

RESPONSE TO ISSUE NOTIFICATION

COMPONENT: AIR-CONDITIONING

This Response is issued by the Public Transport Authority (Authority) in relation to the Issue Notification lodged by Transport Forum in its capacity as a Contractor Representative to the Composite Rate Component Review 2005.

Component

Air-conditioning

Issue Notification

The Transport Forum Issue Notification lodged stated that there should be an additional two rates for Class B and C buses. These new rates were made up of three elements, being:

- § Extra fuel consumption
- § Repairs and maintenance on air-conditioning units
- § Repairs and maintenance associated costs.

In its supporting documentation, Transport Forum argued that these elements reflected the following:

- § Fuel consumption can increase by up to 10% as a result of air-conditioning, based on a number of operating variables
- § It is reasonable to expect that air-conditioning compressors need to be overhauled and/or replaced
- § Servicing costs includes the costs of travelling or transporting to have the unit serviced
- § The high ambient temperatures within parked buses means that drivers are obliged to run bus air-conditioning units for up to half an hour before admitting students.

The remuneration for air-conditioning proposed by Transport Forum is summarised as:

Bus Class	Current Cents per Km	Proposed Cents per Km	Increase in Cents per Km
Class A	8.20	8.20	0.00
Class B	8.20	8.49	0.29
Class C	8.20	9.07	0.87
Class D	5.70	5.70	0.00

Response

The Authority does not consider the Issue Notification discloses an issue.

Basis for Response

CRM Principles

Item 9(b) of Schedule 5 states, inter alia, that:

- (i) *the purpose of the Composite Rate Model...is to balance the interests of the Authority in procuring school bus services for a commercially fair value and the interests of Contractors in receiving a commercially fair income for provision of those services in the absence of a competitive tender process;*
- (ii) *the Composite Rate Model is an average cost model so that the starting point is to be the average actual costs incurred by Contractors in providing the services the subject of the School Bus Contracts;*
- (iii) *the cost elements set out in the Components will primarily be spread across the service life of each school bus rather than being paid in a lump sum or being varied across the service life of each school bus...*
- (v) ... A. *actual income earned by Contractors from sources other than the Authority from assets for which Contractors are compensated under School Bus Contracts...is a relevant consideration...*

Background to Component Methodology

Under the Standard Rate Model (SRM) contractors were paid 16.2 cents/km.

During the Composite Rate Model (CRM) negotiations, the school bus industry proposed that air-conditioning rates should be changed to reflect the different sizes of bus being used. Industry suggested the following rates should be applied:

Class A	14 cents/km
Class B	16 cents/km
Class C	18 cents/km

These figures were submitted as part of industry's proposed CRM. This CRM was subsequently reviewed by PricewaterhouseCoopers (PwC) to assess the commerciality of the cost elements.

PwC recommended that the repairs and maintenance aspect of air-conditioning should be based on the manufacturers' recommended servicing and parts replacement data, which can be easily sourced and updated. PwC also found, inter alia, that, because there were no independent figures available, the basis for industry's proposed quantum could not be substantiated.

The Authority sought information from leading air-conditioning specialists for bus air-conditioning, Denso and Coach Air. Denso quoted a figure of 8 cents/km and Coach Air a figure of 4 cents/km. However, the data from Coach Air was considered anecdotal compared to the Denso data.

The appropriate rate for air-conditioning was a contentious issue, and one which was still in dispute at the time the Authority made the decision to apply a rate of 8 cents/km. The selection of this figure was based on the absence of any relevant and examinable evidence that might contradict the information provided by Denso. Due to industry discontent, it was agreed that air-conditioning should be reviewed prior to July 2005 and, as described in Schedule 5 item 3(b) of the CRM contract, any review would be restricted to consideration of the air-conditioning rate and any increase in that rate would be back dated to 1 July 2002.

Current Remuneration for the Component

The current indexed rates for air-conditioning are:

Class D	5.7 cents/km
Class A/B/C	8.2 cents/km

Particulars of Response

The air-conditioning rates are based on verifiable data provided by Denso Australia, which indicate that a significant portion of the air-conditioning costs are related to fuel consumption and, accordingly, a regional fuel uplift % has also been applied to this Component. This is not evident in Transport Forum's claim in the adjusted rate for Class B and C buses.

The Denso data is based on 4 years of test information acquired from the average annual repairs and maintenance cost history of 48 bus coaches (models: Scania k93, Austral Hi Deck).

Whilst the issues raised by Transport Forum in its Issue Notification are noted, the Authority disagrees with some of the assumptions made.

Transport Forum stated that, following discussions with contractors and Herman Strohriegl of Thermo King, fuel consumption could increase by up to 10% based on a number of operating variables. The Authority suggests that reasonably precise fuel consumption figures will need to be provided and in a form that is examinable.

With respect to air-conditioning compressor overhauls, the Denso data allows for an overhaul every 10,000 hrs and 15,000 hrs, but does not allow for compressor replacement. Buses operating in Zone A (where the air-conditioning applies for all school days) will accrue on average around 15,000 hours of use. This is based on 5 hours per day for 190 school days for 15 years. The Authority questions whether it is appropriate to allow for a compressor replacement, but would be willing to further investigate circumstances where this may be applicable.

The Authority does not agree with the proposition put forward by Transport Forum that drivers are required to run buses to reduce the ambient temperature to ensure passenger comfort. Under the CRM contract, most contractors are paid to run their buses from a depot to a terminus to a school and back to the depot. The Authority agrees that running air-conditioning to reduce ambient in-bus temperatures is appropriate, but suggests that this can be achieved while buses are undertaking the empty running stage (ie between depot to terminus and depot to school) of their approved routes. Thus, if the 1.19 cents/km for Class B and 1.32 cents/km for Class C is removed then there would be no net increase in quantum. In addition, due to the requirement to back date any adjustment of the air-conditioning rate, any increase in the rate (based on current values) would need to be discounted by the appropriate CPI index.

The Authority disputes the asserted hourly wage rate applied by Transport Forum for contractors getting their air-conditioning units serviced. Transport Forum has applied a rate of \$24.50. However, drivers are currently paid wages at a rate of \$21.31 (for buses with less than 25 adult seat capacity) and \$21.84 (over 25 seats).