



Submission
to the
Office of the
Tasmanian Economic Regulator

2014 Investigation into the
Pricing Policies of
Metro Tasmania Pty Ltd

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TABLE OF CONTENTS

1	EXECUTIVE SUMMARY.....	3
1.1	Metro’s Operations.....	3
1.2	Efficient Cost.....	5
1.3	The Metro Index.....	6
1.4	Cost Recovery.....	6
1.5	Alternative Fare Structure.....	7
2	INTRODUCTION.....	8
2.1	The Role of Metro.....	8
2.2	The Role of the Tasmanian Economic Regulator.....	9
3	METRO’S OPERATIONS.....	11
3.1	Operating Environment.....	11
3.2	Corporate Governance and Business Structure.....	16
3.3	Greencard Ticketing System.....	17
3.4	Fare Structure.....	20
3.5	Patronage.....	26
3.6	Services.....	30
3.7	Passenger Comfort and Safety.....	35
3.8	Market Research.....	38
3.9	Customer Service and Communication.....	41
3.10	Environmental and Social Responsibility.....	43
4	EFFICIENT COST.....	45
4.1	Introduction.....	45
4.2	Compliance with the Disability Discrimination Act.....	45
4.3	Sustainable Management of Metro’s Capital Base.....	50
4.4	Operational Efficiencies.....	58
5	THE METRO INDEX.....	64
5.1	Background.....	64
5.2	Composition.....	65
5.3	Administration.....	66

6	COST RECOVERY	68
7	ALTERNATIVE FARE STRUCTURE.....	69
7.1	Introduction	69
7.2	Background	69
7.3	Introduction of Zonal-Based Fares.....	70
7.4	Introduction of Distance-Based Concession Fares.....	76
7.5	Differentiation of the Urban Student Flat Fare.....	77
7.6	Introduction of Peak and Off-Peak Fares	77
7.7	Introduction of Weekly and Monthly Passes	80
7.8	Modification of the Greencard Daily Cap.....	81
7.9	Cessation of Cash Day Tickets and Cash Ticket Transfers	82
7.10	Setting of Adult Peak Cash Fares for Cost Recovery	83
7.11	Fare Pricing.....	84
7.12	Summary	87
	Appendix A	89
	<i>Proposed Hobart Zone Boundaries.....</i>	<i>89</i>
	Appendix B	90
	<i>Proposed Launceston and Burnie Zone Boundaries</i>	<i>90</i>

1 EXECUTIVE SUMMARY

1.1 Metro's Operations

1.1.1 Metro's Corporate Plan

In 2010 Metro undertook a major review of its Corporate Plan. The revised plan outlines a vision for the organisation to transform Tasmania's passenger transport to be a travel option of choice, with an overall business purpose to deliver urban mass passenger transport services. The three-year plan sets goals which deal with the way the company relates to its shareholders, stakeholders, customers and its workforce, and what it aims to achieve. Metro's goals are to put its customers at the centre of its business, to increase the number of people using passenger transport and to deliver value for money to both its passengers and the State Government which, through the Department of Infrastructure, Energy and Resources (DIER), contracts Metro to provide a level of service. Metro is currently undergoing a strategic review of its Corporate Plan to guide the company's direction over the next four years.

1.1.2 Greencard Ticketing System

In 2009 Metro introduced a new ticketing system, Greencard, which includes a smartcard that is read electronically to assist passengers to board more quickly, as well as providing a range of other benefits such as discounted fares and an online top-up facility. The successful integration of this system was a challenging but extremely worthwhile process. The new system has also allowed the integration of the Government's Student Bus Pass for Free Travel program so that students can use their Greencard as their student bus pass.

The introduction of Greencard in Tasmania has been a great success. There are currently over 107,000 active Greencards, with approximately 59% of journeys now being made using Greencard. Greencard makes it easier for people to travel as it is more convenient because passengers don't have to fish around to find the right change and that makes it quicker to board a bus. Passengers also get a 20% discount on fares when using Greencard and fares for urban travel are capped at a set daily amount.

1.1.3 Fares

While Metro is a state-owned company, Metro is very aware of the community in which it operates and understands that some of its customers are finding it difficult to make ends meet. Therefore to assist commuters and encourage patronage, Metro has recently kept full-fare adult fare increases as low as possible, despite much larger increases being permitted under the *Government Prices Oversight (Metro Bus Fares) Order 2009*. Concession and student single cash fares in urban areas have each increased by only ten cents since the previous pricing investigation. These modest increases in fares have been

necessary to help address rising fuel prices, increased wages and other cost pressures.

1.1.4 Patronage

After three years of increasing passenger numbers between 2008-09 and 2010-11, which coincided with the implementation of Greencard, in recent years Metro has experienced decreasing patronage. Reversing this decline in passenger boardings is a key focus for Metro, and the company has implemented a range of initiatives aimed to attract and retain more passengers over time. These have included Boundary Rider services for cricket and football, Nightrider New Year's Eve services and Fare Free Weekends over the long weekend in February to coincide with Festivale, the Hobart Cup and the Hobart Regatta.

Encouragingly, in the last twelve months the annual rate of negative growth has been steadily reducing. Metro has recently undertaken a major market research project to identify the reasons behind the sustained decline in patronage and this has been used to develop further strategies aimed at increasing passenger numbers.

1.1.5 Services

In 2011 Metro completed its Greater Hobart Passenger Transport Network Plan. The strategic vision for the plan is to provide integrated passenger transport outcomes across Greater Hobart in support of the Tasmanian Urban Passenger Transport Framework developed by DIER. The plan identifies and prioritises passenger transport projects to ensure the best use of available funds and set priorities over the short and long term, and is being progressively implemented as finances allow.

Hobart's Main Road from Glenorchy through to the Hobart CBD is Metro's busiest route and one of the main backbone routes for the Greater Hobart Network Plan. In conjunction with the State Government, DIER, and the Hobart and Glenorchy City Councils, Metro has introduced a high frequency transit corridor on Main Road. The "Turn Up and GO" service guarantees a bus on the busy route every 10 minutes between 7.00 am and 7.00 pm weekdays.

Under Metro's Corporate Plan one of the key goals is to improve social inclusion, and the company is progressively replacing and upgrading its street infrastructure and fleet to meet the requirements of the *Disability Discrimination Act 1992* (DDA). All new buses are capable of being lowered and have ramps to improve access for people with disabilities, and are also fitted with the latest low emission diesel engines.

Safety for passengers, bus operators and other staff, and for the general public, is a key priority for Metro. All bus operators are trained in dealing with difficult passengers using a training program which was developed with the assistance of Tasmania Police. All Metro buses are fitted with CCTV which acts as a deterrent to anti-social behaviour and aids

investigations.

Metro provides information and support to its customers through face-to-face, telephone, electronic and on-bus channels. Metro has relocated its customer service team to a new Metro Shop in the Hobart Interchange in Elizabeth Street to make it easier for passengers to get information about services and to purchase or recharge a Greencard. Metro has also recently launched an online journey planner that integrates bus stop, route and schedule information to make trip planning quick and easy for Metro's passengers.

1.2 Efficient Cost

1.2.1 Compliance with the Disability Discrimination Act

Metro operates a fleet of 217 buses, 85 of which were compliant with the DDA requirements for accessible public transport as at June 2013. In 2012-13 Metro's wheelchair accessible buses provided 65% of general access services, meeting the December 2012 DDA target of 55%.

Bus stops and other street infrastructure are progressively being upgraded to meet the requirements of the DDA. Currently, 20% of poles, signs and timetables at bus stops are compliant and this figure is anticipated to reach 25% by December 2014.

A significant investment in upgrading bus stop infrastructure and purchasing new vehicles is necessary to meet the 2017 and 2022 DDA compliance requirements, which are 80% of services and 90% of street infrastructure by 2017, and 100% of services and street infrastructure by 2022.

1.2.2 Funding and Capital

Metro is a state-owned company, but is not set up to make a profit and nor does it pay a dividend to its Government shareholders. Metro's primary source of revenue is its contract payments, with the metropolitan area New Service Contract (NSC) being by far the largest single service contract. NSC payments are adjusted in line with an index of the costs faced by the company, and it is Metro's challenge to operate the business in a sound commercial manner so as to gradually improve its profitability.

Since 2009-10 Metro has been in receipt of an additional \$3.25 million to improve its passenger bus services and to assist with the company's long-term capital replacement program. Without receipt of this additional funding Metro would have reported weaker operating results due to the increased depreciation and declining interest revenue that has resulted from significant capital expenditure over the last five years. This additional funding is being used to pursue a range of priorities including improvements to off-road infrastructure on major corridors, research and marketing and most significantly, the purchase of accessible, low emission buses.

Recently Metro has been working closely with representatives from the Department of Treasury and Finance (DTF) and DIER on a review of Metro's sustainability. It is likely that a series of recommendations will be endorsed by shareholders following this review. These recommendations will include specific action items for DTF, DIER and Metro to work on building a more sustainable business model.

1.2.3 Operational Efficiencies

Metro has identified a range of areas where operational efficiencies can be made to reduce the cost of operations, improve the efficient utilisation of resources and attract more passengers to improve revenue. Any efficiencies gained will be reinvested into the company to further improve the service offering and address areas of the business which have historically been under resourced.

Possible efficiencies include those gained from industrial agreement negotiations, scheduling and planning software improvements, bus priority measures, streamlining the bus fleet mix, depot optimisation, development of a service availability policy, alternative fleet procurement options and restructuring urban fares.

1.3 The Metro Index

The Metro Index is used to adjust contract payments received from DIER, and therefore it is crucial that the Metro Index accurately measures movements in Metro's actual costs. Accordingly, Metro submits that the sub-indices of the Metro Index should be reweighted every five years, coinciding with the Regulator's pricing investigation, based on Metro's actual expenditure in the preceding financial year. This is consistent with terms of the contract between Metro and DIER.

Metro considers it more appropriate to use DIER's Bus Cost Model Index (BCMI) for the labour sub-index rather than the now retired School Bus Index. Metro continues to have serious concerns about using a national wage index for the transport and storage industry (dominated by general road freight haulage) as a measure of Tasmanian bus industry labour costs as recommended in the last pricing investigation report. The BCMI is more reflective of the Tasmanian industry's labour costs and its application to the Metro Index would also standardise the labour sub-index being applied across the Tasmanian bus industry.

1.4 Cost Recovery

Metro reiterates the view conveyed in its submission to the previous pricing investigation that in general terms, full Adult fares should not be set so as to achieve full cost recovery in view of the benefits beyond Metro's passengers that passenger transport brings to the wider community, including:

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- Improving social inclusion;
 - Reduced demands on the capacity of the road network;
 - Reduced maintenance required on the road network;
 - Less traffic congestion;
 - Less upward pressure on fuel prices; and
 - Lower carbon footprint.

In the event that Metro's proposed alternative fare structure as detailed in section 7 of this submission were implemented, Metro submits that it would be appropriate to set Adult Peak Cash fares to achieve 'cost' recovery for peak period services, with this 'cost' being the average total cost (including the average cost of capital) less a subsidy reflecting the external benefits of bus travel.

1.5 Alternative Fare Structure

Metro's sectional urban fare structure is relatively complex, somewhat inequitable and is in large part a legacy of a retired ticketing system. GPOC have made a number of recommendations and the Financial Sustainability Review (FSR) considered issues around improving Metro's fare structure from an economic as well as social perspective. Metro proposes a restructure of urban fares in line with GPOC's recommended ticketing products and fare pricing principles.

This restructure includes replacing a large number of sections with a small number of zones, introducing distance-based fares for concession passengers based on the same zones as full-fare paying passengers, providing incentives for off-peak travel, offering weekly and monthly passes and restricting cash fares (paper tickets) to single trips only.

The proposed fare structure is simple, consistent and logical while also reflecting the economic principles outlined by GPOC and the functionality of the Greencard ticketing system.

2 INTRODUCTION

Metro Tasmania Pty Ltd is pleased to present its submission to the Tasmanian Economic Regulator's 2014 investigation into Metro's pricing policies.

Metro is the registered trading name of Metro Tasmania Pty Ltd. Metro has evolved from the former Metropolitan Transport Trust (MTT), which itself was formed in 1954 by the transfer of urban passenger transport services operated by the Hobart and Launceston City Councils to the Tasmanian Government. In 1959, MTT extended its operations to include urban bus services within the Burnie Municipality.

Metro primarily operates passenger transport bus services in the metropolitan areas of Hobart, Launceston and Burnie. These urban services are specified within a New Service Contract (NSC) between Metro and the Secretary of the Department of Infrastructure, Energy and Resources (DIER) on behalf of the State Government.

Metro also operates a number of urban fringe services in the regions of Wynyard, Ulverstone, the South Arm peninsula and the D'Entrecasteaux Channel. As these services are provided under individual route contracts that are separate to the NSC, they are outside the consideration of this investigation.

Full details of the general route services and special student services provided by Metro can be obtained by searching Metro's website at www.metrotas.com.au.

Metro also provides a range of local and statewide charter services, as well as special event and community services.

2.1 The Role of Metro

Metro takes the view that the company has a much broader function in the provision of passenger transport in Tasmania than that defined in the *Metro Tasmania Act 1997*. This legislation was enacted in February 1998 and established Metro Tasmania Pty Ltd as a state-owned company operating under corporations law with a board of directors. 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."

In its Corporate Plan 2014-2017 Metro has identified its "vision" *to transform Tasmania's passenger transport to be a travel option of choice*, and its "business purpose" as being *to deliver urban mass transit passenger transport services*. While Metro is aware of its obligations with respect to the legislation and its contracts with DIER, the company believes that its business purpose needs to be seen within the context of all Tasmanian passenger transport operations, together providing efficient and effective passenger transport in

Tasmania.

As the largest Tasmanian passenger transport operator, Metro plans to extend and strengthen its partnerships with other passenger transport operators in Tasmania to ensure that passenger transport becomes a viable travel option of choice across the state. This will involve working with DIER and other operators to improve and integrate passenger transport services, customer information and timetables, fares and ticketing.

Metro is aware of the critical role that passenger transport plays within the Tasmanian community and the need for these services to be provided as efficiently and effectively as possible. The company is mindful of its obligations to provide passenger transport that is financially sustainable and that meets the needs of the Tasmanian community in the areas in which it operates.

In 2010 Metro undertook a major strategic review of its Corporate Plan to reflect significant changes that had occurred with the appointments of a new Chair, two new Directors and a new Chief Executive Officer. Metro changed its Vision, Business Purpose and Goals to reflect the change in focus of the Board, and these have defined Metro's strategic direction over the last three years. The current Corporate Plan can be found on Metro's website.

Metro is currently undertaking a major strategic planning exercise to develop a new Corporate Plan to guide the company for the next four years (2014-15 to 2017-18). While this will not be finalised in time for this investigation, the work undertaken to date has informed the planned strategies and initiatives that are identified within this submission.

2.2 The Role of the Tasmanian Economic Regulator

Metro considers that there are more cost-effective ways for Government to ensure that its passenger transport objectives are being efficiently and effectively met, as well as its undertakings under the National Competition Policy Agreement, than to have the Tasmanian Economic Regulator undertake five yearly investigations into Metro's pricing policies.

The Government spends significant resources in purchasing passenger transport services from the Tasmanian bus industry, with just over 40% being spent on purchasing services from Metro. It is Metro's belief that it would be more appropriate to have a consistent process for reviewing the efficiency and effectiveness of all Government expenditures on passenger transport against clearly stated objectives, probably on a five yearly basis.

Passenger transport fares policy is a key factor in ensuring that the social policy objectives of Government are being properly met in terms of providing access to passenger transport at reasonable cost. DIER has overall responsibility for ensuring that a suitable fares policy is developed and implemented across all passenger transport modes (buses and taxis). Metro believes that by the Regulator focusing just on the fares charged by Metro (as it is restricted

to doing), it looks at only part of the picture. This limits the potential for Government to use the Regulator's recommendations to develop a consistent fares policy across all passenger transport operations.

Finally, the Regulator's investigation process itself is considered to be costly in terms of the administrative overheads that are involved. There would appear to be potentially less costly ways to investigate these issues.

Metro is naturally concerned at the appropriateness of the Regulator's investigation process, because it has to pay for the investigation. In addition, Metro has to allocate significant internal resources to prepare submissions and provide the Regulator with the information required to undertake the task. Metro's payments under the NSC have never been adjusted to take account of these additional imposts, and so the costs have to be accommodated within a constrained budget environment. As Metro's contract payments have been calculated on the basis of achieving a break-even financial outcome, this is difficult to achieve.

The extent to which recommendations from previous reviews have been implemented, leads Metro to the conclusion that there must be a more cost-effective way for Government to address these matters.

3 METRO'S OPERATIONS

3.1 Operating Environment

3.1.1 Land Use Planning

The relationship between transport and land use is complex and the decisions made during significant developments and redevelopments have a lasting effect on travel patterns. Sprawling suburban growth creates a demand for more and longer car trips and impacts on all parts of the transport network. In these areas it is difficult for people to walk or cycle because of the long distances between destinations and it can be extremely costly to provide passenger transport because of low population density. Another critical factor that impacts on the ability to provide effective and efficient passenger transport is the design and layout of streets and suburbs.

Integration of transport systems with land use planning will have a significant impact on the ability of Tasmanians to reduce their need for travel and the distances they travel, while simultaneously making it easier to provide passenger transport services that are a viable travel choice for at least some of the trips Tasmanians make.

People's quality of life depends on access to jobs, education, shopping, leisure facilities and services. In new growth areas this means integrating land use and transport to create accessible, liveable and socially inclusive communities. This in turn improves economic development through the ability to move more people, goods and services efficiently.

Metro is committed to working with all stakeholders in the development of passenger transport services that contribute to Tasmania's social, economic and environmental wellbeing.

3.1.2 Service Contracts

On 24 December 2008 Metro signed the five year NSC with the Transport Commission for the provision of services in the Hobart, Launceston and Burnie metropolitan areas, with a five year extension option.

In February 2009 a number of private bus companies handed in their school bus contracts to the Transport Commission, the most significant being the Lovell's Coaches contract for services in Kingston/Blackmans Bay and the Channel. Metro took on the services at the request of the Transport Commission and on 1 July 2011 the urban services were added to the NSC while the non-urban services were added to Metro's urban fringe contracts for the Channel region.

Also on 1 July 2011, Wynyard, Ulverstone and South Arm services were excised from the NSC into separate urban fringe contracts.

Metro ceased its Bothwell contract on 2 January 2012 with the services now being provided by O'Driscoll Coaches.

In 2013 Metro's service contracts were transferred to the Secretary of DIER and in October 2013 DIER's option to extend the contracts for a further five years was exercised. The NSC is now due to expire on 24 December 2018 while the individual urban fringe contracts are due to expire on 31 December 2018.

3.1.3 Shareholders' Expectations

Metro is a state-owned company and its shareholders are the Treasurer and the Minister with responsibility under the *Metro Tasmania Act 1997*. As a state-owned company a key factor in guiding the strategic policy direction of the Metro Board in governing the company is the Shareholders' Statement of Expectations. The latest draft of the Shareholders' Statement of Expectations states that the shareholders expect that the Board will ensure that the company:

- is results oriented;
- is ethical in its operations and dealings, and acts with the highest standards of probity;
- is adaptable to change;
- keeps shareholders informed; and
- has an appropriate governance framework established.

As the bulk of Metro's revenue is obtained through its service contracts with DIER on behalf of the Government, the shareholders do not expect Metro to achieve a commercial rate of return on capital under its service contracts.

Metro understands that the current draft of the Shareholders' Expectations states an expectation that Metro will be able to meet its recurring operational costs and appropriate maintenance and replacement of capital necessary for its core operations through the combined revenue it obtains from service contracts, fares and other income that Metro is reasonably able to generate.

For the company to be able to meet this expectation it must have a sound commercially sustainable contract with DIER. Additional funding of \$3.25 million per annum in the forward estimates is welcomed. However, as this funding is not linked to the contract, nor indexed, there is a risk that Metro will not be able to meet its recurring operational costs, nor fund appropriate maintenance and capital replacement. Metro, DIER and the Department of Treasury and Finance (DTF) undertook a review of Metro's financial sustainability and the FSR is discussed in section 4.3.6.

The financial and other performance targets of Metro's Corporate Plan form a Performance Agreement between Metro and its Shareholding Ministers and provide the basis for monitoring and reporting Metro's progress. This Performance Agreement forms part of the Statement of Corporate Intent. Progress towards achieving the strategies and targets are also formally monitored with the Chief Executive Officer reporting progress to the Board every month.

3.1.4 Passenger Transport Fares

Maximum Urban Full Adult Fares

Metro is a monopoly provider under the terms of the *Economic Regulator Act 2009*, which means that its policies are subject to detailed investigation by the Tasmanian Economic Regulator (formerly the Government Prices Oversight Commission (GPOC)) on a periodic basis. The last Metro Pricing Investigation was completed in May 2009, and the recommended single trip adult fares to deliver full cost recovery were prescribed as the maximum full adult fares that Metro can charge under the *Government Prices Oversight (Metro Bus Fares) Order 2009*. This pricing Order is due to expire on 28 September 2014.

Urban Concession and Student Fares

Under the NSC, urban Concession and Student fares cannot be increased by more than the percentage movement in the Metro Index since the last fare increase. Since the NSC commenced in December 2008, the Metro Index has increased by 19% to November 2013.

Urban and Non-Urban Fares

DIER's Core Passenger Services Review (CPSR) set out a consistent fares policy for all Tasmanian bus services. The review also established clearer boundaries for urban areas. This has resulted in some of Metro's services moving from the urban contract to a regional route service contract, being Burnie to Wynyard, Burnie to Ulverstone and Hobart to Opossum Bay.

The change to the urban / non-urban boundaries resulted in a number of passengers paying higher daily fares than they previously did. Patronage in the areas redefined as non-urban has steadily declined since the boundary changes were implemented.

The Metro Board and senior management consider that while the urban / non-urban boundaries have been based on specific data, the reality is that a number of passengers, particularly in Wynyard, are unnecessarily penalised as a result of the DIER definitions.

The company broadly supports the application of a consistent approach to fare setting, but considers that the fare structure must also promote social equity and social inclusion, and lead to an increase in patronage.

Statewide Student Fares

On 1 January 2012 the Government implemented a statewide student fare of \$1.30. This applies to all student passengers except where they present a Greencard when travelling on non-urban or non-Metro operated services, in which case they are entitled to travel at a discounted student fare of \$1.00. Metro offers a 20% discount to students that board an urban service using a Greencard, currently equating to \$1.04.

3.1.5 Fares Revenue

As stated above Metro is a monopoly provider of passenger transport services under contracts with DIER. These contracts account for around 70% of Metro's revenue and provide indexation for movements in the main cost drivers such as wages and fuel.

The balance of revenue is generated from passenger fares which have been increased annually usually in January. In recent years the Board has kept increases in line with the Consumer Price Index (CPI), but by no more than the current pricing order. Except in extraordinary circumstances, there is no opportunity for Metro to increase fares outside of the annual increases and this results in cost pressures if input costs (mainly wages and fuel) increase above CPI or the maximum fares prescribed in the pricing order.

3.1.6 Passenger Demand

Revenue from passenger fares is also impacted by the use of bus services and this is complex and influenced by many factors including:

- the cost of fuel – a rise in bowser prices usually sees an increase in bus usage;
- mortgage rates – a rise in mortgage rates puts pressure on household income and may encourage people to use the bus;
- weather – a wet winter can result in decreased usage as passengers seek the comfort of door to door travel by car;
- the unemployment rate – if people lose their jobs Metro can lose regular passengers, replaced by intermittent users. Alternatively a person who never caught the bus when employed may choose to use the bus for economic reasons while without a job; and
- the number of children attending school and tertiary institutions – in 2012-13 47% of all patronage was students. The number of overseas students also impacts on patronage – they usually come from countries where using passenger transport is the norm and when they arrive they do not have access to any other form of transport.

3.1.7 Australia's Carbon Pricing Mechanism

Metro is not directly impacted by the carbon tax as carbon emissions are below the thresholds. Metro is indirectly exposed to the carbon price and at this stage the impact of this appears to be minimal but an extensive review has not been undertaken at this stage. The reduction in fuel tax credits did occur on 1 July 2012 by approximately three cents per litre and has an impact on Metro's monthly diesel fuel credit claim and will effectively increase Metro's fuel expenditure. However, 70% of the increase will be recouped through the contract with DIER from the movement in the Metro Index due to the change in the underlying fuel index which recognises the reduction in the credit. Obviously the proportion of the increased fuel expenditure through the reduction in fuel tax credits which is not recouped by contract payments will need to be recouped through other revenue sources such as fares, advertising and charters. It is still uncertain whether a carbon price will be included on diesel used in the heavy on road transport industry (including buses) but this may occur in July 2014.

3.1.8 Vehicle Inspections

All public passenger vehicles are required by law to be inspected on a six monthly basis, in accordance with DIER requirements. Generally this requires the vehicle to be inspected at a DIER vehicle inspection station.

DIER has authorised a number of Metro staff to inspect Metro's own fleet in accordance with an agreed inspection program at Metro premises. Under this program Metro's vehicles and inspection records can be audited by DIER Transport Inspectors.

Metro and DIER worked together to establish the first 'alternative compliance' regime in Tasmania. The 'alternative compliance' was conditional on Metro:

- Meeting the requirements of the National Heavy Vehicle Accreditation Scheme (NHVAS), including the regular machine brake testing of buses;
- Undertaking regular operational compliance audits of its own inspection procedures;
- Records and vehicles being subject to random inspection and audit by DIER officers; and
- Having an effective defect identification and clearance system.

DIER approved the proposed alternative compliance scheme which commenced on 1 January 2007. An NHVAS external audit was conducted in April 2013 in which Metro retained its alternative compliance status.

A DIER Passenger Transport Operator Accreditation Scheme audit was conducted in March 2012 in which Metro retained its full accreditation compliance status.

3.1.9 Heavy Vehicle National Law

Australia's transport ministers have set 10 February 2014 as the start date for the National Heavy Vehicle Regulator to administer one heavy vehicle rule book, representing a historic milestone for the road transport sector in Australia.

Ministers agreed that the new Heavy Vehicle National Law (HVNL) will commence in Queensland, New South Wales, Victoria, Tasmania and South Australia. In total, this will effectively replace up to five different sets of legislation with one national rule book. Chapter six of the law (Fatigue Management) will be deferred in Tasmania only, for a further six months.

The HVNL will cover fatigue management, heavy vehicle accreditation schemes, mass, dimension and loading limits, compliance requirements, chain of responsibility, access permits and enforcement powers for all heavy vehicle over 4.5 tonnes.

3.1.10 Enterprise Agreements

In 2012-13 Metro was faced with major disruptions to services during a protracted period of industrial action by bus operators in support of their wage claim during new enterprise agreement negotiations. The final deal struck with the bus operators' union meant that bus operators will receive a pay increase of 2% or more a year over three years. In return for the increased pay offer, bus operators agreed to a number of small efficiency offsets to produce savings for Metro including opening up urban satellite yards and extending a limited number of bus operator duties to five and a half hours with two 15 minute paid breaks that may be scheduled continuously.

3.2 Corporate Governance and Business Structure

3.2.1 Corporate Governance

Metro's Board of Directors is responsible for the overall corporate governance of the company. As a state-owned company the Board is responsible to its shareholders, the Minister for Sustainable Transport and the Treasurer in meeting the aspirations of the State Government and the Board directs management accordingly.

A key feature of Metro's corporate governance procedures is the operation of Metro's Audit and Risk Committee (ARC) which comprises three members of the Metro Board. Metro also employs independent internal auditors that report to the ARC on the effectiveness of management's systems and the procedures in place to identify and control business risks. Overall corporate governance practices are set out in Metro's Corporate Governance Handbook which is reviewed annually and with reference to the Governance Framework Guidelines issued by DTF.

3.2.2 Risk Management

In 2011 Metro established a Risk Management Framework that incorporates a Risk Register, a Business Continuity Plan and Crisis Management Plans to ensure whole of organisation coverage.

Identified risks are assessed monthly during Metro Audit Process audits. These risks are constantly reviewed as part of the Risk Management Framework to ensure higher level risks are prioritised in favour of low level risks. When a major risk is identified, a Risk Management Plan is developed to ensure that the risk is mitigated where possible and contingency plans are in place to manage should the risk eventuate.

Metro's insurance brokers recently assisted with a review and update of Metro's Crisis Management Plan and associated training. Risk is monitored by the ARC which reports quarterly to the Board on risk related matters.

3.2.3 Capital Structure

In 2012-13 Metro, DIER and DTF undertook a review of Metro's capital structure, an initiative welcomed by Metro. It was the first time that a comprehensive review of Metro's capital structure has been undertaken since corporatisation. In August 2013 talks were held between the CEO, Acting Chairperson and Shareholding Ministers to discuss the draft recommendations. This is discussed in further detail in section 4.3.6.

3.2.4 Bus Cleaning and Refuelling

In April 2011 Metro released a Request for Tender for the provision of bus cleaning and refuelling services. In November 2011 the successful tenderer, International Cleaning Services (ICS), commenced the cleaning and refuelling of all Metro buses as well as the cleaning of Metro's offices in Hobart, Launceston and Burnie. The outsourcing of bus cleaning and refuelling services has resulted in significant savings as well as an improvement in the consistency and cleanliness of Metro's fleet.

3.3 Greencard Ticketing System

3.3.1 Implementation

Metro's replacement ticketing system incorporating the 'Metro Greencard' was progressively introduced throughout Metro's services in 2009. The rollout commenced in Burnie on 16 March 2009, followed by Launceston in 31 August 2009 and Hobart on 13 September 2009. The system-wide rollout of the ticketing system was the culmination of many years work by Metro and was achieved with little disruption to both customers and internal Metro staff.

The Greencard ticketing system provides the following key features:

- GPS vehicle tracking to permit on-time performance management;

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- Faster loading times for many passengers as concession status is pre-registered on the smartcard, eliminating driver verification of entitlement;
 - Convenience of cashless travel via the Greencard 'purse' that can be recharged online, at Metro outlets or on-board any Metro bus;
 - The security of being able to protect credit if a registered card is lost or stolen and then transfer that credit to a replacement card;
 - The ability to activate a 'pass' for free student travel to and from the place of education for eligible students; and
 - Integrated ticketing across all Metro services (urban and urban fringe), and the possibility of integration with other bus operators.

There are currently over 107,000 active Greencards, with approximately 59% of journeys now being made using Greencard. Metro will continue to market Greencard and its benefits to increase Greencard boardings as a proportion of total boardings.

3.3.2 Greencard Fee

From 1 November 2010 Metro introduced a fee for new and replacement Greencards. The fee was initially set at \$5 for concession and student cards and \$10 for adult cards. However, this has recently been changed to \$5 for all card types. Faulty Greencards are replaced at no cost. Students eligible for a Student Bus Pass for Free Travel are not charged for their initial Greencard but will be charged for replacement Greencards. The decision to charge for new and replacement cards was in line with other transport networks around the world that operate a similar smartcard ticketing system. Metro undertook a marketing campaign to communicate the new fee three weeks from its introduction and as a result 3,263 cards were applied for prior to the introduction of the fee.

3.3.3 Concession Verification

Metro regularly checks the Centrelink Customer Reference Number (CRN) of Adult Concession Greencard holders to ensure these customers are entitled to a travel concession. New applications that quote a CRN are being checked before the Adult Concession card is sent out to ensure the customer is entitled to a travel concession.

Letters are sent out to Student Greencard holders who have or will turn 19 years of age informing them that they are no longer entitled to the concession. These customers are being requested to provide evidence of a current concession entitlement to Metro if they wish to changeover to an Adult Concession Greencard. Alternatively they can change over to an Adult Greencard without being charged a fee.

3.3.4 Free Student Travel

Metro and DIER collaborated to integrate 'Free Student Bus Travel' with Metro's Greencard. The process of migrating students from the old bus pass system to the new Greencard pass system was implemented on a phased basis from the beginning of the 2010 school year. Students were given an amnesty period to enable them to acquire their Greencard from Metro and apply to DIER for the free travel.

Metro has agreed with DIER to the supply, print, registration and issue of Greencards to students using Student-only Fare Charging Services, for use as part of their Electronic Student Concession Verification System. The Greencard is used to confirm, through the recording of the unique Greencard number, that a card has been used on a particular bus service to verify a boarding. As well as fare-paying students, this also includes free pass students who have had their current PVC cards replaced by a Greencard with the pass expiry year printed on the card.

3.3.5 Online Functionality

An 'auto top-up' feature has been developed that enables customers to have their Greencards automatically topped-up by credit card when the credit balance on their card falls below a certain value. Around 1,350 customers are currently using this feature. The online 'journey and top-up history' feature on the My Greencard website has also been enhanced. The new update allows customers to clearly identify the cost of trips and view all top-up transactions.

3.3.6 Extending Greencard to Other Bus Operators

In January 2012 O'Driscoll Coaches took over the Bothwell-Hobart service from Metro. To allow customers to continue to enjoy the convenience of using a Greencard, a ticketing machine was installed on the O'Driscoll vehicle used for this service – the first non-Metro service to use Greencard. Other than a few initial teething problems with report preparation and reconciliation, which have been resolved, the implementation has been a resounding success and well received by O'Driscoll Coaches and customers.

Metro has received funding from the Minister for Sustainable Transport for the preparation of a business case to assess the benefits of offering Greencard and associated processing services to other operators across Tasmania. If implemented, this will enable people travelling on buses to use one card, the Greencard, across Tasmania, irrespective of the bus service provider.

The provider of the Greencard ticketing system, Germany-based company INIT, was appointed in July 2012 to prepare the business case, and scoping and planning work was completed in August 2012. A draft report was submitted in February 2013 and following a review by Metro and the Tasmanian Bus Association, INIT consultants met with key stakeholders in May 2013 to work through the draft. Following further refinements including

an estimate of costs, the business case was finalised and presented to the Metro Board in September 2013.

3.4 Fare Structure

3.4.1 Implementation of Greencard

The phased implementation of the Greencard ticketing system over 2009 further simplified Metro's urban fare structure:

- Monthly Concession and Student fares were discontinued;
- Prepaid tickets were replaced by Greencards, with 25% of bonus credit being applied when being topped up by a minimum amount (\$10 for students, \$15 for concession passengers and \$20 for full-fare adult passengers). These minimum top-up levels were comparable to the cost of prepaid tickets for these passenger groups; and
- All Day Rover and All Day Tripper fares were discontinued, replaced by an automatic Greencard Daily Cap.

Table 1 outlines the changes to the urban fare structure that occurred with the introduction of the Greencard ticketing system in 2009.

Table 1: Urban Fares (Jan '08, Oct '08 & Oct '09)			Cash Fares					Greencard Fares (25% bonus credit applied)			
Passenger	Ticket Type	Ticket	Jan 2008	Oct 2008	Increase	Oct 2009	Increase	Oct 2008	Oct 2009	Increase	
Adult	Single	Short (1-4 sections)	2.00	2.20	10.0%	2.40	9.1%	1.76	1.92	9.1%	
		Medium (5-10 sections)	3.00	3.30	10.0%	3.60	9.1%	2.64	2.88	9.1%	
		Long (11-15 sections)	4.50	5.00	11.1%	5.40	8.0%	4.00	4.32	8.0%	
	Day Ticket	Day Rover	5.00	4.40	-12.0%	4.50	2.3%				
		All Day Rover	6.00	6.50	8.3%	Discontinued					
	Daily Cap	Peak (first boarding before 9am M-F, excluding PHs)							5.20	7.20	38.5%
		Off-peak (first boarding after 9am M-F + Sat, Sun & PHs)							3.52	3.60	2.3%
	10 Trip (Pre-Paid)	Short (1-4 sections)		16.00	17.60	10.0%	Discontinued				
		Medium (5-10 sections)		24.00	26.40	10.0%					
		Long (11-15 sections)		36.00	40.00	11.1%					
10 Day (PP)	Day Rover		40.00	35.20	-12.9%						
Concession	Single	All sections	1.80	1.80	0.0%	1.80	0.0%	1.44	1.44	0.0%	
	Day Ticket	Day Tripper	2.80	2.90	3.6%	3.00	3.4%				
		All Day Tripper	3.40	3.50	2.9%	Discontinued					
	Daily Cap	Peak (first boarding before 9am M-F, excluding PHs)							2.80	3.84	37.1%
		Off-peak (first boarding after 9am M-F + Sat, Sun & PHs)							2.32	2.40	3.4%
	10 Trip (PP)	All sections		14.40	14.40	0.0%	Discontinued				
	10 Day (PP)	Day Tripper		22.40	23.20	3.6%					
Month (PP)	Monthly Pass		57.60	60.80	5.6%						
Student	Single	All sections	1.20	1.20	0.0%	1.20	0.0%	0.96	0.96	0.0%	
	Daily Cap	Peak (first boarding before 9am M-F, excluding PHs)							2.80	3.84	37.1%
		Off-peak (first boarding after 9am M-F + Sat, Sun & PHs)							2.32	2.40	3.4%
	10 Trip (PP)	All sections		9.60	9.60	0.0%	Discontinued				
Month (PP)	Monthly Pass		38.40	38.40	0.0%						

3.4.2 Greencard Daily Cap

Greencard automatically caps how much a passenger will pay in one day for travel within the urban area. There are two Greencard Daily Caps, the Peak Cap and the Off-peak Cap. The Peak Cap applies Monday to Friday (excluding public holidays) if a passenger's first boarding is made prior to 9.00 am. The Off-peak Cap applies if a passenger's first boarding is made after 9.00 am Monday to Friday, or at any time on Saturday, Sunday or public holidays.

Once a passenger has reached the Daily Cap, no further credit is deducted from their Greencard for urban travel, no matter how much more they travel within the urban area that day.

3.4.3 Non-Urban Fares

The non-urban adult fare for each Travel Zone is based on a 'Base Fare' for that zone. The Base Fares are set out in the urban fringe contracts and are made up of a number of components. The Fixed Payment and Performance Payment components are indexed monthly in line with the Bus Cost Model Index (BCMI) which has replaced the School Bus Index (SBI). The Capital Payment component is adjusted quarterly in line with interest rates and bus capital values. Adult fares must be no more than 125% of the calculated Base Fare. Under the urban fringe contracts, the concession fare must equal 50% of the Base Fare and the student fare is determined by prevailing government policy.

3.4.4 Non-Urban Transitional Fares

One of the outcomes of the CPSR was the redefining of some population centres from being within an urban fare area to being outside the urban fare area. Metro adopted these new boundaries and their associated fare structures with the rollout of the Greencard ticketing system in 2009. The areas of Wynyard, Ulverstone and the South Arm Peninsula were consequently transitioned from the urban fare structure to the non-urban fare structure. To alleviate price shocks, Metro has charged transitional fares in these areas with 10% annual increases until the transitional fare has reached the standard non-urban fare.

3.4.5 Greencard Fare Discounting Policy

A change in the method for discounting Greencard fares was implemented on 1 January 2012. Previously passengers received 25% bonus travel credit when they recharged their Greencard by a minimum amount, which effectively provided a 20% discount on fares when using that Greencard. To make it easier for Greencard users to understand how much they are paying for each Metro service, the 25% bonus travel credit was discontinued and each fare is instead discounted by 20% when a Greencard is used.

3.4.6 Urban Fare Increases

Metro reviews urban bus fares on an annual basis, monitoring movements in fuel and labour costs. When considering increases to fares Metro takes into account a range of matters:

- the impacts of fare increases on patronage;
- the latest pricing investigation report of the Regulator (formerly GPOC);
- the *Government Prices Oversight (Metro Bus Fares) Order 2009*;
- Metro's financial requirements; and
- Government policies.

Metro generally implements fare increases once a year; however, increases at other times of year may occur in response to increases in the cost of operations, or other environmental factors.

As discussed in section 3.4.1, Metro's fare structure changed with the implementation of Greencard in 2009, which was fully implemented with the rollout of the system in Hobart on 13 September 2009. On 25 October 2009 Adult fares were increased in line with the recommendations of GPOC's 2009 Report for cost recovery of peak period services. This increase was less than the maximum allowable under the 2009 pricing order. The lower increase was mainly to ensure a more uniform increase of fares between 2008 and 2010, when it was anticipated that fares would reach the maximum allowable (resulting in increases of around 9% in 2009 followed by 8% in 2010, rather than 13% in 2009 followed by 4% in 2010).

On 2 January 2011 Metro increased urban Adult fares in line with the CPI, which increased by 2.8% in the twelve months to December 2010. This increase was significantly less than that allowed under the 2009 pricing order. Urban Concession and Student fares again remained unchanged.

On 1 January 2012 Metro again kept most fare increases to the level of inflation (3.1%) despite much larger increases being permitted under the 2009 pricing order. After exempting Student and Concession fares in urban areas from fare increases the previous year, it was necessary to pass on some increases in 2011-12. The urban Concession All-sections fare increased by 10 cents to \$1.90 – the first increase since October 2009. In addition, a statewide Student cash fare of \$1.30 was implemented which entailed an increase of 10 cents for urban students and 40 cents for non-urban students. It was the first increase of Metro Student fares for urban area trips in 16 years.

On both 6 January 2013 and 5 January 2014 Metro increased urban Adult single cash fares by 20 cents. There was no increase in Concession or Student fares in urban areas in either year. In January 2013 the Metro Index had only increased by 4% since the January 2012

Concession and Student fare increases, which was not enough to equate to a minimum 10 cent increase to either fare. While an increase in January 2014 would have been possible (with the Metro Index having moved by 8.7% to December 2013), Metro will await the outcome of the Regulator's investigation before considering an adjustment to these fares.

Table 2 summarises the urban fare increases since October 2009.

3.4.7 Alternative Fare Structure

In its 2006 report GPOC made a number of recommendations in regards to Metro's fares and fare structure including:

- The fare structure should be simplified;
- Metro and DIER should consider the potential to move to a zonal-based fare structure following the completion of the CPSR;
- Metro should review the terms, conditions and pricing of its ticket products to encourage use outside peak times;
- Distance based adult concession fares, based on 50% of the full adult fare should be introduced, and phased in over a number of years with no increases in the first year; and
- Prices for multi-trip tickets or passes should be based on multiples of the equivalent single trip ticket.

The report also recommended that an implementation strategy should be developed to phase in the recommendations. Both the CPSR completed in 2007 and the 2009 GPOC report reiterated the recommendations for fare structure simplification and review of fare pricing and products.

As defined in the Terms of Reference, the scope of the Regulator's 2014 Price Investigation includes a consideration of potential alternative fare structures. Metro's proposed fare structure as detailed in section 7 is in line with the recommendations of the CPSR, GPOC's 2006 Report, GPOC's 2009 Report as well as the findings of the Financial Sustainability Review conducted by DTF in 2012-13.

Table 2: Urban Fares (September 2009 – January 2014)

	Ticket	Ticket Method	Sep 2009*	Oct 2009*	Jan 2011*	Jan 2012	Jan 2013	Jan 2014
Adult	Short	Cash	2.20	2.40	2.50	2.60	2.80	3.00
		Greencard	1.76	1.92	2.00	2.08	2.24	2.40
	Medium	Cash	3.30	3.60	3.70	3.80	4.00	4.20
		Greencard	2.64	2.88	2.96	3.04	3.20	3.36
	Long	Cash	5.00	5.40	5.60	5.80	6.00	6.20
		Greencard	4.00	4.32	4.48	4.64	4.80	4.96
	Day Rover	Cash	4.40	4.50	4.60	4.80	5.00	5.30
	Peak Cap	Greencard	7.20	7.20	7.36	8.60	9.00	9.60
Off-Peak Cap	Greencard	3.60	3.60	3.68	4.30	4.50	4.80	
Concession	All Sections	Cash	1.80	1.80	1.80	1.90	1.90	1.90
		Greencard	1.44	1.44	1.44	1.52	1.52	1.52
	Day Tripper	Cash	2.90	3.00	3.00	3.20	3.20	3.20
	Peak Cap	Greencard	3.84	3.84	3.84	4.50	4.50	4.50
	Off-peak Cap	Greencard	2.40	2.40	2.40	2.90	2.90	2.90
Student	All Sections	Cash	1.20	1.20	1.20	1.30	1.30	1.30
		Greencard	0.96	0.96	0.96	1.04	1.04	1.04
	Day Tripper	Cash	2.90	3.00	3.00	3.20	3.20	3.20
	Peak Cap	Greencard	3.84	3.84	3.84	4.50	4.50	4.50
	Off-peak Cap	Greencard	2.40	2.40	2.40	2.90	2.90	2.90

*Greencard fares shown before January 2012 are the effective out-of-pocket prices once 25% bonus credit has been applied.

3.5 Patronage

3.5.1 Overview

Patronage between January 2008 and March 2009 had been steadily rising, with Rolling Twelve Month Total Boardings (RTMTB) increasing by 3.4% from 9.84 million to 10.18 million. This trend then began to reverse, with RTMTB decreasing by 3.1% to 9.86 million in October 2009. However, the implementation of Greencard appeared to have a dramatic positive impact on patronage figures, resulting in a peak of 10.59 million RTMTB in October 2011 – an increase of 7.4% over the first two years of Greencard's implementation.

Unfortunately since October 2011, the patronage surge has subsided, with a sustained period of declining patronage being experienced since then. In October 2013 there were 9.87 million RTMTB, which is a 6.8% decrease since October 2011. Industrial action in early 2013 accounts for around 0.9% of this decline. On the positive side, in the last twelve months the annual rate of negative growth has been steadily improving after peaking at -3.9% in November 2012 to be sitting at -2.3% in November 2013 (after adjusting for variances in the number of term days as well as the impact of industrial action).

3.5.2 2008-09

Overall recorded patronage increased by 1.3% in 2008-09 with 8.45 million first boardings (which exclude transfers) and 10.03 total boardings. Specifically adult full fare patronage increased 0.3%, adult concession patronage increased 4.3% while student patronage decreased by 0.6%. Patronage in the three regional centres all increased, Hobart by 1.3%, Launceston by 1.0% and Burnie by 3.5%.

3.5.3 2009-10

In 2009-10 there were a total of 10.09 million total boardings on Metro services – an increase of 0.9% after adjusting for the different number of school term days. Hobart's patronage increased by 1.3%, Launceston's by 1.0% while Burnie experienced a decline in patronage of 5.0% which was attributed to the application of non-urban fares for Wynyard and Ulverstone.

There was a 42% increase in the number of recorded transfers during the year. This reflects the change in the way the Greencard ticketing system records second and subsequent boardings for Day Rover and Day Tripper tickets – they are counted as transfers. In the previous Metrofare ticketing system they were counted as a first boarding if more than 90 minutes had elapsed from the previous boarding. For this reason, total boardings have been adopted as the preferred measure of patronage for annual comparisons.

3.5.4 2010-11

Overall patronage increased to 10.55 million in 2010-11, an increase of 5.1% after day type adjustments. However this figure may be inflated due to the introduction of the Greencard ticketing system in September 2009, when not all boardings were being recorded as customers and staff became familiar with the new system. Hobart patronage increased by 4.4%, Launceston by 9.5% and Burnie by 0.7%.

Student and Concession first boardings increased by 4.9% and 2.5% respectively, whilst Adult first boardings declined by 3.5%. A 15.2% increase in transfers is related to the different definition of transfers between ticketing systems as explained earlier (impacting July, August and September 2010 figures).

The use of Greencard increased by 9.2% with over 54% of journeys made using a Greencard and 20,800 Greencards being issued during 2010-11.

3.5.5 2011-12

Patronage levels saw a small decline in 2011-12 following the strong growth in 2010-11 with the introduction of Greencard. There were 10.39 million total boardings during the year, a decline of 1.7% after day type adjustments. Patronage in Hobart decreased by 1.5%, Launceston by 2.6% and Burnie by 1.9%.

Student first boardings increased by 1.9% whilst adult and concession first boardings declined by 4.5% and 2.1% respectively (adjusted). Free transfer boardings reduced by 4.6%.

Greencard use remained constant in 2011-12 with 54.9% of first boardings being made using a Greencard. 32,784 Greencards were issued during the year and at 30 June 2012 Metro had issued 108,040 Greencards since its launch.

3.5.6 2012-13

Metro recorded 10.07 million total boardings in 2012-13 which was an unadjusted decrease of 3.1%, with several instances of industrial action between February and April 2013 having a significant impact. It is estimated that the decline in passenger boardings would have been around 2% in the absence of industrial action.

In 2012-13 there were 201 school days compared with 193 in the previous financial year due to the transition from three school terms to four, which 'artificially' boosted patronage by around 1%. After adjustments for industrial action and the number of school days in 2012-13, patronage decreased by 3% compared to the previous year.

Hobart's patronage decreased by 2.7%, Launceston's by 4.6% and Burnie's by 0.5%. Adult and student first boardings declined by 9.7% and 0.5% respectively statewide whilst concession first boardings increased by 2.3%. The number of recorded free transfer boardings decreased by 7.9%.

There are currently over 107,000 active Greencards, with approximately 59% of journeys being made using Greencard.

Table 3 summarises the patronage on Metro's services over the last five years.

Table 3: Patronage by Depot and Passenger Type

Boardings ('000's)	2008-09	2009-10	2010-11	2011-12	2012-13
HOBART					
Adult first boarding	1,785	1,667	1,605	1,537	1,374
Concession first boarding	2,372	2,012	2,060	1,996	2,036
Student first boarding	2,360	2,424	2,511	2,592	2,616
Transfer	1,238	1,735	1,954	1,905	1,759
Total Boardings	7,755	7,837	8,130	8,029	7,785
LAUNCESTON					
Adult first boarding	192	183	181	168	141
Concession first boarding	558	499	512	528	525
Student first boarding	814	783	832	836	830
Transfer	217	328	424	374	330
Total Boardings	1,781	1,793	1,948	1,907	1,826
BURNIE					
Adult first boarding	41	28	25	23	20
Concession first boarding	157	138	143	134	130
Student first boarding	248	230	220	230	234
Transfer	48	72	80	75	77
Total Boardings	494	468	468	461	460
STATEWIDE					
Adult first boarding	2,017	1,879	1,811	1,728	1,535
Concession first boarding	3,088	2,648	2,714	2,658	2,691
Student first boarding	3,422	3,437	3,563	3,658	3,679
Transfer	1,503	2,135	2,458	2,354	2,166
Total Boardings	10,030	10,099	10,546	10,397	10,072

3.5.7 Patronage Growth over the Last Three Years

Over the last three years patronage has:

-
- reduced by 0.3% across the state – Hobart a decline of 0.7%, Launceston an increase of 1.9% and Burnie a decrease of 1.7%;
 - student first boardings have increased by 7% across the state – Hobart increased by 7.9%, Launceston increased by 6% and Burnie increased by 1.6%;
 - concession first boardings have increased by 1.6% across the state – Hobart increased by 1.2%, Launceston increased by 5.3%, while Burnie decreased by 5.5%; and
 - **adult first boardings decreased by 18.3% across the state – Hobart decreased by 17.6%, Launceston by 22.9% and Burnie by 29.4%.**

3.5.8 Addressing Declining Patronage

Reversing the decline in passenger boardings is a key focus for Metro, and in 2012-13 a number of initiatives were implemented to encourage more people to use Metro's services regularly:

- In July 2012 Metro launched a campaign promoting the benefits of the Greencard ticketing system which included offering free Greencards. This resulted in Greencard boardings accounting for 61% of first boardings in October 2012, and Greencard use increased to 58.6% of first boardings in 2012-13 compared with 54.9% in 2011-12.
- Additional services for the Channel region south of Hobart were introduced which generated a 4.4% increase in passenger boardings in the region.
- In February 2013 a Fare Free Weekend promotion coincided with a number of major events being held around Tasmania and attracted a strong response, with 40,874 boardings compared to 22,459 in the same weekend in 2012 (in which Metro promoted a \$2 Adult and \$1 Concession/Student Flat Fare Weekend).

Metro has recently undertaken a major market research project to identify the reasons behind the sustained decline in patronage and this has been used to develop further strategies aimed at increasing passenger boardings.

3.5.9 Forecast Patronage

Metro anticipates that the rate of decline in patronage will continue to abate over 2013-14 in response to marketing and service improvements and patronage levels are forecast to stabilise in 2014-15. Underlying patronage growth is then anticipated to be 1% in 2015-16 and beyond. Passenger levels are forecast to respond to fare increases, with an assumed elasticity of demand factor of -0.4. That is, it is estimated that for every 10% increase to fares there is a 4% decrease in patronage. This impact is applied for three months after a fare change is implemented, and then steadily declines over the next five months to return to

nil impact in the ninth month.

Table 4 shows actual first boardings over the last three financial years and provides Metro's forecasted patronage for the next six years. For the purposes of this forecast, the current fare structure is assumed to remain unchanged, with full Adult single cash fares increasing by 20 cents annually.

Table 4: Forecast Patronage by Depot

First Boardings ('000's)	Year	Hobart	Launceston	Burnie	TOTAL	Change
Actual	2010-11	6,176	1,525	388	8,088	1.6%
	2011-12	6,125	1,532	386	8,044	-0.6%
	2012-13	6,025	1,496	384	7,905	-1.7%
Forecast	2013-14	6,032	1,432	365	7,829	-1.0%
	2014-15	6,078	1,426	363	7,867	0.5%
	2015-16	6,125	1,438	366	7,930	0.8%
	2016-17	6,155	1,445	369	7,969	0.5%
	2017-18	6,205	1,459	372	8,036	0.8%
	2018-19	6,256	1,472	376	8,105	0.9%

3.6 Services

3.6.1 Greater Hobart Passenger Transport Network Plan

Background

Parsons Brinckerhoff was engaged by Metro to develop the Greater Hobart Passenger Transport Network Plan (GHPTNP). The GHPTNP provides Metro with the strategic framework for reviewing and developing the bus services and infrastructure in the Greater Hobart area that are aligned with Government strategic plans including the Tasmanian Urban Passenger Transport Framework, Southern Tasmania Regional Planning Framework, Southern Integrated Transport Plan and the Tasmanian Infrastructure Strategy.

The GHPTNP includes:

- Strategy and principles that will guide the Plan and facilitate an integrated network, including the identification of service levels;
- An action plan that identifies and prioritises improvements needed over a three year and ten year period;
- Indicative future bus routes and service layers as well as timelines for service reviews;

-
- A funding requirement plan;
 - Key performance target for Metro to measure progress against; and
 - A monitoring and review process.

Objectives

The objectives of the GHPTNP are to:

- Provide integrated passenger transport outcomes across Greater Hobart to give effect to the action areas contained within the Tasmanian Urban Passenger Transport Framework;
- Guide the development of an integrated passenger transport network and supporting infrastructure in Greater Hobart;
- Support the land use objectives contained within the Regional Land Use Strategy and Southern Integrated Transport Plan;
- Provide the best use of available funds through the prioritisation of passenger transport projects and initiatives; and
- Form the basis for securing funding and getting political support for the development of Greater Hobart's passenger transport network.

Implementation

Metro will be adopting a phased approach to implementation of the GHPTNP, with changes and improvements aligned to the principles of the Plan and working within the funding available.

The main focus in the first four years of implementation will be developing the network structure (Principal – *Turn up and GO*, Link and Local Networks) and addressing the current network inefficiencies such as service duplication and convoluted route structures. The northern suburbs of Hobart (Brighton, Bridgewater, Claremont, Glenorchy, West Hobart, Lutana and Goodwood) will be the first area reviewed in 2013-14, followed by the southern suburbs (Kingston, Blackmans Bay, Taroona, Sandy Bay and South Hobart) in 2014-15 and the eastern shore in 2015-16. Depending on the level of resource reallocation and available funding, improvements to frequency and span of hours of operation in line with the service planning guidelines contained within the Plan will be investigated as part of the reviews.

Once the network structure has been established, the focus in the succeeding years will be on increasing frequencies to match the minimum service level frequencies in the GHPTNP to create a network that provides the same basic level of service across the entire network. Possible extensions of the high frequency Principal Network and bus priority measures to

ensure consistent travel times and improve service reliability would also be investigated and implemented subject to funding availability.

3.6.2 Service Standards

A particular feature of Metro's NSC is the inclusion of service standards. These define the strategic requirements of Government for regular passenger transport services in urban areas. Metro's role has been clarified to not only deliver urban bus services, but also plan and develop bus services so as to maximise compliance with the urban service standards subject to the availability of adequate resources.

These strategic service standards comprise:

- A set of tables that specify, for different types of areas, the number of bus services that are to be provided at different times of the day (peak, inter-peak and off-peak) and on different days of the week; and
- A set of clear principles that should be adopted by Metro with regard to route design and timetable planning (such as the 'directness' of bus routes, the acceptability of route variations and the even spacing of the bus timetable).

Underlying these standards is a methodology, developed and applied by DIER, which classifies areas according to their passenger transport need. This reflects the population of areas, the number of 'transport disadvantaged' in the community, the location of demand generators in the area such as retail and recreational facilities, civil amenities, business activity centres and larger educational facilities.

3.6.3 Eastern Shore Review

Planning commenced in March 2008 for a review of services to Hobart's eastern shore which featured improved weekend and peak services with a high frequency corridor, being Hobart to Shoreline Shopping Centre via Clarence Street. This corridor provided the foundation of new eastern shore services. With the need to improve services to fast growing residential areas, resources were reallocated from poorly patronised inner suburbs to new outer suburbs. The new services commenced on 7 June 2009.

In June 2010 Metro consulted passengers on a number of proposed changes to reduce the travel time of services in Opossum Bay, Lauderdale and Camelot Park. The changes were proposed as a result of customer feedback received since the introduction of the new timetables in June 2009. 185 responses were received of which 123 were in support of the proposed changes. Of the 62 responses which opposed the proposed changes, 23 related to services which carried an average of five passengers. Therefore, Metro felt confident that most of its eastern shore customers supported the proposed changes and implemented the changes on 16 August 2010. A total of 10 services were affected.

3.6.4 Additional Services in February 2009

As part of DIER's review of Tasmanian bus services, Metro was asked to take over routes within Metro contracted areas that were previously delivered by private operators. As a result, Metro added 26 school bus routes to its services commencing at the beginning of the 2009 school year. The majority of these routes operated in the Kingston, Blackmans Bay and Channel area.

3.6.5 Kingston Park and Ride

In 2009-10 Metro commenced working with DIER and the Kingborough Council towards completing Metro's first park-and-ride facility at Kingston, with the first service starting on 2 August 2010. Five inbound trips were added from the Dennison Street site in the morning peak period and five outbound trips from Hobart to the site in the afternoon peak period.

As well as being designed to increase patronage, the park-and-ride concept has environmental benefits – a Metro bus carries its passengers with fewer greenhouse gas emissions per person per kilometre than other motor vehicles.

3.6.6 Nightrider Services

Metro introduced Nightrider bus services for the Christmas-New Year period of 2009-10 through a sponsorship agreement with the Motor Accident Insurance Board (MAIB). MAIB again sponsored Nightrider services for the 2010-11 Christmas-New Year period, and since 2011 have continued to sponsor New Year's Eve services. The Nightrider services are aligned with scheduled services where possible to increase legibility for passengers with a flat two dollar fare being charged.

3.6.7 Boundary Rider Services

Since 2010-11 Metro has, in conjunction with Cricket Tasmania and with support from the four Greater Hobart Councils, operated free Metro Boundary Rider services for domestic Twenty20 Big Bash matches and international cricket fixtures. The Boundary Rider services link a series of park-and-ride facilities to Blundstone Arena, Bellerive before and after the game.

The Boundary Rider concept has also been extended to AFL matches involving North Melbourne Football Club (NMFC). In 2013 more than 14% of the crowd used Metro to get to and from the NMFC versus Sydney match with more than 13% of the crowd using the services to get to the NMFC versus Port Adelaide match.

3.6.8 Fare Free Weekends

Metro promoted its first 'fare free' weekend on the long weekend commencing on 12 February 2011 to coincide with major events including Festivale in Launceston, the Hobart

Regatta, Hobart Cup, the Wooden Boat Festival and a Sheffield Shield cricket match at Bellerive Oval. The 'Have a Weekend on us' promotion gave people an opportunity to experience bus travel, with the aim of encouraging more people to use buses as their travel mode of choice. The number of passengers using services throughout the fare free weekend more than doubled compared with the same weekend the previous year.

3.6.9 Bothwell Bus Service

Metro advised the Transport Commission in April 2011 that it was surrendering the Bothwell bus service contract due to the financial loss that was being incurred. Metro operated the Bothwell bus service for the last time on 30 December 2011. To enable passengers to continue to use Greencards on the Bothwell service, Metro signed a Memorandum of Understanding with O'Driscoll Coaches for the installation and use of the Greencard ticketing system on the service.

3.6.10 Launceston Shuttle

Metro was successful in securing the Launceston City Council's Launceston City Explorer and Inveresk Park and Ride shuttle service for a twelve month period from 1 July 2011 to 30 June 2012, through a competitive tendering process. The service is free and a wheelchair accessible bus has been decorated and is known as the Tiger Bus. The contract has subsequently been extended until 30 June 2014.

3.6.11 Additional Channel Services

Metro secured State Government funding for the provision of additional services to the Channel region for a twelve month trial from 30 July 2012. By the conclusion of the trial, patronage in the Channel region had increased by 4.4% compared with the previous twelve months. This result was considered successful enough to make the additional services permanent.

3.6.12 Main Road Corridor

The State Government is funding a twelve month trial of the provision of additional services to provide a high frequency service on the Main Road corridor from 3 November 2013. The key aspects of the new timetable include:

- Weekday corridor services ensuring that passengers will wait no more than 10 minutes for a bus services between 7.00 am and 7.00 pm;
- Saturday services ensuring that passengers will wait no more than 20 minutes for a bus service between 7.00 am and 7.00 pm;
- At other times (including Sundays and Public Holidays), the wait will be no more than 30 minutes;

-
- A branded corridor “*Turn up and GO*” with upgraded stop infrastructure including blue poles, timetable cases and an updated bus flag at stops in low patronage locations with branded bollards at major stops;
 - Updated timetable information with the branding and high frequency zone added; and
 - A marketing and communications campaign developed around the convenience of a high frequency service. The campaign included the use of radio, on bus advertising, bus stop advertising, letter box drops and newspaper advertisements.

3.7 Passenger Comfort and Safety

Metro is continually implementing initiatives aimed at making its services more comfortable, convenient and accessible with the aim of improving patronage. Driver and passenger safety is of critical importance to Metro – the company’s overall objective has always been the provision of high quality bus services that are safe, reliable and accessible to the Tasmanian community.

3.7.1 Buses and Street Infrastructure

Metro’s bus and street infrastructure is being constantly upgraded to ensure it complies with the *Disability Discrimination Act 1992 (DDA)* and other relevant legislation (discussed further in section 4.2). This is a long term project which will take several years to complete. The ongoing work includes:

Buses

- Bus fronts are now high visibility yellow to aid people with a vision impairment;
- Destination signs on new buses are to be LED electronic signs;
- Outsourcing of bus cleaning services which has seen an improvement in the consistent presentation and cleanliness of the fleet;
- A trial of bikes on buses was undertaken to determine if/where they might be suitable; and
- Replacement of articulated buses.

Bus Stops

- Rollout of new DDA compliant bus stop signage, timetable cases, shelters and seating;
- Poles with reflective blades;
- Tactiles as required by the DDA;

-
- On-road yellow cross hatching to mark bus stops; and
 - In May 2011 Metro installed its first bus seat made from 100% recycled plastic. One bus seat requires about 1,625 two litre milk cartons and saves 3.25 cubic metres of land fill. A total of 12 seats have been fitted since May 2011 in the greater Hobart and Launceston areas. To date the recycled seat has met with a positive response and Metro plans to install more as the need arises as part of its routine maintenance and replacement program.

Passenger Shelters

- Upgraded DDA compliant bus shelters that are well lit for high frequency main roads;
- Relocation of existing refurbished bus shelters to higher patronage bus stops; and
- Metro has partnered with other organisations to install new passenger shelters, including MONA, UTAS, Southern Cross Care and the North West Regional Hospital at Burnie.

Working with Stakeholders

Metro is working with key stakeholders (including DIER and local government) to improve bus stop placement and safe pull-off areas on regional roads. Metro is also working with stakeholders to assess the options for implementing bus priority measures to reduce travel times, such as:

- Priority for buses, taxis and cars with more than three occupants; and
- Bus pre-emption at traffic lights.

3.7.2 Bus Acquisition Program

In 2007 Metro signed a four year contract with Scania for the supply of between eight and ten DDA compliant buses per year. The contract was extended for a further year in 2011-12, and again in 2012-13 while DTF carried out a review of Metro's funding. Buses acquired under the contract are as follows:

- 8 buses in 2007-08;
- 12 buses in 2008-09;
- 6 buses in 2009-10;
- 8 buses in 2010-11; and
- 7 buses in 2011-12;
- 4 buses ordered in 2012-13 but which were delivered in 2013-14.

The vehicles feature air conditioning, low emission Euro 5 EEV diesel engines, Scania chassis and bodies supplied by South Australian-based Company Custom Coaches Pty Ltd. Metro has ordered a further seven 12.5 metre buses which are expected to be delivered in December 2013 and January 2014.

Metro plans to re-tender for the supply of buses in late 2013-14.

3.7.3 Closed Circuit Television (CCTV)

Metro has CCTV installed on its entire fleet which stores internal and external vision. This initiative was completed in late 2009 and the usefulness of CCTV to Metro and the Police has been proven in the investigation of incidents and identifying offenders, as well as making passengers feel safer when travelling with Metro.

3.7.4 Student Code of Behaviour

Metro (in conjunction with the Tasmanian Bus Association) has developed a Student Code of Behaviour. The Code was introduced to schools, students and parents in June 2007 and was updated in 2010.

Educating students on the Code has been supported by schools, bus operators and Tasmanian Police. The aim of the Code is to make travel by bus to and from school as safe and hassle free as possible for students, bus operators and other passengers. Where possible, incidents are resolved directly between Metro and the schools concerned. Police involvement is sought where resolution of a problem is not possible, or where there has been a serious incident. The Code's introduction has seen improved behaviour by travelling students.

3.7.5 Bus Operator Training

Metro's bus operator induction training includes passenger relations, conflict and behaviour management. Metro has enhanced this training through the introduction of scenarios to develop skills and to provide familiarity with potential situations and appropriate methods of response. Implementation of this program for new drivers took effect from November 2009.

Passenger relations, conflict and behaviour management training is also included in annual refresher training courses for all drivers. Tasmania Police in Launceston and Hobart provide support and assistance to management and supervisory staff and participate in the initial training of new drivers.

3.7.6 Police on Metro Program

An agreement has been in place between Metro and the Department of Police and Emergency Services since 2004. The current three year agreement expires in mid-2016. Under the agreement police officers maintain a high profile on the buses by patrolling bus

interchanges, travelling on and following buses in and around Hobart.

3.7.7 School Bus Safety

Metro has joined DIER, the Tasmanian Bus Association and the Road Safety Advisory Council in developing the Smart Stop initiative which encourages children to “stop, look, listen and think” to improve safety around school buses.

3.7.8 Workplace Health and Safety

Workplace health and safety (WHS) remains an important focus for Metro. During 2012-13 a comprehensive safety audit was completed which reviewed the safety systems and documentation that underpin Metro’s safety efforts. The resulting activities arising out of this audit included:

- Creation of a risk assessment library, with each employee signing off on the risk assessments relevant to their work area;
- Creation of a resource to provide up to date versions of all WHS legislation, codes of practice and Australian Standards;
- Training of all supervisors and managers in accident investigation and risk assessment; and
- Upgrading of incident investigation procedures and the subsequent analysis of incident and injury trends.

Monthly site-based audits are completed by Metro employees. These audits involve employees assessing the safety standards around the depots, stops and other infrastructure and produce a significant number of recommendations for improvement.

Random alcohol and other drugs testing is undertaken at Metro worksites.

Metro has also commenced a number of employee health and well-being initiatives, including:

- Formation of a Health and Wellbeing Committee;
- Opening of gym facilities at the Hobart and Launceston depots; and
- Supporting two employees to undertake a Certificate IV in Personal Fitness.

3.8 Market Research

3.8.1 Customer Satisfaction Survey

Metro commissioned EMRS to undertake an annual customer satisfaction survey in August

2011, June 2012 and June 2013. The purpose of the research was to gather data on respondents' satisfaction with Metro's services, providing Metro with information from Hobart, Launceston and Burnie passengers about their experiences and their view of the quality of Metro's services.

600 respondents who had used a Metro bus service at any time in the previous twelve months were interviewed in June 2013. Key findings included:

- Since 2012, it appears that passengers are travelling slightly more often, with 38% of respondents interviewed in 2013 claiming they travelled by bus “at least 3 times a week” (35% in 2012; 42% in 2011).
- The primary reasons for catching a bus mentioned by respondents were “to go shopping” (46%) and “to go to work” (33%).
- A higher percentage, that is 53% of respondents in 2013, stated that they would be prepared to travel further to their bus stop if the buses were more frequent or the level of frequency was improved (51% in 2012; 45% in 2011).
- Since 2011 and 2012, levels of satisfaction across several aspects of Metro's passenger transport services have remained broadly the same:
 - the bus route coverage 69% in 2013 were “very satisfied” or “satisfied” (67% in 2012; 66% in 2011).
 - the services provided by Metro Tasmania overall 71% were “very satisfied” or “satisfied” (73% in 2012; 69% in 2011).
 - the service provided by bus drivers 80% in 2013 were “very satisfied” or “satisfied” (81% in 2012; 78% in 2011).
 - personal safety on board the bus 77% in 2013 were “very satisfied” or “satisfied” (80% in 2012; 77% in 2011).
 - reliability of services 70% in 2013 were “very satisfied” or “satisfied” (73% in 2012; 70% in 2011).
- Respondents were more likely to be “very dissatisfied” or “dissatisfied” with “the frequency of the services” 19% in 2013 (18% in 2012; 16% in 2011) and “the operating hours of the services” 17% in 2013 (17% in 2012; 16% in 2011).
- Respondents were generally more satisfied with how complaints were dealt with:
 - timeliness in responding to complaints 68% in 2013 were “very satisfied” or “satisfied” (39% in 2012; 51% in 2011).
 - the way Metro handled and resolved the complaint 52% in 2013 were “very satisfied” or “satisfied” (35% in 2012; 45% in 2011).

It was encouraging to note that satisfaction with Metro’s vehicles has generally remained high, but the ongoing need for improvement in the amount of shelter and seating at the bus stop again became evident.

- Respondents’ satisfaction with the buses:
 - the ease of getting on and off the bus 85% in 2013 were “very satisfied” or “satisfied” (86% in 2012; 85% in 2011).
 - the cleanliness of the bus 74% in 2013 were “very satisfied” or “satisfied” (78% in 2012; 74% in 2011)
- Respondents’ satisfaction with bus stop infrastructure is low and has declined:
 - Amount/availability of information at stops 49% in 2013 were “very satisfied” or “satisfied” (55% in 2012; 53% in 2011).
 - Amount of seating at the bus stop 37% in 2013 were “very satisfied” or “satisfied” (41% in 2012; 44% in 2011).
 - Amount of shelter at the bus stop 34% in 2013 were “very satisfied” or “satisfied” (32% in 2012; 31% in 2011).

A summary of the survey results relating to passengers’ satisfaction with Metro’s services over the last three years is provided in Table 5.

Table 5: Satisfaction with Metro’s Services

Statements	2011 Percentage (n=600)		2012 Percentage (n=600)		2013 Percentage (n=600)	
	Very satisfied / satisfied	Very dissatisfied/ dissatisfied	Very satisfied/ satisfied	Very dissatisfied/ dissatisfied	Very satisfied/ satisfied	Very dissatisfied/ dissatisfied
The service provided by bus drivers	78	3	81	3	80	6
Personal safety on board the bus	77	4	80	6	77	6
The directness of the route	76	8	73	9	74	10
The length of time it takes to travel	77	6	78	6	73	8
The services provided by Metro Tasmania overall	69	6	73	6	71	7
The reliability of the services	70	9	73	9	70	10
The bus route coverage	66	12	67	10	69	11
The cost to use the service	68	12	69	12	68	11
Personal safety at the bus stop	65	8	66	11	67	12
The operating hours of the services	60	16	61	17	60	17
The service provided by the Metro Customer Service team	58	4	59	5	56	6
The frequency of the services	54	16	56	18	54	19
The ease of transfers between services	48	7	45	9	45	9

All three rounds of research have indicated that improving the frequency of Metro’s passenger services, the operating hours of the services and the reliability of buses arriving on time remain key measures whereby customer satisfaction could be raised (particularly in the Hobart region where overall satisfaction remains lower than elsewhere).

Positive findings to emerge from the latest research were that satisfaction with the services provided by Metro overall remains at a higher level than in 2011 and that satisfaction levels with the services among respondents classified as physically disabled (and with aspects of particular relevance to them) compared favourably to those recorded among respondents with no physical disability.

The rising percentage of Greencard holders over the course of the three research rounds is evidence of its success. There has been an increasing trend to register for a Greencard online, with 89% of respondents in 2013 reporting that they found this method easy, and it is likely that more customers will also choose to top-up their Greencard online.

In addition, all three rounds of research have provided evidence that the respondents' preferred methods of receiving information about changes to Metro services are through email and the Metro website. Given this, ready access to and ease in the use of these online facilities will be of particular importance in the future.

3.8.2 Market Research Projects

In July 2010 Metro commissioned a detailed market research project to undertake in-depth research with passengers, people who used to use Metro services and non-bus users. The findings included recommendations on ways Metro could work to address the key issues raised, what services Metro should be providing to meet customer needs and where resources should be allocated to improve the customer experience and attract more people to catch the bus rather than using their motor vehicle.

To understand perception and views about the Metro brand and services, Metro undertook a further qualitative research project in June 2013. The findings of the research are being used to provide guidance for communications and marketing campaigns to increase patronage.

Six focus group discussions were held across Hobart, Launceston and Burnie and 64 short passenger intercepts were conducted at bus stops in Hobart, Rosny, Kingston and Moonah. In response to the research findings, Metro has developed a statewide marketing campaign to build a positive new brand image that over time increases patronage. The campaign features a hero character who brings to life all of the positive aspects of travelling with Metro.

3.9 Customer Service and Communication

3.9.1 Customer Service

Metro provides information and support to its customers through face-to-face, telephone, electronic and on-bus channels. In December 2011 Metro relocated its customer service team to a new Metro Shop in the Hobart Interchange in Elizabeth Street to make it easier for passengers to get information about services and to purchase or recharge a Greencard. In

addition the company centralised much of its customer feedback activity statewide to the new Metro Shop location resulting in a standardised approach to acceptance, recording, investigation and action in response to customer feedback. The Metro Shop is open from 8:00 am to 6:00 pm on weekdays (excluding public holidays) and on Saturdays during the period of daylight saving from 9:30 am to 2.00 pm.

Metro also regularly reviews its customer service charter. Under the charter, all complaints are investigated and a response provided to the person lodging the complaint within ten working days. The information provided by customers is used when considering changes and improvements to its services.

3.9.2 Website

The Metro website is a comprehensive information tool providing up-to-the-minute news on special timetables, events and alterations to services. New products and services are promoted through the website and are linked to explanations and timetables designed to assist customers with keeping up-to-date or learning about new products.

In 2010-11 Metro introduced the use of Twitter alerts to allow people to get real time information about timetable changes, promotions, road works, accidents and other issues affecting services.

During 2012-13 Metro launched an online journey planner to make it quicker and easier for passengers to plan bus trips. The journey planner links with Google Maps and is a passenger transport planning tool that integrates bus stop, route and schedule information to make trip planning quick and easy for everyone. People can now use the journey planner by visiting Metro's website on their computer or mobile device. After entering the origin and destination of the journey, the journey planner will tell the passenger what bus to catch, when it is scheduled, how long the trip will take and where and when they have to change buses if it involves more than one route.

3.9.3 Metro Hotline

The Metro Hotline telephone service is available five days a week between 7.00 am and 7.00 pm with a telephone recording system for out of office enquiries. Benefits of this service are well established with experienced customer service officers providing detailed information relating to bus routes, timetables, service changes, products and new services.

3.9.4 Timetables

To increase patronage and improve the convenience of bus travel, in 2010-11 Metro overhauled all of its timetables statewide, ensuring they are more accurate and more easily understood with improved presentation and readability.

3.9.5 Service Alteration Communications

Metro has improved the way in which it communicates unplanned service alterations, disruptions and bus stop closures to the public. The alterations may be required as a result of road works, road closures, traffic incidents or the like.

Notification of temporary service alterations can occur anywhere from immediately as the event is occurring through to approximately two weeks prior to the event.

Dependent upon the timing of the event, a combination of communication methods are used:

- Media advice;
- Website notice;
- Twitter;
- Poster on buses, at interchanges or major stops;
- Notice on affected stops; and
- Flier distributed on affected routes.

3.9.6 Public Consultation

For major infrastructure upgrade projects, Metro undertakes a public consultation process advising of proposed changes and calling for feedback. After the feedback is received and considered, further alterations may be made to the proposed changes. The final changes are then communicated prior to implementation to the public and directly to those who had provided feedback.

3.10 Environmental and Social Responsibility

3.10.1 Carbon Reduction Plan

RARE Consulting was engaged to carry out a carbon audit across all aspects of Metro's business activities and also to develop a Carbon Reduction Plan for the short, medium and long term.

The Carbon Reduction Plan takes into account the risks associated with the carbon tax and rising fuel prices, but also Metro's limited funding for fleet replacement and its ability to purchase low emission vehicles or to embrace alternative technologies moving forward while at the same time reducing its carbon footprint.

The current high capital cost of alternative fuel and technology buses along with the associated high cost of infrastructure does not make it viable in the short term for Metro to move to these vehicles. It was agreed that several short term strategies could be introduced that will make a difference and assist Metro's in its objective to lower emissions.

Metro has already introduced several short term strategies in its quest to lower emissions, including:

- Sharing fuel saving costs with bus operators was an initiative of the last enterprise agreement;
- Bus operator eco driving training and assessments;
- Trialling fleet management systems on nine Metro buses in Hobart with the purpose being to evaluate if these systems will assist Metro to reduce fuel usage by monitoring bus and bus operator performance, encourage eco driving and to reduce engine idle time;
- Implementation of the Greater Hobart Passenger Transport Network Plan (discussed in section 3.6.1) which will include a review of bus stop spacing along Metro's high frequency corridors; and
- In conjunction with Metro's current tyre contractor, Metro has introduced new tyre pressure capacities and tyre pressure check procedure in a bid to reduce fuel consumption.

3.10.2 Community Investment and Sponsorship

Metro recognises its intrinsic place in communities, connecting Tasmanians to their employment, study, leisure and community activities. Metro also seeks to support and engage with the community through involvement in community investment and sponsorships.

Community investment and sponsorship is undertaken in accordance with Metro's sponsorship guidelines that prioritise support for people through sport, events, lifestyle and community through health and environment. Sponsorship and community investment is also undertaken with a view to raising the profile of Metro and passenger transport and encouraging the use of passenger transport.

Community investment and sponsorship involves the provision of financial and in kind support. Metro provides its bus services to assist community transport needs and encourages support for employees and engagement of employees in fundraising activities.

As a recent example, in January 2013 Metro partnered with 7HO FM for a non-stop live broadcast from a Metro bus over 50 hours to raise money for the Tasmanian bushfires appeal. The fundraising campaign covered more than 700 kilometres and raised \$145,000. Metro buses, with bus operators working outside their normal rosters and schedules, also formed part of the convoy which took people back into the fire ravaged area around Dunalley in the days after the fires.

4 EFFICIENT COST

4.1 Introduction

Metro has provided the Regulator with detailed benchmarking reports comparing Metro's costs and cost breakdowns to those of private and public sector urban bus operators around Australia. These reports have been provided on a Commercial in Confidence basis for the financial years ending 30 June 2009, 2010, 2011 and 2012. Metro is confident that an analysis of the benchmarking reports demonstrates that Metro continues to be competitive in terms of efficient costs when compared to other bus operators.

4.2 Compliance with the Disability Discrimination Act

Metro has a responsibility under the DDA to provide equitable, dignified access to goods, services and premises used by the public. Disability Standards for Accessible Public Transport (DSAPT) have been made under the provisions of the DDA and establish minimum accessibility requirements to be met by providers and operators of public transport conveyances and services.

All conveyances, premises and infrastructure brought into use for public transport after 2002 must comply with the standards, and all bus services must be progressively made fully accessible. By the end of 2017, 80% of services must be provided by buses that comply with the disability standards and by 2022 Metro will need to be fully compliant in respect of its bus fleet and other infrastructure. The target dates for compliance with the standards are summarised in Table 6. While there are currently no penalties for non-compliance, and the opportunity exists for Metro to apply for an extension to the target dates, for Metro to pursue a 'best practice' business model it should endeavour to meet, or exceed, industry standards.

Table 6: Target Dates for Disability Standards for Accessible Public Transport

	Dec 2007	Dec 2012	Dec 2017	Dec 2022
General access services delivered by accessible buses		55%	80%	100%
Bus stops and infrastructure	25%	55%	90%	100%

4.2.1 Metro's Current Compliance with Service Targets

In August 2011 Metro completed the update of its Disability Action Plan detailing how the company would become fully compliant with the requirements of the DDA. Following approval from the Board the Plan was forwarded to the Transport Commission as required under the urban fringe contracts, and then registered with the Australian Human Rights Commission.

As at 30 June 2013 Metro had 85 accessible buses out of a statewide fleet of 217 vehicles (39%). These are distributed around the State with 63 vehicles in Hobart, 16 in Launceston and 6 in Burnie as shown in Table 7.

Table 7: Percentage of Metro’s Fleet and Services that are DDA Compliant at 30 June 2013

Total Fleet	217
Accessible Fleet	85 (39%)
Accessible Services	65%

Metro is obligated to use its younger buses for its urban fringe contract services to meet average age and maximum age requirements, and these buses form part of Metro’s DDA compliant fleet. This means that Metro must prioritise DDA compliant buses to urban fringe services which typically have a lower frequency and lower patronage, and often require overnight lay-over in outlying satellite yards which further restrict their availability for other services. Furthermore, the nature of urban fringe services means that most bus stops do not have kerbs or footpaths which are necessary for enabling wheelchair access (i.e. are not DDA compliant). These factors have a combined effect of lowering Metro’s overall compliance with the DSAPT.

Metro currently provides around 51% of its total services with DDA compliant vehicles. The figure includes dedicated school bus services whereas the DSAPT clearly excludes them. With dedicated school trips excluded Metro is providing 65% of its services statewide with DDA compliant vehicles. This met the requirements of the DSAPT of 55% of services being operated with accessible vehicles by 31 December 2012. However, a significant investment in the purchase of new vehicles is still necessary to meet the 2017 and 2022 requirements of 80% and 100% respectively.

4.2.2 Metro’s Current Compliance with Street Infrastructure Targets

Bus stops and other street infrastructure are progressively being upgraded to meet the requirements of the DDA. Currently, 20% of poles, signs and timetables at bus stops are compliant with the DSAPT and this figure is anticipated to reach 25% by December 2014. Tactile ground surface indicators to assist the visually impaired are also being fitted, with 44 having already been installed. Table 8 summarises the infrastructure that has been installed to meet DDA compliance.

Table 8: DDA Compliant Street Infrastructure

Council	Stops	Seats	Shelters
Hobart	226	2	2

Glenorchy	79	2	2
Clarence	102		
Kingborough		2	
Launceston	90 *		10
Burnie	26		1

*work is currently progressing on Elphin/Penquite Roads which will add another 26 stops.

Table 9 provides details on the expenditure in each Council area over the last three years on street infrastructure. This investment has been sourced from the \$3.25 million additional funding. A significant investment in upgrading bus stop infrastructure is necessary to meet the 2017 and 2022 requirements of 90 and 100%.

Table 9: Street Infrastructure Upgrades (2010-11 to 2012-13)

Council	Hobart	Launceston	Burnie	Total
Hobart	\$225,285			\$225,286
Glenorchy	\$50,583			\$50,583
Clarence	\$73,734			\$73,734
Kingborough	\$1,200			\$1,200
Launceston		\$234,872		\$234,872
Burnie			\$49,753	\$49,753
Total	\$350,802	\$234,872	\$49,753	\$635,428

4.2.3 Metro's Bus Replacement Program

Metro has provided the Regulator with a copy of its Bus Replacement Program Business Case which was included as part of Metro's 2013-14 Budget Submission. The recommended option identified in the Business Case is a bus replacement program that is aimed at meeting the DDA compliance targets as well as the average age requirements of Metro's urban fringe contracts. To achieve this, Metro would need to purchase an additional 49 new buses by 2015-16, followed by a schedule of 14 per year. This option would also achieve compliance with the maximum age requirement of the urban fringe contracts by 2021-22, and in the interim, age compliant buses would be allocated to these services.

The total cost for the purchase of buses would be \$60.7m (\$44.5m at 7% discount rate), which includes the replacement of 12 articulated buses. The impact this program would have Metro's fleet is detailed in Table 10.

Table 10: Bus Replacement Program to meet DDA and Average Age Contract Compliance

	New Std.	New Artic.	Total New	Bus Cost (\$'000)	Std. Fleet	Artic. Fleet	Total Fleet	Max Age	Avg Age	% DDA Buses	% DDA Services
2012/13*	0	4	4	2,756	199	18	217	27.5	14.9	41.0	53.2

2013/14	13	4	17	8,502	199	18	217	27.5	13.9	48.8	61.4
2014/15	13	4	17	8,502	201	16	217	24.5	12.9	56.7	68.8
2015/16	15	0	15	6,630	201	16	217	24.8	12.2	63.6	75.0
2016/17	14	0	14	6,188	201	16	217	25.0	11.5	70.0	80.3
2017/18	14	0	14	6,188	201	16	217	25.0	10.9	76.5	85.0
2018/19	14	0	14	6,188	201	16	217	25.0	10.2	82.9	89.5
2019/20	14	0	14	6,188	201	16	217	25.5	9.6	89.4	93.7
2020/21	14	0	14	6,188	201	16	217	25.9	8.9	95.9	97.6
2021/22	14	0	14	6,188	201	16	217	19.8	8.3	100.0	100.0
Total	125	8	133	60,762							

*2012-13 buses excluded from the total purchase cost as these have already been purchased.

4.2.4 Funding Metro's Bus Replacement Program

The available funding for Metro's Bus Replacement Program is illustrated in Table 11 and comes from the Corporate Plan and the DTF Budget Papers for 2012-13 which includes the additional \$3.25 million in funding over the forward estimates to 2015-16.

Table 11: Available Funding for Metro's Bus Replacement Program

	New Std.	New Artic.	Total New	Bus Cost	Funding Available	Shortfall
2012/13	0	4	4	\$2,756,000	\$2,756,000	Nil
2013/14	13	4	17	\$8,502,000	\$3,220,000	\$5,282,000
2014/15	13	4	17	\$8,502,000	\$3,220,000	\$5,282,000
2015/16	15	0	15	\$6,630,000	\$3,220,000	\$3,410,000
TOTAL	41	8	49	\$23,634,000	\$9,660,000	\$13,974,000

Table 11 has not been completed past 2015-16 as there is no guarantee Government will fund the additional \$3.25 million per year past this financial year (ie beyond the current cycle of forward estimates). Metro's 2013-14 Budget Submission sought funding for an investment of an additional \$13.97 million over the next three years – this is additional to the \$3.25 million already factored into in the budget forward estimates. After this Metro requires \$6.188 million per year until 2021-22.

This shortfall can be financed in one of four ways:

- Increased contract payments;
- Equity Injections;
- Debt; or
- A combination of the above

Increased contract payments has been Metro's preferred option in the past as it attempts to match the cash flow with the need to expend the capital expenditure in the balance sheet and provides a revenue stream in the profit and loss statement to offset the increase depreciated expenditure following the acquisition of the assets (this is not a perfect match as the depreciation is accounted for over time). The benefit of this option is that it factors into the contract payments a return on assets and provides for capital replacement now and into the future for ongoing capital replenishment. Future certainty of these additional contract payments is a major issue to allow the Metro Board to confidently enter into bus supply contracts knowing that the funds will be available.

Equity injections have been explored in previous submissions by Metro to Shareholders to fund part or all of the shortfall, either up front or over several years, either through a fixed amount or an amount equal to the capital expenditure need for a particular year. As equity injections are not reflected in the profit and loss statement but rather through the balance sheet, the equity injections would not offset the increased depreciation expense that will be recognised in the profit and loss statement following the increased capital investment leading to a further deterioration in Metro's operating position, with projected operating losses over the current planning cycle. Metro would welcome the receipt of an equity injection but is cautious about the matching of the receipt of additional funds with the depreciation expense and the shorter term focus of an equity injection which deals with the immediate issue at hand but not the longer term ongoing need for bus replacement. Future certainty of these equity injections is a major issue which needs to be overcome to allow the Metro Board to confidently enter into bus supply contracts knowing that the funds will be available

Debt is another option that can be considered. Metro has had a history of little debt and repaid a small amount of debt following a reduction in Metro's borrowing limit by Tascorp some years ago. The major up front obstacles to borrowing are increasing Metro's long term borrowing limits with Tascorp and resolving the issue of servicing the debt. The contract payments would need to be restructured to allow for interest and debt repayments to be made (depending on precise terms and conditions of borrowing). At present the contract payment together with the additional \$3.25m in funding received (which is only in forward estimates and not in the contract) is not an adequate structure to provide surety of cash flow to meet interest expenditure or service such a debt into future years.

Previous submissions to Government assumed borrowings of \$8 million together with increased contract payments and patronage growth. The more long term issue with debt is achieving an appropriate debt to equity structure. Metro is forecasting ongoing operating losses which will impact debt to equity ratios. Maintaining or sustaining debt to equity ratios (and the shareholders' preference for the benchmark ratio has never really been tested) would be difficult in an environment of ad hoc borrowing with diminishing equity through

incurring operational losses. On its own a model based purely on borrowing is not sustainable in the long term. This option disguises the fact that the contract payments are inadequate and any business cannot sustain an ongoing borrowing program with losses being incurred. A combination of these options may address Metro's bus replacement strategy into the future.

4.3 Sustainable Management of Metro's Capital Base

4.3.1 Historical Basis of Metro Funding

In 2000-01 Metro's contract payment was calculated on the basis of achieving a "break-even" financial result.

The Government has concluded that it is inappropriate for contract payments to be based on achieving a commercial return on assets in order for Metro to make a significant profit and then pay most of that profit back to Government as a dividend.

Subsequently Metro's contract payment has been adjusted in line with an index of the costs faced by Metro. It is Metro's challenge to operate the business in a sound commercial manner so as to gradually improve its profitability.

Metro negotiated a long term 5+5 years contract with DIER but there was no change to the structure of the contract payments. Metro is receiving additional funding outside of the contracts to pursue a range of priorities including improvements to off-road infrastructure on major corridors, research and marketing and purchase of accessible, low emission buses.

Further review of Metro's funding model was one of the recommendations from the Financial Sustainability Review (FSR) conducted by DIER, DTF and Metro, discussed further in section 4.3.6.

4.3.2 Contract Payments

Metro's primary source of revenue is its contract payments, with the metropolitan area NSC being by far the largest single service contract.

The company believes that the process for adjusting contract payments for service changes and cost changes should be reviewed. Metro's preference is for a more output based contract in regards to service and contract payment variations than is currently provided. This would provide both Metro and DIER with more flexibility in the provision of the Metro service activity and better clarity on the occasions when variations to the contract payments would occur.

Metro also remains concerned that the overall contract payments associated with its urban area contracts is below that necessary to provide for the long-term capital replacement programme, particularly its bus fleet. The receipt of \$3.25 million in additional funding in the

forward estimates is welcomed but as this funding is not linked to the contract (or indexed) there is a risk that this funding will not always be available to Metro into the future.

Negotiations continue with DIER regarding all long-term service contracts. The financial components of DIER's urban fringe contracts are calculated on the basis of operators achieving sufficient revenue to cover costs, fund capital replacement and achieve a reasonable return on assets using the Bus Cost Model as a basis for cost calculation.

Unit Cost Increases

The basic assumptions regarding future cost increases are as follows:

- ***Employee Labour Costs***: All of Metro's current workplace agreements have been renegotiated with predominantly 2% per annum increases. Future cost increases beyond the expiration of these agreements and within the planning period have been based on projected CPI of 3%. The labour sub-index of the Metro Index has also been estimated at 3%;
- ***The Delivered Fuel Price*** per litre to Metro is estimated to be \$1.18 per litre after diesel fuel rebates – with the likelihood of ongoing volatility in fuel prices the cost to fuel for Metro may increase. 70% of this increased cost will be reflected in higher contract payments and the balance will be recouped to some extent through other revenue streams and the farebox;
- ***Overall Inflation*** (CPI) is estimated at 3% per annum over the planning period; and

Variations in these assumptions will feed back to the contract payments made to Metro via changes to the Metro Index. This covers about 70% of Metro's revenue stream.

4.3.3 Additional Funding

\$3.25 million – how has this been spent?

Metro received an additional \$3.25 million through the budget in 2009-10, 2010-11, 2011-12 and 2012-13. The receipt of the 2009-10 funding was received late in the financial year and most of this funding was used in the 2010-11 financial year for capital and recurrent expenditure.

In the first two years the funding has been spent on the following initiatives which will assist in driving efficiencies within the business or renew assets or systems used in the business:

- 56% has been used to replace buses (\$3.646 million);
- 13% for improving on road infrastructure and information such as stops, bus shelters, seats and timetables (\$0.752 million);
- 8% for initiatives to grow patronage including market research and development of a

network plan for greater Hobart (\$0.534 million);

- 6% on generating efficiencies within the business (\$0.418 million);
- 5% on system replacements (\$0.325 million);
- 4% on equipment and accommodation modifications (\$0.288 million);
- 8% was unspent and carried over to 2011-12 financial year (\$0.537 million) for on-road infrastructure and initiatives to generate efficiencies.

In 2011-12 and 2012-13, 100% of the \$3.25 million funding received was spent on infrastructure including replacement buses and on road infrastructure.

Planned Spending

The additional funding projected during the planning period of \$3.25 million per annum will be used to fund future bus acquisitions. Over the planning period it is proposed that \$23.8 million will be spent on capital assets with planned new bus purchases representing approximately 68% of the expenditure. Other assets that will be acquired during the plan period include auxiliary vehicles, office equipment, plant and equipment, building and facilities and information technology equipment.

The capital expenditure plan does not reflect any impact of the planned depot optimisation strategy as this is still in the early planning stages. This strategy is discussed in more detail in section 4.4.5.

Impact if the Additional Funding Ceases

If Metro did not receive the additional \$3.25 million funding from Government, the impact would be severe:

- Million dollar operating losses creating solvency and sustainability concerns;
- Reduced interest on previous positive cash flow created from the time funding received and when expenditure is made;
- Bus replacement program would cease or be dramatically reduced, leading to:
 - DDA milestones not being met;
 - Average age and maximum age increasing above service contract requirements;
 - Maintenance costs increasing with older buses;
 - More break downs with older buses which would impact on service reliability; and
 - Reduced customer satisfaction and comfort, compromising patronage growth;

-
- Metro would have no capacity to service any borrowings;
 - Reduced expenditure on marketing initiatives to grow patronage as these would have to be severely reduced or indeed withdrawn totally;
 - Reduction in customer information, such as timetables only available from Metro's website; and
 - Roll out of improved passenger facilities at bus stops, such as seat and shelters, would cease.

4.3.4 Ancillary Revenues

The company's other sources of revenue include advertising, bus charter, rental income and interest revenue. These have been excluded from any analysis in this submission as they are not core to providing Metro's urban services.

4.3.5 Proposed Dividend Policy

In accord with the *Guidelines for Tasmanian Government Business – Dividends* and previous arrangements with shareholders, no dividends will be paid during the planning period. Metro has budgeted for operating losses and in the event of any profits it has been agreed in the past that the profits are to be retained and used for the benefit of Metro's core operations, such as the acquisition and maintenance of buses and activities aimed at promoting, enhancing or extending services to the community. Metro looks forward to finalising more formally the dividend policy within the soon-to-be-finalised Members' Statement of Expectations.

4.3.6 Financial Sustainability Review

Recently Metro has been working closely with representatives from DTF and DIER on a review of Metro's sustainability. It is likely that a series of recommendations will be endorsed by shareholders following this review. These recommendations will include specific action items for DTF, with DIER and Metro to work on building a more sustainable business model. An appropriate governance structure will be introduced to monitor progress on the agreed actions and impact on Metro's financial position.

4.3.7 Asset Management

Metro is currently developing a Strategic Asset Management Plan (SAMP) to ensure that Metro meets its service delivery objectives efficiently and effectively. This will be achieved by:

- maximising the service potential of existing assets by ensuring they are appropriately used and maintained;
- reducing the demand for new assets through demand management techniques and

consideration of alternative service delivery options;

- achieving greater value for money through a rigorous project initiation and evaluation process which takes into account life cycle costing, value management techniques and private sector involvement;
- eliminating unnecessary acquisition and holding of assets by ensuring awareness of, and requirements to pay for, the full costs of holding and using assets; and
- focusing attention on results by clearly assigning responsibility, accountability and reporting requirements in relation to asset management.

At the time of writing this submission, the plan was still under development. As such the capital expenditure plans do not reflect the outcomes from the SAMP. It is likely that the forward capital expenditure requirements and timing for planned capital expenditure will change following the finalisation of the SAMP.

4.3.8 Ring Fenced Financial Statements

Ring fenced financial statements (profit and loss statement and capital expenditure) have been provided for the past five years, current financial year and budgeted figures for the next five financial years. Unfortunately as Metro has just commenced a significant review of its Corporate Plan (undertaken every four years) the budgets are largely reflective of the existing Corporate Plan with the exception of some revised fares revenue modelling and depreciation estimates. Estimates for budgets beyond the current Corporate Plan have also been made. The new Corporate Plan will be submitted to the shareholders in March 2014 and will reflect the budgetary impact of new goals, strategies and actions which are currently under development and actual budgets for the outlying years of this investigation.

Table 12 outlines the true bottom line for Metro's urban operations and excludes any revenue and expenditure from non-urban services and all non-core business revenue and expenditure (i.e. advertising, interest, rental and charter).

Table 13 includes the potential impact of the alternative fare structure proposed in section 7.

Table 14 contains Metro's actual and projected asset base.

Table 12: Ring Fenced Profit & Loss Statement (Current Fare Structure)

	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	PROJECTED	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	Per CP 2014/15	Per CP 2015/16	Per CP 2016/17	Est 2017/18	Est 2018/19
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
REVENUE											
Fares	10,404	10,014	10,393	10,656	10,531	10,390	10,869	11,169	11,422	11,723	12,029
Contract	29,148	29,718	30,067	30,538	32,363	33,517	34,158	35,080	36,034	37,115	38,228
Additional Funding	0	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250
Other	1,475	920	1,974	1,353	1,352	886	885	908	932	960	989
	<u>41,027</u>	<u>43,902</u>	<u>45,684</u>	<u>45,797</u>	<u>47,496</u>	<u>48,043</u>	<u>49,162</u>	<u>50,407</u>	<u>51,638</u>	<u>53,048</u>	<u>54,496</u>
Less											
Charter & Contracts	195	334	342	415	396	354	366	377	388	400	412
Advertising	201	319	393	457	307	254	262	269	278	286	295
Rental	72	81	49	42	40	27	27	28	29	30	31
Investment	315	207	386	155	177	143	120	120	120	124	127
Other	455	0	0	0	0	0	0	0	0	0	0
RESTATED REVENUES	<u>39,789</u>	<u>42,961</u>	<u>44,514</u>	<u>44,728</u>	<u>46,576</u>	<u>47,265</u>	<u>48,387</u>	<u>49,613</u>	<u>50,823</u>	<u>52,209</u>	<u>53,632</u>
EXPENSES											
Operating	38,010	40,142	40,461	39,633	41,579	42,649	43,880	45,352	46,857	48,277	49,740
Interest	0	6	1,363	1,328	1,045	1,000	1,000	1,000	1,000	1,000	1,000
Depreciation	3,564	3,964	4,265	4,734	4,605	4,732	4,578	4,352	4,354	4,567	4,752
Total Expenses	<u>41,574</u>	<u>44,112</u>	<u>46,089</u>	<u>45,695</u>	<u>47,229</u>	<u>48,381</u>	<u>49,458</u>	<u>50,704</u>	<u>52,211</u>	<u>53,844</u>	<u>55,492</u>
Less											
Charter	156	267	274	332	317	283	293	302	310	320	329
Advertising	61	69	88	102	15	0	0	0	0	0	0
RESTATED EXPENSES	<u>41,357</u>	<u>43,776</u>	<u>45,727</u>	<u>45,261</u>	<u>46,898</u>	<u>48,098</u>	<u>49,165</u>	<u>50,402</u>	<u>51,900</u>	<u>53,525</u>	<u>55,163</u>
RESTATED NET PROFIT/LOSS	<u>-1,568</u>	<u>-815</u>	<u>-1,213</u>	<u>-533</u>	<u>-322</u>	<u>-833</u>	<u>-778</u>	<u>-789</u>	<u>-1,077</u>	<u>-1,316</u>	<u>-1,532</u>

Table 13: Ring Fenced Profit & Loss Statement (Alternative Fare Structure)

	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	PROJECTED	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	Per CP 2014/15	Per CP 2015/16	Per CP 2016/17	Est 2017/18	Est 2018/19
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
REVENUE											
Fares	10,404	10,014	10,393	10,656	10,531	10,390	10,744	10,971	11,370	11,815	12,249
Contract	29,148	29,718	30,067	30,538	32,363	33,517	34,158	35,080	36,034	37,115	38,228
Additional Funding	0	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250
Other	1,475	920	1,974	1,353	1,352	886	885	908	932	960	989
	41,027	43,902	45,684	45,797	47,496	48,043	49,037	50,209	51,586	53,140	54,716
Less											
Charter & Contracts	195	334	342	415	396	354	366	377	388	400	412
Advertising	201	319	393	457	307	254	262	269	278	286	295
Rental	72	81	49	42	40	27	27	28	29	30	31
Investment	315	207	386	155	177	143	120	120	120	124	127
Other	455	0	0	0	0	0	0	0	0	0	0
RESTATED REVENUES	39,789	42,961	44,514	44,728	46,576	47,265	48,262	49,415	50,771	52,301	53,852
EXPENSES											
Operating	38,010	40,142	40,461	39,633	41,579	42,649	43,880	45,352	46,857	48,277	49,740
Interest	0	6	1,363	1,328	1,045	1,000	1,000	1,000	1,000	1,000	1,000
Depreciation	3,564	3,964	4,265	4,734	4,605	4,732	4,578	4,352	4,354	4,567	4,752
Total Expenses	41,574	44,112	46,089	45,695	47,229	48,381	49,458	50,704	52,211	53,844	55,492
Less											
Charter	156	267	274	332	317	283	293	302	310	320	329
Advertising	61	69	88	102	15	0	0	0	0	0	0
RESTATED EXPENSES	41,357	43,776	45,727	45,261	46,898	48,098	49,165	50,402	51,900	53,525	55,163
RESTATED NET PROFIT/LOSS	-1,568	-815	-1,213	-533	-322	-833	-903	-987	-1,129	-1,224	-1,312

Table 14: Ring Fenced Assets

	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	PROJECTED	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	Per CP	Per CP	Per CP	Est	Est
	2014/15	2015/16	2016/17	2017/18	2018/19						
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Assets	38,702	45,604	49,469	51,147	49,245	46,016	45,109	44,181	43,479	42,766	42,684
Additions											
Land & Buildings	263	38	184	416	19	5	50	50	50	50	50
Buses	8,009	2,715	4,501	3,107	56	3,220	3,220	3,220	3,220	3,220	3,220
Route Infrastructure	84	116	94	473	242	100	100	100	100	100	100
Office Equipment	108	11	830	67	130	401	200	200	200	200	200
Electronic Ticketing & Comms	-	4,600	137	24	2	28	-	-	-	-	3,500
CCTV Equipment	-	1,174	-	73	-	-	-	-	-	820	820
Plant & Equipment	31	36	82	84	31	49	50	50	50	50	
Auxillary Vehicles	108	181	179	134	260	104	125	125	140	125	100
Work in Progress	7,355				1,055						
Total Additions	15,958	8,871	6,007	4,378	1,795	3,907	3,745	3,745	3,760	4,565	7,990
Depreciation											
Bus	2,959	2,991	2,979	3,288	3,097	3,205	3,093	3,167	3,219	3,402	3,637
Other	459	862	1,179	1,379	1,435	1,527	1,485	1,185	1,135	1,165	1,115
Total Depreciation	3,418	3,853	4,158	4,667	4,532	4,732	4,578	4,352	4,354	4,567	4,752
Disposals											
Buses	-	189	59	237	81						
Other	44	101	112	422	63	82	95	95	119	80	80
Total Disposals	44	290	171	659	144	82	95	95	119	80	80
Less Transfer to Assets held for Sale/ Impairment of Assets/ Revaluations etc	5,594	863	-	954	348	-					
Closing Assets	45,604	49,469	51,147	49,245	46,016	45,109	44,181	43,479	42,766	42,684	45,842

4.4 Operational Efficiencies

4.4.1 Enterprise Agreements

Bus Operator Employees

Negotiations between Metro and the RTBU began in late September 2012 to replace the 2011 Agreement. These negotiations had two primary aims:

1. Agreement on wage increase/ conditions and efficiency improvements; and
2. Incorporate sections of a soon to be replaced Metro 2002 Award into the enterprise agreement document.

Metro initially offered a 1.5% wage increase based on CPI and limited agreement on efficiency improvements. Subsequent meetings agreed on minor efficiency improvements such as use of satellite yards on weekends. Metro increased the wage offer to 2% along with other improvements such as:

- Wage compression (reducing the number of bus operator classifications and the time it took for bus operators to reach the top level);
- Inclusion of family violence leave (allow employees to use their personal leave to deal with family violence issues); and
- Addition of two new allowances.

In February 2013 the RTBU members approved the taking of protected industrial action in a bid to force Metro to increase the wage offer. Industrial action commenced in late February with a series of stop work meetings across the State. In April Metro initiated Employer Response Action in response to ongoing stop work meetings during critical peak periods posing a threat to safety, particularly students. The resulting mediated meeting of the parties and subsequent negotiations produced a modified offer that maintained the quantum of the wage increase. The bus operators accepted this offer and the Agreement was submitted and approved by the Fair Work Commission.

Engineering Employees

Metro has negotiated with the Australian Manufacturing Workers Union (AMWU) to establish the Engineering Enterprise Agreement and transfer relevant paragraphs from the Metro 2002 Award. After a short period of negotiations with the Australian Manufacturing Workers Union a formal offer of 2% was made to the employees along with minor changes that had been introduced into the Bus Operators Agreement. These included Family Violence Leave and minor changes to Long Service leave access. The Agreement went to a vote and was accepted by a majority of the workforce, following which the Agreement was submitted and

approved by the Fair Work Commission.

Administration Employees

Metro has introduced performance based remuneration for all employees other than bus operators and engineering staff. Based on their annual performance review the Chief Executive Officer will recommend to the Board a salary increase based on the employee performance over the review period (previous twelve months). Most administrative employees received 2%. A new Enterprise Agreement is currently being negotiated with administrative employees and it is expected this will be put to employees in the first half of 2014.

4.4.2 Changeover of schedule planning and rostering software

Metro switched its scheduling software suppliers from Trapeze Austrics to INIT (Metro's ticketing system supplier) in August 2012. Metro stopped using the Austrics software at the end of February 2013 and has been working closely with INIT on the transition to the new software. The complexity of Metro's operation has meant that the transition has taken longer than originally anticipated.

INIT's planning and scheduling software "MOBILE-Plan" and its personnel planning and despatch software "MOBILE-Perdis" offer similar, and in particular with the planning and scheduling software, superior functionality and performance than the previous systems.

The major benefit for Metro of shifting to MOBILE-Plan is the integration between the scheduling software and the ticketing system. This has removed the need to have Austrics to INIT and Austrics to Google Transit interfaces. It also provides a platform that will reduce the lead time and complexity of rolling out other projects such as real time information and the Greencard to other bus operators.

4.4.3 Bus Priority Measures

Buses compete with other road users for the limited available road space. There are growing demands being placed on the road system by increasing numbers of cars. There are also increasing demands from other sources with demands for bicycle facilities and a desire for more pedestrian friendly shopping environments (such as on Main Road through Moonah, and Elizabeth Street through North Hobart).

Increasing traffic congestion and increasing constraints on bus movements through places like North Hobart and Moonah are making it more difficult and more costly to operate Metro services. If buses become slower they become less attractive for passengers which leads to more cars on the road. On-time running from outlying areas such the Channel region is already suffering as a result of congestion.

In many interstate urban centres where traffic congestion is a more serious problem the relevant Councils and State Government Departments have introduced a series of bus priority measures so as to speed up the movement of passenger transport and by doing so encourage people to switch from the use of cars to the use of passenger transport. Metro strongly supports the introduction of bus lanes and priority signalling at traffic lights.

Whilst traffic congestion is not as great in Hobart as in Brisbane, Sydney or Melbourne, it is getting worse. There is a need for Metro, DIER and relevant Councils to work together in a co-ordinated fashion to develop a strategic plan for giving priority to passenger transport where appropriate.

In 2007, Metro submitted a proposal to Government, supported by a report commissioned from Traffic Consultant Milan Prednovic, to trial a bus priority lane on the Southern Outlet. After considering the matter for some time, DIER commenced the trial in early 2009 which has proven to be successful. Patronage and on-time running of Channel and Kingston and Blackman's Bay services has improved as a consequence.

Metro continues to seek opportunities to participate in Government consideration of possible bus prioritisation initiatives and believes the following measures are deserving of serious consideration:

- Continuing the Southern Outlet bus priority lane by utilising the Macquarie Street clearway in the morning peak;
- Further investigation, detailed design, modelling and implementation of short and medium term bus priority measures proposed in the final Main Road Transit Corridor Plan. The measures include:
 - Bus priority approaching major intersections (reallocation of road space and providing signal priority);
 - Removal of the Springfield Depot inwards diversion;
 - Investigation of medium-term bus priority treatments to reduce the diversion caused by the one way street network with the Hobart CBD; and
 - Investigation of medium term bus priority treatments at key intersections, such as queue-jump bus lanes and bus early start signal priority. For the longer term, consider set-back bus lanes, depending on the effect of short and medium term bus priority measures;
- Using the 'running' lane on the Brooker Highway to provide a bus priority lane from the Elwick Road intersection through to the CBD;
- Utilising the middle lane of the Tasman Bridge to ensure a rapid transit for bus operators, taxis and possibly high occupancy vehicles, while reducing accidents

which Tasmania Police advise generally happen in the middle lane. Bus only lanes on the approaches to the Tasman Bridge would improve on-time running, reduce travel times and increase the attractiveness of passenger transport to commuters;

- Considering Park 'n' Ride developments at key trip attractor locations;
- Continue to upgrade bus facilities at Kingston and other key interchanges;
- Implementing traffic switching technology to prioritise bus movements.
- Introducing "left on red" at key intersections; and
- Developing Transit Corridor Plans for other corridors in Hobart.

4.4.4 Fleet Mix and Reliability

A more streamlined fleet mix with fewer vehicle classes contributes to operational efficiency by:

- Reducing training time due to fewer vehicle classes;
- Eliminating allowance payments to drivers for extra large vehicles;
- Reducing the range of parts to be held in stock and increasing the ability to negotiate a lower price due to higher volume of purchase;
- Improving efficiency of the maintenance team through less specialisation; and
- Reducing accidents as drivers become more familiar and confident with fewer vehicle types.

Therefore to minimise the number of bus types, Metro's bus replacement program prescribes that purchases will either be for standard 12.5m buses or articulated buses.

The oldest vehicles in Metro's fleet are articulated buses and although replacing these buses first is the fastest way to decrease the age of the fleet, this would result in a peak of new articulated buses at the expense of obtaining any new standard 12.5m buses for the medium term. To ensure that both types of bus are being modernised progressively, a mix of both articulated and standard 12.5m buses will be purchased until Metro has retired all of the existing articulated buses and has obtained the desired number of new articulated buses.

Operating costs related to the maintenance, reliability and availability of the fleet will be better managed with a younger fleet which is less prone to breakdowns and able to be repaired more efficiently. A more streamlined fleet mix with fewer different types and sizes of buses will also reduce training requirements, accidents and bus part expenses.

4.4.5 Corporate Plan 2015-2018

As discussed earlier Metro is currently undertaking a major strategic planning exercise to

develop a new Corporate Plan to guide the company for the next four years (2014-15 to 2017-18). While this will not be finalised in time for the current pricing investigation, the work undertaken to date has identified a number of areas where Metro may achieve operational efficiencies.

Depot Optimisation

The GHPTNP recommended that a depot location study be developed by Metro, examining the optimum location for depot and storage facilities. Consequently in 2011 Metro commissioned a Business Case for the Optimisation of Bus Depots in Greater Hobart, which was completed in January 2012. The study recommended that Metro retain the existing Hobart depot located in Moonah (which currently accommodates 105 buses but has capacity for 150) and progressively implement independent satellite bus depots with overnight bus storage, refuelling, bus wash, driver meal facilities and administration building at Bridgewater and Hobart CBD and new larger satellite bus yards at Rokeby and Kingston. The recommended sites for the two satellite depots were the Brighton Transport Hub and the old rail yards behind Macquarie Wharf and the recommended ownership option was to lease the land and for Metro to build, own and maintain the depot facilities.

In July 2012 an option to lease an available site at Bridgewater and build a depot was investigated. As the project required the redirection of funding secured from the State Government to subsidise the upgrading of Metro's infrastructure, it was determined that the bus replacement program should take priority over the development of a new bus depot. Further progression of this project was therefore suspended in the short-term pending the outcome of the FSR. In the interim Metro has pursued discussions surrounding the long-term plans for the Macquarie Wharf rail yards. The implementation of satellite bus depots at Bridgewater and Hobart CBD remains a long term strategy that is aligned with the GHPTNP and will be revisited as funding opportunities arise.

Service Availability

Metro will shortly be developing a service availability policy in consultation with appropriate stakeholders for the provision of services. The main aim of developing a service availability policy is to provide a framework for a consistent and fair evaluation of both existing and proposed bus services.

There will be an intrinsic link between the service availability policy and Metro's budget. The level of service that Metro is able to provide has a direct effect on Metro's capital and operating budgets. In turn, the service availability policy will affect the amount of service that Metro is able to deliver, and what is provided, must be within Metro's limited financial resources.

The changing nature of customer's travel needs and development means that Metro should be regularly reviewing its bus network in order to respond to changing customer needs and to achieve patronage growth. Existing services need to be monitored, and where appropriate modified, so that services levels are matched to demand through service expansion or reduction. Any service reductions will be reinvested in the network to respond to opportunities for new or improved services. The service availability policy will enable Metro to rationally evaluate service changes and make adjustments within the constraints of its budget and resource availability.

Internal innovation

During the planning plan period Metro will be implementing practices which encourage employees to bring forward innovative ideas and provide feedback.

Fleet Procurement

In 2014 Metro will investigate alternatives to its current practices of stand-alone fleet procurement such as potential procurement partnership with other providers purchasing vehicles on a much larger scale than Metro. Such partnerships may result in more competitive pricing being obtained for the buses. Metro will also investigate potential fleet leasing options as an alternative to its current practice of outright bus purchases being funded outright from the \$3.25m additional funding allocation.

Fare Restructure

The urban fare structure proposed in section 7 is anticipated to increase the uptake of Greencard as well as generate increased patronage.

5 THE METRO INDEX

5.1 Background

The Metro Index was established by GPOC in its 2000 Report to measure movements in Metro's costs. It is a weighted combination of sub-indices representing four cost components, being 'labour', 'fuel', 'capital, parts and maintenance', and 'other'. The index was significantly overhauled in 2003 following detailed submissions by Metro that the original sub-indices were inappropriate to Metro's cost experience.

The 2006 GPOC Report made several recommendations in regards to changes to the sub-components of the index and weightings, however despite some general agreement about consolidating the sub-components from four to three, the recommended changes were not negotiated into changes to the Metro Index and as such the 2003 structure remained.

Prior to the release of the 2006 GPOC Report there were discussions between Metro and DIER regarding a 'fuel lag' issue, whereby the quarterly adjustment to the fuel sub-component was not keeping pace with rapidly rising fuel costs. In June 2006 it was agreed to move to monthly fuel indexation from July 2007 which was consistent with the implementation date for the rest of the bus industry. In October 2007 Metro signed an Interim Service Contract with the Transport Commission which formalised the use of the monthly fuel price as the fuel sub-component of the Metro Index. This structure remained unchanged in December 2008 when the NSC commenced, and is illustrated in Table 15.

Table 15: Metro Index Structure from July 2003 (used in the New Service Contract)

Component	Index	Weighting
Labour	Labour sub-indexes of the School Bus Index (SBI), based on the Tasmanian Public Vehicles Award (since replaced by the Public Vehicle Transportation Award 2010): <ul style="list-style-type: none">• 78.60% Driver wage rate• 13.11% Administrative Assistant wage rate• 8.29% Mechanics wage rate The resulting Labour rate is adjusted by on-costs (superannuation guarantee, payroll tax and agreed supplementary superannuation).	61.336
Fuel	Average cost per litre of diesel fuel to Metro in preceding month (net of GST and fuel rebate)*	8.151
Parts & Equipment	National CPI	13.791
Other Costs	National CPI	16.722

*Prior to October 2007 this was calculated quarterly.

In 2008 it was agreed between DIER and Metro to use the weightings recommended by GPOC in 2006, but to defer any changes until after the upcoming 2009 GPOC investigation. Despite this, the weightings remain unchanged.

5.2 Composition

5.2.1 Labour

The Tasmanian Public Vehicles Award was applied to the labour sub-components of the SBI for calculating the Metro Index until the national award modernisation process commenced in July 2010. The Public Vehicles Transportation Award 2010 is now used for the Driver wage rate, 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. Transitional provisions apply over the first five years of these modern awards.

In 2009 Metro supported DIER's proposal to replace the SBI with the BCMI for the labour component of the Metro Index. However, GPOC recommended using the national Average Weekly Ordinary Times Earnings (Transport and Storage Component), arguing that the BCMI was not sufficiently independent of the local labour market for this industry.

Metro continues to have serious concerns about using a national wage index for the transport and storage industry (dominated by general road freight haulage) as a measure of Tasmanian bus industry labour costs.

Originally the Metro Index used a national transport industry wage index and it was found that this index was not reflective of Metro's labour costs or the labour costs prevailing in the Tasmanian bus industry generally. As a consequence its 2003 review, GPOC recommended that the labour index to be used in the Metro Index should essentially be the same as that used in the SBI, which was based primarily on the Tasmanian Public Vehicles Award. The change recommended by GPOC at that time was on the basis of adopting a labour index that properly reflected Metro's costs. Metro therefore considers it more appropriate to use the BCMI, which would also standardise the labour sub-index being applied across the Tasmanian bus industry.

Metro again submits that the weighting of the labour sub-index should be modified to include all labour related on-costs. While the labour sub-index includes on-costs, they are not reflected in the weightings. In July 2013 the Superannuation Guarantee Charge increased from 9% to 9.25%, and further annual increases are scheduled to occur for several more years. Weighting adjustments should be made in such instances where on-costs change as a result of external policy.

5.2.2 Fuel

Since October 2007 the component index used for fuel has been the average cost per litre of diesel fuel to Metro in the preceding month, net of GST and the Commonwealth diesel fuel rebate. The monthly adjustment of the fuel component has minimised the lag effect and the index is now working better to adjust Metro's contract payments for its actual fuel price. Consequently Metro proposes that there is no fundamental change required of this sub-index.

5.2.3 Parts and Equipment

In 2003 GPOC recommended the use of the National CPI to reflect movements in this cost component and this is applied in the current Metro Index. As demonstrated in previous submissions the National CPI tracks very closely to Metro's actual parts and equipment cost experience. Consequently Metro does not propose any fundamental change to this sub-index.

5.2.4 Other Costs

The National CPI is used to index movements in Metro's "Other Costs". Metro's three largest 'other' cost components relate to workers compensation, superannuation and payroll tax. As recommended by Metro in previous submissions and agreed to by GPOC, Metro considers that these items are directly related to labour costs and would be more correctly included in the labour component of the Metro index.

In the absence of any better index Metro suggests that the National CPI index continues to be used for "Other Costs".

5.3 Administration

The Metro Index is used to adjust contract payments under the NSC, and therefore it is crucial that the Metro Index accurately measures movements in Metro's actual costs. Accordingly, Metro submits that the sub-indices of the Metro Index should be reweighted every five years, coinciding with the Regulator's pricing investigation, based on Metro's actual expenditure in the preceding financial year. This is consistent with clause 3.6 of the NSC between Metro and DIER which states that:

"The parties acknowledge that the Metro Index may be periodically reviewed to ensure that it continues to properly reflect movements in the costs faced by Metro."

The Metro Index is thus intended to measure Metro's underlying costs so that contract payments and fares can be adjusted to retain their real value, in order that the breakeven financial target for Metro can be achieved. This is as opposed to building into the Metro Index the cost structure of a theoretical efficient private sector benchmark operator, as part

of a focus on building in efficiency pressures.

Metro can understand that there is a need in any industry sector for efficiency drivers. However, the appropriate mechanism for this would appear to be the setting of efficiency targets through the contracting process rather than incorporating efficiency drivers through the index used for adjusting costs.

6 COST RECOVERY

Metro reiterates the view conveyed in its submission to the previous pricing investigation that in general terms, full Adult fares should not be set so as to achieve full cost recovery in view of the benefits beyond Metro's passengers that passenger transport brings to the wider community, including:

- Reduced demands on the capacity of the road network;
- Reduced maintenance required on the road network;
- Less traffic congestion;
- Less upward pressure on fuel prices; and
- Lower carbon footprint.

Metro therefore agrees with the assertion made by GPOC in its 2006 report that a public bus service also provides a service to the community by reducing traffic congestion and travel times for other road users, and that in this case, it is efficient to subsidise the service operator an amount equal to the external benefit provided by passenger transport.

In the event that Metro's proposed alternative fare structure as detailed in section 7 were implemented, Metro submits that it would be appropriate to set Adult Peak Cash fares to achieve 'cost' recovery for peak period services, with this 'cost' being the average total cost (including the average cost of capital) less a subsidy reflecting the external benefit of bus travel.

Off-peak fares should be set to encourage use, as stated in GPOC's 2006 report, while Greencard fares should be set at a discount to the Cash fare to reflect the benefits to Metro that Greencard provides, such as reduced travel times, streamlined fare revenue management, improved customer loyalty and rich data for improved analysis, reporting and planning.

The current fare structure does not differentiate between peak and off-peak travel adequately, and therefore setting full Adult fares to achieve full cost recovery would result in off-peak passengers subsidising peak period passengers. In this scenario, full Adult fares should not be set so as to achieve full cost recovery.

Metro submits that the alternative fare structure proposed in the following section would achieve efficient, equitable and economical pricing principles while incentivising off-peak travel and fare pre-payment.

7 ALTERNATIVE FARE STRUCTURE

7.1 Introduction

Metro's sectional urban fare structure is relatively complex, somewhat inequitable and is in large part a legacy of a retired ticketing system. GPOC have made a number of recommendations and the FSR considered issues around improving Metro's fare structure from an economic as well as social perspective. Metro proposes a restructure of urban fares in line with GPOC's recommended ticketing products and fare pricing principles.

This restructure includes replacing a large number of sections with a small number of zones, introducing distance-based fares for concession passengers based on the same zones as full-fare paying passengers (Adults), providing incentives for off-peak travel, offering weekly and monthly passes and restricting cash fares (paper tickets) to single trips only.

The proposed fare structure is simple, consistent and logical while also reflecting the economic principles outlined by GPOC and the functionality of the Greencard ticketing system.

7.2 Background

The current fare structure is in large part a legacy of the retired Metrofare ticketing system. With Greencard now firmly established, it is timely to implement improvements to the fare structure to reflect the capabilities of the smartcard ticketing system. The objective of the fare restructure is to respond to the recommendations of GPOC and issues identified during the FSR process by simplifying fares and ensuring they are equitable as well as commercially justifiable, with an associated aim of attracting more passengers.

The need for a fare structure review was identified by GPOC in its 2006 report. The report made a number of recommendations in regards to Metro's fares and fare structure including:

- The fare structure should be simplified;
- Metro and DIER should consider the potential to move to a zonal-based fare structure following the completion of the CPSR;
- Metro should review the terms, conditions and pricing of its ticket products to encourage use outside peak times;
- Distance-based adult concession fares, based on 50% of the Adult fare should be introduced, and phased in over a number of years with no increases in the first year; and
- Prices for multi-trip tickets or passes should be based on multiples of the equivalent single trip ticket.

The report also recommended that an implementation strategy should be developed to phase in the recommendations. Both the CPSR completed in 2007 and the 2009 GPOC Report reiterated the recommendations for fare structure simplification and review of fare pricing and products.

For an in-depth discussion on the rationale behind the pricing policies recommended by GPOC, Section 5 of the 2006 Report and Sections 6 and 7 of the 2009 Report should be reviewed. Only brief summarisations of the basis for GPOC's recommendations are provided in this submission.

The FSR considered issues around fare policy including:

- Ensuring that fare transitions occur over a manageable timeframe that avoids price shocks for customers;
- Providing for annual fare reviews to ensure fares are at least maintained in real terms on average;
- Ensuring fare revenue grows as a proportion of total revenue over time;
- Delivering pricing structures which provide incentives for customers to travel in off-peak periods, and act to reduce the future capital investment required in the fleet; and
- Re-establishing clear relativities between concession and adult fare categories.

7.3 Introduction of Zonal-Based Fares

7.3.1 Proposal

With the emergence of four major service centres in Greater Hobart (Glenorchy, Kingston, Rosny Park and the Hobart CBD), the use of zones is considered more appropriate to the travelling needs of customers who tend to travel to and from these destinations. A zonal system would simplify the relatively complex section-based structure, while continuing to incorporate a pay-for-distance component. A zonal structure is also aligned with Metro's Greater Hobart Passenger Transport Network Plan which involves local services connecting passengers to major bus interchanges located within each of the four service centres.

The placement of zone boundaries needs to take into account the demographic distribution of transport needs while minimising the potential price impact for customers undertaking relatively short distance travel across zone boundaries.

To reinforce the 'pay for distance' principle, it is proposed to apply a linear, rather than a radial, methodology for zonal fare pricing. A radial approach would entail a central 'Zone 1', with Zone 2 surrounding Zone 1 in all directions, Zone 3 surrounding Zone 2, and so on. Such an approach would permit a passenger to travel from one extreme of Zone 2 to

another (i.e. passing through Zone 1 and thereby travelling across two zonal boundaries) on the same 'Zone 2' fare that a passenger would pay if they only travelled a short distance within Zone 2 (i.e. not crossing any boundaries).

A linear approach is preferred as this would require the first passenger to pay for three zones and the second passenger to pay for one, which is far more equitable. To facilitate this system, and to avoid confusion with the names of non-urban zones as well as the proposed fare types, the urban zones should be named using differentiating and descriptive terminology such as those shown in Appendix A, rather than Zone 1, Zone 2, Zone 3 etc.

As recommended by GPOC, it is proposed to limit distance-based fares to three levels, being '1 Zone', '2 Zones' and 'All Zones'. This keeps the structure simple and there would be limited benefit of offering '3 Zones' and '4 Zones' fares due to the small percentage of passengers that make these journeys (estimated at 1% based on the percentage of Adults paying Long fares).

The proposed Hobart boundaries are shown in Appendix A. The boundaries intersect through the Glenorchy bus interchange, the Bridgewater shopping district and Shoreline Shopping Centre. This enables people from both sides of the boundary to travel to these major service centres on a '1 Zone' ticket. Shoreline has been selected in favour of Rosny Park due to the proximity of Rosny Park to the Hobart CBD. The southern boundary intersects the Southern Outlet and a point in Taroona that is halfway between Hobart and Kingston, with Ferntree lying south of the boundary.

The compact nature of Launceston necessitates only two zones, with the boundary separating the Meander Valley from the rest of Launceston. With Ulverstone and Wynyard classified as non-urban areas, only one urban zone is required for Burnie. The proposed boundaries for Launceston and Burnie are shown in Appendix B.

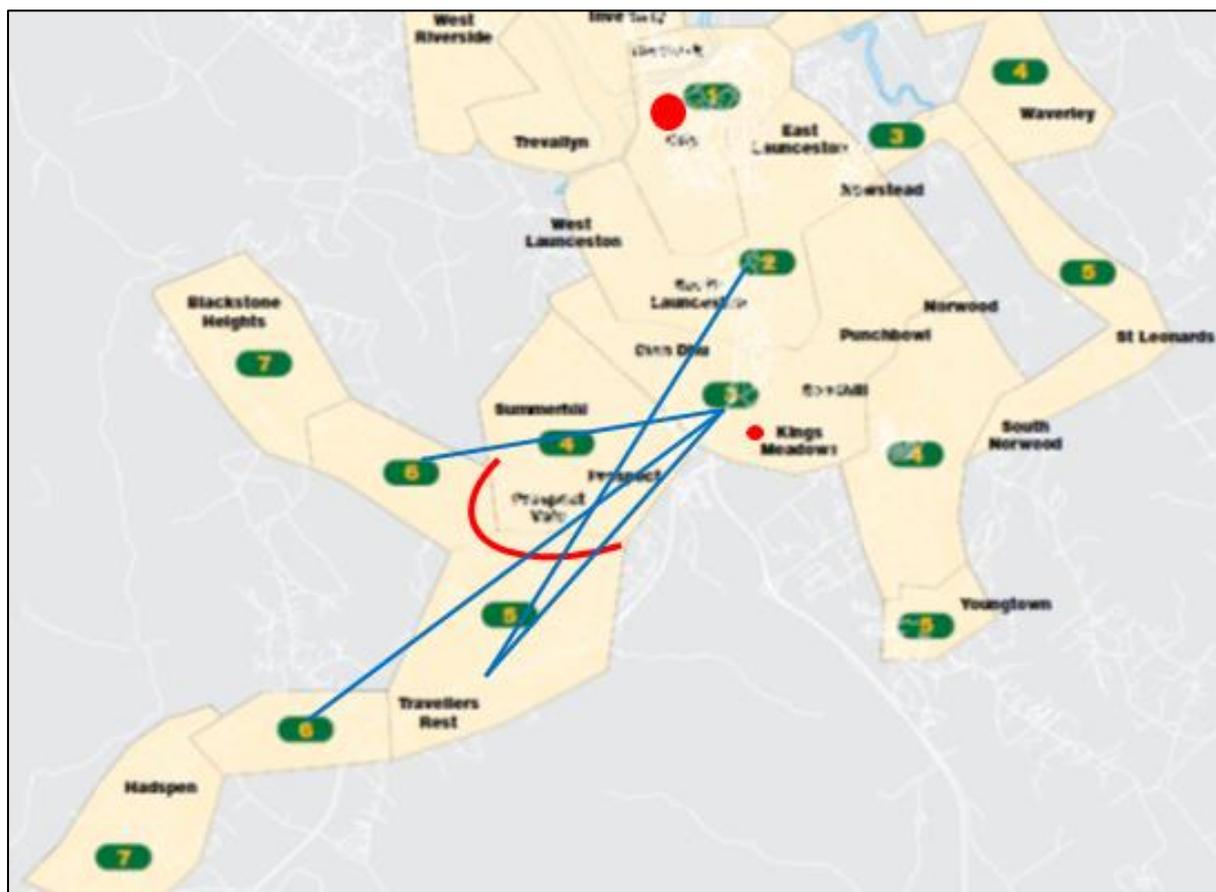
7.3.2 Passenger Impact

The proposed position of the boundaries ensures that the vast majority of passengers would not be adversely impacted. Those most impacted would be Adults who currently pay a Short fare (1-4 sections) and travel across a proposed zone boundary. These passengers would need to pay a '2 Zones' fare which would be aligned with the current Medium (5-10 sections) fare. The affected journeys are shown in Figures 1 and 2, which illustrates that very few are to/from a major service centre. This suggests that there is unlikely to be a significant number of passengers making these journeys and therefore the number of passengers affected is anticipated to be minimal.

Figure 1: All possible Short fare journeys across proposed Hobart boundaries



Figure 2: All possible Short fare journeys across proposed Launceston boundaries



While the actual number of impacted passengers is unable to be measured, analysis of the ticketing system data indicates that of the top 100 Hobart bus stops in terms of Short fare boardings, it is possible to cross a proposed boundary on a Short fare from only six of these bus stops. Boardings at these six stops account for 2% of the top 100 Short fare bus stop boardings, and relate to travel between Moonah and Austins Ferry, New Town and Claremont, and Rosny Park and Rokeby/Howrah South. The remaining top 100 Short fare bus stops are either on a zone boundary or the journey direction indicates that a boundary could not be crossed on a Short fare.

The analysis also found that Short trips are generally made to/from a nearby major service centre which supports the view that as there is a major service centre either within or bordering each proposed zone, there is not anticipated to be an adverse impact on a significant number of passengers.

The exception to this is passengers travelling between Rosny Park and Rokeby/Howrah South. However, Shoreline would still be accessible with a '1 Zone' fare, and this is considered preferable than having the boundary cut through Rosny Park. A Rosny Park boundary (e.g. following the Tasman Highway) would require a '2 Zones' fare for travel

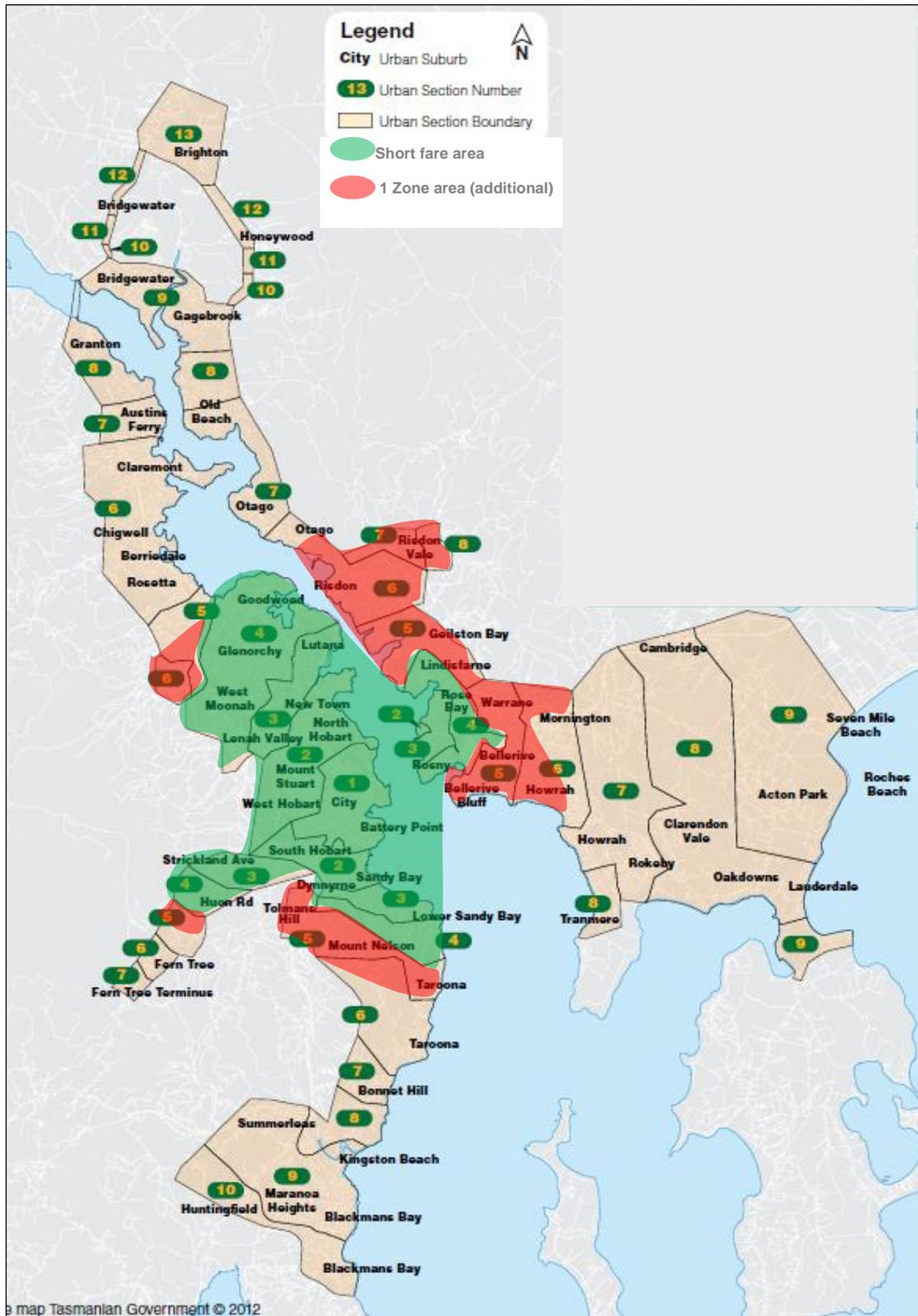
between the Hobart CBD and areas south of the Tasman Highway, but only a '1 Zone' fare for travel between Hobart CBD and areas north of Tasman Highway, which is not equitable. Another alternative is to use the Tasman Bridge as a boundary so that the Eastern Shore forms its own zone (south of Otago). This would require a '2 Zones' fare for all travel across the Tasman Bridge. While this would be consistent with the scenario for travel between the Central Hobart zone and Southern Hobart zone (with the Southern Outlet acting as the boundary), the pay-for-distance principle would be compromised as many eastern shore suburbs are within close proximity of Hobart's CBD.

Figure 3 demonstrates that many passengers should benefit from the proposed zonal structure. The map shows that a '1 Zone' ticket to/from Hobart CBD would enable passengers to travel further in all directions than they currently can on a Short fare.

7.3.3 Revenue Impact

A zonal fare structure is not anticipated to have a significant adverse financial impact, despite pockets of passengers experiencing a decrease in the fare they pay as illustrated by Figure 3. A quantitative estimate of the potential impact on fare revenue would have limited value due to the number of unknown variables and difficulties in predicting potential changes in travel behaviour. However, while there would be some negative impact on fare revenue from existing passengers that start paying a lower fare, this is anticipated to be more than offset by an increase in patronage driven by new and existing passengers in response to a simpler and more attractive fare structure.

Figure 3: Short fare and 1 Zone Journeys to/from Hobart CBD



7.4 Introduction of Distance-Based Concession Fares

7.4.1 Proposal

GPOC recommended the introduction of distance-based adult concession fares, with short trips being pegged and longer trip fares being gradually increased until all are 50% of the equivalent adult fare. The CPSR supported this recommendation in the event that the number of fare zones was reduced, which occurred in 2008. The FSR also considered the need to re-establish clear relativities between concession and adult fare categories.

Metro therefore proposes to phase in a distance-based concession fare structure whereby urban adult concession fares are eventually set to be equal to 50% of the equivalent adult fare. To avoid price shocks for adult concession customers, short trip fares would be pegged while longer trip fares are gradually increased until they are 50% of the equivalent adult fare.

7.4.2 Passenger Impact

Adult concession fare-paying passengers (Concession passengers) that travel within one zone would generally be unaffected as these fares would be pegged for a number of years, with the January 2014 Adult Short fare (or '1 Zone' fare) of \$3.00 needing to increase by 33% to \$4.00 before the Concession Short fare of \$1.90 could be increased to \$2.00. While the number of Concession passengers that travel within one zone is unknown due to the current flat fare structure, a significant proportion of Adults pay a Short fare (70%). As previously discussed, Short fare trips tend to be to/from a local major service centre. Therefore if 70% of trips are 'short', and there is a major service centre accessible within each proposed zone, most Concession passengers are likely to be unaffected by the fare restructure in the short to medium term.

Passengers travelling across two or more zones in peak periods would however incur an increase in fares. As Concession passengers are particularly price sensitive and generally more flexible with travel times, the coincided introduction of an Off-peak flat fare at the current \$1.90 (discussed further in section 7.5) would provide these passengers with a lower-priced alternative. Other discounted ticket offerings such as weekly and monthly tickets would provide lower-priced options for Concession passengers needing to regularly travel long distances during peak periods (discussed in section 7.7).

7.4.3 Revenue Impact

Fare revenue impact is anticipated to be negligible, with an estimated 70% of Concession passengers continuing to pay \$1.90 for travel within one zone based on Adult travel patterns. Of the remaining 30% that travel across two or more zones, a proportion of these would be expected to opt to travel in the off-peak to continue paying \$1.90 rather than paying an

increased fare for long distance peak period travel.

7.5 Differentiation of the Urban Student Flat Fare

7.5.1 Proposal

Urban and non-urban student fare-paying passengers (Students) currently pay the same flat cash fare on Metro services, while non-urban Students using a Greencard pay slightly less than urban Students using a Greencard.

This is consistent with the Government policy implemented on 1 January 2012 that a \$1.30 statewide student fare applies except where a Student presents a Greencard when travelling on non-urban or non-Metro operated services, in which case they are entitled to travel at the discounted student fare of \$1.00. Students presenting a Greencard on Metro's urban services receive a 20% discount on the cash fare, which equates to \$1.04.

Historically, the urban Student fare was linked to the shortest distance Adult fare but this relationship was lost many years ago. GPOC recommended that this link be re-established and that the fare be set at 50% of the equivalent Adult Peak '1 Zone' fare. The FSR also considered the need to re-establish clear relativities between student and adult fare categories.

Metro therefore proposes to maintain a flat urban Student fare but differentiate it from the non-urban Student fare by eventually having it set at 50% of the urban Adult '1 Zone' fare. To avoid price shocks for Students, the flat fare would be gradually increased until it is 50% of the urban Adult '1 Zone' fare. There is not anticipated to be any material impact on Student patronage or revenue.

7.6 Introduction of Peak and Off-Peak Fares

7.6.1 Proposal

As single Adult fares are based on distance only, with no account taken as to the time of travel (i.e. peak or off-peak), there is a disincentive to travel longer distances and little incentive to travel outside peak times. Furthermore, GPOC suggested that the high price of the off-peak ticket option for Adults, the Day Rover, does not provide passengers with enough incentive to travel outside the peak.

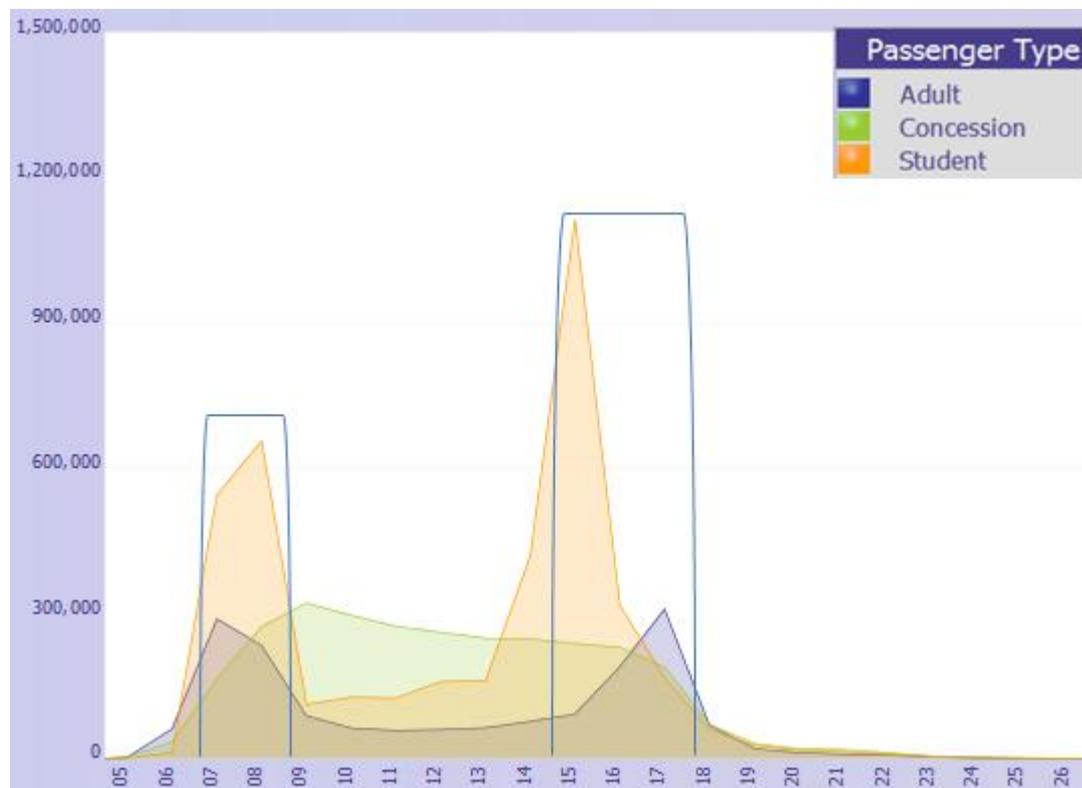
Adult peak fares should be aimed at cost recovery, whereas off-peak fares should be set to encourage use while still retaining revenue so the cost is shared by all passengers. Off-peak fares can be offered as a single-trip ticket, which are generally priced as a proportion of the relevant Peak fare, or they can be offered as part of a 'Pass' ticket (i.e. allows unlimited travel during a week or month). Peak and Off-peak fares are usually defined by the time of the boarding.

To further incentivise substituting peak travel with off-peak travel, the Off-peak fare can be priced at a discount to the shortest distance Peak fare (i.e. '1 Zone') while permitting travel across all zones – effectively creating a flat fare for off-peak travel. This would be most attractive to passengers travelling longer distances and entices them to travel in the off-peak when able, which then frees up seats for multiple, shorter distance travellers during the peak. It would also provide an opportunity for Concession passengers to continue to pay a flat single fare for network-wide travel.

It is therefore proposed that Adult and Concession Off-peak fares be implemented, with the Adult Off-Peak fare pegged at the current Adult Short fare and the Concession Off-Peak fare pegged at the current Concession All-Sections fare. Adult and Concession fares for travel in the peak are proposed to be gradually increased to provide an incentive to travel in the off-peak. Once the Off-peak fare achieves a defined proportion of the Peak '1 Zone' Fare, which is proposed at 60%, the Off-peak fare would increase in line with any increase to the Peak fare to maintain this proportion.

The proposed defined 'Peak Period' for Adults and Concession passengers is 7.00 am to 9.00 am and 3.00 pm to 6.00 pm weekdays which are the periods within which Metro experiences the highest demand as illustrated by Figure 4. It is not proposed to introduce Peak and Off-peak fares for Students due to their inelastic demand profile.

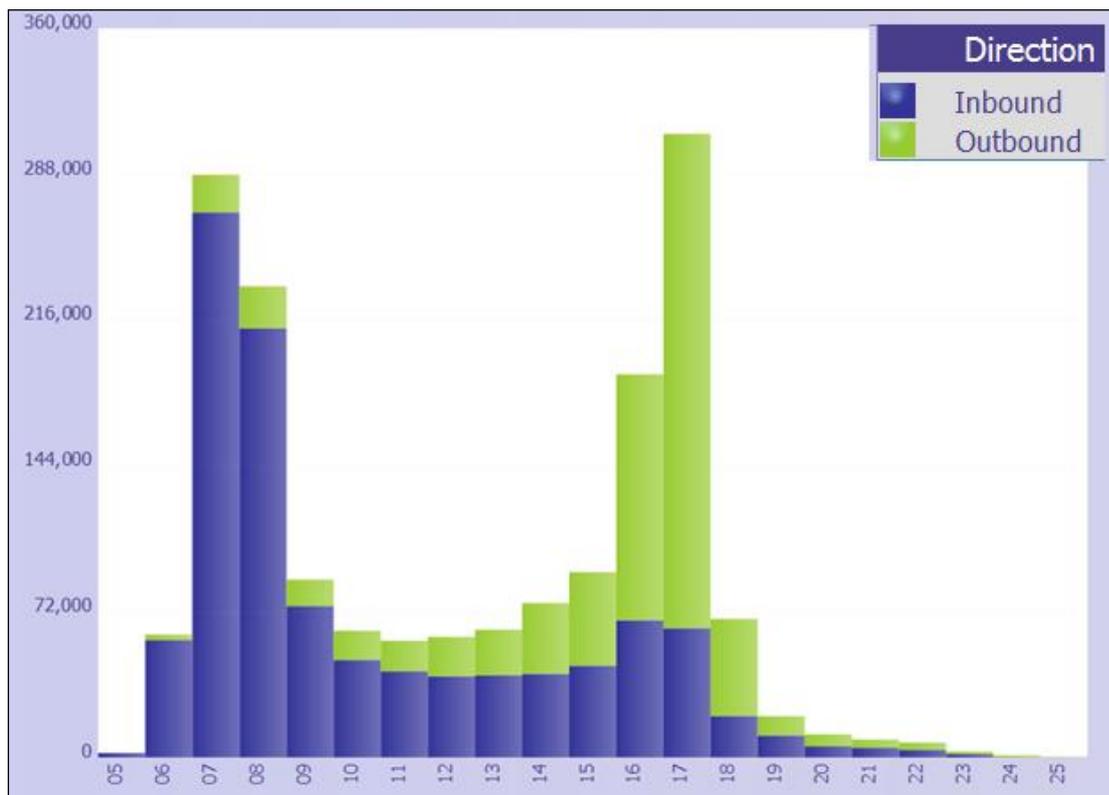
Figure 4: 2012 Boardings by Hour of the Day showing proposed 'Peak Period'



7.6.2 Passenger Impact

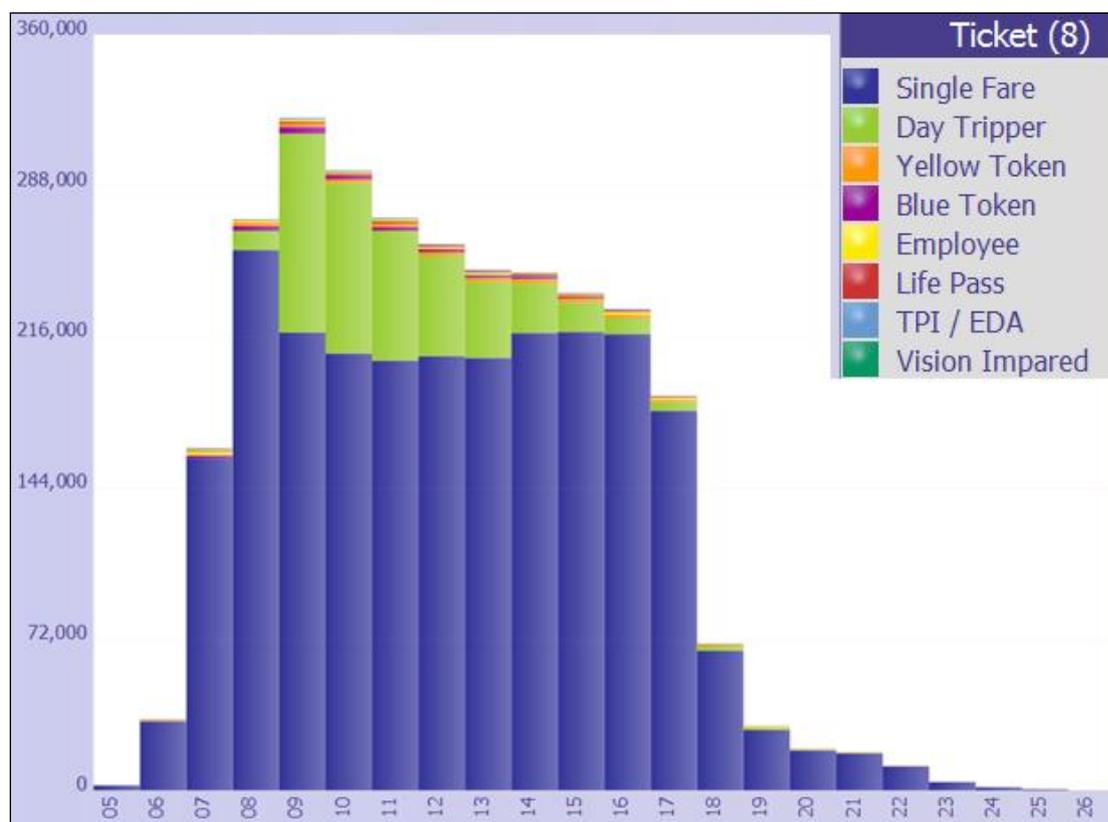
The intention is to smooth the peak to reduce Metro's need for capital and to allocate available resources more efficiently. While Adults are less price sensitive and often are unable to travel in the off-peak due to rigid work times, others that have more flexibility may defer their travel to the off-peak if there is enough price incentive. Such a discount may take some years to achieve as peak fares are gradually increased, therefore there is not anticipated to be a significant impact on the travel behaviour of Adults in the immediate term. Figure 5 illustrates the daily travel profile of Adults.

Figure 5: 2012 Full-fare Adult Boardings by Hour of the Day



Concession patronage is already fairly even throughout the day as shown in Figure 6. The Day Tripper off-peak cash day-pass ticket currently drives demand after 9.00 am which indicates that discounted off-peak fares are effective in deferring Concession travel to outside of peak periods. Day Tripper tickets would be withdrawn with the introduction of single off-peak fares (discussed in section 7.9), and Figure 6 illustrates that when Day Tripper passengers are disregarded, peak periods for Concession passengers are 8.00 am to 9.00 am and 2.00 pm to 5.00 pm. Therefore while the introduction of Peak and Off-peak single fares will not have a material impact on Concession travel behaviour, the proposed structure should result in a better 'spread' of patronage throughout the day.

Figure 6: 2012 Adult Concession Boardings by Hour of the Day



7.6.3 Revenue Impact

Concession passengers travelling more than one zone during the Peak Period would see fares increase but would have the option of travelling in the off-peak to avoid the fare increase as well as to travel unlimited zones. Any impact is likely to be positive due to the pegging of the current fare for off-peak travel and gradually increasing fares for peak travel.

7.7 Introduction of Weekly and Monthly Passes

7.7.1 Proposal

A pass ticket involves the pre-payment of an access fee that entitles the purchaser to unlimited travel within a set time period (e.g. week or month). Pass tickets may restrict the user to off-peak travel only ('Off-peak Pass'), or permit travel at any time of day ('Anytime Pass'). Both types of passes may be offered with differential pricing. The benefit of offering both is that Off-peak Pass users will defer their travel to the off-peak if they are able (usually Concession passengers), while Anytime Pass users will pay close to the equivalent full price for peak travel (based on two trips per day) while also being encouraged to use services at other times (as these are perceived as being free). GPOC has noted that the use of passes would stabilise peak hour travel for Adult commuters (as they are 'committed' to Metro) as well as increase off-peak use.

Metro therefore proposes to introduce an 'Anytime Weekly Pass' and an 'Anytime Monthly Pass' for each passenger type (Adult, Concession and Student). The Adult and Concession Anytime passes would each have '1 Zone', '2 Zones' and 'All Zones' options, with Student Anytime passes being for 'All Zones'. An 'Off-peak Weekly Pass' and an 'Off-peak Monthly Pass' for Adult and Concession passengers for travel outside the Peak Period would also be introduced, with these passes being for 'All Zones'.

7.7.2 Passenger Impact

As passes would be an additional ticket option being offered to passengers, they can either 'take it or leave it'. It would be expected that passengers would purchase a pass if they see a financial benefit. These passengers are likely to include Adult commuters (Anytime Passes), regular Concession passengers (Off-peak Passes) and Students (Anytime Passes). As GPOC has noted, offering the Off-peak Pass option to Adults as well as Concession passengers may encourage them to switch their travel to the off-peak if they are able.

7.7.3 Revenue Impact

The impact on revenue is again ambiguous, as while passes are likely to encourage additional passengers and therefore revenue, the sales of full single fares is likely to decrease as passengers switch to the new discounted ticket offering. However, GPOC and the FSR consider that there is merit in introducing tickets that encourage off-peak travel such as passes and off-peak flat fares, noting that offering these at a discount to the single fare would also promote and reward loyalty by these customers.

7.8 Modification of the Greencard Daily Cap

7.8.1 Proposal

A cap is slightly different from a pass in that it is not pre-paid travel until the cap has been reached. Priced effectively, off-peak caps can encourage off-peak travel in a similar way as an Off-peak Pass. However, under the current Greencard Daily Cap structure there is no disincentive to travel in the afternoon peak, even if the Off-peak Cap is being applied. In other jurisdictions, a peak cap 'takes over' from the off-peak cap as soon as a boarding is made during designated peak times (morning and afternoon), rather than being dependent on when the first boarding of the day is made (as per the current Greencard Daily Cap structure). Therefore Metro proposes to redefine the Greencard Daily Cap so that the Off-peak Cap applies unless a boarding is made during the Peak Period, in which case the Peak Cap would apply.

The current Daily Cap is a 'flat' cap, in that passengers travelling short distances have the same cap applied as those travelling longer distances. To be consistent with the 'pay for

distance' principle of peak single fares and passes, and with the proposed introduction of distance-based peak fares for Concession passengers, it is proposed to segregate the Adult and Concession Daily Peak Caps into '1 Zone', '2 Zones' and 'All Zones' caps. The '1 Zone' cap would apply unless a passenger journeys into another zone, in which case the application of the '2 Zones' cap would be triggered (and likewise for the 'All Zones' cap).

It currently takes five journeys before the Student Peak Daily Cap takes effect which clearly serves little purpose. Due to their inelastic demand profile and to further simplify the fare structure, it is proposed to replace the Student Peak and Off-peak Daily Caps with one 'Anytime' Daily Cap.

7.8.2 Passenger Impact

With the Peak Daily Cap to be applied if a boarding is made in either the morning or afternoon peak, there is added incentive for passengers to defer their travel to the off-peak where possible. It currently takes five Adult Short journeys until the current Peak Daily Cap is reached, which is rarely likely to occur. With the proposed differential pricing of Peak Daily Caps depending on the distance travelled, shorter distance Adult passengers will reach the new Peak Daily Cap with three peak journeys, which would be the equivalent scenario for Adults travelling longer distances. Concession passengers would continue to reach the Peak Daily Cap on their third peak journey.

The vast majority of Students necessarily travel during the peak and therefore the current segregation of the Daily Cap into Peak and Off-peak has little impact on travel behaviour. Consequently implementing one Daily Cap for Students is not anticipated to have a material impact on patronage levels, particularly as the current Peak Daily Cap is too high to serve any purpose.

7.8.3 Revenue Impact

While the Peak Daily Cap for '1 Zone' Adult passengers would be less than the current flat Peak Daily Cap, the 'All Zones' cap would be more. With the '2 Zones' Peak Daily Cap proposed to be equivalent to the current cap, there is not expected to be a significant impact on revenue. Other proposed changes to the operation of the Greencard Daily Cap should likewise not materially impact revenue.

7.9 Cessation of Cash Day Tickets and Transfers on Cash Tickets

7.9.1 Proposal

It is proposed to restrict cash fares to being single-trip tickets only. That is, the off-peak Day Rover and Day Tripper cash tickets would be discontinued, and passengers would no longer be able to transfer within ninety minutes for free using a cash (paper) ticket. Passengers who use a Greencard would still be able to transfer within the ninety minutes for free.

The verification of paper ticket transfers is continually identified by bus operators as being problematic and time consuming, and instances of fraud have also been detected. Their withdrawal would minimise ticket fraud, improve data integrity and value, speed up journey times and reduce cash handling.

Metro would offer free Greencards for a period of time leading up to the implementation of the removal of the paper ticket products so as to provide the opportunity for passengers to continue to be able to transfer for free as well as enjoy unlimited daily travel for a capped price. The free Greencard campaign would also involve a comprehensive customer communications exercise to inform passengers of the changes.

7.9.2 Passenger Impact

Only 4% of Adult boardings use a Day Rover so little impact is expected from their withdrawal. Day Trippers account for around 18% of Concession first boardings and the introduction of a discounted off-peak flat single fare as well as Weekly and Monthly Passes, on top of the Off-Peak Greencard Daily Cap, would provide ample opportunity for passengers to continue to enjoy fare discounts for off-peak travel. In terms of discontinuing free transfers for cash tickets, all passengers would still have the option of transferring for free by using a Greencard, and have an opportunity to obtain a Greencard free of charge.

7.9.3 Revenue Impact

While the withdrawal of Day Rovers is anticipated to have negligible revenue impact due to their relatively low use, the potential impact of the cessation of Day Trippers is less clear. With the introduction of alternative off-peak fare options, however, it would be expected that the overall impact would not be significant as Concession passengers find a ticket substitute that best suits their travel patterns.

In terms of transfers, while there would be some positive revenue impact from passengers choosing to pay two single cash fares instead of opting to receive a free transfer by using Greencard, this would be offset somewhat by the impact of more passengers using Greencards which provide discounted single fares.

7.10 Setting of Adult Peak Cash Fares for Cost Recovery

7.10.1 Proposal

GPOC recommended that Adult distance-based peak fares should be priced to recover the costs of providing those services, while off-peak fares and passes should be discounted to incentivise off-peak travel and reward loyalty. The Adult fares for achieving cost recovery for peak period services as recommended in GPOC's 2009 Report were adopted by the Government and prescribed in the 2009 pricing Order as the maximum allowable Adult fares over a five year period, expiring in September 2014.

As Metro has consistently priced Adult fares below the maximum allowable in recent years, the FSR asserted that Metro appears to be making fare decisions which fail to maximise revenue and suggests that charging appropriate fares for high cost peak services is reasonable given that there is little to no spare capacity at these times.

Metro's proposed response is to set Adult Peak Cash fares at the level that the Regulator determines is the amount necessary for recovering the cost of providing peak services. The equivalent Greencard fare would be increased more moderately to be in line with other jurisdictions where cash fares significantly exceed equivalent smartcard fares (e.g. London's Zone 1-2 peak cash fare is £4.50 whereas the equivalent Oystercard fare is £2.80).

7.10.2 Passenger Impact

Increasing Adult peak cash fares to achieve cost recovery could potentially have an adverse impact on patronage. However, any reduction in patronage would be expected to be slight as it would be more likely for Adult peak passengers (usually regular commuters) to obtain a Greencard rather than to choose to discontinue using Metro in order to avoid paying the cash fare, particularly with the added incentive that Weekly and Monthly Passes would provide.

7.10.3 Revenue Impact

Pricing Adult peak cash fares at an independently calculated cost of recovery would be justifiable from a commercial perspective. Offering a greater discount for Greencard users is also economically valid as it reflects the benefits to Metro that Greencard provides, such as reduced travel times, streamlined fare revenue management, improved customer loyalty and rich data for improved analysis, reporting and planning. Fare revenue would be expected to be positively impacted as the increase in price for peak travel should offset any reduction in patronage. While many Adult commuters would be expected to obtain a Greencard in order to pay a discounted fare, because the Greencard fare for peak travel is not proposed to be reduced there should not be a material adverse impact on revenue.

7.11 Fare Pricing

7.11.1 Target Fare Structure and Pricing Principles

The proposed target fare structure and pricing principles are summarised in Table 16. These are based on GPOC's recommendations except for the pricing of Weekly Passes. Pricing Weekly Passes at eight times the Cash Single fare as GPOC recommended would result in Weekly Passes being more expensive for a passenger who uses a Greencard to pay for travel ten times in a week – there is a 20% discount applied to fares paid using a Greencard. Therefore it is proposed to price Weekly Passes at nine times the Single Greencard fare to provide adequate incentive. All fares are proposed to be rounded to ten

cents for simplicity and ease of interpretation.

Table 16: Target Fare Structure and Pricing Principles

	Period	No. of Zones	Cash		Greencard		
			Single	Single ¹	Daily Cap	Pass ²	
						Weekly	Monthly
Adult	Peak ³	1	Cost Recovery	70% of Cash	1.8 x Cash Single	9 x Greencard Single	4 x Weekly Pass
		2	1.7 x 1 Zone				
		All	2.2 x 1 Zone				
	Off-peak ⁴	All	60% of Adult Peak 1 Zone				
Concession	Peak ³	1	50% of Adult		1.8 x Cash Single	9 x Greencard Single	4 x Weekly Pass
		2					
		All					
	Off-peak ⁴	All					
Student	Anytime	All	50% of Adult Peak 1 Zone				

¹Permits free transfers within 90 minutes of Greencard boarding.

²Permits unlimited travel within adjacent zones.

³Applies if boarding 7-9am or 3-6pm weekdays.

⁴Applies if boarding at times outside 7-9am and 3-6pm weekdays.

7.11.2 Transitional Pricing

To avoid price shocks for any particular passenger group, it is proposed to phase in the pricing principles over a number of years, with some fares being pegged where necessary until they align with the pricing principles.

Ultimately the pricing for each fare category, and the transitional path to achieve the target pricing principles, will depend on the Adult Single fares that the Regulator determines would be required to deliver full cost recovery for peak period services (i.e. the average cost of providing the service, less any subsidies that reflect the wider benefits of passenger transport). It is proposed that these fares would be set as the Adult Peak Cash fares, with other fares being calculated in line with the target pricing principles where this does not generate a significant price increase. In these instances, intermediary prices would apply to steadily transition fares from the current fare structure to the new one.

The proposed fares for the first year are provided in Table 17. This is based on the assumption that the Adult Single fares required to deliver full cost recovery for peak period services is \$3.30 for 1 Zone, \$5.00 for 2 Zones and \$7.50 for All Zones. These prices were the amounts recommended by GPOC for the fifth and final year of the current regulatory period for Short, Medium and Long trips respectively. Any variance between this

assumption and the Year 1 cost recovery fares under a zonal-based structure as determined by the Regulator’s current investigation would have an impact on the proposed fares.

Table 17: Proposed Fare Structure and Pricing (first year)

			<i>Cash</i>	<i>Greencard</i>				
	Period	No. of Zones	Single	Single ¹	Daily Cap		Pass ²	
							Weekly	Monthly
Adult	Peak ³	1	3.30	2.40	5.90	Anytime	21.60	86.40
		2	5.00	3.50	9.00		31.50	126.00
		All	7.30	5.10	13.10		45.90	183.60
	Off-peak ⁴	All	3.00	2.40	5.40		21.60	86.40
Concession	Peak ³	1	1.90	1.50	3.40	Anytime	13.50	54.00
		2	2.00	1.60	3.60		14.40	57.60
		All	2.10	1.70	3.80		15.30	61.20
	Off-peak ⁴	All	1.90	1.50	3.40		13.50	54.00
Student	Anytime	All	1.40	1.10	2.90		9.90	39.60

¹Permits free transfers within 90 minutes of Greencard boarding.

²Permits unlimited travel within adjacent zones.

³Applies if boarding 7-9am or 3-6pm weekdays.

⁴Applies if boarding at times outside 7-9am and 3-6pm weekdays.

Adult Fares

The Peak ‘1 Zone’ Cash fare has been set at the GPOC recommended Band 1 price for cost recovery for peak period services in the final year of the current regulatory period. Applying the GPOC recommended 1.7 multiple for 2 Zones would exceed GPOC’s recommended cost recovery amount for Medium trips, and therefore the cost recovery amount is proposed. GPOC’s recommended 2.2 multiple for All Zones has been applied as it does not exceed the cost recovery amount for Long trips. The Off-peak ‘All Zones’ Cash fare has been pegged at the current Short Cash fare.

In setting Peak Greencard fares, the target pricing policy of a 30% discount to the Cash fare for Greencard users is proposed except for the ‘1 Zone’ fare which would be pegged at the current Short Greencard fare. While applying the target pricing policy factors of 1.7 and 2.2 for multiple zone travel remains the long term objective, their application in the first year would result in a 21% fare increase for Medium/‘2 Zones’ passengers (assuming the Short/‘1 Zone’ fare remains unchanged). The Off-peak ‘All Zones’ Greencard fare has been pegged at the current Short Greencard fare.

Prices for the Daily Caps, Weekly Passes and Monthly Passes are in line with the target pricing principles as these would not result in any price shocks.

Concession Fares

The Peak '1 Zone' and Off-peak 'All Zone' fares for both Cash and Greencard are recommended to be pegged at the current 'All Sections' fare (although rounded to 10 cents) until they equate to 50% of the equivalent Adult fare. As implementing price-differentiation for Concession passengers is somewhat restricted in the short term due to the terms of the NSC, minimal increases are proposed for the Peak '2 Zones' Cash fare (10 cents) and Peak 'All Zones' Cash fare (20 cents).

To maintain a consistent Greencard discount for Concession passengers, it is recommended to maintain the same discount as the pegged '1 Zone' fare of 20% across all Concession zone categories in the short term. Further, as Concession Cash fares cannot be increased by the same degree as Adult Cash fares, a move to a 30% Greencard discount in line with the target pricing principles is not achievable for Concession passengers at this stage.

Prices for the Daily Caps, Weekly Passes and Monthly Passes are in line with the target pricing principles as these would not result in any price shocks.

Student Fares

As re-establishing clear relativities between Student and Adult fare categories is somewhat restricted in the short term due to the terms of the NSC, a minimal increase to the Cash fare of 10 cents is proposed. As per Concession fares, the 20% Greencard discount should be retained for now.

It is recommended to peg the 'Anytime' Daily Cap for Students at the Current Off-Peak Daily Cap of \$2.90 until it equates to a 1.8 multiple of the Single Cash fare in line with GPOC's recommendations.

Prices for the Weekly and Monthly Passes are in line with the target pricing principles as these would not result in any price shocks.

7.12 Summary

Metro's urban fare structure is relatively complex, somewhat inequitable and is in part a legacy of a retired ticketing system. GPOC and the FSR have both made a number of recommendations regarding potential ticketing products as well as principles for pricing fares. Metro proposes a restructure of urban fares in line with these recommendations.

This would entail:

- Introduction of zonal-based fares;
- Introduction of distance-based concession fares;

-
- Differentiation of the urban student flat fare;
 - Introduction of peak and off-peak fares;
 - Introduction of weekly and monthly passes;
 - Modification of the Greencard Daily Cap;
 - Cessation of cash day tickets and cash ticket transfers; and
 - Setting of adult peak cash fares for cost recovery.

APPENDIX A

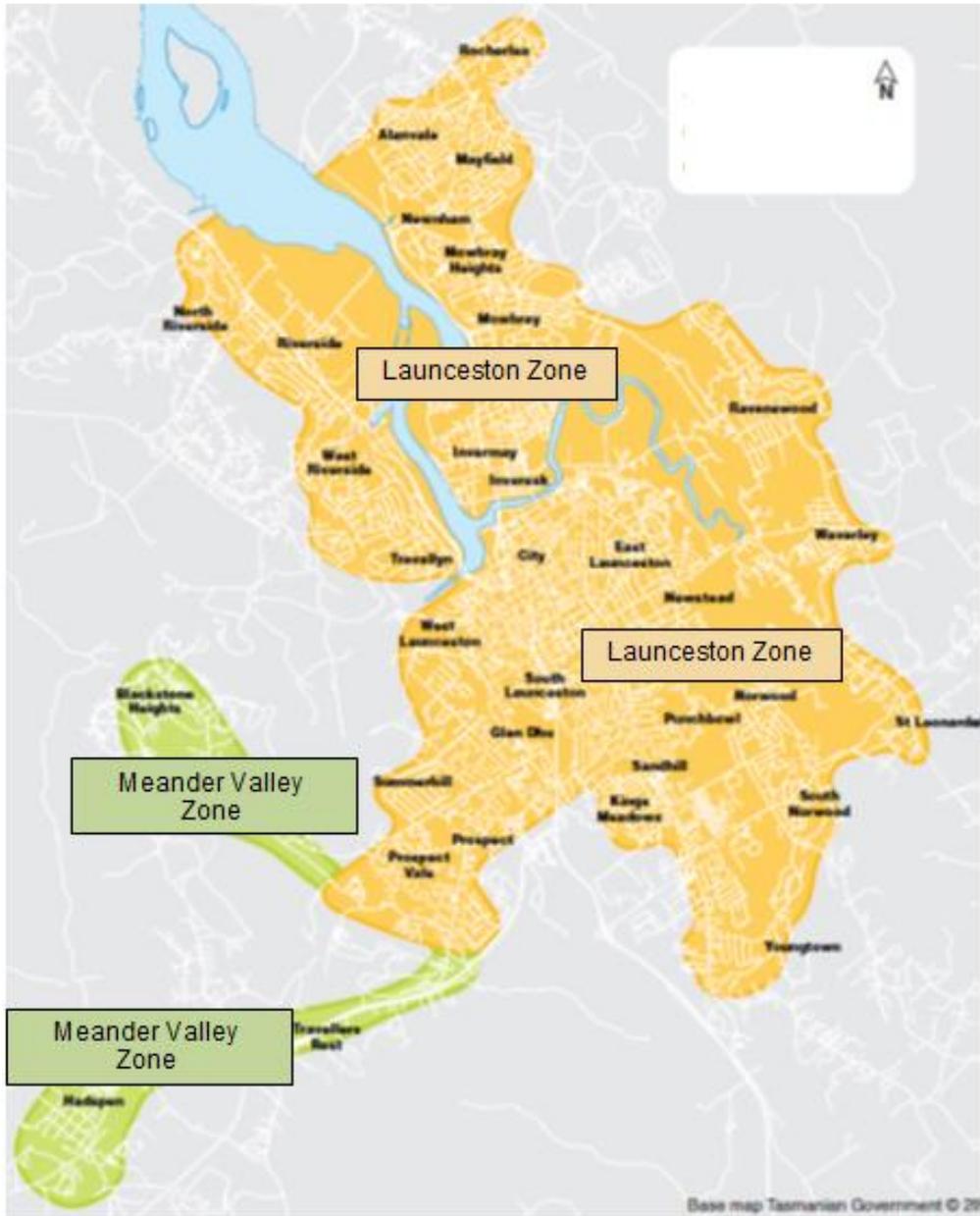
Proposed Hobart Zone Boundaries



APPENDIX B

Proposed Launceston and Burnie Zone Boundaries

Launceston



Burnie

