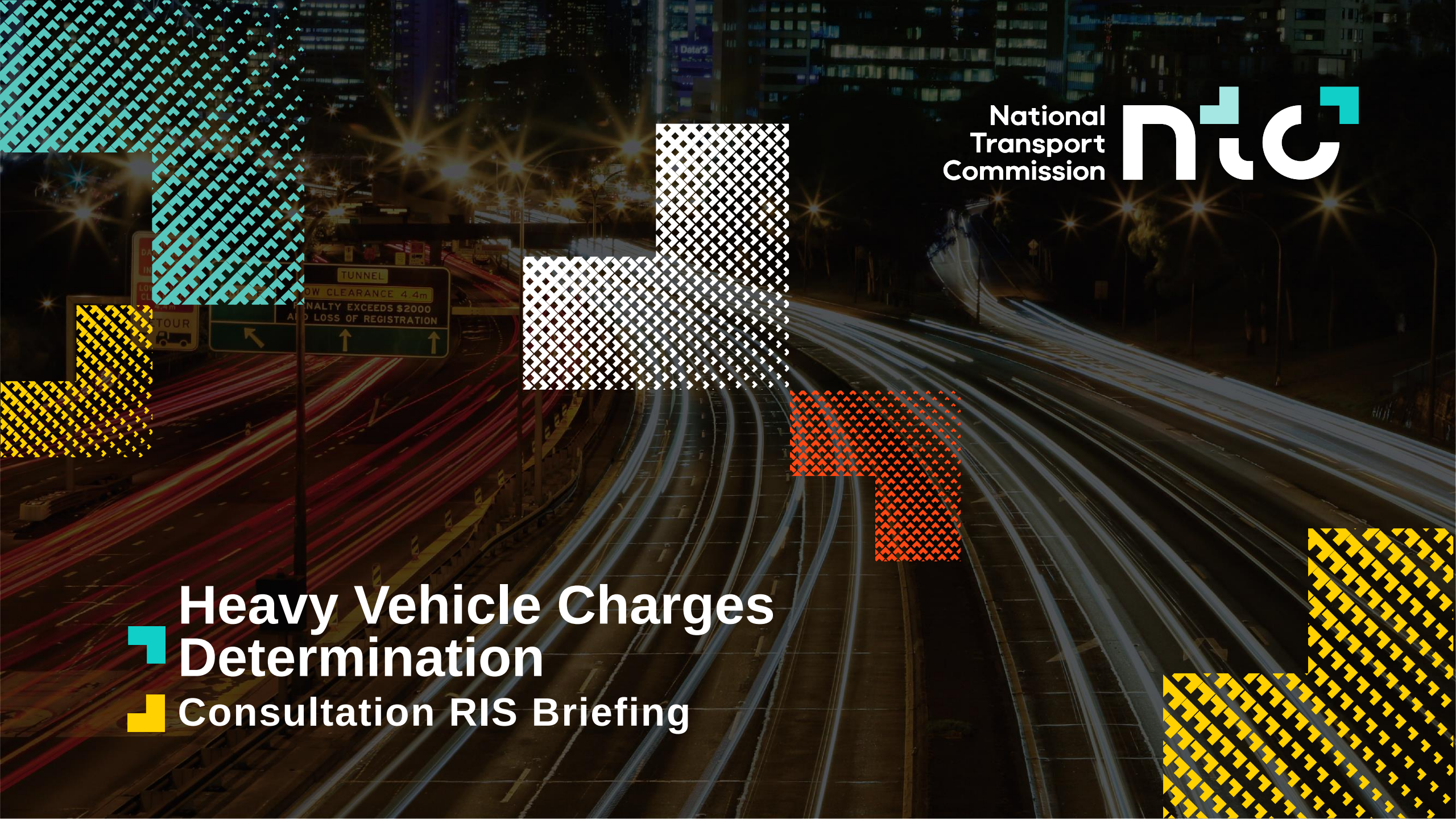


National Transport Commission

Heavy Vehicle Charges Determination

Consultation RIS Briefing

Contents

Introduction

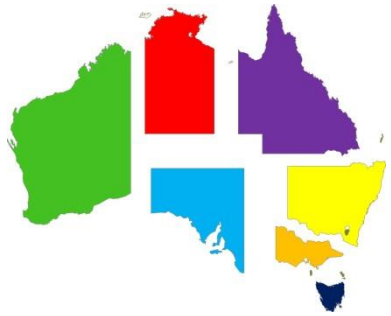
- In November 2019, the Infrastructure and Transport Ministers' Meeting (ITMM) directed the NTC to undertake a heavy vehicle charges determination
- The NTC has explored a range of technical, cost allocation and implementation options in a Consultation Regulation Impact Statement (C-RIS)
- We published this C-RIS on 29 June 2021 for public consultation
- The public consultation period runs to 24 August 2021
- The purpose of this workshop is to present the options explored in the C-RIS, answer questions and gather feedback

PAYGO overview

- The PAYGO model is used to calculate the heavy vehicle cost base and set heavy vehicle charges
- While the model and its inputs are being reviewed, the basic architecture of the model will remain unchanged
- Before looking at the potential changes, we need to understand how the model works in general

How charges are set

1 Road agencies



Jurisdictions report <u>historic</u> road expenditure

2 NTC

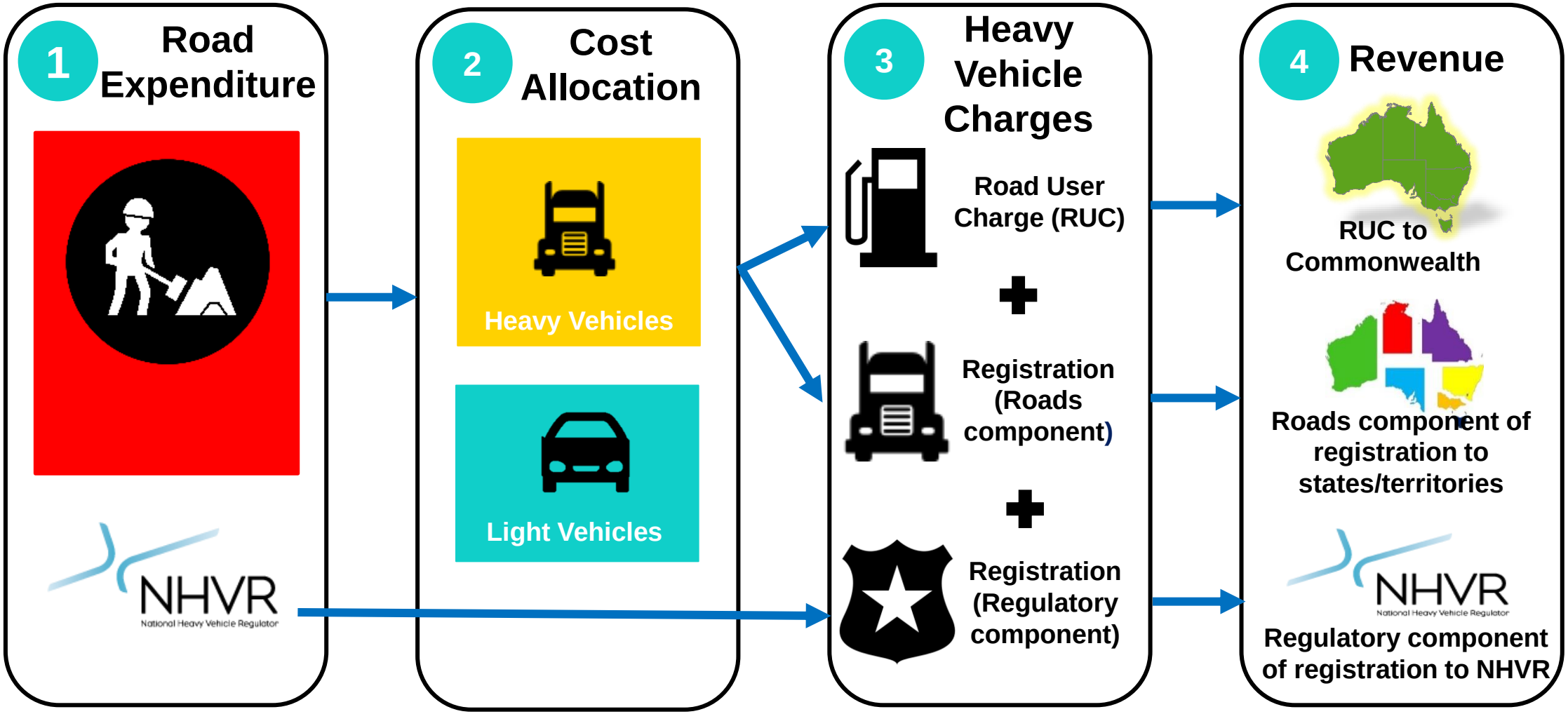
National Transport Commission

NTC calculates cost base and provides advice on heavy vehicle charges

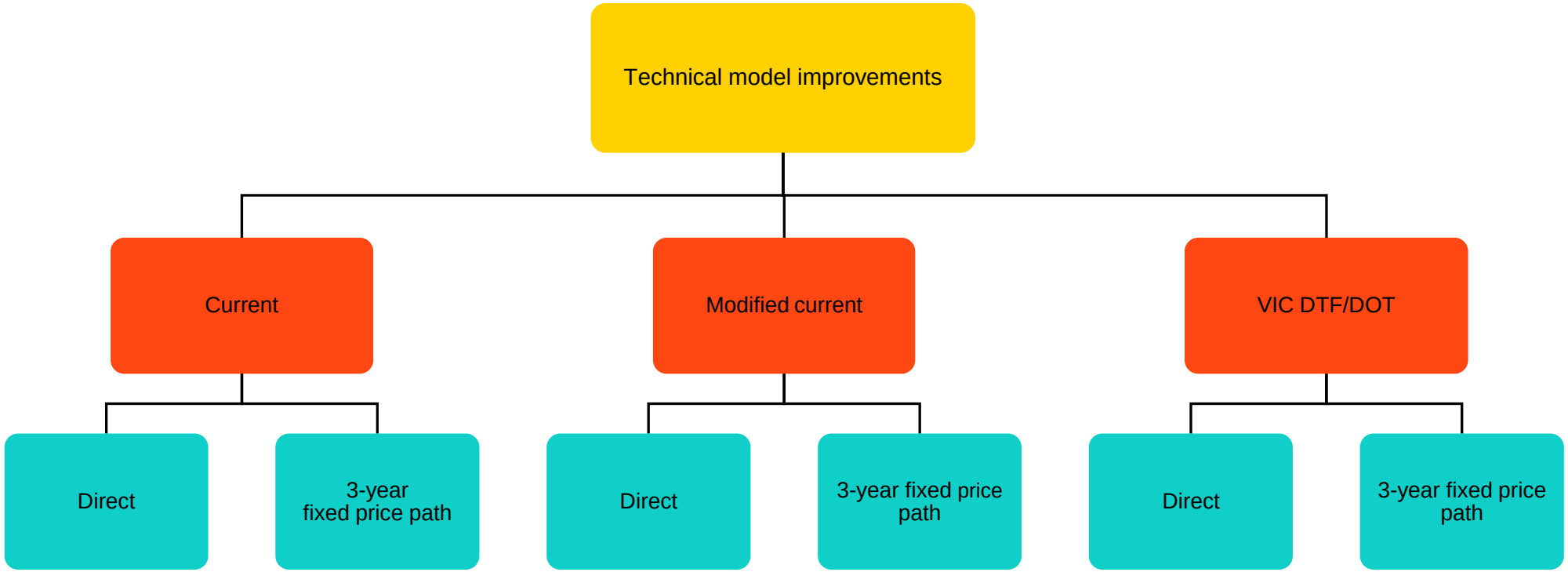
3 ITMM

Ministers decide on national heavy vehicle charges

How does the PAYGO model work

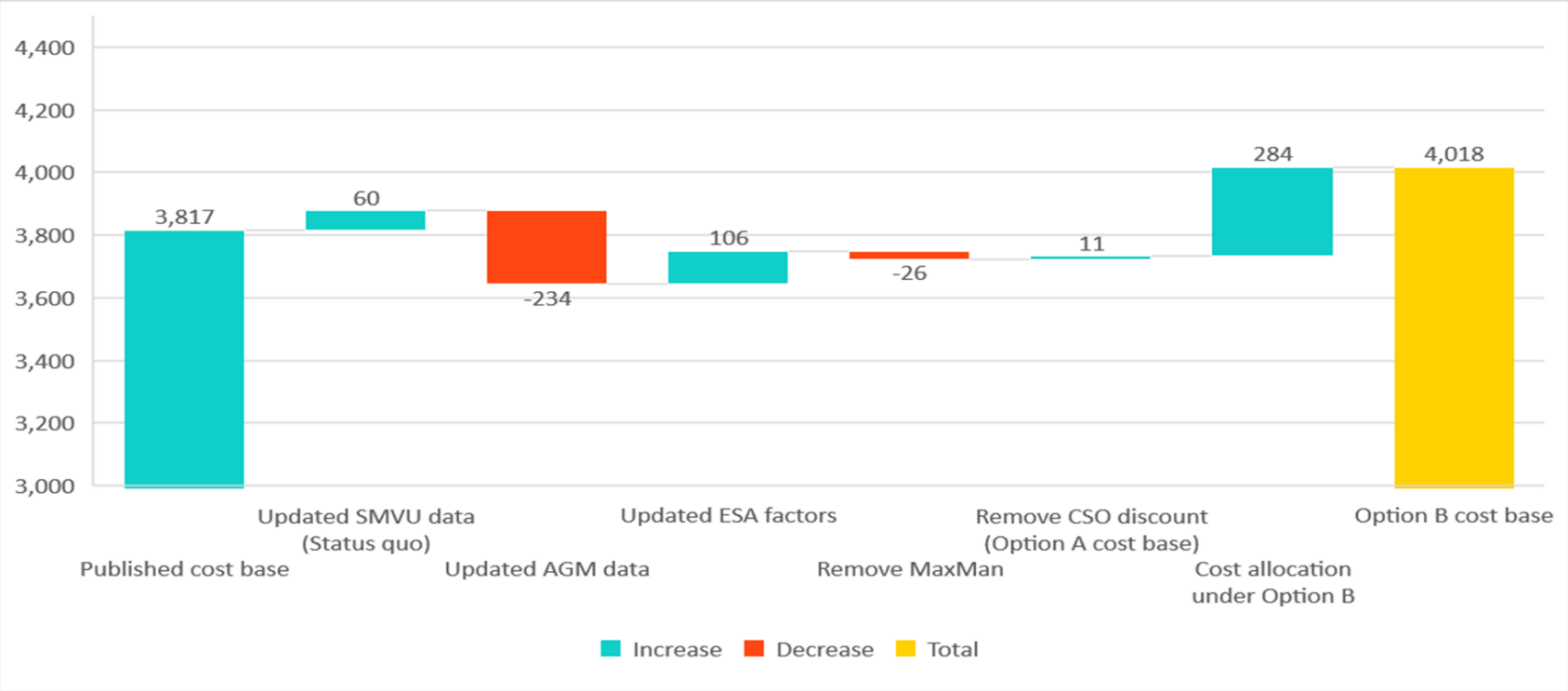


Structure of the determination



Technical changes - summary

- Technical changes recommended in a number of areas
  - Each change would affect the heavy vehicle cost base
  - Combined effect would reduce the heavy vehicle cost base



Determination options

- Three determination options
- Built around three alternative cost allocation approaches
  - Current (Option A)
  - Modified current (Option B) – use ESA-km to allocate 70% of cost category B2: periodic surface maintenance of roads
  - VIC DTF/DOT (Option C)

Determination options compared

	Status quo for 2020–21 heavy vehicle charges	Option A	Option B	Option C
Total road expenditure for allocation, 7-year EMA ($m)	**17,233**	**17,233**	**17,233**	**17,233**
Heavy vehicle cost base ($m)	**3,878**	**3,734**	**4,018**	**4,402**
Percentage of total expenditure allocated to heavy vehicles (%)	**22.5**	**21.7**	**23.3**	**25.5**

Note: Numbers in the status quo (2020–21) column use existing model settings from prior to the determination (e.g. applying MaxMan) but use updated usage data from the 2020 SMVU. This serves as a basis for comparison for options A, B and C.

Determination options - analysis

- Economic considerations – no clearly superior option
- Timing
  - Advantages and disadvantages of implementing change now
  - Changing as part of Land Transport Market Reform – options to manage impact of change
- Other
  - Data issues with economic approaches
  - Engineering approach based on Victorian data only – not tested nationally

Determination options - recommendation

Recommendation: That the cost allocation options, each combined with the recommended technical changes outlined in section 4, should form the three broad options for this determination

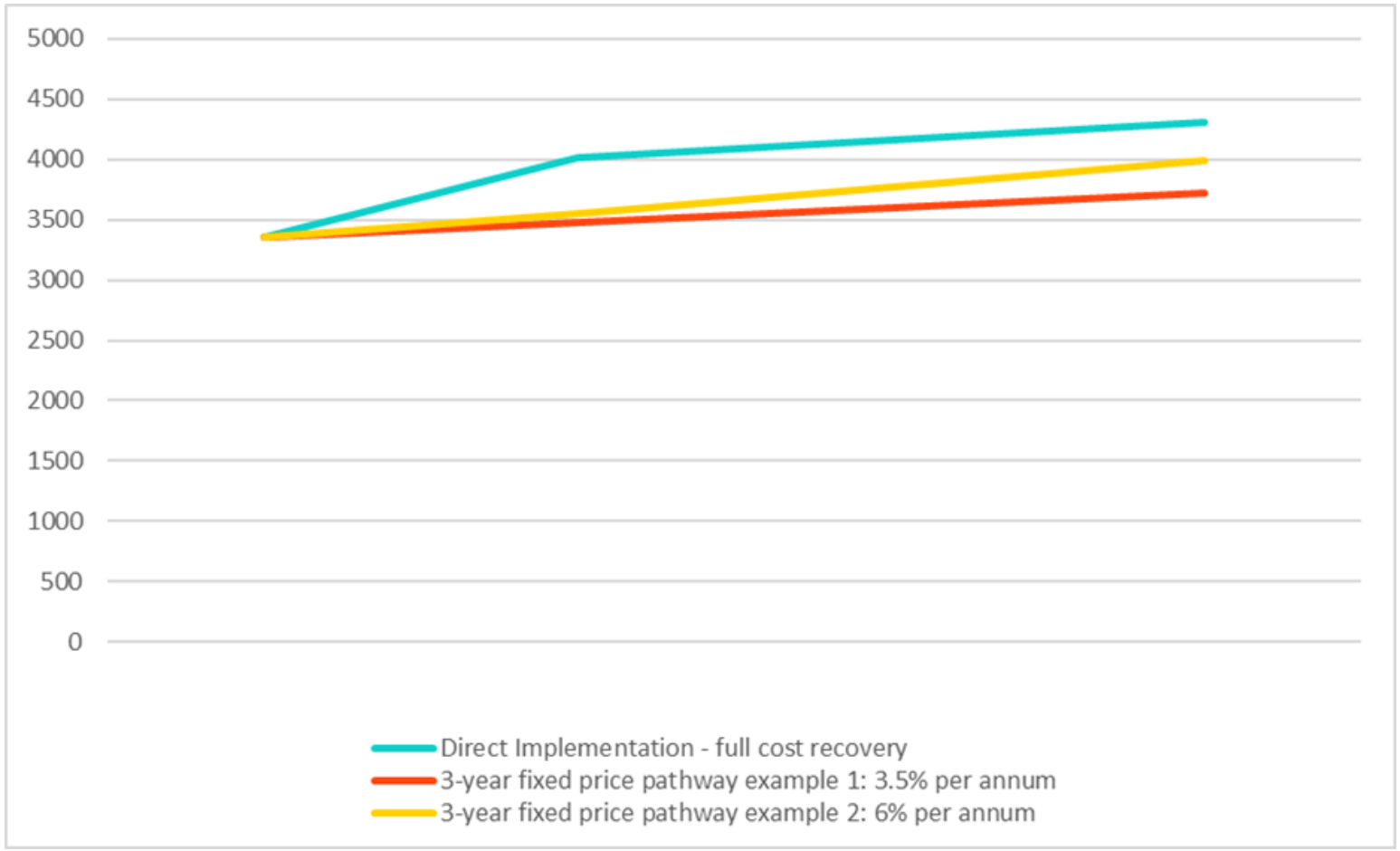
Implementation options - issue

- Standard approach has been to introduce new heavy vehicle charges resulting from a determination immediately
  - Some changes were phased in (e.g. A-trailer charge)
- Direct implementation of new heavy vehicle charges in 2022-23 would require estimated increases between 8.2% (current option) and 27.6% (VIC DTF/DOT option)
- Direct implementation may not be feasible:
  - ITMM historically reluctant to approve large increases
  - The economic consequences of a significant increase in heavy vehicle charges may be severe in the current economic climate
  - Heavy vehicle operators may not be able to pass on significant increases to their customers

Implementation options

- Three-year price path as option
  - Would involve ITMM agreeing to fixed percentage price increases for three years
  - Review approach after three years
  - Could choose any percentage increase
- Two examples
  - Example 1: Charges increase on average by 3.5 per cent each year
    - Approximately reflects historical cost base growth rate
  - Example 2: Charges increase on average by 6.0 per cent each year
    - Higher than historical cost base growth rate – may narrow gap

Implementation options – illustration

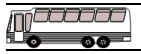
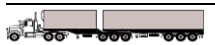
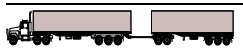


Implementation options - RUC

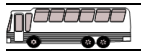
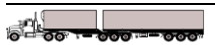
Current RUC rate: 26.4 cents/litre

	Year 1	Year 2	Year 3
Direct implementation	32.2	N/A	N/A
Three-year fixed price path example 1: 3.5% per annum	27.4	28.3	29.3
Three-year fixed price path example 2: 6% per annum	28.0	29.7	31.5

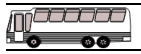
Implementation options - direct

Vehicle type	Mass rating for charging	Current (2021–22)	Year 1	Year 2	Year 3
	Up to 12.0 t	617	627	N/A	N/A
	Over 12.0 t	993	1,804	N/A	N/A
	Up to 42.5 t	2,334	3,150	N/A	N/A
	Up to 16.5 t	968	1,792	N/A	N/A
	Over 16.5 t	1,162	2,084	N/A	N/A
	Up to 42.5 t	3,135	4,060	N/A	N/A
	Over 42.5 t	11,713	13,143	N/A	N/A
	Over 42.5 t	12,342	13,780	N/A	N/A
	Up to 20.0 t	983	1,822	N/A	N/A
	Over 20.0 t	1,183	2,124	N/A	N/A
	Up to 12.0 t	521	517	N/A	N/A
	Over 12.0 t	651	2,606	N/A	N/A
		2,731	7,615	N/A	N/A
		6,369	6,420	N/A	N/A
		15,102	15,225	N/A	N/A
		15,158	15,281	N/A	N/A
		16,969	17,110	N/A	N/A

Implementation options – 3.5% for 3 years

Vehicle type	Mass rating for charging	Current (2021–22)	Year 1	Year 2	Year 3
	Up to 12.0 t	617	636	649	664
	Over 12.0 t	993	1,035	1,074	1,114
	Up to 42.5 t	2,334	2,405	2,486	2,568
	Up to 16.5 t	968	1,023	1,062	1,102
	Over 16.5 t	1,162	1,210	1,254	1,300
	Up to 42.5 t	3,135	3,222	3,329	3,438
	Over 42.5 t	11,713	12,227	12,769	13,336
	Over 42.5 t	12,342	12,876	13,439	14,027
	Up to 20.0 t	983	1,053	1,092	1,132
	Over 20.0 t	1,183	1,250	1,294	1,340
	Up to 12.0 t	521	524	534	545
	Over 12.0 t	651	688	704	722
		2,731	2,836	2,958	3,086
		6,369	6,541	6,732	6,930
		15,102	15,513	15,969	16,442
		15,158	15,569	16,025	16,498
		16,969	17,434	17,944	18,474

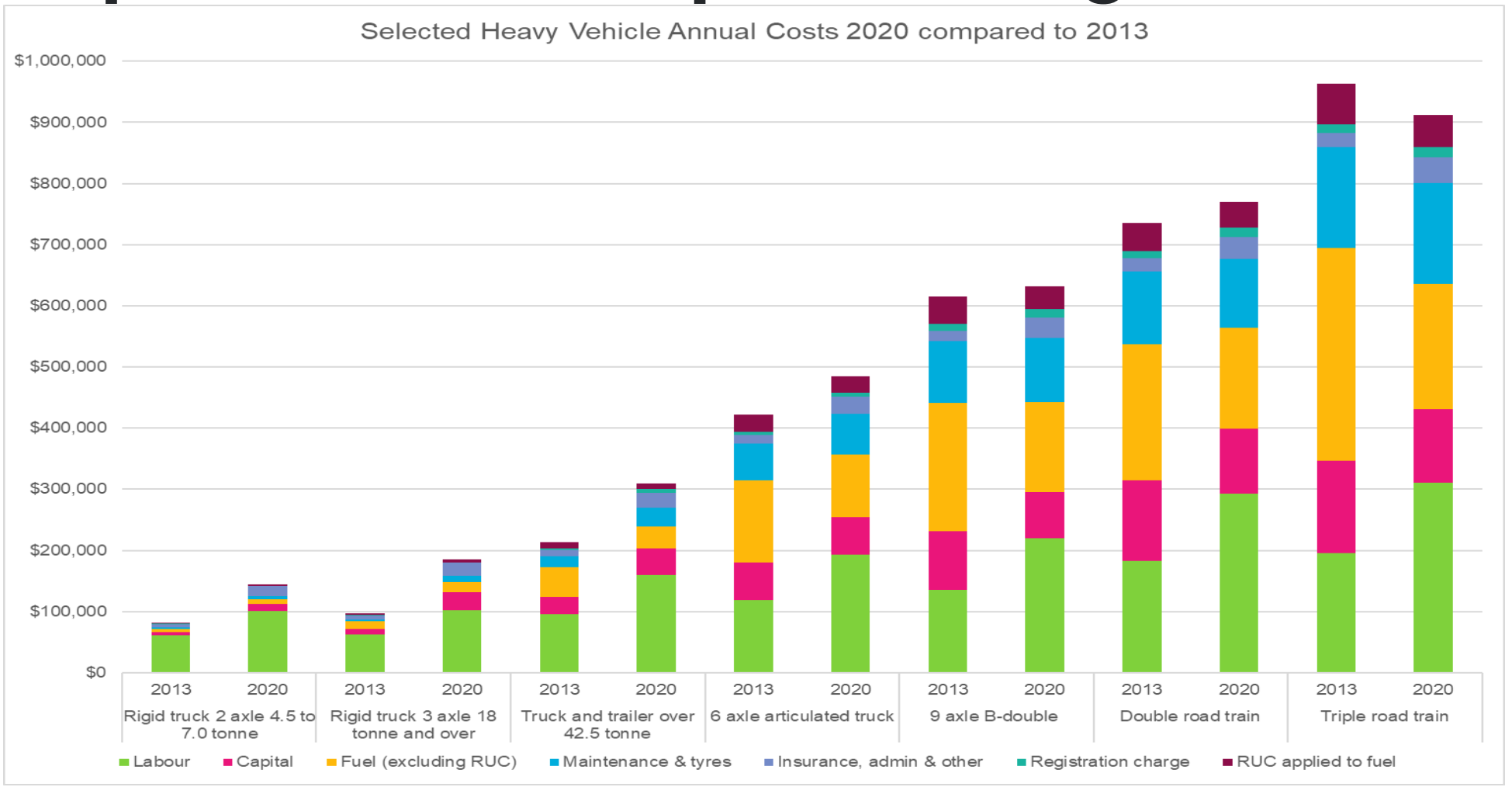
Implementation options – 6% for 3 years

Vehicle type	Mass rating for charging	Current (2021–22)	Year 1	Year 2	Year 3
	Up to 12.0 t	617	646	671	698
	Over 12.0 t	993	1,053	1,113	1,177
	Up to 42.5 t	2,334	2,455	2,589	2,733
	Up to 16.5 t	968	1,041	1,101	1,165
	Over 16.5 t	1,162	1,231	1,299	1,371
	Up to 42.5 t	3,135	3,291	3,470	3,662
	Over 42.5 t	11,713	12,503	13,350	14,261
	Over 42.5 t	12,342	13,168	14,052	15,003
	Up to 20.0 t	983	1,071	1,131	1,195
	Over 20.0 t	1,183	1,271	1,339	1,411
	Up to 12.0 t	521	532	551	571
	Over 12.0 t	651	695	721	748
		2,731	2,894	3,081	3,282
		6,369	6,688	7,042	7,416
		15,102	15,864	16,707	17,597
		15,158	15,920	16,763	17,653
		16,969	17,827	18,772	19,770

Implementation options – financial implications

	Estimated total heavy vehicle charges revenue 2022–23 ($m)
Estimated revenue from current heavy vehicle charges in 2021–22 before estimated RUC leakages are taken into account	3,449
Estimated revenue from current heavy vehicle charges in 2021–22 after estimated RUC leakages are taken into account	3,356
Direct Implementation 2022–23	4,018
Three-year fixed price path: Example 1 – 3.5% per annum 2022–23	3,481
Three-year fixed price path: Example 2 – 6% per annum 2022–23	3,566

Implementation options - significance



Implementation options – trade-offs

- Pricing principles – goals include cost recovery, avoidance of cross-subsidies, administrative simplicity, efficiency and equity (regional and remote communities / access)
- Currently, charges revenue below identified heavy vehicle cost base
- Likely to favour implementation path that shows some progress towards achieving full cost recovery
- Efficiency and equity considerations – against large changes
- Direct – scores highly on cost recovery, but low on efficiency and equity
- 3-year fixed price path
  - Example 1 (3.5% p.a.) minimises impact on industry, but may not close gap
  - Example 2 (6% p.a.) has higher impact on industry, but has potential to close gap faster

Questions and discussion

National Transport Commission

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