Structure for Opal Public transport fares - submission

Thank you for inviting submissions in response to a discussion paper regarding Opal fares. The Tribunal's attention to this area is particularly welcome given its ground breaking and excellent work on revenue requirements.

Overview

The issues raised in the discussion paper and response, can be summarised:

- *should there be more integration of fares across the different modes of transport?*
  Yes. There are strong arguments for equal fares and identical fare structures for public transport modes.

- *should fare structures be used to encourage more efficient delivery and use of the public transport network?*
  In part. Fare structures exert little influence on the efficient delivery of services. Fare structures can and do influence use of the public transport and road networks.

- *should fare structures should be used to spread demand across different time periods?*
  Yes. There are strong arguments for peak fares to be set to encourage some travel to shift to off peak times.

The Tribunal should take a high level view of matters and establish principles to guide policy makers rather than become deeply involved in details of specific fares. Most principles should be applicable to non-Opal fares.

In a little more detail

Should there be more integration of fares across the different modes of transport?

'Integration' in transport is often put as a praiseworthy aim. However it is seldom defined.

In this submission, 'integration' means equalisation. That is: an identical level and structure of fares.

The purpose is to encourage users to choose among available public transport options on a service quality basis. This is necessary for the efficient use of the services in situ.

An implication is there should not be any 'fare transfer penalty' within or between modes.

Should fare structures be used to encourage more efficient delivery and use of the public transport network?

Delivery of services is a matter under the control of the government and service providers rather than public transport users.

Fare structure has no visible direct effect on service provision.

Fare structure may, or may not, have some indirect effect on service provision depending on incentives for service providers in their arrangements with the government. For example: are there payments for different classes of patronage or revenue targets?

Analysis of indirect effects would be complex, possibly fraught. Issues include: disclosure and analysis of all contract and payment details; elasticity studies; effect of service quality. This complexity and potential for variation across localities and times suggests such an examination would add little of practical use to discussions about fare structures.

Fare structures affect travel behaviour. For given services the most efficient behaviour is that which minimises variations in demand. For example, some people on an overloaded bus would transfer to a following empty bus, or change their regular travel to catch a train instead of the bus.

The question of the impact of fare structures on network establishment is briefly raised later.

Should fare structures should be used to spread demand across different time periods?
Infrastructure and transport networks face large variations in demand within periods of time.

One result is that many networks are configured for peak loads; substantial resources are idle, i.e. wasted, at other times. Other results include degraded service quality in peaks and an inability of governments to fund improvements.

This is not completely avoidable for transport networks because they deal with derived demand. Among the implications: the optimal level of road traffic congestion is greater than 'free flow'.

Nonetheless, mitigation of such variation is desirable from an efficiency perspective.

Different travellers have different willingness to travel at different times. Changes in relative price and quality aspects of transport services can alter peak demands, as is the case in other utility industries. Peak demands in Sydney, at present, are directional and occur at different times at different places. The greater the change, the greater the effect.

Other matters

Three other matters are worth consideration in the context of discussions about fare structures.

Sydney and the history of public transport etc.
NSW and Sydney have long had a unique, some may say bizarre, approach to public transport fares, particularly in relation to the structure of fares pre Opal.

There seems to be no particular economic or social reason for this. The local approach was not demonstrably superior, in fact the opposite is suspected.

Hence it is encouraging that the Tribunal is now reviewing the structure of fares rather than just considering revenue levels.

One possible reason for the approach in Sydney is an historical hangover of influence of transport operators, especially those in the public sector.

Prior to the 1990s agenda of corporatisation there was no dividing line between government transport providers and the government itself.

These organisations, such as railway commissions, had a large influence on policy. It is of interest to note the long standing perception that the department of transport's administration was primarily concerned with private bus (and taxi) operators rather than with State Rail or State Transit. This is despite the fact that the latter two were by far the most important service providers in terms of passengers carried and road decongestion benefits.

It could be expected that government bus and rail organisations wished to retain influence, yet keep separate from each other. Is it too cynical to ask: What better way than by each having direct income streams from Treasury thereby reducing any transport portfolio idea of integration, 'retain fare revenue' under the guise of 'incentives', seek to create mode transfer penalties, and/or ensure that fare structures and products are not interchangeable or even comparable?

The peculiar approach to corporatisation of NSW transport entities until around a decade ago would also have tended to undermine the potential to effect transport 'integration'.

The history is significant for two reasons.

First, aspects of the current Opal and paper ticket fare structure should be considered as a remnant from pre Opal days; curios from another age. Whatever purpose the pre Opal fare structure might have had, its effect had been to reduce the effectiveness of modern governance on urban transport. It would also tend to delay or make difficult the introduction of products such as the Opal card.

The fare structure under the Opal card is a vast improvement on prior practice. The Tribunal and the NSW transport portfolio should be congratulated for this. However, room for improvement probably remains. To achieve this, the Tribunal should consider fare structure from first principles, not from what is currently in place.

Second, some previous fare determination submissions from government organisations could have benefitted from better analysis and critical assessment. There is no reason to treat submissions from government transport operators as better informed, more altruistic or less self-interested than those from private operators.

Some of the past propositions put to the Tribunal, such as on 'cost allocation', 'distance based pricing' and 'CBD employees' have been suspect or incomplete.

For example, if fares are to be (partially) cost reflective, the relevant analyses relate to locations not distances. This is because different locations have different costs eg. A 2km harbour rail crossing is more costly than a 2km track at Glenfield. Of course different locations have different passenger numbers over which these costs might be spread eg. more passengers cross the harbour than Glenfield.

Distance based fares may be desirable. They may appeal to some perceptions of 'fairness' although not everybody shares that view. However, to posit cost reflectivity as a reason for distance based fares is unrealistic; strict association of distance with cost per passenger would merely be a matter of chance rather than an invariable analytic result.

The issues paper raised a question regarding fares for rail journeys over 65km. These journeys are likely to be a small proportion of total rail journeys. An increase in fares for these, even under conditions of perfectly inelastic demand, would be unlikely to be able to finance a significant decrease in fares for shorter journeys. There may be reasons to raise such fares in absolute or relative terms; but to provide benefits to other passengers is unlikely to be one.

I would guess that journeys over 65km predominately are from the Blue Mountains, Central Coast and the Illawarra. Fewer would be from the Southern Highlands due to lack of electrification south of Macarthur. The cost structures, directional loads and opportunities foregone of passenger trains to and from these regions probably varies markedly. For example, the relative cost of the freight works on the southern and northern entries to the terminal area suggests Central Coast services have a significantly higher opportunity cost than did Southern Highlands. Again indicating that distance based fares are not necessarily consistent with cost reflectivity.

Similarly, analysis of CBD employees has been incomplete. While it is likely true that CBD employees have higher average incomes than employees working elsewhere, it also is likely true that CBD employees using public transport have lower than CBD average incomes. The 'equity' case is not as clear as has been presented.

Competition with cars

An important purpose of public transport is to lessen the adverse impacts of car use.

This purpose can only be advanced to the extent that public transport substitutes for car use. Therefore any consideration of public transport policy, including fares, needs to consider the effects on car substitution.

The level, manner, multi-government involvement in and lack of recognition of subsidisation of car use should be great concerns to public policy.

Issues include spending on roads far outweighing road revenues, the level and structure of tax concessions for 'business' use and parking of cars. Also noteworthy is that Governments in effect encourage their employees, especially those in leadership positions, to use cars for commuting.

It generally is accepted that public transport is a second choice; cars are considered the 'default' for most journeys (other than short trips). Public transport, except in a few cases largely relating to severe traffic congestion, offers a lower 'service quality' than cars.

Hence in most cases, public transport competes against car use on 'price' alone.

Competition is most effective when comparisons are easily made by potential customers. Firms wishing to market a product that lacks quality advantages will seek to highlight price comparisons, including by a structure of (lower) price similar to that of competitors.

There is merit in public transport fares mimicking the structure of, but at a lower level than, the financial costs of car ownership and use. There are implications for periodical tickets as well as for other government arrangements.

Service provision

The above discussion has focussed on pre-determined services; how to most effectively utilise the services that are provided.

An important issue is how the provision of services should be determined. The above suggests that it should not be directly related to local fares, at least fares sought by those with a financial interest in service providing firms which could include operators and some government agencies.

My previous submission to the Tribunal indicated concern with attempts to align particular fares with financial costs of individual modes. Among the examples was: fares for/from the north-west rail link. Should the relevant part of the capital cost for this separate rail system be borne by: North-west rail users? All rail users? All public transport users?

The purpose of that exercise by the Tribunal, estimation of total revenue requirements and for fare revenue shares, is to create stronger incentives for governments to provide optimal services. The idea was that incentives would arise from visibly tying spending, including large 'government investments', to fares. As 'investments' would lead to (unpopular) fare rises, governments might be somewhat reluctant to invest unless there were demonstrable service improvements.

Whether or not this is the case, in several cases including the north-west rail, the government was not given 'sufficient incentive' to ensure its operational compatibility with the existing rail system.

Presumably the idea is not to discourage use of the north-west rail by high fares. If so the relevant capital burden might not be borne solely by 'north-west rail users'.

To me, at this time, imposing the relevant capital burden of the north-west rail on all rail users would be poor policy. It would amount to singling out the existing railway for 'punishment' twice; by taking some of its assets, and then by increasing charges for its passengers to pay (part of the cost) of services they don't receive.

Such an approach, of singling out the existing railway, would be particularly unfortunate in the lead up to a pivotal decision for Sydney; whether the second harbour crossing etc. will allow or restrict the potential for growth in existing rail network services.

Hence the best option may be for the relevant capital costs to be spread over all public transport users. Consistent with fares that are uniform across modes.

The implication is that accountability for service levels is held by the government and enforced through the ballot box. It is not a matter for the structure of fares.

A corollary is that the same structure of fares should be charged to users of quasi-public transport operations whose service levels are determined and financially supported by the government; services, supported by the government such as mini buses regularly used by multiple passengers for health and community services. Taxis and hire cars do not fall into this definition.

Conclusions

The Tribunal sought submissions addressing three fundamental questions. In relation to these:

- There are strong arguments for equal fares for public transport modes;
- Fare structures can and should influence use of the public transport and road networks, but they have little influence on service provision;
- Peak fares should encourage some travel to shift to off peak times.

This submission noted that unique aspects of NSW public transport fares arise from historical rather than best practice. The introduction of the Opal card is welcome and both the Tribunal and the transport portfolio should be congratulated on this.

The review of fare structures by the Tribunal is also welcome, however, the Tribunal should regard some prior views with caution and seek to develop its ideas on fares from first principles.

An important aim is for fares to compete against car use. In my view, the structure of fares should be easily understood and relatable to the financial costs of owning and operating a car.

The question of service provision, including major 'investment', appears to be divorced from fares, with accountability being through traditional political mechanisms. Fare structures should not offer any encouragement for operational incompatibility.

A corollary is that the same structure of fares should also be set for quasi-public transport that is used by many and determined and subsidised by government; mini buses for health and community services for example. Not taxis.

I would be happy to expand on the above if desired.

Thanking you.

J Austen

August 2015