

Department of Infrastructure, Energy and Resources

PASSENGER TRANSPORT DIVISION

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Our Ref 044612/001

Mr Dean Burgess
Director
Office of the Tasmanian Economic Regulator
GPO Box 770
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Dear Mr Burgess

The Department of Infrastructure, Energy and Resources is pleased to provide the following submission in response to the Tasmanian Economic Regulator's (TER's) call for feedback on the Investigation into the pricing policies of Metro Tasmania Pty Ltd (Metro). I apologise that it has been substantially delayed and ask that you please seek to accommodate our views in preparation of the Final Report.

As you will be aware, the role of Metro has been subject to detailed scrutiny by the Tasmanian Government since the last TER Investigation. For a long period of time, Metro was considered to be primarily, a provider of services to the transport disadvantaged. Through a formal dialogue with Metro taking place around several major initiatives (including the *Financial Sustainability Review*), definitive progress has been made in confirming a re-direction of Metro's priorities as a provider of services under contract to the Government. In summary terms, the outcome of this dialogue has seen a recognition that, while bus services are essential for the purpose of addressing transport disadvantage and facilitating social inclusion, there are wider benefits to the community through providing an alternative to the private car, especially for peak period travel. This reflects a substantially modified view of the role that Metro is taken to play in the contemporary Tasmanian transport environment.

Regarding Metro's capital base, DIER has not changed its position since the last Investigation. That is, while Metro is expected to replenish or replace its capital stock, a return on capital as reward for the assumption of commercial risk is not considered relevant under Metro's funding model. Consistent with this view, Metro is not required to pay a dividend.

In considering the TER's draft report, DIER is concerned at the noted increase in overhead costs since 2009. The magnitude of some of these rises is significant. DIER considers that it will be essential for Metro to address these increases going forward over the next regulatory period.

In response to the TER's request for specific comment on the issue of depreciation, DIER acknowledges that there appears to be insufficient benefit to warrant Metro calculating depreciation separately for the purposes of the Investigation. Further, given that Metro deploys its fleet in such a way as to: (i) maximise the percentage of services delivered with accessible buses (which are typically newer); and (ii) minimise maintenance costs on older vehicles in the fleet, adoption of an accelerated depreciation schedule is not inconsistent with this operational practice.

DIER continues to support the view expressed by GPOC, and now the TER, that the Metro Index should reflect the cost structure of the efficient provider to ensure appropriate incentives exist to pursue efficiencies rather than to reflect the actual costs of an individual operator.

Since the last investigation, the only notable change to the Metro Index arises as a result of the move to Modern Awards in line with the *Fair Work Act 2009* (Cth). The new *Passenger Vehicle Transportation Award 2010* provides for higher casual loadings on bus driver wage rates. Accordingly, increased loadings are progressively being applied to relevant wage rates according to a transition path. From July 2011, the casual loading was increased from 20 per cent to 22 per cent and further increases of 1 per cent will be applied each year until 2014, whereupon it will be capped at 25 per cent.

In its submission Metro has expressed serious concern about the use of a national wage index for the transport industry as a measure of Tasmanian bus industry labour costs. Metro has proposed that the labour component of the Metro Index should instead be based on the Bus Cost Model Index (BCMI) and that this would standardise the labour sub-index being applied across the Tasmanian bus industry. The BCMI labour sub-index is based on the *Passenger Vehicle Transportation Award 2010*. It is noted that this award does not apply to Metro employees, who are instead covered by an entity-specific award and enterprise agreement.

Metro has once again proposed that weightings of the sub-indices should be based on Metro's actual expenditure. DIER continues to support the approach adopted by both GPOC and TER in this regard.

Concerns expressed at the time of the 2009 Investigation over holding the weightings of the sub-categories for the full five year regulatory period have not been realised.

In regard to full and peak cost recovery fares, DIER notes that the TER has proposed not to put forward a specific fare proposal, but rather to present the maximum weighted average annual real increase in fares. While this is of some benefit, it may not provide a level of information which would enable a full appreciation of the degree to which Government supports the provision of public transport by Metro. Nevertheless, it is sufficient to indicate in general terms that the amount paid in fares is well below the actual cost of travel.

Since the last Investigation, Metro has completed the roll out of the Greencard ticketing system. DIER notes that this has introduced significant new passenger amenity. Compared to ticketing initiatives in other jurisdictions, the move to electronic ticketing has been achieved cost effectively and very efficiently. DIER considers that careful leveraging of the benefits available from the ticketing system will be greatly to Metro's advantage as well as its passengers.

Of particular benefit to both Metro and passengers is the capacity to add value to Greencards simply and quickly either via an automated process (through Metro's auto top-up application), by agents (who do not and cannot be expected to have a detailed understanding of a ticketing system) and even on-board buses. This effectively makes every bus a potential recharge facility, significantly enhancing passenger convenience. A further benefit of the current system is that Metro can require value to be added in fixed amounts (notes only), which streamlines the on-bus add value process, especially given that it does not require on-bus transactions to deal with change.

DIER supports the conclusion of the TER that incorporating too many ticketing options may create an excessively complex fare structure. If complexity were to mean that the available means for adding value were to be reduced, this would not be of benefit to passengers.

Importantly, DIER contends that discounts on adult peak cost recovery fares should be applied in recognition of available capacity in the off-peak period. That is, discounts for off-peak travel, should be extended to adult passengers to ensure appropriate signals are provided to encourage the shift of discretionary travel to outside the peak periods and encourage new adult patronage. Pricing along the demand curve for times where marginal costs are low, particularly weekdays between 9am and

approximately 2.30pm is essential to improving utilisation of services (and associated assets) at these times.

Metro's costs are significantly impacted by the capital implications associated with serving 'needle peaks' in demand. A fare structure which encourages passengers to adjust their travel to a non-peak period to the greatest possible extent must be encouraged.

DIER strongly supports and endorses the TER's proposal for tag-on/tag-off capability to be overlaid on the existing fares system as a first step. The data which would be captured through the use of such a system would be invaluable. For the purposes of this Investigation, had such data been available, the TER would have been considerably assisted in its task. The technology is also able to ensure that passengers pay the correct fare, reducing both under- and over-payment.

Tag-on/tag-off significantly enriches the data available, which will also help Metro with the design of efficient peak services thereby addressing rising peak costs. If a flat adult concession fare is retained, the tag-on/tag-off functionality should nevertheless be engaged for all passenger types, in order to capture trip data which will support future reviews of fares and services.

DIER supports the adoption of a fares structure which aligns closely with the set of pricing principles that were formally endorsed through the Financial Sustainability Review project and which:

- move single ticket fares towards peak cost recovery, but with the proviso of efficient route design which ensures best use of capacity in order to minimise peak cost;
- provide off-peak fares for adult and adult concession passengers, which are capable of triggering real behaviour change in order to address sharp needle peaks and make better use of available capacity;
- are simple to understand, with easy to purchase ticket options; and
- are justified from a commercial and customer perspective.

DIER appreciates the opportunity to provide a submission to the process and would be pleased to provide further information, either in writing or as a briefing should TER require.

Again, I apologise that our submission has been delayed. If you have any queries, please do not hesitate to contact David Hope on 6166 4466.

Yours sincerely

for 
Bob Rutherford
DEPUTY SECRETARY REGULATORY AND CUSTOMER SERVICES

26 May 2014