Transurban

NSW Independent Toll Review

Interim Report

Transurban response

14 May 2024

Thank you for the opportunity to respond to the Independent Toll Review Interim Report.

We support the objectives of the Review and are aligned in our efforts to make toll roads simpler and fairer for NSW motorists. We also recognise the significant work that Professor Allan Fels and Dr David Cousins have put into the Independent Toll Review to date, and we appreciate the scale and thoroughness of this undertaking.

Our detailed response to the Review's Interim Report notes the findings and recommendations we support, and those where we have presented our views to assist the Government and Reviewers in aligning the recommendations with the objectives of reform.

We welcome the opportunity to progress our discussions on how Sydney's toll roads can continue to support the city's liveability and prosperity for years to come.

Michelle Jablko
Chief Executive Officer

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About Transurban

We're an Australian-owned company, and everything we do is about getting people where they want to go, as quickly and safely as possible – from designing and building new roads to researching new vehicle and road safety technology.

Since 1996, we've been building and operating toll roads in Melbourne, Sydney and Brisbane, as well as in the Greater Washington Area (United States) and Montreal (Canada).

We employ more than 3,900 people across these cities, as well as many more through the delivery of projects – such as the M7-M12 Integration Project in Sydney which is supporting job creation in Western Sydney.

Transurban's NSW story started with our partnership with the then government to deliver the Westlink M7, which opened to traffic in 2005.

Since then, we have built a track record of partnering with multiple governments to successfully deliver and manage key road infrastructure, including delivering NorthConnex and WestConnex, and widening the M5 West and Hills M2 to help ease congestion as our city continues to grow.

On average, one million trips are made on our Sydney roads every day. These trips are being monitored 24/7 by our traffic control operators to ensure that motorways are safe and reliable for our customers. Our incident response crews assist any motorist in need and return the motorway to its free-flowing conditions.

An ASX-listed company, Transurban represents one of the most significant infrastructure investment opportunities available to everyday Australians. More than 70% of our investors are Australian. In addition many Australians hold Transurban shares through industry superannuation funds including UniSuper, AustralianSuper and Aware Super. These everyday Australians, like all our investors, share in the success of our business.

We are committed to strengthening communities through transport, providing leadership and taking action on environmental and social issues, and investing in both to create lasting benefits for all our stakeholders.

Acknowledgement of Country

Transurban acknowledges the Traditional Owners of the lands across Australia – in particular where we own and operate toll roads – and we pay respect to Elders past and present.

As caretakers and custodians of transportation in urban communities we have a deep respect for First Nations communities and culture and seek to celebrate pride in Country through engagement with, and providing opportunities for, First Nations peoples. We also celebrate connection to Country through artwork and design elements in our infrastructure.

To achieve our purpose, we will continue to foster positive and sustainable relationships with all communities, while progressing our efforts to contribute to Australia's reconciliation journey.

1. Executive summary

Sydney's toll-road network has been instrumental in supporting the liveability and prosperity of a sophisticated, growing city. It has played a critical role in the effective movement of people, goods and services, providing travel-time savings, and safer, more reliable journeys.

This infrastructure is the result of significant achievements by multiple governments, dating back almost a century to the Sydney Harbour Bridge. While keeping the sector heavily regulated and setting the toll price, governments have turned to the private sector for support, especially when under pressure to meet competing needs such as funding schools, hospitals and public transport links.

The result has transformed the way we move. Despite Sydney's population growing by around one million people in the past decade, morning peak travel time between the CBD and Parramatta has decreased by nearly 50%, or 25 minutes. Similarly, NorthConnex has reduced morning peak travel time between the M1 and M2 by around 72%, or 21 minutes.

However, the evolution of Sydney's toll roads has also resulted in a patchwork of different tolling regimes. The Independent Toll Review Interim Report is an important step in the process of understanding how we can deliver even better value and outcomes for Sydney into the future. In the past 20 years, Transurban and our partners have built a track record of working with both Labor and Coalition governments to successfully deliver and manage city-shaping infrastructure, and we look forward to that continuing, to deliver benefits to our customers and communities.

To assist in our review of the Interim Report, Transurban has consulted with Professor Graeme Samuel AC, former Chair of the Australian Competition and Consumer Commission, especially on matters related to competition and regulation.

Our response

Transurban has always been open and willing to discuss opportunities to improve Sydney's toll-road network, with a focus on finding practical solutions that meet Government objectives. Along with our investment partners, we have long been open to reform – to developing a more consistent approach to the development of tolling regimes to enhance efficiency, fairness, simplicity and transparency for users; and to joining the NSW Government in our shared focus on enhancing customer experience.

We continue to look for ways to create more value for motorists, approaching our business through a customer lens to deliver real and clear value on and off the road.

The Interim Report includes ideas that we've long advocated for, such as recommended changes to the NSW enforcement process regarding toll notices. We also support on-road signage improvements to help drivers make informed decisions. We have already taken steps and will continue to invest in and work on initiatives to improve this experience for our customers.

The Interim Report notes that, in the process of undertaking reform, existing contracts should be respected – another point we support. Following discussions with our investment partners in Sydney toll road concessions, there is a commitment from all parties to develop a suitable network-wide solution. We believe the principles of such a solution could be agreed within a short period of time within existing regulatory frameworks.[1]

Transurban remains open to finding alternative pricing regimes that are simpler, that result in more efficient network performance and that are equitable. This may include a range of measures such as distance-based rates, with infrastructure

[1] Refer to separate submission, titled *Submission to Toll Review from NSW Toll Road Partners*. The views in this submission are Transurban's only

charges for major tunnel structures and time-of-day pricing, noting solutions may vary on different roads to better achieve these objectives. Transurban believes this will deliver better overall network performance with a fairer and more equitable outcome.

Customer research commissioned for this response found that drivers are receptive to a peak/off peak (night and inter-peak) pricing approach. More than 60% of those surveyed were supportive of peak/off peak pricing and 57% thought this approach would improve toll pricing fairness. Any such solution would require discussion with our partners and require their consent.

Our response to the Interim Report also raises areas that need to be explored to help the public, the NSW Government and other stakeholders understand potential impacts of the draft findings and recommendations.

We have genuine questions about how some of the proposals in the Interim Report would work in practice.

Investment in our roads is supported by a complex funding structure (Figure 3) with numerous co-investors and lenders who, alongside us, have invested more than $36 billion into Sydney's road network. There have been times when contracts have been altered by agreement, to support the delivery of new road or public transport infrastructure.

However, these are investments and contracts lasting several decades, that should be viewed through a long-term lifecycle lens. This structure gives price transparency and consistency. Viewing these investments only from a short-term perspective would result in higher tolls and fluctuations based on the economic environment, which is not efficient and provides less price transparency for motorists.

Our analysis also shows that other aspects of the Interim Report's proposed solutions need to be reconsidered as they would run contrary to the NSW Government's objectives of improving the efficiency, fairness, simplicity and transparency of the toll road networks.

Our preliminary modelling of the Interim Report's proposed tolling solution suggests that overall, motorists in some areas of Sydney will pay more than they would under current arrangements as a result of: the proposal for distance-based tolling; the proposed introduction of two-way tolling on roads that are currently tolled in one direction; and the removal of toll caps. People who both live and work in Western Sydney, for example, would face higher tolls due to the increased prices on Westlink M7 (Figure 6).

Our preliminary modelling also suggests the proposed solution is likely to create unintended congestion consequences, with a preliminary estimate of 1.3 million hours[2] of additional travel time per year compared to current arrangements. The current tolling network is well established, so consideration should be given to the practical impacts of the proposed solution in terms of network congestion.

The proposed toll model would increase toll prices for some trips, which is likely to encourage motorists off some toll roads onto neighbouring arterial roads, increasing congestion on roads that are already at capacity.

The Interim Report suggests that toll pricing regulation is needed. However, toll roads are already one of the most regulated public assets in Australia, with prices set by governments at the start of concessions. Neither Transurban nor any other private toll-road operators set the prices of tolls, and tolls do not change according to ownership.

The Interim Report's proposal for a unified, network-wide price structure and a state-owned tolling entity – State TollCo – would add a level of bureaucracy that we believe would provide no meaningful benefit for toll road users. The proposal to set toll prices via declining distance-based tolling may appear simple at face value, but it raises challenges in its implementation for both motorists and toll road concessionaries.

[2] Analysis based on Transurban internal traffic modelling

Currently, our customers can calculate and readily understand the cost of each trip on a toll road. A switch to declining distance-based tolling would not make price transparency simpler, with different costs per kilometre applying to motorists for each trip, depending on their origin and destination.

Our research shows drivers choose to pay for toll roads for their convenience, and because these roads help drivers get to their destinations faster and more safely[3] – not because of a lack of alternative transport options. On average, Linkt customers travelling in a private vehicle spend $13.21 per week on tolls, with two-thirds spending less than $10 per week.[4]

It is important for the Toll Review to consider the benefits drivers are already experiencing each day. The existing model has created connections that make moving around the city more efficient, predictable, and safe, ensuring Sydney remains one of the most liveable cities in the world.

Priorities may change with governments but we have a demonstrable track record of willingness to explore reforms and of working with the State on solutions that benefit motorists and communities.

[3] Transurban, August 2023, Industry Report: Urban Mobility Trends, page 21
[4] Transurban (internal data), April 2023 to March 2024, Linkt Sydney consumer customers

2. Public-private partnerships (PPPs)

Summary

- PPPs are an effective model for delivering toll roads. PPPs have a track record of providing outcomes which benefit the community, freeing up Government to spend more money on schools, hospitals and transport links.
- Toll roads are one of the most highly regulated public assets in Australia with toll prices and maximum escalation rates set by Government at the start of concessions.
- Demand-based PPP models deliver reduced construction costs and improve customer service relative to other regulatory regimes.
- Compared to other forms of regulation assessed in the Interim Report, demand-based PPPs typically result in substantially lower toll prices in the critical early years of operation, where traffic volumes are lower and demand is ramping-up.
- There are significant risks inherent in large-scale infrastructure projects undertaken under a PPP arrangement. When risks materialise they are typically born by private investors, without impacting the motorist's experience.
- Changes to tolling regimes mid-concession hold significant risk. Investments have been made in good faith, and a shift in regulatory model to change existing contracts would call into question the State's reputation as a safe and stable region for future investment.

PPPs are used globally, and Australia has been a longstanding proponent of this model, which account for around 10% of the share of Australia's infrastructure spend.[5]

Planning for what is now the Sydney orbital road corridor began more than 70 years ago, under the 'County of Cumberland' planning scheme and was further developed by various policy measures implemented by both sides of government, including the then Labor government's 'Action for Transport 2010' plan (1998) which introduced cashless electronic tolling with new alignments for Western Sydney Orbital, Lane Cove Tunnel and Cross City Tunnel. Since then, network and motorway upgrades in Sydney have primarily been completed using the economic PPP model.

2.1 Benefits of private sector involvement

The ability of governments and the private sector to work together to create city-shaping infrastructure has been critical to the prosperity and liveability of Sydney.

Sydneysiders depend heavily on private vehicles, with our research finding most people surveyed (55%) commute to work or study via private vehicle.[6] The city's population is growing, and by the early 2040s it is estimated to rise by around 25%,[7] which will see more than 1.4 million additional people living, working and commuting around the city.

Despite this likely growth, the NSW Government is facing a road funding shortfall over the next decade. Additionally, loss of revenue from declining fuel excise (due to the uptake of more fuel-efficient cars and as people transition to electric vehicles) means even less revenue available for road funding.

[5] Infrastructure Partnerships Australia, 2019, Australian Infrastructure Audit 2019
[6] Transurban, August 2023, Industry Report: Urban Mobility Trends, page 15
[7] DAE September 2022 Land Use Forecasts, January 2023 Release

Economic PPPs have allowed the government to provide tangible outcomes for the community, while transferring the significant patronage risk to the private sector. This frees the public balance sheet for other priorities, such as health, education and public transport services (Figure 1).

Figure 1. Transurban investments in NSW[8]

Since 2005, Transurban and its investment partners have injected more than $36 billion (Figure 1) into Sydney's motorway network.

This has included upgrading existing assets such as Westlink M7 through the M7-M12 Integration Project which will improve connectivity in Western Sydney by reducing travel times on the M7. The new M12 will improve connections to the new Western Sydney Airport and also benefits from the upgrade to the M7.

It also has seen the delivery of new infrastructure such as NorthConnex and WestConnex that has fundamentally changed the way people and freight move around the city. Private sector investment in WestConnex has allowed the NSW Government to fund a range of other initiatives for the benefit of the NSW population.

2.2 Toll contracts and tolling regimes

Each privately owned toll road is governed by a concession deed – the contract between the NSW Government and private sector participants. We are pleased the Interim Report notes that, in the process of undertaking reform, the Government should respect these existing contracts.[9]

These deeds dictate the commercial arrangements for the ownership and operation of each road and set out the concession term and tolling regime including toll prices and escalation.

As outlined in our previous submission to the Review (pages 14-15), toll roads are one of the most highly regulated public assets in Australia, with toll prices and the maximum escalation rates set by Government at the start of concessions.

Price increases essentially smooth the recovery of costs incurred in constructing, operating, and maintaining a toll road over its full concession period. Concession deeds are usually agreed before construction commences and some years before a road opens or before a road is acquired. Deed terms are based on detailed assessments of alternative toll price paths and regimes,

[8] NSW Government budget (2023-24) Budget Paper No.01: Budget Statement. Calculations based on the following: $1.4 billion for 19 new and 35 upgraded regional schools (over four years); and $700 million for Rouse Hill Hospital development. Audit Office of NSW, 11 June 2020, NSW Auditor-General's Report: $3.1 billion for the CBD and South East Light Rail
[9] NSW Independent Toll Review Interim Report, page 20

including consideration of their network impacts and overall community benefits. Who the government has chosen to own and operate a toll road does not affect the toll price.

In setting the initial toll price and escalation rates, the government decides how to best meet the objectives of funding a project and provide a value-for-money toll proposition that will make paying the toll attractive to motorists through travel-time savings and reliability. Competitive procurement processes run for the concessions were based on these toll parameters as well as risk profiles set by Government. This has ensured governments have received fair market value for each concession, reflecting both cost of capital at the time of the bid and the risks being transferred to the private sector.

The Interim Report states toll prices are currently set 'administratively by governments'[10] with a view to minimising the funding burden to government. This overly simplifies the approach that governments adopt in setting toll prices. We do not agree that there is lack of transparency on key elements of toll determinations.

The process that is currently adopted is consistent with the Interim Report's recommendation that 'any new road should be justified on the basis that the community benefits to be obtained outweigh any associated costs'.[11]

It should also be noted that under the NSW Government's current procurement process, it is mandatory that all new NSW toll roads are subjected to detailed cost-benefit analysis under Treasury Policy Guideline *23-08 NSW Government Guide to Cost-Benefit Analysis* (CBA).

CBA 'aims to measure the full impacts of any government decision or action on households, businesses, governments, non-government organisations and natural assets in a specified community…'.

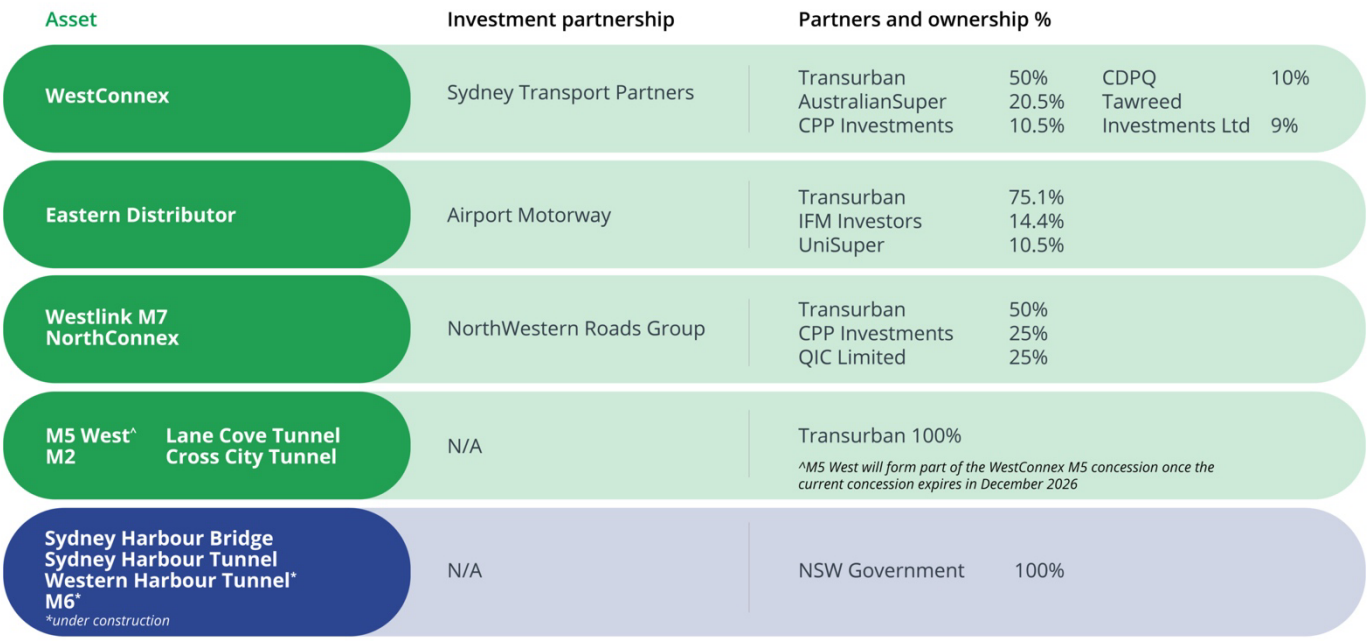
NSW Treasury currently publishes summaries of all concession contracts on its website. Further, Transurban's traffic data is released publicly every quarter, and tolls can be forecast years in advance. Toll road signs are clearly marked and toll prices are widely available on Government, Linkt and E-Toll websites, Google Maps and via digital tools such as Linkt's Trip Compare. We remain advocates for further transparency measures, including decision-point signage, which we believe gives drivers the ability to make more informed choices.

2.2.1 Investment partners

Since Transurban entered the NSW market, several other investors – including leading Australian superannuation funds – have partnered with us to invest in established toll roads as well as development projects (Figure 2). More than 70% of our investors are Australian. In addition, many Australians hold Transurban shares through industry superannuation funds including UniSuper, AustralianSuper and Aware Super.

[10] Independent Toll Review Interim Report, page 8
[11] Independent Toll Review Interim Report, page 8

Figure 2. Toll-road asset ownership in Sydney



Demand-based toll-road PPPs attract capital from global pension funds due to their stable, long-term contracts where revenues grow by CPI or a proxy for real income growth (for example, CPI + 1.0%). The PPP model provides these organisations with the ability to match long-term liabilities in pension funds with steady, long-term revenues.

The benefit of these escalation factors is that they have allowed governments to set toll prices at lower levels in early years than would otherwise be available in the absence of such escalation.

Any reforms that negatively impact toll-road concessionaires will adversely affect the returns of these investors, shareholders and lenders.

The Interim Report notes that the current cost of capital is lower now than when some toll roads were initially established in the 1990s and 2000s.

This simply reflects that cost of capital changes over time depending on factors such as interest rates and inflation. There would also be times where the cost of capital is higher than when the investment was made. Under a PPP model, this risk is borne by the private sector rather than the government.

The fact remains that at the time these assets were put to market, they were competitively bid from a cost of capital perspective given the ability of demand-based PPPs to attract significant investor interest. Private sector involvement also transfers a considerable amount of risk from governments, including higher interest rates. Further, each individual asset has its own complex funding structure (Figure 4) which may involve a combination of bank, capital market and government debt as well as institutional term loans.

These investments have been made in good faith and reflect the confidence of these partners in Sydney's growth and prosperity.

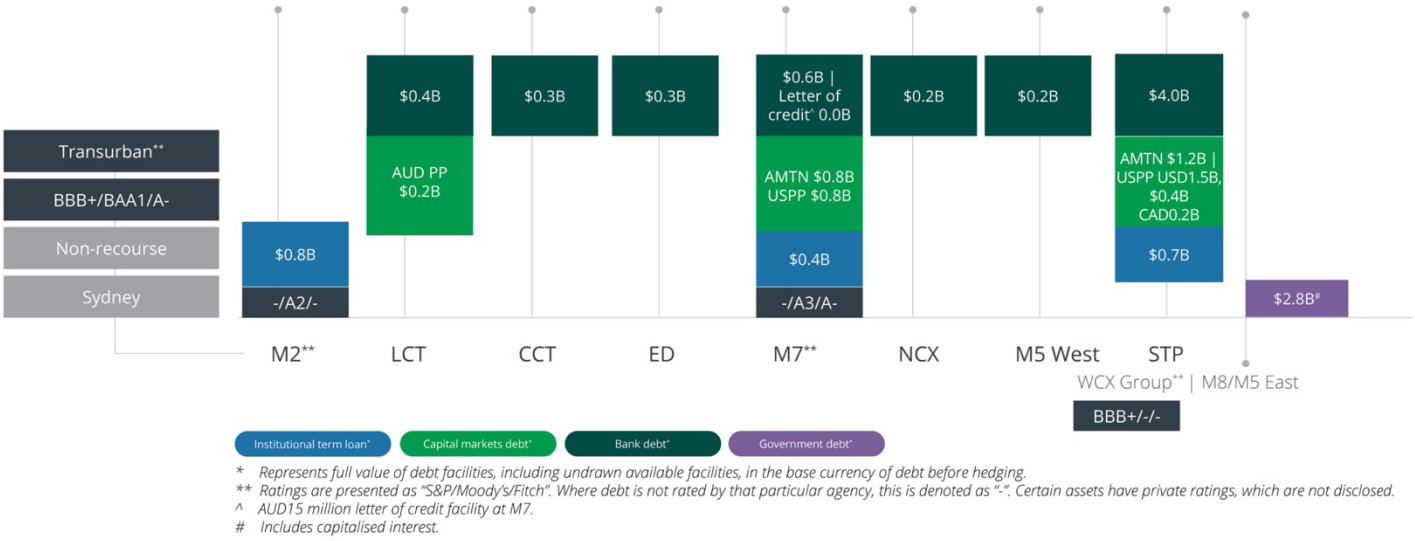
A significant restructure of the Sydney toll-road network, that does not allow investors to realise their investment value according to the investment parameters established at the time of their investment, could undermine the perception of acceptable risk for NSW infrastructure projects in the future.

If the NSW Government were to unilaterally impose changes to investment structures and returns during the term of existing toll-road concessions, it would call into question the state's reputation as a safe and stable region for investment, introducing 'sovereign risk' as a factor for future private infrastructure investment in NSW.

Implementation of the proposed model would also introduce uncertainty and risk for financiers of privately owned toll roads. Changes to tolling arrangements via legislation could trigger events of default and other consequences under the financing arrangements for some concessions, including the possibility of triggering breaches of finance undertakings which could necessitate the immediate repayment of loans.

Uncertainty inherent in the proposed model could also mean that a concessionaire has its credit rating reduced or becomes unable to adequately service its debt arrangements, potentially impacting both the concessionaire's ability to refinance its debt and the terms on which refinancing can be undertaken. To overcome the risk of finance default, the NSW Government may need to guarantee repayment to financiers, exposing the state to significant liability.

Figure 3. Funding structure (as at 31 December 2023)



* Represents full value of debt facilities, including undrawn available facilities, in the base currency of debt before hedging.
** Ratings are presented as "S&P/Moody's/Fitch". Where debt is not rated by that particular agency, this is denoted as "-". Certain assets have private ratings, which are not disclosed.
^ AUD15 million letter of credit facility at M7.
\# Includes capitalised interest.

2.2.2 Private sector risk

The injection of private sector capital and expertise into major projects has allowed the community to benefit from critical infrastructure without government taking on the risk or financial burden.

There are significant risks inherent in large-scale infrastructure projects and this has resulted in some highly publicised failures. In Sydney for example, the Cross City and Lane Cove tunnels failed to meet patronage forecasts which led to their previous owners' insolvencies.

The COVID-19 pandemic highlighted the risks borne by the private sector in infrastructure projects, with significant impacts on traffic levels due to government-mandated restrictions. In NSW, Transurban bore losses of $10 to $12 million per week during some of the most significant restrictions in June 2021.

Transurban did not receive any government relief payments during this time. On the contrary, we carried out extensive customer support during the pandemic, including providing more than $10 million worth of toll credits to more than 40,000 Australians, plus initiatives to support the vaccine rollout.

We continue to offer toll credits as part of our expanded Linkt Assist program, geared at providing even more support to those who need it most.

When risks materialise, in most cases private investors bear the losses while motorists continue to have access to improved networks and world-class assets. For example, the Warringah Freeway Upgrade is projected to affect traffic volumes on the Lane

Cove Tunnel into 2026. Unlike other forms of economic regulation contemplated by the Interim Report (such as electricity networks), financial returns to investors in demand-based PPPs are not indifferent to the level of patronage or usage achieved.

As such, this drives alignment with government-partner objectives, ensuring that investors are focused on delivering value-for-money outcomes and improved service offering for customers.

Other forms of regulation (including in sectors currently regulated by Independent Pricing and Regulatory Tribunal (IPART)) often compensate asset owners where demand volumes are below forecast. This is achieved through 'true up' payment calculations, normally accommodated through price increases to customers to compensate infrastructure investors.

This form of regulation transfers demand risk from infrastructure investors to end-users – the prices they pay will either rise or fall based on actual usage levels achieved. In such regimes investors do not bear the direct consequences of reduced demand as a result of quality of service or value degradation given the demand adjustments made throughout the regulatory process.

In contrast, the demand-based PPP models adopted for toll roads ensure concessionaires – not the ultimate road user or the government – bear the traffic risk.

2.3 Competition and regulation

Transurban's investment approach considers overall solutions for the community as well as its willingness to accept risk. The traffic data we use for bidding is publicly available and the processes for concessions and acquisitions of existing interests involve regulatory oversight.

Each toll price and escalation rate is set by the government, as it decides how to best fund the project and provide a value-for-money proposition that will be attractive for motorists through travel-time savings and reliability. Tolls do not change according to ownership.

The Interim Report states that Transurban has a position of dominance and enjoys incumbency advantages that have enabled us to have a preferred position in the development, acquisition, and operation of toll-road projects in NSW. We do not consider these comments to be accurate.

2.3.1 Transurban's presence due to innovation and focused investment

Transurban has a significant presence in NSW which is a function of a series of decisions by governments, and investments we have made in applicable regulatory environments. These investments have often been made in ventures with other parties, with Transurban one of several consortium members (Figure 2). Consortium participants differ across these investments and it is not accurate to treat Transurban as having complete control of all assets in which we hold an interest.

Most of Transurban's NSW assets have been acquired from the private sector, including the Eastern Distributor, Hills M2, Cross City Tunnel, Lane Cove Tunnel and M5 South West.

Transurban's interest in Westlink M7 was as part of a winning consortium in a competitive procurement process to deliver and operate the motorway. NorthConnex was developed and delivered by Transurban in partnership with other Westlink M7 investors under the NSW Government's Unsolicited Proposal Framework. WestConnex was purchased from the NSW Government in a competitive process after tolls had been set and construction had commenced.

As recognised by the Review, Transurban has been an efficient and innovative operator. This comes about not because of our interests in other toll roads but because we are more strategic and focused than our competitors. We do not invest across different asset classes and are very focused on the geographies where we have chosen to operate. This helps us stay responsive to the specific market conditions that apply to toll roads in Australia, including in NSW.

2.3.2 Information used is publicly available

In its decision in 2018 not to oppose the Transurban consortium's acquisition of the majority interest in WestConnex,[12] the Australian Competition and Consumer Commission (ACCC) (that independently assesses the competitive impact of any specific acquisition) found the vast majority of traffic data Transurban uses for traffic modelling is available publicly or is not exclusive to Transurban. Rival WestConnex bidders were free to build traffic models of comparable sophistication to Transurban using available expertise and technology.

In that matter, the ACCC accepted from Transurban an enforceable undertaking to ensure that 15-minute-interval toll gantry data for each NSW toll road in which Transurban has an interest is made available.[13] This has further enhanced the detail and timeliness of information available to other investors and operators.

2.3.3 New toll road proposals

Competition for toll roads is generally on the merits on each occasion, whether through initial concession proposals or the acquisition of existing road interests. As the Review notes, Transurban's acquisitions have been subject to ACCC review.

Governments make decisions about the most appropriate way to develop toll roads, considering the interests of both consumers and the State. In doing so, the NSW Government takes into account the appropriate level of risk that the State should assume in any particular situation.

The State has significant control over how these processes unfold, how bidders participate and the mechanisms that can and have been put in place to address any concerns about information asymmetry.[14] Long term agreements are often necessary and appropriate in regard to the level of risk assumed by toll road operators over the life of the concession.

[12] Independent Toll Review Interim Report, page 81 and 83
[13] This information includes vehicle count, vehicle classification (for example, light vehicle, heavy vehicle) and direction of traffic flow
[14] ACCC, 30 August 2018, Media release: ACCC will not oppose Transurban consortium WestConnex bid following undertaking. Retrieved April 2024

3. Impacts of the proposed model

Summary

- Our preliminary modelling suggests the proposal for declining distance-based tolling, combined with the proposed introduction of two-way tolling on sections of road that are currently tolled in one direction and the removal of toll caps, is likely to result in more users worse off, than benefiting, from a cost of tolls perspective for motorists.
- Our preliminary modelling shows drivers making trips within Western Sydney are particularly worse off under the proposed model (see Figure 6).
- The proposed declining distance-based tolling would create unintended congestion consequences on some arterial roads. The increase in toll prices is likely to create a change in driver behaviour with some trips becoming more expensive and likely to increase congestion on neighbouring arterial roads that are already at capacity.
- Our preliminary modelling estimates Sydney motorists would experience an extra 1.3 million[15] hours of travel time per year under the proposed network tolling model, resulting in material cost to Sydney's economy and productivity.
- Transurban supports restructuring distance-based pricing coupled with infrastructure charges for major tunnel structures. This regime could be coupled with time-of-day pricing with a material discount during off-peak (night and inter-peak) periods. Transurban believes this will deliver better network performance with a fairer and more equitable outcome.
- It is not clear how the Interim Report's proposed revenue adjustment mechanism would adequately compensate existing toll-road concessions over time. The Report gives no indication as to how overall network toll revenue will be shared between toll road owners.
- Establishment of State TollCo as proposed in the Interim Report would add a level of bureaucracy we don't believe would provide meaningful value, and may have unintended consequences for the NSW Government, toll road concessionaires and the banking sector.
- Toll road users would be worse off under the regulatory pricing approach traditionally used by IPART compared to the current model, with average toll prices on WestConnex significantly higher in the first five years compared to the current model.

3.1 Network tolling scenarios

The Interim Report includes two toll pricing scenarios – Network Tolling Scenario A (no subsidy) and Network Tolling Scenario B (with subsidy) – for the proposed declining distance-based tolling regime. Network Tolling Scenario B (with subsidy) includes a lower distance rate and discounted infrastructure charges, funded through a NSW Government subsidy.

The Interim Report states that the Government's current spending on toll relief is approximately $400 million per year, and this spending would be redirected to fund the subsidy for toll prices under Network Tolling Scenario B.

We understand the approximation of $400 million per year Government spend on toll relief includes:

- the cost of the M5 South-West Cashback scheme
- the two-year trial of a $60 weekly toll cap for private vehicles
- a partial toll rebate for heavy vehicles using the M8 and M5 East tunnels.

Since publication of the Interim Report, NSW Government has publicly committed to continuing the M5 South-West cashback scheme, meaning the value of any subsidy of network tolling prices would be diminished or result in greater cost to Government.

[15] Preliminary estimate based on Transurban internal traffic modelling

Transurban has not undertaken any modelling of Network Tolling Scenario B (with subsidy) given uncertainty around the amount of Government funding available for the subsidy and the sustainability of this regime in the long-term. All modelling and analysis in this submission refers to Network Tolling Scenario A.

We note that the concept of using Government funding to subsidise toll pricing is not unique to the proposed network tolling regime and, if acceptable to Government, could be implemented alongside any alternative tolling regime (including, for example, existing toll prices). It may also be more appropriate for the NSW Government to use these funds for targeted toll relief to improve equity of any tolling reform outcome.

3.2 Impacts

3.2.1 Toll pricing impacts

We question the ability of the proposed tolling solution to improve the fairness of toll pricing for motorists. Combined with the proposed introduction of additional tolls on currently untolled sections of the harbour crossings and the Eastern Distributor, and the removal of toll caps, the proposed declining distance-based tolling solution may in fact see more motorists who would be worse off than those who would be better off in parts of Sydney, based on road-user journey costs.

Implementation would also be challenging given the cost of installing extensive new roadside tolling infrastructure and upgrading back-office systems. We expect at least 50 new tolling gantries would be required to be installed. The Review should consider the cost and timing implications associated with planning, environmental, construction and traffic management requirements.

The report's own findings (Interim Report Figure 9.6)[16] shows at least 40% of Class A trips would be worse off under the new Network Tolling Scenario A model, with users paying higher toll prices compared to the existing pricing regime.

However, the Interim Report's data includes a category of 'no change' trips, which we understand to be predominantly trips on roads that are untolled under the status quo and untolled under the network tolling scenario. Given drivers aren't currently paying for these 'no change' trips, it is reasonable to exclude them from the analysis. This brings the total proportion of toll-road users adversely impacted by the proposed changes to approximately 57%.

[16] Independent Toll Review Interim Report, page 135

Figure 4. 2026 network tolling vs status quo (Scenario A)[17,18]

Trip distance	$3+ lower	$1-3 lower	$0-1 lower	No change	$0-1 higher	$1-3 higher	$3+higher	Total
<10 km	2%	6%	5%	27%	9%	5%	11%	64%
10-25 km	2%	5%	3%	4%	4%	5%	3%	26%
>25 km	2%	2%	3%	0%	1%	2%	1%	11%
All trips	**6%**	**13%**	**11%**	**30%**	**13%**	**12%**	**15%**	**100%**

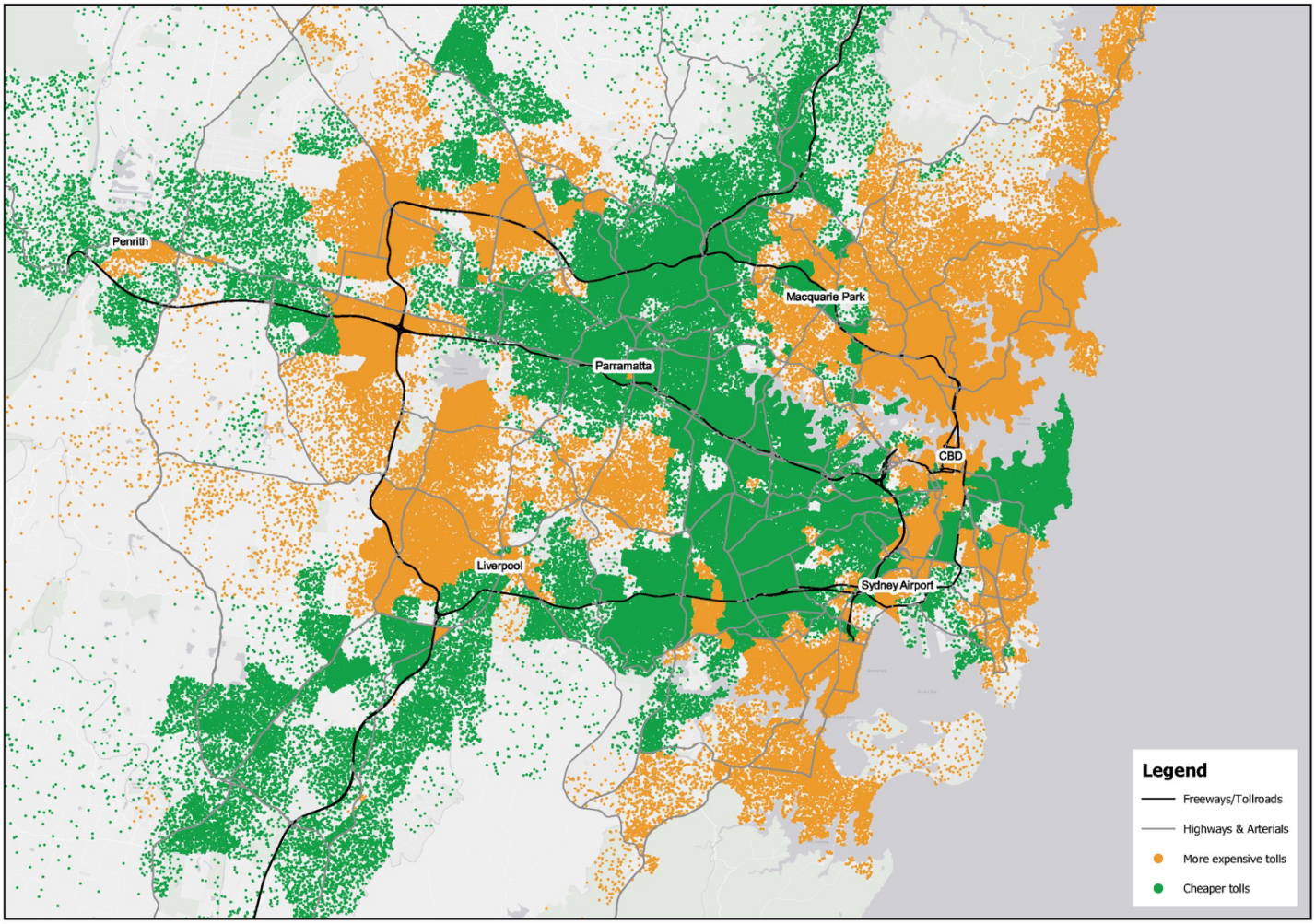
Declining distance-based tolling will reduce transparency for motorists, as the proposed model doesn't give clarity about exact trip costs and different prices could apply to different drivers travelling on the same road, depending on their individual journey lengths.

As the Interim Report outlines, the proposed network tolling model is estimated to have a mix of motorist toll-price winners and those who would be worse off. Our model of the geographic spread of those who would benefit and those who would be worse off is shown in Figure 5. It is evident that there are areas of the city where users are likely to benefit more significantly than those who are likely to be worse off and vice versa. Motorists in the M1 corridor from Sutherland to Chatswood and the Northern Beaches would be worse off, particularly as they are strong users of the harbour crossings and Eastern Distributor. Motorists in the Westlink M7 corridor would also be more likely to be worse off, including in Rooty Hill, Marsden Park and Mt Druitt.

Motorists in the M2, M4 and M5 corridors would be more likely to be better off under the Network Tolling Scenario A from a toll pricing perspective – however, they would also be likely to experience higher congestion and travel-time delays. Motorists from the eastern suburbs, including Point Piper, Bondi, Dover Heights, and Vaucluse, would also benefit from lower tolls.

[17] Independent Toll Review Interim Report, page 17, Figure 2: Class A, Toll Price Difference, Network Tolling A compared to Status Quo, 2026
[18] Figures may not add up to the total displayed due to rounding

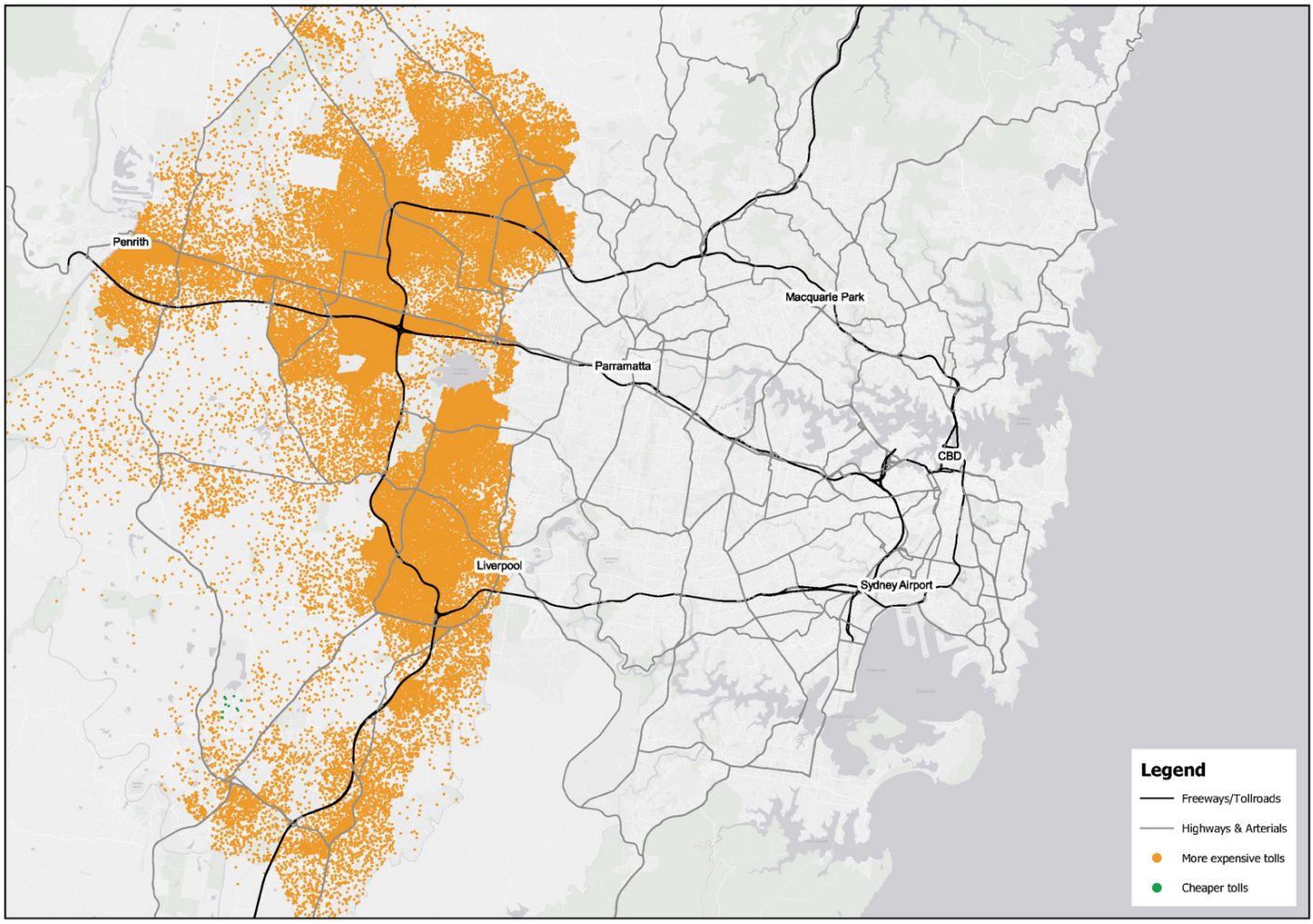
Figure 5. Net impact on cost of tolls for trips within metropolitan area (Class A, average weekday)[19]



Motorists travelling within Western Sydney are particularly worse off under the proposed model (Figure 6), including motorists from Marsden Park, Rooty Hill and Mount Druitt. Motorists making short journeys on Westlink M7 would be disadvantaged at a distance rate of 65c per kilometre compared to the existing 48.8c per kilometre rate. For a four-kilometre trip anywhere along the M7 corridor (for example, Sunnyholt Road to Quakers Hill Parkway), this would equate to a 33% increase in toll cost under the proposed model. Similarly, long journeys on the M7 would be disadvantaged due to the removal of the existing toll cap. For an end-to-end journey on the M7, the cost would increase more than 40% from $9.76 to $13.92.

[19] Internal Transurban traffic modelling, demand for an average weekday (excluding public and school holidays) based on unconstrained demand

Figure 6. Net impact on cost of tolls for trips within Western Sydney – cost of tolls (Class A, average weekday)[20]



3.2.2 Congestion impacts

The proposed declining distance-based tolling would also likely create unintended congestion on arterial roads due to trip diversion. Our preliminary modelling of Network Tolling Scenario A for the AM peak period suggests the increase in toll prices for some trips would be likely to deter motorists from using some toll roads. This would increase congestion on arterial roads that are already at capacity, including:

- Victoria Road–Anzac Bridge including Rozelle Interchange (Rozelle)
- King Georges Road (Strathfield to Hurstville)
- Botany Road–O'Riordan Street (Alexandria).

While the M4-M8 Link has successfully removed traffic from the arterial network – largely due to the toll cap that applies under the current WestConnex tolling regime – the Interim Report proposes the removal of this cap, increasing the cost of longer distance trips using WestConnex. Our modelling shows this would result in greater demand on the A3 corridor, including King Georges Road. Congestion on local roads around Rozelle Interchange would also likely be exacerbated.

[20] Internal Transurban traffic modelling, demand for an average weekday (excluding public and school holidays) based on unconstrained demand

As outlined above, users of toll roads in Western Sydney would likely experience disproportionate adverse cost-of-toll outcomes under the proposed model. Our preliminary modelling shows the increase in toll prices under the proposed approach would create a change in driver behaviour. For example, the increase in prices on the Westlink M7 would lead to diversion impacts, likely resulting in more traffic on already congested arterial roads such as the Cumberland Highway.

Overall, our preliminary modelling indicates that Sydney motorists may experience an additional 1.3 million hours[21] of travel time per year as a result of the proposed tolling approach.

3.2.3 Potential alternative solutions

Transurban remains willing to consider a network-wide approach to pricing, as outlined in the adjacent section, and will work collaboratively with Government to deliver its priorities, including efficient network performance and being equitable and fair to motorists. Solutions may vary in different corridors to better achieve these objectives and may include, for example, identifying value sources in existing agreements that could be put towards toll reform, relief such as rebates, or other initiatives to improve the motorist experience.

It is important to recognise the interests of other toll-road investors, as each will have its own interests to address. While competition law prohibits competitors agreeing on prices for products that compete with one another, there are options for addressing this issue. Transurban's interest across toll roads could facilitate engagement without leading to the concerns expressed in the Interim Report regarding delays to the process.

All NSW toll road partners have signed a letter committing to work with Government on reform. A copy of this letter has been separately submitted to the Review and provided to the NSW Government.

These partners have a track record of variously working together and with Government, within existing regulatory frameworks and respecting contractual arrangements, to achieve outcomes for motorists and the people of NSW.

As outlined earlier in this submission, a legislative-change pathway would be expensive and could create a major risk exposure for Government and a sub-optimal outcome that could itself be protracted, rather than achieving reform.

We continue to look for ways to create more value for motorists, approaching our business through a customer lens to deliver real and clear value on and off the road.

[21] Preliminary estimate based on Transurban internal traffic modelling

Changes to tolling regimes

We are open to finding alternative pricing regimes that are simpler, more equitable and achieve more efficient network performance. This may include a range of measures such as distance-based rates, with infrastructure charges for major tunnel structures. This regime could be coupled with time-of-day pricing, with a material discount during off-peak (night and inter-peak) periods, noting solutions may vary in different corridors to better achieve these objectives.

Independent research by Bastion Insights (commissioned by Transurban) found that toll road drivers are more likely (61%) to feel supportive of a peak/off-peak pricing model. This approach is perceived to be fairer, with 57% finding peak/off-peak fairer than current pricing practices.

We recommend the proposed solution be implemented in phases, with a primary focus on achieving equity, fairness and efficiency for key corridors servicing Western Sydney. This can be implemented at a lower cost, with less extensive requirements for new tolling infrastructure and system upgrades. It would also be far simpler for motorists to understand when compared with the declining distance-based regime the Interim Report proposes. Any such solution would require liaison with – and the support of – our partners.

Government-administered rebates

Transurban suggests IPART could play an important role overseeing rebates administered by the NSW Government. IPART could set a minimum rebate and cap amount that the government of the day could implement, providing a simple and fair rebate system that benefits drivers and also considers network performance.

We do not consider IPART regulation of toll prices to be a feasible option, as detailed in sections 3.3 and 3.4, however there could be benefit in IPART's involvement in setting and reviewing the appropriate quantum and parameters for Government-administered rebates to address cost of living concerns for NSW residents.

Following the announcement of the Government's $60 weekly toll cap, Transurban committed to the State to share any upside with customers and through community initiatives.

3.2.4 Vehicle classification and multipliers

In our submission to the Review in July 2023, Transurban highlighted that large-vehicle multipliers are in place to reflect the extra construction costs and impacts heavy vehicles have on road infrastructure. We also noted that while large-vehicle multiplier prices are not designed to incentivise more productive vehicle use, given operators pay the same heavy-vehicle multiplier when using larger, more productive vehicles, this pricing structure may deliver this outcome. Hence, the Interim Report proposal to introduce a mid-class heavy vehicle classification could potentially disincentivise use of more productive vehicles.

The Interim Report also recommends introducing a separate motorcycle class. The report acknowledges administrative challenges in implementing additional vehicle classes and identifies the potential need for licence plate lookups to implement these changes.

We suggest further consideration be given to the benefits and costs of this recommendation, including revenue impacts, risks of higher leakage (due to the additional complexity) and the cost of tolling equipment and system upgrade costs.

3.3 Proposed role of IPART – cost of tolls

The Interim Report recommends IPART be responsible for the regular review and independent oversight of toll prices.

At a high level, regulatory pricing models set prices at regular intervals (commonly five years) such that expected revenues equal expected costs. In our view, the setting of toll prices under an IPART-regulated regime such as this would not necessarily reduce toll prices on Sydney toll roads. Our understanding from the Interim Report is that the impact of adopting such a regulatory regime could increase average toll prices significantly in the earlier years of a toll road, when lower traffic volumes are typically seen.

Ultimately, our preliminary modelling suggests toll-road users would be worse off under the regulatory pricing approach traditionally used by IPART, when compared to the current model. For example, average toll prices on WestConnex could be significantly higher in the first five years of operation compared to the current model.

It is important to note the Interim Report has not provided any clarity on IPART's specific approach. This will be vital information for us and our stakeholders to consider.

Under the current model – with toll prices set by the NSW State Government in concession deeds with toll road operators – Sydney toll-road costs are clear for motorists. This model also gives motorists certainty and transparency about toll price increases, which are routinely published and built into tools on our Linkt website. For example, our Trip Compare tool helps drivers make informed decisions about whether using a toll road or an alternative route is the best choice for them.

In comparison, there is no detail in the proposed IPART model about future toll price certainty.

3.4 Proposed role of IPART – impacts on concessionaires and investors

Transurban's average concession length is almost 30 years. The contracts we have in place with Government to operate roads for these periods of time (including toll prices) are a key part of Transurban's business and investment proposition. Investors have invested in Transurban, and our partners have financed and contributed to our roads alongside us, based on this investment proposition. Without clarity on what toll prices would be in the future, our investors and partners (including superannuation funds such as AustralianSuper and UniSuper) will have less certainty and confidence around their investment in our roads.

Information on how this regime would work in practice – such as the exact basis for estimating revenue for toll road operators, and how the State would fund any shortfall or compensation owing to concessionaires – has not been detailed in the Interim Report. There is a risk that this approach does not adequately compensate or 'keep whole' the concessionaires over time.

The Interim Report gives no indication as to how the overall network toll revenue would be shared between concessionaries in future years or how that could be expected to result in comparable returns for each concessionaire.

3.5 Proposed role of State TollCo

We agree with the Interim Report's own finding that in the process of undertaking reform, existing contracts should be honoured.

The Interim Report's proposal for a unified, network-wide price structure and a state-owned tolling entity – State TollCo – would add a level of bureaucracy we don't believe would provide meaningful value.

The report provides limited detail on State TollCo's operations and the proposed revenue adjustment mechanism. Our view is the Interim Report's recommendations are likely to be challenging to implement with no assurance that parties would be adequately compensated for the proposed changes to toll prices.

Further details on this proposal are needed, including:

- how the regime would work in practice, particularly how whole-of-concession-life toll revenue would be determined for concessionaires to enable establishment of baseline revenue profiles or estimates
- how the baseline revenue estimates would be updated: for example, would there be quarterly updates for changes in population growth and CPI to accurately represent what would have otherwise been achieved by concessions
- how shortfalls in network revenue owed to concessionaries would be funded by the State
- what avenues the various concessionaires and their financiers and equity investors would have to appeal revenue adjustment estimates if they believed a concessionaire had been unfairly compensated following implementation of State TollCo's revised toll pricing.

The Interim Report also raises questions about State TollCo's potential blended role as regulator, retailer and operator, where State TollCo could be responsible for both setting tolls and adjusting revenue between concessionaires – acknowledging that 'there is the potential for conflicts of interest if State TollCo was both the network toll setter as well as the operator of some toll roads'.[22]

The impact of potential negative tax consequences for the NSW Government, State TollCo and concessionaires because of proposed changes to the way tolls are determined and State TollCo's roles in setting tolls and redistributing revenues should also be considered. There may be material tax and stamp duty imposts triggered by any changes to the operation of concession agreements and the proposed role State TollCo is to play. We expect that these material tax and stamp duty imposts would be considered in any calculation of 'revenue neutrality' or compensation for concessionaires.

[22] Independent Toll Review Interim Report, page 149

4. Administration improvements

Summary

- We welcome the Interim Report's recommendation to improve the availability of decision-making information, and strongly support making toll-pricing information easy to access and understand.
- Transurban has led the way on transparency initiatives for many years and Transurban's retailer, Linkt, provides offerings not available through any other outlets.
- Transurban supports modernisation and simplification of the toll compliance process to improve customer experience and outcomes for motorists.
- Transurban has been an advocate for improvements to roadside signage for some time and would welcome its introduction where appropriate.
- The Interim Report's proposal for declining distance-based tolling would not make price transparency any simpler to understand or communicate, with different costs per kilometre applying to motorists depending on their origin and destination.

4.1 Customer experience

On average, one million trips are made on our Sydney roads every day and we know the main reasons people choose to take toll roads are to access faster, safer and more sustainable travel.

Our priority is to make using our roads as simple and as seamless as possible – whether motorists are planning a trip, travelling on our roads or managing their Linkt account.

Transurban roads are some of the safest in Australia due to high-quality road design, focused and proactive motorway operations that are supported by advanced technologies, and our ongoing investment in maintenance, innovation and safety initiatives.

An example of this investment is our WestConnex Motorway Control Centre at St Peters, which is now Australia's largest control centre, with 60 large screens giving oversight of the entire 33-kilometre WestConnex network, including its 22 kilometres of tunnels. The screens show real-time footage from the hundreds of CCTV cameras along each part of WestConnex, helping us respond to incidents quickly and keep traffic moving.

Our Voice of Customer program analyses around 260,000 pieces of feedback from our Australian customers each year, providing us with comprehensive metrics to gauge customers' experience both on and off the road. This feedback also helps us shape how we design and deliver existing and new experiences across app, website and phone interactions.

As the Interim Report notes in Figure 6.2 (*Existing platform features and functionality*),[23] Linkt offers many benefits beyond what E-Toll account holders can access, including an app, trip planner and more extensive trip data for customers.

Further, our Linkt Rewards program offers discounts that can help lower the cost of travel. For example, our latest fuel offering provides eligible Linkt customers with a monthly 12 cents per litre fuel discount[24] for three months, which can be boosted further in combination with other eligible offers, delivering savings of up to 26 cents per litre.[25] Our customers have saved more than $8 million on fuel since the Linkt Rewards program launched in 2019.

[23] Independent Toll Review Interim Report, page 88
[24] Terms and conditions apply. Visit https://www.linkt.com.au/using-toll-roads/news/bonus-fuel-savings-up-for-grabs for more details
[25] Terms and conditions apply. Visit https://www.linkt.com.au/using-toll-roads/news/bonus-fuel-savings-up-for-grabs for more details

We've received positive feedback from our customers about this program, and we continue to expand it, adding discounts on car hire, car servicing and accommodation. We've also improved the experience for customers in the Linkt app, making it easier to view and claim rewards.

4.2 Pricing and toll rebates

The Interim Report states that 'concessionaires benefit significantly from any extra traffic generated by relief measures but have no requirement to repay this benefit to government'.

As outlined in our previous submission, revenue-sharing provisions are in place with the government on all concessions, which provide the government with adequate protection to ensure it and the community receive upside from revenue that is above expectations.

Should toll revenue outperform over time, our assets' contracts currently include provisions to share revenue with the government. For example, because of the Westlink M7 motorway's performance, $174 million was raised in 2015 for the Government, which it used to build new infrastructure.

Transurban has not identified any significant traffic uplift due to toll relief schemes.

While rebate schemes are a policy matter for government, Transurban carried out research to understand their perception, impact on communities and whether they would help improve fairness, including in relation to the $60 weekly toll cap scheme that began on 1 January 2024.

Independent research by Bastion Insights (commissioned by Transurban) demonstrates that toll rebates and cashbacks are seen as beneficial. This research found 95% of those who claimed the $60 weekly cap feel it has made a real difference to them financially, while 87% feel these initiatives increase the fairness of toll-road costs.

4.3 Transparency

Transurban strongly supports making toll-pricing information easy to access and understand, and empowering customers to make informed decisions.

We are continuously improving the customer experience, and many of the suggestions outlined in Figure 6.1 (*Toll Price Transparency Framework*) of the Interim Report[26] are already in place for Linkt customers.

For example, transparency initiatives such as our Linkt Trip Compare tool, and our partnerships with Google and Waze to implement real-time trip price estimates for toll-road travel, help motorists to plan their route with a full understanding of toll costs and indicative journey times.

Along with these tools, the Linkt website also includes current toll pricing for all NSW roads, and an explainer of toll-price escalations for each road. Upcoming toll price adjustments for our Sydney roads are published online at least one week in advance, before being subsequently reflected on road signage.

Historical toll-road usage data is also available to Linkt customers when they log in securely to the Linkt website or app, providing customers with visibility of the cost of toll-road travel and the ability to calculate likely future spend based on their travel patterns. We are supportive of measures to improve customers' ability to make informed decisions about their journey and we agree that decision-point signage could provide customers with even more data to inform their travel choices when using the motorway network.

[26] Independent Toll Review Interim Report, page 87

Transurban has run a decision-point signage pilot in the past and shared the pilot's findings with Government.

A range of factors go into a driver's decision to take a tolled route over a free route, including travel time and pricing.

While live travel times are relatively simple to display, we note that a switch to declining distance-based tolling would not make price transparency any easier to communicate, with different costs per kilometre applying to different motorists, depending on their origin and destination.

Any on-road toll pricing should be designed with road safety front of mind, and we welcome the opportunity to discuss potential solutions.

4.4 Toll notice improvements

Transurban has long advocated for toll notice reform in NSW and we welcome further discussion about opportunities to consolidate toll notices, so a customer only receives one toll notice for three days of travel across the Sydney network. This change would be fairer for users, reduce the confusion that comes with receiving multiple toll notices and bring NSW into line with Victoria and Queensland's toll notice processes.

We also support the Interim Report's suggestion to digitise toll notices. Post is currently mandated as the communications channel for toll notices, despite email being a faster and more efficient alternative for many people. Digitising toll notices would not only save millions of paper letters going out each year, but would also increase ease of use for motorists, who could quickly and easily respond via mobile phone, tablet or desktop computer.

NSW customers currently have the unique (as compared to other states) option to significantly discount their fees by transferring their toll notice debt over to a retail account (known as a Manual Debit Transfer). However, data shows that many customers with suspended accounts take advantage of this fee discount and top up their overdrawn accounts only once they receive a toll notice, rather than keeping their account up to date. This means that toll-road operators absorb much of the administrative cost of issuing toll notices.

Further, while Transurban is supportive of reductions to administration fees, the current toll compliance regime limits the extent to which this is achievable. NSW has the highest rate of non-arranged toll road travel in the country, and while many motorists do the right thing and pay after receiving a toll notice, they are ultimately subsidising serial toll avoiders who generate the bulk of the administrative burden.

Transurban supports modernisation and simplification of the toll compliance process to improve customer experience, and drive cost efficiencies. These efficiencies could ultimately be put towards reducing administration fees and improving outcomes for motorists.

We note the Interim Report's proposal to increase the threshold for a penalty notice and its suggestion that the current approach is 'too heavy handed'.[27] Transurban does not share this view, as, under the current regime a motorist would need to ignore on-road signage, two posted toll notices over 60 days and further attempts made to contact them through email or SMS (if contact details are available) before potentially receiving a penalty notice.

Transurban is supportive of reform that would provide customers with more opportunities to pay before receiving a penalty notice. This could include additional touch points through trip notifications or toll notice reminders, and more channels for customer contact (such as email). However, the introduction of an arbitrary dollar value threshold for a penalty notice would only act to encourage and reward existing serial toll avoiders and increase the administrative burden of the toll compliance system.

[27] Independent Toll Review Interim Report, page 173

Our preference is for motorists to avoid fees whenever reasonably possible, and because we understand that many people make the innocent mistake of travelling on a toll road without a valid arrangement in place, fees are typically waived for first- time offenders who contact Linkt about a toll notice.

Our Linkt Assist team is available to support motorists who are legitimately struggling with toll debt. Available support can include more time to pay for toll-road travel, ongoing payment plans and advising Government enforcement groups and other toll-road operators of a person's situation (with their consent).

Transurban

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