

Land Transport Market Reform  
Independent price regulation of  
heavy vehicle charges paper  
Transurban's response



# ABOUT TRANSURBAN

Transurban manages and develops urban toll road networks in Australia and the United States of America (USA).

Our vision is to strengthen communities through transport. We aim to be the partner of choice for governments, communities and investors in providing innovative and effective transport solutions that meet the long-term needs of growing cities.

Transurban was established in Melbourne in 1996 and is an Australian-owned and operated company listed on the Australian Securities Exchange.

## Supporting road funding reform

Transurban is a vocal advocate for road-funding reform. We believe that Australia's current system of opaque fees and charges and rapidly diminishing fuel excise should be replaced with a transparent charging system that is built on the principle that those who benefit, pay, while ensuring fairness across the community. A user-pays road-charging system would generate a more sustainable funding stream to cater for our future infrastructure needs. It could also include mechanisms to equip policy makers with the ability to manage demand across the network through charging signals to help relieve urban congestion.

In 2016, Transurban completed Australia's first practical study to examine drivers' preferences and awareness when it comes to road funding in Australia. The results of the almost 18-month long study indicate a user-pays system could work in Australia and demonstrate the flexibility a user-pays system could offer in enabling a wide range of price-signal options to help manage demand.

Transurban's Road Usage Study findings are detailed in this submission and more information can be found at [changedconditionsahead.com](https://www.transurban.com.au/changedconditionsahead).

## FEEDBACK RELATING TO THE DISCUSSION PAPER

In the face of rapid changes in vehicle technology, growing road infrastructure demand and an increasingly informed road-user population, road funding and investment is one of the key transport challenges facing Australia and other nations across the world. Road-user charging and its transparent, equitable and efficient collection and distribution forms a fundamental part of providing a solution to this challenge.

In its discussion paper, *Land Transport Market Reform Independent price regulation of heavy vehicle charges*, the Department of Infrastructure and Regional Development points to the independent regulation of heavy vehicle charges as a key part of the broader heavy vehicle road charging reform roadmap. In addition, the paper notes that while no decision has been made to pursue light vehicle charging at this time, any design of heavy vehicle charging institutions and policies should consider how light vehicle charging reform may leverage the learnings from heavy vehicle reform to avoid sunk costs and duplication.

Transurban supports the broader reform of road-usage charging and in this context, commends the government for progressing heavy vehicle road charging reform as a potential first step in this regard. We believe the funding system for land transport represents the most significant opportunity for public-policy reform in Australia's infrastructure sector.

We believe that reform is critical to address two key challenges, which are:

- the sustainability of a funding source and its ability to grow with demand, and
- demand management and the ability of a system to help ease congestion.

We believe that an effective road-pricing system would provide the flexibility to meet these challenges.

Transurban has taken a leading role in contributing tangible insights to progressing the road-user charging discussion. Transurban's Road Usage Study, which was completed in 2016, showed that moving to a user-pays system would likely generate a sustainable funding source that could meet our infrastructure needs. It also indicated that a user-pays model could help manage demand through the use of charging signals to vary driving behaviours in congested geographies and at peak travel times.

The study showed a swing in participants' preference from the current system, which they initially knew little about, to a user-pays model. By experiencing a different way of paying for their road use, participants could see the benefit of a direct and transparent user-pays model over the current system of opaque fees and charges.

For reform to progress, a number of critical components would need to be considered. Two of the fundamental components are firstly to ensure that policy objectives are clear and secondly, that these objects enjoy broad-based community support, achieved through ongoing engagement during the policy development and deployment processes.

Study participants provided insights into several elements that should be considered in the design and implementation of any new system including:

- transparency and awareness
- choice
- fairness
- technology
- privacy and information security.

While the study focused on private light vehicle road user charging, we are supportive of the paper's view that heavy vehicle charging could be the forerunner of future light vehicle reform. We believe that this future state should be considered in the design of heavy vehicle reform, and as such, the learnings from our study are applicable in our response to the specific questions posed in the paper and answered in the table on the coming pages.

Transurban is supportive of the economic principle of "user pays" and the associated obligation for efficient and effective investment in infrastructure where it is most needed to deliver an agreed quality of service. Any such reform should remain cognisant of the need for a fair and equitable approach to resolving some of the societal challenges of a road user-charging regime. In this context, the ultimate provision of a comprehensive road user-charging scheme (for heavy and light vehicles) is likely to involve partnerships between private enterprise and government, each with their own incentives and stakeholder obligations.

With this in mind, while we are very supportive of heavy vehicle reform, we are of the view that the provision of conceptual design of a possible future broad-based road-user charging scheme, articulating the roles all market stakeholders might play, would enhance the input to papers of this nature. It would also enhance the design of an independent price regulator for heavy vehicle road charging and ultimately futureproof its transformation to an economic regulator for both heavy and light motor vehicles.

For further information about the information provided in this response, please contact Senior Policy and Communication Advisor Alida Merson via email [amerson@transurban.com](mailto:amerson@transurban.com) or phone (03) 8656 8292.

## Summary

We have provided some specific points of feedback to the DIRD’s discussion paper in the table below.

Question	Response	Feedback
<b>Q.1 Do you have any comments, concerns or observations in relation to the transition from the current process to independent price regulation?</b>	Yes	<p>While the proactivity of the Department in progressing the heavy vehicle (HV) charging reform agenda is to be commended, we note that the value of stakeholder input on the role of an independent price regulator might be further enhanced. It could be enhanced if there was a clearer articulation of guidelines and principles for steps 3 and 4 of the HV reform agenda, namely:</p> <ul style="list-style-type: none"> <li>• returning of road charge revenue to road owners based on use</li> <li>• implementation of more direct user charging, where available.</li> </ul> <p>Achieving appropriate design of the independent price regulator is particularly relevant, if as noted in the paper, HV reform should complement future light vehicle charging reforms. It is important that we learn as much as possible from this important step if we are to ensure an equitable and sustainable reform of our overall road funding, and facilitate a seamless approach to possible future demand management schemes that are being considered for our major cities.</p>
<b>Q.2 What do you understand independent to mean? Do the options presented in the paper accord with that understanding?</b>	See details at right	<p>Independence should allow the regulator to efficiently meet its mandate in an equitable manner, free from bias, undue influence and excessive bureaucratic burden in both the planning and delivery of the HV pricing function. To achieve this, entrenching the OECD best practice principles referred to in the paper relating to role clarity, independence from government and the regulated industry, suitable decision making and governance structures and the necessary authority to collaborate with relevant bodies and individuals to access information and disseminate and monitor regulations and compliance is key.</p> <p>Of the options suggested in the paper, Option 1 (the ACCC) provides the most obvious required level of independence, as well as additional benefits of national consistency and price-regulatory experience. We believe, however, that decisions made in this regard for the HV road-pricing regulator, should not preclude an alternative approach as the development of full market reform solution evolves.</p>
<b>Q.3 In the short term, while the price regulator would only be regulating prices for heavy vehicle charges, could user concerns be adequately addressed through regulatory rules or is an appeal process needed?</b>	Regulatory rules will suffice in the short term	<p>In the short term, we believe that regulatory rules would provide an efficient approach to facilitating the transition to an independent price regulator for heavy vehicles. However, the scope and process of establishing these rules would need to be developed in conjunction with industry stakeholders (e.g. NTC, HV road-user groups, etc) to ensure broad-based support for a fair and equitable set of rules. If this broad-based support is not possible, an appeals process should be considered as a means to achieve general acceptance.</p> <p>As mentioned in the paper, as the price regulator evolves to an economic regulator, or as consideration is given to extending any HV road-pricing concepts to light motor vehicles, we believe that the need</p>

for an appropriate appeals body and process, should to be reassessed. This should be undertaken in the context of the holistic design of the road-user charging market, including all key role players as mentioned in the introduction to this response.

**Q.4 How important is a nationally consistent approach to the regulation of heavy vehicle charges?**

Very important

Nationally consistent application of the road-usage charges is a vital step to ensuring an efficient, fair, and sustainable road-user charging regime, and as such, a nationally consistent approach to HV road charging is a necessary first step. This will avoid the inevitable inefficiency of managing a multitude of diverse state based options.

The current PAYGO system has established this principle, and the paper clearly articulates other benefits relating to consistent standards and road-asset-management methodologies. However, the regulatory-rules-management approach discussed in Question Three should ensure that this nationally consistent approach is able to fairly deal with HV road-users from across all states, territories and usage types.

**Q.5 What do you consider more important for establishing an independent price regulator for heavy vehicle charges, organisational capacity in economic regulation or industry specific expertise?**

Economic regulatory capacity supported by industry experience

While both elements are critical for the successful deployment of price and ultimately economic regulation of a road-user charging scheme, the complexity that will inevitably comprise the design of full road-user-charging reform dictates that economic regulatory experience is the primary requirement. Industry expertise can be contracted and/or developed to support the price and economic regulatory function for HV road-usage pricing.

As the reform extends across different sectors, additional experience can be engaged, however, the economic design of the road-pricing-reform market should be consistent, equitable, sustainable and transparent.

**Q.6 What would be your preferred option for establishing an independent price regulator for heavy vehicle charges?**

Option 1, drawing on the experience of the NTC to facilitate transition

Refer to context, and responses to Questions Two and Five.

**Q.7 Does there need to be a structural separation in the roles of price development and price regulator?**

No split, however industry expertise is critical

Independence should be entrenched in the establishment of the HV pricing regulator as proposed in the paper and articulate further in Question Two (above). This independence should extend to both the development and regulation of the price, given this assumed independence, the role of the price setting and regulation need not be separated, provided that industry experience (as currently held by NTC) is integrated into the price-development function.

**Q.8 Are the functions of the economic regulator, as discussed in this paper, appropriate in the heavy vehicle sector. What**

Yes

The functions of an economic regulator as articulated in the paper are appropriate for initial development of HV-charging reform. As full market reform progresses, additional consideration should be given to ensuring that the road-user-charging market is delivered efficiently, by leveraging learnings HV reform and including elements of economic

**should/shouldn't an economic regulator do?**

incentive into the final reform design (see Question Nine response) in conjunction with additional stakeholder input.

**Q.9 Is a model law the best approach for bringing governments under the same regulatory model?**

Initially model law with economic incentive ultimately included in the model law design

Model law is practical and efficient as an approach to nationally consistent implementation. However, as further consideration is given to full road-user-charging reform, approaches such as economic instruments should be included in the design of a sustainable, fair and efficient road-user-charging regime. This will allow road infrastructure and services to be developed where they are most needed, and delivered by role players that can provide the required quality of service most efficiently.