

# ORR's research findings on freight

## Executive Summary

As we said in our Long-Term Regulatory Statement,<sup>1</sup> rail freight is a valuable and growing user of the rail network. The Government has said that it wants to encourage a competitive and successful freight sector, recognising the environmental advantages of freight transport by rail. The railway is particularly good at transporting large bulky commodities, like coal and building materials, as well as container traffic from our ports. It also keeps large numbers of heavy goods vehicles off the road network, reducing congestion and pollution.

Since 1994 overall freight traffic has grown by 60%, including an 80% increase in container traffic over the last ten years, and it is forecast to continue to grow in the future. Freight operators have made around £1.5bn of investment since privatisation and productivity growth has been strong.<sup>2</sup> ORR recognises that the freight industry requires a stable and predictable environment in which to continue to make these long-term investments.

We attach great importance to the views of freight stakeholders, including freight customers, as we seek to understand the practical implications of policies under development and the regulatory approach that we take.

For example, we arranged the establishment of a Freight Recovery Board, led by the freight operators (but with an ORR observer) to identify the steps that Network Rail needed to take to get performance back on track. The experience of the Board was sufficiently positive for the industry to decide to continue with an informal 'Freight Joint Board' and a subsidiary body, the 'Freight Performance Improvement Steering Group'. Although freight performance has remained behind target, we are pleased that there is far more constructive engagement within the industry on how to improve performance.

To further inform our understanding of the freight sector, we carried out a survey of potential and existing freight customers during 2012. This covered the following areas:

- current modal choice;
- trends and influencing factors;
- industry performance; and
- ORR's role and performance.

The main findings from this survey are:

- respondents' use of rail increased by 38% between 2009 and 2012;

<sup>1</sup> *Opportunities & challenges for the railway: ORR's long-term regulatory statement*: <http://www.rail-reg.gov.uk/server/show/ConWebDoc.11196>

<sup>2</sup> Taken from *Opportunities & challenges for the railway: ORR's long-term regulatory statement*

- cost/price is the main barrier to modal shift;
- service quality/punctuality is improving but cost/price, flexibility and service recovery remain important improvement priorities for customers;
- satisfaction with freight industry organisations was at a similar level to the previous survey;
- current contact with ORR was low amongst freight customers, with their preferred method in the future being direct engagement with a panel of customers; and
- 92% of respondents thought that it is very or fairly important to have a choice of rail freight service provider.

We have also set out the findings from one to one interviews with a number of key industry stakeholders to discuss their views and experiences of how the market works, along with the issues identified during a workshop held with freight operators.

We are using the findings from our research to inform our work going forwards, including some specific activities relating to the requirements of freight customers, aimed at improving conditions in the market to facilitate further growth.

The key next steps include:

- establishing a Freight Customer Panel to provide customers with the opportunity to directly input their views into ORR’s regulatory policy development and strategy for freight. We will use this to complement our engagement with the industry in the development and implementation of policy;
- ensuring that freight operators and freight customers are fully engaged and involved from an early stage in the development of the policy framework for the Periodic Review 2018<sup>3</sup> (PR18);
- working with the freight sector to implement our determination of Network Rail’s outputs and funding for the Periodic Review 2013<sup>4</sup> (PR13);
- reviewing some areas of our role in approving track access contracts to increase efficiency; and
- seeking to influence Europe to ensure proposed legislation is practicable and implementation is effective.

## Introduction

Rail freight plays an important role in Great Britain’s logistics and makes a significant contribution to the economy. There are wider economic and social benefits of moving freight by rail, including environmental, road decongestion and safety benefits. Without rail freight, there would have been an additional 6.7m road journeys in 2007-08.

The rail freight industry has itself invested over £1.5 billion since 1995. The UK and Scottish governments also provide support: for example, in PR13, £230m of government funding is ring-fenced for freight-specific investment in the rail network infrastructure.<sup>5</sup>

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<sup>3</sup> Our determination of Network Rail’s outputs and funding for control period 5: 2019-2024

<sup>4</sup> Our determination of Network Rail’s outputs and funding for control period 4: 2014-2019

Rail freight accounts for 7% of the train kilometres on the GB network, but 20% of the tonne kilometres. Freight lifted increased by 13.1% in 2011-12 compared to the total lifted in 2010-11. The total amount of freight moved in 2011-12 increased by 9.5% compared to 2010-11.<sup>6</sup> This takes us to the highest amount of total freight moved since 2007-08 and shows strong growth across the sector despite the current climate.

Our ambitions for the freight sector are clearly grounded in the following ORR strategic objectives:

- 'support a better service for customers' - use our powers to hold the industry to account for performance and standards of service across the railway network,
- 'secure value for money from the railway, for users and funders' – strengthen incentives for the whole industry to work together to drive greater efficiency from the use and maintenance of existing railway capacity, and more cost-effective investment in the network,
- 'promote an increasingly dynamic and commercially sustainable sector' – support sustainable economic growth by promoting innovation and efficient long-term investment across the rail industry through the appropriate development of effective markets and regulatory intervention,

In working towards these objectives it is essential that we continue to listen to what the users of the railways are telling us about what they want from the railways and to consider what this means in terms of what we do and how we regulate. We strive to be a high-performing regulator and we need to ensure that we are efficient and provide predictability and certainty for business, while following the principles of better regulation.

We must also be mindful of our statutory duties,<sup>7</sup> which include:

- to promote improvements in railway service performance;
- otherwise to protect the interests of users of railway services; and
- to promote the use of the railway network in Great Britain for the carriage of passengers and goods, and the development of that railway network, to the greatest extent which it considers economically practicable.

We previously undertook a study into the potential for railfreight which involved discussions with railfreight operators, and during summer 2012 we undertook a survey of existing and potential railfreight customers.

The study and the survey were designed to provide us with insight into how the railway is working from the perspective of those who use the railway to move freight. Our aim is to understand better the needs of these stakeholders; the extent to which the industry is currently meeting those needs and the main barriers to entry and to growth.

We would like to thank all those who took the time to engage with us on the study and the survey. This document sets out the key findings and our intended next steps. More broadly, we intend to use what we have learned through these two pieces of work to inform our future policy approach and priorities, both in respect of the freight sector and, where appropriate, more widely.

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<sup>5</sup> *Periodic review 2013: Draft determination of Network Rail's outputs and funding for 2014-19*, <http://www.rail-reg.gov.uk/pr13/PDF/pr13-draft-determination.pdf>

<sup>6</sup> National Rail Trends published data on total freight lifted and freight moved, 20 September 2012

<sup>7</sup> Section 4 of the Railways Act 1993

## Freight customer survey 2012

We commissioned AECOM to conduct a survey of freight customers in the summer of 2012. The survey sought information from existing and potential railfreight customers in four main areas:

- current modal choice;
- trends and influencing factors;
- industry performance; and
- ORR's role and performance.

The consultants' report of the full findings from the survey is available on our website.<sup>8</sup>

This is the fourth such survey. The results of previous surveys in 2000<sup>9</sup>, 2003<sup>10</sup>, and 2009<sup>11</sup>, are also available on our website.

### Summary of findings

This section provides a summary of some of the key findings and themes from the survey, and compares these with the results of the 2009 survey:

- **Use of modes** - respondents to the survey indicated that their use of rail increased by 38% between 2009 and 2012, despite the unfavourable economic climate. It appears that rail has been less affected than other modes and there is potential for further growth if the market can deliver against key customer requirements – existing users expected their use of rail to account for 37% of transport movements in the next 12 months, rising to 44% in 10 years (this compares favourably to the 2009 results when the respective figures were 18% and 26%). If industry improvements were made, respondents said that they expected 41% of transport movements would be made by rail in 12 months, compared with 49% in 10 years (again, this compares favourably to the respective figures from the 2009 survey of 24% and 45%).
- **Barriers to modal shift** - respondents were asked for their views on the main barriers to modal shift to rail in terms of the domestic market. Table 1 below sets out the 2012 results and also includes the 2009 survey results as a comparison:

*Table 1 – Barriers to modal shift*

Barriers to modal shift	2012	2009
1	cost/price	access to the rail network
2	flexible service/recovery strategy	cost

<sup>8</sup> <http://www.rail-reg.gov.uk/server/show/nav.3022>

<sup>9</sup> National Survey of Rail Freight Users: Summary of Results (<http://www.rail-reg.gov.uk/upload/pdf/freight2.pdf>)

<sup>10</sup> Rail Freight Survey - Report (<http://www.rail-reg.gov.uk/upload/pdf/freight-srf.pdf>)

<sup>11</sup> Rail Freight User Survey: Final Report (<http://www.rail-reg.gov.uk/upload/pdf/freight-user-survey-2010.pdf>)

3	access to terminals	route availability
4	access to mainline network	availability of suitable rail equipment (e.g. wagons)

Price has moved to the top (from second place) in terms of the decision on modal choice and, as can be seen in Table 2 below, continues to be the top-rated service attribute in terms of importance.

Access to the rail network continues to be an important modal choice factor and in 2012 it moves into the top three rated service attributes, whereas in 2009 availability of suitable rail equipment had fallen to 13th place.

- **Importance of service attributes and meeting expectations** – respondents were asked to rank attributes that they considered most important in rail and then the extent to which those expectations are currently met ('performance'). Tables 2 and 3 below show the results for 2012 and 2009.

*Table 2 – Importance of service attributes*

Importance	2012	2009
1	price	price
2	service quality (on-time/punctual delivery)	responsiveness to customer needs
3	access to the mainline network	reliability of service/journey time

*Table 3 – Meeting expectations*

'Performance'	2012	2009
1	environmental considerations	environmental considerations
2	security of goods in transit	on-time delivery
3	overall service quality	overall service quality
4	service quality (on-time/punctual delivery)	security of goods in transit

5	equipment quality	total journey time
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- **Priority areas for improvement** - the variance between expectation and delivery points to key areas for improvement, as show in Table 4 below for the 2012 survey results.

*Table 4 – Priority areas for improvement (2012)*

Priority (2012)	Importance ranking (out of 17)	Performance ranking (out of 17)
Cost/price	1	13
Access to mainline network	3	9
Flexible service/recovery strategy	6	17
Information/ responsiveness to customer needs	7	12
Service quality (on-time/punctual delivery)	2	4

In 2009, the results were:

*Table 5 – Priority areas for improvement (2009)*

Priority (2009)	Importance ranking (out of 16)	Performance ranking (out of 16)
Responsiveness to customer needs	2	12
Price	1	10
Flexible service	7	15

Available capacity on the network	6	11
Effective recovery strategies	8	14

These results suggest that service quality/punctuality is improving but that pricing, flexibility and service recovery remain important improvement priorities for customers. 'Making network capacity available' no longer features in the top five priority areas for improvement (but featured as the fourth highest priority in our 2009 survey), which may suggest that improvements have been made in this area.

- **Barriers to making European rail movements** - respondents were asked for their views on the main barriers to moving goods by rail to/from Europe, i.e. via the Channel Tunnel<sup>12</sup>. The table below sets out the 2012 results and also includes the 2009 survey results as a comparison:

*Table 6 – Barriers to European rail movements*

Barrier	2012	Barrier	2009
1	Cost/Price	1	Cost
2=	Access to mainline network	2	Overall service quality
2=	Location of logistics hubs	3=	Location of customers
4=	Access to terminals	3=	Route availability
4=	Flexible service/recovery strategy	3=	Punctuality and reliability
4=	Physical nature of goods		

- **Satisfaction with industry** - respondents were asked to indicate the level of contact they have had with various freight industry organisations and their level of satisfaction with them. 72% of respondents were either very satisfied or quite satisfied with the freight industry organisations with which they were in regular contact – similar to the satisfaction levels recorded in the 2009 survey.
- **Satisfaction with ORR** - the level of contact that respondents had with ORR was relatively low, with 32% saying that they have had no contact with ORR and 13% saying they had regular contact with ORR (down from 23% in 2009). Although 34% of the survey respondents were either very satisfied or quite satisfied with ORR's performance, this was down from 43% in 2009. 29% were

<sup>12</sup> 25% of respondents said that the main mode of transport they use is rail freight through the Channel Tunnel. To provide some context on the volume of traffic, the Channel Tunnel saw 2325 trains carrying 1.23 tonnes of freight in 2012 and 2403 trains carrying 1.18m tonnes of freight in 2009 – figures taken from Eurotunnel's website – traffic figures: <http://www.eurotunnelgroup.com/uk/eurotunnel-group/operations/traffic-figures/>

neither satisfied nor dissatisfied (down from 43% in 2009) and 13% were either quite dissatisfied or very dissatisfied, down slightly from 15% in 2009.<sup>13</sup>

With regard to awareness of ORR's freight sector-specific work, many respondents had at least a limited awareness of the eight projects listed<sup>14</sup> (ranging from 62% to 87% depending on the project), with 58% having either contributed or having a good awareness of ORR's role in the periodic review process in particular.

When asked what ORR could do more of, or do better, respondents pointed to the following as areas for improvement:

- consulting directly with customers rather than relying heavily on freight industry associations;
- being more dynamic, making decisions more swiftly, and recognising the commercial nature of the railfreight sector; and
- moving away from a 'one size fits all' approach.

Respondents also highlighted that their preferred means of testing ORR's policies against the freight customer perspective was 'direct engagement with a panel of customers' (64% in 2012, a slight increase on 61% in 2009).

- **Competition** – 92% of respondents thought that it is very or fairly important to have a choice of rail freight service provider (up from 83% in 2009), recognising the importance of this in lowering costs and improving service quality.

## Freight operators' views – our railfreight market study

Our study of the railfreight market was undertaken in two parts.

The first part comprised desk-based research supported by one to one interviews with a number of key industry stakeholders to discuss their views and experiences of how the market works. It was clear from the results of our desk study that, despite growth over the last fifteen years, in the round, rail freight is expected to continue to face challenges to offer the same benefits to end-users that other modes (particularly road) could offer. That said, there are aspects of rail freight which are under-utilised and where growth potential exists. We decided that there was merit in taking forward the study into a second phase, to expand upon the work already undertaken.

The second part of the study involved an industry seminar that we held jointly with the Department for Transport to identify and discuss key potential barriers to entry and growth in Great Britain's rail freight market from the perspective of freight operators.

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<sup>13</sup> Respondents were asked to indicate how satisfied (overall) they have been with the performance of those organisations/types of organisations with which they have had either regular or single/occasional contact.

<sup>14</sup> The eight projects mentioned in the survey were: i) introducing a model track access contract for freight customers; ii) developing a process for identifying options, during timetable development, to make better use of overall network capacity; iii) improving the mechanisms for making un-used or under-used network capacity available to other freight operators; iv) requiring Network Rail to set up a 'recovery board' to improve freight performance; v) measuring disruption to freight caused by engineering work; vi) improving transparency and consistency of arrangements for access to freight sites and the transfer of site leases; vii) conducting a review of Network Rail's revenue requirements, outputs and expenditure for 2014-19; and viii) certification of entities responsible for maintaining freight wagons.

## Summary of our research findings

The view from stakeholders was that despite growth over the previous fifteen years, the rail freight sector was expected to continue to face challenges in encouraging modal shift to rail.

The key challenges facing the industry from the perspective of stakeholders were:

- **ORR's role** – the level of regulatory burden placed on the industry;
- **Railway infrastructure** – the difficulty of obtaining physical access to the rail network, necessary route availability, necessary infrastructure improvements, and '24/7' rail freight aspirations;
- **Ports and terminals** – the difficulty and cost of obtaining access to freight facilities, the lack of new terminals and the potential issues that could arise dependant on ownership of the facility;
- **Financial** – the financial risk of starting up a rail freight operation, the difficulty in making a rail freight operation financially viable, the suitability of freight performance regimes, and the level of access charges;
- **Industry's role/freight operator-customer relationship** – the perceived lack of cooperation amongst freight operators, and the potential for new types of traffic on rail; and
- **Rolling stock** – the difficulty in obtaining fit-for-purpose rolling stock and their compatibility with certain types of containers.

## ORR's response to the research findings

We are addressing a number of the issues that have been raised in our customer survey and in our study involving key industry stakeholders. The findings will also continue to inform our work going forwards, including some specific activities addressing the requirements of freight customers and aimed at improving conditions in the market to facilitate further growth, set out in our business plan for 2013-14<sup>15</sup>.

We are proposing to take some positive steps to support good outcomes for freight operators and customers, building on the feedback provided to us through both research projects. We have set out examples of those positive steps below, together with some examples of how our approach to the activities which we carry out seek to support freight and to help create an environment within which it can thrive.

### Current activity

#### ORR as a high-performing regulator

- **Consultation** - we have a statutory duty to approve the contracts for access to Network Rail's network and to raise industry awareness levels of the processes, policies and legal requirements in relation to this aspect of our role. We have published, and regularly update, our Criteria and Procedures document on the approval of track access agreements. Where revisions to this document are required, which could be due to new processes or policies being formed by us or

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<sup>15</sup> ORR Business Plan 13/14 - a consultation by ORR on its business plan proposals for the next financial year - <http://www.rail-reg.gov.uk/server/show/ConWebDoc.11085>

proposed by the industry, or new legislation coming into effect, we routinely engage with the industry on such changes and consult widely on them. In making any decisions, we will also take into account all responses made by consultees and explain our reasons for adopting or otherwise their views. We consider that by adopting this approach, freight operators and their customers are able to plan their businesses with a greater degree of assurance.

- We have also provided **guidance** to the industry on how a person seeking access (for services) at a facility may make an appeal to us under The Railways Infrastructure (Access & Management) Regulation 1995 where such access is unreasonably denied or is refused by the facility owner. This will be where an application cannot be made under The Railways Act 1993. By providing this guidance we consider that freight operators or freight customers seeking such access to meet their current and future business aspirations are usefully informed on the extent to which we can direct the extent of the access they require.
- We work hard, in conjunction with the Department for Transport and other industry bodies, to **influence Europe** on emerging legislative proposals relating to the rail sector, for example, Technical Specifications for Interoperability and the implementation of the recast of the First Railway Package<sup>16</sup> which covers access (to the network and rail-related services), licensing and charging frameworks.

The Inter-Governmental Commission for the Channel Tunnel and its sub-committees continue to work to facilitate growth in Channel Tunnel freight markets. Some positions on the Inter-Governmental Commission and those committees are filled by ORR staff. One way in which ORR staff has supported the Inter-Governmental Commission is through broadening the available pool of rolling stock by relaxing the technical safety requirements for Channel Tunnel rail freight, which has already enabled new types of wagon to be authorised and different locomotives to be tested. The Inter-Governmental Commission, through its Joint Economic Committee (which comprises ORR staff on the English side) is also looking at the current charges for using the Channel Tunnel, and considering whether they are set at a fair level which is consistent with European legislation.

### Periodic review 2013 (PR13)

- In **PR13** we determine the outputs that Network Rail must deliver, the funding Network Rail needs to deliver the outputs efficiently, and the wider incentive and financial framework. It relates to control period 5: April 2014 to March 2019.

We are determining a set of regulated outputs, targets and indicators which reflect what customers and society want and allow us to hold Network Rail to account whilst not stifling innovation.

- Part of the PR13 package is a major programme of **government investment** in network infrastructure, much of which will benefit freight, including ring fenced funds for the strategic freight network of £200m in England & Wales and £30m in Scotland.
- In our draft determination, we reiterated our intention to develop a new **system operation** enabler. ORR's intention to measure performance of system operation functions has the overall objective of improving our understanding of Network Rail's decision making. Specifically, it should help us to understand whether Network Rail has the information, capability and incentives to make the right decisions at the right time in the right way to optimise the use of the existing network and to plan capacity enhancements.

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<sup>16</sup> Adopted in November 2012

- In our draft determination, we have set out a package of **track access charges** for freight services that balances the importance of having charges that reflect costs with the need to allow rail users to plan their businesses. This means track access charges for freight services rising, on average, by around 4% a year in real terms for each of the five years of control period 5. We reached the decisions on freight charges set out in our draft determination following extensive consultation with the industry, including freight customers, and after having undertaken in-depth consideration of the impact of those charges.

We have acknowledged that charging alone is not sufficient to encourage efficient use of the network. In preparation for PR18, we will work together with the whole of the industry to find optimum solutions to accommodate growth and to develop a long-term strategy for freight, including the whole-industry Rail Delivery Group.<sup>17</sup>

## Railway infrastructure

### *Our role in approving agreements for access to the network*

- **Freight Customer Track Access Contracts** are model track access contracts between Network Rail and freight customers which are approved by ORR. They enable freight customers to hold their own track access rights to use to secure paths in the timetable after which they will be able to nominate the freight operating company or companies they wish to use those paths. Such track access contracts provide flexibilities to freight customers who wish to choose and then easily change their freight operating company of choice.

The freight customer track access contract General Approval provides our prior approval to enter into these model contracts in certain circumstances. The provision of our prior approval will mean that such contracts can be entered into more speedily by the parties thereby ensuring that customers can take control of how their traffic is moved and exercise that flexibility faster.

- We have provided the industry with a freight model track access agreement which Network Rail and **new freight operating companies** can enter into under our General Approval. We envisage that this will allow, under certain conditions, new rail freight operators to enter into the rail freight market with our prior approval whilst securing certain track access rights. Our objective is to improve the speed and ease for new entrants to hold a track access contract which will minimise 'barriers to entry' and reduce transactions costs with resulting benefits to customers.
- The granting of **long-term track access contracts** between freight (and passenger) operating companies is something which is provided for under The Railways Infrastructure (Access and Management) Regulations 2005 (the Regulations)<sup>18</sup>. The Regulations refer to them as 'framework agreements'. To enable operators to better understand the terms and conditions under which we are prepared to approve long-term track access. We have published guidance on this for operators and Network Rail. Such contracts, where they fulfil the requirements of the Regulations, will provide assurances for customers who want to make long-term investment in rail.
- We have provided the industry with a model **connection contract** which Network Rail and parties newly connected to its network can enter into under our General Approval. We are currently

<sup>17</sup> Taken from *Opportunities & challenges for the railway: ORR's long-term regulatory statement*. <http://www.rail-reg.gov.uk/server/show/ConWebDoc.11196>. The Rail Delivery Group brings together freight operators with Network Rail, ATOC and passenger operators.

<sup>18</sup> To be revised to take account of Regulation 2007/58/EC

reviewing the model contract to take into account industry requirements and developments and we intend to consult on those changes in the near future. The revised version, along with a suitably revised version of the General Approval, will, we consider, provide greater flexibility and reduced administrative costs for both parties wishing to enter into a model connection contract to better serve customer and investor requirements.

- We are currently working with the freight industry to put in place measures to make the conditions for leasing of and **access to freight sites** more transparent and more predictable for train operators and the customers they serve. A key part of the work involves the establishment of voluntary Codes of Practice which the industry has committed to being in place by summer 2013.

## Rail performance

- The **performance target** for freight was previously set in terms of Network Rail delay per 100 train kilometres operated with a requirement for a 25% reduction over five years. It became evident fairly early in control period 4 that the target was not being met although the reasons for this were varied, including severe weather and other external issues such as cable theft. Rather than taking direct enforcement action against Network Rail we arranged the establishment of a Freight Recovery Board, led by the freight train operators (but with an ORR observer) to identify the steps that Network Rail needed to take to get performance back on track. The experience of the Board was sufficiently positive for the industry to decide to continue with an informal Freight Joint Board and a subsidiary body, the Freight Performance Improvement Steering Group. Although freight performance has remained behind target we are pleased that there is far more constructive engagement within the industry, broadly matching the well-developed Joint Performance Improvement Plans (JPIPs) seen between Network Rail and passenger operators.

We are also working on the **Freight Delivery Metric**<sup>19</sup> which has been developed with agreement from the Freight Joint Board. It is envisaged that this will provide a more meaningful and transparent measure for comparison with other modes, with a target of 92.5% of freight trains to be on time.

- Schedules 4 and 8 of track access agreements compensate train operators for the impact on costs and revenue of planned and unplanned **service disruption** attributable to Network Rail or other train operators. Schedule 4 compensates train operators for the impact of planned service disruption due to restrictions of use. Schedule 8 compensates train operators for the impact of unplanned service disruption due to poor performance. Schedules 4 and 8 help incentivise Network Rail to minimise the disruption it causes to train services, including those carrying freight, and help incentivise freight services to minimise disruption to third parties. As part of PR13 we are reviewing and updating Schedules 4 and 8 restrictions of use and performance regimes so they continue to reflect the best available evidence on the impact of restrictions of use and poor performance on train operator costs and revenue.
- **Freight disruption index** - Under the Periodic Review 2008 we established network availability metrics for both passenger and freight for the first time. These essentially measure the extent to which track closures for engineering work impact on the service that operators want to run. Specific funding was provided to improve network availability for passengers, especially in terms of fewer long blockades and weekend closures. With freight the aim was to ensure that there was no adverse impact, for example through a switch to more midweek overnight work. The Possession

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<sup>19</sup> Freight Delivery Metric (FDM) measures the percentage of freight trains arriving at their destination within 15 minutes of scheduled time, covering Network Rail caused delay only. Set out in our *Periodic review 2013: Draft determination of Network Rail's outputs and funding for 2014-19*, <http://www.rail-reg.gov.uk/pr13/PDF/pr13-draft-determination.pdf>

Disruption Index – Freight (PDI-P) works on an index basis and has consistently tracked below the base year value (relating to 2007-08), thereby confirming that engineering work generally and the significant enhancement programmes in particular have not been delivered at the expense of increased freight disruption.

#### Availability of the network and managing capacity

- Under the previous Periodic Review 2008 a new **Strategic Freight Network** (SFN) fund was established. Network Rail was permitted to spend up to £208m on enhancements for freight traffic. This followed various specified schemes under the Transport Innovation Fund (TIF). Prioritisation and general governance of the SFN fund has been undertaken by the freight industry, including train operators and customer representatives in the form of the Rail Freight Group and Freight Transport Association. We have participated in the group as an observer. The fund has been allocated to a variety of projects such as gauge clearance of the diversionary route between Southampton and Basingstoke; construction of the Ipswich Chord; provision of infrastructure for longer freight trains on key routes; and further gauge clearance on routes such as Water Orton-Doncaster.
- We ensure that **Strategic Capacity** on the network is identified by Network Rail under the process set out in Part D of the Network Code and that Network Rail engages with the freight operating companies (see the Strategic Capacity Code of Practice<sup>20</sup>) when preparing and publishing its Strategic Capacity Statement. The identification of such Strategic Paths, which have freight characteristics associated with them, will assist freight operating companies to identify available capacity on the network to meet new or growing customer demand.

#### Industry's role/freight operator-customer relationship

- We have no direct role, but we would expect the sector to remain alert and responsive to customer needs and deliver a high-quality and competitively-priced product that meets twenty-first century transport demands. We will deliver a regulatory framework which enables this.

#### Rolling stock

We have worked with freight operators, the freight vehicle community, and other relevant stakeholders to:

- minimise the regulatory burden of **introducing locomotives to service** in the UK that have previously been accepted in other European Member States. We have provided guidance on assessing the differences and drawing on existing UK experience to ensure that the risks are managed but without introducing unnecessary additional workload;
- ensure that **Entities in Charge of Maintenance** certificates and authorisations have been granted expediently and without unnecessary burden. Our inspectors and engineers will be carrying out a 5 year programme of inspections to ensure that wagons, including those maintained by freight customers (who are Entities in Charge of Maintenance) are meeting the required standards, and that appropriate management systems are in place to support maintenance;

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<sup>20</sup><http://www.networkrail.co.uk/browse%20documents/track%20access/4%20strategic%20capacity/draft%20code%20of%20practice/management%20of%20strategic%20capacity%20on%20the%20network%20-%20draft%20cop%20120310.pdf>

- ensure that **GSM-R<sup>21</sup> authorisations** have been granted to meet the requirements of the national roll-out programme. We have provided guidance on the most effective means to achieve authorisation to minimise the regulatory burden of the placing in service of this equipment and meet the industry deadlines; and
- to ensure the revised Freight Wagon TSI<sup>22</sup> meets their expectations in delivery of the benefits of interoperability.

### Next steps

We will continue to work with the freight industry, including freight operators and freight customers, to improve performance and standards of service, to strengthen incentives for industry to work together to drive greater efficiency from the use and maintenance of existing railway capacity, and encourage more cost-effective investment in the network. We will also support sustainable economic growth by promoting innovation and efficient long-term investment across the industry through the appropriate development of effective markets and regulatory intervention. We will also be driving for a safer railway industry by enforcing the law and ensuring that the industry delivers continuous improvement in health and safety of passengers, the workforce and public, by achieving excellence in health and safety culture, management and risk control.

- We will be establishing a new **Freight Customer Panel** which will provide customers with the opportunity to directly input their views into our regulatory policy development and strategy for freight. We will use this to complement our engagement with the industry in the development and implementation of policy.
- As we develop the **framework for PR18**, which we are already beginning work on, we will ensure that freight operators and freight customers are fully engaged and involved from an early stage in the process. We will work more closely with the freight industry to develop a long-term strategy for freight.

As part of our PR18 development programme we will be working with the industry to carry out a more fundamental **review of the structure of charges**. We want to establish a more cost reflective charging structure which provides better incentives for more efficient provision and use of network capacity. We are committed to developing our understanding of system operation performance throughout CP5 and would like to develop a regulatory framework which is supportive of the good performance of system operation functions.

- Incentivising efficient behaviour is at the core of PR13 and our long term regulatory approach. We want to encourage Network Rail to think about the provision of its product i.e. network capacity in a more commercial way – and to make trade-offs when deciding whether to respond to requests to accommodate additional demand. At the moment there is a **Volume Incentive mechanism**. This is designed to encourage Network Rail to make trade-offs when deciding whether to meet unexpected demand from its customers - and to expose Network Rail to the revenue risk associated with selling its product – more akin to that experienced by a normal commercial company. In our draft determinations we said that we are putting in place a substantial package of improvements to the volume incentive with the aim of improving its effectiveness.

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<sup>21</sup> Global System for Mobile Communications – Railway: an international wireless communications standard for railway communication and applications

<sup>22</sup> Technical Specification for Interoperability relating to the subsystem rolling stock — freight wagons of the trans-European conventional rail system

- We will seek to influence the **development of the Fourth Railway Package** so that further harmonisation of technical and safety rules contributes to facilitating and increasing cross-border freight movements.
- We are actively discussing with Network Rail the development of a European '**freight corridor**'<sup>23</sup> on its network which, if established as anticipated, will provide freight operators with greater reliability than paths in the timetable have been established for international freight services. We envisage that this should enable operators to provide greater assurances to their existing customers and prospective customers over the reliability of access to Network Rail's network and encourage international flows.
- We will consider how we can improve the speed of **approval timescales for applications for new track access contracts** and changes to existing track access contracts, to meet freight operator and customer requirements. We will examine the scope of **General Approvals** to reduce transaction costs and make the process more efficient, and we will aim to keep the **Criteria & Procedures**<sup>24</sup> **document** more current, to take account of industry requirements and developments.

We welcome further dialogue with the freight sector and we hope that this document can provoke debate with and among our stakeholders

Please contact Anna Saunders ([anna.saunders@orr.gsi.gov.uk](mailto:anna.saunders@orr.gsi.gov.uk)) if you have any comments on these findings.

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<sup>23</sup> This stems from EU Regulation 913/2010 concerning a European Rail Network for Competitive Freight

<sup>24</sup> This sets out the criteria and procedures we expect to follow in processing applications for track access contracts:  
<http://www.rail-reg.gov.uk/server/show/nav.2409>