

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

DRAFT REPORT - 2017 PRIVATE FERRIES REVIEW

Tribunal Members: Dr Peter Boxall AO, Chairman  
Mr Ed Willett  
Ms Deborah Cope

Members of the Secretariat: Mr Hugo Harmstorf, CEO  
Ms Fiona Towers  
Ms Jenny Suh  
Mr Mike Smart

At

IPART Offices, Level 15, 2-24 Rawson Place, Sydney

On Monday, 23 October 2014, at 12 noon

1 THE CHAIRMAN: Good morning, and let's get started. We  
2 are expecting somebody from Transport for NSW to arrive  
3 shortly.

4  
5 My name is Peter Boxall and I am Chair of IPART. With  
6 me are my fellow tribunal members, Ed Willett and Deborah  
7 Cope.

8  
9 I would like to begin by acknowledging that this  
10 public hearing is being held on the traditional lands of  
11 the Gadigal people of the Eora Nation.

12  
13 Welcome, and thank you for making time to attend  
14 today. Today's public hearing relates to our draft  
15 decisions on maximum fares for private ferry services in  
16 New South Wales from 2018 to 2021.

17  
18 This year is the first time we have invited ferry  
19 operators to propose fares in making our decisions. In  
20 assessing operators' fare proposals, we reviewed the level  
21 of competition on the routes covered by each ferry  
22 operator. We found that Central Coast Ferries and Matilda  
23 Cruises face a high level of competition. For these  
24 operators, we did not review their costs to estimate  
25 efficient fares as the competitive  
26 market sets their fares.

27  
28 For the remaining five operators who face little or no  
29 competition, we have assessed the efficient costs of  
30 providing ferry services and estimated efficient fares. We  
31 used a building block approach for this analysis consistent  
32 with our approach in the previous private ferries reviews.  
33 Our draft decisions are based on how fare proposals compare  
34 to efficient fares.

35  
36 We consider our approach ensures passengers pay  
37 prices that reflect the efficient costs of providing ferry  
38 services and also enables ferry operators to sustain their  
39 business over the long term. We have accepted fare  
40 proposals where they were consistent with our estimate of  
41 efficient fares. This recognises that ferry operators know  
42 their market best and are well placed to propose fares that  
43 their customers are willing to pay.

44  
45 Today's public hearing forms an important part of the  
46 public consultation process that the tribunal undertakes.  
47 To make our draft decisions, we have considered a lot of

1 information, including expert advice on efficient costs  
2 from the CIE. In making these decisions, we have also  
3 sought to balance the impact on ferry operators and  
4 passengers. We are keen to hear from stakeholders,  
5 including ferry operators, on our analysis and draft  
6 decisions.

7  
8 Shortly Jenny Suh, from IPART's secretariat,  
9 will provide an overview of the draft decisions. Then  
10 Laura Cassar and Rebecca Riel, from the CIE, will provide  
11 an overview of the advice they provided for this  
12 undertaking.

13  
14 Following this, there will be opportunity for  
15 stakeholders to ask questions or comment on the draft  
16 decisions.

17  
18 We have a transcriber present to record the  
19 proceedings and the transcript will be publicly available.  
20 So that we can have a complete record, please introduce  
21 yourself when you start to speak.

22  
23 With that, I invite Jenny to make a short  
24 presentation.

25  
26 Overview of draft decisions:

27  
28 MS SUH: Thank you, Peter.

29  
30 Under our draft decisions over the four years from  
31 2018 to 2021, maximum fares for Brooklyn Ferry Service,  
32 Church Point Ferry Service and Clarence River Ferries will  
33 increase by 30 cents to 40 cents each year.

34 For Central Coast Ferries and Matilda Cruises, maximum  
35 fares will increase in line with inflation.

36 For Cronulla and National Park Ferry Service and Palm  
37 Beach Ferries, maximum fares will not change from their  
38 current levels for four years.

39  
40 As mentioned in Peter's opening remarks, this year,  
41 for the first time, we invited the ferry operators to  
42 propose fares. We received fare proposals from all  
43 operators except for Clarence River Ferries. Operators  
44 proposed to increase their current maximum fares either in  
45 line with inflation or by 30 cents to 80 cents each year.

46  
47 We assessed whether each pricing proposal was

1 reasonable, with the extent of our assessment varying  
2 depending on the level of competition faced by each ferry  
3 service.  
4

5 For Central Coast Ferries and Matilda Cruises, we  
6 considered their fare proposals to be reasonable given that  
7 they operate in a competitive market. We did not review  
8 their costs.  
9

10 For other operators facing little or no competition,  
11 we analysed the efficient cost of operating and providing  
12 ferry services and estimated the efficient fares. We  
13 applied a decision rule, which compares efficient fares with  
14 operators' proposed fares to make a decision on whether to  
15 accept or not the pricing proposals.  
16

17 An efficient fare is the one that would allow ferry  
18 operators to recover their efficient operating costs; to  
19 earn a fair return on the capital they invest in their  
20 business; and to undertake prudent capital expenditure.  
21

22 We calculated efficient fares for all operators,  
23 except for Central Coast Ferries and Matilda Cruises. By  
24 comparing operators' proposed fares with efficient fares,  
25 we are ensuring that passengers pay a fair price that  
26 reflects the efficient cost of providing services and ferry  
27 operators can sustain their business over the long term by  
28 allowing them to recover the full efficient costs.  
29

30 To estimate efficient fares, we used a building  
31 block approach. In this approach, we build up the revenue  
32 that is required by a business to cover the total efficient  
33 cost of providing regulated passenger ferry services to  
34 contractual standards. The first step is estimating the  
35 total efficient costs. The total efficient costs consist  
36 of efficient operating and maintenance costs; efficient  
37 capital costs in the form of a return on and of capital and  
38 a part of it being tax allowance and working capital.  
39

40 Shortly, the CIE will outline its advice on efficient  
41 operating and capital costs.  
42

43 Operators need to earn revenue to cover the total  
44 efficient costs. Some of this revenue comes from the  
45 government, for example, through payments for concession  
46 tickets and school student travel. The total government  
47 payment is subtracted from the total revenue requirement

1 and the balance is the revenue that needs to be recovered  
2 from passengers through fares.

3  
4 Once we determine the passengers' share of the total  
5 efficient costs, we calculate efficient fares based on our  
6 forecast patronage.

7  
8 To make our draft decisions, we compared the efficient  
9 fares with each ferry operator's proposed fares. If the  
10 proposed fares were less than or equal to our estimated  
11 efficient fares, then we accepted ferry operators' proposed  
12 fares. However, if the proposed fares were greater than  
13 our estimated efficient fares, we did not accept the  
14 proposed fares.

15  
16 Brooklyn Ferry Service and Church Point Ferry Service  
17 proposed fares that were consistent with our estimated  
18 efficient fares, and therefore, we accepted their  
19 proposals. However, Cronulla and National Park Ferry  
20 Service and Palm Beach Ferries proposed fares that were  
21 above our estimated efficient fares. We also found that  
22 their current maximum fares were above our estimated  
23 efficient fares. Therefore, we decided to freeze their  
24 fares at their current levels for four years.

25  
26 As I mentioned earlier, we did not receive a pricing  
27 proposal from Clarence River Ferries. We estimated the  
28 efficient fares and compared them with Clarence River's  
29 current maximum fare. We found that the current maximum  
30 fare was well below our estimated efficient fares and,  
31 therefore, we decided to increase them by 30 cents each  
32 year.

33  
34 THE CHAIRMAN: Thank you very much, Jenny. Now we  
35 will have a presentation from the CIE, Laura and Rebecca.

36  
37 Overview of advice provided by the CIE:

38  
39 MS LAURA CASSAR (CIE): Firstly, I want to thank all the  
40 ferry operators for their time in responding to Rebecca and  
41 me. I know we asked a lot of questions and we really  
42 appreciate that time you gave us.

43  
44 In our role for this review, we looked at the  
45 operators' reported costs against cost benchmarks to look  
46 at the reasonable efficiency of those costs for the  
47 Brooklyn, Church Point, Clarence, Cronulla and Palm Beach

1 ferry services. That was to provide advice on operators'  
2 efficient costs.

3  
4 For us, we looked at industry benchmarks for labour,  
5 repairs and maintenance, other operating costs and that  
6 also built up to a benchmark for total operating costs for  
7 each ferry service.

8  
9 Reported operating costs were taken as reasonably  
10 efficient for the categories of fuel, insurance and  
11 moorings. We started with Indec's measurements, which were  
12 used in the previous reviews. We reviewed the operators'  
13 reported costs and what had changed over the past years and  
14 we looked at the benchmarks in making revisions.

15  
16 For the labour cost benchmark, we revised that upwards  
17 by 3.3 per cent per annum based on historical real growth.  
18 For consistency, we also adjusted upwards for ferry  
19 services that operate with two or three operators.

20  
21 The repairs and maintenance, we left unchanged in real  
22 terms. We adjusted the other operating costs benchmark  
23 across ferry services to reflect that a proportion of that  
24 cost category does vary with the number of FTEs employed.  
25 Some ferry services have higher FTEs, so there is a  
26 slightly higher benchmark applied to those services.

27  
28 These were the operating cost benchmarks used in the  
29 previous review and the ones that we used in our review.  
30 They are all in 2017 dollars. The labour costs, as  
31 discussed, increased according to the 3.3 per cent real  
32 growth and also increased for the two and three-operator  
33 services. Repairs and maintenance stayed the same. The  
34 amount for the other operating costs, instead of being a  
35 flat \$11.50 per service hour was amended to vary across  
36 ferry services from \$9.50 per service hour to \$15.50 per  
37 service hour.

38  
39 Our findings overall varied by cost category and by  
40 ferry service. You can see in this table that reported  
41 costs for some ferry services were below the benchmark,  
42 others were above. For labour, Brooklyn and Church  
43 Point were below; the other three services were above. With  
44 fuel, insurance and mooring, as I mentioned, the reported  
45 costs were taken as reasonably efficient. Most ferry  
46 services exceeded the benchmark for repairs and  
47 maintenance, and that is partly a result of operating

1 heritage vessels that are beyond their economic life.

2  
3 "Other" includes rent, uniforms, travel, motor  
4 vehicles - all other cost categories that are not included  
5 above. Church Point was below the benchmark for that  
6 category and the others were above. Overall, for the total  
7 operating costs, Brooklyn and Church Point were below the  
8 benchmark and Cronulla and the two Palm Beach Ferries were  
9 above.

10  
11 This chart gives you a snapshot of reported operating  
12 costs as a share of current maximum fare. It highlights  
13 where operating cost is a key driver for ferry services.  
14 The blue series includes student travel - the patronage  
15 associated with student travel - and then the red excludes  
16 student travel. There are a couple of services where,  
17 excluding student travel, operating costs are on par with  
18 current maximum fares and others are below.

19  
20 This slide is to show capacity utilisation. Ferry  
21 sizes vary across the services. These ferry services are  
22 not comparable in an exact sense. This slide is just to  
23 show who is filling their ferry the most. It is influenced  
24 by seasonality factors as well, which also are not  
25 consistent across the region. The average passenger use is  
26 about 24 per cent. Two ferry services are above that  
27 average and the remaining three are below.

28  
29 THE CHAIRMAN: Rick, do you want to ask a clarifying  
30 question?

31  
32 MR RICHARD STOCKLEY (Brooklyn Ferry Service): Yes, if  
33 I could jump in here. There are a number of graphs that  
34 you guys published in the report, but they are pretty  
35 meaningless to all of us because we do not know where we  
36 fit on that graph. They are just anonymous ferry services,  
37 but that is the sort of information we may be able to work  
38 into our business models and see where we stand.

39  
40 MS TOWERS: That information is provided to us under  
41 confidentiality arrangements. We would have to get all the  
42 operators to agree to share that confidential information.  
43 I am happy to talk to each of the operators to try and  
44 broker that, but that is why it is de-identified.

45  
46 MR STOCKLEY: Really those graphs mean nothing to any of  
47 us except you guys.

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MS TOWERS: At this point.

MS COPE: Is it possible to let each operator know which bar is theirs without telling them which bars are other people's?

MR STOCKLEY: Yes, that's what I mean.

MS TOWERS: Yes.

MS SUH: We could do that.

THE CHAIRMAN: Let's take that on board, Rick.

MR STOCKLEY: Thank you.

THE CHAIRMAN: Then we will get back to you on it.

Laura?

MS CASSAR: Thank you. I will pass on to Rebecca for the capex.

MS REBECCA RIEL (CIE): I looked at capital expenditure. The main difference in how capital expenditure was applied in this determination period was how the allowance for service hours actually affects the amount allocated.

In the previous determination period, Indec reviewed and provided an allocation to services based on a yearly period. However, when we spoke to operators during the consultation, it was clear that years means really nothing; it is more the service hours of the vessel. Some operators would require a replacement every two years and others every four years, therefore, the costs have been allocated in terms with that rather than a set time frame.

Noting that most of the operators were given allowances in the previous determination period for the acquisition of new vessels, the predominant capital allowances in this period are for maintenance and for the replacement or servicing of engines.

So this is the capital allowance that was allowed in the previous period under Indec's report. I am sorry, I should note that the big figures there obviously show where



1 the vessel acquisition was provided. For Brooklyn, you can  
2 see it was in 2015; Church Point, 2016; Cronulla, early  
3 2015; the Mackerel route in 2017; and for the Ettalong  
4 route there was vessel acquisition provided in 2016.

5  
6 This slide shows our recommended allowance for the new  
7 period. As has been mentioned, they mostly relate to  
8 engine refurbishments, replacements, and also for general  
9 maintenance. The Church Point Ferry Service in 2021 was  
10 allocated a capital allowance for a new vessel acquisition  
11 as well.

12  
13 THE CHAIRMAN: Thank you very much, Rebecca.

14  
15 On your question, Rick, I think we can undertake to  
16 identify for each ferry operator which one of the bars is  
17 them. Then the staff will check whether we can get  
18 agreement from all ferry operators, in which case --

19  
20 MR STOCKLEY: It is just that those reports are actually  
21 public. People can download them off the internet and read  
22 them themselves on the IPART website. We do find that some  
23 people actually pay a bit of interest to that sort of  
24 stuff, and they come and ask us, "Which one are you guys"?  
25 They have an interest to know whether we are relying on an  
26 STSS fare and that sort of thing. It is difficult for us  
27 to then relay information back to them to give the general  
28 public a bit of understanding on what exactly you guys are  
29 doing.

30  
31 THE CHAIRMAN: Yes, that is all fine and that is good, so  
32 we will do that. The staff will check with the ferry  
33 operators to see whether people are happy to have that  
34 information published. If so, we could look at that in the  
35 final report. At a minimum, however, we can give each  
36 ferry operator an indication of which bar is theirs.

37  
38 Questions or comments or suggestions?

39  
40 General Q&A:

41  
42 MR WAYNE WHITLEY (Cronulla Ferries): I have one question  
43 in relation to the capital expenditure. Can you explain  
44 that model a little bit better? Is that \$1.2 million and  
45 the other million based on the pricing structure that was  
46 set?

1 MS RIEL: Yes, so those numbers that we showed up there,  
2 they were the numbers we provided as what we recommend is  
3 the efficient allowance for IPART, and that is what they  
4 used in their building block model.

5  
6 MR WHITLEY: I guess I am looking at that at 2015, 2016 or  
7 early 2015 and early 2016, so that was in relation to --

8  
9 THE CHAIRMAN: What happens is that we try and estimate  
10 your capital. Then we look at what your capital  
11 expenditures would be, say, in the next year or, in this  
12 case, in the next three years. That feeds in to the  
13 capital which feeds in to your efficient costs. Then if we  
14 set the fare equal to efficient costs, it is fed into the  
15 fares. So that allowance is fed into fares as it goes  
16 through the building block.

17  
18 MS SUH: Just to add to what Peter has said, the  
19 allowances in 2015 and 2016 for Cronulla Ferries were based  
20 on Indec Consulting's advice that it would be prudent to  
21 replace old ferries. Therefore, we made allowances in  
22 our building block model to replace old ferries with  
23 newer ferries.

24  
25 MS TOWERS: They were notional. You did not have to go  
26 and replace them, but it was provided for in the efficient  
27 fare.

28  
29 THE CHAIRMAN: The pricing provided for it, that is the  
30 message.

31  
32 MR WHITLEY: Thank you.

33  
34 MR STOCKLEY: Can I continue on the same point?

35  
36 THE CHAIRMAN: Yes.

37  
38 MR STOCKLEY: Again, I have a bit of an issue with this  
39 allowed capital expenditure model and the way it has been  
40 put together. Also with comments that were made in the  
41 reports with the use of words like "granted" and things  
42 like that, where your average Joe Public can read that  
43 comment and form a certain opinion.

44  
45 I understand that is an economic model done on a  
46 spreadsheet. However, people read that and they come back  
47 and make comments, "Oh, we didn't realise that you were

1 granted a capital allowance to purchase a new ferry."  
2

3 In our chart there, we have been issued this capital  
4 allowance on an economic computer-based model to purchase  
5 two new ferries. However, I feel that all of this has been  
6 done based on assumptions which just are not real. They  
7 are not available in the real world. For example, if the  
8 Brooklyn Ferry Service wanted to purchase a new ferry,  
9 there are two ways that would occur and the most probable,  
10 would be us winning Lotto next week. We do not have  
11 capital available to purchase a new ferry.  
12

13 I have had pricings done and the closest replacement  
14 vessel we could get to run our service would be a base  
15 price of \$1.2 million. If I were to purchase a new  
16 catamaran style ferry for \$1.2 million, the loan and  
17 service costs on that loan would blow our yearly  
18 expenditure out well beyond what it currently is and  
19 provide us with a vessel which had maybe 10 to 15 years  
20 economic life span.  
21

22 We do not have access to that capital because we do  
23 not have a contract which would allow us to go to a bank to  
24 provide that capital over a reasonable loan repayment  
25 schedule. That whole section of the report to us becomes  
26 completely meaningless. We have an obligation to provide a  
27 service. We have two ferries which we maintain to keep in  
28 service. Then further on in the report, CIE made a  
29 recommendation, which IPART has taken on board, to reject  
30 the capital expenditure we wish to undertake on our current  
31 two vessels over the next two years.  
32

33 THE CHAIRMAN: There is a lot in that and we do hope to  
34 get to it. I am just wondering whether other ferry  
35 operators have similar points they want to make that Rick  
36 has just mentioned, so then we can have a go at discussing  
37 those points.  
38

39 MR ANGUS CAMPBELL (Riverside Marine): We own Fantasea  
40 Cruising. I note here - I have been informed previously  
41 about this - the four-year freezing of our prices. To add  
42 on to Richard's comments, when talking about  
43 competitiveness for capital within your business, we  
44 operate 65 vessels around the country. When I go to my  
45 shareholders next month and tell them that our prices have  
46 been frozen for four years down here, the impact of that  
47 will be that there will be no reinvestment in the fleet.

1 It is as simple as that. When I line up to ask for  
2 \$6 million to replace our fleet and they are asking for a  
3 significant return, even if it was 10, 15 per cent a year  
4 being conservative, they are not going to get it. What you  
5 will do is end up with an old fleet in New South Wales,  
6 with this sort of methodology. I think that is just really  
7 simple.

8  
9 Not only are we dissatisfied with the outcome that our  
10 fares will be frozen for four years - I don't understand  
11 the economic reality there - but it basically will have the  
12 flow-on effect and you will end up with a tired fleet,  
13 therefore affecting the customers. At the end of the day,  
14 the customers will be the ones who will be affected. They  
15 might have a stagnated price, but the quality of the  
16 vessels will be affected.

17  
18 MS TOWERS: We have always taken advice from an  
19 independent expert on what the appropriate capital  
20 expenditure should be for ferry operators, both over the  
21 last three years and this year. We would be happy to  
22 engage with you to get further advice on that, because  
23 what is driving some of these results, in a sense, is what  
24 is an efficient spend on these boats.

25  
26 MR ANGUS CAMPBELL: Well, "efficient spend" is an  
27 interesting term because it depends on your expectations  
28 for safety. When we work for BHP and Woodside in Western  
29 Australia the standard of safety is probably the highest in  
30 the world. We have an edict in our business that we have  
31 to slip vessels every year - not 30 or 50 years, but every  
32 year - and it is incredible what you find in a vessel every  
33 year. As you gentlemen opposite would know, and if you  
34 could afford to do that, you probably would.

35  
36 Our standards are right up here and that is what we  
37 expect. If we cannot maintain a vessel to the standard  
38 that we expect, we will get out of the business because we  
39 don't want to have that exposure in respect of that.

40  
41 MS TOWERS: In IPART, we set prices to ensure that safety  
42 is maintained at the government imposed safety level.

43  
44 MR ANGUS CAMPBELL: Sure, that's good.

45  
46 THE CHAIRMAN: There are a number of issues here. Just on  
47 the last issue about safety standards, this is an issue

1 with other regulated industries. As you know, you hear  
2 things about electricity networks being gold plated. That  
3 is an issue where the business puts up a proposal to invest  
4 to achieve a certain standard or a certain level of  
5 reliability or something like that. In effect, the  
6 regulator rubber stamps that and it flows then through to  
7 prices.

8  
9 Then the question becomes: does that exceed what is  
10 reasonable or what is government standards? That is an  
11 issue where, having identified it, you could look at that.

12  
13 MR ANGUS CAMPBELL: With all due respect, in response,  
14 I don't think we are gold plating.

15  
16 THE CHAIRMAN: No, that's fine. I am saying --

17  
18 MR ANGUS CAMPBELL: I am just saying also that some people  
19 might call it superfluous investment. However, I think,  
20 because there is the economic competitiveness for capital  
21 within, it is an efficient dollar spend.

22  
23 MS TOWERS: Subsequent to putting our draft report out,  
24 Palm Beach pointed out to us an issue with the channel that  
25 you were operating in. We have actually asked CIE to look  
26 at those in terms of safety and --

27  
28 THE CHAIRMAN: This is a draft report. This is a chance  
29 to thrash these issues out and get them on the table.  
30 Obviously, depending on the standard, that will also depend  
31 on the amount of money which is allowed for the purchase of  
32 new ferries. It is allowed, as I said, to calculate what  
33 is the efficient price and the operator can then go ahead -  
34 or not - and purchase.

35  
36 MR COLIN CAMPBELL (Fantasea/Palm Beach Ferries): If I  
37 may?

38  
39 THE CHAIRMAN: Yes.

40  
41 MR COLIN CAMPBELL: Colin Campbell, Fantasea Cruising and  
42 Palm Beach Ferries. To give a real example concerning the  
43 projected capital allowance in the report for the next four  
44 years, in one of the routes we have actually had to replace  
45 an engine on that particular vessel. That has pretty much  
46 used up our next four-year allowance to keep that service  
47 operating.

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That is part of some feedback in general that we provided. We look forward to further engaging on what we have already provided and the findings. That puts in real terms that we have pretty much used up the allocation of four years' worth of investment because we had to replace that engine.

MR WILLETT: Angus, we try to benchmark costs of the operators. We don't actually try to calculate what your actual costs need to be, and I think that is well understood. Are you saying that our capital allowance that would allow for the replacement of your vessels in an efficient time frame is underestimated? Are we underestimating how much that capital costs you? I hear that we might be underestimating your maintenance costs as well given the standards that you adhere to. Is it all three of those things or one particular thing?

MR ANGUS CAMPBELL: I think so. We are running vessels that are now, I think, 14 years old, so that is a sign. I am sure you all have experienced having to call out a tradesman recently and the costs associated with that. You do that from a residential perspective, but then multiply that significantly over a number of vessels and it is just extraordinary. I don't know how you capture that, if you do capture that.

THE CHAIRMAN: We do attempt to capture that. That is why we do it ourselves and then we hire consultants. This time it is CIE and the last time it was Indec. That is why we have an open process to get feedback and input, but we do attempt to capture, and we attempt to capture what are the replacement needs by putting a capital allowance in when we calculate the price, because if we didn't put the capital allowance in, the price would fall short.

MS TOWERS: And there are some timing differences, because we have been doing this efficient fare over the last four years, we notionally provided to replace a ferry three or four years ago, but you did not actually do it. We note then that the maintenance costs go off that replacement - is that what you are asking?

MR ANGUS CAMPBELL: Yes,

MS TOWERS: For businesses like yourselves that just adds

1 to the complexity of understanding the reports.

2  
3 MS RIEL: That is what we have done - the life of the  
4 ferry that was assessed in the previous Indec report was  
5 25 years for a slow ferry, 15 years for a fast ferry. When  
6 they first allocated that initial capital allowance to  
7 acquire the new vessels, that is obviously through year  
8 one. Then we go through each year to year 25 or year 15,  
9 whatever it maybe, for each of the ferries, and work out  
10 the service hours for each ferry, based on the  
11 service hours that all of the operators provided to us, and  
12 this is when you require engine replacement.

13  
14 Palm Beach Ferries are actually different from the  
15 other operators so we have allocated the time frames  
16 differently. We allocate those amounts, then we allocate  
17 the general refurbishment costs in line with the Indec  
18 report over that period, and that is how the capital has  
19 been allowed over the period.

20  
21 MR ANGUS CAMPBELL: I have been involved in this process  
22 for a long time. I think generally it is a good process.  
23 I am questioning having four years of frozen prices,  
24 commercially how we can actually live with that. Sure  
25 that is your formula, but from a commercial aspect and  
26 even, as Richard said before, the gaining of capital, how  
27 do you quantify that? To look for \$6 million to replace  
28 two ferries or \$3 million for one, say, that is a whole  
29 different calculation. How that impacts upon this is quite  
30 significant because I think you will find the banks at the  
31 moment are not willing to lend money for any enterprise of  
32 this sort, on the feedback we have. I think that is  
33 another topic.

34  
35 MS RIEL: Do you think the time frames are not necessarily  
36 reflective of the business models, say for 15 or 25 years?

37  
38 MR ANGUS CAMPBELL: I think that is spot on, yes.

39  
40 MS RIEL: We did definitely email about the engine  
41 replacement happening earlier than that was required.  
42 There is stuff that we will follow up outside of this forum  
43 with you as well.

44  
45 MR ANGUS CAMPBELL: I am wondering about the trigger  
46 points. Another ferry operator who did not put any data in  
47 and is getting a fare increase. We put data in and we will

1 be getting none. It goes to show that our --  
2  
3 THE CHAIRMAN: Sorry, Angus. Clarence did not put any  
4 data in, that means they did not put in a proposal but we  
5 calculated, as best we could, what their efficient fare is  
6 and came up that their efficient fare is well above the  
7 current maximum. That is not always the case, but in their  
8 case it was. That is why the tribunal proposed a fare  
9 adjustment which, I think, is 30 cents.  
10  
11 MS TOWERS: Yes, it is 30 cents.  
12  
13 THE CHAIRMAN: It is not as though we did not try and  
14 calculate the efficient fare - we did.  
15  
16 MS TOWERS: But if it had come out the other way --  
17  
18 THE CHAIRMAN: Exactly, if it had come out that their  
19 efficient fare was well below the maximum, then they might  
20 well have ended up --  
21  
22 MR ANGUS CAMPBELL: They might be sitting here.  
23  
24 THE CHAIRMAN: Yes, and they might have come down.  
25  
26 MR STOCKLEY: Just to continue on the topic, you guys  
27 are calculating an efficient fare which is supposed to take  
28 into consideration the costs of running the service and  
29 return on capital. How do your calculations address the  
30 fact that some - I can speak for myself; I am not sure of  
31 everyone else - have operated well below what you have  
32 calculated the efficient fare to be for a number of years?  
33  
34 I have tried to follow up on this prior to the 2015  
35 commencement of this style of review. I know for a fact  
36 that our service has been, at times, up to a dollar below  
37 the calculated efficient fare. How do you put that input  
38 back into your model to determine what our access to  
39 capital is and how we should, therefore, be spending the  
40 profits that are being made by business, if any, when you  
41 take away your costs? I think this all comes back into  
42 this concept of replacing vessels, et cetera, and, as Angus  
43 mentioned, levels of safety standards.  
44  
45 THE CHAIRMAN: Let me just address a couple of those  
46 things and then Deborah wants to say something.  
47



1           What happened, as you all probably know, is that this  
2 used to be done by the tribunal on an index basis. We  
3 would get an index for fast ferries and slow ferries and  
4 each year we would update this.

5  
6           About three years ago, we decided to treat you like  
7 proper businesses and look at each business, which is what  
8 we do with the likes of Sydney Water and Hunter Water.  
9 There were some who did not think that was a great idea  
10 because the private ferry business is pretty small. We  
11 took it very seriously and treated you all as businesses  
12 and tried to calculate what the efficient fare is for your  
13 route. We started that three years ago and because the  
14 government asked us to do the fares each year, we had to  
15 do it every year. Now we have got to the stage, which  
16 I think is better, where we can do it over three or four  
17 years.

18  
19           It so happens that, in your case, I think, that the  
20 efficient fare turned out to be well above the maximum fare  
21 under the previous model.

22  
23 MR STOCKLEY: For a number of years, yes.

24  
25 THE CHAIRMAN: In a sense, this new approach would benefit  
26 you, because it actually looks at what your efficient fares  
27 should be and tries to set the fares on that.

28  
29           In terms of calculating the efficient fare, as we have  
30 discussed earlier, we tried to take account of the  
31 operational costs, and all that, but also the return on  
32 capital, which is where your profit is. After you pay  
33 interest on any debts you might have, the return on capital  
34 is the return on equity and, in a sense, it is the profit.  
35 We have tried to do that.

36  
37           In order to work out what the capital base is, we have  
38 to have some idea of what the capital base is - it is called  
39 the RAB (regulated asset base) - and then to what extent  
40 you will be adding to that over the next year or the next  
41 two or three years. That is where this issue comes in  
42 about what is a reasonable level of capital expenditure for  
43 a firm like Brooklyn to spend over the next two or three  
44 years?

45  
46           Obviously this is a great opportunity for you guys to  
47 come in and say, well, we got this wrong or that wrong, or

1 something else. This is a draft report. That is our best  
2 effort. We have tried to look at how often is  
3 reasonable to purchase a new ferry or to refurbish or  
4 something like that. When we say "reasonable", it is, in a  
5 sense, from the point of view of the punters who pay the  
6 fares. Why should people pay fares so that some ferry  
7 operator could just replace a vessel far too often; or, for  
8 that matter, why should we set fares too low so that the  
9 ferry operator cannot replace a vessel when it is optimal?

10  
11 That is what we are trying to aim for in this. That  
12 is the logic behind it, Rick. The question then is: do we  
13 have the assumptions right? Do we have the replacement  
14 right? Should we have allowed for more capital in terms of  
15 going forward?

16  
17 MR STOCKLEY: I think there is a big difference between  
18 allowing for capital and actual real world access to  
19 capital.

20  
21 THE CHAIRMAN: Yes, there is, and let me address that.  
22 There is, and what you can do is work out what the  
23 efficient fare is, and you have a situation where you have  
24 a certain operating surplus which, in a sense, is a return  
25 on your equity. It might well be that you cannot finance  
26 it --

27  
28 MR STOCKLEY: Exactly.

29  
30 THE CHAIRMAN: -- and things don't stack up.

31  
32 MR STOCKLEY: But we come back to my comment regarding  
33 efficient fare. This model would be fantastic if everyone  
34 was operating at or slightly above or a very small amount  
35 below their efficient fare, so all of your calculations  
36 become real to that company. However, when you have had a  
37 company or companies - I am not sure about anyone else's  
38 situation - who are operating well below that number, you  
39 guys are still making the assumption that we are achieving  
40 that return on capital which would allow us to go ahead and  
41 replace vessels.

42  
43 One of the things that irritates me about both CIE and  
44 IPART'S report - I am in a different boat from guys like  
45 Angus - is that we operate heritage vessels. We have spent  
46 money on them to bring them up as close to new boat status  
47 as we can. We maintain them in the best conditions we can.

1 There is this sort of theme throughout the reports that we  
2 should take these older ferries and - I don't know, put  
3 them on a mooring somewhere - replace them with brand new  
4 vessels. It appears to the general public reading these  
5 reports as though we are in a situation financially to go  
6 ahead and do that, but we choose not to for some reason.

7  
8 THE CHAIRMAN: Let me make a couple of points. One issue  
9 is that because, in the case of Brooklyn, your maximum fare  
10 under the old regime turned out to be below the efficient  
11 fare, then that requires a period of adjustment. That is  
12 where the tribunal has to make a judgment about how far to  
13 make the adjustment, because if you adjust it all  
14 overnight, in a sense, you get fare shock for the --

15  
16 MR STOCKLEY: Yes, I fully understand that.

17  
18 THE CHAIRMAN: What's more, the feedback from the  
19 operators is not to do that because it would just frighten  
20 the clients away. So that is one thing. There is an issue  
21 about the transition. If you think that the transition for  
22 Brooklyn from the current maximum fare to the efficient  
23 fare is too slow, then make that comment and we will take a  
24 look at it.

25  
26 MR STOCKLEY: I understand you need to have transition.  
27 I actually wrote in recommending that there not be too  
28 great a leap, but the other side of all this is that the  
29 reporting that is done in the models does not assume that.  
30 You have assumed the capital expenditure allowances and  
31 vessel repayment schedules and that sort of thing are done  
32 under the assumption that we do have access to that  
33 capital, that we are operating an efficient fare and can go  
34 out and make those decisions. I see the two things being  
35 treated separately.

36  
37 MS COPE: Can I clarify what you are saying, because what  
38 I think - correct me if I am wrong - is that Brooklyn had  
39 the allocation for some ferries a few years back at a point  
40 in time when your fares were less than the efficient cost.

41  
42 MR STOCKLEY: That's right, yes.

43  
44 MS COPE: What you are saying is that your fares were not  
45 high enough to allow you to be able to borrow.

46  
47 MR STOCKLEY: No, that's not what I am saying. What I am

1 saying is that I have written in to IPART and expressed  
2 over a number of times over the last few years that we do  
3 not have access to capital - accessing capital would  
4 require taking out finance for a loan. We have a situation  
5 with our contract, and I am not sure about anyone else's  
6 contract situation, where we would not be even within  
7 close to receiving a loan from a financial institution  
8 based on the terms of our contract

9  
10 MR WILLETT: Just to clarify that, Rick, are you saying  
11 regardless of what fare you have, you will not be in a  
12 position to replace your ferries?

13  
14 MS TOWERS: Is that because of the length of the contract?

15  
16 MR STOCKLEY: The length of the contract and the fact that  
17 if we took our financial data and our fare data to a  
18 financial institution and showed them that we have been  
19 operating for the entire period we have been in service  
20 below who IPART calculated is an efficient fare, we do not  
21 have the contract certainty to meet a loan payment  
22 schedule, et cetera.

23  
24 What we do is we spend our capital the best way we can  
25 to maintain our ferries and to maintain them in the best  
26 situation possible. Even in doing so, if I were to  
27 purchase the nearest replacement vessel to what we have as  
28 a new-build vessel, our repayment schedule and capital  
29 repayment would exceed what we are currently spending to  
30 maintain our ferries in operation.

31  
32 THE CHAIRMAN: On the contractual issue - you have raised  
33 that before, quite rightly - that is an issue that is  
34 really for Transport for NSW.

35  
36 MR STOCKLEY: Yes, it might be for them. However, you  
37 guys, CIE and IPART, are not recognising that when you go  
38 ahead and produce your forecasts.

39  
40 THE CHAIRMAN: The issue is how do we set an efficient  
41 fare? Do we assume that, after three years or whenever  
42 your contract finishes, the whole ferry service in Brooklyn  
43 will just collapse and you will pack up and go home or do  
44 we work on the assumption that Transport for NSW would  
45 wither recontract with you or somebody else to operate that  
46 service? That is clearly the assumption we have worked on  
47 and we think, under the circumstances, that that is

1 defensible. Otherwise, we would be calculating an  
2 efficient fare on the assumption that you will be going out  
3 of business after three years and we do not think that is  
4 reasonable. That is one issue - there are a lot of issues  
5 here.

6  
7 The heritage boat issue is something we also discussed  
8 with regard to what is the most appropriate ferry. We came  
9 to a view - again this is quite open for you and other  
10 stakeholders to challenge - for the purposes of setting the  
11 efficient fare, that we would look at what an operator  
12 would do if they were running just a ferry service with, in  
13 a sense, regular ferries and replacing them. Issues about  
14 having heritage vessels, which might be more attractive to  
15 some commuters or some passengers, especially tourist-type  
16 passengers and the like, we said were, in a sense,  
17 something that if the operator wants to do that, that's  
18 fine, but should the regular commuter or passenger pay  
19 something where that is an additional cost, so to speak?  
20

21 Again these are issues which we are open to. That is  
22 why we have draft reports and that is why we have these  
23 sessions. If you have some other points you want to make -  
24 or if anybody else does - on this particular issue or any  
25 issue, for that matter, we would look at it.

26  
27 MR ANGUS CAMPBELL: We are an example of that, because we  
28 have aluminium boats running to Ettalong. Previously there  
29 would have been an older style vessel doing that operation.  
30 Especially under the current circumstances with that  
31 waterway, which has not been maintained by the government,  
32 and the safety issues, it actually provides a safer type of  
33 vessel to be servicing that route for a higher capital and,  
34 therefore, a higher tier price.

35  
36 You are operating in the same sort of waterway, Rick.

37  
38 MR STOCKLEY: Yes.

39  
40 MR ANGUS CAMPBELL: Can I come back to the four-year  
41 freeze. What that is saying then is we are operating, our  
42 current costs are, way above the current efficient cost. Is  
43 that what the assumption is, basically?  
44

45 THE CHAIRMAN: What that is saying is that, in the case of  
46 you and Cronulla, we have judged that your current maximum  
47 is above the efficient fare. Again we get to the

1 transition issue, which is the opposite of what we were  
2 talking about before. If it were to be dropped  
3 immediately, that would have a big impact on operators, so  
4 what we have looked at as a transition mechanism is to  
5 leave it unchanged in nominal terms which means, in real  
6 terms, it would go down by 2 or so per cent a year,  
7 depending on the rate of inflation. Then it would be  
8 reviewed again the next time the government asked the  
9 tribunal to set fares. That is what that is saying.

10  
11 MS TOWERS: For Palm Beach, the previous three years your  
12 fare and the efficient fare has been at a similar level but  
13 because of the function on the replacement ferries,  
14 that is what is driving that change going forward, in a  
15 sense.

16  
17 THE CHAIRMAN: Just to clarify, you are in a slightly  
18 different position than Cronulla because, over the last two  
19 or three determinations, we determined in the case of  
20 Cronulla that their maximum fare was above their efficient  
21 fare and we left the fares unchanged. In your case, that  
22 was not what happened for the last two or three years, but  
23 for this time going forward, at the draft report stage, you  
24 are in a similar position to Cronulla. Does that clarify  
25 where we are coming from?

26  
27 MR ANGUS CAMPBELL: I understand where you are coming  
28 from. The only additional thing is the current risk around  
29 that operation. We discussed at board level ceasing that  
30 operation because of the state of the bar between Palm  
31 Beach and Ettalong. We often run to Patonga instead, at  
32 the moment. We had a grounding about six weeks ago when a  
33 vessel bounced off the bottom of the bar. Just keep in  
34 mind at the same time --

35  
36 THE CHAIRMAN: This is all important information. This is  
37 not information that we had.

38  
39 MR ANGUS CAMPBELL: When we do sit in the board meetings,  
40 we talk about this topic, the Box Head situation up there,  
41 and it causes us a lot of grief, especially with regard to  
42 what I said before about safety. We have 200 people  
43 onboard and we have that issue.

44  
45 THE CHAIRMAN: Are those channels maintained by Roads and  
46 Maritime Services?  
47

1 MR ANGUS CAMPBELL: At the moment, I would say yes, but  
2 for the first time in 12 years, I have seen it done  
3 recently.

4  
5 THE CHAIRMAN: We have had some experience with this  
6 before.

7  
8 MR ANGUS CAMPBELL: I wanted to give you some relativity  
9 around where you start adding a complexity of risk around  
10 it. It just has to be kept in mind that there is the  
11 impact on the vessels themselves, but then there is also  
12 the impact on the customers in that operation.

13  
14 MS CASSAR: I want to clarify that. I know that the  
15 language may be a little misleading, but we did not reject  
16 sheathing as in you don't need to, obviously, because you  
17 know your business much better than us. It was more that  
18 the allowance for a new vessel was made prior and to  
19 provide an allowance for hull sheathing in addition would be  
20 a double allocation of funding. Maybe it is the language.

21  
22 MR STOCKLEY: It might then be the language in the IPART  
23 version of the report.

24  
25 THE CHAIRMAN: What page are you on?

26  
27 MR STOCKLEY: I am just trying to flick through and find  
28 it.

29  
30 MS TOWERS: Also definitely the report should not be  
31 talking about "grants". So we will definitely look at  
32 that. That is not the intent of the report at all and we  
33 will make sure we look at that.

34  
35 MR STOCKLEY: I am discussing things in terms that my  
36 patrons or my passengers come back and discuss it with me  
37 after they read the report.

38  
39 MS TOWERS: I understand that. That is good feedback, so  
40 we will change the language.

41  
42 MR STOCKLEY: On page 46 of the IPART report it states:

43  
44 Contrary to Brooklyn Ferry Services'  
45 proposal, the CIE did not recommend an  
46 allowance for hull sheathing as a capital  
47 allowance was granted to purchase new

1 vessels in the previous review period.

2

3 All these things are fantastic in a model on a computer,  
4 where you guys can punch in \$875,000 in 2015 and \$875,000  
5 in 2016, but those are just numbers on a spreadsheet. They  
6 do not actually come back to the real-life situation we  
7 have and what we need to do to maintain our contract  
8 obligations.

9

10 The recommendations I have come from New South Wales  
11 maritime surveyors. On a yearly basis, and more so,  
12 whenever we do work on our vessels, they come back and look  
13 at them. We had recommendations by qualified shipwrights  
14 who act as surveyors in New South Wales Marine that  
15 literally the last thing we can do to our primary vessel to  
16 bring that up to what they would consider new boat status  
17 would be to epoxy sheath the hull, which will increase the  
18 serviceability of the vessel and it will increase the  
19 safety of that vessel to a major degree. The main problem  
20 with heritage timber ferries would be popping a plank and  
21 water ingress.

22

23 THE CHAIRMAN: Rick, could I just clarify --

24

25 MS TOWERS: This was in the previous years you are talking  
26 about replacing these notionally.

27

28 THE CHAIRMAN: We are taking these points on board, but  
29 just to clarify, it is not as though CIE and IPART said you  
30 should not hull sheath--

31

32 MR STOCKLEY: What does that comment mean? If I go out  
33 and spend that capital to do that job --

34

35 THE CHAIRMAN: What it means that, in the previous year or  
36 two, you received an allowance, right, which went in to  
37 your regulated asset base. Therefore, when you came along  
38 this year and said you wanted to do that, we are not saying  
39 you should not do it. We are just saying that allowance is  
40 already in your capital base and the efficient fare already  
41 reflects that you did that.

42

43 MR STOCKLEY: Yes, the efficient fare does reflect that or  
44 what you calculate as the efficient fare might reflect  
45 that. However, as I have said a number of times today, we  
46 are all aware now that we have been operating well below  
47 the efficient fare for a number of years. How can your



1 whole world calculation actually reflect the real world in  
2 which that we operate?

3

4 THE CHAIRMAN: Let me just have one last go at this. In  
5 the past, as we have discussed, in your case, the previous  
6 annual indexation left you in a situation, which we  
7 discovered when we undertook the new approach, whereby the  
8 efficient fare was above the maximum fare. In other words,  
9 your maximum fare was too low.

10

11 Going forward, we are looking to move, if we have not  
12 done it already, the maximum fare for Brooklyn up to the  
13 efficient fare, which is the opposite situation from  
14 Cronulla, but we will leave that for the moment. We are  
15 going to do that.

16

17 If you think that the way we are moving that up  
18 gradually is too slow or too fast, please tell us, but that  
19 is what we have done, and it has been based on input from  
20 people, including you, about not having fare shock and  
21 about having some sort of gradual thing. If you think it  
22 is too fast or too slow, advise us, but in terms of going  
23 forward, going forward, we would argue, subject to having  
24 various issues of fact and what have you corrected, that  
25 the efficient fare seeks to provide you with enough revenue  
26 to run your business, including things such as hull  
27 sheathing. We would argue that all those ingredients are  
28 built into the capital base for Brooklyn Ferries and we  
29 then calculate a return on that, which is the WACC  
30 multiplied by the capital base, and that goes into the  
31 efficient fare. In other words, the efficient fare for  
32 Brooklyn is higher than it would have been if we had  
33 knocked out the hull sheathing.

34

35 MR STOCKLEY: So we are pretty much talking about a  
36 language or terminology in the report.

37

38 THE CHAIRMAN: Yes, I think it is a language or  
39 terminology issue.

40

41 MR STOCKLEY: You need to realise that we are not the only  
42 people who read the reports.

43

44 THE CHAIRMAN: We do.

45

46 MR STOCKLEY: You guys read them, you are writing them,  
47 you have consultants producing the information, but you

1 also have the general public who are interested in the  
2 fares, who are reading these reports and interpreting them  
3 in the way I am trying to display to you guys.

4  
5 THE CHAIRMAN: No, we hear you. We hear you.

6  
7 MR WILLETT: Rick, you are suggesting we should take  
8 account of the fact that you have been under-recovering  
9 maximum in the past?

10  
11 MR STOCKLEY: Exactly. I have written to IPART and said I  
12 understand the whole concept of fare shock and it cannot be  
13 a dramatic bang up to the efficient fare, but these things  
14 affect the way we can run a business and what we can do  
15 with our vessels, which is not the same as model that you  
16 guys are producing.

17  
18 MR WILLETT: I understand, but my question is how should  
19 we take that into account going forward now?

20  
21 MR STOCKLEY: Pretty much in our case the whole concept of  
22 vessel replacement should be removed from the equation  
23 until we are at a point where we are receiving an efficient  
24 fare and we can move forward from that point onwards. In  
25 my case, that occurs next year where I meet that efficient  
26 fare. As you know, I did not recommend fares beyond 2020  
27 because we have no contract certainty beyond that day. It  
28 almost makes it a null argument with respect to our  
29 service.

30  
31 THE CHAIRMAN: Yes, we hear you. Are there any other  
32 comments or questions? Wayne?

33  
34 MR WHITLEY: The report itself disadvantages the operators  
35 in every possible way, I guess, especially having a low  
36 capital base, as you put it, and running historic ferries  
37 to provide the service. That means that the capital cost  
38 of that ferry obviously is quite low. Therefore, as you  
39 brought up earlier, Cronulla Ferries runs above average on,  
40 I think, everything that has been assessed.

41  
42 Obviously the capital expenditures or service  
43 requirements of that are quite high against the value of  
44 that asset. Whilst they may not be high based on providing  
45 a service or they may not be high based on other ferry  
46 operators, because they are based on that capital expense,  
47 I just do not see how that is a way forward for modelling

1 the pricing fare mentioned for us.

2  
3 Obviously, to maintain that service, Cronulla Ferries  
4 entered into enterprise agreements to try and retain staff.  
5 It has been mentioned that Sydney Ferries are not included  
6 in that this, but the operators in Sydney generally,  
7 especially on a Sydney Ferries type thing are offering  
8 much higher rates of pay, which is always an issue for us  
9 in maintaining and keeping the staff to actually maintain  
10 those routes.

11  
12 The PET and STSS in the draft report, I think they are  
13 called the subsidy. Essentially they are going against, in  
14 particular, our case where we have a higher level of  
15 pensioner travel on this service, as you probably are  
16 aware. What that is doing, essentially, is that comes also  
17 off as the government is providing a subsidy. I am not  
18 sure that I agree with that either. It is not a subsidy;  
19 there is a fare and the government, at some point, have  
20 decided it will pay half of that fare for pensioners. That  
21 is coming back in, but that has actually been counted  
22 against the overall cost of the efficient fare as well,  
23 using that figure.

24  
25 MR ANGUS CAMPBELL: The subsidy is to the pensioner; it is  
26 not to the business.

27  
28 MS GLEEN: Exactly.

29  
30 MR ANGUS CAMPBELL: That's the language.

31  
32 THE CHAIRMAN: It is counted as part of your revenue.

33  
34 MS TOWERS: Yes, because the government gives you the  
35 top-up between the ticket price and the discounted fare for  
36 the pensioner.

37  
38 MR WHITLEY: Correct. So calculating the efficient fare,  
39 though, based on that, because the pensioner numbers are  
40 higher, that is actually a disadvantage when it comes to  
41 calculating that efficient fare. Is that not correct?

42  
43 MS TOWERS: It just means you are getting more of your  
44 revenue from the government because it is treated as an  
45 adult fare.

46  
47 THE CHAIRMAN: Just to clarify that, as I understand it,

1 it is treated as an adult fare. You could have  
2 50 pensioners and 50 regular commuters, that would be  
3 treated as 100 passengers, but you would be getting a  
4 quarter of the revenue from the government on behalf of  
5 the 50 pensioners and the other three-quarters would be  
6 coming from the passengers themselves.

7  
8 I can understand that when it is called a "subsidy" -  
9 this is in a sense the point that Rick was making, or a  
10 similar point - it might look to a reader that the  
11 government was actually subsidising you by the top-up to  
12 the pensioner tickets. We could look at that in terms of  
13 language, but the fact that the total revenue or notional  
14 revenue includes a payment from government on behalf of  
15 pensioner passengers is probably a better way to put it.

16  
17 MS TOWERS: That's right.

18  
19 THE CHAIRMAN: That is how the model works.

20  
21 MR WHITLEY: That will be in some other papers we put out  
22 later.

23  
24 THE CHAIRMAN: Yes.

25  
26 MR WHITLEY: Also you mentioned in the draft report that  
27 most other private ferry operators operate other services.  
28 If you take Cronulla Ferries, for instance, a decision was  
29 made several years ago to purchase another part of the  
30 business to essentially try and build enough revenue for  
31 this, so there are two parts I want to mention.

32  
33 The first point is they say, for instance, that your  
34 second ferry could be used for other revenue. I will go on  
35 record in saying that, yes, that is possible. One thing  
36 that I will say is that that is also very limited in the  
37 fact that the second ferry is required first thing in the  
38 morning for the peak hours. It is required up until, let's  
39 say, 9.30 for the run, and then it is required later  
40 because it obviously caters for the schools in the peak  
41 hour, so the time it is used is limited. You talk about  
42 25 per cent with regards to servicing the second vessel.  
43 That is fine, but when you are using that for at least  
44 50 per cent, that really does not take into account --

45  
46 THE CHAIRMAN: I think we did 50 per cent, Wayne.

47

1 MR WHITLEY: I'm sorry?  
2  
3 MS TOWERS: 50 per cent.  
4  
5 MR WHITLEY: Sorry, so it is 75 per cent for the primary  
6 vessel then?  
7  
8 THE CHAIRMAN: No, it is 100 for the primary vessel and  
9 50 for the second one.  
10  
11 MR WHITLEY: But that 50 per cent across the board - I am  
12 not sure how the other operators have that - but the time  
13 available for that ferry to be able to be used for  
14 additional revenue and then finding avenues to actually  
15 build that revenue are almost non-existent. I don't know  
16 how that can be factored in, but that against the operator  
17 is a major factor for us.  
18  
19 THE CHAIRMAN: That is a good point. The way we have  
20 tried to factor it in is we have made a judgment that  
21 50 per cent of the cost of the secondary vessel goes into  
22 the cost of business and hence is reflected in the  
23 efficient fares. The issue is whether that is too much or  
24 not enough. I think what you are saying is that you have  
25 doubts about whether the 50 per cent is enough.  
26  
27 MS TOWERS: We have been advised that spare ferries are  
28 used between 10 to 20 per cent of the time, so the 50 per  
29 cent was supposed to err on the side of caution.  
30  
31 MR WHITLEY: Sorry, 10 to 20 per cent of the normal  
32 service run?  
33  
34 MS TOWERS: Yes, for the contracted services that are  
35 provided.  
36  
37 THE CHAIRMAN: So if a ferry operated --  
38  
39 MR WHITLEY: I understand that, yes.  
40  
41 MS TOWERS: So we are happy to get advice about --  
42  
43 THE CHAIRMAN: So what you are saying is rather than  
44 putting in 20 per cent by saying they are only used for  
45 20 per cent of the main routes, we have said 50. It is a  
46 judgment call.  
47

1 MS GLEEN: At Church Point Ferries, we split out our  
2 charter revenue from our normal revenue. You will probably  
3 notice it is zero. That is because we have so little use  
4 for a back-up ferry. It is able to be used on the run, but  
5 it is very small. It has no bathroom and there are not  
6 many tourists that are willing to use a boat with no  
7 bathroom. I am sure everyone has other things to say, but  
8 I would certainly say 50 per cent for a back-up vessel is  
9 not reasonable.

10  
11 There is another thing. You are recommending rates of  
12 \$9.50 to \$15.50 per service hour. I am wondering what  
13 those costs would look like if, rather than being done per  
14 boat-use hour, they were done per passenger head. For  
15 example, I know that some operators have two or three crew  
16 members and other operators have one. That may make a  
17 difference.

18  
19 MS CASSAR: Yes, so the service hours does provide a  
20 consistent platform across ferry services and across the  
21 cross-categories. I take your point that you are operating  
22 with different numbers of crew depending on capacity, the  
23 number of people on board, et cetera. That is taken into  
24 account in the labour cost benchmark.

25  
26 MS GLEEN: I believe that the operating costs should be  
27 per passenger rather than per hour. I know that Palm Beach  
28 and Cronulla probably have far higher costs that we do. We  
29 have a small ferry and one man. They have two or three  
30 crew members and they have much more complex and  
31 complicated boats.

32  
33 MS CASSAR: That is reflected in the labour cost  
34 benchmark. A ferry service with two or three operators has  
35 a higher allocated benchmark versus the other.

36  
37 MS GLEEN: The thing is that in all the operating  
38 costs?

39  
40 MS CASSAR: And it is in the category "Other operating  
41 costs". So there is a component of that that we adjusted  
42 to reflect that different ferry services have different  
43 FTEs, and some of those operating costs are related to the  
44 FTEs employed, so we have adjusted for that as well.

45  
46 THE CHAIRMAN: CIE and the tribunal have tried to take  
47 that into account because an efficient ferry service for a

1 particular route just might be as small as one person  
2 whereas an efficient service for another route, could  
3 require, as Laura said, two or three people, and we tried  
4 to take that on board.

5  
6 MS GLEEN: I am wondering how well that has been done,  
7 given that the larger ferry operators are having their  
8 fares --

9  
10 THE CHAIRMAN: It has been done to the best of our  
11 ability, but it doesn't mean to say it can't be improved.

12  
13 MS TOWERS: If you have any other information you would  
14 like to share with us, we would be happy to get it.

15  
16 MR COLIN CAMPBELL: We appreciate that the number of crew  
17 has been adjusted to reflect whether it is one two or  
18 three. When we worked through the report after it came  
19 out, one of the things that appeared to us was that there  
20 is a start-up and shut-down time to get the services  
21 running. That is another bit of feedback that we have  
22 already given and that seemed to be missing from the labour  
23 calculations.

24  
25 THE CHAIRMAN: Sure.

26  
27 MR STOCKLEY: Can I continue on the second ferry part  
28 of the report?

29  
30 THE CHAIRMAN: Yes, of course.

31  
32 MR STOCKLEY: Likewise, as Penny Gleen and others were  
33 saying, we run a small business. At any time we have one  
34 crew member on deck driving the ferry. We have a total  
35 staff of three. Yes, we have two ferries. You guys  
36 calculate that we should only have 50 per cent allowance on  
37 the second one.

38  
39 We have an obligation to Transport for NSW to fulfil  
40 minimum service standards to maintain a service running.  
41 Contractually, we submitted a schedule of vessels which  
42 were operating on that service when we went through our  
43 tender price. Both our vessels are named as vessels on  
44 that run in the documentation that went in during the  
45 tender and for the contract.

46  
47 We assumed we had two vessels which were required to

1 operate our ferry service. I note IPART copied and pasted  
2 a paragraph off our website where we do advertising and a  
3 bit of information regarding the Banksia, our secondary  
4 ferry. However, that does not equate to any form of  
5 charter income. As with Penny, our second ferry is the  
6 equivalent of a small bus on the road. It does not have  
7 toilet facilities. It does not have galley facilities. It  
8 comfortably takes 35 to 40 passengers. It is not a vessel  
9 suitable for continual charter work. Other than that, we  
10 have also made the decision not to employ extra staff  
11 members to concentrate on trying to push charter work on  
12 that vessel.

13  
14 I wonder whether there should be some sort of change  
15 to the contract to reflect the fact that we only have a  
16 replacement or back-up vessel available to replace the main  
17 ferry 50 per cent of the time. I am sure if I started  
18 cancelling runs or having days with no service, based on  
19 the fact that our back-up crew was off on a charter job, it  
20 would probably introduce quite a bit of difficulty into the  
21 whole situation.

22  
23 THE CHAIRMAN: On that, the issue about the contract with  
24 Transport for NSW, we take that as a given. They have  
25 contracted with you to provide certain services, so you  
26 need to have a back-up ferry in the event that the main  
27 ferry is out of action at certain times.

28  
29 We then get to the point of what should be in the  
30 efficient fare? Is it the capital cost of two ferries in  
31 the efficient fare, which means that commuters would have  
32 to pay for running of two ferries while possibly the ferry  
33 operator is making additional income out of the second  
34 ferry, or is it 10 per cent or 15 per cent, which is  
35 roughly the number of times that the second ferry is  
36 substituted for the primary ferry in order to deliver the  
37 service for which you are contracted with Transport for  
38 NSW? What we have done is come out and said 50 per cent.

39  
40 One can put in submissions that it should be 60 or 70,  
41 or something like that. It is probably a little extreme to  
42 go for 100 per cent in all cases because there is  
43 additional, what we call, non-regulated income and there is no  
44 reason why people who are on a regulated service should pay  
45 for that. Then probably 10 or 15 per cent is cutting it  
46 too fine because you have to have it there for  
47 contingencies. So that is a judgment call and --



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MR STOCKLEY: But should these services be stand-alone businesses which cover all our costs or should we be expected to subsidise the regulated service by pursuing charter income with our vessels?

THE CHAIRMAN: From IPART's perspective, in making our recommendation on the maximum fare to Transport for NSW, we do not expect you to subsidise it from other operations. Most regulated businesses, not just ferries, have unregulated income. For example, Sydney Water, has a small piece of unregulated income, so we take the cost of those activities out when we work out their water bills. That is what we are trying to do with ferries.

MR STOCKLEY: In that case, if you are again making assumptions that we have unregulated income, maybe IPART should ask for that information prior to going through the reporting process.

THE CHAIRMAN: You can submit to us now that you have no unregulated income and we will take it into account. As I say, in the case of Brooklyn Ferries, you have an ad on your website site soliciting other income, so it is not unreasonable for us to --

MR STOCKLEY: I think it is unreasonable to copy and paste a paragraph off our website and base an assumption that we have unregulated income on that information. I can delete that page off our website tomorrow, but that doesn't mean we have the opportunity to have unregulated income.

THE CHAIRMAN: We are not trying to get you to change your website. We are trying to make a judgment about what is the appropriate capital cost, what percentage of the capital cost for the second ferry should be paid for by the passengers. If you want to put to us that 50 per cent is too low, we will listen. We will listen.

MS TOWERS: It is efficiency that we are talking about: should your passengers be paying for 100 per cent fare?

THE CHAIRMAN: It is about efficiency and what is reasonable.

MR STOCKLEY: It is not just efficiency; it is the ability to provide a service and to meet service standards. If we

1 were to take our second vessel, which basically sits on a  
2 mooring and gets used 10, 15 per cent of the time, however,  
3 it is maintained to a level where it can be operated at any  
4 moment, and sent it off on charter work and then we were  
5 confronted with the situation where we needed that back on  
6 the service, what would we be expected to do?  
7

8 I note that as part of me tendering for this run,  
9 I had to prove that we had back-up ability with vessels,  
10 redundancy on vessels, and that we could maintain the  
11 standard of the service that was asked for. We did that by  
12 naming two vessels which were going to be dedicated to this  
13 run, whether they were both in operation at the same time  
14 or not. In essence, our back-up vessel is primarily used  
15 on a Saturday or Sunday where we need extra vessel capacity  
16 or it sits as a back-up vessel. We might have two or three  
17 small charter jobs with Broken Bay camp once or twice a  
18 year, but it is not providing any level of income to the  
19 business.  
20

21 THE CHAIRMAN: The information we have had is that ferry  
22 operators do use these back-up vessels for other income.  
23 After looking at this, we made the assumption of 50 per  
24 cent of the costs to be included. We welcome submissions,  
25 questioning that and providing arguments about why 50 per  
26 cent is wrong.  
27

28 MR STOCKLEY: I am sorry, if I put in a further submission  
29 arguing those points, I will end up with the same thing  
30 that I have ended up this year; namely, about 30 pages  
31 dedicated to explaining why I am wrong. That is what tends  
32 to happen with the submissions I make.  
33

34 THE CHAIRMAN: That is not the case.  
35

36 MR WILLET: Rick, I can assure you that where we have  
37 situation where the services provided by an operator  
38 require part of the ferry - so 1.5 or 2.5 - that poses a  
39 dilemma about how much costs we should allow. As Peter  
40 says, that allowance should be more than the proportion of  
41 the time that that second or third ferry is used, but  
42 probably less than 100 per cent of the costs, so somewhere  
43 in that range.  
44

45 We understand that could be anywhere in that range and  
46 there are a range of factors you can take into account in  
47 coming to a conclusion on that, including whether there are

1 any other revenues that are unregulated associated with  
2 that second or third ferry. We do have genuinely open  
3 minds on this. We would be more than happy to hear from  
4 you that the allowance in your case should be more towards  
5 100 per cent and I can guarantee you we will take that into  
6 account.

7  
8 MR WHITLEY: May I make one comment? I think Table 2.2,  
9 which actually describes that, was very poorly done. You  
10 have Cronulla and National Park Ferry Service and I also  
11 note the Fantasea one. Whilst it is one business, there  
12 are a number of other vessels that have nothing to do with  
13 this service, and you have listed them there. We cannot  
14 have, sorry, to say, weddings engagements and party cruises  
15 on the ferry. Both vessels are designed as ferries. It is  
16 listed quite clearly that they can chartered on Port  
17 Hacking.

18  
19 The Gunnamatta and Explorer crews are announced as  
20 providing friendly service and fabulous gourmet food,  
21 which, I can assure you, is true. You are all welcome to  
22 come and try that. However, both the Explorer and the  
23 Gunnamatta have nothing to do the contract. They have  
24 nothing to do with providing the service.

25  
26 MS COPE: Can I clarify something you said earlier, are  
27 you right that your second ferry is actually used regularly  
28 during peak hours?

29  
30 MR WHITLEY: It is actually contracted for the school  
31 run - so all school days.

32  
33 MS COPE: So you have a significant proportion of time  
34 every day for your second ferry?

35  
36 MR WHITLEY: Correct.

37  
38 MS COPE: In addition to the need for it to be available  
39 at other times if something happens to the other ferry?

40  
41 MR WHITLEY: That's correct. The only other thing I would  
42 like to mention in relation to that is that, at the mouth  
43 of Port Hacking where it travels across from Port Hacking  
44 to Bundeena if for some reason that ferry needs to be  
45 cancelled we are liable. Transport for NSW pays two-thirds  
46 of it now, but that has only been in the last couple of years.  
47 If that happens, Cronulla Ferries is actually liable for

1 that cost as part of that contract. There is no income  
2 coming in at all at that point. It is just an expenditure  
3 to replace that service with a bus service.  
4

5 THE CHAIRMAN: We note your comment on the Table 2.2,  
6 thank you. Are there other comments and questions? Angus?  
7

8 MR ANGUS CAMPBELL: Just one final comment, Mr Chairman.  
9 I would like everyone involved in this process to have a  
10 look at the cumulative effect of our prices being frozen  
11 for four years. If the cumulative effect is saying that we  
12 are currently 14, 18 per cent above the most efficient fare  
13 then, after what I have heard from the gentlemen over there  
14 about the miscalculation or the margin gap where they could  
15 actually be charging more, it concerns me that, by the time  
16 we get to the end of four years, I am going to be 20 per  
17 cent behind and that will have a dramatic effect on our  
18 business. I don't think any business could handle a 20 per  
19 cent reduction in price over the next four years. If you  
20 could consider what we have been talking about today, it  
21 would be good.  
22

23 MR COLIN CAMPBELL: There is another thing relating to  
24 that pricing aspect and payments. We actually receive one  
25 of those in relation to one of the services that we run in  
26 recognition of the fact that there was not the number of  
27 passengers to make it a viable stand-alone service.  
28

29 MS TOWERS: Palm Beach has actually provided us with some  
30 information --  
31

32 THE CHAIRMAN: We are aware. Thanks for that.  
33

34 MR WHITLEY: Could I make one further comment in relation  
35 to Cronulla Ferries?  
36

37 THE CHAIRMAN: Yes, sure.  
38

39 MR WHITLEY: If over the next few years for the pricing -  
40 in the IPART report it says that we will be down  
41 14 per cent based on CPI. That is what has been requested  
42 by Cronulla Ferries. I find it very difficult to believe  
43 that, at \$6.40, any other ferry operator tendering for that  
44 run would be able to do it for that cost. Based on what is  
45 feasible or viable that has been handed down in relation to  
46 the \$6.40, based on the modelling, I find it very difficult  
47 to believe that if, for some reason, over that four years

1 something were to happen financially, a new tender would be  
2 able do it for that price.  
3  
4 THE CHAIRMAN: All right, that is basically saying we have  
5 the efficient fare wrong; yes?  
6  
7 MR WHITLEY: Yes.  
8  
9 THE CHAIRMAN: So we will take that on board.  
10  
11 Kylie, do you want to say anything?  
12  
13 MS KYLIE GAYNOR (Matilda Cruises): We are in Sydney  
14 Harbour and, as you stated here and in the document, we are  
15 in a very competitive market and our prices are lower than  
16 maximum because we need to, to stay the best. We are  
17 competing against Opal, basically, as our main competitor  
18 in Sydney.  
19  
20 THE CHAIRMAN: Thank you very much, Kylie. Are there any  
21 other questions or comments?  
22  
23 Closing Remarks:  
24  
25 THE CHAIRMAN: We have a bit to work on. I would like to  
26 thank you all for coming today. It has been a really good  
27 discussion. I really appreciate the way that you have  
28 entered into it.  
29  
30 A transcript of today's proceedings will be  
31 available on our web site in a few days. Submissions on  
32 our draft report are due on 27 October. We will provide  
33 our final report and determination to the Minister for  
34 Transport and Infrastructure in mid-December.  
35  
36 Time is reasonably tight, so if you could get your  
37 submissions in by the 27th, that would be really  
38 appreciated because we will need to take into account the  
39 points you have made in moving to the final report.  
40  
41 Thank you all very much and thanks for coming. Have a  
42 good afternoon.  
43  
44 AT 1.25PM, THE TRIBUNAL WAS ADJOURNED ACCORDINGLY  
45  
46  
47