



Sent by email and post

Alice Jones
Office of Rail Regulation
One Kemble Street
London
WC2B 4AN

alice.jones@orr.gsi.gov.uk

ADDRESS

1st Floor West
Meridian
85 Smallbrook Queensway
Birmingham
B5 4HA

TELEPHONE

0121 654 7189

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Dear Ms Jones

CONSULTATION ON IMPLEMENTING PR13

This letter represents Virgin Rail Group's response to the above consultation document. I shall be responding separately to the parallel consultation on ORR's Draft determination of Network Rail's outputs and funding for 2014-19.

By way of clarification, I wish to explain that this response relates solely to Chapter 8 of the consultation document and in particular to the proposed change in Network Rail's Licence Conditions to formalise the substitution of "long term plans" in place of the current Route Utilisation Study process, as set out in paras 8.12-18 of the document. While noting that the ORR has already endorsed Network Rail's draft proposals in respect of market studies, route studies, and cross-boundary analysis, Virgin Rail Group is concerned both at the premature manner in which Network Rail has implemented these new arrangements in advance of the required changes to its Network Licence, and at the adequacy of, and the emerging outputs from, the processes it has put in place. Virgin Rail Group has sought a meeting with Network Rail to discuss these concerns, but the earliest date it has been possible to set for such a meeting is 17th September. As this date falls after the close of the current consultation period, I am therefore drawing the ORR's attention to these unresolved concerns, and am seeking regulatory intervention on the basis of the final sentence in para 8.18 of your document. Virgin Rail Group would in particular wish to see the relevant Licence Condition changes amended to require Network Rail to adopt a more robust, transparent, inclusive and accountable approach to passenger demand modelling, which explicitly acknowledges that passenger operators are by definition closer to the final market and that they have a fundamental stake in the forecasting process.

Based both on previous experience of the RUS process (in this context, particularly Network Rail's 2009 *Scenarios and long distance forecasts RUS*) and on engagement so far with the current *Long distance market study*, Virgin Rail Group, as the largest long-distance passenger operator on the network, has yet to be persuaded that Network Rail has the necessary capacity and capability to develop robust long-term passenger demand forecasts on behalf of the GB rail industry.

This is most clearly demonstrated by reference to Fig 8.4 of Network Rail's 2009 document, which forecast total passenger volume growth scenarios between 2007 and 2036 on the London-Glasgow corridor. In reality, these 30-year forecasts were already wholly or largely exceeded by 2010. Despite Network Rail's own caveating of its forecasts, Virgin's experience was that these flawed projections were taken as normative within parts of the Network Rail organisation, and much unnecessary time was spent by ourselves and other industry partners in having to challenge assumptions based upon them during the development of the Scotland and WCML RUSs. Consequently, it is difficult to place much faith in the statement in para 6.5.2 of the latest iteration of the current *Long distance market study* that "any future material revisions to these ... projections will be considered in the Route Studies", especially when read alongside the assertion in the previous para, 6.5.1, that the forecasts in the four Market Studies will be used as the **default set of demand forecasts in each of the Route Studies**. (Emphasis added.)

So far as the current Long distance market study is concerned, it appears that the basic methodology that Network Rail has adopted is the same as that used for the 2009 forecasts, though with some changes in terminology. It continues to rely on the PLANET model, despite the considerable reservations within the rail industry and among modelling professionals about the appropriateness of applying this tool (which was originally developed for the London commuter market) to forecasting long-distance travel demand. The process also continues a scenario-based approach to longer-term macro-economic projections: while helpful in illustrating possible ranges, scenario modelling is at best a subjective and imprecise art, and the only confident prediction that can be made about the longer term future to 2043 is that the actual outcome will be different from the scenario forecasts. No less significantly, it imports another "black box" into the process, obscuring underlying assumptions and making it more difficult to sense-check outputs.

Even where the current study document relies on external official sources, such as population forecasts, it fails to acknowledge the limitations of these trend-based projections. For example, in responding to our questions about the differential forecast growth rates for Edinburgh and Glasgow, Network Rail has referred us to the source document, the National Records of Scotland's *Projected population of Scotland (2010 based)*, which was issued as a web publication in 2011. However, examination of the same department's *Mid-2011 and mid-2012 population estimates Scotland*, which was released in August 2013, shows that there is already a noticeable divergence from the previous forecast, with Edinburgh showing a fall of 0.7% in population between 2010 and 2012 (compared with the previously-projected rise of 2.6%). Glasgow, with a rise of 0.4% to 2012, is more in line with the 2010-based projection.

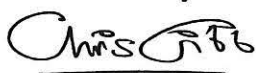
In addition, the output data within the long distance study has been significantly changed since Network Rail published its original consultation draft in March 2013. For example, the level of daily demand forecast respectively for the London-Edinburgh and London-Glasgow flows has now increased to 12,400 and 6,700 journeys respectively, compared with 7,600 and 4,200 in the consultation draft. Because of the magnitude of many of these changes, Network Rail's disclosure that the figures from HS2 which have been imported into this study treat Scotland as a single market, and other inconsistencies, Virgin Rail Group requested that the consultation process be restarted. Network Rail has refused this request, even though the data sets on which the consultation was based were

evidently work in progress, and though it is also now clear that the company's effective engagement with the TOC community during the consultation on this matter was extremely limited. In Virgin Rail Group's view, the document that was issued in March 2013 as a consultation draft was not fit for this purpose, and does not provide an acceptable basis for proceeding to a post-consultation final version which, in Network Rail's own words, will become part of a default set of demand forecasts. It would be detrimental to the interests of the industry as a whole for such an inadequately-developed document to be adopted as final in its present state.

In summary, therefore, Virgin Rail Group is not convinced that Network Rail is yet in a position properly to discharge the revised obligations proposed in paragraphs 8.14-18 of your consultation document, and questions whether it is appropriate for Network Rail to seek to issue substantive forecasts under these proposed arrangements before the conclusion of ORR's own consultation on the proposed Licence Condition changes and the formal reissue of a revised Licence. I would therefore request ORR to intervene in and review Network Rail's current Market Study processes, and to recast the proposed revisions to the Network Licence to reflect the fact that demand forecasting should be a shared endeavour rather than one which is dominated by a predetermined approach by a Network Operator that has yet to demonstrate the required level of competence in this field.

I do not require any part of this response to be kept confidential.

Yours sincerely

A handwritten signature in black ink that reads "Chris Gibb". The signature is written in a cursive style with a horizontal line underneath the name.

Chris Gibb
Chief Operating Officer