



Review of cost structure for Stockton and private ferry services

IPART public hearing presentation

15 October 2013

Laura Cassar

Key elements of review

- Compare cost weights against historical cost
- Assess how well changes in historical cost are matched by inflators
- Assess alternative forms of regulation
- Review measures of capital costs

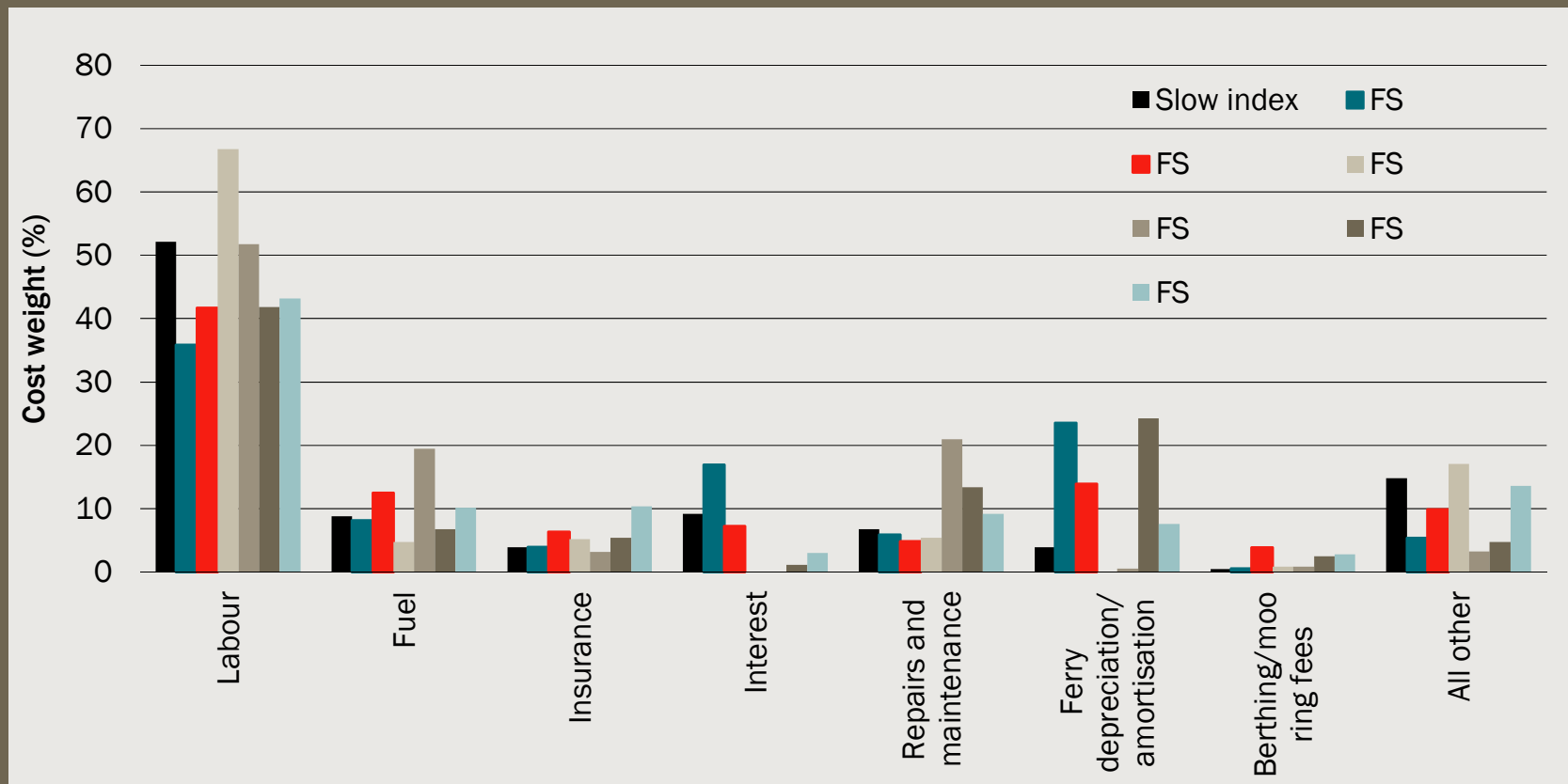
Key findings

- FFCI/SFCI cost have not reflected historical cost data for the past five years
- Inflaters, with the exception of the fuel index, have not aligned closely to reported movements in cost since 2008-09
- FFCI and SFCI tracked closely over past five years despite differences in composition
- Alternative simpler forms of regulation give similar results to FFCI/SFCI

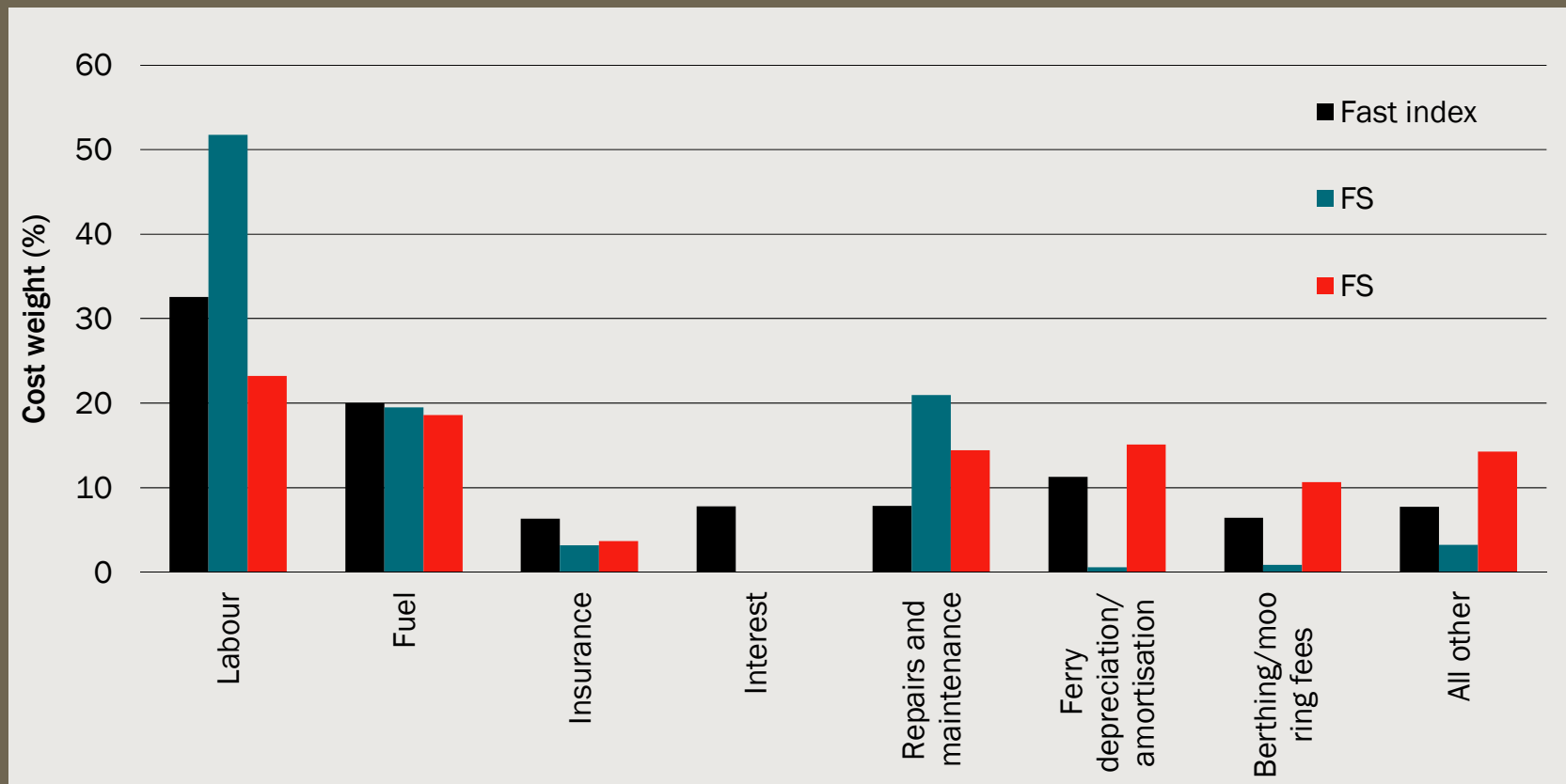
Alignment of cost weights to historical cost

Cost item	SLOW		FAST	
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
	IPART's cost weights for 2013	Weighted average cost weights	IPART's cost weights for 2013	Weighted average cost weights
Labour	52.1	48.6	32.6	42.5
Fuel	8.8	12.2	20.0	19.2
Insurance	3.9	4.8	6.3	3.3
Interest	9.1	4.1	7.8	0.0
Repairs and maintenance	6.8	12.5	7.9	18.8
Ferry depreciation/amortisation	3.9	9.0	11.3	5.3
Berthing/mooring fees	0.5	1.4	6.4	4.0
All other	14.8	7.5	7.7	6.8

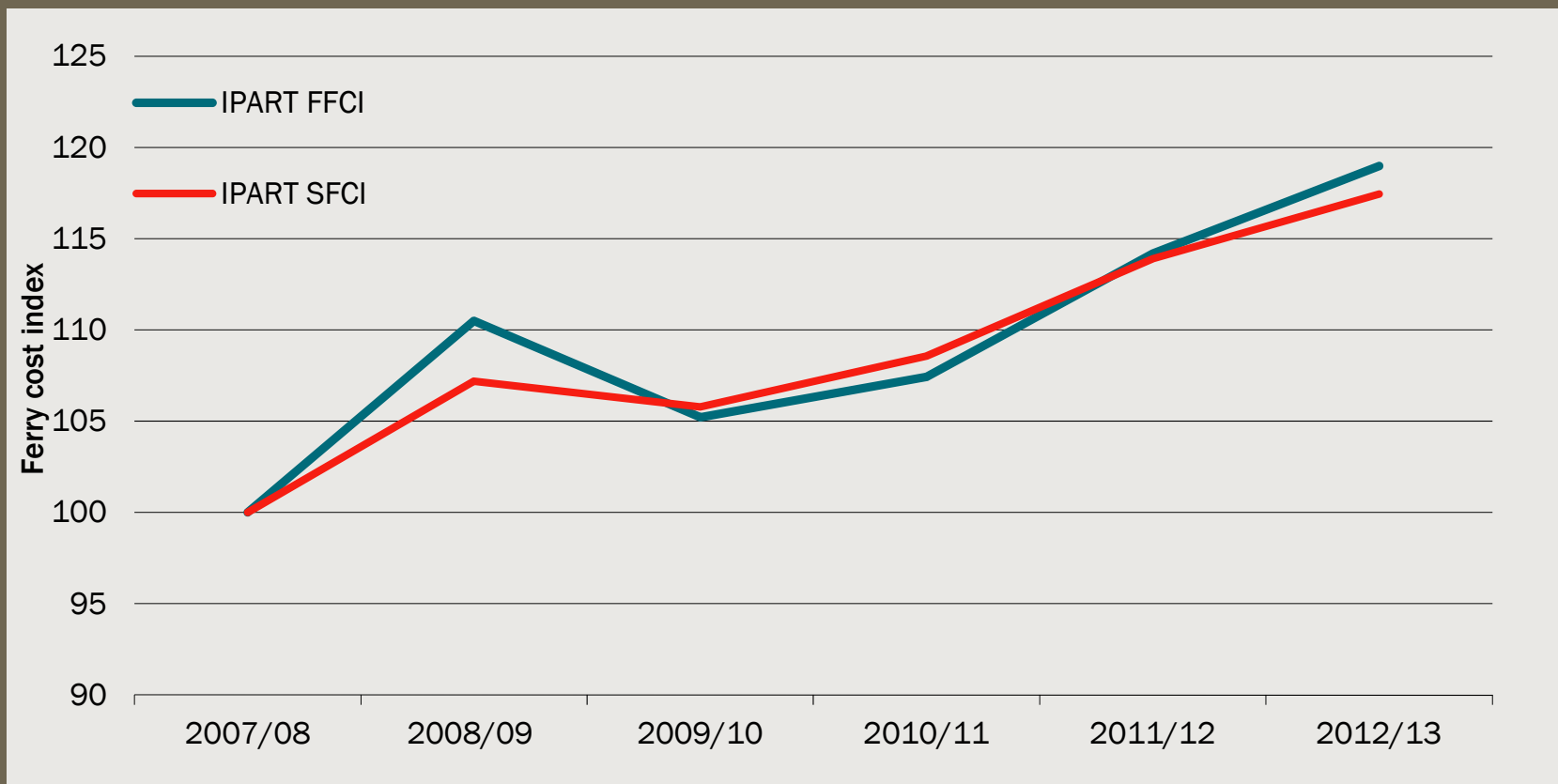
Variation around SFCI



Variation around FFCI



Tracking FFCI and SFCI over past five years

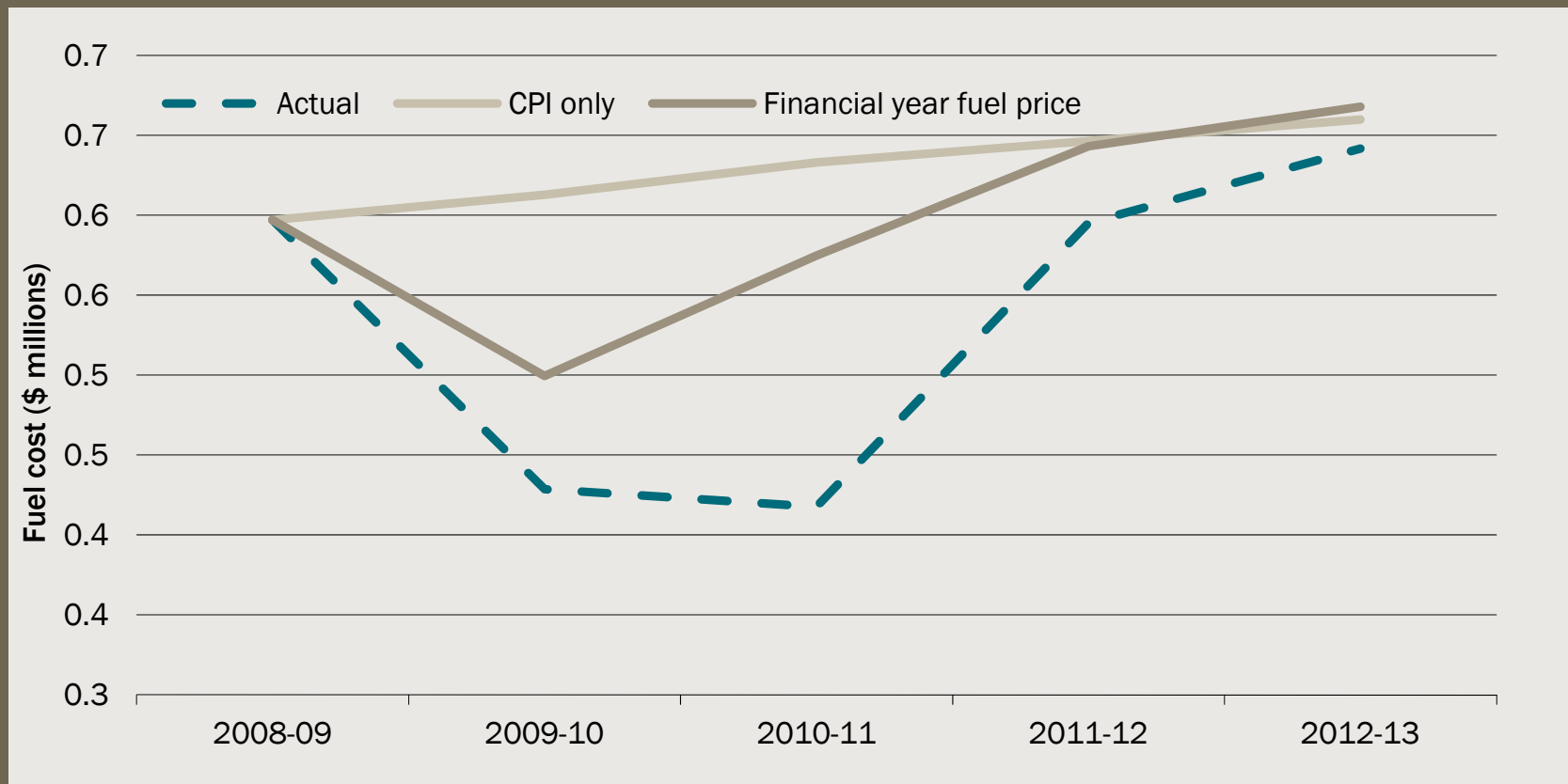


Did inflators match annual cost changes?

- Most inflators performed poorly with exception of fuel index

Cost item	Inflator used for indexation	Performance against actual cost data
Labour	Wage Price Index (WPI)	No clear relationship
Fuel	Fueltrac diesel fuel price data	Fuel index does capture industry trends.
Insurance	Insurance Consumer Price Index (CPI)	No clear relationship
Interest	NAB Base Rate Business Loan	No clear relationship
Repairs and maintenance	Consumer Price Index (CPI)	No clear relationship
Depreciation/ amortisation	Consumer Price Index (CPI)	No clear relationship
Berthing/ mooring fees	Consumer Price Index (CPI)	No clear relationship
All other	Consumer Price Index (CPI)	No clear relationship

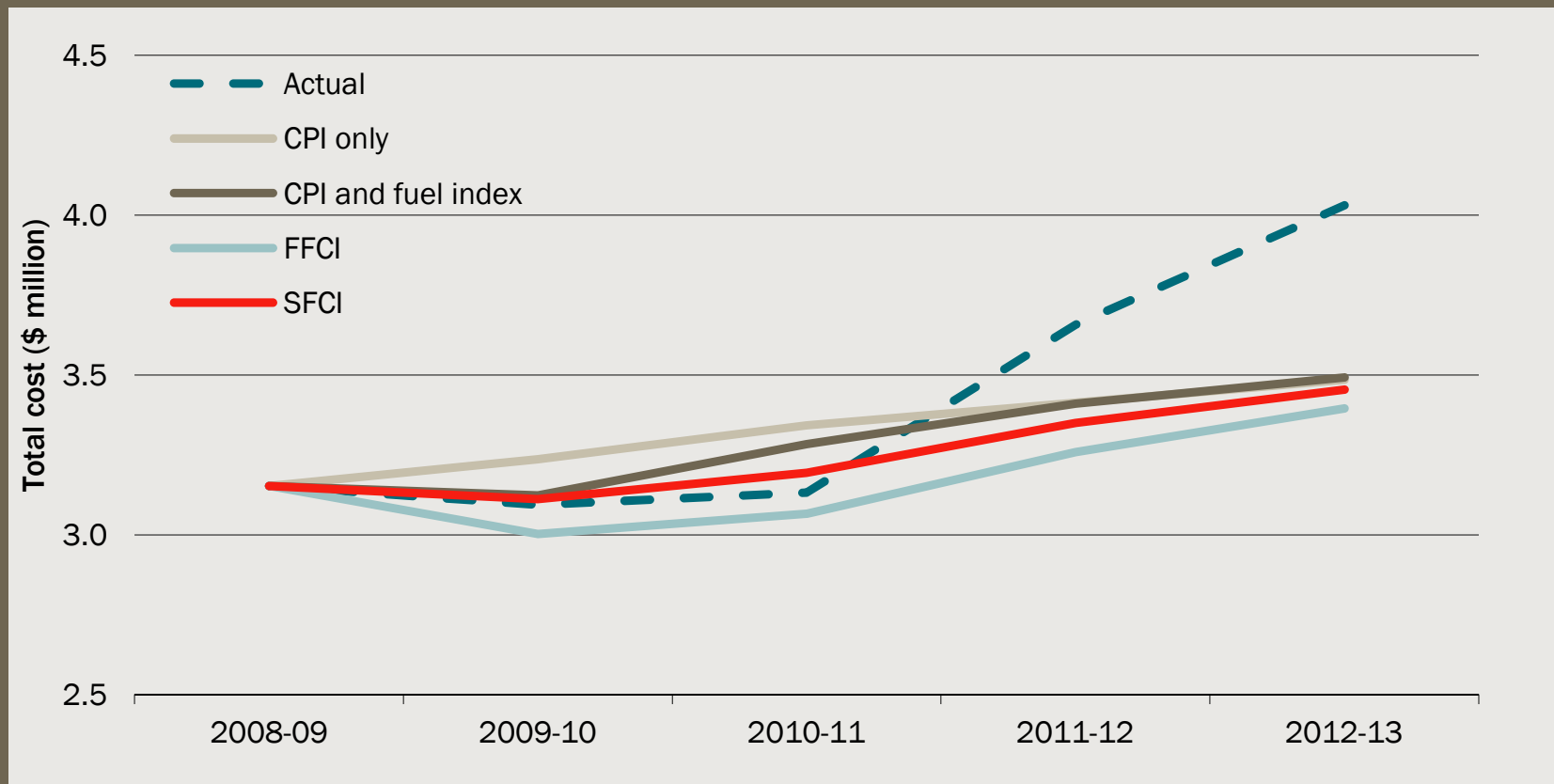
Estimating fuel cost



Alternative forms of regulation

- ‘CPI only’ – index total cost by CPI, removing the requirement for cost share weights and individual indexes for cost items.
- ‘CPI and fuel index’ – index the cost of fuel by the fuel index, and index the remaining total cost (excluding fuel) by CPI.

Estimating total annual cost



Review of capital cost measures

- Currently a return on equity is missing from the cost indexes
- Two alternative approaches:
 - Capital Measure A – based on book value and depreciation as provided by operators, and a 7% return on capital
 - Capital Measure B – based on replacement cost of existing fleet and depreciation based on stated economic life

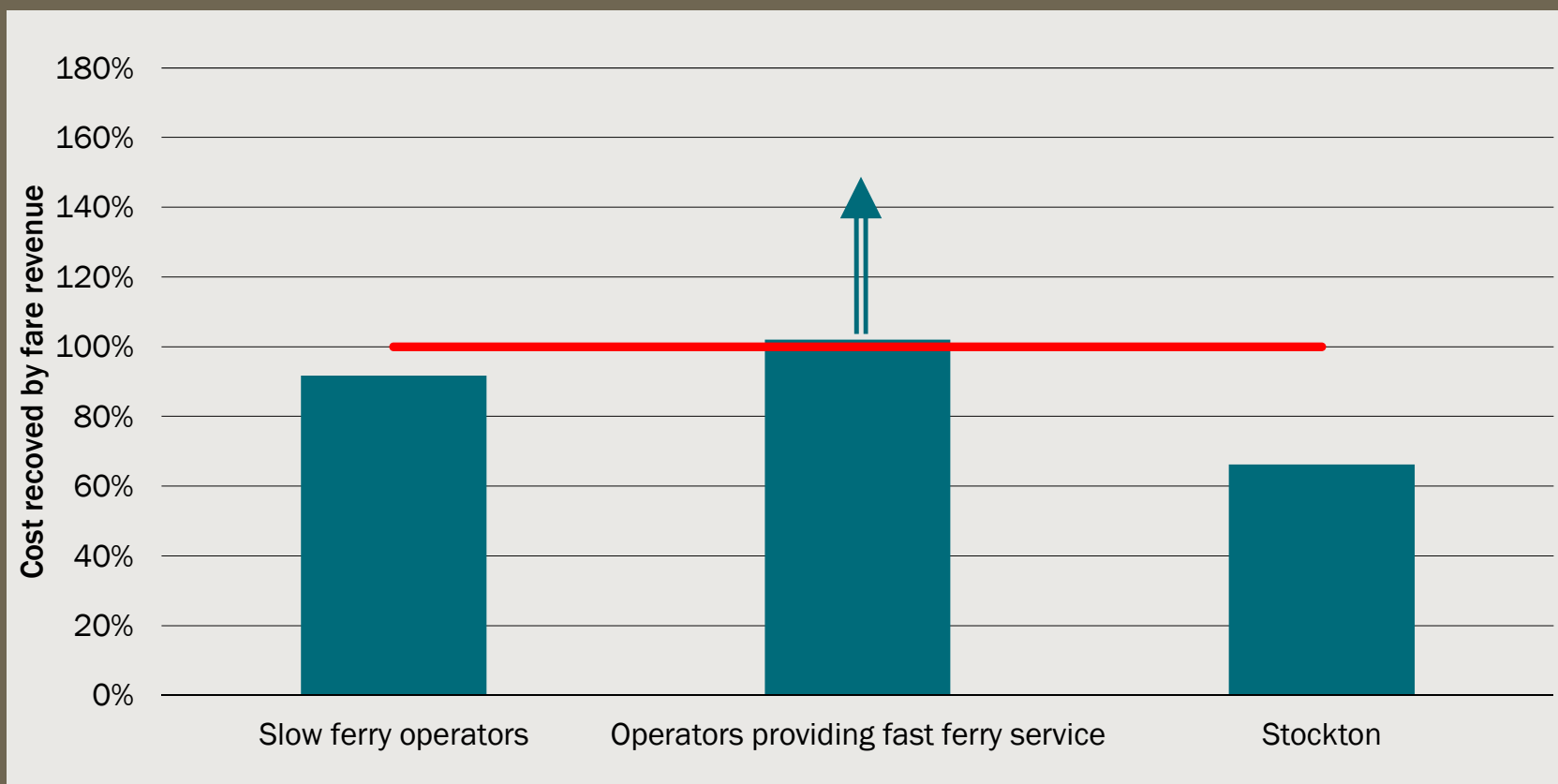
Cost weights with adjusted capital measures

Cost items	Adjusted SFCI		Adjusted FFCI	
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
	Capital measure A	Capital measure B	Capital measure A	Capital measure B
Labour	41.0	45.9	37.2	34.2
Fuel	10.3	11.6	16.8	15.4
Insurance	4.0	4.5	2.9	2.7
Repairs and maintenance	10.5	11.8	16.5	15.2
Berthing/mooring	1.2	1.3	3.5	3.2
All other operating	6.3	7.1	6.0	5.5
Capital	26.7	17.9	17.0	23.8

Cost weights for 'CPI and fuel index'

Cost index	Fuel	All other costs
	<i>Per cent</i>	<i>Per cent</i>
All operators cost index		
Capital measure A	11.5	88.5
Capital measure B	11.8	88.2
SFCI		
Capital measure A	10.3	89.7
Capital measure B	11.6	88.4
FFCI		
Capital measure A	16.8	83.2
Capital measure B	15.4	84.6

Level of cost recovery across services



Laura Cassar

Senior Economist, The CIE.

02 9250 0800

lcassar@TheCIE.com.au



www.TheCIE.com.au