

STOCKTON AND PRIVATE FERRY FARES

2009 fare review

August 2009

IPART will recommend to the NSW Minister for Transport the maximum fares that can be charged from December 2009/January 2010 by regular private ferry services¹ operating in NSW. We will also make a determination on the maximum fare that can be charged for the Stockton ferry service from January 2010.

IPART determines maximum fares only. As a result, we will not review the discount applied to pensioner or student concession tickets or the cost or availability of the Pensioner Excursion ticket. We will not consider fares for Sydney Ferries services as part of this review.

How the review will be conducted

IPART will assess how the cost of providing regular passenger ferry services in NSW has changed over the previous year using the Slow Ferry Cost Index (SFCI) for ferries operating at an average speed of less than 10 knots and the Fast Ferry Cost Index (FFCI) for ferries operating at an average speed of 18 to 20 knots. We will then make a decision about maximum ferry fares, taking into account the factors we are required to consider and the comments provided to us in submissions.

In 2008, IPART extensively reviewed and consulted on the ferry cost index. We decided to move from a single ferry cost index (the Commercial Vessel Association Cost Index - the CVACI) to two ferry cost indexes - the SFCI and FFCI - in order to recognise differences in the cost structures of slow and fast ferry services. We do not intend to review the weights of the various cost components in the SFCI and FFCI. These were settled in the 2008 fare review where we indicated that we would use the weightings, updated for changes in relative prices of cost items, and inflators for the next five years.²

We are seeking written submissions by **14 October 2009**. Submissions should address the factors that IPART is obliged to consider. Stakeholders may also wish to refer to the estimated increases in the SFCI and FFCI. Both these issues are discussed below.

¹ As defined in the *Passenger Transport Act 1990*.

² IPART, *Review of fares for private ferry services and the Stockton ferry service for 2009*, November 2008.

Fares for fast ferry services were reduced in July of this year as a result of a fall in the price of diesel. The price changes recommended by IPART in its annual fare review will be based on the increase in costs over the full year, including the changes in fuel prices underlying the July fare reductions. As a result, the fare change for these services may be different from the change indicated by the annual cost index.

We expect to hold a short public hearing in October/November. We will publish our report and recommendations in late November 2009. Fare changes for the Stockton ferry will take effect from January 2010. We intend to provide our recommendations for private ferries in time to facilitate a December 2009 fare change if possible. The report and recommendations will be available from the IPART website and will be mailed to people who make a submission to the review or request a copy.

The review timetable is available from our website (www.ipart.nsw.gov.au). This timetable will be updated from time to time.

Factors IPART must consider when making the determination

IPART makes recommendations to the Minister for Transport for maximum fares to be charged for regular private ferry services under an arrangement approved by the Premier. This arrangement specifies the factors that we must consider when making recommendations.

These factors are:

- ▼ the cost of providing the services concerned
- ▼ relativities with the Government owned ferry services, including in terms of service, efficiency, cost and ticketing products
- ▼ the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service
- ▼ the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers
- ▼ the impact of pricing policies on borrowing and capital requirements and, in particular, the impact of any need to renew or increase relevant assets
- ▼ the need to maintain ecologically sustainable development
- ▼ the social impact of the recommendations
- ▼ 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), and
- ▼ the effect of any pricing recommendation on the level of Government funding provided to private operators under commercial and non-commercial contracts.

Estimated change in the slow and fast ferry cost indexes (SFCI and FFCI)

In recent years, IPART has increased maximum fares in line with the increase in the cost of providing regular ferry services. To estimate the change in costs we use industry specific cost indexes called the Slow Ferry Cost Index (SFCI) and Fast Ferry Cost Index (FFCI) – See Appendix A for an explanation of how the SFCI and FFCI are calculated.

Table 1 and Table 2 below provide an estimate of the likely increase in costs using the most up to date data available. As IPART measures changes in cost for the year to 30 September, final data are not yet available. The estimates in Tables 1 and 2 are based on changes in costs for the year to 30 June.³ IPART's final calculations of the SFCI and FFCI are expected to differ from the estimates shown below.

Table 1 Estimated change in the cost of providing slow ferry services (including the Stockton Ferry) over the year to 30 June 2009

Cost item	Index weight	Inflator	Estimated Inflator value	Contribution to 2009 change
Labour	49.9%	Productivity adjusted WPI ^a	3.8%	1.9%
Fuel	10.0%	Diesel fuel price - Fueltrac	-25.8%	-2.6%
Insurance	3.3%	CPI- Insurance ^b	11.4%	0.4%
Interest	10.9%	NAB base rate interest rate for business loan	-3.7% ^c	-0.4%
Repair and maintenance	6.7%	CPI	3.1% ^d	0.2%
Depreciation/amortisation	3.9%	CPI	3.1% ^d	0.1%
Berthing/mooring fees	0.5%	CPI	3.1% ^d	0.0%
All Other Costs	14.7%	CPI	3.1% ^d	0.5%
Total	100.0%			0.1%

^a WPI is the Wage Price Index published by the Australian Bureau of Statistics. This estimate is based on the change in WPI for the year to June 2009. The final inflator will be calculated using the change in WPI over the year to September 2009. No productivity adjustment has been applied to the above figures.

^b CPI – insurance is the Insurances services component of the Consumer Price Index published by the Australian Bureau of Statistics. This estimate is based on change in CPI Insurance services for the year to June 2009. The final inflator will be calculated using the change over the year to September 2009.

^c NAB base interest rate for business loans is estimated using change in rates for the year to June 2009. The final inflator will be calculated using the change in interest rate over the year to September 2009.

^d CPI is the Consumer Price Index published by the Australian Bureau of Statistics. This estimate is based on the change in CPI for the year to June 2009. The final inflator will be calculated using the change over the year to September 2009. The Tribunal is considering if there are alternative inflators for repair and maintenance, depreciation and amortisation and berthing and mooring fees.

Note: Columns may not add due to rounding.

Source: Index weights are sourced from IPART *Review of fares for private ferry services and the Stockton ferry service for 2009, November 2008*, p 26.

³ Except fuel, which is calculated using the value of the cost item in the 2008 as the base cost and the most recent available information (to July 2009) as the new cost in the index.

Table 2 Estimated change in cost of providing fast ferry services over the year to 30 June 2009

Cost Item	Index weight	Inflator	Estimated inflator value	Contribution to 2009 change
Labour	30.7%	Productivity adjusted WPI ^a	3.8%	1.2%
Fuel	22.4%	Diesel fuel price - Fueltrac	-25.8%	-5.8%
Insurance	5.2%	CPI- Insurance ^b	11.40%	
Interest	9.1%	NAB base rate interest rate for business loan	-3.7% ^c	0.6%
Repair and maintenance	7.7%	CPI	3.09% ^d	-0.3%
Depreciation/amortisation	11.0%	CPI	3.09% ^d	0.2%
Berthing/mooring fees	6.3%	CPI	3.09% ^d	0.3%
All Other Costs	7.6%	CPI	3.09% ^d	0.2%
Total	100.0%			-3.4%

^a WPI is the Wage Price Index published by the Australian Bureau of Statistics. This estimate is based on the change in WPI for the year to June 2009. The final inflator will be calculated using the change in WPI over the year to September 2009. No productivity adjustment has been applied to the above figures.

^b CPI – insurance is the Insurances services component of the Consumer Price Index published by the Australian Bureau of Statistics. This estimate is based on the change in CPI insurance for the year to June 2009. The final inflator will be calculated using the change in CPI over the year to September 2009.

^c NAB base interest rate for business loans is estimated using change in rates for the year to June 2009. The final inflator will be calculated using the change in interest rate over the year to September 2009.

^d CPI is the Consumer Price Index published by the Australian Bureau of Statistics. This estimate is based on the change in CPI for the year to June 2009. The final inflator will be calculated using the change over the year to September 2009. The Tribunal is considering if there are alternative inflators for repair and maintenance, depreciation and amortisation and berthing and mooring fees.

Note: Columns may not add due to rounding.

Source: Index weights are sourced from IPART *Review of fares for private ferry services and the Stockton ferry service for 2009, November 2008*, p 26.

Last year we introduced a limited mid year review of diesel fuel costs for fast ferries to address the impact of fuel price volatility on these operators (fuel accounts for around 20 per cent of the cost of operating fast ferry services). This provided for a mid year fare change if the price of fuel had increased or decreased by more than 10 per cent in the six months to 30 March. As the price of fuel decreased by more than 10 per cent in the six months to March 2009, we recommended a mid-year reduction in fast ferry fares. Fares were reduced by 4.8 per cent in July of this year.

As was explained in our 2008 review, the cost index outcome will be applied to the fares that were in place prior to the mid year fare adjustment. Based on the estimates above, this would mean that fares are expected to increase only slightly from their current level as a result of the annual fare review.

Last year we reviewed the ferry cost indexes in detail and fixed their components for five years. This year we will apply the weightings and inflators determined previously. However, particular issues on which we would welcome comment are:

- ▼ Whether the CPI is the appropriate inflator to apply to berthing and mooring, depreciation and amortisation and repair and maintenance.
- ▼ The extent to which changes in labour costs should be adjusted to take account of any potential productivity gains (so the benefits of productivity gains are shared with passengers, through lower fares) and appropriate methods of measuring productivity gains for regular passenger ferry services.
- ▼ Whether to continue with the mid term review of fuel costs for fast ferries.

How to make a submission

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

Submissions are due by 14 October 2009.

Submissions received after the deadline will not be accepted unless an extension has been granted prior to the due date.

We would prefer to receive submissions by email <ipart@ipart.nsw.gov.au>.

You can also send comments by fax to (02) 9290 2061, or by mail to:

2009 Review of Stockton and private ferry fares
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Our normal practice is to make submissions publicly available on our website <www.ipart.nsw.gov.au>. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning a member of the ferry review team on (02) 9290 8400.

If you would like further information on making a submission, our submission policy is available on our website. You can also sign up to our email notification service to receive updates regarding transport related matters, including information on events and documents related to this review.

A How the SFCI and FFCI work

In 2008, IPART reviewed ferry costs in detail, established two cost indexes and fixed their components for five years. This year we will apply the weightings and inflators determined previously.

The ferry cost indexes are intended to measure, in percentage terms, how much the overall cost of providing regulated ferry passenger services has changed in the 12 months since our last review. The ferry cost indexes consist of a basket of ferry cost items – such as fuel, labour and insurance costs. These items are weighted according to the proportion of the overall cost of providing bus services they represent. IPART updated the ferry index weights in 2008, based on the results of an industry survey of costs conducted by Indec consulting. We decided that those weights, adjusted each year for changes in the relative costs of the costs items, would apply for the next five years. Consequently, for the 2009 review we will adopt the weights used in the last review, updated for the cost increase measured by the inflator⁴.

Each cost item has a relevant ‘inflator’. The inflators are selected on the basis that that they provide the best available indication of how the cost item changes over time. Wherever possible, we have selected inflators that are based on publicly available information. For example, the relevant inflator for insurance costs is the change in the insurance services component of the CPI.

At the start of each review, we establish the relative weighting for each cost item in the ferry cost indexes, and its relevant inflator. We then establish the change in that inflator over the review period, and multiply the weighting by this value, to calculate the contribution of any increase or decrease in the cost item since the last review to the overall change in the cost of providing ferry services. Both the weighting of the cost item and value of the inflator affect its contribution to this overall change. The table below sets out a simple example of the index calculation.

Illustrative example of how the change in the SFCI and FFCI are calculated

Cost item	Weighting at start of the review	Change in relevant inflator	Calculated contribution to change in the index
	%	%	%
Labour	40	5.0	2.0
Fuel	30	10.0	3.0
Insurance	20	1.0	0.2
Maintenance	10	15.0	1.5
Total	100	-	6.7

⁴ For example, in the 2008 FFCI diesel fuel costs accounted for 18 per cent of total costs. Over 2007/08 the cost of diesel fuel rose more quickly than other items in the index, resulting in fuel costs in the 2009 FFCI now accounting for just over 22 per cent of total costs.