

PUBLIC TRANSPORT GOVERNANCE: AUTHORITY/OPERATOR RELATIONSHIPS.

INTRODUCTION

- PTA <-> OP relationships, BTM
- Theory (short) and practice (main course).
- Topics to be addressed:
 - Arguments (de)regulation.
 - Organizational form, awarding mechanisms and contract type.
 - Transaction costs in PT-procurement.
 - Dessert: Competitive tendering and customer satisfaction.

WHY REGULATION?

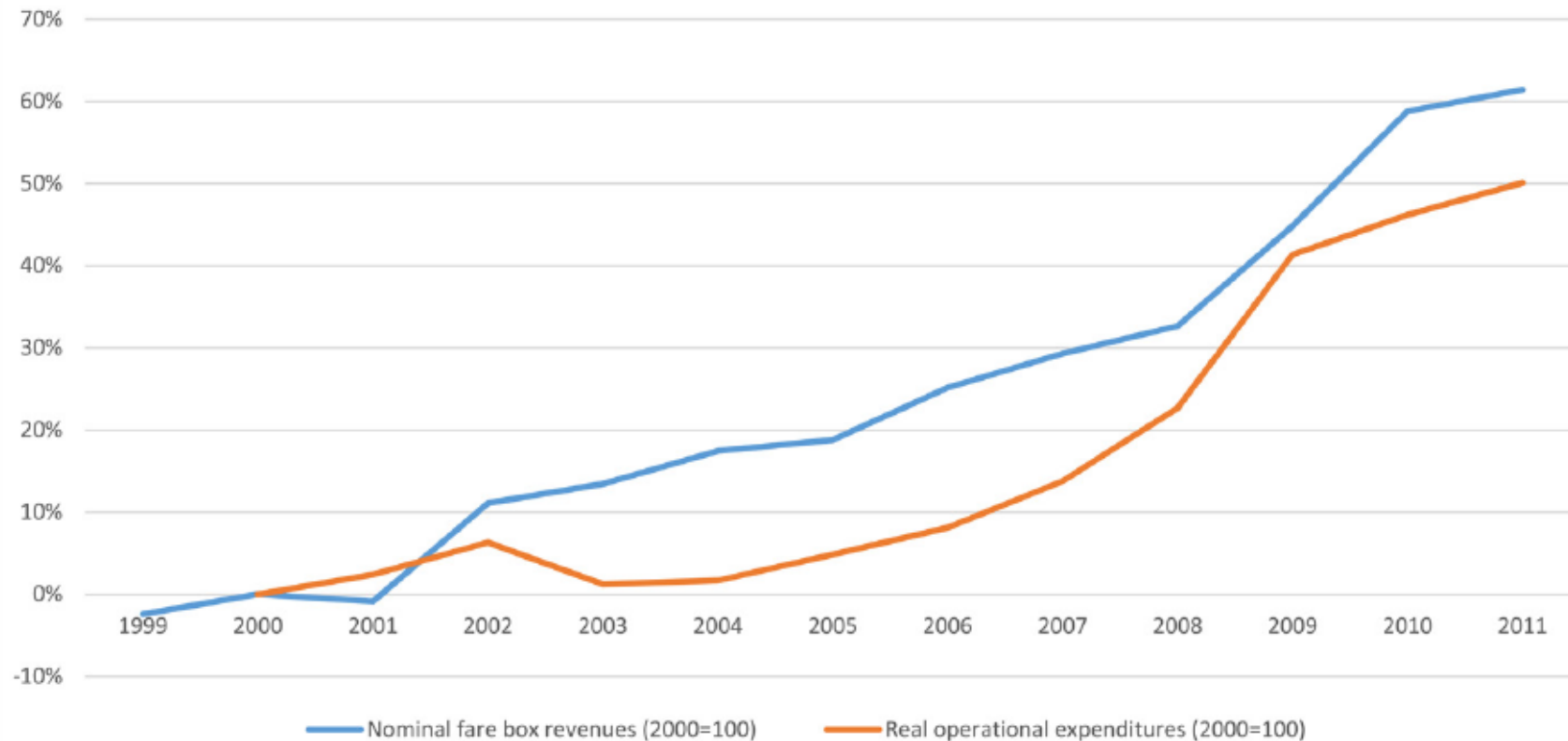
- What? Definition of regulation in PT.
- Why? Economic arguments:
 - Market failure in case of public goods or services.
 - Natural monopolies.
- Why? Political arguments:
 - Safeguard employment and social rights for workers.
 - Ensure integrated urban/transport planning.
- Why? Social arguments (equity):
 - Some goods are essential for individuals' basic welfare.
 - Non-discriminating service supply to protect the weak and the poor, to strengthen social cohesion, and public health.

ACTUAL PRACTICE

- Mixture of economic, social and political arguments used as justification.
- However, often more pragmatic reasons prevail:
 - General budget deficits.
 - Growing subsidy requirements of the PT sector (increasing inefficiencies), see next slide.

GROWTH REVENUES AND EXPENDITURES

Growth of revenues and expenditures



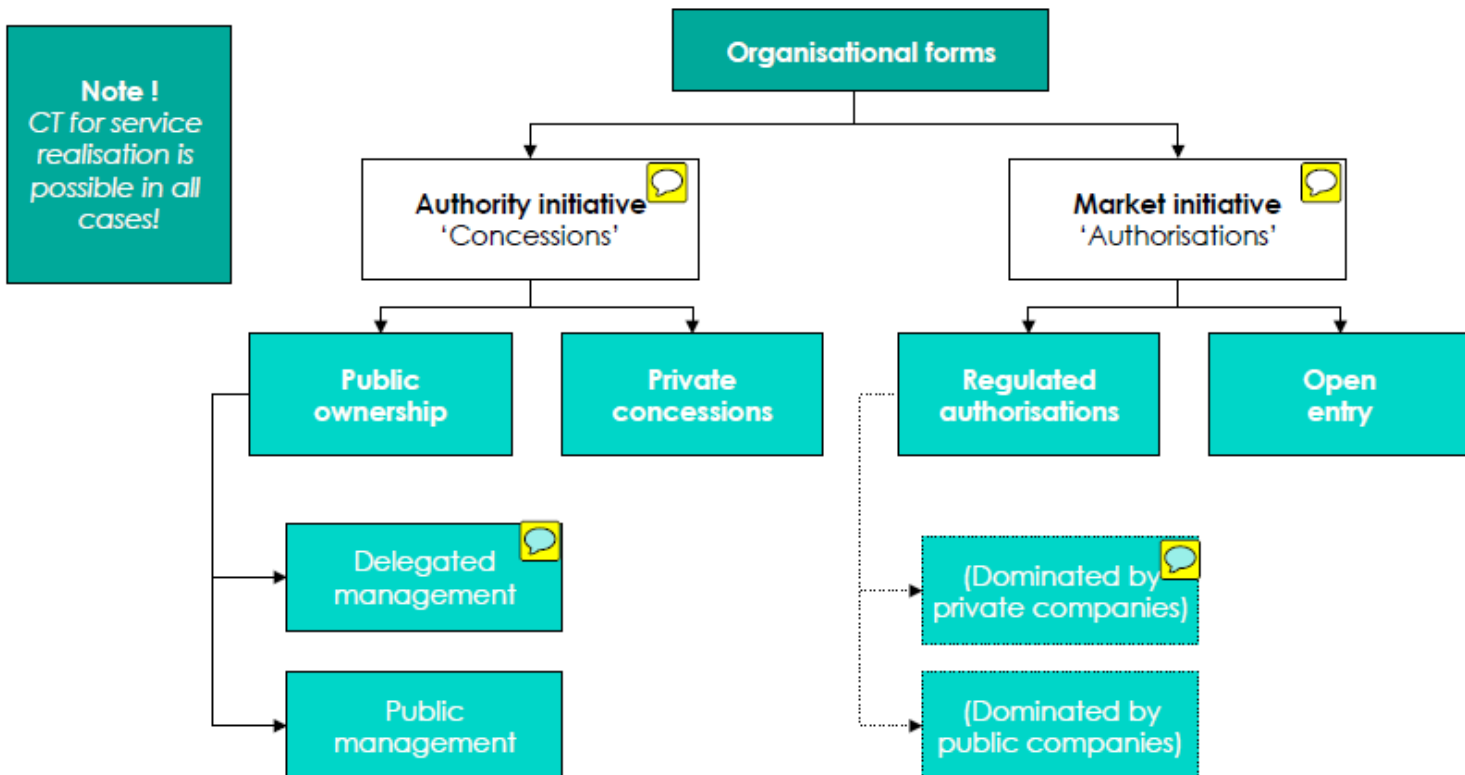
Notes:

- Netherlands
- Only BTM (no train)
- After 2009 less reliable
- Source authors own calculation

HOW TO REGULATE, AWARDING MECHANISMS

- Who has initiative?
 - Authority initiative (concessions).
 - Market initiative (authorizations).
- Organizational forms differentiate in level of incentives and division of responsibilities between PTA and OP.
- Especially division of responsibilities on tactical level are crucial as they impact heavily on quality, costs and revenues.

RIGHT OF INITIATIVE : MARKET OR AUTHORITY?



HOW TO REGULATE, CONTRACT TYPE

- Two broad types :
 - Fixed prize contracts (gross costs, net cost, super incentive) → high powered.
 - Cost Plus contracts (management contracts) → low powered.
- Lot of intermediate forms.

TYPICAL PROBLEMS OF AUTHORITY INITIATED REGIMES

1/2

- Lock-up problem of OP and PTA's leading to over specification by PTA's. After first round of tendering:
 - Frustrated authorities: OP does not innovate, is not competent.
 - Frustrated OP: authorities give us too little space.
 - There is no market (too high expectations of politicians and civil servants, and/or the product is already good).
 - Responsabiliteit : risk averse politicians.
 - No partnership between OP and PTA.
 - Solution: over specify next round.

TYPICAL PROBLEMS OF AUTHORITY INITIATED REGIMES

2/2

- Strategic asset ownership by OP (2).
- Inadequate use of awarding criteria (3).
- Bidding imparity (incumbent has information advantage).
- Collusion. (4)
- Inexperienced non-professional authorities.
- Incomplete contracts due to complexity of services to be procured.
- No consideration of transaction costst of decisions (1).

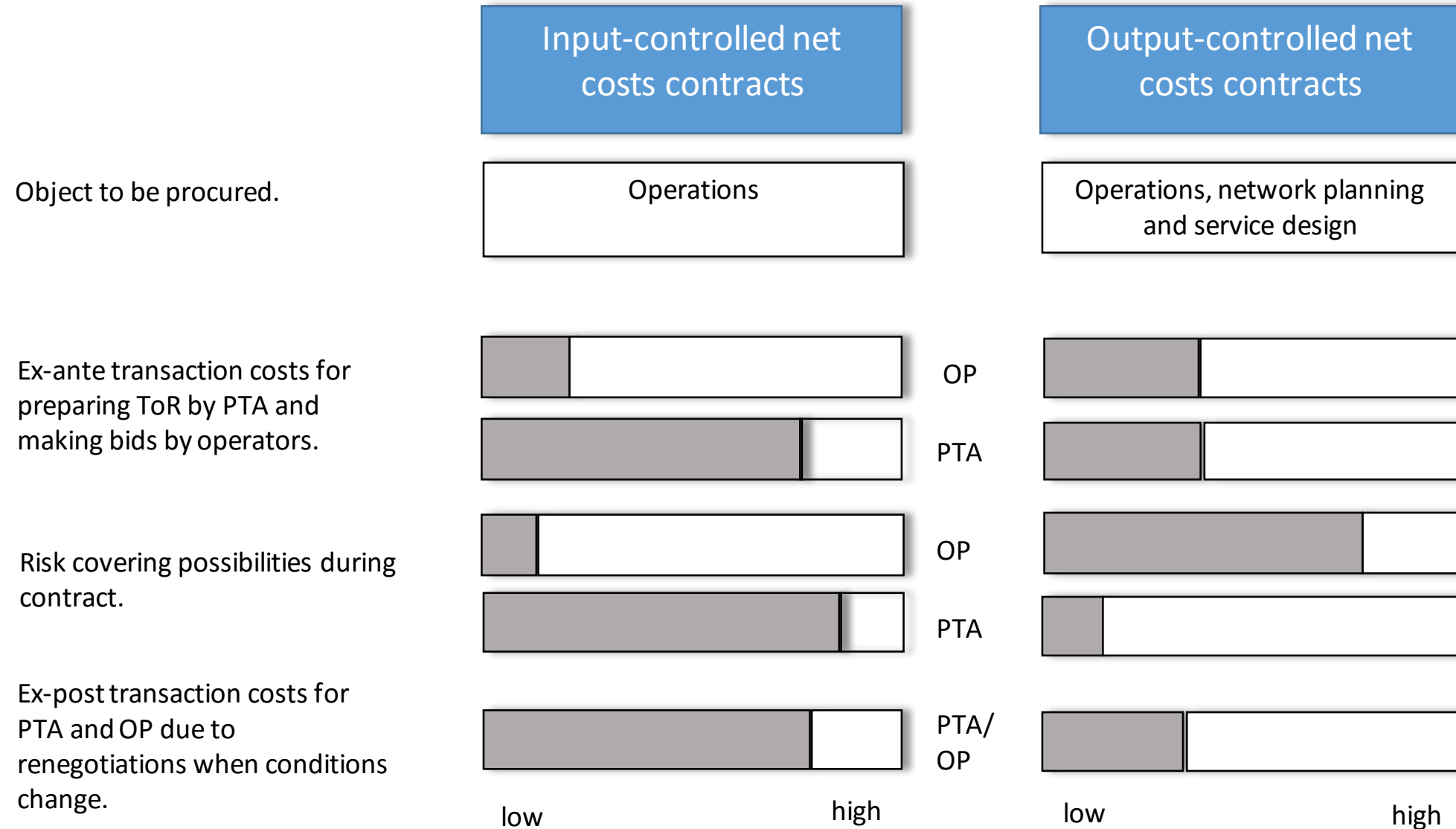
COMPLEX AND INCOMPLETE CONTRACTS

- Contracts are a powerful instrument for governing procurement transactions.
- PT contracts are complex in nature:
 - Aim to capture complex arrangements and interdependencies (1).
 - Conditions may change during execution of the contract (level of congestion, new infrastructure becomes available et cetera).
- Complex contracts are unavoidable incomplete as actors do not know the future.
- This may lead to high TC and strategic behaviour of bidders (gambling on re-negotiation) → observed in UK (Hensher and Stanley) and Netherlands. (Mouwen) and to high transaction costs (2).

TRANSACTION COSTS.

- Three phases in PT procurement that bring forth TC :
 - Contact phase.
 - Contract phase.
 - Execution phase.
- Authorities hardly aware of TC consequences of decisions.

DECISIONS IN PROCUREMENT PROCEDURE INFLUENCE TC.



TC PER CONCESSION (MILLIONS EURO)

	Lower limit	Upper limit
Small	1.5	3.5
Medium	2.1	5.6
Large	3.3	8.0

	Total subsidy (millions of euros)	TC as % of total subsidies		Total subsidy savings due to CT (millions of euros)*	TC as % of CT-caused subsidy reduction	
		Lower	Upper		Lower	Upper
Small	43.4	3	8	8.7	17	40
Medium	146.3	1	4	29.3	7	19
Large	380.1	1	2	76.0	4	10

QUESTIONS AND DISCUSSION

DESSERT.

SATISFACTION WITH PUBLIC TRANSPORT

- Overall satisfaction (emotional holistic construct) versus attribute satisfaction (cognition, transaction specific).
- Satisfaction versus importance of attributes.
- Satisfaction related to i.a. , socio-demographic and behavioral characteristics of individuals (age, gender, time of travel, urban density etc.)
- Econometric models estimated based on KB-surveys (N=90.000/year).

SOME RESULTS (BTM AND REG. TRAIN)

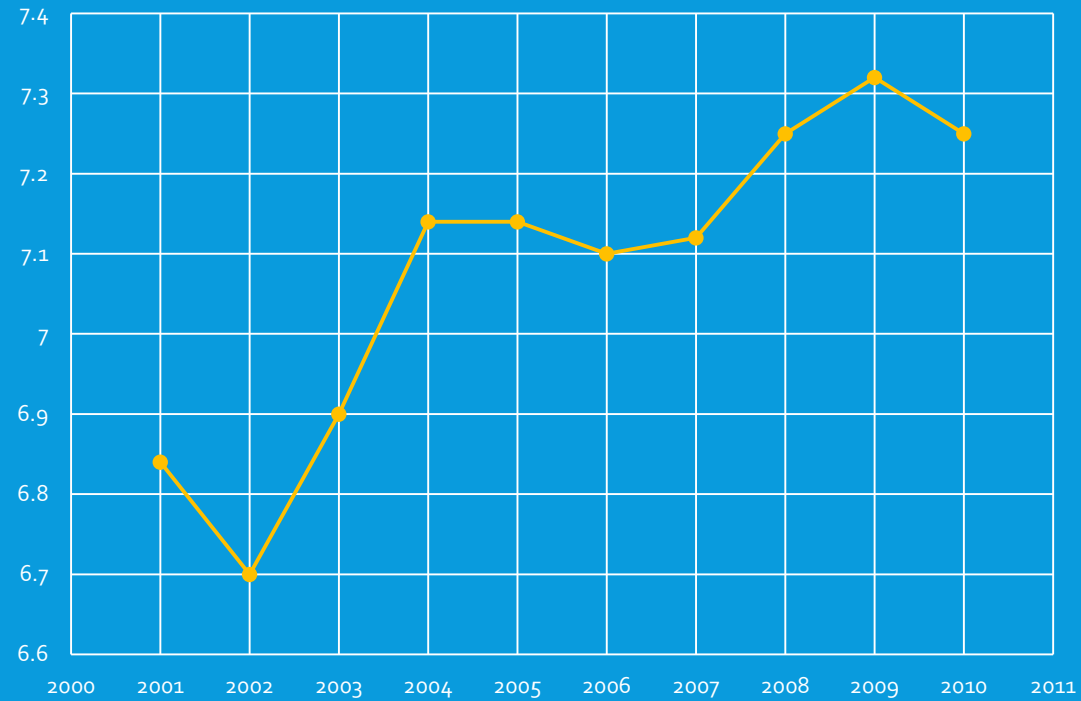
Total population		
Attribute	Satisfaction	Importance (%)
On-time performance	7.1	11%
Snelheid	7.3	15%
Service frequency	6.8	11%
Personnel behavior	7.3	9%
Vehicle tidiness	6.9	8%
Prices of the tickets	5,0	4%
Other	n.a.	42%
Overall	7.3	100%

Segmentation:

- Elderly people far more satisfied than youngsters (+0,8 pt.)
- Metro users value service frequency lower than bus users
→ expectations dominate satisfaction.
- Strong effect of negative social safety experiences.
- Passengers in densely populated areas more dissatisfied than rural passengers, specifically with regard to personnel.
- In big cities passengers value social safety at stops 10 times as important as the average passenger.
- Metro passengers find vehicle tidiness very important.

COMPETITIVE TENDERING: IMPACT ON SATISFACTION?

Growth of overall Satisfaction



RESULTS

Net difference in O-SAT for regions with and without CT is modest and not lasting:

- Average effect of first CT +0.068 points (on 10-point scale) and of 2nd.CT +0.025 points. → shift in attention of PTA's from quality enhancement to efficiency?
- (Modest) negative effect on reliability → related to increased service frequency?
- Attribute that contribute most is satisfaction with vehicle tidiness → correlated to introduction of new vehicles, accelerated by CT.
- If new operator takes over from incumbent, satisfaction falls (especially with information attributes).

NA DEZE RESERVE

Public Service Obligation with Public Operator	Prague; Helsinki; Warsaw; Bilbao; Barcelona; London	Madrid; Budapest			R'dam-The Hague; Paris; Berlin		Amsterdam; Vienna	
Private Concessions Including Infrastructure								
Central Planning and Tendering of Production								
Tendering of Realisation with Redesign Possibilities							Lyon; Piemonte region; Stockholm	
Tendering of Network Design and Realisation								
Deregulated Market for Commercially Viable Routes and Tendering of Non Commercial Routes								
Tendered Authorization for Exploitation of Commercially viable routes								Montreal
Free competition with Light Touch Regulation								
Deregulated Free Market								
	Management Contract	Gross Cost Contract	Gross Cost Contract with Shared Production Risk	Gross Cost Contract with Ridership Incentive	Net Cost Contract	Net Cost Contract with Shared Revenue Risk	Super Incentive Contract	No cost-based contracting

RISK ALLOCATION

