Freightliner

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Dear Joe

Consultation: Potential for increased on-rail competition

I am writing to you in response to the ORR's PR13 consultation on the potential for increased on-rail competition. This is the formal response of Freightliner Group – representing Freightliner Limited and Freightliner Heavy Haul Limited.

Identifying the most efficient way of allocating timetable capacity is a key tool that the rail industry can use to increase fare box revenue and increase the value for money to the taxpayer generated by the choice of trains that are provided with access to the network.

As you refer to in the consultation document, UK rail freight post privatisation is a good example of how a highly competitive market place has forced individual operators to increase the efficiency of their operations and drive down costs wherever possible. This is not only to compete amongst themselves, but also with the road freight sector, which doesn't incur the same costs and level of regulation in order to access the road network.

Since the introduction of privatisation, the number of freight operator companies (FOC's) has increased from 3 (once they were consolidated) to the 5 that are currently in operation. Furthermore, these operators have been successful in increasing the volume of freight moved by rail by around 60% since privatisation. Despite the growth that has been experienced, operators have been forced to become more efficient in their operations, in the face of this increased competition. The McNulty Value for Money study commented on how operators have achieved this, through its findings that staff per freight train km has been reduced by 36% since 1998/9.

Freightliner supports the ORR in its view that there is certainly the potential for value for money within the industry to be increased as a result of stimulating increased levels of competition amongst passenger operators. Growth in both passenger and freight usage is resulting in the network being used more and more intensively with capacity at a premium over some route sections. In principle we support any policy that will result in existing capacity being used most effectively, which can deliver wider benefits to the rail industry.

Whilst this consultation focuses on ways of increasing further competition amongst TOCs, at the same time we feel that the ORR should consider the impact that the proposed changes could have on network capacity and look at options that will mitigate against this. Adding additional trains of short formations to the timetable, rather than fewer trains of longer length absorbs more capacity and is more expensive in terms of operating costs. Freightliner has actively looked at ways of reducing operating costs and optimising our use of the network in this way. As an example, our intermodal services have increased in average train length by 23% over the last 5 years. We are also actively lobbying Network

Rail to upgrade the Strategic Freight Network to accommodate 775m long freight trains. We would hope that passenger operators can play their part in considering how they can use the network more efficiently when applying for more access.

The less favourable alternative would be to maintain a 'status quo' approach whereby the existing franchise boundaries and rigid service specifications dictate the allocation of capacity amongst passenger operators. This issue is particularly pertinent to off peak passenger services, where the additional operating costs for TOCs to operate inter peak services is often marginal (due to the lack of fleet flexibility). This can result in poor capacity utilisation on these services due to low levels of passenger demand. Given that freight operators generally try to avoid absorbing peak capacity, it is vital for FOCs that the remaining off peak timetable capacity is used most efficiently.

On routes where there are competing demands for limited spare capacity, it is vital that strategic capacity is retained to accommodate future rail freight growth. Investment in gauge clearance and general development of the Strategic Freight Network will only provide a return on its investment if the necessary capacity is provided to support the forecasted freight growth into the future. Whilst Freightliner recognises that it must be efficient in its use of network capacity, this growth will not happen if unused freight paths are automatically assumed to be more valuable for providing additional access for passenger operators.

As a general principle going forward, where possible Freightliner would like to see Network Rail developing timetables holistically rather than incrementally. This is particularly relevant in cases where new operators are wishing to gain access to the network. Previous experience when Open Access operators have sought new access rights has resulted in them being accommodated into white space in the existing timetable, rather than considering if capacity can be used more efficiently (with a better service for passengers) with a timetable recast.

The economic value of rail freight should not be underestimated. The 2016 Capacity Review for the East Coast Mainline found that the introduction of 3 new intermodal services on the route would deliver twice the level of economic benefit as 3 new London to Sunderland or London to Lincoln passenger services (even when allowing for the increase in farebox revenue).

With this in mind, Freightliner supports the proposals being explored by the ORR, providing freight is recognised as a different 'animal' to passenger operators. Any option that effectively results in an auction of capacity between all operators (including freight) would be unpalatable and unaffordable to Freightliner, given that it would not be commercially viable for us to speculatively bid for new train paths as a means for securing freight capacity, without having some level of commitment from our customers.

Similarly, it is vital that any revision of the track access charging mechanism is careful to maintain stable charges to the freight operators. This should be in accordance with directive 2001/14/EC which states that, "The charges for the minimum access package and track access to service facilities shall be set at the cost that is directly incurred as a result of operating the train service". In many cases the competitive market place that we operate in means that the profit margins are often minimal and as such any increase in our costs are likely to result in lost business if these have to be passed on to our customers.

Whereas in the passenger market, the existence of multiple operators on a route can force TOCs to increase efficiency and reduce their costs, this model will not apply between FOCs. A customer will make a choice between FOCs – quite simply a train will not run without the award of business from the customer.

We would hope that careful consideration is given to the future mapping of franchise areas and granting of passenger access rights to avoid the over duplication of train services especially on lines where spare timetable capacity is scarce. This particularly applies to paragraph 5.5 of the consultation document where you discuss the option to increase the number of franchise overlaps. Care will also have to be exercised to ensure that under a scenario whereby TOCs have to bid for capacity, this does not lead to franchised TOCs having to incorporate these increased costs in their franchise models – the exact opposite of what this proposal is trying to achieve.

Please contact me if you would like to discuss any of the issues I have raised in this letter further.

Yours sincerely

Tim Jackson
Rail Industry Manager
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