

10 February, 2014
Our ref: C/14/1862

Ms Carly Dixon
General Manager
Corporate and Public Affairs
Melbourne Airport
Airport Management
Level 2, T2
Melbourne Airport

Dear Ms Dixon

**MELBOURNE AIRPORT TAXI PARKING FEE (AS PAID BY THE PASSENGER) —
REQUEST FOR INFORMATION**

Thank you for your letter dated 3 February 2014 in relation to the Essential Services Commission's (the Commission) information request regarding the Melbourne Airport taxi access fee (Melbourne Airport taxi parking fee).

As you would be aware, the Minister for Public Transport (the Minister) has now requested the Commission to investigate and report on fares for taxi services throughout Victoria. The Commission is required to provide its report on taxi fares to the Minister by end of March 2014.

Our role and scope of the review

Under section 186 of the *Transport (Compliance and Miscellaneous) Act 1983*, the Commission must assess the appropriate taxi 'fare or hiring rate' paid by passengers. The Melbourne Airport taxi parking fee is one component of the overall taxi 'fare or hiring rate'. As a result our report must consider the taxi parking fee paid by passengers for taxi services.

Furthermore, upon commencement, the *Transport Legislation Amendment (Foundation Taxi and Hire Car Reforms) Act 2013 (the Act)* inserts a new section 162C into the *Transport (Compliance and Miscellaneous) Act 1983*, whereby the Commission will have a *determinative role* in relation to setting 'maximum charges' for services provided by taxis. 'Maximum charges' include all amounts that a taxi service might charge a passenger for or in respect of taxi services provided to the passenger. As a result, a taxi service will only be able to impose the Melbourne Airport taxi parking fee on a passenger if and to the extent permitted by the Commission's determination.

Information Request

We met with Melbourne Airport staff on 22 November 2013 to clarify our expectations regarding the information to be submitted on Melbourne Airport's proposed taxi parking fee increase. Following Melbourne Airport's final submission, we followed up with a letter to Melbourne Airport on 28 January 2014 requesting further information. Subsequently, we have been in

phone and email contact and have offered to meet face to face if necessary to clarify the information request.

Following receipt of your letter, 3 February 2014, I have reviewed the information request we submitted to Melbourne Airport on 28 January 2014. In light of that review, I have streamlined the information we are seeking. The revised information request is attached.

The information in this request is the minimum information required in order for the Commission to undertake its role effectively. Only with this information, will we be able to form a view about the appropriateness of the proposed airport taxi parking fee.

Please respond to the attached revised Melbourne Airport information request document by COB Tuesday 18 February 2014.

We are of course, available to meet to discuss the amended information request or any other matter. Please contact me on 03 9032 1323 should you wish to discuss this matter.

Yours sincerely

Andrew Chow
Director, Transport

REVISED MELBOURNE AIRPORT INFORMATION REQUEST

1. PURPOSE OF REQUEST

The Essential Services Commission (ESC) has reviewed the Cost and Assumptions document (Attachment A) dated December 2013 and the Taxi Fare Review 2013-14 Response to Call for Ideas submission dated January 2014 provided by Melbourne Airport (MAP).

The ESC is seeking to gain a better understanding of the services, operational activities, costs and capital expenditure associated with the operation of MAP taxi pick-up services to facilitate the ESC's review of the proposed change in the airport taxi parking fee.

In addition to the specific information required below, it is of critical importance that MAP provides a clear and succinct response to the following key questions:

1. MAP has proposed to increase the taxi parking fee from \$2.00 to \$3.40. This represents a 70 per cent increase to the fee paid by the passenger. What are the key reasons for the proposed increase?
2. In proposing to increase the taxi parking fee from \$2.00 to \$3.40, MAP has also proposed to allow drivers to retain \$0.70 (compared to the current driver handling fee of \$0.68). What are the key reasons for this proposal?

Where relevant, please provide information as set out in the tables below. This information should provide the ESC with an understanding of the resources and activities undertaken to support the provision of taxi services set out in Section 2.

2. PURPOSE OF REQUEST

The ESC understands the MAP taxi parking fee is restricted to the recovery of costs associated with providing taxi pick-up services; and the scope of these services principally relates to the operation of the taxi bay holding area on Melrose Drive, the snake pit at Depot Drive, traffic management and the operation of two taxi ranks (the Service). The objective of the Service is to ultimately allow for the safe, punctual and orderly operation of taxi ranks to minimise passenger waiting times and improve passenger convenience.

The ESC seeks MAP's confirmation of the above service description.

3. ACTIVITIES AND OPERATING COSTS

The ESC notes that the 2006-07 ACCC Airport Monitoring Report details the following time series for the cost of providing taxi-holding and feeder related services:

	2002-03	2003-04	2004-05	2005-06	2006-07
Taxi-holding and feeder system (\$'000)	1 402	1 796	1 869	2 142	1 818

MAP's Cost and Assumptions information document dated December 2013 provided an estimate of operating costs of \$4 459 000. Relative to 2006-07, MAP's cost estimate represents a 145 per cent increase in operating costs.

Accordingly, the ESC seeks to gain a better understanding of the increase in operating costs. Please provide an explanation for the increase in operating costs.

FACILITIES COMMITTED TO THE PROVISION OF TAXI SERVICES

The ESC understands facilities are committed to providing taxi services. The ESC seeks MAP's verification of the information provided in the table below. Please add any other line items that will aid the ESC's understanding of the key facilities committed to providing the Services.

Property description	Location	Area sq m/no. of parking spaces	Facility key features
Taxi holding bay	Melrose Drive	680 bays Sq m []	Holding bay Café Refreshment area Prayer area
Second holding area [Snake pit]	Depot Drive	200 bays Sq m []	
Taxi rank	Terminal 1		
Taxi rank	Terminal 2		

REVIEW OF OPERATING COSTS

Human Resources — Operating activities and costs

The ESC seeks to gain a better understanding of the make-up of staff costs and how these costs relate to providing the Service.

The 2001 ACCC Decision provides a cost point reference. The table below sets out information provided by MAP to inform the 2001 ACCC Decision and the Cost and Assumption information dated December 2013 provided by MAP.

Cost line item	Information provided to ACCC in 2001 \$'000	MAP December 2013 \$'000
Staff costs	1 300 (rank supervision costs before terminal operator recovery) 75 (additional staff – supervision and administration) 1 375 total	2 338

Please explain the movement in staff costs.

Further, the ESC seeks MAP to:

- Verify whether the amount of \$2 338 000 is GST inclusive
- Confirm whether the \$2 338 000 is an estimate of forecast costs or is based on actual costs
- Provide a breakdown of the \$2 338 000 into key components. Examples may include internal staff costs, external costs, on-costs etc.
- Verify the extent to which these costs relate to providing the Services and if relevant describe the allocation method(s) used by MAP in the determination of the cost where the underlying activity is shared by a number of services
- Provide a basic table setting out in approximate terms the number of FTEs associated with providing the service.

Category [captions provided by way of example]	Number of FTEs
Supervision	
Rank attendance	
Traffic management	
Cleaning	
Security	

Non-staff — Operating activities and costs

The ESC seeks to gain a better understanding of the make-up of non-staff costs and how these costs relate to providing the Service.

The 2001 ACCC Decision provides a cost point reference. The table below sets out information provided by MAP to inform the 2001 ACCC Decision and the Cost and Assumption information dated December 2013 provided by MAP.

Cost line item	Information provided to ACCC in 2001 \$'000	MAP December 2013 \$'000
Operating costs of new taxi queuing system	359 (excluding land rent and additional staff)	1,908 (maintenance and cleaning) 213 (net SmartCarte) 2 121 TOTAL

Please explain the movement in operating costs of new taxi queuing system costs.

Further, the ESC seeks MAP to:

- Verify whether the amount of the \$2 121 000 is GST inclusive
- Confirm whether the \$2 121 000 is an estimate of forecast costs or is based on actual costs
- Provide a breakdown of the \$2 121 000 into key components. Examples may include waste collection, landside cleaning, landside gardening, energy, security, repairs etc.
- If possible, for the most material costs describe the level of activity
- Verify the extent to which these costs relate to providing the Services and if relevant describe the allocation method(s) used by MAP in the determination of the cost where the underlying activity is shared by a number of services.

Capital expenditure

The ESC seeks to understand the level of capital expenditure associated with providing the Services.

Please only complete this table for major capital expenditure activities associated with providing taxi services since 2001.

Description of capital expenditure	Acquisition year	\$ (GST Exclusive)	Asset life (years)	New or replacement
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Describe planned major capital expenditure activities associated with providing taxi services over the short term.

Description of capital expenditure	Acquisition year	\$ (GST Exclusive)	Asset life (years)	New or replacement
T1 taxi rank upgrade		125 000		
Melrose holding yard facilities upgrade		900 000		

Forecast — operating costs

The ESC understands that over the short term operating costs associated with providing the Services will largely remain fixed and not necessarily change with the level of pick-up activity.

The ESC seeks MAP's confirmation that the above is a proper representation of the movement in costs over the short term.

If costs are not largely fixed, the ESC seeks MAP complete the following table.

	2011/12 Actual	2012/13 Actual	2013/14 Forecast	2014/15 Forecast	2015/16 Forecast
Staff costs (by key cost categories)					
Maintenance and cleaning costs (by key cost categories)					
SmartCarte costs					
Total					

Forecast — Pick-up activity

The ESC seeks to understand the forecast number of taxi pick-ups over the short term. The ESC has examined taxi access fees between 2004 and 2012. This indicates a compound annual growth rate of around 3.5 per cent in the number of taxi pick-ups.

The ESC seeks MAP's confirmation that the historical compound annual growth rate of 3.5 per cent is an appropriate metric to use to forecast the level of taxi pick-up activity over the short term.

4. DRIVER HANDLING FEES

The ESC seeks to gain an understanding of the costs incurred by the taxi operator/driver associated with the operation of MAP's taxi pick-up regime.

What activities are drivers required to undertake associated with customer pick-up activities?

How far is the Melrose taxi holding bay from airport taxi ranks? Does travelling this distance represent an incremental cost compared to taxi arrangements prior to the development of the Melrose facility?

What administration costs do drivers incur associated with tracking fees and preparing their Business Activity Statements (BAS)? Is a monthly or quarterly statement provided by MAP to drivers to assist in the preparation of the BAS?