



Response
to the
Office of the
Tasmanian Economic Regulator's
Draft Report:

2014 Investigation into the
Pricing Policies of
Metro Tasmania Pty Ltd

Metro Tasmania Pty Ltd
ACN 081 467 281
212 Main Road, Moonah TAS 7009

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1 INTRODUCTION

The Tasmanian Economic Regulator released a Draft Report on its 2014 investigation into Metro Tasmania Pty Ltd's pricing policies on 28 March 2014.

The Regulator has invited comment on a number of items identified within the Draft Report, including any other matter relevant to the Terms of Reference issued by the Government in October 2013 for this investigation.

Metro Tasmania Pty Ltd (Metro) welcomes this opportunity and is pleased to present its response to the Draft Report.

2 METRO'S COMPARATIVE PERFORMANCE

In relation to Metro's comparative performance the Regulator is seeking comment on:

- potential efficiency savings;
- Metro's performance over time against financial and non-financial performance indicators;
- Metro's performance compared to other public and private sector public transport providers; and
- The use of the normalised weighted average of private sector operators as the Benchmark Operator in determining Metro's efficiency.

2.1 Potential Efficiency Savings

The Terms of Reference stipulate that the Regulator should "investigate and report on the potential for Metro to secure operational efficiencies". To this end, Metro's preliminary submission identified a number of recently implemented initiatives as well as some opportunities currently being investigated that are intended to result in further efficiency gains.

The Regulator notes that while many of these actions and proposed initiatives appear to be sensible business practices undertaken in a competitive market aimed at improving efficiency, many of the proposals are still in the development phase and their benefits have not yet been quantified or factored into its proposed operating costs.

Metro contends that any decision to pursue an efficiency saving measure is taken within an integrated planning framework that takes account of service delivery needs, corporate objectives, financial and budgetary constraints and Metro's overall resource allocation objectives. This framework often involves undertaking a business case that is assessed by the Executive Management Team or Metro Board to determine the extent to which a proposal satisfies the company's strategic goals.

This structured approach allows greater control over the project selection process and facilitates the allocation of funds which is likely to be consistent with Metro's strategic business plans. Metro must also plan the implementation of efficiency saving measures in a manner that does not jeopardise the delivery of the contracted level of service.

2.2 Metro's Performance Over Time

2.2.1 Financial

OTTER Draft Report (p.33):

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| <p>Table 4.2 presents Metro's historical performance with respect to these financial indicators. As can be seen, all per unit costs measures have increased since 2007-08, which may be expected with general inflation. Relatively large increases in annual costs have occurred for non-labour overhead costs, administration and salaries, maintenance costs and per bus capital costs.</p> |
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Metro notes the analysis provided in Table 4.2 which has been extracted from the Indec benchmarking reports. As with any analysis between periods there can be a number of reasons for the increases and can be attributable to classification issues and/or changes in operations.

2.2.2 Non-Financial

Operational

The decrease in the average in-service kilometres and in-service hours for Metro's buses is mainly due to the increase in the fleet size that occurred during the reporting period, from 210 in 2007-08 to 224 in 2011-12. The fleet size has since been reduced to 217 as older buses have been sold or decommissioned. The passenger boardings per kilometre figures reflect the pattern of patronage growth over the reporting period.

The average age of Metro's fleet has risen despite annual purchases of new buses because the oldest buses in the fleet are not necessarily being replaced by the newest buses. For example, both articulated and standard buses are being replaced with new buses, and the oldest articulated buses are significantly older than the oldest standard buses.

Service

As noted in the Draft Report, the on-time running figures show a significant decline in 2010-11 due to a change in the availability of data as well as the mechanism for reporting on-time running. Prior to 2010-11 only the first departure point was included in the statistics. This explains the high percentage of reported on-time running (95%) because while services are usually able to start on time, once the service is en route a number of external factors can combine to impede adherence to the timetable, such as congestion, accidents, boarding/alighting levels and weather conditions.

Since 2010-11 Metro has had more sophisticated data available which includes departure times for

all stops, however a technical glitch at the data capture stage necessitates excluding the first departure point when measuring on-time running. This, combined with the impact of including all on-route bus stop departures, has the effect of dramatically lowering the reported on-time running figure. Metro is currently working on a project that will eliminate the requirement to exclude the first departure point when measuring on-time running which will provide a more accurate measure of Metro's service reliability.

The Regulator also notes Metro's explanation for the sharp increase in recorded complaints per annual patronage as being due to a change in the method of reporting. Since 2010-11 all complaints are disclosed whereas in prior years only substantiated complaints were recorded.

Metro contends that due to these reporting anomalies in relation to service indicators, care needs to be taken when comparing Metro's reported performance against other operators'. Metro concurs with the Regulator's notion that data integrity issues can arise with benchmarking studies and that benchmarking is not a suitable substitute for undertaking an internal assessment in order to identify areas where real efficiencies can be achieved.

2.3 Metro's Performance Compared to Other Public and Private Sector Providers

2.3.1 Public Sector Comparisons

As found in previous pricing investigations, Metro compares well against other public operators, outperforming on all but one of the non-capital financial indicators as shown in Table 4.4 of the Draft Report. Metro's per bus capital cost is within the range of the other major operators and falls below the weighted average.

Metro also outperforms the weighted average of other public sector bus operators in Australia on many operational indicators such as kilometres and speed per bus. However Metro recognises that it underperforms in other areas such as patronage and fleet age, and has implemented a number of initiatives aimed at improving these results. While the figures for Metro's on-time running do not appear to compare favourably to other public sector operators, as discussed in the previous section there are a number of data integrity issues that must be taken into account when interpreting these results.

2.3.2 Private Sector Comparisons

Metro notes the finding that it outperforms private sector bus operators for bus hourly costs as it has done in previous reports. However Metro recognises that it faces cost pressures in areas such as fuel, administration, salaries and other overheads and will continue to work towards improving its performance in relation to these indicators. Likewise, shortfalls in operational and service indicators are being addressed. It is encouraging to note that Metro is outperforming the weighted average of other private sector operators in relation to passenger boardings per kilometre.

2.4 Use of Normalised Weighted Average of Private Sector Operators in Determining Metro's Efficiency

Metro contends that as a government owned bus operator, if a benchmark operator is to be used for the purposes of determining an efficiency adjustment, this benchmark operator should be based on an efficient public sector operator. Under the revised benchmarking framework adopted by Indec, the normalised public sector operator weighted average is the most appropriate basis to use in assessing Metro's efficiency for fare setting purposes.

As the Regulator acknowledges in the Draft Report, government operators tend to face additional costs and restrictions on their ability to be as efficient as private operators. While the Regulator indicates that it applies the efficiency factor only to cost items that it considers Metro can influence, Metro contends that the efficiency factor should also reflect the degree to which Metro is able to influence cost items. To this end, Metro submits that the normalised public sector operator weighted average should be adopted as the Benchmark Operator in determining Metro's efficiency.

3 REGULATOR'S DRAFT ASSESSMENT OF EFFICIENT COSTS AND MAXIMUM REVENUE NEEDS

In relation to the Regulator's proposed maximum revenues, the Regulator is seeking comment on:

- the proposed treatment of capital expenditure;
- the reasonableness of the real rate of return applied;
- setting an allowance for depreciation based on the actual depreciation expense; and
- the methodology applied to assess efficient operating expenditures (excluding depreciation) for fare setting purposes.

3.1 Proposed Treatment of Capital Expenditure

3.1.1 The Proposed Treatment of Capital Expenditure

Metro notes that the Regulator proposes to adopt Metro's forecasted capital expenditure based on its current funding arrangements as outlined in Table 5.4 of the Draft Report. Metro notes that the Regulator considers it appropriate to only include capital expenditure that has been approved by Government in Table 5.4 and not that which has been included in business cases presented to Government to meet DDA targets. Metro notes that the Regulator has considered capital expenditure as outlined in Table 5.4 past the forward budget estimates despite funding not necessarily being secured. Metro is comfortable with the approaches taken in the treatment of capital expenditure.

3.2 Reasonableness of the Real Rate of Return

Metro considers a WACC of seven percent is reasonable and notes that it is consistent with the last two investigations.

3.3 Setting a Depreciation Allowance

Metro notes that the Regulator has based the depreciation allowance on Metro's current asset valuation and depreciation methodology which is reasonable. Metro notes that the alternative approaches considered have not been modelled by the Regulator and agrees this is appropriate in the circumstances.

3.4 Methodology Applied to Assess Efficient Operating Expenditures

Metro considers that there is some risk in making direct comparisons of operators with data provided as part of benchmarking exercises and recognises the potential inherent limitations of relying on such comparisons. The benchmarking is also based on comparisons with only interstate comparisons and as such does not reflect the local circumstances in which Metro operates and competes.

Metro notes that the Regulator considers the recently negotiated enterprise agreement as being efficient by industry standards but that efficiencies should be able to be made in how employees are utilised. Metro considers the 93% efficiency factor for bus hourly costs would be difficult to achieve and the Regulator has noted too that this may be the case due to limited flexibility under the enterprise agreements. Metro notes that the Regulator again proposes that pursuing an appropriate mix of full time and casual staff might assist but Metro is cautious of this approach with recent increases in the cost of casual labour flowing through from modernisation of labour awards, specifically increasing casual loadings.

Metro considers the efficiency factor of 102% for bus kilometre costs is appropriate and recognises again the inherent limitations of the benchmarking data on which this factor is formed.

Metro notes that the Regulator has calculated efficiency factors for bus overhead costs by separating out administrative salary and wages and overhead costs which are considered in Metro's control and those which are considered outside of Metro's control. Metro believes that there are significant differences between functions undertaken by private operators and Metro which have not been normalised as part of the benchmarking process. These functions include outsourced security costs, advertising, marketing, promotions, timetable and customer information, ticketing systems, Metro Shop and call centre functions, regulations and oversight associated with being a state owned company and planning and development functions normally the responsibility of the Government. Metro agrees that there is always scope to look at better ways of managing business overheads but is of the strong view that the overall efficiency factor of 67% is not reasonable or achievable.

Similarly Metro believes that the overall weighted average efficiency factor of 88.2% would be

difficult to achieve in the immediate term. Metro is concerned that the efficiency factor has been set in light of the Regulator's view that Metro's efficiency is declining and is mirrored by declining patronage and other non-financial performance indicators that are poorer than other private sector operators.

Metro notes that the Regulator has indicated that the targets are not unreasonable for the purposes of setting fares and that benchmarking alone is not suitable for undertaking a detailed assessment of the business operations in order to identify where real efficiencies can be achieved. Metro agrees strongly with this proposition also.

4 ADULT FARES

The Regulator is seeking comment on:

- the methodology applied in calculating current cost recovery levels;
- the methodology adopted in calculating peak and full adult cost recovery; and
- the approach to present the maximum weighted average annual real increase in fares rather than a specific fare proposal.

4.1 Methodology Applied in Calculating Current Cost Recovery Levels

Metro submits that the continued application of a methodology developed in 1997, in particular for allocating costs across peak, inter-peak, evening and weekend/public holiday time periods, has reducing usefulness or relevance. As the Regulator concedes, travel patterns are likely to have changed somewhat as a consequence of the extension of shopping hours, changes to route services and shifts in employment. Metro's internal analysis supports this postulation, indicating an increase in the use of services during the inter-peak as well as evenings and weekends, particularly on Saturdays. That said, the methodology applied in calculating the total cost recovery ratio (i.e. when not split into separate time periods) for Hobart, Launceston and Burnie appears reasonable.

4.2 Methodology Adopted in Calculating Peak and Full Adult Cost Recovery

4.2.1 Peak Cost Recovery

As noted in the previous section, Metro has concerns with the continued application of a methodology developed in 1997 for allocating costs across peak, interpeak, evening and weekend/public holiday time periods. This jeopardises the separation of the total cost recovery levels into peak cost recovery. In this regard, the Regulator concedes that the sharp reduction in the calculated peak cost recovery mostly appears to be due to a switch in passengers from peak periods to interpeak periods. Metro therefore contends that the methodology adopted in

calculating peak cost recovery should be updated to reflect current travel patterns and changes to route services that have occurred since 1997.

4.2.2 Full Cost Recovery for All Services

The deficiencies in the methodology adopted for calculating peak adult cost recovery discussed in the preceding section do not necessarily apply to the calculation of full adult cost recovery, as the latter does not rely on allocating costs across time periods. As already noted, the methodology applied in calculating the total cost recovery ratio for Hobart, Launceston and Burnie appears reasonable. However, the apparent shortcomings in the methodology for calculating peak cost recovery means that the Regulator's assertion that peak cost recovery is now at a similar level to full cost recovery is also questionable. This undermines the basis for the Regulator's suggestion that a similar increase in magnitude of the full adult fare that achieves peak cost recovery would also achieve full cost recovery.

Metro therefore submits that while it is reasonable to calculate full adult cost recovery using the methodology described in the Draft Report, any relationship between peak and full adult cost recovery cannot be reliably determined until the methodology for allocating costs across peak, interpeak, evening and weekend/public holiday time periods is updated to reflect current travel patterns and changes to route services that have occurred since 1997.

4.3 Approach to Present the Maximum Weighted Average Annual Real Increase in Fares Rather than a Specific Fare Proposal

Metro believes it should not comment on this as the Terms of Reference for the investigation were set by the then Minister for Finance and it is up to Government to provide commentary on the Regulator's revised approach.

5 ALTERNATIVE FARE STRUCTURES

The Regulator is seeking comment on:

- the methodology used to consider the appropriateness of alternative fare structures;
- the trade-off between multiple ticketing and payment options and a desire for simplicity; and
- any other matters on Metro's proposed fare structure or other fare structure options and the Regulator's assessment.

5.1 Methodology Used to Consider Appropriateness

5.1.1 Qualitative Scoring

Metro considers the quantitative scoring system used to assess how well Metro's proposed fare structure meets the criteria outlined in the Terms of Reference to be simplistic to the extent that the

results are of limited value when viewed in isolation. However Metro notes that such a method was devised in the absence of a more complex assessment framework being prescribed through the Term of Reference. Metro submits that the Regulator's qualitative assessment is more useful than the high level scoring system that it has applied, particularly as each alternate scenario offered by the Regulator results in the same total score.

5.1.2 Tag-On/Tag-Off Systems

Metro contends that a tag-on/tag-off fare collection arrangement is more appropriately considered as a ticket validation system rather than as a component of a fare structure. That is, tag-on/tag-off ticketing systems, and ticketing systems in general, are used to enforce a pre-defined fare structure rather than to define the fare structure itself. The Draft Report states that when passengers neglect to tag-off they are charged a default fare which is usually the maximum fare that could apply on that service. However this is a mechanism to impede fare evasion in the form of overriding, rather than a system that defines the ticketing products available and how they are priced.

The ability of a tag-on/tag-off system to automatically deduct the appropriate fare for the journey undertaken does eliminate the need for customers and bus operators to ensure the correct fare is paid at the commencement of the journey. However this advantage is not a simplification of the fare structure itself, but is rather an automated process for applying the appropriate fare in accordance with the pre-defined fare structure.

Metro's current and proposed fare structures could operate in exactly the same manner whether a tag-on/tag-off system were being used or not, and this applies to fare structures in other jurisdictions. While there would be a number of other differences and implications under a tag-on/tag-off system, such as reduced fare evasion, automatic application of the correct fare, availability of richer data and increased operating costs, these are unrelated to, and would have no bearing on, the fare structure being applied.

In summary, Metro recognises the potential benefits and costs that a tag-on/tag-off system presents, however the method of ticket validation should be a separate consideration when assessing alternative fare structures.

5.2 Simplicity and Comprehensibility

5.2.1 Number of Zones

The Regulator's suggestion that Metro's proposal for Hobart is more complex relative to larger jurisdictions that have fewer (two) zones is based on examples that are not reasonably comparable.

Melbourne's two zone structure is radial whereas Metro's proposed zone structure is linear. Metro has decided against a radial approach in order to pursue a 'pay for distance' principle. Adopting a

radial approach would result in passengers travelling from Kingston to Glenorchy, for example, paying the same fare as passengers travelling locally around Kingston, which is clearly not equitable. The linear approach is also more suited to Hobart's topography where there are natural barriers separating the 'outer' zones from each other, which generally do not exist in Melbourne.

Further, Metro's understanding is that Adelaide does not have a two zone fare structure as stated in the Draft Report, rather it has a flat fare for all travel but offers a 'two section' ticket for short trips. The former allows unlimited travel for two hours, while the latter allows single journey travel between two 'section points' for short trips.

Metro therefore contends that its proposal for regional zones in Hobart is not overly complicated and moreover appropriately reflects Hobart's topography, the location of major activity centres and the travel patterns of passengers. Metro notes the Regulator's comment that Metro's proposal appears to be reasonably simple but appropriately detailed given Hobart's size as compared with Brisbane/Gold Coast and Perth.

5.2.2 Ticketing Options

Table 7.2 of the Draft Report indicates that the only other Australian jurisdiction with a Greencard type system is Adelaide (metroCARD), by this Metro assumes the Draft Report means both Hobart and Adelaide have tag on systems. It should be noted that smartcards are being used in Canberra (MyWay card), Sydney (Opal card on select routes), Brisbane/Gold Coast (go card), Melbourne (myki) and Perth (SmartRider) – all with tag on/tag off functionality. Furthermore, most of these jurisdictions offer cash fares as well as passes, with Sydney offering a MyBus TravelTen, Melbourne offering a myki pass, Adelaide offering a metroCARD monthly pass as well as Brisbane/Gold Coast offering free travel after the ninth trip in a week (although this is not strictly a pre-paid pass). It should be noted that in Melbourne there are no cash tickets – all boardings are by myki cards and in other jurisdictions on some routes only smart cards are accepted, ie there are no cash fares collected on board these services.

Melbourne's myki pass and Adelaide's metroCARD pass operate in much the same way that Metro proposes to offer a Weekly and Monthly Pass on its Greencard. This suggests that in comparison to other jurisdictions Metro's proposal to offer passes in addition to its cash and pre-paid travel credit options is not particularly complicated.

It is difficult to envisage how the Regulator's suggested option of merging the Greencard and cash ticket options would be possible – by definition they are differentiated payment methods that cannot be combined. The alternative suggestion of choosing between the current Greencard discounts and weekly/monthly passes is basically a decision to either maintain the status quo, or to only offer the Greencard as a pass. The former is not an alternative fare structure and the latter would have limited appeal as customers would have to pay cash for single fares and would only have access to discounts or be able to use a smartcard if they were prepared to commit to paying

for a weekly or monthly pass.

Metro therefore maintains that its proposed fare structure is simple enough to easily comprehend while offering passengers enough choice for their specific travel needs.

5.3 Equity

5.3.1 Cessation of Cash Ticket Transfers

In response to the submission received by the Regulator suggesting that the removal of cash ticket transfers may disadvantage a number of passengers, Metro reiterates that passengers would still have the option of acquiring a Greencard to continue to transfer for free, and that free Greencards would be offered leading up to the implementation of the removal of paper ticket products. The submission's suggestion of a transitional transfer token that is surrendered upon transfer is no different to how the current cash ticket transfer system operates, except that the ticket would be surrendered instead of retained by the passenger.

5.3.2 Placement of Boundaries

In response to the submission received by the Regulator suggesting that the proposed boundaries would reduce fares for some passengers while increasing it for others, Metro concurs with the Regulator that with any fare restructure there will be differing degrees to which some passengers are advantaged and others disadvantaged. As the Regulator notes, the equity of the overall system rather than specific groups of passengers should be considered. To this end, Metro's proposed placement of zone boundaries has taken into account the demographic distribution of transport needs while aiming to minimise the potential price impact for customers.

5.4 Technological Capability

Metro notes that the installation of a tag-on/tag-off system is not necessary for the implementation of its proposed fare structure. It is submitted that such a system would offer much the same benefits and costs if it were implemented under the existing fare structure as it would if it were implemented under any alternative fare structure.

5.5 Peak and Off-Peak Fares

5.5.1 Modification of the Greencard Daily Cap

Metro wishes to clarify that in addition to modifying the Greencard Daily Cap from a flat rate to a distance rate during peak periods, Metro proposes to adjust how the Peak Daily Cap is triggered to take over from the default Off-Peak Daily Cap. Currently the Peak Cap only applies when a passenger's first boarding on a weekday is made prior to 9.00 am, meaning a passenger is able to travel in the afternoon peak period but have the Off-Peak Cap apply if their first boarding was made after 9.00 am. Metro proposes to trigger the Peak Cap when a weekday boarding is made in

either the morning peak period (7.00 am to 9.00 am) or the afternoon peak period (3.00 pm to 6.00 pm).

5.5.2 Transitional Pricing for Off-Peak Fares

Metro notes the Regulator's concern that the phasing in of discounts for off-peak travel limits the quantum of the discount that is able to be offered in the short term, and that this reduces the incentive to defer travel to the off-peak over the initial transitional period. However this is necessary to avoid prices shocks for customers and paves the way for Metro to progressively increase the discount over the medium to long term to a level that creates enough incentive for customers to switch their travel to the off-peak.

Furthermore, the introduction of a distance-based Greencard Peak Daily Cap that works in tandem with defined morning and afternoon peak periods should act to more effectively and fairly incentivise off-peak travel in the interim, particularly for those '1 Zone' passengers for whom there may not be an immediate single fare price incentive.

5.6 Eliminating the Opportunity for Underpayment

The current section-based system requires full-fare adult passengers to calculate the number of sections they will travel through to determine the correct fare. A zonal-based system removes this complication, with the fare being determined by whether a zone boundary (of which there are few) will be crossed. This reduces the risk of miscalculation of fares that result in over or underpayment.

While Metro concedes that the proposed fare structure is not likely to lead to a material reduction in the underpayment of fares, the Regulator's suggestion that the implementation of a tag-on/tag-off system would improve fare compliance holds true even if there were no change in the fare structure. As previously discussed, this illustrates the limited usefulness of incorporating the ticket validation system into the assessment of different fare structures.

Metro submits that a greater benefit of a tag-on/tag-off system would be the availability of more comprehensive data that encapsulates entire journey patterns rather than being limited to the point of boarding. This would improve Metro's service planning, network design and travel pattern analysis capabilities and lead to operational efficiencies as well as improved reliability. As the Regulator notes, these and other benefits of a tag-on/tag-off system would need to be weighed against the additional upfront and ongoing costs that would be incurred.

Metro does not support the Regulator's suggestion that the implementation of a tag-on/tag-off system while retaining the existing fare structure may be a useful first step in better understanding the most appropriate way forward. This would be a very expensive and complex way to assess the potential impact that a change from sections to zones and the placement of boundaries would have on specific passengers, especially given that the additional capital and operational funding that it

would require would need to come from the Government. As indicated to the Regulator, Metro's current ticketing system has around five years of useable life left which will require the replacement of ticketing machines. This would appear to present an appropriate opportunity for investing in a tag-on/tag-off system if the Government agreed to fund such a system.

Metro contends that an improved fare structure can be implemented without awaiting the simultaneous instalment of an expensive and unfunded ticket validation system. If a tag-on/tag-off system were to be introduced, it could be implemented prior to, in correlation with, or after introducing an alternative fare structure, and Metro submits that this should be a separate consideration to the assessment of a proposed alternative fare structure.

5.7 Maximum Fares

Metro notes that under its proposed fare structure, an 85% real increase in weighted average adult fares would be required for full cost recovery by 2018-19 (excluding any subsidy for congestion or environmental outcomes), which compares favourably to the 92% increase required under the existing fare structure.

6 METRO INDEX

In relation to the calculation and administration of the Metro Index, the Regulator is seeking comment on:

- the proposal to set the weightings, based on the efficient cost providers and set those weights for the entire five year regulatory period;
- the proposal to use the ABS national AWOTE index (transport and storage component) to index all labour and labour related costs, i.e. including on-costs, superannuation and workers' compensation;
- the proposal to retain the current arrangement for fuel indexation; and
- the proposal to use the average all capital cities CPI for all other cost components.

6.1 Weightings

The Regulator has stated its preference to use exogenous indices to apply the sub-components of the Metro Index as a mechanism to drive efficiencies. While Metro maintains that the Metro Index was designed to accurately measure movements in Metro's actual costs, if exogenous indices are to be used for applying the sub-components in order to drive efficiencies then Metro contends that the Metro Index should at least be periodically reweighted based on Metro's actual expenditure.

This approach would fulfil the Regulator's desire to use the Metro Index for incentivising Metro to seek efficiencies, as New Service Contract (NSC) payments would continue to be adjusted to reflect movements in external industry-based sub-indices over which Metro has no control. At the

same time it would satisfy the intention of clause 3.6 of the NSC which states that the Metro Index may be periodically reviewed to ensure that it continues to properly reflect movements in the costs faced by Metro.

Metro therefore considers it appropriate and reasonable, where external industry-based sub-indices are applied to the sub-components of the Metro Index, that these sub-indices be reweighted every five years, coinciding with the Regulator's pricing investigation, based on Metro's actual expenditure in the preceding financial year.

6.2 Labour

The Draft Report states that labour costs are inflated by the School Bus Index based on the *Public Vehicle Transportation Award 2010*. This is partially correct as this award is used for the driver wage rate, however as stated in Metro's preliminary submission the *Clerks – Private Sector Award 2010* is used for the administrative assistance wage rate and the *Vehicle Manufacturing, Repair, Services and Retail Award 2010* is used for the mechanics wage rate.

This technicality aside, Metro maintains that a national wage index for the transport and storage industry dominated by general road freight haulage is neither reflective of Metro's labour costs nor the labour costs prevailing in the Tasmanian bus industry generally. The national Average Weekly Ordinary Time Earnings transport and storage component is therefore not appropriate for the labour sub-index of the Metro index. However the adoption of the Bus Cost Model Index would have the dual benefits of reflecting Tasmanian bus industry labour costs and standardising the labour sub-index being applied across the Tasmanian bus industry.

Metro notes that the Regulator's proposed weightings include all labour related costs, and while Metro has a differing view on what the basis of the weightings should be (as discussed in the preceding section), this approach is welcomed. Metro also acknowledges the Regulator's conclusion that external policy changes that have an immaterial impact on the relative weights are perhaps best addressed when the weights are revisited rather than as ongoing adjustments.

6.3 Fuel

Metro is supportive of the Regulator's proposal to retain the existing arrangements with respect to fuel costs.

6.4 Other Costs

Metro is supportive of the Regulator's proposal that the National CPI is the appropriate index of Metro's other costs.