

Stagecoach South Western Trains Limited
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Dear Emma

Network Charges – A consultation on how charges can improve efficiency

Thank you for inviting our views on ORR's consultation "Network Charges – A consultation on how charges can improve efficiency". We also found the workshop particularly helpful. This letter provides the response of Stagecoach South Western Trains Limited (SSWT) to the above consultation.

At this stage of the process, we have concentrated our response on the high level issues and hope you will find them useful when considering next steps. However, we believe it is important that whatever changes are ultimately proposed they must be capable of being processed readily through the Schedule 9 Change Mechanism in the Franchise Agreements, and the benefits must outweigh all costs associated with administering the change.

Infrastructure Costs: More information on network costs at a more disaggregated level must be considered to be a positive move forward. The information will need to be made available to funders in a way that will aid them to make more informed decisions, which we would expect to lead to reduced costs.

Passing more costs through to train operators in itself will not drive efficiency. Having a larger fixed charge will not have the effect on train operators being able to influence Network Rail with any more impact than now. Train operators are not in a position to challenge any aspects of the management of infrastructure assets and rely on the regulator to monitor, measure and challenge Network Rail to be an efficient Network Operator. It should also be noted that moving the Network Grant into Fixed

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Access Charges will have the impact of increasing subsidies/reducing premiums and may therefore lead to a loss of comparability and transparency.

TOC's working with Network Rail in the development of business plans, in order to identify and agree priorities for the next control period based on better information, and better allocation of funds based on the criticality of the route, would enable those routes which have the biggest impact on passengers to be allocated the right amount of funding to achieve sustainable good performance.

Variable Charges: In general we would urge simplification, with a clear understanding by the industry regarding the purpose of the charges and their likely impact. There has been a tendency to add more charges over time, without considering whether there are charges that are no longer relevant. It is important that they are considered holistically with due regard to their interaction with other parts of the incentive regime (for example the capacity charge and the performance regime).

We support a review of the capacity charge and the volume incentive. Many people in the industry (and especially Network Rail) are not even aware of the volume incentive.

EC4T: We believe there should be greater responsibility placed on Network Rail to reduce the line loss in the system and to ensure that the infrastructure is there so that train operators can take advantage of operating at the optimal voltage. It is also important to incentivise power saving initiatives not only for metered trains, but those on modelled rate (for example sleep mode only brings about a direct benefit on metered trains). The electricity market has undergone, and is continuing to see significant structural change and the "add-on charges" which TOCs cannot control, are rising considerably in both absolute and relative terms (much of which is as a direct consequence of Government's policy). Network Rail and ATOC's advisors on EC4T have recently issued a joint statement stating they expect these costs to increase by 75%-80% over the next three years. Currently these pass through costs make up 40% of the total EC4T price – with the commodity price being 60% of the cost. Based on Network Rail projections the pass-through element will be more than 60% within two years. This is a significant incremental cost to the industry; the Network Rail projections show that the pass through charges will be £80m higher at the end of the 3 year period than the current cost. The current cost has already increased significantly in recent years, negating most if not all of the commodity price reductions that have been experienced. We encourage the ORR to review these elements of the charge.

Open Access: as a number of open access operators have long contracts, they should as a matter of principle, contribute to the cost of the network, although there could be some protection so that by paying fixed track charges, profit margins can't go below a typical train operator's margin.

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Although we are supportive of not taking the value based package further at this stage, ORR should consider the incentives regarding the use of capacity, especially on routes where there are high levels of train/passenger crowding. For example should a 5 car train operating on crowded infrastructure pay higher charges than a 10 car which is maximising the use of capacity?

We look forward to working with ORR and the rest of the industry to take this workstream forward.

Yours sincerely,



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