



OFFICE OF RAIL REGULATION

Delivering a 21st century railway

Anna Walker, Chair, ORR

National Rail Conference: *Cracking the Capacity Problem*, 5 July 2012

A time of challenge

› Britain's railways at a critical moment

- › Strong and steady growth
- › Safety
- › Performance

But...

- › Costs too high
- › Inflation-plus fare rises
- › Government financial position

And...

- › Need to attract investment in UK infrastructure



A moment of opportunity

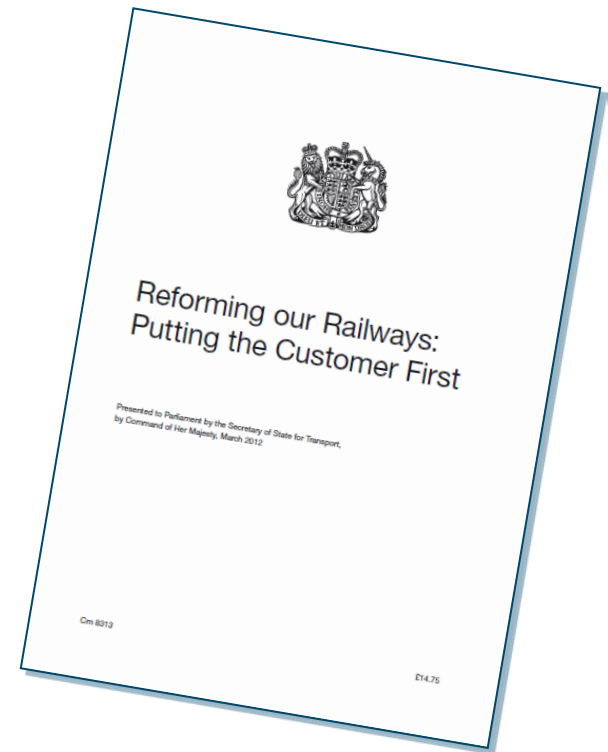
- Government support for infrastructure and rail
- Major Investment
 - Crossrail
 - Electrification
 - HS2
- Network Rail devolution/alliances
- Franchising reform
 - Biggest programme since privatisation
- High Level Output Specifications
 - Scotland: June
 - England and Wales: July
- Periodic Review: CP5: 2014-19



Government policy

Government vision in Command Paper:

- › Spur to economic growth
- › Improving the passenger experience
- › Connecting regional/local communities
- › Take freight off our roads
- › But set us all challenge of:
 - › Whole industry working
 - › Significant efficiencies



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New capacity

Government investment

- Existing commitments
 - Crossrail
 - Thameslink
 - Electrification projects
- HS2
- HLOS

Initial Industry Plan

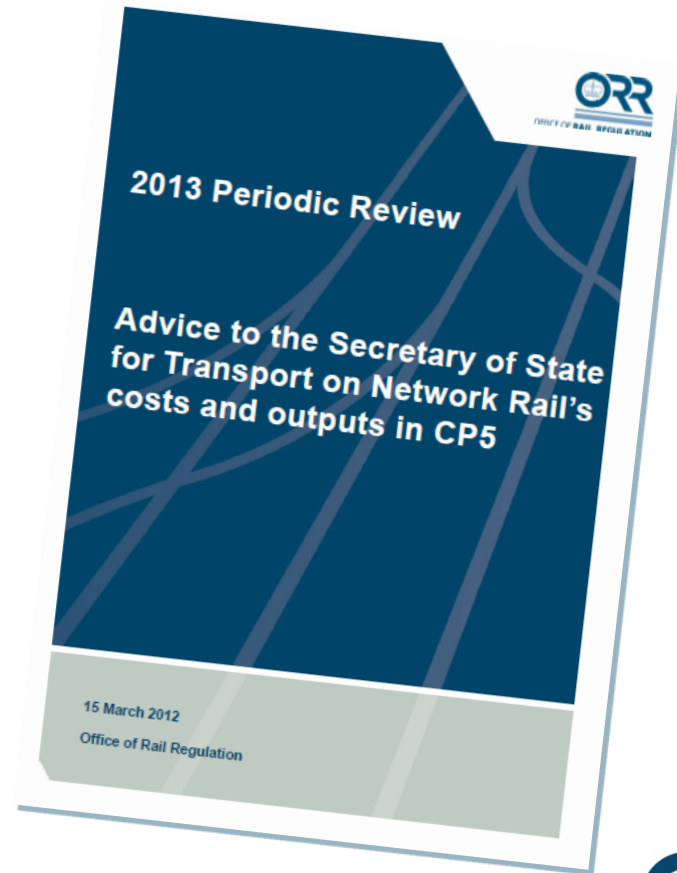
- City region package
- Strategic Rail Network

But we must also maximise value of existing capacity/network



PR13

- Formally began in March
- Will establish
 - Network Rail's funding and outputs
 - And wider incentive/financial framework
- Welcome industry's commitment to lower end McNulty savings (£2.5bn per year)
- But will be pushing to see efficiencies towards the higher end (£3.5bn)



CP5: taking a longer term view

- CP5 is building block for CP6
- Key objectives for CP5:
 - Devolution
 - By Network Rail route
 - To encourage local action/efficiencies
 - Provide comparative information
 - Leading to route-based price controls
- And alignment/more focussed incentives:
 - Alliances/benefits
 - Without discrimination
 - Revisiting Schedules 4&8

Key Objectives for CP5 (continued)

➤ Development of system operator role

- An industry function
- To maximise and co-ordinate network use
- A healthy freight sector

➤ More cost reflective pricing

- Moving to route based charges
- Considering a scarcity charge
- Improving effectiveness of volume (capacity) incentives

➤ Greater transparency/information

- By route
- Whole sector/all players
- For passengers
- Of subsidy

CP5: other enablers

- **Sector-wide incentives**
 - Supply chain
 - ROSCOs?
- **Network Rail: best practice asset management**
- **Investment for innovation/efficiency**
- **Competition**
 - Where beneficial to passengers and funders
- **Localism**
 - Support Government's approach
 - Regulation can facilitate this

PR13 – a critical year



Over next 12 months we will take HLOS's and develop our draft determination for CP5

Role of regulation

- Command Paper: ORR
 - To drive relentlessly for efficiencies
 - To help improve the passenger experience
 - To move towards pursuing whole industry efficiency
- Issue is **not** about organisations **but** what achieves objectives for sector most effectively
- We will focus on issues of importance to passengers eg
 - passenger information
 - performance
 - ticketing complexity
- And consider cross sector monitoring is crucial

Closing remarks

- A good time for rail – sustained growth and continuing Government investment
- Command Paper, Network Rail and franchise reform and PR13 present a huge opportunity to transform and deliver challenge of a 21st Century railway
- New capacity is planned
- But we must use existing capacity more effectively – nationally and locally
- Whole sector working and efficiencies are crucial to this
- Next 12 months crucial. We want to work with you to get this transformation right.