



Determination 2 – Changes to Charges



Prepared for AAT and objectors | 15 June 2026

1 Introduction and summary

This determination is made by the Independent Price Expert¹ under the Price Dispute Resolution Process in Schedule 5 of the section 87B undertaking given to the Australian Competition and Consumer Commission (**Undertaking**).²

This is the second determination made in relation to AAT's 2026-27 tariff changes and concerns only proposed Changes to Charges, rather than the classification issues addressed in Determination 1.

The second determination concerns objections to proposed Changes to Charges notified by AAT for FY2027. I have received Objection Notices from the FCAI, Rigby Cooke Lawyers on behalf of a client, Shipping Australia Limited and the Australian Steel Association. In broad terms, the issues raised required me to consider whether the objectors had the requisite economic interest under Schedule 5 and whether the proposed Changes were reasonable and appropriate having regard to clause 3.4, including in particular AAT's building block cost model, the treatment of lease costs, the rate of return, cost allocation and the resulting implications for FAC and R&D Charges.

A summary of my determination is as follows.

- Each objector has established the requisite genuine direct or indirect economic interest for the purposes of Schedule 5 to the Undertaking.
- Under the Undertaking, proposed Changes are accepted where they are reasonable and appropriate, and varied where necessary so that the resulting Charges do not exceed the level I consider reasonable and appropriate having regard to clause 3.4.
- The proposed introduction of a new R&D Charge for wheeled and tracked vehicles is accepted.
- The proposed changes to existing R&D Charges for general cargo are accepted.
- The proposed changes to R&D - late receipt gate pass and late receipt fees are accepted.
- The proposed change to the included storage days with the FAC at Webb Dock West is accepted.
- The proposed FAC increases should be varied to 23.5% for general cargo at Brisbane (*original proposal 29.6%*), 40.3% for general and steel cargo at Appleton Dock (*OP 46.8%*), 6.9% for general cargo at Port Kembla (*OP 12.8%*), and 31.3% for FAC at Webb Dock West (*OP 59.9%*).

¹ Under the Undertaking, the Independent Price Expert is appointed by the Terminal Operator, subject to the ACCC's approval.

² Australian Amalgamated Terminals Pty Ltd ACN 098 458 229, Melbourne International RoRo & Auto Terminal Pty Ltd ACN 163 814 364 and Qube Holdings Limited ACN 149 723 053, Undertaking given to the Australian Competition and Consumer Commission under section 87B of the Competition and Consumer Act 2010 (Cth), dated 9 April 2025.



Before moving on to the Determination, I wish to make a few comments about the Undertaking process.

The Undertaking requires the Independent Price Expert to make a determination within a compressed timeframe. In this case, the period from the latest date for raising a Price Dispute, 24 March, to the latest date for making a determination, 15 June, is around 10 to 12 weeks. This timing enables any determined Charges to take effect from 1 July, but it also necessarily limits the time available for consultation, testing of evidence and further information gathering.

This is materially shorter than many economic regulatory review processes, which often include staged consultation, draft decisions and further submissions before a final decision. Those processes can assist in narrowing issues and testing stakeholder positions. The process under the Undertaking is necessarily more limited.

That has been a particular challenge for the FY2027 determinations. I have been required to determine both the services captured by the Undertaking disputes process and the reasonableness of proposed changes to Charges based on a full building block review of costs. This has also required detailed consideration of the appropriate treatment of long-lived leases over land, which is not commonly significant in regulatory contexts and has not been straightforward to resolve within that timeframe.

I recognise that AAT and users may not regard all issues as finally resolved for future years. The determination applies to Charges for FY2027 only, and future review processes may allow the parties to provide further evidence and submissions on contentious matters.

2 The Undertaking and the price dispute resolution process

2.1 The objectives of the Undertaking

As I understand the Undertaking, it is directed to the particular competition concerns identified by the ACCC in relation to the vertical integration of terminal operation with downstream automotive stevedoring, PDI and related services.

The competition concerns include the risk that AAT, MIRRAT or Qube could favour Qube Related Entities, or otherwise disadvantage downstream rivals, through access terms, service quality, information flows, berthing or related operational decisions. They may also include the potential use of Charges for Access Services in a way that could adversely affect downstream competition. However, the Undertaking should not be understood as a general price-control regime directed to monopoly pricing in the abstract.

In that context, the Price Dispute Resolution Process forms part of the Undertaking's broader non-discriminatory open access framework: it provides a mechanism for assessing whether Changes to Charges for Access Services are reasonable and appropriate, including by reference to efficient costs and the other matters in clause 3.4, in order to support the Undertaking's objective of addressing preferential treatment and foreclosure concerns.

2.2 Price dispute resolution process

In broad terms, the Price Dispute Resolution Process operates as follows:

- The Terminal Operator publishes a proposed rate card and gives notice of the proposed Charges and any proposed Changes to Charges (including reasons) on or before 3 March each year.



- A Dispute Applicant that objects to a proposed Change to a Charge may raise a Price Dispute by giving an Objection Notice to the Terminal Operator and the Independent Price Expert by 24 March.
- Where an Objection Notice is received, the Terminal Operator must publish it, and the disputed Change (or disputed new tariff) cannot be implemented until I make a determination.
- I must provide my determination and supporting reasons to the Terminal Operator, the Dispute Applicant(s) and the ACCC by 31 May (or, if an extension is reasonably required, no later than 15 June).
- Unless otherwise specified, any Change approved or determined through this process takes effect from 1 July and applies for the relevant Financial Year.

For this determination, I sought an extension of one week to 5 June. This reflected a request for more time by an objector, and the need to provide more time for my review of the materials, as the issues raised by AAT and objectors required a detailed analysis of the approach and inputs into the charge-setting process.

2.3 Role of the IPE

My role is confined to the functions conferred by Schedule 5. In particular, where an Objection Notice has been lodged, I must determine:

1. whether the Dispute Applicant holds a genuine direct or indirect economic interest in the disputed Charge or disputed new tariff; and
2. where the dispute concerns a proposed Change to a Charge, whether the proposed Change is reasonable and appropriate having regard to the principles in clause 3.4 of Schedule 5 (and any applicable pricing principles and conditions under a Terminal Licence, to the extent not inconsistent with the Undertaking).

In making these determinations I act as an expert and not as an arbitrator; my decision is final and binding under the Undertaking.

Consistent with Schedule 5, I will base my determination on the information provided by the Terminal Operator and the Dispute Applicant(s), together with any additional information I reasonably require and request from the parties.

I will have regard to the matters identified in clause 3.4, including (among other things):

- whether the proposed Charges are expected to generate revenue at least sufficient to meet the efficient costs of providing the Access Services, while allowing a reasonable rate of return commensurate with commercial risks;
- the treatment of lease and other input costs; reasonably expected volumes and associated risks; depreciation and asset lives;
- the allocation of costs having regard to actual or likely use by different users;
- the justification for existing Charges; and
- whether proposed Changes are consistent with CPI Inflation.

For ease of reference, an extract of clause 3.4 is set out in Annex A.

Finally, I note that confidentiality claims will be addressed in accordance with the Undertaking, including in the provision of reasons and supporting material to the parties and the ACCC.



2.4 The scope of the disputes

I have already made a first determination in which I determined that there were no Charges that AAT had incorrectly defined as Other Tariffs according to the Undertaking. Therefore, the scope of Changes to Charges considered will be, as designated by AAT as Charges:

- Facilities Access Charges (**FAC**) charges
- Stevedore Access Charges (**SAC**) charges (but noting that there were no objections to SAC)
- Reveal and Delivery (**R&D**) charges.

3 Information provided by the parties

3.1 AAT's tariff schedule

Under Schedule 5, AAT is required to provide detailed reasons for any proposed Change to Charges, including identifying all Changes and providing detailed reasons for each Change, as part of its notice of proposed Charges (clause 2.3(d)).

In its notice dated 3 March 2026, AAT stated (in summary) that it had developed a more robust cost-based approach to setting regulated Charges, including a regulatory-style cost model (using a building block method) and clearer designation of Charges versus other tariffs.

AAT said it had identified historical under-recovery of certain capital costs, particularly premises costs, in its existing Charges and that this was a key driver of the proposed step-change increases to the Facility Access Charge (FAC) and Reveal and Delivery (R&D) Charges.

AAT also stated that it introduced a new category of Reveal and Delivery Charge for wheeled and tracked vehicles to allocate relevant entry/exit processing costs more equitably across cargo types. Other Charges were proposed to increase by CPI.

3.2 Summary of reasons for objections

The Objection Notices raise concerns about both the quantum and structure of the proposed Changes to Charges. In Shipping Australia's case, the objection is framed broadly as a challenge to the scale and justification of materially above-CPI increases, including increases to Facility Access Charges and Reveal and Delivery Charges at multiple terminals, as well as the introduction of a new Reveal and Delivery Charge for RoRo units.

A summary of the objections is as follows:

- **R&D Charge for wheeled and tracked vehicles (new Charge):**
 - The FCAI objects to the imposition of a new per-unit R&D Charge for wheeled and tracked vehicles and says the rationale given by AAT is not adequately explained, including concerns about potential duplication with existing charges (including demurrage / other port charges), whether the relevant RoRo task actually uses capital equipment as suggested, and why the rate differs materially across terminals.
 - Shipping Australia similarly objects to the introduction of an R&D Charge on RoRo units. It submitted that wheeled vehicles are self-propelled and self-loaded and therefore do not utilise terminal equipment for reveal and delivery in the same way as other cargo. It contended that costs associated with the reveal and delivery of wheeled vehicles, including space, scanning, systems and management, have historically been recovered through FAC and that, if AAT now seeks to recover such costs through a new R&D Charge,



- a corresponding and material reduction in FAC would ordinarily be expected in order to avoid duplication in cost recovery
- Rigby Cooke also objects to the introduction of an R&D Charge for wheeled and tracked vehicles, characterising it as duplicative and not supported by a transparent incremental cost explanation.
 - **R&D Charge for general cargo and related breakbulk services:** Shipping Australia objects to the size of the increases in receipt and delivery charges affecting breakbulk/general cargo services, including the introduction of the new RoRo charge and large increases in existing R&D charges at some terminals, and to the absence of disclosure of the underlying model, accumulated costs and revenues, and forward-looking volume and revenue assumptions used to translate costs into tariffs.
 - **R&D Late receipt gate passes / late receipt fee:** Rigby Cooke objects to the level of late receipt gate pass charges and late receipt fees (and the increase in those charges), contending they are not cost-justified given the terminal allegedly performs no material additional administrative or operational tasks beyond standard receipt processes, and raising proportionality concerns about penalty-like pricing.
 - **Change to storage days for FAC:** The FCAI argues that the proposed decrease in free storage time bundled with the FAC service at Webb Dock West is effectively a price increase for FAC services. Additionally, it argues that the designation of Saturday as a Business Day is inconsistent with the ordinary meaning of the term ‘Business Day’.
 - **FAC charges:** Shipping Australia objects to FAC charges rising by up to 59% in Melbourne (which I understand to be a reference to Webb Dock West as proposed FAC charges increase by 59% at Webb Dock West, not Appleton Dock) and references are also made in respect of increases to FAC charges applicable to general and breakbulk cargo specifically at Brisbane and Port Kembla. The Australian Steel Association objects to the magnitude of the increases to FAC for general cargo at Appleton Dock and Brisbane, and, at Appleton Dock, steel cargo.

3.3 Further information supplied by AAT

On 30 April 2026, AAT provided me with further information on its costing methodology. This included a submission explaining the charges and the approach adopted to development of the model, including an expert report from a consultant (Mr Jeff Balchin of Incenta Economic Consulting) and a statement from Mr Patrick Smith, MD of AAT in support of a number of elements of the model, including the basis for asset and cost allocation to services.

Building block cost model

AAT notes that it engaged Incenta to develop a “building block cost model” to determine required Changes to Charges for 2026-27. The model is designed to ensure that Charges are set at a level that recovers the efficient costs of providing regulated services. Mr Smith further states that this kind of cost model will also provide a more predictable and longer-term view of the likely price path for regulated tariffs (which will hopefully reduce future disputes).

Building block models are a standard feature of economic (price or revenue) regulation in Australia. The cost ‘blocks’ consist of economic costs that would be expected to be recovered by an efficient supplier; that is:

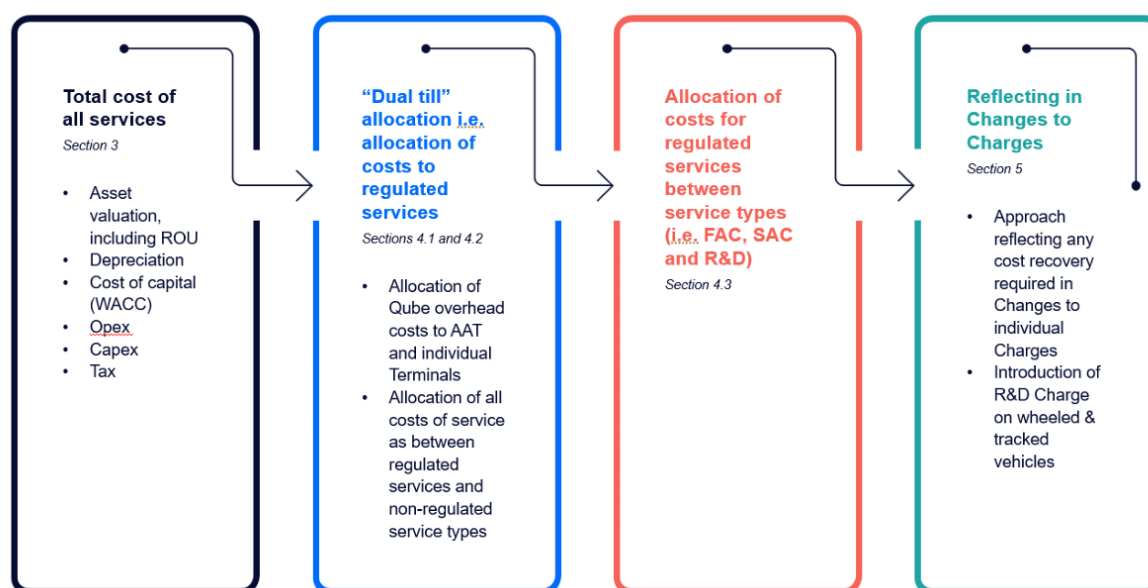
- Its operating costs
- A return of the capital employed in the business, to account for the depreciation of its fixed assets



- A return on the capital employed to account for the opportunity costs of funds
- An allowance for corporate income tax.

AAT provides a further description of its model in its submission, which explains the relationship between costing, separation of costs between regulation and unregulated services, the allocation of costs between regulated services, and the development of charges.

Figure 1 AAT’s description of costing and Charges



Development of charges and changes to Charges

The cost model allocates operating and capital costs to services (including FAC, SAC and R&D) on a causal basis and then applies a weighted average cost of capital and depreciation profile to determine total revenue required by service type.

The cost model has also been designed to allow some flexibility in key input assumptions. Aside from the usual input assumptions (for example, relating to the rate of return), there are three key modelling decisions:

- The approach taken to the current value of assets for regulatory purposes (and whether this should reflect past depreciation based on historic cost, current cost or tilted annuity approaches)
- Whether the land leases should be capitalised or recovered as operating expenditure.

For FY27, the estimates produce a revenue shortfall in each of the four terminals, with that shortfall allocated to service categories as per Table 1.



[Redacted Table]

Source: Incenta/AAT's Template Pricing Model

I observe at this point that AAT's cost model suggests that significant increases in Charges could be justified, particularly for FAC and R&D, if I was to accept all the proposed costings.

The revenue requirement for each service is subsequently converted into tariffs by dividing by forecast throughput, with AAT adopting a 2% growth assumption in cargo volumes for this purpose. AAT has noted, however, that this assumption is above recent observed automotive volume trends at its terminals.³

The outcome of this approach is a set of service-specific charges that reflect the allocation of different cost drivers across activities. In particular, land and premises costs are recovered through FAC, and more variable handling and processing costs through R&D.

Within this framework, AAT has implemented a number of changes to the tariff structure to align charges with the underlying cost allocation. Most notably, it has introduced a new R&D charge for wheeled and tracked vehicles, on the basis that these cargoes require processing and handling activities that were not previously being captured in the charging structure.

In addition, AAT has amended certain non-price parameters of the tariff schedule which affect how charges are applied in practice. In particular, at Webb Dock West the period of free storage embedded within the FAC has been reduced from four calendar days to three business days, with AAT explaining that this change is intended to align practices across terminals and encourage more timely cargo processing.

3.4 Further consultation with objectors and AAT

Objectors were provided the opportunity for further consultation, that included the availability of redacted AAT documents. One objector received the redacted documents and subsequently provided a submission (5 June). Other objectors provided clarifications and further information following from my email of 14 April sent to all parties identifying my preliminary understanding of the issues raised and the process to be followed.

On 5 June I provide a draft determination to AAT and the ACCC. AAT sought further time (within the available extension period to 15 June) to provide a further submission to address incorrect

³ Mr Patrick Smith's (AAT) statement indicates that actual automotive volume trends at AAT's Terminals over the last 10 years from FY2015 to FY2025 have declined by 2%, paragraph 34.



assumptions in my modelling changes and to provide more context to its proposed approach (including further detailed information relating to its lease rentals and escalation clauses). I have taken account of that further information in reaching this determination and, in certain key respects, it has changed the position I expressed in the draft determination, as I explain below.

4 Approach to the determination

In this section, I set out my views on the main methodological issues in the calculation by AAT of Charges.

4.1 Assessment of the general approach and use of a building block model

Building block model

It is evident that AAT's approach to the pricing of all of its services, including the development of changes to Charges, derives from the application of its building block model. The review of this cost model has therefore been a key focus of my review.

I conclude that a properly specified building block model is capable of meeting the criteria in clause 3.4 because it provides a structured way to translate the costs of providing Access Services into a service-level revenue requirement, and then into Charges. That is because a building block model:

- incorporates operating expenditure and terminal lease and other input costs; depreciation and a return on a capital base using a WACC commensurate with commercial risks and asset lives that are reasonable; and forecasts of reasonably expected volumes (including, where relevant, any differentiation between committed and uncommitted volumes and associated risks) to convert revenue requirements into unit charges.
- supports the allocation of shared and overhead costs to individual Charges in a way that reflects actual or likely use by different users (including facilities and equipment), and
- provides a coherent basis for assessing whether proposed Changes are consistent with CPI Inflation.

Where the inputs into the building block model reflect efficient costs, the outcome can be efficient Charges.

I also note that, on the whole, the model is transparent, well set out and provides for a suitable amount of flexibility in input assumptions. Where I preferred alternative inputs, I was generally able to accommodate these within the model structure.

Costing approach produces separate terminal Charges

The modelling approach derives Charges separately for each terminal, rather than applying a single common cost base or uniform terminal-wide uplift. Each terminal has its own cost inputs, including terminal-specific lease costs, operating costs, asset values, asset lives, service mix and forecast volumes. This means that the estimated efficient costs, and therefore the resulting Charges or required Changes to Charges, can and do differ substantially by terminal. Those differences are not inherently anomalous, given the significant underlying differences between the terminals, including land size, land value, cargo volumes, the composition and intensity of terminal use, and the nature and value of other fixed assets employed at each site.



Scope of the model and the Determination

AAT's building block model includes inputs that are relevant to deriving all service charges, including those that have not been objected to. As a consequence, my findings with respect to certain key inputs (e.g. the return on capital) are likely to have broader application to all Charges. I note, however, that my determination is limited to Charges in an Objection Notice, and that:

- I may accept, reject or vary the proposed Change to the Charge, and
- My determination cannot result in a Charge that is less than the current Charge or higher than the proposed Charge.⁴

4.2 Assessment of the key inputs into the building block model

I have identified the following key inputs to review for the purposes of ensuring Charges reflect efficient costs of providing the Access Services, while allowing a reasonable rate of return commensurate with commercial risks:

- The calculation of the opening capital asset value, on which depreciation and return on capital charges are based
- The rate of return that is applied to the capital base (the weighted-average cost of capital, or WACC)
- The base level of operating expenditure and the inflators applied to operating expenditure
- The treatment of long-term leases for land
- Cost allocation between services that are a Charges and those that are Other Tariffs including allocation of overhead costs and allocation factors for individual terminal costs
- Cost allocation between SAC, FAC and R&D services
- Forecasts of service volumes, noting that AAT has assumed two per cent annual volume growth for each of the regulated services.

I will proceed by outlining AAT's approach on these issues, and then provide my views on the likelihood of the proposed approach producing estimates of efficient costs of services.

4.3 The opening asset values at each of the terminals

AAT's approach

Roll forward approach

AAT's opening regulatory asset base (RAB) for each terminal (Port Kembla, Brisbane, Appleton Dock and Webb Dock West) has been established using a "roll-forward" approach based on actual capital costs (or, for leased assets, an implicit capital cost at lease commencement) and then depreciating those values forward to the start of FY 2027.

In broad terms, AAT/Incenta's approach is to:

1. Commence with original cost for owned assets (from AAT's fixed asset register) and the present value⁵ of forecast lease payments for leased land and improvements (treated as right-of-use assets);

⁴ Clauses 3.3(a)(iii) and 3.3(b) of Schedule 5.

⁵ Discounted at the cost of debt applicable at the time the lease was signed.



2. Allocate assets between regulated and unregulated services and then between service categories; and
3. Apply depreciation profiles that are intended to produce an efficient time-path for prices, with the same depreciation methods and inputs used consistently to both derive the opening FY 2027 values and the FY 2027 depreciation allowance.

Treatment of leased assets in the opening RAB

A key feature is the inclusion of leased land and leased improvements in the RAB as right-of-use assets, rather than treating rent as operating expenditure. That treatment is proposed on the basis that this is the most practicable way to provide a return commensurate with the risks AAT bears under long-term, largely fixed payment obligations.

For the purposes of deriving an asset value, AAT/Incenta applies different depreciation methods to different asset classes:

- For leased assets and (where relevant) land improvements, Incenta applies tilted annuity depreciation (with a tilt linked to long-run demand growth) on the basis that these costs are largely fixed and the method is designed to generate an approximately constant price path per unit of demand in real terms over time.
- For plant and equipment, Incenta applies straight-line depreciation with inflation indexation, reflecting shorter asset lives, ongoing replacement, and the view that this approach is most likely to deliver broadly stable real prices for those assets.

AAT/Incenta notes that the same methods and inputs are applied throughout the life of the assets and are used both to roll-forward the asset values to the opening FY 2027 RAB and to calculate depreciation from FY 2027 onwards.

At a terminal level, the main practical implications of this approach are as follows:

- Port Kembla: the opening RAB comprises (a) right-of-use values for leased land and any leased improvements (derived from the present value of forecast lease payments, discounted using a debt-like rate at lease commencement) and (b) owned land improvements, buildings and plant/equipment valued at historical cost and rolled forward. Incenta notes Port Kembla is a key example where AAT has funded land improvements directly (rather than via rent), so those improvements sit in the fixed asset register and are depreciated using the relevant method for their class.
- Brisbane: the opening RAB is dominated by right-of-use assets because (as Incenta notes) many land improvements are lessor-funded and reflected in rent; accordingly, a larger share of the capital base is captured through capitalised lease values, with plant and equipment and any AAT-funded improvements forming the balance.
- Appleton Dock: the opening RAB reflects a mix of leased land/improvements (capitalised as right-of-use assets) and AAT-owned assets; Incenta notes the lease structure and timing (including more recent lease commencement) affects the starting right-of-use value, but the roll-forward approach ensures the FY 2027 opening values reflect cumulative depreciation under the selected profiles.
- Webb Dock West: the opening RAB includes a substantial right-of-use component for the terminal lease and associated improvements together with owned fixed assets (including plant and equipment) rolled forward from historical cost.

My views on opening asset values for fixed assets

The central valuation issue is historic depreciation



AAT has elected to reset its pricing approach for the 2026-27 financial year using a new costing model. While this can offer greater pricing certainty and so a significant benefit for both itself and users, it raises a particularly difficult task of setting an appropriate value for the assets in which AAT has already invested.

The task of regulatory asset valuation to produce a “regulated asset base” or RAB is difficult because there is a clear trade-off between the value that best promotes the efficient use of assets (which is very low) and the continued efficient investment in assets (which is higher, and should provide for an opportunity for the firm to recover the costs of efficient investments).

I note that the approach taken by AAT/Incenta does not rely on business purchase prices or asset revaluation exercises, and this is generally appropriate. Rather, asset values are derived using estimates of efficient asset costs and depreciation of those assets.

Nonetheless, a critical issue remains. Where the opening asset base for FY 2027 is derived by rolling forward historical asset values, the choice of historic depreciation method that is applied affects the remaining asset value.

Different depreciation methods can increase or decrease remaining asset values

Because the FY 2027 opening asset base is the cumulative result of past depreciation, different depreciation profiles imply different remaining asset values today, and therefore different capital charges (return on and of capital) going forward. This effect is most important for older assets that are already significantly depreciated.

For example, the use of “tilted annuity” depreciation is, by design, more “back-loaded” than straight-line depreciation, meaning it pushes more costs for recovery into later years. It may be suitable for largely fixed-cost assets in a growing-demand setting, as it allows similar unit charges over time by more closely matching cost recovery with expected demand. However, tilted annuity depreciation (when applied with a positive tilt) will produce a higher written-down asset value at a given point in time compared to other methods such as historic cost depreciation (whether indexed or unindexed).

This matters for the present determination because it affects the level of costs AAT seeks to recover through Charges over remaining asset lives: a higher opening asset value mechanically increases the revenue requirement and so is not neutral for AAT’s proposed changes to Charges. Put differently, the depreciation methodology choice implicitly determines how much of past investment is treated as already recovered versus still to be recovered from users, and therefore goes directly to the level of Charges sought in FY 2027 and beyond.

For fixed assets other than operating leases, my view is that indexed historic cost provides a reasonable and appropriate depreciation method. Indexed historic cost depreciation:

- reduces the RAB by an equivalent amount each year in real terms, unlike straight line depreciation which fixes reductions in nominal historic cost terms and produces higher cost recovery in early years; and
- avoids the more pronounced back-loading of cost recovery that can arise under a tilted annuity approach, which may be problematic for long-lived assets if not much is known about historic cost recovery.

My views on the treatment of operating leases

AAT’s justification for capitalising leases

AAT’s position is that its terminal leases are not incidental operating inputs, but represent the principal means by which it secures long-term access to the land and improvements required to provide Access Services. On that view, a long-term lease commitment has economic



characteristics that are similar to an owned asset: it involves a substantial, largely fixed financial commitment undertaken to obtain control over the use of a terminal site over an extended period.

AAT suggests that there is therefore a coherent basis for considering lease capitalisation where treating lease payments only as operating expenditure would not adequately reflect the fixed commitment, operating leverage and investment risk borne by AAT, or would create a materially different regulatory treatment between leasing and ownership. This is particularly relevant where lease obligations account for a substantial share of the assets used to provide regulated services and where future investment in terminal capacity may also depend on AAT entering into similar long-term lease commitments.

I accept that these submissions identify a material issue for this determination, in that terminal leases are not merely incidental operating inputs for AAT. It follows that the treatment of those commitments must be capable of providing AAT with a reasonable opportunity to recover efficient terminal lease costs and to earn a reasonable return commensurate with the commercial risks involved. However, that does not mean that clause 3.4 requires any particular measure of the right-of-use asset, or AAT's preferred historical roll-forward valuation, to be adopted for present purposes.

Lease capitalisation can be appropriate

I have considered two approaches to the treatment of lease commitments in the present context:

- The first is to capitalise lease payments at the same rate as the return is provided (a net present value neutral basis) such that the expected present value of revenues is sufficient, but not more than sufficient, to meet AAT's lease obligations. This approach has an economic logic where the allowed rate of return otherwise reflects the systematic risk of the business, including the operating leverage arising from fixed lease commitments. This was the approach I initially pursued in the draft determination. However, having considered AAT's submissions, I accept that the assumption relating to the allowed rate of return is important in the present case. AAT's lease obligations are large relative to its total asset base, and there is a substantial risk in relying on an assumption that the estimated WACC based on comparator companies that do not have similar lease liabilities already captures all the relevant lease-related risk.
- A second approach is to capitalise lease payments in a manner consistent with applicable accounting standards and include the resulting right-of-use assets within the capital base to which the WACC is applied. This approach might be preferred as it reflects that long-term lease commitments can, in some respects, be analogous to ownership of the underlying asset. Both involve fixed commitments associated with access to an asset, either through ongoing lease payments or through recovery of an upfront capital outlay via depreciation and a return on capital. These fixed commitments can increase operating leverage and, in turn, the risk borne by equity holders. When the asset is owned, a return is provided on assets to compensate for that risk, and a similar return may be necessary to compensate for the risk of leased assets.⁶ However, this approach still requires care in selecting the value of the lease asset to be included in the capital asset base. Accounting recognition of a right-of-

⁶ Owners of assets may bear residual value risk, including the risk that the asset has a lower value than expected at the end of its economic life or is not fully recoverable if demand falls. Lessees do not usually bear that same residual value risk in the underlying asset, but may face other risks, including fixed payment obligations over the lease term, renewal or re-contracting risk, and the risk that lease commitments become misaligned with future demand or revenue. Measuring the relative magnitude of those risks, and the extent to which they are systematic rather than diversifiable, is inherently difficult.



use asset is relevant, but it is not determinative of the value to be adopted under clause 3.4. In particular, where an opening capital asset base is being established for the first time, it is necessary to consider whether the proposed valuation method does not produce compensation beyond that commensurate with AAT's commercial risks.

I also think it is relevant to note that the second approach is now more consistent with financial reporting frameworks and regulatory practice in some contexts:

- AASB16 formalised lease capitalisation accounting by requiring lessees to recognise most leases as right-of-use assets with corresponding lease liabilities, in order to better reflect the economic substance of long-term lease commitments and improve comparability between firms that lease assets and firms that own them.
- A number of regulators of network businesses in Australia and New Zealand (including the Australian Energy Regulator and the Commerce Commission) have allowed lease capitalisation into the RAB, which allows for such assets to earn a WACC return. It must also be emphasised, however, that operating leases are of relatively minor significance to most network businesses, and the difference in allowed remuneration under expensing or lease capitalisation is not material – which is not the case here.

This distinction is important in applying those precedents to AAT. In many network utility contexts, capitalised leases are a relatively small supplement to a much larger stock of owned fixed assets that already earns a WACC return. The choice between expensing and capitalising leases therefore tends to have only a limited effect on the overall revenue requirement. AAT is materially different. Its long-term terminal lease commitments are a very large component of the costs of providing Access Services, whether treated as operating expenditure or capitalised as right-of-use assets.

The consequences of the chosen treatment of leases are therefore amplified in both directions: an approach that under-compensates lease-related risk could materially impair cost recovery and investment incentives, while an approach that over-compensates that risk could materially increase Charges above the level required by clause 3.4. For that reason, I consider lease capitalisation to be reasonable and appropriate in principle for AAT, but that it should be applied in a way that avoids material under- or over-recovery of lease costs, and does not provide compensation beyond that commensurate with AAT's commercial risks.

The timing of lease valuations for pricing purposes

AAT proposes to set an opening asset value for FY2026 for each of its terminals:

- by rolling forward the calculated value derived from historical lease commitments, initially valued at the time the lease was entered into (2008 Port Kembla, 2012 Fishermans Island, 2026 Appleton Dock, and 2019 Webb Dock West), and
- depreciating that lease value using a back-loaded depreciation method (a tilted annuity⁷).

While a forward looking approach was considered – valuing the remaining lease commitments from today – Incenta's view was that valuing in this way has flaws, including that it could introduce a disconnect between interest rates factored into rent payments at the commencement of the lease and the discount rate now. Incenta also suggests that rental payments can be structured differently over time and this should not affect prices.

⁷ A tilted annuity is a way of spreading asset costs over time so that more of the cost is recovered in later years and less in earlier years. In a depreciation setting, this means the asset value is written down more slowly at first and more quickly later. This can be useful where demand is expected to grow over time, because it helps keep the charge per unit more stable across the life of the asset.



I accept that it is not unreasonable for AAT’s long-term lease commitments to be recognised in the capital base. The more difficult question is the value at which those commitments should be recognised for the purposes of assessing Charges under clause 3.4. In considering that question, I have had regard to:

- AAT’s proposed historical roll-forward valuation,
- a forward-looking valuation based on remaining lease commitments, and
- the most recent valuations of the relevant lease assets.

The conceptual basis for AAT’s historical roll-forward approach is that it values lease assets consistently from the commencement of each lease and applies the same depreciation method over the life of the asset. That promotes internal consistency within the building block model and avoids treating lease commitments differently simply because the current price-setting process begins part-way through the life of the leases. However, the approach also depends on assumptions about the appropriate historical depreciation profile and, therefore, about the extent to which costs should be treated as having been recovered in earlier years:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

These findings do not make a tilted annuity inappropriate in principle as it enables fixed costs to be recovered over time in a way that produces a smoother real unit price path. The difficulty is that, in this determination, this profile of cost recovery is set *ex post*. I do not have full information about the prices charged, revenues earned, or commercial expectations applying in earlier periods to assess directly whether the implied historical cost recovery path is the most appropriate one for present regulatory purposes.

For example, in making a Determination it would be better to test in detail the most appropriate value for the tilt in the tilted annuity – should it be the average of historic growth (and over what period), or based on a future forecast of growth? Should it vary by terminal? The tilt factor applied materially affects the starting capital asset value for FY2027⁹, and it is unclear whether it is appropriate to apply AAT’s future forecast of 2% annual demand growth to the implied

⁸ <https://qube.com.au/wp-content/uploads/2024/05/Qube-Enters-Into-Agreement-to-Acquire-MIRRAT.pdf>. This may be relevant to ‘Charges providing a reasonable rate of return on the amount of funds invested’ criterion in clause 3.4, insofar as it provides a cross-check on the relationship between the implied asset value and more recent market-based indicators of value. I do not treat the acquisition price as determinative, recognising that acquisition values may differ from regulatory asset values for a range of reasons (including expectations about future earnings, synergies or commercial factors). However, the magnitude of the difference reinforces the need for caution in relying on valuation approaches that depend on unverified assumptions about historical cost recovery.

⁹ For example, the application of AAT’s model to different tilt rates at Webb Dock West produces the following variations in the capital asset base at FY2027:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



historical cost recovery profile, where the available evidence indicates that past volume growth has been slower, with:

- Actual national automotive growth is said to have been 0.89% per annum over the period FY2015 to FY2025.
- Actual automotive volume trends at AAT's Terminals over the last 10 years from FY2015 to FY2025 have declined by 2% (potentially implying that a negative tilt may have been appropriate over that period).

This issue is all the more significant as it does not appear that past prices were set under a consistent regulatory-type model.

If AAT were able to provide evidence that past prices and revenues were consistent with the cost recovery path implied by its tilted annuity approach, that would provide stronger support for adopting its proposed historical roll-forward valuation. In the absence of that evidence, I consider it appropriate to treat the historical roll-forward valuation as one relevant indicator of reasonable lease asset value, rather than as determinative.

Forward looking valuation approaches

I have also considered values derived from a forward-looking capitalisation approach, based on scheduled lease payments to the end of each lease and a proxy for AAT's current borrowing rate. This approach has the advantage of focusing on the present value of AAT's remaining lease obligations at the point at which those obligations are being assessed for the purposes of this price-setting process. It is not dependent on reconstructing historical cost recovery and therefore provides a check on the value of lease commitments that remain to be recovered. Such methods also preserve investment incentives as new leases would be incorporated at their commencement. At the same time, it may not fully capture all of the information reflected in the original lease valuation and historical cost recovery framework adopted by AAT.

Alternative approach based on most recent valuation

It is my understanding from the Incenta report that AAT has more recently valued lease assets, including for the introduction of AASB16 in 2019 (Port Kembla and Fishermans Island) and when it acquired MIRRAT (May 2025). In my view, it might be reasonable to use these as starting points for the valuation, because those valuations are closer to the point at which the lease assets are being brought into a regulatory-style capital base and are less dependent on reconstructing an assumed pattern of historical depreciation and cost recovery from the original lease commencement dates. That approach would still recognise AAT's remaining lease commitments and allow a return on the resulting right-of-use asset value, but would reduce the risk that the opening value embeds back-loaded recovery assumptions that cannot be verified using the material before me. Such valuations can therefore provide a robust foundation for assessing efficient asset costs and, in turn, pricing.

I have constructed such valuations from material provided to me by AAT. I have not sought to replicate AAT's valuations, but have used the same underlying payment profile and using a proxy for the borrowing rates (a benchmark cost of debt) at which each lease was last valued or recognised by AAT (as does Incenta when valuing leases). The valuations are produced at the point at which each lease was last valued or recognised by AAT. I understand this was 2019 for Fishermans Island and Port Kembla for AASB16 compliance (using a proxy borrowing rate of 3.70%), May 2025 for Webb Dock West (5.81%) and 31 December 2025 for Appleton Dock (5.93%)¹⁰.

¹⁰ All figures from the Incenta report.



Using these values produces higher costs than the forward looking valuation, due to the effect of lower discount rates (all three terminals) and for Webb Dock West, one year of backloaded depreciation. I note that the 2019 valuations are based on a borrowing-rate proxy from a period of unusually low interest rates – indeed, below the long-term risk-free rate of 5 per cent. Incenta uses a long-run borrowing rate of more than 7 per cent for the tilted annuity calculation and cautions against allowing short-term interest rate conditions to unduly determine the long-term profile of cost recovery. On that basis, the 2019 proxy borrowing rate should be recognised as abnormally low in historical context.

Effect of alternative lease treatments on annual FAC costs

In my view, each of the three valuation approaches have some merit in that they contribute relevant information for pricing purposes. Each approach provides a different perspective on the reasonable value of the lease assets: the historical roll-forward approach emphasises consistency over the full lease term; the forward-looking approach emphasises remaining obligations and avoids relying heavily on historical recovery assumptions; and the most recent valuation approach provides a reference point closer to the time at which the lease assets are being brought into a regulatory-style capital base. I therefore take all three approaches into account when considering AAT's specific Charge proposals in Section 5.

Below I show the differences in the calculated first year annual cost of service, by terminal, using the different approaches of:

1. AAT's proposed capitalisation approach, which estimates the capitalised value of lease obligations when entered in to (by terminal) and depreciates that value over time using a tilted annuity.
2. Estimating the present value of lease payments using a forward looking approach on remaining lease payments at proxies for current borrowing rates.
3. Estimating the present value of lease payments at the last valuation or recognition date by AAT.

Forecast revenues at current prices is shown for reference.



[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

The different methods give a material range of values, with some higher and some lower than AAT’s calculated values. This is perhaps not surprising as it reflects the quite different financial conditions at various times; for example, the mandatory introduction of AASB 16 in 2019 occurred during a period of historically low interest rates following the global financial crisis, when corporate borrowing costs were low by historical standards.¹¹ This was also relevant to the initial 2018 Webb Dock West lease capitalisation, with the proxy borrowing rate below both long term cost of debt and risk free rates. In more recent times, borrowing costs have reverted closer to historic averages, while under AAT’s approach rates were higher again for Port Kembla and Fishermans Island lease valuations.

Drawing these matters together:

- I accept for the purposes of this determination that AAT’s land leases can be capitalised and that a WACC return can reasonably be applied to the resulting right-of-use asset value.
- In forming my view on the reasonable and appropriate value of those lease assets, I have had regard to AAT’s proposed historical roll-forward valuation, a forward-looking valuation of remaining lease commitments, and the most recent valuation of the relevant lease assets.
- Each of these approaches can provide useful information about reasonable and appropriate asset values. However, they do so from different perspectives and, except in the case of Appleton Dock where the values are the same, produce different outcomes in both relative order and absolute value.
- I therefore do not treat any single valuation approach as determinative at this stage. Rather, I intend to take account of all three approaches, and the reasons for the differences between them, when considering AAT’s specific Charge proposals in Section 5.

¹¹ In 2019 the rate on 10 year Commonwealth Government Securities was below 2%, against an average of close to 5 per cent since 1996.



4.4 Rate of return (WACC)

AAT’s approach

AAT’s proposed rate of return is derived by applying a conventional regulatory WACC framework of the kind routinely used by Australian economic regulators when implementing building block models. In summary, AAT (through its consultant, Incenta) estimates a nominal “vanilla” WACC by:

1. estimating the cost of equity using the Sharpe–Lintner CAPM (risk-free rate, a market risk premium, and an equity beta derived from an assumed asset beta and benchmark gearing);
2. estimating the cost of debt from observed yields on BBB-rated corporate debt with an allowance for debt raising costs; and
3. combining the cost of equity and cost of debt using benchmark leverage assumptions (with the value of imputation credits dealt with through the tax allowance rather than embedded in the WACC).

This approach, including the use of standard AER/ACCC-style parameter choices for the market-wide inputs, is orthodox and readily capable of producing a return “commensurate with the commercial risks involved” for the purposes of clause 3.4(a)(ii). The principal point of contention is not the framework, but the calibration of systematic risk through the asset beta.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

¹² CEPA, Port of Melbourne – Review of Gearing and Beta, 21 Nov 2023.

¹³ In particular, the regressions presented explain very little of the variation in the data and the coefficients are not statistically significant.



4.6 Cost allocation: Charges vs Other Tariffs (including overheads and terminal allocation factors)

AAT's approach

AAT has undertaken an analysis to split terminal costs between regulated and unregulated services (and hence those covered by Charged vs Other Tariffs). It used the following factors to capture the relative use of terminals:

- Labour usage – proportion of labour hours attributable to each service type, on a bottom up basis
- Area usage – proportion of terminal area used to supply each service area
- Machinery usage – relative use of machinery
- Fixed asset usage – relative use of all fixed assets including machinery and equipment
- Revenue share - proportion of revenue earned from regulated and unregulated services

Details of the allocator applied for each operating expenditure category and asset costs were provided.

My views on cost allocation between captured and non-captured services

AAT have provided clear information on the basis of allocation by operating expenditure category. I am comfortable with the choice of allocators for each operating expenditure category. For example, it makes sense for the “salary, wages and on-cost” category to be allocated based on labour usage. Equally, it makes sense for “rent, rates and taxes” to be allocated based on area usage.

Similarly, AAT provided clear information on allocating asset costs between regulated and unregulated services, noting this is only applied to shared assets. I accept the approach of allocating shared leasehold assets on the basis of area usage and plant and equipment based on usage of each asset type.

The allocators themselves have been developed by AAT. A certain amount of judgement is inevitable in developing these allocators. For example, determining proportion of labour hours attributable to each service type is going to require some judgement. I have reviewed the reasonableness of the approach, rather than how individual allocator proportions were reached, and am broadly satisfied with the approach.¹⁵

4.7 Cost allocation: FAC, SAC and R&D

AAT's approach

Costs allocated to regulated services are then further allocated between FAC, SAC and R&D. This allocation is undertaken on a terminal-by-terminal basis. The following summarises the purpose of each charge:

¹⁵ I do note that security costs have been wholly allocated to regulated services. The reasoning provided by AAT is that security is fully dedicated to regulated services. The implication here is that no security would be required if there were only unregulated services at the terminals. It is not clear if this is true. However, I can accept that security costs may be largely attributed to regulated services and selecting a different allocator such as terminal areas wouldn't make a material difference to the results.



- FAC – charged for access to and use of the terminal/infrastructure when delivering and collecting cargo
- SAC – charged to stevedores for handling and processing cargo through a terminal
- R&D – charged for processing cargo as it enters and exits the terminal.

High level explanation of allocation of operating cost categories across FAC, SAC and R&D have been provided.

For assets costs, leased property assets have been wholly allocated to FAC while all other assets (plant and equipment) have been split 50:50 between SAC and R&D. AAT have not provided specific rationale for this approach but it does not seem unreasonable.

My views on cost allocation between Charges

AAT have provided a reasonable justification for splitting regulated services operating costs across FAC, SAC and R&D. While AAT have not provided specific rationale for the approach for asset costs, they do not seem unreasonable. I am mindful that the split between regulated and unregulated is more material as it impacts the total regulated costs to be recovered, rather than the split of these regulated costs.

4.8 Forecast service volumes (2% annual volume growth assumption)

AAT's approach

AAT has forecast that regulated services volumes will grow at 2% per annum. AAT has provided a view that this is more likely to overstate rather than understate the potential for volume growth, pointing to subdued automotive sales growth forecasts, actual national automotive growth of 0.89% per annum over the period FY2015 to FY2025, and Mr Smith's statement that actual automotive volume trends at AAT's terminals declined by 2% over the same period.

AAT has stated that it sees the 2% growth assumption as conservative, because overstating future demand would reduce the per unit price if actual demand is lower. It also states that this is an approach it will keep under review.

My views on volumes

I agree with AAT's view that the evidence seems to support a lower growth rate. I am mindful that adopting a lower volume growth rate would have two effects:

- It would reduce the volumes that costs are divided by to produce per unit service charges
- If it is accepted as a depreciation methodology, it would change the 'tilt' in the tilted annuity calculation, which AAT has aligned with forecast service growth (to provide a consistent real per unit charge over time).

Given that we are at the start point of this new building block pricing regime, the tilt in the tilted annuity calculation has the more substantive impact on prices. A tilt based on a higher volume growth rate has the relative impact of lowering costs to be recovered in early years of the model and then increasing costs to be recovered in later years. That is, a higher volume growth rate lowers charges in FY27.

I note that this volume growth rate was part of the justification for selecting inflation of CPI plus 1%. As with the inflation rate, actual volume growth rates should be closely monitored in future years and forecasts updated reflecting newer information.



4.9 The translations of BBM costs to prices

Mr Smith states¹⁶ that:

- The Incenta model indicates a shortfall between forecast revenue and costs for:
 - FAC at each of the Terminals; and
 - SAC at Appleton Dock
 - R&D charges at Brisbane, Port Kembla and Webb Dock West.
- AAT has therefore proposed adjustments to Charges for each of these services. Adjustments have been applied uniformly within each service category; for example, all kinds of R&D Charges have been increased by the same percentage, although that percentage differs by terminal.

With respect to the application of the new R&D charge to automotive cargo (wheeled vehicles), Mr Smith notes that:

- Historically, the R&D Charge has been applied to a limited number of cargo types, such as general cargo and heavy or project cargoes, but was not levied on automotive cargo.
- The change is proposed as R&D is said to be a labour-intensive service category and the allocation of R&D costs to automotive cargo was determined by reference to the proportion of labour time spent on automotive-related work at each Terminal. For example, at Port Kembla, there is a team of approximately 20 staff involved in R&D activities, with roughly 20 per cent of their time allocated to automotive-related work – this means that 20 per cent of the R&D cost pool has been recovered through the new R&D Charge on vehicles at Port Kembla.
- Equivalent assessments were undertaken at each of the other Terminals, with the specific allocations to the new R&D Charge for wheeled and tracked vehicles reflecting the nature of operations relevant to the R&D Charge mix at each site.

5 Matters for determination

I confirm that, in determining whether a Change to a Charge is reasonable and appropriate, I have had regard to each of the principles in Schedule 5 and clause 3.4.

5.1 Genuine economic interest

Under the Undertaking, a *Dispute Applicant* is a person with a “genuine direct or indirect economic interest in the terms and conditions of use of the Terminal” and expressly includes users of a Terminal, importers and exporters (and/or their industry representative bodies). Further, an Objection Notice must set out the genuine economic interest the Dispute Applicant claims to hold in respect of Charges. The objectors include:

- Shipping Australia Limited, an industry representative body that states it has raised the dispute on instructions from members who are direct users of AAT’s services.
- Rigby Cooke Lawyers, acting on behalf of a client that specialises in freight forwarding and cargo brokering and frequently utilises AAT facilities to conduct its business operations. The services its client provides range from door-to-door to port-to-port shipping. It facilitates transportation routes from Brisbane, Port Kembla and Melbourne, ending at Fremantle.

¹⁶ Mr Patrick Smith (AAT), paras 68-69.



- FCAI, the peak industry body for Australian importers and distributors of passenger motor vehicles, objected on behalf of its members that are major users of AAT terminals for RoRo services.
- Australian Steel Association, an industry representative body acting on behalf of steel importers and traders.

Having considered the Objection Notices and further information provided, I am satisfied that each objector has established a genuine direct or indirect economic interest in the relevant Charges for the purposes of Schedule 5. In the case of Shipping Australia, FCAI and the Australian Steel Association, I am satisfied that each is acting as an industry representative body for members or constituents affected by the relevant Charges. In the case of Rigby Cooke, I am satisfied that the client on whose behalf it acts has the requisite economic interest.

5.2 The proposed reduction in free storage days for FAC charge (included storage)

The tariff schedules indicate that the FAC generally includes a period of free storage of three business days for both imports and exports. At Webb Dock West, however, the previous arrangement provided for four days of free storage for imports (and five days for exports), whereas the proposed tariff would reduce the import allowance to three business days and provide that Saturday is to be treated as a business day.

I accept that a reduction in the period of free storage may, in principle, have an economic effect similar to an increase in the overall price of FAC for those users who incur storage charges. That is because a shorter free storage allowance increases the likelihood that a vehicle remaining in the terminal beyond the revised period will attract a Wharf Storage Fee. In that sense, the proposed change may affect the overall bundle of charges associated with use of the terminal, notwithstanding that Wharf Storage Fees were treated in Determination 1 as Other Tariffs rather than Charges.

The evidence before me indicates, however, that the practical significance of this effect is limited. The additional information provided by AAT shows that, on an annualised basis, only about 1 per cent of total vehicles, [REDACTED] attracted storage charges, and that the average storage duration across all vehicles was approximately 0.04 days. These figures suggest that, although the reduction in free storage may increase storage revenue at the margin, the incidence of storage charges across total vehicle throughput is low and the average storage exposure per vehicle is minimal.

Accordingly, while I consider this change to be relevant context in assessing the reasonableness of the Webb Dock West arrangements, I do not consider the material presently before me to indicate that the reduction in free storage days gives rise to a substantial implicit decrease in the level of service associated with the Facility Access Charge which would otherwise need to be taken into account in the determination of the Facility Access Charge. Its principal effect appears to fall on the relatively small subset of vehicles that remain in storage beyond the free period, rather than on vehicle users more generally.

I accept the proposed Change to the Charge as reasonable and appropriate having regard to the matters in clause 3.4 of Schedule 5 to the Undertaking.

5.3 The new charges for R&D applicable to wheeled vehicles

The key issues for the proposed new R&D charges are:



- Would the new charge result in an over-recovery of the efficient costs of R&D services at the relevant terminals?
- Is there a reasonable cost justification for charging for wheeled vehicles, including both incremental and common usage costs across different kinds of traffic?

Drawing on my earlier findings, I am satisfied that the proposed introduction of an R&D Charge for wheeled and tracked vehicles is reasonable and appropriate. Even on my preferred input assumptions, the building block model indicates a material shortfall between forecast R&D revenues and the efficient costs allocated to R&D services at the relevant terminals. Extending the R&D charging structure to cargo that makes use of those services is therefore consistent with recovering efficient costs without over-recovery.

I am also satisfied that AAT has provided a reasonable basis for applying the charge to wheeled and tracked vehicles. AAT's model allocates R&D costs by reference to the activities and labour involved in processing cargo as it enters and exits the terminal. On that basis, it is reasonable that wheeled vehicles bear an appropriate share of those costs, including common costs, rather than those costs being recovered only from other cargo categories. Although the allocation involves some judgement, I consider the overall approach sufficiently grounded in use of R&D services to support the proposed change.



R&D revenues and costs for FY2027, \$

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

I have also considered Shipping Australia’s submission that some costs associated with wheeled vehicles, including space, scanning, systems and management, have historically been recovered through FAC, and that any reallocation of those costs to a new R&D Charge should ordinarily be accompanied by a corresponding reduction in FAC. That submission raises a legitimate issue as to the internal consistency of the charging structure. However, the question for this determination is whether the new R&D Charge would result in recovery materially above the efficient costs of the relevant services. On the material before me, I am not satisfied that the introduction of the new charge gives rise to material duplication or over-recovery once the overall allocation of costs across FAC and R&D is considered.

I accept the proposed Change to the Charge (as a new Charge) as reasonable and appropriate having regard to the matters in clause 3.4 of Schedule 5 to the Undertaking.

5.4 Changes to FAC Charges

Scope of the FAC objections

As noted, objections to changes in FAC Charges were received from Shipping Australia (Webb Dock West and in relation to general cargo at Brisbane and Port Kembla), and from the Australian Steel Association in relation to general and steel cargo at Brisbane and Appleton Dock.

The issue for determination is whether the proposed FAC changes are reasonable and appropriate having regard to clause 3.4, including whether they are expected to generate revenue sufficient to meet the efficient costs of providing FAC services, while allowing a reasonable rate of return on the amount of funds invested commensurate with the commercial risks involved. As explained in section 4.3, the treatment of terminal lease costs is central to that assessment. AAT’s proposed FAC increases are driven substantially by the recovery of land and premises costs through FAC. I have accepted that AAT’s long-term lease commitments should be recognised in the capital base, but not at the historical roll-forward values proposed by AAT.

However, there is also the issue of the approach I should take where (i) FAC charges are specified within the tariff schedule as a broad category but with specific fees for different cargo types and handling methods and (ii) not all FAC charge fees have been objected to. I first look at this element.



The relevance of overall FAC cost recovery

Under Schedule 5, the task of the IPE is to determine whether the proposed Change to the relevant Charge is reasonable and appropriate having regard to clause 3.4 and the jurisdiction of the IPE is therefore confined to Charges that are the subject of an objection.

As noted, there is an argument that each individual tariff line item for FAC constitutes a discrete Charge for a distinct category of Access Services, such that each item is capable of constituting a separate “Charge” for the purposes of Schedule 5. An objection to an FAC tariff item is accordingly an objection to that specific Charge. That said, where an objection notice was directed generally at FAC Charges, I think it is reasonable to interpret the objection broadly (so long as the objector is a likely user or user representative for that service). This is relevant to Webb Dock West.

In this context, a difficulty may arise as:

- the FAC Charges relate to closely connected services and are informed by common underlying costs, including premises and land costs. Indeed, this is how the cost model determines costs – of facilities access costs, disaggregated by terminal but not by specific tariffs. While disaggregated in the tariff schedule, the FAC charges collectively contribute to recovery of the costs of facility access services.
- in applying clause 3.4, it seems appropriate to have regard, where relevant, to the level of cost recovery associated with those services as a whole.
- the disaggregated structure of the FAC, combined with an objection-based dispute process, gives rise to the possibility that:
 - a proposed Change to one FAC tariff item is rejected or varied;
 - Changes to other FAC tariff items proceed unchallenged; and
 - in aggregate, FAC Charges may exceed the efficient costs of providing the relevant facilities access services.

Taking an approach that ignored broader cost recovery when approving a tariff item as reasonable and appropriate does not seem appealing. However, nor does rejecting a proposed tariff item based on likely increases in tariff items that have not been objected to.

Terminal-level cost benchmarks for FAC

To determine whether the proposed changes to Charges are reasonable, I first take the approach of considering a reasonable estimate of FAC costs and current revenues, by terminal. In the table below, I show the maximum FAC changes under the different methods that, if applied to all tariff items, would produce revenues equal to the cost estimates for facilities access services.

These estimates should be understood as terminal-level benchmarks. Where the proposed increase to an objected FAC tariff item exceeds the increase required to recover the estimated efficient FAC cost pool for that terminal, I do not consider the proposed increase reasonable and appropriate to the extent of the excess. Conversely, where the proposed increase is no higher than that benchmark, the terminal-level cost evidence does not indicate over-recovery.



FAC price increases for cost recovery for FY2027, %, alternative valuation assumptions

Valuation approach / lease treatment	Port Kembla	Brisbane	Appleton Dock	Webb Dock West
AAT proposal – lease capitalisation @ CoD lease commencement, tilted annuity depreciation of ROU assets ¹	12.8%	29.6%	46.8%	59.9%
- As above, with lower asset beta [REDACTED]	6.9%	23.5%	40.3%	52.4%
Forward looking lease capitalisation (start 2026), tilted annuity depreciation, @current CoD ²	13.4%	5.5%	40.3%	23.2%
Forward looking lease capitalisation (various start years), tilted annuity depreciation, @last valuation/recognition CoD ²	34.7%	48.8%	40.3%	31.3%

Notes: (1) Incenta model (2) my calculations, asset beta = [REDACTED]

The table shows that, on any of the lease treatments considered, some increase in FAC is supported by the cost evidence. This is particularly so at Appleton Dock, where AAT faces a substantial increase in terminal rental charges and those charges are a major component of the cost of providing facilities access services, and Webb Dock West. The valuations for the other terminals are more variable, reflecting the longer-lived nature of the leases, differences in discount rates, and the assumptions relating to past cost recovery.

For the reasons given in section 4.3, I have had regard to AAT’s historical roll-forward valuation, a forward-looking valuation based on remaining lease commitments, and the most recent valuation of the relevant lease assets in assessing the reasonable and appropriate level of FAC Charges. Each approach provides relevant information, but each also reflects a different valuation perspective for the estimation of efficient cost and produces different outcomes. I have therefore not treated any single approach as determinative across all terminals. Instead, I have considered the results of each approach, and the reasons for the differences between them, when forming my view on the FAC increases that are reasonable and appropriate.

For the first three terminals, I consider that AAT’s proposed changes to Charges should only be varied to accommodate a lower asset beta to derive the return on capital. For those terminals, I have not identified sufficient evidence in the alternative lease valuation approaches to justify a further reduction to AAT’s proposed lease values for FY2027; the main adjustment required is therefore to the allowed return, through the lower asset beta discussed above.

In reaching my conclusion for Webb Dock West, I have placed greater weight on the more recent valuation benchmark and the forward-looking evidence of remaining lease obligations, while also treating AAT’s historical roll-forward valuation as a relevant cross-check. The more recent valuation is closer in time to the current pricing exercise and uses a borrowing-rate proxy closer to long-term averages than the rate used for the earlier lease valuation. A forward-looking assessment based on the present value of remaining lease payments also provides a direct measure of the lease obligations that remain to be recovered through Charges. In my view, those matters are particularly relevant to the application of clause 3.4, which requires me to have regard to AAT’s terminal lease costs, as the Terminal Operator and provider of the relevant Access Services, together with efficient input costs, depreciation based on a reasonable



methodology, and a reasonable rate of return commensurate with commercial risks. I therefore consider that the historical roll-forward valuation should be treated with caution for Webb Dock West, particularly because it reflects financing conditions and cost recovery assumptions associated with an earlier point in time and because the resulting asset value is materially affected by back-loaded depreciation assumptions. Nevertheless, I have considered the historical roll-forward valuation together with the other valuation evidence because each provides useful information about the same underlying lease commitments.

Finally, I note that this expert determination process applies only to the disputed Changes to Charges for the relevant financial year. It does not determine, or guarantee, the path of future Charges and AAT can amend its methodology over time. However, I think it is worth highlighting that where a tilted annuity approach is applied consistently over the remaining life of the relevant leases, the resulting price path would generally be expected to produce Charges that largely track CPI over time, subject to updated information on costs, volumes and other relevant assumptions.

Reasonable and appropriate FAC increases

Applying the terminal-level FAC cost benchmarks above, and recognising the limits of my role in relation to the objected Charges, my findings are:

- To vary the proposed changes for general cargo at Brisbane to an increase of 23.5%
- To vary the proposed changes for general and steel cargo at Appleton Dock to an increase of 40.3%
- To vary the proposed changes at Port Kembla for general cargo to an increase of 6.9%
- To vary the proposed changes for FAC at Webb Dock West to an increase of 31.3%.

I am not purporting to re-set FAC tariff items that were not the subject of an objection. The consequence is that there may remain some risk that changes to non-objected FAC tariff items could affect aggregate FAC cost recovery. That risk arises from the objection-based structure of Schedule 5. In this determination, I have addressed that risk by using terminal-level FAC cost recovery as a benchmark for the objected FAC items, but I have not treated that benchmark as giving me a general power to vary non-objected Charges.

No material duplication with the new R&D charge

I also make one further comment with regard to Shipping Australia's submission that, if costs associated with wheeled vehicle processing are now to be recovered through a new R&D Charge, there should be a corresponding reduction in FAC in order to avoid double recovery. I accept that this is a relevant issue, particularly at Webb Dock West where the interaction between FAC settings and the new wheeled vehicle R&D Charge may be contentious. In my view, however, that concern is properly analysed as part of the broader question of whether AAT's cost allocation between FAC and R&D is coherent and does not result in recovery above efficient costs across those service categories. For the reasons set out above, I am not of the view that the proposed FAC settings involve material duplication of costs now proposed to be recovered through the new R&D Charge.

I determine that, having regard to the matters in clause 3.4 of Schedule 5 to the Undertaking, the proposed FAC increases are varied so that they do not exceed 23.5% for general cargo at Brisbane, 40.3% for general cargo and steel cargo at Appleton Dock, 6.9% for general cargo at Port Kembla, and 31.3% at Webb Dock West.



5.5 Changes to R&D Charges for general cargo

Objections in relation to R&D changes to Charges were received in relation to all terminals. Shipping Australia's objection is framed more broadly as an objection to the scale of materially above-CPI increases affecting breakbulk/general cargo services, including both the introduction of the new R&D charge for RoRo units and the increases in existing R&D charges for general cargo at relevant terminals. The issue for determination is whether the proposed changes to the R&D Charges would result in recovery materially above the efficient costs of providing R&D services at the relevant terminals.

Drawing on the same reasoning as in section 4.3, I am satisfied that the proposed changes to the R&D Charges affecting general cargo and related breakbulk services are reasonable and appropriate. My review of the building block model indicates that, even on my preferred input assumptions, there remains a material shortfall between forecast R&D revenues and the efficient costs allocated to R&D services at the relevant terminals. In those circumstances, increases in the existing R&D Charges, and the extension of the charging structure to wheeled and tracked vehicles, are consistent with recovering efficient costs of the service and do not indicate over-recovery. The additional information provided is sufficient to show that the proposed increases reflect the overall R&D revenue requirement derived from AAT's cost model rather than an unsupported or arbitrary uplift.

I accept the proposed Change to the Charge for R&D general cargo as reasonable and appropriate having regard to the matters in clause 3.4 of Schedule 5 to the Undertaking.

5.6 R&D Late receival gate pass / late receival fees

The objection to late receival gate passes at Brisbane and Port Kembla and the late receival fee at Webb Dock West was received by Rigby Cooke. The fees increased by around 35% at Brisbane, 96% at Port Kembla, and 30% at Webb Dock West. The basis of the objections was as follows:

- The terminal operator performs no additional administrative or operational tasks to process a late gate pass beyond the standard receival procedure. The fee is not cost-justified, as there is no incremental resource expenditure incurred.
- The imposition of a late receival fee is not supported by a corresponding increase in operational activity or resource expenditure by the terminal operator. Given that the physical receipt and processing of the cargo remains identical to a standard delivery, the fee lacks a cost-recovery basis and appears to function as an arbitrary penalty rather than a fee for a distinct service.

The changes are not discussed specifically in the documents I have received, but are rather captured within the general changes proposed for R&D Charges. That is, each kind of R&D Charge is increased by the same amount for each terminal.

I have established with AAT that the amounts of revenue recovered from such fees are of the order of \$60,000 year across the three sites per year, with around 300 instances of fees levied (based on a doubling of July – Dec 2025 figures). Given that I have found that increases in R&D charges may be justified with respect to overall recovery of efficient terminal costs, I accept the proposed Change.

I accept the proposed Change to the Charge for R&D late receival and gate pass fees as reasonable and appropriate having regard to the matters in clause 3.4 of Schedule 5 to the Undertaking.



5.7 Other matters

I have also considered the further matters raised by Rigby Cooke in its letter of 5 June 2026, including the submission that its client provides coastal services and should not bear charges that reflect activities associated with import or export cargo, such as customs, quarantine, biosecurity or other border-related processes. I understand the concern to be that a flat charging structure may require coastal users to contribute to costs associated with services they do not use. Those matters are relevant to my role only to the extent that they bear on whether the proposed Changes to Charges are reasonable and appropriate under clause 3.4, including the allocation of costs having regard to actual or likely use of the Terminal by different users. I have taken those matters into account in that way. However, to the extent the submission raises broader concerns about the scope of the Undertaking, the classification of services, or whether the Undertaking should require a different charging structure for coastal users, those matters go beyond my role in this price dispute process and may be matters that the objector could raise with the ACCC.

Warwick Davis

Independent Price Expert

15 June 2026



Annex A: Extract of Schedule 5 clause 3.4

In determining whether a Change to a Charge is reasonable and appropriate, the Independent Price Expert will have regard to the following principles:

(a) that Charges should:

- i. be set so as to generate expected revenue for Access Services that is at least sufficient to meet the efficient costs of providing the Access Services;
- ii. include a reasonable rate of return on the amount of funds invested commensurate with the commercial risks involved; and
- iii. in the case of Webb Dock West, also comply with the requirements in clause 3.5.

(b) that Charges should be set taking into account:

- i. Terminal lease costs and all efficient input costs;
- ii. An appropriate allocation of AAT's relevant overhead costs;
- iii. reasonably expected volumes over the period used to calculate the proposed increase in the Charge including where appropriate, any split between committed / uncommitted volume and associated risks;
- iv. depreciation of, and a return on, the prudent level of capital invested by a Terminal Operator at the Terminal, where:
 - (A) depreciation is based on a reasonable depreciation methodology and reasonably anticipated asset lives;
 - (B) the rate of return is a reasonable rate of return commensurate with the commercial risks involved including having regard, without limitation, to AAT's weighted average cost of capital; and
 - (C) the prudent level of capital must not include any investments or proposed investments which arise or are proposed after the Commencement Date at the Terminal that disproportionately benefit a Qube Entity based on their actual or likely use of the Terminal (for clarity, investments will not disproportionately benefit a Qube Entity where costs are allocated, and relevant charges are determined, on a basis that allocates the cost of that investment based on usage of the relevant assets);
- v. the interests of all users for which the proposed Charges relates, including the extent to which the proposed Charges reflect actual or likely use of the Terminal by different users, including use of facilities and equipment;
- vi. the reasonableness and appropriateness of, and justification for, the existing Charges for the supply of the Access Services;
- vii. whether any Change is consistent with CPI Inflation; and
- viii. where applicable, any additional pricing principles and conditions imposed under a Terminal Licence, to the extent that those pricing principles and conditions are not inconsistent with the terms of the Undertaking and in particular this clause 3.4.

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