Institute for Transport Studies
FACULTY OF ENVIRONMENT

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On track competition in passenger rail: British experience

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Outline

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1. Introduction
2. British approach to rail reform
3. Open access experience to date
4. Competition and Market Authority Proposals
5. Conclusions

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- No remaining state owned operator – all operations privatised
- All passenger services franchised, whether profitable or not
- 20 franchises
- Strong independent regulator (ORR)

Rail passenger km in Great Britain 1996-2014

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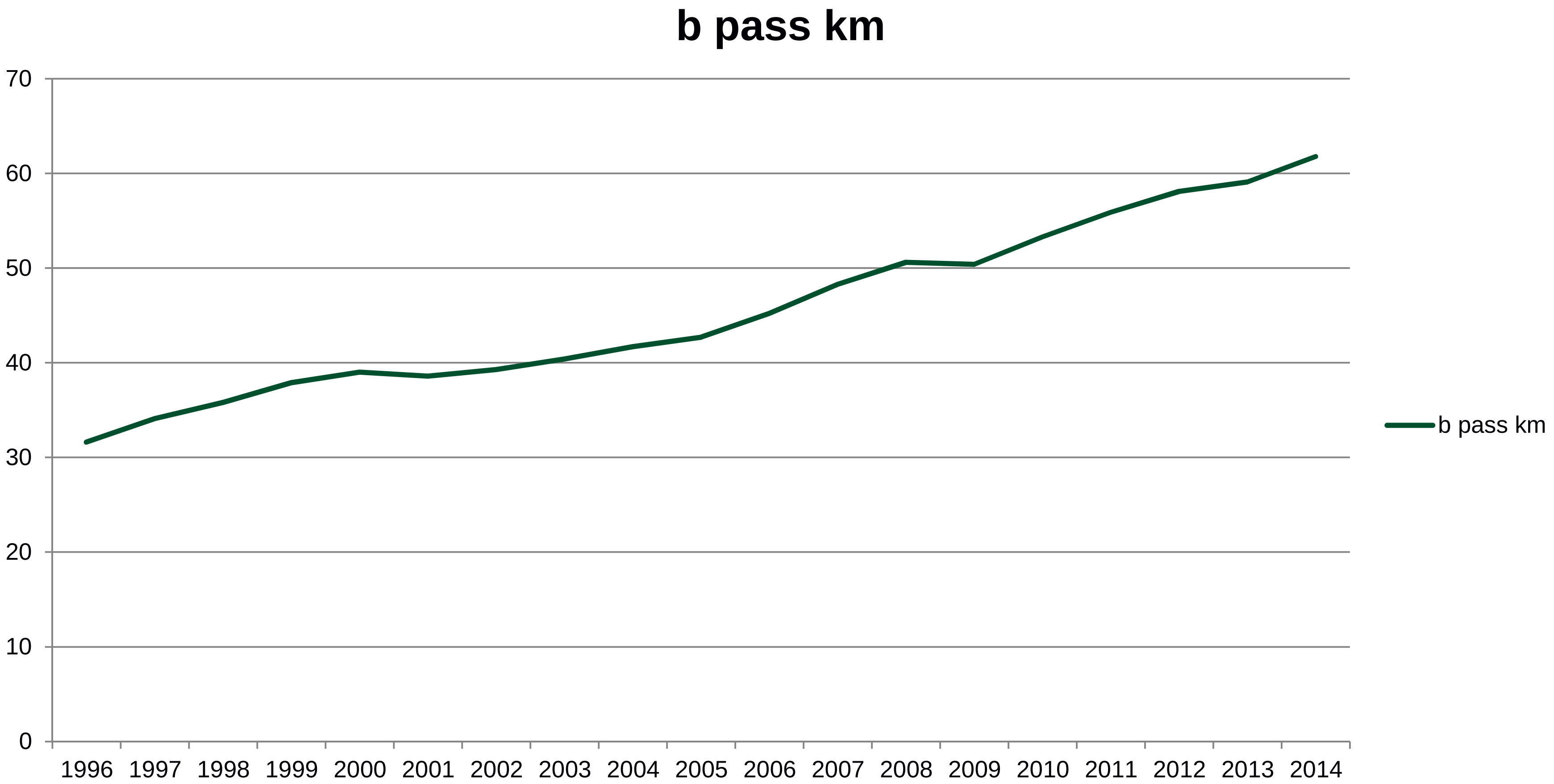

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Reasons for passenger growth?

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- Economic growth? But scarcely affected by recession
- Reduced competition from road

  -Slow growth of car ownership

  -Congestion worsening road journey times

  -Rising petrol costs
- Reduced rail fares, improved rail services and better marketing

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Passenger railway costs per train km (2011/2 prices) (£b)

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	1996/7	2005/6	2011/2
• Total	20.2	27.0	25.4
• Infrastructure	9.2	14.4	13.9
• Operations.	11.0	12.6	11.5

See Smith and Nash (2014)

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British Train Operating Company Costs

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- Evidence that British franchises are typically too big

  Wheat and Smith (2015)
- Problems in managing franchise failure
- Some costs such as fuel cost, insurance and policing have risen a lot
- Big rise in staff costs partly due to competition for scarce skilled staff?
- Lack of alignment of incentives between infrastructure and operations (McNulty)
- Transfer of employment – existing staff salaries and conditions protected
- Might more open access competition help control costs?

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Current position on open access

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- Office for Rail Regulation considers applications for track access
- Open Access Rights only granted if:
  - Not Primarily Abstractive
    - Newly generated business is at least 30% of revenue abstracted from existing operators
  - Capacity exists
    - Often conflicts between applications – several applications at the same time (including from the incumbent!)
    - Social Cost Benefit Analysis used to inform the decision

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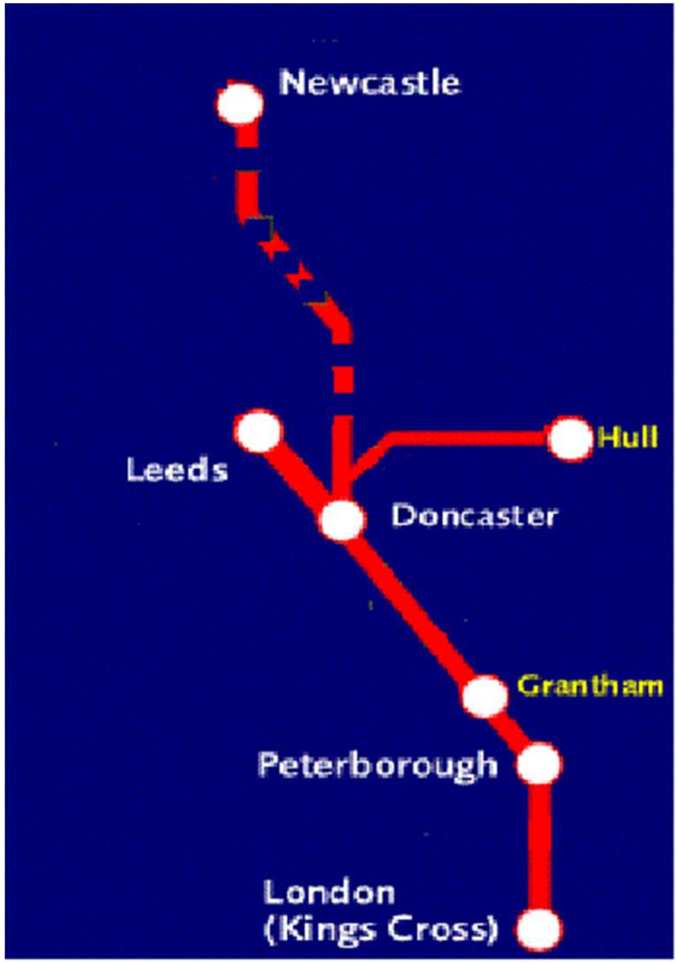
Open Access Competition- British East Coast Mainline



- Principal trunk route from London to Leeds, York, Newcastle and Edinburgh
- First new entrant, Hull Trains, running London – Hull calling at Doncaster (7 per day)
- Second new entrant, Grand Central, running London - Sunderland (near Newcastle) calling at York (5 per day)
- Grand Central then expanded to run London- Bradford (near Leeds) (5 per day)

Further proposals

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West Coast Main Line

-LNWR 5 trains per day London – Blackpool (currently only 1)

East Coast Main Line

First 5 trains per day London – Edinburgh

(Low cost standard class only no frills)

Rejected

GNER Hourly London – Edinburgh

Hourly London – Leeds/Cleethorpes

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Comparison of open access and franchised operator fares (£ September 2009)

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Off peak Fares to/from London

		Open access reduction
Hull Trains	Hull	18%
	Doncaster	18%
	Grantham	11%
Grand Central	Sunderland	32%
	York	27%

(Source: Griffiths, 2009)

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Comparison of ECML stations with and without competition 2007-8 to 2011-2

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	With	Without
% change in		
Traffic	42	27
Revenue	57	48
Mean fare	11	17

Source: AECOM

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Effects of Open Access Competition

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- **Lower fares**
- **Additional services to new destinations**
- **Use of spare capacity**

BUT ALSO

- **Reduced profitability of the franchisee (leading ultimately to less income for the government)**
- **Poorer use of scarce capacity**
- **Less well integrated timetables**

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What has happened to costs?

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- **Rail operations have substantial economies of density**
- **small Open Access (OA) TOCs should have high unit costs**
- **But cost per train hour not very different to franchised operators:**
- **something must be outweighing lack of economies of density**
    - **Lower input prices (staff costs per employee 10% less)**
    - **Shorter trains and cheaper rolling stock**
    - **Benefit from sharing resources with parent group (e.g. train maintenance)**
    - **But still seems to be a further 'business model' effect offsetting cost of low density**
    - **Is this related to the Transfer of Employment conditions that apply to franchised operators?**

Would benefits in terms of costs persist if greatly expanded?

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The Competition and Market Authority report 2016

- Option 1: An increased role for open access on intercity routes
- Option 2: Two operators per current franchise who would compete against each other
- Option 3: Redesign of franchise map to design in more overlapping franchises
- Option 4: Licensing multiple operators (Auctioning? With PSO obligations? With a secondary market for trade in PSO paths)

What would be the impact on costs?

Financial issues

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- Open access operators only pay variable track access charges (total from all operators £2.4b)
- Franchised operators also pay a fixed charge (£2.5b)
- Profitable franchises also pay a premium (£1.9b)
- Therefore need to:

- reform track access charges (high charge per train km?)

- charge a public service obligation levy (per passenger km)

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CMA's evaluation

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	1 – Greater Open Access	2 – Split franchises	3 – Overlapping franchises	4 – Licence system	0 – Base case
Passenger and efficiency benefits	✓✓✓	✓✓	✓	✓✓✓✓	-
Funding and risk	×	×	-	×	-
Considerations within the network, including operational issues	✓	-	-	✓	-
Wider social/ economic benefits	✓✓	✓✓	✓	✓✓✓	-
Implementation ease	××	×	×	×××	-

CMA (2016)

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Conclusions

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- **More open access competition might benefit users (price competition; quality of service)**
- **But changes to track access charges and PSO levy might lead to cuts in services**
- **Less well integrated timetables and poorer use of scarce capacity**
- **What would happen to costs?**

  - loss of economies of density

  - would open access operators keep their other cost advantages if major expansion?

  - would transfer of employment rules apply?

Is a better way forward to improve the franchising process?

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References

- The Competition and Markets Authority's (CMA's) Project on Rail Competition can be found here: https://www.gov.uk/government/consultations/competition-in-passenger-rail-services-in-great-britain