



FREIGHT TRANSPORT ASSOCIATION

Richard Fitter
Office of Rail Regulation
One Kemble Street
London
WC2B 4AN

24th September 2012

Dear Mr Fitter,

FTA response to Office of Rail Regulation Consultation on PR13 Financial Issues for Network Rail

Thank you for inviting FTA to comment on ORR's consultation on the financial issues for Network Rail in CP5. The Freight Transport Association (FTA) represents over 14,000 companies spread across the UK relying on or providing the transport of freight both domestically and internationally, to or from the UK. Our members involved in rail freight include shippers of bulk, deep sea and domestic intermodal and retail goods, and also freight operating companies and logistics service providers, accounting for approximately 90 per cent of goods moved by rail.

FTA's primary rail freight focus is to represent the shippers – the ultimate end users – of rail freight who make the decisions about modal choice. We are though also interested in the regulatory and operational policy architecture of the industry to the extent that it affects competition and shipper choice. Indeed we have the main rail freight operating companies in membership, together with logistics service providers and rail freight shippers. Due to our primary representational focus being upon the end users of rail freight services, we will not have detailed answers to give to all of the individual aspects of this further consultation as some will be necessarily more freight train operator focussed, but we will be commenting on the general principles.

Overall FTA wants to see certainty in the cost base of rail freight over the five year Control Period and beyond and for that to be on a basis of declining cost. This is essential so as to deliver the potential for rail to gain more freight market share and attract new traffic from shippers, particularly those traditionally using road but now considering rail, such as retailers.

Question 3.1: FTA has some concern over the proposed approach to indexing Network Rail's allowed revenue and RAB for inflation, and particularly the proposal to set an ex-ante assumption for both general inflation and input price inflation in the determination of access charges for CP5. Our principle concern here is that the move from an RPI – X% formula to an indexation of inflationary cost inputs that exposes the fiscal settlement to variances with the actual inflation rate at the end of the five year control period. While this is designed to incentivise Network Rail, it is questioned why that is not better done through the RPI – X% formula including an efficiency overlay target. The concern with indexation is that there could be price spikes in charging to TOCs and FOCs at the end of the Control Period where

adjustments made to reflect the gap between indexation and the real RPI rate have to be made (and paid for) in the subsequent Control Period. As with the freight Track Access Charges consultation, this creates uncertainties for FOCs and their customers over charging levels.

Question 3.3: Our answer regarding an in-year risk buffer follows on from Question 3.1 above.

Question 3.5: We note the price controls for Scotland and feel control over this and similar issues regarding re-openers and alliances are important as Network Rail devolves more control to routes.

Question 4.1: Regarding industry reform and alliances, our answer follows on from Question 3.5 above.

Questions 5.1, 5.2, 5.3, 5.4, 6.1, 7.1, 7.2, 7.3: FTA does not have detailed comment on these, other than to confirm that cost efficiencies sustainably delivered are essential to help rail freight reduce its cost base to enable it to compete with road that has a continual drive increase efficiency and reduce operational cost. While the end freight cost delivered to the customer is about more than Network Rail's costs, those are a significant input.

I hope that you will find these comments useful. Please do not hesitate to contact us to discuss further any aspect of our response. We are content for these comments to be fully public.

Yours sincerely



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