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

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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
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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
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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:
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Phil Hutchinson - Head of Strategic Planning
Jon Hills - Service Development Manager

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

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

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

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

The purpose of today is to help ORR ensure it has the information we need to make decisions about the proposed services. We want to understand what those services are, what they entail, so we can make the best overall decision about ECML access in line with our duties. We will not be reaching any decisions today in this hearing. This is
just one part of our overall process which will assist us in making recommendations to the ORR board. It is the ORR board who will take the final decision on these applications. It is important that our decision is properly informed by your views. The hearing is a practical opportunity for the parties to participate in the discussion of the key points.

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

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

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

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

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

I’m going to introduce each issue, and we, the ORR team, will begin the questioning. But can I just clarify a point about how the process for the day works. A number of people have asked this question. While we expect most of the questions and comments to be from organisations around the table, not surprisingly, we will aim to bring in
organisations from across the whole room during the session. And at the end of each agenda item I’m going to ask organisations not at the table if they have any further issues, just to ensure everybody is involved in the session. And at the end of each session I will try to summarise any action points. I would ask that you don’t interrupt each other during the session, and try and keep things brief and to the point.

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

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

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

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

Each of our proposals builds on the experience we’ve gained with Grand Central, which regularly tops the National Passenger Survey, and is now the biggest and most successful open-access operator on the East Coast Mainline. One of the main benefits of open-access is the choice it brings for passengers, a benefit that’s been proven to increase passenger numbers more than at stations where there is no
competition, a benefit that has seen revenues also rise more at
stations with competition than those without, and a benefit that has
seen price rises lower than the average when there is no competition.

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

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

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

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

They say imitation is the sincerest form of flattery, and I am very
flattered. GNER made its initial submissions for Edinburgh in February
2014, although the industry itself was advised as long ago as August
2013. At the time of course we didn’t know the outcome of the bidding
process, but since then we’ve seen VTEC awarded the franchise and
seen a number of proposals that clearly copy what is already there or
what is proposed. Not only have they proposed a faster hourly service
between London and Edinburgh, to try and match our proposal, but
they’re also targeting the markets created by Grand Central which are
proposed to be further developed by GNER in West Yorkshire, by
looking to send trains to Bradford, Teesside and Sunderland – the very same tactic adopted by NXEC in 2009, with its now ill-fated SLC2 timetable.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Network Rail's letter to the ORR highlights that there are significant compromises in increasing the capacity of the line beyond seven trains an hour, even after the East Coast Mainline connectivity fund work is
completed. These compromises include the stopping patterns of services and performance, and these impacts must be calculated and taken into account as part of any decision.

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

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

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

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

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

FIRSTGROUP: Thank you very much. My colleagues and I welcome the opportunity
to put forward our case for the award of track access rights for
FirstGroup’s East Coast Trains Ltd subsidiary. We do recognise that
the ORR must evaluate a range of factors in reaching a decision. We
are confident that our proposed services have an overwhelmingly
strong objective justification under the well-established public benefit
tests that apply in balancing that exercise.

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

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

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

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

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

As a result, our cost per seat mile is around half the franchise
operator’s equivalent cost on a like-for-like basis. This would
represent a major innovation for the rail industry in the UK, and would set a new benchmark that could drive consumer and economic benefits beyond this particular market.

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

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

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

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

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

We have been considerate of other users of the route by requesting quantum-only track access rights, which will allow Network Rail the maximum flexibility to utilise capacity efficiently. This is unlike the other applicants that are seeking to hardwire their timetables to the detriment of other passenger and freight operators. It is very important to stand back and look at the clear picture. Network Rail has done some very good and clear work that identifies eight paths are available. VTEC based their franchise offer on six and a half paths.
They have, however, sought to construct a hardwired timetable in using those six and a half paths in a way that effectively tries to spread out so as to make inefficient use of capacity and disadvantage their competitors.

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

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

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

We have set out, in our business plan, our strong capability to deliver these new services. This includes how – through timetable improvements, low fares and targeted marketing – we have transformed the Manchester-Scotland travel market through our TPE franchise, doubling rail share from around 40% to 80% of the air-rail market since taking over the operation of these services from Virgin in 2007. We have very significant expertise operating on the East Coast Main Line through three separate rail franchises, and our existing open-access operator Hull Trains, which has delivered a more than tenfold increase in passenger journeys since starting operation, and a 96% overall customer satisfaction score. We have also shared with ORR details of how open-access services have transformed competitive air-rail corridors in mainland Europe through differentiated customer proportions and low fares. Our plans have been warmly welcomed by stakeholders, including representatives of passenger and business groups, together with the support from politicians and local authorities.
The ORR’s own independent advisers have concluded, in their published report that our plans yield the appreciably greatest net economic benefit per path used of any of the applications that are before you today. This should be the basis on which scarce capacity is allocated.

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

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

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

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

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

We recognise that open-access can provide benefits to passengers, such as an increased choice and competition, new services providing better links to the regions they serve, and potentially lower fares.
However, we also have the responsibility to consider the financial impacts such services have on the taxpayer, and the impact on value for money of investments for which the Secretary of State has already committed.

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

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

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

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

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

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

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

We have argued that open access is a good thing and should be encouraged. There are, however, caveats. These are that the overall service on the route – that is including all the trains of all operators – meets passengers needs to the greatest possible extent; there must be no significant dis-benefit to any existing group of passengers; and that the granting of new track access rights does not significantly frustrate the industry’s subsequent ability to develop a timetable that maximises capacity and utility for passengers.
Transport Focus also has a presumption in favour of proposals involving trains between London and towns and cities that are poorly served by through trains or are not served by through trains at all. We know from research that passengers prefer through services to changing trains. Indeed, the industry’s own demand forecasting models reflect this.”

That was the statement from Transport Focus.

That concludes the session on the opening statements. I now want to turn to the next item on the agenda which is on capacity.

ALLIANCE: Mr Chairman, just before you do, I’d just like to correct one thing that was said by FirstGroup. It is fundamental. We have not applied for hardwired rights. Indeed, hardwired rights in the contract are illegal, as we know. So I suggest that FirstGroup read our contract and our Form P before making such statements to try and mislead you.

THE CHAIR: Okay, noted. We can come back to that later in the session if FirstGroup want to come back to it. I am going to pause there and see if there are any other points anybody wants to make before we move on. I think a lot of these issues are probably going to come up during the discussion we’re going to have.

Can I now turn to Network Rail for an opening statement about capacity?

NETWORK RAIL: Thank you. In the spring of 2014, Network Rail undertook to determine what long term capacity exists on the East Coast Main Line. The work was originally considered in response to a request from Alliance Rail, but following extensive consultation with the industry a wider remit was agreed which focussed on understanding how all line aspirations might be combined with all committed infrastructure enhancements.

We’ve done lots of good work to look at whether the capacity exists to service all aspirations. In doing so, we’ve learned from previous experience and have sought to engage very openly with the industry.

Our analysis makes clear that not all of the competing aspirations can be met due to a number of constraints in the network. It also identifies that at least theoretically there is capacity to run more services than we do today.

At this stage we’ve not been able to do any detailed performance analysis, but we are very mindful of the performance challenges faced
by the industry, and the impact that this can have both on passenger

demand and on the reputation of the railway. It is also important to

recognise the challenge highlighted by other recent timetable changes

in understanding the impact of performance on major perturbations

when we introduce significant changes on already busy networks.

Any potential impact on performance then needs to be taken very

seriously, and balanced against the potential benefit from additional

services.

Paul Plummer and the Network Rail board have particularly

emphasised the importance of balancing the requirement for additional

services with the need for strong performance, noting the need to be

realistic about what can be achieved based on robust analysis rather

than over-promising and then under-delivering. Whilst we should not

become risk averse we must also learn lessons from the past, and put

passengers at the forefront of our thinking.

So at this point we hope that our conclusion regarding the options for

utilisation of capacity on the East Coast Main Line are well known and

understood by all parties present here today. The conclusions are

derived from the comprehensive study that’s already been referenced,

that was undertaken in 2014. We’ve engaged very openly with

industry colleagues throughout the remitting and development period.

We published our capacity options report on 11 September 2014, and

this report was delivered in line with the remit that was published in

July 2014, which again was developed with full industry input. The key

objective of the study was to understand how many of the confirmed

aspirations could be accommodated on the East Coast Main Line in

2020.

Our analysis, Output One, concluded that a maximum of 18 trains per

hour can be operated on the East Coast Main Line fast lines out of

London King’s Cross. This logic was tested and agreed with the

industry at the open forum held in Milton Keynes in July 2014. We

identified three capacity combinations that had enough merit to

warrant further capacity work. These specifically were seven long

distance high speed paths combined with 10 GTR fast line services;

eight long distance high speed paths compared with 10 GTR paths; or

nine long distance high speed paths, restricting capacity for freight and

nine GTR paths.

At this point, it is worth emphasising that the decision to retain 10 GTR

services throughout the combinations was agreed at the industry

session in 2014, in the context of protecting the specified Thameslink

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

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

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

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

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

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

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

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

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

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

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

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

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

ORR: Yes.

NETWORK RAIL: Okay, so the investments are listed in an appendix to the report, and there’s quite a long list of them. Are you seeking that we read them all out? Or just pointing to where they are?
No, please don’t read them out, in the nicest way. The Connectivity Fund, clearly I guess a lot of them are in there, so I’m assuming that is one of them. Are there any others, and what is the status of those investments? Have they been delivered, are they to come? Is there any risk around their delivery in CP5? That’s the kind of area.

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

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

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

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

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

All I can do is answer with the facts, which I think I have done.

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

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

Just let me clarify the question, just to make sure we’re all clear. So you’re asking, of the schemes that are identified and the
assumptions that are made, which of those need to be delivered for seven off-peak paths – high speed paths, and which for eight high speed paths?

VTEC: Yes.

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

VTEC: We can only answer that, by reference to the work that we’ve done, which we think is clearly articulated, and we clearly articulated the infrastructure assumptions that we’ve used for doing that capacity modelling work.

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

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

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

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

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

So the talk about whether we can or can’t run seven or more trains, I think we have to be – understand what actually happens now. So I would expect after investment is completed that eight is not an unreasonable number – and I know that is the number that is agreed – but it is worth noting that even now there is one hour when nine arrive.
ORR: Does Network Rail want to comment on that point?

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

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

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

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

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

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

But we’re also prepared to discuss with Network Rail any further investment schemes that we can work with them on, for a longer-term return in order that they can achieve their output.
The interesting thing about the Connectivity Fund is if there is a shortfall ultimately – and I know from the Programme Board the expectation is that ultimately they will be delivered on time – it is worth remembering that there are sufficient funds there to do the south end of the route, and for ourselves and for VTEC there are a significant number of proposed services which would not go beyond York, for example, and therefore the schemes further north might have an impact of course on the ability to go to Edinburgh, but certainly shouldn’t have an impact on the ability to go to Bradford and to Cleethorpes and various other locations.

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

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

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

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

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

ALLIANCE: No. We’re thinking of – you will probably see it in the plan there; it is funded in the plan, which will be an inter-company loan, and then return on that investment over the life of the contract. Or beyond,
possibly. It depends on what the benefit is – the infrastructure is to all of us.

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

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

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

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

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

Okay, in that case I’ll expand my question to include that point and put them all to Network Rail.

So clearly we’ve had a number of discussions with a number of operators about work on speed improvements on the East Coast Main Line. Currently the piece of work that is live is the L2E4 piece of work that people have got sight of; that’s a piece of work we are working on at the moment.
THE CHAIR: Thank you.

ORR: So to finish off on the investment section –

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

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

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

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

THE CHAIR: Okay, thank you.

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

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

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

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

VTEC: In terms of?

ORR: Any investment beyond the ones that Network Rail discussed in its
Thank you. The next question really is about the idea that eight LDHS paths per hour at the King’s Cross end of the route is a sensible planning assumption for us to use in our decision making process. I don’t mind who would like to first. Alliance, do you have a view on whether eight is a sensible number?

Are you specifically asking about King’s Cross or are we talking about the whole route here?

I think the eight was most meaningful at the King’s Cross end. But you can comment on the whole route if you wish.

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

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

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

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

No, I’d actually probably just like to echo a lot of what Alliance has just said. And I think with all the current knowns in terms of the connectivity fund packages and in terms of current signalling etc., I think eight is definitely a realistic number to be aiming for.
ORR: Thank you. And FirstGroup.

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

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

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

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

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

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

THE CHAIR: Okay, thank you, noted.

ALLIANCE: Can I pick up on one point? From the DfT about Stevenage calls.
The DfT has funded investments in a new terminating platform at Stevenage which will actually free up some slow line capacity, thereby offering the chance for a Stevenage call, for a long distance high speed train, to be made on the slow line, freeing up some capacity that way. So I think, whether deliberately or inadvertently, the funding that they’ve made will support a call at Stevenage.

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

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

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

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

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

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

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

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

And we would just add as well that in going through the report that
Network Rail produced, and some of the other information that has been made available, it is fair to state that there is not just a standard hour but when you look across two hours, a two hour repeating pattern, there is in fact a two hour repeating pattern. South of Lincoln, there could be nine long distance high speed paths in one of those two hours, representing a total of 17 over two hours. I think that’s important to note as well.

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

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

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

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

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

Back to the specific point. This isn’t so much a capacity point as more about a timetabling point; it is about how capacity will then be used. As a small operator I think everybody will be aware of how acutely vulnerable we are to even relatively minor perturbations to our service pattern, both from a commercial and an operational perspective. I belatedly have had sight of the timetables that seem to have been interchanging between various parties freely before now. And from
that I can see that certainly the FirstGroup timetable application – notwithstanding the fact that it is a quantum only proposition – does make the assumption that firstly it is possible and secondly acceptable to disrupt our current operation to the point that it would cause material operational and commercial damage to the business.

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

Okay, thank you.

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

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

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

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

But I think it is fair to say that in terms of this and some of the other parts of the route that we’ve already discussed, the important bit will be in terms of developing timetables once rights are granted. It is the
process around developing a timetable and using the event steering group with all parties that have got rights develop those timetables together to meet those aspirations. I think that's an important point.

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

ORR: Thank you. And Alliance?

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

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

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

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

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

THE CHAIR: Okay, thank you very much indeed. Again, can I just open it up
beyond the table to people around the room, if there’s any further…

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

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

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

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

THE CHAIR: Okay, thank you. Anybody else?

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

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

Our view is we think there is a way we can work this out that would give us a solution via an event steering group if ORR determine more
paths, but yet at the same time protect our individual interests. So we think, for the industry, it is about working together, seeking to promote and protect.

THE CHAIR: Thank you. Anybody else?

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

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

THE CHAIR: Thank you.

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

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

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

ALLIANCE: Yes, it was just a quick point. One of the benefits that both FirstGroup and ourselves have seen with open-access is this requirement for
regular interval etc. is not a requirement in the way that it would be if one company ran all the services on any particular route. And so flighting the trains is quite significant, but also gives a huge degree of flexibility to Network Rail in a way that they can send two Edinburhgs, for example, away two or three minutes apart on the basis that they’re both high speed, they both won’t stop for some long distance – maybe York first stop for some, maybe Newcastle. And as we found with Grand Central’s recent service at 4.03 p.m., which is what you might term squeezing the peak there, it is a significantly good performing train because it also follows a train that’s well flighted in front of it. So we mustn’t lose sight of the fact that flighting is critical.

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

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

THE CHAIR: Okay, thank you.

FIRSTGROUP: Could we also come in? Because I think the point around the flighting of trains is a very important one, because actually that does help capacity. And certainly on the routes – the section of the route we’ve just been referring to – north of York and beyond – with trains flighting together, fast trains, in our case obviously we’d be looking to – as a competing train next to say Virgin’s application, we’d be running two trains next to each other – fast trains – through to Scotland. And when you run those trains together that helps in terms of the capacity allocation. And actually with trains of consistent capability and consistent paths flighted together, you can actually create more capacity and more room on a network; that will also have a performance benefit as well.
THE CHAIR: Okay, thanks very much. I’m just conscious of the time now on this agenda item.

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

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

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

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

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

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

THE CHAIR: Okay, thank you.

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

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

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

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

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

Thank you. Does anyone around the table want to comment on that area? If not, I’ll hand back to John.

Thank you. Just for clarity, Freightliner have offered to submit some information in confidence, and I meant to say straight afterwards we’d welcome that, and please do.

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

Right, in that case we’re going to move onto the next item in the
agenda, operational feasibility and performance issues. And I think we’re going to again ask Network Rail, I think Tim, to make an opening statement. Thank you.

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

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

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

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

So in the absence of a fully developed timetable, and prior to any performance assessment and modelling taking place, we’d certainly
need to work with the industry to achieve the following: continue to develop a detailed timetable for all East Coast Main Line, including off route sections; real important to understand the wider train operators’ resource requires for any revised structure, including things such as rolling stock, crew/dispatch arrangements, depot and stabling – that would be really key; and then ensuring any timetable planning rules, sectional running times are refreshed to reflect actual changes to service levels, rolling stock, infrastructure layout and any operational rules and procedures.

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

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

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

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

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

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

ORR: Okay, thank you. FirstGroup.
FIRSTGROUP: I think I’d like to echo some comments that have been made before. We’re in danger of getting depressed about these applications in terms of performance. We are sat here today discussing the potential for quite significant improvements for passengers and consumers on the route.

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

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

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

Network Rail also made a comment – Network Rail made a comment in their statement about looking at the introduction of other major timetable changes, and the impacts those have had following those changes. Now, I’m not going to sit here and say that as when those timetables come in there haven’t been some impacts on performance because clearly that has been the case. But you need to look at those things in the longer term, and this is certainly commented on in some of the representations that we’ve made. Certainly it was the case when you look at, say, Virgin West Coast following timetable changes. PPM
was 83% (pre-change), and improved after that. And probably the
more relevant one is in terms of East Coast, when there was a
timetable change PPM was at 83.3%, and then within a year it was up
above 86%. So I think once timetables have been introduced, given
all the factors I’ve already said, in all likelihood performance could
improve.

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

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

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

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

ORR: Thank you. Virgin Trains East Coast.

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

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

I think already we know, from the East Coast Main Line today, just how
running additional services generates additional delay. In the hours when there are more services running on the East Coast Main Line our analysis shows that when you look at sub-threshold and above-threshold delay taken together delays are 30% higher than in the hours when you’re running fewer services. So there are clear impacts on performance from running additional services.

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

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

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

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

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

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

NETWORK RAIL: Yes, I’ve got two points I guess. And they may not be relevant to access rights, but I think they’re important points to make. The first is
we know from experience that even if we were comfortable with a reduced level of PPM at the introduction of a new timetable, the public aren’t. And we just have to look at the impact at London Bridge. Regardless of the cause, of the public perception of the level of service that should operate compared to what did operate. So we need to be very mindful of the reputational impact of a new timetable being introduced with a lower level of PPM.

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

THE CHAIR: Thank you. Chris.

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

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

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

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

THE CHAIR: Do you want to come back?
VTEC: Yes. Well, firstly IEP has been defined and delivered to very strict performance standards, and we will be – Hitachi will be targeted to meet much higher performance standards than we currently meet on West Coast with Pendolino for example. So it might take a small transitionary period, but they will be meeting performance standards that are much better than we've been used to on the route.

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

THE CHAIR: Okay, thank you.

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

THE CHAIR: Thank you.

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

THE CHAIR: Thank you.

FIRSTGROUP: Sorry, I think there’s probably one point that hasn’t been picked up which is very relevant, which is before the Hitachi trains of both types are introduced on East Coast they will have been deployed on Great Western, and will be operating services on Great Western before they’re deployed to the East Coast. The first trains are already in the
country and will be tested on the East Coast before they’re deployed on Great Western, so I think there’s a significant amount of reassurance that we can take from the fact that they will have been deployed elsewhere first, and will be operating before they’re introduced. Certainly as a result stock that we’re proposing will – should have been in operation for some considerable period of time before we introduce it onto the East Coast.

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

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

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

As far as Hull Trains is concerned with these applications, we have grave concerns over the Virgin Trains timetable structure that they kindly shared with us for May 2020. It shows a considerable worsening of our commercial position through the positioning of our trains such that we have substantially sub-standard turnarounds at Hull – in public times it is seven and nine minutes, and the rules say 20. We have been moved off key commercial hours, especially from the Hull direction. Journey times have been extended. And we feel that there has been some anti-competitive practices going on here, which we have shared on a confidential basis our concerns with the ORR, and we do reserve our rights in those respects.
But as an industry, we’ve been here before. We were here with Eureka. And once the industry gets round the table and discusses the timetable in an ESG format these issues can be exposed and explained. And Network Rail, in its timetable coordination role can seek a solution involving all parties that gets rid of these problems. And I’m sure that the ESG will get rid of the problems as far as Hull Trains is concerned, enable us to have a viable timetable that doesn’t destroy our business and actually enables Virgin Trains East Coast and potentially the other operators as well to meet their aspirations and commitments to government.

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

THE CHAIR: Thank you.

ALLIANCE: Can I just come in on that?

THE CHAIR: Yes.

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

[Crosstalk]

THE CHAIR: Thank you for that.

HULL TRAINS: Can I just come back on that quickly? I was one of the architects of the ESG process in the Part D working group. And I did say when we sat down on the Eureka timetable if there’s anybody to blame for us being round the table in Leeds and York it was me. Because I do feel, having sat through so many of these hearings, where so much is uncertain, that the certainty only comes from the industry sitting round the table as equals sorting the problem out.
THE CHAIR: Thank you. Whatever the history I think we are agreed on that point, so I would like to move on.

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

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

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

THE CHAIR: Okay, thank you. Rob.

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

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

And that’s actually where the onus comes back to the ORR, to make sure that the industry is enabled to perform that function effectively, by not constraining it by granting high specificity of rights to any one party.
Thank you, that was helpful. Did anyone else have any points about the timetabling? I think I see Freightliner’s hand up.

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

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

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

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

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

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

I think it would be quite challenging because I think there would be some quite considerable commercial impacts on the high speed services in order to accommodate the freight spec. I think it might be quite difficult for those compromises to be reached because I think there’ll be some tough decisions and I’m not sure everyone would
agree to them. It could possibly be.

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

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

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

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

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

So the journey times are deliverable. They’re robust. They’re not deliverable without the work, but that’s why the work is shown in detail in our business plan, all the funds provided to do that work. But clearly we then need to follow that on with getting delivery from Network Rail. And I think Chris wants to come in now.
I just want to add a bit of detail to that, so it is plain. I saw a gasp of horror from Virgin Trains East Coast there about the changes required to the infrastructure. There are basically three potential components to this. One is to operate up to 125 miles an hour tilting trains we need balises in the track to indicate – actually, technically you don’t even need balises but the consistent approach is to use balises. And those balises are actually – can be the same or can be used in the same way subsequently to support ETCS signalling. They’re not particularly expensive. There will be installation cost, but we don’t see that as prohibitive.

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

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

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

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

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

The first thing I’d say is that you seem to have used different engineering performance allowances from the ones that the rest of the
industry's using, and it is those difference between what’s used in your three hour 43 and what’s used in our three hour 59. So that needs to be sorted out. We don’t mind going to yours but there’ll be performance implications from that. So I think we just need to agree a level playing field on that.

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

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

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

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

VTEC: And performance.

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

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

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

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

ALLIANCE: Oh, right, so it is an – so East Coast currently run an exception.
VTEC: We’re actually getting rid of that. In order for performance to improve on the route that is abolished as soon as our new timetable comes in. We are not continuing with that – the extra three minutes that that train has. So we haven’t banked that in our three hours 59 at all. Our three hours 59 is entirely compliant with all the other trains on the route.

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

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

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

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

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

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

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

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

VTEC: Sorry, just coming back to the journey time point which is I think what the discussion was about 10 minutes ago, and we were trying to understand the three hours 43. Clearly, to run a train from Edinburgh to London in three hours 43 it is going to have to overtake a number of our proposed services en route. So actually, where we believe there needs to be some consideration and some focus and some evaluation in terms of what is the impact is the extra journey time that will have to be factored in to our proposed services from the likes of Newcastle, and from the south end of the route to enable our purposed services to
be overtaken if the three hour service is to be achieved. There'll be a
significant detriment to the journey times for other customers on the
route, if the Alliance Edinburgh three hours 43 service is granted
rights.

THE CHAIR: Thank you.

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

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

THE CHAIR: Thank you.

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

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

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

ALLIANCE: No, to turn around at Middlesbrough. You have –
VTEC: I think we were planning –

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

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

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

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

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

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

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

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

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

DFT: Yes. Thank you. This East Coast franchise has been won through fair, open and hard-fought competition and will deliver substantial
benefits to current and future passengers. Franchise premia are significantly contributing to the substantial rail investment strategy planned for this route and the wider rail network. As stated this morning, this Government values the benefits of competition that open access can bring to the railways. However, these benefits must be set against the need to reduce the overall cost of the railway to taxpayers, the need to realise benefits from existing investment programmes and the ability for the Government to justify substantial investment in rail in the future.

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

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

THE CHAIR: Thank you.

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

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

But, significantly, the access applications that we’ve been talking about today, would only start running when other infrastructure work was completed and when rolling stock could be procured. It would be
around 2019-20, so around three to four years before the end of the East Coast franchise. The Department therefore also needs to look beyond the term of the current East Coast franchise. When the franchise is re-let, bidders for the new franchise will take into account the actual revenues and costs of the franchise, which will, of course, include the full financial impact of any additional open access services. Therefore, from this point, any net impact on the revenues and costs of the franchise would be directly reflected into the funds available to the Secretary of State, via the premium for the subsequent franchise.

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

The Department determined that, exceptionally in this case, a Secretary of State Risk Assumption (or SoSRA) was necessary for two reasons, two reasons that are exceptional to this franchise. Firstly, the Department had procured the Intercity Express fleet for Intercity East Coast. The objective of that investment was to deliver a substantial improvement to capacity, frequency and journey times across the whole of the East Coast network. In order to ensure that the benefits of this investment were realised, the Department had to require the franchisee to operate these trains and, indeed, subsequent franchisees to operate these trains, and therefore the franchisee is responsible for the associated costs during the franchise term. Therefore, the franchisee would incur the costs of IEP, regardless of whether they could be fully deployed. Secondly, the estimated financial impact on the franchisee of the proposed competing London-Newcastle-Edinburgh service was estimated as being so large that no bidder could price that efficiently. At the time that we were considering whether to offer a SoSRA, so well before we had the benefit of being able to see any of the bids for the franchise, we estimated that that impact could be some way over £100 million per year in real terms, mostly due to abstracted revenue. If this risk had been fully allocated to the franchisee, it would either have dissuaded bidders from bidding, or it would have substantially reduced the premium that they would have been able to offer. And, depending on how much it reduced the premium, had those services started, it would have led to a significant
risk the franchisee would not have been able to meet its financial obligations to the Secretary of State.

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

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

So, firstly, the Alliance application for London to Cleethorpes and West Yorkshire. In this case, whether the SoSRA would be triggered and the extent of any adjustment to franchise payments during the franchise term, will be dependent on what services it is still possible for the franchise to operate. So the impact of this service on funds available to the Secretary of State during the term is particularly uncertain as it is not clear how many of the planned, core East Coast services VTEC would be able to operate, whether there would be any impact on the core services – the key services specified by the Secretary of State. Regardless of that, there would be an economic impact as the franchisee would not be able to operate some of its planned services, probably services to either Lincoln or Middlesbrough. So potentially, Cleethorpes would gain a service but one of these cities would lose one. Depending on the final timetable, it is possible that this service could be operated in addition to the key services which are protected by the SoSRA, in which case the SoSRA would not be triggered and there would be no impact on the Secretary of State’s funds during the current franchise term. There would potentially be an impact on any profit share payments payable under
the VTEC franchise agreement. We think it is also possible that in
some circumstances, this service might require a reduction in the
number of East Coast services, below the minimum level specified by
the Secretary of State and so if, for example, the East Coast operator
was only able to operate trains – five trains per hour in alternate hours
as a result, the impact on the Secretary of State over the final four
years of the franchise term and the subsequent 10 years, would be on
average £45 million per year in real terms in 2014-15 prices. Even if
during the current VTEC franchise there was no impact on the
Secretary of State, there would then be a similar impact in the
subsequent 10 years.

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

In assessing the impact on the Secretary of State’s funds, we have
assumed that the Alliance services would be operated by Class 390s
but in non-tilting operation. This is because we understand that
substantial infrastructure work would be required for tilt operation.
We’ve not heard any figure on the cost of that infrastructure work until
this morning, but our expectation is that the cost of the infrastructure
work would be very substantial and, as far as we are aware, the full
funds for those works have not yet been committed, or the works
approved or analysed in detail by Network Rail. In terms of assessing
the potential impact on the funds available to the Secretary of State,
this is a conservative assumption, a faster tilting service would abstract
more revenue from the East Coast franchise, so the figures that I give
would be increased if we’d not made the conservative assumption that
we had done about Alliance’s potential journey time. So, we’ve
estimated an hourly non-tilting London to Edinburgh service, with a call
at Newcastle, would reduce the funds available to the Secretary of
State, again over the final four years of the term and the 10
subsequent years by, on average, £150 million per year in 2014-15 prices. Even if it was possible to operate an eight trains per hour, all day, long distance high-speed service on the East Coast Main Line, which as I’ve said before, we would also have some concerns about potential performance and connectivity implications.

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

Moving on to the impact on the business case for the Intercity Express Programme. The Department is committed to an investment of £2.7 billion in the Class 800 series fleet for the East Coast franchise and associated depot and infrastructure works. This investment decision was predicated on the benefits that would be released from the full use of the fleet and the development of an integrated timetable that balanced the needs of passengers across different markets. The business case strongly relied on an increase in passenger revenue, enabled by the improved timetable, which would offset the majority of the costs associated with the new fleet. Options that do not include the full benefits of the Class 800 fleet would undermine this business case. This point about the reliance on additional revenue from deployment of these trains is very important. Although the Department has made an investment of £2.7 billion, that is not an expectation that it is spending that amount of money, it expects to get most of that back in terms of higher revenue from the East Coast franchise. The ratio of the net economic benefits of this investment to the net costs to the Government would therefore change substantially, in the event of particularly the hourly open access London to Edinburgh service, because the benefits would be reduced because the fleet couldn’t be fully deployed, but even more significantly, the net cost to the taxpayer of this investment would very substantially increase because of increased revenue to franchised rail operators would no longer offset most of the cost of the payments of all the new trains and the associated works. On this basis, we’ve calculated the benefit to cost
ratio of this investment would reduce from 8.79 to 1.13. In effect, from a very strong economic case for the investment to a very weak economic case for investment. For the GNER London to Cleethorpes service, the West Yorkshire service, the benefit to cost ratio would be reduced from 8.79 to 2.73, so a very substantial reduction in the economic case, albeit remaining at a higher level. In the limited time available we’ve not been able to calculate the impact of the First application on the benefit to cost ratio, but we would expect it to be of a similar magnitude.

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

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

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

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

There’s a paper there, which has just been presented by DfT. Can we not have a copy of it, so we can have a look, so we can develop our questions on the back of that copy? Because trying to write down and pick up all the information is - it is almost impossible and I would really object to the fact that we’re getting all this information, verbally, on the day of the hearing. But, anyway, there’s a copy there, you can get
some copies, at least people here can be looking at it while we’re waiting for the rest of the presentation.

DFT: I only have two small points so if I could finish my two points and then…

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

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

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

THE CHAIR: Thank you very much indeed to all three of you. Just taking the points being made, I do appreciate that there’s been a lot of information just provided there. I am worried about the idea of trying to get the copies done and circulate them round and then people trying to read them while we’re doing the session given that we haven’t got that much time on it. So I would prefer to press ahead. But I would prefer to do it on the basis that we are assuming and indeed, we’ve built some of our questions around the fact that there may be a need to unpack quite a few of these issues. So I think during the course of the questions, we’re going to follow the same principles as before, that we’re going to kick off with some questions and we’re going to try and draw the parties in as we do that. I’m hopeful we can get to the bottom of some of these points.
ALLIANCE: I accept that, Mr Chairman, I think that’s probably pragmatic, but I would like therefore to reserve our right – and I guess one or two of the others might do the same – to come back on this item after the hearing another day because there will undoubtedly be some supplementary questions to follow.

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

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

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

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

ORR: Yes, so I think we’re going to step through each one of these in turn. I guess the other feature here is that, as I understand it, that if VTEC cannot get access to the six trains an hour, crudely speaking, I know the legal drafting probably is slightly more sophisticated than this, if it makes up that capacity in either the immediate hour preceding or the one after, then again the mechanism isn’t triggered. Is that broadly right? So in effect, if there’s a shortfall, you can make it up in the hour
DFT: It is based around protecting the franchise from not getting on average a six trains an hour service. When we planned this SoSRA, we appreciated that you could have some hours where you can get trains that drift into the start of the next hour because of one or two minutes difference and we wanted to make sure the SoSRA wasn’t triggered in certain hours by that sort of drifting in the timetable. So it protects a basic six trains an hour service, with some flexibility around the edges.

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

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

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

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

THE CHAIR: Yes, could you just… Yes.

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

DFT: Well, I think as I answered, it is not just six trains an hour into King’s Cross.
ALLIANCE: We're on the quantum then, it is the average of six an hour.

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

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

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

THE CHAIR: Yes.

ORR: Shall we try and –

ALLIANCE: It is important.

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

ALLIANCE: It is part of it.

THE CHAIR: Oh, okay then.

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

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

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

DFT: Not sufficient to provide the capacity. Not not sufficient to provide the service, as I understand it. I think East Coast might be able to provide more detail on that than I can.
I don't quite see how a nine-car IEP and a seven-car 225 will actually provide any increased capacity now, as opposed to two nine-car 225s.

Let's note that point. Shall we just ask if Virgin - yes.

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

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

Okay. Thank you.

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

Is it possible to clarify that?

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

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

FIRSTGROUP: And escape the costs.

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

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

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

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

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

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

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

ALLIANCE: You can understand the frustration.

THE CHAIR: I understand where you’re coming from, yes.
ALLIANCE: It is a very simple question. It is not a hard one. I've read it and I can see what it says. Either it says it or it doesn't say it. I was just seeking clarification. So maybe it doesn't say what it says, but it does seem to suggest it says what it says.

THE CHAIR: Okay.

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

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

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

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

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

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

FIRSTGROUP: It is about the SoSRA.

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

FIRSTGROUP: Just in respect of specifically of FirstGroup, so it is back to the point we
were just discussing around the number of paths and that, if VTEC have six paths, the SoSRA is not enacted, then in that circumstance, even when it had six and a half, on our indicative timetable that we have put together, notwithstanding that there’s another applicant, our train service could fit alongside that. So at that point, you could have the two current and existing open access operators, our service, plus the VTEC six and a half. The SoSRA would not be enacted and there would be no impact on the taxpayer. Now even if one half path out of the six and a half paths then came out, the SoSRA is still not impacted, so the cost to the taxpayer remains unaffected. At that point, there is still an agreement in place, with no SoSRA impact in between DfT and the franchisee and all of the premium obligations unaffected.

THE CHAIR: Okay.

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

THE CHAIR: Okay. Right.

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

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

FIRSTGROUP: This is an important point.

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

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

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

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

THE CHAIR: Sorry. Go on.

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

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

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

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

THE CHAIR: Okay, right. Do you have any more?
I was going to say, we’ll come maybe on to Rob’s points about the longer term impacts separately, but if we pause on that there.

Okay, that’s a good idea. Does anybody else want to come in from around the table on this point?

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

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

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

Okay, thank you. Any more thoughts from the table?

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

The other thing is that DfT talked about, there could be a possible decrease in capacity here, having listened to Network Rail, we might end up with five and a half paths possibly, only available. In which case, we’re back to the veracity of the IEP business case. Why on earth were you ordering additional trains if, in your own mind, you’re still not convinced that there’s room for it? And I would remind, for those of us that were at these Programme Boards that I’ve attended,
that it is been Alliance that has been pushing from day one that has been pushing for the capacity position on the East Coast to be verified and that’s now been confirmed by Network Rail. And when we eventually got them to the position that there’s probably eight paths, on the basis that there’s six – seven in many hours now, the response from the DfT at the meeting, and it was minuted because I’ve made sure it was minuted, was to Network Rail to say that, ‘well, if there is an eighth path, you won’t sell it, will you? Because it will only have an impact on performance.’ But now you want to use some of that capacity.

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

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

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

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

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

When you make investments in the network, in terms of substantial alterations to the infrastructure, you don’t do a track access option and get the rights to back that up for your franchise services and you haven’t done it with IEP. You’ve just assumed that you’re going to get the rights to operate those trains after the event.
It is the most fundamental fault in procedure and it leads this industry
down in to these round table meetings time after time after time. I
would urge you to join the dots together and go for the access rights at
the same time as you’re committing the investment, whether it be in
rolling stock or in track. Because the IEP contract binds you so much.
In terms of maintenance, it is highly specified and it is based on a
timetable output, which in the case of Great Western, cannot be
delivered and in the case of East Coast, it is very hard to deliver and
all the bidders, who’ve bid for East Coast, will have gone through the
MARA and TARA porridge and come to that kind of conclusion.

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

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

[Crosstalk]

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

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

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

DFT: Can I just reply on one point?

THE CHAIR: Yes, of course.

DFT: We’ve tested a number of scenarios and I think some of the applicants
have criticised that the scenarios we’ve tested are not exactly the
scenarios they’ve envisaged. These scenarios are not simple things to
test, but if ORR thinks it would be useful to its analysis of the
applications for us to test other specific scenarios, then that’s
something that we can look at. It is clearly not possible to test every
possible combination of different services that there could be.
THE CHAIR: Okay. Thank you. I’m just going to take one more point in this area then we really must move on.

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

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

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

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

THE CHAIR: Okay, thanks.

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

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

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

DFT: Yes.

ORR: Now, is that a point about abstraction?
DFT: Yes.

ORR: Or is there anything else there?

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

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

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

ORR: Okay.

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

DFT: Of course.

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

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

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

I think, when it comes back to the point that you’ve been making, we’ve already established in the discussion, having said what we’ve just said. We’ve already established in the discussion that the Department’s business case for IEP can be fulfilled with six paths and we’ve established that already.
DFT: Well, the service proposition can be, the impacts might not be, possibly.

FIRSTGROUP: No, you've just – the –

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

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

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

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

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

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

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

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

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

ALLIANCE: I'd just like to make a point in relation to the way that the DfT is sort of setting out that it is got no other ways to [reduce the impact on the SoS funds] – you know, there is going to be an impact. It is got options that it chooses not to use for recovery, one of them being the levy, which is
in the Directive, which allows the DfT to actually to recover payment from all operators for providing PSO services, to actually provide money for your PSO services. And also, for enhancements, or the investment in the infrastructure.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CH2M HILL:  Thank you, John, and I’m pleased to be here, to be able to discuss the points raised this morning and in previous correspondence submitted
to ORR this week about our report. Before I go into the detail on some of those points, I would like to just take the opportunity to talk you all through the process that we have undertaken to get to this point, and in particular I’d like to focus on the dialogue that we’ve had with various applicants.

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

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

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

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

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

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

Moving on to FirstGroup, FirstGroup’s track-access application came much later in the process, and long after the commencement of our commission. We met with representatives of FirstGroup for the first time on 12 March this year, before we had received any information in support of their track-access application. On the basis of this meeting
and the review of FirstGroup’s work, we felt it necessary to review some of our methodology for the purposes of assessing their application. This was because we were unable to future-gaze some of the characteristics that were unique to their proposition when we designed our methodology back last autumn.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

THE CHAIR: Yes, please.

CH2M HILL: So what I'll try to do is start with MOIRA –
THE CHAIR: Yes, just to orientate ourselves, we’re going to focus now on MOIRA, inputs to MOIRA and what you call the modelling overlays. We’ll focus the discussion around that, and then we’ll come on to the economic appraisal work after that.

CH2M HILL: Yes.

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

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

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

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

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

In terms of the way we split up VTEC’s services, we did that in conversation with ORR, in order to try and break them down into the constituent paths, individual paths, that are being applied for. We tried to do that whilst preserving the integrity of what Virgin Trains East
Coast had asked for, but that necessitates using a different base to assess the various options in terms of the Lincoln and Harrogate extensions and the Middlesbrough service versus the core three trains an hour to Newcastle, two there north to Edinburgh.

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

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

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

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

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

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

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

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

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

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

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

Another strange feature of both the Lincoln-Harrogate and Bradford extension options is that they both have 10 more trains in the base than are in the VTEC core, so there are 10 trains that magically appear in the base case that have not been subject to any economic assessment at all, as far as we can determine. I mean, clearly, we’ve only had a couple of days to look at the SPG files, so what I’ve just
said may not be absolutely 100% accurate, but it does seem to me to
create grave concerns about whether a level playing field exists here in
the work that has been done.

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

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

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

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

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

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

There was another point. The Lincoln and the Harrogate extensions –
we’ve assessed that in the way that we felt was reasonable, and we’ve
shared the way we were planning to assess that prior to this meeting,
several months ago, with colleagues at ORR and with colleagues at
VTEC. Now, I know subsequently VTEC don’t believe that that’s quite
– putting words in their mouths – don’t believe that that’s quite the right approach, so, again, we could look at that, but, based on the discussions that we’ve had with the relevant people, we felt it was appropriate when we made that assessment.

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

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

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

THE CHAIR: Go on.

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

THE CHAIR: Okay, thank you, point noted.

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

ALLIANCE: No, I understand.

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

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

Given that this analysis has been done in MOIRA, we need to ensure that the analysis carried out is as accurate as possible. What we’ve seen from the report in its various iterations and the subsequent errata report is that very small changes in assumptions can have a significant impact on the results. We don’t believe, at this stage, that the results are at a suitably reliable level to be able to be relied on in order to make decisions.
As I mentioned, the errata note gives significant change to the impact of VTEC’s application, of an order of magnitude of almost 10, which is a significant level of error in the assumptions. We also note some of the points that Network Rail have made this morning about actually how deliverable some of these timetable options are. In particular, it was mentioned by, I think, Network Rail this morning that the applications need a much greater level of assessment and scrutiny to determine the effects on other operators up and down the route, not just on the franchised operator, Virgin Trains, but also on operators at key hubs. I think there was a point made that the impact of the applications at key hubs could have significant impacts on other operators’ services.

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

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

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

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

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

VTEC: Well, I think for somebody to peer review, an error even at that level could have a significant effect on the results.
THE CHAIR: Can I just say? Sorry, just in process terms, for the avoidance of doubt – I was going to mention this more in the next steps – but there is going to be another iteration of the Hill report, so it is not going to stop at the point of this hearing. We will listen to all the comments made today. We’ve already got some detailed comments from people. We’re keen to explore what else there is that people want to bring out today and we will have another iteration of the Hill report, and there will be time for people to comment on that further iteration, just to make sure everyone’s clear on that. But, Emily, you wanted to –

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

THE CHAIR: Thank you.

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

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

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

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

THE CHAIR: Yes, thank you.

DFT: I think we’ll come back… We’ve got various comments, not relating to MOIRA and timetables, so we’ll come back to those when you move on to those issues. But, specifically on timetables, I appreciate this is very difficult in terms of doing an economic assessment, but I think there’s a risk that the findings of the report get distorted by the fact that you look at different options, but, in fact, some of those options can be
combined and some can't, and, really, in principle, what you should be assessing is a set of fully deliverable or as close as possible fully deliverable timetables, some of which would include different options, and assessing the relative ranking of those, rather than just looking one by one at the applications. I appreciate that's very difficult for you to do, in terms of your process, but I think, if you don’t do that, there’s a risk of significantly distorting the results.

THE CHAIR: Okay, thank you.

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

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

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

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

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

THE CHAIR: Okay, thank you.

CH2M HILL: If that was something that ORR would like us to do, then I’m sure we’d be happy to do so.
THE CHAIR: Well, we note that offer, so thank you very much indeed. I suspect that, given that you just mentioned –

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

THE CHAIR: Yes, okay, thank you.

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

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

CH2M HILL: I can respond in 20 seconds.

THE CHAIR: Okay, sure.

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

Now, reality is probably somewhere in between, so some people may switch to take advantage of cheaper fares or your journey times or whatever, and some people wouldn’t. We felt that the compromise we’ve made, by allowing the MOIRA analysis to abstract the whole market and the fares analysis to abstract only a portion of the market, were a reasonable compromise and a reasonable balance. Had we had more time, then we might have run some sensitivities around each of those things, to try and come up with some kind of a better balance, but, where we are, we think we have a reasonable balance.
THE CHAIR: Okay, thank you. One more, yes.

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

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

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

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

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

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

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

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

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

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

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

CH2M HILL: So maybe we could start with fares.
THE CHAIR: Fares, yes. So, just to be clear, the four that we’ve got down for the
model overlays: we’ve got rail fares; we’ve got gravity model; we’ve got
competition with airline travel; and then what you might call crowding,
marketing and other issues. They were the four issues which we’ve
got. Is that…?

CH2M HILL: Yes, that’s right.

THE CHAIR: Shall we start with…?

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

THE CHAIR: Okay.

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

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

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

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

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

THE CHAIR: Okay, thank you.

VTEC: Can I start?

THE CHAIR: Okay.

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

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

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

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

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

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

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

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

THE CHAIR: Okay, thank you.

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

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

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

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

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

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

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

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

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

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

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

ORR: I was just going to say, yes, I think it would be useful if you shared
what you have available. I mean, there are a couple of things. There's
the extent to which we can get it into the modelling, but it is clearly relevant to the overall decision, so, even if it doesn’t feature in the report, it would feature in our wider consideration of our recommendation.

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

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

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

THE CHAIR: Yes, okay.

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

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

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

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

CH2M HILL: I certainly am.

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

CH2M HILL: So the principal concerns around the gravity model seem to be twofold: one, that we shouldn’t have used it in the first place; and, two, whether our treatment of catchment areas is quite right. So, in terms of whether we should or shouldn’t have used it in the first place, the submissions we’ve had back that don’t like it say that the PDFH
effectively says, ‘Don’t use it’, that what’s in PDFH is fine. And there’s
good evidence in PDFH that says you can depart from an
elasticity-based framework for using something like this. That’s in
section 10 of PDFH. It is well documented.

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

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

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

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

So we think we’ve made the best attempt to solve the catchment area
problem that we could have done. Could it have been improved by
some better local knowledge? Well, yes, clearly, but there are lots and
lots of stations here that we’re talking about. I don’t think any one
organisation would have that level of local knowledge. So we’re
content with what we’ve done, but, if applicants are able to supplement
what we’ve done with local knowledge, with surveys, with that kind of
thing, we’d certainly be happy to augment it.
In terms of the gravity model, I think they’re the generic issues. If there are specifics or people want to come back on those, then I’m happy to pick them up.

THE CHAIR: Thanks.

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

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

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

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

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

Now, the point is that it is the provision of services in our hypothesis that makes it the most convenient point of access. Morpeth, in question, might not be the most convenient point of access if there are only a very small number of services per day, so that’s why we did that. We accept there’s some subjectivity, but it is founded in the way that we calibrated the model in the first place. If we could have had a more tailored set of catchment areas, then we would have, but we just
THE CHAIR: Can I just bring a few more people in?

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

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

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

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

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

In that context, I would particularly argue against the use of a gravity model for flows that already have a very good service, say with one interchange, and that was reflected in the findings of that 2012 report by ITS and Mott MacDonald that did look into this subject in some detail.
In addition, even if you accept the validity of a gravity model for these flows, which already are offered a reasonably good service, there are a number of concerns in relation to the model that’s actually been applied, Chris has covered the relatively simplistic approach to considering catchment areas. We do think there is other evidence out there that could be used, for example NPS data or drive-time analysis to the nearest station. These are all potential options that might have led to slightly more granularity in the modelling in this area.

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

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

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

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

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

In terms of what we’ve done with catchment populations, we’ve made an attempt to address the things that DfT has described. It is the best attempt that we could have made. We felt it was a reasonable attempt to answer the question that we needed to answer. If there is a way to augment that, then we’re happy to do so; we’re happy to discuss with parties if they’re willing to suggest it. We’re happy to do that; you know, that’s fine, but to suggest that we didn’t do that is wrong, and to suggest that we arbitrarily increased the catchment area without considering whether that’s a reasonable thing to do or not is wrong. If
it hasn’t come across in our report, then we will certainly strengthen our report to make that clear.

THE CHAIR: Okay, thank you.

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

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

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

THE CHAIR: So, Alliance, can I bring…?

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

I mean, in the course of considering other applications, we’ve done quite a lot of work analysing the growth in revenue that’s occurred at the Grand Central stations particularly, and it has been very significant orders of magnitude of growth. Now, whether that exactly matches the gravity model, whether the gravity model is the only approach – well, clearly it isn’t the only approach to trying to capture that that one could use, but it seems to me to be an approach which gets us into the right ballpark. Clearly, there may be opportunities to refine it, but, as a general approach, I think it is one that is really trying to get at capturing the benefits of new through services. So, while one might have issues of detail with it, I think, as a basic approach, it is getting us towards the right answer.
I’ll just add that the evidence on growth on the Grand Central services is something that we have shared, certainly with ORR, and with DfT.

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

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

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

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

Now, a range of elasticities that wide probably isn’t desperately helpful to ORR in terms of making a decision, so we took the decision that we probably needed a central scenario. And, in constructing our central scenario, we turned back to PDFH, because the one pretty useful bit of advice in PDFH on this is the market-share curve, which compares, using lots of examples from across Europe over a number of years, the market share achieved by rail versus air – that total market – versus the rail journey time. And we calculated what the implied market share
would be, given the journey times supplied to us by the various
applicants, and we worked out therefore what additional level of
demand would be required on top of what we’d already forecast to
meet that.

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

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

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

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

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

Now, we certainly didn’t accept all of what they’d done. FirstGroup had
applied some overlays in addition to that logit model, to effectively say
it was giving you a result that was too low. We didn’t accept the
evidence that that approach was predicated on, and so we did what we
did.
So, again, when you run that logit model, you work out the implied change on top of our base, if you will, and then we subtract the difference between that total forecast and what we already forecast through the other parts of the model. That’s how it works.

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

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

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

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

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

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

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

DFT: As I understood from your report, didn’t you look at the journey time
from Edinburgh to, say, Peterborough and Brighton and London, so it was a range of journey times, so it was an average.

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

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

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

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

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

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

So you’ve got a five-way choice between airlines, and, in the event that First’s application is granted, you’ve got two choices of operators, at least, maybe three, if all three get on the route. So there would certainly be VTEC and First, and there may be Alliance as well, if both open-access applications are granted. And a binomial model which takes air as being one option and rail as the other just doesn’t get into the detail of the choices that would exist.
And I think there are a whole load of other issues around the detail of the modelling that we just don’t know anything about, so we can’t say whether they’re robust or not. As you will know, our application was based on a mode-choice model, to look at air-rail transfer, which was hierarchical in structure and dealt with all these alternatives that I’ve just mentioned.

THE CHAIR: Okay, thank you.

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

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

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

THE CHAIR: Okay, thank you. Yes.

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

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

Now, I accept that the methodology we have used to assess FirstGroup’s application changed late in the process, but that’s simply
because their application came late in the process, and not for any other reason, not because we were hiding.

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

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

THE CHAIR: Okay, noted.

VTEC: And then another point to add.

THE CHAIR: Just one more, yes.

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

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

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

There have been a number of submissions made in writing, over the last few days. Both for those and if there is another round of submission on methodology, the suggestion would be that all of the applicants and parties making submissions on methodology effectively set out what the methodology should be, briefly, succinctly and
cross-visibly to each other. And that’s different to seeing the contents of everybody else’s submissions.

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

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

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

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

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

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

I have serious concerns that, on 24 February, more than two weeks before a submission, 10 days before we even saw the VTEC timetable, FirstGroup were working on a timetable that fits very nicely, thank you very much, with a plan that I’ve no idea how it works, and I don’t think anybody else does, apart from Chris, because he’s seen it, and that has given results that, to be honest, frankly, when I’m looking at it –
and I’m not an economist – they just don’t make any sense to me.

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

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

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

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

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

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

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

ALLIANCE: The benefit you’ve had, though, is that your timetable dovetails very nicely, fortunately, with one that you were given to allow you to finalise it in order for it to be evaluated. That is absolutely not right. And
you’ve also confirmed that you’ve actually ridden on the back of two years’ work, because, as has been said here already, we have worked so hard to identify the fact there’s available capacity, as indeed did Grand Central before us, and, in effect, you’ve waited. We’ve all worked very hard, and then, bingo, along you come.

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

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

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

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

Which in any case was made at the same time as VTEC’s application.

So just –

I’m sorry, I need to just… This is a very important point.

Go on.

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

I’ve mentioned it twice today and I’ll mention it three times, and I’ll be
mentioning it again. That is not right and we need to get back to a level playing field, and we’re not even anywhere near playing the same game at the moment.

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

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

THE CHAIR: Sorry, is this the modelling point?

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

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

ORR: Do you want me to deal with it?

THE CHAIR: Yes, please.

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

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

So they met that challenge. They asked, through us, if Virgin Trains East Coast were prepared to share the indicative timetables they had
given us, and Virgin Trains East Coast said they were prepared to do so, on the understanding that there would be an exchange of timetables. And, of course, although this hasn’t been normal practice in the past, we’re very keen to take steps forward on transparency, something people have welcomed earlier, and so we felt that was sensible.

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

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

**THE CHAIR:** I think your point is noted.

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

**VTEC:** Can I just make one observation?

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

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

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

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

**ALLIANCE:** Talking about process, just reminding you that our application was under section 17, which, in theory, according to the statutory timescales, it is two months from the date of the last piece of information, so we’re here 16 months later. I’m just making that point.
THE CHAIR: We have had discussions about this, but yes.

ALLIANCE: I’m also making the point that sharing a timetable… The regulator’s role is also competition regulator. We’re raising some significant competition issues now about giving competitive advantage to a competitor, so that’s something that the ORR needs to consider.

THE CHAIR: Okay. So, just for the avoidance of doubt, again, we have noted the points, and these points will be considered. Thank you.

I’m going to move us on now. We do have to get onto crowding, before we then move to the economic appraisal, which we also still need to cover. Chris.

CH2M HILL: Yes, so I’ve got marketing and I’ve got crowding.

THE CHAIR: Oh, yes, sorry.

CH2M HILL: I’ll start with marketing. So, just a sort of very brief recap on what we did, simply, we took the indicated marketing spend from each of the applicants, from each of their applications and applied an assumed return on investment, which is pretty standard practice.

The main issue seems to be that I think pretty well each of the applicants think that the split of marketing spend on revenue-generative activities versus activities which might abstract revenue from the competition should have been higher, but that is something that everybody has said to us consistently. So I think that’s the sort of main point, really.

THE CHAIR: Does anybody want to come in on that point? If it is taken as given, then I think we should…

VTEC: Can you give us an indication of how big a part of the benefit it is, because that’s not clear from the report? Is it something that’s material?

CH2M HILL: It is quite small. It depends on how big the marketing spend is. It is less than 10%, from memory, but, again, if some organisations have a bigger marketing spend than others, then it would have a bigger proportionate impact on their particular application. But it doesn’t affect the generation/abstraction ratio, because we apply it in proportion to what’s calculated elsewhere.

ALLIANCE: We would just like to make it clear, as Chris has repeatedly said, that we think the approach that you’ve taken is too conservative, and
particularly it doesn’t take adequate account of good customer service; it doesn’t take adequate account of the benefits that you get in creating and exciting a market where there is more than just an add-on to the existing service, particularly to destinations which get a new through service, which would be a big event in a community like Grimsby, as it was a big event in communities such as Sunderland when the Grand Central service started.

So we do think that this is unduly conservative. I’m sure there will be different views around the table on this point, but I just wanted to make sure that – that remains our position.

THE CHAIR: Right, thank you. Shall we, on that basis, move on to the next one?

CH2M HILL: Yes, I wasn’t going to respond to the point.

THE CHAIR: Shall we move on? Yes.

CH2M HILL: Okay. So overcrowding – so, just to give you a little bit more flavour on what we did in terms of our overcrowding assessment, against, when we started the process, we didn’t have access to a sophisticated crowding model. Indeed, we still don’t have access to a sophisticated crowding model of the type one might have for a franchise bid.

We weren’t sure whether we would even get access to train load count data. Experience of working with train operators in the past varies. Sometimes we get it for various purposes; sometimes we don’t.

We also had a belief that, whilst overcrowding is certainly important on the East Coast Main Line, it isn’t a commuter railway, and it is less – in terms of order of magnitude, it is less important than some of the other things that we considered, although it isn’t not important. So our approach was to produce unconstrained revenue forecast and to crowd off demand if we felt it was necessary to do so.

Now, subsequently, we’ve bolstered our economic appraisal to assess the value-of-time implications through relieving overcrowding, because some of the count data that VTEC in particular have shared with us suggest that there will be some instances of overcrowding in future, particularly given just the IEP fleet, as is being built at the moment – just the capacity provided by that fleet, rather. So that’s broadly what we did.

I think one of the main questions is – it is specific to one applicant – is about how we divided the benefits of overcrowding between the various options. I don’t want to go into that in too much detail, because
it is specific to one applicant, so, really, I’m just happy to take the
discussion, John.

THE CHAIR: Okay, thank you. Any points?

VTEC: My first point, I think, is treating overcrowding lightly for a long-distance
service is probably not the right approach, given that potentially –

THE CHAIR: Sorry, I didn’t quite catch that. Can you say it again?

VTEC: Treating overcrowding lightly for long-distance services is not
necessarily the approach we’d agree with. Given that some of
services will be running for two hours, two hours 30 minutes, non-stop,
I think expecting any level of crowding in that environment is actually
quite a concern to dismiss. I think also the PDFH penalties for
crowding kick in, I think, from around 70% for long-distance services as
well, so, again, there should be an impact there.

I think that we have some concerns. I think it is about actually the
transparency as to how this has been applied in the report, and, again,
it doesn’t come out particularly clearly as to what the impacts of
crowding are on the various different applications. One of the points
that we were concerned with was, in the assessment of our
Middlesbrough services, one of the key benefits that – the issues that
we’ve touched on in terms of how we deploy our fleet is it is there
relieve crowding on the core services. We’re not quite clear as to how
that’s been captured in the analysis.

Similarly – sorry, do you want to answer that one?

CH2M HILL: Yes, so, in terms of transparency, if you’re saying that to us, then of
course we’ll make it more transparent. In terms of the Middlesbrough
service, we made an assessment of the value-of-time saving to
passengers as it is calculated in our appraisal and the reduction in
overcrowding that that would enable.

Now, the revenue benefits perhaps don’t align as well with the way that
we defined all services and split them into the various options, so we
have an unconstrained demand forecast that we would crowd off if we
felt that we need to do so, if we’re generating so many passengers
through that unconstrained demand forecast that they don’t fit on the
trains or would be very high load factors.

So, probably, what you’re saying is that some of that revenue benefit
actually would be removed from the core option and put into the
Middlesbrough option if we continue to split that into separate things.
VTEC: It would be recognised in the core option and reflected in whichever option, because, as has been referenced, this is a holistic timetable and the Middlesbrough service is obviously the last element, which allows for growth by providing relief for crowding on the core services.

I think there is another point on the FirstGroup service as well, which obviously I mentioned earlier on. It is about the level of crowding assumed, that, again, it is not clear as to how that’s been dealt with in the report. Again, it is back to the point about clarity in the report and the fact that we haven’t seen appendix A and we’re not clear as to how crowding has been dealt with. I think we need to see more detail on that and actually be able to challenge it more appropriately when we’ve actually seen that detail.

CH2M HILL: Right, so we can provide the detail. And, for the record, I’m not quite sure what’s happened with appendix A: a) it only covers the gravity model; it wouldn’t cover that. I think it may be we supplied it to ORR when there was the fire outside the building or something, because we certainly sent it, but something got lost in the communication. There’s no subterfuge in play. It is a pretty straightforward document which we’re very happy for everybody to read.

So, yes, so, coming back to the FirstGroup service, we flagged the level of implied load factor was a risk. We said, using some sort of sensible annualisation figures, you’re talking perhaps in the region of 80% loads, which is quite high, and we accept that it is quite high –

VTEC: That’s an average –

CH2M HILL: – an average.

VTEC: – which implies that, given the work we’ve done, it means that some services will be significantly overcrowded, particularly to reflect the low load factors on the early morning services. So you’re getting some of that actual significant demand crowded off to reflect that disparity in load factors.

CH2M HILL: I’m sure you’ll come on to in a second, Leo, but the evidence I’ve seen before is that, when you get to a load factor of 80-85%, you start to then get some trains that are over capacity generally – the rule of thumb that I’d always applied – so you’re kind of at the margin. We took this up with FirstGroup and they took us through their yield-management system, which, to us, seemed to be more sophisticated than is currently implemented in GB rail, but we still flag it as a risk. We don’t forget about it. We acknowledge that it is there and we flag it as a risk for ORR in its decision-making process.
FIRSTGROUP: Sorry, I’d just add, on that point, as Chris has said, we had some innovations in technology that allowed us to efficiently manage capacity on these services.

We would note that, in comparison with the competing airlines on the route, the average load factor that Chris is noting is lower than those competing budget airlines. I think, in the latest reported figures, EasyJet managed an average load factor of 90%, and, in Ryanair’s case, the latest reported figure was 88%, both of which are substantially higher than the factors that Chris has noted in the case of our application.

THE CHAIR: Right, thank you very much. Unless there are any really urgent points, I think we must move on to the…

VTEC: Sorry, I don’t know if I want to move on to deal with the economic appraisal yet, because there’s a couple of issues that haven’t been covered in terms of the analysis as well. One issue is – it is performance. We talked a lot this morning about the impact of the performance of the various different applications, and I know this was somewhat lightly dismissed by the other applicants as something that could be easily solved. We don’t believe that. Performance is a major reputational element for the Virgin Trains East Coast franchise, but we do believe that some degree of performance assessment should be carried out on all of these applications and the results of that performance assessment factored into the revenue appraisal as well, because it does have a major impact on passenger sentiment and it does have a major impact on passenger demand.

CH2M HILL: Certainly, most railway business cases I’ve been involved with in the past have an assessment of performance in there if it is likely to be material to the business case in question. We don’t have an assessment of performance that we can use, so it is something, at the moment, which ORR I guess will consider as part of its decision-making process. If an assessment were made available to us or we were able to do one ourselves, then we’d certainly be happy to add it in.

VTEC: Network Rail have made the assessment. It is 1.8-2% without mitigations, for eight trains an hour.

CH2M HILL: It would have to be sufficiently detailed that we could actually split it into the various options –

VTEC: You could make an attempt at modelling that, the benefits. You could take a broad-brush approach if nothing better was available, but, ideally, something better would be available.
THE CHAIR: Right, basically, you’re saying that’s what should be done, so – yes, okay.

VTEC: Yes.

VTEC: One approach that you normally see in economic appraisal is a number of sensitivity tests, so that the people evaluating can see how sensitive the results are to changes which might not be certain. So, for example, in the case of PPM, clearly, there’s a lot of uncertainty. We estimate that a 1% drop in PPM, which is massive, is worth about 100 million in benefits over a 10-year appraisal, so it is huge.

It would be worth using your models, just to see how sensitive some of these assumptions are, so that we can see the degree of uncertainty and the level of risk involved, particularly with performance but also with understanding the accuracy of the timetables.

CH2M HILL: To be clear, we have the capability to assess changes in PPM or average minutes lateness for any given performance model. I spent a good chunk of my career at Network Rail doing that very thing for business case purposes to leverage funding from DfT for the things they wanted to buy. So we can do it, but we don’t actually have a detailed assessment of how the performance characteristics of the various applications differ.

I’d just slightly refute the suggestion that we should do it on the hoof or do something broad-brush when we’re being criticised by other people for doing broad-brush things for a good reason. So, if we can do it, if we’re provided with an assessment or we’re given the means to do it ourselves, then we will. Forgive me for bristling slightly.

VTEC: I don’t think that was a personal comment at all. It was purely: performance needs to be included in the analysis and it hasn’t been to this day, and we believe it should be.


ALLIANCE: Can I ask a question of the ORR? The revenue forecasts here are based on a significantly different approach from previous open-access applications. Can I ask the ORR, then, does this mean, from now on, you are accepting the gravity model as the right way, in principle at least, to model demand for stations that are not served with through services at the moment, and that segmentation of the market and, in effect, of fares will also be considered in future applications? I just mention that because it would have had a significant impact on our previous applications.
THE CHAIR: Yes.

ORR: I think the general point is that, whenever we've handled these applications – indeed, in the most recent decisions – there's been an evolution in our approach; there's been new evidence, new techniques that have been applied, as we've learnt and more evidence is available to us.

There have been some arguments tabled today about the gravity model, and about other aspects that you've just referenced. We need to reflect on those. There'll be a recommendation to the Board and then, in effect, you can probably infer from the eventual decision the extent to which we continue to believe that a gravity model approach is appropriate.

So I think it will come out of the next decision, the extent to which we think that a gravity model is appropriate. I don't think it is worth now speculating whether this is the right approach for all time. Indeed –

ALLIANCE: Well, in the past, the ORR has consulted on changes to its approach and we're surprised that you haven't done that on this occasion, so we would have expected –

ORR: I would note we are having the discussion – we had quite a lengthy discussion today about the relative benefits of using a gravity model, so we'll reflect that in the decision-making process.

ALLIANCE: Can I just…? Just commenting, from an open-access point of view, we need some consistency in the approach from the ORR. We need to know what the process is. We've been at this for five years now and we haven't managed to get an application through. We can't go on much longer if you keep changing the process. It is absolutely flawed.

THE CHAIR: Well – sorry.

ORR: I think we're about to say the same thing.

THE CHAIR: Yes. I don't agree the process is flawed. I think they're two rather different points, because that's pretty much the same as saying the process can never evolve and change. But, anyway, I understand you're making the point.

ALLIANCE: We need to know what the rules are. We don't at the moment.

THE CHAIR: Okay, fine. I don't think I accept that, but maybe we can come back to that.
FirstGroup: Chair, not wanting to cut in on substance, because it follows on from that point, actually. I just want to comment briefly – because we’re conscious that a lot of criticism has been made in fairly explicit and fairly strong terms, effectively, on process, directed both at ORR but also at FirstGroup. And, just for the record - to pick up Ian’s phrase, our submission is that those criticisms were misplaced and they confuse a number of issues.

Just very swiftly: obviously, a party is always able to formulate a distinctive market proposition. That is what competition is, and good and obvious ideas are always never more obvious than when somebody else has just had them, so whether it is Apple or BlackBerry or different transport propositions.

The East Coast franchise has been public in its ITT for quite some time. The results have been public for quite some time. Colleagues on the left of the table could have, at any point until final submission date, have adopted or formulated, different offerings in whatever form... That is the nature of market competitiveness.

In terms of their receipt of the timetable a few days after FirstGroup, we would again put on the record that we do not accept that that is an issue. It was an iterative process: it was a symmetrical process between the parties and there was an ability to work on the basis of that. These are all things which are evolving. As my colleague has said and will, I think, continue to reinforce, these are indicative timetables, certainly from First’s point of view, to show use of capacity, not a firm timetable seeking effectively to hardwire in things.

So we thought that it was just important, whilst we were on the subject of process, just to put that rebuttal on the record.

The Chair: Okay, thank you. I think, on those process points, I understand the strength of feeling around the table. I think people have now had the opportunity to put the process point, as I think you’ve both said, on the record. Ian, you just missed a response to your process point. So they’re both on the record now and we will have to consider how we’re going to respond to them.

We do just need to move on, now, to the final section around the economic appraisal. That’s the final bit of this day, and I really do want to spend 15 or 20 minutes on it, to try and cover that, so can I just ask us to move on at that stage and Chris to talk us through the remaining points on the economic appraisal?

CH2M Hill: Sure, thanks, John. So a brief statement on what we did. The way we break it up and the way I break up the forecasting into its constituent
parts – I think we can just tackle it all in one go, if that’s okay – so the approach we put together is designed to be consistent with WebTAG and compliant with, by implication, STAG. We can calculate, using it, the impact on DfT budget, but it isn’t reported, because it is, as we understand it, considered through a separate process as part of ORR’s decision-making. It is designed to assess only the incremental benefits and costs of each of the applications over a 10-year appraisal period.

In terms of the assessment of benefits, the main source of evidence for that, the main input to that, is our revenue and demand projections, and we categorise all the types of benefits that you would expect us to categorise under a social cost-benefit analysis: user benefits, into its constituent bits, non-user benefits, other impacts, etc.

We calculate revenue – the net increase in industry revenue, rather than the revenue that is specific to any given operator, and then we assess all the categories of costs that we can in terms of the incremental costs, so cost of train procurement – we call it lease in here, but really it is procurement – maintenance, Network Rail variable charges, staff costs, fuel costs – that’s about it.

In terms of – I think John’s already alluded to this, and several people have as well – we exclude the cost of any investment in infrastructure that’s required to enable any of these applications, and we’ve also excluded any benefit that that would bring, other than the benefit that’s encapsulated within the track-access application itself. That’s with the agreement of the ORR. It is not something we’ve done off our own bat.

We also exclude what you might term ‘fixed costs’, so fixed track-access charges, a share in the fixed management and administrative costs of running a train service. We exclude those as well, so it is genuinely designed to be incremental cost.

In terms of the metrics we report, I think the net present value, which is the total benefit minus the total cost, and the present value of benefits, which is just the total benefit discounted over the appraisal period, are standard. I think most people would recognise those things.

We also, to try and give ORR some per-unit measure of the net present value and PVB, divided those measures by a number of paths over what we understood to be the capacity-constrained sections of infrastructure, but without having reference to Network Rail’s letter, etc., to do that. We accept that that’s crude and we accept that ORR might want to use a different mechanism. It is just our starter for 10 as some means to try and look at the relative value of these things per unit of capacity consumed, but, again, we accept that that’s crude.
I think that’s probably it. I’m happy to take questions.

THE CHAIR: Okay, thank you. Any questions?

DFT: I think there’s two different categories of things we want to say on this. We’ve got some technical points on the economic appraisal that my colleague would like to make. We also have what’s really more a question to ORR about this appraisal, which was the question set out in Claire Perry’s letter to ORR earlier this week about how you use the appraisal. We’d like to ensure that’s picked up today. It doesn’t have to be now; we can pick it up after this agenda, but can you just tell us – would you like us to go onto that now or come back to that later?

THE CHAIR: Well, I think let’s take it now. You’d better just explain. I mean, the letter hasn’t come round to anybody else, to the best of my knowledge.

DFT: Sure. I think that will be shared at the next point, but I think my question is really how the economic appraisal fits into your decision-making process. The Department has provided evidence about the impact on the IEP business case, but this is an appraisal that doesn’t take into account those costs, so specifically how does it align with your duties? I mean, obviously there’s a lot of duties, so we’re just interested to understand where it fits in there.

ORR: I mean, to be honest, I think this is a question that John’s introductory statement really was referring to, in that the CH2M Hill report is one part of the evidence base. It is then the unenviable job of the project team to then pull that evidence together, together with all the other quantitative evidence, and the more qualitative factors that are discussed. Then we do an analysis against the ORR statutory duties, and that is at the core of the recommendation.

DFT: Yes, and that hasn’t been done yet, so the evidence-gathering comes before –

ORR: Yes. So, just to state, just to make it really clear, the CH2M report is not an assessment of economic effects against our statutory duties. It doesn’t seek to do that. That’s the job of ORR’s project team, and ultimately it is then a job for ORR’s Board to decide the extent to which those effects and evidence relates to our statutory duties. Hopefully I haven’t made Juliet seek to kick me under the table.

DFT: I mean, I think we’d just like to clarify that the evidence that we’ve provided is quite different to what’s in the Hill report.

THE CHAIR: Yes, and we do understand that, and we literally do exactly as Chris
has just said. We go through the full body of the evidence. We do stack it against the statutory duties and the Board are asked to weigh up, basically, the weight they want to put on their statutory duties as they’re making their decision, so we do go through literally that process.

DFT: I think the thing that we want to emphasise is that, on the evidence that we’ve seen, because it is come from a variety of different parties, it doesn’t appear to be a fully consistent approach taken in terms of the evaluation of all these possible combinations of options, and that the danger of not doing that properly is that possibly the taxpayer ends up not being accounted for sufficiently. I think that’s what our concern is, and that’s what we just want to –

DFT: I think my colleague will come on to some of those concerns shortly.

THE CHAIR: Okay, right.

ALLIANCE: I think there are some important issues here. My understanding of the ORR’s process is that there are three elements in looking at applications: is the business case robust so that, provided that the access rights are granted, they will be used for the duration of the track-access contract without the operator having to resort to market-disrupting mechanisms to try and survive; secondly, that it passes the Not Primarily Abstractive test, which, as Richard Price said in his recent lecture in CER in Naples, is designed to balance responsibilities, to maximise the use of the network, to support competition and to have due regard to the Secretary of State’s funds; and, where there are competing applications for the same capacity, to look at the relative economic benefits of those.

And the CH2M Hill report, albeit all of us have a number of concerns about it, seeks to address all three of those issues, so it is potentially a pretty useful tool for this. What I would say, though, is: we’ve had a number of assertions from the Department that the sky will fall in and the earth will cease to continue to resolve around the sun if open-access applications are approved. We don’t recognise the numbers that DfT quoted earlier. We think they have to be wrong but, without understanding in more detail the evidence that supports them, it is very hard for us to refute them.

And we would very much welcome greater transparency and less redacted documents from the Department, in order to enable us to engage in a constructive debate with them as to whether their concerns are wrong or misplaced or overstated?

FIRSTGROUP: Can we just reiterate that point, actually? Because we haven’t
responded to the Department’s letter to you, to the ORR, in respect of
our application, because, quite frankly, we don’t know what to respond
to, because there is so much redacted that it is not reasonable for us to
be expected to respond to it. And I think, therefore, if that information
is being used, much as Alliance has said, I think there needs to be
greater transparency, so we can understand what those issues are,
because we may well have points that are relevant, and, until that
transparency is there, it is quite difficult for us to make further
comment.

THE CHAIR: Thank you. They’re both points of transparency of information.
Understood. You said you wanted… Can we just follow up on the
further points you were going to make?

DFT: Yes, fine. So, again, in the letter that DfT have sent, there was a
number of points relating to the economic appraisal that we raised, but
I’ll just focus on what I think are the most significant, given the time
constraints of this meeting.

The first one has implications for the revenue as well, but I thought it fit
more naturally in talking about the economic appraisal. We have
heard today that there are concerns about the funding and delivery of
the infrastructure-enhancement works that would be required for tilt
operation. In this context, we do not think it is appropriate to assume
an Alliance end-to-end journey time of three hours and 43 minutes
within the estimate of revenue and economic appraisal, or certainly not
without considering other potential scenarios of the journey times that
might be achieved.

Furthermore, we note that the three hour and 43 minute timing
required an exemption to the standards set out in the train-planning
rules, which would require the agreement of Network Rail. Slower
journey times would have a significant impact upon the quantum of
generated revenue and the economic benefits of the service.

But where this becomes relevant for the economic appraisal, if the
required work can be funded and delivered and programmed, then the
costs of these works should be contained within the appraisal or the
full benefits and revenue uplift excluded. You really need to compare
both sides of the equation when you’re doing an economic appraisal.
You need to have the costs to include the benefits and the revenue
uplift.

Currently, the economic benefits of the speed enhancement and the
revenues which are dependent upon the works are contained within
the appraisal, but the associated costs are not. This is inappropriate
and counter to WebTAG.
ORR: It is probably just worth knocking that on the head, because that was in John’s statement, that we agree that the costs need to be included.

DFT: Fine. Sorry, I missed that.

DFT: Okay. I think we can’t over-emphasise that at this point. An appraisal which includes benefits but not the costs is not very useful.

ORR: I suggest we just move on, because we all agree. It is just the reason it wasn’t included in the calculation is because it was uncertain and we were exploring the value. I think we agree on its inclusion.

THE CHAIR: I think where we’ve got to is, to make this point clear, you need to be clear in the report that this is being treated elsewhere in the process as well, for the avoidance of doubt.

DFT: Also, on that point, I think, if the benefits are to be included, costs which are to be included have to be costs that are validated and are recognised by Network Rail as sufficient for delivery of the work. We certainly wouldn’t recognise the number that was mentioned earlier of £50 million for the introduction of tilt across the East Coast Main Line as being realistic.

THE CHAIR: I think on that point, and I think it is probably true of a lot of points that are being made here, it is clear that there’s going to have to be some follow-up on some of the comments that have been made and some of the points raised, because there is quite clearly disagreement in some areas, and we are going to have to follow those up and we are going to have to try and pin the point down, so – yes.

DFT: The other point that we think is the most significant issue with the economic appraisal is in relation to the treatment of rolling-stock costs. CH2M Hill has included what it refers to as ‘rolling-stock lease costs’ in the appraisal of the VTEC-operated options.

The use of the term ‘rolling-stock lease costs’ in this context is misleading. The Class 800 series trains are not leased. Rather, VTEC is contractually obliged to make train availability and reliability agreement, TARA, payments to Agility. VTEC is contractually obliged to make the majority of these payments even if the rolling stock is not in use, although a modest reduction in the payments will accrue if the sets are used for less miles than are set out in the contract.

As such, we don’t think it is appropriate to use ‘full rolling-stock lease costs’ for the options operated by VTEC as the majority of the related costs are payable in any case, so it isn’t an incremental operating cost.
Shall we take that one as well? Because we spoke earlier this afternoon about the fact that – maybe it is just that I don’t understand how this contract works – is that the contract committed to use six trains an hour. So, for incremental services, there is presumably an incremental cost. So we’ve put a cost in and it is been labelled as lease cost. I mean, I take your point that we could label that as a different cost.

But it is not an incremental cost. There is a small element of incremental cost in the IEP contract, but the vast majority of the cost is payable regardless of whether the trains are used and is now committed. So –

So what level is committed? The thing I’m trying to get to is that… I think you were telling us that six trains an hour is committed in the contract, but the proposal is for more than that.

Actually, mileage by rolling-stock is specified.

I mean, it is an availability payment which is payable anyhow. If you give us a specific scenario for train-service operation, we can tell you how – you know, give you some idea of the variable amount in the contract –

If it helps, there’s no real difference between making a payment for the fleet of trains that you’ve got IEP and a train operator making a payment to a leasing company for the fleet of trains it is got regardless of whether it uses them or not. It is the same point. So, if any operator leases a fleet of trains and only uses 20% of them, it still has to pay 100% of the lease cost.

It is no different in the scenario that you’ve just talked about. If you’ve got the fleet of IEP trains, you have to pay 100% of the cost, even if you’re only using 20%, so the point is exactly the same, so there’s no difference. I think I’m agreeing with the ORR on not quite understanding why you’re making the point. It is the same point.

Well, the reason we’re making the point is: the options are effectively ranked with the cost – with the availability payment for IEP included as a cost with the VTEC application but not any of the others. The implication of that is, if you select one of the other options, this cost doesn’t apply. It applies regardless in all of the options. It is a committed cost. It is effectively a sunk cost. It is different from the rolling-stock costs that are associated with the FirstGroup or Alliance applications, which are not sunk costs. If those applications are not
granted, those costs will not be incurred.

THE CHAIR: Chris, and then –

ORR: It seems like quite an important point, but I thought we got to the point, earlier this afternoon, that the commitment and the rolling stock that you were procuring related to six trains an hour. You seem to be telling me something different now.

VTEC: I can comment on that.

THE CHAIR: Yes.

VTEC: The six trains an hour, which is the scenario that CH2M Hill have called VTEC 2020 core, so that’s got six trains an hour, that uses the IEP fleet. That is something we’ve got to pay for whether or not we run that core. So I think the argument that the DfT are trying to make, and we would agree with, is that there should be no or very minimal mileage-based costs for the fleet in that core scenario.

The scenario that CH2M Hill call Middlesbrough, which is actually going six and a half trains an hour, with crowding relief, fast to Edinburgh and Middlesbrough, actually requires us to lease extra trains, and it is fair enough for the cost of those extra trains to be put against that scenario. We wouldn’t dispute that.

ALLIANCE: I’m getting really quite confused by this. It seems to me that DfT just now was arguing that we ought to have all the costs in alongside the benefits and they should be evaluated together, which I agree with. But DfT is now saying, yes, but we should take the costs of the IEP out. It seems to me to be utterly, totally inconsistent and designed to – well, partly to justify the contract that the DfT has entered into with Agility Trains, and partly to bias the appraisal grossly in favour of the franchised operator, or at least the franchised operator’s six-trains application. I just think it is mind-boggling.

THE CHAIR: On the basis of what we’ve heard, I must say, I’m not sure we’re going to get to the bottom of this. I don’t want to cut through the conversation, but –

DFT: I think it does partly go back to what you want to use the appraisal for, and that’s where my question originally started for. It would be good to have an explanation from the ORR how they’re going to use this economic appraisal in the decision, because –

THE CHAIR: I’m genuinely not sure I see the connection between that and what
we’ve just been talking about, but let’s… I suspect we’re just not going
to get to the bottom of this. It is one of those topics – we’ve had, I
think, two or three topics that we are clearly not going to resolve
around this table, so we will… Let’s record that one as well.

DFT: Just to raise one more point, just to pick up on the point that was
alluded to and was mentioned this morning, earlier on, there was an
assertion that the DfT had exercised some unfettered rights to sell
track-access paths which aren’t already protected within the franchise
agreement. And, whilst I understand where that viewpoint has come
from, I do think it is worth saying that we absolutely do not consider
that we have unfettered rights. These belong with you. These belong
with the ORR.

The development of the East Coast franchise has aimed to deliver the
best outcome for taxpayers and passengers, as we’ve described. We
required VTEC to take best endeavours to gain these rights. We’ve
done that and we support them in doing so, and there are various
protections within the franchise agreement for them to go through that
process.

So the purpose of stating our position here is to give the ORR Board
our position, so that you can fully take these into account during your
deliberations. So I just wanted to make that point specifically on the
relation to using unfettered use of the track access, which we certainly
do not think we do.

THE CHAIR: Okay, thank you. To use the earlier phrase, noted. Okay, thank you.
Do you want to bring the people not on the table in? Freightliner, yes.

FREIGHTLINER: I’d just like to make a point on the economic appraisal. As we
discussed this morning, there may be some choices and there
probably will be some choices that will impact between choices of
passenger and freight services or the quality of those services. And I
know that, at the moment, there is no economic appraisal that takes
into account freight. The benefits of rail freight fall outside of the
railway balance sheet, I think are quite well recorded, but I just ask that
those are taken into account in any decision.

THE CHAIR: Right, thank you. Anybody else?

ALLIANCE: Very briefly, two things I’d just like to ask for clarification on in the
economic appraisal. Clearly, the issues we’ve discussed about the
modelling will feed through into the benefits and therefore may result in
the estimate of benefits changing, but there are two things apart from
that that concern me.
One is: all the applications show a big decline over time in the operating costs. The five-year and 10-year operating costs – sorry, year 5 and year 10 operating costs are significantly lower than the year 1 costs. And the reason for that is not clear, and it is either right and there’s a good reason and it should be explained, or it is wrong and it needs to be changed.

And the other is that I can’t correlate… After a discussion that we had back in April, you’ve done a calculation where you’ve shown benefits per path. I can’t quite understand, in some cases, how you’ve calculated the number of paths. For example, VTEC’s Middlesbrough service, as I understand it, is for six trains in each direction, and you’ve divided the benefits by six, not 12, and there are other examples as well.

So I think you need to look at that again, and either clarify what you’ve done or alter it in the revised version of the report.

CH2M HILL: Sorry, Alliance. Can you just refresh my memory on the first question that you asked, please?

ALLIANCE: The first is: why do the operating costs drop over the period?

CH2M HILL: The main reason is that it is a discounted appraisal –

ALLIANCE: Ah, so these later costs are discounted.

CH2M HILL: Yes, so where we –

ALLIANCE: Ah. I thought that they were the actual underlying costs.

CH2M HILL: Somewhere at the start of the document, we say, ‘All figures are in 2010 present values unless stated’, so – yep.

ALLIANCE: Right, okay, thank you. I understand now.

CH2M HILL: That’s principally why. There might be some other things going on, so that’s principally why, yes. And, sorry, the second question?

ALLIANCE: The second question was: we would question the number of paths you’ve divided the benefits by in a number of cases.

CH2M HILL: Okay. Let me take that one away and have a look at it. As I said, this was something crude to give ORR an idea of some kind of proportionate benefit per unit across the use. Let me take that away. I can’t respond to it now, but it is crude. There must be a better
measure.

ALLIANCE: I think it is quite a useful measure, to be honest. We recognise the number in the case of our applications and First's applications, but we don't recognise the number in the case of some of VTEC's, which obviously affects how the applications appear relative to each other.

CH2M HILL: Let me check that.

ALLIANCE: Thanks.

DFT: I had one more point on the economic appraisal, before we move on. I just wanted to note that the analysis includes the benefits of additional revenue to open-access operators. In that context, we think that you should probably reflect the disbenefits to airlines of them getting less revenue. Effectively, it is just a transfer, so I just wanted to mention that that would be included in the generated revenue, but not showing the transfer away from airlines.

ALLIANCE: In that case, it should also take account of the environmental benefits of fewer passengers travelling by air, which we would say it doesn't cover at the moment.

CH2M HILL: Yes, I mean, it kind of presupposes what the response of the airline would be. The airline might choose not to run the service but deploy it somewhere else.

DFT: If it was making revenue from deploying the service there in the first place, there will be a loss. That was all: that we think it should be at least thought through.

CH2M HILL: Okay, let us take it away. What I'm saying is: they might choose to offset that revenue loss by using the aircraft somewhere.

FIRSTGROUP: Just as an observation, I don't think disbenefit to aviation is within the section 4 duties.

THE CHAIR: Yes.

VTEC: Just a couple of very specific questions, probably quite easy for you. We were wondering what was driving the non-user benefits of the Alliance London-Edinburgh service, which seem exceptionally high compared to usual. We were just wondering what was driving that, and we were also wondering whether... You've included, as you should obviously, lost taxation due to the highway. Have you included lost air passenger duty as well?
So I’d have to get back to you on air passenger duty. I suspect we might have missed it, but I’d have to get back to you. In terms of the non-user benefits, we calculate the change in rail-passenger kilometres or miles. We apply a standard factor that gets you to the highway and then we apply a reduction factor based on how many passenger miles of our total passenger-mile generation we think is coming from air. So that should get to a number –

That’s obviously the right approach. It just seemed that the London-Edinburgh Alliance non-user benefits were out of kilter with what we’d expect and the other applications as well, so we just wondered whether – maybe it is right, but we weren’t sure.

No reason to suspect that it is wrong, but I’m sure, as part of this, we’ll have a look at everything we’ve done.

Can I just make a point in response to Chris’s point there? Because I think aviation impacts are, in fact, included, because value for money analysis, which is one of the duties – and we do consider all impacts on society, so I would suggest they are included when you’re looking at the VFM of the impact on IEP, for example.

Well, perhaps we can ask Virgin what they’re doing with the aircraft they’re taking off the Virgin Red service between London and Edinburgh.

It is not part of our company.

That would provide context.

Sorry, I’ve lost track now. In terms of where we are on the quantified benefits and costs, are there any further issues we need to cover?

No, I don’t think so. I just didn’t like the idea of people being confused about what we had or hadn’t assumed in terms of rolling stock. So what we’ve assumed is that every additional unit required to make the service run is an incremental cost and we have market-tested prices, and, whilst we call it a capital/non-capital lease here, the prices really are agnostic to procurement route. We’re happy with what we’ve done and they’re market-tested.

We say, in the report, that there is certainly going to be an argument that IEP costs are not incremental; they’re sunk. We’ve had that discussion with ORR. Their advice, for the time being – and that’s what’s reflected in our appraisal – is that they’re incremental costs, and all that other stuff that we’ve discussed could be reflected in this, if that
THE CHAIR: Okay, thank you. I said earlier on that we'd leave a few minutes at the end so that people could raise the question whether there's any material impacts that are not included in the CH2M Hill report which they wanted to flag up now. Are there any issues that people think are not covered by the CH2M Hill report that they want to flag up at this…?

VTEC: I’d just like to raise one, which is that CH2M Hill have evaluated our proposal in three components, but nowhere is it all brought together as one holistic package. We spent several man years, effectively, developing this timetable for the bid. We feel it is a holistic package. We feel that the whole is greater than the sum of the parts and that they ought to reflect the benefit of the whole so that, even if it is not appraised as such like that, I think it should be included in a table that has the whole package, so that we can understand whether there is a difference between that and the sum of the parts.

THE CHAIR: Right, thank you.

CH2M HILL: Yes, it is something we can do, if ORR would like us to do it, sure.

THE CHAIR: Right. I’m checking with ORR colleagues. In terms of the questions that Transport Focus raised, is there anything that we think has not been at least touched on in terms of the issues? I think we’ve covered a huge amount of ground. Is there any big topic that we think they’ve raised that they would have said, if they’d been here today? No, okay.

I just want to bring in anybody else who wasn’t around the table on that discussion we’ve just had on the whole area of the economic appraisal. Are there any points that anybody wanted to raise? Yes.

HULL TRAINS: With my old fleet finance manager’s hat on, appraising rolling stock is very difficult, because, in terms of the IEP contract, it is not just the incremental cost of the extra vehicles; it is the incremental cost per vehicle of the IEP contract. That’s quite key.

The lease and maintenance costs per mile are in excess of the existing rolling stock, and the revenue is predicated on recovering that cost. Now, how you put an incremental maintenance and lease cost for IEP on a level playing field with applicants who are having to procure brand new rolling stock for their services I’m going to leave up to you guys, because creating that level playing field is going to be quite a feat, but it is an important point to note. You’ve got to have a level playing field on rolling-stock costs or you’ve got to somehow engineer it out, because, without a level playing field, you really are looking at apples and pears when you’re doing the economic evaluation on rolling stock.
In general, the only thing that I would say is: if we are going to have discussions with your consultants over revenue, we also want to have a discussion about the implications on Hull Trains’ future ability to run its services and the economic effects that fall from some of the implications, as part of our discussions with your consultants, so that those risks are well understood.

THE CHAIR: Right, thank you, noted.

CH2M HILL: To allude to something I said before, we have market-tested rolling-stock market and we consider that we understand the difference between the price of a Hitachi 800/801 series procured by Government versus procured by some other – we’re confident of that.

HULL TRAINS: It is the maintenance charges that are key here.

CH2M HILL: Yes, inclusive of maintenance.

THE CHAIR: Right, thank you. I am going to have to bring things to a conclusion. We said we would finish at half past four, so I just wanted to make three concluding remarks. It goes without saying that we’ve got a lot to think about as a result of what we’ve just heard around the table today. We’re going to consider all the points raised. We’ll come back to you as soon as possible with the next steps timetable and how we’re intending to address the points raised.

Specifically on the transcript, we will try to get the transcript out as soon as possible. I suspect it will be about a week, say, so on or around Monday the 22nd, we will send the transcript round for comments. When it does come round, it will have people’s names in it, so you’ll see who said what. That’s just for correction purposes. When it actually gets put on the website, it’ll just have organisation name – DfT, Alliance – but it will come out with the names in, just so that we can actually track who said what, just for the avoidance of doubt about how we’re intending to do that.

Finally, can I just thank everybody for today, first of all for coming, but also for what I think has actually been a very constructive session. I know people have got strong views, but I think people have approached this in a very constructive way. I think we have made quite a lot of progress on at least most of the issues that we hoped to make progress on, so thank you very much indeed. Thank you.

(The hearing concluded at 4.30 p.m.)