

Review of Infrastructure Pricing at the Perisher Range Resorts

Issues Paper

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

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Discussion Paper DP77

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How to make submissions

The Tribunal seeks comment on this issues paper. Submissions should particularly emphasise:

- how choices between different approaches might affect the individual or group making the submission
- any specific features of the Perisher Range Resorts which make them unique among snow resorts, and therefore require decisions different to those made elsewhere.

Submissions should be made in writing, by 25 October 2004, to:

perisher@ipart.nsw.gov.au

or

Perisher Review
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Format and Confidentiality

There is no standard format for submissions but, if more than 15 pages in length, you should also provide them electronically. Unless you seek confidentiality, submissions are generally available for public inspection at the Tribunal's offices and will be available on-line in PDF format until 3-4 weeks after the release of the final report. The Tribunal may exercise its discretion not to exhibit any submissions based on length or content (e.g. material that is defamatory, offensive, or in breach of any law).

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All submissions will be treated in accordance with the *Privacy and Personal Information Act 1998*. Any personal information you give the Tribunal will not be reused for another purpose.

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REVIEW OF INFRASTRUCTURE PRICING AT THE PERISHER RANGE RESORTS

Review process

The Treasurer of New South Wales has requested the Tribunal to review pricing of infrastructure services at the Perisher Range Resorts ('Perisher')¹. The Tribunal's task is set out in Attachment A. Current arrangements at Perisher are set out in Attachment B. The Tribunal, in accordance with its usual practice, will apply a combination of analysis and stakeholder consultation. Major steps in this process include:

- Engagement of a specialist consultant to assess Perisher infrastructure.
- Release of this issues paper, to request stakeholder submissions and alert stakeholders to the issues which the Tribunal considers important.
- Stakeholder consultation, including a public forum.
- Submission of a report to the Treasurer.

The Tribunal will release submissions and key documents on its website (www.ipart.nsw.gov.au).

Scope of the review

The Tribunal's task is set out in detail in Attachment A. The task is divided into three broad areas:

- a review of the Perisher Range Resorts infrastructure capital works program and operating expenditure
- development of pricing principles
- recommendation of prices and charges.

The major infrastructure services to be reviewed are:

- water supply and distribution
- sewerage
- stormwater
- solid waste (rubbish)
- internal road systems.

¹ 'Perisher Range Resorts' encompasses the village and ski slope areas at Perisher Valley, Smiggin Holes, Guthega and Mt Blue Cow.

Stakeholders should note that the Tribunal will not be addressing, and does not seek comment on:

- Pricing of lift tickets, accommodation, or general merchandise and services at Perisher.
- The proposed expansion and upgrading of the Perisher resort, apart from any effects this might have on infrastructure services and National Parks and Wildlife Service (NPWS)² facilities.
- Tenure and governance at Perisher. The Tribunal's review does not address the relative merits of the current Perisher arrangements, a head lease arrangement, the Victorian model, or other models of tenure and governance which can be applied at snow resorts.
- The possible effect of climate change on conditions at Perisher. Climate change is unlikely to be relevant to the Tribunal's envisaged 5-year price path.
- Snow-making operations at Perisher. Snow-making at Perisher does not rely on the infrastructure being examined in this Tribunal review.
- General NPWS policies regarding entry fees to National Parks, the activities allowed or not allowed in National Parks, or the NPWS approach to administering National Parks and providing services within them.
- Possible future changes to legal requirements and licence conditions for infrastructure operations at Perisher Range Resorts.

Issues

The NPWS *Perisher Range Resorts Infrastructure Services Strategy*³ estimates that Perisher infrastructure will require \$160 million of capital and operating expenditure over 30 years. Government policy is that costs of municipal infrastructure should be recovered from beneficiaries of that infrastructure. This level of expenditure will affect most Perisher stakeholders. The Tribunal's review of Perisher infrastructure pricing aims to recommend a balance between the interests of different stakeholders. This 'Issues' section sets out some of the questions the Tribunal must address in making recommendations to the Treasurer.

The Tribunal will review capital works and operating expenditure together, because the combination of the two produces the total cost of infrastructure provision. This is a common approach when analysing costs of other infrastructure, such as gas or electricity distribution networks, because it allows incorporation of any trade-offs between capital and operating expenditures.

Of the three broad areas outlined above under 'Scope of the review', the development of pricing principles has the most significant impact on the interests of Perisher stakeholders. The choice between fixed and variable charges, for example, is important in allocating risk between leaseholders and the infrastructure provider. As another example, the choice between gate entry surcharges and direct infrastructure charges affects the balance between day visitors and leaseholders.

² The NPWS is also referred to as the Parks and Wildlife Division of the Department of Environment & Conservation.

³ An extract from the *Strategy* is available on the Tribunal's website, www.ipart.nsw.gov.au

The recommendation of prices and charges is the final part of the review process, combining information on costs, decisions on pricing principles, and forecasts of future demand. The level of prices and charges will affect the commercial prospects of the Perisher Range Resorts, as well as the finances of individual leaseholders.

Capital works and operating expenditure – major issues

The extracts from the NPWS *Perisher Range Resorts Infrastructure Services Strategy* which are available on the Tribunal's website detail the proposed capital works program. In assessing the capital works program, the Tribunal seeks to

- identify capital works which are necessary to ensure that Perisher, without the planned expansion in capacity, is able to operate according to current legal requirements
- identify capital works which are driven by the proposed expansion in capacity at Perisher
- assess the most efficient way of implementing any necessary capital works.

Operating expenditure refers to the operation, maintenance and administration costs of providing infrastructure. The Tribunal is seeking to determine the costs that an efficiently operating business would incur in providing infrastructure services, without compromising service quality or the long term quality of physical assets. One way of doing this is to examine operating expenditure at other snow resorts, inside and outside Australia. In making comparisons, the Tribunal will take account of differences between snow resorts, such as the size of the resort, the length of the ski season⁴, and the services provided by the resort. The Tribunal is interested in the potential for future efficiency gains which might lower operating expenditure.

Perisher's location within the Kosciuszko National Park suggests that, due to environmental and other constraints, legal requirements for infrastructure will be more extensive than requirements for similar infrastructure in general urban areas. For example, the proposed NPWS strategy aims to improve facilities for solid waste collection. The Tribunal will need to assess the extent to which this is legally necessary. There may be a distinction between aesthetic reasons for such work, and environmental reasons (discouraging pests and feral animals, for example). Because of specific constraints related to National Parks, aesthetic reasons may have legal force, where they would not otherwise.

In reviewing capital works, the Tribunal is required to consider **current minimum** standards, but it is able to consider higher standards if they are more cost-effective. For example, an important element in the proposed NPWS capital works program is the paving of in-resort roads. The Tribunal seeks to examine whether legal requirements make this necessary. If legal requirements do not make this necessary, there may still be arguments in favour of the work. Paved roads could, for example, reduce operating costs.

Infrastructure may be subject to 'step changes', where key elements are sufficient for visitor numbers up to a certain level, but then need to be augmented when numbers go beyond that threshold by even a small margin. This can be a strong argument in favour of pricing structures which discourage demand above a key threshold.

⁴ This issues paper uses terms such as 'ski season' or 'skiers' to represent the full range of snow activities. Activities such as snowboarding form a large proportion of snow resort demand.

A common issue for infrastructure capital works is the need to service peak demand. Snowfields in particular can have significant peak demand. Perisher Blue states that peak demand days from 1996 to 1999 were on average 29 per cent higher than 'design day' capacity.⁵ In the case of ski-lifts or restaurants, this demand peak results in longer queues. In the case of a water treatment plant, 'shock loads' or 'super Sundays' can lead to water quality which does not meet legislated standards. Therefore infrastructure needs to be calibrated for extreme peaks even more than leisure facilities. This is analogous to the situation in NSW electricity distribution, where it is commonly estimated that 10 per cent of assets are used only 1 per cent of the time. Electricity distributors can mitigate this to some extent with demand management, but ski resorts have few options for demand management.

One element of the capital works program is the replacement of facilities that will be displaced by the proposed development, namely the existing car park and the NPWS office/workshop. The Tribunal seeks comment on the most efficient way of replacing these facilities. Is it, for example, possible to make them part of the new development in a way which requires little expenditure by taxpayers?

The Tribunal seeks comment on

- *which capital works are necessary for the infrastructure services, with or without the planned expansion in Perisher capacity*
- *the most efficient way to implement necessary infrastructure capital works*
- *efficient operating costs for Perisher infrastructure services*
- *the potential for future efficiency gains in operations*
- *options for replacing the current car park and NPWS office/workshop which might minimise the cost to taxpayers.*

Pricing principles – major issues

Pricing can be a technically complex subject, especially if economic costs are to be reflected in a dynamic fashion. In establishing pricing principles, typically it is necessary to have an understanding of

- cost structures and drivers
- users' needs, as reflected in demand patterns
- sensitivity of demand to price signals
- infrastructure utilisation.

In regulating utilities, the Tribunal generally adopts a number of principles. The Tribunal aims to achieve the objectives of:

- economic efficiency
- revenue sufficiency
- equity.

⁵ Perisher Blue defines a design day as being the 10th busiest day of the season.

Economic efficiency is generally promoted by prices which are cost-reflective and subsidy-free, and which signal future investment costs. Equity is generally promoted by price structures which are transparent, based on published costs and methods, and have regard to the impact of price changes on customers.

The Tribunal will engage an expert consultant to review efficient costs. Once efficient costs have been established, the Tribunal will develop and apply appropriate principles.

In developing pricing principles, the Tribunal may consider a 'line in the sand' approach, where recommended fees and charges do not seek to recover infrastructure investment before a specified date. This might be justified if, for example, infrastructure was provided for other than commercial reasons in the past. However, the Tribunal will aim to ensure that pricing reflects future investment costs.

In developing pricing principles for infrastructure services, the Tribunal will bear in mind a number of broad observations:

- Visitor numbers at Perisher can vary greatly from one year to the next, depending on snowfalls. As a result, charges based on visitor numbers can lead to large income variations from one year to the next. At the same time, costs of providing infrastructure are largely fixed, so an infrastructure provider is more likely to favour fixed charges. In looking at infrastructure provision, the Tribunal frequently recommends a mix of fixed and variable charges.⁶
- Perisher visitor numbers are mainly concentrated in a very small portion of the year. Pricing principles which encourage demand outside the ski season can lead to lower infrastructure charges for all users. Demand for snow-sports is by definition concentrated during the short snow season, but other demand (walking, cycling, or bird-watching) is spread over a longer period. Because there are few locations for snow-sports in Australia, while options for other activities are numerous, the general assumption is that demand for snow-sports is less price-sensitive than other demand. One option might be to introduce a visitor surcharge in the winter peak, which would not apply at other times of the year. In this vein, most Victorian resorts have an entry fee over \$25 for 4 months of the year, and no entry fee the rest of the year.⁷
- There needs to be an equitable distribution of fees and charges between residential lease holders, commercial lease holders, day visitors, and other parties who benefit from Perisher infrastructure.
- Charges can be bundled or unbundled, both for leaseholders and for day visitors. Bundled charges are administratively simpler, unbundled charges will in theory be more cost-reflective. An example of a bundled charge is a single bill which covers the cost of road maintenance, rubbish removal and sewage disposal.
- In recommending prices and charges to the Treasurer, the Tribunal is likely to propose a 5-year price path. This could include annual adjustments to allow for inflation, or other variations to allow for specific expenditure needs. A shorter price path provides less certainty for infrastructure investment. A longer price path can lock in

⁶ Many Victorian resorts have established special funds to smooth out income differences between seasons and make provision for future infrastructure maintenance and expansion.

⁷ The Tribunal's task explicitly excludes an examination of gate entry fees into National Parks, so the Tribunal will not consider as an option the complete removal of off-peak entry fees. The task explicitly includes 'gate entry fees' as a funding option.

assumptions (such as future demand) which are increasingly at variance with actual outcomes. It is also possible to include a trigger for further review if demand forecasts vary by more than a certain percentage.

As with pricing structures for other infrastructure provision, the Tribunal will seek to address the allocation of 'volume risk', the risk arising from uncertain future demand. A greater emphasis on fixed charges removes volume risk from the infrastructure provider. A sinking fund or similar smoothing mechanism removes volume risk from the infrastructure provider and infrastructure users.

The following are examples of variable charges⁸:

- A usage charge on solid waste disposal based on actual volume of waste removed.
- An 'inclining block' charge for water, which discourages above-average water use. This can have the effect of delaying or avoiding the need for additional water resources, including wastewater disposal resources.
- A usage charge for water which incorporates a surcharge for wastewater disposal.
- A surcharge on entry to the Kosciuszko National Park, either per vehicle or per person. This would need to take account of visitor choice between Perisher and Thredbo, as well as the choice between road entry and Skitube entry. There is also the issue of the cost of collection, and how such a surcharge might or might not apply to Charlotte Pass visitors, who use the same Park entry as Perisher visitors.
- A surcharge on lift tickets. The Tribunal would need to take into account the cost of collection by a non-Government agency.
- A charge based on percentage of turnover of commercial enterprises. This may or may not be cost-reflective. It would penalise businesses with low margins (such as newsagents or supermarkets) and favour those with high margins (such as jewellers or fashion retailers).
- A car parking fee.

The following are examples of fixed charges:

- Developer fees for new facilities, particularly accommodation.
- Fixed charges to cover the fixed cost of connection to utilities such as water.
- A charge based on the floor area of residential or commercial premises.
- A charge based on bed numbers.
- A charge based on asset values. A charge on asset values is used in other contexts, because in theory an asset's value reflects its income potential. However, such a charge may not be cost-reflective, and also requires a degree of subjective judgement on asset values.

⁸ The recommended pricing structure is likely to include only a limited number of the charges used as examples.

The Tribunal seeks comment from stakeholders on

- *the appropriateness of the level and structure of current infrastructure fees and charges at Perisher*
- *the appropriateness of infrastructure fees and charges used at other snow resorts*
- *the preferred structure of future infrastructure charges at Perisher*
- *how an infrastructure pricing structure should allocate volume risk.*

Prices and charges – major issues

Once pricing principles are established, an important element in recommending actual prices and charges for infrastructure services is the Tribunal's view of likely future visitor numbers. If the Tribunal recommendations include volume-based charges, a higher estimate of visitor numbers leads to a lower charge per visitor. Conversely, if the Tribunal recommends predominantly fixed charges, a higher estimate of visitor numbers leads to higher fixed charges, to cover the larger infrastructure requirement.

Visitor numbers in the short term are influenced mainly by weather – more people go skiing when there are good snowfalls. In the medium term, visitor numbers are also influenced by competing resorts. Cheap air travel may draw an increasing number of NSW skiers to Victoria (where Mt Hotham has its own airport) and New Zealand.

The Tribunal seeks to understand the effect of charges on visitor numbers. What level of charges (direct or indirect) is likely to divert visitors to other ski resorts, or other activities? For a typical skier, what proportion of daily expenditure goes on indirect infrastructure charges or direct charges such as entry fees?

Generally, customers' willingness to pay for a service is linked to the expected quality of the service. The section above on capital works and operating expenditure mentions the possibility of capital works which are desirable but not required by current minimum standards. It is possible that users of Perisher facilities are willing to pay for such capital works, if they deliver superior service quality. For example, Perisher users may be willing to pay for paved in-resort roads which can be cleared of snow throughout the snow season, and also to pay for the snow-clearing operations.

The Tribunal seeks comment from stakeholders on

- *likely future visitor numbers at Perisher, and the factors which influence these visitor numbers*
- *the effect of infrastructure charges on visitor numbers*
- *overall daily expenditure of Perisher visitors*
- *the amount that Perisher visitors and leaseholders are willing to pay for infrastructure capital works which may not be required according to current minimum standards.*

The Tribunal invites submissions on the pricing of infrastructure services at Perisher Range Resorts. Submissions should address the matters set out in this issues paper, in the manner described above in the section headed 'Submissions'.

ATTACHMENT A

Review background

The NSW Treasurer has requested that the Tribunal review the National Parks and Wildlife Service's (NPWS) Infrastructure Services Strategy for Perisher Range Resorts (Perisher). The Tribunal's task is as follows:

1. REVIEW THE CAPITAL WORKS PROGRAM

Having regard to the nature and quantum of capital expenditure previously spent by the NSW Government to upgrade infrastructure at Perisher:

- a) undertake a review of NPWS's proposed Infrastructure Strategy for Perisher to ensure that the proposed capital works program:
 - i. complies with current licence conditions and legislative requirements (ie: does the proposed capital works program include only those capital costs required to meet current minimum public health, environmental, and occupational health and safety standards?);
 - ii. incorporates "least-cost" planning principles into the infrastructure planning framework (ie: are there any other lower cost infrastructure options available to the NSW Government?); and
 - iii. represents efficient costs (ie: would the overall cost of the capital works program be reduced through greater use of project tendering?).
- b) determine whether individual components of the capital works program could be avoided, deferred, delayed or staged over the course of the Infrastructure Strategy;
- c) identify the capital costs that are directly attributable to the new Village Centre development and all other beds;

2. DEVELOP PRICING PRINCIPLES

- d) develop a pricing framework that incorporates full cost recovery principles for provision of infrastructure and municipal services, including consideration of the nature and extent of any benefits enjoyed by users of municipal infrastructure services (eg: day visitors, leaseholders), and whether, and how, the costs of the proposed capital works program should be recovered from such users;
- e) establish the value of existing infrastructure assets and expenditure by the NSW Government used in the delivery of municipal services, and whether recovery of such value should be reflected in municipal service charges;
- f) advocate pricing principles to recover the costs of the New Village Centre development and all other beds utilising a developer charges framework; and

3. RECOMMEND PRICES AND CHARGES

- g) establish prices and charges for infrastructure and municipal services for implementation 1 July 2005, and develop suitable price paths to meet the costs of infrastructure provision over the life of the infrastructure in a way that smooths the initial capital cost impact;
- h) develop a range of funding options to meet the cost of the capital works program as determined by IPART, including consideration of municipal levies, separate user charges, gate entry fees, day parking charges and any other funding sources;
- i) establish whether existing customers are “willing-to-pay”, and have an “ability-to-pay” for the proposed level and quality of municipal services at Perisher;
- j) establish the level of developer contributions required to recover the costs of the new Village Centre development and all other beds; and
- k) recommend a preferred regulatory framework for determination of future prices and charges for provision of municipal services within Perisher which is, as far as possible, simple, transparent and not expensive to administer.

The Review should NOT include a review of:

- NPWS’s current charging policies concerning the setting of gate entry fees into its national parks.

Consultation

IPART should consult with key stakeholders and other interested parties where appropriate. Such consultation should seek to ascertain, amongst other things, the impact of possible changes to the structure and level of municipal service charges, gate entry fees, or proposed introduction of any new commercial charges on existing customers.

ATTACHMENT B

Current arrangements at Perisher Range Resorts

In New South Wales, snow resorts are located within Kosciuszko National park and are leased from NPWS. Thredbo resort has a 'head lease', where the major lessee sub-lets to other users. The Perisher Range Resort has a major lessee (Perisher Blue Pty Ltd) for ski slope operations and critical village (base) facilities, but all users lease directly from NPWS.

NPWS provides municipal services at Perisher. The full range of these services is set out in extracts from the NPWS *Perisher Range Resorts Infrastructure Services Strategy* (available on the Tribunal's website), and includes

- water supply and distribution
- sewerage
- stormwater
- solid waste (rubbish)
- internal road systems
- information provision (information centres)
- freight and passenger services
- medical centre
- emergency services.

The NSW Government has long-term plans to expand, upgrade and consolidate resort facilities in Perisher Valley's central precinct and other villages within the Perisher Range. In 1999, the Minister for Urban Affairs and Planning approved an expansion in accommodation capacity of 1,320 beds, of which 800 would be in the Perisher Village Centre. Negotiations between the NSW Government and Perisher Blue Pty Ltd are under way, regarding development and funding arrangements for the Perisher Village Centre.

The development plans across the Perisher Range Resort also require a review of relevant municipal infrastructure and service provision.

The NPWS *Infrastructure Services Strategy* seeks to

- define the immediate and long-term requirements for improving the environmental and operational performance of existing infrastructure and to
- support the anticipated expansion of bed numbers and resort visitation

The *Strategy* estimates capital expenditure and operating expenditure over the 30 year period from 2000/01.

The Tribunal seeks to isolate infrastructure costs associated with the proposed resort expansion. Further details on the proposed development can be found in the Perisher Range Resorts Master Plan, at

http://www.nationalparks.nsw.gov.au/PDFs/master_plan.pdf