

Oatway, Nigel

From: Smith, Graham
Sent: 18 March 2008 18:02
To: Oatway, Nigel
Subject: Fw: Freight study and charging

Attachments: IMT P0106 NGBB.doc

From: Blackwell, Brian <bxblackw@highspeed1.co.uk>
To: Smith, Graham
CC: 'Graham Dalton' <Graham.Dalton@dft.gsi.gov.uk>; 'Richard.Cantwell@dft.gsi.gov.uk' <Richard.Cantwell@dft.gsi.gov.uk>; CHAPMAN, PAUL <PXCHAPMA@CTRL.CO.UK>; Mistry, Naina <NXMISTRY@ctrl.co.uk>
Sent: Tue Mar 18 17:54:18 2008
Subject: Freight study and charging

Graham



IMT P0106
NGBB.doc (102 KB)

Please find attached the proposal for the freight study we are currently conducting to determine the strategy and appropriate charging for rail freight on HS1 infrastructure. The proposal includes the scope of the work and the timings of deliverables. Intermodality are due to deliver their draft report on Tuesday March 25th. We are meeting to discuss the next day and the final report by them will be delivered by the end of March.

HS1 will then need to consider this output, discuss technical findings with NR-CTRL, and formulate our views into a Final Draft Report. This report will be submitted to the DfT, who will consider it in line with our overall restructuring programme. The timing for submission to the DfT is the end of April.

The report will then be written up into a Consultancy Paper, which will then form part of our 2nd Prospective Consultation. At this time we will share our findings with all interested parties. When we go out to consultation will be determined in the context of our overall restructuring programme.

Kind regards

Brian

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Dear Brian

RE: Consultancy Support on Freight

Following up on our recent meeting and subsequent discussions, thank you for inviting us to submit proposals to provide consultancy support, and also for supplying a brief for the assignment, which was most useful in framing our proposals. I have set out below a brief summary of areas of relevance from previous assignments, followed by an outline methodology and associated fee estimate, which we can then discuss further when we next meet.

1 Experience

In terms of relevant experience, we can draw on the following:

- Former management positions held by team members with the SRA (Freight Directorate), Eurotunnel (Commercial Director for rail freight), EWS (European marketing and operations management), logistics companies (Salvesen, Potter Group) and Kent County Council (Strategic Planning on CTRL and rail freight);
- A series of studies into the cross-Channel freight market undertaken over the last decade for Railtrack, EWS, Eurotunnel, Deutsche Bank and Goldman Sachs;
- Commercial and operational support to EWS during 2001-2 for implementation of the award-winning express freight service for Securicor (latterly DHL) from Walsall to Scotland;
- Work for Eurotunnel during 2003-4 into a proposed UIC-gauge freight facility within the Cheriton terminal;
- Feasibility studies for TfL during 2004-6, to create HS1 interchange facilities in the Barking / Dagenham area;
- Working with a consortium of 10 leading UK retailers seeking to move more freight by rail;
- The securing of €1.5m from the European Commission's Marco Polo programme, to support the 'EXCITE' project to trial modified Class 92 locomotives and UIC-gauge freight trains along HS1 from mainland Europe, as a project partner alongside EWS and TDG;
- Management of the Thames Gateway Freight Quality Partnership on behalf of TfL, to promote sustainable distribution initiatives across the Thames Gateway area – including a planned rail

freight 'roadshow' event in the Barking area, to coincide with the first Marco Polo train later in 2008/9;

2 Methodology

With regard to the methodology and addressing the brief, we would propose the following sequence of tasks:

1. Inception – a kick-off meeting to agree the onward programme, key reporting milestones, key contacts for the client and consultant, and to confirm availability of any relevant studies previously undertaken by HS1
2. Regulatory and policy issues – this would review published documents from European, UK Government and other railway industry stakeholders, to set the context in terms of:
 - a. The over-arching policy framework for sustainable transport and distribution, and how this influences policy on infrastructure charging, promotion of rail freight, and use of HS1 and other high-speed lines for freight;
 - b. The current basis for track access charging for freight within the UK and other mainland European railway administrations;
 - c. Legislative, commercial, operational and environmental factors likely to influence these regimes in the coming years, for both 'classic' and 'high speed' infrastructure;
 - d. The extent to which the above influence how HS1 can apply charges for rail freight services, and the extent to which third-parties could mount a legal challenge.
3. The HS1 freight offer (I) – key tasks within this stage (which would then be revisited again following the freight market analysis) would include:
 - a. The over-arching objectives of the HS1 business strategy in the short, medium and long term, as the context for freight-related business activities;
 - b. Review the extent to which other high-speed lines in mainland Europe are currently used for freight (eg La Poste on French LGV lines) or are proposed to have a mixed-traffic capability (eg the Franco-Spanish LGV Perpignan-Figueres, scheduled to open in 2009);
 - c. An initial scope for the HS1 freight offer to the market, outlining the number and type of rail freight services that could be operated along HS1, from passenger-derived services such as Esprit and the La Poste TGV units, through to intermodal, conventional wagon and automotive options;
 - d. Initial consideration of the unique selling proposition for HS1 relative to other modes and the 'classic' rail alternative, in areas such as:
 - i. Loading gauge;
 - ii. Speed, not only on HS1 itself but on connecting LGV routes. As an example, the TGV La Poste services cover the 700km from Paris to Cavailon in 4.5 hours (155km/h), which if applied to routes such as Perpignan to Barking could place rail beyond road competition, towards that of air freight;
 - iii. Paths;

- iv. Reliability;
 - e. An understanding of the cost drivers on HS1, including incremental costs and assets dedicated to supporting freight traffic, and how these might be affected by different traction and rolling stock combinations.
4. Freight market analysis – this would analyse the cross-Channel freight market in terms of:
- a. Segmentation of the freight market, identifying those target segments of direct relevance to HS1, with the identification of the potential size and historic / forecast growth of each segment;
 - b. Within each target segment, the current transport alternatives and their respective economics, including air, road + ship / shuttle and 'classic' rail, the latter to be broken down to indicate the track access element in UK and line of route railways;
 - c. Discussions with a selection of key players across the target sectors (eg logistics companies, mail and parcel couriers, retailers, automotive manufacturers etc) to determine in outline the level of interest in using HS1.
5. The HS1 freight offer (2) – following the above stages, this stage would revisit the HS1 freight offer in the light of the above findings, to determine:
- a. What value HS1 brings to each of the target market segments that may allow it to charge a commercial rate, in terms of the level of charge that each market segment can bear, and the potential profitability to HS1;
 - b. What additional infrastructure requirements there would be to serve each of these market segments;
 - c. What EU grants HS1 might have potential to obtain, to facilitate these infrastructure upgrades;
 - d. Clear recommendations as to the levels and principles of track access charges applying to rail freight. This will include but not be limited to:
 - i. A clear understanding of the principles of the proposed charging methodology;
 - ii. How these charges may be applied in practice (i.e. day/night time rates); and
 - iii. A determination of a robust performance regime to protect HS1's high speed passenger services from freight-related issues, and in some cases the reverse situation for premium freight services.
 - e. The current and future opportunities within the rail freight market, with timescales as to when these opportunities might emerge; and
 - f. The extent to which future downstream activity by DfT and NRIL on gauge clearance might support the growth of freight market on HS1.

3 Deliverables

Deliverables for the assignment would include:

- Inception Note, confirming the outcome of the inception meeting - by end of January

- Progress Notes, issued in advance of the bi-weekly progress meetings;
- Working Paper 1, outlining work to date and emerging findings – by end of February;
- Working Paper 2, which would be designed as much to sell the HS1 offer to the end users, FOCs, logistics companies and other rail industry stakeholders, as to outline the rationale and structure for the proposed track access framework – by mid-March;
- Draft / Final Reports, including recommendations for the finalised access framework – by end of March.

4 Team

The core members of the team would include:

- Nick Gallop (Project Director) - Nick is Director of Intermodality LLP, launched in 2002 following a career in local government strategic planning with Kent County Council (producing KCC's response to Union Railway's proposals for CTRL), global supply chain consulting with Deloitte, and subsequently with Australasian consultants SKM. Nick has managed a series of studies into the cross-Channel freight market, express freight and development of major rail freight interchanges around the UK, including the proposed UIC-gauge facilities at Cheriton and Barking;
- John Chapman (Project Manager) – John has extensive managerial experience in the distribution sector, latterly with Eurotunnel (Commercial Director for Rail Freight), the Road Haulage Association and the Strategic Rail Authority's Freight Executive. John provides access to senior figures within the transport industry and Government agencies, and has managed and undertaken several studies into the cross-Channel freight market whilst at Eurotunnel and subsequently for a number of major financial institutions;
- Jeff Miles (policy & regulatory issues) - following a career in the armed forces and logistics, Jeff was the architect of Government policy on rail freight and interchanges whilst at the SRA Freight Executive. Jeff undertakes strategic reviews and development of policy covering transport and land-use planning;
- Gerry d'Arcy (commercial and operational issues, market research) – Gerry latterly worked on cross-Channel rail freight services, and is now responsible for development of our rail freight costing and pricing models, and retains a network of customer and operator contacts in the cross-Channel freight market;
- Neil Stevens (market research) – Neil has a background in passenger charters and the mail and parcels sector, and currently manages stakeholder liaison with the Thames Gateway FQP, as well as co-ordinating the group of UK retailers looking to expand their use of rail within the UK and from mainland Europe;

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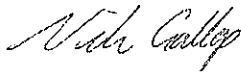
transport strategy & delivery

- Claire Wills (market research, event management) - Claire has a background in Anglo-French commercial law and marketing, with previous positions in France with EDF and in the UK with the BBC, has recently managed the market research programme for the EWS study into high-gauge traffic opportunities, and is currently developing 'roadshow' events for the Thames Gateway FQP;
- Douglas Chapman (data gathering and analysis) – Douglas is a recent graduate recruit, who now co-ordinates our freight databases across a range of projects.

These would be supported by other members of the Intermodality team as required.

This is very much a first cut at a proposal, and we are happy to discuss any alternative or additional parts of the brief. Can I thank you again for inviting us to support HS1, and I look forward to meeting you again in due course.

Yours sincerely



Nick Gallop
Director