THE TAXICAB PARATRANSIT ASSOCIATION OF CALIFORNIA’S INITIAL
COMMENTS TO THE ORDER INSTITUTING RULEMAKING ON REGULATIONS
RELATING TO PASSENGER CARRIERS, RIDESHARING, AND NEW ONLINE
ENABLED TRANSPORTATION SERVICES

I. INTRODUCTION

The Commission has announced its institution of rulemaking on regulations relating to, \textit{inter alia}, the “online enabled transportation services” represented by such operations as those by Uber Technologies, Inc. and its related companies, as well as several other services designed to provide on-demand transportation services while skirting established rules and regulations governing such operations. This is not a small matter. The Commission’s proposed rulemaking highlights serious issues relating to the circumvention by quasi-taxicab operations of longstanding regulatory structures created by local taxicab authorities, and the potential usurpation of this jurisdiction by the Commission. Moreover, the Commission’s rulemaking, and the decisions it may lead to, have direct and serious implications for major issues such as the safety of the public (both as passengers and as motorists), the availability and cost of services in lower income areas, protections against rogue operations and predatory pricing, the financial and service accountability of these “new technology” passenger transportation providers.

The Taxicab Paratransit Association of California (“TPAC”) is a nonprofit trade association formed in 1968 to represent the interests of operators comprising the taxicab/paratransit industry of
the state. Member companies range from the largest fleets to small owner operated firms. TPAC’s interests include the public perception of the on-demand transportation industry and the fairness of regulations designed to protect the public's personal safety and financial interests as well as access to such services. It is because of these interests that TPAC urges very careful consideration of the implications of its proposed rulemaking, which could seriously and negatively impact each of these areas of public concern.

The business models put forward by the companies providing “Online Enabled Transportation Service” (“OETS”)1 for passenger carriage in California seem to change with alarming regularity. However, in their current configuration, they seem to be made up of two groups: 1) The Uber-type operations which claim to be “referral services” but which actually require their contracted charter party drivers to operate as bandit cabs by mandating the use of non-certified, GPS-based “metering” to charge according to mileage (and time); and 2) the for-profit “ridesharing” services (such as Lyft and Sidecar)2 which purport to solicit mere “donations” but which actually feature a “passenger rating” application which will allow the exclusion of passengers whose “donations” are not high enough according to the “suggestions” or expectations of the providers. Neither the Uber-type bandit cab operators nor the sham “donation-based” ridesharing companies are new service models. They are merely illegal operations within existing models. The first group (the Uber-type operators) falls squarely within the regulatory authority of existing local taxicab regulators. The second group is simply composed of illegal, sham “rideshare” operators that should be shut down as such by the Commission. The almost-mockingly transparent artifice of asserting that a for-profit enterprise is operating solely on “donations” should not be endorsed by the Commission. Neither of these types of operations is significantly distinguishable from the typical rogue, bandit taxicab operations which have been the focus of many recent eradication efforts by local and statewide regulators. The Commission itself is no stranger to the harm caused to the public interest by such bandit operators. The OETS operators like Uber and Lyft are merely the latest incarnations of this “pirate” mentality.

Neither of these groups should be permitted to operate without compliance with existing regulations. To permit unregulated operations (or even “special operational status) for these companies would place the public at risk for excessive and “surprise” fare adjustments, put local regulators in jeopardy of losing control over passenger operations within their jurisdiction, and risk

1 OETS smart-phone applications should not be confused with applications such as “Rocket Taxi” or “Call A Cab” which are used in connection with transportation by municipally licensed and regulated taxi companies.

2 These operators are actually “for-profit” both at the enterprise level, and the driver level.
denying (or increasing the price of) needed services in lower income areas.

As shown below, many of these consequences might be prevented - or at least reduced - by requiring these operators to comply with the rules and regulations applicable to the type of on-demand passenger transportation services they are providing. Most OETS operators seem to be running *de facto* taxicabs, using a non-certified, GPS-based “meter” and otherwise skirting local regulations that have been developed to meet the safety, service and pricing needs of their communities. In such situations, this commission would lack jurisdiction for rulemaking, and should merely declare that such operators are “taxicabs” and must comply with the applicable taxicab regulations in the communities in which they operate. On the other hand, some operators seem to currently be run as transportation charter party (“TCP”) operations, but illegally providing *on-demand* transportation.

This raises another major issue with the use of TCP carriers to perform the OETS transportation – the lack of a true “pre-arranged” transportation agreement. PUC regulations state that TCP carriers must provide only pre-arranged services and must have a waybill. Some OETS operators have asserted that this pre-arrangement can take place in an on-demand context (in other words pre-arranging pick-ups within an hour of requesting service). But such an interpretation flagrantly disregards the letter and the purpose of PUC regulations on the matter. The pre-arrangement requirement protects the public by making TCP transportation, which involves an unregulated rate structure, available only in the context of truly arm’s-length contracts for service – and not the hustle and flurry of last minute travel arrangements, where the potential for abusive rates increases exponentially. The Commission must give due consideration to the negative implications of any rulemaking which weakens the long-standing “pre-arrangement” requirement for TCP travel.

Obviously, this is a situation that demands clarification by the Commission, for the benefit of the public as well as the municipalities within the state. Is the Commission is asserting jurisdiction over OETS operations, or will regulatory jurisdiction over these *de facto* taxicabs will remain with

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3 In *People ex rel. Freitas v. City and County of San Francisco* (1979) 92 Cal.App.3d 913, the court noted that “the Legislature intended to exempt taxicabs from state regulation. ... [T]he [PUC] had consistently taken the position that its jurisdiction did not extend to the regulation of local taxicabs and for that reason it had never attempted to regulate their operation. (*People v. Western Air Lines, Inc.* (1954) 42 Cal.2d 621, 641.)” In cases where taxicab operations are *not* locally regulated, the law would seem to permit the Commission to act as the regulatory authority. See *Golden State Transit Corp. v. City of Los Angeles* (1984) 726 F.2d 1430, 1433-1434 [“We are convinced that the California Supreme Court will hold taxicabs are within the coverage of the Passenger Charter-Party Carriers’ Act because taxicabs fit squarely within the statutory definition of a carrier subject to state regulation. See § 5360. We find no evidence of a legislative intent to exclude taxicabs from the statute's coverage. We believe that under section 5353(g) if a city does not license or regulate taxicabs, the state commission has the authority to do it.”].
the municipalities? These operators, at a minimum, should be required to comply with the PUCs licensing and regulatory requirements of such operations, and barred from providing transportation unless fully compliant with all laws banning meter-based fares for such carriers. A more detailed discussion of these matters is set forth below.

II. WHAT IS AN “ONLINE ENABLED TRANSPORTATION SERVICE”? 

The “Online Enabled Transportation Services” (“OETSs”) use smart-phone applications to run operations that essentially act as taxicab companies by arranging and dispatching automobiles on demand to users. The OETSs contract with drivers in every market to provide the service as subcarriers.4 OETSs seek to operate in a jurisdicctional never-land between established local taxicab regulators and non-metered carriers regulated by the PUC. Companies such as Uber, Lyft, Sidecar, SnapCab, and Hailo try to cherry-pick the most financially favorable aspects of multiple classifications of passenger transportation carriers, including the per-mile variability of fares associated with taxicabs, and the lack of local regulation and/or formal metering and service availability requirements that characterize TCP operations, but with the ability to operate without waybills or pre-arrangement. Thus, OETSs utilize TCP-licensed subcarriers that then operate as for-hire vehicles but charge fares based upon unregulated GPS smart-phone applications instead of locally certified taxi-meters. Some of these operators create the consumer impression of a taxicab, but try to circumvent local regulators by claiming status as mere referral services while simultaneously creating their own fare and service structures built into their proprietary smart-phone applications. Others claim status as ridesharing services while ignoring statewide laws and regulations applicable to such services – including the requirement that they operate not-for-profit. OETSs do not meet the requirements of either the municipal regulated taxicabs or those vehicles regulated by the PUC.

This is a major public policy concern of TPAC. It should be the focus of the Commission to clarify that the operations of these OETSs are, in reality, GPS-based metered “taxicab” services and that they must comply with applicable local regulations relating to such services. The current climate of uncertainty regarding these companies has created an untenable unsafe environment for consumers and motorists, as well as a destabilizing effect on local regulators and those operating legal and regulated taxicab and other passenger transportation companies.

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4 The term “subcarrier” is used throughout this paper to identify those drivers within California markets that operate as service providers for OETSs.
III. AREAS OF CONCERN

A. Jurisdiction

OETS operators operate as “on demand” services and therefore fail to comply with the legal requirements for operation as a Transportation Charter Party (TCP). Providing on-demand passenger service on the highways is the exclusive province of PSC operators. In either case, jurisdiction over such operations falls within the authority of the Commission.

However, the OETS operators in large part are running *de facto* taxicab companies, using GPS as their “meter.” In most local jurisdictions, taxicab rules and regulations have been enacted. Such local taxicab regulators have developed sophisticated regulatory frameworks in which taxicabs can operate for the greatest benefit to their constituents. The mission of these local regulators involves a complex balancing of the public’s many interests in assuring that services are available to the greatest numbers of persons, that the public is protected from physical harm and potentially devastating financial damage from unsafe or marginal operations, and also guaranteeing that the municipality obtains a fair fee for operations within its boundaries.

There are many serious concerns which are typically addressed by local taxicab regulators, and which are tailored to the very specific needs of their communities. These include such fundamental matters as:

1. The balance of supply and demand;
2. Ensuring that drivers are screened as appropriate for that locality;
3. Ensuring that the vehicles used and services provided meet local quality concerns;
4. Promoting “green cab” and sustainability issues;
5. Promoting non-discrimination policies, including assuring access to those without access to credit cards, economically depressed areas, and persons with physical and mental disabilities;
6. Promoting the economic health of local travel and tourism industries, ports, railways, public transportation and airports; and,
7. Ensuring that its taxicab companies are regulated to protect the public health, safety, and welfare, *as required by law* (See Gov. Code §53072.5), and avoiding the well-known adverse consequences of deregulation, including loss of services.

Such local regulations typically ban such operations unless their meters and fares comply with basic visibility, accuracy and inspection rules. In cases where municipalities have enacted local regulations for taxicab operation, this Commission would lack jurisdiction for rulemaking, and its

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5 See Gov. Code § 53075.5 [cities and/or counties must regulate taxicab operations within their boundaries.]
authority would be limited to a declaration that such operations must comply with the applicable taxicab regulations in the communities in which they operate.

Meanwhile, of course, PUC has enacted a framework of regulations designed to address public interests in regard to non-metered, tariff- or contract-based passenger transportation. For instance, to obtain proper certification by the PUC, a company seeking to provide passenger transportation services must, inter alia, establish its: (1) fitness and financial responsibility to initiate and conduct transportation services, (2) ability to comply with rules and regulations; (3) ability to comply with certain hours of service requirements; (4) establishment of a preventative maintenance program for all its vehicles; (5) establishment of a program to regularly check the fitness of vehicles and drivers, and (6) creation of a safety and education program which is in effect for all drivers.6

It must be emphasized, however, that in regard to local taxicab (and de facto taxicab) operations it is extremely important that the Commission not sidestep the well-established role of the municipalities under California law. For the Commission to establish a “safe harbor” in which taxicab-like operations can circumvent local regulations while competing with the companies that do comply will create a situation in which the less-regulated option will completely swallow the traditional, well-regulated option. Precipitous action by the Commission in this regard could well completely undermine the role of the cities in regulating taxicab operations throughout the state.

Significantly, there is no legislative mandate for taxicab deregulation, nor is there a mandate that the Commission become involved in the regulation of the taxi industry. In fact, the Legislature has mandated that cities must regulate taxicab companies operating within their borders. Government Code § 53075.5 provides, in pertinent part, that “every city or county shall protect the public health, safety, and welfare by adopting an ordinance or resolution in regard to taxicab transportation service rendered in vehicles designed for carrying not more than eight persons, excluding the driver, which is operated within the jurisdiction of the city or county.” That statute goes on to lay out in considerable detail the specifics of the taxicab regulations required by the cities.

B. Safety

The primary reason for such heavy regulation of the passenger transportation industry is the need to ensure the safety and convenience of consumers. Among other protections provided by such regulations, public safety is promoted through the screening of drivers providing transportation to passengers, and by ensuring that those who take on the responsibility of transporting people can be

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held fully accountable for their actions.

OETS operators do not adhere to any of these requirements designed to protect the public safety. Although passengers using the services of such operators may assume that they are required to meet basic levels of service, safety and pricing they would be wrong. These companies currently acknowledge no regulatory framework and no legal obligations.

The safety concerns at issue include the following:

**Qualifications of Drivers**

The OETS operators pose a serious threat to the public in that they do not demand the same level of scrutiny of drivers and vehicles that local and PUC regulations require of taxicabs and other carriers. Local taxicab regulations typically provide for stronger driver qualification standards than PUC requirements. Nevertheless even, the PUC requires that “every carrier must inspect all vehicles and maintain proper documentation of such inspections.”7 Moreover, the PUC regulations mandate that all PUC staff has the “right to enter any vehicle or facility … to ascertain if the [PUC] rules and State laws are being complied with and observed.”8 The PUC also requires that all drivers meet the requisite licensing requirements and that all drivers enroll in the “Pull Notice Program” of the Department of motor vehicles.9 In the interest of the public, the PUC requires that all drivers abstain from drug and alcohol use, and that carriers must provide a “mandatory controlled substance and alcohol testing certification program.”10 All of the aforementioned regulations ensure the safety of the consumers.

**Insurance**

Another major problem with OETS operations is ensuring that the drivers possess adequate insurance coverage. Local taxicab regulators and the PUC require that passenger carriers within their jurisdictions hold adequate insurance coverage in order to ensure adequate protection for bodily injury or the destruction of property.11 Because OETSs are not regulated under the PUC, they do not ensure that their drivers are in compliance with local or PUC requirements. In the event of an accident, what level of insurance is required? Who is accountable? Who will make a victim whole or provide redress for the victim’s injuries? For regulated vehicles, existing regulations ensure that

drivers, livers and owners meet regulatory requirements to provide adequate financial protection in “worst case scenarios.” Because OETSs are outside of this protective framework, the public is left unprotected.

**Accountability**

The OETSs are not required to associate with any specific livery or taxicab business license. They parasitically latch onto the typical consumer / service provider relationship, but circumvent the regulated systems designed to meet accountability objectives. Because these operators seek to exist outside of the standard transportation business models, they have largely avoided the jurisdiction of municipalities and PUC regulators. By attempting to carve out a space between jurisdictions, they act beholden to no one and, therefore, accountable to no one.

This is an untenable situation as it creates an unsafe environment for users of the OETS operators’ services. For instance, Uber has been found dispatching a vehicle without the proper insurance or vehicle license and utilizing a driver who did not maintain a chauffeur’s license.\(^\text{12}\) Uber did not incur any liability for the actions of a driver that it dispatched to service a consumer.

The PUC uses a system of accountability wherein both the owner and the vehicle operator are regulated. Thus, per the PUC’s regulations “a carrier shall not use the services of another carrier (sub-carrier) that provides the vehicle and the driver, unless the second carrier holds commission authority as a charter party carrier.”\(^\text{13}\) Implicit in this language is the understanding that both the operating carrier and the sub-carrier are certified pursuant to the PUC’s regulations. **Again, local taxicab regulations are often much more detailed and onerous.** Yet, even though OETS operators are acting in the same capacity as locally regulated taxicabs, they do not comply with the local regulations applicable to the services they are providing. This poses serious concerns for the long term health of local taxi operations in general, as municipalities are left with no access to documents essential for them to fulfill their functions, and must tolerate state-regulated quasi-taxi operations within the boundaries of their existing exclusive control of taxicab operations. In fact, drivers who have been expelled from taxicab programs could find themselves driving for OETS operators, with no regulator aware of what had happened.

Taxi companies are held accountable for the actions of their drivers and PUC regulated companies are accountable for the actions of their drivers as well. This creates an overlapping system


of accountability that ensures compliance with public safety concerns at both the enterprise level (operating carrier) and the vehicle level (sub-carrier). Currently OETS operations circumvent this system. They are accountable to no one.

C. Consumer Protection

Consumer protection issues fall into three general categories: (1) pricing; (2) consumer confusion; and (3) disclaimers.

Pricing

OETS operators dispatch drivers\textsuperscript{14} and charge the passenger for the fare via the OETS operators’ mobile applications. Consumer protection issues arise because OETS operators are not required to meet the standards applicable to other carriers to ensure transparency and accountability. The PUC protects the public interest in the pricing context by requiring all carriers to file tariff schedules with the Commission to ensure that the public is provided with clear information regarding the pricing structure of carriers.\textsuperscript{15}

There is a jurisdictional crossover that occurs as a result of the methods that OETS operators use to charge consumers for their service. The PUC regulations clearly state that carriers are ‘prohibited from using vehicles which have top lights and / or taxi meters’.\textsuperscript{16} Taximeters are heavily regulated devices that are calibrated, tested, and sealed by regulatory authority and require periodic inspections in order to provide accurate fares to the customer. However, OETS operators such as Uber, use subcarriers that fall under the PUC’s jurisdiction even though they charge passengers on a metered basis (based upon distance and mileage). OETS operators rely on GPS to calculate the fares (or disingenuously “guide” the “donations”), thereby using a device functioning in the same manner as a taximeter. Beyond the jurisdictional issues, this poses a significant problem because the use of GPS as a meter is not regulated. Thus, the fares are calculated on a device that mirrors a taximeter but do not meet all of the strict technical requirements imposed on such devices.

Moreover, OETS operators trigger consumer protection issues because they may charge passengers far in excess of the applicable regulatory limits through unregulated methods of calculating fares, or including surcharges that are not allowed under local regulations or those

\textsuperscript{14} The term subcarrier is sometimes used throughout this paper to identify those drivers within California markets that operate as service providers for OETS operators. However, without regulation, it is difficult to know who is actually providing these services – and it can vary without the passengers’ knowledge.


mandated by the PUC. In either case, the pricing of these services poses a significant problem to consumers. For instance, Uber has been known to incorporate demand into their pricing structure.\textsuperscript{17} Thus, on New Year’s Eve 2012, passengers were paying triple digit fares for trips of short distances.\textsuperscript{18} Another example of the significant problem posed to consumers as a result of unregulated pricing methodologies was after Hurricane Sandy, in October of 2012, when Uber began charging extravagant fares to New Yorkers based on demand being built into their fare calculations.\textsuperscript{19}

**Consumer Confusion**

OETSs seek to find a gray area between the jurisdictions of the PUC and the regulatory frameworks of the municipalities. Companies like Uber use TCP subcarriers that bear all of the indications of a vehicle regulated by the PUC, but exclusively use metered fares based on a “proprietary” and unregulated GPS tracking and mileage rate. This conduct obfuscates the distinction between the regulated classes of passenger transportation within cities. Fare regulations serve to protect the consumer and provide the ability to distinguish the services and the transportation markets. OETS operators’ fare calculations lead the user to believe that the service is operating like a taxicab (metered fares via GPS) but the vehicle that used is actually not in compliance with any of the many local regulations applicable to taxicabs. This results in clear consumer confusion.

**Disclaimers**

Most OETS operators require consumers to click, and thereby accept a service agreement before they can use the OETS service. This service agreement, or disclaimer, comes in many forms, but the standardized language requires the consumer to limit the OETS’s liability. Thus language such language as the company shall not “assess the suitability, legality, or ability of any third party transportation provided.”\textsuperscript{20} As discussed above, the PUC regulations are designed to make various entities accountable for the deficiencies of their subcarriers and/or drivers. These service agreements attempt to completely and legally absolve the OETS operators from the obligation of ensuring that their drivers provide adequate service. The PUC expressly places liability on owners and liveries to ensure compliance with regulations intended to protect the public. These service agreements cut against the public policy of ensuring that regulation occurs at the enterprise and the vehicle level.

\textsuperscript{17} http://blog.uber.com/2012/03/14/clear-and-straight-forward-surge-pricing.
\textsuperscript{18} http://dcist.com/2012/01/did_Uber_overdo_it_on_new_years_eve.php.
\textsuperscript{19} http://techcrunch.com/2012/11/01/uber-tripled-number-of-drivers-yesterday-owing-an-extra-100k-in-payments-so-surge-pricing-is-coming-back/.
\textsuperscript{20} See http://www.uber.com.
D. Service

Discriminatory Practices

Most municipalities have enacted regulations that prohibit a taxicab company from refusing to provide services to neighborhoods, or to particular passengers except in specific situations. Because OETS operators are outside of the regulatory framework of the passenger transportation industry, a driver can refuse service to a passenger for reasons that do not fall within the acceptable range of excuses available to carriers. Essentially, these OETS operators use vehicles that are not required to pickup every passenger. This poses a problem because OETS operators are not accountable for actions of their Subcarriers. In fact, many of these operators exacerbate the potential for violation of regulations designed to protect consumers, by allowing drivers to rate passengers. For instance, Uber allows both the driver and the passenger to rate each other. OETS operators create a system wherein people may not obtain service because a negative review, quite likely based on the amount of the “donation” or tip the passenger provided. This is an unacceptable practice which creates an abhorrent class-based transportation system.

Moreover, OETS cater to a specific section of the market thereby discriminating against others. These OETSs require that every consumer possess a credit card and an expensive smartphone. Most of the elderly and poor do not have access to these items. Moreover, OETS operators do not account for disabled passengers. There are no requirements that OETS operators are to provide handicapped accessible vehicles or accept payment via alternative methods. The restrictive nature of OETS operators’ operations makes it difficult for physically disabled persons to use the on-demand service provided by such companies. There is a clear governmental imperative to create a regulatory framework that prevents inequality. OETS operators are free to ignore regulations geared towards ensuring a level playing field for consumers and service providers.

Effect on the Economic Health of the Industry

Because OETS operators blend the two major industries of taxicabs and for-hire vehicles, they possess an unfair competitive advantage that is unhealthy for the passenger transportation industry. With regard to an OETS operator such as Uber, by using for-hire vehicles such as towncars, it is clear that the target market is affluent customers. These types of customers are coveted not only by PSCs but also taxicabs. But, by using towncars to charge at a metered rate, OETS operators are pirating from two markets but gaining a competitive advantage by failing to operate within the applicable legal structures.
A regulated carrier cannot compete with an unregulated carrier. Thus, unregulated operations have a deleterious affect on the health of the local on-demand industry. This is a major concern in municipalities that have worked for years to build a regulatory network that can address the service needs of the community while also protecting the safety, pricing and accountability concerns of their constituents. The goal of most local regulations is to achieve the delicate balance while guaranteeing services. Undercutting the municipalities in their efforts to achieve this balance is a potentially devastating effect of the proposed rulemaking.

IV. CONCLUSION

The issues presented herein have a direct and serious implication for the passenger transportation industry as a whole. The rulemaking contemplated by the Commission must view such major issues as the safety of the public, consumer protection issues, and the quality and availability of service as determinative of the health and viability of the passenger transportation industry in the years to come. The unregulated OETS operators pose a significant threat to the passenger transportation industry and must be adequately addressed. This is best done by treating these operators what they clearly aim to be: taxicab operators. But unfortunately, the OETSs currently conduct their operations in violation of the local regulations that address the public safety and service issues at the local level.

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The Commission should make it clear that these OETS operations are conducting taxicab operations that must comply with local regulations, or they will be dealt with as the bandit operators that they are.

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