

# Agenda

## Review of the CityRail regulatory framework

<b>Topic</b>	Stakeholder roundtable
<b>Date</b>	31 July 2008
<b>Time</b>	1.30 to 5 pm
<b>Location</b>	IPART's offices - Level 8, 1 Market Street Sydney

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### 1. Format for the roundtable

The roundtable has been broken up into four parts consistent with the key issues identified in IPART's two discussion papers: Determining CityRail's revenue requirement and how it should be funded; and Deciding on the structure and level of CityRail fares.

After a brief introduction of each part, the Chairman - Dr Michael Keating AC - will ask those sitting at the roundtable to briefly provide their views on the issues identified by IPART. Each participant will be given a maximum of five minutes followed by general discussion amongst the roundtable participants. After each roundtable participant has been given the opportunity to speak the Chairman will allow questions from the other stakeholders in attendance. After the key issues have been discussed the Chairman will ask the roundtable participants to briefly make any further comments, call for any final comments from the floor then he will finalise proceedings and make his closing address.

The time allotted to each part is set out in the agenda below along with a brief summary of IPART's preliminary views and some of the key issues for discussion provided in IPART's two discussion papers. Participants should refer to these and the contents of the two discussion papers when preparing their contributions for the day.

The organisations invited to participate at the roundtable are as follows:

1. Ministry of Transport
2. RailCorp
3. Action for Public Transport
4. Commuter Council
5. Council of Social Service of NSW (NCOSS)

6. Western Sydney Regional Organisations of Councils (WSROC)
7. Rail, Tram and Bus Union (RTBU) - TBC

Members of the public are invited to attend to the roundtable however participation at the roundtable will be limited to the originations listed above. As explained above, after the roundtable participants have been given the opportunity to speak on the issues raised in each part the Chairman will ask for comments and questions from the floor.

## 2. Roundtable agenda

Time	Topic
1:15	<b>Registration</b>
1:30	<b>Welcome and IPART introduction by Chairman</b>
1:40	<p><b>Part 1: Approach to determining CityRail's revenue requirement</b></p> <p>In its discussion paper IPART indicated that its preliminary view was that the building block approach is the most appropriate methodology for determining CityRail's revenue requirement. This approach "builds up" the revenue required for a business by building up cost blocks including operating costs, depreciation and an allowance for a rate of return on capital. IPART also raised two other possible approaches: operating and maintenance cost and long run marginal cost. The use of the building block approach implies a revenue requirement of 2.2 to 2.8 billion over the 2008/09 – 2011/12 period (including the Epping to Chatswood Rail Link at its full value)</p> <p>IPART also sought stakeholder comment on the term of the regulatory period and the starting date for fare changes.</p> <p>Some of the key issues raised for stakeholder comment for this part:</p> <p><i>Is there any reason why IPART should not adopt the building block approach to determining CityRail's revenue requirement?</i></p> <p><i>The use of the operating and maintenance cost approach would result in all past and future capital being paid for by taxpayers, is this appropriate?</i></p> <p><i>Is a medium term price path of four years optimal? If not what period is appropriate?</i></p> <p><i>Should IPART move to a consistent fare change date in January of each year or are fare changes at the start of each financial year more suitable?</i></p>
2:10	<p><b>Part 2: Regulatory asset base, costs and cost efficiency</b></p> <p>IPART's preliminary view is that deprival value is the most appropriate approach for determining CityRail's regulatory asset base. Deprival value is equivalent to the lower of the economic value or optimised depreciated replacement cost. It takes account of revenue and cash flows, as well as the costs of replacing assets at current prices. Using the deprival value approach, IPART has estimated that CityRail's initial capital base should be \$1.4 billion, which is less than the written down</p>

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value of \$11.3 billion included in RailCorp's financial accounts.

It has also formed the preliminary view that based on LEK's findings on efficiency improvements CityRail can achieve significant cost efficiencies savings over the next four years. IPART's preliminary view is that cost efficiency savings of 18 per cent or nearly \$500 million by 2011/12 are appropriate.

Some of the key issues raised for stakeholder comment for this part:

*Is IPART's estimated value of CityRail's Initial Capital Base of \$1.4 billion and the approach it used to determine this value appropriate? If a higher value is adopted by IPART, how should the higher revenue requirement be reflected in fares?*

*Is the appropriate value for the Epping to Chatswood Rail Link assets to be included in CityRail's Regulatory Asset Base \$2.4 billion? If a lower value is adopted what is the justification for this?*

*Are LEK's recommended efficient operating and capital costs and the efficiency improvement objectives of 18 per cent or \$500 million over the four years appropriate? If a lower rate of efficiency improvement is targeted how should the additional revenue required be funded?*

*IPART's modelling indicates that not adopting LEK's recommendation on guards and staffing of low patronage stations would increase costs by \$300 million over the period 2008/09 – 2011/12. This would translate into additional fare increases of 1.5 percentage points each year or 6 per cent over the four year period. To what extent do passengers benefit from the presence of guards on trains and the staffing of low patronage stations relative to these costs?*

### 3.00

#### **Part 3: External benefits and passenger/taxpayer funding shares**

IPART has obtained expert advice from CRAI which found that CityRail provides considerable external benefits to NSW mainly in the area of reduced traffic congestion. Based on this advice, IPART has formed the preliminary view that passengers should fund around 30 per cent of CityRail's revenue requirements with the rest provided by taxpayers through Government subsidies. Such a funding split implies real fare increases of 20-30 per cent over four years.

Some of the key issues raised for stakeholder comment for this part:

*Is the range of \$1.7 – 2.0 billion an appropriate estimate of the value of the external benefits of CityRail services?*

*Should the government share of the revenue requirement be equal to the external benefits calculated by IPART? Is there any reason why taxpayers should contribute more?*

*Is it appropriate for CityRail passengers to contribute around 30 per cent of CityRail's revenue requirement by 2011/12?*

*If passengers pay less than 30 per cent, the additional funding will have to come from NSW taxpayers the majority of whom do not use CityRail's services or lower Government expenditure on other services such as health or education. Is it right that NSW taxpayers should fund more than the external benefits? What are stakeholder's views on the priority given to subsidising rail versus spending*

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on other government services?

*IPART's preliminary views on the external benefits and the 70/30 Government/passenger funding split imply fare increases over 4 years of around 20-30 per cent before the effects of inflation. Does this outcome provide the appropriate balance between passengers and taxpayers funding of CityRail?*

*If affordability issues are a concern, how should these be incorporated into determining the shares of the revenue requirement to be funded by passengers and government? What role do concession and off-peak fares play in mitigating the fare increases implied by a 30 per cent passenger funding split on passengers with a limited capacity to pay?*

**3.50**

**Part 4: Fare structure**

IPART's discussion paper on fares set out the following preliminary views:

That a distance-based fare structure that comprises a flat flag fall and per kilometre charge is the most appropriate fare structure

A consistent discount should apply to periodical tickets.

The discussion paper also set out the impact peak patronage growth in having on CityRail's costs and performance, and possible measures to address this issue including peak/off-peak pricing.

Some of the key issues raised for stakeholder comment for this part:

*Is a flat flag fall and a per kilometre charge that reflects CityRail's fixed and variable costs the most appropriate fare structure for CityRail? If not what fare structure is the most appropriate? How would the introduction of electronic ticketing affect stakeholder's assessment of the fare structure options?*

*For periodical tickets, should there be a constant discount regardless of distance travelled? If a constant discount for periodical tickets is adopted, is the 20 per cent discount that is currently applied to Sydney metropolitan bus fares a suitable target to transition CityRail ticket prices towards?*

*How should the current integrated tickets such as TravelPasses be priced to ensure users of these ticket types are not receiving a disproportionate subsidy from passengers using single and periodical tickets while still allowing and encouraging multi-modal travel?*

*To what extent should off-peak fares be set to encourage a shift from peak to off-peak travel to assist in alleviating congestion and delaying the need for further investment to increase capacity?*

*What level of discount compared to peak fares is likely to encourage passengers to shift from peak to off-peak?*

*Are there any other factors that are likely to encourage passengers to shift from peak to off-peak travel?*

*What time limits should apply to the use of off-peak tickets?*

**4.40**

**Other issues and closing comments by the Chairman**

**5.00**

**Close**

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