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Private Ferries

Submission to IPART in Support of Claims for Fare Increases, 2003-2004

May 2003

Contents

Summary

Fare Increase Sought

The industry seeks an increase in fares for the 2003 – 2004 year of 30.25 percent, based on the analysis in Attachment III.

Issue of Greatest Importance

It is clear from the information provided by operators, which in all cases, except Matilda, which is a large, well resourced company, comes from chartered accountants, that the private ferry industry is losing money.

This serious situation needs to be addressed in this review. The time has come.

In particular, the operators whose fares are in the $3.00 to $4.00 range, compared to all others near $4.50, need to be brought up to the same level.

It does not seem surprising to the industry that it is not making profits at the fares offered by the government. Fuel, wages, repairs and maintenance, advertising and promotion, etcetera are not all that different from those costs experienced by Sydney Ferries and they, Sydney Ferries, recover, through fares, only about 70 percent of their costs. Why should private operators be able to perform profitably at similar or lower fares?

For private ferry operators to continue to provide the services that the now do, a significant lift in fares is required. It is reasonable to assume that a return on investment, or return on assets in this case, should be 15 percent. With a current return of minus 4.42 percent, an increase of in excess of 19.50 percent is required to address this problem, with a further increase for those in the less-than-$4.00 fare range. In addition, their needs to be an increase to cover last year's cost increases of 10.75 percent, making a total of 30.25 percent.

Issues

In the following section, these are addressed at length, both the issues raised by IPART and other issues of concern to the industry.

Terms of Reference

These are commented on individually in the last section.

The Industry and the CVA

There are presently seven private ferry operators in New South Wales that the Association is aware of. All are members. All industry operators have agreed that the CVA will submit aggregate cost and other information to IPART, not individual operator information.

In addition, it was further agreed that aggregate industry return on investment would be submitted.

This submission contains the information submitted by operators and in the form of the amalgamated index and makes comments on issues. The industry looks forward to hearing the results of IPART's deliberations.

The Issues

IPART has sought comment on several issues. The comments sought on those relevant to private ferries appear here. In addition, we have commented on other issues, not raised in the IPART document.

IPART Issues

Quality of Private Ferry Data

… the quality of private ferry data, individual cost components and the appropriateness of the present approach to fare-setting.

This is only the second year that the industry has combined its data through the CVA. All companies' data is prepared by their accountants, all but one being accountants in private practice, chartered accountants. The other is the accountant employed by the substantial operator. The quality of data this year is better than last year and includes data from Cronulla and National Park Ferry Cruises for the first time. It does not include data from the Dangar Island Ferry Service as the operator of this business bought it about a year ago and has no data for comparison purposes for the year before, 2001-2002. Neither does it include data for the Brisbane Waters service as this business ceased last calendar year because of continuing losses. It is now operated by Palm Beach Ferries but that company has no data to make comparisons for that operation for the year before. It does not include data from Clarence River Ferries as this business is unable to separate out its ferry activity from its other activities.

The Association notes the comment in the issues paper on page 13 that no information was provided by operators as to industry revenue. This is because, in discussions with IPART, it was agreed that cost increase information only would be provided.

In addition, the operators have provided data over and above that sought by IPART, as noted in the Summary.

The industry is confident that the "… quality of private ferry data .." is of a satisfactory standard for IPART's consideration.

"… the individual cost components …" are relevant to the industry's operations and were agreed to between the industry and IPART. The format in which the data is provided was supplied by IPART.

"… the appropriateness of the present approach to fare-setting." is not satisfactory, as discussed above.

The overall approach does not address the general level of profitability in the industry which, as shown by the data, is a negative return on investment of 4.42 percent.

Clearly private providers of services cannot continue to retain their investments in these businesses if they can get a better return elsewhere, which they could with money on fixed deposit alone.

Conclusion: the CVA is satisfied that the quality of the data provided by the industry is of a standard satisfactory for IPART's purposes.

Fare–setting Approaches

"… the application of various fare-setting approaches …"

Without debating each of the approaches mentioned in detail, the industry has these comments.

Generally:

The essential criterion for fare-setting is to ensure that the operator is able to achieve a reasonable return on investment. The industry's return on assets at present is negative (as indicated in Attachment III).

This should be the time when the government comes to grips with this issue of return on investment for private operators.

In addition, the approach to fare setting should reflect the individual circumstances of each operation.

<u>More specifically</u>:

Outside cost increases are, for the most part, not relevant to the specifics of the industry. Where they are, they have been used, eg wage increases claimed are compared with award increases granted by the Commission, the award being the one that covers the industry specifically. Industry-wide increases clearly take no account of the particular operating circumstances of individual operators which should address length of route, manning requirements, relative number of concession passengers, etc

There should be no penalty for making efficiency gains. If there is to be such a penalty, why would operators make them? Other private companies retain the benefits of efficiency gains or pass them on in lower prices to maintain or gain market share. It should be noted that owners, in fact, have very little opportunity to increase the efficiency of their businesses. Crew numbers are determined by the Waterways Authority, wages are determined by the Industrial Relations Commission, service levels are determined by the contract and other big expenses are determined by the market place, eg fuel, insurance and interest. Passenger numbers are determined by the weather and school holidays. There is not much scope for efficiency gains in all this.

Use of CPI does not meet the criteria of being industry specific and is certainly not operator specific. The bundle of costs in the CPI does not closely reflect the bundle of costs in a private ferry operation.

The "building block approach" has some merit in that it addresses the most important thing, viz return on investment. However, it seems very complex for this industry and also requires operators to detailed information which, for reasons noted below, they are not willing to.

Importantly, the industry and IPART have had informal discussions about no fare regulation at all. The reason for this is that all operators face competition from other transport modes and, therefore, do not operate monopoly services. "Why cannot private operators set their own fares, taking into account their local circumstances of passenger mix and competition, water taxis, buses, etc?" (IPART). The industry's cautious answer is that it does not trust the government to continue to provide a contract for the exclusive right to operate the service if it, the industry, yields the government's right to set the fares in exchange for this exclusive right. "Why don't they trust the government?" (IPART). There are two reasons principally. A few years ago, the government sought to reduce the cost to it of the SSTS. It did so by deciding to reduce the "participation factor" in the payments formula from 92 percent to 75 percent, with no recompense for revenue forgone – none. The deal was, "if you agree to this, we shall extend the automatic renewal of your existing contract by another five years; if you do not, your contract will not be renewed at the end of the current period". In addition, when one operator, two years ago asked a then DOT officer a question, the answer was supplied to both him and every other operator in the form of the department's confidential ferry fare report on the whole industry, containing confidential information supplied by operators.

Finally, the PTA mentions comparable fares for comparable services. It is the PTA process that is in use currently for fare setting. It is not evident that this aspect of the Act's requirement has ever been applied, in particular with regard to both the fares charged by Sydney Ferries and those within the industry. Comparisons with Sydney Ferries are addressed elsewhere.

Conclusion: the approach to setting fares should remain as in PTA 1990 but with the additional check that return on capital is adequate, say 15 percent. The industry and IPART should use the time between the end of August this year and the start of next year's round to improve the fare-setting process.

Private ferry fare structure

… comments on the existing fare structure for private ferries, including the range of tickets on offer and relativities with Government-owned operations

There are three problems with the structure of private ferry fares, viz

- comparable fares within the industry
- comparable fares with Sydney Ferries
- fares are not structured specifically to address return on investment.

Two operators presently have fares set in the \$3.00 to \$4.00 range, at \$3.30 and \$3.60 (per adult, one way). The remainder are in the range from \$4.50 to \$7.50 (Issues Paper p 36). The average for the first two is only just over 75 percent of the \$4.50 fare. It is not possible that the two operators could have


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operating costs only 75 percent of the others, given the degree of regulation on staff numbers and wages and the need to purchase other supplies in the same market place. This anomaly should be changed this time around. Here is a comment by the chartered accountant for Cronulla and National Park Ferry Cruises.

"As you can see, after the deferred maintenance is paid for, there will be a substantial loss.

Carl needs a 15% increase in fares right now. The longer it goes on, the harder it will be to catch up. We have to break the cycle now."

So, in this company's case, they are getting by by deferring maintenance, which cannot continue forever. It could even result in unsafe operation, as IPART would understand.

Dangar Island Ferries are getting by by subsidizing their operation from their tourism activities.

On page 36, IPART lists Sydney Ferries' fares as well as those for private ferries. This shows that Matilda's longer distance services are priced at $0.90 or 17 percent less than those of Sydney Ferries. Once again, it is unlikely that Matilda's operating costs are only 83 percent of those of Sydney Ferries (they are, in fact, losing money). In addition, whilst private ferry fares have moved close to those of Sydney Ferries in recent years (p 37), with the notable exception just explained and the two operators above, it makes huge losses on its total revenue generated from these fares. It recovers less than 70 percent of its operating costs from its revenue and these operating costs do not include its cost of capital. Private operators, from their total revenue, must recover both operating costs and the cost of capital as well as making enough profit to justify continuing in the business. It should be noted that private operators also provide multiple tickets at a discount to the normal one way adult fares as well as cheaper fares for children. The industry wishes to be involved in the Travel Pass and the Sydney Day Pass programs, as Sydney Ferries are, but its requests to government for such involvement have been turned down.

Conclusion: there is absolutely no justification for fares awarded to private operators to be less than those awarded to Sydney Ferries and, in fact, for the reasons discussed, they should be commensurately higher.

Silver Spirit Launched August 2000

Service quality – private ferries

… … comments on the quality of service offered by private ferries

Service quality is covered by the terms of individual operator contracts with the government and vary from one private service to another. At present, these contracts specify only the frequency of services to be provided.

The industry is of the view that these items are the main ones that determine the level of service:

- 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, including rain, wind and sun
- adequate standards of maintenance, other than safety, such as lights that work and toilets that are not blocked (safety issues are the province of the Waterways authority)
- provision of a suitably sized vessel for the task

<u>Conclusion</u>: service quality should be limited to these items with specific targets (frequency, etcetera) to be negotiated between the operator and Transport NSW at the time contracts are signed or renewed.

Environmental issues

… comments on environmental issues and how these should be considered in the fare-setting process …

New South Wales has comprehensive environmental law that covers the operation of ferries and charter vessels in particular. This includes the POEO Act that prohibits the discharge of any foreign material, such as sewage, "grey" water(1) or vessel wash water into State waters; the Waterways Authority has been delegated responsibility, by the EPA, for policing this Act on State waters; in addition to water pollution requirements, there are others governing noise levels (such as from loud music); the industry is of the view that, if operators meet all these and other legal requirements, they are doing all that can reasonably be required of them with regard to the environment.

(1) this is on board water other than from toilets, such as washing up water

Conclusion: present law and regulation is sufficient to ensure private ferries meet community acceptable environmental standards and that, because environmental issues are covered by specific legislation, there is no place for environmental considerations in fare-setting.

Social impacts

… comments on the potential social impacts of fare increases, and how such issues should be considered in the fare-setting process.

IPART does not explain what it means by the words "social impacts of fare increases".

If it means the impact on individuals and families of a change in their life styles because of a shift in their disposable income to commuter costs through a fare increase, then the industry has these comments:

- services provided by private enterprise to the public will only continue to be provided if the prices charged are sufficient to cover costs and produce a return on investment that is at least as good as an alterative of equivalent risk
- to the extent that government is concerned about this shift (above), it will have to compensate private service providers in order that they can provide the service at a price that does not disproportionately shift disposable income to commuter costs (which means, of course, that all members of the community will subsidise private ferry commuters) or
- provide the service themselves, also at a further cost to everyone

Conclusion: the industry believes that, in the context of the points above, social responsibility is that of the government.

Non-IPART Issues

Approach to fare regulation

For private companies, those operating private ferries, for example, the single most important criterion

for their continuation in the industry is their return on investment. Clearly, if a point is reached where this return can be bettered by investing elsewhere, they will withdraw their investment from private ferries and the ferry service will cease (unless they can sell it to someone satisfied with a lower return or who has reason to believe that he or she can improve the return to a satisfactory level).

The present method of increasing fares each year, based on the increases in operating costs during the preceding year, is unsatisfactory.

- money lost, between the time of the rise in a cost item and the next fare increase, is never recovered (see example below)
- inequities in fares between operators are never addressed
- inequities between the private sector level of fares and those awarded to the STA are never addressed
- differences between the operating conditions peculiar to individual operators, such as the length of the routes serviced, are never addressed
- return on investment is not addressed

Here is an example of the money lost.

Year	**1**	**2**
Labour cost (fixed number of staff)	Jul-Sep @ $16,000 pm $48,000 Oct-Jun @ $16,500 pm $148,500 Total $196,500	Jul-Sep @ $16,500 pm $49,500 Oct-Jun @ $17,000 pm $153,000 Total $202,500

Here, an award increase of about three percent is awarded in the month of October in both of the years shown. At the beginning of Year 2, the owner is awarded a cost increase of three percent to match the award increase in October in Year 1. From October in Year 2, however, he bears the monthly increase in costs from October to June of nine months by $500, or $4,500, without recompense, which he also bore in Year 1, of course.

This kind of analysis applies to all cost increases he incurs throughout the year in any year.

Labour is, in fact, an example of a cost increase that can be precisely known in advance and provided for at the time of fare-setting, as opposed to more volatile items, such as fuel cost increases. The national wage case outcome is know early in the calendar year. The State wage case outcome, which invariably mirrors it precisely, is known by the middle of the year and the flow-on to individual wards takes place in October, approximately. Thus the amount to be carried by operators for nearly nine months (October to June) is known before the fare-setting process even begins, let alone at next year's round.
Whilst the present method of fare-setting continues, industry is of the view that mid-period cost increases, above a certain percentage of total operating costs, should trigger an automatic right for the operator to increase his fares to recover the increase. He would receive a commensurably small increase at the next review. The industry proposes that this "certain percentage" should be three percent.

Apart from the fact that increases are, in fact, usually awarded, correctly based or not, the present system is about as unsatisfactory as it could be.

Conclusion: whilst the present method of fare-setting continues, operators should be allowed to increase their fares mid-term if their total costs rise by three percent or more.

Regular Review of Fares

Conclusion: fares need to be reviewed at regular intervals so that operators do not have to carry cost increases for a longer period than is absolutely necessary and so that they can plan for the rise.

The School Student Transport Scheme

These are the comments that we made on this issue last year. They still apply so are repeated here.

> "In its report last year, IPART devoted some space to the desirability of reforming this scheme. In recent weeks there have been reports in the press that the government may be intending to do so.
>
> "It should be pointed out that the $450,000 pa approximately that private ferry operators receive from this scheme is an important part of their gross income.
> If all or part of it is done away with, operators will have to replace the shortfall from another source, such as by increased charges for the passengers originally covered by the scheme or all passengers or by a government grant."

Conclusion: if the gross revenue to the industry from the student pass scheme is reduced, operators will have to make it up from somewhere else, eg from the government or from passengers

Approach to industry regulation

The industry agrees cautiously with IPART's expressed view that fares should not be regulated but, instead, set by operators in the light of their passenger mix and their competition. However, before proposing such a reform, the operators wish to enter into discussion with IPART between this fare round and the next, to discuss this and other reforms and their consequences. The operators are concerned, for example, that the government might withdraw exclusive rights to operate on their routes if it does not have the right also to set fares.

In addition, operators want to point out the expense of buying new boats and the expense of maintaining old ones. In this context, operators need certainty in order to risk the investments needed to upgrade services on their routes. As a consequence, contracts need to be reasonable long and with some certainty of renewal provided their contractual obligations have been met. In this period between fare setting rounds, this is one of the reforms that operators would like to discuss with IPART.

Conclusion: the industry proposes no changes to the regulatory framework now, other than the way fares are set, but has some ideas it would like to discuss with IPART between fare setting rounds.

Terms of Reference

Most of these seem to be outside PTA 1990. Nevertheless, we have these comments.

(i) The cost of providing the services is provided in Attachment III; it is based on a cost index provided by IPART after discussion with the Association; it is also discussed in the Summary and in various places in the Issues section

(ii) See pages 8 et sequi

(iii) See page 7

(iv) See page 7, para 3

(v) See pages 8 et sequi

(vi) See page 10

(vii) See page 11

(viii) It is clear, from the information submitted in the body of this document and in Attachment III, that the industry, overall is operating at a loss and, as a consequence, will have to cut back on costs, including maintenance or, in some cases, go out of business (Hegartys and Brisbane Waters); this will result in the provision of services which are potentially less safe or no services at all

(ix) It is inevitable that any pricing decision will have the effect of increasing government funding to the industry as costs will inevitably have risen and, therefore, fares will inevitably have to rise and, in turn, the cost to government of subsidising concession and other fares will rise; the quantification of this rise in government subsidy is beyond the capacity of the Association to estimate


Silver Spirit Launched August 2000

Industry Operators

There are seven operators in the industry in New South Wales. Four have responded to this submission process. The operators are

Operator	Contact Name	Phone
Church Point Ferry Service *	Jack Kirkpatrick	0409 223 879
Hegarty's Ferries	Tim Lloyd	0438 571 948
Clarence River Ferry Service	Lawry Duff	6646 6423
Matilda Cruises *	Steve Skarott	9268 1195
Palm Beach Ferry Service *	Peter Verrills	0414 555 522
Cronulla and National Park Ferry Cruises*	Stan Pegg	9523 2990
Dangar Island Ferry Service	Gordon Davey	9985 7566

* made responses

Of the three operators who have not made submissions and we assume will not do so are

Hegarty's Ferries; this businesses recently changed hands but has gone out of business in early May

Dangar Island Ferry Service; this business changed hands late last calendar year; the present proprietor has insufficient financial records to complete the proforma

Clarence River Ferries; this operator is unable to separate his costs into ferry and other so declines to make a submission

Attachment I

23rd May, 2003

Private Ferry Reviews
Independent Pricing & Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Cc: Mr Marcus Bleechmore
Water Transport Advisor
NSW Minister for Transport Services Office
Level 31, Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

RE: SUBMISSION FOR FERRY SERVICE FARE INCREASE 2003

Dear Sir or Madam:

In relation to your recent request for a submission on fare prices, Matilda Cruises hereby submits this response to your criteria assessment below.

Matilda Cruises currently operates three ferry services governed by the Department of Transport (DoT). Two are contracted with the DoT under the provisions of the Passenger Transport Act 1990 and the third a 'Regular Ferry Service' has been granted an exemption from contract under authority of the Director General.

1. Contract 1: Darling Harbour - Circular Quay. (DoT contract no: F006)
2. Contract 2: Lane Cove - Circular Quay (DoT contract no: C1947)
3. Rg Service 1: Homebush – Darling Harbour (Regular Ferry Service)

Cost of Providing Service
Matilda's financial viability of providing these services is based upon the return on its capital invested. Matilda critically evaluates all its capital expenditure based on cash flows discounted at its cost of capital. The cost of capital is a combination of the cost of debt and the cost of shareholder's funds, which require a risk premium for shareholders to invest. All investments must exceed the cost of capital or it makes no economic sense to invest the funds.

Major increases in the cost base of running these ferry service's has occurred over the past three years. These cost base increases have been submitted each year to the DoT and IPART for consideration in fare

price reviews. The current level of cost in running these services are higher than the revenue achievable, by

a private operator such as Matilda, given the current maximum fare price set by the DoT.
Therefore Matilda currently operates these services with a negative return on investment. For Matilda to better the return performance of its ferry operations and combat the significant cost increases imposed on it in recent years, considerable fare price increases must be achieved. This year's assessment must acknowledge the cost base increases over a number of previous years where it has been too little too late.

Continuing to depress fare increases on Matilda's ferry services will make financial viability on continuing these services, replacing old vessels and future sustainability particularly difficult, not only now, but in the future when demand will dictate additional services.

- **Matilda Cruises Cost Index Change 2003** (IPART Submission request)

Matilda Cruises Pty Ltd	**01/02 v 02/03**
Cost Base Index Model	%
	Movement
COSTS	
Labour	3.0%
Fuel	13.8%
Repairs and maintenance	13.8%
Insurance	11.0%
Depreciation	15.0%
Interest	7.4%
Licensing fees	8.0%
Berthing/mooring fees	6.0%
Advertising	14.3%
Motor vehicle expenses	
Other	12.0%
Total	8.0%
	02/03
Return on Capital Invested	**-10.8%**

Matilda requests that IPART have more consideration to actual costs of providing these services rather than primarily on cost base increases. The underlining concern of service operator's such as Matilda is that of financial viability, which for Matilda is measured by way of return.

Standards of Quality
In previous years it has been outlined by Matilda and acknowledged by the DoT, Matilda's services are comparable to State Transit's inner harbour operation. In fact, currently in most cases Matilda provides a superior level of service frequency over weekends, public and school holidays. Matilda over the past 36 months has made considerable efforts in ensuring the improvement of its product by way of both presentation and performance. Matilda has met all performance and safety standards required of it, both under DoT and Waterways Authority supervision. All Matilda contracted service levels have been met over the past 12 months, which can be demonstrated by the attached timetable and product information brochures. Running a service driven operation our customers can be considered our regulators for quality,

safety and reliability. Matilda welcomes IPART to reviewing our standards with our customers.

The current level of comparable services between Matilda and STA, most certainly, measure up.

Taking this into consideration acknowledges the fact Matilda would be entitled to any increases its comparable service provider has already received.

Environmental Issues
NSW has comprehensive environmental law that covers the operation of ferries and charter vessels in particular. NSW Waterways has the delegated responsibility of the EPA to police this Act on State waters. Matilda continues to operate and meet all legal requirements passed down by the Waterways authority and in doing so are completing all required of them with regard to the environment.

Government Funding
Currently the DoT compensates Matilda for all concession class fare purchases. This allows Matilda, the private operator, to receive the maximum fare price and also meets those social impact needs of a concession class individual.
As a solution to granting Matilda substantial fare price increases, those needed to make financial viability, Government funding could be constructed to include normal class fares. Thus suiting social impact requirements by not altering fare price's significantly, and compensating the private provider with subsidy payments ensuring they can deliver the services our public require.

Fare Price
It has been best practise to round fares to the nearest neat dollar amount, as many passengers do not carry small coinage and its costly for the operator to collect. Coins are progressively disappearing from normal business transactions and this needs to be recognised in setting public transport fares.
In support of social impact on the increase fare price granted to Matilda, we advise no immediate fare changes will take place until 30 days after the new price is granted. During which time Matilda will display adequate signage informing of the price increase.
In light of the above considerations, Matilda Cruises requests the below maximum fare price amounts for its services.

Circular Quay - Darling Harbour (**Single Journey**)		
Adult	Child	Concession
$5.50	$2.70	$2.70

Lane Cove - Circular Quay (**Single Journey**)		
Adult	Child	Concession
$5.50	$2.70	$2.70

Homebush - Darling Harbour Zone 1 (**Single Journey**)		
Adult	Child	Concession
$5.50	$2.70	$2.70

Homebush - Darling Harbour Zone 2 (**Single Journey**)		
Adult	Child	Concession
$6.50	$3.20	$3.20

Conclusion
It is important the DoT recognise Matilda Cruises performs a quality, efficient, safe and professional ferry

service on behalf of the DoT. Our request for fare price increases or alternatively government subsidy, are necessary for the continuing complete fulfilment of these contracts. Also, we request the DoT make consideration for inflationary movement, comparable service provider increases and costs for operating such a service.
Please feel free to contact myself if you require further information and I look forward to an early positive response.

Yours Sincerely

Steve Skarott
General Manager
Matilda Cruises Pty Ltd

Attachment II

Hamilton Simmons & Co

Public Accountants, Tax Agents & Company Auditors

PO Box 258, MACLEAN NSW 2463
189 River Street, MACLEAN

Ph (02) 6645 3083 Fax (02) 6645 4666
Email: hamsim@ceinternet.com.au

27 May 2003

Mr David Cribb
Charter Vessel Association

By Fax 02 9969 1637

Dear David

Re: Fares etc submission - Costs & Revenues for Ferry Commuter Services
Lawrence J Duff TIAS "Clarence River Ferries"

We act as tax agents for the above.

We refer to your fix of 7 May 2003 requesting Mr Duff to complete the profoma of ferry commuter services detailing costs & revenues for his operation.

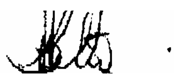
We have discussed with Mr Duff the difficulties we encountered in completing this form from his and our accounting records, due to the nature of his overall operations, which also include tug, barge and mooring laying work and private charters. We cannot dissect the ferry commuter services operations from the overall accounts.

Suffice it to say that his ferry commuter operations do not produce enough revenue to support him and his family and he has had to diversify to survive,

Accordingly it is with regret that we have been instructed not to complete the survey due to the above difficulties.

Mr Duff wishes to be taken off any further requests for such information.

Yours faithfully
Hamilton Simmons & Co



Peter Hamilton
Partner

Attachment III

Operators' Cost Index for 2003 (percentages)

Operator	**1**	**2**	**3**	**4**	**Total**
Costs					
Labour	3.36	20.00	-1.97	3.00	6.10
Fuel	12.67	33.00	6.08	13.80	16.39
Repairs and Maintenance	32.69	51.00	35.52	13.80	33.25
Insurance	30.22	17.00	8.47	11.00	16.67
Depreciation	0.00	35.02	-14.29	15.00	8.93
Interest	27.78	33.00	28.79	7.40	24.24
Licensing Fees	10.63	-55.00		8.00	-9.09
Berthing/Mooring Fees			-41.73	6.00	-8.93
Advertising	-100.00	-13.00	-6.67	14.30	-26.34
Motor Vehicle Expenses	-28.73	-8.00	-40.84		-19.39
Other	-8.03	22.23	-21.18	12.0	1.25
Total	8.97	43.53	0.35	8.00	10.75
Return on Assets %	-10.34	10.20	-6.76	-10.80	-4.42

It should be noted that, because of the lack of profitability in the industry, operators have been containing costs, in many cases, resulting in no increases or, in fact, decreases. Operator 3, for example, has contained an overall cost increase by reducing costs in every case where this was possible.

This picture, except, perhaps, in the case of Matilda, does not accurately reflect the increase in operating costs incurred as operators are trying not to incur them all as they are losing money.