



Freight Avoidable Costs

5 July 2012

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L.E.K. has worked with major players in the UK rail industry and has considerable experience in the sector

Sample Clients



L.E.K. experience

- Rail freight economics and periodic review process support
- Assessment of socio-economic benefits of rail freight
- Strategic and economic consulting to the freight industry
- International best practice in efficient provision of infrastructure for freight trains
- Eurotunnel pricing for freight
- Inter-modal freight within the EU

The main objective of our study is to produce an estimated range for the average long-run freight avoidable cost

- The ORR is proposing a new charge for freight operators intended to contribute to recovering those freight avoidable costs not recovered from other freight charges
- To support this activity the ORR has asked Network Rail to estimate its freight avoidable costs
- Network Rail has commissioned L.E.K. as an independent organisation to engage with the freight industry and assist with “freight avoidable cost” quantification
 - this is defined to be the theoretical long run annual cost saving, over 35 years, which would result from removing commercial freight traffic from the network in its entirety on a permanent basis
 - the scope of this study includes commercial freight only (i.e., engineering trains needed by Network Rail would remain)
 - the theoretical exercise will be based on the existing network configuration as a starting point
- We will also develop an estimated split of this cost between freight commodity groups, but we understand that more work on the split will be carried out subsequently

We are applying a range of principles for defining and quantifying commercial freight avoidable costs

No commercial freight	<ul style="list-style-type: none">● Theoretical exercise of removing <u>commercial freight</u> traffic from the network in its entirety on a permanent basis (but engineering services remain)
Quantification of freight avoidable cost	<ul style="list-style-type: none">● Focus on Network Rail's costs (rather than revenues or funding), with and without commercial freight
Impact on Network Rail's cost structure	<ul style="list-style-type: none">● Impacts considered include only those on Network Rail's cost structure and excludes the impacts on third parties
Efficiency	<ul style="list-style-type: none">● Incremental to Network Rail's ongoing efficiency targets
Consequential impacts	<ul style="list-style-type: none">● Capacity freed-up by removal of commercial freight <u>could</u> be used by Network Rail (e.g. to improve maintenance access)● However, capacity <u>would not</u> be available to third parties (e.g. no additional passenger services)
Materiality	<ul style="list-style-type: none">● Costs considered to be small might not be included

The cost implications of removing freight from the network will be estimated as the difference between two scenarios

	Scenario A Mixed use railway	Scenario B No commercial rail freight
Traffic	<ul style="list-style-type: none"> Initial Industry Plan 	<ul style="list-style-type: none"> Passenger and engineering traffic as per Initial Industry Plan, no commercial freight
Network configuration	<ul style="list-style-type: none"> Network assets are those currently in place 	<ul style="list-style-type: none"> Assets not required to support remaining activities would be decommissioned
Support functions	<ul style="list-style-type: none"> As is 	<ul style="list-style-type: none"> Sub-contracted to service providers or provided internally by Network Rail
Enhancement programmes	<ul style="list-style-type: none"> Initial Industry Plan 	<ul style="list-style-type: none"> Freight components of schemes removed

In principle there are seven major categories of commercial freight avoidable costs

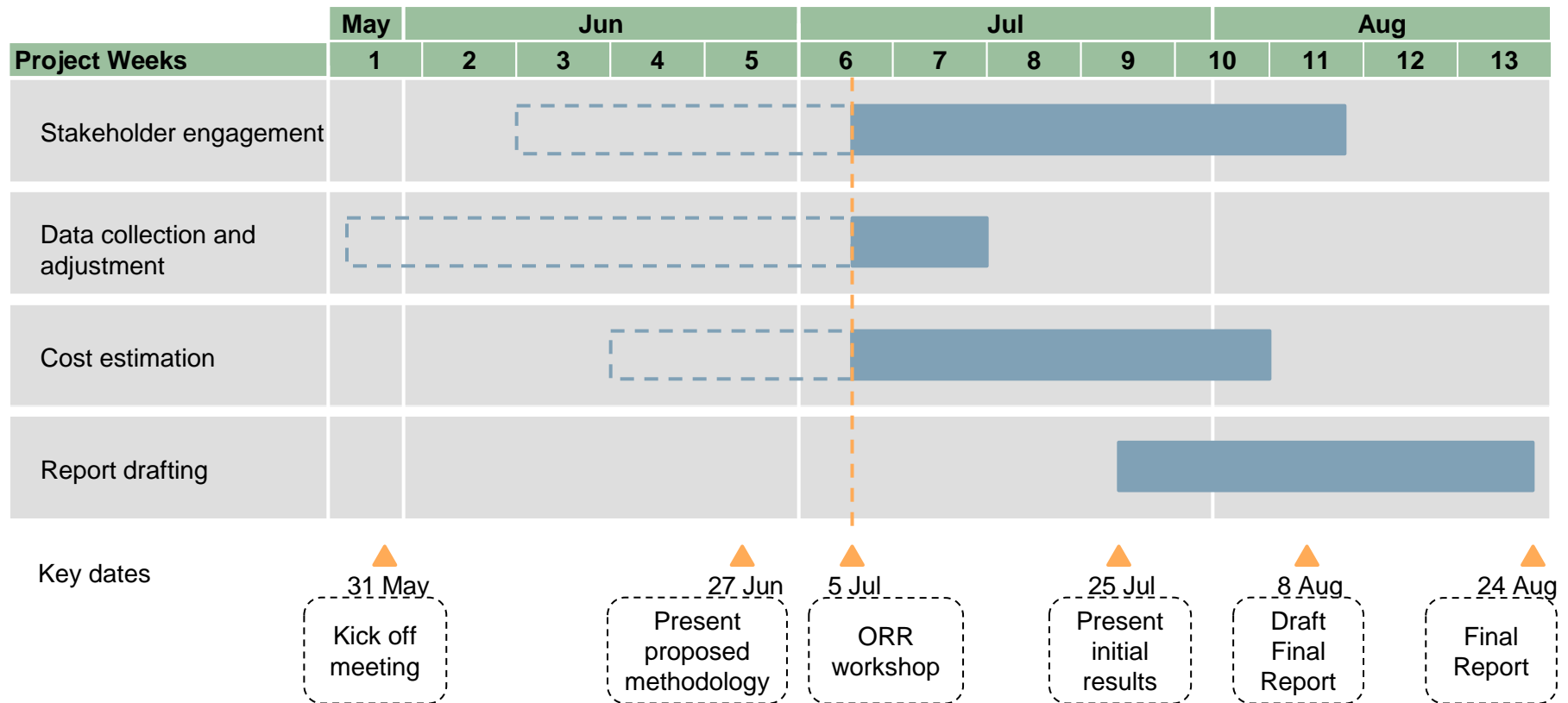
- 1 Freight Only Line costs
- 2 Redundant fixed costs
- 3 Variable usage costs
- 4 Redundant enhancement costs
- 5 Consequential efficiency gains
- 6 Consequential cost increases
- 7 Network Rail staff costs

Given this approach, there are further potential impacts resulting from the removal of commercial freight which are out of scope and will not be assessed

Further potential out of scope impacts

- Road cost and congestion impacts resulting from freight shifting from rail
- Timetable and/or path changes to passenger services and their consequential impacts
 - including, e.g., the capability to run additional Sunday morning services
- Revenue items and Network Rail funding implications

At this stage in the project we continue to develop our analysis and preliminary cost estimates



- Our final report will be produced for Network Rail, for subsequent sharing with ORR and publication