



Independent Pricing and Regulatory Tribunal

Review of fares for CityRail services from January 2013

Transport — Issues Paper
April 2012



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Invitation for submissions

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

Submissions are due by 4 June 2012.

We would prefer to receive them electronically via our online submission form <http://www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission>.

You can also send comments by fax to (02) 9290 2061, or by mail to:

Review of CityRail fares

Independent Pricing and Regulatory Tribunal

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We may choose not to publish a submission—for example, if it contains confidential or commercially sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please indicate this clearly at the time of making the submission. IPART will then make every effort to protect that information, but it could be disclosed under the *Government Information (Public Access) Act 2009* (NSW) or the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW), or where otherwise required by law.

If you would like further information on making a submission, IPART's submission policy is available on our website.

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1 Introduction

RailCorp, under the name “CityRail”, provides railway passenger services (CityRail services) in the greater Sydney region. The Independent Pricing and Regulatory Tribunal of NSW (IPART) determines the maximum prices RailCorp can charge its customers for the CityRail services.¹ IPART’s current determination is due to be replaced at the end of 2012. We have commenced a review of fares to apply from January 2013.

The NSW Government has confirmed its commitment to the introduction of electronic ticketing (e-ticketing) for public transport in the greater Sydney region. E-ticketing is expected to begin for CityRail’s services in mid-2013.² IPART will determine maximum prices for CityRail’s passenger services and will consider the ticketing arrangements (including the introduction of e-ticketing) in setting those fares.

1.1 Purpose of the review

In 2009, IPART implemented a 4-year price determination using a ‘building block’ approach. This approach provided greater transparency around the cost of providing CityRail services and the share of CityRail’s efficient costs that should be funded by passengers (through fares) and by taxpayers (through government subsidies). To determine maximum fares we:

- ▼ used efficiency reviews based on benchmarking to establish the efficient costs of providing passenger rail services
- ▼ forecasted patronage growth over the determination period
- ▼ established the share of efficient costs to be recovered from CityRail passengers and from taxpayers by estimating the value of external benefits generated by CityRail services, and considering potential impacts on fare affordability and patronage levels
- ▼ converted the portion of CityRail’s efficient costs to be recovered from passengers into fares by setting the maximum fare for each CityRail ticket type.

¹ Excluding services supplied in accordance with the ticket known as the “SydneyPass” – see *Independent Pricing and Regulatory Tribunal (Passenger Transport Services) Order 1998*.

² Minister for Transport, Budget Estimates Speech, 25 October 2011, Available from: <https://neutrinodata.s3.amazonaws.com/pttc/userfiles/111031ministers-budget-estimates-update.pdf>, Accessed 29 March 2012.

Over the last 3 to 4 years, CityRail actual costs have been greater than the levels we considered efficient in our 2009 determination. While CityRail and Government have taken some steps to improve the efficiency of CityRail, many of the areas where we identified savings have not yet been addressed. We note that the NSW Government has announced that a comprehensive reform of RailCorp is underway.³ As part of this reform, the Government has engaged Booz & Co to design a reform program for RailCorp.

In April 2010, Government introduced a new fare structure for public transport in Sydney called MyZone. Under MyZone, most CityRail tickets were set at levels below the maximum price determined by IPART.

Given CityRail's increased costs, combined with fares set below the maximum price we determined and lower than expected patronage growth, there has been a continued decline in the passenger share of CityRail's costs that is recovered through fares.

We continue to be committed to an approach that sets fares in a way that ensures passengers do not pay more than a fair share of the efficient costs of providing CityRail services. Under this approach, passengers only contribute to costs that would be incurred by an **efficient** operator of rail passenger services. Fares also reflect the costs and external benefits of large capital projects that Government considers appropriate to expand the coverage and capacity of the CityRail network (such as the Epping to Chatswood Rail Link (ECRL)).

However, the first year of our next determination (2013), coincides with the Government's introduction of e-ticketing. The e-ticket effectively integrates all public transport modes for ticketing purposes.

In deciding on maximum fares for CityRail services we propose to adopt a proportionate approach for the next few years. We propose to:

- ▼ set fares on an annual basis to allow us to respond to developments in the implementation of e-ticketing
- ▼ adjust the efficient costs and external benefits from our 2009 determination using CityRail specific indexes to obtain a target passenger share to be recovered through fares
- ▼ consider the extent to which current fares recover this passenger share and decide on how best to transition to the share in both the short and medium-term
- ▼ determine appropriate CityRail fares given the introduction of Sydney's e-ticket for public transport (the Opal card) and impacts on patronage and affordability.

³ Minister for Transport, Media Release - Rail Reform Underway - 1 February 2012 Available from: <http://www.transport.nsw.gov.au/media-releases/rail-reform-underway>, Accessed 29 March 2012.

Following the implementation of e-ticketing and the alignment of our determinations across CityRail, Sydney Ferries and metropolitan and outer metropolitan buses, we intend to review our approach to setting maximum fares for all forms of public transport in Sydney.

Previously, our determinations have set maximum fares for individual tickets, for individual modes of public transport, to recover a particular level of efficient costs over a number of years (given assumptions about patronage). We are considering whether this approach should be maintained while the e-ticket is implemented.

We also note that in announcing fares for 2012, the Minister for Transport indicated that fares would only increase in line with the Consumer Price Index (CPI) unless there are improvements in the public transport system.⁴

We note that CityRail's service quality is regulated through a service contract between Transport for NSW and RailCorp. In addition, when fares are set below an appropriate passenger share, taxpayers contribute more than the level justified by the benefits that the wider community receives from railway passenger services. Each additional dollar that is spent on CityRail reduces the funds that Government has available to spend on other important areas (such as health, education and law enforcement) or decreases Government's ability to reduce taxes.

An overview of CityRail's operations, CityRail passengers and CityRail's network map is provided in Appendix A.

1.2 Process for the review

As part of our review of CityRail's fares we are conducting public consultation. As a first step in this consultation process, we invite all interested parties to make submissions to the review.

We intend to release a draft report and determination and invite comments from interested parties. We will also hold a public roundtable discussion, to provide stakeholders with a further opportunity to contribute their views. After considering these comments, we will make our final report and determination.

The proposed timetable for the review is provided in Table 1.1.

⁴ Transport for NSW, Media Release - *Public transport fare rise half IPART's recommendation*, Available from: <http://www.transport.nsw.gov.au/media-releases/public-transport-fare-rise-half-iparts-recommendation>, Accessed 29 March 2012.

Table 1.1 Timetable for review

Action	By
Release issues paper and invite submissions	23 April 2012
Receive public submissions on issues paper	4 June 2012
Release draft report and determination, and invite submissions	August 2012
Hold public roundtable discussion	September 2012
Receive public submissions on draft report and determination	October 2012
Provide final report and fare determination	November 2012

1.3 Purpose and structure of this issues paper

This Issues Paper is intended to assist stakeholders in making submissions to the review of CityRail's fares by identifying and explaining the key issues we will consider. It is structured as follows:

- ▼ Chapter 2 outlines the context for this review
- ▼ Chapter 3 sets out our proposed approach to this fare review and sharing efficient costs between taxpayers and passengers
- ▼ Chapter 4 looks at options for determining maximum fares.

Each of these chapters highlights one or more issues on which we particularly seek stakeholder comment. For convenience, a complete list of these issues is also provided below. However, please note that the list is not exhaustive and stakeholders are free to raise and discuss any other issues they consider relevant to this review.

1.4 List of issues for comment

The specific issues on which we seek comment are listed below.

- 1 With the introduction of electronic ticketing for public transport, we propose to use a proportionate approach to regulating fares as an interim measure. As part of this, we propose to set fares for one year rather than establishing another medium-term price path. Do stakeholders agree with this approach? 17
- 2 We propose to use indexes of costs and benefits drawing on the findings on efficient costs and external benefits from our 2009 determination. Do stakeholders agree with this approach? 21
- 3 Should the inflators for the indexes be based on publicly available, independent, verifiable data? Are the typical inflators we use in other industries suitable for CityRail? 21
- 4 How should we adjust the cost index for expected productivity gains? 21

- 5 How should CityRail's capital costs be incorporated into the index? Should we apply one of the capital inflators used in other industries or develop one specific to CityRail based on either building blocks allowances or book values? 21
- 6 What do you consider to be the most important factors that we should consider when deciding on how fares should transition to an appropriate passenger share? 24
- 7 Are our proposed pricing principles appropriate for determining fares? Have we missed any additional principles? Are some more important than others? 27
- 8 Should we set maximum fares for all services or journeys or only the single ticket? 28
- 9 If we set fares for all services, should we set fares by determining a maximum for each individual fare or should we adopt a weighted average price cap (WAPC) approach? If we use a WAPC, should we include side constraints, or limits, on the change in fare for individual tickets? 28
- 10 Should there be different levels of discount on weekly tickets across different distances? 36
- 11 How should the MyMulti tickets be priced to ensure users of these ticket types are not receiving a disproportionate discount compared to passengers using single and periodical tickets while still allowing and encouraging multi-modal travel? 36
- 12 Do you have any other suggestions on how the MyZone fare structure can be improved? 36
- 13 Do CityRail passengers have a reasonable capacity to absorb increased fare levels? 36

2 Context for this fare review

CityRail provides passenger rail services within the Greater Sydney region on its suburban, intercity and regional networks.⁵ IPART regulates the maximum prices CityRail can charge for CityRail services⁶ under section 11(1) of the *Independent Pricing and Regulatory Tribunal Act 1992* (IPART Act).⁷

We recognise that the approach we take for the 2013 determination is affected by several contextual factors. This chapter discusses the most important contextual factors to be considered when determining fares. We begin by giving an overview of our 2009 determination, which established a new approach to setting fares for CityRail. Next we discuss the current level and structure of fares. We then discuss CityRail's cost and revenue performance over this period. Finally, we outline government policies on e-ticketing and long-term transport in NSW.

2.1 IPART's approach to setting fares in its 2009 determination

IPART's 2009 CityRail determination represented a major revision to the approach previously used to set fares. To help create the right incentives for CityRail to reduce its costs, IPART adopted a 'building block' approach that involved:

- ▼ using efficiency reviews based on benchmarking to establish the efficient costs of providing railway passenger services
- ▼ forecasting patronage growth over the determination period
- ▼ establishing the share of efficient costs to be recovered from CityRail passengers and from taxpayers by estimating the value of external benefits generated by CityRail services, and considering potential impacts on fare affordability and patronage levels
- ▼ converting the portion of CityRail's efficient costs to be recovered from passengers into fares by setting the maximum fare for each CityRail ticket type.

⁵ CityRail's network stretches from Goulburn and Nowra in the south, to Lithgow in the west, and Newcastle, Scone and Dungog in the north.

⁶ Excluding services supplied in accordance with the ticket known as the "SydneyPass" - see *Independent Pricing and Regulatory Tribunal (Passenger Transport Services) Order 1998*.

⁷ Appendix B lists the matter we are required to consider under section 15(1) of the IPART Act in making rail fare determinations.

The following sections give an overview of these steps and the key findings from our 2009 determination.

2.1.1 Establishing the efficient costs of passenger rail services

Our 2009 determination included a rigorous assessment of the efficient operating, maintenance and capital expenditure that was required to provide CityRail services. In making our final decision on efficient operating and maintenance expenditure, we accepted the recommendation of our consultant (LEK) that it was both reasonable and achievable for RailCorp to reduce CityRail's operating costs by 18% per annum by 2011/12. This decision implied that RailCorp would make total efficiency savings of around \$1 billion⁸ over the period 2008/09 to 2011/12, while maintaining or improving service standards.

LEK identified a variety of opportunities for CityRail to bring its costs in line with other urban passenger rail system operators. For example, CityRail could reduce its costs by:

- ▼ rationalising staffing functions at stations such as greater outsourcing of cleaning functions and increasing the number of unstaffed stations
- ▼ reducing the number of head office staff
- ▼ increasing the productivity of train drivers through improved rostering
- ▼ improving rolling stock maintenance practices
- ▼ removing guards on trains.

During the review, Government and RailCorp indicated their intention to pursue many of these efficiency savings, including in the areas of rail maintenance, driver rosters and cleaning. However Government noted that it would continue to employ guards on trains. As noted by us at the time, IPART's role is confined to determining maximum fares RailCorp can charge for CityRail services and, as part of this process, determining the **efficient** costs of providing those services. Our view was, and continues to be, that the costs associated with employing train guards and staffing low patronage stations are not efficient, and so should not be funded by passengers.

⁸ Before the effects of inflation.

2.1.2 Forecasting patronage growth

Our decision on CityRail's forecast patronage growth over the determination period was the second important part of setting fares. This is because we determined the share of CityRail's revenue requirement to be recovered from passengers by considering the value of the external benefits of CityRail, and this value is influenced by the forecast number of passenger journeys. In addition, we sets fare levels to generate this share of the revenue requirement based on the forecast number of passenger journeys for each fare type. Higher forecast patronage growth will generally lead to lower fare levels.

We decided that baseline patronage growth (ie, patronage growth excluding the ECRL) was expected to be 2.5% per annum. This was consistent with RailCorp's forecast at that time and the State Plan and reflected strong growth in CityRail passenger journeys in recent years. We forecast higher patronage growth during the early years of the determination period (4.3% and 4.9% in 2008/09 and 2009/10 respectively) reflecting stronger expected growth following the opening of the ECRL.

2.1.3 Establishing the share of efficient costs to be recovered from CityRail passengers and from taxpayers by estimating the value of external benefits

As well as providing direct benefits to their users, railway passenger services generate substantial indirect benefits that accrue to the wider community – such as reduced road congestion, traffic accidents and greenhouse gas emissions. These benefits are known as external benefits, because they are external to those who use the service.

There is general agreement in Australia and other jurisdictions that these external benefits justify government subsidisation of passenger rail fares. For this reason, the value of CityRail's external benefits was one of the key factors we considered in determining the appropriate shares of CityRail's revenue requirement to be funded by taxpayers (through government subsidies) and by passengers (through fares).

We estimated that the value of external benefits generated by CityRail services around \$1.7 to \$1.9 billion per annum⁹. In making our final decision on the value of these benefits, we accepted the recommendations of our expert consultant, LECG. As shown in Table 2.1, LECG considered avoided road congestion to be the largest source of CityRail's external benefits, as well as avoided air pollution and greenhouse gas emissions.

⁹ real 2008/09 see IPART, *Review of CityRail fares, 2009-2012 – Final Report*, 2008.

Table 2.1 LECG's estimate of the value of external benefits of CityRail in 2006/07 (\$million, 2006/07)

Source of benefit	Recommended value
Avoided road congestion	1,390.8
Avoided air pollution	111.6
Avoided greenhouse gas emissions	25.9
Avoided noise pollution	-
Avoided road accidents	-
Avoided road damage	-
Total external benefits	1,528.2

Note: Calculated using modelling results obtained from the TDC's Sydney Strategic Travel Model.

Source: LECG final report, *An empirical estimate of CityRail's marginal costs and externalities*, 2008.

LECG considered including values for a broader set of external benefits, including avoided noise pollution, road accidents and road damage. However, it concluded that the value of these benefits was too small to warrant inclusion, or was ambiguous (ie, it could be either positive or negative).

We then decided to set fares to recover 28.5% of CityRail's efficient costs.¹⁰ This passenger share reflected the average difference between the efficient costs of providing passenger services and the forecast annual value of external benefits of CityRail services over the period.

2.1.4 Setting maximum fares for individual ticket types

After deciding on the appropriate passenger share we then used our forecast patronage to determine maximum prices for CityRail services under each of CityRail's ticket types to recover this share. We determined maximum fares for:

- ▼ single, return, periodical (weekly, monthly, yearly) tickets where price varied by distance travelled broken up into bands (there were 20 distance bands eg, 0-5 km, 5-10 km, 180 km +)
- ▼ integrated, multi-mode tickets that provided for travel on several modes of public transport within specific zones (TravelPasses, DayTripper).

Under our 2009 determination, the price of a single ticket fare included a fixed flag-fall charge of \$2.80 in 2008/09, plus a variable distance-based charge of 6 cents per kilometre in 2008/09.

¹⁰ IPART, *Review of CityRail fares, 2009-2012 – Final Report*, 2008.

We also considered that the discount applied to weekly tickets should be constant, regardless of the distance travelled. However, given the substantial discounts for some longer-distance tickets, we recognised that it would take more than one determination period to implement this approach. Therefore, we decided to make consistent 20% discounts the target and transition all weekly fares toward this target over time.

2.2 Current fare structure and levels for CityRail's services

Our CityRail review is concerned with determining maximum prices for CityRail services provided under tickets (both 'paper' and 'electronic') including:

- ▼ single, return and periodical rail tickets (MyTrain 1-5)
- ▼ off peak return tickets
- ▼ multi-modal tickets (MyMulti 1-3, Newcastle TravelPass).

We are not involved in setting concession fares, fares for the pensioner excursion ticket (PET) or School Student Transport Scheme (SSTS). The NSW Government sets these fares. It is currently government policy that concession fares are half of the full fare. Appendix C contains further information on PET and concession fares.

Most fares are currently set below the maximum levels allowed under our 2009 determination.¹¹

2.2.1 MyZone

In the second year of our 4-year determination period, the previous Government introduced a new fare structure for public transport services in Sydney and surrounding regions called 'MyZone'. Under MyZone, most CityRail fares were set below the maximum levels determined by IPART.

Under MyZone, the majority of CityRail tickets have a distance based fare structure. However, MyZone reduced the number of products for travel on rail by:

- ▼ reducing the number of distance-based fare bands from 20 to 5
- ▼ withdrawing rail FlexiPasses (the ability to specify any period of days between 28 and 366)
- ▼ introducing 3 multi-mode tickets that cover travel on rail, bus and ferry that offered an expanded range of services compared to the equivalent TravelPass in IPART's determination (Red, Orange, Pittwater, Green, Yellow, Pink and Purple TravelPasses).

¹¹ By section 18(2) of the *Independent Pricing and Regulatory Tribunal Act 1992* (IPART Act), RailCorp may not fix a price below that determined by IPART without the approval of the Treasurer.

Fares for some MyTrain 28 day Rail Passes, MyTrain 365 day Rail Passes, the MyMulti Day Pass and MyTrain Child Off-peak Return were higher than the levels set in our determinations. To implement these changes, Government issued an amendment order to temporarily remove our responsibility for determining maximum prices for these tickets.¹² The amendment order expires when the Tribunal issues a replacement determination.¹³ We will set fares for these services as part of this review.

2.2.2 Fare increases in 2011 and 2012

Our 2009 determination allowed for maximum fares to increase by a weighted average of around 6% nominal or 3% real each year. Since 2010 there have been no real increases in fares because:

- ▼ for 2011, Government decided not to increase fares above the levels implemented for MyZone
- ▼ in July 2011, Government reduced the price of periodical (monthly, quarterly and annual) tickets by a further 9%¹⁴
- ▼ for 2012, Government decided only to increase fares to offset CPI since 2010 (ie, no real increase).

In announcing the fare increases for 2012, Government noted that it would only increase fares in line with the Consumer Price Index (CPI) unless there are improvements in the public transport system.¹⁵

2.3 CityRail's cost recovery during the current determination period (2008/09-2010/11)

CityRail's cost recovery has continued to decline during the current determination period. This is because it has spent above the efficient levels of cost and generated revenues below the levels we determined in 2009. Table 2.2 summarises CityRail's cost recovery performance for the period 2008/09 to 2011/12. The sections below discuss CityRail's performance in these areas in more detail.

¹² *Independent Pricing and Regulatory Tribunal (Passenger Transport Services) Amendment Order 2010.*

¹³ See *Independent Pricing and Regulatory Tribunal (Passenger Transport Services) Amendment Order 2010.*

¹⁴ Transport for NSW, Media Release – Cheaper rail fares head July 1 tax and charges cuts, Available from: <http://www.transport.nsw.gov.au/media-releases/cheaper-rail-fares-head-july-1-tax-and-charges-cuts>, Accessed 29 March 2012.

¹⁵ Transport for NSW, Media Release – Public transport fare rise half IPART's recommendation, Available from: <http://www.transport.nsw.gov.au/media-releases/public-transport-fare-rise-half-iparts-recommendation>, Accessed 29 March 2012.

Table 2.2 CityRail cost recovery performance 2008/09-2011/12 (\$million nominal)

	2008/09	2009/10	2010/11	2011/12
	actual	actual	actual	forecast
<i>Operating costs</i>				
IPART efficient	2,023	2,091	2,053	2,031
CityRail actual	2,019	2,135	2,281	2,436
<i>Return on and of capital</i>				
IPART efficient	603	861	1,043	1,202
CityRail actual	592	829	1,002	1,173
<i>Total costs</i>				
IPART efficient	2,630	2,952	3,096	3,233
CityRail actual	2,611	2,964	3,284	3,609
<i>Concession funding and other revenue</i>				
IPART efficient	285	293	290	294
CityRail actual	285	293	290	294
<i>Net costs</i>				
IPART efficient	2,345	2,659	2,806	2,939
CityRail actual	2,325	2,672	2,993	3,315
<i>Revenue from fares</i>				
IPART forecast	642	758	800	838
CityRail actual	638	652	661	710
% Net costs recovered from passengers				
IPART efficient	27.4%	28.5%	28.5%	28.5%
CityRail actual	27.4%	24.4%	22.1%	21.4%

Source: Information provided by CityRail to IPART 2011 Prices and Services Report and IPART calculations.

2.3.1 CityRail's cost performance

CityRail's actual costs have been greater than the levels we considered efficient over the period 2009/10 to 2011/12. Our efficient operating expenditure allowances in the 2009 determination were based on recommendations from LEK. LEK identified efficiency incentives across several categories. These included:

- ▼ Infrastructure: development of an efficient industry training model and outsourcing alliance contracts, absorption of backlog.
- ▼ Rolling stock: new rolling stock sourced and maintained through PPP, refurbishment of Tangara fleet and practice changes on refurbished fleet, phasing out of older rolling stock.
- ▼ Train drivers: more favourable application of crib breaks, outplacement of off-roster drivers, a series of other initiatives contemplated by management.
- ▼ Stations: station reform (eg, staffing of low patronage stations), regionalisation of station managers, enhanced monitoring technology.

- ▼ Revenue collection: ticket checking by station staff.
- ▼ Overhead: business finance re-engineering, creation of HR service centres, restructuring of procurement process.

We understand that CityRail has made some progress in implementing efficiency incentives. Specifically, among a number of reform initiatives, CityRail has programs underway (or completed) to deliver efficiency improvements in:

- ▼ Rolling stock maintenance – up to \$10 million per annum.
- ▼ Infrastructure maintenance – up to \$5 million per annum.
- ▼ Station staffing reform \$20 million per annum.
- ▼ Cleaning reform up to \$20 million per annum.
- ▼ Train Crewing up to \$20 million per annum.
- ▼ Support functions up to \$20 million per annum.¹⁶

However, a large portion of CityRail’s achievable efficiency savings also rely on changes in Government policy. For example, LEK identified that CityRail could make substantial savings by removing guards from trains. These savings have not been achieved because it has been government policy to maintain guards because of perceptions of improved security and disabled access. As a result CityRail is expected to spend around 20% more than the efficient operating cost allowance in 2011/12.

As noted in Chapter 1, Government has announced that a comprehensive reform of RailCorp is underway. We note that Booz and Company has been engaged to design this reform program for RailCorp at a cost of approximately \$6.5 million.¹⁷

2.3.2 CityRail’s revenue performance

CityRail has generated less revenue than was forecast in our 2009 determination. This is because:

- ▼ fares have been set below the maximum levels we determined (as discussed above)
- ▼ patronage growth has been lower than what we forecast in our 2009 determination.

In 2009 we forecast underlying patronage growth of 4.3% in 2008/09, 4.9% in 2009/10 and 2.5% in each year after that. As Shown in Table 2.3, CityRail’s patronage growth has been below these levels in most years.

¹⁶ Information provided by Transport for NSW on IPART’s 2011 CityRail Prices and Services Report.

¹⁷ NSW e-tendering Contracts Register.

Table 2.3 IPART forecast and CityRail actual patronage growth 2008/09-2010/11

	2008/09	2009/10	2010/11
IPART forecast	4.3%	4.9%	2.5%
CityRail Actual	3.1%	-1.1%	1.9%

Source: Transport for NSW and IPART calculations.

2.4 Introducing electronic ticketing and other Government transport policies

2.4.1 Electronic ticketing

Government is in the process of introducing an integrated electronic ticketing service and infrastructure for public transport in the greater Sydney area. The e-ticket will be called 'the Opal'. We understand that the Opal will:

- ▼ be multi-modal (for use on all CityRail, metropolitan and outer metropolitan bus and Sydney Ferries services)
- ▼ incorporate contactless smartcard-based technology
- ▼ be available for all types of fares – adult, concession, Pensioner Excursion Tickets (PETs) and school students
- ▼ have capped fares and discounts to reward frequent and multi-modal travel
- ▼ have the capacity to vary fare levels according to criteria such as the type of customer, time of day, location and frequency of travel
- ▼ have the ability to offer special event fares.¹⁸

A customer will 'tag on' at a reader or gate with their Opal card at the start of a journey and 'tag off' at the end of their journey. The fare will be calculated and deducted from the money stored on the card. Customers will be able to top up the money on their Opal card online or move money from a linked bank account or credit/debit card. They will also be able to load money at a wide network of retail outlets.

Government has advised that the Opal will begin to be installed for Sydney Ferries' services first at the end of 2012 and CityRail services second from July 2013. We note that Government has not yet announced its preferred fare structure for the Opal including how capped fares and discounts for frequent travel will work.¹⁹ The Government's views on these aspects of the Opal are an important input to our determination.

¹⁸ Transport for NSW, Smartcard Ticket - Availability, Available from: <http://www.pttc.nsw.gov.au/content/smartcard-availability/gjful4>, Accessed 29 March 2012.

¹⁹ We note however that the price for services supplied in accordance with an Opal e-ticket cannot exceed the maximum price determined by IPART for the same services supplied in accordance with a paper-based ticket.

2.4.2 Long Term Transport Master Plan

We also note that Government is developing a Long-Term Transport Master Plan. The plan will outline Government's view of what needs to happen over the next 20 years building on its existing commitments such as the North West and South West Rail Links, electronic ticketing and the franchising of Sydney Ferries. A draft plan will be released for public comment in mid-2012 with a final plan to be released in November 2012.

3 IPART's proposed approach to calculating the change in maximum fares

Given the context described above, we are seeking comments on a proposed approach to setting fares for 2013.

We continue to be attracted to an approach that sets fares based on the efficient costs and external benefits of providing passenger rail services. Setting fares in this way ensures that customers do not pay more than their fair share of CityRail's efficient costs. However, we acknowledge that during the roll-out of e-ticketing a medium-term price path may not be suitable. We are therefore proposing a more proportionate approach for a few years. Following this, we intend to review our approach to setting maximum fares for all forms of public transport in Sydney.

It is our view that we should set fares on an annual basis during the rollout of e-ticketing. During this period, we consider it appropriate to continue to set fares using a framework that transitions to an appropriate level of cost recovery based on the efficient costs and external benefits of railway passenger services. It is also important that we continue to monitor CityRail's costs and revenues to ensure that the passenger share of efficient cost will be appropriate in the medium term.

The sections below give an overview of our proposed approach. Section 3.1 discusses our preliminary view on the length of the determination period. Section 3.2 outlines our proposed approach for setting fares.

3.1 Length of determination period

Our 2009 fare determination lasts for 4 years. As noted above, there are likely to be further developments in the implementation of e-ticketing over the next 2 years. These developments affect the ability of CityRail, Transport for NSW and IPART to forecast inputs such as growth in patronage and external benefits on a medium-term basis. Given this transition, we consider it prudent to set fares on an annual basis to allow us to respond to developments in the implementation of e-ticketing, rather than establish another multi-year determination.

In addition, setting fares on an annual basis will also align our determinations across CityRail, metropolitan and outer metropolitan buses and Sydney Ferries. This will provide us with the ability to consider fares across all modes concurrently from 2014.

We note that this approach is intended as an interim measure given the current context for this review.

Setting fares for one year also has implications for the form of regulation we should use. Conducting a full-scale building blocks approach each year is both time and resource intensive and is not likely to be proportionate. We discuss this in further detail below.

IPART seeks comments on the following

- 1 With the introduction of electronic ticketing for public transport, we propose to use a proportionate approach to regulating fares as an interim measure. As part of this, we propose to set fares for one year rather than establishing another medium-term price path. Do stakeholders agree with this approach?

3.2 A proportionate approach to calculating the share of efficient costs to be recovered from passengers for a few years

As discussed in Chapter 2, our 2009 building block approach provides a more rigorous and robust framework than that previously used. This approach promotes transparency and public scrutiny of CityRail's costs and ability to 'live within its budget'. Although CityRail has continued to spend at inefficient levels, the approach also ensures that passengers are not asked to pay for these inefficiencies through fares.

However, we note that applying a full building blocks approach involving detailed reviews of CityRail's costs, patronage and external benefits is better suited to reviews that set fares on a medium term basis (eg, 3 to 4 years). In addition, we do not consider it prudent to undertake another efficiency review of CityRail whilst Booz & Co undertake its work on CityRail's reform program. It is our view that another in-depth study of CityRail's costs and benefits is best undertaken after electronic ticketing is implemented and when the findings of Booz & Co's RailCorp reform program are publicly available and Government has indicated how and over what period, it is going to implement these findings.

We also note that there have not been any major changes to Sydney's transport system that would have significantly altered the external benefits generated by rail.

It is therefore our view that, during the implementation of e-ticketing, the efficient costs and external benefits that we decided on in our 2009 determination provide a reasonable basis for ensuring that passengers do not pay more than a fair share of efficient costs. These include efficient costs and benefits for the period 2008/09 to 2011/12.

In other industries where we have set fares for 1-year, we use a more proportionate approach, often based on the indexing of the costs or fares.²⁰

We are therefore proposing a proportionate approach to setting fares for 2013 that maintains the key elements of our 2009 determination. We propose to:

1. Calculate the change in CityRail's costs and benefits by adjusting them using indexes of movements in CityRail's costs and external benefits. This will draw on the findings from our 2009 determination and provide us with a resulting change in the appropriate passenger share to be recovered from fares.
2. Consider the extent to which current fares recover this appropriate passenger share. This will draw on information on current fare levels and historical patronage growth.
3. Decide on how much fares should change to transition towards this passenger share (both in the short-term and medium term).

The following sections provide more detail on each of these steps.

As noted above, we consider this approach to be an interim measure given the current context for this review. Following the implementation of e-ticketing and the alignment of our determinations across CityRail, Sydney Ferries and metropolitan and outer metropolitan buses, we intend to undertake a detailed review of our approach to setting maximum fares for all forms of public transport in Sydney.

3.2.1 Establishing indexes of efficient costs and external benefits and calculating the change in these indexes

As outlined in Chapter 2, it is our view that CityRail's efficient costs *less* the external benefits gives an appropriate share to be recovered from passengers. In our 2009 determination we considered that 28.5% was an appropriate passenger share.

We propose to adjust CityRail's costs and benefits allowances from our 2009 determination using 2 indexes of these components. These allowances were largely based on the recommendations of LEK's efficient cost review and LECG's assessment of the external benefits of CityRail's services. Using these costs and benefits will ensure that our starting point is consistent with the passenger share we considered appropriate as part of our 2009 determination.

The following sections describe our proposed approach to establishing indexes for costs and benefits and how they change in more detail.

²⁰ For example taxis, private ferries and 2005/06 determination for State Water and Water Administration Ministerial Council.

Efficient costs index

To estimate the change in costs we propose to use a CityRail-specific cost index. A cost index measures, in percentage terms, how much the overall cost of providing a particular service has changed. There would be 2 parts to the CityRail cost index:

- ▼ a list of costs incurred by CityRail and their relative importance (weightings)
- ▼ an estimate of how each of these costs changes over time (inflaters).

We use an industry cost index to set fares for other annual transport reviews (for example taxis, rural and regional buses, private ferries and the Stockton Ferry). In these reviews, the indexes are designed to represent the cost structure of a typical operator of the service. The cost index consists of a 'basket' of cost items that a typical operator faces in providing services – such as labour, maintenance and insurance. These items are weighted according to the proportion of the overall costs of providing the service that they represent (eg, if paying wages is half of total costs, then it has a weighting of 50%). Typically only significant costs are listed separately; the index usually has an 'other' cost item to capture smaller costs.

We will apply a similar approach to that used in other transport reviews but will establish an index specific to CityRail. We can draw on the findings from our 2009 determination on the efficient costs of CityRail passenger services so that the categories and initial weights reflect the efficient costs of providing CityRail services rather than those of a typical operator. We have proposed a similar option in our review of Sydney Ferries' fares.

The change in each cost item will be estimated using a cost 'inflater', which is expressed as a percentage change. Each cost item has its own inflater, which aims to track the movement in this particular cost item over time. We consider that, wherever possible, inflators should be:

- ▼ based on independent and verifiable data that is publicly available and
- ▼ a reasonable estimate of cost changes for operators.

In other transport reviews regulated via a cost index, we use inflators based on CPI and Wage Price Index (WPI), data from the Australian Bureau of Statistics (ABS), fuel price data from FUELtrac, and interest data.²¹ Table 3.1 summarises some of the typical cost items and inflators that we in other transport industries.

²¹ Taxis, private ferries and rural and regional buses.

Table 3.1 Typical cost items and inflators

Cost item	Typical inflator
Salaries and Wages	WPI
Superannuation	Non-Wage Price Index (NWPI) – Superannuation
Workers compensation	NWPI – Workers Compensation
Payroll tax	NWPI – Payroll tax
Repairs and maintenance	CPI – Repair and servicing
Fuel costs	Fuel index (e.g. FUELtrac data)
Insurance	CPI – Insurance
Capital costs (including lease payments, interest and depreciation)	Inflators vary by industry (e.g. buses use a change lease payments, private ferries use a change in weighted average interest rates for interest and CPI for depreciation and amortisation)
Other costs	CPI

Source: Typical inflators used in Rural and Regional Buses 2011, Private Ferries 2011.

In other industries where we use a cost index, we also make an adjustment for productivity gains.²² In deciding on productivity adjustments, we take into account long-term trends in productivity for the whole economy as well as specific issues that impact the industry in question. We will consider these issues when deciding on any productivity adjustment for CityRail's costs.

As part of this review we will decide on the relevant items to be included in the index, establish the relative weighting for each item in the index, and the value of its inflator. We then multiply the weighting by the inflator value for each cost item individually, to calculate the change in overall costs that cost item represents (ie, the contribution of any increase or decrease in the cost item since the last review to the overall change in the cost of providing the service). The sum of all these provides the change in overall costs faced by CityRail. This is the total change in the cost component of the index.

CityRail's bulk electricity was around 3 per cent of its operating costs in 2010/11. We will consider the impact of the Commonwealth Government's carbon pricing mechanism on this item in deciding on the change in CityRail's costs.

A key consideration will be how we incorporate CityRail's capital costs into the index and what inflators we use for them. In deciding on how best to adjust these cost items, we will consider the nature of the expenditure, how it has changed historically and how it is likely to change in the short to medium term.

We note that in other industries where we use cost indexes, capital costs tend to be less lumpy and make up a smaller proportion of total costs than is the case for CityRail. For example, in taxis, capital costs (such as plate and vehicle leases) make up around 21% of total costs, while in rural and regional buses, capital costs make up

²² Productivity measures the rate at which output (eg, good and services) are produced per unit of output (eg, labour, capital, raw materials).

18% of total costs.²³ In our 2009 determination capital costs made up around 30% of CityRail's total efficient costs. This proportion is likely to increase in future years as large capital projects such as the South West Rail Link (SWRL) and North West Rail Link (NWRL) are completed.

One option is to adjust these items based on changes in historical and/or forecast building block allowances. For example, our 2009 allowance for CityRail's depreciation and return on capital increased by an average of 26% each year. This is largely the result of the ECRL being included in CityRail's regulatory asset base (RAB) in 2008/09. By 2011/12 we expected this rate of growth to have slowed to around 15%. The future rate of growth in this item depends to a large extent on the nature of CityRail's capital program.

Another option is to consider CityRail's change in actual expenditure on capital costs. Between 2009/10 and 2010/11, RailCorp's book depreciation and finance costs grew by approximately 9%.

External benefits index

We will also estimate the change in external benefits using an index. As discussed above, we will consider the findings of our 2009 determination including the impact of patronage.

In our 2009 determination we inflated external benefits based on forecast patronage and a market implied forecasts for WPI and CPI. As described in Chapter 2, we accepted LECG's recommendations that the external benefits of CityRail were largely made up of reduced congestion which depends to a large extent on commuters' value of time. WPI and CPI were intended to adjust for changes in these values over time.

IPART seeks comments on the following

- 2 We propose to use indexes of costs and benefits drawing on the findings on efficient costs and external benefits from our 2009 determination. Do stakeholders agree with this approach?
- 3 Should the inflators for the indexes be based on publicly available, independent, verifiable data? Are the typical inflators we use in other industries suitable for CityRail?
- 4 How should we adjust the cost index for expected productivity gains?
- 5 How should CityRail's capital costs be incorporated into the index? Should we apply one of the capital inflators used in other industries or develop one specific to CityRail based on either building blocks allowances or book values?

²³ See IPART, *Rural and regional bus fares from January 2012*, December 2011 and IPART, *2012 Review of Taxi Fares in NSW – Draft Report*, April 2012.

3.2.2 Considering the extent to which current fares recover the appropriate passenger share

After adjusting costs and benefits using CityRail indexes to obtain the change in the passenger share, we will then consider the extent to which current fares recover the new passenger share. This depends on both the current level of fares and patronage on the CityRail network.

As discussed in Chapter 2, CityRail's revenue has been below the level required to achieve this passenger share in the first 3 years of our determination. We will use information on recent ticket sales and patronage to calculate the difference between the actual passenger share and the appropriate passenger share as indicated by our index.

If fares had been set at the maximum levels consistent with our 2009 determination and patronage growth been achieved, the change in the costs and benefits of CityRail would align with the increase in fares required to maintain an appropriate passenger share.

3.2.3 Deciding on a change in fares to transition towards an appropriate passenger share

In the final stage of our proportionate approach will decide on how fares should change to transition toward an appropriate passenger share. Depending on the results of the first 2 steps, this transition may be required over more than one year.

We will have regard to Government policies on fares, submissions from other stakeholders, as well as our own analysis on the affordability of fares. We will take account of the income and employment profile of CityRail passengers, average weekly expenditure on CityRail fares, as well as the availability of concession and off-peak fares.²⁴

Another option is to apply the total change in the CityRail index to existing fares to determine the new maximum fares. However, this effectively takes the current taxpayer share (or subsidy) as given, implicitly assuming that passengers' existing share of efficient costs is appropriate.

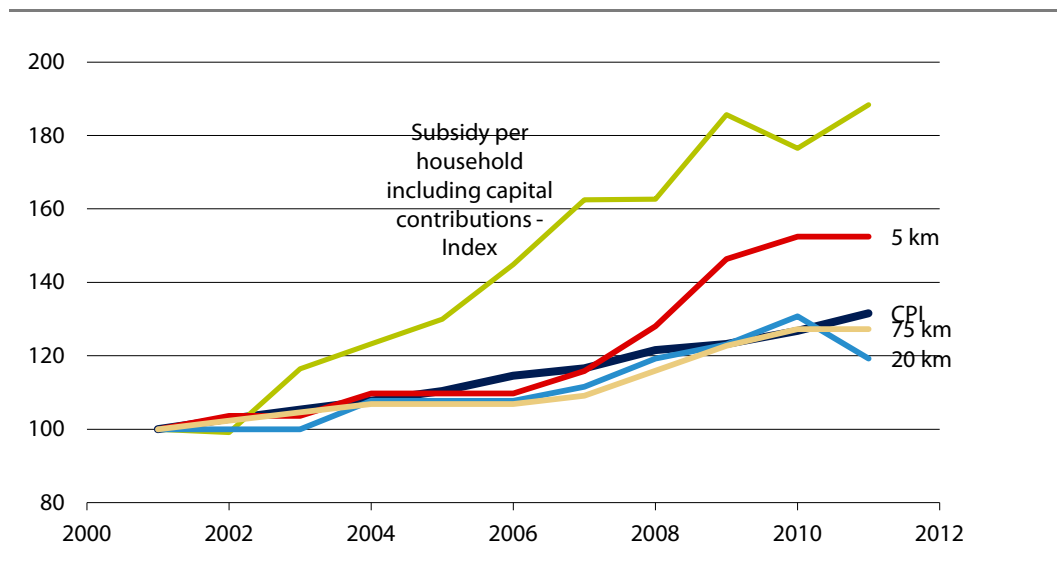
We note that when fares are set below the appropriate passenger share, taxpayers contribute more than the level justified by the benefits that the wider community receives from railway passenger services. Each additional dollar that is spent on CityRail reduces the funds that Government has available to spend on other important areas (such as health, education and law enforcement) or decreases Government's ability to reduce taxes.

²⁴ We note that our current view is that improving access for less mobile or low income passengers is best achieved through ensuring that investment in railway passenger services meets the needs of these passengers and that a well-targeted concession program is in place, rather than increasing government subsidy via the fares paid by all passengers.

For example in 2010/11, CityRail received \$2.5 billion in government funding (including capital contributions), which is equivalent to a subsidy of around \$17.50 per week from each household in NSW. This subsidy has been increasing at a significantly greater rate than CityRail fares over the last 10 years.

Figure 3.1 compares an index of the average household subsidy for CityRail to indexes of selected CityRail weekly fares over the last 10 years. The average subsidy per household has increased by an average of 7% each year. However weekly fares have increased by much less than this. While weekly tickets for short-distance commuters (up to 5 km) have increased by around 4% each year, journeys up to 20 km and 75 km have increased by an average of around 2% each year. CPI over the same period has increased by an average of around 3% each year.

Figure 3.1 Index of subsidy per household and selected CityRail weekly tickets (including inflation)



Data source: RailCorp, ABS and IPART calculations.

Note: Subsidy for 2004 is an estimate based on 2003 and 2005.

In its recent discussion paper on the NSW Long Term Transport Master Plan, Government noted that one of the key challenges for NSW is the extent to which customers are prepared to pay for a better service.²⁵ We also note that Government has previously stated that fares would only increase in line with CPI unless there are improvements in the public transport system.²⁶

²⁵ Transport for NSW, *NSW Long Term Transport Master Plan – Discussion Paper*, February 2012.

²⁶ See Transport for NSW, Media release, *Public Transport fare rise half IPART's recommendation*, 15 December 2011, Available from: <http://www.transport.nsw.gov.au/media-releases/public-transport-fare-rise-half-iparts-recommendation> Accessed 29 March 2012.

The nature and quality of service provided by CityRail is dictated by a service contract between RailCorp and the Director General of Transport for NSW. Government is responsible for monitoring and holding CityRail accountable for its performance against specific service performance targets. IPART reports annually on the service quality performance of CityRail. We will have regard to this information when deciding on any change in fares. A summary of CityRail's service quality performance in 2010/11 is contained in Appendix D.

IPART seeks comments on the following

- 6 What do you consider to be the most important factors that we should consider when deciding on how fares should transition to an appropriate passenger share?

4 Developing options for CityRail fares

Once we have decided how much of the efficient costs should be recovered from passengers through maximum fares and how we should transition to this, we will consider the structure and level of fares. As previously noted, Government is currently developing an electronic ticketing system for public transport in the greater Sydney region. We fully support the development of a multi-modal electronic ticket. We consider that its introduction provides an ideal opportunity to review existing fare structures and levels, and put in place an integrated ticketing system for public transport services.

As part of the introduction of the Opal, the Government will make decisions on the number of tickets offered, frequency discounts, how the level of electronic fares compare to paper fares and policies for concessions and seniors. In determining maximum prices for CityRail services we will have regard to Government's ticketing policy, submissions on this Issues Paper and our own analysis on fares.

Section 4.1 discusses some proposed principles for fare setting. Section 4.2 considers different approaches to determining maximum fares given the introduction of the Opal card. Section 4.3 discusses and seeks comments on areas of the current MyZone structure including multi-modal tickets.

4.1 Principles for fare setting

The introduction of the Opal card provides an opportunity to implement an integrated ticketing system for CityRail and other public transport service providers. The NSW Government is responsible for developing the Opal card. The system will be comparable to London's Oyster card.²⁷ As part of the introduction of the Opal card, the Government will make decisions on the number of tickets offered, frequency discounts, how the level of electronic fares compares to paper fares and policies for concessions and seniors.

²⁷ See: <http://www.transport.nsw.gov.au/news/opal-gem-public-transport>

In determining maximum CityRail fares, we will have regard to Government's ticketing policy, submissions on this Issues Paper and our own analysis on fares. There are a number of options to consider, each with its advantages and disadvantages. The following sections discuss our proposed pricing principles that will assist assessing these options and determining maximum fares for public transport.

4.1.1 Simplicity

One of the most common criticisms of Sydney's current fare system is that it is too complex. However, we note that MyZone simplified the previous fare structure.

4.1.2 Cost reflectivity

For efficiency reasons it is important that the prices charged for the services reflects the efficient cost of providing the services. Generally the cost of providing public transport services such as CityRail services increases with the distance travelled because of fuel costs, etc. Therefore to be cost reflective the fares should also increase with the distance travelled. Cost reflectivity is related to the following principles: revenue sufficiency and price signalling.

4.1.3 Revenue sufficiency

Fares should not only reflect the efficient costs of providing the service, they must also ensure that sufficient revenue is received to enable the services to be provided. While the majority of revenue for CityRail and most of the other public transport service providers in NSW is provided by taxpayers, fare revenue is an important contributor to meeting the costs of the services.

4.1.4 Price signalling including peak and off-peak pricing

Fares can assist in alleviating congestion on trains, buses and ferries during peak periods, and they can demonstrate where money should be invested in the future. For example, public transport services travelling into and from the Sydney CBD during peak periods are becoming increasingly congested. To ease this congestion peak period pricing could be used to incentivise passengers to change travel times and reduce congestion. In addition, peak period pricing can also highlight that the existing system is meeting its capacity constraints and that future investment is needed.

CityRail already uses peak and off-peak pricing. Off-peak return tickets currently provide a 30% discount²⁸ for travel after 9 am on Mondays to Fridays and at any time on weekends and public holidays.

²⁸ Before rounding rules are applied.

An electronic ticketing system will have the ability to provide further options for price signalling including peak and off-peak pricing. For example, further reform such as off-peak tickets for contra-peak journeys or services with significant excess capacity, shoulder-period fares (for periods adjacent to peak periods), or increased fares in short periods of the peak can be implemented using e-ticketing technology. The effectiveness of these types of price signals depend on passengers willingness to shift travel to off-peak periods. This depends on several factors such as passengers' ability to shift travel patterns, price elasticities and the relativities of off-peak discounts to weekly and other periodical ticket discounts.

4.1.5 Consistency with existing fares

While this should not necessarily be a key objective of any new fare structure, consistency is important and substantial changes from the existing fare structure and levels could lead to implementation problems. For example, passengers who find themselves considerably worse off as a result of the change may be reluctant to use the Opal card.

4.1.6 Equity

While efficiency is important, to ensure that any new fare structure receives support from passengers and the general public it should also be equitable.

IPART seeks comments on the following

- 7 Are our proposed pricing principles appropriate for determining fares? Have we missed any additional principles? Are some more important than others?

4.2 How should we set fares given transition to e-ticketing?

Our current determination sets maximum prices for CityRail services by determining a maximum for each individual fare (ie, specifying fares for individual ticket types such as singles, weeklies and periodicals). We could continue to adopt the same approach in setting maximum fares for CityRail. This approach contrasts with our approach in the energy sector where we use a weighted average price cap (WAPC) and allow the regulated business the scope to alter individual prices within the overall cap. This would help facilitate the introduction of the Opal card.

Generally a WAPC is used because a business knows its cost structure and customers better than the regulator so is in a better position to make decisions on price structure and levels. Better decisions about charging lead to better price signals for customers.

A WAPC would provide the Government with flexibility to alter fares (both the structure and level) during the transition to e-ticketing. However one of the main disadvantages of a WAPC is that it provides less price certainty to passengers. We also note that a WAPC makes the most sense when used within a multi-year determination period and so may not be best suited to our proposed one-year determination.

If we decide to use a WAPC, we could have additional price limits to increase passenger certainty regarding fares. Side constraints would limit the movement of individual fares to some threshold amount, for example $\pm 10\%$. A WAPC can also be used in conjunction with a review/approval function for individual fares.

Another alternative is that we determine the maximum fare for the single journey ticket only. The Government would then set fares for other services or journeys based on this single journey price (eg, a weekly ticket would be a multiple of a single price). This option would provide flexibility to Government to determine frequency discounts but would also give certainty to passengers that the maximum price will be the single journey. However, we would need to further consider how it would align with our objective of ensuring that passengers are making an appropriate contribution to the efficient costs of providing CityRail services.

IPART seeks comments on the following

- 8 Should we set maximum fares for all services or journeys or only the single ticket?
- 9 If we set fares for all services, should we set fares by determining a maximum for each individual fare or should we adopt a weighted average price cap (WAPC) approach? If we use a WAPC, should we include side constraints, or limits, on the change in fare for individual tickets?

4.3 MyZone fares for CityRail services and how they compare to Melbourne and Brisbane

As discussed above, MyZone consolidated tickets for travel on CityRail services into 3 main fare structures:

- ▼ single and periodical tickets - distance based with 5 distance bands
- ▼ MyMulti periodical tickets - zonal with 3 zones
- ▼ the MyMulti Day pass - flat fare providing unlimited travel across the entire CityRail network.

4.3.1 Weekly discounts

In our 2009 determination we set prices that transitioned towards a constant frequency discount of 20% for weekly tickets across all distance bands. Such discounts are appropriate to encourage and reward regular patronage of CityRail services. We considered that a constant 20% discount was cost reflective, equitable, transparent and easy to understand. The discounts under MyZone vary, with longer distance commuters receiving higher discounts than short distance commuters. We will consider these discounts having regard to Government policy and submissions from stakeholders.

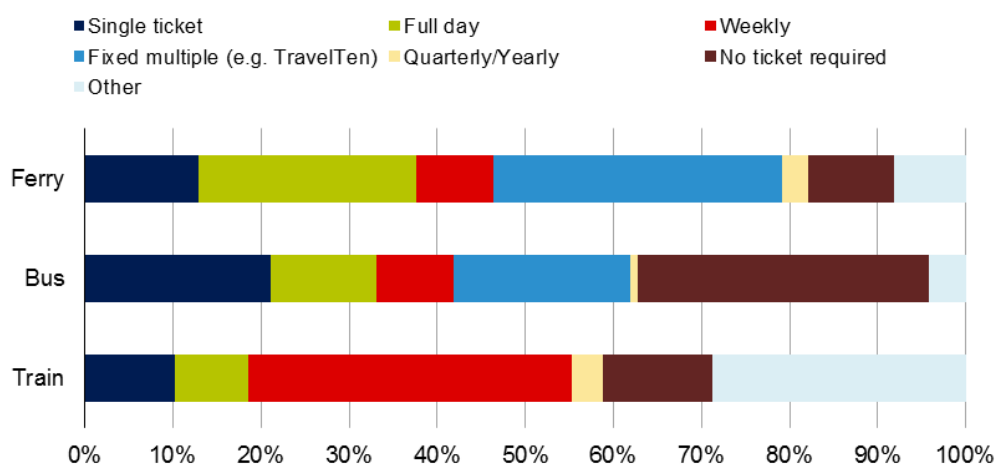
Table 4.1 Weekly discounts by distance travelled

Adult product	Discount on weekly ticket
MyTrain 1 (up to 10 km)	24%
MyTrain 2 (up to 20 km)	21%
MyTrain 3 (up to 35 km)	19%
MyTrain 4 (up to 65 km)	22%
MyTrain 5 (65km+)	28%

Source: IPART calculations.

Data from the Bureau of Transport Statistics (BTS) Household Travel Survey (HTS) indicates that on an average weekday around 40% of CityRail passengers use periodical tickets, and less than 20% use single or daily tickets (Figure 4.1).

Figure 4.1 Ticket usage by mode 2010/11

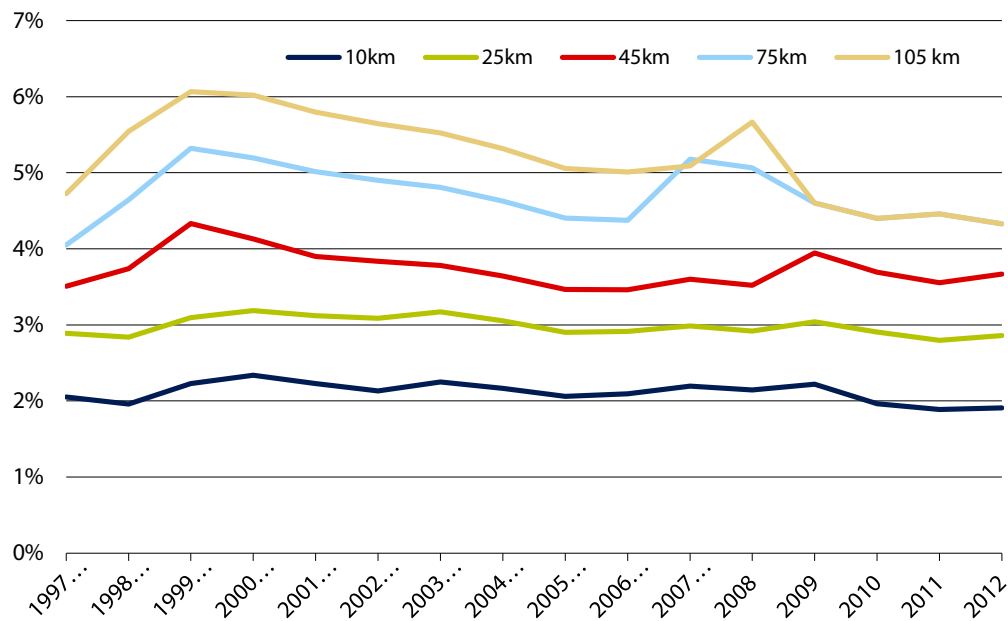


Source: BTS, Household Travel Survey for an average weekday, Data reference year 2010/11 (includes 5 waves (2006/07 to 2010/11) of pooled data weighted to June 2010 population).

We note that current weekly fares lie between 2% and 5% of average weekly earnings in NSW (see Figure 4.2). For all distances current fares as a proportion of NSW weekly wages have fallen since 2009, with sharpest falls in fares for longer distances

(75 kilometres and over). For most distances fares as a proportion of weekly wages in NSW are now at similar levels to 1997/98. We recognise that fares comprise a substantially higher proportion of minimum wages, as distinct from average wages, particularly for longer distance commuters.

Figure 4.2 Selected CityRail weekly fares as a proportion of average adult ordinary time weekly earnings in NSW 1997/98 – 2011/12 by distance bands



Note: Since 2009 fares have been set for calendar years, rather than financial years, as was generally the previous practice. The timing of the fare changes are approximate between 1997/98 and 2007/08.

Source: ABS, RailCorp and IPART.

4.3.2 MyMulti tickets

As noted in our *Review of fares for Sydney Ferries' services from January 2013*, IPART will also consider the relativities between the weekly train, bus TravelTen, FerryTen tickets and the MyMulti products.

The MyMulti tickets allow unlimited travel on buses, government ferries and the light rail as well as train travel in up to three zones. Train travel in each of the tickets is limited to:

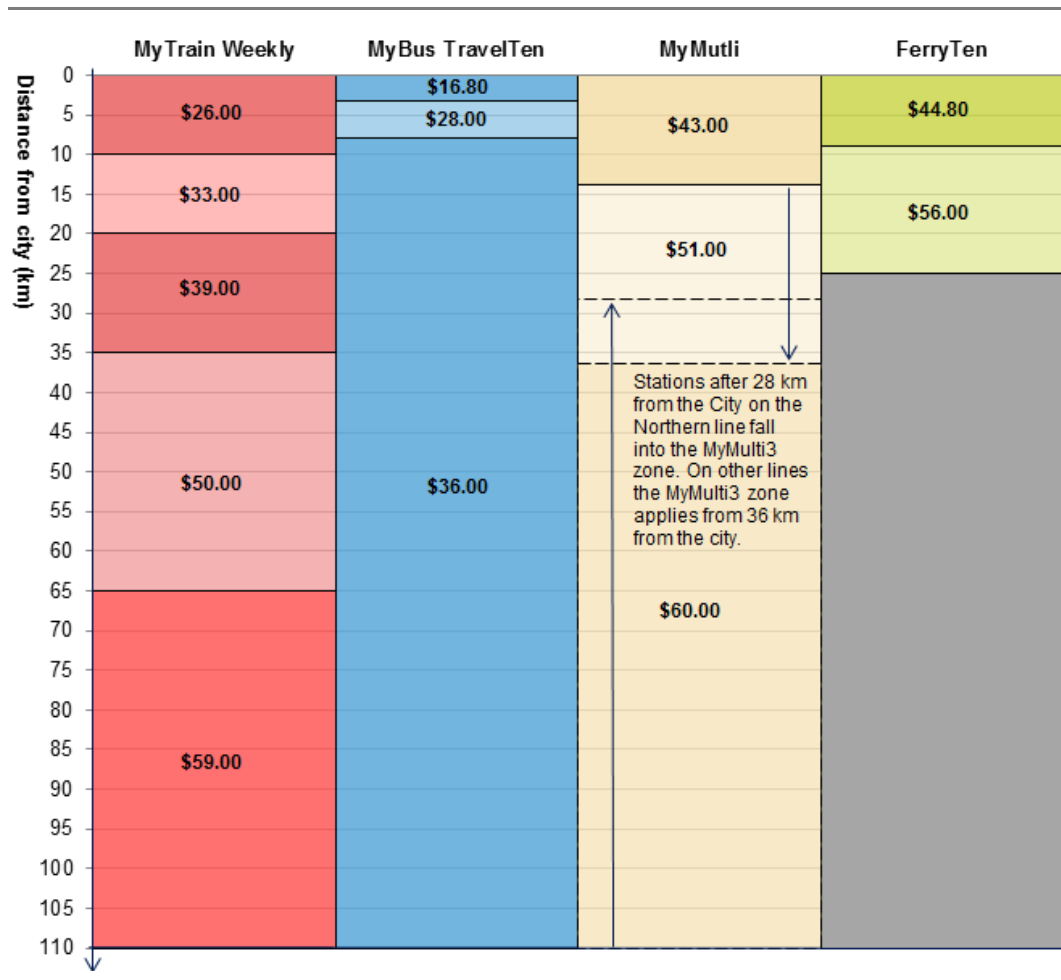
- ▼ MyMulti1: Bondi Junction in the east, Chatswood in the north, Croydon in the west and Rockdale in the south.
- ▼ MyMulti2: Bondi Junction in the east, Hornsby in the north, Blacktown in the west, Liverpool and Holsworthy in the south-west and Engadine and Caringbah in the south.

- ▼ MyMulti3: Bondi Junction in the east, Newcastle in the north, Bathurst in the west, Goulburn and Bomaderry in the south.

MyMulti tickets offer passengers increased flexibility, convenience and accessibility. While we are not reviewing the availability, structure and use of integrated tickets (as this is a matter for government policy on fares), it is important for us to consider the relativities between MyMulti tickets and CityRail, Sydney Ferries and bus tickets. Currently, the unlimited travel nature of these tickets means that users receive a greater discount (or subsidy) than passengers using single and return tickets.

Figure 4.3 compares the cost of a weekly ticket by journey length when using a MyTrain, MyBus, FerryTen or MyMulti.

Figure 4.3 Comparison of MyTrain and MyBus ticket and MyMulti fares by kilometre 2012



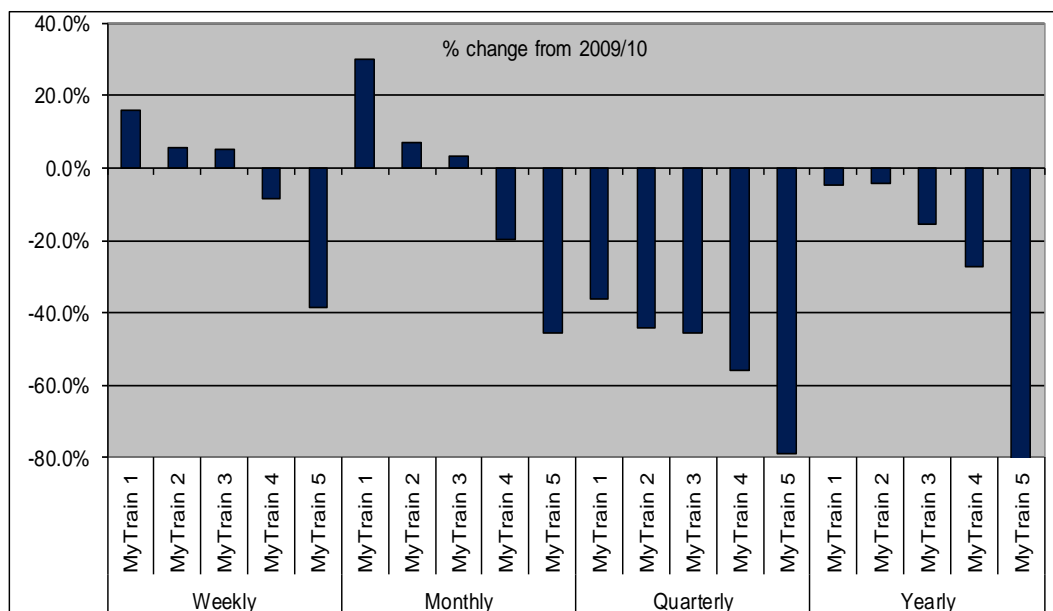
Data source: CityRail and IPART calculations

The introduction of the MyMulti products has resulted in several changes to the types of tickets that passengers use to travel. On CityRail services, data from 2009/10 and 2010/11 shows that many passengers are choosing to travel using MyMulti tickets as opposed to MyTrain weeklies (see Figure 4.4 and Figure 4.5).

For example:

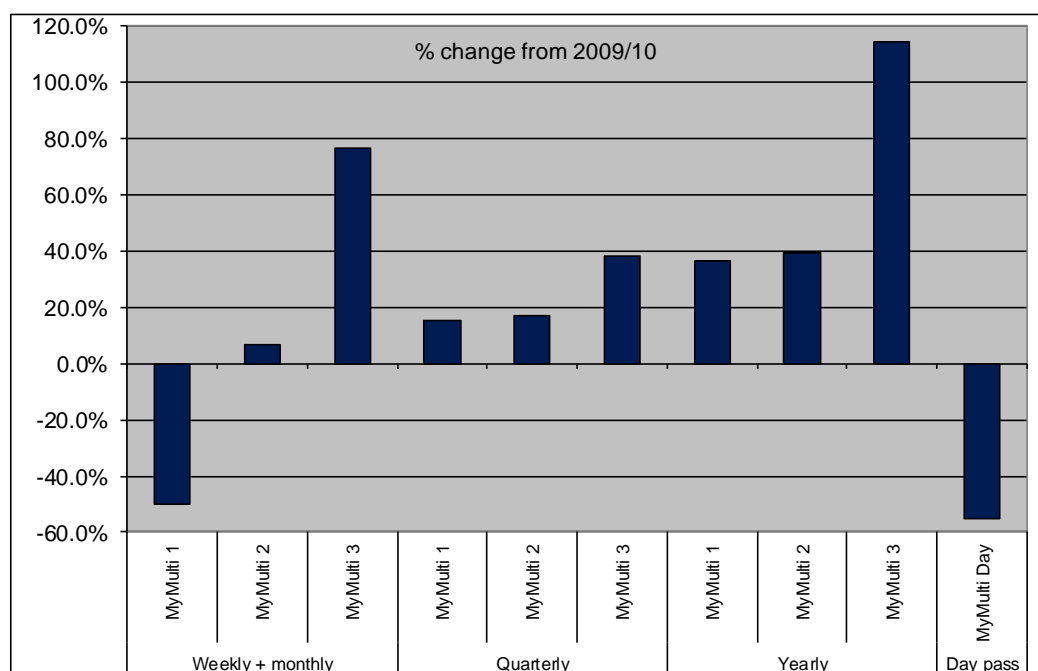
- ▼ Some frequent train commuters that can travel using a MyTrain3 (35-65 km)²⁹ can buy a MyMulti2 for an additional \$1 and receive unlimited bus and ferry travel.
- ▼ Frequent train commuters travelling more than 65 km can purchase a MyMulti3 for an additional \$1 and receive unlimited bus and ferry travel.

Figure 4.4 Change in ticket sales in 2010/11 – Periodic tickets by MyTrain category



Data source: RailCorp; Transport for NSW.

²⁹ Liverpool and Seven Hills

Figure 4.5 Change in ticket sales in 2010/11 – Periodic tickets by MyMulti category

Data source: RailCorp; Transport for NSW.

There has also been a significant impact on the sale of Sydney Ferries TravelTens. A weekly MyMulti1 ticket is cheaper than both a MyFerry1 and MyFerry2 TravelTen. So for any frequent commuter – even one who uses only Sydney Ferries – it is cheaper to buy a MyMulti than a MyFerry TravelTen.

Table 4.2 Sydney Ferries validations by ticket type

	2007/08	2008/09	2009/10	2010/11
Single	1,390,916	1,316,252	1,235,974	1,357,683
TravelTen	2,569,554	2,536,275	2,199,791	1,832,247
TravelPass/MyMulti weekly ^a	2,522,903	2,528,864	2,496,342	3,097,525

^a MyMulti tickets replaced TravelPasses with the introduction of MyZone in April 2010.

Note: Includes validations using adult and concession tickets (but not Pensioner Excursion Tickets). Does not include validations of longer duration TravelPass/MyMulti tickets.

Source: Sydney Ferries, IPART calculations.

A commuter that uses only bus services is less likely to purchase a MyMulti ticket unless their travel patterns require some use of rail or ferries. For example, a bus commuter travelling up to 8 km would only use a MyMulti ticket if they were:

- ▼ making more than 15 bus trips per week
- ▼ making 10 bus trips and more than 4 train trips each week.

4.3.3 CityRail commuter fares compared to rail fares in Melbourne and Brisbane

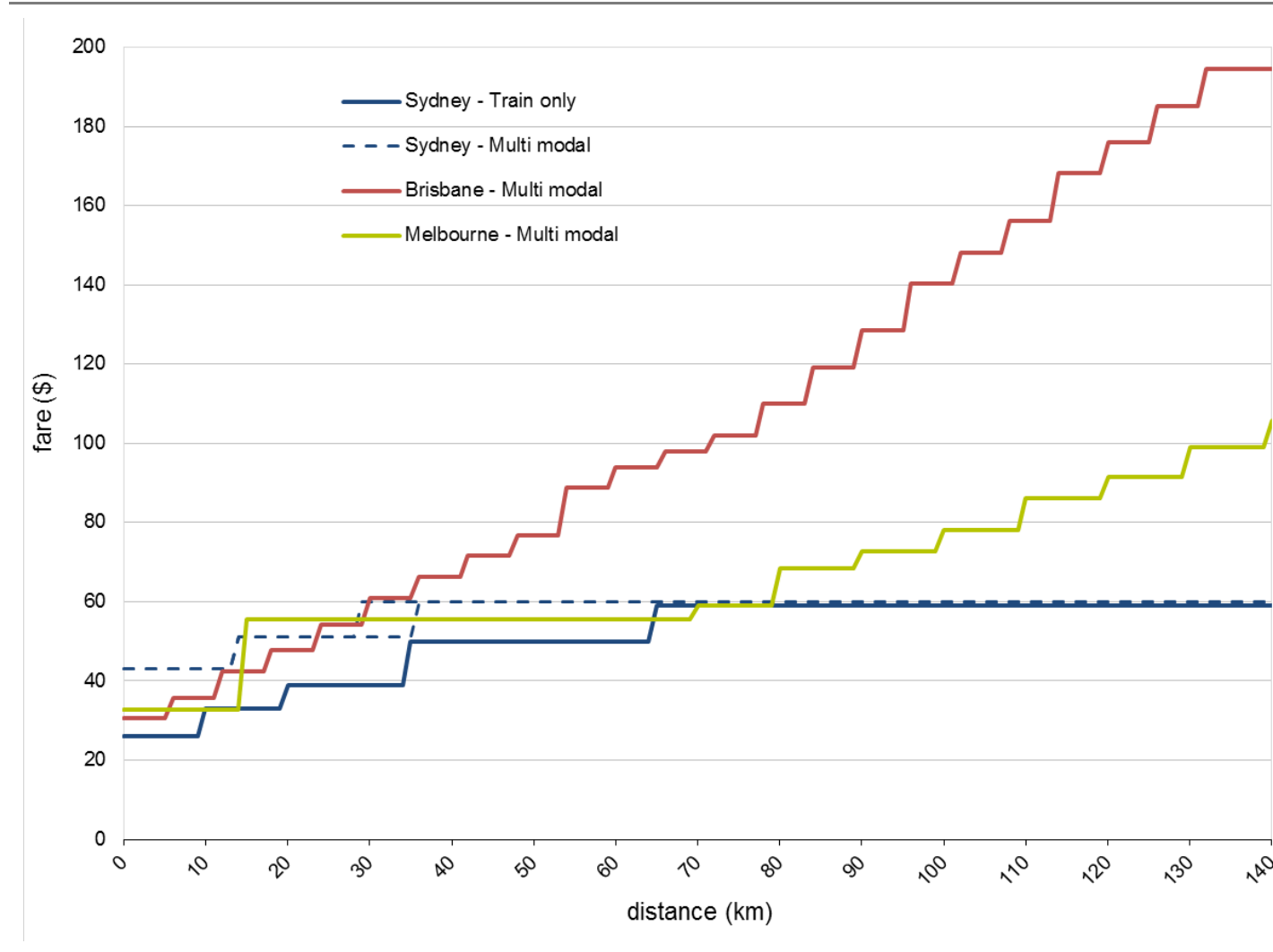
A comparison of CityRail fare levels with fare levels in Melbourne and Brisbane is not straightforward due to the different fare structure in each city; however, we have attempted to show how fares for rail commuters vary by distance travelled for each state.

Figure 4.6 compares Sydney, Melbourne and Brisbane weekly train fares in 2012 for journeys made into the city centre, assuming that 10 journeys are made in one week. Using the current fares it shows that:

- ▼ Sydney CityRail only (that is, single mode fares) are cheaper than multimodal fares covering the same distance in Brisbane and, except for a small number of distance bands, are also cheaper than in Melbourne.³⁰ Sydney rail only fares peak at 65 kilometres and the discrepancy between Sydney and Brisbane and Melbourne fares increases after that distance. For example, a weekly fare in Brisbane for travel over 90 kilometres is more than double the weekly CityRail fare for the same distance.
- ▼ For short distances (up to around 14 kilometres from the City) Sydney multi modal fares are higher than multi modal fares in Brisbane and Melbourne.
- ▼ For longer distances (over around 35 kilometres) Sydney multi modal weekly fares are cheaper than equivalent Brisbane fares. Sydney multi modal fares become cheaper than Melbourne fares for journeys over 80 kilometres.

³⁰ Brisbane and Melbourne do not have a specific single mode train fare.

Figure 4.6 Comparison of Brisbane, Melbourne, and Sydney weekly fares (April 2012)

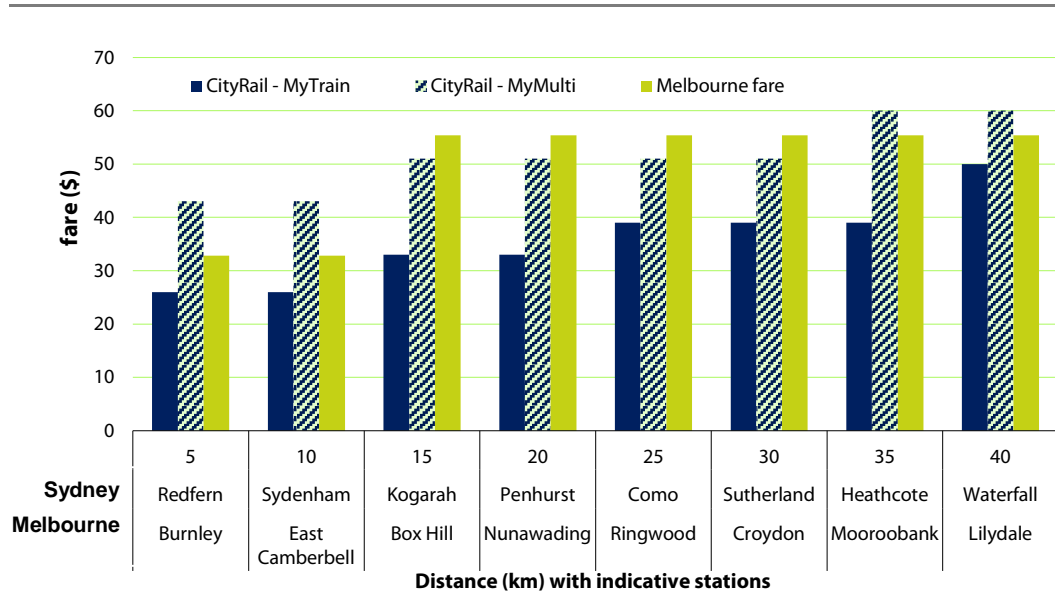


Note: Each Brisbane fare zone is assumed to be 6 km wide. From 70 km, the v/line fares are applied for Melbourne. "Distance" refers to distance from the City. The price of a MyMulti ticket depends on the passenger station. The distances of these stations from the city vary by line, meaning that in some cases, passengers can pay different prices for similar distances.

Data source: Public Transport of Victoria, <http://ptv.vic.gov.au/fares-tickets/myki/myki-pass/#1>
<http://ptv.vic.gov.au/assets/PDFs/2011-Fares-and-Ticketing-Manual/Updates/Fares-Ticketing-Manual-Update-online-2012.pdf>
 Translink, <http://translink.com.au/tickets-and-fares/fares/current-fares>.
 CityRail.

Figure 4.7 uses the example of the Lilydale line in Melbourne, and the Illawarra line in Sydney to show fares over the distance of the line.

Figure 4.7 Weekly fares Melbourne and Sydney (2012)



Data source: CityRail.

Note: "Distance" refers to distance from the City.

MyTrain (rail only) fares are cheaper in Sydney across all distances shown. It should be noted that the weekly fares in Melbourne and Brisbane also include travel on other modes (tram and bus in Melbourne, and ferry and bus in Brisbane) – it is not possible to purchase a rail **only** weekly ticket in these cities.

IPART seeks comments on the following

- 10 Should there be different levels of discount on weekly tickets across different distances?
- 11 How should the MyMulti tickets be priced to ensure users of these ticket types are not receiving a disproportionate discount compared to passengers using single and periodical tickets while still allowing and encouraging multi-modal travel?
- 12 Do you have any other suggestions on how the MyZone fare structure can be improved?
- 13 Do CityRail passengers have a reasonable capacity to absorb increased fare levels?



Appendices

A Overview of CityRail operations and passengers

A.1 CityRail Operations

Table A.1 CityRail operating statistics

	CityRail
Annual passenger journeys (million)	299.2
CityRail mode share of average weekday trips made by residents Sydney Statistical Division	5.2%
CityRail mode share of average weekday trips > 20 km made by residents Sydney Statistical Division	56.8%
No of stations	307
No. of carriages	1,685
CityRail track (km)	1,050
Timetabled train service km annual (millions kms)	37.9
Timetabled carriage service km annual (millions km)	246.9

Source: Annual passenger journeys: CityRail website http://www.cityrail.info/about/our_performance/kpi_summary.jsp ; Share of typical weekday trips, stations, carriages, track: A Compendium of CityRail travel Statistics 7th edition, 2010; Service and carriage km: Information provided to IPART as part of Annual Prices and Service Report.

Figure A.1 CityRail Network Map



Data source: http://www.cityrail.info/stations/network_map

A.2 Profile of CityRail Passengers

About 20% of residents of the Sydney Greater Metropolitan Area (GMA)³¹ use CityRail services at least once per week (see Table A.2). Around 6% of Sydney residents travel by train 5 or more days per week. These percentages have remained reasonably constant over time and are consistent with earlier data which shows that around 40% of Greater Sydney's population use CityRail services less than once a month, and more than 30% never use these services.³²

Table A.2 CityRail usage by residents of Sydney Greater Metropolitan Area^(a), 2008/09

Days used train in last week	Persons	Proportion
0	3,356,789	80%
1	323,113	8%
2	131,831	3%
3	80,291	2%
4	67,575	2%
5	193,896	5%
6	31,503	1%
7	18,312	0%
Total	4,203,310	100%

^a Greater Metropolitan Area Residents includes the Sydney and Illawarra Statistical divisions and the Newcastle Statistical subdivision.

Note: Numbers may not add due to rounding.

Source: RailCorp, *A compendium of CityRail travel statistics*, 7th edition, June 2010.

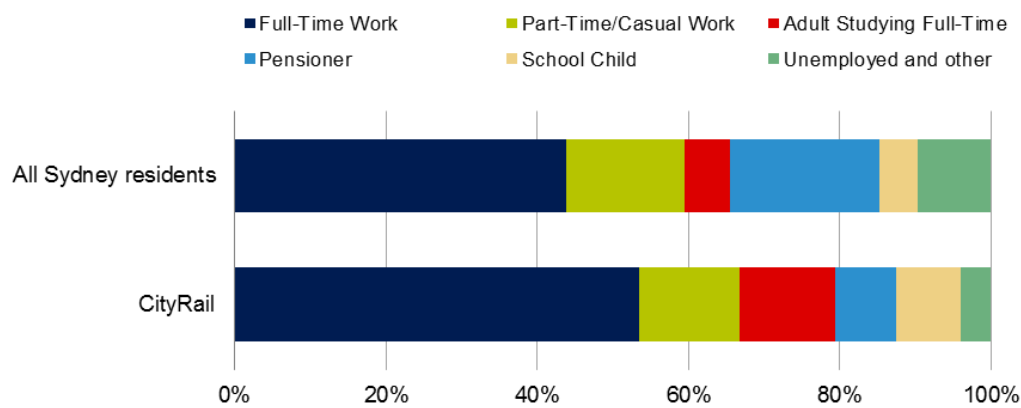
³¹ The Sydney Greater metropolitan Area includes Sydney and Illawarra Statistical Divisions and Newcastle Statistical Subdivision.

³² RailCorp, *A Compendium of CityRail Travel Statistics*, Fifth edition 2006, p 26 and RailCorp, *A Compendium of CityRail Travel Statistics*, Sixth edition 2008, p 32.

A.2.1 Labour force status of CityRail’s passengers

The BTS’s HTS indicates that on an average weekday over 50% of CityRail passengers are full-time workers, compared to around 45% of Sydney residents who are full-time workers. Around 13% of CityRail passengers are part-time or casual workers. Full time adult students, pensioners and school students collectively make up around 30% of CityRail passengers and are likely to be eligible for concession fares or free travel (see Figure A.2).

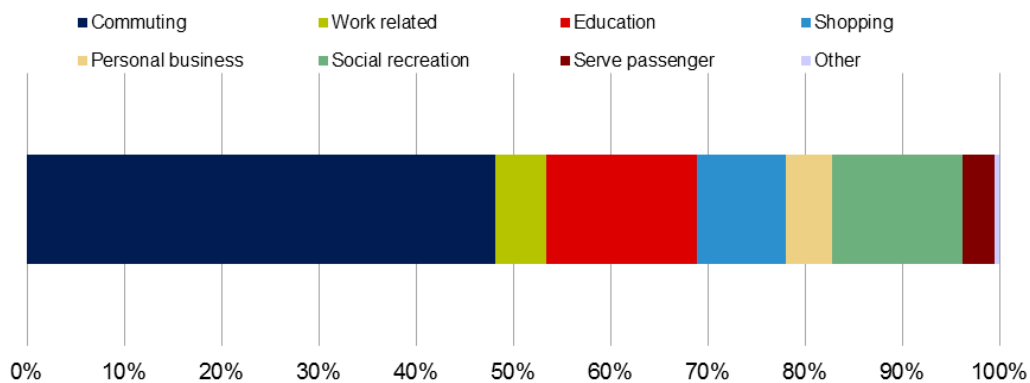
Figure A.2 Labour force status of CityRail’s passengers 2010/11



Source: BTS, Household Travel Survey for an average weekday, Includes 5 waves (2006/07 to 2010/11) of pooled data weighted to June 2010 population.

The survey also indicates that on an average weekday almost 50% of CityRail trips are for commuting or work related purposes (see Figure A.3). Around 15% of trips are for educational purposes. These findings suggest the primary market for CityRail services is the commuter market, which is made up of passengers who use these services for non-discretionary travel for work or education purposes.

Figure A.3 Purpose of travel of CityRail’s passengers 2010/11



Source: BTS, Household Travel Survey for an average weekday, Includes 5 waves (2006/07 to 2010/11) of pooled data weighted to June 2010 population.

A.2.2 Income profile of CityRail passengers

Data from BTS's HTS shows that 80% of CityRail passengers belong to households with an annual income of more than \$44,844 and 60% of CityRail passengers have personal incomes of more than \$27,732 as shown in Table A.3.

Table A.3 Annual incomes of CityRail passengers 2010/11 (\$2010/11)

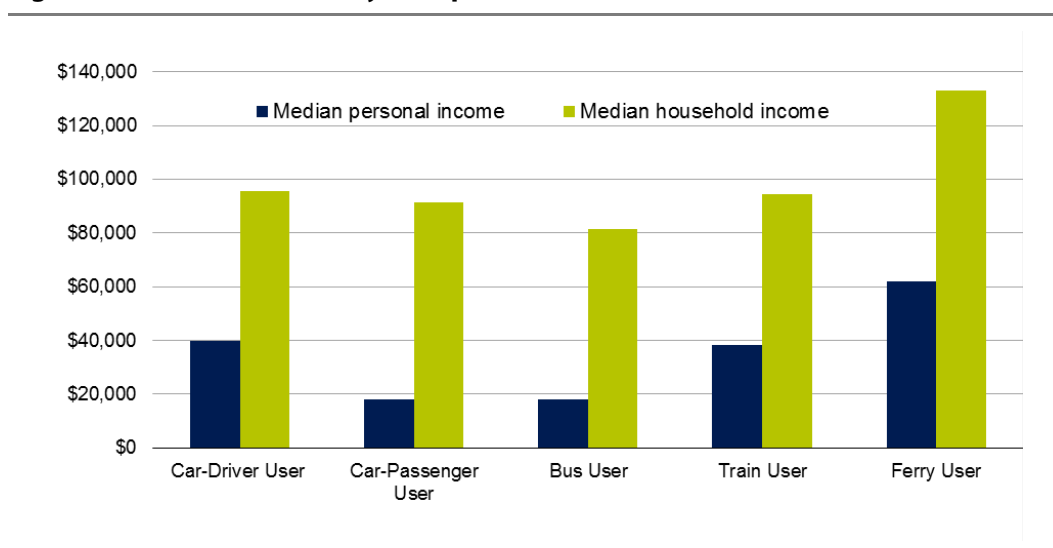
	Percentile 20	Percentile 40	Percentile 60	Percentile 80	Median
<i>Household</i>	\$44,844	\$77,170	\$111,545	\$161,472	\$94,405
<i>Personal</i>	\$10,639	\$27,732	\$49,214	\$77,170	\$38,298

Source: BTS, Household Travel Survey for an average weekday, Includes 5 waves (2006/07 to 2010/11) of pooled data weighted to June 2010 population.

Data from BTS's HTS also indicates that the median household income of CityRail passengers on an average weekday was \$94,405, and the median personal income was \$38,298. The median income is the income in the middle of the distribution of survey customers, so that half the incomes are above the median, and half the incomes are below the median.³³

The HTS also suggests that CityRail passengers have similar median household incomes to car drivers and car passengers, and similar personal incomes to car drivers (Figure A.4). It also shows that CityRail passengers tend to have higher personal and household incomes than bus passengers and lower incomes than Sydney Ferries passengers.

Figure A.4 Median income by transport mode 2010/11 (real \$2010/11)

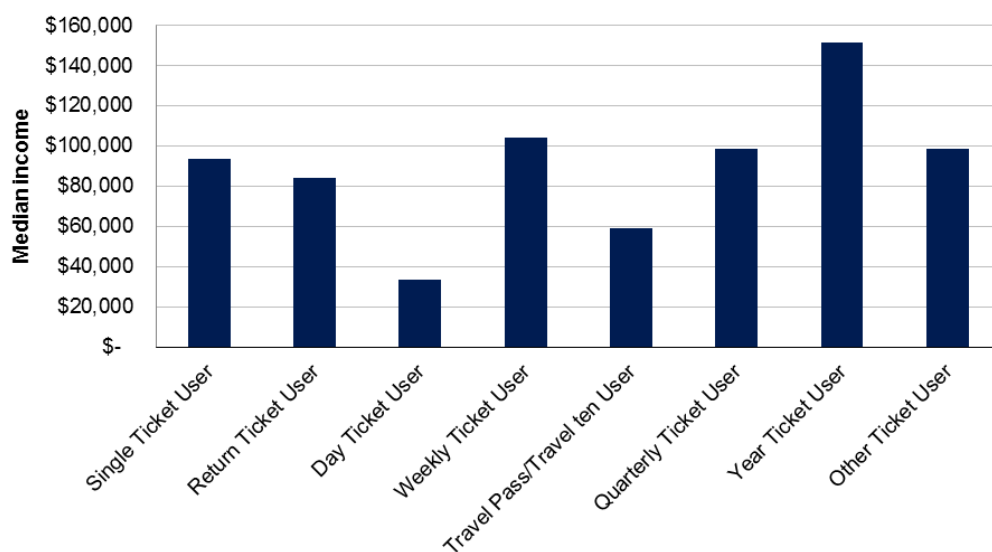


³³ The median is less sensitive than the average to outlying values – for example, the very high incomes of a small group of people increase the average, but not the median.

Source: BTS, Household Travel Survey for an average weekday, Includes 5 waves (2006/07 to 2010/11) of pooled data weighted to June 2010 population.

We also note that that users of annual tickets, which attract high discounts, typically earn higher incomes than single ticket users (Figure A.5). In our view, commuters, who are generally engaged in full-time employment, are likely to be the main purchasers of these tickets.

Figure A.5 Median household income for train users by ticket type 2010/11 (real \$2010/11)



Note: "Day Ticket user" includes City Hopper, PET and Day Tripper.

Source: BTS, Household Travel Survey for an average weekday, Includes 5 waves (2006/07 to 2010/11) of pooled data weighted to June 2010 population.

B IPART's legislative requirements

The *Independent Price and Regulatory Tribunal Act 1992* (IPART Act) requires the Tribunal to have regard to a number of factors when making determinations:

- ▼ the cost of providing the services concerned
- ▼ the protection of consumers from the abuse of monopoly power in terms of prices, pricing policies and standards of services
- ▼ the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales
- ▼ the effect on general price inflation over the medium term
- ▼ the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers
- ▼ the need to maintain ecologically sustainable development
- ▼ 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
- ▼ 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
- ▼ the need to promote competition in the supply of services concerned
- ▼ considerations of demand management (including levels of demand) and least cost planning
- ▼ the social impact of the determination and recommendations
- ▼ standards of quality, reliability and safety of services concerned (whether those standards are specified by legislation, agreement or otherwise)
- ▼ any matter the Tribunal considers relevant.

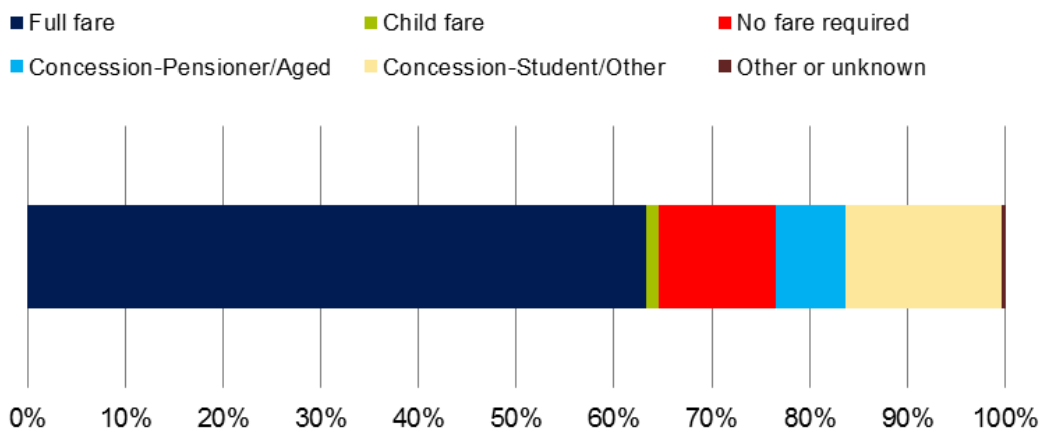
C Concession fares and Pensioner Excursion Tickets (PETs)

The Government determines social policy relating to train travel and determines the eligibility criteria for concession fares. The Government's concession fares policy provides a 50% discount to the adult ticket price for concession card holders and a \$2.50 pensioner excursion ticket for some travellers and free travel free in some instances (see Box C.1).

The maximum fares IPART sets are still relevant to concession holders who pay 50% of the adult fare. IPART also has a role in the implementation of the Government's concession fare policies.

While IPART's determinations will impact concession fares at the same rate as adult fares, we note that there is an extensive concession scheme in place. Figure C.1 shows that between 2005 and 2010, around 30% to 35% of CityRail's passengers used concessions, concession pensions, free school, child fare and family discounts. Thus, the full adult fare was purchased by just over 60% of CityRail's passengers.³⁴

Figure C.1 CityRail users of full fare and concession tickets 2010/11



Source: BTS, Household Travel Survey for an average weekday, Includes 5 waves (2006/07 to 2010/11) of pooled data weighted to June 2010 population.

³⁴ TDC, Household Travel Survey 2010/11.

Box C.1 Concession fare entitlements

A 50% discount to the adult fare is provided to concession card holders including:

- ▼ Children aged 4-15 years.
- ▼ School students aged 16-18 years, and certain mature age school students.
- ▼ Full time tertiary students (eg, university and TAFE) who are Australian citizens or permanent residents living in NSW and attending day classes but not engaged in business or employment or receiving any remuneration.
- ▼ Job seekers living in NSW and receiving unemployment benefits (youth allowance job seeking, newstart allowance, parenting (partnered) partner allowance, widow allowance, exceptional circumstances relief payment) at the maximum rate and registered as looking for work.
- ▼ Residents of NSW receiving sickness allowance, special benefit, newstart allowance incapacitated, community support program.
- ▼ Apprentices and trainees registered with NSW Department of Education and Training.

A \$2.50 Pensioner Excursion ticket is available to:

- ▼ Holders of a pensioner concession card, including recipients of:
 - Age pension
 - Bereavement allowance
 - Carers payments
 - Disability support pension
 - Parenting payment
 - Holders of a NSW war widow/ers card (known as a Transport Concession card by DVA)
 - Aged over 60 and for more than 9 months have been receiving one of a range of payments including newstart allowance, parenting payment (partnered), partner allowance, sickness allowance, special benefit or widow allowance.

Free travel is available to

- ▼ Blind or severely visually impaired people living permanently in NSW.
- ▼ War veterans with disabilities from Australia, New Zealand or Allied Nations and rated by DVA as having a service related disability of 10% or greater for which they receive a disability pension (plus attendant in some cases).
- ▼ War veterans (and attendant) residing permanently in NSW and classified by DVA as blinded due to war service.
- ▼ WW1 Veterans, recipients of the Victoria Cross or George Cross awards and their spouse, widow or widower who live in NSW and are registered with DVA.
- ▼ Infants aged 0-3 years.
- ▼ School students eligible for the School Student Transport Subsidy Scheme when travelling between home and school on school days.

Source: Transport for NSW website, <http://www.transport.nsw.gov.au/concessions>

D Overview CityRail's service performance in 2010/11

CityRail's performance benchmarks and targets are set out in RailCorp's Rail Services Contract.³⁵ We report annually on CityRail's performance against a number of indicators of service outcomes in our *Prices and Services Report*. This appendix summarises CityRail's performance in 2010/11. Further information can be found in *CityRail and Metropolitan and Outer Metropolitan Bus Services: Prices and Services Report 2011* available on our website.

In 2010/11, CityRail patronage increased by 1.8% and CityRail provided more services than in previous years. However the reliability of services declined:

- ▼ The percentage of peak hour trains running on time fell to 94.6% (from 95.9% in 2009/10) but remained above the target of 92% of peak hour trains arriving at their destination on time. For 2 consecutive years CityRail has achieved its on time running target on all suburban lines in the network. On time running on the South Coast line fell substantially - to 89.6% (from 95.2% in 2009/10), below the target.
- ▼ The percentages of peak hour trains that were cancelled or skipped stops both increased slightly to 0.38% and 0.36% respectively although performance remained better than the target of 0.5%.
- ▼ The total number of minutes (per year) that trains were delayed increased by 35% in 2010/11. This figure had been falling over the previous 3 years.

Performance on other aspects of the quality of service varied:

- ▼ There was less crowding on peak hour trains than in 2009/10.
- ▼ Indicators of passenger comfort (age of fleet and % of air conditioned trains) improved or remained at the same level as 2009/10.
- ▼ There was a reduction in passenger security (measured as offences reported per million passenger journeys) which increased to 9 offences reported per million passenger journeys (8.69 in 2009/10).

³⁵ Until 31 December 2008, RailCorp was a state owned corporation with benchmarks and targets set in a Statement of Corporate Intent and in the Rail Performance Agreement which was agreed to by the board and the portfolio Minister. On 1 January 2009 RailCorp became a statutory authority subject to the direction and control of the Minister for Transport. From 1 July 2009 the Rail Services contract are the relevant agreements with Treasury and Transport NSW.

From 2004 to 2010 the Independent Transport Safety and Reliability Regulator (ITSRR) carried out an annual survey of CityRail passengers and in 2009 and 2010 a survey of metropolitan bus passengers. We have previously reported on the CityRail survey's findings on trends in satisfaction with different aspects of service. In 2011 the Bureau of Transport Statistics (BTS) developed a new survey methodology and surveyed users of train, bus and ferry services using similar questions for each mode which allow for comparisons across modes. The BTS survey findings cannot be compared to the previous surveys conducted by ITSRR as the survey methodology, some of the questions and the satisfaction rating scale differ.

The BTS plan to repeat the survey annually and in 2012 plan to widen the survey to include taxis, outer metropolitan buses, CountryLink trains and private ferries. They propose to incorporate a customer satisfaction index as part of future surveys.

The 2011 BTS survey found that 81% of train passengers were satisfied overall with the service. This is a lower incidence of satisfaction than for ferry passengers (96%) and bus passengers (86%). Although we cannot compare findings with previous surveys, BTS asked people if they thought the train service had improved or worsened. Thirty six per cent of train customers thought the train service was better or much better than 12 months ago and 7% though it was worse or much worse.³⁶

Train passenger's expressed highest levels of satisfaction with:

- ▼ Ability to catch the train you intended to (87%).
- ▼ Ease of boarding the train (86%).
- ▼ Ease of understanding signage (83%).
- ▼ Ease of purchasing your ticket (81%).

Train passenger's expressed highest levels of dissatisfaction with:

- ▼ Cleanliness of the train (32% dissatisfied).
- ▼ Availability of parking near the station (32%).
- ▼ Ease of understanding announcements on trains (22%).
- ▼ Comfort at the station (22%).
- ▼ Frequency of service (21%).

Train travellers on the Eastern suburbs, Blue Mountains, Central Coast and South Coast lines were the most satisfied overall with the rail service (with 85% or more people satisfied). Train travellers on the Carlingford and Cumberland lines were the most dissatisfied (22% and 10% dissatisfied respectively).³⁷ The Carlingford and Cumberland lines have low frequency services which do not proceed to Central.

³⁶ Bureau of Transport Statistics, *2011 Transport customer survey - customer satisfaction with Public Transport Services*, 2011, p 25.

³⁷ Bureau of Transport Statistics, *2011 Transport customer survey - customer satisfaction with Public Transport Services*, 2011, p 27.

