IPART Issues Paper: Maximum Opal Fares until July 2028

Thank for the opportunity to comment on the Issues Paper. I have comments about aspects of the paper and the existing Opal fare structure, with suggestions to improve the current arrangements.

Comments on the Issues Paper

Encouraging the most efficient use of public transport

The Issues Paper states that IPART wants fares to promote efficient use of the public transport network. How this goal is accomplished is not explained in detail, but the paper suggests that differential fare levels based on mode will "provide signals to passengers that assist in selecting suitable travel options". In other words, lower fares should apply to the most efficient modes and higher fares to the less efficient modes. There is presumably an assumption that changes in demand as a result of these price signals will lead to shifts in the allocation of resources between modes of public transport, as underutilised capacity on a train or ferry for example will not of itself increase efficiency unless the service is reduced or discontinued.

I have a concern that this is a more theoretical than realistic approach to increasing efficiency. There are a number of reasons why it is not appropriate to apply the methodology to public transport:

1. Decisions on which mode should operate where (and at what frequency or the span of service etc) are made by the NSW Government, with advice from Transport for NSW. Those decisions are hard to reverse, regardless of changes in demand over time. There is strong resistance from constituents if a rail service is terminated or a ferry wharf is closed, and such closures, or even service reductions, very rarely occur. In addition, the cost of changing an existing transport corridor, especially a rail line, can be prohibitively expensive.
2. Even if the provision of public transport services was highly responsive to demand fluctuations, it is incorrect to assume that the appropriateness of individual investments can be inferred from the *average efficiency* of a mode. Transport planning is more complicated than that because each corridor has unique features. Construction costs, environmental issues, geography, social and economic impacts and many other issues which relate to the particular location need to be considered. One transport technology could be more suitable (efficient) for one corridor, but not for another. As an example, ferry fares in the past have been set at higher levels than bus fares on the basis of average "socially optimal costs". This means the fare for the 30 minute bus journey from Balmain East to Sydney CBD in the AM and PM peaks is $3.20, while the fare for a six minute ferry ride to Barangaroo from Balmain East is $6.79. The cost per passenger km of the bus service in this case, on a "socially optimised" cost basis, is higher than the ferry so passengers are actually given the wrong price signal!
3. Passengers do not necessarily have a choice between multiple modes. In most cases there is (at best) only one practical option available to reach their destination and that single option may unavoidably include intramodal transfers (eg feeder bus to train station). In these cases, passengers do not have a genuine choice of modes.

4. The true external costs and benefits include a number of things which are either unknown, unmeasurable or unpredictable. It is wrong to assume that the sum of the things which are readily measurable is a good proxy for all externalities.

These flaws in the proposed approach suggest that mode differentiation in pricing may unnecessarily complicate the Opal fare structure and can lead to perverse pricing in individual situations. This in turn may discourage use of public transport as a whole. In many cities around the world, including Zurich, Munich, Singapore and Brisbane, fares are based on a zone or distance based model without any modal differentiation.

Fare subsidisation for long distance journeys

NSW is an outlier among world transport jurisdictions in the extent that it subsidises long distance public transport journeys. For example, an off peak fare for the nearly three hour train ride from Newcastle to Central is $6.89, just 10 cents more than a six minute (one kilometre) ferry ride from Balmain East to Barangaroo, or Milsons Point to Circular Quay. This suggests that the algorithm does not accurately estimate the costs of long distance journeys.

Friday to Sunday daily cap discounts

Week-end daily cap discounts distort passenger behaviour in relation to ferries, making it difficult to meet demand, especially on the Parramatta River where passengers who have a compelling need to travel may be unable to do so, due to vessels reaching capacity. Excluding ferries from these discounted caps could reduce the excess demand.

Intermodal transfers

While intramodal transfers do not attract a fare penalty, passengers do have to pay more if it is necessary for them to transfer *between modes*. This was partly compensated by the introduction of an Opal Transfer Discount of $2.00 in 2016, but the discount has not kept pace with subsequent fare rises, especially peak bus fares. As an example, a passenger travelling from home near Gladstone Park Balmain to work at Barangaroo currently pays a total of $7.99 for the combination of a bus ride to Balmain East Wharf and the six minute ferry ride to Barangaroo, an extra $1.20 on top of the ferry fare.

There is a wide acceptance in the transport planning community that intermodal transfers are a necessary, albeit inconvenient part of an efficient, integrated public transport network. Well designed networks have hierarchies where feeder services delivered by one mode link at hubs with larger capacity modes (usually trains, but may also be ferries in the case of Sydney). Fare structures should not penalise passengers for the inconvenience of having to transfer between modes.

Costs of providing public transport services

In previous IPART reviews, depreciation costs arising from infrastructure investments were not included when estimating the cost of providing public transport services. These costs may vary significantly between modes and omitting them may distort efficiency estimates.

Recommended changes to Opal fares

In line with the issues raised above, the following changes to Opal fares are recommended:

1. Reduce the differential between fares applying to ferries and other modes in order to reduce anomalous overpricing of short distance ferry journeys, which lead to underutilisation of ferry capacity. It may not be necessary for the fares to be equal. For example ferry fares for distances of between 0-8 km could be set at the equivalent peak bus fare for distances of 3-8 km.
2. In view of the large number of leisure ferry passengers, no off-peak fares should be offered for ferry passengers. It may also be desirable to exclude ferries from the daily cap discounts that apply on Friday, Saturday and Sunday. The regular Monday to Thursday daily cap should apply seven days a week where the journey includes a ferry ride.
3. Where a passenger transfers between modes, they should only pay the fare applicable to the mode with the highest fare level. For example, a passenger transferring from a 3 km feeder bus to a 5 km ferry ride would pay the equivalent of the ferry ride only.

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