



Independent Pricing and Regulatory Tribunal

# **Mid-year review of fuel costs for fast private ferries in NSW to March 2011**

## **Recommendations to the Minister for Transport**

**Transport — Statement of Reasons**  
May 2011

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## 1 Introduction and overview

The Independent Pricing and Regulatory Tribunal of NSW (IPART) investigates and recommends fares for private ferry services in NSW every year under an arrangement with the Department of Transport.

We calculate our fare recommendations for private ferry services using 2 cost indices:

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

Diesel fuel is a cost item included in both indexes. However, it represents a relatively large proportion (16.4%) of the total costs for fast ferries, and represents a lower proportion (7.1%) of the total costs for slow ferries.

In response to industry's concerns regarding the volatility of fuel prices and its effect on the costs of operating fast ferry services, for each of the past 3 years we have conducted a mid-year review of fuel costs for fast ferries. If fuel prices are found to have increased or decreased by more than 10% from the average daily diesel price used in adjusting the ferry cost indices at the previous review, we recommend a mid-year fare change for fast ferries.<sup>1</sup>

We have completed our mid-year review of fuel costs for this year and found that diesel prices in Sydney have increased by 11.4% over the 6-month period to March 2011. This increase has contributed to an increase of 1.9% (holding other cost inflators constant) in the cost of providing fast ferry services. As such, we have recommended to the Minister for Transport that the master fares for fast ferry services should increase by 1.9%, then rounded to the nearest 10 cents. This means we are recommending new maximum fares as follows:

- ▼ Matilda Cruises services between Circular Quay and Darling Harbour and Circular Quay and Lane Cove should be increased by 10 cents to \$6.70
- ▼ Palm Beach services between Palm Beach and Ettalong/Wagstaff should be increased by 20 cents to \$10.00.

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

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

## 2 Changes in fuel costs since September 2010

The current FFCI, which incorporates the fuel costs for the 12 months to September 2010, indicated an average price of 77.3 cents per litre. This average is based on daily average retail prices supplied by FUELtrac, excluding GST and excise duty.

For the mid-year review, we obtained daily average diesel prices for the 6 months to March 2011. We found that over the 6-month period, the average daily retail price was 86.1 cents per litre (excluding GST and excise duty) compared to 77.3 cents per litre over the previous 12 month period. This represented an increase of 11.4%.

Given that fuel prices have increased by more than 10%, we consider that a mid-year fare increase is necessary to help providers of fast ferry services recover some of their increased costs.

## 3 Recommended fare change

The method we use to calculate the required increase for the mid-year review as a result of the increase in fuel prices (holding other cost factors for fast ferries constant) is as follows:

1. Multiply the percentage change in diesel price (11.4%) by the current diesel cost weighting (16.4%) to obtain a percentage increase required in fares (1.9%).
2. Apply the fare percentage increase (1.9%) to the master fare for the 3 fast ferry services to obtain an unrounded fare.
3. Round to the nearest 10 cents to obtain the new fare.

Table 3.1 records the results of this process in the mid-year review.

**Table 3.1 Approach used to calculate new fares required as a result of higher diesel prices**

	<b>Matilda Cruises – Circular Quay to Darling Harbour</b>	<b>Matilda Cruises – Circular Quay to Lane Cove</b>	<b>Palm Beach Ferries – Palm Beach to Ettalong/Wagstaff</b>
Increase in fuel costs (%)	11.4	11.4	11.4
Weighting of fuel in FFCI (%)	16.4	16.4	16.4
Fare change to adjust for increased fuel costs (%)	1.9	1.9	1.9
Current master (unrounded) fare (\$)	6.57	6.57	9.79
Current maximum fare (rounded) (\$)	6.60	6.60	9.80
Recommended master (unrounded) fare (\$)	6.69	6.69	9.97
<b>Recommended rounded fare (\$)</b>	<b>6.70</b>	<b>6.70</b>	<b>10.00</b>

**Note:** Figures have been rounded.

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

- ▼ from \$6.60 to \$6.70 for trips on Matilda Cruises between Circular Quay and Darling Harbour
- ▼ from \$6.60 to \$6.70 for trips on Matilda Cruises between Circular Quay and Lane Cove
- ▼ from \$9.80 to \$10.00 for trips on Palm Beach Ferries between Palm Beach and Ettalong/Wagstaff.

## **4 What does the mid-year adjustment mean for the 2011 annual review?**

If the Minister for Transport accepts our recommendation that an interim increase should be applied to fares for fast ferry services, it will not change the process for recommending fares at the next annual review of private ferry fares.

The next fare recommendations will be based on the changes in ferry costs faced by operators for the 12 months from October 2010, compared to the costs considered in the FFCI and SFCI as at the end of September 2010. The change will be applied to the master fares as set during the 2010 review.

We do not consider the mid-year fare change when we make our next annual fare recommendations in order to avoid double-counting the change in fuel costs, and to simplify the calculation of the FFCI. Nor do we reweight the FFCI as a result of the mid-year review, because we are only considering changes in fuel costs. If we did reweight the FFCI, it would mean that the weighting for fuel is measured at a point in time inconsistent with the other cost items in the FFCI.





## **Appendices**

## A Further background on private ferry services

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

### A.1 Private ferry services in NSW

IPART makes recommendations on fare levels for 7, mostly small, private ferry operators in NSW. Each operator serves distinct routes in the Sydney, Central Coast and North Coast areas of NSW, and do not compete with each other. A list of these operators is given in Table A.1.

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

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

### A.2 Private ferry cost indices

Prior to our 2008 review, we recommended fare changes for private ferry services using a single Commercial Vessel Association Cost Index (CVACI). As part of the 2008 review, we engaged a consultant to review the weightings of individual cost items in the CVACI and investigate whether separate indices for fast and slow ferries were warranted given the costs facing each operator.

In line with our consultant's advice, we replaced the CVACI with 2 separate ferry cost indices: the Slow Ferry Cost Index (SFCI) and the Fast Ferry Cost Index (FFCI). These indices have been used to calculate the changes in ferry costs since the 2008 review.

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

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

As a general principle, IPART is reluctant to conduct mid-term reviews unless a significant need is demonstrated. Frequent changes to fares cause cost and inconvenience to both transport users and operators. However, in 2008 we noted that:

- ▼ there had been significant changes in fuel costs over recent years
- ▼ fuel costs comprised almost one fifth of total costs for fast ferry service operators
- ▼ these operators relied mainly on passenger fares rather than government revenue.

As such, we recommended that a 6-monthly fuel price review for fast ferry operators be conducted in April 2009. We have also undertaken a mid-year review in each of the following years.

The fast ferry services subject to the mid-year review are:

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

We do not consider that there is a case for more frequent fare adjustments for slow ferries. Fuel prices comprise a lesser proportion of the cost index for slow ferries and regular School Student Transport Scheme payments provide a substantial proportion of revenue for these operators, which would dampen the cashflow impact of any fuel volatility.

