

IPART 2008 Rail Submission (to Draft Determination)

1 Introduction

This Submission sees recent external factors as helping to make CityRail services closer to being economically viable than initially suggested by the June 2008 discussion papers. This is because the consequent boost in patronage, and a corresponding increase in external benefits, has led to much lower fare increases being needed to cover the remaining difference between efficient costs and external benefits. However, without further economic work, the fare increases are in danger of being perceived as unfair, and accordingly politically difficult to implement.

The fairness issue is elaborated below. In addition, this Submission provides some observations on claimed TravelPass discounts.

2 Background

The 05 June IPART discussion papers presented a new approach to determining CityRail's revenue requirement and how it should be funded, and then to deciding on the consequent structure and level of CityRail fares. The approach to determining the revenue requirement looked logical; start with an estimate of efficient costs based on a building block approach, estimate external benefits that justify non-user earnings and collect the remainder from fares for a viable outcome overall. The new approach moved away from seeking to close the gap between fare revenue and actual running costs (the revenue shortfall) and towards one of considering total benefits and efficient operating, maintenance and capital costs.

However there was still a major problem. Under the analysis presented, real fares would have needed to rise by up to 30%, and this, due to fare elasticity, would have reduced patronage by 9% in apparent contravention of Government policy. Lower patronage, in turn, would then have reduced both the fare revenue collected and the external benefits earned, and thus undermined the intended viability. This would have required additional fare increases of up to 25% to close the gap, and just continued the downward spiral of lower patronage and less service.

Clearly, the discussion papers implied a major viability problem for CityRail if the downward spiral was to be avoided. Key issues that would have needed to be addressed include:

- Pruning the size of the network to reduce efficient costs,
- Journey time improvements to boost benefits and revenue,
- Identification of other kinds of benefits, and
- Recovery of capital for new expenditure.

External circumstances, which have stretched many household budgets, appear to have helped boost rail patronage and consequent external benefits, and considerably reduced the expected impact of elasticity with respect to a fare increase. This has led to the recommendation for a lower overall fare increase and an expectation of considerably less risk of a downward spiral in patronage and service being initiated.

Accordingly, it has been possible for IPART to set aside any further examination of the key issues identified above and proceed with its original methodology. The unfortunate consequence of this approach is that fare payers have been denied the possibility of any savings that would arise from this further examination.

3 Key Issues

Some discussion on the four key issues, and also on the allocation of revenue risk, is presented below.

Network Size

A traditional approach to reducing rail “deficits” has been to cut services and tolerate any reduction in revenue in the expectation that there will still be some saving in the deficit. Formally considering external benefits, as IPART has now done, would make this approach more complicated, however the principal prioritising assumption that some parts of the network are relatively more beneficial than others would still apply.

Either way, the above approach would be expected to initiate a downward spiral of reduced patronage and benefits to a limit determined more by political, rather than economic, considerations. An alternative approach is to consider the cost of defending the fringe of the network from pruning as a separately identified expenditure.

It is this buttress cost that could be quantified as a specific community expenditure to help close the revenue gap.

Journey Time

IPART has proposed that average timetabled train speed, as a proxy for journey time, be included as part of the RPA. However, it needs to be recognised that speed is unlike other benchmarks and targets covered by the RPA. This is because these are about setting limits for negativities that will otherwise impact adversely on service quality and/or patronage, whereas the relationship between speed and patronage/external benefits is a continuum. In effect, the more speed the better, with the limit being determined by the economic balance between benefits and costs.

Speed is determined by both the inherent technology and service patterns. CityRail provides a lot of express running, more than other Australian urban networks, but a comparative slowness is still evident. For outer (express) services this is mainly due to infrastructure limitations, whereas for inner (all stations) services both rolling stock and infrastructure limitations apply. Single deck trains for inner services would be potentially beneficial, and also much easier to make driver only operated.

Despite IPART comments to the contrary, there does seem to be a case for providing compensation for lower than expected service levels in the case of speed. This is because higher speeds can justify higher fares and/or boost patronage, reduce operating costs through rolling stock savings, and increase external benefits. Based on recent experience, the Government and CityRail lack the motivation to proceed down this beneficial path and compensation could provide more incentive to do so.

Other Benefits

IPART has acknowledged that there could be other external benefits from the operation of CityRail services, but has not proposed any. This reluctance appears to be based on quantification difficulties and the danger of double counting with benefits that have already been identified.

A payment for any such other benefits could, of course, help close the revenue gap.

Capital Recovery

IPART has chosen to fully include the ECRL capital expenditure in rolling forward the RAB, based on the thoroughness of the economic analysis undertaken to justify this project. There seem to be three problems with this choice. Firstly, more than 70% of the ECRL would appear to be in the nature of a sunk cost, construction costs have reportedly overrun since the economic analysis, and subsequent transport decisions now will make less use of the ECRL (implying less community benefit).

These subsequent decisions include not proceeding with the link from Epping to Parramatta and using a separate Victoria Road metro link, rather than the ECRL, for trains to reach the section between Epping and Rouse Hill. Current budgetary concerns suggest that the Epping to Rouse Hill link is now considered unaffordable.

Any reduction in the allocation of ECRL capital expenditure to the RAB would flow on to less need to increase fares to close the gap.

Revenue Risk

IPART has acknowledged that it has taken a conservative approach to its forecast of patronage growth. It has done so to provide more funding certainty to CityRail. Uncertainty surrounding external factors, business activity and elasticity going forward seem to be reasons for such a conservative approach. In effect, users will be required to pay higher fares to cover more of the revenue risk from patronage uncertainty.

4 Observations

On its own, the risk sharing issue outlined in 3.5 above would be a relatively minor concern. However it is combined with four other areas of uncertainty (3.1 to 3.4) where the outcome also seems to favour the Government more than the user. The unavoidable conclusion is that this overall position could be perceived as a systemic bias in the fare recommendations made by IPART in its draft determination.

It is appreciated that considerably more work would be required to evaluate the uncertainties surrounding the key issues noted above, and even then they would probably not be able to be fully quantified. An interim procedure going forward could be to estimate the bounds of the uncertainties and split the costs between fare revenue and Government contributions in the already established 30:70 ratio. This procedure has the advantage of being seen as fairer to users while preserving the integrity of the new IPART approach.

5 TravelPass

Some information on the claimed excessive discounts for TravelPass products is presented in the draft determination. These discounts are based on the paid fare for each leg of an assumed multi-modal journey, and have no regard to the interchange penalty incurred under such conditions.

An alternative approach is to model a real through fare (paid fare less interchange penalty) for each assumed multi-mode journey. This approach was presented in my 2008 Bus Submission to IPART. The subsequent IPART draft determination has higher rail fares than were assumed for my Bus Submission, and slightly different (most \$1.00 lower) weekly TravelPass fares than those suggested by the Ministry in its bus submission. Accordingly it is appropriate to adjust and re-present the alternative approach as below. Rail distances assumed are as per the IPART draft determination for rail.

2009	TravelPass	Rail 10 x Single	Bus 10 x Single	I'change penalty	Real 10 x Single	Real Discount
Red	\$38	\$34	\$19	\$14	\$39	3%
Green	\$46	\$42	\$19	\$15	\$46	0
Yellow	\$50	\$46	\$19	\$16	\$49	-2%
Pink	\$55	\$56	\$19	\$16	\$59	7%
Purple	\$62	\$74	\$19	\$16	\$77	19%

The above table for 2009 shows that there will be no significant real discount for Red, Green and Yellow TravelPass products using the IPART draft determinations for rail and TravelPass fares under the assumed multi-mode journeys. The Pink and Purple TravelPass products have a progressively higher rail component and it is reasonable for the real discount to trend towards, but not exceed, the discount for rail-only weekly tickets covering equivalent distances.

Based on the above, there is no case for progressively increasing TravelPass fares relative to rail single fares in the years subsequent to 2009 as recommended by IPART. Equally, if the final implementation of rail full-fare increases is less than the draft determination, then TravelPass fares should be correspondingly reduced. There is still also a strong case for discontinuing the Blue and Orange (bus and ferry only) TravelPass products as the Ministry's recommended 2009 fares are \$38 and \$46 respectively; the same as in the draft determination for the equivalent rail inclusive Red and Green TravelPass products. Rationalisation of the Purple (\$62) and Pittwater (Ministry 2009 recommendation \$61) TravelPass products should still also be possible.

TravelPass products have often been seen as inequitable by the Ministry and by IPART. However, the above table shows that pricing is not too low when compared with through fares that are modelled to eliminate the interchange penalty. The real equity problem comes from the mode, period and place limitations on TravelPass availability. These limitations, and the possible implications for the new electronic transport ticketing system, were discussed further in my 2008 Bus Submission.