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8 April 2015

Dear Rachel,

Section 17 Application by East Coast Trains Ltd for Open Access services on ECML

Thank you for the opportunity to comment on the proposed Track Access Contract. This letter constitutes the Alliance/GNER (further referred to as GNER) response.

Firstly, GNER welcomes competition and realises the importance of new open access services and the significant passenger benefits that these bring. We do however have a number of concerns in relation to this specific application.

1. Timing

GNER submitted its own application for new very fast services between Edinburgh and London King's Cross over 12 months ago in February 2014. In June 2014 the ORR wrote to the industry detailing the process it intended to follow regarding the several applications and other aspirations it had received. This letter detailed the requirement for Network Rail to undertake capacity analysis on the ECML.

In autumn 2014 the ORR commissioned CH2MHill to review the GNER and VTEC proposals and undertake the initial stages of the NPA test. The ORR wrote a further letter on the 6 February 2015 providing an update on progress to date and what the

expected timescales would be going forward with publication of a decision in April/May 2015.

The FirstGroup application states *“our original plan had been to apply for these rights by the Summer of 2015. However, the letter from the ORR on 6th February 2015 setting out the timescales for reviewing and determining on access rights for the ECML has led us to accelerate our application.”* The ORR letter of course was just an update on progress to date, not a new invitation.

As detailed above, the process and timescales have been known and in place for many months, FirstGroup are fully aware of this. It is incorrect to suggest that the letter of 6 February 2015 provided significantly new information with regards to the process from that published in 2014.

What FirstGroup's application has done is potentially bring delay and uncertainty to a process of which it has been aware of for many months, and GNER would refer the ORR to its output from the *‘East Coast Lessons Learned’* document when similar behaviour was exhibited by others.

A significant amount of work has been undertaken by applicants, the ORR and Network Rail over the last 12 months. GNER would like to understand why FirstGroup did not make its aspirations known earlier in the process, particularly as there is little new in its proposal. The introduction of an application into a process which is due for completion in a matter of months could potentially undermine the work already undertaken and introduce delay and cost into the process.

2. Economic assessment

This application proposes to introduce a new, slower service than that proposed by GNER on the East Coast Main Line (ECML) between Edinburgh and London King's Cross calling at Morpeth and Newcastle with selected services calling at Stevenage. This is very similar to the GNER application of February 2014 albeit the FirstGroup trains will be much smaller (with only 5 carriages), slower, and offer no choice in class of travel on this important route. Virgin East Coast (VTEC) is also proposing short 7 carriage trains on its 'fast' Edinburgh services. The GNER application will have a minimum of 9 carriages, offering an overall increase in seating capacity from that proposed by the competing applications – as well as providing the fastest ever journey time between London and Scotland.

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Work undertaken by Network Rail on Long Distance Demand Forecasts shows London – Edinburgh growing at 370% between 2012-2043, so it is surprising that both competing operators to GNER would look to downgrade the service. Whilst some ECML markets (particularly in the off peak) can be well serviced with smaller trains, the Edinburgh – London market is not one of them.

The application states *“As this proposal specifically targets segments of the market where the rail industry’s share of the market is currently less than 50%, our proposals are not primarily abstractive and will grow the overall rail market size on these corridors.”*

The application also states *“We have identified that there are segments within the market that the air and coach operators together hold a very high market share of, principally driven by a lower fares proposition and connectivity at certain times of the day when compared with the rail offer.”*

The application appears to suggest that FirstGroup’s business model, based on low fares and a single travel class, with a potentially slower journey time (significantly slower than GNER) than the competing services will cause significant modal shift from the air and coach market and also grow the overall travel market on this route.

GNER has undertaken a significant amount of work with regards to the travel market and sources of income on the proposed route and shared that work with the ORR and the ORR’s consultants. A range of evidence has been produced for the ORR and others which indicates that the overall rail journey time is the primary factor influencing the market share with air services.¹

In contrast to the FirstGroup application, GNER’s application is based on significant improvements in journey time on the route alongside significant improvements on-board the train, aimed at producing significant modal shift and growing the rail market share considerably. It is unclear what evidence there is to support FirstGroup’s claims that lower fares and a single travel class will achieve the equivalent modal shift from air proposed by the GNER application, but should the ORR convene a hearing on the ECML applications then the information from all applicants can be interrogated.

¹ Air and Rail Competition and Complementarity, Steer Davies Gleave, 2006; International Rail Travel Demand Model for HS2, Sinclair Knight Merz, 2009

In relation to coach travel between Edinburgh and London the current market is very limited with only a handful of coaches making a through journey, with journey times being twice that of the existing rail services. Based on this information, we would agree that it is possible that FirstGroup's application could attract the limited number of passengers from coach travel who are very price sensitive and not time sensitive, but coach travel makes up only a tiny percentage on these flows.

Based on the proposed business model it seems unlikely that the primary impact of FirstGroup's proposal would be to generate new business for the rail industry. Whilst there may be some generation of new rail business by way of modal shift from coach, air travellers tend to be more time sensitive and are unlikely to switch based on lower fares alone.

3. Rolling Stock

The First Group proposal states that *"The new trains will be 125mph electric rolling stock, based on a 5-car train formation that can operate in multiple formation. The trains will have the performance characteristics that will as a minimum match the new IEP Class 800/801 rolling stock."*

The application makes no reference to the number of units that will actually be required to operate the proposed service and whether running in multiple will be a regular occurrence to meet demand. GNER is proposing to use 9 or 11 car Pendolino trains, requiring 12 train sets to deliver its timetable. This makes the GNER Pendolino the largest trains proposed by any of the applicants for these important flows – critical if growth projections and modal shift are to be delivered.

The FirstGroup application makes reference to a single class of seating throughout the train but does not state whether this will be high or low density and what the capacity of a 5-car train is likely to be.

The application states that the rolling stock will be 125mph, but the longer term aspiration is for the ECML to have increased line speeds of up to 140mph following the introduction of ERTMS.

4. Summary

GNER naturally welcomes competition and the significant passenger benefits that it brings. We do however have significant concerns regarding the timing of this

application and the impact it may have on route development and our own long standing application which provides:

- The fastest ever journey time between Edinburgh and London
- More seating capacity
- Various classes of travel to meet passenger demand and provide choice

No evidence has been provided to suggest that lower fares and a single class of travel will attract time sensitive air passengers, whereas the GNER application is totally focused on modal shift from the largest domestic air market in the UK. This cannot be achieved with slower trains with reduced seating capacity.

If all aspirations could be accommodated then GNER would welcome the additional competition from another commercial entrant, but in the event that there is insufficient capacity, then it would be impractical to believe that a short train with a longer journey time could offer the best use of the available capacity.

Yours sincerely,



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