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Mr James Cox
Chief Executive Officer
Independent Pricing and Regulatory Tribunal of NSW
PO Box Q290
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Dear Mr Cox,

I refer to your recent letter regarding the Independent Pricing and Regulatory Tribunal of NSW (the Tribunal) review of fares for private ferries and the Stockton ferry service.

I would like to thank the Tribunal for the work it has undertaken in this review.

I have noted that the Tribunal recommends an average 1.3% decrease in slow private ferry maximum fare prices. I have also noted that the Tribunal has determined no change to fares on the Stockton ferry service and recommends no change to fares on fast private ferry services.

I note that the recommended decrease for slow private ferries is relatively small in size however the extent of disruption to operators is likely to be significant. In addition to this, there are a number of changes in costs to private service providers that may impact on the viability of some operations. These include changes to wages through new awards and the impact of new wharf charges on some routes.

I would like to advise that after careful consideration of the recommendations made by the Tribunal, and in light of above issues, I have decided to make no change to slow private ferry fares. However, I trust that IPART will take this into consideration when recommending any potential fare increases as part of the 2010 review process.

Yours sincerely,

Les Wielinga
Director General

Review of fares for private ferry services and the Stockton ferry service for 2010

Regulated passenger ferry services run by private operators and the Newcastle (Stockton) ferry service run by Newcastle Buses and Ferries

Transport — Report, Recommendations and Determination

December 2009

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The Tribunal members for this review are:

Mr James Cox, Acting Chairman and Chief Executive Officer

Ms Sibylle Krieger, Part Time Member

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Review of fares for private ferry services and the Stockton ferry service for 2010

Regulated passenger ferry services run by private operators and the Newcastle (Stockton) ferry service run by Newcastle Buses and Ferries

Transport — Report and Recommendations
December 2009

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1 Introduction and executive summary

The Independent Pricing and Regulatory Tribunal of New South Wales (IPART) is responsible for setting fares for:

- ▼ private ferry services (under section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992*)¹
- ▼ the Newcastle (Stockton) ferry service (under section 11 of this Act).

We have now completed these reviews. We have made recommendations to the Minister for Transport on maximum fares for private ferry services. These services are provided by 7 operators, most of which are small operators. Each serves distinct routes in the Sydney, Central Coast and North Coast areas of NSW, so do not compete with each other. We have also made a determination on the maximum fare for the Stockton ferry service. This service is provided by the state-owned operator, Newcastle Buses and Ferries.

1.1 Overview of our decisions

Based on the findings of our review, we have decided that:

- ▼ fares for slow private ferry services should decrease by 1.3% before rounding
- ▼ fares for fast private ferry services should not change – fares for fast ferries reduced by 4.8% in July 2009 compared with the last annual review of private ferry fares²
- ▼ the fare for the Stockton ferry service should not change.

The change in fares for slow private ferry services is made to the master fare schedule, because of rounding, not all fares change by the amount listed above. In fact, many fares would not change at all under our recommendations. Table 1.1 summarises the change in maximum fares.

¹ By arrangement with New South Wales Transport and Infrastructure, and with the approval of the Premier of NSW.

² As fares were reduced by 4.8% in July due to the mid year review of fuel costs, the actual fares for fast ferry services will not change (see Table 1.1).

We also decided to retain the limited mid-term review of fuel costs for fast private ferry services in 2010. If this review indicates that fuel costs have increased or decreased by more than 10%, we will recommend an adjustment to the fares for these services.

1.2 Overview of recommendations and determination

In relation to private ferries, we recommend:

- 1 That the Minister for Transport change maximum private ferry fares to the amount shown in the '2010 fare' column in the table below.

Table 1.1 Recommended maximum fares for private ferry services for 2010

| Route | Current maximum fare ^a | 2010 fare | Difference | |
|--|-----------------------------------|-----------|------------|------|
| | \$ | \$ | \$ | % |
| Woy Woy – Empire Bay | 6.70 | 6.60 | -0.10 | -1.5 |
| Scotland Island and western foreshore of Pittwater | 6.80 | 6.70 | -0.10 | -1.5 |
| Iluka – Yamba | 6.60 | 6.50 | -0.10 | -1.5 |
| Cronulla – Bundeena | 5.70 | 5.70 | 0.00 | 0.0 |
| Brooklyn – Dangar Island | 5.70 | 5.70 | 0.00 | 0.0 |
| Circular Quay – Darling Harbour | 6.40 | 6.40 | 0.00 | 0.0 |
| Circular Quay – Lane Cove | 6.40 | 6.40 | 0.00 | 0.0 |
| Palm Beach – Mackerel and the Basin | 6.80 | 6.70 | -0.10 | -1.5 |
| Palm Beach – Ettalong Wagstaff | 9.60 | 9.60 | 0.00 | 0.0 |

a: For slow ferries, the current fare is the fare recommended as part of the 2008 fare review. For fast ferries the current fare was recommended as part of the mid year review of fuel costs.

We understand that the Minister for Transport's decision on fares for private ferry services will take effect in December 2009.

In relation to the Newcastle (Stockton) ferry service, fares will not change. We have applied the 1.3% decrease to the master fare schedule, then rounded the fare and determined that it will not change.

Table 1.2 Fare determined for Newcastle (Stockton) ferry service from January 2010

| Route | Current fare ^a | 2010 fare | Difference | |
|---|---------------------------|-----------|------------|-----|
| | \$ | \$ | \$ | % |
| Queens Wharf Newcastle – Stockton Wharf | 2.30 | 2.30 | 0.00 | 0.0 |

a The current fare is the fare determined as part of the 2008 fare review.

1.3 Structure of the report

This report explains our recommendations for private ferry fares and our determination of the Stockton ferry fare in detail:

- ▼ Chapter 2 explains our role in regulating ferry fares in NSW and our approach to this years review.
- ▼ Chapter 3 sets out our recommendations on private ferry services and our determination of the Stockton ferry fare.
- ▼ Chapter 4 examines the impact of our decisions on stakeholders.

2 | IPART's role and approach

Our role in regulating private ferry services is to recommend to the Minister for Transport maximum fares for regular private ferry services (as defined by the *Passenger Transport Act 1990*), under section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992* (IPART Act). We are also responsible for determining the maximum fare Newcastle Buses and Ferries can charge for its Stockton ferry service under section 11 of the IPART Act.

To help us make our recommendation and determination, we have reviewed the current ferry fares, taking into account a range of information and considering the issues specified in the terms of reference and the IPART Act (see Appendices A and B).

As part of our current review, we released a fact sheet in September 2009 which sought submissions from interested stakeholders and summarised the review process. As was the case in last year's review, we decided to combine the Stockton ferry and private ferry reviews.

The ferry services covered by this review are listed in Table 2.1.

Table 2.1 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 Circular Quay to Lane Cove |
| Palm Beach Ferry Service | Palm Beach to Mackerel Beach and the Basin Palm Beach to Ettalong and Wagstaff |
| Newcastle Buses and Ferries (owned by the State Transit Authority) | Newcastle to Stockton |

We received our Terms of Reference for the private ferry fares review in September 2009. The terms of reference require us to provide our recommendations to the Minister for Transport by 30 November 2009. Our role is limited to providing recommendations; the Minister for Transport will decide the date on which these changes, if accepted, will take effect.

Section 2.1 below outlines our approach to the review and our decision making process. Section 2.2 explains the approach used to calculate any recommended fare changes, particularly the ferry cost indexes, which are a key part of this approach.

2.1 IPART's review process

In conducting this review, we conducted public consultation and completed our own research and analysis. In particular, we:

- ▼ Released a fact sheet summarising our review process and providing indicative fare outcomes to assist interested parties in commenting to provide submissions on the review.
- ▼ Sought submissions from interested stakeholders, including the CVA and NSWTI, both through the fact sheet and through advertisements placed on our website and published in the Sydney Morning Herald and the Daily Telegraph. We received 4 submissions in total (3 in relation to private ferries and 1 on the Stockton ferry).
- ▼ Met with representatives of the ferry operators to discuss industry concerns with the current regulatory framework.
- ▼ Independently analysed cost data and inflators for the ferry cost indexes.
- ▼ Held a public hearing on 11 November 2009. Invited stakeholders, including the CVA, Action for Public Transport (APT) and NSWTI to discuss relevant issues.

In making our decisions, we considered all submissions to the review and the comments made at the public hearing. We also considered the issues raised by operators through the CVA. Appendix C provides a list of submissions and hearing participants. In addition, we considered all matters included in the terms of reference and section 15 of the IPART Act.

2.2 IPART's approach to calculating fare changes

As in last years review of fares, we have used the Fast Ferry Cost Index (FFCI) and Slow Ferry Cost Index (SFCI) to calculate our recommended fare changes. The FFCI and SFCI are ferry industry-specific cost indexes that includes a basket of ferry operators' cost items – labour, fuel, insurance, interest, repair and maintenance, depreciation and amortisation, berthing and mooring and other costs.

The FFCI is used to measure changes in costs for the Palm Beach – Ettalong service and the 2 Sydney Harbour services operated by Matilda Cruises. The SFCI is used for the other services. The use of separate indices reflects the different cost structures of 'fast' and 'slow' ferry services.

Each item in the basket is given a weighting based on the proportion of an average operator's total costs that it represents. Each year, the individual cost items are inflated to reflect changes in the cost of that item in the past year. Each cost item is inflated by a relevant data series or index. For example, the labour cost item is inflated by the Wage Price Index published by the Australian Bureau of Statistics. Through the combination of cost weightings and inflators, the cost indexes aim to measure the change in costs experienced by the industry as a whole, from year to year. (See Box 2.1 for an example of how cost indexes work.)

Box 2.1 How the cost index works – a simplified example

To calculate the annual change in a cost index, we take the current weighting of each cost item and multiply it by the relevant cost inflator (expressed as percentage). This gives the contribution of each cost item to the cost index. IPART then sums the contributions for each of the cost items to give the percentage change in the cost index.

The table below shows a very simple example where a cost index indicates that an average operator's total costs have increased by 10%. In this example, labour costs represent 60% of an average operator's costs, and so have a weighting of 60%. In this example, labour costs increased by 8.3% in the previous 12 months, so IPART multiplied 60% by 8.3%. The answer – 5% – represents the contribution of labour costs made to the operator's total increase in costs. This is done for each cost item and then the contributions are summed to arrive at the total increase in operator costs.

| Cost Item | Weighting (%) | Change (%) | Contribution to index (%) |
|----------------|---------------|------------|---------------------------|
| Labour costs | 60 | 8.3 | 5 |
| Interest costs | 30 | 5.0 | 2 |
| Fuel costs | 10 | 30.0 | 3 |
| Total | 100 | | 10 |

Note: Totals may not add due to rounding.

3 Fare changes

We decided on the required change in the maximum fare for each regulated private ferry service and the Stockton ferry service after considering a range of factors, including:

- ▼ the changes in the cost of providing the ferry service over the review period, as measured by the SFCI and the FFCI (whichever is relevant)
- ▼ information provided by the CVA regarding the ongoing viability of the industry
- ▼ the available information on changes in service standards and patronage
- ▼ the relativities between private ferry services and government-owned ferry services
- ▼ the expected impact of our recommendations in line with the increase in costs of providing services on operators, passengers, the environment and the Government.

We then formed recommendations on changes to maximum fares for private ferry services and determined the maximum fare for the Stockton ferry service.

The sections below provide an overview of our recommendations and determination. The subsequent sections explain how we considered the change of costs, service standards and the relativities of private and government owned ferry services. Chapter 4 examines the impact on stakeholders of our fare recommendations.

3.1 Overview of fare changes and recommendations

3.1.1 Recommendations in relation to private ferry services

We calculated the required fare change for each private ferry service and the Stockton ferry service by:

- ▼ calculating the percentage change in the cost of providing the service over the review period using either the SFCI or the FFCI (See Appendix D)
- ▼ applying this percentage change to the current 'master fare' for this service³
- ▼ rounding the resulting fare to the nearest 10 cents.

³ The master fare is the unrounded fare as at 1 January 2009 (see Appendix E).

Recommendation

- 1 That the Minister for Transport change maximum private ferry fares to the amount shown in the '2010 fare' column in the table below.

Table 3.1 Recommended fares for private ferry services from December 2009

| Route | Current maximum fare ^a | 2010 fare | Difference | |
|--|-----------------------------------|-----------|------------|------|
| | \$ | \$ | \$ | % |
| Woy Woy – Empire Bay | 6.70 | 6.60 | -0.10 | -1.5 |
| Scotland Island and western foreshore of Pittwater | 6.80 | 6.70 | -0.10 | -1.5 |
| Iluka – Yamba | 6.60 | 6.50 | -0.10 | -1.5 |
| Cronulla – Bundeena | 5.70 | 5.70 | 0.00 | 0.0 |
| Brooklyn – Dangar Island | 5.70 | 5.70 | 0.00 | 0.0 |
| Circular Quay – Darling Harbour | 6.40 | 6.40 | 0.00 | 0.0 |
| Circular Quay – Lane Cove | 6.40 | 6.40 | 0.00 | 0.0 |
| Palm Beach – Mackerel and the Basin | 6.80 | 6.70 | -0.10 | -1.5 |
| Palm Beach – Ettalong Wagstaff | 9.60 | 9.60 | 0.00 | 0.0 |

^a: For slow ferries, the current fare is the fare recommended as part of the 2008 fare review. For fast ferries the current fare was recommended as part of the mid year review of fuel costs.

We have made these recommendations according to the Terms of Reference received from the Premier (see Appendix A).

3.1.2 Stockton ferry fare determination

We determined that the maximum fare for the Stockton ferry service should remain unchanged. We applied the decrease in the SFCI to the unrounded 2008 Stockton ferry fare and then rounded to the nearest 10 cents. The result is the fare remains unchanged.

Table 3.2 sets out the resulting maximum fare for the Stockton ferry service from 3 January 2009. Our determination of Stockton ferry fares is at the end of this report.

Table 3.2 Maximum fare determined for the Stockton ferry service from January 2009

| Route | Current fare | 2009 fare | Difference | |
|---|--------------|-----------|------------|---|
| | \$ | \$ | \$ | % |
| Queens Wharf Newcastle – Stockton Wharf | 2.30 | 2.30 | 0.00 | 0 |

Appendix E sets out the recommended/determined fares for each ferry service in full.

3.2 Changes in operators' costs over the past 12 months

We have separately calculated the annual change in the costs of operating slow and fast private ferry services, using the ferry cost indices and the inflators and values discussed in Appendix D. These calculations indicated that the costs of operating slow ferry services have decreased by 1.3%, while those of operating fast ferries decreased by 4.8%. The main drivers of these changes were decreases in fuel and interest costs. These were offset by increases in labour and insurance costs (see Table 3.3).

However, while costs reduced by 4.8% for fast ferry services, the fares for these services have already been reduced this year. Fares for these services were reduced on 1 July 2009, as a result of a mid year review of fuel costs we undertook. As a result, no change is required to fares for these services. Other ferry services did not receive the mid-year fare change and as a result, fares are required to reduce by the full amount of the reduction in the cost index.

Table 3.3 Annual increase in costs and fare changes required as a result

| | Fast ferry services | Other private ferry services and the Stockton Ferry |
|--|---------------------|---|
| Change in costs over the past year measured by cost index | -4.8% | -1.3% |
| Change in fares that has already occurred since 1 January 2009 | -4.8% | 0.0% |
| Fare change required to compensate operators for change in costs | 0.0% | -1.3% |

Note: Fast ferry services are the Palm Beach – Ettalong service run by Palm Beach ferries and the 2 Sydney Harbour routes run by Matilda Cruises.

3.3 Financial viability issues raised by the CVA

The CVA, in its submissions⁴ and in comments made at the public hearing submitted that, in 2007/08, 4 of the 6 slow ferry operators were not financially viable and that fast ferry operators were only viable due to charter and tourist income supplementing income from regular passenger services.

This is not the first time that issues of financial viability have been raised with us in relation to this industry. In the 2003 review of private ferry fares, the CVA also submitted that the private ferry industry was not financially viable.⁵ In response, we recommended fare increases by between 8.0% and 36.4% with 7 of the 10 regulated fares increasing by 20% or more. However, in the review undertaken the following year, we noted that patronage had reduced and consequently revenue and return on assets actually fell for private ferry operators, despite these significant fare increases.

⁴ CVA submission, 12 October 2009 p 2, and CVA submission (2) 4 November 2009, p 1.

⁵ IPART, *Report on fares for private buses and ferries - From 31 August 2003*, August 2003, p 8.

In our view, the concerns raised by the CVA cannot be addressed through changing the level of fares. Fares for private ferry services have risen significantly in recent years (see Chapter 4). Past experience suggests that raising them even further will adversely impact passengers who rely on these services without improving the industry's viability. This is also borne out by the fact that many operators currently do not charge the maximum fare for their services due to the need to retain passengers, particularly in light of other competing modes of transport.

However, we are sympathetic to the industry's concerns regarding their ability to respond to cost increases within a regulated environment. In previous reviews, we have questioned the benefits of continued fare regulation for private ferries. We still consider that the benefits of regulating private ferry fares are unlikely to outweigh the costs, particularly for services that do not currently charge the maximum fare because they compete with other modes of transport. At this stage, we do not have an on-going role in fare regulation for these services.⁶ We are of the view that fare regulation is not required to ensure the protection of passengers from monopoly pricing for at least some of these services. However, the case for fare regulation is stronger for those services that are an essential part of Sydney's public transport services.

We suggest that the Government should consider further which private ferry services should continue to have their fares regulated (because they are an essential part of Sydney's transport network) and which services might be freed from fare regulation (for example, because there is an alternative service that is subject to fare regulation).

3.4 Service standards and patronage

Total patronage on private ferries was approximately 961 thousand passenger trips in the year to June 2009.⁷ This is down from 1.1 million passenger trips for the corresponding period to June 2008.

⁶ The current section 9 terms of reference only provides for IPART to make recommendations on maximum fares for this year.

⁷ Data provided by Ministry of Transport, 12 November 2009.

Private ferry operators provide the NSWTFI with information on late and cancelled services and the number of safety incidents experienced. This information is summarised in Table 3.4. As the number of ferry trips has not been provided to us we are unable to draw conclusions from this information, however we expect this data to become more useful once an extended time series is accumulated.

Table 3.4 Summary of KPI data received for 6 months to June 2009

| Route | Late | Cancelled | Safety incidents |
|--|------|-----------|------------------|
| Woy Woy – Empire Bay | 1 | 0 | 0 |
| Scotland Island and western foreshore of Pittwater | 6 | 1 | 0 |
| Iluka - Yamba | 0 | 2 | 0 |
| Cronulla - Bundeena | 0 | 9 | 0 |
| Brooklyn – Dangar Island | 8 | 1 | 1 |
| Circular Quay – Darling Harbour | 0 | 0 | 0 |
| Circular Quay – Lane Cove | 0 | 0 | 0 |
| Palm Beach – Mackerel and the Basin | 0 | 2 | 0 |
| Palm Beach – Ettalong Wagstaff | 4 | 7 | 0 |

Note: Information for the Stockton ferry was not available for this review.

Source: Ministry of Transport, 12 November 2009.

3.5 Relativities with government owned ferry services

Most private ferry operators do not provide services on Sydney Harbour, and so do not offer comparable services to those provided by Sydney Ferries. However, both Sydney Ferries and Matilda Cruises run services between Circular Quay and Darling Harbour. The Sydney Ferry single fare is \$5.20 and the Matilda fare is \$6.40. Last year the difference between the 2 was larger, with the Sydney ferry single fare costing \$5.20 and the Matilda fare was \$6.80. The differences between these services are:

- ▼ The Sydney Ferries trip to Darling Harbour is via Milsons Point, McMahons point and Balmain East and is scheduled to take approximately 25 minutes. The Matilda service is via Luna Park and takes 15 minutes.
- ▼ The Matilda service uses fast ferries whereas the Sydney Ferries trip uses slow ferries, and we accept that the cost structure of these ferries is different.

We note that Sydney Ferry fares have not changed since January 2007, pending the finalisation of the Government's response to the Walker review of Sydney ferries.⁸ Private ferry operators' fares have continued to change in line with the changes in their costs over this period.

⁸ In January 2007, Sydney Ferries maximum fares increased by 3.2% before rounding and a weighted average increase of 3.9% after rounding. See IPART, *Review of Fares for Sydney ferries in NSW from 2 January 2007*, p 1.

4 Impacts on stakeholders

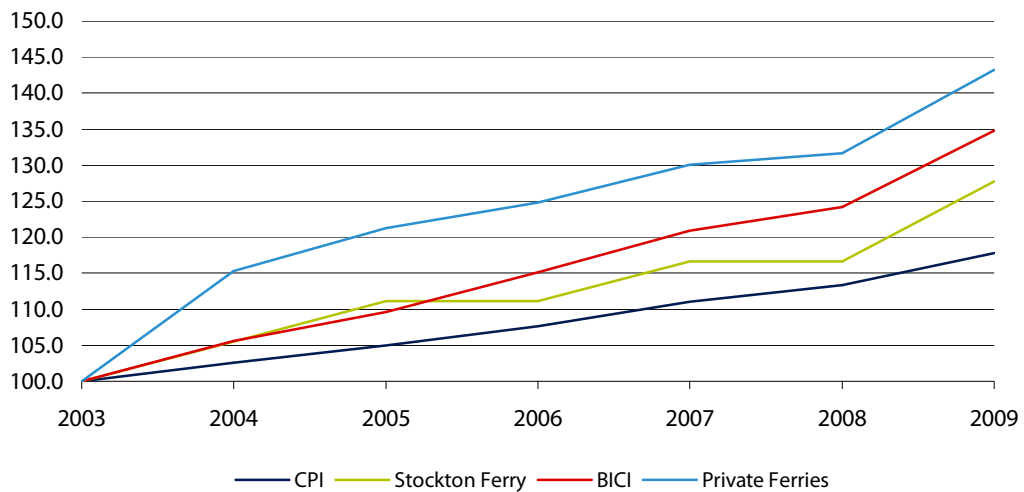
Before finalising our recommendations and determination, we considered a range of matters related to the effect of our pricing recommendations and decisions on stakeholders, as required by our terms of reference and section 15 of the IPART Act. Our views on the likely implications of changing ferry fares in line with the decrease in the SFCI or the FFCI for 4 key stakeholder groups – private ferry operators, passengers, the environment and government – are outlined below.

4.1 Implications for private ferry operators

We consider that our recommendations are based on the change in costs experienced by private ferry operators over the past year and as a result, will not reduce the financial viability of the operators.

Section 3.3 above discusses our views on the concerns of private ferry operators with regard to the financial viability of operators.

In recent reviews, we have recommended that private ferry fares increase by more than CPI and other transport fares that we regulate, such as the Stockton ferry and rural and regional buses (as measured by the Bus Industry Cost Index). Figure 4.1 below compares changes in private ferry fares to fares for other modes of transport and CPI over time.

Figure 4.1 Transport fares in NSW from 2003-2009

Note: Private ferry increase represents the average increase over the time period. CPI is calculated by the same method used in the SFCl and FFCl.

Data source: IPART Reviews, ABS Cat 6024.0.

4.2 Implications for passengers

In our view, the recommended maximum fares are not likely to have a negative impact on passengers as fares in all cases will either stay the same or decrease due to our recommendations.

4.3 Implications for the environment

The impact of the recommended fares on the environment in terms of pollution and congestion is likely to be minimal, given that ferry travel accounts for a small proportion of passenger trips. Any impact is likely to be positive as cheaper ferry fares may encourage passengers to use ferry travel to replace trips on modes of transport which have a greater contribution to congestion and pollution.

4.4 Implications for the Government

The recommended fare changes will affect the Government through payments for subsidised/free school student travel and half-fare concessions. Generally, the Government provides operators with a payment equal to the predetermined 'fare' for a school student or a top-up equal to half the adult fare for concession passengers (so the operator effectively receives the full fare amount for transporting these passengers).

As these payments are related to the level of fares charged by ferry operators, our recommendation will reduce the amount of funding required per student or concession passenger trip.



Appendices

A Terms of reference for private ferries

NSW
GOVERNMENT

Premier of New South Wales

The Honourable D A Campbell MP
Minister for Transport, and
Minister for the Illawarra
Level 35
Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

Dear Minister

I refer to your correspondence requesting approval for 12-month references for the Independent Pricing and Regulatory Tribunal (IPART) to enter into arrangements to assist the Department of Transport and Infrastructure by reviewing and recommending fare prices for private ferry and taxi services in NSW.

Please find attached the endorsed notices, giving my approval for references under section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992* for IPART to investigate and recommend fares for private ferry and taxi services in 2009/10.

Yours sincerely



Nathan Rees MP
Premier

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL ACT 1992
PRIVATE FERRY INDUSTRY FARE REVIEW**

I, Nathan Rees, Premier, pursuant to Section 9(2) of the *Independent Pricing and Regulatory Tribunal Act 1992*, approve the Independent Pricing and Regulatory Tribunal entering into an arrangement with the Ministry of Transport for a period of one year from the date hereof to provide services to the Ministry that are within its area of expertise. The services to be provided by IPART are the conduct of an investigation into, and the preparation of a report concerning, fares for regular private ferry services under the *Passenger Transport Act 1990*.

In providing these services, the Tribunal should consider:

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

The services to be provided by the Tribunal will include a public consultation process through which the Tribunal will invite submissions from the private ferry operators, the relevant unions and other stakeholder groups including user groups.

The services are to be provided through the provision of a final report to the Ministry of Transport by 30 November 2009.

The Hon Nathan Rees MP
Premier



Dated at Sydney... 8/92009

B Requirements of the IPART Act for the Stockton ferry determination

Section 15 of the IPART Act 1992 details the matters to be considered by the Tribunal when making a determination. The section is reproduced in full below.

- (15) Matters to be considered by Tribunal under this Act
- (1) In making determinations and recommendations under this Act, the Tribunal is to have regard to the following matters (in addition to any other matters the Tribunal considers relevant):
- (a) the cost of providing the services concerned,
 - (b) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services,
 - (c) the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales,
 - (d) the effect on general price inflation over the medium term,
 - (e) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers,
 - (f) the need to maintain ecologically sustainable development (within the meaning of section 6 of the *Protection of the Environment Administration Act 1991*) by appropriate pricing policies that take account of all the feasible options available to protect the environment,
 - (g) the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets,
 - (h) the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body,
 - (i) the need to promote competition in the supply of the services concerned,
 - (j) considerations of demand management (including levels of demand) and least cost planning,
 - (k) the social impact of the determinations and recommendations,
 - (l) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).

C | List of submissions

The following tables provide details of the submissions received for the review and participants in the public hearing held 11 November 2008.

Table C.1 List of submissions/proposals received

| Submitter | Date received |
|---|----------------------|
| Action for Public Transport | 14 October 2009 |
| Commercial Vessel Association | 12 October 2009 |
| Commercial Vessel Association (supplementary) | 4 November 2009 |
| NSW Transport and Infrastructure | 15 October 2009 |

Table C.2 Participants at the public hearing

| Speaker | Organisation |
|---------------------|----------------------------------|
| Warwick Fairweather | Commercial Vessel Association |
| Allan Miles | Action for Public Transport |
| Bill Grant | NSW Transport and Infrastructure |

D Calculation of the FFCI and SFCI

As Chapter 2 explained, each year the individual cost items in the cost indexes are inflated to reflect the changes in the cost of those items over the past year. Each cost item is inflated by a relevant data series or index, such as the Wages Price Index published by the Australian Bureau of Statistics. The results are then added together to calculate the annual change in the cost index.

As part of the 2007 review of private ferry fares, we reviewed and revised the inflators used in the ferry cost indexes. In general, we aimed to ensure that these inflators are:

- ▼ based on independent and verifiable data that is publicly available
- ▼ a reasonable estimate of cost changes for operators
- ▼ consistent with inflators used for other transport industries where relevant.

Last year, we reweighted the ferry cost index. As a result of this work, 3 new cost items were identified and separated from the “other costs” cost item.⁹ These cost items were inflated by the Consumer Price Index (CPI) as an interim measure until sufficient consultation was undertaken in this year’s review.

The inflators have been given significant consideration in the last 2 years and stakeholders did not put forward any new information or alternative inflators for any of the cost items, including the 3 new cost items. We decided to inflate each of the cost items by the same inflators as was used last year.

The section below provides an overview of the inflators for each cost item and the value of these inflators over the review period (1 October 2008 to 30 September 2009). The subsequent sections discuss each cost item’s inflator and its value in more detail.

D.1 Annual increase in costs measured by the FFCI and SFCI

We separately calculated the changes in the costs of operating slow and fast private ferry services, using the ferry cost indices and the inflators and values discussed in the following sections. Table D.1 and Table D.2 summarise the slow and fast ferry cost indices for 2009.

⁹ Repair and maintenance, depreciation and amortisation, berthing and mooring.

These calculations indicated that the costs of operating slow ferry services have decreased by 1.3%, while those of operating fast ferries decreased by 4.8%. The main drivers of these changes were decreases in fuel and interest costs. These were offset by increases in labour and insurance costs.

Table D.1 Change in costs of operating slow ferry services over the past 12 months

| Cost Item | Index weight | Inflator value | Contribution to 2008 change |
|---------------------------------|---------------------|-----------------------|------------------------------------|
| | % | % | % |
| Labour | 49.95 | 3.8 | 1.9 |
| Fuel | 10.02 | -26.7 | -2.7 |
| Insurance | 3.35 | 10.7 | 0.4 |
| Interest | 10.85 | -13.3 | -1.4 |
| Repair and Maintenance | 6.74 | 2.2 | 0.1 |
| Ferry depreciation/amortisation | 3.92 | 2.2 | 0.1 |
| Berthing/mooring fees | 0.47 | 2.2 | 0.0 |
| All Other | 14.71 | 2.2 | 0.3 |
| Total | 100.0 | | -1.3 |

Table D.2 Change in costs of operating fast ferry services over the past 12 months

| Cost Item | Index weight | Inflator value | Contribution to 2008 change |
|---------------------------------|---------------------|-----------------------|------------------------------------|
| | % | % | % |
| Labour | 30.70 | 3.8 | 1.2 |
| Fuel | 22.42 | -26.7 | -6.0 |
| Insurance | 5.25 | 10.7 | 0.6 |
| Interest | 9.11 | -13.3 | -1.2 |
| Repair and Maintenance | 7.66 | 2.2 | 0.2 |
| Ferry depreciation/amortisation | 11.03 | 2.2 | 0.2 |
| Berthing/mooring fees | 6.27 | 2.2 | 0.1 |
| All Other | 7.56 | 2.2 | 0.2 |
| Total | 100.0 | | -4.8 |

D.2 Overview of decisions on inflators and their value

Our decisions on the inflator for each cost item and its value over the review period are shown on Table D.3.¹⁰

Table D.3 Our decisions on inflators and their value over period 1 October 2008 to 30 September 2009

| Cost item | Inflator | Value (%) |
|-------------------------------|--|-----------|
| Labour costs | Change in the Wage Price Index (WPI) for the 12 months to September 2009 | 3.8 |
| Fuel costs | Daily diesel price from FUELtrac (less excise and GST) for the 12 months to September 2009, compared to the same period of 2008 | -26.7 |
| Insurance and registration | Change in the insurance services component of the CPI for the 12 months to September 2009 | 10.7 |
| Interest | Change in weighted average interest rate for National Australia Bank base rate business loan for the 12 months to September 2009 compared to the same period of 2008 | -13.3 |
| Repair and maintenance | Change in the CPI for the 12 months to September 2009 | 2.2 |
| Depreciation and amortisation | Change in the CPI for the 12 months to September 2009 | 2.2 |
| Berthing and mooring | Change in the CPI for the 12 months to September 2009 | 2.2 |
| Other costs | Change in the CPI for the 12 months to September 2009 | 2.2 |

D.2.1 Labour costs

Labour costs in the indexes are inflated by the Wage Price Index (WPI), adjusted for improvements in labour productivity. We decided not to make a productivity adjustment this year.

¹⁰ Inflator values in this chapter are rounded to 1 decimal place for presentation purposes.

We calculated the change in the WPI¹¹ using averaged data from the 4 quarters to September 2009, based on the following formula:

$$WPI_t = \left(\frac{WPI_{Dec(t-1)} + WPI_{Mar(t-1)} + WPI_{Jun(t-1)} + WPI_{Sep(t)}}{WPI_{Dec(t-2)} + WPI_{Mar(t-2)} + WPI_{Jun(t-2)} + WPI_{Sep(t-1)}} - 1 \right) \times 100\%$$

This calculation indicates that the increase in the labour cost item for this review period is 3.8%.

Adjusting for productivity gains

IPART considered whether it should adjust the labour cost inflator for expected gains in productivity over the coming year. Unlike the Consumer Price Index (which is used to inflate many other cost items in the ferry cost indexes), the WPI does not already include a measure of economy-wide productivity gains.

Productivity is a measure of the rate at which outputs of goods and services are produced per unit of input (for example, labour, capital, raw materials). Growth in productivity reflects the achievement of greater outputs for a given level of input. This can be achieved through reduced costs, but also through increased levels of value-adding, such as increased performance or improved service quality.

No data on ferry productivity was provided by the industry as part of this review. In addition, new information on economy wide productivity since last years review has not yet been released by the ABS. Stakeholders did not comment on or provide information regarding any adjustment for productivity.

Given the information available, there is not sufficient information to quantify productivity adjustments specifically for private ferries. Taking into account the fact that many of the ferry operators are small businesses, that on board staffing levels are governed by safety obligations, and that in the short term productivity is closely linked to patronage, we has decided not to make a productivity adjustment this year.

Stakeholder comments on labour costs

The CVA stated that the use of a historical measure to inflate labour costs in this year will not appropriately compensate operators for increased costs of labour associated with upcoming award changes. The CVA submits that the Australian Industrial Relations Commission's Award modernisation process will create significant additional costs for private ferry operators from 1 January 2010. The CVA submitted that:

New wage awards will impact hugely - their implementation requires marked increases in wages to employed staff, this will not be reflected in this review. It should, as the new rates

¹¹ Total hourly rates of pay excluding bonuses, New South Wales, All industries, Private and Public, All occupations. ABS Catalogue 6345.0, Table 2b.

are available be considered as part of this review. The impact will be long term and some operators will not survive these increases.¹²

Where there are significant step changes in costs, we agree that basing fares on an historical cost index may not be appropriate. There are a number of ways in which one-off or significant mid-year cost changes can be incorporated into the cost index framework.¹³ Whether it is necessary to make changes to accommodate step changes in cost, and the best method for doing this, depends on the circumstances.

In relation to the Award modernisation process, we are aware that the process is not designed to increase costs for employers, and in most cases includes transitional arrangements to ensure that it complies with the principles guiding the modernisation process.¹⁴ It is not clear from the publicly available information how the process will impact on private ferry operators. While the CVA submits that the process will have a 'significant' impact on the costs of private ferry operators, they provided no evidence to support this. As a result, we have not been able to consider alternative approaches for dealing with this matter as part of this review.

D.2.2 Fuel costs

We have inflated the fuel cost item by -26.7%, based on FUELtrac¹⁵ data on the average daily diesel Sydney pump price, net of GST and fuel excise.¹⁶

To calculate the inflator, we compared the average diesel pump price (less fuel excise and GST) for Sydney over the 12 months to 30 September 2008 with the average diesel pump price for Sydney over the 12 months to 30 September 2009. Based on this data, the price of diesel fuel has decreased by 26.7% since the 2008 review.

We note that, in the mid year review of fuel costs for fast ferries, which examined fuel costs observed between 1 October 2008 and 31 March 2009, diesel fuel prices had decreased by 21.5% compared with the 2008 review.

D.2.3 Insurance and registration costs

We have inflated the insurance and registration costs item by 10.7%, based on the change in the 'insurance services' subgroup of the CPI (as measured by the average index value for the 4 quarters to September 2009 divided by the average index value for the 4 quarters to September 2008).¹⁷

¹² CVA submission, 12 October 2009.

¹³ For example, we include mid-year reviews of fuel prices for taxis and fast ferry services. We also incorporated one-off costs associated with new contracting arrangements for rural and regional buses (IPART, *Final report - Rural and Regional Buses*, December 2008).

¹⁴ Australian Industrial Relations Commission

http://www.airc.gov.au/awardmod/download/award_modernisation_request.pdf

¹⁵ FUELtrac is an independent organisation which provides a fuel price monitoring service.

¹⁶ Fuel excise is not paid on fuel used for marine transport.

¹⁷ Sydney, All Groups, ABS Catalogue no. 6401.0, Table 13.

D.2.4 Interest costs

As was the case last year, we have decided to use the change in the National Australia Bank base rate¹⁸ for business loans to inflate the interest cost item. This resulted in a decrease in this cost item of 13.3%.

We calculated the change in interest costs by calculating the percentage change in the weighted average of the business lending base rate between the year ending 30 September 2008 and the year ending 30 September 2009.

As with fuel costs, the CVA raised concern that any rise in interest rates in the next year will not be reflected in fares due to the use of historical costs in the indices. We accept that the use of historical cost index means that the costs included in the index calculation will not always reflect the current costs faced by operators. However, as interest is a relatively small proportion of the index, we consider that fluctuations in interest rates alone should not have a significant impact on the cashflow of ferry operators.

D.2.5 Repair and maintenance costs

We have decided to use changes in the Sydney all groups CPI to inflate the costs of repair and maintenance.¹⁹ The value of this inflator for the year to 30 September 2009 is 2.2%. CPI is calculated using the same formula as WPI, outlined in section D.2.1.

Repair and maintenance costs were 1 of 3 cost items which, prior to 2008, were captured as part of the "other costs" cost item.²⁰ Last year, these items were inflated by CPI as an interim measure.

We stated that we would review the inflators for these cost items after seeking stakeholder consultation as part of this years review. Since stakeholders did not provide comment on alternative inflators for this cost item, or raise any concerns with the use of CPI we have decided to retain it as the inflator for repairs and maintenance this year.

D.2.6 Depreciation and amortisation

We have decided to use changes in the Sydney all groups CPI to inflate the costs of depreciation and amortisation. The value of this inflator for the year to 30 September 2009 is 2.2%. CPI is calculated using the same formula as WPI, outlined in section D.2.1.

¹⁸ National Australia Bank base rate for business lending (Rate code B).

¹⁹ Sydney, All Groups. ABS Catalogue no. 6401.0, Table 13.

²⁰ The others were depreciation and amortisation and berthing and mooring.

Depreciation and amortisation was the second of 3 cost items which, prior to 2008, were captured as part of the 'other costs' cost item.²¹ Last year, these items were inflated by CPI as an interim measure.

We stated that we would review the inflators for these cost items after seeking stakeholder consultation as part of this years review. Since stakeholders did not provide comment on alternative inflators for this cost item, or raise any concerns with the use of CPI we have decided to retain it as the inflator for depreciation and amortisation this year.

D.2.7 Berthing and mooring costs

We have decided to use changes in the Sydney all groups CPI to inflate the costs of berthing and mooring fees. The value of this inflator for the year to 30 September 2009 is 2.2%. CPI is calculated using the same formula as WPI, outlined in section D.2.1.

Berthing and mooring fees is the last of the 3 cost items which, prior to 2008, were captured as part of the "other costs" cost item.²² Last year, these items were inflated by CPI as an interim measure.

Since last year, we have received advice from NSW Maritime that these costs typically rise with the change in inflation. Based on this advice, and the fact that stakeholders did not provide comment on alternative inflators for this cost item we have decided to retain it as the inflator for berthing and mooring fees this year.

D.2.8 All other costs

All other costs are also inflated by the Sydney all groups CPI (2.2%). CPI is calculated using the same formula as WPI, outlined in section D.2.1.

This is consistent with the approach taken last year to inflate the "other costs" cost item and no submissions commented on this inflator or cost item for this review.

²¹ The others were depreciation and amortisation and berthing and mooring.

²² The others were depreciation and amortisation and berthing and mooring.

D.3 Weightings for next year's review

The weightings for the 2010 review will be equal to the 2009 weightings adjusted according to changes in the relativities in costs that result from the inflators applied this year to the current weightings. Table D.4 shows the weightings for the 2010 review.

Table D.4 2010 weightings for the SFCI and FFCI

| Cost Item | SFCI (%) | FFCI (%) |
|---------------------------|-----------------|-----------------|
| Labour | 52.51 | 33.44 |
| Fuel | 7.44 | 17.25 |
| Insurance | 3.75 | 6.10 |
| Interest | 9.54 | 8.30 |
| Repairs and maintenance | 6.98 | 8.23 |
| Depreciation/amortisation | 4.05 | 11.84 |
| Berthing/mooring | 0.48 | 6.73 |
| All other | 15.24 | 8.11 |
| Total | 100.00 | 100.00 |

Note: Totals may not add due to rounding.

E Fares for private ferries and the Stockton ferry from January 2010

The following tables summarise the recommended master and rounded fares for private ferries and the Stockton ferry. The base fares are those that were recommended in the 2008 review of fares for private ferries and the Stockton ferry.

Table E.1 Recommended maximum fares for private ferry services in 2010 compared with fares recommended in the 2008 review – master fares and rounded fares

| Route | December 2008 fare (master) | December 2008 fare (rounded) | New fare (master) | New fare (rounded) |
|--|-----------------------------|------------------------------|-------------------|--------------------|
| Woy Woy – Empire Bay | 6.67 | 6.70 | 6.58 | 6.60 |
| Scotland Island and western foreshore of Pittwater | 6.78 | 6.80 | 6.69 | 6.70 |
| Iluka – Yamba | 6.55 | 6.60 | 6.46 | 6.50 |
| Cronulla – Bundeena | 5.75 | 5.70 | 5.67 | 5.70 |
| Brooklyn – Dangar Island | 5.75 | 5.70 | 5.67 | 5.70 |
| Circular Quay – Darling Harbour | 6.75 | 6.80 | 6.43 | 6.40 |
| Circular Quay – Lane Cove | 6.75 | 6.80 | 6.43 | 6.40 |
| Palm Beach – Mackerel and the Basin | 6.78 | 6.80 | 6.69 | 6.70 |
| Palm Beach – Ettalong Wagstaff | 10.07 | 10.10 | 9.59 | 9.60 |

Note: Current fares for Circular Quay – Darling Harbour, Circular Quay – Lane Cove and Palm Beach – Ettalong Wagstaff are not equal to the December 2008 fare, due to the effect of the 2009 mid year review of fuel costs for fast ferries.

Master fares are shown to two decimal places. Master fares for Cronulla – Bundeena and Brooklyn – Dangar Island are slightly less than \$5.75 and so round down.

Table E.2 Maximum fares for Newcastle (Stockton) ferry service in 2010 compared with current fares – master fare and rounded fare

| Route | Current fare (master) | Current fare (rounded) | New fare (master) | New fare (rounded) |
|---|-----------------------|------------------------|-------------------|--------------------|
| Queens Wharf Newcastle – Stockton Wharf | 2.30 | 2.30 | 2.27 | 2.30 |



Independent Pricing and Regulatory Tribunal

Stockton Ferry Service

Determination No. 9, 2009

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Preliminary

1 Background

- (a) The Newcastle Buses and Ferries Services division of the STA provides a ferry service in Newcastle (**Stockton Ferry Service**).
- (b) Section 11 of the IPART Act provides IPART with a standing reference to conduct investigations and make reports to the Minister on the determination of the pricing of a government monopoly service supplied by a government agency specified in Schedule 1 of the IPART Act.
- (c) The STA is listed as a government agency for the purposes of Schedule 1 of the IPART Act. The services of the STA declared as monopoly services (**Monopoly Services**) under the *Independent Pricing and Regulatory Tribunal (Passenger Transport Services) Order 1998* are the regular passenger services (within the meaning of the *Passenger Transport Act 1990*) supplied by the STA but excluding the following:
 - (1) services supplied in accordance with the ticket known as the “Sydney Pass”;
 - (2) the bus service known as the “Airport Express”; and
 - (3) the bus service known as the “Sydney Explorer”, the bus service known as the “Bondi & Bay Explorer” and any other similar bus services operating in any other areas.
- (d) The Monopoly Services include the Stockton Ferry Service. Accordingly, IPART may determine maximum prices for the Stockton Ferry Service.
- (e) In accordance with section 13A of the IPART Act, IPART has fixed the maximum price for the Stockton Ferry Service.
- (f) In investigating and reporting on the pricing of the Stockton Ferry Service, IPART has had regard to a broad range of matters, including the criteria set out in section 15(1) of the IPART Act.
- (g) By section 18(2) of the IPART Act, the STA may not fix a price below that determined by IPART for the Stockton Ferry Service without the approval of the Treasurer.

2 Application of this determination

This determination:

- (a) fixes the maximum prices that the STA may charge for the Stockton Ferry Service;
- (b) commences on the later of 3 January 2010 and the date that it is published in the NSW Government Gazette (**Commencement Date**); and
- (c) applies from the Commencement Date to the date on which this determination is replaced.

3 Replacement of Determination No. 6 of 2008

This determination replaces Determination No. 6 of 2008 from the Commencement Date. The replacement does not affect anything done or omitted to be done, or rights or obligations accrued, under Determination No. 6 of 2008 prior to its replacement.

4 Schedules

- (a) The maximum prices that the STA may charge for the Stockton Ferry Service are set out in Table 1 in Schedule 1.
- (b) Definitions and interpretation provisions used in this determination are set out in Schedule 2.

Schedule 1 - Maximum prices

1 Application

This schedule sets the maximum prices that the STA may charge for the Stockton Ferry Service.

2 Maximum prices for the Stockton Ferry Service

The maximum prices that may be charged by the STA for the Stockton Ferry Service are set out in Table 1.

Table 1 Maximum prices for the Stockton Ferry Service^a

| Ticket | Adult Fare (\$) | Concession Fare (\$) |
|--------------------------------|----------------------------|---------------------------------|
| Stockton Ferry - single ticket | 2.30 | 1.10 |

a Children aged below 4 years are entitled to travel free on the Stockton Ferry Service.

Schedule 2 – Definitions and interpretation

1 Definitions

In this determination:

Adult Fare means the fare payable by a person who is aged 16 years or over.

Commencement Date means the Commencement Date as defined in clause 2(b) of the section of this determination entitled “Preliminary”.

Concession Fare means the fare payable by:

- (a) a person who is aged between 4 and 15 years; or
- (b) a person who is aged 16 years or over and is the holder of a valid concession card of a type that has been approved by NSW Transport and Infrastructure.

GST means the Goods and Services Tax as defined in *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

IPART means the Independent Pricing and Regulatory Tribunal of New South Wales established under the IPART Act.

IPART Act means the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW).

Ministry of Transport means the New South Wales government department of that name which had primary responsibility for transport policy, planning and coordination prior to the formation of NSW Transport and Infrastructure.

Monopoly Services means the Monopoly Services defined in clause 1(c) of the section of this determination entitled “Preliminary”.

NSW Transport and Infrastructure means the New South Wales government department of that name established on 1 July 2009 with primary responsibility for transport policy, planning and coordination and includes a reference to the Ministry of Transport.

STA means the State Transit Authority constituted under the *Transport Administration Act 1988* (NSW).

Stockton Ferry Service has the meaning given to that term in clause 1(a) of the section of this determination entitled “Preliminary”.

2 Interpretation

2.1 General provisions

In this determination:

- (a) headings are for convenience only and do not affect the interpretation of this determination;
- (b) a reference to a schedule, clause or table is a reference to a schedule, clause or table to this determination;
- (c) words importing the singular include the plural and vice versa;
- (d) a reference to a law or statute includes all amendments or replacements of that law or statute;
- (e) a reference to an officer includes a reference to the officer who replaces him or her, or who substantially succeeds to his or her powers or functions; and
- (f) a reference to a body, whether statutory or not:
 - (1) which ceases to exist; or
 - (2) whose powers or functions are transferred to another body,

is a reference to the body which replaces it or which substantially succeeds to its powers or functions.

2.2 Explanatory notes and clarification notice

- (a) Explanatory notes or footnotes do not form part of this determination, but in the case of uncertainty may be relied on for interpretation purposes.
- (b) IPART may publish a clarification notice in the NSW Government Gazette to correct any manifest error in this determination as if that clarification notice formed part of this determination.

2.3 Prices inclusive of GST

Prices specified in this determination include GST.

