

30 May 2008

Mr James Cox
Chief Executive Officer
IPART
PO Box Q290
QVB Post Office NSW 1230

SUBMISSION TO THE NSW INDEPENDENT PRICING AND REGULATORY AUTHORITY

1 BACKGROUND

The Austaxi Group (formerly MACT Holdings Company Pty Ltd) is one of Sydney's largest taxi operators and owners of wheelchair accessible taxis. The Austaxi Group owns leading brands such as Lime Taxis, Apple Taxis, VIP and GPS Cabs. We welcome the opportunity to provide this submission to IPART.

The taxi industry plays a pivotal role in the provision of transport in Sydney. However, from an economic perspective it has all the hallmarks of an immature market place – with low levels of competition, unstable and uncertain returns for investors, a lack of rational information on which to base decisions and a complex regulatory regime.

We understand that for IPART to make rational pricing decisions in an economically immature marketplace is difficult. Therefore, the Austaxi Group offers to provide sensitive business information on taxi operations to the regulator in camera and on a confidential basis.

The Austaxi Group has read the findings of the most recent IPART Interim Determination. We are not in a position to either agree with or reject the headline finding that taxi fares should increase by 3.8%. This is a matter for the regulator but we generally support the structure of the model that has been used to arrive at this estimate. We are however concerned with the quality of information (especially the significant variations between respondents) that is used in IPART's pricing models. Poor quality information leads to sub-optimal pricing decisions. While the Austaxi Group is happy to provide IPART with information on a confidential basis, it is vitally important that an independent data warehouse be developed to provide the regulators with broad and reliable information on which they can base their pricing decisions.

With respect to the report there are some key issues we would like to briefly provide comment on.

Creating Certainty and Regulatory Best Practice -Wheelchair Accessible Taxi Leases, Investment and Earnings Potential

We noted with interest the discussion section on Wheelchair Accessible Taxis. The Austaxi Group owns the leading accessible taxi brand – Lime Taxis. Lime Taxis cost well in excess of \$10 million to develop in infrastructure alone. It has now been in operation for more than 12 months and we have directly experienced many of the issues that IPART are now raising in the discussion points.

A Lime Taxi (Mercedes Benz Vito) cost \$97,000 to put on the road fully fitted. Other WATS can cost as low as \$70,000 such as Toyota Taragos. The investment in an accessible vehicle is roughly twice the value of a standard taxi. This investment generates more positive externalities than a standard taxi (such as transport for the disabled) and the conventional wisdom is that the NSW Government has offered annual leases for a “discounted” value of \$1,000 per annum.

The situation is far more complex than this.

The regulatory regime significantly limits the earnings potential of a WAT compared to a normal taxi through issues such as restrictive change over times, requirements to be connected to two bookings services and specific and limited wheelchair training courses.

The leases also reduce certainty for the investor with prescribed targets for wheelchair jobs being provided and the ability to have the license withdrawn on an annual basis.

There is a significant misalignment between the substantial upfront investment and the level of operating certainty and earnings potential – even with a “discounted” lease fee.

We have proven in our own business that it is more profitable to lease a standard taxi plate and purchase a standard vehicle to operate a taxi – even paying annual plate lease fees of more than \$20,000 per annum.

This problem creates an under investment in assets that generate positive social outcomes.

There must be an alignment between the investment, operating certainty and earnings potential for this asset class to work. We strongly support the view of the NSW Taxi Council proposing longer-term leases of WAT plates, we would suggest reflecting the statutory life of vehicle. This would resolve the operating certainty problem to a large extent.

We would also recommend that differential pricing models be explored for these WAT leases to resolve the earnings potential problem. If an operator chooses to service a large number of wheelchair jobs per annum then their lease price would be discounted to reflect the social benefits generated from such an activity. If they didn't then they should pay a market-based lease (same as a standard taxi) less the amortised value of the initial capital investment.

These leases should be also be transferable to provide exit options for an investor to ensure there is no lock-in effect to the investment.

“Discounted” Annual WAT Leases and the Lift Incentive

We believe that “discounted” annual lease fees issue has been confused as somehow being related to the lift incentive scheme presently being provided on trial by the New South Wales Government. The annual WAT lease gives rise to major distortions so as to render any discount illusory. Wheelchair jobs are typically short jobs that require substantial amounts of dead running and loading and unloading times. When we started the business it was difficult to get drivers to cover wheelchair work because it was unprofitable (on top of the other earnings limitations). With the incentive more jobs were covered. Under existing market conditions, the incentives are not about investment or even operating a taxi they are about reflecting the true cost of providing and covering wheelchair jobs. We would therefore support the continuation of the scheme in the absence of changes to leasing and regulatory arrangements for WATs that aligns investment, earnings potential and operational certainty.

2 PREMIUM BOOKING FEE – PART OF THE ISSUE

The issue of premium service booking fees was also raised in the paper. We also support the view of the NSW Taxi Council in this regard. We do believe that if a premium price can be charged there is a higher probability that operators will invest in better quality vehicles and provide customers with more choice. In the longer term, competition for customers should keep the booking fee at a reasonable level and improve the overall level of service to the customer. We understand that this fee is already being charged in many “trunk” operators’ taxis and customers are willing to pay.

3 ...THE REAL ISSUE – OVERALL FARE STRUCTURES TO IMPROVE MARKET PERFORMANCE

There is a broader issue that impacts on the taxi industry but not at the premium price end of the market. There will be some customers willing to pay more but most want reductions in taxi fares. Taxi drivers also need a sustainable living wage and operators need to meet ever-increasing costs of the vehicle.

Price ceilings and floors in general leads to the underutilisation of capital assets. In peak times there are never enough taxis available and in off peak times there are often too many. Pricing signals should be further explored to improve utilisation of fleets and assets. IPART should investigate ways that price differentiation lead to better fleet utilisation rates.

For instance, in off peak customers could ask for a fixed fare from the network and they in turn could auction the job at a discounted rate – similar to the airline industry. During peak times if a customer wanted a taxi urgently the job could also be auctioned and charged at a premium rate above the price ceiling. Should the customer not be happy with the outcome then the network could revert to the regulated price and they would have to wait longer for the taxi.

Typically, there are calls for deregulation of the industry through taxi plate releases. There are also different types of plates issued for peak and off peak periods. This is not really a solution to reducing prices and increasing passenger volumes because prices are fixed by regulation and all it will lead to is lower utilisation of taxis in general. Our view is that pricing mechanisms are a far more effective means to create competition and create increased utilisation of fleets. Only then can drivers’ takings increase while customer prices are reduced as a whole.

The headline fare increases as recommended by IPART are so contentious because they can potentially distort incomes and fleet utilisations while trying to protect consumers. Our view is that while IPART is doing the best it can with its brief and terms of reference –those fares should be used as a consumer safety net not as a regulated price. These prices could be used for street pick-ups or rank pick-ups to avoid price gouging or touting. However, it may be worthwhile investigating Networks having the flexibility to set prices based on fleet utilisation rates.

New bookings and dispatch technologies being implemented in most Sydney Networks make it possible for networks to view utilisations and dispatch on set fares.

At present, unregulated taxi trunk groups are circumventing taxi networks. The reason for this is that the trunk groups are often setting prices outside of the regulated fare structure and can provide a better service because of the higher prices. Trunk groups rarely offer prices below the regulated fare structure.

If Governments are serious about the integrity and robustness of their regulatory frameworks they should more heavily rely on pricing mechanisms to produce better outcomes for consumers and the industry in general. This has worked in the aviation and telecommunications sectors and we can see no reason that it wouldn't work in the taxi industry. Without such an approach there will be further circumventing of the existing regulatory framework through trunk networks and even hire cars.

4 RECOMMENDATIONS

The Austaxi Group welcomes the opportunity to provide a supplementary submission to IPART and in summary the submission recommends the following:

1. An information data warehouse be established for the taxi industry that is collected compiled and collated from a source independent to the Ministry of Transport, networks, drivers and operators to provide reliable and credible statistics on industry performance.
2. A review of WAT licences be undertaken to align the regulatory environment, earnings potential, operational certainty and upfront investment.
3. In the absence of any changes in the WAT regulatory environment the lift incentive should be retained.
4. A comprehensive review of regulated fare structures be undertaken with a view to setting a regulated fare as a consumer safety net – for street hires and rank pick ups. Consideration should be given to Networks setting fares directly with passengers through the regulated network booking system.

Should IPART have any issues they wish to discuss regarding this submission or further information, I can be contacted on 02 9578 8100 or Stephen.albin@limetaxis.com.au.

Yours sincerely
THE AUSTAXI GROUP

STEPHEN ALBIN
Managing Director
May 30, 2008