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Ref: ORR\PR13

Date: 14th October 2011

Dear Gian,

PR13 – Establishing Network Rail’s efficient expenditure – July 2011

Many thanks for the opportunity to respond to the recent consultation document on the Periodic Review 2013 – Establishing Network Rail’s efficient expenditure – July 2011.

With regard to the proposed outputs on efficiency improvements in the Rail Value for Money (vfm) Study, the ORR is facing a key challenge in the determination of the level of efficient expenditure and the scope of efficiency by Network Rail for CP5. It is equally challenging for Network Rail because they must demonstrate and justify their expenditure requirements in detail and their ability to deliver the required outputs.

The comments below are based on the consultation document and the recent workshop that EMT attended at the ORR’s office on 21st September 2011. This response does not seek to address all the individual questions raised in the document but covers a number of the key areas that were discussed at the workshop.

Operating Expenditure

In order to generate greater efficiencies, there needs to be a clearer understanding of the costs from Network Rail's existing programme of works and the costs of operating the railway from Network Rail's perspective. It is important that the financial data produced by Network Rail is transparent as it is fundamental to the ORR's detailed assessment of cost efficiency. It will also support the 'gap analysis' to understand the efficiency gap between Network Rail and other companies being benchmarked. Significantly, the ORR needs to assess the achievability of certain targets within the budget identified in the Strategic Business Plan (SBP) for CP5.

It is the ORR's intention in PR13 to undertake the efficient expenditure assessment at a route based level on Network Rail's submissions. This approach would provide a greater level of disaggregation and facilitate stronger joint incentives between Network Rail and train operators. However, some routes are seen to generate higher values than others depending on the type and the level of traffic operated in the route areas and therefore would have an impact on the judgment of the cost assessment ORR undertakes. On this basis, it is important to identify what the right level of increase is for each route level to ensure that the establishment of efficient expenditure does not only benefit route areas that generate higher values.

Signaller costs have been identified as the largest aspect of 'Support and Operations Expenditure' under controllable costs which have also been recognised in the vfm study. We are supportive of the recommendations outlined in the study which could reduce the industry's cost base in the long term. Whilst the operations costs have been recognised as the highest of the category and plans have been developed to reduce the future level of operating costs, there are other areas of costs where Network Rail and the ORR could examine with respect to the added values to the support of Network Rail's business. An example of this is Westwood where the running costs are likely to be high and it is exclusive to Network Rail. Although the establishment provides good facilities to support managerial or non-technical training of Network Rail's employees, there are no facilities for training courses for signallers or technical staff. Also, this type of facility would be of significant benefit if it was to be made available to the wider industry. A detailed assessment is needed on these justifiable costs to improve cost efficiency.

Efficient Expenditure – Maintenance, Renewal, Enhancements

In order to improve the efficiency of expenditure, it must be made clear that if the costs of works are to restore the deficiency of the existing railway or to enhance the existing infrastructure so that it is better equipped in coping with the future growth.

Under certain circumstances, it would be necessary to descale the existing infrastructure for the purpose of increasing efficiency. An example of this for EMT is Skegness Station where mainly two out of six platforms have been fully utilized due to a lack of demand, hence the existing layout could be rationalised in order to economise on long term maintenance costs and improve flexibility and operational efficiency of train services in the area. This can be achieved through the close liaison between Network Rail and TOCs.

There are a number of enhancement schemes which are funded in CP4 which Network Rail is unlikely to be able to complete in CP4. It is uncertain which of these schemes will be rolled forward in CP5.

There is a lack of visibility of how much of the available fund has been spent and the development and progress of individual schemes. As previously mentioned, in order to improve cost efficiency, Network Rail's cost details for the assessment of efficient expenditure need to be transparent. We would be supportive of the ORR to reviewing the status of schemes being developed to use the fund available for CP5.

Overall Approach

For the PR13, the assessment of Network Rail's plans will be built on the methodology applied at PR08 in addition to more detailed work on the benchmarking of Network Rail's processes and working practices. Various theoretical models will be deployed to analyse expenditure and the scope for efficiency improvements. However, with the movement of Network Rail towards devolution, it is crucial to understand how these methodologies could distinguish the impact of Network Rail's devolution strategies.

It is important for the ORR to deliver robust estimates of efficient expenditure for each of Network Rail's delegated routes and, where appropriate, functions that will be retained centrally. Therefore, the ORR must clearly define the outputs of each benchmarking exercise and draw them together to a set of firm conclusion. There may be major differences in unit costs across or between Network Rail's route based areas and other companies being benchmarked, nationally or internationally. The variation must be examined further so that we can understand whether they are resulting from variations in network outputs or there is a veritable difference in efficiency.

I hope this input is useful. If you would like to discuss this in further detail, please feel free to contact me.

Yours sincerely,



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