

2008 REVIEW OF TAXI FARES

Mid year review of LPG fuel costs – summary of review process

November 2008

This fact sheet explains IPART's mid year review of LPG fuel costs for taxis in New South Wales. The fact sheet is designed to help interested parties understand IPART's method of conducting the mid year review.

Why IPART is conducting this review

As part of the 2008 review of taxi fares, IPART received comment from stakeholders concerned about the volatility of fuel prices and the effect this has on taxi industry viability between IPART reviews. In response to these concerns, IPART decided to undertake a mid-year review of fuel costs for taxis and to recommend a mid-year fare change if fuel prices have changed significantly.

In its final report issued in June of this year, the Tribunal stated that:

IPART's view is that if fuel costs for the 6 months to November have varied by more than 10 per cent (up or down) from the average daily price included in the TCI for 2008 then IPART should recommend that the Minister adjust taxi fares by the change in the fuel costs plus the cost associated with the additional meter change. If average fuel costs have changed by less than 10 per cent then there should be no fare change.

In the event that this threshold is met and fares are changed, IPART considers that:

- The change in the fuel component should be equal to the average daily price of LPG (as recorded by Fueltrac) for the 6 months to November compared divided by the average daily price for the 14 months to 31 May.
- No changes should be made to the components of the TCI other than the LPG fuel cost item.
- The change should be applied to the distance-based component of taxi fares only and should incorporate the cost of the meter change, discussed above.
- The limited review should be conducted in December with a fare change to be implemented by 1 January (subject to how quickly meters and stickers can be updated).
- The annual fare change will occur in July and will be applied to calculate the change in fares needed from 1 July of the previous year, as if the six monthly fare change had not occurred. The weighting of costs in the TCI will be updated at the annual fare review.

IPART decided that it would include \$145 to compensate the industry for costs associated with the additional meter change, in the event that a mid-year fare change is recommended. This represents \$0.03 on the average fare.

The sections below detail the review process, the circumstances under which a fare change will be recommended and if a fare change is required how it will be calculated.

Review process

IPART will only consider increases in fuel prices, as part of its mid-year review. IPART will not consider changes to the form of regulation for taxis or changes in other costs. The mid-year fuel price review is a mechanical process. As this mid term review is limited to reviewing fuel costs and the methodology of the review was established as part of the 2008 review of taxis fares, IPART will not undertake public consultation.

IPART will issue a statement of reasons at the conclusion of the review that provides:

- ▼ IPART's mid-year fare recommendations to the Minister, if the 10 per cent threshold is exceeded
- ▼ the change in fuel costs for the 6 months to 30 November compared to fuel cost for the 14 months to 31 May 2008 for both urban and country areas
- ▼ if a fare change is recommended, an explanation of how the fare change is calculated.

The statement of reasons will be released on the IPART website.

Circumstances under which a fare change will be recommended

The current taxi cost index incorporates a fuel cost for the 14 months to 31 May 2008 based on 62.1 cents per litre (ex GST) for country areas and 54.6 cents per litre (ex GST) in urban areas. Once data to 30 November 2008 is available, IPART will compare the average price to 30 November with these fuel prices. A fare change will be recommended if the price has changed by more than 10 per cent (up or down). A 10 per cent change in fuel costs will have occurred if the average price over the past six months is outside the bounds shown in Table 1.

Table 1 Trigger points for mid-year review of fuel costs

Taxi cost index	2008 fuel cost (cents/L)	Lower bound (cents/L)	Upper bound (cents/L)
Country	62.1	55.9	68.3
Urban	54.6	49.1	60.0

Note: Figures are ex GST.

The difference in fuel prices in urban and country areas means that it is possible that a fare change will be triggered in only one area.

If a fare change is recommended, how it will be calculated

If the cost of fuel is outside the bounds set out in Table 1, the following steps will be undertaken to calculate the recommended fare change;

1. the percentage change in the LPG price is multiplied by the current LPG cost weighting to obtain the percentage increase required in the average fare¹
2. the overall change required to the average fare is determined by applying the percentage change to the current average fare
3. an additional \$0.03 is added to the average fare to adjust for the additional meter change required
4. the new distance rate is calculated so that the required increase or decrease results.

In the case of an adjustment of country fares, IPART will also recommend an increase in the Tariff II distance rate, which is a per km charge charged for all kilometres travelled after the first 12 kilometres.

¹ The weightings are 6.78 per cent for country and 7.48 per cent for urban.