



ASSOCIATION of TRAIN OPERATING COMPANIES

Bill Emery Esq
Chief Executive
ORR
1 Kemble Place
London WC2B 4AN

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Dear Bill

NETWORK RAIL'S STRATEGIC BUSINESS PLAN

Having now digested NR's Strategic Business Plan and discussed it in more detail with our members, I am writing to add four further points to those in my letter to you of 1st November. That letter remains our main response.

CAPACITY

As you are aware, our members remain concerned that the plans (welcome though they are) may not go far enough to accommodate current demand growth. This is running at about twice the rate assumed in the HLOS/Strategic Business Plan, an issue which we raised with the Department during the development of the HLOS in the spring. Although we agree that many of the SBP schemes (such as Thameslink and the 10/12 car schemes on SWT, Southern and Southeastern) will provide more capacity, particularly in the peaks, than is needed immediately, not all of them will. For example, the route plans for the East Coast look tight and we are not yet persuaded that those for both the transpennine routes that feed into Manchester Piccadilly yet go far enough, given that this is a long standing bottleneck that affects services right across Northern England as well as in Manchester itself.

More generally, peak demand growth into centres outside London is a risk area for the SBP, with both DfT and NR acknowledging that the industry's current modelling techniques are not really up to the task of forecasting demand growth as both office and retail employment in major centres such as Cardiff, Leeds, Birmingham and Manchester continue to grow and regeneration proceeds apace. Peak demand growths higher than 5% per annum are often being seen. We think this area needs to be looked at particularly closely in the ORR's current review of the SBP.

NR EFFICIENCIES AND THE SOFA

Given the increases in spend that NR are seeking above those that underlay the White Paper, our members very much hope that you share their goal that CP4 does not turn into a re-run of CP3. As you may recall, in that review the size of public support taken for infrastructure effectively precluded any improvements in franchises (for example through introducing larger fleets). We are determined to ensure that sufficient funding is left within the SOFA to fund the 1,300 new vehicles promised in

the White Paper and to ensure that improvements can continue to be bought when those franchises that end in CP4 are relet. In this light, we support your view that it is essential to develop a realistic, yet achievable, view of NR efficiency that takes as a given the need to continue to improve both safety and performance. Since DfT and Transport Scotland's budget for rail is constrained, improvements in NR's efficiency beyond those offered in the SBP would release more funding for providing the kind of fleet and upfront improvements on stations and in customer service that passengers will immediately benefit from in CP4.

Although I would be the first to acknowledge – and indeed applaud – the fact that things are getting better, we think that there is still considerable scope to improve NR's efficiency and customer responsiveness. As examples, I would cite the current trend in recent periods of late handbacks of possessions, the fact that bi-directional signalling on the c2c route has still not been brought into use, the recent cost increase of the York Holgate project from £7.8 to £12m because of problems with possession planning and the very low number of NRDF schemes that are finished, particularly worrying since there are only just over 15 months to go before CP3 ends.

The change to the industry economic architecture that you are considering, involving sharing of benefits within the PR08 budgets, will help somewhat particularly if TOCs are incentivised through cash rather than through the promise of more projects. But it is not likely to go far enough. One approach that might be worth considering is adopting a system in which NR is permitted to increase its income (either direct from TOCs or via Network Grant) only when it has delivered the infrastructure to provide increased capacity, along the lines that have applied to BAA in recent years. This would provide both a direct commercial incentive on NR within the Control Period to complete capacity needed for HLOS, but also provide a means of financing more (dependent on constraints on NR's borrowing) if demand grew more rapidly than the SBP assumes.

DEPOTS AND CAR PARKS

Finally, can I just reiterate that the plan as a general rule makes no financial provision for funding depot or car park expansion. NR have told us that they assume these investments are either self-financing or assumed to be financed elsewhere (for example through SPV structures). However, not all TOC-provided car parking is necessarily financeable commercially and remuneration of depot spend must come from increased subsidy or fare box. As a rule of thumb we think that perhaps £150-200m of depot capital cost in particular will be triggered by the HLOS, which we think needs to be added to the amounts in NR's SBP. We therefore suggest that may need to make provision for costs of this kind in making your final judgements on the balance between NR and franchise spend within the SOFA.

Yours sincerely,

George Muir
Director General
(Tel: 0207 841/8001)

