



TAXI FARE REVIEW 2016

Consultation Paper

December 2015



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GLOSSARY

Assignment	A commercial arrangement by which a taxi operator leases a taxi licence from a taxi licence holder.
Assignment fee	The fee charged by a taxi licence holder to a taxi operator for the lease of their taxi licence.
Commercial Passenger Vehicle	Any motor vehicle used or intended to be used for carrying passengers for hire or reward, excluding a bus used to provide a bus service.
Distance rate	A fare component that is a fee per kilometre travelled. In current taxi fares the distance rate applies when travelling over 21 kilometres per hour
Driver agreement	Legislation and regulation governing working agreements between taxi operators and taxi drivers. The driver agreement sets minimum terms, conditions and payments for drivers. Drivers must receive a minimum of 55 per cent of metered fare revenue.
Fare components	The basis for calculating individual taxi fares – for example, flagfall, distance rate, waiting time rate and booking fee.
Fare level	Refers generally to the overall level of taxi fares, or a market wide average of all taxi fares.
Fare structures	The way in which individual taxi fares are varied – for example, by time of day, trip distance, number of passengers.

Flagfall	A fare component that is a fixed fee charged regardless of the distance travelled or journey time.
High occupancy	The carriage of five or more passengers at a time in a commercial passenger vehicle
Metered fare	The taxi fare for a journey as calculated and displayed on a taximeter.
Metropolitan zone	Referred to in legislation as the 'Melbourne metropolitan zone', the taxi zone comprising key areas of metropolitan Melbourne (see Taxi Services Commission website for zone maps).
Multi Purpose Taxi Program (MPTP)	A government program that subsidises taxi fares for people with severe and permanent disabilities. MPTP members receive a 50 per cent subsidy on taxi fares up to a maximum of \$60 per trip and \$2,180 per year. Some MPTP members, for example those using wheelchairs, are exempt from the annual cap.
Pre-booked market	The market for commercial passenger vehicle services whereby customers book the service prior to travel.
Rank and hail market	A sub market of the market for commercial passenger vehicle services, whereby services are procured either from taxi ranks or hailed from the street. The rank and hail market is serviced exclusively by taxis.
Taxi Industry Inquiry	An inquiry into the taxi and hire car industry established by the Victorian Government in March 2011. The inquiry provided its final report to and recommendations to the government in September 2012.

Taxi licence	The right to provide a taxi service in Victoria is held in the issue of a taxi licence (one vehicle per licence). Each licence specifies the conditions under which the taxi service is to be provided.
Taxi network	A provider of taxi booking and dispatch services, connecting passengers with taxi drivers through a booking service.
Taxi operator	A person who owns, maintains and operates a taxi vehicle. A taxi operator must source a taxi licence in order to be permitted to operate a taxi. A taxi operator may engage a taxi driver for their vehicle or they may drive the taxi themselves.
Taxi Services Commission (TSC)	The TSC is responsible for regulation of the commercial passenger vehicle industry. The TSC was established on 1 July 2013 as the independent industry regulator as part of the Taxi Industry Inquiry’s recommended reforms.
Taxi zone	Taxi licences are attached to certain geographic areas (zones) in Victoria, limiting the area within which they can operate. A taxi cannot accept rank or hail work outside its zone, but can take pre-booked trips outside its zone in some circumstances. Currently there are four taxi zones in Victoria — metropolitan, urban, regional and country.
Taximeter	A device required in all taxis to calculate and display taxi fares. The Taxi Services Commission is responsible for specifying the functional requirements of taximeters.
The Commission	The Essential Services Commission (ESC) — Victoria’s independent economic regulator of certain prescribed services as determined by the Victorian Government. The Commission is responsible for setting maximum fares in the metropolitan and urban zones.

Urban zone

Referred to in legislation as ‘the urban and large regional zone’, the taxi zone comprised of Geelong, Ballarat, Bendigo, Frankston, Dandenong and the Mornington Peninsula (see Taxi Services Commission website for zone maps).

Waiting time rate

A fare component that is a minimum charge per minute. In current taxi fares the waiting time rate applies when travelling at 21 kilometres per hour or slower.

**Wheelchair
Accessible Taxi
(WAT)**

Taxis with WAT licences are designed to transport people in wheelchairs. WATs may also operate as high occupancy vehicles that can carry up to 11 passengers when not carrying people in wheelchairs.

ACRONYMS

ESC	Essential Services Commission
HOV	High occupancy vehicle
MPTP	Multi Purpose Taxi Program
TII	Taxi Industry Inquiry
TSC	Taxi Services Commission
WAT	Wheelchair accessible taxi

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SUMMARY OF QUESTIONS FOR STAKEHOLDERS

We are seeking input from interested parties to inform our role of setting maximum taxi fares for Victoria's Melbourne metropolitan zone and the urban and large regional zone.

To promote discussion and input to this review we ask questions of stakeholders on a range of matters outlined in this consultation paper. Stakeholder questions are summarised in Box 1 for convenience. For the context of each question please refer to the relevant sections of this paper as listed below.

Stakeholders may also provide input on issues not specifically covered by this paper, but with relevance to our maximum fare setting role.

Please note that submissions to this consultation paper close on 1 February 2016.

BOX 1 QUESTIONS FOR STAKEHOLDER COMMENT

The purpose of taxi fare regulation (section 3.1)

1. In what situations is regulation of taxi fares most important, and why?
2. Are there situations where maximum taxi fare regulation should be made more flexible than it is currently?

Continued next page

BOX 2 (CONTINUED)

Assessing the overall fare level (section 3.3.1)

3. What are your thoughts on the current overall level of taxi fares? Are fares generally too low, too high or about right?
4. What are the most relevant market outcomes to analyse in determining an efficient overall level of taxi fares (e.g. changes in taxi licence numbers, customer wait times)?

Reviewing fare structure changes made in 2014 (section 3.3.2)

5. What are your views on the fare structure adjustments made following our 2014 review? These were:
 - i. a three tariff structure to better reflect demand across the week, with a 'day' tariff (9am – 5pm), an 'overnight' tariff (5pm – 9am) and a 'peak' tariff (Friday and Saturday nights 10pm – 4am)
 - ii. higher flagfalls to make short trip fares more attractive to service
 - iii. a flat \$14 surcharge for high occupancy fares (5+ passengers), replacing the previous 50 per cent surcharge on the distance and time rates.

Options and ideas for discussion (chapter 4)

The base case (section 4.1)

6. Is there a case for making changes to the current taxi fares? If so, what specific aspects of current taxi fares could be improved?

Fare components (section 4.2)

7. What types of fare components would best allow for fares to be simple and transparent, while being sufficiently flexible to balance supply and demand for different types of trips?
8. What potential impacts should be considered in investigating alternative fare components?

Continued next page

BOX 3 (CONTINUED)

Fare flexibility (section 4.3)

9. Can taxi fares be made more flexible while preserving adequate consumer protection?
10. If taxi fares were made more flexible, how could different taxis effectively promote their price offerings?
11. What do you think of the following ideas as potential ways of introducing greater flexibility to regulated maximum taxi fares?
 - A. Better service for higher maximum booking fees – see section 4.3.1
 - B. Optional fixed price fares – see section 4.3.2
 - C. Tariff sets from which taxi operators can choose – see section 4.3.3
 - D. Fare authorisation – see section 4.3.4
 - E. Very high maximum fares – see section 4.3.5.
12. Do you have other ideas for introducing greater flexibility to maximum taxi fares?

Fares for Melbourne Airport taxi trips (section 4.4)

13. Would a unique taxi fare structure for Melbourne Airport trips be beneficial? If so, what should it look like?

Fares in Geelong, Ballarat, and Bendigo (section 4.5)

14. Should taxi fares in Geelong, Ballarat and/or Bendigo be significantly different to those of the metropolitan zone and other parts of the urban zone? If so, why and how?

1 INTRODUCTION

This consultation paper formally commences our 2016 review of maximum taxi fares for the Melbourne metropolitan taxi zone (the metropolitan zone) and the urban and large regional taxi zone (the urban zone). In this paper we outline some relevant background and context for the review, the approach we intend to adopt and some specific issues and ideas for discussion. We are seeking input from stakeholders on a range of matters and encourage all interested parties to provide submissions in response to this consultation paper.

1.1 OUR ROLE IN TAXI FARE REGULATION

The Essential Services Commission (the Commission) is the independent economic regulator responsible for determining the maximum taxi fares that can be charged in the Melbourne metropolitan taxi zone (the metropolitan zone) and the urban and large regional taxi zone (the urban zone).¹ We are also responsible for monitoring taxi fares in Victoria's regional and country taxi zones, where taxi operators are required to set their own fares. However, this review relates exclusively to the determination of maximum taxi fares for the metropolitan and urban zones.

The Commission's overarching legislative objective is to promote the long term interests of Victorian consumers, having regard to price, quality and reliability of services.² In relation to the taxi industry, our objective is to promote the efficient provision and use of commercial passenger vehicle services.³

¹ For descriptions and maps of taxi zones see <http://www.taxi.vic.gov.au/about-us/overview/taxi-zones>

² *Essential Services Commission Act 2001*, Section 8

³ *Transport (Compliance and Miscellaneous) Act 1983*, Section 162B

Our role in taxi fare regulation changed relatively recently. We are now independently responsible for determining maximum taxi fares for the metropolitan and urban zones. This new determinative role took effect on 30 June 2014, through amendment of the *Transport (Compliance and Miscellaneous) Act 1983*. Prior to this, our role in relation to taxi fares was an advisory role to the Minister for Public Transport, who had ultimate responsibility for determining taxi fares across the state.

In March 2014, in response to a request from the Minister for Public Transport, we delivered a report with recommendations for new taxi fares across Victoria. Our recommended fares were subsequently accepted and then determined by the Minister, coming into effect on 19 May 2014. Shortly thereafter, under our new independent powers, we made our first determination of maximum taxi fares for the metropolitan and urban zones. The determination took effect on 1 July 2014, retaining the same fares we had recommended to the Minister in our previous advisory role.

1.2 WHY REVIEW TAXI FARES NOW?

We are required by legislation to review maximum taxi fares within two years of making a determination.⁴ Our last determination was made on 19 June 2014 and took effect on 1 July 2014. We are therefore required to complete this review by 19 June 2016.

The outcome of the review will be a decision on whether or not to amend our 2014 determination. If our decision is to amend and determine new maximum fares we will publish those fares by 19 June 2016, along with the future date at which they will come into effect.⁵

⁴ *Transport (Compliance and Miscellaneous) Act 1983*, Section 162E(3)

⁵ The implementation of fares we determine may occur at a future date after the date the determination is made.

1.3 TIMELINE FOR THIS REVIEW

Table 1.1 outlines our overall program for this review, including key deliverables and milestones. We will consult with stakeholders throughout the review and we encourage all interested parties to contribute their views and advice.

TABLE 1.1 TIMELINE FOR REVIEW

Activity	Timing
Publication of Consultation Paper	15 December 2015
Close of submissions to Consultation Paper	1 February 2016
Publication of Draft Report	April 2016
Public Forum	May 2016
Final Report and decision	June 2016
New fares to become effective	TBA

1.4 HOW TO MAKE A SUBMISSION

Interested parties are invited to make submissions in response to this consultation paper. We are seeking stakeholder views on a number of discussion questions raised throughout the paper, which are summarised in Box 1 for the reader's convenience.

You may also wish to comment on issues not specifically addressed in this paper, but which you believe are relevant to our role in determining maximum taxi fares for the metropolitan and urban zones. For a summary of our relevant objectives and matters to which we must have regard, please see Appendix A — Legislative Framework.

Please note submissions to this consultation paper close on 1 February 2016.

Submissions should be emailed to taxifares@esc.vic.gov.au with subject title **'Submission to the Taxi Fare Review'**

You may also send submission via fax to 03 9032 1303 or by mail, marked:

Submission to the Taxi Fare Review
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 3000

1.4.1 PUBLICATION OF SUBMISSIONS

To promote transparency we will make all submissions publicly available on our website unless clearly instructed otherwise in the submission. If your submission contains confidential or commercially sensitive information that you do not wish to be disclosed publicly, please clearly identify the specific information in the submission.

1.4.2 CONTACT DETAILS

Questions about this consultation paper may be directed to:

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2 CONTEXT FOR THIS REVIEW

This chapter sets out some context for the review, including a brief overview of the market and taxi industry participants. We recap the key outcomes of our 2014 taxi fare review; highlight some of the major industry reforms implemented by the Taxi Services Commission in 2014; and provide a brief summary of recent developments in the commercial passenger vehicle market.

We also note some technological limitations of taximeters currently approved for use in Victoria, which have implications for the number and type of innovative fare structures that can be practically implemented.

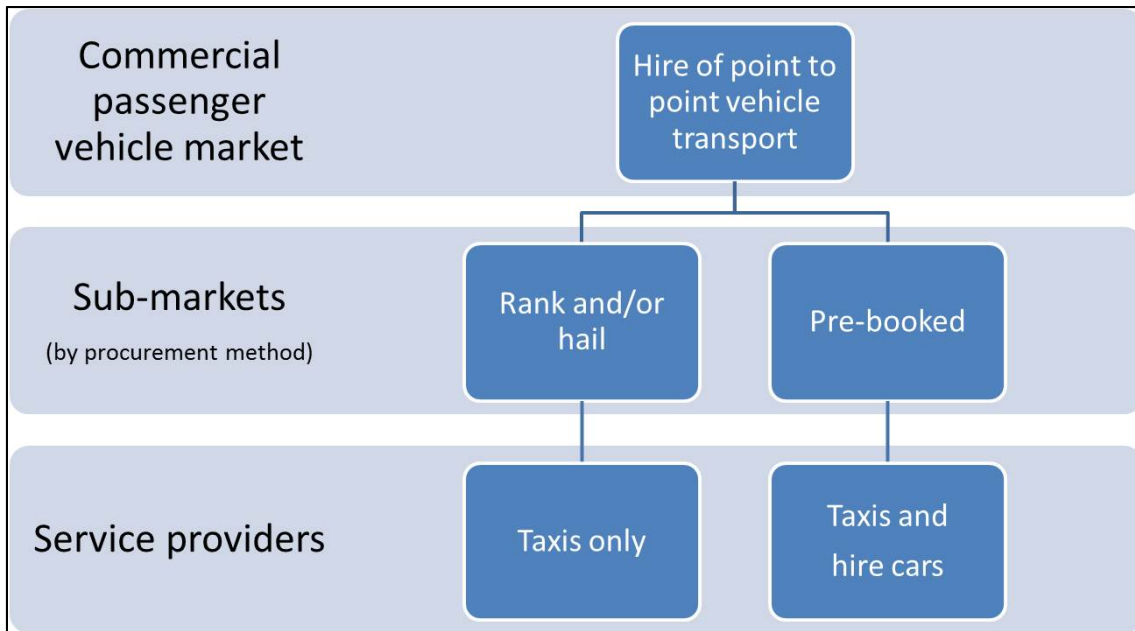
2.1 THE COMMERCIAL PASSENGER VEHICLE MARKET

While the scope of this review is focussed on the determination of maximum taxi fares for the metropolitan and urban zones, in performing that function our legislative objective is to promote the efficient provision and use of commercial passenger vehicle services.

2.1.1 SUB MARKETS AND SERVICE PROVIDERS

The commercial passenger vehicle market refers to the hire of point to point vehicle transport. For regulatory purposes it is usefully segmented into two sub markets, reflecting the way services are procured: (1) from a taxi rank or hailed from the street; and (2) pre-booked. The rank and hail sub market is serviced exclusively by taxis, while the pre-booked market is serviced by both taxis and hire cars. Figure 2.1 illustrates this market structure.

FIGURE 2.1 SUB MARKETS FOR COMMERCIAL PASSENGER VEHICLE SERVICES

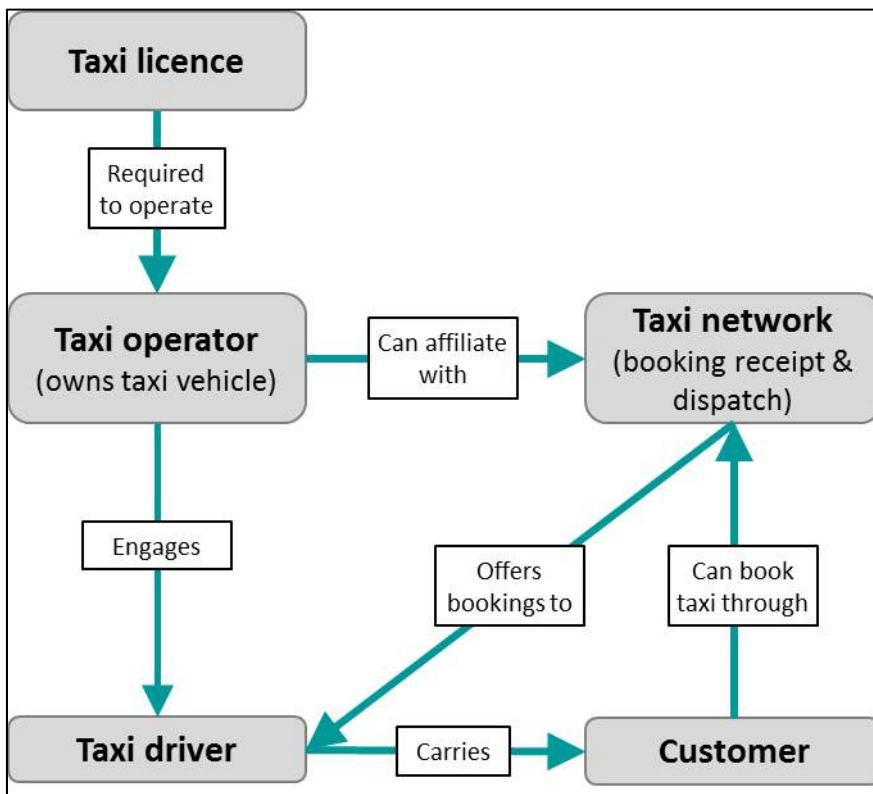


In the rank and hail sub market, negotiation of price between service providers and customers can be difficult or impractical. Since only taxis are permitted to service this market they are also subject to various regulations (including fare regulation) that aim to improve the function of the market. In the pre-booked market, customers are typically better placed to negotiate price. Hire cars, which operate exclusively in the pre-booked market, are therefore not subject to the same fare regulation as taxis.

2.1.2 TAXI INDUSTRY PARTICIPANTS

The three main industry participants in the delivery of taxi services are taxi operators, taxi drivers and taxi networks. The main functions of the key participants are shown in Figure 2.2. Individual entities may assume multiple roles within this supply chain. For example, some taxi operators also drive their taxis and some taxi networks also operate or have interests in fleets of taxis.

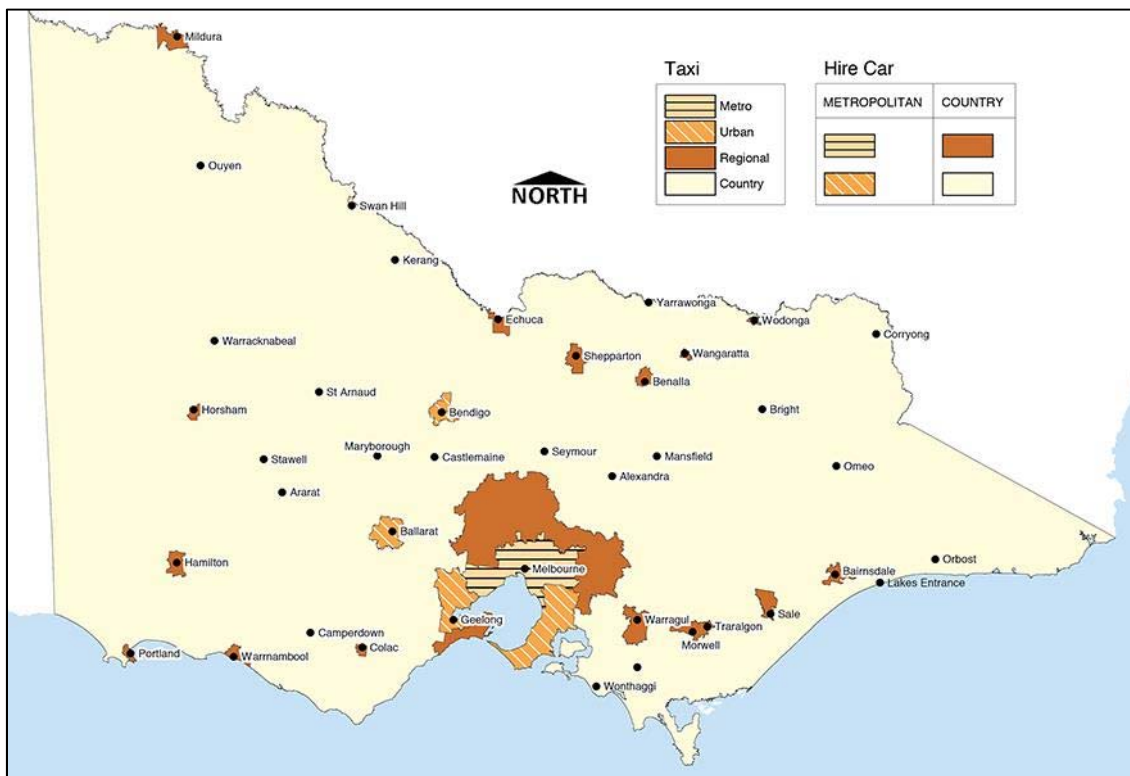
FIGURE 2.2 TAXI INDUSTRY PARTICIPANTS



2.1.3 TAXI ZONES

Taxis are licensed to operate in geographic zones, of which there are four in Victoria: the metropolitan zone, the urban zone, the regional zone and the country zone (see Figure 2.3). This review of taxi fares relates exclusively to the metropolitan and urban zones.

FIGURE 2.3 TAXI ZONES OF VICTORIA



Source: Taxi Services Commission website: <http://www.taxi.vic.gov.au/about-us/overview/taxi-zones/taxi-and-hire-car-zones-map-descriptions#statewide>

2.2 RECAP OF OUR 2014 REVIEW

Our last taxi fare review was completed in March 2014 in an advisory capacity to the Minister for Public Transport. The Minister, who was then ultimately responsible for determining taxi fares, accepted our recommendations and determined those fares to come into effect from 19 May 2014. These fares can be found in Appendix B — current maximum taxi fares.

On 19 June 2014, we made our first determination to retain those fares as maximum fares for the metropolitan and urban zones. That determination became effective on 1 July 2014, following the commencement of our independent determination powers.

The timing of the 2014 review entailed some unique circumstances. Taxi fares had not been reviewed since 2008, and major industry reforms promoting a more open and competitive industry were due to commence on 30 June 2014.

Our review concluded that the overall fare level should increase by an average of 12.5 per cent. In addition, three targeted fare structure adjustments were made for the metropolitan zone and part of the urban zone (the areas of Dandenong, Frankston and the Mornington Peninsula). The adjustments were as follows.

- 1. A temporal restructure** – to better reflect variation in demand across the week, a three tariff structure was introduced: a ‘day’ tariff (9am - 5pm), an ‘overnight’ tariff (5pm - 9am) and a ‘peak’ tariff (10pm - 4am Friday and Saturday nights). This replaced the previous two tariff structure: Tariff 1 (5am - midnight) and Tariff 2 (midnight - 5am).
- 2. A trip length restructure** – to increase the attractiveness of supplying short trips, fares for short trips were increased by more than fares for long trips. This was implemented through a higher increase in the flagfall.
- 3. A high occupancy rate restructure** – a flat \$14 surcharge for high occupancy fares (5+ passengers) was introduced. The flat fee surcharge replaced the previous 50 per cent surcharge on the distance and waiting time rates. This effectively increased high occupancy fares for short trips and decreased high occupancy fares for long trips. The restructure was intended to address previous incentives for wheelchair accessible taxis (WATs) to queue at Melbourne Airport in search of long trips. WATs can be used to service high occupancy trips as they can carry up to 11 passengers. As trips from the airport tend to involve longer distances, high occupancy fares from the airport were lucrative under the old fare structure. The Taxi Industry Inquiry concluded that excessive queuing of WATs at the airport was detrimental to their availability for wheelchair passengers elsewhere.⁶

For the areas of Geelong, Ballarat and Bendigo the 12.5 per cent fare increase was applied uniformly, with no adjustment to the existing fare structure. The separate treatment of Geelong, Ballarat and Bendigo was due partly to the taxi zone boundaries at the time of the 2014 review. Following the determination of new zone boundaries by

⁶ Taxi Industry Inquiry, Final Report, page 13

the Taxi Services Commission on 30 June 2014, these areas were incorporated into the newly established urban zone. Additionally, we did not have access to reliable trip data for these areas at the time of the review and therefore had little basis on which to assess the merits of structural adjustments.

In our final report, we presented a number of intended directions for our approach to taxi fare determinations in future.⁷ These included:

- a greater emphasis on understanding consumer demand and response to price structures
- improving our modelling of supply and demand interactions
- examination of options for innovation in fare components (e.g. origin-destination fares, minimum fares, simplification of time/distance rates, declining marginal time/distance rates)
- investigating options to better enable fare negotiation where possible (for example, for pre-booked trips and trips during periods of low demand).

Some of these ideas are expanded on in chapter 4 of this paper, along with questions designed to gather views from interested parties.

2.3 SIGNIFICANT INDUSTRY REFORM

The commercial passenger vehicle industry has undergone significant reform following recommendations of the Taxi Industry Inquiry. In May 2013, the Victorian Government supported in full or in part 138 of the Taxi Industry Inquiry's 139 recommendations.⁸ Approximately 91 recommendations have now been implemented.⁹ Of those remaining, some are in the process of implementation, while others are subject to further consideration in light of new industry developments.

⁷ Essential Services Commission, Taxi fare review 2013-14 – Final report, March 2014, Chapter 8.

⁸ See http://www.taxi.vic.gov.au/__data/assets/pdf_file/0004/91921/WOVG-Response-Taxi-Inquiry-2013.pdf

⁹ Taxi Services Commission, Annual Report 2014-15, page 10

Many of the major reforms have now been in effect for over a year, largely through legislative amendments enacted on 30 June 2014. Reforms with particular relevance to this review of maximum taxi fares include:

- the introduction of annual taxi licences
- regulation of working agreements between taxi operators and taxi drivers (driver agreements)
- maximum fare regulation for the metropolitan and urban zones.

Each of these major reforms is discussed below.

2.3.1 ANNUAL TAXI LICENCES

Prior to taxi licence reforms implemented in 2014, the number of taxi licences issued was restricted by the Victorian Government. Most taxi licences issued over time were perpetual (of no fixed term) and owners of taxi licences were permitted to lease (assign) their licences to taxi operators for a negotiated assignment fee. In 2011 and 2012, assignment fees paid by metropolitan taxi operators averaged over \$30,000 per year.

From 30 June 2014, taxi operators now have the option of obtaining annually renewable taxi licences from the Taxi Services Commission. There is no restriction on the number of annual taxi licences that can be issued.¹⁰ Fees for the newly introduced annual taxi licences are set in legislation at \$22,703 for a conventional taxi and \$18,988 for a wheelchair accessible taxi licence.¹¹ In response, assignment fees paid by taxi operators for perpetual licences have declined to similar levels.¹²

Two key intentions of making annual licences available were: (1) to enable greater flexibility of taxi supply to meet demand; and (2) to reduce the previously escalating

¹⁰ Under Section 143AA of the *Transport (Compliance and Miscellaneous) Act 1983*, the Taxi Services Commission may temporarily suspend applications for annual taxi licences for up to 12 months if it is satisfied that granting additional taxi licences would be contrary to the interests of existing and future consumers of taxi services.

¹¹ Metropolitan and urban zone licences. Annual fees are indexed on 1 July each year by CPI minus 0.5 per cent.

¹² In October 2015, the average assignment price for metropolitan conventional taxi licences was \$1,946 per month. Monthly payments are typically agreed for a fixed term of one to three years.

assignment fees taxi operators were paying for perpetual taxi licences (which resulted from the scarcity of those licences).

The number of taxi licences being operated has increased since annual licences became available. In the metropolitan zone, taxi licence numbers have increased by 11 per cent – from 4,330 immediately prior to the 30 June 2014 reforms, to 4,800 as at 30 October 2015. This included an increase of 492 conventional licences and a reduction of 22 wheelchair accessible taxi (WAT) licences.

In the urban zone, taxi licence numbers increased by 12 per cent over the same period – from 432 to 490. This included an increase of 53 conventional and five WAT licences.

2.3.2 REGULATION OF DRIVER AGREEMENTS

The 'driver agreement', refers to new legislation and regulations introduced on 30 June 2014 governing working agreements made between taxi operators and taxi drivers. The driver agreement specifies a number of mandatory conditions that aim to address unequal bargaining power between taxi drivers and taxi operators. The Taxi Industry Inquiry concluded that taxi operators' bargaining power contributed to poor remuneration and working conditions for taxi drivers, leading to an inability for the industry to attract and retain quality drivers.

One mandatory condition is set in legislation – that taxi drivers must receive a minimum of 55 per cent of the fare revenue they generate. This is an increase from previously typical industry arrangements of a 50 per cent share. The legislation provides for the Taxi Services Commission to specify additional conditions to be published in the Government Gazette. One of those additional conditions requires that taxi operators must pay all operating and maintenance costs of the taxi (including fuel). This is designed to prevent taxi operators from charging fees that would effectively diminish the driver's minimum share of fare revenue.

In our 2014 review, we accounted for the 55/45 revenue sharing requirements when concluding the fare level should increase by 12.5 per cent.

2.3.3 MAXIMUM FARE REGULATION

On 30 June 2014, fare regulation for the metropolitan and urban zones was changed from 'prescribed fares' to 'maximum fares' – the key difference being that taxis can now discount below the regulated maximum.

In our last fare review we noted that we would monitor whether taxi operators apply discounts to the maximum fares. At this stage we have observed only one taxi network, 'CABiT', offering a discount of five per cent below the maximum fare.

2.4 MARKET DEVELOPMENTS AND REGULATORY REVIEWS

Some notable developments have occurred in the commercial passenger vehicle market in recent times. More prevalent use of smartphones has led to some changes in the way booked services are commonly procured and paid for. At the same time, jurisdictions in Australia and around the world are considering what this means for taxi and hire car regulatory frameworks.

Developments in the market for commercial passenger vehicle services, and the framework of industry regulation, can significantly influence the provision and use of taxi and hire car services. As such, these developments are important considerations in the context of our role in setting maximum taxi fares.

2.4.1 SMARTPHONES AND THE PRE-BOOKED MARKET

As described in section 2.1.1, the commercial passenger vehicle market can be classified into the 'rank and hail' sub market and the 'pre-booked' sub market. Within the pre-booked market, the use of smartphone booking applications (booking apps) has led to significant developments.

While booking apps are not new, their use is becoming more prevalent in Victoria and elsewhere. In Victoria, traditional taxi booking networks such as 13CABS and Silver Top Taxis have developed booking apps in addition to their existing telephone and internet booking services. Newer 'third party' taxi booking networks such as goCatch and Ingogo are also widely used, offering taxi bookings exclusively through apps. Taxi

booking apps are also increasingly offering fare payment services through the app, with users able to link their credit cards and PayPal accounts.

The Uber app facilitates booking of commercially licensed hire cars (UberBLACK); and private vehicles that are not commercially licensed (UberX). Fares for these trips are calculated through the Uber app, varying with trip time and distance travelled. A base fare rate is set by Uber. That rate is also varied by an algorithm, applying a multiplier to the base rate during times of peak demand and limited supply. This provides for dynamic pricing in response to supply and demand.

The increasingly prevalent use of booking apps by consumers has had two notable impacts. Firstly, it has made 'ready to ride' bookings of taxis and hire cars – that is, bookings where the customer requests an immediate pick up – much easier for customers. As a result, pre-booked services are an increasingly closer substitute for rank and hail services.

Secondly, booking apps have introduced some degree of flexibility to fares for booked services, including taxis in some cases. Some taxi booking apps facilitate an option to 'tip' taxi drivers upfront to encourage them to accept a booking. As mentioned, the Uber app also dynamically varies fares for hire cars (licensed and unlicensed) through a variable multiplier of a base fare rate.

These developments present both challenges and opportunities for regulation of taxi fares. As pre-booked services become a more viable substitute for rank and hail services, it is important that taxi fare regulation does not constrain taxis to being non-competitive in the commercial passenger vehicle market. Competitive pressure in the pre-booked market may present opportunities for a more flexible approach to maximum taxi fare regulation, at least for pre-booked taxis. As taxis also operate in the rank and hail market, where competition is less likely to driver lower prices for consumers, the challenge of setting taxi fares is becoming more challenging.

2.4.2 REVIEWS OF TAXI AND HIRE CAR REGULATION

Most jurisdictions in Australia are in the process of reviewing, or have completed reviews, of taxi and hire car regulation. The commencement of many of these reviews follows an increasing profile of UberX and similar services. These services facilitate

commercial transport of passengers using private vehicles, with bookings and payments made through smartphone apps.

The operation of such services has been the subject of significant controversy around Australia and in other countries, at least in part due to apparent non-compliance with regulatory frameworks. Victoria's regulatory framework requires vehicles used to carry passengers for hire or reward to be commercially licensed.¹³ It also requires drivers of commercial passenger vehicles to be accredited by the Taxi Services Commission.¹⁴

In any case, state and territory governments around Australia are considering what forms of regulation are most appropriate for commercial passenger vehicle services. Over the past year, reviews of regulatory frameworks have been announced in the Australian Capital Territory (ACT), New South Wales, the Northern Territory, Queensland, South Australia, and Western Australia.

In September 2015, the ACT Government announced plans for significant changes to the ACT's taxi and hire car regulatory framework following completion of the Taxi Innovation Review.¹⁵ Key changes announced include significant reductions in the cost of taxi and hire car licences – annual licence fees for taxis will be reducing from \$20,000 to \$10,000 in 2015, then to \$5,000 in 2016; and licence fees for hire cars will be reducing from \$4,600 to \$100.

The ACT Government also announced plans for the creation of an additional category of commercial passenger vehicle service called 'rideshare'. Rideshare drivers will require a relevant commercial licence, at a cost of approximately \$100 per year. The commercial operation of rideshare drivers will be restricted to servicing only booked trips through an approved 'Transport Booking Service'.

Transport Booking Services in the ACT will be accredited by the industry regulator and will include any company providing booking services to taxis or rideshare drivers. Taxi fares will continue to be subject to regulated maximum fares. For rideshare trips, an

¹³ Transport (Compliance and Miscellaneous) Act 1983, Section 139(1)

¹⁴ Transport (Compliance and Miscellaneous) Act 1983, Section 165(1)

¹⁵ <http://www.cmd.act.gov.au/policystrategic/regreform/2015-taxi-industry-innovation-reforms>

estimated fare range will be required to be provided to the passenger prior to the trip's commencement.

At the time of writing this paper, reviews underway in other jurisdictions are not yet complete.

In Victoria, no review has been announced. However, the Victorian Government has indicated it will consult with members of the Taxi and Hire Car Ministerial Forum, meeting quarterly and discussing a range of matters including 'the emergence of ride-share activities'.¹⁶

2.5 CURRENT LIMITATIONS OF TAXIMETERS

The technical limitations of taximeters currently available for use in Victoria are an important consideration for the types of fares we can determine as part of this review.

Taximeters are used to calculate and transparently display taxi fares to passengers. Taxis are required to operate taximeters that meet certain specifications set by the Taxi Services Commission. These specifications extend beyond the primary function of calculating fares. For example, taximeters must be linked with mandatory equipment in taxis, such as safety cameras and an EFTPOS terminal approved for processing Multi-Purpose Taxi Program subsidy information.

There are several different taximeters currently approved for use in Victorian taxis. However, among currently available models, limitations exist on the number of 'tariff slots'¹⁷ that can be programmed to calculate fares. Some models are limited to programming up to only nine different tariff slots.

There are also limitations on the types of fare structures that can be programmed. In our 2014 fare review, we noted some ideas for new and innovative fare structures that could be investigated in future fare reviews. Some of these are discussed in section 4.2

¹⁶ <http://www.premier.vic.gov.au/creating-a-stronger-safer-taxi-and-hire-car-industry/>

¹⁷ An example of a tariff slot is the current metropolitan day rate, which incorporates: a flagfall of \$4.20; a distance rate of \$1.622 per kilometre; and a minimum time rate of \$0.568 per minute

of this paper. Initial discussions with taximeter manufacturers suggest that some of these ideas may be implementable with the current taximeter models, but only in a limited capacity.

The Taxi Services Commission is currently finalising new specifications for 'fare devices' (of which taximeters are a subset).¹⁸ The draft specification includes provision for a minimum of 128 different tariff slots with a wide range of flexible fare structures. The draft taximeter specification also provides for more outcomes based regulation in relation to the required connections to other parts of the taxi vehicle, which should enhance the potential for innovative technology to develop.

While timelines for implementation of new taximeters are yet to be finalised by the Taxi Services Commission, we understand new taximeters are not likely to be widely available prior to the completion of our taxi fare review in June 2016. We will continue to consult with the Taxi Services Commission and taximeter manufacturers to ensure any fare structures we may determine are implementable.

¹⁸ See draft specification and Regulatory Impact Statement on TSC website: <http://www.taxi.vic.gov.au/taxi-reform/consultation/consultation-papers/fare-device-specification>

3 OUR APPROACH TO THE REVIEW

This chapter provides a broad overview of our approach to this review. We begin by defining the purpose of maximum taxi fare regulation in addressing ‘market failure’. We then outline our legislative objectives and some fare setting principles to help guide our review. We then discuss the importance of reviewing both the overall fare level and fare structures. We have also included some questions for stakeholders to promote discussion.

3.1 THE PURPOSE OF REGULATING TAXI FARES

Regulation of taxi fares is a solution to address a very specific problem of ‘market failure’. In relation to taxi fares, this refers to the problem that free negotiation of taxi fares between consumers and taxi providers will not always lead to ‘efficient prices’.

Efficient prices are prices that bring supply and demand into balance. They create incentives to facilitate the best possible match of suppliers’ willingness to provide services, with consumers’ demand for those services.

Efficient prices can occur in competitive markets when consumers and suppliers have full information to freely negotiate with each other. However, at least in some areas of the taxi market, poor information flow would prevent this from happening.

Poor information flow between consumers and suppliers can be expected in many situations with taxi services. For example, a customer hailing a taxi from the street could not easily know information about each passing taxi’s price or service offering. Similarly, taxi drivers cannot easily signal such information to potential passengers.

There can be very high ‘transaction costs’ for consumers when information flow is poor – that is, significant time and effort involved in searching for a taxi and negotiating a price for the trip. The benefits a consumer might gain from comparing different taxis’ offerings would often be far outweighed by the time and effort involved. This would allow taxi drivers to extract an ‘economic rent’ from customers – that is, they could charge higher fares and make above normal profits.

The impact of these problems can vary depending on the situation. Information flow problems are likely to be more significant when taxis are procured from ranks or hailed from the street, compared to situations where taxis are booked. This is because when taxis are booked, price and service information is generally more available to customers.

Certain customers, such as tourists unfamiliar with the local area and mobility disadvantaged passengers, may also naturally be more affected by information problems and transaction difficulties.

In Victoria’s metropolitan and urban taxi zones, taxi fare regulation is in the form of maximum fares. Maximum fare regulation allows for some flexibility in that discounting below the allowed maximum is permitted.

In our approach to this review we intend to consider the extent of these problems in different parts of the taxi market in order to target maximum fare structures appropriately.

The purpose of taxi fare regulation

Question 1. In what situations is regulation of taxi fares most important, and why?

Question 2. Are there situations where maximum taxi fare regulation should be made more flexible than it is currently?

3.2 OBJECTIVES AND PRINCIPLES

Our role as an economic regulator is underpinned by a clear overarching objective set out in the *Essential Services Commission Act 2001* – to promote the long term interests of Victorian consumers, having regard to price, quality and reliability of services.¹⁹

The *Transport (Compliance and Miscellaneous) Act 1983* defines our objective in relation to the taxi industry – to promote the efficient provision and use of commercial passenger vehicle services.²⁰

There are a number of matters we must have regard to, which are outlined in detail in Appendix A — Legislative Framework.

With this legislative framework in mind we have developed the following set of principles to guide our approach to setting maximum taxi fares.

1. Taxi fare regulation must enliven the broader competitive policy reforms being implemented by the Victorian Government and the Taxi Services Commission.
2. Taxi fare regulation must evolve with developments in the broader commercial passenger vehicle market.
3. The level of taxi fares should promote an efficient overall supply of taxi services. That is, taxi fares should be as low as possible for consumers, but sufficient to attract an overall supply of taxis that enables reliable services for consumers.
4. The structure of taxi fares should be responsive to variability in passenger demand and promote the right incentives for taxi operators and taxi drivers to meet demand.
5. Taxi fares should be relatively simple to understand, so as to promote informed and discerning choices by consumers.
6. Taxi fare setting must be informed by customer and industry input.

¹⁹ *Essential Services Commission Act 2001*, Section 8

²⁰ *Transport (Compliance and Miscellaneous) Act 1983*, Section 162B

3.3 THE OVERALL FARE LEVEL AND FARE STRUCTURES

The task of setting taxi fares can usefully be thought of in terms of setting an overall fare level and individual fare structures. The overall fare level refers to the market-wide average level of taxi fares. Fare structures enable individual taxi fares to vary according to a range of factors – for example trip location, time of day or trip distance.

3.3.1 UPDATING OUR APPROACH TO DETERMINING THE FARE LEVEL

In the final report of our 2014 review, we signalled our intention to update our approach to setting the fare level in our next review – placing greater emphasis on market outcomes and less on detailed examination of costs.²¹

In past taxi fare reviews, changes to the overall fare level have been heavily guided by changes in an estimated ‘cost stack’ for a typical taxi provider. The approach of focussing predominantly on recovery of suppliers’ costs has been widely adopted by economic regulators of closed taxi markets, where the number of taxis is restricted by governments.

In our 2014 review, the determination of a 12.5 per cent increase in the fare level was largely influenced by changes in the cost stack between 2008 and 2014. We noted that a focus on industry costs was necessary in the context of some unique circumstances at the time – taxi fares had not been reviewed since 2008; major industry reforms were impending but not yet implemented; and there was limited reliable data available to support a broader market focussed approach.

Since then, major industry reforms and market developments have taken place and the resulting market outcomes can now be analysed in ways that were not previously possible. The removal of restrictions on taxi licence numbers has fundamentally changed the influence of the overall fare level on market outcomes. When the number of taxi licences was capped, the fare level influenced the profitability of a fixed number of taxis. If the fare level was higher than that required to recover efficient costs, taxis would generate economic profit – that is, profit in excess of the normal profit required to

²¹ Essential Services Commission, Taxi Fare Review 2013-14, Final Report, page 30

remain financially viable. Now that taxi licences are available as the market demands, economic profits are no longer sustainable. If the fare level is high and leads to economic profits in the short term, more taxis can be expected to enter the market until profit per taxi returns to a normal level. In other words, the market rather than the regulator now determines the profitability of the taxi industry.

In the broader market for point to point transport, consumers have increasingly more options to choose from, as discussed in section 2.4. As a result, the demand for taxi services is likely to be more price-elastic – that is, passengers are likely to be more sensitive to the level of taxi fares. A greater focus on the demand side of the market is therefore increasingly important in determining the overall fare level.

As set out in our fare setting principles, our aim is to set the fare level as low as possible for consumers, but sufficient to attract an overall supply of taxis that enables reliable services for consumers. Analysis of market outcomes following the removal of taxi licence restrictions in June 2014, and other developments in the market for point to point transport, will inform our decision on the fare level.

Approach to the fare level

Question 3. What are your thoughts on the current overall level of taxi fares? Are fares generally too low, too high or about right?

Question 4. What are the most relevant market outcomes to analyse in determining an efficient overall level of taxi fares (e.g. changes in taxi licence numbers, customer wait times)?

3.3.2 A FOCUS ON FARE STRUCTURES

We anticipate consideration of fare structures will comprise a major part of this review. However, we note the limitations of currently approved taximeters may constrain the number and type of innovative fare structures that can be implemented, as discussed in section 2.5.

Fare structures influence how taxi fares for individual trips vary depending on a range of factors. Structural factors can include the trip location, the time the trip is taken, the

length of the trip, how it is procured, the number of passengers and the type of vehicle. Examples are outlined in Table 3.1.

TABLE 3.1 TYPES OF FARE STRUCTURES

Structural factor	Example
Geographic	Fares can vary by taxi zone – e.g. metropolitan fares versus urban fares. Fares can also differ within the same zone – e.g. fares in Geelong differ to fares in Frankston even though both are in the urban zone.
Temporal	Fares can vary across different time periods. For example, in the metropolitan zone there are three different rates based on time of day – daytime, night-time and peak (Friday and Saturday nights).
Trip length	Fares can vary according to the length of the trip in terms of distance, time or both. This currently occurs through fixed and variable fare components: flagfall, distance rate and time rate.
Procurement method	Taxi trips can be procured from a rank, hailed from the street or booked (via phone, internet or smartphone app). Booked taxi fares currently differ slightly to rank and hail taxi fares due a regulated maximum booking fee (\$2.00 in the metropolitan zone).
Number of passengers	Fares can vary based on the number of passengers. For example, in the metropolitan zone a surcharge of up to \$14 can be charged if there are five or more passengers.
Vehicle type	Fares can be set to vary based on vehicle type. Currently, higher fares apply if a passenger requests a vehicle capable of carrying five or more passengers.

As a first step in reviewing fare structures, we intend to analyse the impact of the structural adjustments made following our 2014 review (see section 2.2). We will analyse taxi trip data to assess supply and demand responses to these fare structures. We are also interested in stakeholders' views on these adjustments.

Previous change to fare structures

Question 5. What are your views on the fare structure adjustments made following our 2014 review? These were:

1. a three tariff structure to better reflect demand across the week, with a 'day' tariff (9am – 5pm), an 'overnight' tariff (5pm – 9am) and a 'peak' tariff (Friday and Saturday nights 10pm – 4am)
2. higher flagfalls to make short trip fares more attractive to service
3. a flat \$14 surcharge for high occupancy fares (5+ passengers), replacing the previous 50 per cent surcharge on the distance and time rates.

Fare structures should be responsive to variability in passenger demand and promote the right incentives for taxi service providers to meet that demand. We intend to identify imbalances in supply and demand and address these by improving fare structures, where possible.

In considering different fare structures we will rely on evidence based analysis of taxi data. In chapter 4 we discuss some initial ideas for investigating how potential fare structure improvements can be made.

4 OPTIONS AND IDEAS FOR DISCUSSION

In this chapter we discuss some ideas for changes to taxi fare structures. We consider different options for fare components, options for greater fare flexibility, fares for Melbourne Airport trips and differences in the fare structure for Geelong, Ballarat and Bendigo.

4.1 THE BASE CASE

Retaining the existing maximum taxi fares for the metropolitan and urban zones is the base case for this review. If we determine changes to the current maximum taxi fares, we need to be satisfied that changes will promote more efficient provision and use of commercial passenger vehicle services.

We are interested in hearing stakeholders' views on whether or not changes to maximum taxi fares for the metropolitan and urban zones would be beneficial.

The base case

Question 6. Is there a case for making changes to the current taxi fares? If so, what specific aspects of current taxi fares could be improved?

4.2 FARE COMPONENTS

The current fare components consist of:

- a flagfall – an initial charge incurred at the commencement of the trip

- distance rate – a charge per kilometre travelled, when travelling over 21 kilometres per hour
- a waiting time rate – a charge per minute that applies if the taxi is travelling below 21 kilometres per hour
- a booking fee – for booked taxi trips only.

These fare components enable variable pricing of different types of taxi trips. They have the advantage of being relatively simple and transparent. However, that simplicity can sometimes limit the flexibility to achieve a price that best balances supply and demand for some types of trips.

We are interested in hearing ideas and views from stakeholders on the types of fare components that would best balance simplicity with functionality to efficiently balance supply and demand. Some initial ideas to promote discussion are outlined below.

4.2.1 MINIMUM FARES

A minimum fare refers to a minimum charge applicable up to a certain distance travelled (and/or time elapsed). Beyond that distance, a distance rate per kilometre would begin to apply. This differs from the current combination of flag fall and distance rate, in that currently the distance rate applies immediately from the beginning of the trip.

A minimum fare may be beneficial as a fare component if it enables prices that promote the right incentives. For example, if making short trips more attractive to service was an objective, introducing a minimum fare may have benefits over simply increasing the flag fall.

4.2.2 DECLINING MARGINAL DISTANCE RATE

A declining marginal distance rate involves a distance charge per kilometre which starts at a relatively high rate and then drops to a lower rate after a certain distance has been travelled. This could effectively increase the fare per kilometre for shorter trips relative to longer trips, which may be desirable in some cases if it enables a better match of supply and demand.

A declining distance rate could be implemented in many ways. The distance at which the distance rate steps down, the extent of the decrease and the number of steps would require consideration.

4.2.3 A NEW WAITING TIME RATE

Currently, the waiting time rate enables a minimum fare per minute to be charged when the vehicle is travelling below 21 kilometres per hour. Above this speed the fare is charged on a per kilometre basis. This effectively makes fares more profitable to drivers (on a per hour basis) when travelling at higher speeds.

The waiting time rate can be thought of as the minimum charge for the driver's time. In reviewing the waiting time rate it would be important to understand its purpose and any incentives it might promote for both drivers and customers.

4.2.4 HYBRID DISTANCE TIME TARIFFS

A hybrid distance time tariff is a tariff that charges a distance rate and a time rate simultaneously. This differs to the current operation of distance and time rates, where a distance rate applies when travelling over 21 kilometres per hour and a time rate applies below 21 kilometres per hour.

A hybrid distance and time tariff may be a simpler fare structure to understand and therefore promote fare transparency. It may also allow fares to better reflect costs – for example, the distance rate could reflect fuel costs and the time rate the driver's value of time. Again, in considering a hybrid time and distance rate it would be important to understand its purpose and the incentives it might promote.

Fare components

Question 7. What types of fare components would best allow for fares to be simple and transparent, while being sufficiently flexible to balance supply and demand for different types of trips?

Question 8. What potential impacts should be considered in investigating alternative fare components?

4.3 FARE FLEXIBILITY

Fare regulation places constraints on what taxi service providers can charge their customers. While these constraints can protect customers from exploitation, they also have the potential to restrict innovation and creativity in the taxi industry. Ideally, the regulated maximum fare structures should provide an adequate level of consumer protection while also giving taxi service providers the freedom to be innovative and creative in their price and service offerings. The right level of flexibility in taxi fare regulation depends largely on the effectiveness of competition to keep fares low for consumers. This could mean competition between different taxi providers, or competition from taxi alternatives. If effective competition exists, a greater level of flexibility in taxi fares may better enable taxi providers to tailor their price and service quality offerings to the demands of consumers.

The current system of regulated maximum fares allows for some flexibility – taxi service providers can discount below the regulated maximum. One instance of this has been observed in Melbourne recently, with CABiT branded green taxis offering fares five per cent below the regulated maximum rates. However, the vast majority of taxis charge only the regulated maximum rates.

There are many barriers to innovative fare offerings becoming a reality for taxi services. The supply chain for taxi services can be a barrier – taxi networks, operators and drivers play different roles in service delivery. Cooperation between all parties on a flexible fare arrangement may be difficult. A technological barrier also exists, in that currently approved taximeters have not historically been designed to incorporate fare flexibility. There is also an informational barrier – it can be difficult for taxi service providers to signal a unique price offering to customers.

We are keen to hear from interested parties on ideas for overcoming barriers to fare flexibility, while preserving adequate consumer protection.

While this review does not extend to consideration of alternatives to maximum fare regulation, below we discuss some initial ideas that could potentially be investigated within the maximum fare regulation framework.

Fare flexibility

Question 9. Can taxi fares be made more flexible while preserving adequate consumer protection?

Question 10. If taxi fares were made more flexible, how could different taxis effectively promote their price offerings?

Question 11. What do you think of the following ideas to introduce greater fare flexibility (discussed in sections to follow)?

- Better service for higher maximum booking fees – see section 4.3.1
- Optional fixed price fares – see section 4.3.2
- Tariff sets from which taxi operators can choose – see section 4.3.3
- Fare authorisation – see section 4.3.4
- Very high maximum fares – see section 4.3.5.

Question 12. Do you have other ideas for introducing greater flexibility to maximum taxi fares?

4.3.1 BETTER SERVICE FOR HIGHER MAXIMUM BOOKING FEES

A booking fee is an additional fee on top of the metered fare that can be charged when taxis are booked. Currently, the regulated maximum booking fee is \$2.00 (or \$2.10 in Geelong, Ballarat and Bendigo).²²

With greater competitive pressure emerging in the pre-booked market, it is worth considering whether booking fee regulation should be made more flexible – for example, by allowing a higher maximum booking fee.

As the current \$2.00 cap on booking fees is relatively low, the incentives for booking networks to develop unique price and service offerings are limited. A higher maximum booking fee could add some flexibility to taxi fares. This may be beneficial if it leads to

²² Some taxis are also permitted to charge a 'premium service' fee of up to \$11 when booked. The 13CABS and Silver Top Taxis networks operate 'Silver Service Taxis' under this arrangement. Service quality standards are set by the networks, generally requiring a higher than average standard of vehicle and driver presentation.

new service offerings that consumers value – for example, the opportunity to book luxury vehicles; or a guarantee from a booking network that the taxi will arrive on time.

We are interested to hear stakeholders' views on whether competition in the pre-booked market is sufficient to allow higher maximum taxi booking fees. We are also interested in stakeholders' ideas on how more flexible booking fees might be implemented. For example, should higher maximum booking fees be set in combination with lower maximum charges for other fare components?

4.3.2 OPTIONAL FIXED PRICE FARES

Under the current maximum fare arrangements, taxis would find it difficult to offer a fixed price service to passengers. This limits the flexibility taxis have in competing with other transport modes that offer fixed prices, such as buses or hire cars. In some situations, consumers may value the certainty of a pre-agreed fixed price over a metered fare.

Optional fixed price taxi fares would involve giving customers the option to choose a fixed price (agreed prior to the trip), or the metered fare (which is calculated on the taximeter during the trip). The idea aims to encourage taxi service providers to develop new price and service offerings by allowing more flexible pricing options. To maintain consumer protection it would be important for customers to always retain the option of the metered fare.

In the final report of our 2014 taxi fare review we discussed this concept in terms of a 'zero tariff for pre-booked services'.²³ This would essentially involve a fixed price tariff slot on the taximeter, which could be used for pre-booked fixed fares. We would set a high maximum fare for the fixed price tariff, applicable for pre-booked trips only. In this case, the flagfall, distance and waiting time rates on the taximeter would be set to zero and the agreed fixed price would be manually entered at the beginning of the trip. Appropriate conditions would also be outlined to ensure that customers retain the option to request a metered fare.

²³ Essential Services Commission 2014, Taxi fare review 2013-14 – Final Report, March 2014, page 141

This idea could also conceivably be expanded beyond pre-booked taxi trips. A fixed price tariff could similarly enable fixed fares to be negotiated between customers and drivers at taxi ranks. Drivers would be required to manually enter the agreed fixed price on the taximeter at the beginning of the trip. Again, customers would retain the option of the metered fare.

We note a risk of fixed price tariffs that require manually entry of the fare by the driver. Manual fare entry potentially creates opportunities for taxi drivers to defraud vulnerable customers. There is anecdotal evidence of some taxi drivers misusing a similar negotiable tariff system that operates in Queensland.²⁴

The options for implementation of an optional fixed price tariff will ultimately depend on the legislative framework for maximum taxi fare regulation. Nevertheless, we are keen to hear stakeholders' views on this idea.

4.3.3 CHOICE OF TARIFF SETS

As noted earlier in this paper, since maximum fares were introduced in 2014 we have seen only one taxi network offer discounts below the maximum regulated rates. The limited discounting could be in part due to the fact that current taximeters are typically only designed to incorporate a small number of tariffs. They are generally not designed to incorporate discounting options.

To encourage greater price competition among taxi services, we could publish a fare schedule that includes a number of different 'tariff sets'. A maximum fare would still apply, but operators could choose to program their taximeters with one of the alternative sets. Examples of tariff sets could be a 'maximum tariff', a '10 per cent discount tariff', a '20 per cent discount tariff' etc.

Specifying such tariff sets could promote simple and comparable fare offerings and potentially lead to customers being more informed and discerning when they choose a particular taxi.

²⁴ Feeney, K., 2012, Taxi fare gouge warning, Brisbane Times, December, available at: <http://www.brisbanetimes.com.au/queensland/taxi-fare-gouge-warning-20121213-2bbn4.html> [last accessed 24 November 2015].

4.3.4 FARE AUTHORISATION

A fare authorisation process would involve taxi operators or networks submitting their own proposed fares to us, which we would then have the authority to accept or reject as being within maximum allowable fares within the metropolitan or urban taxi zones.

This would allow taxi operators and networks greater flexibility in their service and price offerings and potentially promote a more price competitive taxi industry. At the same time, an authorisation process could provide a level of consumer protection.

An authorisation process has the potential to be administratively costly and time consuming. The appropriate mechanisms for this type of authorisation process operating within the legislative framework for maximum fare regulation would also need to be considered.

4.3.5 VERY HIGH MAXIMUM FARES

A more extreme option to introduce fare flexibility could be to set very high maximum fares. As a result, taxi operators and networks would have to take greater responsibility for charging fares below the regulated maximum.

There are obvious consumer protection risks with this idea and it would have to be carefully thought through. However, very high maximum fares would not necessarily have to be applied market wide. For example, they could be limited to pre-booked fares only, or fares during times of low demand when customers have greater bargaining power.

4.4 FARES FOR MELBOURNE AIRPORT TRIPS

Melbourne Airport generates significant demand for taxis. The Taxi Industry Inquiry reported that in 2011, airport taxi trips accounted for around 13 per cent of all taxi trips and 30 per cent of total taxi industry revenue for metropolitan Melbourne.²⁵

²⁵ Taxi Industry Inquiry 2012, *Draft Report*, page 78

The profile of demand for taxis at the airport differs significantly to the rest of the metropolitan zone. For example, on weekday mornings, demand for trips to the airport peaks between 5:30am and 7:00am. Additionally, the airport does not experience the same Friday and Saturday night peak demand seen in the Melbourne CBD and inner-suburbs.

The length of trips to and from Melbourne Airport is also very different to the rest of the market – the vast majority of airport trips are much longer in distance.

Despite these differences, taxi fares are applied consistently across the entire metropolitan zone. The unique characteristics of Melbourne Airport taxi demand may suggest that a unique fare structure could be beneficial.

There are some indications that taxi fares for Melbourne Airport trips are currently less than efficient. We highlighted one indication in our 2014 review, noting that the large number of taxis waiting at Melbourne Airport may adversely affect total industry costs. An excessive number of empty taxis at the airport reduces overall occupancy rates and therefore adds to industry costs.

Another indication is that, historically, there has been dissatisfaction from taxi drivers about the value of short trip fares from the airport; and in turn from customers about taxi drivers being unwilling to service short trips. As taxi drivers have a regulatory requirement to accept any trip regardless of the potential fare, they must factor in the risk of less profitable trips when choosing to service the airport rank. Nevertheless, issues stemming from this preference for certain types of trips could potentially be improved through a regulated fare structure.

Unique fares for Melbourne Airport taxi trips could be implemented in a variety of ways. Rather than fares being highly sensitive to the trip distance, some cities have a flat taxi fare from airports. A metered fare comprised of a higher flagfall or minimum fare combined with a much lower distance rate could also achieve a similar outcome.

There are several necessary considerations, such as the treatment of inbound trips versus outbound trips, how an airport taxi fare might vary across the day and the limitations of taximeters to accommodate multiple tariffs.

Taxi fares for Melbourne Airport trips

Question 13. Would a unique taxi fare structure for Melbourne Airport trips be beneficial? If so, what should it look like?

4.5 FARES IN GEELONG, BALLARAT AND BENDIGO

Taxi zone boundaries have changed since we undertook our 2014 fare review. The urban taxi zone now consists of the areas Geelong, Ballarat and Bendigo to the west of Melbourne; and Frankston, Dandenong and the Mornington Peninsula to the east of metropolitan Melbourne.²⁶

In our last review we made three structural adjustments to taxi fares that now apply in the metropolitan zone and the urban zone areas of Frankston, Dandenong and the Mornington Peninsula. These structural adjustments were not implemented in Geelong, Ballarat and Bendigo. This was due to the timing of our review and the taxi zone changes, as well as a lack of taxi data for Geelong, Ballarat and Bendigo to support any structural adjustments.

²⁶ For taxi zone descriptions and maps see <http://www.taxi.vic.gov.au/taxi-reform/about-taxi-and-hire-car-reforms/taxi-zones#taxizones>

As described in section 2.2 of this paper, the metropolitan structural adjustments involved:

1. a three tariff structure with 'day', 'overnight' and 'peak' rates
2. higher flagfalls to increase fares for short trips
3. a flat \$14 fee for high occupancy trips, replacing the previous 50 per cent surcharge in distance and waiting time rates.

For this review, we are interested in investigating whether similar fare structure adjustments would be suitable for the Geelong, Ballarat and/or Bendigo areas.

Taxi fares for Geelong, Ballarat and Bendigo?

Question 14. Should taxi fares in Geelong, Ballarat and/or Bendigo be significantly different to those of the metropolitan zone and other parts of the urban zone?

APPENDIX A — LEGISLATIVE FRAMEWORK

A.1 THE ESSENTIAL SERVICES COMMISSION ACT 2001

The ESC Act objective is to ‘*promote the long term interests of Victorian consumers*’. This objective highlights the importance of the consumer, that is, the customer or passenger using the taxi service. The ‘interest of consumers’ are served by the lowest possible fares as well as increased service quality and increased diversity and scope in taxi service offerings. This objective is conditioned by the ‘long term’ perspective, however, which highlights the potential conflict between the objectives of lower prices and service quality. Fares must be set at a level that ensures quality and reliable service provision now and in the future.

TABLE A.1 RELEVANT SECTIONS OF THE ESC ACT

Section detail	
s. 8 (1)	Objective of the Commission In performing its functions and exercising its powers, the objective of the Commission is to promote the long term interests of Victorian consumers.
s. 8 (2)	Without derogating from subsection (1), in performing its functions and exercising its powers in relation to essential services, the Commission must in seeking to achieve the objective specified in subsection (1) have regard to the price, quality and reliability of essential services.

Continued next page

TABLE A.1 (CONTINUED)

Section detail

s. 8A (1) **Matters the Commission must have regard to**

In seeking to achieve the objective specified in section 8, the Commission must have regard to the following matters to the extent that they are relevant in any particular case—

- (a) efficiency in the industry and incentives for long term investment;
- (b) the financial viability of the industry;
- (c) the degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries;
- (d) the relevant health, safety, environmental and social legislation applying to the industry;
- (e) the benefits and costs of regulation (including externalities and the gains from competition and efficiency) for—
 - (i) consumers and users of products or services (including low income and vulnerable consumers);
 - (ii) regulated entities;
- (f) consistency in regulation between States and on a national basis;
- (g) any matters specified in the empowering instrument.

s. 8A (2) Without derogating from section 8 or subsection (1), the Commission must also when performing its functions and exercising its powers in relation to a regulated industry do so in a manner that the Commission considers best achieves any objectives specified in the empowering instrument.

s. 33(3) **Price determinations**

In making a determination under this section, the Commission must have regard to—

- (a) the particular circumstances of the regulated industry and the prescribed goods and services for which the determination is being made;
- (b) the efficient costs of producing or supplying regulated goods or services and of complying with relevant legislation and relevant health, safety, environmental and social legislation applying to the regulated industry;
- (c) the return on assets in the regulated industry;
- (d) any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries;
- (e) any other factors that the Commission considers relevant.

A.2 THE TRANSPORT (COMPLIANCE AND MISCELLANEOUS) ACT 1983

Under the *Transport (Compliance and Miscellaneous) Act 1983* our specific industry objective is to 'promote the efficient provision and use of commercial passenger vehicle services'. This objective emphasises the efficient provision and use of *commercial passenger vehicle services*. The objective goes beyond taxi services, and most relevantly captures hire cars. Reference to 'efficient provision' means that at the desired level of quality, services are provided at least cost, and 'efficient use' requires that demand for taxi services reflects the efficient cost of providing those services. For example, if costs of service provision are higher during certain periods, then fares should reflect these higher costs (and demand in turn will respond to these higher fares).

TABLE A.2 RELEVANT SECTIONS OF THE TRANSPORT (COMPLIANCE AND MISCELLANEOUS) ACT 1983

Section detail	
s. 162B	Objective of the ESC The objective of the ESC in relation to the taxi industry is to promote the efficient provision and use of commercial passenger vehicle services.
s. 162C	Powers in relation to fares regulation (1) For the purposes of Part 3 of the Essential Services Commission Act 2001 – (a) The services provided by commercial passenger vehicles operating as taxi-cabs, in the licence of which the Melbourne Metropolitan Zone or the Urban and Large Regional Zone is specified, are prescribed services; and (b) The maximum charges for the services covered by paragraph (a) are prescribed prices. (2) The reference in subsection (1)(b) to maximum charges includes the amount of any holiday surcharge or late night surcharge payable for the provision of those services.

Continued next page

TABLE A.2 (CONTINUED)

Section detail	
s. 162D	<p>Price determinations</p> <p>Without limiting s. 33(5) of the Essential Services Commission Act 2001, the manner in which the ESC may regulate prescribed prices includes determining different prices according to—</p> <ul style="list-style-type: none">(a) the time of day at which, or day of the week or kind of day on which, the service is provided; or(b) the taxi-cab zone referred to in s. 143B(1) that is specified in the vehicle's licence; or(c) the speed at which the vehicle is travelling; or(d) the distance travelled by the vehicle; or(e) the type of vehicle; or(f) the occupancy of the vehicle, including where there is more than one hirer; or(g) where the journey begins or ends.
s. 162E(1)	<p>Exercise of regulatory functions</p> <p>In making a determination in relation to the taxi industry, the ESC must have regard to recommendations 12.1 to 12.9 and 13.1 to 13.5 in the final report of the Taxi Industry Inquiry tabled in both Houses of the Parliament on 12 December 2012.</p>
s. 162E(2)	<p>The ESC must make an initial determination under this Division of the maximum charges for services provided by taxi-cabs before the first anniversary of the day on which this Act receives the Royal Assent.</p>
s. 162E(3)	<p>The ESC must complete a review of a price determination no later than 2 years after it is made.</p>
s. 162E(4)	<p>Subsection (1) expires on the fifth anniversary of the day on which section 28(1) of the <i>Transport Legislation Amendment (Foundation Taxi and Hire Car Reforms) Act 2013</i> comes into operation.</p>

A.3 TAXI INDUSTRY INQUIRY RECOMMENDATIONS

TABLE A.3 TII RECOMMENDATIONS AND GOVERNMENT RESPONSES

Recommendations 12.1 – 12.9 and 13.1 – 13.5

Recommendation detail
<p>12.1 Taxi fares in Metropolitan and Urban zones should continue to be regulated in the short to medium term, and should change from being prescribed fares (fixed amounts) to maximum fares, giving permit holders and Authorised Taxi Organisations the ability to offer discounted rates below the maximum level to consumers.</p> <p>Government response: Support.</p>
<p>12.2 Maximum fares should be determined by the Essential Services Commission (ESC). Fare reviews should be undertaken every two years, with the capacity to undertake interim reviews should certain cost thresholds (for example, LPG cost movements) be reached.</p> <p>Government response: Support</p>
<p>12.3 A Commissioner of the Taxi Services Commission should be appointed a member of the ESC for the purpose of assisting with taxi fare reviews and determinations for the first five years of taxi reform implementation. In addition, the ESC should be required to ensure its deliberations on fare setting have regard to the Government's broader taxi reform package and its progress in implementing these reforms.</p> <p>Government response: Not supported</p>
<p>12.4 A review of the taxi fare setting methodology should be commenced as soon as possible. The terms of reference should have regard to the views expressed by the Taxi Industry Inquiry on fare setting methodology, should take into account the differences in industry structure between the taxi industry and other utility industries regulated by the ESC, and should consider fare setting models that account for demand factors in a dynamic way.</p> <p>Government response: Support.</p>
<p>12.5 Maximum fares should be recorded on the taximeter. Authorised Taxi Organisations (ATOs) and independent permit holders should be permitted to determine and advertise lower fares than the maximum (and these discounted fares will also be shown on the taximeter), and all taxis affiliated with an ATO should be required to adhere to that organisation's published rates.</p> <p>Government response: Support.</p>

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TABLE A.3 (CONTINUED)

Recommendation detail	
12.6	<p>In Regional and Country zones, where pre-booked services predominate, the Taxi Services Commission should be empowered to replace formal maximum fare regulation with a price notification and publication system, following the adoption of the licensing reforms proposed by the Taxi Industry Inquiry.</p> <p>Government response: Support.</p>
12.7	<p>In areas where price notification applies, Multi Purpose Taxi Program (MPTP) passengers should have their subsidy component calculated on the Metropolitan zone regulated maximum fares rate.</p> <p>Government response: Noted. The Taxi Services Commission to advise further on funding implications and technical issues associated with MPTP subsidy not being based on metered fee.</p>
12.8	<p>Following the first three years of the reform program, the Taxi Services Commission should assess the extent and effectiveness of fare competition to determine if it is suitable to also move from maximum to notified and monitored fares in the Metropolitan and Urban zones. In making this assessment, the Commission should consider if all or part of these services are sufficiently competitive, particularly the pre-booked segment of the market.</p> <p>Government response: Support</p>
12.9	<p>Fares should be restructured to:</p> <ul style="list-style-type: none">• Ensure changes in operators' returns due to the new Driver Agreement do not adversely affect services, which require an increase in taxi fares late on Friday and Saturday nights (peak times), offset against a reduction in fares at all other times (off peak)• Increase the flagfall and reduce the price per kilometre for the Metropolitan zone to address the undesirable practices of short fare refusal and inefficient behaviour such as airport overcrowding• Replace the 'Tariff 3' 50 per cent surcharge on the distance and time rate with a flat fee of between \$10 and \$15, which customers should be advised of when they book a higher occupancy vehicle or when they select one from a rank, such as at the airport• Simplify 'multiple hire' fare charging to support the industry to offer more flexible, innovative shared ride type services (for example, by allowing flat fee amounts for passengers in a shared ride trip that total more than the meter) and include provisions for MPTP members to use their subsidy for shared rides. <p>Government response: Support. Refer details to ESC for advice, together with advice on any fare adjustments necessary as a result of new zone boundaries.</p>

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TABLE A.3 (CONTINUED)

Recommendation detail

- 13.1 Barriers to entry into payments processing should be reduced by changing arrangements for the Multi Purpose Taxi Program (MPTP) scheme and changing the approvals process for EFTPOS devices in Victorian taxis.

Regulations and the unique requirements mandated by the regulator for EFTPOS terminals should be rationalised and all taxi-specific requirements for mobile EFTPOS terminals removed as part of a transition to an industry certification framework. This should commence immediately and replace the current approval of this equipment by the State. During the transition to the new certification framework, minimal taxi-specific requirements for those EFTPOS terminals that are hard-wired (fixed) to other in-cab equipment should be retained.

Government response: Support in principle.

- 13.2 A new standard should be established for the processing of MPTP cards and this should be made available to future card payment providers. This would involve allowing any EFTPOS terminal to process MPTP cards by permitting taxi fare data to be acquired by EFTPOS terminals via newer 'cloud' technologies, rather than only via the current requirement of a hard-wired link with the taximeter. The new standard should be sufficiently technically robust to control fraud under all operating conditions. Adoption of this recommendation will require a formal design evaluation and commercial procurement diligence, prior to implementation.

Government response: Support in principle. The Taxi Services Commission to develop standards and protocols in consultation with the industry.

- 13.3 The 10 per cent service fee levied on the processing of electronic payments should be brought under regulation and set at a level that better reflects the resource costs of providing the service. The inquiry recommends this fee be set at five per cent of transaction value as a maximum amount that can be charged, until subject to a further evaluation by the Essential Services Commission.

Government response: Support.

- 13.4 More broadly, if payments processors continue to have difficulty in obtaining access to Cabcharge payment instruments, the Victorian Government should ask the Reserve Bank of Australia to consider designating Cabcharge as a payment system and impose an access regime requiring it to give access to payments processors on reasonable terms.

Government response: Support.

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TABLE A.3 (CONTINUED)

Recommendation detail
13.5 Removal of the service fee regulation applying to the processing of electronic payments for taxi fares should occur when competition is more effective in this area.
Government response: Support.

APPENDIX B — CURRENT MAXIMUM TAXI FARES

TABLE B 1 MAXIMUM TAXI FARES FOR THE METROPOLITAN ZONE AND EASTERN URBAN ZONE (DANDENONG, FRANKSTON AND THE MORNINGTON PENINSULA AREAS)

	Tariff 1 'Day' (9am–5pm)	Tariff 2 'Overnight' (5pm–9am, excluding peak)	Tariff 3 'Peak' (Fri & Sat 10pm–4am)
Standard and HOV taxis			
Flagfall (\$)	4.20	5.20	6.20
Distance rate (\$/km)	1.622	1.804	1.986
Waiting time (\$/min if speed < 21 km/hr)	0.568	0.631	0.695
Other fare components (applicable to tariffs 1, 2 and 3)			
HOV fee ^a	\$14.00	\$14.00	\$14.00
Booking fee	\$2.00	\$2.00	\$2.00
Airport booking fee	\$3.00	\$3.00	\$3.00
Airport rank fee	\$2.70	\$2.70	\$2.70
Holiday rate ^b	Tariff 3 to apply	Tariff 3 to apply	Tariff 3 to apply

^a For taxis carrying 5-11 passengers, or a non-wheelchair hiring where the hirer specifically requests a larger than standard taxi regardless of the number of passengers carried. ^b Holiday rates apply all day Christmas Day, Boxing Day, from 6 pm on New Year's Eve and all day New Year's Day.

**TABLE B 2 MAXIMUM TAXI FARES FOR THE WESTERN URBAN ZONE
(GEELOG, BALLARAT AND BENDIGO)**

	Urban
Standard taxi	
Flagfall (\$)	3.60
Distance rate (\$/km)	1.838
Waiting time (\$/min if speed < 21 km/hr)	0.643
HOV^a	
Flagfall (\$)	3.60
Distance rate (\$/km)	2.757
Waiting time (\$/min if speed < 21 km/hr)	0.965
Other fare components	
Booking fee	\$2.10
Airport booking fee	\$3.00
Airport rank fee	\$2.70
Late night fee (midnight to 6am)	\$3.40
Holiday rate ^b	\$4.20