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24 August, 2021

National Transport Commission

Public submission - Heavy Vehicle Charge Consultation Regulation Impact Statement

Level 3, 600 Bourke St

Melbourne VIC 3000

Dear National Transport Commission,

Re: Public submission - Heavy Vehicle Charge Consultation Regulation Impact Statement

ARTC welcomes the opportunity to make a submission to the National Transport Commission's (NTC) Heavy Vehicle Charge Consultation Regulation Impact Statement and appreciates the detailed presentation provided by the NTC to explain the issues under consideration, the options available for their determination and the preferred position.

ARTC has previously provided extensive submissions to the NTC on the issues of cost allocation to heavy vehicles. ARTC's position has highlighted a concern with the effective treatment of heavy vehicles as the incremental user of roads which delivers a lower allocation than if heavy vehicles were treated as an equal user of the network with light vehicles.

The 2017 analysis from Houston Kemp provided as part of the consultation confirms this position; noting this was provided to confirm the efficient nature of the PAYGO model given the recovery of costs is between the incremental and stand alone cost of the infrastructure. Further noting that this analysis was undertaken in 2017, however the key conclusions were that the "true" incremental cost base in 2017 was $2.3bn and stand alone was $7.4bn. Whilst revenue was at $3bn in 2015-16, with revenue freezes and leakages, this gap would be significantly lower now; confirming ARTC's long standing position that heavy vehicles are treated as the incremental user of the road network.

ARTC has further concerns with the PAYGO model which it has addressed in some detail previously, including most recently its February 2021 submission on the level of charges to apply for 2021-22. These issues can be summarized as:

- The continued under recovery of the (even) incremental cost base determined by the PAYGO model based on the political nature of the approval of road user charges;
- The failure of the road user charging system to manage access to the road network, with the result that heavy vehicle usage of that network is effectively a public good driving excess consumption of the network and the consequent imposition of externalities on the economy through increased congestion, increased emissions and increased road accidents and fatalities;
- The failure of the PAYGO system to incorporate the costs of these externalities within the road user charges; thereby ensuring the costs do not reflect their true cost of road usage; and
- The combined effect of the lack of an access framework, the failure to charge for the true costs of heavy vehicle usage, the under recover of even incremental cost bases and the excess consumption so caused is to drive a market failure in the freight transport market.

Aside from the issue of under recovery of the PAYGO cost base, ARTC notes these are issues which are not included in the RIS and are more appropriately addressed through the (glacial) process of Heavy Vehicle Road Reform (HVRR).

Given the innovation and accelerated development occurring in respect of electric vehicles, the cost recovery mechanism implied within the PAYGO model of diesel excise has a limited life span before it will be unable to recovery even the incremental costs of heavy vehicle usage. This will create a funding crisis for road managers and governments; as well as exacerbating the market failure already present in the freight market due to the under recovery of heavy vehicle costs imposed on the network and economy as a whole.

ARTC therefore urges the NTC, as part of its recommendations to the Infrastructure Transport Ministers Meeting, to accelerate the process of HVRR to ensure the funding mechanisms reflect usage, and the inherent market failure the current funding mechanism drives is addressed.

The above issues notwithstanding, there are a number of positive developments outlined by the NTC in the Consultation RIS which ARTC supports:

- The update of ESA values based on analysis of truck usage using current data rather than 25 year old data;
- The proposed change in the allocation methodology
    - ARTC has been subject to extensive reviews by the ACCC of its pricing allocation decisions, a key focus of which has been to ensure that costs are allocated to cause and ideally based on detailed engineering assessments. This would support the use of the Victorian methodology for cost allocation as the most accurate available allocation methodology;
    - The cost base reflected by this approach is stated to be $4.84bn; compared to the 2017 stand alone cost base identified by Houston Kemp of $7bn. This cost remains considerably short of the stand-alone cost base, but does provide a positive move to a more average cost mechanism which would be more equitable (notwithstanding the Houston Kemp assessment understates the full cost impact due to the absence of costing externalities)
    - ARTC therefore supports the use of the Vic DF/DOT allocation mechanism.
- The removal of MaxMan from the model given its complexity does not provide any significant benefit;
- The inclusion of the 4.8% revenue factor to reflect the impact of RUC exemptions and leakages be applied to ensure that the revenue target accurately reflects the cost base.
    - ARTC understands the revenue used in table 19 to highlight the estimated revenue gap does not account for this leakage.
    - The current revenue gap to the (inadequate) allocated cost base is therefore 16.2% not 10.7%;
    - As above, this under recovery of a cost base which minimizes the costs of road usage contributes to the market failure in the freight transport market, imposing significant externality costs to the Australian economy.
- The recommended review of unsealed travel road discounts;
- The removal of the CSO discount from PAYGO given the difficulty in assessing it; noting if Governments wish to apply a form of CSO payment, a more direct application of such a measure would be appropriate;
- The exclusion of concessions from the model; again noting the payment of any such concessions, given the potential competitive impact on the freight transport market, should be open and transparent and not built into a model's logic.
- The recovery of regulatory costs based on most recent (and therefore updated) data.

- The 3-year price path implementation; provided that the commitment to impose this price path in future years is not subject to reverse by political decision and the price path is implemented in full. This is critical as the political decisions to limit the full recovery of the (limited) cost base that currently applies has contributed to excess consumption of the road network and the freight transport market failure that has resulted.

Although not noted as part of the RIS, given the pace of change occurring in the productivity and performance of heavy vehicles, ARTC recommends that model logic that relies on such usage data should be updated annually. It is particularly concerning that there are charging mechanisms in the current PAYGO model which reflect analysis from last century, and which do not account for the improvements in technology and efficiency which have occurred within the truck fleet. Such delays contribute to the under recovery of costs and further contribute to market failures in the freight transport market. These factors should therefore be part of the annual process and not reviewed every quarter of a century.

ARTC would again like to thank the NTC for providing it the opportunity to comment on these significant recommendations. Aside from its recommendation on the use of the Vic DTF/DOT data for the allocation of costs, ARTC therefore supports the balance of the recommendations made by the NTC as part of this RIS.

If you have any questions in respect of this submission, please do not hesitate to contact me by either email on jteubner@artc.com.au or phone on (08) 8217 4248.

Yours sincerely

Jonathan Teubner

Manager Economic Regulatory Development

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