

**INQUIRY INTO REMOVING OR REDUCING STATION
ACCESS FEES AT SYDNEY AIRPORT**

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NSW Government submission

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ECONOMIC IMPORTANCE OF INTERNATIONAL GATEWAYS

Sydney Airport is an international gateway and major contributor to the NSW economy, with an estimated economic impact worth \$27.6 billion and supporting associated employment of 283,700 jobs.¹ Sydney Airport is among Australia's most significant pieces of transport infrastructure, facilitating the movement of more than 36 million passengers and 395,000 tonnes of international airfreight annually. It is for these reasons that the Government has prioritised investment in this precinct, and will continue exploring options to extract further value from both Sydney Airport and Port Botany.

The growth in the airport's economic contribution over coming years will be shaped by a number of factors, including air traffic growth, passenger movements, landside infrastructure demands and airport development. Sydney Airport Corporation Limited (SACL) expects that by 2033 the airport's economic impact is expected to grow to \$42.1 billion with associated employment growing to 432,000 jobs. This economic contribution will be underpinned by continued growth in annual passenger movements which are expected to grow to 74.3 million in 2033, an average annual growth rate of 3.4%.²

Forecast growth at Sydney Airport up to 2033 will require investment in offsite infrastructure to ensure that the precinct is able to meet growing demand. The Government's infrastructure investment program and its strategy for Sydney Airport have prioritised increasing access to and reducing congestion in and around the airport precinct, as part of an approach to support growth and maximise the utilisation of the existing assets.

CURRENT NSW GOVERNMENT ACTIONS & INVESTMENT

The NSW Government has published a suite of strategic planning documents which outline the State's infrastructure investment priorities. The State Infrastructure Strategy, the Long Term Transport Master Plan and the Draft Metropolitan Strategy identify a number of priority projects that relate to transport access and productivity in the Sydney Airport and Port Botany precinct. Short term projects include implementing the WestConnex Enabling Works, investigating potential additional bus services to the airport, and undertaking a review of the Station Usage Fee (SUF) applied to train fares at International Airport and Domestic Airport stations.

These initiatives are aimed at addressing the constraints experienced by the road and rail networks in the airport and port precinct, with around 130,000 land transport trips to and from the airport each weekday. Without additional investment in transport infrastructure and services, forecast growth in airport passenger movements will exacerbate transport access pressures in the precinct, reducing the economic productivity of Sydney Airport and Port Botany over time.

The NSW Government is working with SACL and the Federal Government to effectively manage these pressures by delivering road network and public transport improvements. In September 2012, SACL and Transport for NSW (TfNSW) undertook a joint survey which identified the mode split for users accessing the airport (includes passengers, staff and meters/greeters - see Table A), with results indicating that 17% of airport users travel by public transport.

The Sydney Airport Preliminary Draft Master Plan (PDMP) targets a public transport mode share for airport users of 23% by 2018 which, if achieved, could significantly alleviate congestion on the road network. This objective is consistent with current NSW Government actions and investments in the airport and port precinct, designed to increase road capacity.

¹ 'Economic Value of Sydney Airport', Deloitte Access Economics, January 2013.

² 'Preliminary Draft Master Plan 2033', Sydney Airport Corporation Limited, June 2013.

Table A: survey results indicating transport mode share for people accessing Sydney Airport (September 2012).³

Private vehicle	Taxis / coaches	Trains / buses	Walking	Other
47 %	31 %	17 %	2 %	3 %

Improvements to the road network

The NSW Budget 2013/14 allocates \$1.8 billion to start construction of WestConnex and \$282 million for the WestConnex Enabling Works (Port Botany and Sydney Airport Precinct). WestConnex will reduce travel times between Western Sydney and Sydney Airport by duplicating the M5 East and extending the M4 to the airport and inner city. Preliminary work on WestConnex includes designing interchanges and connections that will serve the airport and port precinct, including lands to the immediate north around Mascot and Green Square.

The WestConnex Enabling Works include three priority road capacity upgrades that will reduce traffic congestion in the airport precinct in the short term, with \$15.3m allocated in the 2013/14 NSW Budget (see Table B). These projects are being progressed in consultation with SACL and are currently in the planning and investigation stages.

Table B: WestConnex Enabling Works (Port Botany and Sydney Airport Precinct).

Project	Total cost	Expected completion
Mill Pond Road widening	\$160m	June 2018
Joyce Drive widening	\$62m	June 2018
General Holmes Drive (removal of rail crossing)	\$60m	June 2018

Current and future actions to improve road capacity must adequately manage network demand, with peaks in air passenger movements coinciding with peaks in road and rail use for through traffic:

- the peak arrival time for departing passengers at the airport (6am to 8am) coincides with arriving airline passengers and the early morning peak for non-airport traffic; and
- the peak arrival time for employees at the airport (4am to 8am) coincides with the pre-peak and early morning peak periods on the precinct road network and the peak arrival time for departing passengers.⁴

The terminal development concept outlined by SACL in the PDMP aims to more evenly distribute traffic between the terminal precincts. However, this is not expected to completely

³ Sydney Airport Travel Survey (unpublished), Sweeney Research and AECOM, September 2012.

⁴ 'NSW Government response to Sydney Airport Preliminary Draft Master Plan', NSW Government, August 2013.

resolve congestion issues and additional measures will become necessary. Improved utilisation of the public transport could assist in creating additional road network capacity.

Additional bus services to the airport precinct

As well as road network improvements, the NSW Government is investigating new and extended bus route options to the airport. The Route 400 (Burwood to Bondi Junction) is currently the only public bus route that directly services the airport, with capacity to convey approximately 400 passengers per hour from both directions.⁵ Additionally, the 410 bus route stops on Qantas Drive adjacent to the Qantas Jetbase. The extent to which Sydney Airport is currently serviced by buses can be compared with Heathrow Airport in London, which is serviced by 29 bus routes.⁶

TfNSW has implemented new routes commencing from October 2013 as part of the Government's timetable reforms for all transport modes in Sydney. This includes a new east-west bus route created between Burwood and Bondi Junction via Mascot, Sydenham and Ashfield, created by linking and marginally rerouting the existing 357 and 418 services. Further improvements to bus services in the airport precinct may be investigated following the delivery of the CBD and South East Light Rail project along the Anzac Parade corridor as this will enable the reconfiguration of Eastern Suburbs routes.

A new bus facility in the Domestic Terminal precinct was identified in Sydney Airport's PDMP for development in the next five years. TfNSW is working with Sydney Airport in order to consider additional bus services at the airport.

In reviewing opportunities for additional bus services to the airport, it should be noted that the concession agreement governing the operation of the Airport Line has a material change clause which may require the Government to compensate the concessionaire, Airport Link Company (ALC), for events where a State or Commonwealth Government body:

- develops or substantially upgrades, or grants a concession to develop or substantially upgrade an alternative subsidised land-based public transport route between the CBD and the airport (other than a motor vehicle traffic route); or
- takes actions relating to servicing the transport needs of the public along the route of the line or the areas surrounding the line which discriminate against ALC in its operation of the Stations.

Such an event must have a material effect on ALC's performance, for example, the level or timing of revenues or outgoings of ALC.

Taxi access at Sydney Airport

Taxis play a major role in providing access to and from Sydney Airport. TfNSW has announced that 250 new peak availability licences will be released from 1 July 2013 to ensure there are enough taxis to meet growing demand from customers. This means that more taxis will be available for customers when demand in Sydney is high, which includes some periods on Friday and Saturday nights before the 11pm airport curfew. As 31% of passengers currently access the airport by taxi and coaches, release of the new peak availability licences will support projected passenger growth at the airport.

SACL currently levies a \$3.50 charge per fare for taxis accessing the airport, raising approximately \$9.5m in 2011/12.

⁵ 'NSW Government response to Sydney Airport Preliminary Draft Master Plan', NSW Government, August 2013.

⁶ 'Economic regulation of airport services', Productivity Commission, December 2011.

Expanded passenger rail capacity

The NSW Government is investing in initiatives to improve the customer experience on the train network, including integrated electronic ticketing, a new wayfinding system, maintenance reforms to minimise disruptions caused by track work, and customer service improvements.

From October 2012, the NSW Government's timetable reforms have increased the number of services to the airport from six per hour in the peak to a minimum frequency of eight trains an hour between the airport and City Circle stations between 7am and 9pm weekdays. Peak services will increase further to 12 trains per hour following the completion of the South West Rail Link in 2016. In addition to these improvements, if implemented future upgrades to power supplies and safety measures outlined in *Sydney's Rail Future* (June 2012) could allow for up to 20 services per hour on the Airport Line.

The new timetable makes use of the Kingsgrove to Revesby track quadruplication, which allows longer distance express services to operate on separate tracks and overtake all-stations services. This reduces journey times for longer-distance customers and improves reliability for all customers on the Airport Line by separating services.

Improved freight access to Port Botany

Developing capacity to service increased container freight will be critical to future economic growth and Port Botany is already the second-busiest container port in Australia. Given this importance, the focus of the Government's work is to enhance the capacity of rail freight lines to divert freight traffic from road to rail as this will improve freight network reliability and reduce pressures on the road network.

The Government has invested in the Enfield Intermodal Logistics Centre that will service rail freight shuttles transporting containers from Port Botany, and also supporting the Australian Rail Track Corporation (ARTC) upgrade of the Port Botany Freight Line and Botany rail yard capacity. The Government also supports the development of the Moorebank Intermodal Logistics Centre which will assist the rail mode share targets for containerised freight.

The Government's program of works to improve road infrastructure productivity, including the WestConnex Enabling Works, are intended to remove bottlenecks which impede the overall efficiency of the road freight network servicing both the Port and the Airport.

BACKGROUND TO THE AIRPORT LINE CONCESSION

The Airport Line is an underground railway with two tracks between Central Station and Turrella on Sydney Trains' T2 Airport Line which passes under Redfern, South Sydney and Sydney Airport. The privately operated components of the line comprise four underground stations at Green Square, Mascot, Domestic Terminal and International Terminal.

The airport stations and line were developed as a public private partnership arrangement between the NSW Government and a consortium of private sector investors operating as ALC. Under the terms of the Original Stations Agreement, ALC was required to finance, design, construct, operate and maintain the Green Square, Mascot, Domestic Terminal and International Terminal stations. The airport stations commenced operations on 20 May 2000, and the concession agreement ends on 20 May 2030 following which the stations will revert to the NSW Government.

In 2005, RailCorp and ALC agreed to settle disputes that existed between the parties and amend the terms of the Original Stations Agreement. This resulted in the Restated Stations

Agreement. A contract summary of this agreement is available on the NSW Treasury PPP website.⁷

RailCorp owns the Wolli Creek interchange station and the tunnels, tracks, and signalling systems of the entire T2 Airport, Inner West and South Line.

The Station Usage Fee

Under the concession, ALC primarily earns revenue from the following sources:

- a SUF levied on station users of the Domestic and International airport stations (currently around \$12.30 per single full fare adult ticket), and
- a 'shadow' SUF paid by RailCorp for each entry and exit to the Green Square and Mascot Stations (currently around \$2.08 per fare).

The airport stations SUF is charged for all trips to and from International and Domestic stations and is in addition to the standard Sydney Trains fare. A net revenue sharing arrangement provides for RailCorp to receive:

- 50% of excess cash flow (revenues less specified costs) when the present value of cumulative excess cash flow reaches \$181,969,549 (as at 2001). This threshold was reached 31 January 2013, and
- 85% of excess cash flow when the present value of cumulative excess cash flow reaches \$212,009,777 (as at 2001). This threshold is expected to be reached in late 2014.

This arrangement enables the Government to share in any surplus net revenues earned above a base level of revenues that compensates ALC for their investment in the stations. Any revenues that the Government receives from this mechanism would help to recover the Government's significant investment of around \$550m in the design and construction of the publicly funded Airport Line tunnel and track works.

The SUF component of the combined airport stations' fare price is determined by ALC and is not regulated within the contract and is not regulated by the Independent Pricing and Regulatory Tribunal (IPART). Airport Rail Line fares generally include a portion of the fare related to the rail journey, which varies by distance and time of day, as well as the flat rate SUF for entry to or exit from an Airport Line station. Both components of the fare, the rail journey and the SUF, generally vary in line with other Sydney Trains fares, including for singles, returns, concessions and periodicals. Multi-modal ticket holders can purchase a separate 'GatePass' ticket to use in conjunction with their existing ticket.

In March 2011, the NSW Government and ALC agreed to remove the user paid SUF from Sydney Trains fares charged for travel to and from Green Square and Mascot stations. To compensate ALC, RailCorp pays ALC a 'shadow' SUF at a fixed contracted rate per entry and exit of these stations. The March 2011 agreement did not affect the application of the SUF at the two airport stations.

RailCorp receives 50% of net revenues (expected to rise to 85% in approximately late 2014) under the concession agreement. RailCorp currently receives \$25m per annum from this source, and this is expected to rise to around \$50m by 2016/17 as RailCorp' revenue share increases.

⁷ 'Contract Summary - Restated Stations Agreement', NSW Treasury, November 2005, see: http://www.treasury.nsw.gov.au/__data/assets/pdf_file/0009/3105/railways-contract.pdf.

The concession does not provide for the Government to alter the terms without the consent of ALC as concessionaire. Therefore commercial negotiations between the Government and ALC would be required in order to implement any decision to reduce the SUF.

PATRONAGE ON THE AIRPORT LINE

In the period 2008-2012, patronage at the airport stations has grown at an average rate of 10% annually. This growth may in part reflect improved advertising of the service by ALC and SACL and the relative efficiency of the rail services compared with the increasingly congested roads. The four Airport Line stations accommodated 11.3 million passengers during financial year 2012/13, including around 5.8 million at the airport stations and around 5.5 million at Green Square and Mascot Stations.

The 2011 agreement between the ALC and the Government to remove the SUF at Green Square and Mascot stations resulted in a patronage increase of more than 100% at these stations. However an increase of this size is unlikely to be repeated at the airport stations if the SUF was reduced or removed, due to the different journey characteristics of a passenger accessing suburban station and an airport station.

The relatively lower expected patronage increase reflects the core differences between the two passenger transport markets (International/Domestic and Mascot/Green Square):

- Mascot/Green Square users are typically home to work commuters travelling with weekly fares. This compares with the majority of International/Domestic station users travelling with a single fare, reflecting their one-off or occasional use of the airport.
- Air passengers selecting an alternative mode for convenience of travel, such as those travelling with significant checked baggage, would not be expected to respond significantly to a change to train fare pricing.
- Air passengers are also likely to value the travel time saving benefits of direct transport options (taxis and private vehicles), particularly given the cost is occasional rather than a daily expense.
- Air travellers accessing the airport infrequently or as part of a business journey have high levels of price elasticity and would not be expected to respond strongly to a more competitively priced train fare.

Future growth rates in patronage after any initial impacts are also difficult to estimate and need to take into account the cost and availability of other transport modes.