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30 September 2015

Dear John,

Access to the East Coast Main Line

1. We write further to your letter of 22 September 2015, responding to our letter of 28 August 2015.

Timeframes

2. Our letter set out a number of fundamental concerns with the process you have established, in particular the timeframes you are envisaging. Unfortunately, your letter does not address these concerns and continues to pursue unrealistic and unfair timeframes.
 - 2.1 Network Rail response: your letter confirms that you are still expecting Network Rail's response by close on Friday 2 October 2015. You are continuing to seek comments within 4 clear working days, by Friday 9 October 2015, with a meeting 2 clear working days later, on Wednesday 14 October 2015.
 - 2.2 CH2M HILL Report: your letter indicates that this has been delayed. You are now expecting to circulate parts of it on Friday 23 October 2015, seeking comments on these parts again within just 4 clear working days, by Friday 30 October 2015, and again with a meeting 2 clear working days later, on Wednesday 4 November 2015. You do not expect to circulate the full Report until a month later than the above-mentioned "parts", on Friday 20 November 2015, with a similarly short timetable for comments (by Friday 27 November 2015) and a meeting (on Tuesday 1 December 2015).
3. We reiterate that we consider 21 days from the time of receipt of the materials in full to be a minimum fair and reasonable timeframe for responses. There is no discernible rationale in your correspondence as to why such a rushed timetable is needed. This is particularly in light of the time afforded to both Network Rail and CH2M HILL. As you have explained, CH2M Hill's work is already taking longer than expected. Furthermore, you have acknowledged that the ORR Board does not need to decide the applications this year.
4. Linked to our fundamental concern that we must have a fair and proper opportunity to consider the further material and to respond is our concern that this process should be efficient. It has already been drawn out by the flaws to date which you have accepted. Affording insufficient time now is likely to be inefficient and is counter-productive to the ORR Board reaching a position where it is equipped to make a reasonable and rational decision, which must be its objective as the responsible public authority. The timeframes that we are proposing of 21 days are, in any event, themselves tight but more reasonable and realistic.
5. We would also note in relation to the CH2M Hill Report that while we are content to receive it in two tranches as you propose, this does not alleviate the need for us to

have a fair and proper opportunity to review and comment on it as a whole. We submit that splitting the review is inefficient and inappropriate, in circumstances where significant problems with CH2M HILL's work have been apparent in this process to date.

6. Accordingly, our position in relation to your deadlines must necessarily be reserved.

Internal Sign Off

7. I can confirm that our application has all necessary sign-offs from our board and shareholders. Furthermore, we have contractual commitments to the DfT under our Franchise Agreement to introduce the services referred to in our application. I can also confirm that the IEP rolling stock required is on order with delivery programmed between late 2018 and February 2020. Our timetables are fully developed and have been reviewed by Network Rail. Introduction of the services solely depends now upon us being able to secure the requisite track access rights (and for Network Rail to confirm, post Hendy, that Capacity exists for our proposals). If our application is successful, we require no further internal clearance.
8. Our application represents the best deal for passengers and taxpayers, delivering significant benefits to rail users and economic benefits to the regions served by our services. The aggregate Net Present Value of our proposal is £463.8m (CH2M Hill, June 2015). Our proposal is the complete package - we serve new markets and significantly improve the rail service to destinations that are currently poorly served by rail. The journey time improvements to core markets will improve our market share with air, private car and coach; whilst maintaining connectivity with intermediate destinations. We will be offering an extremely reliable service with state of the art trains, a high quality offer with free wifi, award winning catering, full first class offer, more low fares and investing £140m in stations and onboard. We will return £3bn in franchise premium payments helping to further reduce the burden of rail allowing the Government to invest in rail infrastructure and non profitable services. We will also be paying track access charges in full rather than just for wear and tear on the track.

Hendy Review

9. Regarding your paragraph 12, we only raise this point because we expect Network Rail's report next week to show that much of the CP5 Connectivity Fund programme of work is required to enable any increase in the number of trains operating on the ECML, and this funding is potentially at risk from the Hendy review. As a minimum, this will need to be reviewed in light of Network Rail's report on 2nd October. Indeed, in our view, your decision making process needs to be informed by economic and performance analysis which reflects a plan which is endorsed by Hendy for delivering Network Rail's enhancement programme. The Secretary of State has asked Hendy to undertake an exercise to re-plan CP5 enhancements and it would be imprudent to decide upon access applications, some of which so clearly depend upon certain enhancements, without taking account of the outcome of the re-planning exercise which the Secretary of State has commissioned.

Performance Modelling

10. Extensive modelling and analysis took place during the bid (2013) and we needed to satisfy ourselves and the DfT that significant performance improvement could be delivered. We have plans and investment underpinning this performance improvement. Therefore, unlike Open Access, we are committed to deliver a higher level of performance through our Franchise Agreement which is underpinned by a financial penalty and bonus regime.
11. Under our Franchise, we are committed to increasing PPM from 86% to 90% by 2023, with a corresponding reduction in Cancellations and Significant Lateness (CaSL) to

3.2%. Our new IEP fleet will deliver a step change in performance levels. We will deliver our performance improvements by taking a robust approach to tackling the root causes which driver PPM and CaSL failures.

12. Our Franchise Agreement has very clear targets for performance which we (as the operator) have direct responsibility - namely TOC-on-Self (TOS) delays and TOS Cancellations. Each benchmark is linked to a financial bonus/penalty regime. Breach and default levels of performance are also defined, thus providing strong incentives for delivery. These contracted benchmarks require significant improvements over the existing levels of performance.
13. The key drivers of current operational performance have been analysed to identify the key areas to focus on. The table below identifies the areas where we can influence our own performance. In summary:
 - 13.1 By far the largest contributor to current TOS operational performance is fleet;
 - 13.2 a distant second, but nonetheless significant, factor is passenger actions; and
 - 13.3 the actions of VTEC staff and depots also make a significant contribution.
 - 13.4 We plan to reduce TOS delays by 63% and TOS cancellations by 73% by 2021.

Table 1 Root Cause Analysis (MAA P11, 2013-14)

Root cause	TOC-on-self delay minutes per period		TOC-on-self cancellations per period	
	Current (mins)	% of current total	Current (no. of services)	% of current total
Fleet failures	3,243	66.8%	15.8	79.2%
Depots	160	3.3%	0.8	4.0%
Staff	454	9.37%	0.6	3.1%
Passenger actions	803	16.6%	1.6	8.1%
Weather	102	2.1%	0.2	0.8%
Other	93	2.0%		
Current total	4,855	100%	20.0	100%
Post-2021 benchmark	1,797	-	5.4	-
Benchmark improvement	63% (3,059 mins)		73% (14.6 services)	

14. Table 2 below is a summary of interventions with corresponding quantified improvements:

Intervention area	Intervention	Delay mins reduction pa	Cancellations reduction pa
Fleet	Improve depot productivity	29,473	293
	Make use of RCM fitment to fleet		
	New engineering culture and practice		
	Modifications to the existing fleet		
	New IEP fleet		
Staff	New management posts to manage service turnarounds	4,900	3
	New departure countdown procedure		
	CCF terminals in traincrew messrooms		
To reduce passenger action-related performance issues	Driving standards	1,400	16
	Right Time - Right Place		
	Improve security on the railway		
	Talk-to-crew passenger alarms on SETs		
	Ill passenger procedure improvements		
	Ensure station dwell time compliance		

15. In addition, we have a number of specific performance initiatives as committed obligations within our Franchise Agreement

IEP Fleet

16. The new IEP fleet will deliver substantial performance benefits based on the performance regime in the Train Availability and Reliability Agreement (TARA). Table 1 above factors in the impact of this improvement in fleet performance on delay minutes and cancellations. This analysis shows that 87% of the required reduction in delay minutes and 89% of the required reduction in cancellations will be achieved if the new IEPs perform in line with committed levels. However, even if the IEPs perform as envisaged, the performance challenge remains significant. We will achieve a further 18% reduction in delay minutes and a 23% reduction in cancellations in order to achieve the benchmarks at the end of the franchise. We are currently delivering a multi-million pound investment programme to improve Class 91 and HST performance.
17. High Levels of Feet Performance will support our May 2020 timetable. Given our core fleet in the May 2020 timetable will be IEP, we are extremely confident that we will deliver the reliability levels required to deliver the step change in reliability that we are contracted to deliver. The reliability levels for IEPs are 27,000 MTIN for Class 800 bi-mode and 54,000 for Class 801 electric trains. This level of reliability is underpinned by a (TARA) with Hitachi.
18. We are confident that the trains will achieve these targets due to the following factors:
- 19.1 high performance of Hitachi-built Class 395 units, currently achieving over 40,000 MTIN MAA;
 - 19.2 a robust availability level of 83% (averaged across the whole IEP fleet) ensures adequate time spent on train maintenance in depots with defined generous overnight downtime requirements;
 - 19.3 built-in redundancy in the IEP design to mitigate component failures; and
 - 19.4 high level of resourcing in depots by the Hitachi will ensure downtime in depots can be spent productively, supported by Rules of the Depot, which specify longer maintenance downtime, with Hitachi staff located along the entire line of route.

20. The fact that the Cl395 fleet incurs a much smaller number of delay minutes per incident provides us with confidence that the specified MTIN improvement will deliver the forecast reduction in delay minutes and cancellations.
21. Furthermore, based on the level of redundancy in the IEP design, the performance impact of the failures which do occur will be less than in the present fleet. This reduction in the number of single points of failure in the design means that it is far less likely that failures which do occur will render a train immobile on the running lines. Single points of failure are a common feature of failures in the HST and IC225 fleet.
22. A particularly useful feature in IEPs will be the standby engine in Class 801 electric sets, which will permit a limited amount of low-speed movement if electric traction is unavailable. In certain cases this feature will prevent the unit blocking the line and therefore reduce the impact of the failure. This supports further the benefit of more modern fleets causing smaller delay incidents than older ones; on the technically similar Javelin (Class 395) fleet, primary delay minutes per failure are substantially lower than on EC's current IC225s and HSTs.

Retained IC225 Fleet

23. In addition to the IEP fleet, we propose to retain six IC225 sets with a seventh Class 91 to enable us to enhance the train service with additional journey opportunities and provide additional capacity. There will be a maximum of five IC225 trains in traffic per day, compared with up to 54 SETs (8% of the total fleet). We have detailed plans to drive reliability to 20,000 MTIN, which is comparable with the reliability levels of the Cl800 SETs. The low availability (83%) will allow more than adequate maintenance time on the fleet at depot, and enable us to have a spare unit to replace one which has either failed in traffic or requires additional repair work. We will deploy the trains on less onerous limited-stop diagrams, which will reduce their failure risk.

Our People

24. Our people cause 455 delay minutes per period and 0.6 cancellations (both MAA results at Period 11, 2013-14). Traincrew (driver and guard) delays cause 8% of VTEC's TOS delay minutes and 3.1% of TOS Cancellations. Key areas of improvement are traincrew management in disruption and focus on Right Time performance. We will also introduce new management posts to manage service turnarounds at King's Cross, Leeds and Edinburgh to focus on right time starts to journeys and ensuring that late inbound services do not delay outbound departures.

Confidentiality

25. We note your position with respect to publication of all correspondence and we support this. Nothing in this letter should be regarded as confidential.

Yours sincerely



Andy Sparkes
Business Development Director

