Submission to Independent Pricing and Regulatory Tribunal on the Draft Report on Opal Fares

1. I am concerned about aspects of the approach followed by IPART in this review. Some recommendations are not consistent with NSW Government objectives to improve mobility or to grow the mode share of public transport. There is also a risk that the recommendations will not achieve the efficiency improvements sought by IPART.
2. IPART does not appear to have conducted extensive empirical research on overseas practice, especially in German speaking European countries which achieve high levels of farebox recovery and significantly higher levels of public transport ridership than Australian cities. Instead, the report relies heavily on economic theory with assumptions which do not accurately reflect the complexities of integrated public transport systems.

Socially Optimal Fares

3. The report states that the economic theory of "socially optimal level of consumption" is an appropriate economic framework for estimating optimal fares:

> "At the socially optimal number of journeys, the costs to society of any additional journeys would outweigh the benefits to society associated with those additional journeys. At the same time, if there were fewer than the socially optimal number of journeys, welfare could be improved by encouraging additional journeys. Both the level and structure of fares will affect people's decisions on if and how they use public transport. Setting fares at the level that ensures the socially optimal level of journeys will therefore maximise the net benefits to society of public transport use." (p.36)

4. IPART's estimates of socially optimal fares for each mode have been calculated taking into account a range of inputs, including marginal efficient financial costs and marginal external costs and benefits.

5. Little justification is provided for why IPART believes its approach is appropriate other than to say it is "a well-established economic framework" (p.36). It may well be a well-established economic framework, but it may also have little relevance to the real world task of improving the efficiency of public transport in NSW.

6. There is a general community recognition that there are external benefits in having well patronised public transport systems which are additional to the benefits enjoyed by individual users. A level of taxpayer subsidisation is therefore appropriate. But, as the report points out, the level of subsidisation is high in NSW. Across all modes, fares will recover only 23.1% of costs in 2015-16 (ferries have the highest cost recovery rate (32.6%) and rail the lowest (21.5%)). To be sustainable, it is desirable to have efficiency reforms which reduce taxpayer subsidies.

7. By contrast, many European cities have success in operating quality public transport systems at low cost to taxpayers. Full recovery of operating costs is achieved in Munich and Zurich's cost recovery rate is around 65%. The Zurich figure is for the Canton of Zurich, not just the city, and includes servicing for rural communities.

8. Efficiency improvements cannot be achieved by a price mechanism in isolation. Taxpayer subsidisation will be reduced by a combination of changes, including:
   - Quality network design

- Higher utilisation rates of assets
- Higher rates of service capacity utilisation

9. The fare structure plays a role in achieving these, but not in the way the IPART report suggests. Instead of seeking to ration use of public transport, the fare structure should encourage residents to use public transport for a greater proportion of their mobility needs – not just travel to work, but also to go shopping, meeting friends and other recreational journeys. This would lead to higher rates of asset utilisation and higher rates of service capacity utilisation in off peak periods. An overall reduction in taxpayer subsidy costs could be accomplished by a combination of *higher service capacity utilisation* (ie higher patronage) and *lower costs for passengers for each ride*.

10. One of the features of European cities which achieve both high public transport utilisation rates and lower taxpayer subsidies is the widespread use of periodical fares (daily; weekly; monthly; quarterly and annual travel passes). They offer substantial discounts compared to single trip fares and periodical or "season" tickets are the most popular fare type. Over 80% of public transport rides in Zurich are made using a periodical ticket.

11. Another feature of these cities is that fare structures do not discriminate between modes, so fares are related to distance covered, regardless of mode or combinations of mode used – rail, light rail, bus or ferry.

12. The table below shows the price of single fares in Zurich, Munich, Berlin and Hamburg compared with the corresponding Monthly and Annual pass. It also shows a single Sydney rail Opal fare compared to Monthly and Annual "MyMulti" fares before they were discontinued in 2014.

City	Zone/ Distance	Single Fare	Monthly Fare	Annual Fare	Ratio of Single to Annual Fare
Zurich	1-2 Zones	4.30 CHF	84.00 CHF	756 CHF	1:176
Munich	1 Zone	2.70 EUR	53.40 EUR	641 EUR*	1:237
Berlin	AB Zones	2.70 EUR	79.50 EUR	740 EUR	1:274
Hamburg	Greater Hamburg Area	3.20 EUR	103.70 EUR	1,020 EUR	1:318
Sydney	0-10 km	$3.30**	$175***	$1,748***	1:530

*Annual fare in Munich = 12x monthly fare.
** Sydney single fare based on Opal rail single fare.
***Monthly and Annual MyMulti 1 fares prior to discontinuation in 2014.

13. What is clear from the table is that these European cities offer much more substantial discounts for periodical tickets than were available for Sydney public transport users before the MyMulti tickets were discontinued. As Zurich residents on average make about 400 public transport journeys per year, the advantage of an annual pass, which is only 175 times the cost of a single fare, is obvious to most users.

14. Once a person has purchased a season pass, they know that they incur no extra cost for each trip they make. They are therefore more inclined to use public transport instead of a car on week-ends, at nights and at other off peak periods. This leads to higher service utilisation rates at these times and greater network efficiencies. IPART's argument that there is a socially optimal level of public transport travel beyond which "the costs to society of any additional journeys would outweigh the benefits to society associated with those additional journeys" (p. 36) seems an academic, unrealistic and unhelpful concept. It is further weakened by the absence of evidence in the report about current service utilisation rates or the extent to which existing and planned road capacity will be underutilised if the number of PT trips per resident increases. The report also fails to identify the current number of PT trips made by Sydney residents or what it believes is the optimal number.

15. Empirical evidence suggests that IPART's use of a socially optimal fare model, which seeks to encourage users to ration public transport trips, is not an appropriate way of setting fares for public transport systems. Simple fare structures which do not discriminate between mode and multimodal periodical ticket products that offer very substantial savings over single ticket prices is the most effective way to increase public transport use and reduce taxpayer subsidies.

Differentiating fares based on mode

16. As pointed out in paragraph 10, the usual overseas practice is not to differentiate pricing based on mode. This simplifies the fare structure and is a recognition that the main drivers of cost is the distance or time travelled, not the mode. It is also a recognition that the mode of transport available in each corridor is determined by Government based on practical considerations (existing infrastructure, geography etc). If only one mode is available in a particular corridor (which is normally the case), consumer choice is more theoretical than real, so differential pricing based on mode will not lead to a "more efficient" mode choice.

17. There may be a political argument that where the cost of operating a mode far exceeds alternative modes, and the particular user group is perceived to be a privileged section of the community, then the user of the more costly mode should pay more for that service. But in the case of Sydney, the evidence provided by IPART does not show much difference between modes in either the cost of operating services or the external benefits/costs.

18. For example, the CIE report provides the following comparison between buses and ferries in current and efficient 2018-19 costs per passenger km:

Mode	Current Costs	Efficient costs 2018-19
Buses STA metro	$1.07	$0.85
Buses non STA metro	$0.71	$0.73
Ferries	$0.80	$0.70

19. IPART's estimates of net external costs/benefits also reveal little difference between modes. Information Paper 8 (page 5) indicates the marginal net external benefit is in the range of $0.64 to $1.88 per passenger km for buses and between $0.90 and $2.04 for ferries.

20. Despite the similarity in costs and external benefits, there is a substantial difference between ferries and buses in IPART's estimate of socially optimal fares and the

recommended fares. Proposed fares for buses and ferries in July 2015 are shown in the table below (sourced from Tables 1.2 and 1.3 of the draft report):

Distance	Proposed bus fare July 2016	Proposed ferry fare July 2016
0 - less than 3 kms	$1.98	$5.14
3 - less than 8 kms	$3.34	$5.63
8 - less than 15 kms	$4.11	$6.36

21. Correspondence I have received from IPART staff indicate that ferry optimal fares are higher "primarily because significantly higher peak marginal costs estimates for ferries were used in calculating the optimal fares than buses". But it is not clear how IPART has estimated service utilisation rates in peak periods. Current low utilisation rates indicate marginal rates should be low as there is significant spare capacity and therefore little increase in investment required to accommodate substantial growth in ferry peak demand.

22. A further concern is that IPART has taken a different approach to mode differentiation in relation to light rail. The report states "Light rail fares would be set at the same level as bus fares for simplicity (light rail trips currently make up only 2% of all public transport trips)" (page 3).

23. In 2014-15, Sydney Ferries' patronage was 14.8 million and light rail patronage was 6.1 million. IPART estimates that due to the impact of the City and SE Light Rail (CSELR) extension, light rail patronage will increase by 188% by 2018-19 (page 53), which means light rail patronage will then be 17.6 million. This compares with ferry patronage of 15.5 million in 2018-19 (based on IPART's forecast cumulative ferry patronage growth of 4.8%).

24. If the rationale for setting light rail fares at the same level as bus fares is for "simplicity" then the same argument could equally be applied to ferries, which on IPART's forecasts will carry fewer passengers than light rail by 2018-19. This is despite the report's note that the long run socially optimal fares for light rail are very high indeed due to the infrastructure investment in the CSELR extension.

Gold Opal Card and week-end discounts

25. I fully support IPART's recommendations that Seniors cardholders who do not also hold a pensioner or NSW war widowers card should not be eligible for a Concession Opal card and that the daily cap for Gold cardholders should be increased. Seniors are a vocal group in the community, but an objective assessment would suggest their needs are not greater than other groups like Newstart Allowance recipients who currently receive a significantly smaller discount than Gold cardholders. The increase proposed in the daily cap for the Gold card is modest and would not affect those, for example, who need to make short daily return bus trips as the discount return fare for short bus fares will continue to be less than $2.50.

26. The changes to week-end discounts are also supported. The $2.50 Sunday fare caused a considerable distortion in demand for ferry services and the changes proposed should spreading demand more evenly over the week-end is a logical change.

Integrated fares for journeys involving two or more modes

27. The draft recommendation that multi-mode journeys should be charged based on the distance travelled is also supported. The recommendation would be further improved if no differentiation in pricing was made between modes, as I have proposed in paragraphs 15 to 23.

Submission made by Robin Sandell

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