

A new methodology for setting fares



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Why are we proposing a new methodology for setting fares?

A key question under both our new and our old approaches is:

How much of costs should be borne by users and how much by NSW taxpayers?



Why are we proposing a new methodology for setting fares? (cont.)

The Government has also asked us:

Can fares be used to encourage more efficient delivery and use of public transport?

Can fares be used to spread demand across different time periods?

Should there be a greater level of fare integration across modes?

Overview of proposed approach

Set of assessment criteria for fare options:

1. Encourages the efficient use of public transport
2. Promotes the efficient delivery of public transport
3. Encourages greater use of public transport
4. Minimises impacts on passengers
5. Is logical, predictable and stable over time
6. Increases farebox revenue or cost recovery

Overview of proposed approach (cont.)

Four key steps:

1

Estimate 'socially optimal fares' that would encourage more efficient delivery and use of the public transport network.

2

Develop additional fare options that could assist with transitioning to the socially optimal fares, while taking into account impacts on passengers and taxpayers. We would also consider options for more integrated fares across modes.

3

Assess all fare options against assessment criteria, and select the option that strikes the best balance.

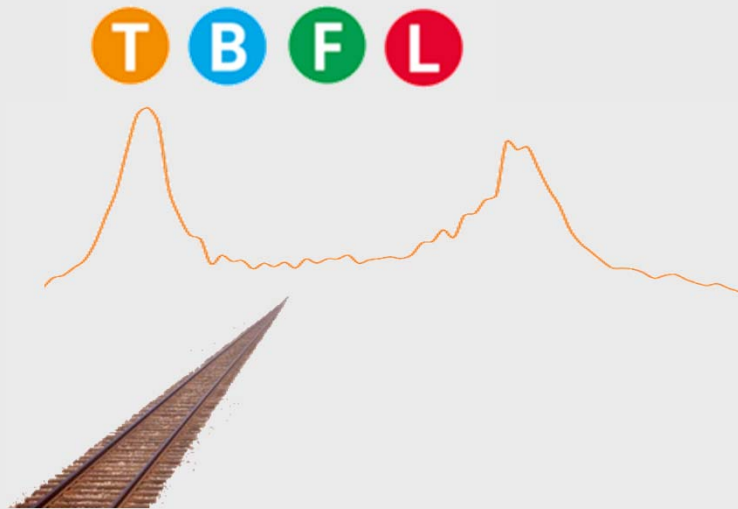
4

Decide on the form of the fare determination.

How do we propose to estimate socially optimal fares?

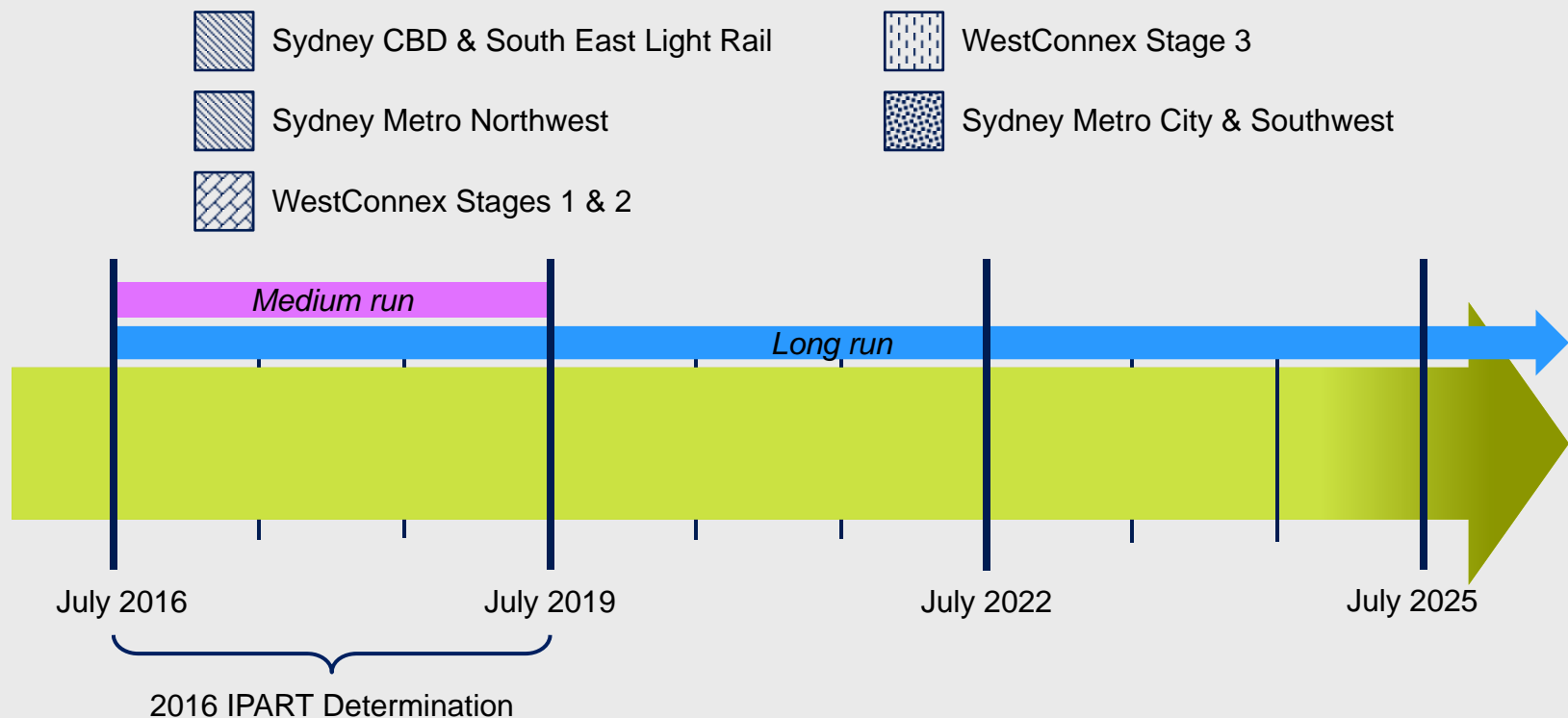
- ▼ Socially optimal fares should reflect the **FULL** cost of additional passenger journeys, including external costs and benefits.
- ▼ Costs and benefits and the socially optimal fare for a passenger journey depends on:

- ▼ Mode of transport
- ▼ Peak or off-peak
- ▼ Distance travelled



How do we propose to estimate socially optimal fares? (cont.)

- ▼ We will estimate socially optimal fares for:
 - ▼ a medium-run timeframe (three-year pricing period)
 - ▼ a long-run timeframe (eg, 10 years or more)



How do we propose to estimate socially optimal fares? (cont.)

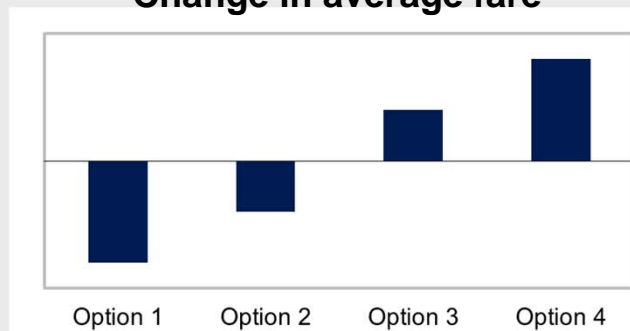
To estimate socially optimal fares, we first need to estimate the following inputs:

- ▼ The financial costs of serving each additional passenger
- ▼ The costs and benefits to third parties as a result of additional passengers (external costs and benefits)
- ▼ The burden caused by raising taxes so Government can subsidise public transport
- ▼ Forecast demand and demand responses to potential fare changes

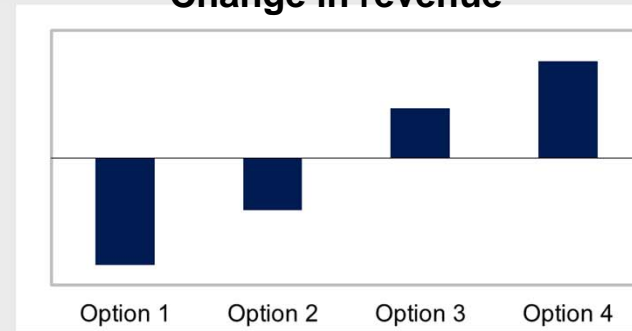
How will we assess the various fare options?

- ▼ We will assess all developed fare options against our assessment criteria.

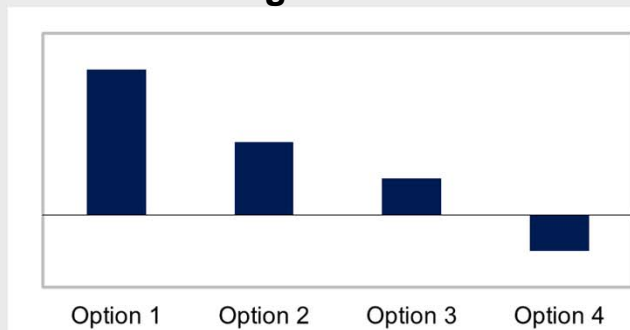
Change in average fare



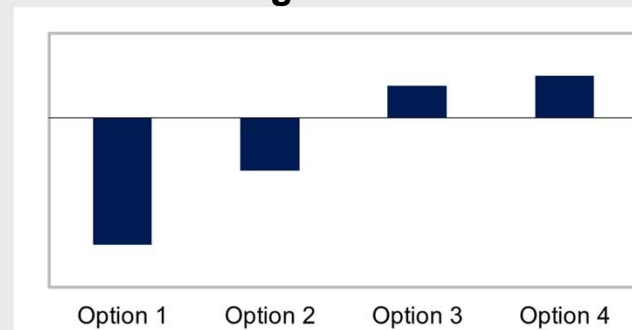
Change in revenue



Change in demand



Change in welfare



What form might our fare determination take?

We need to translate our chosen fare option into a legal determination.

Our legal determination could either:

- ▼ set maximum fares individually for all fares
- ▼ set maximum average fares for groups of fares



We would like your views on the following

1. Do you agree with our proposed assessment criteria?
2. Do you agree with the four key steps in our proposed approach?
3. Do you agree with our proposal to estimate socially optimal fares for a medium-run timeframe and a long-run timeframe?
4. Should the legal determination set maximum fares individually or should it set maximum average fares for groups of fares?

Next steps

9 October 2015	Submissions on Methodology Paper due
December 2015	Release Draft Report and Draft Determination
March 2016	Release Final Report and Final Determination
July 2016	Determination to take effect



Independent Pricing and Regulatory Tribunal

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