

STOCKTON AND PRIVATE FERRY FARES

2012 fare review

October 2012

IPART will recommend to Transport for NSW the maximum fares that can be charged from December 2012 by regular private ferry services¹ operating in NSW (see Appendix A for a list of ferry services). We will also make a determination on the maximum fare that can be charged for the Stockton ferry service, from January 2013, which is operated by the State Transit Authority.

IPART determines or recommends maximum fares only. We will not review the discount applied to 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 private ferry services in NSW has changed over the past 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.

Generally, we apply the change in the respective index to the current 'master' (or unrounded) fare for each service and round to the nearest 10 cents. **Please note that the index change will be applied to the master (or unrounded) fare rather than the actual current fare.**

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



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 2 ferry cost indices - 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 5 years.²

We are seeking written submissions by **16 November 2012**. 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.

Fare changes for the Stockton ferry will take effect from January 2013. We intend to provide our recommendations for private ferries to the Transport for NSW in time to facilitate a December 2012 fare change. The report and recommendations will be available from the IPART website.

The review timetable is available from our website <www.ipart.nsw.gov.au>. This timetable may be updated from time to time.

Factors we consider when undertaking the review

IPART makes recommendations to Transport for NSW 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.

² IPART, *Review of fares for private ferry services and the Stockton ferry service for 2009*, November 2008, p. 13.

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, 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 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.

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

In recent years, IPART has determined or recommended maximum fares in line with the increase (or decrease) in the cost of providing regular private ferry services. To estimate the change in costs we use industry specific cost indices called the Slow Ferry Cost Index (SFCI) and Fast Ferry Cost Index (FFCI) – see Appendix B 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 information available. As IPART measures changes in costs for the year to 30 September, not all final data are available yet. The estimates in Tables 1 and 2 are based on changes in costs for the year using the most recent data available for each inflator, as noted.

Cost indices, such as the SFCI and FFCI, are likely to overstate the price increases necessary to adequately compensate ferry operators in the absence of an adjustment for productivity growth. This is most obvious in the case of an input such as wages, which tends to grow at a faster rate than final consumer prices. This occurs because inputs, such as labour, are able to be used more productively and hence increases in wages and other input costs translate into a lower increase in final prices.



We have recently decided on a consistent approach to measuring the scope for productivity improvements in industries where we regulate prices using a cost index. Our approach is to:

- ▼ Establish an appropriate long term measure of economy-wide productivity to apply to the whole cost index.
- ▼ Determine an adjustment, where necessary, based on a consistent and transparent set of qualitative factors. This allows us to deviate from an economy-wide productivity measure to take into account industry specific factors.³

In terms of the appropriate measure to use, market sector multi-factor productivity (MFP) calculates economy-wide productivity changes. Gross output MFP takes into account capital, labour and the intermediate goods (services, energy and materials) used in production and is likely to be the most comprehensive measure of changes in technical efficiency in all factors of production.

Adopting a long term average of economy-wide productivity measures will smooth out short term cyclical effects on productivity. Between 1995 and 2010, the average annual gross output multi-factor productivity in market sector industries was 0.3%.⁴

IPART's final calculations of the SFCI and FFCI are expected to differ slightly from the estimates shown below.

³ IPART, *Review of Taxi Fares in NSW: Maximum fares from July 2012 - Final Report and Recommendations*, June 2012, p 38.

⁴ The data are in ABS Cat #5260.0.55.002 Experimental Estimates of Industry Multifactor Productivity, Australia: Detailed Productivity Estimates, 7 December 2011, Table 15.

Table 1 Estimated change in the cost of providing slow ferry services (including the Stockton Ferry)

Cost item	Index weight	Inflator	Estimated Inflator value	Contribution to 2012 change
Labour	52.0%	WPI ^a	3.6%	1.9%
Fuel	8.0%	Diesel fuel price - FUELtrac ^b	10.6%	0.8%
Insurance	3.8%	CPI- Insurance ^c	6.4%	0.2%
Interest	9.8%	NAB base rate interest rate for business loan ^d	-4.0%	-0.4%
Repair and maintenance	6.9%	CPI ^e	2.4%	0.2%
Depreciation/amortisation	4.0%	CPI ^e	2.4%	0.1%
Berthing/mooring fees	0.5%	CPI ^e	2.4%	0.0%
All Other Costs	15.0%	CPI ^e	2.4%	0.4%
Total	100.0%			3.2%
Productivity adjustment				0.3%
Productivity adjusted total				2.9%

^a WPI is the Wage Price Index published by the Australian Bureau of Statistics. Data for the year to 30 June 2012 compared with the year to 30 June 2011.

^b Data for the year to 31 July 2012 compared to the year to 31 July 2011.

^c CPI – Insurance is the insurances services component of the Consumer Price Index published by the Australian Bureau of Statistics. Data for the year to 30 June 2012 compared to the year to 30 June 2011.

^d Data for the year to 30 September 2012 compared to the year to 30 September 2011.

^e CPI is the Consumer Price Index published by the Australian Bureau of Statistics. Data for the year to 30 June 2012 compared to the year to 30 June 2011.

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 2012*, November 2011, p 33.

Table 2 Estimated change in cost of providing fast ferry services

Cost Item	Index weight	Inflator	Estimated inflator value	Contribution to 2012 change
Labour	32.9%	WPI ^a	3.6%	1.2 %
Fuel	18.4%	Diesel fuel price - FUELtrac ^b	10.6%	1.9%
Insurance	6.2%	CPI- Insurance ^c	6.4%	0.4%
Interest	8.5%	NAB base rate interest rate for business loan ^d	-4.0%	-0.3%
Repair and maintenance	8.0%	CPI ^e	2.4%	0.2%
Depreciation/ amortisation	11.6%	CPI ^e	2.4%	0.3%
Berthing/mooring fees	6.6%	CPI ^e	2.4%	0.2%
All Other Costs	7.9%	CPI ^e	2.4%	0.2%
Total	100.0%			4.0%
Productivity adjustment				0.3%
Productivity adjusted total				3.7%

^a WPI is the Wage Price Index published by the Australian Bureau of Statistics. Data for the year to 30 June 2012 compared with the year to 30 June 2011.

^b Data for the year to 31 July 2012 compared to the year to 31 July 2011.

^c CPI – Insurance is the insurances services component of the Consumer Price Index published by the Australian Bureau of Statistics. Data for the year to 30 June 2012 compared to the year to 30 June 2011.

^d Data for the year to 30 September 2012 compared to the year to 30 September 2011.

^e CPI is the Consumer Price Index published by the Australian Bureau of Statistics. Data for the year to 30 June 2012 compared to the year to 30 June 2011.

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 2012*, November 2011, p 33.

Key issues for this review

In 2008, we reviewed the ferry cost indices in detail and fixed their components for 5 years. This year we do not intend to change this approach and we will apply the weightings and inflators determined previously. However, we would welcome comment on any issues that stakeholders would like to raise.

We understand that some local councils may have either introduced or increased wharf access charges substantially in the past year, and that the increase in charges is different across ferry operators and wharves. In this instance, it may be appropriate to include measures in the form of fare regulation to address this cost increase and any differential impact on ferry operators.

IPART seeks comment on the following

- 1 Have wharf access charges increased materially in the past year? If so, have they increased uniformly? What measures could IPART employ to accommodate an increase in wharf access charges?

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 16 November 2012.

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 them electronically via our online submission form <www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission>.

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

2012 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 Ferry services covered by this review

The ferry services covered by this review are listed in Table A.1.

Table A.1 Ferry services covered by this 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
Dangar Island Ferries	Brooklyn to Dangar Island
Matilda Cruises	Circular Quay to Darling Harbour (fast ferry) Circular Quay to Lane Cove (fast ferry)
Palm Beach Ferry Service	Palm Beach to Mackerel Beach and the Basin Palm Beach to Ettalong and Wagstaff (fast ferry)
Newcastle Buses and Ferries (operated by the State Transit Authority)	Newcastle to Stockton

B How the SFCI and FFCI work

In 2008, IPART reviewed ferry costs in detail, established 2 cost indexes and fixed their components for 5 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 ferry 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 cost items, would apply for the next 5 years. Consequently, for the 2012 review we will adopt the weights used in the last review, updated for the cost increase measured by the inflator⁵.

Each cost item has a relevant ‘inflator’. The inflators are selected on the basis 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.

⁵ For example, in the 2011 FFCI diesel fuel costs accounted for 16% of total costs. Over 2010/11 the cost of diesel increased in comparison to other items in the index, resulting in fuel costs in the 2012 FFCI now accounting for 18% of total costs.

Table B.1 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