

14 October 2011

Gian Carlo Scarsi
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1 Kemble Street
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Dear Gian Carlo,

Establishing Network Rail's Efficient Expenditure

This letter sets out TfL's response to the consultation on establishing Network Rail's efficient expenditure for PR13. The workshop on 21 September was helpful in setting out ORR's approach to efficient expenditure.

TfL supports ORR's overall approach of using a combination of bottom up analysis, benchmarking and top down analysis.

Efficient expenditure assessments will be based on route level costs. TfL noted in its response to the first PR13 consultation that Network Rail routes do not always match well with operators' services. For example, London Overground operates on a number of routes. It is important that route level efficiency targets do not lead to incentives on Network Rail that would disadvantage some operators.

For Operations and Support Costs, ORR proposes to identify costs for a base year and roll them forward using an efficiency assumption. The base year selected must be a typical year which provides an appropriate base on which to forecast.

Maintenance and renewals expenditure was reviewed in detail as part of PR08 and econometric analysis identified an efficiency gap of 35%. The proposed approach for PR13 will build on this approach. TfL welcomes ORR's focus on whole life cycle and whole industry costs and use of benchmarking. A top down and bottom up analysis is proposed. ORR should make clear how these workstreams will be brought together to produce a coordinated view of efficiency.

Enhancements and renewals are covered in separate workstreams. There is significant overlap between the two categories which should be recognised in making efficiency assessments. Enhancements may reduce the need for renewals and it is important that such cost savings are reflected in efficiency targets.

At PR08, much of ORR's focus was on efficiency of OM&R expenditure. TfL believes that at PR13, efficiency of enhancement expenditure should be given greater priority. IIP includes a significant numbers of recommended enhancements across the network as well as the enhancements already committed. It is important that these are costed effectively so that decisions are based on the best available information. Network Rail may not always have sufficient incentive to reduce the costs of enhancement schemes which are funded by the RAB, on which it earns a return. Reducing the costs of schemes to an efficient but achievable level at an early stage will enable the industry to deliver more capacity within a constrained budget, consistent with the McNulty recommendations.

ORR needs to assess what projects are needed to provide the required outputs. This will involve reviewing RUS and IIP recommendations and identifying how well they meet government's required outputs. TfL will respond separately to ORR setting out its views on IIP.

Yours sincerely

Carol Smales

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