

Minister for Finance
Minister for Tourism
Minister for Hospitality
Minister for Veterans' Affairs



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Mr G Appleyard
Chairman
Tasmanian Economic Regulator
Level 5
111 Macquarie Street
HOBART TAS 7000

28 OCT 2013

Dear Mr Appleyard

Requirement to investigate the pricing policies of Metro Tasmania Pty Ltd

I am writing to require that the Tasmanian Economic Regulator conduct an investigation into the pricing policies of Metro Tasmania Pty Ltd, pursuant to section 24 of the *Economic Regulator Act 2009* (the Act). In accordance with section 24(8)(a) of the Act, I have obtained the agreement of the Minister administering the *Metro Tasmania Act 1997*, the Minister for Sustainable Transport, for the provision of this requirement.

The terms of reference for the investigation are attached and have been prepared in accordance with section 25 of the Act.

Pursuant to section 24(6)(c) of the Act, I advise that there are no contracts or classes of contracts specifically listed that the Economic Regulator should not investigate.

The Minister for Sustainable Transport and I have determined that Metro Tasmania will be liable for the whole of the reasonable expenses incurred by the Economic Regulator arising from this investigation. In accordance with section 20 of the Act, I enclose the Determination that gives effect to this decision.

I have also written to the Chief Executive Officer of Metro Tasmania in similar terms.

Yours sincerely

Scott Bacon MP
Minister for Finance

Encl

Economic Regulator Act 2009

Section 20(2)

DETERMINATION

In accordance with section 20(2) of the *Economic Regulator Act 2009* (the Act), we, the Honourable Scott Bacon, MP, being the Minister for Finance and the Minister responsible for the administration of the Act and the Honourable Nick McKim, MP, being the Minister for Sustainable Transport and the Portfolio Minister pursuant to section 3 of the Act in respect of the *Metro Tasmania Act 1997*, determine that Metro Tasmania Pty Ltd (Metro), being a monopoly provider within the meaning of section 3 of the Act, is liable for the whole of the reasonable expenses incurred by the Tasmanian Economic Regulator arising from the conduct and reporting of an investigation into the pricing policies of Metro (including expenses incurred in making a final report available to the public), required to be undertaken in accordance with section 24 of the Act and to commence on or before 28 October 2013.


Scott Bacon
Minister for Finance

Date: 22/10/13



Nick McKim
Minister for Sustainable Transport

Date: 22/10/13

COPY

ECONOMIC REGULATOR ACT 2009

INVESTIGATION INTO THE PRICING POLICIES OF METRO TASMANIA PTY LTD

TERMS OF REFERENCE – 2014 PRICE INVESTIGATION

Under section 24 of the *Economic Regulator Act 2009*, at least 11 months before the expiration of a pricing policy order or a pricing policy determination in relation to a monopoly provider specified in the Act, the Minister for Finance is to require the Tasmanian Economic Regulator to conduct an investigation into the pricing policies of that monopoly provider in respect of each prescribed monopoly service supplied by the monopoly provider.

The current pricing Order for Metro Tasmania Pty Ltd is due to expire on 28 September 2014. Therefore, in accordance with the requirements of the Act, the Terms of Reference for the 2014 investigation into the pricing policies associated with the provision of road passenger transport services in Tasmania by Metro Tasmania Pty Ltd are outlined below, and address each of the issues outlined in section 25 of the Act.

The Functions and Other Activities of Metro

Section 5 of the *Metro Tasmania Act 1997* states that Metro's principal objective is to provide road passenger transport services in Tasmania, and to operate those services in a manner consistent with sound commercial practice.

Seventy per cent of Metro's revenue is provided through purchaser/provider contracts with Government. The New Service Contract (NSC) between Metro and the State Government is by far the largest of these contracts. The current NSC runs to 31 December 2013 with provision for renewal for a period of a further five years at the option of the Government. The NSC requires Metro to provide bus services within Hobart, Launceston and Burnie. In addition to the NSC, Metro holds a further six contracts with the Secretary of the Department of Infrastructure, Energy and Resources. These contracts provide for the delivery of services to urban fringe settlements.

The Government's primary objective in funding the contracted services is to meet the essential travel needs of the community, both by mitigating the impact of

transport and socio-economic disadvantage and by providing efficient services which reduce the need for the community to rely on the private car.

Scope of Investigation

In accordance with Part 3 of the Act, the Regulator should investigate the pricing policies associated with the monopoly services supplied under the NSC.

More specifically:

1. Investigate and report on the efficient cost of delivering the services required of Metro for the period 1 July 2014 to 30 June 2019.
2. In making a recommendation on the efficient cost of delivering the service required of Metro, the Regulator is to:
 - (i) have regard to costs of compliance with the *Disability Discrimination Act 1992 (Cth)*;
 - (ii) have regard to Metro's sustainable management of its capital base; and
 - (iii) investigate and report on the potential for Metro to secure operational efficiencies.
3. The Regulator is to investigate and report on the appropriateness of the composition and administration of the Metro Index.
4. The Regulator is to identify what changes would be necessary to the full adult fares structure to achieve full and peak cost recovery.
5. The investigation is to consider potential alternative fare structures giving particular attention to matters of:
 - (i) simplicity and comprehensibility;
 - (ii) equity;
 - (iii) availability of technological capability to support those structures;
 - (iv) relativities between the fare categories;
 - (v) the need for a transition path to achieve implementation while avoiding price shocks for any particular passenger group;
 - (vi) consistency with Government policy; and

- (vii) other relevant matters including differentiating between peak and off-peak fares to encourage travel in low cost periods; incentivising fare pre-payment and reducing or eliminating the opportunity for underpayment.

Draft Report

At an appropriate time during the investigation, the Regulator is to make available a Draft Report in accordance with section 34 of the Act.

Date of Completion

The Regulator is to provide a copy of the Final Report, as required under section 35 of the Act, in respect of the Metro investigation by 30 May 2014.

Length of Order

The length of the period for which an Order under section 36 of the Act made in relation to the maximum prices that may be charged by Metro as a result of this Investigation is five years.

Requirement for the Commission to Make Recommendations

The Final Report provided by the Regulator under section 35 of the Act must contain recommendations in relation to appropriate maximum prices (as defined in section 4 of the Act) to enable Metro to deliver the defined services during the period of five years after the completion of the Final Report.