

IPART's review of CityRail's regulatory framework – stakeholder roundtable

31 July 2008

Roundtable format

- ▼ 1.40 – Part 1: Approach to determining CityRail's revenue requirement
- ▼ 2.10 – Part 2: Value of assets, costs and revenue
- ▼ 3.00 – Part 3: External benefits and funding
- ▼ 3.50 – Part 4: Fare structure
- ▼ 4.40 – Closing statements



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Part 1: Approach to determining CityRail's revenue requirement – IPART preliminary views

- ▼ The building block approach to fares best meets objectives
- ▼ This involves :
 - ▼ adding up all the costs to work out how much revenue CityRail needs, then
 - ▼ working out how much of this revenue should come from train users and how much from taxpayers

Part 1: Approach to determining CityRail's revenue requirement - Advantages of proposed approach

- ▼ Encourage better spending decisions by:
 - ▼ Better forecasting and management of costs
 - ▼ Clearer performance objectives and reporting
 - ▼ Setting criteria for making sound investment decisions
 - ▼ Making a link between CityRail's revenue requirement, its spending and the fares it collects



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Part 1: Approach to determining CityRail's revenue requirement – what it costs to provide CityRail services

	2008/09	2009/10	2010/11	2011/12
Revenue requirements (Epping Chatswood Rail Link valued at zero)	\$2.1 billion	\$2.3 billion	\$2.4 billion	\$2.5 billion
Revenue requirements (Epping Chatswood Rail Link valued at \$2.3 billion)	\$2.2 billion	\$2.6 billion	\$2.7 billion	\$2.8 billion

Part 1: Approach to determining CityRail's revenue requirement – timing of determination and fare changes

- ▼ Fare determination for 4 years – 2009 to 2012
- ▼ Longer determination will:
 - ▼ Encourage efficiency
 - ▼ Assist long term planning
 - ▼ Provide budget certainty
 - ▼ Allow passengers to see how fares will change over time
- ▼ Fare could change on 1 January or 1 July each year – 1 January would align with bus and ferry fare changes

Part 1: Issues for discussion

- ▼ Is there support for the building block approach?
- ▼ Should the determination run for 4 years – or a longer or shorter period?
- ▼ Should fare changes happen at 1 January (the same as buses or ferries) or is it better to change rail fares at 1 July to match financial year reporting?

Part 2: Value of assets, costs and cost efficiency – Asset valuation

- ▼ CityRail's assets should be valued using a 'deprival value'
- ▼ IPART estimates that this year, CityRail's assets are worth \$1.4 billion – significantly less than the \$11.3 billion included in RailCorp's accounts

Part 2: Value of assets, costs and cost efficiency – total costs

- ▼ RailCorp forecasts operating and maintenance costs to increase from \$1.8 billion in 2006/07 to \$2.6 billion in 2011/12 – or 7.7% per year
- ▼ Based on what similar operators do, LEK Consulting found that efficient operating and maintenance costs should be \$2.2 billion by 2011/12 – a 3.5% rise per year
- ▼ LEK found cost savings worth 18% or nearly \$500 million in 2011/12
- ▼ One-off capital expenditure of \$780 million is needed to achieve LEK's cost savings

Part 2: Value of assets, costs and cost efficiency – LEK recommended operating costs

Cost category	RailCorp's forecast cost	LEK's efficient cost	Size of savings	% saving
Infrastructure maintenance	941	876	65	6.9%
Rolling stock maintenance	380	324	56	14.8%
Train operations and crewing	494	328	166	33.5%
Customer interface	480	394	86	17.9%
Revenue Collection	64	35	29	45.0%
Overhead and marketing	295	209	86	29.1%
Total	2655	2167	488	18.4%

Part 2: Value of assets, costs and cost efficiency – LEK recommended operating costs

- ▼ LEK's cost savings included transitioning to train operations without train guards as well as reduced staffing at low patronage stations – these are policy matters
- ▼ If these savings are not made, fares will need to rise by an extra 1.5% per year to cover the additional costs

	2008/09	2009/10	2010/11	2011/12
LEK's recommendation	2,163	2,239	2,207	2,167
Train guard savings	0	23	82	121
Station staffing	-	19	20	37
Total	2,163	2,281	2,308	2,325

Part 2: Value of assets, costs and cost efficiency – LEK recommended capital costs

- ▼ LEK did not identify capital cost savings
- ▼ One-off capital expenditure of \$780 million is needed to achieve LEK's cost savings

	2008/09	2009/10	2010/11	2011/12
Efficient capital expenditure	1,101	1,404	1,330	1,110
Epping to Chatswood Rail Link	2,300			

Part 2: Issues for discussion

- ▼ Is IPART's asset valuation of \$1.4 billion appropriate for fare setting purposes?
- ▼ Should the Epping to Chatswood Rail Link be valued at \$2.3 billion? If not, why not?
- ▼ Are LEK's cost savings achievable?
- ▼ Government policy related to rail (guards and staff at smaller stations) may require an extra \$300 million or 6% higher fares over the next 4 years –
 - ▼ are passengers prepared to contribute to these costs or should they be borne by government?

Part 3: Who should pay for CityRail

- ▼ CityRail benefits everyone, not just rail users
- ▼ CityRail users benefit directly, while the wider public benefits through reduced congestion, greenhouse emissions and road accidents
- ▼ Rail users and taxpayers should share the funding of CityRail
- ▼ IPART sought advice from CRAI on the benefits to non-rail users
- ▼ the benefits are considerable:
 - ▼ CRAI says \$1.1 billion in 2006/07, mainly through reduced traffic congestion
 - ▼ IPART estimate is higher – around \$1.6 billion in 2007/08 and between \$1.7 and \$2.0 billion in each of the next 3 years

Part 3: Who should pay for CityRail

- ▼ To determine how much is paid by passengers and how much by taxpayers IPART intends to use information on:
 - ▼ benefits to non-rail users
 - ▼ affordability
 - ▼ impact on passengers
- ▼ Other options are:
 1. Set the taxpayer share equal to the benefit to non-rail users
 2. Use the optimisation approach developed for IPART by CRAI

Part 3: Who should pay for CityRail – IPART's preliminary view

- ▼ Passengers should pay 30% - slightly more than they currently pay
- ▼ Taxpayers should pay the remaining 70%
- ▼ This means that passengers face fare increases of 20% to 30% over the next 4 years - plus any increases needed to cover inflation

Part 3: Issues for discussion

- ▼ Is the range of \$1.7 – 2.0 billion a good estimate of the value of CityRail to the wider public?
- ▼ Is it reasonable for CityRail passengers to pay 30 per cent by 2011/12?
- ▼ IPART's preliminary views may mean large fare increases. Is this a reasonable balance between passenger and taxpayer funding? If passengers pay less, taxpayers will need to pay more
- ▼ How should IPART take into account affordability issues?

Part 4: Fare structure

- ▼ Strong growth in the number of people travelling in peak times is affecting crowding, reliability and costs
- ▼ The level of fares at different times of the day is likely to have some effect on how many people travel in peak and off-peak times of day
- ▼ IPART is considering:
 - ▼ how peak and off-peak fares should be set
 - ▼ whether the current off-peak discount of 30% is sufficient to encourage some people to alter their travel time decisions
 - ▼ if other factors like train frequency affect the times people travel
- ▼ RailCorp is trialling a 50% off-peak discount on some lines to spread demand and reduce peak crowding

Part 4: Fare structure

- ▼ IPART's preliminary view is that fares should include a flag fall and a per kilometre rate
- ▼ This could involve either a fixed per kilometre charge or one that decreases with the distance travelled depending upon CityRail's cost structure
- ▼ A distance-based fare structure matches the fare structure for the most of CityRail's current tickets
- ▼ Other options are:
 1. Flat fares
 2. Zone based fares

Part 4: Fare structure

- ▼ Currently the discount on weekly and other periodical tickets varies with the distance travelled
 - ▼ Smaller discount for shorter distances and larger discount for longer distances
 - ▼ For example, a weekly commuter from Burwood to the City receives a discount of less than 20% while a commuter from Wollongong receives a discount greater than 40%
- ▼ IPART is not convinced that this is equitable
- ▼ IPART considers that a consistent discount should apply

Part 4: Fare structure

- ▼ Moving to IPART's preferred fare structure should have only a small effect on single and return tickets
- ▼ But applying a consistent discount of around 20% on weekly tickets suggests that:
 - ▼ Shorter distance commuters will see a lower price
 - ▼ Longer distance commuters would see substantial increases
- ▼ Large fare increases are not desirable - they affect both affordability and patronage
- ▼ IPART will consider these issues when determining how to move fares to its preferred fare structure

Part 4: Issues for discussion

- ▼ Is a distance based fare the best approach – why or why not?
- ▼ How would electronic ticketing affect the decision on what is the best fare structure?
- ▼ For weekly/periodical tickets, should everyone get the same percentage discount? Is 20% a suitable target?
- ▼ What is the right method of pricing Zonal tickets – like TravelPasses?
- ▼ What discount would encourage people to change their travel time to off-peak times of day? What time limits should apply to off-peak discounts?



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