

14 June 2019

WHAT

Transport for NSW has notified IPART that it proposes to make the following changes to fares for Opal Services:

- ▼ Reduce the weekly travel cap from \$63.20 to \$50.00
- ▼ Increase all other Opal fares and caps by 1.9% (except for the Opal Gold daily cap).¹

There will be no change to the Opal Gold daily cap or to other Opal card benefits such as travel rewards and transfer discounts.

IPART has assessed the proposed Opal fare changes and found that they comply with our current Opal fare determination.

WHY

Transport for NSW is required to notify IPART before making changes to Opal fares. We review the proposed fare changes to ensure they do not exceed the amount allowed under our Opal fare determination.

The proposed fare changes increase the average adult fare by 1.2%.

Since 2015-16, when the current Opal fare determination commenced, the increase in the average adult Opal fare is 4.8%. This remains well below the maximum increase of 13% allowed under the determination.

¹ Single fares and some caps are then rounded to the nearest 10 cents.

HOW

IPART engaged Frontier Economics to undertake a Quality Assurance check of Transport for NSW's fare proposal. We also undertook our own analysis.

The remainder of this document includes more detailed information on the process we undertook and our key findings.

WHEN

Opal fares will change on Monday the 24th of June 2019.

Opal fares are train, bus, ferry, light rail and metro services on which an Opal card can be used. These services operate in Sydney Newcastle, the Central Coast, Wollongong, the Blue Mountains and Hunter regions.

WHAT NEXT

IPART is currently reviewing the maximum fares that will apply for Opal services from 2020. We welcome input from all interested parties.

IPART will issue a draft report by November 2019. We will seek submissions on this draft report and will also hold a public hearing.

If you would like to be notified of updates in relation to the current Opal fare review please subscribe for updates via our website: www.ipart.nsw.gov.au

1 IPART's current Opal fare determination

IPART determines maximum fares for Opal Services.² IPART's current determination does this using a 'weighted average price cap' approach.³ Under this approach, forecast average fares are calculated by weighting the prices of trips during the current year by the proportion of trips taken.

The current determination sets a maximum increase in the average adult fare of 13% over the determination period (which commenced in 2015-16).

Transport for NSW sets individual fares within this constraint. Changes in the fares for individual trips can be either higher or lower than the average. If Transport for NSW proposes to change Opal fares, the determination requires it to submit a pricing proposal to IPART that demonstrates that the proposal complies with IPART's determination.

2 Transport for NSW's fare proposal

Transport for NSW has submitted a pricing proposal to change fares for Opal Services from 24 June 2019:⁴

- ▼ Reducing the weekly travel cap from \$63.20 to \$50.00, implementing the Government's election commitment
- ▼ Increasing all other Opal fares and caps by 1.9% (except for the Opal Gold daily cap), reflecting CPI indexation
- ▼ Making no changes to other Opal card benefits such as travel reward and transfer discount.

Transport for NSW expects that the average adult fare will have risen by 4.8% since the current determination commenced in 2015-16. This is below the allowed maximum increase permitted by IPART's fare determination (13%).

Which services are covered by this review?



We are setting maximum fares for all services where an Opal card can be used, and are operated under a passenger service contract or bus service contract with Transport for NSW (TfNSW):

- **Train services** operated by Sydney Trains, NSW Trains and Sydney Metro.
- **Bus services** operated under a Sydney Metropolitan or an Outer Sydney Metropolitan Bus Service Contract with Transport for NSW and bus services operated by Newcastle Transport.
- **Light rail services** operated by Sydney Light Rail and Newcastle transport.
- **Ferry services** operated by Sydney Ferries and Newcastle Transport.






² IPART does not determine maximum fares for Gold Opal, Child Opal, Concession Opal and School Student Travel Scheme.

³ IPART, *Determination: Maximum fares for Opal Services*, May 2016.

⁴ Transport for NSW, *2019-20 Fares for Opal Services – Pricing Proposal for 24 June 2019*.

3 Our compliance review

As noted above, the current Opal fare determination sets maximum fares by imposing a limit on how much the average adult fare can increase over the determination period. The determination was specified in this way in order to provide Transport for NSW with flexibility over individual fares in the transition to Opal.

To assess compliance with the determination, we considered the average adult fare estimated by Transport for NSW and how it has changed over the determination period relative to the amount allowed by the determination. We also commissioned Frontier Economics to undertake a quality assurance review to confirm that the process and data Transport for NSW used to estimate the average adult fare is correct and reasonable.

How the average adult fare is calculated

The fare a passenger pays to make a journey using public transport depends on the mode(s) of transport used, the distance travelled, the payment method (single vs reloadable Opal card or contactless credit card/debit card/device) and the discounts and caps that apply. Calculating the average adult fare paid for a trip across the Opal network is a way of capturing all of these elements in a single value. This means that the value is affected by changes to the level of individual fares as well as by changes to the level and availability of discounts.

The airport station access fee and trips on Opal services using free travel, gold and school student Opal cards are excluded from the calculation of the average adult fare set out in our determination. Trips on Opal services using a concession, child or youth Opal card/ticket (which are charged at half the adult full fare) are included in the calculation at the applicable adult fare.

The process for calculating the value of the average adult fare is set out in Box 3.1.

Box 3.1 How the average adult fare is calculated

1. Extracting the adult (full fare) for each trip made on the network, excluding GST, for a representative period from the Opal database
2. Categorising each fare paid into one of the following fare bands:
 - ▽ Free
 - ▽ Paid but under \$2 (referred to in the remainder of this paper as Under \$2)
 - ▽ \$2 to less than \$3 (\$2-\$3)
 - ▽ \$3 to less than \$4 (\$3-\$4)
 - ▽ \$4 to less than \$5 (\$4-\$5)
 - ▽ \$5 to less than \$7 (\$5-\$7)
 - ▽ \$7 or more (Over \$7).
3. Calculating the average fare paid for all the trips that fall within that category
4. Calculating the proportion (weighting) of all trips that fall into each fare category
5. Multiplying the average in each category by the weighting and summing the results.

The projected value of the average adult fare for 2019-20 is \$2.61, excluding GST. Adding GST gives an average adult fare of \$2.87, which sits between the fare for the cheapest single off-peak trip for train, bus and light rail services and the fare for the shortest single trip peak train trip.⁵

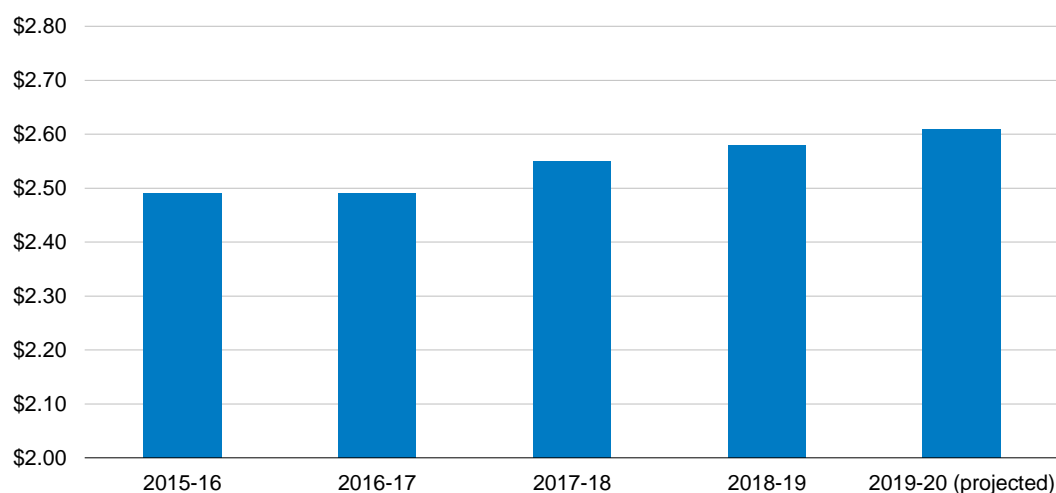
While many passenger trips cost more than this, the average annual fare reflects the fact that many trips on public transport receive some type of discount. Discounts that act to reduce the average adult fare include:

- ▼ The weekly travel reward, which gives a 50% fare discount for all trips made after the first 8 in a week
- ▼ The daily cap, where travel is free for the rest of the day once the total value of fares paid reaches \$15.80, or \$2.70 on Sundays (\$16.10/\$2.80 from 24 June 2019)
- ▼ The weekly cap, where travel is free for the rest of the week once the total value of fares paid reaches \$63.20 (\$50 from 24 June 2019)
- ▼ A \$2 discount for switching between different modes of public transport within the same journey (significantly reducing the price of the second and subsequent trips).

How the average adult fare has changed over the determination period

The projected average adult fare for 2019-20 of \$2.61 is 4.8% higher than the average adult fare of \$2.49 in 2015-16 (Figure 3.1) in nominal terms (excluding GST).

Figure 3.1 Average adult fare over the determination period (\$ nominal)



Note: Average annual fares are GST exclusive

Data source: IPART compliance statements

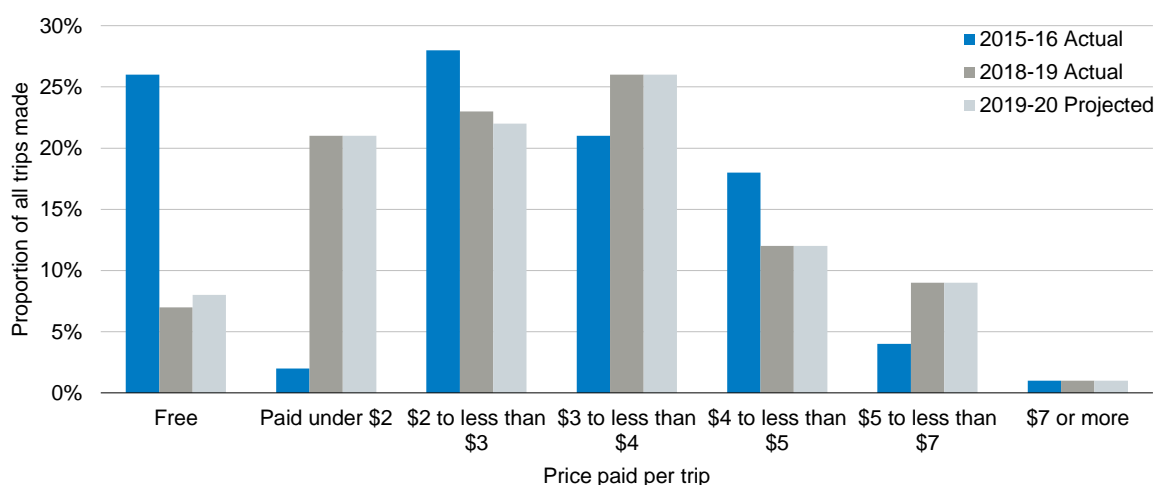
⁵ The proposed 0-10km off-peak train fare is \$2.52, the proposed 0-3km bus and light rail fare is \$2.24 and the proposed 0-10km peak train fare is \$3.61.

Since 2015-16, Transport for NSW has made a number of structural changes to the discounts available on Opal services; the most significant of these occurred between 2015-16 and 2016-17. The average adult fare did not change over this time as the positive and negative impacts of those changes balanced each other out.

The impact of the structural changes is evident in the trip distribution that underlies the average fare calculation (the proportion of total trips that fall into each category of fares or fare band). (Figure 3.2). Notably:

- ▼ In 2015-16 around a quarter of all trips made were free. These free trips resulted from a combination of the weekly travel reward (which previously gave free travel once 8 paid trips had been made in a week) as well as free travel made after daily or weekly caps are reached.
- ▼ Currently, the proportion of trips made for free is significantly below the 2015-16 level as the weekly travel reward was changed to a 50% discount after 8 paid trips in September 2016. At the same time, the proportion of all trips that are paid but cost under \$2 has risen from 2% to over 20%.
- ▼ In 2019-20 the proportion of trips made for free is expected to rise slightly as a result of Transport for NSW's proposal to lower the weekly cap. Transport for NSW also projects a slight reduction in the proportion of trips that are paid but cost less than \$3.

Figure 3.2 Change in the proportion of public transport trips in each fare category between 2015-16 and 2019-20 – reloadable Opal card



Note: Distribution of trips made using an adult reloadable Opal card. Excludes single use Opal cards

Data source: Transport for NSW pricing proposals (2016-17 and 2019-20)

Frontier Economics has provided assurance that the proposed fare changes are consistent with the determination

As part of our assessment, we engaged Frontier Economics to undertake a Quality Assurance (QA) check of Transport for NSW's pricing proposal. Frontier Economics provided assurance

that the Average Adult Fares for 2019-20 in Transport for NSW's pricing proposal are consistent with our determination.

Frontier Economics reviewed the data, logic, calculations and assumptions underlying the pricing proposal. It confirmed that Transport for NSW assumptions are reasonable as well as tested the sensitivity of key assumptions affecting the increase in Average Adult Fares for 2019-20. As part of the QA check, Frontier reviewed Transport for NSW's proposed trip distribution to ensure it is representative of expected trips in 2019-20.

Frontier Economics concluded that the proposed increase in the Average Adult Fare between 2015-16 and 2019-20 does not exceed 13% and that the Transport for NSW Pricing Proposal complies with our Determination.

A copy of Frontier's report is available on our website.