

PUBLIC TRANSPORT FARES

from 5 July 1998

CITYRAIL AND STA BUSES AND FERRIES

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES**

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In October 1996, the Tribunal published a Final Report for its major inquiry into the pricing of public passenger transport services of the State Rail Authority (SRA) under the name CityRail, and the State Transit Authority (STA). In the Final Report, the Tribunal proposed an approach to setting fares which takes account of the various policy objectives and constraints surrounding public transport.

In the Final Report, the Tribunal proposed real increases in CityRail fares of 15 percent over four years to reduce the gap between fare revenue and efficient operating costs. Two years on, the Tribunal recognises that CityRail's cost recovery is still very low and many of the periodical and multi-mode tickets provide a very large discount on the equivalent distance cash fare.

In this determination, the Tribunal notes CityRail's continued desire to rationalise its fare structure. The Tribunal supports this approach. However, it is concerned about the impact of the proposal on some travellers. The Tribunal is of the view that rationalisation of the fare structure has been proceeding for a number of years. The Tribunal also wishes to avoid relatively large increases for some passengers.

The Tribunal notes that CityRail is taking measures to improve its efficiency and safety and has made significant gains in service reliability. The Tribunal also notes the Government's views on fare increases.

Given these factors, the Tribunal has decided to limit weighted average fare increases for CityRail to broadly in line with forecast inflation.

In the Final Report, the Tribunal concluded that there was substantial scope for the STA to increase efficiency and improve cost recovery from its bus and ferry services. The Tribunal proposed setting fares that provide incentives for STA to achieve such improvements. During the year, the Tribunal, in conjunction with the NSW Department of Transport, initiated an analysis of STA's bus costs. This analysis identified areas of potential cost savings. This determination has been made on the basis that these savings will be implemented over the next three years.

The Tribunal has permitted modest increases in some STA fares but has imposed limits on the extent of such increases. The overall fare increases for STA are in line with the forecast level of inflation.

The Tribunal has allowed increases in a number of CityRail fares that will result in a weighted average increase in fares of 3.2 percent. The Tribunal has allowed increases in certain STA bus and ferry fares that result in a weighted average increase in fares of 2.2 percent.

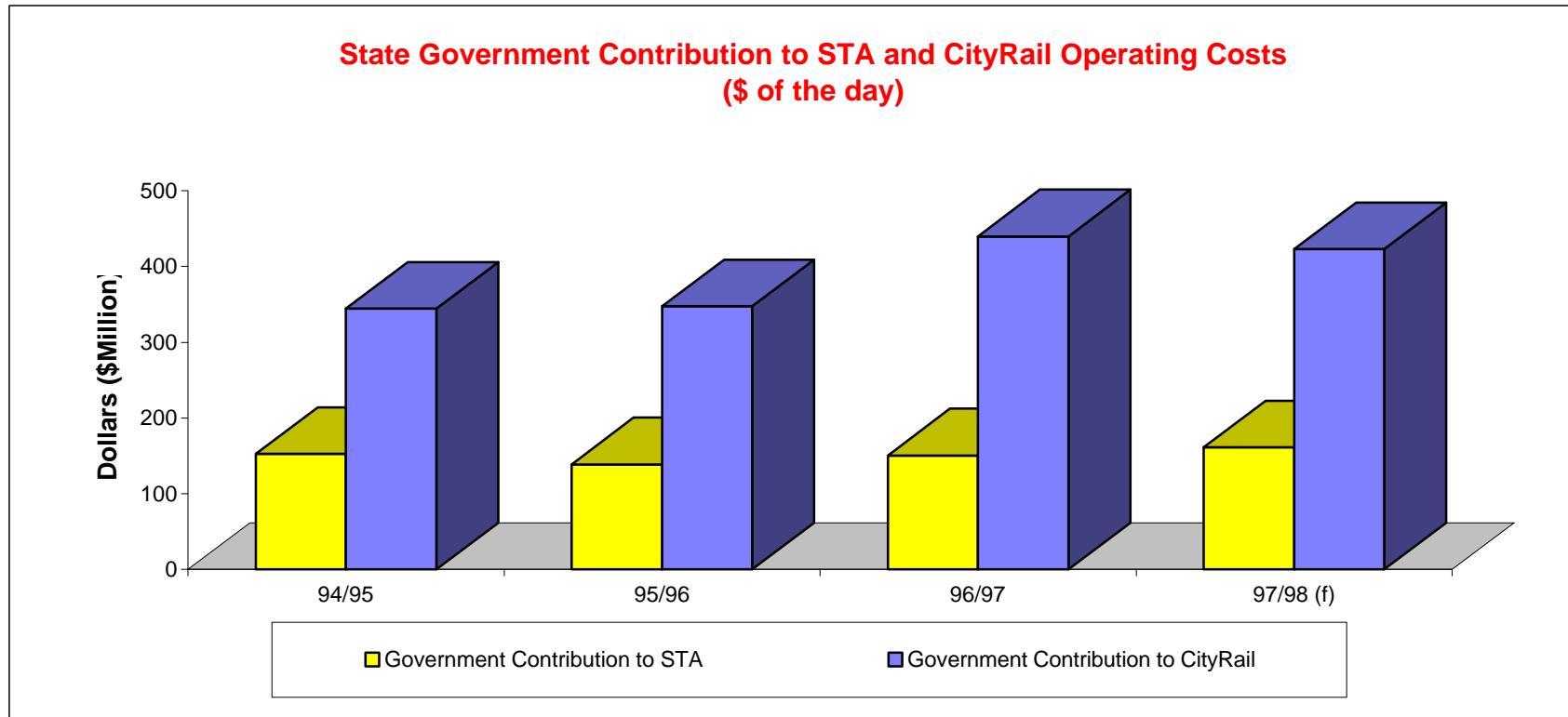
Unlike other industries that the Tribunal regulates, the Tribunal has decided to conduct annual determinations for the Transport sector. However, for the next determination, the Tribunal may consider a medium term price path for the STA.

The Tribunal has examined closely the efficiency of STA bus operations. Before the next fare determination, the Tribunal will examine closely the efficiency and service of CityRail and Sydney Ferries. It is essential that these vital transport services be delivered at a fair cost to both passengers and taxpayers.

Thomas G Parry
Chairman
5 June 1998

NSW GOVERNMENT PASSENGER TRANSPORT SERVICES

"State Government funding of STA and CityRail operating costs is stabilising but still costs taxpayers some \$584m per annum."



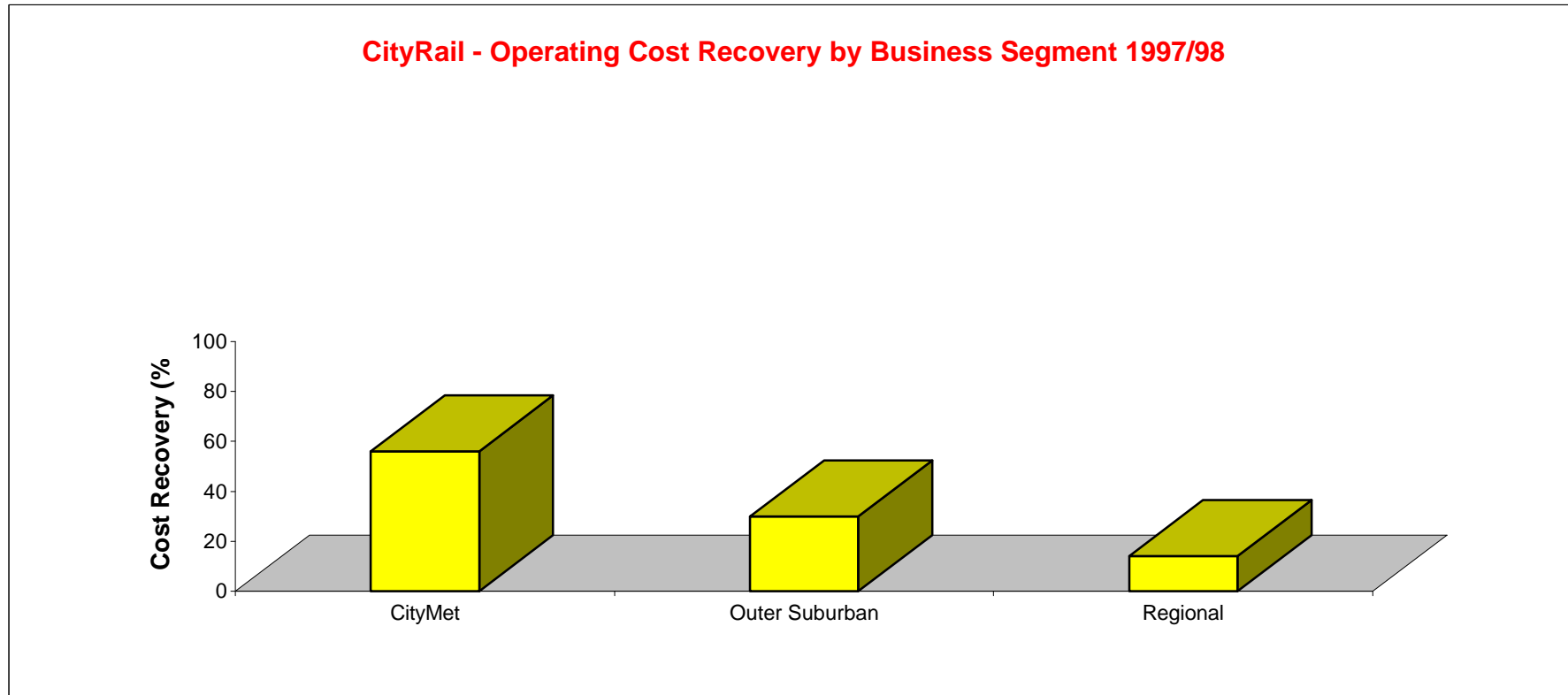
Source: CityRail & STA

Notes: Includes all concession and CSO payments.

Excludes all capital payments and funding for Countrylink and private bus operators

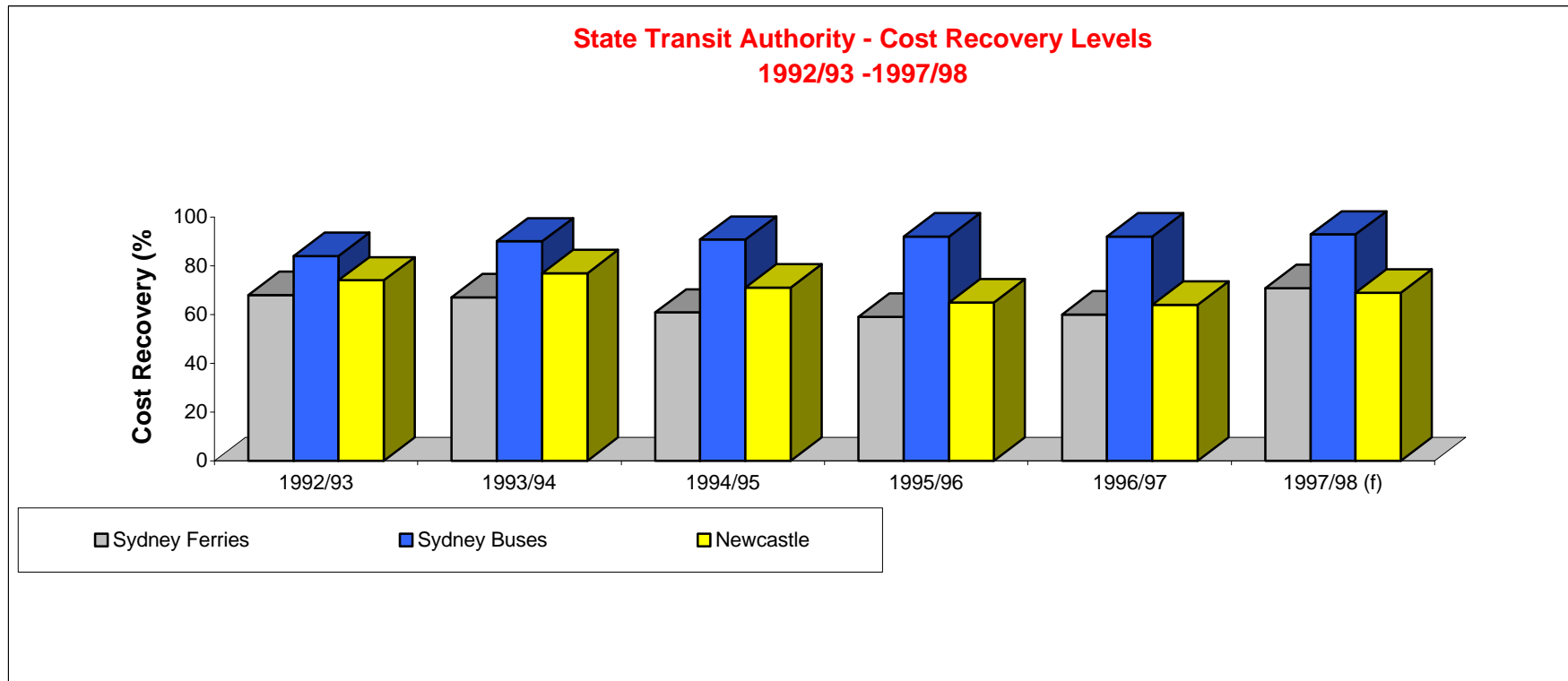
Includes CityRail's Access Charge

"The level of cost recovery for CityRail falls sharply with business segment..."



Source: CityRail

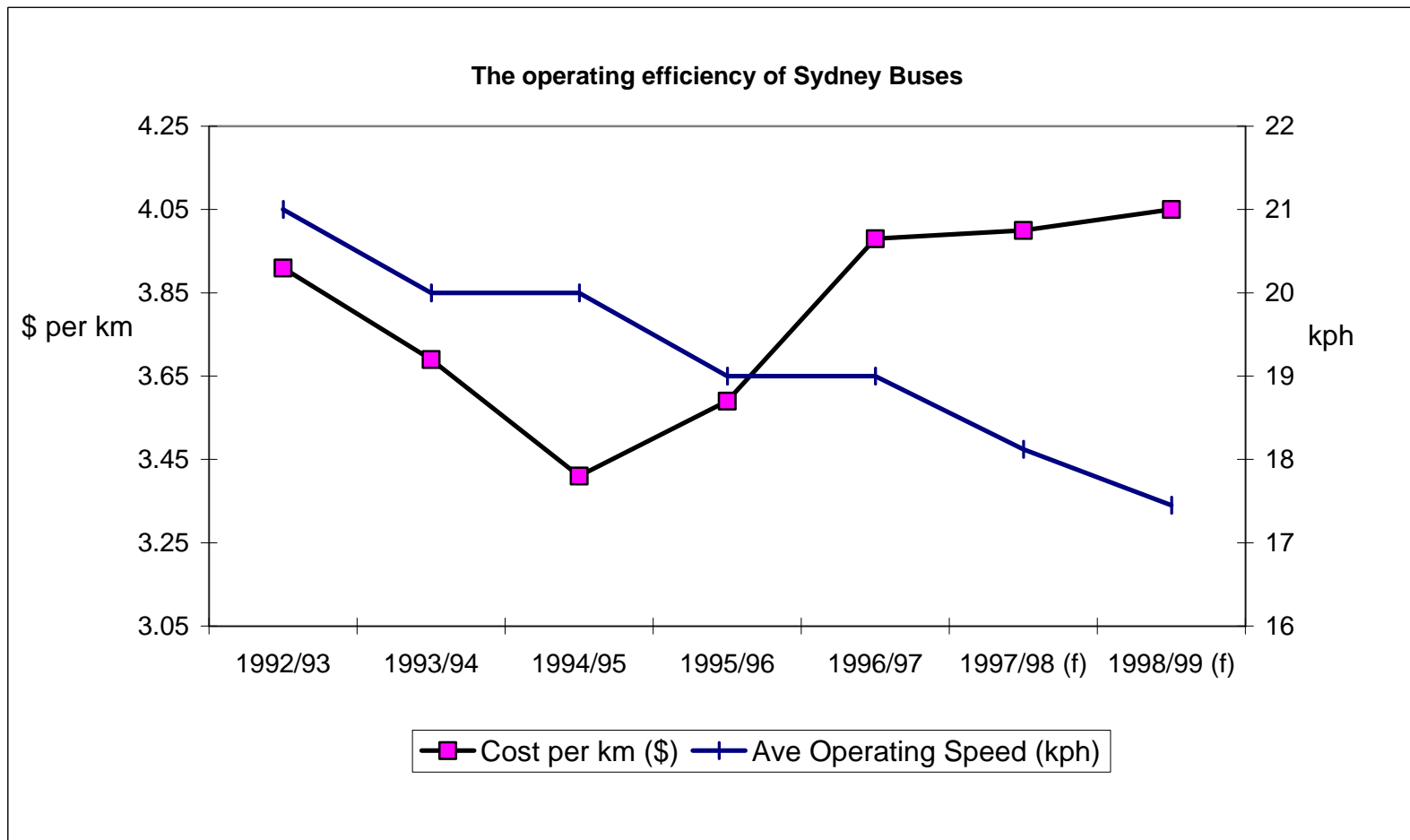
"...cost recovery levels for the STA are generally much higher than CityRail, especially for Sydney Buses."



Source: State Transit Authority.

Note: Cost Recovery includes concession fares.

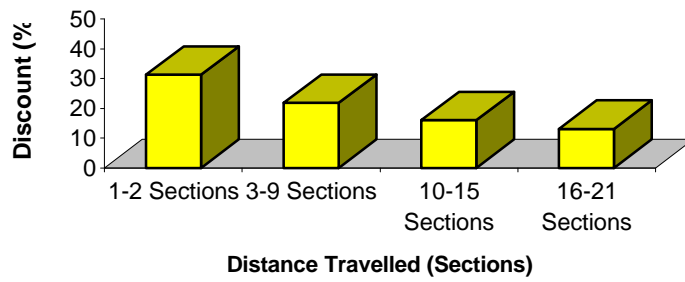
"Traffic congestion has reduced bus operating speeds which increases costs



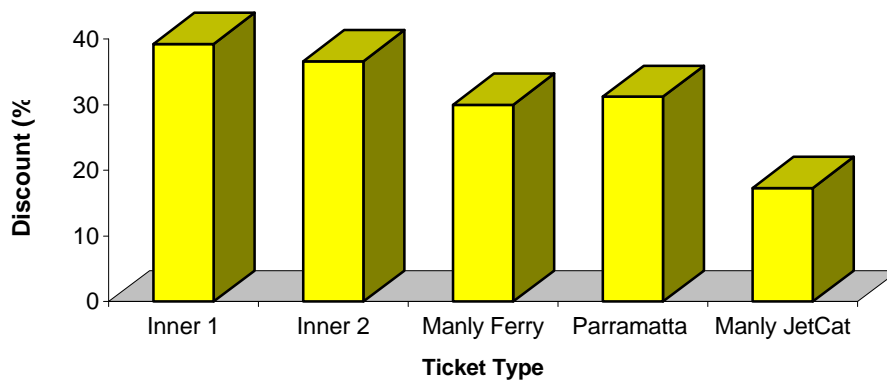
Source: STA Submission to the Tribunal, March 1998.

"STA's discounts for multi-trip tickets are more generous for shorter distance bus travel."

**State Transit Authority
Level of Discount for TravelTen Tickets* 1997/98**



**State Transit Authority
Level of Discount for FerryTen Tickets* 1997/98**



* Note: Discount on equivalent purchase of single cash fare.

STATE RAIL AUTHORITY OF N S W
REPORT TO THE PREMIER AND DETERMINATION



INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES

**REPORT TO THE PREMIER ON THE DETERMINATION OF MAXIMUM PRICES
UNDER SECTION 11(1) OF THE INDEPENDENT PRICING AND REGULATORY
TRIBUNAL ACT, 1992**

Matter No.: SRD/98/03

Report: No 1, 1998

Agency: State Rail Authority, CityRail services

Services: Passenger transport services.

Declaration of Government Monopoly Services under Section 4 of the Act:

Independent Pricing and Regulatory Tribunal (Passenger Transport Services) Order 1998, made on 24 February 1998 and published in Gazette No. 38 dated 27 February 1998 at page 1015.

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1 INTRODUCTION

As required by Section 11(1) of the *Independent Pricing and Regulatory Tribunal Act 1992*, the Independent Pricing and Regulatory Tribunal has investigated proposals by the State Rail Authority (a standing reference agency in Schedule 1 of the Act) for maximum prices to be charged from 5 July 1998 for declared passenger transport monopoly services supplied by CityRail.

For CityRail the declared services are railway passenger services supplied under the name "CityRail" by the State Rail Authority, excluding services supplied in accordance with the ticket known as the "SydneyPass".

The Tribunal's determination of the maximum prices for CityRail's services are attached to this report.

2 THE PRICE DETERMINATION PROCESS

The Tribunal called for pricing proposals from CityRail. Submissions were also invited from any interested parties and the public on issues relating to the pricing of public transport services.

A public hearing was held on 26 March 1998 at the Tribunal's offices, Level 2, 44 Market Street, Sydney.

Details of CityRail's proposals are provided within this report and a list of other submissions received is in an attachment

Copies of all submissions and a transcript of the hearing can be viewed on the Tribunal's website www.ipart.nsw.gov.au and are available for inspection at the Tribunal's office.

The Tribunal members who considered this determination are:

Dr Thomas Parry, Chairman
Mr James Cox, Full-time Member.

3 SUMMARY OF THE DETERMINATION

In making its Determination, the Tribunal has considered:

- the Tribunal's view, expressed in the Final Report of its *Inquiry into the Pricing of Public Passenger Transport Services*, that fare increases were justified for CityRail
- the removal of obsolete fare bands to further rationalise CityRail's fare structure
- the Tribunal's concerns expressed in its last determination about CityRail's performance with respect to on-time running
- the Government's views that fare increases should broadly align with the CPI
- CityRail's initiatives in relation to increased passenger safety.

These factors combined have led the Tribunal to conclude that for 1998/99 maximum fares should increase broadly in line with inflation. The Tribunal has considered a range of CPI forecasts for 1998/99, including a forecast of 2.2 percent provided by NSW Treasury, and as a result of this determination weighted average fares will increase by 3.2 percent.

Cash fares

- 67 percent of single journey passengers will pay the same fare as currently
- adult single journey fares for some trips will increase by up to 40 cents, except for those in the deleted 108.61 km band which will increase by 60 cents
- return fare tickets corresponding to the above single journey tickets will be set at twice the full fare. For 57 percent of return journeys, passenger fares will not increase
- half fare tickets corresponding to the above single and return tickets will be set at half the corresponding adult fare. For 67 percent of half fare passengers, fares will not increase
- adult off-peak (return) fares for distance bands up to the 215 kilometre band will be set at approximately 1.2 times the equivalent single journey fare
- adult off-peak (return) fares for distance bands greater than the 215 kilometre band will be set at approximately 1.15 times the equivalent single journey fare
- child off-peak fares will increase by 10 cents in band 1 and 20 cents in bands 2 and 3
- the price of the CityHopper ticket will be the cost of the return rail ticket (peak or off-peak) to the City plus an add-on. The price of the add-on will remain at \$3.40.
- the Olympic Park ticket will be priced at the cost of travel from the origin station to Lidcombe or Strathfield, whichever is appropriate, plus an add-on. The add-on will be \$1.20 for a single journey or \$2.40 return.

Periodical fares

- rail weekly fares will increase by a maximum of \$1 for distance bands up to 35 kilometres representing an increase of up to 10 cents per trip for a weekly ticket used ten times
- rail weekly fares will increase by a maximum of \$2 for distances between 35 and 135 kilometres representing an increase of up to 20 cents per trip for a weekly ticket used ten times. The maximum increase beyond 135km will be \$3.00
- all weekly TravelPass fares will increase by \$1, an increase of 10 cents per trip for a weekly TravelPass ticket used ten times
- the price of the 28-day and upwards periodical rail tickets ("Flexipasses") will increase by an amount corresponding to the increase in weekly tickets for that distance band. Flexipass prices will be calculated as tapered multiples of the rail weekly price, rounded to the nearest whole dollar amount. The formula for calculating the Flexipass prices will remain unchanged.

All other fares are frozen at 1997/98 levels. Future fare increases will depend on CityRail's success in maintaining service quality levels that are to be agreed between the Tribunal and CityRail. The Tribunal wishes to satisfy itself that rail services cost no more than is necessary to provide the level of services that the public requires.

4 MAJOR REVIEW OF PUBLIC PASSENGER TRANSPORT SERVICES

In 1996 the Tribunal completed an *Inquiry into the Pricing of Public Passenger Transport Services*. A series of interim reports were released in March 1996. The Tribunal released a final report in October 1996 (see Box 1).

Box 1 Key Recommendations of the Major Review for CityRail

In the final report the Tribunal found that:

1. Significant scope for productivity improvement exists within CityRail's operations. Prior to an appropriate level of improvement being established, the Tribunal encourages CityRail to continue to pursue real cost reductions of at least 2.5 percent per year (p 45).
2. CityRail should be able to attain higher levels of cost recovery for above rail costs on the CityMet¹ service. A substantial government subsidy will still be required for the below rail costs². This subsidy will recognise the externality benefits of the rail service to the community. Targeted concessions to particular groups will entail specific subsidies (p 47).
3. CityRail's fares for outer suburban customers should increase in line with CityMet fares. It is unlikely that the outer suburban services can ever achieve levels of recovery of operating costs comparable to those achievable within CityMet (p 47).
4. With regard to fares the Tribunal proposed:
5. A medium term price objective of a weighted average increase in real terms of 15 percent over the four years from 1996/97 to 1999/2000 (p 48).
6. Phasing in real increases for CityRail's 'cash' single and return fares and off-peak fares (pp 48-49) periodical and multi-ride tickets (p 48).
7. Phasing in real increases for over the period to 1999/2000 (p 49).

The Tribunal notes that while there has been limited reduction in costs over the period from 1996, CityRail has indicated that it is committed to further cost reductions. CityRail's cost recovery has not increased since 1996 because of limited fare increases and limited cost reductions.

5 SUBMISSIONS

In setting fares, the Tribunal encourages public discussion about the key issues. This enables a better understanding of the issues, provide a broader range of inputs than otherwise possible and promotes community acceptance of the final decision.

5.1 Pricing proposals made by CityRail

CityRail made a submission to the review of fares. In that submission, CityRail sought a 10 percent real increase in weighted average fares. CityRail's proposals for 1998/99 were:

- weighted average fare increase of 10 percent real (ie 12.2 percent nominal)

¹. CityRail's CityMet operating segment is bounded by Macarthur and Waterfall in the south, Penrith in the west, Richmond in the north-west, and Cowan in the north.

² maintenance and construction of track, signalling and catenary.

- continued restructuring of fare bands³
- off-peak fares to be set at a multiple of 1.25 times the single fare for distances up to 215km and 1.2 times the single fare for distances greater than 215km
- increase in weekly fares by up to \$4
- increase in the (shortest distance) red TravelPass tickets by \$2, others by \$1
- increase in child off-peak fares by 10 cents for zone 1 (CityMet) and 20 cents for the other zones

Following the public hearing, at the Tribunal Secretariat's request, CityRail provided a number of options for lower fare increases than those originally proposed.

5.2 Other submissions

A list of submissions from groups other than the transport operators is given in the attachment. The main points in the submissions are as follows:

The weekly fare for long distance travellers should not be more than 6.5 times the single adult fare. (Ronald C. Knowles)

The State Rail Authority Provides services that would not be provided by the private sector, so it is not appropriate to argue for cost recovery as the major determining factor for prices. (Ronald C. Knowles)

Concern that proposed fare increase may lead to a reduction in the number of public transport journeys taken. (Ronald C. Knowles, Department for Women)

On time running figures need to be independently audited. (Ronald C. Knowles, Blue Mountains Commuter and Transport Users Association)

Service frequency of 15 to 20 minutes more appropriate even for smaller stations. (Ronald C. Knowles)

Fare band anomalies should be adjusted gradually over say three years rather than in one large increase. (Alan Parker)

Olympic Park Station should be treated as simply another station on the CityRail network, and the fare to it should be calculated on the basis of actual distance travelled and not as an add on. (Alan Parker)

Fare increases from year to year should not exceed the CPI. (Alan Parker, Department for Women)

There is a case for moderate price increases in line with CPI but CityRail's proposals for single, off-peak and weekly fare increases are too large. A \$1 increase in TravelPasses is justified. (Action for Public Transport)

³ City Rail fares are essentially distance based. Rather than different fares for every possible distance, CityRail fares are calculated according to travel being within a distance range or fare band. Now, passengers to stations within a given distance band pay the same fare. (Prior to 1996, these were not based on easily understood or rational distances).

Current fine procedure is too harsh and counter-productive. (Action for Public Transport)

Efficiency gains should not be at the expense of safety. (Department for Women)

On time running should be measured en route and not just at the start and finish. (Blue Mountains Commuter and Transport Users Association)

There should be a fully integrated public transport system. (Department for Women)

Impacts of fare increases on women need to be continuously assessed. (Department for Women)

6 ISSUES CONSIDERED UNDER SECTION 15

Under Section 15 of the *Independent Pricing and Regulatory Tribunal Act 1992*, the Tribunal is required to have regard to a number of matters and indicate what regard it has had to them. These matters are outlined below.

6.1 Costs and efficiency

- * *the cost of providing the services concerned [S15(1)(a)]*
- * *the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers [S15(1)(e)]*
- * *the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body [S15(1)(h)]*
- * *the need to promote competition in the supply of the services concerned [S15(1)(i)]*

6.1.1 Operating costs

Table 6.1 gives a breakdown of CityRail's estimated cash expenditure and revenue in 1997/98. The Tribunal notes that, as in 1996/97, farebox revenue is approximately equal to the cash 'payroll' plus 'non-payroll' expenditure. Government contributions, either CSO's or concession reimbursements, meet all other costs.

Table 6.1 CityRail cash expenditure and revenue (1997/98\$m)

<u>\$million</u>	<u>1997/98</u>	<u>1998/99</u>
Revenue		
Farebox	366.1	376.5
Other	26.6	24.9
Total Revenue	392.7	401.4
Expenditure		
Payroll	(310.5)	(301.4)
Non-payroll	(61.7)	(64.9)
Allocated Corporate Expenditure	(14.3)	(15.0) #
Access Fees	(322.0)	(322.0)
Bulk Electricity	(21.0)	(21.0)
Internal Charges	(85.8)	(91.7)
Total Expenditure	(815.3)	(816.0)
Net Contribution Required		
	(422.6)	(414.6)
Government Contribution		
Concessional Reimbursement	132.1	
CSO funding	290.5	
Total Government Contribution	422.6	(414.6) #

Source: SRA submission 15 and pro-forma projections.

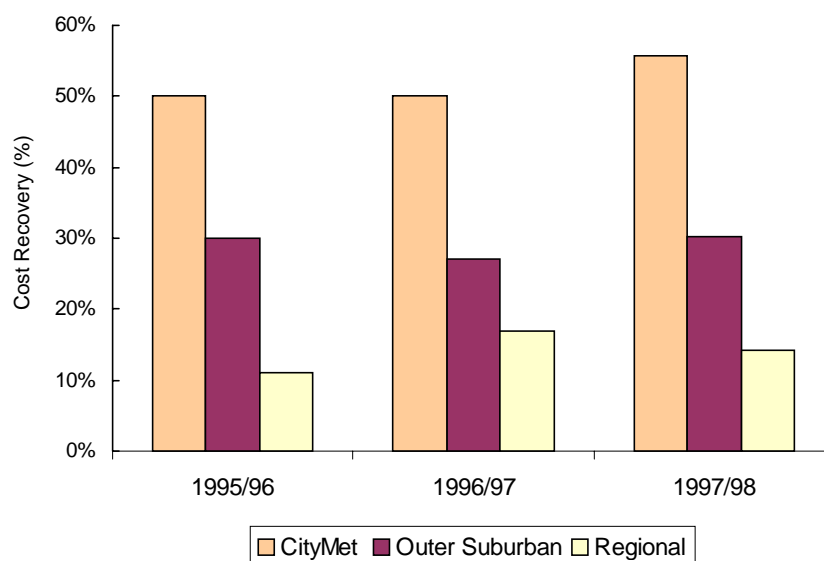
#Tribunal estimate to enable comparison

Table 6.1 refers to CityRail's cash operating expenditure only. It does not include CityRail's capital expenditure (as detailed in Table 6.2), which is funded separately by government.

CityRail's services are divided into three operating segments: CityMet, Outer Suburban and Regional. These segments are very different in terms of costs and revenue. Macarthur and Waterfall bound the CityMet segment in the south, Penrith in the west, Richmond in the north-west, Cowan in the north. This represents CityRail's metropolitan electric services. The Outer Suburban segment serves the area beyond the CityMet region as far as Newcastle in the north, the Blue Mountains (Lithgow) and Wollongong (Dapto). It includes CityRail's inter-city services. The Regional segment is essentially the non-electric services that operate in the Hunter Valley, to the Southern Highlands and to Nowra. The Southern Highlands services are the only Regional services that operate into Sydney Terminal station (Central).

Figure 6.1 shows the recent history of CityRail's cost recovery by operating segment. In 1997/98 City Rail expects to recover just 56 percent of its CityMet service above and below rail costs, 30 percent of Outer Suburban services costs and only 14.1 percent of its Regional services costs. The Tribunal recognises that to achieve full cost recovery within each operating segment, fare increases would need to be different for each but this cannot be done under the existing fare structure. Different fares by operating segment would require a complete overhaul of the fare structure and would lead to significant increases in fares for Outer Suburban and Regional rail users.

Figure 6.1 CityRail cost recovery



Source: CityRail Submission 1996,1997, direct information.

6.1.2 Capital expenditure

CityRail's capital expenditure is categorised according to expenditure to cater for growth, expenditure for enhancement of existing works, and expenditure on major periodic maintenance. Capital expenditure is mainly on below rail infrastructure (eg maintenance and construction of track, signalling and catenary⁴), rolling stock (maintenance, refurbishment and acquisition), stations, and major periodic maintenance (overhaul of rolling stock on a periodic basis).

With the restructure of the rail industry,⁵ the Rail Access Corporation (RAC) is responsible for capital expenditure for below rail infrastructure. CityRail pays for this through the access charge .

CityRail's capital expenditure projections to 2002/2003 are shown in Table 6.2 below. The increased capital expenditure for growth from 1998/99 represents CityRail's forecast for new rolling-stock (fourth generation train) to meet projected passenger demand and replacement of existing rolling-stock that can no longer be refurbished. In its Final Report⁶, the Tribunal cautioned CityRail on the need to monitor patronage forecasts in relation to the level of capital expenditure.

The RAC projects are the New Southern Railway and the East Hills Amplification. They are shown in the table for completeness. Capital expenditure on RAC projects is 'passed through' and is not 'charged' to the SRA.

⁴ Catenary is the overhead wiring and associated supports used to provide electricity to trains.

⁵ The SRA was restructured in July 1996. Ownership and provision of access to the tracks has been placed in a separate corporatised business (Rail Access Corporation). Freight Rail has been separated and corporatised. Track maintenance and control functions have been consolidated in an independent Railway Services Authority. Countrylink is the rural passenger operator of SRA.

⁶ IPART. *An Inquiry into Pricing of Public Passenger Transport Services: Final Report*, p 45.

Table 6.2 CityRail Capital expenditure projections (\$m 1997/98)

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Growth	11.3	35.3	48.1	122.2	122.3	107.5
Enhancement	71.8	77.8	144.6	88.4	50.6	48.1
Major Periodic Maintenance	87.6	102.1	82.9	81.2	77.5	86.2
Total CityRail	170.7	215.1	275.6	291.7	250.4	241.8
Rail Access Corporation Projects	166.8	139.4	67.2	(10.0)		
Total Capital Expenditure	337.5	354.5	342.8	281.7	250.4	241.8

Note: Negative number represents revenue from land sales at the end of New Southern Railway construction

6.1.3 Scope for efficiency gains

As detailed in the 1997/98 determination a number of studies have examined the efficiency of the SRA. In 1988, Booz Allen and Hamilton Limited set productivity targets for CityRail. In 1993/94, Mercer Management Consulting⁷ analysed CityRail's progress in respect of these targets. The latter study found that CityRail operates very efficiently by world standards in most aspects of asset productivity⁸ and is well on the way towards achieving best practice staff productivity⁹. However, the Tribunal believes that CityRail is still well short of achieving efficient operation in areas such as overheads and station operation.

At the public hearings CityRail referred to achieving 10 percent gain in efficiency over four years¹⁰ and compared it to the real 2.5 percent per annum cost reductions sought by the Tribunal in its Final Report¹¹. CityRail is aiming to achieve this partly through the organisational restructure detailed below as well as through other measures such as a 46 percent reduction in corporate head office staff between June 1997 and June 2000, increased automation and multi-skilling of tradespeople. The Tribunal encourages CityRail to continue reviewing its operating costs with a view to reducing the impost on Government funds.

6.1.4 Competition

It is now widely recognised that competition in the provision of services can lead to cost reduction through increased efficiency. National Competition Policy seeks to achieve this by exposing monopoly government businesses to a competitive environment. One way in which this can occur is through the out-sourcing of non-core businesses.

The SRA was restructured in July 1996. As part of this restructure, the Government established a Rail Access Regime for NSW. Following the restructure of the NSW rail industry, CityRail is now the passenger rail operator for the metropolitan network. It also provides services to some stations that Countrylink services. The fare structure for these services differ. Under the Rail Access Regime, CityRail pays the RAC an access fee for use of the Network. The rail access regime ensures priority access for passenger trains to relevant parts of the network. However, the NSW Government is funding CityRail and Countrylink for their access charges through increased CSO payments.

⁷ Mercer Management Consulting, Mid Term Strategic Review, Executive Summary, December 1993.

⁸ Asset productivity is a measure of how effectively the assets of the organisation are used eg passenger journeys per train.

⁹ Staff productivity is a measure of how effectively the staff of an organisation are used, eg passengers per employee.

¹⁰ IPART, Transcript of Public Hearing, 26 March 1998, p 7.

¹¹ IPART. *An Inquiry into Pricing of Public Passenger Transport Services: Final Report*, p 45.

6.2 Consumer protection

- * *the protection of consumers from abuses of monopoly power in terms of price, pricing policies and standard of services [S15(1)(b)]*
- * *the effect on general price inflation over the medium term [S15(1)(d)]*
- * *the social impacts of the determinations and recommendations [S15(1)(k)]*

6.2.1 Pricing

CityRail's proposed fares structure is based on the following principles:

- the same distance bands for single, off-peak and weekly tickets
- a pricing formula for single tickets based on a fixed (flagfall) component and a per kilometre charge with fares for other tickets being based on the single fare
- future percentage increases to be applied to a base fare scale (the master fare schedule) and actual fares only increase when the calculated value is rounded to the next 20 cents
- off-peak fares are a constant multiple of the single journey fares
- weekly tickets are a multiple of the single journey fare with this multiple decreasing as distance increases.

These principles provide a transparent approach to fare setting, making fares more cost-reflective and minimising levels of cross subsidies within the fare structure. The Tribunal notes that in reality this structure benefits the operator more than the customer because the customer is likely to be unaware of the underlying fare structure when purchasing a ticket. However, it does mean that the fare is related to the costs customers impose and this information may be useful to customers in deciding whether to make their journeys.

CityRail's fares are based on distance bands of set increments. For shorter distances the bands are in 5 kilometre increments; fares for longer trips are based on 10 and 20 kilometre increments. CityRail's proposal involves the removal of several existing fare bands that are based on unusual distances. Prior years' determinations have already resulted in the removal of a number of such bands. CityRail argues that the removal of these bands will lead to a more rational fare structure. The Tribunal accepts this approach, but is aware that changes to the fare structure will have impacts on customers within the deleted anomalous fare bands. The Tribunal wishes to manage those impacts.

In making its determination, the Tribunal has sought to reduce the impact of restructuring on individual customers. Therefore, the Tribunal has placed constraints on CityRail in implementing its proposals by phasing increases over one more year. In effect, following this determination, only one anomalous fare band will remain.

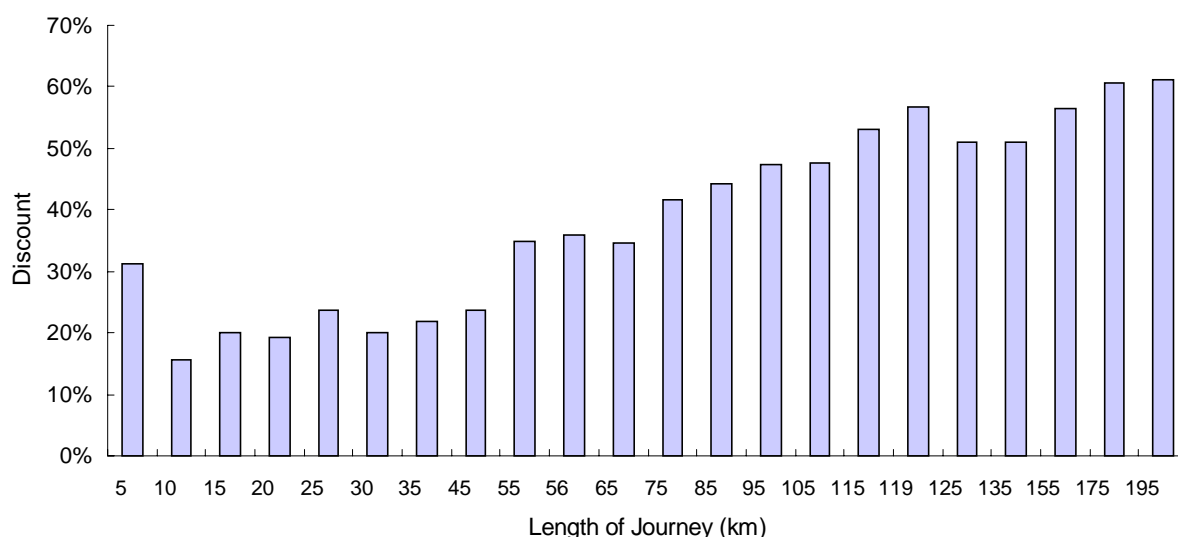
Multi-ride (weekly and other periodicals) and multi-mode (TravelPass) tickets have provided large discounts from the single journey fares to commuters. In previous determinations, the Tribunal has sought to reduce the discounts on weekly tickets by increasing the weekly fares while holding single fares relatively constant. The benefits flowing from discounting multi-trip tickets were detailed in the 1996/97 determination when it was concluded that passengers would not be attracted to purchasing weekly tickets if the discount was set much below 20 percent.

CityRail has been aiming at a discount of 20 percent for weekly tickets. The Tribunal is satisfied that this is reasonable. Across all distance bands, very few weekly discounts are now below 20 percent. Figure 6.2 shows the discounts for weekly tickets in 1997/98. For trips within 55 km of the originating station most weeklies offer discounts around 20 percent. However, the 5 km and 55 km tickets still offer quite large discounts.

As distances increase beyond 55 km, the discounts become much greater. For these distances, very high fare increases would be required to reduce the large discounts. CityRail proposes that higher discounts continue for the very long distance bands.

Considerable progress has been made in reducing the level of discount for most of the shorter distances to more reasonable levels. The Tribunal considers that further gains from the progressive reduction of discount levels (for trips less than 55 km) should continue to be pursued. This determination addresses this issue.

Figure 6.2 Discounts for weekly tickets, 1997/98



CityRail's Community Service Obligation (CSO) contract with The Director-General of the Department of Transport specifies performance standards that are required to be met. These include both operational and safety performance standards. Service standards are discussed later in this report.

6.2.2 Impacts on cost of living

The Australian Bureau of Statistics conducts a Household Expenditure Survey. The most recent survey indicates that public transport charges comprise 0.41 percent of an average household's weekly expenditure in NSW.¹² The proposed increase in charges will have a negligible effect on the overall cost of living within the Greater Metropolitan Region.

The Tribunal has estimated that the fares set out in the Pricing Schedule of this report together with those in Pricing Schedule of Report No 2 for STA would result in an increase in the CPI of less than 0.1 percent.

¹² ABS. *Household Expenditure Survey Australia 1993-94. Detailed Expenditure Items.* Cat No 6535.0. Table 6.4.

6.2.3 Social impacts

As in prior years, the Tribunal has set constraints on individual fare increases to minimise impacts on travellers. Table 6.3 shows the percentage of users of each ticket type that would be affected by a fare increase. Removal of anomalous fare bands in 1998/99 will result in more passengers being affected than would otherwise be the case. But for some ticket types, only a small proportion of all travellers will pay more for their tickets. Many single and return journey passengers would not have a fare increase.

Table 6.3 Impacts of fare increases by adult ticket type 1998/99

Ticket type	Percentage of total CityRail passenger journeys	Weighted average increase (%)	Proportion affected (%)
Single	11.7	3.09	33
Return	4.7	3.67	43
Off-peak	13.3	2.92	41
Weekly	27.1	3.47	60
TravelPass	7.0	3.88	100

Source: CityRail

The most significant impact on individual fares is for periodical tickets (rail weekly and TravelPass) for which the highest discounts are offered. All TravelPass users will be affected as all Travelpasses will increase by \$1.00. About 60 percent of weekly users will incur some increase.

Forty one percent of off-peak ticket users will have increased fares. Off-peak fares are a multiple of the equivalent single fare. CityRail had proposed to increase the Off-peak multiplier from 1.2 to 1.25 for journeys up to 215km and from 1.05 to 1.20 for distances beyond 215 kilometres.

The Tribunal is concerned not to discourage the use of CityRail's Off peak services. For example, the Department for Women has again submitted that the Tribunal should consider the gender equity impacts of its fare determination. The off-peak and weekly tickets remain of particular concern.

Also a multiplier of 1.2, as proposed by CityRail, for the longer distances would result in substantial increases. Although only a very few number of passenger journey's would be affected, the Tribunal is concerned about the resulting level of price increase.

The Tribunal has taken these concerns into consideration and maintained the target off peak multiplier for distances below 215 km at 1.2 times. For this determination, the Tribunal has aimed at an off-peak multiplier of 1.15 for fares for the longer distance journeys (greater than 215 Km).

6.3 Financial viability

- * *the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of NSW [S15(1)(c)]*
- * *the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets [S15(1)(g)]*

6.3.1 Rate of return

The Government's contribution to CityRail's cash expenditure in 1997/98 is expected to be about 52 percent of the total. Additionally, CityRail's capital expenditure is funded separately by Government. As noted in SRA's submission to the Major Review and in the Tribunal's Interim Report No 2, substantial fare increases would be required for CityRail to achieve a positive rate of return. As shown in Table 6.1, it is estimated that the prices set in this determination will result in an increase of about \$10.4 million in CityRail's farebox revenue in 1998/99. This should result in an equivalent reduction in the government contribution that would otherwise be required.

Nevertheless the Government continues to contribute large amounts of money to CityRail by way of concession reimbursements and Community Service Obligations. Pricing services below cost means that rail users do not bear the full costs of decisions about their residential and working lifestyles. Normally such subsidies from the general taxpayer would be undesirable; but there are other important considerations that require examination in pricing public transport, such as the environmental benefits discussed below.

These considerations include, the facts that road users are charged through registration and petrol levies (which are unrelated to where the travel is undertaken), and the comparative social and environmental benefits of rail passenger transport in Sydney versus the use of private vehicles or road-based public transport. In recognition of this, the Tribunal argued in its major review that no more than the above rail costs of providing rail passenger transport should be recovered from the farebox.

6.3.2 Capital structure

In 1997/98 CityRail expects to meet about 45 percent of all its cash expenditure from its farebox revenues. As high lighted in previous years this is not sufficient to cover its costs of operations and maintenance. CityRail does not make a contribution towards the cost of its debt and equity finance. These costs continue to be borne solely by the Government.

Any increases in revenue from a fare increase not offset by reduced patronage helps reduce the cost to government. While CityRail continues to rely on deficit funding¹³, capital structure considerations are not relevant.

6.4 Environmental issues

- * *the need to maintain ecologically sustainable development by appropriate pricing policies that take account of all the feasible options available to protect the environment [S15(1)(f)]*
- * *considerations of demand management and least cost planning [S15(1)(j)]*

6.4.1 Ecologically sustainable development

Ecologically sustainable development (ESD) is described in Part 3 of the *Protection of the Environment Administration Act 1991* as requiring the "effective integration of economic and environmental considerations" and the implementation of "improved valuation and pricing of environmental resources." The Australian Conservation Foundation defines ESD as:

¹³ whereby the shortfall between revenue and expenditure is met by government funding.

Creation of a society which achieves the joint goals of a sustainable environment, a thriving economy and a high material standard for all its citizens.¹⁴

In its submission CityRail has pointed out that it generates social benefits mainly through reductions in car use, and that the absence of a rail service would result in increased levels of road congestion, traffic accidents, air pollution and noise pollution. CityRail also claims that external consultants on behalf of the SRA have estimated that “the rail network saves the people of Sydney approximately \$359 million per year (in 1997/98)”¹⁵. Whilst it is clearly a difficult task to quantify the environmental benefits of the rail network, they are undoubtedly very substantial.

6.4.2 Demand Management

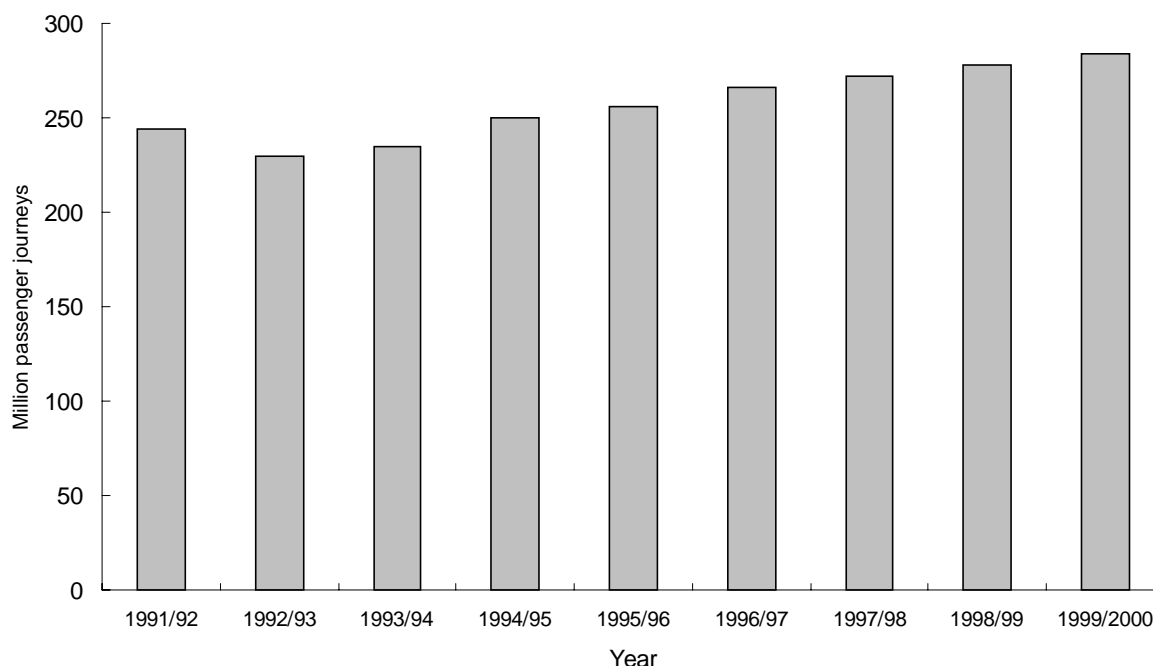
The Tribunal has previously noted that Sydney’s urban form and uneven access to transport limits the attraction of public transport. These matters are outside the control of the Tribunal. However, the Tribunal recognises that its determinations may cause some price sensitive rail users to shift from public transport to other forms of transport. The Tribunal is mindful of minimising this effect.

CityRail has estimated that the direct impact of the determined fare increases will be a decrease in passenger journeys of only 0.3 percent. This will be more than offset by the projected natural growth in passenger journeys of 2.2 percent (ie from an estimated 272 million passenger journeys in 1997/98 to 278 million in 1998/99).

As shown in Figure 6.3, after falling in 1992/93, passenger journeys have grown steadily since then. CityRail is projecting continued growth through to the year 2000.

¹⁴ Australian Conservation Foundation, *The environmental role of the commonwealth*, Outlook Paper No 1, Melbourne University Press, Melbourne, 1996, p 4).

¹⁵ State Rail Authority of NSW, Submission to the Independent Pricing and Regulatory Tribunal of NSW, City Rail Fare Review 1998/99, p 8.

Figure 6.3 CityRail passenger journeys, 1991/92 – 1999/2000

Source: CityRail.

6.5 Standards

* *standards of quality, reliability and safety of the services concerned [S15(1)(l)]*

Quality, reliability and safety standards are of continuing concern to passengers. The Tribunal notes that:

CityRail's mission is to encourage more people to travel by train by providing fast, safe, reliable services which exceed customer expectations.¹⁶

6.5.1 Quality and reliability

In its 1997/98 determination the Tribunal cited CityRail's poor levels of reliability as a reason for limiting the amount of fare increase. These were the result of declining levels of on-time running and many reports of high levels of associated customer dissatisfaction. CityRail took remedial action commencing with changes implemented on 15 June 1997 to restore most of the previous timetable.

The Tribunal proposed to review the question of reliability for the 1998/99 determination and advised that it would jointly develop a range of performance measures with the SRA that would form the basis for future fare increases. It was subsequently agreed that CityRail would provide information as set out in section 3 Schedule 6 to CityRail's 1996/97 Customer Service Obligation (CSO) contract. These indicators are percentage of carriages with no external graffiti; percentage of seats graffiti free; percentage of scheduled services operated; percentage of scheduled stops skipped; on-time running (percentage of

¹⁶ SRA, Submission from Tribunal, 1997, p 6.

metropolitan services on-time within 3 minutes, morning and evening peaks, and percentage of InterCity services on-time within 5 minutes, morning and evening peaks); and customer satisfaction (percentage of customers either satisfied or very satisfied)

CityRail has provided the Tribunal with the latest information on its performance indicators. Results of the morning peak on-time running performance indicators are shown below in Figures 6.4 and 6.5. Based on the results provided to the Tribunal, CityRail's morning and evening, metropolitan and InterCity train on-time running has now returned to above minimum levels.

Figure 6.4 CityRail morning metropolitan train on-time running

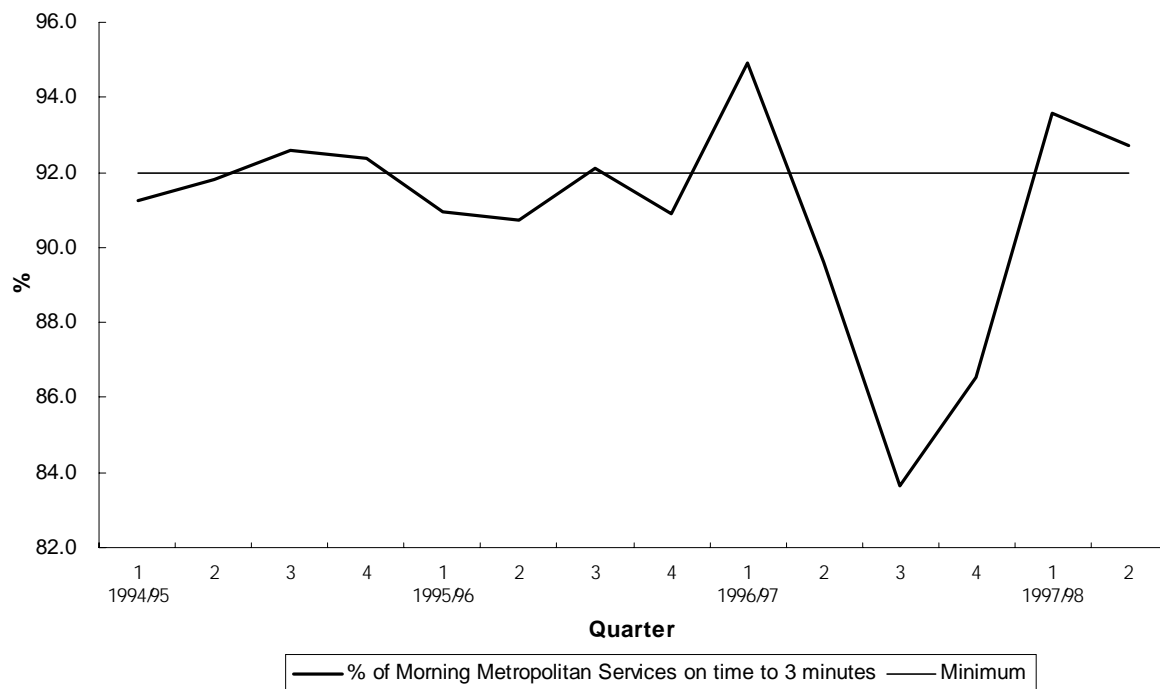
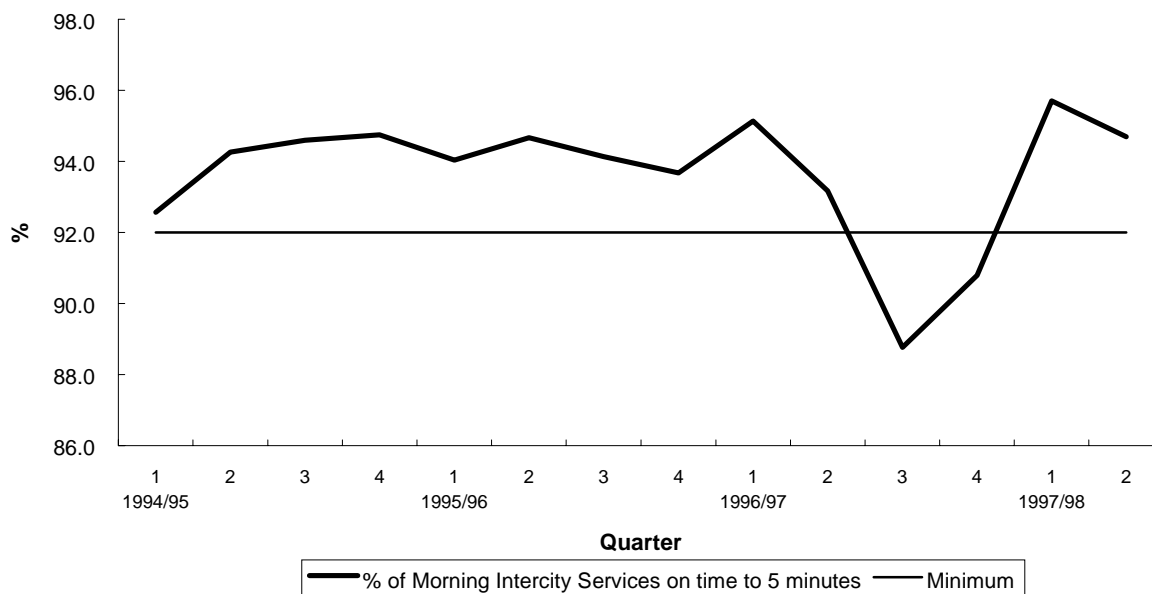


Figure 6.5 CityRail morning InterCity train on-time running



6.5.2 Safety

The Rail Safety Act 1993 requires CityRail, as a rail operator, to be accredited by the Director-General of the Department of Transport. CityRail must have approved safety standards and procedures in place. CityRail’s CSO contract specifies safety performance standards. These relate to items such as collisions, derailments, falls and strikes. Table 6.4 gives safety performance for 1995/96 and 1996/97, and 1997/98 (year to date). In its submission, CityRail has indicated that it has met all safety performance standards.

Table 6.4 Safety performance measures

Safety Incident Type	Minimum Performance Standard (per MPJ)	1996/97 Performance (per MPJ)	1997/98 Year to date Performance (per MPJ)
Collisions	0.25	0.08	0.06
Derailments	0.20	0.05	0.05
Falls	2.50	2.31	2.46
Strikes	2.25	0.40	0.47
Fires and explosions	0.30	0.14	0.17

Source: CityRail

Notes: MPJ - Million Passenger Journeys

Strikes – incidents involving hitting animals and other objects

It should be noted that CityRail has recently announced a number of new measures aimed at improving passenger safety. From 1 July 1998 there will be two security guards on every train after 7pm. In addition \$55 million is to be spent over two years, upgrading station security, surveillance and lighting at CityRail stations.

The Tribunal has had regard to CityRail’s initiatives related to improved service and to passenger safety in making its determination.

7 BASIS OF THE TRIBUNAL'S DETERMINATIONS

7.1 Overview

As required under its Act, the Tribunal attempted to balance the often conflicting interests of transport operators, travellers, taxpayers and community groups.

The Tribunal is aware that the NSW Government makes a considerable contribution to the operating costs of CityRail. In determining the maximum CityRail fares from 5 July 1998, the Tribunal seeks the most acceptable trade-off between the interests of passengers and the benefits to taxpayers of reducing CityRail's fare revenue shortfall.

CityRail is best placed to design optimal structures and set individual fares. The Tribunal has considered the arguments put forward in the various submissions and at the public hearings. The determination reflects the Tribunal's judgement on the relative merits of the arguments.

In setting maximum prices for these services, the Tribunal wishes to ensure that CityRail retains responsibility, as far as possible, for developing pricing strategy. Following consideration of the submissions provided, the Tribunal proposed to CityRail an average level by which fares could increase and a broad set of constraints on increases for particular fares. The maximum fares in the determination result from CityRail applying these constraints.

7.2 Master fare schedule

In its 1997/98 determination the Tribunal supported the continuation of the master fare scale approach which is based on the fare schedule for single journeys. Future fare increases are then applied to this master schedule to obtain a calculated fare. The actual fare charged is this value rounded to the nearest 20 cents. Future fare increases would be tied back to the calculated and not the rounded values. Return and off-peak fares are based on the single fare.

However, as in 1997/98, continuing fare restructuring has not enabled a strict adherence to this approach. In order to minimise the impact of the removal of all but one of the anomalous fare bands whilst achieving greater uniformity in the fare multipliers certain individual fares have had to be 'adjusted'. It is anticipated that once this process is completed the master fare approach may be more strictly applied in future determinations.

7.3 Single journey tickets

To reduce the number of fare bands, some fare increases are necessary. While the Tribunal is of the view that some increase is justified, it wishes to ensure the impacts on individual travellers are reasonable.

The Tribunal has determined that the price of the single journey tickets for all distance bands should increase by no more than 60 cents. For the shorter distance bands, up to 55 km, increases should be no more than 40 cents.

The new single journey fares are given in Table 7.1.

Table 7.1 Comparison of existing and new single journey fares

Distance (km)	Existing Fare (\$)	New Fare (\$)	Change (\$)
5.00	1.60	1.60	0.00 #
10.00	1.80	1.80	0.00 #
15.00	2.00	2.20	0.20
20.00	2.60	2.60	0.00 #
25.00	2.80	2.80	0.00 #
30.00	3.00	3.20	0.20
35.00	3.20	3.40	0.20
36.19	3.40	3.80	0.40 +
45.00	3.80	3.80	0.00 #
45.85	4.20	4.60	0.40 +
55.00	4.60	4.60	0.00
55.50	5.00	5.40	0.40 +
65.00	5.20	5.40	0.20
75.00	6.00	6.40	0.40
85.00	6.80	7.20	0.40
95.00	7.60	8.00	0.40
105.00	8.00	8.40	0.40
108.61	8.80	9.40	0.60 +
115.00	9.40	9.40	0.00 #
119.00	10.40	10.80	0.40 +
125.00	10.60	10.80	0.20 *
135.00	10.60	11.00	0.40
155.00	12.40	12.80	0.40
175.00	14.20	14.60	0.40
195.00	17.20	17.40	0.20
215.00	18.60	18.80	0.20
235.00	22.00	22.00	0.00 #
255.00	23.00	23.00	0.00 #
305.00	25.00	25.00	0.00 #
305+	27.00	27.00	0.00 #

Fare also did not increase in 1997/98
+ Fare band will be amalgamated with higher band
* A new fare band to permit removal of 119 km band.

The Tribunal notes that the price of return and half-fare tickets is driven by direct application of a multiplier to the single journey fares. Return fares are exactly twice the single journey fare. Half-fare tickets are 0.5 times the cost of the corresponding adult fare.

7.4 Off-peak fares

The Tribunal has approved an increase in the fares for many single and return journeys. Off-peak fares are sold as return fares. Off-peak fares are available after 9:00 am weekdays and all day on weekends.

In this determination, the Tribunal has aimed at a multiplier of 1.2 times the single journey fare for distances less than 215 km. Off-peak fares for distances greater than 215 km were set to equal 1.5 times the single journey fare. CityRail had asked that the multiplier for off-peak fares be 1.25 for shorter journeys and 1.2 for longer journeys. The Tribunal considers that the effect of this leads to inappropriately large fare increases. The Tribunal has

determined that the multiplier for the shorter distances should remain at 1.2. Off-peak fares will, nevertheless, increase where single fares have increased.

Increasing the multiplier for longer distances is appropriate and reasonable. However, to limit the fare increases for long distances, the Tribunal has set the multiplier for journeys greater than 215 km at 1.15. To compensate long distance travellers for the resulting fare increases the Tribunal has asked the SRA consider permitting these off-peak tickets be available for use throughout the weekend and not just on the day of purchase. CityRail has indicated that it will examine the feasibility of this.

Table 7.2 compares the current and proposed fares, indicating the increase for each distance band.

Table 7.2 Comparison of existing and new off-peak fares.

Distance (km)	Existing Fare (\$)	New Fare (\$)	Change (\$)
5.00	2.00	2.00	0.00 #
10.00	2.20	2.20	0.00 #
15.00	2.40	2.60	0.20
20.00	3.20	3.20	0.00 #
25.00	3.40	3.40	0.00 #
30.00	3.60	3.80	0.20
35.00	3.80	4.00	0.20
36.19	4.00	4.60	0.60 +
45.00	4.60	4.60	0.00 #
45.85	5.00	5.60	0.60 +
55.00	5.60	5.60	0.00
55.50	6.00	6.40	0.40 +
65.00	6.20	6.40	0.20
75.00	7.20	7.60	0.40
85.00	8.20	8.60	0.40
95.00	9.20	9.60	0.40
105.00	9.60	10.00	0.40
108.61	10.60	11.20	0.60 +
115.00	11.20	11.20	0.00 #
119.00	12.40	13.00	0.60 +
125.00	12.80	13.00	0.20 *
135.00	12.80	13.20	0.40
155.00	14.80	15.40	0.60
175.00	17.00	17.60	0.60
195.00	21.00	21.00	0.00 #
215.00	22.00	23.00	1.00
235.00	23.00	25.00	2.00
255.00	24.00	26.00	2.00
305.00	26.00	29.00	3.00
305+	28.00	31.00	3.00

Fare also did not increase in 1997/98

+ Fare band will be amalgamated with higher band

* A new fare band to permit removal of 119 km band.

The Tribunal has determined that the price of the off-peak tickets for the distance bands up to 215 km should be 1.2 times the corresponding single journey fare. For distance bands

beyond 215 km, the price of the off-peak tickets should be equal to 1.15 times the single journey fare

7.4.1 Off-peak child fare

The off-peak child fare as shown in Table 7.3, is available for three very broad fare zones. In essence, these tickets work in the same way as pensioner concession tickets. The zones are the same. However, unlike the pensioner fare, the ticket is valid for one return journey only.

Table 7.3 Off-peak Child Fares

Zone	Coverage	Existing Fare	Proposed Fare
1	Sydney metropolitan and Newcastle metropolitan	\$1.70	\$1.80
2	Outer metropolitan	\$2.40	\$2.60
3	All CityRail network	\$4.40	\$4.60

The Tribunal notes that the off-peak child fares bear no relationship to the equivalent adult off-peak fares. For short trips the fare is close to the adult fare, while for longer journeys the fare is substantially lower. CityRail has proposed small increases in these fares.

The Tribunal has determined that the maximum price of the off-peak child fares should increase by 10 cents for zone 1 and 20c for zones 2 and 3.

7.5 Periodicals

A large proportion of all weekly travel is undertaken within the CityMet area. Therefore, for travel less than 55 km, the discount from the relevant single journey fare should be relatively consistent. Further, as noted above, the Tribunal has permitted increases in some single fares where bands are to be rationalised. In order to prevent further increases in discounts for weekly tickets, the Tribunal proposes to allow modest increases in the price of the weekly fares. However, the Tribunal notes that where bands are being rationalised slightly higher increases will occur.

The Tribunal has determined that the price of some rail weeklies for distances up to 35 km should increase by up to \$1. The price of most weeklies for distances greater than 35 km and less than 135km should increase by up to \$2. The increase for distances greater than 135 km will be limited to \$3.00.

Table 7.4 compares the current and proposed weekly fares. It also shows the relationship of the weekly fare to the corresponding single fare.

In 1996/97, CityRail suggested that, due to changes in patronage in distant areas, it might wish to introduce a weekly fare for distances beyond 175 km. Some people already travel such distances and are required to purchase two weekly tickets. There is no maximum fare for these distances using one ticket. The Tribunal then set the maximum fare at 3.8 times the relevant single fare. To bring this in line with fares up to 175 km, the Tribunal now proposes to increase this multiple to 3.9.

The Tribunal considers that if CityRail were to introduce weekly tickets for distance that do not have weekly tickets, the maximum price of these weekly tickets should be 3.9 times the relevant single journey fare.

Flexipass fares are charged as a calculated multiple using a pre-defined formula. This formula has not changed. Flexipass fares will only change to the extent that the weekly fare will change.

Table 7.4 Comparison of existing and new rail weekly fares

Distance (km)	Existing Fare (\$)	New Fare (\$)	Change (\$)	Times Single Fare
5.00	11.00	12.00	1.00	7.5
10.00	15.20	15.20	0.00	8.4
15.00	16.00	17.00	1.00	7.7
20.00	21.00	21.00	0.00	8.1
25.00	21.40	22.00	0.60	7.9
30.00	24.00	24.00	0.00 #	7.5
35.00	25.00	26.00	1.00	7.6
36.19	26.00	28.00	2.00	7.4
45.00	29.00	29.00	0.00 #	7.6
55.00	30.00	31.00	1.00	6.7
55.50	32.00	34.00	2.00 +	7.4
65.00	34.00	34.00	0.00 #	6.3
75.00	35.00	36.00	1.00	6.7
85.00	38.00	39.00	1.00	6.1
95.00	40.00	41.00	1.00	5.7
105.00	42.00	43.00	1.00	5.4
115.00	44.00	45.00	1.00	4.8
119.00	45.00	47.00	2.00 +	5.0
125.00	52.00	47.00	(5.00) *	4.4
135.00	52.00	53.00	1.00	4.9
155.00	54.00	57.00	3.00	5.2
175.00	56.00	59.00	3.00	4.6
195.00	67.00	68.00	1.00	4.7

Fare also did not increase in 1997/98

+ Fare band will be amalgamated with higher band

* A new fare band to permit removal of 119 km band.

Note ¹ A weekly fare that is 8 times the single fare offers a 20 percent discount to travellers.

² Weekly tickets previously only available for travel up to 195 km.

7.6 TravelPasses

TravelPasses provide unlimited travel over the period of issue (week, quarter or year) throughout the zones of issue and apply to rail, bus (STA) and ferry services. They are designed for regular users of public transport. TravelPass tickets have increased each year since the Tribunal has been setting fares. They do however provide train, bus and ferries users with very flexible and relatively cheap travel options.

In its submission, the State Transit Authority has updated information, first provided last year, relating to the use of TravelPass tickets (see Table 7.5 below) based on individuals' travel patterns. This analysis is referred to as Total Value of Travel (TVT). As evident from the table the TravelPass ticket recovers a relatively low proportion of the costs of providing the service. The ticket is very popular with commuters and provides one of the few integrated tickets for Sydney commuters. Without knowledge of the individual travel patterns, the level of discount is difficult to estimate with certainty

Table 7.5 Estimates of Total Value of Travel (TVT) for TravelPasses

TravelPass	Existing fare (\$)	TVT	Effective discount
Red	22.00	38.30	43%
Green	28.00	46.47	40%
Yellow	31.00	49.87	38%
Pink	34.00	52.63	35%
Brown	39.00	60.61	36%
Purple	46.00	70.56	35%

While the Tribunal considers a modest increase in TravelPass prices is appropriate, the Tribunal also notes that, according to the analysis presented to it, the discounts on most of the rail bus and ferry TravelPasses are not excessive, although, the Red and Green TravelPasses have higher discounts and these fares could increase somewhat. The Tribunal considers that an overall increase similar to that for rail weeklies is appropriate. Table 7.6 shows the new TravelPass fares.

The Tribunal determines that the price of rail/bus/ferry TravelPasses should increase by \$1.

Table 7.6 Comparison of existing and new TravelPass fares

TravelPass	Existing fare (\$)	New fare (\$)	Change (\$)
Red	22.00	23.00	1.00
Green	28.00	29.00	1.00
Yellow	31.00	32.00	1.00
Pink	34.00	35.00	1.00
Brown	39.00	40.00	1.00
Purple	46.00	47.00	1.00

7.7 CityHopper fares

The CityHopper ticket allows travel from the origin station to the City with unlimited travel on CityRail trains and STA buses within the city area. The ticket can be purchased during peak and off-peak periods. The price of the CityHopper ticket is the price of the appropriate return ticket, peak or off-peak, from the originating station to the City plus an add-on component. In its 1996/97 determination, the Tribunal determined that the price of the add-on should remain at \$3.40. The Tribunal sees no reason to vary this price.

The Tribunal has determined that the price of the CityHopper add-on be frozen at \$3.40.

7.8 DayRover tickets

A DayRover ticket can be used for all day use on peak and off-peak services. The ticket can be used on bus, rail and ferry services within the area covered by the Purple TravelPass. The peak ticket costs \$20, the off-peak ticket is \$16.

The Tribunal has determined that these fares be frozen at existing levels.

7.9 RailRover

While last year's determination was in preparation, CityRail approached the Tribunal to introduce a RailRover ticket. The RailRover ticket would enable all day travel within the area currently defined by the Purple TravelPass. In setting the fare, CityRail has taken the cost of a 55km trip plus a 5km off-peak trip as a reference fare. The amount of travel undertaken would be greater than this. CityRail proposes a fare of \$11 for a ticket purchased during the morning peak and \$7 off-peak. The Tribunal endorsed CityRail's proposal. The Tribunal notes, however that CityRail has not as yet introduced the fare.

The Tribunal has determined that the maximum fare for the RailRover ticket shall be \$11 peak and \$7 off-peak.

7.10 SydneyPass

The Sydney Pass is a tourist ticket featuring unlimited bus, rail and ferry travel, including Explorer coaches, Airport Express and Harbour Cruises. On the Tribunal's recommendation, in February 1998 the Premier excluded the SydneyPass from the definition of SRA's regular passenger services which removed this product from the Tribunal's responsibility.

Fares for the SydneyPass are no longer determined by the Tribunal.

7.11 Pensioner concessions

The pensioner concession fare of \$1 provides unlimited travel within the CityMet area on the day of purchase. This fare has not increased since 1988.

The price of these concession tickets and the reimbursements made by government to the authority (as Community Service Obligations (CSO's)) are matters of social policy for the Government to determine, not the Tribunal.

7.12 Olympic Park Station

CityRail is now operating a limited service to the new station at Olympic Park in Homebush Bay. However, for major events there will be a larger number of services running. In its submission, CityRail proposed that the fare to Olympic Park should be a combination of the rail distance fare to Strathfield or Lidcombe (whichever is shortest) plus an add-on. As an interim measure the Tribunal had previously approved an add-on of \$1.20 one way and \$2.40 return based on the then bus fare to Homebush bay.

In its submission for CityRail proposed an add-on of \$2.00 for a one way trip and \$3.00 return. At this stage the Tribunal is not convinced that an increase in the add-on is warranted.

The Tribunal has determined that the fare to Olympic Park Station is the distance fare from the origin station to Strathfield or Lidcombe (whichever is shortest) plus an add-on. The add-on shall be \$1.20 for a single journey or \$2.40 return.

7.13 Miscellaneous charges

CityRail has a number of miscellaneous charges eg ticket refund charge. These charges are different to fines imposed under the SRA's by-laws. Hitherto, the Tribunal has not set these charges.

According to the Independent Pricing and Regulatory Tribunal Act

The Tribunal is to conduct investigations and make reports to the Minister on the following matters:

- (a) the determination of the pricing for a government monopoly service supplied by a government agency specified in Schedule 1¹⁷

The SRA is a Schedule 1 agency. With respect to the SRA, the Premier has declared the following as a monopoly service:

Railway passenger services supplied under the name "CityRail" by the State Rail Authority, excluding services supplied in accordance with the ticket known as the "SydneyPass".¹⁸

Pricing of these services, extends to charges directly related to the provision of those services. Where miscellaneous charges relate to the provision of the declared services, the Tribunal should set the maximum price of those charges. The Tribunal has not been provided with a complete list of these charges. The Tribunal Secretariat has had discussions with CityRail and the Department of Transport regarding the nature of the charges with a view to examining the appropriateness of the Tribunal regulating them. Should the Tribunal regulate these charges it would not do so ahead of the 1999/2000 annual determination

8 REQUIREMENT UNDER SECTION 16 OF THE ACT

The Tribunal is required under Section 16 of the Act to assess and report on the likely annual cost to the Consolidated Fund if the price were not increased to the maximum permitted.

The determination for the State Rail Authority is for an increase in total farebox revenue of about \$10.4 million over that of 1997/98. The Treasury makes up the difference between farebox revenue and costs by way of a subsidy through CSO's. Should fares be set below the scheduled levels, then for each \$1 reduction in farebox revenue, payments to the SRA from the State Government would increase correspondingly.

¹⁷ IPART Act Section 11.

¹⁸ Independent Pricing and Regulatory Tribunal (Passenger Transport Services) Order 1998.

9 COMPLIANCE

Compliance with the Tribunal determinations is an issue required under Section 18 of the Independent Pricing and Regulatory Tribunal Act 1992. Government agencies are required to include details relating to the implementation of a determination within its annual report.

The Tribunal notes compliance with the 1997/98 determination. The Tribunal will continue to monitor this requirement.

Thomas G Parry
Chairman
5 June 1998

ATTACHMENT 1 LIST OF SUBMISSIONS

Organisations and individuals who made submissions to this review of fares are listed below. Copies of these submissions can be viewed during business hours (8:45 am – 5:15 pm, Monday to Friday) at the Tribunal's offices. Level 2, 44 Market St, Sydney.

Organisations

- ◇ Action for Public Transport
- ◇ Blue Mountains Commuter and Transport Users Association
- ◇ CityRail
- ◇ Commuter Council
- ◇ Council of Social Service of NSW
- ◇ Department for Women
- ◇ NSW Treasury
- ◇ Rozelle Balmain Precinct Committee
- ◇ State Transit Authority of NSW
- ◇ The Smith family
- ◇ Waverley and District Combined Pensioners & Superannuants Association

Individuals

- ◇ Eames, G
- ◇ Knowles, R
- ◇ Neumann, C
- ◇ Parker, A



INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES

**DETERMINATIONS UNDER SECTION 11 (1) OF THE INDEPENDENT PRICING
AND REGULATORY TRIBUNAL ACT, 1992**

Matter No.: SRD/98/03
Determination: No 1, 1998
Agency: CityRail, State Rail Authority
Services: Passenger transport services.

Declaration of government monopoly services under Section 4 of the Act:

Order dated 24 February 1998 and published in Gazette No. 38 page 1015.

Maximum prices determined under Section 14 of the Act to be charged from 5 July 1998 for railway passenger services supplied under the name "CityRail" by the State Rail Authority, excluding services supplied in accordance with the ticket known as the "SydneyPass".

1. All CityRail passenger rail services

The price of any type of rail ticket for a given distance band is not to exceed the price, for that distance band, of that type of ticket as set out in the attached table.

2. CityHopper

The price of the CityHopper ticket is the price of the appropriate return ticket, peak or off-peak, to the City plus an add-on for unlimited bus and rail travel in the City area. The price of the add-on is \$3.40.

3. DayRover tickets

The price of the peak and off-peak DayRover tickets shall not exceed \$20 for tickets purchased during the morning peak and \$16 for tickets purchased outside the morning peak.

4. RailRover

The price of the RailRover ticket for all day travel on the CityRail CityMet network shall not exceed \$11 for tickets purchased before the end of the morning peak and \$7 for tickets purchased after the morning peak.

5. *Flexipasses*

The price of the Flexipass ticket for a given distance band, is not to exceed the fare calculated by multiplying the weekly fare for the same distance band by the appropriate multiplier. The multiplier for calculating the appropriate Flexipass fare is given by the following formula (the value calculated is then rounded to the nearest whole dollar).

$$P = R * (3.66 + K * x - L * y)$$

where:

$$\begin{aligned} P &= \text{Fare price (before rounding)} \\ R &= \text{Weekly ticket price for distance band} \\ N &= \text{Number of days of validity (from 28 to 366)} \\ x &= N - 28 \\ y &= N - 90; \text{ for } N > 90 \\ &0; \text{ for } N \leq 90 \\ K &= 0.12 \\ L &= 0.011 \end{aligned}$$

6. *Olympic Park*

The fare to Olympic Park Station is the distance fare from the origin station to Strathfield or Lidcombe (whichever is shortest) plus an add-on. The add-on shall be \$1.20 for a single journey or \$2.40 return.

7. *New or additional charges*

All other prices or charges for railway passenger services provided by CityRail not referred to specifically in this Determination, shall remain at 1997/98 levels. The State Rail Authority cannot levy any new or additional charges for railway passenger services, other than in accordance with this Determination, or with the approval of the Tribunal in future Determinations.

Thomas G Parry
Chairman
5 June 1998

PRICING SCHEDULE

Maximum prices for CityRail railway passenger services from 5 July 1998

Distance km	Single \$	Half Single \$	Return \$	Half Return \$	Weekly \$	Off-Peak \$
5.00	1.60	0.80	3.20	1.60	12.00	2.00
10.00	1.80	0.90	3.60	1.80	15.20	2.20
15.00	2.20	1.10	4.40	2.20	17.00	2.60
20.00	2.60	1.30	5.20	2.60	21.00	3.20
25.00	2.80	1.40	5.60	2.80	22.00	3.40
30.00	3.20	1.60	6.40	3.20	24.00	3.80
35.00	3.40	1.70	6.80	3.40	26.00	4.00
36.19	3.80	1.90	7.60	3.80	28.00	4.60
45.00	3.80	1.90	7.60	3.80	29.00	4.60
55.00	4.60	2.30	9.20	4.60	31.00	5.60
65.00	5.40	2.70	10.80	5.40	34.00	6.40
75.00	6.40	3.20	12.80	6.40	36.00	7.60
85.00	7.20	3.60	14.40	7.20	39.00	8.60
95.00	8.00	4.00	16.00	8.00	41.00	9.60
105.00	8.40	4.20	16.80	8.40	43.00	10.00
115.00	9.40	4.70	18.80	9.40	45.00	11.20
125.00	10.80	5.40	21.60	10.80	47.00	13.00
135.00	11.00	5.50	22.00	11.00	53.00	13.20
155.00	12.80	6.40	25.60	12.80	57.00	15.40
175.00	14.60	7.30	29.20	14.60	59.00	17.60
195.00	17.40	8.70	34.80	17.40	68.00	21.00
215.00	18.80	9.40	37.60	18.80		23.00
235.00	22.00	11.00	44.00	22.00		25.00
255.00	23.00	11.50	46.00	23.00		26.00
305.00	25.00	12.50	50.00	25.00		29.00
305+	27.00	13.50	54.00	27.00		31.00

TravelPass	\$
Red	23.00
Green	29.00
Yellow	32.00
Pink	35.00
Brown	40.00
Purple	47.00

Quarterly = x 11 Yearly = x 40

Child Off-Peak	\$
Sydney Suburban	1.80
Newcastle Suburban	1.80
Outer Metropolitan	2.60
CityRail Network	4.60

STATE TRANSIT AUTHORITY OF N S W
REPORT TO THE PREMIER AND DETERMINATION



INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES

**REPORT TO THE PREMIER ON THE DETERMINATION OF MAXIMUM PRICES
UNDER SECTION 11(1) OF THE INDEPENDENT PRICING AND REGULATORY
TRIBUNAL ACT, 1992**

Matter No.: SRD/98/02

Report: No 2, 1998

Agency: State Transit Authority

Services: Passenger transport services.

Declaration of Government Monopoly Services under Section 4 of the Act:

Independent Pricing and Regulatory Tribunal (Passenger Transport Services) Order 1998, made on 24 February 1998 and published in Gazette No. 38 dated 27 February 1998 at page 1015.

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1 INTRODUCTION

As required by Section 11(1) of the Independent Pricing and Regulatory Tribunal Act 1992, the Independent Pricing and Regulatory Tribunal has investigated proposals by the State Transit Authority (a standing reference agency in Schedule 1 of the Act) for maximum prices to be charged from 5 July 1998 for declared passenger transport monopoly services supplied by State Transit.

The Tribunal's determinations of the maximum prices for State Transit services are attached to this report.

2 THE PRICE DETERMINATION PROCESS

The Tribunal called for pricing proposals from the State Transit Authority. Submissions were also invited from any interested parties and the public on issues relating to the pricing of public transport services.

A public hearing was held on 26 March 1998 at the Tribunal's offices, Level 2, 44 Market Street Sydney.

Details of State Transit's proposals are provided within this report and a list of other submissions received is in an attachment.

Copies of all submissions and a transcript of the hearing can be viewed on the Tribunal's website www.ipart.nsw.gov.au and are available for inspection at the Tribunal's office.

The Tribunal members who considered this determination are:

Dr Thomas G Parry, Chairman
Mr James Cox, Full-time Member

3 SUMMARY OF THE DETERMINATION

The Tribunal has continued the process of annual determinations in preference to establishing a medium term price path. The Tribunal will consider establishing a medium term price path from 1999/2000. For this year an annual determination remains necessary due to uncertainty regarding:

- a proposed restructure of the Community Service Obligation (CSO) program to replace the pricing CSO¹ with phased down deficit funding
- the ability of State Transit to progressively achieve the realisable efficiency gains identified in a consultant's analysis of bus costs
- the need for further analysis of the costs of Sydney Ferries
- lack of progress in removing the inequitable "spike" in the Sydney Buses fare scale.

¹ The pricing CSO is a government subsidy which reimburses STA for using fares below a 'commercial' level. The pricing CSO is based on the difference between average fares charged by private sector bus operators in the metropolitan area and STA.

The main features of the determination are:

For State Transit

- Weighted average fares will increase by 2.22 percent which is in line with the forecast inflation rate. The Tribunal had available to it a forecast inflation rate for 1998/99 of 2.2 percent provided by NSW Treasury.

The operations of State Transit are divided into three business units; Sydney Buses, Sydney Ferries and Newcastle Services. Sydney Buses is the largest unit generating over three quarters of State Transit's revenue and hence is the focus of more extensive analysis in this Determination. Sydney Ferries and Newcastle are comparably smaller, generating 15.3 percent and 6.7 percent of State Transit revenue respectively.

For Sydney Buses

- A weighted average fare rise of 2.05 percent.
- All *single journey bus* fares will again remain unchanged.
- *Bus TravelTen* fares will increase by up to 2.33 percent. However, the two longer distance *TravelTens* (orange and purple) are to remain frozen at \$34 and \$40, respectively.
- All weekly *TravelPasses* will increase by \$1.
- The *School term pass* will increase by \$2 equating to 20 cents per week.
- *Special sporting services, Bus Tripper, City Hopper (add-on), Day Rover and DayPass* all remain at previous fare levels.

For Sydney ferries

- A weighted average fare rise of 3.32 percent.
- *Inner zone and Parramatta single ferry fares* will increase by 20 cents per journey. Single ferry fares for the *Rydalmere, Manly and JetCat* fares will remain unchanged.
- All *FerryTen* tickets will increase by \$2 or 20 cents per journey.
- *JetCat Ten* will increase by \$1.00 to \$44.00.

For Newcastle buses and ferries

- A weighted average rise in fares for Newcastle Services of 0.47 percent.
- All single time based fares and *TimeTen* fares will remain unchanged.
- All *Newcastle TravelPasses* (orange, yellow and pink) will rise by \$1.
- The *Single Stockton ferry* fare will increase by 10 cents to \$1.40.

As a result of this determination, State Transit's farebox revenue will increase by approximately \$3.61million or a 2.18 percent yield.²

4 PROGRESS SINCE THE MAJOR REVIEW OF PUBLIC PASSENGER TRANSPORT

The Tribunal published its Final Report on the Pricing of Public Passenger Transport Services in October 1996. This report was preceded by a series of six Interim Reports. The Key Recommendations are summarised below in Box 1.

Box 1

Key Recommendations of the Major Review for State Transit

The Tribunal's Final Report recommended several major changes for State Transit which are summarised below:

1. STA's capital expenditure program should be re-considered in detail, including a full analysis of the farebox impact of a superior quality fleet.
2. To earn a reasonable ROR on assets, the STA should:
 - achieve **best practice** in operations through efficiency gains and productivity improvements
 - review and clarify the objectives and incentives of Government Funding through the CSO program
 - match its capital investment program with an appropriate level of service quality.
3. The Tribunal seeks a review of the CSO funding structure for STA. The pricing CSO should be eliminated due to two undesirable outcomes:
 - since the pricing CSO is based on the maximum private bus fare, any rises in the maximum fare lead to automatic increases in the pricing CSO.
 - since STA fares remain below the maximum private fares, any increases in service usage will automatically generate corresponding increases in the pricing CSO.
4. Following satisfactory cost reductions and elimination of the pricing CSO, the Tribunal will reconsider the case for real fare rises to finance capital expenditure or business growth. In the interim, the Tribunal will permit fare rises which are broadly in line with the CPI and will continue to correct fare anomalies to improve customer equity.
5. The Tribunal supports discounts for 'Ten' tickets of between 15 and 20 percent.
6. While supporting increases in TravelPasses, the Tribunal will ensure fare rises are affordable for low income earners and do not preclude patronage growth or encourage transfers to private cars.
7. The Tribunal supports the realignment of FerryTen discount levels and will support modest increases in all ferry fares to improve cost recovery.
8. The Tribunal supports and encourages ongoing public discussion of all key transport issues. This will enable a better understanding of the issues, provide a broader range of inputs than otherwise possible and promote community acceptance of government decisions. The public consultation process will remain a central component of future determinations.

The Tribunal is pleased to report some significant progress by STA since the Major Review. A major consultancy on State Transit Bus Costs was jointly commissioned by the Tribunal, State Transit and the NSW Department of Transport and was completed in March 1998. The objectives and results of this Analysis are summarised in Section 6 of this report (Box 2 p 10). Significant items of progress include:

² The weighted average fare rise is the average increase in fares weighted by volume of sales per ticket. The yield associated with the fare rise is the estimated percentage rise in passenger fare revenue and includes an estimate of the patronage fall attributable to the fare rise (or the elasticity impact).

1. **Bus capital expenditure program:** the Analysis of Bus Costs concluded that size of the program is justified (300 buses over 3 years from 1997). This view is based on the need to comply with the legislative requirement that the average fleet age should not exceed 12 years. At March 1998 STA's fleet of 1673 buses had an average age of 11.6 years. The fleet age is rising because it includes 461 Mercedes Benz buses that are now 18 years old. The consultants also concluded that the specification and cost of the new buses (\$363,500 each) is generally reasonable and they were 'unable to identify any significant potential for savings in this area'.
2. **Best practice operations:** the Analysis of Bus Costs reviewed the appropriateness of all functional areas and included an implementation plan to achieve the net realisable efficiency gains³ which were identified.
3. **The CSO Program:** NSW Treasury has undertaken an extensive review of the State Transit CSO program which has supported the Tribunal's position on the need to remove the Pricing CSO. Treasury is proposing to replace the Pricing CSO with fixed deficit funding which is automatically reduced each year by the net realisable efficiency gains identified in the Analysis of Bus Costs. Removal of the Pricing CSO is a pre-requisite for establishing a medium term price path from 1999/2000. The Tribunal will closely monitor progress on the CSO restructure in the 1998/99 NSW Budget.
4. **Realignment of 'Ten' ticket discounts:** The Tribunal has achieved progressive reductions in the discount levels on 'Ten' tickets. For example, the discount for STA's most popular multi-ride ticket, the Red TravelTen (3-9 section) has been gradually reduced from 41.6 percent in 1992/93 to 29.6 percent in 1998/99. Three of the five TravelTen products are within the Tribunal's preferred discount range of between 15 and 20 percent for 1998/99. This process will continue until all discounts reach this range.
5. **Cost recovery of Sydney Ferries:** The Tribunal has delivered modest real fare rises for all ferry services to improve cost recovery. STA has also lifted patronage. Over the four years from 1994/95 to 1997/98 the farebox revenue for Sydney Ferries has increased by 23 percent whilst inflation was 10.2 percent. Accrual costs recovered from passengers have risen from 49.8 percent to 55.6 percent over the same period.

5 SUBMISSIONS

5.1 Pricing proposals made by State Transit Authority

Prior to the public hearing, STA made a submission with a specific pricing proposal seeking a 2.22 percent weighted average fare rise. STA's specific proposals included:

- Single ride bus fares to remain unchanged.
- Blue, red, and green bus *TravelTen* tickets to increase by 20, 40 and 60 cents respectively.
- No fare rise was sought for the longer distance bus TravelTens (orange and purple).
- All *TravelPasses* (bus/ferry and Bus/ferry/rail) to increase by \$1.
- A rise in Inner Harbour and Parramatta Single ferry tickets of 20 cents per trip.
- No rise was sought for the single ferry fare for Manly, Rydalmere and JetCat services.

³ Net realisable efficiency gains refers to the achievable cost savings given Government ownership, different award conditions, STA's fleet and operating environment less estimated implementation costs associated with the proposed reforms.

- All *FerryTen* tickets to increase by \$2 or 20 cents per journey.
- *JetCat Ten* tickets to increase by \$1 to \$44 or 10 cents per trip.
- *Newcastle time based fares* to be frozen this year but to be monitored against inflation.
- A 10 cent rise in the single *Stockton Ferry ticket*.
- *School term pass* to increase from \$29 to \$32 or 10.34 percent.
- Fares for the Special Sporting Services, Bus Tripper, Day Rover and DayPass all remain frozen.

5.2 Other submissions

A list of other submissions is contained in the Attachment to Report No 1 for CityRail.

6 ISSUES CONSIDERED BY THE TRIBUNAL

Under Section 15 of the Independent Pricing and Regulatory Tribunal Act 1992, the Tribunal in completing a Determination is required to consider a number of factors and indicate what regard it has had to each factor. The Tribunal's assessment of each of the Section 15 factors is detailed below.

6.1 Costs and efficiency

- * *the cost of providing the services concerned [S15(1)(a)]*
- * *the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers [S15(1)(e)]*
- * *the impact on pricing policies of arrangements that the government agency concerned has entered into for the exercise of its functions by some other body [S15(1)(h)]*
- * *the need to promote competition in the supply of the services concerned [S15(1)(i)]*

6.1.1 Operating costs

State Transit's financial statements show that it recovers significantly less than the accrual based costs of providing the service. The level of cost recovery is also falling which is partly explained by rises in 'uncontrollable' costs. State Transit's expenditure increased by \$37m between 1995/96 and 1996/97. State Transit reports \$15m in major cost rises relating to items of which it has a limited ability to control including;

- a 100 percent rise in the cost of registration and compulsory third party insurance or \$7.2m
- the introduction of sales tax payments at a cost of \$4.3m
- fuel costs have risen by 12.5 percent or \$3.5m.⁴

STA also report a (non-cash) rise in depreciation and amortisation charges of \$9.3m or 40 percent mainly due to the revaluation of assets to a written down replacement cost basis.

⁴ STA Annual Report 1996/97, p 9.

These rises in 'uncontrollable' costs, coupled with a substantial increase in the bus acquisition program has resulted in a rising government subsidy and deteriorating cost recovery. STA's recent and projected financial performance is summarised in the Table 6.1 below.

Table 6.1 Summary of financial performance for STA

	1994/95	1995/96	1996/97	1997/98 (f)	1998/99 (f)	Change
Accrual expenses (\$m)	305.1	326.1	363.2	377.2	403.1	32.1%
Passenger Farebox (\$m)	154.9	174.6	189.7	196.2	208.8	34.8%
Govt contribution (\$m)	152.4	139.0	150.5	161.3	166.5	9.3%
EBITDA (\$m cash operating surplus)	61.5	36.2	35.2	29.4	32.1	-47.8%
Capital expenditure (\$m)	24.8	28.7	38.1	58.4	55.1	122.2%
Net debt to equity	0	0	11.5%	29.7%	64.2%	Na
Dividend paid to Treasury (\$m)	1.5	5.2	nil	nil	nil	Na
Op. margin % (EBITDA/total revenue)	18.2%	10.8%	9.7%	7.9%	8.1%	-55.3%
Rate of return % (EBIT/Net Assets)	30.2%	8.1%	2.2%	-2.3%	-2.7%	108.9%
Accrual cost recovery %	61.6%	62.2%	58.8%	55.8%	56.8%	-7.8%

Notes: All amounts expressed in 'dollars of the day'. EBITDA: earnings before abnormals, depreciation, amortisation, interest & tax. Accrual cost recovery: (All non-government revenue plus dividend) / Accrual expenses %
 Net debt to equity: (debt less cash)/Equity

The main points arising from this table are as follows:

- the planned reliance on debt funding of the large capital program
- the fall in the cash operating surplus due to the large rise in expenditure
- the cessation of dividend payments due to weakening financial performance affected by the large rise in capital expenditure
- strong growth in the contribution by Government
- a contraction in the operating margin due to the rise in expenditure and new capital program
- State Transit remains a considerable distance from earning an acceptable rate of return.

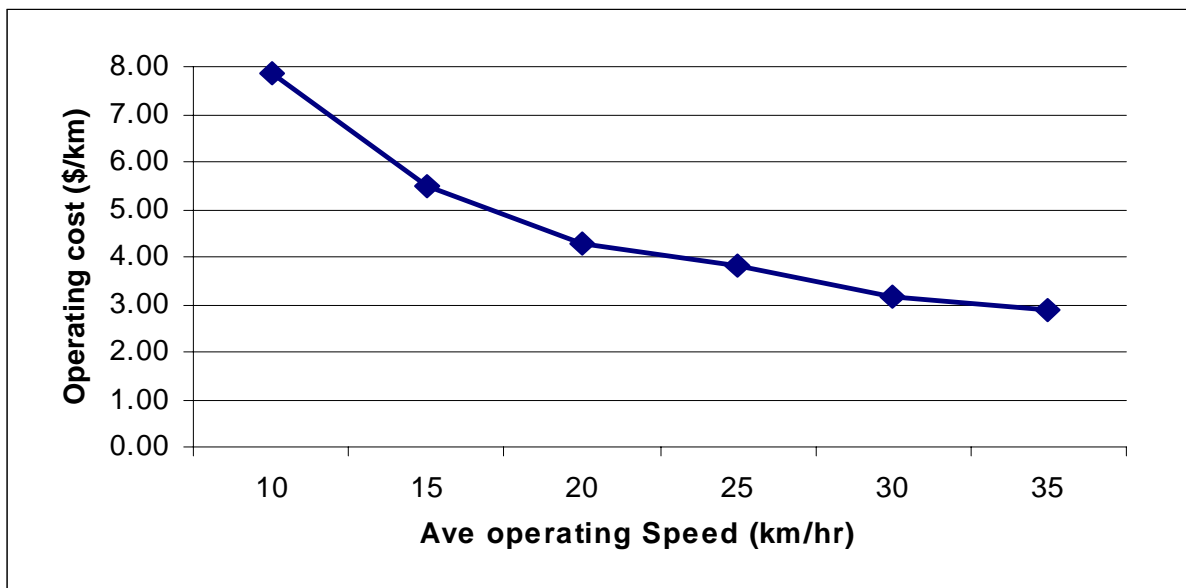
State Transit report that the major cost determinant for Sydney Buses is operating speed.

The average speed has a significant impact on costs, through fuel use, and asset and staff utilisation.⁵

The average operating speed has fallen from 19kph in 1995/96 to 17kph in 1998/99. As traffic congestion increases the average speed will fall further. State Transit estimate that a further fall in average operating speeds from 17km/hr to say 15km/hr would see operating costs increase by around 10 percent. STA has estimated the relationship between falling average speed and rising operating costs which is illustrated in Figure 6.1.

⁵ State Transit submission to the IPART Determination (1998/99), March 1998, p 10.

Figure 6.1 The relationship between operating speed and costs

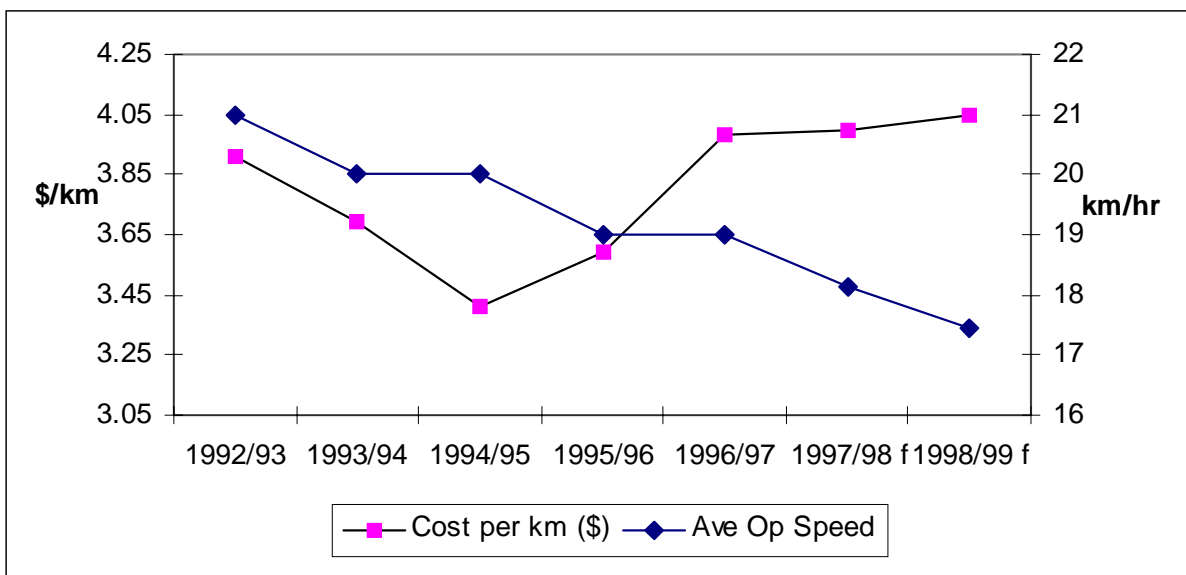


Source: STA Submission to the Tribunal March 1998. Data based on 1996/97 results.

Of note is that between 1992/93 and 1994/95 average operating speed declined by 8 percent, yet operating costs also fell by 15 percent. This was because the cost rise from lower average speeds was more than offset by a 15.8 percent decrease in staff numbers, from 4,423 in June 1992 to 3,818 in June 1995⁶.

The recent and projected relationship between speed and operating costs for Sydney Buses is illustrated in Figure 6.2.

Figure 6.2 The Operating Efficiency of Sydney Buses



Source: STA Submission to the Tribunal March 1998.

⁶ State Transit Annual Report, 1994/95 p 71.

State Transit is a labour intensive business. Employee wages, salaries and associated on-costs⁷ are the major cost items. Labour and related expenses comprised 60 percent of STA's costs in 1996/97. After downsizing the workforce in early 1990's, from 1993/94 STA increased its workforce (FTE)⁸ by 14.7 percent, whilst patronage rose by 12.4 percent over the same period. Table 6.2 analyses trends in FTEs, labour costs and labour productivity relative to patronage. Overall, State Transit is attempting to restraining wages growth through greater utilisation of part time and casual staff, a lower reliance on overtime. However, customer fares still do not cover labour costs, although this gap is narrowing. Overall, most indicators illustrate that STA has not made significant gains in labour productivity.

Table 6.2 Analysis of the State Transit Workforce

STA Consolidated	1993/94	1994/95	1995/96	1996/97	1997/98	Total change
Average FTE's	3,740	3,818	4,101	4,303	4,288	14.7%
Wages & salaries cost \$m	132.89	137.03	150.66	164.38	170.98	28.7%
Wage & salary per FTE \$	35,530	35,890	36,740	38,200	39,870	12.2%
Total on-costs \$m	52.92	37.62*	54.74	59.21	64.95	22.7%
Cost to STA per FTE \$	49,680	45,740	50,090	51,960	52,970	6.6%
Patronage (m journeys)	189.33	193.38	203.31	209.92	212.8	12.4%
Patronage per FTE per day	138.7	138.8	135.8	133.7	136.0	-1.9%
Kilometres per FTE	18,994	18,993	18,804	18,452	19,326	1.7%
Farebox revenue per FTE \$	39,480	40,580	43,850	45,170	46,910	18.8%
Farebox per passenger \$	0.78	0.80	0.88	0.9s3	0.95	21.8%
Labour cost per passenger \$	0.98	0.90	1.01	1.07	1.07	9.2%

Notes: All amounts are nominal or 'dollars of the day'. On-costs include annual leave, long service leave, superannuation etc.

* Amount lower due to a one-off downward revision of superannuation liability following actuarial assessment.

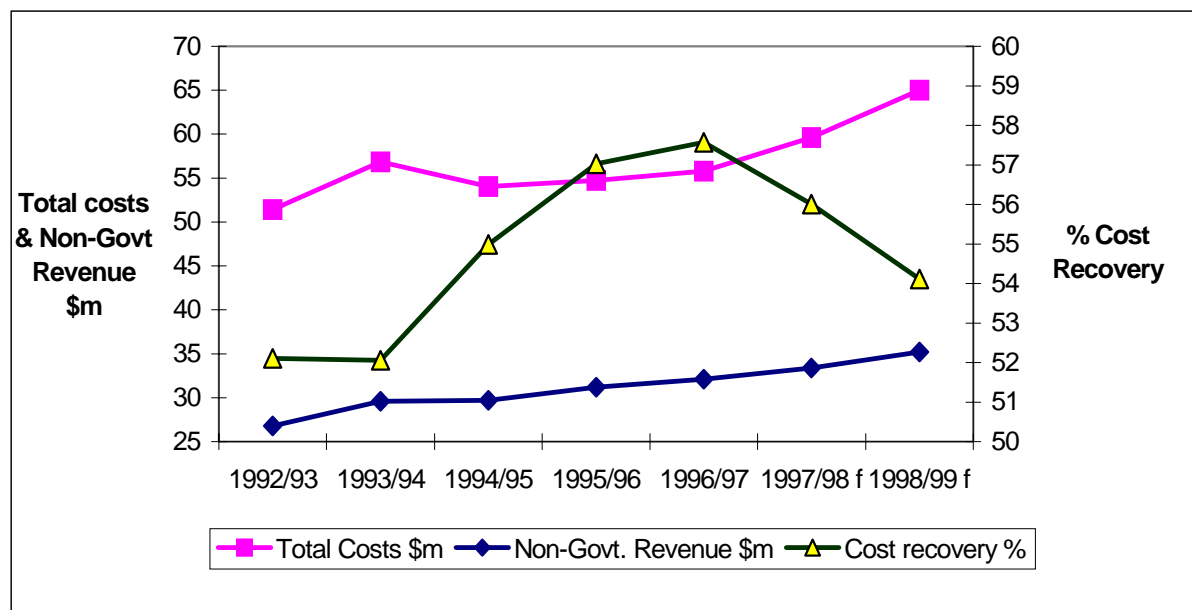
Sydney Ferries

In 1997/98 the Sydney Ferries business unit incurs accrual costs of \$59.5m and cash costs of \$50.9m. Passenger and other non-government revenue has risen to \$33.4m in 1997/98 which recovers 65.6 percent of cash costs. Since 1992/93 accrual cost growth in Ferries has been restrained and the Tribunal has approved modest real fare rises. Consequently, the level of accrual costs recovered from non-government revenue for Sydney Ferries improved from 52.1 percent 1992/93 to 57.6 percent in 1996/97, however State Transit forecasts that not all of this improvement can be maintained. These trends are illustrated in Figure 6.3.

⁷ Labour related on-costs refers to expenses such as payroll tax, workers compensation, superannuation and long services leave.

⁸ FTE refers to full time equivalent employees, eg five casual employees working one full day per week each equate to one FTE.

Figure 6.3 The Financial Performance of Sydney Ferries



Source: STA Submission to the Tribunal March 1998.

The cost recovery of some specific ferry routes remains an area of concern. The Meadowbank/Parramatta, Hunters Hill and Watsons Bay ferry services recover the lowest proportion of costs from the farebox. In the Interim Report, the Tribunal assessed that Sydney Ferries operates most routes at above minimum service level requirements despite chronic poor cost recovery.⁹ The Tribunal notes State Transit has successfully held the total number of scheduled services and vessel kilometres broadly constant since 1994/95.¹⁰ The Tribunal notes successful cost containment between 1994/95 and 1996/97. However, the Tribunal is concerned that accrual costs for Sydney Ferries are projected to rise by 19.6 percent (\$10.64m) between 1996/97 and 1998/99. Consequently, the Tribunal sees value in conducting an efficient cost analysis for Sydney Ferries similar to the exercise completed for Sydney Buses.

The financial performance of Sydney Ferries could also be improved by increasing patronage on existing services. Sunny summer weekends aside, the patronage levels or seat occupancy on the majority of Sydney Ferry services is low. The patronage of Sydney Ferries is also very seasonal. Sydney Ferries usually records a profit for the month of January. Average patronage in January is approximately 55,000 journeys per day whilst the average across the remainder of the year falls to around 34,000 journeys per day. With an average of 360 services per day in 1997/98 each trip is carrying an average of 95 passengers. The Tribunal estimates that the weighted average number of seats available per service is approximately 380 which indicates that patronage is about 25 percent of capacity. This surplus capacity confirms the Tribunal's previous recommendations to progressively move to operating smaller sized vessels, especially during off-peak periods.¹¹

⁹ Inquiry into Pricing of Public Passenger Transport Services, Interim Report No. 2 March 1996, pp 43-47.

¹⁰ GTE Performance Indicators, Steering Committee on National Performance Monitoring of GTEs, 1992/93-1996/97, p 277. Between 1994/95 and 1996/97 Sydney Ferries scheduled services have remained constant at 130,000 pa whilst vessel kilometres rose by only 3 percent to 1,337,000km.

¹¹ Inquiry into Pricing of Public Passenger Transport Services, Final Report, October 1996, p 35.

Making greater use of the existing smaller vessels in the fleet during the off-peak is one strategy offering some scope for significant savings in labour expenses. For example, the Freshwater Class Manly Ferries operate with a crew of six, compared to JetCats with a crew of four and First Fleet ferries and RiverCats which have crews of three. These minimum crew size requirements are set by the NSW Waterways Authority and hence STA has limited scope to reduce labour costs operating the existing fleet with dedicated vessels serving each route. The Tribunal notes that STA is attempting to implement the Tribunal's recommendation by placing an order to purchase two smaller (150 seat) RiverCats.¹² The smaller size of the new RiverCats permits operation with a crew of two at a considerable saving in operating costs.

The Tribunal notes that Sydney Ferries patronage has risen 23.6 percent from 10.6m in 1992/93 to 13.1m journeys in 1997/98. However, ferry patronage remains 7.6 percent below levels recorded in 1989/90. The long term weakness in ferry demand is largely attributed to improvements in competing Sydney Buses services and a rise in the importance of the southern central business district of Sydney, which is considered to be beyond a comfortable walking distance of Circular Quay. Given the current spare seating capacity, the Tribunal encourages Sydney Ferries to market existing services and attempt to exceed previous patronage levels.

Overall, the Tribunal is of the view that modest ferry fare increases should be granted as part of this determination.

6.1.2 Contracting out

STA completes ongoing comparative analysis of retaining non-core activities in-house against outsourcing options. In these comparisons STA examines the efficiency of internal service areas against the tender results on a like for like basis. The efficient cost analysis completed in March 1998 has highlighted certain non-core activities which should be universally outsourced, eg depot gardening, tyre maintenance and bus windscreen replacement. During 1997 State Transit outsourced legal services and treasury operations.¹³ Following an examination of the scope for contracting out, STA has retained 'in-house' functions such as information technology and human resources. The Tribunal encourages the process of regular market testing of non-core, in-house activities and will continue to follow the results of this process.

6.1.3 Efficiency

The Tribunal's Act requires it, in the price setting process, to assess the need for greater efficiency in the supply of services. The objective of this assessment is to reduce costs for the benefit of customers and taxpayers. Fares must not recover more revenue than the efficient cost of providing a service. Consequently the Tribunal commissioned consultants to undertake a detailed analysis of STA's bus costs. The consultancy is described in Box 2.

¹² STA Annual Report, 1996/97 p 17. The seven existing RiverCats seat 225 people.

¹³ State Transit submission to the IPART Determination (1998/99), March 1998, p 9.

Box 2
Consultancy for the Analysis of State Transit's Bus Costs

In September 1997 the Tribunal engaged consultants Sinclair Knight Merz (SKM), in association with Coopers & Lybrand, to analyse STA's bus costs. The Final Report was completed in March 1998.

The objectives of this project were to,

- review the appropriateness and costs of all functional areas of STA bus operations
- estimate efficient costs for STA's bus operations
- estimate the net realisable efficiency gains available over a three year period given Government ownership, different awards, STA's fleet and operating environment.
- develop a three year implementation plan to achieve the net realisable efficiency gains.

The Final Report identified large cost differences between STA and those that would be incurred by an efficient private bus operator. A major portion of these were discounted on the basis that they were impractical to realise in the short term, eg superior award conditions for existing STA employees. The Final Report has detailed the scale and location of realisable efficiency gains. It is now STA's responsibility to pursue the implementation of strategies to extract the realisable efficiency gains.

The main conclusions of the Final Report are summarised below:

- realisable efficiency savings for Sydney Buses of \$24.3m per annum achievable progressively after a three year implementation period or a 7 percent cost reduction at 1997/98 expenditure levels
- an estimated cost difference compared with an efficient private operator of over \$56m per annum. The Tribunal would encourage State Transit to pursue long term realisation of this larger gain.
- The review of processes in functional areas concluded that significant realisable savings are available in reform of maintenance services, improving work practices, reducing absenteeism, ceasing 'exclusive shifts',¹⁴ adopting best practice cleaning processes, rationalising depot and corporate administration support and revision of some unprofitable services which exceed minimum service levels.
- Further savings potential exists if these reforms are adopted in Newcastle bus operations.

The Final Report contains explicit detail of STA's bus cost structures which are commercially sensitive due to the Government's intention to establish contestability of bus contract franchise areas through a performance assessment regime. As a result access to the Final Report will be restricted.

NSW Treasury is proposing to replace the Pricing CSO with fixed deficit funding which is automatically reduced each year by the net realisable efficiency gains identified in the Analysis of Bus Costs. Consequently, the efficiency gains will be used to reduce the cost to Government and a modest fare rise is justified to offset recent rises in uncontrollable costs.

Sydney Ferries

Sydney Ferries has achieved some modest efficiency improvements. Whilst the ferry business is not as labour intensive as bus operations, labour remains the key cost driver accounting for 40 percent of accrual costs and 46.2 percent of cash costs. The average remuneration levels of Sydney Ferries staff is relatively high due partly to strong weekend service demand and the subsequent payment of penalty allowances and overtime.

¹⁴ An exclusive shift relates to a driver or former conductor who is assigned to largely non driving roles yet may drive one peak period service. Common exclusive shift duties includes completing activities including gardening, depot cleaning, clothing issue, union activities, bus parking and ticket sales.

Table 6.3 provides some efficiency and productivity indicators for Sydney Ferries.

Table 6.3 Efficiency and productivity indicators for Sydney Ferries.

Sydney Ferries	1993/94	1994/95	1995/96	1996/97	1997/98	Total change
Average FTE's	373	387	409	417	355	-4.8%
Total labour cost \$m	21.2	21.5	24.5	26.6	23.5	10.8%
Labour cost per FTE \$	56,780	55,550	59,902	63,790	66,200	16.6%
Ave accrual cost per vessel km \$	45.37	40.89	41.82	41.67	40.83	-10.0%
Accrual Cost per passenger \$	5.08	4.51	4.36	4.36	4.54	-10.6%
Farebox revenue per km	22.59	20.36	22.78	23.16	22.71	0.5%
Patronage per FTE per day	82	85	84	84	101	23.2%
Farebox per FTE per day \$	204.04	190.39	199.60	203.45	255.34	25.1%

The Tribunal sees value in conducting an efficient cost analysis for Sydney Ferries to enable assessment of the efficient cost of operating existing services.

6.1.4 Promotion of competition

In the major review of transport the Tribunal recommended further investigation of options such as the introduction of competitively tendered bus franchises to improve competition and efficiency in the bus industry. A shortcoming of the previous bus franchise system was that contracts were renewed automatically if minimum service levels were met. The Tribunal concurs with a (then) Industry Commission report on Urban Transport which concluded that;

The NSW system differs from a fully competitive process in several ways. First, ... an incumbent is guaranteed automatic contract renewal after five years unless the operator fails to operate the service.Second, there is no competition for the rights to operate the bus services provided by the STA (NSW).Third, the evaluation system is seen to lack transparency.¹⁵

In May 1997 the Government amended the Passenger Transport Act to improve the quality of bus services and enable future contestability of contracts for bus franchise areas. The new amendments provide for the performance of commercial bus operators to be assessed against a new performance regime. The regime will replace the system of perpetual rights currently in place. The regime will include specific detailed minimum standards for service levels and the total cost to Government. Bus franchise contracts will only be renewed where the Department of Transport assesses that an operator has met the objectives and standards of the regime. The standards within the performance regime are still under development in consultation with the bus industry. The NSW Department of Transport intends to publish the Performance Regime in the NSW Government Gazette before the end of 1998. The Tribunal looks forward to the new regime delivering tangible benefits to bus customers.

The amendments to the Passenger Transport Act in relation to the renewal of bus contracts are designed to attempt to comply with the Competition Principles Agreement¹⁶ and also deliver an efficient result for customers and government. The Tribunal will continue to explore and encourage proposals to enhance competition in urban passenger transport.

¹⁵ Industry Commission, *Urban Transport*, 1994, p 367.

¹⁶ In 1995, the Council of Australian Governments agreed to implement a national competition policy reform package. The goal of these reforms is to establish a framework to remove unnecessary barriers to trade and competition. As part of the reform package, the heads of all governments signed the Competition Principles Agreement (CPA).

In relation to Sydney Ferries the Tribunal retains the view expressed in its Final Report that the Government should review the ownership of wharves in light of national competition policy and the COAG Competition Principles Agreement.¹⁷

6.2 Consumer protection

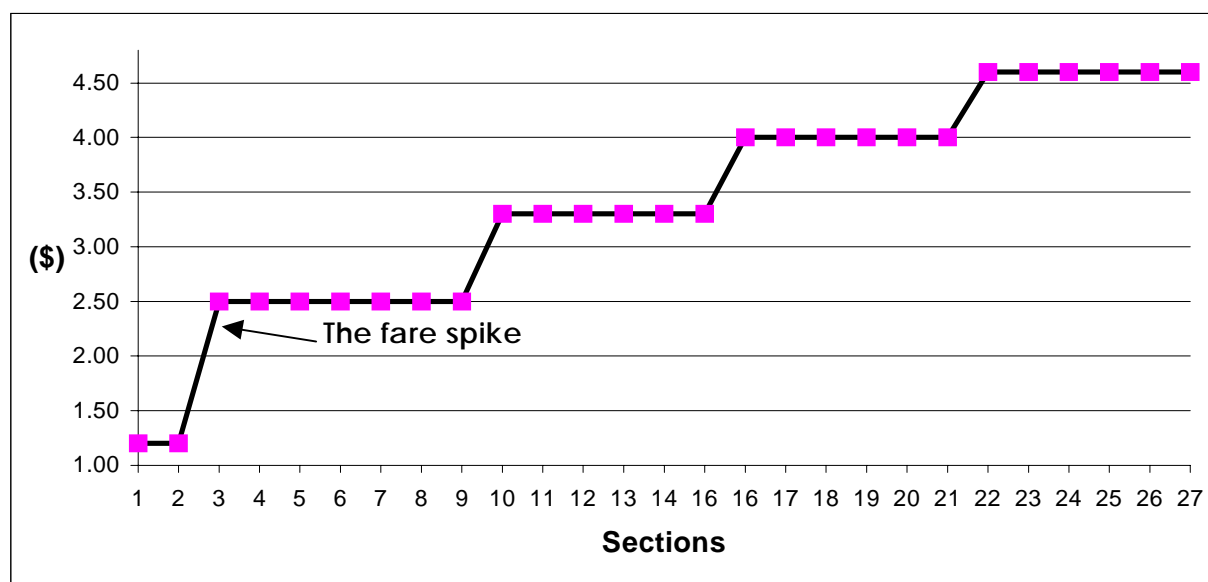
- * *the protection of consumers from abuses of monopoly power in terms of price, pricing policies and standard of services [S15(1)(b)]*
- * *the effect on general price inflation over the medium term [S15(1)(d)]*
- * *the social impacts of the determinations and recommendations [S15(1)(k)].*

6.2.1 Pricing

Options to remove the fare anomaly for Sydney Buses

Several submissions to the Tribunal sought the removal of the fare spike which exists for Sydney buses between the second and third distance fare bands.¹⁸ The basic complaint is that the cost difference between a 1-2 section¹⁹ trip (\$1.20) is too large compared to a 3-9 section trip (\$2.50). It is ten cents cheaper for a passenger travelling four sections to purchase a 1-2 section fare, alight after two sections, and then reboard again purchasing another 1-2 section ticket. The Tribunal believes that this fare band anomaly should be removed. This anomaly also effects Red TravelTen customers, especially those travelling less than 5 sections. The 5 distance bands and the fare spike are illustrated in figure 6.4.

Figure 6.4 Sydney Buses Single Fare Distance Bands



¹⁷ Inquiry into Pricing of Public Passenger Transport Services, Final Report, October 1996, p 37.

¹⁸ Submissions such as Action for Public Transport, RW Heal, Alan Parker and NCOSS.

¹⁹ A section equates to one mile in distance or approximately 1.6km.

From its viewpoint, State Transit has stated that the large spike creates a strong incentive to over-ride (ie a form of fare evasion). STA's concern arises from the section 1-2 tickets accounting for a high proportion of sales relative to the short maximum trip length (3.2km).²⁰ Of the 63.2m journeys undertaken using all single (cash) fares and TravelTens in 1997/98, 68.2 percent (or 43.1m) paid for only 1-2 sections. The Tribunal shares State Transit's concerns regarding the suspected prevalence of over-riding.

The large fare difference between the first and second band arises due to the long span of the second band (3-9 sections) which covers travel applying to all trips of between 5 and 14.4km. The large span of the band means that the fare has to be set at a higher level to recover the average cost of travel within the band. The effect of the fare spike is that a 5km journey costs 108 percent more than a 3km journey. Similarly a passenger making two 4km journeys pay three and a half times as much per kilometre as a passenger making one 14km journey. A simple way to remove the fare spike would involve splitting the existing section 3-9 band into 2 new distance fare bands (3-5 & 6-9).

Despite this, STA's preferred position is to again postpone fare system restructuring for 1998/99 pending a consultancy to complete a detailed analysis of fare options and the implementation of a new integrated ticketing system. STA has contemplated a distance fare band restructure for several years yet has continually delayed any changes.²¹ STA's preference to maintain the status quo is based on:

- the potentially large revenue loss from removing the fare spike
- a desire to avoid interim changes prior to a new integrated ticketing system
- customers generally consider the fare system to be fair and equitable.

However, the Tribunal considers that the fare spike is inequitable. Additionally, the Tribunal believes that implementation of a fully integrated ticketing system is a complex project which unfortunately is unlikely to be finalised until 2001.

The Tribunal will permit one final postponement of band restructuring for 1998/99 fares. However, STA should take the initiative to revise the fare system to alleviate the fare spike for fares to apply from July 1999. In the absence of such a proposal from STA, the Tribunal will develop the revised fare scale to operate from July 1999.

A more equitable fare system is a prerequisite to establishing a medium term price path. The Tribunal wants to work closely with STA to ensure that there is a smooth transition for customers in implementation of the revised fare system. However, the Tribunal believes that STA is best placed to develop a proposal for the revised fare system which is broadly revenue neutral whilst improving customer equity. The Tribunal could then review the social and financial impacts of STA's fare system proposal.

If STA's proposal for a revised fare system utilises a distance basis, the STA may wish to consider the potential to combining the two longest distance bands: namely 16-21 sections and 22-27 sections. STA currently has only five bands, and having two long distance bands with extremely low utilisation may not be optimal. Usually band graduation (width) increases with distance, however, these two distance bands cover five sections each,

²⁰ see STA submissions to the Tribunal, April 1996, p 17, March 1997, p 14 and March 1998, p 33.

²¹ See Tribunal's Inquiry into Pricing of Public Passenger Transport Services, Interim Report No 2. *Buses and Ferries*, March 1996 p 27 & p 77.

whereas the band with the greatest utilisation (3-9 section) contains 7 sections. The 16-21 section and 22-27 section bands combined account for only 1.08 percent of farebox and 0.27 percent of journeys for Sydney Buses. As the price differential between these bands is only 15 percent, creating a new long distance (16-27 section) ticket with a single fare set at the midpoint and a ten fare with a 15-20 percent discount may have merit. A 16-27 section band would offer simplicity benefits to drivers and customers, minimise potential for fare evasion, reduce marketing and ticketing costs and reward passengers who take long distance bus travel. Additionally, STA should consider whether the band restructure also provides an opportune time to convert from sections to a metric basis which may also enhance simplicity and reduce potential for over-riding or fare evasion.

The Tribunal acknowledges the successful implementation of time based bus fares in Newcastle. STA's preliminary assessment is that time based fares are inappropriate for Sydney Buses. STA believe that either a zonal or distance based system is likely to be better for Sydney Buses because they offer superior equity benefits, improved cost reflectivity and allow a closer match to a customer's willingness to pay for services.²² The Tribunal agrees that the operating environment in Newcastle is different to that in Sydney. However, STA state that a significant benefit of the time based system is that it "provides straightforward free bus-to-bus transfers."²³ Submissions to the Tribunal have argued that there are very few opportunities to achieve a free bus transfer on Sydney Buses using single ticket or TravelTen products.²⁴ Sydney Buses do not promote the ability to effect a free transfer²⁵ nor do they make this easy to achieve. Free bus transfers using single or TravelTen products are only available at a few select locations. However, free transfers are available on STA services to TravelPass customers. By comparison free transfers are readily available on CityRail.

Over the medium term, STA and the Tribunal share the following pricing objectives:

- Improve cost recovery across all services through efficient provision, patronage growth and, where appropriate, modest real fare rises.
- Move toward broadly standard discounts of between 15 and 20 percent for most multi-trip tickets.
- Enhance the relationship between the cost of travel and fares where appropriate.
- Offer a fare system and levels which encourage patronage growth and the transfer of people from the private car to public transport.

6.2.2 Past increases in fares

STA attributes a proportion of its indifferent financial performance to fares falling behind both inflation and private bus fare levels. In its 1996/97 *Annual Report*, STA reports:

fares were held below private sector levels again in 1996/97 after IPART recommended aggregate fare increases less than the Consumer Price Index.²⁶

²² STA submission to the Tribunal, March 1998, p 37.

²³ STA submission to the Tribunal, March 1997, p 19.

²⁴ Submissions to the Tribunal including NCOSS, Mr Alan Parker, RW Heal, Action for Public Transport and the Department of Women.

²⁵ A free transfer refers to the ability to change services during the course of a journey, for no additional fare. People undertaking cross town or unusual journeys may have to transfer services to reach their destination.

²⁶ STA Annual Report 1996/97 p 7.

Table 6.4 illustrates how STA fares have moved relative to inflation and private bus fares.

Table 6.4 Comparison of changes in fares and CPI

	% Change 1995 - 1996	% Change 1996 - 1997	% Change 1997 - 1998	% Cumulative 3yr Total
Sydney CPI	5.04	1.43	0.08*	6.62
Metropolitan private bus fares	7.24	3.90	1.49	13.08
Weighted Ave Sydney Buses fares	2.90	3.17	1.96	8.25
Weighted average STA fares	3.15	3.50	2.27	9.18

Notes: ABS Annual CPI series 6401.0. * based on forecast for June Quarter Sydney CPI of 121.3.

Of note is that

- The Tribunal announces fare rises in late May each year. Fare rises awarded to private operators are determined by the Minister for Transport and are announced following consideration of the Tribunal's determination in June each year. Any difference between the private sector fare rise and STA fare rise is a decision for Government.
- STA fare rises were 1.4 times greater than inflation over the three years to June 1998.
- The recent cumulative fare rise for Sydney Buses is below that awarded to metropolitan private bus operators due mainly to an abnormally large rise (7.24 percent) awarded to the private sector by Government during 1995/96.

6.2.3 Tickets used by STA customers

The Tribunal monitors demand for each ticket type and trends in sales. Table 6.5 illustrates the relative utilisation of tickets by journey across the three State Transit business units.

Table 6.5 Journeys on State Transit services in 1997/98 by ticket type %

State Transit Unit	Single	TravelTen	TravelPass	Pensioner	SSTS	Other	Total
Sydney Buses	17.9%	21.4%	21.5%	18.6%	16.2%	4.4%	100.0%
Sydney Ferries	39.4%	15.3%	20.0%	14.6%	2.9%	7.8%	100.0%
Newcastle Services	23.7%	5.0%	0.3%	28.0%	39.6%	3.4%	100.0%

Notes: SSTS is the school student transport scheme giving free travel to and from school to student travelling further than 2km. Pensioner refers to journeys made using the pensioner excursion ticket (\$1) & not other concession fare journeys.

The table illustrates the following,

- Sydney Buses has a relatively even spread across the main ticket types with most customers using some form of multi-ride ticket. The proportion of customers using single fares has not risen despite the progressive reduction in multi-ride ticket discounts.
- Sydney Ferries is dependent on infrequent leisure traveller utilising single tickets. Ferry commuters have a slight preference for TravelPasses over TravelTens indicating usage of connecting bus services and a liking of free transfers.
- Newcastle patronage is dominated by school children and pensioner excursion journeys. Previous users of TravelTens and TravelPasses have largely switched to Time based fares.

Buses

Bus fares for 99.8 percent of single ride customers have not increased for over seven years.

Table 6.6 shows the minimal movement in single journey bus fares since 1991/92.

Table 6.6 Single journey bus fares since 1991/92

Fare band	1991/92 (\$)	1992/93 (\$)	1993/94 (\$)	1994/95 (\$)	1995/96 (\$)	1996/97 (\$)	1997/98 (\$)	1997/98 Single Journey %
1-2 Sections	1.20	1.20	1.20	1.20	1.20	1.20	1.20	54.2
3-9 Sections	2.50	2.50	2.50	2.50	2.50	2.50	2.50	41.9
10-16 Sections	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.1
16-21 Sections	4.00	4.00	4.00	4.00	4.00	4.00	4.00	0.6
22-27 Sections	4.00	4.00	4.20	4.40	4.40	4.60	4.60	0.2

Note: All amount expressed in 'dollars of the day'. Real cash fares have fallen by 14.5% over this period.

STA research suggests that multi-ride ticket users are more likely to be in full-time employment and tend to be more affluent than cash fare payers.²⁷ To minimise the social impact of bus fare rises the Tribunal has favoured retaining stable cash fares. The STA has not sought any increase in cash fares for 1998/99. Holding single ride fares constant also allows the STA to reduce the large discounts for multi-ride and multi-mode tickets by increasing the price of these tickets. Also of note is that the process of freezing single ride fares and increasing TravelTen fares to reduce the relative discounts has not generated any significant shift in demand towards single ride tickets.²⁸

Ferries

Table 6.7 shows the movement in single ride ferry fares since 1991. In general, most ferry fare rises have been small with most fares increasing by an average of 10 cents a year.

Table 6.7 Single journey ferry fares since 1991/92

Ferry Fare	1991/92 (\$)	1992/93 (\$)	1993/94 (\$)	1994/95 (\$)	1995/96 (\$)	1996/97 (\$)	1997/98 (\$)
Inner Zone 1	2.50	2.60	2.60	2.60	2.80	2.80	3.00
Inner Zone 2						3.00	3.20
Manly/Rydalmere	3.30	3.40	3.40	3.40	3.60	3.80	4.00
Parramatta			4.00	4.00	4.20	4.60	4.80
Stockton	1.20	1.30	1.30	1.30	1.30	1.30	1.30
JetCat	4.50	4.60	4.60	4.60	4.80	5.20	5.20

As discussed in the Tribunal's Final Report, most ferry services have poor cost recovery due to high capital and operating costs per passenger and low average patronage. Sydney Ferries also has a strong reliance on infrequent and seasonal leisure travellers. As a result, Sydney Ferries as a business, is far more reliant on the cash fare as a component of farebox revenue than is Sydney Buses. Achieving cost recovery improvements requires cash fare rises in conjunction with cost reductions and patronage growth. The Tribunal will continue to implement an ongoing program of small real increases for ferry fares.

²⁷ STA, submission to the Tribunal, February 1997, p 3.

²⁸ STA, submission to the Tribunal, March 1998, p 23.

Discounts on multi-ride fares

The STA has a long term goal of standardising discounts for multi-ride (TravelTens, FerryTens and TravelPasses). STA and the Tribunal agree that the appropriate level of discount should be between 15 and 20 percent. The Tribunal recognises that there are benefits for both commuters and the bus operator in providing discounts to encourage use of multi-ride tickets. The current discounts for most of the 'Ten' and all TravelPass tickets remain well above the preferred range.

Assuming single fares are held constant, to reduce the discount for the Blue TravelTen to less than 20 percent would require a price increase of 14 percent or \$1.20 to a new price of \$9.80. To reduce the discount for the Red TravelTen to less than 20 percent would require a price increase of 16.3 percent or \$2.80 to a new price of \$20. However, due to large adverse social impacts, the Tribunal will not permit such an increase over a short time frame. In the case of the Purple TravelTen the current discount of 13 percent is slightly below the Tribunal's preferred range. This fare could be reduced to obtain a greater discount. Alternatively, the discount for the Purple TravelTen could be enlarged by increasing the cash fare.

TravelPass tickets provide commuters with a flexible ticketing arrangement which gives every customer a different discount depending on their usage (or the value they extract from their ticket). STA completes ongoing total value of travel (TVT) analysis to value the average travel consumed by TravelPass customers and hence assess average TravelPass discounts. TVT uses ticket validation data to produce a more accurate method of assessing appropriate fare levels and average discounts received by customers. TVT analysis illustrates that these average discounts vary between 5 percent and 40 percent (see Section 7.4). With the aid of TVT, the Tribunal will seek to progressively set all multi-ride fares to an average discount level of 15-20 percent.

6.2.4 Effect of pricing proposals on the cost of living

The Australian Bureau of Statistics conducts a Household Expenditure Survey. Public transport charges are estimated to comprise 0.41 percent of an average household's weekly expenditure in NSW.²⁹

The Tribunal has estimated that the new prices set out in the Pricing Schedule, together with those in Pricing Schedule 1 of Report No 1 for the State Rail Authority, would result in an increase in the CPI for Sydney of less than 0.1 percent.

6.2.5 Social Impacts

The Tribunal evaluates the social impacts of price and pricing policy changes to minimise any adverse impact upon consumers. The progressive implementation of reforms ensures a smooth transition to the new fares and that the impact on individual public transport users is not onerous. The Government has an extensive concession fare system, featuring the pensioner excursion ticket and half price fares for other concession entitlements which ensures most low income groups and the disadvantaged have access to inexpensive public transport. Additionally the Tribunal examines the relative equity between different groups of STA customers to ensure the fairness of pricing structures. To improve equity the Tribunal has sought to enhance the relationship between fare levels and distance travelled.

²⁹ ABS. Household Expenditure Survey 1993-94. Detailed Expenditure Items. Cat No 6535.0. Table 4.

The Tribunal has used a model developed by the Institute of Transport Studies at the University of Sydney to analyse the effects of STA's proposals and the Tribunal's determination on usage patterns. Changes in patronage as a result of the 1998/99 determination are likely to be extremely small. The modest increases proposed for TravelTen fares will affect commuters mainly and are in line with inflation. Overall, the weighted average fare rise for STA for 1998/99 is likely to be similar to the inflation rate.

The Tribunal considers that the proposed price changes will have a minimal impact upon travel patterns and the general usage of STA services.

6.3 Financial viability

- * *the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of NSW [S15(1)(c)]*
- * *the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets [S15(1)(g)]*

6.3.1 Government contributions to STA

The Government will contribute approximately \$166.5m to STA income in 1998/99. Of the \$166.5m in total subsidy, around three quarters is allocated to Sydney Buses, 14 percent is allocated to Sydney Ferries and 11 percent of the subsidy is required for Newcastle services. Government funding of STA will rise by almost 20 percent in the four years since 1995/96. Under the current Pricing CSO funding arrangements, government funding automatically rises as STA carries more passengers, regardless of whether it is necessary to schedule any extra services.

Forecast Government funding in 1998/99 for STA comprises five elements:

1. **Pensioner concession reimbursements (\$68.16m)**: equates to revenue foregone by providing a concession.
2. **Half fare concession reimbursements (\$23.88m)**: equates to revenue foregone by providing a half fare concession.
3. **School student transport scheme - SSTS (\$28.29m)**: the estimated cost of free travel.
4. **Service CSO (\$14.41m)**: reimbursement for providing non-commercial services in excess of the minimum service level requirement.
5. **Pricing CSO (\$31.76m)**: reimbursement for offering fares below a commercial level (based on the difference between maximum private fares and STA fares).³⁰

Table 6.8 Components of State Transit government funding

Government funding \$m	1995/96	1996/97	1997/98	1998/99 (f)	Total Change
Pensioner reimbursement	49.35	57.54	68.15	68.16	38.1%
Half fare reimbursement	25.34	26.54	23.46	23.88	-5.8%
SSTS	27.91	27.21	27.57	28.29	1.4%
Service level CSO	16.31	14.14	12.19	14.41	-11.6%
Pricing CSO	20.12	24.90	29.99	31.76	57.9%
Total funding	139.03	150.33	161.37	166.50	19.8%

Source: STA (all numbers in dollars of the day) (f) STA forecast.

³⁰ STA Submission, April 1996, p 64.

Table 6.8 illustrates the significant growth in the pricing CSO and pensioner concession reimbursement components. Increasing State Transit fares would reduce the requirement for Government contributions to cover State Transit's operating losses. Providing services below full costs requires subsidy and, hence, increases the strain on the State's fiscal capacity. Pricing services below efficient cost means that bus users do not bear the full costs of decisions about their residential and working lifestyles. Normally such high subsidies from the general taxpayer would be undesirable; but other important considerations require consideration in pricing public transport, such as traffic congestion and urban development.

Overall, the Tribunal seeks a strong commitment by STA and Government to achieve the realisable efficiency gains identified in the *STA Bus Cost Analysis* (see Box 2). Achieving these gains would improve cost recovery and reduce the cost to government. The historical and projected cost recovery rates for STA business units are detailed in Table 6.9.

Table 6.9 Accrual costs recovered from customer revenue (%)

STA Unit	1994/95	1995/96	1996/97	1997/98 (f)	1998/99 (f)	1999/00 (f)
Sydney Buses	63.1	63.5	61.3	59.0	59.8	60.4
Sydney Ferries	51.9	57.0	57.6	56.0	53.9	54.4
Newcastle	28.5	26.1	23.5	23.3	23.4	24.5
STA Consolidated	61.6	62.2	58.8	55.8	56.8	55.2

Source: STA Submission March 1998 and STA Annual Reports

Accrual cost recovery: (All non-government revenue plus dividend) / Accrual expenses %

STA cost recovery reached a peak in 1995 and has subsequently deteriorated. The decline in cost recovery over the period since 1994/95 is of concern to the Tribunal. STA report that the decline in cost recovery is due mainly to the following factors:

- a debt funded increase in the capital program necessitated mainly by the legislative requirement to maintain an average fleet age of less than 12 years
- increases in uncontrollable costs, eg third party insurance and fuel. (see Section 6.1.1)
- general costs rises for bus operations exceeding inflation
- an absence of significant productivity or efficiency gains to offset the rise in costs.

6.3.2 Capital investment and structure

The capital structure of STA is being driven by current and future capital expenditure programs. The appropriateness of the current capital expenditure program is dependent upon the:

- reasonableness of patronage growth assumptions and
- appropriateness of the cost and quality of the new fleet.

The Tribunal notes that around three quarters of the 424 buses being purchased over the next two years are for replacement whilst the remainder are to accommodate patronage growth. The purchase price of these buses is approximately \$142.75m.³¹ The replacement of buses is necessary to comply with the legislation requiring an average fleet age below 12 years. Despite STAs purchase of the 424 buses, the total bus fleet will grow by only 8.3

³¹ NSW Budget 1997/98, Paper No 4, p 111.

percent (to 1,812 buses) and the average age of the fleet will fall only marginally from 11.6 years in March 1998 to 11.4 years in 2000.

STA has recently downgraded its medium term patronage growth forecasts from 5 percent per annum to 3 percent per annum. Patronage on Sydney Buses grew by a modest 12.8 percent during the six years between 1992/93 and 1997/98 (f). This equates to an average growth rate of 2.03 percent per annum. As a result the term of the current bus fleet expansion program was extended.

The Analysis of STA Bus Costs examined the replacement policy, the size of the program and the justification for the additional high quality features contained on the new STA buses. The Analysis concluded that:

- The additional expenditure outlayed for premium quality buses satisfies a rigorous financial assessment.
- The bus cost of \$363,000 including \$163,500 for additional extras above the 'basic bus' is generally justified and will eventually become consistent with private sector practice. Most of the extras fall into three categories,
 1. Items which STA has no control, eg low floor bus and wheel chair ramps to comply with the Federal Disability Discrimination Act.
 2. Extras which are justified by long term cost savings, eg automatic transmission, gas fuel, electronic destination signs.
 3. Extras which produce a net financial benefit due to increased patronage or fare revenues, eg air conditioning. STA report that routes permanently service by air-conditioned buses have significantly higher patronage growth.
- The bus replacement policy (disposal at 20 years) is reasonable and consistent with common industry practice.
- Given the fleet profile, the 12 year average age restriction and likely passenger growth there is sufficient evidence to justify expanding the fleet with 424 new buses.

Consequently the Tribunal is reasonably satisfied the current bus fleet acquisition program is rational and appropriate. The Tribunal will continue to monitor STA's capital expenditure and continues to seek customer survey results which analyse the value placed on high quality features. The Tribunal remains interested in information illustrating customers willingness to pay for quality improvements.

For Sydney Ferries, STA placed an order for two 150 seater river cats in February 1997 with the vessels due to commence service in July 1998. The estimated cost of the new river cats is \$1.65m each.³² The new vessels are smaller and far less expensive than the existing river cat fleet which seat 230 and originally cost \$3.5m.³³ The Tribunal notes new vessels are more appropriately matched to average demand and the lower capital cost. However, the Tribunal requires greater certainty that fleet expansion is required given the low average occupancy and stable service patterns.

³² NSW Budget 1997/98, Paper No 4, p 111.

³³ STA Corporate Plan 1994/95, p 16.

6.3.3 Costs recovered by fares

STA forecasts for 1998/99 indicate total operating costs of \$401.9M with 55.3 percent of costs being recovered from fares, advertising, rental income and other revenue (excludes all government payments). Accrual Cost recovery from passenger (farebox) revenue for STA consolidated in 1998/99 is forecast to be 53.0 percent. Results for Sydney based business units are becoming more similar but Newcastle will require a significantly greater level of Government subsidy.

For 1998/99 Sydney Buses is seeking to recover 57.5 percent of accrual costs from passenger revenue compared to Sydney Ferries at 53.6 percent and Newcastle services at 22.1 percent. Overall, the accrual cost recovery of State Transit business units has deteriorated slightly. Cost recovery trends and factors explaining the decline were specified previously (see Section 6.3.1).

6.3.4 Rate of Return

A commercial enterprise will only invest in new capacity if it expects to earn a commercial return greater than its average cost of capital over the useful life of the investment. In its 1998 submission, STA states that a suitable target rate of return on net assets is 7.5 percent (nominal, after tax). To determine the target rate of return STA utilises the weighted average cost of capital generated by the capital assets pricing model (CAPM).

The Tribunal and NSW Treasury support the use of the CAPM methodology and view this target rate of return as an acceptable goal. STA's target rate of return is also within a range of returns the Tribunal utilises in the regulation of other industries.

The actual rate of return earned by STA will be primarily dependent upon STA's ability to capture net realisable efficient costs, the debt structure arising from the capital program, service standards, patronage growth and fare levels.

STA assets are valued at written down replacement cost (WDRC). The Tribunal will utilise a real and pre-tax target rate of return (rather than nominal, post tax) when using a replacement cost asset valuation. Total (WDRC) assets for STA at June 30 1997 were \$379.2m. STA should utilise a real and pre-tax rate of return target in future analysis.

The Tribunal will continue to investigate whether STA has developed an optimal investment strategy to assess the future appropriate rate of return.

6.4 Environmental issues

- * *the need to maintain ecologically sustainable development by appropriate pricing policies that take account of feasible options to protect the environment [S15(1)(f)]*
- * *considerations of demand management and least cost planning [S15(1)(j)]*

6.4.1 Ecologically sustainable development

The philosophy of ecologically sustainable development (ESD) requires the implementation of improved valuation and pricing for environmental resources. Utilisation of urban public transport services is a critical component of current government initiatives to reduce air pollution. STA report that every bus has the potential to remove up to 80 private cars from

the road, thereby improving air quality.³⁴ The Tribunal is acutely aware that transport fare determinations which feature onerous price rises, could see customers switch to alternative transport modes, predominantly private cars, which have far higher environmental costs. Similarly, comparatively high public transport fares (against costs for alternative modes) would deter prospective bus or train customers. To assist in understanding patronage impacts the Tribunal utilises a detailed model developed by the Institute of Transport Studies (ITS) of the University of Sydney. The ITS model results for the 1998/99 determination predict that patronage changes will be extremely small.

The Tribunal supports Objective 1 of the Clean Air 2000 Taskforce to 'improve Sydney's urban public transport system, particularly in Western Sydney'.³⁵ To achieve this objective Clean Air 2000 supports strategies including integrated ticketing and bus priority measures. A new NRMA air pollution reduction initiative, 'Travel Blending', is aimed at motivating the community to adopt more efficient travel practices. The initiative encourages methods such as combining trips and alternative modes of travel (bus, walk or bicycle) to reduce reliance on the private car.

The Tribunal notes that Sydney's sprawling development pattern, growing diversity of travel patterns and uneven access to transport limit the ability of public transport services to meet actual travel needs.

Almost all new State Transit buses will be powered by compressed natural gas (CNG). At current fuel prices the additional capital cost of this feature (\$30,000 per bus) is recovered within around six years through fuel cost savings. The use of CNG powered buses significantly reduces emission levels compared to diesel powered buses. Additionally CNG buses are 30 percent quieter than diesel. The transition to a CNG fleet will further increase the already sizeable externality benefits of public transport.

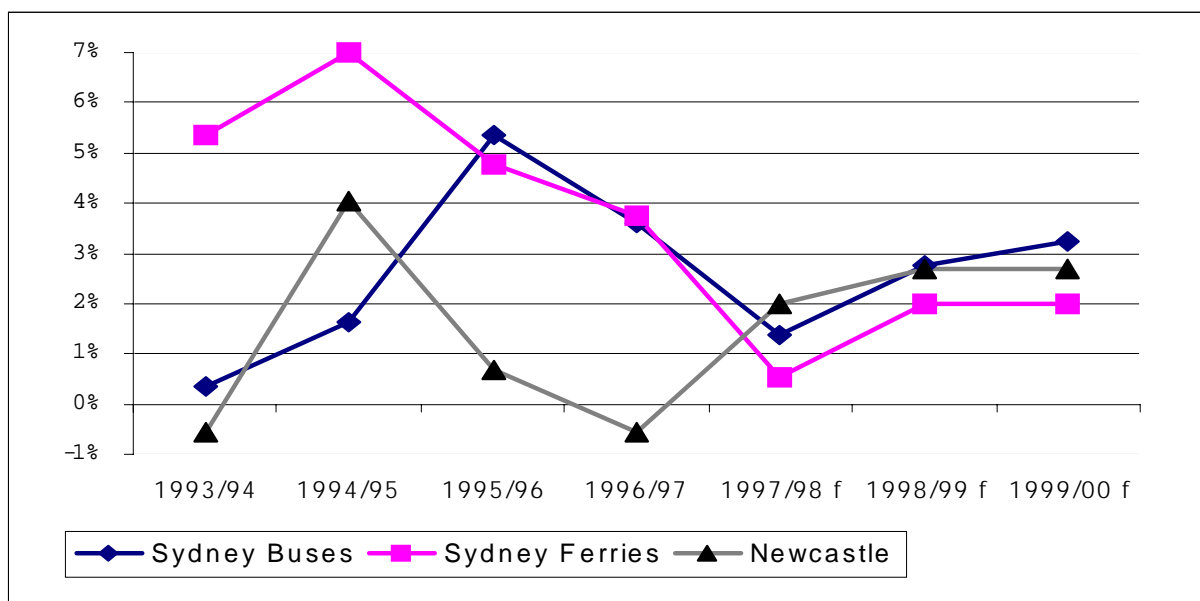
6.4.2 Demand management

STA conducts a program of continuous evaluation of demand and examines opportunities to enhance timetables to improve patronage and service frequency. Patronage growth is variable across STA's business units due to factors such as the business cycle and, workforce participation and population changes. The variability creates difficulties in demand management. The long term average growth rate is between 2 and 3 percent. Historical and projected growth trends are illustrated in Figure 6.5.

³⁴ State Transit, Corporate Plan 1997/98 - 2001/02, February 1997, p 22.

³⁵ NRMA Clean Air 2000 Project, Strategic Action Plan: Objectives, Targets and Strategies 1997-2000, January 1998.

Figure 6.5 Patronage Growth on STA Services



Source: STA Submission to the Tribunal March 1998.

STA operates a large number of routes above the minimum service levels (defined in bus contracts) which do not recover costs. This creates some demand management problems as the time period to terminate an unviable route (above minimum service levels) is often 1-2 years. The long time period is due to a number of factors including:

- STA's strategy of giving routes several years to build-up demand to breakeven level
- STAs strategy of attempting to vary the course and timetable of poorly performing routes prior to termination to attempt to improve viability and avoid termination
- community expectations that all government transport services continue regardless of financial viability.

These factors add significant complexity to the process of optimal demand management.

The morning peak timetable for Sydney Buses is set to utilise almost all available vehicles and hence dictates fleet size requirements. However, the Tribunal is concerned that the proportion of vehicles in excess of maximum daily demand has risen by over 29 percent from 8.6 percent in 1991/92 to 11.1 percent in 1996/97.³⁶ Approximately 185 STA buses are 'spare' each morning weekday peak. The high spare bus ratio³⁷ is partly explained by the retention of older buses, a bus refurbishment program, the security camera installation program and the large bus acquisition program. However, STA is significantly larger than other Australian bus operators and this scale should enable management to operate with a comparatively lower spare bus ratio.

For Sydney Buses, weekday peak period³⁸ journeys comprise approximately 45 percent of total journeys. Morning peak patronage is the most intense and largely dictates fleet size

³⁶ Steering Committee on National Performance Monitoring of GTEs, GTE Performance Indicators 1991/92-1996/97, April 1998, p 274.

³⁷ The ratio is high compared to ACTION buses (Canberra) which report a lower spare bus ratio of 8.69 percent. Achieving this lower spares level would see an extra 40 buses available for service.

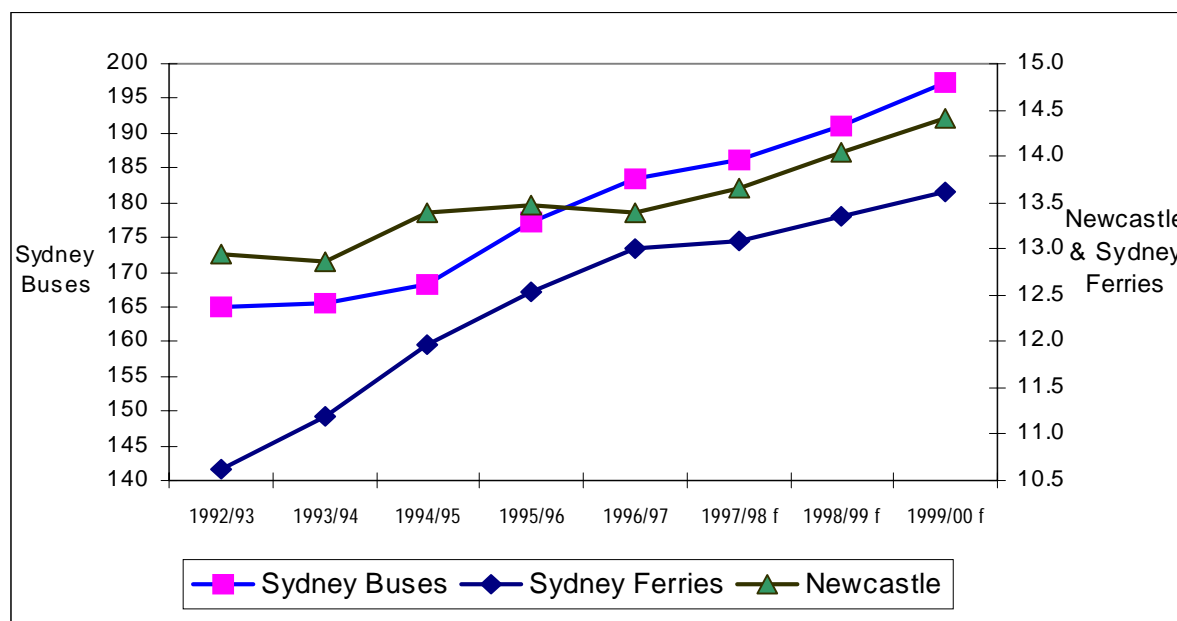
³⁸ STA weekday peak is seven hours in total from 6.30am-9.30am and from 3.30pm-7.30pm.

requirements. The total Sydney Buses fleet averages approximately 170 boardings per vehicle hour during the morning peak. A lull in demand occurs on Sundays where journeys fall to around 30 percent of average weekday levels. As such, the Tribunal is aware that the cost structure of Sydney Buses and most Sydney private bus operators, is higher due to the need to satisfy peak period demand. Catering for peak demand is also a cost driver for Sydney Ferries given the seasonal nature of this business.

The increase in the bus fleet has allowed the introduction of numerous new services and further refinements are being pursued. Additionally, bus traffic flow enhancements at several Sydney locations have improved travel times on some routes and attracted new passengers. But on average travel times are deteriorating as evidenced by the fall in average bus speed illustrated in Table 6.2.

The Tribunal considers that potential exists for further improvements by focusing on growing the market through targeted service level improvements and cost reductions. STA historical and projected patronage by business unit is illustrated in Figure 6.6. Notable trends are the modest recovery of Newcastle patronage following the introduction of time-based fares and the recovery in Sydney Ferries patronage.

Figure 6.6 Historical and Projected Patronage on STA Services (m journeys)



6.5 Standards

* standards of quality, reliability and safety of the services concerned [S15(1)(l)]

6.5.1 Standards met by STA

STA bus and ferry services comply with all regulatory requirements set out by a variety of government agencies including the Department of Transport, the RTA, the MSB, the EPA.

STA is required to comply with service standards required under the Department of Transport CSO contract. Services are required to meet the following general aims:

- high levels of frequency, timeliness, safety, reliability and cleanliness
- accessible, current and understandable timetables
- polite, courteous and helpful staff
- the alignment of services with the travel needs of customers
- to increase the accessibility of services to all passengers.

The Tribunal believes that there may be some conflict between providing high service standards and improving cost recovery. In contrast, STA believe that higher service standards will generate additional patronage and improve cost recovery.³⁹ However, the performance of STA can be further enhanced through programs focusing on:

- further efficiency gains
- the re-alignment of the required service standards by the Government to better match the transport needs of potential and existing customers.

Amongst the most significant standards for most customers are punctuality and reliability. During 1996/97, Sydney Buses cancelled only one in every four hundred services, whilst one in forty buses was delayed by more than five minutes.⁴⁰ However, the Tribunal notes that the higher frequency offered during peak periods (on primary routes) has reduced commuter reliance on timetables. Whilst this higher peak frequency is very desirable, it makes assessment of the actual punctuality performance of individual services more difficult. Table 6.10 provides a summary of some of the key quality indicators monitored by the Tribunal.

Table 6.10 Summary of quality indicators for Sydney Buses

STA Bus Service Quality Indicators	1995/96	1996/97	1997/98 (f)	1998/99 (f)
Bus service reliability (<i>within 5min of schedule</i>)	97.6%	97.1%	97.5%	98.0%
Bus fleet with air-conditioning	14%	17%	23%	29%
Passenger injuries per million journeys	0.76	0.41	N/f	N/f
Ave No of services per day	15,000	15,100	15,200	15,300
Ave No of bus trips cancelled per day	37.5	29.6	29.4	27.4
Bus trips cancelled	0.25%	0.20%	0.19%	0.19%
Average bus age	11.0	11.5	11.3	11.4

Source: STA March 1998 & GTE Performance Indicators 1992/93 - 1996/97. N/f: not forecasted

The standard of Sydney Ferry services is also generally acceptable and is summarised in the table below. However, the rise in the proportion of services cancelled is of concern and this unreliability may partly explain the weakness in demand on some services, especially the JetCat.

The Tribunal has developed a set of preliminary quality indicators to assist in monitoring trends in the quality of Sydney Ferries services. The preliminary quality indicators for Sydney Ferries are contained in Table 6.11.

³⁹ State Transit Annual Report 1996/97, p 3.

⁴⁰ Steering Committee on National Performance Monitoring of GTEs, GTE Performance Indicators 1992/93-1996/97, April 1998, p 275 and STA Annual Report 1996/97, p 11.

Table 6.11 Summary of quality indicators for Sydney Ferries

Sydney Ferries Service Quality Indicators	1995/96	1996/97	1997/98 (f)	1998/99 (f)
Ferry service reliability (<i>within 5min of schedule</i>)	99.1%	99.5%	99.5%	99.5%
Ave No of services per day	356	356	360	360
Ave No of services cancelled per day	3.1	5.3	6.3	N/f
Ferry trips cancelled	0.86%	1.49%	1.76%	N/f
Average ferry age (<i>years</i>)	10.0	10.3	11.3	12.3

Source: STA March 1998 & GTE Performance Indicators 1992/93 - 1996/97. N/f: not forecasted

The Tribunal will continue to closely monitor the quality of Sydney Ferries services. In general, the service standards of State Transit are acceptable and improving. The Tribunal encourages State Transit to develop a meaningful and appropriate indicator to measure passenger satisfaction for both bus and ferry services.

7 BASIS OF THE TRIBUNAL'S DETERMINATIONS

7.1 Overview

As required under its Act, the Tribunal has attempted to balance the often conflicting interests of transport operators, travellers, Government Departments and community groups.

In setting maximum prices for these services, the Tribunal wishes to ensure that State Transit retains responsibility, as far as possible, for developing pricing strategy. Following consideration of all the submissions provided, the Tribunal has determined a set of particular fares. The new maximum fares for State Transit are listed in Schedule 1.

The Tribunal considers that it should approve modest rises in ferry single journey fares due to the high importance of cash fares to this business and poor cost recovery. Single bus fares continue to be frozen to allow reductions in TravelTen discounts and to encourage the pursuit of efficiency gains. There is a stronger case for increasing multi-ride and multi-mode fares where large discounts exist. Even so, the Tribunal considers that the price increases for these tickets should be limited to prevent serious adjustment difficulties or any significant loss of patronage.

The 1998/99 determination recognises that STA has not yet made significant cost improvements. STA has recently incurred some large increases in non-controllable costs which justify some fare rise. As a result, this determination permits a modest fare rise which is broadly in line with inflation.

7.2 Single ride bus tickets

State Transit sought no increase in the single ride tickets so as to assist progressive reductions in TravelTen discount levels. The Tribunal considers that there is no valid argument for increasing the cash fares at this time.

The Tribunal has permitted a further postponements of a fare band restructure for Sydney Buses to enable a full consideration of the revenue and patronage impacts of alternate fare

systems. However, the Tribunal is setting as a priority for the 1999/2000 determination the commencement of the removal of the fare 'spike' whereby 3 section customers pay more than double the 2 section fare. As a part of the 1999/2000 determination process, the Tribunal requests STA prepare a detailed proposal to restructure the fare system to alleviate the fare spike.

The Tribunal considers single ride bus fares should not increase in 1998/99.

7.3 TravelTens

The Tribunal considers that the Blue and Red TravelTens continue to provide an excessive discount to users. Further reductions in these discounts are warranted. The discount for the Green TravelTen ticket is now within the Tribunal's preferred range, as are the Orange and Purple TravelTens. The Tribunal and STA agree that TravelTen discounts should be between 15 percent and 20 percent or between 8 and 8.5 times the price of a single fare.⁴¹ The Tribunal will continue to freeze cash fares and allow modest TravelTen fare rises to achieve this goal. The TravelTen fare rises sought by STA for 1998/99 are modest and equate to only 2, 4 and 6 cents per trip.

As shown in Table 7.1 after these increases are implemented the fare for the shorter distance journeys will continue to offer a high level of discount.

Table 7.1 Comparison of current and proposed TravelTen fares and discounts

Bus TravelTen	Current fare	New fare	Change	Single fare	Discount %	
	(\$)	(\$)	(\$)		Current	New
Blue: 1-2 Section	8.60	8.80	0.20	1.20	28.3	26.7
Red: 3-9 Section	17.20	17.60	0.40	2.50	31.2	29.6
Green: 10-15 Section	25.80	26.40	0.60	3.30	21.8	20.0
Orange: 16-21 Section	34.00	34.00	0.00	4.00	15.0	15.0
Purple: 22-27 Section	40.00	40.00	0.00	4.60	13.0	13.0

The Tribunal has determined that TravelTen fares will rise by 20, 40 and 60 cents each for the Blue, Red and Green tickets respectively. Fares for the Orange and Purple TravelTens will remain unchanged.

7.4 TravelPasses

State Transit utilise TVT studies to measure the average value of travel consumed by TravelPass customers and the subsequent average discounts (see Section 6.2.2). These and future TVT results will be used by the Tribunal as a guide to assist in fare determinations. TVT has also been utilised to improve the accuracy of revenue sharing for TravelPasses between STA and CityRail. The TVT study assessed discount levels by valuing TravelPass travel at the next-best single mode ticket price. The TVT results illustrate that most customers are gaining excellent value from TravelPass products.

⁴¹ A 20 percent discount for a multi-ride fare is the same as the multi-ride fare being 8 times the single-ride fare. A multi-ride ticket which is 7.0 times the single-ride fare offers a discount of 30 percent.

The table below illustrates the average TVT for TravelPass and resulting discount levels. However, the Tribunal is aware that TVT represents an average discount and that customers can receive discounts far above or below the average. The Tribunal seeks greater information on the variation of discounts enjoyed by customers to assist in future fare Determinations.

Table 7.2 Analysis of average TravelPass usage and discounts

TravelPass type	1997/98 price (\$)	STA's est of Ave TVT consumed (\$)	Effective Ave discount 1997/98 (%)	Price to achieve a 20% discount (\$)
Bus & Ferry				
Blue	19.00	31.70	40.1	25.40
Orange	25.00	49.50	49.5	39.60
2 Zone	19.00	25.95	28.4	20.80
Pittwater	36.00	50.30	26.8	40.20
Bus, Ferry & Train				
Red	22.00	38.30	42.6	30.60
Green	28.00	46.47	39.6	37.20
Yellow	31.00	49.87	37.8	39.90
Pink	34.00	52.63	35.4	42.10
Brown	39.00	60.61	35.6	48.50
Purple	46.00	70.56	34.8	56.40

Source: STA submission to the Tribunal March 1998. Estimated discount based on purchasing single fare tickets.

The TVT analysis illustrates that high average discounts prevail on all TravelPasses which provides justification for modest fare rises. The Tribunal considers that a \$1 increase in all TravelPasses is both affordable and will assist in discount reductions. The TVT analysis illustrates that all TravelPasses will continue to represent excellent value.

The Tribunal has determined that all TravelPasses will rise by \$1 per week. The new maximum fares are shown in Table 7.3.

Table 7.3 Comparison of current and proposed TravelPass fares

	Current fare (\$)	New fare - 1998/99 (\$)	Change (\$)
TravelPass - Bus and Ferry			
Blue	19.00	20.00	1.00
Orange	25.00	26.00	1.00
Two-zone	19.00	20.00	1.00
Pittwater	36.00	37.00	1.00
TravelPass - Bus, Ferry and Rail			
Red	22.00	23.00	1.00
Green	28.00	29.00	1.00
Yellow	31.00	32.00	1.00
Pink	34.00	35.00	1.00
Brown	39.00	40.00	1.00
Purple	46.00	47.00	1.00

7.5 BusTripper tickets

The BusTripper is an all-day (unlimited) bus ticket for the Sydney area. BusTripper are ideal for people who make numerous bus trips over one day. Utilisation of the BusTripper is low with 1 in every 1,700 journeys being undertaken using a BusTripper. STA sells an average of 76 BusTripper's per day which will accounts for 0.13 percent of Sydney Buses farebox revenue in 1997/98. Whilst total BusTripper sales are small, revenue from this ticket has increased by 93 percent in the four years between 1993/94 and 1996/97.

The BusTripper ticket is likely to appeal to customers who undertake long distance return journeys (eg Palm Beach-Wynyard-Palm Beach) as the daily cost is \$7.80 as opposed to \$8.00 exhausting one fifth of a Purple TravelTen. The Tribunal seeks STA views on whether this possible transfer is an issue.

The BusTripper is also effectively a Sydney version of the all-day Newcastle time based ticket at a 23 percent higher price. The higher price for the Sydney BusTripper is justified by the larger service area available to Sydney customers.

STA report that the average TVT of the BusTripper is \$9.70 which represents a discount of 19.6 percent which conforms to the Tribunal's preferred range of discounts.

The BusTripper was last increased by 30 cents from \$7.50 in 1995/96. STA has not sought any rise for 1998/99.

The Tribunal has determined that this price should remain constant at \$7.80.

7.6 Single journey ferry tickets

The Tribunal considers that there is a need for modest increases in single journey ferry fares. In 1996/97 Inner Harbour fares were split into 2 Zones to improve the relationship between fares and distance travelled. Zone 1 covers journeys up to 10km. Zone 2 applies to journeys over 10km, ie currently only Meadowbank services (13.8km). Whilst the equity benefits of the restructure have merit, Zone 2 currently accounts for less than 1 percent of Sydney Ferries patronage and a far larger restructure is necessary to promote real equity benefits. Further reform to the inner harbour zonal system is desirable as currently customers travelling from Neutral Bay (2.5km) pay the same fare as those travelling from Watsons Bay (7km). STA is awaiting the introduction of a new ticket gate system during 1997/98 to facilitate the use of further zones. The Tribunal encourages further restructuring of ferry fares to improve equity, patronage and cost recovery.

The Tribunal has accepted STA's proposal to freeze single fares for the Manly Ferry and JetCat services. Sales for the single JetCat fare declined by 13.6 percent in 1996/97. However, sales for single tickets on the Manly Ferry rose by only 1.8 percent over the same period. These combined trends indicate a weakness in demand in the Manly market which warrants further investigation by STA.

The Tribunal accepts a need for modest increases in single journey ferry fares of up to 20 cents per journey as detailed in Table 7.4.

Table 7.4 Comparison of current and proposed single journey ferry fares

	Current fare (\$)	New fare (\$)	Change (cents)
Inner Zone 1	3.00	3.20	20
Inner Zone 2	3.20	3.40	20
Manly & Rydalmere	4.00	4.00	0
Parramatta	4.80	5.00	20
Stockton	1.30	1.40	10
Manly JetCat	5.20	5.20	0

7.7 FerryTen tickets

STA has sought increases in all the FerryTen tickets of \$2 and a rise in the JetCat Ten fare of \$1. Table 7.5 illustrates that FerryTen tickets offer excellent discounts and that the JetCat Ten is within the Tribunal's preferred range. The Tribunal has previously stated an intention to progressively reduce all ten ticket discounts to between 15 and 20 percent. When single ferry fares rise by 20 cents a rise of \$2 in the FerryTen fare is required to make small progress on reducing discount levels. However, as single cash fares comprise the bulk (57 percent) of ferry revenue, these will require continual modest increases to improve the cost recovery of Sydney Ferries. The Tribunal also notes that only 13 percent of ferry farebox comes from FerryTens compared to 26 percent of Sydney Buses revenue being derived from TravelTen. These circumstances illustrate the predominance of casual and leisure travel on ferries and has reduced the priority given to FerryTen discount reduction.

By contrast, Sydney Buses cash fares have been held constant to assist in the TravelTen discount reduction. As such, progress on reducing discount levels for FerryTen will be slower than for TravelTens as improving financial performance of Sydney Ferries is the primary goal. As a result FerryTens are likely to require a longer timeframe for achieving target discount levels than TravelTens.

The increases for FerryTens and the JetCat Ten and the impact on discount levels is shown in Table 7.5.

Table 7.5 Comparison of current and proposed FerryTen fares

	Current fare (\$)	New fare (\$)	Change (\$)	Discount from single	
				Current (%)	New (%)
Inner Zone 1	17.00	19.00	2.00	43.3	40.6
Inner Zone 2	19.00	21.00	2.00	40.6	38.2
Manly & Rydalmere	28.00	30.00	2.00	30.0	25.0
Manly JetCat	43.00	44.00	1.00	17.3	15.4
Parramatta	33.00	35.00	2.00	31.3	30.0

The Tribunal has determined that all FerryTens will rise by \$2 and the JetCat Ten will rise by \$1 as outlined in Table 7.5.

7.8 Pensioner excursion fares

The Tribunal does not have any role in determining the fares for the pensioner excursion ticket system. Government controls fares and conditions of this scheme. However, the operation of the excursion ticket system has an impact on the viability and returns of STA and CityRail which requires consideration by the Tribunal in setting other fares.

The pensioner excursion fare has not increased from \$1 since introduction in 1988. In real terms, the price pensioner ticket has fallen by 45 percent in the 10 years between 1988 and 1998.

The pensioner excursion ticket provides unlimited bus and ferry travel within the STA area on the day of purchase. The ticket also permits unlimited train travel within the Sydney area. The Tribunal will seek TVT information for the pensioner excursion ticket to further assess the size of the true cost to government of this program. TVT data on excursion ticket will also enhance the accuracy of transport authority revenue sharing.

The Tribunal also examined the proportion of journeys undertaken by pensioners. The significance of pensioner journeys has risen yet is forecast to stabilise. The trends by business unit is illustrated in Table 7.6.

Table 7.6 % of Total Journeys undertaken using a Pensioner Excursion Ticket

STA Business unit	1992/93	1997/98	2000/01 (f)
Sydney Buses	16.6%	18.6%	17.9%
Sydney Ferries	12.7%	14.6%	14.6%
Newcastle services	23.8%	28.0%	27.4%

Source: STA Submission to the Tribunal, March 1998.

The size of government reimbursements to STA (\$60.9m for 1997/98) for the pensioner excursion system continue to grow rapidly due to the real fall in cost of the fare. The cost to government of the system has been growing by over 7 percent per annum.

Pensioners and seniors card holders residing outside areas serviced by STA and CityRail still do not have access to the excursion travel system. The Tribunal again reiterates its position that this major inequity requires correction. In the 1996 Major Review,

The Tribunal recommends that the Government take steps to standardise the availability of existing pensioner excursion fares across all metropolitan transport operators.⁴²

However, excursion fares and reimbursement levels to each transport authority (as CSOs) are matters of social policy for the Government to determine, not the Tribunal.

7.9 SydneyPass

The *SydneyPass* is a tourist focused ticket featuring unlimited bus, rail and ferry travel on any three, five or seven days. The most valuable features of the *SydneyPass* is unlimited use of special STA tourist services such as the Explorer coaches, Airport Express and Harbour Cruises.

⁴² See Tribunal's Inquiry into Pricing of Public Passenger Transport Services, Final Report October 1996 p 16.

STA does not possess an exclusive franchise on harbour cruise or coach tour services and hence competes with a variety of other operators. Determining the fare for the *SydneyPass* has also limited STA's flexibility in marketing eg the ability to offer bulk discounts to large inbound tourist groups.

On the Tribunal's recommendation, in February 1998 the Premier excluded the *SydneyPass* from the definition of STA's regular passengers services which removed this product from the Tribunal's responsibility.

The Tribunal will continue to monitor the financial performance of tourist services to ensure these generate a commercial return and do not require cross-subsidy from regular passenger services. The Tribunal would like to see a clearer and effective ring fencing⁴³ of STA business units and between regular passenger services and the special tourist services.

Fares for the SydneyPass are no longer determined by the Tribunal.

7.10 DayRover and DayPass

The *DayRover* is a product which provides unlimited train, bus and ferry travel across all regular services within the Purple TravelPass area. The *DayRover* is essentially a 1 day Purple TravelPass. Concessions are not offered on the *DayRover*, however, it is available at an offpeak discount (20 percent).

The *DayPass* is a one day unlimited bus and ferry ticket. It is equivalent to a Bus Tripper with the addition of unlimited regular ferry use. The *DayPass* fare has remained frozen at \$12 since its introduction in July 1994. STA has not sought any fare rise for the *DayRover* or the *DayPass*. STA report that the average TVT *DayPass* is approximately \$14.30 which represents a discount of 16.1 percent and hence no fare rise is warranted. TVT information on the *DayRover* has not yet been provided.

Fares for the DayRover and DayPass remain frozen.

7.11 Newcastle bus services

A time based fare structure was successfully introduced for Newcastle bus services in January 1997. STA Newcastle reports a modest 2 percent growth in patronage and a 4 percent rise in farebox between 1996/97 and 1997/98. The Tribunal has approved STA's application to make the time-based system permanent.

STA has sought no change to Newcastle time-based fare levels. STA also reports widespread acceptance and generally high satisfaction with the new system by customers and bus drivers. The time based fare trial was conducted to attempt to provide a simpler fare system, give penalty free transfers, encourage patronage and ensure that all customers pay the correct fare.

Another beneficial feature of the new time based system is the rounded fares (1 hour: \$2, 4 hours: \$4 and all day: \$6) providing simplicity and greater transaction speed. To preserve the simplicity benefits of the rounded fare scale, the Tribunal will not change Newcastle buses' time-based fare levels. The Tribunal has established a master fare scale for Newcastle to notionally adjust Newcastle fares in line with changes in inflation and other STA fare

⁴³ Effective ring fencing achieves a clear accounting and cost separation of divisions of an operation.

levels. In the course of future determinations, the Tribunal will adjust actual fares when notional fare levels reach appropriate 'round' figures.

The introduction of any further new fares for Newcastle should only proceed following Tribunal approval.

Time based fares for STA Newcastle bus services will remain unchanged. Schedule 1, Table 2 details the time based fare structure.

7.12 School term pass

The School student transport scheme (SSTS) provides free travel to and from school for eligible students. SSTS is received by 61 percent of the 1,070,600 NSW student population and costs the Government \$341m in 1997/98 or \$522 per student.⁴⁴ The main eligibility criteria for free travel is that students live over 2km (in radial distance) from their school.

Students residing within 2km of their school are able to purchase a school term pass for STA travel, as a cheaper alternative than using a concession single fare or concession Blue TravelTen. The School Term Pass provides one terms' bus transport to students who are ineligible for free travel due mainly to their proximity (less than 2km) to the school they attend. The school term is generally ten weeks in duration and hence the pass provides travel for up to 100 bus journeys. For 1998/99 STA has sought to increase the price of the term pass by 10.3 percent or \$3 from \$29 to \$32.⁴⁵

As 61 percent of student receive free travel under SSTS and most of the remainder use alternate modes for travel to school (walk, bicycle etc.) demand for the School Term Pass is very low. In 1997/98 approximately 1,340 school children utilised a School Term Pass or 1 in every 830 NSW school students (approximately 0.12 percent).

STA has provided information illustrating that children using the school term pass consume an average of \$60 worth of concession priced travel equating to a large discount of 52 percent.⁴⁶ The Tribunal is aware that school students often do not dip passes when entering buses after school. STAs estimate that \$60 worth of travel is being consumed per school term appears to be based on a 10 week school term, assumes return bus travel on all 50 days (at a daily cost of \$1.20) and it also assumes no absenteeism or alternate modes of travel.

These assumptions would over state the value of travel. Hence, it is likely that the average value of travel consumed is between \$50 and \$55 or a discount of between 42 percent and 47 percent.

The Tribunal has elected to increase the price by \$2 to \$31. This fare rise is modest given the duration of the pass and equates to a rise of less than 5 cents per school day. This fare rise will reduce the average discount to between 36 percent and 42 percent.

The price of the school term pass will increase to \$31.00.

⁴⁴ NSW Budget 1997/98, Paper No 2 Budget Information, Section 4, p 161.

⁴⁵ STA submission to the Tribunal, 1998/99 Determination, March 1998, p 28.

⁴⁶ STA submission to the Tribunal, 1998/99 Determination, March 1998, p 28.

7.13 CityHopper

The CityHopper ticket allows travel from the origin station to the City with unlimited travel on CityRail trains and STA buses within the city area. The ticket can be purchased during peak and off-peak periods. The price of the CityHopper ticket is the price of the appropriate return ticket, peak or off-peak, from the originating station to the City, plus an add-on component. The current price of the add-on is \$3.40. Neither STA or CityRail has sought to increase the CityHopper. The Tribunal sees no reason to vary this price.

The Tribunal has determined that the price of the CityHopper add-on will remain unchanged at \$3.40.

7.14 Sports special return bus ticket

The Sports Special is a return bus ticket available for travel from Central Station when sporting and other events (eg concerts) are held in the Moore Park area or Randwick Racecourse. On certain occasions 'special sports services' also commence from Circular Quay and Wynyard. Customers retain the option of purchasing a one-way sports special which is priced at the same as a section 3-9 fare (\$2.50 for adults). All normal STA tickets such as TravelPasses and TravelTens are not valid for use on special sporting services. However, Pensioner Excursion tickets are informally honoured.

The return component of this ticket assists in faster boarding, reduces fare evasion and helps to disperse large crowds faster at the conclusion of events. The need for a separate price for these services arises as the sporting services are over and above regular services. Additionally sporting services are normally provided on weekends when penalty rates are paid to drivers which increases the cost of provision. State Transit also takes a significant business risk if event patronage is low due to inclement weather.

Utilisation of the sports special return bus tickets is relatively low. STA sold 21,000 in 1996/97 generating revenue of approximately \$68,400. State Transit has not sought any increase in the fare for the special sporting return bus ticket. The current fare is \$3.80 for adults with a half price fare available for concession holders (\$1.90). The adult fare was last increased by 40 cents in July 1996.

The Tribunal has determined that the price of the special sporting return bus ticket will remain unchanged at \$3.80.

8 REQUIREMENT UNDER SECTION 16 OF THE ACT

The Tribunal is required under Section 16 of the Act to assess and report on the likely annual cost to the Consolidated Fund if the price were not increased to the maximum permitted.

The determination for State Transit Authority will result in an increase in revenue approximately \$3.7 million above 1997/98 levels. Should fares be set below the scheduled levels, then for each \$1 reduction in farebox revenue, the Government will need to subsidise STA by an equal amount.

8.1 Compliance

Compliance with the Tribunal determinations is required under Section 18 of the Independent Pricing and Regulatory Tribunal Act 1992. Government agencies are required to include details relating to the implementation of a determination within its annual report. Additionally, STA is precluded from introducing any new fares or tickets for regular schedule passengers services without the approval of the Tribunal.

The Tribunal notes full compliance with the 1996/97 determination which was reported within STA's annual report.⁴⁷ Additionally, STA provided a report on demonstrating full compliance with the Tribunal's 1997/98 Determination within its submission to the 1998/99 Determination.⁴⁸ The Tribunal will continue to closely monitor compliance with its Determinations.

Thomas G Parry
Chairman
5 June 1998

⁴⁷ STA Annual Report 1996/97, p 84.

⁴⁸ STA submission to the Tribunal's 1998/99 Fare Determination, March 1998, p 29.



INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES

**DETERMINATIONS UNDER SECTION 11 (1) OF THE INDEPENDENT PRICING
AND REGULATORY TRIBUNAL ACT, 1992**

Matter No.: SRD/98/02
Determination: No 2, 1998
Agency: State Transit Authority
Services: Passenger Transport Services.

Declaration of government monopoly services under Section 4 of the Act:

Independent Pricing and Regulatory Tribunal (Passenger Transport Services) Order 1998,
Gazette No. 38, pp 1015-1016.

**Maximum prices determined under Section 14 of the Act to be charged from
5 July 1998 for bus and ferry passenger services supplied by the State
Transit Authority**

***Regular passenger services (within the meaning of the Passenger Transport Act 1990)
supplied by the State Transit Authority, excluding the services supplied in accordance with
the ticket known as the "SydneyPass", and bus services known as the "Airport Express",
the "Sydney Explorer", the "Bondi & Bay Explorers" and any other similar bus services.***

1. All State Transit Authority bus services

The price of any type of STA bus ticket is not to exceed the price of that type of ticket as set out in the attached Price Schedule.

2. CityHopper

The price of the CityHopper ticket is the appropriate return ticket, peak or off-peak, to the City plus an add-on for unlimited bus and rail travel in the city area. The price of the add-on is \$3.40.

3. Sports special return bus ticket

The price of the sports special return bus ticket is not to exceed \$3.80.

4. School term pass

The price of the school term pass is not to exceed \$31.00 per school term.

5. *All State Transit Authority ferry services*

The price of any type of STA ferry ticket is not to exceed the price of that type of ticket as set out in the attached Price Schedule (Table 1).

6. *Newcastle bus services*

The price of STA bus tickets in Newcastle is not to exceed of the fares detailed in the attached Price Schedule (Table 2).

7. DayRover ticket

The price of the DayRover ticket shall not exceed \$20 for tickets purchased during the weekday morning peak and \$16 outside the morning peak.

New or additional fares and charges

All other fares and charges for scheduled passenger transport services provided by the State Transit Authority, shall remain at 1997/98 levels. The State Transit Authority cannot levy any new or additional charges for regular passenger transport services or services related to regular passenger transport services, other than in accordance with this Determination, or with the approval of the Tribunal in future Determinations.

Thomas G Parry
Chairman
5 June 1998

PRICING SCHEDULE

Table 1 Maximum prices for STA bus and ferry services from 5 July 1998

BUS FARES	\$ Maximum Price
Single ride fares	
1-2 Sections	1.20
3-9 Sections	2.50
10-15 Sections	3.30
16-21 Sections	4.00
22-27 Sections	4.60
 TravelTen	
Blue: 1-2 Sections	8.80
Red: 3-9 Sections	17.60
Green: 10-15 Sections	26.40
Orange: 16-21 Sections	34.00
Purple: 22-27 Sections	40.00
 TravelPass - Bus and Ferry	
Blue	20.00
Orange	26.00
2 Zone	20.00
Pittwater	37.00
 TravelPass - Bus, Ferry and Rail	
Red	23.00
Green	29.00
Yellow	32.00
Pink	35.00
Brown	40.00
Purple	47.00
 Bus Tripper	 7.80
DayPass (Bus and Ferry Daily)	12.00
 FERRY FARES	
Single	
Inner Harbour Zone 1	3.20
Inner Harbour Zone 2	3.40
Manly / Rydalmere	4.00
Manly Jetcat	5.20
Parramatta	5.00
Stockton	1.40
 FerryTen	
Inner Harbour Zone 1	19.00
Inner Harbour Zone 2	21.00
Manly / Rydalmere	30.00
Manly Jetcat	44.00
Parramatta	35.00
Note: Quarterly TravelPass = 11 x weekly fare	
Yearly TravelPass = 40 x weekly fare	

Table 2 Maximum STA Newcastle Bus Fares from 5 July 1998

Time	Maximum (\$)
1 Hour	2.00
4 Hours	4.00
TimeTen 1 Hour	17.00
All day	6.00