

Our Ref: TS/jmp

Your Ref: CF0992-AS

21 December 2007

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01793 499400[www.firstgreatwestern.co.uk](http://www.firstgreatwestern.co.uk)Mr C Foxall  
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Dear Colin

Thank you for your letter of 14 December and raising your concerns with me.

The franchise regime establishes fares baskets as an appropriate mechanism to ensure that individual markets can be priced according to prevailing local conditions, whilst providing an overall cap on increases. Under the previous regulatory regime, where each flow and ticket type was regulated individually, it was very difficult to justify holding or reducing fares in appropriate areas, as it was not possible to price above the average regulated increase in other areas where the quality of service justified this, hence a balance could not be achieved.

There has been a step change in both capacity and rolling stock quality resulting from the introduction of refreshed High Speed Trains from Thames Valley stations at peak times and hence the pricing changes that have accompanied this.

Whilst some Thames Valley Standard season ticket increases to London Terminals have been towards the upper end of the range of pricing changes, it should be acknowledged that many are not, including the very big flows from Reading, Newbury, Didcot Parkway and Oxford, all of which are at the average of 4.8% year-on-year. Furthermore all Standard London Travelcards, from Thames Valley stations are at or below the year-on-year average of 4.8%, many much lower including Twyford (2.26%), Maidenhead (2.18%) and Pangbourne (2.34%).

We do not consider Passenger Charter discounts when setting fare levels. Clearly, even the average regulated increase of 4.8% would virtually cancel out the current Thames Valley service group 5% Passenger Charter discount, but to assume the customer no longer gets a discount is incorrect, as this ignores inflation. In any case, at the current time, the FGW Thames Valley service group, which contains many of the higher increases you have highlighted, offers the lowest Passenger Charter discount (5%) of any FGW service group, all of which currently offer discounts. In a hypothetical scenario where a fares basket contains some fares that are subject to a Passengers Charter discount and some that are not, a TOC will be in a worse financial position by skewing increases towards fares on which the discount applies – clearly the monetary effect will be a larger overall discount paid out to customers on average, a 5% discount on a £100 fare is £5, but on a £105 fare is £5.25, there will be no balancing effect from the fares that do not offer a Passenger's Charter discount and have taken a smaller increase.

Regarding the differential increases on Weekly and Monthly and longer period season tickets I am not convinced that regular commuters purchase Weekly season tickets for journeys of this nature. As I am sure you are no doubt aware the shortest journeys that these differentials apply for are Swindon and Pewsey to London, both of which are high value long distance commuter markets. The differential policy has been adopted in order to protect these commuters from the higher increases applied to the Weekly fares, which are anomalous when compared to the peak return fares on journeys of this nature. This policy is consistent with that that has applied on the West Coast, Midland Main Line and East Coast routes since before privatisation.

Government has made it absolutely clear both in its franchise specifications and in the recent White Paper that it expects passengers to bear a greater share of the cost of operating the rail network. These fare increases have to be seen in this context. They are a significant contributor to the subsidiary reductions being achieved by First Great Western – they are certainly not a means of increasing additional profit.

I acknowledge your point regarding direct debit and season ticket loan schemes and assure you that we do support these – at present we offer season ticket discounts to employees of organisations who operate loan schemes and are also looking at the introduction of a general season ticket direct debit scheme.

We recognise that performance on First Great Western is not satisfactory. That is why we and Network Rail have made extensive management changes and are investing heavily in upgrading infrastructure, rolling stock and control systems and are recruiting additional crews to deliver a more resilient product. Within First Great Western we are committed to a £200m investment programme and I believe this is far greater than any other operator in the UK. We know that much remains to be done and recognise that includes additional expenditure.

I hope I have been able to give you some reassurance and context for the actions we have taken. If you have any queries or would like to discuss this then please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew Haines', written in a cursive style.

Andrew Haines  
Chief Operating Officer  
First Great Western