

FINDING THE BEST FARE STRUCTURE FOR OPAL

SUBMISSION TO THE INDEPENDENT PRICING AND REGULATORY TRIBUNAL

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Thank you for this opportunity to respond to the IPART Issues Paper. This review provides a timely opportunity to better integrate public transport fares, and indeed to address the current misalignment between Opal fare structures and the stated intent of the NSW Government to move towards a fully integrated and seamless transport system across all travel modes. In this respect there have been significant improvements to other aspects of public transport service integration such as interchanges, timetables, real-time information and new routes.

Opal fare structures should complement this policy direction, and not be at odds with it by unduly penalising customers that must change modes to complete a journey. Future network expansion will exacerbate this issue as mode-shifting will become more common (consider the CBD Light Rail or Sydney Metro North West Rail Link). Providing cost offsets by way of unrelated frequent user travel rewards does not redress this problem; to the contrary further inequities and distortions may result.

Our proposed approach to the review

The proposed assessment criteria are sound.

However I note that much emphasis (and responsibility) is directed toward customers to make efficient travel choices by responding to price signals appropriately. Quite often customers do not have the luxury of choice when it comes to public transport options, or their choice is dictated by other factors such as practicality, frequency, reliability, comfort, and safety rather than price.

I believe rather that more attention needs to be given to the link between fare structures and the delivery of efficient public transport options. TfNSW has set out the nature of future transport services in the **NSW Long Term Transport Master Plan** (2012). One of the critical elements identified was integration of services into a seamless network, recognising that “our customers often rely on a combination of transport modes.”

A number of actions were identified in the Master Plan to achieve this outcome, including:

- Delivering an integrated and customer-focused ticketing system;
- Ensuring that interchanges facilitate ease of travel;
- Aligning timetables across all transport modes;
- Giving customers access to real-time and reliable travel information;
- Modernising the transport fleet.

The proposed growth of the network (CBD Light Rail, Sydney Metro, Newcastle Light Rail) introduces more integration challenges. Further, stretching the capacity of existing infrastructure to meet growth demands will lead to a greater need for connections between modes or within the same mode. (The 2013 rail timetable is one example).

The proposed Opal fare structure should be assessed in this context. How well does it support the stated aims of an integrated transport planning approach in NSW?

To a great extent the proposed Opal assessment criteria mirror broader transport objectives – to encourage growth, be simple and fair, to be financially sustainable and efficient. Fare structures should support the delivery of these objectives and not be an impediment. In this respect, the current Opal structure has room for improvement.

Should there be a higher level of fare integration between modes?

This review provides a great opportunity to better integrate Opal fare structures, and in so doing help to fulfil more of the potential benefits of electronic ticketing.

Transfer penalties for switching modes (that is, paying a separate fare for each “trip” taken within a journey) undermines the concept of an integrated network – particularly when switching modes is becoming a necessity for growing numbers of customers. It is quite jarring when considered in the context of the investment made in other facilities to support mode interchanges.

This does not necessarily mean that all journeys of the same distance should cost the same in a fully integrated fare structure. It may be appropriate to continue to reflect the relative operating cost differences between modes in the fare.

One way to achieve this is to charge a **Network Access Fee** (or flag fall) at the commencement of a journey. This flat fee would be charged once – regardless of mode shifts or number of “trips” required to complete the journey – with only incremental (per km) costs incurred for each trip.

Features of the Network Access Fee:

- Represents an availability charge for the integrated public transport network;
- Is fixed regardless of modes used;
- Is fixed regardless of the order modes are used, to complete the journey;
- Is fixed regardless of the total distance or direction travelled;
- Could apply a Peak and Off Peak rate (were the off peak concept extended to all modes).

The distance-based component of the fare would remain mode-specific. It is not necessary to align distance measures between modes; the existing approaches can be retained (track km, straight line km, point-to-point distance as the case may be).

Distance charges are based on the total distance by mode for the journey. This distance would be determined as the sum of all trips taken on the same mode to complete the journey, even though an intervening trip may have been taken on another mode.

As the Issues Paper confirms that fare revenue will be centralised by TfNSW, the allocation of the Network Access Fee to individual transport agencies is not necessary.

This proposal would reduce the fare discrepancies that exist currently in the Opal fare structure (illustrated in figure 4.5 of the Issues Paper) but not eliminate them completely. The different operating costs of each transport mode would still impact the total fare, but to a far lesser degree.

To the extent that the proposed approach results in a revenue shortfall (not a given), it could be recovered through changes to the Opal frequency discount arrangements rather than directly through higher single trip fares.

An illustration of the proposed fares is included in the following section.

How should fares vary by distance travelled?

It is appropriate that fares be linked to distance travelled, and the mode of travel taken.

However not all operating costs are variable with kilometres travelled (for instance, periodic maintenance or fixed station / depot costs), and so it would be expected that the average cost per kilometre would decline with distance.

So while fares could be charged on a per kilometre basis, the marginal rate could decline. The existing fare bands used by each mode could be adopted as the point at which the marginal fares decline with distance. This allows for more fare granularity than present fares.

Distance Based Fare Tables - Examples

(Fares are for illustration purposes only)

Train	
Network Access Fee (Flag Fall – Peak)	\$2.00
Distance Fare (average for total distance)	
0-10 km	15c
10-20 km	12c
20-35 km	10c
35-65km	8c
65km +	7.5c

Bus	
Network Access Fee (Flag Fall – Peak)	\$2.00
Distance Fare (average for total distance)	
0-5 km approx.	25c
5-10 km approx.	20c
10 km +	15c

Ferry	
Network Access Fee (Flag Fall – Peak)	\$2.00
Distance Fare (average for total distance)	
0-10 km approx.	60c
10 km +	50c

Case 1: 15 km Journey

By Train = \$2.00 Flag fall + 15km * 12c per km = \$3.80

By Bus = \$2.00 Flag Fall + 15km * 15c per km = \$4.25

By Bus 3km then by Train 7km then by Bus 5km = \$2.00 + (3km+5km)*20c + (7km * 15c) = \$4.65

By Bus 6km then by Ferry 9km = \$2.00 + (6km * 20c) + (9km * 60c) = \$8.60

Case 2: 25 km Journey

By Train = \$2.00 Flag fall + 25km * 10c per km = \$4.50

By Bus = \$2.00 Flag Fall + 25km * 15c per km = \$5.25

By Bus 3km then by Train 17km then by Bus 5km = \$2.00 + (3km+5km)*20c + (17km * 12c) = \$5.64

Case 3: 75km Journey

By Train = \$2.00 Flag Fall + 75km * 7.5c = \$7.63

By Bus 5km then by Train 70km = \$2.00 Flag Fall + (5km * 25c) + (70km * 7.5c) = \$8.50

This approach would reduce fare differences for same-length bus or bus / train journeys to 10% or less, significantly less than the 60% variations illustrated in the Issues Paper.

Fares for longer journeys (80km or more) would be higher than current fares but this can be mitigated by applying a cap on the maximum fare per journey. The daily cap could be equivalent to 2 maximum fares.

The distance-based approach generates many possible fares, and initially at least will appear more complex than a flattened fare structure. Practical experience with the current Opal fares suggests this may not be a major hurdle for many customers, because the combined effects of day caps, travel rewards, transfer windows or interchange penalties often results in different fares for similar journeys on different days.

In any event, fare calculators are readily available on TfNSW trip planner and other applications that quote Opal fares for any journey.

How should fares vary by the time of travel?

Off peak discounts are warranted only where spare capacity exists and the lower fare seeks to draw new customers to these services. I am not convinced that off-peak discounts will be effective in shifting customers from peak to shoulder peak or off-peak travel (particularly where other mechanisms exist to reduce your fare, such as frequency discounts).

Whilst peak surcharges would be more effective at shifting customers from the peaks, what is proposed in the Issues Paper appears to be a CBD congestion tax on public transport users when no such charge is levied on motor vehicle users entering the CBD?

What discounts should apply for frequent travel?

Opal discounts should be tied to the value of travel taken, not the frequency of travel.

The current Opal frequency discount (travel reward) provides for free travel once 8 journeys have been taken within the week. As the value of these journeys is irrelevant, in effect a flat fare structure is assumed for the purpose of this reward. That is inconsistent with a distance-based structure and provides an incentive for gaming of the system by taking short, low-cost journeys (or otherwise recording them as taken) in place of more expensive journeys.

It is not clear what the benefits of the travel reward are (other than substantial savings for those customers able to take maximum advantage). In fact there are a number of concerns:

- Free trips can be taken during peak periods and are not subject to price signals;
- Travel data and service planning is clouded by unnecessary journeys to earn the reward;
- Cynical behaviour is rewarded;
- Revenue loss impacts (presumably);
- Risk of reputational damage for TfNSW.

Daily and weekly caps (or even a capped journey fare) are more appealing because of the link to the value of travel. They can also be applied to mitigate any customer impacts from implementing a distance-based fare system to longer distance travel. Setting the level of the cap(s) is related to the determination of fare levels generally.

Nevertheless, a better method to implement a travel reward would be to link it to the value of travel taken and provide it as extra credit on subsequent Opal top-ups by that customer. For instance, a customer spending \$100 on travel in a 4 week period could be credited with 5% additional value on

their next top up amount. An increasing scale of incentives could be offered up to (say) a 10% bonus for customers spending \$200 or more over a 4 week period.

In this way, all journeys made by the customer will be priced according to distance / mode / peak / off peak parameters and no free trips will be offered.

Do concession arrangements support optimal use of the transport network?

It is appropriate that the \$2.50 Gold Opal have certain conditions applied regarding time of travel outside the peaks. During peaks, a half fare concession could apply.

I look forward to a successful review.

Many Thanks

Alex Andreopoulos