



Response to the IPART Discussion Papers:

**Determining CityRail's revenue requirement
and how it should be funded**

**Deciding on the structure and level of CityRail
fares**

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1. INTRODUCTION

This paper has been prepared by WSROC in response to the release by IPART of the discussion papers, *Determining CityRail's revenue requirement and how it should be funded* and *Deciding on the structure and level of CityRail fares*. This paper draws on WSROC's previous submission in response to the IPART review of the CityRail regulatory framework. It should be noted that WSROC has not responded to all questions or issues raised in the discussion papers, especially those where it is in broad agreement with IPART's proposals.

WSROC welcomes the opportunity to comment on the papers and recognises the significance of the current IPART review in setting a longer-term path for price determination. There are concerns however that the wider community has not fully recognised the significance of this review, given that it is not related directly to a current fare increase proposal. IPART might therefore like to consider broadening the process of consultation before making final recommendations on these matters.

2. DETERMINING CITYRAIL'S REVENUE REQUIREMENT AND HOW IT SHOULD BE FUNDED

2.1 Introduction

Assessment criteria for the review

WSROC supports the expansion of the assessment criteria and appreciates in particular the positive response to WSROC's request for an increased emphasis on support for Government policies.

WSROC still believes however that the assessment criteria should be widened to include references to environmental sustainability, the equitable distribution of CityRail services, greater provision of information to and consultation with rail passengers and the wider community as well as the integration of CityRail management, planning and service delivery with other public transport modes.

2.2 The services, standards, policies and other obligations to be taken into account in setting fares

NSW Government policy that relates to CityRail

WSROC notes that in addition to the policies outlined in the discussion paper, the State Government has indicated long-term intentions to build further metros beyond the North West Metro. These will have major implications for State Government investment strategies, within and outside of CityRail.

2.3 Length of determination period

How long should the determination period be?

WSROC supports in principle the proposal for a four-year determination period, with the first four years incorporating a transition to the new fare structure. The length of the determination period should also be reviewed after the first four years.

On what date should fares be increased?

WSROC does not have a view on this matter, but notes that changes in a number of State and Federal Government taxes and charges commence with the financial year. If substantial increases are contemplated, commuters may at least be able to assess the impacts in the context of potential changes to taxation rates and other charges (for example, car registrations) that also begin on 1st July. It could also be argued that a 1st January annual commencement may be seen by the community as CityRail trying to “hide” the increase in the holiday period.

2.4 Approach to determining CityRail's revenue requirements

The building block, operating and maintenance cost and the LRMC approaches

Whilst the Discussion Paper is correct in stating that WSROC has previously supported the operating and maintenance cost options, this support was always qualified on the basis that not all above rail costs should be recovered through the farebox. The operating and maintenance costs option was supported mainly on the grounds of simplicity and also because it clearly established the principle that the below rail infrastructure is unambiguously a monopoly government asset.

WSROC is not necessarily opposed to the building block approach but notes that it is a more complex model. It also may not necessarily be the most appropriate model for future lines such as the planned metros, especially if they involve some degree of private investment. WSROC would also like to reiterate the point made in its previous submission that fares should be set on an equitable basis across all areas and parts of the CityRail network, subject to special consideration of the needs of outer suburban passengers.

2.5 The total cost of providing CityRail's services

Efficient capital expenditure

WSROC supports the adjustment to the LEK model in respect of major periodic maintenance so that costs would be recovered over the life of the asset rather than year in which the costs are incurred.

Whilst WSROC does not have a position on either the staffing of stations or the provision of guards, there are major reservations about the proposals to eliminate both. The discussion paper notes that other Australian operators provide security and passenger safety services through other means (eg, CCTV) but this does not take into account some of the unique features of the Sydney rail network, including the number of station platforms on curves and the fact that it is the only rail system in Australia (and one of few in the world) to rely exclusively on double-deck trains.

This means that the implementation of CCTV and other technology is going to be considerably more expensive to install, maintain and monitor. For example, a three-

car single-deck Brisbane train with no internal dividing bulkheads and seating 220 passengers is considerably easier to fit and monitor with CCTV than an eight-car double-deck CityRail train which effectively has four compartments per carriage and seats around 840 passengers. The bulk of Sydney trains and a large number of stations also have little or no real-time electronic information systems, with this service provided by station staff and train guards.

Any estimate of the cost saved by eliminating guards and remaining station staff must therefore factor in the significant technological investment required to replace both.

Establishing and rolling forward the regulatory asset base

WSROC supports the proposal that the bulk of CityRail's assets are "sunk assets" and should not be reflected in setting CityRail's future fares.

2.6 The revenue requirement

Inputs to IPART's preliminary modelling of CityRail's revenue requirement

The estimates of growth in patronage levels outlined in table 6.6 are higher than Cityrail's historic growth rate, but may in fact be conservative given the impact of high fuel prices which already appears to have caused significant shifts to public transport.

2.7 External benefits of CityRail

The nature of the external benefits of CityRail services

Whilst the greatest impact of CityRail services in terms of external benefits such as greenhouse emissions, health impacts and road congestion is, as the discussion paper suggests, likely to be greater on routes serving the CBD, the externalities that apply on routes to other major employment centres should not be ignored.

Parramatta is the most obvious example of these, but other emerging regional centres in Western Sydney such as Blacktown, Liverpool and Penrith are starting to generate significant congestion in surrounding approach roads. In addition the planned extensions to the rail network mean that the costs of congestion in these areas will increasingly need to be considered in terms of CityRail's benefits.

In addition the removal of CityRail services would have a significant impact on routes not directly served by CityRail, especially on corridors to the CBD. Commuter traffic from the northwest of Sydney, for example, would be particularly affected by removal of North Shore and main north rail services. The comments summarised in the discussion paper from WSROC's response to the earlier issues papers regarding the broader external benefits of CityRail are also reiterated.

Estimating the value of the external benefits of CityRail

Both the RailCorp and CRAI estimates of the external benefits of CityRail used in the discussion paper seem very low. Much depends on what assumptions were made in each estimate about the allocation of passenger journeys to either bus or car travel if CityRail services were no longer provided and also about what, if any, alternative infrastructure would be constructed.

For example, if the road congestion estimates use a scenario in which a significant proportion of CityRail passengers use alternative bus services, assumptions would then have to be made regarding the levels of investment that would be made in additional buses and the construction of transitways or bus corridors. If a “do nothing” option was adopted regarding new bus infrastructure, then it would be unlikely that there would be a significant shift to buses even if CityRail services ceased to operate – or if there was, that these services would cope.

Similarly, if it is assumed that the bulk of CityRail passengers would shift to cars, then assumptions would need to be made regarding the provision of extra motorways, roads and car parking. There is nothing to suggest however that any significant allowance has been made in either the CityRail or CRAI estimates for the potentially huge costs of providing such infrastructure.

If the scenario is based predominantly on car use but with a “do nothing” option assuming that no additional road infrastructure is provided, then it is likely that direct congestion costs, as well as those resulting from the associated air pollution and greenhouse gases, would be much higher as several hundred thousand extra car journeys would have to be made using only the existing road network. This scenario would effectively cause massive congestion throughout the entire network and not just on roads leading to the CBD or only in areas currently served by CityRail (which is indeed what happens when there are rail strikes).

The likelihood of severe congestion problems if CityRail services ever ceased to operate is also underscored by a recent media report that suggests that car use in Sydney will increase well beyond State Plan targets, even under the most aggressive scenario of increased tolls, parking charges, fuel prices and improved public transport (SMH 28/07/08).

In addition, neither the RailCorp or CRAI estimates seems to have incorporated consideration of the health, social or economic costs on individuals and families (particularly low income earners) of an increased dependence on cars, let alone the significant additional impacts that would result from massive increases in congestion, especially linked with increasing fuel prices. The external benefits estimates therefore both need further exploration and the assumptions behind them need to be made more transparent.

In addition, whilst the comments in the discussion paper about the congestion benefits being predominantly associated with peak-time commuting to the CBD are correct, as mentioned earlier road congestion is already a significant issue around other centres served by CityRail, such as Parramatta. The current and planned expansion of the rail network is also promoted by Government and reinforces the role of regional cities and centres (most of which are on the CityRail network) as employment locations accessible by public transport as a congestion-free alternative to the road network.

2.8 The share of CityRail’s revenue requirement to be funded by passengers and taxpayers

IPART’s preliminary analysis of the appropriate shares to be funded by users and government

Whilst the suggestion that the external benefits of CityRail services should form a major component in determining the Government contribution to CityRail’s operations is supported in principle, WSROC has major concerns regarding the relatively low

estimates of these benefits (see response to section 7 above) and would urge that these be reconsidered.

WSROC is also concerned at the implications of the “worst case” scenario of a 70:30 split between Government and farebox contributions combined with a full valuation of the Epping to Chatswood Rail Link (ECRL). This would result in a 9.4% increase to 2012 – not including any additional increases proposed in the IPART companion discussion paper on the structure and level of CityRail fares.

Consistent with our qualified support for the operating and maintenance cost model, WSROC would support the proposal that the value of the ECRL be written down to zero and that future rail expansion projects which support explicit Government commitments and which do not provide major direct benefits to *existing* CityRail passengers should also be written down substantially.

Any additional increases proposed by IPART on the basis of the current discussion papers should take into account the capacity of the community to pay, particularly in Western Sydney. Such increases should also be phased in and preferably linked to substantial improvements in CityRail's performance.

3. DECIDING ON THE STRUCTURE AND LEVEL OF CITYRAIL FARES

3.1 Introduction

Assessment criteria for the review

As stated in response to the companion IPART discussion paper on determining CityRail's revenue requirements, WSROC supports the expansion of the assessment criteria and appreciates in particular the positive response to WSROC's request for an increased emphasis on support for Government policies.

WSROC still believes that the assessment criteria should be widened to include references to environmental sustainability, the equitable distribution of CityRail services, greater provision of information to and consultation with rail passengers and the wider community as well as the integration of CityRail management, planning and service delivery with other public transport modes.

3.2 Understanding the demand for CityRail services

The different markets for CityRail services and demand characteristics of these markets

Previous IPART recommendations regarding off-peak fares and decisions by CityRail to reduce off-peak services have both reinforced increases in demand during peak periods potentially at the expense of off-peak patronage, as outlined below in response to section 3 of the discussion paper. As the paper acknowledges, it is likely that price elasticities differ for peak and off-peak passengers, though this discussion fails to take into account the impacts of reductions in the frequency of off-peak and weekend rail services.

Historical trends in demand for CityRail services

Recent figures would suggest that use of CityRail services is increasing at an even faster rate than that outlined in the discussion paper. For example figures produced

by the Transport Data Centre indicate that 74.6% of peak hour trips into the CBD were on public transport and the proportion of journeys to work on public transport generally was 22.1% in 2006, up from the 20.1% registered in 2004.

Impacts of demand characteristics and trends and forecast trends in demand

Whilst WSROC supports in principle IPART's desire to alleviate peak hour capacity constraints to changes to the CityRail fare structure to encourage efficiency, as acknowledged elsewhere in the discussion paper, use of the rail network during peak hour presents a far better alternative in terms of external benefits than private car use.

As mentioned in the section responding to the discussion paper on CityRail's revenue requirements, recent media reports suggest that private car use, particularly during peak hour, continues to increase at an even faster rate than public transport patronage. It is therefore important that changes in the CityRail fare structure do not exacerbate this trend by forcing more people into private vehicle use.

3.3 Improving peak and off-peak fares

What are the options for meeting the impact of high peak-period demand?

WSROC supports the use of both supply-side and demand-side measures to manage peak hour congestion on CityRail services. However, whilst acknowledging IPART's concerns over the cost of major infrastructure projects to increase the supply of capacity, Sydney and in particular Western Sydney have suffered for far too long from the inadequate and delayed provision of rail infrastructure. It is essential that new infrastructure is provided at the time it is needed, rather than being retrofitted at considerable extra expense.

WSROC also supports the specific demand-side measures outlined in the discussion paper relating to the structure of peak and off-peak fares and encouragement of employment growth outside the CBD and of greater workplace and lifestyle flexibility.

What should IPART consider in deciding on the structure and level of peak and off-peak fares and in reviewing off-peak ticket products and conditions related to the use of these products?

WSROC does not have a strong view on whether the peak hour fare should be the basis for fare-setting with an off-peak discount, or vice versa, but if as has been proposed in the companion discussion paper the external benefits of CityRail should be the basis for determining the Government's contribution, these benefits are strongest in the context of peak-hour travel.

In relation to off-peak fares, WSROC argued strongly in its 2006 submission that whilst the then average 39% discount was well-priced and did not restrict use in the evening peak, CityRail off-peak tickets did not provide the same opportunities for multiple trips as those sold in most other Australian cities. WSROC expressed concerns at the potential impacts on off-peak patronage of a substantial increase in fares, especially when combined with the reductions in off-peak services introduced in 2005.

These concerns appear to have been borne out by the figures quoted in the discussion paper of the subsequent reduction in demand of 5.7% in off-peak periods. According to IPART, these "missing" passengers fall into two groups: the first

(presumably commuters) switched back to peak-hour services – as the discussion paper puts it, the value of the off-peak ticket no longer outweighed the inconvenience of off-peak travel. The second group gave up using CityRail services at all. These passengers mainly travel for discretionary reasons and either used alternative modes or did not travel at all.

The discussion paper also acknowledges the impact of reduced frequencies in off-peak rail services is a major barrier to peak-hour passengers in changing their travel patterns. WSROC argued in a submission to CityRail in 2005 that the then proposed reductions in off-peak service frequencies would be counterproductive, particularly during the “shoulders” to the peak hour period.

In this submission WSROC urged that a minimum of a 10 to 15 minute frequency was required during off-peak and the weekend periods to retain patronage. WSROC therefore strongly supports IPART’s comment that:

“...an effective price signal such as an appropriate off-peak discount, combined with service quality improvements in the off-peak are considerably more likely to be effective in shifting the timing of demand than a price signal alone. That is, there needs to be an integrated package of measures to address congestion and crowding stemming from peak demand.” (pp36-37)

WSROC has not formed a view regarding an appropriate level of off-peak discount, though it should be noted that since the release of the discussion paper, the State Government has announced a trial of a 50% discount for off-peak travel on journeys arriving in the CBD before 7.15 am or between 9.15 am and 10.15 am.

It is suggested that a two tier system of off-peak tickets could be considered. The first could be similar to the current ticket with a 30% discount, made available to travel after 9.00 a.m. and at any time in the evening (as is currently the case). The second could be an expansion of the current 50% discount trial or even the introduction of free travel, as is currently available in Melbourne, but provided on a more time restricted basis with limits on its use during both morning and evening peaks.

Both of these options could be made available as weekly or TravelTen-style tickets. The second option in particular made more widely available on non-congested parts of the network and on weekends. It should also be made available for travel to regional centres outside the CBD, such as Parramatta. As well as increasing public transport use for commuters to jobs already in these centres, this could encourage employers to consider moving jobs out of the CBD to these locations.

Whilst it may be appropriate that the higher-discount ticket is not available for travel during the evening peak, the current 30% off-peak ticket should be. Any moves to restrict its use further, especially during the evening peak, are likely to exacerbate the drift back to peak-hour travel for the reasons the discussion paper itself referred to earlier.

3.4 Improving CityRail’s distance based fare structure

Fare structure options and IPART’s preferred option

WSROC acknowledges that the current weekly fare structure discriminates against commuters making journeys under 35km and in favour of those over 35km and that a more consistent approach should be adopted. This is particularly the case in relation

to trips over 175km, where the discount exceeds 60% (though it can be assumed that the distances involved rule out widespread use of weekly tickets on these routes).

However, WSROC's preference is for the discount in the range of 25% to 35% rather than IPART's preference for a flat 20% discount. As the discussion paper notes, the provision of cheaper transport fares to outer suburban areas is consistent with "broader government planning objectives" and social equity considerations. Outer suburban residents often have to factor in the cost of an additional bus or car journey to and from the station as well as considerably greater additional travel time.

Given the length of their journeys, it can be argued that the external benefits of encouraging rail travel by outer suburban travellers are proportionately greater – and the higher discounts also compensate them for less frequent services. A number of these residents also have made major life choices about where to live and work based on assumptions about the relative stability of rail fares.

WSROC would urge that any move towards a more consistent fare be phased in gradually to reduce the impact on low-income families in Western Sydney and would also encourage adoption of a range of 25% to 35% discount, with the latter applying in outer suburban areas.

WSROC notes IPART's preference to retain the current distance-based system rather than move to a zonal one. Whilst there is no objection to this in principle, it does result in a very complex system compared to that used in many other cities. In addition, as WSROC stated in its previous submission, the Tcard experience has clearly demonstrated that the complexity of this system needs to be addressed before electronic smartcard ticketing can be introduced successfully.

WSROC therefore continues to support in principle the adoption of a zonal or hybrid zonal and distance-based ticket system, provided it does not disadvantage long-distance travellers. The introduction of a zonal system will require careful planning to fully take into account Sydney's increasing multi-focal nature, but this could serve to encourage travel to major centres in these outer zones rather than the CBD.

As WSROC indicated in its previous submission:

"The fare structure should also be fully integrated with public and private bus operators as well as with other existing and future transport providers (ferry, tram etc). The full range of "bulk purchase" and discount fares such as TravelTens and travel passes should be available to all these users who should not be required to pay 'flagfalls' when changing between operators and modes.

"It is extremely disappointing for all transport users – particularly those changing between modes – that the Tcard failed. WSROC urges the introduction of a new electronic ticketing system as soon as possible."

3.5 Social impact of fare determination

Profile of CityRail passengers

Whilst the discussion paper claims that CityRail fare determinations affect less than 20% of Sydney's population, they also have an indirect impact on the wider community. For example, the extent to which changes to CityRail fares affects public transport patronage will also impact on road users, particularly in peak hour.

WSROC is concerned at the income profile data presented in the discussion paper and has raised this issue in previous submissions. It is simply not appropriate to compare the median annual household income of CityRail passengers with the median annual household income of all Sydney households, especially in relation to commuters who make up the bulk of CityRail's passengers during peak hour. The more appropriate comparison is between the average annual individual income of CityRail passengers, especially peak hour travellers, and that of the general Sydney population in the workforce.

WSROC is also concerned at suggestions that discounted periodical tickets may no longer need to be offered in an electronic ticketing system. The discount for periodical tickets is not only to reduce queues at ticket windows and machines, but also as a reward for customer loyalty. It is acknowledged, however, that a similar level of reward could be offered through electronic ticketing by discounting or even offering free travel for all subsequent journeys once a certain threshold has been reached, either within a week and/or a 24-hour period. This approach could effectively replace the periodical ticket concept.

Relative costs of CityRail fares.

Although the availability of concession fares and off-peak fares reduces the impact of fare increases on those with a lesser capacity to pay, particularly those who are using CityRail services for discretionary rather than commuter travel, the socio-economic impact of all CityRail fare increases still needs to be considered in relation to the working as well as the non-working population.