

# PROOF VERSION ONLY

## SELECT COMMITTEE ON TRAIN SERVICES

### **Inquiry into the factors leading to and causes of failures in the provision of metropolitan and V/Line train services**

Melbourne — 22 July 2010

#### Members

Mr B. Atkinson  
Mr G. Barber  
Mr D. Drum  
Ms J. Huppert

Mr S. Leane  
Mr E. O'Donohue  
Mr M. Viney

Chair: Mr B. Atkinson  
Deputy Chair: Mr S. Leane

#### Staff

Executive Officer: Mr R. Willis  
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#### Witnesses

Mr J. Betts, secretary, Department of Transport, and  
Mr B. Carolan, chief executive officer, Transport Ticketing Authority.

**Necessary corrections to be notified to  
executive officer of committee**

**The CHAIR** — I formally declare open this public hearing of the Legislative Council Select Committee on Train Services. Today's hearing is in relation to the committee's amended terms of reference, namely:

To inquire into the factors leading to and causes of failures in the provision of metropolitan and V/Line train services, including the impact on those services as a result of the purchase, operation and implementation and oversight by government of the 'myki' ticketing system in Victoria, including an examination of performance, costs and integration of the 'myki' ticketing system.

On this occasion I welcome Mr Jim Betts, Secretary of the Department of Transport, and Mr Bernie Carolan, chief executive officer of the Transport Ticketing Authority.

I indicate that all evidence taken at this hearing is protected by parliamentary privilege as provided by the Constitution Act 1975 and further subject to the provisions of the Legislative Council's standing orders. Any comments made outside the hearing, as witnesses are no doubt aware, would not be afforded the privilege that is afforded in this hearing. All evidence is being recorded by Hansard. Witnesses will be provided with proof versions of the transcript very shortly. They will have the opportunity to ensure the accuracy of that record but will not be in a position to make any substantive changes to that record.

I understand, Mr Betts and Mr Carolan, you have a opening presentation. We welcome that to start the proceedings today, and then we will move into questions.

**Mr BETTS** — Just by way of introduction, as you know, I am the Secretary of the Department of Transport. The department is responsible for the oversight of pretty much all aspects of Victoria's transport system, with the focus being on public transport, with VicRoads managing the road network. Bernie Carolan, as CEO of the TTA, is the head of the authority responsible for the implementation of the myki ticketing system and, indeed, for the management of the current Metcard system. Our role in the department is primarily around fares and ticketing policy, and Bernie's role is around management and implementation of ticketing on the ground.

We are going to give you a short presentation now. You also have in front of you copies of a short written submission which will hopefully provide some of the fundamental background to myki and to why we are here today giving evidence. If it is okay, Bernie and I will share the presentation duties.

**The CHAIR** — Thank you.

#### **Overheads shown.**

**Mr BETTS** — There will be just a few basic introductory statements from me. As I understand it, the purpose of the committee's inquiry is to examine the impact of the purchase and implementation of myki on the operation of train services. We do not envisage that the implementation of myki will have a material impact on the operation of train services. Myki is about providing a new way for people who use public transport to pay for it. We believe that it is a more convenient way than the systems which have existed in the past. To the extent that there are any impacts on the operation of the train system, we expect those to be very marginal indeed. That is an important opening statement.

The second thing I would say is that the myki system has attracted a lot of criticism because of the time lines associated with its implementation. It is certainly true that we have failed to meet some of the very ambitious time lines to which our supplier, Kamco, committed in the early stages of the procurement of the project. That having been said, if you look at the time frames for the implementation of myki, it is broadly five years since the contract for its procurement was executed and, as you will have seen, today the minister has announced that we intend to go live this weekend on trams and buses. It is broadly consistent with other jurisdictions, in a context where myki is a much larger and much more ambitious system than many of those other ticketing operations in other cities. At the end of the presentation we will show you some facts and figures about that. Broadly speaking, the five-year time frame that we are now delivering to is pretty consistent with other jurisdictions.

The fundamental purpose of purchasing and building myki is that whilst our current ticketing system, Metcard, is performing pretty well day to day, it has limited life left on the clock. We anticipate that from around 2013 it will be increasingly difficult to operate the Metcard system. It was purchased in the early to mid-1990s. If you can imagine operating today a computer in your office which was bought at that time, if you run into difficulties, it is very hard to source technical support and it is very hard to source spare parts. This is really an asset renewal project. The current ticketing systems, both the Metcard and V/Line systems, require replacement. So the government took a series of decisions in 2004 and 2005 that in purchasing a replacement for the Metcard

system significantly ahead of that schedule of it likely to becoming life expired in 2013 we would move in step with other jurisdictions around the world and purchase smartcard technology. Smartcard technology if you like, provides a whole series of ancillary benefits to customers which we will talk a little bit about. But at its core we need to replace the ticketing system and pay for a new ticketing system because the current one is likely to become inoperable within the next term of government. I might hand over now to Bernie to take you briefly through some of the system's basics.

**Mr CAROLAN** — Just as Jim did, I should introduce myself again, I suppose. I am Bernie Carolan. I have been CEO of the TTA since February this year. Prior to that I was the CEO of Metlink, and I appeared earlier on in this committee's hearings in that role. TTA has a board of currently four directors. I function to that board under the terms of the State Owned Enterprises Act and other related acts. Obviously we have a close relationship with the department, the public transport operators and many other stakeholders as well.

Prior to coming to TTA I did know something about this project obviously. Metlink is one of those stakeholders for the TTA, so I did not come to the role in February completely cold.

Myki, as we know, is a smartcard-based system. 'Smartcard' means pretty much what it says. It is a card with a chip embedded in it that can handle and store information, and it also has an aerial for communication purposes. The myki cards, and smartcards in general, are not the same as our traditional credit or debit cards that we carry in our wallets. The traditional credit and debit cards are effectively a means of identifying you or the individual who owns that card to the account that resides in the bank or financial institution. That is effectively what the credit or debit card does — that is, it allows you to operate your account. The smartcard is different to that in that the card itself carries transaction information on it.

The card is attached to a reader. The aerial triggers tiny power flows to allow information to move from the card to the reader and back again, checking that the card has enough credit for the trip, that it is a valid card and so on. Obviously then through the devices, the devices are then in turn communicating to a back office system, allowing all of those transactions to be recorded and dealt with both for the customer's purposes and for the purposes of back office settling with revenue distributions and other matters. They are the bare elements of the system.

**Mr BETTS** — As I mentioned, this is primarily an asset renewal project. In 2004 the government moved in step with a lot of other cities in Australia — that is, Brisbane, Perth and Sydney, although their system has not been implemented — and elsewhere around the world through that smartcard technology. Bernie will quickly talk you through some of the intrinsic benefits of that as against the current Metcard system.

**Mr CAROLAN** — I think one thing that is often forgotten, perhaps not by Mr Drum but certainly other commentators around the myki system, is that we tend to think of it as a metropolitan system. Today's announcement, for example, talks about trams and buses. But in fact it is not; it is a genuinely integrated ticketing system, or will be, for the entire state. That means it is actually replacing three existing ticketing systems, not just Metcard. Metcard works in metropolitan Melbourne, and myki will become the next generation of metropolitan ticketing, but it will also replace the V/Line ticketing system and it has already replaced the local ticketing systems that were used on regional buses in Geelong, Ballarat, Bendigo and Latrobe Valley. What we are talking about here is not a simple one-for-one swap for Metcard, even though that tends to be the dominant way in which the system is talked about.

Myki and other modern ticketing systems such as it are fully programmable, obviously given it is smartcard technology. After the system is implemented and stabilised, that will allow a number of innovations to be introduced relatively easily into the system either to offer discounts, incentives or links to other transactions. That is not possible, or not easily possible, with the sorts of systems we have had in place until now.

As well as the fact that Metcard was going to reach the end of its available life or operable life, the other thing that has occurred since 2004–05 when this project was first instigated is that the usage in the metropolitan area anyway and on V/Line has grown quite remarkably. To some extent that has been the subject underpinning some of your other deliberations. Without myki the Metcard system would have not only needed renewal within itself but would have actually required a significant amount of additional equipment as well, which, as Jim touched on before, would have been quite difficult to source, and if it were possible to source it, it would have been increasingly expensive.

The characteristic we should mention about myki which is different to the way the Metcard system has been applied is its open architecture. Metcard has been provided since the late 1990s by a consortium called OneLink, and OneLink entirely had the contract to not only deliver Metcard at the time but then operate it for the entirety of its life. Myki is an open-architecture system where devices from different manufacturers are put together to work together. There is a system integrator over the top of that, which in this case is Kamco, as we know; but there are also aspects of the myki systems that are contestable at given points through the operating life of myki, and that was a deliberate part of the contract when it was let four or five years ago.

**Mr BETTS** — That open architecture is an important point because it means that we are not beholden to a single supplier. If we want to purchase new devices and plug them into myki in due course, we can go to the market and get good value for money that way; it just gives us a lot more flexibility. That was an important part of the decision the government took up front.

A lot of changes have happened to our fares and ticketing system in recent years, particularly the promotion of discounted bulk-purchase tickets like 5 x daily and 10 x 2-hour, Sunday Saver et cetera. What myki does is quite simple: it automates people's access to those ticketing discounts so that the price they pay is calculated on the amount they travel after they travel, rather than people having to make confusing or difficult decisions about what their purchase is going to be in advance. It is pretty simple.

Finally — and this is the last slide — this goes back to what I mentioned earlier: the comparison between the time frames for the implementation of myki and equivalent systems in other jurisdictions. You will see that in Tour de France language we are kind of in the peloton. It is not significantly longer than other systems, although if you look at the number of devices, you will see that because it is a Victoria-wide system myki has more devices than the London Oyster system, which took six years to implement. You will see down at the bottom the Sydney Tcard tender was released in 1997, and it is still being re-tendered in 2010. With each of these projects I suspect that if you went to look at the media coverage whilst they were being implemented, you would find a lot of angst and a lot of criticism. Ticketing systems are intrinsically difficult projects to deliver.

Other big projects — think of CityLink, think of Federation Square, think of regional fast rail — have attracted criticism and controversy during their implementation, but I guess it is doubly true of a ticketing system because it affects everybody who uses public transport. More people are using the train system now than ever before, so it is intrinsically controversial territory. You will see there that the time frames adopted for the implementation of this system are pretty much in line with international practice.

**Mr CAROLAN** — Just to follow on with this slide, most often — and I am sure there will be some questions about this sort of material as we work through the day — we are asked to compare ourselves with London, or sometimes Hong Kong. In fact the best comparator on this table is with Holland. We are implementing a statewide system; the Netherlands is introducing a system across the Netherlands, and it is internationally by far the best comparator. They certainly look to us as a comparator, and we look to them as a comparator because it is the only one of these systems that is being implemented on local trains, regional trains, local buses, regional buses, long distance, short distance, private operators, government operators and so on. The other systems are all, typically, city-based systems, including Hong Kong and London; they are not exactly the same as the dimension of what we are trying to implement. OV Chipkaart is the best comparator on this table. No doubt some of those other systems may evolve into covering broader territory in time, but for the moment Chipkaart is the best of the international comparisons.

**The CHAIR** — Can we just establish whether all of these systems are smartcard technology — are they all the same sort of technology?

**Mr CAROLAN** — They are all similar technology. I would not say they are the same because there is always variations on the theme but they are all quite similar technology.

**Mr BETTS** — Smartcards, yes.

**The CHAIR** — But they all rely on a smartcard and the aerial transfer.

**Mr CAROLAN** — Yes.

**The CHAIR** — Did you want to make any remarks in regard to the submission at this stage?

**Mr BETTS** — No. Thank you for asking; I think it is fairly self-explanatory. It talks through the rationale for the system's implementation, it provides a little more detail around some of the issues we have covered, and it is a useful source document, hopefully, for the committee as it considers its conclusion.

**The CHAIR** — We will have some questions. An opening question, Mr Drum?

**Mr DRUM** — In relation to the concept of how it is going to work, can I ask how much warning you were given that the minister was going to make the announcement he made today?

**Mr BETTS** — The TTA board met last week — it was scheduled to meet last week — and late last week presented its advice to Minister Pakula that we were ready to take the next step in terms of making myki available for use on trams and buses in Melbourne. Ministers met yesterday afternoon to consider that advice, so we were part of the process all the way through.

**Mr DRUM** — Bernie was saying it is going to go to V/Line. Will that be turned on at the same time as the trams and buses in Melbourne?

**Mr BETTS** — No, we want to do this in stages. In the past arbitrary commitments have been given around time lines, and we have generally suffered as a result of that so we are doing this incrementally. Today is the next step. A lot of work has been done around preparing V/Line for myki usage. That work continues, and it will go live on V/Line just as it has in Melbourne when we are satisfied that all work has been done, that staff are properly briefed, that customers are ready to make the change et cetera.

**Mr DRUM** — Why would there be a delay in briefing staff and training staff in the regions as opposed to training them in metropolitan Melbourne?

**Mr BETTS** — The project has always adopted a staged approach. We started off in the regions, and Bernie alluded to the fact that we made myki available first of all in our regional centres, and we did that progressively. Then, as you know, in late December last year the next step was trains in Melbourne. We are now moving towards trams and buses. We will be moving towards V/Line. We will be turning on the myki retail network, and we will be doing it progressively. It has always been a staged approach which allows us to ensure that the basics are right before we invite customers to change their behaviour.

**Mr CAROLAN** — And if I may, certainly from both the TTA board's point of view and my point of view, we are very aware that the customer interest in V/Line is different to that of Melbourne. Melburnians have been using Metcard and the magnetic stripe technology, which in terms of actual customer behaviour is quite similar to myki. There are differences with the card and with other things, but in the day-to-day action of a consumer it is relatively similar. V/Line is not; it is still using a previous generation of technology, if you like, and V/Line customers will need time to be brought along to the new system.

There are many differences with V/Line travel. There is a conductor on board; there are a combination of off-peak arrangements; there are reservation arrangements — none of which apply in the Melbourne metropolitan area. So TTA's focus, since I arrived as CEO, has been on achieving tram and bus availability to a level where that can be operable. We do not view V/Line as simply being a clone of what is going on in the metropolitan area. It needs some thought and some effort of its own so that that step can be taken when it is ready.

**Mr DRUM** — When the Premier and the ministers sat around the table over the last few days and decided to go ahead with this going live, what levels of operational success, what targets did they set that they would then say, 'Right, if the Premier is happy to turn it on, then the Premier is obviously going to make sure it fits a very stringent target that needs to be set in order for Victorians to accept that it is working'?

**Mr BETTS** — Yes, and that is a good question because, as Bernie said, in the last few months we have been looking at every aspect of this system from end to end, particularly those aspects of the system which directly affect customers — ranging from the call centre on the one hand through to what people see on the website and their experience as they move around the system using it day by day and hour by hour. Bernie, you might want to talk through the key touch points that the Premier and ministers were interested in.

**Mr CAROLAN** — Sure. Again, from the TTA's point of view we have been conscious that back in December and January, when trams and buses could not be turned on at the same time as trains, there was an obvious need to make sure that the actual devices that operate on board those vehicles were operating at a consistent level of availability and reliability.

However, the experience of the system in its operating mode for train users has also revealed a number of other things. We are all familiar with some of the other stories that arose in January and February. As Jim has said, a lot were to do with call centre and website issues. At one point there was some unreliability with card vending machines and the EFTPOS capability of those machines. There has also been a need for us to make sure that the handheld devices that the authorised officers carry are usable in the real world environment. My advice to the board, and in turn the board's recommendations through to the minister, has been taken across those issues, not simply the availability of the tram and bus devices themselves. It has been across those five or six issues.

**Mr DRUM** — The Victorian public is going to want to know what level of acceptable operational behaviour that the Premier, Mr Brumby, has set down for this system to operate within. People are going to want to know this very clearly, because if it is turned on on the weekend and it operates at 60 per cent reliability, we do not want you blokes coming back here saying, 'It was always going to operate at 60 per cent' or 'It was always going to operate at 75 per cent.' We need to know what level of responsibility, reliability, accessibility and availability has been decided, and we need to know now that the Premier has made this decision. We need to know what targets you are going to reach. What target of reliability can the Victorian people expect?

**Mr CAROLAN** — The board, in making its recommendations on the actual availability of devices on board trams and buses, has certainly wanted to see that that level of availability is something that will allow day-to-day consumers to interact with the devices on board the vehicles on a reliable basis most of the time. Early in the year that percentage was even lower than the number you mentioned just a moment ago. We have been wanting to see that it was quite reliably well above 90 per cent for those devices for a consistent period before we made our recommendation through to the minister, and we are quite comfortable that that is the case.

**Mr DRUM** — Well above 90 per cent? Are we talking 97 per cent?

**Mr CAROLAN** — We are talking about well above 90 per cent.

**Mr DRUM** — Obviously you do not talk to the Premier in terms of above 90 per cent.

**Mr VINEY** — I have not heard the Premier's name mentioned other than by you, by the way. I have heard the minister referred to.

**Mr DRUM** — Well, irrespective of whether it is the Premier or the minister, the government has to take responsibility for turning this thing on. Surely you do not talk to the government in broad terms. You either tell them that this thing is ready or this thing is not ready. You tell them, 'These are the targets', like you do with rail punctuality times, 92 per cent — 'We will reach 92 per cent punctuality or we will pay a fine.' Surely you must come here armed with accessibility, availability and reliability time frames or frameworks.

**Mr CAROLAN** — What I come armed with is knowing what I have been working on with the TTA board and with our contractor — to achieve levels of availability that we think the public will find okay for a system of this nature that is still being implemented and is still maturing. We are quite comfortable that we have achieved that level, or we would not have made that recommendation through to government.

**Mr DRUM** — But we have a government that will implement anything at any time just to avoid embarrassment.

**Mr VINEY** — Do you want to ask a question, or do you just want to have a general spray?

**Ms HUPPERT** — I think it is a general spray.

**Mr DRUM** — The fact that we are about to turn it on is no guarantee to the Victorian public that it is ready.

**Mr LEANE** — They are baseless statements.

**Mr VINEY** — It is a very inarticulate spray also, I might say. He cannot even find the right words.

**Mr BETTS** — Can I just say, if it were the case that the government was prepared to turn it on regardless of the performance of the system, it would have been turned on a long time ago. The last six months have been about ensuring that we are hitting, consistently, precisely the kinds of KPIs that you are talking about. It goes beyond device availability; it goes to the time it takes people to touch on through to the performance of the call centre, the website and the accuracy and timeliness of information hitting people's accounts. Across all of those different aspects of the performance, we have been monitoring performance. Whether it is 94.8 per cent or 94.9 per cent is in a way immaterial as long as customers get an experience which is, as a minimum, comparable with that that they would be getting if they were continuing to use Metcard.

**Mr DRUM** — Okay, thank you.

**Mr LEANE** — I will start by stating that I, for one, am quite pleased that it is going to be rolled out to the buses and the trams, and it is not breaking my heart like some of the people here. I want to ask a two-part question about your presentation. The table you have up now refers to other jurisdictions and you categorise the systems by the number of devices. I am interested in the software rather than the number of devices. How many different variables does the software have to allow for in the Victorian system compared with the other systems? And I take on board your saying that it is hard to compare unless there is a very similar system. I understand the Oyster system might only do the trains and the metro, so therefore that would probably need fewer applications than we have to deal with here.

**Mr BETTS** — Yes. It is an important question because we are often asked why we did not simply buy a system off the shelf from other jurisdictions.

**Mr LEANE** — That is where I was going next.

**Mr BETTS** — Really there is no such thing as an off-the-shelf system. Each of the systems you see up there pretty much was designed with the specific characteristics of their jurisdiction in mind. Clearly we do not completely redesign circuits and all of that kind of stuff; there is some standard technology which applies across these different systems. But the nature of the modes that are covered, for instance, regional coaches as against trams in the heart of Melbourne, the nature of the fare structure — some of these jurisdictions have flat fares; some of them have no time component to their fares — means the software needs to allow for all of that. Do you want to elaborate on that, Bernie?

**Mr CAROLAN** — It is one of the reasons I singled out the Netherlands before as being the best comparison, because it goes fairly close to the sorts of different systems, fare systems and customers that we have here. Most of the other systems do not do that, even Octopus in Hong Kong that all of us love to use and is so often talked about as being so easy to use. Part of the reason it is easy to use is because the buses and two types of trams in Hong Kong are all based on a completely flat fare system, so when you get on it is HK\$1, HK\$2 or HK\$3 per trip. It is a very straightforward part of that transaction, whereas our software is dealing with zones, and in the case of regional Victoria, many zones with many possible sorts of connected trips.

In hardware terms, as Jim has touched on, many of these systems are close enough to off the shelf — just as ours is. The devices on board the vehicles here and at the stations are provided mainly by a company called ACS, which is a Swiss-based company, part of the Xerox group, and in essence its sorts of machines and just one or two other international competitors underpin virtually all of these systems. So in hardware terms, a lot of it is close to similar with a little bit of tailoring for the individual system. But in software systems, there is an awful lot of software work that has to go on to build the system for those local requirements based on what the fare system is, the types of customers, the number of concession rules et cetera.

**Mr BETTS** — Plus open architecture as well.

**Mr CAROLAN** — We do not want to compare ourselves with our northern neighbours in Sydney all that much for all sorts of reasons. It is notable that the Sydney tender, which was first tendered back in 1997 and the recent tender in Sydney which has only just been let not so many months ago, does involve Oyster as part of the consortium. That contract is still going to cost well over \$1 billion and is still going to take several years to implement. Just because it involves Oyster does not suddenly mean that it is off the shelf and therefore can be implemented in 5 minutes and at a low cost. It is just not the case.

**Mr LEANE** — This is the second part of my question, and then I will finish. The criticism that maybe there should have been purchased an off-the-shelf system sort of makes you think that you could go into Dick Smith Electronics and find some sort of public transport ticketing system to buy off one of the people there. As far as that is concerned, even though some of these hardware items are purchased, as you said, from the company aligned with Xerox, I would have thought that there would have had to have been an order put into that particular company. They would not have them sitting on the shelf waiting for some jurisdiction to decide they are going to introduce this system. They would have had to have been ordered; they would have had to have been built for us and for our purposes as well. Is that correct?

**Mr CAROLAN** — That is absolutely correct. Taking the off-the-shelf analogy to that point would be completely wrong for any system anywhere. These things are expensive items; they are not held in stock by anyone. In that sense they are ordered and purchased when systems need them, and there is a certain amount of tailoring that goes on. Even though we might say that many of them are similar in different jurisdictions, they are rarely identical.

**The CHAIR** — Just in terms of the original decision, you raised the point that we are dealing with many variables in terms of pricing. Was there consideration, particularly given some of the other ambitions to get more people using public transport, of having a flat fare structure? Was there ever any consideration of that as part of the process that led to ‘Okay, we need a new ticketing system. What are the characteristics that we want going forward for a modern transport system that is going to meet what we expect to be an expanding clientele base’?

**Mr BETTS** — Those discussions have been going on for many years within government. They take place within transport departments around the world. On the one hand, there is a school of thought that says that we should keep it very simple and have flat fares. The criticism of that would be that if you are travelling to the city from South Yarra, you are paying as much as somebody who is travelling from Frankston, or from Geelong for that matter. So you can see that there are pros and cons on either side there. Another school of thought says that ticketing should be highly specified so you pay for a point-to-point trip and you pay for the distance that you travel. That has some logic to it. On the other hand, the flip side would be that people who live in the outer suburbs of Melbourne where public transport is not as rich as it is in the inner part of the city would end up paying more for the distances they travel, and that raises questions of equity.

Certainly we looked at what fares changes would best support the behavioural changes necessary to support moving towards myki. That is where we began to promote a few years ago off-system purchase. If you buy off-system, you can get a 5 x daily or a 10 x 2 hour or a Sunday Saver, and you can get quite significant discounts to do that. That was to introduce people to the idea that they did not need to rock up at the train station every day and form a queue; they could actually pop into a local newsagent and get good value by purchasing in advance. To the extent that they did not have to queue, other people did not have to queue behind them.

Obviously more recently than that we made some changes to the way in which people are charged for travel across tram zones. We have made it now so that the worse case scenario is if you do not touch off on tram, you will only be charged the zone 1 fare. If you want to get the benefits of cheaper travel within zone 2, you have to touch off, but it is only a very small proportion of the tram system on three lines which is outside of zone 1, and there are some concomitant changes to the City Saver ticket. That was partly because it was good fares policy and partly because removing that requirement for people to touch off on trams also made good sense in terms of making them comfortable about taking up the use of myki on the tram system.

**Mr BARBER** — For weeks I have seen kids on the buses in Brunswick actually swiping their myki and a little sound being made. They were doing it again this morning. What is going on there?

**Mr CAROLAN** — Students were issued with their student passes back in January and February, and since then they have been specifically authorised to use that annual or half-annual student pass onboard buses and trams even though other customers were not supposed to be using myki on buses and trams through these months. Obviously through that period we have been continuing — as we have touched already — to try to work with Kamco to get the reliability of the devices onboard those vehicles to a better level. In most cases the fact that they are now at a better level has been perfectly visible to customers, and, in the case of buses, to bus drivers. Increasingly over recent weeks bus drivers have been tending to ask anyone who got on their particular bus, ‘Why don’t you touch that against the machine, please?’, and that is what has been happening.

**Mr BARBER** — Does that mean they are getting charged now?

**Mr CAROLAN** — No, the people with a student pass have paid for the pass anyway. It is a six-month or annual pass, and they have paid for that in one lump sum back at the start of the year, but the bus drivers have simply been tending more often to ask them to touch the device.

**Mr BARBER** — So if a kid has a six-month pass and they have been flashing it to the driver and getting on, why do they need to swipe it now? What happens in that transaction when they do that?

**Mr CAROLAN** — In a monetary sense, nothing, but the transaction is recorded, and obviously at a global level it will help with some patronage analysis and usage analysis over time. But in a monetary sense there is no transaction going on.

**Mr BETTS** — It simply says you have been charged zero dollars and zero cents.

**Mr CAROLAN** — There is no difference with that from a Metcard now. Someone with a monthly Metcard would validate at it at their station or at the barriers to get out of the barriers at Parliament station. There is no monetary transaction occurring; they are just using the monthly pass to get through the barrier. There is no difference in that sense between Metcard and myki.

**Mr BARBER** — On Monday it just tells the driver that that kid's pass is actually a valid pass.

**Mr CAROLAN** — It is valid, yes.

**Mr BARBER** — I understand the TTA was created as a state-owned enterprise, or whatever you call it, back in June 2003. What does the relationship between the department and that entity consist of?

**Mr CAROLAN** — The entity is created with a responsibility to the Minister for Public Transport and to the Treasurer. Our responsibility to the Minister for Public Transport and therefore to the secretary and the department relates to our activity, if you like: the purpose that we were created for, which is myki obviously. Whereas in terms of our obligations under the act and some of our broader corporate responsibilities, the board is accountable to the Treasurer. We have that dual responsibility.

**Mr BARBER** — You have a contract with Kamco; does the department have a contract with you?

**Mr CAROLAN** — We have the contract with Kamco. The director, public transport, who is part of Jim's department, has a contract with the TTA. We also have contracts with each public transport operator and a number of other subsidiary parties. We are also responsible for — and have been responsible for several years — for the ongoing management of Metcard as well. So the original Metcard contract that was entered into between OneLink and the Public Transport Corporation of the 1990s is now vested in us as well to manage with OneLink.

**Mr BARBER** — When your entity was writing the specification for this thing, which would have been prior to 2005 — I mean prior to when the contract was let — who was writing that contract? Was it the department as the customer, if you like, of your product?

**Mr CAROLAN** — I might defer to Jim on that.

**Mr BARBER** — The one and only customer of your product would have presumably had something to say about the contract.

**Mr CAROLAN** — I think they would have.

**Mr BETTS** — Yes. We were primarily interested in ensuring that the contract and the procurement process gave us a system which would meet our requirements in terms of our ability to have flexibility around the charging of fares and the ability to meet the requirements of governance over time — to be able to collect revenue and to do so in a way which met their policy objectives. The day-to-day interaction with tenderers and the creation of the contracts in a commercial sense was very much managed by TTA, but we were also briefed on that and aware of the contractual provisions as it went through.

**Mr BARBER** — What was your role at the time, Jim?

**Mr BETTS** — At that time I was deputy director of public transport, before I became director of public transport. I became director in November 2004, so for a six-month period ahead of the awarding of the contract.

**Mr BARBER** — Yes. We were talking about the spec when that was being written. With the letting of the contract was DOT on the panel that was dealing with the various tenders?

**Mr BETTS** — I do not know; I would have to check that. I might take that on notice.

**Mr BARBER** — Going back to some of Mr Drum's issues about performance, obviously on Monday someone gets on and swipes it — touches it, sorry; I will get that right — the device is meant to be available, so if we are talking figures of 90 or 95, or whatever we are talking, there is clearly a KPI for the device to be available and also for my card to be working, because the device might be working for other people but my card might not be. What other sorts of KPIs have you been measuring during this trial period, and what will be the ongoing responsibilities?

**Mr CAROLAN** — The contract with Kamco is openly available. I think it is on the DOT website, not on TTA's website, but it is openly available. The schedules of KPIs for Kamco to deliver against are there and are numerous — far too numerous to work through here. Kamco would not claim to be meeting all those KPIs now, and we certainly have not based our recommendation through to government on the fact that they are meeting all of those KPIs now. It is unapologetically a system that is still maturing and still needs to reach the level that we would all hope it can then operate at for the bulk of the 10-year operating period, but it is not at that level now, and as I say, neither the contractor nor us are asserting that it is at that level. We certainly think that there is no reason to expect that every second customer — or however you want to express that colloquially — is going to experience difficulties. It is likely to be the case that there will be some difficulties, because there will still be some devices that are out of action at some time through any given day, and there will also be customers who are learning to adjust to what the best way to interact with the system is, and that does not happen overnight, the most obvious of which is what you have said twice, which is swiping. If people swipe rapidly, they will think the system is not working for them. What they need to do is touch and hold it until that green light you talked about comes on, not just wave it past. That will take some time.

**Mr BARBER** — Let us say I do that and it does not work, does that mean I should get off the tram, because it is my card, not the device?

**Mr CAROLAN** — How do you mean?

**Mr BARBER** — If I get on and I touch and it does not do what it is supposed to do, and all the people around me are saying, 'No, it worked for me, mate', then I have not paid; I have not got a valid ticket in a way, and I should get off the tram.

**Mr CAROLAN** — No; not at all. If you were intercepted by an authorised officer, the authorised officer would work through that situation with you. The machines and the card can both be tracked and traced to see whether they are faulty or not, and you would be able to pursue that through. Even if you were issued with a report of non-compliance, as they are called — which is one step short of a transport infringement notice — in the back office in the department those circumstances can be examined and analysed and the customer will be treated with discretion and respect. There is no need to get off the tram just because you think you are having an interaction that has not worked correctly, no.

**Mr BETTS** — One option you might want to try is trying one of the — whatever it is — 16 devices on the tram.

**Mr BARBER** — Not at 8.30 a.m. I cannot get from one end of the tram to the other, let me tell you — not on the no. 55. I am lucky if I would get on at all.

**Mr CAROLAN** — Again, in that sense there is little difference to the current Metcard arrangement. Metcard validators onboard trams or buses do not work perfectly all the time. On my bus the other morning someone's Metcard was completely swallowed by the validator on board the bus, so he was left without a ticket

at all. If that circumstance arises, it can be tracked under Metcard, it can be tracked under myki and dealt with appropriately.

**Mr VINEY** — I spent a year as a connie. I could get from one of the tram to the other no problem any time of the day or night.

**Ms HUPPERT** — I want to get you to expand on something you touched on earlier when you were talking about the benefits of myki, and that relates to the cost to commuters and how that might compare — the cost of using a myki system with the cost of using the Metcard system and what benefits there would be for commuters in that aspect.

**Mr BETTS** — I will kick off, and Bernie might want to add something to it. As I said earlier on, myki does not fundamentally change the fare structure, so lots of reform has taken place to provide a wider and more attractive range of different fares. I talked about 10 x 2 hour, 5 x daily, Sunday Saver, free travel for seniors et cetera on Sundays. What myki does is it takes the sweat out of taking advantage of those discounts. If you put money on your card and you want to travel on a Sunday and you are using myki as a purse, you do not need to make the detour to a newsagent to buy a specific Sunday Saver; it will work it all out for you. Similarly there is a weekend saver, which is a \$3 capped fare for travelling on Saturdays, Sundays or public holidays. Myki will work that out for you. Sometimes at the beginning of the week people might buy a weekly ticket and then find they are off sick a couple of days and they have lost out. Again, myki will take the sweat out of that. If you travel more often than you were expecting to, it will give you the benefit as if you had a weekly ticket. The benefits that passengers will get will be through the automation and the simplification of their access to those benefits.

**Ms HUPPERT** — If you get on the train every day, morning and night, for five days, you will be charged as if you had purchased a weekly ticket as opposed to 5 daily tickets or 10 two-hour tickets?

**Mr CAROLAN** — Currently under the Metcard arrangements in Melbourne, there are three tickets that are the same dollar value — a weekly ticket, a 10 x 2-hour ticket or a 5 x daily ticket that you can buy in that format. For anyone using a myki in future, they are being charged at the rate that applies to that family of tickets, which is discounted against the face value of a daily ticket. So for me, for example, at the moment I am paying \$10.60 a day if I buy a single daily ticket. The myki rate, I think, is \$9.88. This might be an area where I have to check the transcript later on and make sure I get it exactly right, but I think it is \$9.88, which is the rate that would apply.

For periodical holders, many people we know like to buy a weekly ticket or in particular a monthly ticket, and through commuter club arrangements a lot of people buy annual tickets. Under myki, the weekly will still exist. The other periodicals can then be specified to any given number of days that the consumer wishes, so the benefit of this is that if you know you are going on leave in six weeks so you do not want to buy a monthly and then another monthly or a monthly and whatever else, you can buy a ticket that goes for 41 days or 42 days or 39 days, whatever you like beyond 28, so you can buy a weekly for 7 days or any other combination of days between 28 and 365. And again there are further discounts built into that, where, for example, you get 365 days travel for an annual, you pay for 325, so there is flexibility with periodicals and there is flexibility with myki money which certainly —

**Ms HUPPERT** — But if you do not specify a period and you use your ticket every day, you will be charged at the weekly rate?

**Mr CAROLAN** — You are charged at that discounted rate against the face value, yes.

**Mr O'DONOHUE** — Mr Betts, can I go to your opening remarks that myki will not have a material impact on train services. That would be true, in my opinion, if there was not a scarcity of resources, but for every allocation of funds capital to one project it means another project does not get funded, and this contract with Kamco came after the government's policy announcement of 20 per cent of trips by 2020, and to achieve that obviously requires significant capital investment in trains and all the rest of it. What choices were before the department in 2005 when it decided to sign the contract with Kamco to spend half a billion dollars to build this technology? What were the alternatives for that investment? Were there alternatives presented to buy new trains, extend existing tracks, upgrade, attend to maintenance or signalling?

**Mr VINEY** — We are doing all that. What we are not doing is closing lines.

**Mr BETTS** — All of those things you have just described have been funded as well. The choice was, do we want a ticketing system or not because by 2013 the current ticketing system is going to fall over. The current ticketing system collects between \$500 million and \$600 million a year, so a failure to have an operating ticketing system in Melbourne would be a very expensive failure, so this was an asset renewal project that had to happen. The question was then how do we secure best value for money for that process, and a full competitive tender was undertaken, so it was not a choice of do we buy trains or do we invest in ticketing, because we had no choice but to invest in ticketing. But you would also note that investment in public transport, and particularly in rail in this state, is pretty much at record levels and will continue to be at record levels for at least the next four or five years with projects like the \$4.3 billion regional rail link project, the South Morang rail extension, the Sunbury electrification project, the 38 new trains, of which 8 are now in service as of July 2010, new trams on order, growth area station et cetera, et cetera. On the face of it, you would not say that the decision — the correct decision — to replace the ticketing system has come at the cost of other investment in public transport.

**Mr O'DONOHUE** — I think that is a matter for debate, and the timing of that investment is something we could have a significant discussion about, but I will not pursue that now. The original date for the system to come into effect was 31 March 2007. When did it become apparent to the department and the government that that time line was not going to be met?

**Mr BETTS** — Thinking back in my memory now I cannot give you a precise date when suddenly there was a realisation, but it was clear that the project was under considerable stress in terms of meeting those time lines. There had been a plan for a trial in Geelong which had to be deferred, so we were briefed on a regular basis by the TTA at the time about how they were travelling, so it was not like it suddenly came as a shock that on 1 April we had missed the target. We were in constant dialogue with the TTA — we were then and we are now — about how the project was shaping up, and there will always be uncertainties about the precise date on which things are going to happen, but it was not like we did not have advance warning that we were going to miss that target.

**Mr O'DONOHUE** — So the original date it was to be fully operational was in March 07. In May 08, so a bit over a year later, the additional \$350 million was announced to, I suppose, get the project going. Did you obtain any legal advice about terminating the contract with Kamco? Was consideration given to abandoning the project?

**Mr VINEY** — On a point of order, Chair, I do not think we can be asking people from the public service to give evidence to this committee about legal advice. It may well be a matter of privilege between the government, the department and the advice giver.

**The CHAIR** — I think the witness is competent to answer that in a competent manner.

**Mr BETTS** — I would simply say that at key points along the way we have advised ministers on what their options are, and we have given them comprehensive advice across a range of different options.

**Mr O'DONOHUE** — Was consideration given to abandoning the project before that additional \$350 million was announced?

**Mr BETTS** — To be honest, there has never been a time in this project where it was a sensible option to go down that path.

**Mr O'DONOHUE** — So it was considered, though?

**Mr BETTS** — All options get considered from time to time, and they are continuously available to us. Our interest is to serve the public interest, and so you would not completely rule out any option for all time without doing a lot of thought and analysis, but that is not a live option and has not been in recent times.

Apart from anything else, the abandonment of the project would mean we were left with no ticketing system from 2013 onwards possibly, which would come at a very high cost, so that would be a very risky course to go down, but I do not want to go into more detail than that, partly for the reason that Mr Viney has identified — it

is not in the public interest for us to be ventilating all of the options that get considered in quite a complex commercial environment.

**Mr O'DONOHUE** — With respect, Mr Betts, regardless of the evidence that has been given about time lines and other jurisdictions, the fact is that government took a decision to enter into a contract, it obviously went through, as you said, an exhaustive tendering process, the time lines and the costings for delivery of that project had blown out enormously, and I think it is in the public interest to ventilate some of the issues as to why that has occurred and what options were considered by government. After all, this is an enormous amount of taxpayers dollars we are talking about.

**Mr VINEY** — You are confusing the political interest with the public interest.

**Mr BETTS** — I am very happy to talk to you about the costs of the project and how those have evolved over time. Some of the figures that get talked about, such as \$1.35 billion — people talk about that as if that was what had been spent on myki to date or that was simply the cost of implementing the project in terms of acquiring devices. In fact that is the cost of operating the current OneLink system whilst myki is being implemented and operating myki week by week, month by month, year by year through to 2017.

The additional money that was allocated in 2008 that you have described covered a number of different items including, for instance, the fact that we were running many more bus services. So we needed to order more devices than we had previously assumed — the fact that we needed to keep the OneLink contract going and so on. Do you want to add to that, Bernie?

**Mr CAROLAN** — Not extensively. Certainly even during this year every option, as Jim has said, that would be available has been examined in some way. The system that we are now trying to implement is very far advanced, and abandoning the project now would inevitably lead to considerable further delays and considerably additional money over and above what the budget envelope we are working within is, and the Sydney example is relevant to that — we are way further advanced than Sydney was when Sydney decided to stop their project and re-tender.

We talked before about 20 000 devices; virtually all of those devices are installed except for the ones that cannot be installed until the Metcard system is completely decommissioned. So abandoning this project now would be quite a heroic thing to decide to do, and while in some sense it has been analysed and assessed, it has not been front of our mind over recent months, that is for sure.

**Mr O'DONOHUE** — The question I put to Mr Betts really was at that point when the decision was made by Premier Brumby and cabinet to invest another \$350 million over and above what had already been committed and what consideration was given at that time to either extending the life of Metcard through various ways — which I am sure could happen with some investment — or to abandoning the project and going back to the market place.

**Mr CAROLAN** — On that point I cannot really add to what Jim has said.

**Mr BETTS** — I can certainly tell you that we have looked at our options for extending Metcard which, as you say, would and has involved additional expenditure, but there comes a limit even to that. If you can imagine operating a computer now which was brought in 1990 or 1995, it does not matter how much money you spend on it, eventually it will become inoperable; so that has informed our choices all the way along.

Of course, we serve the public interest and give ministers advice about what is in the public interest all the time and give them options to consider. I can tell you that having gone through that process, the prospect of walking away from the system at all, but least of all now when it is going to go live in Melbourne, is a frightening prospect.

**The CHAIR** — Can I just ask, in the original contract with Kamco, what were the tolerances from the government's point of view in terms of an extended implementation period? It might well have been anticipated that the project might not make what you described in the opening statement as a fairly ambitious project, and presumably ambitious time line; so what sort of tolerance had you built into that? And given that the government has incurred additional cost in maintaining OneLink and so forth, has there been any compensation

or is there a compensation factor built into the Kamco contract or other penalties for the delayed implementation or fulfilment of that contract?

**Mr BETTS** — There is a broad range of contractual provisions in the contract, and Bernie can speak to them in more detail than I can, but the key guiding principle is that Kamco does not get paid unless it has done the job.

**The CHAIR** — But that is not really a penalty for them because eventually they do complete the job and then they get the pay cheque, so that is just a delayed pay cheque, but in the meantime the government incurs additional cost with OneLink.

**Mr CAROLAN** — The situation is quite a lot more complex than that. As I said before, the contract is available to be examined openly through its public issue. The late payments for Kamco not being paid until they deliver is not a penalty in the sense of capital P penalty written into the contract; but it is certainly a penalty in their mind, I can assure you, because they are therefore funding the project for much longer than they intended, they are drawing on parent company funding to support the Australian company, and that is in their terms an extreme penalty because they have to try to keep sustaining the project through to a point where they can attract the payment from us in terms of the contractual provision.

So it is certainly not true in every sense of the word to say that it is not a penalty — I can assure you that Kamco would give a different answer to that question. Nonetheless, the contract, as you would expect in any contract and certainly in any major government contract, has a number of provisions that relate to when they will be paid certain amounts, not only for delivery but also for the operating phase. Those payments are triggered at the appropriate point in terms of the contract, and far fewer of them have been triggered than would have been expected at this point in the project.

**The CHAIR** — Are you able to tell us what is the additional cost just on continuing to operate OneLink as a unique cost, because the project has been slower to implement than expected?

**Mr CAROLAN** — Yes. I think it has been quoted fairly often in the public arena that the cost of OneLink is between \$40 million and \$50 million a year. The contract extension with OneLink was from 2007 through to 2012, so the arithmetic is fairly easy: for every year of delay, the extra cost of supporting OneLink is between \$40 million and \$50 million a year.

**Ms HUPPERT** — But you are not paying for the cost of supporting myki at the same time.

**Mr CAROLAN** — Through that same period, lesser payments are going through to Kamco. The net outcome of that is a quite complex situation that I am not capable of analysing here on the spot.

**Mr VINEY** — Mr Betts, you mentioned the overall revenue from metropolitan fares. What is it overall in Victoria, from metropolitan and regional buses — the whole works that this system is going to cover, roughly?

**Mr BETTS** — The fares revenue in the metropolitan area in 2009–10 was about \$570 million for metro and just over \$70 million for V/Line. If you combine those two, you can see the costs associated with not having an operable ticketing system.

**Mr VINEY** — Does that figure of \$570 million include metropolitan buses?

**Mr BETTS** — Yes.

**Mr VINEY** — What about regional bus systems like those in the valley?

**Mr BETTS** — That is a good point, that V/Line figure. Have you look got the figure for regional buses, Bernie?

**Mr CAROLAN** — I do not think I have.

**Mr VINEY** — Combined there is over \$600 million.

**Mr BETTS** — That sounds right.

**Mr VINEY** — Have you done any estimate of what the basic administrative cost of raising that revenue is, roughly?

**Mr BETTS** — At the moment?

**Mr VINEY** — Yes, and the existing systems. What I am getting to is: do you anticipate there will be savings in that cost of raising the revenue, with myki?

**Mr BETTS** — Bernie can leap in if I am not being entirely accurate here. The cost of operating myki in steady state is broadly comparable to the cost of operating Metcard in steady state. There are, however, ancillary costs associated with any fare collection system — for instance, having staff on stations, inspecting tickets et cetera. To the extent that myki makes the system easier for people to use and to navigate, that should free up staff who at the moment are in ticket offices selling tickets to do other things to support passengers and make it easier for them to use the system — providing passenger information generally. In a way, myki enables us to get better value out of our current resources. It certainly was never envisaged as being a costcutting exercise; nor was it envisaged as being the answer to fare evasion. In many ways, around the margins those ancillary benefits will be there.

**Mr VINEY** — Is one of the other ancillary benefits in transport planning as well, just because you will have a better understanding of travel patterns?

**Mr BETTS** — It provides us with a richer source of data. The privacy commissioner has gone all over this stuff, so there is no threat that we will be monitoring individual passengers and how they move around the system, but to the extent that people are touching on and touching off, it gives us much more finely grained detail about the station that they are travelling to or from, or whatever, than we could get under the current system.

**Mr VINEY** — In your list of the government's initiatives you failed to mention on the V/Locity trains the replacement of sleepers, the extension of regional rail — we can keep going. I think there was a suggestion at one of the last committee meetings that there had not been anything done on the Gippsland rail line. That comment was made on the same day as we announced replacing all the sleepers down there.

**Mr BETTS** — Yes, and the other day I was down at Warragul looking at the cranes and sleepers.

**Mr DRUM** — I would like to go back to some of the moneys that have been announced and try to put the trail in place. According to the Auditor-General the original contract was for \$494 million.

**Mr CAROLAN** — The original contract with Kamco?

**Mr DRUM** — Yes.

**Mr CAROLAN** — Yes.

**Mr DRUM** — Then, in addition to the Kamco contract, \$505 million was budgeted for ongoing operational costs. Do you agree with the figures in the Auditor-General's report?

**Mr CAROLAN** — It is \$1 billion, less \$1 million — \$999 million: \$494 million and \$505 million.

**Mr BETTS** — That was always the cost. That is not some kind of blow-out.

**Mr DRUM** — Then there was the extra \$352 million; do you agree with that?

**Mr CAROLAN** — Yes.

**Mr DRUM** — Of the \$352 million, \$79 million was to operate the existing Metlink service?

**Mr CAROLAN** — I am not sure about that number at the time.

**Mr DRUM** — You agree with the other figures?

**Mr CAROLAN** — Yes.

**Mr DRUM** — And \$271 million was extra, for myki machines and additional system functionality, so the total revised budget is now \$1.351 billion?

**Mr CAROLAN** — Yes.

**Mr DRUM** — I have been led to believe that a significant number of KPMG staff have gone across to work on this project. Have their wages been taken into account?

**Mr BETTS** — I do not think there are KPMG staff working on the project. You may be talking about Ernst and Young staff, all of which is within that budget that you have described.

**Mr DRUM** — This is Claus Jensen and his colleagues?

**Mr BETTS** — It is Ernst and Young. He would be very upset to be characterised as a KPMG employee.

**Mr DRUM** — Sorry about that. Have their wages been calculated into the total cost?

**Mr CAROLAN** — Of course. We are working within the budget that we have been given. Obviously it is one of my roles as CEO to work within the budget parameters that I have been given, and we continue to do that.

**Mr DRUM** — Sure. On the variations to the original contract with Kamco do you have a quantifiable amount on how much the original contract has been varied by?

**Mr CAROLAN** — I can give you some discussion on the variations to the contract. There are aspects of how precise I would want to be that may not be appropriate to be aired fully, for obvious reasons, but I can give you a discussion of some of the variations.

**Mr DRUM** — I am just looking for the dollars. This is just finance; I am just looking for the dollar terms.

**Mr CAROLAN** — There is no point getting the dollars without understanding where they come from in terms of the negotiations that have gone on.

**Mr DRUM** — But are you charging that? Is it inside that 1.35 or outside that 1.35?

**Mr CAROLAN** — Of course it is within the 1.35. The process that was done in 2008 talked about the fact that the additional 350 — 352 if you want to be precise — included allowances for additional equipment and changes to the base contract. That is the main reason that the 2008 formulation went through for budget approval at the time. A proportion of those allowances have now been activated and a proportion of them have not been. This contract were specified back in 2004, as we all know. It is completely the case that the public transport system has moved on since 2004. I am sure you will not be surprised to know that at whatever pace the public transport system has moved since 2004, technology has moved a whole lot faster.

There have been a series of variations. Some of the major variations relate to, as Jim has talked about, the additional equipment that has been needed on stations — additional trams and additional buses. That variation alone means in excess of \$10 million has been committed out of the available fund. There have been major changes with the hand-held devices that will be used not only by authorised officers but also by V/Line conductors. The coach drivers who drive on the regional V/Line coaches will use a variant of the hand-held device, and also retail agents will use a similar device — obviously in a cradle. That variation has been quite major: around about \$7 million.

In regard to the communications technology that is used between trams and buses to communicate with the central system there has also been quite a major variation and not one that was expected back in 2004, because I do not think many of us knew what 3G technology was in 2004. That variation is about \$4 million. They are some of the bigger variations that have already culminated, and I am sure there will be others through the life of the contract.

**Mr DRUM** — Sure. You mentioned regional bus operators having issues with the hand-held devices.

**Mr CAROLAN** — I did not, actually.

**Mr DRUM** — Are you aware of claims from regional bus operators that they have been subject to wholesale fare evasion and are seeking compensation because of that?

**Mr CAROLAN** — I think that is probably a better question for Jim. He holds the contract with the regional operators.

**Mr BETTS** — There were some stories in the media about that, certainly, but when we dug down into it there did not seem to be much substance to it. To the extent that there has been any dip in revenue on regional bus services, that is more than likely to be because of the additional discounts that people are enjoying — the kind we discussed earlier on.

**Mr DRUM** — You are saying quite categorically that no claims for compensation from the regional bus operators have been lodged?

**Mr BETTS** — I would need to go and confirm that, if I may.

**Mr DRUM** — If there were claims, who would know?

**Mr BETTS** — The director of public transport, the people who work for the director of public transport managing regional bus services, and people within my organisation.

**Mr DRUM** — If there were claims, who would pay?

**Mr BETTS** — Claims related to what exactly?

**Mr DRUM** — Fare evasion; because, as we have said, up until now the hand-held devices have not been working, so anybody has been able to go on there and flash a myki card, and no-one has been able to ascertain whether or not that is a valid myki card, whether or not that card has been validated and whether or not that card has any credit in it. If their hand-held machines are not operating, people have been able to flash a myki card and no-one has the ability to ascertain whether or not that is a valid card. If this has led to wholesale fare evasion and if this has led to compensation claims, and the compensation claims are going to be paid to regional bus operators, who would pay?

**Mr VINEY** — That is a hypothetical situation.

**Mr BETTS** — As Mr Viney said, that is very hypothetical. I meet regularly with the Bus Association Victoria. It has never been raised with me. I would have expected it would have raised it, because they do raise a lot of issues about bus services in regional Victoria, and we deal with them in a spirit of partnership. We would not want to see any regional bus operators disadvantaged in the circumstances you are describing. But I do not know whether those circumstances exist, and I am not going to make further comment on a hypothetical.

**Mr CAROLAN** — I think the only thing I can add to this — and I am not speaking on the policy area, which is Jim's domain — is it is important to understand that these regional bus operators have had no fare inspection capability at all prior to this. They are now implementing a system, as it is completed, that will have devices and the opportunity for inspectors to use a hand-held device. Prior to this they have had no fare evasion inspection whatsoever.

**Mr DRUM** — No, because they would sell a ticket when a person got on a bus.

**Mr CAROLAN** — They still can, but they have no means whatsoever of inspecting whether that person was entitled to a concession or otherwise — or any other matter.

**Mr DRUM** — No, but with the implementation of myki now they are faced with a situation: 'How do I know whether that is a valid myki card?'. If there is compensation to be paid, the Victorian people would want to know is Kamco going to pay the compensation or would the Victorian government pay that compensation?

**Mr VINEY** — You are making this up.

**Mr DRUM** — You do not know?

**Mr BETTS** — You have just posited a situation asking us to be judge, jury and executioner on something where we do not understand the detail, do not understand nuances because — —

**Mr DRUM** — You understand the problem; you understand the scenario I am painting. It is very basic.

**Ms HUPPERT** — You are trying to create a problem where none exists.

**Mr DRUM** — It is a very simple scenario.

**Mr VINEY** — There is no evidence.

**Mr BETTS** — There is no evidence for it, that I am aware of at least. Is the government duty-bound to compensate operators as a result of fare evasion on their buses — —

**Mr DRUM** — Because Kamco's technology is not working? That is the question.

**Ms HUPPERT** — Surely that is a matter for the contract between the government and the private bus operators.

**Mr BETTS** — You would have to be able to demonstrate that that was the cause of the fare evasion and not some issue around the behaviour of staff, for instance. It is very hard for me to arbitrate something like that — —

**Ms HUPPERT** — Or some issue about the behaviour of the transport unions.

**Mr BARBER** — But, Mr Betts, a minute ago you said that the introduction of the system might change revenue due to ticket options, things that people choose, things that the system does. With the tram and bus operators contracts they now receive revenue directly, but I gather there is a revenue lock-in guarantee for the first part of their — —

**Mr BETTS** — That is correct; the first two years.

**Mr BARBER** — So if revenue falls as a result of anything in the way the system operates, it will not affect them?

**Mr BETTS** — Correct.

**Mr BARBER** — It would come back to the public's contribution.

**Mr BETTS** — And if revenue was to increase dramatically, that would come back to the state as well.

**Mr BARBER** — Yes, but nobody is positing that revenue will increase dramatically as a result of the introduction of myki.

**Mr BETTS** — No, it is not implemented in order to increase revenue; that is true.

**Mr BARBER** — It does not change my ticketing options that much, but as you say, it does choose the best fare, and that could lead to less than what you have been collecting for the same amount of — there are lot of variables there.

**Ms HUPPERT** — But that would be in the public's interest, one would have thought.

**Mr BARBER** — How long do you think it will be until we start getting regular reports about the performance of the system against the KPIs or at least against the KPIs that are relevant to the user experience? Will we get reports like what we get from, say, the rail franchise, where every month or every three months we say, 'This is how much we paid them, and these were the key deliverables'?

**Mr VINEY** — You are running out of nightly reading material, are you, Greg?

**The CHAIR** — There is not much on television.

**Mr BARBER** — I just got it; that is a good one.

**Mr CAROLAN** — I might need to take on notice the point at which, or ever, we would be regularly reporting what Kamco is being paid. I am not sure about that in terms of their contract compared to the other operating franchises that Jim has — —

**Mr BARBER** — We will find out what DOT pays you annually; that is fine, but will you say quarterly so many devices were available, so many cards worked — —

**Mr CAROLAN** — I was coming to that. There is a government publication called *Track Record* that I am sure most people are familiar with, and certainly we expect at the appropriate point when the system is somewhat mature and complete that we would report those statistics in *Track Record*.

**Mr BARBER** — Is that DOT's view, that 'We'll do it when it's mature', or will we do it monthly or quarterly from hereon in?

**Mr BETTS** — It sounds like a sensible way to proceed. Obviously what gets published is a decision for the minister. The minister has just announced the 'go live' on trams and buses this morning, and I have not had a chance to catch up with him to discuss that issue just yet. But the government generally puts quite a lot of information out there about the performance of the current ticketing system, about the performance of the train and tram franchises and bus operators, and it would not be surprising if the government were to release equivalent performance data for the ticketing system once myki is in steady state.

**Mr BARBER** — You have been testing it and trialling it, in a way, on trams and buses using your own investigations. Are you going to publish that as a baseline so that we know how it performed under test conditions versus when ordinary people start using it?

**Mr BETTS** — I think a sensible point to start publishing that data is probably when Metcard has ceased and we have the system fully operating. An important point that we need members of the committee to understand is that now and for many months to come Metcard will continue to operate. People do not need to worry that they have to switch on to myki. They are not going to be pushed on to myki. I think the minister said this morning it will be running at least until Easter next year. We are running two systems in parallel at the moment, and we will continue to do that until the community is ready to make the switch. Once it makes the switch and once myki take-up rates have increased, that is when we will probably begin the reporting.

**Mr CAROLAN** — It is not only for that reason, there are technical reasons to do that as well. The easiest example to think of is that the current barriers at city stations are hybrid barriers; they are not the final myki barriers that will be installed. They have been equipped to allow a myki to operate those barriers, but fundamentally they are still the Metcard barriers that operate the gates. At the point of Metcard's cessation, or just before it as part of that process of ceasing Metcards, will be when those gates are replaced with proper myki gates. This will be something that Kamco can then be measured against, because if you think about it, at the moment they would be being measured effectively against a piece of OneLink technology from the 1990s, not their own technology which they are installing as part of this contract.

**Mr BARBER** — Sure. You have that data now, but the new data will be when buses and trams genuinely are debiting or reading people's cards. We might not know this year, really, the availability of those devices on trams. How do you assure the public that they should not be carrying a Metcard in one pocket and a myki in the other if the myki is not as reliable as we want it to be? You say 95 per cent. If my card is not working and I have to get off the tram, that is like saying I turn the ignition of my car on one day out of 20 and it does not go.

**Ms HUPPERT** — No, you have just been told you do not need to get off a tram.

**Mr CAROLAN** — You do not have to get off the tram. I thought I answered that before. There is absolutely no reason for customers to have any worry about that sort of issue.

**Mr BARBER** — That is a good quote. We will give that to people if they get fined. Just one final question — —

**Mr CAROLAN** — I think it is very important that that is clarified on the record. There is no reason to think that the behaviour of authorised officers or the system will be any different in this era to what it has been for the last 10 or 12-years under Metcard — none at all. People need to be reassured about that. They also need to be

reassured, as Jim has touched on, that there is a significant difference between what has been announced today and the approach that the TTA is adopting compared to some of the earlier parts of this project. We are not urging people, if they are not comfortable, to change to myki, to feel as though they have to change to myki on Sunday or Monday of next week. There is no need for people to do that. If they wish to because they are comfortable using myki and they think they are going to be comfortable doing it, that is fine, but they do not need to feel under pressure to do it. Indeed they should not feel under pressure to do it; they should do it when they are comfortable doing it some time over the next few months.

**The CHAIR** — Can we just understand something: in what is essentially a transition period, you are saying that is a new element?

**Mr CAROLAN** — No.

**The CHAIR** — But that overlap of the two systems was not anticipated previously.

**Mr CAROLAN** — No, it was absolutely anticipated.

**The CHAIR** — For the length of time?

**Mr CAROLAN** — Not for the same length of time, no. The original contract schedule, as I think Jim said in his opening remarks, was extremely ambitious, and even the schedule that we might have been working to as recently as last year would still have involved a more rapid transition than the sort of transitions we are talking about now. But the hybrid nature of the system was always part of the contract, absolutely.

**The CHAIR** — How long was the anticipated transition previously to what is now going to be in place?

**Mr CAROLAN** — To give a precise answer to that I would need to take it on notice. I would certainly say we are talking roughly double the number of months involved here than what might have been anticipated before.

**Mr BETTS** — But there was never a great policy imperative or any other reason to switch Metcard off early, other than financial cost, because we always wanted to use Metcard as the safety net or fallback — call it what you will — so that passengers did not feel that they were being prematurely compelled to take up a new system which they did not fully understand.

**The CHAIR** — Yes. There is a cost impost, though?

**Mr CAROLAN** — Correct.

**Mr BARBER** — You are saying that people can move over when they are confident. There are two ways to be confident. One is to use it and see that it works; the other is to read in the paper that it is working. Jim said I caught him on the hop, but you are starting to imply that you will not report on the performance of myki cards during this transition until the old one is switched off, which does not allow for that confidence building, does it?

**Mr CAROLAN** — Yes. You do catch me on the hop a bit, in the sense that I would obviously need to have a conversation with Minister Pakula about that kind of thing, and I have not had that conversation.

**Mr BARBER** — Yes, and this inquiry is all about confidence, isn't it?

**Mr CAROLAN** — I think we will find that there will still be a lot of reporting of these things. Myki seems to trigger the public interest in a fairly open way.

**Mr BARBER** — Yes, that is right.

**Mr CAROLAN** — I am quite sure, and we expect that if customers are having minor, let alone major, experiences, they will be reported and will be known about. I do not think there is any chance of this project suddenly drifting off the interest agenda.

**Mr BARBER** — No, but you will not have the data; at least, you are not sure yet if you will be releasing it to counter those anecdotal things. My final question is: back in the days when this first started there was talk

about myki money as a more universal currency — that you could put it in vending machines, et cetera. Are any aspects of that business plan being pursued at the moment or are they being kept alive as options?

**Mr BETTS** — They are still alive as options, but our priority has been very much to bed this down as a public transport product first of all. No decisions have been taken which preclude it having broader third-party applications, as we call them, like the cards do in, say, Hong Kong. Those options are still afloat, but our focus and the focus of our supplier is let's fix it for public transport and then start thinking about some of that blue-sky stuff later on.

**Mr LEANE** — In order to have a real-time automated ticketing system, was it part of the project to have a computer cabling network installed at every train station, bus depot, train depot, or whatever way you are communicating?

**Mr CAROLAN** — In the most general sense, yes. The fact that this equipment — the devices, if you like — was going to need to be installed, stations are the easiest example. Yes, the fact that that would need civil works, if you like, or civil and electrical works and so on, was always part of the project. It is another part of the project that was underspecified in the original contract. The 2008 amendment to the budget certainly allowed for additional money in the area of civil works and other facilitative works to be spent — still within the 1.35 envelope — but it was certainly part of the extra 352.

As I already mentioned there have also been latterly some technological improvements which have meant that we have wanted to add to the functionality on board trams and buses so that they can communicate in real time as they move about the system, as distinct from only being able to communicate with the back office when they are housed in their depot at night. That has changed, and as I said before, I am sure other things will come along which change that through the life of the contract.

**Mr LEANE** — Basically what had to be installed is a permanent part of infrastructure, as far as a computer cabling network. Just seizing on something that Mr Betts said about that, when you have got a 15 or 20-year-old computer, as far as keeping that operating the way that it should, there is no reason that the integrity of that computer network will not be fine in 15 or 20 years when a future government or whatever may decide that we need a new system put in. A bit of permanent infrastructure has been installed as part of the project, and we would like to think that the integrity of that network would be fine well into the next decades; is that fair to say?

**Mr CAROLAN** — Subject to the obvious comment that we are dealing with technology here, and the rate at which technology moves is something that none of us can predict.

**Mr LEANE** — It might not be capable in 20 years, yes.

**Mr CAROLAN** — Other than that, yes, the installations at stations and the work that has gone into building the conduits and cabling that relate to that are as permanent as they can be, and as much as is possible, it can be regarded as an investment. Whether it is going to last 10, 15 or 20 years, I do not know; I do not want to indulge in conjecture about that.

**Mr LEANE** — No doubt the people sitting around this table will not be sitting around this table in 20 years time!

**Mr CAROLAN** — That is right.

**The CHAIR** — But there is no movement on the contract at this point, is there, in so much as the anticipation was that this contract would come into force in 2007 and it would run until 2017; is that right? Now that we are in 2010, we are still looking at 2017; correct?

**Mr CAROLAN** — Aspects of the contract will go until 2019, because the trigger date for aspects of the contract related to completion of some of the regional bus systems, which was triggered at a certain date in early 2009. Clearly when the 2007 date was missed, that had some cascading impacts through the contract, as you would expect.

**The CHAIR** — What do you see as the life of the system? I note the open architecture allows you to bring in other players to re-tender service provision at some point in time, but what do you see as the life of the system as it is being installed now?

**Mr CAROLAN** — I am probably not technical enough to answer that question, so it is fairly hypothetical for me to answer it. The Metcard example is illustrative; it was originally a 10-year contract as well, and it is going to go for close enough to 15. As we have both said, it looks as if it would not last much longer than 15 though. One would assume that that is a reasonable example, again subject to the rapid pace at which technology is moving. This one has been contracted for 10; you would hope it would last for a bit longer than that. Whether it is good for 20 or 25 I think starts to become too hypothetical altogether.

**Mr BETTS** — Twenty years ago we did not have the internet. It is very hard to predict.

**The CHAIR** — Yes, I understand that. But if you invest substantial money in a system, you have a life expectancy for that system. When it is three years over, does the life expectancy go out three years or are we still talking 2017 for the prime of its life expectancy?

**Mr BETTS** — I suspect that ultimately in a few years time when myki is up for substantive replacement, and we have said that we can do it component by component like a grandfather's axe, it will be not wear and tear on the system but people's expectations around technological functionality which will drive it. That will be a choice the community faces at that time.

**The CHAIR** — I would not mind it if you would take on notice the life expectancy issue for the system from the original tender discussions.

**Mr O'DONOHUE** — It was reported in the media earlier this year that during the first quarter of 2010 no-one using myki was issued with an infringement notice. That was confirmed in the media reports at the time. Have infringement notices been issued since that time for people not using myki appropriately or not doing what they are supposed to be doing?

**Mr BETTS** — I do not know; I would have to take that on notice. I suspect not. Relatively few people have been using myki — a few tens of thousands of people have been using it. I am not aware of anybody having been issued with fines for the misuse of myki, but I would have to go away and check because I do not want to mislead the committee.

**Mr O'DONOHUE** — Is there a reason for that? Is there an issue with the machines to check the myki tickets?

**Mr BETTS** — I think the main reason for it is that we recognise the system is in transition and while people are getting used to the system we do not want to be imposing heavy-handed enforcement.

**Mr O'DONOHUE** — I take your point. I suppose there is a difference, though, between heavy-handed enforcement and ensuring that people are not riding the system for free — waving a myki ticket that may have no money on it or not having validated it as a way to use public transport for nothing.

**Mr BETTS** — Authorised officers have been using hand-held devices. Those hand-held devices can read the myki cards. Authorised officers can document the circumstances surrounding it and make submissions to my department, and that can form the basis of prosecution or the issuing of an infringement.

**Mr O'DONOHUE** — So there have been no problems with those hand-held devices?

**Mr BETTS** — Bernie acknowledged at the beginning there have been issues with them.

**Mr CAROLAN** — There have certainly been issues with the hand-held devices. I mentioned before that that was one of the five or six issues that my board, myself and my team have been focused on to make sure they were improving. So there certainly have been issues, but over recent times they have been far more stable and have been used in the field by the authorised officers for quite some time.

Completely in accordance with the modern world, the social media pages would tell us that that has been the case. The social media has been well and truly alert to the conduct of the authorised officers and when they were carrying devices that seemed to work and when they were not. Certainly over recent weeks the acknowledgement that they were carrying devices that were capable of reliably reading tickets has been well and truly aired in all that social media territory.

**Mr O'DONOHUE** — Are there still problems with some of those hand-held devices, or are they all now operating satisfactorily?

**Mr CAROLAN** — As we have said several times, this is still a system that is maturing and there is no way that I am going to sit here on any issue you want to raise and say that they are all working perfectly 100 per cent of the time. That is just not the case and it is not something we are going to claim. But the hand-held devices are working. They are capable of working; they are capable of reading tickets, and the authorised officers are using them that way accordingly.

**Mr O'DONOHUE** — Just to go to a separate issue, half a million 28-page pamphlets were produced, became out of date and had to be destroyed. What was the cost of production, storage and recycling of those half a million redundant 28-page pamphlets?

**Mr CAROLAN** — They have not been recycled as yet. Perhaps they can be now, but they have not been recycled as yet. It is obviously the case that a number of aspects of this project have not been delivered in accordance with what was expected. There is no pretence about that. There is no secret about it.

The brochures were prepared late last year when it was expected that tram, train and bus were going to be turned on simultaneously. They became unusable. They are not the only area of cost that the TTA has incurred that that applies to. We also prepared some television advertisements which have not been used, and there have been other less significant areas where that has been the case. All of this is part and parcel of the fact that the implementation of the project has not occurred the way it was expected to occur and we have had to make adjustments within our budget to deal with that, at the same time keeping within the \$1.35 billion that we keep talking about. So we have had to move priorities and projects around within that budget envelope, and we will keep doing that. That is what we do.

**Mr O'DONOHUE** — I appreciate that answer; I do. But are you able to give specifics, though, of those half a million pamphlets: what the cost of production was and what the cost of storage is and — I appreciate they have not been recycled as yet — perhaps what the anticipated cost of destroying or recycling those pamphlets is?

**Mr CAROLAN** — No, I am not able to do that because that would, I think, go quite near to some aspects that are not appropriate for me to answer on at a committee such as this in terms of the rules of the committee because it involves another commercial partner, and I am not sure that that is an appropriate answer to give. I can take it on notice and get advice, but it is not appropriate to answer here.

**Mr O'DONOHUE** — Sure. I would appreciate it if you take it on notice, thank you.

**Ms HUPPERT** — Just a clarification on the previous one before I get to my question. You have a budget envelope, so any of the changes that have been required because of the staggered start are actually going to be dealt with within that budget rather than cause additional expense?

**Mr CAROLAN** — Absolutely. The example of the brochures that Mr O'Donohue has used — and I have happily identified the TV ads as well — was obviously part of a marketing budget within other elements of the overall budget. We then need to look again at what is left for marketing, promotion and customer transition and do our best to live within that aggregate amount, still within the \$1.35 billion.

**Ms HUPPERT** — Thank you. The question I have is: there was some reference earlier to the call centre and some difficulties that were experienced earlier in the implementation process, and perhaps you could explain to us the improvements that have been made to the myki call centre to overcome those issues.

**Mr CAROLAN** — Sure. I think one of the characteristics of myki being used by train travellers from December onwards is that — as I think I said before — the real-world operation of myki on the train system certainly revealed secondary issues that needed attention. Many of these were the subject of media and other commentary at the time. The call centre was certainly one of them. The call centre found itself not equipped well enough to deal with the cause of the calls that were coming into the call centre. Many people who rang the call centre were complimentary enough of the actual people handling the calls but added the comment that those individuals at the call centre were not equipped well enough to delve into the use of the card and identify why either the device or the card had not worked properly for them and so on. So in many ways the improvements at

the call centre have not related to the call centre itself; they have related to the back-of-house tools that the call centre agents have available to them. But there have also been significant changes in the way the call centre agents are rostered and deployed so that, if you like, there is a hierarchy of levels within the call centre. If someone rings into the call centre with a very simple inquiry, then it will be handled by a level 1 agent, who might be relatively inexperienced, but if they are ringing in with a more complex inquiry about exactly how myki is used or why their particular card does not appear to be working correctly, that will be handled by a level 2 agent. Those improvements have been the subject of a lot of effort by Kamco and by us. They have also been one of the areas where Ernst and Young — as was mentioned before — carried out a specific piece of work for us to identify some improvements. Those improvements were fairly significantly implemented in early June and have been demonstrably an improvement in service.

**Ms HUPPERT** — Thank you.

**Mr DRUM** — Mr Carolan, did you say in relation to those pamphlets earlier on that there was the original intention that the trains and the trams were going to come online together?

**Mr CAROLAN** — Absolutely; that was the intention.

**Mr DRUM** — Mr Betts, were you not on record earlier as saying that it was always going to be staged?

**Mr BETTS** — It was going to be staged as first of all going live on regional bus and then going into the metropolitan area and then going — —

**Mr DRUM** — So you were going to go in the metropolitan area on trams, trains and buses in one go?

**Mr BETTS** — That is exactly right. That was the announcement in December 2009 — that we would go live on trains because trains were more ready. So there was a further element of staging introduced at that point.

**Mr DRUM** — Sure. Who is going to make the determination in relation to fare evasion? Firstly, do you have a rough idea what fare evasion on public transport is costing Victoria at the moment?

**Mr BETTS** — Broadly it is about \$50 million per annum. Bernie, is that right from memory of your Metlink days?

**Mr CAROLAN** — I was going to say that I am happy to answer that with my previous hat on but not with my current hat on!

**Mr BETTS** — You tell me the answer, and then I will answer it!

**Mr CAROLAN** — Fifty to 60 is a good answer.

**Mr DRUM** — You are pretty confident that \$50 million to \$60 million is accurate?

**Mr CAROLAN** — Correct.

**Mr DRUM** — Who is going to make the determination going forward? Firstly, in your own publication that you have given the committee this afternoon the very last paragraph effectively says:

Card vending and myki check machines at tram stops and bus interchanges will take time to become operational once a decision to go live on these modes is made.

So what time? A decision was made yesterday or two days ago or last week, so when can we expect this stuff to be ready to go?

**Mr CAROLAN** — Some of them will be operational by Sunday and some of them will be operational over the successive few days.

**Mr DRUM** — Okay, so when those check machines are available who is going to make the determination between when you order a report of non-compliance versus an infringement notice? Does a report of non-compliance exist at the moment?

**Mr BETTS** — Yes. A report of non-compliance is provided — correct me if I am wrong, Bernie — by authorised officers who intercept a passenger whom they have reason to believe is infringing in some way. That is then transmitted through to my department, which will issue an infringement notice, and that can be challenged in the courts if a person wishes to challenge it.

**Mr DRUM** — So a report of non-compliance ends up as an infringement?

**Mr BETTS** — No — only if the department, on the basis of the report submitted by the authorised officer, believes that the authorised officer has correctly identified that an infringement has been committed. Government employees determine whether to issue infringement notices or not.

**Mr DRUM** — So government employees determine it. At the scene of the crime the report of non-compliance is made, and that is it; he does not make the determination there at all?

**Mr BETTS** — Correct.

**Mr DRUM** — In relation to regional bus services, when can we expect myki to be rolled out in some of our other major regional centres?

**Mr CAROLAN** — I can answer part of that, and Jim will have to answer another part of it. The regional centres that were designated to be part of the myki project in the sense of centres, if you like — local bus services within those centres, so that is Geelong, Ballarat, Bendigo, the Latrobe Valley and Seymour — have all been implemented. When I talked before about other regional buses, I was talking about longer distance V/Line coaches, if you like.

**Mr DRUM** — No; I am talking about Shepparton and Wangaratta, and when can we expect Warrnambool?

**Mr CAROLAN** — The question of whether Shepparton, Wangaratta or Warrnambool would be included would be something for Jim to answer, because at the moment they are not part of the project.

**Mr DRUM** — Okay. Jim?

**Mr BETTS** — We would look at that issue and look at whether it was advantageous to people in that area once we have implemented the other stages of the project, including V/Line.

**Mr DRUM** — How could it be advantageous to Bendigo but not advantageous to Shepparton?

**Mr BETTS** — We do not have a time frame for implementing that at this stage. That is something that we will come to later on in the project's rollout.

**Mr DRUM** — I am sorry. I did not hear that.

**Mr BETTS** — You did not hear it?

**Mr DRUM** — I did not hear what you said then.

**Mr BETTS** — The question of further extending regional bus services — and, Bernie, correct me if you think I am wrong on this — will come at a later stage in the project once, for instance, V/Line services have been rolled out. The point at which you cut off the implementation of myki and say, 'We have gone far enough', is a decision which is yet to be made. Those smaller regional centres will come towards the back end of the project, assuming that is the decision that gets made — to bring them all to myki.

**Mr DRUM** — When you say 'smaller regional centres', why would you put it into Seymour but not into Wangaratta or Warrnambool?

**Mr CAROLAN** — I have inherited that situation. The TTA was asked at the time to include certain regional centres. On the history of why those regional centres were selected and others were not selected, fairly obviously neither Jim nor I appear to be able to answer right here and now. I do not have any particular knowledge of why some were in and some were out. It would go right back, and I do not know the answer to that.

**Mr DRUM** — They are probably Labor-held seats, maybe?

**Mr VINEY** — Nice try.

**Mr DRUM** — Why else would you involve a town like Seymour of 4000 people but not involve Wangaratta, Shepparton or Warrnambool that have 35 000 people?

**Mr CAROLAN** — If I can hypothesise as to what part of the logic may have been, it would have been the innermost ring of regional centres. I am not sure that that is the case, but I am prepared to guess that that was probably a major part of the decision — so that we go around Geelong, Ballarat, Bendigo, Seymour and down to the Latrobe Valley. I think that was probably the logic, but I cannot be sure of that. I am sure we are happy to take it on notice and comment accordingly.

**The CHAIR** — Was the decision made by the TTA?

**Mr CAROLAN** — No.

**The CHAIR** — It was made externally?

**Mr BETTS** — It had been made by the department.

**Mr CAROLAN** — It is passed to us as part of our deliverable.

**Mr DRUM** — I want to be sure, Jim, whether you said initially that it was not part of the project or whether then it is to be part of the project but at a later stage. Is it part of the project?

**Mr CAROLAN** — It is not costed in.

**Mr DRUM** — Are the major regionals part of the project or not?

**Mr BETTS** — No, not at this stage. That is a decision that a future government could make down the track.

**Mr BARBER** — Promise it — November 27.

**Mr BETTS** — Can I round it out by saying it is good to see that you have identified the benefits of myki and are keen to see it rolled out to even more people across Victoria.

**Mr DRUM** — Jim, I wish I could agree with you, but we will wait and see how it operates at 94.8 per cent reliability. If it is at 94.8, I think you will have our pats on the back.

**Mr BETTS** — Good.

**Mr O'DONOHUE** — Mr Carolan, I want to go back to the TTA and who you are answerable to — you said before to Mr Pakula and the Treasurer. Could you elaborate on the division, how that comes to be, and on what aspects you report to the Treasurer and on what aspects you report to the transport minister?

**Mr CAROLAN** — I can to a certain extent, but it is not an uncommon situation. It is not true to say I report to the ministers; I report to the TTA board. The order in council establishing the TTA as an entity requires it to conduct its affairs answerable to the subject-matter minister, if you like. Obviously we are implementing a transport project, so we report to the subject-matter minister, currently Minister Pakula, on matters relating to transport and the project itself — as I understand it, consistent with all other entities created under the relevant act. The Treasurer has overview of how those entities are carrying out their responsibilities in terms of overall government legislation and corporate requirements. We are no different to many other state entities.

**Mr O'DONOHUE** — And that has been the case since the inception of the TTA?

**Mr CAROLAN** — Yes.

**Mr DRUM** — If it does not stack up — if it does not work — have you worked out where the Department of Transport sits legally with the contracts that we have? If it just does not work, if its rollout is disastrous, where do we sit?

**Mr VINEY** — It is not going to happen.

**Mr CAROLAN** — You mentioned the department, but you were looking at me, so I am not sure what you mean.

**Mr DRUM** — Effectively take the question to Jim. Where do you sit?

**Mr BETTS** — Yes, we are fully aware of the sanctions available to us under the contract should something catastrophic of the kind that you were contemplating there occur; however, the reason the minister was able to make the announcement today is because we are confident that whilst the system is not perfect, now is the right time to take it to the next stage.

**The CHAIR** — Does the government have any IP involved in this project? In other words, as you said, you cannot buy it off the shelf, so the project has been developed by Kamco as a contractor, but in conjunction with the department and various government agencies. In the event that aspects that were developed in that partnership were taken as part of a contract — in another part of the world perhaps — does the government have any income opportunity out of its partnership with Kamco on IP?

**Mr CAROLAN** — I suspect that is a way more complex question than you might intend it to be, so aspects of it I would need to take on notice. The contract with Kamco certainly deals with what TTA as an agent of the state takes ownership of at different points through the contract. It certainly deals with that, and I believe — but I would need to confirm on notice — that that includes aspects that relate to intellectual property. Nevertheless, it would obviously be the case that Kamco itself and its subcontractors, ACS and others, would have fiercely protected their own intellectual property in their equipment and their solutions, as you would expect. So if you need a fuller answer than that, I will have to take it on notice and give you an explanation of where that dividing line is.

**The CHAIR** — I have just been on another inquiry that looked at open sourcing and access to IP and government opportunities and so forth, and it just occurs to me that a contractor can learn a lot working with the government, and it depends on how much we are putting in and whether or not there is an opportunity in some of those contracts for us to resume.

As somebody who had pumpkin soup poured over them on Monday by a waiter in a restaurant in the city, a very basic question: as to the durability of the cards themselves and the microchip facility, are there some do's and don'ts that are likely to impact on the customer's experience and whether or not it works, so that beyond all of the things that we do in the system are there issues regarding magnetic fields or coming into contact with magnetic fields or anything that is going to affect the durability of these cards going forward?

**Mr CAROLAN** — There certainly are. I think the one you mentioned of — —

**The CHAIR** — The pumpkin soup?

**Mr CAROLAN** — No, not the pumpkin soup, but the conflicting magnetic fields can be an issue under certain circumstances but probably not the most obvious issue. Some of the ones that we have experienced already this year are people piercing their card to attach it to a key ring or a lanyard. There is an aerial going around the circumference of the card, so if you pierce it, you are likely to damage that aerial.

**Mr DRUM** — Can they go through the wash all right?

**Mr CAROLAN** — I think it can go through the wash, but I am not sure how often, so I would need to check that. These are durable. These are long-life smartcards. They are specced to have a life of four years or more before they need replacement and, as far as I am aware, the most likely damage is physical damage, so unduly bending it or piercing it or that sort of issue is the most likely damage. I am sure our students with their annual passes will give us a demonstration of what works and what does not work.

**Mr DRUM** — Now that you have made the decision to go live, how are you going to make it easier for people to get hold of their cards?

**Mr CAROLAN** — On Sunday and for a time after that the outlets for myki will be essentially what they are now, plus the card vending machines that are at tram stops and a number of major bus interchanges. So that is

the website purchasing option, through the call centre, at your local station or at the 40 or 50 tram stops and bus interchanges that have card vending machines.

**Mr DRUM** — So you will be able to buy them at the train station?

**Mr CAROLAN** — I just went through the whole range of options where you can order and buy your card.

**Mr DRUM** — Did you say vending machines at the train stations?

**Mr CAROLAN** — Yes. So then, as we have both been saying, our focus has been on getting to this step. We have to remember that there are 400 000 Melburnians who have already got a card. The take-up is already high. We will be wanting to examine the operation in tram and bus operation, making sure it is stable, along with V/Line and a number of other things we have talked about, then the subsequent rollout through more retail channels will occur a bit later on when we are comfortable that that next step can be taken.

**Mr DRUM** — Can we expect a little bit of government advertising here, do you think, gentlemen, maybe telling Victorians that it is available?

**Mr CAROLAN** — Our advertising will be very much focused on trying to assist passengers understand how best to use the system. Our advertising will be pretty basic and will relate to touching not swiping, looking for the lights and so on. That is what our focus will be on trying to assist customers to use the system.

**The CHAIR** — There was a media report a few weeks back about a cost of \$500 million for public servants as part of the contract. Can I get your comment on that? My understanding would be from your evidence today that that in fact is part of the ongoing implementation up to 2017, not a cost of what has been expended so far on public servants, which was equated to roughly half the cost of the project in that report.

**Mr BETTS** — That report was completely inaccurate.

**The CHAIR** — Can you elaborate, because I think it is important to have that on the record?

**Mr BETTS** — Clearly there are costs built into the budget for the team which has been implementing myki and the team which will administer it within government on the other side, but this is one of those media stories you read, and there is no basis whatsoever in fact for it, and you just scratch your head.

**Mr CAROLAN** — I am happy to give you a four-category breakdown of the \$1.35 billion if that would assist the committee. I am happy to do that.

**The CHAIR** — That would be good.

**Mr CAROLAN** — There is around about \$375 million that is related to the capital delivery of the project, including the civil works that we talked about before, and also including allowances for some of those contingencies and variations that we have also touched on. There is about \$550 million for what we would call the operational period of myki, which is not all direct money that would go to Kamco. It also includes other aspects of an operational system. There is about \$200 million for Metcard, as again we have talked about several times, and lastly there is a bit over \$220 million for the TTA. I hope that adds up to close enough to \$1.35 billion.

**Mr VINEY** — That \$500 million you referred to for myki is over the time frame of the project?

**Mr CAROLAN** — To 2017. Perhaps it would also help the committee if I finished off that last question by also reporting what we have spent to date, which is \$472 million on myki and related activities, including our own costs. On top of that, as I said before, we have \$40 million or \$50 million a year for Metcard that we have been managing as well, but the amount to date on myki, TTA and everything to do with the project in that sense is \$472 million.

**Mr BETTS** — Not \$1.35 billion, as has been reported.

**The CHAIR** — If there are no further questions, as I indicated at the outset of today's hearing, you will receive copies of the Hansard transcript and have an opportunity to verify the accuracy of that record but clearly not to change any matters of substance.

We appreciate your coming before the committee and providing us with the information and answering questions. I do not know whether we will have a need to meet again, but we appreciate your assistance to the committee.

**Mr BETTS** — Thank you.

**Mr CAROLAN** — Thank you, Chairman.

**Committee adjourned.**