Department for Transport

From the Permanent Secretary
Philip Rutnam

Great Minster House
33 Horseferry Road
London
SW1P 4DR

E-Mail: philip.rutnam@dft.gsi.gov.uk

Web site: www.gov.uk/dft

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Richard Price
Chief Executive of the Office of Rail and Road
1 Kemble Street
Westminster
London
WC2B 4AN

GRAND CENTRAL SECTION 18 APPLICATION – GREAT NORTH WESTERN RAILWAY COMPANY LTD

My officials have been asked to consider the potential impact of this application on the Secretary of State's funds. As such, I attach the Department's analysis of the potential impacts as Annexes to this letter.

The analysis presented here focuses specifically on the impacts of revenue abstraction on franchise operators. The figures can be considered a proxy for the impact on the Department for Transport's funds, once Train Operating Company profits are taken into account. As you can see, the impact depends on whether or not the service is operated from London Euston or Queen's Park.

I should add that in the limited time available we have only been able to produce indicative estimates of the impacts, based on past evidence presented regarding GNWR's June 2014 application. In addition, we have not had time to consider whether there are any potential performance impacts arising from this application.

Please let me know if you require additional information. My officials are able to meet and discuss with yours if you would find that helpful.

I am copying this letter to Rob Plaskitt, Head of Licensing and Regulation at ORR.

Philip Rutnam

PHILIP RUTNAM

ANNEX 1

GRAND CENTRAL SECTION 18 APPLICATION – GREAT NORTH WESTERN RAILWAY COMPANY LTD – DfT EVIDENCE

This annex provides an overview of the impact GNWR's recent application is expected to have on the revenue of franchised operators. The figures presented can be considered a proxy for the impact on the Department for Transport's funds, once Train Operating Company profits are taken into account.

Due to time constraints, the analysis presented here has been produced by adjusting past evidence submitted by the Department on the potential impacts of GNWR's section 18 application from June 2014.

GNWR's proposal

In June 2014 GNWR submitted an application to operate services on the West Coast Main Line and Trans Pennine routes. This involved:

- 6 trains per day between London Euston and Blackpool North in each direction in two-hourly intervals; and,
- 6 trains per day between London Euston and Leeds (via Manchester Victoria) in each direction, also in two-hourly intervals.

GNWR have now applied to run the Blackpool element of the June 2014 application only.

The original Methodology – GNWR's 2014 application

Analysis commissioned by the Department regarding GNWR's 2014 application resulted in the production of the following outputs;

- The annual revenue GNWR could expect to receive as a result of its Blackpool service,
- The annual revenue GNWR could expect to receive as a result of its Leeds service,
- The total revenue which would be extracted from franchise operators as a result of both services.

Due to uncertainties surrounding HS2 works, for this application GNWR sought firm rights between Queen's Park (London) and Blackpool North, and contingent rights between London Euston and Queen's Park. As a result, the figures mentioned above were produced twice; the first set reflecting the impact of operating the service from Queen's Park (calculated using Willesden Junction as a proxy)[1], and the second reflecting the impact of operating the service from London Euston.

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[1] The Northern version of MOIRA was used to estimate the revenue impacts of the proposed timetables. This is because it held the 2016 and 2018 Northern and TPE Do Minimum timetables and included major stations outside of the Northern area. However – as Queen's Park is not included within Northern MOIRA – it was not possible to model the GNWR service to this station. Therefore, Willesden Junction was used as a proxy instead, (Willesden Junction is two stops from Queen's Park on the Bakerloo Line and is also on the Overground network).

The revised Methodology – GNWR's current application

Due to time constraints, it has not been possible to undertake formal modelling of the proposed timetable. Instead, the aforementioned figures – originally expressed in 2013/14 prices and demand levels – have been adjusted as follows;

- The revenue GNWR would expect to obtain from the Blackpool service was divided by the total revenue GNWR would have received from both of its proposed services (to give the fraction of revenue attributable to the Blackpool service),
- This number was multiplied by the total revenue which both services were expected to abstract from existing franchise operators,
- The numbers were scaled up to future nominal values using an index representing RPI inflation and real revenue growth[2].

As GNWR have once again applied for firm rights to Queen's Park and contingent rights to London Euston, we have once again presented the impacts of running the service from both stations.[3] The results are shown below;

Table 1 – Approximate impact of the Blackpool-only GNWR service on franchised revenue (£millions, nominal)

Estimate of the impact of Blackpool-only OA service	Revenue impact in 2018/19	Revenue impact in 2025/26	Revenue impact from April 18 to March 26
To Euston	-23.5	[redacted]	[redacted]
To Queens Park	-7.7	[redacted]	[redacted]

As shown above, if the proposed service were run from Euston then the revenue abstracted from franchised operators would be £23.5m in 2018/19. This would rise to [redacted] in 2025/26, and the revenue abstracted between April 2018 and March 2026 would total [redacted]. This compares with £7.7m, [redacted] and [redacted] if the service were run from Queen's Park, demonstrating that the impact depends heavily on which London station the service is operated from. It should be noted that – as the service is not expected to displace any franchised operator services – no operating cost savings are expected.

As mentioned earlier the figures presented here are estimates of the impacts this application could have on existing franchise operators; not the Department's funds. However – given that train operating companies usually retain only a small fraction of revenue as profit – these numbers are indicative of the potential impacts on the Department's funds.

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[2] More details regarding revenue growth assumptions used can be found in Annex 2 below.

[3] Another reason for doing this is that MOIRA does not accurately represent the London Underground network. We therefore present the GNWR service to London Euston as our central case, (as this reflects the most realistic journey opportunity to onward destinations in London in MOIRA) and as a sensitivity test we have included the service to Queens Park (Willesden Junction).

ANNEX 2

REVENUE GROWTH ASSUMPTIONS USED

A brief overview of the revenue growth assumptions used in the modelling exercise outlined in Annex 1 are included below. These assumptions reflect the analysis produced to examine the June 2014 application, with a simplification that only the West Coast element (Blackpool service) is considered now:

The revenue has been grown from the 2013/14 base within MOIRA using the following assumptions:

- Real revenue growth to 2017/18 was taken from the financial model submitted to DfT as part of the Intercity West Coast Direct Award as the most relevant to West Coast. For subsequent years it was assumed that the same growth could be achieved as during 2017/18
- The revenue growth rate assumes real increase in fares of RPI+1% per annum
- All figures are converted to nominal using the latest OBR forecast of RPI.