Consultation Response

ORR retail market review

September 2015

Pedro Abrantes
Senior Economist

pteg Support Unit
Wellington House
40-50 Wellington Street
Leeds – LS1 2DE
0113 251 7424
info@pteg.net

Content

1. Introduction 1

2. Response 1

Q1: Do you agree with our description of the features of the market for ticket selling? 1

Q2. Do you agree with our emerging findings with respect to passengers' ticket buying experiences regarding their choice / ability of a) retailer/sales channel; b) how they buy tickets; c) their ticket format; d) the range of tickets; and e) opportunities to find cheaper prices? 2

Q3: What are your views on our emerging findings that TOCs' incentives to introduce new fares and products are somewhat limited? What are your views on our suggestions around DfT's role and, more specifically, the role of franchising? What are your views on our proposed recommendations that improvements be made to the industry processes to make it easier for TOCs to introduce new fares or products? Specifically, do you agree this should be taken forward now, as a matter for TOCs and governments? 2

Q4: What are your views on the role TIS machines play in enabling TOCs to differentiate the way they sell tickets to passengers? What are your views on the appropriate response, in particular around the balance between providing the TIS market with more direction about the design of the TIS machines and in facilitating choice? 3

Q5: What are your views on the possibility that the price of (permanent) fares could vary by sales channel? What are the merits of considering this further at this stage? 3

Q6: What are your views regarding our emerging findings on the incentives potential and existing retailers face in entering and expanding in the market? Specifically, what are your views around having an independent body overseeing the third party retailers' arrangements, including the identity of the body; on having greater transparency of retailers' likely costs and remuneration; on having a formal obligation on the relevant TOC governance bodies to consult on significant changes to the industry regime; and on having an appeal mechanism to enable a third party retailers raise a dispute? 3

Q7: What are your views around the ways that industry could reduce the barriers smaller retailers face in selling rail tickets? 4

Q8: What are your views regarding our emerging findings that there could be increased scope for third party retailers to compete in selling tickets? Specifically, what are your views that all retailers should have access to all fares and products? What are your views on retailers' ability to discount fares, and to what extent should other retailers have access to these discounted products (at the cheaper price)? What are your views around third party retailers' inability to create new fares and products, and do you consider further consideration could be given to options that provide for a net pricing (or something similar)? 4

Q9: Do you agree with our emerging findings that TOCs have limited incentives to collaborate with each other in the development of shared systems? To what extent do you consider that having increased emphasis through innovation funding mechanisms of the role of an integrated, national network (and thus the role of shared IT systems) could address the issues? To what extent do you consider that a strategy, led by government with input from across industry, on future ticketing can play a role? 4

Q10: What are your views on the merits, as a possible longer-term option, to consider relaxing the obligations on TOCs to facilitate a fully integrated, national network? 5

Q11: What are your views on the role of third parties (including third party retailers,

passenger representatives and technology providers) in the development of shared IT systems? To what extent could formal working groups address the issue? 5

1. Introduction

1.1. ***pteg*** represents the six English Passenger Transport Executives (PTEs), and successor bodies such as Combined Authorities, which between them serve more than eleven million people in Tyne and Wear ('Nexus'), West Yorkshire ('Metro'), South Yorkshire, Greater Manchester, Merseyside ('Merseytravel') and the West Midlands ('Centro'). Nottingham City Council, the West of England Partnership, Transport for London (TfL) and Strathclyde Partnership for Transport (SPT) are associate members of ***pteg***, though this response does not represent their views.

1.2. PTEs (and Combined Authorities) are the main strategic transport planning bodies outside London. They plan, procure and promote public transport in some of Britain's largest city regions, with the aim of delivering integrated transport networks accessible to all.

1.3. All PTEs play an active role in the development of local rail systems and they have been particularly instrumental in the introduction and expansion of multi-modal ticketing products. In recent years, PTEs have also played a leading role in the development of smart ticketing systems. As part of the Smart Cities programme, ***pteg*** and the PTEs are working closely with the DfT to identify and overcome obstacles in order to accelerate the take up of smart integrated ticketing products across the metropolitan areas and support the DfT's vision for a seamless door to door journey.

1.4. ***pteg*** welcomes the opportunity to contribute to the ORR's retail market review, having provided initial feedback in the Autumn of 2014.

2. Response

Q1: Do you agree with our description of the features of the market for ticket selling?

2.1. While we broadly agree with the consultation document's description of the ticket retail market, we feel that the ORR also needs to clearly acknowledge:

- the importance of local multi-modal tickets for rail travel, in particular in large urban areas and their hinterland;
- the growing market share of smartcards and contactless systems for public transport travel, and;
- the role of Local Transport Authorities (LTAs) in leading and promoting innovation in the public transport ticketing market.

2.2. The types of ticket we refer to in the bullet point above already contribute to many of the objectives which the ORR's review is seeking to achieve (e.g.: greater choice of retail channel, greater passenger convenience, lower ticket retail costs and value for money/cheaper fares). The ORR's review should therefore ensure that any changes to the ticket retail market are fully supportive of the efforts of PTEs and other local transport authorities in this area.

Q2. Do you agree with our emerging findings with respect to passengers' ticket buying experiences regarding their choice / ability of a) retailer/sales channel; b) how they buy tickets; c) their ticket format; d) the range of tickets; and e) opportunities to find cheaper prices?

2.3. We largely agree with the ORR's emerging findings but feel that the review should more clearly acknowledge the opportunities offered by local ticketing systems in large urban areas (including smart and contactless systems) for introducing product and process innovation around ticket retailing.

2.4. We also note that some of the references to local multi-modal tickets in PTE areas and in London may be slightly out of date (we would note, for example, the recent introduction of Apple Pay on the London Underground).

2.5. Moreover, we don't feel that the consultation document sufficiently deals with the trade-off between choice and complexity. Passengers may well value choice in certain contexts but we don't believe they usually value the increased degree of complexity that comes with it.

2.6. This is a particularly important trade-off to consider in large urban areas, where many individuals make frequent and complex journeys that often rely on the services of different modes of transport and operators. Passengers are also faced with the choice of whether to use public transport (which is inherently more complex) or turn to the convenience of the taxi or the private car. In such circumstances, simple, well-understood multi-modal ticketing systems sold via a trusted retailer can offer certainty and convenience, thereby attracting passengers to the public transport network. In contrast, greater choice of ticketing products and retail channels could make public transport more complex to understand and drive some passengers away.

Q3: What are your views on our emerging findings that TOCs' incentives to introduce new fares and products are somewhat limited? What are your views on our suggestions around DfT's role and, more specifically, the role of franchising? What are your views on our proposed recommendations that improvements be made to the industry processes to make it easier for TOCs to introduce new fares or products? Specifically, do you agree this should be taken forward now, as a matter for TOCs and governments?

2.7. The relatively short-term nature and narrow scope of franchising agreements can limit TOC's incentives to introduce new ticketing products and systems. We therefore support the ORR's view that more could be done by government and other public authorities to introduce improvements in the retail market.

2.8. In particular, we believe there could be an even greater role for PTEs and other local transport authorities as we are in a better position to take a long term view on investment opportunities, already have a strong track record of introducing significant ticketing innovations and are not hindered by the commercial interests which can sometimes undermine effective collaboration between other industry players.

2.9. PTEs have a legal duty to provide impartial travel information advice and one of our key aims is to promote an integrated transport network that improves access to opportunity. We have spear-headed the introduction of local multi-modal tickets and smart ticketing systems in partnership with transport operators. With appropriate funding and powers passed down from

central government, PTEs could potentially have an even greater impact on the retail of rail tickets.

2.10. We largely agree with the suggestion that government authorities and TOCs improve the process through which TOCs are able introduce new products. At the same time, however, large scale changes to fare structures and ticketing systems mid-way through franchises can potentially be detrimental to passengers and tax-payers. Regulators and franchising authorities need to ensure that any changes to the process for introducing new products does not act to undermine the overall integrity of the system or creates the opportunity for operators to cherry-pick the market, narrow consumer choice or reduce value for money.

Q4: What are your views on the role TIS machines play in enabling TOCs to differentiate the way they sell tickets to passengers? What are your views on the appropriate response, in particular around the balance between providing the TIS market with more direction about the design of the TIS machines and in facilitating choice?

2.11. We have no agreed position on this issue.

Q5: What are your views on the possibility that the price of (permanent) fares could vary by sales channel? What are the merits of considering this further at this stage?

2.12. In relation to the objective of allowing prices to vary by retail channel in order to reflect differences in retail cost, it is important to take into account the fact that this could have detrimental effects on some passengers.

2.13. For example, it could limit choice of retail channels in the long run if those which are currently being cross-subsidised became no longer viable as a result. This could in turn have a differential impact on the ability of different socio-economics groups to access the rail network. Any proposals in this area should therefore include an assessment of their impact on different groups of passengers.

Q6: What are your views regarding our emerging findings on the incentives potential and existing retailers face in entering and expanding in the market? Specifically, what are your views around having an independent body overseeing the third party retailers' arrangements, including the identity of the body; on having greater transparency of retailers' likely costs and remuneration; on having a formal obligation on the relevant TOC governance bodies to consult on significant changes to the industry regime; and on having an appeal mechanism to enable a third party retailers raise a dispute?

2.14. While we are generally supportive of greater transparency across the rail industry and see a greater future role for PTEs in the retail of rail tickets, we are less convinced that a proliferation of independent third party retailers would bring significant benefits to passengers. Moreover, there are a number of independent third party retailers already present in the market anyway. We would therefore be cautious about committing a significant amount of additional regulatory resources to an independent body overseeing ticket retailing.

2.15. We are fully supportive of the proposal to require the relevant TOC governance bodies to consult on significant changes to the industry regime.

Q7: What are your views around the ways that industry could reduce the barriers smaller retailers face in selling rail tickets?

2.16. We understand that colleagues from the West Yorkshire Combined Authority have spoken to the ORR about their recent experience in this area. Other PTEs have also had some measure of success in this respect and may be able to share lessons learnt with the ORR.

2.17. One recurrent message seems to be that it is helpful to have a simple and clear fare structure, which independent retailers can easily implement without a substantial up-front investment in training and which helps minimise the risk that passengers are given the wrong product. This would suggest that it would be more straightforward to involve smaller retailers in selling sub-sets of tickets rather than the full range of available fares.

Q8: What are your views regarding our emerging findings that there could be increased scope for third party retailers to compete in selling tickets? Specifically, what are your views that all retailers should have access to all fares and products? What are your views on retailers' ability to discount fares, and to what extent should other retailers have access to these discounted products (at the cheaper price)? What are your views around third party retailers' inability to create new fares and products, and do you consider further consideration could be given to options that provide for a net pricing (or something similar)?

2.18. While we take on board the point that greater and more effective competition from third party retailers could encourage product and process innovations, there are some additional issues which we feel the ORR should consider.

2.19. Our main concern is the risk that greater fragmentation of the ticket retail market could potentially undermine the financial viability of some retail channels which currently benefit from a degree of cross-subsidy. On a related point, it is unclear to what extent all third party retailers contribute added value to passengers and the industry and to what extent they are purely cream-skimming the most profitable ticket selling channels (e.g., online).

2.20. Other concerns include the risk that greater fragmentation could lead to a lower quality of service (if more passengers are given the wrong ticket) and the impact on TOCs' ability to manage capacity and pilot new ticketing products. There is also our earlier point that while greater market complexity can represent greater choice, it can also make ticket purchasing more burdensome for passengers.

Q9: Do you agree with our emerging findings that TOCs have limited incentives to collaborate with each other in the development of shared systems? To what extent do you consider that having increased emphasis through innovation funding mechanisms of the role of an integrated, national network (and thus the role of shared IT systems) could address the issues? To what extent do you consider that a strategy, led by government with input from across industry, on future ticketing can play a role?

2.21. On the proposal for a future ticketing strategy, we are broadly supportive of the ORR's analysis and believe that PTES could have a useful role to play, in particular around the availability and development of integrated ticketing systems in large urban areas.

Q10: What are your views on the merits, as a possible longer-term option, to consider relaxing the obligations on TOCs to facilitate a fully integrated, national network?

2.22. We would note our earlier points on the trade-off between choice and complexity.

Q11: What are your views on the role of third parties (including third party retailers, passenger representatives and technology providers) in the development of shared IT systems? To what extent could formal working groups address the issue?

2.23. PTEs have significant experience of developing shared IT systems and specifications, both as founding members of the original organisation which became ITSO Ltd and through multi-lateral smart ticketing projects. While a collaborative approach based around formal working groups can help in developing shared technical standards and a more seamless integration between systems, it can also result in a lengthier development process. The most appropriate approach is likely to depend on the specific circumstances of the project being delivered.