

Jonathan Hulme Esq.
Office of Rail Regulation
One Kemble Street
London
WC2B 4AN

20th July 2012

Dear Jonathan

Direct Rail Services (DRS) is pleased to respond to the ORR's May 2012 Aligning Incentives consultation document. DRS appreciates the importance of this periodic review, particularly in the current climate of industry change and efficiency savings. DRS do not have any issues with this content being published on the ORR website.

Summary

DRS will support any reasonably sound incentives proposals to improve the efficiency of the railways which would bring benefit to the passenger and freight fraternity and its customers.

We do have concerns that the alliances, bespoke arrangements, changes to schedule four and eight, devolution to the routes and disaggregation of costs to the routes has the potential to increase administrative staff/costs and this would be a perverse outcome.

DRS would like to have more information on how it would be perceived that a freight operator alliance would work.

Exposing operators to changes in network rail costs is viewed as a means to raising additional charges in successive CP reviews it would seem largely based on judgement calls.

This is bound to act as a disincentive to operator and customer confidence in long term contracts/investment.

REBS - DRS is as previously stated in the December 2011 consultation and the fact that the current EBS has still not been resolved does not lend confidence to this situation.

Disaggregation of the variable usage charge combined with REBS could have the perverse effect of creating prime routes.

All of the above seems to bring complexity as opposed to simplicity.

Specific Questions

REBS and alliancing

- (a) Which approach to calculating REBS pay-outs do you consider to be most appropriate in relation to alliancing?

DRS believes option B to be the most beneficial and fair all round but are concerned at the potential financial risk to secondary operators for costs that they have no influence over.

This would be of particular concern in a freight alliance and freight secondary operator scenario.

- (b) If you prefer option B, are you content that we do not carry out any audit/reporting of the financial performance of the alliance partner (in the same way as we do for Network Rail through the regulatory accounts)?

Yes recognising commercial sensitivities but how transparent would this be deemed?

- (c) Are there any issues that we have not raised which you consider are significant and which we need to address before the approach to REBS and alliancing is finalised?

Appreciate work is on-going however, more detail on the opting out/de minimis threshold levels as soon as possible in that the operators have sufficient time to consider this option.

Network rail costs at periodic review

- (a) the approach to defining the baseline under the periodic review exposure mechanism;

DRS agree with clause 4.2.1 in that a balance has to be struck and would suggest (b) all changes in expenditure to be most appropriate.

- (b) the balance of risk and reward under the periodic review exposure mechanism; and

If the process can capture underperformance issues and rectify them then the outperformance should outweigh the underperformance.

Clause 4.2.2 would seem to indicate something akin to the additional track access charges by commodity type able to bear the costs?

'carry-forward' of REBS benefits/costs into the next control period

In principal DRS would have no objection to this but once again would have concern at another layer of complexity and potential administration costs.

Yours sincerely

John McGuinness
Industry Policy Advisor
Tel: 01228 406632

Mobile: 07880 502383
E-mail: john.mcguinness@drsl.co.uk

Direct Rail Services Limited
Kingmoor TMD
Etterby Road
Carlisle
CA3 9NZ