	**10 February 2011**
Third Determination	**16 January 2012**

I also prepared a supplementary report to the Third Determination on 16 February 2012, but that report noted the withdrawal of objections, and therefore no further determination was required to be made.

This Determination is referred to as the **Fourth Determination.**

B Notification of Proposed Price Increases

On 15 November 2012 AAT notified its Terminal End Users of its proposed price increases at Webb Dock West in Melbourne and Outer Harbour in Adelaide, effective 15 February 2013 ("**proposed price increases**").

As contemplated under the Authorisation terminal end users who wish to may lodge objections against the proposed price increases with the Expert within 15 business days following notification by AAT of the proposed price increase.

Within this period I received one such objection notice from the Federal Chamber of Automotive Industry ("FCAI"). This objection related to the proposed price increases at both Webb Dock West and Outer Harbour.

Having received one or more such objections the Expert is required to determine whether the proposed price increases are reasonable and justified within the period prior to the date of effect of the proposed price increases, or such further period, not being more than 20 business days, as the Expert in their sole discretion requires.

C Determination Process

The Authorisation sets out in Clause 2.4.6 that the Independent Price Expert must:

"... determine whether the proposed price increase is reasonable and justified, having regard to the following principles:

(c) that AAT is entitled to generate a reasonable rate of return on the amount of funds invested; and

(d) the price for the supply by AAT of Port Terminal Services should be set on a terminal by terminal basis taking into account:

(i) all efficient input costs, including Port Terminal lease costs, among others;

(ii) an appropriate allocation to that Port Terminal of AAT's head office costs;

(iii) expected volumes over the period that AAT has used to calculate the proposed price increase, including where appropriate any split between committed / uncommitted volume and associated risks;

(iv) the level of capital reasonably invested by AAT at that Port Terminal;

(v) AAT's overall weighted average cost of capital; and

(vi) the interests of Stevedores and Terminal End-Users who use the Port Terminal for which the proposed price increase relates; and

(e) The reasonableness and appropriateness of the existing price for the supply of the Port Terminal Service."

Proposed Tariff Increase for Existing Tariffs

In the Table below I have summarised the % increase in the SAC and FAC over the current prices charged for all services where a current charge exists. I have also considered the movement in the CPI over the period since the prices for each terminal were last adjusted.

TABLE 1 – Proposed Nominal and Real Price Increases

Proposed increase 15 February 2013				
SAC	**FAC**	**Terminal & Date of Last Increase**	**CPI increase**	**Real increase in FAC**
2.0%	2.0%	Adelaide, since 1 February 2012	2.1%	-0.1%
2.0%	7.5%	Melbourne, since 1 February 2012	2.1%	5.4%

The level of proposed increases for each terminal is considered in detail throughout this Determination.

D AAT Pricing Model

In their first notification of proposed price increases which was subject to the ACCC Authorisation, AAT advised Terminal End-users on 29 April 2010 that the new tariffs were based on a detailed pricing model ("**the Model**") developed by a leading firm of economists ("**CEG**") who are experienced in working with organisations whose operations were regulated. AAT advise that CEG still provide economic advice and structuring expertise for their Model, but that all data is now entered by AAT's own staff.

In my First Determination I considered in detail the submissions made by AAT and CEG to me as to how the Model was constructed, the rationale behind the input assumptions and how, in their opinion, the Model address's the factors set out in Clause 2.4.6 of the Authorisation.

Where I did not agree with the assumptions, methodology or rationale adopted by CEG and AAT in preparing the Model, I provided details in the relevant section of the Report together with my reasons for such opinion.

I have been provided with full access to the amended version of the Model, which AAT have used in calculating whether a price increase is required on a terminal by terminal basis, and in calculating the level of subsequent proposed price increases for each terminal. The amendments to the Model made AAT and CEG were to address each of the factors raised in my prior Determinations with respect to the application of Clause 2.4.6 of the Authorisation, which sets out the matters that must be taken into account by the Expert in making a Determination as to whether the proposed price increases are reasonable and justified.

In addition to the amendments referred to above, there have also been further amendments to the Model for each successive Determination, to facilitate the replacement of forecast cashflows and input assumptions used in the previous version of the Model, with actual cashflows for the elapsed period as well as updated input assumptions and forecasts.

The 'typical year' for the purposes of the cash flow projections used in the Model is the 12 months commencing from the date the proposed prices are to become effective. For the purposes of these proposed increases the year commences on 15 February 2013.

Where I do not agree with any assumptions now adopted by AAT, or have found it necessary to model additional analyses to arrive at this Determination, I have indicated so in the relevant section of this Report together with my reasons for such opinion.

D1 Webb Dock West – Assumptions and Forecasts

In the table below I have set out the following information for each of the price increases announced by AAT for Webb Dock West since my appointment;

- The price increases which result from the calculations performed using the Model;
- The price increase proposed by AAT, following the output derived from the Model (AAT have on occasions proposed a price increase lower than that calculated by the Model); and
- The price increases which I have set following my Determinations.

Webb Dock West Determinations	CEG Model Increase	AAT Proposed Increase	Determination
1st Determination: 1 August 2010		n/a	
2nd Determination: 15 January 2011	61.0%	30.5%	17.0%
3rd Determination: 1 February 2012	4.7%	4.7%	1.6%
4th Determination: 15 February 2013	7.5%	7.5%	2.4%

Table 1 in **Section C** above compares the 7.5% price increase now proposed by AAT for Webb Dock West to the rise of only 2.1% in the CPI over the intervening period since the last model was prepared. AAT is therefore proposing to impose a real increase in prices of 5.4% above the movement in the CPI.

Following my detailed review of the Model I have determined that there are a number of input errors which are discussed in detail in **Section F1** but note that the Model has been corrected to now use the correct data.

I have then considered the changes to the key assumptions that AAT have made. The major change made by AAT to the assumptions is that the forecast volumes for 2013 and 2014 adopted in the current Model are lower than the forecast numbers for the same periods which AAT adopted in the 2011 Model. AAT have advised that the lower forecast numbers have been determined after consideration of the actual volume throughput and revenue numbers for 2012 which were lower than originally forecast. See **Section F5** for full details.

AAT have also amended the Model to take into account the impact of the new Port Licence Fee imposed by POMC, effective from 1 July 2012.

They have not however made any changes to the Model's assumptions to account for the potential impact, if any, of the POMC Re-development of Webb Dock which was announced after the date of my last Determination.

Each of these two factors is considered below;

New Port Licence Fee

Effective from 1 July 2012 POMC introduced a new charge, called the Port Licence Fee, at Webb Dock. The Port Licence Fee is collected by AAT from the shipping lines and other users and then passed on to POMC. The impact of this new licence fee is neutral to AAT as it passes through all such fees collected from the users to POMC.

In the current version of the Model, both revenue and expense forecasts for Webb Dock West have increased, and results in an apparent substantial increase in both revenue and expenses. However it has no overall impact on the results for AAT as the total amount collected is passed on to POMC.

When the Port Licence Fee, both revenue and expense, is excluded from the Model, forecast total revenue and total expenses attributable to AAT for the forecast period are projected to decrease by 3.7% and 3.5% respectively compared to the same period in the previous Model, so that there is a net deterioration in AAT's forecast margins. This decline in margin to AAT results in the Model calculating an increase in FAC being required for the remainder of the forecast period.

As outlined above the principle reason for the reduction in revenue is the decline in forecast volume – see **Section F5**.

The main reason for the decline in Expenses is the reduction in expenses which vary with volume**.**

POMC Re-development of Webb Dock

Since my Third Determination was released the Victorian Government has announced that it has abandoned its proposal of moving the automotive trade to Geelong, and instead embarked on a program to re-develop the entire Webb Dock Precinct by 2017.

Webb Dock West is to be developed as a world class automotive terminal, capable of eventually servicing the Port of Melbourne's entire projected automotive trade until 2040. Webb Dock East is to be closed to the automotive trade, and become a dedicated container terminal. POMC representatives have advised that Appleton Dock is not subject to the current re-development and will retain its ability to handle automotive trade.

POMC called for an Expression of Interest (**EOI**) from all parties interested in being appointed as the operator of the new automotive facility to be constructed at Webb Dock West, with the lease to commence with a variable development period of around 2 years plus an operating lease period of approximately 25 years to end on 30 June 2040.

The EOI for the Webb Dock West automotive facility closed in November 2012. POMC have commenced the process of reviewing EOIs received. Although we have not been officially advised by POMC we have been given to understand by other parties that there was more than one EOI lodged, but POMC were not in a position to provide any details.

The information contained in the Invitation for Expressions of Interest dated October 2012 issued by POMC stated that detailed transition arrangements are to be negotiated in order to facilitate the construction of 2 new berths by 2015 adjacent to the existing pontoon berth operated by AAT at Webb Dock West. The pontoon berth currently used by AAT is to be demolished after completion of the two new berths, and a third new berth will be constructed in its place by 2017. POMC has stated that it is imperative that the facilities at Webb Dock West remain fully operational during this construction period and that there is no interruption to trade during the transition period.

At the same time the Webb Dock East facility is to become a dedicated container terminal and the automotive facilities at that terminal closed some time prior to 2017.

AAT and POMC have confirmed that AAT's existing lease on the site expires on 31 December 2017. In the Model AAT have assumed that it will be 'business as usual' until the end of the lease term. POMC have indicated that it is their current intention to allow AAT to operate at Webb Dock West until the termination of the current lease. This would include AAT having non-exclusive access to the two new berths in the final two years of the current lease

All other material assumptions in the current Model for Webb Dock West are consistent with those adopted in the Model considered in my Third Determination.

D2 Outer Harbour – Assumptions and Forecasts

My only prior Determination with respect to proposed price increases for Outer Harbour was the Third Determination. In that case I determined that the 6% proposed price increase from 1 February 2012, the first increase since April 2008, was reasonable and justified, particularly as it was considerably less than the movement in the CPI of 11.6% over the period since the last price adjustment. The Model at the time calculated a price increase of greater than 300% being justified, but this was not adopted by AAT.

Table 1 in **Section C** above compares the 2% price increase now proposed by AAT for Outer Harbour to the rise of 2.1% in the CPI over the intervening period since the last model was prepared. AAT is therefore proposing no real increase in prices at Outer Harbour and the proposal is in fact a real decrease of 0.1%.

The current Model calculates an increase in excess of 100% for two main reasons:

- the relatively low component of revenue from FAC (the regulated tariffs); and,
- the cash flow forecast period used in the Model is too short to recover AAT's investment with the existing lease arrangements which terminate on 31 January 2015. See **Section F3** for further detail in relation to the lease for Outer Harbour.

AAT's facility at Outer Harbour is an automotive terminal and does not generate significant revenue from other cargo types. Car imports are actually handled in the majority through the adjacent Flinders Ports Pty Ltd ("**Flinders Ports**") terminal - AAT receives SAC for these imports handled through the Flinders Port terminal as AAT plans and provides stevedoring equipment etc for use by the relevant stevedores. Few imports are actually handled in the AAT terminal, although when they are the appropriate FAC is charged by AAT. All exports of vehicles from Adelaide are however processed through the AAT terminal.

The FAC and SAC are both charged on exports by the major motor vehicle exporter of assembled light vehicles from Adelaide

Although AAT has experienced strong growth in import volumes in 2012 over 2011 at Outer Harbour, export volumes have remained flat due to a number of factors, principally the high Australian dollar exchange rate. As a result, the ratio of FAC revenue to total revenue is lower at Outer Harbour than at other AAT terminals. The short remaining lease term, together with the small revenue base, results in the Model calculating an extraordinarily high FAC price increase. This lower level of exports is discussed in more detail in **Section F5**.

Despite the output from the Model being a price increase of over 100%, AAT have proposed an increase of 2.0% which as stated above is less than the increase in the CPI over the corresponding period since the last price increase.

E Reasonable Rate of Return on Funds Invested

The Authorisation provides that AAT is entitled to generate a reasonable rate of return on the funds invested. In considering this the two factors I have had regard to are:

1. What is the level of return which is "reasonable" to AAT; and
2. What is the level of funds invested by AAT?

E1 Reasonable Rate of Return

In my First Determination I determined that a reasonable rate of return for AAT to adopt was 12.65% p.a. pre-tax. This is also referred to as the pre-tax weighted average cost of capital ("**WACC**"). This rate is applied to future cash flows only and not to historic earnings. I also accepted this rate in my Second Determination, followed by a reduction to 12.10% in the Third Determination as a result of a lowering of interest rates and reduction in the market risk premium applied.

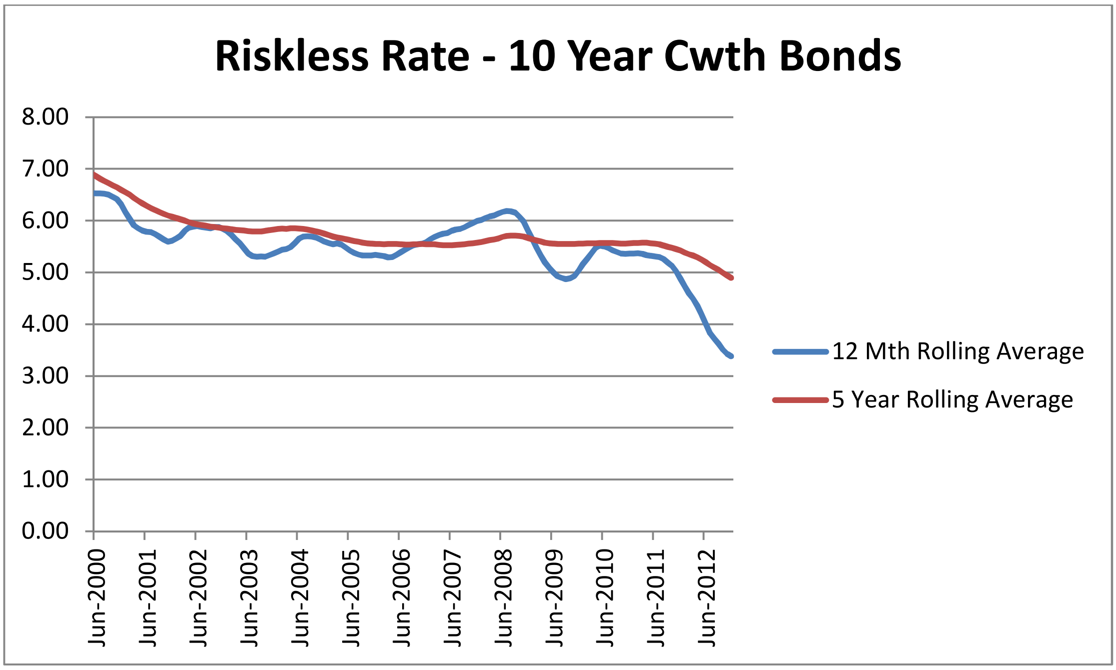
AAT have correctly updated the WACC for movements in market interest rates published by the RBA since the prior Model was prepared. Their assumption for WACC for the forecast period remains at 12.10% per annum having been adjusted to reflect the rate adopted in my Third Determination.

Given the decline in interest rate expectations which have continued to be experienced since the Third Determination I consider that the WACC for AAT needs to be again adjusted.

Risk Free Rate and WACC for AAT

The AAT Model continues to adopt the assumption that the Long Term Risk Free interest rates will average 5.5% per annum over the forecast period.

I adopt the industry practice of adopting 10 Year Commonwealth Bond Rates as the proxy for the Long Term Risk Free interest rates. Long Term Risk Free interest rates had been relatively stable for a long period, ranging from 6.5% and 5% between January 2000 and January 2012. The graph below demonstrates the fall in 10 Year Commonwealth Bond interest rates over the past year.



Market expectations published by the Reserve Bank of Australia ("**RBA**") and other economic commentators is for further cuts in interest rates, with rates expected to remain low for the next year. It is difficult to find commentators who predict longer term interest rate movements, but the RBA has made clear in its comments that the low interest rates are a tool used to address contemporary uncertainties, particularly those affecting international government debt obligations. Most commentators expect that the RBA will move to lift rates again as the international economy recovers.

The Authorisation requires the approved Independent Pricing Expert to make a determination taking into account *"AAT's overall weighted average cost of capital"*, not on a terminal by terminal basis. As over 80% of the forecast terminal revenues are generated from long-term leases held by the company, I do not place major emphasis on what could be a short-term period of low interest rates. However, I do observe that:

- Interest rates have declined and have stayed below 5% for over one year;
- Interest rates are expected to remain below 5% for the coming year;
- There is reason to believe that we are seeing a long term, downward movement in Australian interest rates.
- 10 Year Commonwealth Bonds at close of trade on 6 February 2013 were trading at 3.52% (Source: RBA: F2 Capital Market Yields - Government Bonds

For this reason, I have adopted a Long Term Risk Free interest rate of 4.75% per annum (compare to AAT's assumption of 5.50% p.a.) for the purposes of this Determination. This rate is based on my expectation that 10 year bond rates will remain below 4.0% for the remainder of 2013, but will return to long-term trend rates for most of the remaining analysis period used in AAT's Model. The impact of this of this change to the assumption is to reduce the assumed pre-tax nominal WACC from 12.10% used by AAT in the Model to 11.35% per annum.

Other Components of WACC

I have reviewed the other assumptions adopted by AAT in calculating their overall WACC. For the following reasons I accept that there would have been no material change in the WACC applicable to AAT for factors other than the reduction in the Long Term Risk Free interest rate:

1) The Model adopts a constant rate within each financial year in order to even out the impact of volatility throughout the year.
2) There has been no material change to the underlying risk profile of AAT itself since August 2010.
3) In early versions of the model, AAT increased the market risk premium they apply by 0.5% due to heightened risk associated with the GFC. In the version of the Model prepared for the price increase on 1 February 2012, AAT reduced the market risk premium by 0.5%. I agree that the improvement in the international economic environment post-GFC supports the current setting in market risk premium.
4) I have recalculated the average Equity Betas for the industry and for AAT's shareholders, and believe the beta of 1.1 adopted by AAT for the previous proposed price increases continues to be appropriate.

Specific Risk Factors

I have examined the change to the specific risk factors applicable to each of the terminals operated by AAT and considered their impact on AAT's overall risk profile and note the following;

- As discussed in **Section F3** the re-development proposed for Webb Dock by POMC increases the commercial risks associated with AAT operating the terminal, with the prospect of interruption to business.
- The re-development also has the potential to generate considerable volume improvements during the current lease term once the automotive terminal at Webb Dock East is closed.
- Privatisation of the Port of Brisbane has occurred, with the new landlord now in place, and the level of uncertainty post-privatisation decreasing accordingly as AAT has developed its working relationship with the new owner.
- Port Kembla is the subject of a proposed 99-year lease by the NSW Government to the private sector. This represents an increase in uncertainty, with the proposal being only at an early stage.

I therefore accept that there has been no material change in the risk profile of AAT which would require an adjustment to the WACC for the Company as a whole.

Therefore it is my opinion that the rate of 12.10% used in the Model for the WACC applicable to AAT for future cash flows is too high due to their assumption that long term interest rates will remain at 5.5%, whereas it is my opinion that a rate of 4.75% is more reasonable. This reduction in the long term interest rate results in the WACC applicable to AAT being reduced to 11.35% per annum and this is the rate that I have now adopted for this Determination.

E2 Funds Invested

The Authorisation sets out that the level of capital reasonably invested should be considered on a terminal by terminal basis – see **Section C(d)(iv)** of the Authorisation. I have therefore considered the level of funds invested under **Section F6** below dealing with it on a terminal by terminal basis.

F Factors to be Taken into Account When Setting Prices

F1 Price to be Set on a Terminal by Terminal Basis

The AAT Model seeks to calculate the prices on a terminal by terminal basis as specified in the Authorisation. The AAT accounting system allocates direct revenue and expenses on a terminal by terminal basis for management accounting purposes. Budgets are also prepared on this basis. The Model uses the data from these management accounts and budgets, on a terminal by terminal basis, in calculating the proposed price increases.

The current prices charged by AAT utilised in the Model are sourced from the most recent published Tariff Schedules. The Model calculates the FAC prices to apply from date of the next proposed price increase by multiplying the current tariff for each FAC service by the average price increase calculated by the model. This increase is added to the existing price, is then considered by AAT before they determine what they will publish as their proposed price increases.

Errors which have been identified as having been made during the update of the formulae, and insertion of input data and assumptions in the Model which has been prepared by AAT for these proposed price increases were as follows:

1. The Model used for Webb Dock West calculated the forecast cash flows from a starting point for the FAC export charge of $29.45, instead of the price determined in the Third Determination of $29.95, which was effective from 1 February 2012. By correcting this actual charge to $29.95 it reduced the % increase calculated by the model for all charges at Webb Dock West.

2. Head Office and company overhead costs are allocated to each terminal on the basis of proportional revenue. In replacing the forecast cash flow with actual results since the prior Model was prepared, the model allocated 12 months' Head Office Cost to the 7 month period to January 2013. After correcting this allocation, the average price increase calculated by the Model for Webb Dock West is reduced for all charges**.**
3. The Model provided by AAT calculates the price adjustments required to achieve the WACC on a terminal by terminal basis, including those terminals where no price increase is currently proposed. As there are no price increases proposed for Fisherman Islands or Port Kembla, and the Outer Harbour price increase is much less than that calculated by the model, the overhead allocation originally made by the Model is incorrect. The Model then needs to be amended to reset the prices for Fisherman Islands and Port Kembla to their existing level and for Outer Harbour to the proposed rate of increase of 2.0%, and then apply the allocation of overhead based on the revised revenue numbers per terminal.

In combination, these 3 adjustments to the Model result in the average increase for all FAC charges at Webb Dock West being **reduced from 7.5% to 4.6%,** whilst the calculated price increase at Outer Harbour has been re-set to the AAT proposed price increase of 2.0%.

F2 Efficient input Costs

In the preparation of the original Model, AAT have assumed that all historic and forecast expenditure and investment has been prudent. To support this assumption they argue that they had a strong incentive to only incur efficient input costs, because like any business, to the extent that AAT could lower its input costs, this would increase its profit margin for a given set of prices.

I accept that this argument is reasonable and that AAT's input costs can be assumed to have been efficient historically with respect to all periods prior to the Authorisation and the first proposed price increase announced after it was issued

However given that AAT is now in a regulated environment and that the Model adopted seeks to calculate prices for the period **ahead** using amongst other things**, expected or forecast input costs**, the higher the forecast costs used in the Model, the higher the resulting price that the Model would calculate as being required. After setting the prices, AAT could in fact find that there are various ways in which the actual costs can be reduced, but the prices will have already been set. It is therefore necessary to consider how the forecast input costs for the year ahead have been calculated by AAT.

I have set out in the tables below a comparison of the forecast expenses for 2014, the year-to date plus budgeted expenditure for the remainder of 2013 (at the time the Model was updated by AAT) and the actual expenses incurred in 2008 through

2012. Each head of expenditure is expressed as a percentage of the base year, which is 2008. In each case I note that costs were initially lower subsequent to 2008 due to lower levels of economic activity in the aftermath of the Global Financial Crisis **("GFC**").

1. Webb Dock West

COST ANALYSIS - WEBB DOCK WEST	Base Year 2008	Actual 2009	Actual 2010	Actual 2011	Actual 2012	YTD + Budget 2013	Forecast 2014
Salary, wages and on-costs	100%	77%	74%	75%	81%	104%	106%
Rent, rates, taxes + berthing lic*	100%	91%	77%	109%	106%	103%	107%
Repairs and maintenance	100%	41%	92%	101%	145%	128%	131%
Security	100%	90%	93%	91%	96%	100%	103%
Insurance	100%	115%	34%	49%	126%	69%	71%
Communications	100%	84%	114%	109%	128%	147%	150%
Electricity	100%	79%	95%	97%	116%	129%	132%
Fuel	100%	55%	59%	84%	72%	130%	133%
Cleaning	100%	113%	94%	95%	124%	123%	126%
Equipment hire	100%	248%	237%	253%	306%	317%	324%
Other expenses	100%	53%	76%	39%	44%	20%	20%
Allocation of head office costs	100%	95%	58%	63%	53%	53%	68%
TOTAL EXPENSES	**100%**	**87%**	**78%**	**97%**	**98%**	**90%**	**101%**
TOTAL REVENUE	**100%**	**67%**	**86%**	**97%**	**90%**	**95%**	**103%**
* Rent excludes new Port Licence Fee from 1 July 2012							

The total Head Office costs incurred by AAT since 2009 have fallen considerably mainly as a result of the finalisation of the ACCC proceedings and apparent downsizing of head office staff following this and the impact of the GFC on overall business.

Although the total Head Office Costs for AAT were marginally higher in 2012 than in both the 2013 budget and the 2014 forecast, the forecast allocation to Webb Dock West has increased in 2014. This is because the Model allocates these head office costs based on Total Revenue, and the Model includes the new Berth Licence Fee in Total Revenue in the forecasts for Webb Dock West (but not in the 2013 Budget).

With respect to the major categories of expenses I note:

- Rent paid to POMC is the major expense incurred at this terminal over the period covered by the Cost Analysis table above. Despite the downturn in revenue due to the impact of the GFC and the natural disasters in Asia, total costs did not fall proportionate to revenue since the port rental charged by POMC to AAT is set to market regardless of any level of economic activity.

  The apparent fall in rental in 2009 and 2010 was due to a phased in recovery of rental overpaid, arising from AAT successfully contesting the May 2008 market rent review. Thereafter the market rent has varied at a rate close to movements in the CPI;

- Salary and Wages – this item has increased in the 2013 budget and in the forecasts due to a reallocation of bonuses for management staff from Head Office to each terminal. In addition, the National Terminal manager's salary was formerly allocated to Port Kembla where he resides, but from 1 July 2012 has been re-allocated across all terminals.
- The large jump in Insurance expense for 2012 was due to the excess paid by AAT for repairs which was treated as an insurance cost for accounting purposes rather than allocated to repairs and maintenance.
- Other Expenses – this line item has fallen due to a re-allocation of some costs to other heads of expenditure in AAT's accounting records. The increase in Repairs and maintenance is mainly due to this re-allocation in 2012 and in the forecasts.
- Some other costs which are higher than in 2011, such as communications, cleaning and equipment hire, are not large expenditure items in dollar terms and the increases are not material to the overall results of that terminal or the proposed price increases being calculated by the Model.

I have previously visited the Webb Dock West terminal and discussed the input costs and incentives with terminal management and head office to control operating expenses. My review of the operating expenses has not identified any head of expenditure which is not an 'efficient input cost'.

2. Outer Harbour

COST ANALYSIS - OUTER HARBOUR	Base Year 2008	Actual 2009	Actual 2010	Actual 2011	Actual 2012	YTD + Budget 2013	Forecast 2014
Salary, wages and on-costs	100%	57%	39%	42%	44%	56%	58%
Rent, rates and taxes	100%	109%	90%	97%	99%	99%	102%
Repairs and maintenance	100%	39%	152%	72%	233%	229%	234%
Security	100%	99%	115%	116%	125%	128%	131%
Insurance	100%	145%	91%	132%	122%	179%	183%
Communications	100%	64%	71%	96%	100%	117%	120%
Electricity	100%	35%	81%	63%	92%	112%	114%
Fuel	100%	42%	53%	63%	66%	66%	68%
Cleaning	100%	77%	101%	97%	112%	121%	124%
Other expenses	100%	52%	23%	30%	16%	16%	16%
Allocation of head office costs	100%	71%	43%	38%	37%	36%	38%
TOTAL EXPENSES	**100%**	**79%**	**72%**	**74%**	**80%**	**82%**	**88%**
TOTAL REVENUE	**100%**	**50%**	**64%**	**59%**	**61%**	**65%**	**66%**

With regard to the historical and forecast expenditure for Outer Harbour, I note:

- Operating costs were higher in 2008 due primarily to the buoyant economic conditions experienced in 2008 generating strong export demand from overseas customers and the impact in subsequent years of the lower volumes due the impact of the GFC and the high Australian Dollar.
- Salary and Wages – as with Webb Dock West, this item has increased in the 2013 budget and in the forecasts due to a reallocation of bonuses for management staff from Head Office to each terminal and the National Terminal manager's salary being re-allocated across all terminals rather than being treated as a Port Kembla cost.
- Other Expenses – this line item has fallen due to a re-allocation of some costs to other heads of expenditure in AAT's accounting records. The increase in Repairs and maintenance is mainly due to this re-allocation in 2012 and in the forecasts.
- Most other material costs appear to be variables which AAT has been able to control in line with the level of port throughput.

I have not visited Outer Harbour, but have consulted with AAT and Terminal End-Users, including detailed discussions with the major exporter, who provided a copy of the Logistics Services agreement under which AAT provides export services to them. My review of the operating expenses and these agreements has not identified any head of expenditure which is not an 'efficient input cost'.

Based on the above analysis I consider that the forecast expenditure appears reasonable given the historical data and improving economic performance of the automobile industry in Australia.

F3 Port Terminal Lease Costs

The Authorisation specifically refers to Port Terminal Lease Costs being considered as part of the efficient input costs. Each terminal is considered separately below.

1. Webb Dock West

AAT has operated the automotive terminal at Webb Dock West since July 2005 under a lease from the Port of Melbourne Corporation (POMC). POMC is a state government statutory authority with the responsibility for management and development of the Port of Melbourne to Strang Stevedoring Australia W.D.W. Pty. Limited. The lease was subsequently assigned to AAT by Deed of Assignment dated 30 June 2005.

In the Second Determination I discussed the rental review due from 1 January 2006 that was successfully contested by AAT, and the effect of the overpayment of rental until the dispute was resolved in May 2009. The overpayment was credited to AAT by POMC over a number of years, resulting in a significant dip in the rental expense, discussed under **Section F2** above. The subsequent market reviews under the lease have been close to the CPI. The next market rent review is scheduled for 1 January 2014, and every two years thereafter.

The assumed rental increase for the years commencing on and after 1 January 2013 in the Model takes into account expected CPI increases to the rent.

POMC Re-development

It is clear from my consultation with AAT and POMC that it is the current intention of the parties that AAT will be able to operate on the site until the termination of the lease term on 31 December 2017. The proposed re-development is capable of both providing benefits (see **Section F5**) and increasing risks to AAT (including interruption to business and the market rent review risk discussed in this Section) which I must consider in making this determination.

Market Rent Reviews are required on 1 January 2014 and 2016. By the latter date, the EOI timetable aims for two new berths to have been constructed on the leasehold premises, and for the pontoon berth currently used by AAT to be demolished. The third berth will then be constructed in the space vacated by the pontoon demolition.

The first two berths will provide considerably more capacity to the site, including the capacity to berth larger vessels unable to use the existing pontoon currently utilised exclusively by AAT. In my experience it is possible that the improved facilities from 2015 may result in an increase in the market rental value of the site under the terms upon which a valuer is required to make such a market rent assessment. This has the potential to substantially increase the land rent payable by AAT following the market review in January 2016.

As the re-development of the entire Webb Dock precinct is in its early stages, the transition issues will not be subject to any negotiation between the parties until the outcome of EOI process is made public. POMC is therefore unable at this stage to provide any comments with respect to Market Rent Reviews under the existing lease. I can therefore only note it as an increased risk factor at the time of this Fourth Determination that the market rental component under the lease may increase.

In the Model used for the calculation of these proposed price increases AAT have not assumed any change to the underlying value of the site or the rental paid, other than for movements in the CPI.

The Lease Agreement between AAT and POMC contains a special condition that allows the early re-development of the premises and in such circumstances for POMC to terminate the AAT lease before its normal expiry date of December 2017. In the preparation of the Model AAT has not assumed that any such early termination would occur. As POMC have expressed, in all their public pronouncements and in their EOI documents, that it is their intention to keep the port operating at a level which ensures trade continues uninterrupted during the re-development of Webb Dock, I have not considered the impact on AAT of these re-development provisions should POMC elect to invoke such an early termination and note that the impact on the level of the proposed price increase calculated under the model would depend upon the level of compensation, if any, provided by POMC to AAT.

2. **Outer Harbour**

The Outer Harbour site has been sub-leased by AAT from Flinders Ports (who in turn has a 99 year lease from the South Australian Ports Corporation), commencing on 10 May 2004 for a 5 year term, with the right to renew for a further 5 year term. The original term had annual CPI increases, with a market review if the further term was entered into. After the expiration of the original term negotiations took place between AAT and Flinders Ports and a system of rolling one year leases was implemented and is in place until 31 January 2015. This new annual rolling lease contains a fixed rental amount, subject to annual CPI increases, with a charge per vehicle exported which exceed the annual quota.

The last Rent Review was for the CPI of 1.16% and occurred in July 2012. The forecast modelling allows for increases in rent payable by AAT to occur in line with CPI each year.

In my earlier determinations I considered that the negotiations by AAT with the various Port authorities, and I accept that AAT have made reasonable efforts to ensure that Port Terminal Lease Costs are an efficient input cost for all terminals.

F4 Allocation of AAT's Head Office Costs

AAT operates 4 terminals, (5 prior to the discontinuation of the Bell Bay facility from February 2012). AAT accounts for each terminal as a separate unit in its management accounting system. AAT also has a fifth cost centre, which is for its Head Office and overhead costs. For its management accounting purposes AAT does not allocate this overhead in any manner to the individual terminals.

The ACCC Authorisation however considers that an appropriate allocation of Head Office costs to the terminals should be made when considering the costs of operating each terminal.

By their very nature Head Office and corporate overhead costs are costs which cannot be attributed directly to any particular terminal nor in any fixed proportion to each terminal. Where allocation of such costs is required, it is usually done on the basis of some measurable attribute from each cost centre, such as revenue, direct costs, staff numbers or site area. The most appropriate measure to use can vary depending on the particular characteristics of each business.

In the Model, AAT have chosen to allocate the head office costs to each terminal on the basis of revenue generated at that site. In my First Determination I considered each of the alternatives for allocating head office cost and accepted that the allocation based on revenue is a reasonable basis on which to allocate such costs to each terminal.

Each version of the Model is updated for each proposed price increase to replace cash flow forecasts with actual (or budget) cash flows incurred for the intervening period. In **Section F1**, I noted an error in this process for the 7 month period to January 2013 where AAT had applied a whole 12 months of overhead allocation to all terminals. AAT have made the amendments to the Model to correct the allocation to only be for the 7 month period.

Up to and including 2012 the bonuses paid to terminal managers were included in head office costs instead of being allocated directly to the terminal for which that manager is responsible.

F5 Expected Volumes

The Authorisation provides that the expected volumes over the period that AAT has used to calculate the proposed price increases, including where appropriate any split between committed / uncommitted volume and associated risks, should be a factor considered by the Expert.

AAT have included in their Model estimates of volumes for the different types of cargo for the forecast year commencing 1 February 2013 based on their experience and forecasts published by various bodies. As part of the process of considering how reasonable these estimates provided by AAT were, I requested AAT to provide me with historical data in relation to volumes in each terminal.

In my meetings and conversations with various end users during the process of making each Determination, I invited them all to submit their own data as to historical and projected volumes for the purposes of assessing the reasonableness or otherwise of the projected volumes used by AAT in the Model. I have also sought to corroborate historic trends and volume expectations from other sources, including the port authorities and government agencies.

Much of the information so provided is confidential in nature and cannot be published in this Determination. However it is possible to make some general comments in relation to the data so provided.

This data showed that during the GFC and apparent recent emergence, there has been significant volatility in cargo volumes. All types of cargo volumes were lower for about 18 months after the GFC than for the preceding period to 2008. The Federal Government's economic stimulus packages, and in particular the impact on new car sales of the investment allowance, initially appeared to have limited the impact of the GFC such that volumes did not fall as much as might otherwise have been expected. However despite the cessation of the government incentives new car sales in particular have shown considerable resilience, as have imports of machinery and parts for the mining industry

Both shippers and automotive importers are relatively certain of the forecast volumes for the immediately succeeding 3 months, as orders, production and shipping are generally committed to approximately 3 months in advance. However beyond this initial period it is really their best estimate of what is likely to occur.

Bulk freight and General Cargo

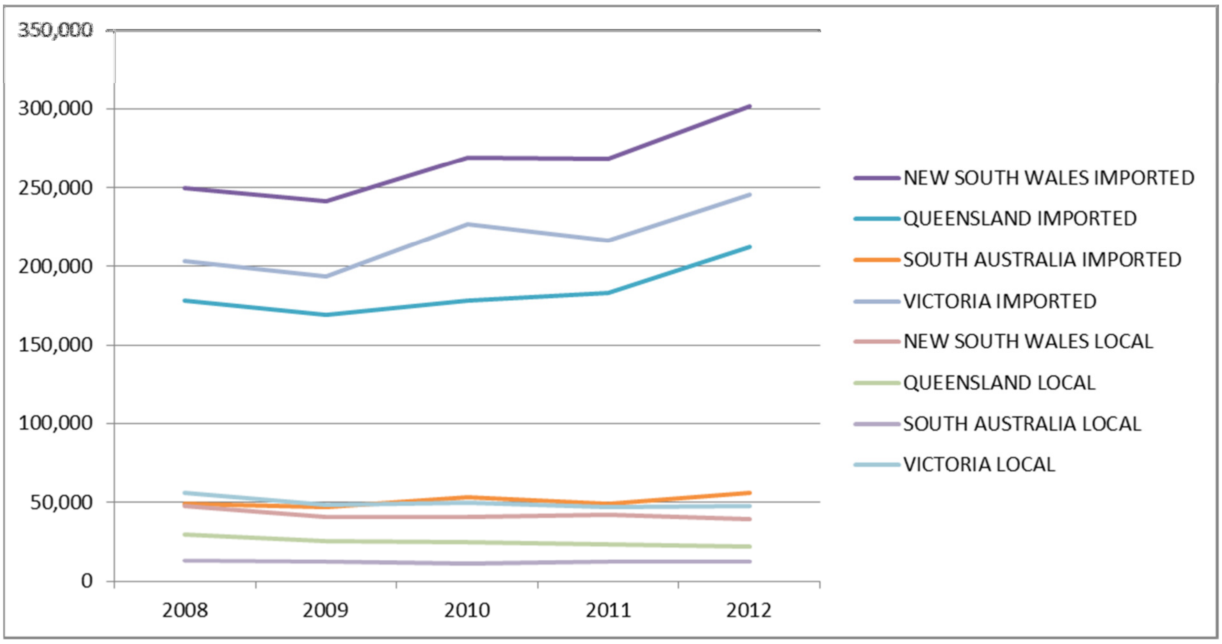
Webb Dock West and Outer Harbour are predominantly automotive terminals, with little bulk freight or general cargo processed through either terminal. As a result, the general cargo volumes and revenues are very small, and have no impact on my determination.

AAT have advised that during the period since the last price increases other cargoes at Port Kembla and Fisherman Islands have performed strongly, with the result that no price increase has been announced by AAT for either of those terminals at the current time.

Motor Vehicles

Historical sales numbers provided to me show that motor vehicle sales volume levels for the 2012 Calendar Year were well above the 2011 levels as can be seen from the chart below.

Vehicle Sales by Source by State - Imports and Local Production



Overall, imported vehicles have achieved surprisingly high new vehicle sales levels in 2012, following the set-backs in 2011 from the impact of the Thai floods and the earthquakes/tsunami in Japan. This has accounted for all of the growth in sales, as sales by domestic suppliers have remained flat.

Despite concerns with the international economic growth forecasts, my consultation with AAT, terminal end-users, and independent sources indicate that Australian trade expectations, especially through AAT's terminals, are expected to show further growth in the coming year.

The AAT forecast for vehicles for 2013 and beyond are for a continuing overall growth in imports at all their terminals. Export projections remain subdued, mainly due to the high Australian dollar exchange rate.

Although there appears to have been a lack of consumer confidence in Australia, with retail spending remaining subdued, the automotive industry has experienced solid sales growth. FCAI noted that the higher than expected level of new vehicle sales has been attributed by some commentators and member of the industry to low import prices due to the high Australian dollar, and the desire by foreign manufacturers to keep down unit prices through higher output volumes. The large number of makes and models available in the Australian market are seen as evidence of this commitment by manufactures to keep volumes high.

The AAT forecast data, which has been used in the current Model, has been compared to the data publicly available from the port authorities, and with confidential forecasts provided by stevedores and members of the FCAI.

For each terminal I note the following:

1. **Webb Dock West**

Given the increase in new car sales volumes during 2012 over the corresponding period to November 2011, both nationally and in Victoria, the FCAI have understandably questioned AAT's claim in the price increase notification dated 15 November 2012 that "forecast volume has not been achieved" in Melbourne. The FCAI noted in their objection that their own statistics, and information from their members, "indicate that during the calendar year 2012 the actual volumes of motor vehicle imports and exports through Webb Dock West had increased significantly compared to the previous twelve month period."

AAT's overall throughput volume forecasts used in the November 2012 Model show a modest growth over historical numbers. The forecasts used in the September 2011 Model were prepared by AAT before the impact of the Thailand floods was known. These floods had a severe impact on Webb Dock West actual volumes in the last quarter of calendar year 2011 and the early part of 2012. As a result Webb Dock West did not achieve the forecast throughput volumes which AAT had used in the September 2011 Model. Even though volumes grew strongly in the second half of calendar 2012, they have not reached the levels projected in the September 2011 Model used by AAT.

Forecast total revenue attributable to AAT (excluding the new Port Licence Fee) has decreased by 3.7% compared to the same period in the previous Model. This is partly the result of a change in product mix, with the higher priced export volumes comprising a smaller percentage of total throughput. However the main reason for the Model calculating a price increase exceeding the CPI is that the actual volumes achieved in 2012 were lower than the forecast for the same period used in the Model one year ago. Although actual throughput at Webb Dock West was higher in 2012 than in 2011, as noted by FCAI in their objection, the actual performance for 2012 was still below the expected performance which AAT forecast at the time the 2011 Model was prepared.

For the remainder of the analysis period, this Model now has volume forecasts which are 6.1% lower than in the previous Model's assumptions. In prior Determinations concerning Webb Dock West, I noted that AAT's volume assumption was a return to pre-GFC throughput levels in the following year. As this expectation has not been achieved because exports have not recovered (the improvement in imports was not as great as the reduction in exports), AAT's assumption in the current Model is that pre-GFC total throughput levels will not be achieved until 2014.

In my Second Determination, I considered in detail the different forecasts for Victoria and the Port of Melbourne, noting that some of the major forecasts had been prepared to assist the development of a new strategy for the port, including the government's preferred policy at that time of moving the car imports out of the Port of Melbourne to Geelong. Many of these forecasts were related to ensuring adequate capacity is provided over the longer term, rather than being forecasts of actual expectations of industry participants, and were therefore higher than AAT's forecasts. I note that the forecasts adopted in the last version of the Model by AAT were higher for Webb Dock West than what has actually been achieved, although lower than the port authority's volume expectations. Therefore AAT's forecast volumes were closer to actual volumes than the port authority's estimates.

Webb Dock Redevelopment and Expected Volumes

AAT has not made any change to its volume forecasts to reflect opportunities which may be created during the transition stage of the re-development of Webb Dock.

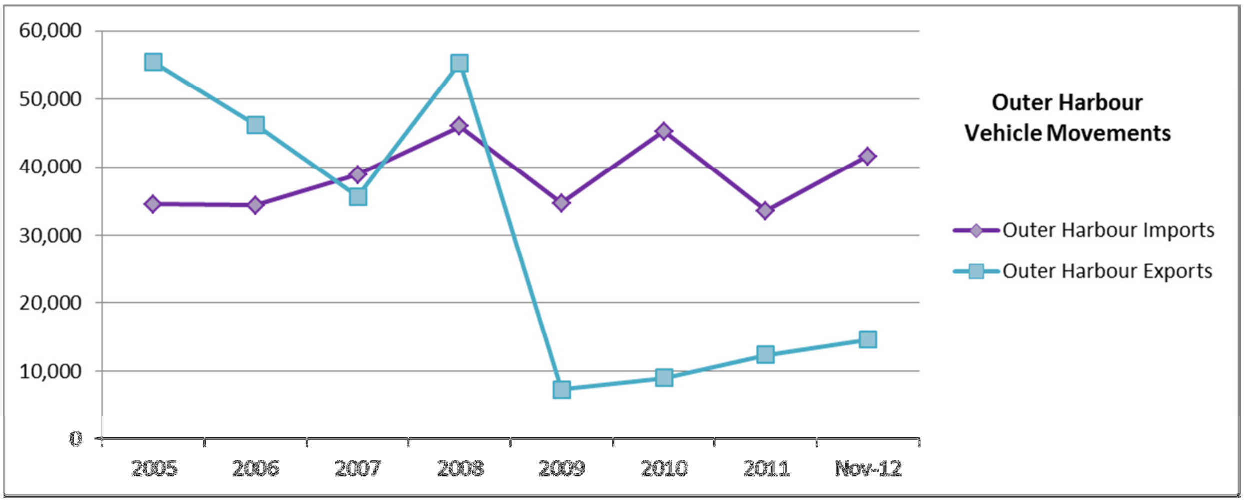
POMC advised me that one of their primary objectives is to ensure that there will be no interruption to trade through the Port of Melbourne. Given that the re-development of Webb Dock East as a container terminal will mean that the access for vehicles will cease at some stage prior to AAT's lease terminating in December 2017, it is reasonable to assume that the Webb Dock West and Appleton Dock will share in the automobile volume redirected from Webb Dock East.

As the re-development proposals are at an early stage there is no way of estimating what new volume AAT may potentially benefit from through access to the first two new berths at Webb Dock West, to the volume displaced from Webb Dock East, nor the date from which such benefits would be expected.

However I note that I have used the Model to test the sensitivity of tariff increases to a 10% increase in forecast volumes in the last two years of the AAT lease at Webb Dock West. Such an increase in volume would be sufficient to remove the need for any FAC price increase now. However I am not in a position to determine at this stage what the impact, if any, on volumes handled by AAT at Webb Dock West will be as a result of the re development activities for Webb Dock as whole.

2. **Outer Harbour**

The Terminal End-Users and AAT both agree that export volumes are particularly sensitive to movements in the Australian Dollar exchange rate, and especially to the United States dollar. AAT advised that the combined effect of the high Australian dollar and the GFC saw exports from Outer Harbour plummet from 2008 to 2009. Although there has been some recovery, the figure below shows exports in 2011 and forecast for 2012 remain at close to 25% of the export volume in 2008.



The major exporter from Outer Harbour has previously estimated that if the exchange rate fell to $0.85 to the USD, exports may increase by as much as 50%. I note however that the current analysis of the price increase at Outer Harbour is not sensitive to even large increases in projected volumes. I have used the Model to test the sensitivity of a 50% growth in volumes of exports and imports in 2013, followed by 1% p.a. continued growth thereafter. Even with the 2.0% FAC price increase from 15 February 2013 and CPI price increases every year thereafter, AAT would need to continue operating at Outer Harbour at those higher volumes until January 2019 in order to recoup its RAB.

AAT have retained volume forecasts from the prior year's Model which are in line with export performance, but well above the level of vehicle imports achieved in 2012. The forecasts in the Model are also close to the expectations and forecasts by the industry and stevedores. Export forecasts in the Model from 2013 are in the range nominated by the major exporter.

Competition

I note that AAT does have competition from other terminals as follows;

- In Webb Dock West, the competition was discussed in detail in the Second Determination, with direct competition coming from Patricks terminal at Webb Dock East (noting that this will close sometime before December 2017), and from Appleton Dock;
- In Outer Harbour, there is no direct competition, as the adjacent Flinders Port berth is serviced by AAT in terms of SAC, and AAT have advised that the charges for imported vehicles are essentially the same for each berth.

There is no competition for the receival and delivery (R&D) of vehicles at Outer Harbour.

Committed Volumes

Terminal end users are generally not in a position where they can commit to minimum volumes of cargo to be handled through AAT terminals.

Overall Assessment

Based on the above I am of the opinion that the forecast volumes used by AAT in the Model are reasonable and do reflect an improvement in actual trade following the impact of the tsunami in Japan and the Thailand floods.

I accept that the 1% per annum growth assumed in the Model for vehicle throughput and other cargo types at all terminals is reasonable. I also accept that the starting level has taken into account both the recovery in trade experienced from 2010 as the industry returned to long-term trend volumes, and the supply chain difficulties arising from the tsunami/earthquakes in Japan.

The volume at Webb Dock West is likely to be effected by transition arrangements relating to the re-development of the entire Webb Dock precinct, especially towards the end of the lease term. As the impact of these arrangements is uncertain as negotiations and planning are at an early stage, I consider it prudent to defer any adjustment to forecast volumes until the situation becomes clearer and a realistic assessment can be made of the impact on AAT's volumes.

F6 Level of Capital Reasonably Invested by AAT at each Port Terminal

CEG had adopted the principle of "Value of Unrecovered Investment as at forecast period start date" to be the measure of the level of capital reasonably invested at each Port Terminal in the Model as at the beginning of the first full year for which prices are being calculated.

The actual calculation of the Value of Unrecovered Investment is complex, and involves factors discussed in the Second Determination for Webb Dock West and in the Third Determination for Outer Harbour and will not be repeated here. Key changes to these factors and related assumptions are:

Webb Dock West

1) No new capital investment was recorded by AAT in the past year at this terminal;
2) The Webb Dock Re-development may have an impact on recovery of the balance of AAT's investment at the end of the term. AAT is not entitled under the lease to any compensation for the value of improvements left on site. The Model does however allow for the moveable plant & equipment to be sold on termination of the lease at its then estimated market value. It is possible that a new operator may be prepared to pay an amount above market value for the convenience of having the equipment already on site.
3) I note that the EOI process is at an early stage and there is no basis for assessing the outcome of this arrangement. Therefore whilst I acknowledge that there is increased uncertainty for AAT, I accept that it is reasonable for

AAT to make no changes to inputs or assumptions arising from the proposed re-development at this stage.

Outer Harbour

1) No new capital investment was recorded by AAT in the past year;
2) The term of the analysis period remains at 31 January 2015 – there has been no extension since the prior Determination so the remaining analysis period is now 12 months shorter.

Based on the above I am satisfied that the capital expenditure included in the Model for Webb Dock West and Outer Harbour is materially correct and allocated to the correct terminal and in the correct period.

A. Inclusion of Capital Raising Costs

As noted in the First Determination, the cost of all assets in the Model were increased by a flat 4% which was said to represent the cost which would have been incurred by AAT's shareholders in raising funds to provide AAT to fund investment in its terminals.

In my First Determination, I accepted that the rate of 4% is a reasonable rate to include, but then noted the 4% should not be applied to capital expenditure out of cash flow. Subsequent versions of the Model have been amended accordingly and the calculations for Webb Dock West and Outer Harbour have been prepared on this basis.

As there has been no new capital investment at either terminal in the past year there have been no new Capital Raising Costs included in the current Model.

B. Revenue

The historical revenue used in the Model is the Revenue shown in the management accounts of AAT for that particular year as being attributable to that terminal. On a global basis I have verified that the total revenue allocated to all terminals for each year is equal to the total revenue disclosed in the audited statutory accounts for AAT for that year (where available).

The exception is for Webb Dock West where in my Second Determination I concluded that the revenue should be calculated at the published rates rather than the reduced rates negotiated between one terminal end user and AAT. The adjustments to historic revenue noted in the Second Determination have been taken up in the subsequent versions of the Model

Forecast revenue in the Model is arrived at as follows;

Non-regulated services	Price set by AAT * Forecast Volume
Sub-Tenancies	Per Lease documents
Regulated services	By applying the average % increase calculated by the Model * Existing Prices * Forecast Volumes

F7 Consideration of Capital Reasonably Invested

There has been no submission by terminal end users that the whole of the Webb Dock West and Outer Harbour sites did not represent a reasonable investment for AAT, based on the trade volumes being conducted through the site.

Webb Dock West

In the Second Determination, I gave reasons why I did not accept the accounting cost of assets as being the proper amount of capital reasonably invested for this terminal. The Model has been adjusted to reflect the reduction in the RAB which I determined necessary. There has been no further capital investment at Webb Dock West since the Second Determination.

I therefore accept that the level of capital reasonably invested for Webb Dock West as at 15 February 2013 is as set out in the Model (which includes the reduction made in the Second Determination).

Outer Harbour

There has been no submission by terminal end users that the whole of the Outer Harbour site did not represent a reasonable investment for AAT, based on the trade volumes being conducted through the site and the particular circumstances in which AAT provides services to Flinders Ports' customers and its own direct customers.

Therefore I accept that the level of capital reasonably invested for Outer Harbour as at 15 February 2013 is as set out in the Model.

F8 Regulated versus Non-Regulated Services

The non-regulated services where AAT are able to set prices in isolation to the ACCC Authorisation are as follows:

Stevedore Access Charges **("SAC")**
Sub-tenancy Rental Income
Wharfage (Webb Dock West)
Newly Listed Service Charges

Stevedore Access Charges

Table 1 includes the comparative increase in SAC versus FAC at each of the terminals, before any adjustment to the Model which would impact on the calculation of FAC increases.

In my First Determination, I explained my finding that there is a reasonable basis for differential price increases in SAC and FAC, particularly where the major factors causing the increased charges in the FAC are increases in rent, as the provision of FAC utilises considerably more land area than the SAC. I further observed that independent market forces appear to be working to ensure that the appropriate level of charges for the SAC will be made into the future.

Webb Dock West

At Webb Dock West, the comparable increases are SAC (+2.0%) and FAC (+7.5%). I note that the level of increase in market rent as from 1 January 2012 was 3.0% (there is a CPI adjustment from 1 January 2013) as compared to the CPI over the period from February 2012 of 2.1%. As the rent applies mainly to the facility cost, I therefore accept that there is a reasonable basis for the FAC increase to exceed the increase in SAC. After adjusting for the items in **Section F1**, the proposed FAC increase is reduced to 4.6% (Note that this is the rate calculated by correcting the errors in the Model and before the impact of the reduction in WACC is applied – see **Section F10**). I therefore accept that the difference in the SAC increase of 2% as compared to the proposed increase in the FAC, as amended, of 2.4%, is reasonable given the overall 3% increase in the rental.

Outer Harbour

At Outer Harbour the comparable increases are 2.0% for both SAC and FAC.

Sub-tenancy Rental Income

The sub-tenant at the Webb Dock West site is controlled by parties which are a 50% shareholder in AAT. I consider it reasonable to assume that the Board of AAT, representing all shareholders, would ensure that market rents were applied to all tenants, particularly given the requirements in the Shareholders' Agreement that AAT deal at arm's length with related parties.

Wharfage (Webb Dock West)

As noted in the Second Determination, the level of charges imposed by AAT for wharfage is based on the charges levied by POMC for berths they own. I therefore accept that this is a reasonable level of charge for AAT to levy.

F9 Tax

The Model assesses tax at each terminal on a stand-alone basis. The result is that if the terminal makes a surplus (after allowing depreciation at the rates applicable for taxation purposes) then tax at the corporate rate on that surplus is taken into account.

If the results for a particular terminal in any year are a loss, then that loss for tax purposes is carried forward for future years to be offset against future profits from that terminal only.

I agree with CEG's conclusion that it is not possible to take the actual tax expense incurred by CEG for AAT as a whole in any particular year and attempt to apportion this cost across each terminal. To do this would result in the tax applied to profit making terminals being reduced by the effect of the loss making terminals, and would therefore not result in each terminal being assessed on a stand-alone basis.

F10 AAT's Overall Weighted Average Cost of Capital

In **Section E1** I have considered the WACC and rate of return adopted in the Model by AAT of 12.10% and that in my opinion this is no longer the appropriate rate to use in the forecasts from 15 February 2013. On the basis of lower long term interest rates it is my opinion that 11.35% per annum is the appropriate rate to use for the forecast period.

This rate is assessed for AAT as a whole, which is what the ACCC Authorisation requires. If each terminal were to be considered in isolation they would in all probability all have different factors, as the risk profile for each terminal is different and has changed over time with the change in particular circumstances of the terminal (such as re-development of Webb Dock West, and privatisation of Fisherman Islands).

The Model calculates the historic return on capital each year as RAB multiplied by the WACC for that calendar year. The historic WACC data has been input correctly.

I have determined that the Model should be amended to adopt the WACC of 11.35% per annum for the forecast period. This has been completed by AAT and an updated Model provided to me.

When the WACC for AAT used in the Model is changed from 12.1% to 11.35%, the resultant price increases produced by the Model is then reduced to 2.4% for Webb Dock West (noting that the rate of increase had already been reduced from the original 7.5% as announced by AAT, to 4.6% after correcting the errors in the Model) – see **Section F1.**

For Outer Harbour the Model still calculates a price increase of over 100% but makes no difference to proposed increase of 2% announced by AAT.

F11 Interests of Stevedores and Terminal End Users

Stevedores

The arrangements the stevedores have with their customers normally allow them to pass on the full cost of the FAC and other charges which may be imposed by AAT. I note that none of the stevedore companies lodged objections or made any submissions to me in relation to the proposed price increases and I am therefore not in a position to comments on their concerns with such proposed price increases

Terminal End Users

Terminal End-users expressed concern over the general level of prices, over their capacity to verify the rising property cost assumptions identified by AAT and over AAT's volume assumptions.

The terminal end users have not raised any other major factors not already addressed in prior Determinations:

G Existing Price for the Supply of Port Terminal Services

The Authorisation requires me as the Expert to consider the reasonableness of the existing price for the supply of the Port Terminal Services.

In complying with this requirement to consider the reasonableness of the existing price for the supply of the Port Terminal Services, I have considered the following:

1. Up until the First Determination, AAT had been operating its business free from any regulatory intervention.

2. As such, prima facie AAT would have been free to set prices at any level in the past that it chose.
3. Since the ACCC Authorisation, the review process has been in place to prevent prices being increased to a level which is not reasonable, unless terminal end-users choose not to object;
4. Commercial in confidence arrangements specifically permitted under the Authorisation are, or have been, in place, and have resulted in rates lower than those published being applied.

H Period of Forecast Modelling

Following my First Determination CEG have accepted my comments that the forecast period of the Model should be extended through to the termination of the lease at each facility.

The period of the forecast for Webb Dock West was amended to end on 31 December 2017 in accordance with my findings in the Second Determination. Since my Third Determination POMC have commenced a process to re-develop Webb Dock so that Webb Dock East will be a specialist container terminal, and Webb Dock West will be expanded to handle all vehicle imports and exports for the Port of Melbourne.

The EOI process is confidential and POMC will not be in a position until after the due date for this Determination to publicise the number of applicants who will move into the second phase of detailed negotiations. AAT will be continuing negotiations over the transition phase with respect to the continuation of operations of the car terminal under the existing lease while construction of new berths is completed at Webb Dock West. This raises issues concerning the transition discussed in **Section F.** As the negotiation phase has not yet commenced I am unable to model the effects of any transition arrangements on the proposed price increases which the Model would calculate. For the purposes of this Determination, the end of the forecast period for Webb Dock West remains at 31 December 2017.

The period of the forecast for Outer Harbour ends on 31 January 2015. The terminal is subject to rolling 1 +1 year leases, meaning AAT only has contractual options to renew up to 31 January 2014, (expiring 31 January 2015).

I agree with the periods of the forecast adopted by AAT, and to retention of the prior amendments to the Model made by CEG to the cash flow forecast periods.

I. Overall Determination by Approved Independent Price Expert

I have applied the principles laid out in the ACCC Authorisation and considered each of the issues and concerns raised in the objections which I received from terminal end-users in reaching my determination.

Following this detailed consideration I arranged for data input errors in the Model to be corrected by AAT. I then made my determination as to which data input assumptions and rationale proposed by AAT in the Model I do not accept and made adjustments accordingly.

I1 Determined Amendments to Model

Firstly I emphasise that all amendments to the Model required by my First, Second and Third Determinations have been included in the Model provided by AAT for these proposed price increases. The further amendments stated below are the new amendments required following this Fourth Determination.

1. Correction to error in the Webb Dock West Input price for Export Motor Cars from 1st February 2012 from **\$29.45 to \$29.95**. **Section F1.**

2. Head Office Costs allocation for the 7 month period to January 2013 to be corrected so that the formulae pick up the estimate for the period across all terminals. **Section F1 and F4.** The FAC increase for Outer Harbour has been re-set to 2.0%, and the calculated adjustments in price for Fisherman islands and Port Kembla re-set to zero, so that the Model could be re-run to calculate the increase in FAC tariffs at Webb Dock West. **Section F1**

3. The overall WACC for AAT has been determined to be 11.35%, as a result of the estimate of the risk free interest rate for the forecast period being reduced from 5.50% to 4.75% per annum. **Section F10.**

I2 Webb Dock West

As a result of the changes to the November 2012 Model which I have determined should be made the prices that resulted for Webb Dock West for 2013 were lower than the proposed increases notified by AAT (but not lower than the existing price). The Model calculation results in average increases in price of 2.4% as compared to the average increase of 7.5% as notified by AAT.

Clause 2.4.12 of the Authorisation therefore allows me to set the new prices for the provision of the services and I therefore Determine that the prices from 15 February 2013 for Webb Dock West be as set out below:

Webb Dock West Price Increases	Pre - 15 Feb 2013	Post - 15 Feb 2013	
	Actual	Determination at 2.4% average	Proposed by AAT at 7.5% average
FAC Export vehicles \$ per unit	29.95	30.70	32.20
FAC Import vehicles \$ per unit	24.40	25.00	26.25
FAC general cargo \$ per revenue tonne	4.25	4.40	4.55

I3 Outer Harbour

As a result of the changes to the Model which I have determined should be made the prices that resulted for Outer Harbour for 2013 were higher than the prices proposed by AAT as set out below. Clause 2.4.12 of the Authorisation provides that the new price to be set by the Expert cannot be higher than the existing price plus the proposed increase notified by AAT.

I therefore determine that the proposed price increases for Outer Harbour as notified by AAT to be effective as of 15 February 2013 are reasonable and justified and should take effect from the date notified by AAT.

Outer Harbour Price Increases	Pre - 1 Feb 2012	Post- 1 Feb 2012
	Actual	AAT Proposed & Determination at 6.0%
FAC wheeled vehicles $ per m3	1.35	1.45
FAC general cargo $ per revenue tonne	2.50	2.65

The increases set out above take effect as of 15 February 2013, being the date notified by AAT on 15 November 2012.

ANNEXURES

ANNEXURE	AAT Notification of Tariff Review dated 15 November 2012
Annexure A	**Webb Dock West Cargo Terminal Price Increase Schedule**
Annexure B	**Outer Harbour Cargo Terminal Price Increase Schedule**

Australian Amalgamated Terminals
Level 11, 330 Collins St.
Melbourne, Victoria
Ph: 03 8698 6900
Fax: 03 9681 7014

15th November 2012

Dear

Tariff Reviews

Further to the Authorisation granted to AAT by the Australian Competition and Consumer Commission on 3 December 2009 and in particular the pricing conditions of the Authorisation, the published tariffs at all of our terminals have been reviewed, with an effective implementation date of 15th February 2013. A copy of the ACCC's authorisation decision can be found on our website www.aat.auz.biz

Due to the regulated environment in which AAT operates, our tariff levels are consistent with the conditions of the ACCC authorisation. The pricing model developed as a consequence of the authorisation calculates tariffs that allow AAT to earn a fair rate of return on the considerable capital investment made at our respective terminals and takes into account cargo throughput and activity, operating costs and overheads.

The major terminals at Fisherman Islands in Brisbane and Port Kembla in NSW since the previous review have experienced strong volume growth. Due to this there will be no increase in prices at Fisherman Islands and Port Kembla; with prices due to be reviewed again in February 2013. This means that prices have been held constant at Fisherman Islands since February 2012 and at Port Kembla since August 2010. Whilst operating costs have been subject to upwards pressure this has been offset by volume throughput at these terminals. AAT has also invested more than $4 million in new equipment at these terminals over the past 12 months.

At Webb Dock West in Melbourne forecast volume throughput has not been achieved since the last review and the current volume levels are expected to be continue for the period under review. This coupled with rising property costs; rental, rates and land tax as well as general operating cost increases require an average 7.5% proposed maximum increase in regulated prices in line with the pricing model.

At Port Adelaide, similar operating conditions to Webb Dock West have been experienced since the last review. As the majority of revenue generated at our terminal in Port Adelaide is negotiated for fixed terms the proposed maximum increase in regulated prices is 2% on the current tariff.

Schedules containing the maximum amount of each proposed tariff increase at Webb Dock West and Port Adelaide as well as tariffs for these terminals are available on our website www.aat.auz.biz Should you require these schedules to be posted to you please do not hesitate to contact me.

Australian Amalgamated Terminals
Level 11, 330 Collins St.
Melbourne, Victoria
Ph: 03 8698 6900
Fax: 03 9681 7014

Tariff reviews for all terminals occur on an annual basis; with the next review due in February 2014.

In accordance with the conditions of the Authorisation, AAT has appointed with the approval of the ACCC an Independent Price Expert, Pitcher Partners. Should a terminal end-user wish to object to an increase in the attached tariffs (except the stevedoring access fee - SAC), this needs to be lodged with both AAT and the Independent Price Expert within 15 business days. Any objection with the reasons for the objection should be addressed to AAT at our Melbourne office to my attention or via email to craig.faulkner@aat.auz.biz, as well as Pitcher Partners, Level 22 MLC Centre, 19 Martin Place, Sydney NSW 2000, attention Deborah Cartwright or via email dcartwright@pitcher-nsw.com.au.

Yours Faithfully,

Craig Faulkner
Chief Executive Officer

Australian Amalgamated Terminals Pty. Limited

Webb Dock Automotive Terminal

Berth 1

Port of Melbourne

Tariff Schedule

Effective Date – 15th February 2013

<u>CONTENTS</u>

All rates contained herein are <u>exclusive</u> of Goods and Services Tax.

The following tariff schedule is applicable at operations carried out at Webb Dock Automotive Terminal operated by Australian Amalgamated Terminals Pty Limited. The schedule will be reviewed annually.

Schedule 1 Facility Access Charge (Charged to stevedore account consignee)

COMMODITY	AUD
General Cargo	4.55 per m3
Import motor cars	26.25 per unit
Import other vehicles up to 28 m^3	53.00 per unit
Import other vehicles over 28 m^3	106.05 per unit
Export motor cars	32.20 per unit
Export other vehicles up to 28 m^3	64.40 per unit
Export other vehicles over 28 m^3	128.80 per unit

The basis of the above rates include three (3) working days delivery for import cargoes.

Storage charges will apply before and after the allowed receival / delivery period indicated above unless otherwise agreed.

Schedule 2 Stevedoring Access Fee (Charged to stevedore)

COMMODITY	AUD
General Cargo	2.70 per revenue tonne
Wheeled Vehicles	10.10 per unit

Schedule 3 Vessel Lay-up (Charged to Shipping Line)

In the event of vessel lay-up due to mechanical repairs, for schedule adjustment or for other reasons a fee of AUD $3,190.00 per calendar day or part thereof is payable.

This fee incorporates gate and wharf security, wharf lighting and crew transport to/from ship/terminal gate.

Schedule 4 Wharf Storage (import) (Charged to consignee)

Storage charges are payable on all cargo left undelivered after three (3) working days including day of availability.

Unless otherwise specified, the following rates will apply:

ITEM	AUD
General Cargo; per revenue tonne per day	5.15
New motor vehicles ; per unit per day	30.60

Credit Terms; payment is required prior to release of cargo.

Schedule 5 Services

ITEM	AUD
Fresh Water supply	2.50 per kilo litre
Jump Starting vehicles	25.15 per vehicle
Any **other services** required	POA
Quarantine Cleaning Services	POA
Wharf Transfers	POA
External Crane Access Fee **- FAC for 3 days access charged on entry measurement. Cranes/equipment must be removed from site daily** **- WHS Supervision/Administration Fee**	2.00 per m3 $ 150.00 per operating hour

Schedule 6 Receival and Delivery (R&D) Fee (Charged to Stevedore)

ITEM	AUD
General Cargo; per revenue tonne	4.00

Subject to AAT's Standard Conditions of Contract; copy available from website www.aat.auz.biz

Australian Amalgamated Terminals Pty. Limited

Port Adelaide Automotive Terminal

Berths 3 & 4

Port of Adelaide

Tariff Schedule

Effective Date – 15th February 2013

<u>CONTENTS</u>

All rates contained herein are <u>exclusive</u> of Goods and Services Tax.

The following tariff schedule is applicable at operations carried out at Port Adelaide Automotive Terminal operated by Australian Amalgamated Terminals Pty Limited. The schedule will be reviewed annually.

Schedule 1 Facility Access Charge (Charged to stevedore on account consignee)

COMMODITY	AUD
General Cargo	$2.70/Revenue Tonne
Wheeled Vehicles	$1.48/M3
Heavy lifts and project cargo	POA
Passenger vessels	POA

The basis of these rates would include three (3) working days receiving for export cargoes and three (3) working days delivery for import cargoes.

Storage charges will apply before and after the allowed receival / delivery period indicated above unless otherwise agreed.

Schedule 2 Stevedoring Access Fee (Charged to stevedore)

COMMODITY	AUD
General Cargo	$2.65 per revenue tonne
Wheeled Vehicles	$8.65 per unit
Heavy Lifts/Project Cargoes;	POA

Schedule 3 Vessel Lay-up

For vessel lay-up, enquiries should be directed to Flinders Ports.

Schedule 4 Wharf Storage (Import) (Charged to consignee)

Storage charges are payable on all cargo left undelivered after three (3) working days including day of availability.

Unless otherwise specified, the following rates will apply:

ITEM	AUD
General Cargo; per revenue tonne	$3.75
Motor vehicles ; per unit per day	$24.30
Wheeled vehicles above 18 cubic metre; per unit per day	$73.10

Credit Terms; payment is required prior to release of cargo.

Schedule 5 Services

ITEM	AUD
Fresh Water supply (Contact Flinders Ports)	N/A
Jump Starting vehicles	$16.20 per vehicle
Any **other services** required	POA
Second Hand Motor Vehicles – Handling Fee: To be paid by Beneficial Cargo Interest (consignee) prior to receipt of vehicle(s).	$41.10 Per Vehicle

Schedule 6 Receival and Delivery (R&D) Fee (Charged to Stevedore)

ITEM	AUD
General Cargo; per revenue tonne	POA

Subject to AAT's Standard Conditions of Contract; copy available from website www.aat.auz.biz