

Annex

D. Approach to assessment of price

- D1. We commissioned the consulting firm Nichols to support us with our market study. We asked Nichols to carry out an analysis of the prices paid by Network Rail. We asked Nichols to investigate the variations in the prices obtained by Network Rail during CP5.
- D2. The Nichols analysis focussed on the question of whether there was any correlation between the prices obtained by Network Rail and Network Rail's chosen route to market in terms of whether they used a competitive tender (either fully open or amongst the list of appointed MASREF suppliers) or did not (i.e. made an award to a primary or secondary framework supplier)
- D3. A key conceptual caveat to this approach is that, even amongst the work which had not been competitively tendered on a project-by-project basis, many key drivers of the final price paid by Network Rail (such as pre-agreed rates for particular elements of a signalling project) had been subject to competitive pressure during the framework award process.
- D4. We attempted to partially circumvent issues relating to the measurement of SEU s. We did this, firstly, by grouping projects together according to work type and, secondly, by comparing across projects the percentage variation between final prices and initial (pre-tender) budgets in addition to analysis of SEU rates.
- D5. A number of important caveats apply to our approach, including the following:
- The limitations inherent in the use of SEUs as a measure (see above), together with other aspects of the heterogeneity of projects (such as the potentially higher 'first deployment' costs that might result from the deployment of a new technology);
 - The fact that our analysis only considered the charges paid to signalling suppliers, and not Network Rail's own unit costs, which in practice might vary significantly across projects;
 - The fact that variations in final prices paid may reflect uncertainties that could not have been foreseen by either customer or supplier; and

- The potential for suppliers to price strategically for certain projects, such as pricing low in order to strengthen a market position, thereby potentially leading to an overvaluation of the benefits of competition.

D6. We were mindful that Network Rail has modified aspects of its procurement approach for CP6 and that focusing on earlier projects therefore does not in all respects reflect the most recent experience. However, we would have been unable to carry out a similar exercise relying on CP6 data due to the lack of data on major CP6 projects that had been completed at the time of our study. We focussed our pricing analysis on individual projects, rather than competitions to be appointed as a frameworks supplier, as a result of the following features that we observed of framework competitions:

- Bidders tend to price at similar levels across all regions, regardless of the number of competitors; and
- The fact that many elements of the final prices paid by Network Rail remain unsettled at the point at which framework contracts are signed.