



Independent Pricing and Regulatory Tribunal

2007 Review of Bus and Private Ferry fares

Public Hearing 9 November 2007

Transport — Discussion Paper
November 2007

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1 Introduction

The Independent Pricing and Regulatory Tribunal (IPART) is holding a public hearing on 9 November 2007 as part of the public consultation process for the following transport reviews:

- ▼ Review of fares for Sydney metropolitan bus services.
- ▼ Review of fares for Newcastle Services (bus and ferry).
- ▼ Review of fares/revenue requirements for rural and regional bus services¹.
- ▼ Review of fares for private ferry services in NSW.

The hearing will be held at IPART's offices at Level 2, 44 Market Street, Sydney NSW 2000 between the hours of 10.00am and 1.00pm.

As part of this public process, the transcript of the hearings will be made available for public access on IPART's website, www.ipart.nsw.gov.au.

This paper sets out the format of the public hearing. It also summarises the fare proposals received for each of the above reviews and IPART's role and legislative obligations. It then discusses a number of issues and questions that IPART would like stakeholders to address at the public hearing.

2 Format of the public hearing

The hearing will be divided into three sessions.

- ▼ Session one will focus on the review of fares for metropolitan buses, outer metropolitan buses and Newcastle services. The Ministry of Transport will deliver a presentation outlining its fare proposal and discussing issues relevant to metropolitan and Newcastle services raised in this discussion paper. This will be followed by presentations made by other stakeholders and comments from the audience.
- ▼ Session two will focus on the review of fares and revenue requirements for rural and regional buses. The Bus and Coach Association will present its fare proposal and comment on issues relevant to non-metropolitan busses raised in this discussion paper. Indec Consulting will also present its recommendations to the Tribunal on the weightings of costs to be included in the Bus Industry Cost Index. These presentations will be followed by other stakeholders and comments from the audience.

¹ Includes review of fares for operators on commercial contracts (who collect fare revenue) and revenue requirements for operators on non-commercial contracts (who do not collect fare revenue).

- ▼ Session three will focus on the review of fares for private ferries. The Commercial Vessel Association will present its fare proposal and comment on issues relevant to private ferries raised in this discussion paper. This will be followed by presentations by other stakeholders and comments from the audience.

Discussion should focus on the relevant fare proposals (available on the website www.ipart.nsw.gov.au) and the issues raised in this discussion paper. However, should stakeholders consider there are other relevant issues not included in the proposals or this discussion paper they should feel free to raise them on the day when provided the opportunity by the hearing's Chairman. IPART asks that presenters not be disturbed when making their presentations and that the Chairman will provide the opportunity to ask questions once the speaker has finished.

An agenda will be available on the IPART website prior to the hearing and will also be available on the day.

For any inquiries please contact Ineke Ogilvy, Program Manager Transport on (02) 9290 8473.

3 Sydney metropolitan and outer metropolitan bus services

IPART determines fares for metropolitan and outer metropolitan bus services under section 28J of the Passenger Transport Act. Outer metropolitan services include services in areas such as the Hunter Valley, Port Stephens, Wollongong, Blue Mountains and Central Coast.

3.1 Proposal received from the Ministry of Transport

Under the current contracting arrangements, the Ministry of Transport pays operators to provide services in a particular area (contract region). Payments to operators are governed by the contracts and are largely independent of the level of fares. The Ministry of Transport effectively collects all fare revenue for services. Fare revenue goes somewhat to reducing the cost of contract payments to taxpayers.

The Ministry of Transport has proposed that fares in the Sydney metropolitan area increase by 6% (before rounding).² The Ministry of Transport lists improved service and increased costs as justification for the fare increase.

The Ministry of Transport also proposes that outer metropolitan area fares be harmonised with metropolitan fares for single trip tickets.

² Ministry of Transport Submission, Revised 23 October 2007 p 2.

Table 3.1 Ministry of Transport's proposed single ticket bus fares – metro and outer metro services

Singles ticket type	2007 Ticket Price \$	Proposed 2008 Ticket Price \$	Percentage Change %	Absolute Change \$
1-2 Sections	1.70	1.80	5.9	0.10
3-5 Sections	2.90	3.10	6.9	0.20
6-9 Sections	3.90	4.10	5.1	0.20
10-15 Sections	4.60	4.90	6.5	0.30
16+ Sections	5.60	5.90	5.4	0.30

Source: Ministry of Transport fare proposal.

Table 3.2 Ministry of Transport's proposed Travelten fares – Sydney Buses

TravelTens	2007 Ticket Price \$	Proposed 2008 Ticket Price \$	Percentage Change %	Absolute Change \$
1-2 Sections	13.60	14.40	5.9	0.80
3-5 Sections	23.20	24.80	6.9	1.60
6-9 Sections	31.20	32.80	5.1	1.60
10-15 Sections	36.80	39.20	6.5	2.40
16+ Sections	44.80	47.20	5.4	2.40

Source: Ministry of Transport fare proposal.

Table 3.3 Ministry of Transport's proposed Travelpass fares – Sydney Buses

TravelPasses	2007 Ticket Price \$	Proposed 2008 Ticket Price \$	Percentage change %	Absolute change \$
Blue	31.00	32.00	3.2	1.00
Orange	38.00	40.00	5.3	2.00
Pittwater	53.00	55.00	3.8	2.00
2 Zone	31.00	32.00	3.2	1.00
Bustripper	11.70	12.40	6.0	0.70

Source: Ministry of Transport fare proposal.

Table 3.4 Ministry of Transport's proposed fares – sports special and school term pass

	2007 Ticket Price \$	Proposed 2008 Ticket Price \$	Percentage Change %	Absolute Change \$
Sports Special	5.20	5.50	5.8	0.30
School Term Pass	41.50	43.00	3.6	1.50

Source: Ministry of Transport fare proposal.

Table 3.5 Ministry of Transport's proposed Transit-way (T-way) fares

	2007 Ticket Price \$	Proposed 2008 Ticket Price \$	Percentage change \$	Absolute change
T-way10				
1-2 Sections	14.50	15.30	5.5	0.80
3-5 Sections	24.70	26.10	5.7	1.40
6-9 Sections	33.20	35.10	5.7	1.90
10-15 Sections	39.10	41.50	6.1	2.40
16+ Sections	47.60	50.50	6.1	2.90
T-way bus plus weekly				
1-2 Sections	13.20	14.00	6.1	0.80
3-5 Sections	24.60	26.10	6.1	1.50
6-9 Sections	35.00	37.10	6.0	2.10
10-15 Sections	50.30	53.30	6.0	3.00
16+ Sections	63.80	67.70	6.1	3.90
T-way weekly				
North Zone	35.00	37.10	6.0	2.10
South Zone	35.00	37.10	6.0	2.10
North + South Zone	63.80	67.70	6.1	3.90

Source: Ministry of Transport fare proposal.

3.1.1 Service quality improvements

In its submission, the Ministry of Transport cited the following specific examples of improvements in service levels:

- ▼ introduction of bus priority measures under the Public Transport Information and Priority System (PTIPS), in use on 68 buses servicing three strategic corridors
- ▼ opening of the North-West Transitway operating between Parramatta and Rouse Hill in March 2007
- ▼ Expansion of the prepay bus network, which decreases boarding and journey times for passengers. Cashless services were introduced on nine services in 2006/07, with a further 13 to be introduced by the end of 2007
- ▼ 259 new and replacement buses added to the fleet, with another 157 refurbished
- ▼ improvements in targeted KPI's including revenue per km (+4.11%), passengers per km (+1.91%), revenue per passenger (+2.16%), revenue per trip (+4.70%).

The Ministry of Transport reports a slight decrease in the performance of on time running and a large increase in % of trips missed/cancelled (+37.57%). However the Ministry of Transport notes that the current on time running measure is problematic as it is largely limited to reporting on whether buses leave the depot on time. The

increase in trips cancelled is large, but it is argued that this is from a small base and the resulting number (0.053%) is still extremely low.

Full year data is not available for many of the outer metropolitan areas. The Ministry of Transport has indicated that future KPI reporting will be more comprehensive due to the implementation of an Operational Performance Regime aiming to provide a more consistent measuring and reporting process.

3.1.2 Cost increases

The Ministry of Transport states in its submission that in 2006/07, the cost of providing Metropolitan Bus Service Contracts (MBSCs) was approximately \$690 million. This was offset by farebox revenue of \$285.7 million.

The Ministry of Transport currently recovers approximately 38 per cent of the costs of providing metropolitan bus services. The remaining 62 per cent of costs are funded by taxpayers.

The Ministry of Transport cites the following cost increases:

- ▼ higher fuel payments to operators
- ▼ above CPI increases in other fixed and variable costs
- ▼ Government expenditure of \$115 million on new and replacement buses for metropolitan and outer metropolitan networks in 2006/07
- ▼ \$960 million to be spent by the year 2011/12 on bus priority measures and infrastructure improvements
- ▼ increased wage costs
- ▼ the level of investment required to meet public transport targets of NSW state plan.

The Ministry of Transport has stated that it expects costs to continue to increase in 2007/08.

IPART is examining all of the costs listed in the Ministry of Transport's fare proposal. While it has not yet completed this analysis, its initial review of changes in fuel costs based on FuelTrac data suggests that the cost of fuel over the 12 months to June 2007 reduced by 1.8 per cent.³ Service kilometres increased only slightly over the period suggesting that higher fuel payments did not result from an increase in the services provided.

³ Based on wholesale IPIP diesel prices obtained from Fueltrac.

3.1.3 Outer metropolitan fare harmonisation

In its submission, the Ministry of Transport has proposed that outer metropolitan bus fares be harmonised with metropolitan bus fares. The Ministry of Transport submits that fare harmonisation addresses equity concerns and will aid the introduction of integrated ticketing and strategic corridors, both of which require consistent fare regimes to operate effectively.

In most cases the Ministry of Transport's proposal would lead to a decrease in maximum fares. Of the 88 maximum fare bands the following five will increase;

- ▼ Urban Qualifying and Not Qualifying Adult 1 Section (a 38.5 per cent increase from \$1.30 to \$1.80).
- ▼ Urban Qualifying and Not Qualifying Adult 3 Section (a 10.7 per cent increase from \$2.80 to \$3.10).
- ▼ Urban Qualifying Adult 6 Section (a 2.5 per cent increase from \$4.00 to \$4.10).

However, where operators are not currently charging the maximum fares fare harmonisation may lead to significant fare increases. IPART is aware that this is the case in two contract regions: Hunter Valley (Hunter Valley Buses) and an area outside Newcastle (Toronto Bus Service, Sugar Valley Coaches and Morisset Bus Service).

While transport policy is a matter for Government, IPART would like to gain a better understanding of the benefits of fare harmonisation across all contract regions, given the variation in costs, contract payments, patronage and cost recovery levels. In addition, IPART understands that the proposal would not truly result in fare harmonisation as there is no proposal to make multi-trip discount tickets, such as Traveltens or Travelpasses available to outer metropolitan passengers in the next 12 months.

3.2 Other submissions

Several submissions received to date suggest that single fares should be rounded to the nearest dollar (concession fares to the nearest 50 cents) in order to minimise cash handling and speed up boarding times.

3.3 Issues for discussion at the public hearing

IPART seeks comments on all aspect of the Ministry of Transport's fare proposal. In addition, IPART is particularly interested in stakeholders' opinions regarding the following issues:

- ▼ the appropriate level of costs to be recovered from users and taxpayers

- ▼ suggestions that single cash based fares be rounded to the nearest dollar (concession fares to the nearest 50 cents) in order to minimise cash handling and speed up boarding times
- ▼ what are there benefits of harmonising single fares for the ‘outer-metropolitan’ areas given that both costs and cost recovery levels vary by region and that there is no access to multi-trip discount tickets
- ▼ improvements or reductions in service standards over the past twelve months.

4 Newcastle bus and ferry services

IPART determines fares for Newcastle bus services under section 28J of the Passenger Transport Act. IPART also determines fares for Newcastle ferry services under section 11 of the IPART Act.

4.1 Proposal received from the Ministry of Transport

As for metropolitan and outer metropolitan services, the Ministry of Transport pays operators to provide services in the Newcastle contract region. Payments to operators are governed by the contracts and are largely independent of the level of fares. The Ministry of Transport effectively collects all fare revenue for services. Fare revenue goes some way to reducing the cost of contract payments to taxpayers.

The MoT submission proposes that fares for Newcastle bus services and the Stockton ferry increase by 6 per cent in line with the metropolitan bus services increase. The submission does not propose any change to the Newcastle time based fare system.

The fares proposed for Newcastle are set out in the table below. Please note that Yellow and Pink Travelpasses include a rail component and are determined by IPART under its determination on rail fares and not as part of the 2007 bus review.⁴

⁴ IPART *City Rail fares from 11 November 2007 Final Report and Determination*, October 2007

Table 4.1 Ministry of Transport's proposed fares for Newcastle Services

	2007 Ticket Price \$	Proposed 2008 Ticket Price \$	Percentage change %	Absolute change \$
1 hour	2.90	3.10	6.9	0.20
4 hours	5.70	6.00	5.3	0.30
TimeTen 1 hour	24.00	25.40	5.8	1.40
All Day	8.70	9.20	5.8	0.50
Stockton Ferry	2.10	2.30	9.5	0.20
Orange Travelpass	38.00	39.00	2.6	1.00
Yellow Travelpass*	45.00	46.00	2.2	1.00
Pink Travelpass*	48.00	49.00	2.1	1.00

Note: Fares for Yellow and Pink Travelpasses are determined by the Tribunal under its determination on Cityrail fares (see IPART *City Rail fares from 11 November 2007 Final Report and Determination*, October 2007).

Source: Ministry of Transport fare proposal

4.1.1 Cost increases

Cost recovery for Newcastle bus services is currently 16 per cent, with the remaining 84 per cent of costs being funded by taxpayers. The 6 per cent increase in fares is expected to increase farebox revenue by \$0.35 million, which has a small impact on cost recovery.

4.2 Other submissions

IPART has received a number of submissions regarding the level of services provided in Newcastle. There is general concern that bus expenditure in the region is inefficient and services are not well matched to the needs of the community. While IPART cannot directly influence the services provided, as these are governed by the contract in place between STA and the Ministry of Transport, IPART is interested in these issues as part of its consideration on the appropriate level of fares.

4.3 Issues for discussion at the public hearing

IPART seeks comments on all aspect of the Ministry of Transport's fare proposal. In addition, IPART is particularly interested in stakeholders' opinions regarding the following issues:

- ▼ the appropriate level of costs to be recovered from users and taxpayers
- ▼ whether rounding of cash based fares to speed up boarding times is something that stakeholders would like to see introduced for Newcastle services
- ▼ improvements or reductions in service standards over the past twelve months.

5 Rural and regional bus services

For rural and regional private buses, IPART makes recommendations to the Minister on maximum fares for commercial services (commercial contract operators are granted an exclusive right to provide a regular bus route and they receive revenue from fares for that route) using the Bus Industry Cost Index (BICI). IPART also makes recommendations on revenue requirements for non-commercial services using a model developed by PricewaterhouseCoopers (non-commercial contract operators are paid to provide specified services, typically school bus services. The operator is not granted an exclusive right to provide the services and does not receive revenue from fares).

5.1 IPART issues paper

In August 2007, IPART released an issues paper exploring alternative approaches to calculating annual changes in the Bus Industry Cost Index (BICI) and the Commercial Vessel Association Cost Index (CVACI).⁵ IPART's aim in reviewing the BICI is to improve the independence, cost reflectivity and transparency of the indices and to align its approach to calculating its recommended fare increases across transport modes where possible.

IPART put forward a number of inflators that it considered may meet its requirements for transparency, independence and consistency while still reflecting changes in industry costs.

In the Issues Paper, IPART also expressed concern that the weightings of costs included in the BICI had not been reviewed for a number of years and may no longer reflect the costs of the industry. IPART noted its intention to engage a consultant to review the weighting of costs included in the BICI.

A list of the current and alternative inflators together with the current weighting of costs in the BICI is set out in the table below.

⁵ IPART *Review of cost indices for non-metropolitan buses and private ferries*, August 2007

Table 5.1 Summary of BICI costs and inflators

	Current inflator	Possible new inflator
Bus Capital Costs		
Monthly lease payment:		
Chassis	Quotes provided by BCA obtained from supplier	'Motor Vehicles' Expenditure class of CPI
Custom Coach Body	Quotes provided by BCA obtained from Custom Coaches	'Motor Vehicles Parts & Accessories' Expenditure class of CPI
Lease Interest (10 Year Bond Rate)	10-year Government Bond Rate	Commonwealth Bond Bank Bill Swap Reference Rate
People Cost		
Award rate of Pay	Motor Bus Drivers and Conductors State Award	WPI
Occupational Superannuation	9% of Wages	WPI
Pay Roll Tax - Wages	6% of Wages	WPI
Workers Compensation	Quote from AEI Insurance Brokers	Amalgamated into Insurance cost item and inflated by 'Insurance Services' sub group of CPI
Bus Insurance & Rego		
Green Slips	Zurich Insurance	Amalgamated into Insurance cost item and inflated by 'Insurance Services' sub group of CPI
Comprehensive Insurance	Quote from AEI Insurance Brokers	Amalgamated into Insurance cost item and inflated by 'Insurance Services' sub group of CPI
Registrations	Price charged by RTA	Amalgamated into 'Other' and inflated by CPI
Bus Lubricants		
Distillate	Average daily fuel price obtained from Mobil	Fueltrac report for Diesel fuel prices in non-metro areas
Bus Repairs and Maintenance		
Mercedes Major Service	Price supplied by Mercedes Benz	'Motor Vehicle Repair & Servicing' expenditure class of CPI
Tyre List Price	Price supplied by Western Tyre and Wheel p/l for a Michelin 11R22.5 XZU radial bus tyre	'Motor Vehicles Parts & Accessories' Expenditure class of CPI
All other costs	CPI	CPI

5.2 Proposal received from the Bus and Coach Association

The Bus and Coach Association submitted proposed fare increases for commercial bus services (based on the BICI) and proposed revenue requirements for non-commercial services (using the PricewaterhouseCoopers model).

5.2.1 Fare increases proposed for commercial bus services

The BCA proposed a fare increase of 2.59 per cent for commercial services based on its calculation of the BICI. The BCA made no changes to its approach in response to the Issues Paper. The BCA submits that the current index is sufficiently independent, robust and cost reflective.

The BCA also submitted that:

- ▼ there should be no change to the inflator for insurance as the current inflator is appropriate for the industry
- ▼ the use of a 5yr bond rate is more appropriate than a 10 yr bond rate for the purpose of determining bus capital costs
- ▼ a review of the cost weightings in the BICI is welcome.

The composition of the fare increase proposed by the BCA is set out in the table below.

Table 5.2 Composition of Bus and Coach Association's proposed fare increase

	Weight (%)	Increase (%)	Contribution to BICI (%)
Bus Capital Costs	16.27	3.83	0.62
People Cost	48.42	3.49	1.69
Bus Insurance & Rego	3.71	0.94	0.03
Bus Lubricants	12.58	-3.30	-0.42
Bus Repairs and Maintenance	5.72	5.04	0.29
All other costs	13.30	2.80	0.38
Total	100		2.59

Source: Bus and Coach Association fare proposal and supporting information.

5.2.2 Revenue requirements for non-commercial bus services

The PwC model is used to provide recommendations on payments for non-commercial services. The model is provided by the BCA. The increases in revenue from the PwC model submitted by the BCA are set out in the following table.

Table 5.3 Revenue requirements proposed for non-commercial services

	Category 1	Category 2	Category 3	Category 4
Total revenue required per bus	61,138	72,347	92,210	105,574
Change from last year	3.33%	4.08%	5.31%	4.71%

Source: BCA fare proposal and supporting information

5.2.3 Productivity gains

Last year, IPART recommended that the fare increase calculated by the BICI be reduced to share the benefits of expected gains in productivity with customers. However, the Minister did not accept this approach.

The BCA is of the view that fare increases should not be adjusted for productivity as it considers that the scope for productivity gains in the industry is small and there is a lack of definitive and robust data to quantify possible savings. The BCA also submitted that using generic inflators further reduces the argument for a productivity adjustment as many of the indices used already account for productivity gains. The BCA is concerned that a productivity adjustment may lead to lower productivity due to the effects on operator viability. It also believes that using an assumed productivity adjustment based on productivity in the economy or transport sector as a whole is not appropriate for rural buses. The Ministry of Transport's submission supports the BCA's views on productivity.

IPART is aware that a four per cent per year pay increase has recently been agreed for STA bus drivers for the next two years and that the increase is based on annual productivity savings of 1.5 per cent.⁶

While a number of commercial operators are small, the analysis carried out by Indec demonstrates that around half of the commercial operators can be considered medium or large. Many operators hold multiple contracts and run both commercial and non-commercial operations. While IPART accepts that private rural and regional operators are not directly comparable with STA the evidence does not necessarily suggest that rural and regional operators have less scope for productivity gains. For example, traffic congestion might mean that the scope for productivity improvements is actually lower in STA's inner city regions than in rural and regional NSW.

IPART strongly considers that improvements in productivity should be shared with bus passengers through lower fares. IPART is seeking evidence from stakeholders on why the same productivity gains that have been proposed by STA (1.5 per cent per year) would not be feasible for the other bus operators.

⁶ ABC News, 30 October 2007 <<http://abc.net.au/news/stories/2007/10/30/2075303.htm>>

5.3 Recommended cost weightings in the BICI

Indec Consulting has provided a report setting out recommendations on the appropriate cost weightings for inclusion in the BICI. The weightings are based on a survey of costs of commercial operators covered by the BICI. The weightings recommended do not vary significantly from those currently included in the BICI.

The recommended weightings are set out in the table below. More detail and discussion is included in the full report from Indec Consulting, which is also now available from the IPART website.

Table 5.4 Recommended cost weightings in the BICI

	2006 weight	2007 weight in BCA proposal	2007 weight recommended by Indec
Bus Capital Costs	16.27	16.47	18.55
People Cost	48.42	48.84	48.28
Bus Insurance & Rego	3.71	3.65	2.83
Bus Lubricants	12.58	11.85	11.41
Bus Repairs and Maintenance	5.72	5.86	5.71
All other costs	13.30	13.33	13.22
Total	100	100	100

Indec will present the report and key findings at the public hearing. The Tribunal will also accept written submissions on the Indec report received by 16 November 2007.

5.4 Issues for discussion at public hearing

IPART favours a move to using independently gathered inflators to inflate cost items in the BICI. IPART is interested in stakeholders thought on the most appropriate independent inflators and invites comments to be made at the public hearing.

IPART invites comment at the public hearing on:

- ▼ any reasons why the alternative inflators set out in Table 5.1 should not be applied to rural and regional commercial bus operators
- ▼ specific reasons why the 1.5 per cent per year productivity gains identified for STA buses might not be reached by private operators
- ▼ any concerns identified with the recommended cost weightings for the BICI set out in the report provided by Indec

- ▼ which set of Fueltrac data is most appropriate for inclusion in the BICI: retail pump prices, the terminal gate price, the card list price or wholesale IPIP⁷ price.

6 Private ferry services

For private ferries, IPART makes recommendations to the Minister on maximum fares using the Commercial Vessel Association Cost Index. The private ferry services that are covered are:

- ▼ Woy Woy - Empire Bay
- ▼ Scotland Island - Morning Bay
- ▼ Iluka - Yamba
- ▼ Cronulla - Bundeena
- ▼ Brooklyn - Dangar Island
- ▼ Circular Quay - Darling Harbour and Circular Quay - Lane Cove
- ▼ Palm Beach - Mackerel/the Basin and Palm Beach - Ettalong/Wagstaffe.

6.1 IPART issues paper

IPART's August 2007 issues paper also explored alternative approaches to calculating annual changes in the Commercial Vessel Association Cost Index (CVACI).⁸ IPART's aim in reviewing the CVACI, as for the BICI, is to improve the independence, cost reflectivity and transparency of the indices and to align its approach to calculating its recommended fare increases across transport modes where possible.

IPART put forward a number of inflators that it considered may meet its requirements for transparency, independence and consistency while still reflecting changes in industry costs.

In 2006 IPART decided to fix the weightings in the CVACI for a period of five years. In the Issues Paper, IPART indicated that it would not review the weightings of costs included in the CVACI again this year, unless such a review was requested by the industry.

A list of the current and alternative inflators together with the current weighting of costs in the CVACI is set out in the table below.

⁷ The IPIP price is an indicator based on a fixed formula, that takes into account movements in international pricing variables, such as refined product prices, shipping, wharfage, insurance, losses and local margins.

⁸ IPART *Review of cost indices for non-metropolitan buses and private ferries*, August 2007.

Table 6.1 Summary of CVACI costs and inflators

Item	Weight	Current Inflator	Possible New Inflator
Wages	40.3	Average Weekly Earnings	WPI
Fuel	12.0	Mobil Terminal Gate Price (net of excise)	Fueltrac data (net of excise)
Insurance	5.6	Actual Insurance costs paid by operators compiled by CVA	'Insurance Services' sub-group of the CPI
Interest	4.1	Interest Rates for capital borrowing and working capital facilities from NAB	Commonwealth Bond Rate
Other	37.9	CPI	CPI

6.2 Proposal received from the Commercial Vessel Association

The Commercial Vessel Association (CVA) proposed a fare increase of 1.25 per cent for commercial services based on its calculation of the CVACI. The CVA made no changes to its approach in response to the Issues Paper. However, it did attempt to calculate the changes in the index if the inflators proposed in the IPART issues paper were adopted.

In addition, the CVA submitted that:

- ▼ it is opposed to the move away from industry based inflators and the fixing of weights in the index
- ▼ a small bank business lending rate should be used rather than the Commonwealth bond rate
- ▼ given the nature of the industry there is limited scope for productivity improvements.

6.2.1 Productivity gains

As for non-metropolitan commercial buses, last year IPART recommended that the fare increase calculated by the CVACI be reduced to share the benefits of expected gains in productivity with customers. IPART's recommendations were accepted by the Minister for Transport.

However, the CVA is of the view that no adjustment should be made to account for productivity gains. The CVA submits that labour productivity has not grown and there is no justification for a discount to the cost based increase for a rise in productivity.

As for the other transport modes it regulates, IPART strongly considers that improvements in productivity should be shared with private ferry users through lower fares. IPART is interested in developing an output related productivity measure based on passenger journeys but at this stage does not have sufficient information on patronage to do this. It is also seeking specific examples of factors which suggest that productivity gains of 1.5 per cent cited for the bus industry are unattainable for these operators.

6.3 Other submissions

IPART has received comment that the level of information provided in the CVA submission is insufficient, particularly with regard to operational information, revenue, patronage and service quality.

6.4 Issues for discussion at public hearing

IPART favours a move to using independently gathered inflators to inflate cost items in the CVACI. IPART is interested in stakeholders thought on the most appropriate independent inflators and invites comments to be made at the public hearing.

IPART invites comment at the public hearing on:

- ▼ any reasons why the alternative inflators set out in Table 6.1 should not be applied to the private ferry industry
- ▼ which set of Fueltrac data is most appropriate for the CVACI: retail pump prices, the terminal gate price, the card list price or wholesale IPIP⁹ price
- ▼ specific reasons why the 1.5 per cent per year productivity gains identified for STA buses might not be reached by private ferry operators.

⁹ The IPIP price is an indicator based on a fixed formula, that takes into account movements in international pricing variables, such as refined product prices, shipping, wharfage, insurance, losses and local margins.