

*ORR protects the interests of rail and road users, improving the safety, value and performance of railways and roads today and in the future*



## Freight customers

2 October 2017

Chair:

John Larkinson, Director RME

# *ORR Freight Customer Panel*

## *Freight Customer Perspective*

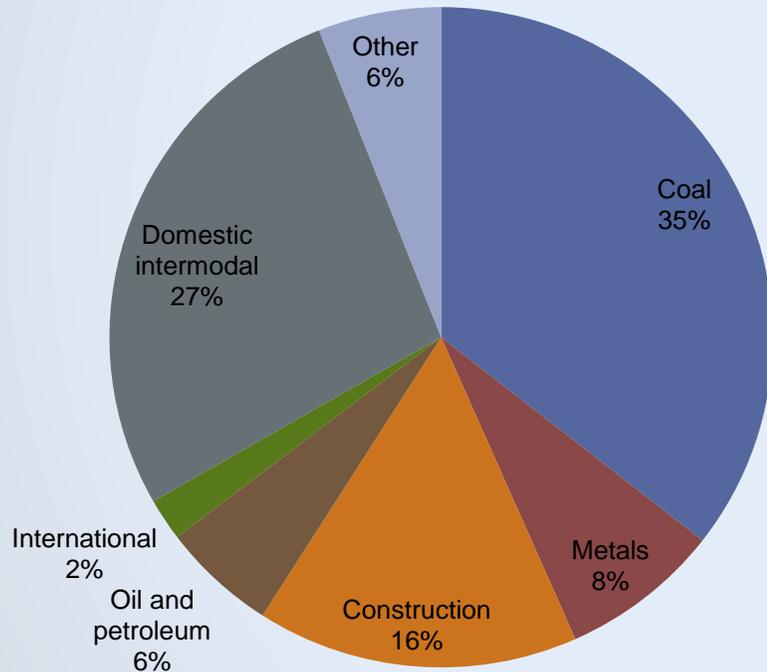
Maggie Simpson

2 Oct 2017

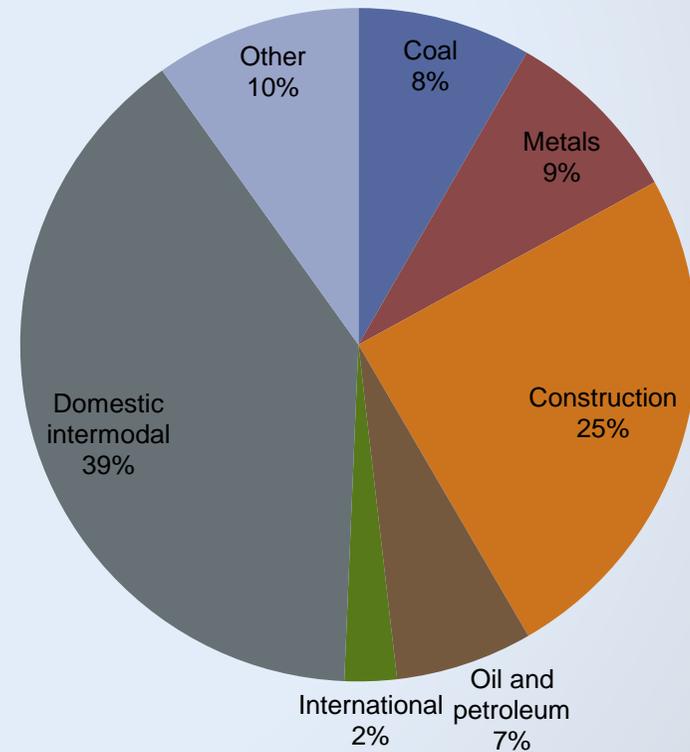


# Reminder of a changing rail freight sector.

## 2013/14 Market Share



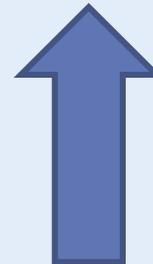
## 2016/17 Market Share



# *Growth continues in key markets*



*Construction  
Up 7%*



*Intermodal  
Up 6%*

*New customers are using rail.*



# *Stable charges in PR18 (and PR19)*



In line with plans of neighbouring Germany to halve track access charges as soon as next year, Dutch rail freight parties are asking their government to take similar measures, instead of pushing plans to increase the cost of using railway in 2019-2020. A petition with this demand was published last week and has received considerable support from within the industry.

Microsoft Word 2010

# *Effective Regulation of Network Rail*



# *Regulation of other infrastructure (HS2, East-West etc.)*

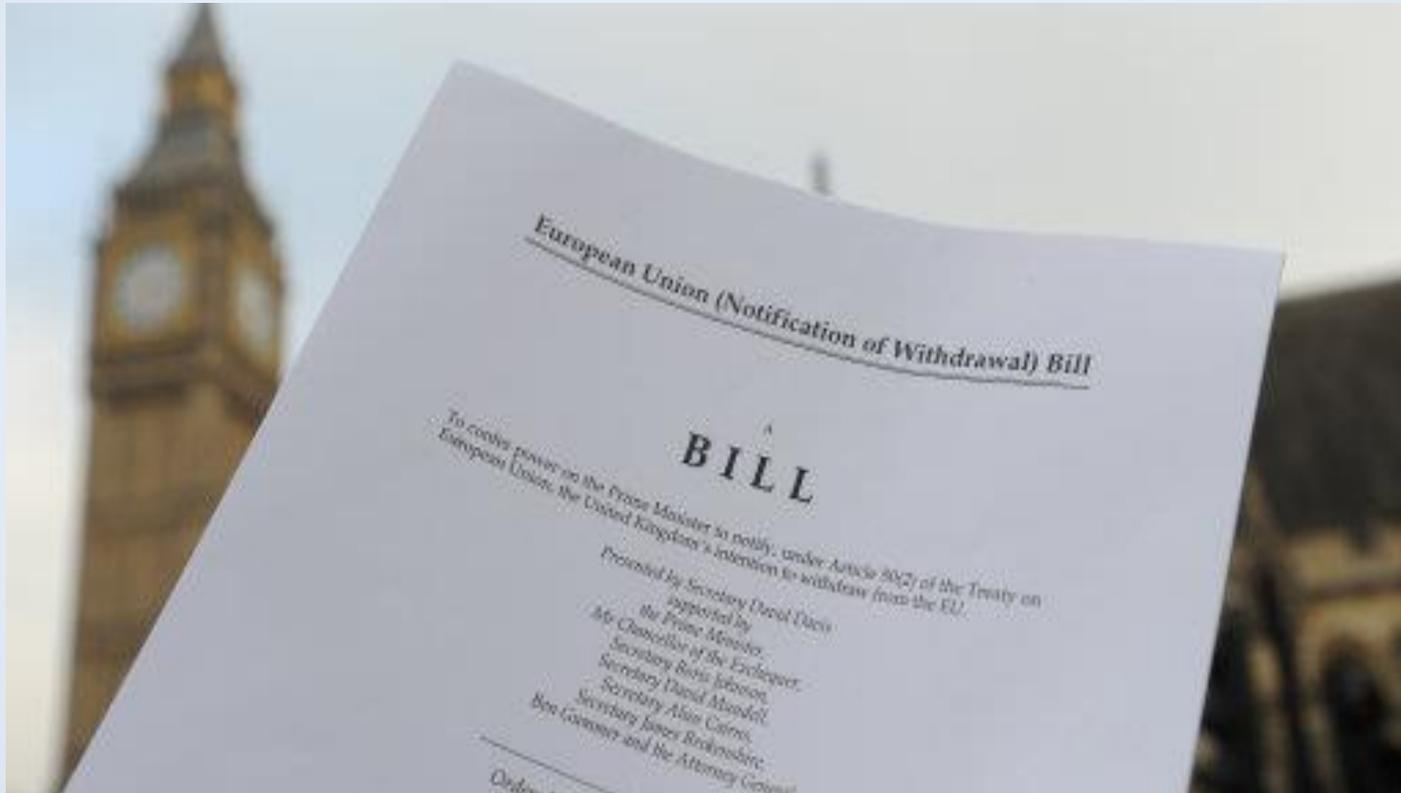


Photo : André Karwath

# *Franchising and Access Decisions*



# Implications of Brexit



# Safety



# Thank You



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[www.rfg.org.uk](http://www.rfg.org.uk)

@railfreightuk



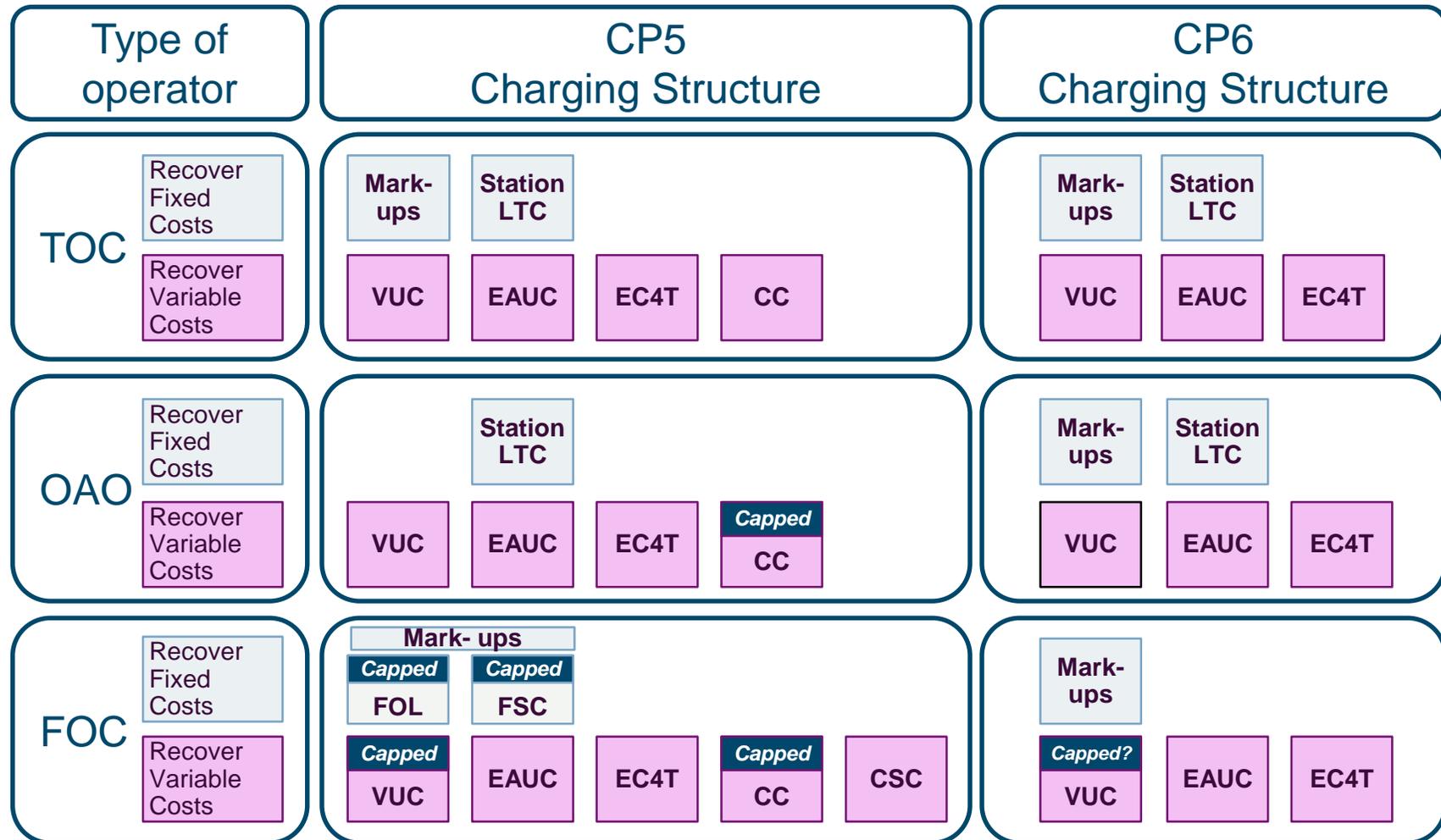


# PR18 charges and incentives update

2 October 2017

# PR18 changes to Network Rail's charging structure

- Headlines: simplification and targeted reforms to recovery of fixed network costs



# Freight Variable Charges

- Our decisions to date have focused on:
  - Not making fundamental changes to the design of charges; and
  - Simplifying the regime

No fundamental change	Purpose
VUC - £44m	Recovers maintenance and renewal costs that vary with traffic – track, signaling and civils.
EAUC - £0m	Recovers maintenance and renewal costs that vary with traffic – electrification assets.
EC4T - £5m	Recovers the costs of providing electricity for traction purposes
Remove Charge	Purpose
Coal Spillage Charge - £1m	Recovers the cost of coal spillage from freight operators transporting coal.
Capacity Charge - £3m	Recovers Network Rail's Schedule 8 costs that vary with traffic.

*All figures relate to 2016/17 amounts*

# VUC

- While PR18 will not fundamentally change the design of the VUC there is upward pressure on costs that feed through into the charge
- VUC will be affected by:
  - Network Rail's plans for CP6, including on efficiency
  - It is also reviewing the scope of costs within the VUC, to identify whether all of the items in the calculation should be there
  - ORR will be considering the case for transitional arrangements ('caps' on VUC)
- Network Rail will publish a draft price list in February 2018

# Background and structure

- On 28 September 2017 we published a consultation setting out proposals on charges which recover fixed network costs (i.e. Network Rail's costs that do not vary with use in the short-term)
- The aim of this consultation is to progress our work to calculate charges recovering fixed network costs for CP6 (we have called these **infrastructure cost charges**)
- These slides cover:
  - Overview of infrastructure cost charging approach
  - PR08 & PR13 market can bear test
  - PR18 freight market can bear analysis

# Infrastructure costs charging approach

## ■ Key components of infrastructure cost charges calculation

### – **Cost allocation methodology**

- To calculate infrastructure cost charges, we need to determine the level of fixed costs which are allocated to different (types of) services. This would form the upper bound for any infrastructure cost charge, with the actual level of the charge also being informed by the market can bear test
- Network Rail is currently consulting on its new methodology.
- Before deciding whether to implement the new cost allocation methodology, we would consider the responses to Network Rail's consultation.

- **Market can bear test** – this is the subject of our consultation and discussed in more detail in these slides

# PR08 & PR13 market can bear test for freight services (1)

## Background:

- **PR08** - introduced the **freight only line charge** and undertook a market can bear assessment to identify which services (market segments) would pay it, and how much they would pay
- **PR13** – introduced the **freight specific charge** and updated the market can bear test in order to levy this charge (in addition to the FOL)

## Market can bear test – approach:

- Based on the provisions in the Access and Management Regulations, and taking into account our statutory duties, we developed a **four-part test to assess what the market can bear for freight services:**

**1. Impact on rail freight market** – assess the impact of a mark-up on the size of the freight market (all other factors held constant)

**2. Impact on future growth** – consider the impact of a mark-up on future growth of the rail freight market (based on industry forecasts of growth)

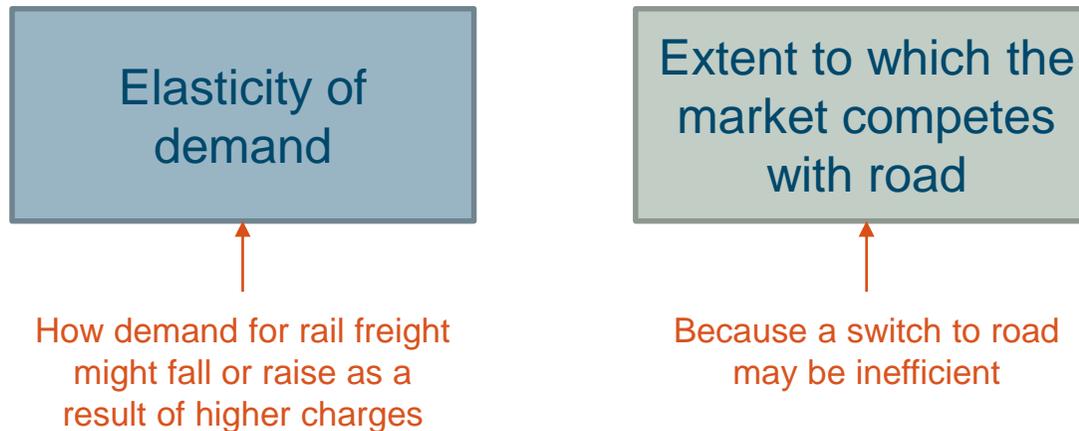
**3. Impact on operator profitability** – one indication that the market cannot bear a cost increase is that it would cause an efficient operator to withdraw or not to enter the market. Therefore, one consideration as part of the market can bear test is assessing the potential impact of an increase in charges on freight operator profits (limited data available)

**4. Other impacts** – assess the impact of a mark-up on the environment from the transfer of traffic from rail to road

# PR08 & PR13 market can bear test for freight services (2)

## Impact on rail freight market

- Key focus of the analysis was on determining whether there is a significant risk that the mark-up could result in the **exclusion of use of the infrastructure by the market segment**. We did this by looking at:



- **We determined that we would not levy a charge on any market segment that is not both highly inelastic and faces little competition with road**
  - This is a cautious approach to interpreting the legislation (which focuses on exclusion of a whole segment)

# PR18 market can bear test for freight services

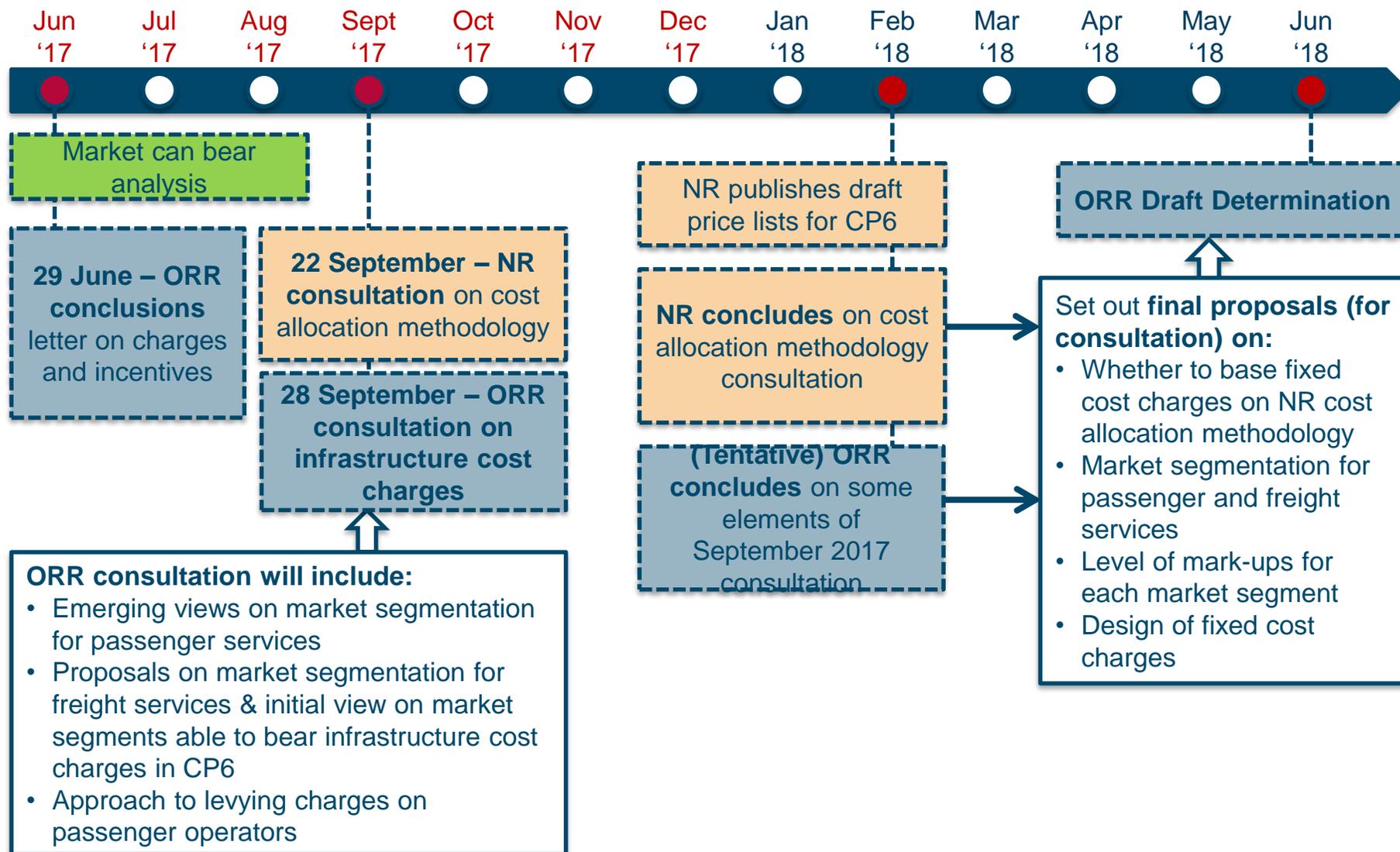
- Our June 2017 decisions on infrastructure cost charges for freight services:
  - Continue levying charges to recover fixed network costs from freight services, subject to a market can bear test
  - Combine the FSC and FOL charges into a single freight
  - Update the market can bear test which we undertook in PR13, to reflect any new information and changes in the market
- **Scope of the PR18 update of the freight market can bear test:**
  - Reviewed the current market segmentation and proposed retaining this for CP6
  - Consider ability to bear based on existing segmentation (based on commodities) – this involves assessing whether any changes in the relevant markets have materially affected our previous assessment of ability to bear

# PR18 assessment of ability to bear

- Based on the analysis undertaken by our consultants, we have set out in our consultation the following initial proposals around which market segments appear to have the ability to bear infrastructure cost charges in CP6

Commodity	CP5	Key evidence	PR18 proposal
<b>ESI coal</b>	Paying FSC & FOL	<ul style="list-style-type: none"> <li>- Coal traffic has been declining in CP5 (as expected but happening faster than anticipated)</li> <li>- Driven by government policy rather than charges</li> <li>- Charges continue to be a small proportion of transport costs for coal</li> </ul>	<b>No change</b>
<b>Biomass</b>	Not paying FSC & FOL (but we said we would review this decision in PR18)	<ul style="list-style-type: none"> <li>- Has become an established part of UK energy mix (and volumes transported by rail have grown)</li> <li>- Large power stations are in receipt of subsidies and rail has a substantial cost advantage compared with road transport</li> <li>- Significant rail-specific investment by existing participants</li> <li>- Potential for new entry restricted by uncertainty over future subsidies and concerns around environmental sustainability</li> </ul>	<b>Subject to infrastructure cost charges</b>
<b>Iron ore</b>	Paying FSC & FOL	<ul style="list-style-type: none"> <li>- UK steel production overall has been suffering from low profitability in recent years</li> <li>- Competition from other modes in terms of the transportation of iron ore remains very low</li> </ul>	<b>No change</b>
<b>Spent nuclear fuel</b>	Paying FSC & FOL	<ul style="list-style-type: none"> <li>- No significant changes were identified in the position of spent nuclear fuel</li> </ul>	<b>No change</b>

# Next steps



# Freight and National Passenger Operators



Paul McMahon  
MD, FNPO



ORR Freight Customer Event  
2 October 2017



# Outline

- FNPO overview
- Freight traffic
- Scorecard
- Business development
- CP6 plan
- Capital enhancements





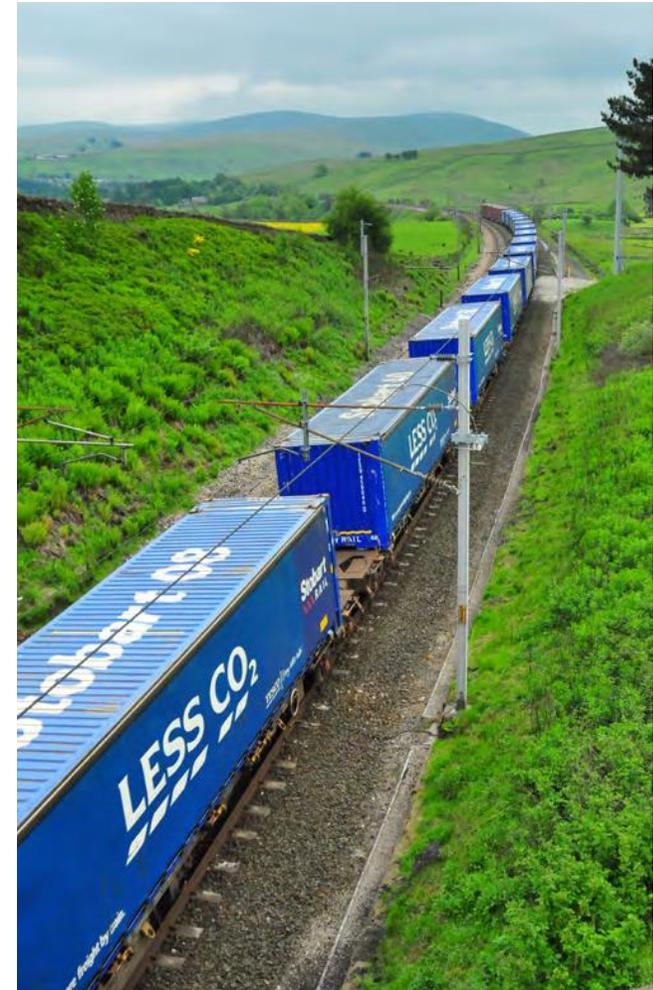
# FNPO Purpose – and our Priorities for freight

## Our Purpose

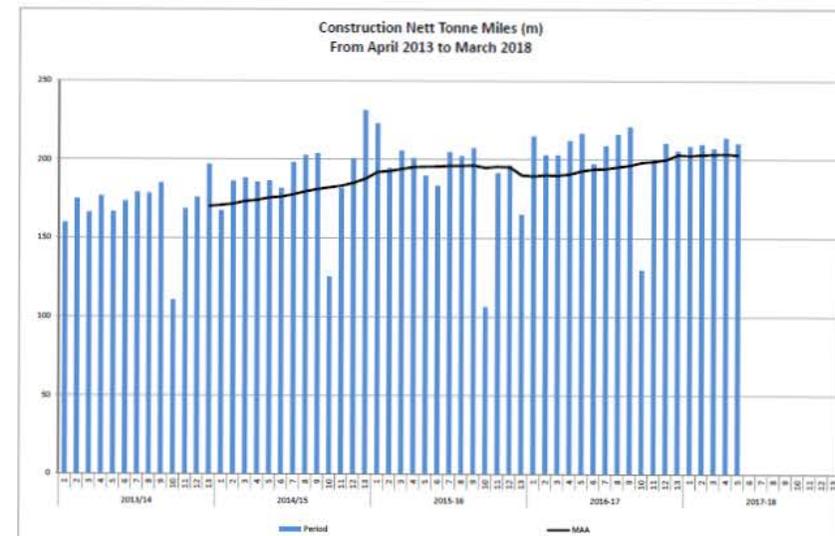
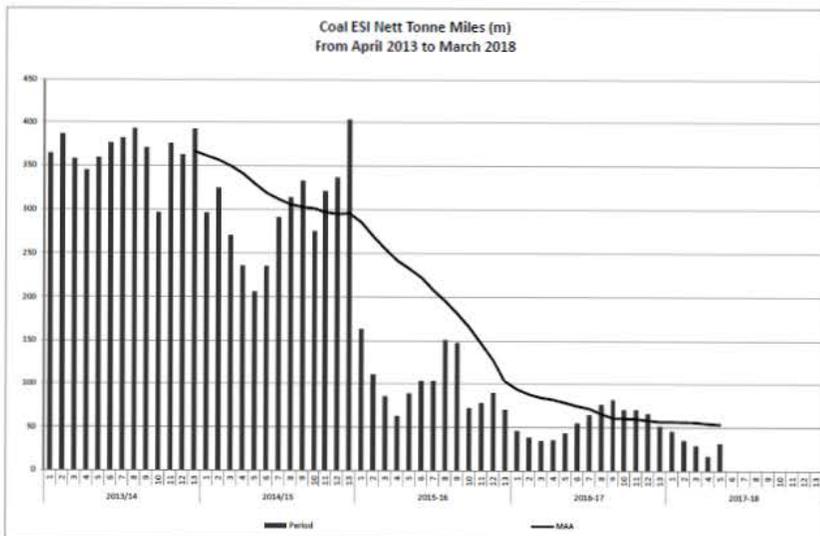
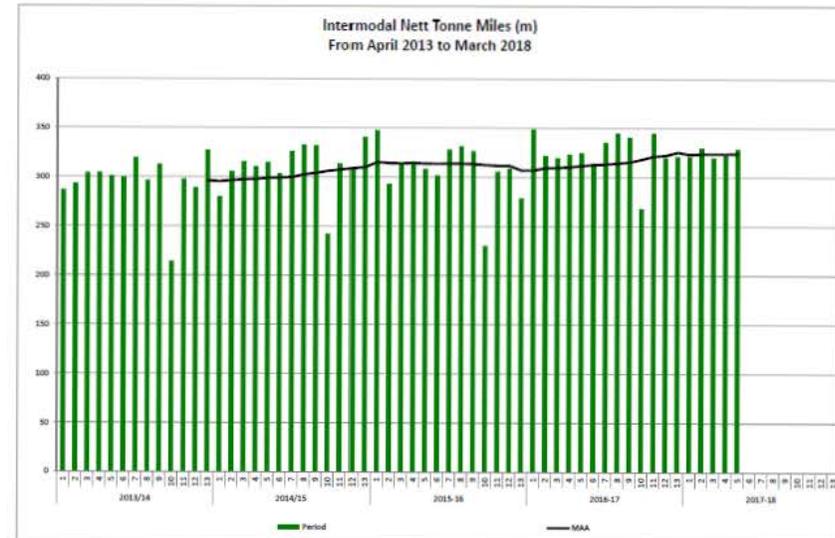
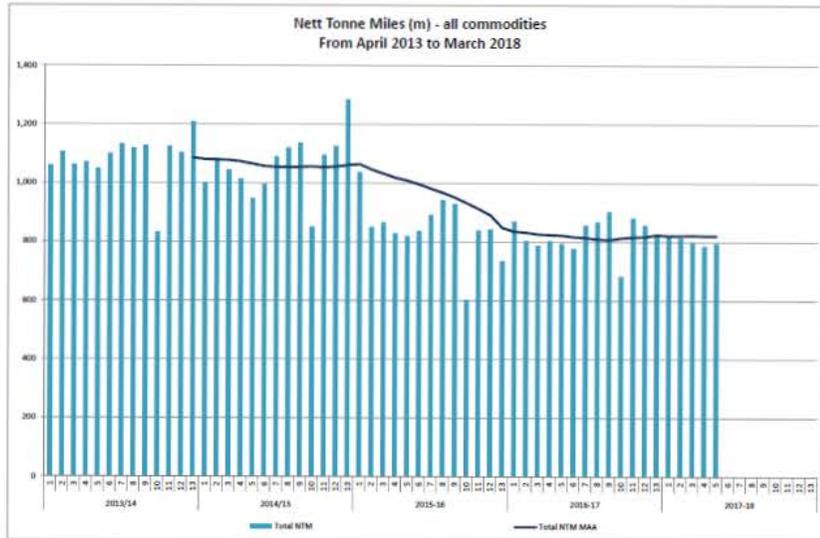
To deliver growth and excellent service for our customers and our stakeholders, through improving safety and performance, and enhancing capacity and capability, at an efficient cost.

## • Our Priorities for freight

- ① Deliver safe, reliable and efficient performance.
- ② A strong customer focused and collaborative approach with our customers and stakeholders.
- ③ Embed and develop the new FNPO organisation as part of wider Network Rail transformation.
- ④ Identify and provide network capacity and capability necessary to support our customers needs.
- ⑤ Undertake business development to generate traffic growth for the freight sector and income for Network Rail.
- ⑥ Produce a robust CP6 strategic plan including proposals for sustainable freight track access charges.



# Actual and forecast rail freight volumes moved



# FNPO Route Scorecard for 2017/18 (at P5)

FNPO

Route

Period 5



NATIONAL OVERVIEW

ROUTE BUSINESSES

SUPPORT FUNCTIONS

STRATEGIC PAPERS

GUEST PAPERS

## Route Scorecard - FNPO

## Period Business Review

Report Owner - Paul McMahon

Metric	AIP Weighting	Period		YTD		FYF					
		Actual	Target	Actual	Target	FYF	Worse than Target	Target	Better than Target	FYF Achievement	FYF Weighted Achievement
<b>Safety - (AIP 20%)</b>											
Lost time injury frequency rate (LTIFR)	4.0%	0.00	0.15	0.00	0.15	0.15	0.25	0.15	0.05	50%	2.00%
Close calls raised	2.0%	22	11	76	55	190	131	175	219	67%	1.34%
YTD close calls closed within 90 days	2.0%	100%	90%	100%	90%	90%	80%	90%	100%	50%	1.00%
Deraillments	3.0%	2	1	3	5	10	16	13	10	100%	3.00%
SPADs	3.0%	3	3	22	19	48	52	44	36	25%	0.75%
Safety hour attendance	2.0%	75%	67%	78%	67%	77%	57%	67%	77%	100%	2.00%
Operator staff lost time injuries on NR infrastructure	4.0%	1	1	1	5	12	22	16	10	83%	3.33%
<b>Financial Performance - (AIP 20%)</b>											
Freight track access income (Em)	15.0%	£3.9m	£3.9m	£23.3m	£23.0m	£54.0m	£46.0m	£51.9m	£56.0m	76%	11.34%
Operating expenditure - Variance to budget	5.0%	-112%	0%	-32%	0%	0%	10%	0%	0%	50%	2.50%
<b>Investment - (AIP 10%)</b>											
CPS SFN schemes - Current year GRIP 3 completion vs baseline	5.0%	95%	90%	95%	90%	100%	80%	90%	100%	100%	5.00%
CPS SFN schemes - Current year GRIP 6 completion vs baseline	5.0%	100%	90%	100%	90%	90%	80%	90%	100%	50%	2.50%
<b>Train Performance - (AIP 20%)</b>											
Freight Delivery Metric (FDM) - National	4.0%	94.2%	94.0%	94.8%	94.0%	94.3%	92.5%	94.0%	94.5%	80%	3.20%
Right time departures - Freight	3.0%	80.7%	80.0%	81.3%	80.0%	81.1%	78.0%	80.0%	82.0%	77%	2.33%
FOC on TOC delay (Delay Minutes/100 train km)	2.0%	1.31	1.18	1.09	1.18	1.18	1.24	1.18	1.15	50%	1.00%
NR cancellations - Freight	3.0%	0.36%	0.35%	0.33%	0.35%	0.35%	0.41%	0.35%	0.30%	50%	1.50%
Cross County - PPM	3.0%	91.8%	90.0%	89.5%	89.7%	89.7%	89.2%	90.0%	90.8%	31%	0.94%
Cross County - CaSL	3.0%	2.66%	3.95%	3.84%	3.90%	3.89%	4.05%	3.95%	3.85%	80%	2.40%
Caledonian Sleeper - Right time arrivals	2.0%	93.5%	75.0%	82.4%	75.0%	79.4%	72.0%	75.0%	78.0%	100%	2.00%
<b>Customer Measures - (AIP 25%)</b>											
DBC - Roll up of customer scorecard	4.0%	42%	50%			0%	0%	50%	100%	0%	0.00%
Freightliner - Roll up of customer scorecard	4.0%	56%	50%			69%	0%	50%	100%	69%	2.75%
GBRF - NR on GBRF cancellations	4.0%	0.00%	0.35%	0.55%	0.35%	0.55%	0.41%	0.35%	0.30%	0%	0.00%
DRS - Delivery of Cumbrian Coast schemes against milestones	3.0%	90%	90%	90%	90%	90%	80%	90%	100%	50%	1.50%
COLAS - Roll up of customer scorecard	3.0%	71%	50%			64%	0%	50%	100%	64%	1.92%
Freight service plan reviews - Delivery against milestones	2.0%	94%	80%	93%	80%	80%	70%	80%	90%	50%	1.00%
CrossCountry - Average lateness at destination	3.0%	2.68	3.12	3.24	3.15	3.24	3.16	3.12	3.08	0%	0.00%
CrossCountry - Access planning milestones met	3.0%	83%	75%	75%	75%	75%	70%	75%	80%	50%	1.50%
Caledonian Sleeper - Roll up of customer scorecard	2.0%	75%	50%			63%	0%	50%	100%	63%	1.26%
<b>People Measures - (AIP 2%)</b>											
Performance management conversations	2.0%	100%	90%	96%	92%	95%	80%	90%	100%	75%	1.50%
		100.0%	68.0%								59.55%

# Freight sector safety collaboration

We are collaborating more closely with FOCs to drive safety improvement

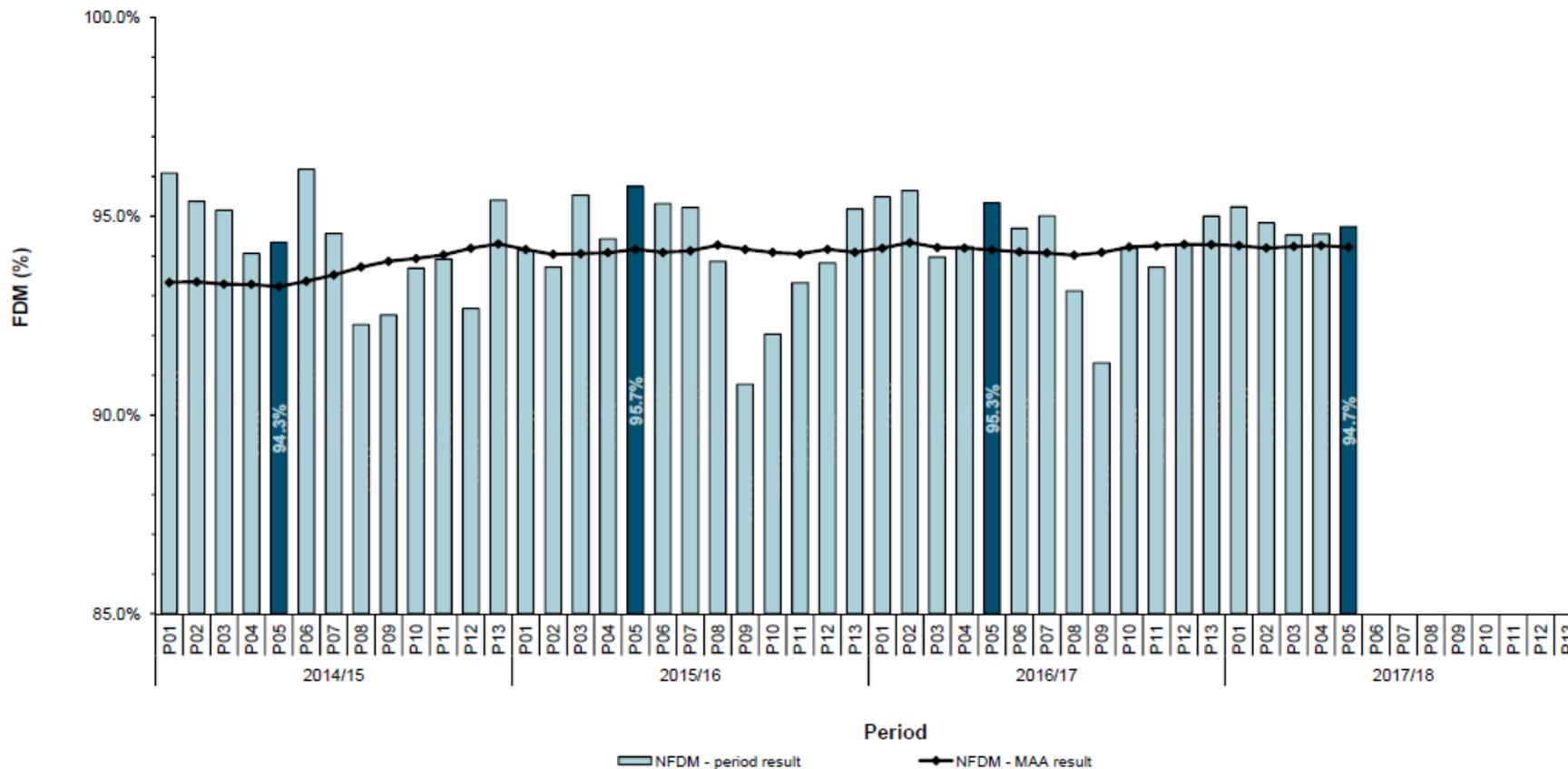


- Freight sector collaboration leading to 'Integrated Plan for Safety'
- All FOCs aligned with Network Rail at National Freight Safety Group
- RDG Freight Group endorsement for plan with leadership from Geoff Spencer (ex DBC CEO)



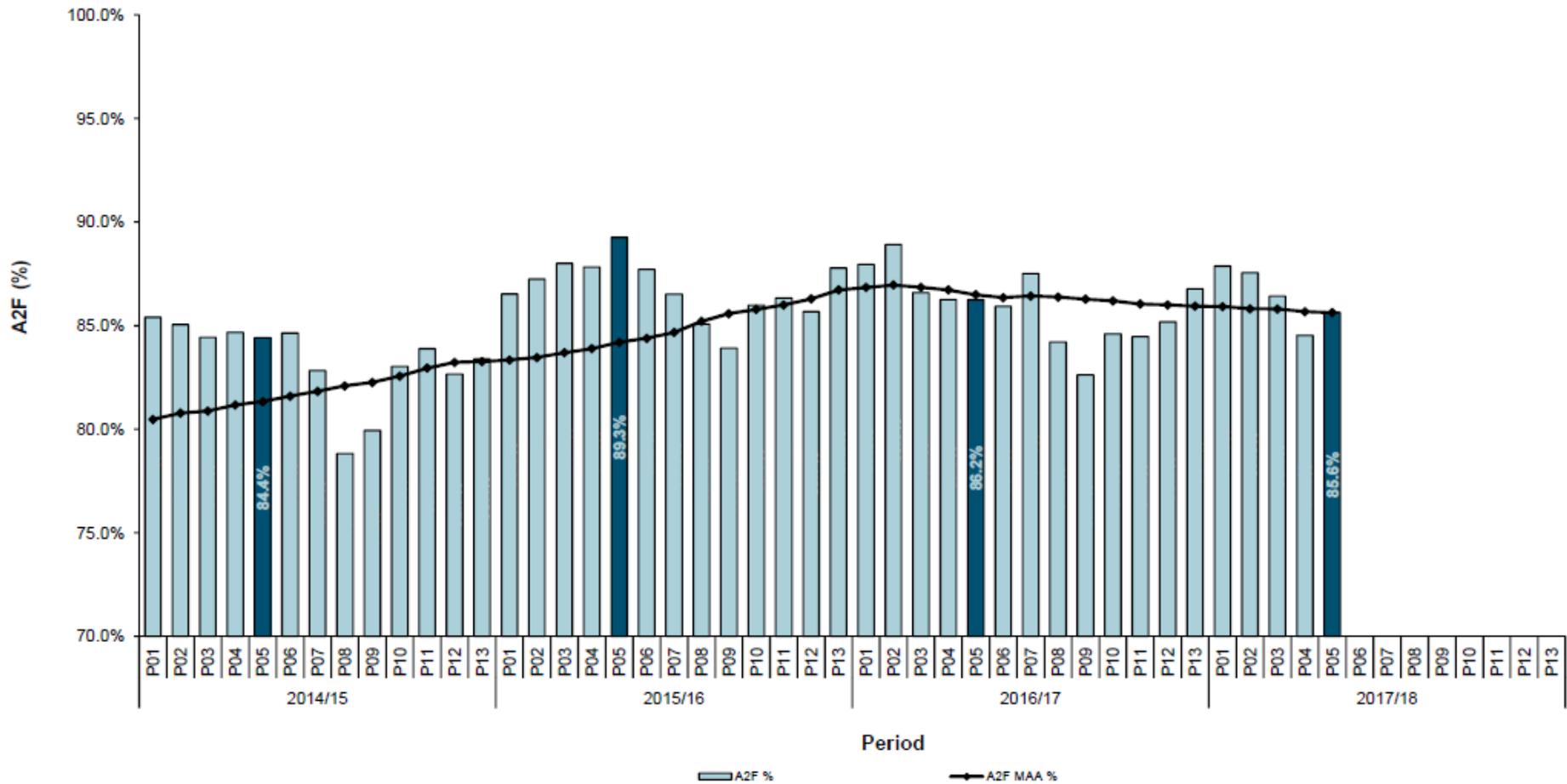
# Network Rail's train performance delivery, for freight, remains strong

Freight Delivery Metric (FDM), Period and MAA values

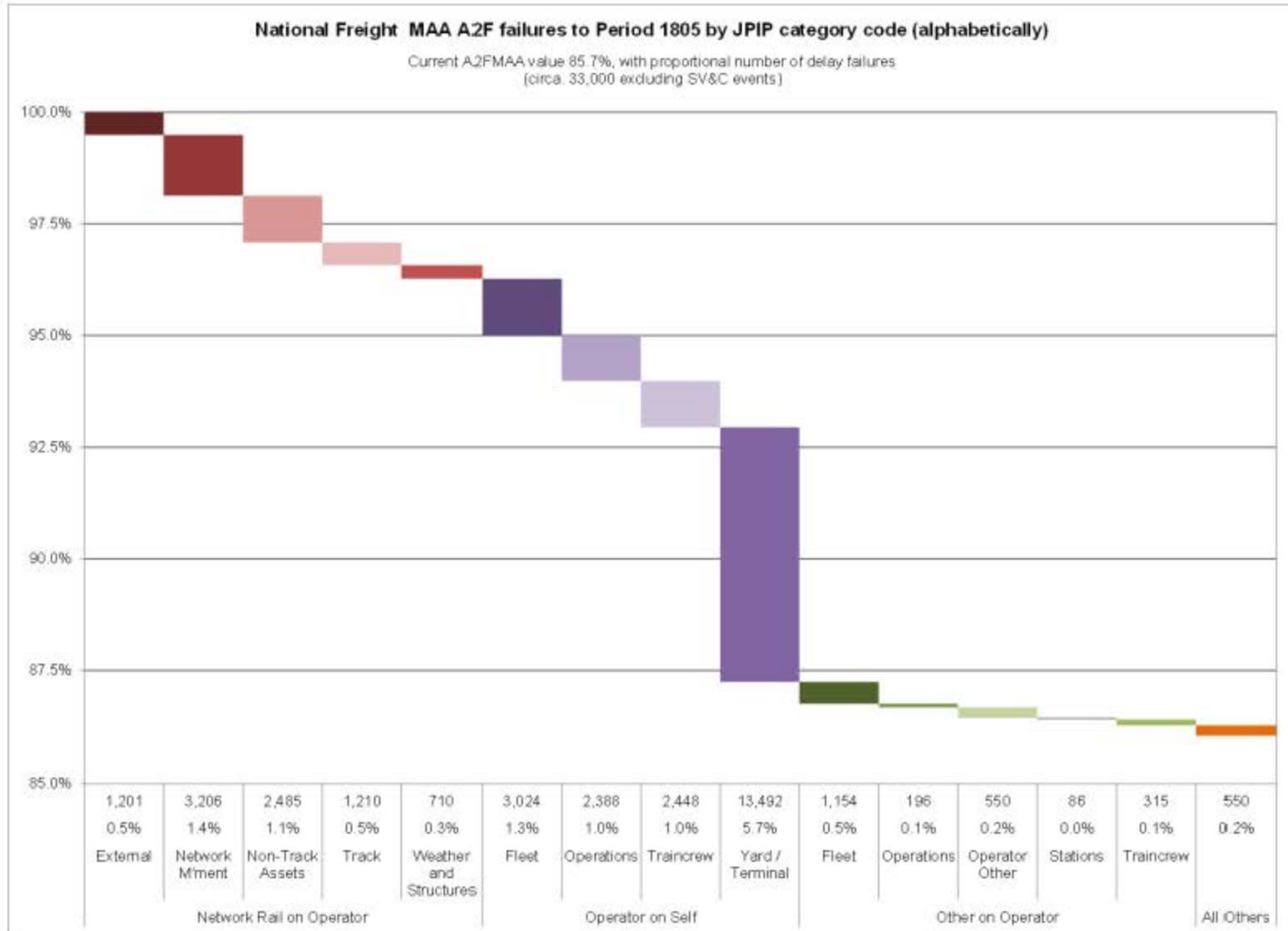


# Arrivals to Fifteen

Arrivals to Fifteen (A2F), Period and MAA values



# Arrivals to Fifteen – failures waterfall



# *Supporting efficient growth*

We are running more longer and heavier trains to support freight traffic growth

- 34 'Service Plan Review' trials ongoing
- 12 SPRs progressed to permanent changes in last 2 years
- On average 10-15% increase in weight/length from SPRs



# Capacity management

FOCs and Network Rail have worked together to relinquish unused paths

- 52% (5,079) of unused freight paths have been relinquished from the weekly timetable
  - 3,947 paths have returned to white space
  - 1,132 paths have been retained as Strategic Capacity
- Relinquished capacity has been used by other operators for new services



# Control Room at Felixstowe

We have sponsored a Control Room at the Port of Felixstowe to drive operational performance improvements - Involving Port, FOCs, TOC, Anglia Route, FNPO

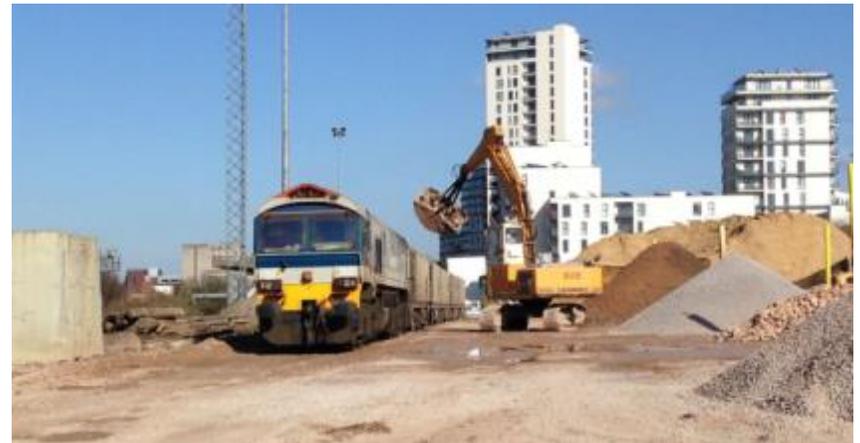


OVERALL PERFORMANCE																	
RY/MP	DATE	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
1	ARRIVAL TO SCHEDULE	60	857	38	546	1403	417										✗
2	DEPARTURE TO SCHEDULE	80	517	77	201	794	656	915									✓
3	ROUTE FROM ANGLIA	92	455	454	603	945	886	971									✓
4	PM GA FELIXSTOWE DEPART	90	82	101	235	264	212	257									✗
5	MISSED BOXES	100	620	470	914	145	291										✓
6	DELAY MINUTES ACCEPT	577	340	276	213	234	191										✓
7	DELAY MINUTE TRAIN PREP	42	20	51	8	68	134										✓
8	DELAY MINUTE LINE START	35	0	274	66	683	11										✓
9	DELAY MINUTE - TOTAL																✓
10	GA DT RESUME DEPARTURES	80			6263	456	766	417									✗
11	GA DT FELIX DEPARTURES	80			713	73	346	74									✓
12	GA DT RESUME ARRIVALS	80			142	52	436	66									✗
13	GA DT FELIX ARRIVALS	80			75	65	275	28									✗
14																	
15																	
CONCERNS & ESCALATION																	
NO	CONCERN	ACTION	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
1	GA Acceptance mins high	Investigate how delay mins is calculated (John)	TD	30/6													✓
2	TRAIN PREP NUMBER HIGH (?)	FLM TO REVIEW AND REPORT BACK	AK	20/6													✗
3	GA Arrival Target seems high	GA to calculate mean arrival. For the Control	MD	20/6													✓
4																	
5																	
IMPROVEMENT INITIATIVES																	
TITLE																	
OWNER																	

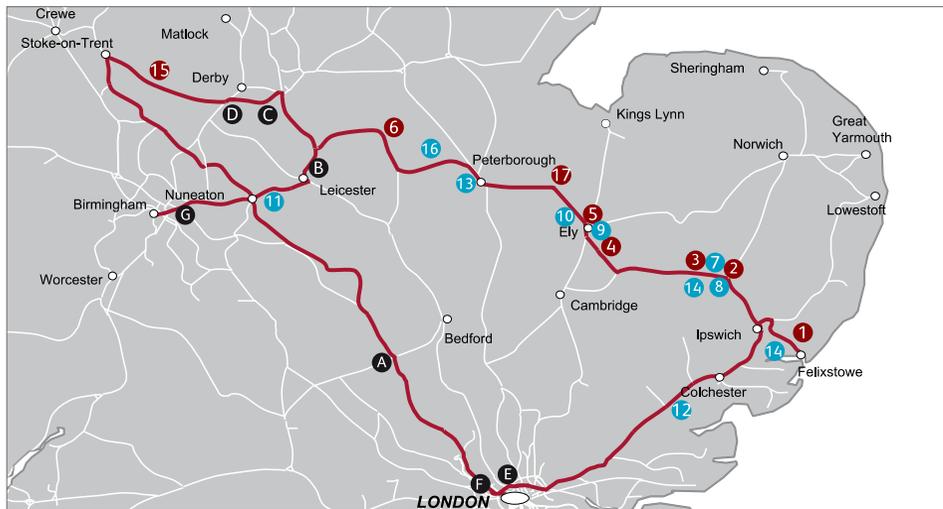
# Business Development

As part of FNPO transformation Head of Business Development role established (a refinement of Head of Market Development) – to continue engagement with sector plus added focus to explicitly identify third party funding opportunities to capture some of the economic value that improved railways create

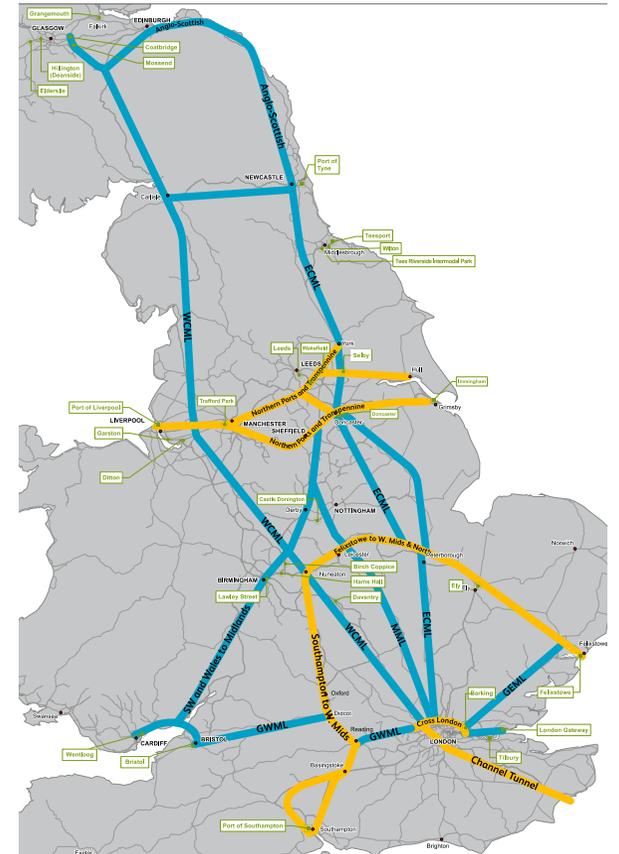
- Head of Business Development – Guy Bates
- Business Development Manager (North) – David Young
- Business Development Manager (South) – Ed Wilson
- Opportunities in:
  - General freight traffic growth
  - Terminal developments and property income
  - Development of enhancement schemes
  - Third party contributions for enhancements
  - Relationship management and NR reputation



# Freight Network Study – future



- 1 Further doubling of Felixstowe Branch Line
  - 2 Haughley Junction loop facility
  - 3 Bury St Edmunds headway reductions
  - 4 Partial or full doubling of Soham to Ely
  - 5 Ely infrastructure works
  - 6 Signalling enhancements Syston East Junction – Peterborough area
  - 7 Haughley Jn 4 tracking
  - 8 Haughley Jn grade separation
  - 9 Grade separation and additional tracking around Ely
  - 10 New Ely avoiding line
  - 11 Track and signalling enhancements Leicester to Nuneaton
  - 12 Passing loop between Colchester and Witham
  - 13 4-tracking Werrington Jn to Peterborough
  - 14 F2N Phase 3: to accommodate long term growth
  - 15 Gauge clearance to W12 of Syston to Stoke
  - 16 Electrification of the route via Ely
  - 17 Gauge clearance to W12 of the route via Ely
- A Scheme to accommodate East West Rail traffic on to WCML  
 B Leicester Area Capacity  
 C New line linking Stenson Jn to MML  
 D Stenson Jn to Sheet Stores Jn Linespeed Improvement  
 E Modification of signalling block at Hampstead Heath Tunnel  
 F Freight regulation loop at Kensal Rise  
 G Water Orton area interventions
- Short-term capacity and gauge options  
 ● Longer-term capacity and gauge options  
 ● Option proposed on other corridor



- Core freight network
- Priority corridors for short-term enhancement to enable new flows

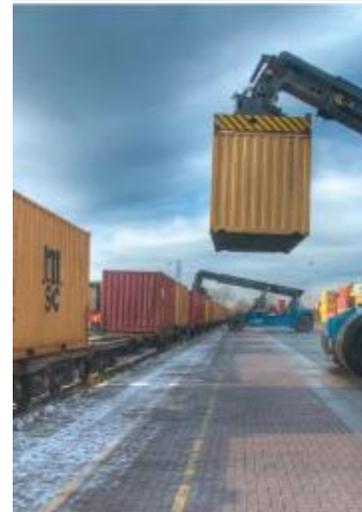
- £800m of specific freight investment delivered / planned 2009 – 2019, including:
- Gauge enhancement, train lengthening & diversionary route Southampton – Midlands
- Ipswich Chord & Ipswich Yard capacity
- Nuneaton North Chord
- East Coast Main Line W12 gauge clearance
- Great Western Main Line W12 gauge clearance of the Severn Tunnel
- Thames Gateway Level Crossing enhancement
- Felixstowe Branch capacity

# FNPO CP6 plan

- We are developing a robust CP6 plan
- Aligned with but different from (scope & scale) geographical route plans
- Good collaboration with customers / stakeholders

## Key issues:

- Updating freight demand forecast
- Geographical route and FNPO plan alignment
- Establishing money flows for FNPO
- Specific capacity enhancement plans
- Freight access charges >> parallel discussion with ORR and DfT/TS on access charge stability



# FNPO CP6 Route Strategic Plan – On A Page

## Our Purpose

To deliver growth and excellent service for our customers and our stakeholders, through improving safety and performance, and enhancing capacity and capability, at an efficient cost.

## CP6 Priorities

- Continue to deliver safe and reliable performance
- Maintain and improve network capacity and capability on our key customer operational routes
- Identify and deliver business development opportunities to support growth

## Plan Principles

- Work collaboratively with customers, stakeholders, Routes and SO
- Aligned scorecards will be at the heart of our relationships and delivery
- Efficiencies will be achieved through our 'Better Every Day' plan which focuses on process improvement and people development



crosscountry



Direct Rail Services

WEST COAST RAILWAYS

Freightliner



ALLIANCE RAIL HOLDINGS

VICTA RAILFREIGHT LIMITED



GB Railfreight

CALEDONIAN SLEEPER



Rail Operations Group

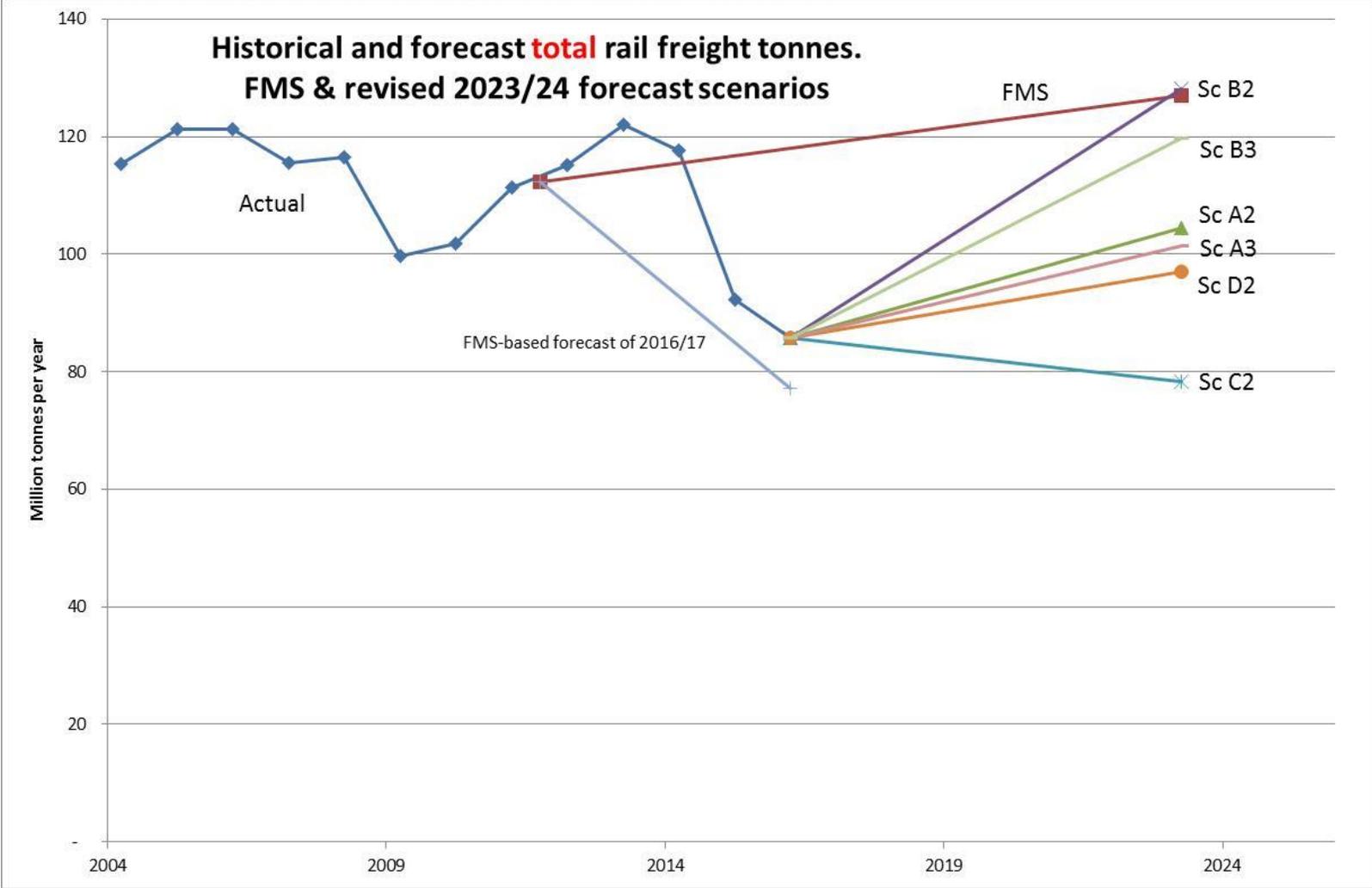
## FNPO Overview

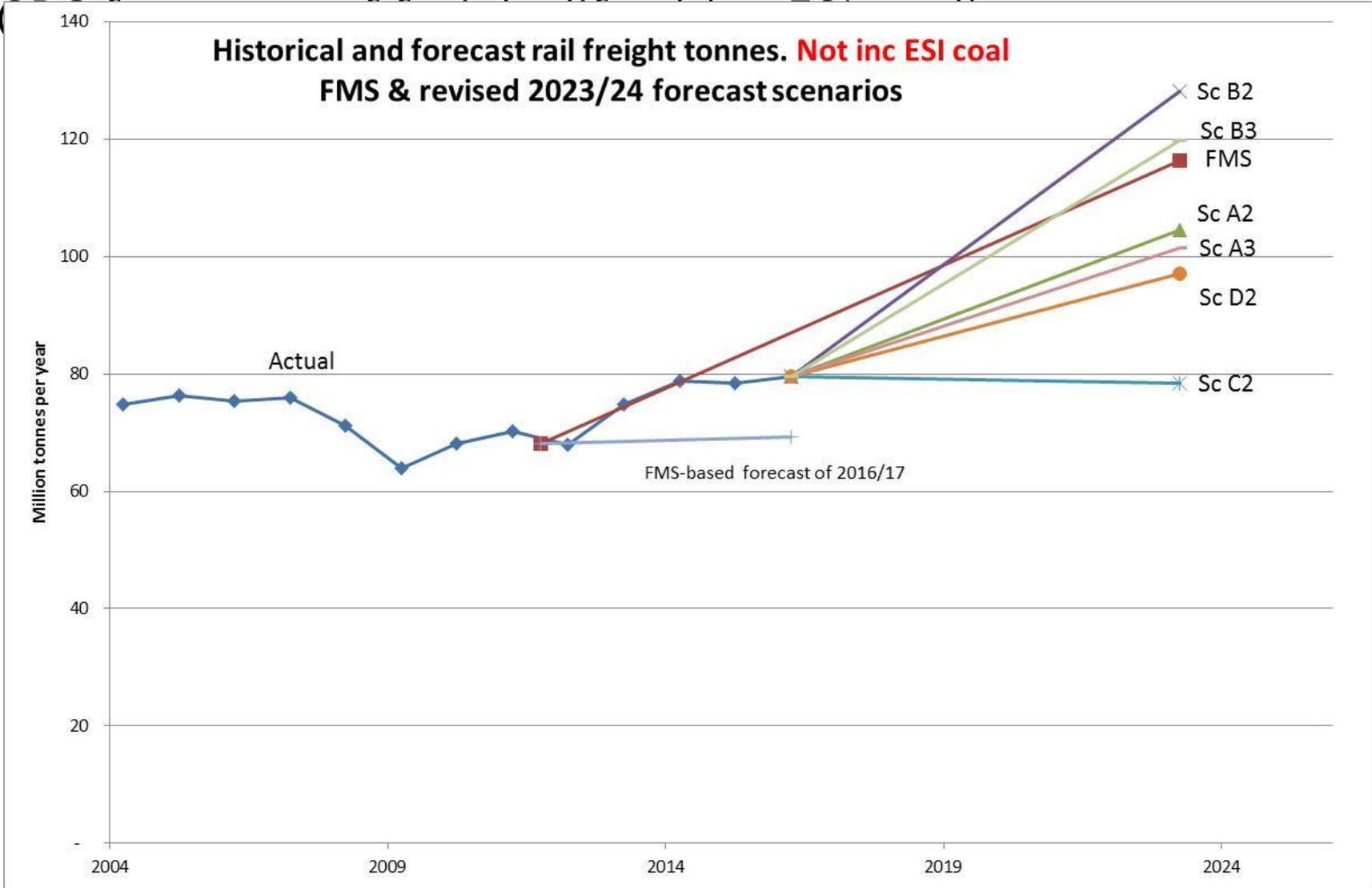
- Established in 2016 as Network Rail's ninth operational route
- Do not physically manage infrastructure but accountable for outputs
- FNPO customers are national operators who collectively operate around 1000 trains per day across the network
- Strengthened team to support and promote our customers' interests

Key objectives*	CP5 exit (18/19)	CP6 exit (23/24)
Derailments	10	5
SPADs	40	35
Customer staff LTIs	12	7
Freight variable income	£49m	£59m
Freight Delivery Metric	94.4%	94.5%
Freight Average Speed	25 mph	TBC
CrossCountry PPM	90.8%	91.0%
Cal Sleeper RTA	80.0%	80.0%

\* Draft

# CP6 forecasts of total freight lifted





*ORR protects the interests of rail and road users, improving the safety, value and performance of railways and roads today and in the future*



OFFICE OF RAIL AND ROAD



## Access

Gordon Herbert  
Access manager, ORR

# Access

ORR's remit includes:

- National network access
  - Passenger and freight
- Facilities
  - Ports, terminals, depots, yards, stations...
- Connection contracts
- Agreed and disputed agreements
- Access appeals
- Network Code appeals
- Access policy and guidance

# Current work

- Freight access team
  - Gordon Herbert, Katherine Goulding, Margret Child.
- Access policy
  - Access on an increasingly busy network
  - Strategic capacity
    - SFN, European freight corridors, return of unused rights
- Freight Facilities
  - Revising our general approval
  - Encouraging investment
  - New guidance
  - European legislation

# New legislation

- The Railways (Access, Management and Licensing of Railway Undertakings) Regulations 2016.
  - Replaced 2005 Regs
  - Access, charges, infrastructure, appeals.
  - NR Network statement
- Implementing Regulation on access to service facilities and rail-related services
  - transparency is a prerequisite for access
  - non-discrimination
  - need to optimise best use of assets
  - I am at full capacity so may refuse access
  - I do not have to invest £s to meet demands of an applicant
  - I am a private facility and so exempted [all SFs are included].
- See Regs and ORR guidance.



# Safety Matters

Patrick Talbot  
HM Principal Inspector of Railways

ORR Freight Customer Event,  
2 October 2017

# Health and Safety Matters

- HM Railway Inspectorate
- ORR Freight Team
- Emerging Issues



# Health and Safety Matters

## ■ HM Railway Inspectorate

- Over 175 years old!
- Part of ORR
- c. 100 staff

## ■ It's our responsibility to ensure that those responsible make Britain's railways safe for passengers and provide a safe place for staff to work

- Certification
- Inspection
- Investigation/ Enforcement

# Freight Team

- Dedicated Freight Team to lead safety regulation activities with Freight dutyholders
  - FOCs
  - Entities in Charge of Maintenance
  - Other dutyholders- e.g. terminals/ customer sites (Possibly!)
  - Engages with industry at a strategic level- NFSG
  
- For non- FOC sites the enforcing authority may be either the HSE or ORR
  - Different enforcing authorities for different activities
  - Tends to be dealt with on a case by case basis

# Unauthorised Access to Railway Infrastructure

- June 2017- Two serious incidents
  - Young people have gained access to railway infrastructure and come into contact with live OHLE
  - Both incidents have occurred at freight facilities
  - Incident 1: Serious burns
  - Incident 2: Fatal injuries
  
- Incidences of trespass are likely to increase over school holiday periods

# Unauthorised Access to Railway Infrastructure

- The Law requires dutyholders to take reasonably practicable measures
- Carry out a suitable and sufficient risk assessment
- Implement suitable arrangements, taking into account;
  - The hazards present on the site, such as moving rail vehicles and the presence of railway electrification systems;
  - The local environment, for example, the proximity of houses, schools or playing fields; and,
  - Any previous history of trespass and vandalism at the site
- Robust monitoring and review

# Unauthorised Access to Railway Infrastructure

- No “one size fits all” solution
- The prevention of unauthorised access to railway infrastructure is an issue that requires the input of all railway stakeholders, however...
- ...all dutyholders have a legal responsibility
- Are you doing enough?