



06 August 2021

Martin Jones, Deputy Director, Access & International
by email: [redacted]

Dear Martin,

Grand Union Trains Wales Track Access Application for services between London and Carmarthen

Thank you for your letter, dated 11 June 2021, and the opportunity to respond with further information to Grand Union Trains' (GUT) track access application. Please note, within this letter the Department has redacted some of the most commercially sensitive information and can therefore be shared outside of DfT and published as required. A full, unredacted, version of this letter has been shared with the ORR only which cannot be published or provided outside of the ORR.

It is important to note, at the outset, as we highlight in the Williams-Shapps Plan for Rail that we do see a role for open access operators into the future. Indeed, we have taken steps to support the current open access operators during the current Covid-19 challenges, particularly in relation to track access applications. We would want to continue to explore the scope for open access where spare capacity exists to make best use of the network and grow new markets for rail. We do not consider that to be the case in the case of this application – given the significant overlap with the current services between London and Wales, which already play an important role in connecting communities within our Union and provide essential services to passengers.

I have briefly summarised the main points contained within this letter:

- The GUT track application does not meet the 0.3 'not primarily abstractive' (NPA) test, as set out in the ORR's guidance. GUT would need to either generate more revenue or abstract less revenue from other operators on the network.
- The Department is currently operating within a significantly more constrained budget position than previously. Given the financial challenges currently faced, the loss of revenue at the significant scale discussed in this letter will impact the funds available to the Secretary of State in what are particularly financially strained circumstances for rail finances.
- Extra services set out by GUT will have an overall negative impact, specifically on Great Western Main Line (GWML) in relation to capacity and performance and consequently an impact on passengers.

The Department has undertaken a series of 3 proportionate tests to understand whether the conclusions (based on earlier detailed analysis) from previous GUT applications are likely to change. These 3 proportionate tests and results are detailed below:

1. Key adjustments to previous analysis/results.

Building on previous detailed analysis of GUT applications on the route DfT analysis has estimated at a high/indicative level that the NPA will likely not change significantly and the scale of any change in the total revenue generated and abstracted by applying a simple 4/14 factor to the results.

High level results based on scaling DfT's previous estimates demonstrates revenue abstracted from other operators, across the network, based in 4 return trips a day, would be [REDACTED] per annum which results in a 0.26 NPA ratio.

2. Using MOIRA to do some indicative runs, noting the limited information we have on the exact GUT and Great Western Railways (GWR) timetables at this point.

Indicative MOIRA runs demonstrate revenue abstracted from other operators across the whole network would be [REDACTED] per annum which results in a 0.25 NPA ratio, should the GUT track access application be successful. The majority of this abstraction is from GWR, DfT analysis shows the GUT proposed services would abstract [REDACTED] from GWR. In addition to this, Transport for Wales (TfW) will also be impacted by the loss of [REDACTED]. Although this analysis does not include fare competition scenarios, when these have previously been calculated the NPA reduced even further and would therefore expect the impact of a GUT services to be even more detrimental to the network.

Please note, under this calculation the Infrastructure Cost Charge has been amended to reflect the lower amount of services. There are a number of key uncertainties with this analysis that should be flagged. We have primarily used the information available from the GUT's application letter to the ORR and initial indications of the number of services. There are a number of areas where clarity on exact plans would provide a more robust analysis. We consider that it is important for the ORR to have such clarity and fully reflect it in its analysis of the application. This analysis did not examine weekend travel. We cannot capture the impact of planned services to Cardiff Parkway in MOIRA.

3. Investigating the impact of Covid-19 scenarios in the context of the impact on Secretary of State's Funds and the additional pressure the application could bring to Post-Covid-19 revenues.

Rail analysis' internal Covid-19 scenarios have been used to test possible changes in long-term passenger demand. GWR's estimated impact in the low demand case [REDACTED] medium demand case [REDACTED] and high demand case [REDACTED] without the proposed GUT services.

Applying, the above, rail analysis' long-term factors to the indicative MOIRA results of the impact on each operator highlights the NPA would fall if demand recovers more slowly as a result of Covid-19.

As detailed below, the NPA falls to 0.15 in the low demand, 0.20 in the medium demand and 0.23 in the high demand scenario.

The table below shows that GWR would be impacted most severely in which low demand forecast would see the proposed GUT service abstracting [REDACTED] and a high demand scenario being [REDACTED] from GWR.

Although, to note Grand Central factors (as another open access operator) have been applied which may not be representative of Grand Union Train's Covid-19 impact. Both revenue generated and abstracted from other operators falls. As we are analysing the

abstraction, using the average factor for all services of a specific TOC, may not be suitable for application on a single line which will have unique factors to it.

	Without fare competition	Low	Medium	High
Open Access Operator (OAO)	██████████	██████████	██████████	██████████
Great Western	██████████	██████████	██████████	██████████
TfW	██████████	██████████	██████████	██████████
Others	██████████	██████████	██████████	██████████

Net revenue generated	██████████	██████████	██████████	██████████
Revenue abstracted from other operators	██████████	██████████	██████████	██████████
Assumed ICC (Paddington – Carmarthen)	██████████	██████████	██████████	██████████
Ratio (Net revenue generated / Revenue abstracted from other operators)	0.25	0.15	0.20	0.23

To get a threshold of 0.3 NPA, as set out in the ORR's guidance, GUT would need to either generate more revenue, or abstract less revenue from other operators. The thresholds to achieve this are given in the table below. GUT would need to generate ██████████ new revenue (or 17% more) or abstract ██████████ (or 14%) less revenue from other operators. These figures decrease in absolute terms but increase in percentage terms depending on the Covid-19 scenario. For example, in the low demand scenario GUT would need to generate ██████████ (or 51%) or abstract ██████████ (or 34%) less revenue from other operators.

	Without fare competition	Low	Medium	High
Extra revenue generated to meet threshold	██████████	██████████	██████████	██████████
Less revenue abstracted from other operators	██████████	██████████	██████████	██████████
Percentage Increase/Decrease				
% Extra revenue generated to meet threshold	17%	51%	33%	22%
% Less revenue abstracted from other operators	-14%	-34%	-24%	-17%

The information contained above demonstrates that under three different modelled scenarios carried out by DfT, the GUT track access application fails the NPA test with all ratios being below the 0.3 set out by the ORR. More importantly, the information above highlights the real term figures of abstraction. As previously set out in my letter, dated 22 April 2021, to Network Rail any level of abstraction will be felt more severely by the Department given the overall industry revenues and stretched funds available. Again, I think it is crucial to reiterate here that the Department is currently operating within a more constrained budget position than ever before, and this needs to be taken into consideration when considering the GUT application and the impact it will have across the network, as was the case in the ORR's consideration of the previous application from GUT. Given the unprecedented effect Covid-19 has had on the rail sector and the UK economy, it is imperative that funds available to the Secretary of State are taken into consideration.

As almost all revenue and costs risks associated with GWR now sit within the Department, the loss of any revenue will therefore impact the funds available to the Secretary of State. The uncertainty over future rail demand is imperative to take into account for this application and in consideration of any level of abstraction. Now, more than ever, rail funds are important and stretched due to the uncertainty in the market and demand.

The level of abstraction and consequent harm to the Department's finances will likely be made even worse if future demand is more heavily focused on off-peak services where the GUT proposal is focused. At this stage the likelihood of this is unknown but it should be flagged as a key further consideration.

Moreover, we ask that the ORR considers the Secretary of State's guidance to the ORR in relation to this application, particularly the reference to the Government being "*supportive of open access in particular circumstances where these do not significantly impact on affordability or the value for money from public investment*".¹ We consider that these issues regarding affordability particularly apply in the current constrained financial circumstances.

In addition to the above information, the Department would like to take this opportunity to provide further details in regard to the potential disbenefits to passengers we believe the GUT proposed services between Paddington and South Wales could have on CrossCountry (XC) long distance services linking the North of England and Birmingham with Bristol, the South-west, Oxford, the Thames Valley, Southampton and Bournemouth.

The proposed service between Paddington and South Wales will, in our assessment, further impact on performance given how busy the GWML already is. Although reduced in April 2020, the XC Train Service Requirement requires 2 trains per hour between Westerleigh Junction and Temple Meads and between Didcot and Reading to provide for the significant levels of passenger demand on the principal routes linking Birmingham with Bristol, Oxford and Reading. There is also an hourly service between Nottingham, Birmingham, Gloucester and Cardiff. This includes peak services to and from Cardiff using the busy route between Severn Tunnel Junction and Cardiff Central.

Fitting additional trains between London and South Wales will risk train service performance and passenger impacts across the wider Scotland NE-SW and Manchester – Thames Valley – South Coast routes that already have numerous passenger and freight trains.

We would also draw the ORR's attention again to the issues we highlighted in paragraph 8 of our letter of 10 August 2020 regarding a plethora of operational points, which we consider it is important have been fully considered.

It remains the Department's view that the extra services set out by GUT cannot be accommodated on the GWML without a significant impact on the performance of the network and would have a

¹ Secretary of State's guidance to the Office of Rail and Road (July 2017), at paragraph 19

detrimental impact for passengers. Moreover, these services are on routes already served by existing services reducing the scope to which they offer benefits from passengers of developing new markets.

It is important to note, as we discuss above that we do not consider that this application is consistent with the proposed future approach to open access as set out in the Williams-Shapps Plan. Should the ORR decide, notwithstanding the representations above, to grant the application, we would welcome the ORR considering access terms that provide flexibility to ensure space for future reform to improve our railways, particularly by constraining the length of time that access is granted for, consistent with current rules regarding access.² We have not seen the detail underlying the application for a 12 years access contract and consider that must be very carefully scrutinised by the ORR before an access contract with such a significant duration could be decided.

In summary, the Department considers the application is primarily abstractive in nature, impacting on taxpayers funding of the railway at a time when rail revenue nationally is extremely constrained. It would have a substantial and overall negative effect for passengers on (an already crowded in normal circumstances) GWML network in relation to capacity and performance, on an area of the network already which is already well serviced by passenger services, which support the connectivity of our Union. We consider that these impacts must be examined in detail as the application is considered.

Please contact me if you wish to discuss further in the meantime.

You sincerely,



Oliver Mulvey
Deputy Director

cc. Dan Moore, Director, Rail Strategy and Analysis

² We note, in particular that the Form P provides very limited detail to specifically justify, in detail, the length of access contract being sought.