

Richard Fitter Esq.
Office of Rail Regulation
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Dear Richard

Direct Rail Services (DRS) is pleased to respond to the ORR's August 2012 consultation on financial issues for Network Rail in CP5. DRS appreciate the importance of this particular subject given that any financial issues for NWR could potentially impact on train operators. DRS do not have any issues with this content being published on the ORR website.

Summary

A large percentage of industry inefficiencies are attributable to NWR and we are pleased to see that some of these inefficiencies are being addressed through this document.

As noted below we do not necessarily agree with some of the proposed initiatives.

DRS will support any reasonably sound incentives proposals to improve the efficiency of the railways which would bring benefit to the taxpayer, passenger and freight fraternity and its customers through a reduction in subsidy.

As previously stated we do have concerns that aligning incentives, alliances, bespoke arrangements, changes to schedule four and eight, devolution to the routes and disaggregation of costs to the routes has the potential to increase administrative staff/costs and this would be a perverse outcome.

We would also ask at what cost does "a more disaggregated approach" in the name of transparency and access come at for NWR ergo taxpayer?

Specific Questions

Please note that DRS have 'no comment' at questions which we feel for technical, political reasons or for which we believe to be more appropriate to future consultations.

Q3.1: What are your views on our proposed approach to indexing Network Rail's allowed revenue and RAB for inflation. In particular, that we are proposing to set an ex-ante assumption for both general inflation and input price inflation in our determination of access charges for CP5?

No comment

Q3.2: What are your views on our proposal not to provide Network Rail with an in-year risk buffer?

DRS agree with the ORR comments/proposal.

Q3.3: What are your views on our proposal to simplify the mechanism to re-open Network Rail's access charges review by removing some of the specific re-openers?

DRS realises the concerns of the use of a re-opener and its potential impact on the industry however, we recognise the need for such a facility and agree with the continued re-opener for Scotland.

Q3.4: What are your views on our proposed treatment of traction electricity, industry costs and rates, e.g. BT police costs?

Agree in principal but in respect of exposing NWR to the whole of the cost of BT and RSSB (3.61), DRS would ask for more information on the practicable application and the impact on operators contributions to these bodies.

Q3.5: What are your views on our current thinking that the maximum level of financial indebtedness that Network Rail can incur should at no point exceed a limit set between 70-75% in CP5?

Agree with ORR view

Q4.1: What are your views on how we could handle an industry reform initiative, e.g. further alliances or a concession?

No comment

Q4.2: What are your views on our proposal to set the FIM fee reflecting a long-run view of the credit enhancement that Network Rail is provided with?

No comment

Q4.3: What are your views on our proposal to take account of the cost of embedded debt in our forecast of efficient financing costs?

No comment

Q4.4: What are your views on how we are proposing to assess financial sustainability?
[Agree with ORR proposal](#)

Q4.5 What are your views on our proposal to keep the introduction of the adjusted WACC approach as simple and transparent as possible by calculating efficient financing costs on a cash basis and by taking the normal regulatory approach to indexing the whole of the RAB?
[No comment](#)

Q5.1: What are your views on the treatment of reactive maintenance and how to calculate average long-run steady state renewals for the amortisation calculation?
[No comment](#)

Q5.2: What are your views on our proposal not to index renewals for changes in input prices and how should we take account of the difficulty that we have experienced in CP4 in confirming that renewals underspends have been efficient?
[No comment](#)

Q5.3: What are your views about legacy debt and RAB?
[No comment](#)

Q5.4: What are your views on our proposal to keep using the opex memorandum account?
[No comment](#)

Q6.1: What are your views on the options we set out for our approach to corporation tax in CP5?
[No comment](#)

Q7.1: What are your views on our proposal to allow part of Network Rail's income to be provided directly by the governments through a network grant, which will be set ex-ante for each year of CP5?
[DRS agree with ORR view.](#)

Q7.2: What are your views on the activities that Network Rail should be allowed to carry out?
[We believe that there will always be a need for a minimum level of financial ring fence protection but in moving forward as a business if there is an incentive to make money and certain criteria was met then why not?](#)

Q7.3: What are your views on increasing the strengths of the incentives on Network Rail to materially outperform our determination and to avoid materially failing to deliver our determination and should we consider more heavily incentivising genuine 'game changing' initiatives?

We believe that trying to be efficient in areas of normal efficiency could result in efficiency becoming a bludgeoning tool and become counterproductive.

Target levels/outperformance areas should be clearly identified and achievable albeit with an acceptable degree of risk.

Yours sincerely

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