

Frequency discounting and weekly caps

Draft Information Paper 3

Introduction

IPART was asked to look at fare integration issues as part of our review.

Currently fares are integrated across the week – journeys on all modes contribute to the frequency discount and weekly cap. Currently, after 8 journeys have been made in a week on any mode or combination of mode, the rest of the journeys in that week are free. There is also a weekly cap that applies, so that once \$60 has been reached, the customer won't pay for any more trips during that week.

There are no longer cost-based justifications for frequency discounts with electronic ticketing. However there would be big impacts on some customers if we removed all frequency discounting and capping.

Therefore we considered how we could improve the current discounting arrangements to make them fairer and more efficient.

The slides that follow set out our draft decisions and recommendations to Government, and explain the analysis underpinning these decisions, including the different options that we considered.

Many stakeholders called for **higher** frequency discounts

- ▼ Many stakeholders called for **higher discounts** for frequent travel in line with the old discounts on the periodical paper tickets. For example, in 2006/07, for journeys up to 80 km, compared to the cost of paying for ten single journeys per week,
 - ▼ Weekly discounts ranged from 18% to 41%
 - ▼ Annual discounts ranged from 35% to 54%

Opal should have some sort of discount similar to what was previously available. I was previously able to purchase a YEARLY train ticket. I only paid the equivalent of 40 weekly tickets. I.e, I received 12 weeks free travel. I now have to pay an extra 8 weeks of fares (after allowing 4 weeks annual leave).

The prices need to come down. Before the opal I used to buy a monthly pass where I would save \$20 dollars every month. Now I am losing money after changing to the opal card. It would be good to have the same monthly pass rates as before.

Allow commuters to purchase monthly/quarterly/yearly tickets on their opal card for regular journeys and only charge additional for journeys outside the regular route as the oyster card system allows. I hate the opal card system as it has increased my travel costs dramatically.

However, there are no longer **cost-based** justifications for frequency discounts with Opal

- ▼ Under paper ticketing there was an economic cost basis for these discounts with using a periodical/multi use ticket compared to a single ticket:
 - ▼ Lower financial cost
 - On buses – reduced driver costs as travel times fall
 - Reduced costs of ticket machine maintenance and cost of staff selling tickets
 - ▼ Lower external costs
 - Reduced queuing time
 - On buses - saving on travel time

These benefits do not arise under electronic ticketing because everyone must pre-load credit onto their Opal card upfront – both frequent users and non-frequent users.

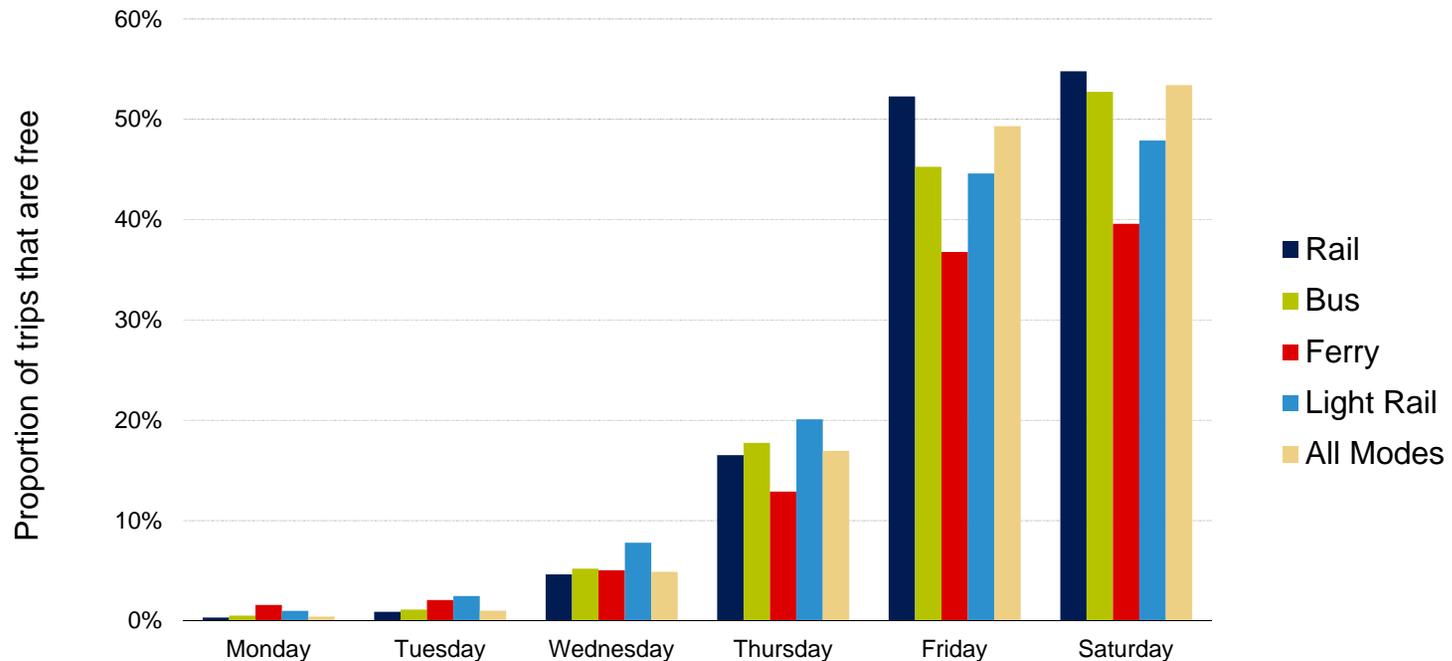
The current Opal discounting arrangements are not efficient

- ▼ Free travel is not efficient – fares that are set below the marginal social costs of the services result in a net welfare loss to society.
- ▼ The cost of free travel is exacerbated under the current arrangements, which allows customers to make additional cheaper trips earlier in the week to reach their 8 trips with a low weekly spend, to avoid paying for more expensive trips later in the week, such as for peak journeys, long distance journeys and ferry journeys.
- ▼ It is also inefficient because many customers receive free travel for journeys that they would have made even if the discounts did not apply (particularly full time workers who travel 10 trips a week going to and from work). Removing the discounts for these journeys would be more efficient, because these journeys would still be taken at a lower cost to the taxpayer.

The current discounting arrangements are also costly

- ▼ Currently more than 20% of all Opal trips are free
- ▼ The weekly travel rewards currently account for around 12% of these, costing around \$150 million or 12% of revenue

Proportion of free trips by day and mode (Mon – Saturday)



What are our principles for improving the current system of discounts and caps?

- ▼ There would be large impacts on some customers if they were to pay the social marginal costs for each journey, because many fares for single journeys are currently below socially optimal levels, and there are generous discounting arrangements in place.
- ▼ Therefore, we propose to gradually increase the efficiency of the weekly rewards, using the following principles:
 - ▼ We should aim to minimise impacts on customers
 - ▼ Customers who impose more costs on the system should pay more – customers should not be able to *reduce* their expenditure on public transport by travelling *more*
 - ▼ Discounts should better target discretionary travel – customers should not receive discounts for travel that they would have made anyway
 - ▼ Signals about the relative costs of providing public transport should be maintained where possible

We are recommending a travel credit scheme

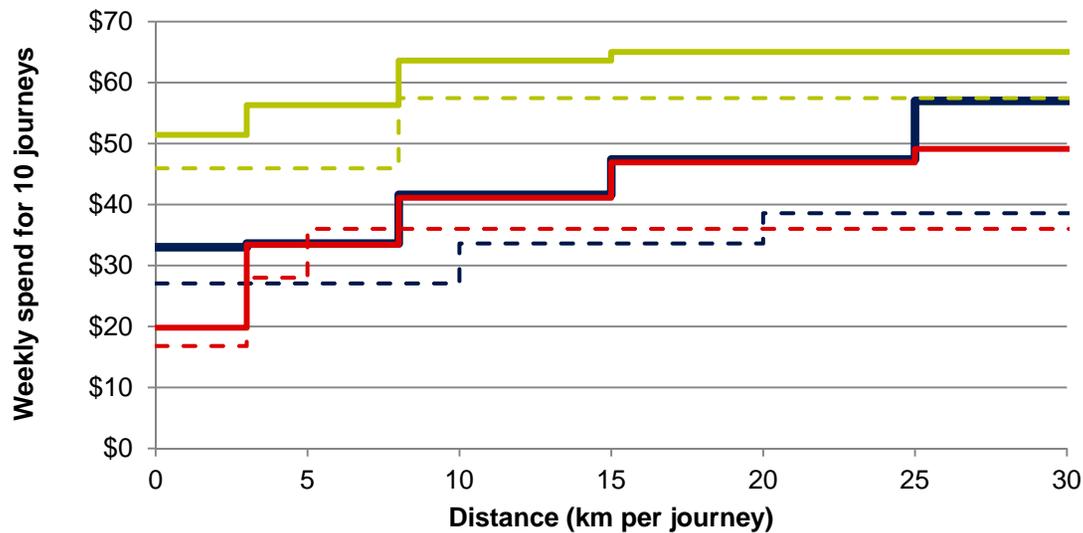
- ▼ The fare for each journey that a customer makes during the Opal week would be debited from their Opal card when they tap off. At the end of the week, frequent customers would receive a **travel credit equal** to the higher of:
 - ▼ their total expenditure on Opal fares in that week minus the cost of their 10 most expensive journeys in that week, or
 - ▼ their total expenditure on Opal fares in that week minus the weekly cap amount.

We are recommending a weekly cap amount of \$65 in 2016/17, increasing by \$5 per year.

Managing impacts for frequent customers and high value users

- ▼ Around a third of all customers travel 10 times a week or more.
- ▼ If all customers paid the full fare for each of their trips, there would be very large impacts for some customers travelling more than 10 times a week, or making very long journeys. For example, currently
 - ▼ A customer making 10 * 70 km rail journeys a week @ \$8.30, would currently pay \$60, equal to the cap. Removing the cap would mean they would pay \$83, or 38% more.
 - ▼ A customer making 15 * 5 km bus journeys a week @ \$3.50, would currently pay \$28, equal to the cap 8 of these journeys. Removing the frequency discount would mean they would pay \$52.50 - 88% more.
- ▼ Under our draft fares, customers travelling 10 times a week would pay an average of 20% more in 2016, which is the difference between paying for 10 trips instead of 8.

Impact for customers doing 10 trips per week (2016-17)



- - - Peak rail Current Peak rail Draft
 - - - Bus Current Bus Draft
 - - - Ferry Current Ferry Draft

Average change in weekly spend for making 10 trips

km (from)	Rail	Bus and light rail	Ferry
0	22%	18%	12%
3	22%	19%	23%
8	23%	14%	11%
15	23%	30%	13%
25	18%	36%	13%
35	21%	36%	
45	8%	36%	
65	8%		
85	8%		
100	8%		

There is currently an incentive to make additional trips in order to *reduce* weekly expenditure

- ▼ Under the current arrangements, customers can *reduce* their weekly expenditure by travelling *more*:
 - ▼ Additional cheaper trips can be made earlier in the week to reach their 8 trips with a low weekly spend, to avoid paying for more expensive trips later in the week, such as for peak journeys, long distance journeys and ferry journeys
 - ▼ For example, if a customer usually makes 10 * 35km journeys a week is able to save \$8.16 (or 20%) per week by making 3 additional short bus trips early in the week
 - ▼ Some users are able to reduce their weekly spend by significantly more than this.
- ▼ This means that some customers contribute to a very low proportion of their public transport costs.
- ▼ A common theme in stakeholder comments is that these arrangements are unfair.

There is currently an incentive to make additional trips in order to *reduce* weekly expenditure – stakeholder comments

You might look at modifying the fare structure around those really short journeys that all count to the 'free' travel after 8 trips. Seem like an unintended loophole.

Normal usage should be close to the best possible price. It should not be possible for more trips to result in a lower weekly fare, which is currently the case when making extra short trips early in the week.

Please remove free trips after 8 journeys. It doesn't make sense. This way everyone misuses the public transport, by making short trips during the Monday and Tuesday.

Please remove the discrimination that allows someone living near Erskinville or Pymont to earn themselves a \$15 weekly ticket on their Monday morning jog while others have no chance of being able to take similar advantages. It's a lottery based on where you've or work.

Change 8 trips p/w then pay nothing rule. A Person in our office goes out morning & afternoon tea on Mon & Tues to catch a bus 1 stop and walks back. He says it saves him \$60 per week. It's a rort. Maybe have 4 consecutive days travel then pay nothing. This may help to avoid large price increase

Our proposal removes the incentive to make additional trips in order to *reduce* weekly expenditure

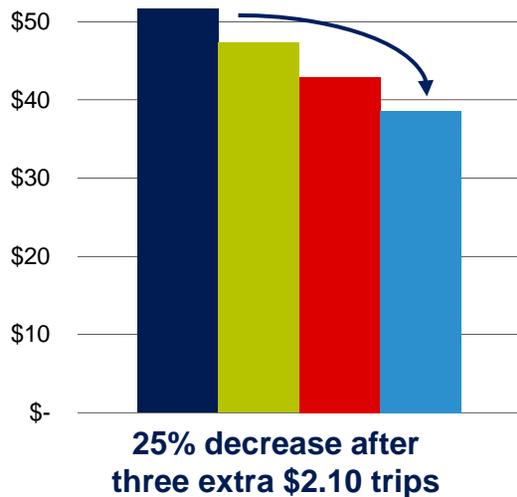
- ▼ Under our proposal, customers would pay for their 10 most expensive trips.
- ▼ This means that customers would not be able to reduce their weekly expenditure on public transport by making additional short trips
- ▼ Additional short trips would be paid for upfront, and if more than 10 trips are made, a credit would be applied for these trips, rather than the more expensive journeys.

Current incentives to make additional short journeys

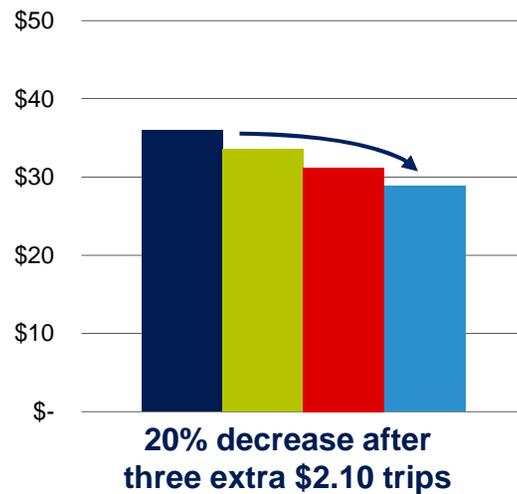
- ▼ The more cheap trips that are made early in the week, the more a customer can save

Example of customers making additional \$2.10 bus or light-rail journeys early in the week:

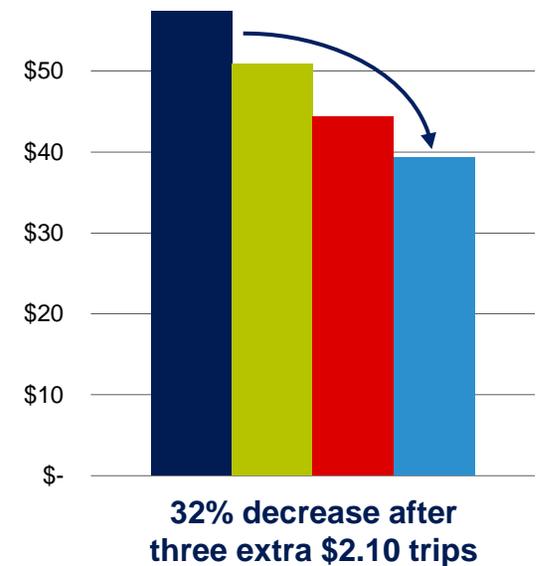
Regular journey: peak rail 35-65km (\$6.46)



Regular journey: bus 8+ km (\$4.50)



Regular journey: ferry 8+ km (\$7.18)



■ 10 journeys ■ 11 journeys ■ 12 journeys ■ 13 journeys

Our proposal minimises discounts for non-discretionary travel

- ▼ Free trips after 8 trips made is inefficient for many full time commuters, who make 10 non-discretionary journeys travelling to and from work each day. Therefore they receive free travel for at least 2 journeys they would have made even if the discounts had not been in place. Removing the discounts for these journeys would be more efficient, because consumption would not fall, and the services would be provided at a lower cost to the taxpayer.
- ▼ The current frequency discounting arrangements are likely to be more efficient for part time workers – because they need to make extra or discretionary travel to receive the discounts. However, it is not possible to separately target these users based on the current arrangements.
- ▼ We received feedback from part time workers that the discounting arrangements are also unfair because full time workers receive discounts for their non discretionary travel to work, whereas part time workers do not.

Customers receiving free travel for non-discretionary journeys– stakeholder comments

Because I only use public transport for work, and only work 4 days, I do not get the weekly travel reward. My per sector cost is more expensive than those working full time. It's not fair that because I work less (and earn less), I pay more per sector.

Apply discounts to each fare and not only once 8 trips have been made as this discriminates against part time workers. As a bus commuter who takes less than 8 trips per week, it is more expensive for me to use Opal rather than a travelten ticket.

The current system penalises anyone who does not work full time (they [shouldn't] get any discount benefits after making 8 trips per week).

Scrap the concept of 8 times per week reward - it is not fair to people that work from home sometimes. It should be overall cheaper to encourage people.

Our proposal minimises discounts for non-discretionary travel

- ▼ Under our draft decisions, customers would have to travel *more* than 10 times a week in order to get a travel credit (unless they spend more than \$65).
- ▼ Therefore most full time workers would need to make extra trips in addition to travelling to and from work each day.
- ▼ This increases efficiency because our discounts are better targeted to discretionary travel.

The weekly credit after **10 trips** is more aligned with frequency discounting in other jurisdictions with electronic ticketing

City	Weekly number of trips for monthly ticket to be better value than single
Brisbane	9
London	12-14 (depending on zone)
Vancouver	10
New York	11

Our proposal preserves price signals on all travel

- ▼ Under the current weekly rewards, journeys are free after 8 journeys have been made, or \$60 has been spent over a week. This means that the price signals about travelling in the peak and off peak, or on a more expensive mode of travel are removed.
- ▼ Our proposed scheme requires customers to pay for each journey as they make them, which allows price signals to be preserved.

Our proposal on weekly discounts allows farebox to be maintained as we improve the efficiency and fairness of the Opal system

- ▼ Under our draft decisions, we are making fares fairer and more cost reflective by reducing the fares for most multi-mode journeys by 20-50%, increasing the off peak discount and *reducing* fares by an average of 8% for single mode journeys.
- ▼ If we were to maintain the current inefficient discounting arrangements under our draft recommendations:
 - ▼ Farebox revenue would fall by 7% in 2016/17
 - ▼ Or alternatively, single fares would need to *increase* in 2016-17 to recover the same level of farebox as our draft decision:
 - By an average of **16% for rail**
 - By an average of **12% for bus**

Example of single fare schedule to recover the same level of revenue as our draft decision if changes are not made to the weekly travel rewards

	Peak Rail				Bus			
			If no change to weekly travel rewards:				If no change to weekly travel rewards:	
	Current fares	Draft fares 2016/17	Example fares recovering same revenue as draft proposal in 2016/17	Increase from draft fares	Current fares	Draft fares 2016/17	Example fares recovering same revenue as draft proposal in 2016/17	Increase from draft fares
0 - 3 km	\$3.38	\$3.30	\$3.90	+18%	\$2.10	\$1.98	\$2.34	+18%
3 - 8 km	\$3.45	\$3.36	\$3.97	+18%	\$3.50	\$3.34	\$3.95	+18%
8 - 15 km	\$4.21	\$4.16	\$4.91	+18%	\$4.50	\$4.11	\$4.86	+18%
15 - 25 km	\$4.82	\$4.74	\$5.60	+18%	\$4.50	\$4.69	\$5.54	+18%
25 - 35 km	\$6.02	\$5.70	\$6.73	+18%	\$4.50	\$4.91	\$5.80	+18%
35 - 45 km	\$6.46	\$6.24	\$7.37	+18%	\$4.50	\$4.91	\$5.80	+18%
45 - 65 km	\$7.61	\$7.55	\$8.92	+18%	\$4.50	\$4.91	\$5.80	+18%
65 - 85 km	\$8.30	\$8.87	\$10.48	+18%	\$4.50	\$4.91	\$5.80	+18%
85 - 100 km	\$8.30	\$9.96	\$11.77	+18%	\$4.50	\$4.91	\$5.80	+18%
>100 km	\$8.30	\$10.86	\$12.83	+18%	\$4.50	\$4.91	\$5.80	+18%

Key changes for customers

- ▼ Our proposed scheme requires customers to pay for the 10 most expensive trips they make in a week.
- ▼ This requires customers to pay the full cost of each journey that they make, rather than receive their cheaper journeys free as they make them, because the Opal system is not able to determine the most expensive journey made until the end of the week.
- ▼ A consequence of this system is that some customers would need to load more money onto their Opal card for the first week of travel than they do currently.
- ▼ However, at the **end** of the first week, customers would receive travel credit if they have made more than 10 trips, or spend more than \$65. This means that customer would be required to load a lower amount of money onto their Opal card to pay for each journey.

Example of how the scheme would operate – Wollongong to Town Hall

- ▼ A customer who travels to work by rail from Wollongong to Town Hall each day of the week during the peak would pay \$8.87 for each journey made.
 - ▼ In week 1, they would pay \$88.70 over that week. Therefore, they would need to have loaded \$88.70 onto their Opal card during this week. At the end of week 1, they would receive travel credit of \$23.70 onto their card which is the difference between \$65 and what they spent in week one.
 - ▼ Over the course of week 2, they would need to load \$65 onto their Opal card over the course of the week so there is \$88.70 available for use during that week. At the end of week 2, they would again receive a travel credit of \$23.70
 - ▼ During the course of week 3, they would again need to load an additional \$65 onto their card.
- ▼ Currently, this customer would only need to load \$60 onto their Opal card per week, which is equal to the existing weekly cap. Under the proposed arrangements, they would need to load \$65 on their card each week, except for the first week, when they would need to load \$88.70 onto their Opal card.

What other options did we consider?

Stakeholders suggested the following alternatives

1. Maintain weekly cap only, so that discounts are linked to the value of travel
 - We have included a frequency aspect to our proposal as well as a weekly cap to mitigate impacts on customers that make many low value trips over a week.
2. Percentage of weekly fare expenditure reimbursed if 8 trips are exceeded
 - We considered an option in detail to reimburse expenditure based on a sliding scale, starting with 6% if 10 trips are reached, and 11% if 12 trips, to increase with the number of trips taken. However, this system was more complex for customers, and still resulted in a small number of perverse incentives where customers could reduce their weekly spend by making additional trips.
3. Additional credit added when high top up amounts are added
 - We considered that equity issues arose under this system, because customers that can afford to load up more top up credit onto their account would be rewarded by customers that cannot afford to do so.

Sources

Translink Brisbane, *Make 9 journeys then travel free*, <http://translink.com.au/tickets-and-fares/fares/go-frequently-then-go-for-free>

Translink Metro Vancouver, *Fares*, <http://www.translink.ca/en/Fares-and-Passes.aspx>

Transport for London, *Adult rate Tube, DLR and most London Overground Fares*, <http://content.tfl.gov.uk/tube-dlr-lo-adult-fares.pdf>

MTA New York, *New Fare information*, <http://web.mta.info/nyct/fare/FaresatAGlance.htm>

Submissions

Anonymous (W15/3479) submission to Issues Paper, p 1

Miskov submission to Issues Paper, p 1

Shinfield submission to Issues Paper, p 3.

Andreopoulos submission to Issues Paper, pp 4-5

Lacopetta submission to Issues Paper, p 4

Smith submission to Issues Paper, p 1.

Andreopoulos submission to Issues Paper, p 4.