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Open Access Long Distance Passenger Rail Services in the United Kingdom: The Grand Central Experience

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Abstract

The EU's forthcoming 4th Railway Package will allow open access passenger rail services to operate within member states alongside government supported services. The 1993 UK Railways Act, which resulted in the privatisation of the rail network in Great Britain, envisaged the development of open access passenger rail services alongside franchised rail operations. It is therefore relevant to assess how this has operated in practice. In practice, only two significant open access operators – Grand Central Railway and Hull Trains – have emerged, serving niche markets that were ignored by the franchise operators. This paper discusses the reasons for this, including barriers to entry and the application of economic regulation to assess applications to operate open access services. Particular attention is given to the experience of Grand Central in obtaining track access rights to operate services from London to Sunderland and Bradford in Northern England.

The paper sets out evidence, based on work undertaken for Grand Central, on the impacts of open access on the market for rail travel, indicating that the presence of competition appears to have increased passenger demand and revenue, while constraining growth in average fares. It also compares forecast and outturn ridership and revenue. Finally the paper considers potential future developments. These include the emergence of larger scale open access proposals, possible changes to the application of economic regulation to open access services and potential impacts from the re-classification of the Infrastructure Manager – Network Rail – as a state-owned company. The implications of the UK experience for the 4th Railway Package are discussed.

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Keywords: EU 4th railway package; economic regulation; open access rail

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1. Introduction

The European Commission's proposed Fourth Railway Package envisages the creation of a more competitive market for domestic rail passenger services across the European Union. It is envisaged that this will be created through a combination of "competition for the market", where subsidy is required, and "competition in the market" where services are capable of operating commercially without subsidy (European Commission, 2013). There are a number of uncertainties about how this might operate in practice.

Some evidence on combining these approaches is available from the United Kingdom (UK), where legislation has, since 1993, envisaged open access services operating alongside Public Service Obligation (PSO) supported services. The purpose of this paper is to discuss the UK experience, with particular reference to one operator – Grand Central Railway, and to consider its relevance to the proposed 4th Railway Package.

2. The UK Legislative and Regulatory Environment

The current legislative framework for the railway network in Great Britain was established under the Railways Act 1993. In essence this created the following main actors:

- Infrastructure Manager – currently Network Rail;
- Franchising Authority – responsible for the letting and management of contracts for PSO supported services, known in the UK as franchises. This role is now performed by the Department for Transport (DfT);
- Independent Regulator – responsible for economic and safety regulation of the industry; formerly the Office of the Rail Regulator, now the Office of Rail Regulation (ORR);
- Franchise holding Train Operating Companies (TOCs) responsible for providing franchised passenger rail services;
- Other TOCs, including freight operators and open access passenger rail service providers.

There are also a large number of other organisations involved, including rolling stock leasing companies, infrastructure maintenance and renewal contractors and consultants. However they are less relevant to this paper. While the precise organisations performing some of these roles have changed, the overall structure has remained reasonably constant.

Under the current franchising model, competitive tenders are sought for the right to operate a specified, geographically based, package of services for a set period, typically 7 to 10 years. Bidders set out the year by year premium or subsidy they require as part of their offer. The franchising system transfers most commercial risk to operators, including both revenue and cost risk. In recent years, especially during the recent recession, DfT has been willing to assume some revenue risk. In the financial year ending in April 2013 8 franchised TOCs made net payments to DfT and 10 received subsidy. However DfT also part funds Network Rail through direct grant. Available information indicates that only 3 TOCs (all London suburban operators) would have made net payments if they bore the full costs of the infrastructure they use (DfT and ORR, 2014). It should also be noted that the risk of changes in track access charges is not transferred to franchise operators. Franchises are let on the basis of current access charges and the effect of any changes is neutralised by changing the premium/ subsidy by an equivalent amount.

When the legislative framework was established, it was considered important to retain the benefits of a national network in a multi-operator environment, while also providing for competing services. In particular, there is an obligation on all passenger rail operators to sell each others' tickets, for a set commission, and the availability of anywhere to anywhere tickets throughout the network was protected. Certain key ticket types are available between any two stations on the network and these are valid on any relevant operator's services, whether franchised or not. However operators have introduced their own, non-inter-available tickets in parallel. There is an established mechanism for managing the large financial flows that result from this system. This approach has both maintained the benefits, from a user perspective, of a national network and reduced barriers to entry by giving new operators access to a nationwide retailing network.