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Ian Yeowart  
Managing Director  
Alliance Rail Holdings  
88 The Mount  
York, YO24 1AR

***by email only***

Dear Ian

## **Access to the East Coast Main Line**

1. This letter updates our post-hearing letter to all stakeholders on next steps, it asks you to clarify your position on the infrastructure works needed to enable tilting trains on the ECML and it responds to the key points made in your 28 August letter and 4 September email to us. It also explains how we will handle confidentiality of future correspondence.
2. In our letter to stakeholders of 12 August 2015, we asked you to hold the morning of Wednesday 14 October in diaries for a possible discussion of capacity and infrastructure works. Network Rail remains on course to answer our questions by Friday 2 October which will now also include feed-back from a performance workshop it ran last week.
3. This means we can now confirm we expect to publish Network Rail's response to us by close on 2 October and, as previously advised, we would like your written comments by **Friday 9 October**. We also confirm we will be going ahead with a discussion for applicants, Network Rail and DfT representatives on the capacity, infrastructure and performance issues on **Wednesday 14 October**. Please email us by Monday 28 September at [rme.admin@orr.gsi.gov.uk](mailto:rme.admin@orr.gsi.gov.uk) to say who, space permitting, you would like to come. You will be able to update your list later in light of Network Rail's response.
4. In our 12 August letter we also set out the next steps for the CH2M HILL economic report. Meetings between CH2M and all applicants, DfT and affected current open access operators have now taken place and the key inputs requested at these meetings have now been received.
5. However, assembling and carefully checking these inputs has taken longer than planned and it is now unlikely CH2M will be able to publish a full draft report on Friday 23 October as we had hoped. It should, however, be able to circulate parts of the draft report dealing with methodology and input assumptions on 23 October, so we would welcome your comments on those sections by **30 October** and we could usefully discuss them on **Wednesday 4 November**. Please therefore keep **4 November** free in your diaries for this.

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6. We now expect CH2M's full draft report will be circulated on **20 November** for written comments by **Friday 27 November**. It is also likely we will want to go through the full draft report in a meeting with applicants and DfT; please can you put an additional placeholder in diaries for the morning of **Tuesday 1 December**. We will confirm nearer the time if we need this and the agenda.

### **Infrastructure requirements for tilt**

7. We have seen Network Rail's response to a Freedom of Information request from VTEC asking what work Network Rail has done to facilitate the introduction of tilt operation on the ECML. In its response (available [here](#)), Network Rail has confirmed that its involvement has been limited to discussions regarding the possibility of doing research into the potential impact of tilting trains. We are assuming Network Rail will confirm this position when it responds to our letter of 12 August which had already asked about infrastructure requirements.

8. We recall that at a meeting with you on 3 June 2014 you said you had reached agreement with Network Rail on the scope of a study, which Alliance would pay for, and that work was likely to start later that month. We are surprised this work did not go ahead, given tilt operation is key to the journey times underpinning your Edinburgh application and your business case.

9. Please will you therefore:

- (a) Explain what, if any, work you have done to assess what infrastructure works are needed to enable tilt on the ECML, their cost and deliverability;
- (b) Confirm and explain what the one-off cost included in your business case was for and what it is based on;
- (c) Explain what the £50m figure quoted at our 12 June hearing was for and what it is based on;
- (d) Explain how sensitive your business case is to this cost assumption and what sensitivities you have considered; and
- (e) Confirm what level of sign-off your application has internally. In particular, under what circumstances do you need to secure further internal clearance (and for what and from whom) for the investment to enable tilting and any other aspect of the project, should your application be successful?

10. Please can we have your answers to these questions by **Monday 28 September**.

### **Fares modelling**

11. We have already explained to you how we have addressed or will address several of the points you have made in the hearing or in subsequent meetings and/or correspondence.

12. For example, you have now provided more detail to us on your fares proposals which CH2M is incorporating into its modelling. In particular, CH2M will be applying all its overlays to MOIRA to all the applications in a consistent way, including those relating to air-rail market shares. CH2M has also set out further timetable options that explore the sensitivities of the modelling results to variations in the ECTL timetable.

13. An overarching point that we have made previously, and do so again, is that modelling the impact of differential fares is difficult, not least because it is difficult to anticipate the competitive response. The consequence of this is that in our decision making we need to be aware of this uncertainty and its impact on our economic analysis.

14. With respect to fares, our policy, set out in our criteria and procedures, is that we expect to take explicit account of differential dedicated fares on new competing services where it is material and practical to do so. For competing applications, we model the impacts of each application at a level of detail that is proportionate to the size and characteristics of the application (and, where relevant, other applications against which it is being compared), taking account of best available evidence.

15. Your letter makes several statements about our approach to fares modelling that are not correct. It is not correct to say that all previous ORR fares modelling has been based on PDFH. For example, MVA developed an approach to fares that they used, as our consultants, to model open access applications on the ECML which was later incorporated into PDFH. Nor does the statement “ORR can only model average fares, not segmented markets” make sense to us: our modelling approach necessarily evolves as a function of the characteristics of the proposed services and the evidence and methodologies available.

16. In your letter you say “ORR has previously maintained that, while lower fares would indeed grow the market, they would also be highly abstractive of existing operators’ revenues”. We do not accept this as our position. You appear to make this statement in relation to findings from particular previous applications that you later cite. We do not use the modelled findings from previous applications to make generalised statements about the extent of abstraction. Nor does this form an explicit part of our five stage NPA test (stage 3 relates to data for actual rather than modelled services in comparable situations). To adopt such an approach would require a careful assessment of the extent to which the previous applications are comparable and whether they remain valid in the light of subsequent evidence, for example updated evidence on fares elasticities.

### **Enforcing the low fare model**

17. We will consider if it is appropriate to secure the key benefits of any successful application related to fares policies (and if it is appropriate, how we might do so).

### **Modelling air and rail shares**

18. In Annex B to your 10 June letter, you raised concerns about the way the air and rail market shares had been modelled, and whether the approach taken was consistent between each application. We confirm that the reporting of the approach will be substantially more detailed in CH2M’s updated report, enabling applicants to critically

examine the methodology and results. In addition, the modelling approach will be consistently applied to each application.

### **Competitive response**

19. As you point out, we would expect lower fares to increase the overall number of rail journeys and to result in positive user benefits, which will be included in the economic appraisal. Therefore, we agree that it is important to consider further the likely incumbent response to each application, and to perform sensitivity analyses of the assumptions made.

20. You discussed your concerns that “competitive response from the airlines has been completely ignored by CH2M HILL.” We agree it is important this issue is appropriately assessed and are considering this point further with CH2M.

### **Timetables**

21. In your email of 4 September you claimed we were taking the VTEC timetable as a base to fit other services around and said our position seemed to suggest your services had to fit with them. We confirm this is not the case. We have already made clear our starting point for comparison is the May 2014 timetable (of all ECML services, not just VTEC) adjusted to recognise the faster trains that will be available in future.

22. You also repeated your concerns around inconsistencies in the VTEC timetables and with TPR. CH2M is considering these and others’ points as it finalises the timetable files to be tested.

### **Confidentiality**

23. To aid transparency and to streamline our ECML processes, we will assume all future correspondence from applicants on the ECML applications is not confidential and can be published in full through our website.

24. Anything that you believe should be kept confidential should be clearly marked as such when it is sent to us. You should explain at the same time how publication would or might seriously and prejudicially affect your interests.

25. Please contact me, Rob Plaskitt, Ian Williams or David Reed if you need to discuss. We will be publishing this letter on our website.

Yours sincerely



**John Larkinson**