

**Submission  
No 1**

## **INQUIRY INTO ROAD TOLLING**

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# Legislative Council General Purpose Standing Committee No. 2

## Inquiry into road tolling

Submission by:

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### Disclosure statement

I do not work for, consult, own shares in or receive funding from any company or organisation that would benefit from the outcome of this Inquiry.

### 1 Introduction

The terms of reference for the Inquiry are as follows:

1. a review of the tolling regimes in place on different roads and an explanation for the differences between each
2. the process for determining how tolls are set for all types of vehicles, the length of tolling concession periods, the rationale for extending these concession periods and opportunities to increase transparency for the public, particularly given the absence in some instances of any competitive process
3. how tolling contracts are negotiated and varied and opportunities to increase public scrutiny and accountability of the negotiations that take place between private tolling companies and the NSW Government
4. the rationale for allowing higher than CPI increases on certain tolls
5. the extent of any consultation undertaken with the trucking industry before changes are made to tolling regimes
6. the appropriateness of involving the Independent Pricing and Regulatory Tribunal (IPART) in the determination of tolls and their escalation, given the involvement of IPART and other such independent regulators in setting public transport fares and other services such as electricity transmission and distribution charges
7. opportunities to increase the assurance to the public that tolling arrangements represent the fairest possible outcome
8. an examination of road tolling arrangements in overseas jurisdictions, and

9. any other related matter.

My submission addresses the emerging issue of new tolls being levied on existing motorways in Sydney, to cross-subsidise the construction of new toll roads elsewhere.

## 2 Cross-subsidising the construction of new toll roads with new tolls on existing motorways

1. The NSW public are accustomed to tolls being collected on new toll roads to fund their construction and maintenance, even though this results in a very inefficient and inequitable road-pricing regime.
2. However, the \$17bn cost of the WestConnex toll road scheme, currently under construction, cannot be met using this funding model, despite significant Commonwealth and NSW Government subsidy totalling \$5.1bn to date.
3. For this reason, the private owner of WestConnex (currently Sydney Motorways Corporation) is to be granted the toll concessions (until 2060) for two existing motorways that are currently free: the M4 West and the M5 East [2].
4. In addition, the private owner of WestConnex will be granted the toll concession for the existing M5 West from 2026 (when the current concession ends) until 2060 [1].
5. At present, the toll for the M5 West is \$4.52 each way (\$13.56 for trucks), although it is effectively only \$0.41 each way for private users, who can claim a refund through the M5 West cashback scheme (the \$0.41 GST component is not refunded).
6. The M5 West cashback scheme is due to end in 2026.
7. From 2026 to 2060, the private operator will be allowed to charge passenger/light vehicle users a toll of \$4.44 each way on the M5 West (2015 prices). The M5 West toll will increase with CPI. The M5 West toll will not count towards the WestConnex toll cap [1].
8. I calculate the cost for people driving passenger/light commercial vehicles between southwest Sydney and the city will increase as follows:

### **Liverpool <-> Airport, via M5 West and M5 East**

	Year		
	2016	2020	2026
M5 West toll	\$0.41 <sup>a</sup>	\$0.45 <sup>a</sup>	\$5.75 <sup>b</sup>
M5 East toll	\$0.00	\$6.37	\$7.75
One-way M5 toll	\$0.41	\$6.82	\$13.50
Daily toll	\$0.82	\$13.64	\$27.00
Weekly toll (5 days)	\$4.10	\$68.20	\$135.00
<b>Annual toll (48 weeks)</b>	<b>\$197</b>	<b>\$3,274</b>	<b>\$6,480</b>
<sup>a</sup> With cashback.			
<sup>b</sup> Assuming CPI growth remains at current level.			

## Liverpool <-> CBD, via M5 West, M5 East and Eastern Distributor (ED)

	Year		
	2016	2020	2026
M5 West toll	\$0.41 <sup>a</sup>	\$0.45 <sup>a</sup>	\$5.75 <sup>b</sup>
M5 East toll	\$0.00	\$6.37	\$7.75
One-way M5 toll	\$0.41	\$6.82	\$13.50
ED toll <sup>c</sup>	\$6.88	\$8.07	\$10.14
Daily toll	\$7.70	\$21.71	\$37.14
Weekly toll (5 days)	\$38.50	\$108.55	\$185.70
<b>Annual toll (48 weeks)</b>	<b>\$1,848</b>	<b>\$5,210</b>	<b>\$8,914</b>
<sup>a</sup> With cashback. <sup>b</sup> Assuming CPI growth remains at current level. <sup>c</sup> ED is tolled only in one direction (northbound).			

9. The WestConnex business case [2] states: “Stage 2 was shown to be fully financeable in its own right if stapled to a new concession on the M5 West from 2027”.
10. The leaked WestConnex financing strategy [3] states: “For the purpose of the Business Case, ~\$1.7 billion of financing has been assumed to be generated through the sale of a new concession on the existing M5 West from 2026 to 2060”.
11. This \$1.7bn estimate assumes “current market conditions”, i.e., with a cashback scheme in place. The cashback scheme is due to end in 2026, meaning costs for private users will increase significantly (see tables above). Patronage and toll revenue will fall accordingly, so I would question the \$1.7bn estimate.
12. I understand the contract for the \$2bn Commonwealth concessional loan for WestConnex Stage 2 (New M5 East) requires that the private owner be granted the M5 West toll concession from 2026.
13. Effectively, western Sydney motorists will be cross-subsidising (what is essentially) an inner-city road freight scheme until 2060.

## References

- [1] Transport for NSW, 2015, WestConnex M5 Project Deed Schedules, <<http://www.rms.nsw.gov.au/documents/business-industry/partners-and-suppliers/tenders-contracts/contracts-awarded/westconnex-m5-project-deed-schedules.pdf>>, accessed 16 January 2017.
- [2] NSW Government, 2015, WestConnex Updated Strategic Business Case, <[https://www.westconnex.com.au/sites/default/files/updated\\_strategic\\_business\\_case.pdf](https://www.westconnex.com.au/sites/default/files/updated_strategic_business_case.pdf)>, accessed 16 January 2017.
- [3] Macquarie Capital, 2013, WestConnex Business Case: Financing Strategy, <<http://images.smh.com.au/file/2014/04/06/5328174/WestConnex%2520-%2520Financing%2520Strategies%2520-%2520Macquarie%2520-%2520FINAL%252016%2520July%25202013.pdf?rand=1396791142735>>, accessed 16 January 2017.