SOUTH WEST TRAINS

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Valentina Licata
Office of Rail Regulation
One Kemble Street
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4 September 2013

Dear Valentina

Periodic Review 2013: Draft determination of Network Rail's outputs and funding for 2014-19

This letter sets out the response of Stagecoach South Western Trains Limited (SSWT) to the above document. Whilst I have conveyed the views of SSWT on the areas of the draft determination that are of most significance to us, we also support the views set out in the responses of East Midlands Trains, Stagecoach Group and ATOC.

In particular I reiterate the point made in the Stagecoach response that for the Wessex Route the draft determination does not provide for sufficient scope of renewal of assets to optimise the overall railway benefit, nor indeed for the increased maintenance that such poor assets require to keep them in optimised condition before they are renewed.

Our comments on the specific areas covered by the draft determination follow.

Incentives

- ORR has not stated what funding mechanisms are in place to support the industry to deliver schemes to reduce EC4T consumption in CP5. The industry has a target to reduce traction CO_2 emissions by 12% by the end of CP5 but at the moment there is no specific funding available for schemes which support this target, including metering additional rolling stock. We welcome ORR's decision to invite the industry formalise the contractual arrangements for partial fleet metering (PFM). The level of exposure to the EC4T wash up will be the key determinant of how widely PFM is adopted. We think that the most appropriate way to decide how partially metered fleets will be exposed to the wash up is for the industry

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to make a proposal through the Traction Electricity Rules.

Access charges

- The proposal that Network Rail is exposed to a greater share of the EC4T volume wash up above that associated with its own use to incentivise it to reduce transmission losses must be modified in the southern ESTA to reflect wash up outturn trend in CP4. Otherwise a perverse incentive will be placed on Network Rail which would see it receive a financial windfall for maintaining transmission losses at the current level in this ESTA. The final determination must provide a straightforward and transparent mechanism to incentivise NR to minimise transmission losses and to maintain the electrification infrastructure effectively, irrespective of whether EC4T consumption is modelled or metered.
- We do not agree with ORR that its proposed amendments to the indexation methodology used to annually adjust Network Rail's track access charges, regulated station charges and Schedules 4 and 8 payment rates, caps and thresholds in CP5 to account for changes in general inflation will have no significant financial implications on franchisees. Franchised operators would not be protected from the financial impact of this change through the financial adjustment mechanism in Schedule 9 of their franchise agreement. The proposed change would therefore transfer the risk of variances in general inflation from Network Rail to TOCs. This will lead to volatility in TOC accounts due to potential large retrospective adjustments during a financial year, which will cause problems for TOC owning groups reporting to the City. The change could also potentially lead to a risk premia being factored into bids, thus reducing the value of future franchises to the taxpayer, and will cause issues at franchise handover. We therefore cannot support this proposal and urge ORR to consider again the impact of this proposal on TOCs and potential bidders.
- SSWT withdrew from the Schedule 8 passenger's charter regime during CP4. This was on the understanding that ORR was willing to publish an Access Charge Supplement (ACS) value for SSWT in its CP5 determination as if we had remained in the regime. ORR has since determined that it will remove this element of Schedule 8 and no longer calculate ACS values. Failure of ORR to do this will have a significant adverse financial impact on SSWT (£ millions) as the financial adjustment mechanism in Schedule 9 of our franchise requires a value for CP5 to be published to calculate the franchise premia adjustment. ORR must therefore publish a Schedule 8 ACS value for SSWT in the final determination. As an alternative to calculating a new value for CP5, we propose ORR publishing the same value as for CP4.
- We are concerned that ORR's approach to developing the framework for track access charging in CP5 has not been holistic and has resulted in disconnects across the overall package. It is vital that ORR starts to lower the overall regulatory burden that this creates, by clearly showing how each proposal connects with others in the regime, and by providing coherent impact assessments of the interactions between charges, incentives and related elements of the franchising regime.

Passenger information

- The current proposals for industry funds do not include a specific provision for the proposed improvements to customer information systems that were set out in the Industry Initial Plan. These

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mirrored the requirements of the Secretary of State's HLOS. The industry has made the case for the important passenger benefits that can be achieved through improving and progressing information systems through delivery of a 'Core' set of interventions that will secure a robust architecture for the flow of information to customer-facing channels of communication. We strongly recommend that ORR includes a specific funding route to achieve these outputs in its final determination.

Performance

- There needs to be a greater recognition in the final determination of the industry aspiration to move to and incentivise Network Rail to recognise Right Time Railway, as opposed to just PPM, particularly in the light of the recent pressures to publish Right Time figures and Passenger Focus' recent review into PPM versus Right Time.

Possessions and performance regimes

- ORR's decision to adjust bus compensation rates down by 7.9% for London & South East does not take into account the fact that the Bus Services Operators Grant is being withdrawn from rail replacement services during CP5, which will result in the cost of replacement bus provision rising significantly for TOCs. ORR must revisit this proposal in the light of this development.

Network Rail's cost of capital

- The current proposal for Network Rail's cost of capital for CP5 reduces the pre-tax cost of capital for investment framework schemes from 6% in CP4 to 4.9% in CP5. However, we think that the final determination should reflect the likely trajectory of the cost of capital through CP5, recognising that although Network Rail's revenue requirement is based around an assumed rate of return, the cost of finance may be lower – even for third parties – and that therefore the level should reflect a realistic assessment of likely costs going forward.

I am happy to discuss any of the above further if you wish. Please contact me at sgibbins@swtrains.co.uk.

Yours sincerely,

Sam Gibbins
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