

# Transit operations: Service providers compete for passenger-rail business

Progressive Railroading

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Dale Zehner has great expectations for [Virginia Railway Express](#) (VRE) now that Keolis Rail Services America took over operations of the commuter-rail service in July 2010.

VRE's chief executive officer considers the five-year, \$80 million contract with Keolis an opportunity to raise the bar on customer service for the 19,000 VRE riders who travel daily between northern Virginia's suburbs and Washington, D.C.

Prior to Keolis taking over VRE's service, the agency contracted operations to [Amtrak](#), which had been VRE's service provider since the agency's 1992 inception. As the Amtrak contract expiration date approached, Zehner knew he wanted to explore options to see what companies — Amtrak included — could offer. He found that, in an increasingly competitive environment, firms are willing to go the extra mile not only to provide reliable service, but also add special touches to enhance the rider experience. VRE's story is a recent example of how U.S. passenger-rail agencies are using the competitive process to outsource train service and/or maintenance to private companies. In doing so, agencies believe they will get railroad operations and regulatory expertise tailor-made to their communities' unique circumstances and at a more cost-effective price.

And in many situations — VRE is one — these private-sector firms are going up against Amtrak, which also intends to compete vigorously for such contracts. As passenger rail in the United States continues to expand and evolve into a mix of conventional, higher-speed and high-speed varieties, private-sector rail operators such as Keolis, Veolia Transportation Inc. and Herzog Cos. see ample opportunity to expand their presence in the U.S. marketplace.

## A Thorough RFP Process

Zehner and VRE's board spent more than a year writing a request for proposal that outlined in great detail how they wanted the agency's passenger-rail experience to exceed riders' expectations.

What VRE really wanted, Zehner says, was better customer service.

"Amtrak always felt they set the standard. They were the passenger-rail service for the U.S. and were the authority on customer service for passenger rail," says Zehner. "I felt there were areas VRE could improve that were above the Amtrak standard."

Amtrak did make a proposal to continue as VRE's operator. But the board, which received four bids, chose Keolis because "they best met the RFP requirements in every respect," Zehner says.

VRE's board not only wanted safe, on-time service — it expected clean trains and a range of other amenities that made commuters' daily trips to and from D.C. more enjoyable.

"We wanted better cleanliness of the equipment inside and out, and conductors to provide services to passengers that Amtrak didn't want to do, like hand out candy on Halloween and Valentine's Day,"

Zehner says. "We put it in the RFP. These are the little things that separate you from everyone else."

VRE's contract with Keolis also includes financial incentives and penalties tied to performance, Zehner adds.

## A Place for New Players

Keolis is one of the largest public transportation providers in Europe. The VRE contract is the Paris-based company's first venture in the United States.

"VRE represented an excellent opportunity for us," says Gregg Baxter, general manager of Keolis Rail Services Virginia, which operates VRE. "It is an excellent [rail] service, with a high profile going into the nation's capital, good clientele and a client that wanted us to do a lot with the quality of customer service."

Baxter considers the U.S. market for passenger-rail service contracts "very competitive," and the company has been and will continue competing for contracts that fit its business objectives.

"We're looking to participate in an agency that is not only focused on safety and rail operations, but that also understands the value of customer service and raises the level of service being provided," he says. Chances are, Keolis will have plenty of other opportunities. Many transit agencies outsource their operations, and with more contractors bidding on contracts, all service operators will have to up their game if they want to remain key players.

"I think the marketplace is dynamic," says Stephen Gardner, Amtrak's VP of policy and development. "Obviously there is a real focus on efficient operations and cost control, and finding ways to provide services at the most efficient and best price is always a concern for agencies and operators. There is a lot of competition in the market now and I see growth in that area, with a number of new competitors that see long-term potential for rail in the U.S. "

But what will a more competitive marketplace mean for Amtrak?

"It means, obviously, that we need to be a fantastic service provider," Gardner says. "We need to be focused clearly on meeting our customers' expectations in the markets we choose to be in. ... As we look ahead, not all markets will make sense for Amtrak, and we will be strategic about where the opportunities are for us to provide the best value."

### **Amtrak's Opportunity**

One opportunity Amtrak captured: regaining operations of southern California's [Metrolink](#). Amtrak previously ran Metrolink trains from 1992 through 2005, at which point Metrolink contracted Veolia to take over its commuter-rail operations. Veolia's five-year stint with the agency was marred by a 2008 accident in which a Metrolink train collided with a Union Pacific Railroad train in Chatsworth, Calif., killing 25 people and injuring 135 others. Veolia's contract expired in 2010, and Metrolink awarded a four-year operations contract with extension options to Amtrak. However, Metrolink still contracts Veolia to maintain its right of way, says Ron Hartman, CEO of Veolia's North American rail division.

The French firm, which bills itself as the "largest private operator of transportation services in North America" on the company website, currently is the majority partner of [Massachusetts Bay Commuter Railroad Co.](#), which operates Boston's commuter-rail system. Veolia also operates [Tri-Rail](#) in southern Florida, the [North County Transit District's SPRINTER](#) light-rail service in the northern San Diego area, and is the operating partner in a joint venture for a light-rail system under development in Houston. Hartman says he's "very enthusiastic" about the U.S. market for passenger-rail service.

"Clearly there are more opportunities out there than we can keep up with," he says.

Same goes for Herzog, which entered the passenger-rail service operations business in 1993. Currently, the company operates the [Trinity Railway Express](#) commuter-rail service between Dallas and Fort Worth, Texas; the [Rail Runner Express](#) commuter-rail service in New Mexico; and the [Coaster](#) rail service between Oceanside, Calif., and San Diego, according to Raymond Lanman, vice president of corporate development at Herzog Transit Services Inc.

Despite the national political debate over federal funding for passenger rail, Herzog officials believe the passenger-rail operations business will continue to grow, which is reflected in the number of new competitors — such as Veolia and Keolis — entering the U.S. marketplace, Lanman says.

"Originally, it used to be just a two-horse race — Amtrak and Herzog — competing against each other for these types of projects," he says. "Now that's changed. The competition has definitely increased over the past five or six years."

As more federal funding for passenger-rail becomes available for states to start new or expand existing passenger rail systems or upgrade to high-speed rail, more competitors will seek to enter the contracting business, Lanman says.

### **Risk-Sharing Arrangements**

Some contractors might even be willing to provide some financial backing. For example, Veolia — which also provides design and construction services — is interested in pursuing risk-sharing contracts between public transit agencies and private businesses and their investor partners, says Hartman. The company recently was one of several business entities prepared to bid on Florida's Tampa-Orlando high-speed rail project under a public-private partnership that would have accepted the financial risk for construction and operation cost overruns. (As of press time, Florida Gov. Rick Scott remained firm in his decision to reject federal funding for the project.)

"Increasingly, as the cost for public services gets tighter, transportation agencies will look more in the direction of public-private partnerships," Hartman says. "There are a lot of investors who are very anxious to pursue these types of arrangements."

These days, all eyes are on Caltrain, which is seeking to award a five-year contract, with a five-year option, for a full range of operations and maintenance services, making it the largest U.S. passenger-rail service contract under consideration. More agencies are leaning toward bundling both the rail-service operations and equipment maintenance under one "full-service provider," Hartman says.

Caltrain officials declined to be interviewed about the contract's status. However, the Peninsula Corridor Joint Powers Board, which oversees Caltrain, acknowledged in a January press release that the board is continuing its due diligence. In September 2010, the agency received proposals from Keolis; Peninsula Corridor Rail Services, a joint venture between Amtrak, which has the current Caltrain contract and has operated the service since 1992, and Bombardier Transportation; Peninsula Rail Services, a joint venture between RailAmerica Inc. and RATP-Dev; Transit America Services Inc., a subsidiary of Herzog; and Veolia.

With increased competition for contracts such as Caltrain's, service providers likely will bring new ideas to the table, which will require everyone to "provide the best service they can," says Amtrak's Gardner.

And that's great news to rail-transit agency executives like VRE's Zehner. The stronger the competition, the better the service will be for VRE riders.

"I always tell people that if you're in the commuter-rail business, you want a robust market ready to provide services so you can put a proposal out there and get good, competitive responses," Zehner says. "If that continues, it will lift the whole [passenger-rail] industry."