

MINISTERIAL BRIEFING NOTE

Subject	Auckland Ferries
Date	21 June 2024
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Contact(s) for telephone discussion (if required)				
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Action taken by Office of the Minister

- Noted
- Seen by Minister
- Agreed
- Feedback provided
- Forwarded to
- Needs change [please specify]
- Withdrawn
- Overtaken by events

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21 June 2024

Hon Simeon Brown – Minister of Transport

Auckland Ferries

Purpose

1. This briefing provides you with an overview of Auckland Transport's (AT) approach to the procurement of ferry services, vessels and landside infrastructure, including previous NZ Transport Agency Waka Kotahi (NZTA) Board endorsements of business cases and procurement strategies.

Background

2. The NZTA Board's endorsement of the *Ferry Public Transport Services Improvements Single Stage Business Case* ('Services SSBC') and *Ferry Fleet Upgrade and Renewal Single Stage Business Case* ('Vessels SSBC') in early 2023, and the *Future Ferry Procurement Strategy* (endorsed in 2021, amendments endorsed in 2024), has set in place AT's current ferry procurement approach.
3. At a high-level, this approach enables greater AT ownership or control of vessels and landside infrastructure and AT to contract out the operation of ferry units, with the view of consolidating its contracted ferry units into a few units by 2035. Such an approach increases the value of the consolidated units, therefore increasing the attractiveness of the contracts and fostering greater competition. It also removes barriers to entry for prospective suppliers who otherwise do not have the existing infrastructure to compete with incumbents.
4. Prior to 2022 and the NZTA Board endorsements, most ferry journeys were undertaken on exempt commercial services; of the six million ferry trips recorded in 2019, only 1.4 million were on contracted services, while the remaining 4.6 million were on exempt services (i.e., privately operated by commercial companies outside AT control). The exempt services were the Devonport, Waiheke (Matiatia) and Waiheke (Kennedy Point) routes.
5. This commercial/contracted split created an issue whereby the commercial attractiveness of the contracted ferry service was limited due to them being relatively small operations, especially if operators were required to invest in expensive assets like vessels where the risk of stranded assets is high.
6. Delivering better value-for-money and increasing patronage from these smaller contracted ferry services was therefore hampered by the high upfront sunk costs (e.g., vessels) relative to contract size. This issue is a major barrier to non-incumbents entering the Auckland contracted ferry service market.
7. The presence of exempt commercial operations and the relatively small size of the contracted ferry operations, meant AT possibly paid more than it should to deliver its contracted services due to limited/no competition. In turn, due to paying higher operating prices, AT was not able to

provide as attractive a ferry service as it might like (e.g. running a service at 15 minute intervals rather than 30 minute intervals).

8. The exempt ferry services landscape changed considerably during the COVID-19 pandemic. Some of the exempt services' commercial viability became tenuous, culminating in AT taking over the Devonport route under contract in August 2022.
9. There is no intention for AT to contract the other existing exempt commercial services. In particular, in 2023 NZTA concluded that the tests under section 150 of the Land Transport Management Act 2003 had not been met with respect to the Waiheke (Matiatia) ferry and that its exempt status should continue.
10. In parallel, the dominance of the Auckland ferry market by one operator (86% market share in 2022) meant there was insufficient market tension to drive innovation and timely renewals of vessels infrastructure. The fleet was built principally in the 1990s and early 2000s and is approaching the end of its useful economic life. The average age of the fleet is 20 years compared to a typical design life of 25 plus years. The ageing fleet is becoming increasingly unreliable, with mechanical issues causing service cancellations and delays more common on the network.
11. The endorsed Services Single Stage Business Case (SSBC) and Vessels SSBC has provided the necessary funding for AT to start giving effect to a whole-of-life cost to maximise long-run value approach. This has enabled AT to:
 - take over and contract the previously exempt Devonport service
 - increase service levels and quality for other contracted services to cater for demand and grow patronage
 - progressively package up ferry contract units for tender, with the aim to tender for one or several units in 2035
 - purchase existing and new vessels and implement landside infrastructure to bring infrastructure under AT control for Stage 1 (Downtown, Half Moon Bay and Hobsonville Point), comprising:
 - seven new plug-in hybrid electric vessels (battery with auxiliary diesel generator for on-board charging)
 - two new trial electric vessels - part funded through Energy Efficiency and Conservation Authority (EECA) grant
 - supporting landside and electric charging infrastructure at Downtown Ferry Terminal, Hobsonville and Half Moon Bay.
12. We understand that there have been questions around the landside electric charging facilities. These charging facilities will draw from the grid and do not include a diesel generator. The hybrid ferries do have a back-up diesel generator onboard to provide additional resilience but are expected to primarily run on electric power.

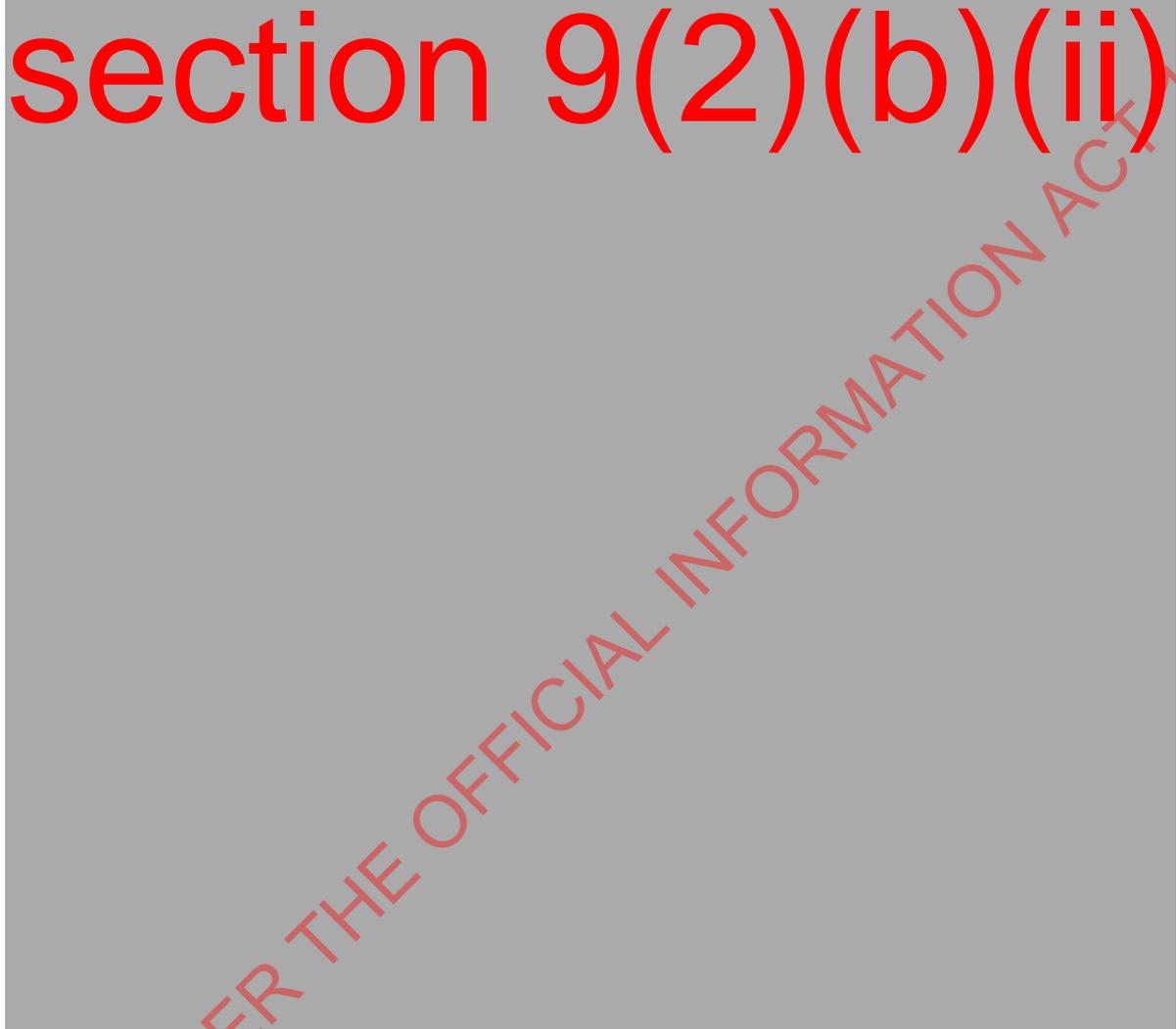
Auckland Transport ferry procurement – value for money

13. The NZTA Board's approval of the Vessels SSBC noted that the benefit-cost ratio (BCR) was 1.1 for battery electric vessels and supporting landside infrastructure. It also noted that the economic efficiency of the project was low due to high upfront capital costs while the longer-term benefits of this lead infrastructure were excluded.
14. Taking a longer-term 30-year view (in line with the GPS direction to look at whole-of-life costs and benefits), the BCR for using battery electric vehicles and supporting landside infrastructure (the option approved by the NZTA Board) increases to around 2, compared to section 9(2) if AT had renewed their entire fleet with new diesel vessels and associated landside infrastructure.
15. The Vessels SSBC also noted that it would deliver section 9(2)(b)(ii) savings in operating costs from the increased energy efficiency and vessel interoperability compared to the status quo. These savings arise from the additional cost of each hybrid vessel breaking even after six years. This means that on average, there is a section 9(2)(b)(ii) cumulative operating cost saving after 25 years compared to diesel vessels.
16. AT also compared the whole-of-life costs of AT ownership of vessels versus other ownership models, including the status quo operator-owned model. While the up-front capital is highest for AT ownership, whole-of-life cost was considered more important. It was found that AT ownership provides the lowest cost of funding over 12 years for each vessel section 9(2)(b)(ii) for AT owned versus section 9(2)(b)(ii) for operator-owned). This also provides extra benefits in terms of vessel interoperability which is currently lacking and severely restricts AT ferry operations. At present there are 16 unique vessels out of a fleet of 22 (73%).
17. Greater standardisation of fleet will reduce operating costs and increase operational efficiencies through simpler and common maintenance, parts sourcing, crewing training and certification, service reliability improvements and network operations. Service reliability is able to be enhanced, and the risk of cancellations reduced as more swapping can take place between vessels and crews and routes. Well-publicised crew shortages since 2023 were exacerbated by New Zealand maritime regulations requiring crew to be certified for operating each unique vessel.
18. Continuing with the operator-owned model also entrenches incumbent operators which make it difficult for new local or overseas operators to compete. This entrenchment decreases value for money for local government and NLTF funds.
19. The publicly owned/controlled model is considered best practice and widely adopted in comparable jurisdictions overseas, including in Sydney and Brisbane. In the last five years, Sydney tested an operator-led approach with its first privately procured tranche of ferries via the operator, but it led to major quality and infrastructure integration issues. Hence, they have reverted back to Transport for New South Wales owned ferries as is the case for the rest of their fleet.

Cost overruns for Stage 1

20. The financial landscape has changed considerably since the approval of the business cases in late 2022, with greater increases in costs from labour, construction and materials.

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Timeframes for when ferries will be in service

25. Of the seven ferries being procured for Stage 1:

- a. The two electric ferries being built in Auckland will be delivered in the first half of 2025 and are planned to ply the Half Moon Bay, Hobsonville Point, Birkenhead and Bayswater routes. Delivery has been delayed by six months due to the need to make design changes to comply with new maritime regulations (see paragraph 21 above).

- b. **section 9(2)(b)(ii)** [Redacted]

Timeframes for when the landside infrastructure will be delivered

26.

section 9(2)(b)(ii)

27.

Future unfunded stages

28. For reference, there are future stages in AT's vessel and landside infrastructure procurement programme that have not been put forward to NZTA for endorsement or funding approval. NZTA is advised that AT has local share for these future stages as confirmed by Auckland Council's recent adoption of their long-term plan.

29. These future stages entail:

- further power upgrades at Half Moon Bay and Downtown to futureproof for greater ferry demand
- more chargers at Downtown for greater operational flexibility
- upgrades at West Harbour for standardised vessels
- minor piling works at Birkenhead
- further fleet renewal for mid and outer harbour routes, and charging enablement across the broader network.

30. Funding requests for these future stages will need to be examined in light of the GPS and funding availability in future NLTPs. AT's staged approach means factors such as affordability and benefits realisation can be evaluated at appropriate stage gates. Stage 1 was developed in a manner that there is no risk of stranded assets if future stages did not proceed.

Next steps

31. The vessels and landside infrastructure will progressively be delivered over the next three years, with the first vessels entering service next year. This will support AT's progressive procurement of contracted ferry services through to 2035, by which time AT will go to market for one or several units to foster greater competitive markets.

32. **section 9(2)(b)(ii)**
[Redacted]

It is recommended that you:

1. **Note** the contents of this briefing



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Brett Gliddon
Group General Manager – Transport Services

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Hon Simeon Brown, Minister of Transport
Date: 2024

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