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**Our ref:** IT/JLD/702/JG

**Your ref:**

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**Date:** 2 December 2011

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Dear Mr Quill

**ORR Consultation on On-rail Competition**

Thank you for consulting Merseytravel on the above. I attach Merseytravel's response, which I hope is helpful to you.

Yours sincerely

Neil Scales  
**Chief Executive & Director General**

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## **The Potential for Increased On-rail Competition: Merseytravel Response**

This response discusses the issues surrounding on-rail competition under the headings used in the consultation document.

### **Existing Competition**

Merseytravel would cite the following example of on-rail competition, which has not been included in the document, and also would comment on the impact of the ORCATS revenue allocation system.

Liverpool – Manchester (franchise overlap): competition detrimental to overall service level, hindering implementation of RUS recommendation for increased fast service. There are 3 operators, each operating one hourly fast service, all seemingly determined not to allow either of the other two to operate the fourth fast train in each hour recommended as long ago as 2007, even though a suitable path has been identified in each direction between Liverpool Lime Street and Manchester Oxford Road. One operator produced an alternative suggestion for the fourth train which actually overtook one of the existing fast services. Service quality – catering withdrawn by the two operators who previously provided it, so no operator now provides catering on this flow. Peak capacity is insufficient, with passengers regularly standing for journeys of over 20 minutes' duration, sometimes between Liverpool or Liverpool South Parkway and Manchester. Contrast with service development and patronage growth achieved by the single operator of fast services between Manchester and Leeds.

ORCATS: the rail industry's system of allocating revenue between operators was designed for business sectors in a unified nationalised railway, not to allocate revenue between many individual operators within each of those business sectors. Used as it has been since privatisation, it can hinder sensible network development in the interest of passengers. Where there are multiple operators on a flow, which for long distance journeys is the rule rather than the exception, individual operators have an incentive to offer fares which maximise their own revenue, rather than overall industry revenue, and to ensure services are timetabled in such a way that their own revenue is maximised. On multi-operator flows like Liverpool – Manchester this translates into a poorer standard of service to passengers than would be the case if there was a single operator, or one operator on each of the two parallel lines between the cities, simply because all the cost of service enhancement would fall on the operator of the extra train but that operator could not guarantee to gain all the additional revenue, while at the same time the other two operators would expect to lose revenue on that flow, even if the total revenue is significantly larger, so will naturally oppose service enhancement even where there is a high value, industry business case for the enhanced service.

For long distance journeys where no through service exists, there is often an incentive for passengers to buy single operator tickets for each leg of their journey, rather than a through ticket, so they can take advantage of cheap, single operator fares. This is a real issue for Liverpool, as it can be cheaper for passengers making long distance journeys to southern England to buy separate tickets either side of Birmingham or London, or for passengers travelling to Scotland to buy separate tickets either side of Wigan or Preston. Not only are there now no through services from Liverpool to the southwest and south coast, or to Scotland, but many long distance journeys which are actually to and from Liverpool are not recorded as such in ORCATS because tickets are bought separately for each leg of the journey, in turn making it difficult to justify the (re)introduction of through services. It should be noted that research during the development of the West Coast Main Line Route Utilisation Strategy found that, despite the strong cultural links between Liverpool and Glasgow in particular, rail's market share between Manchester and Scotland was almost three times greater than between Liverpool and Scotland, which could only be explained by the lack of through rail services from Liverpool.

### **Potential Benefits of Competition**

The benefits of competition have been quoted as:

- Lower fares (but advance purchase fares are already relatively low).
- More frequent services (if there is capacity on network – a big if).
- Quality of service (works both ways; competition can lower standards as well as improve them).
- Provision of new through services (but franchise operators can do this too).

Meanwhile passengers are looking for an affordable, reliable, stable and comfortable railway.

Passengers on local/suburban services actually want to be able to get on the first train that comes, regardless of operator, using an affordable ticket which allows this, ideally having a seat, and for the service to operate reliably, consistently. They want stability in the timetable and multi-operator ticketing at reasonable fares. For these passengers on-rail competition is at best irrelevant.

Business travellers on long distance services want most of this, too. Space to work and internet access are important, as is catering, preferably at seat. They may reserve a seat on a specific train for their outward journey, but want flexibility to make their return journey on the first available train after their business is concluded, regardless of operator. Speed is important for business travellers, as time = money.

Leisure travellers are more likely to be price sensitive and prepared to commit to nominated outward and return services, but equally more likely to prefer through services to journeys requiring a change of trains. Where through services do not exist they may well buy individual tickets for each leg of their journey, to take full advantage of cheap, single-operator fares – or simply make the journey by another mode.

The disincentive to hold connecting services which is built into the industry's performance regime is a serious barrier to the growth of leisure travel; even regular passengers have learned to distrust any advertised connection, despite the much longer margins required between advertised connecting trains on the British network compared with other networks (standard margins Britain 5 minutes, Switzerland 2 minutes; Birmingham New Street 12 minutes, Bern HB 6 minutes, two large stations of similar size and layout). Leisure travellers with separate advance tickets for different legs of their journey are not even regarded as making a connection so may be forced to purchase a new ticket, at a much higher price, if there is late running and they miss their next train.

Most journeys are not to and from large city centre rail stations; through ticketing onto local transport networks is an important part of the rail offer, and requires co-operation between rail and bus operators for its delivery. The PTEs and Transport for London have well-developed and popular multi-modal, multi-operator ticketing schemes, covering many of Britain's major conurbations, although some cities with major commuter rail networks do not have this type of ticketing (Cardiff, Edinburgh). PlusBus allows a day's bus travel in a nominated zone around the destination station at an add-on price to rail tickets. Rail tickets are also valid on a limited number of feeder buses to stations, especially where stations are located some distance from town centres (as in Chester), or over routes not served directly by rail, for example Preston – Southport. A common feature of these ticketing schemes is the acceptance that there are revenue benefits from co-operation between operators and modes which cannot be obtained through open competition.

### **Are there any wider benefits of competition?**

#### Freight:

Competition has grown the freight market and shaken up incumbent operators, leading to DB Schenker becoming a major international carrier, mainly by buying freight operations of smaller state railways or taking over private operators outside Germany. Its parent company DB AG intends to become and remain one of the principal European transport groups, evidenced by its recent purchase of Arriva. SBB and BLS (Switzerland) and Rail Cargo Austria have expanded into other countries also, although some evidence that RCA may have over-reached itself. Lack of competition in France has led to stagnation and loss of rail freight traffic to competing modes. Potential for competition can be restricted by network characteristics, e.g. break of gauge at borders (France 1435mm/Spain 1676mm and the divide across Eastern Europe between standard 1435mm gauge and former Russian 1524mm gauge lines) and incompatible signalling and electrification systems (partly overcome by multi-system electric locos but also leading to increased operation of diesels with associated environmental disbenefits and sub-optimal use of network capacity), also by national safety authorities delaying or hindering approval of locomotives or equipment from other countries.

## Passenger Services:

Most European countries have competition for franchises or concessions for subsidised rail services rather than on-rail competition, with service co-ordination and common tariff structures specified in the contracts. Usually franchising is devolved to regional or local government. Long distance, high speed services have generally been retained by the national railway. No country has replicated the British industry structure.

The Swiss government has a long-standing policy of encouraging mergers of smaller rail (and bus) operators to realise economies of scale. Competition is for, rather than in, the market, with concessions let by cantonal or regional transport authorities. In several cantons all local bus and rail services are operated by a single company owned directly by the canton, although individual routes may be sub-contracted.

In Italy, there is longstanding competition in the Milan area between LeNord (FNM) and Trenitalia (FS) networks of commuter services to the north of the city, but both operators now operate cross-city Passante services jointly, through a new city centre tunnel linking lines of both networks. In the Naples area several operators of commuter services compete with Trenitalia, mostly with separate lines serving the same catchment areas.

Several countries have new Open Access InterCity operators: WESTbahn (Austria), NTV (Italy), RegioJET (Czech Republic/Slovakia). There is no firm evidence of their impact yet as only RegioJET has started operations; the Czech state railway (CD) has reduced fares on its competing services. The Italian government is concerned that NTV (which is backed by SNCF) may prevent it realising the full return on its investment in the TAV network of new, high speed lines and rolling stock; Trenitalia intends to retaliate in France in partnership with the French company VeoliaTransdev.

There are wider regulatory concerns about the impact of competition on publicly funded services, for example on the Brenner Pass – Verona corridor in Italy, where Trenitalia pulled out of the partnership to operate EuroCity services to/from Munich in December 2010 but retained domestic (subsidised) services and the EuroCity services were consequently no longer allowed by the Regulator to carry local traffic in Italy, damaging their viability. In Austria there have been complaints that publicly funded Salzburg S-bahn services are to be retimed and contractual regular service intervals broken to accommodate open access WESTbahn trains, and counter-complaints from WESTbahn that it has been allocated poor paths through the Linz area.

## **Extent to which benefits could be realised through on-rail competition**

It would be worth assessing the impact of on-rail competition on InterCity services in the Czech Republic and Austria (from December 2011), as these are services of similar frequency operating over common route sections along conventional main lines (Prague – Ostrava – Havirov and Vienna – Linz – Salzburg respectively). There has been no equivalent operation in Britain.

## **Potential for developments including technological change**

Are there any affordable ways of increasing network capacity in Britain sufficiently? One reason why there has been little development of open access in Britain is the lack of capacity on key sections of the network.

Fares/ticketing – smartcards, e-ticketing, print-at-home, use of mobile phones, but franchised TOCs can (and now are required to) do this. Open Access operators are likely to rely primarily on web-based sales, especially where they stop at unstaffed stations.

## **Impact on the taxpayer**

The impact on the taxpayer of additional competition is unlikely to be positive overall, as it will take revenue out of the system, increasing subsidy to or reducing premium payments by franchised TOCs. Infrastructure investment may be required to facilitate competitive services or maintain acceptable levels of service performance on a more congested network. Open access operators pay only variable track access charges, so would not contribute to the cost of that investment. Competition may reduce benefits from existing and/or committed investment if open access operators are given paths which would be required for enhanced franchised services or RUS recommendations, for example Northern Hub and North West electrification.

## **Specific policy options**

Consideration should be given to charging open access operators full fixed charges, or to restructuring access charges so all operators pay the same amount for a nominated type of path. Trains in Britain have long been classified by speed and type, so this classification could be used as the basis for access charging, with operators additionally incentivised to use electric traction on electrified routes.

Charging per path rather than per vehicle should incentivise operators to use longer trains, perhaps at the expense of frequency, although InterCity service frequencies in Britain are similar to those in Belgium, the Netherlands and on many German and Swiss InterCity routes. The 15-minute service frequencies operating between Edinburgh and Glasgow, Leeds and Manchester and recommended between Liverpool and Manchester are in line with actual or committed frequencies between European city pairs such as Amsterdam and Rotterdam, Antwerp and Brussels or Bern and Zurich.

Charging by route mile would also be an option, with maintenance costs allocated between operators over a route in proportion to the mileage they operate. This would incentivise the use of longer trains rather than enhanced frequency to handle increased traffic, potentially releasing paths for open access operation.