



# Merseytravel

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Richard Owen  
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One Kemble Street  
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Dear Mr Owen

## 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

Alan Stilwell  
**Director of Integrated Transport**

Enc

**Merseyside Integrated Transport Authority and Passenger Transport Executive**



## **ORR Incentives Consultation: Merseytravel Response**

### **Ch3: Understanding the Objective**

PR13 should, in principle, deliver the outcomes that passengers and freight customers, funders and wider stakeholders value. Unfortunately these are not necessarily the outcomes desired by the companies active in the rail industry and their financial backers. Even within the first group there are trade-offs between the interests of rail users and funders, who can be said to represent the wider interests of society. The key trade-off is between the proportion of passenger service costs to be recovered from passengers, via fares, and from funders, via subsidy. If costs can be reduced, the financial pressure on both passengers and funders will also be reduced.

Operators can and do focus primarily on minimising costs, especially in highly subsidised franchises. In non-London conurbations or rural areas, where rail does not have a captive market which can be exploited through the fare box, the incentive to grow revenue is much weaker. Meanwhile, if increasing demand triggers additional costs in provision of rolling stock or train crews, which cannot necessarily be recovered fully and immediately through revenue or subsidy, then even if these resources become available operators have a perverse incentive not to act to increase passenger demand.

“Passenger satisfaction” has to be treated with caution, as it can easily become a subjective rather than an objective measure. It does need to be backed with objective measures, for example of train performance. Merseyrail Electrics’ success has been based not only on excellent performance but also on the provision of frequent services, operating at clock-face 15-minute intervals during weekday daytimes on most route sections, with peak and off-peak capacity closely matched to demand and competitive, affordable fares.

It is disturbing to note that the most important “enablers” of all are not mentioned here; they are fairly remunerated (at all levels), properly trained and highly motivated staff. The presence of high quality station and on-train staff is a significant factor in the high levels of passenger satisfaction recorded on Merseyside.

### **Ch4: Aligning Incentives**

Merseytravel is unconvinced that a route-based efficiency sharing mechanism would be effective, as the geographical boundaries of many routes are either too large or otherwise inappropriate. It may be more reasonable to have an area or even service group-based mechanism. Efficiency gains for one operator may come at the expense of efficiency losses for another; for example, the December 2008 West Coast Main Line timetable provided greatly enhanced and efficiently timetabled InterCity services (Virgin Trains), but at the cost of a far less efficient pattern of local services in the West Midlands (London Midland) and Greater Manchester (Northern Rail), so an

efficiency sharing mechanism between NR and one operator must make allowance for its impact on other operators.

The proposal for exposing passenger and freight operators to changes in NR's fixed costs should be considered further. If this is accepted, it should apply to all operators, not just franchised passenger operators. It does not seem equitable that open access passenger operators should pay marginal costs yet expect and receive equal consideration for access rights with passenger operators paying the full costs of access.

## **Ch5: Possessions and Performance regimes**

Schedules 4 and 8 certainly drive up costs, and they raise a number of issues. There is a need to ensure operators are compensated for the effects of poor performance or engineering possessions, but this compensation must be proportionate and fair to both parties. It must incentivise efficiency without unduly inflating costs. If an operator is set to gain financially from a network enhancement, either through increased revenue or lower costs, should it also receive compensation for disruptive possessions necessary to deliver the enhancement? Alternatively, should access charges be structured to encourage operators to make use of network enhancements, for example to incentivise use of electric traction on electrified routes? There are instances already on electrified lines where the use of diesel haulage, while optimal for the train operator concerned, unnecessarily occupies capacity which could be made available for additional, electrically-powered services, for example between Euston and Rugby or north of Lancaster on the West Coast Main Line.

Payments may compensate for the direct financial impact of delays, poor performance or engineering possessions, but may not compensate adequately for the societal impact. The financial impact of delay to 400 passengers on an IC service may be far greater than that of delay to 400 passengers on a commuter train, but the social impact may not, especially if consistently poor rail performance on commuter services leads to more car journeys, increasing highway congestion and atmospheric pollution in urban areas. It should be recalled that outside London and the south east rail does not generally have a captive commuter market.

The reality of weekend engineering works, with significantly extended journey times due to service diversions or bus replacements, is such that many intending passengers alter their plans. They travel before rail services are interrupted or when they are restored, rail-head to stations on unaffected route sections, travel by other means or do not travel at all. The frequent failures to co-ordinate replacement bus services with operational train services, especially where the bus and train services are the responsibility of different train operators, and to hold either train or bus services for connections simply discourage passengers from attempting to use the amended services. Any additional regulatory incentives should focus on

addressing these issues, encouraging co-ordination and co-operation between train operators and with Network Rail during engineering works.

### **Ch6: Access Charges**

Merseytravel believes access charges should be related to the costs incurred by Network Rail in providing access, which will relate to the type of train and route for which access is sought. They are likely to differ between routes and train types, so could be set to reflect these differences, provided accurate cost information is available.

It would be worth stating general principles for bespoke charging arrangements, which should ensure no net loss for operators outside the arrangements, either financially or in terms of priority given to their applications for access. Consideration should also be given to making public similar information for bespoke charging schemes as is in the public domain for the standard charging scheme.

### **Ch7: Capacity Utilisation Incentives**

Merseytravel is not convinced that these charges offer incentives to allocate capacity sensibly, as in the most congested parts of the network, usually in or around city centre stations, market-based charging mechanisms are extremely unlikely to capture fully the social costs and benefits of a particular pattern of rail services.

Through RUSs and other agreed long term strategies the industry has made much joint effort to assess gaps in provision of rail services and to identify and rank options to meet those gaps, which have been drawn together into a series of accepted plans for development of the network. It is this process which should be reflected in the allocation of capacity where it is constrained.

### **Ch8: Network Rail's Finances**

The key driver here in practice will be to "have regard to the funds available to the DfT and Transport Scotland," and the Welsh Assembly – which will change over time. There is also renewed interest in the devolution of regional franchises to PTEs, in the light of the successes of the Merseyrail and London Overground concessions, which may take place within CP5 and will add further sources of funding, although not necessarily give an increase in the overall level of funding. Given the movement towards longer passenger franchises it would be prudent to assess the willingness of the current primary funding agencies, DfT and Transport Scotland, to enter into commitments to NR beyond CP5 before making a determination of the funding method to be used.

## **Ch9: Cost Recovery**

Merseytravel believes that the means by which Network Rail recovers its costs make little difference in comparison with other incentives.

## **Ch10: Other Incentives**

There is a need to allocate funding for research and development, recognising that, at the very least, the restricted loading gauge of the British network requires significant modification to standard European vehicle designs to enable them to be used in Britain, and that this is a factor which drives up rolling stock costs. Equally, British-gauge vehicles, even if suitable for mainland European systems, may be sub-optimally designed for those systems. Research should consider modifications to both vehicles and network.