



TAXI FARE REVIEW 2016

Draft Report Volume 1:

Our Draft Decision

May 2016



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STRUCTURE OF THE DRAFT REPORT

The Commission's draft report on its review of maximum taxi fares is set out in two volumes:

- Volume 1 – our draft decision – summarises our draft decisions on maximum taxi fares and key findings of our review.
- Volume 2 – our review – provides the detailed analysis of maximum taxi fares underpinning our draft decisions, as well as broader discussion of other matters on which we seek input from stakeholders. Volume 2 includes appendices with further detail on our analysis and other material supporting our review.

These two volumes are available on the Commission's website at www.esc.vic.gov.au

OUR DRAFT DECISION

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.

(CONTINUED FROM PREVIOUS PAGE)

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

DRAFT NEW MAXIMUM TAXI FARES FOR THE METROPOLITAN ZONE AND EASTERN URBAN AREA

	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 a high occupancy vehicle is specifically requested Not applicable for wheelchair passenger trips		\$14.00
Booking fee	For booked trips		\$2.00
Premium service charge	For booked trips where a vehicle participating in a 'premium service scheme' is requested		\$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 <u>on evenings prior to</u> 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

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 rate may be charged.
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 morning immediately following; 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, the holiday rate would be able to be charged from 7pm **on the evenings prior to** all public holidays, until 6am on the morning immediately following. The maximum charge for a holiday rate will remain capped at \$4.20.
5. In Geelong, Ballarat and Bendigo, the holiday rate of \$4.20 would continue to apply 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).

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 a vehicle is participating in a 'premium service scheme' is requested	\$11.00
Airport booking fee	For trips booked for pick up from Melbourne Airport	\$3.00
Holiday rate ^(a)	For trips commencing between 7pm <u>on evenings prior to</u> all public holidays, through to 6am the following morning. 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.

KEY FINDINGS OF OUR REVIEW

BACKGROUND

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 (referred to as ‘the metropolitan zone’) and the urban and large regional taxi zone (covering Dandenong, Frankston, the Mornington Peninsula, Geelong, Ballarat and Bendigo – collectively referred to as ‘the urban zone’).

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. In relation to the taxi industry, our objective is to promote the efficient provision and use of commercial passenger vehicle services.

TIMING OF THIS REVIEW

We last reviewed and determined maximum taxi fares for the metropolitan and urban zones in 2014. We are now required by legislation to complete a review of the current maximum taxi fares by 19 June 2016.

We commenced this review in December 2015, with the release of a consultation paper. Since then we have consulted with a range of stakeholders and undertaken extensive analysis of taxi data to arrive at our draft decision for maximum fares.

The outcome of this review will be a final decision by the Commission on whether or not to amend the current fares, which will be communicated through the release of a final report by 19 June 2016, along with a timeline for implementation of any changes to maximum fares.

Activity	Timing
Publication of Consultation Paper	15 December 2015
Close of submissions to Consultation Paper	1 February 2016
Publication of Draft Report	2 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

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 on our draft decision.

HOW TO MAKE A SUBMISSION

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

Submissions to this draft report close on 23 May 2016.

You may also send a 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

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.

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.

REGULATING MAXIMUM TAXI FARES IN THE CURRENT ENVIRONMENT

Since our last taxi fare review, there have been major developments in the market for commercial passenger vehicle services. These developments have come about through industry reforms promoting a more open and competitive taxi and hire car industry; as well as more prevalent use of smartphones, which has led to greater substitutability between the service offerings of taxis and other commercial passenger vehicle services.

INDUSTRY REFORMS

Major taxi and hire car reforms have been implemented since our last fare review, following recommendations of the Taxi Industry Inquiry. Many of the reforms have now been in effect for nearly two years. Reforms with particular relevance to this review include the following.

- Regulated taxi fares for the metropolitan and urban zones are now *maximum* taxi fares – meaning taxi service providers can discount below the regulated maximums we set.
- There is no longer a regulated limit on the supply of taxi licences – the taxi market is now open to prospective entrants willing to pay annual fees of \$22,703 for a conventional taxi licence, or \$18,988 for a wheelchair accessible taxi licence.
- Hire cars are no longer required to meet luxury vehicle standards.

These reforms were aimed at promoting greater competition between taxi service providers, as well as greater competition between taxis and hire cars in the broader commercial passenger vehicle services market.

SMARTPHONE USE AND THE COMMERCIAL PASSENGER VEHICLE MARKET

More prevalent use of smartphones is having a profound influence on the way taxis and other commercial passenger vehicles are commonly procured and paid for.

In the case of taxis, several smartphone apps exist that allow passengers to book taxis, and provide options for payment of taxi fares through the app, which may be linked to a credit card or Paypal account. Smartphone technology has broadened the service

offerings of traditional taxi booking networks and enabled the creation of new types of taxi booking networks.

Traditional taxi booking networks such as 13CABS and Silver Top Taxis have developed smartphone booking apps to complement their existing phone 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 that can be readily downloaded and used by drivers and passengers.

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.¹

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.

Through the use of GPS and mapping functionality in smartphones, booking apps for other commercial passenger vehicles are also able to calculate fares based on trip distance and travel time – similar to the way taximeters are used to calculate taxi fares.

Fares for other commercial passenger vehicle trips are not subject to fare regulation. Instead, providers of smartphone apps tend to develop their own fare offerings, which may be calculated and agreed in advance of the trip, or estimated in advance and calculated during the trip, with the smartphone's GPS tracking time and distance travelled.

These developments have made it easier to compare the price structure and service offerings of taxis and other commercial passenger vehicle services. For consumers, this means that other commercial passenger vehicle services are more viable alternatives to taxis. For taxi service providers, this means their service offerings in the

¹ ACCC, *iHail Pty Ltd - Authorisation - A91501.22 March 2016*

commercial passenger vehicle market are subject to greater competitive pressure than ever before.

OUR APPROACH TO MAXIMUM FARE REGULATION FOR THIS REVIEW

In past taxi fare reviews, a significant emphasis has been placed on estimating typical costs for taxi operators, and setting taxi fares at a level forecast to generate sufficient industry revenue to recover those costs. This approach was possible when the taxi industry ran a service facing little competition from alternative service providers.

Prior to industry reforms implemented in 2014, the supply of taxis 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 taxi industry revenue with a reasonable degree of confidence and adjust fares to account for changes in operating costs.

In the final report of our 2014 taxi fare review, we signalled our intention to update our approach in the next fare review, anticipating the impending industry reforms promoting a more open and competitive market would necessitate consideration of much broader market outcomes than changes in costs. By market outcomes we mean observing the balance between supply and demand for taxis at particular times and particular places.

Since then, we have seen the increasing use of smartphones and associated technology accelerate the development of a more competitive commercial passenger vehicle services market, in which taxi services are one category of service offering. This means taxi demand and taxi industry revenue cannot be reliably forecast by the fare regulator.

Consequently, our focus as a fare regulator must shift to seeking to ensure that the maximum fares we determine do not impose barriers on the taxi industry's capacity to compete effectively in the broader commercial passenger vehicle market.

In this regard, we are conscious of the different consequences of setting maximum fares that are too high, compared to fares being set too low.

If supply exceeds demand, it suggests maximum fares are too high. The potential detriment of this is that consumers could pay too much for taxis, particularly if competitive pressure does not lead to a competitive response from taxi service

providers, or competing services, to lower fares below regulated maximums, or improve service quality.

In an increasingly competitive commercial passenger vehicle 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. Importantly, if taxi service providers do not move to respond to greater competition, more alternative service providers will see an opportunity to enter the commercial passenger vehicle market and consumers can benefit from this development.

Conversely, if we set maximum fares too low, there may not be sufficient incentives for investment in taxi services. This could lead to an undersupply of taxis relative to consumer demand for taxis, or insufficient investment in service quality offerings that taxi passengers may value.

It is preventing this potential outcome — namely, that fare regulation restricts the scope of taxi service providers from being able to compete effectively in the commercial passenger vehicle market — that now serves as the main objective for the Commission for this review.

In this draft decision, we review market outcomes for taxis in the commercial passenger vehicle market since our last fare review and seek to address areas where maximum fares may be changed to improve incentives for taxi service providers to compete effectively with price and service offerings valued by consumers.

Going forward, we will be monitoring how taxi service providers respond to the increasingly competitive market conditions. If we observe that increasing competition is not effective in improving outcomes for consumers of taxi services, we retain the option to revisit our maximum taxi fare determination and more tightly control the maximum fares that taxis may charge.

MARKET OUTCOMES FOR TAXIS SINCE OUR LAST REVIEW

We have reviewed market outcomes for taxis since our last review, drawing on extensive taxi data for the metropolitan taxi zone provided to us by the Taxi Services Commission. We have also analysed the available data for the urban zone. 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 these services.

TAXI FARES, SUPPLY AND SERVICE LEVELS

Taxi fares were increased by approximately 12.5 per cent on average in May 2014 following our last taxi fare review. From June 2014, when regulated caps on taxi licence numbers were removed, the supply of on-road taxis in the metropolitan zone increased over the remainder of 2014.

With a greater supply of taxis, customer wait times improved and there was also evidence of some improvement in customer satisfaction levels in a customer satisfaction index reported by the Taxi Services Commission.

The most recent data shows that in the April to June quarter of 2015 the supply of on-road taxis in the metropolitan zone began to decrease, which was likely a response to declining demand for taxi trips.

DEMAND FOR TAXI TRIPS

In the second half of 2014, there was a minor decline in demand for taxi trips in the metropolitan zone of one to two per cent, which may have been at least partially attributable to the May 2014 increase taxi fares.

In the first half of 2015, we have observed a significant and accelerating decline in the number of metropolitan taxi trips – a four per cent year on year decline in the January to March quarter, followed by a 9 per cent year on year decline in the April to June quarter. Given this more marked decline in demand for taxis occurred over six months after the May 2014 fare increase, we conclude this outcome is most likely the result of competitive pressure from increasingly prevalent commercial passenger vehicle services that consumers are choosing as alternatives to taxis.

A REDUCTION IN OPERATIONAL COSTS

Since we last reviewed fares in 2014, we have observed a reduction in cost indices representative of operational costs for taxis in the order of 8 per cent, largely owing to lower LPG prices. LPG prices have fallen by 27 per cent in the Melbourne area since March 2014 when we last estimated a typical taxi operator's cost profile.

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.

Given that costs have declined, we conclude that on average there should be sufficient scope within the current average level of maximum taxi fares for taxi service providers to respond with competitive price and service offerings.

For this review, our focus is therefore largely targeted towards maximum fares during periods of peak demand in the metropolitan and urban zones, and improving flexibility for taxi service providers within the maximum fare regulatory regime.

MAXIMUM FARES IN THE METROPOLITAN ZONE

CURRENT MAXIMUM FARES

Maximum taxi fares in the metropolitan zone are currently set with respect to three time periods across the week:

1. the 'day' tariff period – from 9am to 5pm all days
2. the 'overnight' tariff period – from 5pm to 9am Sunday through Thursday
3. the 'peak' tariff period – from 10pm to 4am Friday and Saturday nights.

The peak tariff period also currently applies all day Christmas Day, Boxing Day, from 6pm on New Year's Eve and all day New Year's Day.

CURRENT MAXIMUM TAXI FARES FOR THE METROPOLITAN ZONE AND 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 a high occupancy vehicle is specifically requested Not applicable for wheelchair passenger trips		\$14.00
Booking fee	For booked trips		\$2.00
Premium service charge	For booked trips where a vehicle participating in a 'premium service scheme' is requested		\$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

Maximum taxi fares are lowest for trips made during the day tariff period. During the overnight and peak tariff periods, maximum fares are around 15 per cent and 30 per cent higher than the day tariff period respectively (depending on the length of the trip).

TYPES OF TAXI TRIPS FOR WHICH DEMAND HAS DECLINED

Reductions in taxi trip volumes in 2014-15 occurred most notably in the inner suburbs of Melbourne, followed by the CBD and surrounding areas. In less central areas of Melbourne, reductions in taxi trips were less significant, while taxi trips to and from Melbourne Airport increased.

Reductions in taxi trips were confined to trips less than 20 kilometres in length, while demand for taxi trips of 20 kilometres or more increased. While the growth in trips of greater than 20km in length 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.

With respect to the three tariff periods, taxi trips declined slightly during the day tariff period, but much more significantly in the overnight and peak tariff periods. In the April to June quarter of 2015, we observed a 12 per cent year on year reduction in taxi trips during these periods.

OUR DRAFT DECISIONS FOR METROPOLITAN ZONE FARES

NO CHANGE TO MAXIMUM FARES OUTSIDE PEAK PERIODS

With the exception of Friday and Saturday nights, the supply of taxis appears sufficient to meet consumer demand throughout the week. This suggests the level of maximum fares is not limiting taxi service providers from responding to greater competition in the commercial passenger vehicles at most times.

COMMENCING PEAK TARIFF MAXIMUM FARES EARLIER ON FRIDAY AND SATURDAY NIGHTS

On Friday and Saturday nights, taxi demand begins to increase significantly from between 6pm and 7pm, while on Friday nights the number of taxis in operation begins to decline at around 7pm. This all occurs prior to the current peak tariff maximum fare period commencing at 10pm.

To encourage more taxi service providers to operate during peak times on Friday and Saturday nights, we propose to commence the peak tariff maximum fare period earlier – from 7pm instead of from 10pm.

PEAK TARIFF MAXIMUM FARES ON THE NIGHTS PRIOR TO ALL PUBLIC HOLIDAYS

Our analysis of taxi data indicates demand for taxis on the evenings before all public holidays exhibits similar patterns to that of Friday and Saturday night peak periods.

We therefore propose that peak tariff rates would apply as maximum fares from 7pm **on the nights prior to** all public holidays, until 4am on the morning immediately following.

On public holidays, the current level of maximum fares does not appear to be limiting taxi service providers from meeting taxi demand. As such, we consider it is not necessary that peak tariff maximum fares apply to most public holidays.

However, we propose to retain the current maximum fare arrangements – whereby peak tariff maximum fares may be charged all day Christmas Day, Boxing Day, New Year’s Eve from 6pm and all day New Year’s Day.

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, the high demand for taxi trips is also likely to be affecting the reliability of taxi booking services. This is supported by evidence from the Taxi Industry Inquiry, indicating that customers have difficulties in booking taxis with traditional taxi network during peak times, with calls often going unanswered.² Further, in 2014-15 the proportion of taxi trips that were booked during peak periods was low relative to other periods (15 per cent in the peak period, compared with 39 per cent during the day period), which may be reflective of consumers continuing to face difficulties in booking taxis at peak times.

With greater competition in the market for booking services, and advances in smartphones technology driving new and innovative booking methods, we believe there is merit in allowing for a ‘maximum peak booking charge’.

² Taxi Industry Inquiry, Final Report, September 2012, p. 43.

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.

The peak booking charge would be capped at a maximum of up to \$10 and only 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 for 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.

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.

Networks may choose to vary the fee within the bounds of the maximum charge, perhaps in response to supply and demand conditions. 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. We would expect that networks would not automatically set their charge at the maximum of \$10.

WE SEEK STAKEHOLDER COMMENT ON A MAXIMUM PEAK BOOKING CHARGE

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

We will not proceed with this proposal if we cannot satisfy ourselves that it will promote better and more competitive service outcomes for customers.

MAXIMUM FARES IN THE URBAN ZONE

The urban zone consists of four geographically separate areas: the eastern urban area (Dandenong, Frankston and the Mornington Peninsula), Geelong, Ballarat, and Bendigo.

CURRENT MAXIMUM FARES

Currently, the eastern urban area adopts the same maximum fares as the metropolitan zone, including different maximum rates for the day, overnight and peak tariff periods throughout the week.

In Geelong, Ballarat and Bendigo, there is one set of maximum tariff rates throughout the week. However, a 'late night fee' and a 'holiday rate' enable maximum fares to be higher at particular times. A late night fee of up to \$3.40 may be charged between midnight and 6am on all days. A holiday rate of up to \$4.20 may also be applied on Christmas Day, Boxing Day, New Year's Eve from 6pm and all day New Year's Day.

CURRENT MAXIMUM TAXI FARES FOR GEELONG, BALLARAT AND BENDIGO

Geelong, Ballarat and Bendigo maximum fares		
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
Airport rank fee	For trips from the Melbourne Airport rank	2.70
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

OUR DRAFT DECISIONS FOR URBAN ZONE FARES

NO CHANGES TO MAXIMUM FARES DURING OFF PEAK PERIODS

Similar to our analysis of the metropolitan zone, our analysis of the urban zone indicates that, at most times, the level of maximum taxi fares is not limiting taxi service providers' flexibility to provide competitive price and service offerings to consumers.

In the eastern urban area and in Geelong, the supply of on road taxis has increased since the May 2014 fare increase and the June 2014 reforms that removed taxi licence

quantity restrictions. In the areas of Bendigo and Ballarat, the supply of taxis appears to have remained relatively stable since our 2014 review.

In conjunction with the observed decline in taxi operating costs (largely due to lower LPG prices), these outcomes suggest that the average level of maximum fares in the urban zone is at least sufficient to maintain current investment levels, and has attracted new investment in some areas.

MAXIMUM FARES IN THE EASTERN URBAN AREA TO REMAIN CONSISTENT WITH THE METROPOLITAN ZONE

The taxi trip dataset to which we currently have access does not cover the entire eastern urban area. However, there is evidence in the data of high taxi demand relative to supply on Friday and Saturday nights (Saturday nights in particular).

Further, there are high population densities in some areas near the metropolitan zone and urban zone boundary. As such, we consider it desirable to retain consistency in the maximum fares for these two areas.

This means all of the draft decisions for maximum fares in the metropolitan zone, would also be applicable for the eastern urban area, including the potential introduction of the maximum peak booking charge.

EXTENSION OF THE LATE NIGHT FEE PERIOD IN GEELONG, BALLARAT AND BENDIGO

Our analysis indicates relatively high demand for taxis on Friday and/or Saturday nights in some of these areas, relative to the rest of the week, while the supply of on road taxis is not at its maximum for the week (this is apparent in Geelong in particular).

On this basis, we propose to extend the time during which a late night fee may be charged on Friday and Saturday nights. On these nights, the late night fee period would commence from 7pm on Friday and Saturday nights (instead of from midnight in the current maximum fare arrangements). The maximum charge for the late night fee would remain at \$3.40.

Allowing taxi service providers in these areas the option to charge a late night fee from the earlier time of 7pm on Friday and Saturday nights aims to promote incentives for taxi service providers to improve taxi availability during times of peak demand.

EXTENSION OF THE HOLIDAY RATE TO THE NIGHTS PRIOR TO PUBLIC HOLIDAYS IN GEELONG, BALLARAT AND BENDIGO

As in the metropolitan zone, our analysis of taxi data indicates that demand for taxis on the nights before public holidays is often similar to that experienced on Friday or Saturday nights.

In Geelong, Ballarat and Bendigo, we therefore propose to allow the maximum fare to include the maximum holiday rate from 7pm on the evenings prior to all public holidays, extending until 6am on the actual public holidays. The maximum charge for the holiday rate would remain at \$4.20.

We also propose to retain the current arrangements whereby the holiday rate may be charged all Christmas Day, Boxing Day, New Year's Day and on New Year's Eve from 6pm.

ADDITIONAL OPTIONS FOR ADDING FLEXIBILITY TO MAXIMUM TAXI FARES

In our draft decision, we have proposed (subject to stakeholder feedback) to introduce a maximum 'peak booking charge' of up to \$10, which 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, within the bounds of the maximum fare legislative framework.

The timeframe for this review requires us to conclude our final decisions by 19 June 2016. Within this timeframe we do not propose 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.

WHY MIGHT ADDING FLEXIBILITY TO MAXIMUM TAXI FARES BE DESIRABLE?

Our objective in adding 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.

LEGISLATIVE, CONSUMER PROTECTION AND OTHER TECHNICAL CONSIDERATIONS

We note there are a number of relevant legislative, consumer protection and other technical matters that limit the extent of flexibility that can practically be introduced to maximum taxi fare regulation.

As we derive our powers to set fares from legislation, there are some limits to what we can do. For example, our powers do not include the ability to deregulate fares. In providing fare flexibility we must be mindful of these limitations.

We also consider it is important to consider the forms of consumer protection that may be necessary to prevent excessive charging where greater flexibility in regulated maximum taxi fares is introduced. If competitive pressure between taxi service providers and other commercial passenger vehicle service providers was not effective in some cases, it is possible that fares charged by some taxi service providers could always be at the maximum possible levels, which would result in poor outcomes for consumers.

There are also limitations on the types of fare offerings that commonly used taximeters are capable of incorporating. Some kinds of tariffs would be difficult to implement, or prone to fraudulent charging in circumstances where fares require manual entry by taxi drivers.³

³ Schmidt Electronic Laboratories submission, p. 2.

The Taxi Services Commission, in its submission to our consultation paper, encouraged us to look beyond technical limitations of some taximeters, so as not to constrain taxi service providers from adopting more flexible fare offerings.⁴

While we agree that greater fare flexibility options should not necessarily be bound by the limits of the least flexible taximeter technology in use, we consider it important to understand how different options might impact taxi service providers in the current market.

OPTIONS FOR STAKEHOLDER DISCUSSION

There are three types of options we have identified that could potentially introduce a greater level of fare flexibility for taxi service providers within the maximum fare regulatory framework (these are discussed in greater detail in Volume 2 of this draft report).

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

More Flexible pre-booked taxi fees

Examples of pre-booked taxi fees could include booking cancellation fees, on time arrival guarantees, luxury vehicle fees or fees for other types of non-standard services that could be provided by pre-booked taxis.

⁴ Taxi Services Commission submission, p. 3.

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?

Alternative fare structures for taxis

Most smartphone based fare structures in the commercial passenger vehicle market 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.

There may be benefits for both taxi service providers and consumers in having greater consistency and comparability of taxi fares with other service providers' offerings.

QUESTIONS FOR STAKEHOLDERS

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?

Optional fixed price fares

A fixed price fare refers to setting a dollar amount for the fare, agreed prior to the journey.

Currently, it is difficult for taxis to offer fixed price fares because of the unpredictability in metered fares. This unpredictability stems from the time, distance and speed dependent fare structure, which means the maximum regulated fare for any given trip cannot be definitively calculated in advance.

There may be benefits to providing greater scope for taxi service providers to offer fixed price fares, although there are challenges as to how this might be done within the maximum fare regulatory framework.

An important consumer protection would be to require that passengers retain the option to choose between a metered fare (calculated during the trip) and the fixed price fare offered by a taxi network for a particular trip (an optional fixed price fare).

QUESTIONS FOR STAKEHOLDERS

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?

OBSERVATIONS ON THE MELBOURNE AIRPORT TAXI MARKET

A UNIQUE DEMAND PROFILE

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.

QUEUEING OF TAXIS AT THE AIRPORT

There is a much longer than average queue of taxis at the airport compared to other parts of the metropolitan area. 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.

RETURNS FOR SERVICING AIRPORT TRIPS

Although on average, fares collected from servicing trips from the airport can be relatively high, those returns can vary considerably. Long trips can result in relatively high returns, while short trips offer very low returns if time spent in the airport queue is taken into account.

FURTHER INVESTIGATION AND CONSULTATION ON AIRPORT TAXI FARES IS REQUIRED

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 from 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 propose to gain a better understanding of the market for airport trips and whether there are any unique implications for the structure of fares for trips from the airport. This review would be subject to broad consultation.