Freightliner

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Dear Gian Carlo

Periodic Review 2013 (PR13): Establishing Network Rail's efficient expenditure

I am writing to you in response to the ORR's PR13 consultation on Network Rail's efficient expenditure. This is the formal response of Freightliner Group Limited – representing Freightliner Limited and Freightliner Heavy Haul Limited. Freightliner is content for this response to be published on the ORR's website in full.

As stated in our response to the PR13 First Consultation, Freightliner is very keen to work with the Office of Rail Regulation in its planning for the next Periodic Review period and in particular in the work to identify how Network Rail can operate more efficiently and effectively in terms of its expenditure. The way in which Network Rail operates has a significant impact on our own business and the overall ability of all freight operators to increase the movement of freight by rail in this country.

Overview

The McNulty Rail Value for Money Study acknowledged that rail freight operators have continued to drive down their operating costs and increase the efficiency of their operations in a highly competitive environment, faced with the strong competition from other modes that don't incur the same regulatory restrictions and costs. Despite delivering such efficiencies, the competitive market place has made it difficult for operators to deliver profits – for the year ending March 2010 the 4 largest rail freight companies reported a profit after tax (excluding the sale of fixed assets) of minus £17.8 million.

Operators will continue to strive to become ever more efficient themselves but to a large extent this is dependent on the actions of the overall rail industry and Network Rail. In particular, Network Rail's efficiency will be reflected in the access charges paid by freight operators but also through operational opportunities such as more access to the network and efficient paths that minimise resource and energy costs.

Freightliner also recognises that it and other freight operators have a role to play in enabling Network Rail efficiencies. Through discussions over Network Changes, the freight capability programme and in developing engineering access opportunities amongst other things Freightliner and other operators can impact on Network Rail efficiencies. More transparency and a more focussed Efficiency Benefit Sharing mechanism will be needed in CP5 to ensure that these opportunities are maximised and parties have aligned interests.

With this background in mind, Freightliner welcomes the work that the ORR is now undertaking to establish the level of efficient expenditure for Network Rail to incur during the next Control Period.

Examples of areas for improvement

Freightliner supports the approach being taken by the ORR to establish the level of efficient expenditure in PR13 and agrees that international benchmarking should play an important role in this process. As an operator the lack of transparency provided by Network Rail in terms of their expenditure can prove to be a source of frustration as their decision making has direct impacts on our business. For example, when we agree to different possession arrangements or Network Changes there is no transparency in terms of the financial options and opportunities for financial savings. Anything that can be done to overcome this will be crucial for the ORR to ensure that the efficiency of expenditure over the duration of CP5 is maximised. This will be particularly important as the Efficiency Benefit Sharing mechanism is developed in CP5 and will apply to all operators.

McNulty argues that, "There is evidence that efficiency improvements in track renewals, in particular have been hard to achieve". Furthermore, although renewals expenditure is £1.1bn higher than 1996/7 levels, only £0.7bn of this figure can be attributed to increased renewals activity. We agree that further benchmarking and understanding of international methods will be important in identifying how Network Rail can begin to deliver ongoing renewals and maintenance work at efficiency levels in line with other (relevant) companies in Britain and other countries overseas.

Whilst this approach is logical, Freightliner believes that some caution should be exercised to ensure that benchmarking is carried out with appropriate companies and in particular, appropriate other countries, given the complexities and differences that the UK rail industry structure has when compared with those within other nations.

We also have some concerns over the effect that some of the recommendations that McNulty makes could have on efficiency within Network Rail. In particular, devolution of certain functions to the different routes could generate additional administration within Network Rail and bureaucracy for nationwide operators such as ourselves. We have already expressed this view and believe that it is crucial that certain core functions (such as train planning for example) retain a degree of 'centralisation'. We would also hope that unnecessary duplication of certain functions to each and every route is avoided.

Freightliner believes that there are a number of areas that fall within the remit of Network Rail where efficiency improvements can be made over the course of PR13. We acknowledge that this list is not exhaustive but provides an example of some particular areas where improvements could be made.

Efficiency Benefit Sharing

Freightliner is fully supportive of the principal of Efficiency Benefit Sharing and we feel that if developed in the right way it can act as an effective "carrot" for all stakeholders to buy into the concept of working with Network Rail to identify areas where cost savings and efficiencies can be generated.

Having already attended the PR13 Workshop on this concept, in order for it to work effectively, it is clear that buy in is essential from all stakeholders at all levels within individual organisations. Experience has found that in the past, individual operators can be less enthusiastic in supporting projects where the main benefit is an operating cost saving to Network Rail rather than a direct capacity or timetable benefit.

The principle of sharing the financial benefits resulting from efficiency savings is a good one, providing the balance between the sharing of benefit and risk is fair. Freightliner understands that the ORR is currently exploring a number of ideas, and we assume there will be a further consultation about the mechanism during the CP5 review process.

Care needs to be taken to ensure that this process does not encourage perverse incentives, such as making economy measures that benefit the particular parties concerned but not the railway as a whole. Any proposals must ensure that an appropriate system is put in place to ensure that benefits are shared fairly between those stakeholders that have demonstrated their co-operation or been actively involved in the development of the proposal and those that are genuine users of the area of the network concerned. Network Rail must also ensure that all stakeholders are consulted on any proposals, not just current users of a particular route, to ensure that the views of any prospective users are considered.

Maintenance/Renewals Expenditure

The consultation paper mentions that Network Rail are planning to deploy modern signalling more widely with the aim of reducing operating costs. Freightliner supports this approach and the implementation of modular signalling solutions in locations where it is appropriate.

Future operating cost savings can be made in the planning of renewals schemes and we are keen to work with Network Rail when planning such projects. As an operator we recognise the savings that can be made by removing redundant assets providing strategic capacity for freight is retained in locations on the network where future growth is realistic. We would expect that Network Rail fully consider the costs of removing any assets when considering the ongoing maintenance savings that they believe can be gained. Once again, this is an area where greater transparency from Network Rail in sharing this information may make operators more willing to agree to Network Change proposals such as these.

Along with the other rail freight operators, Freightliner has already been working with Network Rail to identify a list of sections of the network where freight is not operating currently, nor do we <u>currently</u> envisage any new business developing in the near future. In providing this information, it will enable Network Rail to consider how they maintain these routes in the future and hopefully deliver some operating cost savings.

This offer has been made by the freight operators in the context of obtaining certain commitments during the course of CP5. In particular these include the protection of strategic capacity and enhanced network capability on agreed, core freight routes.

Review of Enhancement Processes

Post major overspend on the WCML upgrade Network Rail introduced the GRIP process to manage enhancements and ensure that they understood the risks of projects and did not overspend on enhancements. The GRIP process has been a success and Network Rail projects are much better controlled, and rarely overspend. However, the process is bureaucratic and slow. We suggest that the ORR reviews the GRIP process and makes recommendations whether the processes and the timescales could be streamlined to reduce the costs of project support in Network Rail.

Management of Freight Sites

Freightliner believes that Network Rail can do more to manage the ‘Strategic Freight Sites’ list effectively. There needs to be an agreement over those sites that offer little or no potential for future use. This would then enable Network Rail to maximise their commercial potential and reduce their ongoing maintenance burden at these sites. We acknowledge that the freight operators have a role to play in relinquishing sites that are not being used currently or where no genuine evidence can be provided to demonstrate a need for retaining them in the future. Current termination procedures need to be enforced more stringently by Network Rail to overcome the problem of operators unnecessarily retaining the lease for sites that are not being used when it is against the wider interests of the industry. Effective enforcement of these procedures could be reinforced through the development of a code of practice amongst operators, in addition to modifications to existing lease agreements.

Any financial savings or additional commercial revenue could then be re-invested in the development of other sites that are being actively utilised.

Train Planning

Whilst not mentioned as a particular area of focus in the consultation document, Freightliner believe that this function within the Network Rail is a critical area of the business where improvements can be delivered for the benefit of the whole industry. The following provides a summary of the key areas where we believe improvements/changes need to be made:

- More holistic planning of timetables to ensure that the maximum efficient capacity is obtained from the infrastructure before investment in physical infrastructure is considered. The work undertaken by Network rail over the last few years demonstrated that when the route was planned holistically more capacity was found.

- We feel that a key performance indicator for Network Rail should be a measurement against their compliance against the train planning timescales set out in the Network Code. This has long been a source of frustration amongst the freight operators; the lack of discipline has knock effects on the train operator and on performance delay.

- Validation of train paths, particularly for short-term spot bids does not appear to be undertaken rigorously. Freightliner feel that it is the own interests of Network Rail to ensure that adequate time and resource is allocated in this area as it is this lack of timetable validation that then affects performance and the resulting financial outlay in Schedule 8 payments to operators.

- Freightliner is fully supportive of the proposal to move to a "Perpetual Timetable" where train slots are only changed when there is a need to. The current process where Network Rail "Offer" a new timetable twice a year is an incredibly time consuming process for all stakeholders. On receiving the offer, operators have to check and respond even if a bid for "No change" was made. An example of this is the December 2011 timetable, which was first offered in May 2011 but is still not correct at the time of writing this letter in early October, over five months later.

- Greater efficiencies can be made in the timetable bid and offer process by ensuring that all stakeholders are working with the most effective IT software. We currently have to work in an environment where the TOCs and FOCs are using a different train planning software package (Voyager Plan) to that used by Network Rail (ITPS). This adds unnecessary time to the timetable development process not only for Network Rail to import electronic bids made by operators, but also when the operators have to input the 'paper copy' offers back into our own software (due to non-compatibility issues).

- The current train planning process generates unnecessary duplication of work between the operators and Network Rail. Consideration should be given to a process that avoids this duplication, primarily through a more efficient system interface.

  Over the duration of CP5 Freightliner would like to see Network Rail investing sufficient time in exploring options for an industry wide replacement of TOPS making use of 21st century IT capabilities. When first designed It was never envisaged that it would be utilised for some of the uses it sees today and many of the processes such as attribution of delay are clumsy and time-wasting, as well as the system being unable to retain sufficient data. Whilst we acknowledge that this would be a significant and expensive undertaking, to develop and roll-out in a robust manner, it is clear that the current program is no longer fit for purpose.

We would be happy to discuss any of the issues raised further should you require any clarification.

Yours sincerely

Tim Jackson
Rail Industry Manager
Freightliner Group Limited