

Cabinet Secretariat Reference	
Submission No.	MSSPC 31
Copy No.	

Submission to: Major and State Significant Projects Committee

Submission Title: Tolling Strategy

Portfolio/s: Road, Public Transport

SUBMISSION PROPOSAL

Recommendation:

That the Major and State Significant Projects Committee (MSSPC):

1. **Note** the progress on considering the following initial areas of investigation as agreed by MSSPC on 25 November 2013:
 - a. Differential time of day tolling.
 - b. Consistency of pricing structures between East West Link (EWL) and CityLink.
 - c. Introduction of an additional heavy vehicle class.
 - d. Differential pricing for particular ramps or sections.
 - e. Flexibility in pricing.
2. **Agree** to further investigation of the following range of tolling options for application to EWL and **approve** these range of options also being available for application to CityLink in negotiations with Transurban on Project Zebra:
 - a. Time of day tolling for private vehicles in the following multiplier ranges:
 - i. A multiplier of between 1.25 to 1.5 on daily toll levels in the AM and PM peak periods.
 - ii. Multipliers of between 1.0 to 0.9 on daily toll levels in the inter-peak and off peak periods.
 - b. Multipliers for light and heavy commercial vehicles (LCVs & HCVs) in the following ranges:
 - i. LCVs: a Daytime multiplier between 1.6 to 2 applied to car toll prices and a Night time multiplier of 1.6.
 - ii. HCVs: a Daytime multiplier of 3 applied to car toll prices and a Night time multiplier 2.
3. **Agree** to further investigation of a tolling structure to ensure an appropriate Ormond Road, Moreland Road and Elliott Avenue balance and **approve** this option being available for negotiations with Transurban.
4. **Note** the toll structure options in Recommendation 2 to be applied to EWL are broadly

consistent with the tolling assumptions for the EWL business case and it is expected that the net effect on forecast revenue of these tolling options will be positive.

5. **Note** that Project Zebra scope and financing options will be the subject of a separate submission to MSSPC and along with the tolling strategy will inform negotiations with Transurban.
6. **Note** further work is continuing on all areas for investigation and a further submission will be presented to MSSPC on refinement of options, including any impacts from the outcomes of negotiations with Transurban.

Objectives:

1. To provide a progress report on the initial areas for investigation as agreed by MSSPC in November 2013 and refine options in order to better understand and quantify ranges of impact relating to the transport network and toll revenue.
2. To seek approval to further investigate a defined range of differential time of day tolls and commercial vehicle multipliers ranges to EWL.
3. To seek to harmonise Citylink and EWL tolls and therefore seek MSSPC approval to negotiate with Transurban time of day tolling and increases to commercial vehicle multipliers on CityLink.

Key Issues:

1. At its meeting on 25 November 2013 MSSPC agreed to the following Future Tolling Principles to inform the EWL tolling strategy and setting of the toll roads for Melbourne roads:
 - a. Improve transport **outcomes** by optimising asset utilisation and balancing traffic flows across the transport network.
 - b. Maximise the **value** of toll revenue to secure the reliability, quality and saleability of the toll revenue stream, whilst ensuring that toll levels are reflective of the benefit obtained by the user and avoiding distortionary impacts.
2. MSSPC also agreed to the following initial areas for investigation:
 - a. Differential time of day tolling.
 - b. Consistency in pricing structures between EWL and CityLink.
 - c. Introduction of an additional heavy vehicle class.
 - d. Differential pricing for particular ramps or sections.
 - e. Flexibility in pricing.
3. Since that meeting, DTPLI has undertaken further analysis of the initial areas for investigation. The analysis is continuing but sufficient work has been undertaken to date to refine options on EWL and provide a guide for commencing detailed negotiations with Transurban on potential tolling changes to CityLink if required for Project Zebra. Note Project Zebra scope and financing options will be the subject of a

separate submission to MSSPC. A progress report on the initial areas for investigation is provided in this submission.

EWL business case tolling assumptions

4. The business case preferred toll structure included the following differential time of day tolls (\$2012) and commercial vehicle multipliers:

Vehicle type	AM and PM peak	Inter peak and off peak	Multipliers
Cars	\$5.50	\$4.40	
LCVs	\$8.80	\$7.04	1.6
HCVs	\$16.50	\$13.20	3.0

5. In setting the toll structure, consideration was given to the pricing and toll structures on the existing toll roads in order to provide consistency where possible in toll prices as well as to minimise unbalanced distribution of traffic volumes. A particular emphasis was placed on setting EWL toll prices at a comparable level to CityLink and in particular the impact of the CityLink trip caps. Note that the EWL business case tolling structure did not assume any changes to the existing CityLink tolling arrangement.
6. The ranges proposed in Recommendation 2 for further investigation on time of day tolling and commercial vehicle multipliers on EWL, are broadly consistent with the tolling assumptions for the EWL business case outlined above and it is expected that the net effect on forecast revenue of these tolling options will be positive.
7. The EWL business case tolling assumptions have also been assumed in the traffic forecasts for the Comprehensive Impact Statement and the further investigation of the ranges outlined in Recommendation 2 will ensure that any changes to the EWL tolling assumptions do not materially impact on traffic forecast.

Differential time of day tolling and Consistency in pricing structures between EWL and CityLink

8. Differentiation between tolls at different times of the day is a means to manage asset utilisation and balance the transport network. This tolling scenario encourages peak period users to consider travel choices, including the choice to change the time of the trip to a less busy period. Lower tolls in the non peak period can encourage greater use of the tolled road throughout the day, thereby maximising the value of the asset in the network. This scenario should provide for price equality throughout the day when considered in line with the travel time savings offered by the toll road. Toll roads typically provide greater travel time savings in the peak periods (and so can justify a premium price) compared to the less congested alternatives in the non peak periods.
9. A range of changes relative to current toll levels on CityLink have been investigated. These indicate that beneficial outcomes could be achieved by also applying time of day and increased multipliers to CityLink. Strategic transport modelling indicates that differential time of day tolling on EWL and CityLink could provide benefits associated with optimising network outcomes, improving the quality of the toll revenue stream and the ability to make positive contributions to funding transport network development and operation. However there are differences in both network outcomes and revenue stream dependent on the input factors of pricing, the vehicle

types and the mix of these vehicles within the traffic stream.

Private Vehicles

10. Private vehicles appear to be less sensitive to increased peak period tolls, with Strategic Transport Model outputs suggesting that, within reasonable bounds, private vehicles are willing to pay a higher toll in peak periods. The network impacts will vary depending on the level of the peak period multiplier. The strategic transport modelling undertaken to date indicates that a peak period toll multiplier for cars will have minimal impact on the network outcomes at a range of multipliers between 1.15 to 1.5 of current daily toll rates.
11. While the high end of the range, a 1.5 times multiplier, may appear to be high, this could be offered with a reduction in the interpeak and/or off-peak period as an appropriate trade off.
12. The range of multipliers recommended to apply to EWL and for negotiation with Transurban on CityLink is:

Time Period	AM Peak	Interpeak	PM Peak	Off Peak
Time of day multiplier to typical daily car toll prices	1.25 – 1.5	1.0 – 0.9	1.25 – 1.5	1.0 – 0.9

Light and Heavy Commercial Vehicles

13. Commercial Vehicle multipliers are a factor applied to the car toll price to calculate the commercial vehicle toll price. The multiplier is intended to reflect the additional value that commercial vehicles gain from travel time savings on toll roads and the higher impact they have on maintenance costs.
14. In order to achieve a balanced network outcome, particularly where tolled routes interconnect or compete with route alternatives, it is desirable to have similar pricing for comparable trips. This is particularly important for EWL and CityLink where there may be a significant proportion of LCV and HCV trips that have a roughly equivalent choice between the two routes for longer journeys.
15. Currently HCV multipliers on CityLink are lower than those assumed for EWL and also those currently in place for EastLink. A study of Australian toll roads also shows that CityLink HCV multipliers are generally lower than other inner city toll roads.
16. The EWL business case assumed a HCV multiplier of 3 times the car toll rate. CityLink currently has HCV multipliers of 1.9 times car tolls for a sectional toll, 1.33 times car tolls for the trip cap during the day and at night the trip cap for HCVs is the same as cars, effectively providing a small time of day incentive for night time travel. EastLink applies a 2.65 multiplier and recent changes on two toll roads in Sydney have moved to a 3 times multiplier.
17. For commercial vehicles, constant vehicle class multipliers were applied in combination with peak period multipliers. The combined effect was considered excessive and modelling was showing undesirable levels of diversion away from the toll road.

18. Commercial vehicles have a strong demand during the interpeak period and are currently tolled on a day/night basis on CityLink rather than four separate periods (with day being from 6am to 8pm). It is recommended this arrangement continues on CityLink and is also applied to EWL.
19. Analysis has been undertaken on the relative travel time savings of using CityLink and EWL and the consequential operational cost savings for HCV operators. The analysis generally shows that there is room to increase HCV tolls significantly on CityLink before the additional cost imposed outweighs the benefits derived from using the toll road.
20. In summary the below commercial vehicle multiplier ranges are proposed for application on EWL and exploration with Transurban on CityLink:

Time Period	Day	Night
LCV multiplier	1.6 – 2.0	1.6
HCV multiplier	3.0	2.0

Introduction of an additional heavy vehicle class

21. Preliminary consideration has been given to the benefits of introducing a new vehicle class for High Productivity Freight Vehicles. The use of this larger class of heavy commercial vehicle attracts greater benefits from freeway travel and also imposes an additional investment in the network and the cost to maintain it.
22. VicRoads has reviewed the progress on Commonwealth led initiatives such as the Heavy Vehicle Charging and Investment program and the Intelligent Access Program and advised that in order to not conflict with other policy developments, vehicles over 68.5 tonnes could be considered for this additional heavy vehicle toll class.
23. Further work is still required to confirm the value and validity of this additional class. This further work includes addressing toll collection technology issues and identifying the likely user base and potential growth of that user base. At present there is a small number of vehicles in this category and in the short term volumes would be low, with resultant potential revenue also low. However with future growth in the use of these high productivity freight vehicles and as regulations on their use are relaxed (including network constraints) the benefits of introducing an additional heavy vehicle class are expected to increase over time.

Differential pricing for particular ramps or sections

24. Preliminary consideration has been given to differential pricing on EWL of the Elliott Avenue and Ormond Road ramps or the tunnel exit to Hoddle Street to regulate the traffic using those ramps as compared to through journeys. The initial focus has been on EWL only.

City exit tolling

25. This option looks at charging a premium for vehicle access to the city to discourage city access by car; provide a mechanism for further network balancing; and potential for marginal increase in revenue.
26. There are technological complexities with this tolling structure as it would need to be

clear that only those movements Citybound were to be charged the premium. At Elliott Avenue and Hoddle Street this would be difficult to do with a simple gantry on the exit ramps as from these locations there are multiple destinations. However it is believed that a solution can be achieved.

27. Preliminary analysis suggests this tolling scenario would not provide a significant beneficial transport network outcome and would only result in a negligible revenue uplift for the Elliott Avenue ramps. The Hoddle Street ramps have greater potential to improve network balancing with reductions in traffic on Hoddle Street the likely outcome. Revenue uplift is expected to be minimal.

Ormond Road / Moreland Road / Elliott Avenue balance

28. The introduction of the Ormond Road exit from EWL has introduced a potential 'rat-run' movement whereby EWL traffic which would have previously exited at Moreland Road (and paid the CityLink toll) could exit at Ormond Road, avoid the CityLink toll and travel through the neighbourhood. Further investigation of a localised, comprehensive, tolling structure is required to provide a more consistent incentive structure for trips at this junction.

Flexibility in pricing

29. The reliability of the toll revenue stream is important to consider, not just the immediate quantum of tolls. One way to enhance the quality of toll revenues is to preserve some flexibility to change the tolls in the future in the event that actual traffic patterns do not match forecast traffic.
30. Whilst the CityLink Concession Deed currently has provision for alterations to CityLink itself and to the broader network, these provisions are governed by a material adverse effect provision and a compensable enhancement provision that may not be the most appropriate method to determine the effects of these types of changes. These provisions could be revisited in the context of Project Zebra to provide feedback on how they might be more appropriately managed.
31. In addition it is understood that changes to the escalation regime on CityLink tolls are being considered in relation to Project Zebra. Currently the CityLink Project Deed contains an escalation provision of the higher of CPI and 4.5 until 2015 after which escalation reverts to CPI only. The Project Zebra team is currently reviewing the revenue implications of retaining the original provision beyond 2015 to apply to CityLink that if adopted the impacts will also need to be considered in relation to EWL.

Next Steps

32. Further analysis of the initial areas of investigation is continuing, including consideration of implementation options and timing. The analysis will also need to consider the outcome of any negotiations with Transurban on potential changes to the Citylink tolling structure and the interlinkages with EWL.
33. A report back to MSSPC will be provided on the further analysis and outcomes of the negotiations with Transurban. The timing of the submission will be dependent on the timing of the Transurban negotiations which will be lead by the Department of Treasury and Finance.

Risks:

1. The EWL business case tolling assumptions have also been assumed in the traffic forecasts for the CIS. Whilst the proposed further investigation of the ranges outlined in Recommendation 2 are broadly consistent with the EWL business case tolling assumptions the further work will need to ensure that any changes to the EWL tolling assumptions do not materially impact on traffic forecasts.

Support/Criticism:

1. The decision to toll EWL has received both public support and criticism. It is expected any increases to CityLink tolls would receive some criticism.

**Terry Mulder, MP
Minister for Roads
Minister for Public Transport**

Date:

FUNDING

Financial Implication Tables

REVENUE IMPACT	Departmental Estimate				
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Revenue Impact¹					
- Taxes	0.000	0.000	0.000	0.000	0.000
- Reg. fees/charges	0.000	0.000	0.000	0.000	0.000
- other revenue ²	0.000	0.000	0.000	0.000	0.000
- other sources ³	0.000	0.000	0.000	0.000	0.000
Additional Revenue⁴	0.000	0.000	0.000	0.000	0.000

Note¹: As per 'Revenue from ordinary activities', statement of financial performance table in Budget paper No 4.
 Note²: Other revenue includes resources received free of charge, sale of goods and services and other revenue and revenue from other parties.
 Note³: Other sources include general-purpose Commonwealth grants.
 Note⁴: Additional revenue included in this table should be viewed as benefit paid to the Consolidated Fund.

APPROPRIATION IMPACT	Departmental Estimate				
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Impact on Department's operating cost	0.000	0.000	0.000	0.000	0.000
Less offsets from:	0.000	0.000	0.000	0.000	0.000
- internal reprioritisation/existing funds					
- revenue retained ⁵	0.000	0.000	0.000	0.000	0.000
Net additional appropriation required by the Department.	0.000	0.000	0.000	0.000	0.000

Note⁵: Benefit retained by Department to offset cost, as per the revenue retention agreement. This may include Commonwealth Specific Purpose Payments.

ASSET INVESTMENT	Departmental Estimate					
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	TEI \$m
Total asset cost⁶	0.000	0.000	0.000	0.000	0.000	0.000
Less: funding from other sources ⁷	0.000	0.000	0.000	0.000	0.000	0.000
Net funding to Department	0.000	0.000	0.000	0.000	0.000	0.000

Note⁶: This should only include the capital costs. The associated recurrent costs (if any) should be identified in the 'operating impact' table, where typically the recurrent costs would include, depreciation and CAC.
 Note⁷: This includes trust funds such as BRV, RIDF, CSF and asset sales.

FUNDING ALREADY IN DEPARTMENT'S BASE						
	Departmental Estimate					
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	TEI \$m
Funding already in Department's base⁸	0.000	0.000	0.000	0.000	0.000	0.000

Note⁸: Explanation to be included regarding what figures are being referred to (i.e. the amount appropriated to the output or the amount within an output associated with a specific project or program, existing TEI should be identified for asset proposals).

DTF and the Department have agreed the financial implications and costings in this submission:

Yes **No**

IMPACT ASSESSMENTS

Social Impacts:

1. Enhanced transport networks, for both private vehicles and public transport, will facilitate improved mobility and access for all.

Family Impacts:

1. The project will create benefits for families through improved access to jobs and services.

Regional and Rural Victorian Impacts:

1. The project will provide more transport options and improved access to the Port of Melbourne in support of rural and regional economies.

Economic Impacts:

1. Enhancing the transport network will assist supply chain efficiency, business to business interaction and improve the competitiveness of the Victorian Economy.
2. Improved freight network capacity and efficiency will contribute to State productivity.

Regulatory burden, offsetting reductions and evaluation strategy:

Does the submission propose an increase in regulatory burden on the business or not-for-profit sectors that is likely to be 'material' as defined in the Victorian Regulatory Change Measurement (RCM) Manual?

Yes

No

Environmental Impacts:

1. The EWL project will achieve a number of outcomes, such as smoother traffic flow, improved access to employment and housing and more efficient public transport that will create a positive environmental outcome.
2. The EWL project will be developed in a manner that seeks to minimise any potential negative environmental impacts of construction, operation and traffic use.

Charter of Human Rights and Responsibilities Impacts:

1. The process will be managed to take account of relevant obligations and ensure that any recommendations to government are consistent with relevant obligations responsibilities.