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LATE NIGHT, SHARE-RIDE TAXIS – A PILOT PROGRAM

ISSUES PAPER

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GLOSSARY

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| Brisbane NightLink taxi scheme | A share-ride taxi service for Brisbane’s suburbs departing from three points in central Brisbane. Introduced in 2005, it operates Friday and Saturday nights, from 11pm til 5am. |
| Commission | The Essential Services Commission — Victoria’s independent economic regulator of certain prescribed services as determined by Government. The Commission advises the Minister on taxi fares. |
| ‘Coverage of suburbs’ | A measure used by the Commission to assess the attractiveness of a share-ride fare. For a given fare level, the measure gives the number of suburbs for which the share-ride fare is less than the standard fare, and hence the suburbs is ‘covered’. The measure is related to the ‘fare boundary’. |
| ‘Fare boundary’ | The boundary implied by a share-ride fare level, which shows where the share-ride fare switches from being more to less expensive than the standard taxi fare. It provides an indication of the attractiveness of a share-ride fare across the suburbs of Greater Melbourne. |
| Fare zones | A possible geographic division of the suburbs of Greater Melbourne with corresponding share-ride taxi fares applicable to each zone. A one fare zone structure implies a single fare applies regardless of destination within Greater Melbourne. |
| Farebox revenue | The total fare for a taxi trip, i.e. the revenue derived for each particular trip. Usually this is calculated via a meter, however under the share-ride pilot a flat fare is to be paid per passenger, with the farebox revenue equal to the sum of passengers’ fares. |
| Greater Melbourne | The area made up by the current Metropolitan Melbourne |

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| | and Outer Suburban taxi zones. |
| High occupancy vehicle (HOV) | A class of taxi which can carry up to 11 passengers. Higher taxi fares apply to HOVs if carrying at least five passengers or if the hirer requests a HOV. The higher rate does not apply when the hirer is a wheelchair passenger. |
| Metered fare | The taxi fare for a journey as displayed on a taxi's required taxi meter. The fare rates (e.g. flagfall, distance rate etc) are determined by the Minister for Public Transport. |
| Metropolitan taxi zone | One of the separately licenced taxi zones in Victoria, which corresponds to most of Metropolitan Melbourne, excluding an area surrounding Frankston and Dandenong (the Outer Suburban taxi zone). |
| Multiple hire | Occurs when two or more unacquainted people agree to share a taxi from a common starting point to their respective destinations. The current multiple hire taxi fare provides that each hirer pays no more than 75 per cent of the metered fare at their drop-off point. |
| Outer Suburban taxi zone | A licenced taxi zone which corresponds to an area in the South-East of Greater Melbourne, incorporating the areas surrounding Dandenong and Frankston. |
| Rank marshals | Under the share-ride taxi pilot rank marshals will be responsible for explaining the service to potential customers and organising passengers into groups travelling in the same general direction to share a taxi. |
| Queen Street mega rank (QSMR) | Since December 2011, this taxi rank has operated between Bourke Street and Little Collins Street in Melbourne's CBD between midnight and 5am Friday and Saturday nights (during these times this section of Queen Street is closed to other traffic). It is the proposed departure site for the share-ride taxi pilot. |
| Share-ride taxi pilot | The Victorian Government's proposed pilot scheme for multi-passenger taxi journeys departing from the Queen Street mega rank with passengers organised into groups per taxi according to destination. |
| Taxi Industry Inquiry (Inquiry) | Established by the Government in March 2011 to |

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| | investigate and report on the functioning of the Victorian taxi and hire car market and propose recommendations for reform. The Inquiry released a draft report in May 2012. |
| Taxi zone | Taxi licences are attached to certain geographic areas (zones) in Victoria, limiting their operability. A taxi may only pick up from within its relevant zone. The four zones of Victoria are Metropolitan (Melbourne), Outer Suburban, Urban and Country. |
| Victorian Taxi Association (VTA) | The primary taxi industry body of Victoria, representing industry participants including licence holders, operators and network service providers. |
| Victorian Taxi Directorate (VTD) | A division of the Department of Transport responsible for the regulation of Victoria's taxi and hire car industry. |
| Wheelchair Accessible Taxi (WAT) | Taxis with WAT licences are designed to transport people in wheelchairs and must serve clients in wheelchairs as a priority before taking other fares. WATs may also operate as high occupancy vehicles (HOVs) that can carry up to 11 passengers when not carrying people in wheelchairs. |

1 | REQUEST FOR SUBMISSIONS

Purpose of this review

This review will provide advice to the Minister for Public Transport on a fixed-fare per head pricing structure for the late night, share-ride taxi pilot being developed by the Victorian Government.

The Essential Services Commission's (Commission's) review role is to advise on the fare structure for the taxi pilot only, and its report will not cover the policy and operational aspects of the pilot which have been adopted by the Government, based on a proposal by the Victorian Taxi Association (VTA). These operational details are outlined in this issues paper (see section 3.4).

The Commission understands that the Victorian Government will review the pilot at its conclusion to determine its success, with the potential for such a service to form a permanent feature of Melbourne's late-night travel options.

Summary of issues for comment

The following summarises the issues raised in this paper for comment by interested stakeholders. They are intended to assist stakeholders make a submission to this review. However, the Commission encourages respondents to raise any other issues that are directly related to the fare structure advice role of the Commission (as provided for in the terms of reference). The Commission's review will not assess or determine the operational aspects of the pilot scheme, for example, safety issues, supply of drivers and taxis etc, as these are determined by the taxi industry regulator (i.e. the Victorian Taxi Directorate (VTD)).

Establishing fare zones

A fundamental issue for the Commission is whether fares zones (as apply to public transport in Melbourne, e.g. trains, trams and buses) should be established for the purposes of setting fares for the share-ride taxi pilot. Establishing multiple fare zones, while potentially adding some complexity to fare structure, can improve cost reflectivity as a benefit.

Question 1. Should a fare structure based on multiple zones be developed for the share-ride taxi pilot? If so, how many zones should be established?

Question 2. On what basis should fare zones (if they are introduced) be established, e.g. based on suburb boundaries?

Approach to setting late night, share-ride fares

The Commission's approach to establishing fares for the taxi pilot is guided by principles listed in the terms of reference (these are discussed in section 4.2 of this issues paper). These principles include that drivers should receive payment at least as great as the comparable metered taxi fare, and the share-ride service should present a viable alternative to users seeking a lower cost taxi trip compared to hiring a standard taxi.

Question 3. Is the Commission's proposed methodology, i.e. its approach to meeting the pricing principles, reasonable to set a fare for the share-ride taxi pilot?

Question 4. Are there other pricing principles that the Commission should consider as part of its approach to developing the fare structure?

Fares for friends travelling together

The starting point for the Commission's consideration of fares for the late night, share-ride taxi pilot is the proposal of the VTA — the Government has adopted the operational details proposed by the VTA, but has asked the Commission for advice in regard to fare structure. The VTA proposes a single \$30 fare for all passengers. The Commission notes that the Queensland schemes also offer a double and group (five or more people travelling together) fare.

Question 5. Should the taxi pilot include fare options in addition to a single fare, e.g. a double fare and a group fare?

Question 6. If a group fare is offered, what is a reasonable group size?

Discounts off the set fare

The Taxi Industry Inquiry has made a draft recommendation that taxi fares be set as maximums, rather than prescribed rates, to allow for discounting. The Commission also notes that the late night, share-ride taxi schemes in Queensland allow the rank marshal to discount the set fare for passengers when agreed by the driver.

Discounting could also be applied when the metered fare is less than the share-ride fare at the passengers' destination.

Question 7. Should discounting of fares be allowed, either by agreement of both the marshal and driver, or by reference to the metered fare at the drop-off destination?

An initial analysis of fare levels

Section 4.4 of this issues paper illustrates aspects of the Commission's methodology for assessing the share-ride fare structure. For the case of a single fare zone (i.e. a single fare applying regardless of a passengers final destination

within Greater Melbourne), the implications of an example \$25, \$30 and \$35 share-ride fare on passenger and supply incentives are explored.

This initial analysis shows that passenger and supply (i.e. driver/operator) incentives 'compete' with each other, i.e. passenger incentives cannot be improved overall without driver/operator incentives being negatively impacted. Further, the initial analysis illustrates that in assessing driver/operator incentives, an appropriate comparator needs to be identified.

Question 8. How should the Commission balance supply and passenger incentives?

Question 9. What are appropriate comparators when considering share-ride farebox revenue, e.g. the standard fare or HOV fare, and over what distance?

Invitation for submissions

Submissions are due by 5pm on 7 November 2012.¹ We would prefer to receive submissions electronically via

shareridetaxipilot@esc.vic.gov.au

Alternatively, submissions may be mailed to:

Share-ride taxi pilot
Essential Services Commission
Level 2, 35 Spring Street
Melbourne VIC 3000

The Commission will publish all submissions on its website. It is up to stakeholders to expressly identify any confidential or commercially sensitive information that they believe should not be published.

Any questions about this issues paper can be directed to Nick Hague on 03 9651 0256 or Dominic L'Huillier on 03 9651 3782.

¹ While the Commission's standard approach is to allow a 4 week period for submissions, the tight timeframes associated with this review have required a shorter period. This shorter period has been chosen on the basis of balancing the need of stakeholders to have sufficient time to make a submission with the Commission's requirements to complete the review on time. Further, since the share-ride concept is only a pilot at this stage, there is likely to be further opportunity for stakeholder input if the service is to become a permanent feature of Melbourne's late night travel options.

This chapter considers the terms of reference for this review and outlines the role of the Essential Services Commission and process and timelines for the review.

2.1 Terms of reference

On 12 October 2012, the Commission received terms of reference for a review of taxi fares for a late night, share-ride taxi pilot from the Minister for Public Transport, the Hon. Terry Mulder MP (the Minister). Appendix A presents the letter and the terms of reference from the Minister.

The terms of reference require the Commission to advise on an appropriate fixed-fare structure for a pilot program of late night, share-ride taxi trips utilising high occupancy metropolitan taxis operating from the Queen St Mega Rank at specified times.

The terms of reference set out a number of principles the Commission's report and advice should be consistent with, including:

- the taxi driver receiving payment equal to or greater than the comparable taxi fare calculated by a taximeter according to time and distance,
- passengers should each make a saving in comparison to hiring a taxi exclusively for their own use, and
- the pilot is to apply to the existing Metropolitan and Outer Suburban taxi zones.

Further, the Commission is to have regard to findings contained in the Inquiry's draft report and the operational details proposed by the VTA (see chapter 3 of this issues paper).

2.2 The role of the Commission in taxi fare setting

The Commission has a role in legislation to investigate and advise the Minister for Public Transport (the Minister) on taxi fares.

The Commission's role is advisory and not determinative. Under the current legislation, namely the *Transport (Compliance and Miscellaneous) Act 1983* (the Transport Act) section 144(2), the Minister must, before changing the schedule of taxi fares, refer the matter to the Commission and receive a report from the Commission.

2.3 Review process and key dates

The Minister's terms of reference requires the Commission to conduct its review in a manner as described in section 187 of the Transport Act (see appendix B). In summary, section 187 provides that the Commission: may conduct an investigation into any manner it deems appropriate; may receive written submissions or statements; may hold public hearings; and may consult with any person it considers appropriate.

The Commission conducts its reviews in an open and transparent way, inviting input from interested parties.

In view of the tight timelines for this review, the Commission will not be releasing a draft report for comment. Therefore, interested stakeholders are encouraged to make submissions on the issues raised in this paper to inform the Commission's report. The Commission will also meet with stakeholders throughout the review process. The Commission will consider information from submissions, stakeholder meetings and its own analysis before preparing its report and advice for the Minister.

Table 2.1 presents indicative timings for the review.

Table 2.1 Review process

| <i>Activity</i> | <i>Timing</i> |
|---|-------------------------|
| Issues paper release | 18 October 2012 |
| Submissions close on issues paper | 7 November 2012 |
| Stakeholder consultations (as required) | October – November 2012 |
| Report to Minister | 23 November 2012 |

3 | THE PROPOSED PILOT

This chapter discusses the objectives of the share-ride taxi pilot scheme, relevant findings of the Victorian Taxi Industry Inquiry draft report and how the proposed pilot scheme would operate.

3.1 Core objective of the pilot

The stated core objective of introducing the late-night share-ride taxi service is to grow the taxi market and maximise taxi occupancy by providing passengers with an incentive to share a high occupancy taxi with others travelling in the same general direction, thereby relieving pressure on conventional taxi services.

Meeting this objective provides a number of related benefits.

Meeting demand for late night transport services

The underlying benefit of the proposed program is moving people swiftly from the Melbourne CBD and reducing associated anti-social behaviour.²

Train and tram services are reduced in frequency after 11pm and cease in the early hours of Saturday and Sunday mornings. The lack of public transport during these times, in conjunction with unmet demand for taxis, contributes to a congregation of people in streets and public places (such as current taxi ranks) within the Melbourne CBD, particularly patrons of late night entertainment venues.

Meeting the core objective of maximising taxi occupancy can help resolve the mismatch between late night demand for transport services and the current level of supply. By efficiently addressing this currently unmet late night transport demand, the share-ride taxi service will assist in moving people swiftly from the Melbourne CBD.

Lifting occupancy rates and utilising resources more efficiently

The VTA has noted the declining occupancy rates of both metropolitan and country taxis, and it has an ongoing focus on lifting occupancy rates. It has also noted that a large proportion of the existing maxi taxi fleet does not operate during the late

² In December 2005 a number of 'NightLink' transport services were introduced in Brisbane for similar purposes, i.e. meeting late night demand. One of these services was a share-ride taxi scheme, similar to that to be piloted in Melbourne (see appendix C for a discussion of the Brisbane scheme).

night and early morning period, and those maxi taxis that do operate at these times are rarely occupied to their full capacity.

By meeting the core objective of maximising taxi occupancy, the share-ride taxi scheme has the potential to increase the use of these underutilised existing resources and improve taxi use and occupancy rates in the metropolitan zones.

3.2 Supplementary objectives of the pilot

Providing the right price and revenue incentives

In order to achieve the core objective of maximising taxi occupancy through share-ride taxi services, an appropriate fare structure is required to provide the right incentives for both drivers and passengers. That is, the fare must be attractive for both drivers and passengers for them to provide and use share-ride taxis respectively. For passengers who would otherwise catch a standard taxi by themselves, the share-ride fare must be cheaper than a standard taxi trip to their destination (if travelling in a group of two to four (and therefore can travel in a standard taxi), the *total* share-ride fare for the group needs to be cheaper than the corresponding standard taxi fare).³ On the supply side, drivers must collect at least enough revenue from the share-ride taxi service as they would if they operated their taxi under normal circumstances (a regular metered fare).

Therefore, to achieve the pilot's core objective, a related supplementary objective is to offer an appropriate fare structure that provides the right incentives for both drivers and passengers. This objective is reflected in the terms of reference for this review (appendix A) and is discussed in section 4.1 of this issues paper.

Transferability

The VTA also highlights 'transferability' as a supplementary objective for the share-ride taxi service. That is, once the pilot is complete, the concept should be able to be rolled out to other locations, such as other nightlife precincts or on a temporary basis at major events (such as the Spring Racing carnival, festivals and other regional events).

This supplementary objective of transferability introduces an extra complexity in regard to the designation of fare zones, as zones may need to be redesignated based on the transposed departure point of each service. This issue is discussed in section 4.1.

³ The fare and overall service provided by a share-ride taxi must also compensate for the longer journey time that passengers will face. This will particularly be the case for those passengers who are furthest from the Melbourne CBD, as their journey will no longer be direct to their destination but will involve whatever route is required to first drop off the other passengers.

3.3 Victorian Taxi Industry Inquiry draft report

Of particular relevance to the Commission's review are the Victorian Taxi Industry Inquiry⁴ (the Inquiry) draft recommendations focussing on increasing the ability of the industry to provide new and innovative services such as share-ride trips.

In its draft report the Inquiry outlined the potential for share-ride taxi services to operate in Melbourne. In particular, the Inquiry noted that:

Another potential opportunity exists for 'new' taxi services in the Melbourne CBD on Saturday and Sunday in the early hours of the morning. Taxi-bus or share ride services could help to move large numbers of people out of the CBD quickly and safely, and at a lower cost per passenger than the metered fare.⁵

Further, the Inquiry noted that such a service has been operating in Brisbane since 2005.

Following the release of the Inquiry's draft report, the VTA outlined a proposal to trial late night, share-ride taxi services similar to the NightLink scheme in Brisbane.

Section 12 of the Inquiry's draft recommendations are relevant to the proposed share-ride pilot as they focus on removing impediments to offering new and more flexible taxi services and better integrating taxi services with other public transport options (in particular, giving consideration to funding or utilising taxis as a complement or alternative to community and public transport). The Inquiry's draft recommendation is that regulatory arrangements impeding fixed fare or fixed route taxi services should be removed, stating:

Legislation, and other impediments associated with fare setting, hindering the introduction of group hire services such as share rides and taxi shuttles should be removed.⁶

The Commission notes that these regulatory changes may be necessary to accommodate the proposed share-ride pilot scheme.

⁴ On 28 March 2011, the Victorian State Government announced a major independent inquiry into the Victorian taxi and hire car industry, appointing Professor Allan Fels AO to chair the inquiry. The Taxi Industry Inquiry was required to undertake a comprehensive investigation into all aspects of the taxi and hire car industry and recommend a set of reforms focused on achieving better outcomes for the travelling public.

⁵ Victorian Taxi Industry Inquiry 2012, *Customers first: service, safety, choice*, Draft report, p. 448.

⁶ Victorian Taxi Industry Inquiry 2012, p. 539.

Section 13 of the Inquiry's draft recommendations relates to removing distortions caused by current fares, and increasing competition and innovation by allowing service providers to compete on price. Of particular relevance to this review is draft recommendation 13.11, which states:

Fares should be restructured to [...] 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) [...].⁷

As required by the terms of reference, the Commission's intention is to address this issue by recommending that fares be set at a level that incentivises supply and use of the share-ride service.

Another draft recommendation that should be noted is recommendation 13.4, which states that regulated fares should move from prescribed (fixed) fares to maximum fares, thereby allowing discounting. Further, draft recommendation 13.5 adds that the meter should be run to record the maximum fare as a protection for customers, and that drivers be allowed to provide discounts off the meter rate.⁸ While these draft recommendations are intended to promote price competition between taxi operators, they could also be applied to the share-ride taxi service to allow for flexibility in the fare structure through discounting from the set fare. The options of discounting are discussed further in section 4.3.

3.4 The proposed pilot

The VTD is to implement a late night, share-ride taxi pilot, based on a proposal from the VTA. The pilot is to provide 'flat fare' share-ride taxis using the existing fleet of maxi taxis — van-style taxis with capacity for at least five passengers, with the majority able to carry ten or eleven passengers. A six month trial of the service is planned, operating in the early hours of Saturday and Sunday mornings and departing from the Queen Street Mega Rank. The VTA has proposed a flat \$30 fare per passenger, regardless of their destination.

Under the operational details proposed by the VTA and adopted by the VTD, share-ride taxi services will travel to passengers' destinations along loosely predetermined routes. The VTA has proposed four services in the general directions of North (towards Broadmeadows), South (towards Dandenong), East (towards Lilydale) and West (towards Werribee) — however these routes will be flexible around the mix of passengers in the share-ride rank, e.g. multiple services could travel in the same general direction, at the same time. Rank marshals at the

⁷ Victorian Taxi Industry Inquiry 2012, p. 542.

⁸ Victorian Taxi Industry Inquiry 2012, p. 541.

Queen Street Mega Rank will organise passengers travelling in a similar direction into share-rides (of a minimum passenger number).

Other key features of the initial pilot include:

- one departure every half hour from the Queen Street Mega Rank in each of the four directions (depending on passenger demand) on Saturdays and Sundays from midnight to 3am (i.e. 28 services each night)
- payment upfront to the driver (including a levy to pay for the rank marshal/s), and
- the driver will not detour once the trip has started, and will not pick up more passengers along the way.

Operational details

The VTD has adopted the VTA's proposed operational details for the pilot. These details are summarised in box 3.1 and discussed below.

Rank marshals

The use of a rank marshal (or marshals) to organise passengers into share-rides is an essential element to the operation of the program. The primary role of the rank marshals is to explain the share-ride concept and flat fare to potential passengers, and arrange the passengers into appropriate share-rides.

In arranging passengers into share-rides, the rank marshals need to ensure that the mix of passengers and their destinations is balanced for each driver. This is to ensure that the mix of passengers allows each driver to earn more from the share-ride compared to an equivalent trip at the standard metered taxi fare.

Therefore rank marshals will need significant experience in the industry and knowledge of Melbourne suburbs (particularly the outer-suburbs, as these will likely be end destinations), as well as excellent customer service skills.

The role, and skill, of the rank marshals is also important in encouraging passengers to utilise the service (e.g. canvassing the regular taxi rank for potential share-ride passengers), minimising wait times and managing the expectations and frustration of passengers (particularly if demand for the service is greater than the supply or passengers must wait for others travelling in a similar direction in order to meet minimum passenger numbers, discussed below).

The VTA has suggested that rank marshals are to be user funded through a marshal levy included in the flat fare.

Fare structure and zones

As noted in section 3.2, one of the objectives of the pilot is to offer an appropriate fare structure to provide the right incentives for both drivers and passengers to participate in the program. One of the most important factors in determining the appropriate fare structure is the number and boundaries of fare zones. The VTA is

proposing a single zone incorporating all of Metropolitan Melbourne and the Outer Suburban taxi zones.

The VTA's proposal, fare structure, and the trade-off between simplicity and cost reflectivity, are discussed further in chapter 4.

Box 3.1 Summary of proposed pilot – operational details

Frequency and routes

- Initially to run from 12am – 3am every half hour on Saturday and Sunday mornings (with a view to extend to 5am, depending on demand).
- Taxi services to run in four general directions, depending on levels of demand.

Passenger Numbers

- A minimum number of seven passengers will be required per trip.

Ranks

- A six-month trial, ideally commencing in November 2012 based at the Queen Street 'mega rank' (QSMR).
- Utilise existing QSMR traffic controllers and security guards, in addition to pilot marshals to ensure only participating taxis can access the rank and safe movement of passengers to the rank of their choice.

Fare structure and zones

- The flat-fare will only be applicable within the greater Melbourne taxi-cab zone (i.e. inclusive of outer suburban Melbourne), but no further. It is not proposed there be a minimum destination point.
- No discount will be provided for shorter fares (these passengers will be encouraged to access standard taxis from the existing QSMR instead).

Payment mechanisms

- Payment will be cash only paid to the driver at the beginning of the journey.
- The driver will need to provide written receipts to each passenger (containing required information, as stipulated by the regulations).

Supply of drivers and vehicles

- Owner/drivers will be preferred participants (to minimise the number of financial transactions required).
- Operators/drivers will be invited to apply to the VTA and meet specified criteria.
- This pilot is intended to be transferable, i.e. once this pilot is complete, the model should be applicable to other departure points in metropolitan Melbourne.

Payment

Under the proposed pilot, payment of the fare is to be made upfront to the driver before departure. This is consistent with existing prepayment requirements between 10pm and 5am, and decreases the risk to drivers that passengers will not pay the fare at the end of the trip. The VTA has also suggested that only cash payments will be accepted, to facilitate quick departure from the taxi rank.

The Commission notes that a single payment, including any marshal levy, made upfront to the driver is the simplest and may be the most suitable method of payment, as any payment to the rank marshal would require the rank marshal to carry significant quantities of cash to be able to provide correct change. Payment of the marshal levy to the rank marshal separate from payment to the driver (requiring passengers to make multiple transactions) would also increase complexity and administration costs.

If a marshal levy is to be included in the flat fare to fund the costs of the rank marshals, a receipt system between the driver and rank marshal would be required to keep record of any marshal levies owed by the driver or operator to the City of Melbourne.

Passenger numbers

For the provision of a share-ride taxi service to be attractive to drivers, it must be more profitable compared to the equivalent trip at the standard metered fare. Whether a share-ride trip is more profitable will depend on the number of passengers, their destinations and the fare level.

The terms of reference requires that the Commission's report and advice be consistent with '*the appropriate passenger numbers per share-ride taxi trip to ensure the service is both viable for the taxi industry and attractive to taxi users*'.

The VTA in its operational details has suggested that the minimum number of passengers be seven. The Commission will incorporate this suggestion as part of its analysis (see section 4.2 for further discussion).

Predetermined routes

The VTA's proposed operational details (adopted by the VTD) refer to HOVs⁹ 'travelling along predetermined routes (variable according to passenger mix)'. The Commission understands that this is to be interpreted very loosely, i.e. there may be four 'predetermined routes' (north towards Broadmeadows, south towards Dandenong, east towards Lilydale and west towards Werribee) — however, for each particular 'route', the actual route taken by a share-ride taxi will be dependent

⁹ High occupancy vehicles — van-style taxis with capacity for at least five passengers. Currently in Melbourne the majority of HOVs are able to carry ten or eleven passengers (e.g. 'maxi taxis' and some Wheelchair Accessible Taxis).

on the specific drop-off points of each passenger (which will obviously vary between different share-ride taxis).

It is also noted that once a journey begins, the driver will not make any additional detours, and will not pick up more passengers along the way.

Infrastructure

The VTA proposes that the late night, share-ride taxi service operate from the East side of Queen Street, opposite the regular taxi rank at the current Queen Street mega rank. It is expected that the existing infrastructure will need to be expanded to facilitate the program.

Two options for the location of the rank are currently being considered, with share-ride taxis either travelling south from Bourke Street to enter the rank (directly opposite the current taxi rank), or travelling north from Collins Street and entering the east side of Queen Street at Little Collins Street (travelling contra-flow). The exact location of the rank is still to be confirmed with the City of Melbourne.

Security personnel and CCTV monitoring of the rank are provided by the City of Melbourne, and these existing resources may need to be increased to provide coverage for both sides of the street. Appropriate signage would also be required, in particular to explain the late night, share-ride taxi service and distinguish it from the regular taxi rank. The Commission's understanding is that these infrastructure needs will be provided by the City of Melbourne and/or the VTA.

While the Queen Street mega rank may be a suitable location for the share-ride pilot, the Commission notes that the service could operate from other locations within Melbourne's CBD, and this is reflected in the terms of reference — the service can operate from '*taxi ranks designated by the Victorian Taxi Directorate for such purposes*'.

Supply of drivers and vehicles

The program will require a predictable number of drivers and vehicles to operate the service. The VTA has initially proposed a fixed number of 28 services each night. This would require 28 vehicles and drivers, each providing one share-ride taxi service per night. Alternatively, these 28 services could be provided by a pool of 15 to 20 vehicles and drivers on call.

The taxi networks are to nominate drivers for the program and, where the number of willing participants exceeds the required number, an appropriate selection process will be necessary. Only vehicles (appropriately branded) and drivers selected for the trial will be able to join the share-ride taxi rank to pick up passengers.

The VTA has also suggested that there should be flexibility to increase the number of vehicles, should demand for the service warrant it. Introducing this flexibility to vary the number of services will add complexity to the calculation of any marshal levy.

4 | ISSUES FOR COMMENT

This chapter considers a number of issues in determining fares for late night, share-ride taxis.

As required by the terms of reference, the Commission is to provide advice on a fare structure for the late night, share-ride taxi pilot. In providing this advice, the Commission has identified a number of issues that it must consider, for example:

- whether there is a need to establish fare zones — that is, to what extent should Melbourne be separated into ‘fare zones’ radiating out from the CBD, with fares to each zone fixed,
- the approach to pricing — that is, how should the level of late night, share-ride taxi fares be set, and
- fare structures — what type of fares should be available to passengers (e.g. single, double and group fares).

4.1 Establishing zones

A key issue for the Commission in determining the share-ride taxi fare structure is the extent to which Melbourne should be separated into fare zones. Public transport fares (e.g. rail, bus and ferry fares) in Australia and overseas are frequently based on travel zones (also called sectors). For example, Melbourne is separated into two zones for the purposes of charging fares for rail, tram and bus services. Establishing zones simplifies the setting of public transport fares — it effectively allows for the ‘averaging’ of fares within each zone, compared to a fare system based on actual distance travelled, i.e. point-to-point distance (as for a standard metered taxi fare). In addition, fare zones can facilitate the recouping of extra operating costs associated with providing longer trips.

Trade-offs in establishing the number of zones

In determining the number of zones for the Melbourne share-ride taxi pilot, there are a number of trade-offs and issues that the Commission must consider.

- **Simplicity and insufficient gradation** — fewer zones provides for a simpler fare schedule: simpler to administer and simpler for the travelling public to understand. However, fewer zones and a lack of gradation are likely to imply a greater degree of averaging in the level of fares within each zone, which could raise cross-subsidy issues (see below).
- **Complexity and cost reflectivity** — the higher the number of zones, the more complex the fare schedule: this will increase the costs of administering the

schedule and will be more difficult for the public to understand. However, as the number of zones increases, fares may become more cost reflective.

- **Cross-subsidies** — since fares are averaged within each zone, people in the inner parts of each zone may be seen to be subsidising those who live in the middle and outer parts of the zone. As the number of zones decreases, the extent of subsidisation increases.

A trade-off between these issues is required in developing a fare structure. For example, as the number of zones increases, while there are benefits in terms of increased cost reflectivity and reduced cross-subsidisation, these benefits are traded-off against decreased simplicity and ease of administration.

The VTA, in proposing a single zone for all of Melbourne, has favoured simplicity over cost reflectivity and issues of cross-subsidisation. In effect, the proposal would separate Melbourne into two zones — an inner zone where it would be cheaper to use a standard taxi, and an outer zone where a share-ride taxi is the cheaper taxi option. Therefore, we would expect to see potential users of a share-ride taxi 'self-select', i.e. an individual would only choose to use the service if it was competitive (including in terms of fare level) compared to other travel options. With self-selection, it could be argued that issues of cost reflectivity and cross-subsidisation are not significant (or are at least reduced).

Separating Melbourne into multiple fare zones will increase the cost reflectivity of the fare structure for share-ride taxis, and therefore has the potential to make the share-ride pilot attractive to a greater percentage of Melbourne's population. The existing Melbourne public transport zones provide a starting point, and could be used to identify two fare zones for the taxi pilot. These could be separated further, for example into two or three zones each, in order to add gradation to the share-ride taxi fare structure.

Regardless of the number of zones, any zone based fare system will involve a degree of 'averaging' — within each zone, fares will not be fully cost reflective, with the implication that some potential share-ride taxi users (likely to be those in inner parts of a zone) might be better off taking a standard taxi. This has been recognised by the Queensland Department of Transport and Main Roads, who together with industry stakeholders implemented a late night, share-ride taxi scheme in Brisbane. The Queensland Department notes on its website that:

*TransLink zones 1 to 6 have been adjusted for NightLink FlatFare taxis to identify the 'inner' parts of these zones. **The inner parts of a zone are cheaper to travel to on a metered fare** [emphasis]*

added] but attract a lower FlatFare than the outer part of the zone.¹⁰

Given the above discussion, the issue for the Commission (and stakeholders) in establishing the number of fare zones is the trade-off between simplicity, cost reflectivity and cross-subsidisation, not the achievement of any specific objective.

Trade-offs in establishing the number of zones

Question 1. Should a fare structure based on multiple zones be developed for the share-ride taxi pilot? If so, how many zones should be established?

Setting the location of zone boundaries

If fare zones are established for the share-ride taxi pilot, the Commission will need to determine how boundaries are defined, in addition to where the boundaries, and hence zones, are set (these issues do not arise under the VTA's proposal, as it proposes a single zone fare structure). The options for setting zone boundaries could include:

- using existing suburb boundaries — this would appear to be the most straightforward option, with each suburb sitting within a single zone. This would be relatively easy for taxi users to understand and rank marshals to administer when arranging passengers into share-rides.
- using the road network — rather than suburb boundaries defining zone boundaries, zones could be set based on the road network (i.e. major roads could be 'linked' to form zone boundaries). This could result in zone boundaries very similar to those based on suburb boundaries. However, there could be examples of individual suburbs being separated into adjoining zones. This would be more complex for taxi users to understand and add to the task of rank marshals when arranging passengers into share-rides.

Regardless of the option applied, there will be unavoidable 'boundary issues', whereby the imaginary line creating boundaries could see different sides of the same street being separated into different zones. Such issues exist, to varying degrees, whenever fares are based on zones. For example, Melbourne's two zone fare schedule for public transport creates 'boundary issues' where the two zones meet.

The Commission also notes that, as discussed in section 3.2, an objective of the VTA is for the share-ride taxi service to be transferable, so that it may be rolled out to other locations on a temporary basis. This adds a complexity to establishing the

¹⁰ Queensland Department of Transport and Main Roads 2012, *NightLink FlatFare taxi service*, accessed at www.tmr.qld.gov.au/Travel-and-transport/Taxis/Taxi-safety-initiatives/Nightlink-flatfare.aspx on 14 August 2012.

zone boundaries, as the zones may need to be redesignated based on each temporary departure point from which the share-ride taxi service is to be offered.¹¹ That means the method for determining the zone boundaries must be simple enough to replicate for each additional departure point. However, this issue is not considered further by the Commission as part of this review as it is not covered by the terms of reference.

Setting the location of zone boundaries

Question 2. On what basis should fare zones (if they are introduced) be established, e.g. based on suburb boundaries?

4.2 Approach to setting late night, share-ride fares

To guide the Commission in the setting of fares for the share-ride taxi pilot, the terms of reference contains some principles to be taken into account. The following sections discuss these pricing principles and other principles (assumptions) the Commission believes are relevant for fare setting.

The depth of analysis that the Commission will be able to undertake will be limited by the tight timeframes for this review, and the lack of some information (e.g. about passenger behaviour) that inevitably arises because the share-ride taxi scheme is a pilot (i.e. is a new service). Nevertheless, the Commission has endeavoured to develop a recommended fare structure for the share-ride pilot that is based on a robust methodology and that appropriately balances the interests of drivers/operators and passengers.

Principle 1: The driver should receive payment equal to or greater than the comparable taxi fare calculated by a taximeter according to time and distance.

If the pilot is to succeed and the share-ride service become a permanent feature of Melbourne's taxi services, drivers and operators must see a benefit in providing the early Saturday and Sunday morning share-ride service compared to standard taxi services (or not having the taxi on the road at all) during those times. This principle establishes that the fare revenue from a share-ride trip will be at least as great as the 'comparable' taxi fare calculated by a taximeter.

¹¹ The need to potentially redesign the zone boundaries would increase as the departure points get further from the CBD. Redesigning boundaries is unlikely to be necessary for different departure points within the CBD.

There may be two benchmarks when considering the 'comparable' trip:

- Option 1: a trip to the same destination — for a given share-ride taxi trip to a specific final destination (i.e. an equivalent trip destination), the farebox revenue at the standard (or HOV) fare (potentially including an allowance for the extra distance required to be travelled to drop-off intermediate passengers on a share-ride trip) could be compared to the share-ride farebox revenue (this interpretation would appear to closely reflect the terms of reference), or
- Option 2: earnings over equivalent time period — drivers/operators may compare the earnings potential of operating a share-ride taxi versus standard operations over a given period of time. For example, if a share-ride trip (including any waiting time) to the outskirts of Greater Melbourne would take 1 ½ hours, the farebox revenue for this trip could be compared to the earnings that would otherwise have been earned over that period (this may be a broader interpretation of the term 'comparable taxi trip' from the terms of reference).

Regardless, this principle recognises that drivers/operators will need to choose between their existing Saturday and Sunday morning operations or the option of participating in the share-ride scheme.¹²

To meet this principle, the Commission will test fare options against a wide range of trip scenarios (i.e. passenger numbers and destination options) to ensure drivers are better off compared to providing a standard taxi service.

Principle 2: The service should present a viable alternative to taxi users who individually may seek a lower cost taxi trip than hiring a taxi exclusively for their own use.

For share-ride taxis to be attractive to passengers, they need to offer benefits compared to a standard taxi trip. This principle establishes that passengers will make a saving in a share-ride taxi compared to a standard taxi service.

To meet this principle, the Commission will use existing standard taxi fares (including the late night fee) to identify a fare ceiling for each Melbourne suburb. Since there are obviously many drop-off destinations within each suburb, the Commission will have to set this ceiling based on an 'average'. The Commission will then look to set the share-ride taxi fare to each suburb below the suburb's ceiling.

Since an 'average' will have to be used, it may not be possible to develop a fare structure that provides a cheaper share-ride fare for every destination within a

¹² Note that under the pilot, the VTA is to select drivers/operators to participate in the share-ride scheme. Hence on a given Saturday or Sunday morning during the pilot, HOV drivers/operators will not be in a position to choose between existing operations or the share-ride rank.

suburb. This issue has been noted in the context of the Brisbane scheme. Similarly, the inherent 'averaging' within any fare zone structure may result in the share-ride taxi fare not being competitive with standard taxi trips for some locations, including whole suburbs.

The Commission also notes that potential passengers may consider the extra time that is likely to be associated with a share-ride trip. As noted in section 3.2, most passengers may face a longer journey time to their destination because other passengers that live closer to the CBD are dropped off first. This issue is difficult to analyse and there are limits to what analysis can be completed before the Commission reports to the Minister. It is unclear at this stage how passengers will feel about the extra travel time. However, the pilot provides the opportunity for people to test the service and determine the attractiveness of it to their personal circumstances. The Commission suggests that the VTD collect data on passenger trip destinations as part of the pilot, as this can potentially be used to refine the service.

Principle 3: The pilot service is to apply to the Metropolitan and Outer Suburban taxi zones.

In order to establish fare zones and fares, the Commission needs to know what area is to be covered by the pilot. This principle establishes that the existing Metropolitan and Outer Suburban taxi zones set the area for the pilot.

Principle 4: Each share-ride taxi leaving the rank will be carrying the appropriate passenger numbers to ensure the service is both viable for the taxi industry and attractive to taxi users.

A principle on the average number of passengers carried by a share-ride taxi is important as it flows through to scenarios estimating fare revenue. Hence, it will be an important part of the Commission's analysis, and importantly will contribute to also meeting principle 1.

To meet this principle, the Commission's analysis when developing fare levels will test a range of passenger number scenarios, and any assumptions made by the Commission on average passenger numbers per share-ride trip will be clearly presented in its report to the Minister. The assumption for passenger numbers is also important if rank marshals are funded through a fare levy (in order to determine the levy amount).

As part of the pilot, it will be important that accurate statistics are kept on passenger numbers per taxi (and, ideally, destination suburbs also). The Commission notes that a significant majority of all HOVs are able to carry at least 10 passengers. Statistics on passenger numbers would be useful if the Commission were asked to advise on adjustments to fares following the pilot.

Approach to setting late night, share-ride fares

Question 3. Is the Commission's proposed methodology, i.e. its approach to meeting the pricing principles, reasonable to set a fare for the share-ride taxi pilot?

Question 4. Are there other pricing principles that the Commission should consider as part of its approach to developing the fare structure?

4.3 Fare structure options

Current taxi fares

The current fare schedule for taxi services in the Melbourne Metropolitan and Outer Suburban zones was set in December 2008 and is presented in table 4.1. Of most relevance to consideration of a fare for late night, share-ride taxis are the late night surcharge and the multiple hire rate. These are discussed below.

Table 4.1 Metropolitan and Outer Suburban taxi fare schedule

| <i>Fare Component</i> | <i>Tariff</i> |
|---|-------------------------------|
| Booking fee (\$) | 2.00 |
| <i>Standard taxi fare</i> | |
| Flagfall (\$) | 3.20 |
| Distance rate (\$/km) | 1.617 |
| Waiting rate (c/min when speed < 21 km/hr) | 56.6 |
| <i>Maxi taxi fare (5-11 passengers)</i> | |
| Flagfall (\$) | 3.20 |
| Distance rate (\$/km) | 2.42 |
| Waiting rate (c/min when speed < 21 km/hr) | 85 |
| <i>Multiple hiring</i> | |
| % of metered fare at destination (maximum) | 75% |
| <i>Late night surcharge (midnight – 5am)</i> | |
| Metropolitan and Outer Suburban Melbourne | 20% surcharge on metered fare |

Late night fare

In Greater Melbourne a 20 per cent surcharge applies to late night taxi fares. The surcharge applies between midnight and 5am every morning. This surcharge is levied to compensate drivers and ensure supply at times that would otherwise be less attractive to work through.

For a share-ride taxi to be attractive to potential passengers, its fare should be less per passenger than would apply for a standard taxi trip.

Multiple hire option

The current fare schedule allows for multiple hiring, i.e. for unacquainted people to share a trip from a common starting point to their specific drop-off points. It provides that at each drop-off point, the passenger(s) alighting will pay no more than 75 per cent of the metered fare at that point. Drivers clearly benefit from this. However, the discount for passengers does not appear to provide strong incentives to organise such a hiring. In the absence of rank marshals fulfilling this role or proactive drivers, the option of a multiple hire requires individuals to organise themselves into a 'multiple hire' group, and for this to be accepted by the driver. The Taxi Industry Inquiry noted:

This multiple hire arrangement is little known and is confusing to passengers... For some people, it appears that the prospect of a 25 per cent reduction in the fare is insufficient incentive to give up the privacy of not sharing a cab.¹³

The share-ride pilot is looking to make multiple hire arrangements more attractive by providing a simplified fare structure and organising groups travelling in the same general direction.

Flat fare structure options

As suggested by the VTA, the simplest fare structure option is to have a single price applying to the whole of Greater Melbourne — effectively a single price and single zone fare structure. Amongst other matters, the simplicity of such a fare structure needs to be considered against its cost reflectivity. The Commission will consider this trade-off in recommending a fare structure to the Minister.

Some additional issues under consideration are whether fares should vary with group size and whether discounting of set fares should be allowed. These matters are discussed in turn.

Fares for friends travelling together

The VTA suggests a single fare that would apply to all users of the share-ride taxi service. This differs from the Queensland scheme where single, couple and group (five or more people) fares are available. The couple and group fares are available only if those users are being dropped off at the same location (additional charges apply if there are different drop-off points).

¹³Victorian Taxi Industry Inquiry 2012, p. 448.

The couple and group fares provide for a lower per person fare compared to the single fare. A similar ‘discount’ is available with standard taxis, i.e. by travelling with others, the cost per person is reduced. Such fare options for share-ride taxis would be expected to increase its attractiveness given the greater choice and flexibility.

Conversely, providing for couple and group fares increases the complexity of the fare schedule. This added complexity does not appear to be significant — the Commission invites comment on this matter.

Fares for friends travelling together

Question 5. Should the taxi pilot include fare options in addition to a single fare, e.g. a double fare and a group fare?

Question 6. If a group fare is offered, what is a reasonable group size?

Discounts off the set fare

As discussed in section 2.3, in its draft report the Taxi Industry Inquiry recommends that regulated taxi fares should move from being prescribed fares (fixed) to maximum fares (allowing discounting). Draft recommendations 13.4 and 13.5 provide for maximum fares and discounts off these fares (with maximum fares also being recorded on the taximeter). While these draft recommendations are intended to promote price competition, they could also be applied to the share-ride taxi service to allow for flexibility in the fare structure.

The Brisbane NightLink share-ride scheme allows for marshals to discount the set fare for customers when justified, and where agreed to by the driver. That is, when the fare schedule fails to reflect a fair price for the particular needs of a group or an individual, the marshal can arrange for a fare that accommodates for the circumstances.¹⁴ A similar provision could be considered for Greater Melbourne’s share-ride taxi pilot, as it may help ensure the service is flexible enough to meet the needs of both customers and drivers.

Discounting could also be applied by reference to the metered rate. For example, by requiring that the meter be run during a share-ride trip (as per draft recommendation 13.5 of the Inquiry) passengers could be refunded any amount that the set fare exceeds the metered fare at their drop-off destination. In effect, this acts as a safeguard to excessive fares, providing a discount to passengers who are disadvantaged by averaging within a fare zone.

¹⁴ For example, a group fare only applies when all members are travelling to the same destination. Otherwise members of the ‘group’ would either have to pay additional ‘drop-off’ charges or single or double fares depending on each individual’s destination. However, where the drop-off points are nearby the marshal (and driver) could agree to a ‘discount’ from what would have otherwise been charged.

Discounts off the set fare

Question 7. Should discounting of fares be allowed, either by agreement of both the marshal and driver, or by reference to the metered fare at the drop-off destination?

4.4 An initial analysis of fare levels

This section provides an example of the type of analysis and issues the Commission will have to consider in determining a suitable share-ride fare structure. For simplicity, the discussion assumes a single fare zone for all of Greater Melbourne, and it considers driver and passenger incentives (consistent with principles 1 and 2 discussed in section 4.2) for fixed fares of \$25, \$30 and \$35.

Passenger incentives

In considering the incentives for passengers to use a share-ride taxi, a key consideration will be the comparison between the cost of using a share-ride taxi rather than paying the fare charged in a metered, standard taxi. This comparison needs to recognise that fares in the share-ride taxi are charged *per passenger*, whereas groups (of up to four passengers) *can share* the metered fare in a standard taxi.

The Commission's preliminary analysis is shown in table 4.2, which includes the concepts of:

- coverage of suburbs — is a measure of the cost competitiveness of a specific share-ride fare level. For an individual, it is measured by the number of Greater Melbourne suburbs (out of the 382) for which the share-ride fare is less than the standard late night fare, and hence the share-ride taxi is the cheaper taxi service. For two people travelling together (and who therefore would collectively pay twice the share-ride fare), 'coverage' is measured by the number of Greater Melbourne suburbs for which twice the share-ride fare is less than the standard late night fare, and hence the share-ride taxi is the cheaper taxi service, and
- fare boundary — refers to the taxi trip distance from the Melbourne CBD where the standard fare switches from being cheaper to more expensive than the share-ride fare. As for 'coverage of suburbs', if two people are travelling together and therefore paying twice the share-ride fare in total, the standard fare would be compared to this higher total to determine the location of the 'fare boundary'.

Table 4.2 Summary of passenger incentives

| Standard fare scenarios | | | |
|---|------|--------------|------|
| Std fare (10 – 50km trip) ^a | | \$27 - \$115 | |
| Std fare per head | | | |
| 2 passengers | | \$14 - \$58 | |
| 3 passengers | | \$9 - \$38 | |
| 4 passengers | | \$7 - \$29 | |
| Share-ride fare scenarios (example only) | | | |
| | \$25 | \$30 | \$35 |
| Coverage of suburbs (if 1 pax) | 334 | 311 | 289 |
| Coverage of suburbs (if 2 pax) | 226 | 185 | 142 |
| Fare boundary (if 1 pax) (km) | 9.3 | 11.5 | 13.8 |
| Fare boundary (if 2 pax) (km) | 20.6 | 25.1 | 29.6 |

^a Fare estimates include flagfall, distance charge and an allowance for waiting time. Further, the fare range is the same regardless of the share-ride fare level, as the range applies to a standard taxi trip.

Based on the information presented in table 4.2, the Commission notes:

- For trips of 10 – 50km at the standard¹⁵ late night rate, fares range from \$27 – \$115. Potential passengers (travelling alone) would compare this to the share-ride fare (\$25, \$30 or \$35 in this example).
 - If travelling with others, any standard fare would be split between multiple passengers, hence the fare per person would be lower. For example, for 3 people travelling together, the standard fare range of \$27 – \$115 is equivalent to a per head fare range of \$9 – \$38. For these multiple passenger groups, each individual could compare the lower per person fare to the share-ride fare. (Or alternatively, the total standard fare could be compared to the total share-ride cost for the group as a whole (e.g. the total share-ride cost is \$90 for 3 people when the share-ride fare is \$30 each)).
- At a share-ride fare of \$25, 334 out of 382 Greater Melbourne suburbs would be better off with the share-ride fare compared to a standard fare (assumes individual travelling alone). This decreases to 311 suburbs for a \$30 share-ride fare, and 289 at a \$35 fare.
- Noting that many late night taxi users travel in pairs or threes, the ‘coverage’ of double the share-ride fare (i.e. \$50 in the case of the \$25 individual share-ride

¹⁵ The standard fare applies to taxis carrying four or less passengers, or a HOV carrying a wheelchair passenger. Current standard taxi fares are presented in table 4.1.

- fare) is also presented.¹⁶ At this level, 226 suburbs would be better off with the share-ride fare compared to a standard fare (compared to 334 under the single traveller scenario).
- This drops further to 185 and 142 suburbs for a share-ride fare of \$30 (i.e. double fare of \$60) and \$35 (i.e. double fare of \$70) respectively.
 - At a share-ride fare of \$25, potential passengers who live within 9.3 kilometres of the CBD (by taxi trip distance) would be better off catching a standard taxi (as the fare would be lower than \$25) (referred to as 'fare boundary' in table 4.2). When travelling as a pair (and therefore potentially facing a joint share-ride fare of \$50), this fare boundary increases to 20.6 kilometres from the CBD.¹⁷
 - At a share-ride fare of \$30, these fare boundaries increase to 11.5 and 25.1 kilometres from the CBD.
 - And at a share-ride fare of \$35, the fare boundaries are 13.8 and 29.6 kilometres from the CBD.

Supply incentives

Table 4.3 summarises information relevant for assessing supply (i.e. driver/operator) incentives. Here, the total fare revenue received by the share-ride taxi driver/operator under different fare scenarios and passenger numbers is compared to the total fare that would be received under a standard taxi trip (of different distances). The fare revenue of HOV taxis is also highlighted. This approach is consistent with Option 1 discussed in section 4.2 of this issues paper. At this point the Commission does not have the required information to assess supply incentives under Option 2. This would require detailed information on taxi trips during the early hours of Saturday and Sunday mornings, including average farebox revenue, as well as origin and destination of trips.

¹⁶ For a given share-ride fare, the 'fare boundary' shows where the share-ride fare switches from being more to less expensive than the standard taxi fare. When two people are traveling together, and hence their total fare is twice the individual share-ride fare, the fare boundary is further from the CBD (reflecting the higher share-ride cost, and therefore the greater distance that can be travelled in a standard taxi before the share-ride taxi becomes the cheaper travel option).

¹⁷ For the 9.3 kilometre fare boundary and based on trip distance to the centre of the suburb, suburbs for which a standard taxi fare is lower than the example \$25 share-ride fare include Coburg and Brunswick (north), Caulfield North and Elsternwick (south), Kooyong and Kew East (east) and Footscray and Seddon (west). At 20.6 kilometres to account for two people travelling together, the equivalent suburbs include Keilor East and Strathmore Heights (north), Black Rock and Cheltenham (south), Box Hill and Burwood East (east) and Sunshine West and Laverton North (west).

Table 4.3 Summary of supply incentives

| Standard and HOV fare scenarios ^a | | | |
|---|--------------|-------|-------|
| Std fare (10 – 50km trip) | \$27 - \$115 | | |
| Std fare 70km trip | \$159 | | |
| HOV fare (10 – 50km trip) | \$38 - \$170 | | |
| HOV fare 70km trip | \$237 | | |
| Share-ride farebox scenarios (example only) | | | |
| | \$25 | \$30 | \$35 |
| 7 pax farebox | \$175 | \$210 | \$245 |
| 8 pax farebox | \$200 | \$240 | \$280 |
| 9 pax farebox | \$225 | \$270 | \$315 |
| 10 pax farebox | \$250 | \$300 | \$350 |
| 11 pax farebox | \$275 | \$330 | \$385 |

^a Fare estimates include flagfall, distance charge and an allowance for waiting time. Further, the fare range is the same regardless of the share-ride fare level, as the range applies to a standard or HOV taxi trip.

Based on this summary information, the Commission notes:

- At a share-ride fare of \$25, the farebox revenue for each share-ride trip would range from \$175 – \$275 (based on a minimum of 7 passengers and a maximum of 11). This range increases to \$210 – \$330 at a share-ride fare of \$30, and \$245 – \$385 for a \$35 fare.
- These farebox revenue ranges compare to:
 - a farebox range of \$27 – \$115 for trips ranging from 10 – 50km at the standard fare (the standard fare may be a relevant comparator if the majority of HOV taxis are usually carrying 4 or less passengers, and hence cannot charge the higher HOV fare)
 - a farebox range of \$38 – \$170 for trips ranging from 10 – 50km at the higher HOV fare
 - standard and HOV farebox revenue of \$159 and \$237 respectively for a 70 kilometre trip (noting that the vast majority of suburbs in Greater Melbourne are within 50 kilometres of Melbourne’s CBD, the 70 kilometre trip comparison provides a 40 per cent distance allowance to recognise that share-ride trips are not direct to the last drop-off, but will involve ‘detours’ to drop off other passengers).

This preliminary analysis indicates the required balancing of passenger and driver/operator incentives. Increasing returns to drivers/operators comes at the detriment of users — with higher fares resulting in fewer suburbs having the

share-ride taxi as the cheaper taxi option. However fares set too low would result in drivers opting not to provide the share-ride service.

It is also clear that based on the supply side comparators presented in table 4.3, share-ride farebox revenue is in most cases higher than the comparator fare, and in some cases significantly higher. This suggests a strong incentive for drivers/operators to supply share-ride services at each of the example fare levels, and highlights an important issue — what is an appropriate comparator?

An initial analysis of fare levels

Question 8. How should the Commission balance supply and passenger incentives?

Question 9. What are appropriate comparators when considering share-ride farebox revenue, e.g. the standard fare or HOV fare, and over what distance?

APPENDIX A | TERMS OF REFERENCE



Minister for Public Transport Minister for Roads

Ref: MBN016669R

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Dear Dr Ben-David

REVIEW OF TAXI FARES – NOTICE OF REFERENCE UNDER SECTION 186 OF THE TRANSPORT (COMPLIANCE AND MISCELLANEOUS) ACT 1983

Under Division 9 of Part VI of the *Transport (Compliance and Miscellaneous) Act 1983* (the Act) the Minister administering the Act may, by written notice, refer any matter relating to taxi-cab fares or hiring rates to the Essential Services Commission for the Commission to conduct an investigation into that matter.

As required by the Act, the Minister for Finance has been consulted in relation to a proposal that the Commission investigate a specific matter relating to taxi fares as set out below. The Minister for Finance has endorsed this proposal.

Consequently, I now ask the Commission to investigate and report to me on an appropriate fixed fare per head pricing structure for late-night, share-ride taxi trips in high occupancy taxi-cabs operating from taxi ranks designated by the Victorian Taxi Directorate for such purposes.

The core objective of the late-night share-ride taxi service is to both grow the taxi market and to maximise taxi occupancy by providing an incentive for passengers to share a high occupancy taxi with others travelling in the same general direction. This will relieve pressure on the conventional taxi fleet from patrons of late night entertainment venues attending the Queen Street mega rank.

The Commission's investigation, report, and recommendations should be consistent with the following:

- the service should present a viable alternative to taxi users who individually may seek a lower cost taxi trip than hiring a taxi exclusively for their own use, but who require door to door transport not facilitated by other late night transport services
- the service should be supported by taxi drivers on the grounds that they will receive payment equal to or greater than the comparable taxi fare calculated by a taximeter according to time and distance

- the late-night share-ride taxi service is initially proposed to operate from a site adjacent to the Queen Street Melbourne 'mega rank' to places within the Metropolitan Melbourne and Outer Suburban taxi-cab zones
- the appropriate passenger numbers per share-ride taxi trip to ensure the service is both viable for the taxi industry and attractive to taxi users, and
- any marshal levy as suggested by the Victorian Taxi Association will be an add on to the Commission's recommendations on the 'fixed fare per head' pricing structure, and hence the Commission does not need to incorporate any potential marshal levy into its recommended fare structure.

Further, the Commission is to have regard to:

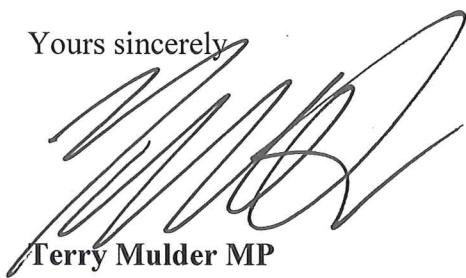
- the findings contained in the draft report of the Taxi Industry Inquiry *Customers First: Service, Safety, Choice*; particularly recommendation 12 – 'New and more flexible taxi services' and recommendation 13 – 'Fares'; and
- the operational details in relation to the service as developed by the Victorian Taxi Association.

I give the following directions under section 186(4) of the Act:

- The Commission is to conduct the investigation in a manner as described in section 187 of the *Transport (Compliance and Miscellaneous) Act 1983*; and
- The Commission is to provide its report and recommendations to the Minister for Public Transport by 23 November 2012.

If the Victorian Taxi Directorate can be of assistance to the Commission during this review, please contact Garry Ellis on telephone (03) 8683 0713.

Yours sincerely



Terry Mulder MP
Minister for Public Transport

11 / 10 / 2012

APPENDIX B | THE COMMISSION'S ROLE UNDER THE TRANSPORT ACT

The following details aspects of the Commission's role under the Transport (Compliance and Miscellaneous) Act 1983.

Section 144A – Determination of taxi fares or hiring rates

- (1) For the purposes of the licence condition referred to in section 144(2)(d)(i), the Minister may from time to time determine the taxi-cab fares or hiring rates that may be charged.
- (2) The Minister cannot determine a fare or hiring rate under subsection (1) unless he or she—
 - (a) has referred the matter to the ESC for investigation under Division 9 and has received the ESC's report on the investigation; and
 - (b) has received a report from the licensing authority...

Section 186 – Reference by Minister

- (1) The ESC must conduct an investigation into any matter relating to—
 - (a) licence fees for hire car licences or special purpose vehicle licences; or
 - (b) taxi-cab fares or hiring rates—that the Minister by written notice refers to the ESC for investigation under this Division.
- (2) The Minister must consult with the Minister administering the Essential Services Commission Act 2001 before referring a matter to the ESC.
- (3) The written notice must specify the terms of reference for the investigation.
- (4) The Minister referring a matter—
 - (a) may specify a period within which a report is to be submitted to the Minister;
 - (b) may require the ESC to make a draft report publicly available or available to specified persons or bodies during the investigation;
 - (c) may require the ESC to consider specified matters;
 - (d) may give the ESC specific directions in respect of the conduct of the investigation;

- (e) may specify objectives that the ESC is to have in performing its functions and exercising its powers in relation to the investigation...

Section 187 – Conduct of investigation

- (1) Subject to this Act and any directions under section 186(4)(d), the ESC may conduct an investigation under this Division in any manner the ESC considers appropriate.
- (2) In conducting an investigation, the ESC is not bound by rules or practices as to evidence but may inform itself in relation to any matter in any manner the ESC considers appropriate.
- (3) The ESC may receive written submissions or statements.
- (4) If the ESC holds a public hearing—
 - (a) the ESC has a discretion as to whether any person may appear before the ESC in person or be represented by another person;
 - (b) the ESC may determine that the hearing, or part of the hearing, be held in private if it is satisfied that—
 - (i) it would be in the public interest; or
 - (ii) the evidence is of a confidential or commercially sensitive nature.
- (5) In conducting an investigation, the ESC—
 - (a) may consult with any person that it considers appropriate;
 - (b) may hold public seminars and hold workshops;
 - (c) may establish working groups and task forces.

Section 188 – Objectives not to apply

Except to the extent (if any) that the Minister otherwise determines, the objectives of the ESC under the *Essential Services Commission Act 2001* or any other Act do not apply to the functions and powers of the ESC under this Division.

C.1 Brisbane's NightLink taxi service

Brisbane's NightLink taxi service was developed by the Queensland Department of Transport and Main Roads in partnership with Black and White Cabs, Yellow Cabs and the Taxi Council of Queensland as part of the Queensland Government's Brisbane City Safety Action Plan. The scheme has been running since December 2005.

The service operates on Friday and Saturday nights (Saturday and Sunday mornings) from 11pm to 5am and departs from three locations in Brisbane: two in the City (George and Eagle Streets), and one in Fortitude Valley (Warner Street). Operating times may vary according to demand.

Fares are calculated by zone and passenger number per drop-off (table C.1).

Table C.1 Brisbane's NightLink taxi fares

| <i>Zone</i> | <i>Single fare (per drop-off)</i> | <i>Double fare (per drop-off)</i> | <i>Group fare – five or more (per drop-off)</i> |
|-------------|---------------------------------------|---------------------------------------|---|
| 1A | \$6 | \$9 | \$22 |
| 1 | \$9 | \$12 | \$26 |
| 2A | \$14 | \$20 | \$35 |
| 2 | \$17 | \$22 | \$39 |
| 3A | \$21 | \$26 | \$47 |
| 3 | \$24 | \$31 | \$54 |
| 4A | \$27 | \$34 | \$59 |
| 4 | \$30 | \$39 | \$65 |
| 5A | \$33 | \$44 | \$72 |
| 5 | \$36 | \$48 | \$79 |
| 6A | \$43 | \$53 | \$89 |
| 6 | \$48 | \$60 | \$99 |

Source: Queensland Government 2012, *NightLink FlatFare taxi rates*, accessed at <http://www.tmr.qld.gov.au/Travel-and-transport/Taxis/Taxi-safety-initiatives/Nightlink-flatfare.aspx> on 12 October 2012.

The system adopted a modified version of TransLink's train and bus zoning for its fare structure. The usual six concentric zones of TransLink's train and bus zones were divided into two sections, 'inner' sections (e.g. zone 1A, 2A etc.) and outer sections, with the former being subject to a lower rate. For example, a couple travelling to a destination in zone 2A would pay \$20 (i.e. \$10 each). A group of three, one travelling to one destination and another two to another in the zone 6A, would pay \$96 collectively. Figure C.1 gives a geographical indication of the six concentric zones covered by TransLink's zoning structure.

The NightLink taxi scheme in Brisbane allows for marshals to offer prices below this fixed rate, taking into consideration the particulars of each group journey. For example, a marshal may find a suitable discount for a passenger that faces an extended journey whilst a number of other passengers are dropped off, conditional on the acceptance of the driver.

How NightLink taxi services are provided

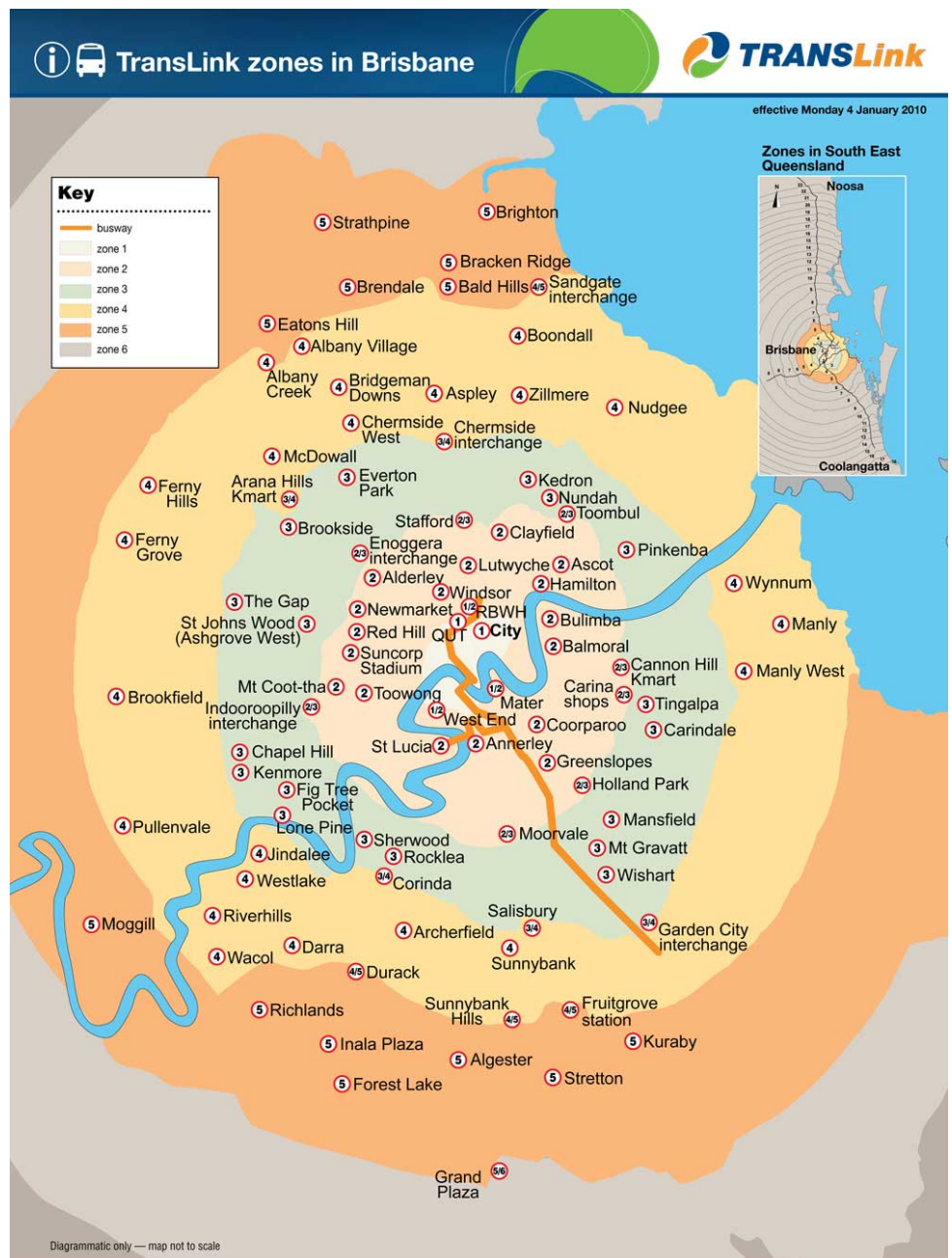
NightLink taxis are maxi taxis and consistently average more than six passengers per trip, but have the capacity for between seven and ten passengers at a time. The service is shared, not personalised, which means that individuals, couples and small groups must wait until other passengers travelling in the same direction arrive before the taxi departs. Rank marshals group customers according to general destination and fares are paid to the driver at the beginning of the journey.

The Queensland Government states that fares work out cheaper than a normal metered taxi and more expensive than the NightLink bus alternative. The service averages 2000 passengers each weekend.¹⁸

Queensland's taxi fares are determined by the Department of Transport and Main Roads.

¹⁸ The Honourable Paul Lucas (Minister for Transport and Main Roads) 2007, *NightLink FlatFare Taxis take home 100,000th passenger*, Press release, 7 August.

Figure C.1 Brisbane's TransLink zones



Source: TransLink 2011, *TransLink zones in Brisbane*, accessed at http://translink.com.au/resources/travel-information/network-information/maps/100104_inner-brisbane-zones.jpg on 12 October 2012.

C.2 Queensland's Regional NightLink taxi service

Following the successful trial introduction of the NightLink taxi service in Brisbane, similar schemes were introduced in three other urban centres along the Queensland coast: Gold Coast, Sunshine Coast and Townsville. Though the services have since ceased to operate on the Sunshine Coast and Townsville, NightLink taxis continue to service the Gold Coast.

Services depart from a single point on the Gold Coast, and fares are paid according to zone and passenger number criteria at the start of each journey. The company responsible for the service is Regent Taxis. The operating hours are the same as in Brisbane (11:00pm to 5:00am, Friday and Saturday nights). The fare structure applying to the Gold Coast NightLink taxi service is shown in table C.2.

Table C.2 Gold Coast NightLink taxi fares

| <i>Zone</i> | <i>Single fare (per drop-off)</i> | <i>Double fare (per drop-off)</i> | <i>Group fare^a – five or more (per drop-off)</i> |
|-------------|---------------------------------------|---------------------------------------|---|
| 1 | \$5 | \$8 | \$15 |
| 2 | \$7 | \$11 | \$21 |
| 3 | \$8 | \$12 | \$24 |
| 4 | \$10 | \$15 | \$30 |
| 5 | \$12 | \$17 | \$36 |
| 6 | \$14 | \$21 | \$42 |
| 7 | \$13 | \$20 | \$39 |
| 8 | \$11 | \$16 | \$33 |
| 9 | \$11 | \$16 | \$33 |
| 10 | \$12 | \$18 | \$36 |
| 11 | \$14 | \$21 | \$42 |

^a With group fares there is a \$5 charge for each additional drop-off in the same zone. For example, if a group of 5 has two drop-off points in zone 6, the fare will be \$47.

Source: Queensland Government 2011, *NightLink FlatFare taxi rates*, accessed at http://www.tmr.qld.gov.au/~media/Travel%20and%20transport/Taxis/Safety%20initiatives/Regional%20flatfare%20taxi/Pdf_gold_coast_flatfare_1007_fares.pdf on 12 October 2012.