ESSENTIAL SERVICES COMMISSION

TAXI FARE REVIEW 2016

Draft Report Volume 2:

Our Review

May 2016

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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.
Day tariff	From the 2014 maximum fare determination, the tariff rates applicable from 9am to 5pm.
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.
Overnight tariff	From the 2014 maximum fare determination, the tariff rates applicable from 5pm to 9am (excluding the peak tariff period).
Peak tariff	From the 2014 maximum fare determination, the tariff rates applicable from 10pm to 4am on Friday and Saturday nights, all day Christmas Day, Boxing Day, from 6pm on New Year's Eve and all day New Year's Day
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.
Smartphone booking apps	Smartphone booking applications that connect taxi drivers with taxi passengers through a booking interface. Some smartphone apps include both booking and payment processing functionality. App providers include GoCatch, Ingogo, Uber, 13CABS, Silver Top Taxis and CabIT.
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 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 comprising 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 (also referred to as the 'time rate').
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

CBD	Central Business District
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
VTA	Victorian Taxi Association

CONTENTS

1 INTRODUCTION

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]

Our determinative role in setting maximum taxi fares for the metropolitan and urban zones came into 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.

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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

1.2 BRIEF RECAP OF OUR 2014 TAXI FARE REVIEW

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. The Minister, who was then ultimately responsible for determining taxi fares across Victoria, accepted our recommendations and determined those fares to come into effect from 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, adopting the same fares we had recommended to the Minister in our previous advisory role, as the maximum fares for the metropolitan and urban zones.

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, we made adjustments to the structure of fares for the metropolitan zone, and part of the urban zone (the areas of Dandenong, Frankston and the Mornington Peninsula). The adjustments included:

- introducing a three tariff structure ('day', 'overnight' and 'peak' rates) with fare levels in each time period varying to reflect variation in demand across the week
- restructuring the balance of fares for shorter trips versus longer trips, through a relatively higher flagfall component
- for high occupancy trips (trips with five or more passengers), a flat $14 surcharge replaced the previous 50 per cent surcharge on the distance rate per kilometre and waiting time per minute charges.

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.

Appendix B sets out the current maximum taxi fares for the metropolitan and urban zones.

In our final report, we presented a number of intended directions for our approach to taxi fare determinations in future.[4] These included:

- a greater emphasis on market outcomes and less emphasis on a detailed examination of costs
- using taxi data to better understand how the industry and customers respond to price structures, including 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)
- moving towards an approach of facilitation, rather than strict regulation, as greater competition emerges.

1.3 WHY REVIEW TAXI FARES NOW?

We are required by legislation to review maximum taxi fares within two years of making a determination.[5] 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 by the Commission on whether or not to amend our 2014 determination of maximum taxi fares. If our decision is to amend the current determination, this will be communicated through the release of a final report detailing our review by 19 June 2016, along with a timeline for implementation of any changes.[6]

[4] Essential Services Commission 2014, *Taxi Fare Review 2013-14 – Final Report*, March, pp. XXVII, 30, 137-138.

[5] *Transport (Compliance and Miscellaneous) Act 1983*, Section 162E(3)

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

1.4 TIMELINE FOR THIS REVIEW

This review formally commenced in December 2015 with the release of our consultation paper, followed by a period of consultation and the production of this draft report. The overall program for the review is outlined in Table 1.1, including key deliverables and milestones. We will continue to consult with stakeholders throughout the remainder of the review and we encourage all interested parties to contribute their views and feedback.

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	3 May 2016
Close of submissions to Draft Report	23 May 2016
Public Forum	May 2016
Final Report and decision	17 June 2016
New fares to become effective	TBA

1.5 HOW TO MAKE A SUBMISSION TO THIS REPORT

Interested parties are invited to make submissions in response to this draft report.

You may also wish to comment on issues not specifically addressed in this report, but which you believe are relevant to our role in determining maximum taxi fares for the metropolitan and urban zones.

Submissions to this draft report close on 23 May 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

1.5.1 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.

1.5.2 CONTACT DETAILS

Questions about this taxi fare review draft report may be directed to Dominic L'Huillier, A/Director, Transport Branch on 03 9032 1365; or Tim Bryant, Project Manager on 03 9032 1405.

2 REGULATING MAXIMUM TAXI FARES IN THE CURRENT ENVIRONMENT

KEY POINTS

Stakeholders have expressed various views about how taxi fare regulation should be approached in the current regulatory and competitive environment.

In 2014, major industry reforms were implemented, aimed at promoting a more open and competitive market for commercial passenger vehicle services.

More prevalent use of smartphone booking apps, which enable customers to conveniently and quickly book commercial passenger vehicles (including taxis), is driving greater substitution and competition between 'rank and hail' and 'pre-booked' markets.

The fares we determine are *'maximum'* taxi fares, meaning taxi services can discount below these fares. The regulatory risk of maximum taxi fares being set too low is likely to have greater consequences than if they were set too high, particularly in the current environment when greater competition is emerging.

Our approach to this review aims to set maximum fares that balance the need for prescriptive fare regulation to prevent excessive pricing, with the need for fare flexibility to enable taxi service providers to take responsibility for their price and service offerings.

In an increasingly competitive market, we emphasise that taxi service providers (rather than the fare regulator) must play a greater role in determining the price and service offerings that best meet customers' preferences.

2.1 SUBMISSIONS TO OUR CONSULTATION PAPER

In December 2015, we released a consultation paper to commence this review, seeking input from stakeholders on a range of taxi fare issues, including the overall approach to setting maximum taxi fares.

2.1.1 OVERVIEW OF SUBMISSIONS

The Commission received six submissions to its consultation paper, from stakeholders including the Taxi Services Commission (the industry regulator), the Victorian Taxi Association (the peak industry body), a taximeter manufacturer and a number of taxi operators.[7]

Most submissions expressed views that the current regulatory and competitive environment poses some unique challenges for taxi fare regulation. However, views vary on the appropriate approach for reviewing maximum taxi fares in this context.

The Taxi Services Commission (TSC) submits that our review should take into consideration the major changes occurring within the industry and any consequential impact or opportunities arising when setting fares. The TSC identified these changes as:

- increased competition resulting from new and prospective entrants, particularly those operating new service models and offerings
- consumers using technology, particularly phone based apps, to reduce transaction costs, remove anonymity and make comparisons of the quality, price and types of services available before making a booking
- the potential for innovation within the industry that might be encouraged by providing fare flexibility when determining maximum fares.[8]

The TSC suggests there is a general and increasing acceptance that sufficient competition exists in the pre-booked market to protect consumers. In terms of the rank

[7] These submission are available on the Commission's website: http://www.esc.vic.gov.au/Taxis/Taxi-Fare-Review-2016/Taxi-Fare-Review-2016-Consultation-Paper/Submissions

[8] Taxi Services Commission 2016, *Submission to the Consultation Paper*, 3 February, p. 1.

and hail market, the TSC encouraged the Commission to determine higher maximum fares to accommodate the higher costs of premium services and wheelchair accessible taxis, while relying on competition to keep fares low for consumers.[9]

The Victorian Taxi Association (VTA) submits that the Commission's current review should be delayed given impending market changes:

> *The State Government is currently considering complex public policy challenges thrown up by the emergence of illegal ridesharing services in Victoria which are illegitimately competing with regulated taxi services in Victoria and have important implications for the future of the CPV market.*
>
> *As a result, the VTA does not believe the ESC is in a position to reach any meaningful conclusion from the current fare review process until these systemic policy questions are addressed by Government. The future of fare regulation and fare setting is central to the ongoing deliberations of Government and needs to be a feature of any considerations.*[10]

More broadly, the VTA expressed that its view is that 'fare setting in taxis should be deregulated'.

> *The VTA will address three key reasons it believes that fare regulation is no longer necessary, enforceable or desirable. They are:*
>
> - *The lack of concern from consumers;*
> - *Failures of regulatory enforcement across the market; and*
> - *Systemic changes in the industry that appear to have addressed the historical perceived market failure.*

[9] Taxi Services Commission 2016, *Submission to the Consultation Paper*, 3 February, p. 2

[10] Victorian Taxi Association 2016, *Submission to the Consultation Paper*, 5 February, p. 1.

> *…the demonstrated inability to compel compliance with existing fare regulation by new market entrants, and the unlikely ability to do so in the future, it is only reasonable that all CPV providers be given the freedom to compete on fair terms…genuine external competition has developed in the CPV market reducing the need for Government intervention…while competitors, due to their lack of compliance with the law, are able to price dynamically, the legal taxi industry is left to work within a largely politically-motivated pricing structure that bears little genuine resemblance to movements in demand.*[11]

The VTA also notes that it understands that the Commission has a specific task regarding the setting of taxi fares, and does not have the ultimate power to deregulate fares.

Taxicorp, a metropolitan taxi operator, advocates for greater flexibility in pre-booked taxi fares to allow taxi services to compete with other commercial passenger vehicle services:

> *With the advent of illegal taxi services (Uber-X) and the government's failure to force the illegal service to comply within the existing regulatory framework, this necessitates the need for greater flexibility for the loosening of existing maximum taxi fare regulation so as to allow the taxi industry to compete with these illegal services on a somewhat level playing field. An example would be to deregulate all pre booked pricing to allow taxi services to also provide dynamic pricing in line with the prevailing supply/demand for taxi services. This could include charging customers prices based on demand and cancellation fees for a 'no-show' on a pre booked fare.*[12]

Taxi operator, Hans Althoff, expresses concern with the current regulatory framework for the taxi industry and its potential future direction, and concludes that:

11 Victorian Taxi Association 2016, *Submission to the Consultation Paper*, 5 February, pp 2-3.

12 Taxicorp Pty Ltd 2016, *Submission to the Consultation Paper*, 1 February, p 1

The ESC should leave the fare structure as it is until we can see more clearly in what direction the industry is going.[13]

2.1.2 THE COMMISSION'S RESPONSE

Submissions to this review and our consultations with industry have emphasised the significant changes occurring in the commercial passenger vehicle market and the importance of these changes for our maximum taxi fare setting role.

While the Commission recognises these changes, we also note the timing of this fare review is not discretionary. Legislation requires the Commission to have undertaken a review of maximum taxi fares by 19 June 2016. Consequently, we must address fare regulation within the context of existing market conditions. Further, and as noted by the VTA, it is not within the scope of our mandate to completely restrain from fare regulation or to otherwise determine an alternative form of regulation – for example, full deregulation of taxi fares or price monitoring models are not contemplated in current legislation.

However, we consider that there is some flexibility inherent in the current maximum fare framework. To set the context for our approach to reviewing maximum taxi fares in the current environment, we summarise some important industry reforms that were implemented in June 2014 and set out our views on the implications of the changing competitive dynamics of the commercial passenger vehicle market.

2.2 SIGNIFICANT INDUSTRY REFORMS SINCE OUR LAST REVIEW

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.[14] Approximately 91 recommendations have now been implemented.[15] Of those

13 Hans Althoff 2016, *Submission to the Consultation Paper*, 31 January 2016, p. 4.

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

15 Taxi Services Commission 2015, *Annual Report 2014-15*, September, p. 10.

remaining, some are in the process of implementation, while others are subject to further consideration in light of new market developments.

Many of the major reforms have now been in effect for nearly two years, largely through legislative amendments enacted on 30 June 2014. Reforms with particular relevance to this review include the following:

- regulated taxi fares for the metropolitan and urban zones are now *'maximum'* taxi fares.
- there is no longer a regulated limit on the supply of taxi licences (entry into the market is available to those willing to pay the licence fee).
- working agreements between taxi operators and taxi drivers (driver agreements) are now regulated.

Each of these major reforms is briefly discussed below.

MAXIMUM TAXI 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. This is an important policy change, signalling that taxi service providers can take more responsibility for competitive pricing in an increasingly open and competitive market.

REMOVAL OF LIMITS ON TAXI LICENCE NUMBERS

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.

As of 30 June 2014, taxi operators now have the option of obtaining annually renewable taxi licences from the Taxi Services Commission for annual fees set in

legislation. There is no restriction on the number of annual taxi licences that can be issued.[16]

Two key intentions of making annual taxi licences available were: (1) to enable greater flexibility of taxi supply to meet demand; and (2) to reduce the previously escalating assignment fees taxi operators were paying for perpetual taxi licences (which resulted from the scarcity of those licences).

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 of the fare box. 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.

[16] 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.

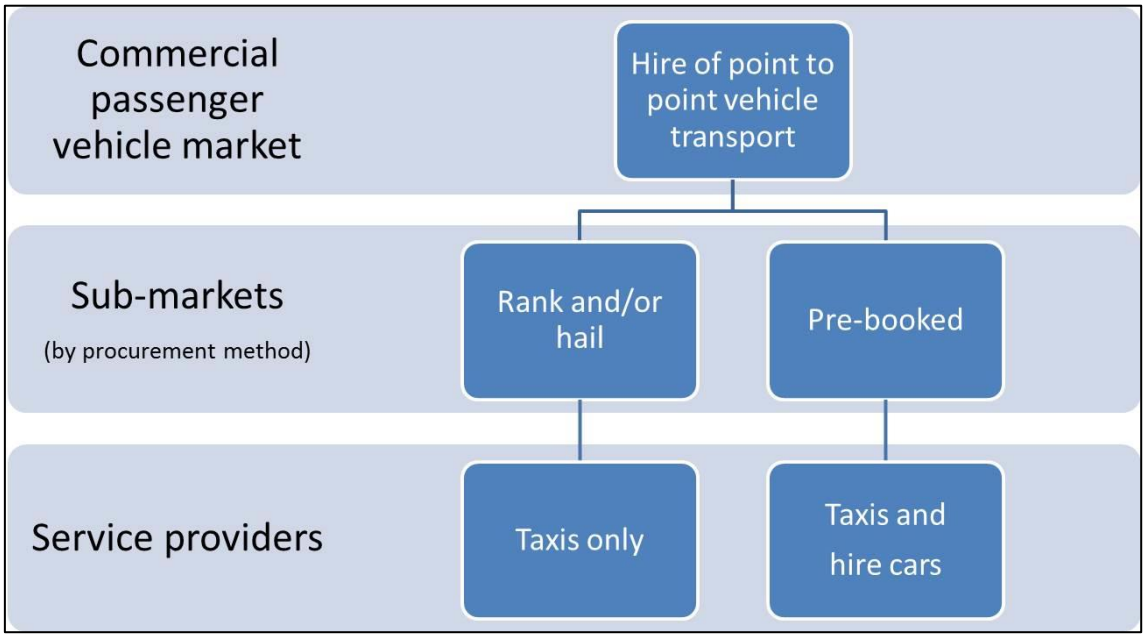
2.3 TAXIS AND THE COMMERCIAL PASSENGER VEHICLE SERVICES MARKET

Commercial passenger vehicle services provide point to point transportation of passengers. For regulatory purposes, this market is usefully segmented into two sub markets, reflecting the way services are procured:

1. from a taxi rank or by hailing from the street (the 'rank and hail market')
2. by booking (the 'pre-booked market').

Taxi services are a unique service in the commercial passenger vehicle market. The rank and hail 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 AND SERVICE PROVIDERS IN THE COMMERCIAL PASSENGER VEHICLE SERVICES MARKET



Historically, there has been a clear distinction between the rank and hail market and the pre-booked market, with only limited substitution between the two. In other words, these two markets have not been considered to be competing for the same passengers to a large extent in the past.

THE RATIONALE FOR TAXI FARE REGULATION

Certain 'market failures' in the rank and hail market, combined with limited competition between rank and hail markets and pre-booked markets, have historically provided the basis for various forms of taxi fare regulation.

The economic literature on taxis emphasises that the 'market failure' rationale for fare regulation is much stronger or more cogent for taxis in the rank and hail sub market. In particular, the combination of high search and transaction costs, informational barriers and taxi rank conventions (enforced by taxi drivers) which favour taking the first taxi, all militate against the development of effective competition between different taxis in rank and hail taxi markets.[17]

At taxi ranks, or when hailing passing taxis, consumers are restricted in their ability to assess offers, negotiate fares or choose between different taxis. In this context, the result for any one taxi of lowering its prices would likely mean lower revenue without any offsetting benefit of attracting more business. The limited incentives or market pressure for individual taxis in the rank and hail market to price competitively has historically provided the rationale for strict taxi fare regulation.

Conversely, in the pre-booked market, consumers' ability to choose and be informed by alternative offers is greater. Consumers can choose between service offerings of different networks of commercial passenger vehicles. Networks can develop a reputation for lower price or better quality services, and so compete with other networks for business. Consequently, there are strong incentives for networks to offer better or cheaper services. As a result, hire cars, which compete only in the pre-booked market, have not been subject to price regulation.

Less strict forms of taxi fare regulation have been implemented in markets where competition (or the potential for competition) between pre-booked markets and rank and hail markets is greater. An example of this is the Victorian Taxi Industry Inquiry's

[17] For example, the OECD, when commenting on the Irish experience with taxi deregulation, noted that: "It is important to maintain maximum fare regulation. Consumers are not well represented and are unable to speak with a coherent voice. Taxi consumers are vulnerable: they face significant search costs and information asymmetry exists between drivers and clients, particularly where tourists are concerned. If the custom is for the consumer to take the first taxi in the queue, it is difficult to introduce price competition." OECD, *Policy Roundtables: Taxi Services Regulation and Competition*, 2007, DAF/COMP(2007)42.

recommendations – accepted by Government – to move to a 'price notification' framework for taxi fares in country and regional areas.[18] This framework involves taxi services setting their own fares, subject to regulations designed to ensure fares are transparent for customers.

In regional and country areas of Victoria, pre-booking tends to be the primary means of procuring taxis. In combination with the removal of quantity restrictions on taxi licences to allow open market entry, the potential for competition was thought to be a sufficient check on taxi service providers' potential to charge excessive fares. Further, the lifting of controls on the ability of pre-booked hire cars to compete with taxis (through removal of regulations that previously required hire car vehicles to be of a luxury standard) was also aimed at contributing to more effective competition between the rank and hail and pre-booked markets.

As we discuss in the next section, technological developments have led to the increased potential for substitutability of rank and hail services with pre-booked services. This substitutability has the potential to place a greater competitive constraint on pricing for rank and hail taxis than has historically been the case.

2.4 CHANGING COMPETITIVE DYNAMICS

As indicated by stakeholders, some notable developments have occurred in the commercial passenger vehicle services market in recent times. More prevalent use of smartphones has led to changes in the way commercial passenger vehicles are commonly procured and paid for. This is significantly changing the competitive dynamics of the market, which is an important consideration in the context of our role in determining maximum taxi fares.

Additionally, governments and industry regulators in Australia and around the world are considering what these market developments mean for the broader regulatory framework.

[18] Victorian Taxi Industry Inquiry 2012, *Final Report – Customers first: Service, Safety, Choice*, September, p. 196.

2.4.1 THE IMPACT OF SMARTPHONE APPS

New technologies, and in particular the use of smartphone booking apps, are having a profound influence on the way taxis and other commercial passenger vehicles are procured and paid for.

SMARTPHONE APPS FOR BOOKING TAXIS

While smartphone apps for booking taxis are not particularly new, their use has become more prevalent in Victoria and elsewhere. Box 2.1 provides a summary of how some smartphone taxi booking apps work.

BOX 2.1 SMARTPHONE TAXI BOOKING APPS

Smartphone booking apps can have both a customer and a driver interface. Features of smartphone apps for booking taxis vary, but generally include the use of a smartphone's GPS and mapping functionality.

For passengers, they can view nearby available taxis on a map on their smartphone and request to be picked up. Once they have booked a taxi they can track it as it travels to their pick up location.

For drivers, the GPS and mapping interface allows them to identify the passenger's location once they have been booked.

In some apps, the passenger will also be provided with details about the driver and the vehicle, such as the make, model and registration. Similarly, the driver will be provided with the passenger's details, including a contact phone number.

Most apps also have automatic payment functions, which require passengers to register their payment details when signing up for the app – for example, credit card or PayPal details – meaning no physical exchange of payment occurs between the driver and the passenger in the vehicle (called in-app payment).

Taxi booking fees (within regulated maximums) generally apply when booking through a smartphone app, as do non-cash payment surcharges if paying through the app (within the regulated maximum of 5 per cent of the fare).

Some apps such as GoCatch also offer an option for customers to indicate (at the time of booking) an amount they are willing to pay above the metered fare to provide an incentive for drivers to accept bookings in peak times.

Source: ACCC, *ihail Pty Ltd - Authorisation - A91501.22 March,* pp.10-11.

SMARTPHONE APPS ARE CREATING MORE TAXI NETWORKS AND DRIVING NEW BUSINESS MODELS

In Victoria, the two major traditional taxi booking networks – 13CABS and Silver Top Taxis – have each developed booking apps to complement their existing telephone and internet booking services.

Additionally, 'third party' taxi booking networks such as GoCatch and Ingogo are now well established, offering taxi bookings exclusively through smartphone apps and bypassing traditional booking networks.

There are some key differences between the business models of traditional taxi networks and third party app networks. Traditional taxi networks enter into contractual arrangements with taxi operators (who own the taxi vehicle). As part of this arrangement the network fits out the vehicle with equipment to access its dispatch system and may advertise the network's brand on the taxi operator's vehicle. The driver of the vehicle then has access to bookings offered by that network. Contractual arrangements between traditional taxi networks and taxi operators typically involve the taxi operator paying an affiliation fee (usually a fixed monthly fee) for the network's services.

In contrast, providers of third party apps such as GoCatch and Ingogo contract directly with taxi drivers (as opposed to taxi operators). Drivers access bookings through the app on their own smartphone without requiring any equipment to be fitted to the vehicle. While contractual arrangements vary, booking app providers can generate revenue through taxi booking fees and non-cash payment surcharges (up to 5 per cent of the fare) where fares are paid through the app.

The Taxi Services Commission now formally recognises and accredits providers of third party booking apps as 'Network Service Providers' (the legislative term for providers of taxi booking and dispatch services).

In a more recent development, a new taxi booking app jointly developed by taxi companies around Australia (ihail) is also likely to launch shortly, having recently received authorisation by the Australian Competition and Consumer Commission.[19]

SMARTPHONE APPS FOR BOOKING OTHER COMMERCIAL PASSENGER VEHICLES

Smartphone booking apps for other commercial passenger vehicles are also becoming more prevalent. Examples operating in Victoria include Uber and Rideboom, while GoCar and Shofer have recently entered the market in other Australian jurisdictions.

All of these app providers offer booking and payment services through their apps. Service offerings tend to vary in terms of:

- the range of vehicle classes that can be booked
- whether bookings can be made in advance or 'on demand' only
- whether fares are fixed prior to the trip, or include variable rates with the total fare finalised at the end of the trip
- whether fare rates vary dynamically according to market conditions (known as 'surge pricing').

The booking functionality of these apps tends to work in similar ways to third party taxi booking apps. That is, the apps have a driver and passenger interface and the booking process is facilitated by the GPS and mapping functionality of their smartphones.

A key difference, however, is that these booking apps also include fare calculation functionality. With taxis, fares are calculated on the taximeter fitted in the vehicle, which is programmed with regulated maximum taxi fares. At the end of the trip, the driver manually types the fare registered on the taximeter into their app's interface, which then registers on the passenger's app to be accepted. The passenger can then pay the fare in cash, via the taxi's EFTPOS machine, or through the app (which may be linked to a credit card or PayPal account).

[19] ACCC 2016, *ihail Pty Ltd - Authorisation - A91501.22 March 2016*

Fares for other commercial passenger vehicle trips are not subject to regulated maximum taxi fares. Instead, providers of smartphone apps tend to develop their own fare offerings and fares are calculated by the smartphone app. The GPS functionality of smartphones enables the real time calculation of time and distance based fare structures, similar to the functionality of taximeters. Smartphones are therefore enabling the fare offerings for other commercial passenger vehicles to more closely reflect taxi fare structures.

Some smartphone app providers offer fares that are fixed in advance of the trip, by calculating the route distance and estimated journey time. Alternatively, some offer an estimated fare in advance of the trip, which is then finalised at the end of the trip using actual trip distance and journey times (see Appendix C for examples of fare structures offered by booking app providers).

THE IMPACT OF BOOKING APPS ON THE COMMERCIAL PASSENGER VEHICLE MARKET

The increasingly prevalent use of booking apps has had two notable impacts on the dynamics of the commercial passenger vehicle market. First, it has made the booking of commercial passenger vehicles a much easier and quicker process than ever before. As a result, pre-booked services are now increasingly closer substitutes for rank and hail taxi services. In other words, the two markets now compete much more directly.

A consequence of this closer substitution is that there is increasing pressure on rank and hail taxi services to provide competitive price and service offerings, otherwise customers can readily switch to other pre-booked services. In Chapters 3 and 4 of this report, we examine market evidence that suggests substitution away from taxis is occurring.

Secondly, the ability of smartphone booking apps to calculate fares based on trip time and distance, and to dynamically change those fares, is now challenging traditional taximeter technology and taxi fare offerings. The taximeters widely used in Victorian taxis have not historically been designed to incorporate unique fare offerings. Changing the fares programmed into taximeters can also attract reprogramming costs and time off the road for the taxi.

These changing market dynamics present challenges for taxi service providers, taxi fare regulation and industry regulation more broadly. As pre-booked service offerings become a more viable substitute for rank and hail taxi services, it is important that maximum taxi fare regulation strikes the right balance between preventing excessive pricing and being suitably flexible for taxi service providers to respond to emerging competition.

2.5 THE STATUS OF NEW COMPETITORS AND REGULATORY FRAMEWORKS

The Uber smartphone app facilitates booking of both commercially licensed hire cars (UberBLACK); and private vehicles that are not commercially licensed (UberX). The operation of services such as UberX has been the subject of significant controversy around Australia and in other countries, at least in part due to non-compliance with regulatory frameworks.

Victoria's regulatory framework requires vehicles used to carry passengers for hire or reward to be *commercially licensed*.[20] It also requires drivers of commercial passenger vehicles to be *accredited* by the Taxi Services Commission.[21]

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. Notably, the ACT, NSW, Tasmania and South Australia have either announced or commenced implementation of reforms that relax commercial licensing requirements.[22]

In terms of taxi fare regulation in these jurisdictions, there is some variation in the approaches being taken. For example, the ACT Government has elected to retain strict regulation of all taxi fares.[23] In contrast, the NSW Government has indicated it intends

[20] Transport (Compliance and Miscellaneous) Act 1983, Section 139(1)

[21] Transport (Compliance and Miscellaneous) Act 1983, Section 165(1)

[22] See ACCC 2016, *ihail Pty Ltd - Authorisation - A91501.22 March*, pp. 5-9.

[23] Chief Minister, Treasury and Economic Development Directorate, 2015 Taxi Industry Innovation Reforms, viewed on website: http://www.cmd.act.gov.au/policystrategic/regreform/2015-taxi-industry-innovation-reforms on 30 September 2015.

to deregulate all pre-booked fares, including pre-booked taxi fares, while maintaining maximum fare regulation for rank and hail taxi trips.[24]

While no changes to Victoria's taxi and hire car regulation have been announced at this time, the Victorian Government has indicated it has been consulting 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'.[25]

As we explain in Chapter 3 of this report, it is clear that the UberX service has had a material impact on the demand for (and supply of) taxis in the Melbourne area. This reflects the substitutability of this service for taxi services. Yet it is difficult for the Commission to be confident about the extent of substitutability and its ongoing effect, particularly in the absence of a regulatory framework that permits the commercial carriage of passengers using private vehicles.

As we outline in the following section, this uncertainty, and the fact that the taxi fares we regulate are maximum fares, leads us to exercise caution with respect to forcing competitive taxi fare changes through regulatory means. We emphasise that setting maximum taxi fares in this new environment means our role becomes increasingly one of facilitating the taxi industry in providing service offerings that meet consumers' preferences versus narrow price regulation.

2.6 OUR NEW APPROACH TO FARE REGULATION

In the final report of our 2014 review, we signalled our intention to update our approach to setting maximum fares in our next review – placing greater emphasis on market outcomes and less on detailed examination of costs.[26] By market outcomes we mean observing the balance between supply and demand for taxis at particular times and

[24] http://www.transport.nsw.gov.au/sites/default/files/b2b/publications/point-to-point-nsw-government-response-to-taskforce-report.pdf

[25] The Hon. Jacinta Allan 2015, *Creating a Stronger, Safer Taxi and Hire Car* Industry, 19 March, http://www.premier.vic.gov.au/creating-a-stronger-safer-taxi-and-hire-car-industry/

[26] Essential Services Commission 2014, *Taxi Fare Review 2013-14 - Final Report*, March, p. 30.

particular places. Analysing these outcomes informs our assessment of what should happen to maximum taxi fares.

We also signalled that as greater competition emerges in the market, taxi service providers must take greater responsibility for determining the price and service offerings that best meet customers' preferences.

A GREATER FOCUS ON OBSERVING MARKET OUTCOMES

In our 2014 review, the determination of a 12.5 per cent increase in the fare level was largely influenced by changes in the estimates of operational costs for typical taxi operators between 2008 and 2014. We noted that a focus on industry costs was necessary in the context of some unique circumstances at the time – namely, taxi fares had not been reviewed since 2008; and the taxi market was still a restricted market. Reforms to remove restrictions on taxi licence numbers had been announced, but not yet implemented. Likewise, reforms to reduce the limitations on the operation of hire car services were impending.

As outlined throughout this chapter, major developments in the regulatory and competitive environment have now changed the nature of the commercial passenger vehicle market since our last review.

Up until the reforms that were implemented in 2014, in setting taxi fares, the Commission (and the Transport Minister prior to that) simply had regard to the level of costs in the industry and whether fare revenues were sufficient to cover those costs. It was possible to take this approach in the past because the taxi industry ran a largely exclusive service which faced little competition from alternative service providers. (At the time, hire cars offered a niche service that only competed with taxis at the margin). The supply of vehicles was controlled tightly through regulatory restrictions on the number of licences; and the demand for taxi trips grew consistently with underlying economic parameters (such as population growth). In such circumstances, it was possible to estimate farebox revenue with a reasonable degree of confidence and adjust fares from time to time to ensure industry revenue kept pace with costs.

These conditions no longer exist.

The lifting of restrictions on the number of taxi licences, the reduction in regulation for hire cars[27] and the advent of new technologies and service models, have all served to breakdown the traditional barriers which guaranteed the taxi industry's exclusivity in providing point-to-point travel services. The commercial passenger vehicle market now extends considerably beyond taxi service providers. The aforementioned reforms affect both the supply and demand for commercial passenger vehicles. Clearly, the emergence of new providers serves to increase supply; but as some studies have shown[28], new service offerings also serve to entice new demand for commercial passenger services.

Supply and demand for commercial passenger vehicles are changing rapidly and within that market the supply and demand for taxi services has become increasingly fluid. If taxi service providers are perceived as providing a competitive service, it will benefit from growth in demand for commercial passenger vehicle services. Conversely, if it cannot compete on price, service or both, it will lose custom to other service providers. This means the way we determine taxi fares must take into account a much broader view of the market and the capacity of taxi service providers to compete in that larger market. Reforms to change taxi fare regulation from *prescribed* fares to *maximum* fares were important policy changes that signalled the intention to facilitate a more open and competitive market.

The sum impact of these reforms means that it is now futile for taxi fare regulation to tightly control the revenue and profits of the taxi industry. Consequently, the costs of a typical operator play a much less significant role in fare regulation.

Instead, the focus of taxi fare regulation shifts to the regulator seeking to ensure that fares (and fare structures) do not impose barriers on the capacity of taxi service providers to compete effectively in the broader commercial passenger vehicle market. In observing market outcomes, we seek to better understand the balance of the supply of taxis and demand for taxis, the quality of taxi services, the influence of taxi fares on these outcomes, and changes in these trends over time. Understanding these market

[27] The requirement for existing hire car licence holders to purchase a vehicle meeting the value of the luxury vehicle tax threshold has been removed.

[28] See, for example; Deloitte Access Economics 2016, *Economic effects of ridesharing in Australia*, February. Minifie, J. 2016, *Peer-to-peer pressure – Policy for the sharing economy*, Grattan Institute Report No. 2016-7 Buchholz, N. 2015, *Spatial equilibrium, search frictions and efficiency regulation in the taxi industry*, UT job market paper, December

indicators informs us as to how maximum taxi fares should facilitate taxi service providers in providing service offerings that meet consumers' preferences.

THE RISKS OF MAXIMUM FARES BEING TOO HIGH OR TOO LOW

There are particular challenges in setting maximum taxi fares when competition is emerging. In part, this depends on what happens if we set maximum fares too high or too low.

If we were to set maximum fares too low, a potential detriment is that the supply of taxis could be insufficient to meet demand and investment in service quality could suffer. This could result in longer queues for taxis and poorer service quality in the longer run.

If we were to set maximum fares too high, the potential detriment is that consumers could pay too much for taxis, particularly if there was little competitive pressure for taxis to lower prices. Consumers may derive some offsetting benefits from greater taxi availability if higher fares attract more taxis to the market. But perhaps most importantly, if maximum fares are set too high and the taxi industry does not move to discount these fares or provide a more customer-oriented service offering, then alternative service providers will see an opportunity to enter the commercial passenger vehicle market. Customers will benefit from this greater choice of service offerings.

In the current environment, with policy reforms and new technologies promoting an increasingly competitive market for commercial passenger vehicle services, the regulatory risk of setting maximum fares too low is likely to have greater consequences than if they were set too high.

If maximum fares are set too low (that is, below the cost of service provision), then taxi operators will withdraw their vehicle from service at those times where the expected fare revenue does not cover the expected costs of keeping the vehicle on the road. This will be to the detriment of customers who may find it increasingly difficult to find a taxi at these times. Alternative service providers may enter the market to fill the breach. However, from a regulatory perspective, the inadequacy of the regulated taxi fare will have served to limit the taxi industry's ability to operate and compete at these times of day.

It is preventing this potential outcome — namely, that fare regulation prevents taxi service providers from being able to operate and compete effectively at times of high demand for commercial passenger services — that now serves as the main objective for the Commission as it reviews taxi fares.

Given the asymmetry of consequences for customers between fares that are too high and those that are too low, we take a cautious approach with respect to the risk of setting maximum fares that are too low. Our main concern when setting fares is to ensure that taxi service providers can compete effectively in the increasingly competitive market for commercial passenger vehicles. Where we observe market outcomes that suggest taxi fares may be too high, our preference will be to draw attention to these outcomes rather than to force price changes through regulatory means. In the competitive market, it is the responsibility of taxi service providers (rather than the regulator) to respond to these circumstances by discounting fares, improving the services on offer, or both.

MONITORING OUTCOMES GOING FORWARD

Our approach places responsibility in the hands of taxi service providers. It provides taxi service providers with the opportunity to respond flexibly in terms of their price and service offerings. We will be closely monitoring outcomes for consumers going forward. If we observe that increasing competition is not effective in improving consumer outcomes in the commercial passenger vehicle market, we retain the option to revisit our maximum taxi fare determination and more tightly control the prices taxis charge.

3 METROPOLITAN TAXI MARKET OUTCOMES

KEY POINTS

Since we last reviewed taxi fares in 2014, we have observed: a reduction in operational costs for taxis (largely attributable to lower LPG prices); a temporary increase in the supply of on road taxis; and an accelerating decline in demand for taxi services.

In conjunction with declining taxi demand, we have seen evidence of substitution of taxi services for other forms of commercial passenger vehicle services.

These market outcomes suggest there should be downward pressure on taxi fares, or pressure on taxi service quality to improve.

Through industry reforms implemented in 2014, and a more contested commercial passenger vehicle market, taxi fare regulation now plays a much lesser role in determining the revenue and profits of taxi service providers.

In setting maximum taxi fares, our main concern is to ensure that taxi service providers have sufficient scope to compete effectively in the commercial passenger vehicle market by discounting fares, improving the services they offer, or both.

3.1 INTRODUCTION

In this chapter, we review market outcomes for taxis in the metropolitan zone that have occurred since we last reviewed taxi fares in 2014. Market outcomes are reviewed in terms of indicators of the demand for taxis, the supply of taxis, the quality of taxi services and the cost of providing taxi services.

This overall assessment informs us as to the market response to the fare increase in 2014, as well as more recent trends in the supply of, and demand for, taxi services.

In reviewing these trends we aim to summarise what this means for the taxi industry, and for regulation of maximum taxi fares.

Further detailed analysis of metropolitan taxi data can be found at Appendix E.

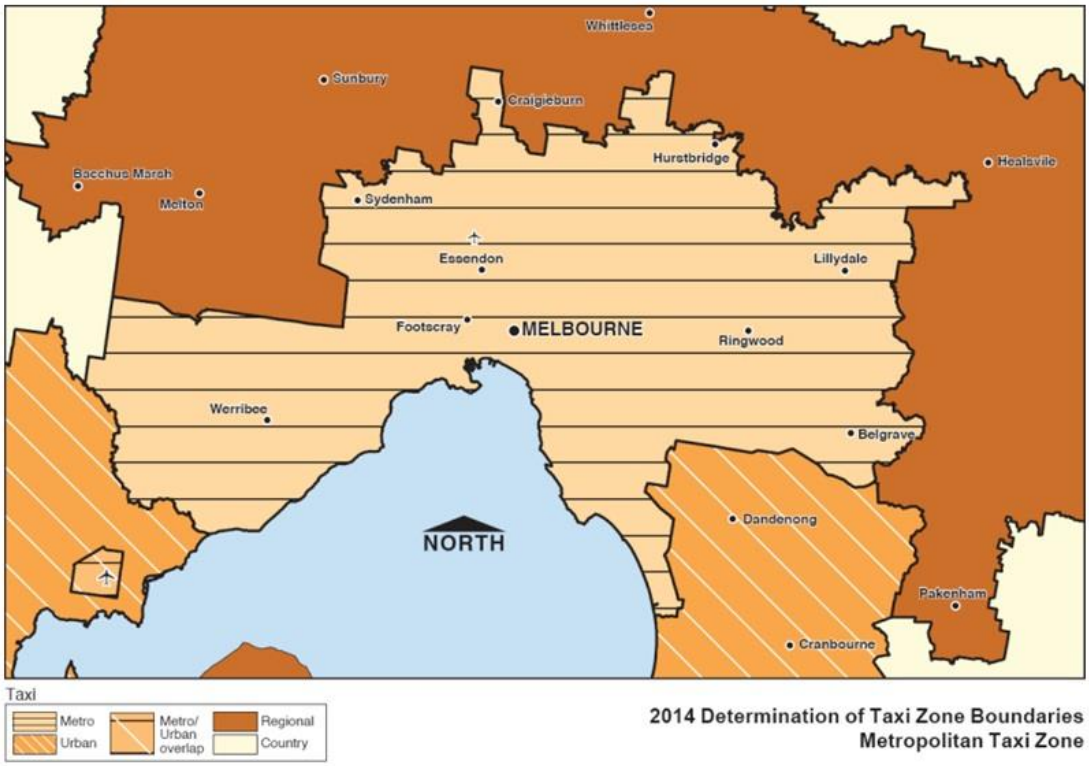
3.2 THE METROPOLITAN TAXI MARKET

Before discussing the trends in the supply and demand for taxi services in the metropolitan zone, we first define the characteristics of the Melbourne metropolitan market.

3.2.1 METROPOLITAN ZONE BOUNDARY

The metropolitan taxi market is one of four taxi zones in Victoria. Taxi zones were re-defined by the Taxi Services Commission on 30 June 2014 to form four zones: the metropolitan zone; the urban zone; the regional zone; and the country zone. Figure 3.1 illustrates the metropolitan zone boundary.

FIGURE 3.1 THE METROPOLITAN TAXI ZONE



Source: Taxi Services Commission

3.2.2 TAXI LICENSING IN THE METROPOLITAN ZONE

As discussed in Chapter 2, prior to taxi licence reforms in 2014, the number of taxi licences issued was restricted by the Victorian Government. Of the restricted number of taxi licences, most were perpetual (of no fixed term) and owners of these licences were permitted to lease (assign) their licences to taxi operators for a negotiated assignment fee.

From 30 June 2014, new annually renewable taxi licences were made available for purchase from the Taxi Services Commission without quantity restriction, for annual fees set in legislation. In the metropolitan zone, the fees for a conventional taxi are $22 703 per annum and $18 988 for a Wheelchair Accessible Taxi (WAT) licence.

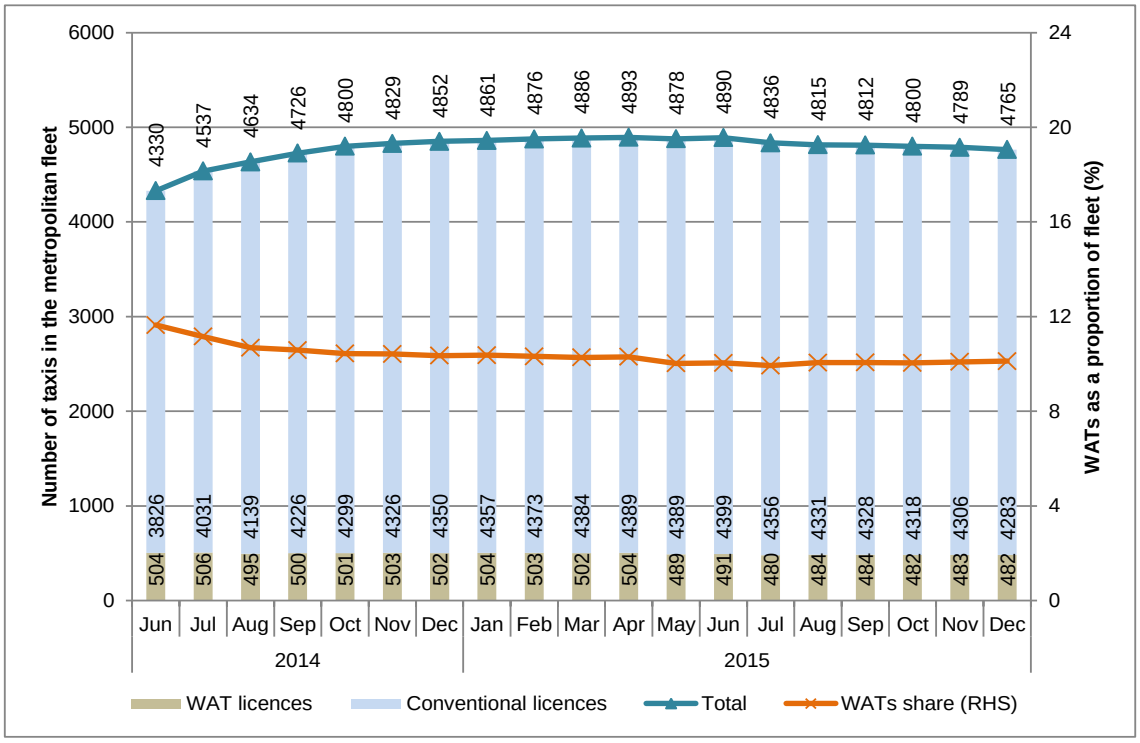
In line with the reform intent, average assignment fees for perpetual licences in the metropolitan zone have now declined to levels comparable with annual taxi licence

fees. For conventional taxi licences in the metropolitan zone the market price for assignments declined from pre-reform levels exceeding $30 000 per year to approximately $23 000 per year in 2015. More recently in 2016, the market price has declined further to approximately $21 500 per year.

The number of taxi licences operated has increased since annual licences became available. Figure 3.2 shows that after entry restrictions in the taxi industry were removed at the end of June 2014, the number of taxi licences for the metropolitan zone grew steadily for a few months before reaching a peak of 4893 in April 2015 (a 13 per cent increase). Since then, taxi licence numbers have been declining slightly, but as at December 2015, remained at just over 10 per cent of the quantity restricted supply prior to licensing reforms.

Also of note is that while total metropolitan taxi licence numbers have increased, the number of wheelchair accessible taxi (WAT) licences declined from 504 prior to licensing reforms, to 482 as at December 2015.

FIGURE 3.2 CHANGE IN METROPOLITAN TAXI LICENCES
June 2014 to December 2015



Source: Taxi Services Commission

3.3 MEASURING CHANGES IN MARKET INDICATORS

The trends presented in this chapter draw on taxi trip data provided to us by the Taxi Services Commission, covering the period from January 2013 to June 2015. Data beyond this period are not currently available to us.

YEAR-ON-YEAR COMPARISONS

Historical taxi data reveals that taxi demand tends to have a seasonal trend. To account for seasonality, we refer to 'year-on-year' changes throughout this chapter. A year-on-year comparison compares a particular period of one year to the corresponding period of another year – for example, the April to June quarter of 2015 compared to the April to June quarter of 2014.

PERIODS BEFORE AND AFTER THE FARE INCREASE AND INDUSTRY REFORMS

Taxi fares were last increased on 19 May 2014 by approximately 12.5 per cent on average. Shortly thereafter, on 30 June 2014, significant industry reforms were implemented, including the removal of regulatory restrictions on taxi licence numbers.

For the purposes of analysis in this chapter, we make comparisons of periods that approximately represent **one year before** and **one year after** these regulatory changes. We refer to the 2013-14 financial year (July 2013 to June 2014) as representative of the pre-reform and pre-fare increase period; and the 2014-15 financial year (July 2014 to June 2015) as representative of the period after.

TWO PERIODS OF CHANGE DURING 2014-15 TO CONSIDER

The market data we present in this chapter suggest that the trends in the market indicators should be considered in two periods:

- the second half of 2014, which followed the last increase in taxi fares and implementation of industry reforms; and
- the first half of 2015, during which further trends emerge.

The trends lead us to hypothesise that changes in market indicators observed in the second half of 2014 are attributable to a combination of the fare increase and reforms; while changes in the first half of 2015 are likely a result of other market factors.

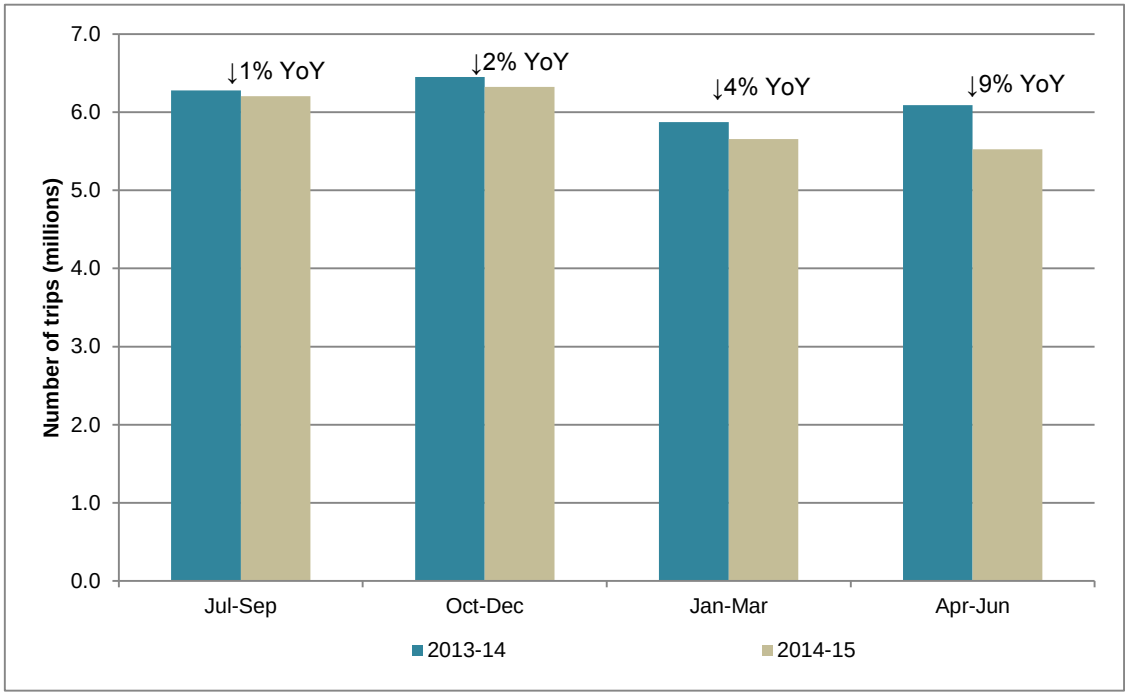
3.4 TRENDS IN DEMAND FOR TAXIS

TAXI TRIPS ARE DECLINING

Trends in the number of taxi trips reveal that demand for taxis declined slightly in the six months following the 2014 fare increase and reforms, before declining much more significantly in the first half of 2015.

This can be seen in Figure 3.3, which shows year-on-year declines of one to two per cent in the July to December 2014 period, compared to a nine per cent decline in the April to June 2015 period.

FIGURE 3.3 NUMBER OF TAXI TRIPS BY QUARTER
2013-14 and 2014-15



DECLINING DEMAND IS LIKELY ATTRIBUTABLE TO A SUBSTITUTION EFFECT

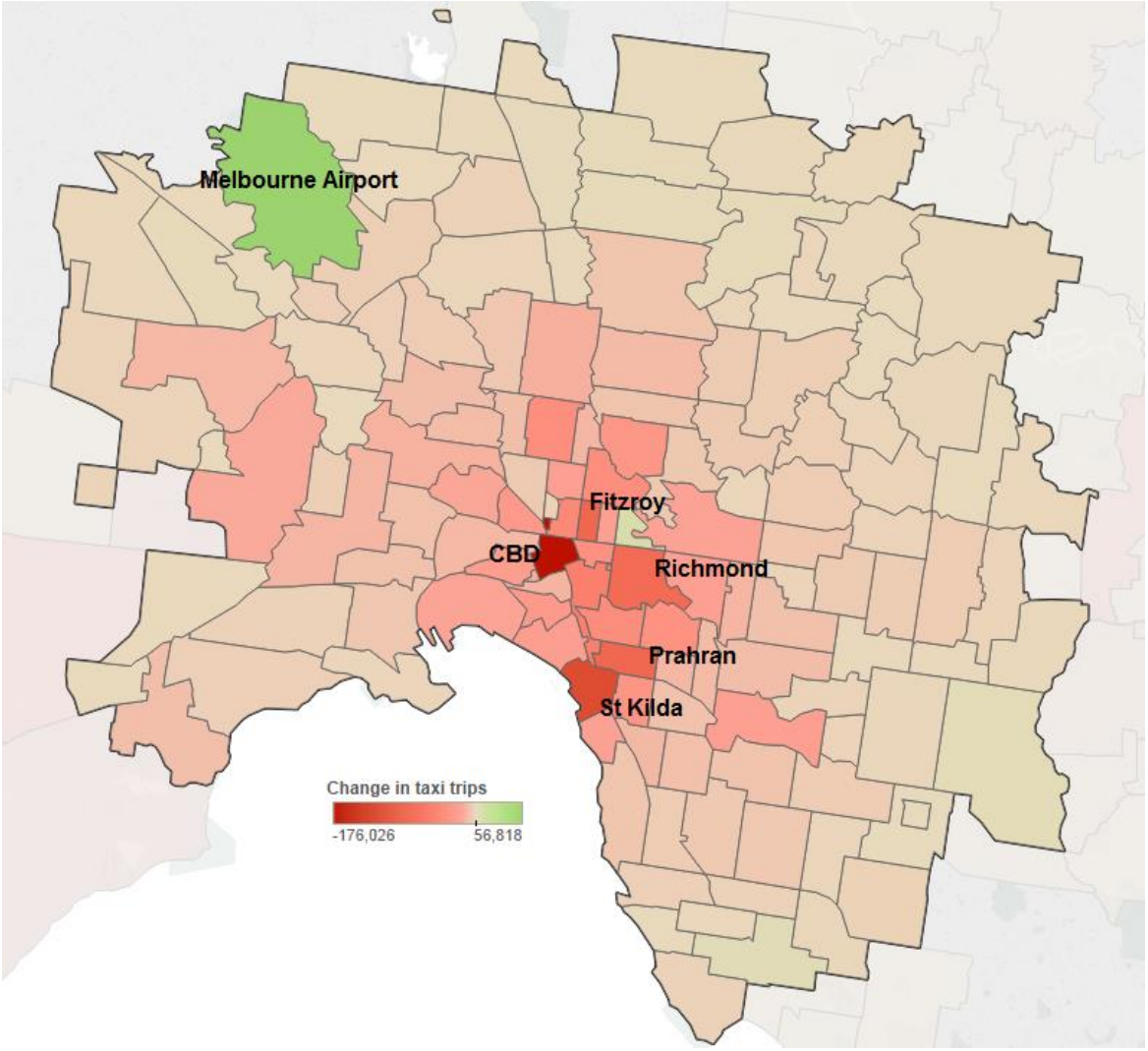
Given the more significant decline in taxi trips occurred well after the May 2014 taxi fare increase, we hypothesise that the declining taxi demand is a result of changing market conditions over time, rather than a 'price shock' in response to higher taxi fares.

In particular, we expect that the trend is likely to be largely influenced by increasing levels of substitution over time between taxis and emerging alternatives, such as commercial vehicles using the Uber smartphone app as a booking platform.

One method we applied to test this hypothesis was to consider a type of 'control' – that is, a particular type of taxi trip which might be relatively unaffected by the broader demand changes. A possible control is trips from Melbourne Airport. Taxis have a particular advantage in servicing trips from the airport due to their ability to access airport infrastructure and the rapid turnover of passengers. Based on discussions with Melbourne Airport, we also understand that Uber and Melbourne Airport have reached an agreement whereby Uber has altered its smartphone app to prevent passengers from booking UberX drivers to pick them up from within the airport precinct. We therefore expect that taxi trips from Melbourne Airport are less likely to have declined due to a substitution effect with UberX.

Figure 3.4 shows the change in the number of taxi trips taken by postcode. Red represents a decrease, beige represents little change, and green represents an increase in the number of taxi trips. It can be seen that the decrease in demand between the financial years 2013-14 and 2014-15 has been most pronounced in the CBD and inner city entertainment areas such as Fitzroy, Prahran, Richmond, and St Kilda. It also shows that, despite decreasing demand in other areas, demand for taxi trips from the airport has continued to increase.

FIGURE 3.4 CHANGE IN THE NUMBER OF TAXI TRIPS BY POSTCODE
From 2013-14 to 2014-15



Note: Some of the outer areas in the metropolitan zone with relatively few taxi trips are not represented on this map.

3.5 TRENDS IN THE SUPPLY OF TAXIS

As noted in Section 3.2.2, the number of metropolitan taxi licences increased following the removal of regulated quantity restrictions at the end of June 2014.

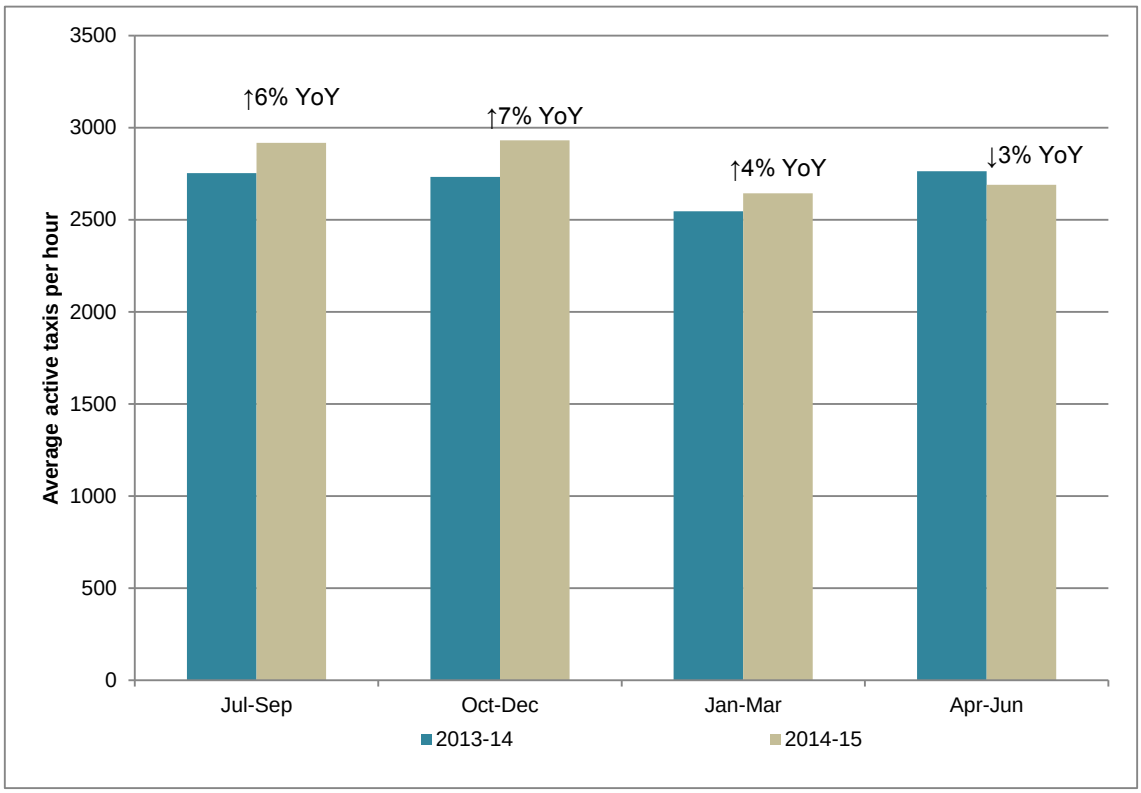
THE SUPPLY OF ON ROAD TAXIS INCREASED FOLLOWING THE FARE INCREASE AND REFORMS

The increase in taxi licence numbers also translated to a higher supply of taxis on the road, particularly in the six months following the fare increase and reforms. Figure 3.5 shows the average number of taxis on the road across the week increased by six to seven per cent, year-on-year, during the July to September and October to December quarters of 2014.

TAXI SUPPLY IS BEGINNING TO DECLINE MORE RECENTLY

However, this trend appears to be changing more recently, with the April to June quarter of 2015 showing a three per cent year-on-year decline in on road taxi numbers (Figure 3.5). This recent declining trend in supply appears to be in response to the declining trend in taxi demand outlined in the previous Section 3.4.

FIGURE 3.5 AVERAGE ACTIVE TAXIS (SUPPLY) BY QUARTER
2013-14 and 2014-15

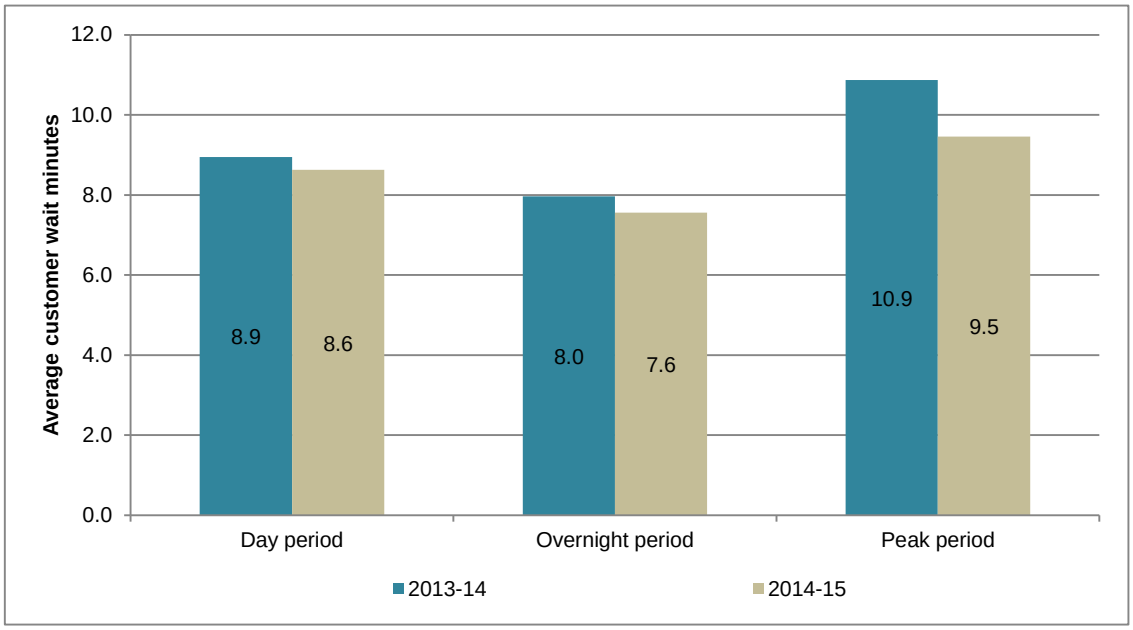


3.6 TRENDS IN INDICATORS OF TAXI SERVICE QUALITY

THERE HAS BEEN AN IMPROVEMENT IN CUSTOMER WAIT TIMES

Taxi service quality has improved in terms of how long customers spend waiting for taxis on average. In the year following the fare increase and reforms, average wait times for customers declined across all tariff periods[29] and most notably during the peak period on Friday and Saturday nights. This is not a surprising result considering the increases in taxi supply and reductions in taxi demand that occurred over 2014-15. This can be seen in Figure 3.6, which presents average customer wait times based on taxi booking data.[30]

FIGURE 3.6 WEIGHTED AVERAGE CUSTOMER WAIT TIME BY TARIFF PERIOD
2013-14 and 2014-15



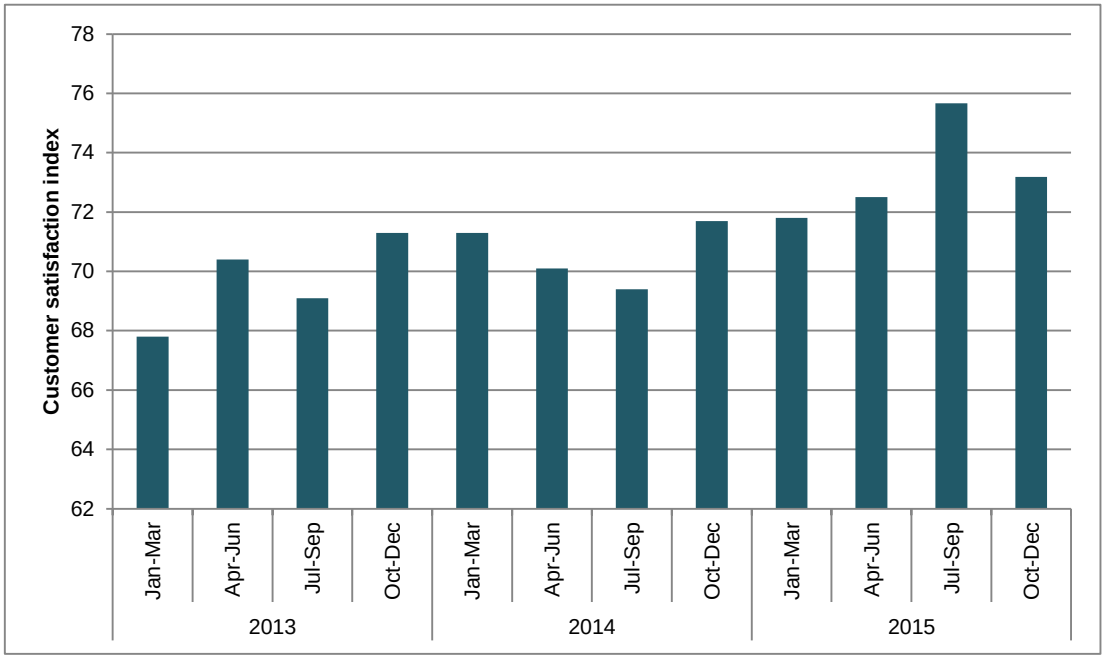
29 The day tariff period is from 9am to 5pm, the overnight tariff period is from 5pm to 9am (excluding peak tariff times) and the peak tariff period is from 10pm to 4am on Friday and Saturday nights.

30 Wait times reflect the difference between the time a customer booked a taxi for and the time the meter was turned on to commence the trip. The data do not include instances of unfulfilled bookings.

THERE ARE SIGNS CUSTOMER SATISFACTION WITH TAXIS HAS IMPROVED

According to the data we have available, which is summarised in Figure 3.7, customer satisfaction with taxi services has improved since our last fare review in May 2014 and since the implementation of industry reforms in June 2014.

FIGURE 3.7 CUSTOMER SATISFACTION INDEX
Customer satisfaction index levels by quarter, January 2013 to December 2015



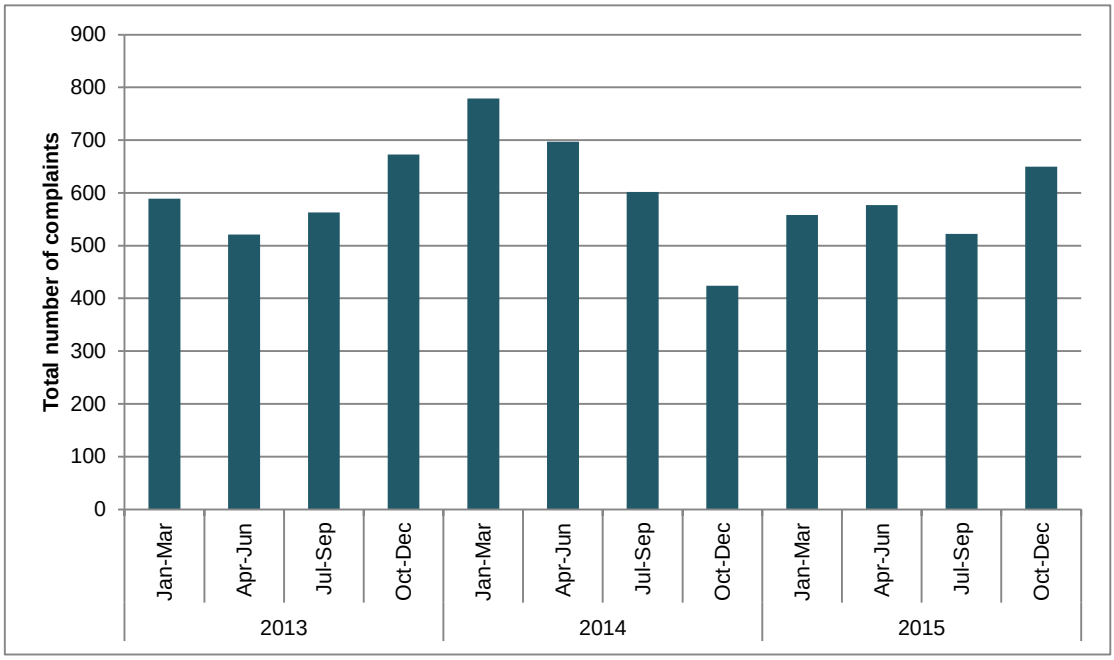
Source: Taxi Services Commission

In addition, the total number of complaints recorded by the Taxi Services Commission has reduced since the last fare review. Customers can lodge taxi related complaints with the Taxi Services Commission, typically on matters concerning driver behaviour, fare refusals and cleanliness of the vehicle.

Figure 3.8 presents the total number of complaints lodged with the Taxi Services Commission for each quarter from the beginning of 2013 to the end of 2015. The number of complaints peaked in early 2014, before a sustained improvement. The number of complaints observed in 2015 is now similar to the number observed in 2013.

FIGURE 3.8 TAXI COMPLAINTS LODGED WITH TAXI SERVICES COMMISSION

Total number of complaints, January 2013 to December 2015



3.7 CHANGES IN THE COST OF PROVIDING TAXI SERVICES

As explained in Chapter 2, estimates of the costs of a typical taxi operator have largely guided taxi fare reviews in the past when taxi licence numbers were restricted by the government. In the now more open market, and with regulated fares now being *maximum* fares, costs play a less critical role in reviewing taxi fares.

Nevertheless, changes in costs are relevant market observations as this can influence other market outcomes. For example, lower costs can be expected to lead to higher profits per taxi in the short term. In a competitive market, short term profits can be expected to lead to lower fares, better service quality or more entry into the market (or a combination of these things).

APPROACH TO MEASURING COST CHANGES

For this review, we measure changes in costs using a cost index. A cost index is a number that combines cost elements using weights reflecting the share of the

element's costs in total costs. Changes in the cost components are reflected in the change in the total index number.

The key cost elements and the weights for the components of the index are based on costs of a 'typical taxi operator' as presented in our 2014 review. These are described in Table 3.1 and further discussed in Appendix D.

TABLE 3.1 COST COMPONENTS AND THEIR WEIGHTS

Cost component	Further explanation	Weight in total cost index
Fuel	Total fuel costs incurred by a taxi.	34.3%
Network (equipment)	Costs associated with network affiliation. Operators receive access to services such as centralised booking and dispatch and networked security alarms.	6.5%
Network (labour)		6.5%
Insurance (comprehensive)		6.1%
Insurance (workers comp)		1.5%
Vehicle	Includes costs associated with purchasing or leasing a vehicle, including fit-out.	11.6%
Registration/TAC	Includes compulsory third party insurance (Transport Accident Charge)	3.9%
Repairs and maintenance		17.7%
Administration	Includes cost of operators' own time, staff costs and costs paid to other businesses for administration (e.g. accountant)	12.0%
Total		**100.0%**

Source: ESC 2014, *Taxi Fare Review 2013-14 - Final Report*, March, p.44, based on midpoints of reported costs.

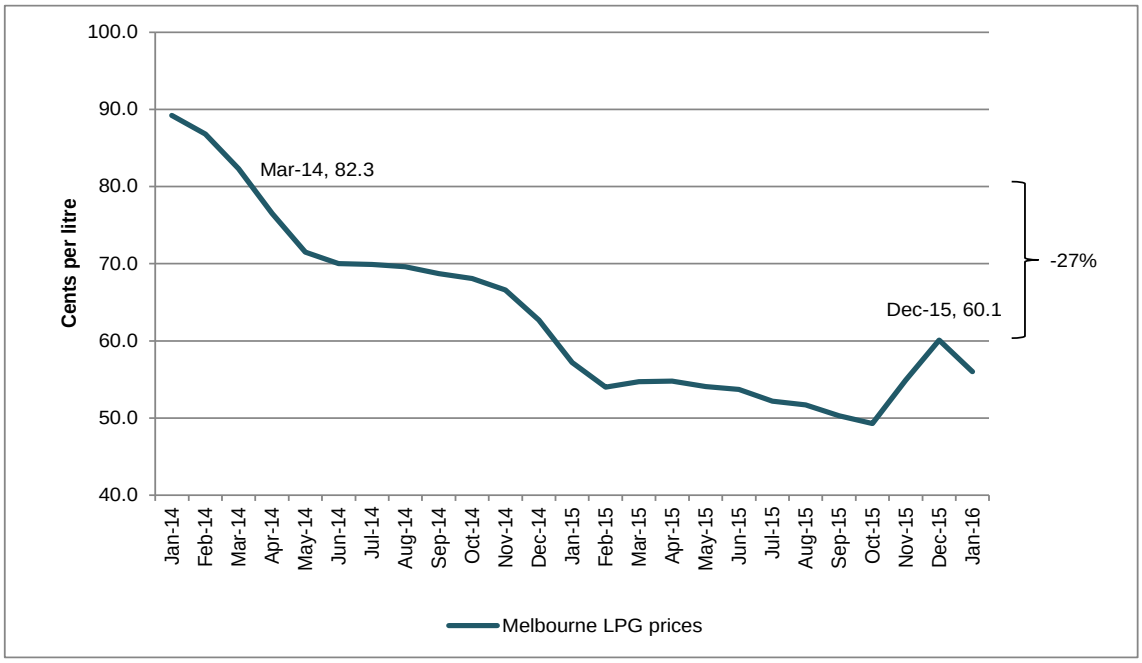
A MATERIAL FALL IN COSTS FOR TAXI OPERATORS

Our finding is that, on average, there has been a material fall in the costs of taxi operators since we last estimated costs as part of our 2014 fare review. Using our cost index for the period March 2014 to December 2015, we estimate this fall as 7.9 per cent.

The key contribution to the estimated cost fall is changes in the price of fuel, and in particular automotive LPG. LPG prices alone have fallen by 27 per cent in the Melbourne area since March 2014 when we last developed our cost profile.

Figure 3.9 identifies the changes in the Melbourne area LPG price from March 2014 until January 2016.[31]

FIGURE 3.9 CHANGE IN MELBOURNE LPG PRICES, 2014-2016



There have been some relatively minor changes in the other cost categories. The largest change is the 'repairs and maintenance' category, which contributes just over a percentage point to the overall change in the cost index. We further explain the analysis behind this result in Appendix D.

[31] We are also aware that there is usually some seasonality in LPG prices. We identified in the 2014 review that the annual peak in LPG prices usually occurs in December or January of each year. The December 2015 result we are using is indeed the 2015 peak. See ES C 2014, *Taxi Fare Review 2013-14 - Final Report*, March, p. 107.

3.8 INTERPRETING THE MARKET OUTCOMES

In the second half of 2014, which represents approximately six months following the 2014 fare increase and implementation of industry reforms, the following market outcomes were observed:

- demand for taxi trips declined only slightly
- the cost of operating taxi services declined.

These two outcomes can be expected to lead to higher profitability per taxi in the short term. However, given that there is no longer a restriction on the supply of taxi licences, and there is increasing competition from substitutable services for taxis, these profits are not sustainable. In a competitive market, it can be expected that one or a combination of the following outcomes would occur:

- existing taxi networks would pass on cost savings to consumers by lowering taxi fares below the regulated maximum
- taxi service providers would invest more to offer better quality services
- more taxis would enter the market attracted to compete for a share of revenue
- more services that are substitutable for taxis would enter the market to compete for a share of revenue.

While there is evidence of all of these outcomes occurring to some degree, some have featured stronger than others, as we discuss below.

THERE HAS BEEN SOME DISCOUNTING OF TAXI FARES BY SMALLER NETWORKS AND THIRD PARTY SMARTPHONE TAXI BOOKING APPS

As discussed in Chapter 2, it can be difficult for individual taxis to signal their particular price and service offerings to consumers. Unique prices and service offerings are most practically facilitated through networks of taxis, as there are stronger incentives to attract passengers to their brand.

We noted in our consultation paper that one taxi network, CabIT, undertook to brand a fleet of approximately 400 taxis with green livery and reduce the fares for its taxis to five per cent below regulated maximum fares. However, we understand these discounts have now ceased.

Third-party taxi booking app providers, GoCatch and Ingogo, are also known to regularly offer promotional discounts on taxi fares to encourage customers to use their booking platform.

To this point in time, the larger traditional taxi booking networks and their affiliated taxi operators have not been inclined to coordinate discounting of taxi fares below the regulated maximums.

THERE HAS BEEN SOME IMPROVEMENT IN TAXI SERVICE QUALITY

As presented in Section 3.6, there are some signs that taxi service quality has improved since the fare increase and reforms. This is evident in higher levels of customer satisfaction, fewer taxi complaints and shorter customer wait times.

However, it is questionable as to whether these gains outweighed the higher cost of taxi fares for consumers in aggregate. Our calculations suggest that customer wait times for taxis reduced by around four per cent between 2013-14 and 2014-15. If we were to assume taxi customers valued their time at $30 per hour,[32] this implies a total benefit of lower wait times of $5.7 million.[33]

We estimate the increased industry revenue from higher taxi fares in 2014-15 was approximately $75.6 million – significantly higher than the estimated benefit from lower waiting times.

[32] While there is no definitive source on the value of time to be used for taxi passengers, some transport models used in Victoria use $27 per hour (in 2011 dollars) as the value of time for private vehicle trips.

[33] The calculations are as follows.

Change in average waiting time (FY 2014 to FY 2015)	-29	seconds
Assumed value of waiting time	30	$/hr
Total trips FY 2015	23,710,955	trips
Customer benefits from reduced waiting time for FY 2015 trips	5.7	$m
Increase in average fare	3.19	$
Change in revenue for FY 2015 trips	75.6	$m

Source: ESC calculations on taxi trip data

We note that part of this revenue increase may have gone to recovery of costs, as there had been no change to taxi fares in the six years prior to the 2014 fare increase.

MORE TAXIS, AND MORE SUBSTITUTES FOR TAXIS, ENTERED THE MARKET

We observed in Section 3.5 that more taxis entered the market following the fare increase and removal of taxi licence restrictions in mid-2014. This is an expected outcome in the context of both demand for taxis and taxi fares being sufficiently high to support greater numbers of profitable taxis.

In 2015, we have seen evidence of a reversal of that trend, with a year-on-year decline in on road taxis in the April to June quarter of 2015. This appears to have been in response to declining demand for taxis in the first half of 2015, which we concluded in Section 3.4 was likely attributable to competition from substitute services.

While we do not have data on the volume of substitute services for taxis, it seems reasonable to conclude from these observations that more substitute services, such as UberBLACK and UberX, have entered to compete for profits in the commercial passenger vehicle services market.

PRESSURE ON TAXI PRICE AND SERVICE OFFERINGS

These market outcomes – in particular, lower operating costs, declining demand for taxis and greater competition – suggest there is increasing pressure on taxi service providers to retain or expand market share through lower fares, improved service offerings, or a combination of both.

3.9 WHAT THIS MEANS FOR SETTING MAXIMUM TAXI FARES

While we have noted that there is market pressure for taxi fares to be reduced and / or taxi service offerings to improve, there are a number of reasons why it may not be desirable for the Commission to force taxi fares to be lower through regulatory means. Many of these reasons are outlined in Chapter 2, in which we discuss our new approach to taxi fare regulation.

In addition, there remains some uncertainty as to the sustainability and future direction of the market trends described in this chapter. For example, competition for taxis has arisen from businesses which do not incur the same regulatory cost burdens as taxis, and this may not be sustainable.

Further, lower operating costs for taxis primarily derive from fuel prices, which are known to be volatile. Due to this volatility, we do not consider that maximum taxi fares should always be raised/lowered in line with cost increases/decreases. Taxi service providers should be equipped to deal with the volatility of operating costs and put in place procedures to maintain profitability over time in the face of fluctuating costs.

As discussed in Chapter 2, the nature of *maximum* taxi fare regulation is such that the risk of setting maximum fares too low is greater than the risk of setting them too high, particularly in the current environment when greater competition is emerging. Our main concern when setting maximum taxi fares is to ensure that taxi service providers can compete effectively in the increasingly competitive market for commercial passenger vehicles. Where we observe market outcomes that suggest taxi fares may be too high, our preference will be to draw attention to these outcomes over forcing price changes through regulatory means.

We also note that responses to emerging competition need not take the form of lower fares; possible competitive responses by taxis could include higher quality services, including through more widespread or guaranteed availability, and better quality vehicles or drivers.

In light of these observations, we analyse in more detail the balance of supply and demand for metropolitan taxis in Chapter 4, and propose some changes to maximum fares for the metropolitan zone.

4 MAXIMUM TAXI FARES FOR THE METROPOLITAN ZONE

KEY POINTS

Reductions in taxi trip volumes in 2014-15 have occurred in most areas of the metropolitan zone, while taxi trips to and from Melbourne Airport have increased.

Declining trends in taxi trips are most significant for:

- trips less than 20 kilometres in length (83 per cent of all 2014-15 taxi trips)
- trips during the overnight tariff period (5pm to 9am Sunday through Thursday)
- trips during the peak tariff period (10pm to 4am Friday and Saturday nights)

There are potential issues with the supply of taxis relative to demand on Friday and Saturday nights, as well as reliability of taxi booking services at these times.

We propose the following changes to metropolitan maximum taxi fares:

- an earlier commencement of the peak tariff period – from 7pm to 4am Friday and Saturday nights (instead of 10pm to 4am)
- peak tariff maximum fares may apply on the evenings prior to all public holidays (also from 7pm to 4am)
- a new maximum peak booking charge, capped at $10 and only applicable during peak tariff periods.

Before proceeding with the introduction of a new maximum peak booking charge, we will need to be satisfied from stakeholder submissions that there is interest in the ability to apply a peak booking charge, and that it has the potential to improve outcomes for taxi passengers.

4.1 INTRODUCTION

In this chapter we expand our examination of declining trends in taxi trip volumes presented in Chapter 3.

We outline the current metropolitan taxi fares, identify the types of taxi trips for which demand is declining and propose some changes to maximum taxi fares aimed at enabling greater potential for taxi service providers to improve price and service offerings in a more competitive commercial passenger vehicle market.

4.2 CURRENT METROPOLITAN TAXI FARES

The current maximum taxi fares applicable in the metropolitan zone are outlined in Table 4.1. This schedule of maximum fares is comprised of standard fare components and extras (other fare components). Standard fare components generally apply as maximum rates for all types of taxi trips. Extras are maximum fees applicable in more specific circumstances (such as for pre-booked trips).

TABLE 4.1 MAXIMUM TAXI FARES FOR THE METROPOLITAN ZONE

	Tariff 1 'Day' (9am–5pm)	**Tariff 2** 'Overnight' (5pm–9am, excluding peak)	**Tariff 3** 'Peak' (Fri & Sat nights 10pm–4am)
Standard fare components	**Maximum charge up to**		
Flagfall ($)	4.20	5.20	6.20
Distance rate ($/km) (applies when speed is above 21 km/hr)	1.622	1.804	1.986
Waiting time ($/min) (applies when speed is below 21 km/hr)	0.568	0.631	0.695

Other fare components (applicable to tariffs 1, 2 and 3)		**Maximum charge up to**
High occupancy fee	For trips with 5-11 passengers or when high occupancy vehicle specifically requested Not applicable for wheelchair passenger trips	$14.00
Booking fee	For booked trips	$2.00
Premium service charge[34]	For booked trips where vehicle is participating in a 'premium service scheme'	$11.00
Airport booking fee	For trips booked for pick up from Melbourne Airport	$3.00
Airport rank fee	For trips from the Melbourne Airport rank	$2.70
Holiday rate	For trips commencing on Christmas Day, Boxing Day, New Year's Day and from 6pm on New Year's Eve	Tariff 3 rates

Maximum taxi fares are lowest for trips made between 9am and 5pm during the day tariff period, while maximum fares during the overnight and peak tariff periods are around 15 per cent and 30 per cent higher, respectively (depending on the length of the trip). Network Service Providers may nominate taxis as participating in a 'premium service' scheme. A premium service charge of up to $11 may be charged for booking such taxis on the condition that the vehicle displays signage indicating its participation in the scheme.

[34] Network Service Providers may nominate taxis as participating in a 'premium service' scheme. A premium service charge of up to $11 may be charged for booking such taxis on the condition that the vehicle displays signage indicating its participation in the scheme.

Approximate maximum taxi fares for a range of trip distances during the day, overnight and peak tariff periods are summarised in Table 4.2.

TABLE 4.2 COMPARISON OF ESTIMATED TAXI FARES ACROSS TARIFF PERIODS

	Approximate standard maximum fare		
Trip distance	**Day period**	**Overnight period**	**Peak period**
5 kilometres	$14.58	$16.74 (15 per cent higher than day fare)	$18.91 (30 per cent higher than day fare)
10 kilometres	$23.83	$27.03 (13 per cent higher than day fare)	$30.23 (27 per cent higher than day fare
20 kilometres	$42.32	$47.59 (12 per cent higher than day fare)	$52.87 (25 per cent higher than day fare)

4.3 TYPES OF TAXI TRIPS FOR WHICH DEMAND IS DECLINING

We concluded in Chapter 3 that market observations (including declining taxi demand) indicate there is pressure on taxi service providers to respond to greater competition through lower fares, improved service offerings, or both.

In this section, we examine the types of taxi trips for which demand is declining before considering the implications for regulated maximum fares.

FEWER TAXI TRIPS IN MOST AREAS, EXCEPT MELBOURNE AIRPORT

Reductions in trip volumes from 2013-14 to 2014-15 occurred for taxi trips to and from most areas of the metropolitan zone, but most notably in the inner suburbs (see Table 4.3).

TABLE 4.3 CHANGE IN TAXI TRIP VOLUMES

Percentage change from 2013-14 to 2014-15

	Change in taxi trip volumes from 2013-14 to 2014-15			
Area	**CBD & surrounds[35]**	**Inner suburbs[36]**	**Melbourne Airport**	**Other metropolitan**
Taxi trips from	-3.8%	-10.9%	+3.1%	-2.1%
Taxi trips to	-5.5%	-10.0%	+0.9%	-1.9%

Melbourne Airport was the exception to the trend of declining taxi trip volumes, showing growth in taxi trips in 2014-15 for trips both to and from the airport, but higher growth for trips from the airport. A likely explanation for this asymmetric growth in Melbourne Airport taxi trips is that taxis procured from the airport rank are less substitutable for other commercial passenger vehicle services (as discussed in Section 3.4).

A separate discussion about fares for Melbourne Airport taxi trips can be found in Chapter 7, where we outline observations of some unique market characteristics of airport taxi trips, including potential issues with taxi fares.

DECLINING DEMAND FOR TAXI TRIPS OF LESS THAN 20 KILOMETRES

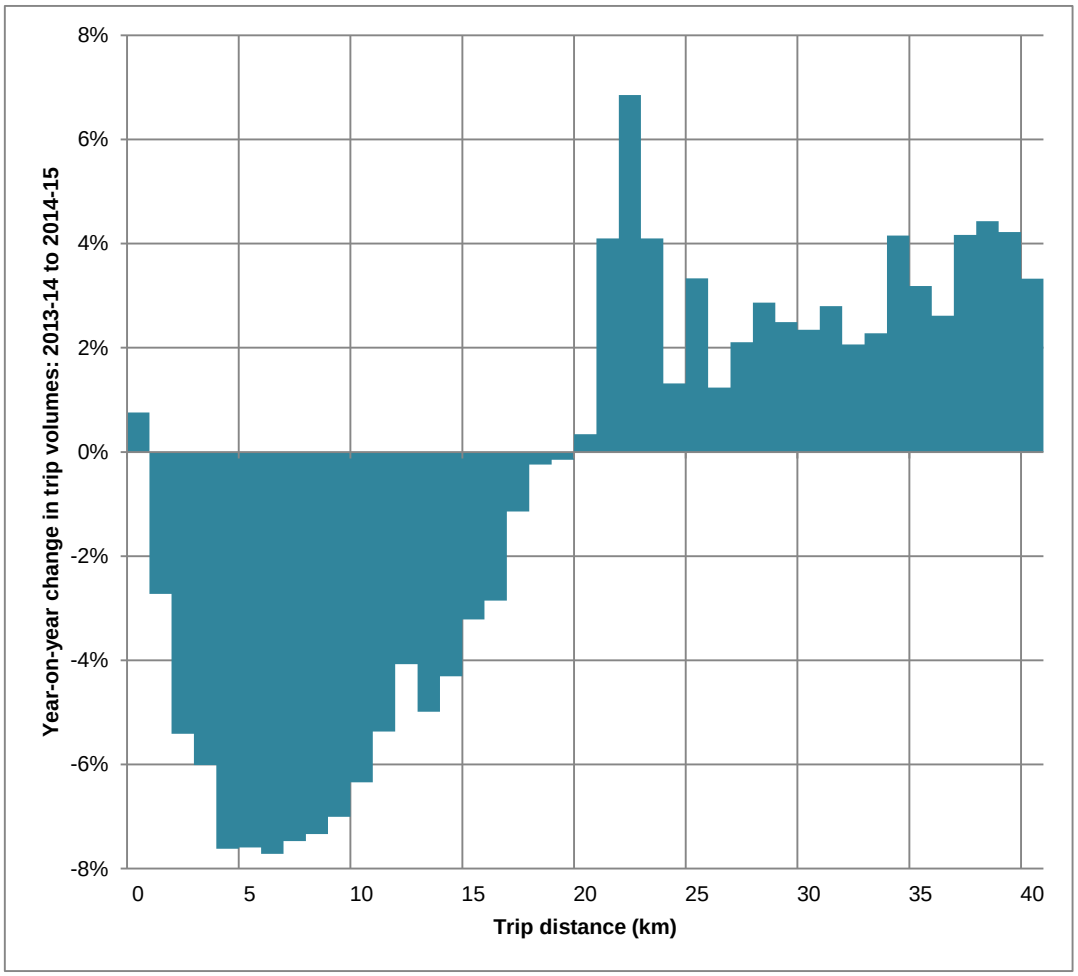
In comparing changes in taxi trip volumes from 2013-14 to 2014-15, it is clear that the overall decline in metropolitan taxi trips is attributable to trips of less than 20 kilometres in distance. Figure 4.1 shows year-on-year declines in taxi trip volumes for trips less than 20 kilometres, while trips of 20 kilometres and over increased in volume in 2014-15.

While this result was somewhat influenced by growth in airport taxi trips (of which the majority are more than 20 kilometres in length), growth was also observed in non-airport trips over 20 kilometres in length.

35 CBD & surrounds includes the CBD, Docklands, Southbank and St Kilda Road

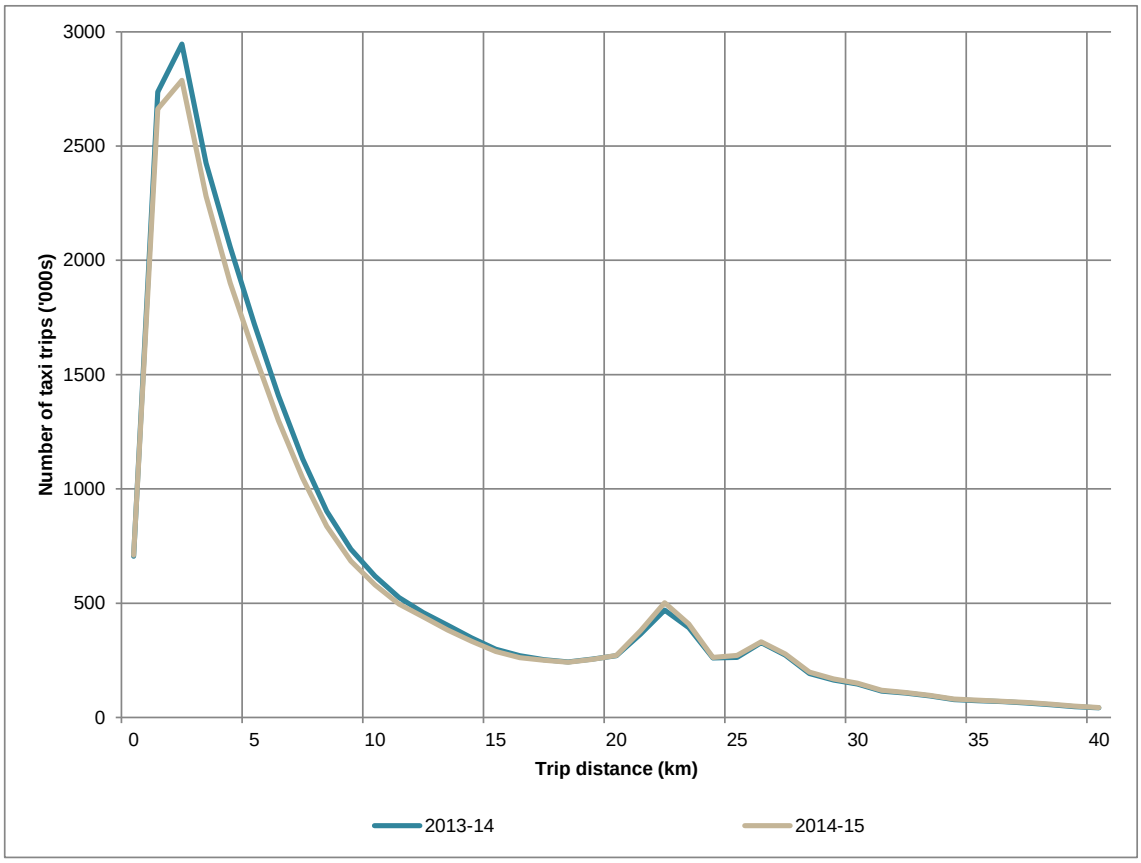
36 Inner suburbs includes Collingwood, Carlton, Fitzroy, Brunswick, Richmond, South Melbourne, South Yarra, Prahran and St Kilda areas

FIGURE 4.1 CHANGE IN TRIP VOLUMES BY TRIP DISTANCE
Percentage change from 2013-14 to 2014-15



Trips less than 20 kilometres represented 83 per cent of all metropolitan taxi trips in 2014-15. The profile of demand for metropolitan taxi trips reveals a highly skewed distribution towards shorter trip distances (see Figure 4.2), which means the decline in trip volumes for shorter distance trips far outweighed the increase in longer distance trip volumes.

FIGURE 4.2 TRIP VOLUMES BY TRIPS OF DIFFERENT DISTANCES
2013-14 and 2014-15



In Appendix F, we analyse the effect of changes made to the balance of fares for shorter trips versus longer trips as a result of our 2014 fare review.

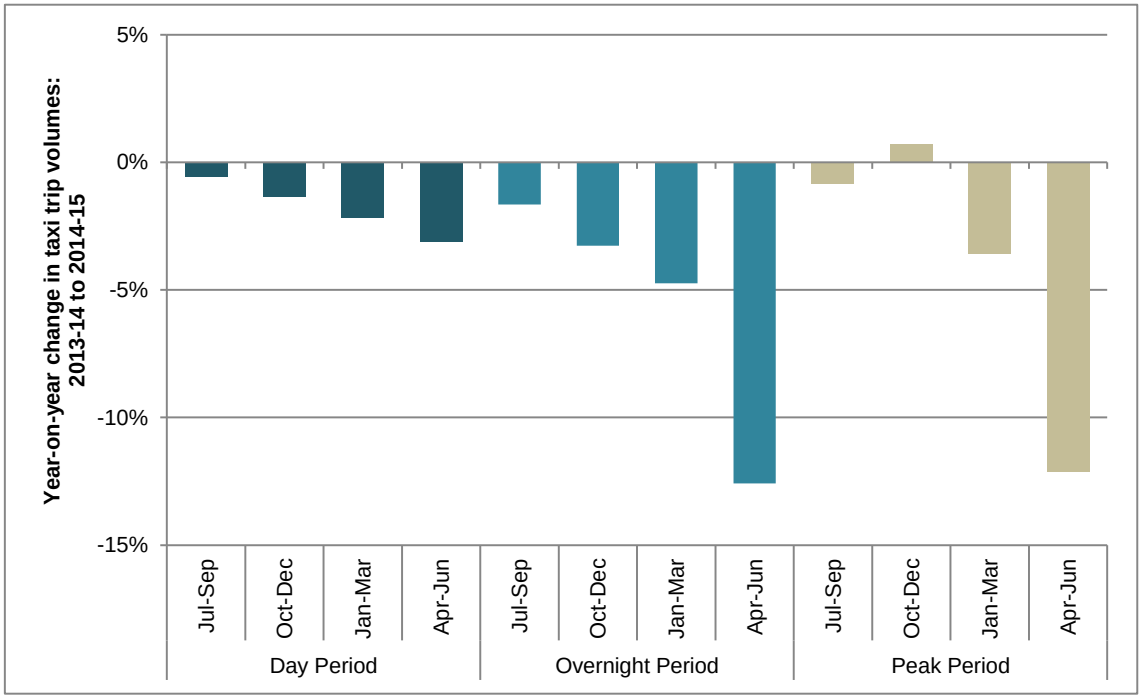
DECLINING TAXI TRIPS DURING THE OVERNIGHT AND PEAK TARIFF PERIODS

Reductions in taxi trip volumes from 2013-14 to 2014-15 were most significant during the overnight and peak tariff periods, as can be seen in Figure 4.3.

The acceleration of declining taxi trip trends in more recent times is also apparent, particularly the April to June 2015 quarter (the last period for which we currently have data). This observation is consistent with the hypothesis of declining taxi demand being largely attributable to competition from increasingly prevalent substitute services in the commercial passenger vehicle market, rather than a 'price shock' response to the 2014 taxi fare increase.

Notably, taxi trips in the peak period remained largely unchanged in the six months following the 2014 fare increase. It was only in the first half of 2015 that taxi trips began to decline at an accelerating rate.

FIGURE 4.3 CHANGE IN TRIP VOLUMES BY TARIFF PERIOD
Quarterly data, comparison of 2013-14 and 2014-15



4.4 IMPLICATIONS FOR REGULATED MAXIMUM TAXI FARES

BOTH PRICE AND SERVICE QUALITY ARE IMPORTANT

If taxi trips are declining as a result of a substitution effect with other commercial passenger vehicles – which we concluded in Chapter 3 is the most credible conclusion of the trends we have observed – it is useful to understand the reasons behind customers choosing alternative services over taxis. Importantly, consumers' decisions are not purely based on price – taxi service quality (including availability and reliability) is also a central factor.

As explained in Chapters 2 and 3, in the current regulatory and competitive environment, it may not be desirable for the Commission to force taxi service providers

to lower taxi fares through regulatory means. Now that regulated taxi fares are maximum fares, taxi service providers have greater choice in how they can respond to competition – by discounting fares, improving service quality or both. Intervention by the regulator to force lower taxi fares could serve to undermine this flexibility, particularly in the current environment of an increasingly competitive commercial passenger vehicle market.

Our main focus for maximum taxi fares for this review is to ensure that those fares do not restrict taxi service providers' ability to offer price and service offerings valued by consumers of commercial passenger vehicle services.

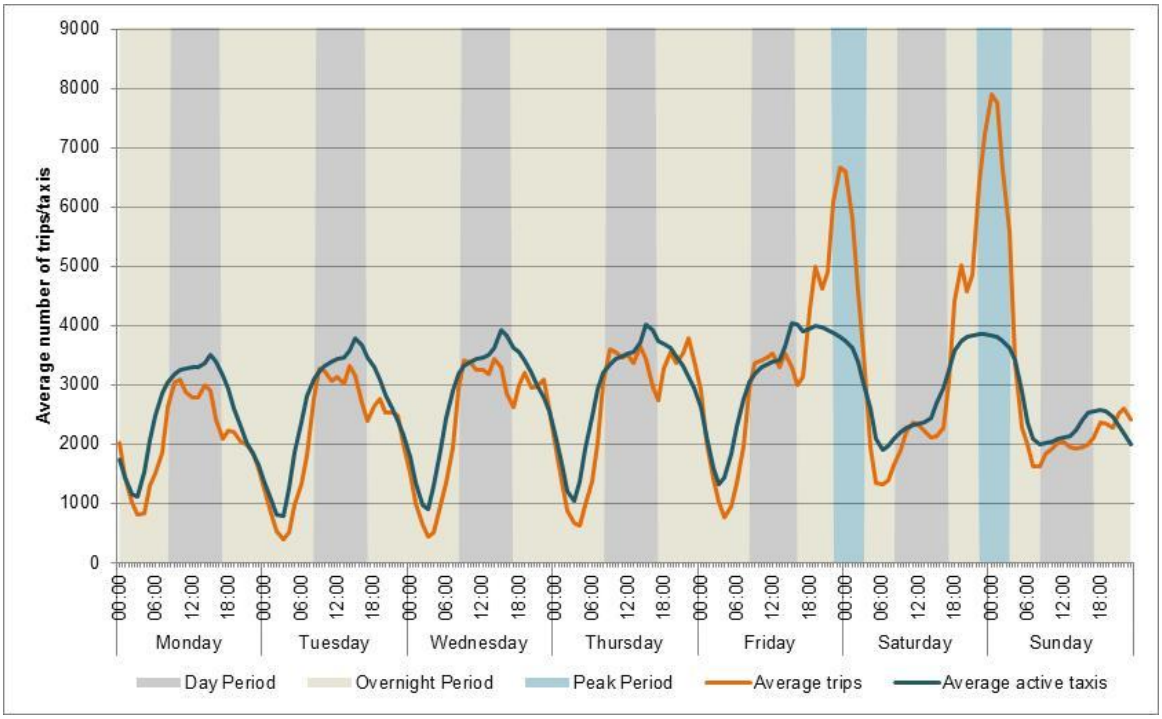
We consider that the most likely way in which maximum taxi fares might inhibit taxi service providers' offerings would be if maximum fares were too low to attract a sufficient supply of taxis to reliably meet demand. Accordingly, we examine the balance of the supply of taxis and demand for taxi trips across the week, with particular focus on the peak and overnight tariff periods, during which the most significant reductions in taxi trip volumes occurred in 2014-15.

THE BALANCE OF TAXI SUPPLY AND DEMAND ACROSS THE WEEK

The profile of taxi supply and demand across an average week can be observed in Figure 4.4, which shows the average number of taxi trips per hour (orange line) and the average number of active taxis per hour (blue line) during 2014-15. Background shading highlights the day, overnight and peak tariff periods.

On weekdays during the day and overnight tariff periods, the number of taxis in operation generally follows the level of demand for taxi trips. In contrast, there are very clear peaks in taxi trip volumes on Friday and Saturday nights that are not matched with a proportionate increase in taxi supply.

FIGURE 4.4 COMPARISON OF AVERAGE ACTIVE TAXIS (SUPPLY) AND AVERAGE TRIP VOLUMES (DEMAND) BY HOUR OF THE WEEK
2014-15



The balance of supply and demand can also be measured in taxi occupancy rates – the percentage of taxis' total operating time that is spent carrying passengers.

The higher demand for taxi trips on Friday and Saturday nights is evident in Figure 4.5, which shows average taxi occupancy rates for each hour of the week for 2014-15.

During the hours of the overnight tariff period (5pm to 9am Sunday through Thursday), taxi occupancy rates are generally the lowest of the week.

FIGURE 4.5 AVERAGE OCCUPANCY RATES ACROSS THE WEEK
2014-15

	Day of week						
Hour	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
12am-1am	28%	23%	22%	24%	28%	42%	51%
1am-2am	25%	20%	19%	21%	24%	38%	50%
2am-3am	22%	17%	17%	19%	23%	33%	45%
3am-4am	21%	15%	15%	18%	22%	32%	42%
4am-5am	19%	14%	13%	15%	18%	25%	32%
5am-6am	25%	20%	20%	19%	18%	22%	28%
6am-7am	28%	24%	24%	22%	21%	22%	28%
7am-8am	28%	26%	26%	25%	25%	22%	26%
8am-9am	36%	37%	37%	38%	36%	23%	24%
9am-10am	35%	37%	37%	38%	34%	25%	26%
10am-11am	29%	30%	30%	31%	30%	28%	27%
11am-12pm	25%	25%	27%	28%	30%	31%	29%
12pm-1pm	24%	26%	27%	29%	32%	32%	30%
1pm-2pm	23%	24%	26%	28%	30%	30%	29%
2pm-3pm	26%	28%	29%	31%	33%	28%	28%
3pm-4pm	29%	32%	35%	37%	39%	28%	28%
4pm-5pm	28%	31%	34%	37%	39%	27%	29%
5pm-6pm	25%	28%	31%	34%	36%	29%	26%
6pm-7pm	26%	29%	32%	34%	39%	36%	27%
7pm-8pm	25%	27%	29%	30%	38%	37%	25%
8pm-9pm	26%	26%	27%	28%	31%	29%	23%
9pm-10pm	26%	26%	27%	29%	31%	30%	26%
10pm-11pm	26%	27%	28%	31%	38%	40%	29%
11pm-12am	24%	24%	26%	29%	43%	48%	30%

The balance of supply across the week suggests that the reductions in taxi trip volumes occurring during the overnight tariff period and the peak tariff period are likely to be occurring for different reasons.

MAXIMUM FARES ARE NOT LIMITING TAXI SERVICE PROVIDERS DURING THE OVERNIGHT TARIFF PERIOD

During the hours of the overnight tariff period, there does not appear to be a shortage of taxis available for hire. It is therefore unlikely that maximum taxi fares are insufficient to attract enough taxis to reliably meet demand at these times.

A plausible explanation of the declining trend in taxi trips during these times is that consumers are switching to increasingly prevalent alternative commercial passenger vehicle services on the basis of cheaper fares or other attractive service offerings.

The declining trend in taxi trips would warrant a competitive response by taxi service providers – either through fare offerings lower than the regulated maximums or other types of service offerings that consumers may value.

TAXI SUPPLY ISSUES ON FRIDAY AND SATURDAY NIGHTS

During the peak tariff period, high taxi occupancy rates and high numbers of taxi trips relative to the number of taxis in operation, suggest that taxi service providers have difficulty in reliably meeting demand for taxi trips at these times. Taxi availability and reliability is therefore likely to be a factor in the declining taxi trip volumes during the peak tariff period.

From Figure 4.4, we also note the following key observations with respect to the peak tariff period hours, which suggest they could be adjusted to better reflect supply and demand patterns:

- The 10pm commencement of the peak tariff period captures the height of the Friday and Saturday night demand peak, however, demand begins to significantly ramp up earlier than this, between 6pm and 7pm.
- It can also be seen that the number of active taxis on Friday evenings begins to decline from around 7pm – shortly after demand begins to ramp up, and prior to the 10pm commencement of the peak tariff period.

POTENTIAL TAXI BOOKING ISSUES DURING THE PEAK TARIFF HOURS

The high demand for trips during the Friday and Saturday night peak periods, and limited supply of taxi services, is also likely to be impacting the reliability of taxi booking services at these times. This has been the subject of other investigations into taxi customer service problems in the past.

In 2012, the Taxi Industry Inquiry's final report outlined customer service problems associated with the unreliability of the phone booking and dispatch services of

Melbourne's taxi booking networks, such as calls going unanswered during peak times.[37]

Analysis of recent taxi booking data suggests that taxi booking services continue to experience difficulty in servicing peak demand. In 2014-15, only 15 per cent of taxi trips were booked during the Friday and Saturday night peak periods, compared with 39 per cent during the day period and 29 per cent during the overnight period. The lower proportion of booked taxi trips during the peak period may reflect the reliability of taxi booking services.

It is likely that these issues are significant factors in the declining trend in taxi trips observed in the peak tariff period hours in the first half of 2015. With increasingly available alternatives to taxis, customers may be choosing alternative commercial passenger vehicles on the basis of better availability and reliability.

4.5 DRAFT PROPOSALS FOR CHANGES TO MAXIMUM TAXI FARES

We propose the following changes to the peak tariff maximum taxi fares to give greater scope for taxi service providers to improve service levels during peak times:

- an earlier commencement of the peak tariff period
- maximum peak tariffs to apply on the evenings prior to all public holidays
- a new maximum peak booking charge.

These proposals are discussed below.

4.5.1 AN EARLIER COMMENCEMENT OF THE PEAK TARIFF PERIOD

As noted in Section 4.4, taxi trip demand begins to significantly increase from between 6pm and 7pm on Friday and Saturday nights, while on Friday nights the number of taxis on the road begins to decline shortly after 7pm.

[37] Victorian Taxi Industry Inquiry 2012, *Final Report – Customers First: Service, Safety, Choice*, September, p. 43.

To promote incentives for a greater supply of taxis during peak periods, we propose an earlier commencement of the Friday and Saturday night peak tariff period.

We propose that the new hours for the peak tariff period would be from 7pm to 4am on Friday and Saturday nights (instead of 10pm to 4am currently).

4.5.2 PEAK TARIFF MAXIMUM FARES ON THE EVENINGS PRIOR TO ALL PUBLIC HOLIDAYS

Currently, the peak tariff applies as the maximum fare on Christmas Day, Boxing Day, New Year's Eve from 6pm and New Year's Day.

A submission to our consultation paper suggested the peak tariff maximum fares should apply on all public holidays (not just the days listed above).[38] In considering this suggestion, we analysed customer wait times on all public holidays to identify if there was evidence of maximum fares being too low to attract a sufficient supply of taxis to meet demand on these days.

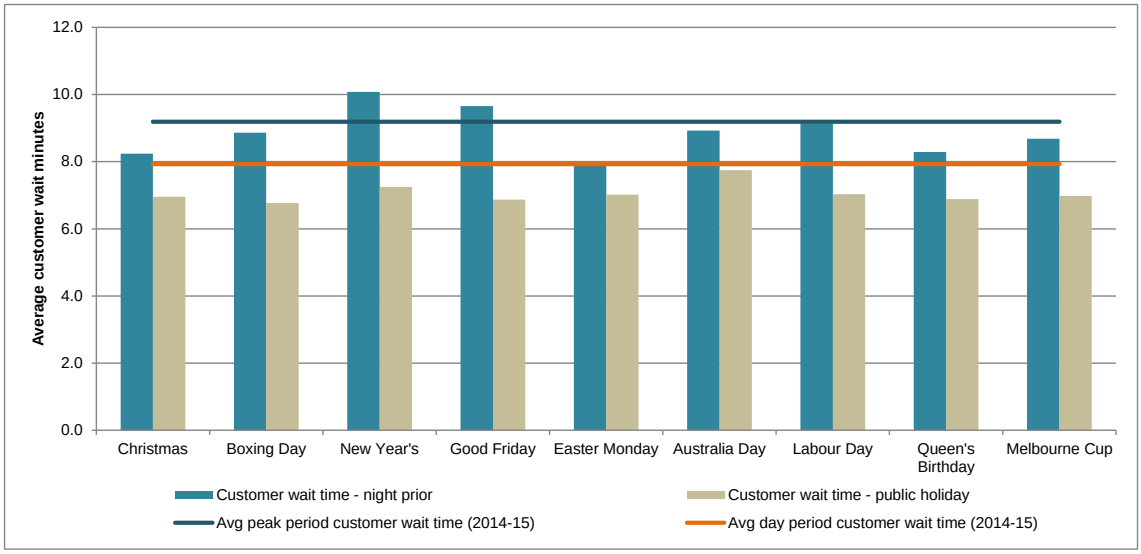
As can be seen in Figure 4.6, average customer wait times on public holidays tend to be lower than on other typical days between 9am and 5pm (average day tariff period wait times are represented by the orange line). This suggests maximum fares are sufficient to attract enough taxis to operate on those days to meet demand. As such, we do not propose to change maximum fares on public holidays.

However, Figure 4.6 also shows that customer wait times on the evenings prior to public holidays are often similar to wait times during the peak Friday and Saturday night tariff period (average peak Friday and Saturday night wait times are represented by the black line).

We therefore propose that the peak tariff maximum fares would apply on the evenings prior to all public holidays. The hours of the peak tariff period on these nights would also be 7pm to 4am, consistent with the proposed new Friday and Saturday night peak period hours.

[38] Taxicorp Pty Ltd 2016, *Submission to the Consultation Paper*, 1 February, p. 2.

FIGURE 4.6 AVERAGE CUSTOMER WAIT MINUTES FOR BOOKED TRIPS ON EVENINGS PRIOR TO PUBLIC HOLIDYS AND DURING PUBLIC HOLIDAYS
2014-15



We propose to retain the current arrangements whereby the peak tariff rates apply as maximum fares on Christmas Day, Boxing Day, New Year's Eve from 6pm and New Year's Day.

4.5.3 A NEW MAXIMUM PEAK BOOKING CHARGE

From our analysis, we have concluded that reductions in taxi trips are largely a result of consumers increasingly switching to alternative commercial passenger vehicle services – that is, services that are booked. As such, we do not propose to increase the level of peak period maximum fares for all taxi trips. Rather, we propose to enable greater flexibility for booked taxis to compete with other booked commercial passenger vehicles.

On Friday and Saturday nights, we have concluded the high demand for taxi trips is also likely to be affecting the reliability of taxi booking services.

With greater competition in the market for booking services, and advances in smartphone technology driving new and innovative booking methods, we consider there is merit in allowing for a new 'maximum peak booking charge'.

However, before proceeding with a final decision on this proposal, we need to be satisfied from stakeholder feedback and submissions that there is interest in a maximum peak booking charge, and that it would promote improved service offerings and outcomes for consumers.

We will not proceed with this proposal if the industry cannot satisfy us during the forthcoming consultation period that it will promote better and more competitive service outcomes for consumers.

THE PURPOSE OF A MAXIMUM PEAK BOOKING CHARGE

The intention of allowing this charge would be two-fold: (1) to improve incentives for taxis to operate during peak times; and (2) to improve incentives for greater taxi booking reliability during peak times through new and innovative service offerings that consumers may value.

MAXIMUM CHARGE AND CONDITIONS

The peak booking charge would be capped at a maximum of $10 and only be applicable for booked taxi trips commencing during times when the peak tariff maximum fares apply.

The charge would be separate to the standard maximum $2 booking fee (that is, it may apply in addition to a booking fee), but would be subject to additional conditions of information provision to consumers at the time of booking.

At the time of booking, passengers would have to be informed of the charge offered by the booking network, given the choice to accept or withdraw the booking and given confirmation of the charge accepted.

Examples of peak taxi fares under this proposal are summarised in Table 4.4, with different levels of peak booking charges.[39]

[39] Note that these percentage differences are larger for trips that occur between 7pm and 10pm on Friday and Saturday nights, as these trips are currently subject to the 'overnight tariff' maximum fares rather than the 'peak tariff' maximum fares.

TABLE 4.4 EXAMPLE PEAK TAXI FARES
Comparison of fares with different peak booking charges within the $10 maximum

	Peak period taxi fares with peak booking charge		
Trip distance	**With $0 charge**	**With $5 charge**	**With $10 charge**
5 kilometres	$20.91	$25.91 (24 per cent higher)	$30.91 (48 per cent higher)
10 kilometres	$32.23	$37.23 (16 per cent higher)	$42.23 (31 per cent higher)
20 kilometres	$54.87	$59.87 (9 per cent higher)	$64.87 (18 per cent higher)

Note: These fares are estimated using the Taxi Services Commission's fare estimation equation plus a booking fee of $2

Historically, the market for taxi booking services in Melbourne has been highly concentrated (predominantly serviced by the two major traditional networks). In the past, facing little competition from other networks or different business models, the risk of this proposal resulting in higher fares without service quality improvements would have been much greater. Now, with more competition from third party taxi booking app networks and other smartphone based booking networks, such a risk is less likely.

Rank and hail taxi services may also provide further competitive pressure on the level of peak booking fees, as consumers may respond to high fees by choosing to procure taxis at ranks or by hailing them from the street.

HOW A MAXIMUM PEAK BOOKING CHARGE MAY WORK IN PRACTICE

As we intend for this charge to promote incentives for new and innovative service offerings, we do not seek to prescribe to taxi service providers how this charge should be applied.

We envisage that taxi booking networks would set a charge within the maximum cap of $10. Booking networks could include traditional networks, smartphone taxi booking app providers or any potential new types of network business models.

If competition in the pre-booked commercial passenger vehicle market is effective, we would expect that networks would not automatically set their charge at the maximum of $10.

Networks may choose to vary the charge within the bounds of the maximum, perhaps in response to supply and demand conditions, with the charge set at $0 when the network is not busy. The charge could also conceivably be offered as payment for booking guarantees or other types of service offerings consumers may value during these peak times.

There are many ways taxi networks may choose to use a maximum peak booking charge to improve service offerings. An example is described in Box 4.1, however, this is intended only as illustrative example and is not intended to limit or prescribe what taxi service providers may offer.

BOX 4.1 MAXIMUM PEAK BOOKING CHARGE: ILLUSTRATIVE EXAMPLE OF A SMARTPHONE APP BASED TAXI BOOKING OFFERING

Smartphone apps for commercial passenger vehicle transport commonly require users to register their contact and payment details before they can use the app, enabling booking and payment of fares through the app.

For trips during peak times, in addition to the standard booking option, a peak booking guarantee option could become available to customers using taxi networks' booking app. This might involve customers making a booking well in advance of the trip, or at the time they are ready to be picked up.

On the customer's smartphone, a screen may appear offering the option of a booking guarantee, with say two options – a cheaper option could provide a guarantee that a taxi arrives within 10 minutes and the more expensive could guarantee that a taxi would arrive within 5 minutes.

To avoid accidental selection, a confirmation screen could be added to ensure the customer understands that selecting a peak booking guarantee would attract a peak booking charge.

Once the customer has confirmed, the peak booking charge would be charged to their registered payment details. If the taxi arrives within the designated time, the network would retain the peak booking charge, if not it would be refunded.

(CONTINUED FROM PREVIOUS PAGE)

A network might also set up an arrangement whereby part of the fee is retained if the customer cancels the booking after initially accepting and confirming (perhaps because they decide they no longer need the taxi, or they hail a different taxi).

As a record of the transaction, an email or text would be sent to the customers registered email address or phone number.

Such service offerings need not be limited to smartphone app based bookings. Telephone or internet bookings could conceivably set up similar types of customer registration arrangements to facilitate this or other kinds of service offerings.

POTENTIAL BENEFITS OF A NEW MAXIMUM PEAK BOOKING CHARGE

A peak booking charge would provide pre-booked taxi service providers with greater ability to respond to competition from alternative pre-booked services by providing scope to improve their service offerings. Improved service quality for pre-booked taxis could potentially arise through:

- incentives for taxis to remain on the road during the peak tariff period, providing a greater availability of taxis for passengers
- improved reliability of taxi booking services at peak demand times
- incentives for more innovative taxi booking service models to develop.

POTENTIAL RISKS

If competition in the pre-booked commercial passenger vehicle market is not effective in driving service improvements, there is a risk that consumers could pay more for taxi services without receiving any offsetting benefits in service quality or taxi availability.

We would be concerned if fare increases of the maximum possible magnitude were to occur for a large proportion of trips without any improvement in service levels for consumers. Accordingly, we seek feedback from taxi service providers on how a maximum peak booking charge might be implemented in practice and benefit consumers.

FEEDBACK REQUIRED BEFORE A FINAL DECISION IS MADE

Given the potential risks of introducing a new maximum peak booking charge, we expect detailed submissions (either publicly or confidentially) from taxi service providers providing information and examples of how this charge would be implemented. We will not proceed with implementing the maximum peak booking charge if:

- we receive little or no interest in this proposal
- taxi service providers do not demonstrate genuine potential for improved consumer outcomes.

If our final decision is to proceed with the proposed maximum peak booking charge, we will monitor how it is implemented by taxi service providers. If we were to observe limited progress in price or service quality competition as a result of introducing this charge, we would consider revisiting our decision before our next fare review.

4.6 REVIEW OF OTHER TAXI FARE DECISIONS MADE IN 2014

The Commission has reviewed the following decisions made following our 2014 taxi fare review:

- increases in flagfall charges relative to distance rates, to reduce incentives for drivers to refuse short fares
- a change in the fare structure for High Occupancy Vehicle (HOV) trips, replacing the previous 50 per cent surcharge on the waiting time and distance rates with a flat fee surcharge of $14
- retention of the fare arrangements for multiple hire trips.[40]

Each of these decisions related to recommendations of the Taxi Industry Inquiry.

Our review of these decisions can be found in Appendix F. We do not propose any further changes for this review.

[40] Essential Services Commission 2014, *Taxi Fare Review 2013-14 – Final Report*, March, pp. 65 & 101.

4.7 SUMMARY OF OUR DRAFT DECISIONS ON MAXIMUM TAXI FARES FOR THE METROPOLITAN ZONE

DRAFT DECISIONS FOR MAXIMUM TAXI FARES: THE METROPOLITAN ZONE

1. No change to the current level of maximum fares outside peak tariff periods.
2. Peak tariff rates would apply as maximum fares from 7pm on Friday and Saturday nights until 4am the following morning (instead of from 10pm to 4am currently).
3. Peak tariff rates would apply as maximum fares from 7pm **on the evenings prior to** all public holidays until 4am on the morning immediately following.
4. Peak tariff rates would continue to apply as maximum fares all day Christmas Day and Boxing Day, from 6pm on New Year's Eve and all day New Year's Day (but not after 4am on other public holidays).
5. No change to current maximum charges for existing peak tariff fare components (flagfall, distance rate, waiting time rate, booking fee or other extras).
6. A new 'maximum peak booking charge', capped at a maximum of $10, could be charged subject to the following conditions:
    a. only for booked taxi trips commencing during times when peak tariff rates apply as maximum fares
    b. at the time of booking, passengers must be informed of a peak booking charge, given the choice to accept or withdraw the booking, and given confirmation of any charge accepted.

Note on draft decision 6:

Our intentions of allowing a maximum peak booking charge are to encourage greater availability of taxis during times of peak demand, and to provide scope for taxi booking reliability or other service offerings valued by consumers at these times.

We seek comment from taxi service providers on their interest in a maximum peak booking charge and how it may be applied in practice. Before proceeding with this draft decision we will need to be satisfied from submissions that there is interest in the

(CONTINUED FROM PREVIOUS PAGE)

ability to apply a peak booking charge, and that it has the potential to improve outcomes for taxi passengers.

TABLE 4.5 DRAFT NEW MAXIMUM TAXI FARES FOR THE METROPOLITAN ZONE

	Tariff 1 'Day' (9am–5pm)	**Tariff 2** 'Overnight' (5pm–9am, excluding peak)	**Tariff 3** 'Peak' (Fri & Sat nights 7pm–4am)
Standard fare components	**Maximum charge up to**		
Flagfall ($)	4.20	5.20	6.20
Distance rate ($/km) (applies when speed is above 21 km/hr)	1.622	1.804	1.986
Waiting time ($/min) (applies when speed is below 21 km/hr)	0.568	0.631	0.695

Other fare components (applicable to tariffs 1, 2 and 3)		**Maximum charge up to**
High occupancy fee	For trips with 5-11 passengers or when high occupancy vehicle specifically requested Not applicable for wheelchair passenger trips	$14.00
Booking fee	For booked trips	$2.00
Premium service charge	For booked trips where vehicle is participating in a 'premium service scheme'	$11.00
Airport booking fee	For trips booked for pick up from Melbourne Airport	$3.00
Airport rank fee	For trips from the Melbourne Airport rank	$2.70
Holiday rate	For trips commencing between 7pm on evenings prior to all public holidays, through to 4am the following morning. For trips commencing on Christmas Day, Boxing Day, New Year's Day and from 6pm on New Year's Eve	Tariff 3 rates
Maximum peak booking charge	For booked trips when Tariff 3 applies	$10.00

5 MAXIMUM TAXI FARES FOR THE URBAN AND LARGE REGIONAL ZONE

KEY POINTS

On the basis of the information available to us, we consider that the current level of taxi fares in the urban zone is sufficient to promote investment in taxi services to meet demand.

We also consider that there is evidence to suggest that some changes to the balance in fares between different tariff periods could help increase supply at times of excess demand.

Data on customer wait times suggest that the holiday rate should apply on the evenings prior to all public holidays.

5.1 INTRODUCTION

In this chapter we review maximum taxi fares in the urban zone.

There are three main issues considered in this chapter:

- taxi fares in the urban zone (Section 5.2)
- how fares vary across a standard week (Section 5.3)
- what fares should apply for public holidays (Section 5.4)

THE AREAS OF THE URBAN ZONE

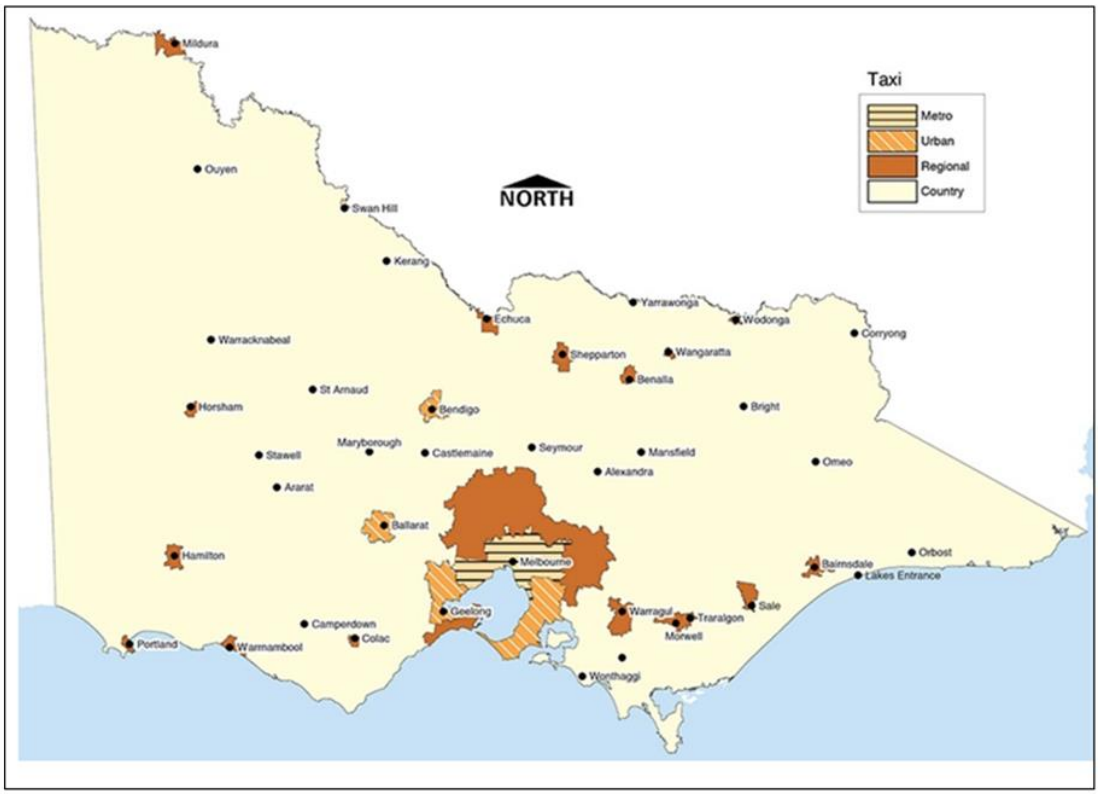
The urban zone consists of four geographically separated areas, which we refer to in this report as follows:

1. The ‘eastern urban area’, covering Dandenong, Frankston and the Mornington Peninsula
2. Geelong
3. Ballarat
4. Bendigo.

We refer to Geelong, Ballarat and Bendigo collectively as the ‘western urban area’.

Figure 5.1 illustrates the areas that make up the urban zone.

FIGURE 5.1 MAP OF VICTORIAN TAXI ZONES



Source: Taxi Services Commission

At the time of our last taxi fare review in May 2014, taxi zone boundaries in Victoria were defined differently. Shortly after the completion of our review, the current zone boundaries were established by the Taxi Services Commission as part of the broader industry reform implementation agenda.

Given the timing of the 2014 fare review, and the subsequent changes to taxi zones, we determined that the 'eastern urban area' (Dandenong, Frankston and the Mornington Peninsula) would adopt the same fares as the metropolitan zone; while the 'western urban area' (Ballarat, Bendigo, and Geelong) would retain its original fare structure. As a result, regulated maximum fares are not applied consistently across the urban zone. The current fares for the eastern and western urban areas are set out in Section 5.3.1 of this chapter.

DATA AVAILABILITY FOR EACH AREA

The amount of taxi trip data available to us for each area is mixed and typically less complete than the rich source of data we have been able to utilise in reviewing fares in the metropolitan zone. Where trip data are unavailable, this limits our ability to determine how taxi fares should vary across different time periods.

Data available to us for the Geelong and Bendigo areas is relatively complete whereas for the eastern urban area, the data we have largely reflects the Dandenong area but includes limited coverage of the Mornington Peninsula. For Ballarat, we have very little data on taxi trips and therefore we have been limited in the conclusions we can make. However, the draft conclusions we do make about Ballarat have been informed by stakeholder consultation.

Despite the mixed availability of trip data, we have relatively complete information on the supply of taxis across all areas.

5.2 TAXI FARES IN THE URBAN ZONE

In reviewing market outcomes in the urban zone, we seek to better understand the balance of the supply and demand for taxis, the influence of taxi fares on these outcomes, and how these change over time.

To review market outcomes we assess the following market indicators: changes in the volume of taxi trips (as a proxy for taxi demand), changes in the number of active taxis (as a proxy for supply) and customer wait times (as a proxy for service levels). We also draw on comparisons to the metropolitan zone to provide context for service levels and other observations relevant to assessing the fare level.

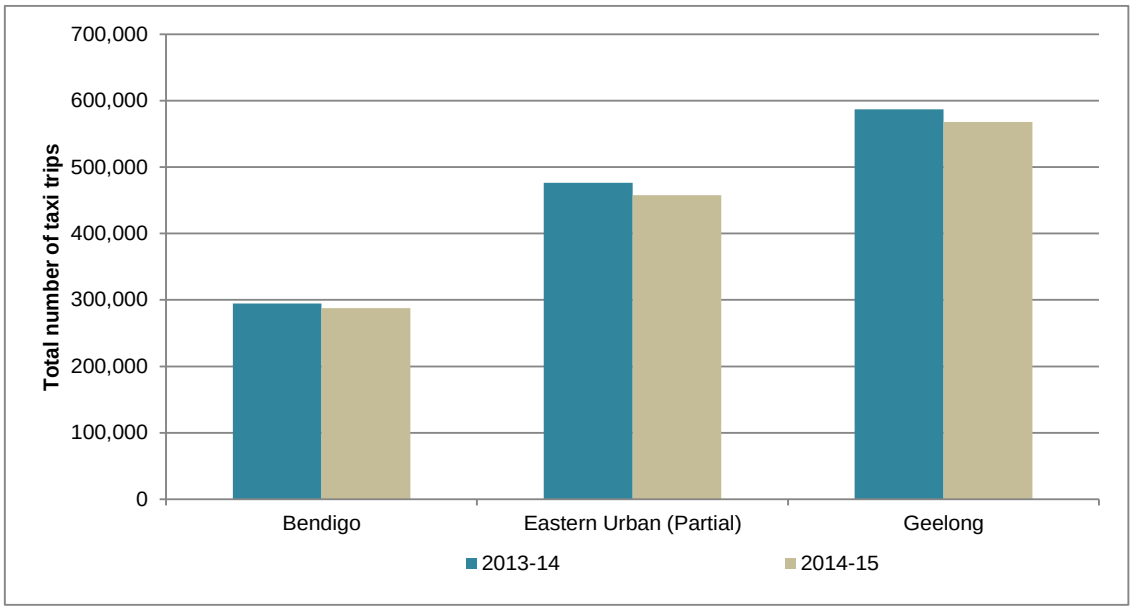
Understanding these market indicators provides guidance about what should happen to maximum taxi fares in the urban zone.

5.2.1 ASSESSMENT OF MARKET INDICATORS

DEMAND FOR TAXI TRIPS IN THE URBAN ZONE

Demand for taxis (trip numbers) in the urban zone has decreased since our last fare review in May 2014. Figure 5.2 presents a comparison of the number of trips in different areas of the urban zone for the first half of 2013-14 (representative of a period before the 2014 fare increase); and the first half of 2014-15 (representative of a period after the fare increase).

FIGURE 5.2 TRIP NUMBERS ACROSS THE URBAN ZONE
First half of 2013-14 and 2014-15



Note: The first half of each financial year has been used due to data availability. Ballarat has not been included as we do not have trip data for Ballarat.

Some of the decrease in demand observed in Geelong and the eastern urban area may be due to the emergence of new competitors in the market for commercial passenger vehicles.

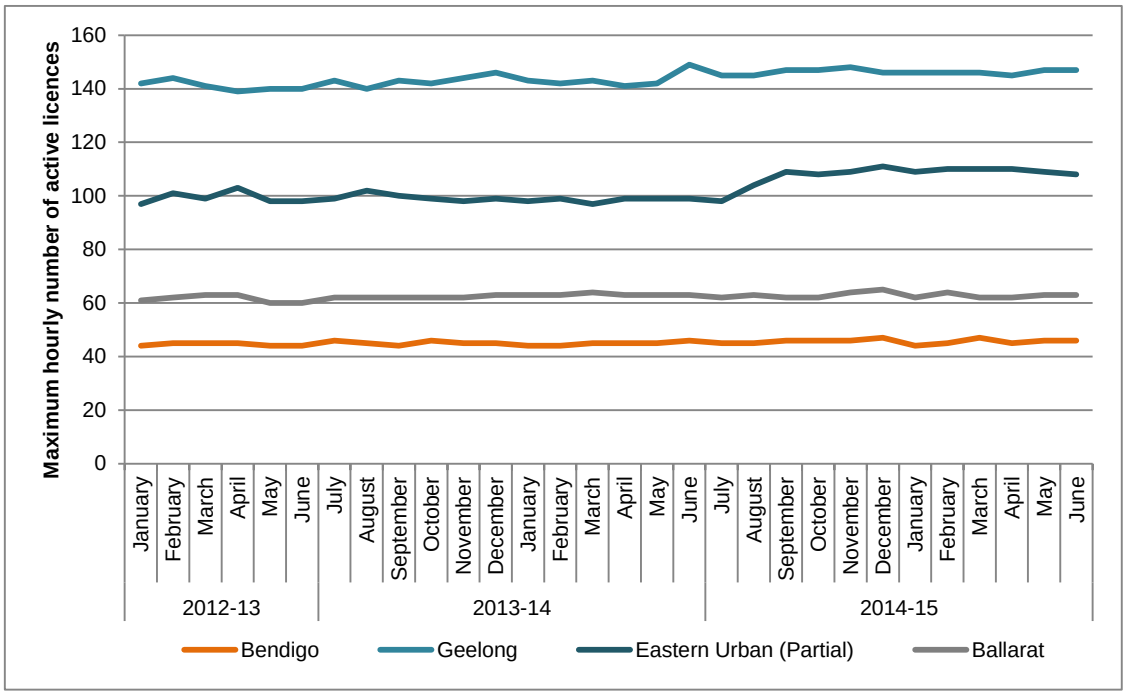
SUPPLY OF TAXIS IN THE URBAN ZONE

Following the May 2014 increase in taxi fares and the removal of taxi licence quantity restrictions in June 2014, the number of taxis in each area of the urban zone has increased or remained stable. This suggests that the fare level is at least sufficient to cover the costs of the existing fleet. If the fare level were too low, new entry would not be viable.

The levels of taxi supply in each area of the urban zone are represented in Figure 5.3, which shows the maximum number of taxis in operation at any one time for each month between January 2013 and July 2015. The maximum level of taxi supply is measured as the highest number of active shifts during an hour of peak supply.[41] In the data available to us, the number of active shifts in the eastern urban area increased by roughly 10 per cent between January 2013 and July 2015. At the same time, the number of active shifts in Ballarat, Bendigo and Geelong has remained relatively stable.

[41] This excludes times where shift crossovers occur. The number of active shifts observed in the data can briefly spike during the crossover.

FIGURE 5.3 MAXIMUM ACTIVE SHIFTS IN THE URBAN ZONE BY AREA
January 2013 to July 2015



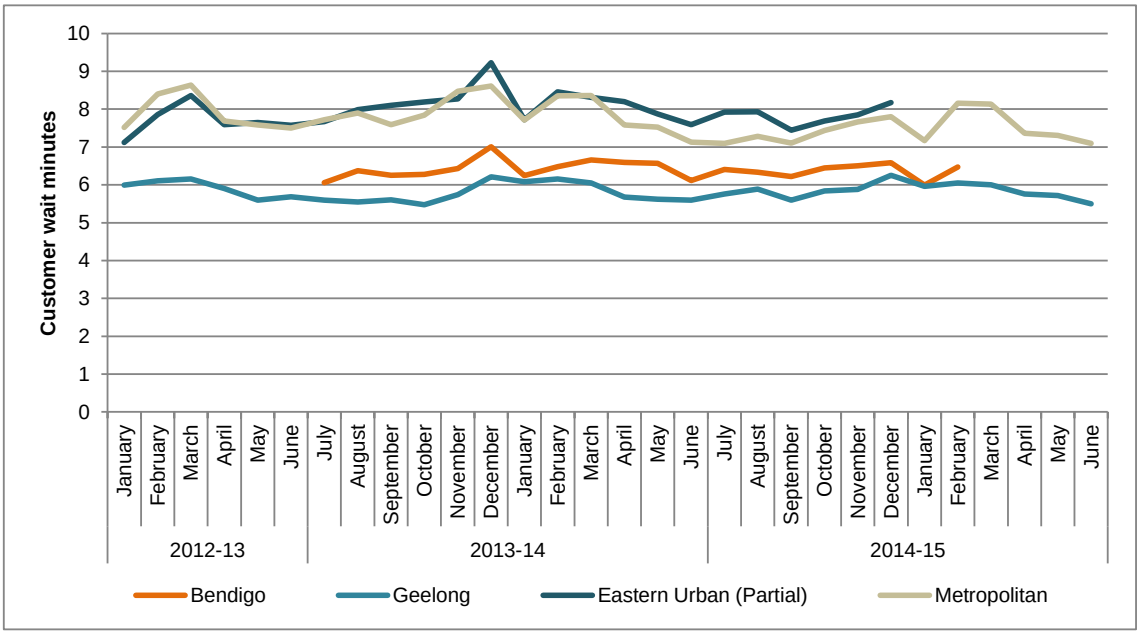
Source: Taxi Services Commission

CUSTOMER WAIT TIMES IN THE URBAN ZONE

In the urban zone, customer wait times tend to be similar or slightly lower than they are in the metropolitan zone. This can be seen in Figure 5.4, which compares average customer wait times for booked taxi trips across each area for each month between January 2013 and July 2015.

Figure 5.4 shows that customer wait times for Geelong and Bendigo are lower than those in the metropolitan zone; while in the eastern urban area (Dandenong, Frankston and the Mornington Peninsula) customer wait times are roughly equivalent to those in the metropolitan zone.

FIGURE 5.4 COMPARISON OF CUSTOMER WAIT TIMES: URBAN AND METROPOLITAN ZONES
January 2013 to July 2015



Note: Customer wait times relate to booked trips only. Ballarat has not been included as we do not have trip data for Ballarat.

Taxi service levels in each area of the urban zone (as reflected in customer wait times) are as good, or better, than in the metropolitan zone. Also, taxi service levels have remained relatively stable since our last fare review. These market outcomes support the case that the current fare level in the urban zone is adequate to service demand.

TAXI COSTS IN THE URBAN ZONE

Drawing on our analysis of taxi cost indices presented in Chapter 3, we conclude that costs in the urban zone are likely to have decreased by a similar amount as they have in the metropolitan zone – this decrease is due largely to lower fuel costs.

5.2.2 ASSESSMENT OF FARES IN THE URBAN AREA

Our findings in relation to the urban zone can be summarised as follows:

- taxi trip numbers have decreased

- the supply of taxis has either increased or remained stable (depending on the area)[42]
- customer wait times have remained stable
- the cost of supplying taxi services has decreased.

We also noted that service levels in the urban zone (as reflected in customer wait times) are similar to, or better than, in the metropolitan zone.

Our observations in the urban zone of declining demand, increasing or stable supply and declining costs suggest that taxi fares are at a level that is capable of promoting sufficient investment in taxi services and therefore do not require a fare increase. In fact, the observations regarding supply and costs could provide a case for fares to fall. However, as we discussed in Chapter 2, given the current environment of government reforms promoting a more competitive industry and an increasingly competitive market for commercial passenger vehicle services, the regulatory risk of reducing fares through regulation is likely to have greater consequences than if they were set too high.

As a result, we take a cautious approach to altering fares in the urban area. Rather than lowering maximum fares, we note that taxi service providers in the urban zone have the ability to lower their fares below the regulated maximum fare. Alternatively, taxi service providers may leave fares unchanged but seek to invest in enhanced service experiences for customers or more innovative service offerings. Most importantly, these are operational decisions - decisions that are most appropriately made by the industry participants who interact directly with customers. Industry participants, not regulators, should be making these operational decisions.

DRAFT CONCLUSION ON TAXI FARES IN THE URBAN AREA

The current fare level appears sufficient to attract enough investment to maintain the current level of service quality of taxis in the urban zone.

[42] The supply of taxis in the eastern urban area has increased while the supply of taxis has remained relatively stable in the western urban area.

5.3 VARIATION IN FARES ACROSS THE WEEK

In this section we review how fares vary across a standard week in each area of the urban zone. We consider whether the structure of fares could be adjusted to promote improvements to the balance of the supply of, and demand for, taxis across the week.[43]

5.3.1 HOW FARES CURRENTLY VARY ACROSS THE WEEK

EASTERN URBAN AREA (DANDENONG, FRANKSTON AND MORNINGTON PENISULA)

In the eastern urban area, the structure of taxi fares currently follows the metropolitan zone fare structure, which includes three tariff periods – 'day', 'overnight' and 'peak' – as follows:

[43] We have analysed first half financial year 2015 data for each of the urban zone areas in this section. This is because it is the only half year period that we have full data for most parts of the urban zone.

TABLE 5.1 MAXIMUM TAXI FARES FOR THE EASTERN URBAN AREA

	Tariff 1 'Day' (9am–5pm)	Tariff 2 'Overnight' (5pm–9am, excluding peak)	Tariff 3 'Peak' (Fri & Sat nights 10pm–4am)
Standard fare components	**Maximum charge up to**		
Flagfall ($)	4.20	5.20	6.20
Distance rate ($/km) (applies when speed is above 21 km/hr)	1.622	1.804	1.986
Waiting time ($/min) (applies when speed is below 21 km/hr)	0.568	0.631	0.695

Other fare components (applicable to tariffs 1, 2 and 3)		**Maximum charge up to**
High occupancy fee	For trips with 5-11 passengers or when high occupancy vehicle specifically requested Not applicable for wheelchair passenger trips	$14.00
Booking fee	For booked trips	$2.00
Premium service charge	For booked trips where vehicle is participating in a 'premium service scheme'	$11.00
Airport booking fee	For trips booked for pick up from Melbourne Airport	$3.00
Holiday rate	For trips commencing on Christmas Day, Boxing Day, New Year's Day and from 6pm on New Year's Eve	Tariff 3 rates

WESTERN URBAN AREA (GEELONG, BALLARAT, BENDIGO)

In contrast, the fare structure in Geelong, Ballarat and Bendigo does not include any variation in fares across the week. Rather it is comprised of one standard maximum tariff applicable at all times, plus a 'late night fee', applicable from midnight to 6am.

Additionally, a 'holiday rate' applies on Christmas Day, Boxing Day, New Year's Eve from 6pm and New Year's Day. On these days the 'late night fee' does not apply.

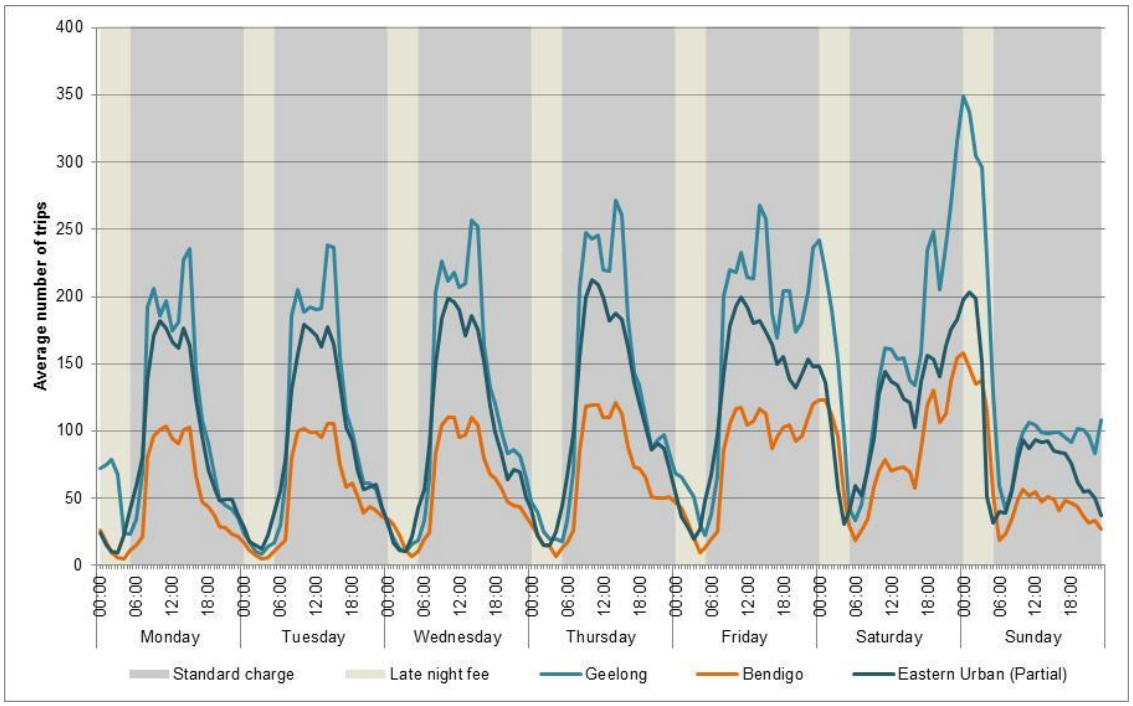
TABLE 5.2 MAXIMUM TAXI FARES FOR THE WESTERN URBAN AREA

Standard trips		**Maximum charge up to**
Flagfall ($)		3.60
Distance rate ($/km) (applies when speed is above 21 km/hr)		1.838
Waiting time ($/min) (applies when speed is below 21 km/hr)		0.643
High occupancy trips		**Maximum charge up to**
For trips with 5-11 passengers or when high occupancy vehicle specifically requested Not applicable for wheelchair passenger trips		
Flagfall ($)		3.60
Distance rate ($/km) (applies when speed is above 21 km/hr)		2.757
Waiting time ($/min) (applies when speed is below 21 km/hr)		0.965
Other fare components		**Maximum charge up to**
Late night fee (midnight to 6am)	For all trips between midnight and 6am	$3.40
Booking fee	For booked trips	$2.10
Premium service charge	For booked trips where vehicle is participating in a 'premium service scheme'	$11.00
Airport booking fee	For trips booked for pick up from Melbourne Airport	$3.00
Holiday rate	Applies all day Christmas Day, Boxing Day, New Year's Day and from 6pm on New Year's Eve	$4.20

5.3.2 HOW DEMAND VARIES ACROSS THE WEEK IN THE URBAN ZONE

The pattern of demand in the urban zone is typically characterised by relatively high trip numbers during business hours and Saturday nights, with low demand on weeknights and Sundays. Figure 5.5 shows the average number of taxi trips for each hour of the week for the first half of financial year 2014-15 for Geelong, Bendigo, and parts of the eastern urban area.

FIGURE 5.5 COMPARISON OF TRIP NUMBERS IN THE URBAN ZONE
First half of 2014-15



Note: Ballarat is not included as trip data is not available.

APPROACH TO CHANGING FARES ACROSS THE WEEK

To identify periods where there are potential imbalances in the supply of, and demand for, taxis, we have analysed occupancy rates and taxi supply across the week in each area.[44]

The occupancy rate provides a measure of how well taxi capacity is being used. For example, when the taxi occupancy rate is low, there may be more taxis than are required to service demand. Conversely, when the occupancy rate is high, there may be too few taxis to service demand. Taxi supply provides some indication of supply constraints at the current fare level.[45]

[44] The occupancy rate is calculated as the number of total trip minutes for the relevant hour divided by the total number of shift minutes for all taxis operating during the relevant hour.

[45] If supply data shows that taxi supply is at its peak at a time with high occupancy, increasing fares at this time may not increase supply. We have used data on taxi supply across the week to check where taxi supply is at its maximum.

Occupancy rates as an indicator of supply and demand balance

Where taxi occupancy rates are around 48 per cent there may be excess demand. The Taxi Industry Inquiry found that there was considerable dissatisfaction with the low availability of taxi services on Friday and Saturday nights in Melbourne.[46] At that time, taxi occupancy rates peaked at 48 per cent and 55 per cent on Friday and Saturday nights respectively.[47] Therefore we have used these occupancy rates (48 to 55 per cent) as a guide as to what level of taxi occupancy rates may lead to issues with service availability.

Where there are time periods across the week at which supply and demand are out of balance, one solution is to alter the structure of taxi fares by changing taxi tariff periods. This can improve the incentives for drivers to drive at times when their services are needed and to not drive when they are not.

In Sections 5.3.3 to 5.3.6, we present our analysis of occupancy rates in each area of the urban zone. That is, in the 'western urban area' (Geelong and Bendigo)[48]; and in the 'eastern urban area' (Dandenong, Frankston and the Mornington Peninsula). In Section 5.3.7 this we present our draft conclusions based on this analysis.

5.3.3 TARIFF PERIODS IN GEELONG

Excess supply in Geelong on weekday mornings

Figure 5.6 shows the average taxi occupancy rates in Geelong for each hour of the week during the first half of financial year 2014-15. Taxi occupancy rates early on weekday mornings from Tuesday to Friday (between midnight and 7am) tend to be below 15 per cent. Such low occupancy rates indicate that there may be surplus taxis on the road at these times of the morning.

46 Victorian Taxi Industry Inquiry 2012, *Draft Report – Customers First: Service, Safety, Choice*, May, p. 46.

47 Essential Services Commission 2014, *Taxi Fare Review 2013-14 - Final Report*, March, p. 90.

48 As discussed earlier in this chapter, no occupancy data is available for Ballarat.

Excess demand in Geelong on weekdays at 3pm and on Saturday night

Figure 5.6 shows that on weekdays at 3pm and late on Saturday nights / Sunday mornings, the occupancy rate reaches 48 per cent. As explained on page 81 of Section 5.3.2, occupancy rates of around 48 per cent are an indicator that there may be too few taxis on the road to service demand.

FIGURE 5.6 AVERAGE OCCUPANCY RATES ACROSS THE WEEK: GEELONG
First half of 2014-15

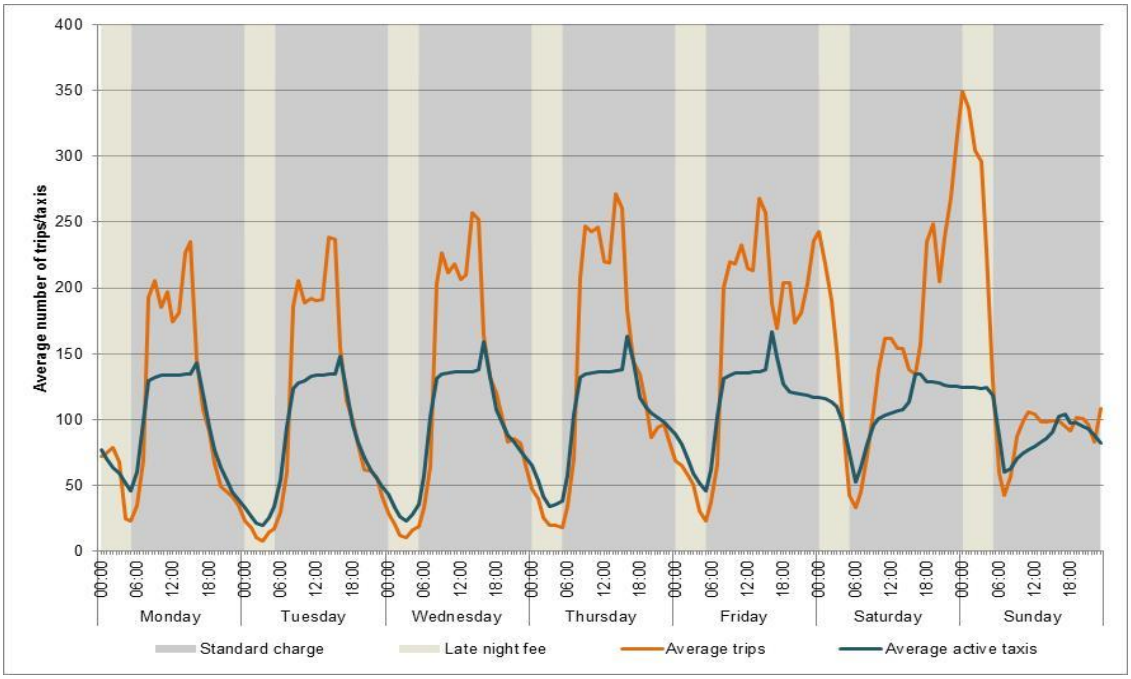
	Day of week						
Hour	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
12am-1am	16%	13%	11%	12%	13%	33%	48%
1am-2am	18%	11%	11%	13%	14%	31%	48%
2am-3am	22%	9%	8%	10%	14%	29%	46%
3am-4am	26%	6%	7%	9%	16%	27%	45%
4am-5am	14%	11%	12%	12%	14%	23%	38%
5am-6am	16%	14%	14%	12%	13%	18%	28%
6am-7am	13%	12%	13%	12%	13%	14%	21%
7am-8am	13%	12%	12%	12%	12%	15%	16%
8am-9am	35%	33%	35%	35%	34%	15%	15%
9am-10am	30%	30%	32%	33%	31%	18%	20%
10am-11am	22%	24%	24%	28%	25%	21%	21%
11am-12pm	23%	23%	25%	28%	26%	25%	22%
12pm-1pm	21%	23%	24%	26%	26%	26%	22%
1pm-2pm	22%	23%	24%	26%	26%	23%	19%
2pm-3pm	27%	28%	32%	31%	34%	25%	20%
3pm-4pm	44%	44%	46%	47%	49%	22%	18%
4pm-5pm	25%	28%	29%	32%	34%	23%	20%
5pm-6pm	21%	21%	22%	23%	26%	21%	16%
6pm-7pm	18%	19%	20%	20%	29%	30%	15%
7pm-8pm	15%	17%	17%	16%	27%	30%	16%
8pm-9pm	13%	14%	15%	14%	22%	25%	16%
9pm-10pm	15%	16%	16%	15%	24%	28%	16%
10pm-11pm	14%	15%	16%	15%	26%	33%	15%
11pm-12am	14%	13%	14%	14%	31%	41%	21%

Implications for the current Geelong fare structure

These patterns suggest that fares could be decreased early on weekday mornings, and increased on weekday afternoons and on Saturday nights.

Increasing fares could improve taxi supply on Saturday nights. This is because Geelong's taxi fleet is not at full utilisation on Saturday nights. However, increasing fares in the afternoon may not induce vehicles that are off the road to come into service.[49] These two points are illustrated in Figure 5.7 which compares the average number of active shifts and trips made in Geelong for each hour of the week during the first half of financial year 2014-15.

FIGURE 5.7 COMPARISON OF AVERAGE NUMBER OF ACTIVE TAXI SHIFTS AND TRIPS MADE IN GEELONG
First half of 2014-15



5.3.4 TARIFF PERIODS IN BENDIGO

Excess supply in Bendigo weekday mornings

Figure 5.8 shows taxi occupancy rates in Bendigo across different hours of the week. It shows that early on Tuesdays, Wednesdays, and Thursdays between midnight and

[49] This is because the entire taxi fleet is on the road as fleet utilisation appears to be above 90 per cent on weekday afternoons. 90 per cent is a high rate of average fleet utilisation. This is because there will never be 100 per cent fleet utilisation as some vehicles will always be off the road for repair and maintenance and other operational reasons.

7am, taxis appear to be occupied less than 20 per cent of the time. This may indicate that there are too many taxis on the road at these times.

Excess demand in Bendigo weekday afternoons and Friday/Saturday nights

Figure 5.8 also shows that taxi occupancy rates on weekday afternoons (at 3pm), Friday nights, and Saturday nights are higher than at any other time of the week in Bendigo. There may be some service availability issues at these times, as occupancy rates approach or exceed 48 per cent.[50]

[50] See page 83 of Section 5.3.2 for further detail on using occupancy rates as a tool for assessing the balance of supply and demand for taxis.

FIGURE 5.8 AVERAGE OCCUPANCY RATES ACROSS THE WEEK: BENDIGO
First half of 2014-15

	Day of week						
Hour	**Monday**	**Tuesday**	**Wednesday**	**Thursday**	**Friday**	**Saturday**	**Sunday**
12am-1am	25%	20%	18%	16%	20%	42%	51%
1am-2am	22%	16%	20%	17%	21%	43%	50%
2am-3am	18%	18%	18%	14%	19%	40%	47%
3am-4am	17%	14%	20%	16%	24%	38%	49%
4am-5am	13%	12%	15%	14%	18%	26%	44%
5am-6am	14%	11%	14%	18%	18%	23%	28%
6am-7am	13%	13%	16%	14%	16%	15%	16%
7am-8am	10%	8%	11%	11%	10%	14%	15%
8am-9am	30%	30%	31%	31%	30%	13%	14%
9am-10am	31%	33%	35%	37%	34%	20%	21%
10am-11am	31%	31%	34%	37%	35%	26%	24%
11am-12pm	34%	32%	35%	36%	36%	29%	22%
12pm-1pm	30%	32%	32%	34%	32%	26%	23%
1pm-2pm	29%	30%	32%	34%	34%	27%	19%
2pm-3pm	33%	34%	36%	38%	39%	26%	21%
3pm-4pm	41%	43%	42%	44%	44%	26%	21%
4pm-5pm	29%	32%	34%	37%	38%	26%	20%
5pm-6pm	23%	23%	27%	28%	33%	30%	23%
6pm-7pm	20%	21%	23%	25%	31%	36%	23%
7pm-8pm	19%	19%	20%	22%	31%	38%	23%
8pm-9pm	16%	16%	18%	19%	27%	31%	20%
9pm-10pm	17%	18%	18%	19%	28%	33%	20%
10pm-11pm	16%	19%	19%	20%	33%	40%	21%
11pm-12am	17%	18%	18%	20%	38%	47%	20%

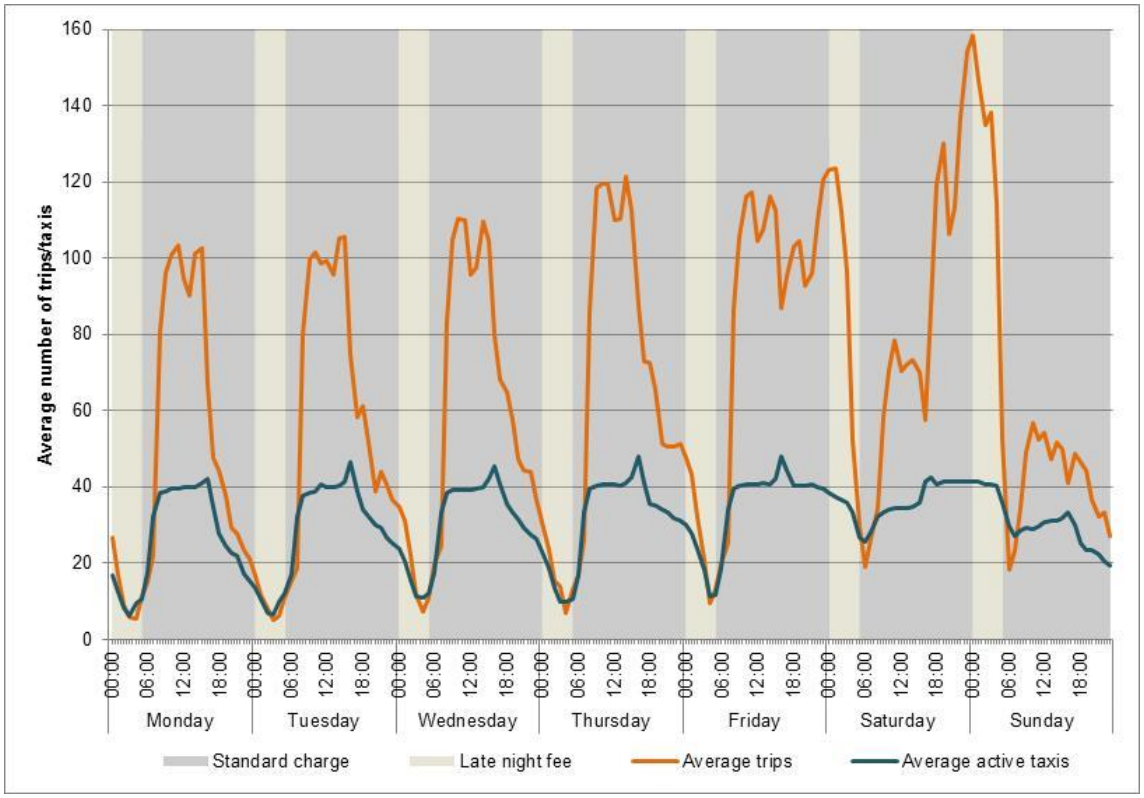
Note: Occupancy rates on weekdays are very low between 7am and 8am, prior to the beginning of the morning peak. This is caused by some drivers starting their shifts before the busy morning period begins. As a result the occupancy rate decreases because there is no commensurate increase in trip numbers at this time.

Implications for the current Bendigo fare structure

These market outcomes in Bendigo suggest there may be too many taxis on the road on weekday mornings and too few on weekday afternoons, Friday nights, and Saturday nights.

As the taxi fleet appears to be at full utilisation weekday afternoons and Saturday nights,[51] higher fares at these times may not induce extra supply.[52] However, it may be possible to increase the number of taxis in service on Friday nights. This is because fleet utilisation is not at its maximum on Friday nights. Figure 5.9 shows that on Friday nights, drivers in Bendigo begin to end their shifts from 6pm, before Friday night demand peaks. Increasing the return to drivers on Friday nights may encourage taxi drivers to continue their shifts instead of ending them early.

FIGURE 5.9 COMPARISON OF AVERAGE NUMBER OF ACTIVE TAXI SHIFTS AND TRIPS MADE IN BENDIGO
First half of 2014-15



51 Taxi network trip and shift data provided by the Taxi Services Commission and ESC analysis

52 Fleet utilisation in Bendigo appears to be around 90 per cent on weekday afternoons and Saturday nights. This is a high rate of average fleet utilisation as vehicles must spend some time off the road for vehicle maintenance and other operational reasons.

5.3.5 TARIFF PERIODS IN THE EASTERN URBAN AREA (DANDENONG, FRANKSTON AND THE MORNINGTON PENINSULA)

Excess supply early on weekday mornings and 7am to 8am on weekends

Figure 5.10 presents the average occupancy rates for each hour of the week in the eastern urban area. Taxi occupancy rates tend to be below 20 per cent early on weekday mornings and between 7am and 8am on weekends. This suggests there may be a surplus of taxis in service at these times.

Excess demand weekday afternoons, Friday nights, and Saturday nights

Figure 5.10 also shows that taxi occupancy rates approach 48 per cent on weekday afternoons at 3pm and on Saturday nights. This suggests that there may be excess demand at these times. [53]

The data available to us suggests that, at an aggregate level, taxi supply is sufficient to meet demand on Friday nights in the eastern urban area. But the data for some parts of the eastern urban area, where we have incomplete data, suggest that demand for taxis is higher on Friday nights than for the parts of the eastern urban area where we have more complete data. This suggests that the data we have available may understate occupancy rates on Friday nights for the eastern urban area when presented at the aggregate level as in Figure 5.10. Therefore, there may be some excess demand on Friday nights in the eastern urban area.

[53] See page 83 of Section 5.3.2 for further detail on using occupancy rates as a tool for assessing the balance of supply and demand for taxis.

FIGURE 5.10 AVERAGE TAXI OCCUPANCY RATES IN THE EASTERN URBAN AREA

First half of 2014-15

	Day of week						
Hour	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
12am-1am	20%	20%	19%	20%	20%	32%	43%
1am-2am	19%	18%	20%	21%	25%	32%	46%
2am-3am	18%	18%	18%	20%	27%	28%	45%
3am-4am	13%	13%	13%	16%	20%	25%	40%
4am-5am	14%	14%	14%	16%	14%	23%	24%
5am-6am	19%	18%	18%	19%	18%	19%	21%
6am-7am	22%	20%	19%	22%	20%	19%	22%
7am-8am	21%	21%	23%	24%	23%	15%	14%
8am-9am	36%	36%	39%	40%	36%	16%	15%
9am-10am	37%	35%	36%	40%	37%	19%	19%
10am-11am	33%	33%	36%	40%	34%	25%	21%
11am-12pm	31%	32%	36%	36%	37%	28%	22%
12pm-1pm	32%	32%	36%	37%	38%	29%	22%
1pm-2pm	31%	31%	34%	35%	37%	26%	21%
2pm-3pm	36%	36%	38%	38%	42%	25%	21%
3pm-4pm	39%	38%	44%	43%	45%	26%	21%
4pm-5pm	29%	32%	36%	38%	41%	25%	21%
5pm-6pm	22%	25%	28%	31%	34%	29%	21%
6pm-7pm	18%	23%	24%	27%	33%	33%	20%
7pm-8pm	16%	18%	18%	21%	26%	32%	19%
8pm-9pm	15%	15%	15%	18%	23%	27%	19%
9pm-10pm	17%	17%	17%	21%	26%	32%	22%
10pm-11pm	19%	19%	18%	19%	29%	34%	22%
11pm-12am	19%	18%	17%	20%	30%	39%	19%

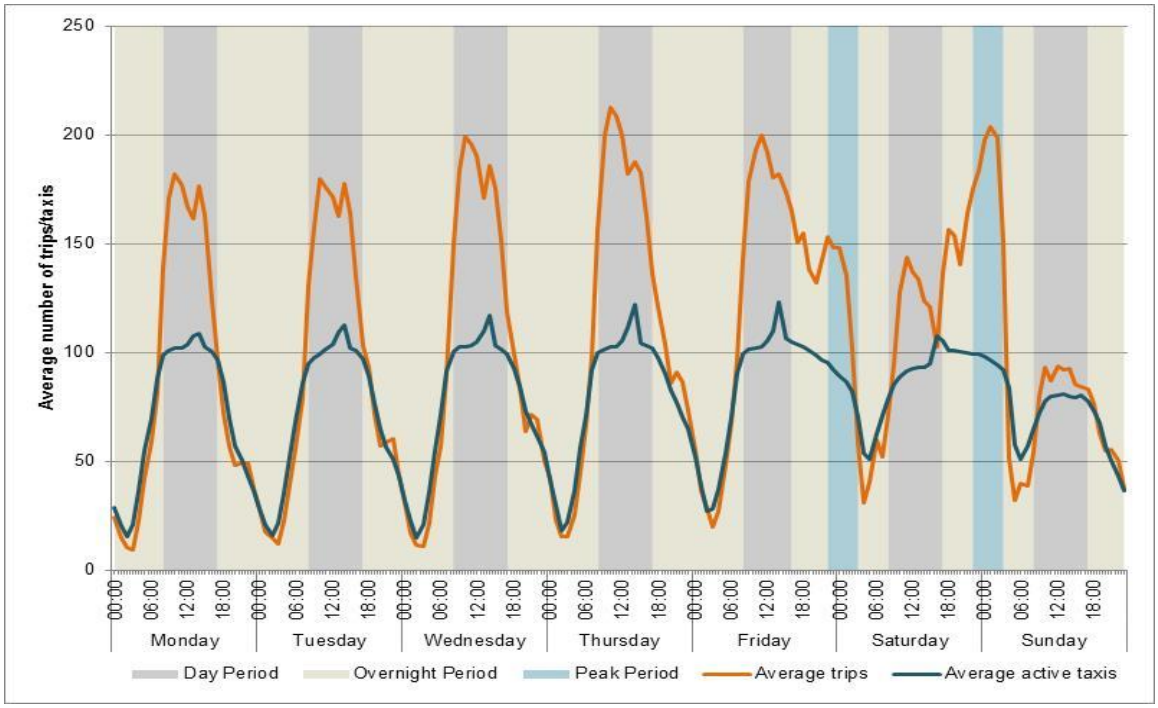
Implications for current eastern urban area fare structure

The above information on occupancy rates suggest that fares could be lower in the mornings and higher on weekday afternoons, Saturday nights, and possibly on Friday nights. However, increasing fares on afternoons may not induce vehicles that are off

the road to come into service.[54] As in Bendigo and Geelong, fleet utilisation in the eastern urban area appears to be high on weekday afternoons.[55]

We also note that the data we have available to us for the eastern urban area suggests that the taxi fleet may be at full utilisation at the beginning of the peak period on Saturday nights. Fleet utilisation starts to drop after the peak period starts. This can be seen in Figure 5.11, which compares the average number of active shifts and trips across the week. This suggests that starting the peak tariff earlier may not increase taxi supply on Saturday nights. This is because the peak fare does not appear sufficient to keep drivers on the road. However, we note that we do not have complete information on the eastern urban area, so it is difficult to be sure that this is the case.

FIGURE 5.11 COMPARISON OF AVERAGE NUMBER OF ACTIVE TAXI SHIFTS AND TRIPS MADE IN DANDENONG
First half of 2014-15



54 We note an increase to the overall level of fares may increase or induce further supply on weekday afternoons. However we consider that the current fare level provides adequate revenue to maintain the current level of service in the urban zone.

55 In the trip and shift data that we have for the eastern urban area, fleet utilisation appears to be above 90 per cent at around 3pm on weekdays.

5.3.6 BALLARAT

Currently we do not have trip data for the Ballarat area. We have therefore not been able to analyse the balance of supply and demand for taxis in Ballarat. However, discussions with stakeholders in Ballarat suggest that patterns of demand and supply there are similar to those in Bendigo.

5.3.7 DRAFT DECISION ON TARIFF PERIODS

Our analysis of the balance of supply and demand in each area of the urban zone, suggests that maximum fares could be increased on Friday and Saturday nights. In general, there appears to be some excess demand across the urban zone at these times.

Our analysis also suggests that there are some times of the week during which there appears to be too many taxis in service. This could be an indication that fares are too high at these times. However, we have not sought to reduce maximum fares at these times because, as discussed earlier in Section 5.2.2, the risks associated with setting fares too low are greater than those associated with setting them too high. However, where market conditions present, we emphasise that it is within the power of taxi service providers to set fares below the maximum fares.

EASTERN URBAN AREA (DANDENONG, FRANKSTON AND THE MORNINGTON PENINSULA)

The eastern urban area has the same fare schedule as the metropolitan zone. As a result, we propose to adopt the same changes we recommended in the metropolitan zone. That is, the peak tariff rate should begin at 7pm on Friday and Saturday nights. This may help address supply shortages on Friday and Saturday nights in the eastern urban area, and simplify taxi fares for consumers on the boundary of the eastern urban area and metropolitan zone.

The data available to us suggest that there may be some excess demand on Friday and Saturday nights in the eastern urban area. Starting the peak tariff period earlier to increase returns to taxi service providers on Friday and Saturday nights may help

address this issue. However, as discussed in Section 5.3.5 we acknowledge that the data currently available to us is mixed in its support for this change. As a result this is something that we are likely to review in future fare reviews.

We also note that the boundary for the eastern urban area and the metropolitan zone crosses suburban areas with relatively high population densities. As a result there is likely to be a relatively high number of trips across the boundary. Having different tariffs for the two areas could lead to different fares for the same trip. This could create confusion for consumers.

DRAFT CONCLUSION ON TARIFF PERIODS IN THE EASTERN URBAN AREA

Metropolitan tariffs should continue to apply in the eastern urban area.

We propose the peak tariff rate should begin at 7pm on Friday and Saturday nights for the eastern urban area.

WESTERN URBAN AREA (BALLARAT, BENDIGO, AND GEELONG)

The western urban area has a separate fare schedule to that of the metropolitan zone and eastern urban area. In particular, the western urban area has a late night fee of $3.40 that applies from midnight through to 6am for all nights of the week. Our analysis of the balance of supply and demand in Bendigo and Geelong showed that there are some shortages in supply on Friday and Saturday nights in the western urban area.

To address these shortages in supply at peak times, we propose that the late night fee of $3.40, currently applicable between midnight and 6am, should commence from 7pm on Friday and Saturday nights. We consider that this change should apply in Ballarat as well given stakeholders indicated that the patterns of supply and demand in Ballarat and Bendigo are similar.

DRAFT CONCLUSION ON TARIFF PERIODS IN THE WESTERN URBAN AREA

The times at which the late night fee of $3.40 may be charged in the western urban area would be changed to commence at 7pm on Friday and Saturday nights.

5.4 THE COMMISSION'S ANALYSIS OF HOLIDAY RATES IN THE URBAN ZONE

In the current maximum fare schedule, higher maximum fares may be charged on Christmas Day, Boxing Day, New Year's Eve (after 6pm) and New Year's Day.

In the eastern urban area, which adopts the metropolitan zone fare schedule, higher maximum fares are in the form of peak tariff rates. In the western urban area, higher maximum fares are in the form of a holiday rate of up to $4.20 per trip.

We have analysed customer wait times for all public holidays (not just Christmas Day, Boxing Day, and New Year's Day), to identify whether maximum fares may be limiting taxi service providers from meeting higher demand on these days.

Our analysis found that there were periods of excess demand (reflected in customer wait times) on evenings prior to public holidays (but not on the actual public holidays). We found that on the evenings prior to public holidays in the urban zone, customer wait times were often higher than those of a standard Friday and Saturday night, in particular in the western urban area.

Given our analysis, we propose to allow higher maximum fares to be charged on the evenings prior to all public holidays throughout the year. The hours during which higher maximum fares would apply would be from 7pm to 4am in the eastern urban area and from 7pm to 6am in the western urban area – consistent with the proposed new Friday and Saturday night peak period hours in each area.[56]

[56] Our proposals for the times between which the holiday rate may be charged are different for the eastern and western urban areas to reflect the difference in when the peak period applies for the two areas.

In the eastern urban area, higher maximum fares at these times would adopt the peak tariff rates. In the western urban area, higher maximum fares would be via the maximum holiday rate of up to $4.20.

We propose to retain the current arrangements for higher maximum fares in the urban zone Christmas Day, Boxing Day, New Year's Day and from 6pm on New Year's Eve.

DRAFT CONCLUSION ON HOLIDAY RATES IN THE URBAN ZONE

No change to the existing allowance for higher maximum fares on Christmas Day, Boxing Day, New Year's Eve (from 6pm) and New Year's Day (peak tariff in the eastern urban area, $4.20 holiday rate in the western urban area).

In the eastern urban area, as in the metropolitan zone, the peak tariff would apply as the maximum fare from 7pm to 4am on the evenings prior to all public holidays.

In the western urban area, the holiday rate of up to $4.20 would apply between 7pm and 6am on the evenings prior to all public holidays.

5.5 SUMMARY OF OUR DRAFT DECISIONS ON MAXIMUM TAXI FARES FOR THE URBAN ZONE

DRAFT DECISIONS FOR MAXIMUM TAXI FARES: THE URBAN AND LARGE REGIONAL ZONE

1. Maximum fares for the areas of Dandenong, Frankston and the Mornington Peninsula would continue to be consistent with maximum fares in the metropolitan zone, including changes made to metropolitan zone maximum fares following this review.
2. In Geelong, Ballarat and Bendigo, there would be no change to maximum fares outside periods when a late night fee or holiday fee may be charged.

(CONTINUED FROM PREVIOUS PAGE)

3. In Geelong, Ballarat and Bendigo, the period during which a late night fee may be charged would be from 7pm on Fridays and Saturdays to 6am on the following mornings; and from midnight to 6am on all other days (instead of from midnight to 6am on all days currently). The maximum charge for a late night fee would remain capped at $3.40.
4. In Geelong, Ballarat and Bendigo, a holiday rate would be able to be charged from 7pm **on the evenings prior to** all public holidays, until 6am on the following mornings. The maximum charge for a holiday rate will remain capped at $4.20.
5. In Geelong, Ballarat and Bendigo, a holiday rate would continue to able to be charged all day Christmas Day and Boxing Day, from 6pm on New Year's Eve and all day New Year's Day (but not after 6am on other public holidays).

QUESTIONS FOR STAKEHOLDERS ON OUR DRAFT DECISIONS

- What are stakeholders' views on our draft decisions for maximum taxi fares in the urban and large regional zone?

TABLE 5.3 DRAFT NEW MAXIMUM TAXI FARES FOR THE AREAS OF DANDENONG, FRANKSTON AND THE MORNINGTON PENINSULA

	Tariff 1 'Day' (9am–5pm)	**Tariff 2** 'Overnight' (5pm–9am, excluding peak)	**Tariff 3** 'Peak' (Fri & Sat nights 7pm–4am)
Standard fare components	**Maximum charge up to**		
Flagfall ($)	4.20	5.20	6.20
Distance rate ($/km) (applies when speed is above 21 km/hr)	1.622	1.804	1.986
Waiting time ($/min) (applies when speed is below 21 km/hr)	0.568	0.631	0.695

Other fare components (applicable to tariffs 1, 2 and 3)		**Maximum charge up to**
High occupancy fee	For trips with 5-11 passengers or when high occupancy vehicle specifically requested Not applicable for wheelchair passenger trips	$14.00
Booking fee	For booked trips	$2.00

Premium service charge	For booked trips where vehicle is participating in a 'premium service scheme'	$11.00
Airport booking fee	For trips booked for pick up from Melbourne Airport	$3.00
Holiday rate	For trips commencing between 7pm on evenings prior to all public holidays, through to 4am the following morning. For trips commencing on Christmas Day, Boxing Day, New Year's Day and from 6pm on New Year's Eve	Tariff 3 rates
Maximum peak booking charge	For booked trips when Tariff 3 applies	$10.00

TABLE 5.4 DRAFT NEW MAXIMUM TAXI FARES FOR GEELONG, BALLARAT AND BENDIGO

Standard trips	**Maximum charge up to**
Flagfall ($)	3.60
Distance rate ($/km) (applies when speed is above 21 km/hr)	1.838
Waiting time ($/min) (applies when speed is below 21 km/hr)	0.643
High occupancy trips	**Maximum charge up to**
For trips with 5-11 passengers or when a high occupancy vehicle is specifically requested Not applicable for wheelchair passenger trips	
Flagfall ($)	3.60
Distance rate ($/km) (applies when speed is above 21 km/hr)	2.757
Waiting time ($/min) (applies when speed is below 21 km/hr)	0.965

Other fare components		**Maximum charge up to**
Late night fee	For trips commencing between 7pm on Friday and Saturday nights through to 6am the following morning; and from midnight to 6am on all other days	$3.40
Booking fee	For booked trips	$2.10
Premium service charge	For booked trips where vehicle is participating in a 'premium service scheme'	$11.00
Airport booking fee	For trips booked for pick up from Melbourne Airport	$3.00
Holiday rate[(a)]	For trips commencing between 7pm on evenings prior to all public holidays, through to 6am the following mornings. For trips commencing on Christmas Day, Boxing Day, New Year's Day and from 6pm on New Year's Eve	$4.20

(a) The 'late night fee' does not apply during times that the holiday rate applies.

6 ADDITIONAL OPTIONS FOR ADDING FLEXIBILITY TO MAXIMUM TAXI FARES

KEY POINTS

Our objective in adding greater flexibility to regulated maximum fares is to create opportunities for taxi service providers to better respond to competition through improved price and service offerings, while protecting consumers where competition is inadequate to prevent excessive pricing.

There are limitations on how flexible we can make taxi fares under the current legislative framework. There are also practical issues that may limit the potential take-up of more flexible fares, including the technological limitations of commonly used taximeters.

Within the timeframe of this review we do not expect to introduce additional fare flexibility measures beyond the maximum peak booking charge proposed in Chapter 4. However, we are open to continuing discussion of the following three options beyond the formal completion of this review if there is interest from stakeholders:

- more flexible pre-booked taxi fees
- alternative fare structures to the standard structures we set as maximum fares
- optional fixed price taxi fares.

6.1 INTRODUCTION

In Chapter 4, we outlined our draft decision (subject to stakeholder feedback) to introduce a maximum 'peak booking charge' of up to $10 that could be charged at peak times, subject to certain conditions to ensure a level of consumer protection. The draft proposal aims to improve the flexibility for taxi service providers to compete effectively in an increasingly competitive market for booked trips.

We are also interested in seeking stakeholders' views on other options for introducing greater flexibility to taxi fares discussed more broadly in this chapter.

The timeframe for this review requires us to conclude our final decisions by 19 June 2016. Within this timeframe we do not expect to introduce additional fare flexibility options beyond what we have proposed in our draft decision. However, we are open to further discussion and consultation of additional options following the formal completion of this review if interest is shown from stakeholders.

Our objective in introducing greater flexibility to regulated maximum fares is to create opportunities for the taxi industry to better respond to competition through improved price and service offerings, while protecting consumers where competition is inadequate to prevent excessive pricing.

Our consultation paper outlined a number of potential ways greater fare flexibility could be introduced under a regulated maximum taxi fare regime, although as we will discuss, our ability to implement some of these options is restricted by the legislative framework. In particular, the Commission's role under the current legislation is to set *maximum* fares, not to otherwise determine an alternative form of regulation, such as no regulation or price monitoring. Introducing an alternative form of regulation is a matter for Government policy, not for the fare regulator to decide.

In addition, there are a number of practical issues that require consideration before introducing greater flexibility to maximum fares, such as the degree of competition within the taxi market, taximeter technology and the implications for the Multi-Purpose Taxi Program, which subsidises taxi fares for some transport disadvantaged users.

Nonetheless, some flexibility in the way we set fares is possible. Given the significant recent changes in the markets for taxis and substitute services as discussed in

Chapter 2, we consider whether we can enhance the flexibility of maximum taxi fares to improve the potential for competitive market outcomes that would benefit consumers.

6.2 TECHNICAL AND LEGISLATIVE LIMITATIONS ON INCREASING FARE FLEXIBILITY

Before discussing the options for fare flexibility in broader detail, we outline two of the more significant considerations that limit the extent of flexibility that can be practically introduced to maximum taxi fare regulation. These are:

- taximeter technology, which includes considerations around the capability of the current taximeters to record flexible fares and provide assurance to consumers against error or fraud
- the legislative framework for maximum fare regulation.

6.2.1 TECHNICAL LIMITATIONS OF TAXIMETERS

In our consultation paper, we noted that the technical limitations of taximeters commonly used in Victorian taxis are an important limitation 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.

Some existing taximeters do not appear to have the capability to incorporate certain kinds of flexible fares. Schmidt Electronic Laboratories, a supplier of meters to taxis in Victoria, supported the view that some kinds of tariffs would be difficult to implement, particularly those requiring manual entry:

> *The option of providing the driver with the flexibility to enter a variable agreed fixed price is not practical for G4 Taximeters since there is no*

software or hardware support for such functionality. Such support is however available on taximeters designed to meet the proposed new TSC requirements.[57]

This could lead to some barriers to taking up flexible fares where a taxi network decides that all of its taxis should offer a particular tariff (say a particular booking charge), but that not all taxis attached to the network had a meter capable of setting that tariff.

The Taxi Services Commission is currently implementing new 'fare device' specifications, which should allow for greater flexibility in the way fares can be practically calculated. We understand new fare devices are not likely to be widely implemented prior to the completion of our taxi fare review in June 2016.

A particular concern of the Commission is that any fare flexibility that is provided has reasonable prospects of being used. In that regard, the Taxi Services Commission said that:

The [Taxi Services] commission would like to encourage the ESC to look beyond the technical limitations of some fare devices when considering options for fare structures in the 2016 fare determination. By limiting the range of fare structures you might consider based on the capacity of some devices, the ESC is constraining competition between device manufacturers and ultimately between taxi service providers. As the cost of upgrading fare devices does not represent a significant barrier to entry, neither manufacturers nor operators should be limited by regulation from using more innovative fare structures.[58]

We agree with the TSC that the Commission is not bound to only considering fare structures that are currently implementable. Our approach will be to pursue greater fare flexibility that can best meet our objectives to promote the long term interests of consumers. If this requires upgrades in taximeters or fare devices, then that is a consideration for the networks and taxis interested in taking up this greater flexibility

[57] Schmidt Electronic Laboratories 2016, Submission to the Consultation Paper, 21 January, p. 2.

[58] Taxi Services Commission 2016, *Submission to the Consultation Paper*, 3 February, p. 3.

option. Nonetheless, we do note that taximeter limitations might delay any benefits from fare flexibility being realised.

MANUAL ERROR AND FRAUD

An issue related to taximeters is whether fare flexibility could allow for increasing instances of manual error or fraud. Such a link is possible if flexibility creates more opportunities for charges that are not automatically processed within taximeters or other fare devices. Such manually handled charges that commonly occur currently, such as tolls, are known to be a source of error and dispute between drivers and passengers in Victoria.[59] In addition, we changed the fare structure for High Occupancy Vehicle (HOV) trips in our last taxi fare review in part to address concerns raised through the 2012 Taxi Industry Inquiry that drivers had been fraudulently manually applying the HOV tariff.[60]

Schmidt Electronic Laboratories has also indicated that increasing flexibility where manual entry is involved can cause problems:

> *…there is anecdotal evidence that some drivers are abusing the new Queensland requirements which enable the use of fixed price fares. This was a very poorly thought out requirement and no restrictions were placed on the operation of fixed price fares when the Queensland Government made this a taximeter requirement as at 1st July 2014. As a result, we have heard numerous reports of unscrupulous drivers ripping off unsuspecting passengers.*[61]

Disputes could also arise between drivers and operators. New legislation and regulations introduced on 30 June 2014 specify that taxi drivers must receive a minimum of 55 per cent of the gross fare revenue they generate. Our understanding is that operators use metered fares to calculate revenue and driver earnings shares. This provides drivers with an incentive to under-report their metered fares and accept

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59 The Victorian Taxi Industry Inquiry reported that: "Issues are also reported with the final taximeter fare not including all charges applied to particular trips, such as lifting fees, tolls and other charges – a practice that is confusing for consumers and causes misunderstandings and disputes", Draft Report, May 2012, p. 487.

60 Essential Services Commission 2014, *Taxi Fare Review 2013-14 – Final Report*, March, p. 95.

61 Schmidt Electronic Laboratories 2016, Submission to the Consultation Paper, 21 January, p. 2.

unrecorded cash payments to maximise their income. Certain types of flexible fares could therefore create more opportunities for drivers to under-report fares.

As discussed previously, our approach will be to pursue greater fare flexibility that can best meet our objectives. We will not restrict our consideration to only fare structures that are currently implementable with existing taximeter technology and other constraints. However, we will need to have some consideration to these practicalities.

6.2.2 LEGISLATIVE CONSIDERATIONS

Our role and responsibilities as an economic regulator are set out in the *Essential Services Commission Act 2001 (ESC Act)*. The *Transport (Compliance and Miscellaneous) Act 1983* defines our role in relation to the taxi industry.

The Commission's mandate under this legislation is to set maximum fares for services provided by or within the taxi industry, not to otherwise determine an alternative form of regulation. There are also a number of matters that we must have regard to in setting maximum fares. These matters are set out in the current legislation and are outlined in detail in Appendix A – Legislative Framework.

The Commission has considered how the legislative framework could be applied to increase fare flexibility. Our view is that fare flexibility is permissible under the current legislation. However, there are some restrictions which mean that some options would not be permissible at all, and that other options would need to be designed carefully in order to operate within the bounds of the legislation. We discuss how existing legislation constrains our ability to increase flexibility in Appendix G**.**

We now present three options for increasing fare flexibility that we consider could be consistent with the legislative framework.

6.3 DESCRIPTION AND ASSESSMENT OF FARE FLEXIBILITY OPTIONS

In this section we discuss the three options for increasing fare flexibility:

- more flexible maximum pre-booked taxi fees

- a choice of different fare structures
- optional fixed price fares for pre-booked trips.

These three options are a refinement of the broad options presented in our consultation paper. We discuss how each option could be implemented and the key advantages, disadvantages and risks of each option.

We recognise that there are challenges in allowing more fare flexibility while, at the same time, meeting our objective to promote the long term interests of users. As such, the Commission seeks feedback from stakeholders on how each option could be implemented, and what potential implementation issues could arise. Some specific questions to prompt discussion from stakeholders are provided at the end of the following sections. We also welcome feedback from stakeholders on possible alternative fare flexibility options.

6.3.1 MORE FLEXIBLE MAXIMUM PRE-BOOKED TAXI FEES

In Chapter 4, we outlined our draft decision to introduce the option of a maximum peak booking charge (subject to stakeholder feedback).

The discussion in this section expands on this option and considers broader potential applications of pre-booked taxi fees.

Pre-booked taxi fees are fees applicable to booked taxi trips only. They are charged in addition to standard taxi fares that apply to trips procured from taxi ranks, or trips in taxis hailed from the street.

CURRENT FORMS OF PRE-BOOKED TAXI FEES

In the current schedule of maximum taxi fares, a booking fee may be charged as an additional fee on top of the standard taxi fare when taxis are booked. The regulated maximum booking fee is $2.00 in the metropolitan zone (and the urban zone areas of Frankston, Dandenong and the Mornington Peninsula); $2.10 in Geelong, Ballarat and Bendigo; and $3.00 from Melbourne Airport.

Under certain conditions, some taxis are also permitted to charge a 'premium service charge' of up to $11 when booked.[62]

The historical rationale for taxi booking fees may have been compensation for a driver to travel to a pre-booked fare, although clear justification has never been provided for the current level of booking fees.[63]

In our 2014 fare review, we noted that we had not had the opportunity to assess the relevance or appropriateness of booking fees in the time available. As such, the booking fee is part of our broader considerations on fare flexibility in this review.

THE RATIONALE FOR MORE FLEXIBLE MAXIMUM PRE-BOOKED TAXI FEES

In Chapter 2 of this report, we described the increasingly competitive market for commercial passenger vehicle services, with competition largely being driven by smartphone apps that enable booking of, and payment for, commercial passenger vehicle trips, including taxi trips.

In this context, it makes sense to consider whether current regulated maximum booking fees continue to be fit for purpose in a rapidly changing pre-booked market.

Fares offered by pre-booked commercial passenger vehicles other than taxis (which are not subject to maximum fare regulation) provide some insight into the types of fare offerings that can develop in a competitive market. Notably, these include booking cancellation fees, higher fares for better quality vehicles and higher fares during periods of high demand (see Appendix C for examples).

Forms of peak period booking charges are also emerging in pre-booked taxi service offerings – GoCatch, a third party booking app, gives customers the option to offer a 'tip' when the booking request goes out to its affiliated drivers. This can facilitate the allocation of a scarce supply of taxis during busy times and is similar in effect to a peak period booking fee.

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62 Passengers can choose to book a higher standard taxi service for a higher fee of $11. The premium service charge was first included in the Victorian schedule of taxi hiring rates by the then Victorian Taxi Directorate and was carried over into the 2014 determination

63 Victorian Taxi Industry Inquiry 2012, *Draft Report - Customers First: Service, Safety, Choice,* May, p. 484.

In its submission to our consultation paper, Taxicorp suggested that higher pre-booked fares could better manage the balance of supply and demand in areas that are geographically costly to service:

> *Some short fares in the outer suburbs are just uneconomical to service. Not even the illegal taxis are prepared to service these areas, choosing to cherry pick the low hanging fruit in the inner suburbs. Removal of caps for pre booked fares will allow a customer to bid up the fare to entice a driver to cover the work to the point where the fare is economical to cover the driver's labour and costs for providing the service.*[64]

The objective of setting more flexible maximum fees for pre-booked taxis would be to encourage and enable more efficient and competitive service offerings by:

- providing a more suitable level of compensation to a driver for travelling to a pre-booked fare
- providing incentives for more drivers and taxis to be available when customer wait times are high, such as during peak periods
- providing incentives for investment in new and innovative taxi booking service models
- providing a reward for offering higher quality services, such as a better vehicle or driver, booking guarantees or other offerings consumers may value.

With increasing competition from other commercial passenger vehicle services that are substitutable for pre-booked taxis, there is arguably now competitive pressure for taxi booking fees to either be constrained at or near current levels, or if they increase, to be accompanied by improved service levels for consumers.

WHO WOULD SET PRE-BOOKED TAXI FEES?

We envisage that pre-booked fees would be set by taxi booking networks, which could include traditional networks, smartphone taxi booking app providers or potentially new types of network business models that may arise.

[64] Taxicorp Pty Ltd 2016, *Submission to the Consultation Paper*, 1 February, p. 2.

WHAT TYPES OF PRE-BOOKED TAXI FEES SHOULD BE ALLOWED FOR?

A key consideration in regulating maximum pre-booked taxi fees is how prescriptively such fees should be described in a fare determination.

For example, we could set a range of different types of maximum pre-booked taxi fees, such as:

- a peak period booking fee (as proposed in Chapter 4)
- a luxury vehicle booking fee (similar to the current premium service charge)
- a booking cancellation fee
- a guaranteed on time arrival fee.

Alternatively, we could simply set one maximum pre-booked taxi fee and allow flexibility for taxi networks to determine their own service offerings and prices within the maximum.

WHAT LEVEL SHOULD MAXIMUM PRE-BOOKED FEES BE SET AT?

Existing maximum pre-booked fees range from $2.00 (standard booking fee) to $11.00 (premium service charge for eligible pre-booked trips).

The levels at which new maximum pre-booked fees are set would depend on the nature of the fees. However, the basis for determining maximum levels of regulated pre-booked taxi fees is not straight forward. Economic regulation of prices commonly aims to set prices that reflect the efficient cost of providing a service. Estimating the efficient cost of taxi booking service offerings is likely to be impractical.

Setting regulated maximum levels would inevitably require some judgement by the Commission, which can be informed through stakeholder feedback and by drawing on market information about other similar service providers' pricing (some examples are at Appendix C).

CONSUMER PROTECTION

Some consumer protection measures may be desirable to prevent excessive charging of more flexible pre-booked taxi fees. For example, a requirement could be that consumers need to be explicitly informed of pre-booked fees prior to the journey and

given the option to accept or reject those fees. Additionally, the fees could be required to be itemised and recorded either through the network's smartphone booking app, or recorded by the network and sent to the driver to be added to the meter at the beginning of the journey.

POTENTIAL BENEFITS OF MORE FLEXIBLE PRE-BOOKED TAXI FEES

The primary benefit of flexible booking fees is that it would allow taxi networks, operators and drivers to dynamically respond to existing forms of pre-booked competition by incentivising more taxis onto the roads during peak periods. It would also allow for more efficient fares where the current $2 booking fee is insufficient to cover the cost of servicing certain trips. This flexibility would be beneficial to customers if it leads to new service offerings that consumers value and/or better taxi availability at peak times.

A further advantage is that it seems feasible for this approach to be used not only by traditional booking networks but also by third-party booking networks using smartphone apps. This gives rise to the potential for more competitive price and service offerings.

Relative to other forms of flexibility, this option would be particularly simple for consumers to understand and compare fares between providers.

POTENTIAL RISKS

If competition between taxi service providers proves to be ineffective, then there is a risk that this option could lead to higher fares without any improvements to taxi service quality. There appear to be two potential concerns:

- Historically, the market for taxi booking services in Melbourne has been highly concentrated, predominantly serviced by the two major traditional networks. It would be concerning if, for example, both networks simply set the maximum fee as a standard fee without reflecting the prevailing demand or supply conditions or different levels of service quality.
- Booking fee revenue generated by bookings through the traditional taxi networks is currently split between taxi operators and drivers and subject to regulated revenue sharing arrangements. As there are conflicting incentives between the drivers, operators and networks regarding booking fee revenue, in practice these parties may not easily come to a collective agreement on new price and service offerings.

That said, pre-booked taxi pricing is increasingly being constrained by other pre-booked commercial passenger vehicle services, such as UberBLACK and UberX, and could also be constrained by third party taxi booking app networks such as GoCatch and Ingogo.

As well as competition from pre-booked vehicles, services offered by rank and hail taxis could provide further competitive pressure on pre-booked taxi fees. Consequently, consumers may respond to higher booking fees by procuring taxis at ranks or by hailing them more frequently. However, this substitution is not likely to be as strong in areas where there are few rank and hail taxis, such as in outer suburbs.

There is also a potential risk that increasing pre-booked taxi fees could encourage taxis to not accept rank and hail work but to rely on more-remunerative pre-bookings. Equally, consumers might book a taxi but, while waiting for the booked taxi to arrive, choose to hail a passing taxi to avoid the booking fee. We consider that networks would have to be conscious of the gap between rank and hail and pre-booked fares, to prevent undesirable consumer or driver behaviour of this form. This would likely provide a further constraint on excessive pre-booked fees.

STAKEHOLDER QUESTIONS TO PROMOTE DISCUSSION

We invite stakeholders to comment on more flexible pre-booked taxi fees and their potential to improve service outcomes for consumers. In Box 6.1 we outline some initial questions to prompt discussion.

BOX 6.1 QUESTIONS FOR STAKEHOLDERS

More flexible maximum pre-booked taxi fees to promote improved taxi service offerings

- What types of fare offerings for pre-booked taxis should be considered to improve fare flexibility for taxi service providers?
- What types of consumer protection would be necessary?
- What are the main advantages and risks of different options?

6.3.2 A CHOICE OF DIFFERENT MAXIMUM FARE STRUCTURES

The current maximum fare determination provides for a particular type of fare structure. As outlined in Appendix B, standard fares are calculated according to the following tariff components:

- a flagfall
- a distance rate per kilometre when travelling over 21 kilometres per hour
- a waiting time rate that applies when travelling under 21 kilometres per hour.

These particular tariff components apply largely as a result of the continuation of this historically used fare structure, and for consistency with existing taximeter capabilities.

In the metropolitan zone, different values of these tariff components apply depending on the time period (i.e. 'day', 'overnight' and 'peak' tariffs).

EMERGING FARE STRUCTURE OFFERINGS OF OTHER COMMERCIAL PASSENGER VEHICLES

As discussed in Chapter 2, smartphone technology has enabled new types of fare offerings by networks connecting passengers with commercial passenger vehicles. Fares can be calculated on smartphone apps through the use of GPS and mapping functionality of smartphones. This has led to different fare structure offerings, examples of which are provided at Appendix C.

Two common features of smartphone booking app fare structures that differ to taxi fare structures are: (1) concurrent time and distance rates; and (2) multipliers of a base fare rate.

The potential for, and potential benefits of, providing regulated maximum taxi fare structures to mirror these fare structure offerings are discussed below.

CONCURRENT TIME AND DISTANCE RATES

Most smartphone based fare structures include a per kilometre charge and a per minute charge, both of which apply concurrently during the trip. This differs to the current regulated taxi fare structure, in which a per kilometre charge only applies when the vehicle is travelling over 21 kilometres per hour, and a per minute charge only applies when travelling under this speed.

This speed dependent time rate and distance rate structure appears to be unique to taxi fares, and potentially a source of confusion for consumers attempting to compare taxi fares with emerging fare offerings of other commercial passenger vehicle services.

While there would likely be benefits to greater consistency and comparability of fare structures between taxis and other service providers, at this time, it would not be possible for the most commonly used taximeters in Victorian taxis to adopt a fare structure with a concurrent time and distance rate. Mandating such a fare structure in our fare determination would therefore likely have major implications for many taxi operators.

Nonetheless, there may be an option to provide more flexibility for some taxi service providers who would prefer to offer fare structures with concurrent time and distance rates. This option could also potentially work as a transitional arrangement to a regulated concurrent time and distance rate structure in future, as older taximeters are phased out of use.

Under such an option, the Commission could publish a fare schedule that includes two alternative types of maximum fare structures. Each would be designed to produce approximately equivalent fares for all trips, so that consumers would not be affected by a particular taxi operator or network's choice of fare structure.

An example of such an option is illustrated in the Table 6.1 below. 'Fare structure 1' is the current 'day tariff' fare structure, while 'fare structure 2' has a concurrent time and distance rate structure, which we have calculated to result in approximately equivalent fares for trips of all lengths.[65]

TABLE 6.1 EXAMPLE OF FARE SCHEDULE WITH TWO ALTERNATIVE TYPES OF MAXIMUM FARE STRUCTURES

Fare component	Fare structure 1	Fare structure 2
Flagfall	$4.20	$4.20
Distance rate (applicable above 21km/hr)	$1.622 per km	-
Waiting time rate applicable (below 21km/hr)	$0.568 per min	-
Distance rate (applicable for entire trip)	-	$1.294
Time rate (applicable for entire trip)	-	$0.375

MULTIPLIERS OF A BASE FARE

Some smartphone apps, such as the Uber app, have a fare structure that includes a 'base fare rate', to which a multiplier is applied during peak times. For example, a base fare rate may include a flagfall of $5, a distance rate of $1 per kilometre and a time rate of $0.50 per minute. In times of peak demand, a multiplier of 1.5, would mean the actual rates charged were a $7.50 flagfall, a $1.50 per kilometre rate and a $0.75 per minute rate.

This differs to the current taxi fare structure, which includes multiple maximum fare rates, which apply at different specified times.

In the context of regulated maximum taxi fares, a limit would need to be set on the multiplier if this was to be an option for taxi fare structures. However, it is likely there are prohibitive complications in implementing such a fare structure for taxis at this time.

The most commonly used taximeters in Victoria cannot currently adopt this type of fare structure. As such, if we were to allow this type of fare structure, we would want to ensure that taxi operators would be indifferent between choosing to apply the current

[65] Calculations are based on regression modelling of a sample of Multi Purpose Taxi Program trip and fare data provided to us by the Taxi Services Commission.

maximum fares or a base fare rate with the option of multipliers. In effect, the maximum multiplier would need to provide equivalent revenue per trip to the current maximum fares across each of the time-varying tariff periods.

The major difficulty is that the current 'overnight' and 'peak' tariffs are not multiplied versions of the lowest maximum rate, the 'day' tariff. That is, if we were to set a base fare rate equivalent to the 'day' tariff – there would be no multiplier that would provide equivalent fare structures to the current maximum 'overnight' or 'peak' tariffs.

Further, it is unclear whether allowing this type of fare structure for taxis would be beneficial for consumers or not.

WE SEEK COMMENT FROM STAKEHOLDERS

Given recent market developments, we consider that there is likely to be greater pressure on taxis to price competitively. Going forward, we are keen to ensure that technological constraints (such as existing taximeters) and regulatory constraints (such as prescriptive price structures) do not impede taxi service providers from developing innovative offerings.

We also note there are likely to be benefits in taxi fare structures having greater consistency with other commercial passenger vehicle fare structures. As such, we seek stakeholders comment on the questions outlined in Box 6.2.

BOX 6.2 QUESTIONS FOR STAKEHOLDER COMMENT

Alternative tariff structures

- Does the current taxi fare structure (consisting of a flagfall, distance rate per kilometre above 21 kilometres per hour and time rate per minute below 21 kilometres per hour) limit the ability of taxis to compete in the pre-booked market?
- How could different taxi fare structures be introduced as regulated maximum fares?
- What are the practical issues associated with allowing alternative tariff structures?

6.3.3 OPTIONAL FIXED PRICE FARES FOR PRE-BOOKED TRIPS

A fixed price fare refers to setting a dollar amount for the fare, agreed prior to the journey. Such fares are set by licensed hire cars in Victoria.

A possible way of providing greater fare flexibility for taxis would be to allow fixed fares to be offered by taxi booking networks, including smartphone taxi booking app networks. This might allow taxis to better compete with alternative services (such as hire cars or buses) that offer fixed fares.

Currently, it is difficult for taxis to offer fixed price fares because of the unpredictability in metered fares. This unpredictability stems from the time-dependent fare structure; fares vary with both distance and time taken below a minimum threshold speed.

Nonetheless, there may be some benefits if taxis were allowed to offer such fares. For example, for regular journeys passengers may have a good idea of the value of the journey and benefit from the certainty offered by a fixed fare. Equally, if the option to take a metered fare was available, then consumers could always choose this option if they were uncertain about the benefits from the fixed fare.

HOW MIGHT OPTIONAL FIXED FARES BE IMPLEMENTED?

Even though fixed fares might offer benefits, it is important to note that there are some limitations on how fixed fares could be implemented.

For example, we note that it is not permissible under the current legislation to set very high maximum fares that do not bind in practice. As such the Commission cannot set a single optional maximum fixed price fare at, for example, $100 for all trips.

There may be other ways that optional fixed fares could be implemented. For example, the Commission could set optional maximum fixed fares for popular routes. For example, an optional maximum fixed fare could be set for trips between the CBD and Melbourne Airport at a level equal to the average estimated fare for this route.

Given the uncertainty about how fixed price fares might be implemented, we seek feedback from industry on whether there is interest in offering fixed price fares and how that might be done within the constraints of maximum fare regulation. Our questions for stakeholders are outlined in Box 6.3.

BOX 6.3 QUESTIONS FOR STAKEHOLDER COMMENT

Optional fixed price fares for pre-booked taxi trips

- Is it likely that optional fixed price fares would be used by passengers?
- Is it likely that taxi networks would be able to agree with affiliated taxi operators about the fixed fares to be offered?
- If we were to allow for fixed price fares, how could this be done in a way that is consistent with our role of regulating maximum fares?

7 OBSERVATIONS ON THE MELBOURNE AIRPORT TAXI MARKET

KEY POINTS

Demand for taxi trips to and from the airport is different to demand in other parts of the metropolitan zone. The distances airport taxi passengers travel are longer on average, and the peak demand periods for airport trips are different to the rest of the metropolitan zone. Despite these differences, the current taxi fare structure is the same for all trips within the metropolitan zone.

There is a much longer than average queue of taxis at the airport compared to other parts of the metropolitan zone. This appears to be reflecting higher average returns for airport trips (as trips from the airport are, on average, longer distance trips). For each passenger serviced, drivers spend an average of 76 minutes in the airport queue – approximately double the time spent searching or queuing for passengers elsewhere.

Although the average return is relatively high, the returns to drivers for trips from the airport vary considerably. Long trips can result in relatively high returns, while short trips offer low returns once time spent in the airport queue is accounted for.

Our observations on the Melbourne Airport taxi market raise questions as to whether fares for airport taxi trips promote efficient provision and use of taxi services.

We consider there may be merit in considering an alternative fare structure, at least for trips originating from the airport. Such a proposal requires more research and consultation than our current timeframe permits. We therefore plan to investigate this subject further after the conclusion of this review.

7.1 INTRODUCTION

In our consultation paper we noted that a different fare structure for Melbourne Airport taxi trips may be beneficial since some characteristics of the airport taxi market differ significantly to the rest of the metropolitan zone.

In this chapter, we outline our preliminary analysis of the airport market and make some observations about its characteristics.

7.2 STAKEHOLDER VIEWS ON MELBOURNE AIRPORT FARES

Some feedback was received in response to the consultation paper regarding fares for airport trips. In its submission, Taxicorp stated that the current fare structure created undesirable incentives, with short trips from the airport being unattractive to service, and the prospect of lucrative long trip fares from the airport encouraging taxi drivers to drive empty to the airport.

Taxicorp's submission went on to suggest examples of solutions to address such incentives:

> *A unique fare structure for Melbourne Airport trips outbound can be beneficial. An option is to lower fixed price fares from the airport to equate to two short fares in the CBD. An example could be to charge a fixed price airport fare of say $40 to the CBD (or any 25km journey from the airport) and to have a minimum fare of $20 which can include the first 5km travelled. Trips south or east of the CBD (or any other trips in excess of 25km) can then be based on $40 plus the regulated distance charge for the applicable tariff rate at that time of day.* [66]

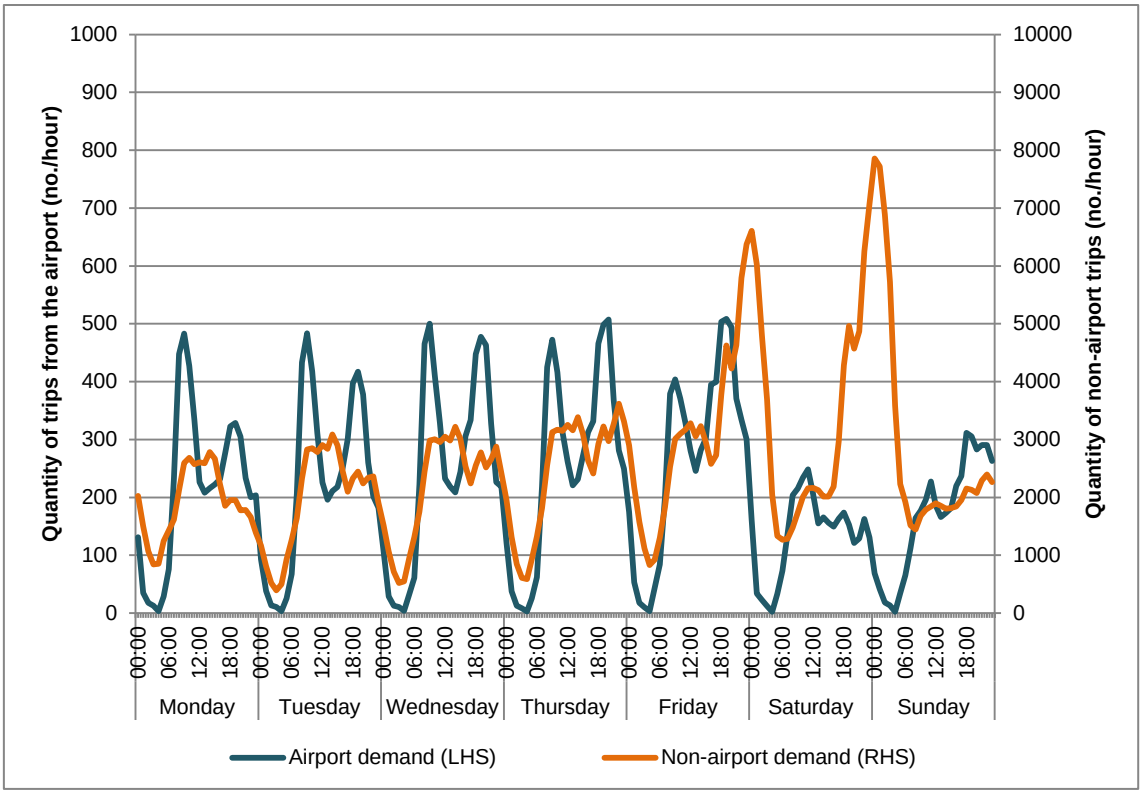
[66] Taxicorp Pty Ltd 2016, *Submission to the Consultation Paper*, 1 February, p. 6.

7.3 MELBOURNE AIRPORT TAXI TRIP CHARACTERISTICS

Demand for trips from Melbourne Airport differs significantly to that for the rest of the metropolitan zone in terms of the times at which taxi trips are in highest demand and the length of taxi trips.

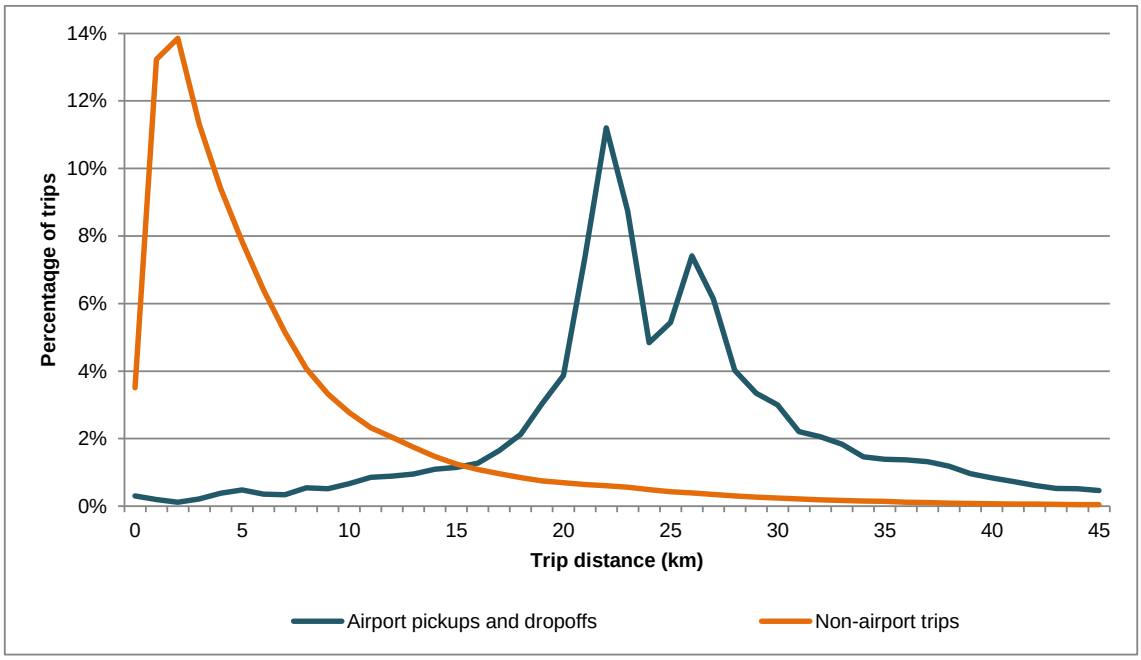
Figure 7.1 highlights that demand for taxi trips from the airport peaks during weekday mornings and evenings, with relatively lower levels of demand on weekends. In contrast, demand for taxi trips in the rest of the metropolitan zone peaks on Friday and Saturday nights.

FIGURE 7.1 AVERAGE TRIP VOLUMES (DEMAND) BY HOUR OF THE WEEK FOR TRIPS FROM THE AIRPORT AND NON-AIRPORT TRIPS
Financial year 2014-15



Taxi trips from the airport are much longer on average than trips in the rest of the metropolitan zone. Figure 7.2 shows the contrast in the distribution of trip distances, with a high proportion of trips from the airport being between 20 to 28 kilometres, largely due to the high number of trips between the airport and the CBD.

FIGURE 7.2 COMPARISON OF TRIP LENGTH PROFILES FOR TRIPS FROM MELOURNE AIRPORT AND NON-AIRPORT TRIPS – 2014-15



Since the current fare structure results in higher fare revenue for longer trips, and airport trips are longer on average, the airport market accounts for a relatively large share of total taxi revenue. In 2014-15, trips from the airport accounted for approximately eight per cent of taxi total trips and 15.7 per cent of taxi total revenue in the metropolitan zone.

7.4 OUR OBSERVATIONS ON THE AIRPORT TAXI MARKET

The market for taxi services from the airport has distinct characteristics from taxi services to the airport, particularly in terms of how trips are supplied. Taxi trips from the airport are almost exclusively supplied from the Melbourne Airport rank. Taxi drivers can choose to service the airport market by travelling to the Melbourne Airport rank.

In contrast, the supply of taxi trips to the airport does not occur from any single location. Therefore, taxi drivers cannot position themselves to exclusively service trips to the airport.

As a result, any imbalances between the supply and demand for airport trips will be more obvious for trips from the airport. For these reasons, our consideration of airport fares is focused on taxi trips from the airport rank.

Our analysis of taxi data for trips from the airport showed that there are long queues of taxis and long wait times for drivers at the airport. For each passenger serviced, drivers spend an average of 76 minutes in the airport queue. This is much longer than average queues in other parts of the metropolitan zone. Such lengthy queues on average raise the question of whether these queues are in excess of the queue necessary to ensure passengers have timely access to taxi services.

Factors such as unpredictability of flight arrival times and traffic conditions for taxis getting to the airport, implies that some queuing of taxis at the airport is necessary to maintain reliability in servicing airport passengers. However, our analysis of the level of airport queuing (presented below) indicates that there may be more taxis queuing at the airport than may be required to service passenger demand.

Figure 7.3 illustrates data on the Melbourne Airport queue length from the period January 2013 to June 2015.[67] It indicates there is substantial queuing of taxis at most times of the week. During the week, the number of taxis waiting at the airport rarely falls below 200. In 2014-15, between 6am and midnight, there were on average 323 taxis waiting in the queue. To put this into context, over the same period, on average there were 273 trips per hour from the airport. This means that on average, even if no taxis arrived at the airport it would take more than an hour for the airport's taxi supply to be exhausted.

[67] Figure 7.3 shows the average queue length and a range that represents the queue length for 95% of the year the lower and upper bounds are based on the lowest and highest 2.5 per cent of the observed queue lengths respectively for a given hour across the week.

FIGURE 7.3 AVERAGE QUEUE LENGTH THROUGHOUT THE WEEK
January 2013 to June 2015

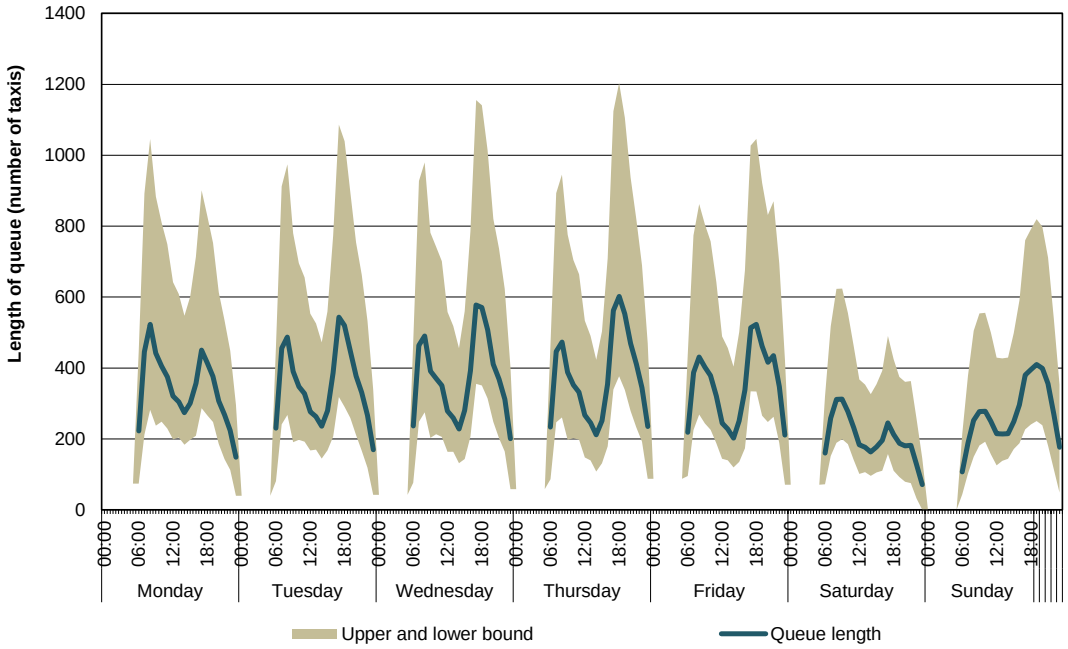
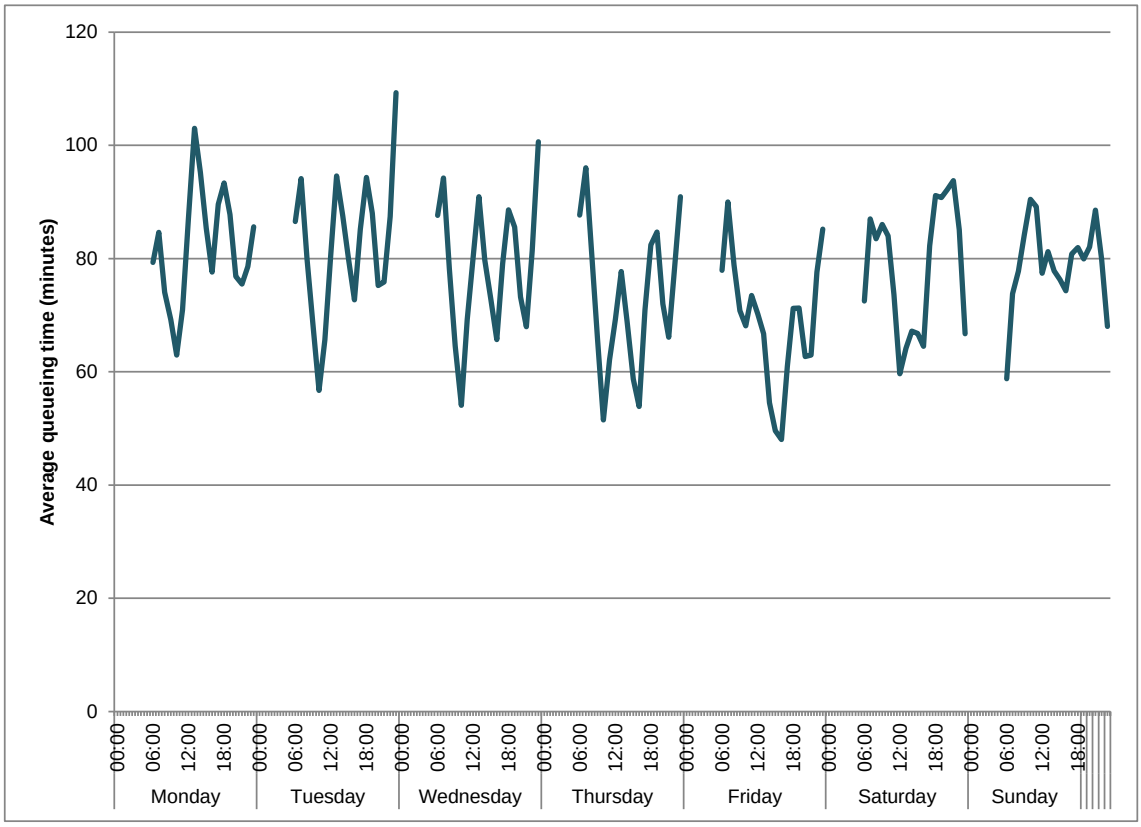


Figure 7.4 shows how long taxi drivers spend on average in the airport queue across the week (averaged over 2014-15). Queue times vary, but on average taxi drivers spend 76 minutes in the airport queue for each passenger they service.

FIGURE 7.4 AVERAGE QUEUE TIME FOR DRIVERS THROUGHOUT THE WEEK
2014-15



There is also evidence that the amount of time spent by drivers queuing for Melbourne Airport passengers is disproportionate to the rest of the market. Specifically, trips from the airport represent 8 per cent of all trips in the metropolitan zone, yet drivers' time in the airport queue accounts for 18 per cent of the total time metropolitan taxi drivers spend without a passenger. On average, a drivers' time spent without a passenger prior to servicing a passenger from the airport rank is over twice that experienced in the rest of the metropolitan zone. Considering that airport trips account for roughly 16 per cent of industry revenue, it is not surprising that drivers spend relatively more time queuing for airport trips than for others.

REASONS FOR AIRPORT QUEUING

Considering that airport trips account for roughly 16 per cent of industry revenue, it is not surprising that drivers are prepared to spend relatively more time queuing for airport trips than for others.

Drivers' decisions about servicing trips from the airport most likely reflect the fare they expect to earn. Other factors that drivers may take into account in making a decision to service the airport include: the expected cost of getting to the airport (this might be close to zero if their last trip ended at the airport); the expected length of the airport taxi queue; and the fare revenue they could earn elsewhere.

The long queues at the airport suggests that the returns earned on average from airport fares are higher than can be earned elsewhere in the metropolitan zone.

Another factor in a drivers' decision to queue at the airport is that Melbourne Airport's primary taxi holding area has facilities for taxi drivers such as a café and toilets. Drivers are also able to socialise while they wait in the queue. For these reasons, some taxi drivers may prefer to queue at the airport than at other locations.

7.5 IMPLICATIONS OF AIRPORT DRIVER QUEUING

It would appear that the airport presents as a unique sub-market in the overall market for taxi trips. The profile of trips to and from the airport varies markedly from the broader metropolitan trip profile and this seemingly influences the decision of drivers as to how, when and where they position themselves to collect a fare. The queue at the airport varies according to the time of day. At times, it involves hundreds of vehicles waiting for an hour or two. Other drivers choose not to await a fare in the queue and leave the airport as soon as they deliver their passenger. We know from taxi network trip data that between 30 and 50 per cent of drivers elect to travel away from the airport to await their next fare.

From a whole-of-market perspective, it is not self-evident whether there is an optimal level of vehicle queuing that might be desirable at the airport. There is no evidence that has been brought to our attention suggesting that there are insufficient taxis to meet customer demand. Conversely, it is not self-evident that potential passengers elsewhere in the metropolitan area are disadvantaged by so many taxis queuing at the airport. In other words, there does not appear to be an overall shortage of vehicles in the rest of the metropolitan area.

Nevertheless, questions remain about whether the general taxi fare structure promotes the most efficient use of taxis between the airport sub-market and the broader metropolitan market. The two most common arguments suggesting that airport fares should be restructured are:

- *driver frustration at receiving a short fare*. Anecdotal evidence continues to suggest that drivers who may have queued for an hour or two, are still venting their frustration at passengers who require short trips from the airport. Such behaviour is inexcusable and should not be tolerated. However, from the perspective of fare regulation, we ought to question whether the current fare structure promotes the excessive queuing that contributes to this inexcusable behaviour.
- *resource misallocation across the broader market*. Even though there is no apparent shortage of services elsewhere in Melbourne due to the queuing of hundreds of taxis at the airport, it is hard to assess how customers elsewhere in Melbourne might benefit if fewer taxis were tied up in queues at the airport. It would seem, at least from first principles, that there is little to be gained from more taxis queuing at the airport than is required to service departing passengers efficiently. That being so, the question arises whether the existing fare structure is over-compensating taxi drivers for queuing at the airport rather than providing services elsewhere.

It would be reasonable to postulate that because the average fare a driver can expect for a trip from the airport is much higher than the average fare likely to be collected from elsewhere in the metropolitan zone, it becomes worthwhile for some drivers to 'take a punt' on queuing at the airport in the hope of collecting a long fare. This would suggest that there is some argument for lowering the average fare for trips from the airport in order to avoid so many vehicles joining the queue.

The risk of doing so would be to jeopardise the reliable supply of taxis for passengers needing to travel away from the airport. In other words, some queuing is necessary and desirable in order to ensure passengers continue to have access to a reliable and timely service from the airport. If this requires drivers spending a greater amount of time awaiting a fare than might be expected elsewhere in Melbourne, then it may be reasonable to account for that time in the fare structure — particularly as the time queuing for a short fare is the same as the time spent queuing for a long fare.

7.6 CONCLUSION

Our observations about the Melbourne Airport sub-market suggest that there might be merit in considering an alternative fare structure, at least for trips originating at the airport. Such a fare structure would, most likely, involve a rebalancing between the distance charge and the flagfall components of the tariff. A higher flagfall than for trips elsewhere in Melbourne would be offset by a lower distance charge.

While we consider there would be merit in pursuing such a proposal, it requires considerably more research and consultation than our current timeframe permits. Therefore, once this review has concluded we will initiate a research project to enrich our understanding of matters such as: the forces that influence drivers' decision to queue at the airport (or not); the role of the fare structure in influencing that decision; other important structural features of behavioural tendencies operating across the industry; whether it is indeed possible to define an 'optimal' queue length; options other than the fare structure that could be used to promote a more efficient allocation of taxis; and whether new metering and booking technologies create opportunities for more innovative solutions than blunt rebalancing between the flagfall and distance charges. We look forward to working closely with taxi service providers and all interested parties as we explore these issues.

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	**Price determinations** 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— (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)	**Exercise of regulatory functions** 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.
s. 162E(2)	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.
s. 162E(3)	The ESC must complete a review of a price determination no later than 2 years after it is made.
s. 162E(4)	Subsection (1) expires on the fifth anniversary of the day on which section 28(1) of the *Transport Legislation Amendment (Foundation Taxi and Hire Car Reforms) Act 2013* comes into operation.

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
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. Government response: Support.
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. Government response: Support
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. Government response: Not supported
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. Government response: Support.
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. Government response: Support.

Continued next page

TABLE A.3 (CONTINUED)

	Recommendation detail
12.6	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. Government response: Support.
12.7	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. 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.
12.8	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. Government response: Support
12.9	Fares should be restructured to: • 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. Government response: Support. Refer details to ESC for advice, together with advice on any fare adjustments necessary as a result of new zone boundaries.

Continued next page

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.

Continued next page

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 THE AREAS OF DANDENONG, FRANKSTON AND THE MORNINGTON PENINSULA

	Tariff 1 'Day' (9am–5pm)	**Tariff 2** 'Overnight' (5pm–9am, excluding peak)	**Tariff 3** 'Peak' (Fri & Sat nights 10pm–4am)
Standard fare components	**Maximum charge up to**		
Flagfall ($)	4.20	5.20	6.20
Distance rate ($/km) (applies when speed is above 21 km/hr)	1.622	1.804	1.986
Waiting time ($/min) (applies when speed is below 21 km/hr)	0.568	0.631	0.695

Other fare components (applicable to tariffs 1, 2 and 3)		**Maximum charge up to**
High occupancy fee	For trips with 5-11 passengers or when high occupancy vehicle specifically requested Not applicable for wheelchair passenger trips	$14.00
Booking fee	For booked trips	$2.00
Premium service charge	For booked trips where vehicle is participating in a 'premium service scheme'	$11.00
Airport booking fee	For trips booked for pick up from Melbourne Airport	$3.00
Airport rank fee	For trips from the Melbourne Airport rank	$2.70
Holiday rate	Applies all day Christmas Day, Boxing Day, New Year's Day and from 6pm on New Year's Eve	Tariff 3 rates

TABLE B.2 MAXIMUM TAXI FARES FOR GEELONG, BALLARAT AND BENDIGO

Standard trips		**Maximum charge up to**
Flagfall ($)		3.60
Distance rate ($/km) (applies when speed is above 21 km/hr)		1.838
Waiting time ($/min) (applies when speed is below 21 km/hr)		0.643
High occupancy trips		**Maximum charge up to**
For trips with 5-11 passengers or when high occupancy vehicle specifically requested Not applicable for wheelchair passenger trips		
Flagfall ($)		3.60
Distance rate ($/km) (applies when speed is above 21 km/hr)		2.757
Waiting time ($/min) (applies when speed is below 21 km/hr)		0.965
Other fare components		**Maximum charge up to**
Late night fee (midnight to 6am)	For all trips between midnight and 6am	$3.40
Booking fee	For booked trips	$2.10
Premium service charge	For booked trips where vehicle is participating in a 'premium service scheme'	$11.00
Airport booking fee	For trips booked for pick up from Melbourne Airport	$3.00
Holiday rate[(a)]	Applies all day Christmas Day, Boxing Day, New Year's Day and from 6pm on New Year's Eve	$4.20

(a) The 'late night fee' does not apply during times that the holiday rate applies

The maximum fare schedule for each of the metropolitan and urban zone areas also allow for multiple hire fares to be applied. Multiple hire of a taxi occurs when two or more unacquainted passengers jointly hire a taxi from a common starting point. Each passenger in a multiple hire may have a separate destination, however they must be travelling in the same general direction and all hirers must consent to the shared hire. Each hirer in a multiple hire may be charged up to 75 per cent of the fare on the taximeter at their respective destinations.

APPENDIX C—EXAMPLES OF SMARTPHONE BOOKING APP FARE STRUCTURES

The market for commercial passenger vehicle services in Australia is rapidly expanding and new service providers are putting competitive pressure on taxi service providers. These new service providers are utilising new technologies, particularly smartphone booking apps, which is having a profound influence on the way commercial passenger vehicles are procured and paid for. These new services include Uber, GoCar, Shofer and Rideboom.

Smartphone booking app networks are not subject to regulated maximum taxi fares. Instead, service providers (other than taxis) through smartphone apps tend to develop their own fare offerings with fares calculated through the smartphone app. The GPS functionality of smartphones enables the real time calculation of time and distance based fare structures, similar to the functionality of taximeters, which enables fare offerings that more closely reflect taxi fare structures.

Table C.1 presents a comparison of the fare structures for the GoCar, Shofer, and Uber services. Note that as only the Uber prices in this table currently apply in Melbourne, this table is more useful as a comparison of the different fare structures of these services, rather than a comparison of fare levels across services.

TABLE C.1 FARE STRUCTURES OF SMARTPHONE BOOKING APP PROVIDERS

	GoCar[a]		Shofer [b]	UberBLACK [c]	UberX [c]
	off-peak	peak			
Flagfall	$2.50	$3.65	$0.00	$10.00	$2.00
Per kilometer	$1.45	$2.12	$1.35	$2.40	$1.00
Per minute	$0.40	$0.58	$0.5	$0.80	$0.32
Minimum fare	$8.00	$12.00	$6.00	$25.00	$6.00
Cancellation fee	$10.00	$10.00	$6.00	$10.00	$10.00
Surge pricing	No		No	Yes	Yes

a GoCar prices for NSW: http://www.GoCatch.com/passenger-pricing/ (13 April 2016). Peak periods are 8am to 9am Monday to Friday and 10PM to 2AM Friday and Saturday.

b Shofer prices for Perth: http://shofer.com.au/pricing/ (13 April 2016).

c Uber prices for Melbourne: https://www.uber.com/cities/melbourne/ (13 April 2016).

Uber's app also applies 'surge pricing', where its prices rise in periods of high demand. When booking requests from passengers are outstripping available drivers, the Uber app will indicate that surge pricing is in operation. In practice, the Uber app indicates that a fare multiplier (for example, 1.7 times higher than the standard rate) will apply to all journeys. This information is disclosed before the customer makes a booking. Uber's rationale for using surge pricing is to incentivise more drivers to make themselves available in periods of peak demand or shortages of supply.[68] There are no designated surge pricing periods. Rather, surge pricing periods are determined in real-time based on supply (available drivers) and demand (requested jobs).[69]

68 Travis Kalanick 2011, *NYE Surge Pricing Explained*, 31 December, accessed on 13 April 2016, https://newsroom.uber.com/nye-surge-pricing-explained/

69 ACCC 2016, *ihail Pty Ltd - Authorisation - A91501.22 March 2016,* pp. 12-13.

APPENDIX D—ANALYSIS OF TAXI OPERATING COSTS

D.1 METHODOLOGY

As set out in Chapter 3, we use a cost index approach to estimate the changes in costs between our last fare review and the present time. In the following analysis, we explain the cost profiles developed for our taxi fare review of 2014 and then:

1. use the cost profiles to derive the cost weights for each cost component that makes up the cost profile (i.e. the share of each cost component as a proportion of the total cost profile)
2. determine an appropriate cost inflation measure. The cost inflation measures estimate the change in specific cost components.
3. multiply each cost weight by an appropriate cost inflation measure. The product of a cost component's weight and the percentage change in its inflator is its index contribution. The index contribution represents the percentage change in total operating cost index attributed to a particular cost component.

We then further consider the treatment of (and changes in) other components of cost that are relevant to taxi operation.

D.2 THE COST PROFILE

Table D.1 identifies and explains each operational cost component associated with providing taxi services. The typical cost components and the representative cost profile we estimated for 2014 is presented in Table D.2.

TABLE D.1 TAXI COST COMPONENTS

Cost component	Description
Fuel	Total fuel costs incurred by a taxi.
Network	Costs associated with network affiliation. Operators receive access to services such as centralised booking and dispatch and networked security alarms.
Insurance	Comprehensive insurance and workers' compensation insurance.
Vehicle cost	Includes costs associated with purchasing or leasing a vehicle, including fit-out.
Registration / TAC	Includes compulsory third party insurance (Transport Accident Charge)
Repairs	Includes cost of operators' own time, staff costs and cost paid to other businesses for maintenance and repairs.
Administration	Includes cost of operators' own time, staff costs and costs paid to other businesses for administration (e.g. accountant).

TABLE D.2 ESTIMATED COSTS OF TAXI OPERATION 2014

Cost component	Range (low – high) ($)		Mid-point ($)
Fuel	18,905	19,787	19,347
Network (equipment)	3,566	3,762	3,664
Network (labour)	3,566	3,762	3,664
Insurance (comprehensive)	2,759	4,081	3,420
Insurance (workers compensation)	690	1,020	855
Vehicle (purchase price)	6,016	7,061	6,538
Registration/TAC	1,918	2,482	2,200
Repairs	8,617	11,355	9,986
Administration	5,460	8,069	6,765
Total (operational costs)	**51,498**	**61,380**	**56,439**

Source: ESC 2014, *Taxi Fare Review 2013-14 – Final Report*, March, p. 44. Figures are adjusted using the 1 per cent buffer used in our last review on the reported costs.

D.3 COST INFLATION MEASURES

For each cost component, we use an inflator or inflators to estimate the change in the cost component. These inflators are presented alongside the typical cost components in Table D.3, along with the changes in these inflators from the period March 2014 to December 2015.[70] The inflators suggest that there have been material changes in some cost components over the review period, with some falls and some rises.

TABLE D.3 COST INFLATORS AND % CHANGES
March 2014 to December 2015

Cost component	Inflator	Rationale	% Change in inflator
Fuel	• FUELtrac (LPG)	• Most vehicles in the taxi fleet use LPG	**-27.0%**
Network	• 50% equipment – CPI (telecommunications equipment and services, Melbourne) • 50% labour – Wage Price Index (WPI)	• Network costs have both an infrastructure and labour component	**CPI: -9.6%** **WPI: 4.6%**
Insurance	• 80% comprehensive – ICA comprehensive car insurance index • 20% workers compensation – WPI	• Split reflects share of costs • Best source available on car insurance costs • Wage index is the best source available on changes in worker's compensation costs	**ICA: -2.4%** **WPI: 4.6%**
Vehicle	• Imputed based on CPI (motor vehicle, Melbourne) and RBA lending rates for small business	• Vehicles are assumed to be leased	**-1.2%**
Registration/TAC	• Imputed based on actual TAC charge		**3.8%**
Repairs and maintenance	• CPI (maintenance and repairs of motor vehicles, Melbourne)	• Closest available proxy	**6.7%**
Administration	• WPI	• Proxy for labour costs	**4.6%**

[70] Current maximum fares were based on March 2014 data. The latest available data is for December 2015.

D.4 WEIGHTINGS AND TOTAL CHANGE

To derive an overall or average measure of change, we must weight these changes by the share of costs represented by each component. For the weights, we use the proportion of the mid-point of the cost component's range to the mid-point of the total operating cost range.

The product of a cost component's weight and the percentage change in its inflator is its index contribution. The index contribution represents the percentage change in the total operating cost index attributed to a particular cost component. The overall change in the operational cost index is given by the sum of the index contributions. The index contributions and total change in the operational cost index are presented in Table D.4.

TABLE D.4 WEIGHTS AND INDEX CONTRIBUTIONS
March 2014 to December 2015

Cost component	Weight	Index contribution
Fuel	34.3%	-9.25%
Network (equipment)	6.5%	-0.62%
Network (labour)	6.5%	0.30%
Insurance (comprehensive)	6.1%	-0.14%
Insurance (workers comp)	1.5%	0.07%
Vehicle	11.6%	-0.14%
Registration/TAC	3.9%	0.15%
Repairs and maintenance	17.7%	1.19%
Administration	12.0%	0.55%
Total		**-7.9%**

In summary, Table D.4 indicates that representative taxi operating costs declined by 7.9 per cent from March 2014 to December 2015.

The decline is driven primarily by a decline in fuel costs, which represent around one third of total operational costs. The fuel cost index declined by 27 per cent from March

2014 to December 2015. This reflected a sharp fall across the period between March 2014 and October 2015 when prices bottomed (a 40 per cent fall) to December 2015 where the price rebounded by 22 per cent.

D.5 OTHER COST COMPONENTS AND RETURNS

Aside from the direct operational taxi costs, there are two other components of costs that are relevant for taxi operation. These costs are the opportunity costs of funds employed in the taxi industry and costs associated with drivers.

The opportunity costs of funds employed simply reflects that for investment to continue to be made in the taxi industry, sufficient returns must be earned. Sufficient returns are those which would keep the assets employed. Consequently, this rate of return should reflect the risks to an operator's financial investment in a taxi business.[71]

Under current arrangements in Victoria, taxi drivers are not paid by taxi operators but are engaged under a mandatory driver agreement, with drivers receiving 55 per cent of the fare revenue (leaving the operator with 45 per cent). The relevant costs for drivers are also therefore an opportunity cost — drivers must earn a return sufficient to keep them driving taxis rather than their next best alternative.

While both costs are relevant for taxi operation, there are no direct measures of how these costs have changed. However, both may be benchmarked against changes in costs in similar industries or occupations.

- In our previous fare review, we estimated a return on total revenue that we believed was reasonable given the risks associated with the taxi industry. This return was estimated in the range of eight per cent to 15 per cent. This return is likely to vary with factors such as bank lending rates.
- We did not attempt to estimate the opportunity costs for drivers, as the revenue sharing arrangements effectively set the available returns. However, driver

[71] These risks include that a downturn in the economy might result in fewer taxi trips that forecast in the fare-setting model.

opportunity costs would be expected to change with the costs of substitute occupations.

There has been little change in bank lending rates (as a proxy for the required rate of return) over the past few years. We are uncertain how drivers' opportunity costs would have changed, but note that if they changed in line with wages they might have increased by around 4.6 per cent. This would offset reductions in operator's costs. In other words, while operators would be able to recover their costs if fares were to decrease, drivers would be worse off and so lowering fares would risk a withdrawal of driver labour supply.[72]

In any case, as outlined in Chapter 2, our approach no longer directly links changes in costs with changes in fares. Consequently, we do not need to reach a conclusion about the magnitude of cost changes.

[72] As an example, if we reduced fares in line with operator costs (7.9%), this would also lower driver revenues by the same amount. On the other hand, if we lowered fares by a blend of the reduction in operator costs and the increase in driver opportunity costs, the result would be a smaller price and revenue fall. However, due to the revenue sharing arrangements it would not be possible to direct fare increases and decreases to operators and drivers respectively, so that the result is that revenue accruing to drivers would fall in line with the fall in total revenue.

APPENDIX E—METROPOLITAN TAXI MARKET TRENDS ANALYSIS

E.1 INTRODUCTION

This appendix describes the metropolitan taxi market and trends in the available market data. We examine trends in the demand and revenue for the metropolitan taxi zone since our last fare review, as well as for the supply of taxi services (measured by the number of licences and the utilisation of those licences). The trends are based on the most recent and available data, which extends from January 2013 to the end of June 2015.[73] This appendix also discusses the balance of supply and demand of taxis, as measured using waiting times for drivers and passengers. Finally, measures of customer satisfaction and service within the metropolitan market are also discussed.

E.2 THE METROPOLITAN TAXI MARKET

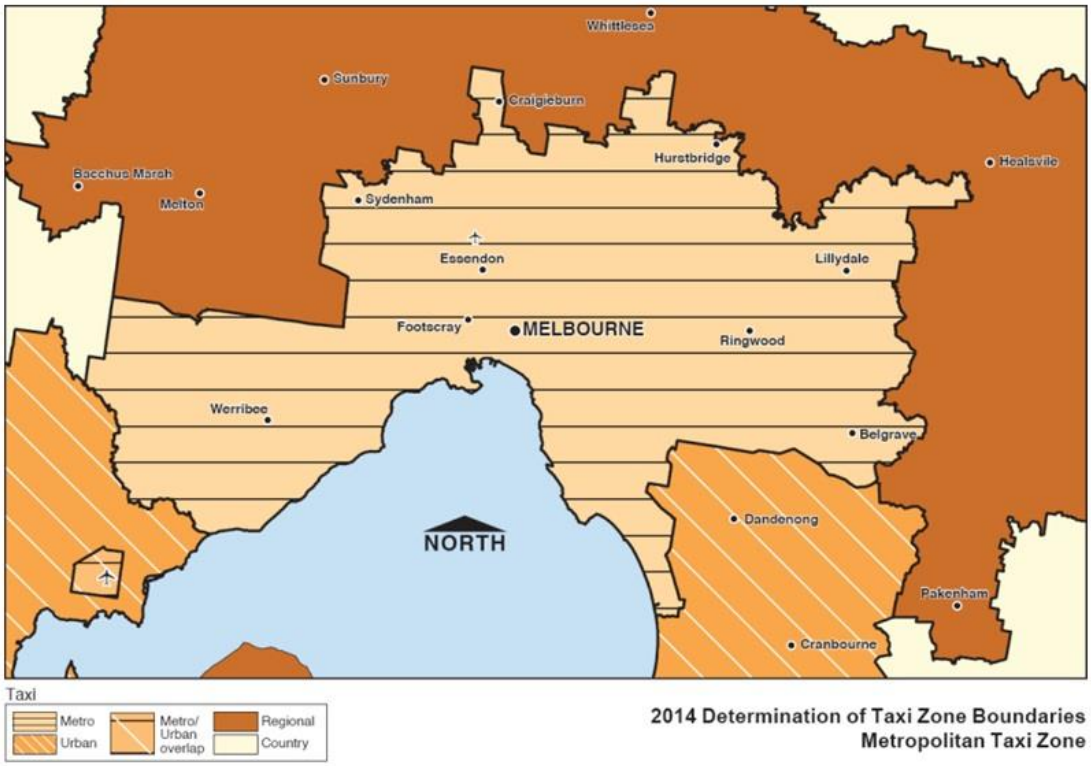
Before discussing the trends in the supply and demand for taxi services, we first define the characteristics of the Melbourne metropolitan market.

E.2.1 METROPOLITAN ZONE BOUNDARY

The metropolitan taxi market is one of four taxi zones in Victoria. Taxi zones were re-defined on 30 June 2014 to form four zones: the metropolitan zone; the urban zone; the regional zone; and the country zone. Figure E.1 illustrates the metropolitan zone boundary.

[73] Data beyond this period is currently not available to the Commission.

FIGURE E.1 THE METROPOLITAN TAXI ZONE



Source: Taxi Services Commission

Taxi zones facilitate the application of regulatory distinctions between each zone, such as permitted operating areas, annual taxi licence fees, driver accreditation requirements and taxi fare regulation.

E.2.2 LICENSING IN THE METROPOLITAN ZONE

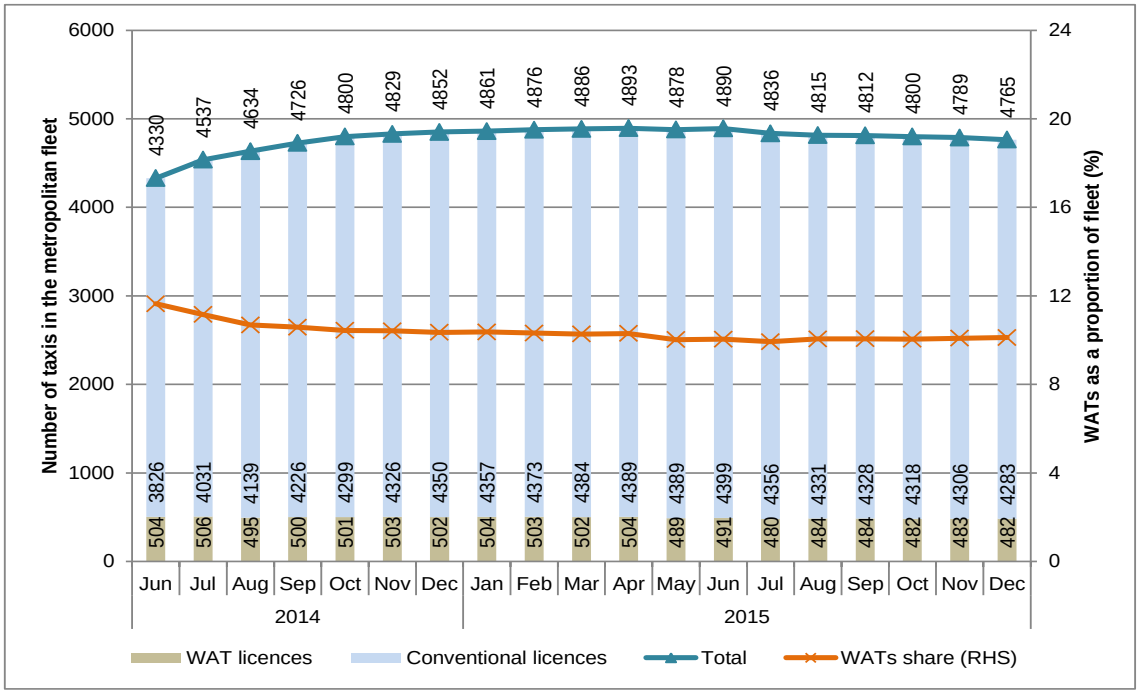
Prior to recent taxi licence reforms, the number of taxi licences issued was restricted by the Victorian Government. From 30 June 2014, new annually renewable taxi licences were made available for purchase from the Taxi Services Commission without quantity restriction, for annual fees set in legislation. In the metropolitan zone, the fees for a conventional taxi are $22 703 per annum and $18 988 for a Wheelchair Accessible Taxi (WAT) licence.

In line with the reform intent, average assignment payments for perpetual licences in the metropolitan zone have now declined to levels comparable with annual taxi licence fees. For conventional taxi licences in the metropolitan zone the market price for assignments declined from pre-reform levels exceeding $30 000 per year to approximately $23 000 per year in 2015. More recently in 2016 the market price has declined further to approximately $21 500 per year.

The number of taxi licences operated has increased since annual licences became available. Figure E.2 shows that after entry restrictions in the taxi industry were removed at the end of June 2014, the number of taxi licences for the metropolitan zone grew steadily for a few months before reaching a peak of 4893 in April 2015 (a 13 per cent increase). Since then, taxi licence numbers have been declining slightly, but as at December 2015, remained at just over 10 per cent of the quantity restricted supply prior to licensing reforms.

Also of note is that while total metropolitan taxi licence numbers have increased, the number of wheelchair accessible taxi (WAT) licences declined from 504 prior to licensing reforms, to 482 as at December 2015.

FIGURE E.2 CHANGE IN METROPOLITAN TAXI LICENCES
June 2014 to December 2015



E.2.3 TAXI BOOKING NETWORKS IN THE METROPOLITAN ZONE

Pre-booked taxi trips account for around 30 per cent of total taxi trips in the metropolitan zone. This has remained consistent since our last fare review.

Booking networks, referred to in the legislation as Network Service Providers, facilitate the booking of taxi services by passengers. In 2014, reforms were implemented to remove the requirement for taxi operators to exclusively affiliate with one of a small number of accredited Network Service Providers, providing for greater choice for taxi operators and drivers in the booking networks they use.

The two largest booking networks in the metropolitan zone are 13CABS and Silver Top Taxis, while there are a number of other smaller networks including Platinum Taxis and CabIT.

Increasingly, new technology is facilitating the emergence of new forms of booking taxis. GoCatch and Ingogo are two well-established taxi smartphone apps in the Melbourne area, while an app developed jointly by taxi companies around Australia (ihail) is likely to launch shortly after having recently received authorisation by the Australian Competition and Consumer Commission.[74]

E.3 RECENT TRENDS IN TOTAL DEMAND, TAXI REVENUE AND TAXI SUPPLY

This section presents data on the recent trends in total taxi industry demand[75], taxi revenue and the supply of active taxis.[76]

The trends presented in this appendix are based on data provided to us by the Taxi Services Commission, covering the period from January 2013 to June 2015. Data beyond this period are currently not available to the Commission.

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74 ACCC 2016, *ihail Pty Ltd - Authorisation - A91501.22 March 2016*

75 As demand for taxi services is difficult to observe directly, we use the number of taxi trips as an indirect measure of taxi demand, whilst noting that trends in this data may also be a result of changes in taxi supply.

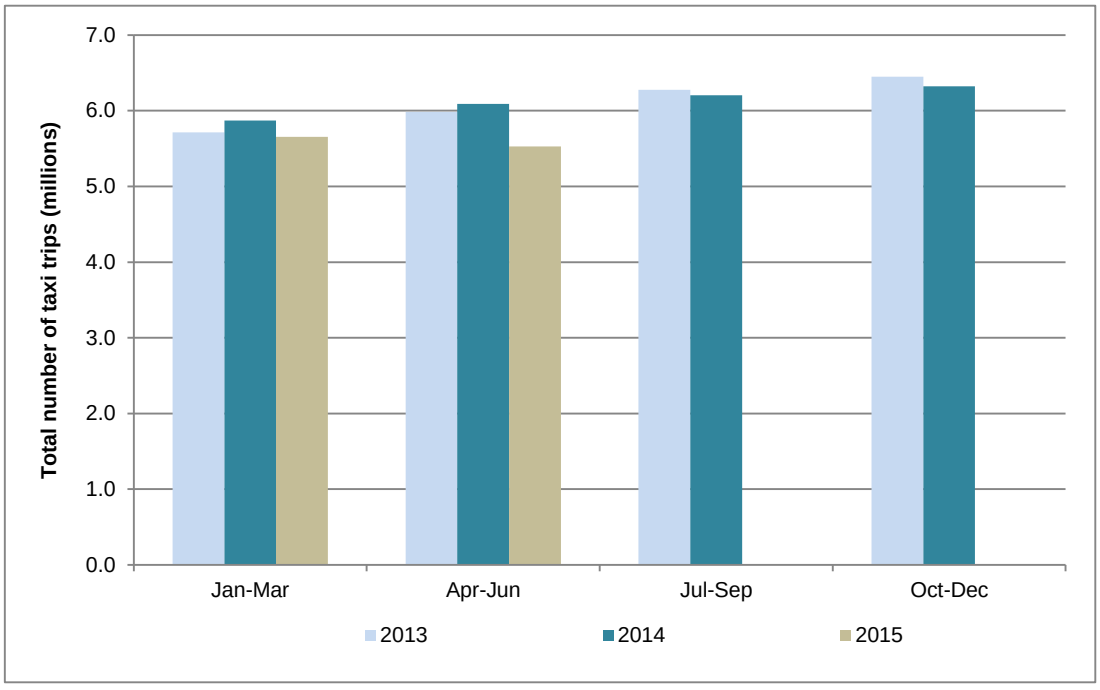
76 The term 'active taxis' refers to taxis being driven by a driver on shift. Active taxis are the taxis that are on the road either occupied with a passenger or unoccupied but looking for passengers.

E.3.1 RECENT TRENDS IN TAXI DEMAND IN METROPOLITAN MELBOURNE

Taxi demand in the metropolitan zone is seasonal.[77] This seasonality can be seen in Figure E.3 which presents the number of taxi trips from January 2013 to June 2015. Quarters are grouped to facilitate year-on-year comparisons and we can see that in both 2013 and 2014, taxi trips increased each quarter throughout the year. This trend appears to change in 2015, with a decline in trips in the April to June quarter of 2015.

Also of note is that, on a year-on-year basis, the number of taxi trips declined slightly following the May 2014 fare increase, with trips in the July to September and October to December quarters of 2014 slightly lower than same quarters of 2013. This year-on-year decline in taxi trips appears to have accelerated in 2015, particularly in the April to June quarter.

FIGURE E.3 NUMBER OF TAXI TRIPS IN THE METROPOLITAN ZONE
Comparison of quarterly data, January 2013 to June 2015



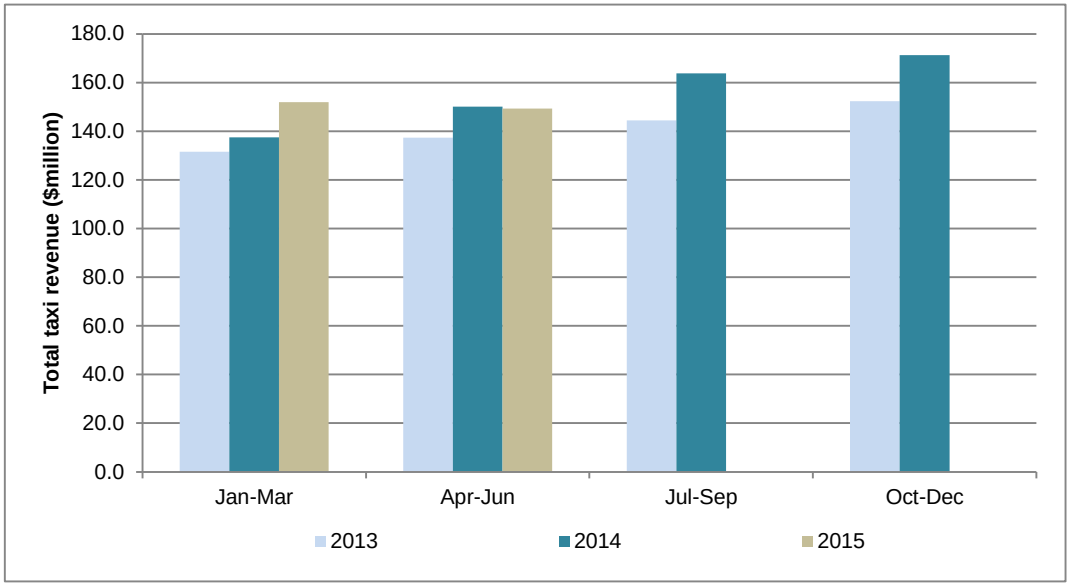
[77] We noted in our 2014 taxi fare review that while the months February to November are quite consistent in their pattern of taxi use, December and January are quite distinct. Essential Services Commission 2014, *Taxi Fare Review 2013-14 – Final Report*, March, p. 141.

E.3.2 RECENT TRENDS IN TOTAL REVENUE

Taxi revenue[78] in the metropolitan market increased on a year-on-year basis following the increase in taxi fares in May 2014. This can be seen in Figure E.4, with the July to September and October to December quarters of 2014 showing notably higher revenue compared to the same quarters of 2013.

Seasonal trends in taxi demand normally reveal increasing demand (and therefore increasing revenue) each successive quarter of the year. In Figure E.4, this trend is observed in 2013 and 2014. However, in the April to June quarter of 2015, revenue declined, in contrast to the historical trend and as a result of declining taxi demand.

FIGURE E.4 TOTAL NOMINAL REVENUE IN THE METROPOLITAN ZONE
Comparison of quarterly data, January 2013 to June 2015



E.3.3 HOW TAXI DEMAND VARIES ACROSS THE WEEK

Typical variation of taxi demand across the week can be seen in Figure E.5, which shows the average number of trips taken for each hour of the week in financial years

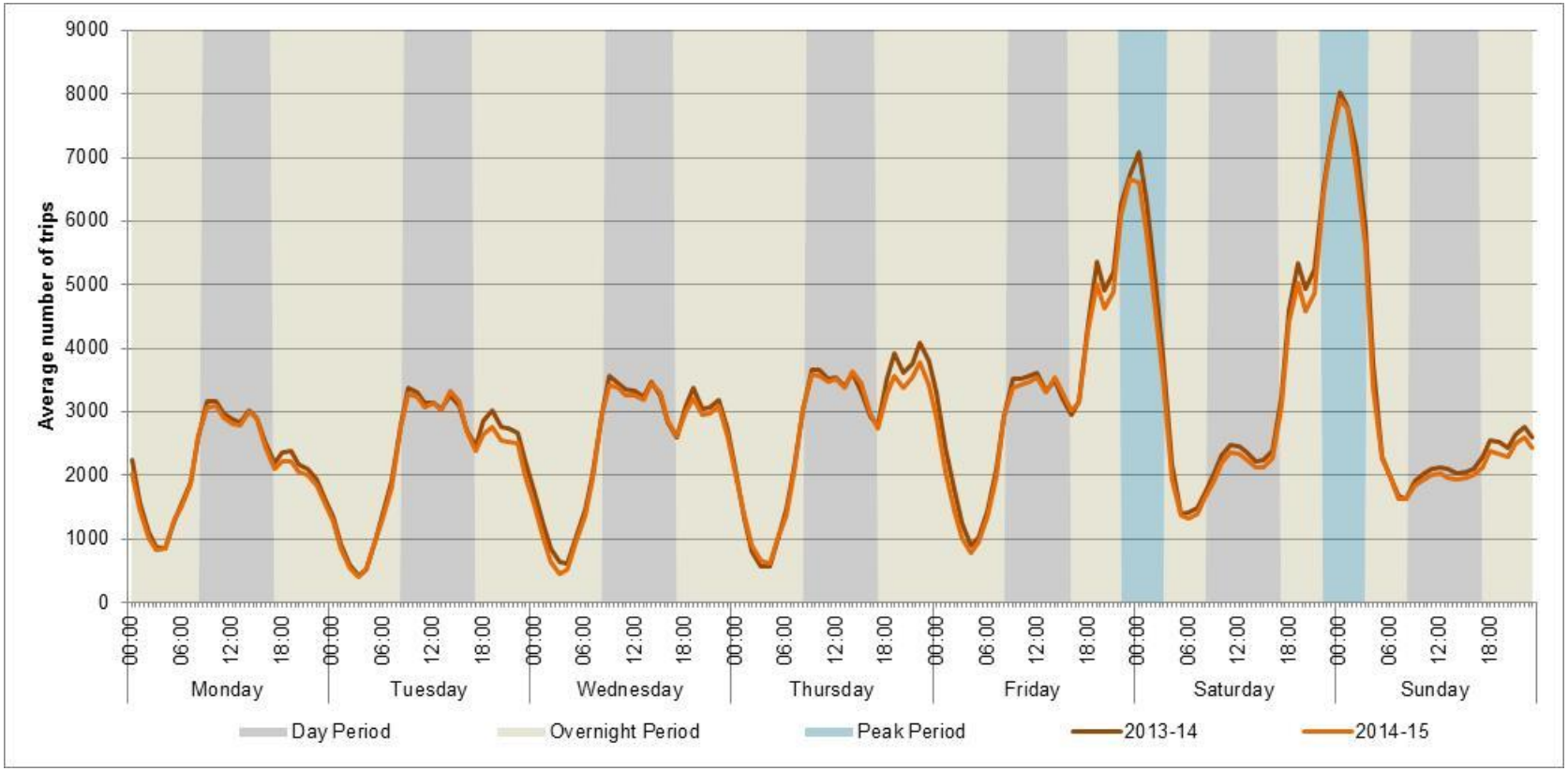
[78] Taxi revenue has been estimated by the Commission. To derive this estimate, we take information on the time and length of taxi trips supplied to us by the Taxi Services Commission, and apply the fare schedule to those trips.

2013-14 and 2014-15. The background shading indicates the three tariff periods – day, overnight and peak – reflecting the times when different maximum fares apply (peak period fares are highest, followed by overnight, then day).

Early in the week, taxi demand is highest during business hours before declining slightly in the evening, followed by a period of low demand overnight from around 10pm. On Wednesday and Thursday evenings, the level of taxi demand in the evenings is similar to during business hours. From around 7pm on Friday and Saturday nights, demand for taxis increases significantly through to the early hours of the morning and is at its highest level of the week.

Figure E.5 reveals that the decline in taxi trip numbers discussed previously has been most prominent on weeknights and during the Friday and Saturday night peak periods. However, this has not markedly changed the general trend of how taxi demand varies across a typical week.

FIGURE E.5 AVERAGE TRIP VOLUMES (DEMAND) BY HOUR OF THE WEEK
2013-14 and 2014-15

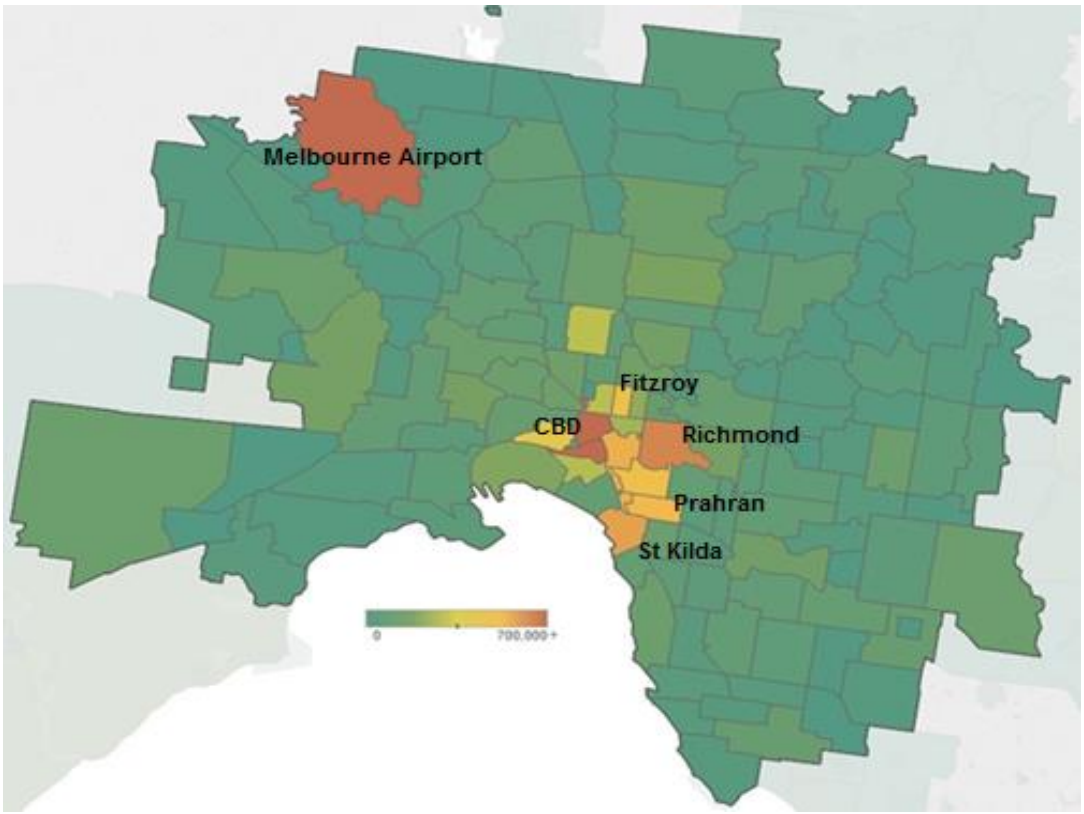


E.3.4 HOW TAXI DEMAND VARIES BY LOCATION

Figure E.6 provides a visual representation of the taxi demand across metropolitan Melbourne. Each postcode is coloured on the basis of the number of taxi trips that started within that postcode in financial year 2014-15, with red being relatively high and blue being low relative to other areas.

We observe that Melbourne Airport, the Central Business District and Southbank are the areas where the largest numbers of taxi trips begin. A relatively large number of taxi trips also tend to originate in Melbourne's inner eastern suburbs.

FIGURE E.6 NUMBER OF TAXI TRIPS BEGUN BY POSTCODE
2014-15



Note: Some of the outer areas in the metropolitan zone are not represented on this map. It should be noted that these areas tend to have relatively few taxi trips. Note also that there were no postcodes where no taxi trips began.

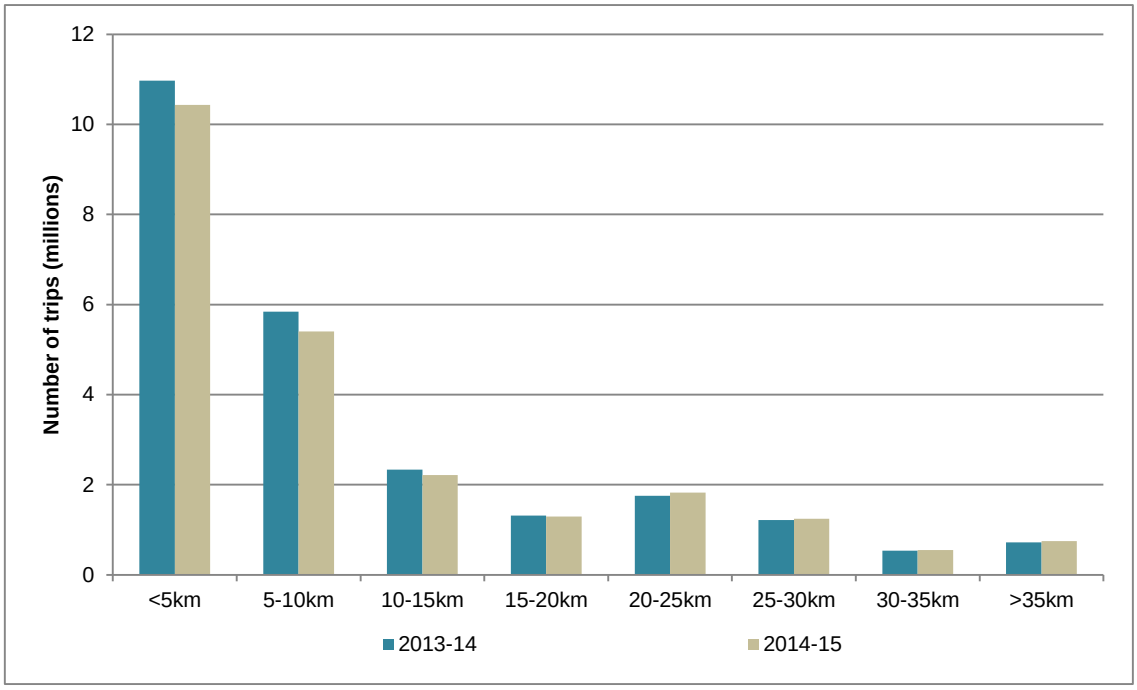
E.3.5 HOW TAXI DEMAND VARIES BY TRIP LENGTH

A large proportion of taxi trips in the metropolitan zone are less than five kilometres, and the majority are less than 10 kilometres. Figure E.7 displays the number of trips by five kilometre distance bands, comparing demand in 2013-14 and 2014-15. These two periods approximately coincide with the year before and year following the 2014 fare increase.

A measurable change in the distribution of trip lengths is observed in 2014-15, with relatively fewer trips of distances less than 20 kilometres and relatively more trips greater than 20 kilometres.

The influence of Melbourne Airport taxi demand can be seen, with a large number of trips between the airport and the CBD reflected around the 25 kilometre distance band.

FIGURE E.7 TRIP VOLUMES BY DISTANCE CLASS
2013-14 and 2014-15

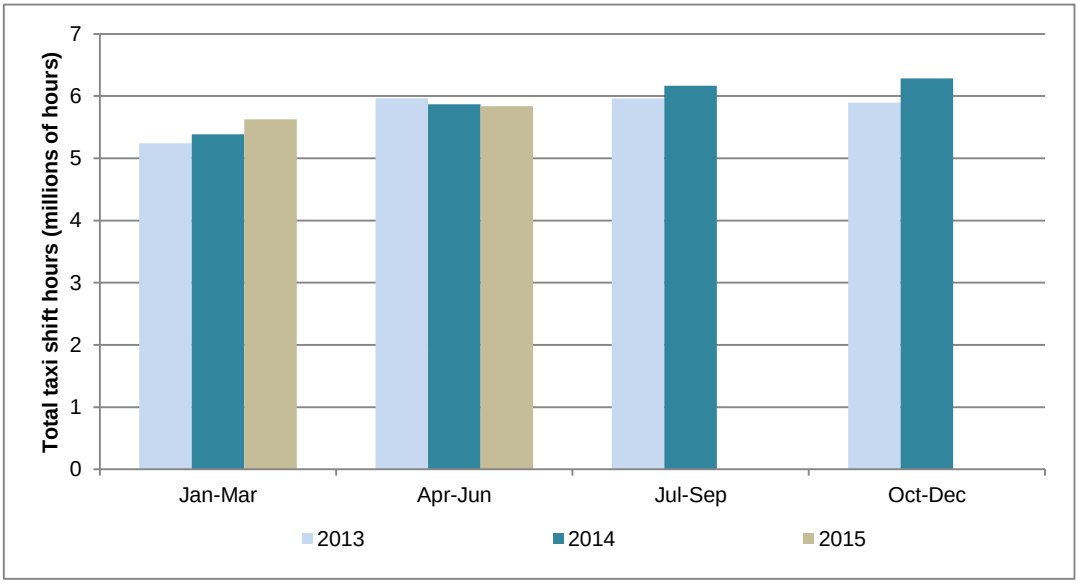


E.3.6 RECENT TRENDS IN SUPPLY

Figure E.8 presents taxi availability data, defined as the total number of metropolitan taxi shift hours for each quarter. Taxi shift time includes when a taxi is occupied with passengers or is otherwise available for hire.

Following the May 2014 fare increase and the June 2014 licence reforms, total taxi shift hours increased year-on-year, as reflected in the July to September and October to December quarters for 2014. This trend continued in the January to March quarter of 2015; however, a slight year-on-year decrease in taxi shift hours was observed in the April to June quarter of 2015.

FIGURE E.8 TOTAL SHIFT HOURS
Comparison of quarterly data, January 2013 to June 2015



E.3.7 HOW TAXI SUPPLY VARIES ACROSS THE WEEK

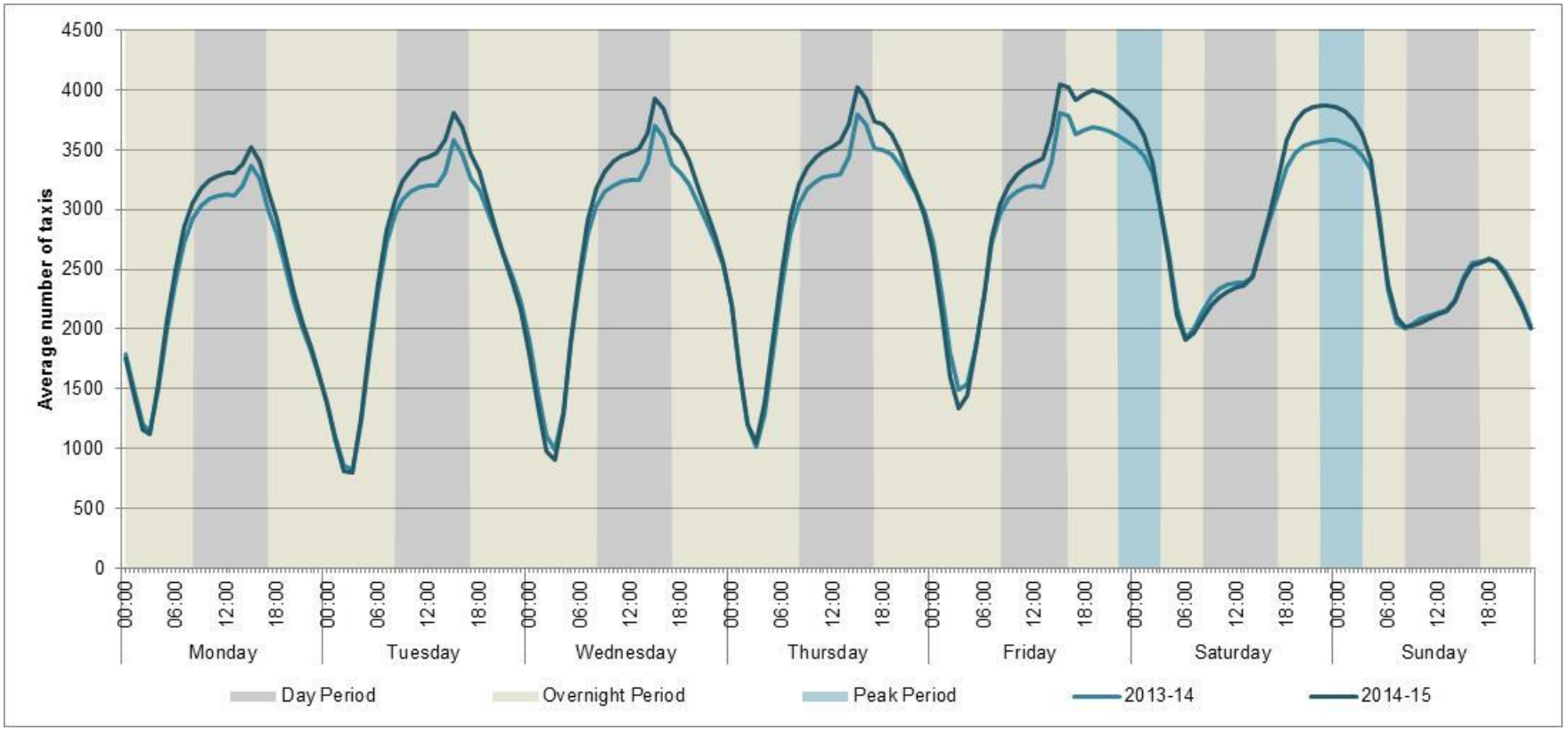
Figure E.9 shows the average number of taxis that were active during each hour of the week, for financial years 2013-14 and 2014-15.

During the week taxi supply is highest during business hours, and increases noticeably from 3pm when peak service taxis come into service.[79]

In contrast to taxi demand across the week (shown in Figure E.5), the supply of taxis is not at its maximum on Friday and Saturday nights. It can be seen that on Friday nights the number of taxis begins to decline prior to the commencement of the peak tariff period where taxi fares increase. We note, however, that taxi supply increased most markedly in the peak periods in 2014-15, following the introduction of higher peak fares.

[79] Peak service taxis are licensed to operate only between 3pm and 7am. There are approximately 500 peak service taxis.

FIGURE E.9 AVERAGE ACTIVE TAXIS (SUPPLY) BY HOUR OF THE WEEK
2013-14 and 2014-15



E.4 THE BALANCE OF DEMAND AND SUPPLY

A characteristic of the taxi market is that the balance between the demand for, and supply of, taxis at particular times and particular locations is reflected in queues and waiting times. Higher demand relative to supply is reflected in longer queues and waiting times for passengers and shorter queues and time between trips for drivers. Lower demand relative to supply has the opposite effect.

Since our last fare review the supply of taxis has increased and the demand for taxis has decreased, as discussed in Section E.3. Both of these changes work in the same direction on the balance of supply and demand, leading to higher supply relative to demand.

Sections E.4.1 and E.4.2 present the available data on passenger queuing (in terms of time waiting for taxis), driver queuing (in terms of time between trips) and taxi occupancy (defined as the proportion of total taxi shift time spent carrying passengers). Consistent with these observations, the data show reductions in passenger queuing and taxi occupancy rates and an increase in driver queuing.

E.4.1 QUEUING BY VEHICLES AND PASSENGERS

For an indication of the extent and trends in queuing of passengers, we have analysed customer wait times from taxi booking data. Customer wait time is calculated as the difference between the time that a trip was booked for, and the time that the meter was turned on to begin the trip. Cases where the taxi arrived early are treated as having a wait time of zero rather than negative wait times. We note that this information is only available for trips that were pre-booked.[80]

Average customer wait times vary across the week as shown in Figure E.10, which includes average customer wait time by hour of the week for financial years 2013-14

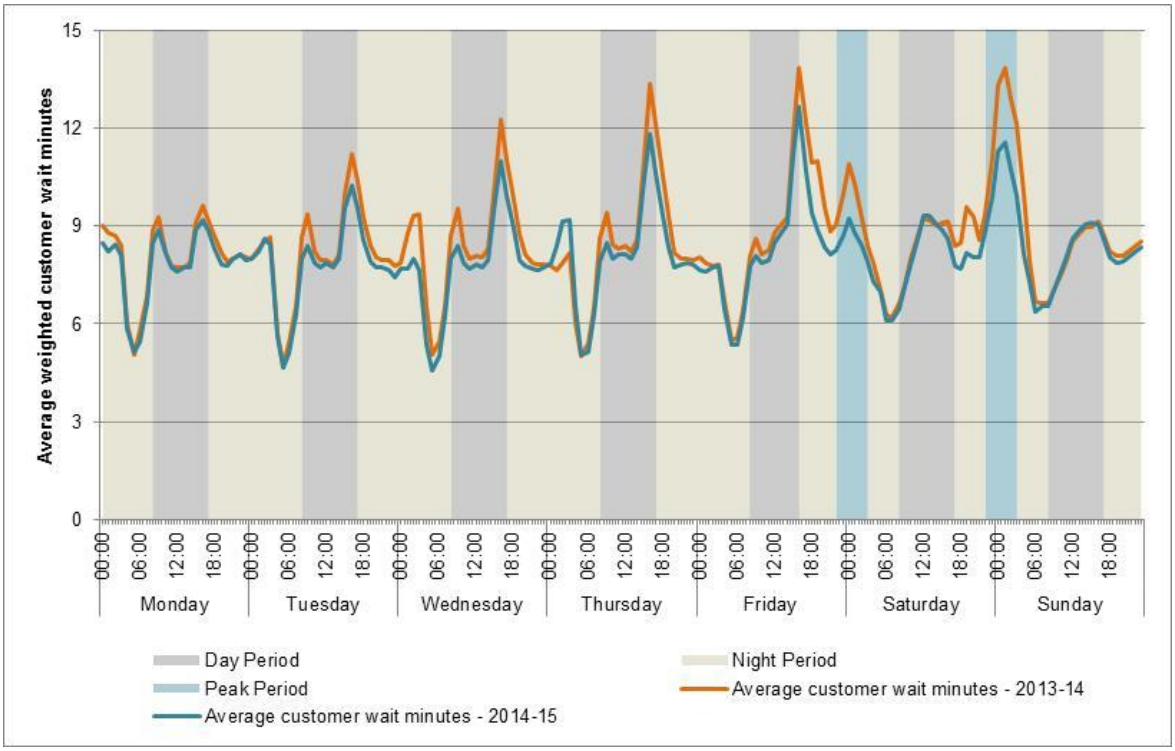
[80] There are two types of trips that fit into this category: advanced bookings and ready to ride bookings. Advanced bookings are bookings where at the time of booking, the requested time of departure is in the future. Ready to ride bookings are bookings for which the next available cab is requested: the time the booking is made and requested for are the same.

and 2014-15. Wait times tend to peak at around 5pm, with increasingly longer wait times as the week goes on.

We also observe that customer wait times have decreased in 2014-15, consistent with the expected outcomes of the higher supply and lower demand discussed previously.

Of note is that the calculated customer wait times during the Friday and Saturday night peak tariff periods appear lower than expected given the large peaks in taxi demand observed earlier in this chapter that are not matched by large peaks in supply. We expect this is a limitation of the taxi booking dataset, which does not include instances of unfulfilled bookings.

FIGURE E.10 AVERAGE CUSTOMER WAIT TIME BY HOUR OF THE WEEK FOR THE METROPOLITAN ZONE
Comparison of financial years 2013-14 and 2014-15



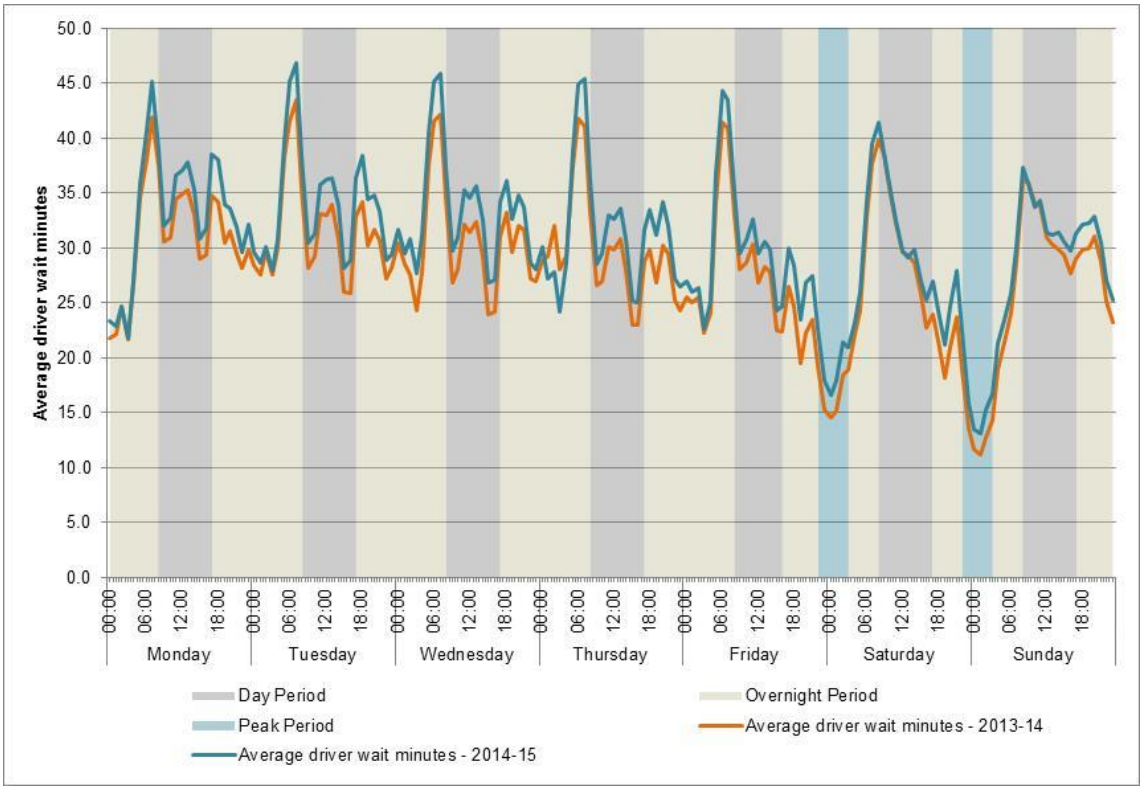
For an indication of the extent and trends in queuing of taxis, we have calculated the average time drivers spend between dropping off one passenger and picking up their next passenger (driver wait time).

Figure E.11 shows the average driver wait time by hour of the week for financial years 2013-14 and 2014-15. Drivers' wait time between trips is highest on weekday mornings between 6am and 8am. We expect this result is influenced by drivers queuing at Melbourne Airport before large numbers of air passenger arrivals into Melbourne.

The influence of high demand relative to supply on Friday and Saturday nights is better reflected in driver wait times, with drivers spending less than 15 minutes between trips on average on Saturday nights – roughly half the typical waiting time on weekdays during business hours.

We also observe that drivers waited longer between trips on average in 2014-15 – again consistent with the expected outcomes of the higher supply of taxis combined with lower demand for taxis discussed previously.

FIGURE E.11 AVERAGE DRIVER WAIT TIME BY HOUR OF THE WEEK FOR THE METROPOLITAN ZONE
Comparison of financial years 2013-14 and 2014-15



E.4.2 TAXI OCCUPANCY

The balance of demand and supply can also be reflected in taxi occupancy rates, as shown in Figure E.12. The occupancy rate is calculated as the total number of minutes that each taxi was occupied (passenger minutes) divided by the total number of minutes each taxi was on the road (shift minutes).

As expected, Figure E.12 shows high levels of taxi utilisation on Friday and Saturday nights from early evening until around 4am. Relatively high utilisation is also observed on weekdays from 8am to 10am and 3pm to 5pm.

While not shown here, since our last fare review, the average taxi utilisation has decreased from 30 per cent in 2013-14 to 28 per cent in 2014-15. That is, in 2014-15, taxis were occupied for a smaller percentage of the time than they were in 2013-14. This decreasing trend in occupancy holds for the majority of hours of the week. Again, this is consistent with the observed trends of higher supply and lower demand.

FIGURE E.12 AVERAGE OCCUPANCY FOR EACH HOUR ACROSS THE WEEK
2014-15

	Day of week						
Hour	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
12am-1am	28%	23%	22%	24%	28%	42%	51%
1am-2am	25%	20%	19%	21%	24%	38%	50%
2am-3am	22%	17%	17%	19%	23%	33%	45%
3am-4am	21%	15%	15%	18%	22%	32%	42%
4am-5am	19%	14%	13%	15%	18%	25%	32%
5am-6am	25%	20%	20%	19%	18%	22%	28%
6am-7am	28%	24%	24%	22%	21%	22%	28%
7am-8am	28%	26%	26%	25%	25%	22%	26%
8am-9am	36%	37%	37%	38%	36%	23%	24%
9am-10am	35%	37%	37%	38%	34%	25%	26%
10am-11am	29%	30%	30%	31%	30%	28%	27%
11am-12pm	25%	25%	27%	28%	30%	31%	29%
12pm-1pm	24%	26%	27%	29%	32%	32%	30%
1pm-2pm	23%	24%	26%	28%	30%	30%	29%
2pm-3pm	26%	28%	29%	31%	33%	28%	28%
3pm-4pm	29%	32%	35%	37%	39%	28%	28%
4pm-5pm	28%	31%	34%	37%	39%	27%	29%
5pm-6pm	25%	28%	31%	34%	36%	29%	26%
6pm-7pm	26%	29%	32%	34%	39%	36%	27%
7pm-8pm	25%	27%	29%	30%	38%	37%	25%
8pm-9pm	26%	26%	27%	28%	31%	29%	23%
9pm-10pm	26%	26%	27%	29%	31%	30%	26%
10pm-11pm	26%	27%	28%	31%	38%	40%	29%
11pm-12am	24%	24%	26%	29%	43%	48%	30%

E.5 TAXI SERVICE LEVELS

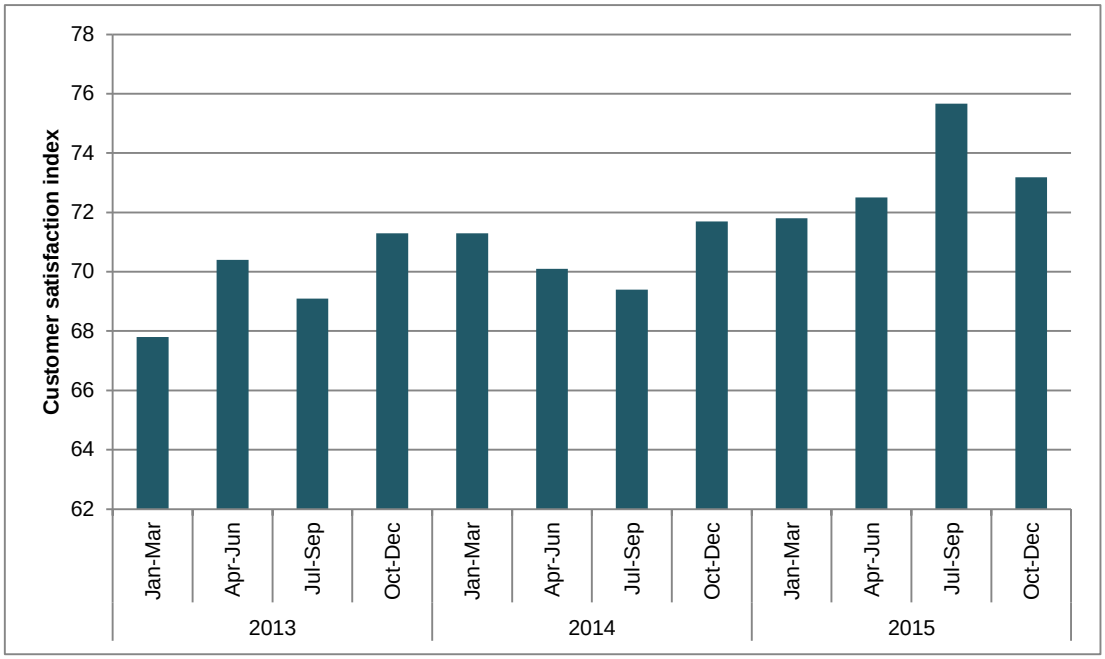
Measuring taxi service levels is important because it can provide information about problems with the level of fares or the structure of fares at particular times. For example, a consistent source of concern prior to our last fare review was driver refusal of short fares. Poor service quality such as low availability at peak times might also indicate insufficient investment in taxi services, which can be addressed through comparatively higher fares at peak times or across the week.

Taxi service levels can be examined using two available measures:

- a customer satisfaction index (calculated from the Taxi Services Commission's Customer Satisfaction Monitor results)
- the total number of complaints about taxis lodged with the Taxi Services Commission.

According to the data we have available, which is summarised in Figure E.13, customer satisfaction with the taxi industry has improved since our last fare review in May 2014 and since the implementation of industry reforms in June 2014.

FIGURE E.13 CUSTOMER SATISFACTION INDEX
Customer satisfaction index levels by quarter, January 2013 to December 2015

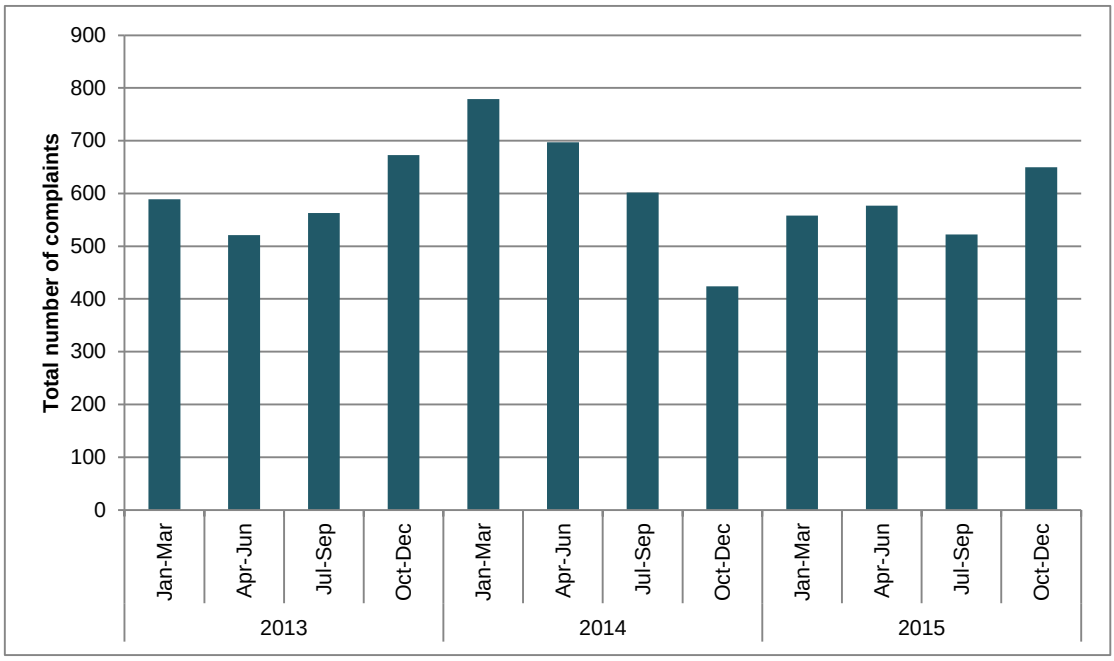


In addition, the total number of complaints recorded by the Taxi Services Commission has reduced since the last fare review; however, it appears that this number has reduced from a peak in 2014 to similar levels as those observed in 2013 (Figure E.14). This trend is also observed in the specific complaints regarding fare refusals.

Customers can lodge taxi related complaints with the Taxi Services Commission, typically on matters concerning driver behaviour, fare refusals and cleanliness of the vehicle. (Figure E.14) presents the total number of complaints lodged with the TSC for each quarter from the beginning of 2013 to the end of 2015.

FIGURE E.14 TAXI COMPLAINTS

Total number complaints, January 2013 to December 2015



APPENDIX F—DETAILED REVIEW OF METROPOLITAN TAXI FARE STRUCTURES

F.1 INTRODUCTION

In this appendix, we review a number of changes made to regulated taxi fares following our 2014 taxi fare review – namely:

- increases in flagfall charges relative to distance rates, to reduce incentives for drivers to refuse short fares
- a change in the fare structure for High Occupancy Vehicle (HOV) trips, replacing the previous 50 per cent surcharge on the waiting time and distance rates with a flat fee surcharge of $14
- retention of the fare arrangements for multiple hire trips.[81]

Each of these decisions related to recommendations of the Taxi Industry Inquiry.

The remainder of this appendix is set out as below:

- Section F.2 outlines our analysis of fares for different trip lengths
- Section F.3 outlines our analysis on fares for high occupancy trips
- Section F.4 outlines our consideration of fare structures for multiple hire trips.

[81] Essential Services Commission 2014, *Taxi Fare Review 2013-14 - Final Report*, March, pp. 65 & 101.

F.2 FARES FOR DIFFERENT TRIP LENGTHS

In our 2014 review, a key issue we explored was that of short fare refusal.[82] We considered the issue in light of a recommendation of the Taxi Industry Inquiry to increase the flagfall component relative to the price per kilometre to reduce incentives for drivers to refuse customers wanting to take short trips.

In our investigations into short fare refusal we considered anecdotal evidence, consumer research and complaints data collected by the Taxi Services Commission. We concluded that while there was uncertainty over the extent of short fare refusal, there was justification for increasing the flagfall relative to the distance and waiting time rates to make short trips more attractive to service. We also noted that we would monitor the outcomes of this adjustment, which we discuss in the following sections.

F.2.1 MAXIMUM TAXI FARES FOR DIFFERENT TRIP LENGTHS

In the current fare structure, maximum fares for trips of different lengths vary depending on the balance of the following fare components:

- the flagfall – a fixed initial charge incurred at the commencement of the trip
- the distance rate – a charge per kilometre when travelling over 21 kilometres per hour
- the waiting time rate – a charge per minute when travelling under 21 kilometres per hour

In relative terms, increasing flagfall charges raises fares for shorter trips by more than it does for longer trips.

In the current maximum fares, the balance of the flagfall charge relative to the distance rate and waiting time rate is different depending on the tariff period (see Appendix B for the current fares). Figure F.1 illustrates estimated fares for different length trips.[83]

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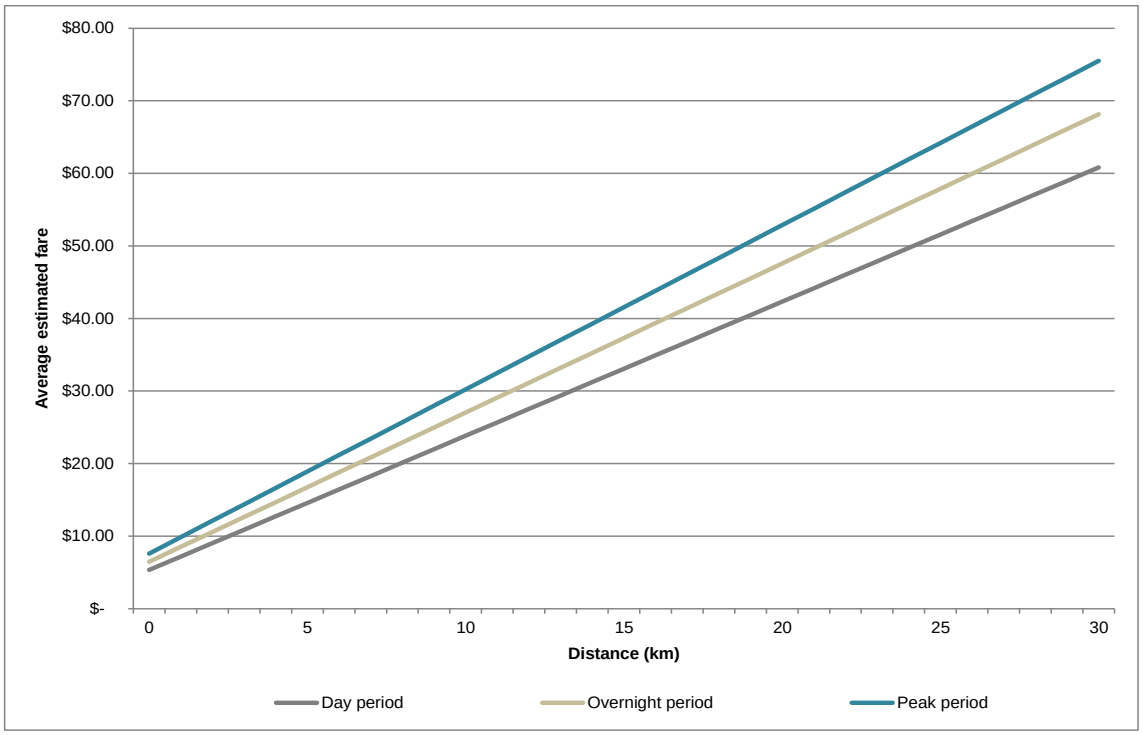
82 Essential Services Commission 2014, *Taxi Fare Review 2013-14 - Final Report*, March, p. 60.

83 Fare is estimated using the Taxi Services Commission's taxi fare estimation equation: Fare = Flagfall + ('Distance rate' x 'trip distance') + 'Waiting time rate' x (2+ 0.4*'trip distance')

FIGURE F.1 AVERAGE ESTIMATED FARE BY TARIFF PERIOD
2014-15



F.2.2 STAKEHOLDER VIEWS ON FARE STRUCTURE BY TRIP LENGTH

In its submission to our consultation paper, Taxicorp submits that short fare refusal is still an issue despite the higher flagfall rates implemented following our 2014 review. Taxicorp states the servicing short trips in the outer suburbs in particular is not economically viable, and suggests deregulation of pre-booked fares to address this problem:

> *Some short fares in the outer suburbs are just uneconomical to service. Not even the illegal taxis are prepared to service these areas, choosing to cherry pick the low hanging fruit in the inner suburbs. Removal of caps for pre booked fares will allow a customer to bid up the fare to entice a driver to cover the work to the point where the fare is*

economical to cover the driver's labour and costs for providing the service.[84]

Taxicorp's submission goes on to suggest implementing a minimum fare for trips procured from taxi ranks in conjunction with a review of longer fares to reach a better balance of driver returns for short and long trips.

A submission from the Victoria United Taxi Industry (VUTI) put forward a different view, suggesting that a minimum fare would not solve the short fare refusal issue.[85] The VUTI argued that passengers should not pay higher fares to support 'bad practices' of some taxi drivers.

Taxi operator, Mr Hans Althoff's submission also supported this view, suggesting that fare refusal issues be dealt with through the laws that prohibit such behaviour.[86]

F.2.3 THE COMMISSION'S ANALYSIS OF FARE STRUCTURES BY TRIP LENGTH

To review the outcomes of the 2014 adjustments made to the balance of fares for trips of different lengths, we analysed three key measures:

1. drivers' willingness to service trips of different lengths
2. customer wait times for trips of different lengths
3. customer complaints data collected by the Taxi Services Commission.

We compare these measures for 2013-14 and 2014-15, as periods representing before and after the fare adjustments we made in 2014. The comparison enables us to assess the impacts of the adjustments that made fares for shorter trips relatively more expensive.

84 Taxicorp Pty Ltd 2016, *Submission to the Consultation Paper*, 1 February, p. 2.

85 Victoria United Taxi Industry 2016, *Submission to the Consultation Paper,* 1 February, p. 2.

86 Hans Althoff 2016, *Submission to the Consultation Paper*, 31 January 2016, p. 3.

DRIVERS ARE NOW MORE WILLING TO SERVICE SHORTER TRIPS

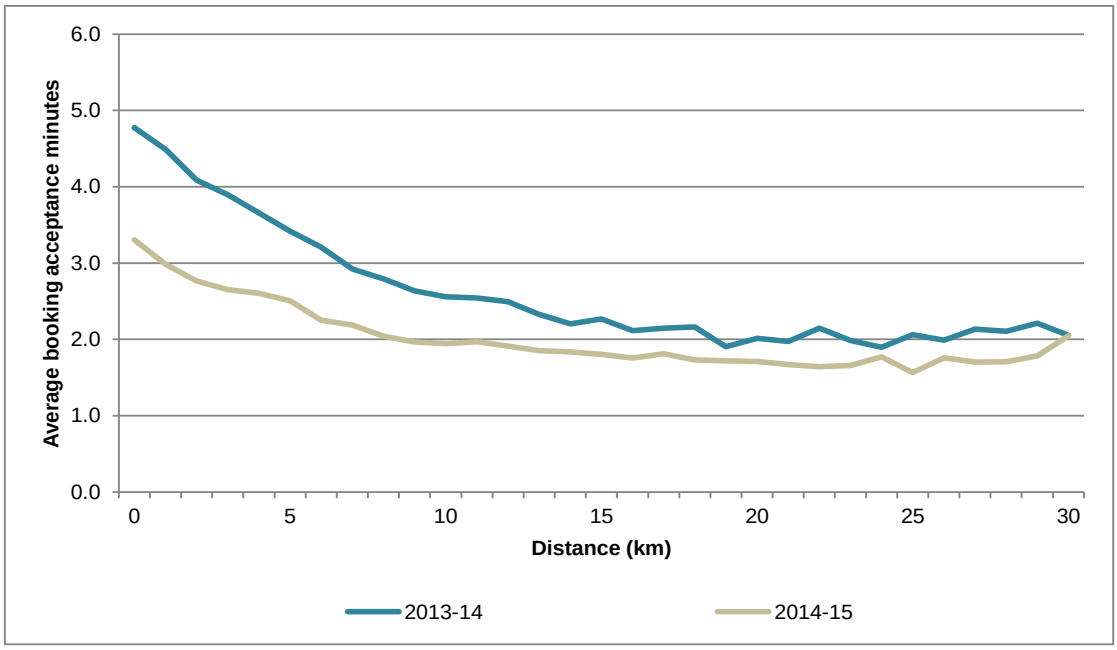
We have developed a measure of drivers' willingness to service trips of different lengths by analysing taxi trip data obtained from the Taxi Services Commission. The data enable us to measure 'booking acceptance time' – that is, the time between when a taxi booking network offers a booking to its fleet of taxi drivers, and when a taxi driver accepts the booking. The more attractive a booking is to drivers, the quicker the booking will be accepted.

From this analysis we make two key observations:

1. The taxi driver fleet on average appears to have a preference for longer trips over shorter trips (as booking acceptance time is shorter for longer trips).
2. The extent of the preference to service longer trips has diminished since the 2014 fare review.

These observations can be seen in Figure F.2, which presents how booking acceptance time varied depending on the distance of the trip. It compares the result for 2013-14 (prior to the fare review), with that of 2014-15 (after fares were rebalanced).

FIGURE F.2 AVERAGE BOOKING ACCEPTANCE TIME BY TRIP DISTANCE
2013-14 and 2014-15



Note: This figure excludes trips to and from Melbourne Airport as we have considered the airport market separately.

This suggests that the structural adjustment made following the 2014 review of increasing the flagfall relative to the distance and waiting time rates has made short trips more attractive to taxi drivers.

Noting there still appears to be a preference to service longer trips, we next review whether this has a material impact on servicing customer demand.

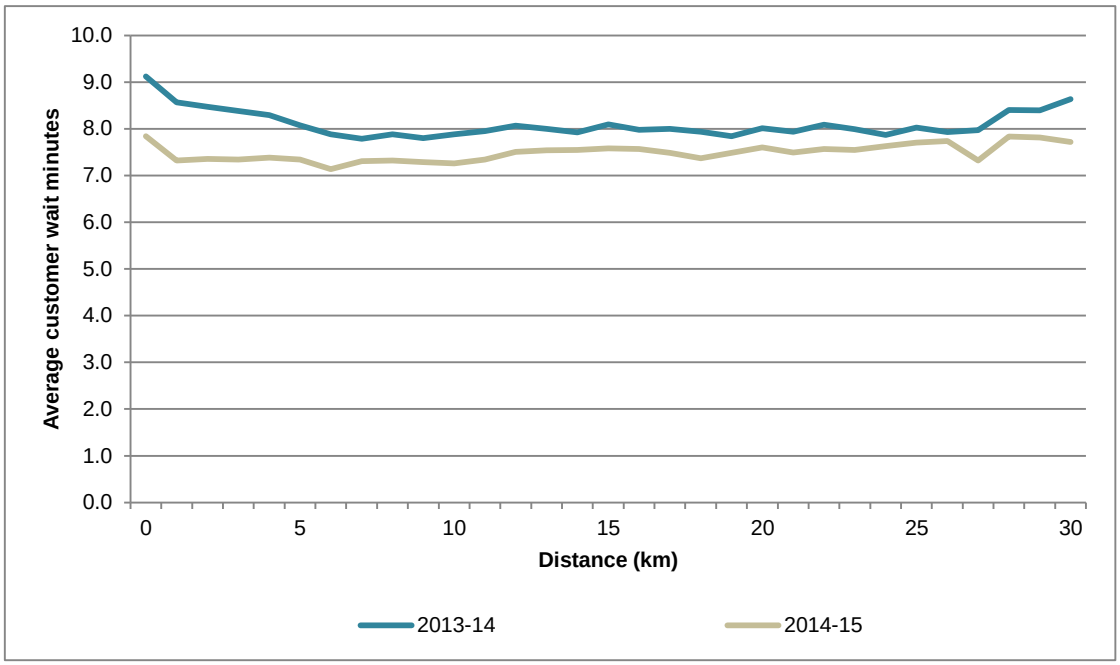
CUSTOMERS DO NOT WAIT LONGER FOR SHORT TRIPS

To measure consumer outcomes following the 2014 fare structure adjustments, we analysed whether or not there is evidence of customers waiting longer for taxis to pick them up depending on how far they travel. This analysis draws on customer wait times for booked taxi trips.

Our analysis indicates that customer wait times do not vary significantly depending on the length of the trip they book. Figure F.3 shows that average wait times in 2014-15 varied between 7.5 minutes and 8.5 minutes across all trip distances presented.

The comparison of the periods before and after the fare review suggests that customer wait times have improved across almost all trip lengths, with the greatest improvements observed for shorter trips.

FIGURE F.3 AVERAGE CUSTOMER WAIT TIME FOR TRIPS OF DIFFERENT LENGTHS
2013-14 and 2014-15



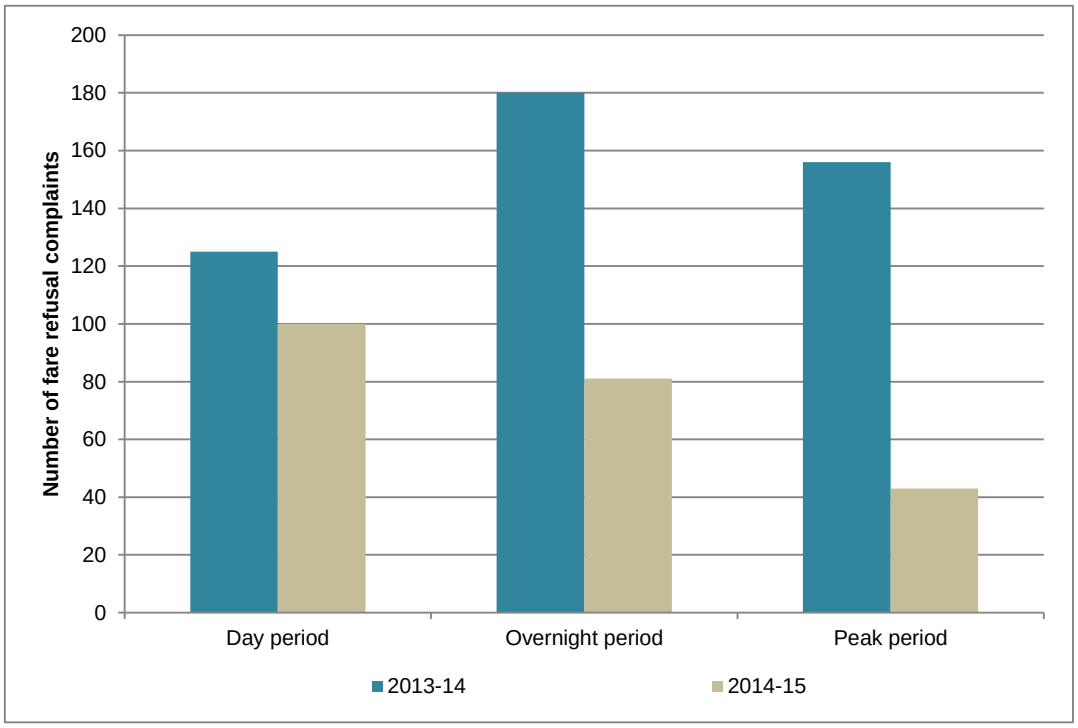
Note: This figure excludes trips to and from Melbourne Airport as we have considered the airport market separately.

An important qualification of this analysis is that we have excluded trips to and from Melbourne Airport. In analysing the data we observed a significant preference for drivers to service bookings for trips to Melbourne Airport, as well as significantly shorter customer wait times for these trips. As Melbourne Airport trips are longer on average than trips in the rest of the metropolitan zone market, we found that when these trips were included in the above analysis they significantly skewed the results. Accordingly, we removed the influence of Melbourne Airport trips from our analysis of fares for different trip lengths and we discuss the Melbourne Airport taxi market separately in Chapter 7.

FEWER CUSTOMER COMPLAINTS REGARDING FARE REFUSAL

Customer complaints data collected by the Taxi Services Commission further support the case that the 2014 fare structure adjustments had a positive impact on the balance of fares for short versus long trips. As Figure F.4 demonstrates, the number of fare refusal complaints significantly decreased in the year following the 2014 fare review, particularly in the overnight and peak tariff periods.

FIGURE F.4 NUMBER OF FARE REFUSAL COMPLAINTS
2013-14 and 2014-15



Further, the number of fare refusal complaints as a proportion of total complaints has also declined – from 16 per cent in the 2013-14 period prior to the fare review, to eight per cent in the 2014-15 period after the fare review.

While the data on fare refusal complaints are not detailed enough to indicate the reasons for fare refusal, the apparent improved outcomes for consumers in the post fare review period support the case that the fare structure adjustments with respect to trip length have contributed to an overall positive impact.

F.2.4 CONCLUSIONS ON FARE STRUCTURE BY TRIP LENGTH

Based on the above evidence of driver preferences and customer outcomes, we do not see a need for further adjustments to current maximum fares in terms of the balance of fares for shorter trips versus longer trips. Although there is evidence that drivers tend to prefer longer trips, in the data available to us this preference does not seem to be leading to adverse outcomes for short trip customers relative to long trip customers.

F.3 FARES FOR HIGH OCCUPANCY TRIPS

High occupancy trips are defined as trips with five or more passengers. The current fare structure allows for higher fares to be charged for high occupancy trips or for trips where a high occupancy vehicle was requested (excluding wheelchair passenger trips). In the current taxi fleet, taxis licensed as 'wheelchair accessible taxis' (WATs) are the only taxis capable of carrying five or more passengers.

We have reviewed the current structure of fares for high occupancy trips, with particular focus on a significant change to this structure following our 2014 fare review.

F.3.1 CHANGES TO THE HIGH OCCUPANCY FARE STRUCTURE MADE FOLLOWING THE 2014 FARE REVIEW

Prior to the implementation of new fares in 2014, high occupancy fare rates consisted of a 50 per cent surcharge on the distance and waiting time rates for standard taxi fares. In 2012, the Taxi Industry Inquiry (the Inquiry) recommended that this fare structure be changed such that the surcharge on the distance and waiting time rates would be replaced with a flat fee of between $10 and $15.[87]

The Inquiry's recommendation was based on two key findings. Firstly, the Inquiry concluded that the high occupancy surcharge appeared to be contributing to long wait times for Wheelchair Accessible Taxis (WATs).[88] It suggested that with trips from

[87] Victorian Taxi Industry Inquiry 2012, *Final Report – Customers First: Service, Safety, Choice*, September, p. 207.

[88] Victorian Taxi Industry Inquiry 2012, *Final Report – Customers First: Service, Safety, Choice*, September, p. 206.

Melbourne Airport typically being a longer distance, and the high occupancy fare structure making longer trips more profitable, many WATs would queue at Melbourne Airport in the hope of applying the high occupancy tariff for larger groups of travellers. This would reduce the availability of WATs to service wheelchair passengers elsewhere in the metropolitan zone.

Secondly, the Inquiry found that some WAT drivers were fraudulently applying the high occupancy tariff when passengers were unaware or unlikely to question the charge, with wheelchair passengers and unsuspecting airport passengers being particularly vulnerable to the practice.[89] It suggested a flat fee surcharge would be more transparent for passengers and therefore less susceptible to fraudulent application.

In our 2014 taxi fare review, we examined the Inquiry's findings and concluded that, while reasons for queuing at the airport may be broader than the pursuit of fares for long trips, WAT drivers did show stronger preferences to queue at Melbourne Airport than drivers of conventional taxis. [90] We also agreed that a flat fee surcharge would reduce the likelihood of fraudulent application of high occupancy charges.

Subsequently, we determined a high occupancy flat fee surcharge of $14, which we estimated would generate roughly equivalent total revenue for high occupancy trips as the previous high occupancy rate.

F.3.2 THE COMMISSION'S ANALYSIS OF THE HIGH OCCUPANCY FARE STRUCTURE

PREVALENCE OF WATS AT MELBOURNE AIRPORT

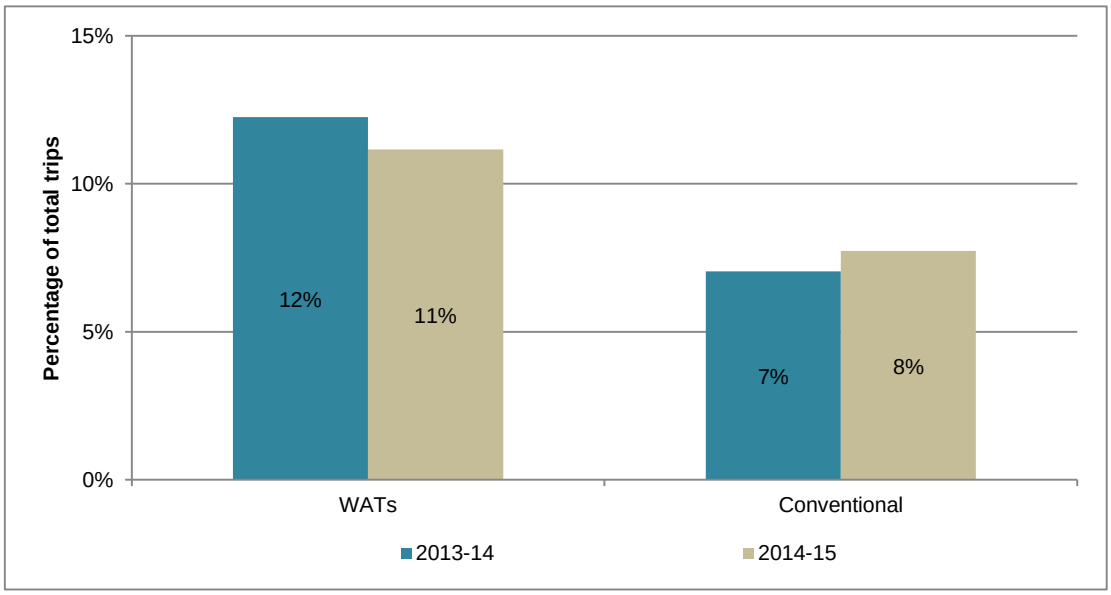
Since the changes to the high occupancy fare structure, analysis of taxi trip data indicates a minor reduction in the preference for WATs to queue at Melbourne Airport. This can be seen in Figure F.5, which shows for WATs and conventional taxis, the percentage of their total trips that were servicing passengers from Melbourne Airport before and after the fare change.

89 Victorian Taxi Industry Inquiry 2012, *Draft Report – Customers First:: Service, Safety, Choice*, May, p. 356.

90 Essential Services Commission 2014, *Taxi Fare Review 2013-14 Final Report*, March, pp. 98 & 125.

With trips from Melbourne Airport comprising 11 per cent of WAT drivers' total trips in 2014-15, versus eight per cent for conventional taxi drivers, WAT drivers continue to show a stronger preference for servicing airport trips. However, the extent of this stronger preference has declined slightly since the 2014 fare changes.

FIGURE F.5 TRIPS FROM THE AIRPORT AS A PROPORTION OF TOTAL TRIPS: WATS AND CONVENTIONAL TAXIS
2013-14 and 2014-15



OUTCOMES FOR WHEELCHAIR PASSENGERS

With a slight reduction in the preference for WATs to queue at Melbourne Airport, the next question is whether wheelchair passengers have benefited from a greater availability of WATs in other parts of the metropolitan zone.

The analysis of outcomes for wheelchair passengers is complicated by other changes that have occurred in the market. Most notably, the number of WATs in the metropolitan market has declined from 504 in June 2014 to 491 by the end of June 2015. This 2.6 per cent reduction in the size of the WAT fleet may outweigh the impact of the minor shift of WAT drivers away from Melbourne Airport.

The Taxi Services Commission has informed us that their data show wheelchair passengers wait almost three times longer for metropolitan taxis on average than other passengers, with little change in this figure in recent years. The Taxi Services

Commission also notes that instances of very long wait times for wheelchair passengers of two to three hours are not uncommon.

It appears unlikely that the changes made to the high occupancy fare structure would have made a significant improvement to service level outcomes for wheelchair passengers. We note there are a wide range of government incentives targeted at promoting the provision of WATs for wheelchair passengers. These types of incentives are more directly targeted towards, and likely more effective in, improving wheelchair passenger service quality outcomes. These include:

- lower annual fees for WATs (currently $18 988) compared to conventional taxis (currently $22 703)
- a 'wheelchair lifting fee' of $16.70 paid by the government to taxi operators and drivers for each wheelchair passenger trip
- the 'performance based booking scheme' – a program whereby taxi booking networks are eligible for incentive payments from the Taxi Services Commission for meeting certain criteria in fulfilling wheelchair passenger bookings.

REDUCTION IN FRAUDULENT APPLICATION OF HIGH OCCUPANCY FEES

We consulted with the Taxi Services Commission as to whether it had seen any changes in fraudulent application of high occupancy charges since the restructuring of fares in 2014. The Taxi Services Commission informed us that,

> *the change to a manually selected High Occupancy Vehicle (HOV) flat fee of $14.00 (which is shown as a separate fee on the meter and receipt) has been a valuable anti-fraud/fraud reduction measure.*

F.3.3 CONCLUSIONS ON HIGH OCCUPANCY FARES

Our analysis shows that the introduction of a flat high occupancy fee has slightly reduced the preference for WAT drivers to queue at Melbourne Airport. However, it is unlikely that this has had any measurable impact on the intended outcome of improving service availability for wheelchair passengers in other parts of the metropolitan zone. Well designed government incentives are more likely to improve outcomes for wheelchair passengers than relatively small modifications to the high occupancy fare structure.

The Taxi Services Commission indicated that fraudulent application of high occupancy fares has declined as a result of the fare structure change to a flat fee.

On the balance of our analysis and this information, we do not see a case for changing the level of the $14 fee at this time.

F.4 FARES FOR MULTIPLE HIRE TRIPS

Multiple hire of a taxi occurs when two or more unacquainted passengers jointly hire a taxi from a common starting point.[91] Each passenger in a multiple hire may have a separate destination, however they must be travelling in the same general direction and all hirers must all consent to the shared hire.

The Taxi Industry Inquiry recommended that fares for multiple hire trips be simplified to support the taxi industry in offering more flexible and innovative services.

In the final report of our 2014 taxi fare review, we noted that we did not have time to undertake the necessary analysis of how fares for multiple hire trips could be improved. However, we also concluded that industry leadership, rather than regulation, is a more appropriate means of finding new and innovative multiple hire fare offerings.

We further consider fare for multiple hire trips in this appendix.

F.4.1 THE CURRENT REGULATED MAXIMUM FARE STRUCTURE FOR MULTIPLE HIRE TRIPS

Under the current fare schedule, each hirer in a multiple hire may be charged up to 75 per cent of the fare on the taximeter at their respective destinations.[92] Hirers receive this discount to compensate for forgoing the exclusive use of the taxi and the potential for an increase in journey time due to taking an indirect route via the drop-off destinations of other passengers. The driver also benefits from multiple hire by

[91] A hirer could be a single passenger or a group of multiple passengers who are known to each other and travelling together. This is distinct from a group of friends or acquaintances travelling together to the same or separate destinations – such fares are treated as a single hiring.

[92] A similar 75 per cent multiple hire fare exists in all other states and territories in Australia except Tasmania.

receiving total fares that are greater than the equivalent metered fare for the journey in most circumstances.[93]

F.4.3 THE TAXI INDUSTRY INQUIRY RECOMMENDATION

The Inquiry noted the view of many 'that there is considerable scope for the taxi industry to develop share ride or multiple hire services.'[94] In its final report, the Inquiry recommended multiple hire fares be simplified to support the industry in offering more flexible and innovative services, such as flat fee share-ride services. It went on to state that: 'both drivers and the public need to understand [multiple hire] fares [and the] prospect of a flat fare is worth considering.'[95]

F.4.4 DIFFICULTIES WITH FLAT FEE MULTIPLE HIRE ARRANGEMENTS

Under a flat fee arrangement, passengers travelling in a similar direction would be organised into a group for a shared trip and each charged a flat fee determined prior to the trip, rather than relying on a calculation based on the metered fare at their destination.

Flat fee share-ride schemes are arguably simpler to understand for both passengers and drivers than discounts off a metered fare. However, such schemes would generally need to be more formalised, requiring some form of queuing and a queue marshal to organise passengers into appropriate groups.

A further complication of flat fee arrangements is that it is not clear how the Commission would be able to specify maximum allowable flat fares in its fare determination for all types of multiple hire trips in a simple way.

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93 In certain circumstances, i.e. if the last leg of the trip to the final passenger's destination is a sufficiently high proportion of the total trip, the total fares from multiple hire may be less than the final metered fare. For a multiple hire with two hirers, the second leg of the journey must be more than double the length of the journey to the first drop off for this to occur (that is, the total journey to the final destination is three times the distance of the first drop off). Such a trip is unlikely to occur in practice.

94 Victorian Taxi Industry Inquiry 2012, *Draft Report – Customers First:: Service, Safety, Choice*, May, p. 444.

95 Victorian Taxi Industry Inquiry 2012, *Final Report – Customers First: Service, Safety, Choice*, September, p.206.

Following the Inquiry, tailored flat fee multiple hire arrangements have been proposed in Melbourne and Geelong to operate late-night on Friday and Saturday nights. However neither of these pilot schemes have been successfully implemented.[96]

F.4.5 FORMAL MULTIPLE HIRE ARRANGEMENTS RARELY OCCUR IN PRACTICE

While the Commission has not been provided with any evidence on the usage of multiple hire fares, in previous consultations with the Commission, the overwhelming consensus among taxi industry stakeholders is that awareness and usage of multiple hire is very low.

This view is consistent with the findings of the Taxi Industry Inquiry in 2012, which considered multiple hire as part of its broader inquiry into the industry. The Inquiry stated in its draft report that the 'multiple-hire arrangement is little known and is confusing to passengers.'[97] It suggested that, in practice, passengers sharing a taxi would agree on a likely metered fare, and arrange sharing of the payment between themselves.[98]

The key issues leading to minimal use of multiple hire arrangements in practice are:

- passenger awareness of multiple hire is very low
- drivers do not promote multiple hire fares, and may avoid taking them due to a fear of potential disagreements between unacquainted passengers
- if passengers are willing to share a taxi they are generally better off making their own agreement regarding sharing of the fare.

In addition to these factors, other key impediments noted by the Commission in its 2014 review are concerns about safety for both drivers and passengers, and the need

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96 The Melbourne "cab share" scheme proposed by the Victorian Taxi Association, to operate late-night on Friday and Saturday nights, was unsuccessfully trialled in December 2012. The Geelong share-ride scheme proposed by Geelong Taxi Network in 2013, to operate late-night on Saturday nights, was approved by the Minister to be piloted, but has yet to be implemented.

97 Victorian Taxi Industry Inquiry 2012, *Draft Report – Customers First: Service, Safety, Choice*, May, p.444.

98 Ibid.

for an 'organiser' or marshal to gather willing passengers, particularly in relation to flat fare share-ride schemes.[99]

F.4.6 OPTIONS FOR MULTIPLE HIRE

We have considered a number of options for simplifying or improving multiple hire fares:

- removing the multiple hire fare from our determination
- including multiple hire tariffs in taximeters
- increasing the discount for multiple hire passengers
- dividing the metered fare by the number of passenger drop-offs
- introducing negotiated fares, and
- industry led multiple hire offerings.

Each of these is discussed below. We note that many of these ideas are permissible within the current determination as they would not result in higher fares being charged to passengers than the regulated maximum of 75 per cent of the metered fare at each passenger's destination.

REMOVING THE MULTIPLE HIRE FARE FROM OUR DETERMINATION

Given the apparent limited use of the multiple hire fare, one option for simplifying multiple hire arrangements is to remove the multiple hire fare determination altogether.

While this would simplify the overall fare structure to some extent, it is questionable whether it would have any significant benefits. More importantly, it would restrict multiple hire rather than allow for flexibility and innovation in providing multiple hire services.

For these reasons, we do not consider removal of the multiple hire fare to be an appropriate option, unless replaced with an alternative multiple hire scheme.

[99] Essential Services Commission 2014, *Taxi Fare Review 2013-14 - Final Report*, March, p.101.

MULTIPLE HIRE TARIFF ON METER

To simplify multiple hire fares, multiple hire tariffs could be included as separate tariffs on taximeters – that is, the discount would be calculated and displayed on the taximeter. In the ACT and Queensland, multiple hire fares are applied through separate tariffs that are 75 per cent of the regular applicable tariff.

Including separate tariffs on the meter prevents the need for the driver and hirers to calculate 75 per cent of the metered fare. Each passenger simply pays the total amount on the meter at their destination, which already includes the multiple hire discount. This option would be effective in simplifying multiple hire fares and making them more transparent for both drivers and passengers.

While we are supportive of this idea, we note that our maximum fare determination does not preclude the taxi industry from implementing it. In our fare setting role we have determined the maximum fares that can be charged. We believe there are sufficient incentives for the taxi industry to make their own decisions about the offering of multiple hire fares within the bounds of the maximum determination. As such, we do not propose to make the charging of multiple hire fares conditional on the programming of taximeters.

INCREASE THE MULTIPLE HIRE DISCOUNT

To encourage usage of multiple hire we could increase the implied discount. During our 2014 taxi fare review, a taxi operator suggested that we increase the multiple hire discount for passengers so that instead of paying 75 per cent of the metered fare they would pay only 60 per cent of the metered fare.

Increasing the discount for multiple hire passengers would no doubt increase the attractiveness of multiple hire to passengers. However, the opposite is true for taxi drivers. The higher the discount for passengers, the greater the likelihood that drivers would be better off providing exclusive hire only.[100]

[100] For a multiple hire with two hirers, the 75 per cent multiple hire fare produces greater total revenue compared to the equivalent metered fare as long as the second leg of the trip is less than double the length of the trip to the first destination (that is, the first destination is greater than a third of the total distance to the second destination). With a 60 per cent multiple hire fare, the maximum distance for the second leg of the trip would be half the length of the first destination (that is, the first destination must be greater than two thirds of the distance to the second

Furthermore, we do not believe the problem of limited use of multiple hire arrangements is caused by the value of the discount to passengers; rather it is primarily a result of limited awareness of multiple hire fares and limited promotion of the option by taxi networks, operators and drivers. Increasing the discount to passengers is therefore unlikely to incentivise taxi networks, operators or drivers to promote multiple hire to passengers, and therefore unlikely to lead to greater use of multiple hire arrangements.

Regardless of the value of the discount, passengers will almost always be better off negotiating the share of payment between themselves (consistent with the practice identified by the Inquiry). This is true for a multiple hire fare of any discount level, unless it is reduced to 50 per cent of the metered fare or less – in which case, drivers would be discouraged from accepting multiple hire trips as they would receive lower total fares than the equivalent metered fare in all circumstances.

In any case, greater passenger discounts are permissible within the current maximum fare determination. For this reason, we do not see a benefit in increasing the multiple hire discount for passengers as a regulatory requirement. Rather taxi networks, operators and drivers may choose to offer and promote greater discounts if they believe this would be a successful business model.

DIVIDE BY DROP-OFFS

In our preliminary stakeholder consultations for this review, one stakeholder has suggested that the multiple hire fare be replaced with a simpler approach of dividing the fare by the number of passengers. For example, in cases of two passenger hirings each passenger would pay half of the metered fare at their respective destinations, or in cases of four passenger hirings, each passenger would pay one quarter of the metered fare at their respective destinations.

Such a multiple hire fare would arguably be simpler to understand. It would also be significantly more attractive to passengers. To illustrate, this proposal would equate to reducing the multiple hire fare from its current maximum of 75 per cent of the metered fare to 50 per cent of the metered fare when there are two passengers; or to

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destination). This reduces the scope for multiple hire fares to be more profitable for drivers than an equivalent standard trip.

25 per cent of the metered fare when there are four passengers. This option provides greater incentives to passengers to make use of multiple hire arrangements due to cheaper fares.

However, under this scenario the total fares received by the driver would be less than the fare for the equivalent journey as a single hire. As such, the incentives for taxi drivers to promote and participate in such arrangements are arguably limited.

In any case, as this arrangement invariably results in fares lower than the current maximum fare arrangements for multiple hire, a 'divide by drop-offs' model is permissible under the current determination. As taxi drivers and networks are free to offer this type of arrangement already, we do not propose to mandate a 'divide by drop-offs' arrangement through fare regulation.

NEGOTIATED FARES

In Queensland, as an alternative to the 75 per cent multiple hire fare, the driver may agree a quoted fare with each passenger based on the cost of the typical fare for their journey. The quoted fare must be less than the typical metered fare.

While the inclusion of the option for negotiated fares may allow more flexibility in offering multiple hire services, it also makes the multiple hire fare more complicated and it would require passengers having knowledge of the standard metered fare to their destination from the point of pick up.

Furthermore, the Commission is required to set maximum fares, and passengers cannot be charged fares above these maximum fares. Therefore fares cannot be negotiated above the maximum fares set by the Commission. Given drivers cannot negotiate a fare above the existing multiple hire fare, this leaves little incentive for drivers to negotiate fares lower than the 75 per cent multiple hire fare. Drivers are already permitted to negotiate fares lower than the multiple hire fare, but do not appear to be doing so.

For these reasons, allowing negotiated fares does not appear to be an effective option in encouraging use of multiple hire.

INDUSTRY LED MULTIPLE HIRE OFFERINGS

Given the issues associated with attempting to incentivise multiple hire through regulatory means, and the fact that most of the options discussed above are not precluded under our current determination, we are of the view that industry leadership is required to develop and encourage multiple hire arrangements.

F.4.7 CONCLUSIONS ON MAXIMUM MULTIPLE HIRE FARES

Table F.1 outlines a summary of our analysis and findings in relation to the options for multiple hire.

TABLE F.1 POTENTIAL OPTIONS FOR MULTIPLE HIRE FARE

Option	Potential benefits	Potential limitations	Commission's Conclusion
Remove multiple hire fare	• Simplifies fare structure to some degree	• Restricts multiple hire services, rather than allowing flexibility and innovation	Not desirable
Multiple hire tariffs on meter	• Improves simplicity and understanding of fares	• Incentives for passengers and drivers to engage in multiple hire may still limit use. • Passengers better off negotiating payments between themselves	The current determination does not preclude the industry from implementing multiple hire tariffs on taximeters. We are not inclined to make this a condition of charging multiple hire fares.
Increase passenger discount (e.g. 60% of metered fare)	• Increase attractiveness for passengers	• Reduce attractiveness to drivers to offer multiple hire • Passengers better off negotiating payments between themselves, unless fare decreased to 50% or less • Unlikely to address problem of poor awareness of offering	The current determination does not preclude the industry from offering greater passenger discounts. We are not inclined to mandate greater discounts.
Divide by drop offs	• Significantly increases attractiveness for passenger • Potentially simpler to understand	• May not be sufficiently attractive to drivers to offer multiple hire	The current determination does not preclude the industry from offering this type of arrangement. We are not inclined to mandate it through regulation.
Allow for negotiated fares	• Improves flexibility for drivers to offer multiple hire fares	• Limited scope for negotiation, as negotiated fares cannot be above maximum fares (existing multiple hire fare) • Increases the complexity of multiple hire fares	There is already some scope for negotiation within the current maximum determination. Removing the maximum altogether is not within our legislative mandate.
Industry led innovation	• Facilitate industry to provide innovative services	• Requires the industry to innovate	Preferred approach

As is apparent from its limited use in practice, the current approach to multiple hire fare regulation has significant limitations. While we recognise this, our view is that an industry-led approach is the best way to address these limitations.

We propose to retain the current determination for multiple hire fares – that taxi service providers may charge each passenger up to 75 per cent of the regular metered fare at each passenger's respective destination. We reiterate that this is a maximum charge and the taxi industry may choose to offer alternatives within this maximum. Of the options outlined above, most are not precluded under the current determination.

We also encourage the taxi industry to propose multiple hire schemes to the Commission if the current maximum fare determination for multiple hire arrangements proves too restrictive to incorporate new and innovative offerings. As stated in our 2014 review, we believe this is an area more appropriately addressed through industry leadership.

APPENDIX G—LEGISLATIVE CONSTRAINTS AND OPTIONS FOR INCREASING FARE FLEXIBILITY

In this appendix, we provide further detail on the options for increasing fare flexibility that we discussed in our Consultation Paper, and the limitations imposed by the legislation on how these options might be implemented.

G.1 OPTIONS FOR INCREASING FARE FLEXIBILITY

In the Commission's Consultation Paper, we considered a number of fare flexibility options. Table G.1 sets out the five potential areas for fare flexibility that we considered including a short description of each.

TABLE G.1 FARE FLEXIBILITY OPTIONS

Option	Description
1. Better service for higher maximum booking fees	Booking fee regulation could be made more flexible by allowing a higher maximum booking fee. This may be beneficial if it leads to 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.
2. Optional fixed price fares	Optional fixed price taxi fares would involve giving customers the option to choose or negotiate 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.
3. A choice of tariff sets	To encourage greater price competition, a fare schedule could include 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. 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.

4. A fare authorisation approach	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.
5. Setting 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.

Prior to further considering these options, we sought legal advice on which of these options would be legally permissible, and whether there were any conditions that would need to be met for them to be permissible.

G.2 WHICH OPTIONS WOULD BE PERMISSIBLE UNDER CURRENT LAWS?

Our role and responsibilities as an economic regulator are set out in the *Essential Services Commission Act 2001* (ESC Act). The *Transport (Compliance and Miscellaneous) Act 1983* defines our role in relation to the taxi industry.

The Commission's mandate under this current legislation is to set maximum fares for services provided by or within the taxi industry, not to otherwise determine an alternative form of regulation. There are also a number of matters that we must have regard to in setting maximum fares. These matters are set out in the current legislation and are outlined in detail in Appendix A – Legislative Framework.

The Commission has considered how the legislative framework would apply to the fare flexibility options. Our view is that many of the fare flexibility options would be permissible under the current legislation. However, we have also identified a number of elements of the options that are not likely to be permissible. These restrictions mean that some options would not be permissible at all, and that other options would need to be designed carefully in order to operate within the bounds of the legislation.

The Commission's view is that it is not currently permissible to set the following types of maximum regulated fares:

- **Setting very high maximum fares that do not in practice operate as a maximum charge (option 5).**

The responsibility to 'regulate' the maximum charge as set out in the ESC Act imposes a responsibility to set a charge that operates as a maximum charge in practice. In other words, the maximum charge cannot be set at such a high level that will not act as a constraining upper bound to fares in practice.

Furthermore, the Commission must also have regard to a number of factors in setting the maximum charge including: the efficient costs of producing or supplying regulated goods or services (section 33(3)(b)) and any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries (section 33(3)(d)). It would be difficult for these factors to be reflected in the maximum charge if it the maximum charge is set at a level much higher than the observed fare levels.

- **Authorising different fares proposed by individual taxi operators or networks (option 4).**

  The legislation requires the Commission to set maximum charges which apply across the taxi industry. It does not appear to enable the Commission to set individual maximum charges for individual regulated operators.

- **Taxi service providers and passengers negotiating a fare that is above the regulated maximum (option 2).**

  Passengers may opt out of the regulated maximum charges and choose to negotiate a fare with the operator. However, this is only permissible if the negotiated fare is less than the regulated maximum charge.

These findings indicate that Option 4 (a fare authorisation approach) and option 5 (setting very high maximum fares) would not be permissible under the current legislation.

Furthermore, very high maximum fares cannot be set as part of any of the other fare flexibility options. For example, it may be relevant to how we would implement more flexibility on Option 1, maximum booking fees, as it would not be permissible to set very high maximum booking fees that would not act as an upper bound in practice.

As discussed below, and in our consultation paper, option 2 (optional fixed price fares) considers the possibility of allowing drivers and passengers to negotiate a fixed fare. Our assessment of the legislation also indicates that any negotiated fixed price fares must be equal to or below the maximum regulated fare. As such, some form of

maximum fixed price would need to be specified in our determination. It is difficult to see how this could be done given the wide range of different trips that occur in the market.

G.3 CONCLUSIONS

The Commission's views on what is permissible under the current legislative framework are summarised below in Table G.2.

TABLE G.2 PERMISSIBILITY OF THE OPTIONS FOR IMPROVING FARE FLEXIBILITY UNDER THE CURRENT LEGISLATIVE FRAMEWORK

Option	Permitted?	Conditions for permissibility
Better service for higher maximum booking fees	Permissible	Maximum booking fees must be set at a level that operates as a maximum charge in practice.
Optional fixed price fares	Permissible	Maximum optional fixed price fares must be set at a level that operates as a maximum charge in practice. Negotiation of the fixed price fare between the passenger and taxi service provider cannot result in a fixed price fare above the regulated maximum fixed price fare.
A choice of tariff sets	Permissible	
A fare authorisation approach	Not permissible	
Setting very high maximum fares	Not permissible	