

Review of fares for private ferries in NSW

From 18 December 2005



Report to the
NSW Minister for Transport

INDEPENDENT PRICING AND
REGULATORY TRIBUNAL
of New South Wales

IPART

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1 INTRODUCTION AND OVERVIEW

The Independent Pricing and Regulatory Tribunal of New South Wales (the Tribunal) has completed its 2005 investigation of fares for private ferry services regulated under the *Passenger Transport Act 1990*. Based on this investigation, it has made recommendations on maximum fares that can be charged for these services from 18 December 2005.

1.1 Recommendation on fare levels

The Tribunal considered the change in private ferry operators' costs in providing the regulated services, and each of the other matters it was asked to take into account (see Chapter 2). Based on these considerations, the Tribunal recommends that the maximum fare for an adult ticket be increased by 20 cents on almost all private ferry routes, and by 30 cents on one route, as shown on Table 1 below.

Table 1 Tribunal's recommended changes to maximum private ferry fares

Operator	Route	2004-05 fares	2005-06 fares	Absolute change
Cronulla-National Park	Cronulla-Bundeena	\$4.80	\$5.00	\$0.20
Dangar Island	Brooklyn-Dangar Island	\$4.80	\$5.00	\$0.20
Matilda Cruises	Circ.Quay-Darling Harbour	\$5.70	\$5.90	\$0.20
	Circ.Quay - Lane Cove	\$5.70	\$5.90	\$0.20
Palm Beach	Darling Harbour-Cape Cabarita and Bayview Park	\$6.40	\$6.60	\$0.20
	Palm Beach-Mackerel and the Basin	\$5.70	\$5.90	\$0.20
	Palm Beach-Ettalong Wagstaffe	\$8.30	\$8.60	\$0.30
Central Coast Ferries	Woy Woy-Empire Bay	\$5.70	\$5.90	\$0.20
Clarence River Ferries	Iluka-Yamba	\$5.70	\$5.90	\$0.20
Church Point	Scotland Island-Morning Bay	\$5.70	\$5.90	\$0.20

The recommended fare increases are based primarily on the average rise in private ferry operators' costs in 2004/05. Because of this, they are slightly larger than the fare increases determined by the Tribunal for Sydney Ferries from 18 December 2005.¹

To calculate the average rise in private ferry operators' costs, the Tribunal constructed an index of the changes in the cost of various inputs in 2004/05, and calculated the weighted average change in costs. It then adjusted the labour component of this figure to allow for likely productivity gains in the private ferry industry. It then rounded the resulting fares either upwards or downwards to the nearest 10 cents. However, the Tribunal's ability to rigorously assess the case for fare increases was constrained by the limited availability of

¹ IPART, *Report on the Determination of fares for Sydney Ferries*, November 2005.

reliable information on costs, and the lack of data on quality of service, efficiency and a range of other matters relevant to its investigation.

Given that private ferry fares increased significantly in 2003/04 to bring them into line with those charged by Sydney Ferries, the Tribunal believes it is imperative that private ferry operators provide better quality data. Therefore, it recommends that private ferry operators be required to provide the Tribunal with the following information prior to the 2006 fare review:

- changes in the four main cost items included in the Tribunal's cost index (labour, fuel, insurance and interest) in 2005/06
- the relative size of each of these items
- data on the operators' ongoing financial viability, including trends in revenue and other factors that may have affected patronage and revenue in 2005/06
- the data on service quality and related matters that is currently supplied to the Ministry of Transport, and any extension to these data that the Ministry might require before the next fare review.

1.2 Structure of report

This report explains the Tribunal's recommendations in detail, including why it reached its decisions and what those decisions mean for private ferry operators and their customers. It is structured as follows:

- Chapter 2 outlines the context in which the Tribunal undertook its investigation, and process it followed
- Chapter 3 focuses on the changes in private ferry operators' input costs and productivity that provided the basis for the Tribunal's recommended fare increases
- Chapter 4 discusses the range of other matters that the Tribunal considered in formulating its recommendations.

2 CONTEXT AND PROCESS FOR TRIBUNAL'S INVESTIGATION

In November 2002, the then Minister for Transport requested that the Tribunal investigate and report on fares for private ferry services regulated under the *Passenger Transport Act 1990* on an annual basis, up to and including the 2007/08 financial year. The terms of reference for this investigation require the Tribunal to consider the cost of providing the services concerned, the standards of quality, reliability and safety of the services concerned, the need for greater efficiency in the supply of services, and a range of other matters. (These terms of reference are provided in full in Appendix 1.)

In May 2004, the then Premier wrote to the Tribunal, to advise it that in response to the Ministerial Inquiry into Sustainable Transport, the Government has committed to achieving consistent fare structures and service levels across public and private bus and ferry operators. The Premier asked the Tribunal, when undertaking its annual reviews of fares for both public and private ferry services, to consider the following matters that arose from the Inquiry's recommendations:

- making determinations based on a five-year price path
- providing that fare increases up to the Consumer Price Index (CPI) should be subject to operators making efficiency gains
- providing that fare increases above the CPI should be subject to clearly demonstrated customer benefits through improvements in service quality linked to specific initiatives.

The Premier's letter is provided in Appendix 2.

In undertaking its 2005 review of fares for private ferry services, the Tribunal has taken each of the matters included in the original terms of reference and the Premier's letter into account. Its considerations are discussed throughout the report. (Appendix 1 indicates the section in which each matter is discussed.)

As part of its review, the Tribunal undertook public consultation and completed its own analysis. Its consultation process included:

- inviting the Commercial Vessel Association of NSW(CVA) (formerly the Charter Vessel Association), to provide a submission detailing its pricing proposals, and publishing this submission on its website
- inviting other interested parties to respond to the CVA's submission and publishing their submissions on its website
- holding a public hearing on 28 October 2005 and inviting the CVA and Matilda/Captain Cook Cruises to participate in a roundtable discussion on relevant issues (see Appendix 3 for a list of attendees and their affiliations).

The Tribunal has made its recommendations on fare changes in accordance with section 9(1)b of the *Independent Pricing and Regulatory Tribunal Act 1992* (the IPART Act).

3 CHANGES IN OPERATORS' COSTS

One of the main factors the Tribunal considered in deciding whether to recommend fare increases for private ferry services (and if so, the size of the recommended increases) was the change in private ferry operators' costs in providing regulated services in 2004/05. To calculate the extent of this change, the Tribunal first determined the weighted average change in operators' input costs, then adjusting this amount to allow for improved productivity.

Based on this analysis, the Tribunal decided to recommend that the maximum fare for an adult ticket be increased by 20 cents on almost all private ferry routes, and by 30 cents on one route. The following sections discuss the Tribunal's considerations in relation to the change in input costs and the productivity adjustment, and set out its recommended fare changes and information requirements for next year's fare review.

The Tribunal notes that its decision to restrict the period over which cost changes were measured to the 2004/05 financial year (instead of extending it to include the September quarter 2005) is consistent with its determinations for metropolitan buses, Newcastle Services and Sydney Ferries, and with its recommendations for private non-metropolitan buses.

3.1 Change in operators' input costs

For previous reviews, the Tribunal has relied on information provided by the Commercial Vessel Association (CVA), which represents the seven private ferry operators in NSW.² This information included data related to:

- a cost index, which represented an average of the estimated changes in costs supplied to it by the NSW private ferry operators
- the percentage change in revenue by operator
- the operators' 'return on assets'.

These data had several deficiencies. The first was its incomplete coverage – only five of the seven private ferry operators provided the CVA with estimates of their cost changes. The second was that these estimates were expressed in percentage change terms only. However, at the request of the Tribunal, three operators also supplied dollar cost information for the 2004 review. In addition one operator, Matilda Cruises, provided a confidential breakdown of its revenue to enable the Tribunal to identify possible drivers of its revenue changes. The third deficiency was that the data did not enable the Tribunal to verify that appropriate ring fencing of non-regulated charter or cruise business costs had occurred.

In the light of these deficiencies, for the 2005 review, the Tribunal has calculated its own index of the changes in operators' input costs, known as the Commercial Vessel Association Cost Index (CVACI). Given that most of the private ferry operators are small businesses without sophisticated financial systems, this index is relatively straightforward and relies on data on key cost items provided by the CVA.

² Central Coast Ferries, Church Point Ferry Service, Clarence River Ferry Service, Cronulla and National Park Ferry Cruises, Dangar Island Ferry Service, Matilda Cruises and Palm Beach Ferry Service.

The index consists of these five items: labour, fuel, insurance, interest and ‘all other’ input costs. The first four items accounted for around 65 per cent of operators’ expenses in 2003/04. In previous reviews, ‘other’ items included repairs and maintenance, depreciation, berthing/mooring, advertising, motor vehicle and ‘other’ expenses. These comprised about 35 per cent of operator expenses, but fluctuated markedly between operators, and the Tribunal had little confidence in the reliability of the data as a guide to movements in average costs.

For the first four items, the Tribunal used data supplied by the CVA after verifying these data. For the ‘other’ items, the Tribunal increased their cost by the percentage rise in the Sydney CPI in 2004/05. Data required for a more accurate assessment of the change in the cost of these items was not available.

The Tribunal then calculated a weighted average cost change, which it considers to be the best available indicator of input cost movements among private ferry operators. Each item was weighted by its relative contribution to costs (as supplied by the CVA for the 2004 fare review). This resulted in a weighted average increase in private ferry operator costs in 2004/05 of 4.30 per cent (Table 3.1).

Table 3.1 Increase in operators’ costs as measured by the CVACI

Item	2004 weight	% change	Contribution to Index change
Labour	43.83%	3.30%	1.45%
Fuel	8.95%	19.89%	1.78%
Insurance	6.24%	0.00%	0.00%
Interest	6.48%	3.52%	0.23%
Other	34.50%	2.46%	0.85%
Weighted average change			4.30%

3.2 Productivity adjustment

Section 19 of the *Passenger Transport Act 1990* states that “a commercial contract must fix a scale of maximum fares” and that “the scale must be fixed at not less than the average level of fares for the time being prevailing in the industry for comparable services, and due allowance must be made for inflationary movements in the costs of providing the service”. The phrase “the costs of providing the service” has often been interpreted as referring to costs per unit of *input*. However, the Tribunal considers that it is also reasonable to make adjustments to reflect the potential for productivity growth.

For this reason, the Tribunal has adjusted the weighted average increase in operator’s input costs shown in Table 3.1 to reflect the fact that productivity (defined as output per hour worked) has been rising in the Australian economy for as long as relevant data have been collected. For example, economy-wide labour productivity (measured by the rise in the

volume of gross value added relative to total hours worked) has risen at an average annual pace of 1.48 per cent over the past five years.³

Some economy-wide productivity gains would be reflected in the rises in the non-labour items in the index. However, changes in labour award rates clearly overstate the change in labour costs *per unit of output*, because they do not reflect the effect that more output per hour worked would have on labour costs per unit of output. Therefore, ideally, the 3.30 per cent rise in the labour input cost in the CVACI should be adjusted for productivity gains in the private ferry industry of NSW.

Since no measure of these gains exists, the Tribunal considered using the five-year average economy-wide growth in labour productivity of 1.48 per cent. However, to be conservative in estimating the likely growth in productivity in the private ferry industry over the recent past, it decided to adopt a 1.0 per cent productivity growth assumption. This reflects the fact that there may be less scope for productivity growth in the ferry industry than elsewhere on average in the economy. It then applied this assumption to the labour component of operator costs. This resulted in a rise in labour cost *per unit of output* of 2.30 per cent, and reduced the weighted average increase in costs to 3.87 per cent (Table 3.2).

Table 3.2 Increase in operators' costs as measured by the adjusted CVACI

Item	2004 weight	% change	Contribution to Index change
Labour	43.83%	2.30%	1.01
Fuel	8.95%	19.89%	1.78
Insurance	6.24%	0.00%	0.00
Interest	6.48%	3.52%	0.23
Other	34.50%	2.46%	0.85
Weighted average change			3.87%

3.3 Recommended fare changes

The Tribunal calculated its recommended maximum fare for each regulated private ferry service by increasing the existing fare by 3.87 per cent (the weighted average increase in operators' costs based on the CVACI adjusted for productivity gains) and rounding to the nearest 10 cents. The increased fare prior to rounding will be the "Master" fares for 2005/06, and any recommended percentage fare increase next year will be applied to these Master fares (and then rounded to derive the recommended fares).

³ The 1.48 per cent is the average of the annual increases in GDP per hour worked from 2000/01 to 2004/05. Source: ABS *Australian National Accounts National Income, Expenditure and Product*, June Quarter 2005, Table 3.

Recommendation 1

That maximum fares for adult tickets for private ferry services be increased from 18 December 2005 as shown in the column headed 'Rounded 2005/06 fares' in the table below:

Operator	Route	2004-05 fares	2005-06 Master fares	Rounded 2005-06 fares	Absolute change
Cronulla-National Park	Cronulla-Bundeena	\$4.80	\$4.99	\$5.00	\$0.20
Dangar Island	Brooklyn-Dangar Island	\$4.80	\$4.99	\$5.00	\$0.20
Matilda Cruises	Circ.Quay-Darling Harbour	\$5.70	\$5.92	\$5.90	\$0.20
	Circ.Quay - Lane Cove	\$5.70	\$5.92	\$5.90	\$0.20
Palm Beach	Darling Harbour-Cape Cabarita and Bayview Park	\$6.40	\$6.65	\$6.60	\$0.20
	Palm Beach-Mackerel and the Basin	\$5.70	\$5.92	\$5.90	\$0.20
	Palm Beach-Ettalong Wagstaffe	\$8.30	\$8.62	\$8.60	\$0.30
Central Coast Ferries	Woy Woy-Empire Bay	\$5.70	\$5.92	\$5.90	\$0.20
Clarence River Ferries	Iluka-Yamba	\$5.70	\$5.92	\$5.90	\$0.20
Church Point	Scotland Island-Morning Bay	\$5.70	\$5.92	\$5.90	\$0.20

3.4 Tribunal's information requirements for the 2006 fare review

For the next fare review, the Tribunal intends to consider changes in the adjusted CVACI over 2005/06 as the primary basis for recommending fare adjustment. It therefore needs private ferry operators to provide the same cost information that supported the derivation of the CVACI in this review (ie, changes in their labour, fuel, insurance and interest costs). In addition, to help increase the robustness of its considerations in relation to cost and other matters relevant to its investigation, it recommends that private ferry operators be required to provide additional information, as set out below.

Recommendation 2

That each private ferry operator (either directly or through the CVA) be required to provide the Tribunal with the following information for the 2006 fare review:

- *changes in costs for four cost items: labour, fuel, insurance and interest, so that the Tribunal can update the CVACI*
- *the weight of each of these cost items relative to total costs*
- *its ongoing financial viability, including trends in revenue as a result of the 2005 fare increases (as determined by the Director-General of the Ministry of Transport) and other factors that may have affected patronage and revenue in 2005/06*
- *the data on service quality and related matters, which are currently supplied to the Ministry of Transport (or any extension to that data that the Ministry might require).*

4 OTHER MATTERS

As noted in Chapter 2, the Tribunal's terms of reference for this review require it to consider a range of matters, including standards of service quality, reliability and safety of the services concerned, the need for greater efficiency, environmental and social considerations, and the effect on the level of government funding provided to private ferry operators.

In addition, the then Premier's letter of 18 May asked the Tribunal to consider several further matters – including making determinations based on a five-year price path, making fare increases up to the CPI subject to efficiency gains, making fare increase above the CPI subject to service improvements, and adopting a consistent fare increase for private and public ferry services.

The Tribunal's considerations in relation to each of these matters are outlined below.

4.1 Standards of service quality, reliability and safety

The terms of reference state that the Tribunal should consider “standards of quality, reliability and safety of the services concerned”. However, neither the private ferry operators nor the Ministry of Transport (MoT) have provided data on cost efficiency, quality, safety or reliability. The CVA informed the Tribunal that the MoT collects these data. The MoT informed the Tribunal that, since data collection is not mandatory, the data it has are scant and scattered.⁴

Last year, the CVA submitted that service quality was covered by the terms of individual operator contracts with the government. It therefore varied between services. At present, contracts specify only frequency of services. The industry asserts that the main items of service are:

- frequency and adequacy of the timetabled trips
- achievement of a certain standard of on-time running
- provision on board of adequate shelter from adverse weather
- adequate standards of maintenance
- provision of a suitable vessel for the task.⁵

The CVA argued in its submission that service quality should be limited to these items with specific targets to be negotiated between the operator and MoT when contracts are signed/renewed.

Until these matters are resolved by the MoT and the industry, and data are collected and made available to the Tribunal, it will not be in a position to give proper consideration to standards of quality, reliability and safety.

⁴ The scantiness of data led Action for Public Transport to submit that “basic data missing include any mention of revenue, patronage statistics, separation of charter and passenger work, changes in service and legislative compliance” (APT submission of 27 July 2005, p 1).

⁵ CVA submission, pp 7-8.

4.2 Need for greater efficiency in supply of services

The terms of reference require the Tribunal to consider the need for greater efficiency in the supply of services, so as to reduce costs for the benefit of consumers. In past reviews (and briefly at the public hearing for the 2005 review) the CVA has argued that private ferry operators have little opportunity to increase efficiency. They argue that opportunities are limited because:

- crew numbers are determined by the NSW Maritime Authority
- wages are determined by the Industrial Relations Commission
- service levels are determined by contract with MoT
- major expenses are determined by the marketplace (eg, fuel, insurance, interest rates)
- passenger numbers are determined by the weather and school holidays.

However, notwithstanding this argument, the Tribunal accepts that like all businesses, private ferry operators are engaged in a continuous process of looking to improve all aspects of their businesses as ideas and technologies permit.

There may also be a case for less regulation of the private ferry industry, which might entail scope for greater efficiencies, but no data have been provided to the Tribunal on which it can make an informed judgement about these matters.

4.3 Environmental considerations

The Tribunal's view is that, in general, ferry services are beneficial to the environment, to the extent that they contribute to net reductions in pollution and congestion caused by private car use. While no information was available to the Tribunal to allow it give full consideration of the effects of its recommended fare increases on ecologically sustainable development, it considers that given the size of the increases and the characteristics of the services provide, they are unlikely to result in a shift away from ferries to private cars.

4.4 Social considerations

The terms of reference require the Tribunal to consider the social impact of its recommendations, which involves considering the impact of the recommended fare increases on customers, and the affordability of private ferry services. However, data on the incomes of private ferry users are unavailable. In addition, ferry operators have not provided data on market segmentation (eg, commuters, tourists) and trends in passenger numbers.

The Tribunal considers that any fare increases will have some effect on customers, but this effect must be balanced against industry viability and the ongoing provision of the services. It does not expect the recommended rise in fares, 20 to 30 cents per trip for full fare-paying passengers, to adversely affect passenger numbers.

4.5 Effect on level of Government funding

As a result of the Tribunal's recommended fare increases, government funding of private ferry operators for the School Student Travel Scheme (SSTS) and half fare reimbursements would increase by approximately \$69,000 in 2005/06 if a full year of reimbursements were made.⁶

4.6 Making recommendations based on a five-year price path

The Tribunal notes the CVA's view that setting a five-year path would not adequately address the fare setting criteria in section 19 of the *Passenger Transport Act 1990* nor the obligations of the Director-General of Transport in operator contracts. It also notes that in order to set a five-year price path, it would require much better data on costs, cost efficiencies, patronage and revenue, and providing these data appears to be beyond the current resources of the private ferry industry. Given these factors, it was not able to base its recommended fare increases on a five-year price path.

4.7 Making fare increases subject to efficiency gains

The Tribunal has discussed productivity and efficiency in section 3.2.

4.8 Making fare increases subject to service improvements

Service improvements in terms of greater frequency of ferry runs, or faster times, or greater comfort are, in principle, easier to measure than efficiency gains. However, no information is available to the Tribunal from either the operators or the Ministry concerning such enhancements.

4.9 Single fare increase for private/public operators

Sydney Ferries has asked the Tribunal to consider setting a multi-year price path for its fares and the Tribunal has determined a small interim rise pending that investigation. As a consequence, private ferry fares will increase more than Sydney Ferries fares.

In addition, the Tribunal was persuaded at the public hearing that the passenger services being offered by Sydney Ferries and Matilda Cruises were not comparable. Some of the difference between these services include:

- the Sydney Ferries Inner Zone 1 ticket covers 35 wharves, whereas the Matilda Circular Quay to Darling Harbour ticket is one of the shortest trip on the harbour
- Matilda's ferries are faster and complete their runs from a better positioned wharf.⁷

The Tribunal also acknowledges NCOSS's view that single fare increase would make sense in an integrated fares network:

⁶ This figure is an increase of 3.87 per cent on the 2004/05 SSTS payments and half fare reimbursements of \$1.8m paid by the Ministry to private ferries. Source: MoT, private communication.

⁷ Matilda attracts passengers despite a \$5.70 ticket price because "The Rocket is much quicker [than Sydney Ferries' ferries] from Darling Harbour to Circular Quay. ... Because of the location of Matilda around Pier 26, where there is this huge hub of tourists going into the aquarium in particular, that adds or aids their ability to run that tourist service between Circular Quay and Darling Harbour." Transcript p 51, ln 24-25.

...if we were in a situation with something like an integrated transport network, and we have got something like that with the buses, then perhaps it would be fair to talk about aligning public and private fares, because there is an integrated network, and presumably you would want to have some consistency in fare levels between journeys.⁸

4.10 Private ferry fare regulation

The Tribunal questions the need for fare regulation of private ferries.

Although private ferry operators have been granted exclusive rights to particular routes or regions, a rigorous regulatory regime for fares may not be required. This is especially true for the two operators competing with Sydney Ferries in Sydney Harbour.

Further, most regional private ferry operators face competition from land transport, water taxis and commuter dinghies. Use of their services is also often of a discretionary nature, such as trips by holidaymakers and other tourists.

Of course, where a ferry operator is an essential and dominant part of the transport infrastructure, price monitoring may be the most appropriate form of government oversight.

Other aspects of regulation, such a safety and accreditation of operators, should remain in place to protect the public interest.

⁸ Transcript p 23, lines 19-26. The purchasers of the other Matilda ticket are provided with a newspaper free of charge, thereby again making direct fare comparisons difficult.

APPENDIX 1 TERMS OF REFERENCE

“I, Bob Carr, Premier, approve, under Section 9(1)(b) of *the Independent Pricing and Regulatory Tribunal Act 1992*, the Tribunal entering into an arrangement with the Minister for Transport to investigate and report on the following matters relating to the private ferry industry:

1. Fares for regular services regulated under the *Passenger Transport Act 1990*.
2. Level of remuneration received from the Government for school student services delivered under commercial contracts.

A final report is to be provided to the Minister for Transport by June each year.

In conducting this investigation, the Tribunal should consider:

- i. the cost of providing the services concerned;
- ii. relativities with the Government owned ferry services, including in terms of service, efficiency, cost and ticketing products;
- iii. the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service;
- iv. the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers;
- v. the impact of pricing policies on borrowing and capital requirements and, in particular, the impact of any need to renew or increase relevant assets;
- vi. the need to maintain ecologically sustainable development;
- vii. the social impact of the recommendations;
- viii. standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise and any suggested or actual changes to those standards as notified to the Tribunal by the Minister for Transport); and
- ix. the effect of any pricing recommendation on the level of Government funding provided to private operators under commercial and non-commercial contracts.

In conducting the investigation the Tribunal will invite submissions from the private ferry operators, the relevant unions and other stakeholder groups, including user groups.”

Table A1 indicates where each of the terms of reference and issues in the Premier’s letter has been addressed in this report.

Table A1 Consideration of the terms of reference and Premier’s Letter

<i>Terms of Reference</i>	<i>Report reference</i>
<i>i. cost of providing the service</i>	Sections 3.1 and 3.2
<i>ii. relativities with Government-owned ferries</i>	Sections 1.1 and 4.9
<i>iii. protection of consumers from abuse of monopoly power</i>	Section 4.4
<i>iv. need for greater efficiency in supply of services</i>	Section 4.2
<i>v. impact of pricing on borrowing and capital requirements</i>	N/A
<i>vi. ecologically sustainable development</i>	Section 4.3
<i>vii. social impact of recommendations</i>	Section 4.4
<i>viii. standards of quality, reliability and safety</i>	Section 4.1
<i>ix. effect on level of Government funding</i>	Section 4.5
<i>Premier’s Letter</i>	
<i>a. five year price path</i>	Section 4.6
<i>b. fare increases up to CPI subject to efficiency gains</i>	Section 4.7
<i>c. fare increases above CPI subject to service improvements</i>	Section 4.8
<i>d. single fare rise for both private and public operators</i>	Section 4.9

N/A – Not applicable to this review.

APPENDIX 2 PREMIER'S LETTER



**Premier of New South Wales
Australia**

18 May 2004

Mr James Cox
Acting Chairman
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office
NSW 1230

Dear Mr Cox

I am writing in relation to IPART's forthcoming review processes with respect to passenger transport fares for 2004-2005, in the context of the Government's recently announced transport reforms..

In light of recent performance issues on the CityRail network, I direct under section 7(1) of the *Independent Pricing and Regulatory Tribunal Act 1992* ('the Act') that the 2004-05 IPART fare review process for CityRail be deferred until further notice. However, fare reviews of other public transport modes should proceed.

Following the Ministerial Inquiry into Sustainable Transport, the NSW Government has committed to delivering parity in fare structures and consistent service levels across public and private bus and ferry transport operators.

I therefore request under section 13(l)(c) of the Act that, when making its investigations into passenger transport fares for all public transport modes, the Tribunal consider the following matters that arise from the Inquiry's recommendations:

- the making of a determination based on a five-year price path;
- providing that fare increases up to the Consumer Price Index (CPI) should be subject to efficiency gains; and
- providing for fare increases above the CPI to clearly demonstrate customer benefits through improvements in service quality linked to specific initiatives such as bus priority measures.

In respect of the Tribunal's section 9 investigations of privately owned public transport fares, I would ask that you also have regard to the above matters.

Bus Services:

In order to progress with a consistent fare structure for the bus industry and to implement reforms arising from the Unsworth Review of Bus Services, several changes to the existing arrangements, including legislation and the role of IPART, are being considered by the

Government. The proposed legislative amendments will not commence in the first half of 2004.

When calling for public and industry submissions I request, pursuant to section 13(l)(c) of the Act, that IPART consider the Government's preferred approach of moving to a single fare review, including moving to a single fare change applicable to all bus operators.

I also request that IPART consider whether any State Transit fare increase for 2004-05 and later years should be applied on a "weighted average" basis aimed at better aligning Government and private operator fares. Such an approach would result in IPART determining an overall price change for bus fares. Individual fare products may be adjusted to varying degrees but the changes must, in aggregate, be less than or equal to the overall adjustment determined by IPART.

For non-commercial bus services, the Government is developing a new funding approach along the lines recommended by the Unsworth Review of Bus Services (see p.70 of the Final Report), but this may not be completed for 2004-05. Therefore it may be appropriate that the process used for the 2003-04 review be used in 2004-05.

Ferry Services:

In respect of ferry services, under section 13(l)(c) of the Act, I also request that IPART consider adopting the same process outlined above (i.e. single fare increase figure for both private and public operators). As there are no relevant legislative changes planned in relation to ferries, I request that in all other respects IPART consider following existing processes for 2004-2005.

I have no objection to the contents of this letter being made publicly available, if you consider it appropriate.

If your officers wish to discuss these matters, they should contact Ms Zoe de Saram, Policy Manager, Economic Development Branch, at The Cabinet Office on (02) 9228 4930.

Yours sincerely

Bob Carr
Premier

APPENDIX 3 SUBMISSIONS AND HEARING PARTICIPANTS

The following provided written submissions to the review:

Action for Public Transport
Commercial Vessel Association (formerly the Charter Vessel Association)
Council of Social Service of New South Wales (NCOSS)

The following attended the Public Hearing held at the Tribunal's offices on 28 October 2005.

Representatives of IPART:

Dr Michael Keating AC, Chairman
Mr James Cox, CEO, Full-time Member
Ms Cristina Cifuentes, Part-time Member
Dr Dennis Mahoney, Program Manager, Transport
Ms Fiona Towers, Director, Energy and Transport

Roundtable participants:

Mr David Cribb, Commercial Vessel Association
Mr Anthony Haworth, Commercial Vessel Association/Captain Cook Cruises-Matilda Cruises
Mr Allan Miles, Action for Public Transport
Mr Graeme Taylor, Action for Public Transport
Mr Jim Wellsmore, Public Interest Advocacy Centre
Mr Dinesh Wadiwel, NCOSS

Other attendees:

Mr Steven Tropoulos, IPART
Ms Sheridan Rapmund, IPART
Mr Andrew Nicholls, Ministry of Transport
Ms Elisabeth Reedy, ITSRR
Mr Bill Allen
Mr Ian Abbotsmith
Mr Paul Trevaskis, Blue Mountains Commuter and Transport Users Association

IPART

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