

The Tranz Metro Issue

What is Tranz Metro?

Tranz Metro is the business unit within Tranz Rail that operates the Wellington urban rail network. Its most visible components are the suburban units, the local stations and local staff, and behind these lie its access to the rail network – not just the track its tunnels and bridges, but also the signals (and the safety systems behind them), and the specialised workshops (and the maintenance systems behind them).

An invisible but essential component is the contract with Wellington Regional Council to deliver a timetable of services, in return for which WRC pays Tranz Metro \$16.8 million a year (this figure includes provision for progressively refurbishing the carriages). 40% of the WRC payment comes from regional ratepayers and 60% from Transfund. Urban rail systems invariably require some such contract and payment to operate at all.

What is “The Tranz Metro Issue”?

Tranz Rail has announced its intention to concentrate on freight and inter-island operations and proposes to sell its passenger operations, including Tranz Metro.

The current contract for Tranz Metro runs to June 30, 2001 – 3 months away.

There are two parts to “the Tranz Metro issue”, contracting arrangements and ownership arrangements.

Both Tranz Metro and WRC are dissatisfied with current contract arrangements. Its very short term (1 year) stymies operator investment in long term improvements. While recognition must be given to the efforts of Tranz Metro staff and management in keeping the current system going (at levels comparable with international practice), continuing lack of investment is showing in station conditions and intermittent service unreliability. Efforts to improve contract arrangements in 1994, 1996, 1998 and 1999 have all been thwarted - it has been difficult to settle on an arrangement that satisfies both parties and the separate legal requirements on Transfund. (Indeed for some of this period the stated government intention was to phase the Transfund contribution “down to zero”, meaning that regional ratepayers would have to make up the difference.)

Ownership arrangements are a core concern of WRC. Tranz Rail’s announcement underlines the fact that any private owner-operator can on-sell the access rights and infrastructure at any time – and the nature of rail is that whoever controls these is a monopoly provider. The WRC is concerned too that under current arrangements, investments the public has paid for must transfer to the balance sheet of the private operator. When on-sold the ratepayer may have to pay for them again through the new service contract. WRC is prevented by legislation from having an ownership interest in any transport assets it pays for, but believes that the best long term solution is to have a public interest in the ownership.

In the WRC proposal there is a private operator partner. WRC does not propose to operate the service itself. It would establish a separate business entity to oversee its ownership interests and communicate through a Statement of Corporate Intent – the rail owner would be at arms’ length from Council itself.

Why Does it Matter?

WRC's contract with Tranz Metro carries out regional transport policy established in the adopted Regional Land Transport Strategy, which "agents must implement unless impractical." The Regional Land Transport Strategy sees urban rail as the spine of the regional public transport service, carrying a proportion (13%) of inter-city commuters to work, thus relieving peak hour congestion on the constrained roading network. Alternatives to rail such as a similar bus network would be very costly (\$100M for the extra buses required), would take up to 3 years to commission, would simply add to peak hour congestion, and at some points are practically impossible (eg significantly widening Ngauranga Gorge, Hutt Road or The Terrace tunnel to take the extra lanes of traffic required). The passengers carried by urban rail sustain the CBD's role as the principal regional centre of employment, business and culture. Independent reports to WRC calculate the benefits of the regional rail system as between \$120M and \$170M pa – up to 10 times the costs.

What Will Happen After 30 June if there is No Resolution?

Both Tranz Rail and WRC have announced their intention to continue current services after 30 June and until there is resolution. WRC is bound by the RLTS; Tranz Rail is interested in selling a going concern. Central Government has indicated its support for this approach.

What About Auckland?

Urban rail has never been as significant or as efficient in Auckland. By way of comparison, Auckland's annual rail passenger trips are 2.5 million in a regional population of 1 million, Wellington has 10 million in a regional population of 0.4 million. The ARC pays Tranz Rail \$7 million pa, the WRC \$16.8 million; public cost per rail passenger in Auckland is \$2.80 and in Wellington is \$1.68.

Auckland faces serious congestion and traffic growth problems; serious enough to rank as national political issues. The Auckland RLTS sees their relatively empty rail corridors as an important resource in providing some of the solutions. They propose very large (\$700 million) public-funded investments in public transport over the next decade, and are considering a mix of new suburban rail, light rail, and busways as "rapid transit" modes (off-road expressways) – thus, their mode selection for each rail corridor is not necessarily rail. Whereas Wellington's rail fleet has been progressively refurbished, Auckland's has not been and is now unsuitable for an effective urban rail system.

Auckland therefore needs a degree of control over its rail corridors, and in pursuing this have explored "assignment" options with Tranz Rail. Under an assignment option control of the corridor passes to the local region, and Tranz Rail negotiates slots for its (freight) needs. This arrangement would break up the linear continuity of the national network and introduce new safety issues.

Under an alternative access option the corridor and track would remain in single control – retaining linear continuity and accountability for safety – and the local operator would negotiate slots for its (passenger) needs. Wellington discussions have centred on access rather than assignment, because freight, including inter-island freight, is a significant user of Wellington's main rail corridors. Indeed the nation's rail freight spine runs to the ferry terminal, barely 2 km north of Wellington Railway Station. The large expanse of the Wellington Railyards is a main marshalling area for national freight (and passenger) trains.

The Auckland proposal has another feature of interest. Ownership of the regional rail corridors would pass to a LATE (Local Authority-owned business) jointly-owned by the cities, with the ARC maintaining its separate planning and operational funding role – ie., the funder-provider split is maintained. Compare this to the WRC model. However there is a hitch: capital funding for this would come from Transfund and Infrastructure Auckland. A significant difference in Wellington is that there is no “Infrastructure Wellington” to bankroll the local share, so any similar arrangement in Wellington would require local bodies to contribute their share of the capital funding.

Uncertainty surrounding the Auckland arrangement has been underlined by Transfund’s recent decision to “put aside” only half the amount requested of them, leaving a larger gap for local funding to make up.

What About Government?

Government’s domain of interest is national: in addition to urban rail issues in Auckland and Wellington, Government is also concerned with the proposed closures of the East Coast line to Gisborne, and the spur line to Rotorua. In both cases there has been huge investment in providing rail access in the past and significant timber freight is forecast in the medium-term future.

Mindful of UK precedents, Government is also concerned to weigh the need for vertical integration (providing clear accountabilities especially on safety matters) within Tranz Rail’s proposed sell-off (which could yield up to 4 different operators on the network).

Government is undertaking an investigation of a national rail policy and has indicated it will announce the results “shortly” – expected before the end of March.

What Goals Should We be Seeking?

A recent paper commissioned by the Mayoral Forum achieved progress on these issues by proposing assessment criteria to apply to any option, and analysing the available options.

Assessment criteria proposed were:

- ensuring safe operation of the network;
 - demonstrating value-for-money;
 - providing incentives for improved (excellent) service;
 - enabling clear accountability and governance;
 - minimising conflicts of interest;
 - reducing public sector risks;
- ensuring long term integrity of the infrastructure.

The paper makes the point that many desired improvements (such as integrated ticketing, solutions for Johnsonville Line dilemmas, better station maintenance, better relations with users and communities) are operational matters that should be addressed under whatever option is resolved, ie. they do not help distinguish between the ownership options. Another point agreed in the discussions is that whatever ownership option is resolved contractual arrangements need to be addressed – this latter point requires the agreement of Transfund as well.

The paper then analyses the available options for future ownership of Tranz Metro.

They are seen to be:

- 1 New private operator with improved contracting;
- 2 Joint LATE ('the Auckland model')
- 3 Joint public-private Venture ('the WRC model')
- 4 Regional public ownership;
- 5 Government ownership,

Discussion discounted options 2, 4 and 5 as unacceptable or unlikely, leaving 1 – private ownership and 3 – joint venture. Neither option “scores” positively on all criteria, so a judgement needs to be made on the relative values.

What is the Process from Here?

A key input required is the Government’s rail and transport policy review. This is expected towards the end of March.

WRC Committees review and appraise steps in the process as part of their normal business, and report to WRC. Currently WRC has requested its General Manager to produce draft documents preparatory to calling for interests from potential private operator partners. This process needs to involve some consultation with Transfund to check it can meet their standards for competitive process.

The Regional Land Transport Committee, convening local government, Crown and user interests in regional transport, is charged with monitoring implementation of the RLTS. It meets quarterly (next in late March-early April) and can recommend direct to WRC. In addition, the Mayoral Forum has established a working party of officers and politicians, which will meet next in mid April. This process will involve and inform local authority interests in particular.

Any WRC decision that involves contribution of funding requires notification and consultation through Local Government Act processes such as the Annual Plan. WRC’s Annual Plan for 2001/02 seeks feedback on the principle of a Tranz Metro acquisition.