



greater WELLINGTON
REGIONAL COUNCIL
Te Pane Matua Taiao

Discussion Paper

IFT Fares Policies and Transition Approach

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1. Introduction

1.1 Purpose

This paper discusses Greater Wellington Regional Council's (GWRC) position in the Integrated Fares and Ticketing (IFT) project on key issues relating to fares policies, and proposes a transition approach to implement the fares component of the project. The work is part of GWRC's Public Transport Transformation Programme (PTTP). The discussion paper has been considered and endorsed by the PTTP Programme Change Group (PCG), the PTTP Steering Group (including NZTA representation), and the PTTP Governance Group.

1.2 Scope

This report covers fares policy and the fare structure, but not detailed ticketing technology issues.

1.3 Principles to guide transition of fares and products

Principles underpinning the IFT work stream have been discussed in several contexts, including an officer and external consultants' workshop (January 2015), customer experience and perceptions research conducted by Gravitas and Ideas Shop (April 2015), and multi-criteria analysis in a draft IFT business case (June 2015).

The following principles, based on the earlier work, have been refined by the PCG and will be used to guide the transition of fares, products and ticketing media through the IFT programme:

1. Changes to fares and products will enhance customer experience, being easy to understand, logical, well-communicated and perceived as equitable
2. Fares policies will help deliver Regional Public Transport Plan objectives including achieving patronage growth and meeting farebox recovery targets
3. The fare structure will be rationalised and simplified through the transition
4. New IFT fares and products will minimise negative impacts on revenue and costs for GWRC and NZTA
5. The transition to a new fare structure will be easy to implement, and introduced in stages rather than as a single event
6. A network-wide approach will be used to rationalise fares across all modes
7. Emerging but proven payment and ticketing technologies will be considered in implementing IFT
8. Existing free transfers on and between bus and rail will be retained through and beyond the transition to a new fare structure
9. The new fare structure and interim solutions will improve the quality of public transport data.

There will inevitably be situations where change to a new fare regime and associated ticketing solutions will satisfy one or more principles while not meeting others. Any proposal (including the status quo) will conflict with some principles; balance will be needed to find an appropriate policy position.

Recommendation 1: That the principles written above for IFT fares and products transition policy be adopted

2. Fares policy context

2.1 Regional Public Transport Plan Policies

The Wellington Regional Public Transport Plan (PT Plan; adopted by GWRC in 2014) sets the strategic objectives and policies to deliver an Integrated Fares and Ticketing (IFT) system in greater Wellington. Policy 3 of the PT Plan is: **“A fares and ticketing system that attracts and retains customers”**. There are five parts to this policy:

- 3a Implement a fares and ticketing system that supports the integration of the public transport network
- 3b Simplify the existing fare structure
- 3c Provide concession fares for targeted groups
- 3d Review fare levels annually to achieve farebox recovery targets with a preference for small, regular adjustments rather than large, infrequent ones
- 3e Ensure that all users pay the correct fares

Associated with these policies are the following actions:

- Subject to a satisfactory business case, implement an integrated branded fares and ticketing system that covers all public transport operators for rail, bus and ferry services and enables the use of a single smartcard for all public transport services;
- Through the Wellington integrated fares and ticketing project, implement the following recommendations of the 2013 fare structure review:
 - Maintain a zonal fare structure;
 - Simplify and standardise fare products across modes and services;
 - Remove transfer penalties, so that a trip between two points has the same fare irrespective of the number of vehicles used;
 - Provide discounts to reward regular users through fare capping, rather than ten-trip and monthly passes;
 - Provide an off-peak discount to spread peak demand and increase access to affordable services, subject to affordability;
- Work with operators to develop a fare transition plan for the fares and ticketing system, including:
 - Prior to the implementation of the new system, reducing the number of fare products, particularly those used infrequently;
 - Removing transfer penalties, so that a trip between two points has the same fare irrespective of the number of vehicles used;
- Continue to provide free services for children under five;
- Provide concessions for children and young people aged 5-18; and
- Support the Government scheme providing free off-peak travel for SuperGold card holders.

As noted in the PT Plan, providing an off-peak fare available to everyone, instead of developing a range of concession fares, avoids having to choose winners and losers when making decisions about fare concessions. A system that gives discounted fares to those who travel outside peak hours is fairer and more equitable than one that picks winners and losers.

The PT Plan also requires GWRC to “implement an integrated branded fares and ticketing system that covers all public transport operators for rail, bus and ferry services and enables the use of a single smartcard for all public transport services”, subject to a satisfactory business case. The business case work has not yet produced a final report, but the work will reinforce the policy framework for IFT. Further discussions with NZTA officers will be needed to complete this work.

2.2 PT Plan review

A review of the PT Plan is required by legislation as soon as possible after the Regional Land Transport Plan (RLTP) has been adopted to ensure the PT Plan is consistent with the RLTP. The RLTP was adopted in April 2015.

Minor changes to the PT Plan may be required to take into account unit changes to support the bus PTOM tendering process. Review of the PT Plan for PTOM purposes is unlikely to need public consultation, but would need to include targeted consultation with bus operators and NZTA. The revised PT Plan will need to be adopted by Council to allow tender documents to be issued, currently planned for early April 2016.

2.3 Future integrated fares and ticketing system

The ultimate IFT system envisaged in the PT Plan has the following key characteristics:

- Integrated fares and ticketing across the network;
- Simplified fare structure; and
- Standard set of fares and products.

Integrated fares generally means that customers will pay one fare to complete a journey between two points regardless of the service, route or mode of public transport they use. In greater Wellington, IFT is expected to support integration of fares on contracted bus and rail services within the zonal fare structure if passengers choose to pay for their journeys using the IFT universal fare payment method. Integrated fares will not be available for cash fares, service-based flat fares (including after midnight services) and exempt services. Ultimately, the integrated fares and ticketing system will include ferry operations, but the timeline for this has not yet been confirmed.

Integrated ticketing generally means that customers will be able to use a single, standard payment method to pay for their trips, irrespective of mode, service or operator. The integrated ticketing component of the IFT system will introduce a network-wide and ubiquitous electronic fare payment system (possibly using some or all of stored value cards, smart mobile phones or credit-cards) that will also enable and support integration of fares across the contracted bus and rail network. A smart and integrated ticketing and fare collection system generates accurate data that facilitates better planning of public transport services by GWRC.

A **simple fare structure** has a minimum number of fare products and concessions and therefore is easy for customers to understand and use. As noted in the PT Plan:

“The current fare structure contains more than 250 fare products. Some are used for fewer than 10 trips each day, in comparison with smart cards that are used to pay for over 60% of bus trips and monthly passes that are used to pay for over 40% of all rail trips.”

The fare structure is relatively complex and there is a blend of Metlink and operator-defined fares and products. In the transition to IFT, the total number of fare products is expected to reduce through rationalisation of the current products and gradual transition towards a standard set of IFT products.

A **standard set of fares and products** provides for a harmonised system of fares and ticketing that can be consistently applied to modes, operators and services across the network, and is a prerequisite for a functional and high-performing IFT system.

2.4 Proposed Fare Structure

More clarity around fares policy, and detailed rules around products and fares, including transfer time eligibility and a definition of after-midnight services, will be developed at a later stage of the IFT process. These matters will be addressed through a Transition Strategy and Implementation Plan (see Section 4 of this report). At a higher level, Wellington’s proposed fare structure under IFT is generally as follows:

2.4.1 Zone-based fare system

The PT Plan proposes that the current zone-based fare system be retained. This system has 14 concentric fare zones radiating from the Wellington Central Business District (CBD) with distances between zone boundaries increasing as the zones radiate away from the CBD. Fares for all contracted bus and rail services would be calculated on the number of zones travelled in or through.

2.4.2 Standard zonal fares

Fourteen **standard IFT fares** are adult fares calculated on the number of zones travelled in or through. These fares are proposed to apply to single trips and to complete journeys with two or more trips connected by means of valid transfers, and paid using the IFT electronic fare payment system. The **base fare** is the standard adult fare paid using IFT for a peak period journey within a single zone, and is the basic unit from which standard fares, concession fares and discounts are calculated. The proposed simplified ticketing system would ensure that a ticket would be valid across the network, so that a four-zone ticket, for example, could be used on any train or bus, or a combination of services.

2.4.3 Cash fares

Cash fares are fares paid using cash on a bus, train or ferry, or by cash or bank card at a train station for a single or return trip ticket. Fourteen **adult zonal cash fares** are based on the number of zones travelled and will be retained for people who choose to pay in cash. Cash fares would be set at a premium above the standard IFT fares and free transfers from one vehicle to another would not be available. Cash fares would also be excluded from any fare capping and off-peak discounts.

Providing discounts and transfer advantages for IFT fares and products (and not cash) will encourage customers to use electronic ticketing; a significant move to these payment methods will be most beneficial if the uptake is high. New Zealanders have traditionally been early and enthusiastic adopters of new electronic banking and financial services.

2.4.4 Free transfer between allowed services and modes

Transfer between and within all allowed modes and services are proposed to be free if the fare is paid using the IFT integrated fare payment system. This means that IFT fares on allowed services and modes

would be calculated on the number of zones travelled, not the number of vehicles used. Any existing free transfers would continue to be available during and beyond the transition period.

Free bus-to-bus transfers required as a consequence of implementing the new bus routes in Wellington City will be provided during and beyond the transition to the new bus network and IFT roll-out. The number of affected passengers is expected to be relatively small.

Services and modes proposed to be included for free transfers are:

- All connecting bus services to be operated under PTOM contracts with GWRC;
- All connecting rail services to be operated under PTOM contracts; and
- All connecting combined bus and rail services to be operated under PTOM contracts.

Conversely, free transfers would not be available for:

- Cash fares;
- Ferry services;
- After midnight services on weekends; and
- Exempt services (commercial services that do not operate under contract to GWRC and do not attract NZTA or GWRC financial support).

2.4.5 Discounted fares

Child and youth discount – 50% discount off standard IFT fares for passengers aged from 5 to 18, or until they leave secondary school, if that is later (14 standard zonal “child and youth” fares).

Off-peak discount – 25% discount off the non-concessionary standard IFT fares for passengers using IFT payment, generally for passengers starting travel during off-peak periods (14 standard adult off-peak fares).

SuperGold card discount – free travel for holders of SuperGold cards during off peak hours and weekends.

2.4.6 IFT fare capping

A fare capping scheme is proposed to replace existing period and multi-use products such as daily and monthly passes as a more specific way to reward regular and frequent users of public transport services.

Existing rail monthly passes are heavily discounted. Under electronic ticketing, monthly passes can still be made available. Once these passes are on electronic tickets, better data will be available to understand the number and time of day of trips made using monthly passes.

The issue of the appropriateness of the heavy discounting can then be dealt with in an orderly fashion, with a full debate about the social, customer experience, political and revenue implications of modifying the level of discounts. Any appropriate decisions can be made at that stage.

The benefits of capping can be summarised as:

1. Easier for customers – if a card is set up with auto-top-up, fare capping provides a “set and forget” experience (nothing else is needed to ensure customers have a bus or train fare)

2. Fairer – where monthly passes give the highest discount, lower income customers may not be able afford the upfront cost, so “the poor pay more”
3. Simpler to promote – daily and weekly caps replace a raft of other products
4. Increased patronage – fare capping is expected to encourage additional trips
5. Better revenue – as people move from cash fares and ten-trip tickets to IFT smart ticketing, encouraged by fare capping, fare avoidance is more difficult and revenue is expected to rise
6. Better travel data – as more people move to IFT, GWRC gets more and better travel and trip data automatically generated by the system, allowing better service planning
7. Supported by customers – fare capping was supported in customer feedback in the 2012 fare structure review and consultation on the draft 2014 PT Plan

Fare capping will be phased in some time after IFT electronic ticketing goes live so that better origin-destination, patronage and time-of-day data are available, to allow for a well-designed system that maximises revenue and minimises negative customer impacts.

2.4.7 Special fares (outside IFT fare consideration)

A number of special fares and products may be provided independently of IFT, such as:

- **Fares for after mid-night services** – These might be service-based flat fares charged regardless of the number of zones travelled or payment method used (eg cash or IFT media). Fares would be set at a premium price above the base fare.
- **Fares for Harbour Ferry services** – It is expected that ferry services would have point-to-point distance-based fares. Fares would be set at a premium price above the base fare.
- **Fares for exempt services** – Exempt services would include commercially operated services such as Airport Flyer, commuter and school bus services not deemed under the PT Plan to be integral to the Metlink public transport network. By default, these services will not be part of the IFT scheme unless the operator of a service decides to join under conditions to be agreed between the operator and GWRC. Fares for exempt services would be set by the operator.
- **Discounted weekend family travel** – These could be introduced for two adults and up to 4 children or 1 adult and up to 5 children, or as a separate discount for each member of a family, for example.
- **Discounted return travel to and from events on public transport** – These discounts can be priced into event tickets.
- **Discounted bulk purchase** of IFT fare products or tickets, for example for Victoria University students, is feasible, but cost-sharing arrangements would need to be negotiated.

2.4.8 Free travel

Free travel is currently, and is expected to continue to be, available for accompanied children under 5 years old. (Rationalisation with ferry services is required for consistency, as currently only children under the age of three qualify for free travel). Free travel is also available for SuperGold card holders outside peak hours and during weekends and public holidays, with eligible hours set nationally.

3. Revenue modelling and forecasts

3.1 PT Plan analysis of revenue implications

Transfers – Initial high-level modelling suggests a net annual revenue reduction of \$3M if discounted transfers were available system-wide. This revenue loss has been calculated assuming a certain (small) growth in patronage resulting from the perceived convenience and value of free transfers. Total farebox revenue was estimated in the PT Plan to be about \$96M for 2014/15.

Transfer discounts will be needed once the new bus routes in Wellington City are introduced under PTOM, as some passengers will need to transfer to a second bus to complete journeys that are currently able to be done on one bus.

Off-peak fares – The PT Plan has a policy to “provide an off-peak discount to spread peak demand and increase access to affordable services, subject to affordability”. Initial high level modelling (assuming a small amount of patronage increase) indicates that a 25% off-peak discount will result in an annual net revenue reduction of \$4.5M (5% of farebox revenue).

Off-peak fares could be introduced with IFT through the various PTOM contracts. Reasonable estimates of revenue implications will be possible at IFT electronic ticketing “go live”, although delaying implementation of off-peak fares until IFT has been operating for some time would provide better data and more accurate revenue predictions.

A form of off-peak fares already exists on rail, so rationalisation and consistent application of this discount across the network, aligned with the SuperGold definition of off-peak hours, would be desirable. Currently off-peak services are defined differently on specific rail lines and for the SuperGold scheme.

50% discount for five to 18 year olds– The PT Plan has a policy to provide concessions for young people aged five to 18 inclusive, or until they leave secondary school, if that is later. Initial high level modelling indicates that extending the concession beyond the current school-student discount will result in an annual net revenue reduction of \$0.5M (less than 1% of farebox revenue).

Fare capping – The PT Plan has a policy to “provide discounts to reward regular users through fare capping, rather than ten-trip and monthly passes”. Fare capping is a more equitable way of rewarding regular usage. Current monthly pass products, which provide the greatest discounts, require a large upfront investment which may result in low income users paying the highest fares to avoid the high upfront cost.

The net revenue impact of capping will depend on the capping model chosen. Accordingly, implementation of fare capping should follow a significant period of data collection, analysis and revenue modelling after electronic ticketing goes live.

Bulk purchase schemes and weekend family pass – The PT Plan also proposes (although it does not have supporting policies) the investigation of a bulk purchase scheme and the introduction of weekend family passes. Initial high level modelling indicates that a family pass will result in a net annual revenue reduction of \$0.5M (less than 1% of farebox revenue).

The cost of a bulk purchase scheme would be dependent on the scheme design, and implementation should ideally follow data collection and revenue modelling under IFT. There are two alternatives proposed in the PT Plan to meet the needs of tertiary students; providing a bulk purchase scheme for

students; or off-peak fare discounts (available to all). The latter would be easier to administer and more consistent and equitable for customers.

4. Proposed transition approach

4.1 An incremental approach to transition

The PT Plan has identified a final state for the integration of fares and ticketing. This final state will require many changes to the existing fares and products. Opportunities exist to implement these changes incrementally, with some of them prior to the implementation of a new electronic ticketing system and through the PTOM tendering process. This incremental approach to transition is recommended in the PT Plan and preferred over a “big bang” approach, whereby all changes occur simultaneously. The incremental approach will consider issues relating to:

- a) Reducing fare products prior to introduction of IFT;
- b) Standardising fare discounts (particularly in regard to monthly rail tickets) in preparation for the new IFT fares;
- c) Standardising fare concessions (e.g. ferry definitions of child and student);
- d) Any transitional arrangements for product rationalisation, such as interim bus transfers;
- e) Consultation with operators and passengers as needed;
- f) Modelling patronage and fare implications to assist in decision making; and
- g) Coordination with the annual fare review process.

There are several benefits in incrementally reducing the number of fare products, including:

1. PTOM tendering has different timelines for bus and rail, allowing changes to be introduced on the bus and rail networks when convenient to each mode;
2. Customers would have more time to understand the proposed changes and to adjust their ticketing choices accordingly;
3. GWRC would be able to more efficiently manage costs and risks, adjust funding (through annual planning process) and respond to customers’ needs and concerns;
4. It would be easier politically and operationally to rationalise ticket products incrementally, with some rationalisation occurring through PTOM tendering, other tickets rationalised at implementation of electronic ticketing and further changes occurring well after electronic ticketing “go live”, when better travel data are available;
5. A simplified set of products will reduce complexity and ease implementation to network-wide electronic ticketing; and
6. Communications and marketing will be easier with a transitional approach.

The transition approach for any product or group of products is proposed to consist of four significant events, as follows:

1. **PTOM contract awarded** (could be rail or bus). This would be followed by a Post-award Transition Phase, when GWRC would work with operators to rationalise products.

2. **New contract starts.** This would be followed by a pre-IFT Transition Phase, during which the operator would sell rationalised and legacy products.
3. **IFT Electronic Ticketing Goes Live.** This would be a one-off event when the new IFT media and system are launched. This would be followed by a Post ETS Transition Solution, when the operator accepts and implements IFT interim solutions. During this stage, data analysis and revenue modelling continue, allowing fare capping and off-peak fares to be introduced.
4. **Ultimate IFT Solution.** This is the end of the IFT process, although it is expected that there would be minor ongoing adjustments to fares and products over time, as needed.

A generalised transition approach for any product or group of products is illustrated in Figure 1 below:

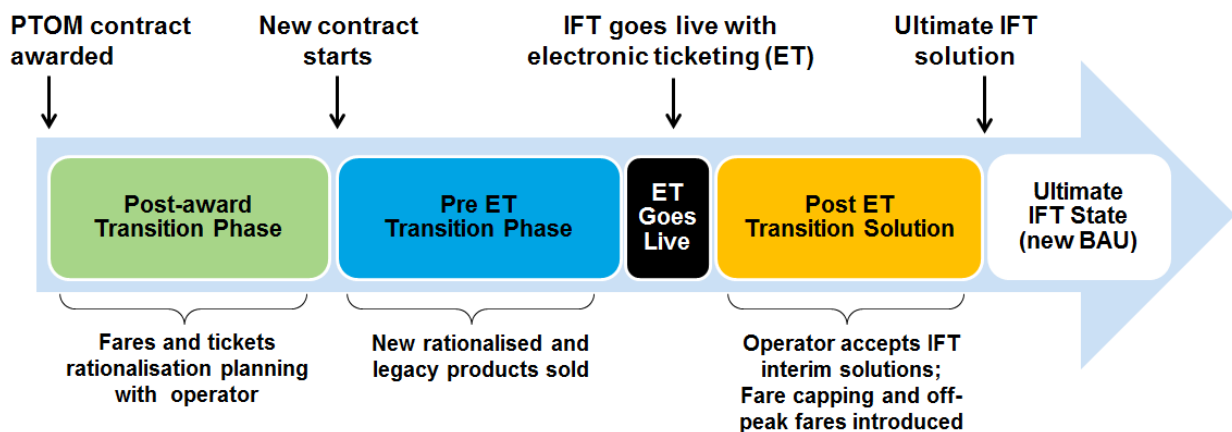


Figure 1: Generalised IFT transition approach for a product

4.2 Implementation mechanisms for fare policy and product changes

Three key mechanisms are proposed for implementing fare policy and product changes under IFT:

4.2.1 Transition Strategy

A Fares and Products Transition Strategy will be developed and considered for approval by Council. The strategy will identify how to progress from the current position to that identified by previous decisions and as articulated in the PT Plan.

The Transition Strategy will address a number of issues relating to fares transition, including:

- a) Develop new “ultimate state” fare rules that will apply from the introduction of IFT, including:
 - i. New fare schedule for products and fare levels
 - ii. Details of the capping regime, off-peak discount, any other concessions, and transfer rules
 - iii. Standardisation of any remaining inconsistencies and anomalies (such as any zone adjustments)
- b) The Transition Strategy will focus initially on:
 - i. Any specific PTOM requirements, particularly for the rail and bus ticketing systems
 - ii. Input required into the IFT procurement process
- c) The Transition Strategy will set out transition arrangements, such as:

- i. Any product rationalisation potentially including consolidation, withdrawal or phase-out of some less sensitive products (i.e. low demand, infrequent, promotional) with or without fare adjustments
 - ii. How existing products will convert to the new PTOM regime (for rail in 2016, and bus in 2017/18)
 - iii. How the transfer system will work:
 - On the new Wellington bus network from the start of those contracts in January 2018;
 - On services where free transfers currently exist, for example Hutt Valley, Porirua and parts of Kapiti; and
 - Until the introduction of IFT
 - iv. How the initial PTOM products will convert to the introduction of IFT, including how the proposed interim fare system to cater for the new transfer based bus routes prior to IFT being introduced
 - v. The introduction of the capping regime
 - vi. The introduction of the off-peak discount and any other discounts required
- d) Model any patronage and revenue implications (or review modelling that has already been undertaken) to assist with decision making
- e) Identify appropriate timelines and address any other matters as needed.

This Transition Strategy will influence implementation as detailed below, and is thus required first.

4.2.2 Implementation Plan

An Implementation Plan will be needed to put the Transition Strategy into practice. The Plan will include guidance on detailed matters such as fare media, and branding and printing of tickets (identified in the current PTOM rail tender procurement documents). Officers will work with the successful tenderer to implement urgent parts of the Implementation Plan (especially a Fare Media Transition Plan) in the PTOM rail contract, so that any new or rationalised fares or products can be included when PTOM rail goes live on 1 July 2016.

The Implementation Plan will address both rail and bus, and attempt to reconcile any current fare policy inconsistencies, as identified through the Transition Strategy.

The Implementation Plan will confirm when and how the following will be introduced, including detailed rules of operation and eligibility for those products requiring early implementation:

- a) Free transfers
- b) Off-peak discounts
- c) 50% discounts for five to 18 year olds
- d) Fare capping
- e) Bulk purchase scheme
- f) Family pass.

Further work will be undertaken on a number of these products, including the bulk purchase scheme and family pass, via the Transition Strategy to confirm whether these products are affordable and if so, when they should be implemented.

4.2.3 Stakeholder Engagement and Communications

GWRC will need to develop a stakeholder engagement and communications approach to accompany the transition strategy and implementation plan. Potential stakeholders will include:

- NZTA;
- GWRC and local council councillors;
- Operators (current and future);
- Passengers; and
- Others, such as schools and tertiary education organisations.

4.3 Annual fare reviews

The PT Plan has a policy to:

“Review fare levels annually to achieve farebox recovery targets with a preference for small, regular adjustments rather than large, infrequent ones.”

Fare increases on the Metlink network have been introduced every year from 2010 to 2013 inclusive, with a GWRC decision to not provide fare increases in 2014 and 2015. There is an opportunity to use the annual fare review process to rationalise or align fare levels and discounts across modes and services. This rationalisation would improve equity across Wellington’s public transport system and facilitate the transition to the ultimate IFT fare structure.

Accordingly, as part of IFT implementation, it is recommended that changes to fares be considered on a product-by-product basis every year before and through IFT roll-out, as part of the annual fare review process.