

PRODUCTIVITY COMMISSION - PROGRESS IN RAIL REFORM INQUIRY

Introduction

July 1 1996 saw the restructure of the old State Rail Authority (SRA) into four separate entities. The Transport Administration Act of 1988 was amended to reflect the new operating environment.

State Rail today is a passenger operator for both the Sydney Greater Metropolitan Area, known as CityRail, and the long distance interstate and intrastate passenger business, known as Countrylink.

In addition SRA has responsibility for train control which resides under the business group known as Network Control. This group acts as a sub contractor to the Rail Access Corporation (RAC) providing train control services to all rail operators in the New South Wales (NSW) rail network on behalf of the RAC.

FreightCorp is the old freight arm of the SRA and essentially now operates intrastate freight trains.

The operating infrastructure of the NSW railway is under the ownership of RAC. Rail Access is responsible for all fixed infrastructure which includes track, overhead wiring and electrical sub stations. However Rail Access ownership does not include the land under the track and station buildings. RAC has the responsibility for ensuring that the elements of National Competition Policy create an environment that encourages new operators to enter the rail industry.

Maintenance of the infrastructure currently resides for the most part with Rail Services Australia (RSA). Rail Access commenced contracting out its maintenance tasks, but this process is currently on hold. As part of the overall reform agenda, it is proposed that RSA will compete with outside engineering companies to undertake fixed infrastructure maintenance on behalf of RAC.

CityRail - Urban Passenger Railway

CityRail as the Suburban Rail Operator, provides a business, which is divided into three, segments each with distinct features. These segments are defined as follows:

- The CityMet segment is bounded by Macarthur, Waterfall (including the Cronulla line), Penrith, Richmond and Berowra. CityMet services carry 90% of CityRail's patronage.
- The Outer Suburban segment consists of all stations between Cowan to Newcastle, Helensburgh to Dapto, and Emu Plains to Lithgow. Services operate from these regions to the Sydney Central Business District (CBD).

- The Regional business segment is made up of all stations outside the CityMet and Outer Suburban areas and extends to Goulburn, Nowra, Dungog and Scone. Most of the regional services are diesel railcar feeders to Outer Suburban or CityMet services.

The Suburban rail network represents the life blood of Sydney. CityRail provides approximately 2,300 train services, carrying about 900,000 per weekday. (By way of comparison, up to 100 freight services and 22 non urban passenger services per day traverse the Suburban rail network). At its busiest time, the morning peak between about 6.30 a.m. and 9.30 a.m., CityRail carries about 300,000 passengers.

In terms of its overall profile CityRail carries about 12% of all passenger journeys to work and about 7% of all journeys as a rail provider. For the financial year ended 1997/98 CityRail carried 266.5 million passengers.

Countrylink - Non Urban Passenger Railway

As State Rail's long distance passenger service, Countrylink services 334 destinations in NSW, Queensland, Victoria and the Australian Capital Territory.

Countrylink provides 10 return services per day and 2 weekly return services. Their composition is as follows:

- Two daily return services on the Sydney Melbourne interstate corridor
- One daily return service on the Sydney Brisbane interstate corridor
- One daily return service on the Sydney Dubbo intrastate corridor
- One daily return service on the Sydney Grafton intrastate corridor
- One daily return service on the Sydney Murwillumbah intrastate corridor
- One daily return service on the Sydney Armidale/Moree intrastate corridor
- Three daily return services on the Sydney Canberra intrastate corridor
- One return service on the Sydney Griffith intrastate corridor (weekly)
- One return service on the Sydney Broken Hill intrastate corridor (weekly)

In addition Countrylink provides coach feeder services on behalf of the NSW Department of Transport, in NSW from the above train services.

It is estimated that Countrylink carried approximately 2.5 million passengers in 1997/98, with rail making up 80% of the total number.

Integration in the CityRail network

The level of train services generated in the CityMet area is quite dense and operates over a somewhat complicated commuter passenger network. Other operators mainly of freight services have to traverse the CityMet network to get into their terminals. The necessity to build separate freight lines needs to be evaluated against the demand that might be

generated from building these lines and the provision of scarce land corridor space that will also be required for growth of metropolitan passenger services.

As the land resource is valuable and scarce, the actual land corridor should not be dedicated to specific users. Instead rail operators should gear their future investment to meeting all requirements for additional train paths. However if the operators are prepared to pay for the expansion in capacity, they should be entitled to first use of the asset under the access contract arrangements. Any contractual arrangements should allow the operator to have clear rights but at cost.

RAC under its access pricing regime would need to recoup the capital costs of line expansion and the other fixed costs over time from operators concerned. All users would pay the variable costs associated with running over the new line.

NSW Access Regime

The Access Regime in NSW works within the legislative framework set by the State Government and the National Competition Policy guidelines agreed to by the individual State Premiers as part of the Commonwealth Heads of Government Agreement.

Within the Australian context comparing the success of the NSW model against the Queensland traditional vertical integrated model is inconclusive. Both railways have continued to operate quite well within their differing regimes. The same can be deduced from overseas experience.

From State Rail's perspective, the key issues under the current Access Regime are access and pricing of long distance passenger rail and the best means of managing a dense and complicated suburban network in an open access regime.

Throughout the world the traditional passenger train in low density situations has become a marginal user. As such it normally pays a marginal access fee, making little contribution to fixed overheads. Countrylink's train services fit this criteria.

The efficient operation of a dense metropolitan system, such as the CityMet and Outer Suburban railway is best facilitated by integrated control of all operating staff, including train crew, station staff, signallers, controllers and timetablers. CityRail as the dominant user of the CityMet network pays the total fixed infrastructure costs as well as the share of variable costs it generates. All other operators pay their share of variable costs but make little or no contribution to the fixed costs of track infrastructure.

Under the current access arrangements with RAC, the train control functions are managed by Network Control which resides within State Rail. This allows State Rail to better operate the metropolitan railway and run trains, thereby ensuring overall control of operations staff.

Rail Reform – Efficiency Impacts

With the break up of the old SRA into above rail operators and below rail asset owner (RAC) and asset maintenance providers (RSA), the rail reform package was designed to provide much needed efficiency gains and improve the bottom financial line.

Efficiencies can now be identified in the track, train and station categories.

Track

RAC as the owner of track and electrical infrastructure have split the NSW rail network into thirteen asset regions. Each region has had an asset management plan developed. The maintenance task associated with each region has been outsourced either to RSA or other maintainers. By introducing competitive tendering for these maintenance contracts, RAC through the elements of National Competition Policy has introduced contestability into these contracts. From State Rail's perspective the outsourcing of these maintenance contracts will see price reductions in access charges required by RAC.

Trains

The heavy maintenance of State Rail's suburban trains has been outsourced for a number of years already. Major overhaul of CityRail's suburban cars involves the replacement of bogies and other running components. Minor maintenance is still undertaken by State Rail, but the 80 car fourth generation train (4GT) contract includes a supplier maintenance agreement.

In the area of train operations State Rail is keen to introduce efficiency gains in its train crewing area as achieved in a number of other States. The introduction of Driver Only Operations (DOO), for CityRail's electric trains would bring about significant reductions in operating costs. Changes to the current train working awards, for example, rostering schedules, will bring about significant improvements in train crewing work practices.

Stations

CityRail has undertaken a number of reform measures to improve efficiency on its stations. Station staff has become multi skilled as well as more customer service focused. Enhancements in Ticket Automation and Station Security have improved station staff productivity. State Rail is keen to ensure that station staff are adding value, at the station level. Improving the interface between station staff and our customers will ensure that CityRail continues to grow as an urban passenger railway and provides an alternative to other transport modes.

Benchmarking opportunities will result from private sector participation. The New Southern Railway link and the proposed Bondi Beach extension stations will be privately

operated. Any improvements in these two railways should act as a catalyst for further efficiency improvements in CityRail's station management area.

Community Service Obligations (CSOs) and Commercialisation

Given the nature of State Rail's business, particularly the community's expectations in terms of fare levels, concession fares and non commercial services, State Rail's primary activities do not make a commercial return.

Both CityRail and Countrylink have CSO contracts with the Department of Transport, on behalf of the Transport Minister. These contracts have become user specific and more transparent.

Three types of CSOs are provided for, being:

- Targeted concessional travel for defined users, for example, school children, pensioners, war veterans, unemployed, etc
- A low fares policy, reflecting government policy, to encourage public transport usage, and
- A non commercial CSO, for the provision of rail services.

All CSO activities are required to satisfy NSW Treasury non commercial guidelines and social policy criteria under the CSO contract to gain funding.

In terms of the commercialisation process, the gap between operating expenditure and total revenue on a cash basis represents the CSO payment. As both CityRail and Countrylink have a fare structure, which is not equitable against road pricing, the CSO gap partly represents an externality payment.

The externality payment is particularly relevant in the CityMet area. CityRail services help to alleviate road congestion, air and noise pollution, and road accidents costs in the metropolitan area, particularly in the peak periods. Pricing of externality benefits as a revenue source on top of CSO revenue for the CityMet division of State Rail, would allow this railway to break even.

The other business segments of CityRail would not be commercially viable with the inclusion of just traffic related externality benefits. Externality benefits apply mostly to the CityMet segment. The Outer Suburban network would receive some externality benefit, whilst the Regional railway would receive a negligible payment.

If the correct pricing principles were applied to both rail and road, the price of externality effects would be part of the user charge applied to each mode of transport.

Continued reform and efficiency improvements to CityRail will further improve CityRail's financial performance. The inclusion of the externality factor would improve CityMet's

bottom line, offsetting the inequity of current road user pricing. This represents a “second best” solution, owing to the failure of the price market mechanism to correctly set charges for road based competition.

Conclusion

Rail reform progress has delivered significant improvements in the operation of NSW railways. State Rail as a passenger operator is now more customer service orientated. Its prime responsibilities are to run trains as efficiently as possible, meeting the needs of its customers and improving its financial bottom line.

Issues dealing with train control responsibility, train path capacity and access pricing still need further refinements. Continued reform in these areas is required to further augment the speed of rail reform.

Rail reform needs to continue, if the recent successes are to be built on. Uniformity in access pricing principles and reform of the currently inequitable rail/road user charges need to be addressed, to match the operational reform improvements in passenger as well as freight rail. Resolution will go some way to further lessen the financial cost of running passenger railways on governments and taxpayers.