

## EMTA**brief**

European Metropolitan Transport Authorities

### Suburban rail services

*With the opening of the market under the pressure of European regulation, the context of passenger rail services in the large metropolitan areas is evolving. The entry into force of the regulation EC-1370/2007 will definitely shape the activities on road and on rail as well.*

*Already we are contemplating the trend where the regional rail services are more and more taken over by local authorities as opposed to the historical centralised direction at national level. Local/regional transport authorities being awarded the competency on regional rail services, set the level of the provision, the standards of quality, the tariff policy.*

*With the emergence of local/regional rail services authorities comes also the crucial question of the ownership of the rolling stock and the necessary conditions for the vehicles to be smoothly passed on from the incumbent operator to the new one after a tendering process.*

*Finally the question of the rail stations is also of concern. Whereas the historical (national) operator was also the owner and the manager of the network of rail stations, new comers rail operators are now in need of using the facilities of the stations and are entitled to equal access to such facilities. In the meantime the passenger is expecting a user-friendly environment where services and travel information are clear, simple and easy to get.*

*While a particular study on the EC-1370/2007 Regulation contents has just been published by EMTA (March 2011)<sup>1</sup> in the form of an extensive comment with a view to enlighten the transport authorities on their duties, the objective of the present paper is to highlight the main concerns related to the three aforementioned topics through examples taken from the EMTA network.*

Barcelona metropolitan region covers 3000 km<sup>2</sup>, there are over 5 million inhabitants.

The railway system plays a crucial role for the organization, not only of the public transport flows, but also of the urban planning within the region. In this very dense urban area in fact the railway structure is just fitted to the urban spatial organization.

For this reason the regional government of Catalunya, which is the major shareholder of the transport authority ATM, was interested in gaining the capability of really managing all the railway services that structure the mobility in the region, including the RENFE<sup>2</sup> commuter train services carrying 110 million passengers a year. "They organize the public transport flow in the most prominent spatial direction" says Marc Garcia.



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<sup>1</sup> Study on Regulation EC-1370/2007 on public passenger transport services by rail and by road. See [www.emta.com](http://www.emta.com) / publication section.

<sup>2</sup> RENFE Spanish national rail operator.

From 1<sup>st</sup> January 2010 on, as the result of a decision from the Government of Catalunya – Spanish State Bilateral Commission of 21 July 2009, and in the framework of the Statute ruling the Catalan Autonomous Community (Organic law dated June 2006), the Catalan Government (Generalitat de Catalunya) is fully competent for the railway services provided within Catalunya territory. Generalitat de Catalunya in turn entrusted the technical coordination of the commuter train service network to the transport authority ATM.



The new tasks assumed by Generalitat (regulation, planning, management, coordination and tariff setting) are the essential control functions with regard to a railway service.

The situation is unprecedented in Spain and bears some complexity. In fact, the Spanish state devolves to a region, Catalunya, a service provided by a state-owned company running on a state owned infrastructure, meanwhile the region is entrusted to regulate, plan and manage the service network.

The devolution resulted in a triple level of agreements: on the legal framework, on funding and on the use of infrastructure.

A new legal framework was established by the Royal Decree of 21 December 2009. According to this Decree, the Spanish Government transferred state functions and services on suburban rail passenger services in the Barcelona area to the Government of Catalunya.

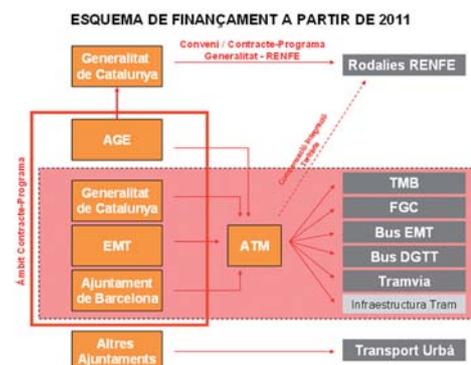
An agreement on the appraisal and on the level of funding was reached by the Generalitat de Catalunya–Spanish State Commission on Economic Affairs on 22 December 2009. The agreement states the level of the costs incurred to run the devolved rail services and how the Generalitat will be funded to cover such costs. The agreement guarantees that the State will keep funding 100% of the compensation required to cover the operational deficit of the Barcelona metropolitan region commuter train services computed after unit costs common for all commuter services delivered by RENFE in Spain.

As for the use of infrastructure, an agreement was signed between the Spanish State, the Generalitat de Catalunya and the manager of rail infrastructure (ADIF) in February 2010.

In the light of the European regulation on passenger services by rail and by road<sup>3</sup>, it is interesting to explore the contractual aspect in the Catalan situation. Actually Generalitat de Catalunya substituted for the Spanish State in the so called contract-programme 2006-2010 (extended to 2011) with the operator RENFE. A new contract-programme for the 2011-2015 period is currently under preparation. What are the main features of this new contract-programme?

It is for the time being a direct award (directly issued from the subrogation process) from Generalitat de Catalunya to RENFE for an extendable period of five years. The object is the provision of commuter train services that have been declared public services by Generalitat de Catalunya. The amount of provision is 18 million train-kilometers per year with 780 circulations a day on average. The contract sets a series of requirements from RENFE related to train availability, perceived quality, accessibility, cleanliness... each measured with quantitative indexes. In addition, RENFE has to do an investment programme which represents a substantial reinvestment of its profit.

RENFE is also obliged to full account transparency, i.e. reporting the detailed profit and loss accounts on a regular basis and issuing a specific balance sheet for *Rodalies de Catalunya*, which is the name given by Generalitat to those rail services under its competency. It is worth noting that from the start, Generalitat de Catalunya insisted on having within RENFE an empowered local unit (Direction of Rodalies de Catalunya) in Barcelona so that matters could be discussed locally and not from a distant RENFE directorate at national level.



The Spanish state as mentioned above will fund the ordinary yearly deficit. The amount was of €117,2 million for 2010 (around 48% of the total costs, the rest being covered by the operator incomes). No matter the way the compensation is delivered, directly to RENFE by the State which was the case in 2010 or through Generalitat de Catalunya from 2011 on, the compensation is secured for the future. Generalitat de Catalunya however retains the capacity of prescribing a higher level of service but will have to pay the associated extra costs from its own budget to the operator.

<sup>3</sup> EC-1370/2007

As of the awarding process of the rail operator, the agreement entrusting Generalitat de Catalunya as the authority on the commuter train services enables the former to choose in the future either to award directly or to tender out. But whoever the operator is, the commitment of the State to fund the compensation aforementioned remains. The aforementioned agreement of the Commission of Economic Affairs also specified the economic value of the technical resources and of the human means that would be transferred to Generalitat de Catalunya should the latter decide not to continue with RENFE as operator.

The obligation of Generalitat is naturally to pay the compensation to the operator. However to get a better understanding of the local costs as opposed to estimates on bulk unit costs per train-km, the operational costs have been itemized and will be corrected for variations depending on external factors. A bonus-malus scheme related to achievements against targeted indicators is applied and a reasonable profit of 3% is applied.

In fact Generalitat reckons this contract is more demanding than was the previous one when the State was the prescriber to RENFE.

The fact that a contract-programme is signed with RENFE for the 2011-2015 period does not preclude any decision of Generalitat de Catalunya as regards an open tendering process in the future.



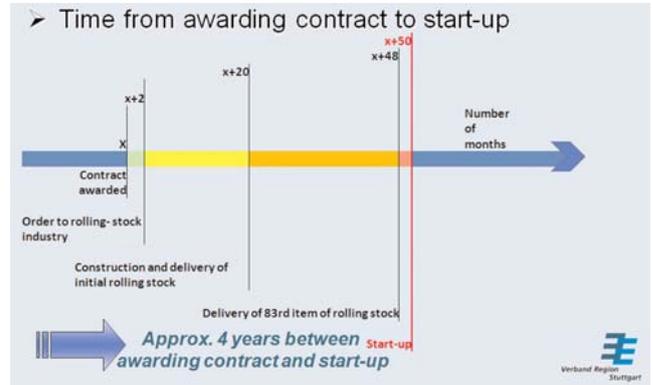
Another crucial element in rail services is that of the rolling stock. In Germany in most cases, when tendering out rail services, the public transport authority doesn't undertake the procurement of rolling stock itself it leaves it to the operator instead.



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However as Frank Zerban from Stuttgart region transport authority (Verband Region Stuttgart) points out, the authority cannot disregard the issue of the rolling stock property especially in case of large procurement and furthermore the

issue of the possible hand over to a new operator of the vehicles at the end of the contract in case of change. What are the realistic conditions for a transport authority to engage into a rail coach *take-back guaranty* with the operator?



When Stuttgart region launched the call for tender for S-Bahn services, they were in need of 83 new units of rolling stock worth some €450 million.

A first point to consider is to allow sufficient time between awarding the contract for the operator and the delivery of the last train. Alongside that, the candidate-operator for the rail service has to shorten time between being awarded the contract and the delivery of the last train by conducting relevant negotiations with industry alongside the tendering procedure so it would therefore be able to place the order to the constructor only a few months after being awarded the contract for the rail service.



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The payment of the rolling stock is the second point to consider. Usually 30% are laid down when ordering. In the example of Stuttgart, the operator had to pay €150 million four years before entering into operation and earning money. As times passes by, the progress of the delivery of successive units increases this negative amount. Only 10% of the price is retained by the buyer until after the successful hitch-free start of operation.



Parking the new built rolling stock in a safeguarded place is the third element. The manufacturer doesn't have the space nor the interest to keep it around. Significant parking costs are incurred and this independently of who's the owner or if there will be or not a *take-back guaranty*.



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The remaining value of the rolling stock at the end of the contract is the fourth crucial element. While many contracts for rail services in Germany lasts only 10 to 15 years and the rolling stock is written down over 25 years, the expected useful life of the coaches is 25 to 30 years. When the contract expires, the rolling stock will still retain a considerable value.

The various costs above mentioned and the remaining value at the end of the contract may then drive the Transport Authority to contemplate setting a *take-back guaranty*. One reason is the continuity of service, if the follow-on contract results in a change of operator, the *take-back guaranty* ensures that the rolling stock remains available for the rail service. It is also a way to avoid the financial burden that the incumbent operator could factor the total residual value of the rolling stock after (only) 15 years of use into the 15 years contract term if he has no guaranty of returning the rolling-stock. But a *take-back guaranty* calls for a great care on the part of the Transport authority as to the good shape of the vehicles.

It should be clear from the outset that the operator will have to return the rolling stock in a very good shape. Therefore detailed conditions for returning the rolling stock are specified. Obviously, the *take-back guaranty* should only become effective if the rolling-stock has proved that it was fit for a service over a defined number of years. There must be a thorough monitoring of the maintenance of the vehicles by the Transport Authority. Securities are laid in the contract and could be used to carry out the necessary work should a lack of maintenance be evidenced and works necessary. A maintenance planning system has to be set up and the operator must keep it updated and documented with the maintenance schedule as well as the malfunctions and the warranty claims. The transport authority is entitled to information at all times.

Frank Zerban points out a very important item here: before the opening of the subsequent tendering, the rolling stock must undergo an assessment by an expert assessor (whether the extensive fleet or some units at random is to be agreed). The cost of such expert assessment has to be agreed beforehand and laid in the contract. In addition, shortly before handing over to the subsequent operator, a further inspection will be carried out so as to give the latter an opportunity to declare himself satisfied with the rolling stock. Furthermore the subsequent operator must be given the chance to conduct test runs with his drivers. This isn't an easy task considering the very scarce availability of tracks during day time at least on busy networks such as Stuttgart region.

Naturally the considerations about the rolling stock lead to another important matter which is that of the passing over of the staff, particularly the train drivers at the time the rolling stock is handed over. The many aspects of this human factor still calls for harmonisation in the legislation.

In case there is no *take-back guaranty*, there arises the need for the Transport Authority for the sake of the continuity of service to establish a *train-service contract*. This requires from the incumbent operator to define terms and conditions to provide the full train service for a transitional period of time after the contract ends. The follow-on operator has to be offered the option of using (or not) the *train service* of the predecessor and has to give a clear answer within three to six months after being awarded the new contract. The transitional period shouldn't last more than three years and rolling stock should be retrieved progressively during that period of time.



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The major advantage of the *train-service contract* is that from the outset the follow-on operator alone is responsible for the entire system while the previous operator acts as a sub-contractor. The follow-on operator introduces gradually its new rolling- stock while the predecessor's fleet is gradually retrieved. Therefore starting costs are considerably reduced. In fact the *train-service* costs equates to the costs incurred by the previous operator. Beside that there is no cut-off date for the rolling stock.

Finally Frank Zerban makes strong recommendations as of the whole process:

- > the greater the volume of financing and the more specific the rolling stock requirements are the sooner supporting measures such as a *take-back guaranty* are necessary;
- > Finding a sound contractual solution beforehand is crucial, including responses to all questions that may arise;
- > The *take-back guaranty* shows undeniable benefits, nonetheless it comes with high costs and considerable risks for the Transport Authority;
- > In case the incumbent operator doesn't want to pass over the rolling stock to the follow-on operator then a *train-service contract* including rolling-stock and staff is one solution to ensure continuity of service.



To complete the picture one must envisage the question of the management of the stations. Maria Machancoses from CENTRO the transport authority of Birmingham region offers to share some thoughts on the topic.

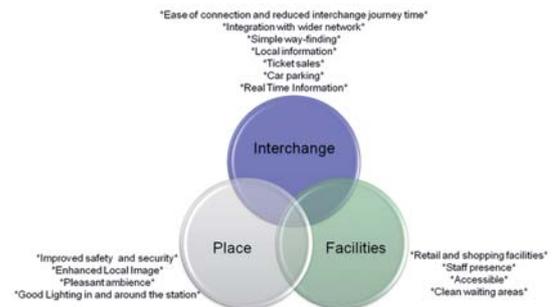
City-regions in the United Kingdom she says are undergoing a radical review of the rail services with a view to improve the quality of service delivered to the passengers. Three challenges are leading the United Kingdom political strategy at the moment:

- > a desire to counter balance the weight of the public sector and have the private sector invest and create jobs;
- > meet the targets set to combat the climate change and obviously make an effort to green the transport sector;
- > continuous decentralization where powers are passed onto the local level (not even the regional one).



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Actually the strong trend towards localism creates an opportunity for Integrated Transport Authorities (ITAs) to influence transport policy with a view to have a greater role in the franchising of services. Useful update information can be seen at the advocacy group PTEG<sup>4</sup> website .



For Maria Machancoses the question is how to have the passengers better understand "what is our role in terms of public transport planning, development, ticketing, information, focusing on station management and maintenance?" Is there a need to build the case for transport authorities to own the rail stations?



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The metropolitan area of Birmingham accounts for 67 rail stations, and the wider region of West midlands has an additional 63. Rail stations are owned by Network Rail, while maintenance and renewal objectives are shared between Network Rail, the various train operators and sometimes also the station facility owner. The park and ride facilities sites associated with the stations are owned by the transport authority. The multiplicity of actors spreads responsibilities and makes it confusing for the passenger.

Stations are places where passengers enter the rail network or connect from another mode (bus or private car for example) they are busy places of interchange. Stations have developed service activities and retails in a way that create links to the local communities, in exchange users and particularly commuters build a sense of being more familiar with the place.

<sup>4</sup> passenger transport executive group [www.pteg.net](http://www.pteg.net)

The case for transport authorities for owning the stations derives from a holistic view of an efficient and friendly-to-users concept of train stations and relies on several arguments:

- > The first one is "quality matters". Quality covers maintenance, improvements, high standards of facilities, customer services, full accessibility of the interchange, cleanliness, staff that are fitted to the task. To achieve quality goals there is a need for a consistent approach the transport authority is better placed to deliver. *Enhance the travel experience* is the leitmotiv.
- > In a franchised environment operators deliver higher standards in some strategic interchanges (connecting with) long distance trains for examples) but the quality tends to decrease on smaller stations which are the ones that see most commuters meaning actually a larger number of yearly passengers. Here again the ITAs could ensure consistency in the standards of quality.
- > Where train operators have a short to at best mid-term strategy, thanks to the length of their contract, the ITA has a vision on policy measures for developing sustainable mobility in coordination with land-use planning and the local economy on a longer period of time.

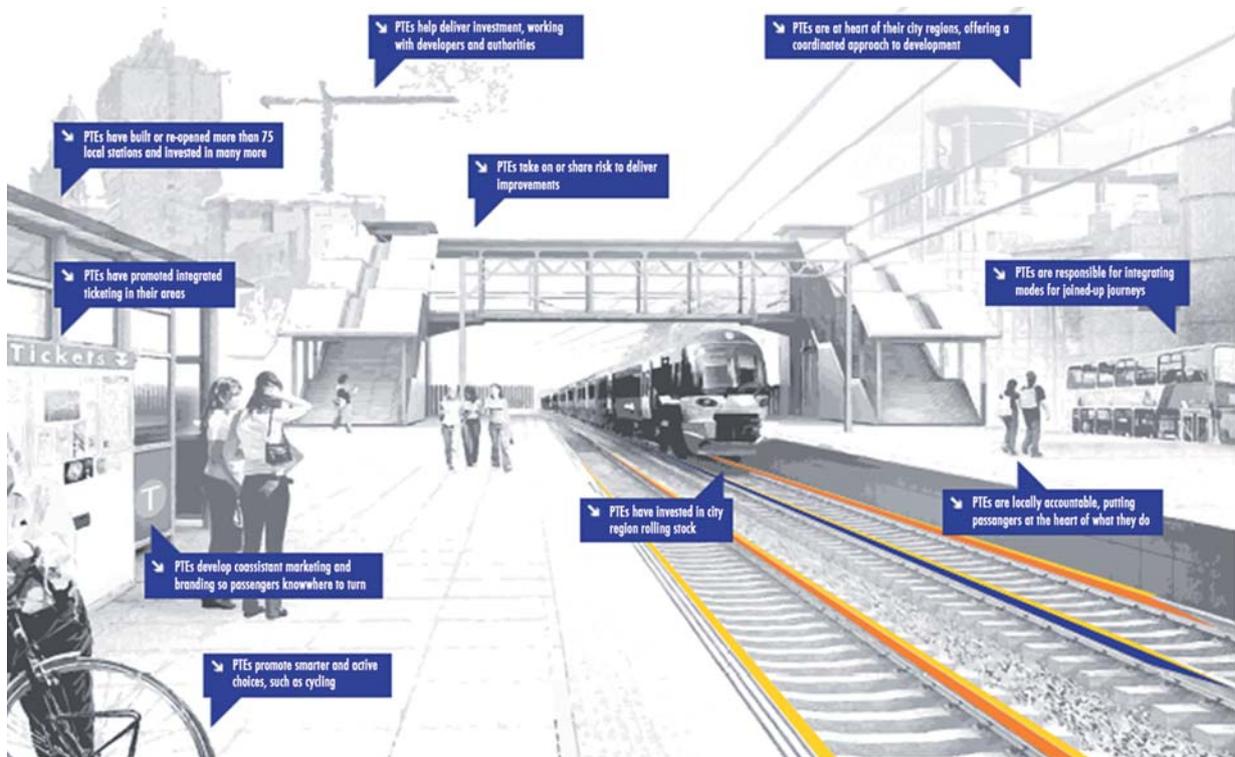
CENTRO is already working on a transport strategy showing which station should be improved next, what standards of quality are desirable and also working of course with the operators to make the interchange more

efficient as a whole, notably as regards the encouragement of modal shift, walking, cycling or getting by bus to the station instead of taking a private car. Right now initiatives of partnership between operators aren't really there. The ITAs certainly are best placed to facilitate those partnerships.

- > A crucial point is that of information. Easiness and convenience of use for the passengers are the ultimate objectives of the transport authority. *"Impetus on the branding and the sense of local ownership"* says Maria Machancoses. The most important for the customer is to feel he has entered a network that has high standards of quality and safety nomatter which operator is delivering the service. Travel information and signage shouldn't be dependant on each operator strategy and branding but rather be consistent reliable and harmonious.

The Integrated Transport Authorities are locally accountable, which comes as a counterpart for local decision making. Whereas franchised operators may pass by when the contract is over, ITAs have on their board local politicians whose action impact on the economy and the well being of the dwellers.

Consistency, coordination, overall vision are key words here to make rail stations become proper hubs on the network. This, CENTRO says, is what we believe customers are asking from the Transport Authority.



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