



Ref: ORR/PR13

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Dear John,

First/Keolis Transpennine Limited (“TPE”) response to The Office of Rail Regulation’s PR13 Draft Determination

As you are aware TPE have been actively involved in supporting Network Rail to develop elements of its Strategic Business Plan (SBP) and, in particular, the route level plans that underpin the delivery of the national plan and its proposed outputs. We have also been pleased to be involved in a number of PR13 workshops and briefings to engage with ORR in further dialogue relating to this critical document. The majority of policy matters which require further comments following the Draft Determination have been addressed on our behalf through the First Group response to the document. Consequently our comments at this stage of PR13 are limited to a few matters, generally route level detail, particularly with regards to funding, delivery and implementation of enhancements.

OUTPUTS AND OVERALL STRATEGY

We are pleased with your determination and its proposed outputs. Those outputs support TPE in our aims to deliver great service to our customers every day. Network Rail’s delivery is completely fundamental to our customer’s journey experience. More than 80% of disruption to our passengers emanates from Network Rail assets or the operation of the network. TPE can only deliver a high quality product when Network Rail is able to meet, and hopefully exceed, its commitments in terms of train service performance and network operations; asset reliability; network availability; delivery of

enhancements; major station management and property stewardship. We believe the targets that Network Rail has proposed for TPE are realistic and deliverable, particularly the most critical of these, our PPM target. We support the principle of a performance 'base' level of 90% PPM and the continuation of options for train operators to seek remedial action or compensation for poor performance from Network Rail using Schedule 8 and/or ORR enforcement.

We would have expected to see the draft determination cover in more depth the ORR's assessment of the deliverability of Network Rail's plans for engineering work and in particular some evidence of the risk to effective delivery of the enhancement and renewal programmes from inadequate operational and train planning. We remain deeply concerned that Network Rail will not have the capability to manage the operational planning of such a vast programme of engineering and timetable change activity while ensuring high levels of reliability and network availability. It is important that Network Rail continue to meet their licence obligations in this area, particularly in terms of the provision of timely and high quality timetable data given the key role this now plays in providing effective retail solutions and customer information online and at stations. Despite on-going dialogue with Network Rail since the publication of its SBP, we remain concerned that operational planning resource (quality and numbers) will be a limiting factor on the successful delivery of the CP5 Programme. We are already seeing problems when projects look to change scope/phasing of works that the Operational Planning function appears unable to manage the level of work, and change in that work, inherent to such a complex set of projects.

RELATIONSHIPS WITH TRAIN OPERATORS

TPE and Network Rail have in the last 12 months agreed a Framework Alliance agreement that sets out how we will work together to improve outcomes for passengers and stakeholders. We are convinced that these outcomes can be improved through Alliancing. Better alignment of incentives, more robust joint governance structures and jointly designed improvements to our processes, people and technology will be the main drivers. We have started our Alliance in advance of the re-franchising process, as we believe improvements can be made, even in the short term. However, it will be important for Network Rail to revise its strategy for Alliancing as the DfT implements its franchising programme.

We are keen to support efficiency improvements through joint working and believe the Route Efficiency benefit share (REBS) model will further support the alignment of incentives. We are however interested to understand how development of the model will ensure the process is appropriately calibrated to acknowledge the drivers of efficiency and cost. As a relatively small, multi route franchise our ability to alone drive individual Routes benefit share is limited and we believe some bi-lateral projects that derive benefit could well be offset by negative trends in cost by the majority users of the routes we operate over. It will be important to understand the role of bespoke commercial arrangements alongside REBS for 'alliance' activities for minority route users. The

REBS process will also need on-going culture change within Network Rail, so that relevant information on costs and efficiency is shared with the TOCs. One of our major challenges with developing schemes in relation to efficiency with Network Rail is the lack of transparency about cost drivers, particularly where trade-offs between operator costs and revenue need to be made with Network Rail costs. Support from ORR overseeing the REBS processes would be welcomed.

ENHANCEMENT SCOPE AND FUNDING

There is a fantastic amount of investment in our route network planned for CP5. This is an investment in the North of England's rail infrastructure far beyond that which we have seen before. The work that Network Rail has done, alongside other industry partners, to make the case for and plan the investment in Northern Hub and Electrification has been, in many regards, excellent. The positive intent that the HLOS and Strategic Business Plan have provided for the North of England are further supported by some of the PR13 policy ideas in relation to Alliancing. We welcome the chance to engage with ORR, Network Rail and Northern Rail to develop a two stage design and delivery alliance for a number of the named schemes, particularly Leeds Station and Leeds East Corridor capacity. We would like to restate our commitment, previously communicated through earlier PR13 consultation, to assist Network Rail to deliver its commitments in as efficient manner as possible.

We do however have some significant concerns in relation to funding, scope and alignment with renewals of some key enhancement schemes. Our primary concerns relate to the Northern Hub Post-HLOS scheme reduction of £115 million in funds and the impact this could potentially have on the viability of the overall Hub Scheme. If the reduction stands then the Hub scheme is likely to be de-scoped which will result in some regional centres not deriving the expected economic benefits from this major investment package. Furthermore not only is infrastructure development required to deliver the conditional outputs covering capacity, journey time and frequency but the scheme must also provide capacity that delivers a sustainable and high performing railway once the additional train services operate.

We are concerned with the approach taken and conclusions of the ORR consultant's assessment of both the Pre-HLOS and Post HLOS Northern Hub costs and encourage the ORR to re-assess the recommendations for the Hub interventions. We have concerns that the Northern Hub appears to have been assessed by applying across the projects an assumption of the low cost option, based on a handful of early stage schemes. Clearly other scheme costs within the programme have not been as positive as they have moved through GRIP estimations. The overall Infrastructure Programme is still immature, and certainly was at the point the consultant's assessment was undertaken, we therefore are surprised that it can be subject to the scale of risk reduction and efficiency savings as proposed in the Draft Determination whilst retaining high confidence that the Conditional Outputs will be delivered.

We believe that this allocation of £130 million, announced pre-HLOS in the Chancellor's 2012 Budget, is to provide journey time and capacity improvements on three specified routes. We believe this should be treated as a fund, and treated in line with other such funding pots within the Draft Determination. It is intended for the industry to develop a package of interventions that delivers maximum benefits in line with wider Hub objectives, within the envelope of infrastructure investment. It is not a defined 'named' scheme, and was announced pre HLOS, therefore in our view it should not be included in this Periodic Review, and neither should the £130 million fund be subjected to any efficiency or risk reductions based on previous assumptions.

We recommend that the ORR re-assesses the Hub scheme funding to ensure that the scheme can be delivered in its entirety in line with the Government's commitment to fund the completion of the Hub enhancements. We have welcomed the mechanism proposed by the ORR for determining the efficient cost and outputs in two steps, and are actively supporting this, as stated previously, through the proposed alliance for the East Leeds Corridor. If this mechanism was applied to the Hub as a whole it would, in our view, enable Network Rail to develop all of the proposed Hub interventions to a greater level of cost certainty by March 2015.

It is also important that we continue to highlight the need for appropriate responses and funding to be provided and maintained to address the issues of limited station facilities and platform crowding that the Northern Hub timetable capacity will bring. Network Rail are aware of our concerns about the lack of firm commitments within the enhancement scope or the SBP to suitable interventions at Manchester Victoria and Manchester Oxford Road to cope with longer trains (up to 8 carriages in length) and the significantly greater usage planned following the CP5 network interventions. We will continue to support Network Rail in their work with other stakeholders, including DfT, to optimise the delivery of the North of England Programmes.

As previously communicated we remain concerned about the re-signalling of Liverpool Lime Street. The enhancement of the station's operational capability alongside re-signalling is necessary in our view to cope with the increased frequency of service and, most critically, the increasing length of trains beyond 2014 and 2016. We do not believe appropriate verification of the implications of a 'like for like' renewal has been made. It is important we again raise our concerns at this stage. We are concerned platform operational capacity will be a real limiting factor to the delivery of the benefits of the Northern Hub and will be a significant risk to operational performance. Given the Northern Hub is identified as a national level performance risk we believe this matter should be addressed¹. It is also disappointing that the industry may miss the opportunity to align enhancement and renewals thereby improving value for money.

Despite our concerns at the approach and outcome in the SBP with regards Liverpool, this will not prevent us from working with Network Rail through our Alliance to identify opportunities to develop a more appropriate scheme. We are keen to continue the process of bringing such schemes through their development phases whilst identifying

¹ Network Rail Strategic Business Plan, Page 63

opportunities to do more for less. This is especially important with the number of major enhancement and electrification schemes planned.

Thank you for the opportunity to comment and feed into your review of the SBP during PR13. Should you have any questions following this letter, please feel free to make contact directly with me or my colleague George Thomas, Commercial Contracts Manager who has also been extensively involved with the PR13 process and workshops.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Chris Nutton', written in a cursive style.

Chris Nutton
Programme Director