

2008 REVIEW OF PRIVATE FERRY FARES

Review of the Commercial Vessel Association Cost Index (CVACI)

October 2008

In late November, IPART will make recommendations to the NSW Minister for Transport on maximum fares for private ferry services in NSW. IPART uses an industry cost index called the Commercial Vessel Association Cost Index (CVACI) in order to formulate its recommendations.

As part of its current review of these fares, a number of private ferry operators asked IPART to consider the relative weighting of costs in the CVACI, the treatment of capital costs within the CVACI framework and whether the use of a single cost index for all seven private ferry operators remains appropriate. IPART commissioned Indec Consulting (Indec) to advise on these issues.

Indec has now completed its review and provided a report setting out a number of recommended changes to the existing CVACI. IPART is currently seeking submissions on Indec's report. This fact sheet explains Indec's recommendations and the likely impact on private ferry fares if they are adopted by IPART. The fact sheet is designed to help interested parties understand the recommendations and put together submissions.

The Indec report is available from IPART's website (www.ipart.nsw.gov.au). Submissions on the report are due by 5pm on 12 November 2008.

Summary of Indec's recommendations

Indec conducted a survey of the costs faced by regulated private ferry operators and the Stockton Ferry. Having considered the results, Indec recommends the following:

- ▼ separate indexes for slow ferries (those travelling less than 10 knots) and fast ferries due to their significantly different cost structures – primarily the higher fuel costs associated with running fast ferries
- ▼ revised weightings for the two proposed indexes, compared with the current CVACI

- ▼ separating the 'other' cost item into a number of smaller categories, including: repairs and maintenance, depreciation and amortisation, and berthing and mooring fees.

The current CVACI, as well as the indexes recommended by Indec are given in Table 1.

Table 1 CVACI weights – current and recommended by Indec

Cost item	Current CVACI	Slow ferries index	Fast ferries index
	%	%	%
Labour costs	40.2	51.6	32.7
Fuel costs	12.7	7.9	18.2
Ferry insurance and registration	5.4	3.4	5.5
Interest	4.5	10.5	9.1
Repair and maintenance	-	7.0	8.2
Depreciation and amortisation	-	4.0	11.7
Berthing and mooring	-	0.5	6.7
Other costs	37.2	15.2	8.0
Total	100.0	100.0	100.0

Note: Figures may not add due to rounding.

Source: Indec.

Implications of the Indec recommendations

Using preliminary estimates of the inflators for each cost item included gives an indication of the likely increase in each of the cost indexes that would result from the adoption of Indec's recommendations. Note that the actual fare outcomes will be different to these figures once more recent data becomes available for some items. The figures will also be different from the final fare outcome if:

- ▼ IPART decides not to adopt Indec's recommendations in full.
- ▼ An inflator selected by IPART to inflate any new cost categories is not CPI.

The indicative fare increases under the index weightings proposed by the Commercial Vessel Association and under Indec's recommended weightings are provided in Table 2 below. For slow ferries, the CVA's proposed weightings are identical to the current CVACI weightings – which historically have been applied to all private ferry services. An overview of the inflators used to develop the indicative fare increases is given in Appendix A.

Table 2 Indicative fare increases (percentage increase)

	Indec's recommended weightings	CVA's proposed weightings
Slow ferries	7.5	8.5
Fast ferries	10.7	11.1

Source: Indec, CVA and IPART calculations.

What submissions should address

Submissions should focus on the results of Indec's analysis into private ferry industry costs. It is particularly useful if submissions refer to Indec's report and indicate any specific areas of support or concern. If there is support for introducing the additional cost categories proposed by Indec, then submissions should also address what measure could be used to estimate the annual change in these costs over time. Where possible, measures of change in costs should be publicly available, independently produced and verifiable.

A Preliminary estimates of inflators used to provide an indicator of the increase in the CVACI

IPART has provided in this fact sheet indicative increases in the CVACI, based on preliminary estimates of the inflators to be used in the final version of the index. Final inflators were not used due to time lags in data becoming available, and, in the case of the new cost items recommended by Indec, no decision having been made as to an appropriate method of inflation.

Table A1 outlines the inflators used to calculate the indicative figures given in this fact sheet, as well as the inflators to be used in IPART's final recommendation.

Table A.1 Preliminary estimates of inflators used in this fact sheet

Cost item	Preliminary estimate
Labour costs	Change in the Wage Price Index (WPI) for the 12 months to June 2008
Fuel costs	Daily diesel price from Fueltrac for the 12 months to September 2008, compared to the same period of 2007
Ferry insurance and registration	Change in the Insurance services component of the CPI for the 12 months to September 2008
Interest	Average daily price of a 1 year Commonwealth bond rate for the 12 months to September 2008 (published in the Australian Financial review) compared to the same period of 2007
Repair and maintenance ^a	Change in the CPI for the 12 months to September 2008
Depreciation and amortisation ^a	Change in the CPI for the 12 months to September 2008
Berthing and mooring ^a	Change in the CPI for the 12 months to September 2008
Other costs	Change in the CPI for the 12 months to September 2008

^a Currently these costs are part of the 'other' category, which is inflated by CPI.

Note: WPI data used is for NSW, CPI data used is for Sydney.