

Review of Stockton and Private Ferry Fares for 2014

IPART's proposed fare setting approach

Transport — Issues Paper
August 2013



Independent Pricing and Regulatory Tribunal

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Invitation for submissions

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

Submissions are due by 20 September 2013.

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:

Review of Stockton and private ferry fares for 2014
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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 one of the staff members listed on the previous page.

We may choose not to publish a submission—for example, if it contains confidential or commercially sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please indicate this clearly at the time of making the submission. IPART will then make every effort to protect that information, but it could be disclosed under the *Government Information (Public Access) Act 2009* (NSW) or the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW), or where otherwise required by law.

If you would like further information on making a submission, IPART's submission policy is available on our website.

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1 Overview

IPART has commenced our annual review of fares for regular private ferry services and the Stockton ferry.

We will recommend to Transport for NSW the maximum fares that can be charged from December 2013 by regular private ferry services¹ operating in NSW. We will also make a determination on the maximum fare that can be charged from January 2014 for the Stockton ferry service, which is operated by the State Transit Authority. See Appendix A for a list of these ferry services and the current maximum fare for each.

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. Information about our current Sydney Ferries fare determination, which covers the period from 2013 to 2016, is available on our website.

This issues paper sets out the proposed process for the review and some issues we have identified for the review, and seeks submissions on those issues or other relevant aspects of the review. Submissions are due by 20 September 2013. We would prefer to receive them electronically via our online submission form www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission.

How the review will be conducted

Since 2008 we have used 2 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.

As the cost indices were last reviewed 5 years ago, this year we will review whether the cost indices are the most appropriate form of price regulation for private ferries and the Stockton ferry in future.

We have commenced our review by engaging consultants from the Centre for International Economics (the CIE) to survey ferry operators to obtain information about their costs. We will use that information to help inform our judgment of the best form of price regulation for private ferries and the Stockton ferry.

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

We have also identified some issues and formed some preliminary views on aspects of the form of price regulation for private ferries and the Stockton ferry. These are set out in further detail in this paper. We are seeking submissions from interested parties on the issues we have identified and any other relevant aspects of the review. Submissions should be made by 20 September 2013.

In early October, we will release the CIE’s report on the costs of providing private ferry services and the Stockton ferry for public consultation. We will also release our draft report outlining our proposed approach to private ferry and Stockton ferry fares for this and future years.

We will hold a public hearing on 15 October 2013 at which stakeholders will have a further opportunity to provide input to the review, and we will take submissions on the draft report until early November.

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 and at the public hearing.

The current indicative review timetable is set out in Table 1.1. The timetable is also available from our website <www.ipart.nsw.gov.au>, where it may be updated from time to time.

Table 1.1 Indicative timetable for the review

Event	Date
Consultant commences ferry operator cost survey	August 2013
Release this issues paper about the review	August 2013
Submissions due	20 September 2013
Release consultant’s report and draft report – seek submissions	early October 2013
Public hearing	15 October 2013
Submissions due	early November 2013
Provide final report with private ferry recommendations and Stockton determination to Transport for NSW	early December 2013
Release final report when TfNSW advises decision has been made on private ferries	December 2013
Fare changes effective:	
- private ferries	December 2013
- Stockton ferry	January 2014

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.

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.

Issues we have identified for consideration

The issues we have identified for consideration include some which are related to the factors we are required to consider as set out above, as well as some which have arisen through previous reviews.

A proportionate approach to price regulation

The private ferry industry is very small, and we have previously questioned whether it needs price regulation at all. Given that we are asked to undertake price reviews, we consider that they should be undertaken in as simple and cost-effective a way as possible, while still addressing the factors we are required to address.

In the current review, we are seeking input on the following questions:

- ▼ Have the 2 industry-specific indices achieved efficient, effective and equitable fare outcomes for private ferries and the Stockton ferry to date?
- ▼ Should different methodologies be applied to the fares of slow and fast ferries, or is there merit in applying the same approach to both?
- ▼ Would there be benefit in moving to a simpler fare-setting methodology, such as increasing fares by the consumer price index (CPI) every year, or developing a single modified index? If the latter, what should its components be?

1.1.1 Financial viability issues in the private ferry industry

The Commercial Vessel Association of NSW (CVA) has frequently submitted that there are ongoing financial viability issues in the private ferry industry due to the high capital and operating costs involved in delivering its services. However, large fare increases have in the past led to decreased patronage which in turn lowered revenue and return on assets.

In addition, 2 operators² do not currently charge the maximum fare for the services they operate; this is likely due to the need to retain passengers and to compete against other operators and modes of transport.

We have previously noted that, in our view, the concerns expressed by the CVA cannot be addressed by an increase in the level of fares.

- ▼ What form of price regulation would best balance the issue of affordability for customers and maintaining financial viability in the private ferry industry?
- ▼ Is there an argument for maintaining the maximum fare at current levels (ie, freezing fares) where the operators are charging below the maximum fares currently?

1.1.2 Other issues

In the 2012 review, we received 2 submissions to the review from individuals which were 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.

² Matilda Cruises and Central Coast Ferries; information from respective websites as at 20 August 2013.

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	Current Maximum Fare
Central Coast Ferries	Woy Woy to Empire Bay	\$7.00
Church Point Ferry Service	Scotland Island and western foreshore of Pittwater	\$7.40
Clarence River Ferries	Iluka to Yamba	\$7.20
Cronulla and National Park Ferry Service	Cronulla to Bundeena	\$6.30
Brooklyn Ferry Services	Brooklyn to Dangar Island	\$6.30
Matilda Cruises	Circular Quay to Darling Harbour (fast ferry)	\$5.70
	Circular Quay to Lane Cove (fast ferry)	\$5.70
Palm Beach Ferries	Palm Beach to Mackerel Beach and the Basin	\$7.50
	Palm Beach to Ettalong and Wagstaffe (fast ferry)	\$10.90
Newcastle Buses and Ferries (operated by the State Transit Authority)	Newcastle to Stockton	\$2.50

B How the SFCI and FFCI work

In 2008, we reviewed ferry costs in detail, established 2 cost indices and fixed their components for 5 years. This year we have engaged consultants to review and reweight the indices.

The ferry cost indices 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 indices 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,³ would apply for the subsequent 5 years.

Each cost item has a relevant ‘inflater’. 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 inflater 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 indices, and its relevant inflater. We then establish the change in that inflater over the review period and multiply the weighting by this value to calculate the contribution of any change 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 inflater affect its contribution to this overall change. The table below sets out a simplified illustration of an index calculation.

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 inflater	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

³ For example, in the 2011 FFCI diesel fuel costs accounted for 16% of total costs. Over 2011/12 the cost of diesel increased in comparison to other items in the index, resulting in fuel costs in the 2012 FFCI accounting for 18% of total costs.