



Consultation Response

ORR retail market review consultation

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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'). Leicester City Council, Nottingham City Council, 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 a letter dated 21st March 2014, which highlighted issues around the value of multi-modal tickets, the trade-offs between retail choice and increasing complexity, and the development of smart ticketing systems. In this response, we build on our previous comments by focusing on the following issues:
 - Understanding passenger behaviour (covered in chapter 2 of the consultation document)
 - Understanding the ticket retail market and the innovation process (covered in chapter 3, 4 and 5 of the consultation document)
 - Industry systems and governance (covered in chapters 4 and 5 of the consultation document)
- 1.5. We understand that at least one PTE is submitting an individual response to this consultation. In this joint response, we focus on broad themes of common interest across our members.

2. Response

Understanding passenger behaviour

- 2.1. The ORR's consultation document recognises, in its opening summary, that passengers seek a range of different attributes from the rail ticket retail market. They want cheaper prices and more convenient and innovative ways to buy tickets, but they also want a system that is simple, flexible and generally easy to use and understand.
- 2.2. However, the ORR appears to place disproportionate weight on choice and innovation over other attributes: "*The Office of Rail Regulation's Retail Market Review considers how regulation and industry arrangements and practices within the retail market are **facilitating***

choice and, in particular, promoting investment and innovation in the best interest of passengers.” (p.4).

- 2.3. Although some passengers may well stand to benefit from greater choice of products or retail channels, others prefer the simplicity and certainty offered by standard core products and trusted, reliable, retail channels. For example, a passenger wishing to buy a group ticket for the annual family holiday may be willing to spend an hour shopping around on the internet for the best value ticket compatible with the planned journey. They may place additional value on being able to print their purchased ticket at home, on being offered on-board catering during their journey or discounted accommodation at the destination, as part of the original ticket purchase.
- 2.4. Contrast that with the needs of a regular commuter buying a weekly ticket on a Monday morning 40 times a year. This passenger is likely to place greatest value on being able to buy the same ticket each week from the same reliable retail channel (be it a ticket office, a TVM, a conductor or an NFC-compatible smartcard). The price of the ticket should be predictable and the cheapest available. Whether the ticket can be purchased over the internet may be less relevant if the passenger needs to buy the ticket on the day of travel. This means that TVMs or, indeed, a staffed ticket office (especially for more complicated tickets, e.g., ones matching a photocard) are needed and should be available in sufficient number.
- 2.5. If this commuter happens to live some way from a rail station or travels to different destinations during the week, then he/she may be willing to pay a premium for an annual bundled product (such as a London travelcard or what are more generally referred to as multi-modal tickets), which would allow travel on any public transport mode. In this scenario, this passenger would be willing to forego ticket choice for an entire year in return for greater simplicity, flexibility, convenience and, potentially, a cheaper price.
- 2.6. The latter two examples closely reflect the experience in metropolitan areas, where PTEs have found that locally available area-wide (e.g.: zonal) period tickets, and multi-modal tickets in particular, have become very popular. For example, in West Yorkshire the number of rail trips using the local 'metrocard' exceeds the number of trips on rail point-to-point products¹. Our survey evidence also suggests that, somewhat surprisingly, a significant proportion of passengers using multi-modal products would have been financially better off buying separate rail and local public transport tickets. This confirms that flexibility, simplicity and convenience do hold a value. The DfT-sponsored 2009 Bus Soft Factors study tried to put a number on the value of simpler ticket systems for bus passengers and its results suggest that it could be as high as 50 pence per single bus trip².
- 2.7. Based on information separately provided to the ORR we estimate that, across the six English PTE areas alone, local tickets account for over 50 million rail journeys. Taking into account similar products sold in other parts of the country outside London, it's likely that these ticket types exceed travel on tickets sold by third party retailers by a factor of close to 2:1. Moreover, we expect this market to continue to grow in particular as the result of the implementation of ITSO smart ticketing on local bus and rail networks across the country.

¹ We have provided separate information to the ORR on the number of rail trips which we estimate are made using local tickets across PTE areas.

² We estimate the average revenue per adult commercial bus trips in PTE areas to be around £1.20 (source: **pteg** analysis of DfT Bus Statistics).

- 2.8. The examples above illustrate the point that the rail passenger market is highly heterogeneous. In our view, **it is important that the present review is based on a robust understanding of the preferences of different groups of passengers**. In developing any proposals, it is also important to keep an open mind and to articulate how different groups of passenger will be affected, in order to avoid introducing improvements for one group which are undone by added inconvenience to another. In particular, we would warn against automatically equating choice and innovation with a better service for customers. Some passengers may well prefer stability, simplicity and a system they can rely on to a highly dynamic, and potentially more complex system, which takes greater effort to navigate.
- 2.9. In addition, we feel that **the review also needs to reflect in much more detail the characteristics of the transport market in large urban areas outside London**, and in particular the constraints imposed by the deregulated bus market which means that a substantial proportion of passengers need to rely on local multi-modal and area-wide products. Developing and implementing such tickets requires significant amount of work on the part of local transport authorities and it is important that the rail regulatory framework supports rather than hinders their efforts.

Understanding the ticket retail market and the innovation process

- 2.10. The ORR's consultation document provides a largely accurate and comprehensive description of the mainstream ticket retail market (by which we mean rail point to point tickets). It also provides a good overview of Oyster and its relationship with mainstream rail products, as well as the on-going development of rail ITSO-compliant smartcard ticketing systems in the South East.
- 2.11. However, almost no detail is provided on the wide array of products available for local rail travel in most of the largest urban areas outside London (see, for example, the report from the 2013 PDFC project on PTE tickets for a comprehensive list of products). In the previous section, we have shown that these tickets represent an important proportion of the rail market, which is one reason why the ORR should pay greater attention to this section of the market.
- 2.12. There are, however, other important reasons why the ORR should focus on this part of the market. Firstly, PTE tickets provide an exceptional learning opportunity which could help inform the future development of the rail retail market. PTE tickets have developed largely to local specifications, both in terms of product design and retail strategy, over a relatively long time frame. Understanding how PTE tickets have been integrated, more or less effectively, into mainstream industry systems can provide useful lessons on the challenges linked to further product and retail innovation.
- 2.13. The other reason for looking at PTE tickets is that they can help better understand the innovation process in the context of the public transport ticketing and retail. The ORR's consultation document puts significant emphasis on commercial incentives as the main driver of innovation. However, the experience in PTE areas is that transport operators can often be slow at introducing ticketing and retail innovations, even when they are later shown to generate passenger benefits. In the public transport market, innovation has often been led by public sector stakeholders, as illustrated in a 2009 report by Booz&Co for **pteg**³. This report

³ <http://www.pteg.net/resources/types/reports/benefits-simplified-and-integrated-ticketing-public-transport>

shows how transport authorities, both in the UK and in other parts of the world, have been pioneers in introducing simplified, multi-modal, discounted and area wide tickets, which have subsequently proven to be highly popular with passengers. Other examples comprise the introduction of smart ticketing, including both Oyster and the multiple ITSO-compliant multi-modal systems, which are currently being implemented in many other large urban areas. It could be argued that RSP itself is a result of public opinion pressures which led to regulatory conditions being placed on the industry at privatisation. It is not clear whether a group of competing franchises would have introduced an integrated national ticketing system of their own volition.

- 2.14. There are good reasons why ticketing innovation has often been led by the public sector, such as the role of externalities (the economic value of an additional public transport passenger is likely to be greater than their contribution to operator profitability), the need for coordination both in technical and governance terms, constraints imposed by relatively short term and tightly specified operating contracts, risk aversion and lack of expertise⁴. But regardless of the reason, **the point which we would like to see the ORR take on board is that it is essential to understand the innovation process in order to devise regulatory mechanisms which encourage future innovation.**
- 2.15. Based on our experience, it is important that any such mechanisms empower public stakeholders to play an active role in the development of ticketing products and retail channels. PTEs are facing particular challenges as part of the implementation of ITSO-compliant smart ticketing systems which work across local transport and rail operators⁵. Greater transparency and openness on the part of the rail industry would assist this process and facilitate both product and retail innovation.

Industry systems and governance

- 2.16. The ORR's consultation document provides a largely accurate and comprehensive description of the governance and operational arrangements relating to the retailing of mainstream rail ticket products. As stated earlier, however, there is virtually no reference to PTE tickets, the role of PTEs in promoting new products or the revenue allocation process for multi-modal PTE tickets. In the interest of completeness, we would like to see the diagram in figure 7 revised in order to take into account this part of the market.
- 2.17. With respect to the questions posed at the end of chapter 5, we feel that the industry's current governance structure, its processes and systems present both strengths and weaknesses.
- 2.18. Firstly, we agree that the overall system currently governing ticket retail is both rigid and difficult to navigate. As a result, PTEs have often tried to develop and implement local multi-modal tickets via bilateral agreements with individual TOCs, usually locked into franchise agreements. The resulting system is one where PTEs typically retail locally-specified products via their own infrastructure (such as travel centres located at strategic transport interchanges) and/or third parties (e.g.: Payzone). With exceptions, TOCs are not able to sell PTE tickets and PTEs are not able to sell conventional rail-only tickets.

⁴ By this, we mean that train operators specialise in operating efficient train services. Ticketing innovation is not necessarily one of their core strengths.

⁵ We have provided more information on this issue to the ORR in a separate document.

- 2.19. Clearly, this creates some inefficiency as there may be, in some cases, two retail outlets operating side by side, one selling only mainstream rail tickets and the other selling multi-modal tickets. This is also far from an ideal scenario from a passenger's perspective as it narrows the choice of retail outlets and means that buying a door-to-door ticket may require two entirely separate purchases. Despite its weaknesses, this approach has allowed PTEs to introduce local tickets more quickly than might have otherwise been the case. It also allows PTEs to keep their own retail costs down.
- 2.20. On the other hand, we can see the benefits which a fully integrated national rail network brings and would like to see this extended to local public transport networks. Our vision for the future is one where passengers could make their whole door to door journey based on a single payment and/or ticketing method. This could be achieved, for example, by integrating emerging local ITSO-compliant smartcard schemes with RSP although there may be also other feasible routes to achieve this aim.
- 2.21. We recognise that this an ambitious objective and our own experience with implementing local smartcard schemes suggests that it is likely to be several years away. In the meantime, **we suggest that current RSP workarounds are maintained while encouraging the rail industry to open up to third parties and to make its own systems gradually simpler, cheaper to operate, more transparent, flexible and resilient.** We feel that this would not only simplify our own relationship with rail industry systems and products but it could also reduce costs further and widen the choice of retail channels available to passengers by attracting specialised third party retailers.
- 2.22. Below we suggest some specific steps which, we believe, would take the industry in the right direction:
- RSP and other rail industry bodies to make technical information about systems, processes and industry standards openly available to interested parties; where information is lacking, this should be addressed by industry. The recent PDFC project on PTE tickets is a good example of a valuable initiative to document current practice for the benefit of all stakeholders involved
 - RSP and other rail industry bodies to engage more closely with ITSO Ltd on the definition of future ticketing standards
 - RDG and other rail industry bodies to engage more closely with PTEs and other local transport authorities with the aim to learn from current experience, to understand future aspirations and to develop a closer relationship. Ultimately, this would contribute towards developing future ticketing products and retail channels of mutual interest. Although this could be achieved through more or less formal arrangements, in our experience it is important that the relationship is formalised in some way and its scope made clear to all relevant industry stakeholders.

Data access

- 2.23. In addition to the previous points, **PTEs would like to see much greater openness from TOCs in the disclosure of passenger demand information stored in ticketing and revenue apportionment systems.**
- 2.24. As we have explained earlier, PTEs have a strategic statutory role in the development of integrated local public transport networks. As part of this remit, PTEs promote, develop and often fund additional services and new infrastructure schemes. They also develop the kinds

of multi-operator ticket described earlier in our response. Performing these duties effectively requires accurate information on individuals' travel patterns and how they change over time. PTEs often carry out their own passenger surveys, which can help provide information which the number of tickets bought doesn't (e.g.: how many passengers travel without a ticket). However, industry revenue apportionment systems remain the best source of information on point to point travel volumes using mainstream rail tickets.

- 2.25. Yet, this information is treated as commercially confidential and can usually only be accessed via consultants following scheme-specific information requests. This adds cost and delay to the strategic planning work carried out by PTEs and inevitably means that some worthwhile projects cannot be pursued, including potential ideas around new ticketing products. **We would encourage the ORR to review the ownership of passenger demand data held by the industry as part of this review.**