



Independent Pricing and Regulatory Tribunal

# **Mid year review of fuel costs for private ferries in NSW to March 2009**

Recommendations to the Minister for Transport

**Transport — Statement of reasons**

May 2009





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# 1 Introduction and overview

The Independent Pricing and Regulatory Tribunal of NSW (IPART) investigates and recommends fares for private ferry services in NSW under an arrangement with the Ministry of Transport. IPART reviews private ferry fares annually and recommends changes to the Minister for Transport.

IPART calculates its fare recommendations using a cost index. For private ferry services IPART has two indexes:

- ▼ the slow ferry cost index – for ferry services running at a speed of less than 10 knots
- ▼ the fast ferry cost index – for ferry services running at a speed of between 18 and 20 knots.

Diesel is a cost item included in both indexes. However, it is significantly higher for fast ferry services at around 20 per cent of their total costs. In its 2008 review of private ferry fares, IPART noted industry's concerns regarding the volatility of fuel prices and its effect on the costs of operating fast ferry services. IPART decided to undertake a mid year review of fuel costs and to recommend a mid-year fare change for fast ferries if fuel prices were found to have increased or decreased significantly from the average price included in IPART's recommendations in November.<sup>1</sup>

IPART has now finalised its mid year review of fuel costs. Diesel prices in Sydney have fallen significantly and as a result, IPART has made recommendations to the Minister to decrease fares for private fast ferry services in NSW.

This statement of reasons explains IPART's recommendations and the reasons for them. Appendix A provides further background information on IPART's regulation of private ferry services.

## 1.1 Overview of findings and recommendations

IPART found that diesel prices have fallen by 21.5 per cent in the six months to March 2009. Based on the reduction in the costs of providing fast ferry services, this equates to a decrease in the required fares for fast ferry services of 4.8 per cent.

As a result, IPART has recommended to the Minister for Transport that the maximum fares for fast ferry services should decrease, as follows:

- ▼ fares for Matilda Cruises services between Circular Quay and Darling Harbour and Circular Quay and Lane Cove to be reduced by 40 cents to \$6.40
- ▼ fares for Palm Beach services between Palm Beach and Ettalong/Wagstaff to be reduced by 50 cents to \$9.60.

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<sup>1</sup> IPART, *Review of fares for private ferry services and the Stockton ferry service for 2009*, November 2008.

## 2 Process of the mid year review of fuel costs

In its final report issued in November last year, IPART decided that it would review diesel prices in April and that if fuel costs for the six months to March have varied by more than 10 per cent (up or down) from the average daily price included in the fast ferry cost index for 2008 then it would recommend that the Minister adjust fast ferry fares by the change in costs of operating a fast ferry service, as measured by the fast ferry cost index (FFCI). IPART decided that a change in average diesel prices of less than 10 per cent should result in no mid year fare change.

IPART stated that in the event that this threshold is met and fares are changed:

- ▼ The change in fares should be equal to the weighting of diesel costs in the FFCI for 2008 multiplied by the change in fuel prices, measured as the average daily price of diesel (as recorded by Fueltrac) for the six months to 31 March 2009 divided by the average daily price for the 12 months to 30 September 2008.
- ▼ The change in fares should be applied to the unrounded master 2008 fare to determine a new fare.
- ▼ No changes should be made to the components of the fast ferry cost index other than the diesel fuel cost item.
- ▼ The limited review should be conducted in April/May 2009 with a fare change to be implemented by 1 July 2009.

## 3 Changes in fuel costs since September 2008

The current FFCI incorporates a fuel cost for the 12 months to September 2008 of 108.6 cents per litre. This is based on a daily average diesel pump (retail) price for Sydney obtained from Fueltrac, excluding GST and fuel excise.

IPART has obtained daily diesel prices for the six months to 31 March 2009 from Fueltrac. The average diesel price over this period was 85.2 cents per litre (ex GST and excise). This represents a decrease in fuel prices of 21.5 per cent.

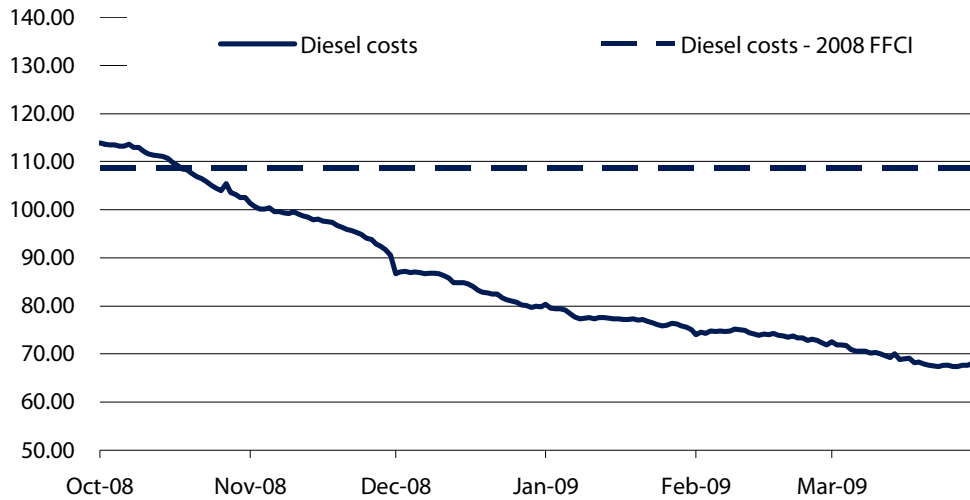
As diesel prices have changed by more than 10 per cent, IPART considers that a mid-year fare change is warranted to pass through to passengers savings in fuel costs achieved by operators since the annual review.

IPART notes that the mid year fuel review is meant to address concerns over fuel price volatility. The large decrease in fuel costs, which was preceded by a significant increase in the 2008 annual fare review (35.8 per cent), is evidence of the volatility of fuel costs for private ferry operators.

Figure 3.1 below shows the daily diesel cost for the period October 2008 - March 2009 in comparison to the average fuel cost included in the 2008 fast ferry cost index.



**Figure 3.1 Daily fuel costs compared with fuel costs in the 2008 FFCI, October 2008 - March 2009**



**Note:** Figures are ex GST and fuel excise. The FFCI category represents the average price captured in the current fast ferry cost index.

**Data source:** Fueltrac.

## 4 Recommended fare change

Consistent with the approach set out in Section 2, IPART has calculated the required increase for the mid year review as follows:

1. Multiply the percentage change in diesel price by the current diesel price weighting to obtain a percentage increase required in fares.
2. Apply the fare change to the master fare for the three fast ferry services to obtain an unrounded fare.
3. Round to the nearest ten cents to obtain the new fare.

Table 4.1 records the results of this process in the mid year review.

**Table 4.1 Approach used to calculate new fares required as a result of lower diesel prices**

	<b>Matilda Cruises – Circular Quay to Darling Harbour</b>	<b>Matilda Cruises – Circular Quay to Lane Cove</b>	<b>Palm Beach Ferries – Palm Beach to Ettalong/Wagstaff</b>
Increase in fuel costs (%)	-21.5	-21.5	-21.5
Weighting of fuel in FFCI (%)	22.4	22.4	22.4
Fare change to adjust for decreased fuel costs (%)	-4.8	-4.8	-4.8
Current master (unrounded) fare (\$)	6.75	6.75	10.07
Recommended master (unrounded) fare (\$)	6.43	6.43	9.58
Recommended rounded fare (\$)	6.40	6.40	9.60

**Note:** Figures have been rounded.

Based on the above IPART recommends decreases in the maximum fares for fast ferry services as follows:

- ▼ from \$6.80 to \$6.40 for trips on Matilda Cruises between Circular Quay and Darling Harbour
- ▼ from \$6.80 to \$6.40 for trips on Matilda Cruises between Circular Quay and Lane Cove
- ▼ from \$10.10 to \$9.60 for trips on Palm Beach Ferries between Palm Beach and Ettalong/Wagstaff.

## **5 Impact of the mid year adjustment on the 2009 review**

If the Minister for Transport determines that an interim fare change, such as recommended in this review, is applied to fares for fast ferry services, it will have no impact on the fares recommended at the next review of private ferry fares.

The next fare recommendations will be based on ferry costs faced by operators since October 2008, and compared with the costs currently considered in the FFCI and SFCI.

The six monthly fare change should not be considered when the next fare recommendations are made in order to avoid double counting the change in fuel costs and to simplify the calculation of the FFCI.

The six monthly fare change would also not affect the weighting of costs in the FFCI because only changes in fuel costs are considered, which would mean that the weighting for fuel is measured at a point in time inconsistent with the other cost items in the FFCI. The weightings should therefore be updated as part of the next fare review.





**Appendices**



## A Further background on private ferry services

This appendix provides more detailed background on IPART's regulation of private ferry services.

### A.1 Private ferry services in NSW

IPART makes recommendations on fare levels for seven, mostly small, private ferry operators in NSW. Each operator serves distinct routes in the Sydney, Central Coast and North Coast areas of NSW, and do not compete with each other. A list of these operators is given in Table A.1.

**Table A.1 Private ferry operators in NSW**

<b>Operator</b>	<b>Route</b>
Central Coast Ferries	Woy Woy to Empire Bay Empire Bay to Ettalong
Church Point Ferry Service	Church Point to Scotland Island
Clarence River Ferries	Iluka to Yamba
Cronulla and National Park Ferry Service	Cronulla to Bundeena
Dangar Island Ferries	Brooklyn to Dangar Island
Matilda Cruises	Circular Quay to Darling Harbour Circular Quay to Lane Cove
Palm Beach Ferry Service	Palm Beach to Mackerel Beach and the Basin Palm Beach to Ettalong and Wagstaff

### A.2 Private ferry cost indexes

Prior to the 2008 review, IPART recommended fare changes for private ferry services according to the Commercial Vessel Association Cost Index (CVACI) which measures the overall change in ferry costs. As part of the 2008 review, IPART engaged a consultant to review the weightings of individual cost items in the CVACI and investigate whether separate indexes for fast and slow ferries were warranted given the costs facing each operator.

In line with its consultant's advice, IPART replaced the CVACI with two separate ferry cost indexes: the Slow Ferry Cost Index (SFCI) and the Fast Ferry Cost Index (FFCI). These indexes were used to calculate the increase in ferry costs for the 2008 review. The cost items and weightings for each index is summarised in Table A.2.

**Table A.2 Cost items and weightings in the slow and fast ferry indexes**

Cost Item	Weighting (%)	
	Fast ferries	Slow ferries
Labour	30.7	49.9
Fuel	22.4	10.0
Insurance	5.2	3.3
Interest	9.1	10.9
Repair and maintenance	7.7	6.7
Ferry depreciation/ amortisation	11.0	3.9
Berthing/ mooring fees	6.3	0.5
All other	7.6	14.7
Total	100.0	100.0

**Note:** Totals may not add due to rounding.

### A.3 Reasons for the mid year review of fuel costs

As part of the 2008 review, some private ferry operators asked IPART to consider introducing additional measures to mitigate the impact of fuel price increases on their businesses.

IPART is reluctant to include mid-term reviews unless a significant need is demonstrated. Frequent changes to fares cause cost and inconvenience to both transport users and operators. However, IPART noted that there had been significant changes in fuel costs over recent years and that fuel costs comprise almost one fifth of total costs for fast ferry service operators, and these operators rely mainly on passenger fares rather than government revenue. As such, IPART recommended that a six-monthly fuel price review for fast ferry operators be conducted this year.

The fast ferry services IPART recommended be subject to the mid-year review includes:

- ▼ trips on Matilda Cruises between Circular Quay and Darling Harbour
- ▼ trips on Matilda Cruises between Circular Quay and Lane Cove
- ▼ trips on Palm Beach Ferries between Palm Beach and Ettalong/Wagstaff.

IPART did not consider that there is a case for more frequent fare adjustments for slow ferries. Fuel prices comprise a lesser proportion of the cost index for slow ferries and regular SSTS payments provide a substantial proportion of revenue for these operators which would dampen the cashflow impact of any fuel volatility. These SSTS payments also include measures to compensate operators for higher fuel prices during the year.