

Scope for exploiting c2c and Greater Anglia franchises

Introduction

1. This appendix considers how NEG as the operator of both the c2c and Greater Anglia franchises might try to take advantage of a reduction in competition on rail routes between London and Southend. It assumes first that the starting position was two competing services in separate ownership whose prices were at least partly driven by this competition (which was disputed by NEG) and were thus below optimal monopolistic price levels and secondly that NEG will therefore wish to raise prices and cut costs where permitted by the regulatory system. These assumptions may, however, be less valid for off-peak services where (a) demand is likely to be from leisure passengers and therefore to be more elastic, (b) additional demand can be satisfied at very low marginal cost, given spare seating capacity on trains that have to be operated under the service level commitment (SLC) for Greater Anglia and the passenger service requirement (PSR) for c2c (see Appendix C) and (c) marginal revenue is therefore already likely to exceed marginal costs.
2. The following tactics might be open to NEG in the absence of effective regulation.

Cut costs

Tactic 1: Reduce service levels (ie numbers of trains timetabled or run)

3. Constraints:
 - The Greater Anglia SLC does not permit any change in service levels without SRA approval. This precludes changes in operating hours, service frequencies, maximum journey times and stopping patterns. The SRA checks that proposed timetables comply with these requirements.

- The c2c PSR sets minimum levels for services. As c2c is operating only 1 per cent above its PSR, NEG has very little scope to reduce services.
- The franchise agreements both set out (a) breach performance levels and (b) default performance levels for cancellations, passenger-carrying capacity and delays. For example, the Greater Anglia default performance level for cancellations starts at [X] per cent [X]. Poor performance (for example, three consecutive months below the default performance level) constitutes a default event that can lead to a remedial plan and ultimately to termination of the contract.
- The franchise agreements also require that cancellations should not be concentrated on any specific route.
- Both the Greater Anglia and c2c passengers' charters establish performance-monitoring requirements. They set out punctuality and reliability thresholds for each line. Compensation is paid to customers with monthly, quarterly and annual season tickets if these targets are not met.

Tactic 2: Cut train and station operating and capital costs

4. Savings in train and station operating costs could be achieved by a number of methods whilst maintaining the required timetable. For example, NEG could cut planned investment in trains and stations; operate shorter trains (as already done by c2c); cut staffing levels, for example through driver-only operation (as already planned by c2c) or de-manning stations; or economize on maintenance.
5. Constraints:
 - (a) *Investment*
 - NEG is committed to making various investments and service improvements in its bids for the franchises. The c2c franchise commits NEG to significant

capital and revenue expenditure at stations. The Greater Anglia franchise includes a schedule that details the investment in trains and stations that NEG is committed to. These obligations are also reflected in the passengers' charter included in the franchise agreements.

(b) Length of trains

- NEG has to maintain the train fleet specified in the franchise agreement, subject to the SRA's consent to any changes. Both franchise agreements set out a service development process for producing the next timetable that includes submitting a train plan for approval by the SRA. In the case of Greater Anglia, this requires NEG to produce forecasts of passenger demand; the train plan must support the forecast level of demand and specify train types and formations in detail. The SRA then drafts a new SLC. NEG then has to consult stakeholders on any changes in services. This process leaves little scope for operating shorter trains, unless they are adequate to meet the forecast level of demand without (for example) requiring passengers to stand for more than 20 minutes. The details of the process appear to be less tightly specified in the c2c franchise. Nonetheless c2c has to maintain the specified train fleet, unless the SRA agrees to a change. It also has to carry out a programme of passenger counts and then submit a statement to the SRA. This statement must specify what changes to c2c's timetable and/or train plan are required as a result of increased demand, or permitted as a result of a fall in demand, if c2c is not to exceed the load factors specified in the franchise agreement.

(c) Staffing levels

- Section 18 of the Greater Anglia franchise agreement sets out numbers of drivers, conductors and customer service staff that NEG has to use its best endeavours to maintain, subject to SRA approval for any changes. To

comply with its franchise obligations, NEG has to maintain staffing at no less than 95 per cent of these levels. The passengers' charter includes commitments to 40 new 'passenger-facing roles' at stations and on trains. The c2c franchise agreement requires it to consult the Railway Passengers Committee for Eastern England if it proposes to cease staffing any station.

(d) *Maintenance*

- The franchise agreements require certain fleet examinations to be carried out after specified mileages. Reduced maintenance (other than genuine efficiency improvements) would be likely to affect fleet performance and cause problems in meeting the required quality of service standards (see tactic 3).

(e) *General*

- As many of these actions could not be focused specifically on the flows or stations where competition previously existed, there might be unintended negative consequences elsewhere.

Tactic 3: Cut quality of service

6. Constraints:

- NEG has to comply with:
 - service quality standards set by the SRA that cover such matters as train and station cleaning and the operation of equipment;
 - 'passenger-facing obligations' that include publishing timetables;
 - passengers' charter obligations including facilities at stations, the compensation regime and complaints handling;
 - 'committed obligations' including minimum staffing levels, catering and through ticketing;
 - 'future commitments', including rolling stock and station refurbishment; and

- licence obligations concerning facilities at stations, the compensation regime and complaints handling.
- Compliance is recorded through systems of key performance measure audits for trains and stations, leading to incentive payments or performance failure payments.

Increase revenue

Tactic 4: raise regulated fares on either or both Southend lines

7. All commuter fares from Southend to London are covered by the respective London commuter fares baskets. On both lines over [80] per cent of revenue is derived from regulated fares. These include weekly, monthly, quarterly and annual season tickets. Unrestricted singles and unrestricted returns are covered where the journey is either wholly within the London Travelcard zones or from a station in the London suburban area¹ to one inside the London Travelcard zones (but not vice versa). The weighted average of the fares in each basket must not increase by more than RPI+1 per cent a year. No individual regulated fares can increase by more than RPI+6 per cent a year.

8. NEG could choose to target the maximum RPI+6 per cent increases on either or both London–Southend lines. Within the c2c franchise, it could increase fares on the Fenchurch Street–Southend route but would then have to hold back (or reduce) fares on services via Rainham, Grays and Tilbury. Given the proximity of the lines, this tactic would be very obvious to passengers and would doubtless generate complaints that could lead the SRA to modify the system of fares regulation.

¹That is in the outer part of the area.

9. In the case of the Greater Anglia franchise, the scope for juggling increases within the basket is much greater—and was discussed in One's strategic plan (see Appendix C). [X], NEG could [X], targeting higher increase on the Liverpool Street–Southend services and holding back increases on Ipswich, Norwich and Cambridge services.
10. In either case, NEG would need to compare the projected increased revenue (after allowing for any loss of passengers) on the particular London–Southend route with the projected revenue foregone by holding back fare increases elsewhere.
11. Constraints:
 - Overall RPI+1 limit on each franchise's London commuter fares basket.
 - Individual limit of RPI+6 on every regulated fare.

Tactic 5: Increase unregulated fares on either or both Southend lines

12. Unregulated fares in the London suburban area include: all first-class fares; cheap day returns; low-price advance purchase tickets; saver fares where none previously existed; fares² for 'contra-flow' journeys from stations within the London Travelcard zones to stations outside them; fares² for journeys between two stations both outside the London Travelcard zones; any commuter fares that produce too little revenue to be included in the commuter fares basket after it has been simplified (see Appendix C); and any new types of fare.
13. There is no first class accommodation on c2c trains and only 16 first class seats in every four-car unit on Great Eastern services to Southend. It is unlikely to be attractive to increase off-peak leisure fares for journeys where trains are required to

²Other than savers or weekly season tickets which fall within the 'protected fares' basket.

operate with spare seating capacity (see paragraph 1). For similar reasons, it may not be attractive to increase 'contra-flow' commuter fares—although this demand may be less elastic than leisure demand. The main types of unregulated fare that NEG might consider increasing would thus seem to be: fares for commuter journeys simplified out of the fares basket (but by definition these produce little revenue) and peak fares for journeys wholly outside the London Travelcard zones (for example, Southend–Brentwood). These types of increase might not be thought sufficiently productive to be worth the adverse publicity.

14. Constraints:

- Unregulated fares are constrained by any related regulated fares that provide an alternative.
- Most unregulated fares concern flows and times when NEG is required to operate trains with spare seating capacity and therefore low marginal costs of carrying additional passengers. In many cases they also concern leisure passengers with elastic demand. Increases in unregulated fares are therefore liable to be counterproductive.
- Need to maintain logical relationships between unregulated and regulated fares.
- Adverse publicity and its affect on future franchise bids.