GRAND CENTRAL

8th February 2016

Mr David Reed

Senior Executive, Access & Licensing, Office of Rail and Road

One Kemble Street

London

WC2B 4AN

Dear David

Thank you for sharing the CH2M HILL Assessment of Applications for Track Access on the East Coast Main Line: Phase 2 Final Report and appendices with Grand Central. I am writing with our feedback on the report content and the issues it raises for our business.

The report includes a calculation of the estimated impact of Option 3 (VTEC Core) and Option 8 (VTEC Full) on Grand Central revenue; -£5m and -£7m respectively. The scale of these revenue losses (which we believe may be a conservative estimate) would have a devastating impact on the Grand Central business. This highlights our concern that VTEC's timetable proposals are designed to deliberately target flows served by Grand Central, where market growth has been strong and commercially viable. For Options 3 and 8 it would be helpful to have sight of the full list of flows affected (in addition to the information in tables 16 and 23), with the abstraction by operator by flow.

We are pleased that this potential perverse outcome on other operators has been acknowledged in the report; section 7.2 states:

- *'in a number of options current ECML TOCs would lose a substantial proportion of their revenue base',* and,
- *'The level of abstraction from other operators is very sensitive to the characteristics of the train timetables considered. Our sensitivity tests show that small changes in the order or timing of even a few train services can result in large differences in the allocation of revenue between operators. We therefore recommend that ORR gives careful consideration to the potential and likely outcomes of future timetable planning processes.'*

Grand Central Railway Company Limited, 3rd Floor, Northern House. Rougier Street, York, YO1 6HZ
t: 01904 461370 f:01904 466066 e:admin@grandcentralrail.com w:grandcentralrail.com

Registered Office: 1 Admiral Way, Doxford International Business Park, Sunderland SR3 3XP
Registered in England No. 03979826
Part of Arriva – a DB company

With reference to the bullet point above, the sensitivity tests performed by CH2M and detailed in the report as Options 12 and 13 show that the vast majority of the negative revenue impact cannot be alleviated by manipulation of individual train times, and this impact is a fundamental outcome of VTEC's proposals.

Grand Central would welcome 1:1 engagement with ORR as soon as possible to discuss how, as regulator with an obligation to encourage competition; it will take the negative impact on Grand Central revenue into account when considering which (if any) of the options should be progressed.

Regarding the other options evaluated in the report, Grand Central is unsurprised to see that VTEC's proposal to introduce services to Middlesbrough (Option 6) is not economically viable and delivers significantly lower revenue benefit than other options. Although market development and contribution to economic regeneration of economically-challenged North East locations has been a key driver of Grand Central's growth, the high cost of this option and projected negative impact on other locations in the region render it, in our opinion, unsuitable for ORR to consider further.

The potential requirement to reduce capacity on flows which are already prone to crowding is of concern in some of VTEC's proposals. CH2M have highlighted this in their assessment of Option 5 (VTEC Bradford) in particular. Grand Central has concerns about the potential knock-on effect of this deliberate constraining of VTEC capacity on footfall on its own services, and the potential negative impact on Grand Central customer experience and stakeholder perception.

In the accompanying technical note, ORR acknowledges that consideration should be given to whether VTEC's IEP costs are considered sunk or incremental for their various proposals; *'we are considering whether treating some of the IEP costs as sunk might result in unfairness between the applicants, distort competition or otherwise not be consistent with our statutory duties.'*. Grand Central considers this a pivotal issue in the assessment of applications and is disappointed that, despite the considerable time and investment dedicated to the CH2M reports by all parties, this point will ultimately be deferred to ORR Board for decision.

Similarly, the issue of readiness of the infrastructure required to accommodate the different options and their feasibility and value to the taxpayer are not adequately covered in the CH2M report and Grand Central would welcome further information on this critical point. Given the potentially devastating impact on Grand Central revenue, the phasing of this potential revenue loss is of great importance to Arriva and its parent company Deutsche Bahn.

Grand Central Railway Company Limited, 3rd Floor, Northern House. Rougier Street, York, YO1 6HZ
t: 01904 461370 f:01904 466066 e:admin@grandcentralrail.com w:grandcentralrail.com

Registered Office: 1 Admiral Way, Doxford International Business Park, Sunderland SR3 3XP
Registered in England No. 03979826
Part of Arriva – a DB company

Grand Central is surprised that no reference is made to some of the other modelling overlays considered in the recent Leigh Fisher report in areas benefitting from new open-access services. These included the effect of car parking and rail heading, significantly more Advance Purchase products being available from Open Access Operators, the complex changes to purchasing behaviour, the differential between standard and First Class pricing for Advance and walk-up fares and the general increased propensity to travel from the outlying regions. We would welcome ORR's feedback on these points.

[SECTION REDACTED]

We await your feedback on the points raised in this letter

Yours sincerely

Sean English

Acting Managing Director

Grand Central Railway Company Limited, 3rd Floor, Northern House. Rougier Street, York, YO1 6HZ
t: 01904 461370 f:01904 466066 e:admin@grandcentralrail.com w:grandcentralrail.com

Registered Office: 1 Admiral Way, Doxford International Business Park, Sunderland SR3 3XP
Registered in England No. 03979826
Part of Arriva – a DB company