



# TAXI FARE REVIEW 2013-14

Final Report — Overview

March 2014



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# OVERVIEW

## KEY MESSAGES

We have concluded our analysis and find that taxi fares must increase by an average of 12.5 per cent (with some variation between different tariffs).

As this review was conducted prior to finalisation of the new zoning arrangements, we have identified new fares based on the existing zone structure.

In the metropolitan and outer suburban zones, the current two-period fare structure will be replaced by three fare periods:

- a 'day' fare period (9am to 5pm)
- an 'overnight' fare period (5pm to 9am, excluding the 'peak' fare period)
- a 'peak' fare period (10pm to 4am on Friday and Saturday nights).

We have retained the existing tariff components, being flagfall, distance and waiting time rates.

We have increased the flagfall relative to the distance rate in all three fare periods in order to increase the attractiveness of short fares.

In the urban and country zones all flagfall, distance and waiting time rates will be increased by a flat 12.5 per cent uplift factor.

Booking fees will remain unchanged in all zones and the airport taxi parking fee will increase to \$2.70.

The times at which holiday rates apply remain unchanged.

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## KEY MESSAGES CONTINUED

The tariff 3 and 4 surcharge will be replaced by a flat \$14 add on fee for High Occupancy Vehicles.

Our next fare review will be conducted before the end of 2015. We will be exploring opportunities for more sweeping reforms to the way in which fares are determined and structured.

## INTRODUCTION

On 2 February 2014, the Minister for Public Transport issued us a terms of reference, under the *Transport (Compliance and Miscellaneous) Act 1983*, requesting we provide a final report on new taxi fares by the end of March 2014. Due to the short time available, we were not required to release a draft report.

This report outlines our findings on taxi fares in Victoria.

This review is the first fare review since 2008 and since the Taxi Industry Inquiry (TII) handed its report to the Victorian Government in 2012.<sup>1</sup> Under the amended Transport Act (once the amendments have been fully proclaimed), we will have an on-going role to review and determine taxis fares at least every two years from the date of the previous review. We expect to complete our next review of taxi fares before the end of 2015.

Over the last few months, we have held over 50 meetings with taxi operators, drivers, customer and industry groups, network service providers and meter suppliers. We are very thankful for the generosity these parties showed in sharing their experiences and knowledge with us. We also conducted a survey of operators and drivers to gain a better understanding of the underlying costs and challenges in providing taxi services. We are grateful to the 275 operators and 132 drivers who responded to the surveys. In

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<sup>1</sup> The last taxi fare increase of 6.1 per cent took effect in December 2008.

addition, we issued a number of short discussion papers and thank all those who made submissions in response.

A major focus for us in this review has been to rethink our approach to fare setting so that it better reflects the market disciplines within which the Victorian taxi industry operates. Of course, many aspects of the reforms now being implemented seek to enhance the market-orientation of the industry. This includes: improving the scope for competition between taxi operators and networks as well as competition with other transport modes; harnessing better technology in taxi ordering and dispatch; creating opportunities for new and differentiated services; and promoting a greater focus on customer service. These reforms establish an environment in which providers of taxi services will have newfound opportunities to innovate, compete and to grow the overall market.

## OUR APPROACH

We have taken a five step approach to determining our new taxi fares.

First, we have considered the terms of reference, and, in turn, the legislative objectives, in establishing taxi fare setting principles. These objectives and principles have guided our work program and the findings outlined in this report.

Second, we have collected trip data, via the Taxi Services Commission (TSC), from network service providers. We have supplemented this data with information about industry costs (and practices) which we have collected through our operator and driver surveys as well as through the use of industry benchmarking. We tested many of our findings and assumptions in direct discussions with operators and drivers.

Third, we have re-examined the approach used in setting fares and concluded that it fails to account adequately for the market discipline within which the taxi industry must operate — particularly, in light of the Government's reforms aimed at establishing a dynamic and more competitive environment. As a result, we have dispensed with the traditional 'cost stack' approach to setting fares involving operator and labour costs, assignment fees and an operator margin.

Fourth, we have sought to improve the structure of taxi fares in order to better match the supply of taxis with the varying patterns of customer demand at different times of

the day and week. Trip data representing actual market conditions demonstrates an existing imbalance between the supply of taxis and the demand for taxi trips. We have also taken some preliminary steps in better modelling the dynamic interaction between the supply and demand sides of the taxi market.

Fifth, we have given some thought to how taxi fares might be set in the future. We have been conscious of the Government's reform process, which has included a greater emphasis on competition rather than regulation, and the desire to give the industry greater control over fare setting (at least in the medium to longer term).

## **IMPLICATIONS OF A MORE MARKET-ORIENTED APPROACH TO FARE SETTING**

In the past, taxi fare regulators have simply built up a 'cost stack' for a typical taxi provider and used this to guide any recommended fare increase. The cost stack has included: the operational costs of putting a vehicle on the road, assumptions about driver labour costs, an allowance for the cost of assigning (renting) a licence from a licence owner, and a presumed operator margin.

This approach has many shortcomings — particularly in light of the new regulatory environment with its greater emphasis on promoting a more competitive market. In market-oriented sectors it makes little sense to simply set taxi fares year-after-year based on a static model of service delivery and costs. As competition takes hold, it will alter the traditional patterns of industry service offerings, supply chain relationships, the use of capital and the manner in which customers interact with the industry. These altered commercial relationships need to be taken into account when setting fares, however, they are complex and will only ever be partially visible to a regulator (despite its information gathering powers).

The alternative, and ultimately preferred approach, is for the regulator to focus on market outcomes rather than the inner workings of the industry.

In this fare review, although we have necessarily considered industry costs when determining fares, we have also placed considerable emphasis on market outcomes by seeking to address observed imbalances between supply and demand at particular times and in particular places. When either taxi queues or passenger waiting times are

disproportionately long, or there is fare refusal, this signals that there is some level of market disequilibrium (or imbalance) that might be mitigated by changing the level or structure of fares.

In this fare review, we have sought to address these observed imbalances as best as possible within existing constraints, by restructuring fares. In future, these constraints will be fewer and the opportunities to place even more emphasis on market outcomes will be greater.

In the meantime, we have dispensed with the previous static way of thinking about driver costs, assignment fees and operator margins as well as the traditional cost-plus approach to fare setting. This way of thinking is no longer appropriate especially in light of reforms aimed at establishing a dynamic and more competitive environment.

While the starting point for setting fare levels was to update a baseline cost profile for taxi service providers, we adopted a very different approach to how we address driver costs and the way in which industry returns ought to be taken into account when setting fares. In other words, costs are no longer the sole focus on which the setting of fares relies.

Our new approach to costs and returns means there are three inputs into the fare setting model. These are: operational costs, driver share and industry returns. We also pay much greater attention to the role of fares in better matching the supply of and demand for taxi services.

## **OPERATIONAL COSTS**

While under our new approach costs are no longer the sole determinant of fares, nonetheless, they are an important input. Since it has been nearly six years since we last undertook a review of taxi fares in Victoria, we undertook to gather and analyse information from the industry on its operational costs. These are the costs associated with placing a taxi vehicle on the road. It has been important for us to understand how the operational costs of providing taxi services have changed since our last review. As the TII stated:

*The inquiry's view is that there is a clear need to establish a baseline of industry revenues and reasonably efficient costs. By 'reasonably efficient', the inquiry means costs that are actually achievable by many operators.<sup>2</sup>*

Chapter 3 of this report outlines at length the work we have done in establishing this new baseline for 2014. Of course, different operators incur different costs depending on any number of factors. We have identified the range of costs within which, we believe, most operators will be operating their vehicles and we have chosen the mid-point of that range as reflecting the operational costs of a 'representative' operator. We have revisited the 2008 baseline to ensure that we are comparing like-with-like.

We find that between December 2008 and March 2014, operational costs for the representative taxi operator have increased by 11.0 per cent.

## **DRIVER SHARE**

The majority of taxi fare regulators (including ourselves) have in the past considered driver costs as a cost to the operator. Such an approach treats the driver as a cost to the operator — as though the driver is an employee who is being paid a wage by the operator. In doing so, regulators have assumed that the required earnings of a driver are an input cost for operators in exactly the same way as, say, the cost of purchasing or leasing a vehicle.

This is an inappropriate and inaccurate way of characterising the relationship between operators and drivers, and indeed, the relationship between drivers and their passengers.

The correct characterisation is to place the driver (bailee) as the direct provider of taxi services to customers after having 'rented' (bailed) the vehicle from an operator under a commercial arrangement. In Victoria, the usual practice has been for the driver to pay the operator a share of the revenue earned as payment for supplying the asset (the taxi vehicle). In other places, different arrangements are practiced. For example, in New South Wales it is more common for drivers to pay operators a fixed 'pay in' amount.

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<sup>2</sup> Taxi Industry Inquiry 2012, *Customers first — service, safety, choice, Draft report*, May, p. 466.

These arrangements differ in how they allocate risk (most notably, demand risk) between the driver and the operator.

In this review and in all future reviews, our approach is to focus on operators' and drivers' share of farebox revenue rather than on treating drivers as a labour cost incurred by operators. From this review onwards, labour is treated as a share of revenue not a cost.

This is consistent with government policy to mandate the farebox revenue split. Our approach fully accounts for the 55:45 mandated revenue sharing arrangement between drivers and operators, respectively.

## **INDUSTRY RETURNS**

In a market-oriented environment, investment capital is allocated according to the risk and expected returns from competing investments. There is no self-evident reason to view investment in the taxi industry any differently — and all the more so in light of the reforms implemented by the Victorian Government.

This is a vastly different conceptualisation of the industry from the one adopted in our previous reviews and as applied elsewhere by other regulators.

It means that when setting fares, no provision is made for assignment fees or operator margins. Alternatively stated, we are no longer treating assignment fees or operator margins as a cost item associated with the provision of taxi services.

Instead, from this review onwards, we include an allowance for an overall industry rate of return based on farebox revenue. This is a return that, as the fare regulator, we assume is required by the industry-as-a-whole in order to generate the necessary investment to maintain its financial viability. We have made no implicit or explicit assumptions about how the allowed return is shared between different industry participants (particularly: operators, drivers and licence owners). We do note, however, that this return also reflects the funds that are available for reinvestment in the industry as it adapts to operating in an increasingly competitive environment.

Whether these funds are reinvested or extracted, and how they are shared between the parties if they are indeed extracted, is of no concern to the fare regulator — nor should it be of any concern to the fare regulator.

By dispensing with the previous approach of treating assignment fees (and operator margins) as a cost item, we have broken once-and-for-all the nexus between fares and licence values (or assignment fees).

We have determined the appropriate rate of return for the taxi industry based on an assessment of the expected returns in a range of other sectors. Of course, no two industries are identical, but by looking at numerous other businesses, each of which shares at least some characteristics with the taxi industry, we were able to identify a range within which the taxi industry lies. Given the specific characteristics and circumstances of the taxi industry, we have settled on a benchmark rate of return at the upper end of this range for now, namely, 14.5 per cent of farebox revenue.

### **THE OVERALL FARE INCREASE**

Based on our findings on operational costs, driver share and industry returns we have determined an overall fare increase of 12.5 per cent. There will be some variation around this average between different tariffs.

### **USING FARES TO BETTER MATCH SUPPLY AND DEMAND**

The trip data collected from NSPs highlights various imbalances between the supply of and demand for taxi services at different times of the day and week. For example, in the early hours of weekday mornings, the data suggests that supply markedly outstrips demand. As a result, occupancy rates are very low. Conversely, demand heavily outstrips supply on Friday and Saturday nights resulting in long queues of passengers waiting for a taxi.

The TII made a number of observations about the role of fares in addressing some of these imbalances and our terms of reference (and the amended Transport Act) require us to have regard to these concerns as well as others such as: short trip refusals, an oversupply of taxis at the airport (particularly high occupancy vehicles).

As a result of our analysis of the data and our modelling of the impacts of any fare changes, we find that the current two-period fare structure of a base rate with a late night surcharge (of 20 per cent between 12am and 5am) does little to address the observed imbalances. Our analysis of the data, which is fully described in the report, finds that that the current two-period fare structure should be replaced with a new

three-period fare structure in response to the observed imbalances. The three new periods for the metropolitan and outer suburban zones are:

- a 'day' fare period (9am to 5pm)
- an 'overnight' fare period (5pm to 9am, excluding the 'peak' fare period) and
- a 'peak' fare period (10pm to 4am on Friday and Saturday nights).

We have begun developing an integrated model of the metropolitan taxi industry, using available trip and other data. The model captures the dynamics of the demand and supply side of the industry. While it is too early to rely on this model to determine the fare increase, we have used it to assess the outcomes associated with different fare structures. We will continue to develop this integrated model ahead of our next fare review.

## OTHER MATTERS TO BE TAKEN INTO ACCOUNT

The terms of reference require that, when setting taxi fares, we must have regard to the TII's recommendations on short trip refusals, airport queuing, peak and off peak periods, High Occupancy Vehicles (HOVs) tariffs and the multiple hire tariff.

### SHORT FARE REFUSALS

There is no detailed information on the extent and nature of short fare refusals. Based on the available data, it seems that the incidence of short fare refusals varies at different times and in different places. It also seems to vary with the practices adopted by different drivers (for example, numerous drivers reported that their business model involves collecting a large number of short fares).

Further, we have no information that indicates the likely response by either drivers or passengers to a major rebalancing of the general fare structure to address this concern in favour of short fares. This suggests a somewhat cautious approach is warranted. We have increased the flagfall relative to the distance rate accordingly in order to promote more balanced incentives for drivers.

Importantly, to the extent that short fare refusals seem to be most commonly incurred in the city and at the airport, we note that in future, as new metering technology

becomes available, 'tailor made' fare solutions to these specific problems will become increasingly available. Targeted solutions to specific problems will produce more efficient outcomes than an excessive rebalancing of the existing fare structure, which is necessarily blunt in its impact.

In the meantime, structural solutions should be explored (such as short fare ranks at the airport) and stricter enforcement action should be taken against drivers who refuse fares.

## **AIRPORT QUEUING**

We sought to better understand the causes, incidence and impacts of long queues of taxis waiting at the airport. The trip data has been particularly revealing. Our analysis shows that long queues of taxis at the airport do not materially impact the availability of taxis elsewhere in the metropolitan area. Nor is there evidence that airport queuing results in significant consumer detriment. There does not appear to be any noticeable correlation between the length of the airport queues and passenger waiting times elsewhere in Melbourne.

The exception to this finding rests with the availability of HOVs for the transport of passengers in wheelchairs (discussed next).

## **HIGH OCCUPANCY VEHICLES**

The TII raised a number of concerns in relation to the provision of services by HOVs. These included the lack of availability of, and long waiting times for, such vehicles for passengers in wheelchairs. The TII concluded that this was due to the current fare structure which created too great an incentive for HOVs to queue at the airport in the hope of collecting a tariff 3 fare (with its 50 per cent surcharge). The TII was also concerned about the incidence of 'tariff 3 fraud' whereby the driver would set the meter on tariff 3 when, in fact, a lower tariff was applicable.

Our finding is that HOV drivers have a greater preference to stay and queue at the airport than standard taxi drivers.

The TII recommended that the tariff 3 surcharge be replaced with a flat fee whenever the taxi is being used as a HOV. We have responded to this recommendation by replacing the Tariff 3 surcharge with a flat fee of \$14. We estimated this to be the fee

that would generate the same revenue as under the 50 per cent surcharge on distance and waiting rates.

## **MULTIPLE HIRE TARIFF**

The TII observed that the multiple hire arrangements are rarely used and therefore they ought to be simplified. Multiple hire arrangements allow passengers travelling to different destinations to share a taxi. Each passenger pays 75 per cent of the fare showing on the meter at his or her destination (that is, passengers receive a 25 per cent discount).

In the available time, we have not had the opportunity to undertake the necessary analysis into how this arrangement can be improved. However, the Government's reforms are aimed at allowing operators and drivers to offer new and innovative services to customers. We believe this is an area where industry leadership is more appropriate than regulatory fiat in finding new and innovative ways of offering multiple hire arrangements to passengers (for example by offering discounts greater than the current 25 per cent).

## **OTHER FARE COMPONENTS**

There are three additional elements requiring consideration when setting fares: booking fees, the holiday rates and airport taxi parking fee.

### **BOOKING FEES**

We have not had the opportunity to assess the relevance or appropriateness of booking fees in the time available. As such, we have decided that booking fees, while still applying, should not be changed from current levels (including the current booking fee for premium services). As noted below, assessing the best treatment and use of booking fees will be an important focus of our next review.

### **HOLIDAY RATES**

At this stage, holiday rates will continue to apply: all day Christmas Day, Boxing Day, New Year's Day and from 6pm on New Year's Eve. Our new 'peak' tariff will apply as the holiday rate in the metropolitan and outer suburban zones. For urban and country zones, we applied a simple uplift factor to existing holiday rates.

## AIRPORT TAXI PARKING FEE

Melbourne Airport has advised that it will be increasing the taxi parking fee on drivers to \$2.70 (including GST).<sup>3</sup> This will result in an increase in the corresponding passenger airport parking fee from \$2.00 to \$2.70.

## THE NEW FARE STRUCTURE

The fare setting process is about: first, establishing the appropriate overall increase in fares based on our new approach as described above; and second, identifying a fare structure that addresses all relevant matters as best as possible.

In accordance with the terms of reference, which require us to consider the matters relevant under the amended Transport Act, our findings in this report are based on a maximum fare regime.

## FARE LEVELS

We find the overall fare level should increase by **12.5 per cent**.

## FARE STRUCTURE

In the metropolitan and outer suburban zones, fares will also be restructured as shown in table 1. The overall effect of the new fare structure is to increase farebox revenue by 12.5 per cent.

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<sup>3</sup> Relevant correspondence from Melbourne Airport can be found on our website.

**TABLE 1 METROPOLITAN AND OUTER SUBURBAN MAXIMUM FARES**

	<b>Tariff 1 'Day' (9am–5pm)</b>	<b>Tariff 2 'Overnight' (5pm–9am, excluding peak)</b>	<b>Tariff 3 'Peak' (Fri &amp; Sat 10pm–4am)</b>
<b>Standard and HOV taxis</b>			
Flagfall (\$)	\$4.20	\$5.20	\$6.20
Distance rate (\$/km)	\$1.622	\$1.804	\$1.986
Waiting time (\$/min if speed < 21 km/hr)	\$0.568	\$0.631	\$0.695
<b>Other fare components (applicable to tariffs 1, 2 and 3)</b>			
HOV fee <sup>a</sup>	\$14.00	\$14.00	\$14.00
Booking fee	\$2.00	\$2.00	\$2.00
Airport booking fee	\$3.00	\$3.00	\$3.00
Airport rank fee	\$2.70	\$2.70	\$2.70
Holiday rate <sup>b</sup>	Tariff 3 to apply	Tariff 3 to apply	Tariff 3 to apply

<sup>a</sup> For taxis carrying 5-11 passengers, or a non-wheelchair hiring where the hirer specifically requests a larger than standard taxi regardless of the number of passengers carried. <sup>b</sup> Holiday rates apply all day Christmas Day, Boxing Day, New Year's Day and from 6 pm on New Year's Eve.

The *Transport Legislation Amendment (Foundation Taxi and Hire Car Reforms) Act 2013* will introduce amendments requiring us to make a determination before 28 June 2014 regarding the maximum charges for services provided by taxis. Accordingly, our new fares are designed to be maximum fares. Under a maximum fare regime, discounting from the metered fare is allowed.

As this review was conducted prior to finalisation of the new zoning arrangements, we have identified new fares based on the existing zone structure.<sup>4</sup>

As acknowledged in our terms of reference, any changes to urban and country fares would be based on our analysis of the overall change required to metropolitan fares. Consequently, we have applied a 12.5 per cent uplift to all flagfall, distance and waiting

<sup>4</sup> The Taxi Services Commission (TSC) is currently determining the boundaries for the new zones. Submissions are due to the TSC by 15 April 2014. See <http://www.taxi.vic.gov.au/taxi-reform/reforms-in-progress/new-taxi-zones>.

time rates in these two zones. The new fare structures for the urban and country zones are shown in table 2.

**TABLE 2 URBAN AND COUNTRY FARES**

	Urban	Country
<b>Standard taxi</b>		
Flagfall (\$)	\$3.60	\$3.70
Distance rate (\$/km)	\$1.838	\$1.879
Waiting time (\$/min if speed < 21 km/hr)	\$0.643	\$0.658
<b>HOV<sup>a</sup></b>		
Flagfall (\$)	\$3.60	\$3.70
Distance rate (\$/km)	\$2.757	\$2.818
Waiting time (\$/min if speed < 21 km/hr)	\$0.965	\$0.987
<b>Other fare components</b>		
Booking fee	\$2.10	\$2.10
Airport booking fee	\$3.00	\$3.00
Airport rank fee	\$2.70	\$2.70
Late night fee (midnight to 6am)	\$3.40	\$3.40
Holiday rate <sup>b</sup>	\$4.20	\$4.20

<sup>a</sup> For taxis carrying 5 to 11 passengers, or a non-wheelchair hiring where the hirer specifically requests a larger than standard taxi regardless of the number of passengers carried. <sup>b</sup> Holiday rates apply all day Christmas Day, Boxing Day, New Year's Day and from 6pm on New Year's Eve.

## FUEL VOLATILITY

Our terms of reference require that we look at the most appropriate way of dealing with volatile cost pressures, most notably, fuel prices.

We have considered various options including those in operation in other jurisdictions. We have concluded that the cautious approach we have taken in accounting for fuel prices in this review — as well as other measures we have taken — provides sufficient scope for the industry to manage any risks associated with volatile fuel prices in the period to our next review (before the end of 2015). These measures are outlined in detail in the report.

In the event of unforeseen and sustained circumstances, we retain the option of revisiting our present findings or bringing forward our next determination.

## INFORMED CUSTOMERS

We believe there is a strong case for requiring the driver to advise the passenger at the start of the trip which tariff is being applied.

Stickers on the dashboard should explain the fare structure (and any discount offered off the maximum fare). We would like to see the sticker also state that: *"Your driver must tell you which tariff you are paying"*.

Steps should also be taken as soon as possible to ensure that meters are designed so that it is very clear to the passenger which tariff is being applied and receipts are provided to customers showing: the time at which the trip was taken, the applied tariff, and all extras including tolls and fees paid by the customer.

## FUTURE DIRECTIONS

The emergence of greater competition in the taxi services market means it is the taxi industry, not the regulator, which must take increasing responsibility for determining the types and standard of services that best meet customers' preferences. At the same time, metering and other technological advances will create opportunities that have not been available until now.

For now, it is not clear how these changes will affect the setting of taxi fares in the future. Nevertheless, we see our role as becoming increasingly one of facilitation rather than strict regulation.

Going forward, we will be focusing on market outcomes that better balance supply and demand for customer responsive taxi services through fare arrangements. We will be engaging with the industry, passenger representatives and the TSC on innovative fare options.

Some of the preliminary options which we would like to examine in the times ahead are listed below. The list is not intended to be exhaustive and some of the options are

incompatible with each other. In this sense, the list is intended as a 'conversation starter' ahead of our next review.

## **ORIGIN-DESTINATION FARES**

Taxi trips differ from one another in terms of origin, destination and time of day. The current fare structure only addresses the last of these characteristics. As metering and other technologies become available, we believe it will become possible to look at fares based on their origin, destination or both. Most notably, we want to explore origin-destination fare options for heavily patronised trips such as from the airport to CBD and vice versa, as well as for trips exclusively within the city (and possibly, immediate surrounds).

## **MINIMUM FARES**

There was quite a lot of interest in minimum fares during our consultations, that is, fares where a customer pays a minimum amount irrespective of the distance travelled. Beyond some distance, a distance rate would apply. There was no consensus about the level of the minimum fare or the distance threshold over which it would apply and it was not possible to take these ideas forward in this review. We believe there could be a strong role for minimum fares, particularly if combined with origin-destination fare arrangements.

## **DECLINING MARGINAL TARIFFS**

These are tariffs in which the distance rate decreases with the distance travelled. Declining tariffs can be implemented in innumerable ways. The distance at which the distance tariff steps down and the extent to which it steps, and whether one or more steps are worth pursuing, would need to be subjected to detailed modelling and widespread consultation.

## **SEASONAL TARIFFS**

The trip data suggests that there is a reasonably distinct difference in the pattern of trips depending on the time of year. While the months of February to November are quite consistent in their pattern of taxi use, December and January are quite distinct. It is worth considering whether tariffs should reflect these three 'seasons'.

## **NEW TIME CHARGE**

Under current arrangements, a distance rate applies when the taxi is travelling at speeds above 21 kilometres per hour (kph). Below this speed a waiting time rate applies rather than the distance rate. We have not had the opportunity to assess whether the 21 kph threshold for the waiting time charge is still relevant (for example in Sydney it is 26 kph).

## **HYBRID DISTANCE-TIME TARIFFS**

As just noted, under current arrangements either a distance rate applies or the waiting time rate applies. We are interested in exploring whether options might exist in which both distance and waiting time rates apply simultaneously in some combination. Such arrangements might allow fares to better reflect industry cost drivers.

## **A ZERO TARIFF FOR PRE-BOOKED SERVICES**

Currently, taxis would find it difficult to offer a fixed price service to passengers. We are mindful that the reforms implemented by the Government are intended to promote competition. The limited ability for taxis to offer fixed price fares makes it difficult for taxis to compete with pre-booked only service providers (that is, hire cars). We are interested in exploring the option of setting both a minimum booking fee and a very high *maximum* booking fee (say, \$2 and \$1000, respectively). In the event that an operator or driver offered to charge a booking fee between the minimum and the maximum, then a zero distance and waiting time tariff would apply. This would have the same effect as charging the customer a fixed price for the journey. Of course, customers would always retain the option of asking for a metered fare.

## **MULTIPLE HIRE AND SHARE-RIDE ARRANGEMENTS**

As already noted, we are looking for industry leadership on how multiple hire arrangements might be made to work more effectively. Likewise, we are keen on exploring how fare arrangements could be used to facilitate share-ride arrangements (the two differ as share-rides will typically involve a fixed fare rather than a metered fare).

## **DEREGULATING FARES IN PERIODS OF LOW DEMAND**

Price regulation is based on the proposition that customers are not in a position of strength when making a purchase (often because of a lack of options due to the

absence of competition). As the reforms take hold, it will be worth considering whether fares (particularly pre-booked fares) need to be regulated at times of low demand.

## **TARIFF CHOICE**

As operators, drivers and networks seek to innovate, it will be worth considering whether they be allowed to submit their own tariff structures to the fare regulator for approval. While fares continue to be regulated, we would need to develop a set of assessment criteria which applicants would need to satisfy. Similarly, satisfactory customer protections would need to be put in place to ensure customers were not materially disadvantaged.<sup>5</sup> If all conditions were satisfied, the applicant would be free to offer its new tariffs in place of (or possibly alongside) the regulated tariffs.

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<sup>5</sup> Particularly with regard to traditional rank and hail services.