

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

**REVIEW OF METROPOLITAN AND OUTER METROPOLITAN BUS FARES
REVIEW OF RURAL AND REGIONAL BUS FARES
REVIEW OF THE STOCKTON AND PRIVATE FERRIES FARES**

Tribunal Members

**Mr James Cox, CEO and Acting Chairman
Ms Sibylle Krieger, Part-Time Member**

Members of IPART Secretariat

**Mr Brett Everett
Ms Fiona Towers
Ms Ineke Ogilvy**

**Held at Level 8,
1 Market Street, Sydney**

On Wednesday, 11 November 2009, at 2pm

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1 THE ACTING CHAIRMAN: Good afternoon, ladies and
2 gentlemen. I think we might make a start now. My name is
3 Jim Cox and I am the Acting Chairman and Chief Executive
4 Officer of IPART.
5
6 I would like to begin by welcoming you all to this
7 public hearing which is being conducted by IPART as part of
8 our reviews of fares for metropolitan and outer
9 metropolitan buses, rural and regional buses and the
10 Stockton and private ferries from 2010.
11
12 I would like to begin by introducing my fellow
13 Tribunal member. On my right is Sibylle Krieger, a
14 part-time member of the Tribunal. On her right are the
15 members of the IPART Secretariat, Brett Everett,
16 Ineke Ogilvy and Fiona Towers.
17
18 Today's public hearing provides stakeholders with an
19 opportunity to comment on three of our reviews. The agenda
20 breaks the afternoon into three sections. The first and
21 largest section of the hearing will deal with our review of
22 fares for metropolitan and outer metropolitan bus services
23 from January 2010.
24
25 We are conducting this review under section 28J of the
26 Passenger Transport Act. Section 28J enables IPART to
27 conduct investigations and make reports to the Minister on
28 appropriate maximum bus fares for buses in Sydney,
29 Newcastle, Wollongong, the Blue Mountains, the
30 Central Coast and the Hunter.
31
32 Bus services in metropolitan and outer metropolitan
33 Sydney are delivered under bus service contracts where the
34 New South Wales Government pays operators, such as the
35 State Transit Authority, Busways and Veolia Transport, to
36 provide services in their contract area. IPART does not
37 have a role in enforcing these service contracts and so
38 cannot make orders or set targets in relation to aspects of
39 services, such as patronage, efficiency or service
40 standards. These aspects are enforced by the New South
41 Wales Department of Transport and Infrastructure.
42
43 We released a draft report in October which set out
44 our draft determination and the decisions that underpin it.
45 Today's hearing provides stakeholders with the opportunity
46 to put forward their views on those draft decisions and the
47 fare outcomes that were included in IPART's fare

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1 determination. It will also give stakeholders the
2 opportunity to ask questions about the review prior to
3 finalising their submissions which are required by
4 16 November. Submissions on our draft report and
5 determination will close on that date. After considering
6 these submissions, we will release our final report and
7 determination in December.
8
9 Today we will answer any questions you may have on
10 these issues and we will take them on notice if we can't
11 answer them all today. We will note any comments on the
12 draft determination that you make for our consideration.
13 That is the first section.
14
15 The second section of the hearing will deal with our
16 review of fares for rural and regional bus services from
17 2010. This review is also being conducted under
18 section 28J of the Passenger Transport Act. These fares
19 apply to bus services provided outside the metropolitan and
20 outer metropolitan areas that I have just described. In
21 September we released a fact sheet that summarised the
22 review process, outlined indicative fare outcomes and
23 called for submissions from stakeholders.
24
25 At today's hearing we will provide an update on the
26 approach that will be taken and the likely fare outcomes.
27 Stakeholders will then be invited to provide comment.
28 After considering these comments, we will release a report
29 and fare determination in mid-December so that fare changes
30 can take effect in January 2010.
31
32 The third section of the hearing will deal with our
33 review of fares for the Stockton Ferry and private ferries.
34 We are conducting our review of fares for the
35 Stockton Ferry under section 11 of the IPART Act.
36 Section 11 provides for us to determine maximum fares for
37 the Stockton Ferry. We will make our next determination
38 in December 2009 for fare changes to take effect from
39 January 2010.
40
41 We are conducting our review of fares for regular
42 private ferry services under section 9 of the IPART Act.
43 Section 9 enables us to recommend maximum fares for regular
44 private ferry services. We will make these recommendations
45 by December 2009. The Director-General of New South Wales
46 Transport and Infrastructure will then determine the fares
47 that will apply after considering IPART's recommendations.

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1 Setting maximum fares is the only role that IPART has in
2 relation to private ferry services.
3
4 In September we released a fact sheet summarising the
5 review process for Stockton and private ferries that
6 outlined indicative fare outcomes and called for
7 submissions from stakeholders. At today's hearing we will
8 provide an update on the approach that will be taken and
9 the likely fare outcomes and then stakeholders will be
10 invited to provide comment.
11
12 For each of the three sections of today's hearing
13 Brett Everett, a member of the IPART Secretariat, will
14 provide a presentation that outlines the key issues on
15 which we are seeking comment. Then I will ask each of the
16 stakeholders to make a brief comment that sets out their
17 views on the issue and any questions they may have. I ask
18 that each stakeholder please restrict their comments and
19 questions to the relevant session and as always, I would
20 ask that the presenters should not be disturbed while
21 they're making a comment.
22
23 I would also like to say upfront that IPART recognises
24 that its reviews are time consuming for the stakeholders
25 involved. We would like to thank the many individuals and
26 organisations that have taken the time to provide
27 thoughtful and detailed submissions to IPART. Previous
28 reports by IPART, along with the two reports from its
29 consultants, LECG and Indec, and also stakeholder
30 submissions, are available to the public through the IPART
31 website.
32
33 This hearing will be transcribed so that IPART has a
34 record of what is said at the meeting to help us in
35 finalising our work and of course that record will be
36 available to any member of the public through our website.
37 Because we are making a record, it will be useful if you
38 can introduce yourselves for the benefit of the
39 transcribers when you start to speak and it is also
40 important to speak slowly and clearly.
41
42 I will now hand over to Brett Everett who will
43 introduce our first session on metropolitan and outer
44 metropolitan buses.
45
46 MR EVERETT: Thank you, Jim. Good afternoon, ladies and
47 gentlemen. My name is Brett Everett. I am a member of the

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1 IPART Secretariat. As Jim mentioned, the first area we are
2 going to discuss in the hearing today is our recent draft
3 decision on metropolitan and outer metropolitan bus fares.

4
5 At today's hearing there are four areas that we would
6 like to discuss. These are IPART's approach to setting
7 fares for this review, including our overall approach, the
8 number of regions that we use to set fares and the length
9 of the determination period. We will then move on to
10 discuss the costs of providing bus services. As discussed
11 in our draft report, both bus operators and the RTA incur
12 costs in providing bus services to passengers and we are
13 going to discuss both of these elements.

14
15 The third area we will look at is the external
16 benefits of bus services. The external benefits of bus
17 services are the indirect benefits that accrue to the wider
18 community rather than individual passengers as a result of
19 the provision and use of these services. They are
20 important in determining the level of government subsidy
21 that is justified and are therefore an important element in
22 determining fares.

23
24 Finally, we will spend some time discussing our
25 proposed fare structure and the levels of fare increase.
26 For each of these areas I am going to provide a brief
27 presentation on IPART's approach before inviting comment
28 from stakeholders here today.

29
30 The approach that we have used to set fares is
31 significantly different from the approach that we have used
32 in the past. The approach is more rigorous and robust and
33 is consistent with the approach that we used in the recent
34 CityRail determination. We have decided to set fares that
35 reflect the efficient costs of providing bus services less
36 the government subsidy, where this government subsidy is
37 equal to the external benefits that these services provide.

38
39 To do this we have sought advice from two
40 consultants. We engaged Indec Consulting to provide advice
41 on the efficient levels of operating and capital
42 expenditure and we engaged LECG to provide advice on the
43 value of external benefits. Using this information,
44 we have proposed fares for all 25 metropolitan and outer
45 metropolitan contract regions based on the efficient costs
46 and external benefits of providing bus services in the four
47 largest regions. These are the regions operated by

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1 Sydney Buses.
2
3 In doing this I should also point out that we focused
4 on bus services that are provided to fare-paying passengers
5 as opposed to bus services provided to school students
6 under the School Student Travel Scheme, or the SSTS.
7
8 For the first time as well we propose to set fares for
9 the next four years, so this determination will take effect
10 in January 2010 and finish in December 2013. We think that
11 this approach is the best approach for meeting the
12 objectives of the review. It should ensure that passengers
13 make a fair contribution to the efficient costs of
14 providing bus services and also encourage optimal use of
15 bus services.
16
17 We will move on to the first of these areas and look
18 at why we focused on using the four largest regions.
19 The Government's fare harmonisation policy means that we
20 must set consistent fares across 24 of the 25 contract
21 regions in metropolitan and outer metropolitan Sydney even
22 though we recognise that bus services and the costs of
23 providing those services vary from region to region. The
24 only region that has different fares - which are time based
25 - is outer metropolitan region 5 which is serviced by
26 Newcastle Buses.
27
28 We decided to base our estimate of efficient costs on
29 a detailed analysis of the costs in the four largest
30 regions rather than in all regions or a bigger sample of
31 regions. These regions capture 75 per cent of all
32 fare-paying passenger journeys. These regions also capture
33 the lowest per passenger costs and the majority of external
34 benefits of bus travel.
35
36 In making this decision the Tribunal considered how
37 best to meet the objectives for the review, in particular,
38 ensuring that passengers are making a fair contribution and
39 sending the right price signals to passengers to encourage
40 the optimal use of bus services.
41
42 The Tribunal recognises that there are differences
43 across the contract regions in terms of cost structure, the
44 level of external benefits and operating conditions, but
45 given that we can't set different fares in each region due
46 to the fare harmonisation policy, even if we were able to
47 obtain adequate information on all of these regions, fares

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1 won't necessarily reflect these differences.
2
3 The final point that we noted there is that data on
4 costs and the number of boardings is not reliable enough to
5 include additional regions for fare setting at this stage.
6 In our report we made several recommendations that aim to
7 improve the data that is collected so that we can further
8 consider this issue as part of the next fare review.
9
10 As I mentioned a moment ago, we decided to estimate
11 the efficient costs of providing bus services for
12 fare-paying passengers only. This means that we explicitly
13 excluded the costs of providing free travel to school
14 students under the School Student Travel Scheme. Under
15 this scheme, bus operators provide free travel to students
16 to and from their schools and operators receive
17 compensation for these services through their contract
18 payments. IPART doesn't have a role in determining the
19 level of these payments.
20
21 To ensure that we only included the costs of providing
22 services to fare-paying passengers, we deducted the
23 estimated efficient costs attributable to the SSTS from the
24 total costs of providing all services. This deduction
25 means that fare-paying passengers do not cross-subsidise
26 the cost of the SSTS, or - to put it another way -
27 government and not fare-paying passengers are funding free
28 travel to school students.
29
30 As I mentioned, IPART is proposing to set a four-year
31 determination starting in 2010. Historically, the Tribunal
32 has set fares on an annual basis, but as part of this
33 review the Tribunal had proposed that a four-year
34 determination is preferred. In December 2010, 2011 and
35 2012 we will release a ticket schedule that will show how
36 the fares for the following year will be adjusted for CPI
37 and rounded in accordance with the determination, but we
38 won't be reconsidering the level of fares again until 2013.
39
40 A multi-year determination has several benefits over
41 an annual determination. These include reducing the costs
42 of regulation in terms of IPART, New South Wales Transport
43 and Infrastructure and other stakeholder resources, as well
44 as providing a better fit with the seven-year contracts
45 that are in place between the bus operators and Government.
46 Most importantly, we see that a multi-year determination
47 provides passengers, Government and the future e-ticket

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1 provider with greater certainty around fare levels and fare
2 structure.
3
4 We did consider whether to set a three-year
5 determination to align our reviews of bus and train fares,
6 as was suggested by most submissions in response to our
7 issues paper. We acknowledge that a key benefit of this
8 would be the ability to consider changes in the structure
9 of bus and train fares and the relativities between single
10 and multi-mode travel passes at the same time. However, on
11 balance, we think that four years provides greater
12 certainty and also allows stakeholders to more fully
13 consider issues that are specific to bus fares.
14
15 What does this approach mean for fares? The approach
16 we have applied, in particular the way we incorporate the
17 costs of providing bus services based on the four largest
18 regions, means that fares for the vast majority of
19 passengers are based on the efficient costs and external
20 benefits of the services that they use. For the remaining
21 passengers, fares are likely to be below these relevant
22 costs and benefits.
23
24 Focusing on the costs of fare-paying passengers in the
25 four largest regions also means, as I mentioned, that
26 taxpayers and not bus passengers pay for the costs of
27 Government social policies, such as the SSTS and fare
28 harmonisation.
29
30 I would now like to invite comment from stakeholders
31 who are here today on this section of the hearing.
32
33 THE ACTING CHAIRMAN: We might start off with people
34 sitting at the table, if they wish to make any overall
35 comments on this section.
36
37 MS QUILTY: Thank you, Mr Chair. Joanna Quilty from
38 New South Wales Transport and Infrastructure. Firstly, we
39 would like to acknowledge the obviously considerable work
40 that IPART has undertaken in this draft determination
41 process to date. We do consider that an economic
42 assessment of the costs and benefits of bus services is
43 a useful input into the process of determining any level of
44 fare increase.
45
46 However, we would stress that other factors also need
47 to be given some weight in the process. It isn't purely an

1 economic assessment. Government policy on social and
2 economic inclusion, affordability concerns, particularly
3 for long-distance commuters, given current economic
4 conditions, and also things like the state plan objective
5 to encourage take-up of public transport also need to be
6 given consideration.
7
8 Our view is that at the end of the day, any fare
9 increase has to pass the test of being fair and reasonable,
10 and we certainly think that what is proposed here is fair
11 and reasonable, but I guess our point is that it shouldn't
12 purely be based on an economic assessment.
13
14 In terms of the number of regions considered, we felt
15 that if you were looking at efficient costs, recognising
16 that regions, because of a range of different factors, will
17 in fact have different costs associated with bus service
18 provision, then on that basis it seemed logical to look at
19 as many regions as you possibly could. But, again, we also
20 felt that efficient costs shouldn't be the driving factor.
21 It's an important consideration; it needs to feed into the
22 process, but other things should be considered as well.
23
24 In terms of the length of the determination period, we
25 certainly support a multi-year determination and the
26 benefits that that will bring for passengers and for
27 operators. We do think that there are further benefits if
28 the bus fare-setting process was directly aligned with the
29 rail process so that there was, in a sense, only one
30 fare-setting process. We think that that would have
31 additional benefits, so we would certainly put that on the
32 table for consideration.
33
34 That's probably all we would want to say at this
35 point.
36
37 THE ACTING CHAIRMAN: Thank you very much.
38
39 MR MILES: Thank you, Mr Chairman. Allan Miles, Action
40 for Public Transport. I don't want to say a lot here,
41 because most of what I have to say is in the lengthy
42 submission. First of all, APT supports the fare increases
43 proposed for this year and the succeeding years.
44
45 At the end of the following year and the following
46 year, is there to be some public consultation or will you
47 just say, "This is the 1.5 per cent plus CPI for this

1 year?"

2

3 Whilst we don't agree with the whole concept of the

4 fare-setting process, as we said in our submission, we

5 believe that the IPART and Government should be saying,

6 "What sort of fare level do we need to ensure maximum use

7 of Sydney's public transport system?" The current system

8 seems to be going about it the other way around. However,

9 we're happy to go along with that for the moment.

10

11 I have no great opinion about three-year or four-year

12 terms. I realise that if you have bus and train fares

13 aligned, that is a lot more work for IPART.

14

15 One other question that you might take on board is on

16 the words "optimal use". Brett talked about giving the

17 right price signals to passengers to encourage the optimal

18 use of buses. Is there a definition of "optimal use"?

19 That's all I have to say at this point.

20

21 THE ACTING CHAIRMAN: My understanding is that there is

22 no intention that there be a public process in future years.

23 All we will do is take the CPI figure and add on the

24 1.5 per cent and set fares on that basis. I don't think we

25 would need a public process to do that.

26

27 In terms of "optimal", we did discuss the issue of

28 optimal fares in our report. What we tried to do was to

29 say that you have to look at the advantages and

30 disadvantages of different fare levels for relevant

31 parties - passengers, bus operators, Government and the

32 broader community - and it is a matter of setting a balance

33 between those considerations. That led us to the sorts of

34 fare levels that we are suggesting now.

35

36 MR MILES: I'm sorry, it's optimal use of bus services,

37 not fares.

38

39 THE ACTING CHAIRMAN: We thought of optimal fares.

40 I would say that the optimal use of bus services is the one

41 which results from optimal fares.

42

43 MR WORRELL: My name is Hugh Worrell. I'm from

44 Western Sydney Community Forum. I also sit on the Transport

45 Policy Advisory Group with the Council of Social Service.

46

47 I don't have anything very different from what the two

1 previous speakers have said. On the issue of the time

2 frames, I felt quite concerned, given the number of broader

3 processes that are going on at the moment that are likely

4 to impact on the way fares are calculated and the

5 structures of the fares. All of those points are in our

6 submissions. Things such as the carbon pollution reduction

7 scheme, the transfer to e-ticketing and the shifting

8 perception of the way people use public transport could all

9 potentially have a huge impact on the way we price the

10 tickets.

11

12 I am concerned that a four-yearly hearing will not

13 allow enough input into those processes. I think that's

14 all I have to say for that part - apart from the regions.

15 Coming from western Sydney, obviously there's some concern

16 that all the four regions chosen were STA regions, and most

17 of the western Sydney regions are run by private

18 contractors. We were worried about what effect that would

19 have on skewing the results, but it is covered in your

20 report. You have allowed for that, and you think that

21 actually it will be an advantage for western Sydney people

22 to have it done that way, so we're happy to run with that.

23 That's all I have to say.

24

25 THE ACTING CHAIRMAN: Thank you very much. Are there

26 any further comments from people at the table? I might see if

27 anyone in the back of the room wants to say anything at

28 this stage? Okay, we can move on to the next session.

29

30 MR EVERETT: The second area that we will discuss today is

31 the efficient costs of providing bus services.

32

33 IPART is required under the legislation to have regard

34 to the costs of providing bus services as well as the need

35 for greater efficiency in the supply of these services.

36

37 The Tribunal undertook a detailed examination of the

38 costs of providing bus services in the four largest

39 regions. The Tribunal considered two types of costs that

40 are incurred in providing bus services. The first set

41 includes costs that are incurred by the operator of the

42 four largest regions, such as driver wages, fuel,

43 maintenance and other overhead costs. The second set of

44 costs are those incurred by the RTA on bus priority

45 measures, such as bus only and bus lanes and priority

46 traffic signals.

47

1 This approach means that passengers pay a fair share
2 of all the relevant costs of providing bus services. These
3 include operating costs as well as capital costs, such as
4 depreciation and a return on capital. It also means that
5 passengers are not being asked to pay for any inefficient
6 costs.
7
8 To estimate the efficient costs of the operator of the
9 four largest regions, IPART engaged Indec Consulting.
10 Indec provided recommendations on the efficient levels of
11 operating and capital expenditure for the next five years,
12 and we have published Indec's report on our website.
13
14 Indec's review was based on a detailed examination of
15 the forecast operating and capital costs of the operator of
16 the four largest regions. Indec also took into account
17 several factors, such as the particular service and
18 performance obligations that an operator is required to
19 meet under its contract, such as the number and frequency
20 of services.
21
22 It also took into account the operating environment in
23 the four largest regions, such as the levels of traffic
24 congestion and passenger density, and it also looked at the
25 operating costs, service and performance obligations and
26 operating environments of private bus operators in
27 Australia and also overseas.
28
29 Indec also took into account the ability of the
30 current operator to move towards efficient levels, given
31 several technological, managerial and Government
32 constraints, and recommended achievable levels of
33 operator-incurred operating costs. The Tribunal accepted
34 these recommendations with one small adjustment that I will
35 come to.
36
37 The Tribunal decided that the efficient level of
38 operating expenditure incurred by the operator of the four
39 largest regions is around \$480 million to \$490 million per
40 year. This figure includes driver costs, fuel prices,
41 ticketing costs, overheads, maintenance and insurance.
42
43 However, the Tribunal did decide to make one
44 adjustment to Indec's recommended achievable levels of
45 expenditure. The Tribunal decided that the level of
46 expenditure should not include inefficient costs associated
47 with an operator's governance and procurement practices.

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1 Whilst the Tribunal recognises that the Government and the
2 community in general require higher levels of governance
3 and procurement in state-owned corporations, it does not
4 consider that passengers should be asked to contribute to
5 the additional cost that this involves. These costs were
6 therefore removed from Indec's recommended achievable
7 efficient costs in each year of the determination period.
8

9 With respect to capital expenditure, the Tribunal has
10 included an allowance of between \$80 million and
11 \$180 million per year. This is mainly to allow for the
12 purchase of additional buses and some other capital
13 expenditure, such as depot capacity.
14

15 The Tribunal also decided on the current value of
16 assets on which it allows a return on investment and
17 depreciation. These assets are largely buses, land, depot
18 and buildings. The Tribunal considers that a value of
19 around \$600 million reflects the appropriate amount of
20 capital required by the operator of the four largest
21 regions.
22

23 The second element of costs are those incurred by the
24 RTA on bus priority measures. The Tribunal considers that
25 passengers should contribute to these costs in a similar
26 way that rail passengers contribute to the costs of railway
27 tracks. These measures provide a direct benefit to
28 passengers through shorter journey times and so should be
29 included in the total efficient costs of providing bus
30 services. However, the Tribunal only included expenditure
31 on assets that could be clearly attributed to bus services.
32

33 We included RTA operating expenditure of \$15 million
34 in each year of the determination. The Tribunal included
35 RTA capital expenditure of \$87.5 million, which is
36 50 per cent of the cost of the new Inner West Busway. It
37 also provided an ongoing capital expenditure allowance of
38 \$25 million per year for three years on bus priority
39 measures.
40

41 The Tribunal considered that not including this
42 expenditure in the total costs of providing bus services
43 would not meet its objectives, because bus passengers would
44 not be making a contribution to the full cost of their bus
45 services.
46

47 Although we have included a contribution to the RTA

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1 costs, it is important to note that not all of the costs
2 are passed on to bus passengers through fares. Like the
3 operator-incurred costs, RTA costs are shared between bus
4 passengers and taxpayers, depending on the external
5 benefits of bus services.

6
7 I would now like to invite comment from other
8 stakeholders on these issues.

9
10 MS QUILTY: Mr Chair, I don't have a lot to add to my
11 opening comments on this issue, except to say that
12 New South Wales Transport and Infrastructure does
13 acknowledge that, in some instances, the costs and other
14 data that we collect from operators does need further
15 refinement, and we are certainly working with operators on
16 that issue. We would hope that, going forward, we will
17 have some better data about costs across the whole of the
18 industry.

19
20 THE ACTING CHAIRMAN: Thank you.

21
22 MR MILES: We agree with the general concept of
23 determining the costs. However, as mentioned in our
24 submission, we take great exception to RTA expenditure on
25 anything with the word "bus" in its name being called "bus
26 priority". It is not. Bus bays are bus denigrations -
27 I can't think of a better word. And the so-called Inner
28 West Busway is not a busway. It's just an expansion of the
29 roadway, and motorists will get just as much benefit from
30 that as buses will.

31
32 Other bus priority measures are similar. I have been
33 in buses on the transitway where the bus driver has learned
34 not wait at the "B" lights but to go around the corner with
35 the general traffic lights, because it's much quicker.
36 I trust that the Tribunal will revise how much of the RTA
37 figures actually go to the debit of the bus users.

38
39 THE ACTING CHAIRMAN: Could you explain for my
40 benefit the point you have on the bus bays?

41
42 MR MILES: Because they're not designed to benefit bus
43 passengers. They're designed to benefit motorists by
44 getting the buses out of the general traffic. It
45 inconveniences the bus passengers when the bus can't get
46 back into the general line of traffic.

47

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1 THE ACTING CHAIRMAN: And what about the Inner West
2 Busway?

3
4 MR MILES: I'm not the expert on that, but my colleague
5 Kevin Eadie compiled a couple of pages in our submission to
6 say that it was never originally called a busway; it was
7 the Victoria Road duplication and the Iron Cove Bridge
8 duplication, and only in April this year did the Minister
9 decide to rename it the Inner West Busway. Whilst it will
10 be of benefit to bus passengers, it will be of equal
11 benefit to car users, and bus passengers should not have to
12 wear the total cost of the improvement.

13
14 THE ACTING CHAIRMAN: But perhaps some share might
15 not be inappropriate?

16
17 MR MILES: Some share.

18
19 MS TOWERS: In the Tribunal's report, it is a 50 per cent
20 share to bus users. Could I ask a question? Do the
21 express buses benefit from the bus bays? Do they let other
22 buses pull over so that they can continue on, so passengers
23 do get some benefit?

24
25 MR MILES: There are bus lanes. Between 3pm and 7pm,
26 buses whiz past all the cars parked in the middle of the
27 road, but there is not much cost in that, just some red
28 paint.

29
30 THE ACTING CHAIRMAN: Okay, we will have a further
31 think about bus bays in particular.

32
33 MR MILES: On Coronation Drive in Brisbane, they're a real
34 pain. Buses to the city go into a bay and then can't get
35 out again, or it's difficult to get out.

36
37 THE ACTING CHAIRMAN: Thank you.

38
39 MR WORRELL: Hugh Worrell, Western Sydney Community
40 Forum. It's a bit out of our area of expertise, so I don't have
41 a lot to say on the pricing. It seems a fair enough
42 process. I just support what Allan said. Obviously, buses
43 will always run on the road, so it seems a bit arbitrary
44 now to start pulling out numbers, but I guess it has to be
45 done at some point.

46
47 THE ACTING CHAIRMAN: The other side of all that, of

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1 course, is that we're now moving into a period in which
2 public expenditure is going to be pretty constrained, and
3 it may be that the Government would be more willing to make
4 improvements that benefit bus passengers if bus passengers
5 pay a share of the cost. I think that's also a relevant
6 point.

7
8 Does anyone at the back want to make a comment? It
9 seems that we're broadly in agreement, so we'll move on.

10
11 MR EVERETT: The third area of the metropolitan and outer
12 metropolitan draft determination that I would like to
13 discuss is the external benefits of bus services.

14
15 As I mentioned earlier, the external benefits of bus
16 services are the indirect benefits that accrue to the
17 community at large, rather than individual passengers, as
18 a result of the provision and use of those bus services.
19 For example, these benefits include reduced road
20 congestion, reduced traffic accidents and reduced air
21 pollution.

22
23 The Tribunal considers that the external benefits
24 generated by bus services justify Government subsidisation
25 of bus fares and that the size of the subsidy should equal
26 the value of the external benefits.

27
28 After estimating the total costs of providing bus
29 services in the four largest regions, the Tribunal then
30 estimated the value of external benefits generated by these
31 bus services. It then subtracted this amount from the
32 total efficient costs of providing bus services to give an
33 estimate of the amount passengers should fund through
34 fares.

35
36 Including the value of external benefits when setting
37 fares is an important step, because it means that the
38 relative costs of the different modes of transport better
39 reflect the full costs and benefits to society.

40
41 To estimate the value of external benefits, IPART
42 engaged a consultant, LECG. LECG's analysis focused on
43 quantifying the net external benefits generated from people
44 choosing to travel by bus rather than car. This approach
45 reflects the fact that car travel imposes costs on all
46 society through higher air pollution and higher levels of
47 traffic congestion. This also means that there are no

1 external benefits from encouraging people to catch a bus if
2 those people would otherwise have walked, cycled or got the
3 train.

4
5 LECG used a three-step approach to estimate the value
6 of external benefits. Firstly, LECG used information from
7 the Transport Data Centre to understand how people
8 choose to travel, given different options available to
9 them. It looked at how many people would travel by car,
10 bus and train and what would happen if bus travel was not
11 available or was significantly more expensive.

12
13 Secondly, LECG then estimated the marginal external
14 costs of additional car travel that would occur if buses
15 were not available or if buses were significantly more
16 expensive. Specifically, LECG looked at the costs
17 associated with a higher level of traffic congestion and
18 the costs of increased car pollution. LECG also estimated
19 the additional revenue that society would receive from
20 collecting more revenue from the fuel excise and parking
21 space levies if buses were not available or were
22 significantly more expensive.

23
24 Finally, LECG totalled all of these costs to calculate
25 an estimated value for the net external benefits of bus
26 services.

27
28 LECG found that the total net external benefits of bus
29 services are about \$1.39 per passenger journey. This
30 number is largely made up of the benefit of reduced traffic
31 congestion, which accounts for around 80 per cent of the
32 total external benefit. The other main benefit is reduced
33 air pollution.

34
35 This value is smaller than the value that IPART
36 estimated for CityRail. This is because train journeys are
37 significantly longer than bus journeys, meaning that they
38 displace a larger number of car passenger kilometres and
39 therefore generate larger external benefits. A further
40 factor, which may not be reflected in the traffic modelling
41 results, is that trains get commuters off the road
42 entirely, whereas buses keep them on the road, contributing
43 something to congestion and air pollution.

44
45 LECG also found that there are no measurable external
46 benefits from reducing accidents. The Tribunal recognises
47 that this last result is one that many stakeholders may not

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1 have expected. In response to comments that we received on
2 our issues paper, LECCG examined this issue in further
3 detail. However, LECCG found that it is likely that
4 motorists already on the road do not experience any
5 increased risk of accidents when more people drive instead
6 of catching the bus. To put this another way, the
7 increased risk experienced by making the decision to travel
8 by car instead of bus is an internal rather than an
9 external cost.

10
11 LECCG also found that the total external cost of road
12 accidents may be even lower without bus services than with
13 them, because heavier traffic congestion can slow the
14 traffic down and reduce the severity of accidents.

15
16 After considering all of the available information and
17 submissions from stakeholders, the Tribunal decided to
18 accept LECCG's findings. The Tribunal concluded that
19 although the total cost of accidents is lower for people
20 who travel by bus rather than car, it is not necessarily
21 the case that there are significant external benefits
22 associated with increasing bus travel in this regard.

23
24 Another area that was raised by stakeholders in
25 response to our issues paper was that of the social
26 benefits of public transport that result from improved
27 access and mobility. Several stakeholders commented that
28 external social benefits are generated by expanding access
29 to public transport through lower fares for people who have
30 few alternative travel options - in particular, people who
31 are less mobile or who have lower incomes.

32
33 The Tribunal examined these issues in its draft
34 report. The Tribunal agrees that bus services do provide
35 a significant benefit to society by providing access to
36 transport for people who are less mobile or who have lower
37 incomes.

38
39 However, the Tribunal considers that since these
40 benefits are largely due to improving access to transport
41 for particular and identifiable groups within society, it
42 does not think that this should mean that there is a higher
43 level of Government subsidy of bus fares for all
44 passengers, including those people who are outside those
45 specific groups.

46
47 Rather, the Tribunal thinks that improved access for

1 passengers in these groups is best achieved through
2 a targeted concession program, such as the current
3 pensioner excursion ticket and student concession program.
4 It is worth noting that the Tribunal does not determine the
5 availability or level of concession fares, but we do note
6 that the Government currently has an extensive concession
7 program and that almost half of all bus passengers travel
8 using some form of concession ticket.

9
10 LECCG also undertook an analysis of the optimal level
11 of bus fares. This approach is a little bit more complex
12 than LECCG's valuation of the external benefits but
13 basically calculates optimal fare levels that strike
14 a balance between the various costs and benefits of bus
15 services. For example, there are benefits to society in
16 having lower bus fares and greater bus use, such as
17 environmental benefits, but this comes at a cost - lower
18 fares for passengers mean that there is a higher cost for
19 taxpayers.

20
21 At the optimal fare level, a change in fares, up or
22 down, makes society as a whole worse off. LECCG found that
23 the optimal level of fares is 8 per cent above the current
24 fare level. It should be noted that this optimisation is
25 based on a single year only, that year being 2008/09, and
26 does not include forecasts of optimal fares.

27
28 THE ACTING CHAIRMAN: Joanna?

29
30 MS QUILTY: Thank you. We would agree that it is
31 important to understand the external benefits to the
32 community at large of bus services, but we would stress
33 that understanding those external benefits is not an exact
34 science, that different methodologies can produce different
35 results and that other policy considerations need to be
36 factored into the fare-determination process.

37
38 THE ACTING CHAIRMAN: Thank you.

39
40 MR MILES: The Minister seems to have softened his
41 approach in the last year, and I also seem to recall that
42 IPART changed the rail fare determination last year by
43 about 2 per cent following representations from commuter
44 groups that this social inclusion was not factored in.

45
46 On the IPART website only yesterday, I discovered
47 a paper by David Hensher, from August, where he made an

1 exact science of calculating the social benefits of
2 allowing people to get out and about. But I gave up after
3 the first couple of pages of equations. The end result was that
4 there is what IPART calls personal satisfaction, or something
5 like that. We believe it does benefit society.
6

7 There was a similar one with the clubs providing cheap
8 meals for their members. It was decided that that was not
9 a social good in the general sense but a benefit to just
10 a particular group. I'm stalling for time while I think of
11 what I was going to say.
12

13 IPART recommended that the best way of looking after
14 these affected groups is not by fare changes, by reducing
15 the fares, but by increased investment in public transport
16 services and in special targeting to these concession
17 groups. Well, the Government targets a lot of these
18 concession groups and it is providing investment in new bus
19 services. However, as we pointed out in our submission, in
20 its current poverty-stricken state, the Government won't be
21 doing a lot of that in the near future, so it may be back
22 to IPART to get over that hurdle.
23

24 THE ACTING CHAIRMAN: The issue on the wider scope of
25 that is that I don't think we would disagree that those things
26 are important, but what we're talking about here is a
27 fairly small change in fares for full fare-paying
28 passengers. It didn't seem to us that that's going to make
29 a great deal of difference to those passengers.
30

31 MR WORRELL: I should start off by saying that the whole
32 idea of pricing external benefits is a fantastic one and
33 from the community sector we really appreciate the work
34 that is done on this. It wasn't that long ago that people
35 did not do this and it was not understood or even that it
36 was attempted. We really appreciate this work and it's
37 really important.
38

39 Having said that now, however, I actually think that
40 this is where the smoke and mirrors start to get revealed
41 simply because in the report itself and in many other
42 reports people acknowledge that it's very difficult to
43 price social inclusion values and that it's used in this
44 report again, as I said, we can't do it, so we're leaving
45 it out.
46

47 The point I'm making here or attempting to make is

1 that if somebody very clever comes along and says that you
2 can price it and they include it in the model, all of a
3 sudden all of the flow-through effects of all the other
4 numbers are going to go somewhere else and the idea that we
5 get a 4 per cent rise or a 1.2 per cent rise that would
6 change the process, it all goes down the tube.
7

8 My point is that there is a deeply flawed theoretical
9 problem in there which I don't fully understand, but I know
10 that social inclusion is worth something and most people
11 will tell you it's worth something even if they don't
12 understand the economics of it. We surveyed MPs to try and
13 understand why they think that they are subsidising bus
14 services. They agreed on traffic congestion, they thought
15 that was the most important thing, but then number two was
16 social inclusion.
17

18 The people who are taking the votes around budgets and
19 so on believe that they are subsidising bus services for
20 social inclusion reasons. Somewhere in the modelling or in
21 the thinking for me anyway is the idea that our main goal
22 is to improve the marginal benefit to motorists by putting
23 buses on just seems deeply flawed, I am not sure about
24 that, but having said all of that, I really do appreciate
25 and I'm sure the community sector really appreciates the
26 work on external benefits and we encourage you to keep
27 going and to keep trying to work it out and include it in
28 the work. I note that Bus NSW also make points about
29 social inclusion. I think that's all I can say.
30

31 THE ACTING CHAIRMAN: Thank you for that. It is perhaps
32 worth repeating that we accept that social inclusion is
33 important and many government policies are directed towards
34 the promotion of social inclusion. What we are doing here
35 is setting bus fares for probably half the passengers who
36 pay full fares. Our proposition would be that whether we
37 increase fares by 4 per cent or 5 per cent or 6 per cent or
38 something is not going to make a huge difference to social
39 inclusion, but we're not denying it's important.
40

41 MS KRIEGER: Could I make a follow-up comment? The
42 reference you made to MPs saying that bus services are
43 subsidised, they are, and that's a specific subsidy through
44 the concession program. It is really a question of whether
45 you subsidise by channelling the funds into specific
46 concessions or whether you subsidise across the board and
47 what we're saying is targeted is better than across the

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1 board.
2
3 MR WORRELL: The only problem with that thinking is that
4 it's making an assumption that social inclusion is about
5 disability and I would challenge that. I am not
6 necessarily thinking in those terms and I do agree with
7 that and the concession regime is fantastic and many, many
8 people benefit from the \$2.50 pensioner fare, that's just
9 superb, but the idea that social inclusion just means we'll
10 make sure that we'll check it and get on the buses, there's
11 more to it. That's my opinion anyway.
12
13 THE ACTING CHAIRMAN: Transport and Infrastructure
14 might want to comment further. Another important
15 government policy is the minimum service standard to ensure
16 that services are available throughout the day. That is an
17 important way in which I think social inclusion has been
18 promoted.
19
20 MR WORRELL: The thing that starts to ring alarm bells
21 with me about this flawed thinking is the idea that there's
22 no contribution to external benefits via a reduction in
23 traffic accidents and road trauma. It is just deeply
24 troubling.
25
26 A very simple thought experiment is to say, "Okay,
27 let's imagine we can reduce traffic accidents to zero or
28 almost zero by getting everybody on buses." This is a
29 thought experiment, we're not doing it, but let's imagine
30 it, okay? At the moment we can only reduce it a little
31 bit, as these numbers, and when we do the numbers, it's not
32 worth counting.
33
34 If we could reduce it to zero, I still find it very
35 troubling to think that it's not going to have an external
36 benefit for society. I used to do some community work on
37 insurance and I can tell you straight away if you can start
38 to reduce the number of traffic accidents, your insurance
39 premiums are going to go down. That is an external benefit
40 to all motorists and probably to everybody.
41
42 I find the whole thing quite troubling that even on a
43 revision of the issue, we still get to a zero proposition
44 on a reduction in accidents and road trauma. Bus NSW made
45 the point that buses are probably one of the safer forms of
46 land transport. I don't have the knowledge to know what
47 the fly in the ointment is, but I'm deeply suspicious of

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1 the fine detail.
2
3 THE ACTING CHAIRMAN: Just to explain this a bit further,
4 we're not saying that buses are not going to reduce accidents.
5 What we are saying is that if you take an additional
6 motorist from their car and put them in a bus, that will
7 have two effects: it will mean there are fewer cars if you
8 like to interfere with one another, but it also means the
9 traffic speeds up.
10
11 MR WORRELL: Yes.
12
13 THE ACTING CHAIRMAN: If there is an accident and the
14 traffic is fast, there's a more serious accident. They are
15 two offsetting effects. It's just that in the small margin
16 you're working with those two cancel out. If we do some
17 more radical change, as you're suggesting, it will be a
18 different sort of analysis. We are doing an analysis about
19 feasible changes in fares.
20
21 MR WORRELL: Thanks.
22
23 MS QUILTY: Could I add the point that it can be hard to
24 target concessions to particular groups, for instance,
25 those on low incomes who have to travel considerable
26 distances, and I think that that is an argument for
27 ensuring that your standard fares are kept at a reasonable
28 level, regardless of how you factor that into your
29 determination process.
30
31 THE ACTING CHAIRMAN: Thank you. Are there any
32 comments from people at the back? Does anybody else want
33 to take part in this discussion? Are there any further
34 comments on this before we move on?
35
36 MR MILES: The term "social capital" is often used these
37 days. I am not quite sure what it means, but a capital
38 return on investment is something that IPART needs to take
39 into account. I am not asking you to answer that. I just
40 thought I'd bring it to your attention.
41
42 THE ACTING CHAIRMAN: Thank you. Shall we move on, Brett?
43
44 MR EVERETT: The fourth area of the review that we'd like
45 to discuss today is the fare levels and fare structure
46 outlined in our draft report and determination. The draft
47 determination proposes to set fares for the next four years

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1 and allows for fare increases of 1.5 per cent above
2 inflation in each of the next four years. For individual
3 ticket types those annual increases will vary depending on
4 the length of the journey. For single trips fares will
5 increase by between 10 and 30 cents each year and for
6 TravelTens and weeklies fares will increase by between
7 80 cents and \$2 per year.

8
9 Using the estimates of the efficient costs and
10 external benefits that we have just been discussing, the
11 Tribunal's draft decision is that it is appropriate for
12 passengers to fund around half of the efficient costs.
13 These fares also take into account the expected growth in
14 patronage in the four largest regions based on advice that
15 we received from the Transport Data Centre.

16
17 In terms of the fare structure, the Tribunal's draft
18 decision was to retain the current fare structure across
19 all of the regions. This means that for all regions,
20 except Newcastle, the existing distance based charging
21 structure will be retained and in Newcastle the time based
22 charges will be retained.

23
24 The proposed annual average increase in fares is
25 applied across all tickets equally, so any small
26 differences in the overall fare changes between different
27 ticket types are due to rounding. All tickets, except for
28 TravelPasses, are rounded to the nearest 10 cents and
29 TravelPasses are rounded to the nearest \$1.

30
31 In response to the issues paper, the Tribunal received
32 many submissions arguing to move from distance based
33 pricing to zone or time based fares. Some of these
34 stakeholders argued that a zone based fare structures was
35 the only practical option under electronic ticketing, while
36 others argued that a zone based or time based structure was
37 fairer and would encourage greater use of public transport.

38
39 The fares that will apply under electronic ticketing
40 will initially be set by the Government and not by IPART.
41 The Government is in the process of tendering for
42 electronic ticketing in Sydney and at this stage the
43 available information is that a mode specific distance
44 based fare structure is preferred.

45
46 The Tribunal considered the Government's intention
47 under electronic ticketing submissions and also looked at

1 the pros and cons of the current and alternative fare
2 structures. The Tribunal concluded that there is no clear
3 evidence that a distance based fare structure would not be
4 workable under e-ticketing.

5
6 We also found that many passengers would be
7 disadvantaged by a move to zonal fares, especially where
8 all tickets were multi-modal. I would now like to invite
9 comments from other stakeholders on these issues.

10
11 THE ACTING CHAIRMAN: Yes.

12
13 MS QUILTY: We consider that the proposed fare increase is
14 modest and reasonable, particularly in light of ongoing
15 service improvements for buses, the continued roll-out of
16 integrated networks, with another seven in place over
17 2008-2009, the introduction of initiatives such as the
18 20 per cent weekly discounted ticket for private bus
19 services, the Sunday Fun Day ticket and the free shuttle
20 bus services in the CBD and in Wollongong and the
21 procurement of new growth buses and replacement buses.
22 We think these are all ongoing improvements to bus services
23 and that on that basis the proposed fare increase is
24 reasonable and modest.

25
26 MR MILES: I would endorse all of Joanna's comments there.
27 Regarding the fare structure, it has been gone over many,
28 many times over many, many years and I can't see any point
29 in raising it in a debate again now, but perhaps the Sydney
30 transport authorities should just think why is Sydney the
31 only major city in the world not to have zonal fare
32 tickets.

33
34 Only this morning I looked on the Melbourne site to
35 find tickets for my wife who is going for a trip there and
36 you can get a Zone 1 all-day ticket for \$6.80 which takes
37 you anywhere you want to go in the city.

38
39 MR WORRELL: I agree. The proposed fare increases are
40 very modest, particularly for the short number of sections
41 and the elasticity numbers and so on will tell you that
42 that's probably okay. Coming from Western Sydney, I do
43 worry about the longer journeys on the multiple numbers of
44 sections. I think the increases there are quite
45 significant.

46
47 I don't know if some people saw those examples that we

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1 were giving through our website. You can get an all-day
2 Day Tripper on CityRail and STA buses for \$17, which gets
3 you from Penrith to Manly on the ferry, all day around
4 Manly, all day around the CBD on any train you want, but it
5 costs you \$19 for one return trip between St Clair and
6 Castle Hill.

8 There is definitely a problem there and that's because
9 they're long sections. They're long trips with multiple
10 sections and they require two changes, so you're getting
11 multiple flag-falls plus long sections. Obviously, people
12 are not going to make that trip: it's just too much.

14 I was disappointed about the lack of evidence
15 presented in the IPART report about the decision not to
16 investigate moving towards or what could be done to move
17 towards a zone and time based fare structure. There was no
18 evidence presented. As we said then, it was just like
19 we looked at it and it didn't look very good and so we
20 didn't make that decision. I would actually like to see
21 some better evidence than that.

23 For instance, I would really like to see some analysis
24 of who the winners and losers are on a zone time based
25 system. From the community sector we work with a lot of
26 low-income people and people who use a lot of buses and the
27 idea of multiple trips at flexible times is very important
28 for a lot of people. There are benefits that pensioners
29 get on their \$2.50 ticket because it's totally flexible,
30 the time's irrelevant and you're not paying for a journey,
31 you're paying for access to the system, and while I don't
32 have any evidence, my suspicion is that these things will
33 also benefit many other people.

35 For instance, mums with kids who have got to get from
36 different places at different times, doing shopping,
37 picking people up and that kind of stuff, if you don't have
38 access to a car, that stuff is pretty well impossible on
39 public transport, but a zone time kind of set-up would
40 possibly facilitate that kind of thing and make public
41 transport more attractive.

43 I know that this is a hearing about a fare increase,
44 about the system that we have, but in the IPART report you
45 pretty categorically said that you didn't want to
46 facilitate a move or a shift or the contemplation of a
47 shift to a different system and I found that quite

1 disappointing because given the expertise that you have and
2 the position that you're in, there was potential there to
3 present some evidence, some better evidence, about how it
4 could benefit or not benefit the system.

6 I think this relates to the length of time of the
7 hearings as well because people are starting to shift the
8 way they think about using public transport. In other
9 words, when I buy a ticket I'm buying access to a system
10 and not access to a journey. That is why having a
11 four-year hearing is problematic. Maybe people are ready
12 to make that shift: I'm not sure.

14 THE ACTING CHAIRMAN: Thank you for that. I think your
15 suggestion that we should try and investigate who gains and
16 who loses between shifts in different sorts of fare
17 structures is an interesting one. We will see what we can
18 do for the following report, bearing in mind that the
19 following report is not all that far way. We will see what
20 we can do.

22 MR WORRELL: Thanks.

24 MR MELLISH: Darryl Mellish from Bus NSW. Our position
25 on fare reform is in the submission, so I won't go over that.
26 We would just like to seek clarification on something that
27 NSWTI said. With respect to the 20 per cent weekly
28 discount that's available on private buses, my
29 understanding is it doesn't extend to the outer
30 metropolitan area but only the metropolitan areas. I just
31 seek clarification on that.

33 MS QUILTY: That's my understanding. It is just in the
34 metropolitan area, yes.

36 MR MELLISH: I thought you said it was in the metropolitan
37 and outer metropolitan areas.

39 MS QUILTY: No, I'm sorry.

41 THE ACTING CHAIRMAN: Any there any other comments
42 on the draft determination on metropolitan and outer
43 metropolitan bus fares? Thank you for your comments. I
44 think that gives us a few issues to investigate further, but
45 broadly, I interpret the meeting as being supportive of the
46 direction we've taken.

47

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1 The next thing we have to move on to is rural and
2 regional buses. We were due to start this at 4.15, but
3 I think most of the folk are actually here.
4
5 MS TOWERS: Yes.
6
7 THE ACTING CHAIRMAN: With your agreement, we might
8 move on to this session. BusNSW will be joining us up here.
9
10 MR EVERETT: As Jim mentioned earlier today, the Tribunal
11 released a fact sheet earlier this year asking stakeholders
12 to provide comment on a number of issues relating to rural
13 and regional bus services. In this fact sheet we also
14 provided an indicative fare outcome. What we're going to
15 do at today's hearing is to present some information to you
16 on the outstanding issues on which we sought comment and
17 also provide an update on the indicative fare changes.
18
19 IPART uses the Bus Industry Cost Index - or BICI - to
20 measure the change in bus costs over the course of the
21 year. The BICI is a weighted average of the change in the
22 major costs of providing rural and regional bus services.
23 The BICI provides an estimate of the change in costs of the
24 industry as a whole. It doesn't measure the actual change
25 in costs of any individual operator.
26
27 Last year the Tribunal adjusted the BICI to account
28 for one-off costs associated with rural and regional bus
29 contract reforms that were not picked up in the normal BICI
30 calculation. It should also be noted that unlike the
31 metropolitan and outer metropolitan bus contracts, the
32 rural and regional bus contracts allow for the bus
33 operators of each region to retain the fare-box revenue.
34
35 The BICI measures the overall change in the cost of
36 providing bus services by examining the changing costs of
37 the inputs of providing their services. The BICI consists
38 of nine cost items, such as salaries and wages, bus fuel
39 and bus capital costs. Each item is weighted according to
40 its share of total bus costs. The Tribunal considers that
41 the weighted average of the increases in each individual
42 cost represents a good estimate of the overall change in
43 bus costs over the year.
44
45 The weightings for the BICI were determined as part of
46 the 2007 review using a survey of bus operators conducted
47 by Indec Consulting. The Tribunal decided that these

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1 weights, adjusted each year for the change in relative
2 costs of the items, would apply for the next five years.
3
4 For example, weightings for each input will change
5 from year to year to reflect changes in the relative price
6 of each input. A cost item that increases by more than the
7 average increase of the index will have a greater weighting
8 in the following year's review and a cost item that
9 increases by less than the average increase of the index
10 will have a smaller weighting in the next review.
11
12 To measure the change in bus costs each cost item is
13 inflated by a selected inflator which estimates the
14 increase in the cost of that item over the review period.
15 For instance, fuel costs are inflated by average diesel
16 fuel costs from selected rural and regional centres and
17 observed by Fueltrac, an independent provider of fuel price
18 information services.
19
20 The Tribunal has previously indicated a preference for
21 independently gathered, verifiable and transparent
22 inflators to use in its cost indexes where possible. This
23 provides stakeholders with the ability to more easily
24 assess and verify the changing costs as measured by IPART.
25 For example, the relevant inflator for bus repair and
26 maintenance costs is the change in the repair and servicing
27 component of the CPI.
28
29 The inflator is multiplied by the weighting to give
30 the contribution of the cost item to the total index. The
31 sum of these figures is the final increase in the index.
32 Some of the information required to calculate the final
33 index for this year is still not available, but will become
34 available before the end of the review. Using the most
35 recently available information, the indicative increase in
36 the index is 3.7 per cent. This increase does not yet
37 incorporate the final inflators for the
38 Workers Compensation, superannuation, payroll tax, bus
39 capital costs and salaries and wage cost items.
40
41 Workers Compensation, superannuation and payroll tax
42 are inflated by non-wage price index data published by the
43 Australian Bureau of Statistics in late November. The
44 Tribunal has also not yet made a decision on the inflator
45 to be used for bus capital costs. When this decision is
46 made, the inflator will be updated in the index. The
47 salaries and wages cost item uses productivity adjusted

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1 wage price index as an inflator and the Tribunal has not
2 yet decided on the productivity adjustment to be used for
3 this review.
4
5 Could we now move on to some of the issues on which we
6 are seeking comment. We are seeking comments on the most
7 appropriate inflator for bus capital costs and on the
8 appropriate level of the productivity adjustment. The
9 Tribunal will then make a decision on these and other
10 outstanding issues between now and the release of its final
11 report.
12
13 The first outstanding issue is the appropriate
14 inflator to use for bus capital costs. In the fact sheet
15 released in August we asked for comment from stakeholders
16 on an independent and publicly available inflator for bus
17 capital costs. However, no submissions provided any
18 suggestions.
19
20 This year for the first time we have received
21 information from the New South Wales Department of
22 Transport and Infrastructure on the cost of acquiring buses
23 in the metropolitan and outer metropolitan regions.
24 We think there may be some merit in using this information
25 to estimate changes in the capital costs of buses for rural
26 and regional bus operators.
27
28 The second outstanding issue is the adjustment of the
29 labour components of the index to account for increases in
30 labour productivity over the course of the year. The
31 Tribunal notes that in a competitive marketplace
32 productivity improvements are shared with consumers
33 through lower prices. Adjusting the index to account for
34 productivity mirrors this outcome. Most of the cost items
35 in the index are inflated by information which is already
36 generated in a competitive market, such as fuel costs, or
37 is already adjusted for productivity by the ABS, such as
38 CPI. The labour cost inflators, WPI and NWPI, however, do
39 not account for productivity.
40
41 Unfortunately, measuring the extent to which
42 productivity has improved is difficult for the rural and
43 regional bus industry. We therefore rely on economy-wide
44 indicators and stakeholder comments to inform our decision
45 on the most appropriate value for the productivity
46 adjustment.
47

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1 The Tribunal is interested in stakeholders' views on
2 whether a productivity adjustment is justified this year
3 and on the best way to measure productivity changes in the
4 rural and regional bus industry.
5
6 The final outstanding issue we'd like to discuss today
7 is the treatment of additional costs associated with the
8 new contract regime. These costs include: higher costs of
9 maintaining air-conditioned buses as a result of the
10 requirement to increase the proportion of the fleet that is
11 air conditioned; higher wage costs for staff other than bus
12 drivers as a result of the requirement to raise pay for bus
13 drivers; and higher costs of the bus operator accreditation
14 system (BOAS) - for example, costs of making pre-departure
15 and end-of-shift checks.
16
17 Last year IPART allowed an extra 2.8 per cent for
18 those costs. In its submission BusNSW raised concerns
19 about IPART's handling of these costs in the 2008 annual
20 review. The Tribunal has engaged Indec Consulting to
21 provide advice on the extent to which IPART should adjust
22 the BICI to account for these costs. Indec will examine
23 these issues and consult with both BusNSW and NSWTI
24 before providing a report to the Tribunal prior to the Tribunal
25 making its final decision. We expect to release this
26 report at the same time as the final report and
27 determination for this review.
28
29 THE ACTING CHAIRMAN: Thank you very much, Brett.
30 Who would like to start. Joanna?
31
32 MS QUILTY: We don't have a lot to say other than to
33 emphasise that now under our new rural and regional bus
34 contracts we have de-linked the payment for school student
35 travel from the fare determination process, so how the BICI
36 is applied is a matter for IPART. That being said, we are
37 certainly happy to share any information that we can to
38 inform the process going forward.
39
40 THE ACTING CHAIRMAN: Thank you.
41
42 MR MELLISH: I have a few points to make in response to
43 the discussion. Procurement of services in regional and
44 rural areas is different to the metropolitan area and
45 that's why the cost index approach is appropriate.
46 In regional and rural areas the operator has taken the
47 fare-box risk and it is not a gross-cost model, so that's a

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1 major significant difference between the models.
2
3 The operator is bound to provide services based on the
4 population of the city, so social inclusion/social
5 exclusion is handled through the contracting model.
6 We support the cost index approach. We believe that the
7 inflators that IPART have identified are appropriate and
8 where they are independent, we support using as many
9 independent sources as we can.
10
11 As far as the capital component is concerned, we've
12 been seeking the best way to measure the movement from one
13 year to the next and we've submitted to the Tribunal three
14 quotes from 2008 and three quotes from 2009 to give you a
15 benchmark for your consideration. We have also asked if
16 there are other models to be considered, that they ensure
17 that they are comparing on a like basis from one year to
18 the next because of the importance of capturing the
19 movement.
20
21 On the productivity argument, we believe that the
22 reforms in the contract itself provide for productivity
23 improvements, and the negotiation with Government on the
24 risk and the funding took into account providing quality
25 services and achieving standards of productivity and
26 performance that were appropriate for the community.
27
28 We have submitted a request, for those one-off costs
29 that were done last year, for three of those items to be
30 reviewed. We support the process that you have taken of
31 appointing Indec to evaluate those, and we are encouraged
32 that they are consulting with us on those three items.
33
34 One of the issues we had is that the terms of
35 reference to Indec require specific evidence on each of the
36 line items, which, by definition, will be difficult to
37 provide, because the reforms came in over many years and
38 the reporting before and after was not specific to those
39 line items. So in some cases, we ended up with
40 a negotiated outcome on those costs because of the risks
41 being borne by the operator. We believe that through the
42 work done by Indec and our consultation with them, we will
43 be able to put to you the basis on which we think some of
44 last year's one-off costs should be considered for
45 adjustment.
46
47 We are pleased with the process and we support the

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1 work that you are doing with fare pricing. We note that
2 this is a maximum fare scale and it's not what the
3 passenger pays, and it's part of that risk profile of the
4 operator maximising the patronage because they take the
5 fare box risk. So we believe that it is very important
6 that the maximum fare scales do adequately reflect the cost
7 movement. We think that the inflators will do that if you
8 get the starting position right, and that's what we would
9 suggest that you look at.

10
11 THE ACTING CHAIRMAN: Thank you very much.

12
13 MR WORRELL: NCOSS is a state-wide organisation, so it has
14 a lot of rural members. This topic is completely outside
15 my area of knowledge, but I do feel compelled to pass on
16 their advocacy which they have given to us. Rural people
17 repeatedly complain to us that their fares and their
18 concessions are different from those of people in the city,
19 and they feel ripped off by that. I needed to pass that
20 on, but I'm not exactly sure if this is the right forum for
21 that.

22
23 MR MELLISH: Mr Chairman, could I also add a comment
24 that a Regional Excursion Daily, the equivalent of a Pensioner
25 Excursion Ticket, has been rolled out on the services that
26 are in question for this fare increase. A \$2.50 all-day
27 fare has been rolled out as part of the commitment under
28 these new contracts.

29
30 MS QUILTY: And consistent concession arrangements with
31 metro and outer metro contracts as well.

32
33 THE ACTING CHAIRMAN: Thank you. Are there any
34 comments from people sitting in the back of the room?

35
36 MR MILES: I support what Hugh said. I am involved in a
37 minor way with NCOSS as well. Just last night I edited its
38 policy statement for the next election, and it is calling
39 for harmonisation of fares across the whole of New South
40 Wales.

41
42 THE ACTING CHAIRMAN: The harmonisation of concessions?

43
44 MS QUILTY: The same rules now apply.

45
46 THE ACTING CHAIRMAN: But not of fares?

47

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1 MR MILES: No, they're talking about bus fares. They want
2 the same bus fares across - it was Sydney, then it was
3 metropolitan, then it was outer metropolitan. They want
4 Wee Waa and Merriwa, too.
5
6 THE ACTING CHAIRMAN: Are there any other comments?
7 That probably concludes our consideration of this section.
8 Once again, I think there is broad support for the direction in
9 which we are going.
10
11 That moves us on to the Stockton and private ferries
12 session.
13
14 MR EVERETT: The Tribunal released a fact sheet earlier
15 this year asking stakeholders to provide further comment on
16 a number of issues related to the Stockton and private
17 ferry services. The fact sheet also provided an indicative
18 fare outcome. As with rural and regional buses, we would
19 like to present some information to you on the outstanding
20 issues on which we sought comment and provide an update
21 on the indicative fare changes.
22
23 IPART again uses cost indexes to measure the change in
24 ferry costs over the course of the year. Last year, in
25 response to stakeholder comments and advice from Indec
26 Consulting, the Tribunal decided to use two cost indexes to
27 measure changes in ferry costs. The slow ferry cost index
28 measures costs for slow ferries, which operate at speeds of
29 less than 10 knots, and the fast ferry cost index measures
30 costs for fast ferries, which operate at an average speed
31 of 18 to 20 knots. These are Matilda's services in
32 Circular Quay and the Palm Beach to Ettalong and Wagstaff
33 ferries.
34
35 The two different indexes are used because the make-up
36 of costs for fast ferries and slow ferries are
37 significantly different, particularly with regard to the
38 fuel cost item. The slow ferry cost index and the fast
39 ferry cost index provide an estimate of the change in the
40 ferry costs of the industry as a whole and, again, do not
41 measure the actual change in costs of any individual
42 operator.
43
44 I will just make a few points on the factors that the
45 Tribunal considers when making its recommendations. The
46 Tribunal makes recommendations for maximum fares to the
47 Minister for Transport under an arrangement with the

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1 Premier. The terms of reference for this review set out
2 the matters that the Tribunal is required to consider when
3 it makes its recommendations. Again, IPART does not have
4 any involvement in the contracting arrangements.
5
6 Fares for the Stockton ferry, which is operated by
7 Newcastle Buses and Ferries, a business unit of the State
8 Transit Authority, are determined by the Tribunal under the
9 IPART Act. Section 15 of this Act details the matters that
10 the Tribunal considers when making its determination.
11
12 The ferry cost indexes measure the overall change in
13 the costs of providing ferry services by examining the
14 changes in the costs of the inputs. The slow ferry cost
15 index and the fast ferry cost index consist of eight cost
16 items, such as labour, fuel and interest costs.
17
18 Each item is weighted according to its share of total
19 ferry costs. These weightings are different for each
20 index, which reflects the different cost structures for
21 fast and slow ferries. The Tribunal considers that the
22 weighted average of the increases in each individual cost
23 item represents a good estimate of the overall change in
24 ferry costs over the year.
25
26 To measure the increase in ferry costs, each cost item
27 is inflated by a selected indicator which estimates the
28 increase in the cost over the review period. For instance,
29 fuel costs are inflated by average diesel fuel costs for
30 Sydney, as observed by Fueltrac.
31
32 The inflator is multiplied by the weighting to give
33 the contribution of the cost item to the total index. The
34 sum of these figures is then the final increase in the
35 index.
36
37 As with rural and regional buses, some of the
38 information required to calculate the final index is not
39 available but will become available before the end of the
40 review. Using the most recently available information,
41 costs have fallen for both slow and fast ferries. The
42 result is likely to be that we recommend that fares for
43 these services are not changed or are reduced slightly.
44
45 These indicative outcomes do not include final
46 information for labour, repair and maintenance,
47 depreciation and amortisation and berthing and mooring cost

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1 items, as the relevant inflators are not yet available on
2 these items.
3
4 Last year, operators expressed concern that the annual
5 reviews were not effective in addressing the volatility of
6 fuel costs. IPART decided that in order to address this
7 concern, a mid-year review of fuel costs would recommend
8 changes to fast ferry fares if the fuel costs changed
9 significantly in the six months following a review of ferry
10 fares. The Tribunal did not include a mid-year adjustment
11 for slow ferries, as fuel is a much smaller proportion of
12 the total costs for slow ferry operators.
13
14 The Tribunal decided that it would recommend
15 a mid-year increase in fares if fuel prices increased
16 significantly and a mid-year reduction in fares if fuel
17 prices decreased significantly.
18
19 The 2009 mid-year review found that fuel costs had
20 decreased by 21.5 per cent in the first six months since
21 the 2008 annual review of ferry fares. As a result, the
22 Tribunal recommended a decrease in fares of 4.8 per cent.
23 Fares were reduced on 1 July this year.
24
25 The Tribunal is interested in stakeholder comments
26 concerning the mid-year review, particularly whether it is
27 an effective approach to addressing fuel price volatility.
28
29 As part of the re-weighting of cost items done as part
30 of last year's ferry review, a number of cost items
31 originally included as part of the "other costs" cost item
32 were individually specified for the first time. These
33 costs represented repair and maintenance, depreciation and
34 amortisation and berthing and mooring. As there was not
35 sufficient time to consult on appropriate inflators for
36 these costs, the Tribunal retained the use of CPI for these
37 inflators as an interim measure.
38
39 The Tribunal did not receive any comment on the
40 specific inflators to use for these cost items in the
41 submissions for the current review, and the Tribunal is
42 interested in whether stakeholders consider that CPI is
43 a relevant inflator for these cost items or whether a more
44 appropriate inflator is available.
45
46 The final outstanding issue for ferries is the
47 adjustment of the labour components of the index to account

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1 for increases in labour productivity over the course of the
2 year. The justification for the inclusion of
3 a productivity adjustment is the same as that for rural and
4 regional buses. So, again, in a competitive marketplace,
5 productivity improvements are shared with consumers through
6 lower prices. Adjusting the indexes to account for
7 productivity mirrors this outcome in regulated industries.
8
9 The Tribunal is again interested in stakeholders'
10 views on whether a productivity adjustment is justified
11 this year and what is the best way to measure productivity
12 changes in the private ferry industry.
13
14 We note that the Commercial Vessel Association (or
15 CVA), in its submission, did not provide comments on the
16 cost indices; rather, they raised the issue of the
17 financial viability of the industry. In their submission,
18 the Commercial Vessel Association indicates that fare
19 adjustments in order to match costs will simply force many
20 customers to use other forms of transport and so are not
21 the solution.
22
23 We would now like to invite comments on these issues.
24
25 THE ACTING CHAIRMAN: Transport and Infrastructure?
26
27 MR GRANT: I think our initial comment is as reflected in
28 the director-general's letter, that we do believe the CVA
29 cost index is the most appropriate way to address the
30 Stockton ferry.
31
32 In relation to issues raised in the presentation,
33 I would be interested in the comments from the private
34 ferry industry. As far as the six-monthly process goes, it
35 does cause some degree of disruption to operators, and as
36 far as industry is concerned, it wasn't a particularly
37 productive process last time around.
38
39 MR FAIRWEATHER: In regard to the timing of it, when it
40 was announced and when it was to be implemented, I don't
41 think you gave those operators much time to adjust their
42 documentation for customers. I think that was probably the
43 biggest issue at the time. Would that be correct?
44
45 MR GRANT: We actually found that there was some
46 resistance to operators in passing through a reduction.
47

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1 MR FAIRWEATHER: But I think some of it was related to
2 that issue.
3
4 MR GRANT: I think for the stakeholders involved,
5 certainty over a twelve-month period is probably preferable
6 to six-monthly changes.
7
8 MR FAIRWEATHER: If, in the last period, there was an
9 enormous increase or decrease in fuel prices, is there
10 a chance to have a mid-year intervention to have a look at
11 that, if you could see a marked difference?
12
13 THE ACTING CHAIRMAN: I think we have to decide to do
14 it or not. I think the reason why we did it last year was
15 that it was requested by the industry itself, because fuel
16 is such a large proportion of their costs.
17
18 MR FAIRWEATHER: Yes, I understand. I think for the fast
19 ferry operators, it would still be appropriate to have
20 a mid-year review. As for the slow ferry people, I don't
21 think it is quite as necessary, because the fuel
22 consumption is markedly less.
23
24 MS TOWERS: We currently just do fast ferries.
25
26 MR FAIRWEATHER: Thank you.
27
28 THE ACTING CHAIRMAN: Are there any more comments?
29
30 MR GRANT: No.
31
32 MR MILES: Our ferry expert, Graeme Taylor, had every
33 intention of being here but has sent his apologies, so
34 I can't do much more than just read the final couple of
35 paragraphs of the submission, which has already been filed.
36
37 Mid-term review of fuel costs. Action for Public
38 Transport does not favour a mid-term review of fuel costs
39 except in circumstances where the viability of the industry
40 is threatened. The fare review process based on the SFCI
41 and FFCI for private ferries is biased too much towards
42 analysis of change in costs and fails to consider
43 adequately impacts on passengers and the wider community.
44 The application of a more holistic approach would, in our
45 view, benefit operators and make the industry more viable.
46
47 Conclusion. The private ferry industry in 2009

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1 appears increasingly disengaged from developments in
2 Sydney's public transport network. To ensure its survival
3 and to enable it to meet passenger expectations, private
4 operators need to upgrade their service offering to match
5 Sydney Ferries. The anticipated passenger-friendly outcome
6 from this fare review provides operators with an
7 opportunity to engage with their customer base to better
8 understand their needs and for the operators to adapt
9 accordingly.
10

11 They are Graeme Taylor's words. In previous reviews,
12 we have recommended that the private ferries be contracted
13 along with the public ferries in the same way as the buses
14 are. In other words, there are tenders called or contracts
15 arranged for the Lane Cove River, the Parramatta River and
16 the Manly service; all fares go to the Government, and the
17 Government pays the contract prices.
18

19 I'm not able to answer any questions, because this is
20 outside my area of expertise.
21

22 MR FAIRWEATHER: You have all read our submissions, and
23 we have come from a different point of view. The viability
24 of the slow ferry operators is very much at risk at the
25 moment. The way the process happens at the moment is that
26 it's all based on history. We feel that it needs to be
27 changed, because as of the beginning of next year, we will
28 have a new award system which covers our private ferry
29 operators, which is a marked increase in their wage base,
30 which will affect some of our private operators quite
31 considerably.
32

33 We have made several comments in regard to a new
34 contracting model which would then help these people in
35 their infrastructure replacement. A fare increase really
36 won't allow them to change their infrastructure or replace
37 any of their boats. And some of them, as the report has
38 stated, are very much in need of that sort of thing.
39

40 If possible, instead of waiting for this time next
41 year and seeing that several of our private operators have
42 disappeared because of this big wage impost that will be on
43 them, we would like to be able to review the system and
44 have another report done that covers a little bit more
45 ground and looks into the future on some of the pricing.
46 We already know that business interest rates have gone up,
47 and the wage base is going to go up very significantly.

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1
2 THE ACTING CHAIRMAN: The issue facing us at the moment
3 is that we don't really have an alternative approach --
4
5 MR FAIRWEATHER: I understand that.
6
7 THE ACTING CHAIRMAN: So probably all we can do is to
8 make a decision based on costs in the past.
9
10 MR FAIRWEATHER: I understand that, and what we are
11 trying to say is that we need to spend the next six months or
12 nine months reviewing what we have done and seeing if we
13 can come up with some other methods of more accurately
14 putting prices in place, or things in place, because you
15 can't increase the prices enough to help these people
16 survive. I think they need more support from the
17 Government, and a new contracting model could possibly do
18 that. If they disappear, it's only going to overload the
19 existing transport system.
20
21 THE ACTING CHAIRMAN: The issue of contracting is one
22 for the Government.
23
24 MR FAIRWEATHER: I understand that very clearly.
25
26 THE ACTING CHAIRMAN: -- rather than ourselves. But
27 perhaps that's a fair point. If things do change markedly,
28 we might be in a different position next time.
29
30 MR FAIRWEATHER: And that's the hard thing from our
31 point of view. We can see it changing markedly.
32
33 THE ACTING CHAIRMAN: Thank you.
34
35 MS KRIEGER: Presumably, you are familiar with the new
36 style of contracts that are being used for buses both in
37 the metropolitan and the rural and regional areas?
38
39 MR FAIRWEATHER: Yes.
40
41 MS KRIEGER: Well, I guess there is a conceptual framework
42 that may or may not be appropriate.
43
44 MR FAIRWEATHER: And it is very much what we have been
45 having discussions about. Just with that modelling - the
46 ferries are quite a unique thing. As this gentleman was
47 saying, you can just put it out to contract and somebody

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1 can just come in. It's a little bit harder on the water in
2 the sense that with the infrastructure you have, you can't
3 just leave it and --
4
5 MS KRIEGER: But, regrettably, we're only dealing with
6 effectively the tip of this iceberg.
7
8 MR FAIRWEATHER: I know. We had to start somewhere.
9
10 MR GRANT: The department is working with the private
11 ferry industry on contract options. That process isn't
12 complete yet, but what we have done is provided to IPART,
13 for the purposes of this review, a copy of the report, so
14 you can see where we are at.
15
16 MR FAIRWEATHER: We have included some of the little
17 excerpts that we would suggest in our report as well.
18
19 MR GRANT: I'm happy to pick up on Warwick's view that he
20 is wanting to do work over the next six to nine months and
21 come up with a model, and I can include that in the
22 commentary on this.
23
24 THE ACTING CHAIRMAN: I think that would be helpful.
25 Obviously, some of the things you're saying, if they
26 happen, may lead to a changing of cost structure. That's
27 something we ought to think about next time we meet.
28
29 MR FAIRWEATHER: Thank you.
30
31 THE ACTING CHAIRMAN: Are there any other comments?
32 Thank you very much. Once again, there is broad support I
33 think for the direction that we are moving in, so we're
34 encouraged by that.
35
36 It remains for me just to close the meeting. I would
37 like to thank everyone for your attendance and for your
38 questions and comments. I just remind everyone that
39 submissions on our review of fares for metropolitan and
40 outer metropolitan buses close on 16 November. Then after
41 carefully considering all the submissions we have received
42 and the issues raised at today's hearing, we will release
43 our final report and determination in mid-December for new
44 fares to take effect in January 2010.
45
46 We will also consider today's comments in making our
47 decisions on rural and regional bus fares and the Stockton

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1 and private ferry fares. In accordance with our terms of
2 reference, we will be recommending maximum fares for
3 private ferry services to the New South Wales Department of
4 Transport and infrastructure by 30 November. The
5 department will then decide when the new fares will take
6 effect. Our report and determinations on rural and
7 regional buses and the Stockton ferry will be released in
8 mid-December for the new fares to take effect in January
9 2010.

10

11 A written transcript of today's proceedings will be
12 available on the Tribunal's website within the next week.

13

14 Finally, once again, thank you everyone for attending
15 today.

16

17 AT 3.40PM THE PUBLIC HEARING CONCLUDED

18

19

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