

2008 REVIEW OF PRIVATE FERRY FARES

Summary of proposals and review process

September 2008

This fact sheet explains IPART's 2008 review of private ferry fares and the proposal that has been received. The fact sheet is designed to help interested parties understand the process and put together submissions.

What the review covers

IPART will make recommendations to the NSW Minister for Transport on maximum fares for private ferry services in NSW. The services covered by the review are:

- ▼ Central Coast Ferries (Woy Woy - Empire Bay)
- ▼ Church Point Ferries (Scotland Island - Morning Bay)
- ▼ Dangar Island Ferry (Brooklyn - Dangar Island)
- ▼ Clarence River Ferries (Iluka - Yamba)
- ▼ Cronulla and National Park Ferry (Cronulla - Bundeena)
- ▼ Palm Beach Ferries (Palm Beach - the Basin - Mackerel and Palm Beach - Wagstaff - Ettalong)
- ▼ Matilda Cruises (Circular Quay - Darling Harbour and Circular Quay - Lane Cove).

IPART will not make recommendations on the percentage discount applied to pensioner or student concession tickets or the cost/availability of the Pensioner Excursion Ticket, as these are matters of Government policy and are outside the scope of the review.

How the review will be conducted

To commence the review process, IPART requested a fare proposal from the Commercial Vessel Association on behalf of the seven private ferry operators. The fare proposal is available from IPART's website (www.ipart.nsw.gov.au) and is explained in more detail below.

IPART is now seeking submissions to inform its decisions. The due date for submissions has been extended. Submissions are now due by close of business on 3 October 2008.

IPART will hold a public hearing in November to discuss the issues raised. All members of the public are welcome to attend the public hearing. Details of the hearing and an agenda will be circulated in advance and more information will be available from IPART's website in October.

IPART is currently required to finalise its recommendations in December, in time for a fare change at the beginning of January 2009.

IPART will provide a public report of its decision, which will be available from the IPART website and which will be mailed to all parties that make a submission to the review or request a copy.

What submissions should address

IPART is obliged to consider a number of factors in making its decision (such as the cost of providing services and the impact of fare increases on passengers) so it is helpful if submissions address those factors.

While IPART will take into account all available information in making its decision on fare changes, it will use the fare proposal it received from the industry as a starting point. It is useful if submissions refer to the fare proposal and indicate any specific areas of support or concern.

More information on these issues is provided below to help interested parties to put together submissions. Information on how to make a submission is available from IPART's website under 'How to make a submission'.

Factors that IPART must consider when making its decision

IPART will make recommendations to the Minister for Transport under an arrangement approved by the Premier. This arrangement specifies the factors that IPART must consider when making its decision.

These factors include:

- ▼ the cost of providing services
- ▼ relativity with Government owned ferry services (service, efficiency, cost and ticketing products)
- ▼ protection of consumers from abuses of monopoly power
- ▼ greater efficiency in the supply of services
- ▼ the impact on borrowing and capital requirements

- ▼ the need to maintain ecologically sustainable development
- ▼ the social impact of the recommendations
- ▼ standards of quality, reliability and safety
- ▼ the impact on the level of Government funding.

The Commercial Vessel Association's fare proposal

The Commercial Vessel Association (CVA) has proposed fare increases of 8.7 per cent for all private ferry services except Ettalong and an 11.3 per cent fare increase for Palm Beach Ferries' Palm Beach to Ettalong service. The CVA's proposal and the cost increases underlying it are summarised in Table 1.

Table 1 Commercial Vessel Association Cost Index proposed by CVA – August 2008

All except Ettalong service	Index weight %	Increase %	Contribution to index %
Labour	40.2	3.0	1.2
Fuel	12.7	39.2	5.0
Insurance	5.4	6.0	0.3
Interest	4.5	11.3	0.5
All Other	37.2	4.5	1.7
Total	100		8.7

Ettalong service	Index weight %	Increase %	Contribution to index %
Labour	35.0	3.0	1.1
Fuel	19.0	39.2	7.4
Insurance	2.0	6.0	0.1
Interest	11.0	11.3	1.2
All Other	33.0	4.5	1.5
Total	100		11.3

Source: CVA fare proposal, August 2008.

Appendix A sets out the fares for private ferry services that would result from applying the increases in the CVA fare proposal.

The Commercial Vessel Association Cost Index (CVACI) is calculated using twelve months of data to 30 September each year. As a result, the CVA has estimated the value of the inflators it used in its fare proposal. IPART will use data to the end of September in its decision, which is likely to result in different outcomes from the CVA proposal.

Fares for the Ettalong service

The CVA has requested a higher fare increase for the Ettalong service on the basis that it has a higher proportion of fuel costs than other operators. Fuel costs have increased substantially this year and as a result, the CVA submits that the Ettalong service requires a higher fare increase to remain viable. Palm Beach Ferries also submits that it has higher interest costs than other operators.

In many of the other industries that IPART regulates, it undertakes a detailed examination of the costs faced by each individual business and forms a view on the efficiency of past and forecast expenditure before deciding on appropriate price changes. Such reviews are comprehensive and tend to require substantial input from the regulated business. IPART has previously decided that this approach would be overly intrusive and costly for the private ferry industry and has instead decided to use a cost index to calculate fare changes.

Using a single cost index for the industry means that fare changes may not match the change in costs faced by every individual operator. Nevertheless, the index approach should provide a reasonable estimate of the change in costs faced by the industry overall.

Because different costs move at different rates it is important that IPART's approach is consistent over time. Granting higher fare increases to individual operators when one of their costs has increased above that of other operators is not fair to passengers, who are unable to benefit in times when costs are below the industry average. For example, while fuel costs have risen over the past 12 months, they fell by 10 per cent last year. Fares for the Ettalong service were adjusted in line with fares for all private ferry services last year so passengers did not receive the benefit of all of the fuel price reductions that Palm Beach Ferries would have experienced.

There is a balance between ensuring that the index reflects movements in the costs faced by the industry and consistency over time. If IPART decides that the Ettalong service should be treated differently from other private ferry services because its costs structure is different, its exclusion from the CVACI will be permanent.

Inflaters to use for cost increases

The CVA fare proposal reiterates the private ferry industry's opposition to the use of independently gathered inflators to determine cost increases. The CVA has again asked IPART to use industry sourced data as the cost inflators.

Last year IPART reviewed the inflators for the private ferry industry in some detail and decided that for all of the cost items in the CVACI there is an independent inflator that should provide a reasonable estimate of the change in efficient costs incurred by ferry operators. IPART's decisions on these inflators are set out in Table 2 together with those proposed by the CVA.

Table 2 Comparison of IPART inflators with CVA proposed inflators

Cost item	IPART inflator - 2007 decision	CVA proposed inflator
Labour	Wage Price Index (adjusted for productivity improvements)	Marine Charter Vessel State Award – weighted average of Master and General Purpose Hand
Fuel	Mobil Sydney Gate diesel price	Mobil Sydney Gate diesel price (estimated to September 2008)
Insurance	CPI – Insurance sub group	Mid-point of estimate from Oamps Gault Amstrong
Interest	1 year Commonwealth Bond Swap Rate	Change in cost of a NAB small business loan
All Other	CPI	CPI

Source: IPART *Review of fares for rural and regional buses and private ferries from 2 January 2008 Recommendations to the Minister*, December 2007 and CVA fare proposal, August 2008.

Some of the specific issues that IPART has identified regarding the CVA’s proposed inflators are discussed below.

Wages

In 2007 IPART decided to move away from the use of the industry Award wage and to adopt productivity adjusted Wage Price Index for inflating labour costs. There were a number of reasons for this.

In order to provide an estimate of the cost increase to operators, the Award rates are adjusted by the CVA – for example, this year the CVA has calculated a ‘weighted average’ of Masters and General Purpose Hands. Focusing on the Marine Charter Vessel Award rate of pay ignores costs associated with wages that are paid for other tasks (such as, administration) that are not governed by this Award. IPART cannot check that the industry’s estimate reflects the costs of the industry and cannot make an informed decision on whether the weights or types of employee rates applied are appropriate.

Insurance

Last year, IPART decided that the insurance sub-group of the CPI would provide a reasonable estimate of the change in insurance costs and indicated that it would use this approach to inflate insurance costs in the future.

The CVA has proposed an increase in insurance costs based on an estimate provided informally by a single insurer at the CVA’s request. This year, the CVA submission quotes the insurer as saying that they ‘Would suggest an overall average for our clients is between 5-7%’. No data is provided from the insurer to substantiate that opinion.

In the past IPART has not considered it appropriate to rely on information provided by the industry where an independent and verifiable measure was available. IPART has committed to monitoring the appropriateness of the CPI-Insurance value over time.

Fare change date

The CVA has requested a 1 December fare change, and not a 1 January fare change as has been made in the past. The reasons given to IPART by the industry are that:

- ▼ ferry operators believe that regular commuters often receive no notice of a 1 January fare change as they tend to be on holidays during December – an early fare change would provide notice to these passengers prior to their annual leave
- ▼ ferry operators with a lot of patronage over the new year period submit that it would be simpler to change the fares outside of the peak holiday season.

As IPART is not the determining authority for private ferry fares the fare change date does not fall within IPART's discretion. Whether a December fare change is appropriate is likely to depend on a number of factors including the contractual arrangements in place, consistency with other services and consistency over time. IPART has asked the Ministry of Transport to consider this issue and advise IPART if it would like it to bring forward the date of its fare recommendation.

Other issues raised by the industry

Subsequently, the CVA and a number of private ferry operators have requested that IPART broaden its review, if possible, to consider the following issues:

- ▼ the appropriateness of the cost weightings in the index used to adjust fares (the CVACI – Commercial Vessel Association Cost Index)
- ▼ the adequacy of the CVACI in addressing capital costs, in particular, the cost of new ferries
- ▼ the adequacy of the CVACI in addressing large fuel price increases
- ▼ the administrative cost of rounding to ten cent increments, rather than a larger increment.

In response to these issues, IPART intends to engage a consultant to review the costs of the industry with a view to reweighting the CVACI. This will require ferry operators to provide information regarding their cost structure. The consultant will be asked to provide a report outlining its method and recommendations, which will be released publicly so that interested parties have the opportunity to provide comment prior to IPART making its decision.

A Private ferry fares proposed by the CVA

Applying the percentage increases proposed by the CVA to the current fares for private ferry services results in the following fare increases:

Table A.1 Increase in fares under CVA fare proposal – adult single fares

OPERATOR / ROUTE	2008 fare (\$)	2009 fare (\$)	Change (\$)	Change (%)
Central Coast Ferries / Woy Woy - Empire Bay	6.20	6.80	0.60	9.7
Church Point / Scotland Island - Morning Bay	6.30	6.90	0.60	9.5
Clarence River Ferries / Iluka - Yamba	6.10	6.60	0.50	8.2
Cronulla - National Park / Cronulla - Bundeena	5.40	5.80	0.40	7.4
Dangar Island / Brooklyn - Dangar Island	5.40	5.80	0.40	7.4
Matilda Cruises / Circular Quay - Darling Harbour	6.10	6.60	0.50	8.2
Matilda Cruises / Circular Quay - Lane Cove	6.10	6.60	0.50	8.2
Palm Beach / Palm Beach - Mackerel and the Basin	6.30	6.90	0.60	9.5
Palm Beach / Palm Beach - Ettalong Wagstaff	9.10	10.10	1.00	11.0