OFFICIAL



APPLICATION TO THE OFFICE OF RAIL AND ROAD FOR A FREIGHT TRACK ACCESS CONTRACT, OR AN AMENDMENT, UNDER SECTIONS 17-22A OF THE RAILWAYS ACT 1993

1. Introduction

Form

Please use this form to apply to the Office of Rail and Road (ORR) for:

- Directions under section 17 of *The Railways Act 1993* (the Act) for a new track access contract. This is for companies who want to use Network Rail's network where the parties are not able (for whatever reason) to reach agreement.
- Approval for a new track access contract under section 18 of the Act. This is for use where terms have been agreed by the parties.
- Approval of a proposed amendment to an existing track access contract, agreed by both parties, under section 22 of the Act.
- Directions under section 22A of the Act for an amendment to an existing track access contract. This is for someone seeking an amendment to an existing track access contract to permit more extensive use of the railway facility if the parties are not able, for whatever reason, to reach agreement.

Network Rail should normally take responsibility for the pre-application consultation, where the terms are agreed. Before a consultation is made, complete this form up to the end of section 7. You should fill in the rest of the form after the consultation and before applying to ORR.

If, in the case of section 17 and 22A applications, the beneficiary and Network Rail have been unable to agree terms, the beneficiary should:

(a) ask Network Rail to conduct a pre-application consultation in line with the code of practice; or

(b) conduct a pre-application consultation itself, in line with the code of practice; or

(c) submit the application to ORR and ask ORR to conduct the consultation, in which case, please complete this form in full before submitting it to us.

The form sets out ORR's standard information requirements for considering applications. Our <u>track access guidance</u> explains the process, timings and the issues we will consider. You should use our current <u>model freight track access contract</u> as your starting point. Please read the guidance before completing the contract and this form.

We are happy to talk to you informally before you apply. Please contact us <u>here</u>. You can download a copy of this form, and of our model track access contract, from our <u>website</u>.

You may also use and adapt this form to apply to use railway facilities other than those of Network Rail. Do not use this form for HS1, for which a separate form is available on our <u>website</u>.

2. The application

2.1 Title of contract or supplemental agreement (please also include the section of the Act under which you are applying):

Direct Rail Services Limited 11th Supplemental Agreement to the December 2019 Track Access Contract – Section 22 Application

2.2 Contact details (Company and named individual for queries):

Facility Owner	Beneficiary
Company: Network Rail Infrastructure	Company: Direct Rail Services Limited
Limited	
Contact individual: Jules Graham	Contact individual: Tony Hewitson
Job title: Customer Relationship	Job title: Head Commercial Rail
Executive	Telephone number: 🔀
Telephone number: 🄀	E-mail address: 🔀
E-mail address:	Address: Regents Court,
jules.graham@networkrail.co.uk	Baron Way, Carlisle, CA6 4SJ
Address: 2 nd Floor, 1 Eversholt Street,	
London NW1 2DN	

2.3 Licence and railway safety certificate: please state whether you intend to operate the services yourself or have them operated on your behalf.

The Eleventh Supplemental Agreement seeks to extend the Direct Rail Services Limited (DRS) Contract in which DRS intends to operate the services itself.

Does the proposed operator of the services (a) hold a valid train operating licence under section 8 of the Act or an exemption under section 7, or a European licence with a GB Statement of National Regulatory Provisions issued under the *The Railway (Licensing of Railway Undertakings) Regulations 2005* <u>and</u> (b) hold a valid safety certificate under the Railways and Other Guided Transport Systems (Safety) Regulations 2006?

If the answer to either (a) <u>or</u> (b) is no, please state the point reached in obtaining a licence, exemption and/or safety certificate (as relevant).

DRS holds a valid operating licence under Section 8 of the Railways Act 1993 and Regulation 6 of the Railway (Licensing of Railway Undertakings) Regulations 2005 ('the Licensing Regulations') as well as a Statement of National Regulatory Provisions granted under Regulation 10 of the Licensing Regulations. DRS also has a Safety Certificate under Regulation 7 of the Railways and Other Guided Transport Systems (Safety) Regulations 2006.

3. The proposed contract or amendment

3.1 Executive summary: please provide an executive summary of the proposed contract or amendment. This should cover the services, the commercial terms, and the reasons for making the application in the terms proposed. This information should be laid out clearly and concisely; and, in the case of an amendment, fully highlight the changes from the previous version of the contract.

Please also explain any important safety risks that have been identified arising from the proposal and how these will be controlled (by reference to the facility owner's safety authorisation and the train operator's safety certificate).

Please also state the commencement and expiry dates for the proposal, and, for new contracts or extensions to existing contracts, provide justification for the proposed duration of the contract where the total exceeds five years.

Date of commencement: PCD 2026

Expiry date: PCD 2030

This is a Supplemental application to extend DRS's present Track Access Contract (Freight Services) dated 14th December 2019, from the existing end date of the Principal Change Date (PCD) of 2026 to the PCD of 2030, a period of four years, and the access rights contained in the Schedule 5 table therein.

No material safety risks have been identified as arising from the extension of the Track Access Contract.

This application was discussed at Network Rail's Sale of Access Rights (SOAR) panel on 22nd June 2020. The panel discussed the rationale for the application and was supportive of it being progressed. The application will be considered by Network Rail Regions during internal consultation, expected to begin in mid-July for four weeks. At this stage terms have not been agreed with Network Rail.

DRS considers that it satisfies the requirements under Regulation 21(8) of the Railways (Access, Management and Licensing of Railway Undertakings) Regulations 2016, and the accompanying ORR Guidance, for a contract duration exceeding five years.

The justification broadly falls into four areas, each of which are discussed in more detail below:

- Since the current contract was issued in 2019, DRS has continued to make substantial specialised investments in assets, many of which have a life-span beyond 30 years.
- The impact of COVID-19 on the rail freight sector is also a relevant consideration for a contract duration in excess of five years. The pandemic is causing significant challenges for the rail freight sector, with investment required to recapitalise businesses and to maintain liquidity following the downturn in volumes. There is significant investment risk involved in taking on additional debt at a time when there is uncertainty over economic recovery.
- Supporting decarbonisation. The extension of the DRS TAC will promote an investible climate, enabling continued investment in R&D to further reduce rail freight's carbon footprint and support a green recovery.
- Consideration of the further private sector investment that the proposed TAC will help support.

Specialised investments

Against the backdrop of the current seven-year TAC DRS has made substantial investments over recent years. Many of these investments have been in bespoke assets with a life-span beyond 30 years. These investments have helped enhance capacity and improve performance and reliability. Investments made in specialised long-term assets, since the current contract was entered into in 2019, are contained in the commercially sensitive and confidential Appendix C, which will be submitted to the ORR for their consideration.

<u>Risk</u>

COVID-19 has created a significant challenge for the rail freight sector, with investment required to recapitalise businesses and to maintain liquidity following the downturn in volumes. There is a degree of investment risk involved in taking on additional debt at a time when there is uncertainty over economic recovery. Extending the TAC will help address the concerns and wider risk around network access, directly influencing and supporting the on-going investments required at this time.

Supporting decarbonisation

The rail freight sector is working hard to identify ways to reduce its carbon emissions further and is actively challenging the supply chain to do the same. To do that the FOCs will be required to invest considerable amounts of capital in Research and Development (R&D) to design, develop and ultimately procure bi-mode locomotives to replace the current diesel fleet. This will support further decarbonisation of the logistics chain.

Certainty over long-term access is needed for FOCs and their owners to commit to invest more in assets and R&D to further reduce the carbon footprint and support a green recovery. The focus on decarbonisation has never been stronger and the environmental benefits that a successful and sustainable rail freight sector can deliver over the next generation, within an investable climate, are substantial. The extension of the DRS TAC is a key pillar in helping to unlock that investment.

Catalyst for private sector investment

Extending the TAC will also support private sector investments in assets and infrastructure to enable the use of rail freight. This includes investments from customers, ports and other endusers in terminals and handling equipment and other capital assets. Many of these businesses have also been impacted by the current market conditions, the reduction in volumes and increased uncertainty. Ultimately the extension to the TAC will support the long-term sustainability of the rail freight sector, which in turn will mean that rail freight is well positioned to support the recovery of the wider economy.

Further details

Further information on the rationale for the proposed TAC extension, including further information on the macro-economic environment, investment risk, investments to support decarbonisation and wider private sector investment was compiled in a recent RDG briefing paper with input from all the Freight Operating Companies and is attached in Appendix A.

3.2 Terms not agreed with the facility owner (for applications under sections 17 or 22A only): please set out here any areas of the application which have <u>not</u> been agreed, the reasons for the failure to agree and the reasons for seeking these provisions. Please state the efforts you are making to resolve any disputes.

Not Applicable

3.3 Departures from ORR's current model freight track access contract: please set out and explain here any:

- Areas where the drafting is different to ORR's published template freight track access contract. Please explain why these departures have been made.
- Instances where the proposal departs from the charging and/or performance regimes established by ORR's latest periodic review (or subsequent interim reviews) as reflected in ORR's model freight track access contract, including the financial implications (e.g. establishment of an access charge supplement or rebate).
- New processes (e.g. self-modification provisions) which have been added. Please demonstrate how these new processes are robust and complete.

None. The proposed contract seeks to extend our existing contract term and access rights.

4. The expression of access rights and the use of capacity

4.1 Benefits: Please provide full descriptions of any new rights required, as compared to the previous contract (in the case of an amendment). Why do you need these new rights (if any)? Please describe any significant changes in the pattern of services and any impact on other operators, including other freight operators. Please provide a fully marked-up version or document comparison of any tables in Schedule 5 which are being modified as a result of this application.

This application seeks to extend DRS's the term of current TAC and the rights contained in the Schedule 5 Rights Table. The applications does not seek to apply for new rights nor modify any existing rights. There are no changes to the pattern of services, nor will there be any impact on other operators, including other freight operators.

Against the backdrop of the current seven-year TAC, DRS has made significant long-term investments over recent years, many in bespoke assets with a life span that exceeds 30 years. DRS considers that these investments alone justify a TAC of ten years, but what is also driving the timing of this application is the investment risk triggered by COVID-19 and the wider attempt to unlock further private sector investment and support decarbonisation.

COVID-19 is causing significant challenges for the rail freight sector, with investment required to recapitalise businesses following the downturn in volumes. There is a degree of investment risk involved in taking on additional debt at a time when there is uncertainty over economic recovery. Securing access rights for a longer period will provide some certainty to DRS over efficient future access to the UK rail network and in turn reassure investors in the long-term sustainability of the sector.

Now more than ever it is essential that there is a long-term sustainable sector to provide confidence for the private sector to make long-term investments in capital assets and infrastructure. Rail freight has the potential to play a key role in supporting the requirement to bring all greenhouse gas emissions to net zero by 2050 in the UK. To do that DRS will be required to invest considerable amounts of capital in Research and Development to design, develop and ultimately procure locomotives to replace the current diesel fleet and support further decarbonisation of the logistics chain.

The extension of the DRS TAC will help minimise investment risk and promote confidence at a time when securing liquidity for the sector remains a challenge. DRS believes that it will provide a platform to invest and ensure the on-going viability of the sector.

Further information on the rationale for the proposed TAC extension was compiled in a recent RDG briefing paper with input from all the Freight Operating Companies and is attached in Appendix A.

4.2 Adequacy: please set out how you have satisfied yourself that there is enough network capacity for the proposed and/or amended services (or will be at the time of service operation). Please also set out whether there are any implications for overall network performance and the facility owner's maintenance and renewal activities. Please confirm whether the proposed Rights will involve operation over an area subject to a Declaration of Congested Infrastructure, or whether the capacity requirement will result in a Declaration of Congested Infrastructure by Network Rail (under the Network Code).

This application is for an extension of the existing DRS TAC. There are corresponding train slots in the Working Timetable, which have all been subject to the Operating Constraints which are detailed in the DRS Track Access Contract. The Operating Constraints include the Engineering Access Statement, which is provided to support and facilitate the facility owner's maintenance and renewal activities.

Given that no additional rights are sought as part of this Supplemental application nor are DRS seeking any modifications to existing access rights, together with ORR's "*strong presumption in favour of the rollover of existing access rights*"¹, DRS is content over the adequacy of capacity. It should be noted however that a key part of the rationale is to provide certainty around future access to efficient paths to support required on-going investments and act as a catalyst for wider private sector investment, as outlined in the RDG briefing paper (see Appendix A).

A number of rights do cover parts of the network that are currently subject to a Declaration of Congested Infrastructure, however, no additional capacity is sought in this application. Furthermore, as the extension period proposed is from PCD 2026 to PCD 2030, DRS would expect these declarations to have been addressed before this timeframe.

4.3 Firm Rights: Do these Firm Rights in the proposal contract relate to service freight haulage contracts which you hold or will hold? If so, how? How does the duration of these haulage contracts compare with the duration of the proposed track access contract?

This application seeks to extend DRS's existing TAC and the access rights contained in the Schedule 5 rights table. No new access rights are sought, nor are any modifications proposed.

The rights within the Schedule 5 rights table are currently being updated to reflect changes in traffic as part of the 10th Supplemental Agreement. The rights will continue to be updated over the duration of the contract to ensure that they reflect the traffic as it changes. They will of course also be subject to Network Code Part J provisions, including Condition J7 – Freight

¹ <u>https://orr.gov.uk/__data/assets/pdf_file/0019/27433/ORRs-conclusions-on-track-access-issues-arising-from-High-Speed-2-HS2.pdf</u>

transfer mechanism – to transfer rights between operators in the event that freight customers change haulier.

4.4 Contingent Rights: please set out the extent to which you expect to use the Contingent Rights in the application. In particular, please state whether the proposed rights are seasonal (eg 3 months each year) or occasional (eg MO, SX, etc).

This application seeks to extend DRS's existing TAC and the access rights contained in the Schedule 5 rights table. No new access rights are sought, nor are any modifications proposed.

4.5 Window size: Please set out the reasons for the origin and destination window sizes used in the Rights Table in Schedule 5.

This application seeks to extend DRs's existing TAC and the access rights contained in the Schedule 5 Rights Table. No new access rights are sought, nor are any modifications proposed, including modifications to the origin and destination window sizes used in the Rights Table in Schedule 5.

Justification for the one-hour windows for firm rights was provided in the DRS Track Access Application under Section 17 in 2016 and following consideration, it was determined by the ORR that the "default position for window size of freight Firm Rights, backed by commercial contracts with end users, to effectively be one-hour windows". "Differences from the one-hour window should be explained and justified in any applications" and "should be on the basis of a study of the impact including on the FOC and the customers concerned"².

DRS is not seeking to make any changes and continue to believe that one-hour windows provide the appropriate balance for Network Rail to optimise future timetables, whilst allowing FOCs and their customers the ability to plan their business with a reasonable degree of certainty. Further justification for the retention of one-hour windows is outlined in the recent RDG briefing paper contained in Appendix A.

4.6 Long term planning process: please state which Route Studies are relevant and whether the proposed rights are consistent with them. If they are not consistent please give the reasons. See Network Rail's <u>website</u>. What consideration has been given to any issues emerging from relevant Events Steering Group concerning capacity on the routes covered by the application (if Network Rail network).

This application is consistent with Network Rail's Long-Term Planning Process (LTPP) including the Route Studies and more recently the Continuous Modular Strategic Planning (CMSP) process. The updated 2019 Freight Market Study (FMS) provides forecasts for freight growth up to 2043 and remain the basis for Network Rail's strategic planning process.

The rights contained in the proposed Schedule 5 Rights Table are consistent with these strategic studies and are typically used to provide a baseline of existing freight capacity within the studies. No additional rights are sought as part of this application, although the forecasts suggest significant opportunity for rail freight growth over the next couple of decades. With the recently legislated commitment to net zero carbon emissions by 2050, the opportunities for rail freight growth are even greater.

² <u>https://orr.gov.uk/ data/assets/pdf file/0010/21520/fl-dec-letter.pdf</u>

Examples of relevant Route Studies and CMSPs include:

- Freight Market Study
- Freight Network Study
- London Rail Freight Strategy CMSP
- Leicester Area CMSP
- Church Fenton to Newcastle CMSP
- Essex Thameside CMSP
- South East Freight CMSP
- Scotland Route Study
- West Coast Main Line North CMSP
- West Coast Main Line South released capacity CMSP
- Cumbrian Coast DSG

DRS has and continues to work collaboratively with Network Rail and the rest of the industry to input into these publications, which all forecast the opportunity for significant unconstrained rail freight growth. Much of this growth is predicated by growth in the intermodal sector and therefore this application, which seeks a new long-term intermodal TAA, is consistent with these forecasts.

With respect to Event Steering Groups (ESGs), DRS continues to work collaboratively with Network Rail and the rest of the industry to input into these. Currently there are no ESGs considering the period beyond PCD 2026 (the timescale to inform future timetables is typically shorter) but the current rights are usually used as a baseline of capacity within the ESGs. As such the capacity within this application is consistent with the expected outcomes of on-going ESGs.

5. Incentives

5.1 Train operator performance: please describe any planned projects or initiatives associated with the operation of the proposed services aimed at improving your performance (including faster or longer trains).

DRS have a number of proposals which are underway to support their customer, **redacted** These include maximising the length of all services including **redacted** services operating between **redacted** service. To ensure the performance is maintained, DRS are working with the train planners to make adjustments to the paths. Electric traction has been supplied to the services where appropriate to further support the performance.

5.2 Facility owner performance: please describe any planned projects associated with the operation of the proposed services aimed at improving the facility owner's performance.

DRS are working closely with facility owners to ensure the planned projects maintain or improve operator performance. For example, DRS have worked closely with **redacted** at **redacted** to ensure the smooth transition in paths for the **redacted** train achieving 24 hour return path whilst increasing from **redacted** wagons. Additionally, we are working closely with NR and **redacted** on the utilisation **redacted** to ensure that the impact of current and planned projects does not pose any issues to both the facility owner or other operators.

5.3 Restrictions of Use: set out and explain the reasons for any changes from the Restrictions of Use regime in the model freight track access contract (Schedule 4).

There are no departures from the model TAC with regards to restrictions of use.

6. Enhancement

6.1 Enhancement details: where the proposal provides for the delivery of any network enhancements, or the services in the proposal are subject to any planned network enhancements, please give full details of the relevant enhancement schemes, including a summary of outputs from the scheme, timescales and the extent to which the network change procedure in the Network Code (Part G) has been completed (where appropriate, by reference to submissions made under ORR's enhancement reporting framework).

This application is not predicated on enhancement works; it is an extension of the existing DRS TAC.

6.2 Enhancement charges: please confirm that the arrangements for the funding of any network enhancements are consistent with ORR's <u>Policy Framework for</u> <u>Investments</u>, and summarise the level and duration of payments, and the assumed rate of return (see chapter 3 of the Conclusions document).

Not applicable.

7. Other

7.1 Associated applications to ORR: please state whether this proposal is being made in parallel with, or relates to, any other current or forthcoming application to ORR (e.g. in respect of track, station or light maintenance depot access contracts).

DRS will continue to update its access rights on a regular basis to ensure that the rights reflect the traffic that is running. DRS and Network Rail currently have the following supplemental applications in progress alongside this proposed 11th SA:

Proposed 12th SA, covering 11 Additional 1 hour 'window' firm rights for the **redacted** services between **redacted** and 25 amendments to 1 hour 'window' rights for some **redacted** services.

Proposed 14th SA, covering **redacted** application for firm rights from SCD May 2023.

7.2 Unregulated access: please comment on whether any contracts are being negotiated for access to a facility adjoining Network Rail's network (e.g. to a freight light maintenance depot), including where ORR's approval is not required. For more information, see <u>The Railways (Class and Miscellaneous Exemptions) Order 1994</u>. (This is relevant in the context of clause 6.4 of the model contract.)

This application is in essence an extension of the existing DRS TAC.

The application is not contingent on access being negotiated for a facility adjoining Network Rail's network.

7.3 Supporting information, side letters and collateral agreements: please:

- state here any relevant information in support of the proposal, including a list and explanation of any other material being submitted (and supply copies with the application).
- confirm here that the whole of the proposal between the parties has been submitted with this application and that there are no side letters or other documents which affect it.

Accompanying this application are three appendices:

1) Appendix A is the RDG paper outlining the rationale for the proposed TAA extension.

2) Appendix B marked up version of the proposed Track Access Contract.

3) Appendix C contains a list of investments made in specialised long-term assets, since the current contract was entered into in 2019. These are commercially sensitive and confidential and will be submitted to ORR to support their consideration of whether sufficient justification has been provided for a contract in excess of five years, in line with the Access and Management Regulations.

4) Appendix D – Resolved Industry Consultations.

5) Appendix E – Unresolved Industry Consultations.

7.4 Confidentiality exclusions: please list any parts of your application which you have excluded on the grounds of confidentiality, from the version of the application sent to consultees for any pre- application consultation process, and provide reasons. If there has been no pre-application consultation, you should state any parts of the application you want us to exclude from publication.

There are a number of parts to this application which DRS will wish to exclude on the grounds of confidentiality when this goes out to industry consultation. Therefore a redacted version of this Form F will be provided ahead of industry consultation to remove any sensitive information.

Appendix C is commercially sensitive and confidential and is entirely redacted and will be shared with the ORR.

Nothing contained Appendices A is confidential and only those parts which are always redacted regarding our nuclear services in Appendix B is confidential.

8. Pre-application consultation

Note: Where a pre-application consultation is to be undertaken in line with the Code of practice for industry consultations, the remainder of this application should not be completed until after that consultation has been completed.

8.1 The consultation: has a pre-application consultation been carried out in line with the *Industry code of practice for consultations*? If yes, please:

- state who conducted the consultation;
- list all train operators and any other parties that were consulted, stating which
 parties responded and attach their responses and any associated documentation
 to this form; and
- state the period allowed for the consultation. If this was less than one calendar month, please explain the reasons for this.

If a pre-application consultation has not been carried out, please explain the reasons and whether any informal discussions have been held with any third parties who might be affected by this application and the nature of any concerns which they raised.

Consultation was carried out for one calendar month between 10 June 2021 and 11 July 2021. This was performed by Network Rail on behalf of DRS and all Access Beneficiaries and rail stakeholders were included in the consultation.

At Sale of Access Rights Panel on Monday 26th April 2021, Network Rail formally advised that it supports the proposed FOC TAC Extensions from PCD December 2026, through to PCD December 2030. However, this support is given based on the inclusion of the *'Right of termination after extension of expiry date'* break clause.

8.2 Resolved issues: please set out any issues raised by consultees which have been satisfactorily resolved. You may wish to refer to responses attached to this form. Please explain any changes as a result of the consultation.

Appendix D attached details the resolved industry consultation.

8.3 Unresolved issues: please set out any issues raised by consultees which have **not** been resolved to the consultee's satisfaction, including any correspondence with that consultee. You may wish to refer to responses attached to this form. Please explain why you think these issues should not stop ORR approving the application.

Appendix E attached details the unresolved industry consultations

9. Certification

Warning: Under section 146 of the Railways Act 1993, any person who, in giving any information or making any application under or for the purposes of any provision of the Railways Act 1993, makes any statement which he knows to be false in a material particular, or recklessly makes any statement which is false in a material particular, is guilty of an offence and so liable to criminal prosecution

In the case of agreed applications under section 18 or 22, the facility owner should fill in the information in the box below. For disputed applications under section 17 or 22A, the applicant should fill in the required information.

I certify that the information provided in this form is true and complete to the best of my knowledge		
	Date21.06.22	
Name (in caps)TONY HEWITSON Job ti	tle HEAD OF COMMERCIAL RAIL	
For (company)DIRECT RAIL SERVICES LTD		
For section 18/22 applications, please provide a letter of support from the beneficiary or ask them to sign here:		
Signed	Date	
Name (in caps)	Job title	
For (company)		

10. Submission

10.1 What to send: please supply, in hard copy or electronic format, the signed application form, one copy of the proposed contract or amendment, with copies of any documents incorporated by reference (other than established standard industry codes or other documents) and any other attachments, supporting documents or information.

10.2 Where to send it:

Freight Track Access Manager Access and Licensing Team Directorate of Railway Markets and Economics Office of Rail and Road One Kemble Street London WC2B 4AN

Email: track.access@orr.gov.uk