

## INFORMATION PAPER

# Review of 2015 fares for private ferries and the Newcastle-Stockton ferry

August 2014

IPART has been asked by the Premier to review the maximum fares for the seven private ferry operators who provide regular passenger ferry services under contract to Transport for NSW (TfNSW). Each operator serves a distinct route or routes in the Sydney, Central Coast and North Coast areas of NSW (Table 1). Operators may charge less than the recommended maximum fare if they wish.<sup>1</sup>

We will also review and determine the maximum fares that can be charged for the Stockton ferry operated by Newcastle Buses and Ferries, a division of the State Transit Authority.

We will not review the discount applied to concession tickets or the cost or availability of the Pensioner Excursion Ticket as these are matters for government to determine. We will not consider fares for Sydney Ferries services as part of this review. Information about our current Sydney Ferries fare determination, which covers the period from 2013 to 2016, is available on our website.

**Table 1 Ferry services included in IPART's review**

Operator	Routes
Central Coast Ferries	Woy Woy to Empire Bay
Church Point Ferry Service	Scotland Island and western foreshore of Pittwater
Clarence River Ferries	Iluka to Yamba
Cronulla and National Park Ferry Service	Cronulla to Bundeena
Brooklyn Ferry Service	Brooklyn to Dangar Island
Matilda Cruises	Circular Quay to Darling Harbour Circular Quay to Lane Cove
Palm Beach Ferry Service	Palm Beach to Mackerel Beach and the Basin Palm Beach to Ettalong and Wagstaffe
Newcastle Buses and Ferries (owned by the State Transit Authority)	Newcastle to Stockton

<sup>1</sup> Subject to the provisions of the relevant service contract.

## How do we propose to approach this review?

Since 2008, we have used two cost indices to assess how the cost of providing regular private ferry services in NSW changes from year to year: 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.

In our review last year, we found slow ferry operators on average were not recovering all costs, including a reasonable return on capital, from fares and government payments.<sup>2</sup> However, fast ferry operators on average were recovering all costs, including a reasonable return on capital, from fares. The Commercial Vessel Association of NSW has submitted that there are ongoing financial viability issues in the private ferry industry.<sup>3</sup> However, large fare increases in the past have led to a reduction in patronage which in turn lowered revenue and return on assets.<sup>4</sup>

In our review this year, we propose to recommend or set fares based on the same model we use for other transport providers, measuring the costs of providing the services in the most efficient way before setting fares.

We have engaged Indec Consulting to review the efficient costs of providing these ferry services for all operators except for Matilda. In the case of the ferry services operated by Matilda, both of which are fast ferry services, they currently charge below the maximum fare due to competition from other operators and transport modes. We do not propose to review the efficiency of Matilda's costs as competition is currently protecting consumers.

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2 Operators receive Government payments for providing concessions fares and for school travel. Some operators also receive financial viability payments.

3 See the transcript from the Public Hearing on 15 October 2013, p 15, available at [http://www.ipart.nsw.gov.au/Home/Industries/Transport/Reviews/Private\\_Ferries\\_and\\_Stockton\\_Ferry/Review\\_of\\_fares\\_for\\_Private\\_Ferries\\_and\\_the\\_Stockton\\_Ferry\\_for\\_2014](http://www.ipart.nsw.gov.au/Home/Industries/Transport/Reviews/Private_Ferries_and_Stockton_Ferry/Review_of_fares_for_Private_Ferries_and_the_Stockton_Ferry_for_2014). See also IPART, *Review of maximum fares for private ferry services and the Stockton ferry service for 2014 – Final Report and Recommendations*, December 2013, pp 4-5.

4 IPART, *Review of fares for private ferry services and the Stockton ferry service for 2010 – Final Report and Determination*, December 2009, pp 9-10.

## Factors we consider when undertaking the review

IPART makes recommendations to TfNSW 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 and the need for greater efficiency in the supply of services so as to reduce costs for the benefit of customers
- ▼ relativities with Sydney Ferries' services 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 to maintain ecologically sustainable development
- ▼ the impact on customers 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 contracts.

IPART determines the Stockton ferry fare under section 11 of the *Independent Pricing and Regulatory Tribunal Act 1992* (IPART Act). The factors we are required to consider in making the determination are set out in section 15 of the IPART Act (which can be accessed on our website) and are similar to those listed above.

## How can stakeholders provide input to this review?

We are now seeking submissions from interested parties. Submissions should be made by 20 September 2014.

In October, we will release the Indec Consulting report on the efficient costs of providing private ferry services and the Stockton ferry for public consultation. We will also release our draft report outlining our draft findings and recommendations for private ferry fares and Stockton ferry fares for 2015.

We will hold a Public Hearing in early November 2014 at which stakeholders will have a further opportunity to provide input to the review, and we will take submissions on the draft report until mid-November.

We will then make decisions about maximum ferry fares, taking into account the factors we are required to consider and the comments provided to us in submissions and at the public hearing.

The indicative timetable for the review is set out in Table 2.

**Table 2 Indicative timetable for the review**

<b>Milestone</b>	<b>Date</b>
Release information paper	25 August 2014
Submissions due on information paper	20 September 2014
Release draft report	October 2014
Public hearing and submissions on draft report due	November 2014
Release final report	December 2014
Fare changes effective:	
- private ferries	December 2014
- Stockton ferry	January 2015

If you are interested in keeping informed of our review, you can register for updates on our website.<sup>5</sup>

## Issues we have identified for consideration

Following is a list of issues on which we would like stakeholder feedback. Some of these issues are related to the factors we are required to consider as set out above as well as those which have arisen through previous reviews.


Reviewing the efficient costs of providing ferry services involves estimating an appropriate return on capital (ie, cost of capital). We propose to use our standard approach for estimating the weighted average cost of capital (WACC).<sup>6</sup> An updated estimate of the WACC for different industries is available on our website.<sup>7</sup> We also invite comment on the most appropriate way to value the assets used to provide regulated ferry services. For example, this could include the book value of the assets or their market value if they were sold in the market today.

- 1 How should we set an appropriate cost of capital for ferry operators, including the underlying cost of capital parameters?
- 2 What is the most appropriate way to estimate the value of the existing assets of the ferry services under review?

<sup>5</sup> [http://www.ipart.nsw.gov.au/Home/Footer\\_Links/Subscribe\\_for\\_updates](http://www.ipart.nsw.gov.au/Home/Footer_Links/Subscribe_for_updates).

<sup>6</sup> For information on IPART's methodology for estimating the WACC, see [http://www.ipart.nsw.gov.au/Home/Industries/Research/Reviews/WACC/Review\\_of\\_method\\_for\\_determining\\_the\\_WACC](http://www.ipart.nsw.gov.au/Home/Industries/Research/Reviews/WACC/Review_of_method_for_determining_the_WACC).

<sup>7</sup> [http://www.ipart.nsw.gov.au/Home/Industries/Research/Fact\\_Sheets\\_Information\\_Papers](http://www.ipart.nsw.gov.au/Home/Industries/Research/Fact_Sheets_Information_Papers).



Matilda Cruises does not currently charge the maximum fare for the services it operates.<sup>8</sup> This is likely due to the need to retain passengers and to compete against other operators and modes of transport. As Matilda currently charges below the maximum fare, our initial view is that we should continue to use the Fast Ferry Cost Index to recommend any change in their maximum fares.

**3 Should we continue to use the Fast Ferry Cost Index for Matilda Cruises?**

As discussed above, some stakeholders are concerned about the financial viability of private ferry operators. Increasing the number of people who use these services would increase fare revenue and therefore support ferry operators' businesses. We are interested in stakeholder comment on how patronage could be increased on the ferry services under review.

**4 What is the scope for increasing patronage on the ferry services under review?**

In past reviews, we have received submissions critical of the level of service provided by the Stockton Ferry. We note that the issue of service levels and standards is a policy decision for the Government. However, we are interested in receiving information about performance against those standards.

**5 What are your views on service levels and standards of the ferry services under review?**

We also invite comment on any other issues not listed above.

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<sup>8</sup> Information from Matilda Cruises website as at 14 August 2014.