Passengerfocus
putting rail passengers first

Rt. Hon. Douglas Alexander MP
Secretary of State for Transport
Department for Transport
Great Minster House
76 Marsham Street
London
SW1P 4DR

Whittles House, 14 Pentonville Road
London N1 9HF

w www.passengerfocus.org.uk
t 0870 336 6000 f 020 7713 2729
e info@passengerfocus.org.uk

19 May 2006

Our Ref: CF057

Dear Secretary of State

Regulation of fares

At our April fares conference we presented the preliminary findings of the qualitative phase of our research into passengers' understanding and attitudes towards the current fares structure. The quantitative phase of the research will report back towards the end of this month. However, we are mindful that in order for you to make a decision regarding future regulation in time to affect the January fares round, we should inform you of our emerging conclusions as soon as possible.

- Deregulation of Savers is a leap in the dark which we cannot support. Passenger Focus continues to be committed to the principle of a turn up and go railway. We do not want captive markets to be exploited, and we want rail to be an affordable choice. These have been the cornerstones of regulation to this point, delivered through protection of peak commuter and off-peak longer-distance fares, and should remain as guiding principles.

- Passenger Focus expects regulation to continue as now in designated commuter areas. Although we accept that the means of regulating fares outside designated commuter routes is flawed, there is no clearly indicated passenger benefit in deregulating longer-distance fares, particularly Savers. Passenger Focus wants any future regulation of fares on the longer-distance market to protect the vast majority of the passenger benefits attributable to Savers.

- Saver regulation should be retained until a better alternative is found. At the last review, the Saver was reprieved for a period unless a better alternative was proposed. We have not yet seen a better alternative proposal. If regulation is to be amended it must still clearly and transparently protect consumers in this market place.

- Passenger Focus has not changed its policy position and does not want to see rises in fares well above inflation to pay in advance for improvements or for industry inefficiency. We support incentivising travel in the off-peak but are opposed to restricting growth by pricing off demand in the peak, and using the argument of subsequently reduced demand for not increasing capacity.

- Passenger Focus wishes to see the industry continue to work on keeping its costs under control, to continue to grow the off-peak market through affordable fares and to collect revenue owed to it through adequate retailing facilities and checking of tickets.

An explanation of some of our reasoning regarding regulation of Savers is attached. It should be noted that the findings of our quantitative research, which will be analysed towards the end of June, may refine our views.

Yours sincerely

Colin Foxall CBE
Chairman

Regulation of Saver fares - Exposition of Passenger Focus' policy
May 2006

As a consumer body, our interest in fares goes beyond simply economic factors. Fares form a significant element in the value for money equation. Consistently low ratings in the NPS for value for money naturally draws our attention to fares. However, our post bag has also highlighted issues such as complexity and lack of understanding of the fares structure generally, difficulties in booking ahead and accessing cheaper fares for outward *and* return journeys in a given time window, perceived unaffordability of some fares, lack of clear information, etc. We have invested in research to understand if particular groups are affected by particular issues, and to quantify the extent of the perceived problems.

Our research so far confirms a lack of understanding of the fares structure generally. In the longer-distance market particularly the number of ticket types, rather than being perceived as a wider choice, is perceived as complex and confusing. The online interface is considered daunting for some passengers, while others do not trust they will be sold the best deal for their journey.

Our research also showed that there is a social exclusion issue whereby those on low incomes cannot access the discounts available with longer-period season tickets as they do not have the money to pay for them up front. Part-time workers also did not see a product for them as they did not make enough journeys in a week to warrant a weekly season ticket. However, for those passengers on designated commuter markets, the Standard fare is regulated - although passengers seem to be unaware of it – keeping the daily fares within affordable limits.

Turning to the longer-distance market, our research shows that while there is little recognition of the Saver brand *per se*, and little knowledge of regulation, there is demand for flexibility and affordability in a turn up and go service. Our research so far shows little recognition of the Saver brand, which, as many operators have pointed out to us is now a misnomer – particularly in Scotland where, effectively, it has been the standard return fare up to now. However, Passenger Focus is committed to the principle of an affordable turn up and go off-peak product.

The case for regulation

We fully understand the desire to offer the industry more opportunity to maximise their contribution to the costs of the railway through the farebox. However, in considering the case for regulation our concern is to ensure that:

a) there is no exploitation of a captive (inelastic) section of the market;
b) there is not a significant section of the current or potential market that cannot afford to choose rail as a means of transport.

Regulation has a part to play in any area where either of these outcomes may arise.

There is no dispute that the inelastic commuter market should be regulated. If this were called into question Passenger Focus would put forward a strong view in favour of commuters. There is an industry-led view, however, that the longer-distance market should be deregulated. We will assume that designated commuter routes will continue to be regulated regardless and will focus here on the case for regulation in the longer-distance market.

Current regulation of the longer-distance market

We accept that the current regulation of the longer-distance market may be flawed. Regulation is focused mainly on the Saver fare, where it existed, and based on its 1995 level. This was arbitrary. Season tickets are also regulated from a 1995 base. The regulated Saver level effectively caps the operators' own book-ahead off-peak discounted fare structures, and has had a knock-on effect on the behaviour of operators in setting Standard Open fares which they have more freedom to set.

Since privatisation, unregulated fares on many routes have risen by well above inflation - on some routes by over 100%. The unregulated SuperSaver has disappeared from many routes, making the Saver – originally a shoulder-peak fare – the main off-peak turn up and go fare on these routes. The uncapped rise of Standard Open fares means that in some cases a Standard Open return costs three and a half times that of a Saver return[1], and a weekly season ticket costs less than two Standard Open returns[2]. Changes on restrictions to Savers have also seen some journeys which were previously possible on particular trains with a Saver fare become possible on those trains only with a Standard Open fare, affecting some passengers' fares quite dramatically[3].

It does not necessarily follow that the regulated fare is "too cheap" as some have tried to argue. The same factors could equally indicate that the Standard Open fare is too expensive. Our research suggests that some sections of the business market whose employer pays for business travel are the least sensitive to price.

The question is whether there is a captive market that is being exploited. NERA, in a report for ORR in response to our referral of Virgin to the Rail Regulator[4], suggested that:
a) there was evidence that the franchising process itself was a competition for a dominant market position;
b) it was difficult to allocate costs across a rail business;
c) further investigation would be necessary to see if a section of the market was captive, but the business sector was known to be fairly inelastic from a number of sources available at the outset of the franchising process, and offered the opinion that;

[1] London - Manchester Standard Open Return £202, Saver return £57.10
[2] Bristol – London Standard Open Return £112, weekly season £189
[3] E.g. Preston–London: <u>in 1995</u> not only Savers (first train to London 8.20; return any time) but also SuperSavers (first southbound train 9.20; return any time) were available. <u>In 2000</u> both fare types and the first outward train times still applied, but the SuperSaver was further barred on three late-afternoon southbound trains; both tickets also had restrictions imposed on early-morning and mid-afternoon to early-evening return departures from London. <u>By 2005</u> the SuperSaver fare had been withdrawn; the earliest Saver departure southbound is 8.46, with northbound restricted to after 9.15 and not between 15.15 and 18.11; i.e. the earliest arrival in London is 11.25, with return services at 9.45 and hourly to 15.45, then 18.45, 19.45 and 20.45. .*As a result, a turn-up-and-go return to London, on a weekday leaving after 9.00 and returning at 15.45, cost £36 in 1995; £52.70 in 2000; and £195 in 2005.*

[4] Analysing allegedly excessive prices charged by train operating companies. Part 1 (A report for ORR by NERA March 2001) www.rail-reg.gov.uk/upload/pdf/nera_jd280301.pdf

d) control of pricing for a publicly subsidised business was better done through regulation than through application of competition law.

Operators and British Rail have historically been quite open that their ideal is to get the maximum revenue from those who can afford to pay it and limit discounts to those who cannot. The resistance to quota discount fares on peak trains stems from the fear that this will abstract revenue, as those who would otherwise still travel and pay the full fare can access the cheaper fares. But what of those who have no option but to travel at short notice or at peak times but are not paid for by their employers?

Virgin have attempted to tackle this problem by allowing certain “key workers” and those with Railcards to use Saver tickets (with Railcard discounts if held) at peak times. They have also allowed certain journeys for which the last train of the day would leave London in the peak to be subject to the Saver fare. These measures towards addressing social concerns are to be commended but are not widely known. They do not benefit all low-income groups but do cover all Railcard users including high earners. Their conditions for using Savers on peak trains are not replicated across all TOCs, and so add to the complexity of the national fares structure.

There will always be those who need to travel at peak times, some of whom will find the cost steep or prohibitive. Not all business users can pass costs on to employers or clients. Funerals, job interviews and other events determine time of travel, and the window of opportunity for booking ahead. However, if we go down the route of regulating the peak to protect those who need to travel in the peak, the industry suggests we are in danger of subsidising the railway for the business users who can (and currently do) afford it, thereby reducing the farebox contribution to the costs of the railway. Alternatively, do we really want to go down the road of means testing in order to target subsidy for use of public transport? These considerations, and the commitment to a turn up and go railway for the majority of passengers who want it, led to the protection of the Saver fare in the first place.

Passenger Focus is committed to an affordable turn up and go railway. However, history has shown huge rises in unregulated fares on key routes, which we would find unacceptable if repeated with current Saver fares. Passenger Focus would seek enforceable assurances that steep rises on Saver fares could not happen - which in itself amounts to regulation. If the current (flawed) Saver regulation is to be replaced, it must be by the best solution. This necessitates the full consideration of a number of well thought-through options. Passenger Focus has not been privy to any alternative considerations by DfT. Therefore our position has to be that of supporting the status quo until we are convinced of the consumer benefits of an alternative.

What will happen if the Saver is deregulated?

32 million Saver tickets, 12 million APEX and 10 million TOC discount tickets were sold last year. The deregulation of Savers and subsequent raising of these fares would affect a lot of people.

No one knows exactly what will happen if the Saver is deregulated. The industry is committed to a turn up and go fare. However, it is pretty well accepted that the fare will rise. Currently a Saver single is often only £1 less expensive than a Saver return. It would seem a good guess that a Saver return would very soon be double the Saver single, with some spin to the effect of an anomaly smoothed.

The current National Fares Manual lists over 70 fare types, governed by 760 validity conditions, on 102 A4-sized pages. There is no simple answer to the question "what is the fare between London and Manchester?" We are aware that the perception of complexity may be overcome through presentation. Airline internet booking systems only present "the" available fare for a particular leg of a journey, for example. There is, however, no consensus on how TOCs would react to the freedom to set fares. A likely outcome is even more complexity in the range of fares available - something our research shows passengers do not want. Our research suggests that answers that start "it depends..." result in confusion – and the more expensive most flexible ticket seeming to be the safe option.

Relaxation of other regulation may allow the price paid for a ticket to reflect the cost of retailing. E-tickets and smartcards would reduce transaction costs which could be passed to the consumer. We await the results of the next phase of our research to inform our views on this.

If Savers go up, can passengers always buy book ahead cheaper fares?

The availability of advance purchase, airline style, fares as a substitute for the Saver is often put forward as an argument that there are cheaper tickets available to the leisure market if people just do as they do on airlines and book ahead. These ticket types clearly serve different segments of the market. If we are to emulate the airlines, we should use their categorisation of passengers – business, personal, pleasure. The rail industry lumps the last two into "leisure" thus blurring the distinction between those who have a need to travel at a specific time and those who are able to choose a travel time to meet other considerations such as price.

Trains are not airlines. Apart from London – Glasgow/Edinburgh, air accounts for very little of the domestic market[5]. Where it does compete it is for the business market and it has hardly penetrated the leisure market at all[6]. Virgin has recently announced that it now has 60% of the rail/air London-Manchester market; this was widely reported in the press as referring solely to the business market. The vast majority of travel between these cities is by car[7]. If passengers currently using Saver fares no longer use rail, the mode they will shift to is road, not air.

Our research shows there is clearly a segment of the market for whom advance purchase is either not possible or desirable. The Saver covers many journeys from approximately 35 miles in length. On some routes without Cheap Day Returns, it is the only discounted turn up and go fare, and on some routes book ahead tickets are not available. Our research showed little

[5] The Impacts Of Air Transport On London (April 2004, Greater London Authority) www.london.gov.uk/mayor/sustainable_development/docs/lsdc_airtransportimpacts.rtf

[6] Regions to London and London's airports study. (Public Version prepared for SRA. London 2000) www.dft.gov.uk/stellent/groups/dft_aviation/documents/page/dft_aviation_508268.pdf

[7] Between 150-250 miles (London – Manchester: 185): 82% of trips are made by cars; 10% by rail. National Travel Survey: How people travel (2004) page 22 Table 3.10 http://www.dft.gov.uk/stellent/groups/dft_transstats/documents/page/dft_transstats_039318.pdf

desire to take up the advance purchase possibility of shorter-distance intercity routes e.g. Leicester to London, where planning day trips may be more spontaneous.

One of the major benefits of the Saver (and the SuperSaver where it still remains) is interavailability, i.e. the ticket is valid on more than one train company's services. A Saver from Hastings to Glasgow is available by either of two routes from the coast to London and by two routes north from London, (and includes the cross-London Underground fare). Passengers are free not only to travel on a wider choice of trains and to return on a date to suit them but, on either route without further formality. Furthermore, Savers offer passengers the through-ticket option which book-ahead tickets largely fail to emulate, especially to and from places which due to railway geography lie away from trunk routes, e.g. Melton Mowbray – Grange over Sands, where only a combination of tickets could effect a cut-price book-ahead fare. A combination of tickets would deny the passenger the benefits and safeguards (such as onward carriage to final destination and/or compensation in case of delay en route) which a through ticket, e.g. Saver, provides. Walk-up fares must preserve the benefits of interavailability and through-ticketing.

The availability of unsold APEX fares up to 18.00 on the eve of travel is welcome, though it does not detract from the fact that book-ahead fares are quota-controlled and it may well be that there are none left at this time, even if intending passengers are aware of this facility. In the absence of an affordable walk-up fare on the morrow, the passenger would be obliged to pay the full Standard Open fare.

In theory, operators could offer unsold quota-controlled discounted fares right up to departure time. However in practice, at less busy times, some operators have chosen to withdraw the SuperSaver and charge the maximum permissible walk-up fare suggesting that walk-up fares will exploit the passenger's expectation of travelling on the next train.

While acknowledging the benefits of discounted advance purchase tickets for those who are able to plan their journeys and take advantage of them, Passenger Focus remains committed to an affordable walk-up railway for those who cannot.