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PUC gives a nod to Uber, Lyft, other ride-sharing services

New regulations OK'd by the California PUC effectively legitimize app-driven services such as Lyft and Uber.

By Marc Lifsher, Andrea Chang and Salvador Rodriguez

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SACRAMENTO — California has given the green light to online services that link advertisement passengers with private car owners — a sign that government is adapting to peer-to-peer commerce that's disrupting established industries.

On Thursday, the Public Utilities Commission unanimously approved new rules to support on-demand ride-sharing services such as Uber, Lyft and Sidecar. The vote makes California the first state in the nation to formally endorse and regulate such services, which have taken off in big cities as an alternative to driving or hailing taxis.

Consumers book and pay for rides using the companies' mobile apps. They often pay less than they would for a typical taxi. Drivers are average people looking to make a little extra money on the side.

Under the new rules, ride services must apply for a permit and comply with safety requirements such as driver background checks, vehicle inspections and insurance coverage.

Previously, such ride-sharing services had operated in a gray area that led to complaints from taxi companies and attempts by local governments to shut them down.

Thursday's PUC vote in San Francisco effectively legalized and legitimized ride-sharing by creating a new regulatory category in which they can operate.

"We are making history here today!" tweeted Sidecar co-founder and Chief Executive Sunil Paul.

California's endorsement of ride-sharing is a recognition of the rise of the "sharing economy," in which people are using the Internet to rent out their vehicles, spare bedrooms, camping equipment and other possessions that they use only part of the time.

Technology has made it easy for consumers to avoid established companies and rent goods and services from one another. Home rental site Airbnb, for example, now offers more rooms than many hotel chains.

Government regulators have been playing catch-up. Some industries have pressured authorities to crack down on these operations, which they contend aren't subject to the same rules and regulations.

But California's vote signifies that sharing companies can be confident that they can stay in business and expand operations, said Michael Pachter, a research analyst at Wedbush Securities. The decision, he said, will open up the playing field for other entrepreneurs to jump in and start their own sharing companies.

Analyst Jeremiah Owyang, who follows the sharing economy for Altimeter Group, concurred.

The PUC vote marks "a huge shift to the economy," he said. "It's really simple: It means the crowd is becoming the company. People are empowered to get what they need from each other rather than from inefficient institutions."

As ride-sharing grows, it could lead to less traffic, fewer car loans, lower auto sales and less crowded parking lots, Owyang said.

UCLA transportation researcher Juan Matute said California's ruling will influence policy in other states that are trying to balance the growing popularity of the apps with the demands for regulation.

"A lot of what we do is a model for other states," Matute said. "We have the resources to engage in a comprehensive rule-making process that's very public. This will definitely help other states that are looking to do something similar."

Taxi operators, however, denounced the PUC decision, contending that it fosters unfair competition from loosely regulated, non-professional hacks essentially driving rogue taxis.

"This is an existential threat," said Mark Gruberg of the United Taxicab Workers of San Francisco. "It's hard to see how the taxi industry with its rules and regulations and responsibilities can compete with a service that has none of those requirements."

Gruberg predicted that the PUC decision would face a legal challenge. But some technology experts said they're fighting a losing battle.

"It's a trend we're going to see everywhere," said Uday Karmarkar, a technology and strategies professor at UCLA's Anderson School of Management.

He said ride-sharing and similar services break down monopolies, democratize the marketplace and boost service quality.

Ride-sharing fans across Southern California welcomed the PUC decision.

West Hollywood resident Laura Hunt, 41, praised Lyft as safe and convenient.

"I don't like dealing with parking — just finding parking and then the meter, all of that stuff," she said. "I use Lyft for a variety of reasons."

Ride-sharing, if it spreads, could foster more community, especially in the car-crazy, sprawling Los Angeles basin, said Suzy Mae, 31. "Los Angeles' car culture tends to make people disassociate from each other," she said. "Sharing services help reverse that."

The PUC's relatively speedy move to regulate this new urban transportation mode sets a precedent for other states and, more important, validates the new sharing economy, said Michelle Carter, a 40-year-old actress and Lyft driver.

"You develop relationships and cultivate relationships with people that you normally wouldn't," she said. "And that's why I think it's really groovy."

Ensuring safe operations for drivers, riders and the public is essential for ride-sharing to develop as a business, said PUC Commissioner Mark J. Ferron. Now, he said, it's up to the insurance industry to come up with the mix of coverages for both the companies and the drivers to serve this new market.

But insurance could turn out to be ride-sharing's Achilles' heel, predicted San Francisco taxi driver Ron Walter. "This is not some sort of carpooling scheme or bicycles," he told the PUC. "This is a commercial business ... and these people have much lower costs because they are relying on personal insurance. They did not tell the insurance companies they have a commercial business. When the insurance companies found out, they canceled them."

The commission is prepared to deal with ongoing uncertainties by revisiting the ride-sharing issue in a year because "the rules need to evolve," Commissioner Carla J. Peterman said.

In the meantime, drivers of both ride-sharing services and taxis should "go back on the road and be respectful of each other," she said. "Taxis provide a valuable service to city and state, and there's room for both of these types of companies going forward."

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