

Department of Infrastructure, Energy and Resources

PASSENGER TRANSPORT DIVISION

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Your Ref Our Ref 2013/22164



Mr Glenn Bounds
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Office of the Tasmanian Economic Regulator
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Dear Mr Bounds

On behalf of the Department of Infrastructure, Energy and Resources, this submission sets out the policy response to the questions raised in the Taxi Fare Inquiry – Consultation Paper calling for comment from stakeholders.

Objectives:

It is DIER's view that it is not appropriate for a regulator to have a role in underpinning the value of taxi licences. While scarcity values have been created through the historic establishment of a licensing regime, under current legislation the Transport Commission is obliged to offer additional licences for sale each year. It is clear from the existence of this process, that long term maintenance of scarcity values is not an objective of the licensing regime. To introduce plate value maintenance as part of the fare setting process would be directly contradictory to the objectives of the broader licensing scheme.

DIER has long maintained that as the value of taxi plates is derived by the potential earnings of a taxi, inclusion of plate values or lease costs in taxi fare setting is circular and creates an upward spiralling of fares which is detrimental to taxi consumers. It is not appropriate for consumers to be required to pay to underpin the scarcity value of plates. Nevertheless, the proposal to include taxi plate values in an index with a mechanism to prevent escalation balances the need to ensure reflective weightings.

Specifically, the objectives of fare setting should be to protect consumers, ensure an appropriate standard of service and provide an appropriate return to the efficient operator. An appropriate return is one which does not include rents based on scarcity value.

Higher flagfall/Booking fee/Tariff 2/Tariff 3

It is DIER's view that these issues are best addressed after weighing up responses from stakeholders, both in the industry and from the travelling public.

De-regulation of fare components/Fare notification

In principle, DIER supports reducing regulation of the taxi industry to allow a more efficient and responsive industry to emerge. However, it is noted that adopting a weighted average price cap has the potential to cause disadvantage to particular market sub sectors.

Were an average trip constructed to reflect the travel patterns of the general population of taxi users in a region (or group of regions), there may be sub groups of users with different travel characteristics who are disadvantaged. A particular example would be wheelchair-reliant persons travelling in wheelchair accessible taxis. Due to their reliance on taxis for even minor trips, many of their journeys are quite short, perhaps two or three kilometres and the waiting time is often much greater than for other passenger categories. Accordingly, a WAT operator could construct a tariff which met the requirements of the weighted average price cap based on a longer notional average trip, but which effectively loaded the flagfall and waiting time making very short trips much more expensive.

It is also noted that WAT ownership is quite concentrated in many of the taxi areas where they operate. Given the particular reliance on taxis of this customer group and the limited opportunity to secure a WAT from an alternative operator in a timely way, the potential for an abuse of market power would exist.

Further, having a fare regime that is readily understood by taxi customers is an important feature of a smoothly functioning industry. Accordingly, in a deregulated environment, fare notification arrangements would need to be sufficient to ensure passengers have a clear understanding of the rates charged by a particular taxi relative to any regulated standard. This would need to be accompanied by an education campaign to allow customers to understand that they have the right to choose a taxi from anywhere on a taxi rank. As annual administration fees paid by licence plate holders are based in part on the cost of administering the licensing scheme, any additional complexity may require an increase in annual licence administration fees to be contemplated.

There are numerous approaches to fare deregulation which could be adopted. In determining a particular approach, a primary consideration should be that access to a taxi service is not significantly undermined for any sub group of passengers, whether because they make journeys with particular characteristics or are eligible for subsidised travel.

Application of fare increases to fare components

While DIER considers that there is merit in a master fare schedule, this adds a level of complexity to fare indexation. Any new fare regime needs to be widely understood by industry and the travelling public. Avoiding complexity will increase confidence in the fare mechanism.

What should be included in the Taxi Cost Model

DIER continues to maintain that the inclusion of plate values/lease costs and driver wages creates circularity in the determination of fares. However, the inclusion of lease costs with an appropriate deflator should address this concern.

What should be the weights in the Model

The actual weights of the various cost components for any taxi operation will be significantly affected by the level of activity in which a taxi is engaged. Across the various taxi areas of Tasmania, and between operators with different business models such as single and double shifts, this is likely to vary greatly. Further, radio room fees are a significant cost component, however as membership is optional, the weightings of particular costs would be quite different between members and non-members.

To establish a fare for each taxi area, activity level or to reflect membership choices would be administratively complex and add significant additional cost to both fare setting and indexation. Therefore, some notion of an average taxi would be required and grouping of as many taxi areas as

might be considered to demonstrate similar characteristics is called for. Accordingly, precise weights become less material and fair or reasonable levels are likely to be adequate.

Nevertheless, it is likely that over time there will be lobbying to try to ensure that any cost component which has demonstrated a significant increase should attract greater weight in order to increase fares. Accordingly, it is more important that, under ordinary circumstances, the weights are maintained for the regulatory period and not subject to short term adjustment to deliver a particular outcome.

Indexation

DIER is strongly in favour of adopting independent, publicly available estimates for inflators. The benefits are reduced administrative complexity and increased transparency as industry would be in a position to verify the inflators from external sources.

The proposal to inflate radio room costs according to increases in the Communications sub component of Hobart CPI may not fully recognise changes in costs faced by industry in relation to this item. The Communications sub component incorporates postal services and telecommunication equipment and services. Over the past 10 years, the sub component has risen by approximately 14 per cent. Over the same period, DIER has increased radio room fees in its taxi cost model by some 33 per cent based on quotes from a variety of local industry sources.

Provision of radio room services requires a range of inputs including land and buildings, telephone equipment and services, labour and specialist information technology. This may require the use of an inflator which captures a broader array of elements.

Plate lease costs

DIER is strongly of the view that plate leases should not be inflated for the purposes of fare determinations. Over time, deflation should be considered. Tasmania has a legislated program of allowing additional plates to be offered for sale each year which is intended to gradually address scarcity value and allow a regular and predictable opportunity for new operators to enter the industry or for existing operators to expand. As the reserve price for all future licence releases is fixed at a legislated value and will effectively decline in real terms over time, arguably so should any plate lease figure adopted in the taxi cost model.

In this matter, the Regulator should be primarily concerned with the interests of consumers. There is a long history of scarcity value being captured by licence holders at the expense of the travelling public. Ensuring that this is unwound over time to create an efficient market is a key outcome. However, any unwinding must be gradual so as not to create immediate disadvantage to existing industry members and must be clearly outlined for any potential new entrants to understand and undertake appropriate due diligence. That is, the deflator must be specified in advance and not subject to a discretion that may be subject to lobbying or other influence.

Driver labour costs

If driver labour costs are to be included in an index, DIER considers the ABS Wage Price Index for Tasmania (Public and Private) to be an appropriate mechanism for indexation. While there is a specific driving award, it is not generally accepted as applying to taxi drivers. Further the current award harmonisation process across Australian jurisdictions means that movements and adjustments of particular conditions may make for some irregular changes to rates in the short term.

Productivity

DIER supports the inclusion of a productivity adjustment to the taxi cost index. This is good regulatory practice and ensures that benefits are shared with customers over time.

Tasmania's taxi industry is somewhat less regulated than in other jurisdictions. This offers the local industry the opportunity to pursue new methods of business not open to taxi operators elsewhere. For example, new smartphone apps which allow intending passengers to locate the nearest taxi are inconsistent with some interstate regulatory regimes and are not able to operate. However, in Tasmania, there is no such restriction.

Initiation of reviews/Length of regulatory period

Periodic reviews of fares are anticipated. However it is the term of the regulatory period that is crucial.

Since 2006, the Tasmanian taxi regulatory structure has undergone a slow, but continual process of reform. Accordingly, industry members have been involved in repeated rounds of consultation. In the absence of a single peak body, this has created a significant consultation burden on both DIER and key industry players.

To avoid consultation fatigue and ensure that any new fare mechanism has an appropriate period of time to become "bedded in" and accepted, DIER is of the view that reviews should be conducted not more frequently than every five years. This is the same cycle adopted for pricing investigations of Government Businesses such as Metro Tasmania. The slightly longer cycle also reduces the administrative cost.

Triggers and pass throughs

DIER supports the notion of passing through regulatory and tax changes where a materiality threshold is met. However, the materiality threshold may need to be higher than one per cent to offset the cost of meter adjustments. Historically, industry has indicated to DIER that fare increases of less than three per cent are of marginal benefit given metering service costs. That position was expressed at a time when fare increases were implemented on an ad hoc basis and may have been at less than annual intervals. Accordingly, an increment of perhaps only slightly greater than one per cent, which would persist for less than one year, may be of little benefit.

Due to more recent technology which allows fare changes to be made "over the air" the cost of fare changes to meters may be a less significant issue than it has been in the past. However, for independent operators, the cost of fare updates may still be prohibitive as this would be provided as a standalone service. DIER considers that specific advice from industry on this matter should be sought.

In regard to fuel cost increases, DIER supports conducting reviews at six monthly intervals with a revision to apply only where the fuel cost has moved by more than twenty per cent, as is the case in New South Wales. DIER considers that it would be preferable to allow both price decreases and increases on this basis.

Consultation during reviews

DIER does not support conducting consultation for annual indexation purposes. Rather, presentation of supporting materials explaining each of the components of the fare increase should be promulgated through the industry newsletter.

With regard to periodic reviews, there is always difficulty conducting consultation with an industry which does not have a single representative body and often does not respond readily to calls for written submissions. Typically, many industry players respond on their own behalf or for a small number of members. To do so diverts small business resources from their primary purpose. Accordingly, reducing the complexity of the consultation process to allow for less formal responses is desirable.

Agency undertaking the review

Having the Tasmanian Economic Regulator undertake the current review was seen as an important step in improving transparency and industry acceptance of the fare setting regime. It is highly likely that industry would not accept DIER or another agency as the review body. However, it is not necessary to have an independent body conduct annual indexation.

Funding future reviews

Regardless of which body undertakes future fare reviews, it will be necessary for the work to be funded. Accordingly, DIER supports inclusion of an amount in the annual licence administration charge raised from industry. This would then be part of the index allowing the industry to recover the cost through the fare box.

I would be pleased to provide additional comments should any clarification or expansion of the points above be required. Please do not hesitate to contact me on 03 6233 3785.

Yours sincerely



Norm Mellfattrick
SECRETARY

 March 2013