

Submission: Heavy Vehicle Charges Determination: Consultation Regulation Impact Statement [June 2021]



24 August 2021

Bus Australia Network



Bus Industry Confederation

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About the Bus Industry Confederation

The Bus Industry Confederation (BIC) is an organisation uniting bus and coach operators, bus and coach chassis suppliers and manufacturers, bus and coach body manufacturers and associated suppliers and professional services. Its vision is to enhance the sustainability and liveability of Australia's cities and regions by *moving people* using bus and coach transportation. We aim to do this by representing the collective interests of our Members and to assist them in promoting the safety, efficiency and effectiveness of bus and coach transport in Australia.

Our Moving People Objectives

Encourage investment in public transport infrastructure and services.

1. Promote policies and actions that are environmentally responsible.
2. Promote the development of a viable and improved bus and coach industry in Australia.
3. Foster and promote a viable Australian bus manufacturing industry.
4. Protect the business interests of operators, manufacturers and suppliers.
5. Promote public understanding of the contribution made by the bus and coach industry to Australia's economy, society and environment.
6. Ensure the accessibility and mobility needs of Australians are met, regardless of where they live or their circumstances.
7. Promote the use of public transport as a viable alternative to the car.
8. Coordinate and make more effective existing Federal, State and Local Government policies and programs that relate to passenger transport.
9. Ensure that buses and coaches operate safely and effectively.

About the Bus and Coach Industry

The bus and coach industry in Australia carry more than 1.5 billion urban public transport passengers per year and makes up 5 per cent of the total urban passenger task. The coach sector of the bus industry, comprising long distance, tourist and charter operators moves more than 1.5 million domestic travellers and makes up 8 per cent of the total non-urban passenger task. The school bus is the second most popular mode for travel to school after the car with about one quarter of all school children traveling to school by bus.

Our Industry, which includes bus operators, bus manufacturers and parts and service suppliers, employs more than 85,000 people nationally.

The *Bus Industry Confederation* (BIC) is the federal and peak body of the *Bus Australia Network* (BAN) comprising of the state associations of New South Wales, Victoria, Queensland, Tasmania, South Australia and Western Australia.



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1. Purpose of this report

This submission responds to the NTC consultation paper, Heavy Vehicle Charges Determination: Consultation Regulation Impact Statement, June 2021 (NTC 2021). The NTC paper develops three alternative heavy vehicle charging options, in addition to the status quo, and is seeking feedback on those alternatives and on their derivation. Taking feedback on the paper into account, the NTC intends to develop a heavy vehicle charges determination that will form the basis for setting heavy vehicle road use charges to apply for 2022-23.

It is expected that the NTC will propose a few options and leave it to Ministers to choose from among those options, at an Infrastructure and Transport Ministers Meeting (ITMM). Ministers might choose from the options or decide to come up with another alternative. The Bus Australia Network (BAN) anticipates that the decision of the ITMM will most likely depend on their views about the overall rate of cost-recovery of road related costs that they believe should be achieved from heavy vehicles, taking account of the current and emerging economic environment.

This submission addresses:

- the key elements in the NTC approach in Section 2
- identifies the major impacts on the bus sector in Section 3
- provides key aspects and recommendations in Section 4
- responds to the specific questions posed by the NTC in its discussion paper in Section 5.

Enquiries relating to this submission can be directed to Roz Chivers, Executive Director – Bus Industry Confederation by phone 02 6247 5990 or email to roz.chivers@bic.asn.au.

Submission due by 24 August 2021 to [NTC Have your Say](#).

1.1 Acknowledgements

The Bus Australia Network sincerely thanks:

- the NTC for the opportunity to make this submission and for the helpful workshop that it held to assist interested stakeholders; and
- Professor John Stanley for representing the BAN at the NTC workshop and compiling a detailed response to the BAN to form this submission.

2. Charging principles

The NTC emphasises that its determination ‘must adhere to a set of pricing principles set by transport ministers’. These principles are:

“National heavy vehicle road use prices should promote optimal use of infrastructure, vehicles and transport modes.

This is subject to:

- *Full recovery of allocated infrastructure costs while minimising both the over and under recovery from any class of vehicle*
- *Cost-effectiveness of pricing instruments*
- *Transparency*

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- *The need to balance administrative simplicity, efficiency and equity (e.g., impact on regional and remote communities/access)*
- *The need to have regard to other pricing applications such as light vehicle charges, tolling and congestion.” (NTC 2021, P. 9)*

It is important to understand that these pricing principles hint at the need to take account of some external benefits and costs, in particular congestion and impacts on regional and remote communities, the latter being referenced under equity. However, the NTC focus is primarily on heavy vehicle (HV) charging being about recovery of allocated expenditures. Surprisingly, congestion does not seem to get a mention by the NTC in the development of its charging options, even though it is specifically mentioned in the principles. Matters such as mobility-related social inclusion, an increasing concern in outer urban and regional areas and an important equity issue, is also not considered in the report, other than indirectly through the rural and remote lens. However, that spatial setting is essentially about costs of servicing regional and remote communities for freight, rather than personal mobility for social inclusion. The principles thus encourage a focus on equity for freight services to particular communities but ignore equity in terms of person movement.

The neglect of externalities and social inclusion in the NTC deliberations means that the resulting set of charges cannot be called economically efficient: all that can be said of them is that they will recover all, or most, of road construction, maintenance, regulatory and related costs that have been allocated to heavy vehicles. With externalities being of increasing magnitude in the transport sector, particularly in urban areas (e.g., Stanley and Hensher 2011), it is time that charging principles recognised their importance and Ministers directed the NTC to take them into account in charge setting. As shown in Section 3, this is important for the bus sector, where market failures (particularly externalities and social inclusion) are a primary reason for many services. This contrasts with the truck sector, where commercial principles are the basis of function and externalities are more about getting safety standards and emissions standards properly set. There are mechanisms in place to achieve the latter adjustments, albeit that they often lag international best practice (e.g., air quality and related vehicular emissions).

2.1 PAYGO

The current heavy vehicle (HV) charging approach has largely been in place since the establishment of the (then) National Road Transport Commission (NRTC), whose first heavy vehicle charges determination was handed down in July 1992. It is worth noting that the NRTC, when it developed the first heavy vehicles charges determination, always expected that the PAYGO approach on which it was founded would only be an interim approach for charge setting, which would be replaced within a few years. It remains in place 30 years later, albeit in ‘improved’ form.

PAYGO is essentially a cost accounting approach to allocating road construction, maintenance and related expenditures across various classes of road user, currently based on seven years of expenditure data.¹ Charges are set such that those expenditures that can reasonably be allocated to heavy vehicle road use are recovered from current or near future users (pay-as-you-go), rather than from those who will benefit from the expenditures in question over the lifetime of the assets that are involved. Hopefully the Heavy Vehicle Road Reform agenda, which includes pricing, will move towards a pricing model that is more closely aligned with beneficiary pays principles, and which also recognises externalities.

In any cost/expenditure allocation work in the road sector, there are multiple layers of cost distribution that are involved. In simple terms, expenditures need to be allocated between light and heavy vehicles, shared between the two or not allocated to either of these two, and then the HV allocated costs need to be attributed to one or other of the 27 categories of heavy vehicle (including attachments, such as trailers). At

¹ The first charges determination had only 3 years expenditure data available.

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various levels of allocation there are joint costs involved, which cannot be uniquely attributed to any class of road user. Consequently, there will be a range of pricing solutions that might meet a test of full cost recovery. At one end of the possibilities, provided a particular category of heavy vehicles meets the avoidable costs of its road use, it cannot be argued to be being subsidised by others.

The cost allocation methodology that is proposed by NTC includes seven changes from the preceding approach used by the Commission. While all will have some impact on charges paid by buses, since the charging exercise is largely about cutting up a cake of a given size, two changes to the PAYGO cost allocation approach seem particularly relevant to buses:

- changes in the assessment of equivalent standard axle (ESA) impacts of different vehicle classes on HV road costs and, to a lesser extent,
- changes in the way regulatory costs are allocated.

2.2 Charging cost base, aggregate revenue implications and pricing instruments

The NTC points out that current heavy vehicle charges have fallen short of recovering all allocated costs since 2017-18. However, the NTC report also shows that charge revenue exceeded the HV cost base from 2012-13 to 2016-17, a point to which we return later in this submission. In short, the cost-recovery rate varies over time, such that, at any point in time, there is probably not an overwhelming obligation to improve that cost recovery rate.

The NTC estimates that current heavy vehicle charge revenue, based on a road use charge of 26.4c/L plus registration charges, amounts to \$3449 million. How far this revenue stream goes to meeting allocated HV costs depends on the scale of costs that are allocated to heavy vehicles, which depends heavily on the cost allocation model and its assumptions.

There are **three charging options**, and associated revenue gaps (from NTC 2021, Table 13), identified by NTC (2021).

1. **Current cost base and allocation approach = Option A** = \$3817 million => implicit revenue shortfall = \$368 million (i.e., \$3817m – 3449m).

This Option is essentially a continuation of the current charging approach, adjusted for changes in expenditure levels over time. Under this charging regime, HV charges would need to increase by 10.7% if a break-even outcome was sought for cost recovery. Once changes in traffic levels (usage) from the status quo are taken into account, which alter cost recovery requirements, the cost base for Option A increases to \$3878m, which is then relevant to charge setting.

2. **Modified cost base = Option B** = \$3934m cost base (shortfall = \$485 million). HV charges would need to increase by 14.1% under this Option to recover all HV allocated costs.

Once changes in traffic levels from the status quo are included, the HV cost base for this Option increases to \$4018m, which is used in subsequent charge setting discussion by NTC. Option B includes 7 of the adjustment factors noted in Section 2.1, the most important of which for bus involves changing the way equivalent standard axle values are estimated for different vehicle classes and then applied to road expenditure categories. As applied, this sees a large increase in the ESA-km values for all five categories of bus, four of which involve around doubling current ESA values and the other (bus with 3 or more axles) involves more than quadrupling current ESA values (NTC 2021, Table 7).

This change in ESA values increases the level of costs that are allocated to buses from \$65m, under the current cost allocation approach, to \$132m (NTC 2021, Table 8), a much larger relative increase than is imposed on any other class of HV and accounting for a large proportion of the changes in

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total charge revenue (across all vehicle classes) recovered via ESA-km allocations. Light vehicles and rigid trucks do well out of this change in ESA values, with buses and articulated trucks being hit hard.

This outcome is largely a result of the change in the way that costs in NTC cost category B2 (Periodic surface maintenance of sealed roads) are allocated. These costs currently have no ESA-km component (NTC 2021, Table 9) but the proposed change in cost allocation approach puts 70% of the costs of this category against ESA-kms (NTC 2021, Table 10), which means a large jump in costs attributed to buses. This consequently puts substantial upwards pressure on the charge revenues expected from buses, as discussed later in this report. However, Option C below allocates only 56% of costs for expenditure category B2 to ESA-kms, indicating that the 70% assumed by NTC is contestable. The lower the proportion of B2 costs that are allocated to ESA-kms, the smaller the resulting charge increase implied for bus, other things being equal.

In terms of answering specific questions asked by NTC, doubt about the most appropriate proportion of B2 costs to allocate on an ESA-km basis suggests avoiding unduly penalising any particular vehicle class by the specific value that is chosen, which is ultimately rubbery at present. The current NTC choice, of 70% of B2 costs allocated on an ESA-km basis, hits buses, in particular, very hard and should be rejected on this basis, or compensated in some way. Section 4.3 explores this issue in further detail. Choice of a preferred implementation pathway that relies on small annual increases in charge components for all vehicle classes is one effective way to handle this concern with cost allocation, as discussed later in this report.

3. **Victorian model cost base = Option C** = \$4184 million (shortfall = \$735 million). This approach is an engineering-based cost estimate, which may be useful in future consideration of appropriate cost allocation methodologies. It would require an estimated 21.3% increase in aggregate HV revenues to recover all allocated HV costs.

As with the preceding two options, the cost base increases once changes in traffic levels from the status quo are recognised, increasing the cost base for Option C to \$4402m, which becomes the charging base for this Option. This option is currently only estimated from Victorian data, which should rule it out as a basis for the upcoming charges determination, even though NTC has (usefully) endeavoured to show how it might impact national charges. Importantly, however, Option C has a lower proportion of B2 costs allocated on an ESA-km basis than Option B, raising questions about the NTC cost allocation approach on this particular allocator (as embedded in Option B). Such doubts suggest that a major review of all cost allocation proportions should be a central part of the HVRR program over the next 2 years, for use in future charges determinations.

NTC argues that all the three Options meet the fundamental principles with which they are obliged to comply. Variants of these three Options could readily be developed but they provide a reasonable starting point for discussion.

The pricing instruments available to the NTC to recover HV road costs are very limited. Charges proposed by the NTC comprise only 3 elements, levied through two instruments as outlined below.

1. A road user charge (RUC), which is a designated part of the federal fuel excise, currently 26.4c/L (which NTC says should increase by 1.2c/L to compensate for revenue leakage for fuel use that is not related to road use per se, such as some fuel used by concrete mixers or waste trucks to operate equipment – this seems fair).
2. Registration – road cost component.
3. Registration – regulatory cost component, to recover the costs of running the NHVR. NTC (2021) Table 18 shows that this charge component comprises the highest proportion of total registration charges for 2 classes of bus: 2-axle buses > 12 tonnes, where it is 51.9% of total registration charges;

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and 2-axle buses up to 12 tonnes, where it is 39.8% of the total registration charge. The next highest proportion is 32.1% for 2-axle trucks < 12 tonnes.

Given the good safety record of buses, it is hard to see why such a relatively large cost burden should be placed on bus to fund the operations of the NHVR, an organisation that seems unlikely to be required to do much work on bus, relative to truck. The costs of running the NHVR should be more cost-driven, determined by the work that is required across different sectors and vehicle classes. While this might only amount to a small reduction in bus charge payments, it would at least represent progress in funding the regulator more from those who are its *raison d'être*, rather than penalising those who do the right thing. This is a further reason for undertaking a major review of the cost allocation process over the next couple of years.

Revenue from the RUC accrues to the federal government and that, from registration charges, accrues to state and territory governments. The NTC has advised (Pers. Com.) that the RUC raises about 60% of the total revenue and registration about 40%. An understandable constraint that the NTC has included in its pricing work is that the proportions of the HV revenue raised from the RUC and from registration charges should remain the same, to avoid intergovernmental fighting over which level of government carries the cost (e.g., of any under-recovery). This constraint has no basis in the pricing principles under which NTC operates but reflects a pragmatic approach to what is likely to be feasible in political terms.

As the vehicle fleet electrifies, the RUC will become increasingly irrelevant. The current level of electrification is very low, such that the RUC and registration charges will be adequate for the upcoming determination. However, as electrification accelerates, as it inevitably will under pressures for Australia to improve its greenhouse gas emission performance, pressures will increase to move to an alternative road pricing model, across all vehicle classes. Any future alternative road pricing model should be based on (telematics driven) mass/distance/location (MDL) pricing, an approach that is also better suited to incorporate charges for external costs of HV road use. The BAN notes that external costs are not considered under the current pricing model. Efficient road use needs to also recognise, as part of the pricing model, the externalities (ie., congestion mitigation, environmental gains, road safety savings, social inclusion benefits). This issue is further discussed in Section 4.3.

2.3 Implementation Options

If HV road user charges are to recover all the allocated HV costs under any of the three NTC options, charge increases are required. Alternatively, a level of under-recovery could be retained, and/or increases can be phased in over time, on grounds such as the potential impact of increasing charges in the current economic environment. The NTC seeks views on such matters, with suggested responses set out below.

The three cost allocation Options (models) set out the cost target that is to be recovered by vehicle class, which also involves looking at cost contributors across 19 types of road expenditure and the road task by each of the 27 vehicle types. Discussion here has concentrated thus far on aggregate numbers but some detailed discussion of bus data follows below.

NTC suggests three different charging implementation alternatives, which are largely about the rate at which movement towards what it sees as full cost recovery is pursued.

1. Direct implementation: in which charges in year 1 are set to fully recover the costs that are identified by vehicle class. This obviously involves substantial increases in charges, with Option A having the smallest increase and Option C the largest, given the revenue shortfalls noted above for each option. This implementation alternative results in a road user charge (RUC) of 32.2c/L, compared to the current 26.4c/L, a considerable increase, and it also requires substantial increases in registration charges, as discussed in Section 3 for bus.
2. Three-year implementation pathway with overall revenue increase set at 3.5% annually, but with charges for some vehicle classes increasing faster (up to 5% annually, for vehicle classes that NTC believes are

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furthest from meeting their fully allocated costs – some classes of bus are in this category). The figure of 3.5% is argued by NTC to approximate the rate of growth in overall road expenditures attributable to HVs that need to be recovered, such that the relative revenue shortfall will not get any greater over the charging period.

3. Three-year implementation pathway but with overall revenue increase set at 6% annually, with increases for individual vehicle classes capped at 7.5%. This produces an outcome that reduces the size of the revenue gap over time.

If the core pricing principles under which the NTC is required to frame its determination are accepted, the choice of a preferred approach between these three Options is largely a matter of deciding which option best reflects the way heavy vehicles impact road expenditure levels and which is likely to be most politically palatable, recognizing some of the matters flagged in the pricing principles.

3. Implications for bus

Data from a spreadsheet that is accessible from the NTC website shows the following numbers for bus and other vehicle classes for road revenues raised and allocated costs. These numbers relate to direct implementation of Option B, with the NTC (modified) cost allocation model, which seems to be the NTC's preferred approach to cost allocation. The total HV allocated costs for that Option are \$4018 million,² with \$290 million of this being allocated to bus (as shown in the 'Allocated Cost' column in Table 1). The NTC charging Excel spreadsheet indicates that this is based on the direct implementation pathway and its associated charges, which includes an RUC of 32.2c/L (Table 2).

Table 1: Bus charge revenues and allocated costs in NTC analysis (\$m)

Bus category	Revenue	Allocated cost	Difference	Non-attributable costs
2-axle: 3.5 to 4.5 tonnes	0	6,086,953	-6,086,953	3,739,282
2-axle: 4.5 to 10 tonnes	20,062,749	18,679,688	1,383,061	10,651,067
2-axle: > 10 tonnes	181,308,869	227,207,945	-45,899,076	45,951,090
3-axle	25,478,926	30,255,401	-4,776,475	4,777,655
Articulated	7,193,788	7,587,300	-395,511	1,583,498
BUS TOTALS	234,044,333	289,817,286	-55,772,953	66,702,592
HVS OTHER THAN BUSES	3,784,181,258	3,728,408,305	55,772,953	727,588,993
ALL HEAVY VEHICLES	4,018,225,591	4,018,225,591	0	794,291,585

Source: From NTC Excel spreadsheet: PAYGO Heavy Vehicle Charges Model – for consultation purposes only. Tables C7.2.1 and C7.3.1.

Table 1 suggests that only one class of bus would more than pay its way under this charging and cost allocation arrangement (2-axles: 4-5 to 10 tonnes, where the 'Difference column' in Table 1 shows a positive figure), if the cost allocation assumptions behind the NTC's modelling are accepted.

Under-recovery is assessed as greatest for 2-axle buses (>10 tonnes), at nearly \$46 million, with most school and route buses being in this class. The gap is assessed at just under \$5 million for 3-axle buses. Overall, direct implementation of Option B suggests that buses would under-recover their allocated costs by \$55.8m annually. Given that the overall model is designed to break-even, then the under-recovery on bus needs to be offset by over-recovery on other vehicles for a given rate of break-even to be achieved.

² The BAN is not sure why this figure of \$4018m differs slightly from the \$3934m figure for Option B as introduced above.

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This estimated level of under-recovery from bus is not mentioned by NTC (2021) but it is important that bus recognises it is implicit in the analysis. Importantly, **the aggregate level of apparent under-recovery from bus, of \$55.8m, is less than the increase in bus-attributable costs that flow from changes in the way ESA-kms are allocated across vehicle classes.** As noted, this adds \$65m to costs allocated to bus. Also, choice of more causal cost drivers for the regulatory component of registration costs would be expected to reduce the total level of costs that are recoverable from bus.

Table 1 also sets out non-attributable costs, which sum to \$66.7m for bus, as derived from the NTC spreadsheet. This represents 23.0% of total allocated bus costs, a higher proportion than for other HVs (19.5%). Allocation of the non-attributable costs is not a scientific process. If the bus share of these costs was the same as other HVs, then the level of bus costs would reduce by \$10.2 million, under-recovery reducing by the same amount.

Importantly, given the NTC modelling assumptions, some of which have been queried above, **Table 1 shows that, for direct implementation of Option B, bus more than recovers all its attributable costs (total minus non-attributable costs), showing a surplus of \$10.9m on this basis** (i.e., \$289.8m - \$66.7m > \$234.0m by \$10.9m).

Road user charges (collected through fuel excise) associated with the NTC current cost allocation Option (Option A) are set out in Table 2, showing how the RUC varies with the different implementation pathways. The increase in RUC from 26.4c/L to 32.2c/L associated with the direct implementation pathway is a huge increase (22.0%). It raises doubts that politicians would agree to one-off charge increases at this scale, given the shock it imposes on business costs. RUCs for the other two implementation pathways are also shown in Table 2. Sustained increases of 6% annually for three years are also very high, relative to normal benchmarks such as CPI and increases in average weekly earnings (typically at 2% p.a. or less at present). It is reasonable to conclude that the 6% implementation pathway will *not* be politically acceptable. This leaves the 3.5% pathway as the most likely surviving implementation option, although percentages below or (less likely) a little above this rate may currently be appealing to politicians.

Table 2: Road user charge under current cost allocation (Option A) for each implementation pathway (c/L)

Implementation pathway	Year 1	Year 2	Year 3
Direct implementation	32.2	NA	NA
Three-year fixed price path example 1: 3.5% per annum	27.4	28.3	29.3
Three-year fixed price path example 2: 6% per annum	28.0	29.7	31.5

Source: NTC (2012), Table 27.

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All heavy vehicles would pay the same RUC (c/L), the amount depending on fleet fuel efficiency. Hybrid and electric buses would get an advantage, because the NTC has not proposed road user charges equivalent to the RUC for these vehicles (other than for the fuel used by hybrids). The NTC has considerably underestimated the number of electric and hybrid buses currently in operation,³ so operators who have those vehicles will get a small benefit from the proposed charging regime, via their zero or low fuel use, but numbers remain small.

Proposed registration charges will impact many bus owners/operators very substantially. Table 3 shows how registration charges would vary across the five bus classes for the three implementation pathways. Reflecting the data in Table 2, which shows that the lightest end of the bus sector more than pays its way, the direct implementation model involves a small reduction in registration charges for 2-axle buses of up to 12 tonnes (but they would still pay the considerably higher RUC for this option, if adopted). However, 2-axle buses > 12 tonnes GVM, which includes most route and school buses, would incur a huge increase in registration charges (and in the RUC) under the direct implementation approach, increasing from \$651 to \$2606, which is a quadrupling of the charge.

No other vehicle class has a rate of increase in its proposed charges of anything like this scale, a result which flows from changes in the ESA values within the cost allocation process (as explained in Section 2.2). Registration charges for 3-axle buses, commonly used in the tour and charter sector, would increase by over 175% (i.e., almost trebling), the second fastest rate of increase of any vehicle class shown by NTC. If direct implementation was thought to be a political possibility, then rebuttals of these huge rates of increase are required. However, as argued above, the high rate of increase in the RUC under direct implementation should rule this pathway out in terms of political acceptability.

The other two implementation pathways necessarily deliver much smaller increases in registration charges for buses but the proposed increases for 2-axle buses >12 tonnes and 3-axle buses in both of these pathways are faster than the overall rate of increase in each pathway, particularly for 2-axle buses > 12 tonnes GVM in year 1 for the 3.5% p.a. pathway. In this pathway the proposed year 1 increase is 5.7%, falling to <3% annual increase in the second and third years. It is hard to understand the reasoning, if any, behind this changing rate of annual registration charge growth over the three years, other than as an attempt to strike early in terms of narrowing what the NTC sees as the revenue/expenditure gap for this vehicle class. The increases proposed for 3-axle buses under the 3.5% p.a. pathway are more even across the three years but larger than 3.5% in each.

For the 6% annual charge growth pathway, 2-axle buses >12 tonnes again are hit hardest in year 1 but less so thereafter, whereas the proposed increases for 3-axle buses are 6% or more each year, reaching 20% higher than current charges by year 3. Given the stresses that the tourism sector has been under during COVID, price penalties of this magnitude would be seen as particularly burdensome. This adds to the reasons for rejecting this pathway.

³ For example, it says there are 11 electric buses in NSW, whereas this figure is more like 40-50. Also, it does not identify any hybrid buses in Victorian but there are believed to be 56 in operation.

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Table 3: Registration charges for buses under three implementation pathways

Bus mass rating	Current (2021-22)	Year 1	Year 2	Year 3
Direct implementation				
2-axle up to 12 tonnes	521	517	NA	NA
2-axle > 12 tonnes	651	2606	NA	NA
3-axle	2731	7615	NA	NA
Three-year fixed price path example 1: 3.5% p.a.				
2-axle up to 12 tonnes	521	524 (+0.6%)	534 (+1.9%)	545 (+2.1%)
2-axle > 12 tonnes	651	688 (+5.7%)	704 (+2.3%)	722 (+2.6%)
3-axle	2731	2836 (+3.8%)	2958 (+4.3%)	3086 (+4.3%)
Three-year fixed price path example 2: 6% p.a.				
2-axle up to 12 tonnes	521	532 (+2.1%)	551 (+3.6%)	571 (+3.6%)
2-axle > 12 tonnes	651	695 (+6.8%)	721 (+3.7%)	748 (+3.7%)
3-axle	2731	2894 (+6.0%)	3081 (+6.5%)	3282 (+6.5%)

Source: Drawn from NTC (2021) Tables 28, 29 and 30.

4. Key aspects for the bus and coach industry

4.1 Principles

The three cost allocation models presented by NTC (2021) are designed to ensure that overall HV cost recovery levels improve, or at least do not go backwards, and that no particular vehicle class is cross-subsidised. The potentially very large increases in registration charges for 2-axle buses >12 tonnes and 3-axle buses are substantially a result of changes in the cost allocation assumptions that place greater weight on ESAs (equivalent standard axles) as cost drivers, particularly for costs associated with periodic surface maintenance of sealed roads.

The BAN’s response to the charging options and implementation pathways is informed mainly by:

- the relative political acceptability of different options
- opportunities for defining a range of economically efficient prices that flow from the existence of joint costs and on

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- what the neglect of positive externalities from bus operation might imply for the proposed charging solutions.

4.2 Political acceptability

Some simple calculations can show the scale of the increase in road charges for 2-axle buses >12 tonnes, the workhorses of urban route services and school bus services, under the three implementation pathways, using Melbourne average route bus data to demonstrate the results. Melbourne data suggests that a route bus averages 58,000 kilometres annually at a fuel economy rate of 42.2L/100 kms. With the RUC at the current 26.4c/L and registration charges of \$651, total annual road charge payments of \$7113 per vehicle p.a. result.

In year 1 of the **direct implementation pathway**, when the RUC increases to 32.2c/L and the registration charge to \$2606, the total charge payments increase to \$10,487, **an increase of \$3375, or +47.4% in one year, over half of which comes from increased registration charges**. This is a huge increase, not identified in NTC (2021) and likely to have little appeal to political decision-makers, once confronted with the numbers. We examine impacts here for a typical urban route bus. With average operator costs per route bus kilometre of ~\$5.40⁴ and 58,000 annual average kilometres run, road charges amount to 2.27% of total bus operating costs under current charges. However, this would increase to 3.31% of (higher) total operating costs under direct implementation. The increase in total costs per bus would add 1.08% to total bus costs. Under state route bus service contracts, all this cost increase (of \$3375 per vehicle) would typically fall on state budgets.

This scale of charge increase should be sufficient to rule out direct implementation as a politically acceptable alternative for the bus sector. Given the rate of increase in the RUC paid by all HVs implied by this implementation pathway (22%, as noted above), political unacceptability should be the case for all HV classes.

It was argued above that the **third implementation pathway**, which involves 6% annual charge increases, is also likely to find little political interest in the current COVID environment. The touring sector of the bus industry would be particularly hard hit, as it tries to recover from COVID.

For 2-axle route buses >12 tonnes, the average charges paid in year 3 under the 6% pathway would be \$8458, some 18.9% higher than current annual payments. This high rate of increase would help to narrow the gap between overall HV revenues and allocated costs, but it is high in the current economic climate and one must ask why you would penalize a sector that generates so many positive external benefits, as discussed in section 4.4, with this increased burden. Also, given that the HV sector over-recovered on its allocated costs for several years prior to 2017-18, there is arguably no urgency to close the gap for the sector as a whole, including bus, at least until such time as the economy has stabilised post COVID. The 6% implementation pathway deserves no further attention.

This leaves the **3.5% annual increase implementation pathway** as the only one likely to be politically palatable, or some other (currently unspecified) variant thereof, that probably involves smaller annual rates of charge increase. As noted above, the 3.5% rate of increase was chosen by NTC on the basis that it keeps overall HV cost recovery at around its current level, in a context of increasing aggregate HV road-related expenditures that need to be recovered – hence the need for some increase in charges. For a typical 2-axle metro route bus, the annual charges paid in year 3 under this pathway would be \$7893, which is 11.0% higher than current charges. This is a lot better than the 47.4% increase in year 1 under the direct implementation pathway but is still a substantial increase in charge levels. The impact of the decision to increase the cost allocation component that is based on ESAs remains a major influence here, with the added nuisance of an unwarrantedly high regulatory charge component of the registration charge.

⁴ Based on budget implied costs of \$6.87 but deducting around \$1.50/km for government costs within this total, as suggested by BusVic.

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The 3.5% annual increase implementation pathway is the preferred option over the direct implementation pathway and 6% annual increase pathway. However with many other major price indices growing more slowly, such as CPI (+1.57% p.a. for Australia between December 2015 and December 2020) and average weekly earnings (+2.25% p.a. for persons/earnings from November 2015 to November 2020),⁵ there are grounds for a charging alternative that is pitched at around **2% p.a. annual rate of increase over the three-year charge period**. This would lead to an increase of \$435 over current charges for 2-axle buses > 12 tonnes in urban route service. Over the three-year charge period, a full review of the charging regime should be undertaken, including cost allocation, as part of the HVRR program.

Cost increases from the three charge pathways for 3-axle buses are much bigger than those for the 2-axle metro route buses > 12 tonnes in absolute dollar terms, largely because of the RUCs (fuel charges) paid by the 3-axle buses, which travel much longer distances per year than urban route buses. To illustrate this, the BAN assumes that a 3-axle bus operates for 500,000 kilometres per year, providing a long distance public transport service, with a fuel economy rate of 31.8L/100kms. In that case, the direct implementation pathway would increase total road charges for the 3-axle bus by around \$14,106 over current charges in year 1, much larger than the increase of \$3375 estimated for 2-axle metro route buses > 12 tonnes. About two-thirds of the increased costs for 3-axle buses come via RUC payments, given the long distances travelled, but registration charges also increase substantially (by \$4884). The 6% pathway would increase 3-axle bus costs by \$8660 in year 3, compared to current charges, while the 3.5% pathway still adds a substantial \$4966 in year 3 to the costs of this 3-axle bus. Reducing the rate of charge increase to 2% p.a. would mean that a 3-axle bus doing 500,000kms a year would pay an extra \$2736 in year 3, mainly through higher RUC payments.

4.2 A range of economically efficient prices

The NTC recognises that its three pricing options all meet a requirement that the resulting charges fall between stand-alone and incremental cost. Because there is no unique way to allocate joint (or non-attributable) costs, the existence of joint costs provides some flexibility for defining which vehicle classes might, or might not, be being cross-subsidized by others in a pricing regime. Provided a particular vehicle class is meeting its attributable costs, then it cannot strictly be said to be being cross-subsidized by others.

A pricing floor can be set, given the NTC's pricing principles, by attributable costs. If some vehicle classes were priced on this basis, then charges on others would need to increase to achieve a given cost recovery target, unless a reduction in the overall cost recovery rate was acceptable. Table 1 showed that apparent under-recovery for bus can be linked to the level of non-attributable costs, estimated at \$66.7m under Option B (setting to one side here concerns about ESA-kms in cost attribution and their effect on bus costs). Within a total cost base of \$4018m, this level of non-attributable costs is trifling, accounting for only 1.7% of total costs. Hence, pricing bus at attributable costs, as might be warranted because of its external benefits (as discussed in Section 4.3) would have very little impact on charges for other HV classes, within a given cost recovery target.

It should be re-iterated that the apparent level of under-recovery from bus is heavily influenced by the way ESA-kms are handled in the cost allocation process, which is contestable. Detailed review of that cost allocation process, and of the way regulatory costs are distributed, both seem likely to reduce costs that are recoverable from bus.

⁵ [Average Weekly Earnings, Australia, November 2020 | Australian Bureau of Statistics \(abs.gov.au\)](#); [Consumer Price Index, Australia, March 2021 | Australian Bureau of Statistics \(abs.gov.au\)](#)

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The BAN’s understanding of the NTC cost allocation process for buses is set out in Table 4, which is drawn from Table C.4.2.2 in the NTC model spreadsheet. The total costs in the second column from the right align with the bus totals shown earlier, in Table 1. Table 4 suggests that, of the \$222m costs attributed to bus, \$179m are associated with ESA-kms, of which \$150m are costs allocated to 2-axle buses > 10 tonnes (\$150 million). Getting the attribution factors right for this cost driver is critical for bus charging, particularly for the 2-axle buses on which route and school bus services rely. Economically efficient pricing requires that cost allocation is got right, so a detailed review of cost allocation processes should be an early priority, particularly as this impacts bus charges. Importantly, Table 1 suggests that 2-axle buses are paying \$46m less than their allocated costs, which Table 4 suggests is the level of their non-attributable costs. In short, they are paying their attributable costs, even on the ESA-km allocation basis that hits bus hard. The same conclusion applies to 3-axle buses.

Table 4: Allocated bus costs

Bus class	VKT	PCU-kms	ESA-kms	AGM-kms	HV VKT	Non-attributable	Total	Total Attributable
2-axle 3-5 - 4.5t	1	1	0	0	-	4	6	2
2-axle 4.5 - 10t	3	3	2	1	-	11	19	8
2-axle > 10 t	12	12	150	7	-	46	227	181
3-axle	1	2	22	1	-	5	30	25
Articulated	0	1	5	0	-	2	8	6
TOTALS	17	19	179	9		68	290	222

Source: From NTC Excel spreadsheet: PAYGO Heavy Vehicle Charges Model – for consultation purposes only. Tables C4.2.2.

4.3 External benefits of bus operations

The pricing principles set out on page Section 2 are primarily about financial cost recovery of HV road related expenditures, subject to concerns about economically efficient charges for road use by heavy vehicles. Economically efficient charges would take account of road expenditures that are attributable to heavy vehicles, as identified by NTC (particularly the modified cost base option) but should also consider any external costs and benefits associated with road use by particular classes of HVs. There are two issues here: first, what is the size of any such external benefits; secondly, should these external benefits be reflected in HV road charges or are they better recognised some other way, such as through fare setting where public transport is involved.

Taking urban bus as an example, Stanley and Hensher (2011) estimated the following external benefits from Melbourne’s route bus services (in 2010 prices):

- congestion mitigation \$588m (time savings \$518m + fuel cost savings \$70m)
- environmental benefits \$21 m (greenhouse gas emissions savings \$7.5m + air pollution benefits \$12.2m)

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- accident cost savings \$15m
- social inclusion benefits \$784m
- TOTAL OF THE ABOVE = \$1408 MILLION.

Given that there were about one million bus trips at the time, this amounts to about \$14 external benefit per bus trip. While social inclusion benefits account for just over half this benefit, congestion cost savings (from getting people out of their cars), environmental benefits and accident benefits were worth a substantial \$6.24 per bus trip (in 2010 prices). This could be increased to around \$8 per trip in 2020 values for the latter three benefits, or \$18 per trip if social inclusion benefits are added, as they should be for bus (this is the major societal benefit of route buses).

At the time, the gross financial cost to the state government for providing Melbourne's route bus services (i.e., excluding fare revenue, which probably covers ~20% of gross service costs) was \$486 million, so the external benefits far exceed service costs. Yet these external benefits are largely ignored in deciding resource allocation to bus services. They are far greater than the amount by which these route services might meet, or not, their road and road-related costs (which Tables 2 and 4 suggest would currently be \$181 million annually across Australia).

Increasing road use charges on route services is likely to lead to a small reduction in service levels, if governments decided to pass on these cost increases through higher fares (given pressures on state government budgets from which the net costs of such services are usually met). Any such fare increases would create an associated loss of external benefits. For example, implementation of the direct implementation price pathway has been estimated to increase total bus operating costs per bus by 1.08 percentage points. If this cost increase was all passed on to bus users in the form of higher fares it would probably lead to a reduction in bus use of ~0.27%, assuming a conservative bus fare elasticity value of -0.25, based on Hensher and Ho (2020). This may not sound a great deal but it would amount to ~324,000 fewer annual bus trips in Melbourne alone, or over 1 million nationally, assuming perhaps optimistically that bus patronage recovers to its post COVID levels within a few years. Given that trips will be lost, risk of social exclusion will increase marginally. Use of the foregone benefit value of \$18/trip is thus appropriate, which includes the social inclusion component as well as congestion savings foregone, plus increased environmental damage costs and accident costs. The external benefits forgone would amount to around \$6 million annually in Melbourne alone (or probably around \$30 million nationally).

Similar calculations for the 3.5% implementation pathway for 2-axle buses > 12 tonnes as at year 3 suggest that total bus costs would increase by 0.25 percentage points. This implies an annual patronage loss in year 3 of 0.0625 percentage points, or ~75,000 annual bus trips, with associated loss of external benefits of \$1.35 million annually in Melbourne (including costs of increased risk of mobility-related social exclusion).

The loss of external benefits that would accompany higher road use charges, if state and territory governments chose to increase fares to meet the higher charges, is an argument in favour of bus charge increases being a little less than for other vehicle classes, unless they too can demonstrate external benefits from operation. This will generally be difficult, since trucking operations are essentially commercial, with external costs such as congestion costs, greenhouse gas emissions and air pollution the most likely externalities, in this case all being external costs rather than benefits. Road-based public transport is in a different situation, its rationale being in large part about providing external benefits, by correcting market failures associated with the external costs of motor vehicle use and delivering the merit good value of social inclusion (Stanley and Stanley 2021).

As a matter of general pricing principles, it can be argued that external benefits from public transport operation should be taken into account in the fare setting process, as IPART seeks to do in NSW, rather than through the way that charges are set for road use. However, when increased road user charges are likely to lead to a reduction in the external benefits flowing from bus operation, as is to be expected at least to some

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degree, then this seems likely to distort efficient resource allocation across the HV sector, because the trucking sector is very highly unlikely to be able to point to similar external benefits (external costs are more likely in the case of trucking).

One pragmatic way to deal with this distortion might appear to be find a way to lower somewhat the rate of charge/charge increase applied to bus, as compared to truck, recognising that the charges thus levied will still be sufficient for bus to meet or exceed its attributable costs (as demonstrated in Section 4.2). This would minimise concerns about possible financial cross subsidies between vehicle classes. It would be difficult to levy different rates of RUC on different vehicle classes, but registration discounts could be applied to particular vehicle classes. This has the disadvantage that it would mean state and territory governments carrying the revenue associated loss, although they would be the ones having to pay much of the increased bus registration charges any way, through changes in route/school contract payment obligations.

4.4 Conclusion for bus

Recognising:

- the substantial charging impact on bus, particularly 2-axle buses > 12 tonnes and 3-axle buses, arising from changes in the way ESA-kms have been used in the cost allocation process, and uncertainties about the accuracy of the ESA-km allocation process
- questions about the way regulatory costs are allocated through the registration charge
- the societal external benefits that are associated with bus use and likely loss of external benefits if bus charges increase substantially and
- acknowledging that bus understands the importance of covering at least its (accurately estimated) attributable costs

the bus industry requests that NTC find a way to mitigate the impact of its cost allocation decisions on the bus sector, which will be hit hard by those decisions.

4.4.1 Key recommendations

1. There should be an urgent review of the cost allocation procedures used as a contributor to the HV charging process, particularly in relation to ESA-kms.
2. NTC should examine the implications of a 3-year 2% p.a. implementation pathway which would become Option D, this being the bus industry's preferred pathway. This rate of charge would apply to all vehicles and would mean a slight step backwards in the rate of overall cost recovery achieved, as compared to the current NTC options. However, as noted in Section 2.2, HV charges sometimes under-recover allocated expenditures but also sometimes they over-recover, so this is a moving target: under-recovery is not a given. A 2% p.a. implementation pathway is likely to be defensible in the current political environment and it will provide the responsible Ministers with a wider range of options to consider.
3. NTC should review the proposed levels of registration charges for bus, taking account of the results from the review of ESA-km attribution factors from proposal 1, the safety performance of bus compared to trucks and how this is best be reflected in the way their costs of the NHVR are recovered. Bus registration charges, by bus category, should be set to at least recover well estimated attributable costs, with any charges above that base limited to the proposed 2% p.a. pathway the BAN proposes for Option D.

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5. Specific NTC questions answered

- Q1. Do you agree with the NTC's recommendation to continue using the existing PAYGO expenditure categories. Why or why not?
- A. Agree. This determination is a transitional one and the Heavy Vehicle Road Reform process should be the place for deciding future charging methodologies and how they operate.
- Q2. Do you agree that option 5 in Table 6 is the best option for treating innovative funding and financing under PAYGO? Please provide reasons to support your views.
- A. Agree that this option is most consistent with PAYGO.
- Q.3. Are there any options for treating innovative funding and financing not presented in Table 6 that NTC should consider?
- A. No opinion.
- Q4. Should the PAYGO expenditure guidelines be modified to specify that expenditure should not be reported where it occurs on roads that heavy vehicles cannot use?
- A. Only if no HVs can use the road(s) in question.
- Q5. Do you agree the NTC needs to take action now to ensure the ongoing availability of usage data? Why or why not?
- A. Usage data will be critical for whatever future road user charging system is put in place, so its collection should be continued. Mass, distance, location-based charging is the future and telematics should assist the data collection process, which should be organised around moving in this future direction.
- Q6. Are there any options relating to potential alternative sources of usage data that the NTC has not considered? If so, what are they?
- A. Contract the ABS to do the work, to keep them engaged and with a consistent approach.
- Q7. Do you agree that the PAYGO model should use new, updated ESA values for this determination? Why or why not?
- A. Cost allocation should be based on economic cost drivers, which will often need a strong engineering base, and the best such estimates should always be used. Given that there is a difference in the allocation proportions as between the NTC approach and that used in Option C (the Victorian approach), there can be no certainty that the NTC approach is correct. The substantial increase in bus charges that follows from applying the changed NTC assumptions about ESA-kms, as illustrated in this submission, should be recognised and steps taken to mitigate this adverse impact, given the demonstrated uncertainties in the ESA-km values, as between the NTC approach and the Victorian approach in the report. A major review of the whole cost allocation process is needed.
- Q8. Do you agree that the options for this determination should centre on the three alternative cost allocation approaches identified above?
- A. Yes, provided that a review of the ESA-km process is undertaken. Implementation pathways are of greater concern, as discussed below.
- Q9. Do you agree with the NTCs proposal to remove MaxMan from the PAYGO model? Why or why not?
- A. Yes. The underlying rationale may not be relevant now.

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- Q10.** Do you agree that the NTC should adjust the estimated fuel consumption used to set the RUC rate to take into account RUC exemptions for auxiliary fuel use based on the ATOs “fair and reasonable” fuel tax exemption rates? Why or why not?
- A. The fuel use in question has nothing to do with road damage so should not be counted as part of the charging base, as a general principle.
- Q11.** Do you agree that the NTC needs to update the percentages used for unsealed road travel discounts in the PAYGO model? Why or why not?
- A. The cost base should accurately reflect road usage patterns, the damage associated therewith and the costs of rectification. All elements in the cost allocation process need to be refreshed on a regular basis. This is a long-standing example and should be refreshed.
- Q12.** Do you agree that the CSO discount should be discontinued in the PAYGO model? Why or why not?
- A. All potential external costs and benefits (and merit goods) of road use should be part of the way road use is priced and PT fares are set, not just access to remote and rural areas. Rather than assuming a CSO, specific research is needed to demonstrate the nature of the CSO, its scale and how it relates, or otherwise, to road access conditions. Road pricing reform, including CSOs/externalities, should be central to the NHVR process.
- Q13.** Do you agree that this determination should not consider heavy vehicle concessions?
- A. Yes
- Q 14.** Do you agree with the NTC’s recommendations to disregard electric heavy vehicles for the purposes of this determination? Why or why not?
- A. Yes. This is a transitional determination and EVs are not currently large in number. However, Australia must transition quickly to EVs in coming years, with the HV charging approach structured to cope with that switch. This should involve mass, distance, location pricing, using telematics (which will be more societal-cost reflective).
- Q15.** Do you agree that the NTC should collect data on alternative fuel vehicles to monitor whether their number becomes sufficiently large to warrant further action?
- A. See answer to previous question. This must be monitored and a new pricing model developed over the next few years.
- Q16.** Do you agree with the NTC’s recommendation to recalculate the regulatory component of registration charges using the existing methodology and updated data? Why or why not?
- A. As illustrated in this submission, the formula used imposes the highest relative registration cost share on 2 classes of buses, which seems the opposite of what a cost-driven approach should produce. Why should a relatively safe mode, with established safety systems (including accreditation in most cases) be hit hard by the costs for a regulator? The costs for a regulator should be highest on those who most need to be regulated, for reasons such as their poor safety record, not on those with long established safety practices, with their own regulatory underpinnings. The cost drivers here need more thought.
- Q17.** Do you agree that the regulatory component of registration charges should be adjusted from year to year to reflect the approved NHVR budget using an automatic adjustment provision in the Heavy Vehicle Charges Model Law?
- A. Yes, once proper cost causation is embedded in the cost allocation formula. Any such automatic adjustment should be limited to 5 years maximum, by which point cost drivers should be

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recalibrated.

Q18. Do you agree that the three options outlined should be considered as the options to be assessed in this determination?

A. The bus industry has serious concerns about the change in the way ESA-kms have been handled – this has a big adverse impact on bus, for a cost attribution process that is subject to uncertainty, as shown by differences between Options B and C in terms of how they treat this matter, as compared to the current approach.

Q19. If not, what other option(s) should be considered.

A. Sensitivity testing should be done on the ESA-km values, covering a wider range of allocations. For example, the Option C approach uses different values to the Option B approach, so there is no uniquely defensible set of numbers. Yet the NTC preferred approach, Option B, will hit bus harder than the Option C assumptions about ESA-km proportions. Sensitivity testing should explore this issue and proposed charges be re-considered in light of the findings. A thorough review of cost attribution factors is required on ESA-kms to reduce uncertainty.

Q20. What cost allocation option is the best to calculate the heavy vehicle cost base for this determination? What are the reasons for your preference?

A. The modified cost base option (Option B), since most of the 7 changes it makes to the status quo approach seem defensible. However, this submission has frequently expressed concerns about how the ESA-km values and HV regulatory costs are allocated, in terms of how they impact bus charges. The whole cost allocation process should be reviewed as a matter of urgency, and particularly in relation to ESA-kms. Concerns about adverse impacts on a particular vehicle category (or categories) could be handled partly through the choice of the overall cost recovery rate that is pursued and choice of implementation pathway but ideally implementation pathways would not be used to cover over weaknesses or uncertainties in cost allocation methodologies, as they affect particular vehicle classes. Reducing uncertainties about valid cost attribution parameters is critical for confidence in the charging process, while use of registration charges is the best mechanism to manage concerns at individual vehicle category level.

Q21. Has the NTC identified the right implementation options? If not, what other options should be considered?

A. There should also be an option that uses 2% annual charge increases, to widen the detailed choices available to Ministers. This may marginally reduce the rate of cost recovery but the current economic circumstances are not suited to lifting cost recovery rates. The NTC report shows that HV revenues exceeded allocated costs for a few years prior to 2017-18 than fell short of these costs for some years. In other words, these things change over time, sometimes delivering a surplus, so there is no imperative to lift the cost-recovery rate at present, when industry is under pressure, such as the touring bus sector, which has been severely impacted by COVID.

Q22. Do you agree with the NTCs initial assessment of the implementation options and examples against the combined pricing principles? If not, how would your assessment differ?

A. The assessment is quite comprehensive but does not identify how severely the bus sector, and particularly the hard-working route/school bus and charter/touring sectors, will be affected by the changes in the cost allocation approach. This is a serious equity and efficiency issue (e.g., bus produces many external benefits, some of which will be lost if the charges that are set out proceed). Given constraints on available charging instruments (there are only two), then changes to implementation pathways are one way to help mitigate such concentrated inequitable impacts but, as noted above, revised registration charges are probably a preferable option, having the benefit of

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being vehicle-class specific.

Q23. Do you have any views or comments in the likely implications of each of the implementation options and examples on industry or governments?

A. There are some examples discussed in this submission that precedes the answers to these questions. The BAN also notes that, if registration charges are reduced on one or more vehicle classes (as we propose for bus) then state revenues will reduce. This should not be a serious issue, since electrification of the vehicle fleet in coming years will be far more disruptive of governmental transport revenue flows.

Q24. Which implementation option do you prefer? Why do you believe it strikes the best balance in furthering the pricing principles.

A. The bus industry preference is for a new implementation option, Option D, which has 2% annual charge increases. The industry also proposes a review of the registration charges proposed for bus, designed to at least cover attributable costs. The reasons for this approach/preference are set out in detail in this submission. In summary, Section 4.4 puts the case this way:

Recognising:

- the substantial charging impact on bus, particularly 2-axle buses > 12 tonnes and 3-axle buses, arising from changes in the way ESA-kms have been used in the cost allocation process, and uncertainties about the accuracy of the ESA-km allocation process;
- questions about the way regulatory costs are allocated through the registration charge;
- the societal external benefits that are associated with bus use and likely loss of external benefits if bus charges increase substantially and;
- acknowledging that bus understands the importance of covering at least its (accurately estimated) attributable costs,

the bus industry requests that NTC find a way to mitigate the impact of its cost allocation decisions on the bus sector, which will be hit hard by those decisions. The following specific actions are proposed.

1. There should be an urgent review of the cost allocation procedures used as a contributor to the HV charging process, particularly in relation to ESA-kms.
2. NTC should examine the implications of a 3-year 2% p.a. implementation pathway which would become Option D, this being the bus industry's preferred pathway. This rate of charge would apply to all vehicles and would mean a slight step backwards in the rate of overall cost recovery achieved, as compared to the current NTC options. However, as noted in Section 2.3, HV charges sometimes under-recover allocated expenditures but also sometimes they over-recover, so this is a moving target: under-recovery is not a given. A 2% p.a. implementation pathway is likely to be defensible in the current political environment and it will provide the responsible Ministers with a wider range of options to consider.
3. NTC should review the proposed levels of registration charges for bus, taking account of the results from the review of ESA-km attribution factors from proposal 1, the safety performance of bus compared to trucks and how this is best be reflected in the way their costs of the NHVR are recovered. Bus registration charges, by bus category, should be set to at least recover well estimated attributable costs, with any charges above that base limited to the proposed 2% p.a. pathway we propose for Option D.

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