

Discussion Paper: Tolling of TG

Purpose

To set out a the background and proposal for tolling of Transmission Gully.

Summary of current situation

The Land Transport Management Act provides for generic legislation allowing the tolling of new roads. Under this legislation we have established three toll roads that are managed and operated by the Transport Agency. These routes are the Northern Gateway Toll Road, Tauranga Eastern Link and Takitimu Drive Toll Road. Operating these toll roads require a range of functions, inclusive of collecting the tolls, managing customer relationships and meeting agreed reporting requirements.

In line with the Transport Agency's tolling policy, all new State Highway projects are assessed to determine their suitability for tolling. If the initial assessment identifies a project as suitable for tolling, a more comprehensive tolling proposal is developed. We are currently developing tolling proposals for four more State Highway links, with Transmission Gully being the most urgent.

Transmission Gully has funding approved for implementation via the National Land Transport Programme (NLP) and would not be brought forward through tolling. Simply raising additional land transport revenue remains as yet untested

Section 9(2)(g)(i)

Section 9(2)(g)(i)

Tolling is however also a mechanism that can help shape demand. By utilising smart pricing, tolling of Transmission Gully could counter mode shift away from public transport and help achieve a more mode neutral long term solution through this important corridor.

Why did we get involved in tolling?

Tolling can be seen as step towards a modern road pricing system: it gets people used to paying as they travel, and paying extra for certain benefits.

Tolling is nevertheless an important part of our intervention toolkit because it:

- provides an extra source of raising land transport revenue, which can be reinvested in priority projects and outcomes; and
- helps shape demand and play a valuable transition role as New Zealand moves in the longer term to a customer centric responsive pricing system.

In line with the Transport Agency's tolling policy, all new State Highway projects are therefore assessed, during development of the business case, against a set of toll criteria to determine their suitability for tolling. If the initial assessment identifies a project as suitable for tolling, a more comprehensive tolling proposal is developed, as well as a debt proposal if additional funding is required. Once the candidate tolling scheme is fully developed, the Transport Agency can submit a request to the Ministers of Transport and Finance to seek an Order in Council to establish the new toll road.

Tolling legislation

Tolling is governed by specific legislation and other agreements.

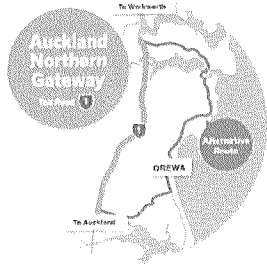
The Land Transport Management Act is the key enabling legislation. Through this the Governor-General may, by Order in Council made on the recommendation of the Minister, establish a road tolling scheme. Importantly, only new roads can be tolled and the funds raised may only be applied for the purposes of planning, design, supervision, construction, maintenance and/or operation of the new road.

A Land Transport Management Order has been established for each of the Northern Gateway (2005), Tauranga Eastern Link (2015) and Takitimu Drive (2015). These contain conditions in addition to the Land Transport Management Act which include:

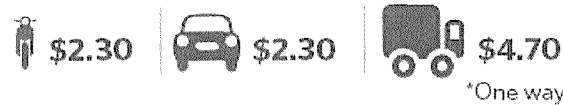
- the maximum tolls that can be charged and how they can be varied;
- any exemptions from paying tolls;
- requirements on how tolls are to be collected;
- whether a feasible untolled alternative route must be available; and
- any specific reporting requirements that the NZTA must comply with (pre-opening and ongoing).

Finally, there are also a range of other agreements, documents and policies that specify the Transport Agency's commitments to tolling. Those include the NZTA toll proposals (submitted to the Minister in advance of requesting an Order in Council) and relevant debt agreements for each of the existing toll roads.

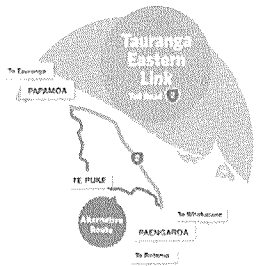
Under currently legislation there are three State Highway toll roads...



The Northern Gateway toll road is a 7.5km motorway north of Auckland between Silverdale and Pūhoi, part of State Highway 1. Heading north, the toll road begins just before Ōrewa and ends after the Johnstone Hills near Pūhoi.



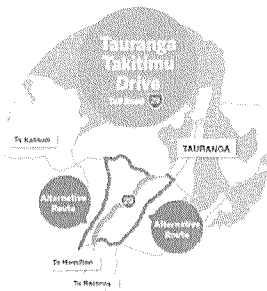
Annual toll revenue
(incl. GST)
\$16.4m



The Tauranga Eastern Link toll road is a 15km tolled section of State Highway 2 running between the Domain Road interchange, near Pāpāmoa, and the Paengaroa roundabout (State Highway 2 and State Highway 33 to Whakatāne and Rotorua).



Annual toll revenue
(incl. GST)
\$7.0m



The Takitimu Drive toll road, formerly known as Route K Toll Road, is a 5km road that bypasses the Tauranga city centre and takes traffic from State Highway 29 to State Highway 2 in the direction of the Port of Tauranga and Mt Maunganui.



Annual toll revenue
(incl. GST)
\$6.7m

National toll system

The Northern Gateway Toll Road (NGTR) was the first toll road established under the Land Transport Management Act. The general tolling provisions within the act supported a view that an eventual suite of toll roads would eventuate, inclusive of some high-volume urban roads. As a result a strategy was developed, comprising three elements:

- The toll systems should be fully compatible and interoperable nationally, allowing all projects to exchange information, thereby enabling free roaming for users across the country;
- All toll projects should utilise fully electronic collection systems allowing the free flow of all traffic at all times; and
- An integrated central system should process all transactions and manage the systems from a national perspective, thereby providing a single point of responsibility for payment, billing and enforcement.

A fully electronic system was thought would eventually be the most convenient and provide the greatest time savings for customers, consistent with the convenience and time saving benefits that the road itself provides. Such a system would have environmental and safety benefits when compared with requiring traffic to stop to pay a toll and was thought to be more consistent with how a road charging system might operate.

A national system meant capital investment and fixed operation costs could be spread over more projects and, in the longer term, would be capable of integrating with other road pricing initiatives. This option also meant future toll roads would benefit from the learnings and all toll roads could benefit from enhancements.

Tolling operations

The Government at the time agreed with the long term approach to tolling, but requested the NZTA commit to a tolling solution that can operate without needing subsidy. With other toll roads slow to eventuate the NZ Transport Agency Board (the Board) sought a strategy to reduce operational costs.

In December 2009 the Board considered a toll revenue collection strategy which reconfirmed free flow electronic toll collection as the preferred tolling solution for future toll roads. The review considered outsourcing options, but instead recommended an approach where the NZTA sought efficiencies within the tolling system, exploit opportunities to reduce costs and introduce a pricing plan that encourage less expensive payment options. [Board paper 09/12/0305 refers]

Nevertheless, the general perception was that without significantly higher volumes, our tolling operations may not offer best value for money. In the letter from the Minister of Transport that confirms support for tolling of the Tauranga Eastern Link, it was noted that no further toll proposals would be considered until the NZTA reported back on options to outsource the tolling operations.

In May 2016 the Board noted the findings of the Tolling System Review by Martin Jenkins/Nous Group. This reported on preliminary discussions with Roads and Maritime Services (NSW) on “testing the market” for outsourced tolling services. Those discussions were inconclusive, but the review nevertheless found that with the recent addition of the Tauranga Eastern Link and Takitimu Drive the tolling operation is now providing significantly better value for money, while the customer experience has also been significantly enhanced. Increasing volumes was confirmed as a key lever to further improve operating results. [Board paper 16/05/1017 refers]

Toll policy

The original tolling policy was established by the then Transit NZ and focused primarily on tolling being a mechanism to bring forward the construction of strategically important projects.

In December 2009 NZ Transport Agency Board (the Board) reviewed this policy and reconfirmed tolling as a mechanism to bring forward the construction of strategically important projects. It also agreed free flow electronic toll collection as the preferred tolling solution for future toll roads. [Board paper 09/12/0305 refers]

In March 2013 the Board reviewed its toll policy. This followed an initiative during 2012 where the NZTA, Ministry of Transport and Treasury joined together to advance policy to secure a more stable revenue outlook for the National Land Transport Fund (NLTF). In response the Board agreed that the purpose of tolling suitable State Highway links can be either to advance the project through toll-funded borrowing (the original purpose) **and/or to raise additional land transport revenue**. The Board also agreed that from 1 January 2013 all State Highway improvements that create new roading links will be evaluated against an agreed set of criteria to determine their suitability for tolling, and, if suitable, will be recommended for tolling. [Board paper 13/03/0713 refers]

In October 2013 the Board endorsed a set of toll pricing principles, to support the toll policy. This included a principle on influencing smart travel choices. The principles noted that a toll price can have positive benefits for the surrounding network by influencing travel choices (eg a discounted night toll might lower diversion, reducing heavy vehicles on local roads at night). The Board noted that these are interim principles and that more work is needed to finalise the principles and ensure they aligned with the wider investment landscape. [Board paper 13/10/0868 refers]

Update on candidate toll projects

In March 2017 the Investment and Operations Committee received an update on four State highway candidate tolling projects including Transmission Gully. [*I&O Board Committee paper 2017/03/164 refers*]

The Committee were advised that the next step would be to conduct willingness to pay surveys and that for Transmission Gully this would need to proceed quickly to allow sufficient time to design and construct the tolling points ahead of the project's scheduled opening in mid 2020. While this may be some time away, we still have to develop our detailed tolling scheme, then undertake public consultation on it. This includes confirming our reasons for tolling.

Assuming that public consultation confirms an acceptable level of support from the affected community (the legal requirement), we then can request the Ministers of Transport and Finance to seek an Order In Council for the new toll roads. The Ministers may impose additional conditions at this point, (as they have for all three the existing toll roads) before taking this to Cabinet for a decision. Following the Cabinet meeting the process for drafting the relevant Order can commence, which must be gazetted before the road opens.

The Committee expressed their support for this direction and their desire to progress more demand management initiatives and requested a report back on what measures could be taken to ensure we protect the opportunity to toll Transmission Gully.

Tolling Transmission Gully...

Transmission Gully has funding approved for implementation via the National Land Transport Programme (NLP). Unlike the existing three State Highway toll roads whose construction were brought forward through tolling, the financial reason for tolling Transmission Gully would be to raise additional land transport revenue.

Furthermore, previous investigations have demonstrated a marginal case for tolling of Transmission Gully as the existing state highway 1 are likely to remain a viable alternative; the public's willingness to pay however needs to be further investigated as our experience with the other toll roads would suggest this may have been understated.

Because Transmission Gully is being constructed as a PPP we can consider tolling as a way of reducing the impact of the availability payments on the NLTP over 25 years. These payments are unaffected by changes in use and the NZ Transport Agency would be entitled to all the toll revenue.

This reason remains as yet untested

Section 9(2)(g)(i)

Section 9(2)(g)(i)

Tolling Transmission Gully... continued

Tolling is also a mechanism that can help shape demand. Tolling is sometimes seen as an early mechanism to help New Zealand transition to a more customer centric responsive pricing system in the longer term.

Demand measures are not required for Transmission Gully as it is expected to provide the needed capacity for State highway traffic. However, by reducing the costs of travel by road, the Transmission Gully Project can be expected to result in a number of behavioural responses by travellers, which together will result in some increase in the demand for road travel in this corridor.

Initial investigations of major travel movements in the corridor indicate that the un-tolled Transmission Gully route will result in increases in both the total volume of travel in the corridor and also the proportion of this travel which is undertaken by road (ie there will be a small reduction in the number of trips made by public transport, primarily rail).

It is important to note that this occur because the improved accessibility provided by the Transmission Gully Project will allow people to travel to the destinations they wish, at the times and using the mode of transport which are most convenient to them. Nevertheless, by utilising smart pricing, tolling of Transmission Gully could counter the perceived cost reductions and help achieve a more mode neutral long term solution through this important corridor.

While shaping demand is not seen as the principal driver for tolling within the Land Transport Management Act, tolling for this reason isn't precluded. Our understanding of tolling as a demand management tool is however still immature and further work would be needed to confirm how best this can be achieved. This may include utilising variable tolls to decrease the impact of tolls on for example freight costs during off-peak periods.

Transmission Gully - overview



Recommendation

It is recommended that..

Released under the Official Information Act 1982