

**Review of Perisher Range Resorts
infrastructure pricing**

Discussion paper for round-table

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**Please direct inquiries to
Alex Dobes (02) 9290 8446 or
Mandy Phan (02) 9290 8433**

Independent Pricing and Regulatory Tribunal of New South Wales

Level 2, 44 Market Street, Sydney NSW 2000

Ph 02 9290 8400 Fax 02 9290 2061

www.ipart.nsw.gov.au

ALL CORRESPONDENCE TO: PO BOX Q290, QVB POST OFFICE NSW 1230

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1 INTRODUCTION

The Independent Pricing and Regulatory Tribunal (the Tribunal) is conducting a review of infrastructure pricing at Perisher Range Resorts, under section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992* (the IPART Act). In September 2004, the Tribunal published an Issues Paper, inviting comment on the key matters for consideration under the review.¹ That Issues Paper provides broad information on the background and aims of this review. This Discussion Paper provides a stronger focus on specific issues which have become prominent in the course of the Tribunal's review, and which merit discussion at the forthcoming Roundtable.

1.1 Key issues

The Tribunal considers that the key issues for the Roundtable are:

- the Earthtech report and its implications
 - most specifically concerning roads, solid waste and augmentation of water supply
- pricing principles and options for raising revenue
- CIE's forecasts of future skier demand at Perisher

1.2 Process and timetable

The Tribunal's review commenced in June 2004. The Tribunal plans to present interim findings to the Treasurer in April 2005, and a final report by June 2005.

1.2.1 The issues paper

The Tribunal published an Issues Paper in September 2004. The Issues Paper outlined the scope of the review and invited comment on the range of issues to be considered. The Tribunal received submissions from 25 stakeholders in response to the Issues Paper.

The Tribunal and Secretariat met with a number of stakeholders to discuss issues of concern to them. These discussions, combined with the written submissions the Tribunal received, have given the Tribunal some idea of the issues which are of most concern to stakeholders.

1.2.2 The round table

The Tribunal will hold a round table on 16 March 2005. The purpose of the roundtable is to enable more detailed consultation with stakeholders on key issues. In order to focus the debate, the Tribunal plans to invite a limited number of people to speak. Some people will also be invited as observers, and a transcript of the roundtable will be published on the Tribunal's website. The Tribunal is publishing a number of consultants' reports, which will inform a major part of the discussion at the roundtable.

¹ Independent Pricing and Regulatory Tribunal, *Review of Infrastructure Pricing at Perisher Range Resorts: Issues Paper*, September 2004 (the Issues Paper).

2 EARTHTECH REPORT

A key part of the Tribunal's review is a review of the Perisher capital works program, as set out in the *Perisher Range Resorts Infrastructure Services Strategy* (PRRISS).² An assessment of the capital works program requires specialist engineering skills, for which the Tribunal engaged Earth Tech Engineering Pty Ltd ("Earthtech"). Earthtech delivered a draft report in December 2004, and a final report in March 2005.

The Tribunal discussed Earthtech's draft findings with the National Parks and Wildlife Service (NPWS) and the Department of Commerce, the two Government stakeholders who will be most closely involved with the capital works program. These discussions identified three key issues: roads; solid waste; and water augmentation.

2.1 Roads

In the course of this review, Perisher stakeholders have engaged in vigorous debate about the issue of cleared roads. Apart from that issue, there is also the question of how Perisher roads should be sealed.

2.1.1 Should Perisher have cleared roads?

The issue of road clearing is currently being examined by the NSW Department of Infrastructure, Planning and Natural Resources (DIPNR)³. The choice between cleared and uncleared roads is, to a large extent, a management issue. As such, the Tribunal considers that the DIPNR process is an appropriate forum for discussion. However, the issue of cleared roads also has financial implications, which the Tribunal is required to address as part of this review.

Earthtech estimates that uncleared roads will lead to a roads capex saving of around 15%. Uncleared roads also lead to a saving in road clearing costs.

The choice between cleared and uncleared roads also has implications for one of the revenue options discussed below – parking permits. For operational reasons, NPWS has recently been clearing the access road to a small number of lodges at Smiggin Holes. In the course of this program, NPWS has found that there is significant demand for parking spaces at those lodges, and has therefore sold parking permits. If road clearing is to expand to other areas of Perisher, there will be an opportunity to earn further revenue in this way. If road clearing is to be limited to the same areas as now, parking revenue will be limited to that which can be earned from general car-parks.

As discussed below, the choice between cleared and uncleared roads has implications for solid waste collection.

² The Tribunal released key parts of PRRISS in September 2004. These extracts from PRRISS are available on the Tribunal's website.

³ Further information on the DIPNR assessment of road clearing is available at <http://www.planning.nsw.gov.au/plansforaction/roads.html>

The choice between cleared and uncleared roads also has implications for costs outside the Perisher municipal services budget. Uncleared roads require oversnow transport to most lodges (for both supplies and people), and this cost is not borne by the municipal service budget. Costs which are not borne by the infrastructure service provider are outside the scope of the Tribunal's review.

Because of the apparent difference in total cost between cleared and uncleared roads, the Secretariat currently prefers uncleared roads. The Tribunal is interested in stakeholder views on the difference in the cost of the two options.

2.1.2 How should Perisher roads be sealed?

The Earthtech report recommends that Perisher roads should be sealed, regardless of whether or not they are cleared. The overriding reason for this is the environmental impact of unsealed roads. When snow melts, unsealed roads can cause environmental problems in Perisher water flows. In summer, unsealed roads cause dust problems, and this will be accentuated by construction traffic if Perisher is re-developed. Most stakeholders favour sealed roads.

A key issue is whether Perisher roads should be sealed with concrete or bitumen. There is general agreement that bitumen roads require lower capex. There is less agreement on the operational implications of bitumen roads, and on their working life. Earthtech suggests that bitumen roads can have an operating life of 15 years, as long as they receive some maintenance and are not subject to intensive snow-clearing. As a result, Earthtech recommends that, if Perisher roads are to be cleared, they should be sealed with concrete, but if they are low-traffic uncleared roads, they should be sealed with bitumen. During discussions on Earthtech's draft report, NPWS and the Department of Commerce suggested that the life of bitumen roads in an alpine environment is considerably shorter, even without snow-clearing operations.

The question of operating life has a major impact on future expenditure. If Perisher is to have cleared roads, there is general consensus that they should be sealed with concrete. The Tribunal is interested in stakeholder views on the appropriate sealing method if Perisher is to have uncleared roads.

2.2 Solid waste

NPWS considers, and many stakeholders agree, that the open rubbish skips in the Perisher village are an unsatisfactory arrangement for solid waste collection. NPWS has been considering the construction of a solid waste transfer station at Perisher. Earthtech's view is that such a transfer station is undesirable, and that a preferable option is to transport solid waste directly to an existing waste disposal facility.

If Perisher roads are cleared, Earthtech recommends collecting solid waste with a compactor truck, which can then transport it directly to a waste disposal facility.

If Perisher roads are not cleared, an alternative method of solid waste collection will need to be found. This alternative may be more expensive than the Earthtech proposal. Such an

increase in opex will at least partly counterbalance the decreased opex arising from the saving in road clearing costs.

The Secretariat is inclined to accept Earthtech's recommendations on solid waste, which means that a waste transfer station would not be built at Perisher.

2.3 Augmentation of water supply

Since PRRISS was drafted in 2002, stricter environmental standards have led to a need to increase environmental flows in the water sources used for the Perisher water supply. Earthtech's draft report suggested that the necessary headworks would cost \$5 million. Subsequent discussion with NPWS and the Department of Commerce have raised the possibility that these headworks might cost substantially more.

The Secretariat seeks to clarify the likely cost of water augmentation headworks.

3 PRICING PRINCIPLES AND REVENUE OPTIONS

The tables in Attachment A summarise the relative merits of the revenue options examined in this section. This section does not examine in detail some additional revenue options, either because they are not controversial, or because the Tribunal considers them too problematic. A developer charge, for example, is not controversial. A surcharge on lift tickets, on the other hand, is considered problematic.

3.1 Gate entry surcharge

The Terms of Reference for this review explicitly preclude the Tribunal from examining NPWS policies on gate entry fees. However, the Tribunal is able to consider a surcharge on gate entry fees.

Currently, day entry to Perisher costs \$16. During the snow season, day entry to Victorian ski resorts costs up to \$28, and there is no evidence that this has lowered visitor numbers in Victoria. The Secretariat therefore considers that there is ample room for a surcharge which will not affect visitor numbers. However, as set out in Attachment A, there are complications associated with a surcharge.

Victorian resorts only charge for entry during the snow season. The option of removing entry charges outside the snow season is outside the Tribunal's Terms of Reference, but the Tribunal is able to recommend introduction of a seasonal surcharge.

There are two possible ways to implement a gate entry surcharge. One option is to introduce a surcharge for Perisher entry only. The other option is to maintain the same entry price for both Perisher and Thredbo. If the price of Thredbo entry is raised, the extra revenue can be retained by NPWS, or it can contribute to infrastructure provision at Thredbo.

The Secretariat is inclined to recommend the introduction of a small gate entry surcharge. A gate entry surcharge has the advantage of raising revenue from virtually all users, but entails complications because of the proximity of the Thredbo resort.

3.2 Car parking fees

Currently there is no charge for parking at Perisher. Perisher Blue's lease terms preclude it from charging for parking, and at the same time require Perisher Blue to maintain the carpark in Perisher Valley.

When the carpark is full, which happens often during the snow season, visitors park along the approach road and travel by shuttle bus to Perisher Valley. This is an inherently unsafe solution.

The Secretariat considers that a car parking charge could be introduced as part of the following strategy:

- All cars will have to park in designated parking areas, with no parking at the side of the road. Car parks at Perisher Valley, Smiggin Holes and Guthega will charge a fee. There will be strong penalties for illegal parking outside these car parks.

- There will be set-down and pick-up zones close to key facilities, where visitors will not be able to park, but where they will be able to transfer people and equipment.
- There will be a shuttle bus between designated parking areas and key facilities. The shuttle bus will not pick up or set down outside these specific areas. Ideally, the shuttle bus will continue to be free. Operation and funding of the shuttle bus is a matter for discussion.
- Visitors who do not want to pay a parking charge will have the option of parking at Bullocks Flat (and travelling by Skitube) or parking at the Perisher entry⁴ to the national park (and travelling by shuttle bus).
- An electronic sign outside Jindabyne will inform visitors of the number of unoccupied spaces at each carpark, including free carparks.

The basis for charging (daily or hourly) and the level of the charge are matters for discussion.

If Perisher roads are cleared, there will be potential for on-site parking at lodges. Experience at Smiggin Holes shows that such parking is in high demand, and can be a good source of revenue. On-site parking, and driving within the resort, would need to be subject to strict constraints, to minimise the interaction of pedestrians and vehicles, which can be particularly hazardous in driving conditions that are unfamiliar to most Australian drivers.

The Secretariat is inclined to recommend the introduction of a charge on car parking.

3.3 Capital charge on leases

Stakeholders have frequently commented that all revenue raised at Victorian resorts is spent for the benefit of those resorts, and have suggested that lease rental payments at Perisher should be applied in the same way. The Secretariat is not inclined to agree with this view. The Secretariat considers that lease rental payments are a return to the owner (taxpayers) for use of a scarce resource.

Where there are specific capital costs which arise identifiably from the presence of lessees at Perisher, the Secretariat considers it equitable for those lessees to pay those costs. The Secretariat is inclined to recommend the introduction of a capital charge in those circumstances.

3.4 Water & sewerage charges

There is general stakeholder acceptance that (volume and fixed) charges for water and sewerage are acceptable. The Secretariat assumes that all water is discharged to the sewer system and should be charged on that basis.

The Secretariat is inclined to recommend the introduction of volume and fixed charges for water and sewerage services.

⁴ The Secretariat understands that Sawpit Creek is a potential site for carpark development.

4 CIE FORECAST OF FUTURE SKIER DEMAND AT PERISHER

As part of its study of Perisher capex and opex, Earthtech engaged the Centre for International Economics (CIE) to assess future skier demand. CIE has developed 4 basic scenarios for future demand growth, as set out in table 1 below.

Table 1. Annual growth (skier-days)	2005 to 2010	2010 to 2015	2015 to 2025	2025 to 2035
Scenarios				
A. Continued growth	1.7	2.0	2.1	1.7
B. Competition with non-snow alternatives	1.3	1.3	1.3	0.9
C. No new investment	0.2	(0.4)	(0.7)	(0.9)
D. Climate change	0.6	0.4	0.3	0.3

The assumptions behind the 4 scenarios are as follows:

- A, continued growth. This assumes that the proposed expansion takes place, the overall market grows at historical rates, and the length of stay increases in response to improved facilities. After 2025, growth slows slightly as competing resorts increase investment in response to Perisher's success.
- B, competition with non-snow alternatives. This is similar to scenario A, but assumes that snow resorts face increasing pressure from non-snow destinations, leading to a decline in the overall number of skiers but growth in skier-days.
- C, no new investment. This assumes that the proposed development does not take place, infrastructure investment in general falls behind other resorts. Word-of-mouth leads to an accelerating decline in the number of skiers.
- D, climate change. This involves a decline in the number of skiers, but an increase in visitor days. All resorts use snow-making to hold up the market.

CIE prefers scenario B (if proposed development takes place) or scenario C (if proposed development does not take place).

The Tribunal is interested in stakeholder views on CIE's demand study.

5 SUMMARY OF SECRETARIAT'S PREFERRED POSITION

It is worth noting that this is not the Tribunal's, or the Secretariat's, final position. The Secretariat is putting forward this position to facilitate stakeholder discussion.

5.1 Earthtech report

On the basis of relative costs, the Secretariat is inclined to recommend that Perisher have uncleared roads.

The Secretariat seeks stakeholder input on the appropriate sealing method (bitumen or concrete) if Perisher has uncleared roads.

The Secretariat is inclined to recommend against the construction of a waste transfer facility at Perisher Valley.

The Secretariat seeks to clarify the likely cost of water augmentation headworks.

5.2 Pricing principles

The Secretariat is inclined to recommend the introduction of a small gate entry surcharge.

The Secretariat is inclined to recommend the introduction of car parking fees.

The Secretariat is inclined to recommend that Perisher lessees should pay a capital charge to cover capital expenditure which arises from the presence of lessees at Perisher.

The Secretariat is inclined to recommend the introduction of volume and fixed charges for water and sewerage services.

ATTACHMENT A

	Capital expenditure recovery options					
	Recovery from users			Pros	Cons	Comments
	over night visitors	Day visitors	Day visitors (x-country)			
Car parking charge	no	yes (only those who park in the village)	yes (only those who park in the village)	<ul style="list-style-type: none"> ▪ Able to target day visitors directly and recover a contribution from them, including cross country skiers ▪ Consistent with council practices in tourist bound areas. ▪ Charge is voluntary ▪ Provides incentive to reduce in-resort vehicle use. ▪ incentive to reduce vehicle usage can yield environmental benefits and enhance on mountain road safety 	<ul style="list-style-type: none"> ▪ Increase in parking enforcement required ▪ Introduces capital costs for installing parking meters and other related signage like parking information boards etc... ▪ Total contribution from vehicles that enter and park in the resort will be greater than under the gate entry surcharge option alone. ▪ Current lease arrangements with PBL does not allow PBL to charge for car parking, thus lease would need to be amended. 	<p>Should be adopted as a component of the capital recovery charge.</p> <p>A car parking charge in combination with a MSU capital charge would allow costs to be recovered from overnight visitors and day visitors (who choose to park in the village). If a gate entry surcharge is also applied, then all users of the park would be contributing to cost recovery to some degree.</p> <p>There are competitive, cross subsidy and implementation issues related to the introduction of a park entry surcharge which need to be addressed.</p>
MSU capital charge	yes	no	no	<ul style="list-style-type: none"> ▪ Administratively simple, replicating the existing MSU (operating cost) charge. 	<ul style="list-style-type: none"> ▪ If this is the only source to recover capital costs, this option is likely to yield a disproportionate recovery of costs from overnight visitors and does not recover from day visitors like cross country skiers. ▪ This charge would be additional to the MSU operating charge. ▪ Resistance from lessees due to perceived inequity. 	
Gate entry surcharge	yes	yes	yes	<ul style="list-style-type: none"> ▪ Recovers a contribution from all park users. Should apply to all forms of park entry, ie cars, coaches and Skitube. ▪ Follows principle of user pays 	<ul style="list-style-type: none"> ▪ Perisher only surcharge <ul style="list-style-type: none"> - introduces competitive disadvantages against Thredbo, NZ and VIC in summer ▪ Whole KNP surcharge <ul style="list-style-type: none"> - introduces cross subsidies from Thredbo and Charlotte Pass (if fund goes to Perisher only) - places KNP at a competitive disadvantage to NZ and VIC in summer. ▪ Introduces a further disparity with season tickets which are already quite low. (\$85 for one year, \$150 for 2 years) ▪ Introduces more complexity with the need to calculate a surcharge for car, coach and Skitube entry. 	

	Capital expenditure recovery options					
	Recovery from users			Pros	Cons	Comments
	over night visitors	Day visitors	Day visitors (x-country)			
Developer charge	yes	no	no	<ul style="list-style-type: none"> Discrete user pays Consistent with practices elsewhere. 		Should be adopted as a component of the capital recovery charge for discrete user defined projects
Specific levy	yes	no	no	<ul style="list-style-type: none"> Targets specific projects with discrete user pays. 	<ul style="list-style-type: none"> Administratively cumbersome if a specific levy is needed for each service 	Shouldn't be in the capital recovery charge. In the past, special levies were used to recover some capital costs. With the adoption of other regular charges to cover capital cost, special levies are no longer needed.
Ski lift surcharge	yes (only down hill skiers)	yes (only down hill skiers)	no	<ul style="list-style-type: none"> Able to target day visitors directly and recover a contribution from them, except for cross country skiers and non-downhill skiers 	<ul style="list-style-type: none"> Collected by PBL, as per entry charges via Skitube. Competitive disadvantage imposed onto PBL and/or resort. If PBL wears the costs to keep lift ticket prices down, then the disadvantage is imposed on PBL. If passed onto users then the resort will be at a disadvantage compared to other ski resorts. Still does not recover a contribution from day visitors who are non-downhill skiers and cross country skiers. 	Shouldn't be in the capital recovery charge.

Revenue recovery				
Municipal service	Options to recover costs	Cost category	Cost allocation basis	Comments / Issues
<ul style="list-style-type: none"> ▪ Water ▪ Sewerage 	Separate usage charge for both water and sewerage	Operating expenditure	metered water consumption	<ul style="list-style-type: none"> ▪ Appearing on the municipal service bill, but separately itemised. ▪ Aligning operating costs to usage charge and capital cost to a fixed charge is inconsistent with IPART's metro water approach to pricing. However Perisher has only 157 metered premises and the terms of reference asks IPART to look at cost recovery. ▪ Should separately meter toilet facilities in large commercial premises that provide the public toilets in lieu of NPWS and provide a rebate. Capital cost of meters should be borne by NPWS.
	Separate fixed charge for both water and sewerage Possible capital recovery charge for any shortfalls	Capital expenditure	pipe/connection size	
	Developer charge			<ul style="list-style-type: none"> ▪ Where applicable
<ul style="list-style-type: none"> ▪ Internal roads ▪ Solid waste ▪ Secondary services <ul style="list-style-type: none"> - Administration - Amenities <ul style="list-style-type: none"> - Sawpit Creek car park - Freight & passengers - Emergency services - Medical services 	MSU operating charge	Operating expenditure	FECA or bed numbers	<ul style="list-style-type: none"> ▪ MSU currently only covers annual operating costs, but to ensure cost reflectivity a capital charge component will need to be introduced. ▪ Cost allocation for the MSU operating and a possible MSU capital charge would be similar to the status quo where: <ol style="list-style-type: none"> 1. Directly attributable costs are allocated to the relevant cost centre/village areas. 2. General overheads are allocated based on FECA/Bed numbers to the cost centres/village areas. 3. Costs in each cost centre/village area are allocated to the lodges based on FECA/bed numbers. ▪ It has been raised by CIE and Earthtech that solid waste could be charged on a volume basis. However this would add another layer of complexity. ▪ The issue of snow bound or cleared roads is currently being reviewed by DIPNR. The outcomes of the review may be incorporated into a statutory planning instrument. If more internal roads are marked for snow clearing as a result of DIPNR's review, the related costs would be part of the MSU operating charge.
	Capital recovery charges	Capital expenditure	FECA or bed numbers	
	Developer charges			<ul style="list-style-type: none"> ▪ Where applicable
<ul style="list-style-type: none"> ▪ Car parking (due to DIPNR snow cleared road decision) 	Fees for parking permit	Operating expenditure	Parking spaces	<ul style="list-style-type: none"> ▪ Current test with Willow Rd snow clearing has resulted in more requests for parking permits. ▪ Similar to metropolitan councils which charge for resident parking permits.
	Developer charge	Capital expenditure	Parking spaces	<ul style="list-style-type: none"> ▪ Capital cost of building new parking bays can be paid for as a one off developer charge