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**Comments on PR13 Draft determination of NR's outputs and funding for 2014-19**

Dear Valentina,

Thank you for the opportunity to comment. I am pleased to submit on behalf of **Railfuture** this consolidated national response, which has been prepared by the Policy Group, with contributions from individual branches and groups. The document has been reviewed and approved by the Group.

Railfuture is a national voluntary organisation structured in England as twelve regional branches, and two national branches in Wales and Scotland.

We welcome the direction of movement toward treating Network Rail as a commercial business, and support the approach in the meantime of incentivising NR and its customers through the regulatory framework to increase efficiency and improve financial sustainability.

If you require any more detail or clarification please do not hesitate to get in touch.

Yours sincerely

***Chris Page***

Chris Page  
Railfuture  
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## **Comments on PR13 Draft determination of NR's outputs and funding for 2014-19**

Railfuture welcomes the direction of movement toward treating Network Rail as a commercial business, and supports the approach in the meantime of incentivising NR and its customers through the regulatory framework to increase efficiency and improve financial sustainability. Our individual comments below are referenced by paragraph number of the consultation document and topic.

### **Summary 113 Supply chain**

Network Rail should also be funded to develop projects which span CP5 and CP6, to avoid any hiatus in the supply chain between these control periods and in particular to maintain a rolling electrification programme so that there is no risk of having to disband the electrification teams.

### **3.48 Performance outputs**

We do not believe that PPM is a measure which closely reflects passenger experience, either individually or in aggregate. Passengers expect their train to be on time, particularly if they have to make a connection to complete their journey, so we consider that right-time measures are the most representative of passenger experience.

### **3.100 Station Stewardship Measure**

It is not clear whether the Station Stewardship Measure merely covers legal and safety requirements and physical asset condition, or whether it also includes the facilities (commensurate with the level of traffic at the station) which ought to be provided, eg help points, level access, information displays, toilets, interchange with other modes, and weather protection for passengers. We consider that these facilities which are expected by passengers should be included in the measure. It should also be defined whether the responsibility for managing Station Adopter groups and Community Rail Partnerships is with Network Rail or is delegated to TOCs.

### **8.62 Drainage condition**

It is not clear whether this grading merely represents the physical condition of the asset, or whether it also includes the adequacy and capacity of the asset to deal with the potential flow demand. Clearly it is important to know whether the asset can meet the potential demand.

### **8.64 Building condition**

It is not clear whether this grading merely represents the physical condition of the asset, or whether it also includes the adequacy and capacity of the asset to deal with the expected traffic demand. Clearly it is important to know whether the asset can meet the expected demand.

### **8.506 International benchmarking**

It is not clear how the results of international benchmarking have been used to influence decisions made in the Determination.

### **9.47 Project development funding**

Targeting of CP5 development funding must enable CP6 electrification projects to be ready to start in time to maintain the rolling electrification programme.

### **9.95 Uckfield line train lengthening**

The presumption in the Initial Industry Plan, High Level Output Specification and the Strategic Business Plan has been that this conditional output will be delivered by lengthening the platforms at all stations on the Uckfield line. However this solution is dependent upon the train operator's ability to source additional compatible diesel units; attempting to release rolling stock of the same type from the only other line on which it operates, East Coastway/Marshlink between Ashford International and Brighton, is unlikely to be either sufficient or free from public controversy.

Railfuture propose an alternative solution of electrifying the Uckfield line from Hurst Green to Uckfield. The dual voltage electric units already available to the train operator have inter-unit corridor connections (which the Class 171 diesel units do not) and Selective Door Opening so platform lengthening would not be necessary for 12-car trains to serve the smaller stations.

To quote para 9.80 of the Draft Determination, "Electrifying the railway will bring many benefits for both passengers and freight users, most notably the ability to run more frequent trains with shorter journey times and less environmental impact, such as noise and diesel fumes." These environmental benefits are especially important to stakeholders in the local areas of sensitive and protected landscape such as the High Weald Area of Outstanding Natural Beauty [AONB] and the Ashdown Forest. There is also the benefit for passengers of a more reliable, punctual service which will attract some passengers who currently use the Brighton Main Line, and the increased operational efficiencies of the lower running costs of electric units and a more homogenous fleet of rolling stock.

This alternative line solution will offer much better value for money than merely lengthening platforms. The additional cost can potentially be funded by sharing the benefits of increased revenue from additional users, and lower operating costs, between Network Rail and the train operator. A secondary benefit would be the release of diesel units to other services, including for example the overcrowded East Coastway/Marshlink service. This solution has the support of stakeholders including East Sussex, Kent and Surrey County Councils, Sussex CRP, Wealden Strategic Partnership, Wealden and Sevenoaks District Councils, Wealden MP the Rt Hon Charles Hendry, Bexhill and Battle MP the Rt Hon Gregory Barker and Passenger Focus.

Where platform lengthening is required, this must not compromise the ability to redouble the line in future, so the project does not necessarily have fewer dependencies as suggested.

### **9.99 Midland Main Line capacity**

Allowance must be made in funding for either the Midland Main Line capacity project or the Electric Spine programme for changes to the specification of the capacity project to accommodate the electric rolling stock which will be required.

### **9.124 Carstairs Junction remodelling and Edinburgh Suburban electrification projects**

We are disappointed that ORR has been unable to include funding in the determination for these projects, which Network Rail clearly believe will be of value.

Since both the WCML between Carlisle and Carstairs and the ECML route through Waverley are almost at capacity, the Edinburgh Suburban electrification project is necessary to accommodate additional electric-hauled freight services, particularly for large containers, on the ECML. We encourage Network Rail to use the investment framework to fund this project on the basis of the increased revenue that this would generate.

We also encourage stakeholders to promote the remodelling of Carstairs Junction to reduce delays and to enable the reintroduction of stopping services between Carstairs and Carlisle.

#### **9.140 Passenger Journey Improvement Fund**

The £300m budget for the Passenger Journey Improvement Fund should not be dissipated across a large number of projects which each produce only marginal benefits – it must be focussed for maximum effect. Six of the top ten locations for reactionary delays are on the Brighton Main Line, which should be a priority candidate for this funding.

The Secretary of State has already requested that Network Rail consider the reopening of the Lewes – Uckfield line as a potential solution to the capacity and reliability issues on the Brighton Main Line. Railfuture propose that this reinstatement, together with Uckfield to Hever redoubling and a grade separated connection between fast and slow lines at Windmill Hill Junction (as originally proposed by Connex) be considered for funding from this budget to create a route additional to the Brighton Main Line, which would increase capacity and reliability sooner than CP6, which is the earliest that would otherwise be possible.

#### **12.54 Limit on Network Rail's financial indebtedness**

It is not clear from the Draft Determination whether any modelling has been done to determine the sensitivity of the funding requirement and the level of debt to variations in usage growth and in interest rates, and therefore the risk of Network Rail breaching this limit. The rate of increase in passenger numbers is slowing recently, possibly indicating that the RPI + x% fare increases each year are reaching the limit of what the market will bear – which would have an adverse impact on Network Rail's financial position.

#### **12.101 RAB roll-forward approach**

We support the approach described and the requirement for the asset management package to be implemented.

#### **12.107 Value based adjustment**

We consider that a value based adjustment for non-delivery of outputs would be more representative of the lost opportunity than an adjustment based on the cost saved.

#### **12.141 Financial benefit to NR of over/underspend on spend to save schemes**

We consider that the incentives on spend to save schemes should be consistent throughout the control period. Savings will continue into following control periods so Network Rail should not be disincentivised from spending late in the control period to save in the following control period.

#### **12.150 Network grant**

Provided that the equivalent subsidy is provided to TOCs and freight operators, so that their net costs remain consistent with present funding arrangements and total funding to Network Rail is unchanged, we agree that more of Network Rail's funding should come from access charges and that the network grant should be phased out over time. We support the move to cost-reflective charges so that Network Rail is encouraged to act like a commercial business.

However, we are concerned that with Network Rail's Regulatory Asset Base getting ever higher to fund continued enhancements and electrification, the burden of interest charges and debt repayments will require increasing support.

### **13.9 Cost of capital**

The use of the full cost of capital for investment appraisal of non-HLOS proposals puts the business case of non-HLOS rail development opportunities at a disadvantage when compared to road developments which would benefit from the interest rate advantage of direct government borrowing. We believe all transport developments should be appraised on a level playing field.

#### **16.115 Recovery of direct capacity costs**

Railfuture support the alternative RFOA approach to the capacity charge because rail freight is a low margin business model. Sometimes the difference between a profit and loss can be slim: for example often it is the last container box loaded on an intermodal trains that gives the return. Any further freight related charges may be the tipping-point between a service running or not. The key is that there should be a level playing field between transport modes: road haulage, for example, is not subject to a 'capacity charge' to use the road network.

However we point out that this change to the way that charges are calculated may require major changes to Network Rail's Track Access Billing System. If the revenue associated with this mechanism is expected to be close to zero, then we would question whether it is worth significant IT cost to implement.

#### **16.233 Freight Only Line and Freight Specific Charges for Biomass**

We agree that FOL and FSC charges should not be levied in CP5, so that the railway can develop a new business opportunity (following the direction of the railway operating as a commercial business) rather than because this might halt biomass projects because they would no longer be economically viable.

The FSC and FOL charges that will be phased in during CP6 must be set as early as possible, to set customer expectations and give operators time to negotiate long-term contracts.

#### **17.4 Government reporting rules for network grant**

If Network Rail were operating as a normal commercial business without receiving the network grant, it would be operating at a loss. In that scenario it would not be paying a dividend on its 'equity surplus', and would be unlikely to be able to borrow commercially to fund its deficit – so it would require a capital injection from its equity stakeholders. Therefore, provided that the cumulative network grant over the years does not exceed the RAB, the network grant is in effect as a capital injection to NR until improvements in efficiency paid for by the investment from NR's equity stakeholder (the government) has moved Network Rail into profitable operation.

#### **18.7 Property income**

We agree with the statement that "Network Rail's property income should not be seen in isolation from the rail network", but for entirely different reasons from the example quoted of a fire in a tenancy. We believe that non-operational railway land should not be disposed of if to do so would preclude future reopening of strategic routes or freight handling facilities, or creation of interchanges between lines or with other modes.

### **18.26 Property income**

The suggestion that NR's forecast of property income is too conservative is potentially positive. Retail premises at stations could make them more welcoming places, particularly where ticket office hours are limited.

### **19.10-26 REBS**

We support the concept of incentivising train operators to reduce unit costs.

### **19.80 Volume incentive**

We support the concept of incentivising to increase capacity.

### **21.23 Affordability**

It is not clear from the Draft Determination whether any modelling has been done to determine the sensitivity of the funding requirement and the level of debt to variations in usage growth and in interest rates, and therefore the risk of a shortfall in funding.

### **23.71 Financial monitoring proposals**

We agree with the inclusion of all renewals (with safeguards against degradation of the network), aligning with the REBS approach, using the adjustment approach to regulatory outputs, and reporting on total financial performance in monetary terms supported by a meaningful breakdown.

However the proposals for assessing financial performance do not recognize the need for financial sustainability through future control periods. If gearing (the ratio of debt to RAB) continues to increase, then in future control periods either the 75% limit will have to be reset, alternative means of funding (eg equity or unsecured debt) will be required, or financial performance will have to be improved. The assessment of financial sustainability must therefore also measure the trend and identify when further financial performance improvement initiatives are required.

### **23.79 Whole industry scorecard**

We support the concept of a whole industry scorecard. However the value of the scorecard will only be truly realised if the presentation of the measures shows their trend over time.

### **23.83 Journey time indicator**

We would welcome a journey time indicator, which should be based on a basket including common journeys which require a change of train.

### **24.8 Passenger impacts**

We welcome the inclusion of passenger representatives in the selection of projects to be funded, but care is required to ensure that these representatives are truly representative – train operators, local authorities, community rail partnerships, and rail user groups, including groups such as Railfuture, should all be consulted.