

# **Review of maximum fares for private ferry services and the Stockton ferry service for 2013**

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

**Transport — Report and Recommendations**  
December 2012



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# 1 Introduction and executive summary

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

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

We have now completed these reviews. We have made recommendations to Transport for NSW on maximum fares for private ferry services. These services are provided by 7 operators, most of which are small operators. Each serves distinct routes in the Sydney, Central Coast and North Coast areas of NSW, so do not compete with each other.

We have also made a determination on the maximum fare for the Stockton ferry service. This service is provided by the state-owned operator, Newcastle Buses and Ferries. Under the determination we set the maximum fare for a single trip on the Stockton Ferry. Maximum fares for other tickets that can be used for this service (ie Newcastle travel pass and all-day tickets and MyMulti tickets) are not included because they are set through our determination of CityRail maximum fares. We made our determination of these fares in November 2012. Fares for Pensioner Excursion Tickets (including the Family Funday Sunday ticket) and other concession fares that can be used on the Stockton Ferry service are also not included, as these are set by the Government.

## 1.1 Change in maximum fares

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

- ▼ fares for slow private ferry services should increase by 3.1% before rounding
- ▼ fares for fast private ferry services should increase by 4.2% before rounding
- ▼ the fare for the Stockton ferry service should increase by 3.1% before rounding.

The change in fares applies to the master fare schedule set during the last annual fare review. We then round recommended fares to the nearest 10 cents. Our

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<sup>1</sup> By arrangement with Transport for NSW, and with the approval of the Premier of NSW.

mid-year review of fuel costs for fast ferries saw no change recommended maximum fares. For these reasons,<sup>2</sup> increases in the recommended maximum fares compared to the *current* maximum fares range from 2.8% to 4.8% under our recommendations this year. Table 1.1 summarises the change in maximum fares.

We understand that Transport for NSW's decision on fares for private ferry services will take effect in December 2012.

We have also decided to retain the limited mid-year review of fuel costs for fast private ferry services in 2013. If the mid-year review indicates that fuel costs have increased or decreased by more than 10%, we will recommend an adjustment to the maximum fares for these services.

## 1.2 Overview of recommendations and determination

In relation to private ferries, we recommend that Transport for NSW change maximum private ferry fares to the amount shown in the 'Recommended max fare from Dec 2012 (rounded)' column in Table 1.1 below.

In relation to the Newcastle (Stockton) ferry service, the maximum fare will increase by 10 cents (4.2%) from January 2013 (see Table 1.2 below).

## 1.3 How this report is structured

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

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

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<sup>2</sup> In addition, we have also decided to adjust the master fares for Palm Beach Ferries' services to account for increased wharf access charges.

**Table 1.1 Recommended maximum fares for private ferry services from December 2012**

Route	Dec 2011 max master fare (unrounded)	Current max fare (rounded)	Dec 2012 max master fare (unrounded)	With adjustment for increased wharf access costs	Recommended max fare from Dec 2012 (rounded)	Difference between current max fare and recommended max fare from Dec 2012	
	\$	\$	\$	\$	\$	\$	%
Woy Woy – Empire Bay	7.08	7.10	7.30	-	7.30	0.20	2.8%
Scotland Island and western foreshore of Pittwater	7.23	7.20	7.45	-	7.40	0.20	2.8%
Iluka – Yamba	6.96	7.00	7.18	-	7.20	0.20	2.9%
Cronulla – Bundeena	6.11	6.10	6.30	-	6.30	0.20	3.3%
Brooklyn – Dangar Island	6.11	6.10	6.30	-	6.30	0.20	3.3%
Circular Quay – Darling Harbour (ff)	6.98	7.00	7.27	-	7.30	0.30	4.3%
Circular Quay – Lane Cove (ff)	6.98	7.00	7.27	-	7.30	0.30	4.3%
Palm Beach – Mackerel and the Basin	7.24	7.20	7.46	7.51 <sup>a</sup>	7.50	0.30	4.2%
Palm Beach – Ettalong Wagstaff (ff)	10.44	10.40	10.87	10.92 <sup>a</sup>	10.90	0.50	4.8%

**Note** Current maximum fares are the fares recommended and implemented as part of the 2011 annual fare review. ff denotes fast ferry.

<sup>a</sup> To apply if Gosford City Council introduces an annual ferry operator levy of \$7,000 per wharf.

**Table 1.2 Fare determined for Newcastle (Stockton) ferry service from January 2013**

Route	January 2012 max master fare (unrounded)	Current max fare (rounded) <sup>a</sup>	January 2013 max master fare (unrounded)	2013 max fare (rounded)	Difference between current max fare and 2013 max fare	
	\$	\$	\$	\$	\$	%
Queens Wharf Newcastle – Stockton Wharf	2.45	2.40	2.53	2.50	0.10	4.2

**Note** The current maximum fare is the fare determined as part of the 2011 annual fare review and implemented from January 2012.

## 2 IPART's role and approach

Our role in regulating private ferry services is to recommend to Transport for NSW maximum fares for regular private ferry services (as defined by the *Passenger Transport Act 1990*), under section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992* (IPART Act). We received terms of reference for the private ferry fares review in October 2012 (see Appendix A). The terms of reference require us to provide our recommendations to Transport for NSW. Our role is limited to providing recommendations; the Director-General of Transport for NSW will decide the date on which these changes, if accepted, will take effect.

We are also responsible for determining the maximum fare Newcastle Buses and Ferries can charge for its Stockton ferry service under section 11 of the IPART Act.

As was the case in last year's review, we decided to combine the Stockton ferry and private ferry reviews in a single review process.

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

**Table 2.1 Ferry services covered by this review**

<b>Operator</b>	<b>Routes</b>
Central Coast Ferries	Woy Woy to Empire Bay
Church Point Ferry Service	Scotland Island and western foreshore of Pittwater
Clarence River Ferries	Iluka to Yamba
Cronulla and National Park Ferry Service	Cronulla to Bundeena
Brooklyn Ferry Service	Brooklyn to Dangar Island
Matilda Cruises	Circular Quay to Darling Harbour (fast ferry) Circular Quay to Lane Cove (fast ferry)
Palm Beach Ferry Service	Palm Beach to Mackerel Beach and the Basin Palm Beach to Ettalong and Wagstaff (fast ferry)
Newcastle Buses and Ferries (owned by the State Transit Authority)	Newcastle to Stockton

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

## 2.1 What was our review process?

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

- ▼ Released an information paper in October 2012, which summarised our review process and provided indicative fare outcomes to assist interested parties to provide submissions on the review.
- ▼ Held a public hearing on 17 October 2012, to which we invited stakeholders, including Action for Public Transport (APT) and Transport for NSW (TfNSW), to discuss relevant issues.
- ▼ Sought submissions from interested stakeholders through the information paper. We received 3 submissions in total, in relation to private ferries and the Stockton Ferry.
- ▼ Independently analysed cost data and inflators for the ferry cost indices (see section 2.2).

In making our decisions, we considered all submissions to the review and the comments made at the public hearing. Appendix C provides a list of submissions and hearing participants. In addition, we considered all matters included in the terms of reference and section 15 of the IPART Act (see Appendix B).

## 2.2 What approach did we use to calculate fare changes?

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

The SFCI is used for ferries operating at an average speed of less than 10 knots and the FFCI for ferries operating at an average speed of 18 to 20 knots. The FFCI is used to measure changes in costs for the Palm Beach – Ettalong service and the 2 Sydney Harbour services operated by Matilda Cruises. The SFCI is used for the other services. The use of separate indices reflects the different cost structures of 'fast' and 'slow' ferry services.

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

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### Box 2.1 How the cost index works – a simplified example

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

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

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

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### 3 Change in maximum fares

We decided on the required change in the maximum fare for each regulated private ferry service and the Stockton ferry service after considering the changes in the cost of providing the ferry service over the review period, as measured by the SFCI or the FFCI (whichever is relevant). We also considered any cost increases that might fall outside of the cost indices and financial viability issues raised by the Commercial Vessel Association (CVA).

In terms of non-cost issues, we considered:

- ▼ the need to regulate fares for private ferry services
- ▼ the available information on changes in service standards and patronage
- ▼ the relativities between private ferry services and government-owned ferry services
- ▼ the expected impact of our recommendations on operators, passengers, the environment and the Government.

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

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

## 3.1 Overview of fare changes and recommendations

### 3.1.1 Our recommendations in relation to fares for private ferry services

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

- ▼ calculating the percentage change in the cost of providing the service over the review period using either the SFCI or the FFCI (See Appendix D)
- ▼ applying this percentage change to the current 'master fare' for this service<sup>3,4</sup>
- ▼ rounding the resulting fare to the nearest 10 cents.

In relation to private ferries, we recommend that Transport for NSW change maximum private ferry fares to the amount shown in the 'Recommended max fare from December 2012 (rounded)' column in Table 3.1 below.

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

### 3.1.2 Our determination for the Stockton ferry fare

We determined that the maximum fare for the Stockton ferry service should increase by 10 cents (4.2%). We applied the increase in the SFCI to the Stockton ferry master fare as determined in December 2011 and then rounded to the nearest 10 cents.

Table 3.2 sets out the resulting maximum fare for the Stockton ferry service from 1 January 2013. The legal document setting out our determination of Stockton ferry fares is available on our website.

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<sup>3</sup> The master fare is the unrounded fare as calculated in our December 2011 review (see Table 1.1).

<sup>4</sup> In addition, we also decided to adjust the master fares for Palm Beach Ferries' services to account for increased wharf access charges.

**Table 3.1 Recommended maximum fares for private ferry services from December 2012**

Route	Dec 2011 max master fare (unrounded)	Current max fare (rounded)	Dec 2012 max master fare (unrounded)	With adjustment for increased wharf access costs	Recommended max fare from Dec 2012 (rounded)	Difference between current max fare and recommended max fare from Dec 2012	
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**Table 3.2 Fare determined for Newcastle (Stockton) ferry service from January 2013**

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Queens Wharf Newcastle – Stockton Wharf	2.45	2.40	2.53	2.50	0.10	4.2

**Note** The current maximum fare is the fare determined as part of the 2011 annual fare review and implemented from January 2012.

## 3.2 Changes in operators' costs over the past 12 months

We have separately calculated the annual change in the costs of operating slow and fast private ferry services, using the ferry cost indices and the inflators and values discussed in Appendix D. These calculations indicated that the costs of operating slow ferry services have increased by 3.1%, while those of operating fast ferries increased by 4.2%. The main drivers of these changes were increases in fuel and labour costs.

### 3.2.1 Cost changes reported by the CVA

The Commercial Vessel Association of NSW (CVA) has documented cost increases faced by individual ferry operators that differ significantly from the output of the cost indices.<sup>5</sup> While it is not clear on what basis the increases reported by the CVA have been measured, they do suggest that the costs faced by private operators can vary considerably between operators.

**Table 3.3 Comparison of cost changes reported by the CVA and outcomes of Ferry Cost Indices**

Cost item	Change in costs presented by CVA	Change in costs under SFCI & FFCI
Labour	-2% to 14%	3.6%: WPI
Fuel	9% to 35%	13.8%: FUELtrac data
Interest	8% to 20%	-4%: NAB business base rate
Insurance	9% to 23%	6.8%: CPI-insurance
Repair & Maintenance	-25% to 55%	2.1%: CPI

**Note:** Inflator for fuel costs also includes an adjustment to account for the reduction in the diesel fuel rebate from 1 July 2012.

**Source:** Commercial Vessel Association, Private Ferry Fares Submission to IPART 2012, November 2012, pp 1-2; IPART.

<sup>5</sup> See Commercial Vessel Association, Private Ferry Fares Submission to IPART 2012, November 2012, pp 1-2.

### Reduction in diesel fuel rebate

Of the above cost items, in the cost indices labour and fuel are the most significant and the CVA has noted the 16% reduction in the diesel fuel rebate for private ferry operators.<sup>6</sup> With the introduction of a carbon price from 1 July 2012, this rebate reduced from 38.1 cents per litre to 31.9 cents per litre.<sup>7</sup> In last year's review no adjustment was made pending the introduction of a carbon price, given that the impact on the total costs of private ferry operations was expected to be small and ferry operators did not request an adjustment.<sup>8</sup> However, we recognise that as the Ferry Cost Indices are lagged indices, they do not capture the effect of the carbon price on ferry operators' costs in 2013.

Any impact of the rebate reduction on fuel prices is hard to measure, given the underlying fuel price is volatile and affected by many factors. However, we have considered the impact of the rebate reduction on the cost indices. The weighting of fuel in the indices is 8.0% for the SFCI and 18.4% for the FFCI. If we treat the rebate reduction as if it applied for the full year to 30 September 2012, the inflator for fuel costs becomes 13.8% (compared to 8.7% without the adjustment). With this adjustment the SFCI increases from 2.7% to 3.1% and the FFCI increases from 3.3% to 4.2%.

We consider the potential impact of the rebate reduction is significant enough to warrant an adjustment and that it would be unfair to set a fare change that ignored the potential effects of the rebate reduction on costs when the industry must fund those costs. Accordingly, we have decided to include such an adjustment to provide the industry with an advance to compensate for the effect of the rebate reduction on cash flows. This is consistent with the adjustments made to the Taxi Cost Indices (to provide an advance for the increase in LPG excise that commenced from 1 July 2012) and the carbon price advance made to local councils through the local government rate peg. To avoid double-counting, we would reverse this adjustment at next year's review.

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<sup>6</sup> Ibid.

<sup>7</sup> See <http://www.ato.gov.au/businesses/content.aspx?doc=/content/00174722.htm&pc=001/003/044/009/010&mnu=45026&mfp=001/003&st=&cy=> (accessed 30 November 2012).

<sup>8</sup> (See IPART, *Review of fares for private ferry services and the Stockton ferry service for 2012*, December 2011, p 13.)

### Other cost items, weightings and inflators

Prior to 2008, we used the CVA's cost index to set maximum fares. Given the weightings in this index had not been independently reviewed, in 2008 IPART engaged Indec Consulting to review the costs of the private ferry industry and recommend appropriate weightings for these costs. The revised weightings better reflect efficient rather than actual costs, compared to the CVA's index. We also reviewed and revised the inflators used in the indices to ensure that they were:

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

While the CVA contended at the time that industry-specific, rather than 'global' inflators should be used, we maintained our view that the data used to inflate the cost items in the Ferry Cost Indices should be independently sourced and publicly available wherever possible.<sup>9</sup>

#### 3.2.2 Measuring expected productivity gains

Productivity measures the rate at which outputs (eg, goods and services) are produced per unit of input (eg, labour, capital, raw materials). When an industry's productivity increases, it means it is producing more outputs for a given level of inputs than it did previously. For example, it may have reduced its costs, or increased the quantity or value of its output (eg, by improving the performance of its goods or the quality of its services). Productivity improvements will reduce the need for ferry operators to be compensated for rising costs.

We have adopted a consistent approach to how productivity adjustments are derived and applied across the industries that we regulated. Accordingly, for fare or fee reviews where we employ a cost index, we have decided to:

- ▼ Establish an appropriate long term measure of economy-wide productivity to apply to the whole cost index.
- ▼ Determine an adjustment, where necessary, based on a consistent and transparent set of qualitative factors. This allows us to deviate from an economy-wide productivity measure to take into account industry specific factors.<sup>10</sup>

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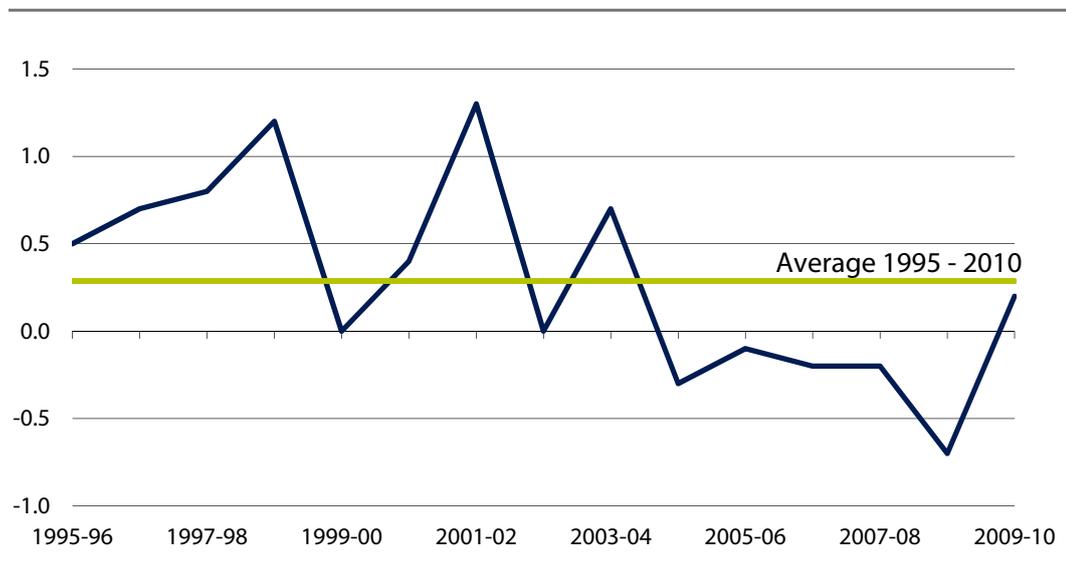
<sup>9</sup> See IPART, *Review of fares for private ferry services and the Stockton ferry service for 2009*, November 2008, Chapters 3 and 4.

<sup>10</sup> IPART, *Review of Taxi Fares in NSW: Maximum fares from July 2012 - Final Report and Recommendations*, 2012, p 38.

The Australian Bureau of Statistics (ABS) publishes 2 measures of market sector multi-factor productivity (MFP) which calculate economy-wide productivity changes – gross output and value-added. Value-added MFP includes only the primary inputs of production (capital and labour) whereas gross output MFP takes into account capital, labour and the intermediate goods (services, energy and materials) used in production. As such, this is likely to be a better measure of changes in technical efficiency in all factors of production.

Adopting a long term average of economy-wide productivity measures will smooth out short term cyclical effects on productivity. The ABS has published gross output MFP since 1995. Between 1995 and 2010, the average gross output productivity in the market sector industries was 0.3% (Figure 3.1).

**Figure 3.1 Gross output multifactor productivity for the market sector, 1995 – 2010**



**Data source:** ABS, Cat. No. 5260.0.55.002, Table 15, Experimental Estimates of Industry Multifactor Productivity, 2010-11.

The productivity factor suggested by the economy-wide multifactor productivity measure could be adjusted to take into account industry-specific factors. This may reflect:

- ▼ any recent changes in regulation or technology
- ▼ historical trends in total costs and/or output
- ▼ information from comparative industries
- ▼ the size of the industry and the scope for innovation.

No stakeholders specifically commented on an appropriate productivity measure or adjustment for the ferry industry and we have made no adjustment to the productivity measure set out above.

### 3.3 Cost increases falling outside the indices

We have also considered:

- ▼ retaining the mid-year fuel review for fast ferries and
- ▼ increased wharf access fees for some private ferry operators.

#### 3.3.1 Reviewing the fuel costs for fast ferries during the year

In response to industry concerns about fuel price volatility, as part of the 2008 review we introduced a mid-year review of fuel costs for fast ferry operators.<sup>11</sup> The mid-year review is a mechanical process that recommends a fare change if costs have increased or decreased by more than 10% over the 6 months from our annual fare review.

In 2009, the mid-year fuel cost review recommended a decrease in fast ferry fares of 4.8% (40 to 50 cents after rounding)<sup>12</sup>, which was accepted by Transport for NSW. In 2010, the mid-year review did not recommend any change to fares as the change in fuel price was a decrease of 5.8%.<sup>13</sup>

The 2011 mid-year fuel cost review year found an increase in diesel costs of 11.4% and the Tribunal recommended an increase in fast ferry fares of 2% (10 to 20 cents after rounding)<sup>14</sup>, which was accepted by Transport for NSW.

The mid-year review this year did not recommend any change to fares as the change in fuel price was an increase of 7.6%.<sup>15</sup>

No stakeholders expressed views regarding the mid-year fuel cost review. Given the volatility of fuel prices over the last few years and the fact there is no current opposition to the review, we have decided to retain it in its current form.

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<sup>11</sup> But not slow ferry operators as fuel costs are a smaller proportion of their total costs. See IPART, *Review of fares for private ferry services and the Stockton ferry service for 2009*, November 2008, Chapter 6.

<sup>12</sup> IPART, *Mid year review of fuel costs for private ferries in NSW to March 2009*, May 2009.

<sup>13</sup> IPART, *Mid year review of fuel costs for private ferries in NSW to March 2010*, May 2010.

<sup>14</sup> IPART, *Mid-year review of fuel costs for fast private ferries in NSW to March 2011*, May 2011.

<sup>15</sup> IPART, *Mid-year review of fuel costs for fast private ferries in NSW to March 2012*, May 2012.

### 3.3.2 Increased wharf access costs

We understand that Gosford City Council is considering levying ferry operators an annual fee for access to wharf infrastructure.<sup>16</sup> While wharf access costs are a small component of ferry operators' total costs, if implemented the full extent of this increase in costs will not be reflected in the cost indices.

Given this is a legitimate cost increase that would not be captured by the cost indices, we have decided that if the fee is implemented then the master fares for Palm Beach Ferries should be adjusted (once) to reflect additional and ongoing wharf access costs.<sup>17</sup> Based on the anticipated cost for 2012/13 and patronage reported for 2011/12, the increase in the master fares for these services would be \$0.05. If Gosford City Council does not implement an annual fee for ferry operators' access to wharf infrastructure, then this adjustment would not be made.<sup>18</sup>

### 3.4 Financial viability issues raised by the CVA

The Commercial Vessel Association of NSW (CVA) has applied for an increase in private ferry fares of 10% above CPI, citing capital costs and the high operating costs of fast ferry operators.<sup>19</sup> The CVA submitted that the private ferry industry continues to struggle with financial viability.

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

<sup>16</sup> See

[http://www.gosford.nsw.gov.au/council/council\\_meetings/agenda\\_reports/2012/11/27/City%20Services.pdf](http://www.gosford.nsw.gov.au/council/council_meetings/agenda_reports/2012/11/27/City%20Services.pdf) (accessed 29 November 2012) and

[http://www.gosford.nsw.gov.au/council/council\\_meetings/meeting\\_minutes/2012/11/27/Minutes%20-%2027%20November%202012.pdf](http://www.gosford.nsw.gov.au/council/council_meetings/meeting_minutes/2012/11/27/Minutes%20-%2027%20November%202012.pdf) (accessed 29 November 2012).

<sup>17</sup> As part of last year's review, the Tribunal agreed to an additional one-off fare increase above the cost indices to reflect wharf access fees introduced by Pittwater Council. (See IPART, *Review of fares for private ferry services and the Stockton ferry service for 2012*, December 2011, pp 12-13.)

<sup>18</sup> We note that the proposed adjustment to the master fares for Palm Beach Ferries does not affect the rounded fares for 2013.

<sup>19</sup> See Commercial Vessel Association, Private Ferry Fares Submission to IPART 2012, November 2012, p 3.

<sup>20</sup> IPART, *Review of fares for private ferry services and the Stockton ferry service for 2010*, December 2009, pp 9-10.

Given the price sensitivity of patronage on private ferries, in our view the concerns raised by the CVA cannot be addressed through increasing the level of fares. Maximum fares for private ferry services have increased significantly in recent years (see Chapter 4). Past experience suggests that raising them even further will adversely impact passengers who rely on these services without improving the industry's viability. This is also borne out by the fact that operators on 3 routes do not currently charge the maximum fare for the service.<sup>21</sup> This is likely due to the need to retain passengers, particularly in light of other competing operators or modes of transport.

### 3.5 Ongoing regulation of private ferry fares

In previous reviews, we have questioned the benefits of continued fare regulation for private ferries. We still consider that the benefits of regulating private ferry fares are unlikely to outweigh the costs; especially given some of these services compete with other modes of transport or other operators (eg, Matilda Cruises' Darling Harbour service competes with Sydney Ferries Darling Harbour service).

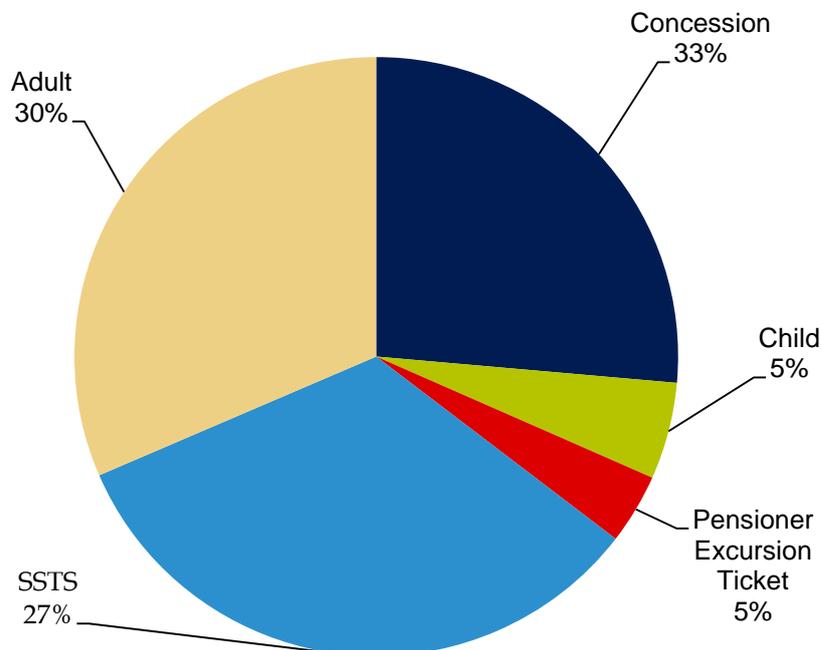
### 3.6 Patronage and service standards

We collect and publish data on patronage and service standards for information only – it does not affect fare outcomes. For this review we have only received data for the 6 months to December 2011 from Transport for NSW, rather than a full financial year's data.

Patronage data is manually collected by operators and subject to some inconsistencies in the reporting of some categories of passengers between years. Figure 3.2 below shows the breakdown of patronage on private ferries for the 6 months to December 2011 according to passenger type. It illustrates the relativities between adult full fare-paying passenger trips, and subsidised trips (ie, passengers paying concession/half-fares or using Pensioner Excursion Tickets and patronage counted under the School Student Transport Scheme (SSTS)).

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<sup>21</sup> These are the 2 routes operated by Matilda Cruises and Palm Beach Ferries' Ettalong to Wagstaff route.

**Figure 3.2** Reported patronage on private ferries (%) July – December 2011

**Data source:** Transport for NSW, 23 October 2012.

Ferry operators also provide Transport for NSW with information on late and cancelled services and the number of safety incidents experienced. This information is summarised in Table 3.4 for the 6 months to December 2011. The information for the 12 months to June 2011, 2010 and 2009, which we received as part of the last 3 reviews, is also summarised in Table 3.4.

Two submissions to the review from individuals were critical of the level of service provided by the Stockton Ferry.<sup>22</sup> We have not been provided with patronage or service quality data for the Stockton ferry service for this review. We encourage Transport for NSW to collect and monitor the data required from ferry operators under the service contracts for both private ferry services and the Stockton ferry. We also support the publication of this data on a regular basis. However, we note that the issue of actual service levels and standards is a policy decision for Government.

<sup>22</sup> See Mr R Banyard, Submission to IPART – 2012 Review of Stockton and Private Ferry Fares, November 2012, p 2 and F. Britten, Submission on Stockton Ferry Fare, November 2012.

### 3.7 Relativities with government-owned ferry services

Most private ferry operators do not provide services on Sydney Harbour, and so do not offer comparable services to those provided by Sydney Ferries. However, both Sydney Ferries and Matilda Cruises run services between Circular Quay and Darling Harbour. The Sydney Ferries single fare is \$5.60<sup>23</sup> and the recommended maximum Matilda Cruises fare from December 2012 is \$7.30 (the fare currently charged by Matilda Cruises is \$6.50<sup>24</sup>). The differences between these services are:

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

Sydney Ferries' fares had their first change since January 2007 when the NSW Government introduced MyZone in April 2010. Sydney Ferries' fares next changed in January 2012, when the Government increased fares for MyFerry single, return and TravelTen tickets by between 5.7% and 7.7%.<sup>25</sup> The recommended maximum fares for private ferry operators have continued to change in line with the changes in their costs over the same period.

<sup>23</sup> See <http://www.131500.com.au/tickets/fares> (accessed 30 November 2012).

<sup>24</sup> See <http://www.matilda.com.au/dir076/matilda.nsf/Pages/Ferry+Services~City+Loop+-+Luna+Park> (accessed 30 November 2012).

<sup>25</sup> See IPART, *Review of maximum fares for Sydney Ferries services from January 2013 - Final Report*, November 2012, p 10.

**Table 3.4 Summary of KPI data for year ending 30 June**

Route Year ending 30 June	Late				Cancelled				Safety			
	2012 <sup>a</sup>	2011	2010	2009	2012 <sup>a</sup>	2011	2010	2009	2012 <sup>a</sup>	2011	2010	2009
Woy Woy – Empire Bay	0	0	Unsure	1	0	0	1	0	0	0	0	0
Scotland Island and western foreshore of Pittwater	1	5	4	6	0	0	0	1	1	0	0	0
Iluka – Yamba	0	0	0	0	0	0	0	2	0	0	0	0
Cronulla – Bundeena	0	1	0	0	1	4	4	9	0	0	0	0
Brooklyn – Dangar Island	3	2	1	8	3	4	1	1	1	1	0	1
Circular – Darling Harbour (ff)	10	37 <sup>b</sup>	0	0	0	0	0	0	3	0	0	0
Circular Quay – Lane Cove (ff)	9		0	0	0	0	0	0	1	0	0	0
Palm Beach – Mackerel and the Basin	0	0	0	0	0	0	0	2	0	0	1	0
Palm Beach – Ettalong Wagstaff (ff)	0	0	0	4	0	0	3	7	0	0	0	0
Stockton Ferry	-	2	-	-	-	0	-	-	-	0	-	-

<sup>a</sup> Data only for the 6 months to December 2011.

<sup>b</sup> All vessels fitted with wet exhaust systems.

**Note:** Information for the Stockton Ferry only provided for 2011. ff denotes fast ferry.

**Source:** Transport for NSW, 23 October 2012, 6 and 11 October 2011, 19 October 2010 and 12 November 2009.

## 4 Impacts on stakeholders

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

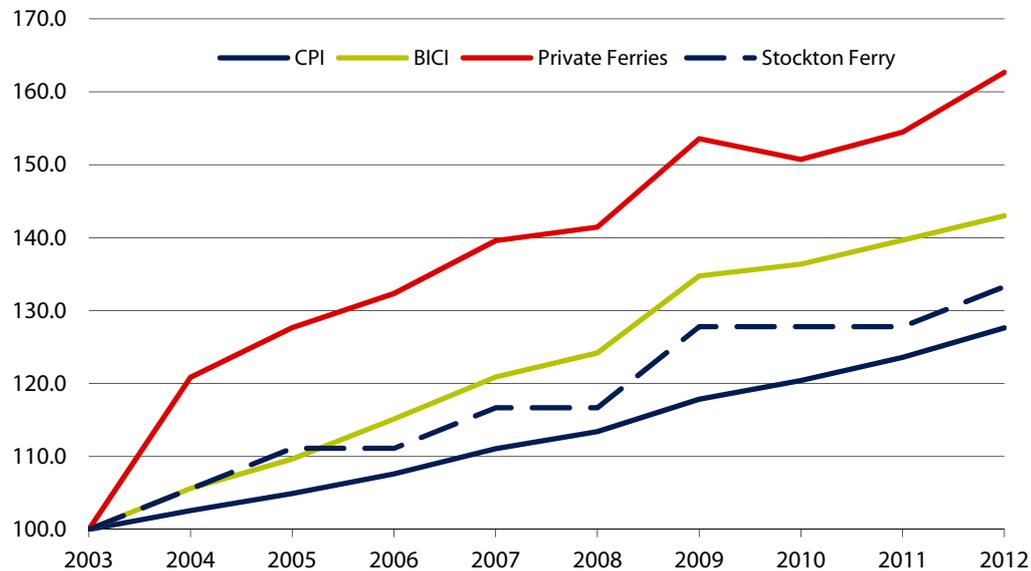
### 4.1 Implications for private ferry operators

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

In reviews from 2003 to 2008, we recommended that private ferry fares increase by more than CPI. In 2009, we recommended small decreases in fares, but Transport for NSW decided to leave fares unchanged. (Some fares had already decreased slightly following our 2009 mid-year fuel review.) In 2010 recommended fare increases were slightly lower than the CPI while in 2011 recommended fare increases were above CPI.<sup>26</sup> Figure 4.1 below compares changes in private ferry fares and the Stockton Ferry fare to the Bus Industry Cost Index (BICI) (which we use to regulate fares for rural and regional bus services) and CPI over time.

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<sup>26</sup> IPART, *Review of fares for private ferry services and the Stockton ferry service for 2012*, December 2011, pp 17-18.

**Figure 4.1 Transport fares in NSW from 2003-2012**

**Note:** Private ferry increase represents the average increase between slow and fast ferries. CPI is calculated by the same method used in the SFCI and FFCI.

**Data source:** IPART Reviews, ABS Cat 6401.0.

## 4.2 Implications for passengers

In our view, the recommended maximum fares are not likely to have a negative impact on passengers as fares will increase only by small amounts.

The Commercial Vessel Association (CVA) argued that an important issue for private ferry passengers is the inclusion of private ferries in the NSW Government's plans to integrate ticketing across public and private buses, rail, light rail and public ferries.<sup>27</sup> We note that MyMulti tickets are valid on the Stockton ferry service; however we recognise that this issue is a policy decision for Government and outside the terms of reference for our fare review.

## 4.3 Implications for the environment

The impact of the recommended fares on the environment in terms of pollution and congestion is likely to be minimal, given that ferry travel accounts for a small proportion of passenger trips.

<sup>27</sup> See Commercial Vessel Association, *Private Ferry Fares Submission to IPART 2012*, November 2012, pp 1 and 2.

#### **4.4 Implications for the Government**

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

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

If the Government decides to provide supplementary payments outside the fares framework and our fare recommendations should make no difference to the supplementary payments.



## **Appendices**



## A Terms of reference for private ferries

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

I, Barry O'Farrell, Premier, pursuant to Section 9(2) of the *Independent Pricing and Regulatory Tribunal Act 1992*, approve the Independent Pricing and Regulatory Tribunal (IPART) entering into arrangements with Transport for NSW for two years to 3 August 2014 to provide services to Transport for NSW that are within its area of expertise. The services to be provided by IPART are the conduct of an investigation into, and the preparation of a report concerning, maximum fares for regular private ferry services under the *Passenger Transport Act 1990*.

In providing these services, IPART should consider:

- i) the cost of providing the services concerned and the need for greater efficiency in the supply of services so as to reduce costs for the benefit of customers;
- ii) relativities with Sydney Ferries' services, including in terms of service, efficiency, cost and ticketing products;
- iii) the protection of customers from abuses of monopoly power in terms of prices, pricing policies, and standards of service;
- iv) the need to maintain ecologically sustainable development;
- v) the impact on customers of the recommendations;
- vi) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise and any suggested or actual changes to those standards); and
- vii) the effect of any pricing recommendation on the level of Government funding provided to private operators under commercial contracts.

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

The services are to be provided through the provision of one or more reports to Transport for NSW, as agreed between Transport for NSW and IPART.



The Hon Barry O'Farrell MP  
Premier  
Minister for Western Sydney

Dated at Sydney... 11 October 2012

Table A.1 indicates where the relevant requirements of the terms of reference are addressed within this report.

**Table A.1 IPART’s considerations of terms of reference matters**

<b>Terms of reference</b>	
a) cost of providing the service	Sections 3.2 – 3.3 & Appendix D
b) relativities with Government-owned ferry services	Section 3.7
c) protection of consumers from abuse of monopoly power	Section 4.2
d) improved efficiency in supply of services	Section 3.2
e) impact on borrowing, capital and dividend requirements	Section 4.1
f) ecologically sustainable development	Section 4.3
g) the social impact on customers	Section 4.2
h) standards of quality, reliability and safety of the services	Section 3.6
i) effect on level of Government funding	Section 4.4

## B Requirements of the IPART Act for the Stockton ferry determination

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

### (15) Matters to be considered by Tribunal under this Act

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

- (k) the social impact of the determinations and recommendations,
- (l) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).

Table B.1 indicates where the relevant section 15 requirements are addressed within this report.

**Table B.1 IPART’s considerations of section 15 matters**

<b>Section 15</b>	
a) cost of providing the service	Sections 3.2 – 3.3 & Appendix D
b) protection of consumers from abuse of monopoly power	Section 4.2
c) appropriate rate of return and dividends	Section 2.2
d) effect on general price inflation	Sections 2.2 & 3.1
e) improved efficiency in supply of services	Section 3.2
f) ecologically sustainable development	Section 4.3
g) impact on borrowing, capital and dividend requirements	Section 4.1
h) additional pricing policies	NA
i) need to promote competition	Sections 2.2 and 3.5
j) considerations of demand management	NA
k) the social impact on customers	Section 4.2
l) standards of quality, reliability and safety of the services	Section 3.6

## C List of submissions

The following tables provide details of the submissions received for the review and participants in the public hearing held 17 October 2012.

**Table C.1 List of submissions/proposals received**

<b>Submitter</b>	<b>Date received</b>
Individual (Mr Rick Banyard)	14 November 2012
Individual (F Britten)	14 November 2012
Commercial Vessel Association of NSW	15 November 2012

**Table C.2 Participants at the public hearing**

<b>Speaker</b>	<b>Organisation</b>
Mr Tim Reardon	Transport for NSW
Mr Alan Miles	Action for Public Transport
Mr Paul Trevaskis	Blue Mountains Integrated Transport Forum

## D Calculation of the FFCI and SFCI

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

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

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

In 2008, we reweighted the ferry cost index. As a result of this work, 3 new cost items were identified and separated from the 'other costs' cost item.<sup>28</sup> These cost items were inflated by the CPI as an interim measure until sufficient consultation was undertaken in the 2009 review. In 2009, we confirmed the CPI as the relevant inflator for these items.

The section below provides an overview of the inflators for each cost item and the value of these inflators over the review period (1 October 2011 to 30 September 2012). The subsequent sections discuss each cost item's inflator and its value in more detail.

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

We separately calculated the changes in the costs of operating slow and fast private ferry services, using the ferry cost indices and the inflators and values discussed in the following sections. Table D.1 and Table D.2 summarise the slow and fast ferry cost indices for 2012.

These calculations indicated that the costs of operating slow ferry services have increased by 3.1%, while those of operating fast ferries increased by 4.2%. The main drivers of these changes were increases in labour and fuel costs.

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<sup>28</sup> Repair and maintenance, depreciation and amortisation, berthing and mooring.

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

Cost Item	Index weight	Inflator value	Contribution to 2012 change
	%	%	%
Labour	52.0	3.6	1.9
Fuel	8.0	13.8	1.1
Insurance	3.8	6.8	0.3
Interest	9.8	-4.0	-0.4
Repair and Maintenance	6.9	2.1	0.1
Ferry depreciation/amortisation	4.0	2.1	0.1
Berthing/mooring fees	0.5	2.1	0.0
All Other	15.0	2.1	0.3
Total	100.0		3.4
Productivity adjustment			0.3
<b>Productivity adjusted total</b>			<b>3.1</b>

Note: Totals may not add due to rounding.

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

Cost Item	Index weight	Inflator value	Contribution to 2012 change
	%	%	%
Labour	32.9	3.6	1.2
Fuel	18.4	13.8	2.5
Insurance	6.2	6.8	0.4
Interest	8.5	-4.0	-0.3
Repair and Maintenance	8.0	2.1	0.2
Ferry depreciation/amortisation	11.6	2.1	0.2
Berthing/mooring fees	6.6	2.1	0.1
All Other	7.9	2.1	0.2
Total	100.0		4.5
Productivity adjustment			0.3
<b>Productivity adjusted total</b>			<b>4.2</b>

Note: Totals may not add due to rounding.

## D.2 Overview of decisions on inflators and their value

Our decisions on the inflator for each cost item and its value over the review period are shown on Table D.3.<sup>29</sup>

**Table D.3 Our decisions on inflators and their value over period 1 October 2011 to 30 September 2012**

Cost item	Inflator	Value (%)
Labour costs	Change in the Wage Price Index for the 12 months to September 2012	3.6
Fuel costs	Daily diesel price from FUELtrac (less fuel excise rebate and GST) for the 12 months to September 2012, plus an adjustment for the decrease in the diesel fuel rebate, compared to the same period of 2011	13.8
Insurance and registration	Change in the insurance services component of the CPI for the 12 months to September 2012	6.8
Interest	Change in weighted average interest rate for National Australia Bank base rate business loan for the 12 months to September 2012 compared to the same period of 2011	-4.0
Repair and maintenance	Change in the CPI for the 12 months to September 2011	2.1
Depreciation and amortisation	Change in the CPI for the 12 months to September 2011	2.1
Berthing and mooring	Change in the CPI for the 12 months to September 2011	2.1
Other costs	Change in the CPI for the 12 months to September 2011	2.1

### D.2.1 Labour costs

Labour costs in the indices are inflated by the Wage Price Index (WPI).

We calculated the change in the WPI<sup>30</sup> using averaged data from the 4 quarters to September 2011, based on the following formula:

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

<sup>29</sup> Inflator values in this chapter are rounded to 1 decimal place for presentation purposes.

<sup>30</sup> Total hourly rates of pay excluding bonuses, New South Wales, All industries, Private and Public, All occupations. ABS Catalogue 6345.0, Table 2b.

This calculation indicates that the increase in the WPI for this review period is 3.6%.

### D.2.2 Fuel costs

We have inflated the fuel cost item by 13.8%, based on FUELtrac<sup>31</sup> data on the average daily diesel Sydney pump price, net of GST and the fuel excise rebate for marine transport.

To calculate the inflator, we compared the average diesel pump price (less the fuel excise rebate and GST) for Sydney over the 12 months to 30 September 2011 with the average diesel pump price (less the fuel excise rebate and GST) for Sydney over the 12 months to 30 September 2012, adjusted by treating the rebate reduction as if it applied for the full year to 30 September 2012 (to provide an advance for the reduction in the fuel excise rebate from 1 July 2012 - see Section 3.2.1.)

Based on this data, the price of diesel fuel has increased by 13.8% since the 2011 review.

### D.2.3 Insurance and registration costs

We have inflated the insurance and registration costs item by 6.8%, based on the change in the 'insurance services' subgroup of the CPI (as measured by the average index value for the 4 quarters to September 2012 divided by the average index value for the 4 quarters to September 2011).<sup>32</sup>

### D.2.4 Interest costs

As was the case last year, we have decided to use the change in the National Australia Bank base rate<sup>33</sup> for business loans to inflate the interest cost item. This resulted in a decrease in this cost item of 4.0%.

We calculated the change in interest costs by calculating the percentage change in the weighted average of the business lending base rate between the year ending 30 September 2011 and the year ending 30 September 2012.

<sup>31</sup> FUELtrac is an independent organisation which provides a fuel price monitoring service.

<sup>32</sup> Sydney, All Groups, ABS Catalogue no. 6401.0, Table 11.

<sup>33</sup> National Australia Bank base rate for business lending.

### D.2.5 Repair and maintenance costs

We have decided to use changes in the Sydney all groups CPI to inflate the costs of repair and maintenance.<sup>34</sup> The value of this inflator for the year to 30 September 2012 is 2.1%. CPI is calculated using the same formula as WPI, outlined in section D.2.1.

Repair and maintenance costs were 1 of 3 cost items which, prior to 2008, were captured as part of the 'other costs' cost item.<sup>35</sup>

### D.2.6 Depreciation and amortisation

We have decided to use changes in the Sydney all groups CPI to inflate the costs of depreciation and amortisation. The value of this inflator for the year to 30 September 2012 is 2.1%. CPI is calculated using the same formula as WPI, outlined in section D.2.1.

Depreciation and amortisation was the second of 3 cost items which, prior to 2008, were captured as part of the 'other costs' cost item.<sup>36</sup>

### D.2.7 Berthing and mooring costs

We have decided to use changes in the Sydney all groups CPI to inflate the costs of berthing and mooring fees. The value of this inflator for the year to 30 September 2012 is 2.1%. CPI is calculated using the same formula as WPI, outlined in section D.2.1.

Berthing and mooring fees is the last of the 3 cost items which, prior to 2008, were captured as part of the 'other costs' cost item.<sup>37</sup>

### D.2.8 All other costs

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

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<sup>34</sup> Sydney, All Groups. ABS Catalogue no. 6401.0, Table 5.

<sup>35</sup> The others were depreciation and amortisation and berthing and mooring.

<sup>36</sup> The others were repair and maintenance and berthing and mooring.

<sup>37</sup> The others were repair and maintenance and depreciation and amortisation.