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3 February 2015

Re: Submission to the Taxi Fare Review

Dear Mr L'Huillier

Thank you for the opportunity to contribute to the Essential Service Commission's (ESC) 2016 review of taxi fares. I am also pleased that the ESC in this fare determination aims to support the broader competitive policy reforms being implemented by the Taxi Services Commission (TSC).

The following observations address the specific matters raised by the ESC in its discussion paper with a particular focus on increasing fare flexibility. Increased fare flexibility will assist to promote competition and allow operators to provide more innovative services that respond to customer needs.

As an overall comment, the review should take into consideration the major changes occurring within the industry and any consequential impact or opportunities arising when setting fares. The key changes and opportunities include:

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

The purpose of regulation

The commission believes there is significant scope to promote further competition in the taxi services industry by providing greater fare flexibility to operators.

Current maximum fares are likely to be stifling competition and restricting innovation by service providers who might offer higher quality, higher priced services or services with different fare structures. While this would include premium services for business travellers, the commission is most concerned about the effect of current maximum fares on the quality and reliability of taxi services for consumers using wheelchairs. The number of wheelchair accessible taxis operating in the metropolitan Melbourne zone has fallen by five per cent since 30 June 2014. Increased fare flexibility would provide incentives to improve the quality and reliability of these services by allowing operators to recover the higher operating costs of the vehicles they use.

There is general and increasing acceptance that sufficient competition exists in the 'pre-booked' market to protect consumers, while the increased use of phone-based booking applications is also making it easier for operators to promote and differentiate their products. As such, there are likely to be benefits to consumers in allowing greater fare flexibility in at least this market. The ESC could provide this fare flexibility by determining different and higher maximum fares for pre-booked trips or to deregulate fares for pre-booked trips.

To the extent that fare flexibility would encourage consumers to shop around and use different booking services, it may also help to address the lack of competition that currently exists in the upstream market for network services. Increased competition in this market would help to put downward pressure on affiliation fees, and ultimately taxi fares, as well as encourage booking services to improve their quality and reliability. These improvements would be particularly beneficial to vulnerable customers who may otherwise suffer more from cancelled or late running services.

The overall level of fares

The commission supports the ESC's intention to move away from determining fares based on the 'cost stack' for a typical taxi provider and instead focus on market outcomes. However, the commission also notes the risks of the ESC aiming to set prices as low as possible while attempting to balance supply outcomes given the current limitations of our understanding of the many markets for taxi services. Fortunately, the reforms to the industry the TSC is implementing are promoting increased competition that will assist to drive down prices.

As such, the commission encourages the ESC to consider determining maximum fares for rank and hail work that would accommodate the higher costs of premium services and allow competition to keep fares as low as possible. Higher maximum fares would provide flexibility for service providers to offer higher quality, higher priced services or services with different fare structures. Current maximum fares do not provide flexibility for operators to use vehicles with higher operating costs or to recover their fixed costs without undertaking high volumes of work. As such, customers are not benefiting from innovation and creativity in the taxi industry that would improve quality and reliability of services.

Higher maximum fares would also help to improve the financial viability of operators providing services to customers using wheelchairs. Based on the ESC's 2014 review of taxi fares, current maximum fares may not be sufficient to provide these operators with an adequate return and this has potentially contributed to the five per cent reduction in the number of wheelchair accessible taxis operating in the metropolitan zone since June 2014. While the commission is mindful of ensuring that customers using wheelchairs are adequately protected, the maximum fares determined by the ESC are only one component of the measures in place to ensure that these customers have access to affordable transport services. These customers are also the most likely to be negatively affected by poor quality and unreliable services.

The ESC could also consider broadening their consideration of market outcomes to include monitoring upstream markets within the taxi industry. Most notably, the ESC could usefully monitor outcomes in the market for network services. While removing the requirement for taxi operators to affiliate with network service providers has helped to bring down network affiliation fees to some extent, there is considerable scope to further reduce these fees, and ultimately taxi fares.

Reviewing fare structure changes made in 2014

The commission applauds the ESC for evaluating the fare structure changes made in 2014 and offers the following observations and suggestions to improve these fare structure changes further.

The ESC introduced an additional 'peak' rate in the fare structure in 2014 to improve incentives for drivers and operators to provide taxis at these times. Based on anecdotal evidence from major entertainment venues, this approach has been insufficient to cover the peak gap on Friday and Saturday nights. While a higher maximum fare may have been used to address the supply imbalances that arise at peak times, it is not clear that consumers' interests are also best served by the ESC determining lower

fares for day and overnight periods. The ESC could instead determine a single maximum fare structure and allow competition between taxi operators in periods of oversupply to keep fares as low as possible. This approach would provide flexibility for prices to adjust in response to:

1. the seasonal fluctuations in December and January noted in the ESC's 2014 determination
2. increased demand associated with special events, including sporting and entertainment events such as the recently completed Australian Open
3. demand for premium services or higher-cost services in specific markets, including business travellers or customers wanting more accessible taxis.

The change in the high occupancy fares the ESC introduced in its 2014 determination was intended to reduce the driver's motivation to use wheelchair accessible taxis (WATs) for high-occupancy fares, particularly those arising at the airport. However, this motivation is likely to have persisted given the similar value of the high-occupancy fee and the lifting fee whereas only providing services to customers using a wheelchair would involve the opportunity cost associated with lifting time and effort. If the ESC were to adopt our proposal to determine maximum fares that reflect the higher operating costs of wheelchair accessible taxis, it should also assess the need to continue to determine a separate high-occupancy fee.

Options and ideas for discussion

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

Furthermore, if the ESC's determination were to allow for a broad range of fare structures, individual operators would not be obligated to offer all fare structures. Instead, they would only need to ensure that the fare they offer is less than the maximum permissible. For example, the ESC could determine a separate set of tariffs for fixed price fares or special events without needing to be concerned about whether operators could add these rates to their current meter. It should be left to operators to decide whether they wish to upgrade their meters or forgo the opportunity to charge these higher rates.

The ESC should also not feel compelled to specify the exact fare structure that operators would use in the fare determination. Instead, the ESC's determination could specify maximum fares across a small range of fare structures that provide significant flexibility for operators to choose their individual structures and tariffs.

To implement some of the ideas raised above the ESC will need to determine a broader range of tariff rates using existing fare structures. Most notably, increasing fare flexibility in the 'pre-booked' market only would require the ESC to determine different maximum fares for 'rank and hail' and pre-booked taxi services. There is significant merit in the ESC also providing flexibility for operators to utilise the following range of fare structures:

1. fixed fares for pre-booked trips or trips with their origin or destination at Melbourne Airport or Melbourne CBD — though the commission notes that these may be accommodated within current fare structures if the maximum fares determined are very high
2. the potential to offer the consumer the choice between fixed and variable fare options for any pre-booked work

3. hybrid fares that calculate fares based on distance travelled and time taken — this would allow service providers to employ different fare structures that may be simpler for consumers to understand and estimate or that better reflect their costs of providing services.

We have asked staff at the TSC to assist the ESC with its work reviewing the current maximum fares. This would include continuing to provide data to the ESC to assist them to assess the effects of its 2014 fare determination and to assess options for further changes. If you have any question in regards to this submission, or would like any further assistance, please contact James Holyman, Director Business Strategy and Performance on 8683 0829.

Yours sincerely,



Graeme Samuel AC
Chair
Taxi Services Commission