

Suburban Passenger Traffic

Profitability of suburban trains in Russia remains one of the main objectives of industry reform. Current measures to support suburban trains through budgets are insufficient. As such, the methods of interaction between carriers and regional authorities also require change.

Since 2011, JSC “Russian Railways” has only been managing long-distance express passenger trains.

Suburban services are provided to the population by 26 suburban passenger companies (SPCs) established with the participation of the regions 1, LLC Aeroexpress, LLC Interregional Passenger Company, and LLC Permsky Express.

JSC “Russian Railways” provides services related to the public railway infrastructure used for passenger traffic.

Suburban traffic volumes have been increasing for the past two years. This organic growth is driven by the carriers’ flexible marketing policy, improved passenger services in some regions, and the governmental decision to subsidize infrastructure services and reduce JSC “Russian Railways” tariffs for the provision of rolling stock to carriers.

of losses incurred by SPCs remained uncompensated in 2012. 18 of 25 SPCs are unprofitable

53%

In 2011, 16 SPCs were unprofitable, 64% of losses were not compensated

KEY TRENDS

Suburban traffic volumes have been increasing for several years.

Revenues from suburban passenger companies (SPC) grew by 8.4% in 2012.

In 2012, 100 agreements were entered into with 73 constituent entities of the Russian Federation to provide a certain volume of services at fixed tariffs

SPCs are not required to be compensated for losses in just five constituent entities of the Russian Federation

JSC “Russian Railways” is developing express and accelerated commuting services in the Moscow Transport Hub

At year-end 2012 revenues of all suburban companies from passenger transportation increased by RUR 46.4 bln in total. During this time, on total SPCs generated a shortfall in income amounting to RUR 15.2 bln (net of profit received in a number of regions and subsidies for state tariff regulation). The shortfall in income increased by RUR 0.9 bln during the year. The bulk of the shortfall in income is attributed to unprofitable SPCs (RUR 13.1 bln).

The shortfall in income is due to the fact that suburban tariffs are regulated by constituent entities of the Russian Federation, therefore, only a full compensation of shortfall in income will make suburban trains profitable for SPCs. However, at the beginning of 2012 regional budgets provided only RUR 6.4 bln for the compensation of a shortfall in income.

During the year, 34 constituent entities of the Russian Federation adjusted their budgets to pay suburban passenger companies additional subsidies amounting to RUR 2.1 bln. Of these, RUR 640.3 mln were subsidized to cover losses from the previous year (2011). Thus, in 2012 the actual compensation received was only RUR 7.8 bln, less than half of the amount required.

In 2014 the situation may deteriorate. The three-year Russian budget for 2014 allows for only RUR 12.5 bln to cover JSC “Russian Railways” shortfall in losses from infrastructure services provided to suburban trains, which is half the amount of subsidies allocated for this purpose in 2012.

INDICATORS OF THE SUBURBAN COMPLEX, RUR BLN

Item	2011	2012
Revenues	42.8	46.4
Total expenditure at the infrastructure rate of 1%	-48.9	-53.9
Consolidated losses for the Russian Federation given a reduction in the infrastructure rate of 99%	-6.1	-7.5
Total demand for subsidies in regions of the Russian Federation, excluding profitable constituent entities	-14.3	-15.2
Subsidies received from regional budgets, including:	5.2	7.2
subsidies received by regions, excluding profitable regions	5.2	7.2
Total losses, including subsidies and excluding profitable regions	-9.1	-8.0

Structure of the suburban passenger complex in 2012

26 suburban passenger companies operate suburban traffic services in 73 constituent entities of the Russian Federation (on “common”, so called 6000 number suburban trains). Of them:

2 SPCs

> 25% private investors

OJSC Moskovsko-Tverskaya Suburban Passenger Company (JSC "Russian Railways" owns 50% (2 shares), with 25% (1 share) belong to the Tver Region, 25% + 1 share belongs to Delta Transinvest)
OJSC Tsentralnaya Suburban Passenger Company (JSC "Russian Railways" owns 25% + share, 25% + 1 share belong to the Moscow Region, 50% minus 2 shares belong to LLC Moscow Passenger Company

4 SPCs

100% minus 1 share of JSC "Russian Railways",

1 share of Zheldorreform

OJSC Bashkortostanskaya Suburban Passenger Company
OJSC Kaliningradskaya Suburban Passenger Company
OJSC Sakhalin Passenger Company
OJSC Northern Suburban Passenger Company

14 SPCs

>50% shares of JSC "Russian Railways", with the rest of shares owned by the constituent entities of the Russian Federation

OJSC Altai-prigorod
OJSC Volgogradtransprigorod
OJSC Zabaikalskaya Suburban Passenger Company
OJSC Krasprigorod
OJSC Kuzbass-prigorod
OJSC Omsk-prigorod
OJSC Perm Suburban Company
OJSC Saratovskaya Suburban Passenger Company
OJSC Sverdlovskaya Suburban Passenger Company
OJSC North-Western Suburban Passenger Company
OJSC North-Caucasian Suburban Passenger Company
OJSC Suburban Passenger Company Chernozemie
OJSC Express Primoriya
OJSC Express-prigorod

5 SPCs

>50% shares of constituent entities of the Russian Federation, JSC "Russian Railways", with the rest of shares owned by JSC "Russian Railways"

OJSC Baikalskaya Suburban Passenger Company
OJSC Volgo-Vyatskaya Suburban Passenger Company
OJSC Kuban Expressprigorod
OJSC Samarskaya Suburban Passenger Company
OJSC Sodruzhestvo

1 SPCs

100% private investors

LLC Perm Express

In addition, the complex includes companies that provide express passenger transportation services with luxury trains:

- ▶ LLC Aeroexpress (an operator of suburban express trains linking Moscow, Sochi and Vladivostok with airports)
- ▶ LLC Moscow Passenger Company (express transportations in the Saratov and Volgograd Regions)

Reform of the suburban complex: new methods of interaction between carriers and regional authorities

In November 2012, the Government Commission on Transport and Communication approved the suburban passenger service development concept for the period up to 2025 proposed by JSC "Russian Railways" and the Russian Ministry of Economic Development.

The concept had been developed at the request of the Russian Government (No. P9-43077 dated 17 September 2011), and the draft has been submitted for the final approval at the Government's meeting.

Underlying principles of the new organizational model of suburban passenger service outlined in the concept:

- ▶ use of the state order mechanism for public railway infrastructure services (constituent entities of the Russian Federation should place orders for transportation services). The state order mechanism should be envisaged by the Federal Law "On the Organization of Regular Passenger Train Service in the Russian Federation";
- ▶ constituent entities of the Russian Federation should be required by law to:
 - ▶ draw up mid-term transport service development plans (for 3-5 years);
 - ▶ determine cost-base tariffs for suburban passenger services and compensate revenue losses incurred by suburban passenger companies as a result of tariff regulation;
 - ▶ approve a realistic mechanism for subsidizing carriers from regional budgets and fully compensate shortfalls in income;

- ▶ the federal budget should fully compensate carriers' shortfalls in income from the transportation of passengers entitled to federal-level benefits;
- ▶ a penalty fare system, a penalty collection procedure and regulations governing the responsibility for train fare evasion are under development.

Placement of orders for suburban passenger services

Four constituent entities of the Russian Federation did not provide compensation for shortfalls in income incurred by carriers in 2012 (Vologda, Kurgan, Vladimir and Leningrad Regions).

In 2012, agreements for the organization of public transportation services were entered into with all 73 constituent entities of the Russian Federation (all territories where railway services are available). A standard contract provides for the full compensation of shortfalls in income and the approval procedure for the volume of fixed tariff transportation services by the ordering party (a constituent entity of the Russian Federation).

However, 57 of 100 contracts (including 43 constituent entities of the Russian Federation) do not specify any financial compensation rates for shortfalls in income.

Shortfalls in income were fully compensated to carriers in 21 regions. However, in the following five constituent entities of the Russian Federation there was no need for subsidies: Moscow, Moscow Region, Saint Petersburg, the Republic of Adygea, and the Astrakhan Region.

Carriers were fully compensated for revenue losses in just 16 regions: Nizhny Novgorod, Kaluga, Orenburg, Omsk, Kirov, Novosibirsk and Ryazan Regions, the Karachay-Cherkess Republic, the Republic of Tatarstan, the Khanty-Mansi Autonomous Territory, Altai, Krasnoyarsk and Perm Territories, the Udmurt Republic, Volgograd Region and the Republic of Bashkortostan. OJSC Bashkortostanskaya PPK failed to make an agreement with the Samara Region for 2012.

OJSC Bashkortostanskaya PPK failed to make an agreement with the Samara Region for 2012.

At year-end 2012 positive financial results in suburban services were achieved by the following eight suburban companies: OJSC Central Suburban Passenger Company, OJSC Moscow-Tver Suburban Passenger Company, OJSC Kuban Express-Prigorod, OJSC Suburban Passenger Company, OJSC VTP, OJSC Express-Prigorod, OJSC Omsk-Prigorod, OJSC Altai-Prigorod,

SUMMARY TABLE BY REGIONS

Compensation rates to constituent entities of the Russian Federation	Number of constituent entities	
	2011	2012
Compensation is not required	6	5
100% compensation	16	16
> 50% compensation	13	14
< 50% compensation	34	34
not provided	4	4
Total	73	73

PROFITABLE AND UNPROFITABLE SUBURBAN PASSENGER COMPANIES IN 2011-2012 TAKING INTO ACCOUNT SUBSIDIES FROM REGIONS

SPCs	2011, RUR mln			2012, RUR mln		
	Financial result net of subsidies	Volume of subsidies	Financial result adjusted for subsidies	Financial result net of subsidies	Volume of subsidies	Financial result adjusted for subsidies
Altai-Prigorod	-157	157	0	-206	206	—
Omsk-Prigorod	-118	118	-0	-151	151	-0
Express-Prigorod	-140	140	0	-222	222	0
Kuzbass-Prigorod	-249	62	-187	-301	89	-213
Sverdlovsk Suburban Company	-2,092	1,313	-779	-2,114	1,595	-519
Perm Suburban Company	-526	222	-304	-284	295	11
Volgo-Vyatskaya Suburban Passenger Company	-231	163	-68	-278	232	-46
Sodruzhestvo	-507	357	-150	-596	508	-88
Volgogradtransprigorod	-161	174	13	-191	193	1
Saratov Suburban Passenger Company	-282	151	-131	-253	116	-137
Bashkortostan Suburban Passenger Company	-716	388	-328	-897	533	-364
Samara Suburban Passenger Company	-360	209	-151	-219	199	-20
Krasprigorod	-1,070	313	-757	-512	346	-165
Express Primoriya	-737	161	-576	-885	184	-700

Chernozemie Suburban Passenger Company	-707	51	-656	-1,435	228	-1,207
Northern Suburban Passenger Company	-1,594	246	-1,348	-1,732	350	-1,382
North-Caucasian Suburban Passenger Company	-1,192	156	-1,037	-644	106	-538
Kaliningrad Suburban Passenger Company	-275	5	-270	-283	50	-233
North-Western Suburban Passenger Company	-54	45	-9	-372	86	-286
Moscow -Tver Suburban Passenger Company	97	—	97	345	15	360
Central Suburban Passenger Company	5,678	215	5,893	5,249	446	5,695
Baikal Suburban Passenger Company	-512	242	-270	-854	624	-230
Kuban Express-Prigorod	-38	126	88	-105	189	84
Zabaikalskaya Suburban Passenger Company	—	—	—	-472	113	-359
Sakhalin Suburban Company	-70	79	9	-94	66	-28
Perm Express	-51	61	10	-48	43	-4
Total (consolidated)	-6,064	5,154	-910	-7,553	7,185	-368
Total net of profitable companies	-11,840	—	-7,021	-13,147	—	-6,519
Total net of profitable regions	-14,274	—	-9,117	-15,257	—	-8,071