

Review of fares for private ferry services and the Stockton ferry service for 2009

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

Transport — Report, Recommendations and Determination

November 2008

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Report No. 6, 2008
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1 Introduction and executive summary

The Independent Pricing and Regulatory Tribunal of New South Wales (IPART) has completed its 2008 reviews of fares for:

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

Based on these reviews, IPART has made recommendations to the Minister of Transport on maximum fares for private ferry services. These services are provided by seven 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. IPART has 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.

As part of its review, IPART commissioned a consultant to survey the private ferry industry's costs and recommend changes to the Commercial Vessel Association Cost Index (CVACI), which IPART uses to measure the change in private ferry operators' costs from year to year. It also asked the consultant to include Newcastle Buses and Ferries' costs in providing the Stockton ferry service in its analysis as much as possible. 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). It also revised the weightings of the cost items in these indexes to more accurately reflect the costs of providing private ferry services.

1.1 Overview of IPART's decisions

Based on the findings of its review, IPART decided that:

- ▼ fares for slow private ferry services should increase by 7.2 per cent
- ▼ fares for fast private ferry services should increase by 10.5 per cent
- ▼ the fare for the Stockton ferry service should increase by the same percentage as fares for slow private ferry services (7.2 per cent).

¹ By arrangement with the Ministry of Transport, and with the approval of the Premier of NSW.

The higher fare increase for fast ferry services is largely due to these ferries' higher fuel consumption and the significant increase in the cost of fuel over the review period.

IPART also decided that it should undertake a limited mid-term review of fuel costs for fast private ferry services in 2009. If this review indicated that fuel costs have increased or decreased by more than 10 per cent, IPART would recommend an adjustment to the fares for these services.

The new fare for the Stockton ferry will apply from 4 January 2009 to coincide with fare changes for buses and trains.

1.2 Overview of recommendations and determination

In relation to private ferries, IPART recommends:

- 1 That the Minister for Transport increase maximum private ferry fares as shown in the '2009 fare' column in the table below.

Recommended maximum fares for private ferry services for 2009

Route	Current fare ^a	2009 fare	Difference	
	\$		\$	\$
Woy Woy – Empire Bay	6.20	6.70	0.50	8.1
Scotland Island – Morning Bay	6.30	6.80	0.50	7.9
Iluka - Yamba	6.10	6.60	0.50	8.2
Cronulla - Bundeena	5.40	5.70	0.30	5.6
Brooklyn – Dangar Island	5.40	5.70	0.30	5.6
Circular Quay – Darling Harbour	6.10	6.80	0.70	11.5
Circular Quay – Lane Cove	6.10	6.80	0.70	11.5
Palm Beach – Mackerel and the Basin	6.30	6.80	0.50	7.9
Palm Beach – Ettalong Wagstaff	9.10	10.10	1.00	11.0

^a Source: IPART, *Review of fares for rural and regional buses and private ferries from 2 January 2008*, December 2007.

IPART understands that the Minister for Transport's decision on fares for private ferry services will take effect in December 2008.

IPART also recommends that:

- 2 In addition to the annual review of private ferry fares, that IPART undertake a limited review of diesel fuel costs in May 2009.
- 3 If this review finds that the average daily price of diesel² for the six months to 31 March 2009 is more than 10 per cent higher or lower than the average daily price

² As measured by Fueltrac data ex GST and ex fuel excise for Sydney.

of diesel over the 12 months to 30 September 2008, IPART recommend to the Minister that:

- Fast private ferry operators' master fare be adjusted to reflect the change in the fuel component of the relevant cost index, and this change be calculated by dividing the average daily price of diesel (as recorded by Fueltrac) for the six months to 31 March 2009 by the average daily price of diesel for the 12 months to 30 September 2008.
 - The new master fare be rounded to the nearest 10 cents, in line with usual practice.
 - No additional fare changes be allowed to cover the cost of implementing fare changes resulting from the limited review of diesel fuel costs.
- 4 Any fare change recommended as a result of the limited review of diesel fuel costs be implemented on 1 July 2009, or as soon after that date as possible.
 - 5 The limited review of diesel fuel cost not include any slow ferry service including the Stockton ferry service.
 - 6 IPART will consider whether a limited review of diesel fuel cost should be conducted in 2010 and subsequent years as part of the 2009 fare review.

In relation to the Newcastle (Stockton) ferry service, IPART has determined that the fare will increase as shown in Table 1.1 below from 4 January 2009 to coincide with fare changes for buses and trains.

Table 1.1 Fare determined for Newcastle (Stockton) ferry service from January 2009

Route	Current fare ^a	2009 fare	Difference	
	\$	\$	\$	%
Queens Wharf Newcastle – Stockton Wharf	2.10	2.30	0.20	9.52

^a IPART, *Review of fares for Newcastle Services from 2 January 2008*, December 2007.

1.3 Structure of the report

This report explains IPART's recommendations for private ferry fares and its determination on the Stockton ferry fare in detail:

- ▼ Chapter 2 sets out IPART's role in regulating ferry fares in NSW and approach to its 2008 review
- ▼ Chapter 3 explains the revisions IPART made to the cost index, including establishing separate indexes for fast and slow ferries, and adjusting the cost items and weightings within these indexes. This chapter also explains IPART's decision to base its determination on the Stockton ferry fare on the cost index for slow ferries
- ▼ Chapter 4 discusses how the costs of items in the private ferry cost indexes have been adjusted to take account increases in operators' costs over the past year

- ▼ Chapter 5 sets out IPART's recommendations on private ferry fares and its determination for the Stockton ferry fare
- ▼ Chapter 6 discusses IPART's recommendations on additional measures to address fuel price increases.

2 IPART's role and approach

IPART's role in regulating private ferry services is to recommend to the Minister for Transport 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). IPART is 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.

To help it make its recommendation and determination, IPART reviews the current ferry fares, taking into account a range of information and considering the issues specified in its terms of reference and the IPART Act (see Appendices A and B).

For its 2008 reviews, IPART sought fare proposals from the Commercial Vessel Association (CVA) for private ferries, and from the Ministry of Transport for the Stockton ferry. The Ministry of Transport proposed that IPART's recommended fare increase for private ferry services also be applied to the Stockton ferry. Therefore, IPART combined its reviews of these services.

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

Table 2.1 Ferry services covered by this review

Operator	Routes
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
Newcastle Buses and Ferries (owned by the State Transit Authority)	Stockton Ferry (Queens Wharf Newcastle to Stockton Wharf)

Although IPART's terms of reference for private ferry fares require it provide its recommendations to the Minister for Transport by 19 December 2008, IPART has finalised these recommendations earlier, to help accommodate the CVA's request that private ferry fare changes come into effect on 1 December 2008 rather than 1 January 2009. However, please note that IPART's role is limited to recommending fare changes. The Minister for Transport will make the final decision on these changes, and when they come into effect.

Section 2.1 below outlines IPART's review and decision making process. Section 2.2 explains IPART's approach to calculating its recommended fare increases, particularly the Commercial Vessel Association Cost Index (CVACI) which is a key part of this approach.

2.1 IPART's review process

In undertaking its review, IPART conducted public consultation and undertook its own research and analysis. In particular, it:

- ▼ Sought fare proposals from the Commercial Vessel Association (for private ferry services) and the Ministry of Transport (for the Newcastle ferry).
- ▼ Published the fare proposals on the IPART website and advertised for submissions in the Sydney Morning Herald, Daily Telegraph, Newcastle Herald, Central Coast Express Advocate, Daily Examiner Clarence Valley and the Lower Clarence Review. IPART received 3 submissions on private ferries and 2 on the Stockton ferry.
- ▼ Released fact sheets summarising the proposals received and the factors that IPART must consider, to assist interested parties to provide submissions on the review.
- ▼ Engaged a consultant, Indec Consulting (Indec) to undertake a survey of private ferry operators' costs and review of the cost items in CVACI.
- ▼ Published and sought submissions on Indec's report and a fact sheet explaining the possible implications of Indec's recommendations on ferry fares. IPART received one submission on Indec's report.
- ▼ Met with representatives of the ferry operators.
- ▼ Independently analysed cost data and inflators for the cost index.
- ▼ Held a public hearing on 6 November 2008 where Indec Consulting presented its findings and IPART invited the Commercial Vessel Association, the Ministry of Transport and other stakeholders to discuss relevant issues.

In making its decisions, IPART considered Indec's report and recommendations, all submissions to the review and all comments made at the public hearing. It also considered the issues raised in meetings with operators and the CVA. (Appendix C provides a list of submissions and hearing participants.) In addition, it ensured it

considered all matters included in its terms of reference and section 15 of the IPART Act.

2.2 IPART's approach to calculating its recommended fare increases

As in previous reviews, IPART used the CVACI to help calculate its recommended fare changes. The CVACI is a ferry industry-specific cost index that includes a basket of ferry operators' cost items – labour, fuel, insurance, interest and other costs.

Each item in the basket is given 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 labour cost item is inflated by the Wage Price Index published by the Australian Bureau of Statistics. Through the combination of cost weightings and inflators, the cost index aims 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 indexes work.)

Box 2.1 How the cost index works

To calculate the annual change in a cost index, IPART takes the current weightings of each cost item and multiplies 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 an example where a cost index indicates that an average operator's total costs have increased by 1.45 per cent. In this example, labour costs represent 39.28 per cent of an average operator's costs, and so have a weighting of 39.28. The Wages Price Index indicated that labour costs increased by 3.81 per cent in the previous 12 months, so IPART multiplied 39.28 by 3.81 per cent. The answer – 1.5 per cent – represents the contribution of labour costs made to the operator's total increase in costs.

Cost Item	Weighting (%)	Change (%)	Contribution to index (%)
Labour	39.28	3.81	1.50
Fuel	14.36	-10.04	-1.44
Insurance	5.32	2.97	0.16
Interest	4.10	11.14	0.46
All Other	36.94	2.10	0.78
Total	100.00		1.45

Note: Totals may not add due to rounding.

Source: IPART, *Review of fares for rural and regional buses and private ferries from 2 January 2008*, p 35.

3 Revisions to the private ferry cost index

In past reviews of private ferry fares, IPART has used a single cost index – the CVACI – to calculate the change in operators’ costs. However, this year the CVA proposed that fares for most private ferry services should increase by 8.7 per cent, but that fares for high-speed catamaran services such as the Palm Beach-Ettalong services should increase by 11.33 per cent, as such fast ferry services have a different cost structure, with higher fuel and maintenance costs. The Palm Beach Ferry Service made a submission that supported this view.

To help it fully consider the CVA’s proposal, and because the weightings of the cost items in the CVACI have not previously been independently reviewed, IPART engaged Indec Consulting (Indec) to review the costs of the private ferry industry and recommend appropriate weightings for these costs. In addition, in light of the Ministry of Transport’s proposal that the fare for the Stockton ferry service increase in line with IPART’s recommended increase for private ferry fares, IPART asked Indec to include Newcastle Buses and Ferries’ costs in providing this service in its analysis, if possible.

After considering Indec’s report and recommendations and stakeholders’ comments, IPART made revisions to the cost index and weighting. The section below provides an overview of these decisions. The subsequent sections explain the decisions in more detail, including Indec’s findings and recommendations, IPART’s considerations, and applying the decisions to individual operators.

3.1 Overview of IPART’s decisions on the cost index and weightings

IPART decided to replace the existing CVACI with two separate cost indexes – one for slow ferries and one for fast ferries. The new indexes will be known as the Slow Ferry Cost Index (SFCI) and the Fast Ferry Cost Index (FFCI).

In making this decision, IPART accepted the view of Indec, the CVA and other stakeholders that there are significant differences between the cost structures of higher speed ferries and other ferries. IPART also accepted Indec’s recommended weightings for the cost items in fast and slow ferry cost indexes.

In addition, IPART accepted Indec’s definition of ‘slow’ and ‘fast’ ferries, and decided which index will apply to each regulated private ferry services. Further, it decided that the slow ferry cost index will apply to the Stockton ferry service.

IPART will fix the weightings in each index and its decisions on the index to apply to each ferry service for the next five years.

3.2 Indec's findings and recommendations

Indec sent a survey to the seven regulated private ferry operators and to Newcastle Buses and Ferries.³ The survey requested data on these operators' costs in providing regulated passenger services, and on the nature of the services they provide. Five private ferry operators responded to the survey. Newcastle Buses and Ferries also responded, but Indec received the data too late to include it in its analysis.

Indec analysed the information it received from the private ferry operators to understand the costs involved in providing slow and fast ferry services. Where an operator provided both slow and fast ferry services they provided disaggregated data⁴. Indec also met with several operators to ensure that its analysis and results were as robust as possible.

Based on its results, Indec recommended that some costs be included as separate items in the index, instead of being included in 'other costs'. It also recommended a separate cost index be established for fast and slow ferries, and the weightings for the cost items in these indexes.⁵

3.2.1 Additional cost items be included

The CVACI IPART used in its 2007 review includes five cost items: labour costs, fuel costs, insurance costs, interest, and 'all other' costs. The 'all other' costs item accounted for around 37 per cent of the total costs.

Indec found that the 'all other' costs items included several significant costs, especially:

- ▼ repairs and maintenance costs
- ▼ depreciation/amortisation costs, and
- ▼ berthing/mooring fees.

It recommended these be included as separate items in the cost index.

³ Newcastle Buses and Ferries operates the Stockton ferry service, which is not a private ferry service. However, Indec tried to include this service in the survey as the Ministry of Transport proposed its fares should be increased in line with the CVACI. See Ministry of Transport proposal to IPART on Bus Fares for 2009, August 2008, p 31.

⁴ For the purposes of Indec's review this operator was treated as two operators – a slow ferry operator and a fast ferry operator.

⁵ Indec, *Relative Weightings in the Commercial Vessel Association Cost Index (CVACI)*, Report to IPART, October 2008.

3.2.2 Separate cost indexes for fast and slow ferries

Indec found that although private ferry operators incur the same set of costs, there are major differences between the cost structures of operators who provide fast ferry services and those who provide slow ferry services. In particular, fast ferry operators tend to have higher fuel costs and lower labour and interest costs (as a percentage of total costs).

Therefore, Indec recommended that two separate indexes be established: one for slow ferry services, and one for fast ferry services. The indexes would include the same cost items, but the weightings of these items would be different. Indec defined 'slow' and 'fast' ferries as follows:⁶

- ▼ slow ferries are those that operate at an average speed of less than 10 knots
- ▼ fast ferries are those that operate at an average speed of 18 to 20 knots, depending on operating conditions.

Indec's recommended weightings for each index are set out in Table 3.1. They are based on the weighted averages of the survey responses of four slow ferry operators and two fast ferry operators. The major differences between the weightings are in:

- ▼ labour costs, which account for 32.7 per cent of total costs for fast ferries compared to 51.6 per cent for slow ferries
- ▼ fuel costs, which account for 18.2 per cent of total costs for fast ferries compared to 7.9 per cent for slow ferries
- ▼ interest costs, which account for 9.1 per cent of total costs for fast ferries and 10.5 per cent for slow ferries.

During the consultation process, industry stakeholders expressed concerns about the treatment of capital costs in the CVACI. IPART asked Indec to explicitly consider whether the level of capital costs in the index is appropriate. Indec's survey requested information on capital costs, and Indec clarified these costs with individual operators as necessary. Its recommendations in relation to capital costs are reflected in its recommended weightings for the interest cost category and the depreciation/amortisation cost item in each index. It found that one operator reported unsustainably low capital costs, and normalised these costs to ensure its recommended weightings reflected more typical and sustainable capital costs.

⁶ There will be case by case allocation of ferries that operate in the range of 10 to 18 knots.

Table 3.1 Indec's recommended weightings compared with current CVACI

Item category	Indec - Slow Ferries	Indec - Fast Ferries	Current CVACI (2008)
	%	%	%
Labour Costs			
▼ Wages	42.62	28.14	
▼ Superannuation	3.67	2.38	
▼ Pay roll tax	3.62	1.35	
▼ Workers Compensation	1.67	0.80	
Total Labour costs	51.58	32.67	40.19
Fuel Costs			
▼ Fuel Costs	7.91	18.23	
Total for Ferry Fuel Costs	7.91	18.23	12.73
Ferry Insurance & Registration			
▼ Ferry Registration & Survey	0.40	0.39	
▼ Ferry Insurance	2.52	4.84	
▼ Other Insurance	0.46	0.23	
Total Ferry Insurance & Registration	3.38	5.46	5.40
Interest			
▼ Interest Ferries	5.23	9.06	
▼ Interest Other	5.24	0.00	
Total Interest	10.47	9.06	4.49
Other Costs			
▼ Repair & Maintenance	6.95	8.15	
▼ Depreciation/Amortisation Ferries	4.04	11.73	
▼ Berthing/Mooring Fees	0.48	6.67	
▼ All Remaining Other	15.18	8.04	
Total for Ferry Other Costs	26.65	34.58	37.18
Total Costs	100.00	100.00	100.00

Note: Fuel costs are net of fuel excise rebates. Totals may not add due to rounding.

Source: Indec, *Relative Weightings in the commercial Vessel Association Cost index (CVACI)*, Report to IPART, October 2008.

3.3 IPART's considerations

IPART examined Indec's report and recommendations, along with issues raised by stakeholders. IPART notes the CVA's support for the Indec recommendations. It accepted Indec's recommendations on the cost items, including repairs and maintenance, depreciation/amortisation and berthing/mooring fees as separate cost items. IPART also accepted Indec's recommendation for separate cost indexes for fast and slow ferries, and its recommended weightings for each cost item.

3.3.1 Cost items to be included

IPART considered Indec's view that a range of costs included in the 'other costs' item of the CVACI should be separately identified and weighted within the ferry cost index. In other industries, IPART separately identifies costs that it considers are significant in terms of the total costs, and amalgamates smaller costs into an 'other costs' item because, individually, they contribute little to the change in costs. For consistency, IPART decided to separately identify only those costs within the current 'other costs' item that it considers to be significant. These include those that Indec found account for 5 per cent or more of the total costs of **either** slow or fast ferries (ie, repairs and maintenance, depreciation/amortisation, and berthing/mooring).

3.3.2 Separate indexes for slow and fast ferries

IPART considered Indec's recommendation for separate cost indexes for slow and fast ferries, and its recommended weightings for the items within each index. It found that since the recommended weightings are based on recently collected and detailed cost data from five of the seven private ferry operators, they are more robust and representative than those in the CVACI used in previous years. Therefore, these recommendations provide a reasonable approximation of private ferry operators' cost structure for the 2008 year.

Because different costs change at different rates, it is very important that a cost index used in fare setting approximates the industry's cost structure. If it does not, it will lead to fare changes that either over or under compensate operators for their change in costs. The results of Indec's survey indicates that slow and fast ferries have very different cost structures, largely due to the higher fuel costs associated with fast ferries. Therefore, the CVACI does not approximate the cost structure of either slow ferry or fast ferry operators. Given that fuel prices have risen much more than other cost items in the past year, continuing to use the single CVACI would significantly underestimate the impact of these price increases on fast ferry operators.

Given the above, IPART decided to establish two separate indexes – to be known as the Slow Ferry Cost Index (SFCI) and the Fast Ferry Cost Index (FFCI). In its view, maintaining two indices will substantially increase their cost reflectivity without adding to the costs of regulation, particularly as IPART is using independently produced and publicly available data to inflate cost items (see Chapter 4).

IPART also considered Action for Public Transport's concern about the financial viability of the industry,⁷ and Palm Beach Ferry Service's request for a formula which represents the capital for replacement vessels.⁸ As noted above, IPART asked Indec to explicitly consider operators' capital costs in forming recommendations. These recommendations include an estimate of capital costs that it considers represent a sustainable level for the industry. Therefore, IPART is satisfied that the indexes take account of the capital and operating costs of the industry.

Table 3.2 sets out IPART's decisions on the cost items in SFCI and FFCI and their weightings for 2008, and compares them with the CVACI. IPART intends to fix the quantities underlying the weightings and to update them only for changes in relative prices in reviews of private ferry fares in the next five years.⁹ However, it notes that the weightings may need to be revised if there is a change in the fuel tax credit rates for marine transport.¹⁰

Table 3.2 IPART's decisions on the cost items and weightings in the SFCI and FFCI compared with the CVACI, 2008

Cost Item	Slow Ferries	Fast Ferries	Current 2008
	SFCI	FFCI	CVACI
	%	%	%
Labour	51.58	32.67	40.19
Fuel	7.91	18.23	12.73
Insurance & Registration	3.38	5.46	5.40
Interest	10.47	9.06	4.49
Repair & Maintenance	6.95	8.15	- a
Depreciation/Amortisation Ferries	4.04	11.73	- a
Berthing/Mooring Fees	0.48	6.67	- a
All Other	15.18	8.04	37.18
Total	100.00	100.00	100.00

^a Included in 'other'.

Note: Totals may not add due to rounding.

Source: Indec, *Relative Weightings in the commercial Vessel Association Cost index (CVACI)*, Report to IPART, October 2008 and IPART.

⁷ Action for Public Transport, submission to 2008 Review of private ferry fares, October 2008, p 3.

⁸ Palm Beach Ferry Service, submission to 2008 Review of private ferry fares, September 2008, p 2.

⁹ Over time the weights alter slightly as prices of different cost items will increase at different rates which will lead to changes in the relative weights of cost items.

¹⁰ Marine transport currently receives a fuel tax credit of 38.143 cents per litre on all taxable fuels (which includes diesel and petrol).

3.4 Which cost index applies to which ferry service?

IPART accepted Indec's definitions of slow and fast ferries (ie, slow ferries operate at an average speed of less than 10 knots and fast ferries operate at an average speed of 18 to 20 knots, depending on operating conditions).¹¹ In consultation with Indec and the Commercial Vessel Association, IPART used this definition to categorise each of the seven regulated private ferry services as either fast or slow, so that the relevant index can be applied.

IPART also categorised the Stockton ferry service, operated by Newcastle Buses and Ferries, as a slow ferry service.¹² As noted above, Newcastle Buses and Ferries' response to Indec's survey was received too late for it to be included in Indec's analysis. However, Indec noted that there are differences between Newcastle Buses and Ferries' cost structure and that of private ferry operators.

Despite these differences, IPART considers it appropriate to apply the SFCI in making its determination on the maximum fare for the Stockton ferry service. Newcastle Buses and Ferries tended to have higher labour costs than other ferry operators, but there is no evidence to suggest that this is an efficient cost structure, or to lead IPART to believe it is inappropriate to apply the SFCI to the Stockton ferry.

Table 3.3 IPART's categorisation of ferry services as either 'fast' or 'slow'

Ferry operator	Route
Slow Ferry services (SFCI)	
Central Coast Ferries	Woy Woy – Empire Bay
Church Point	Scotland Island – Morning Bay
Clarence River Ferries	Iluka - Yamba
Cronulla – National Park	Cronulla - Bundeena
Dangar Island	Brooklyn – Dangar Island
Palm Beach	Palm Beach – Mackerel and the Basin
Newcastle Buses and Ferries	Queens Wharf Newcastle – Stockton Wharf
Fast Ferry Services (FFCI)	
Matilda Cruises	Circular Quay – Darling Harbour
	Circular Quay – Lane Cove
Palm Beach	Palm Beach – Ettalong – Wagstaff

¹¹ Indec, *Relative Weightings in the Commercial Vessel Association Cost Index (CVACI)*, Report to IPART, October 2008.

¹² Historically IPART has determined fares for Newcastle bus and ferry services together. However, new regulatory arrangements for Newcastle bus services mean that now only Stockton ferry fares are regulated under section 11 of the IPART Act. Last year IPART increased the Stockton ferry fare in line with the CVACI, in the absence of any cost information from either Newcastle Buses and Ferries or the Ministry of Transport. This year the Ministry of Transport proposed this approach again be applied for setting the maximum fare for 2009.

4 Inflaters used to estimate changes in cost items since last review

As Chapter 2 explained, each year the individual cost items in the cost index 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 Wages Price Index 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 last year's private ferry fare review, IPART reviewed and revised the inflators used to calculate the annual change in the CVACI. In general, it 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.

This year, IPART further reviewed the inflators in light of stakeholder comments and the introduction of separate indexes for slow and fast ferries (the SFCI and FFCI) which include some new cost categories (as discussed in Chapter 3).

In particular, IPART considered the CVA's strong preference for using industry-specific inflators rather than 'global' inflators, such as the Wage Price Index.¹³ It notes that it has previously considered many of the arguments the CVA put forward. Nevertheless, it reconsidered its use of global inflators where new information was available.

IPART maintains its view that the data used to inflate the cost items in the ferry cost indexes should be independently sourced and publicly available wherever possible. These data should also be the most recent available at the time IPART makes its recommendations.

The section below provides an overview of IPART's decisions on the inflators for each cost item and the value of these inflators over the review period (1 October 2007 to 30 September 2008). The subsequent sections discuss IPART's decisions on each cost item's inflator and its value in more detail.

¹³ Commercial Vessel Association, Private Ferry Fares proposal to IPART, August 2008, p 2.

4.1 Overview of decisions on inflators and their value

IPART's decisions on the inflator for each cost item and its value over the review period are shown on Table 4.1.¹⁴

Table 4.1 IPART's decisions on inflators and their value over period 1 October 2007 to 30 September 2008

Cost item	Inflator	Value (%)
Labour costs	Change in the Wage Price Index (WPI) for the 12 months to September 2008	3.8
Fuel costs	Daily diesel price from Fueltrac (less excise and GST) for the 12 months to September 2008, compared to the same period of 2007	35.8
Ferry insurance and registration	Change in the insurance services component of the CPI for the 12 months to September 2008	6.2
Interest	Change in weighted average interest rate for National Australia Bank base rate business loan for the 12 months to September 2008 compared to the same period of 2007	11.1
Repair and maintenance	Change in the CPI for the 12 months to September 2008	3.9
Depreciation and amortisation	Change in the CPI for the 12 months to September 2008	3.9
Berthing and mooring	Change in the CPI for the 12 months to September 2008	3.9
Other costs	Change in the CPI for the 12 months to September 2008	3.9

4.2 Labour costs

IPART decided to continue to inflate the labour costs item by the change in the Wage Price Index (WPI), as it did last year. This year IPART decided not to make an adjustment to account for potential productivity gains in the ferry industry.

¹⁴ Inflator values in this chapter are rounded to 1 decimal place for presentation purposes.

4.2.1 Continue to inflate labour costs by the change in the WPI

In its fare proposal, the CVA suggested that labour costs should be inflated by the change in the Marine Charter Vessel (State) Award. However, IPART maintains its view that this approach uses data that is not sufficiently independent, verifiable and publicly available. It requires assumptions to be made about the proportion of staff affected by each Award wage change. For example, in its 2008 fare proposal, the CVA calculated a 'weighted average' of the number of Masters and General Purpose Hands employed by operators, and used these averages to adjust the overall increase in Award wages to estimate the impact on operators' labour costs. In addition, using the increase in wages under the Marine Charter Vessel Award ignores the increases in wages paid for other tasks (such as, administration) that are not governed by this Award. Further, IPART cannot check that the CVA's estimate reflects the costs of the industry and cannot make an informed decision on whether the weights or types of employee rates applied are appropriate.

For these reasons, IPART decided to continue to use the WPI as the inflator. This index, which is published quarterly by the Australian Bureau of Statistics, measures the wage and salary costs for Australian employers for a fixed quantity and quality of labour. Therefore, it is an independent and verifiable measure of unit labour cost. IPART considers the change in the WPI is likely to approximate the change in unit labour costs in the private ferry industry. In addition, IPART currently uses the WPI to inflate labour costs in both the bus and taxi cost indexes. Therefore, using it to inflate this cost item in the ferry cost indexes creates consistency across the transport modes IPART regulates.

IPART calculated the change in the WPI¹⁵ using averaged data from the four quarters to September 2008, based on the following formula:

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

This calculation indicates that the increase in the labour cost item for this review period is 3.8 per cent. This is comparable to the increase of 3.01 per cent proposed by the CVA.

IPART considered whether it should adjust the labour cost inflator for expected gains in productivity over the coming year. Unlike the Consumer Price Index (which is used to inflate many other cost items in the ferry cost indexes), the WPI does not already include a measure of economy-wide productivity gains.

¹⁵ Total hourly rates of pay excluding bonuses, New South Wales, All industries, Private and Public, All occupations. ABS Catalogue 6345.0, Table 2b.

Productivity is a measure of the rate at which outputs of goods and services are produced per unit of input (for example, labour, capital, raw materials). Growth in productivity reflects the achievement of greater outputs for a given level of input. This can be achieved through reduced costs, but also through increased levels of value-adding, such as increased performance or improved service quality.

In 2007 IPART made reference in its report to the desirability of obtaining more data, particularly passenger kilometres, to allow industry specific productivity adjustments to be made in future. In response, the CVA stated:

... passengers carried are the right measure of “output” to be related to labour input”. Thus, labour productivity is passengers carried (output) divided by labour (input). The change from one year to the next is the change in labour productivity. It should be noted that other suggestions of output, such as trips made, are not relevant as operators do not undertake trips other than to carry passengers.¹⁶

In its fare proposal, the CVA argued that a productivity adjustment is not appropriate. It submitted that for 2007/08, annual labour productivity actually decreased by 4.38 per cent, based on passengers carried per staff person. The number of passengers carried was an average of the months of May (‘typical winter month’) and December (‘typical summer month’).

While this additional data is a positive development, there is not sufficient information to calculate productivity adjustments specifically for private ferries as the data is for a single year only and has not been subject to any verification. Taking into account the data provided, the fact that many of the ferry operators are small businesses, that on board staffing levels are governed by safety obligations, and that in the short term productivity is closely linked to patronage, IPART has decided not to make a productivity adjustment this year.

4.3 Fuel costs

IPART decided to inflate the fuel cost item by 35.8 per cent, based on Fueltrac¹⁷ data on the average daily diesel Sydney pump price, net of GST and fuel excise.¹⁸

In its fare proposal, the CVA estimated the increase in diesel prices as 39.15 per cent. This was based on Mobil fuel price data available when the fare proposal was submitted (late July) plus the CVA’s forecast of how prices would change over the subsequent period to 30 September.

¹⁶ Commercial Vessel Association, Private Ferry Fares proposal to IPART, August 2008, p 7.

¹⁷ Fueltrac is an independent organisation which provides a fuel price monitoring service.

¹⁸ Fueltrac data provided to IPART on October 15, 2008. Fuel excise is not paid on fuel used for marine transport.

Last year, IPART accepted the CVA's proposal to continue to inflate fuel costs using Mobil fuel price data. In the past this data has been provided directly to IPART by the CVA. However, in order to avoid reliance on industry provided information, IPART noted that the Ministry of Transport collected this information and could provide it to IPART on request. After considering the options, and the CVA's preference for Mobil data, IPART found that there was little difference between the outcome under each set of data and as a result indicated that in future years it would use Mobil data but would obtain it directly from the Ministry of Transport.

IPART intended to use Mobil fuel price data for this review, as it did last year, and obtained the data from the Ministry of Transport.¹⁹ However, it found that several issues reduced the suitability of the data for this review. These include:

- ▼ changes in the definition of the price collected (reference price/terminal gate price)
- ▼ a break in the series, and
- ▼ changes in the time period over which the data was collected.

For the purposes of IPART's review of ferry fares, a longer time series of comparable data is required. For this reason, and because IPART found last year that Fueltrac and Mobil price data resulted in very similar outcomes, IPART decided to use Fueltrac data instead. IPART also decided to use Fueltrac data in the ferry cost indexes in future in order to avoid potential data problems. This approach is consistent with the fuel price data used in the cost indexes for the bus and taxi industries.

To calculate the inflator, IPART compared the average daily diesel pump price (less fuel excise and GST) for Sydney over the 12 months to 30 September 2007 with the average daily diesel pump price for Sydney over the 12 months to 30 September 2008. Based on this data, the price of diesel fuel has increased by 35.8 per cent since the 2007 review. Despite being based on different data, this outcome is similar to the fuel price increase included in the CVA's fare proposal.

4.4 Insurance and registration costs

IPART decided to inflate the insurance and registration costs item by 6.2 per cent, based on the change in the 'insurance services' subgroup of the CPI from October 2007 to September 2008.²⁰

¹⁹ The Ministry of Transport collects this information directly from Mobil for use in its bus contracts.

²⁰ Sydney, All Groups, ABS Catalogue no. 6401.0, Table 13.

Last year, IPART decided that the insurance sub-group of the CPI would provide a reasonable estimate of the change in insurance costs and indicated that it would use this approach to inflate insurance costs in the future. However, in its fare proposal, the CVA inflated this cost item based on an estimate provided informally by a single insurer at the CVA's request. The proposal quoted the insurer as saying that it 'would suggest an overall average for our clients is between 5-7%'. No data was provided to substantiate that opinion.

IPART considers using the insurance services sub-group of the CPI is preferable to the quote-based approach proposed by the CVA because it is based on independently gathered, publicly available data. It is also likely to be more cost-reflective than using a single quote, because changes in the insurance costs of the different operators are likely to differ due to differences in the type, size and age of their ferries. In addition, IPART uses the insurance subgroup of the CPI to inflate the insurance cost item in the Taxi Industry Cost Index, so its use for private ferries is consistent with IPART approach in the taxi industry.

While the insurance subgroup of the CPI does not focus on ferry-specific insurance costs, it should provide an indication of the movement in insurance costs in the economy as a whole. As insurance costs are a very small proportion of the private ferry costs, the use of a global inflator for this item is unlikely to have a significant negative impact on the cost reflectivity of the index. However, as noted last year, IPART has committed to monitoring the appropriateness of the CPI-Insurance value over time.

IPART notes that value of the change in the insurance subgroup of the CPI over the review period (6.2 per cent) is very similar to the increase of 6 per cent proposed by the CVA.²¹

4.5 Interest costs

IPART decided to use the change in the National Australia Bank base rate²² for business loans to inflate the interest cost item. This resulted in an increase in this cost item of 11.1 per cent.

Last year, IPART inflated the interest cost item using the one-year Commonwealth bond swap rate as published in the Australian Financial Review. This inflator was chosen as it was consistent with the inflator IPART used in other industries and provided greater certainty that a comparable data set would be available from year to year. IPART also considered that it should be a reasonable measure of the change in interest costs over time.

²¹ Commercial Vessel Association, Private Ferry Fares proposal to IPART, August 2008, p 2.

²² National Australia Bank base rate for business lending (Rate code B).

This year, IPART decided to adopt the CVA's proposal to use changes in the NAB business loan rate because, in the current economic climate, the changes in the one-year bond rate are likely to be less reflective of operators' real interest costs changes than changes in the small business lending rate.

IPART 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 2007 and the year ending 30 September 2008.

The CVA proposal estimated that the change in the NAB base rates for business loans was 11.33 per cent, based on the assumption that the interest rate would remain stable between June and September 2008.²³ IPART's calculations are based on actual data comparing the 12 months to 30 September 2007 and the 12 months to 30 September 2008 and result in an inflator for interest costs of 11.1 per cent.

4.6 Repair and maintenance, depreciation and amortisation, and berthing and mooring costs

IPART decided to use changes in the Sydney all groups CPI to inflate the costs of repair and maintenance, depreciation and amortisation, and berthing and mooring fees.²⁴ The value of this inflator for the year to 30 September 2008 is 3.9 per cent.

Last year, these cost items were included in the 'all other' category, which was also inflated by the change in Sydney all groups CPI. As these items were not separately identified in the CVACI last year, the CVA proposal did not address how they should be inflated.²⁵ However, in response to the Indec Report the CVA indicated support for use of the CPI for these cost items this year.²⁶

IPART considered whether there were more cost reflective options available for estimating the change in costs of repair and maintenance, depreciation and amortisation and berthing and mooring fees and sought Indec's advice on this. But in the time available it could not identify more suitable inflators than the CPI. IPART intends to consider this issue further in next year's review of private ferry fares. This approach is supported by the CVA.²⁷

²³ Commercial Vessel Association, Private Ferry Fares proposal to IPART, August 2008, pp 4-6.

²⁴ Sydney, All Groups. ABS Catalogue no. 6401.0, Table 13.

²⁵ The CVA proposal did suggest that CPI may not have been the most appropriate inflator to use for 'all other' when that cost item included 'maintenance which, in turn, includes lubricants that are petroleum products, the prices of which have increased at the rate of fuel', Commercial Vessel Association, Private Ferry Fares proposal to IPART, August 2008, p 6.

²⁶ Commercial Vessel Association submission on Indec Review of CVACI, November 2008.

²⁷ Commercial Vessel Association submission on Indec Review of CVACI, November 2008.

4.7 All other costs

IPART also decided to inflate the 'all other' costs item by the change in the Sydney all groups CPI (3.9 per cent). The CVA proposed that this cost item be inflated by 4.5 per cent, based on the change in the all Australia CPI.²⁸

IPART considers that the Sydney all groups CPI is the appropriate inflator as the majority of operators are based in the greater Sydney area. IPART's decision is consistent with the 2007 review, and the approach it uses to inflate other costs in other industries. The CPI measure used is that for Sydney calculated as an average of four quarters to 30 September 2007 compared with the average of four quarters to 30 September 2008.

²⁸ Commercial Vessel Association, Private Ferry Fares proposal to IPART, August 2008, p 6.

5 Recommendations on private ferry fares and determination on the Stockton ferry fare

IPART calculated the required increase in the maximum fare for each regulated private ferry service and the Stockton ferry service after considering a range of factors, including:

- ▼ the changes in the cost of providing the ferry service over the review period, as measured by the SFCI and the FFCI (whichever is relevant)
- ▼ the available information on changes in service standards and patronage
- ▼ the expected impact of increasing fares in line with the increase in costs of providing services on operators, passengers, the environment and the Government
- ▼ the relativities between private ferry services and government-owned ferry services
- ▼ NSW Maritime's request for it to take account of its expenditure on wharves used by the Stockton ferry and Matilda Cruises
- ▼ how fares should be rounded.

It then formed its recommendations on increases to maximum fares for private ferry services and its determination of the maximum fare for the Stockton ferry service in line with this required increase.

The sections below provide an overview of IPART's recommendations and determination. The subsequent sections explain its considerations on each of the factors listed above.

5.1 Overview of recommendations on private ferry fares

IPART calculated the required fare increase for each private ferry service and the Stockton 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 (in line with its decisions on which index is applicable to each service, discussed in section 3.4)
- ▼ applying this percentage change to the current 'master fare' for this service²⁹

²⁹ The master fare is the current unrounded fare (see Appendix D).

- ▼ rounding the resulting fare to the nearest 10 cents.

Recommendation

- 1 That the Minister for Transport increase maximum private ferry fares as shown in the '2009 fare' column of Table 5.1.

Table 5.1 Recommended fares for private ferry services from December 2008

Route	Current fare	2009 fare	Difference	
	\$	\$	\$	%
Woy Woy – Empire Bay	6.20	6.70	0.50	8.1
Scotland Island – Morning Bay	6.30	6.80	0.50	7.9
Iluka - Yamba	6.10	6.60	0.50	8.2
Cronulla - Bundeeena	5.40	5.70	0.30	5.6
Brooklyn – Dangar Island	5.40	5.70	0.30	5.6
Circular Quay – Darling Harbour	6.10	6.80	0.70	11.5
Circular Quay – Lane Cove	6.10	6.80	0.70	11.5
Palm Beach – Mackerel and the Basin	6.30	6.80	0.50	7.9
Palm Beach – Ettalong Wagstaff	9.10	10.10	1.00	11.0

5.2 Overview of determination on the Stockton ferry fare

IPART determined that the maximum fare for the Stockton ferry service should increase in line with the percentage change in private ferry operators' costs measured by the SFCI. This increase should be applied to the unrounded 2008 fare and the resulting fare should be rounded to the nearest 10 cents.

Table 5.2 sets out the resulting maximum fare for the Stockton ferry service from 4 January 2009, and compares this to the current fare. IPART's determination of Stockton ferry fares is at the end of this report.

Table 5.2 Maximum fare determined for the Stockton ferry service from January 2009

Route	Current fare	2009 fare	Difference	
	\$	\$	\$	%
Queens Wharf Newcastle – Stockton Wharf	2.10	2.30	0.20	9.5

Appendix D sets out the recommended/determined fares for each ferry service in full.

5.3 Changes in operators' costs over the past 12 months

IPART separately calculated the changes in the costs of operating slow and fast private ferry services, using the new ferry cost indexes and the weightings discussed in Chapter 3, and the inflators and values discussed in Chapter 4 (Tables 5.3 and 5.4).

These calculations indicated that the costs of operating slow ferry services have increased by 7.2 per cent, while those of operating fast ferries increased by 10.5 per cent. The main drivers of these increases were increases in fuel, labour and interest costs. Changes in fuel costs account for 6.5 percentage points of the 10.5 per cent increase in fast ferry costs.

Table 5.3 Change in costs of operating slow ferry services over the past 12 months

Cost Item	Index weight	Inflator value	Contribution to 2008 change
	%	%	%
Labour	51.58	3.8	2.0
Fuel	7.91	35.8	2.8
Insurance	3.38	6.2	0.2
Interest	10.47	11.1	1.2
Repair and Maintenance	6.95	3.9	0.3
Ferry depreciation/amortisation	4.04	3.9	0.2
Berthing/mooring fees	0.48	3.9	0.0
All Other	15.18	3.9	0.6
Total	100.0		7.2

Table 5.4 Change in costs of operating fast ferry services over the past 12 months

Cost Item	Index weight	Inflator value	Contribution to 2008 change
	%	%	%
Labour	32.67	3.8	1.2
Fuel	18.23	35.8	6.5
Insurance	5.46	6.2	0.3
Interest	9.06	11.1	1.0
Repair and Maintenance	8.15	3.9	0.3
Ferry depreciation/amortisation	11.73	3.9	0.5
Berthing/mooring fees	6.67	3.9	0.3
All Other	8.04	3.9	0.3
Total	100.0		10.5

As discussed in section 3.3.2, the weightings for the 2009 review will be the 2008 weightings adjusted according to changes in the relativities in costs that result from the inflators applied this year to the Indec weightings. Table 5.5 shows the weightings for the 2009 review.

Table 5.5 2009 weightings for the FSCI and SFCI

Cost Item	SFCI (%)	FFCI (%)
Labour	49.95	30.70
Fuel	10.02	22.42
Insurance	3.35	5.25
Interest	10.85	9.11
Repairs and maintenance	6.74	7.66
Depreciation/amortisation	3.92	11.03
Berthing/mooring	0.47	6.27
All other	14.71	7.56
Total	100.00	100.00

Note: Totals may not add due to rounding.

5.4 Service standards and patronage

In past reviews, IPART has received little information regarding the service performance of private ferries. For the 2008 review, IPART has received information on ferry patronage as well as information on late and cancelled ferries for the 2007/08 financial year. This information is a necessary requirement of IPART's analysis of private ferry services, and in future will be used to show changes in the quality of ferry services from year to year.

Total patronage on private ferries was approximately 1.1 million trips in the year to June 2008.³⁰ Patronage on the Stockton ferry was approximately 391,000 during the same period.

Private ferry operators now provide the Ministry of Transport with information on late and cancelled services and the number of safety incidents experienced. This information is summarised in Table 5.6. As the number of trips has not been provided IPART is unable to draw conclusions from this information, however IPART expects this data to become more useful once an extended time series is accumulated.

³⁰ Data provided by Ministry of Transport. Note the private ferry total patronage figure underestimate patronage as they include data for only three quarters to June 2008 for the Church Point and Dangar Island ferries.

Table 5.6 Summary of KPI data received for 6 months to June 2008

Route	Late	Cancelled	Safety incidents
Woy Woy – Empire Bay	2	0	0
Scotland Island – Morning Bay	0	1	2
Iluka - Yamba	0	0	0
Cronulla - Bundeena	0	21	0
Brooklyn – Dangar Island	1	3	2
Circular Quay – Darling Harbour	15	2	0
Circular Quay – Lane Cove	10	4	0
Palm Beach – Mackerel and the Basin	0	0	0
Palm Beach – Ettalong Wagstaff	0	3	0

Note: Information for the Stockton ferry was not available for this review.

Source: Ministry of Transport.

5.5 Expected impact of increasing fares in line with the change in the cost indexes

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

5.5.1 Implications for private ferry operators

IPART considers that its recommended fare increase is likely to maintain private ferry operators' current level of financial viability. The estimated increase in fares is slightly lower for both slow ferries and fast ferries than the increases proposed by the CVA (7.2 per cent compared with 8.7 per cent for slow ferries, and 10.5 per cent compared with 11.33 per cent for fast ferries).³¹ However, IPART considers that its recommendations are based on the increased costs experienced by these operators over the past year and as a result, will not reduce the financial viability of the operators.

³¹ Commercial Vessel Association, Private Ferry Fares proposal to IPART, August 2008, pp 8-9.

5.5.2 Implications for passengers

In IPART's view, the overall impact of its recommended maximum fares on passengers is likely to be small, because spending on transport fares represents a small proportion of average household income. However, the impact on some individual passengers who use ferries for personal business or work is likely to be somewhat higher. IPART notes that travel for leisure/tourism purposes is discretionary.

5.5.3 Implications for the environment

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

5.5.4 Implications for the Government

The recommended fare increases 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, an increase in fares will increase the amount of funding required for concessional and student private ferry services.

5.6 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 Ferry single fare is \$5.20 and the new Matilda fare is \$6.80. 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 IPART accepts that the cost structure of these ferries is different.

IPART notes that Sydney Ferry fares have not increased since January 2007, pending the finalisation of a recent inquiry.³² Private ferry operators' fares have continued to increase in line with the changes in their costs over this period.

5.7 NSW Maritime's request

The submissions by NSW Maritime asked IPART to consider expenditure on the wharves it owns, which are used by Newcastle Buses and Ferries and Matilda Cruises to provide ferry services.³³ NSW Maritime indicated that:

- ▼ Over the past 6 years it has spent approximately \$1.12 million on upgrading and maintaining the Stockton ferry wharf. It estimates that maintaining this wharf costs \$30,000 per year. Newcastle Buses and Ferries do not pay NSW Maritime any access fees for using this wharf.
- ▼ Over the past 3 years, it has spent approximately \$3.05 million upgrading wharves used by Matilda Cruises. It estimates that maintaining these wharves costs over \$595,000 per year. From March 2006 to May 2008 NSW Maritime received approximately \$34,000 in fees from Matilda Cruises for the use of one wharf at Circular Quay and no fees for the use of other wharves.

IPART considered NSW Maritime's request. However, as the terms of reference require IPART to consider the costs of providing the services, IPART is only able to take account of costs that are incurred by the operators.

5.8 Rounding fares

Each year, IPART applies a percentage change to a master (or unrounded) fare schedule. It then calculates its recommended maximum fares by rounding the master fare to the nearest 10 cents. Rounding is needed to ensure that it is practical for ferry operators to charge the maximum fare. In addition, fares need to be rounded to at least the nearest 10 cents to ensure it is practical to charge half fares that reflect half the maximum full fare. Maintaining the master fare schedule means that over time fares reflect the costs of providing the service and rounding does not disadvantage either passengers or operators.

³² In January 2007 Sydney Ferries maximum fares increased by 3.2 per cent before rounding and a weighted average increase of 3.9 per cent after rounding. See IPART, *Review of Fares for Sydney ferries in NSW from 2 January 2007*, p 1.

³³ S Dunn, NSW Maritime, submission to Review of private ferries fares, October 2008 and submission to Review of bus fares, October 2008.

In its submission, Palm Beach Ferry Service asked IPART to round the recommended fare to the nearest 50 cents, in the interests of labour productivity.³⁴ IPART understands that from the ferry operators' point of view, rounding to a higher number reduces cash handling and speeds up boarding times. However, after considering this issue carefully IPART has decided to continue rounding to the nearest 10 cents.

Rounding to the nearest 50 cents is likely to result in long periods of constant fares, followed by a sharp increase when the master fare builds up sufficiently. This could have a significant impact on some passengers in the year that fares increase sharply. It may also have a significant impact on some operators whose maximum fares would not be reflective of cost changes for long periods. Currently operators are not required to charge maximum fares and are free to round down from the maximum fare if they consider the administrative gains would make this worthwhile. Given operators are able to exercise discretion to charge below the maximum, IPART considers that it is more consistent with its terms of reference that maximum fares reflect industry costs as closely as possible.

³⁴ Palm Beach Ferry Service, submission to 2008 Review of private ferry fares, September 2008, p 2.

6 Additional measures to address fuel price increases

In view of the substantial increases in the cost of diesel over the past year, some private ferry operators asked IPART to consider introducing additional measures to mitigate the impact of fuel price increases on their businesses.

In its 2008 review of taxi fares, IPART recommended additional measures to address LPG fuel price volatility. IPART considered that the impact of sharp increases in the cost of fuel (as have been experienced recently) could have a significant affect on drivers' cashflow and that this is not adequately addressed through a retrospective application of the industry cost index.

Although IPART considers that a mid-term review is not desirable under ordinary circumstances, it decided that similar additional measures should be introduced for private fast ferry services to address the impact of fuel price increases on fast ferry operators. IPART decided that additional measures are not required for slow ferry services. The section below sets out its recommendations to the Minister of Transport in relation to these measures. The subsequent sections outline the recent changes in fuel prices, why additional measures are needed, and how the recommended measures would be applied.

6.1 Recommendations on additional measures

Recommendation

- 2 In addition to the annual review of private ferry fares, that IPART undertake a limited review of diesel fuel costs in May 2009.
- 3 If this review finds that the average daily price of diesel³⁵ for the six months to 31 March 2009 is more than 10 per cent higher or lower than the average daily price of diesel over the 12 months to 30 September 2008, IPART recommend to the Minister that:
 - Fast private ferry operators' master fare be adjusted to reflect the change in the fuel component of the relevant cost index, and this change be calculated by dividing the average daily price of diesel (as recorded by Fueltrac) for the six months to 31 March 2009 by the average daily price of diesel for the 12 months to 30 September 2008.

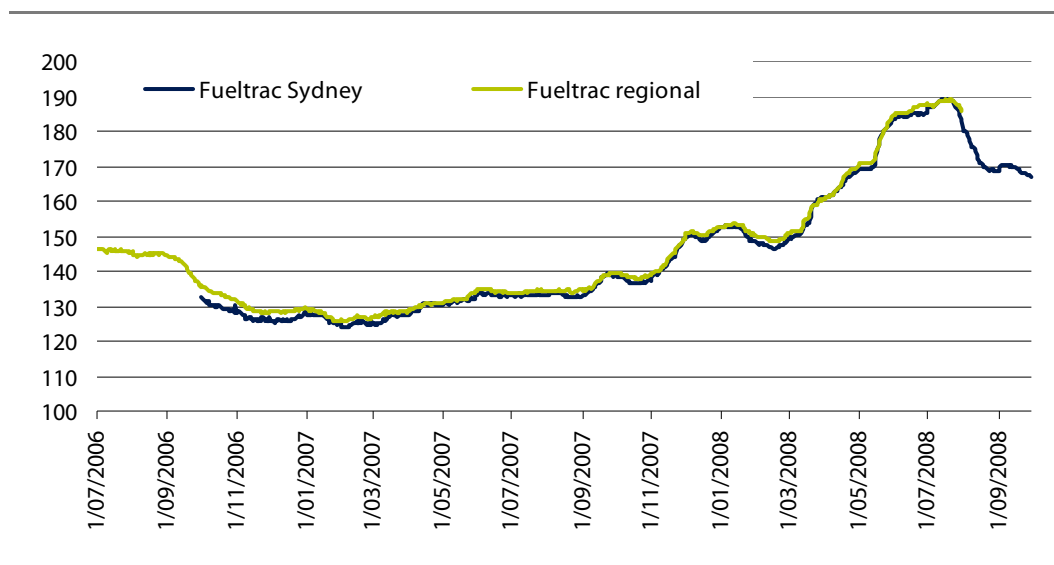
³⁵ As measured by Fueltrac data ex GST and ex fuel excise for Sydney.

- The new master fare be rounded to the nearest 10 cents, in line with usual practice.
 - No additional fare changes be allowed to cover the cost of implementing fare changes resulting from the limited review of diesel fuel costs.
- 4 Any fare change recommended as a result of the limited review of diesel fuel costs be implemented on 1 July 2009, or as soon after that date as possible.
 - 5 The limited review of diesel fuel cost not include any slow ferry service including the Stockton ferry service.
 - 6 IPART will consider whether a limited review of diesel fuel cost should be conducted in 2010 and subsequent years as part of the 2009 fare review.

6.2 Recent changes in fuel prices

Typically, private ferries run on diesel. Over the last 12 months there has been a lot of volatility in the price of diesel. For example, the average Sydney diesel price rose by 35.8 per cent over the review period, and has then started to decline (Figure 6.1).

Figure 6.1 Average daily diesel price – 1 July 2006 to 30 September 2008 (cents per litre)



Data source: Fueltrac, regional is average daily diesel price for 35 towns in rural and regional NSW.

6.3 Why additional measures are needed

In relation to the taxi industry, which IPART also regulates with reference to an industry cost index, IPART has previously noted that fluctuations in the daily price are incorporated into the average price. This approach is reasonable when fuel costs change moderately. However, sustained increases in the price of fuel have an impact on taxi drivers' cashflow. After considering a number of options for addressing these concerns, IPART concluded that it should factor changes in fuel prices into taxi fares more regularly so that the driver is not required to absorb large price fluctuations that might jeopardise the viability of the service.³⁶

The overall proportions of the industry cost indexes that relate to fuel costs are fairly similar across the transport industries IPART regulates. The exception is fast ferry services, for which fuel costs comprise a much greater proportion of total costs:

- ▼ Taxis – 6.9 per cent for country and 6.5 per cent for urban (in 2007)³⁷
- ▼ Buses (rural and regional) – 10.7 per cent (fuel and lubricants, 2007 value)³⁸
- ▼ Private ferries – 7.9 per cent for slow ferry services and 18.2 per cent for fast ferry services (Indec recommendations).³⁹

There are significant structural differences between the three industries. In the taxi industry, individual drivers collect all fare revenue. Out of that revenue, they pay the operator and their own costs (including fuel costs), and retain the remainder as payment for their time. As a result, fuel costs are a much greater proportion of driver costs than they are of the taxi cost index as a whole.

Ferry operators are businesses of varying sizes, for which fuel is one input cost. Although many operators are small businesses, their business structure should mean that they have more options available to manage changes in input prices. However, this will depend on the significance of the cost and whether there are substitutes available. Fuel costs are significant for fast ferries and cheaper substitutes are unlikely to be readily available.

Private ferry operators do receive additional income from the Ministry of Transport (through SSTS and concession funding), and potentially from unregulated charter operations, which mitigates the impact of fuel prices on their business to some extent.

Based on patronage data provided by the Ministry of Transport, an average of 62 per cent of private ferry passengers are on some form of SSTS or concession ticket. Typically the percentage of passengers paying full fares is low. However, for fast ferries the majority of passengers on services are full-fare paying adults (Palm Beach

³⁶ IPART, *2008 Review of Taxi Fares in NSW Final Report and Recommendations*, June 2008, chapter 8.

³⁷ IPART, *2008 Review of Taxi Fares in NSW Final Report and Recommendations*, June 2008.

³⁸ IPART, *Review of fares for rural and regional buses and private ferries from 2 January 2008*, December 2007.

³⁹ Indec, *Relative Weightings in the commercial Vessel Association Cost index (CVACI)*, Report to IPART, October 2008.

56 per cent and Matilda 78 per cent). It is these operators that are the heaviest users of fuel and therefore, would be expected to experience the greatest impact in times of changing fuel prices.

The Ministry of Transport currently makes quarterly fuel top-up payments to operators to compensate for higher fuel prices during the year following the fare change. The additional fuel payments are calculated as a loading on top of SSTS and concession payments made under the ferry service contracts. Adjustments are made if the fuel price has risen (there is no materiality threshold). However, if fuel prices fall over the quarter, no adjustment is made.

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. There have however been significant changes in fuel costs over recent years. 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. Moreover, the operators of fast ferries have requested more frequent fare adjustments. As such, IPART considers that there is a case for including a six-monthly fuel price review for fast ferry operators this year.

However, IPART does 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. 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 already include measures to compensate operators for higher fuel prices during the year and this is likely to have a much greater impact than any measure taken through increasing maximum fares. In relation to the Stockton ferry – which is a very small element of the revenue and cost stream of its operator Newcastle Buses and Ferries – any fluctuations in fuel costs will not have a material impact on the cash flow of this operator.

6.4 Six-monthly limited review of fuel costs

IPART considers that it is appropriate for it to undertake a six-monthly limited review of fuel prices for fast ferries, in addition to its annual review of private ferry fares. Based on the findings of this review, IPART would recommend a mid-year fare adjustment for these services to the Minister in the event that operators' fuel costs have increased or decreased substantially. This mid term review will be in place for one year only and will be reconsidered as part of next year's fare review.

In deciding to recommend the introduction of a six-monthly limited review of fuel costs for private ferries this year, IPART considered:

- ▼ the timing of the review
- ▼ what materiality threshold should be applied (that is, how much fuel prices should change before mid-year changes to fares are recommended)
- ▼ how the fare increase would be applied to fares
- ▼ how the six-monthly review will affect future annual fare review processes.

6.4.1 Timing of the review

The fast ferry cost index incorporates costs from 1 October 2007 to 30 September 2008 with a December or January fare change. Given this, it would be appropriate to undertake the six-monthly limited review of diesel fuel costs to facilitate a mid-year fare change at 1 July each year. As six months of additional fuel price data will not be available until April of each year (data from 1 October to 31 March), the review should be undertaken in April/May of each year and use the most up-to-date data available at the time – ie, data to 31 March 2008.

6.4.2 Materiality threshold

To determine an appropriate materiality threshold for fuel price changes, IPART obtained the daily prices of diesel in Sydney for the past few years, and used these data to calculate the average daily price over monthly and six-monthly periods since June 2006.

IPART considers that the threshold for recommending a mid-term fare change should be when the average daily diesel price for the six months from October to March is more than 10 per cent higher or lower than the average daily diesel price used in adjusting the ferry cost indexes at the previous review.

If there had been a limited six-monthly review of diesel costs in place since June 2006, and the materiality threshold was set at 10 per cent, there would have been one additional mid-term increase in private ferry fares over this period.

Table 6.1 indicates how the cost of diesel has varied for the 6 month periods to September 2008.

Table 6.1 Variation in diesel prices for six month period to 30 September 2008

	Diesel price c/L	Change
Oct 2006 to March 2007	126.9	
April 2007 to Sept 2007	132.9	5%
Oct 2007 to March 2008	147.3	11%
April 2008 to Sept 2008	175.5	19%

Source: Fueltrac.

In IPART's view, this threshold strikes an appropriate balance between minimising the impact of price volatility on operators' cashflow and minimising the costs associated with frequent fare changes. Such a threshold is also consistent with the threshold IPART established for its six monthly review of LPG prices for taxis.

IPART considers that passengers should also benefit from fuel price reductions. Therefore, any mechanism for mid-term adjustment to fares to account for changes in diesel prices should operate symmetrically.

6.4.3 Review process for 2009

If IPART's mid-term limited review of diesel costs finds that the average daily price for the six-months to March have varied by more than 10 per cent (up or down) from the average daily price used to adjust the fast ferry cost index in the 2008 review, IPART would recommend that the Minister for Transport adjust fast ferry fares by the change in the fuel costs.

In addition, IPART considers that:

- ▼ The change in fares should be equal to the fuel cost weighting 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 March 2009 divided by the average daily price for the 12 months to 30 September 2008. This increase will 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.
- ▼ The annual fare change will occur in December/January and will be applied to calculate the change in fares needed from 1 December of the previous year, as if the six-monthly fare change had not occurred.

If the limited review of fuel costs finds that the average daily diesel price for this period has changed 10 per cent or less IPART would not recommend a fare change for fast ferry services.



Appendices

A Terms of Reference for private ferries

I, Morris Iemma, Premier, pursuant to Section 9(2) of the *Independent Pricing and Regulatory Tribunal Act 1992*, approve the Independent Pricing and Regulatory Tribunal entering into an arrangement with the Ministry of Transport for a period of one year from the date hereof to provide services to the Ministry 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, fares for regular private ferry services under the *Passenger Transport Act 1990*.

In providing these services, the Tribunal should consider:

- (i) the cost of providing the services concerned;
- (ii) relativities with the Government owned ferry services, including in terms of service, efficiency, cost and ticketing products;
- (iii) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service;
- (iv) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers;
- (v) the impact of pricing policies on borrowing and capital requirements and, in particular, the impact of any need to renew or increase relevant assets;
- (vi) the need to maintain ecologically sustainable development;
- (vii) the social impact of the recommendations;
- (viii) 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
- (ix) the effect of any pricing recommendation on the level of Government funding provided to private operators under commercial and non-commercial contracts.

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

The services are to be provided through the provision of a final report to the Ministry of Transport by 19 December 2008.

The Hon Morris Iemma MP

Premier

Dated at Sydney 30 June 2008

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).
- (2) In any report of a determination or recommendation made by the Tribunal under this Act, the Tribunal must indicate what regard it has had to the matters set out in subsection (1) in reaching that determination or recommendation.
- (3) To remove any doubt, it is declared that this section does not apply to the Tribunal in the exercise of any of its functions under section 12A.
- (4) This section does not apply to the Tribunal in the exercise of any of its functions under section 11 (3).

C List of submissions and hearing participants

The following tables provide details of the submissions received for the review and participants in the public hearing held 6 November 2008.

Table C.1 List of submissions/proposals received

Submitter	Date received
Commercial Vessel Association	13 August 2008
Ministry of Transport	29 August 2008
Action for Public Transport	3 October 2008
NSW Maritime ^a	3 October 2008
Palm Beach Ferries	2 September 2008
Individual (Rick Banyard)	9 October 2008

^a NSW Maritime made two submissions, one on private ferries and one on the Stockton ferry.

Table C.2 Participants at the public hearing

Speaker	Organisation
David Cribb	Commercial Vessel Association
David Gotze	Indec Consulting
Graeme Taylor	Action for Public Transport
Joanna Quilty	NSW Ministry of Transport
Rick Banyard	Individual

Table C.3 List of submissions received on Indec report

Submitter	Date received
Commercial Vessel Association	7 November 2008

D Maximum fares – master fares and rounded fares

Table D.1 Current and recommended maximum fares for 2009 for private ferry services – master fares and rounded fares

Route	Current fare (master)	Current fare (rounded)	New fare (master)	New fare (rounded)
Woy Woy – Empire Bay	6.22	6.20	6.67	6.70
Scotland Island – Morning Bay	6.33	6.30	6.78	6.80
Iluka - Yamba	6.11	6.10	6.55	6.60
Cronulla – Bundeena ^a	5.36	5.40	5.75	5.70
Brooklyn – Dangar Island ^a	5.36	5.40	5.75	5.70
Circular Quay – Darling Harbour	6.11	6.10	6.75	6.80
Circular Quay – Lane Cove	6.11	6.10	6.75	6.80
Palm Beach – Mackerel and the Basin	6.33	6.30	6.78	6.80
Palm Beach – Ettalong Wagstaff	9.11	9.10	10.07	10.10

^a The new master fare was slightly lower than \$5.75 – when rounded to the nearest 10 cents is rounded down to \$5.70 not up to \$5.80.

Table D.2 Current and 2009 maximum fares for Newcastle (Stockton) ferry service – master fare and rounded fare

Route	Current fare (master)	Current fare (rounded)	New fare (master)	New fare (rounded)
Queens Wharf Newcastle – Stockton Wharf	2.15	2.10	2.30	2.30

Note: The 2008 master fare was slightly lower than \$2.15 – when rounded to nearest 10 cents it rounded down to 2.10 not up to 2.20.



Independent Pricing and Regulatory Tribunal

Stockton Ferry Service

Determination No. 6, 2008

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Preliminary

1 Background

- (a) The Newcastle Buses and Ferries Services division of the STA provides a ferry service in Newcastle (**Stockton Ferry Service**).
- (b) Section 11 of the IPART Act provides IPART with a standing reference to conduct investigations and make reports to the Minister on the determination of the pricing of a government monopoly service supplied by a government agency specified in Schedule 1 of the IPART Act.
- (c) The STA is listed as a government agency for the purposes of Schedule 1 of the IPART Act. The services of the STA declared as monopoly services (**Monopoly Services**) under the *Independent Pricing and Regulatory Tribunal (Passenger Transport Services) Order 1998* are the regular passenger services (within the meaning of the *Passenger Transport Act 1990*) supplied by the STA but excluding the following:
 - (1) services supplied in accordance with the ticket known as the “Sydney Pass”;
 - (2) the bus service known as the “Airport Express”; and
 - (3) the bus service known as the “Sydney Explorer”, the bus services known as the “Bondi & Bay Explorer” and any other similar bus services operating in other areas.
- (d) The Monopoly Services include the Stockton Ferry Service. Accordingly, IPART may determine maximum prices for the Stockton Ferry Service.
- (e) In accordance with section 13A of the IPART Act, IPART has fixed the maximum price for the Stockton Ferry Service.
- (f) In investigating and reporting on the pricing of the Stockton Ferry Service, IPART has had regard to a broad range of matters, including the criteria set out in section 15(1) of the IPART Act.
- (g) By section 18(2) of the IPART Act, the STA may not fix a price below that determined by IPART for the Stockton Ferry Service without the approval of the Treasurer.

2 Application of this determination

This determination:

- (a) fixes the maximum prices that the STA may charge for the Stockton Ferry Service;
- (b) commences on the later of 4 January 2009 and the date that it is published in the NSW Government Gazette (**Commencement Date**); and
- (c) applies from the Commencement Date to the date on which this determination is replaced.

3 Replacement of Determination No. 5 of 2007

This determination replaces clause 3 of Schedule 1 of Determination No. 5 of 2007 from the Commencement Date. The replacement does not affect anything done or omitted to be done, or rights or obligations accrued, under clause 3 of Schedule 1 of Determination No. 5 of 2007 prior to its replacement.

4 Schedules

- (a) The maximum prices that the STA may charge for the Stockton Ferry Service are set out in Table 1 in Schedule 1.
- (b) Definitions and interpretation provisions used in this determination are set out in Schedule 2.

Schedule 1 - Maximum prices

1 Application

This schedule sets the maximum prices that the STA may charge for the Stockton Ferry Service.

2 Maximum prices for the Stockton Ferry Service

The maximum prices that may be charged by the STA for the Stockton Ferry Service are set out in Table 1.

Table 1 Maximum prices for the Stockton Ferry Service^a

Ticket	Adult (\$)	Concession (\$)
Stockton Ferry - single ticket	2.30	1.10

a Children aged below 4 years are entitled to travel free on the Stockton Ferry Service.

Schedule 2 – Definitions and interpretations

1 Definitions

In this determination:

Adult means a person who is aged 16 years or over.

Commencement Date means the Commencement Date as defined in clause 2(b) of the section of this determination entitled “Preliminary”.

Concession means:

- (a) a person who is aged between 4 and 15 years; or
- (b) a person who is aged 16 years or over and is the holder of a valid concession card of a type that has been approved by the Ministry of Transport.

IPART means the Independent Pricing and Regulatory Tribunal of New South Wales established under the IPART Act.

IPART Act means the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW).

Monopoly Services means the Monopoly Services defined in clause 1(c) of the section of this determination entitled “Preliminary”.

STA means the State Transit Authority constituted under the *Transport Administration Act 1988* (NSW).

Stockton Ferry Service has the meaning given to that term in clause 1(a) of the section of this determination entitled “Preliminary”.

2 Interpretation

2.1 General provisions

In this determination:

- (a) headings are for convenience only and do not affect the interpretation of this determination;
- (b) a reference to a schedule, annexure, clause or table is a reference to a schedule, annexure, clause or table to this determination;
- (c) words importing the singular include the plural and vice versa;

- (d) a reference to a law or statute includes all amendments or replacements of that law or statute;
- (e) a reference to a person includes any company, partnership, joint venture, association, corporation, other body corporate or government agency;
- (f) a reference to an officer includes a reference to the officer who replaces him or her, or who substantially succeeds to his or her powers or functions; and
- (g) a reference to a body, whether statutory or not:
 - (1) which ceases to exist; or
 - (2) whose powers or functions are transferred to another body,is a reference to the body which replaces it or which substantially succeeds to its powers or functions.

2.2 Explanatory notes and clarification notice

- (a) Explanatory notes or footnotes do not form part of this determination, but in the case of uncertainty may be relied on for interpretation purposes.
- (b) IPART may publish a clarification notice in the NSW Government Gazette to correct any manifest error in this determination as if that clarification notice formed part of this determination.

2.3 Prices inclusive of GST

Prices specified in this determination include GST.

