

Stockton and private ferry services review of maximum fares for 2014

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Current approach – the SFCI and FFCI

- ▼ All indexing approaches are based on trying to estimate **changes** in costs from year to year.
- ▼ Our current indices assume that the cost structure of fast and slow ferry businesses differ enough from each other that their costs can move quite differently from year to year.
- ▼ The basket of cost items in each index and their weightings should be as close as possible to the actual set of cost items each business has.
- ▼ Then the inflators are chosen to be a close match to the efficient change in costs for each item from year to year. We use independent inflators such as those calculated by the ABS because they are transparent, verifiable, and simple to access.

What has the CIE found out about our current approach?

- ▼ Not particularly close to costs reported by operators
- ▼ Not particularly close at estimating total changes to costs (particularly for fast ferries) when compared to costs reported by operators
- ▼ SFCI and FFCI have given very similar outcomes since 2008
- ▼ A simpler single index would give similar results to the current approach – but not address the divergence from reported costs
- ▼ There's a lot of variation between the costs and cost structures of the 7 operators

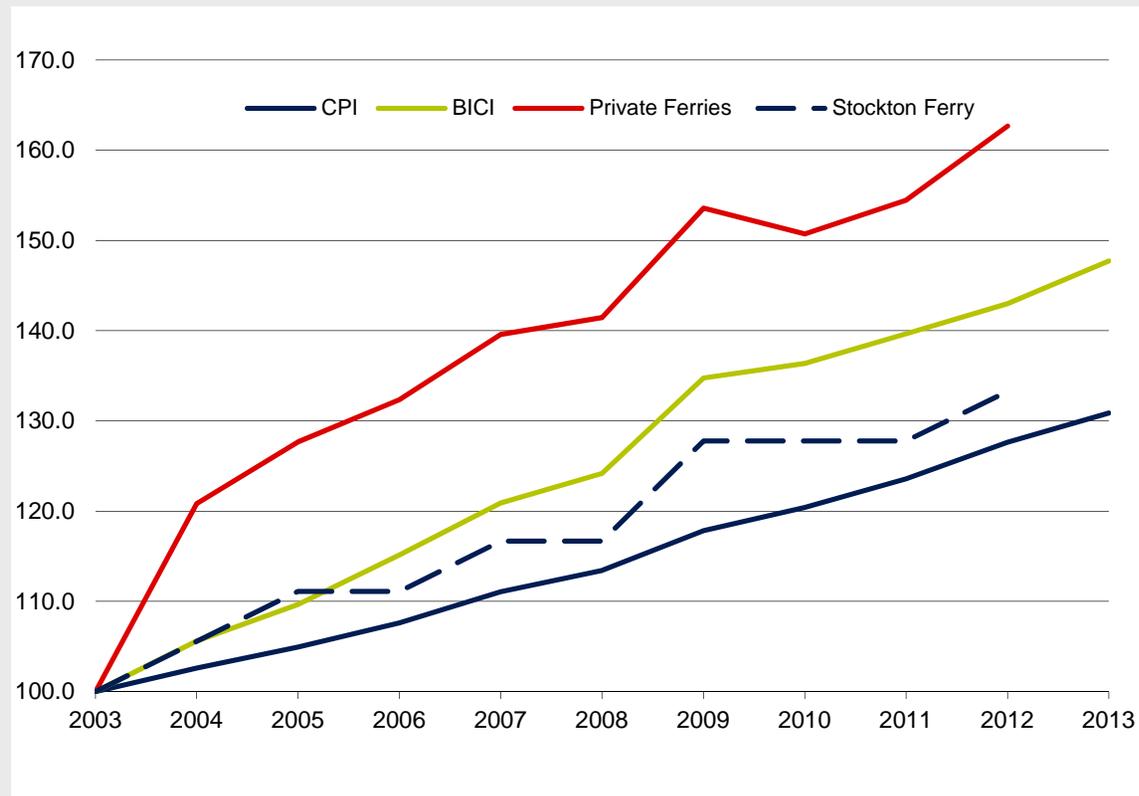
What do the findings mean for fares?

- ▼ Depends on whether the level of fares was right to start with
- ▼ CIE's cost recovery analysis suggests that slow ferry fares may be too low for full cost recovery from fares, and fast ferry fares may be too high.
- ▼ Caveat - we have not investigated whether the reported costs are efficient.

What do the findings mean for fares? cont.

- ▼ Indec study from 2009 supports view that fare levels are too low for full cost recovery for slow ferries, but adequate (or better) for fast ferries.
- ▼ BUT we have previously said that increasing fares significantly in an attempt to improve cost recovery for slow ferries might have perverse results.
- ▼ Fares have already been increasing at a rate above inflation and above bus fares since 2003.

Comparison of private ferry fares, Stockton ferry fare, bus fares and CPI



What do the findings mean for fares? cont

- ▼ Most slow ferry operators receive supplementary payments from TfNSW - in effect a taxpayer subsidy
- ▼ If we were to increase maximum fares to increase cost recovery, we would also recommend that the Government reconsider the viability payments

How do we set other public transport fares?

- ▼ Make an assessment of the **efficient** costs of the business, including a reasonable return.
- ▼ Work out a fair share of those efficient costs for the Government to pay on behalf of the public (based on our assessment of the positive externalities generated by the service)
- ▼ Set fares on the basis that the passengers pay for the rest of efficient costs.
- ▼ Any inefficient costs are the responsibility of the owner to make a decision to either eliminate or subsidise.

Issues for setting private ferry fares using the same method as for other transport

- ▼ We need two crucial pieces of information:
 - ▼ what is the **efficient level** of costs of the businesses
 - ▼ what are the **positive externalities** of the services (if any)?
- ▼ At the moment we do not have either of these pieces of information.

Option 1: updating current approach

- ▼ **Continue to apply index or indices to existing fare levels:**
 - ▼ 1a: update the weightings in the FFCI/SFCI using the CIE's data (Preliminary result – 2.3% for slow ferry fares, 2.2% for fast ferry fares.) OR
 - ▼ 1b: switch to a simpler SFCI/FFCI or combined FCI, using just fuel and all other costs. (Preliminary result – 2.3% whether split into SFCI/FFCI or combined into one).
- ▼ **Questions** – do stakeholders think there is a need to maintain separate indices for fast and slow, or any advantage in continuing to try to construct a basket of items rather than moving to a simplified approach?

Option 2: Adjust fare levels

- ▼ Objective: adjust fare levels to better reflect passengers' fair share of efficient costs.
- ▼ Would have to at least **estimate** efficient costs and externalities.
- ▼ **Question** - Is there any robust and reasonable way to estimate efficient costs and is there any robust and reasonable way to estimate externalities for private ferries and the Stockton ferry?
- ▼ Our usual approach (for much bigger industries) is to do detailed studies of efficient costs and externalities.
- ▼ **Question** - should we contemplate more detailed studies for future reviews, bearing in mind that they are likely to be intrusive and resource-intensive for operators and for IPART?

Option 2 – more questions

- ▼ **Question** - What is stakeholder experience in relation to higher fares reducing patronage and therefore total revenue?
- ▼ **Question** - Could it be appropriate to freeze **fast** ferry fares this year?
 - ▼ Two of the 3 routes are charging well below maximum fare already and cost recovery evidence across both operators suggests no need for increases.
 - ▼ But the same issue of lack of data on efficient costs and externalities applies.

Option 3 – Light-handed

- ▼ Assume reported costs are efficient and appropriate and no externalities exist
- ▼ Put maximum fares up to allow slow ferry operators to fully recover all reported costs from fares.
- ▼ But we would have to be satisfied that no market power exists – or businesses would be put into a position where they could exploit their monopoly power, spend what they like, and charge it through to passengers via fares.
- ▼ It is clear that operators currently charging less than the maximum don't have market power – but how would we assess whether others do or don't?

Next steps

- ▼ Issue draft report before end of this month and call for submissions.
- ▼ Submissions on draft report will be due 4 weeks later. Late submissions may not be accepted.
- ▼ Final report provided to Transport for NSW by mid-December 2013.
- ▼ Transport for NSW will decide on final maximum fares for private ferry services.
- ▼ Stockton determination will commence at the beginning of January.



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