

## 2009 REVIEW OF TAXI FARES

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

October 2009

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

### Why we are conducting this review

As part of the 2008 review of taxi fares, we received comments from stakeholders concerned about the volatility of fuel prices and the effect this has on taxi industry viability between our reviews. In response to these concerns, we 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. This decision was retained as part of our most recent review of taxi fares in June 2009.

If fuel costs for the 6 months to October 31 have varied by more than 10% (up or down) from the average daily price included in the Taxi Cost Index (TCI)<sup>1</sup> for 2009 then we will 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% then we will not recommend a fare change prior to 1 July 2010.

In the event that this threshold is met and fares are changed, we consider 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 October 31 compared with the average daily price for the 11 months to April 30.
- ▼ 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 fare change should be implemented by 1 January.

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<sup>1</sup> The TCI measures the average increase in taxi costs. It consists of a weighted average of the major costs facing taxi drivers and operators. Attachment A provides more detail on the TCI.

- ▼ 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.

We decided that we 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**

We will only consider increases in fuel prices, as part of our mid-year review. We 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, we will not undertake public consultation.

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

- ▼ our mid-year fare recommendations to the Minister, if the 10% threshold is exceeded
- ▼ the change in fuel costs for the 6 months to 31 October compared to fuel cost for the 11 months to 30 April 2009 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 once the review is complete.

### **Circumstances under which a fare change will be recommended**

The current TCI incorporates a fuel cost for the 11 months to 30 April 2009 based on 67.1 cents per litre (ex GST) for country areas and 57.1 cents per litre (ex GST) in urban areas. Once data to 31 October 2009 is available, we will compare the average price over the six months to 31 October with these fuel prices. A fare change will be recommended if the price has changed by more than 10% (up or down). A 10% 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	67.1	60.4	73.8
Urban	57.1	51.4	62.8

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 fare.<sup>2</sup>
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.

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<sup>2</sup> The weightings are 6.85% for country and 7.24% for urban.

## A How the TCI works

The TCI is intended to measure, in percentage terms, how much the overall cost of providing taxi services has changed in the review period. It does not measure the actual costs of any particular taxi. The output of the TCI is a percentage increase or decrease; it is not a cost figure in dollars.

The TCI consists of a basket of taxi cost items – such as LPG fuel, notional drivers' wages and insurance costs. These items are weighted according to the proportion of the overall cost of providing taxi services they represent. We updated the TCI weights in 2007, based largely on the results of an industry survey of costs conducted by PricewaterhouseCoopers (PwC). We decided that those weights, adjusted each year for changes in the relative costs of the costs items, would apply for the next five years.

Each cost item has a relevant 'inflator'. The inflators are selected on the basis that they provide the best available indication of how the cost item changes over time. Wherever possible, we have selected inflators that are based on publicly available information. The inflator for LPG fuel costs, which is the focus of the mid year review, is LPG price information obtained from Fueltrac, an independent observer of fuel prices.

At the start of each review, IPART establishes the relative weighting for each cost item in the TCI, and its relevant inflator. It then establishes the change in that inflator over the review period, and multiplies the weighting by this value, to establish the contribution of any increase or decrease in the cost item since the last review to the overall change in the cost of providing taxi services. Both the weighting of the cost item and value of the inflator affect its contribution to this overall change.

As part of the mid year review, the change in all cost items except for fuel is ignored and the product of the change in LPG costs and the LPG cost weighting equates to the change in the TCI. The table below sets out a simplified example of the TCI calculation for the mid year review.

**Table A.1 Illustrative example of how the change in the TCI is calculated**

Cost item	Weighting at start of the review	Change in relevant inflator	Calculated contribution to change in the BICI
	%	%	%
Labour	40	0.0	0.0
Fuel	30	15.0	4.5
Insurance	20	0.0	0.0
Maintenance	10	0.0	0.0
Total	100	-	4.5

