

INDEPENDENT PRICING AND REGULATORY TRIBUNAL
PUBLIC HEARING INTO FERRY FARES REVIEW

Tribunal Members

Dr Michael Keating AC, Chairman

Mr James Cox

Ms Cristina Cifuentes Held at Meeting Room 2, Level 2
44 Market Street, Sydney, NSW, 2000

On

Friday, 28 October 2005 at 1.45pm .28/10/05 1 FERRY FARE REVIEW
Transcript produced by ComputerReporters

1 THE CHAIRMAN: Good afternoon to everybody. For those who
2 do not know me, I am Michael Keating and I am Chairman of
3 IPART. On my left is Jim Cox, whom you probably do know.
4 He has been with IPART a long time as Chief Executive and
5 he is a full-time member of the Tribunal. On my right is
6 Ms Cristina Cifuentes, who has also been with the Tribunal
7 for a while. You probably know her too. She is the
8 Tribunal's part-time member.

9
10 We would like to start by just asking people at the
11 table to introduce themselves and their organisation. I'll
12 start with you, Ms Sinclair.

13
14 MS SINCLAIR: Thank you very much. Sue Sinclair, is my
15 name, the Chief Executive Officer of Sydney Ferries
16 Corporation.

17
18 MS HUGHES: Wendy Hughes, CFO Sydney Ferries.

19
20 MR CRIBB: I am David Cribb from the Charter Vessel
21 Association which represents the seven private ferry
22 operators in New South Wales.

23
24 MR WELLSMORE: Jim Wellsmore from the Public Interest
25 Advocacy Centre.

26
27 MR WADIWEL: Dinesh Wadiwel, Council of Social Services,
28 New South Wales.

29
30 MR TAYLOR: Graeme Taylor, Action for Public Transport.

31
32 MR MILES: Allan Miles, Action for Public Transport.

33
34 MR MAHONEY: Dennis Mahoney from the IPART Secretariat.

35
36 MS TOWERS: Fiona Towers from the IPART Secretariat.

37
38 THE CHAIRMAN: I would like to thank you at the outset for
39 coming today. As you probably know, the purpose of this
40 hearing is to assist the Tribunal in its deliberations in
41 determining the fares for Sydney Ferries and making
42 recommendations to the Director-General on the private
43 ferry operators. There is a distinction between
44 determining the fares and making recommendations.

45
46 In fact, of course, we will not be making any
47 decisions today, either in terms of determinations or

1 recommendations; rather we are basically here to seek your
2 assistance in our consideration of the various issues
3 including those canvassed in the submissions of Sydney
4 Ferries, the Charter Vessel Association and other
5 interested parties.

6
7 This is a public hearing and it forms part of a
8 consultation process that the Tribunal is in fact required
9 to undertake under its Act.

10
11 As you will have noted, there are two transcribers
12 present at the end of the table. They are recording the
13 proceedings and the transcript will be publicly available
14 on the IPART web site in a few days. It will help the
15 transcribers if you speak up; indeed if you grab a
16 microphone that is not too far away from you, it will help
17 them.

18
19 The hearing will run as follows: as we have listed
20 here, the first two sessions primarily cover issues mostly
21 related to Sydney Ferries. On reflection, I think we will
22 run them together. So we will get Dennis to introduce all
23 of the issues for Sydney Ferries rather than attempt some
24 sort of distinction between fares and other issues. Then
25 the third session after afternoon tea primarily concerns
26 private ferries, although there will clearly be an overlap
27 between the issues involved.

28
29 The session for Sydney Ferries, as I have stated,
30 will focus on fares directly, but there are a number of
31 other issues also canvassed in the Sydney Ferries'
32 submission which we want to follow up, including things
33 such as service improvements, patronage, costs and cost
34 recovery, the scope for cost savings and any other issues.

35
36 We will aim to have afternoon tea at around 3.45.
37 Then the session on private ferries will focus on the
38 change in the major costs faced by the private operators.
39 The CVA costing was derived by the Tribunal from data
40 supplied by the Charter Vessel Association, and we will
41 look at whether the increase in fares for private ferries
42 should be aligned with Sydney Ferries' fares as was the
43 case last year. I have a plane to catch, so I am pretty
44 keen to end at 4.45.

45
46 Dennis Mahoney will be starting this process with an
47 outline of issues to be discussed in the first instance.

1 Potentially we have quite a lot to get through, so we will
2 ask people to try to keep their remarks succinct. Also
3 while there can quite usefully be a discussion backwards
4 and forwards, I ask that you not interrupt speakers.
5
6 After calling on the initial speakers - first Dennis
7 and then the operators - I will be opening up the floor for
8 more general discussion, and comments from those who are
9 interested. If you think that we have missed an important
10 issue, you can raise that in the general discussion.
11
12 MR MAHONEY: We put three questions up-front in the
13 discussion notes just to focus the discussion in the first
14 section. In fact, we could roll the second session in, as the
15 Chairman has indicated, by perhaps just asking one extra
16 question, which is: how should service improvements be
17 measured and how should those improvements be translated
18 into a percentage fare rise overall? That is the essence
19 of the second session, and then there are some other issues
20 to deal with costs and patronage.
21
22 The first three questions we have concern the broader
23 issue of: should the Tribunal adopt a CPI plus X approach,
24 where CPI is the Sydney CPI and the X refers to either
25 demonstrated or imminent service improvements? This, of
26 course, as you will recall, was something that came out of
27 the Parry Inquiry.
28
29 The second question - because this is a bit unusual in
30 that Sydney Ferries are looking to align some of their
31 fares to comparable private ferry operators - would be: on
32 what grounds should the Tribunal consider that alignment
33 or, for that matter, on what grounds should it reject it?
34 The third question has to do with some of the options that
35 Sydney Ferries put forward for adjusting individual fares
36 and what that might mean for the size of the overall fare
37 rise.
38
39 Let me begin, therefore, by talking about the
40 fare-setting approach - CPI plus X. As you know, that
41 comes out of what is colloquially known as the Parry
42 Inquiry. The Parry Inquiry says there are five ways that
43 the government could think about shrinking the funding gap
44 that it foresaw as it looked into sustainable public
45 transport in New South Wales over the next few years. The
46 two recommendations that most concern us today - being the
47 first two - are efficiency gains and fare increases. The

1 government agreed that the public transport operators
2 should pursue efficiency gains and, in fact, seek to let
3 those efficiency gains be known to the wider community.
4
5 The second recommendation, of course, is funding the
6 CPI plus X approach whereby if the efficiency gains in some
7 sense meet the efficiency targets, then the CPI should be
8 granted, and the X would be for service improvements.
9
10 As it turns out, it has been very difficult to find
11 any efficiency targets as such, but we can say that quite a
12 bit on either demonstrated or imminent service improvements
13 has been provided in the Sydney Ferries' submission.
14
15 If we were to take the CPI part, that is relatively
16 straightforward because we know that the Sydney CPI rose
17 2.46 per cent last financial year relative to the year
18 before. If the Tribunal were to adopt the approach that it
19 wants to use the latest information available - in fact,
20 the latest CPI information is for the September quarter -
21 the increase in the 15 months through to September is 2.86
22 per cent over the previous financial year. So it just
23 depends which way the Tribunal wants to go as to what "CPI"
24 means in this particular case.
25
26 Just for interest, at the top of page 2 on table 1, we
27 have put previous Sydney Ferries' fares and previous rises
28 in the Sydney CPI. The first two Sydney CPI figures are
29 slightly incorrect. They should be 0.1 instead of 0.00
30 and 1.6, but that makes marginal difference. I am sure
31 some of you, with a quick calculation, have deducted from
32 the Sydney fare rise the CPI to get some measure of what
33 the real increase in fares has been so that with this new
34 framework, you would say that is the implied X. But, of
35 course, the Tribunal made those decisions on a raft of
36 considerations, as outlined in section 15 of the IPART Act.
37 There are about a dozen concerns or matters that the
38 Tribunal needs to take into account in reaching its fare
39 determinations.
40
41 Without the efficiency targets as such, Sydney Ferries
42 did put a case for a positive X. We have listed six dot
43 points on the middle of page 2 that Sydney Ferries advanced
44 as reasons for thinking there should be a positive X in
45 their fare rise this year. We will come back to those in
46 just a little while.
47

1 The other unusual aspect of this year's determination
2 was a request to consider a multi-year price path. Again
3 this is a reflection of something that was in the Parry
4 Inquiry. Sydney Ferries have asked for a three-year path.
5 We are letting the participants in the workshop know that
6 the Tribunal is in the process of looking at the efficient
7 costs of Sydney Ferries over several years into the future.
8 Also we are undertaking a patronage study several years
9 into the future as a basis for more information for the
10 Tribunal.
11
12 An annual review has meant less data requirements. A
13 multi-year price path has more data requirements. So my
14 understanding is we will not be likely to be undertaking
15 any multi-year price path at this point. This will be more
16 an interim increase; but participants might want to discuss
17 that with the Tribunal, so we have mentioned that for this
18 reason. If we think about the alignment of Sydney
19 Ferries' fares with private fares, and it may help to you
20 look at the chart or figure on page 3, the only comparable
21 private ferry operator would be Matilda Cruises and Matilda
22 is the squares in the middle of figure 1. All Matilda
23 fares, in fact, are the same - they are all \$5.70 - even
24 though the maximum fare for their Homebush to Darling
25 Harbour run is considerably higher than that, I think for
26 administrative convenience and communicating to customers -
27 and the representative for Matilda Cruises will be here
28 later, he can elaborate more - they are all set at \$5.70.
29
30 We have looked at the Sydney Ferries fares and you
31 will notice that in fact Sydney Ferries, in a zone 1 fare,
32 covers a multitude of wharves, so we have put a box in the
33 chart to indicate how far the different runs are that you
34 can go on that one ticket. And the diamond is just
35 positioned arbitrarily somewhere along this.
36
37 So we are comparing two or three very distinct routes
38 at \$5.70 from Matilda, with, first of all, the inner zone
39 fare at \$4.80, from Sydney Ferries, and also, therefore,
40 since it is below the Matilda fares, we have also
41 considered the other diamond on the far right, which is the
42 extra stop for Meadowbank, known as "inner zone 2".
43
44 We have raised some concerns about how comparable
45 really are these Sydney Ferries fares with the Matilda
46 fares. We have mentioned a couple of differences, of
47 course. One is that the Sydney Ferries fares enable to you

1 go to 35 different wharves, whereas Matilda's are more
2 restrictive than that. The distances are quite different,
3 the Matilda fare, Circular Quay to Darling Harbour, for
4 instance, is very short and some of the Sydney Ferries runs
5 are considerably longer.
6
7 Another difference, of course, is the amount of
8 subsidy that one might think is involved in Sydney Ferries'
9 operations, given that there are CSO payments made by the
10 government. Of course Matilda receives none of those.
11
12 They are just some considerations and I think the
13 Tribunal would like to hear participants' views on the
14 comparability or otherwise of private and Sydney Ferries'
15 fares.
16
17 We undertook quite a bit of work to translate the
18 options that Sydney Ferries put into their submission.
19 Quite a lot of work came from Sydney Ferries on the
20 different options. We have looked at the first three,
21 because the fourth one is simply the third one but with a
22 shallower discount for the TravelTens, so we didn't feel we
23 needed to present that here.
24
25 In order to help participants have a feel for the
26 orders of magnitude involved in those fare options, we have
27 done it, so to speak, in one hit. Sydney Ferries are
28 asking for these sort of changes over a three-year price
29 path, but table two on the middle of page 4 indicates if
30 all we did was increase all fares by the CPI, and we took
31 the 2.46 per cent CPI, then obviously the average fare
32 level would go up by around 2.5 per cent. We didn't even
33 have to build a model on that, we worked out that that was
34 a pretty straightforward estimate.
35
36 The second one, however, where we increased the single
37 fares to equal the Matilda fares, and therefore we would
38 need to raise the price also of the TravelTens, even if we
39 left the discount unchanged, and we would have to raise the
40 price of the TravelPasses, is a little bit more
41 complicated. We have put the calculations in an attachment
42 at the back for anyone who is interested, but the end
43 result is that the average fare level would go up about
44 5.2 per cent.
45
46 If we then allowed for the FerryTen discounts to come
47 down, the average at the moment is about 28 per cent - the

1 weighted average across the different revenue derived from
2 the different tickets - if we cut that to 22 per cent as a
3 maximum, then that would boost the fare revenue,
4 obviously. That is option 3, both increasing the single
5 fares and cutting the discount, which would be an
6 8.6 per cent across-the-board rise in fares.
7
8 So that is just to translate some of the fare options
9 that Sydney Ferries have put on the table into what it
10 might mean for an overall fare rise, noting, yet again,
11 that Sydney Ferries are not asking for that in one year,
12 but we have simply put that in to give you a feel for the
13 orders of magnitude.
14
15 When it comes to size of discounts, Sydney Ferries
16 very helpfully included a chart, which we have reproduced
17 on the top of page 5, showing what the discounts are for
18 various FerryTen tickets or multi-ride tickets on the
19 left-hand chart. The interesting thing there is if you
20 draw a line at 20 per cent across the boxes on the
21 left-hand chart, you will see that two of them are below
22 20 per cent, two are at 20 per cent - we probably ought to
23 leave Sydney Buses out of it - and the other two are well
24 above 20 per cent.
25
26 The average for the lot - and we have taken Sydney
27 Ferries' calculation as reasonable on this one - is
28 23 per cent, which is not all that different from whichever
29 option it was that had the reduction in the FerryTen
30 discounts to 22 per cent.
31
32 So we think that Sydney Ferries have given us some
33 evidence for suggesting that the discounts for ferries,
34 which range - as shown on the table on the bottom of
35 page 4 - from a low of 17 per cent up to a high of
36 37 per cent - appear, relative to other jurisdictions and
37 other modes of transport, to look high.
38
39 I won't go into the issue of adjusting TravelPasses.
40 The difficulty with TravelPasses is, of course, that no-one
41 knows what the discount is on a TravelPasses, because it is
42 an unlimited TravelPass product. Since we've only been
43 asked to keep the TravelPass in step with singles, it has
44 been relatively straightforward to do.
45
46 We did rather badly put an expression in the
47 third-last paragraph on page 5. We talked about the

1 underpricing of some of the TravelPasses, and I think it
2 would be helpful if no-one picked me up on that. I don't
3 think it sheds any light on anything at all, I think it is
4 quite a misleading paragraph now that I had a chance to
5 look at it last night. Please delete that.
6

7 When we come to service improvements, on page 6, the
8 best that the secretariat has been able to do at this
9 stage, on the basis of the information available, is to
10 look at service improvements in terms of what are Sydney
11 Ferries' key performance indicators - KPIs - and say how
12 have they improved relative to previous years. You can see
13 from tables 4 and 5 that we have put in bold those KPIs
14 that seem to have improved. That indicates that, relative
15 to previous years KPIs, at least given the data up to the
16 middle of last financial year, there seems to be
17 improvement in the ones that we have put in bold type.
18

19 We note that there have been some incidents recently
20 in Sydney Ferries, perhaps in the second half of the year,
21 and it would be a help if we could have that.
22

23 MS SINCLAIR: I am happy to provide that.
24

25 MR MAHONEY: In some ways, the quantification of the KPIs
26 conflicts with the anecdotes that we have produced from
27 various written submissions, and participants might like to
28 discuss that in due course.
29

30 The next issue concerns planned service improvements
31 as opposed to demonstrable service improvements. The
32 question there for us is what weight should the Tribunal be
33 giving in this fare review to planned improvements in the
34 services, as opposed to those that have actually taken
35 place.
36

37 Lastly, of course, of those improvements that have
38 taken place, how does the Tribunal go about translating
39 those service improvements into a quantifiable fare
40 increase.
41

42 The remaining pages just give some background
43 information on Sydney Ferries patronage, the history of it.
44 We are a little surprised to find that the growth of
45 patronage has been much faster historically than Sydney
46 Ferries is projecting, and perhaps Sydney Ferries
47 themselves would like to comment on that.

1
2 Finally, on costs and cost efficiency, as we did last
3 year we have computed operating costs per kilometre
4 travelled. You can see that in figure 4. There still
5 seems to be quite a strong uptrend in those costs. This
6 was discussed last year. The submission actually spends a
7 good deal of its energy talking about costs savings and how
8 these might be achieved in the coming 12 months.
9 Mr Chairman, I think that is sufficient for us to get the
10 discussion going.
11
12 THE CHAIRMAN: Thank you Dennis. Sue, would you like to
13 start?
14
15 MS SINCLAIR: Certainly. The starting point clearly is
16 the case for CPI plus X fare increases. If I could focus
17 on the CPI section first, IPART recommendations led, as has
18 been stated, to the government deciding that subject to
19 meeting efficiency targets and pursuing fare increases
20 aligned to the CPI through the Independent Pricing and
21 Regulatory Tribunal - so a precursor to be able to do that
22 is to indicate some efficiencies in our business.
23
24 In the last 12 months a major focus of Sydney Ferries,
25 as an independent State-owned corporation, has been the
26 review of its cost structures across every part of this
27 business.
28
29 As a result of that review, significant cost savings
30 have been targeted in three main areas: those areas are
31 the Balmain Shipyard maintenance operation; our crew
32 operations; and general procurement across the
33 organisation.
34
35 We have been undergoing a review of Balmain Shipyard,
36 and I could probably say that that has been done in three
37 stages. One was to identify efficiencies that could be
38 achieved out at the shipyard; the second part is really
39 putting together - which has now been completed - a plan
40 about how we will deliver every aspect of that review and
41 reform at the shipyard; and we now just about to embark on
42 implementation of those reforms.
43
44 The efficiencies and targets are based upon increasing
45 trade workforce utilisation of productivity. We have
46 focused on improving maintenance planning and scheduling
47 processes and improving the inventory management practices

1 at the shipyard.
2
3 On the second point, dealing with crew operations, we
4 have targeted efficiency improvements and they will include
5 increased work utilisation within what is known as an
6 aggregate wage at Sydney Ferries; standardisation and
7 rationalisation of hours of work across crew employee
8 categories; improved rostering processes; and improved
9 flexibility in workforce allocation.
10
11 Opportunities for cost reduction have also been
12 identified with respect to procurement practices. The
13 majority of our costs in procurement are actually those
14 relating to the shipyard and as part of the shipyard reform
15 procurement has also been looked at in that sense as well.
16
17 Whilst some cost savings have already been targeted
18 and realised, others are targeted for the current and
19 future financial years. For instance, during '04/'05 we
20 did conduct an open tender process for the scheduled survey
21 of the Manly Ferry, which was The Freshwater. That has
22 resulted in savings have around \$1m on the base contract
23 work for Sydney Ferries.
24
25 Although much of the groundwork has been laid for
26 achieving significant reductions in maintenance and crew
27 labour costs, these are actually not expected to
28 materialise until the latter half of the current financial
29 year, with the full impact on our core structures to be
30 realised from '06/'07.
31
32 Sydney Ferries Corporation is currently in the process
33 of enterprise bargaining with three of its main union
34 groups. Those enterprise agreements expire at the end
35 of December and we have some issues on the table, as I have
36 alluded to here, for some efficiency savings coming out of
37 those negotiations.
38
39 Certainly these identified cost savings form the basis
40 of Sydney Ferries' efficiency targets over the next few
41 years, so I note Dennis's comments regarding the absence of
42 efficiency targets, but they have indeed been included as
43 targets in cost scenario 2 in the submission to the
44 Tribunal, in support of a fare increase of at least the
45 CPI.
46
47 With respect to increases above the CPI, Sydney

1 Ferries have submitted that there are a number of grounds
2 upon which these should be based. All the details
3 supporting that are included in our submission.

4
5 Broadly speaking, they are progressive service level
6 improvements; we also have to have regard, in our business,
7 to the increases in regulatory and other costs, such as
8 fuel costs, over which the corporation has limited control;
9 the relative price of Sydney Ferries and private operator
10 scheduled services - and Dennis has already alluded to
11 that; the relative discounts applicable to Sydney Ferries
12 and comparable operator multi-trip products; and the value
13 for money offered by Sydney Ferries' leisure products
14 relative to alternative leisure products available to
15 visitors in Sydney.

16
17 As I indicated, most of these are discussed in detail
18 in subsequent sessions. We are happy to talk about those
19 in a little bit more detail here, but I think we will
20 probably get to them.

21
22 With respect to Sydney Ferries' leisure products, it
23 is argued in our submission that they are excellent value
24 for money compared to other available leisure activities as
25 reflected by the relative pricing inelasticity for
26 non-commuter travel.

27
28 MR COX: I might just ask a couple of questions. One area
29 that I think is probably of interest to us is what do you
30 think is going to happen to your costs. I note that you
31 say that you are going to make some efficiency
32 improvements, but they are not going to take effect right
33 now. What is likely to be the increase in your costs over
34 the coming year and what is that likely to mean in terms of
35 cost recovery?

36
37 MS HUGHES: In our submission we do note that Sydney
38 Ferries is subject to increasing costs in a number of
39 areas, which are outside our control. Among these are fuel
40 prices, for instance, which over the past five years have
41 increased on average by 13 per cent; insurance prices have
42 also increased over the last five years by around
43 10 per cent.

44
45 In addition, Sydney Ferries is also subject to an
46 increasingly stringent regulatory environment which has
47 imposed a further cost burden on the operation of our

1 services.

2
3 A significant level of expenditure is required on an
4 ongoing basis to maintain and improve the safety of our
5 operations and to minimise the impact on the surrounding
6 environment.

7
8 Furthermore, the heightened security environment
9 surrounding the threat of terrorism also has operational
10 cost implications.

11
12 All of these costs are intrinsic to our business of
13 transporting ferry passengers and, as such, they needed to
14 be funded by that business.

15
16 With respect to the level of cost recovery, despite
17 these increasing costs we will continue to work towards
18 improving our cost efficiencies and patronage growth.

19
20 MS SINCLAIR: I don't know the answer to where the fuel
21 prices are going, Jim; I wish I did.

22
23 THE CHAIRMAN: I want to pursue the issue of costs and
24 efficiency, but, first, I just want to be clear on one
25 thing: we would generally see efficiencies, cost savings,
26 as a reason for not increasing prices, not as a reason for
27 increasing prices. As a general rule, when we look at
28 price regulation, we assess the scope for savings and
29 whether the organisation is running as efficiently as it
30 could, and if we think that it is not running as
31 efficiently as it could, then we give it a smaller price
32 increase, on the grounds that they could get their costs
33 down and don't need a price increase. So, just to be
34 clear, that is where we are coming from.

35
36 MS SINCLAIR: Sure.

37
38 THE CHAIRMAN: In your submission, I think to summarise
39 it, my understanding is that you project that the
40 significant net cost savings that we've been talking about
41 will contain the growth in total cost to 2 per cent per
42 annum for fiscal 2008. That is despite, you know, expected
43 growth of labour costs of 4 per cent, fuel, et cetera.

44
45 That is highly commendable. One might even project
46 that it will be less than the CPI. So in terms of current
47 costs, I suppose the question is perhaps the CPI is too

1 high - that still would leave an "X", but, on your
2 projections of the costs, if they only grow at 2 per cent
3 over the next two or three years, why do you need a CPI
4 increase?

5
6 MS HUGHES: The submission actually presents a range of
7 pricing scenarios, and under two cost scenarios, and the
8 impact of each of those on the cost recovery levels and the
9 requirement for borrowings is included in the last page.

10
11 Certainly if we do meet our efficiency targets there is
12 less requirement for funding through fare box and/or
13 government, but I think in the submission it is quite clear
14 from the graphs included in that submission that there will
15 be a need for additional borrowings if we cannot recover
16 our costs through the fare box.

17
18 MR COX: I think what you said to me earlier suggested you
19 thought the costs were going up by more than 2 per cent in
20 the coming year, so perhaps you could clarify that for my
21 benefit.

22
23 MS HUGHES: The submission is actually a cost model, which
24 was prepared based on the information available at the time
25 of preparation. Obviously in recent months there have been
26 a few circumstances which are requiring a re-look at our
27 safety performance and the maintenance of that performance.
28 So certainly there will be some additional costs over the
29 next 12 to 18 months with respect to that.

30
31 It is a moving target, obviously, and we, as costs
32 increase, will continue to explore further opportunities
33 for reducing other costs to meet our budget allocation
34 and/or our cost recovery requirements.

35
36 MR COX: Can I move on to another area, perhaps?

37
38 THE CHAIRMAN: Just before you do, that, I should say,
39 perhaps, that the Parry model, as I understand it - and I
40 obviously wasn't here when it was accepted by the
41 government - is that providing you realise the cost
42 efficiency targets and so on, then CPI is the expectation,
43 plus whatever service improvements are. So I don't want
44 you to misconstrue what I said earlier.

45
46 MS SINCLAIR: No. I understand.

47

1 MR COX: I wonder if we could turn to the area of
2 discounts. I think Dennis produced some figures that show
3 that the discounts given to your periodic tickets is a
4 large one. There has always seemed to be a thinking about
5 this that really you are dealing with different markets.
6 In a way, the periodic tickets are for the commuters,
7 whereas the single tickets are for leisure travellers. So
8 because there are these different markets, might not a
9 large discount for the periodic tickets be appropriate for
10 the ferry travellers?

11
12 MS HUGHES: In our submission, what we are arguing is that
13 there is a very high level of discount on some of our
14 products, which is not aligned with the benchmarks that we
15 have analysed, including local private ferry operators,
16 Sydney Buses and certainly other public transport providers
17 within Australia and internationally.

18
19 The argument for reducing the discount, we believe, is
20 that the discounts are too high and basically that impacts
21 upon our funding requirements and our requirements to
22 borrow money, and it is certainly not a commercial level.

23
24 MR COX: I think my problem is you are serving two
25 different markets and perhaps a higher discount than other
26 forms of public transport might be reasonable for Sydney
27 Ferries.

28
29 THE CHAIRMAN: Can I just intrude? Is it logical that you
30 would necessarily have a uniform rate of discount across all
31 markets? I think what I interpret Jim to be saying is that
32 because there are significant differences in your markets
33 from what we might call the leisure-seeking tourist
34 traffic, whatever name you want to give it, and those who
35 are commuters, that the commuters have less discretion
36 whether to travel or not than the leisure traffic, and the
37 argument is should you have a uniform discount or a
38 different discount for leisure travellers than you have for
39 commuter traffic.

40
41 MS HUGHES: The multi-trip tickets are primarily purchased
42 by commuters, not by leisure travellers. There are
43 different products for the leisure travellers.

44
45 THE CHAIRMAN: We are asking whether you would have a
46 different discount for a multipurpose or multi-trip ticket,
47 than you would have for, say, a day ticket?

1
2 MS HUGHES: Yes. The day tickets are not discounted.
3 They are set at a certain level.
4
5 THE CHAIRMAN: I am getting mixed up with the
terminology.
6
7 MR COX: From what I recall in your submission you said
8 that the single tickets are mostly purchased by the
9 tourists, leisure travellers, while the TravelTens were
10 mainly purchased by commuters. So those sorts of tickets
11 are serving different types of people.
12
13 MS HUGHES: That's correct.
14
15 MR COX: I was wondering whether, perhaps, given the
16 desire to price for each of those two markets
17 appropriately, that might not result in what appears to be
18 a large discount, because really those tickets have been
19 directed to different markets. That's the point I was
20 trying to make.
21
22 MS HUGHES: Okay. I guess our point in the submission is
23 besides the fact that we have benchmarked our discounts
24 against other operators, basically, Sydney Ferries does
25 operate to two different markets - one is the leisure
26 market and one is the commuter market. We are arguing that
27 we shouldn't selectively impose price increases on the
28 leisure market, because the commuter market also
29 contributes to the cost structures of our organisation, and
30 the discounts certainly appear to be too large in terms of
31 covering the cost of the commuter market operations.
32
33 THE CHAIRMAN: This morning we had some discussion on
34 buses as to whether they should offer off-peak discounts.
35 I imagine the leisure market is mostly off-peak. Do you
36 have a view about discounts for off peak?
37
38 MS SINCLAIR: I don't think we have really given it a lot
39 of consideration. It is certainly something we would be
40 happy to discuss with the Tribunal but we have not
41 considered that in our submission.
42
43 MR COX: Could I also ask you about your patronage
44 forecasts, which I think Dennis also raised, where you are
45 suggesting a degree of pessimism in your submission about
46 patronage growth in the future. Perhaps you could
47 underline why you take that view.

1
2 MS HUGHES: The patronage growth estimates for the future
3 years using the cost model are somewhat lower than
4 historical patronage growth rates. However, for 2004/2005,
5 our patronage growth was approximately 0.8 per cent. We
6 are projecting 1 per cent which is comparable to our result
7 for 2004/2005.
8
9 In our estimates we also gave consideration to the
10 existing capacity constraints on our operations, which may
11 limit patronage growth unless there is significant capital
12 expenditure on for instance, wharf infrastructure.
13 Certainly there is some network congestion and the
14 existence of restricted zones on Sydney Harbour which may
15 limit our ability to offer new services on new routes.
16
17 So, yes, we did put a conservative estimate in our
18 submission with respect to patronage growth, but we do
19 believe it is justified on those two grounds.
20
21 MR COX: Why do you think that patronage growth has
slowed
22 down in the more recent years as opposed to what has
23 happened in the past?
24
25 MS SINCLAIR: It is difficult to say. There has been, I
26 would suggest, a general downturn in the tourist market
27 overall. I don't have any other real indicators, though,
28 as to why that trend would be as it is in the last few
29 years.
30
31 THE CHAIRMAN: We might now throw it open to the
32 consumers.
33
34 MR MILES: Before Graeme launches into his major thesis, I
35 would just like to comment on the question that Jim raised
36 about the discounts.
37
38 I think Sydney Ferries is not being fair dinkum in
39 saying that their discounts should align with the Sydney
40 Bus. I mean, people don't go for a pleasure ride to
41 Alexandria on a bus, but they do go for a pleasure ride to
42 Manly on the ferry. But I think rather than looking at a
43 discount of 36 per cent, or whatever it is, on a Manly
44 ferry, I think you should be saying that is a premium of
45 36 per cent, or split the difference - what is the fare to
46 Manly, \$6 - and say that perhaps a commuter fare to Manly
47 should be \$5, so the commuters are getting a discount, and

1 the holiday makers are paying a \$1 premium, something like
2 that, but I think your argument, Wendy, about the
3 discounts, was a bit off-beam.
4
5 MR TAYLOR: Can I preface my remarks, following on what
6 Jim said. The ferry market is split in the two halves: it
7 is half-commuter and half-tourist market. There are some
8 slight differences with the private ferries - Matilda
9 Cruises tends to target the commuter market, and Sydney
10 Ferries has an even split.
11
12 The other operational reality that exists between the
13 private and the public operators is the contracts that they
14 sign. There is a territorialism on the harbour - different
15 operators have rights to different services - and to my
16 mind this has been a problem in terms of addressing the
17 issue of raising patronage, because operators have
18 instinctively protected their turf. They have fought over
19 a slice of the cake, rather than acting more broadly to try
20 and increase the size of the cake.
21
22 A very specific example of that, of course, is the
23 Darling Harbour service, which of course both Matilda
24 Cruises and Sydney Ferries operate on. A combined service
25 would carry more people. Operating as competitors you tend
26 to leave people ashore at the busy times.
27
28 So the submission that I want to make is in terms that
29 perhaps the operators, by working together, can be a little
30 bit smarter, particularly in terms of addressing the issue
31 of patronage. By coming together, they can develop a
32 strategy and deploy their vessels more effectively to
33 capture the patronage potential that is out there. That is
34 the angle where I am coming from with my submission.
35
36 In terms of making this year's determination, awarding
37 the CPI would clearly be sensible because the operators
38 face increased costs in terms of regulation and fuel, but I
39 don't think that it is appropriate at this stage to look at
40 the long-term pricing path because there is the potential
41 to literally restructure the industry, and it is the
42 potential for change that should be sought.
43
44 As to the alignment of private and public ferry fares,
45 what I think needs to happen is that they need to be
46 combined. There should be one scale of fares for all
47 ferries on Sydney Harbour; there should be one set of

1 timetables and one marketing system. Because your fares
2 determine your flow of passengers: if you lower your fares
3 you get more people and you need more boats. So by having
4 a common fare system across the harbour and one
5 organisation determining where the vessels run, you can
6 maximize the number of people on each vessel.
7
8 The idea would be to use a marketing campaign to
9 increase the patronage and to make ferries more
10 sustainable, to increase the cost recovery and make them
11 more sustainable and to give them more incentive to invest.
12 When you are looking at boats you are looking at a very
13 high capital cost.
14
15 The chief area where the service requires particular
16 improvement is the timetables. Sydney Ferries are unique
17 in that they have timetables some of which date back to the
18 1950s, they haven't been changed, and what has happened is
19 that sections of those timetables have been added to and
20 subtracted from and they need to review their timetables
21 but they also need to have a freer regulatory regime in
22 doing that.
23
24 In terms of costs, not only do they have costs in
25 terms of the compliance and fuel, but a significant cost
26 would be capital. Many of their services, despite the low
27 patronage, are actually quite full at particular times -
28 mainly during the summer. Peak-hour services are quite
29 full, and in areas where they have potential for growth -
30 like the Parramatta river - the vessels are travelling at
31 capacity in peak hours now, and to capture that growth they
32 would need to build extra ferries and that is an expensive
33 exercise, and one for which Sydney Ferries would have to go
34 into debt.
35
36 I would hope that, by the time we come back next year,
37 perhaps there will have been some change in service
38 delivery and some different parameters for us to look at
39 when next year's fare review comes up.
40
41 THE CHAIRMAN: I will just make an observation and then I
42 might ask Sydney Ferries to comment on the timetable, or
43 anything else, if they want to. Generally where you have
44 two organisations that operate commercially - let's call it
45 an oligopoly - there is a view that if they got together
46 they would probably restrict supply. Monopolies restrict
47 supply relative to oligopolies. It may be that in your

1 world they don't operate and pursue their commercial
2 self-interest, but if they were pursuing their commercial
3 self-interest, and at least one of them, I imagine, would
4 have to, then I would have thought that a cosier deal would
5 involve them in restricting supply, and that is the
6 opposite of what I think you intend.

7
8 MR TAYLOR: The idea is to create a seamless service from
9 the point of view of the passenger. It doesn't matter who
10 operates the vessel; as far as passengers are concerned,
11 they can go to the quay, buy a ferry ticket, the ferry
12 turns up and takes them to where they want to go. It is
13 absolutely seamless, regardless of operator, from the point
14 of view of the passenger. There will be one web site, one
15 set of timetables.

16
17 THE CHAIRMAN: It is a bit like the airlines where you
18 have a seamless switch from Qantas to British Airways.

19
20 MR TAYLOR: You get a system like this. You get multiple
21 operators, but one system in Perth and --

22
23 THE CHAIRMAN: I just make the observation giving the
24 airline example. You can see it if you fly across the
25 Pacific or if you fly anywhere. Those deals are
26 restricting the supply of service, and that is not a
27 criticism of the supply of service. Why don't we ask
28 Ms Sinclair to comment.

29
30 MS SINCLAIR: What I would add to that comment separate
31 from the Trade Practices Act issue is that Sydney Ferries
32 is governed by the Passenger Transport Act of 1990 and our
33 service levels, our routes and our timetable are set
34 between Sydney Ferries and the Ministry of Transport. So
35 there is overriding legislation that we need to comply
36 with. We also have to operate our services in accordance
37 with the regulations outlined in the Passenger Transport
38 Act.

39
40 On the question of timetables, in a more generic
41 sense, though, certainly I am pleased to say that Sydney
42 Ferries has done a couple of things in the last 12 months.
43 The first thing we have done is look at the strategy for
44 increasing patronage to the short and medium term within
45 our existing passenger constraints. We are trying to
46 achieve a better alignment between customer demand and
47 service provision.

1
2 To that end, we have recently undertaken an extensive
3 customer survey, a demand survey, to identify the key
4 variables that do impact on our patronage. The findings of
5 that survey indicate that there is potential to improve our
6 patronage levels, certainly by increasing service frequency
7 during those peak and non-peak periods and providing
8 increased service reliability. Clearly that is one of the
9 objectives coming out of the Balmain Shipyard review.
10 There's a desire by our customer for more express services
11 and there is also a desire by our customers to have
12 extended operating periods.

13
14 In the recent months, and until such times as we take
15 the next step of that customer survey, I am pleased to say
16 that we have been able to extend our services. For
17 example, our service to Watsons Bay at weekends has gone up
18 by 50 per cent. We have also put on additional services to
19 Cabarita, and that is all without any particular additional
20 costs to Sydney Ferries. So we are exploring
21 opportunities to meet some of the things that we already
22 know our customers are saying, within the current time
23 frame.

24
25 Our next significant piece of work will be to look
26 beyond the customer survey, analyse that and do a proper
27 demand study. That will also inform a number of other
28 significant pieces of work relating to our fleet strategy
29 that is also targeted for next year.

30
31 MR WADIWEL: Mr Chairman, this morning in the bus fares
32 inquiry, I made some comments about the CPI plus X. I will
33 just quickly recap some of the NCOSS concerns with that
34 formula. First and foremost, our concern is: where does
35 affordability fit into that formula since what we are
36 considering is CPI plus service improvements? Potentially
37 it means that you market to the people who can afford the
38 service quality improvements, but those who cannot
39 withstand continuous above-CPI fare increases over a period
40 of time will miss out on that transport because they will
41 not be able to afford it.

42
43 We are not clear exactly where the efficiencies fit
44 in. We have had this problem with buses and ferries in
45 that we are not exactly clear about what efficiencies are
46 slated in advance and how they would affect that claim for
47 the CPI. Certainly, there was more information in the

1 Sydney Ferries' submission on efficiencies, but the
2 efficiencies were slated to happen in the future as opposed
3 to efficiencies that have already occurred.
4
5 We also have a problem in terms of how we measure
6 service quality and how that translates to the X factor. I
7 am yet to see any clear formula or matrix for how we
8 transfer an agreed-upon service improvement to a fare
9 increase percentage.
10
11 This is something I raised this morning: if we are to
12 go down the CPI plus X path, things I think that NCOSS
13 would support would be: being clear about the goals and
14 the efficiency goals and how they fit into that formula.
15 We need absolute transparency around those. Certainly we
16 do not want to see service levels and so forth locked into
17 contracts with government that no-one has access to, and
18 that is because of the potential impact on passengers. For
19 NCOSS, it affects the vulnerable low-income users. It is
20 also important that there be transparency because of the
21 massive public interest in the amount of money that
22 potentially can go to an operator without any due process.
23
24 Finally, we need to find a way to factor the
25 affordability into the CPI plus X. As I said before, if we
26 are in a situation where we will get numerous years of
27 above-CPI fare increases, we need to know what is
28 happening, particularly at the bottom end of the spectrum
29 where people are relying on those services to get to jobs
30 and educational services.
31
32 Just to move on to some of the other issues, with
33 regard to a multi-year price path, NCOSS has been fairly
34 happy with the idea in principle of a price path. If we
35 are talking about significant fare increases, our
36 preference would be for them to be spread out over time and
37 that reduces the upfront impact in one particular year. We
38 certainly don't want a price spike where you sometimes get
39 double CPI or more in one year. I think that is unfair on
40 the consumer.
41
42 That said, I am not convinced that there was adequate
43 data in this year's submission from Sydney Ferries to
44 justify a three-year price path. Particularly if you look
45 at some of those efficiencies and cost savings, I do not
46 think the number details are in there in terms of what
47 exactly will be saved in each of them. Even with regard to

1 some of the cost pressures such as regulation, insurance
2 and wharf costs, there was no documentation that I could
3 find in the submission showing what exactly that translated
4 to in numbers. To me, it seems that we need to get some of
5 those things certain before we apply something like a
6 three-year price path.
7
8 In terms of alignment of Sydney Ferries' fares with
9 private fares, I really think we have an apples and oranges
10 situation. I cannot quite see how the public fares relate
11 to the private fares. Certainly I think it is significant
12 that Sydney Ferries receives a CSO from government. The
13 CSO is there for a reason, which is for that operator to
14 provide, as a community service obligation, a range of
15 services to the community. That is something that the
16 private operators are not bound by.
17
18 I think perhaps what Action for Public Transport were
19 heading towards was saying that if we were in a situation
20 with something like an integrated transport network, and we
21 have got something like that with the buses, then perhaps
22 it would be fair to talk about aligning public and private
23 fares, because there is an integrated network, and
24 presumably you would want to have some consistency in fare
25 levels between journeys. At this stage I find it very
26 difficult to find justification for any comparability
27 between public and private fares.
28
29 I just want to make a few comments about the tourist
30 community market comparison. I think this is something
31 that has flown through in the last two years of submissions
32 from Sydney Ferries. It is potentially a problem area.
33 Hopefully, it is something we can start to clear up as to
34 how we exactly target the service, and we should keep in
35 mind that CSO payment is there for a particular reason as
36 well.
37
38 On the one hand, my concern is that we have very
39 little data about the utilisation of those single tickets
40 and potentially who could be impacted if we decide to
41 radically increase their price. Our concern, first and
42 foremost, is that part-time workers - we know, for example,
43 many part-time workers use ferries to get to, say, Manly to
44 service the hospitality industry - are not exactly rich
45 commuters and they are likely to be using those single
46 tickets as opposed to a multi-ticket because they are only
47 travelling on one or two days per week.

1
2 These are the sorts of consumers who will be impacted
3 heavily if we increase the single fares. I don't have the
4 data about the composition of the passengers who buy those
5 single fares, but I think we have to be clear if that is
6 the path that the Tribunal wants to take in terms of
7 increasing those levels.
8
9 On the other hand, I think there are some frankly
10 bizarre things in the Sydney Ferries' submission including
11 comparing Sydney Ferries against Taronga Zoo, the Bridge
12 Climb, Centrepoint Tower. I am not sure about the
13 relevance that those sorts of tourist activities around the
14 harbour have with the job that Sydney Ferries is there to
15 do.
16
17 Going back to some comments I made in this morning's
18 session about buses, we really need some guidance in terms
19 of what the role of this operator is. To me, if it is a
20 public transport provider, then that is its role and we
21 need to be very clear that it is actually meeting those
22 goals. With those sorts of comparisons in the submission,
23 it would appear that the operator is seeking to become a
24 tourist provider, which I do not think should be the case.
25 We have to be very clear that it is a public transport
26 provider and not the other way around. Thank you.
27
28 MR WELLSMORE: I can add a couple of points, Mr
Chairman
29 although I don't have a lot more to say after NCOSS.
30 Certainly PIAC supports the concern about affordability.
31 We are somewhat familiar with CPI plus X because most of
32 our involvement with the Tribunal is in energy and water
33 where the CPI plus X approach is much more entrenched, so I
34 guess we are a little more comfortable about it.
35
36 The obvious difficulty that comes up is: what will
37 the magic X look like; how big, how plus or how minus do
38 you want it to be? The obvious problem that arises there
39 as well is: are we talking fare increases, are we talking
40 efficiency gains or a combination of the two? If you have
41 no fare increases, I suppose you are looking at some
42 measure of efficiency gain. The question is whether that
43 is good sort of regulatory policy or good public policy.
44 You can only squeeze efficiency gains so far.
45
46 The problem obviously is that we just do not know
47 enough about what the efficiency targets are, what they

1 might be. The other thing to look at would be service
2 improvements, but again we are not very clear about what
3 the service improvements are. I think the community has
4 made it pretty clear in recent times that they think the
5 fare increases should follow the service improvements, not
6 the other way around, but again that is difficult to judge
7 when we have old data. The point has already been made
8 that even some of the changes to service and improvements
9 in service in recent times have come at little or no
10 additional cost to Sydney Ferries, so it is hard to look at
11 on that basis. CPI plus X, yes, that is not a bad model -
12 we are used to it, that is fine - but it is hard to see
13 that it gives the Tribunal very much assistance at all.
14
15 From PIAC's perspective, we have been of the view for
16 a number of years now that a multi-year price path is the
17 way to go. We have encouraged the Tribunal to better
18 encourage the public providers - rail, bus and ferry - to
19 head down that path with a bit more vigour and a bit more
20 enthusiasm.
21
22 This goes back to the point I made earlier: if we are
23 still working towards a multi-year price path and we are in
24 the realm of "Let's just have a transitional arrangement,"
25 that indicates to me that we are probably talking about a
26 price increase - if there is to be a price increase - of a
27 fairly small magnitude.
28
29 When we have better information or when the Tribunal
30 has better information about what is going to happen in
31 two, three or four years out from this point, then we can
32 start to make some adjustments. Certainly that would allow
33 groups like NCOSS, and I suppose PIAC, to really come to
34 grips with what the affordability and social equity type
35 impact would be.
36
37 From my point of view, I think the case is there for a
38 as small as possible an increase, and that some of these
39 bigger issues should be held until better information is
40 available and a multi-year price path can be achieved.
41
42 I will just conclude by adding a comment on the point
43 that Dinesh Wadiwel from NCOSS made about the multi-trip
44 tickets. I think it is a good point: how far you can go in
45 segregating your customers, your transport market?
46 Part-time workers obviously are an important issue.
47

1 I am not sure whether in the long run, or even in the
2 medium term, the reduced discount becomes a bit of false
3 economy. This an argument that has come up in the past.
4 Allan Miles raised this issue with the buses as well. I
5 always understood that one of the great attractions of the
6 multi-trip tickets for transport providers was that it
7 actually reduces their costs. If you reduce the apparent
8 discount to the consumer, to the purchaser, and you start
9 to discourage or you reduce the incentive for people to use
10 multi-trip tickets, then, in the medium term, my question
11 would be whether that doesn't in fact increase costs,
12 because of the higher costs involved in basically selling
13 those tickets. It might be worth it for a year or two but
14 not, say, over the longer run. Maybe there is an argument
15 that the range of discounts could be flattened a bit, sort
16 of 15 per cent to 30 plus per cent. Perhaps that is too
17 large a range, but I would have thought those tickets serve
18 a very useful purpose from the perspective of both users
19 and providers. Thank you.

20

21 THE CHAIRMAN: I am now going to call Mr Ian Abbott-
22 Smith who put in a submission to the Tribunal.

23

24 MR ABBOTT-SMITH: I just wanted to speak briefly on the
25 logistics of operations. I have worked in the bus industry
26 for nearly 20 years. The way you put your services
27 together is most important, not so much who you service and
28 when and why.

29

30 What I've noticed in Sydney Ferries, which I is
31 something I took an interest in a little while ago, is that
32 there is very large scope to rearrange its operational
33 procedures in terms of how the services are put together
34 that would lead to very substantial cost increases, or give
35 Sydney Ferries the opportunity to even put more services
36 on.

37

38 In particular, there are two areas, namely, the area
39 west of the Sydney Harbour Bridge up the Parramatta River;
40 both in the peak and off-peak, if the services were
41 apportioned in a different manner, layered, used in the
42 off-peak particularly in a limited stops variety like
43 Sydney Buses used. In the peak, a greater focus could be
44 applied to geographical areas. The present frequencies in
45 the peak there are not very good at all - about 45 minutes.

46

47 I have found, in looking at this and through my

1 calculations, that the frequencies could be upgraded by
2 50 per cent with a 30-minute frequency and about three
3 vessels could also be saved if the mix of how the ferries
4 are actually operated was refocused.

5

6 The other area I could say this about also is around
7 Mosman and the Taronga Zoo area where there is basically
8 multiple running all day, six days a week except Sunday.
9 Ferries are going to virtually the same destination with
10 passenger flows going in exactly the opposite directions at
11 the same time. The combination of those services into one
12 service, although it would add a small amount of travelling
13 time to a few passengers in the counterflow direction,
14 could lead to substantial savings for Sydney Ferries. For
15 a start in the peak, one vessel and the entire one crew
16 could be eliminated. During the day the equivalent of
17 probably one crew all day need not be used there.

18

19 I realise that under this Tribunal you cannot go into
20 the details and I will not bore you with it, but what I
21 want to emphasise is that there is really a huge ability
22 within the ferry network to reorganise the way they are
23 operated. What that does is not only produce savings of
24 millions of dollars a year - quite easily demonstrable -
25 but those savings do not have to just go in the bank. They
26 can be ploughed back to put even more services on.

27

28 I accept the elasticity argument that you don't get as
29 many people on more services you would get a few more and
30 then, hence, increase revenue. I just wish to draw your
31 attention to the fact that, in setting fares, there is
32 very, very large scope to look at the way the ferries are
33 run and the timetables rather than just looking at the fact
34 that fares have to go up. I think fares could actually go
35 down.

36

37 THE CHAIRMAN: In fairness, that has to be proven yet.
38 May I thank you for that submission. As a newcomer - it is
39 my first time on price setting for transport - one of the
40 things I have observed is that the way we approach, say,
41 electricity, gas and water is a lot more demanding compared
42 with the way we approach transport. For example, for each
43 of electricity, gas and water, we would hire an engineering
44 consultant to go through the businesses' costs and programs
45 and go into a lot of detail regarding their investments and
46 so on. We would basically get experts in to see whether
47 the businesses are running at their optimum before we would

1 agree to a price increase. If we think there are
2 efficiency savings, there is a very deliberate attempt to
3 calculate them and to pass them onto the consumer.

4
5 In answer to your point earlier, Dinesh. We are
6 trying to do that here as well. In fairness, it has to be
7 said that we do it with a lot less knowledge of what is
8 possible than we do with the other utilities. I suppose
9 that there may be good reasons why we cannot go as far with
10 transport as we have been able to with electricity, gas and
11 water utilities, but it is relevant to whether we cannot do
12 a bit better before we get to a multi-year path, which I
13 think, from what I have heard today, everybody thinks is a
14 good idea. That is our present position.

15
16 MR MILES: I want to refer back, Mr Chairman, to Action
17 for Public Transport's idea for some sort of cooperation
18 between the different harbour ferry users. I am a bit
19 concerned that both the Tribunal and Sydney Ferries were so
20 dismissive of some of suggestion of combining the fleets
21 and the services of Sydney Ferries, Matilda Cruises, and
22 whoever else might be on the harbour. What we were
23 suggesting was something like what has been successfully
24 done with the buses - no more, no less. Whether that comes
25 out to equal fares or not, we are saying that we certainly
26 were not talking about oligopoly. What we were saying was
27 we wanted something done similar to what the Ministry of
28 Transport has done with the buses.

29
30 We know, Sue, you operate under a certain Act, but the
31 buses operate under a certain Act as well. Any change is
32 possible. We are just putting that on the table for
33 consideration. We know it will not happen on 1 January but
34 we look towards some lateral thinking in the future. Thank
35 you.

36
37 THE CHAIRMAN: I was going to let Sydney Ferries just
38 respond, if it wanted to, to some of the points that have
39 been made.

40
41 MS HUGHES: Can I, firstly, just respond to the issue of
42 the provision of information. It should be noted that
43 Sydney Ferries has actually provided a great deal of
44 information to IPART on a commercial-in-confidence basis.
45 Dennis also mentioned he will be engaging a consultant to
46 review the efficiencies structures as well in greater
47 detail to obtain the extra data he requires for the

1 determination.

2
3 MR MILES: Why in confidence?

4
5 MS SINCLAIR: There are certain issues that are difficult.
6 Again, because we are in the middle of NCOSS's bargaining
7 arrangements, I have indicated that to the extent I can in
8 terms of efficiencies, and I noted that was a criticism,
9 but clearly in a transparent sense, \$1m on the Freshwater,
10 it is actually close to \$2m in money that we saved last
11 year. Some of that has been in redesigning our taxi
12 contracts, dealing with GRM radios, and there are a number
13 of initiatives that we have undertaken to try to achieve
14 those efficiencies in the past 12 months.

15
16 What I should say to you is that we do agree that the
17 measurement and quantification of service level
18 improvements should be transparent and we are supportive of
19 that. I would like to ask Wendy to go through some of our
20 thinking on that front.

21
22 MS HUGHES: Sydney Ferries agrees that certainly there
23 needs to be more transparency in the measurement of some of
24 the key performance indicators. We would argue that
25 service level improvements can be measured along a number
26 of quantitative and qualitative dimensions such as safety,
27 on-time running, alignment to customer requirements,
28 frequency of service, alignment of service to customer
29 demand, accessibility for disabled passengers, a whole raft
30 of measures that we can use.

31
32 We have at this stage developed a few measures but we
33 certainly will work towards improving the measurement of
34 those key performance indicators.

35
36 In terms of translating service level improvements to
37 a fare increase, this does pose particular problems in a
38 number of ways. There are probably two ways that you could
39 work towards doing this. One would be to attempt to
40 develop some measure, or correlation, between particular
41 performance indicators such as reliability, patronage value
42 based on price elasticity, or some other measure. We have
43 not attempted to do this at this stage but we are certainly
44 aware of research that indicates it is possible.

45
46 Another less sophisticated method, but I would argue
47 equally valid method, is the cost of providing specific

1 service level improvements that are transparent and
2 demonstrable. This would include not only cost of
3 providing more frequent and new services but also
4 initiatives such as vessel modifications and wharf
5 improvements designed to improve the comfort of passengers
6 as well as the reliability of services.

7
8 Certainly it is possible to quantify the cost of a
9 number of initiatives we have undertaken in the past 12
10 months to improve passenger comfort and/or vessel
11 reliability. These include the upgrade of airconditioning
12 on the SuperCat vessels, installation of new drinking water
13 filtration systems on board vessels, we have installed
14 anti-slip decking materials on board all of our vessels, we
15 have improved the lighting of walkways and weather
16 protection at a number of wharves and certainly there is a
17 range of engineering improvements aimed specifically at
18 improving vessel reliability and availability.

19
20 In our submission there were also cost efficiency
21 savings implicit in cost scenario 2 which included the
22 re-engineering of 12 of our vessels, which is expected to
23 have a significant impact on the efficiency of those
24 vessels, and certainly that will translate into cost
25 savings of around \$1.5m per annum.

26
27 There was also the issue raised as to what role should
28 be accorded to plant service improvements in setting a fare
29 increase above CPI. We would argue that all service level
30 improvements do come at a cost and therefore they need to
31 be funded and that it is important that these improvements
32 are translated into a fare increase using one or both of
33 the above methods.

34
35 MR CRIBB: I would just like to say one thing in this
36 session and that is that Matilda Cruises has no objection,
37 if this is relevant information, to Sydney Ferries charging
38 the same fares as Matilda.

39
40 MR TREVASKIS: Paul Trevaskis, Blue Mountains Commuter &
41 Transport Association. People say, why is he involved. We
42 do use ferries. Our members are wide in their distance
43 they travel, certainly on the harbour.

44
45 One of the questions I would like to ask Sydney
46 Ferries through the Chairman is the reaction time to the
47 Watson Bay ferry service. 18 months ago you would see

1 people left on the wharf because there was not enough
2 capacity. You would think ferry control would grab one of
3 the Mosman Bay ferries and do a switch of routes and be
4 flexible. I am looking at flexibility.

5
6 The other point, this is a plus, we were able to get a
7 JetCat from Manly at approximately 6.30 in the afternoon
8 and we arrived at Penrith at 8 o'clock. We had to change
9 to a train at Circular Quay to Central in that time, so
10 there is marketing with integration with the rail service
11 and the ferry service, you can certainly come up with
12 something a bit more marketable.

13
14 The other issue is the waiting time at Circular Quay.
15 When the Manly ferry comes in you stand like cattle. You
16 are supposed to be monitoring it, but for years people got
17 on and people got on this service, and I suggest that you
18 have a look at that.

19
20 I am very pleased to see that you will re-engineer all
21 the ferries as well. We certainly think from the
22 engineering point of view that you should start looking at
23 the computer problems you might have on the Manly ferries.
24 We look forward to the ferries improving service and we
25 certainly support you in your endeavour, but we certainly
26 would like to see a bit more focus on customer service.

27
28 If you go back in history, there was a ferry to Milson
29 Park and Balmoral at one stage back in the 30s. Perhaps
30 you could look at that one too. Thank you.

31
32 MR ALLEN: Bill Allen. I would like to raise a point about
33 fare evasion. Fare evasion is very rife, especially on the
34 Parramatta River service. Occasionally I catch a ferry
35 from Meadowbank and I buy my ticket at the railway station,
36 because you can't necessarily buy the ticket you want from
37 the machines at Circular Quay, and I enjoy the trip, yes,
38 but the ticket seller comes out of the wheelhouse, she
39 calls out, "Anybody want to buy a ticket", and everybody
40 shuts up. The ferry proceeds down the river, comes to
41 McMahons Point, and 70 to 80 people get off the ferry, they
42 just flash anything at the deckhand, hop on a bus and off
43 they go.

44
45 Three weeks ago I caught the ferry from Meadowbank in
46 to King Street Wharf. 153 people got off, nobody looked at
47 a ticket. Now, we have really got to start to close off

1 some of these wharves that have high patronage and just
2 unmanned turnstiles so that people use a mechanically
3 encoded ticket. That way we can be sure of collecting some
4 of the revenue we are losing, because the revenue that is
5 being lost - and I have also seen it on the Watsons Bay
6 ferry during the day, the ticket seller sells a ticket but
7 there is no check at the final destination.

8
9 At Parramatta, although the ticket seller sells them,
10 passengers get off the ferry with no ticket, and this is not a
11 very smart method of looking after your revenue. I should
12 know, I worked for Sydney Ferries, I was in charge of revenue
13 and I have seen the abuse of the system from outside.
14 I am not working for them now, and I can see it every time
15 I travel, the fare evasion is quite massive, so we need to
16 look at collecting the money first before we look at
17 increasing fares any further. Thank you.

18
19 THE CHAIRMAN: Any other comments?

20
21 MR MILES: When I was working in Sydney 20 years ago there
22 used to be discounts at lunch time for ferries to Neutral
23 Bay. Several times I would walk down to the Quay, I would
24 buy a ticket and sit on the boat, it might have been \$1.40
25 instead of \$1.60, so there were discounts, it was odd, a
26 lunch time discount, but you could go to Neutral Bay or
27 somewhere and back with your sandwich.

28
29 THE CHAIRMAN: You have the right of reply, then we will
30 call a halt to this session.

31
32 MS HUGHES: Just a number of points about fare evasion.
33 Yes, certainly Sydney Ferries is aware of the inherent
34 difficulties in our open system of protecting our revenue
35 from fare evasion. We have recently over the past few
36 months undertaken a number of initiatives to improve that
37 despite the technological inefficiencies. In particular we
38 only have electronic barriers at Manly and Circular Quay.
39 We are intending to look at least at analysing the options
40 for installing further barriers at other wharves,
41 particularly Darling Harbour, but that will form part of an
42 overall strategic plan we are developing.

43
44 Initiatives we have recently undertaken to improve our
45 revenue protection operations include working more closely
46 with State Transit to enable a more targeted approach to
47 the allocation of revenue protection resources to Sydney

1 Ferries' routes based on an assessment of the higher risk
2 routes. They are the routes that do not have electronic
3 barriers, in particular Darling Harbour and Parramatta
4 River services.

5
6 We have also recently made technological improvements
7 to the hand-held ticket devices used on some of the routes
8 to improve the speed and efficiency of on-board ticket
9 processing. One of the issues on those routes is that with
10 the short duration between stops it is often not possible
11 for the on-board cashiers to actually sell the ticket
12 before people get off. We are aware of that problem as
13 well.

14
15 We have also recently developed a campaign for
16 increasing public awareness of the need to buy a valid
17 ticket and the consequences of failing to do so, so there
18 are a number of things in progress at the moment
19 specifically targeted at the fare evasion issues that we
20 have. Certainly the introduction of the T-card will
21 facilitate the process somewhat. There will be on-board
22 and off-board tag devices that will monitor the system.
23 Implementation of that is expected around July next year in
24 terms of trials.

25
26 MS SINCLAIR: We are currently reviewing, so we can fall
27 in line with other transport operators, the question of the
28 fine level for fare evasion.

29
30 THE CHAIRMAN: Look, thank you for that. Can I just say,
31 in concluding this session, that there has been some
32 criticism of the information supplied by Sydney Ferries. I
33 think it does need to be said that, although I have only
34 been with the tribunal a short time, there has been a very
35 considerable effort put into supplying better information.
36 That needs to be said. I think there will be further work
37 done in that direction in the future, so I do think people
38 need to be aware of that.

39
40 On the other hand, while it is obviously unfair to
41 expect people to be precisely able to quantify their own
42 suggestions for greater efficiency, recovery of fares,
43 service improvements, it is quite unfair to expect you as
44 members of the public to be able to quantify exactly what
45 that should be and I hope you will understand that we will
46 have to make some assessment of the significance of what
47 you have had to say. The important thing is, what does it

1 mean at the end of the day quantitatively, so that is an
2 issue perhaps you would like to think about for the future.

3
4 Thank you very much; we will resume with private
5 ferries shortly.

6
7 SHORT ADJOURNMENT

8
9 PRIVATE FERRIES FARES

10
11 THE CHAIRMAN: This last session is on private ferries
12 fares, so I hand over to Dennis Mahoney.

13
14 MR MAHONEY: Last year the Tribunal increased four
15 maximum fares, that is the total number of maximum fares
16 there are for private ferries, for six private operators. Sydney
17 Ferries has five. It is the same feature that we saw in
18 metro non-metropolitan buses that we have in Sydney Ferries
19 and private ferries, CPI plus X, and is that the right
20 approach.

21
22 Here, as with private buses - non-metropolitan buses,
23 I should say - the latter is an industry cost index style
24 approach with exactly the same limitations that we saw for
25 the BICI in that no account is taken of efficiency or
26 productivity gains in the index measurement and the index
27 can't take account of other matters.

28
29 We mentioned in the opening paragraph on this one
30 page, page 11, that the Tribunal does not have information
31 on cost efficiency, quality, reliability, safety or service
32 quality in general, so that this page is really confined to
33 the cost index and some other issues that related to
34 private ferry operations.

35
36 Just a little bit of history: The push towards Sydney
37 Ferries fares, which has happened in the last couple of
38 years where the private ferries at the lower end have been
39 aligned with Sydney Ferries fares, was a push that came
40 primarily from the difficulty of constructing a sensible
41 private ferries cost index and the Tribunal found that that
42 was rather difficult to interpret when what we were getting
43 was percentage changes across the different operators and
44 so on. The pull towards the Sydney Ferries fares was more
45 on the grounds of equity, in particular at the low end
46 where the low fares were very low, extremely low, and so
47 two years ago the Tribunal moved up the fares at the low

1 end.

2
3 Well, the CVA index - CVA has provided us with
4 percentage changes and has been able to verify those on the
5 basis of the original documents for the four major items
6 that have gone into private ferry operators' costs in the
7 last X number of years. And initially when we did this we
8 simply constructed an index using those four items, which
9 were 65 per cent, or thereabouts, of the total costs of
10 private ferry operators in the past.

11
12 We then modified that, of course, and it was pointed
13 out to us that the other 35 per cent still exists of costs
14 and that that should go in the index if the weighting is
15 going to be sensible, and the most reasonable assumption,
16 given that we were not able to collect that information,
17 was to put those costs in at the rate of growth of the CPI,
18 and that is table 9 on page 11, which indicates that given
19 the weights that we derived from previous years as supplied
20 by the CVA in terms of expenditure, et cetera, the weighted
21 average is a rise of 4.3 per cent.

22
23 I should add that, again, if we said, what is the
24 latest increase, if we were to amend it for the CPI,
25 instead of being a rise of 2.46 at the end of June, it
26 would be a rise of 2.6, and then I am sure the CVA would be
27 also anxious for us to include fuel, which would be a rise
28 of another probably 10 per cent, which would probably raise
29 the index rise from 4.3 to something like 5.4. Again, it
30 wasn't mentioned by the CVA in our previous workshop but
31 much of the revenue for private operators comes from the
32 half-fare concession payments and SSTS payments, school
33 student payments, which the Ministry has already undertaken
34 to backdate to 1 July. This is what happened last year as
35 well when we adopted the latest CPI approach, or the latest
36 data approach, the Tribunal said, this is the increase that
37 the BICI generates, and the Ministry found it a little
38 difficult to give a fare increase of one number and yet
39 give a rise, backdated payments, to another, so it chose to
40 take everything from 1 July.

41
42 That applies to a far less extent to private ferries.
43 I don't think anything near that proportion of their
44 revenue comes from half-fare concessions, so the CVA is
45 probably more interested in pushing the idea that we should
46 include the latest CPI and the latest up-to-September
47 quarter fuel rises. If that is the case, then these

1 numbers would be about 1.1 per cent.
2
3 The other issue that is in the CVA submission is if it
4 turns out that the determination that you want to make on
5 prices for Sydney Ferries fares is higher than the increase
6 that the cost index might result in, CVA would love it if
7 you would increase that, but it is not clear on what
8 grounds we would consider doing that.
9
10 Lastly, there are two other matters that didn't come
11 up in the previous session but I think they are worth
12 mentioning here. One is the prospect of higher wharf
13 charges. They have significantly gone up for Matilda, not
14 passenger but crew services, so perhaps there is a comment
15 on that because that has cost implications that do not
16 apply to Sydney Ferries. Again, the CVA might like to
17 comment on that.
18
19 The other one that is important for both Sydney
20 Ferries and private ferries is the possibility that there
21 will be increased manning requirements over the next, I am
22 unsure what time period, but in the future.
23
24 That should be enough for discussion.
25
26 MR CRIBB: Thank you, Dennis. Thanks for the opportunity
27 to say a few words in support of our submission.
28
29 Some of what I am about to say here may mirrors a
30 little bit what Dennis has said. The private ferry
31 industry through the association has been involved in this
32 process for about five years of consolidating information
33 from each of the seven operators who are members of the
34 association.
35
36 The association, I must say, is very pleased with the
37 relationship that it has had with the IPART officers and
38 commissioners it has dealt with over the time and, whilst
39 we don't always get the outcome we think is entirely
40 justified, we are very happy with the frank and friendly
41 discussion that takes place.
42
43 As I say, the industry consists of seven operators
44 from the Clarence River in the north to Cronulla in the
45 south. All but one are private companies, mostly mum and
46 dad businesses. On Sydney Harbour, Matilda Cruises is an
47 exemption, being a subsidiary of a public company at

1 present but soon to be part of Captain Cook Cruises. The
2 records kept by these companies vary in content and quality
3 but in most cases the information provided to the
4 association for its submission to IPART has been prepared
5 by a qualified accountant.
6
7 This year a new approach was taken, as Dennis
8 described, whereas instead of the operators providing their
9 own internal cost increases on about eight or nine items,
10 it was decided to only focus on four of those items for
11 which public information was available on such things as
12 wages and fuel, for example, and, as Dennis said, these
13 represented 65 per cent of the total of all items.
14
15 It should be noted that IPART has recommended so far
16 that the 35 per cent of the costs for which there is no
17 public information are to be increased by the CPI, with the
18 65 per cent increased by their actual amounts.
19
20 The association was given to understand at the
21 beginning of the process that the 35 per cent would in fact
22 receive the same percentage increase as the 65 per cent,
23 not just CPI, which turns out to be less. In its
24 submission to the Tribunal made in June, fuel price
25 information was supplied up-to-the-date of its submission,
26 which was about the middle of June. In discussion with
27 IPART officers at the time, it was agreed that price
28 information would be updated by IPART to September 30
29 before its decision was finalised, and we would like the
30 Tribunal to confirm that this will still happen as Dennis
31 alluded to, and we all know, that fuel price rises in the
32 quarter just past were 11.6 per cent.
33
34 The fare increase process has always sought to
35 compensate ferry operators for cost increases. The present
36 process has two problems: one is that the fare increase
37 awarded in, say December or January, does not in fact
38 compensate operators for the money they have spent this
39 year since the last increase was awarded. So to the extent
40 that fuel increases have gone up during the year, as we all
41 know they have, that money will be spent by operators and
42 never recouped.
43
44 The second point is that generally over recent years
45 costs are increasing faster than fares. As a consequence,
46 operators will eventually become unviable. As a result,
47 the industry has begun discussions with the Ministry of

1 Transport on new forms of contracts which will enable them
2 to remain competitive and maintain their services hopefully
3 in the long term. A bus model, for example, is a
4 possibility.
5

6 Obviously we point out that the problems with the
7 present process are not IPART's fault but the fault of the
8 process.
9

10 Touching on one of the other points Dennis made, the
11 association request that the industry not be disadvantaged
12 in the fare increase recommendation vis-a-vis Sydney
13 Ferries was really a safety net request. If it had
14 happened that, because of better cost data submitted by
15 Sydney Ferries, that we had already submitted or for some
16 other reason Sydney Ferries was able to justify a higher
17 increase than we seem to be able to justify, we sought to
18 not be disadvantaged.
19

20 In fact, the costs of both operations are determined
21 either by regulation or by the market place. Crew numbers
22 are determined by the New South Wales Maritime Authority
23 and wages are determined by the Industrial Relations
24 Commission. Other items of expense such as spare parts,
25 insurance and fuel are determined by the marketplace. In
26 fact, it might even be possible that Sydney Ferries buys
27 some of these things more competitively than do smaller
28 private operators, who have less clout, so we are not too
29 hung up on that. At this point of time we are not hung up
30 on the comparison with Sydney Ferries' recommendation on
31 the assumption that it looks like, given the figures we
32 have seen to date, we will get something which reflects the
33 information that we have supplied.
34

35 Dennis also touched on the fact that the industry did
36 not supply information on cost efficiency, quality,
37 reliability and safety. The association would like to
38 point out that it was never asked for this information.
39

40 I would just like to touch on two other things that
41 Dennis raised, seeing as he has brought them forward and
42 they were on the last page of our submission. The New
43 South Wales Maritime Authority has given notice that it is
44 planning to increase crew numbers on most passenger vessels
45 in New South Wales sometime next year and that a discussion
46 paper will be out shortly.
47

1 As far as private ferries are concerned, this will
2 effectively double their crew and, as wages are nearly 50
3 per cent of the total cost of operating private ferries, a
4 decision to nearly double the crew and increase the wages
5 by a significant amount will in fact put all these people
6 out of business. Whatever you guys decide in the next
7 three months in terms of a fare increase under those
8 circumstances will be irrelevant, so we await with interest
9 to see who wins the war between ourselves and the New South
10 Wales Maritime Authority on this crewing business.
11

12 In relation to wharves, the New South Wales Maritime
13 Authority maintains about ten wharves around Sydney
14 Harbour, including Number 6 at Circular Quay and King
15 Street Wharf, and they gave notice a year or so ago that
16 they would be collecting an amount of money from operators
17 who use the wharves equivalent to \$1m a year to provide
18 funds to maintain them. To the extent that this cost will
19 be imposed on Matilda on Sydney Harbour, a private ferry
20 operator, and not imposed on Sydney Ferries, which it
21 won't, then Matilda is operating at a disadvantage in terms
22 of that particular cost item to Sydney Ferries.
23

24 Thank you, Mr Chairman.
25

26 THE CHAIRMAN: I might just seek some clarification on a
27 couple of things: First of all, this issue of whether we
28 should include the latest quarter's price increases. As I
29 understand it, it is obviously possible to update the CPI
30 and there is a suggestion we update fuel. The other
31 components are labour, insurance and interest. Can they be
32 updated for the September quarter? The point of the
33 question is that I could see some difficulty in having some
34 components of the price increase running to September and
35 some only running to June.
36

37 MR CRIBB: We can do that.
38

39 THE CHAIRMAN: So that, if we were to update them, it
40 seems to be desirable to do it for all components and not
41 just for some of them.
42

43 MR CRIBB: That is a good point, thank you.
44

45 MR MAHONEY: Labour award rates don't change by quarter,
46 they are the same; the insurance rates don't change in the
47 September quarter, they are the same; but we could update

1 for change in the particular interest rate that has been
2 supplied.
3
4 THE CHAIRMAN: The next question is that it talks here
5 about the appropriateness of a fare rise in step with
6 Sydney Ferries. I am trying to get a better understanding
7 of what that means. Maybe I should be asking my colleague
8 Mr Mahoney rather than you but, as it presently stands,
9 from the material earlier circulated, the prices for
10 Matilda tend to be higher than for Sydney Ferries, so I
11 assume you are not asking for a price reduction to bring
12 you into line with Sydney Ferries? And then, as you made
13 clear to us, David, quite a lot of your members aren't
14 anywhere near Sydney, they are up on the Clarence River, so
15 I can't see quite what the point of them being aligned with
16 Sydney is.
17
18 MR MAHONEY: Last year the Tribunal increased each of the
19 private ferry fares by 30 cents each, I think, and Sydney
20 Ferries' fares went up between 20 and 40 cents each. Last
21 year's decision effectively - the recommendation we made to
22 the Director-General - was effectively an increase in line
23 with Sydney Ferries' fares, so that is the way it would
24 actually be done operationally.
25
26 THE CHAIRMAN: By the same absolute amount?
27
28 MR MAHONEY: Percentage amount. It just so happens --
29
30 MR COX: You said cents.
31
32 MR MAHONEY: But because the fares are reasonably
33 aligned, if I talk in cents it is about the same. The first decimal
34 point was slightly different.
35
36 THE CHAIRMAN: At the moment, if we just took the CPI,
37 and I will just go to June quarter for the moment, it would be
38 2.46 per cent for Sydney and 4.3 per cent on these figures
39 for the private ferries, so I am not sure that the private
40 ferries want to drop from 4.3 to 2.46.
41
42 MR CRIBB: No, of course not. The point here is that it
43 is about a cost recovery thing. As I mentioned before,
44 well, I didn't mention it before, but the guys who operate
45 these private ferries will only continue to provide the
46 service provided the level of remuneration they receive
47 exceeds their cost obviously. Their costs are outside

1 their control, for the reasons I gave sometime ago - the
2 number of crew and the qualifications that they have to
3 carry is determined by the New South Wales Maritime
4 Authority; the award rates that they are paid under the
5 award affect the amount of wages that are paid; and fuel
6 costs whatever it costs and so on.
7
8 Largely the cost drivers of their operations are the
9 same as the cost drivers of Sydney Ferries' operations, so
10 if Sydney Ferries has a rise which covers their costs,
11 which they may or may not, I don't know enough about their
12 operations to know, but if they reckon their costs have
13 gone up by 5 per cent, it is reasonable to assume that our
14 costs have gone up by that as well because the elements are
15 all the same.
16
17 THE CHAIRMAN: I will just reinforce my point: We have
18 not got evidence in front of us that Sydney Ferries has
19 gone up by 5 per cent.
20
21 MR CRIBB: I am not saying either the private ferries or
22 Sydney Ferries have gone up by 5 per cent.
23
24 THE CHAIRMAN: You put evidence in front of us that
25 private ferries have gone up by 4.3, to June.
26
27 MR CRIBB: That is true.
28
29 THE CHAIRMAN: What I am saying is that we have not seen
30 evidence in respect of Sydney Ferries that would suggest
31 their costs have gone up by 4.3 per cent.
32
33 MR CRIBB: I hear what you say. I don't know what the
34 evidence of their cost rises is, but the elements that make
35 up their costs are similar to our costs, so it would be
36 surprising if there are was a large difference between the
37 two.
38
39 THE CHAIRMAN: That may be right but on the evidence we
40 have got so far that seemed to be the case. We have not
41 seen evidence that puts them in your ballpark.
42
43 MR CRIBB: But I would say, though, that 65 per cent of
44 the cost impact on private operators is based on
45 information that is available in the marketplace
46 independent of the independent records of the independent
47 operators, whereas Sydney Ferries I presume, I don't know,

1 is supplying you with their internal information.
2
3 THE CHAIRMAN: They are, as I think you actually heard,
4 and they were also contemplating significant savings, with
5 more in the pipeline.
6
7 MR CRIBB: That is true.
8
9 MR COX: Can I perhaps just ask a couple of questions:
10 firstly, you made the point that for the index, 65 per cent
11 was proposed by verifiable costs that you put in our
12 direction, and we also calculated the remaining 35 per cent
13 by using the CPI. Do you have a concern about that
14 procedure, because I thought from your remarks you might
15 have?
16
17 MR CRIBB: It is just that when we developed this newer
18 process earlier this year, and I said to whoever in IPART I
19 was talking to at the time, "What will we do about the
20 other 35 per cent" - we didn't know it was 35 per cent then
21 - the conclusion reached was that we would put that up by
22 the same percentage that the others went up by. This
23 process you are proposing to put it up by only the CPI is
24 less than the other 65 per cent went up by. It is really
25 just that, if that was the deal, we would like to see that
26 remain as the deal.
27
28 MR MAHONEY: I said that. I didn't say it in the context
29 that I will tell the Tribunal what to do. I said it in the
30 context of, well, one option will be to put the other 35
31 per cent up by the same as the 65 per cent, but it was not
32 a concrete promise, David, because I am not the Tribunal.
33 I think that is where it has come from.
34
35 MR CRIBB: But it is reasonable I make the point.
36
37 THE CHAIRMAN: I am sure Dennis does not make that
38 assumption to commit the Tribunal.
39
40 MR CRIBB: I would not expect that he would. He often
41 says, "I cannot commit the Tribunal", and we understand
42 that.
43
44 MR COX: The point I want to get to, do you have a concern
45 about where we have ended up, which is to have 35 per cent
46 of the costs at CPI? It may not be what you would want,
47 but is it inappropriate?

1
2 MR CRIBB: Jim, without going through the other cost
3 elements and getting some evidence as to what rate they
4 went up, I am really not in a position to answer that
5 question sitting here. But if the Tribunal recommends and
6 agrees to take into account the CPI data up to the end of
7 September and leaves the other 35 per cent at CPI, whatever
8 that turns out to be, I think we would be happy.
9
10 MR COX: Thank you for that.
11
12 THE CHAIRMAN: Can I just pursue this a little further:
13 As we agreed earlier, we will take the whole lot to
14 September or none. And, if we go to September, when we
15 come to do this exercise next time round we will, of
16 course, be starting from September, not from June.
17
18 MR CRIBB: Of course.
19
20 THE CHAIRMAN: That would be a lower increase next time.
21
22 MR CRIBB: Why would that be?
23
24 THE CHAIRMAN: Let's suppose we start at exactly the same
25 time next year, we are here October 28 2006, we will only
26 be taking increases for four quarters, not for five.
27
28 MR CRIBB: Of course, I understand that.
29
30 MR COX: The other issue I wanted to raise was the use of
31 Matilda's fares as an appropriate benchmark for Sydney
32 Ferries. I wonder if you have any thoughts about that and
33 perhaps Matilda can talk about how you go about pricing?
34
35 MR HAWORTH: In the ferry business you can only reasonably
36 charge what the consumer is prepared to pay. We are at the
37 moment about the top end, I think, realistically of what
38 the consumer is prepared to pay. In terms of its parity
39 with Sydney Ferries, quite obviously Sydney Ferries
40 competes very heavily with Matilda on the service between
41 Darling Harbour and Circular Quay. Whether the MOT
42 acknowledges that, or Sydney Ferries acknowledges that, it
43 actually is the case because many of the services connect
44 at both ends so, as a result of that, certainly Matilda
45 doesn't see any reason why it would not be sensible for
46 Sydney Ferries to have a similar fare between Circular Quay
47 and Darling Harbour, or the other services it operates,

1 because it makes it reasonably attractive then for people
2 to transfer between boats and perhaps not choose a Sydney
3 Ferry over Matilda because it is slightly more expensive.
4 So that would be Matilda's position at this stage.
5
6 The other thing to consider for a private operator, as
7 David has been saying, is that the public ferry operation
8 is very difficult to make a dollar out of and it's a
9 marginal business, it as a cash-flow business, and it can
10 be very small movements in the fares which make it highly
11 unprofitable or profitable. You have to have a lot of
12 frequency to make the transport service work. That comes
13 at a high cost and certainly there are a lot of cost issues
14 now in Sydney Harbour in particular, for example, Captain
15 Cook is looking very closely at taking us over, so we may
16 make the decision within a couple of years that we can't be
17 in the ferry business. We don't know yet, we will just
18 have to keep a watching brief on it. It is line ball at
19 the moment, we would have to say.
20
21 We want to see fares increasing appropriately to keep
22 the revenue stream up, but there is a barrier in terms of
23 what the public is prepared to pay for public transport.
24
25 MR COX: What about the issue of discounts? How do you
26 feel about them? How do you decide what discounts you
27 want
28 - multi-trips?
29
30 MR HAWORTH: We look at what Sydney Ferries does and
31 look at how close we can get to that, whether we can price
32 higher than them or what we can do to attract people. Our
33 service is a little different, it is a lot more tourist
34 based, I would say, than most of the commuter-based Sydney
35 Ferries, so we don't have to discount as much.
36
37 MS CIFUENTES: Do you have multi-ride tickets?
38
39 MR HAWORTH: Yes.
40
41 MS CIFUENTES: On what services?
42
43 MR HAWORTH: On the Lane Cove run.
44
45 MS CIFUENTES: That is more like your commuter service?
46
47 MR HAWORTH: Yes, we just use a small card which they
mark off on a regular basis.

1
2 MS CIFUENTES: What sort of discount do you apply to that
3 ticket?
4
5 MR HAWORTH: I knew you were going to ask that!
6
7 MS CIFUENTES: That is why I am here, that is why they
8 don't give me a microphone any more, because I do ask those
9 questions - and I promised I would not say a single word.
10
11 MR HAWORTH: I can't actually tell you, to be honest, how
12 much the discount is.
13
14 MR CRIBB: Dennis may know.
15
16 MR MAHONEY: I don't think the discount is in the paper.
17
18 MR CRIBB: Isn't it in one of the fare comparisons with
19 Sydney Ferries.
20
21 MR HAWORTH: There is only the Sydney Ferries one, not
22 Matilda.
23
24 MS CIFUENTES: You are on notice.
25
26 MR HAWORTH: On a guess, 20 per cent, from my vague
27 recollection.
28
29 MS CIFUENTES: We will get Dennis to clarify that.
30
31 MR MAHONEY: Can I ask Anthony just to tease that out a
32 little more because, if the Tribunal were to lift that
33 particular Sydney Ferries fare that you are talking about
34 up to Matilda's, it is actually lifting up all of the
35 services of Sydney Ferries to that level except for the
36 last five wharves at Parramatta River and Manly. When you
37 say it is comparable with Circular Quay to Darling Harbour,
38 the way Sydney Ferries fares are structured at the moment
39 that lift of that one fare would put all the other route
40 prices up as well.
41
42 MR HAWORTH: Inner harbour services.
43
44 MR MAHONEY: What degree do you think that the routes
45 that
46 you run Circular Quay to Lane Cove there is direct
47 competition with Sydney Ferries, and likewise Homebush to
Darling Harbour, is there direct competition?

1
2 MR HAWORTH: We relinquished the run to Homebush just
3 recently. We have terminated that service with the MOT, or
4 transferred it to a new operator, approximately a month
5 ago, three weeks ago, because it was highly unprofitable.
6
7 The Lane Cove service survives on the school kids
8 basically. The commuter part of that is certainly not
9 something that would maintain or sustain the service, so it
10 is the school children coming backwards and forwards
11 mid-week that keeps that part of the service going. We use
12 that vessel to do other things as well during the day which
13 defrays some of the costs.
14
15 In terms of its parity with other Sydney Ferries'
16 operations up to that part of the world, I would not see
17 that there would be any problem with making Sydney Ferries
18 in parity with that, but certainly we would probably think
19 that from a commuter perspective that fare is about right
20 at the moment. Certainly we would be looking for a small
21 increase if we could to keep things moving along with the
22 cost increases, but the problem is the resistance from the
23 consumer of course, or the commuter, to use the service.
24 It is a vexed problem.
25
26 MR MAHONEY: I believe you give free newspapers on that
27 run. So they are worth \$1.20, which to the consumer is
28 much less than that because they are free. Not everyone
29 wants them but there is this element of incomparability, if
30 you like.
31
32 MR HAWORTH: Yes.
33
34 MR MAHONEY: If the Tribunal was to put Sydney Ferries up
35 to that full fare, I don't think the Tribunal would ask
36 Sydney Ferries to give away free newspapers, so it is not
37 comparable.
38
39 MS CIFUENTES: You were just talking about the capacity of
40 your customers to pay or willingness to pay. This is an
41 issue that has come up before where the Tribunal has
42 granted fare increases for private ferries but we have
43 understood that those price increases haven't actually been
44 taken up. Is that something that you want to comment on?
45
46 MR HAWORTH: It has happened. I know of a couple of
47 operators who have chosen to try to keep prices down

1 because they thought it would damage the number of trips
2 that they were going to be able to garner off the public.
3 Captain Cook Cruises was involved with Hegarty Cruises for
4 about 15 years, as probably you know, and we could never
5 get those fares up high enough we thought, but certainly in
6 the case of Matilda if a fare increase was on offer we
7 would take it because we believe that, as predominantly a
8 tourist service, you have to charge as much as you are able
9 to charge and, provided it is sensible pricing, then it's
10 appropriate to get the maximum that you possibly can.
11

12 In terms of the commuter operation, though, it's a
13 very difficult one, very difficult one, and that is why
14 some of the small operators have chosen not to put prices
15 up. Whether they have made a mistake in doing so, I can't
16 answer that question. They may well have been better off
17 putting the price up to the maximum and losing a few
18 customers and having a better yield, but I can't answer
19 that question.
20

21 THE CHAIRMAN: It is interesting, the price elasticity
22 demand. Generally what we have heard in buses is the
23 presumption by the operators that it tends to be pretty
24 low, they may have put it too low, I think, but what you
25 are suggesting is that it could be much closer to one at
26 least rather than less than one, which is interesting.
27

28 MR CRIBB: I did not want to say earlier because I thought
29 I would shoot Sue in the foot, but as an occasional
30 passenger on Sydney Ferries who pays the full freight,
31 because I don't go very often I buy the full ticket, I
32 don't think Sydney Ferries - well, my wife and I came in
33 from Mosman to Circular Quay to go to the Dendy Theatre
34 and
35 it cost us nearly \$19 for two return tickets. We could
36 have parked our car for \$10 on the Sunday and paid \$3 on
37 the bridge. I know there is wear and tear, but immediate
38 cash flow it is a lot cheaper than \$19 on the ferry. I
39 don't know what effect putting the prices up more will have
40 on Sydney Ferries, it is none of my business, but it will
41 affect me as a buyer.
42

43 MR HAWORTH: It is a premium experience, though, isn't it!

44 MR CRIBB: Nothing wrong with my car.
45

46 THE CHAIRMAN: It is a feature of public transport that
47 once two or three of you travel together, a taxi becomes

1 cheaper relative to perhaps catching a train or bus or
2 ferry, because it costs the same for one or three in a
3 taxi.

4
5 MR TAYLOR: I would just like to quickly preface my
6 comments by taking up Anthony's point of New South Wales
7 Maritime's moves to increase crewing levels on boats and
8 the enormous impact this could have on the private ferry
9 industry and how innovative contracts with the Ministry of
10 Transport could alleviate that difficulty, would help them
11 somehow, deal with that transition period.

12
13 The other two comments, and they are really questions
14 directed at David and Anthony, are what efforts have been
15 made to try to contain costs and are there some attractive
16 ticket options that can be developed that are market
17 specific to customers of private ferry operators that might
18 increase yields? This way the determination that the
19 Tribunal makes can be in part an incentive for the private
20 ferry industry to contain costs and attract additional
21 passengers.

22
23 MR CRIBB: In terms of containing costs, we have put some
24 stuff in our submissions in recent years about doing that,
25 but it is difficult, because most of it is regulated or
26 determined in the marketplace. For example, labour, which
27 is 50 per cent of the cost, the crew is determined by New
28 South Wales Maritime Authority and the qualifications of
29 the crew are determined by the New South Wales Maritime
30 Authority and they are all paid according to the award and
31 no more. In most cases Matilda would be an exception, but
32 in all the other companies, the ferries are to a large
33 extent driven by the owner of the business, so however you
34 like it work that out as wages, that is a pretty low cost
35 option. That is 50 per cent of the cost nearly.

36
37 They have to have a certain amount of insurance, that
38 is a term of their contract, a certain amount of public
39 liability insurance, and we recognise our broker buys
40 insurance better than anybody else servicing the marine
41 industry in Australia, so that is not a big cost.

42
43 Fuel is becoming more expensive unless you buy new
44 engines or something that are more fuel efficient, which is
45 always a possibility.

46
47 MR TAYLOR: Is that economic for the industry?

1
2 MR CRIBB: Some people are looking at replacing boats now
3 but unless you take that big capital investment step, the
4 fuel is the fuel is the fuel and a lot of people in the
5 outer suburbs that somebody was alluding to earlier in the
6 day are paying a lot more for fuel than Sydney Ferries
7 would be at their Balmain base in bulk. So it is very
8 difficult to make a significant leap in saving costs, very
9 difficult. These operations are run by the families
10 working in the business. The crews and the wages are
11 determined by other people and the stuff they buy in the
12 marketplace they buy in the marketplace. You can shop
13 around and all that, but it is hard.

14
15 MR TAYLOR: There are ways of designing vessels to make
16 them more economic, carry more passengers, be easier to
17 maintain.

18
19 MR CRIBB: That is true. The best ferries in the business
20 are operated by Central Coast Ferries, who restarted that
21 business after the previous owner went broke. He bought a
22 brand new ferry designed for the route, he uses one boat,
23 he drives it himself for about eight ours a day and he puts
24 somebody on it the rest of the time. That is a fairly
25 efficient boat. It is easy to maintain, so on and so on.

26
27 Palm Beach Ferries has at least two boats that are
28 less than a couple of years old but they have a lot more
29 capital invested in their business than the guys at
30 Cronulla or Dangar Island, who have a ferry that is 35
31 years old, well maintained, but it is fully depreciated.
32 So it is hard to know.

33
34 MR TAYLOR: With capital renewal you can buy a more
35 economic boat. Those at Palm Beach have seating on the top
36 deck.

37
38 MR CRIBB: They are very expensive. The banks won't lend
39 you money based on your business.

40
41 THE CHAIRMAN: I do not want to deviate too much but we
42 will not get into running the businesses of people who
43 aren't even here. Is there anybody else?

44
45 MR WADIWEL: NCOSS has not provided a lot of comment
46 on private ferries. We have noted in our submission that
47 certainly there is a lack of data around the composition of

1 private ferry users. Our suspicion is that probably there
2 are not a lot of low income users, but I have no data to
3 demonstrate that. That said, if there is some move to
4 align public and private ferries, there is probably a call
5 to look at more carefully that thing, the composition of
6 people who use the ferries, and I would certainly encourage
7 the Tribunal to consider that if they were going to take
8 that step.

9
10 Just a brief note on where there is competition on the
11 same route, whether there should be some kind of alignment
12 of fares. I would assume, that if you do that, you would
13 remove affordable choice for people trying to use the
14 public ferry but have limited capacity to pay, so I
15 certainly warn against that kind of step where there is
16 competition on the same route.

17
18 MR MILES: I am not a businessman but this business about
19 the different fares between Darling Harbour and Circular
20 Quay, perhaps if I was in business and I was selling apples
21 for \$5.70 a dozen and the chap next door was selling them
22 at \$4.80, I wouldn't walk in and ask him to increase his
23 price, I would reduce mine.

24
25 MR HAWORTH: That is one option.

26
27 THE CHAIRMAN: I think you need to bear in mind Dennis's
28 comment about whether both shops are selling the same sorts
29 of apples. It may be that what Matilda has got is better,
30 we heard on the Lane Cove run people get a newspaper.
31 Before the Tribunal could say that they should both have
32 exactly the same fare, we need to equally be convinced they
33 were both operating exactly the same service.

34
35 MR WELLSMORE: Just a quick comment: all I would say
36 about trying to make the fares comparable is that I gather,
37 and I have a vague recollection from past years, that that
38 has been part of the Tribunal's thinking in the past. What
39 we seem to have ended up with is a bit of leapfrogging, so
40 even if we were to agree it might be a good outcome to sort
41 of strive for, the practicalities of the real world suggest
42 that it has been quite difficult to achieve.

43
44 Just a note of caution that, if we put one price up
45 for one area of operator to bring them into line, it does
46 not seem to hold for very long. I am not adverse myself to
47 the idea of setting exactly the same price on exactly the

1 same route. Airlines in this country have run that way for
2 a long time and everybody seems quite happy, but there is
3 more to it than just price, there is service and
4 unprofitable routes and a whole bunch of things, so I am
5 not sure whether that will really help either.

6
7 THE CHAIRMAN: Unless there is more comment.

8
9 MR TREVASKIS: With the private Matilda service at Darling
10 Harbour, do you get a subsidy for pensioner excursion
11 tickets or other concessions?

12
13 MR HAWORTH: There is a subsidy for school kids.

14
15 MR TREVASKIS: I can't use my \$2.50 ticket on your boat?

16
17 MR HAWORTH: WE would gladly take you. We would
18 probably charge others the pensioner fare that we have.

19
20 MR MAHONEY: How are you able to survive on \$5.70 when
21 Sydney Ferries are running the same route for \$4.80?

22
23 MR HAWORTH: The principal difference is the speed. The
24 Rocket is much quicker from Darling Harbour to Circular
25 Quay and they have had good patronage that has slipped over
26 many years, it has ratcheted down. In the early days when
27 they first started they were the only operator on the route
28 and there was plenty of business. They made good money on
29 it and that has dissipated over time as there has been more
30 linkages between Circular Quay and Darling Harbour.

31
32 Because of the location of Matilda around at Pier 26,
33 where there is this huge hub of tourists going into the
34 aquarium in particular, that adds or aids their ability to
35 run that tourist service between Circular Quay and Darling
36 Harbour. So, whilst the numbers have been slipping, at the
37 price that they are able to charge and with the passenger
38 numbers at the moment it is still a viable operation.

39
40 THE CHAIRMAN: I propose to wind this session up now. I
41 would like to thank you all again for your participation,
42 and the meeting is now closed.

43
44 AT 4.40PM THE HEARING WAS ADJOURNED
45 ACCORDINGLY

46
47