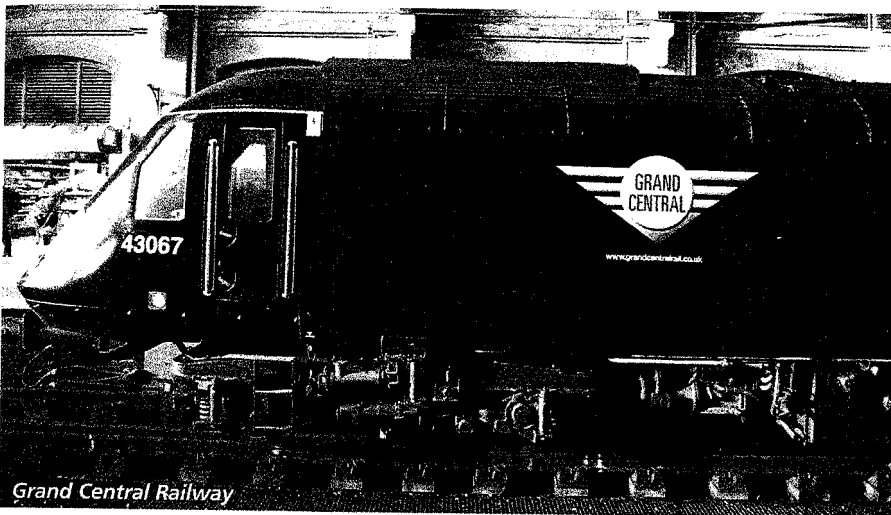


The expansion of open access passenger services on Britain's railways



MARY BONAR looks at the background to, characteristics of and future for open access passenger services on the UK rail system

Air travel for most Britons has changed significantly in the last five years, which have seen the low-cost airlines grow and consolidate, creating new markets as well as posing a competitive threat to the national flag carriers and other scheduled airlines (like BA). For travellers there is more choice of flights, destinations, fares and booking methods. In a smaller and quieter way Britain is beginning to see a similar movement in rail travel. The first open access passenger service, Hull Trains, began to run three services a day between Hull in Yorkshire and London King's Cross in 2000, shortly before the entire railway industry was subjected to the shock of the Hatfield accident and its aftermath and the subsequent demise of the privatised network company, Railtrack. Hull Trains has grown impressively and profitably since then but these events probably discouraged others from immediately following its example. It took Grand Central some years to finally obtain approval for East Coast Mainline services and it launched its full service in March 2008. Wrexham & Shropshire, a joint venture between Renaissance Trains and DB Regio, started its services from Wrexham in NE Wales to Marylebone at the end of April 2008 and is steadily building its business.

The background

The privatisation of Britain's railway was completed in about five years just before the general election in 1997. British Rail's passenger business had been split into twenty five concessions or franchises and private sector businesses had enthusiastically competed for the right to operate these, supported by public subsidy or with a

requirement to make premium payments to Government. The minimum services to be run by the franchised operators were laid down in the franchise agreements in considerable detail but at that stage there was scope and encouragement to run more and different services at marginal cost as a way of utilising the trains and increasing revenues. In order to stabilise the environment for the new franchises and protect the tax payers' investment the Rail Regulator, a publicly funded official independent of Government whose duties were spelt out in the privatisation legislation, the Railways Act 1993, introduced Moderation of Competition or MoC. Until March 1999 MoC gave complete protection to specific flows of passengers between named stations. This was then reduced, so that from March 2002 there was no protection on the majority of routes.

The exception was for the West Coast Main Line where Virgin West Coast's revenues still remain protected until the end of the franchise in 2012 as part of the package to encourage investment in the line and a rolling stock upgrade. The Regulator has a duty to promote competition and at the same time to protect the taxpayer's support for franchising (and other duties) and the MoC illustrates this balancing act in operation. The Regulator's competition policy set out in 2004 still allows for MoC to protect investment.

Characteristics of open access

The three current open access operations have a number of characteristics which are similar to the low-cost airlines; they have opened up new routes and destinations and their fares are generally cheaper than the equivalent franchise operator's fares. Unlike the airlines though, there is more focus on providing top quality service for first class passengers and better service than usual for standard class. All three run intercity through services to London from places like Hull, Sunderland, Shrewsbury and Tame Bridge Parkway, which previously had no or very few through services. The three open access operators have different length track access agreements, although the maximum is ten years, because the length is related to the Regulator's appraisal of new investment and they run trains which they lease from a wider variety of lessors than the traditional Rolling Stock

Leasing Companies. There is no public subsidy and all pay variable access charges but not the fixed charges because those are allocated amongst the franchises, given that Government is obliged to keep the franchise services going as operator of last resort under the 1993 Act.

There is a fundamental difference between open access and franchised services in that if an open access operator goes out of business or closes down, the Government has no obligation to continue to provide through-rail services e.g. for the people of Hull, Wrexham, Shrewsbury or Sunderland. It is something of an accident of timing rather than deliberate policy that in the franchising process Government has basically adopted the decisions made by British Rail as to which destinations had through services and which did not. As recently as 2007 Government decided that it would not extend franchise services to Wrexham, one of the fastest expanding places in Wales. This aspect of the British system creates opportunities for entrepreneurs to run open access services. However competition is not completely open, leaving aside capacity constraints, as all new open access operators have to satisfy the Regulator that their business will increase the number of people travelling and therefore the overall market for rail travel rather than simply taking market share from existing operators. The test is to be primarily revenue generating rather than abstractive. While it takes time to build a new business, Hull Trains clearly has satisfied the Regulator that sufficient new business has been generated as it has obtained extensions to the length of its access agreement and new paths.

Open access operators also have to satisfy financial viability and economic benefit tests in order to be allowed to operate. There is a lot of scrutiny by Network Rail of performance issues – the system is designed to prevent inefficient operators. Network Rail and existing operators tend to be concerned that, particularly where the infrastructure is congested or intensively used, (as for example around Birmingham New Street) more operators on the system will contribute to poor performance (which is not technically the case) but Network Rail also benefits from payments for the increased use of the network. Two of the new operators are joint ventures with well-

established franchise-owning groups (First Group for Hull Trains and the former Laing Rail for Wrexham & Shropshire) although this is not a pre-requisite.

The future for open access

Britain is ahead of the rest of the EU in having set up a regulatory system that allowed open competition as early as the 1993 rail legislation (although it did develop MoC for the early years and this continues on West Coast) but now the EU has followed suit and with effect from 2010 EU countries will have to accommodate on-rail competition for passenger services. Germany and Italy are likely to lead the way with private sector new entrants challenging the incumbent state railway in running high-speed services. In Britain there are a number of new open access businesses and services getting ready to launch over the next 12 – 24 months and the Regulator has announced a review of the procedures for dealing with open access.

Some services are likely to be less centred on London and to focus on linking other large conurbations. There is also the potential for high-speed international services using the capacity of Britain's only high-speed purpose-built route, HS1. The prominence of environmental concerns is encouraging more people to travel longer distances by rail rather than air or road.

There are still hidden obstacles to competition in, for example, the timetable planning process and some complex arrangements run by the Association of Train Operating Companies, although the existing operators show that such obstacles can be overcome. It is hoped that the Regulator will change the revenue abstraction test so that the domestic passenger railway becomes more open to competition, in the spirit of the new EU legislation. The travelling public in Britain can already look forward to more competition with the franchised operators leading to more choice. ■



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