

2021 IPART REVIEW OF PRIVATE FERRY FARES

Cronulla Ferries Response to Draft Report

RESPONSE

Thank you for the opportunity to provide feedback on the IPART review of private ferry fares from 1 January 2022 - Draft Report. Cronulla Ferries (we) submit the following in response to the draft report.

Cronulla Ferries believes a similar modelling from 2017 has been adopted and has been applied to determine inefficiency in the latest review with "Repair and Maintenance" and "Other Operating Costs" being determined to be above efficient costs. It was stated in the IPART review of Private Ferry Fares 2017 public hearing that the modelling applied does not meet the real-world application of providing a reliable ferry service and Cronulla Ferries was effectively penalised due to the age of the vessels used.

The comments from the 2017 reviews and public hearing have once again not been considered and Cronulla Ferries are once again submitting similar comments to justify costs associated with the viability, reliability, and safety of the Cronulla to Bundeena ferry service for a below CPI price increase on fares and retain a viability payment previously deemed by Transport for NSW in August 2010 to be an essential requirement to ensure viability of the service.

The review details school students as part of the patronage and equates to a significant number of travellers which are only paid as per the contract as a half adult fare only whereas the shortfall for pensioners and concession holder for the commuter service are subsidised by NSW Government.

Below are the sections within the draft report that we feel the necessity to comment on:

A number of discrepancies have been identified throughout the cost modelling spreadsheet. Indec have referred to the winter timetable between April – October whereas it is publicly advertised the winter timetable is June – August. Figures have not remained consistent with opex fuel calculations based on 3840 service hours but refer to the capex page as being 3200 service hours. Based on public figures, the service hours for the Curranulla ferry should equate to approximately 4550 service hours and Tom Thumb school ferry at 402 service hours. Combined this would equal 4952 service hours for both vessels. The kilometres listed by Indec on multiple pages of the breakdown is 31,502 which is incorrect and should be in excess of 39,000. This is based on the 4km trip each way between Cronulla and Bundeena. See Annexure "A".

Section 2.1 of the draft report titled "Efficient operating expenditure"; this section details the figures provided to operate the Cronulla to Bundeena ferry service. Looking at these costs in isolation or against historic benchmarks that have also been set by IPART/INDEC has continued to not address the individual issues every private ferry owner operates under which was questioned during the 2017 review.

Maintenance Costs - We exceed your benchmark by 86% but this is only 12% of the overall operating costs and is based on 1.5 vessels (as stated by Ipart) not 2 vessels that are used daily to transport school children. The comments relating to the higher maintenance costs due to the age of the vessels are possibly correct.

Due to the location of Port Hacking, we have limited options in relation to slipping the vessels for yearly maintenance. There has been a 42% increase in slipping costs alone since 2017 prices which is not in line

with the INDEC costing model. Indec have forecast an overall increase in operating costs by 24% (as per Ferry Efficiency Cost Model V5.0 – data-Cronulla) over the 4 years whilst also recommending freezing of fares and withdrawal of supplementary funding. This will ensure financial hardship for Cronulla Ferries.

Further to this inequity on costs by individual operators, we believe the report does not effectively address the real capital expenditure which is further outlined below "Section 2.2 Efficient Capital Expenditure".

"Other" Operating Costs - The Cronulla to Bundeena ferry primarily services the suburbs of Bundeena and Maianbar with a combined population of 2,424[^]. In the 2016 ABS Census, 165 respondents from these suburbs nominated the use of public transport to travel to work. The statistics do not breakdown the mode of public transport. This statistic clearly demonstrates that the viability of the service does not rely on travelling residents to ensure viability. This service is only viable for any proprietor given the turbulent nature of tourist numbers and clearly justifies the viability payments to ensure continued coverage of the service. Patron numbers are further affected by National Park closures due to bushfires and not taking into account COVID shutdowns where government viability payments did not sufficiently make up for the lost revenue.

- We have continued to meet (including during COVID times) the current Transport for NSW contract currently held by Cronulla Ferries, this has included maintaining services over 12 months of minimal passengers. There have always been major contributing risk factors in providing the Cronulla to Bundeena Ferry service which I do not believe have been properly addressed when IPART or INDEC have determined efficient cost. These risks are:
 - The Ferries, whilst considered by some to be uneconomical and past their used by date, use significantly less fuel than an equivalent passenger ferry carrying similar numbers.
 - The business relies heavily on tourist market fluctuations and restrictions in movement of the population together with a complete halt of the domestic and international travellers.
 - Maintaining the service standards as outlined in the Transport for NSW contract for Cronulla to Bundeena ferry service meaning any adverse weather conditions that vessels cannot be utilised, alternate transport is organised and partially paid for by Cronulla Ferries.
- Advertising & Promotional fees - Marketing to the public is a requirement of the NSW Transport contract under Sections 5.6(d)(g) and includes timetables to be available for both the school service and “by way of advertising market the Services to the general public.” Without this marketing cost, we estimate there would be a significant decline in passenger numbers and potential customers and tourists would likely drive to Bundeena rather than taking a ride on the iconic Curranulla ferry which have been in service since 1939. Replacing these iconic ferries with new vessels would likely result in a significant fare increase further reducing tourist numbers, thus ensuring the service is unviable.
- Accounting fees are costs directly invoiced by our registered accountant. We utilise our Accountant for all tax and business-related expenses. This includes submissions and reports required for Transport for NSW and IPART.

[^] Australian Bureau of Statistics (June 2016), ABS Website, accessed 15 October 2021.

- Waste Disposal – Cronulla ferry wharf does not have the sufficient waste disposal for adequate and consistency in the removal of rubbish. Cronulla ferries has entered a yearly contract for waste disposal to ensure waste is removed efficiently and during busy periods acts for the overflow of the public wharf waste. This is to ensure that waste does not end up in the local waterways.
- Internet and Telephone – This is a standard cost for any business grade service. We have recently upgraded and saved on internet and telephone services. As a privately run business, we strive to ensure the most cost-effective use of resources. Under Section 5.6(a)(b) of the Transport for NSW contract, we have a requirement that a telephone service must be staffed between 8am and 5pm on business days and an answering machine must be available at other times; maintain 24-hour email address / website access. Other services such as portable internet access for eftpos and mobile telephone for safety of staff and crew on the 2 ferries is considered an essential part of servicing a business.
- Motor Vehicle Expenses – Vehicles are considered a vital tool in continued service of the ferry service. The costs simply reflect running costs of older vehicles wholly owned by the business.

As a privately run business, we spend money to maintain and advance the business which can only be achieved by increased patronage. It is easy to adopt a formula and apply this across the board to all privately operated ferry services, but this formula is in complete contradiction to the comments by Ms Sandra Gamble in the 8 October 2021 Media Release “enabling private ferry operators to sustain their business over the long term.”

Section 2.2 of the draft report titled “Efficient capital expenditure”

Whilst the maintenance costs exceed the benchmark cost, the maintenance costs are efficient for the type and age of the vessel used to reliably service the Cronulla to Bundeena Ferry run. It is extremely difficult for a family run business with a maximum 5-year contract term and 4-year price review term to acquire the necessary capital to service the repayments for a new vessel based on the capital allocation. Whilst a new vessel may then meet the benchmark costs for maintenance, costs for leasing and fuel would increase significantly ensuring the formula used would increase the maximum adult fare significantly.

It has been well recognised by Cronulla Ferries Management that the ferries will require replacing. The replacement of the current ferries has been on the agenda for more than 15 years. Unfortunately, there is overwhelming expectation to ensure the historic ferries remain in service. the other side of the argument from some locals that “is a faster ferry carrying more passengers would better suit the service.” This topic never fails to start a debate on social media, which leaves the decision of progress verses history for us, a difficult one. Leaving the ultimate decision and striking the balance of meeting business requirements and satisfying community sentiment a vexing one.

Based on public and government sentiment with regard to emission reductions, the requirement to replace diesel engines or upgrade to more energy efficient “green” vessels may not be too far away. Based on IPART current models for capital expenditure, a significant amount of grants and government subsidies would be required for operators to move towards technology recently trialled in New Zealand. See Annexure “D”.

The current ferries both meet customer expectations, comply with Transport for NSW contract, passed by AMSA yearly and are still serviceable for the foreseeable future but the current Transport for NSW

contract for the Cronulla to Bundeena ferry service does not coincide with IPART pricing determinations further disadvantaging any proposal to seek capital funding for new assets.

Section 2.3 of the draft report titled “Patronage inputs”

Patronage numbers are only one factor that should be considered when fulfilling the contract.

Patronage numbers have been calculated by IPART based on the 3 years 2017-2019 due to COVID shutdowns. Whilst unprecedented, COVID has severely affected regular and tourist numbers. The longer term effects of COVID shutdowns are yet to be recognised and a potential decline in domestic and international travellers are unknown and caps on passenger numbers (as per NSW Government restrictions). Freezing prices and removing the subsidy payment has the potential high risk of ensuring Cronulla Ferries becomes unviable.

This was raised as the numbers considered last time included a popular tourist attraction and this would continue. If the past two years have shown, it is that taking the good years for a business and modelling what the future will look like is not something a viable business would do.

In conclusion,

The draft report recommends freezing fares at the 2021 maximum and removing the supplementary funding and it estimates that a surplus would still be generated, however this is based on existing efficient costs formula; a formula that does not meet the real-world operation of the private business or operation of the Cronulla to Bundeena ferry service. The comments in the IPART media release dated 8 October 2021 by Ms Sandra Gamble “Our view is that passengers should pay a price that reflects a reasonable share of the efficient cost of providing the service while enabling private ferry operators to sustain their business over the long term” does not reflect any real world ideology where there is enough real surplus every year to replace vessels within the time frames specified for longevity of new vessels. IPART reports not only detail what is considered efficient to ensure there is no surplus but, in this instance, it appears Cronulla Ferries have been specifically targeted to ensure the business is not sustainable over the long term if the existing vessel is used.

The comment in the draft report “based on efficient costs the proposed fare would result in a large surplus” has no merit as the company directors of this family-owned company have forgone payments to ensure the service remains viable.

Based on the ABS census with only 165 residents using public transport to travel to work and two-thirds of passengers travelling on concession fares, the “multiple submissions” against higher fares and more regular services mentioned in the draft report represent an extremely small number of patrons using the ferry service. An external review of social media comments on the local Bundeena Facebook group is attached. See Annexure “B”

Adding more services outside of the Transport for NSW contract with the current passenger numbers would only add to additional costs in fuel, maintenance and labour guaranteeing that ticket prices would require an increase to ensure the viability of the service.

Based on maximum speed zones and no wake zone between Cronulla and Bundeena, analysis and the fact the current ferry travels efficiently at 7kn when it can, any new ferry would only save between 4 and 9 minutes on the journey time (weather dependent and with added fuel costs). See Annexure “A” & “C”.

The efficient life of ferry vessels does not translate to current practises both in the private and public sectors with the ferries across the NSW transport network being refurbished to extend the life well beyond the 15 and 25 year expectation of the IPART report. A current example of this is Sydney ferries, 9 first fleet vessels 35 years old will complete a major refit for an extra 10 years of service life (refit budget \$1.7m per vessel).

The capital allowance does not support the custom build required for the operating conditions. Based on recent announcements by NSW Minister for Transport (Sydney Morning Herald, March 19, 2021, 2.37pm) Andrew Constance regarding electrification of future transport systems and Liberal MP James Griffin who commented “that the next iteration of ferries will be electric”, with consideration to the changes in NSW government emissions targets for 50% of 2005 levels and zero emissions by 2050, build or purchasing of a new diesel vessel could be considered obsolete prior to the efficient life cycle as specified by the report. Consideration of an electric ferry comes with additional large capital outlays in infrastructure costs to sustain such a vessel. An example of the type of efficient ferry suitable for the Cronulla to Bundeena ferry service is attached. See Annexure “D”

We urge IPART to assess all contributing factors including using correct and consistent figures in the modelling for service hours and kilometres and work with proprietors to reassess the modelling used to determine efficient costing. The request to keep the subsidy payment and approve the very modest increases is requested.

ANNEXURE A



The Cronulla to Bundeena ferry service operates through 6 different speed zones on the 4.0km trip.

- 0-1- 4knot zone**
- 1-2 - Unrestricted**
- 2-3 - No wash zone**
- 3-4 - Unrestricted**
- 4-5 – 8knot zone**
- 5-6 – Unrestricted**
- Weather Dependent**
- Shallow Water (low tide)**

The current vessels servicing the Cronulla to Bundeena ferry service operate at 7 knots. A faster ferry would only provide efficiencies of between 4 mins and 9 mins (weather dependent)

ANNEXURE B

COMMENTS TAKEN FROM FACEBOOK “BUNDEENA LOCAL” GROUP (see attachments)

Social Media Comments (Facebook)	As at 16 October 2021
Fares - Complaints	3
Fares - Support	8
Time - Complaints	4
Time - Support	21
Vessel - Complaints	4
Vessel - Support	25
History Value - Complaints	1
History Value - Supportive	12

ANNEXURE C

A comparison between the existing vessels used by Cronulla Ferries with a hourly fuel consumption of 5 litres per hour vs operating a 24m Catamaran carrying 220 passengers running at 70 litres per hour (as per the table below).

Vessell Current	Fuel p/hour (f)	Hours (h)	Cost (f x h x c)
Cronulla Ferries			Fuel Cost (c) \$1.50
- Curranulla / Tom Thumb III	5L	4952	\$37,140.00
New comparison vessel	220 passengers		
24m Catamaran Ferry (top speed 18kn)	70L	4550	\$477,750.00
Expected Capital Expenditure (used vessel aged 20 years)			\$500,000 – \$700,000

One larger vessel would eliminate the need for Cronulla Ferries to operate two vessels (to suit Indec's model) but would leave Cronulla Ferries vulnerable to additional costs during servicing cycles for alternate transport between Cronulla and Bundeena.

ANNEXURE D

New Zealand is to have its first fully electric zero emission ferry. The East by West Wellington Harbour Ferry service, reports that the NZ\$4 million (about AU\$3.86 million) 19 m long, 135 passenger ferry.

An exert from New Zealand website scoop.co.nz

The New Zealand developed vessel is the first fully electric high performance passenger ferry in the Southern Hemisphere, built by Wellington Electric Boat Building Company (WEBBCo) for local ferry company, East By West.

The carbon-fibre 19 metre, 135 pax ferry will be providing a round trip service in Te Whanganui-a-Tara (Wellington Harbour). Powered by partners Meridian Energy, the vessel will transport passengers from Wellington CBD to Days Bay and Matiu/Somes Island.,

“We’re proud to lend our experience and energy to ground breaking projects like this one that prove the potential for the electrification of transport to disrupt the status quo, and improve New Zealanders lives through building climate resilience.” says Meridian Chief Executive Neal Barclay.



East by West Managing Director

Jeremy Ward says, “While the quiet hum of an electric boat is a much more pleasurable experience for passengers, this project is driven by our desire to take climate action.”

“Our two other diesel ferries use about 250,000 litres of fuel a year between them, it’s not sustainable for the planet and I knew electrification was the answer. I was surprised to discover we were the first in New Zealand to be doing it, but we didn’t let that hold us back,” says Ward.

Friday, 6 A. 2021. (n.d.). *New Zealand's first electric ferry set to launch*. Scoop. Retrieved October 21, 2021, from <https://www.scoop.co.nz/stories/BU2108/S00148/new-zealands-first-electric-ferry-set-to-launch.htm>.