

15/10/2015

The Chiltern Railway Company Limited – Response to the

Operation Consultation

1. The Respondent

The Chiltern Railway Company Limited ("Chiltern Railways") operates franchised passenger train services between London Marylebone, Aylesbury Vale Parkway and Birmingham Moor Street, plus associated branch lines including between London Paddington to South Ruislip. From Autumn 2015 Chiltern Railways will also commence the operation of services to Oxford Parkway via Bicester Village. From December 2017 it is anticipated that Chiltern Railways will fulfil the East West Rail service requirement between London Marylebone and Milton Keynes via the Chiltern Mainline as far as Princes Risborough, the line via Aylesbury to Claydon and the reopened line between Claydon LNE junction and Bletchley. The Chiltern Railways franchise is due to expire in 2021.

The Chiltern Railways contact for System Operation Consultation matters is either myself (details in the header of this response) or Graham Cross, Business Development Director (Chiltern Railways contact details are as follows: [REDACTED]; [REDACTED], or Great Central House, Marylebone Station, Melcombe Place, London, NW1 6JJ).

2. Response

2.1. General observations

Chiltern Railways welcomes the opportunity to respond to the ORR's consultation on System Operation (SO). As we understand it, this consultation has come about as part of the ORR's preparatory work for the next Periodic Review in 2018. The consultation asks respondents to consider how Network Rail currently operates the UK rail network and reflect on how the decisions it makes affect the current and future use of the network. The consultation is being held in parallel with a separate Network Rail consultation, which focuses on the development of a SO dashboard.

In general we support for the RDG response, but would like to make some points of our own. These are detailed in the submission below.

2.2. Defining System Operation

In the social sciences SO would be referred to as a “valenced” subject. This is a technocratic expression that extends to those concepts that at enjoy a near universal acceptance at a general level, only for the consensus to be replaced by disagreement once the discussion moves into the detail. Simply put, the industry seems to accept that SO occurs, and with the same unanimity it agrees that it is important. However, it also seems to be a long way off agreeing exactly what SO is.

The ORR consultation defines SO as “the set of functions that supports efficient delivery of the network and helps realise the benefits of its use, including to the wider economy and society” (Para 21, p7). This definition has merit and is a useful starting point in any discussion over SO. However, as was demonstrated at the ORR/Network Rail Workshop held on 2nd October 2015, the ORR’s view is not held universally.

Chiltern Railways’ opinion is that this debate over the definition of SO is both intractable and unnecessary. Intractable because it is inherently theoretical and therefore open to multiple interpretations; and unnecessary because it is approaching the subject of how best to maximise the potential of the rail network from the wrong angle. We believe that a more productive starting point would be to identify the problem that the concept of SO is required to address. We believe that the production of an empirically informed problem statement is the necessary first step to enable the industry to move beyond the increasingly sterile debate over what SO means.

2.3. The Scope of the Consultation

Chiltern Railways also believe that greater clarity is required as to the scope of the consultation. Paragraph 15 on page 6 states that

“We [the ORR] understand that system operation is wider than just the functions that Network Rail undertakes, and includes functions undertaken by governments and by ORR. Our focus is on the functions and how they are regulated – we are not considering whether ownership of these responsibilities should change”.

Chiltern Railways has taken this to mean that the ORR consultation is interested in providing greater definition of SO functions, as distinct from contemplating the possible separation of these functions from their existing parent bodies.

However, it was clear from the workshop held on the 2nd October that many people have interpreted this consultation as a part of a wider discussion on the future organisation of the rail industry. For example there was much discussion about the potential to create a “System Operator”, a separate body responsible for the delivery of certain monopolistic tasks.

This misconception may have come about as a result of the consultation taking place in concurrence with a number of Governmental reviews, such as the Hendy and Shaw Reviews, which are considering broader organisational changes for the industry. Therefore, Chiltern Railways believes that it would be helpful for the ORR to confirm whether or not this consultation is considering any changes should be made to the distribution of current industry roles, and consider alternative terminology to remove the ambiguity that has led to SO becoming conflated with the concept of a “System Operator”.

3. Response to specific consultation questions

Consultation question 1

69. As discussed in section 2, to deliver good system operation, we think system operation involves these functions:

- a) Developing proposals for changes to the network;
- b) Choosing projects for changes to the network;
- c) Determining capacity from the physical network;
- d) Allocating capacity (including to possessions) and performance; and
- e) Operating the system (including at the route level) enabling services to run.

70. What are your views on the functions we have mapped out, and their ability to facilitate delivery of the system operation outcomes? Do you think we have missed any key functions of system operation?

This is a difficult question to answer given that at present there is no agreed definition of SO. Nevertheless, we believe that there is commonality of thought in the idea that SO is about trying to articulate the trade offs between cost, capacity and performance. Therefore, the functions mapped out by the ORR in the consultation seem sufficient.

An argument could be made that SO actually covers much wider issues than just the network. For example, rolling stock provision, planning by local authorities and how the railway supports the economy could also be considered as part of discussion.

Three of the five functions described in the consultation concern capacity allocation. This is undoubtedly of importance, but it is widely recognised that decisions on provision and utilisation are complex. This is reflected in the consultation document, which lists no fewer than four different definitions of the term “capacity” (page 12). Chiltern Railways believes that great care needs to be taken when dealing with the issue of capacity in the context of SO. This is because any measure of utilisation needs to be sensitive enough to consider other variables, such as the markets that are being served, passengers carried, and the configuration of the network. If this is not done, there is a risk that measures of capacity may create perverse incentives.

Consultation question 2

71. As discussed in section 3, through our work on system operation we want to improve how the railway meets the current and future needs of passengers, freight customers and funders. We think a greater focus on system operation can improve outcomes in six areas:

- a) Continued safe operation;
- b) Choosing the right investment;
- c) Making the right trade-offs;
- d) The right services using the network;
- e) Helping train operators to deliver; and
- f) Getting more from the network

72. What are your views on the outcomes of good system operation that we have set out in

this consultation?

Chiltern Railways broadly agrees with the six areas identified in the ORR consultation document. Indeed, we would go so far as to say that excellence in these subjects is something that a mature railway should naturally aspire towards.

We also believe that when choosing the right investment to drive improvements across the network, focus tends to be on mechanisms such as HLOS. These are indeed major schemes that create capacity, but we think that good SO would also involve more focus on more local interventions to create more capacity out the existing network. These type of interventions include:

- Reviewing the sectional running times (SRTs) to ensure that they reflect the capabilities of the rolling stock. Part of Chiltern's performance recovery post September 2011 was based on a major SRT verification exercise. This revealed that in some cases historical averages had persisted even after rolling stock had been upgraded.
- Challenging the existence of permanent speed restrictions.
- Challenging the imposition of approach control and double reds in circumstances where SPAD risk is now more effectively mitigated by TPWS.
- Challenging planning headways to take advantage of infrastructure improvements.
- Seeking out opportunities to release pockets of latent capacity by making modest infrastructure changes, such as intermediate signals.

Consultation question 3

73. Can you give us any examples, based on your experience, where these functions improve outcomes?

74. This could include examples of when system operation has helped you in running your business and delivering for your customers. Please also feel free to highlight any areas where you think system operation could help you in the future.

Chiltern Railways has enjoyed a very high standard of infrastructure performance over the last four years. This has enabled the business to end the first year of CP5 with a PPM MAA in excess of the regulatory target. There are many factors that have contributed to this success, but one of the most important was the appointment by Network Rail of a dedicated Area Director for the Chiltern route.

This creation of this post has given a much greater level of management attention to the Chiltern Mainline than was previously the case. Under other organisational structures, the Chiltern route had been treated as part of the West Coast Mainline. Unsurprisingly given the complexities of that route, the Chiltern line had been afforded secondary status.

It was no surprise to us when in 2013 the Saltley Delivery Unit, who are responsible for the maintenance of the Chiltern line, were recognised as being the best performing delivery unit in the whole of Network Rail. This was a considerable turnaround, and demonstrated the latent potential that was always there, and only required the right leadership to realise.

Regrettably, we are now seeing a regression in Network Rail's policy, as the Area Director role has been temporarily subsumed back into the West Coast portfolio. This is to allow the post holder to participate in one of the many reviews that are currently taking place within Network Rail. These

reviews will undoubtedly create value for Network Rail as an organisation and the industry as a whole, but this must not come at the expense of day to day performance on one of Britain's fastest growing lines.

Consultation question 4

75. To regulate and incentivise Network Rail, we use a range of tools, such as regulating and monitoring Network Rail against certain outcomes and providing for a charging regime that should encourage economic and efficient behaviour by all users.

76. Do you have any views on what the desired outcomes and functions associated with system operation might mean for the regulation and incentivisation of network system operation?

77. Please highlight any particular areas where you think a different approach to regulation or incentivisation of system operation could help you better run your business in the future and why.

We believe that different aspects of SO require different incentives, even where they are undertaken by the same body. For example, daily operation and maintenance scheduling are very different fields to network development planning, and so it cannot be expected that the same regimes would drive the right outputs across each.

We remain uncertain as to whether the balance of incentives is correct to deliver the outcomes stated in this consultation. For example, Network Rail is currently incentivised to deliver on asset stewardship and performance, with the latter measured through PPM. We believe this can drive perverse incentives, with the risk of encouraging Network Rail to pursue a levelling down approach. This is where resources are reallocated from a strongly performing route to a weaker one.

For example, it is not uncommon for Network Rail to request that operators add additional minutes to services during the leafall period. This is ostensibly to protect performance during a traditionally challenging time of the year for punctuality. However, we believe that more often than not such requests are motivated by a desire to protect national PPM rather than being informed by a robust evidence base. We would contend that there more appropriate ways to manage the risks associated with leafall, such as vegetation clearance, traction gel applicators, and well planned rail head treatment train circuits.

A similar difficulty can be encountered in the disconnect between the performance targets handed down to operators through their Franchise Agreements, and the PPM regimes that apply to Network Rail. More often than not the Network Rail Routes are incentivised to deliver a different PPM figure to that of the operators running services over their infrastructure. In such an environment there is always the latent risk that the party with the lower target will lack the incentive to assist the other party achieve their target. Until the inherent conflict that is created by the non-alignment of incentives can be resolved, it will always be difficult to guarantee collaboration and get more from the network and help train operators to deliver.

END