

OFFICE OF RAIL AND ROAD

TRANSCRIPT OF TRACK ACCESS APPLICATIONS HEARING

HELD ON

12TH JUNE 2015

PERSONS PRESENT:

Office of Rail and Road:

John Larkinson	-	Director, Economic Regulation (Chair)
Juliet Lazarus	-	Director, Legal Services
Chris Hemsley	-	Deputy Director, Markets and Competition
Emily Bulman	-	Head of Transport Economics
Rob Plaskitt	-	Head of Access and Licensing
Mick Donovan	-	Operations Adviser
Chris Judge	-	Consultant, CH2M HILL
Elizabeth Thornhill	-	Senior Legal Adviser
Ian Williams	-	Track Access Manager
David Reed	-	Senior Track Access Executive
Joe Quill	-	Economist
Justin McCracken	-	Non-Executive Director (observer)
Stephen Glaister	-	Non-executive Director (observer)

Department for Transport:

Andrew Murray	-	Head of Rail Performance and Operations
Simon Smith	-	Director, Passenger Service Design
Jane Cornthwaite	-	Lead and Intercity Market Director
Lucy Kavanagh	-	Steer Davies Gleave
Rob Catherall	-	Economist
Andrew Hillin	-	Observer
Enrico Russo	-	Observer
Peter Sayer	-	Observer
Evi Bell	-	Observer
Ellie Colley	-	Observer

Network Rail:

Fiona Dolman	-	Capacity Planning director
Matthew Rice	-	Former Operational Planning Manager
Graham Botham	-	Principal Strategic Planner
Tim Wright	-	Route Commercial Director
Peter Craig	-	Regulatory Reform Manager
Amy Forte	-	Timetable Production Manager

FirstGroup/East Coast Trains:

Tim O'Toole	-	Chief Executive Officer
Leo Goodwin	-	Commercial Development Director
Russell Evans	-	Policy and Planning Director
Chris Jackson	-	Partner, Burges Salmon LLP
Andrew Walls	-	Trainee Solicitor, Burges Salmon LLP
John Fagan	-	Associate Director ARAP

Virgin Trains East Coast

David Horne	-	Managing Director
Phil Dawson	-	Regulation & Track Access Manager
Malcolm Knight	-	Revenue Analysis Manager
Shaun Fisher	-	Head of Operational Planning
Andrew Levy	-	Legal Director
Liam McGrath	-	Technical Adviser
Andrew McConnell	-	Media & Stakeholder Manager
Ian Gatt QC	-	Partner, Herbert Smith Freehills
Andy Sparkes	-	Commercial Director

Alliance Rail:

Ian Yeowart	-	Managing Director
Simon Temple	-	Consultant
John Thomas	-	Consultant
Chris Hanks	-	Head of Development
Jonathan Cooper	-	Head of Contracts

Hull Trains:

Andy Wylie	-	Planning and Resources Manager, FirstGroup
Jon Plowright	-	Head of Engineering

Grand Central:

Richard McClean	-	Managing Director
Philip Young	-	Arriva Company Solicitor

DB Schenker:

Nigel Oatway	-	Access Manager
Nigel Jones	-	Head of Planning & Strategy

Freightliner

Lindsay Durham - Head of Rail Strategy
Chris Wilson - Rail Strategy Manager

CrossCountry Trains:

Tamzin Cloke - Track Access and Possession Strategy Manager

East Midlands Trains:

Lanita Masi - Track Access & Network Development
Simon Taylor - Head of Network Development

TransPennine Express:

George Thomas - Commercial Contract Manager
Laura Price - Programmes Manager

Govia Thameslink Railway:

John Beer - Head of Access Contracts
Phil Hutchinson - Head of Strategic Planning
Jon Hills - Service Development Manager

Transport Scotland:

Frazer Henderson - Head of Rail Policy
Allan Brown - Head of Timetable Strategy

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1 THE CHAIR: I wanted to start by reading out an opening statement just to set the
2 scene for today. My name is John Larkinson. I am the Director of
3 Economic Regulation, and I'll be chairing today's hearing. With me on
4 the ORR panel we have Juliet Lazarus, who is our Director of Legal
5 and Competition, Chris Hemsley, who is our Deputy Director of
6 Markets and Competition, Emily Bulman, who is our Head of Transport
7 Economics, and Rob Plaskitt, our Head of Access and Licensing.
8 We are joined by Mick Donovan, who is our Operating Adviser and
9 Chris Judge from our consultants CH2M Hill. Other members of our
10 case team: Ian Williams, David Reed, Joe Quill and Liz Thornhill are
11 also in the room, as are two of our Non-Executive Directors:
12 Justin McCracken and Stephen Glaister who are here today as
13 observers. Justin, Stephen, do you want to – just so people know who
14 you are. Thank you.

15 Around the table we have representatives of the applicants, who are
16 Alliance, Virgin Trains East Coast and FirstGroup. We also have
17 representatives from Network Rail and DfT. Representatives of other
18 stakeholders, including passenger and freight operators on the route,
19 and Transport Scotland are also present. Transport Focus couldn't be
20 here today, but they have sent some comments, and I'm going to read
21 out the Transport Focus position at the end of the opening statements,
22 when we move on to the next agenda item. Transport Focus has also
23 sent in some questions, and we're going to pick up those as we go
24 through the session.

25 A transcript is being taken by our stenographer of what is said today.
26 If you are not sitting behind a nameplate can you please begin by
27 giving your name and your organisation to help the stenographer.
28 The transcript is going to be prepared as quickly as possible, and a
29 draft will be sent round to those who are speaking. You will be able to
30 propose amendments to the transcript, but without changing the
31 substance of what you said. The final transcript will be published on
32 our website.

33 The acoustics in this room are not very good so we have a sound
34 system. In addition to the table microphones we have a couple of
35 roving microphones, so if you are not in front of a table microphone
36 please wait for one of these to be passed to you before you speak.
37 If the stenographer has any difficulty in hearing, or in identifying who is
38 speaking then please interrupt and ask for clarification.

39 The purpose of today is to help ORR ensure it has the information we
40 need to make decisions about the proposed services. We want to
41 understand what those services are, what they entail, so we can make
42 the best overall decision about ECML access in line with our duties.
43 We will not be reaching any decisions today in this hearing. This is

1 just one part of our overall process which will assist us in making
2 recommendations to the ORR board. It is the ORR board who will
3 take the final decision on these applications. It is important that our
4 decision is properly informed by your views. The hearing is a practical
5 opportunity for the parties to participate in the discussion of the key
6 points.

7 With this in mind, given the number of participants, there is a
8 necessary degree of formality around this, so we can ensure that
9 everyone present is able to make a fair contribution. We've tried to
10 keep this formality to a minimum. But the hearing is part of the
11 decision-making process, and my legal colleague Juliet is here to
12 ensure that due legal process is followed.

13 In the interest of time, and given the number of people here, please
14 could you try to keep the contributions focused on the most important
15 points. We won't have time today for you to repeat all the detailed
16 points you've made for us, but they will be picked up as part of the
17 consideration process.

18 Two days ago we received some lengthy representations from
19 Alliance, from Virgin Trains East Coast and the DfT. They raise
20 concerns about what they believe to be significant errors in the
21 CH2M Hill report, and the methodology used to produce it. VTEC and
22 DfT asked for a postponement of the hearing. We believe – indeed I
23 strongly believe – that there is value in going ahead, although we have
24 revised the agenda and focus. So if I can just explain that.

25 This morning, as originally planned, we are going to discuss the
26 capacity, performance and operational feasibility issues. In this
27 afternoon's session we are going to focus on passenger demand,
28 revenue effects and cost/benefit analysis, including comments anyone
29 has on the CH2M Hill report, but we will not be focussing on the
30 specific results of the report at this stage. We will also give DfT an
31 opportunity to explain the Secretary of State's risk adjustment
32 mechanism in the franchise agreement, the IEP business case and the
33 impact on the funds available to the Secretary of State.

34 Now, we know that some of you can't stay for the whole day, and
35 that's fine. But can you please let David Reed know, for the record,
36 when you actually leave the hearing.

37 I'm going to introduce each issue, and we, the ORR team, will begin
38 the questioning. But can I just clarify a point about how the process for
39 the day works. A number of people have asked this question. While
40 we expect most of the questions and comments to be from
41 organisations around the table, not surprisingly, we will aim to bring in

1 organisations from across the whole room during the session. And at
2 the end of each agenda item I'm going to ask organisations not at the
3 table if they have any further issues, just to ensure everybody is
4 involved in the session. And at the end of each session I will try to
5 summarise any action points. I would ask that you don't interrupt each
6 other during the session, and try and keep things brief and to the point.

7 At the very end of the day we have time to talk about the next steps in
8 the light of what we have heard. Having said that, before we continue,
9 I'm now going to pause and ask if there are any questions about the
10 process for today's hearing. No, okay. If there are no further
11 questions then we will move on to the parties' opening statements.
12 I am going to invite each applicant in turn, and DfT, to make a short
13 opening statement, and I am then going to read out the position of
14 Transport Focus. So could we start with Alliance?

15 ALLIANCE:

16 Thank you, Mr Chairman. I am pleased to be able to outline the
17 exciting proposals from GNER for a radical improvement in rail
18 services on the ECML, which will not only provide the fastest ever
19 journey between Scotland, the North East and London, but will also
20 continue to develop the West Yorkshire markets created by Grand
21 Central, and bring new direct services from London to South
22 Humberside, which has been so disappointingly ignored as part of the
Northern Powerhouse.

23 Our West Yorkshire and South Humberside proposals continue the
24 development of traditional open-access services, delivering new direct
25 services to new destinations, whilst protecting and developing further
26 the Bradford market recreated at significant commercial risk following
27 the previous reduction to one daily service by a previous franchise.

28 Our Edinburgh proposals offer a step change for the entire industry.
29 Not only does it offer the fastest ever journey time between Scotland,
30 the North East and London, significantly faster than anything on offer
31 now – and will remain so following the introduction of any other new
32 non-tilting trains – it will offer unrivalled levels of passenger comfort
33 with best-in-class leg room and reclining seats throughout the train.
34 Targeting modal shift with the full support of many stakeholders, this
35 service will push rail mode share beyond 50%, and pump-prime the
36 route ready for the introduction of HS2.

37 Each of our proposals builds on the experience we've gained with
38 Grand Central, which regularly tops the National Passenger Survey,
39 and is now the biggest and most successful open-access operator on
40 the East Coast Mainline. One of the main benefits of open-access is
41 the choice it brings for passengers, a benefit that's been proven to
42 increase passenger numbers more than at stations where there is no

1 competition, a benefit that has seen revenues also rise more at
2 stations with competition than those without, and a benefit that has
3 seen price rises lower than the average when there is no competition.

4 All of this is being delivered with absolutely no impact on franchise
5 premium, and no evidence to the contrary has ever been produced by
6 the DfT or any of the franchise holders. However, fare competition
7 must be realistic to achieve those aims. Previous work commissioned
8 and produced by the ORR regarding on rail competition has suggested
9 that an open-access operator with fares at just 50% of the incumbent
10 would capture 25% of that rail market, making it significantly
11 abstractive.

12 It is the main reason why Grand Central in 2010, when it was not an
13 Arriva company, was rejected in its plans to run trains between London
14 and Blackpool. If you also throw in modal shift from air, this just
15 exacerbates the capacity constraints, and that will then see fares move
16 to a position which sees a levelling off of demand.

17 Our analysis has suggested that there will be a requirement to operate
18 our trains alongside those of VTEC, to meet the demand that would be
19 created by our vastly improved journey times and the on board
20 experience. Different passengers have different sensitivities to fares,
21 and with around 60% of the air market being business travellers they
22 are less sensitive to price than leisure travellers. And on this flagship
23 route we cannot see any business justification for ignoring the largest
24 potential group by restricting choice to one class only, especially
25 where seat density is to be so great, proposing over 400 seats in a five
26 car train.

27 Until now the ORR has always chosen to work purely on average
28 fares, being reluctant to work on more sophisticated modelling, despite
29 the guidance within the PDFH. Until last week we thought that was
30 still the case, and while a new approach to modelling ought to be
31 welcomed it needs proper scrutiny and consultation. It must be
32 transparent, and then it must be applied to all applications consistently.

33 They say imitation is the sincerest form of flattery, and I am very
34 flattered. GNER made its initial submissions for Edinburgh in February
35 2014, although the industry itself was advised as long ago as August
36 2013. At the time of course we didn't know the outcome of the bidding
37 process, but since then we've seen VTEC awarded the franchise and
38 seen a number of proposals that clearly copy what is already there or
39 what is proposed. Not only have they proposed a faster hourly service
40 between London and Edinburgh, to try and match our proposal, but
41 they're also targeting the markets created by Grand Central which are
42 proposed to be further developed by GNER in West Yorkshire, by

1 looking to send trains to Bradford, Teesside and Sunderland – the very
2 same tactic adopted by NXEC in 2009, with its now ill-fated SLC2
3 timetable.

4 FirstGroup has also copied our plans by basically cloning our service
5 between Edinburgh and London, but with an added stop at Morpeth.
6 PDFH shows a potential for a massive switch from air to rail when
7 journey times drop below four hours. Only the service proposed by
8 GNER comes close to achieving that. VTEC and FirstGroup have had
9 the significant benefit of being aware of the GNER application for
10 many months, and also have seen the Network Rail capacity reports
11 before submission. Both have also had the added benefit of being
12 involved in the bidding process, a fortunate but very fair advantage.
13 However, GNER is particularly concerned that FirstGroup was given
14 the opportunity to make its application at all, given that the ORR had in
15 place a clear process for determining the applications it had for access
16 from the franchise and from GNER. Not only has this brought further
17 delay to the process, but has also created a worrying precedent.

18 Following previous contested ECML applications the ORR produced
19 the 'East Coast Lessons Learned' document in 2010 to try and
20 address the very behaviour exhibited by FirstGroup here. For some
21 reason, those lessons have not been applied. GNER is also aware
22 that FirstGroup had sight of the VTEC timetable on 24 February, some
23 two weeks before its submission and consultation on 9 March. This
24 explains how their timetable dovetails with that of VTEC. This is a very
25 concerning revelation for GNER, particularly when the FirstGroup
26 timetable was provided to the ORR on 18 March with permission to
27 share with Virgin Trains East Coast on a confidential basis and not for
28 distribution to any other third party without prior permission. The
29 VTEC submission itself was made on 8 March.

30 The sharing of this information has given both parties, but particularly
31 FirstGroup, a significant commercial advantage, an issue that warrants
32 further consideration by the regulatory authorities before progressing
33 any applications.

34 I must also mention at this time, PSO services. We have consistently
35 questioned the franchise and DfT to identify PSO services within the
36 franchise, but have yet to receive a clear answer. The role of PSO is
37 significant in assessing whether the NPA test actually needs to be
38 undertaken. Commercial services are just that: commercial. And the
39 buy-in of a range of services offered above the ITT does not make
40 them specified. This is an issue of significance which needs to be
41 explored when considering any impact on funds.

42 Unfortunately, after what looked to be a promising approach to the

1 revenue and benefits model, the final report from CH2M Hill was
2 deeply flawed. There are number of errors in the report which should
3 have been picked up through basic review, a position that would have
4 been addressed with a thorough quality assurance programme. The
5 use of completely different base timetables to evaluate applicant
6 options is totally unacceptable, and the report is riddled with errors. A
7 new method of modelling first proposed by the applicant the model
8 favours has been used without consultation and not been applied to
9 any other applications.

10 There is much work to do on the report before it could be considered fit
11 for purpose, but there is much experience within the owning groups
12 and their consultants, and hopefully it is a matter that can be
13 addressed collaboratively and collectively. I hope the ORR ensures
14 that happens.

15 In a perfect world all the applications will be approved, providing not
16 one but two competing services for the franchise on the growing
17 ECML, particularly on the Scottish service. A different approach in
18 timetabling could certainly see most, if not quite all, services delivered.
19 The creation of joint timetables within a competitive environment could
20 see the challenge of anti-competitive behaviour being levelled at
21 involved parties, a situation that would need careful regulatory
22 handling.

23 If at some time the ORR has to make a choice, the GNER application
24 offers the greatest new connectivity and the greatest generation, and
25 will be accompanied by significant investment, not only in the trains but
26 also the infrastructure, significant investment to be made by the private
27 sector and not the taxpayer. Thank you.

28 THE CHAIR: Thank you very much. Can I now turn to Virgin Trains?

29 VTEC: Thank you Chairman. You clearly face a big decision. It has
30 implications for millions of passengers, the economy of the north and
31 particularly the UK Government's finances. It is crucial the result is in
32 the best interest of both consumers who rely on the East Coast Main
33 Line and the taxpayers who helped to fund it. We believe that our
34 proposed services give the best outcome for both of these groups.

35 We believe that it is vital to ensure that the right decision is made,
36 however, with the best available information and evidence to back it
37 up. And at present, we do not believe that the evidence currently
38 exists to take a safe decision. And it is for these reasons and for the
39 benefits of customers, tax payers and communities that we believe
40 that the decision has not – should not be taken until the necessary
41 evidence is available, and all parties have had proper opportunity to

1 evaluate it.

2 We did make representations that today's hearing should be deferred.
3 We hope that after today we will have the opportunity for a further
4 hearing once the analysis is revised.

5 Our proposal creates and serves new markets by providing new and
6 more frequent train services to London, and towns and cities up and
7 down the route, including Middlesbrough, Lincoln, Bradford and
8 Harrogate. We will improve journey times and reduce fares. We will
9 provide passengers with 9.3 million addition seats, and we will pay
10 more money to taxpayers. We will make best use of the Government's
11 new IEP trains.

12 Our plans make the most of limited extra capacity in the form of one
13 more path on the East Coast Main Line. We will achieve this by
14 concentrating three services on benefitting the most people, and
15 connecting the largest markets in record journey time, including four
16 hours from London to Edinburgh, and two hours from London to
17 Leeds. But we're also ensuring that the best ever connectivity for
18 intermediate stations thanks to the stopping patterns of our other
19 services. This holistic approach offers benefits to the maximum
20 number of customers, and it is greater than the sum of its parts. You
21 can see on this map how the benefits of our proposed services are
22 spread the length and breadth of the country. None of the other
23 applications can offer this, even combined.

24 As you can tell from the fact that I'm today wearing my 'right time
25 railway' cufflinks, punctuality is very important to me and to all of us at
26 Virgin Trains East Coast. Customers expect trains to be on time all
27 the way. And the relationship between good performance and a good
28 timetable is now recognised. Reliability and performance, as we know,
29 are central to the ORRs remit.

30 But this route faces track capacity limit. And these limits will continue
31 even after the new investment that is planned for the route. There is a
32 risk that we will have a situation where we have too many trains
33 running on the route, too few paths. As Patrick Butcher said
34 yesterday, with more than a million more trains on the network than
35 10 years ago there are inevitable challenges. We've seen only
36 recently just what can happen on the TransPennine Route and at
37 London Bridge if you try and run too many trains on inadequate
38 infrastructure.

39 Network Rail's letter to the ORR highlights that there are significant
40 compromises in increasing the capacity of the line beyond seven trains
41 an hour, even after the East Coast Mainline connectivity fund work is

1 completed. These compromises include the stopping patterns of
2 services and performance, and these impacts must be calculated and
3 taken into account as part of any decision.

4 We believe that work that Network Rail have done so far needs to
5 continue. We think that the economic analysis should be based on
6 fully worked out timetables that are realistic, and that the analysis
7 should also take account of the performance implications that are no
8 doubt associated with the addition – the proposed additional services.

9 The question is how to make best use of the available capacity. And it
10 is clear that there are some difficult choices to be made. As Mr
11 Yeowart has said, the information that you do have at the moment is
12 flawed. We are not alone in our concerns over the CH2M Hill report.
13 We have found over 50 errors, omissions and questionable
14 assumptions. The level of concern that we jointly hold over this report
15 means that basing a decision upon its conclusions would be unsafe at
16 best, at the moment.

17 Finally, there's the financial impact of your decision. The UK
18 Government will see a huge increase in premia from our new
19 franchise. The franchise is based on increasing our current five paths
20 an hour to six paths in 2019, and 6.5 paths in 2020. But the open-
21 access applications will limit our ability to generate the revenues on
22 which we based our successful bid, and potential cost to the taxpayer
23 will be significant. Of course, it would reduce the future value of the
24 franchise too, when it is re-let in 2023.

25 In summary, your decision must be made in a way that safeguards
26 customers, communities and taxpayers. There are huge gaps and
27 unanswered questions at the moment relating to the evidence on
28 which this decision is based. And you don't at the moment have the
29 sufficient information or analysis to properly assess and understand
30 the long term implications. Once the necessary evidence is available,
31 and the parties have had sufficient time to consider the revised
32 evidence, we believe that it would be appropriate to reconvene this
33 hearing so that we can help you to ensure that you have the
34 information you need to take a decision. So we propose that your
35 timescales for taking a decision be re-assessed, to allow the proper
36 analysis to be done, and so the ORR board can have the fullest
37 confidence that it is making its decision on the very best of evidence,
38 and it is maximising the benefit of the East Coast Main Line for the
39 good of all. Thank you.

40 THE CHAIR: Thank you very much. Can I now turn to FirstGroup?

41 FIRSTGROUP: Thank you very much. My colleagues and I welcome the opportunity

1 to put forward our case for the award of track access rights for
2 FirstGroup's East Coast Trains Ltd subsidiary. We do recognise that
3 the ORR must evaluate a range of factors in reaching a decision. We
4 are confident that our proposed services have an overwhelmingly
5 strong objective justification under the well-established public benefit
6 tests that apply in balancing that exercise.

7 We seek quantum-only rights for 10 years to operate five trains a day
8 in each direction between Edinburgh and London, calling at Morpeth
9 and Newcastle, with some services also calling in at Stevenage. We
10 propose to commence services in the December 2018 timetable year.

11 We have developed a highly innovative new travel offer and business
12 model, a potential game changer for rail in the UK. Our focus is on
13 what customers value most: fast journeys, low fares, new state of the
14 art InterCity trains, free Wi-Fi, friendly on-train service and simple fares
15 and ticketing. We have created a new, carefully targeted customer
16 proposition that will grow travel across these routes and significantly
17 boost rail's competitive position in this market.

18 The low-fare airlines have democratised and expanded air travel over
19 the past 15 years. We want to bring forward our innovations to offer
20 customers low cost, long distance rail travel here in the UK.

21 We have identified and shared with the ORR our assessment that
22 shows the competition between rail, air, coach and car is inefficient on
23 the corridor between Edinburgh, the North East and London. More
24 than half of travellers on average across these long distance routes do
25 not choose to use rail; and in the Edinburgh-London market, air travel
26 accounts for around two thirds of the journeys, with strong competition
27 provided by the likes of EasyJet, Ryanair, Flybe and BA. The budget
28 airlines in particular have been able to create strong positions through
29 their low fare offers, and rail does not compete as effectively as it
30 could.

31 Current average advertised rail fares from Edinburgh or Newcastle to
32 London are around £55 to £60 a single. Our average fares would be
33 below half this level, about the same as a taxi ride from my office at
34 Paddington to get to these offices. This unique proposition would
35 simply transform this travel market, making rail travel affordable for all.
36 These low fares are sustainably delivered by a simple and efficient
37 operating model: a single travel class, high performance and efficiently
38 deployed electric rolling stock, and a simple network utilising state of
39 the art technology to deliver value-added services to customers.

40 As a result, our cost per seat mile is around half the franchise
41 operator's equivalent cost on a like-for-like basis. This would

1 represent a major innovation for the rail industry in the UK, and would
2 set a new benchmark that could drive consumer and economic
3 benefits beyond this particular market.

4 We have also identified significant specific gaps in the rail timetable
5 offer, which our plans will address. Services arriving in Edinburgh
6 before 10:00 a.m. will tackle one of the parts of the market where air
7 travel dominates, and where we will transform connectivity for 150,000
8 people in Northumberland, who must either put up with a poor rail
9 service at present, not travel or choose to fly from a nearby airport.

10 We are also proposing to offer services on routes which have large air
11 markets, who are under-served by rail at present. Our proposals
12 therefore are highly generative for UK rail overall, and very clearly the
13 exceed the 'not primarily abstractive' test thresholds.

14 Ultimately, we expect 1.6 million passenger journeys each year on
15 these services, with more than 80% of these being either new trips, or
16 transferred from air, coach and car. Furthermore, we expect rail's
17 share of the Edinburgh-London market to grow by around a quarter as
18 a direct result of our proposals.

19 Not only are our proposals commercially sustainable, they are also
20 operationally robust. Our extensive work, including an indicative
21 timetable, shows that following the completion of committed
22 infrastructure schemes on the route there is clearly sufficient capacity
23 available to operate our planned services alongside current operators,
24 including the proposed expanded Virgin Trains East Coast and GTR
25 franchise services. We have shared our analysis with Network Rail,
26 and our conclusions are consistent with the results of their capacity
27 study, which were produced by them in December 2014.

28 We note the outline concerns that the DfT have raised in relation to our
29 application, but would reassure on the position – and will expand on
30 this this afternoon – that our plans do not compromise franchise
31 timetables on the route, and in particular the achievement of the
32 service levels referred to in the SoSRA was included in the InterCity
33 East Coast franchise ITT.

34 We have been considerate of other users of the route by requesting
35 quantum-only track access rights, which will allow Network Rail the
36 maximum flexibility to utilise capacity efficiently. This is unlike the
37 other applicants that are seeking to hardwire their timetables to the
38 detriment of other passenger and freight operators. It is very important
39 to stand back and look at the clear picture. Network Rail has done
40 some very good and clear work that identifies eight paths are
41 available. VTEC based their franchise offer on six and a half paths.

1 They have, however, sought to construct a hardwired timetable in
2 using those six and a half paths in a way that effectively tries to spread
3 out so as to make inefficient use of capacity and disadvantage their
4 competitors.

5 The DfT must only compensate the franchise operator for the paths
6 used by the franchise operator drop below six. Existing open-access
7 operations require one path. First's new service requires only half a
8 path.

9 We are working with Hitachi on this proposition, both for trains
10 manufacture and maintenance. The proposed fleet of five carriage
11 trains represents an investment of more than £50 million. Our
12 preferred rolling stock solution will be brand new, high quality InterCity
13 electric trains, similar to that being introduced as part of the
14 Government's InterCity Express Programme on the route, and also by
15 our First Great Western franchise between 2017 and 2018. The train
16 will initially operate at 125 miles per hour, which is consistent with the
17 current maximum line speed, but will be capable of operating in the
18 future at speeds of 140 miles per hour if the infrastructure were to be
19 upgraded.

20 Our services will deliver around 1.5 million seats per annum of extra
21 capacity on the route. The trains will offer a very high level of reliability
22 and can take full advantage of the ERTMS programme that is due to
23 be deployed on the southern section of the route from 2018. This will
24 support high levels of train service performance for all operators. We
25 will also commit to invest in a package of access improvement
26 measures around Morpeth.

27 We have set out, in our business plan, our strong capability to deliver
28 these new services. This includes how – through timetable
29 improvements, low fares and targeted marketing – we have
30 transformed the Manchester-Scotland travel market through our TPE
31 franchise, doubling rail share from around 40% to 80% of the air-rail
32 market since taking over the operation of these services from Virgin in
33 2007. We have very significant expertise operating on the East Coast
34 Main Line through three separate rail franchises, and our existing
35 open-access operator Hull Trains, which has delivered a more than
36 tenfold increase in passenger journeys since starting operation, and a
37 96% overall customer satisfaction score. We have also shared with
38 ORR details of how open-access services have transformed
39 competitive air-rail corridors in mainland Europe through differentiated
40 customer proportions and low fares. Our plans have been warmly
41 welcomed by stakeholders, including representatives of passenger
42 and business groups, together with the support from politicians and
43 local authorities.

1 The ORR's own independent advisers have concluded, in their
2 published report that our plans yield the appreciably greatest net
3 economic benefit per path used of any of the applications that are
4 before you today. This should be the basis on which scarce capacity
5 is allocated.

6 We note – although we haven't yet seen – the very recent points
7 raised on the details of ORR's modelling. Whatever tactical stances
8 are taken, ECTL's business case will always logically be the highest
9 net benefit relative to capacity used by a material factor on an
10 objective approach. Indeed, the more we look this – you can play with
11 this formula all you want. Ours just gets better and better – our service
12 option gets better and better in comparison with the others.

13 Our services will efficiently deploy unused capacity to provide a high
14 net value service and competition with coach and aviation at exactly
15 the right price point. This is always going to deliver the highest benefit
16 on any objective model. The consumer market in innovation benefits
17 of open-access are widely recognised, and have been recently re-
18 affirmed by key stakeholders. The ORR has rightly noted, on a
19 number of occasions that it should not act to foreclose the market to
20 open-access. Strong open-access applications have a key part to play
21 in the rail market. There is a compelling consumer, commercial,
22 operational and efficiency case for these access rights to be granted
23 on all the objective tests that apply. This will enable our innovative,
24 industry leading plans and investments to proceed.

25 We will support the growth of local economies and jobs on the route,
26 enable very significant reductions in carbon emissions, boost
27 competition across all modes by offering customers greater choice and
28 lower fares, making the railway more inclusive. The bottom line is
29 whether or not this capacity will reward the public with more choices,
30 lower fares and new ideas. Thank you very much for the chance to
31 present our case.

32 THE CHAIR: Thank you very much indeed. Can I now turn to the Department for
33 Transport?

34 DFT: Thank you very much, Mr Chairman, for inviting us to attend today's
35 hearing. I'm sure that everybody in this room today is keen to ensure
36 that we find the right solution to deliver the optimal benefits to
37 taxpayers and to passengers.

38 We recognise that open-access can provide benefits to passengers,
39 such as an increased choice and competition, new services providing
40 better links to the regions they serve, and potentially lower fares.

1 However, we also have the responsibility to consider the financial
2 impacts such services have on the taxpayer, and the impact on value
3 for money of investments for which the Secretary of State has already
4 committed.

5 Because of this, the Department must express the serious concerns it
6 has about the potential impacts of these particular open-access
7 applications on the Secretary of States funds and the committed
8 investment programme. We look forward to the opportunity this
9 afternoon to discuss what we believe to be significant methodological
10 issues with the analysis underpinning these applications, and we
11 welcome to time allowed this afternoon to discuss the report and other
12 issues. Thank you.

13 THE CHAIR: Thank you. As I said at the start, I am now going to read out the
14 position from Transport Focus who couldn't be here today.

15 *“Our basic stance on access applications is as set out in our response*
16 *to ORR’s PR13 consultation on on-rail competition, consultation*
17 *options for changes in open-access. We have a presumption in favour*
18 *of competition because of the benefits it would bring to passengers.*

19 *By definition, passengers will have a choice, and for some improved*
20 *access to services which they did not have before. ORR’s previously*
21 *provided evidence from examples of direct competition between two*
22 *franchise operators, and between a franchise operator and an open-*
23 *access operator, that consumers benefit from lower prices.*

24 *Passenger satisfaction, via the National Rail Passenger Satisfaction*
25 *Survey, showed open-access operators recorded high levels of*
26 *passenger satisfaction. In the Autumn 2014 survey, Grand Central*
27 *recorded 94% overall satisfaction, and Hull Trains 89%.*

28 *However, for completeness we must also point out that East Coast*
29 *franchise also records high levels of satisfaction at 90%.*

30 *The next wave of the survey is due to be published on 25 June, and*
31 *we will be able to provide updated scores then.*

32 *We have argued that open access is a good thing and should be*
33 *encouraged. There are, however, caveats. These are that the overall*
34 *service on the route – that is including all the trains of all operators –*
35 *meets passengers needs to the greatest possible extent; there must*
36 *be no significant dis-benefit to any existing group of passengers; and*
37 *that the granting of new track access rights does not significantly*
38 *frustrate the industry’s subsequent ability to develop a timetable that*
39 *maximises capacity and utility for passengers.*

1 by the industry, and the impact that this can have both on passenger
2 demand and on the reputation of the railway. It is also important to
3 recognise the challenge highlighted by other recent timetable changes
4 in understanding the impact of performance on major perturbations
5 when we introduce significant changes on already busy networks.

6 Any potential impact on performance then needs to be taken very
7 seriously, and balanced against the potential benefit from additional
8 services.

9 Paul Plummer and the Network Rail board have particularly
10 emphasised the importance of balancing the requirement for additional
11 services with the need for strong performance, noting the need to be
12 realistic about what can be achieved based on robust analysis rather
13 than over-promising and then under-delivering. Whilst we should not
14 become risk averse we must also learn lessons from the past, and put
15 passengers at the forefront of our thinking.

16 So at this point we hope that our conclusion regarding the options for
17 utilisation of capacity on the East Coast Main Line are well known and
18 understood by all parties present here today. The conclusions are
19 derived from the comprehensive study that's already been referenced,
20 that was undertaken in 2014. We've engaged very openly with
21 industry colleagues throughout the remitting and development period.

22 We published our capacity options report on 11 September 2014, and
23 this report was delivered in line with the remit that was published in
24 July 2014, which again was developed with full industry input. The key
25 objective of the study was to understand how many of the confirmed
26 aspirations could be accommodated on the East Coast Main Line in
27 2020.

28 Our analysis, Output One, concluded that a maximum of 18 trains per
29 hour can be operated on the East Coast Main Line fast lines out of
30 London King's Cross. This logic was tested and agreed with the
31 industry at the open forum held in Milton Keynes in July 2014. We
32 identified three capacity combinations that had enough merit to
33 warrant further capacity work. These specifically were seven long
34 distance high speed paths combined with 10 GTR fast line services;
35 eight long distance high speed paths compared with 10 GTR paths; or
36 nine long distance high speed paths, restricting capacity for freight and
37 nine GTR paths.

38 At this point, it is worth emphasising that the decision to retain 10 GTR
39 services throughout the combinations was agreed at the industry
40 session in 2014, in the context of protecting the specified Thameslink
41 outputs.

1 So our report highlighted a number of capacity constraints on four key
2 sections of the route: Huntingdon to Peterborough, Doncaster to
3 Colton Junction – both on the main line and on the route via Leeds –
4 Northallerton to Newcastle and Drem to Edinburgh. And each section
5 has constraints with different characteristics, whether two tracks,
6 service speed mix or junction margins.

7 In order to address these issues, additional infrastructure or power
8 supply may be required, and it would therefore be important to ensure
9 that this is specified in a way which enables a reliable service to be
10 operated. Whatever combination of services is selected it is likely that
11 key sections of the East Coast Main Line will be required to operate on
12 minimum headways, and we ask all parties to work with us on any
13 future major timetable change, to demonstrate collective learning from
14 those timetable changes that the East Coast Main Line and other core
15 routes have delivered over the past five years. And my colleague will
16 say more about this objective in the performance section later.

17 Having published the report, Network Rail invited all parties to
18 challenge and question the findings, and we entered into discussion
19 about what the next steps should be, and the journey towards the
20 allocation of long-term capacity. We undertook a detailed assessment
21 of capacity, and a set of standard hour timetables were produced,
22 supported by a narrative outlining any further choices or capacity
23 information that would aid in the allocation of long-term capacity. This
24 was shared with the industry again.

25 In advance of this work being undertaken it was agreed by the industry
26 that a 10 GTR, eight long distance high speed combination had the
27 most merit in terms of the combination of services worth testing in a
28 standard pattern. The findings of this report were published in
29 December 2014.

30 Having engaged in dialogue with the ORR, and the findings of our
31 standard hour report, we then provided greater clarity on what choices
32 needed to be made on the East Coast Main Line and, where
33 appropriate, the key drivers for those choices. This work also took into
34 consideration the award of the InterCity East Coast franchise.

35 We published our formal response to the ORR in a letter dated 15
36 May. Our letter confirmed that through the outputs of our reports, and
37 having reviewed all of the emerging train service requirements, there
38 are three key route sections where aspirations exceed the capacity
39 available: south of Doncaster, York to Newcastle and Newcastle to
40 Edinburgh.

41 So in conclusion, the capacity work delivered over the past 18 months

1 has provided a number of choices for the use of capacity on the East
2 Coast Main Line. A principle based on a fast line maximum capacity of
3 18 trains an hour, with eight of these trains consisting of long distance
4 high speed services. Our analysis makes clear that not all of the
5 competing aspirations can be met and further work is required to
6 understand the performance implications of this service pattern.

7 On most sections of the route there are detailed choices to be made
8 around the balance of passenger and freight capacity, and the
9 performance consequences of these choices must be carefully
10 understood.

11 Whatever combination of services eventually emerges as the preferred
12 choice, we'd encourage the industry to allow for a short period of
13 capacity and performance assessment to be undertaken by all those
14 parties who would require rights. Thank you.

15 THE CHAIR: Thank you very much. We are now going to move on to questions on
16 capacity. I'm going to ask Rob Plaskitt to start on behalf of ORR.

17 ORR: Thank you, John, thank you Network Rail, and good morning
18 everyone. For this session on capacity there are four areas that we
19 would like to discuss. And just to give everyone a bit of signposting as
20 to what is coming, the first is around investments which underpin the
21 various service proposals. The second area we would like to talk
22 about is the eight paths an hour idea, which you've mentioned and
23 FirstGroup mentioned earlier on. The third area is capacity at the
24 Newcastle-Edinburgh end, which is mentioned in your letter. And the
25 fourth area – which probably won't take quite as long as the other
26 three I think – is around consistency of the various applications with
27 current industry plans, route utilisation strategies and so forth.

28 So with that bit of signposting out of the way, I wonder if we could start
29 by asking Network Rail to summarise for us what the investments are
30 that are assumed in its analysis, and to what extent they are
31 committed.

32 NETWORK RAIL: Which investments are included in the report and the extent to which
33 they're committed, yes?

34 ORR: Yes.

35 NETWORK RAIL: Okay, so the investments are listed in an appendix to the report, and
36 there's quite a long list of them. Are you seeking that we read them all
37 out? Or just pointing to where they are?

1 ORR: No, please don't read them out, in the nicest way. The Connectivity
2 Fund, clearly I guess a lot of them are in there, so I'm assuming that is
3 one of them. Are there any others, and what is the status of those
4 investments? Have they been delivered, are they to come? Is there
5 any risk around their delivery in CP5? That's the kind of area.

6 NETWORK RAIL: Okay, so the schemes that are assumed are in the appendix that my
7 colleague mentioned, and they comprise broadly the IEP capability
8 schemes, which are referenced in the CP5 enhancement delivery plan,
9 and the schemes that are currently agreed for draw down from the
10 East Coast Connectivity Fund, as agreed by the cross-industry
11 programme board.

12 The delivery plan currently details our proposals and plans for these.
13 Within the connectivity fund, two of the schemes are currently
14 programmed for the delivery late in 2020 on the assumption that we
15 can agree rollover of availability of funding to deliver those in CP6.

16 ORR: Thank you for that. You mentioned in your letter that – I think the
17 phrase was 'anticipated final cost exceeds the connectivity fund value'.
18 Is that what you were alluding to there when you mentioned rollovers?

19 NETWORK RAIL: No, the – two of the schemes – the Connectivity Fund is a CP5 fund.
20 And therefore there are some issues to run through which we've been
21 discussing with industry and the ORR through the programme board in
22 terms of funding availability in CP6. It is true, as we've shared at the
23 programme board, that the current value of all the schemes in the
24 connectivity fund, at their current anticipated final cost, does exceed
25 the value of the fund.

26 ORR: So what I'm trying to understand is, is there a risk to schemes that are
27 critical to your capacity analysis that we need to be worried about in
28 this process, or take account of in this process?

29 NETWORK RAIL: All I can do is answer with the facts, which I think I have done.

30 ORR: Okay. Does anyone else want to comment on that area before we
31 move to the specific applicants and their investments?

32 VTEC: Just a particular question about the ECML connectivity schemes. Can
33 Network Rail answer which of them need to be delivered to achieve
34 seven long distance high speed paths per hour, in the off-peak, and
35 then eight long distance high speed paths in the off peak?

36 NETWORK RAIL: Just let me clarify the question, just to make sure we're all clear.
37 So you're asking, of the schemes that are identified and the

1 assumptions that are made, which of those need to be delivered for
2 seven off-peak paths – high speed paths, and which for eight high
3 speed paths?

4 VTEC: Yes.

5 NETWORK RAIL: Okay. I don't believe there's a straightforward answer to that question
6 is there? It is not a pick and mix.

7 NETWORK RAIL: We can only answer that, by reference to the work that we've done,
8 which we think is clearly articulated, and we clearly articulated the
9 infrastructure assumptions that we've used for doing that capacity
10 modelling work.

11 VTEC: So, to that extent with the two that are currently heading towards late
12 2020, do you believe that they might be essential to delivering seven
13 long distance high speed paths?

14 NETWORK RAIL: Again, I can only talk to the facts, that we assume those in the capacity
15 modelling work that we have done.

16 ORR: I think what you're saying is – and correct me if I'm wrong – that you
17 can't say what would happen to the seven or eight, or whatever
18 number it is, if you were to take those two schemes out of that
19 modelling.

20 NETWORK RAIL: Yes, that's true. We haven't done that piece of work.

21 ALLIANCE: Can I ask a question? This may not seem directly related to
22 investment, but I'll explain the link in a moment. In your letter, Network
23 Rail, to the ORR in May one of the questions you were asked to
24 answer was what fast line service levels currently run on the East
25 Coast Main Line under the May 2015 timetable. You actually
26 answered that, in part, in appendix B – although it was based on the
27 December 2014 timetable, but I don't think there are any significant
28 differences there – but you only chose one hour to answer that. It is
29 worth noting that in the current timetable there is one hour in the up
30 direction where approaching King's Cross there are nine long distance
31 high speed trains. And indeed, there are, in several other hours – in
32 both directions – seven trains already now.

33 So the talk about whether we can or can't run seven or more trains, I
34 think we have to be – understand what actually happens now. So I
35 would expect after investment is completed that eight is not an
36 unreasonable number – and I know that is the number that is agreed –
37 but it is worth noting that even now there is one hour when nine arrive.

1 | ORR: Does Network Rail want to comment on that point?

2 | NETWORK RAIL: Just if I may. Alliance is right. I think it is quite important that we all
3 | take all three documents we've produced as one, because while it
4 | feels like a lifetime ago now the major report that we produced in
5 | September has a fairly chunky segment in it with some quite
6 | straightforward bar charts articulating how many trains per section
7 | now, versus I think what's proposed to run. Nine does appear, and we
8 | do draw that out. But as with all these things, if there is anything that
9 | someone spots, even at this late stage, then we would of course look
10 | at it, but I'm pretty certain we've captured the as-is per hour per
11 | section versus aspirations in that report. And whilst it may not be in
12 | the letter, I think we have to look at them all as one whole piece.

13 | ALLIANCE: May I ask one further question about investment? From what's been
14 | said so far I assume the answer is no, but specifically, has the
15 | proposed enhancement work at King's Cross station at the end of CP5
16 | been assumed (a) by Network Rail in its capacity study or (b) by any of
17 | the other applicants in their timetables?

18 | THE CHAIR: Does Network Rail want to come in first on that? And can I just say as
19 | a general point, if the information is not to hand, and you really can't
20 | answer it on the spot, then I think we'll have to move on and agree to
21 | follow it up after the meeting.

22 | NETWORK RAIL: Only as a statement of fact, it wasn't in the considerations for the
23 | agreement for the first report or the second, supplementary report for
24 | King's Cross.

25 | ORR: Thank you, that's helpful. So, turning to the applicants, and the
26 | investments beyond the ones that Network Rail has talked about
27 | already, can I ask Alliance to explain the major investments that
28 | underpin your application, please?

29 | ALLIANCE: Yes, the major investment in the application is obviously in new build
30 | trains, which is the same for everyone's application, I believe. But also
31 | significant investment in the infrastructure which you'll have seen in
32 | the business plan nearly a year ago, to enable tilt on the route, and
33 | obviously tilt enabled routes provides a possibility for other services to
34 | use it, if indeed new – other tilting trains are introduced or
35 | re-energised, if you like, to operate on the route. So that was a
36 | significant number of millions, as you'll be aware.

37 | But we're also prepared to discuss with Network Rail any further
38 | investment schemes that we can work with them on, for a longer-term
39 | return in order that they can achieve their output.

1 The interesting thing about the Connectivity Fund is if there is a
2 shortfall ultimately – and I know from the Programme Board the
3 expectation is that ultimately they will be delivered on time – it is worth
4 remembering that there are sufficient funds there to do the south end
5 of the route, and for ourselves and for VTEC there are a significant
6 number of proposed services which would not go beyond York, for
7 example, and therefore the schemes further north might have an
8 impact of course on the ability to go to Edinburgh, but certainly
9 shouldn't have an impact on the ability to go to Bradford and to
10 Cleethorpes and various other locations.

11 So our plan is for over £300 million in total in the trains, plus a
12 significant number of millions in the infrastructure, which I don't really
13 want to disclose here, but you've got those figures in our business
14 plan. As Network Rail are aware we're prepared to talk to them about
15 other investments. And indeed, we've talked to other stakeholders
16 about other investment that may alleviate some of the pinch points
17 elsewhere on the network.

18 ORR: Thank you. On the cost issue, I understand you not wanting to go into
19 too much fine detail, but can you give us an indication of what sort of
20 ballpark 'significant millions' means and how certain you are about
21 those costs?

22 ALLIANCE: Okay, well the two routes of course have got separate investment
23 plans. The tilting train investment, investment into the infrastructure to
24 allow that to happen is in the ballpark of £50 million. And the
25 introduction of a new station at East Leeds Parkway, which is a
26 separate investment on the West Yorkshire application, which would
27 also benefit of course VTEC because our services are proposed to run
28 two hourly. Ours also dovetails with that one as it happens. That will
29 be in the region of about £20 million to £25 million.

30 There's other third party investment proposed for that station as well at
31 Thorpe Park, which is supported by Leeds Borough Council of course.
32 There's a massive development there both of housing and
33 commercial.

34 ORR: Thank you. And in the application – which was a long time ago now, I
35 know – you talked about the potential funding of those investments,
36 and that you'd be looking at the industry's investment appraisal
37 guidance. Can you say what your current thinking is on the way you
38 would fund that? Are you thinking of RAB funding?

39 ALLIANCE: No. We're thinking of – you will probably see it in the plan there; it is
40 funded in the plan, which will be an inter-company loan, and then
41 return on that investment over the life of the contract. Or beyond,

1 possibly. It depends on what the benefit is – the infrastructure is to all
2 of us.

3 ORR: Thank you. I wonder if anyone else wished to comment on those
4 ballpark figures that Alliance has shared.

5 VTEC: I wonder if Network Rail has evaluated them. Alliance quoted some
6 figures in terms of the cost of raising the line's speed along the route to
7 enable the benefits of the tilting trains. To me, with my experience and
8 the experience that we have from upgrades at both West Coast Main
9 Line and the Midland Main Line, I have to say they seem to be
10 extraordinarily good value and therefore unrealistic. So to get five
11 minutes on the Midland Main Line required investment by Network Rail
12 totalling around £100 million. That was 50% more than it was thought
13 it would cost when that scheme started. That just highlights the
14 importance of doing very robust planning and analysis and evaluation
15 before you embark on this route. And I think there clearly needs to be
16 further work done in terms of the costings.

17 I would also ask for sight of this work, and particularly of course to
18 understand whether it is possible at all. From work that we've done
19 we'd be very surprised that a journey time of three hours 43 could be
20 achieved through tilting trains, with infrastructure enhancements at all,
21 given the constraints. That needs to be test. We need to understand
22 that. And I think we also need to understand just how much is coming
23 from reduced engineering performance parameters, which represents
24 a real threat to performance between services on the route.

25 THE CHAIR: Thank you. I'll just go back to your first point there, and I think we
26 ought to bring Network Rail in at this point, to just ask if they have any
27 further view they want to add on the scope and cost of the potentially
28 required work.

29 VTEC: Sorry, can we just ask, has any programme for delivery been
30 discussed with Network Rail for these infrastructure works, and also
31 the associated disruption on existing passenger services whilst those
32 works are undertaken?

33 THE CHAIR: Okay, in that case I'll expand my question to include that point and put
34 them all to Network Rail.

35 NETWORK RAIL: So clearly we've had a number of discussions with a number of
36 operators about work on speed improvements on the East Coast Main
37 Line. Currently the piece of work that is live is the L2E4 piece of work
38 that people have got sight of; that's a piece of work we are working on
39 at the moment.

1 THE CHAIR: Thank you.

2 ORR: So to finish off on the investment section –

3 GRAND CENTRAL: Referring back to previous work from a previous life, from a company
4 called GNER, where tilting trains from Edinburgh was a central part of
5 a previous franchise bid. The journey times are exactly the same as
6 those that were developed then, and validated at that time. This is not
7 a new proposal in concept. And the physics of it are still the same as
8 they were nearly 10 years ago.

9 THE CHAIR: Okay, so you're adding that point for noting. Thank you.

10 ORR: So that deals with Alliance investments. Did FirstGroup want to say
11 anything about investments they had in mind in a similar way?

12 FIRSTGROUP: Just before I comment on investment, given that the point was made
13 earlier in response to our opening remarks in respect of hardwiring,
14 what we were commenting on in terms of hardwiring was the fact that
15 we have applied for fully flexible rights, whereas other applicants have
16 applied for levels of protection around interval and journey time. I just
17 wanted to clarify that.

18 THE CHAIR: Okay, thank you.

19 FIRSTGROUP: In terms of investments, as colleagues have already mentioned, we'll
20 be making – substantial investment in rolling stock of around
21 £50 million. We're also proposing to invest in a range of access
22 improvements at Morpeth station. That's the extent of our
23 investments.

24 ORR: And can I, in the same way I asked Alliance about RAB funding, what
25 are your thoughts on funding?

26 FIRSTGROUP: In terms of rolling stock, it won't be RAB funded. We have a range of
27 options that we're considering as to the way in which that is funded. In
28 terms of the investment in Morpeth, then that will be investment that
29 we are making. We are not proposing, at this time, for RAB funding in
30 relation to that.

31 ORR: Thank you. And so just to finish investments then, is there anything
32 Virgin Trains East Coast would like to say?

33 VTEC: In terms of?

34 ORR: Any investment beyond the ones that Network Rail discussed in its

1 report.

2 VTEC: No.

3 ORR: Thank you. The next question really is about the idea that eight LDHS
4 paths per hour at the King's Cross end of the route is a sensible
5 planning assumption for us to use in our decision making process.
6 I don't mind who would like to first. Alliance, do you have a view on
7 whether eight is a sensible number?

8 ALLIANCE: Are you specifically asking about King's Cross or are we talking about
9 the whole route here?

10 ORR: I think the eight was most meaningful at the King's Cross end. But you
11 can comment on the whole route if you wish.

12 ALLIANCE: Clearly, if there's an acceptance that the existing headways should
13 remain, that the standard headway of three minutes applies, and stops
14 at Welwyn North are still required - two trains an hour - with GTR
15 trains then a maximum of 18 paths on that section is absolutely right.

16 There are some questions around that in the longer term, whether it
17 would be possible to have reduced headways. Work is going on at
18 Network Rail at the moment to review timetable planning rules on all
19 routes, and to relate the planning headway directly to the technical
20 headway, the signalling capability of the route. I can't prejudge that,
21 but it is possible that those headways could be reduced in future. One
22 step towards that might be introduction of ETCS which is planned for
23 December 2018 on that route.

24 Also, I think we need to look at the difference between the peak and
25 off-peak. I fully accept that there will be some priority given to GTR
26 trains during the peak hours. The question is could you actually run
27 more than eight long distance high speed services in the off-peak? I'm
28 not certain of the answer to that, but I don't think Network Rail have
29 fully answered the difference between the peak and the off-peak. It
30 was hidden away in the report, but it was hidden perhaps that it could
31 be more than eight. But I'm pretty certain that it did say so.

32 ORR: Thank you. Can I ask the same question to Virgin Trains East Coast?
33 They may like to react to some of Alliance's comments as well.

34 VTEC: No, I'd actually probably just like to echo a lot of what Alliance has just
35 said. And I think with all the current knowns in terms of the
36 connectivity fund packages and in terms of current signalling etc.,
37 I think eight is definitely a realistic number to be aiming for.

1 ORR: Thank you. And FirstGroup.

2 FIRSTGROUP: We would agree that eight long distance high speed paths is certainly
3 achievable, taking into account the investments that have been
4 described, the assumptions in the report and the timetable work that
5 we've done demonstrates clearly that there is room to run eight long
6 distance high speed paths, including the 0.5 that we're requesting to
7 run in the off-peak.

8 I think it is important to stress on the comment about the peak and the
9 off-peak, we are not proposing to operate into London in the peak or
10 out of London in the peak. We're looking at the off-peak – and in
11 effect the off-peak direction. Those are our proposals. I wouldn't want
12 to comment too much on the peak as we haven't considered it to the
13 same extent. But certainly we would agree with the comments from
14 Virgin Trains in terms of eight being definitely achievable.

15 ORR: Thank you. DfT, would you like to comment?

16 DFT: Thank you. I just wanted to add to that. We do think that it is
17 important that any impacts on operational performance and impacts on
18 connectivity are set against the aspirations for more services. Eight
19 long distance high speed trains an hour may be achievable, but we
20 shouldn't necessarily assume that that is the optimal outcome. We do
21 need to take into account any impact on performance and also
22 connectivity. We think it is important also to take into account the
23 benefits of retaining Stevenage calls, for example, in long distance
24 high speed services and that this is set against the benefits of more
25 trains. Stevenage is an important market. And so those benefits need
26 to take into account.

27 We also have some concerns the analysis should take into account
28 any performance impacts of very high frequencies – for example,
29 18 trains an hour over a prolonged period – in terms of allowing
30 recovery from perturbations. I'm absolutely not saying we shouldn't be
31 seeking to achieve eight long distance high speed trains per hour, but I
32 think any dis-benefits from that need to be taken into account as well
33 and we shouldn't automatically reach the conclusion that that's what is
34 optimal. Thank you.

35 FIRSTGROUP: If I could just come back in, it is perhaps noteworthy, though, that all of
36 the applicants are sharing Network Rail's view that eight trains per
37 hour is achievable.

38 THE CHAIR: Okay, thank you, noted.

39 ALLIANCE: Can I pick up on one point? From the DfT about Stevenage calls.

1 The DfT has funded investments in a new terminating platform at
2 Stevenage which will actually free up some slow line capacity, thereby
3 offering the chance for a Stevenage call, for a long distance high
4 speed train, to be made on the slow line, freeing up some capacity that
5 way. So I think, whether deliberately or inadvertently, the funding that
6 they've made will support a call at Stevenage.

7 NETWORK RAIL: If I could just pick up the point a moment.

8 THE CHAIR: Yes. Can we turn to Network Rail first?

9 NETWORK RAIL: Okay. If I can just pick up the point that Alliance made about off-peak.
10 We looked at a standard hour pattern here. So it is worth just noting
11 that it was a standard hour that we were looking at, rather than peak or
12 off-peak.

13 You could, if you chose to – you have choices to make – play tunes on
14 the priority that you gave to different kinds of path, and that would
15 require more analysis. But at this stage we looked at a standard hour.

16 VTEC: Can I just support DfT's point. While we don't dispute there is capacity
17 for eight long distance high speed in certain hours, it would be very
18 risky to go to – running eight long distance high speed in every hour
19 without understanding what those compromises that are often talked
20 about in Network Rail's reports are. That's both in terms of
21 performance and in terms of stopping patterns. We want to make sure
22 that we don't throw away all benefits that we achieve by running extra
23 trains.

24 NETWORK RAIL: Yes, and Network Rail absolutely supports that. A full performance
25 analysis would be required.

26 FIRSTGROUP: If I can make one final comment. Whilst we agree around the point on
27 performance, I think it is fair to say – and I'm sure this will come out
28 later in terms of performance – that all of the applicants are proposing
29 to run brand new, state of the art, highly reliable trains and that should
30 be taken into account. They're much more reliable than the rolling
31 stock that's currently in use, and that will have a significant bearing on
32 the timetable.

33 It is also fair to say that with a new timetable introduced they are on
34 the standard repeating patterning with trains flighted, and that's the
35 proposal - actually that can deliver reliable repeating levels of
36 performance. I think that's an important point to make as well.

37 And we would just add as well that in going through the report that

1 Network Rail produced, and some of the other information that has
2 been made available, it is fair to state that there is not just a standard
3 hour but when you look across two hours, a two hour repeating
4 pattern, there is in fact a two hour repeating pattern. South of Lincoln,
5 there could be nine long distance high speed paths in one of those two
6 hours, representing a total of 17 over two hours. I think that's
7 important to note as well.

8 THE CHAIR: Okay, thank you. This is an area that potentially has impact beyond
9 the people I think just sitting round this table. Is there anybody in the
10 room who wants to? Yes.

11 FREIGHTLINER: The eight services per hour clearly will have an impact on freight.
12 That's clearly stated in Network Rail's report. Quite a lot of the factors
13 are quite detailed, and there clearly are options around the detail that
14 may impact on the flighting of services or the quality of services that
15 are offered, and also things like the weight of freight services which
16 are key economic drivers for freight operators. There isn't an access
17 application by any of the freight operators in at the moment, and the
18 way that freight services work, even if all the freight operators had
19 applied for access that couldn't reflect the future requirement for freight
20 and the need to have capacity for freight to enable changes to
21 business as business changes.

22 But there clearly will be an impact on freight services with eight fast
23 passenger services an hour, and therefore we urge the ORR that they
24 take freight fully into account in any decision.

25 THE CHAIR: Okay, thank you. Anybody else in the room who is not at the table?
26 No, okay.

27 GRAND CENTRAL: Actually talking about Grand Central this time. First of all, I'd just like
28 to reinforce the point about the two hour repeating pattern. I think
29 there's a lot of merit in developing that idea further. The repeating
30 patterns are a solid way of delivering timetables on a consistent,
31 reliable basis. And it is clear from the type of pattern of services in the
32 markets that East Coast is now trying to solve – to service, sorry, that
33 a two hour pattern may be the most appropriate approach in the longer
34 term.

35 Back to the specific point. This isn't so much a capacity point as more
36 about a timetabling point; it is about how capacity will then be used.
37 As a small operator I think everybody will be aware of how acutely
38 vulnerable we are to even relatively minor perturbations to our service
39 pattern, both from a commercial and an operational perspective. I
40 belatedly have had sight of the timetables that seem to have been
41 interchanging between various parties freely before now. And from

1 that I can see that certainly the FirstGroup timetable application –
2 notwithstanding the fact that it is a quantum only proposition – does
3 make the assumption that firstly it is possible and secondly acceptable
4 to disrupt our current operation to the point that it would cause material
5 operational and commercial damage to the business.

6 I appreciate that in doing the assessments you have to use your own
7 indicative timetables, but at this point I think it is something the ORR
8 needs to take into account, that if those indicative timetables are built
9 around the assumptions of damage to existing business that is a factor
10 that you need to dwell upon.

11 THE CHAIR: Okay, thank you.

12 ORR: The next item we wanted to talk about was Newcastle to Edinburgh.
13 Network Rail has said that capacity is constrained. There are choices
14 to be made between LDHS London services and other services into
15 Edinburgh. There's a lot of discussion of the to-ing and fro-ings
16 between two LDHS per hour from London and three, or five every two
17 hours. I'd like to ask applicants what their views are on the best
18 balance across those choices. Virgin Trains East Coast, do you have
19 a view on that?

20 VTEC: Yes. I think it is clear from the Network Rail letter of 15 May that there
21 is capacity – there's only capacity for three long distance high speed to
22 Edinburgh if you make compromises on either non-London long
23 distance high speed or on the well-founded aspirations of Transport
24 Scotland for Borders railway services and an hourly Dunbar service.
25 So there's a choice to make. You either have two long distance high
26 speed to London, and all of the Transport Scotland and non-London
27 long distance high speed aspirations, or you have three or maybe five
28 every two hours with some compromises to one or other of those
29 aspirations.

30 ORR: FirstGroup, do you agree with that? Anything you want to add?

31 FIRSTGROUP: We would certainly agree that those – the three long distance high
32 speed paths – yes, there would have to be choices made if those
33 aspirations – that are currently aspirations – are to come to fruition in
34 terms of access application rights. But I think it is fair to say that at the
35 moment, based on what we're looking at today between all of the
36 applications, in terms of the applications then I think the three is – in
37 any single hour is reasonable to assume.

38 But I think it is fair to say that in terms of this and some of the other
39 parts of the route that we've already discussed, the important bit will
40 be in terms of developing timetables once rights are granted. It is the

1 process around developing a timetable and using the event steering
2 group with all parties that have got rights develop those timetables
3 together to meet those aspirations. I think that's an important point.

4 We have produced indicative timetables to demonstrate that there is
5 capacity. That's not the rights we're seeking for those timetables.
6 We're seeking rights to – for the service quantum that we're offering to
7 provide.

8 ORR: Thank you. And Alliance?

9 ALLIANCE: Yes, I'd echo the point about the importance of the Event Steering
10 Group to manage the timetable development process.

11 Just to clarify, I believe that it is possible to run four long distance high
12 speed trains between Newcastle and Edinburgh, which would include
13 one – that's the existing CrossCountry service. And for a large part of
14 the route Network Rail supports that.

15 I think the devil's in the detail on this. I think looking at Newcastle to
16 Edinburgh as a whole is a little bit simplistic. And I know you've now
17 broken it down to look at the Dunbar to Drem, Drem to Portobello and
18 Portobello into Edinburgh. I accept there are some issues, particularly
19 as you approach Edinburgh, but I think those are well known and are
20 being addressed if not solved at this stage.

21 But I think once you get beyond – heading south from Dunbar,
22 between the freight facility at Oxwellmains and around about
23 Widdrington, there is very little freight currently running. I checked to
24 see the other day. There was just one train in each direction across
25 the border through the whole of the day. A couple more paths than
26 that, but not many. And as has been pointed out the other services
27 are, at this stage, aspirations. In particular, one of the proposals is a
28 TransPennine Express service. That I think was proposed and is
29 routed on the basis that it would be an electric service. Now it looks as
30 though any electric services will not start running on TransPennine
31 routes until at least the early 2020s, and some reports as late as 2027,
32 which I would point out is pretty much at the end of any proposals for
33 access rights.

34 They are aspirations, they're not applications. I know that the local
35 service proposed to Berwick is a priced option – the ScotRail
36 franchise. But it is very unlikely that that will be taken up as more than
37 a two hourly path. Again, that supports the idea of looking at a two
38 hourly pattern on the route.

39 THE CHAIR: Okay, thank you very much indeed. Again, can I just open it up

1 beyond the table to people around the room, if there's any further...

2 FREIGHTLINER: Quite a specific point on this one. Several points. One is this route is
3 being currently gauge cleared using Strategic Freight Network funding
4 and also its Scottish counterpart. So we expect by 2016 this route will
5 be gauge cleared for W10 container traffic, which will mean it will be a
6 much more usable route, and commercially viable route for freight
7 operators. Certainly our own company has aspirations to run services,
8 which we can share in confidence with the ORR.

9 There is the issue, on this route, particularly with the length of the
10 loops. The loops are quite short, and can't accommodate even the
11 current length of freight train, no matter the aspired 775m length. So I
12 think any decision around this route will have a major impact on the
13 ability of freight services to use this route during the day at all. And
14 that's a very serious decision.

15 THE CHAIR: Okay, thank you. And anybody else? Yes.

16 TPE: Given Alliance's comments I should clarify our position, which is that
17 we've been asked by the Department for Transport to extend our
18 existing track access contract by 10 years from 2016, when it ends
19 next year. The implications of that are that it is only contract that – and
20 we'll be looking to extend it on that basis, and we would as a result
21 have concerns if we were to see additional specification of rights being
22 added into the route and therefore undermining our ability to retain the
23 existing services. However, we are not being asked at this stage to
24 take forward an application for the additional services which Network
25 Rail have looked at in its capacity analysis. Thank you.

26 THE CHAIR: Okay, thank you. Anybody else?

27 TRANSPORT
28 SCOTLAND: We're between a rock and a hard place, to some extent. We wish to
29 protect and at the same time promote Scottish interests. In terms of
30 the long distance paths, quite clearly faster journey times and more
31 paths are critical in facilitating our desired shift of cross-border travel to
32 rail; this is a more sustainable route.

33 In terms of our internal services it is both promotion and protection.
34 Quite clearly one of our fundamental principles is that no service that is
35 promoted shall operate so as to unbalance the provision of our internal
36 Scottish services, and indeed nor have any significant disruption of
37 efficient timetabling and connections on other services within Scotland.

38 Our view is we think there is a way we can work this out that would
39 give us a solution via an event steering group if ORR determine more

1 paths, but yet at the same time protect our individual interests. So we
2 think, for the industry, it is about working together, seeking to promote
3 and protect.

4 THE CHAIR: Thank you. Anybody else?

5 VTEC: Yes, Chairman. I think so far the discussion has kept things at a
6 reasonably simple level. But unfortunately life isn't like that. The fact
7 that we can – we're saying we may be able to run eight trains an hour
8 at the south of the route – albeit with performance implications – and
9 two, or three or however many services at the north end of the route is
10 all very interesting. But of course the key is whether they align and
11 whether they join up, and whether the paths exist for the services that
12 are proposed all the way along the line. It is one thing to look at
13 individual sections of the line. But clearly to construct a timetable for
14 the evaluation you need to do that from end to end.

15 I think it is particularly relevant, of course, in relation to the Alliance
16 tilting train proposal, where to achieve a three hour 43 journey time
17 you're going to really have to re-time and alter many other services
18 along the route where this service is simply going to run at quite a
19 different speed to most of the other services on the route. You can
20 only understand these effects if you do a detailed piece of work from
21 one end of the route to the other. And as we've said before, and will
22 come onto, there are clear performance implications as well when
23 you're using these key sections of route so intensively.

24 THE CHAIR: Thank you.

25 ALLIANCE: Can I make one point about that? Just take you back to the ECML
26 Connectivity Fund. When that was established one of the objectives
27 stated was that it was to support the overtaking of slower trains by
28 faster trains. That has rather been lost sight of in the later objectives.
29 But if you go back far enough you'll find that was a stated objective.

30 Now, it didn't specify whether slower trains meant freight or whether it
31 meant slower passenger trains. I assumed both. There are plenty of
32 places on the East Coast Main Line where trains can be overtaken,
33 and with the headways prevailing it would only inject a very short
34 delay, in a lot of cases, to overtake trains. So there are places where
35 trains can be overtake. Yes, there has to be some overtaking, and
36 that actually often makes the most efficient use of the network.

37 THE CHAIR: Thank you. Sorry, did you want to come in?

38 ALLIANCE: Yes, it was just a quick point. One of the benefits that both FirstGroup
39 and ourselves have seen with open-access is this requirement for

1 regular interval etc. is not a requirement in the way that it would be if
2 one company ran all the services On any particular route. And so
3 flying the trains is quite significant, but also gives a huge degree of
4 flexibility to Network Rail in a way that they can send two Edinburghs,
5 for example, away two or three minutes apart on the basis that they're
6 both high speed, they both won't stop for some long distance – maybe
7 York first stop for some, maybe Newcastle. And as we found with
8 Grand Central's recent service at 4.03 p.m., which is what you might
9 term squeezing the peak there, it is a significantly good performing
10 train because it also follows a train that's well flighted in front of it.
11 So we mustn't lose sight of the fact that flighting is critical.

12 But of course the trains perform extremely well for Virgin on the West
13 Coast and have done for a long time. And it is a bit disappointing that
14 we've got something here that is a step change proposed by the
15 private sector not the public sector, and we're actually trying to do
16 ourselves down. That's the problem with the railway at the minute.
17 When those exciting propositions come along – and this came along
18 10 years ago and was lost – and we tend to try and do it down when it
19 should be the other way. There's no reason, for example, why Virgin
20 couldn't, instead of proposing using 25 year old stock, procure some
21 tilting trains of its own to take advantage of our infrastructure
22 investment, which would benefit Scotland as well significantly.

23 So I think let's – it is been a bit dour and dim. Let's be a bit more
24 optimistic about what we can deliver. Let's not forget, when Grand
25 Central was proposed initially there were 135 paths on the route, and
26 we were told the route was full. There's not really been any significant
27 infrastructure work, and I think there's around 180 paths now, and
28 we're only looking at pushing on now with some other infrastructure.
29 So maybe need to be a bit more upbeat than we are today.

30 THE CHAIR: Okay, thank you.

31 FIRSTGROUP: Could we also come in? Because I think the point around the flighting
32 of trains is a very important one, because actually that does help
33 capacity. And certainly on the routes – the section of the route we've
34 just been referring to – north of York and beyond – with trains flighting
35 together, fast trains, in our case obviously we'd be looking to – as a
36 competing train next to say Virgin's application, we'd be running two
37 trains next to each other – fast trains – through to Scotland. And when
38 you run those trains together that helps in terms of the capacity
39 allocation. And actually with trains of consistent capability and
40 consistent paths flighted together, you can actually create more
41 capacity and more room on a network; that will also have a
42 performance benefit as well.

1 THE CHAIR: Okay, thanks very much. I'm just conscious of the time now on this
2 agenda item.

3 VTEC: Could we just have a chance to respond on the flighting point?

4 THE CHAIR: Can we have two very quick responses, then we are going to have to
5 move on to Rob's final topic about the current industry plans?

6 VTEC: Yes, so we'd certainly support the concept that flighting makes the
7 best use of capacity, but on a route that's tightly confined – or tightly
8 constrained in capacity, how can it make sense to have two trains to
9 Edinburgh within three minutes, and then nothing further for a maybe a
10 long time in order to avoid overtaking.

11 We use flighting in the sense of an Edinburgh train followed by a
12 Leeds train, which makes most use of the capacity, but actually uses
13 the flighting to different destinations and so gives passengers options.
14 And when you've got something like the Grand Central proposal with
15 three hours 43 you are inevitably going to have a lot overtaking. I
16 accept that there may be more opportunities for that, but each
17 overtaking move puts five minutes maybe into the overtaking train.
18 And that – the cost of that, and the lost benefits from that need to be
19 taken account of in the appraisal, as do the performance impacts.

20 THE CHAIR: Okay, thank you. And Network Rail.

21 NETWORK RAIL: And this is quite a dour, detail point, but from a – it is really important
22 that we note that all the studies so far have made some assumptions
23 around platforming. My experience from the production of timetable
24 work is that all the parties round the table have some strong
25 preferences around what platforms you go in. If you suddenly – if we
26 were to go to a maximum capacity usage on the East Coast we'd have
27 some fairly spectacular choices to make at places like Waverley and
28 potentially King's Cross. But Waverley particularly is a delight to
29 platform day to day, and whilst we do our best currently to give people
30 what they want to meet the needs you have at the station to keep it
31 work, and passenger needs, if we fill it we will need to make sure that
32 that isn't overlooked in any follow-up remit.

33 THE CHAIR: Okay, thank you.

34 FIRSTGROUP: Sorry, Mr Chairman, I think that that point is very pertinent as regards
35 Edinburgh, because Edinburgh Waverley and the investment in
36 platforms - which is planned for CP5 – has been somewhat overlooked
37 in some of the correspondence that's been going on. It is the case
38 that there is funding and there is work to build additional platforms.
39 Effectively, creating more space in Edinburgh, which I think is

1 important.

2 I would say we're not particularly looking to hardwire particular
3 platforms and particular uses in our application, but we have
4 undertaken platforming analysis at both King's Cross and at
5 Edinburgh, and we have concluded that there is room to fit all of the
6 trains in.

7 THE CHAIR: Okay, at that point I am going to stop the discussion. I would just say
8 that – and we'll explain this in the next steps at the end – if people
9 think they didn't have a chance to make a comment or ask a question
10 there will be an opportunity in the process, after this hearing, to make
11 those comments, submit that question, and we will have a process for
12 dealing with it. So I'm sorry, I'm going to have to move us on at that
13 point. Rob.

14 ORR: Well, the last item in this section hopefully will be quite brief. And the
15 question is around industry plans. Every applicant said their proposals
16 were broadly consistent with the industry plans, noting that the RUS is
17 quite old and even the update to the route is quite old. I just wanted to
18 really check with Network Rail that it agreed with that summary, and
19 that there were no particular differences between the applications in
20 terms of some fitting better with industry plans.

21 NETWORK RAIL: Okay, so I guess the question is how this fits in terms of the long term
22 planning process. I think all parties around the table are probably
23 already subject to an invite to the first meeting of the East Coast Route
24 Study Programme Board, and we are just about to kick the East Coast
25 route study off that will develop the strategy out to 2043, and the
26 choices for funders up to that point.

27 ORR: Thank you. Does anyone around the table want to comment on that
28 area? If not, I'll hand back to John.

29 THE CHAIR: Thank you. Just for clarity, Freightliner have offered to submit some
30 information in confidence, and I meant to say straight afterwards we'd
31 welcome that, and please do.

32 We have informally made provision to possibly have a five minute
33 coffee break at this point. Frankly, with this number of people in the
34 room a five minute coffee break will turn into a 15 minute coffee break,
35 even with the best will in the world, and we're behind schedule. So I
36 think we're just going to press on, if anyone was wondering whether
37 they were going to get a break. Sorry about that; I think we need to
38 make progress.

39 Right, in that case we're going to move onto the next item in the

1 agenda, operational feasibility and performance issues. And I think
2 we're going to again ask Network Rail, I think Tim, to make an opening
3 statement. Thank you.

4 NETWORK RAIL: Yes. Thank you, Chairman. Can everyone hear me? So as noted in
5 our opening statement on capacity, at this stage in the process we're
6 assessing what capacity options exist for the East Coast Main Line
7 2020. We have not yet been able to undertake any detailed
8 performance analysis or assessment. We are, however, very
9 conscious of the performance challenges faced by the industry, and
10 the impact this can have on both passenger demand and on the
11 reputation of the railway industry. We're also very aware of the
12 challenge highlighted by other recent timetable changes in
13 understanding the impact on performance of major perturbations when
14 we introduce any significant changes on what is an already congested
15 network.

16 Any potential impact on performance, therefore, needs to be taken
17 very seriously and balanced against the potential benefits from any
18 additional services. It is therefore very important that we do undertake
19 detailed timetable analysis, and performance assessments, as greater
20 clarity emerges on the East Coast Main Line timetable. We would
21 expect to work with all our stakeholders in a very transparent and
22 collaborative way as various iterations of the timetable evolve through
23 standard industry processes.

24 Our early professional judgement leads us to anticipate that the
25 predicted increase in the quantum of services each hour on the ECML
26 is likely to have a suppressive effect on performance. We've utilised
27 experience from previous timetable introductions and we would expect
28 to see an overall deterioration in PPM and high levels of cancellations
29 and significant lateness.

30 So therefore in general terms we would expect the future performance
31 assessment work to include some of the following: a modelled
32 assessment of the impact of PPM; an assessment of the impact on
33 right-time railway, and the delivery of right-time across the route; an
34 assessment of interactions between services at key hubs or congested
35 parts of the network; updates to the route regulating policy to take
36 account of any revised service pattern restructure; and development
37 an agreement with all operators of a revised service recovery strategy
38 for deployment by Network Rail and train operating control centres,
39 including a specific focus on dealing with severe disruption or the
40 effects of severe weather for example.

41 So in the absence of a fully developed timetable, and prior to any
42 performance assessment and modelling taking place, we'd certainly

1 need to work with the industry to achieve the following: continue to
2 develop a detailed timetable for all East Coast Main Line, including off
3 route sections; real important to understand the wider train operators'
4 resource requires for any revised structure, including things such as
5 rolling stock, crew/dispatch arrangements, depot and stabling – that
6 would be really key; and then ensuring any timetable planning rules,
7 sectional running times are refreshed to reflect actual changes to
8 service levels, rolling stock, infrastructure layout and any operational
9 rules and procedures.

10 So as we're currently not in a position to accurately model
11 performance impact to the increasing services, prior to any expected
12 sale of access rights, we'd also require that any performance targets
13 or metrics are reflected and neutralised of any impact once they
14 become known and quantified.

15 So in conclusion, as clarity emerges through the timetable
16 development process it is our intention to develop and lead a
17 programme management approach towards the operational
18 implementation of the East Coast Main Line timetable. Thank you.

19 THE CHAIR: Thank you very much indeed. We're going to follow the same format.
20 I'm going to hand over to Rob again now start with the ORR questions,
21 then we'll bring everybody else in. Rob.

22 ORR: Thank you, John, thank you, FirstGroup. Yes, in this session we
23 wanted to explore issues around timetabling and journey times – which
24 have already been raised by several people around the table – the
25 impact on current operators of the proposals and performance. I
26 suggest we start with performance, and my first question for the
27 applicants is, do you agree with Network Rail that these are significant
28 risks, or do you have a different view on performance? Alliance, do
29 you want to go first?

30 ALLIANCE: I'd just like to make a comment in relation to what Network Rail has
31 just said. Our view is that any performance assessment – the starting
32 point should be what Network Rail is currently funded by the ORR to
33 deliver, and the implied infrastructure reliability to achieve those
34 performance levels, not necessarily current performance levels and
35 actual infrastructure reliability, if they're below what Network Rail has
36 been funded for.

37 ALLIANCE: I've no particular comments to make. I accept that performance
38 modelling is required and I look forward to hear more about how
39 Network Rail propose to do that.

40 ORR: Okay, thank you. FirstGroup.

1 FIRSTGROUP:

2 I think I'd like to echo some comments that have been made before.
3 We're in danger of getting depressed about these applications in terms
4 of performance. We are sat here today discussing the potential for
5 quite significant improvements for passengers and consumers on the
6 route.

7 Having said all of that, in terms of performance yes it is something that
8 needs to be balanced. However, it is fair to say that there are lot of
9 other changes that are being made on the route. There's going to be
10 increased amounts of capacity on the route, which we're talking about
11 utilising. But obviously there's a current level of performance at the
12 moment. You create more capacity, more trains go on. Those trains
13 are likely to be trains that are going to perform much better than the
14 existing trains – which should be taken into account. We also
15 shouldn't forget that the sectional running times that exist at the
16 moment, as referenced by Network Rail, are still to be proven on some
17 of these trains, and I'd suggest that the new rolling stock that's
18 proposed by each of the applicants is probably going to out-perform
19 the SRTs that are currently going to be considered, and that will be a
20 significant benefit in terms of performance. It may even deliver some
21 better journey times, but in terms of performance I think that's an
22 important consideration.

23 Standard pattern timetables, we talked about that before. That will
24 also help performance. I think – as well as flighting and the allocation
25 of capacity in those standard patterns.

26 I think one of the other points it is important to recognise from our
27 position is that we do have some sympathy with Network Rail in this
28 because Network Rail is under a penal regime in terms of PPM.
29 Network Rail has to deliver a set level of PPM against which it is
30 funded, which we've talked about already. So it is naturally
31 predisposed to be concerned about the impact of more trains on a
32 route in terms of how that impacts on performance. But that should
33 not take away from all of the points I've just made in terms of the
34 benefits that accompany investment that's been talked about and the
35 way in which the timetables should work.

36 Network Rail also made a comment – Network Rail made a comment
37 in their statement about looking at the introduction of other major
38 timetable changes, and the impacts those have had following those
39 changes. Now, I'm not going to sit here and say that as when those
40 timetables come in there haven't been some impacts on performance
41 because clearly that has been the case. But you need to look at those
42 things in the longer term, and this is certainly commented on insome of
43 the representations that we've made. Certainly it was the case when
44 you look at, say, Virgin West Coast following timetable changes. PPM

1 was 83% (pre-change), and improved after that. And probably the
2 more relevant one is in terms of East Coast, when there was a
3 timetable change PPM was at 83.3%, and then within a year it was up
4 above 86%. So I think once timetables have been introduced, given
5 all the factors I've already said, in all likelihood performance could
6 improve.

7 ORR: So is your view, then, that although there is a lot of performance
8 modelling and work to be done that Network Rail have set out, that
9 doesn't need to be done before we can press on and make some
10 decisions about access?

11 FIRSTGROUP: I would entirely agree with that. That this is – as we've already said,
12 this is a discussion about capacity, and a discussion there about the
13 rights that can be achieved. I think there's enough evidence already
14 that suggests that with capacity and paths granted, and rights granted,
15 timetables can be developed without needing further performance
16 assessment first.

17 ORR: Okay, and I'll just check back with Alliance. Do you agree with that
18 point as well, that the modelling can be done later?

19 ALLIANCE: Yes, I do. What's been said by FirstGroup's absolutely correct.
20 You've only got to look historically. When Grand Central was
21 introduced – there's always been a performance concern before any
22 trains are introduced, but the fact is the industry does work very well
23 together after these sort of events. Before these sort of events, the
24 industry doesn't work very well together at all. But the minute
25 approvals are given it is amazing really the dynamic change there is,
26 because railwaymen then actually come to the fore, which is what
27 they're good at.

28 ORR: Thank you. Virgin Trains East Coast.

29 VTEC: So I think, answering your last point firstly, I think your process would
30 be utterly flawed if you took a decision without fully working out what
31 the performance impacts were and reflecting that in your analysis. We
32 all know that performance is one of the most important factors to our
33 customers, if not the most important factor. And customers are
34 actually looking for us to deliver a right-time service, not to achieve
35 PPM which is a measure we've really come up with within the industry.

36 So we do need to do some detailed work to fully understand the
37 impact of running more services on the East Coast Main Line as
38 Network Rail have said.

39 I think already we know, from the East Coast Main Line today, just how

1 running additional services generates additional delay. In the hours
2 when there are more services running on the East Coast Main Line our
3 analysis shows that when you look at sub-threshold and above-
4 threshold delay taken together delays are 30% higher than in the
5 hours when you're running fewer services. So there are clear impacts
6 on performance from running additional services.

7 And just refer to the first TransPennine Express experience, where
8 PPM dropped from 89% to 76% as a direct consequence of running
9 too many trains on that network. We cannot ignore the effects that
10 running extra trains have. These need to be fully evaluated and fully
11 taken into account.

12 FIRSTGROUP: May I just make a point on the TransPennine experience, because
13 we've done some performance analysis on that and looked at that
14 because of these case studies that were made before. In the period
15 just before Christmas last year TransPennine had recovered to a 91%
16 PPM.

17 VTEC: But that – when performance dropped on First TransPennine there
18 was a huge amount of distraction caused to Network Rail in looking at
19 recovery schemes and changes to the plan to make that timetable
20 work. That was a massive distraction to people in the industry who
21 manage these issues. So don't assume that the benefits can be made
22 to work in the long term. These things have a massive impact, and still
23 today performance on TransPennine is not back where it was before
24 that timetable change.

25 THE CHAIR: Just on that point, I suspect there's – yes?

26 TPE: Yes. Can I come back – I think I'd like to support what Ian was saying
27 in that the experience on TransPennine Express actually shows the
28 ability of the industry to overcome the challenges of introducing
29 additional services, and that's very much what we've done on the
30 TransPennine. Actually looking at it today, yes, there was a significant
31 impact when the timetable was introduced, but today we are back on
32 track so our PPM is now at – above target in many cases. And that's a
33 testament to the hard work that's been put in not just in TransPennine
34 Express, but also by Network Rail and the work that's been done
35 together. And I certainly refute the suggestion that that should be
36 taken into account here as some sort of implication that introducing
37 new trains is an incredibly dangerous thing to do in the long term.

38 THE CHAIR: Okay, thank you. Can I just bring Network Rail in?

39 NETWORK RAIL: Yes, I've got two points I guess. And they may not be relevant to
40 access rights, but I think they're important points to make. The first is

1 we know from experience that even if we were comfortable with a
2 reduced level of PPM at the introduction of a new timetable, the public
3 aren't. And we just have to look at the impact at London Bridge.
4 Regardless of the cause, of the public perception of the level of service
5 that should operate compared to what did operate. So we need to be
6 very mindful of the reputational impact of a new timetable being
7 introduced with a lower level of PPM.

8 Which is why for me – my second point – it is very important, whatever
9 decisions are made, that we have a very, very robust operation
10 implementation plan that doesn't enable us to start a new timetable
11 with a lower level of PPM in the first place. Let's not walk into that
12 problem.

13 THE CHAIR: Thank you. Chris.

14 ORR: A couple of you mentioned the potential performance benefits from
15 new rolling stock, but the rolling stock operations are obviously
16 different, and have different levels of proven track record operating on
17 the network. So are we to assume that the risk is similar across these
18 three, or are there reasons to believe that actually when the new trains
19 are deployed that there may – at least for a transitional period – be a
20 different impact on performance, or if there's a risk of that? And how
21 does that vary across the three propositions?

22 ALLIANCE: Sorry, I was just going say the Class 390 Pendolino has obviously
23 been well-used and has good performance characteristics and has
24 been operating for 10 years on the West Coast Main Line. My
25 understanding is that FirstGroup services are going to be the A300
26 series, which operates very successfully now. The only one that
27 doesn't operate now is the proposed franchise service. I have no
28 doubt Hitachi will build a very good train and that it will be very good
29 operationally. And I know there are plans there that they will deliver a
30 certain reliability. But it is unproven.

31 And I think it is also worth remembering – because if I was in VTEC's
32 position I'd probably say exactly the same thing. Why wouldn't I? But
33 the reality is the bulk of the additional services are proposed by VTEC,
34 not by the rest of us. So if there's a performance issue then they're
35 actually doing it themselves.

36 ALLIANCE: Can I also point out that part of one of the proposals includes retaining
37 the existing old and increasingly unreliable stock. One VTEC
38 proposal.

39 THE CHAIR: Do you want to come back?

1 VTEC: Yes. Well, firstly IEP has been defined and delivered to very strict
2 performance standards, and we will be – Hitachi will be targeted to
3 meet much higher performance standards than we currently meet on
4 West Coast with Pendolino for example. So it might take a small
5 transitional period, but they will be meeting performance standards
6 that are much better than we've been used to on the route.

7 IC225 reliability is not bad. It is not brilliant, but it is not bad, and we're
8 investing £7.5 million – in fact, more than that, about £9 million over
9 the next two years in improving the reliability of those trains. We
10 expect to take the MTIN – the industry figure for the reliability of that
11 fleet – to around 17,000/18,000 which is actually higher than we're
12 currently achieving with Pendolino on the West Coast. So we reject
13 absolutely that the IC225s we retain will be less reliable than for
14 example Pendolino. We're spending a lot of money on making them
15 more reliable.

16 THE CHAIR: Okay, thank you.

17 FIRSTGROUP: Just to reiterate the point, I think it is important to note that yes we are
18 looking at using Hitachi trains, but they are similar to the trains that
19 East Coast are proposing to deploy. So actually – and in that sense
20 they will be electric variants; there won't be any difference. So I think
21 the – our trains would be the same as the VTEC trains. We note there
22 are different proposals from Alliance on one of their applications. But
23 the one bit of stock we would be concerned about is the ones that
24 were mentioned because they're older, and certainly if there's
25 investment in the fleet to improve its performance then that's only to be
26 welcomed.

27 THE CHAIR: Thank you.

28 GRAND CENTRAL: Again with an old hat on, and having obtained many grey hairs and
29 looking into the bowels of the IC225 trains, they do suffer intrinsically
30 from a significant number of single point failure modes. And it will be
31 extremely challenging to bring them up to a level of reliability that will
32 stand alongside the new trains that are the heart of all the other
33 elements of the applications in front of you. Investment will be
34 needed, but whether it will deliver the results has to be questioned.

35 THE CHAIR: Thank you.

36 FIRSTGROUP: Sorry, I think there's probably one point that hasn't been picked up
37 which is very relevant, which is before the Hitachi trains of both types
38 are introduced on East Coast they will have been deployed on Great
39 Western, and will be operating services on Great Western before
40 they're deployed to the East Coast. The first trains are already in the

1 country and will be tested on the East Coast before they're deployed
2 on Great Western, so I think there's a significant amount of
3 reassurance that we can take from the fact that they will have been
4 deployed elsewhere first, and will be operating before they're
5 introduced. Certainly as a result stock that we're proposing will –
6 should have been in operation for some considerable period of time
7 before we introduce it onto the East Coast.

8 ORR: Thank you. Well, performance affects everyone on the route of
9 course, so before we leave the topic of performance I just wanted to
10 check if there were any operators or others at the end of the room
11 who'd like to make a comment.

12 HULL TRAINS: I am a veteran of the experience, going back to 1999, where additional
13 trains on the East Coast were always going to be a performance risk.
14 And I do remember when we were discussing going from three return
15 paths to four return paths for Hull Trains that this was going to impart a
16 heck of a lot of performance risk on the East Coast Main Line. And of
17 course it didn't.

18 The quality of the timetable, both in terms of the building blocks and
19 the overall construction of the timetable is key to the future
20 performance. And here I would slightly caution against reducing
21 headways on the East Coast. It was a discussion we had in 2001, in
22 the upgrade, where the then representative of WAGN, Nick Hortin
23 suggested reducing the signalling headways. And those of us who've
24 got a long experience of how the actual signalling was constructed in
25 the King's Cross area in the 70s said 'no'. It was quite deliberate.
26 That was an inbuilt timetable performance buffer to make the overall
27 timetable flex intuitively within itself to provide a realistic and
28 operationally viable timetable that gave good performance, because
29 we weren't timing everything to the sub-minute. If you time things to
30 the sub-minute and you've got lots of trains on the network you've got
31 no chance of recovering from small delays that then just ricochet up
32 and down the line.

33 As far as Hull Trains is concerned with these applications, we have
34 grave concerns over the Virgin Trains timetable structure that they
35 kindly shared with us for May 2020. It shows a considerable
36 worsenment of our commercial position through the positioning of our
37 trains such that we have substantially sub-standard turnarounds at
38 Hull – in public times it is seven and nine minutes, and the rules
39 say 20. We have been moved off key commercial hours, especially
40 from the Hull direction. Journey times have been extended. And we
41 feel that there has been some anti-competitive practices going on
42 here, which we have shared on a confidential basis our concerns with
43 the ORR, and we do reserve our rights in those respects.

1 But as an industry, we've been here before. We were here with
2 Eureka. And once the industry gets round the table and discusses the
3 timetable in an ESG format these issues can be exposed and
4 explained. And Network Rail, in its timetable coordination role can
5 seek a solution involving all parties that gets rid of these problems.
6 And I'm sure that the ESG will get rid of the problems as far as Hull
7 Trains is concerned, enable us to have a viable timetable that doesn't
8 destroy our business and actually enables Virgin Trains East Coast
9 and potentially the other operators as well to meet their aspirations
10 and commitments to government.

11 But we do feel that hardwiring rights, in terms of specifying certain
12 rights such as journey times or intervals hinders that process, and in
13 fact makes one operator effectively first on the graph before others.
14 And we don't think that's acceptable either because we are, in the East
15 Coast, in a competitive environment, and all the competitors should be
16 dealt with on an equal basis in that respect. We see those kind of
17 rights – those rights over intervals and journey times – emerging from
18 the ESG process, not as a prerequisite for the ESG process to
19 consider. And we would urge the ORR whoever gets the rights on the
20 East Coast that they be approved as quantum only until the ESG
21 process has taken place.

22 THE CHAIR: Thank you.

23 ALLIANCE: Can I just come in on that?

24 THE CHAIR: Yes.

25 ALLIANCE: I welcome FirstGroup's conversion to the ESG process. I would point
26 out that First resisted quite strongly the suggestion there should be an
27 Event Steering Group for the TransPennine timetable. So it is very
28 good to hear that they are now welcoming full industry approach to
29 timetabling –

30 [Crosstalk]

31 THE CHAIR: Thank you for that.

32 HULL TRAINS: Can I just come back on that quickly? I was one of the architects of
33 the ESG process in the Part D working group. And I did say when we
34 sat down on the Eureka timetable if there's anybody to blame for us
35 being round the table in Leeds and York it was me. Because I do feel,
36 having sat through so many of these hearings, where so much is
37 uncertain, that the certainty only comes from the industry sitting round
38 the table as equals sorting the problem out.

1 THE CHAIR: Thank you. Whatever the history I think we are agreed on that point,
2 so I would like to move on.

3 GRAND CENTRAL: Very quickly - the route is having significant investment in its assets,
4 both its infrastructure and the rolling stock. Performance depends on
5 asset reliability.

6 Bad timetables perform badly. That shouldn't be a surprise to
7 anybody. So, as Hull Trains has just said, we should enter in to that
8 process with everybody enjoying the same level of access right
9 protection, giving the maximum flexibility for professional people to
10 design high performing timetables that meet the needs of the
11 communities that the route serves.

12 We've had many, many hearings here and every time, every train that
13 was introduced was going to destroy the performance of the East
14 Coast Main Line. That has simply not been borne out by the facts as
15 they have emerged. Because people, as Alliance said, have worked
16 to develop well performing timetables and to improve asset
17 performance.

18 THE CHAIR: Okay, thank you. Rob.

19 ORR: I think since Hull Trains has mentioned the issue of timetabling we
20 should stick with it. And I wonder if there are any other operators – I'm
21 looking at Grand Central here – but any other operators who have any
22 particular concerns about the indicative timetables. I know a lot of
23 people haven't seen them. We've encouraged, in this process, the
24 parties to share them with each other, which has worked, I think, pretty
25 well, and is an innovation for us. But the general principles of what
26 people are trying to achieve are clear. Grand Central, did you want to
27 make any comments?

28 GRAND CENTRAL: I think I made the observation, which ironically was exactly the same
29 one as just made about Hull Trains relative to VTEC. My concerns
30 were relating to the indicative timetable from the First Edinburgh
31 service. I think the point is timetables should be developed by the
32 industry through the ESG process. That process should start with a
33 level playing field on access rights specificity so that the right solutions
34 can emerge, and the decision criteria get applied sensibly, and not
35 overridden by other factors that are pre-judged. But small operators
36 have a particular vulnerability; but I would expect the ESG process to
37 deal with that adequately, if it is given a free hand to do so.

38 And that's actually where the onus comes back to the ORR, to make
39 sure that the industry is enabled to perform that function effectively, by
40 not constraining it by granting high specificity of rights to any one party

1 over another.

2 ORR: Thank you, that was helpful. Did anyone else have any points about
3 the timetabling? I think I see Freightliner's hand up.

4 FREIGHTLINER: Thank you. Yes, we have seen the proposed Virgin timetable and we
5 do have some concerns with regard to freight. In particular – I'll give
6 you a couple of highlights of our concerns. There were some class
7 four paths in the timetable, but they were timed at 1,200 tonnes. The
8 agreed ITSS is for 1,800 tonne paths, so it is considerable worse than
9 that – 1,200 is a very low tonnage now, really, for a viable train.

10 In terms of class six traffic, at the south end of the route it is being
11 assumed that would go via the Hertford Loop, but in effect going
12 northwards there is actually quite a considerable weight restriction at
13 Alexandra Palace. I believe it is 1,600 tonnes. So in practice, any
14 viable class six train would have to go via the main line. And that
15 hasn't been accounted for in Network Rail's study either. It is probably
16 – I think the ITSS is for class six every other hour – every hour.

17 There's also particular issues between Newcastle and Edinburgh,
18 which is really about the flighting of services and how you can actually
19 fit the specification one path an hour within the flighting of the high
20 speed services.

21 THE CHAIR: Thank you.

22 ORR: Can I just go back and ask Freightliner a couple little clarifications
23 there? You described the indicative timetable has some things which
24 are clearly worse than the ITSS. Would that affect current levels of
25 traffic, or is that about removing some of the growth potential that was
26 built into the ITSS?

27 FREIGHTLINER: To be honest, I'm not absolutely clear. But it is probably both. I think it
28 would affect the tonnage of existing services, which are timed above
29 1,200 tonnes.

30 ORR: Okay, thank you. The other sort of follow-on was, do you share other
31 peoples' confidence that the ESG process would be able to sort some
32 of these problems out for you?

33 FREIGHTLINER: I think it would be quite challenging because I think there would be
34 some quite considerable commercial impacts on the high speed
35 services in order to accommodate the freight spec. I think it might be
36 quite difficult for those compromises to be reached because I think
37 there'll be some tough decisions and I'm not sure everyone would

1 agree to them. It could possibly be.

2 ORR: Thank you. Okay, so if no more hands up down there, the last item in
3 this section that we wanted to –

4 FIRSTGROUP: Just making a comment in respect of what Grand Central said about
5 our proposed indicative timetable, I think I'd just go back to say it is an
6 indicative timetable. It was created to demonstrate to our satisfaction
7 – and hopefully the ORR's satisfaction – that there was indeed
8 capacity for the eight long distance high speed paths. I haven't been
9 made aware until today of Grand Central's concerns over the timetable
10 we've put together, but we're quite happy to work with Grand Central
11 to understand what those concerns are, because that is certainly not
12 our intention, nor would it be, to affect the two existing open-access
13 operators on the route.

14 ORR: Thank you. The last item in this section that we wanted to talk about
15 was journey times. And there have been several comments from
16 different quarters earlier, I think challenging Alliance's fast Scotland
17 journey time. I wanted to give Alliance an opportunity to talk about the
18 robustness of that journey time assumption that you've made.

19 ALLIANCE: As Grand Central have already mentioned this work was done 10
20 years ago. We also asked Alstom to come and look at the route.
21 Indeed, a Pendolino has run on the route – although not in tilt mode –
22 a few years ago. And that work, as you can see from the Network Rail
23 report, has been validated, albeit by minutes' difference between the
24 times shown. But three hours 43 is clearly deliverable within the
25 timetable, subject to us spending the money on the infrastructure to
26 install the balises and make the various minor changes that might
27 need to be done. This is not a West Coast rebuild; so I understand
28 why it was so expensive on the West Coast. And of course the West
29 Coast was built for 140 mile an hour tilt – or at least it was initially
30 meant to be 140 mile an hour tilt.

31 We mustn't forget that Pendolino was built to prevent you having to
32 spend billions on the infrastructure because the train does the work for
33 you. And that's how it was promoted on the West Coast Main Line by
34 Virgin. And although I am rather surprised Virgin East Coast suggest
35 that the 225s will be more reliable than the West Coast Pendolinos the
36 facts are completely the opposite.

37 So the journey times are deliverable. They're robust. They're not
38 deliverable without the work, but that's why the work is shown in detail
39 in our business plan, all the funds provided to do that work. But clearly
40 we then need to follow that on with getting delivery from Network Rail.
41 And I think Chris wants to come in now.

1 ALLIANCE: I just want to add a bit of detail to that, so it is plain. I saw a gasp of
2 horror from Virgin Trains East Coast there about the changes required
3 to the infrastructure. There are basically three potential components to
4 this. One is to operate up to 125 miles an hour tilting trains we need
5 balises in the track to indicate – actually, technically you don't even
6 need balises but the consistent approach is to use balises. And those
7 balises are actually – can be the same or can be used in the same
8 way subsequently to support ETCS signalling. They're not particularly
9 expensive. There will be installation cost, but we don't see that as
10 prohibitive.

11 Above that you do need – it is accepted that you need absolute track
12 geometry in order to support the transition into curves where you're
13 going to tilt. Now absolute track geometry really – the prime bit of
14 absolute track geometry is just putting some markers on the track,
15 some physical markers to indicate precisely where you are, with
16 surveying equipment to relate all the infrastructure to those markers.

17 What's needed is some precise cant and alignment with the overhead
18 wires in particular, which is why absolute track geometry is needed for
19 tilting. Why absolute track geometry was installed on the whole of the
20 West Coast Main Line, as far as we can establish, was primarily for
21 140 mile an hour running. Now there is – as has been alluded to
22 earlier - there are proposals, in the longer term, to convert the East
23 Coast Main Line to 140 mile an hour running. So actually, what we're
24 proposing would be helpful towards that introduction of 140 mile an
25 hour running later on. And all three proposals include trains that can
26 run at 140 miles an hour.

27 So the only uncertain element at the moment about infrastructure is
28 there are some structures – because of possible resonance certain
29 bits of structures might need attention. So there is a small risk that a
30 handful of structures on the route might need attention. We have to
31 look at those individual cases and Network Rail would tell us how
32 much it would cost to fix that. If it was too expensive, frankly, we
33 would accept the extra minute in journey time that would be needed if
34 that was the case. We haven't got the detail of that yet.

35 ORR: Okay. I wonder if anyone else would like to come in.

36 VTEC: Can we come in on that? Firstly, I'd just like to agree with something.
37 The sectional running times that you've presented so far are consistent
38 with the runs that we got from work we did during our bid. We don't
39 disagree with that. That's probably the only agreement, I'm afraid.

40 The first thing I'd say is that you seem to have used different
41 engineering performance allowances from the ones that the rest of the

1 industry's using, and it is those difference between what's used in your
2 three hour 43 and what's used in our three hour 59. So that needs to
3 be sorted out. We don't mind going to yours but there'll be
4 performance implications from that. So I think we just need to agree a
5 level playing field on that.

6 But then finally – or most importantly, on the cost of the upgrades, it is
7 not just about balises; we agree balises are affordable and relatively
8 easy to put in. But you've got to do structures. There's a lot of work to
9 do on structures in terms of making sure they're robust. It is to do with
10 signal sighting for higher speeds; it is to do with level crossings; it is to
11 do with occupational crossings; it is to do even with the spacing of the
12 sleepers on the track. All that needs to be checked out.

13 I think we can assume from what Network Rail answered earlier that
14 Network Rail's approach to Edinburgh in four hours is around 140
15 miles an hour. He mentioned the L2E4 project. So I assume from that
16 that Network Rail haven't done any detailed assessment of what work
17 would be needed to do tilt, and the costs involved in that. But from our
18 experience from the West Coast – which wasn't all for 140 by any
19 means – it will be well north of £100 million, probably hundreds of
20 millions of pounds' worth of investment to enable tilt on the East Coast
21 Main Line.

22 THE CHAIR: Just on that point, can I first bring in Alliance and then just ask Network
23 Rail to comment on that. Alliance.

24 ALLIANCE: I'm not going to go into saying much over costs and – but I will come
25 back on the point about engineering allowance. Our engineering
26 allowance in the schedules is fully compliant with timetable planning.

27 VTEC: And performance.

28 ALLIANCE: Performance allowance is something that can be negotiated between
29 train operators and Network Rail. There's one minute's –

30 VTEC: So would you agree that it is different from what we are using
31 currently?

32 ALLIANCE: I would accept that it is the same as the current four hour service from
33 Edinburgh to King's Cross.

34 VTEC: Yes, I would accept that but that's an exception to everything else on
35 the route.

36 ALLIANCE: Oh, right, so it is an – so East Coast currently run an exception.

1 VTEC: We're actually getting rid of that. In order for performance to improve
2 on the route that is abolished as soon as our new timetable comes in.
3 We are not continuing with that – the extra three minutes that that train
4 has. So we haven't banked that in our three hours 59 at all. Our three
5 hours 59 is entirely compliant with all the other trains on the route.

6 ALLIANCE: Our three hours 43 in the up direction did not include that, but the ORR
7 in its – CH2M Hill in its report has adjusted the timings to three hours
8 45 which now do comply with those performance allowances.

9 VTEC: And then that needs to be reflected in the Hill report, and so far it
10 hasn't been.

11 VTEC: Yes, it is reflected in the report but not in the MOIRA runs.

12 THE CHAIR: We may well come on to that this afternoon, I suspect. Can we –
13 noted. Can I just bring Network Rail in at this point as well? Sorry, I'm
14 not sure –.

15 NETWORK RAIL: I think I've already answered the question around the work we are
16 currently doing on improving journey times on the route. But to clarify
17 we've had discussions with a number of operators, and the piece of
18 work we are currently doing is the L2E4 piece of work. That's the
19 piece of work we're currently doing.

20 THE CHAIR: Just to clarify, I think the question was – because, you had a specific
21 question, there. Network Rail had –

22 VTEC: My understanding of the L2E4 piece of work is that was mainly around
23 looking at 140 mile an hour running with IEP, or equivalent trains, and
24 not about tilt. Can Network Rail comment on that?

25 NETWORK RAIL: Yes, the scope of the L2E4 work is using the super express trains, and
26 looking at the locations at which a higher speed on the route –
27 including in some places up to 140 miles per hour – would be
28 available, and what the costs would be of doing that.

29 VTEC: Sorry, just coming back to the journey time point which is I think what
30 the discussion was about 10 minutes ago, and we were trying to
31 understand the three hours 43. Clearly, to run a train from Edinburgh
32 to London in three hours 43 it is going to have to overtake a number of
33 our proposed services en route. So actually, where we believe there
34 needs to be some consideration and some focus and some evaluation
35 in terms of what is the impact is the extra journey time that will have to
36 be factored in to our proposed services from the likes of Newcastle,
37 and from the south end of the route to enable our proposed services to

1 be overtaken if the three hour service is to be achieved. There'll be a
2 significant detriment to the journey times for other customers on the
3 route, if the Alliance Edinburgh three hours 43 service is granted
4 rights.

5 THE CHAIR: Thank you.

6 ALLIANCE: I think I'll just come back and say we don't know if that's true or not at
7 the moment. Bear in mind that our application was made, as we said,
8 16 months ago before all this capacity work was carried out, before we
9 knew what VTEC's timetable proposed. We have not been able to do
10 a detailed analysis yet or sought to discuss that with Network Rail. But
11 we would like to do that.

12 ALLIANCE: I'm also quite concerned that VTEC seem to believe that the only way
13 to overtake their trains is to put them on slow line and go by. There
14 are numerous opportunities to overtake on the route. And as we've
15 said, once timetable planners get to grips with it it will be pretty
16 straightforward. It happens now: Grand Central overtakes some of
17 VTECs trains, VTEC overtake some other trains. That's timetable
18 planning. You get a robust timetable, it will work very well. There is
19 no reason to believe for one moment that a VTEC train will sit on the
20 slow line waiting for this fast tilting train to go by.

21 THE CHAIR: Thank you.

22 ORR: Thank you all. That brings that session to an end actually. John, do
23 you want to just –

24 ALLIANCE: Can I just raise one thing? The section was headed 'Operational
25 Feasibility' so I was waiting to see where we could bring that in.
26 Because I have two questions for – I'm not sure whether this is aimed
27 at Network Rail or VTEC, but probably both. I have concerns about
28 two locations to which they intend to run trains. One is Harrogate and
29 the other is Middlesbrough. And I was going to ask VTEC what their
30 plans are for handling turnarounds at those two locations. Secondly,
31 are you comfortable that those operational arrangements work with the
32 ITT for the Northern franchise.

33 VTEC: I'll have a go at that. We're confident that it works with the ITT for the
34 Northern franchise because I believe DfT based the ITT for the
35 Northern franchise around our services. And DfT might like to
36 comment on that. In terms of Middlesbrough, are you referring to what
37 needs to be done to allow – enable IEPs to run to Middlesbrough?

38 ALLIANCE: No, to turn around at Middlesbrough. You have –

1 VTEC: I think we were planning –

2 ALLIANCE: – in your proposed timetables one train that turns around in 26 minutes
3 and the others in one hour and 26 minutes. I just wondered where
4 those trains are going to be for the –

5 VTEC: There's a siding on the east side of the Middlesbrough station –
6 correct me if I'm wrong – that was used when high speed trains used
7 to run there, and we would plan to put it in there when there's a longer
8 turnaround.

9 ALLIANCE: That involves a double shunt. Because you only arrive in platform two.
10 Anyway, okay.

11 THE CHAIR: Okay. Did Network Rail want to come in?

12 NETWORK RAIL: No, only to say that again it got dangerously close to some level of
13 detail there which brought me out in a cold sweat. So I don't think we
14 looked at Middlesbrough, I don't think we've looked at Harrogate.
15 I don't think we have looked at those in the report.

16 ORR: Fine. Were there any other questions in this sphere?

17 THE CHAIR: Particularly anything from people not at the table who might have any
18 additional points on that session. No? In that case, slightly
19 surprisingly, we've ended up ahead of schedule for lunch. Just to
20 explain the three applicants have got their own break out rooms, just in
21 case they want to have a discussion. I'm afraid it is only the three
22 applicants who've got those rooms. But lunch is served, I believe, next
23 door. If I can just ask if everyone is back here promptly for a start at
24 1:00 p.m. because we have got a lot to get through. Thank you very
25 much indeed.

26

27 **(The hearing adjourned from 12.26 p.m. until 1.00 p.m.)**

28

29 THE CHAIR: Thank you for being back promptly. We are going to move on now to
30 the next session, which is around concerns around the impact on the
31 Secretary of State's funds and DfT is going to make an opening
32 statement.

33 DFT: Yes. Thank you. This East Coast franchise has been won through
34 fair, open and hard-fought competition and will deliver substantial

1 benefits to current and future passengers. Franchise premia are
2 significantly contributing to the substantial rail investment strategy
3 planned for this route and the wider rail network. As stated this
4 morning, this Government values the benefits of competition that open
5 access can bring to the railways. However, these benefits must be set
6 against the need to reduce the overall cost of the railway to taxpayers,
7 the need to realise benefits from existing investment programmes and
8 the ability for the Government to justify substantial investment in rail in
9 the future.

10 It is very important that decisions taken on particular open access
11 applications reflect the full extent of the wider railway funding picture.
12 All of us present here at this hearing are keen to ensure that in this
13 instance the right solution is found to deliver maximum overall benefits
14 to taxpayers and to passengers. Our position is informed by our
15 analysis of the financial impacts that these applications could have on
16 the public purse, and on the non-financial benefits foregone from
17 investment decisions which have already been made.

18 Our position is clear: these open access applications do not offer
19 anything significantly new and will take significant revenue from the
20 East Coast franchise. This will impose substantial costs on the
21 taxpayer. There is no evidence that they would offer better value for
22 money than investments to which the Government has committed. We
23 know that the ORR will take these concerns seriously in the light of
24 their duty to have regard to the funds available to the Secretary of
25 State and, in securing value for money, will have regards to the
26 interests of the Secretary of State, who makes available resources to
27 the industry. So, I'm going to hand over to my colleague, who's going
28 to go through our position in a little bit more detail. Thank you.

29 THE CHAIR: Thank you.

30 DFT: So, additional open access services on the East Coast Main Line have
31 the potential to impact the funds available to the Secretary of State in
32 different ways during the current franchise term and then
33 subsequently.

34 During the course of the current East Coast franchise, the financial risk
35 of new open access services, taking paths that it is anticipated
36 otherwise would be granted to the franchise operator, that financial risk
37 is shared between the franchisee and the Secretary of State. I'll go on
38 and explain how that mechanism works in a bit more detail later.

39 But, significantly, the access applications that we've been talking about
40 today, would only start running when other infrastructure work was
41 completed and when rolling stock could be procured. It would be

1 around 2019-20, so around three to four years before the end of the
2 East Coast franchise. The Department therefore also needs to look
3 beyond the term of the current East Coast franchise. When the
4 franchise is re-let, bidders for the new franchise will take into account
5 the actual revenues and costs of the franchise, which will, of course,
6 include the full financial impact of any additional open access services.
7 Therefore, from this point, any net impact on the revenues and costs of
8 the franchise would be directly reflected into the funds available to the
9 Secretary of State, via the premium for the subsequent franchise.

10 There's also a potential impact on the business case for the
11 investment in the Intercity Express Programme (IEP), which has been
12 committed, and I will also come back to this in a bit more detail. So,
13 firstly, the Secretary of State Risk Assumption around access rights
14 and the allocation of risk in the franchise term. The Department's
15 normal position is that franchisees are responsible for access rights
16 and therefore it does not, generally, provide any financial protection to
17 franchisees against the financial impact of new open access services.
18 However, in the case of East Coast, the Department decided that,
19 exceptionally, it had to take part of this risk. The mechanism it does
20 that is through a Secretary of State Risk Assumption in the East Coast
21 franchise agreement.

22 The Department determined that, exceptionally in this case, a
23 Secretary of State Risk Assumption (or SoSRA) was necessary for two
24 reasons, two reasons that are exceptional to this franchise. Firstly, the
25 Department had procured the Intercity Express fleet for Intercity East
26 Coast. The objective of that investment was to deliver a substantial
27 improvement to capacity, frequency and journey times across the
28 whole of the East Coast network. In order to ensure that the benefits
29 of this investment were realised, the Department had to require the
30 franchisee to operate these trains and, indeed, subsequent
31 franchisees to operate these trains, and therefore the franchisee is
32 responsible for the associated costs during the franchise term.
33 Therefore, the franchisee would incur the costs of IEP, regardless of
34 whether they could be fully deployed. Secondly, the estimated
35 financial impact on the franchisee of the proposed competing London-
36 Newcastle-Edinburgh service was estimated as being so large that no
37 bidder could price that efficiently. At the time that we were considering
38 whether to offer a SoSRA, so well before we had the benefit of being
39 able to see any of the bids for the franchise, we estimated that that
40 impact could be some way over £100 million per year in real terms,
41 mostly due to abstracted revenue. If this risk had been fully allocated
42 to the franchisee, it would either have dissuaded bidders from bidding,
43 or it would have substantially reduced the premium that they would
44 have been able to offer. And, depending on how much it reduced the
45 premium, had those services started, it would have led to a significant

1 risk the franchisee would not have been able to meet its financial
2 obligations to the Secretary of State.

3 So, the way the SoSRA works is it defines that, 'provided the
4 franchisee has made best endeavours to obtain the access rights
5 necessary to run the services the Department specified in the Train
6 Service Requirement, applicable after full deployment of the IEP fleet,
7 the Department bears the financial risk if the franchisee is not able to
8 operate these services, including the risk of revenue being abstracted
9 by another operator. The franchisee is, however, at risk for any
10 services outside the times covered by the SoSRA, which is daytime
11 services on weekdays, and for any services that the franchisee
12 proposed over and above the Department's base specification.' The
13 Department did not take the decision to offer a SoSRA lightly, given
14 the significant potential financial impact it had and there should be no
15 expectation it would ever offer a similar SoSRA on any other franchise.

16 I will now go through our initial conclusions on the financial impacts of
17 each of the proposed applications. But I think, on all of these, I would
18 say, that we've done this assessment without there being final worked
19 up timetables for each of the different options and clearly, the financial
20 impact on the Secretary of State would depend on what the final
21 timetable is. So the figures I can give can only be very broad orders of
22 magnitude at this stage. The impact on the Secretary of State would
23 also, of course, ultimately depend on other things, such as the relative
24 pricing of the different services and so on, which again, at this point is
25 uncertain.

26 So, firstly, the Alliance application for London to Cleethorpes and West
27 Yorkshire. In this case, whether the SoSRA would be triggered and
28 the extent of any adjustment to franchise payments during the
29 franchise term, will be dependent on what services it is still possible for
30 the franchise to operate. So the impact of this service on funds
31 available to the Secretary of State during the term is particularly
32 uncertain as it is not clear how many of the planned, core East Coast
33 services VTEC would be able to operate, whether there would be any
34 impact on the core services – the key services specified by the
35 Secretary of State. Regardless of that, there would be an economic
36 impact as the franchisee would not be able to operate some of its
37 planned services, probably services to either Lincoln or
38 Middlesbrough. So potentially, Cleethorpes would gain a service but
39 one of these cities would lose one. Depending on the final timetable, it
40 is possible that this service could be operated in addition to the key
41 services which are protected by the SoSRA, in which case the SoSRA
42 would not be triggered and there would be no impact on the Secretary
43 of State's funds during the current franchise term. There would
44 potentially be an impact on any profit share payments payable under

1 the VTEC franchise agreement. We think it is also possible that in
2 some circumstances, this service might require a reduction in the
3 number of East Coast services, below the minimum level specified by
4 the Secretary of State and so if, for example, the East Coast operator
5 was only able to operate trains – five trains per hour in alternate hours
6 as a result, the impact on the Secretary of State over the final four
7 years of the franchise term and the subsequent 10 years, would be on
8 average £45 million per year in real terms in 2014-15 prices. Even if
9 during the current VTEC franchise there was no impact on the
10 Secretary of State, there would then be a similar impact in the
11 subsequent 10 years.

12 Secondly, the Alliance Rail service between London and Edinburgh,
13 the Alliance application. Once again, the same caveat applies that the
14 financial impact on the Secretary of State during the franchise term
15 and indeed subsequently, is dependent on what East Coast services
16 could still operate and there is no finalised timetable. We've based our
17 analysis on Network Rail's capacity report, which demonstrates that,
18 given currently operated or planned regional and non-London services
19 and freight services, it is not clear that there is capacity for more than
20 two long distance, high speed, London services per hour into
21 Edinburgh or more than three between Northallerton and Newcastle.
22 At least, not without impacts on other services. In the context of
23 Network Rail's analysis we consider that there's a reasonable risk the
24 SoSRA would be triggered, if Alliance was awarded access rights to
25 operate an hourly service between London and Edinburgh and that
26 East Coast would not be able to operate both two trains per hour to
27 Edinburgh and a further train per hour to Newcastle in line with the
28 Train Service Requirement.

29 In assessing the impact on the Secretary of State's funds, we have
30 assumed that the Alliance services would be operated by Class 390s
31 but in non-tilting operation. This is because we understand that
32 substantial infrastructure work would be required for tilt operation.
33 We've not heard any figure on the cost of that infrastructure work until
34 this morning, but our expectation is that the cost of the infrastructure
35 work would be very substantial and, as far as we are aware, the full
36 funds for those works have not yet been committed, or the works
37 approved or analysed in detail by Network Rail. In terms of assessing
38 the potential impact on the funds available to the Secretary of State,
39 this is a conservative assumption, a faster tilting service would abstract
40 more revenue from the East Coast franchise, so the figures that I give
41 would be increased if we'd not made the conservative assumption that
42 we had done about Alliance's potential journey time. So, we've
43 estimated an hourly non-tilting London to Edinburgh service, with a call
44 at Newcastle, would reduce the funds available to the Secretary of
45 State, again over the final four years of the term and the 10

1 subsequent years by, on average, £150 million per year in 2014-15
2 prices. Even if it was possible to operate an eight trains per hour, all
3 day, long distance high-speed service on the East Coast Main Line,
4 which as I've said before, we would also have some concerns about
5 potential performance and connectivity implications.

6 Finally, the FirstGroup application for a London to Edinburgh service.
7 Now, we understand that FirstGroup has developed a timetable
8 showing its proposed service running alongside the May 2020 services
9 planned by Virgin East Coast, with some modifications. We've not yet
10 had sight of Network Rail's review of this proposed timetable but from
11 our initial review, we understand there are some potential areas of
12 concern about their interaction. In this context, there is a risk that the
13 SoSRA would be triggered, and therefore there would be an impact
14 during the current franchise term. There would, in any case, be an
15 impact beyond the current franchise term. On this basis, we've
16 estimated that the proposed FirstGroup London to Edinburgh service
17 could reduce the funds available to the Secretary of State by an
18 average of £65 million per year in real terms over the 14 years to
19 2033-34. And again, that is on the basis of assuming that FirstGroup
20 services replaced some East Coast services.

21 Moving on to the impact on the business case for the Intercity Express
22 Programme. The Department is committed to an investment of
23 £2.7 billion in the Class 800 series fleet for the East Coast franchise
24 and associated depot and infrastructure works. This investment
25 decision was predicated on the benefits that would be released from
26 the full use of the fleet and the development of an integrated timetable
27 that balanced the needs of passengers across different markets. The
28 business case strongly relied on an increase in passenger revenue,
29 enabled by the improved timetable, which would offset the majority of
30 the costs associated with the new fleet. Options that do not include
31 the full benefits of the Class 800 fleet would undermine this business
32 case. This point about the reliance on additional revenue from
33 deployment of these trains is very important. Although the Department
34 has made an investment of £2.7 billion, that is not an expectation that
35 it is spending that amount of money, it expects to get most of that back
36 in terms of higher revenue from the East Coast franchise. The ratio of
37 the net economic benefits of this investment to the net costs to the
38 Government would therefore change substantially, in the event of
39 particularly the hourly open access London to Edinburgh service,
40 because the benefits would be reduced because the fleet couldn't be
41 fully deployed, but even more significantly, the net cost to the taxpayer
42 of this investment would very substantially increase because of
43 increased revenue to franchised rail operators would no longer offset
44 most of the cost of the payments of all the new trains and the
45 associated works. On this basis, we've calculated the benefit to cost

1 ratio of this investment would reduce from 8.79 to 1.13. In effect, from
2 a very strong economic case for the investment to a very weak
3 economic case for investment. For the GNER London to Cleethorpes
4 service, the West Yorkshire service, the benefit to cost ratio would be
5 reduced from 8.79 to 2.73, so a very substantial reduction in the
6 economic case, albeit remaining at a higher level. In the limited time
7 available we've not been able to calculate the impact of the First
8 application on the benefit to cost ratio, but we would expect it to be of
9 a similar magnitude.

10 It is been suggested in advance correspondence that the Class 800
11 fleet could be used on other routes, if we were not able to get the full
12 benefit of them on East Coast due to other operations. I think, in this
13 context, it is important to point out that IEP is not just a rolling stock
14 programme, it also includes depots and route clearance works and
15 that those works which are committed are specific to East Coast. The
16 train is not designed for other routes, nor configured for other routes
17 and there are limited opportunities to redeploy them elsewhere. The
18 units that would be displaced would be electric units, which are not in
19 the short term suitable for operation in the West of England. We could
20 investigate, if ORR found this helpful, whether they could be deployed
21 on the Midland Main Line, but our initial analysis is that the small
22 number of units that would be displaced would not be an appropriate
23 rolling stock solution either for the Midland Main Line and there is no
24 evidence that such a redeployment would be good value for money.

25 Specifically, on the Department's obligations to ensure good value –
26 returns on public investments, I'm going to pass to my colleague for
27 more detail.

28 DFT: Thanks. I just wanted to make two points, really. One, to just provide
29 a bit more context around the IEP business case and the
30 responsibilities the Department has, and then also –

31 ALLIANCE: Mr Chairman, could I just – it is just one point which is – which may
32 very well be beneficial. There's a huge amount of information just
33 come here that we've not had a chance to look at. If we're still going
34 to expand, is there any chance we could have a look at the papers so
35 we can actually – I've been trying to make notes here, which is almost
36 impossible.

37 There's a paper there, which has just been presented by DfT. Can we
38 not have a copy of it, so we can have a look, so we can develop our
39 questions on the back of that copy? Because trying to write down and
40 pick up all the information is - it is almost impossible and I would really
41 object to the fact that we're getting all this information, verbally, on the
42 day of the hearing. But, anyway, there's a copy there, you can get

1 some copies, at least people here can be looking at it while we're
2 waiting for the rest of the presentation.

3 DFT: I only have two small points so if I could finish my two points and
4 then...

5 THE CHAIR: Well, let's finish the two points and we'll come back to the logistics of
6 how we handle it. Yes.

7 DFT: Okay. Thank you. So, the Department is accountable to Parliament to
8 safeguard the value for money of the investments, which are set out in
9 a publication called Managing Public Money. This responsibility, as
10 we all know, is also reflected in the ORR's duties. So in light of this,
11 the Department does have a responsibility, so far as possible, to
12 realise the economic benefits that justified the original case for IEP, as
13 well as the increase in rail revenues that flows back to the Department
14 in higher premiums or lower subsidies, which offsets the ongoing – the
15 costs of the original investment.

16 I also wanted to make a point about looking forward. With an actual or
17 perceived risk, or an increased presence of abstractive open access
18 operations, it is also likely that there will be a reduced ability for the
19 Government to invest in the development of the network in the future.
20 The Government makes the case to invest taxpayers' money on the
21 basis of investment case that takes into account the economic benefits
22 that arise from its investment as well as the financial return on that
23 investment through the franchise payments. Without the ability to
24 recapture those profits, from rail services, the costs of rail
25 infrastructure schemes increases and in with higher costs, the ability to
26 make the case for rail investment is diminished. So consequently, the
27 ability for the Government to invest in the development of the network
28 could be limited by a decision around increasing abstractive open
29 access operations. Thank you.

30 THE CHAIR: Thank you very much indeed to all three of you. Just taking the points
31 being made, I do appreciate that there's been a lot of information just
32 provided there. I am worried about the idea of trying to get the copies
33 done and circulate them round and then people trying to read them
34 while we're doing the session given that we haven't got that much time
35 on it. So I would prefer to press ahead. But I would prefer to do it on
36 the basis that we are assuming and indeed, we've built some of our
37 questions around the fact that there may be a need to unpack quite a
38 few of these issues. So I think during the course of the questions,
39 we're going to follow the same principles as before, that we're going to
40 kick off with some questions and we're going to try and draw the
41 parties in as we do that. I'm hopeful we can get to the bottom of some
42 of these points.

1 ALLIANCE: I accept that, Mr Chairman, I think that's probably pragmatic, but I
2 would like therefore to reserve our right – and I guess one or two of the
3 others might do the same – to come back on this item after the hearing
4 another day because there will undoubtedly be some supplementary
5 questions to follow.

6 THE CHAIR: In that case, I would repeat the point I made this morning, that there
7 will be a period of time after this hearing, where people, who've got
8 further issues they want to raise, further questions they want to put or
9 further submissions, there will be time to consider that after this
10 hearing and that will be built into the timetable, which we will talk about
11 in the next steps and I will assure people around that. Okay. Thank
12 you.

13 On that basis, we are going to follow the same format we followed this
14 morning, where I'm going to hand over to my colleague, Chris
15 Hemsley, to kick off working our way through the questions, but we'll
16 try to bring other people in as we go on. Chris.

17 ORR: Okay, thanks. So I'll try and take us through this in some sort of
18 sequence to try and make it a little bit more manageable. I wonder if it
19 is first worth just confirming the SoSRA mechanism so we've got a
20 common understanding. I know you shared the relevant drafting – I
21 understand it is now on your website. Am I right in understanding that
22 this basically boils down to there being a baseline of service out of
23 London in terms of high-speed train paths, which is six train paths?

24 DFT: So, in the version of the franchise agreement, which I think has been
25 provided, the SoSRAs are based around what are called TSR2 key
26 services, which are six trains an hour, specifically two trains an hour
27 between London and Edinburgh, one additional train to Newcastle, two
28 trains to Leeds and then one train to at least as far as Newark and any
29 subsequent destination on the East Coast Main Line. However, I think
30 it is important we don't excessively focus on the SoSRA. The SoSRA
31 covers a period of three to four years. The impact on the Secretary of
32 State's funds from additional services would be over a much longer
33 period and beyond the franchise term, 100% of any impact in terms of
34 franchise revenue and costs, will pass through to the Secretary of
35 State.

36 ORR: Yes, so I think we're going to step through each one of these in turn. I
37 guess the other feature here is that, as I understand it, that if VTEC
38 cannot get access to the six trains an hour, crudely speaking, I know
39 the legal drafting probably is slightly more sophisticated than this, if it
40 makes up that capacity in either the immediate hour preceding or the
41 one after, then again the mechanism isn't triggered. Is that broadly
42 right? So in effect, if there's a shortfall, you can make it up in the hour

1 after or the hour before.

2 DFT: It is based around protecting the franchise from not getting on average
3 a six trains an hour service. When we planned this SoSRA, we
4 appreciated that you could have some hours where you can get trains
5 that drift into the start of the next hour because of one or two minutes
6 difference and we wanted to make sure the SoSRA wasn't triggered in
7 certain hours by that sort of drifting in the timetable. So it protects a
8 basic six trains an hour service, with some flexibility around the edges.

9 ORR: That's very helpful. So, the first question of more substance is that, we
10 talked about the capacity that is available to get out of King's Cross as
11 being eight trains an hour. You made a couple of statements that there
12 was a reasonable risk that the SoSRA could be triggered by Alliance
13 and similarly by First. I don't quite understand how that relates to the
14 view that was expressed this morning, that there are around eight
15 paths, the SoSRA is at six and we've got requests for two. So maybe
16 you could just explain?

17 DFT: Yes. Firstly, you need to look at King's Cross, but then also look
18 further up the route. So, at King's Cross, there are already generally
19 one other open access service per hour, but in some hours there are
20 already two. I think that's important to note, in some hours there can
21 already be a Grand Central service and a Hull Trains service. But, the
22 most important thing is the SoSRA doesn't just protect the number of
23 services into and out of King's Cross, if the franchise can get six trains
24 an hour into King's Cross, but it can't get three trains per hour on the
25 section of route between Northallerton and Newcastle, for example,
26 that still triggers the SoSRA. The key services defined by the SoSRA,
27 the SoSRA triggers if the key services can't be delivered – and that
28 means the numbers throughout the whole length of the East Coast
29 route, not just at King's Cross.

30 ORR: Okay. I was going to say, I should have said it up front, we'll turn to the
31 wider impacts and the IEP business case next, but is it worth just
32 pausing on that, the relatively focussed issue of the SoSRA and
33 seeing if there are comments or questions from around the table?

34 ALLIANCE: Okay, well as you might imagine, there'll be quite a few.

35 THE CHAIR: Yes, could you just... Yes.

36 ALLIANCE: I think what you're saying is if VTEC can deliver six trains an hour then
37 the SoSRA is not impacted, is that right?

38 DFT: Well, I think as I answered, it is not just six trains an hour into King's
39 Cross.

1 ALLIANCE: We're on the quantum then, it is the average of six an hour.

2 DFT: It is the quantum over the whole route. Not just the quantum at King's
3 Cross, the quantum over the whole route.

4 ALLIANCE: Okay, well, so while we're talking about, or while we'll bring in IEP,
5 you've mentioned the impact on IEP and you've put a very detailed
6 paper to ORR, earlier this year, about IEP, suggesting that the value of
7 the impact was actually the value of the entire fleet virtually. But then
8 I'm looking at a VTEC application that uses trains beyond the IEP fleet
9 because there aren't enough IEPs to run another half or two-hourly
10 service basically. So, if they don't run that additional service, there is
11 no impact on the IEP fleet, assuming you can deliver the quantum,
12 yes? Because the IEP fleet's based on six trains an hour, yes?

13 ORR: I think we need to come back to the IEP. Let's –

14 THE CHAIR: Yes.

15 ORR: Shall we try and –

16 ALLIANCE: It is important.

17 THE CHAIR: We were going to try and do the SoSRA and then the IEP.

18 ALLIANCE: It is part of it.

19 THE CHAIR: Oh, okay then.

20 ALLIANCE: It is part of the SoSRA. What I'm trying to get to here is, is the IEP
21 fleet based on six trains an hour, the quantum of six trains an hour
22 through the day, yes?

23 DFT: Well, the IEP, as I understand it, the six and a half trains per hour that
24 East Coast proposes, doesn't necessarily require additional trains.
25 They've committed to provide additional trains in order to increase the
26 capacity. But the IEP includes a number of five-car units. Those five-
27 car units can be used individually or in combination so...

28 ALLIANCE: I'm sorry, what are you actually telling me here because I'm looking at
29 an application that shows a fleet of 225s, in seven-car formation,
30 because there are not sufficient IEPs - units to run the service. Now –

31 DFT: Not sufficient to provide the capacity. Not not sufficient to provide the
32 service, as I understand it. I think East Coast might be able to provide
33 more detail on that than I can.

1 ALLIANCE: I don't quite see how a nine-car IEP and a seven-car 225 will actually
2 provide any increased capacity now, as opposed to two nine-car 225s.

3 THE CHAIR: Let's note that point. Shall we just ask if Virgin - yes.

4 VTEC: Yes, so basically, the truth is somewhere in between, but broadly, we
5 could run – we probably could run a six and a half train an hour just
6 with IEP but it would lead to unacceptable overcrowding. We could
7 certainly run the six trains per hour timetable with just IEP, and the
8 225s are being procured, partly to run the extra half train an hour,
9 partly to provide crowding relief on the six trains an hour. So we
10 certainly could run the six trains an hour with just the IEP, it is fair to
11 say.

12 FIRSTGROUP: Sorry, can I just add what I think? Because we're sort of veering off
13 slightly. I think the important point when it comes to the SoSRA,
14 (because colleagues from the DfT have talked about the IEP fleet
15 deployment and the impact that has, which is a separate point from the
16 SoSRA). The point being that, at six trains an hour, the IEP fleet is
17 totally deployed, the franchise spec, which is what the DfT is referring
18 back to, required a minimum of six trains per hour to operate the off
19 peak and that meant the IEP fleet in their view was fully deployed. If it
20 was not fully deployed at that point, then that wouldn't have been the
21 specification for the franchise, because they wouldn't have been able
22 to achieve the IEP business case. The important point is that six trains
23 an hour the IEP fleet is fully utilised.

24 THE CHAIR: Okay. Thank you.

25 FIRSTGROUP: One further point on rolling stock, as well. It is just noted based on the
26 copy of the franchise agreement that the Department helpfully
27 provided to us yesterday. In that, we've noted that the 225 fleet
28 appears to have been committed on a contingent basis, linked to the
29 award of access rights. And in your description earlier, you were
30 describing the SoSRA being linked to committed and inescapable
31 rolling stock costs. It would perhaps be helpful if you were able to
32 clarify if that 225 fleet has been committed on that contingent basis
33 and in relation to the granting of the access rights.

34 THE CHAIR: Is it possible to clarify that?

35 DFT: I think the franchise agreement is clear, in that regard - I don't know if
36 VTEC want to say any more about that?

37 VTEC: It is very clear. If we get 6.5 trains an hour, as we've applied for, we
38 procure the 225 fleet. If we only get six trains an hour, we don't
39 procure the 225 fleet. We can just run the 6tph timetable with the

1 IEPs.

2 FIRSTGROUP: And escape the costs.

3 VTEC: And the point being at that that (a) we escape the costs, and (b) the
4 SoSRA on paths is still not enacted at that point because the six trains
5 have been achieved. So, as ORR pointed out earlier, in that case,
6 there would be six trains an hour, that leaves two paths, one for the
7 current open access operators that they share, leaving one path per
8 hour available.

9 THE CHAIR: Okay. Are there any other points on the SoSRA that – yes.

10 ALLIANCE: That's a very good point, it is worth remembering that our two open
11 access applications were [inaudible], before successfully securing any
12 of that capacity in that extra path. There's a question that I've got then
13 on the franchise agreement, sort of skimming through the 671 pages
14 yesterday that arrived. The half a path which you nominally seem to
15 suggest goes to Middlesbrough. It suggests in there quite clearly that
16 that could alternate between a service to Newcastle and
17 Middlesbrough, as opposed to just going to Newcastle, i.e. why would
18 Newcastle need three trains an hour, when you could split the two?
19 And if that's – from what I'm hearing now, if that's deliverable, neither
20 the SoSRA is impacted on the access rights, nor indeed, it would
21 appear, on the IEPs. Is that correct?

22 DFT: I'm not sure that is correct, but I think without more detail, that's quite a
23 detailed legal question on the impact of the SoSRA and the working of
24 the franchise agreement. I think you would need to read that in
25 combination with the Train Service Requirement tables as well. So, I
26 can't give a definitive answer.

27 THE CHAIR: Shall we – Okay, in that case, given the time, shall we – can we pick
28 that up outside the meeting? Okay, yes.

29 ALLIANCE: Yes, it is difficult. I mean, I get something the night before and now I'm
30 being told asking a question on it is a difficult legal question. It is just
31 not acceptable, John, really.

32 THE CHAIR: Just for the record then, we've not lost the question. We are going to
33 follow it up outside the meeting.

34 ALLIANCE: You can understand the frustration.

35 THE CHAIR: I understand where you're coming from, yes.

1 ALLIANCE: It is a very simple question. It is not a hard one. I've read it and I can
2 see what it says. Either it says it or it doesn't say it. I was just seeking
3 clarification. So maybe it doesn't say what it says, but it does seem to
4 suggest it says what it says.

5 THE CHAIR: Okay.

6 ALLIANCE: So that's actually quite critical, in relation to where we are. But it
7 would appear to me, quite clear, that the franchise agreement as such
8 is deliverable without any impact on the funds available to the
9 Secretary of State and it still leaves the capacity to introduce further
10 services, be it FirstGroup or GNER services, alongside the route. We
11 have never suggested that VTEC couldn't deliver their service pattern
12 and, indeed, neither have FirstGroup. Although, of course, we've also
13 been told that there's a perceived risk to infrastructure investment, but
14 of course the DfT have got the rebate mechanism, if they want to use
15 it.

16 You cannot say that we're just going to invest in the infrastructure
17 purely for a franchise and then we're back to the position of TSRs, how
18 can a Train Service Requirement actually become a requirement that's
19 significantly greater than what the specification was when it was put
20 out to tender? It is not a requirement, it is what has been bought. And
21 I understand there's a value, I'm a taxpayer, like everybody else. It is
22 worth remembering what the Public Accounts Committee said about
23 the purchase of the IEP fleet, and bearing in mind where we are with
24 our application, that the industry knew in August '13 about our
25 application to Edinburgh then all that risk, that DfT has sought itself to
26 take a commercial risk, on behalf of the taxpayer. And I don't think
27 that's acceptable, I'm not even sure it is legal, but that's an issue we'll
28 have to deal with at another time.

29 THE CHAIR: Okay. Thank you, Ian, I think we're going to have to move on to the
30 next topic. Okay. Points noted. Go on, one brief –

31 FIRSTGROUP: There's a couple of other points that need to be made, that I -

32 ORR: I'm about to go on to business case, if that -

33 THE CHAIR: Is it about the topic we're on, the SoSRA?

34 FIRSTGROUP: It is about the SoSRA.

35 THE CHAIR: Okay. We'll accept these two and then we'll move on.

36 FIRSTGROUP: Just in respect of specifically of FirstGroup, so it is back to the point we

1 were just discussing around the number of paths and that, if VTEC
2 have six paths, the SoSRA is not enacted, then in that circumstance,
3 even when it had six and a half, on our indicative timetable that we
4 have put together, notwithstanding that there's another applicant, our
5 train service could fit alongside that. So at that point, you could have
6 the two current and existing open access operators, our service, plus
7 the VTEC six and a half. The SoSRA would not be enacted and there
8 would be no impact on the taxpayer. Now even if one half path out of
9 the six and a half paths then came out, the SoSRA is still not
10 impacted, so the cost to the taxpayer remains unaffected. At that
11 point, there is still an agreement in place, with no SoSRA impact in
12 between DfT and the franchisee and all of the premium obligations
13 unaffected.

14 THE CHAIR: Okay.

15 DFT: Can I answer that because I think there was a statement there that
16 really was just not true.

17 THE CHAIR: Okay. Right.

18 DFT: You said there's no impact on the taxpayer. Potentially, there's no
19 impact on the taxpayer during the current East Coast franchise term.
20 However, that is quite a small proportion of the time for which access
21 rights would be awarded. There would be a very significant impact on
22 the taxpayer beyond the franchise term.

23 THE CHAIR: Okay, point noted. I'm – sorry – I'm going to have to –

24 FIRSTGROUP: This is an important point.

25 THE CHAIR: Can we just move on to the IEP business case? And then, we can
26 come back to this at the end of this session. But I just want to make
27 sure we cover at least some of the ground on the business case,
28 otherwise we're going to miss a chunk out, so I'm just going to ask
29 Chris to continue on that now, and I will note there are still some
30 outstanding questions. Chris.

31 ORR: In the context of the discussion of the impact on the Secretary of State,
32 you flagged two particular strands of impacts. One was that the IEP
33 fleet is not fully deployed and the other one was the abstraction
34 effects. Now, if we take those in turn. I think the position we are
35 coalescing around, is that at six trains an hour, the IEP fleet is
36 deployed. So that would suggest that the impacts on the Secretary of
37 State are largely abstraction effects, which I'm not denying are
38 important. But, just in terms of trying to clear the ground, is your
39 position still that there are additional impacts because the fleet is not

1 deployed, or is it the abstraction effects only?

2 DFT: Ultimately it depends on the final timetable and also the final demand.
3 It may well be that if East Coast can still run a six trains an hour
4 service, it can fully utilise the fleet, but that isn't necessarily the case.
5 If it couldn't have, for example, two trains an hour to Edinburgh, then
6 that wouldn't fully utilise the fleet, for example, even if it could have six
7 trains an hour closer to London. And the point about abstraction and
8 therefore the financial case being very different would remain.

9 ORR: Okay, so does that leave us in the position that –

10 THE CHAIR: Sorry. Go on.

11 DFT: There was one further point I wanted to make. Although the Network
12 Rail work found that there is potentially space for eight London long
13 distance services per hour on the East Coast Main Line, they have
14 said that is dependent on other compromises being made, such as no
15 stops being made at Stevenage by long distance, high-speed services.

16 And so, in our view, it is not yet determined that there is capacity for
17 eight TPH. That might result in, say, 5.5 Intercity East Coast services,
18 which takes us below that six that we were discussing.

19 ORR: I think that's really helpful. We'll come on to abstraction soon. You
20 talked about the business case impacts, so I wouldn't mind just asking
21 a quick question here. Is it right to infer from the impacts, that this was
22 a business case built on the assumption that – well, I guess, the
23 question is what assumption was built in here? So, am I right in
24 assuming it is the full utilisation, which is approximately the six trains
25 an hour, and in effect no more than that? So is that the assumption?
26 So you haven't made any assumption in the IEP business case, in
27 respect of obtaining additional rights. And the reason I ask is because,
28 as I'm sure you're aware, predicating a business case or impact
29 assessment on rights you don't yet have would imply a need to make
30 risk adjustments; that's what I'm getting at here. Or was there no need
31 for a risk adjustment on those numbers.

32 DFT: The IEP business case was based on the assumption of one additional
33 East Coast path per hour, so there's currently five East Coast trains in
34 most hours and the business case assumption was that there would
35 be six. And investment was made on that basis, and indeed the
36 purpose of the East Coast Connectivity Fund – or a key purpose of the
37 East Coast Connectivity Fund - was to deliver at least one hourly
38 additional path.

39 THE CHAIR: Okay, right. Do you have any more?

1 | ORR: I was going to say, we'll come maybe on to Rob's points about the
2 | longer term impacts separately, but if we pause on that there.

3 | THE CHAIR: Okay, that's a good idea. Does anybody else want to come in from
4 | around the table on this point?

5 | FIRSTGROUP: Yes, thank you. I mean, first of all, we've only just heard the impact
6 | assessment relating to the FirstGroup application and I would like but
7 | we would dispute the figure of £65 million pounds which has been
8 | quoted, because it is predicated on the assumption that VTEC is
9 | unable to operate its two trains per hour to Edinburgh. Our plans, and
10 | we've shared our timetable, show that our service can operate
11 | alongside that service level that relates to Virgin, which is the premise
12 | on which the DfT's number is based.

13 | The second thing is, in relation to the post-franchise impacts, which
14 | DfT is articulating. This is predicated on a premise that the DfT has an
15 | unfettered right to sell and allocate all of the access that exists on the
16 | route, to the exclusion of other operators.

17 | And the other thing that we would like to raise in relation to the post-
18 | 2024 position is that, in any case, this long-term position is highly
19 | uncertain, there are things like HS2 that will be coming up during the
20 | next decade which will have significant impacts on travel patterns
21 | across the UK. So, simply rolling forward a calculation based on a
22 | premise today, forward a decade, 15 years, 20 years, to calculate the
23 | impact, it does not take account of the changes that may occur when
24 | we have that.

25 | THE CHAIR: Okay, thank you. Any more thoughts from the table?

26 | ALLIANCE: On that same item about franchise premium, there was a report done
27 | for the EU, which said that, 'yes, this always - crops up from the DfT.'
28 | But their view was that there was scant evidence, and indeed I'd like
29 | you to provide me some evidence, because the actual evidence that
30 | you have on the East Coast, is that every time it is been let, there has
31 | been more and more open access competition and every time it is
32 | been let, it has been let for more money. So, you need to provide the
33 | evidence, not just assume that that would be the case.

34 | The other thing is that DfT talked about, there could be a possible
35 | decrease in capacity here, having listened to Network Rail, we might
36 | end up with five and a half paths possibly, only available. In which
37 | case, we're back to the veracity of the IEP business case. Why on
38 | earth were you ordering additional trains if, in your own mind, you're
39 | still not convinced that there's room for it? And I would remind, for
40 | those of us that were at these Programme Boards that I've attended,

1 that it is been Alliance that has been pushing from day one that has
2 been pushing for the capacity position on the East Coast to be verified
3 and that's now been confirmed by Network Rail. And when we
4 eventually got them to the position that there's probably eight paths, on
5 the basis that there's six – seven in many hours now, the response
6 from the DfT at the meeting, and it was minuted because I've made
7 sure it was minuted, was to Network Rail to say that, 'well, if there is
8 an eighth path, you won't sell it, will you? Because it will only have an
9 impact on performance.' But now you want to use some of that
10 capacity.

11 It is quite clear, that you do regard – as First have said – that you are
12 judge, jury and executioner on the access rights for the route and that
13 is not acceptable. And I'm waiting for you to provide me with some
14 evidence about the future value of a franchise. It would be nice to
15 have a few more to look at. If we look at the West Coast, there hasn't
16 been a bid for the West Coast that's been successful, since it was first
17 let. So we haven't even got a competition for the market on most of
18 the long-distance routes, never mind competition in the market.

19 THE CHAIR: Okay, thank you. We've got one more area we'd like to explore, I'd
20 just like to open it up to the wider room. Yes.

21 HULL TRAINS: Thank you. Two comments from Hull Trains perspective. DfT, in the
22 conclusion of your speech, you said that you didn't want to see an
23 increase in open access, abstractive services. That was your exact
24 words?

25 DFT: I think I meant substantially abstractive, such as the -

26 HULL TRAINS: Yes, I'd just like to clear point that up, for the record because the point
27 about open access and abstraction on Hull Trains was actually proved
28 in the court of law. We are not abstractive, in fact, we've been
29 substantially generative. And I think there are other routes to investing
30 in the rail network rather than the merry-go-round of money through
31 the DfT. In terms of the IEP programme, you the Government
32 committed the taxpayer to substantial amounts of money, signed the
33 deal with Hitachi, which is very prescriptive, very detailed. And you
34 didn't at the same time, apply for the track access rights to back that
35 contract up. Something that I think shows repeat behaviour on your
36 behalf.

37 When you make investments in the network, in terms of substantial
38 alterations to the infrastructure, you don't do a track access option and
39 get the rights to back that up for your franchise services and you
40 haven't done it with IEP. You've just assumed that you're going to get
41 the rights to operate those trains after the event.

1 It is the most fundamental fault in procedure and it leads this industry
2 down in to these round table meetings time after time after time. I
3 would urge you to join the dots together and go for the access rights at
4 the same time as you're committing the investment, whether it be in
5 rolling stock or in track. Because the IEP contract binds you so much.
6 In terms of maintenance, it is highly specified and it is based on a
7 timetable output, which in the case of Great Western, cannot be
8 delivered and in the case of East Coast, it is very hard to deliver and
9 all the bidders, who've bid for East Coast, will have gone through the
10 MARA and TARA porridge and come to that kind of conclusion.

11 But this lack of joined-up thinking is leading the industry into severe
12 costs and aggravation. And it really needs to be resolved by just
13 joining the two things together.

14 THE CHAIR: Okay. Thank you. Any more points from the floor?

15 [Crosstalk]

16 THE CHAIR: I was going to ask whether the DfT wanted to come back on any of
17 those points?

18 DFT: I think we've heard the point Hull Trains made there loud and clear.
19 So thank you for making it and we certainly note it. I completely
20 understand where you're coming from there. However, for the
21 purposes of this particular hearing, we are where we are - with regards
22 to all the various contracts that exist in the various different parts of the
23 railway at the moment. And therefore I think we have to focus now on
24 what position we are all in, both contractually in terms of our duties
25 and responsibilities and make the best – and help the regulator to
26 make the best decision going forward.

27 THE CHAIR: Okay, thank you. We are going to have to move on to the next topic in
28 a minute, but there was one –

29 DFT: Can I just reply on one point?

30 THE CHAIR: Yes, of course.

31 DFT: We've tested a number of scenarios and I think some of the applicants
32 have criticised that the scenarios we've tested are not exactly the
33 scenarios they've envisaged. These scenarios are not simple things to
34 test, but if ORR thinks it would be useful to its analysis of the
35 applications for us to test other specific scenarios, then that's
36 something that we can look at. It is clearly not possible to test every
37 possible combination of different services that there could be.

1 THE CHAIR: Okay. Thank you. I'm just going to take one more point in this area
2 then we really must move on.

3 GRAND CENTRAL: I would just echo the point made by Hull Trains about the proven track
4 record of increased competition in the marketplace leading to a
5 generative effect across the piece. And I hear the words from the DfT
6 that they welcome the benefits of competition but, quite clearly, they're
7 presenting an argument that says they've invested significant amount
8 of taxpayer's money on the assumption that no competition would
9 emerge. Let's park that.

10 So, everyone's been focussed on Edinburgh and the impact on the
11 Secretary of State's funds and so forth there, but there are a very wide
12 range of services that VTEC are applying for, in fact the Edinburgh
13 service is by far the smallest element of their service expansion. Has
14 an assessment been done of the impact on the Secretary of State's
15 funds if the additional Middlesbrough service was not operated by the
16 franchise? And, specifically, has the DfT made any consideration of
17 alternative means by which that service could be provided, without
18 depending on the state sponsorship?

19 THE CHAIR: So, would anybody like to respond on that point now or –

20 DFT: As I said earlier, we've tested the scenarios that I've read out – there
21 are any number of possible other scenarios which we haven't tested
22 so, no, in answer to the question.

23 THE CHAIR: Okay, thanks.

24 GRAND CENTRAL: Can I suggest that that is something that should be looked at, and
25 active discussions around alternative approaches to providing the
26 connectivity to Middlesbrough in particular, is explored.

27 THE CHAIR: Okay, noted. Thank you. We've got one more topic we wanted to
28 follow up on. So I'm going to hand you back to Chris, so apologies, I
29 just note – given the time.

30 ORR: Yes, thanks very much. So, DfT, just picking up with you then. Right
31 at the end, we turned to the long-term effects here. So you made a
32 statement to the effect that there's a risk that it reduces the
33 Department's ability to invest in the long term.

34 DFT: Yes.

35 ORR: Now, is that a point about abstraction?

1 DFT: Yes.

2 ORR: Or is there anything else there?

3 DFT: It is a risk around abstraction. It is a risk around the economic benefits
4 as well, but, as I stated – quite clearly, I think – you know, if the
5 Department can't get a return on its investment financially, it increases
6 the cost of rail investment. You know, in this fiscal environment that
7 we have at the moment, there is a difficulty in continuing to invest on
8 the scale that the Department has done in years gone. If there is a -

9 ORR: Yes. I guess what I was getting to is that, this discussion that we're
10 about to come on to, about abstraction, should capture those sort of
11 effects. You haven't got an additional argument?

12 DFT: I think we're - looking at the IEP business case, is a backward-looking
13 argument, you know. Forward looking, we must consider the impact
14 on the investment. The ORR have a duty, I understand, to promote
15 the development of the network. If the Department can't invest in the
16 network going forward because – or to the extent that it has done in
17 the past, there's an impact there.

18 ORR: Okay.

19 FIRSTGROUP: Can I just make a comment on that? I think, whilst that's correct and I
20 don't wish to describe them all, as John called them, but I also think
21 we should remember that the ORR has 22 different duties.

22 DFT: Of course.

23 FIRSTGROUP: And to focus on one of them, in this context, is quite frankly
24 dangerous.

25 DFT: I think we focused on a number of the duties, though, that's just one of
26 the 22 duties.

27 FIRSTGROUP: No, your statement about the impact on the future was quite pointed
28 towards the implications of these discussions and I think that is
29 something that we just need to take stock of.

30 I think, when it comes back to the point that you've been making,
31 we've already established in the discussion, having said what we've
32 just said. We've already established in the discussion that the
33 Department's business case for IEP can be fulfilled with six paths and
34 we've established that already.

1 DFT: Well, the service proposition can be, the impacts might not be,
2 possibly.

3 FIRSTGROUP: No, you've just – the –

4 DFT: Well, the business case includes the economic benefits and the –

5 DFT: I think a critical element of the business case is that the Department
6 makes a financial return. It has increased revenue from the East
7 Coast train operator, which offsets a very substantial amount of the
8 cost, so it is not sufficient in itself that IEP can be fully deployed. If the
9 Department doesn't make the expected return, doesn't gain the
10 expected additional revenue, then the business case is very
11 substantially weakened, even if the train fleet is fully deployed.

12 FIRSTGROUP: But in the discussion we've had, we've talked about the fact that the
13 SoSRA is not enacted and we've talked about the fact that the IEP
14 fleet can be deployed with a six trains per hour service, which means
15 that the specification of the ITT which has been available on your
16 website for some time, can still be achieved.

17 THE CHAIR: I think there's probably going to be some overlap with the next
18 session. But given the level of interest, and everyone is sighing
19 behind us, I'm conscious that there were a couple of points going back
20 about 15-20 minutes, which I promised that I would return to, if there
21 was time.

22 There probably technically isn't time, but I think, given the level of
23 interest, I will just go back. Sorry, I'm just now trying to remember,
24 was it you FirstGroup who was trying to come in on a point earlier, on
25 the SoSRA?

26 FIRSTGROUP: We've made the point about the unfettered rights -

27 THE CHAIR: So you've covered the point you wanted to raise?

28 FIRSTGROUP: That was, well it was a question that wasn't answered, actually.
29 I believe we asked it as a question.

30 THE CHAIR: Okay, so we've got that logged as a point. Was there a – Alliance,
31 yes.

32 ALLIANCE: I'd just like to make a point in relation to the way that the DfT is sort of
33 setting out that it is got no other ways to [reduce the impact on the SoS
34 funds] – you know, there is going to be an impact. It is got options that
35 it chooses not to use for recovery, one of them being the levy, which is

1 in the Directive, which allows the DfT to actually to recover payment
2 from all operators for providing PSO services, to actually provide
3 money for your PSO services. And also, for enhancements, or the
4 investment in the infrastructure.

5 Firstly, that isn't exclusively for the use of rail infrastructure by the DfT
6 franchised services and if you can point out where it is, I think you'll
7 find out that in EU law, specifically, it talks about it for benefit of
8 competition, but you have the opportunity to use a rebate mechanism.
9 That is an acceptable method – and we could all contribute – so you
10 wouldn't lose out on any infrastructure that you've invested in. Every
11 operator could pay. It is your choice.

12 THE CHAIR: Okay. I was just going to see if DfT wanted to come back on that.

13 DFT: There are a couple of points I wanted to make, I'm afraid I can't
14 answer in detail on that. But I think it is worth remembering that this
15 isn't just about the financial risk adjustments made, it is also about
16 non-financial benefits foregone as a result of a different outcome.

17 On the point of competition, I think we had said earlier, I appreciate
18 that– this isn't particularly helpful with regards to these open access
19 applications. But, this competition – this East Coast franchise has
20 gone through an extremely hard-fought competitive process, so I think
21 it is worth bearing that in mind.

22 THE CHAIR: Okay, I'm going to take a very final point, which I'm going to take as a
23 sort of point, rather than giving everyone a chance to respond on it.
24 Ian.

25 ALLIANCE: Well, it may have gone through a hard-fought process, but a process
26 in which it knew it may well face competition on the route. Going
27 forward, because our application was well out there, hence you've put
28 the taxpayer at risk. But, I guess the question that First have been
29 trying to get an answer from you, is on the core IEP. If you can deliver
30 the core services in the franchise, the six paths on the core, there is no
31 impact on this IEP business case. If there is, then you need to tell me
32 where it is.

33 DFT: Sorry, I think I've answered that question multiple times, to be honest.

34 ALLIANCE: No, you haven't. You haven't answered the question.

35 DFT: There is a very substantial impact because – as I've said before – the
36 business case rests on most of the cost being recouped through
37 higher revenue. If there are additional services, then it isn't. So that is

1 why there is an impact on the business case.

2 THE CHAIR: Okay, I'm going to leave that point there. I think there's a bit of an
3 overlap between some of the issues we're about to discuss on the Hill
4 report and the analysis there. So I'm going to move us on, recognising
5 there were some outstanding issues and we're going to have to
6 consider later on how we follow those up. But can we now come on to
7 the CH2M Hill report?

8 So, in this session, we're going to focus on the passengers and
9 revenue modelling, and the cost-benefit analysis. We are going to
10 respond to the fact that some of the applicants have raised issues with
11 us around the report. We decided not to focus on the results in the
12 report today. We think we can talk about the methodology, the inputs,
13 the analysis that was done, but not the results.

14 Can I also note – again, this is in response to some queries that have
15 been made – that the Hill report is an input to our economic analysis
16 and our decision, but it is not the only input in this area, so there are
17 other issues that are relevant that might not be covered in the Hill
18 report, so I'll just give a couple of examples of that. So we actually
19 asked Hill not to include infrastructure cost in the calculations; that's
20 because there's a debate going on about the level of those costs, and
21 we will assess infrastructure costs when we've got a clearer view on
22 them. One of the reasons for the direction of the conversation earlier
23 around infrastructure costs was to try and tease out some of those
24 questions, and so we'll be drawing on today's discussion.

25 But we'll make sure that any of the assumptions like that that we've
26 made about what Hill should cover are explicitly and clearly stated in
27 the report, because I think that did cause a little bit of confusion with
28 some people, so we're going to make that a bit clearer.

29 We are also aware – there's been a lot of discussion about these
30 things in the past – that there are impacts that are difficult to quantify,
31 like service quality attributes, that might still be relevant for our
32 decision. So, when we come on to talk about the cost-benefit analysis,
33 we'll raise the topic of whether we should be aware of any potentially
34 important material impacts that are not included in the Hill analysis, just
35 to make sure that that's within scope, and we'll leave a bit of time in the
36 discussion to talk about that.

37 So that's just by way of trying to clarify some scope issues. That said,
38 I'm now going to hand over to Chris Judge to introduce the Hill report.

39 CH2M HILL: Thank you, John, and I'm pleased to be here, to be able to discuss the
40 points raised this morning and in previous correspondence submitted

1 to ORR this week about our report. Before I go into the detail on some
2 of those points, I would like to just take the opportunity to talk you all
3 through the process that we have undertaken to get to this point, and
4 in particular I'd like to focus on the dialogue that we've had with various
5 applicants.

6 Now, last autumn, we commenced work for ORR and developed a
7 forecasting methodology specifically designed to produce revenue
8 assessments for Alliance's applications, but which were intended to
9 offer the flexibility to assess other applications which were part of the
10 submission of the eventual winner of the East Coast franchising
11 competition, and, when we designed that, we didn't know who had won
12 the competition; it hadn't been announced.

13 The first party we met was Alliance, and we did that having developed
14 an initial revenue assessment, and we met with representatives of
15 Alliance on 12 February 2015 to discuss our draft methodology and our
16 revenue projections. We made some small revisions to our approach
17 on the basis of that meeting.

18 We then met with Alliance for a second time on 13 April this year to
19 discuss our updated methodology, revenue assessments and
20 economic appraisal.

21 Following the award of the East Coast Main Line franchise to Virgin
22 Trains East Coast, we began to review the material they supplied to
23 ORR in support of their applications. We then met with representatives
24 of Virgin Trains East Coast on 5 March 2015 to discuss our
25 methodology and draft results. On the basis of this meeting, we felt
26 that our methodology was largely adequate for the purposes of
27 assessing VTEC's applications, albeit with a small amendment for one
28 of VTEC's short-term-track-access applications.

29 We also rebuilt our MOIRA timetable files in response to points raised
30 by VTEC, and I'll come on to that and speak about that in a minute.

31 We met with VTEC a second time on 5 May this year to present our
32 methodology and our revised revenue assessment as well as our draft
33 economic appraisals. On the basis of this meeting, we strengthened
34 our approach to assessing the impact of overcrowding on trains,
35 particularly with respect to our economic appraisal.

36 Moving on to FirstGroup, FirstGroup's track-access application came
37 much later in the process, and long after the commencement of our
38 commission. We met with representatives of FirstGroup for the first
39 time on 12 March this year, before we had received any information in
40 support of their track-access application. On the basis of this meeting

1 and the review of FirstGroup's work, we felt it necessary to review
2 some of our methodology for the purposes of assessing their
3 application. This was because we were unable to future-gaze some of
4 the characteristics that were unique to their proposition when we
5 designed our methodology back last autumn.

6 In making the change, we used a small part of FirstGroup's own
7 modelling suite, because, having reviewed it thoroughly first, we were
8 of the view that, were we to try and assess those parts that our suite
9 was not designed to assess, we would have designed much the same
10 thing ourselves.

11 We then met with FirstGroup again, on 14 May this year, to discuss our
12 methodology, our initial revenue projections and our initial economic
13 appraisal. We made some changes to our appraisal methodology in
14 particular as a result of that meeting.

15 Prior to the first meeting with FirstGroup and both meetings with the
16 other applicants, we shared interim drafts of our final report, detailing
17 our methodology and our interim results that were pertinent only to the
18 applicant in question who we met at that time, so they hadn't seen, at
19 that point, the results for the other applicants, and that was done
20 following discussion with ORR.

21 We had also engaged in telephone calls and email correspondence
22 with each of the applicants throughout the process, where we had
23 required clarification on the details of their track-access applications.
24 Following the conclusion of the final meeting in the series, we felt
25 confident that our analytical methodology enabled us to assess the key
26 elements specific to each of the applications, but also to enable us to
27 do that on a consistent basis across all applications.

28 ORR issued our final report to parties on 29 May this year and a
29 subsequent errata note on 5 June. Now, having to issue an errata
30 note after the issue of the final report and at short notice for this
31 hearing is clearly regrettable. The error occurred principally because
32 we thought that, for equivalent rolling stock and stopping patterns, the
33 timing of trains in VTEC's 2019 MOIRA file that they supplied to us
34 were the same as the timing of trains in VTEC's 2020 MOIRA file. On
35 review, this was not the case, and we overestimated VTEC's likely
36 London-Edinburgh and London-Leeds journey times, plus the
37 associated journey times for shorter journeys made by the trains which
38 offer those services.

39 To be clear, this was an error in the input file that we used. We are not
40 aware of any material errors in our calculations or analysis, but
41 welcome the opportunity to pick up the points made by applicants and

1 involved parties in the discussion this afternoon.

2 Our report itself covers a number of complex issues and it is inevitably
3 very long. The reporting timescales, in my opinion, have been very
4 tight, and the combination of these issues have led to some instances
5 in the document where the drafting is less precise than we would have
6 liked. I believe these shortcomings only relate to the drafting, not the
7 underlying analysis or modelling, and we will try to pick up these issues
8 again in the discussion today.

9 So, before debating the issues that the various parties have raised, I
10 will briefly summarise our methodology. I will do this to refresh
11 everyone's memories in advance of the debate. In summarising the
12 methodology, I will try to pick up some of the key points that are
13 common in a number of submissions made to ORR, and I'll do it in
14 such a way that hopefully will not breach the confidence that the
15 various parties have entrusted in us.

16 So I'll move on to a quick run-through of our revenue forecasting
17 methodology. I'll save the run-through of our economic appraisal
18 methodology for later in the agenda, so we'll pick that up then, Mr
19 Chair.

20 Our demand and revenue forecasting comprises six separate
21 processes, in effect. The first process is a run of the MOIRA software.
22 We do that for two reasons: one, to mimic the ORCATS
23 revenue-allocation system used in the rail industry to share out the
24 revenue between various operators on a route; and, two, to assess the
25 impact, and usually the increase, in demand, hence revenue, of a
26 change in generalised journey time. By generalised journey time,
27 which I'll probably refer to as GJT for the rest of the afternoon, I mean
28 a composite of things like in-vehicle journey time, time spent waiting for
29 a train, frequency, etc. We all understand those things to be GJT. So
30 we do that.

31 The elasticities that we use in making that assessment of GJT on
32 demand are taken from the most recent version of the Passenger
33 Demand Forecasting Handbook, which I'll call PDFH for the rest of the
34 afternoon.

35 The second process is the application of a fares overlay. That fares
36 overlay is designed to do two things. It is designed to, when there is
37 competition for fares or a change in the overall fare offered to
38 passengers, share out the revenue, allocate the revenue, between the
39 operators on the route. It is also designed to look at the impact that an
40 overall change in fare will have on the total level of demand, hence
41 revenue. Again, we do both of those things using the most recent

1 evidence from PDFH.

2 If we were confident that the elasticities that I've just described were
3 appropriate for each of the markets which the various applicants are
4 trying to serve, then we would have stopped the analysis there; we
5 would have done some work around marketing initiatives; we would
6 have done some work around overcrowding, but we aren't confident in
7 that. So we have two demand overlays, which enables us to test some
8 of the unique things that the various applications contain.

9 The first of those overlays is the application of what we call the
10 suppressed travel assessment. Now, that takes the form of a gravity
11 model, where, from first principles, we're trying to establish what the
12 impact might be of releasing a suppression in the opportunity to travel,
13 and we hypothesise that that suppression in the opportunity to travel is
14 through a lack of a direct frequent service between the places that
15 people want to go to.

16 The second of our demand overlays is the application of our air-market
17 uplift. Now, we predicate – and I think it is pretty well accepted within
18 the industry – that probably the PDFH elasticities underestimate the
19 impact of a significant change in rail journey time or generalised
20 journey time where air competition is present, and also fares as well –
21 the same thing for fares – so we make an adjustment on that basis,
22 and I'll go through it in a bit of detail in a minute.

23 Then the fifth process in the application is the marketing overlay, which
24 effectively looks at TOC marketing spend and applies an assumed rate
25 of return on investment, which is pretty standard place in the rail
26 industry.

27 And then, finally, we make an assessment of the potential for services
28 to be overcrowded, and we adjust – or we would have adjusted
29 demand and revenue projections, if we felt it were necessary to
30 constrain them because the physical train capacity couldn't
31 accommodate our demand forecasts. We do that from the premise
32 that our demand forecasts are unconstrained, and so we would
33 constrain backwards from that point.

34 So that's a brief summary of the demand-forecasting process that
35 we've undertaken, and I think, John, you'd like me to go into some
36 more detail on the various points.

37 THE CHAIR: Yes, please.

38 CH2M HILL: So what I'll try to do is start with MOIRA –

1 THE CHAIR: Yes, just to orientate ourselves, we're going to focus now on MOIRA,
2 inputs to MOIRA and what you call the modelling overlays. We'll focus
3 the discussion around that, and then we'll come on to the economic
4 appraisal work after that.

5 CH2M HILL: Yes.

6 THE CHAIR: So we're going to do the MOIRA model, the inputs to the model, model
7 overlays. We'll work through that; then we'll have an introduction
8 about what we put on the agenda of the cost-benefit analysis, which is
9 the quantified cost, quantified benefits and the other impacts. We'll do
10 that second, so it is MOIRA and modelling overlays first, just to make
11 sure everyone was clear on the structure.

12 CH2M HILL: Sure. So what I'll try to do is pick up some of the issues that have
13 been raised by more than one party, to avoid everybody asking the
14 same question over and over again, and then we'll have the
15 discussion. So there seem to be three or four principal issues raised
16 by people about our use of MOIRA.

17 The first is that we have used different versions of the MOIRA software
18 to test different applications. Now, we did that because we didn't have
19 a specific version of the MOIRA software which covered all of the
20 stations that we would want it to. Perhaps Virgin Trains East Coast
21 has, but we certainly don't, and ORR don't either. So we felt it
22 necessary, therefore, to tailor which version of MOIRA we used to the
23 characteristics of the applications in question. That's why we did that.

24 Issues have been raised about us using different base files for our
25 MOIRA assessment, so we compare the options against a different
26 base, rather than using the same base every time for each application.
27 Now, we did that to preserve the integrity of people's track-access
28 applications.

29 So, in the case of FirstGroup, their indicative timetable is predicated on
30 fitting in with the full VTEC application, and we didn't feel comfortable
31 rewriting their timetable for them, particularly in the time we had
32 available, but we do feel, at the broad level, the level of reworking that
33 FirstGroup might like to do if they wanted us to use a different base
34 would preserve the quantum characteristics of their services in terms
35 of journey time, frequency, etc., versus Virgin's services, in any given
36 base.

37 In terms of the way we split up VTEC's services, we did that in
38 conversation with ORR, in order to try and break them down into the
39 constituent paths, individual paths, that are being applied for. We tried
40 to do that whilst preserving the integrity of what Virgin Trains East

1 Coast had asked for, but that necessitates using a different base to
2 assess the various options in terms of the Lincoln and Harrogate
3 extensions and the Middlesbrough service versus the core three trains
4 an hour to Newcastle, two there north to Edinburgh.

5 Now, there also appears to be issues around some either missing
6 trains or missing stops in some of the MOIRA files. Now, we supplied
7 our MOIRA files to everybody last week, and, with hindsight, it would
8 have been better if we had supplied our MOIRA SPG files some time
9 ago, because, actually, each of the applicants understand their
10 track-access application timetables better than we do, regardless of
11 our capabilities in terms of ops planning. That's hindsight.

12 Now, having reviewed the trains that people seem to think are missing,
13 most seem to be a product of simply the way we've defined the
14 options, so, by splitting the Harrogate and Lincoln service out from the
15 VTEC core option, we take those trains out of the core file. So we
16 don't think they're missing; we think they're just elsewhere, in one of
17 the other files.

18 It seems to be that we are missing some peripheral short workings in
19 the early mornings and late evenings, which are presumably made to
20 balance rolling-stock movements. Now, if they are missing, then we
21 will seek to rectify that, to put them back in, but we don't believe that
22 they're critical to the revenue assessments that we've produced.

23 Of more importance is the way that we have modelled the FirstGroup
24 service against the base timetable, where we appear to have missed
25 some Morpeth calls from the base timetable. Again, it is a surprise to
26 us that this has happened, but, having done some initial investigation
27 into the revenue implications of that, we think it is very small, and,
28 again, we would be happy to work with people so that they are
29 convinced that we have got the right timetable files that best represent
30 their track-access applications.

31 VTEC made the point previously about our MOIRA files not being
32 reflective of what one might view as a sensible journey time for
33 Alliance's services. I don't recognise that point, so it is going to be
34 quite hard to discuss it now, but, again, we will be happy to pick that up
35 with you outside of this.

36 So, in terms of the MOIRA analysis, that's my run-through, I think, of
37 the main generic points that have been raised. I'm of course happy to
38 have a discussion about the specifics.

39 THE CHAIR: Shall we pause there, just on that, those issues about MOIRA and the
40 inputs to MOIRA, and if anybody wants to raise any questions or make

1 any comments on that?

2 ALLIANCE: I'm slightly puzzled by your statement that you used different versions
3 of MOIRA for different applications, because, from your file that you
4 sent round, the two applications that you didn't use the Northern
5 version of MOIRA for were the VTEC core and VTEC Middlesbrough
6 services, which, in the case of the core, is pretty directly competing
7 with the Alliance application, for which you did use the Northern
8 version of MOIRA, and, in the case of Middlesbrough, clearly it is
9 serving the heartland of what Northern MOIRA is designed to look at.
10 So that seems rather strange to me.

11 There are a whole number of other issues of consistency and
12 inconsistency in the base cases. The most important, of course, does
13 relate to the First application. Given that First, VTEC and Alliance are
14 all competing for the rights to provide additional trains to Edinburgh,
15 assuming that the VTEC application is accepted in full as the base
16 case for the FirstGroup one, it seems to me to be completely
17 inappropriate.

18 And what seems to me to be even more inappropriate is that you have
19 assumed, for the purposes of the assessment, that, in one direction,
20 the first train is overtaken, and, in the other direction, it runs
21 immediately behind the VTEC train. That has the effect that there is
22 virtually no abstraction from VTEC to First. In the real world, after the
23 event steering group that everyone's been talking about this morning, I
24 very much doubt if that's the timetable that would emerge in reality,
25 and, clearly, that would have the effect of making the First service, in
26 the real world, a lot more abstractive.

27 There are other issues as well. For example, in the VTEC core, the
28 services that currently go to York are cut back to Doncaster, but then,
29 when you go on to the Lincoln and Harrogate options, they're cut back
30 further to Newark. So the effect of the Lincoln and Harrogate
31 extensions is to bring in the benefits of the service to Lincoln, which
32 doesn't compete with any other application, and also brings in benefits
33 at Retford and Doncaster, which is not competing for the bit of
34 infrastructure which is believed to be constrained, between Hambleton
35 Junction and Leeds. So it is not giving a fair comparison with the
36 Alliance application.

37 Another strange feature of both the Lincoln-Harrogate and Bradford
38 extension options is that they both have 10 more trains in the base
39 than are in the VTEC core, so there are 10 trains that magically appear
40 in the base case that have not been subject to any economic
41 assessment at all, as far as we can determine. I mean, clearly, we've
42 only had a couple of days to look at the SPG files, so what I've just

1 said may not be absolutely 100% accurate, but it does seem to me to
2 create grave concerns about whether a level playing field exists here in
3 the work that has been done.

4 THE CHAIR: Okay, did you want to come back, Chris?

5 CH2M HILL: Yes, absolutely. So, you've thrown out lots of issues there. If I try to
6 compartmentalise and take them one by one, I think the first issue was
7 that you didn't think that it was appropriate that we used MOIRA Anglia
8 for VTEC core and VTEC Middlesbrough. What was in our mind when
9 we took that decision was that, particularly VTEC core but also VTEC
10 Middlesbrough, the stopping patterns are changed – the quantum may
11 not be changed, but stopping patterns are changed – at Peterborough
12 and at Stevenage, so we were worried that, if we ran a version of
13 MOIRA that doesn't individually contain all the Great Northern stations,
14 we would be lumping a load of Great Northern demand and revenue
15 into this option, and we would get a load of noise out of it.

16 Now, you could argue perhaps we should have done some testing
17 around that; perhaps we should have instead got MOIRA northern or
18 whatever and done some work. We felt that what we did at the time
19 was appropriate. Yes, we can certainly review that.

20 You mentioned at length that you felt it was unreasonable that we've
21 compared, in MOIRA, FirstGroup's application against a base which is
22 predicated on all of Virgin's track-access application running. That's
23 not our assumption; that's their assumption. That is the indicative
24 timetable that they supplied to us in order to assess as part of their
25 application, so we didn't feel it reasonable to rewrite their timetable for
26 them.

27 Now, having listened to the debate today, FirstGroup might find it
28 reasonable to make some changes, to give us a different timetable file,
29 which might better represent what you're asking for, if they felt that
30 were appropriate. But, as to what we've done, we didn't find it
31 appropriate to do that. That was the second issue.

32 The last issue which I can remember, you were talking about different
33 trains in the base and in the option file for the Bradford extensions. I
34 think I can safely say I just don't recognise that because I haven't
35 looked at it, so I couldn't possibly respond to that today.

36 There was another point. The Lincoln and the Harrogate extensions –
37 we've assessed that in the way that we felt was reasonable, and we've
38 shared the way we were planning to assess that prior to this meeting,
39 several months ago, with colleagues at ORR and with colleagues at
40 VTEC. Now, I know subsequently VTEC don't believe that that's quite

1 – putting words in their mouths – don't believe that that's quite the right
2 approach, so, again, we could look at that, but, based on the
3 discussions that we've had with the relevant people, we felt it was
4 appropriate when we made that assessment.

5 I think that's all of your issues, but I'm not quite sure.

6 THE CHAIR: Okay, thank you. Sorry, can I just pause you for a minute? You can
7 come back in a moment. Can I just bring a couple of other people in?
8 We can come back if there are any further points.

9 ALLIANCE: Sorry, I just wanted five or 10 seconds.

10 THE CHAIR: Go on.

11 ALLIANCE: To be honest, I'm not surprised that First didn't object to the way that
12 you did this, because I wouldn't either, but ORR needs to be clear that
13 applications are assessed on a level playing field and it doesn't
14 advantage any of them. I think that's an issue for you that you need to
15 take up with CH2M.

16 THE CHAIR: Okay, thank you, point noted.

17 CH2M HILL: You wouldn't expect me to take a view on whether a train can or
18 cannot be overtaken. That's simply the timetable file we were
19 supplied.

20 ALLIANCE: No, I understand.

21 THE CHAIR: Let's note that point. Can I just bring a few other people in? Yes.

22 VTEC: What we would like to say is that we've noted the contents of the report
23 and I think we're welcoming this opportunity to comment on some of
24 the assumptions that are being made in the report. Our key concern is
25 that many of the results presented in the report, particularly in regard to
26 the not-primarily-abstractive test, are very close to the line in terms of
27 whether they pass or fail.

28 Given that this analysis has been done in MOIRA, we need to ensure
29 that the analysis carried out is as accurate as possible. What we've
30 seen from the report in its various iterations and the subsequent errata
31 report is that very small changes in assumptions can have a significant
32 impact on the results. We don't believe, at this stage, that the results
33 are at a suitably reliable level to be able to be relied on in order to
34 make decisions.

1 As I mentioned, the errata note gives significant change to the impact
2 of VTEC's application, of an order of magnitude of almost 10, which is
3 a significant level of error in the assumptions. We also note some of
4 the points that Network Rail have made this morning about actually
5 how deliverable some of these timetable options are. In particular, it
6 was mentioned by, I think, Network Rail this morning that the
7 applications need a much greater level of assessment and scrutiny to
8 determine the effects on other operators up and down the route, not
9 just on the franchised operator, Virgin Trains, but also on operators at
10 key hubs. I think there was a point made that the impact of the
11 applications at key hubs could have significant impacts on other
12 operators' services.

13 So, again, I think we would like to reiterate that, at this stage, we're not
14 confident enough in the MOIRA analysis that it is of a sufficient
15 standard to justify or support any decisions being made and I think
16 would be open to subsequent challenge. We've raised many
17 challenges already and we're not quite certain that they've been
18 adequately addressed.

19 THE CHAIR: Okay, thank you. Did you want to...?

20 CH2M HILL: Again, we've undertaken quality assurance, but the best form of quality
21 assurance for something like this, when there's lots and lots of trains in
22 a timetable, across lots of applications, would be to sit down and talk to
23 the operators and come to a collective view. I accept that now. With
24 hindsight, we would have done this earlier.

25 Just to pick up on the order of magnitude of 10 point, I've explained
26 how the error occurred. I've explained it is not a systematic error;
27 that's how it occurred. To say an order of magnitude of 10 is probably
28 slightly disingenuous. We underestimated the journey-time saving
29 VTEC core would provide by about a half, simply because of the
30 differences in the 2020 journey times and 2019 journey times, which
31 we simply hadn't understood.

32 Now, the 10 you're describing, VTEC, is the net present value. The
33 net present value is the present value of benefit minus the present
34 value of cost. The present value of benefit went up by, what,
35 something like 60% or 70% because we were out by about a half in
36 terms of our journey-time saving, and just when you happened to
37 knock the present value of cost off it. That's why it appeared to be a
38 big change. It is a big change, but it is not of an order of magnitude
39 of 10.

40 VTEC: Well, I think for somebody to peer review, an error even at that level
41 could have a significant effect on the results.

1 THE CHAIR: Can I just say? Sorry, just in process terms, for the avoidance of doubt
2 – I was going to mention this more in the next steps – but there is
3 going to be another iteration of the Hill report, so it is not going to stop
4 at the point of this hearing. We will listen to all the comments made
5 today. We've already got some detailed comments from people.
6 We're keen to explore what else there is that people want to bring out
7 today and we will have another iteration of the Hill report, and there will
8 be time for people to comment on that further iteration, just to make
9 sure everyone's clear on that. But, Emily, you wanted to –

10 ORR: Yes, so, just coming back to you as well from ORR's point of view,
11 VTEC, I think we recognise it is important to get the timetable right, but
12 we also recognise that the timetable assumptions – the results can be
13 very, very sensitive to the timetable assumptions. And that was
14 something that we've been conscious of in the past, in feeding advice
15 to our decision-makers, and it is something we are conscious of in this
16 application as well. We're conscious that the timetable is not
17 necessarily the same as the access rights, for example.

18 THE CHAIR: Thank you.

19 VTEC: So I think we should just do a follow-up in respect of how that sits so
20 that it will be addressed in the future report. I think it is a point that
21 needs to be addressed as well.

22 ORR: Well, it won't entirely be reflected in the report, because their report is
23 a very important source of evidence for us, but there are other sources
24 of evidence, including this forum and your inputs to us.

25 THE CHAIR: Thank you. Can I bring First in, please?

26 FIRSTGROUP: Just one small point. We noticed in the MOIRA SPG files that were
27 circulated in relation to the VTEC application that some of the
28 incremental station calls that remain in the future timetables actually
29 exist in the current timetable today, and this may have the effect of
30 overstating some of the benefits in a couple of the VTEC applications.
31 We'll happily provide some details offline for you to consider when you
32 do your next iteration.

33 THE CHAIR: Yes, thank you.

34 DFT: I think we'll come back... We've got various comments, not relating to
35 MOIRA and timetables, so we'll come back to those when you move
36 on to those issues. But, specifically on timetables, I appreciate this is
37 very difficult in terms of doing an economic assessment, but I think
38 there's a risk that the findings of the report get distorted by the fact that
39 you look at different options, but, in fact, some of those options can be

1 combined and some can't, and, really, in principle, what you should be
2 assessing is a set of fully deliverable or as close as possible fully
3 deliverable timetables, some of which would include different options,
4 and assessing the relative ranking of those, rather than just looking
5 one by one at the applications. I appreciate that's very difficult for you
6 to do, in terms of your process, but I think, if you don't do that, there's a
7 risk of significantly distorting the results.

8 THE CHAIR: Okay, thank you.

9 ALLIANCE: Perhaps surprisingly, we would agree with the DfT on this point.

10 THE CHAIR: Noted. Just conscious of where we are, on the topic of – just before
11 we close on MOIRA, can I just bring anyone else in who's not at the
12 table? Thank you.

13 HULL TRAINS: This is quite a sensitive area for us, because, obviously, in the
14 open-access world, we do a lot of work about validating MOIRA before
15 we actually do any revenue and other analysis. One of the most
16 important points we do is validating MOIRA against LENNON, because
17 the allocations we get in MOIRA are not the same as we get through
18 LENNON. What kind of back-check did you do in base on this? Did
19 you check MOIRA base with what's coming out now in LENNON for
20 the various operations.

21 CH2M HILL: No. Our analysis is purely based on MOIRA, so, if you had any
22 observations on that, then you will be able to share it with us.

23 HULL TRAINS: And the second point is: you mention in your report the effects on
24 existing open-access operators. I think I'm right in saying that neither
25 Grand Central nor us, in Hull Trains, were actually contacted by you so
26 that we could work through, understand your figures, and also you can
27 understand what we've separately provided to the ORR. And certainly,
28 with the further iteration of this report, we would welcome – certainly
29 from Hull Trains' perspective; I can't, obviously, speak for Grand
30 Central – we would welcome a dialogue with us on this aspect,
31 because the amount of revenue that is effectively transferred from us
32 to the VTEC 2019/2020 timetable is business-critical, and we need to
33 actually come to a common understanding of the methodology, so that,
34 in our individual responses to the ORR, they can understand exactly
35 where we're coming from, both collectively and individually.

36 THE CHAIR: Okay, thank you.

37 CH2M HILL: If that was something that ORR would like us to do, then I'm sure we'd
38 be happy to do so.

1 THE CHAIR: Well, we note that offer, so thank you very much indeed. I suspect
2 that, given that you just mentioned –

3 GRAND CENTRAL: As with Hull Trains, Grand Central would welcome an engagement
4 with ORR on the revenue analysis with regard to the potential impact
5 on Grand Central's business.

6 THE CHAIR: Yes, okay, thank you.

7 FIRSTGROUP: Sorry, I just have one final point in relation to MOIRA, and it really
8 builds on the point made by Hull Trains, the difference between
9 MOIRA modelling and settlement revenue in LENNON. A function of
10 the modelling right now includes, in the case of our application, the
11 switching of first-class revenues from VTEC to our service. We've
12 made clear from the outset that our service offering is based on a
13 single travel class, and we're not intending to offer a first-class travel
14 product, so we think that the approach that's used in relation to the
15 MOIRA analysis actually grossly overstates the revenue that is
16 outstanding from the franchisee on those routes. If ORR are going to
17 undertake further work, we'd like that point to be considered further.

18 THE CHAIR: Okay. Do you want us to note that comment, Chris, or do you want to
19 respond?

20 CH2M HILL: I can respond in 20 seconds.

21 THE CHAIR: Okay, sure.

22 CH2M HILL: So we've discussed this already in meetings we've had. So – putting
23 words in your mouth – your view, very strongly, is that there is only a
24 subset of industry revenue that you can physically abstract, because
25 you don't offer the product types to abstract it from certain types. So
26 our MOIRA approach is that passengers are able to interchange
27 between product types, so they might choose, for whatever reason, to
28 change product type when they use one of your services. Our fares
29 approach takes the opposite assumption, so we limit it to the amount of
30 revenue that's related to your product types.

31 Now, reality is probably somewhere in between, so some people may
32 switch to take advantage of cheaper fares or your journey times or
33 whatever, and some people wouldn't. We felt that the compromise
34 we've made, by allowing the MOIRA analysis to abstract the whole
35 market and the fares analysis to abstract only a portion of the market,
36 were a reasonable compromise and a reasonable balance. Had we
37 had more time, then we might have run some sensitivities around each
38 of those things, to try and come up with some kind of a better balance,
39 but, where we are, we think we have a reasonable balance.

1 THE CHAIR: Okay, thank you. One more, yes.

2 VTEC: Before we leave MOIRA, I think it is quite important to understand,
3 going forward, where will we deal with this inconsistent MOIRA-version
4 issue, the fact that Morpeth, etc., has been analysed on an Anglia
5 version of MOIRA? It is not clear to me whether, in terms of the
6 analysis that you're going to rely upon, you are now going to ask your
7 advisor to use a consistent version of MOIRA.

8 THE CHAIR: Well, subject to any further comments, our plan is to take stock of all
9 the comments we've just heard round the table today and then have a
10 further discussion with Hill afterwards and then decide what to do, but
11 we will communicate that out to people so everyone's clear what our
12 plans are. And, as I said, there will be a further opportunity to
13 comment on any further report, but I wasn't planning to announce any
14 immediate decisions today, frankly.

15 CH2M HILL: If any of the parties around the table have a better version of MOIRA,
16 which is more appropriate for all of the services, then it might be
17 helpful if you're able to share it, if you have one.

18 VTEC: Just a question. Do ORR have access to a national version of
19 MOIRA?

20 THE CHAIR: The question was: does ORR have access to a national version of
21 MOIRA?

22 CH2M HILL: That would be no better, I wouldn't have thought.

23 VTEC: It would avoid the issues with missing stations. It would be consistent.

24 THE CHAIR: I take the point. I take the point that there are versions and there are
25 potentially choices, and I think I've heard loud and clear the sort of
26 issues that people have raised, so we've listened to those. We will
27 consider them.

28 I would like to move on to the model overlays point now, Chris. Is
29 there anything further you want to say on this now?

30 CH2M HILL: No, that's fine. In terms of the model overlays, John, if you don't mind,
31 I'll try and take them one by one, because otherwise it could get quite
32 messy.

33 THE CHAIR: Yes, that's a good idea, yes.

34 CH2M HILL: So maybe we could start with fares.

1 THE CHAIR Fares, yes. So, just to be clear, the four that we've got down for the
2 model overlays: we've got rail fares; we've got gravity model; we've got
3 competition with airline travel; and then what you might call crowding,
4 marketing and other issues. They were the four issues which we've
5 got. Is that...?

6 CH2M HILL: Yes, that's right.

7 THE CHAIR: Shall we start with...?

8 CH2M HILL: Crowding and marketing are separate, but we can take them as it
9 suits.

10 THE CHAIR: Okay.

11 CH2M HILL: So, in terms of fares, the principal concern seems to be that we have
12 done something different for FirstGroup than we have done for other
13 applications. And, to be clear, the maths that we have applied is the
14 same. The equations and the calculations that we have applied is the
15 same for everybody. The only difference is that we have applied the
16 calculation to a subset of revenue for the FirstGroup application;
17 whereas we have applied it to the full set of revenue for everybody
18 else.

19 Now, we've done that because FirstGroup, in the information supplied
20 to ORR in support of its track-access application, gives us good
21 evidence to do it. FirstGroup's application, as specified to ORR,
22 excludes first class and offers such a high proportion of low-fare tickets
23 that the level of usage of walk-up, full fare, standard tickets, in our
24 opinion, would be quite low. So we've reviewed the evidence and we
25 think it is reasonable to do that, but I know some people round the
26 room have issues with that.

27 The other principal issue that people seem to have is around how
28 we've treated competitive response. So, in FirstGroup's submission to
29 ORR – and, again, I'll try and preserve your confidentiality here – there
30 is evidence to suggest that their very low fares – and they are very low,
31 compared to the incumbents – would provoke a competitive response.

32 Now, whilst we don't necessarily disagree with that evidence, it is very
33 difficult for us to validate it; it is very difficult for us to vouch for what the
34 competition would do, whether that's the rail competition, as is
35 presented in that piece of work, or whether it is the competition from
36 other modes – your Ryanairs, your EasyJets or your coach operators.
37 So we present that as a scenario, but we don't say it is our central
38 case, because we simply can't vouch for it. And I think some of the
39 uncertainties around fares and competitive advantages have been well

1 documented in other track-access applications and decisions prior to
2 that.

3 So they, for us, seem to be the two big issues around fares. There
4 may be others.

5 THE CHAIR: Okay, thank you.

6 VTEC: Can I start?

7 THE CHAIR: Okay.

8 VTEC: I think one of the biggest concerns that we have with the overlays is
9 that PDFH is an established set of tools for modelling the effect of
10 timetable changes and new services, and I think we're a little bit
11 worried at the level of deviation from PDFH in the levels of fares and
12 the others that we'll come on to.

13 I think the report references appendix A as to some of the background
14 as to the reasons for the overlays, and I don't believe that has actually
15 been circulated to any of the applicants yet, which has allowed us to
16 have more scrutiny of the in-depth analysis as to the patterns of the
17 overlays. So I think that's just, I think, a procedural point, in that we
18 haven't actually had adequate opportunity to scrutinise some of the
19 assumptions made.

20 Having said that, I think there are some issues we had with fares. We
21 are concerned about the competitive response, and there is evidence,
22 obviously, within the industry, where there has been open access and
23 there has been competitive response, where open access is already
24 established, so we do believe that fundamentally should be included in
25 the report, again relating back to the earlier point that some of these
26 results are actually quite close to the line in terms of the NPA test.

27 And, also, we are forgetting that the biggest market from Edinburgh to
28 London particularly is the airlines, and there will be a competitive
29 response. We have seen with the new players that have come onto
30 the market recently. We have also provided some evidence of pricing
31 as well in the airline marketing in our submission to the ORR, in
32 response to the report.

33 So there are, I think, a couple of points there that need to be
34 addressed, but the other thing, particularly with the FirstGroup model
35 and lower fares, is, I think, they are mentioning that one of their
36 services will be a very early morning service, at 5.30 in the morning
37 from King's Cross. Evidence from other franchises suggests that the

1 load factors on that might be low.

2 There is also the issue of access to King's Cross at 5.30 in the
3 morning. You know, public transport is very limited at that time of day.
4 Potentially there will be significant costs from accessing King's Cross,
5 perhaps by taxi, and, as Mr O'Toole mentioned this morning, the cost
6 of accessing King's Cross by taxi will be almost 50% more than the
7 cost of the train ticket, and that's just coming from Paddington. So
8 there has to be some sensitivity on the fares analysis into what other
9 costs might be incurred, particularly in relation to the FirstGroup model.

10 THE CHAIR: Thank you. Did you want to come back on any of that, Chris?

11 CH2M HILL: I think we'll note that and take it as something to consider.

12 THE CHAIR: Okay, thank you.

13 ALLIANCE: Can I just ask a couple of questions for clarification in terms of how
14 you've assessed the First application? First of all, is it assumed that
15 First will accept inter-available fares or not? And, secondly, in terms
16 of... As I understand it – please correct me if I'm wrong – there are
17 two separate processes that you've undertaken to look at First's fares.
18 You've calculated revenue abstraction and generation using the
19 approach in PDFH first. That gives you one overlay. Then you've
20 applied another overlay, which is the air/rail fares model that you're
21 going to come on to in a minute. Is that correct?

22 CH2M HILL: Yes. We've applied both of those models, and in that order.

23 ALLIANCE: Sequentially, yes, okay. And is it assumed that First accept
24 inter-available standard class fares or not?

25 CH2M HILL: Yes, it is, but we don't think proportionately they would actually sell that
26 many, because the evidence they have presented to us suggests they
27 would have a very large number of cheap tickets available.

28 ALLIANCE: On the point about the advance fares, the assumption seems to be that
29 it is only First who will offer cheap advance fares. There are relatively
30 cheap advance fares on VTEC and it will come as no surprise to you to
31 know that we expect to offer a significant number of low-price fares on
32 our own services. With a three hours 43 journey to get from London to
33 Edinburgh, we would attract high-value business traffic, which would
34 bring our average yield up, but, for less busy trains, we would have
35 significant numbers of seats available for lower-price fares.

36 We might not match FirstGroup's bottom price, but we would certainly

1 match their average yield, and we calculate that we would have as
2 many seats available at that price as they would sell, on the basis that
3 we're running more trains and longer trains. But the point is that both
4 VTEC and GNER would have – could offer, if not that rock-bottom
5 price, somewhere near it. Either they do that anyway or, more likely,
6 they do it in competitive response.

7 VTEC: I'd echo that and just say, almost automatically, when you put a lot of
8 extra capacity onto a route, fares come down. It was so on West
9 Coast; it will be so here, and we would offer an awful lot more low,
10 standard class advance-purchase fares when the new timetable comes
11 in.

12 VTEC: Can I also add a point as well? We've mentioned FirstGroup's load
13 factor being 80%. We still think there needs to be some sensitivity in
14 the level of fares offered, because, with sophisticated
15 revenue-management systems, as they are proposing, it is very likely
16 that, on some of the busier services, the fares will actually be much
17 higher, in order to manage loads more effectively. So, again, I think
18 there needs to be some sensitivity around the actual fares proposal,
19 given its impact on the overall assessment of their submission.

20 CH2M HILL: Let me try and pick up those points, Alliance's first. So, if there is an
21 opportunity in this process for the other applications to share their fares
22 proposals with us and everyone could accept that, then we could
23 certainly consider it. Having looked at the information you've supplied,
24 we can't see much on fares. In terms of Edinburgh, to me, it seems to
25 be not a low-fare service; the assumption seems to be either match
26 VTEC's current yield or maybe even to offer higher fares than the
27 previous service, having read it. That's the evidence I have to base my
28 assessment on.

29 ALLIANCE: I do want to come in on that, because the reason we haven't supplied
30 that information is that we've been told consistently, certainly ever
31 since I've been at Alliance, the ORR was either unable or unprepared
32 to look at more detailed fares modelling that would segment the
33 market. This is the first time that this has been on the agenda, that a
34 new model is being proposed, as it were – sorry, a way of looking at
35 the segmented market.

36 We've repeatedly asked the ORR to take special account of the fact
37 that 70%, roughly, of the market is now on dedicated fares, but, every
38 time, we've been told, 'No, it is going to be done on average fares', so
39 we supplied the average fare that we would be expecting.

40 ORR: I was just going to say, yes, I think it would be useful if you shared
41 what you have available. I mean, there are a couple of things. There's

1 the extent to which we can get it into the modelling, but it is clearly
2 relevant to the overall decision, so, even if it doesn't feature in the
3 report, it would feature in our wider consideration of our
4 recommendation.

5 FIRSTGROUP: I was interested in Alliance's comments on average yield. As you are
6 aware, we've proposed a new business model that allows us to deliver
7 a seat between Edinburgh and London at around half the cost of the
8 franchised operator. Alliance's proposals are based on a higher-cost
9 model, so we were interested in the comments that they were making
10 around average yield and the viability of them being able to support
11 such a proposition. Of course, the ORR and their advisors will be able
12 to check that statement on yields against the revenue forecasts that
13 Alliance have prepared.

14 THE CHAIR: Okay, thank you. Sorry, Chris, did you want to say...?

15 CH2M HILL: I was going to pick up the final two points.

16 THE CHAIR: Yes, okay.

17 CH2M HILL: There was a point around, again, if you have the information there,
18 then we'd be happy to scrutinise it, but we haven't received it so far,
19 but we can. VTEC's point about load factors – do you mind if we pick
20 that up slightly later in the discussion?

21 VTEC: I think it is relevant to the fares discussion as well, because a lot of the
22 benefit of the First proposal is fares-related, and there has to be some
23 sensitivity, given the load factors that your analysis and even that First
24 have suggested. We need to take that on board, about pricing higher
25 when trains are busier.

26 CH2M HILL: Okay, well, let's try and take the two points at once, but – yes.

27 THE CHAIR: Okay. Are we content to move on to the gravity model now? Chris?

28 CH2M HILL: I certainly am.

29 THE CHAIR: Yes. That was a more general question. I think we are all content,
30 yes.

31 CH2M HILL: So the principal concerns around the gravity model seem to be twofold:
32 one, that we shouldn't have used it in the first place; and, two, whether
33 our treatment of catchment areas is quite right. So, in terms of
34 whether we should or shouldn't have used it in the first place, the
35 submissions we've had back that don't like it say that the PDFH

1 effectively says, 'Don't use it', that what's in PDFH is fine. And there's
2 good evidence in PDFH that says you can depart from an
3 elasticity-based framework for using something like this. That's in
4 section 10 of PDFH. It is well documented.

5 What seems to have been quoted in people's replies is the large
6 changes in journey time study that was conducted by ITS Leeds and
7 colleagues a year or two ago. Now, I was deputy chair of PDFC for a
8 number of years and I sat on the steering group for that study, and I
9 know that there were very few relevant examples in that study which
10 we used to calibrate the answers. So it was a time-series study and
11 West Coast flows were specifically excluded from it. So, where we
12 have actually had decent-sized changes in the long-distance market in
13 Great Britain in the last few years, the data wasn't in there. And so the
14 handful of examples that might be analogous to the types of
15 applications we're looking at here were kind of lost in the noise – the
16 big pile of time-series data, pretty small changes in GJT, frankly, and
17 some stuff around High Speed 1, which is a poor analogy, in our view.

18 So, as professional economists advising the ORR, we just didn't think
19 that PDFH was up to scratch when we're looking at the impact of a
20 potential reduction in the suppression effect of not serving places with
21 frequent direct services, so that's why we used it.

22 In terms of catchment areas, I think certain parties are worried that we
23 are counting people who either don't access their closest station at the
24 moment – they drive to one nearby, even though they might live
25 somewhere else – or that, when the new station is constructed, we are
26 taking people who would just use that station, kind of thing, and
27 counting them as new passengers once the new service has been
28 implemented.

29 Now, we've specifically designed the methodology to avoid that.
30 We've done some fairly detailed work around catchment populations to
31 try and do that, in the absence of any actual survey data, which would
32 be great if we had it, to work out exactly who accesses which station,
33 or some of the more recent mobile phone data, which some
34 organisations have access to but we don't.

35 So we think we've made the best attempt to solve the catchment area
36 problem that we could have done. Could it have been improved by
37 some better local knowledge? Well, yes, clearly, but there are lots and
38 lots of stations here that we're talking about. I don't think any one
39 organisation would have that level of local knowledge. So we're
40 content with what we've done, but, if applicants are able to supplement
41 what we've done with local knowledge, with surveys, with that kind of
42 thing, we'd certainly be happy to augment it.

1 In terms of the gravity model, I think they're the generic issues. If there
2 are specifics or people want to come back on those, then I'm happy to
3 pick them up.

4 THE CHAIR: Thanks.

5 VTEC: I'm going to challenge your point that you're looking at a large number
6 of stations. There's actually only a small number of stations where you
7 need to use the gravity model. That's the ones around the West
8 Yorkshire application and Morpeth. The rest of those included in the
9 proposals are major stations. I don't think it is unreasonable to expect
10 a little more detailed analysis on there.

11 In addition, we have actually already supplied to you – and we supplied
12 in our initial responses to ORR – details of catchment analysis that
13 we'd taken that was based on information from our own surveys for
14 major stations that are affected by the route.

15 We also have some concern about the catchment analysis, particularly
16 in the case of the FirstGroup application, where the catchment at
17 Morpeth increased from 10km – sorry, get it the right way round –
18 sorry, from 5km to 10km in between the base case and the
19 assessment of FirstGroup's application. We're not sure why that is
20 justified. Also, I think in your report you also state that you should only
21 use 10km catchments for stations in large urban areas or that have a
22 large catchment around about.

23 So, again, there's some inconsistency in terms of analysis you've done
24 and how you've applied some of the principles of the gravity model.

25 CH2M HILL: So, undoubtedly, there's a little bit of subjectivity that has to be in this
26 type of thing. We try to be honest and open about when we've applied
27 that subjectivity. So, when we calibrated the gravity model, we defined
28 two catchment sizes. One was 5km; one was 10km. In that
29 calibration, we had to exclude a handful of stations where the
30 catchment areas just overlap too badly. We defined a 10km catchment
31 area for, typically, large cities and for stations which were by far the
32 most convenient point of access to and from London in particular for a
33 geographically dispersed catchment area.

34 Now, the point is that it is the provision of services in our hypothesis
35 that makes it the most convenient point of access. Morpeth, in
36 question, might not be the most convenient point of access if there are
37 only a very small number of services per day, so that's why we did
38 that. We accept there's some subjectivity, but it is founded in the way
39 that we calibrated the model in the first place. If we could have had a
40 more tailored set of catchment areas, then we would have, but we just

1 weren't able to do that under the terms of reference.

2 THE CHAIR: Can I just bring a few more people in?

3 DFT: Just to provide a bit of context before I start, I work for Steer Davies
4 Gleave, who worked as technical advisor to the DfT on the InterCity
5 franchise replacement, and the DfT has requested that we review this
6 report on their behalf. Our review identified a number of concerns in
7 relation to the report and the analysis. We considered that some of
8 these concerns are significant and will need to be addressed if the
9 report is going to be relied on.

10 DfT has provided details on all of these points directly to ORR, so I'm
11 only going to mention the most major of these today. I'll mention some
12 more when we get to appraisal, but, for this section, I do specifically
13 want to pick up some points on the use of the gravity model and its
14 application.

15 I note Chris's concerns about the ITS/Mott MacDonald study that was
16 undertaken in 2012, specifically to look at whether the GJT elasticities
17 within PDFH are applicable for very large changes in GJT.

18 I would counter that with fact that the recommendations of that report
19 have been accepted in PDFH version 5.1, which is as close to a
20 consensus view as you get in the rail industry. I know not everybody
21 would accept its findings, but the panel and the editors, the people who
22 judge what is the best guidance have reviewed that, and they took the
23 results of that report and they've addressed the guidance in PDFH in
24 relation to that, and have said that big changes in GJT should not
25 necessarily lead to a different elasticity.

26 I should note that PDFH already does reflect the benefits to
27 passengers of the introduction of through services. For example, for
28 journeys for around 200 miles, an interchange penalty of 65 minutes is
29 applied for reduced and full ticket holders if a change of train is
30 required. So, in addition to any actual time saving made by the
31 introduction of a through service, this penalty will also be removed for
32 passengers who are assumed to use the new through service, leading
33 to a reasonably significant uplift in forecast demand, even on the basis
34 of the standard approach set out in PDFH and reflected within MOIRA.

35 In that context, I would particularly argue against the use of a gravity
36 model for flows that already have a very good service, say with one
37 interchange, and that was reflected in the findings of that 2012 report
38 by ITS and Mott MacDonald that did look into this subject in some
39 detail.

1 In addition, even if you accept the validity of a gravity model for these
2 flows, which already are offered a reasonably good service, there are a
3 number of concerns in relation to the model that's actually been
4 applied, Chris has covered the relatively simplistic approach to
5 considering catchment areas. We do think there is other evidence out
6 there that could be used, for example NPS data or drive-time analysis
7 to the nearest station. These are all potential options that might have
8 led to slightly more granularity in the modelling in this area.

9 In particular, we are concerned that there will be some double
10 counting. When the service to a station is improved, the catchment
11 area is assumed to increase, in a number of cases, and this is done
12 without considering that, actually, that will lead to the catchment of
13 another station becoming smaller, so we're starting to double count
14 passengers here, which is something to be quite concerned about.

15 We also note that people will currently drive to relatively well served
16 stations from within the catchments of relatively poorly served stations,
17 to a degree, and this isn't reflected in the model. That means, in the
18 gravity model, stations with a poor service will tend to have too large a
19 population allocated to them, and stations with a good service have too
20 small a population allocated to them, and this will tend to overestimate
21 the GJT elasticity in the model formulation that has been used by
22 CH2M Hill.

23 So I think we've got quite a lot of concerns just about that particular
24 area. I also have some other issues that we'll return to in a while.

25 THE CHAIR: Okay, thank you. Did you want to come back on any of those, Chris?

26 CH2M HILL: There are a few things there. The reliance on the large changes in
27 GJT study – again, having sat on the steering group for that study,
28 there were no – the likely number of relevant flows in the econometrics
29 were just dwarfed by the number of irrelevant flows, so hypothesis not
30 proven because hypothesis not tested. I wouldn't be a good economist
31 if I knew that and yet still advocated using that, so I just can't accept
32 the assertion there.

33 In terms of what we've done with catchment populations, we've made
34 an attempt to address the things that DfT has described. It is the best
35 attempt that we could have made. We felt it was a reasonable attempt
36 to answer the question that we needed to answer. If there is a way to
37 augment that, then we're happy to do so; we're happy to discuss with
38 parties if they're willing to suggest it. We're happy to do that; you
39 know, that's fine, but to suggest that we didn't do that is wrong, and to
40 suggest that we arbitrarily increased the catchment area without
41 considering whether that's a reasonable thing to do or not is wrong. If

1 it hasn't come across in our report, then we will certainly strengthen
2 our report to make that clear.

3 THE CHAIR: Okay, thank you.

4 FIRSTGROUP: There's quite a lot of discussion about Morpeth in the earlier piece. It
5 is just to reiterate: this is a station that has 150,000 people within a
6 15-minute drive-time catchment, excluding all parts of the Newcastle
7 suburbs. These are people that, at the moment, are faced with a
8 choice of a nearby-located airport for flights down to London or a
9 lengthy drive into Newcastle, which can be, at times, in excess of 45
10 minutes, or, indeed, involve an expensive taxi.

11 ALLIANCE: Sorry - or three trains a day to London, which it currently enjoys.

12 VTEC: And an hourly service into Newcastle. And, sorry, I think it is slightly
13 disingenuous to say it is easy to get to the airport when most of the
14 areas that you're talking about of the population are to the east of
15 Morpeth, and somewhat significantly to the east of Newcastle as well.
16 So I think you'll have to take that comment with a slight degree of
17 caution, just recognising that you can't say it is easy to get to the
18 airport and hard to get to Newcastle station.

19 THE CHAIR: So, Alliance, can I bring...?

20 ALLIANCE: I think it is important to look back at the evidence of what has actually
21 happened when new through services have been introduced on the
22 East Coast Main Line in the last 15 years, firstly by Hull Trains and
23 subsequently by Grand Central. And, on both those operators'
24 services, we've seen increases in ridership and revenue from the
25 stations that are served that are far, far in excess of what PDFH would
26 have predicted then, and, indeed, what PDFH, even with the higher
27 elasticities that have recently been included, would predict now.

28 I mean, in the course of considering other applications, we've done
29 quite a lot of work analysing the growth in revenue that's occurred at
30 the Grand Central stations particularly, and it has been very significant
31 orders of magnitude of growth. Now, whether that exactly matches the
32 gravity model, whether the gravity model is the only approach – well,
33 clearly it isn't the only approach to trying to capture that that one could
34 use, but it seems to me to be an approach which gets us into the right
35 ballpark. Clearly, there may be opportunities to refine it, but, as a
36 general approach, I think it is one that is really trying to get at capturing
37 the benefits of new through services. So, while one might have issues
38 of detail with it, I think, as a basic approach, it is getting us towards the
39 right answer.

1 I'll just add that the evidence on growth on the Grand Central services
2 is something that we have shared, certainly with ORR, and with DfT.

3 THE CHAIR: Okay, thank you. There's probably a few more points, but I would just
4 like to start moving on now to the next topic, on the competition with
5 airlines, given the time, Chris? Thank you.

6 CH2M HILL: Sure. So I'll preface this, to an extent, by saying that I believe and I
7 think lots of people believe that the section on air competition in the
8 PDFH, and, indeed, the general level of evidence in Great Britain, is
9 quite weak. And that's probably because there haven't been a huge
10 number of changes in terms of generalised journey time, journey time,
11 on long-distance routes where air also competes, and there aren't
12 actually that many long-distance routes in Great Britain where air also
13 competes, so it is a bit weak before we start. And, again, the one big
14 study which has had a look at this actually excluded West Coast Main
15 Line flows, so pretty weak evidence in PDFH.

16 So I think there's a general acceptance in the industry, and I guess lots
17 of people's demand forecasts are predicated on something which
18 would give you a higher demand elasticity with respect to generalised
19 journey time than PDFH suggests for long-distance flows. So, on the
20 basis of that limited evidence, given that I and a number of my
21 colleagues at CH2M Hill had been involved with or privy to studies that
22 have been done into competition with airlines, we felt it reasonable to
23 set a range of alternative elasticities to what's in PDFH, on the basis of
24 that evidence. And the lowest elasticity that we'd seen directly
25 estimated for this purpose in absolute terms was minus 1.55; the
26 highest elasticity that we'd seen directly estimated for this purpose was
27 minus 3.5, so that gives us a range.

28 So what we did was effectively recalculate the results from the MOIRA
29 analysis using those two elasticities, because they're higher than the
30 elasticities in MOIRA, and we took the difference between what came
31 out of the rest of the modelling suite and, effectively, our new MOIRA
32 analysis, which was using these new elasticities, as additional
33 generative demand; it is what you take in addition from the airline
34 market.

35 Now, a range of elasticities that wide probably isn't desperately helpful
36 to ORR in terms of making a decision, so we took the decision that we
37 probably needed a central scenario. And, in constructing our central
38 scenario, we turned back to PDFH, because the one pretty useful bit of
39 advice in PDFH on this is the market-share curve, which compares,
40 using lots of examples from across Europe over a number of years, the
41 market share achieved by rail versus air – that total market – versus
42 the rail journey time. And we calculated what the implied market share

1 would be, given the journey times supplied to us by the various
2 applicants, and we worked out therefore what additional level of
3 demand would be required on top of what we'd already forecast to
4 meet that.

5 And, in doing that, we were able to effectively back-calculate the
6 elasticity that would be required to get you to that point. So we didn't
7 actually use the elasticity to do the forecast; we used the market-share
8 analysis from MOIRA and then we worked out what the implied
9 elasticity was as a sense check.

10 Now, we've said we think a reasonable range is minus 1.55 to minus
11 3.5. If we were coming up with tens and fifteens or zeroes and ones
12 and we didn't have a reasonable explanation for that, then it would
13 imply to us that there was something wrong with either our approach or
14 the range that we set ourselves in the first place. So that's why we did
15 that.

16 Sorry, I should also say that that's what we did for the applications
17 which looked to produce a significant reduction in journey times.
18 FirstGroup's application looked to produce a significant reduction in
19 fares. Now, this is what I alluded to before: we simply didn't have the
20 methodology to cope with that, because we designed our methodology
21 many months before we got sight of FirstGroup's application, before
22 they'd even bid for access rights.

23 So we considered the approach that we would have taken, and what
24 we would have done was build a logic model, so something which, if
25 we could hold of some reasonable data – and we were sceptical that
26 we, CH, or ORR, would be able to get hold of some reasonable data to
27 do it – we would have constructed a logit model, considering
28 generalised journey time and generalised journey cost for air, for rail
29 and for highway, because highway might be relevant also.

30 We looked at what FirstGroup had done. Our timescales were
31 constrained, and FirstGroup, lo and behold, had done pretty well what
32 we would have done. They'd built a logit model. Their logit model
33 used the variables that we would have used. It was specified in the
34 way that we would have done it. It was calculated as we would have
35 done it as well.

36 Now, we certainly didn't accept all of what they'd done. FirstGroup had
37 applied some overlays in addition to that logit model, to effectively say
38 it was giving you a result that was too low. We didn't accept the
39 evidence that that approach was predicated on, and so we did what we
40 did.

1 So, again, when you run that logit model, you work out the implied
2 change on top of our base, if you will, and then we subtract the
3 difference between that total forecast and what we already forecast
4 through the other parts of the model. That's how it works.

5 I think the central concerns really seem to be one of confusion, so I
6 think people, having read the report and having read the previous
7 drafts of the report, didn't quite understand what we'd done, how we'd
8 explained it, so hopefully I've cleared it up to an extent.

9 I think people are also concerned that, in previous drafts of the reports
10 we shared with various parties, the implied elasticities and central
11 elasticities in the GJT calculations had jumped around a bit. Now,
12 that's true. They did. Those elasticities are a function of journey time,
13 which is used to calculate the air share, and generalised journey time
14 that's spat out of MOIRA, and, if you change any one of those two
15 things, you get some big changes in the implied elasticity. And, given
16 that we've already said that we'd got some of our journey time analysis
17 wrong for VTEC core in particular, that explains why that happened.

18 I think that probably covers most of the generic points raised.

19 THE CHAIR: Okay, thank you very much, Chris. Let's see how far that has cleared
20 it up for different people.

21 DFT: Yes, I'm afraid I'm still a bit confused by that explanation. And, in fact, I
22 think your last point actually comes back to the source of my
23 confusion. We're just not clear why you've used the back calculation
24 of elasticities. You went through a bit of an explanation of not wanting
25 to use PDFH, but then you decided to use it as the central case in any
26 case. If you are going to use it as the central case, why not use the
27 air-rail curve relationship that's set out in PDFH as it is, rather than
28 back calculate elasticity?

29 As you've just noted, where you are on that market-share curve in the
30 base case is going to have a fundamental impact on the resultant
31 elasticity, so I just don't quite understand why you didn't just use the
32 curve to get to what PDFH would say is the correct answer, rather than
33 the elasticity, which would vary where you were in the base case,
34 because, actually, the elasticity for different flows you're considering
35 will be different, depending on the base case journey time.

36 CH2M HILL: So, yes, and the elasticity is a composite for the different flows that
37 we're considering, but we split it by London-Edinburgh,
38 London-Newcastle. There aren't many more air flows.

39 DFT: As I understood from your report, didn't you look at the journey time

1 from Edinburgh to, say, Peterborough and Brighton and London, so it
2 was a range of journey times, so it was an average.

3 CH2M HILL: Yes, sure, but, in terms of back calculating an elasticity, we used the
4 calculated air market share, rail market share from PDFH. We used
5 the s-curve. That's how we produced our central number. The
6 back-calculated elasticity was a sense check to make sure that that
7 number from PDFH made sense, given that we had a range of what
8 we'd presumed to be reasonable elasticities. If it didn't fall within that
9 range, then there's maybe something wrong with our approach and
10 there's maybe some other explanatory factor. It was a sense check.

11 DFT: Okay, fine. I think that's maybe not clear in your report, but I think
12 we're keen to see more further detail on that so we could have a look
13 at it. If you have these curves, that would be interesting.

14 THE CHAIR: Okay, thank you. Alliance, did you want to ...?

15 ALLIANCE: Yes. I think I'd make some minor points on the journey-time-elasticity
16 issue. I think the big concern that we have relates to the use of First's
17 mode-choice model, relating to fares, and the concern is twofold. The
18 rest of what you've done is set out reasonably clearly in your report, or
19 uses industry standard tools, so it is possible for everyone round the
20 table to understand what's being done; why it produces the results it
21 does; if it produces results that are unexpected, potentially to challenge
22 them.

23 However, the First air/rail model is a complete black box as far as
24 everybody else is concerned. So we have no idea whether what it is
25 producing is rational or not, so there's a major issue of transparency.

26 Secondly, from what I do understand or I think I understand about the
27 model – and I may not, because, as I say, there's a lack of information
28 – what it seems to do is purely a binomial rail versus air model, and
29 we're not talking about a binomial choice; we're talking about a whole
30 series of options. In relation to air, you have five different airports in
31 the London area, so there's a choice and that correlates with high-cost
32 and low-cost airlines, in that fares to Luton, Gatwick and Stansted are
33 much lower than to City or Heathrow.

34 So you've got a five-way choice between airlines, and, in the event that
35 First's application is granted, you've got two choices of operators, at
36 least, maybe three, if all three get on the route. So there would
37 certainly be VTEC and First, and there may be Alliance as well, if both
38 open-access applications are granted. And a binomial model which
39 takes air as being one option and rail as the other just doesn't get into
40 the detail of the choices that would exist.

1 And I think there are a whole load of other issues around the detail of
2 the modelling that we just don't know anything about, so we can't say
3 whether they're robust or not. As you will know, our application was
4 based on a mode-choice model, to look at air-rail transfer, which was
5 hierarchical in structure and dealt with all these alternatives that I've
6 just mentioned.

7 THE CHAIR: Okay, thank you.

8 CH2M HILL: So, when we got FirstGroup's permission to look at their model, to
9 work out, in the time available, whether it was the best approach for us,
10 we did so under some strict terms of confidence. So, if we haven't
11 shared details, it is because we didn't feel we were able to share the
12 details.

13 Now, quite clearly, there's a message coming back that you need
14 those details. We've shared those details with ORR. We've spoken
15 their representatives through what's going on with the model, but, if
16 others have concerns, then we'll have a chat with FirstGroup and with
17 Arup after this meeting and see if there isn't a way of making it more
18 transparent.

19 We don't have any concerns about it. The concerns you've articulated
20 I believe are covered by the approach, but we'd need to look at sharing
21 that with you in some more detail.

22 THE CHAIR: Okay, thank you. Yes.

23 VTEC: The issue of transparency extends beyond what you've explained,
24 because, whilst we may have some sympathy with the ideas where
25 you decided to depart from PDFH and you've explained the reasons,
26 the area that you've come to, because we're not able to see the
27 approach and the methodology, it can't be peer-reviewed. And so
28 we're left with a situation where we're being told to depart from well-
29 established methodology that the industry has used for 25 years, which
30 is recommended by the Government, the Treasury, and you're taking
31 us to methodologies which we can't really see the detail of that have
32 been established by your company and without peer review.

33 CH2M HILL: So we weren't aware that the issues around transparency were an
34 issue, so, as they're an issue, we will share more details. Now, I think
35 some of what you said is slightly unfair, because we have walked each
36 of the applicants at least once, and in most cases twice, through the
37 methodology.

38 Now, I accept that the methodology we have used to assess
39 FirstGroup's application changed late in the process, but that's simply

1 because their application came late in the process, and not for any
2 other reason, not because we were hiding.

3 THE CHAIR: VTEC, did you want to come in or...?

4 VTEC: Yes I think the transparency point is very important, because we've
5 seen from the other evaluation that's been carried out that there are
6 significant errors, so I think the point that my colleague makes and that
7 Alliance makes about the importance of us being able to review it is
8 very important. If you can't review... If you can't share the First
9 model, then I believe you should spend the time to construct your own
10 model which we can review.

11 THE CHAIR: Okay, noted.

12 VTEC: And then another point to add.

13 THE CHAIR: Just one more, yes.

14 VTEC: The process feels like it should be commensurate with the amount of
15 review that goes into the bidding, for example. It feels this is only a
16 fraction of the amount of process that goes into the bidding process,
17 and I don't see how you can reach decisions which are worth so much
18 money and so important to the economy of the North of England and
19 Scotland without a fully reviewed process.

20 THE CHAIR: Well, okay, that's the thing I did say. We are going to have some
21 further iterations around this process, so we're not reaching decisions
22 on the basis of the report currently before us, to be absolutely clear on
23 that. Yes.

24 FIRSTGROUP: Chairman, just as an observation on robust process, and to put what
25 may be a practical suggestion into the mix on further robust process.
26 This is without wanting to concede the point that this needs to be
27 scaled up in time, scale and complexity to the level of a franchise bid:
28 which is not something that we would be persuaded of. In terms of
29 breaking this down, there are an awful lot of inputs and a lot of different
30 complex views, and we've got two different levels. One is
31 methodology, and then the second is implementation of that
32 methodology.

33 There have been a number of submissions made in writing, over the
34 last few days. Both for those and if there is another round of
35 submission on methodology, the suggestion would be that all of the
36 applicants and parties making submissions on methodology effectively
37 set out what the methodology should be, briefly, succinctly and

1 cross-visibly to each other. And that's different to seeing the contents
2 of everybody else's submissions.

3 And then, from that, ORR in conjunction with CH2M Hill, would
4 presumably be able to provide, effectively, a statement that 'This is the
5 methodology', some bits of which would be hopefully, at that point,
6 largely agreed and common ground, but those bits which were not
7 would be transparently something upon which you had exercised a
8 discretion. Providing that discretion was rational that would be that. It
9 would then become an issue of implementation and application of the
10 methodology which would then be done.

11 Now, obviously, cross-visibility of all of the inputs is something which
12 will have an issue of sensitivity for all of the different parties around the
13 table. But at least that would give a structure and reduce the number of
14 variables.

15 THE CHAIR: Okay, thank you. Yes, can we have one more? We must then move
16 onto the crowding and other topics. Alliance.

17 ALLIANCE: Okay, well, it is quite important. I think I've lost count of the number of
18 times that Chris has said 'in the time available'. Our application goes
19 back nearly 18 months, when the industry was first advised. No doubt
20 VTEC have been working probably as long preparing themselves for
21 their application, based upon what they knew about our application.
22 The reason we are so tight for time is because you have gone off your
23 process to allow a very late application from FirstGroup, which has
24 come in with no transparency at all for others.

25 And, along with that, I made a point in my opening statement, and I'll
26 repeat it again today. It is quite clear, from what Chris has said, the
27 timetable has been fitted together very nicely with VTEC, because they
28 were given it on 24 February, and that allowed them to prepare a
29 timetable completely different to everybody else's timetable, so that
30 they made sure abstraction levels were low. We can all do that.

31 So what I'm looking at here is: you really need to review whether or not
32 we should be given the opportunity to revise our application, based
33 upon the VTEC timetable, so that we can see what the actual output
34 from our application would be.

35 I have serious concerns that, on 24 February, more than two weeks
36 before a submission, 10 days before we even saw the VTEC timetable,
37 FirstGroup were working on a timetable that fits very nicely, thank you
38 very much, with a plan that I've no idea how it works, and I don't think
39 anybody else does, apart from Chris, because he's seen it, and that
40 has given results that, to be honest, frankly, when I'm looking at it –

1 and I'm not an economist – they just don't make any sense to me.

2 The reason that the cost per seat is so cheap is because it is Ryanair
3 on rail: 400-plus seats in a five car. Our colleagues at VTEC will be
4 looking at, what, 330 in a similar sort of train? It just doesn't make
5 sense. We need to see... If it is good, if it works, good luck to them,
6 but it will drive a coach and horses through everything that any of us
7 have ever known about the development of new services on the
8 network, and I think that's something you very seriously need to take
9 into consideration.

10 But the issue – it is a process issue. It is a process issue. We have
11 been seriously disadvantaged by FirstGroup having all this access at
12 this late stage, and the process needs to be revisited to give everybody
13 an equal chance to submit an application. We have waited so long.
14 We're not waiting for a train to be built next week. VTEC's are already
15 being built. I've no idea when ours will be built, but the process is not
16 right. I think we're even stretching into – there may be some legal
17 issues, now, about this process.

18 So there are certain things we need to think about, but it needed to be
19 said and I needed to say it.

20 FIRSTGROUP: Can I just make a point, because it is relevant? Obviously Alliance
21 wouldn't have known, but we have been developing proposals for
22 some substantial amount of time as well. It was only once we knew
23 the outcome and who had been awarded the East Coast franchise that
24 we decided to make an application, but we had been developing it for
25 some time.

26 Our application for these rights, 2018-2020 – went in on a timescale
27 that's not inconsistent with the one from VTEC, noting that Alliance's
28 had been made previously.

29 Our timetable that we proposed at that time, as we've said at the
30 beginning and said several times today, was about an indication of
31 whether there was capacity on the route. We wouldn't have made the
32 application if there was not capacity for the proposition that we had.

33 We agreed with Network Rail's report that there was – and I think
34 we've all agreed this morning already – that there's sufficient capacity
35 for eight paths on the route, so therefore we concluded that our
36 application works. Our timetable was a demonstration of that process.

37 ALLIANCE: The benefit you've had, though, is that your timetable dovetails very
38 nicely, fortunately, with one that you were given to allow you to finalise
39 it in order for it to be evaluated. That is absolutely not right. And

1 you've also confirmed that you've actually ridden on the back of two
2 years' work, because, as has been said here already, we have worked
3 so hard to identify the fact there's available capacity, as indeed did
4 Grand Central before us, and, in effect, you've waited. We've all
5 worked very hard, and then, bingo, along you come.

6 I know you can take an application at any time, but you had a process.
7 You need to see what you said in 2010. And the reason we're late, the
8 reason we're here, the reason it is not just a discussion between the
9 two of us, is because the process has just been – there's a coach and
10 horses gone right through it, and it is caused significant problems.

11 And I really don't know how, as we sit here today, you will ever make a
12 decision on this that does not get challenged. I really don't.

13 FIRSTGROUP: The last thing I would just say on that, in terms of making the
14 application, is, before we made the application – because we knew the
15 process; everyone had been written to in the industry in June 2014
16 about the process that the ORR was following for the East Coast. That
17 was updated in the letter that we weren't expecting on 6 February.

18 We already had our proposals developed at that point. So, as soon as
19 that letter arrived, we went to the ORR to see if we would be able to
20 make an application. So we approached the ORR beforehand to see if
21 we could make the application. We didn't know whether we would be
22 able to or not, because of the timescale and the process, and, as it
23 turned out, the ORR considered it and allowed us to make that
24 application.

25 FIRSTGROUP: Which in any case was made at the same time as VTEC's application.

26 THE CHAIR: So just –

27 ALLIANCE: I'm sorry, I need to just... This is a very important point.

28 THE CHAIR: Go on.

29 ALLIANCE: You had access to a timetable that allowed... Are you telling me that
30 timetable you've developed was the timetable that you did your work
31 on? Because I don't believe you, if it was. That timetable that you've
32 put in is based around the VTEC timetable. Chris has said it is been
33 based around the VTEC timetable. We have not had that advantage.
34 It is such a significant commercial advantage, it cannot be ignored and
35 it will not be ignored.

36 I've mentioned it twice today and I'll mention it three times, and I'll be

1 mentioning it again. That is not right and we need to get back to a
2 level playing field, and we're not even anywhere near playing the same
3 game at the moment.

4 THE CHAIR: Okay. As you say, you have mentioned that a number of times.
5 Let me just go back to the earlier point about the impact of the
6 inclusion of First in this timetable. When we knew about First, we
7 wrote out at the time, saying, 'We've considered this and we've
8 considered the impact of the timetable', and we did put a letter round to
9 all the parties at the time. I mean, that was circulated around at the
10 time, just to make absolutely clear.

11 ALLIANCE: But why did you give them the timetable on 24 February? I don't
12 understand it. Why did you do it?

13 THE CHAIR: Sorry, is this the modelling point?

14 ALLIANCE: The ORR gave a copy of the VTEC timetable to FirstGroup on 24
15 February. That allowed them to develop their application to put to you
16 on 9 March. I never saw the VTEC timetable until 5 March. Why you
17 gave it to them on 24 February I've no idea.

18 THE CHAIR: I'm not clear on that timing point. Do you know...?

19 ORR: Do you want me to deal with it?

20 THE CHAIR: Yes, please.

21 ORR: We are slightly off the beat, I think, of modelling, but just to explain
22 what happened, as FirstGroup said, they came to speak to us very
23 soon after our letter in February about process, realising, I think, that
24 the process was working to a certain timetable and asking the
25 question, 'Is it possible to fit in?'

26 We made the point that we didn't think it would be fair to other
27 applicants if we were to introduce them into the process if that were to
28 delay it for everyone, but, if they could put in an application quickly, in
29 a form which others could look at through the usual industry
30 consultation process, we could see no good reason to leave them out
31 of the process, provided it didn't have an impact on the overall
32 timescales, and they responded to that challenge, and as, I think,
33 FirstGroup said, got an application in – actually, I think it ended up on
34 the same day as Virgin Trains East Coast's.

35 So they met that challenge. They asked, through us, if Virgin Trains
36 East Coast were prepared to share the indicative timetables they had

1 given us, and Virgin Trains East Coast said they were prepared to do
2 so, on the understanding that there would be an exchange of
3 timetables. And, of course, although this hasn't been normal practice
4 in the past, we're very keen to take steps forward on transparency,
5 something people have welcomed earlier, and so we felt that was
6 sensible.

7 FirstGroup decided to dovetail in, as you say, and came back with a
8 timetable written around, to some extent, VTEC's. It was provided to
9 you, Alliance, a few days later, on the basis that it took us a certain
10 amount of time to check with you that you wanted it and that you and
11 VTEC were prepared to swap timetables on the same basis. So you
12 haven't had it for quite as long as them, but you have had it for three
13 months.

14 ALLIANCE: It is absolutely irrelevant, Rob, what you've just said. We could not
15 model our business around a timetable that we had visibility of. You
16 allowed someone late in the process and gave them a significant
17 commercial advantage by giving them a timetable to work around.

18 THE CHAIR: I think your point is noted.

19 ALLIANCE: It needs to be more than noted, John. It does.

20 VTEC: Can I just make one observation?

21 THE CHAIR: Sorry, can I just come back on that? I would say it is noted for the
22 purposes of the record here. We will obviously follow up – I wasn't
23 suggesting we wouldn't follow up on the point, but it is noted for the
24 record here.

25 VTEC: Can I make one observation for the record? We didn't exactly agree to
26 our timetable being shared with FirstGroup. We were told it was going
27 to be shared with FirstGroup whether we liked it or not. We then
28 agreed that it could be, provided we got a copy of theirs back. So it
29 was a swap, but it was with one arm tied behind our backs.

30 ALLIANCE: Can you make sure that that is recorded in the record, please?

31 THE CHAIR: It is the case – all the comments made here are recorded in the record,
32 okay? Yes.

33 ALLIANCE: Talking about process, just reminding you that our application was
34 under section 17, which, in theory, according to the statutory
35 timescales, it is two months from the date of the last piece of
36 information, so we're here 16 months later. I'm just making that point.

1 THE CHAIR: We have had discussions about this, but yes.

2 ALLIANCE: I'm also making the point that sharing a timetable... The regulator's
3 role is also competition regulator. We're raising some significant
4 competition issues now about giving competitive advantage to a
5 competitor, so that's something that the ORR needs to consider.

6 THE CHAIR: Okay. So, just for the avoidance of doubt, again, we have noted the
7 points, and these points will be considered. Thank you.

8 I'm going to move us on now. We do have to get onto crowding,
9 before we then move to the economic appraisal, which we also still
10 need to cover. Chris.

11 CH2M HILL: Yes, so I've got marketing and I've got crowding.

12 THE CHAIR: Oh, yes, sorry.

13 CH2M HILL: I'll start with marketing. So, just a sort of very brief recap on what we
14 did, simply, we took the indicated marketing spend from each of the
15 applicants, from each of their applications and applied an assumed
16 return on investment, which is pretty standard practice.

17 The main issue seems to be that I think pretty well each of the
18 applicants think that the split of marketing spend on
19 revenue-generative activities versus activities which might abstract
20 revenue from the competition should have been higher, but that is
21 something that everybody has said to us consistently. So I think that's
22 the sort of main point, really.

23 THE CHAIR: Does anybody want to come in on that point? If it is taken as given,
24 then I think we should...

25 VTEC: Can you give us an indication of how big a part of the benefit it is,
26 because that's not clear from the report? Is it something that's
27 material?

28 CH2M HILL: It is quite small. It depends on how big the marketing spend is. It is
29 less than 10%, from memory, but, again, if some organisations have a
30 bigger marketing spend than others, then it would have a bigger
31 proportionate impact on their particular application. But it doesn't
32 affect the generation/abstraction ratio, because we apply it in
33 proportion to what's calculated elsewhere.

34 ALLIANCE: We would just like to make it clear, as Chris has repeatedly said, that
35 we think the approach that you've taken is too conservative, and

1 particularly it doesn't take adequate account of good customer service;
2 it doesn't take adequate account of the benefits that you get in creating
3 and exciting a market where there is more than just an add-on to the
4 existing service, particularly to destinations which get a new through
5 service, which would be a big event in a community like Grimsby, as it
6 was a big event in communities such as Sunderland when the Grand
7 Central service started.

8 So we do think that this is unduly conservative. I'm sure there will be
9 different views around the table on this point, but I just wanted to make
10 sure that – that remains our position.

11 THE CHAIR: Right, thank you. Shall we, on that basis, move on to the next one?

12 CH2M HILL: Yes, I wasn't going to respond to the point.

13 THE CHAIR: Shall we move on? Yes.

14 CH2M HILL: Okay. So overcrowding – so, just to give you a little bit more flavour on
15 what we did in terms of our overcrowding assessment, against, when
16 we started the process, we didn't have access to a sophisticated
17 crowding model. Indeed, we still don't have access to a sophisticated
18 crowding model of the type one might have for a franchise bid.

19 We weren't sure whether we would even get access to train load count
20 data. Experience of working with train operators in the past varies.
21 Sometimes we get it for various purposes; sometimes we don't.

22 We also had a belief that, whilst overcrowding is certainly important on
23 the East Coast Main Line, it isn't a commuter railway, and it is less – in
24 terms of order of magnitude, it is less important than some of the other
25 things that we considered, although it isn't not important. So our
26 approach was to produce unconstrained revenue forecast and to
27 crowd off demand if we felt it was necessary to do so.

28 Now, subsequently, we've bolstered our economic appraisal to assess
29 the value-of-time implications through relieving overcrowding, because
30 some of the count data that VTEC in particular have shared with us
31 suggest that there will be some instances of overcrowding in future,
32 particularly given just the IEP fleet, as is being built at the moment –
33 just the capacity provided by that fleet, rather. So that's broadly what
34 we did.

35 I think one of the main questions is – it is specific to one applicant – is
36 about how we divided the benefits of overcrowding between the
37 various options. I don't want to go into that in too much detail, because

1 it is specific to one applicant, so, really, I'm just happy to take the
2 discussion, John.

3 THE CHAIR: Okay, thank you. Any points?

4 VTEC: My first point, I think, is treating overcrowding lightly for a long-distance
5 service is probably not the right approach, given that potentially –

6 THE CHAIR: Sorry, I didn't quite catch that. Can you say it again?

7 VTEC: Treating overcrowding lightly for long-distance services is not
8 necessarily the approach we'd agree with. Given that some of
9 services will be running for two hours, two hours 30 minutes, non-stop,
10 I think expecting any level of crowding in that environment is actually
11 quite a concern to dismiss. I think also the PDFH penalties for
12 crowding kick in, I think, from around 70% for long-distance services as
13 well, so, again, there should be an impact there.

14 I think that we have some concerns. I think it is about actually the
15 transparency as to how this has been applied in the report, and, again,
16 it doesn't come out particularly clearly as to what the impacts of
17 crowding are on the various different applications. One of the points
18 that we were concerned with was, in the assessment of our
19 Middlesbrough services, one of the key benefits that – the issues that
20 we've touched on in terms of how we deploy our fleet is it is there
21 relieve crowding on the core services. We're not quite clear as to how
22 that's been captured in the analysis.

23 Similarly – sorry, do you want to answer that one?

24 CH2M HILL: Yes, so, in terms of transparency, if you're saying that to us, then of
25 course we'll make it more transparent. In terms of the Middlesbrough
26 service, we made an assessment of the value-of-time saving to
27 passengers as it is calculated in our appraisal and the reduction in
28 overcrowding that that would enable.

29 Now, the revenue benefits perhaps don't align as well with the way that
30 we defined all services and split them into the various options, so we
31 have an unconstrained demand forecast that we would crowd off if we
32 felt that we need to do so, if we're generating so many passengers
33 through that unconstrained demand forecast that they don't fit on the
34 trains or would be very high load factors.

35 So, probably, what you're saying is that some of that revenue benefit
36 actually would be removed from the core option and put into the
37 Middlesbrough option if we continue to split that into separate things.

1 VTEC: It would be recognised in the core option and reflected in whichever
2 option, because, as has been referenced, this is a holistic timetable
3 and the Middlesbrough service is obviously the last element, which
4 allows for growth by providing relief for crowding on the core services.

5 I think there is another point on the FirstGroup service as well, which
6 obviously I mentioned earlier on. It is about the level of crowding
7 assumed, that, again, it is not clear as to how that's been dealt with in
8 the report. Again, it is back to the point about clarity in the report and
9 the fact that we haven't seen appendix A and we're not clear as to how
10 crowding has been dealt with. I think we need to see more detail on
11 that and actually be able to challenge it more appropriately when we've
12 actually seen that detail.

13 CH2M HILL: Right, so we can provide the detail. And, for the record, I'm not quite
14 sure what's happened with appendix A: a) it only covers the gravity
15 model; it wouldn't cover that. I think it may be we supplied it to ORR
16 when there was the fire outside the building or something, because we
17 certainly sent it, but something got lost in the communication. There's
18 no subterfuge in play. It is a pretty straightforward document which
19 we're very happy for everybody to read.

20 So, yes, so, coming back to the FirstGroup service, we flagged the
21 level of implied load factor was a risk. We said, using some sort of
22 sensible annualisation figures, you're talking perhaps in the region of
23 80% loads, which is quite high, and we accept that it is quite high –

24 VTEC: That's an average –

25 CH2M HILL: – an average.

26 VTEC: – which implies that, given the work we've done, it means that some
27 services will be significantly overcrowded, particularly to reflect the low
28 load factors on the early morning services. So you're getting some of
29 that actual significant demand crowded off to reflect that disparity in
30 load factors.

31 CH2M HILL: I'm sure you'll come on to in a second, Leo, but the evidence I've seen
32 before is that, when you get to a load factor of 80-85%, you start to
33 then get some trains that are over capacity generally – the rule of
34 thumb that I'd always applied – so you're kind of at the margin. We
35 took this up with FirstGroup and they took us through their
36 yield-management system, which, to us, seemed to be more
37 sophisticated than is currently implemented in GB rail, but we still flag it
38 as a risk. We don't forget about it. We acknowledge that it is there
39 and we flag it as a risk for ORR in its decision-making process.

1 FIRSTGROUP: Sorry, I'd just add, on that point, as Chris has said, we had some
2 innovations in technology that allowed us to efficiently manage
3 capacity on these services.

4 We would note that, in comparison with the competing airlines on the
5 route, the average load factor that Chris is noting is lower than those
6 competing budget airlines. I think, in the latest reported figures,
7 EasyJet managed an average load factor of 90%, and, in Ryanair's
8 case, the latest reported figure was 88%, both of which are
9 substantially higher than the factors that Chris has noted in the case of
10 our application.

11 THE CHAIR: Right, thank you very much. Unless there are any really urgent points,
12 I think we must move on to the...

13 VTEC: Sorry, I don't know if I want to move on to deal with the economic
14 appraisal yet, because there's a couple of issues that haven't been
15 covered in terms of the analysis as well. One issue is – it is
16 performance. We talked a lot this morning about the impact of the
17 performance of the various different applications, and I know this was
18 somewhat lightly dismissed by the other applicants as something that
19 could be easily solved. We don't believe that. Performance is a major
20 reputational element for the Virgin Trains East Coast franchise, but we
21 do believe that some degree of performance assessment should be
22 carried out on all of these applications and the results of that
23 performance assessment factored into the revenue appraisal as well,
24 because it does have a major impact on passenger sentiment and it
25 does have a major impact on passenger demand.

26 CH2M HILL: Certainly, most railway business cases I've been involved with in the
27 past have an assessment of performance in there if it is likely to be
28 material to the business case in question. We don't have an
29 assessment of performance that we can use, so it is something, at the
30 moment, which ORR I guess will consider as part of its
31 decision-making process. If an assessment were made available to us
32 or we were able to do one ourselves, then we'd certainly be happy to
33 add it in.

34 VTEC: Network Rail have made the assessment. It is 1.8-2% without
35 mitigations, for eight trains an hour.

36 CH2M HILL: It would have to be sufficiently detailed that we could actually split it
37 into the various options –

38 VTEC: You could make an attempt at modelling that, the benefits. You could
39 take a broad-brush approach if nothing better was available, but,
40 ideally, something better would be available.

1 THE CHAIR: Right, basically, you're saying that's what should be done, so – yes,
2 okay.

3 VTEC: Yes.

4 VTEC: One approach that you normally see in economic appraisal is a
5 number of sensitivity tests, so that the people evaluating can see how
6 sensitive the results are to changes which might not be certain. So, for
7 example, in the case of PPM, clearly, there's a lot of uncertainty. We
8 estimate that a 1% drop in PPM, which is massive, is worth about
9 100 million in benefits over a 10-year appraisal, so it is huge.

10 It would be worth using your models, just to see how sensitive some of
11 these assumptions are, so that we can see the degree of uncertainty
12 and the level of risk involved, particularly with performance but also
13 with understanding the accuracy of the timetables.

14 CH2M HILL: To be clear, we have the capability to assess changes in PPM or
15 average minutes lateness for any given performance model. I spent a
16 good chunk of my career at Network Rail doing that very thing for
17 business case purposes to leverage funding from DfT for the things
18 they wanted to buy. So we can do it, but we don't actually have a
19 detailed assessment of how the performance characteristics of the
20 various applications differ.

21 I'd just slightly refute the suggestion that we should do it on the hoof or
22 do something broad-brush when we're being criticised by other people
23 for doing broad-brush things for a good reason. So, if we can do it, if
24 we're provided with an assessment or we're given the means to do it
25 ourselves, then we will. Forgive me for bristling slightly.

26 VTEC: I don't think that was a personal comment at all. It was purely:
27 performance needs to be included in the analysis and it hasn't been to
28 this day, and we believe it should be.

29 THE CHAIR: Okay, point taken. Thank you. Chris, yes.

30 ALLIANCE: Can I ask a question of the ORR? The revenue forecasts here are
31 based on a significantly different approach from previous open-access
32 applications. Can I ask the ORR, then, does this mean, from now on,
33 you are accepting the gravity model as the right way, in principle at
34 least, to model demand for stations that are not served with through
35 services at the moment, and that segmentation of the market and, in
36 effect, of fares will also be considered in future applications? I just
37 mention that because it would have had a significant impact on our
38 previous applications.

1 THE CHAIR: Yes.

2 ORR: I think the general point is that, whenever we've handled these
3 applications – indeed, in the most recent decisions – there's been an
4 evolution in our approach; there's been new evidence, new techniques
5 that have been applied, as we've learnt and more evidence is available
6 to us.

7 There have been some arguments tabled today about the gravity
8 model, and about other aspects that you've just referenced. We need
9 to reflect on those. There'll be a recommendation to the Board and
10 then, in effect, you can probably infer from the eventual decision the
11 extent to which we continue to believe that a gravity model approach is
12 appropriate.

13 So I think it will come out of the next decision, the extent to which we
14 think that a gravity model is appropriate. I don't think it is worth now
15 speculating whether this is the right approach for all time. Indeed –

16 ALLIANCE: Well, in the past, the ORR has consulted on changes to its approach
17 and we're surprised that you haven't done that on this occasion, so we
18 would have expected –

19 ORR: I would note we are having the discussion – we had quite a lengthy
20 discussion today about the relative benefits of using a gravity model,
21 so we'll reflect that in the decision-making process.

22 ALLIANCE: Can I just...? Just commenting, from an open-access point of view, we
23 need some consistency in the approach from the ORR. We need to
24 know what the process is. We've been at this for five years now and
25 we haven't managed to get an application through. We can't go on
26 much longer if you keep changing the process. It is absolutely flawed.

27 THE CHAIR: Well – sorry.

28 ORR: I think we're about to say the same thing.

29 THE CHAIR: Yes. I don't agree the process is flawed. I think they're two rather
30 different points, because that's pretty much the same as saying the
31 process can never evolve and change. But, anyway, I understand
32 you're making the point.

33 ALLIANCE: We need to know what the rules are. We don't at the moment.

34 THE CHAIR: Okay, fine. I don't think I accept that, but maybe we can come back to
35 that.

1 FIRSTGROUP: Chair, not wanting to cut in on substance, because it follows on from
2 that point, actually. I just want to comment briefly – because we're
3 conscious that a lot of criticism has been made in fairly explicit and
4 fairly strong terms, effectively, on process, directed both at ORR but
5 also at FirstGroup. And, just for the record - to pick up Ian's phrase,
6 our submission is that those criticisms were misplaced and they
7 confuse a number of issues.

8 Just very swiftly: obviously, a party is always able to formulate a
9 distinctive market proposition. That is what competition is, and good
10 and obvious ideas are always never more obvious than when
11 somebody else has just had them, so whether it is Apple or BlackBerry
12 or different transport propositions.

13 The East Coast franchise has been public in its ITT for quite some
14 time. The results have been public for quite some time. Colleagues
15 on the left of the table could have, at any point until final submission
16 date, have adopted or formulated, different offerings in whatever
17 form... That is the nature of market competitiveness.

18 In terms of their receipt of the timetable a few days after FirstGroup,
19 we would again put on the record that we do not accept that that is an
20 issue. It was an iterative process: it was a symmetrical process
21 between the parties and there was an ability to work on the basis of
22 that. These are all things which are evolving. As my colleague has
23 said and will, I think, continue to reinforce, these are indicative
24 timetables, certainly from First's point of view, to show use of capacity,
25 not a firm timetable seeking effectively to hardwire in things.

26 So we thought that it was just important, whilst we were on the subject
27 of process, just to put that rebuttal on the record.

28 THE CHAIR: Okay, thank you. I think, on those process points, I understand the
29 strength of feeling around the table. I think people have now had the
30 opportunity to put the process point, as I think you've both said, on the
31 record. Ian, you just missed a response to your process point. So
32 they're both on the record now and we will have to consider how we're
33 going to respond to them.

34 We do just need to move on, now, to the final section around the
35 economic appraisal. That's the final bit of this day, and I really do want
36 to spend 15 or 20 minutes on it, to try and cover that, so can I just ask
37 us to move on at that stage and Chris to talk us through the remaining
38 points on the economic appraisal?

39 CH2M HILL: Sure, thanks, John. So a brief statement on what we did. The way we
40 break it up and the way I break up the forecasting into its constituent

1 parts – I think we can just tackle it all in one go, if that’s okay – so the
2 approach we put together is designed to be consistent with WebTAG
3 and compliant with, by implication, STAG. We can calculate, using it,
4 the impact on DfT budget, but it isn’t reported, because it is, as we
5 understand it, considered through a separate process as part of ORR’s
6 decision-making. It is designed to assess only the incremental benefits
7 and costs of each of the applications over a 10-year appraisal period.

8 In terms of the assessment of benefits, the main source of evidence for
9 that, the main input to that, is our revenue and demand projections,
10 and we categorise all the types of benefits that you would expect us to
11 categorise under a social cost-benefit analysis: user benefits, into its
12 constituent bits, non-user benefits, other impacts, etc.

13 We calculate revenue – the net increase in industry revenue, rather
14 than the revenue that is specific to any given operator, and then we
15 assess all the categories of costs that we can in terms of the
16 incremental costs, so cost of train procurement – we call it lease in
17 here, but really it is procurement – maintenance, Network Rail variable
18 charges, staff costs, fuel costs – that’s about it.

19 In terms of – I think John’s already alluded to this, and several people
20 have as well – we exclude the cost of any investment in infrastructure
21 that’s required to enable any of these applications, and we’ve also
22 excluded any benefit that that would bring, other than the benefit that’s
23 encapsulated within the track-access application itself. That’s with the
24 agreement of the ORR. It is not something we’ve done off our own
25 bat.

26 We also exclude what you might term ‘fixed costs’, so fixed
27 track-access charges, a share in the fixed management and
28 administrative costs of running a train service. We exclude those as
29 well, so it is genuinely designed to be incremental cost.

30 In terms of the metrics we report, I think the net present value, which is
31 the total benefit minus the total cost, and the present value of benefits,
32 which is just the total benefit discounted over the appraisal period, are
33 standard. I think most people would recognise those things.

34 We also, to try and give ORR some per-unit measure of the net
35 present value and PVB, divided those measures by a number of paths
36 over what we understood to be the capacity-constrained sections of
37 infrastructure, but without having reference to Network Rail’s letter,
38 etc., to do that. We accept that that’s crude and we accept that ORR
39 might want to use a different mechanism. It is just our starter for 10 as
40 some means to try and look at the relative value of these things per
41 unit of capacity consumed, but, again, we accept that that’s crude.

1 I think that's probably it. I'm happy to take questions.

2 THE CHAIR: Okay, thank you. Any questions?

3 DFT: I think there's two different categories of things we want to say on this.
4 We've got some technical points on the economic appraisal that my
5 colleague would like to make. We also have what's really more a
6 question to ORR about this appraisal, which was the question set out
7 in Claire Perry's letter to ORR earlier this week about how you use the
8 appraisal. We'd like to ensure that's picked up today. It doesn't have
9 to be now; we can pick it up after this agenda, but can you just tell us –
10 would you like us to go onto that now or come back to that later?

11 THE CHAIR: Well, I think let's take it now. You'd better just explain. I mean, the
12 letter hasn't come round to anybody else, to the best of my knowledge.

13 DFT: Sure. I think that will be shared at the next point, but I think my
14 question is really how the economic appraisal fits into your
15 decision-making process. The Department has provided evidence
16 about the impact on the IEP business case, but this is an appraisal that
17 doesn't take into account those costs, so specifically how does it align
18 with your duties? I mean, obviously there's a lot of duties, so we're just
19 interested to understand where it fits in there.

20 ORR: I mean, to be honest, I think this is a question that John's introductory
21 statement really was referring to, in that the CH2M Hill report is one
22 part of the evidence base. It is then the unenviable job of the project
23 team to then pull that evidence together, together with all the other
24 quantitative evidence, and the more qualitative factors that are
25 discussed. Then we do an analysis against the ORR statutory duties,
26 and that is at the core of the recommendation.

27 DFT: Yes, and that hasn't been done yet, so the evidence-gathering comes
28 before –

29 ORR: Yes. So, just to state, just to make it really clear, the CH2M report is
30 not an assessment of economic effects against our statutory duties. It
31 doesn't seek to do that. That's the job of ORR's project team, and
32 ultimately it is then a job for ORR's Board to decide the extent to which
33 those effects and evidence relates to our statutory duties. Hopefully I
34 haven't made Juliet seek to kick me under the table.

35 DFT: I mean, I think we'd just like to clarify that the evidence that we've
36 provided is quite different to what's in the Hill report.

37 THE CHAIR: Yes, and we do understand that, and we literally do exactly as Chris

1 has just said. We go through the full body of the evidence. We do
2 stack it against the statutory duties and the Board are asked to weigh
3 up, basically, the weight they want to put on their statutory duties as
4 they're making their decision, so we do go through literally that
5 process.

6 DFT: I think the thing that we want to emphasise is that, on the evidence that
7 we've seen, because it is come from a variety of different parties, it
8 doesn't appear to be a fully consistent approach taken in terms of the
9 evaluation of all these possible combinations of options, and that the
10 danger of not doing that properly is that possibly the taxpayer ends up
11 not being accounted for sufficiently. I think that's what our concern is,
12 and that's what we just want to –

13 DFT: I think my colleague will come on to some of those concerns shortly.

14 THE CHAIR: Okay, right.

15 ALLIANCE: I think there are some important issues here. My understanding of the
16 ORR's process is that there are three elements in looking at
17 applications: is the business case robust so that, provided that the
18 access rights are granted, they will be used for the duration of the
19 track-access contract without the operator having to resort to
20 market-disrupting mechanisms to try and survive; secondly, that it
21 passes the Not Primarily Abstractive test, which, as Richard Price said
22 in his recent lecture in CER in Naples, is designed to balance
23 responsibilities, to maximise the use of the network, to support
24 competition and to have due regard to the Secretary of State's funds;
25 and, where there are competing applications for the same capacity, to
26 look at the relative economic benefits of those.

27 And the CH2M Hill report, albeit all of us have a number of concerns
28 about it, seeks to address all three of those issues, so it is potentially a
29 pretty useful tool for this. What I would say, though, is: we've had a
30 number of assertions from the Department that the sky will fall in and
31 the earth will cease to continue to revolve around the sun if
32 open-access applications are approved. We don't recognise the
33 numbers that DfT quoted earlier. We think they have to be wrong but,
34 without understanding in more detail the evidence that supports them,
35 it is very hard for us to refute them.

36 And we would very much welcome greater transparency and less
37 redacted documents from the Department, in order to enable us to
38 engage in a constructive debate with them as to whether their
39 concerns are wrong or misplaced or overstated?

40 FIRSTGROUP: Can we just reiterate that point, actually? Because we haven't

1 responded to the Department's letter to you, to the ORR, in respect of
2 our application, because, quite frankly, we don't know what to respond
3 to, because there is so much redacted that it is not reasonable for us to
4 be expected to respond to it. And I think, therefore, if that information
5 is being used, much as Alliance has said, I think there needs to be
6 greater transparency, so we can understand what those issues are,
7 because we may well have points that are relevant, and, until that
8 transparency is there, it is quite difficult for us to make further
9 comment.

10 THE CHAIR: Thank you. They're both points of transparency of information.
11 Understood. You said you wanted... Can we just follow up on the
12 further points you were going to make?

13 DFT: Yes, fine. So, again, in the letter that DfT have sent, there was a
14 number of points relating to the economic appraisal that we raised, but
15 I'll just focus on what I think are the most significant, given the time
16 constraints of this meeting.

17 The first one has implications for the revenue as well, but I thought it fit
18 more naturally in talking about the economic appraisal. We have
19 heard today that there are concerns about the funding and delivery of
20 the infrastructure-enhancement works that would be required for tilt
21 operation. In this context, we do not think it is appropriate to assume
22 an Alliance end-to-end journey time of three hours and 43 minutes
23 within the estimate of revenue and economic appraisal, or certainly not
24 without considering other potential scenarios of the journey times that
25 might be achieved.

26 Furthermore, we note that the three hour and 43 minute timing
27 required an exemption to the standards set out in the train-planning
28 rules, which would require the agreement of Network Rail. Slower
29 journey times would have a significant impact upon the quantum of
30 generated revenue and the economic benefits of the service.

31 But where this becomes relevant for the economic appraisal, if the
32 required work can be funded and delivered and programmed, then the
33 costs of these works should be contained within the appraisal or the
34 full benefits and revenue uplift excluded. You really need to compare
35 both sides of the equation when you're doing an economic appraisal.
36 You need to have the costs to include the benefits and the revenue
37 uplift.

38 Currently, the economic benefits of the speed enhancement and the
39 revenues which are dependent upon the works are contained within
40 the appraisal, but the associated costs are not. This is inappropriate
41 and counter to WebTAG.

1 | ORR: It is probably just worth knocking that on the head, because that was in
2 | John's statement, that we agree that the costs need to be included.

3 | DFT: Fine. Sorry, I missed that.

4 | DFT: Okay. I think we can't over-emphasise that at this point. An appraisal
5 | which includes benefits but not the costs is not very useful.

6 | ORR: I suggest we just move on, because we all agree. It is just the reason
7 | it wasn't included in the calculation is because it was uncertain and we
8 | were exploring the value. I think we agree on its inclusion.

9 | THE CHAIR: I think where we've got to is, to make this point clear, you need to be
10 | clear in the report that this is being treated elsewhere in the process as
11 | well, for the avoidance of doubt.

12 | DFT: Also, on that point, I think, if the benefits are to be included, costs
13 | which are to be included have to be costs that are validated and are
14 | recognised by Network Rail as sufficient for delivery of the work. We
15 | certainly wouldn't recognise the number that was mentioned earlier of
16 | £50 million for the introduction of tilt across the East Coast Main Line
17 | as being realistic.

18 | THE CHAIR: I think on that point, and I think it is probably true of a lot of points that
19 | are being made here, it is clear that there's going to have to be some
20 | follow-up on some of the comments that have been made and some of
21 | the points raised, because there is quite clearly disagreement in some
22 | areas, and we are going to have to follow those up and we are going to
23 | have to try and pin the point down, so – yes.

24 | DFT: The other point that we think is the most significant issue with the
25 | economic appraisal is in relation to the treatment of rolling-stock costs.
26 | CH2M Hill has included what it refers to as 'rolling-stock lease costs' in
27 | the appraisal of the VTEC-operated options.

28 | The use of the term 'rolling-stock lease costs' in this context is
29 | misleading. The Class 800 series trains are not leased. Rather, VTEC
30 | is contractually obliged to make train availability and reliability
31 | agreement, TARA, payments to Agility. VTEC is contractually obliged
32 | to make the majority of these payments even if the rolling stock is not
33 | in use, although a modest reduction in the payments will accrue if the
34 | sets are used for less miles than are set out in the contract.

35 | As such, we don't think it is appropriate to use 'full rolling-stock lease
36 | costs' for the options operated by VTEC as the majority of the related
37 | costs are payable in any case, so it isn't an incremental operating cost

1 in that case.

2 ORR: Shall we take that one as well? Because we spoke earlier this
3 afternoon about the fact that – maybe it is just that I don't understand
4 how this contract works – is that the contract committed to use six
5 trains an hour. So, for incremental services, there is presumably an
6 incremental cost. So we've put a cost in and it is been labelled as
7 lease cost. I mean, I take your point that we could label that as a
8 different cost.

9 DFT: But it is not an incremental cost. There is a small element of
10 incremental cost in the IEP contract, but the vast majority of the cost is
11 payable regardless of whether the trains are used and is now
12 committed. So –

13 ORR: So what level is committed? The thing I'm trying to get to is that... I
14 think you were telling us that six trains an hour is committed in the
15 contract, but the proposal is for more than that.

16 DFT: Actually, mileage by rolling-stock is specified.

17 DFT: I mean, it is an availability payment which is payable anyhow. If you
18 give us a specific scenario for train-service operation, we can tell you
19 how – you know, give you some idea of the variable amount in the
20 contract –

21 FIRSTGROUP: If it helps, there's no real difference between making a payment for the
22 fleet of trains that you've got IEP and a train operator making a
23 payment to a leasing company for the fleet of trains it is got regardless
24 of whether it uses them or not. It is the same point. So, if any operator
25 leases a fleet of trains and only uses 20% of them, it still has to pay
26 100% of the lease cost.

27 It is no different in the scenario that you've just talked about. If you've
28 got the fleet of IEP trains, you have to pay 100% of the cost, even if
29 you're only using 20%, so the point is exactly the same, so there's no
30 difference. I think I'm agreeing with the ORR on not quite
31 understanding why you're making the point. It is the same point.

32 DFT: Well, the reason we're making the point is: the options are effectively
33 ranked with the cost – with the availability payment for IEP included as
34 a cost with the VTEC application but not any of the others. The
35 implication of that is, if you select one of the other options, this cost
36 doesn't apply. It applies regardless in all of the options. It is a
37 committed cost. It is effectively a sunk cost. It is different from the
38 rolling-stock costs that are associated with the FirstGroup or Alliance
39 applications, which are not sunk costs. If those applications are not

1 granted, those costs will not be incurred.

2 THE CHAIR: Chris, and then –

3 ORR: It seems like quite an important point, but I thought we got to the point,
4 earlier this afternoon, that the commitment and the rolling stock that
5 you were procuring related to six trains an hour. You seem to be
6 telling me something different now.

7 VTEC: I can comment on that.

8 THE CHAIR: Yes.

9 VTEC: The six trains an hour, which is the scenario that CH2M Hill have
10 called VTEC 2020 core, so that's got six trains an hour, that uses the
11 IEP fleet. That is something we've got to pay for whether or not we run
12 that core. So I think the argument that the DfT are trying to make, and
13 we would agree with, is that there should be no or very minimal
14 mileage-based costs for the fleet in that core scenario.

15 The scenario that CH2M Hill call Middlesbrough, which is actually
16 going six and a half trains an hour, with crowding relief, fast to
17 Edinburgh and Middlesbrough, actually requires us to lease extra
18 trains, and it is fair enough for the cost of those extra trains to be put
19 against that scenario. We wouldn't dispute that.

20 ALLIANCE: I'm getting really quite confused by this. It seems to me that DfT just
21 now was arguing that we ought to have all the costs in alongside the
22 benefits and they should be evaluated together, which I agree with.
23 But DfT is now saying, yes, but we should take the costs of the IEP
24 out. It seems to me to be utterly, totally inconsistent and designed to –
25 well, partly to justify the contract that the DfT has entered into with
26 Agility Trains, and partly to bias the appraisal grossly in favour of the
27 franchised operator, or at least the franchised operator's six-trains
28 application. I just think it is mind-boggling.

29 THE CHAIR: On the basis of what we've heard, I must say, I'm not sure we're going
30 to get to the bottom of this. I don't want to cut through the
31 conversation, but –

32 DFT: I think it does partly go back to what you want to use the appraisal for,
33 and that's where my question originally started for. It would be good to
34 have an explanation from the ORR how they're going to use this
35 economic appraisal in the decision, because –

36 THE CHAIR: I'm genuinely not sure I see the connection between that and what

1 we've just been talking about, but let's... I suspect we're just not going
2 to get to the bottom of this. It is one of those topics – we've had, I
3 think, two or three topics that we are clearly not going to resolve
4 around this table, so we will... Let's record that one as well.

5 DFT: Just to raise one more point, just to pick up on the point that was
6 alluded to and was mentioned this morning, earlier on, there was an
7 assertion that the DfT had exercised some unfettered rights to sell
8 track-access paths which aren't already protected within the franchise
9 agreement. And, whilst I understand where that viewpoint has come
10 from, I do think it is worth saying that we absolutely do not consider
11 that we have unfettered rights. These belong with you. These belong
12 with the ORR.

13 The development of the East Coast franchise has aimed to deliver the
14 best outcome for taxpayers and passengers, as we've described. We
15 required VTEC to take best endeavours to gain these rights. We've
16 done that and we support them in doing so, and there are various
17 protections within the franchise agreement for them to go through that
18 process.

19 So the purpose of stating our position here is to give the ORR Board
20 our position, so that you can fully take these into account during your
21 deliberations. So I just wanted to make that point specifically on the
22 relation to using unfettered use of the track access, which we certainly
23 do not think we do.

24 THE CHAIR: Okay, thank you. To use the earlier phrase, noted. Okay, thank you.
25 Do you want to bring the people not on the table in? Freightliner, yes.

26 FREIGHTLINER: I'd just like to make a point on the economic appraisal. As we
27 discussed this morning, there may be some choices and there
28 probably will be some choices that will impact between choices of
29 passenger and freight services or the quality of those services. And I
30 know that, at the moment, there is no economic appraisal that takes
31 into account freight. The benefits of rail freight fall outside of the
32 railway balance sheet, I think are quite well recorded, but I just ask that
33 those are taken into account in any decision.

34 THE CHAIR: Right, thank you. Anybody else?

35 ALLIANCE: Very briefly, two things I'd just like to ask for clarification on in the
36 economic appraisal. Clearly, the issues we've discussed about the
37 modelling will feed through into the benefits and therefore may result in
38 the estimate of benefits changing, but there are two things apart from
39 that that concern me.

1 One is: all the applications show a big decline over time in the
2 operating costs. The five-year and 10-year operating costs – sorry,
3 year 5 and year 10 operating costs are significantly lower than the year
4 1 costs. And the reason for that is not clear, and it is either right and
5 there’s a good reason and it should be explained, or it is wrong and it
6 needs to be changed.

7 And the other is that I can’t correlate... After a discussion that we had
8 back in April, you’ve done a calculation where you’ve shown benefits
9 per path. I can’t quite understand, in some cases, how you’ve
10 calculated the number of paths. For example, VTEC’s Middlesbrough
11 service, as I understand it, is for six trains in each direction, and you’ve
12 divided the benefits by six, not 12, and there are other examples as
13 well.

14 So I think you need to look at that again, and either clarify what you’ve
15 done or alter it in the revised version of the report.

16 CH2M HILL: Sorry, Alliance. Can you just refresh my memory on the first question
17 that you asked, please?

18 ALLIANCE: The first is: why do the operating costs drop over the period?

19 CH2M HILL: The main reason is that it is a discounted appraisal –

20 ALLIANCE: Ah, so these later costs are discounted.

21 CH2M HILL: Yes, so where we –

22 ALLIANCE: Ah. I thought that they were the actual underlying costs.

23 CH2M HILL: Somewhere at the start of the document, we say, ‘All figures are in
24 2010 present values unless stated’, so – yep.

25 ALLIANCE: Right, okay, thank you. I understand now.

26 CH2M HILL: That’s principally why. There might be some other things going on, so
27 that’s principally why, yes. And, sorry, the second question?

28 ALLIANCE: The second question was: we would question the number of paths
29 you’ve divided the benefits by in a number of cases.

30 CH2M HILL: Okay. Let me take that one away and have a look at it. As I said, this
31 was something crude to give ORR an idea of some kind of
32 proportionate benefit per unit across the use. Let me take that away. I
33 can’t respond to it now, but it is crude. There must be a better

1 measure.

2 ALLIANCE: I think it is quite a useful measure, to be honest. We recognise the
3 number in the case of our applications and First's applications, but we
4 don't recognise the number in the case of some of VTEC's, which
5 obviously affects how the applications appear relative to each other.

6 CH2M HILL: Let me check that.

7 ALLIANCE: Thanks.

8 DFT: I had one more point on the economic appraisal, before we move on. I
9 just wanted to note that the analysis includes the benefits of additional
10 revenue to open-access operators. In that context, we think that you
11 should probably reflect the disbenefits to airlines of them getting less
12 revenue. Effectively, it is just a transfer, so I just wanted to mention
13 that that would be included in the generated revenue, but not showing
14 the transfer away from airlines.

15 ALLIANCE: In that case, it should also take account of the environmental benefits
16 of fewer passengers travelling by air, which we would say it doesn't
17 cover at the moment.

18 CH2M HILL: Yes, I mean, it kind of presupposes what the response of the airline
19 would be. The airline might choose not to run the service but deploy it
20 somewhere else.

21 DFT: If it was making revenue from deploying the service there in the first
22 place, there will be a loss. That was all: that we think it should be at
23 least thought through.

24 CH2M HILL: Okay, let us take it away. What I'm saying is: they might choose to
25 offset that revenue loss by using the aircraft somewhere.

26 FIRSTGROUP: Just as an observation, I don't think disbenefit to aviation is within the
27 section 4 duties.

28 THE CHAIR: Yes.

29 VTEC: Just a couple of very specific questions, probably quite easy for you.
30 We were wondering what was driving the non-user benefits of the
31 Alliance London-Edinburgh service, which seem exceptionally high
32 compared to usual. We were just wondering what was driving that,
33 and we were also wondering whether... You've included, as you
34 should obviously, lost taxation due to the highway. Have you included
35 lost air passenger duty as well?

1 CH2M HILL: So I'd have to get back to you on air passenger duty. I suspect we
2 might have missed it, but I'd have to get back to you. In terms of the
3 non-user benefits, we calculate the change in rail-passenger
4 kilometres or miles. We apply a standard factor that gets you to the
5 highway and then we apply a reduction factor based on how many
6 passenger miles of our total passenger-mile generation we think is
7 coming from air. So that should get to a number –

8 VTEC: That's obviously the right approach. It just seemed that the
9 London-Edinburgh Alliance non-user benefits were out of kilter with
10 what we'd expect and the other applications as well, so we just
11 wondered whether – maybe it is right, but we weren't sure.

12 CH2M HILL: No reason to suspect that it is wrong, but I'm sure, as part of this, we'll
13 have a look at everything we've done.

14 DFT: Can I just make a point in response to Chris's point there? Because I
15 think aviation impacts are, in fact, included, because value for money
16 analysis, which is one of the duties – and we do consider all impacts
17 on society, so I would suggest they are included when you're looking at
18 the VFM of the impact on IEP, for example.

19 FIRSTGROUP: Well, perhaps we can ask Virgin what they're doing with the aircraft
20 they're taking off the Virgin Red service between London and
21 Edinburgh.

22 VTEC: It is not part of our company.

23 FIRSTGROUP: That would provide context.

24 THE CHAIR: Sorry, I've lost track now. In terms of where we are on the quantified
25 benefits and costs, are there any further issues we need to cover?

26 CH2M HILL: No, I don't think so. I just didn't like the idea of people being confused
27 about what we had or hadn't assumed in terms of rolling stock. So
28 what we've assumed is that every additional unit required to make the
29 service run is an incremental cost and we have market-tested prices,
30 and, whilst we call it a capital/non-capital lease here, the prices really
31 are agnostic to procurement route. We're happy with what we've done
32 and they're market-tested.

33 We say, in the report, that there is certainly going to be an argument
34 that IEP costs are not incremental; they're sunk. We've had that
35 discussion with ORR. Their advice, for the time being – and that's
36 what's reflected in our appraisal – is that they're incremental costs, and
37 all that other stuff that we've discussed could be reflected in this, if that

1 were ORR's view.

2 THE CHAIR: Okay, thank you. I said earlier on that we'd leave a few minutes at the
3 end so that people could raise the question whether there's any
4 material impacts that are not included in the CH2M Hill report which
5 they wanted to flag up now. Are there any issues that people think are
6 not covered by the CH2M Hill report that they want to flag up at this...?

7 VTEC: I'd just like to raise one, which is that CH2M Hill have evaluated our
8 proposal in three components, but nowhere is it all brought together as
9 one holistic package. We spent several man years, effectively,
10 developing this timetable for the bid. We feel it is a holistic package.
11 We feel that the whole is greater than the sum of the parts and that
12 they ought to reflect the benefit of the whole so that, even if it is not
13 appraised as such like that, I think it should be included in a table that
14 has the whole package, so that we can understand whether there is a
15 difference between that and the sum of the parts.

16 THE CHAIR: Right, thank you.

17 CH2M HILL: Yes, it is something we can do, if ORR would like us to do it, sure.

18 THE CHAIR: Right. I'm checking with ORR colleagues. In terms of the questions
19 that Transport Focus raised, is there anything that we think has not
20 been at least touched on in terms of the issues? I think we've covered
21 a huge amount of ground. Is there any big topic that we think they've
22 raised that they would have said, if they'd been here today? No, okay.

23 I just want to bring in anybody else who wasn't around the table on that
24 discussion we've just had on the whole area of the economic appraisal.
25 Are there are points that anybody wanted to raise? Yes.

26 HULL TRAINS: With my old fleet finance manager's hat on, appraising rolling stock is
27 very difficult, because, in terms of the IEP contract, it is not just the
28 incremental cost of the extra vehicles; it is the incremental cost per
29 vehicle of the IEP contract. That's quite key.

30 The lease and maintenance costs per mile are in excess of the existing
31 rolling stock, and the revenue is predicated on recovering that cost.
32 Now, how you put an incremental maintenance and lease cost for IEP
33 on a level playing field with applicants who are having to procure brand
34 new rolling stock for their services I'm going to leave up to you guys,
35 because creating that level playing field is going to be quite a feat, but
36 it is an important point to note. You've got to have a level playing field
37 on rolling-stock costs or you've got to somehow engineer it out,
38 because, without a level playing field, you really are looking at apples
39 and pears when you're doing the economic evaluation on rolling stock.

1 In general, the only thing that I would say is: if we are going to have
2 discussions with your consultants over revenue, we also want to have
3 a discussion about the implications on Hull Trains' future ability to run
4 its services and the economic effects that fall from some of the
5 implications, as part of our discussions with your consultants, so that
6 those risks are well understood.

7 THE CHAIR: Right, thank you, noted.

8 CH2M HILL: To allude to something I said before, we have market-tested
9 rolling-stock market and we consider that we understand the difference
10 between the price of a Hitachi 800/801 series procured by Government
11 versus procured by some other – we're confident of that.

12 HULL TRAINS: It is the maintenance charges that are key here.

13 CH2M HILL: Yes, inclusive of maintenance.

14 THE CHAIR: Right, thank you. I am going to have to bring things to a conclusion.
15 We said we would finish at half past four, so I just wanted to make
16 three concluding remarks. It goes without saying that we've got a lot to
17 think about as a result of what we've just heard around the table today.
18 We're going to consider all the points raised. We'll come back to you
19 as soon as possible with the next steps timetable and how we're
20 intending to address the points raised.

21 Specifically on the transcript, we will try to get the transcript out as
22 soon as possible. I suspect it will be about a week, say, so on or
23 around Monday the 22nd, we will send the transcript round for
24 comments. When it does come round, it will have people's names in it,
25 so you'll see who said what. That's just for correction purposes. When
26 it actually gets put on the website, it'll just have organisation name –
27 DfT, Alliance – but it will come out with the names in, just so that we
28 can actually track who said what, just for the avoidance of doubt about
29 how we're intending to do that.

30 Finally, can I just thank everybody for today, first of all for coming, but
31 also for what I think has actually been a very constructive session.
32 I know people have got strong views, but I think people have
33 approached this in a very constructive way. I think we have made
34 quite a lot of progress on at least most of the issues that we hoped to
35 make progress on, so thank you very much indeed. Thank you.

36

37

(The hearing concluded at 4.30 p.m.)