

**Response to the “Competition in Passenger rail services in Great Britain” discussion document, 17<sup>th</sup> July 2015.**

The Peninsula Rail Task Force welcomes this opportunity to comment on the “Competition in passenger rail services in Great Britain” document.

Operational Impact and barriers:

We consider that there are a number of areas that should be considered in relation to the operational impact and barriers that the proposals may introduce, which include:

Operational Complexities:

We support the changes that have been introduced to weight the franchise award programme to maximise the benefits of competition and reflecting the ‘quality’ of bids presented. There is however the potential that these changes are being ‘watered down’ as a result of the frequency that franchises are being extended without a full franchise competition being undertaken. It could be argued that the very element of competition and innovation being sought within your consultation document is being prevented from being explored and proposed within these extensions with the incumbent operator.

It is noted that more operators on a stretch of line does introduce additional complexity, however this is manageable and should not be used to prevent additional operators. The example of the different freight operators using freight paths is not seen as inefficient. It is acknowledged that the use of different rolling stock on a route should be managed carefully to prevent a loss in capacity, however this could always be part of the operating conditions based on train performance to maintain capacity for any operator.

There is a need to ensure that whichever model is used that connectivity is maintained and enhanced for the benefit of the rail system, users and the UK, as connectivity drives growth.

The opportunity for operators to vary stopping patterns away from a heavily specified timetable gives both opportunity and risk. The opportunities allow for stopping patterns that reflect demand, allow journey times to be optimised (greater importance on long distance) and can increase capacity. The risks include stakeholder dissatisfaction especially if these are long standing calling patterns, and potential loss of frequency for long distance destinations. The challenge is to ensure that the overall service pattern maintains connectivity and journey opportunities to drive growth.

There is a real opportunity to drive innovation and responsiveness to the needs of the traveller whilst also bringing new thinking to the way services are operated. Increasingly Local Authorities and other bodies are recognising the economic benefits that rail can bring to their economies. If rail can respond by being more responsive to these needs, the market and competition, then it is likely that the UK and travellers will benefit.

Potential for greater on-rail competition-network capacity and technology:

The consultation document discusses additional service and additional capacity. We feel that the opportunity for defining the economic benefits of growth and productivity to an area through changes to the rail system are often not clearly defined or recognised by the rail industry. It is acknowledged through research that journey times from London have a strategic impact on productivity of 6% for every additional 100 minutes travel time from London. It is felt that when network capacity is reviewed there is little focus on speed improvements to create capacity, efficiency and therefore increased productivity and revenue; rather it is more focused on the current infrastructure.

The national UK rail system is increasingly lagging behind in the use of smart ticketing technology for the majority of travel arrangements, with limited use of etickets for advance purchase tickets. The lack of a UK based smartcard system; either centrally stored or card based e-purse hinders accessibility and potential usability for the network, and also removes a valuable marketing tool to provide added value based on travel patterns and modal shift

The franchisee model has not allowed a coherent UK based fares and ticketing policy or revenue protection system to be coordinated and delivered that enhances and maximises the opportunity to collect revenue.

Interestingly new rail systems being built around the world are adopting smartcard technology as the method of ticketing, increasingly using individual's mobile phones and technology like 'paywave' as the ticketing platform therefore reducing costs and driving improved connectivity.

Enhancements in the 2014-2019 Control Period and beyond:

It is felt that the benefits and different options being presented through the introduction of the new bi mode trains is not being recognised and acted upon by the rail industry. These trains open up new options around limited electrification that is outside of the industry Electrification Route Utilisation Study established 'industry benefit' criteria, and raises the opportunity to introduce external or third parties to compete with the infrastructure owner to introduce and deliver limited electrification schemes.

It is felt that Network Rail has too narrow a focus and are not forward thinking and dynamic in their role of defining future usage, particularly in relation to regional areas. We believe that Network Rail should be continually striving to make more effective use of the rail infrastructure as its core role, rather than reacting to problems as they occur. The focus on capacity is based on train paths per hour using current infrastructure and does not look past this, i.e. new trains, increased speeds, faster journeys, equal time diversionary routes etc, which drive growth and productivity and align with passengers requirements.

### Competition between Train Operators

In the South West Peninsula we have the benefit of 2 different operators between Exeter and London, the first operating into Paddington (operated by Great Western Railways) and the other into Waterloo operated by South West Trains.

The routes are very different, both in nature and journey times, very similar to the examples used between Birmingham and London with the West Coast mainline and Chiltern railways.

We would support the enhancement of the Waterloo line to allow viable competition with the Paddington service based on quality and journey times in addition to the lower fares, as offered now. The rail industry appears to be lacking in a clear mechanism for considering infrastructure changes and enhancements for competing routes that would introduce competition and drive a bigger overall market and growth.

There is an argument that competing routes should be operated by different operators or Open Access Operator's (OAO's) to drive competition and therefore customer benefits. If these 2 routes were operated within the same franchise there is an increased risk that the drive for competition and development on the second route would be suppressed. With the current 'talk' of a Devon and Cornwall franchise it is critical that these competing routes are considered carefully to ensure competition and investment are not suppressed.

### Competition between open access operators and franchisees

Is the competition really true competition?, with OAO's frequently being restricted in the locations that that they are allowed to call?. If OAO's pay the same access costs as TOC's then surely they must have the same access to train paths as a TOC, and a removal of the restriction on where they can call.

It is interesting to note that the European model sees OAO's predominately operating across the dedicated high speed routes, would this model therefore work on HS2?.

It is clear that the drive for open access is treading a difficult and challenging path, with it appearing that a 'them' and 'us' scenario exists where 'them' being Network Rail and the TOC's and the 'us' being open access operators. The rail industry needs to present a much more visible approach in relation to availability of train paths for all to see and therefore bid for. It could be argued that once a franchisee has agreed train paths for the franchise award, it is only then that other train further paths are available for all parties to bid for and use without preference. This approach is unlikely to provide many viable opportunities for OAO's to enter the market as the TOC and DfT will have covered the vast majority of viable routes and options with the Service Level Agreement, or as a Commercial service.

The elements involved in charging for train path usage are clearly complicated and need significant review; there appear a number of arguments for and against the current regime. It should be borne in mind that infrastructure investment is available for all users, as enshrined in EU Directives, and therefore charging regimes should be transparent and reflect a sensible and viable level of cost.

#### Efficiencies in Train Operations

Given the current franchise model it is difficult to see how a franchisee is incentivised to become more efficient. It is likely that franchise bids are calculated on the basis of known cost for trains, staff and other costs many of which are fixed and the incumbent operator's franchise will be too short to allow these costs to be challenged and driven down, given the likely disruption this will cause. The costs for rolling stock forms a large part of these franchise costs and the option to source rolling stock for use is extremely limited based on suitability and availability, therefore removing options to reduce costs and open up the market. Therefore franchisees are more likely to look to grow income than reduce costs.

OAO's however do not generally inherit the staff and assets with established costs so have more freedom to increase flexibility of job roles and negotiate lower costs in operation.

On the basis that OAO's operate in a more cost effective and efficient way to franchisee's could these operators be encouraged to take on PSO services?, which may lead to lower operating costs and increased revenue.

#### Capacity Constraints and expected enhancements

The lack of a UK wide capacity enhancement and growth strategies for the rail system post privatisation has led to a strategy of responding to the growth hot spots rather than enhancing the infrastructure and assets in anticipation of the growth. This response

focus appears to have distracted the industry from the strategic development of routes, incorporating better journey times and resilience of the diversionary routes to maintain services to the required level rather than a second class alternative.

### Network Capacity Identification

There are numerous examples of OAO's identifying capacity to allow them to bid to operate services rather than Network Rail identifying the demand and opportunity within their studies, therefore not exposing these opportunities for further potential operators. It is possible that the performance regimes and penalties associated with regimes drive this behaviour.

### Access to rolling stock

There is no doubt that access to alternatives sources of rolling stock since privatisation has led to a lack of competition and opportunity to drive down the costs, with most franchisees having no option but to take on the rolling stock of the previous operator. Again a lack of a UK wide rolling stock growth and life expiry strategy has led to a cascade system of rolling stock across the country, often replacing life expired rolling stock with slightly younger rolling stock. This mechanism of cascade does not win favour with politicians and users as there is a perception of receiving more old trains which are often in a poor condition, and is very often seen as new trains in London and the old ones cascaded to the regions. Much of the UK 'regional' rolling stock is reaching its life expectancy limit in the next 10 years, and the industry needs to be realistic about the need for a major replacement strategy similar to that undertaken by British Rail in the early 1980's. We would like to see a defined rolling stock strategy that looks forward with investment and deliver matched to the projected needs of lines and areas. Given the current cost of borrowing we also believe that Government could borrow money for new trains much cheaper than the ROSCO's again helping to reduce costs to the operators.

### Franchise Agreements

The level of specification and control on franchisees appears to be on a relentless climb since privatisation, with less opportunity for commercial and market force decisions to inform passenger services on routes that would warrant it.