

Mid year review of fuel costs for taxis in NSW - 2009

Recommendations to the Minister for Transport

Transport — Statement of reasons

December 2009



Independent Pricing and Regulatory Tribunal

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Contents

1	Introduction and overview	1
2	Process of the mid year review of fuel costs	2
3	Change in LPG costs since April 2009	3
4	Recommended fare change	4
5	Impact of the mid year adjustment on the 2010 review	5
	Appendices	7
	A How the TCI works	9

1 Introduction and overview

The Independent Pricing and Regulatory Tribunal of NSW (IPART) investigates and reports on prices for taxi services in NSW according to an arrangement with the Premier. We review taxi fares annually and recommend changes to the Minister for Transport.

In order to address stakeholder concerns regarding fuel price volatility, we have decided to undertake a mid year review of fuel costs and to recommend a mid-year fare change if LPG prices have increased or decreased significantly from the average price included in our annual review of taxi fares.¹

IPART has now finalised its mid year review of fuel costs. LPG prices have fallen significantly since early 2009 and as a result, we have made recommendations to the Minister to decrease taxi fares in both urban and country areas.

This statement of reasons explains our recommendations and the reasons for them.

We found that LPG prices have fallen by 14.0% in urban areas and 12.5% in country areas. Applying the change in fuel costs results in a reduction in taxi costs, as measured by the Taxi Cost Index (TCI) – see Appendix A. This equates to a reduction in the average fare that passengers should pay of 0.9% for urban taxis and 0.7% for country taxis.

In order to achieve this, we have recommended to the Minister for Transport that the distance charges of taxi fares should decrease in January 2010, as follows:

- ▼ from \$1.93 per km in urban areas to \$1.90 per km
- ▼ from \$1.98 per km in country areas to \$1.95 per km for the first 12 kilometres travelled, and from \$2.76 per km to \$2.74 per km for each kilometre after the first 12 kilometres.

These reductions would ensure that passengers do not pay more to use taxis than the amount required to cover the costs of providing the service. All other components of the existing taxi fare would remain unchanged.

The new recommended taxi fare components including these changes are set out in Table 1.1 below.

¹ IPART, *2008 Review of taxi fares in NSW*, June 2008.

Table 1.1 IPART's recommendations on fare components

	Urban	Country
Flag fall (\$)	\$3.20	\$3.70
Distance charge/Tariff I (\$ per km)	\$1.90	\$1.95
Distance Tariff II (\$ per km) ^a	n/a	\$2.74
Night-time /holiday surcharge ^b	20% on top of distance rate	20% on top of distance rate
Waiting time (\$ per hour)	\$50.00	\$51.02
Waiting time threshold speed (km)	26km per hour	26km per hour
Booking Fee (\$)	\$2.10	\$1.10
Maxi cab surcharge ^c	50% on top of fare	50% on top of fare

^a Applies to each km after the first 12km in country areas. The first 12 km are at the normal distance charge (tariff I).

^b The night-time surcharge applies to journeys commencing between 10pm and 6am. The holiday surcharge (country areas only) applies to journeys commencing between 6am and 10pm on Sunday or a public holiday.

^c No surcharge applies where the maxi-cab is hired from a taxi zone or hailed on the street to carry up to 5 passengers.

2 Process of the mid year review of fuel costs

In response to the significant volatility in LPG prices seen over the past 2 years, we decided that we would review LPG prices midway between annual fare reviews to ensure that fares can continue to reflect the costs of providing taxi services. We decided that if fuel costs in the 6 months following the annual review have varied by more than 10% (up or down) from the average daily price included in the TCI then we would recommend that the Minister adjust taxi fares by the change in the fuel costs plus the cost associated with an additional meter change. If average fuel costs had changed by less than 10% then there should be no fare change.

In the event that the threshold is met and fares are changed, the mid year review is conducted so that:

- ▼ the change in the fuel component is equal to the average daily price of LPG (as recorded by FUELtrac) for the 6 months after the annual review compared with the average daily price included in the 2009 taxi cost index
- ▼ no change is made to the components of the taxi cost index other than the LPG fuel cost item
- ▼ the change is applied to the distance-based component of taxi fares only and incorporates the cost of the additional meter change
- ▼ a fare change is implemented by 1 January (subject to how quickly meters and stickers can be updated).

In October, we released a fact sheet to help interested stakeholders understand the method of conducting the mid year review.

In line with the approach set out in the fact sheet and described above, we have now undertaken the mid year review of LPG costs and have formulated our recommendations.

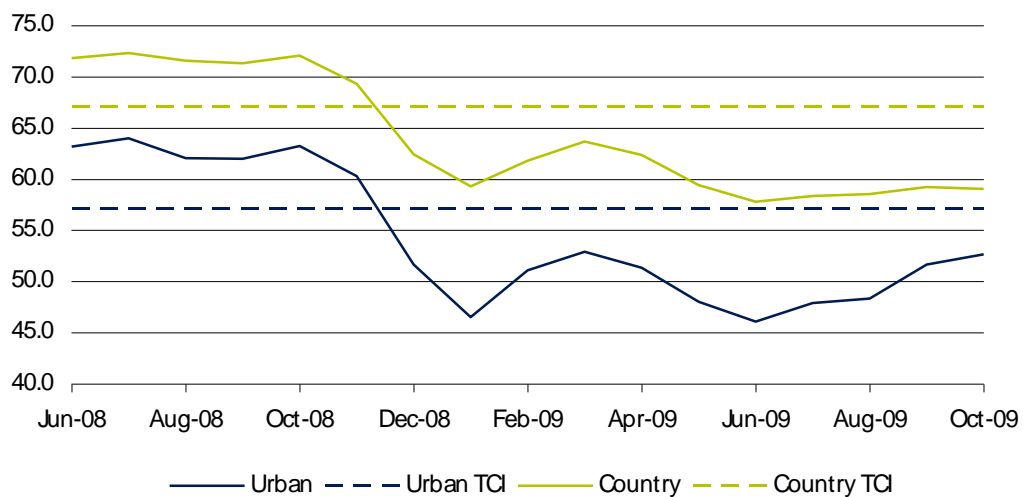
3 Change in LPG costs since April 2009

The current taxi cost index 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. We obtained daily LPG prices for country and urban areas for the 6 months from 1 May 2009 to 31 October 2009 from FUELtrac. The average LPG price over this period was 58.7 cents per litre for country areas and 49.1 cents per litre for urban areas (ex GST). This represents a decrease in fuel costs of 12.5% (country) and 14.0% (urban).

As LPG prices have changed by more than 10% in both urban and country regions, we consider that a mid-year fare change is warranted.

Figure 3.1 below shows the daily fuel cost for the period June 2008 – October 2009 in comparison to the average fuel cost included in the 2009 taxi cost index.

Figure 3.1 Daily fuel costs, June 2008 – October 2009



Note: Figures are ex GST. The urban and country TCI categories represent the average LPG price for the 11 months to 30 April 2009 included in the taxi cost index.

The mid year review compares fuel costs from May 2009 onwards to the fuel costs from the 2009 TCI.

Data source: FUELtrac.

4 Recommended fare change

Consistent with the approach set out in Section 2, we have calculated the recommended fare change for the mid year review as follows:

1. Multiplied the percentage change in the LPG price by the current LPG cost weighting to obtain the recommended percentage decrease required to the average fare.
2. Determined the recommended average fare by applying the percentage change (calculated in 1 above).
3. Added \$0.03 to the average fare to adjust for the additional meter change required.
4. Calculated the new distance charges that result in the recommended average fare.

Table 4.1 records the results of this process in the mid year review.

Table 4.1 Approach used to calculate new recommended distance charges as a result of lower LPG prices

	Urban	Country
Percentage decrease in fuel costs	14.0%	12.5%
Weighting of fuel in TCI	7.24%	6.85%
Current average fare	\$21.84	\$17.15
Current distance rate	\$1.93/km	\$1.98/km
Decrease in average fare to compensate for lower fuel costs ^a	14.0% x 7.24% = 1.0% in dollars: 1.0% x \$21.84 = \$0.22	12.5% x 6.85% = 0.9% in dollars: 0.9% x \$17.15 = \$0.15
Dollar decrease needed to average fare ^b	\$0.22 - \$0.03 = \$0.19	\$0.15 - \$0.03 = \$0.12
Recommended average fare	\$21.84 - \$0.19 = \$21.65	\$17.15 - \$0.12 = \$17.03
Method to work out new distance rate ^c	Keeping all other fare components constant, adjust distance rate so that: 5mins x waiting time charge + 20% x booking fee + 20% x night surcharge + 7km x distance charge = \$21.65	Keeping all other fare components constant, adjust distance rate so that: 3mins x waiting time charge + 65% x booking fee + 15% x Sunday surcharge + 5km x distance charge = \$17.03
Recommended distance rate	\$1.90/km	\$1.95/km

Note: Figures have been rounded.

^a The decrease due to fuel costs does not include the change in the average fare due to the additional meter change.

^b The new average fare consists of the decrease due to changes in the cost of fuel as well as an increase of \$0.03 per trip to compensate for the additional meter change.

^c This is based on the current average fare assumptions and current fare components, varying only the distance rate. The urban average fare is 5 mins of waiting time, 7 kilometres travelled, 1 in 5 trips booked and 1 in 5 trips done under night time surcharge. The country average fare is 3 mins of waiting time, 5 kilometres travelled, 65% of trips booked and 15% of trips under the Sunday/holiday surcharge.

Based on the above calculations we have recommended decreases in the distance rates as follows:

- ▼ from \$1.93 per km in urban areas to \$1.90 per km
- ▼ from \$1.98 per km in country areas to \$1.95 per km (Tariff I).

We have also recommended decreasing the Tariff II distance rate for country fares which is a per km charge charged for all kilometres travelled after the first 12 kilometres. This charge is set outside the average fare, so we have decreased it by the percentage decrease in the TCI as a result of the lower fuel costs, that is, excluding the cost of the meter change (in this case, 0.9%). This is consistent with changing only the distance charges and ensures that passengers travelling longer trips obtain some benefit from the lower fuel costs. This approach is also consistent with the method used to change the tariff II distance rate in the 2009 taxi fare review. For the mid year review, a 0.9% decrease in the tariff II distance rate results in a decrease of 2 cents per km, from \$2.76 per km to \$2.74 per km.

5 Impact of the mid year adjustment on the 2010 review

If fares are changed as a result of our recommendations, this will have no bearing on the annual review of taxi fares conducted in 2010. We expect this review to be conducted as normal, as if no mid year fare change had occurred. Taxi costs will be compared with the costs in the 2009 annual fare review in order to calculate the 2010 taxi cost index. The new fares will then be calculated by applying the 2010 taxi cost index to the fares current at 1 July, 2009. In this way we avoid double counting any fare change resulting from the mid year review of LPG costs.



Appendices

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 5 years.

Each cost item has a relevant 'inflater'. 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

