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Re: Submission to the Taxi Fare Review

Dear Mr L'Huillier

Thank you for the opportunity to contribute further to the Essential Service Commission's (ESC) 2016 review of maximum taxi fares.

In our submission responding to the ESC's consultation paper, we expressed concern that current maximum fares are likely to be stifling competition and restricting innovation by service providers who might otherwise offer services that better meet customers' preferences. As such, we were pleased to note the ESC's draft review acknowledged 'maximum taxi fares being set too low is likely to have greater consequences than if they were set too high'. Despite this, the ESC proposes to continue to exert a level control over prices for commercial passenger vehicle services that, in the opinion of the commission, is not in the long-term interests of consumers.

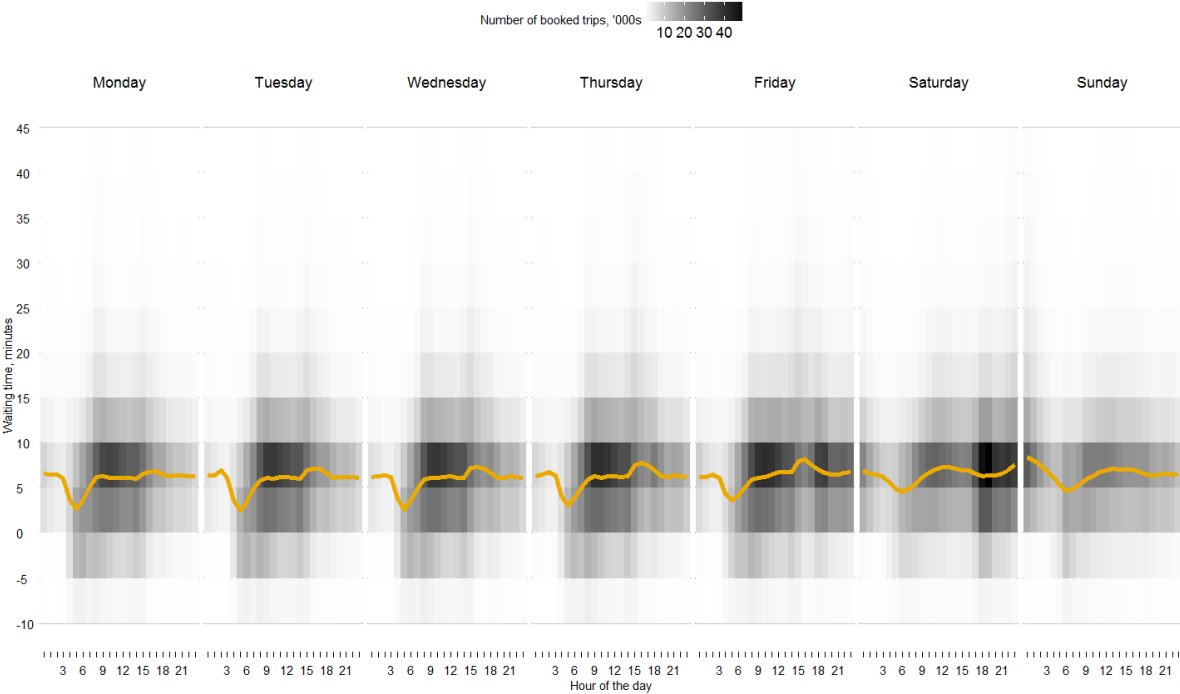
Competition in the commercial passenger vehicle market is now sufficient for the ESC to accede responsibility for setting prices to service providers. The ESC can do this by determining maximum fares that give service providers the flexibility to choose their fare structure and levels as set out below. This approach would also best accord with the ESC's own stated preference only to draw attention to market outcomes that suggest fares may be too high rather than to force price changes through regulatory means.

Analysis of taxi market outcomes

The commission has been provided with analysis that extends and complements the material presented in the ESC's draft review. This analysis provides evidence of poor service quality that would likely persist even if the ESC proceeded with its draft determination. For example, Chart 1 shows median waiting times on weekday afternoons are longer than those the ESC is trying to address by starting the peak tariff at 7pm on Fridays and Saturdays. Similarly, more customers wait longer than ten minutes for a taxi to arrive between 9am and 6pm on weekdays than during the Friday and Saturday peaks.

Service quality is also likely to decline further if current trends in the number of vehicles operating persist. The number of taxis operating in the Metropolitan zone is likely to be substantially lower at the commencement of the ESC's next determination than during the period analysed in the draft review. More concerning, the commission expects there will be a more than ten percent decline in the number of taxis providing services to passengers using wheelchairs in the Metropolitan zone between July 2014 and July 2016. The effect of these trends has not been assessed in the ESC's draft review.

Chart 1: Waiting time for Metropolitan and Urban booked trips, 2014-15



This analysis strengthens the commission’s view that consumers’ interests would be better served by the ESC determining a single, simple maximum fare structure for the Metropolitan and Urban zones and allowing competition between taxi operators in periods of oversupply to keep fares as low as possible. This approach accompanied by a moderate increase in the maximum fare would provide flexibility for prices to adjust in response to consumer expectations while minimising the risk that current limitations of our understanding of the many markets for commercial passenger vehicle services results in maximum fares being kept too low. For example, the commission does not see merit in the ESC imposing lower maximum fares on weekdays compared to those allowed on Friday and Saturday nights.

A single, simple fare structure is permissible and would provide substantial benefits

The ESC’s draft review presumes the need for the ESC to determine maximum fares for each fare structure that a service provider may choose to use and to further direct when service providers should discount their fares. Under this approach, operators would select a fare structure from a menu determined by the ESC and then choose fares within the maximums allowed for that structure at a given time. The commission contends the ESC’s determination can, and should, leave the design of the fare structure to service providers. This flexibility can be provided by determining a single, simple fare structure comprised of a maximum flagfall, maximum distance rate and maximum time rate with no prescription about when the distance and time rate can be charged during the journey.

This fare structure accompanied by a moderate increase in the maximum fare would:

- enable service providers to confidently charge fixed-price fares for a range of journeys without being concerned about exceeding the maximum tariffs – for example, a flagfall of \$7.50, distance rate of \$2.50 per kilometre and time rate of \$1 per minute would allow a \$50 fixed fare for trips between central Melbourne and Melbourne airport

- overcome the ESC's remaining concerns about technical limitations while allowing services providers to use traditional fare structures, hybrid fare structures (like those used by ride-sharing services) and minimum fare structures by not prescribing when the distance and time rate can be charged during the journey
- provide flexibility for service providers to use vehicles with higher operating costs or to recover their fixed costs without undertaking high volumes of work, which would importantly improve the financial viability of operators providing comfortable, reliable services to customers using wheelchairs
- reduce opportunities and incentives for drivers to under-report their metered fares and request off-meter payments that reduce price and revenue transparency to consumers and operators.

A single, simple fare structure accompanied by a moderate increase in the maximum fare can also be shown to meet the requirement that maximum fares 'bind in practice'. Taxi service providers operating in the Regional and Country zones and commercial passenger vehicle service providers throughout Victoria are charging more than the maximum fares used in the fixed fare example above. As such, there is scope for the ESC to determine a moderate increase in maximum fare that would provide the benefits noted in this submission.

We have asked staff at the TSC to continue to assist the ESC finalise its review of maximum fares. If you have any question in regards to this submission, or would like any further assistance, please contact Michelle Delaire, Acting Director, Business Strategy and Planning on 8683 0830.

Yours sincerely,



Graeme Samuel AC
Chair
Taxi Services Commission