

2017 Review of Private Ferry Fares
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

5 August 2017

Re: IPART review of Private Ferry Fares 2017.

Dear Sir/Madam

In response to the executive summary provided by IPART and sourced from the INDEC report, (we) “Brooklyn Ferry Service” provide the following opinions, commentary and corrections.

We believe that IPART and their Consultants, should read and revise All prior comments made by operators each year, there seems to be a rather monotonous cycle of the same questions being asked, the same comments being made and results are either not addressed, ignored or only partially implemented within what appears to be a pre-determined range of pricing flexibility – which is based on a historic master fare calculation which does not appear to have been calculated on a broad scale, but at some point on a case by case basis.

Addressing the Sections of the Issues Paper where we feel comment is necessary;

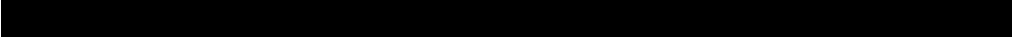
Section 2.1 of the Issues paper titled “Matters we must consider in determining maximum fares”, there are several the bullet points which really should be addressed in a broader manner (industry related) rather than focussed in specifically to “Private Ferries”, external comparisons should be made to non-private services, and in other parts the rationale behind assumptions made in the fares review should take the specifics of our sector within the industry into account when making decisions, such as the external benefits calculation.

- **The cost of providing the services** - repeated review of the Private Ferries clearly show that private operators are more efficient when compared to the cost to the State to provide the same or similar service.
- **The need for greater efficiency in the supply of services to reduce costs for the benefit of consumers and taxpayers** – greater efficiency in supply of services can

really, only be achieved by increasing patronage, a reality which needs to be addressed by full application of IPART's building block approach to the revenues received by operators, specifically the revenue requirement equation.

- **The social impact of the determination or recommendation** – The social impact of fare increases is directly proportional to the portion of any fare increase which is paid by the consumer, and the level of both external funding and the external benefit recognised and co-funded by TfNSW, if this were to happen as a portion of fares, as illustrated in IPART's building block model.
- **The impact of the determination or recommendation on the use of the public passenger transport network and the need to increase the proportion of travel undertaken by sustainable modes such as public transport** – If TfNSW are serious with respect to increasing the proportion of travel undertaken by consumers on public transport, simple mechanisms to reduce fares through co-payments by TfNSW to subsidise the revenue received by operators at their efficient fare level and provide a discounted fare to consumers, could be implemented.

Section 3.2 of the Issues Paper titled "Assess current levels of competition" seeks comment on competition, specifically

- **Do you agree with our assessment of the level of competition on routes covered by private ferry services? and Are there other factors we should consider in assessing competition faced by private ferry services?** - No, we (Brooklyn Ferry Service) do not agree with the levels of competition assessed by IPART, private ferry services especially in water access only communities, have a few modes of competition some not recognised by IPART, these include;
 - Free "**ride sharing**" in private boats,
 - **Pirate Operators** who operate for cash and hang around wharves and marinas and discretely charge for lifts from acquaintances and friends, which is effectively an Uber system for a closed group of people.
 - **Water Taxis**, whose fares become attractive to consumers, and approximate to ferry fares as the size of the group travelling increases, as additional passengers are accepted at discounted fares once the destination fee is reached
 - And as stated as Brooklyn Ferry Services "only alternative travel option" we also compete with **Private Boats**
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[REDACTED]

[REDACTED]

Section 3.3 of the Issues Paper titled “Invite ferry operators to propose fares”, seeks comments on the following

- **Do you agree with our preliminary decision to adopt a light-handed approach for Central Coast Ferries and Matilda Cruises, and a more rigorous approach for the remaining five operators? If not, why?** – We believe that the peculiarities of the local environment under which each service operates influences and determines not only the level of competition, alternate transport options and pricing pressures, but ALSO, the level of consistent base patronage available and market size which is being served, and therefore the efficiencies and profitability of the service.
- **Do you agree we should determine the maximum fares for an adult single ticket only?** – Speaking only for our service, Brooklyn Ferry Service only offers a minor discount on multi-pass tickets (available only to residents) which are sold with conditions including expiry dates, and whilst we find the determination of fares for Adult Single only, convenient, we would also be amenable to regulation of other fares subject to further consultation.
- **As stated in my reply to the information request the invitation to ferry operators was more an invitation to propose a fare change – as long, as it fell within a**

preconceived price range which IPART had decided was appropriate, and probably just based on the standard CPI multiplier. Our original and preferred proposal when discussed in a telephone conference, we clearly not acceptable to IPART.

Section 3.4.2 of the Issues Paper titled “Proposed approach for assessing the remaining operators’ proposals” states; (paraphrased) “We propose to use The CIE’s advice on the efficient costs to estimate efficient fares for each operator. For each operator, this will involve a few broad steps:

- Deciding what share of the total efficient costs passengers should pay through fares. To do this, we will subtract from the total efficient costs an amount equal to the government payments the operator receives for providing school travel and concessions tickets, plus any financial viability payments it receives. And, an amount equal to our estimate of the **external benefits generated using private ferry services**, where this amount is not accounted for by any existing financial viability payments.
- Calculating the fare for each ferry service that would be required to cover the passengers’ share of total efficient costs, based on our forecast estimate of annual patronage (ie, the efficient fare).

In applying this decision framework, we propose to have regard to the financial impacts of our fare determination on both ferry operators and passengers”.

IPART then continues the point to seek comment on the following two points

- **Do you agree with our proposed approach to assessing proposed fares or estimating efficient fares?** - No, We believe that there is an error in the overall calculation, and more attention should be paid to peculiarities of private ferry services, specifically in relation to external benefits, where a model which appears to have been developed and applicable to Road vs Rail transport, has been substituted to the ferry sector, without much if any modifications, no allowances are made for removal of private vessel transport (private motor vessels are probably the most polluting form of transport), community benefits especially in water access only and somewhat remote areas (school transport, local property values due to availability of public transport, social reunion, safety on water) etc.
- **Should maximum fares be reduced if they are above efficient fares?** – We believe this is something which is determined through the normal economic principals of the market place (supply and demand), and in some cases the fact that efficient fares are below maximum fares may be reflective of the operating nature of small business

where full time equivalent wages for owners and their input are not necessarily included in company costs.

- The reality of the fare situation is that rather than reduce fares if they are above the efficient fare (which is the minority of cases), IPART should, reasonably provide a funding solution (i.e. the right-hand side of the building block model), which encourages additional government revenue, to force all fares up to the efficient fare level, whilst not penalising the consumers.

Appendix B IPART building block approach

Section B.1 How we estimate the total efficient costs for contracted ferry services

The building block approach is commonly used by IPART and other regulators to estimate the total revenue a business needs to generate to recover the efficient costs of providing the regulated services to the required standard over the price determination period.

The building block approach typically includes the following components:

- an efficient level of operating expenditure (operating, maintenance and administration expenses)
- an allowance for a return on assets that ferry operators used to provide the contracted services
- an allowance for a return of those assets (depreciation), and an allowance for tax and working capital.



B.1.1 Efficient operating expenditure

As in previous reviews, we propose that efficient operating expenditures include labour costs, fuel, insurance, repairs and maintenance, berthing and mooring fees and 'other costs' including but not limiting to cash collection costs, office rent, communication costs, financial services, external consultants and advertising.

To assist us in estimating these costs, we have engaged an external consultant, The CIE, to

review the total efficient operating and capital costs each operator would need to incur to provide the contracted level of services for the next four years.

Brooklyn Ferry Service Comment – The Centre for International Economics, prepared a report for IPART dated April 2016, titled “Efficiency of NSW Public Transport Services” – Section 4 of this report titled **Ferry Services**, clearly outlines that private operators are by far more efficient when compared to a government run operation and this case is usually exacerbated as the operation becomes smaller, clear comparisons made between Sydney Ferries and Harbour City Ferries (HCF) demonstrate an almost immediate efficiency change and improvement in every aspect of service parameters once HCF took over the operation of the harbour services.

The Stockton ferry service run by the State Transit Authority of NSW, The CIE report clearly shows that the Stockton Service in no way even approximates to the Technical Efficiency calculated for Private ferry services, Stockton Ferry Service’s operating costs exceed reasonably efficient costs and their vessels and scheduling are not appropriate for the service.

Allocative efficiency of the Stockton service on a cost per passenger kilometre is approximately two and a half times **(\$6.70)** the marginal benefit of the service at **(\$2.70)**, which one can only assume means that the Government co-funding for each passenger trip must approximate to **\$4**.

To this end we believe that both **IPART** and their consultants **The CIE**, are fully aware that the private ferry sector of the NSW public transport market runs efficiently with respect to operating expenditure and at an efficiency level which state government run services cannot seem to achieve. We also believe that the specific case of the Stockton Service demonstrates that TfNSW (State Gov.) co-funding of efficient fares is a scenario which not only exists, but is in practice delivering a discounted fare to consumers, which in turn encourages further use of public transport.

Comparison between Government costs and efficiencies to provide similar service and the comparative “cost per passenger kilometre vs the marginal benefit of the service” are important factors which need to be considered in ALL calculations and forecasts made for private ferry services, as in effect the differences in costs and efficiencies are real savings being delivered to the State Gov. (TfNSW), through the contracting of private operators. Clear evidence exists that Government run services cannot compete with Private operators on small ferry services / service areas.

B.1.2 Efficient capital expenditure

“As in previous reviews, we propose to assess the efficient capital expenditure for this review. Vessels represent the largest proportion of capital expenditure incurred by private ferry operators. As in previous reviews we will also include allowances for ferry refurbishment and engine replacement.

In the 2014 review, we decided that an initial Regulatory Asset Base (RAB) should consist of the depreciated replacement cost of a main ferry or ferries and 50% of the depreciated replacement cost of a spare ferry. We included 50% of the value of the spare ferry as this can be used to earn other income, for example charter cruises. We propose to continue with the same approach for the 2017 review”.

Brooklyn Ferry Service Comment - Can IPART please explain how a ferry specifically designed to act as a “bus” on the water, with no catering facilities, no entertainment facilities and no washroom facilities, act as a charter vessel, at best these ferries can in a very sporadic fashion, act to transfer passenger groups, outside of timetabled services. Due to nature of services we are akin to a standard bus, the spare ferry required for backup, is not necessarily a charter vessel equivalent

B.1.4 Allowance for a return on assets

“The allowance represents the opportunity cost of assets that ferry operators invest in to provide the contracted ferry services (such as ferry, wharf infrastructure, office accommodation and equipment).

To calculate this allowance, we will ‘roll forward’ the value of the asset base each year and take into account any new capital expenditure incurred by ferry operators over the determination period and multiply the value of the asset base in each year by the rate of return as discussed in Appendix C”.

[REDACTED]

B.2.2 External benefits

IPART’s treatment of external benefits for private ferry services, introduces a couple of key

statements, which as written previously in this submission, Brooklyn Ferry Service disagrees with.

- “When a person chooses to use a public transport service there are costs and benefits to that person, and to the wider community. If private ferry services **benefit the whole community**, not only the people who use them, a portion of the total efficient costs should be paid by the NSW community as a whole through the Government subsidy”.
- Our approach to estimating external benefits of private ferries firstly involves identifying ferry services where there are likely to be external benefits, the main external benefit being avoided road congestion. Our estimate also includes avoided air pollution and greenhouse gas pollution, avoided road accidents and the health benefits associated with walking or cycling to or from public transport and the external cost – the costs of raising funds to subsidise public transport.
- In past reviews, we did not estimate external benefits for Brooklyn Ferry Service, Church Point Ferry Service and Clarence River ferry service. These ferries provide a service to islands and/or are located in areas where there are unlikely to be external benefits associated with avoided road congestion.

Brooklyn Ferry Service can only assume that the KEY factor in IPART’s definition of external benefits is the definition and size (also location) of a “**Community**”, the private ferry sector of TfNSW is a miniscule component of the broader public transport sector state-wide, and therefore the definition of “community” in the external benefits calculation should reflect the “community” which we service, NOT the macro-level definition of “community” which is applied to a state wide vehicle vs rail analysis which appears to be the External Benefits model which is being applied.

Brooklyn Ferry Services comment on external benefits - We feel that the external benefits model being applied is both biased towards land based transport and discriminatory towards offshore and island based “**communities**”. IPART needs to modify the external benefits calculation applied to Private Ferry Services to include factors such as;

- The need for school transport, where children cross bodies of water.
- Social inclusion / reunion whereby residents (particularly the elderly and infirm) have use and access to both transport but also a mode of transport which encourages social gathering.
- Removal of private vessel transport, consideration should be made here, as small outboard motors are inefficient and pollution when being used for private transport, especially when transporting individuals.

- Community and real-estate values both monetary and social, private ferry services clearly link together offshore communities with services and provide functionality in many aspects of semi remote living;
 - Transport of provisions
 - Safe transport over water of children, elderly
 - Access to day trippers and holiday makers external to the immediate community
 - Safety aspects of water crossing for off shore residents
 - Real estate property values and the core or net wealth of the “community”, a clear example of this is the fact that in our particular area, communities’ services by ferries are exhibiting property values almost double compared to areas not serviced, this has a real social impact on the community, and if ever the provision of a ferry service was removed, through either cancellation by TfNSW or inability of the operators to maintain their business in profit.

C.2.1 Inflation rate

The inflation rate is used to convert the nominal post-tax WACC into a real post-tax WACC. We will estimate the expected inflation by using a 10-year geometric average of the 1-year RBA inflation forecast and the middle of the RBA’s target band of inflation (currently at 2.5%) for the remaining nine years.

Brooklyn Ferry Services comment on Inflation rates - Where CPI data is used with respect to possible fare variations and calculations, is there any reason as to why an industry specific index is not used, it may be appropriate to use the “Transport & Tourism” sub group statistics from the CPI all groups data, which may be more specific and industry related. Presumably like service industries would be affected by similar pricing pressures, (fuel pricing, tourism rates, wages etc.).

<http://www.abs.gov.au/Tourism-and-Transport>

<https://tradingeconomics.com/australia/cpi-transportation>

General Comment – Brooklyn Ferry Service

We would like to ask IPART, when will IPART / TfNSW consider addressing the revenue side of the “Building Block” model, as to date it appears that only one side of the equation “Total Efficient Costs”, seems to be the basis for the annual review. We (BFS) believe that until IPART address the total revenue requirement of the services under review and the sources of revenue (Government / Client Fares), there will not be any noticeable change to service efficiency (patronage) or the overall goal of the public transport sector, in reducing the reliance of regular commuters on other forms of transport and increasing usage of public transport, **this is currently exacerbated in the private ferry sector as we are one of the few modes of transport outside the OPAL network and can therefore not offer the usage discounts and intermodal discounts which make the OPAL system attractive and moderately cost effective to our consumers – in our case we are by far the most expensive and least discounted portion of any daily commute**, pros and cons exist for introduction of the OPAL network on private ferries, but in the case where TfNSW do not, as a minimum TfNSW should recognise the discount savings which our customers are missing out on, and make efforts to adjust the “passenger” paid fare to compensate.

Changes to patronage levels and therefore the overall efficiency of the service will more than likely only come about through a resetting of cost to customers, without affecting the financial viability of the service – this means recognition by TfNSW / IPART or the real external benefits provided by the private ferry sector.

We believe that a thorough comparative analysis needs to be undertaken in which the private ferry master fares are reduced to a fare per kilometre / cost per passenger kilometre basis, proper externalities (local community) are included and a benchmark or industry master fare (cost / fare per passenger Km) established, this could then provide a basis for the implementation of a comparison to similar state run operations (Stockton ex Sydney Ferries), to establish what level of co funding TfNSW should be providing, as a portion of the “Revenue from Government” section of the building block model, as it is this specific part of the equation which (a) provides the greatest incentive to customers to use public transport - as this portion increases, consumer fares decrease, and (b) does not seem to be properly addressed in the annual IPART review.

Kind Regards,

(via email)

Richard Stockley

Brooklyn Ferry Service Pty Ltd

