

Mr R Gusanie  
Office of Rail Regulation  
1 Kemble Street  
London  
WC2B 4AN

*Our ref*      CL  
*Your ref*

2<sup>nd</sup> September, 2011

Dear Mr Gusanie

### **Periodic Review 2013: First Consultation**

I am writing in response to your First Consultation in respect of your Periodic Review 2013.

Transport for Greater Manchester has responsibility for the Greater Manchester Local Transport plan. In relation to rail TfGM and the Greater Manchester Combined Authority are working to ensure the development of rail services relating to the Greater Manchester area is linked to wider plans for the economic development and social well-being of the conurbation.

TfGM has worked closely with Network Rail, the Department for Transport and rail industry parties in the development of plans for the delivery of the Control Period 4 capacity on local rail services, North West electrification, in the development of Route Utilisation Strategies and in the development of Network Rail's plans for the Northern Hub. We believe that our engagement with the rail industry in these activities is leading to substantially better outcomes for Greater Manchester.

Greater Manchester's top five priorities for rail in Control Period 5 are:

- provision of sufficient capacity (including through rolling stock and infrastructure plans) to ensure all passengers can be carried, so long as there is an economic case for doing so;

- delivery of the Northern Hub infrastructure and service patterns in order to release significant city-region economic benefits;
- further electrification of the local and inter-regional rail network in order to reduce rail industry costs and yield passenger benefits;
- preparations for the arrival of High Speed Trains; and
- creation of a significant national Small Projects Fund to facilitate the development and delivery of value for money improvements to stations and the infrastructure.

TfGM is seeking a greater role in the delivery of local rail services in North West England, and discussions are currently underway between TfGM, the other Northern PTEs and the Department for Transport on this issue. The McNulty review identified potential benefits relating to devolved funding, specification and management of local rail services and TfGM will be looking for the PR13 process to facilitate this wherever possible. The devolution process could result in TfGM and the other Northern PTEs having a much more significant interest in funding Network Rail's activities.

Regardless of the outcome of devolution discussions we have an extremely keen interest in reducing rail industry costs, but also in delivering rail growth and passenger satisfaction. TfGM and the other Northern PTEs are also considering whether taking more involvement in fares and stations is also appropriate. These decisions will be influenced by the industry framework as it emerges from the PR13 process.

Consequently our over-riding aims for the Periodic Review are that it should facilitate:

- reducing the cost of operating the railway in and around Greater Manchester;
- create greater opportunities for TfGM and train operators to identify where Network Rail can reduce industry costs, and assist in delivery of the cost savings;
- create transparency in Network Rail costs to enable them to be disaggregated in a way that supports devolution of responsibilities to TfGM and the other Northern PTEs; and
- improvement in Network Rail outputs so that they better meet the needs of the ultimate customers - especially with respect to passenger overcrowding, service frequency, journey times, punctuality / reliability and the condition of station buildings and facilities.

Our detailed responses to the specific questions in the First Consultation are attached to this letter.

Yours sincerely

Mr Stephen Clark  
Rail Programme Director

**Office of Rail Regulation**  
**Periodic Review 2013: First Consultation**  
**Response from Transport for Greater Manchester**

Q1. Do you agree with our proposed objective for the review? If not, what issues would you add or subtract?

*The objectives are reasonable given the overall legal framework for the rail industry.*

Q2. Do you have any views on our proposed timetable for the review? Do you need further information to plan your involvement with PR13?

*The 'development' and 'formal review' phases appear well timed, but October 2013 to March 2014 for the 'implementation' phase is a short period of time considering the amount of work involved, especially in Network Rail finalise their Delivery Plan and the ORR approving it. It is important there is a smooth transition between Control Periods so that other parts of the rail industry are not disrupted (and additional costs incurred) and work towards achieving CP5 targets can begin at the earliest opportunity.*

Q3. Do you think that our approach to the disaggregation of Network Rail financial (and other) data to operating route is appropriate? Is the information we are requiring Network Rail to produce set at the right level? Do you have views on the information train operators should produce?

*The national network is far from homogeneous due to historic influences (e.g. construction methods, maintenance regimes) and differences in demand. The cost of operations, maintenance and renewals therefore vary greatly. The current aggregated approach avoids geographic bias in strategic decision making as a result of these inconsistencies. Although the ability to compare costs and outputs between different parts of the network has advantages, the provision of more local data must not become a means of justifying reduced maintenance and renewals due to identified higher costs. Understandings must therefore be put in place to avoid this perverse outcome. It would be helpful if routes related to franchise service patterns, although exact matches will not always be practical. Whatever approach to disaggregation is adopted there will be interface issues between 'routes'. In the north of England there are two strategic north-south routes and these (with their natural branches) should be retained as clear entities. For the remainder of the network to be grouped together into a 'northern route' that has a reasonable correspondence to the geography of the current Northern Rail, TransPennine Express and Merseyrail Electrics franchises (including freight-only lines) would be reasonable. However, if there is to be local decision making on standards and*

*expenditure disaggregated information will need to be made available to enable decisions to be made on a franchise service pattern basis. This should enable decisions on infrastructure expenditure (operations, maintenance, renewals and enhancements / reductions) and train operations to be taken together so as to reduce the cost of the rail network. If efficiency is to be improved there needs to be much better understanding of the relationship between infrastructure costs and service patterns (including frequency and journey times) so that opportunities for cost reduction / improved efficiency can be identified.*

*The detail of disaggregation will depend on the structure of devolution chosen and the geography of Franchises.*

*Train operators provide significant amounts of information to the DfT and it would not be reasonable to expect them to provide additional data if this incurred further costs unless there are clear benefits to the planning and development of the operation, maintenance, renewal and enhancement of the Network.*

Q4. Which aspects of the price control should be separated for England & Wales and Scotland, e.g. should the efficiency assumption be separate?

*If the objective is to provide the Network 'at the most efficient levels possible comparable with the best railways in the world' the efficiency assumption must be consistent across the whole Network (taking into account the lack of homogeneity). Devolution, however, should lead to local decision making and local setting of all standards / targets.*

Q5. Do you think there should be further separation of the price control for Network Rail's operating routes and, if so, which aspects of the price control should be separated?

*As a starting point price control should be consistent across the whole Network, but if devolution is developed there may be opportunities for Network Rail, train operators and specifiers to agree changes in standards (enhancements or reductions) and for price control to be adjusted to reflect these changes. This, however, will require information to be available at franchise service pattern level.*

Q6. Is the current approach to defining obligations in terms of outputs the best approach? What outputs should be defined? Should there be a move to more use of outcome based obligations? Would another approach be appropriate such as specifying inputs or intermediate measures?

*The requirements placed on Network Rail should be more closely aligned to the requirements of the users of the Network, especially franchised train operators (in the interests of taxpayers). These would then relate to the frequency and journey time*

*requirements within franchises and the cost constraints placed upon franchise operators. With franchises being renewed throughout the Control Period this would make it more difficult to have specific targets, but generic objectives could be set. It may be easier to monitor achievement of franchise related objectives if done at route level, with a reasonable alignment of routes and franchises.*

Q7. What are your views on how we should compile and present 'scorecards' of Network Rail's performance in CP5?

*TfGM has no specific views on this.*

Q8. Should we make more use of 'whole system' outputs over which Network Rail does not have full control, or focus on more narrowly defined outputs which the company is fully responsible for?

*To protect the interests of customers and taxpayers there is a need to take a whole-industry view of efficiency; while recognising that some improvements can be delivered by a single party, but others need a cooperative approach. Network Rail needs to be incentivised to work with others as well as on its own.*

Q9. How should output obligations be defined in the context of devolved Network Rail routes with separate price controls?

*Primarily within the context of the requirements of franchised train operators. These would then relate to the frequency, journey time requirements and performance targets within franchises specifications and the cost constraints placed upon the operators. With franchises being renewed throughout the Control Period this would make it more difficult to have specific targets, but generic objectives should be set, which could be developed at a local level to reflect the devolved objectives. The level of disaggregation of information will be important in relating obligations to devolved routes and decision making.*

Q10. How should the balance between the number of output obligations and their individual significance be struck?

*Obligations need to be sufficiently clear and easy to understand and monitor that managers can understand the likely implications of their actions, and see the consequences within a reasonable time period. Obligations need to be related to each other, and not likely to work against each other. The number needs to be manageable with priority given to those that have most impact on the interests of customers and taxpayers.*

Q11. Should Network Rail's output obligations include a specific safety requirement, different from its legal obligations?

*Legal obligations include both generic and specific safety responsibilities with sufficient coverage to give clear requirements to management at all levels; therefore a specific safety output obligation should not be required.*

Q12. Do you have views on how the effectiveness of the existing financial incentives can be improved?

*TfGM has no specific views on this.*

Q13. Do you have views on how the effectiveness of Network Rail's incentives to make best use of capacity could be improved?

*The development of services (both passenger and freight) needs to be an iterative process involving Network Rail, train operators and specifiers. Efficient infrastructure utilisation depends on rolling stock type, train service mix and the operating practices of train operators, as well as the actions of Network Rail. Track Access Charges with an element based on time (possibly relative to a standard average speed defined for different for classes of infrastructure and length of time a platform is occupied) may encourage both Network Rail and train operators to consider how efficiently infrastructure is design and used.*

*The utilisation of station platforms varies greatly across the network. For example; London Euston station has 18 platforms with 18 departures in a typical inter-peak hour and 23 departures between 1700 and 1759; whereas Liverpool Lime Street main line station has 9 platforms with 14 departures in a typical inter-peak hour and 15 departures between 1700 and 1759; and Manchester Piccadilly station has 12 terminal platforms with 25 departures in a typical inter-peak hour and 28 departures between 1700 and 1759. Although it is accepted there are a number of factors that influence how many trains per hour can depart from terminal platforms (e.g. length of train / length of platform, distance train has travelled to station / punctuality risk and track layout) the average of 2.3 trains per platform in the high peak at Piccadilly compares very favourably with the 1.3 per platform at Euston.*

Q14. Do you agree that we should include a regional efficiency benefit sharing mechanism calculated at the Network Rail route level? Are there further issues about how a regional efficiency benefit sharing mechanism should be introduced which you want to highlight?

*As a starting point price control should be consistent across the whole Network, but if devolution is developed there should be opportunities for Network Rail, train*

*operators and specifiers to agree changes in standards (enhancements or reductions) and for price control to be adjusted to reflect these changes. Overall, this could lead to a lower cost railway.*

*Beyond this, incentives to make better use of available infrastructure, or plan and deliver more appropriate / efficient infrastructure, need to be developed.*

*If there are parallel lines, but within different routes (for example between London and Birmingham), changes in train operator costs due to efficiency benefit sharing could impact on the competitive relationship between the services.*

Q15. What are your views on exposing franchised passenger train operators to changes in Network Rail's costs at a periodic review?

*With government policy moving towards longer franchises this would create an unreasonable financial risk for bidders which would be reflected in contract prices. Although it may incentivise train operators to place more pressure on Network Rail to improve efficiency (and consider what they could contribute) it is unlikely to be beneficial to taxpayers, overall.*

Q16. Do you believe that Network Rail should share in train operator revenue and/or costs? Are there further issues about introducing a revenue/cost sharing mechanism which you would highlight?

*Incentives could be developed for significant changes in the infrastructure related to changes in passenger numbers or miles (by train operator) and changes in train operator resources required. This could incentivise Network Rail to consider the ultimate customers as well as their immediate customer.*

*If the rail industry is to cooperate in improving efficiency there needs to be better sharing of the costs and benefits so that incentives are more evenly distributed. This includes consideration of how infrastructure can be planned and used more efficiently – how timetables are developed, what rolling stock is used and how operating practices are developed. Revised structures of Track Access Charges (a higher proportion of variable costs, related to the length of time infrastructure is occupied as well as train miles and type of rolling stock) may be a means of sharing incentives for more efficient use of consistent infrastructure.*

Q17. We would welcome your views on possible bespoke arrangements for enhancement efficiency benefit sharing and whether there is a need for additional measures to increase the contestability of expenditure?

*Incentives could be developed for significant changes in the infrastructure related to changes in passenger numbers or miles (by train operator) and changes in train operator resources required, linked to changes in the cost of operating, maintaining*

*and renewing infrastructure. A review mechanism would be required if not all train operators were adequately covered by proposals or if outcomes were significantly different from forecast. Revised Track Access Charges related to changes in the time infrastructure is occupied, as well as train miles and type of rolling stock, may be a means of sharing efficiency benefits.*

Q18. Are there further new incentives which you believe should be introduced and what would the benefits be?

*Some of the most scarce infrastructure is on the approaches to main termini; yet this is some of the least efficiently used infrastructure - due to the amounts of recovery time within timetables. If punctuality and reliability were measured at intermediate points along a journey, as well as at the trains destination (with penalties / bonuses spread between measuring points) there would be less requirement for recovery time to be concentrated where it can best be absorbed by the infrastructure. The appropriate incentive regimes need to be revised to encourage better use of existing infrastructure and reduce the cost of providing changes to the infrastructure.*

Q19. Are there other interactions between incentives (and the wider regulatory framework) which we need to take into account?

*Incentives between Network Rail and train operators need to be aligned to the requirements of franchise agreements.*

Q20. What are your views on the duration of the control period?

*TfGM has no specific views on this.*

Q21. Do you think that we should retain the single till approach rather than moving to a dual till approach?

*TfGM has no specific views on this.*

Q22. Do you think that our overall approach to risk and uncertainty in PR08 was appropriate and are there any improvements that could be made for PR13?

*TfGM has no specific views on this.*

Q23. Network Rail faces a number of risks. At this stage, do you have any views on how general inflation risk and input price risk should be addressed?

*This needs to be related to the decision on Control Period length, but TfGM has no specific views on this.*

Q24. We plan to retain the same high-level approach to amortisation in CP5 that we introduced in CP4. What are your views?

*TfGM has no specific views on this.*

Q25. Do you consider that our charging objectives remain appropriate?

*There is a need to review the structure of charges as there may be areas where it is not functioning effectively.*

Q26. What are your views on the geographical disaggregation of variable usage charges?

*The national network is far from homogeneous due to historic influences and differences in demand. The current aggregated approach avoids geographic bias in strategic decision making as a result of these inconsistencies. As a starting point variable usage charges should be consistent across the whole Network, but if devolution is developed there may be opportunities for Network Rail, train operators and specifiers to agree changes in standards (enhancements or reductions) and for charges to be adjusted to reflect these changes. Geographic disaggregation of variable usage charges would more accurately reflect variations in the incremental cost of adding trains to the network. Charges disaggregated by time of day / day of week would have the same impact and may encourage operators of long-distance services (both passenger and freight) to avoid congested areas of the network at times of peak demand if their traffic is not time-critical at that particular location.*

Q27. What are your views on introducing a charge levied to reflect network scarcity?

*The trains most capable of paying scarcity charges are those earning most money – generally longer-distance services. Therefore scarcity charges are likely to price-off, or disrupt, local services making them unattractive to users. This is likely to have a major impact on local economies where traffic congestion on the highway network (and increasing costs of fuel) constrains economic growth and further enforced use of the highway network would have significant adverse impacts.*

*The Greater Manchester Combined Authority is primarily concerned with the economic development of the Greater Manchester area and is working with the rail industry through projects such as the Route Utilisation Strategies and Northern Hub to ensure that developments to rail services are linked to wider plans for the local economy. Ensuring economic development and the transport network, especially the rail network, are coordinated brings benefits for both local businesses and the rail industry.*

*To suggest the introduction of scarcity charges before all options to increase the capacity of the network have been fully explored sends the wrong message to stakeholders who are sceptical of the rail industry commitment to economic growth. Some of the most scarce infrastructure is on the approaches to main termini; yet this is some of the least efficiently used infrastructure - due to the amounts of recovery time within timetables. The appropriate incentive regimes need to be revised to encourage better use of existing infrastructure, and reduce the cost of providing changes to the infrastructure, before scarcity charges are considered.*

Q28. What are your views on a reservation charge (assuming it would be set to be financially neutral for freight operators)?

*It is appreciated that freight operators need the flexibility to be able to respond to changes in market requirements at short notice; but where freight paths are unused, and the free reservation stops them being used by other train operators (passenger or freight), this increases the cost of providing the railway – either through loss of revenue or through additional operating costs. Reservation charges (possibly related to the scarcity of infrastructure at the particular location) would help to ensure that the available infrastructure is used to its maximum potential.*

Q29. Should passenger open access operators pay charges that exceed variable costs. How should charges be calculated?

*If the level and make-up of variable charges is changed in any way to more accurately reflect the cost of providing and using infrastructure this could increase the charges paid by open access operators. It is assumed that if scarcity or reservation charges are introduced these would apply to open access operators. Less specific franchise specifications could lead to franchised train operators withdrawing journeys in the event of competition from open access operators. This could reduce income to Network Rail; therefore there may be a case for open access operators paying a fee to protect Network Rails income.*

Q30. What are your views on the proposals to improve incentives to reduce traction electricity consumption?

*There is a need to improve the fuel consumption of all rail services (both diesel and electric) through better train design, operating practices and infrastructure. It has been suggested that Network Rail buys electricity efficiently, but transmission losses are too high. Network Rail should ensure that as electrical equipment is renewed the replacement equipment is as efficient as possible. With a programme of new electrification schemes commencing in CP4 and continuing into CP5 it is important Network Rail is incentivised to maximise fuel efficiency, and cannot just pass the costs*

*of inefficient infrastructure on to train operators. Network Rail need to be able to demonstrate they have considered the relative costs and benefits of different approaches to power supply, and have selected the most efficient – given the full life costs of the equipment and reasonable assumptions on the future cost of electricity.*

Q31. Should we put a cap on certain freight charges in advance of our determination and should these be linked to other changes?

*Rail freight needs to be encouraged, but without cross-subsidy from other users – therefore freight operators should pay their full marginal costs.*

Q32. Do you have views on the interactions between these possible changes and when they should be implemented – for example whether some changes should only be introduced after other changes have 'bedded in'?

*The performance impact of any service change needs to be properly assessed as part of the process for allocating infrastructure capacity, and therefore is part of the Network Rail duty to manage the network efficiently. At one extreme Network Rail should be able to reject service proposals that unacceptable performance implications on the network and at the other extreme they should be able to incentivise service changes that will improve the efficiency of the network. If reservation and scarcity charges are introduced that should be from the beginning of the Control Period – however geographical variations in variable usage charges need to have a clear basis dependant on the way infrastructure is provided and used, and therefore should be introduced over time as agreements between Network rail train operators and specifiers are concluded. Any incentive on Network Rail to improve the efficient supply of electricity should be introduced progressively from the commencement of CP5, reflecting a reasonable trajectory for improvement.*