

IPART RELEASES DRAFT DETERMINATION ON CITYRAIL FARES

Embargoed until 10am 3 October 2008

The Independent Pricing and Regulatory Tribunal (IPART) today released its draft determination proposing fares for CityRail passenger services for four years starting from 1 January 2009 until December 2012.

Fares will rise on average by 7.9 per cent (including the effects of inflation) on 1 January 2009, and will rise by an average total 12 per cent plus inflation over the four years from 2008 to 2012.

More specifically:

- ▼ For distances up to 15 km, single tickets would increase by 40 cents on 1 January 2009, and by between 2 cents and 7 cents a year plus inflation over the subsequent three years. Weekly tickets would increase between \$2.00 to \$3.00 per week on 1 January 2009, and by between 15 cents and 60 cents per week a year plus inflation over the subsequent three years.
- ▼ For distances from 15 km up to 35 km, single tickets would increase by between 40 cents and \$1.00 on 1 January 2009, and by between 5 cents and 20 cents a year plus inflation over the subsequent three years. Weekly tickets would increase by \$3.00 to \$8.00 per week on 1 January 2009, and by between 65 cents and \$1.35 per week a year plus inflation over the three subsequent years.
- ▼ For distances from 35 km up to 175 km, single tickets would increase by up to \$1.00 on 1 January 2009, and by between 20 cents and 90 cents a year plus inflation over the subsequent three years. Weekly tickets would increase by \$7.00 to \$9.00 per week on 1 January 2009, and by between \$1.50 and \$6.50 per week a year plus inflation over the three subsequent years.
- ▼ For distances 175 km and above, single tickets would decrease by up to \$8.00 on 1 January 2009. For the subsequent three years fares will vary: some will reduce by up to 80 cents, while some will increase by up to \$1.00 a year plus inflation over the subsequent three years. Changes in weekly tickets in this group vary from a decrease of \$18.00 per week on 1 January 2009 to an increase of \$9.00 per week on 1 January 2009. Weekly tickets in this group increase by between \$2.95 and \$5.15 per week plus inflation over the subsequent three years.
- ▼ TravelPasses will increase by \$3.00 to \$5.00 on 1 January 2009, and by between \$1.80 and \$3.65 per week a year plus inflation over the subsequent three years. The Red TravelPass - will increase by \$3 on 1 January 2009 and by approximately \$2.00 per week a year plus inflation over the subsequent three years.

The Chairman of IPART, Dr Keating said: "Since 2001-02, CityRail's costs have increased by 22 per cent in real terms – significantly more than the rate of inflation. But CityRail fares have only increased by 1.1 per cent in real terms so taxpayers have contributed an increasing share. This trend is not sustainable, especially since CityRail's costs and investments are projected to rise considerably over the next four years".

Dr Keating, said: "IPART engaged LEK consulting to undertake a total cost review of CityRail's regular passenger services. LEK concluded that CityRail can make savings in all areas of its operations, including head office, maintenance and crewing.

These savings would bring CityRail's costs more in line with those of other Australian operators. IPART considers that RailCorp can make total efficiency savings of around \$1 billion by 2011/12, while maintaining or improving service standards. These efficient costs are 18 per cent less than CityRail's costs in 2011/12. Nevertheless fare increases are required so that passengers pay their fair share of efficient costs".

"Under its Act, IPART is required to ensure that passengers only pay for the efficient costs of providing CityRail services. CityRail drivers spend far less time driving trains than drivers in Melbourne or Brisbane. Overhead costs driven by staff numbers are much higher than other comparable operators. While CityRail's policy of staffing low patronage stations and providing guards on trains provide passengers with a sense of security, LEK's report identified that a greater level of customer service and security could be achieved if CityRail's existing resources were better deployed" Dr Keating said.

Most people readily understand that passenger rail services provide direct benefits to the people who use those services. However, these services also generate substantial indirect benefits that accrue to the wider community including reduced road congestion, traffic accidents and greenhouse gas emissions.

There is general agreement in Australia and other jurisdictions that external benefits generated by passenger rail services justify government subsidisation of passenger rail fares. IPART shares this view, and considers that the size of the government subsidy should be related to the estimated value of these external benefits.

IPART engaged CRA International to assist in measuring the external benefits and the appropriate proportion of CityRail's costs to be funded by passengers and by taxpayers. This is the first time an independent and robust estimate of the value of external benefits of the CityRail network has been made.

Based on CRA International's work, IPART estimates that that the value of these external benefits is around \$1.7-1.9 billion a year which represents about 70 per cent of the efficient costs of providing CityRail services. Therefore, IPART's draft decision is that it is appropriate for passengers to fund 30 per cent of CityRail's costs.

IPART is also recommending an increase in the off-peak discount from 30 per cent to 50 per cent and greater restrictions on when off-peak tickets can be used.

“The increased discount for off peak travel better reflects the lower costs of providing CityRail services during the off peak period and excess capacity on trains travelling at those times.

But the restrictions on using off peak tickets during peak periods -for travel towards Central in the morning and away from Central in the afternoon -reflect periods of high demand and more frequent train scheduling which increase the costs of supplying services”, said Dr Keating.

In determining fare outcomes, IPART also considered affordability and the impact on patronage and ensured that no individual single or weekly fare would increase by more than 30 per cent real (plus inflation) or a total of \$23 per week plus inflation between now and 31 December 2012.

Dr Keating said IPART had proposed higher average fare increases of 20-30 per cent before inflation in two discussion papers that were released in June this year. However, after reconsidering the value of the external benefits of the rail system, the impacts of higher fares on affordability, patronage and the need to implement a more equitable distance based fare structure, it considers that the increases in the draft determination provide a preferable outcome.

IPART is also recommending a more comprehensive and robust regulatory framework for CityRail that will provide it with stronger incentives to improve its efficiency, and to deliver its services to the appropriate standards for the least cost, for the benefit of both passengers and taxpayers. The current framework is not able to provide such incentives.

Submissions on IPART’s draft report and determination can be made until 5 November 2008.

The Draft Determination and Report, *Review of CityRail’s fares 2009 - 2012*, and information on how to make a submission are available on IPART’s website <<http://www.ipart.nsw.gov.au>>.

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Table 1 provides a summary of the corresponding real percentage increases over present fares for IPART’s draft determination.

Table 1 Average real cumulative percentage change in fares from 2008 to 2012

Distance	Single	Weekly	Off peak return
Up to 15 km	13%	10%	-18%
From 15 km up to 35 km	18%	18%	-15%
From 35 km up to 175 km	14%	25%	-17%
175 km and above	-16%	5%	-39%
TravelPass	-	20%	-