

Network Benefits and Competition – the British Experience



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Agenda

- UK Rail Reform 1994- 2008
- Protecting Network Benefits
- Experience of competition
- Timetable integration
- What recommendations for Germany?

Michael Schabas

- Background in transport consultancy
- Founded GB Railways Group Plc 1994
- Anglia Railways franchise 1996
- Co-founder GSR (Australia) 1997
- Founded GB Railfreight, Hull Trains 2000
- Acquired by FirstGroup Plc 2003
- Now returned to consultancy

UK Rail 1994

- State owned, but “commercial”
- Market fares; profitable intercity routes
- 25 train operating units (5 intercity, 10 London commuter, 10 regional)
- Systems to incentivise management for revenue and operational performance
- Government unwilling to provide capital

UK Rail 1997

- Railtrack (=DB Netz); floated
- 25 passenger TOCs, franchised
- 75+ other companies performing various services
- Systems to incentivise management for revenue and operational performance
- Government unwilling to provide capital

Differences from Bahn Reform

- ALL existing services franchised (some TOCs pay premiums, but are still “franchised” with services specified by Government)
- Protection in franchise agreements to ensure competition for renewal
- Protection of Network Benefits
- Performance regimes, independent regulator in place
- All British Rail businesses sold

More competition for the Franchise

- Franchises “sold” for 5 – 15 years, like German concessions
- Provisions for competition for renewal
- Key information available to other bidders
- Franchise Assets (trains, drivers, access contracts etc) handed to new operator
- Several franchises pay premiums

Protecting “Network Benefits”

- Services provided by 25+ operators, but customers still use it as a single system
- Through ticketing between any two stations, regardless of operator
- Cheap, flexible off-peak tickets
- Rail cards (young people, seniors, disabled, but not 25-60 yr old adults)

Ticketing & Settlement Agreement (T&SA)

- Sets rules under which operators can sell fares
- Participation is a license condition for *all* passenger operators
- Key requirements include
 - Impartial retailing
 - Through ticketing
 - “Interavailable” ticketing apportionment (ORCATS)
 - *“Interavailable” tickets protected (lead operator can only discount APEX tickets)*

Rail Settlement Plan (RSP)

- Implementation of T&SA,
- Owned by all TOCs; Managed by ATOC
- Systems outsourced to ATOS and others
- Complex range of approved terminal systems, ticket media
- Evolved from BR Central Services
- Independently audited
- Processes 1m tickets/day and 100k reservations
- > 100m fares in the database
- Average fare €7; costs 0.6% of revenue (£0.04/fare)
- Retailer commissions of 2% to 9%
- >400 partners, eg. Bus, Legoland, PTEs, joined voluntarily.

Train Ticketing

- 2,500+ stations = 6 million station pairs
- 10+ fares between many stations
- Often 10+ routes between station pairs
- Billions of route and fare combinations
- With multiple operators and open, through ticketing, a system is needed to allocate revenue to each operator



Lennon, Orcats, Capri, Moira

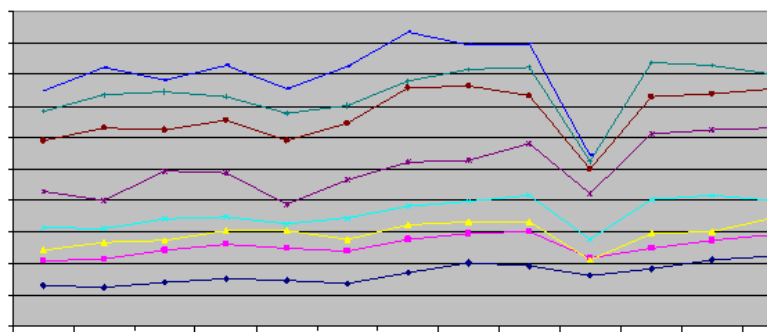
- Daily settlement (LatestEarningsNationalNetworkOverNight)
- Revenue assigned to flows, then operators
- Principle is “revenue follows the passenger”
- ORCATS (OperationalResearchComputerAnalysisTrainServices)
 - Allocation pro-rata to mileage
 - Updated twice each year
 - No consideration of quality features
- Any operator can challenge allocations but must pay share of cost of surveys
- Usually disputes settled by agreement, not survey
- All members have access to CAPRI (ComputerAnalysisof PassengerRevenueInformation)
- *Can estimate ORCATS value of proposed services using MOIRA*

Masses of Data!

PRODUCT	Lon - Nor	General	Ips - Lwt	Ips - Fwx	Har - Cam	Nor - Lwt	Nor - Gym	Nor - Shm	X-Link	Total
1.FIRST CLASS	400,863		3,058	149	3,716	188	1,417	246	3,267	412,904
2.FIRST SEASON	117,889	100,615	171	-3	138		66		360	219,235
3.STANDARD OPEN	917,239	198	30,853	8,072	64,180	25,802	25,040	16,957	29,629	1,117,971
4.SAVERS,NAB, ETC.	962,602	23	26,613	3,006	89,503	7,348	17,954	7,051	23,317	1,137,416
5.ADVANCE PURCHASE	555,995		6,808	695	7,651	4,012	4,296	2,942	841	583,240
6.CHEAP DAY, A PLUS	222,174	60,995	9,776	7,215	28,357	25,053	27,127	29,177	22,134	432,007
7.STD SEASONS	658,753	392,135	1,916	1,053	11,158	2,695	5,967	2,539	25,125	1,101,341
8.CONTINENTAL	59,359	4,070	2	0	33	0	1	0	0	63,467
9.OTHER	131,044	17,973	1,967	375	1,615	1,007	1,287	1,069	1,871	158,207
Total	4,025,919	576,007	81,164	20,563	206,351	66,104	83,155	59,981	106,543	5,225,786

Previous Year										
1.FIRST CLASS	400,823		2,460	162	3,326	248	1,288	229	2,836	411,372
2.FIRST SEASON	158,326	73,786	104	12	385		88		820	233,521
3.STANDARD OPEN	911,099	211	25,239	7,064	49,811	24,285	24,631	20,375	26,146	1,088,862
4.SAVERS,NAB, ETC.	767,793		18,732	2,022	69,170	5,721	13,426	5,142	16,060	898,066
5.ADVANCE PURCHASE	474,586		4,483	503	6,674	2,919	3,064	2,185	212	494,626
6.CHEAP DAY, A PLUS	170,301	44,290	7,824	3,913	20,798	18,995	19,742	14,780	14,314	314,957
7.STD SEASONS	698,940	309,978	1,800	1,006	10,461	790	4,373	2,294	17,748	1,047,389
8.CONTINENTAL	63,466	10,664	22		86	2	1	0	1	74,242
9.OTHER	74,455	32,154	1,071	277	4,484	865	1,011	1,280	1,280	116,878
Total	3,719,790	471,082	61,735	14,958	165,195	53,826	67,622	46,284	70,417	4,670,911

% Variance		
1.FIRST CLASS	0.0%	- 24
2.FIRST SEASON	-25.5%	36.4% 64
3.STANDARD OPEN	0.7%	-6.2% 22
4.SAVERS,NAB, ETC.	25.4%	- 42
5.ADVANCE PURCHASE	17.2%	- 51
6.CHEAP DAY, A PLUS	30.5%	37.7% 25
7.STD SEASONS	-5.7%	26.5% 6
8.CONTINENTAL	-6.5%	-61.8% -89
9.OTHER	76.0%	-44.1% 83
Total	8.2%	22.3% 31.



Flow	Ticket	Type	1000	Annual Rev		Fares		Proposed		Full year	
				Revenue £000s	2001 11 - 2002 10	May-95	May '01	May '02	Change (on 95)	Change on Last Year	Change Value£000s
RPI Index(July)											
Colchester	London	LFR	Leisure Fst	1		£ 25.00	£ 25.00			15.6%	0.0%
		SVR	Saver	83		£ 16.90	£ 16.90				0.0%
		SAR	Leisure Adv	44		£ 10.00	£ 10.00				0.0%
		CDR	Cheap Day	474		£ 10.00	£ 10.00				0.0%
Manningtree	London	LFR	Leisure Fst	1		£ 25.00	£ 25.00				0.0%
		SVR	Saver	19		£ 17.40	£ 17.40				0.0%
		SAR	Leisure Adv	3		£ 14.00	£ 14.00				0.0%
		CDR	Cheap Day	50		£ 11.00	£ 11.00				0.0%
Ipswich	London	LFR	Leisure Fst	20		£ 27.00	£ 27.00				0.0%
		SVR	Saver	1,306	£ 21.00	£ 24.00	£ 24.20	15.2%	0.8%		11
		SAR	Leisure Adv	249		£ 15.00	£ 15.00				0.0%
		ADV	Business Adv**	127		£ 28.00	£ 27.00				3.5%
		LDO	London Day Out	301		£ 18.00	£ 19.00				5.6%
		LNO	London Night Out	32		£ 15.00	£ 15.00				0.0%
Stowmarket	London	LFR	Leisure Fst	5		£ 31.00	£ 31.00				0.0%
		SVR	Saver	472	£ 23.00	£ 26.40	£ 26.50	15.2%	0.4%		2
		SAR	Leisure Adv	110		£ 16.50	£ 16.50				0.0%
		ADV	Business Adv**	57		£ 28.00	£ 29.00				3.6%
		LDO	London Day Out	116		£ 20.00	£ 21.00				5.0%
		LNO	London Night Out	8		£ 16.50	£ 16.50				0.0%
		LFR	Leisure Fst	8		£ 35.00	£ 35.00				0.0%
		SVR	Saver	657	£ 24.50	£ 28.10	£ 28.30	15.5%	0.7%		5
		SAR	Leisure Adv	166		£ 18.00	£ 18.00				0.0%
		ADV	Business Adv**	84		£ 30.00	£ 31.00				3.3%
		LDO	London Day Out	146		£ 23.00	£ 24.00				4.3%
		LNO	London Night Out	7		£ 18.00	£ 18.00				0.0%
		LFR	Leisure Fst	40		£ 39.00	£ 39.00				0.0%
		SVR	Saver	3,369	£ 27.00	£ 31.00	£ 31.20	15.56%	0.6%		22
		SAR	Leisure Adv	1,188		£ 19.00	£ 19.00				0.0%
		ADV	Business Adv**	458		£ 33.00	£ 34.00				3.0%
		LDO	London Day Out	727		£ 24.00	£ 25.00				4.2%
		LNO	London Night Out	34		£ 19.00	£ 19.00				0.0%
		LFR	Leisure Fst	5		£ 35.00	£ 35.00				0.0%
		SVR	Saver	289	£ 28.00	£ 32.10	£ 32.30	15.4%	0.6%		2
		SAR	Leisure Adv	147		£ 18.50	£ 18.50				0.0%
		LDO	London Day Out	56		£ 25.00	£ 26.00				4.0%
Changes				Leisure Fares excluding Savers						61	
				Business Adv						24	
				Savers						41	
				Reasons						126	

** Business Advance fares in the table above represent the increase since Sept. 2001				
		May-01	Jun-02	% Change
Ipswich	ADV	£ 24.00	£ 27.00	12.5%
Stowmarket	ADV	£ 26.40	£ 29.00	9.8%
Diss	ADV	£ 28.10	£ 31.00	10.3%
Norwich	ADV	£ 31.00	£ 34.00	9.7%



Fares Regulation

- Franchised TOCs subject to price constraints
 - “Commuter” fares; off peak open fare subject to price cap (currently RPI+1% on most TOCs). But also allowed to offer cheaper fares
 - Minimum service frequencies and station stopping patterns – so cannot withdraw from a market either
- Prohibition on exclusionary or predatory behaviour (if you can prove it)

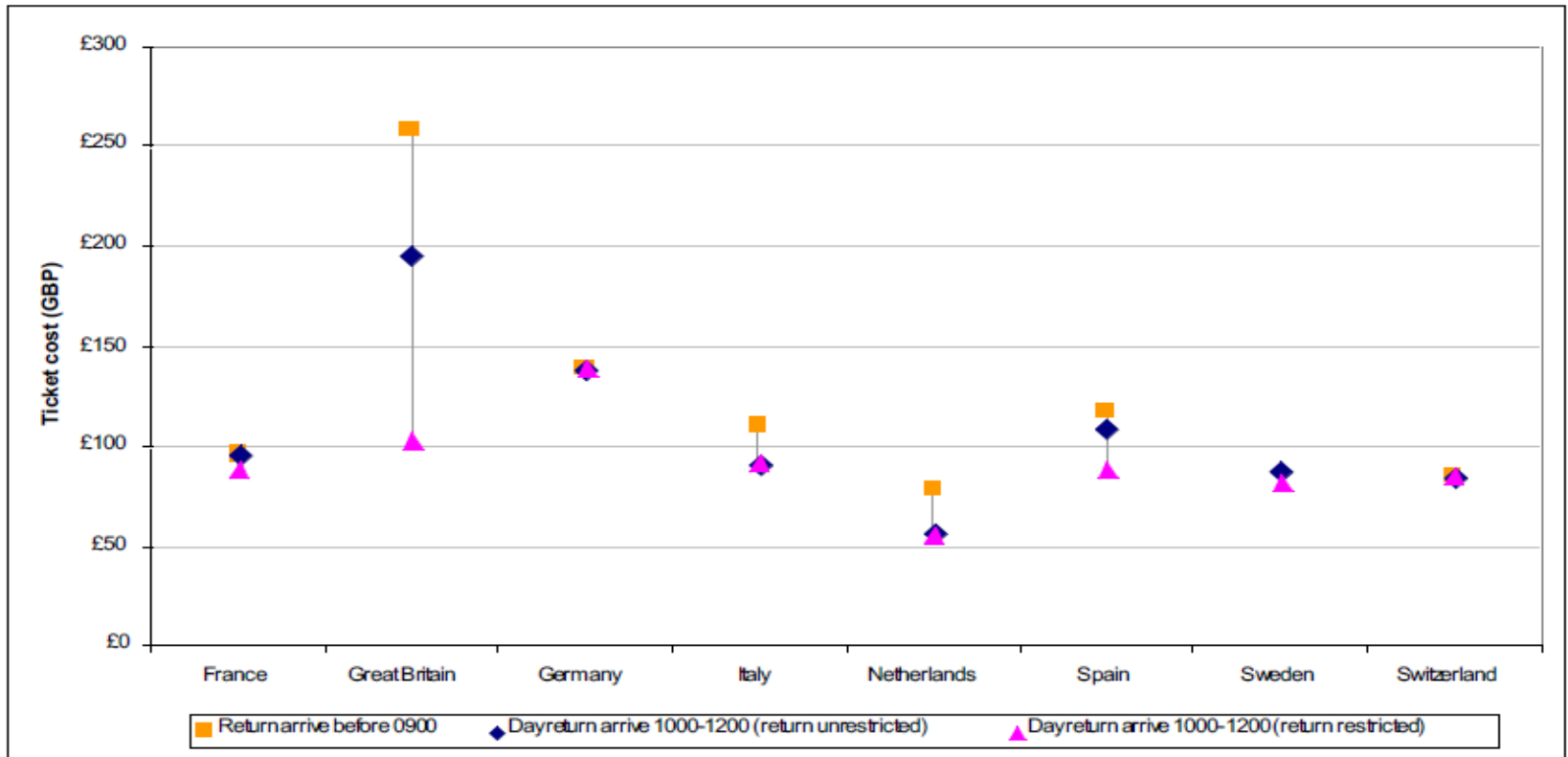
UK Intercity ticketing

- Proportion of passengers travelling for less than the full price fully-flexible single ticket:

Route	Full price fare	75% pay	50% pay	25% pay
London to Cardiff	£79	£40 or less	£30 or less	£20 or less
London to Manchester	£115	£45 or less	£35 or less	£25 or less
London to Edinburgh	£126	£55 or less	£40 or less	£30 or less

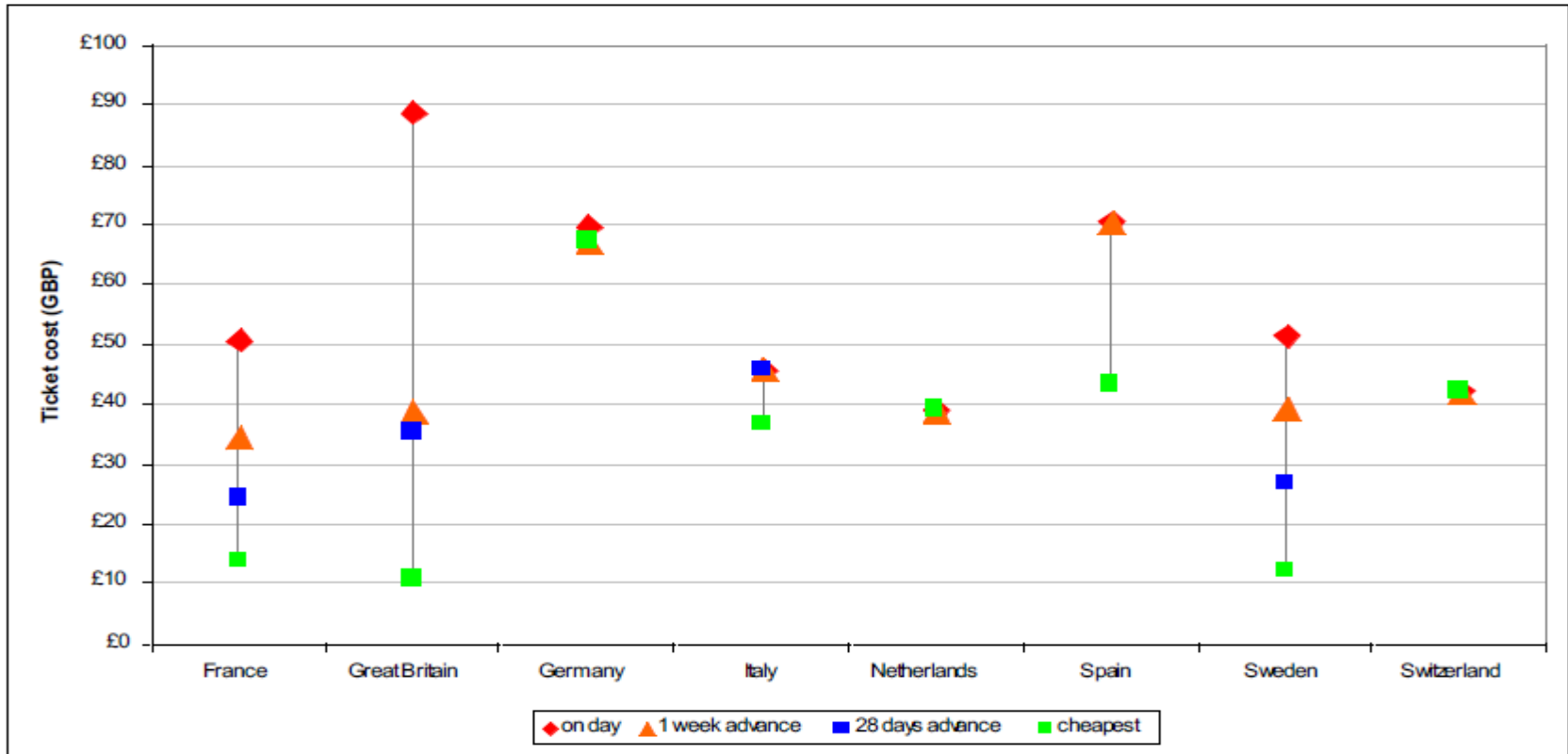
UK Rail fares in context

FIGURE 2.14 LONG DISTANCE PRINCIPAL CITY AVERAGE WALK UP DAY RETURN FARE



UK Rail fares

FIGURE 2.16 LONG DISTANCE PRINCIPAL CITY AVERAGE SINGLE ADVANCED PURCHASE FARE



Emergence of Competition

- Many franchises overlap
- So competition was initially, and still mostly, between franchised operators
- Perhaps 20% of flows have competition in some way
- One open access operator (Hull Trains) from 2000; 2 more from 2008

UK “Open Access”

Barriers

- 25 franchised TOCs already looking at every opportunity
- Frequent services already
- Capacity constraints
- Market pricing and yield management
- Regulator opposes “primarily abstractive” services

Opportunities

- High yields to London
- Many franchisees act as a monopolist
- Impartial network access
- Regulator in principle supports competition
- Regulator protected network benefits, so T&SA, ORCATS and CAPRI

London-Ipswich 1996

- Anglia (Intercity)
 - hourly London – (non-stop)- Ipswich – Norwich
 - 68 minutes to London
 - air conditioned, bord restaurant
- Great Eastern (Regional)
 - hourly London – Ipswich
 - Not air conditioned
 - Several stops between Ipswich and London
 - 80+ minutes to London



Competition in tooth & claw 1998

- Anglia (GB Railways)
 - Doubles service (2 trains/hour London –Norwich)
 - Most trains also stop at Colchester
- Great Eastern (FirstGroup)
 - Extends some London – Colchester trains to Ipswich
 - Cut stops between Ipswich and London
 - 75-80 minutes
 - Snack trolley service

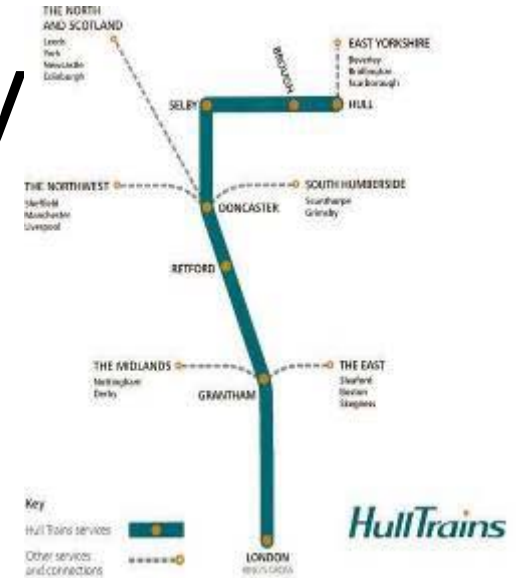


Result 2000

- 4 trains / hr London-Ipswich; 2 trains / hr from Norwich
- Great Eastern introduces dedicated (non-interavailable) fare London – Ipswich
- Anglia does same London – Colchester
- Anglia introduces season ticket with free reserved seat
- ORCATS challenged – surveys change allocations by >£2m/year
- Both operators survive but financially bruised!
- Passengers benefit (at no cost to taxpayer?)
- Government decided to merge franchises in 2004 to eliminate further competition - but maintains new frequency
- New franchise pays premiums to Government (not subsidy!)

Hull Trains Company

- First UK open access operator
- Launched 2000
- Competes with East Coast franchise
- New 225 km/hr diesel trains
- Now 45 return trips per week
- Profitable, never subsidised
- Award winning service, very popular with passengers
- 50% passenger growth from Hull to London



London - Hull Fares 2009

	One-way	Return
1st Class open*	£146.50	£293
1st Class – Hull Trains	£110	£218
Standard open*	£98.50	£197
Hull Standard open	£65	£127
Off peak open*		£131.40
Super off peak open*	£83.60	£84.60
Hull off-peak open	£45	£90
Advance (various)	£12.50 - £97.50	£25 - £195

Interavailable fares marked *



Open access operators

	Daily trips to London	Corporate ownership
Hull Trains	7 from Hull via Doncaster	80% FirstGroup
Wrexham & Shropshire	5 from Wrexham via West Midlands	50% Deutsche Bahn
Grand Central/ Grand Union	3 from Sunderland via York; 3 from Bradford from 2010	None

What future open access?

- Now frowned on by DfT – but continues covertly as long as there is revenue risk
- 3 open access operators, earning about £50m per year or 1% of UK total
- Conservatives suggest they will move to longer franchises – or even sell intercity routes

Timetable Integration

- Timetabling requires many tradeoffs
- Usually in the interests of operators to make connections work, even with other operators
- Best left to commercial decisions
- In UK, high train frequency means connections are not as much of an issue
- T&SA means all trains are in the published timetable
- Maybe commercial operators would run trains more frequently in Germany too?

Privatisation - outcome

- Passenger volumes up 50%+
- Highest since 1945
- Newest train fleet in Europe
- Active marketing, more cheap fares
- Several TOCs now paying premiums to Government
- 3 open access operators – but with only 1% of the market altogether (3% of Intercity . . .)

Recommendations for Germany

- Don't privatise DB without addressing monopoly
- Regulate key DB fares as long as it is Government owned or dominant
- Better solution is competition
- How to encourage it?
- Impose a Ticketing & Settlement Agreement on DB that all operators can join
- Bahncard within T&SA (open to all operators)

Conclusions

- On rail competition may never be widespread, but where it exists, it brings innovation, service improvement and investment
- Can franchising and regulation alone deliver the service improvements UK railways need?
- Is it wise to privatise DB Fernverkehr without franchising, regulation or competition?

Questions?

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