



15-25 Artillery Lane,
London E1 7HA.

Telephone: 020 7983 5174

Facsimile: 020 7983 5171

Mobile: 07818 421220

E-mail: ian.kapur@gbrailfreight.com

Richard Owen.
Office of Rail Regulation,
One Kemble Street,
London,
WC2B 4AN.

8TH February 2012

Dear Richard,

GB Railfreight response to ORR Periodic Review 2013 – Consultation on Incentives:

1) GENERAL COMMENTS:

- a) Commencing at the start of CP5, as much as possible, GB Railfreight (GBRf) is clear that Network Rail (NR) needs to be incentivised to be better and more effective in the following key areas:
- i) Continuous lowering of track access charges from Network Rail's efficiencies.
 - ii) Excellence in operational planning at all levels, all of the time.
 - iii) Improving the importance and performance of freight traffic on a mixed network.
 - iv) Increased customer satisfaction, properly measured.
 - v) As elsewhere in Europe, a fit for purpose railway regularly available for freight traffic seven days a week giving new and existing customers confidence to expand.
 - vi) Clarity and lockdown of work required in possessions, with the benefit of cost reduction this should bring.
 - vii) Numbers of Network Rail staff required throughout CP5 as efficiencies improve.
- b) For certain areas of Network Rail / TOC & FOC engagement, GBRf must firstly raise the question why new incentives are being proposed when there are, currently, incentives in place just not being properly managed and executed? An example of this is the current efficiency benefit sharing mechanism for which the most recent figures still have not been agreed and profits not yet shared between participating operators. This would have been an excellent example of a current joint performance initiative, where a new initiative just isn't required.
- c) GBRf would like to see the outputs from any newly agreed PR13 incentives take effect from the beginning of CP5 then spread evenly throughout the control period, not for them to be back-loaded to only take effect at the end of CP5. We, other operators and ORR would, I'm sure, want to see the benefits of any new incentives as soon as practicable.

- d) A strong theme of this incentives consultation is Localism and the forging of new alliances for implementing new ways of working together, saving money and providing incentives, at many levels. GBRf, whilst not against this per se, must make it clear that it, and other national train operators (both passenger and freight), will not be sidelined in any decision making.

To that end, it's likely that GBRf and other freight operators will need to be involved in almost every alliance that's formed, so as to be fully involved in all new opportunities and also not be marginalised on any of the new routes. Where there is a Train Operating Company forming an alliance with NR, GBRf will not tolerate any cosy bi-partite groups agreements leading to the detriment of freight operations in an area. GBRf also wants to see a mixed railway run at a lower cost and more effectively through the whole of CP5.

2) COMMENTS ON SPECIFIC CHAPTERS:

a) Chapter 2 – Background and Context:

- i) GBRf agrees with ORR that, all at levels within Network Rail, there is no real incentive for Network Rail to improve the way in that it interacts with its customers, i.e. the TOCs and FOCs. There is little appreciation of how its actions directly affect the viability of our company and our end customers. Freight services are often every bit as time sensitive as passenger trains, not least because of the requirement to hit the terminal slots at the right time. Failure to enter a port, for example, in the correct slot will lead to disruption on the dock estate with extra real costs being incurred by our customer.
- ii) In setting the framework for how Network Rail might gain or lose in a periodic review, GBRf would like ORR to look very carefully at Network Rail's assumptions for how changes to variable usage and freight only charges might alter for CP5. My response to Network Rail's consultation on this topic, dated 26th January 2012, goes into detail but using as accurate assumptions as possible, for all stages of the track access charge review, is what's required for GBRf to have any confidence in its output. Currently, this is not the case. All parties also need to understand the effects of increased costs (e.g. from a new variable track access charge) for specific sectors of the rail freight market.
- iii) For the railway to have a meaningful contribution to real economic growth and environmental sustainability, GBRf and its end customers need a reliable, regular, seven day railway open for traffic. Only when it's clear that this is definite, and potential new customers have that confidence, will there be a step change in the amount of new freight using the railway. Currently, we're not able to guarantee this as there are some well engrained ideas about how possession planning and customers' requirements mix together, not to the benefit of the customer.

The idea that possession planning has always been done a certain way so should continue to be done that way needs to be changed if we and our customers are to invest in new terminals, wagons and other equipment, which is the right thing to do.

- iv) For freight services, rather than using the current unregulated Freight Performance Measure (FPM), which means little to freight operating companies and, more importantly, its customers, GBRf would like to see more meaningful measures for customers such as "trains in excess of 30 minutes late" and "trains cancelled". These should then be measured, targeted and improved.

b) Chapter 3 – Understanding the PR13 Objective:

- i) In considering the outcomes that freight customers value, GBRf would like the PR13 objective to deliver *increased* freight customer satisfaction by having freight treated as importantly as passenger services with regard to journey time, good pathing and network availability.

- ii) GBRf has made it clear it is very disappointed that the Network Rail CP4 output being monitored for "Network Availability and the Seven Day Railway" has been no increase in disruption to freight services caused by planned engineering activities. There needs to be less disruption to operators as Network Rail gets more efficient and effective in planning and executing its maintenance, renewal and enhancement activities. For CP5, GBRf would like to see the output for "Network Availability and the Seven Day Railway" be a reduced but realistic % decrease of disruption to freight services.
- iii) Good quality paths for freights, without large amounts of pathing time, following stopping passenger services, are now vital as poor freight pathing uses far more fuel than is necessary. This is not environmentally sustainable and is becoming unaffordable for FOCs. Fuel cost is now the largest cost to GBRf and the year-on-year differences can make a huge difference to the company's finances. This reason for good quality pathing, (i.e. a faster overall freight velocity with as little change in braking and accelerating as possible) is little understood by Network Rail but hugely important to FOCs.

Setting a year-on-year journey time improvement for freight trains, then measuring Network Rail's success rate, would go a long way in showing new freight customers that Network Rail is serious about this sector of traffic.

- iv) Another outcome, hugely important to FOCs and their customers, is the management of freight services in times of disruption, severe weather and restricted access. Rather than being pushed aside and left until various TOCs' services have used all available paths, as often occurs, GBRf wants freight services to be given a far higher priority in getting moving again. Many of these are time sensitive, such as container trains with connections on to long distance shipping.

In terms of freight customer satisfaction, GBRf's customers want the scheduled train to always run, albeit late on occasions, but never to be cancelled. There isn't another train available on which to ship the goods so, if a cancellation occurs, the goods go by road, our major competitor.

- v) When looking at the average value of lateness by traffic type, there are many "off Network" costs that, I believe, are not accurately captured. Taking the Port of Felixstowe as an example, if a train arrives late at the port, the unloading of its containers across the dock estate will clash with the loading and unloading of other services' containers. There are real costs associated with using extra staff and reach-stackers to mitigate against a late departure of the return service. In addition, other trains may well depart late as their containers are late being loaded.

Incentivising Network Rail to improve on these freight customers values and measuring the improvement, in some way, is key to a better working relationship between NR and FOCs.

c) Chapter 4 – Aligning Network Rail and train operators' incentives to increase efficiency:

- i) As previously mentioned, the successful conclusion and payout from the 2010-2011 efficiency benefit sharing mechanism (EBSM) would have been an excellent example of collaboration and "incentives at work". A good message would have been sent out to the industry and more models, along that line, may have become the ideal. Unfortunately, with the margin of error in measuring Network Rail's efficiency, this isn't much confidence that these type of efficiency/benefit sharing mechanisms can always be carried out to conclusion. GB Railfreight looks forward to the results of the new review of the EBSM.

ii) In terms of efficiencies, we need to be clear that, for the thorny issue of possession planning and its effect of TOCs/FOCs, in general, Network Rail's efficiencies are not TOCs/FOCs' efficiencies – they are diametrically opposed. For example, a 10 day blockade for a renewal, efficient as it is for Network Rail, can decimate a FOC's business depending on the exact location of work and the diversionary routes available or not.

iii) In discussing the affordability of exposing train operators to (a proportion of) changes in the fixed track access charge, GBRf is very concerned that any contribution to these fixed costs exposes it to real additional costs and not just another cost to be factored into the price of a franchise, as would be the case with a franchised TOC. Network Rail's fixed costs cover its "Headquarters" functions and, with that example and the many other fixed costs to which GBRf might be exposed, there would need to be absolute certainty that these costs are the most efficient possible, in line with the McNulty Report, before discussions on the numbers commenced.

Even then, if the ORR chooses to go down this road, it will be a complicated piece of work to do properly, not just on assumptions, which will then draw out the whole PR13 process. If the fixed costs issue were to be taken forward, GBRf would want to see clear evidence of rigor and analysis in the data being used also using the most efficient fixed costs possible. Up to now, it's clear that freight data is not accurate enough to be trusted in such an important area of cost.

iv) With regard to the potential of Network Rail route level sharing, including upside and downside sharing, GBRf will need to understand the figures more fully, including the liability of the 10% downside of Network Rail underperformance before commenting any further. The risks to an open access freight operator may just be too great to operate effectively.

v) Almost unnoticed in paragraph 4.20 but of huge importance to GBRf, you state that *"In addition, we note that Network Rail can influence train operators' costs, for example through its decisions regarding the timetable."* In the actions of this one sentence, alone, Network Rail almost has the power to bankrupt a freight company. The year-on-year difference in the cost of fuel (for the same number of train movements), for a smaller FOC, can easily be >£1M. When a train is driven in a poor fuel-hungry path, breaking and accelerating whilst following slower stopping passenger services, day after day, there's a great increase in our fuel bill over a more even non-stop pathway. A slower pathway (sometimes from one year to the next) will also, almost always, require a FOC to employ additional drivers (~ £60-70K per driver with wages and overheads), use additional locos and, quite often, additional wagons.

All of the above are real additional costs to a FOC, sometimes just coming out of the blue at timetable change date. So important are they to us that all freight companies are about to spend a number of hours with new and established Network Rail train planners to highlight just these issues and how, with the click of a mouse on the train graph and an arrival just 15 minutes later than previously, many tens of thousands of pounds will have to be spent by a FOC.

I cannot emphasise these points highly enough and GBRf would be very keen for ORR to explore various options on how Network Rail can be incentivised to improve the end to end journey times of WTT freight paths. The rewards are large, both for the FOC (driver/fuel/wagon savings) and Network Rail (performance of freight running).

vi) GBRf, as a national and international freight operator, would be happy to further explore efficiency sharing mechanisms, disaggregated to route level, and would need to be involved with all routes as it runs traffic over all nine routes.

d) Chapter 5 – Possessions and Performance Regimes:

- i) In general terms, GBRf believes that Schedule 4 possessions regime and Schedule 8 performance regime work well, are easy to understand and mostly compensate FOCs for the financial impact of service disruption, from possessions or otherwise. There are, however, one or two exceptions (see below).
- ii) When a freight operator is affected by possessions, where just an additional member of traincrew is needed for additional route knowledge, there is no mechanism for claiming for that member of traincrew. This is something GBRf would like to see added to the Schedule 4 regime as it's a real cost to a FOC which is getting more widespread.
- iii) GBRf's experience of using the Category 3 claim, in the Schedule 4 compensation regime, is not good. Network Rail's Claims Board seems to continually frustrate the process of claiming under Category 3, even with full evidence having been previously provided to support a claim. This makes the claiming for major possessions very cumbersome with some claims having taken over a year to be agreed and paid.
- iv) As far as the Schedule 4 regime incentivising various parts of Network Rail to plan possessions more effectively, GBRf doesn't believe that the sums of money being talked about have any effect, whatsoever, in keeping down a project's costs. The costs do not incentivise Network Rail, at a very local level, to give any more serious thought as to how its customers would keep its businesses operating. There's a definite engrained attitude that the starting point for a given timetable year of possessions is renewals and maintenance first – customers and running trains last. This whole attitude needs to be turned on its head with customers and trains first and then fitting in effective and efficient possession working next. There must be more understanding on what effect, financial and otherwise, the possession plan has of end freight customers, i.e. power stations and ports, where there's a massive interest for UK PLC.
- v) In developing an incentive for Network Rail to keep its costs of possession planning down and allow its customers to run its services, unaffected as far as possible, there must be a financial incentive to reduce disruption at the planning stage. The nature of this incentive will be the subject of much discussion.
- vi) GBRf would not want to see bespoke Schedule 4 and 8 financial arrangements for freight operators but the same model applicable to all.
- vii) As mentioned in the general notes, in times of extreme weather conditions, or just major disruption on the network, rather than being pushed aside and left until various TOCs' services have used all available restricted paths, as often occurs, GBRf wants freight services to be given a far higher priority in getting moving again. Many of these are time sensitive, such as container trains with connections on to long distance shipping. There is no excuse for marginalising freight traffic.

e) Chapter 6 – Access Charges:

- i) Access charges for freight operators needs to be based on accurate information and not just assumptions with a high confidence interval, as appears to have been the case with the recent first Network Rail consultation on variable usage charge review for PR13. Most importantly, the method by which any charge has been produced must be transparent and non-discriminatory in any way.

- ii) If the Schedule 8 regime is removed or altered, is there still a real requirement for a capacity utilisation charge or is this just another revenue raising charge? What is it for and is it set at the right level? GBRf isn't even convinced that the current capacity charges incentivise Network Rail to manage its performance properly and with the customer in mind.
- iii) In dealing with bespoke commercial arrangements for an alliance between Network Rail and a dominant operator, GBRf, as a national operator, will need to have an input in all alliances so as not to be discriminated against in any way. The balance between alliances with their own bespoke operating and charging arrangements vs. general non-discriminatory behaviour is a fine line that shouldn't be crossed.

f) Chapter 7 – Capacity Utilisation Incentives:

- i) There are some quite simple actions required to increase the amount of available capacity on the network today. In some cases, these will lead to better, more even freight pat, saving fuel costs for FOCs and leading to better performance of freight services. The changes are all timetabling issues and timetable led but are, I believe, easy wins. However, there is a distinct reluctance within Network Rail to instigate proper accurate reviews of the following planning issues:
 - aa) Review of Sectional Running Times (SRTs) of certain electric multiple units – e.g. Class 450 timings being over-generous with trains always arriving at least 1 minute early at each station.
 - bb) Review of Sectional Running Times (SRTs) for Class 66s, be it for light locomotives (far too generous and similar to 800t timing loads on ECML) or for various trailing weights. There are a number of anomalies with these timing loads that lead to valuable capacity being taken up unnecessarily. Although it can be pain staking work to review these figures, it's the correct thing to do to realise network capacity. GBRf has given several examples to Network Rail where its freight services are constantly running earlier than the SRTs would suggest, so much so in some cases that a new freight path could then be found.
 - cc) Review junction margins – these are often far higher than actually required, even taking into account some element of performance. In extreme cases (e.g. as Wigston North Junction currently), there can be a situation where money has been spent gauge clearing a new freight route but there are precious few opportunities to access it, purely due to poor timetabling.
- ii) A very poor use of timetable capacity is the practice of Network Rail in-putting the Railhead Treatment Trains (RHTT) into the working timetable for 12 months when they're only operated for 2 months of the year. This sterilises capacity for a full 10 months per year and leads to operators having to find far less useful and fit for purpose WTT paths.
- iii) Looking at how capacity is allocated, more generally, most passenger service rights are too rigid and just not flexible enough to accommodate new or improved pathing for freight services. In many instances throughout the country where regular congestion occurs, poor timetabling has squeezed out any freight paths. As well as constraining growth, this affects the general performance in the area and FOCs will still need to run their freight services through the area. Better timetabling, with clearly compliant freight paths through a congested area is what's required.

- iv) Current capacity charging for freight is split into a single rate for weekdays and one weekend rate for either Saturdays or Sundays. Purely to stimulate freight growth to run on days where there's more capacity, GBRf believes there should be a capacity charge rate, reduced even further, for freight trains operating on Sundays. There should also be a lowering of capacity charges for off-peak and counter-peak freight flows and I'd have thought that services that run overnight might also have attracted a discounted rate. Although this should help stimulate some freight growth where there's more capacity, these are only really a mark up to the variable access charge and they don't really incentivise Network Rail to perform better in any way.

g) Chapter 10 – Other Incentives:

- i) GB Railfreight will be the first to support and encourage innovation as it's exactly that which has got the company to where it is today. Quite often, it's the simple changes to things that can reduce costs, either operationally or on a personal basis. For example, to get the best out of improving the capacity of the national network (with issues as detailed above), GBRf would like to see a person or very small team dedicated to doing nothing but ensuring that the Operational Planning issues, above, are quickly resolved, the Rules accurate and more identifiable capacity made known for all to see. Their success would be measured on how many new trains are running in the newly acquired "white space".
- ii) There must be merit in looking further afield than the UK for inspiration, for doing things a better way, in particular getting away from some old school thinking in certain disciplines. Examples of this include taking engineering possessions on certain lines during the day (e.g. 12:00-15:00), also regular and normal timetabled use of bi-directional signalling for passenger trains overtaking freight services (or vice versa).

Yours sincerely,

Ian Kapur.
National Access Manager.