



Department
for Transport

Anna Walker
Office of Rail and Road
One Kemble Street
London
WC2B 4AN

From the Secretary of State
The Rt. Hon. Patrick McLoughlin

Great Minster House
33 Horseferry Road
London SW1P 4DR

Tel: 020 7944 3011
Fax: 020 7944 4399
E-Mail: patrick.mcloughlin@dft.gsi.gov.uk

Web site: www.dft.gov.uk

16 JUL 2015

De Anna,

Thank you for inviting my officials to attend the recent hearing on the ECML Track Access applications. Further to this hearing, and in the interests of clarity, I am writing to restate the Government's policy position on open access applications, and our specific concerns about the applications currently being considered by ORR for the East Coast and West Coast Main Lines.

Our policy position remains as set out in the 2012 Command Paper 'Reforming our railways'. Government values the benefits of competition that open access can bring, in addition to the considerable benefits arising from the competition created during the franchising process. However, open access services can also have considerable negative consequences for the taxpayer and railway investment, and therefore also for the passenger. In particular, they can abstract revenue from franchised train operators, reducing the premia that these operators can pay to Government, and thereby increasing the net contribution to the Railway that taxpayers have to provide.

In addition, open access operators only pay marginal track access charges, and now also pay lower rates of capacity charges than franchised operators, and therefore are in effect cross-subsidised by passengers on, and funders of, franchised train services. These issues put pressure on the funds available for other spending on the railways, making it harder to deliver enhancements to services and avoid increases to fares. Given the UK's financial position, Government does

not at this stage support an increase in open access competition, either on the East Coast Main Line or elsewhere, until or unless there is a fundamental change in the approach to access charging so that open access operators make an appropriate contribution to the costs of the railways.

The Government has committed to a substantial investment in new class 800/801 trains for the East Coast Main Line, and enhancements to the infrastructure, to allow faster and more frequent services. The Government made this investment on the basis that part of the cost of the new trains and the enhanced infrastructure would be offset by higher passenger revenue, reducing the net cost to Government. Virgin Trains East Coast won the franchise after a hard-fought competition, and its proposed timetable would deliver significant benefits to passengers, in terms of faster journey times to Leeds and Edinburgh, and new or improved direct services to destinations including Huddersfield, Middlesbrough and Lincoln. Its proposal would also provide a significant return to taxpayers. The CMA has now given clearance to VTEC's acquisition of East Coast.

As the Department has previously set out for the East Coast applications, it is important to establish the operational and performance impacts of services prior to rights being granted, rather than subsequently. This is also vital in the case of the Alliance proposition on the West Coast Main Line, given that the rail industry is currently developing a complete operational plan in order to provide the required capacity and performance for passengers during the construction of HS2 at Euston from 2017 onwards. It will be crucial to understand if the Alliance proposal is operable as part of this industry plan, and whether the additional risks the service is likely to present to reliability can be mitigated.

As you are aware, the ORR's statutory duties when considering track access applications include, amongst other issues, the obligations to:

- Promote the use of the railway network to the greatest extent that it considers economically practicable
- Have regard to the funds available to the Secretary of State for the purposes of his functions in relation to the railways or railway services;

- Have regard to the interests, in securing value for money, of persons providing railway services, of the persons who make available the resources and funds and of the general public; and
- Have regard to any general guidance given by the Secretary of State

To assist the ORR in its assessment of these applications, taking into account these statutory duties, my officials have provided you with calculations of the potential impacts these applications would have on the funds available to Government, and on the value for money of the investments that the Government has made in improving InterCity East Coast services. If you require any further information on these potential impacts or the calculations that we have prepared, please contact my officials.

I am copying this letter to John Larkinson, Director of economic regulation at ORR.

A handwritten signature in black ink, appearing to read 'Patrick', with a stylized flourish above it.

THE RT. HON. PATRICK McLOUGHLIN