

Our Ref: PA/SA
Your Ref:

4 September 2013

Valentina Licata
Office of Rail Regulation
1 Kemble Street
London
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SENT BY EMAIL

Dear Valentina

PR13 DRAFT DETERMINATION

Thank you for giving us the opportunity to comment on the ORR's Draft Determination for the 2013 Periodic Review.

pteg has previously responded to a number of the consultation documents which fed into the Draft Determination. You will have noted the issues and concerns we have raised and these still stand. In this letter, we highlight a few issues which continue to be particularly critical to the PTEs.

This response does not make reference to specific local issues relating to the investment priorities and the overall level of investment. Those are covered in individual PTE responses. However, we would note that standard industry demand forecasting models have been shown to significantly under-estimate recent patronage growth into the city regions. This is an area which we continue to work on with the DfT and ATOC/PDFC with a view to improving forecasting models over time. However, we feel it is important to understand local investment inspirations in this context.

We note that the ORR has recently published its Long Term Regulatory Statement. **pteg** is keen to engage with the ORR in developing proposals for regulatory reform ahead of Control Period 6 and we therefore intend to write to Richard Price later this month setting out our priorities and how we propose to work with the ORR in the future.

More generally, we would like to commend the ORR for the open, transparent and rigorous consultation process followed throughout this Periodic Review.

Devolution and the need for greater transparency and disaggregation of industry data

As you know, the PTEs are seeking a greater devolved role in the delivery of local rail services in the West Midlands and the North of England, and discussions are currently



underway between the PTEs and the DfT on this issue. As we have previously argued, greater transparency over industry data is essential if we are to be able to make effective and well-informed decisions.

Unfortunately, the level of spatial disaggregation at which Network Rail operates does not allow for a detailed understanding of cost drivers at the level of train operating companies, let alone business units, corridors or sections of track. If we are to make the most of the opportunities afforded by devolution then there needs to be a step change in the disaggregation of infrastructure cost data.

We recognise, and value, the work that the ORR itself has been doing in this area, most notably through the publication of rail industry financial information down to TOC level. However, when it comes to infrastructure costs this is based on what we consider to be poor data and flawed assumptions. This is therefore an area where we feel the ORR needs to demand much more from Network Rail and itself in the future.

Access Charges

PR13 represents a further iteration in the development of Access Charges policy. But despite the considerable amount of work that has gone into this part of the Periodic Review, we continue to question whether the current system offers the right balance between complexity, the introduction of appropriate incentives, value for money and transparency. As we have done in the past, we will therefore continue to call on the ORR to carry out a fundamental review of the access charges structure in CP6. We hope to be closely involved in this process and will set out our thoughts on the long term regulatory framework later this month.

In terms of the detailed proposals in the Draft Determination, we are still waiting to hear the final decision from the ORR on the approach to the Capacity Charge, following a meeting of a 'high-level group' hosted by the ORR. In any case, we have made our views known through the Capacity Charge Working Group and we trust you have been made aware of this. In summary, we have argued that, given the results of the research carried out by Arup/Imperial College, it would be inconceivable to continue with a set of charges which, by virtue of aggregating congested and uncongested sections of the network, have over-charged the types of service subsidised by PTEs for years.

Efficiency Benefit Sharing mechanisms

pteg remains sceptical about the practicality and effectiveness of the proposed mechanisms, in particular, without greater transparency and disaggregation of infrastructure cost data. However, we appreciate that these are fairly new ideas which require further refinement. We therefore wish to remain informed of the ORR's evolving thinking in this area.

Funding for Scheme Development in CP5

We note the ORR's criticism of the level of development of some CP5 schemes in the Strategic Business Plan and also that some of the schemes for which development funding was allocated in CP4 are not being taken forward.

Whilst we have some sympathy with this view, it must be acknowledged that not all identified schemes will ultimately offer the most appropriate solution and that, as circumstances change, new schemes will be required to address emerging challenges

such as the future requirement to provide improved connectivity to HS2 stations and services.

We would, therefore, not support any reduction in scheme development funding, but rather argue that more funding is required in order to have sufficient “shovel-ready” schemes for Control Period 6.

Yours sincerely,

Pedro Abrantes
Economist, **pteg** Support Unit