NATROAD

NATIONAL ROAD TRANSPORT ASSOCIATION

Submission to the Senate Economic References Committee Inquiry

Operations of existing and proposed toll roads in Australia

14 July 2017

Introduction

1. The National Road Transport Association (NatRoad) is pleased to make a submission to the Senate Economics References Committee inquiry on the operations of existing and proposed toll roads in Australia.

2. NatRoad is Australia's largest national representative road freight transport operators' association. NatRoad represents road freight operators, from owner-drivers to large fleet operators, general freight, road trains, livestock, tippers, express car carriers, as well as tankers and refrigerated freight operators.

3. NatRoad members have raised a number of concerns relating to operation of toll roads which are outlined in this submission. These issues relate to:

   - the lack of transparency and fairness in setting toll fees for heavy vehicles
   - the inconsistent use of tolling methods across the road network
   - the lack of competition in private toll road operation
   - governments forcing heavy vehicles to use tolled roads by banning them from alternative routes, and
   - heavy vehicle operators paying for road network improvements through increases in tolls without experiencing the promised efficiencies.

Current tolling arrangements

4. Toll charges and the rates of toll increases are set under a concession deed negotiated between the state government and private companies at the initial contract stage of a project. Each toll road is subject to separate commercial arrangements and has its own concession deed, the terms of which (including pricing) are determined on the basis of the particular features of that project, and independently of any other toll road.

5. However, it is currently difficult to find publically available information on how tolling arrangements are initiated, entered into and varied over time, including the extent to which the unsolicited proposal process is used by private tolling operators.

6. Governments use three key financial levers – concession length, initial toll prices and the toll price escalation schedule. Beyond these private funding sources, governments would have to consider reducing the cost of the project through agreeing a reduced scope or an increased government financial contribution.

7. In deciding the commercial arrangements, NatRoad understands that governments need to consider a range of factors including:

   - the value the project delivers for the community
   - complexity of the project, for example tunnel projects require more capital expenditure than open road projects
   - the project design and associated delivery costs
   - operation and maintenance costs, and
   - forecast levels of traffic.

8. Transurban has ownership of 13 out of 15 toll roads across Melbourne, Sydney and Brisbane. Transurban's current projects are:

   - Melbourne: the CityLink Tulla Widening and West Gate Tunnel Projects
   - Sydney: NorthConnex

- Brisbane: the Logan Enhancement Project, Gateway Motorway and Inner City Bypass upgrades.

9. NatRoad is concerned at the dominance of Transurban in operating Australia's toll roads and their consequential market power.[1]

Setting tolls for heavy vehicles

10. In April 2017 Transurban increased the toll for heavy vehicles using CityLink in Melbourne by up to 125 per cent to fund the CityLink-Tullamarine widening project not due for completion until 2018. In comparison, tolls for light vehicles were increased by only 5 per cent.

11. There has been no transparency surrounding the cost recovery required for the CityLink-Tullamarine upgrade. There has also been little justification from Transurban or the Victorian Government for such a large increase for heavy vehicles other than stating the rates were being brought into line with other states and territories.

12. Transurban also announced toll increases on an existing tolled road in Brisbane to fund upgrades to the un-tolled Inner City Bypass.

13. In both these cases, heavy vehicle operators are paying for road network improvements without experiencing the promised efficiencies. NatRoad members have noted that speeds on CityLink have diminished over time and the current roadworks have further reduced traffic flow and road amenity leading to higher operational costs.

14. It is also difficult for heavy vehicle operators to recover the costs associated with large toll increases. A NatRoad member who is an owner driver made the following comment:

    In one example where we don't have a choice but to travel on a toll road in a heavy vehicle to access our destination, tolls for our trip in December 2016 were $23.40. They are now $58.08. This expense has risen from 2.5% to 6% of the income on this trip.

15. In its submission to the NSW Inquiry into Road Tolling, Transurban claims that it has 'no pricing power' and that beyond the initial agreement there is no pricing flexibility in the concession.[2] NatRoad is not convinced by this statement given recent toll increases. It appears concessions are easily renegotiated.

16. Transurban applies a 'large vehicle multiplier' of two to three times the car toll depending on the road asset, stating that the higher toll for heavy vehicles reflects the greater value they derive from the time savings provided by the tolled network. Transurban further states that:[3]

    The higher tolls for large vehicles also reflect the greater impact they have on the road infrastructure. However, the current tolls charged for large vehicles do not accurately reflect these costs. The wear-and-tear to road infrastructure caused by one articulated truck has been estimated to equal that of 6,000 cars.

    Finally, the road design also incorporates special features, such as suitable pavement depth and grades, tunnel ventilation and break-down bays, to accommodate these vehicles, which increases the overall project cost. Large vehicles also occupy a greater proportion of road capacity. There are significant additional costs incurred in the design of tunnel infrastructure that is specifically derived

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[1] Article by Royce Millar and Ben Schneider on Transurban published in The Age 14 May 2016: http://www.theage.com.au/victoria/transurban-the-making-of-a-monster-20160512-gotjm9.html
[2] https://www.parliament.nsw.gov.au/committees/DBAssets/InquirySubmission/Body/57330/0100%20Transurban.pdf
[3] Transurban submission, p.30

from the freight industry. For instance, more gradual inclines are required for trucks, which lengthens the required amount of tunnelling, and this is demonstrated in the design of the NorthConnex tunnel. For the M7, a continuously reinforced concrete pavement was constructed at significant cost.

17. NatRoad submits there is presently no reliable information which identifies the damage caused to roads by heavy vehicles compared with cars. Similarly, there is insufficient information on the costs of associated repairs which links these factors to the toll charges set for heavy vehicles. Further, the Transurban submission fails to acknowledge that heavy vehicles already pay additional fuel taxes and three to 11 times more in registration charges than cars depending on the weight of the heavy vehicle.

18. NatRoad is also concerned that delays on toll roads caused by congestion and roadworks do not result in discounted toll fees despite drivers not receiving the benefit they have paid for. In fact, Transurban increased tolls for heavy vehicles using the CityLink in Melbourne to fund widening the road well in advance of the project completion date in 2018.

19. Additionally, there are inequities inherent in the inconsistent use of tolling methods across the network which see motorists paying distance based levies in some cases or fixed prices in others.

Increasing toll charges

20. Tolls in Sydney (with the exception of the Sydney Harbour Bridge and Tunnel owned by the NSW government), are adjusted each quarter in the following manner, in accordance with the terms of the particular concession agreements:
    - The M7 toll is escalated or de-escalated by quarterly CPI
    - The M2 toll is escalated by the greater of the quarterly CPI or one per cent
    - The Eastern Distributor toll is escalated by the greater of a weighted sum of quarterly average weekly earnings and quarterly CPI or one per cent
    - The Lane Cove Tunnel is escalated by quarterly CPI for cars and the toll cannot be lowered as a result of deflation, however, until inflation counteracts the deflation the toll cannot be increased; escalated quarterly by the greater of CPI or one per cent for trucks
    - The M5 toll is escalated by quarterly CPI – the toll cannot be lowered as a result of deflation, however, until inflation counteracts the deflation the toll cannot be increased
    - The Cross City Tunnel was escalated four per cent annually to June 2012 and escalated three per cent annually to June 2018 and thereafter by quarterly CPI until the end of the concession period in 2035.

21. Given that the CPI increase in the December 2016 to March 2017 quarter was 0.5 per cent, the toll charges on some of Sydney's roads such as the M2 are able to increase at double the rate of inflation. But tolls on the M7, for instance, will rise at a slower pace because the concession agreement allows them to increase only at the rate of inflation.

22. There is no published methodology or information which explains why toll increases are necessary on a quarterly basis, why some increases above the rate of inflation are justified, nor why the rates at which tolls increase differ across the various concession agreements.

23. In relation to toll increases, Transurban notes that:[4]

[4] Transurban submission, p.31

Increasing tolls at a rate that is comparable to the rate at which users' wages and willingness to pay increases means that lower tolls can be charged in the early years of a concession. Traffic volumes are still ramping up and the travel time savings are not as large as in later years when population and employment growth lead to increased congestion and larger time savings for motorist using the motorway than the untolled alternative route.

If tolls were escalated at a lower rate, there would be a funding gap that would either need to be made up through government contributions, longer concessions or higher initial tolls. Higher initial tolls may not be fair to users of the motorway in the early years of a concession because they would be getting lower travel times savings and have less ability to pay the higher tolls than motorists using the road later in its life.

24. These statements do not account for the fact that, as the population grows and urban density increases, so does the traffic on toll roads and consequently travel time savings may decrease.

Changes to concession terms for network upgrades

25. Transurban negotiates network enhancements with the relevant state governments through adjustments to tolling levels and extensions to concession agreements. A combination of funding sources was negotiated to widen the Hills M2 Motorway, including a one-off toll increase of around eight per cent upon completion of the project, and extending the concession period by four years.

26. The $400 million project to widen the M5 West Motorway included a concession extension of an additional 3.3 years to 2026, and increasing the truck toll multiplier from 2.2 times to 3 times incrementally over two years. There was no change to the toll charge for cars.

27. NatRoad is concerned that locking in toll contracts over long periods makes it more difficult to introduce broad, coherent road pricing reforms under which motorists are equitably charged to use all roads.

Forcing heavy vehicles to use toll roads

28. NatRoad members have raised concerns about governments banning heavy vehicles from using alternative routes thus forcing them to pay toll fees.

29. For example, the Victorian government has announced that trucks will be banned from detouring through main suburban streets in Yarraville and Footscray in Melbourne once the Western Distributor project is completed in 2022. Trucks will instead have to pay a toll to travel to the Port of Melbourne through the new West Gate Tunnel.

30. In delivering the NorthConnex project in Sydney the NSW government has promised to remove around 5000 trucks daily from Pennant Hills Road by introducing regulatory requirements to ensure heavy vehicles use the tolled tunnels if they do not have a local destination.

31. This compulsion means that heavy vehicle tolls that will be applied have the potential to adversely affect members' costs as well as taking from their operations the opportunity to re-fuel, rest or use facilities provided along the current route. It also disregards the principle that there should always be an un-tolled alternative.

32. Toll roads and fees should be designed to provide sufficient incentive for heavy vehicle operators to use the toll, and hence there should be no need for governments to impose

truck bans on alternative un-tolled routes. Governments could introduce toll reductions and multi-user discounts for heavy vehicles where further incentives to use toll roads are needed.

Conclusion and recommendations

33. NatRoad acknowledges that private sector investment in road infrastructure can help governments deliver infrastructure improvements more quickly than they otherwise could. However, roads are a connected network and what happens on one section of a road can have an impact on another. Handing over a specific section of the road network to a private tolling operator means that governments are less able to optimise the efficiency of the network as a whole. Tolling operators recognise this which puts them in a strong position to negotiate controlling more and more of our road network. In a supplementary submission to the NSW Inquiry on Road Tolling Transurban states:[5]

    Transurban and our partners have continual discussions with Government regarding roads we operate, roads that interface or connect with these roads and the broader Sydney road network, including planned future roads identified by Government. Transurban and our partners consider this an important part of our role as long term partners to Government.

    These discussions can include our consideration or contemplation of ideas to improve the operation of roads that Transurban operates as well as other areas of the Sydney road network.

34. Less congested, safer, well designed roads can equate to time savings, reliability and reduced vehicle operating costs. However, tolling charges should reflect the cost of building and maintaining the asset over its life (concession period) instead of being based on estimated time savings of drivers.

35. Tolling arrangements should not unreasonably discriminate against heavy vehicle operators. NatRoad recommends governments consult with the heavy vehicle road transport industry before making changes to tolling regimes and provide opportunities for greater public scrutiny and accountability of the negotiations that take place between governments and private tolling companies.

36. NatRoad recommends that the Australian Government introduce a national tolling policy to ensure road tolling arrangements are fair and transparent.[6] The policy should include the following principles:

    - Tolling arrangements will be subject to competitive tender processes and public consultation will occur in all cases where new tolls are considered.
    - Tolls will be applied only once a project is complete when users are able to benefit from enhanced traffic flow and safety improvements.
    - Tolls will be implemented only if a reasonable un-tolled alternative is available.

37. NatRoad recommends that an independent pricing regulator be responsible for monitoring tolling arrangements to protect the public interest against any pricing abuses, under-maintenance of assets or unfair profits at public expense. NatRoad has included this recommendation in its submission to the Department of Infrastructure and Regional

[5] See Transurban's response to supplementary questions
[6] See for example: British Columbia's Guidelines for Tolling

Development's recent discussion paper on establishing independent price regulation for heavy vehicle charges.[7]

38. We submit that an independent price regulator could provide greater accountability in relation to private toll operation and consider toll charges in conjunction with other road user charges, ultimately leading to the road pricing reforms recommended by the Harper Competition Policy Review:[8]

Governments should introduce cost-reflective road pricing with the aid of new technologies, with pricing subject to independent oversight and revenues used for road construction, maintenance and safety.

To avoid imposing higher overall charges on road users, governments should take a cross-jurisdictional approach to road pricing. Indirect charges and taxes on road users should be reduced as direct pricing is introduced. Revenue implications for different levels of government should be managed by adjusting Australian Government grants to the States and Territories.

[7] Discussion paper available at https://infrastructure.gov.au/roads/heavy/index.aspx
[8] http://competitionpolicyreview.gov.au/final-report/