

Scotland's Railway – the Periodic Review 2013

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Scotland's railway – the Periodic Review 2013

- Our presentation today will explain,
 - Who we are and the purpose of our PR13 determination
 - The PR13 process in Scotland
 - The current railway in Scotland to set the context for our determination
 - Key elements of our determination for CP5.
 - Next steps.

Office of Rail Regulation (ORR)

- We are the independent safety and economic regulator of railways in Great Britain. Most of our economic work focuses on the main line railway - our safety responsibilities cover all railways in GB.
- We are independent of Ministerial control with public interest objectives set by Act of Parliament. Scottish Ministers provide 'guidance' on rail strategy, but ORR must balance this against other statutory objectives.
- Our economic regulation role is similar to other UK utilities; a key function is to set Network Rail's funding and outputs.
- Safety regulation of railways transferred from the Health and Safety Executive to ORR in 2006.
- We are led by a Board with about 285 staff . The Office and the Board are mix of people from the public sector, private sector and railway industry.
- We are funded by industry.

The Periodic Review – PR13

- We undertake a periodic review every five years to set what Network Rail will be expected to deliver, and at what cost. This is a legal process required by the Railways Act 1993, schedule 4A amended by Railways Act 2005.
- The Scottish Government provided its high level output specification (HLOS) and statement of funds available (SoFA) in June 2012.
- We decide if the HLOS issued by Scottish Ministers is affordable. We will produce a set of conclusions including outputs and efficient levels of expenditure for Scotland. Other parts of the framework such as the cost of debt apply GB wide.
- We are now at the point of publishing our draft determination, this is a key milestone in the periodic review process.

ORR Objective – Periodic Review 2013

- ▶ Following consultation, in May 2012, ORR publicly confirmed that its overall objective for the PR13 review was to protect the interests of customers and taxpayers by:
 - ▶ ensuring our determination enables Network Rail and its industry partners to deliver or exceed all the specified outcome and output requirements safely and sustainably at the most efficient levels possible comparable with the best railways in the world by the end of the control period.

Industry engagement in the PR13 process

- The periodic review is a major opportunity to drive through a step change in industry performance and efficiency for the benefit of taxpayers and the passengers and freight customers who rely on Scotland's railways.
- To get the best outcome for Scotland, there has been a high level of engagement within the railway industry in Scotland in preparing for the review and shaping the railway in CP5.
- At a time of rising demand and concerns over costs we need to ensure that informed choices are made. The industry is closer to its customers than government and better placed to respond to customer demand and expectations.
- Transport Scotland established an HLOS Technical Advisory Group (TAG), a joint planning group to contribute to the development of its HLOS in the context of Scotland's vision and strategy for the railway. The group had membership from across the industry, the government and the ORR. It provided an important link between the industry's work and TS's own work.
- Transport Scotland held at least 2 Scottish HLOS Industry Partnership events in early 2012.

Scotland's vibrant railway

- Scotland's railway is diverse covering the a large geographical area and supporting the different needs of communities and businesses.
 - It provides rapid access along busy commuter routes to cities and towns. The rail network in the west of Scotland is the second most heavily used commuter network in GB.
 - It provides important links for rural and remote communities, linking people to better access to health, education, leisure and employment opportunities.
 - It enables the movement of freight reducing costs associated with road congestion and carbon emissions; and
 - Cross border passenger and freight services are integral to a successful and sustainable Scotland.
- The rail industry supports thousands of direct jobs (Network Rail ~ 2500 and FSR ~ 4000).

Scotland's vibrant railway

- 1,718 route miles and 2,754 track miles
- 2500 daily services
- 351 Stations (busiest being Edinburgh Waverley, Glasgow Central and Glasgow Queen Street).
- 650 Level Crossings
- 14,000 structures
- 90 million passengers per annum.
- 3 million cross border journeys per annum.
- 12 million tonnes of freight per annum

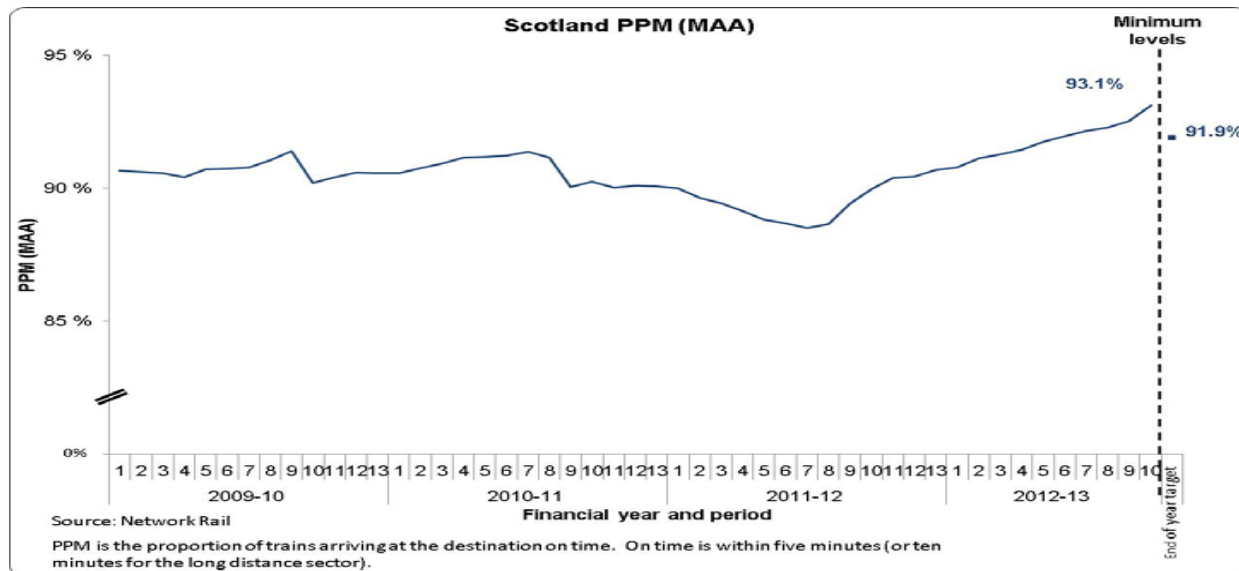


Scotland's railway is performing well.

- There are 30% more trains on the Scottish network than 10 years ago,
- Passenger demand has never been higher.
 - Passenger numbers on ScotRail services have increased by 3.6 per cent since 2010 and by 27 per cent since 2004.
- Satisfaction levels have never been higher
 - A National Passenger Survey shows satisfaction levels for ScotRail passengers was at 88 per cent in 2011 (for satisfied or very satisfied); 10 per cent better than a decade ago.
- Punctuality as measured by a Public Performance Measure (PPM) is currently at 93.1 per cent, this is ahead of the target of 91.9 per cent (illustrated on the following slide)

Scotland's railway is performing well.

This graph illustrates how passenger train punctuality has fluctuated since the beginning of 2009 and how since August 2011 punctuality has steadily improved. This change has come through collaboration between Network Rail and First ScotRail.



Scotland's railway has been developed in CP4

- Scotland's railway has benefited significantly from Scottish Government commitment and investment.
- Airdrie Bathgate, Paisley Corridor and Dalmarnock Station are recent developments.
- Railway enhancements and developments have attracted new business to the railway as well as regenerating the communities they serve.

Scotland's Railway has been developed in CP4



Airdrie-Bathgate reopened in December 2010.

- **Trains can now run from the west of Scotland through Glasgow Queen Street to Edinburgh, via, Airdrie and Bathgate**
- **Existing stations on the route, Bathgate, Uphall and Livingston North have all shown increases in travel to and from Edinburgh**
- **The new stations at Armadale, Blackridge and Caldercruix have been busier than forecast.**



Oifis Riaghlaidh na Rèile
Office of Rail Regulation

Scotland's Railway has been developed in CP4

Dalmarnock Station Redevelopment



Paisley Canal Electrification



The prospects for rail in Scotland are good

- The Ministerial ambitions for Scotland's railways sees the railway as having a critical role in making Scotland a more successful country by delivering high quality rail infrastructure and services:
 - which are attuned to Scotland's needs
 - which are efficient and represent good value for money for passengers, freight, customers and taxpayers
 - which support our businesses and communities by connecting towns, cities and rural areas
 - which support a greener Scotland by offering real alternatives to road and air travel, including the transportation of goods
 - which allow us and our visitors to enjoy all that Scotland has to offer
- The HLOS specifies
 - Ensuring a high performing rail network
 - Increasing the capacity and capability of the Scottish network
 - Improving journey times
 - Maintaining Scotland's railway stations
 - A greener Scotland
- In the SoFA the Government commits to investing nearly £4.1b in Scotland's railway in CP5.

The prospects for rail in Scotland are good

Strong passenger demand is forecast to continue

Edinburgh suburban:	90% - 118% (4.6% - 7.4% p.a.)
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Glasgow suburban:	24% - 38% (1.5% - 2.4% p.a.)
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Scottish Intercity:	48% - 74% (3.0% - 4.6% p.a.)
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Rural:	27% – 48% (1.7% - 3.0% p.a.)
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This anticipated growth is supported by underlying trends in the economy and passenger markets supporting rail.

Performance and punctuality.

► The HLOS required three key outputs

1. A Public Performance Measure (PPM) of 92.5% by the end of CP5;
2. A minimum PPM of 92% achieved across each year of CP5; and
3. Network Rail to work with its industry partners to develop key performance indicators which as a package: encourages and facilitates outperformance.

► We need to decide if the SBP contains sufficient evidence to demonstrate that these 3 outputs will be met.

Performance and punctuality

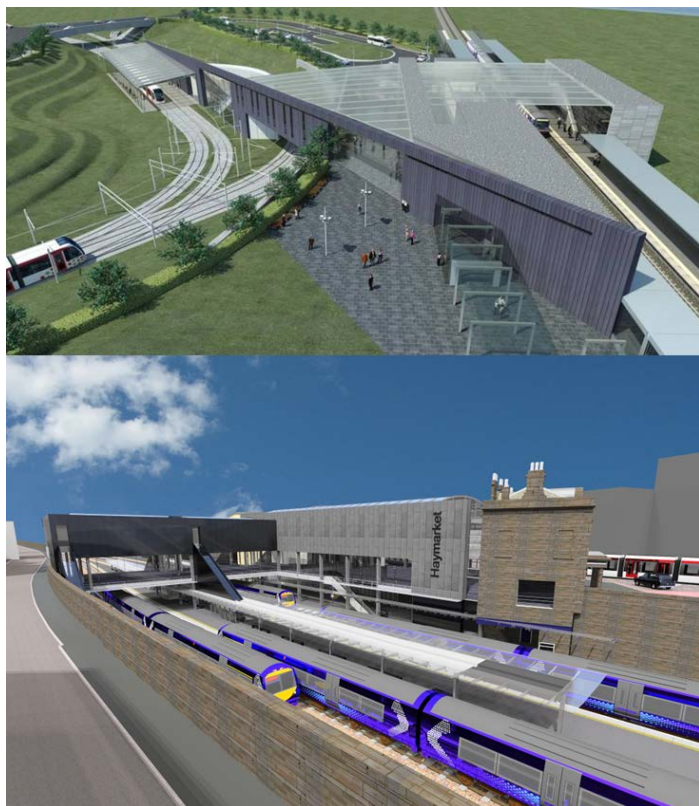
- In making our determination we have considered
 - The plans in the SBP, which show performance in the range 91.5% and 93% PPM
 - A key assumption is an outturn of 92.0% at the end of CP4.
 - The number of enhancements including projects such as the Edinburgh to Glasgow improvement programme and renewals and
 - The effects of periods of severe weather, which have had a significant effect on the Scottish network in the last few years and tested the level of resilience.

Enhancements – growing the network

- CP5 projects proposed in the SBP:
 - Edinburgh to Glasgow Improvement Programme (EGIP)
 - Borders
 - Aberdeen to Inverness journey time improvements (Phase 1)
 - Highland Main Line journey time improvements (Phase 2)
 - Rolling programme of electrification
 - Motherwell re-signalling and stabling
 - Carstairs line speed improvements (not in HLOS)
 - Edinburgh South Sub Electrification (not in HLOS)
- **Our role is to set a target price (efficient cost) in our determination and the arrangements for ensuring enhancements are delivered efficiently.**

Enhancements – growing the network

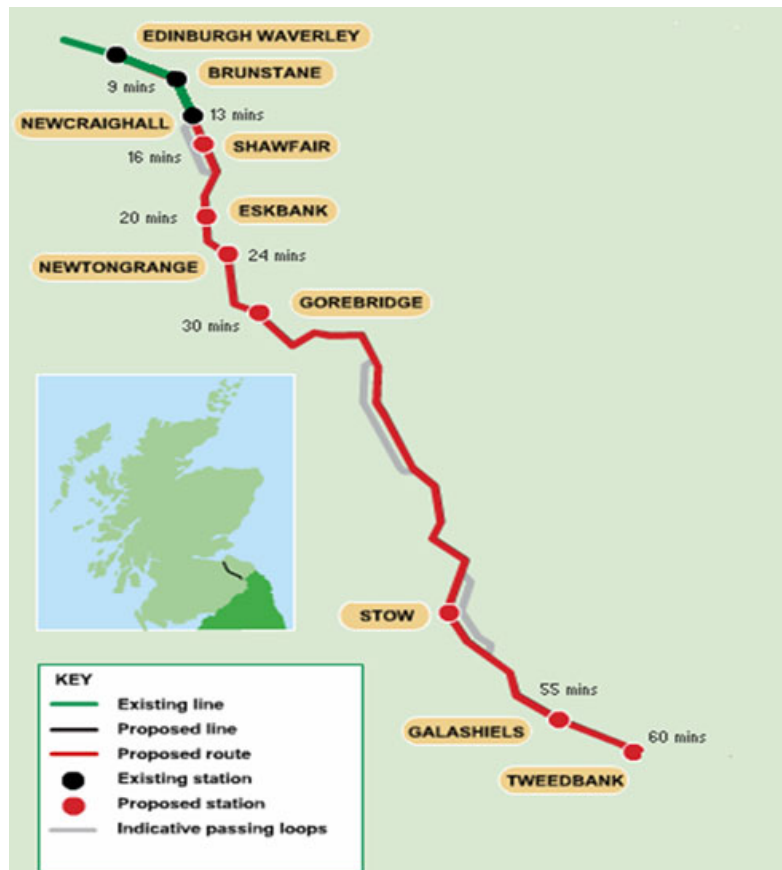
Edinburgh to Glasgow Improvement Programme (EGIP)



- Four train per hour service pattern (as today) on the E&G.
- Four-car EMU's strengthened to eight-car formations in the peaks.
- End to end journey time – working towards 42 minutes.
- Electrification between Glasgow and Edinburgh.
- New station at Edinburgh Gateway.
- Infrastructure changes at Haymarket, and Waverley stations.
- Major redevelopment of Queen Street Station.
- **EGIP is likely to have separate target price arrangements with their own pain/gain incentives. We have already set a target price for the EGIP Cumbernauld Electrification phase. We expect to set target price for the remainder of EGIP before end of December**

Enhancements – growing the network

Borders Railway



- This project has been talked about for many years, but work has now started to deliver 35 miles of new railway and 7 new stations.
- The new railway will connect people and businesses in the Scottish Borders with Edinburgh and the wider railway in Scotland.
- The project is on target for completion in June 2015
- **We have already set target prices (efficient cost) for Borders**

Enhancements – growing the network

Other projects

- Other projects specified in the HLOS are generally not sufficiently well developed for us to determine the efficient cost at this stage.
- We will include an indicative figure in the Draft Determination and assess the efficient cost at a later date when projects are at a higher level of certainty. This approach will drive efficient costs whilst delivering Scottish Ministers HLOS requirements.
- Network Rail included a number of projects in its SBP that were not in the HLOS. We have not included these in our Draft Determination; if the Scottish Government decides it wants to fund these projects during CP5, then there are alternative mechanisms to do this.

Maintaining and renewing the railway

- How well Network Rail manages its assets - such as the track and signalling – has a major impact on safety and reliability.
- Network Rail sets out how it intends to renew and maintain its assets in individual asset policies, for example for track, structures and electrical power. These policies apply across the GB network.
- The asset policies for CP5 have improved, with a clearer direction in terms of what work needs doing, why and where.
- Our assessment found weaknesses in some areas, for example in asset information and we are considering how to monitor these areas in CP5 and ensure that Network Rail addresses the issues.

Maintaining the railway

- We have a reasonable degree of confidence that the Scotland plan for maintenance will deliver a safe and reliable railway because;
 - The plan commits to delivering the volumes of maintenance work to reflect the asset policies.
 - There is a significant increase in volumes of track work such as tamping, rail replacement drainage and fencing to address areas where asset policies are not currently being met and to reflect the increased asset base due to enhancements and the Borders rail link.
 - Scotland has carried out an aerial survey of vegetation to allow it to target its vegetation management programme to return the asset to a sustainable position.
 - Drainage plans are based on improved asset knowledge from a national drainage survey
 - Further electrification resource has been planned to deliver increased work driven by improved asset knowledge, signalling power cable testing requirements and enhancement schemes such as EGIP and the new Borders Railway.

Bridges, earthworks and embankments etc

- Civils assets include earthworks (embankments & cuttings), bridges, tunnels, culverts, retaining walls and coastal / estuarial defences and the drainage associated with these assets.
- Network Rail's management of these assets is important in Scotland because of the number of civil engineering assets and because their age and condition make them less resilient to extreme weather.
- In its SBP, Network Rail acknowledges considerable long-term under-investment in civil engineering assets
- We have seen an increasing number of civils-related asset failures, some but not all associated with periods of severe weather.

Bridges, earthworks and embankments etc

Derailement at Loch Treig



A freight train was derailed between Corrour and Tulloch (Loch Treig) o.n 28 June 2012 when it hit a boulder.

The train had 3 empty wagons and 21 wagons carrying aluminum powder .

The boulder was dislodged during a landslide originating on a natural slope outside the railway boundary.

The driver of the locomotive was uninjured.

Bridges, earthworks and embankments etc

Loch Awe



A passenger train hit a landslip between Taynuilt and Dalmally on 18 July 2012

The train was travelling at a slow speed and did not derail.

There were 66 passengers and three crew on board but fortunately there were no injuries.

Bridges, earthworks and embankments etc Dunfermline



A passenger train derailed when it hit a landslip behind Pitreavie Industrial Estate in Dunfermline on 18 July 2012.

Around 30 passengers and two crew members were on board.

The front of two carriages derailed but remained upright.

No one was injured

Bridges, earthworks and embankments etc

Falls of Cruachan

A diesel train was derailed as it struck a fallen boulder near Falls of Cruachan in 2010.

67 persons on board; 8 treated for minor injuries.

The railway was closed for a significant amount of time while the derailed train was recovered



Bridges, earthworks and embankments etc

Trees

We have seen an increase in the number of tree strike incidents since 2010

33 train / tree strike incidents Dec/Jan 12, including 2 incidents where trees pierced the train bodies + 29 locations of trees on line

No catastrophic derailments or fatalities



Bridges, earthworks and embankments etc

- The SBP argues for a considerable increase in civils asset funding in CP5.
- Network Rail's knowledge of its civils asset has significantly improved but our assessment found that there is uncertainty about the amount of work required to recover and sustain the civils asset condition.
- We are considering a different approach to funding civils expenditure in CP5.
 - The civils funding mechanism
 - In the first 2 years of CP5, Network Rail is expected to deliver the volumes proposed in the SBP.
 - Network Rail submits a detailed plan in March 2015 for the remaining 3 years of CP5.
 - ORR reviews this plan & in a '2015 Civils Determination' judges what volumes and efficient costs apply to the rest of CP5.

What are access charges and why are they being reviewed now?

- A review of access charges is a fundamental component of the Periodic Review.
- Charges provide:
 - a mechanism for Network Rail to recover the efficient costs it incurs in providing track and station infrastructure used by train operators;
 - a means to allocate costs to, and be recovered from, those that cause those costs to be incurred; and
 - signals to train operators, their suppliers and funders about the efficient use and development of vehicles and the infrastructure.
- Charges apply to all freight and passenger operators
- As part of PR13 implementation new charges will come into force in [1st April 2014]

Journey times

- ▶ Scottish Ministers have made it clear to us that fast and efficient rail services across Scotland, and between Scotland and the rest of the UK and beyond are vital to opening up new markets and business opportunities, driving up competitiveness and increasing access to employment and education.
- ▶ We will be asking NR to develop a process to identify opportunities for journey time improvement and
- ▶ We will be working with TS and NR to develop a journey time indicator

Charges and the periodic review process:

- In this review all charges have been subject to a full scale review
- This has involved ORR, Network Rail, operators and wider stakeholders
- This work has led to increased transparency of subsidy – we have a better understanding of costs, how they are generated and how much of this is recovered from operators
- Changes to charges are a more immediate issue for FOCs which operate in a commercial market (Between franchise procurement processes TOCs are insulated from changes to charges)
- We are aware that our review of freight charges is taking place in:
 - a challenging economic environment
 - and impacts a highly competitive market

The legal framework

- ORR sets charges within a legal framework
- The **Access and Management Regulations**:
 - Require '**charges**' to reflect cost directly incurred. Where we have evidence about what those costs are, we are obliged to act on it. Though we have a choice about when and how we act.
 - Allow other costs to be recovered through '**mark ups**' which must reflect what the market can bear
- In deciding how to implement costs directly incurred we must also take account of **our statutory duties**, including:
 - Promotion of efficiency and economy on the part of persons providing railway services
 - Promoting the use of the network to the greatest extent reasonably practicable
 - Allowing operators to plan their businesses with a reasonable degree of assurance
 - Having regard to funds available to Government
 - Having regard to guidance from Scottish Ministers

Scottish Ministers' guidance to the ORR – July 2012

► 'Rail Freight

In developing the track access charges arrangements for freight operators, the Scottish Ministers expect the ORR to use a mechanism which recognises the impact that freight operators have on the network but maintains the attractiveness of rail to freight customers, and which is adaptable to prevent the outputs of businesses in Scotland from becoming uncompetitive in their key markets.'

Guidance: Paragraph 22

In January we announced early decisions in relation to rail freight

- We announced:
 - a **cap** on the level of the variable usage charge of £1.68 per 1000 gross tonne KM (equivalent to a maximum increase of 23%)
 - the introduction of a new charge – the Freight Specific Charge (FSC)
 - the FSC is a mark up to be levied on certain commodities - Coal, Iron Ore and Nuclear
 - Our intention to consult on extending this charge to cover biomass
 - a **cap** on the level of the FSC e.g. the maximum charge for coal would be £4.04 per 1000 gross tonne miles
 - that the new charge would be phased in over CP5 to allow businesses to prepare for its introduction
- Important to remember that the **January conclusions document set caps not charges.**
- Work has continued since January to review new evidence and consider a sensible package of charges for freight

The importance of the freight industry in Scotland

- We know that the freight industry is very important to the Scottish economy, connecting products to markets nationally and internationally. 12 million tonnes of freight is carried on Scotland's railways each year, everything from coal to whisky.
- The freight industry plays a significant role in ensuring that fresh food and other essential commodities are available daily in the shops and supermarkets, including to rural and remote areas.
- Freight operators in Scotland include, DB Schenker; GB Railfreight; Direct Rail Services Limited; Colas Rail; Freightliner Intermodal and Freightliner Heavy Haul.
- We fully support the work in Scotland to develop a more efficient and sustainable freight industry. The Scottish Government has confirmed future investment funds for rail freight in its HLOS, and the freight joint Board for Scotland is now established, with representatives from the industry, the government and ORR.

Freight charges – our proposal

- In developing our proposals for freight charges in CP5 we have listened very closely and carefully to Scottish stakeholders and have taken their views on board.
- We will be proposing some changes to freight access charges in CP5 to reflect more fairly the costs that freight generates on the network.
- We can't say how much it will be at this stage, but rest assured that it is a very long way below the levels that some people seem to be suggesting.
- We are confident that the draft determination will be good for Scotland and we will be ring-fencing £30m specifically to develop the Scottish freight network.

CP5 Funds

- There are five Scotland “funding pots” in CP5:
 - Stations fund £30m
 - Strategic rail freight investment fund £30m
 - Network improvement fund £60m
 - Network development fund £10m
 - Level crossings fund £10m
- The level of funding was specified in HLOS, we do not make any efficiency adjustments. Our role is:
 - to check Network Rail’s approach for each fund is likely to deliver efficient outcomes, by making sure effective governance processes are followed and that they deliver projects at efficient costs by assessing a sample of schemes;
 - to check if progress is on target to meet Network Rail Delivery Plan milestones (we plan to improve our processes in CP5);
 - to decide what is published and approve changes to Network Rail’s Delivery Plan; and
 - to resolve disputes / arising issues – e.g. accelerated funding.
- In the Scotland HLOS Scottish Ministers required that management of the funds reflect a number of principles, including: simplicity, evidence based, benefits to passengers and freight users, clarity on purpose and transparency on outcomes.

Next steps

- Our Draft Determination will be published on 12 June and we will be continuing our conversation with stakeholders.
- You will be invited to attend our Board dinner on 24 June where we can talk further about our Draft Determination and delivering Scotland's railways during the next five year.
- We will also be hosting a conference in Glasgow on 24 June which is open to all interested stakeholders, where we will set out the main conclusions of our Draft Determination.
- Our final determination is due to be published on the 31 October 2013.
- Network Rail will produce a delivery plan to show how it will achieve the outputs and efficiencies required by the Final Determination by April 2014.