



OFFICE OF RAIL REGULATION

ORR approach to Rail Freight

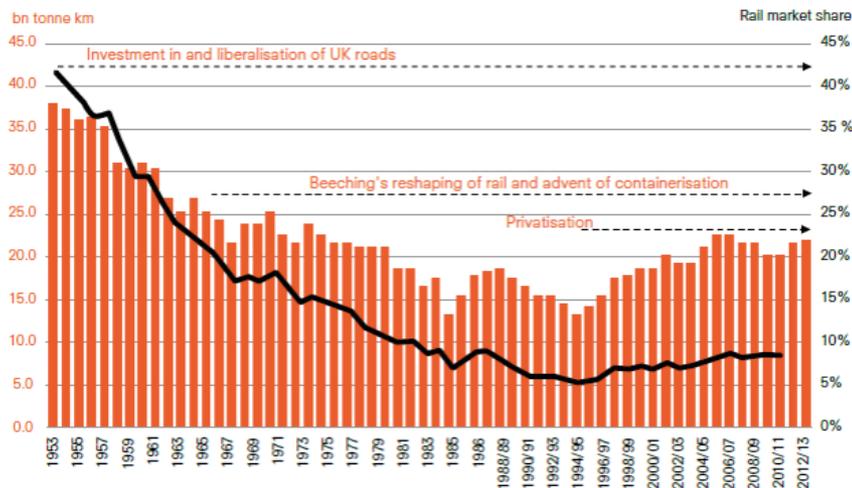
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A Successful Sector

Figure 2.1 Rail freight – historic volumes and market share



➤ Welcome growth of rail freight since privatisation

- 44% revenue growth
- 2013/14 record amount since 1990/2000
- Future growth predicted 4% pa

➤ Significant investment by

- Government
- Operators - £2bn
- Network Rail
- Customers

➤ A competitive sector

- McNulty report highlighted freight productivity

➤ Environmental/wider benefits

- CO2 savings
- Reduction of congestion

Government Policy Towards Freight

➤ **2013 Guidance to ORR for CP5:**

- The Government wishes to facilitate the continuing development of a competitive, efficient and dynamic private sector rail industry
- ORR to have regard to “the importance of sustaining efficient and commercially predictable network wide freight operations”

➤ **Government investment in CP5 for freight**

- Electric Spine from Southampton to Midlands/North
- Improved links to ports and airports
- £200m fund to develop Strategic Freight Network
- Consultation on National Policy Statement on rail network includes Strategic Rail Freight Interchanges



Our approach – what CP5 delivers for freight

- ▶ Focus on **performance**
 - ▶ Improved asset management
 - ▶ New Freight Delivery Metric 92.5%
- ▶ Agreed **charging structure**
 - ▶ Capped and phased in
- ▶ 17% reduction in engineering works **disruption**
- ▶ Continuing investment to support growth
 - ▶ £200m in England/Wales
 - ▶ £30m in Scotland
- ▶ **Involvement of operators** in defining £6bn of **enhancement benefits**
- ▶ PR14 for **HS1** – reduced charges by > 10%



But there are future challenges



- Communications and engagement
- Charging/incentives
- Capacity
- The right investment
- Europe

Future challenges - communication and engagement

- Importance of longer term thinking
- We want to develop our engagement with;
 - you as operators
 - freight representative groups
 - Rail Delivery Group Freight Group
 - your customers – Freight Customer Panel
- We want to understand;
 - your developing market
 - your business/proposed investment
 - your commercial pressures – investors and competition with other modes
- To ensure the regulatory framework supports a flourishing sector



Future challenges – charging/incentives

- We understand the imperative of a stable charging regime
 - Structure **and** level of charges
- Look ahead to **CP6 – PR18** work starts **now**
- **Charges review** –RDG work in this area welcome
- Charging regime needs to;
 - Understand costs of freight on the network
 - Be more cost reflective while
 - Supporting growth in the sector
 - Taking account of competitive modes of transport (roads)
- Incentivising
 - The right investment by the sector, Network Rail and customers.
 - Efficient use of capacity

Future challenges – capacity

- ▶ Our network is more **mixed use** and multi-speed than any other European country
- ▶ Regulatory regime ensures **fair access** to network
- ▶ But **capacity** will remain a real constraint
- ▶ Welcome RDG and industry focus on;
 - ▶ **Existing capacity** – access rights and freight paths
 - ▶ The freight sector needs to play its part
 - ▶ **Additional capacity** – how better performance and investment can unlock additional capacity
- ▶ **HS2** – should unlock more capacity for freight but forward planning needed
- ▶ As may **technology** – European Train Control System



Future challenges – competition and Europe

- Rail freight across Europe is growing but more needed to open up market
- Channel Tunnel still under utilised – but there are some positive signs;
 - Recent reduction in charges
 - ORR UK authority in 2015 – we want to remove barriers to growth
 - Strategic European freight corridors opening up
 - Development of EU interoperability and safety standards



Conclusions

- ▶ A successful sector
- ▶ With clear government and regulatory support
- ▶ But growing passenger/freight use of network poses real future challenges
- ▶ Early discussions needed to ensure stable and understood charging structure incentivising right behaviours and investment
- ▶ And the best possible use of capacity
- ▶ More market opening needed in Europe
- ▶ Importance of continued engagement with the sector

