

Rail regulation

Introduction

1. This appendix outlines the aspects of rail regulation relevant to the ownership of the Greater Anglia and other rail franchises by NEG and the resulting limits on its scope to take independent commercial action. All TOCs are at present regulated by the ORR, the SRA and the Health and Safety Commission/Health and Safety Executive (the HSE), which have complementary but separate jurisdictions.
2. The Government has just reviewed the structure and organization of the rail industry with the objective of enabling it to deliver the services required by customers as well as looking at the regulation of safety and progress made by the industry in improving performance and controlling costs. On 14 July 2004, the Secretary of State for Transport presented the results of the review in a White Paper.¹ The proposed major changes in the regulatory system will require primary legislation and are likely to take at least 18 months to implement fully. They include:
 - the Department for Transport (DfT) taking direct charge of shaping the strategy for the industry, setting its outputs and determining the overall level of public funding;
 - the abolition of the SRA;
 - the transfer of the SRA's strategic responsibilities and financial obligations to the DfT and other bodies, including its roles in awarding TOCs' franchise agreements and monitoring performance under them;
 - new regulatory and contractual arrangements between the DfT and Network Rail;
 - Network Rail being given overall responsibility for the performance of the network, including leading industry planning, setting timetables and directing service recovery from disruption;
 - the reduction in the number of TOC franchises and their closer alignment with Network Rail's regional structure to encourage joint working between Network Rail and the TOCs at a local level;
 - more decision-making being passed down to PTEs and devolved administrations, including the Mayor of London (the Mayor), who will have an increased role in relation to rail services in Greater London through TfL;
 - a greater role for community rail partnerships² in improving the management of rural branch lines; and
 - the transfer of responsibility for regulating rail safety from the HSE to the ORR, which will retain responsibility for independent economic regulation.

¹See <http://www.dft.gov.uk/railways/whitepaper/>.

²One example is the Bittern Line Community Rail Partnership, which is thought to have assisted the line between Sheringham and Norwich to achieve significant growth in passenger numbers. It is supported Norfolk County Council, district councils and other local organizations.

The Office of Rail Regulation

3. The ORR is the independent economic regulator of the monopoly and dominant elements of the rail industry in Great Britain. Its principal function is to regulate the operation of the rail infrastructure by Network Rail. With reference to TOCs, it is primarily responsible for granting licences (without which they cannot operate), for setting licence conditions and for enforcing some of them. (The SRA also enforces the consumer protection conditions of the licences.) The ORR is responsible for approving or directing the terms of contracts granting access to stations, depots and track. Track access agreements establish rights regarding among other things the number and frequency of trains that can be operated and the stops that they can make. The ORR is also responsible for amending and enforcing the Network Code, which is the central commercial code for the railway industry. Finally, the ORR is responsible for enforcing the TOCs' passenger and station licences.
4. Under the proposed reorganization, the ORR will retain its existing role including responsibility for economic regulation, but will operate a new process that takes into account funding limits and outputs set by the DfT (see paragraph 2), and will take over responsibility for rail safety regulation from the HSE.

The Strategic Rail Authority

5. The SRA's main role is to provide strategic direction for the railways in Great Britain. It is subject to directions and guidance from the DfT and its statutory obligations cover among other things, negotiating and awarding TOCs' franchises, including specifying the services to be provided by them, and monitoring their subsequent performance.
6. Proposed services within the Greater London area are also subject to directions and guidance to the SRA from the Mayor in association with TfL.³ TfL and the SRA both have a duty to cooperate with one another in coordinating the provision of public transport within Greater London.
7. The SRA's regulatory functions are focused on enforcing the TOCs' passenger and station licences. The SRA is responsible for setting service levels and quality of service standards across Great Britain (where appropriate in conjunction with any relevant PTEs and, in Scotland, with the Scottish Executive).⁴ The SRA manages the bidding process, consults other parts of the industry and stakeholders where necessary, evaluates the bids, selects the franchisee and negotiates details of the franchise agreement. Once the franchise is let, the SRA is responsible for monitoring performance and ensuring the delivery of franchise commitments.
8. Under the proposed reorganization, most of the SRA's role, including awarding and monitoring the TOCs' franchises is to be transferred to the DfT; certain aspects of its role may be transferred to TfL, the ORR or Network Rail.

Health and Safety Commission/Health and Safety Executive

9. The HSE is the regulatory authority for health and safety on the railways: within the HSE the framework of safety legislation is enforced by Her Majesty's Railways Inspectorate. TOCs must have a railways safety case, approved by the HSE, that

³Provided that the directions and guidance do not conflict with national policies.

⁴There are no PTEs for the cities in the Greater Anglia area outside London.

sets out how they will operate their trains, stations and depots. Under the white paper proposals, the HSE's rail safety responsibilities would be transferred to the ORR.

Network Rail

10. Network Rail operates, maintains and renews the infrastructure, including track, signalling, bridges, tunnels and depots under a network licence. Franchisees must enter into track access arrangements with Network Rail under a regime regulated by the ORR. Network Rail also owns the railway stations in the national rail network and directly operates 17 of the major stations, including the London termini other than St Pancras. Under the Greater Anglia franchise, NEG leases 167 stations and eight depots from Network Rail.
11. The white paper proposes that Network Rail should take on certain additional responsibilities including:
 - drawing up route utilization strategies for approval by the DfT;
 - devising efficient and clear timetables;
 - directing overall network operations and getting services back to normal after incidents and delays; and
 - improving the operational performance of the network.

The Mayor of London and Transport for London

12. Through TfL, the public body that implements his transport strategy, the Mayor is directly responsible for operating the London Underground and for franchising London bus services. He also provides directions and guidance to the SRA concerning rail services in Greater London (see paragraph 6). In the White Paper the Government has proposed that he should receive additional responsibilities for national rail services within Greater London. In the short term the Government proposes to work with the Mayor to review options to rationalize fares and ticketing across the different types of public transport in London. TfL told us that it wished to see further coordination of the structure and level of fares within London, including greater control passing to TfL in respect of fare setting and taking on revenue risk. In the longer term the Mayor will be enabled to buy additional rail services or to propose savings.

SRA rail franchising policy

13. The first-generation rail franchises were intended to create business opportunities for franchisees to exploit, subject to regulation and an obligation not to let services fall below specified base levels. Franchisees were free to add extra services above these base levels. In November 2002 the SRA issued a Franchising Policy Statement.⁵ This recognized that, although franchising had contributed to passenger growth, high levels of investment and stronger marketing, the first round of franchises had not delivered all of the outcomes expected at privatization and had failed to provide the franchisees with incentives to improve their quality of service. In addition, the expected cost reductions had not been achieved and franchisees had been

⁵http://www.sra.gov.uk/passengers/index_htm/franchising_policy_statement.pdf.

unable to withstand financial shocks caused by external factors. At the same time, the SRA had carried out a review of capacity utilization strategy that identified benefits from combining franchises into larger units (see paragraph 17).

14. The SRA's Franchising Policy Statement defined a new form of partnership for new, larger franchises. This was intended to focus franchisees on delivering reliable performance, meeting passenger needs and constraining short- and long-term cost increases. The SRA's general approach was to specify service levels and quality standards more precisely than before and then expect operators to deliver them. The new franchise agreements thus identify both the criteria for rewarding a successful franchisee and the penalties for poor performance.
15. The new franchise model has been used for the Greater Anglia rail franchise, which is thus more prescriptive than earlier franchises (such as those of c2c and Central Trains) and places more emphasis on defining outputs that must be achieved.
16. The SRA considered that risks should be allocated in a way that enabled franchisees to bear them over the life of the franchise. The new franchises therefore reduced the franchisees' vulnerability to external factors through revenue support and revenue share arrangements. The new franchise model as a whole was also intended to encourage strong competition for the market. Incentives were included to reward projects with a payback period longer than the franchise term.
17. Operating a major terminus shared between several TOCs involves formal agreements and close liaison between Network Rail, the TOCs and a number of other parties. The SRA's franchising policy statement concluded that having a single operator at each London terminus would facilitate the optimum use of capacity, provide a simplified, more understandable and impartial day-to-day interface with passengers and improve performance as well as recovery from service disruption. The SRA also expected economies to be achieved by combining duplicated functions and head office activities. Under this policy, the SRA decided that the three main franchises operating out of Liverpool Street station⁶ (First Great Eastern, Anglia Railways and the West Anglia routes of WAGN) should be combined into a single Greater Anglia franchise.
18. The SRA intends that the Great Northern routes of WAGN (which remained after the West Anglian routes were transferred to the Greater Anglia franchise) will be re-franchised in 2006, possibly in combination with part or all of another franchise.
19. The Greater Anglia franchise was the first to be tendered under the SRA's new franchising policies. The process of tendering the franchise started in January 2003; NEG was chosen as the preferred bidder in December 2003 and started operating the new franchise in April 2004. The SRA told us that the evaluation of the bids took account of what could be delivered and value for money.
20. The franchise agreement lasts for seven years, and the SRA is obliged to offer a three-year extension if key performance targets are met. It contains restrictions intended to ensure that the franchise remains a separate business and is not integrated with any other franchise or with other activities of the parent company. If NEG wishes to operate services not provided for in the franchise, consent is required from the SRA. Under the franchise agreement NEG cannot second more than 2 per cent of its employees to other activities or to lend more than 10 per cent of its rolling stock to another franchisee. Furthermore, the franchisee cannot subcontract the provision of passenger services; amend the ticketing and settlement agreement (the TSA—see

⁶The exception was the c2c franchise which only uses Liverpool Street on a very limited basis.

paragraph 44); change property leases; terminate subleases; change rolling stock contracts; create fares that have a validity of greater than 13 months; change inter-available fares during fares-setting rounds unless all other operators agree; exercise a change of control; or pay dividends when financial targets are not met, except with the SRA's prior consent.

Service level commitment

21. Under first-generation franchise agreements, such as those still held by other NEG companies including c2c, WAGN and Central Trains, the level of service provided by a TOC has to fulfil a passenger service requirement (PSR) specified by the SRA. The PSR specifies a minimum level of service and maximum journey times that the TOC has to provide. It is then free to add additional services on a commercial basis, subject to its ability to obtain train paths for the services from Network Rail. This is particularly difficult through congested sections of track. The SRA told us that PSRs for c2c and Central Trains were largely dictated by commuter flows that were a captive market; no substantial amendments to the c2c and Central Trains PSRs had been required. Both Central Trains and c2c are currently operating close to the minimum level of service specified in their PSRs.
22. In the second generation franchise agreements, the SRA specifies in detail the precise level of service⁷ that the franchisee must provide in a 'service level commitment'. It may only operate a service level below that specified in its service level commitment with the approval of the SRA. If it wishes to operate a service level above that specified in its current service level commitment, it must obtain the SRA's approval and the SRA must issue a new service level commitment.
23. The SRA can specify the service level commitment on a timetable-by-timetable basis in such detail as it decides and may issue a new service level commitment each year if a new timetable requires one. For each service, the service level commitment includes the service intervals at all times of day, the times of early and late services, maximum journey times and stopping patterns.
24. The service level commitment in the invitation to tender (ITT) for the Greater Anglia franchise was broadly based on the previous timetable with certain minor reductions in services intended to improve reliability and to provide track capacity for freight services. Bidders were also asked to submit 'alternative tender proposals' with improved service patterns. NEG submitted such a variant in its bid; this provided for some enhanced services and improvements in service patterns. These included additional services (above those in the SRA's base case proposal) between London and Ipswich; a new service linking Stratford with Stansted and Hertford East; new through services between Lowestoft and London and between Peterborough and London via Ipswich; and improved interchange opportunities at Stratford, Shenfield, Colchester, Ely and Broxbourne. Many of these were subsequently incorporated into the franchise agreement and the improvements will be introduced into the timetable in December 2004 and December 2005.
25. NEG leases its rolling stock from the three UK rolling stock leasing companies (ROSCOs). It is required by the SRA to prepare a train plan showing the proposed allocation of its train fleet to meet the service level commitments. The franchisee has to use its reasonable endeavours to prepare a plan that meets target passenger demand and minimizes any requirement to stand for more than 20 minutes after

⁷Strictly the level of service that franchisees must seek train slots for in the annual Network Rail timetabling exercise.

boarding any peak passenger service. Where passenger loadings exceed capacity, TOCs are required to provide a plan to reduce overcrowding, if this is practicable.

Quality of service

26. The Greater Anglia franchise agreement sets key performance indicators that measure NEG's performance in areas important to passengers. The performance regimes for punctuality, cancellations and train capacity are enforcement-based (rather than based on automatic financial penalties). They set minimum targets that NEG has to achieve. [X] Other aspects of performance are subject to a service quality regime. This is based on NEG's performance against benchmarks for key performance indicators in the franchise agreement. If NEG's performance against these benchmarks falls into certain defined bands, incentive payments or penalties are made by the SRA or incurred by NEG, as appropriate. These wider quality standards cover train condition, station environment, information provision, security and ticket sales.
27. In the event of persistent poor performance, the SRA can require the franchisee to implement remedial programmes. Ultimately the franchisee may be in default under the franchise agreement and the SRA can withdraw the franchise.
28. In its bid, NEG promised to invest in more modern trains for the London to Norwich service; to improve 50 stations; to extend platforms at five stations; to provide additional staff to improve passenger security; and to improve staff training.

Scope for commercial action by franchisee to vary level or quality of services

29. The SRA told us that franchisees were given very little flexibility about the services they are expected to operate. Clearly, NEG's freedom of action in reducing services is absolutely constrained by the service level commitment for the Greater Anglia franchise and by the PSRs for the Central Trains and c2c franchises. Although, subject to capacity being available, it is in theory free to add additional trains in the cases of the Central Trains and c2c, there is little scope for this in practice. In the case of the Greater Anglia franchise, it is normally constrained to operate only the services in the service level commitment. If the SRA approves, NEG might consider adding further services in certain limited circumstances (such as special events that were not contemplated when the franchise was awarded). NEG can only reduce any significant aspect of service quality at the risk of incurring penalties. Consequently, unless genuine efficiency improvements can be made, it will find it difficult to increase its profits by economizing on the level or quality of its rail services.

Cost control

30. To help keep costs under control, and in line with the new franchising policy, the SRA included NEG's financial and operational models in the Greater Anglia franchise agreement and uses them to assess the effect of changes. The SRA indemnifies NEG for increases in Network Rail's access charges that result from any review by the ORR and for certain other external cost changes. The SRA, also in line with the new policy, contained NEG's level of revenue risk by including revenue and risk-sharing arrangements for the later years of the franchise. The SRA also adjusts franchise subsidy/premium payments to reflect any changes in required outputs, for example service changes.

Regulation of fares

31. The SRA regulates certain rail fares through the TOCs' franchise agreements. At least one fare type on every flow is regulated and required to exist. Regulated fares accounted for about 79 per cent of First Great Eastern revenue; 32 per cent of Anglia Railways revenue and about [X] per cent of c2c revenue respectively in 2002/03.

Previous fares policy

32. The SRA regulates these fares by imposing caps on annual increases. Until January 2004, the cap increased by RPI –1 per cent each year. The regulated⁸ fares were:
- all standard class weekly season tickets for journeys where a weekly season existed in June 1995;
 - all saver⁹ return tickets (for off-peak leisure journeys of about 50 miles and over) where a saver ticket existed in June 1995;
 - standard class open return tickets for journeys where there was no saver fare in June 1995 (typically for journeys of under 50 miles); and
 - most commuter fares in and around London.
33. Commuter fares around London, Edinburgh and Cardiff were regulated by means of 'fares baskets', in which a cap was placed on the total value of a weighted basket of fares. Operators could change individual fares as long as the total value of the basket remained within the cap. The other regulated fares (known as 'protected fares') were regulated individually.
34. TOCs operating London commuter services were subject to a fares incentive adjustment payment (FIAP) regime that linked fares to performance. In many cases, poor performance against the targets in this regime resulted in significant real cuts in fares. Between 1995 and 2002, the fare caps for the predecessors of c2c, One Great Eastern and One West Anglia increased by only 10.0 per cent, 14.4 per cent and 9.3 per cent respectively compared with the 15.6 per cent increase that would have been permitted without the FIAP regime. FIAP has now been replaced by the other incentive schemes provided for in the new type of franchises. It has, however, resulted in a permanent change in relative fare levels between lines, largely accounting, for example, for the lower fares on c2c's Fenchurch Street to Southend line compared with One's Liverpool Street to Southend line.

SRA fares policy review

35. In June 2003, the SRA announced the results of a review of its fares regulation policy. An outline summary of the main points of the new system of fares regulation is shown in Annex 1. These took effect in January 2004 for both existing and new franchises and the main results were that:

⁸In each case where a type of fare is said to be regulated, this applies to standard class fares only and covers both the adult and child tickets. No first class fares are regulated.

⁹Saver returns are off-peak 'turn-up-and-go' tickets that are available for most long-distance journeys.

- The price cap on increases in regulated fares changed from the previous RPI –1 per cent a year to RPI+1 per cent a year for the three years from January 2004.¹⁰
 - The SRA decided that regulation of saver fares for off-peak leisure journeys of about 50 miles and over had constrained innovation in ticketing. It also felt that these fares generally faced competition from alternative modes of public transport. It is therefore reviewing the regulation of these fares; any change would be subject to DfT approval.
 - Other regulated fares, including standard class weekly season tickets, continue to be regulated.
 - All regulated fares will now regulated by means of fares baskets and fares baskets are to be simplified.
 - Options for a national discount railcard are being assessed.
36. The process of simplifying existing fares baskets and creating new fares baskets for protected fares started in January 2004. The simplified fares baskets contain only those fares which together account for around 95 per cent of the relevant revenue from regulated fares.¹¹ Each TOC providing London commuter services has two fares baskets: a 'London commuter fares basket' and a 'protected fares basket'. The 'commuter fares' basket contains any commuter fares that were previously regulated in a fares basket. The 'protected fares' basket contains all fares that were previously regulated individually. Increases in individual fares within fares baskets are limited to RPI+6 per cent in any given year.
37. In calculating the allowed fare increases, each fare within a fares basket is weighted according to the revenue received in the year ending on 31 March 2003.
38. If the SRA wants to amend its fares policy, any changes would be introduced using the change and variation mechanism in the franchise agreement which would adjust the subsidy to ensure that the franchisee suffered no gain or loss from the change.

London commuter fares basket

39. The London commuter fares basket applies to certain fares within a region (known as the 'London suburban area') that extends roughly 35 to 50 miles around London.¹² It includes every regulated commuter fare from which the TOC takes any share of the revenue, that is both fares for flows for which the TOC is the 'lead operator' which sets the fare and fares for flows where another operator sets the fare (see paragraph 45). The fares covered are weekly, monthly, quarterly and annual season tickets; unrestricted singles; and unrestricted returns. The unrestricted singles and returns covered only include those for commuter journeys, that is flows wholly within the London Travelcard zones and flows to any station within the Travelcard zones from any station in the London suburban area (but not vice versa).

¹⁰The fares cap is cumulative, ie if some of the permitted increase is not used, the balance can be carried forward to the next year.

¹¹Fares for the other flows 'simplified' out of the basket are still required to exist and their pricing is constrained by the fares in the basket.

¹²In Greater Anglia and adjoining areas the region is bounded by, and includes, Shoeburyness, Southend Victoria, Marks Tey (but not the Sudbury branch line), Audley End (but not Stansted Airport) and Ashwell & Morden.

40. On services within Greater London franchisees have to sell and honour London Travelcards. Many tickets to London termini from destinations outside Greater London are also sold with Travelcard 'add-ons'. The London commuter fares basket therefore includes Travelcards. Travelcard prices are set following negotiations between the Mayor (through TfL) and a 'scheme council' of TOCs operating commuter routes into London, established by the Association of Train Operating Companies (ATOC). In recent years this has resulted in Travelcard prices increasing in line with RPI (which is the default position when the Mayor and the TOCs fail to agree on pricing). As Travelcard revenue accounts for a significant share of the revenue in the basket the difference between the Travelcard fares policy and the SRA's fare cap policy in recent years forced non-Travelcard fares down relative to Travelcard fares and made it difficult to maintain a logical relationship between the two types of fares. Earnings from in-boundary Travelcard fares amounted to a very small proportion ([~~2~~] per cent) of all regulated fares in the case of c2c, 25 per cent in the case of Great Eastern and zero per cent in the case of Anglia.
41. The most important category of unregulated fares in the London suburban area is off-peak fares mainly used by leisure passengers.

Protected fares basket

42. Certain fares for flows outside the London suburban region (together with similar fares within it that are not covered by the London commuter fares basket) are included in each TOC's protected fares basket. The regulated fares included in this basket are saver return fares and weekly season tickets for flows where such fares existed in June 2003. Where no saver ticket existed¹³ the standard day return fare is regulated. Only fares set by the operator itself are included in this basket (ie inter-available fares set by other operators from which it benefits are excluded).

Interavailable tickets

43. Interavailable tickets are those that give the passenger a choice of operator on the same journey. Examples within the Greater Anglia area are tickets between London and Cambridge that may be used on either Great Northern or One Anglia services, and the interavailable season ticket between London and Southend that can be used on either c2c or One Great Eastern services (see below).
44. Every TOC's franchise agreement requires it to participate in the TSA, which sets out how rail fares will be established and set. The TSA also provides for nationwide through and interavailable tickets and makes arrangements for allocating revenue between TOCs. The TSA ensures that there is at least one set of interavailable tickets, as applicable, for each flow and that all 'on-demand' fares set by the lead operator (see below) are interavailable. (Although the SRA can permit exceptions to this rule, where it believes that competition will bring greater benefit to passengers, the only exception permitted to date concerns fares between Gatwick and London.) Tickets that are shown as being valid on 'any permitted route' between an origin and a destination may be used on any of the routes between them specified in the national routing guide (which is part of the TSA). The SRA told us that under British Rail 'Southend stations' to 'London terminus' was an interavailable flow. In anticipation of privatization, this flow was removed from the routing guide. As a result there is no requirement for there to be interavailable tickets valid on either route between London and Southend. NEG told us that there was nonetheless one type of

¹³Typically for journeys of less than about 50 miles.

interavailable season ticket that was valid on both routes between Southend and London. No other tickets were interavailable for both the routes.

45. Interavailable fares for each flow are set by the 'lead operator' for that flow. The lead operator is normally the TOC with the greatest commercial interest in the flow concerned. Once these fares, which must include a designated range of 'on-demand' fares, have been set, the TSA requires the other TOCs operating on the flow to honour them. These other TOCs are, however, free to set their own cheaper 'dedicated' fares that may only be used on their services. In certain circumstances the lead operator may also set dedicated fares, for example for cheap 'book-ahead' fares valid only on its own services. Revenue from interavailable tickets is allocated between the operators according to algorithms (known as ORCATS) that relate the likely distribution of passengers between the available services to journey opportunities, service patterns and demand at any given time.

Scope for commercial action on fares by NEG

46. The TOCs are free to set any unregulated fares according to normal commercial considerations. Standard singles and open returns are not regulated (except where they are included in a commuter fares basket or as a 'protected fare'). Other unregulated fares include all first class fares; cheap day return fares; low-price advanced-purchase return fares (such as supersaver or apex return tickets—reduced-rate tickets used by TOCs to fill empty off-peak seats); saver fares and weekly season tickets for flows where none existed in 2003; and any new types of fare developed by the franchisee. Fares of types that would otherwise be regulated but have been 'simplified' out of the relevant fares basket because of their low revenue (see paragraph 36) are also unregulated.
47. Unregulated fares will, however, be significantly constrained, but to varying extents, by the effect of the controls on regulated fares and the need to keep a reasonable relationship between regulated and unregulated fares. (For example, an unregulated supersaver fare cannot reasonably exceed the corresponding regulated saver fare which is subject to fewer restrictions.) Considering some types of fare that might be subject to commercially motivated increases:
 - (a) significant increases in the standard class 'turn-up-and-go' single and open return fares or cheap day returns would probably result in most passengers using regulated saver tickets whenever possible;
 - (b) significant increases in first class fares would probably persuade many passengers to travel standard class or drive;
 - (c) increases in low-price advanced-purchase return fares would defeat their purpose as yield management tools designed to transfer peak loads to off-peak services and fill unused seats; and
 - (d) prices for the '5 per cent flows' simplified out of the fares baskets are subject to pressure from the pricing of related regulated flows.
48. It therefore seems likely that the scope for substantial increases in most unregulated fares is limited. NEG assumed an annual rate of increase in unregulated fares of RPI+1 per cent in the Greater Anglia bid (with RPI assumed to increase by 2.5 per cent a year).

49. As the regulated fares baskets include many flows and types of ticket, there is some flexibility in how the overall RPI+1 per cent a year increase in each basket can be applied to each regulated fare. Within the overall constraint, some fares could be increased by the maximum permitted RPI+6 per cent a year while others are held constant or reduced. NEG considered what use it could make of this flexibility in its One Strategic Plan 2005–2007 (the plan): [X].

50. [X]

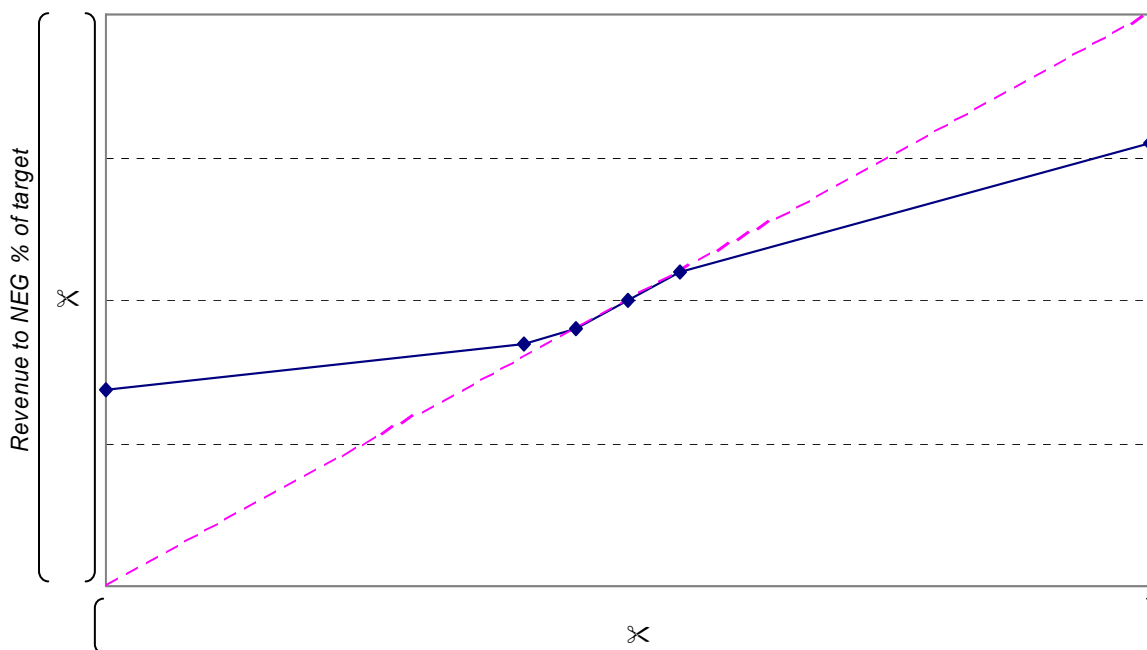
Revenue risk

51. The Greater Anglia franchise agreement incorporates a revenue share and support mechanism, referred to as a ‘cap and collar’. Under this, each bidder was required to bid the values of certain parameters. The mechanism incorporates (a) a target level of revenue; (b) a threshold level of revenue above this target; and (c) a percentage for sharing additional revenue above this threshold; (d) two threshold levels of revenue below the target; and (e) two percentages for providing revenue support between these two support thresholds and below the lower support threshold. [X]

52. Figure 1 illustrates the effect of the cap and collar on NEG’s revenue.

FIGURE 1

NEG’s revenue as a percentage of target revenue



Source: NEG.

Revenue, % of target

Summary of main points of fares regulation

1. Each London commuter TOC has two fares baskets:
 - both baskets contain the fares that account for 95 per cent of relevant revenue;
 - both baskets are regulated at RPI+1 overall; and
 - individual fares are regulated at RPI+6.
2. London commuter fares basket:
 - covers only fares within the 'London suburban area' that extends 35 to 50 miles around London (includes Southend, Shoeburyness, Marks Tey, and Audley End);
 - includes all relevant fares from which operator benefits;
 - includes fares within Travelcard zones;
 - includes fares to any station within London Travelcard zones from stations outside them;
 - does not include fares between two stations outside Travelcard zones or single fares from a station within the Travelcard zones to one outside them;
 - does not include cheap day returns; and
 - regulates:
 - weekly, monthly, quarterly and annual seasons (including Travelcards);
 - unrestricted singles; and
 - unrestricted returns.
3. Protected fares basket:
 - covers fares outside 'London suburban area' and those within it that are not regulated in the London commuter fares basket;
 - only includes relevant fares set by the operator itself; and
 - regulates:
 - savers (or standard open return were there was no saver in 2003); and
 - weekly seasons.
4. The following fares are unregulated:
 - all first class fares;
 - standard single and standard open return (where there was a saver in 2003);

- cheap day return;
- low-price advanced-purchase return tickets (eg supersaver, apex);
- savers and weekly seasons where none existed in 2003; and
- any new fare types.