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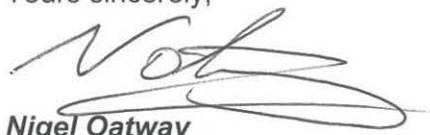
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15 October 2015

SYSTEM OPERATION : A CONSULTATION ON MAKING BETTER USE OF THE RAILWAY NETWORK

This letter and attachment constitutes a combined response by DB Schenker Rail (UK) Limited ("DB Schenker") to Office of Rail and Road's consultation entitled "System Operation: A consultation on making better use of the railway network" and Network Rail's Consultation document entitled "Network System Operation" both published during August 2015.

Yours sincerely,



Nigel Oatway
Access Manager

System Operation

DB Schenker Rail (UK) Limited's combined response to consultations by Office of Rail and Road entitled "*System Operation: A consultation on making better use of the railway network*" and by Network Rail entitled "*Network System Operation*" both published in August 2015

15 October 2015

1. DB Schenker Rail (UK) Limited ("DB Schenker") is pleased to respond to the consultations from Office of Rail and Road (ORR) and Network Rail (NR) on system operation. Given that the consultation documents were jointly issued, and the contents are closely related, DB Schenker is submitting a single response comprising general comments followed by responses to the specific questions raised in each consultation provided in separate Annexes. Nothing contained in this response is confidential.
2. DB Schenker is the UK's largest rail freight company operating over 5,000 trains across the UK every month conveying everything from cereals to coal, consumer products to biomass and petroleum to steel. DB Schenker provides freight, infrastructure and charter passenger trains throughout the UK and freight services to and from mainland Europe via the Channel Tunnel.

Scope of Consultation

3. Effective system operation is critical to the success of national operators such as DB Schenker. DB Schenker recognises that system operation extends beyond the role currently undertaken by NR to include functions and activities currently performed by Governments and Regulators. As NR's routes become increasingly devolved, and ambitions for political as well as geographical devolution of transport increase, the need to better define and structure these functions becomes more important and urgent. To that end, DB Schenker welcomes these two consultations both in their own right and as an important input to the Shaw Review on the future of NR.
4. Given the wide ambit of system operation, and the current political/industry context, the consultations seem limited and incomplete. DB Schenker considers that defining system operation requires solutions to a number of questions:
 - a. What are the essential functions of a system operator – and in consequence, what are the essential functions of devolved routes and other bodies?
 - b. Where are these choices between functions in system operation or in devolved routes and what might be the merits or risks of different choices for different parts of the industry?
 - c. How will the interfaces between system operator and devolved bodies work in an efficient manner?

- d. What structures (including incentives) are necessary to enable system operations to become more effective than today?
 - e. What information is necessary to support these considerations?
5. Although there are elements of these areas in both consultations, DB Schenker considers that further work is required, particularly in respect of those covered in the first three questions above.
 6. It is evident that there is still no consensus on what the future structure of NR might be, what options for consideration may emerge from the Shaw Review and what will be the process for deciding the way forward.
 7. Furthermore, decisions on political devolution of transport powers are also still unknown although NR has already announced that it will work to devolve more power and authority to its existing routes. DB Schenker notes that ORR's direction of travel, as defined in the Long Term Regulatory Statement, also supports such an approach.
 8. So whilst considerable uncertainty regarding industry structure remains, proper definition and implementation of system operation is now critical to ensure that national operators such as DB Schenker can continue to flourish and grow their businesses with a reasonable degree of certainty and stability.
 9. As such, DB Schenker considers that this consultation is the beginning of a process rather than the end, and it would welcome being part of any continuing work.

Why System Operation matters to Rail Freight

10. Effective system operation is essential to protect and grow rail freight services on the network, to meet customer needs and to help increase the benefits to the UK arising from effective rail freight transport within the supply chain. The key reasons are as follows.
 - a. *Rail freight is a nationwide, international business.* DB Schenker operates over all parts of the UK rail network including services on High Speed One/Channel Tunnel to the European rail network. Relatively few freight services (with the exception of some short distance flows) are contained within one of the present UK administrative areas. Most cross at least one UK railway "boundary" and many traverse multiple routes. An intermodal train from Felixstowe to Trafford Park in Manchester using the cross-country Felixstowe to Nuneaton (F2N) route travels across three NR Routes. This means that the planning and management of services across boundaries is a critical activity to ensure consistency of planning and other standards across the network as a whole.
 - b. *Freight is not always seen as a priority.* With rail freight accounting for just 4% of train numbers, and around 8% of all train miles, rail freight is often not seen as a priority by NR's Routes today. Indeed, it can be hard for

NR's Route Managing Directors, who are often under pressure from their lead passenger operators, to make time for freight at all. One downside of having a central NR freight team to address this dilemma is that it becomes easier for NR's route management to "leave freight to the freight team". Similarly, it is hard for a freight operator such as DB Schenker to maintain effective relationships with all NR Routes, as well as the central freight team.

NR's method of addressing the freight dilemma at the time of initial devolution was to appoint a central Freight Director with a sizeable team to internalise these interfaces. As of today this structure broadly works, but as more power is devolved within NR, this may become a greater concern unless additional effective safeguards are put in place.

Increasing political devolution poses similar challenges. It is unclear how political devolution will impact on rail freight, not least as different administrations may seek different forms of control over rail and regard themselves as having different loci in respect to rail freight. There are good examples, particularly in the north, of local and regional support for rail freight, but this is not replicated everywhere, nor has DB Schenker yet seen this support translated into actual outcomes.

- c. *Cost efficiency is vital.* Freight customers are generally able to choose between road and rail for the transportation of their goods and services, and actively do so. ORR's own analysis undertaken for PR13 demonstrated that, aside from coal and some other small sectors, increases in the cost of rail would lead to modal shift from rail to road. This means that freight operators such as DB Schenker need assurances about the stability and affordability of access charges, the need to ensure that the operation of trains remains cost effective and that performance levels will allow them to compete in the wider transport market. Poor Train Slots, excessive regulation of freight services, high levels of disruption due to engineering work, bespoke access charges or delays at route boundaries all add to the cost base and make rail appear over complicated and less competitive than alternative modes.
- d. *Freight Customers need certainty to invest.* Ports, terminals and end customers continue to invest significantly in infrastructure to support greater use of rail freight. To do this, they will need to be assured that they will get a return on their investment, ensuring their trains can operate effectively across the network, and that continued growth in freight will be accommodated.
- e. *NR is a key customer.* DB Schenker is a major supplier to NR contracted on a centralised basis via the National Supply Chain (NSC). Enabling NR to maintain economies of scale, and optimum use of scarce plant and resources, in the contracting of such operations is important for continuing to reduce the costs of rail maintenance and enhancement.

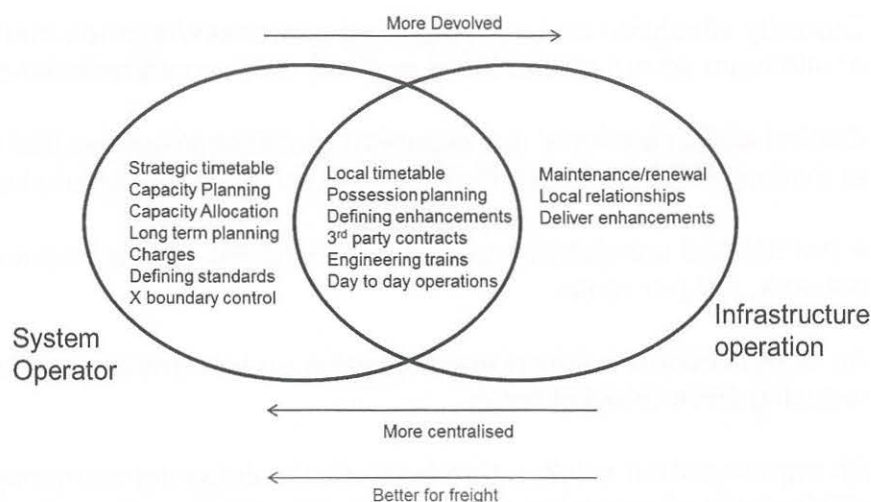
- f. *Enhancements for Freight are Cross Boundary.* The majority of recent enhancements for freight have taken place across multiple NR routes. Certainly the services that benefit from freight-specific enhancements, such as Southampton - West Coast Train Lengthening or F2N, are cross-route services. These schemes have not been without challenge already, and with greater devolution, such projects may well be harder to achieve if appropriate safeguards are not in place.

System Operation for Freight Today

11. Today, the management of freight on the network already contains some elements of system operation. In particular NR's central freight team under the Freight Director manage most aspects of the relationship with DB Schenker and its customers including commercial contracts (connection agreements as well as freight operating contracts), industry liaison and the development of new services and facilities. NR's timetable planning and performance management for freight is also led from central teams based in Milton Keynes.
12. Over the past four years, following suggestions from DB Schenker and Freightliner, NR has used the concept of strategic rail freight corridors originally developed for the CP4 JNAP for the wider management and measurement of freight on the network. These corridors are indifferent to the underlying geography of NR routes and are instead based on actual freight flows reflecting user requirements. The introduction of this approach has been important in raising freight performance and allowing greater insight into the holistic management of freight, including for example, better measurement of velocity. This approach aligns well with the concept of system operation.
13. Most other elements of day to day operation, (e.g. signalling and control), are provided on a Route / local basis. In recognition of the shortcomings of this for freight and as part of the introduction of the central freight team in 2012, round-the-clock freight controllers were introduced into NR's National Operations Centre at Milton Keynes to manage cross boundary issues and ensure freight is not discriminated against during operational perturbation. It is not clear how this overall co-ordination role would continue under greater devolution or different structural models.

Functions of System Operation

14. As an illustration, the diagram below has been developed by the freight sector to show how different functions of railway operation could become part of system operations, or of infrastructure operation under different models of devolution or of structural reform always recognising that there are choices in some areas. For freight, DB Schenker believes that models which place more functions within a system operator role are likely to lead to better outcomes for its customers.



15. For a national operator, possession planning is a central and fundamental part of system operation, critical to ensuring that, in particular, overnight freight can continue to operate and that key routes and their diversions are planned in synchronisation. However, an increasingly empowered NR Route might assert that in order to deliver cost efficiencies, it needs autonomy of how and when disruptive engineering access is taken.
16. Similarly, DB Schenker considers timetabling to be a system operator function, yet regional transport authorities such as Transport for the North might reasonably expect their local devolved routes to take charge of timetabling for their local service specification.
17. We therefore believe that it is imperative that a wider debate on the scope and role of system operation takes place now, ahead of decisions on future structure and funding, and that the costs and benefits and downsides of different options are assessed.
18. Such an assessment should also consider what other protections are necessary for example around licence conditions, independent regulation, duties and guidance and legal protection. This is particularly important for freight if more functions are placed with devolved routes.

Summary of Requirements for Freight

19. In considering the structure and form of systems operation and devolved routes, there are therefore a number of important considerations for rail freight, necessary for the reasons outlined above. These are summarised as follows:
 - a. One national track access charging and incentives regime that;
 - i. fosters modal transfer from road to rail
 - ii. incentivises track friendly equipment
 - iii. is non-discriminatory between freight operators
 - iv. does not discriminate against secondary operators on any/all Routes.

- b. Capacity allocation and train planning processes/regimes that facilitate (or at minimum do not discriminate against) cross route/national operations.
- c. Control and operational management processes/regimes that facilitate (or at minimum do not discriminate against) cross route/national operations
- d. A holistic and consistent approach to disruptive access regimes across the network, not per route.
- e. An organisational solution that facilitates understanding/ challenging/ reducing NR's (freight) costs.
- f. An organisational solution that facilitates maintaining economies of scale / efficient use of specialist & scarce resource (e.g. in support activities such as the NSC).
- g. With respect to infrastructure renewals and enhancements, an organisational solution that facilitates:
 - i. Cross-route solutions for customers
 - ii. Clarity of specification
 - iii. Clarity of outputs and outcomes
 - iv. Understanding/challenge of costs, both freight-specific and multi-user.

20. Aside from systems operation, independent regulation also remains essential for freight.

Annex 1: Response to Specific Questions in ORR consultation document entitled “System Operation: A consultation on making better use of the railway network” published in August 2015

Consultation question 1

As discussed in section 2, to deliver good system operation, we think system operation involves these functions;

- *Developing proposals for changes to the network;*
- *Choosing projects for changes to the network;*
- *Determining capacity from the physical network;*
- *Allocating capacity (including to possessions) and performance; and*
- *Operating the system (including at the route level) enabling services to run.*

What are your views on the functions we have mapped out, and their ability to facilitate delivery of the system operation outcomes? Do you think we have missed any key functions of system operation?

1. As outlined in the main body of this response, DB Schenker considers that greater thought needs to be given to the definition of system operator and the functions within it, both in terms of the present but most importantly with reference to structural models of greater devolution. Whilst there is discussion of this within the document, the focus on capacity definition and allocation dominates, and the argument should be broadened.
2. With reference to the outcomes defined in the Executive Summary and elsewhere, DB Schenker believes that the need to protect the business needs of operators and customers is under-played, and the necessity for changes to capacity allocation and for trade-offs is potentially overplayed. Whilst reform is desirable, even a ‘status quo’ system operator is increasingly essential.
3. In terms of the discussion on capacity, DB Schenker notes the definitions in Figure 6, but consider this to be a broad simplification. There is concern that a tight definition could be constraining if it forms the basis of future measurement and management.

Consultation question 2

As discussed in section 3, through our work on system operation we want to improve how the railway meets the current and future needs of passengers, freight customers and funders. We think a greater focus on system operation can improve outcomes in six areas:

- *Continued safe operation;*
- *Choosing the right investment;*
- *Making the right trade-offs;*
- *The right services using the network;*
- *Helping train operators to deliver; and*
- *Choosing the right investment*

What are your views on the outcomes of good system operation that we have set out in this consultation?

4. DB Schenker agrees that the areas listed are important, as part of a holistic definition of system operator functions. Most importantly, "Helping Train Operators to Deliver" is a key outcome for freight.
5. DB Schenker is concerned over some of the language used around trade-offs and the 'right' services using the network. Such considerations require explicit and clear guidance from Government over their priorities, particularly for services which deliver social value. The consultation is also silent on how Government might consider cross modal trade -offs, for example between HGVs and rail freight, or between road building and rail enhancements.
6. Appendix 3 of the Credo report talks explicitly about freight capacity but does not capture recent progress in a number of areas nor highlights some of the more subtle points around freight capacity, for example:
 - a. Train length – allowing freight trains to be longer, up to the maximum that can run efficiently on the network, allows additional capacity without any new paths being required. There has been excellent progress in this area over recent years which is not acknowledged in the report.
 - b. NR and freight operators have been systematically releasing unused Train Slots as part of the work relating to Strategic Capacity. In the last 18 months over 1,800 paths have been released, but less than 500 of these have been retained for future freight use as Strategic Capacity. The remainder have been released into 'white space'. Given performance constraints, it is questionable whether these released paths will actually deliver any new capacity for other network users, or simply be retained to provide further performance margins.
 - c. Recent analysis on the Midland Main Line in respect of the 'congested infrastructure' assessment examined all the nominally unused freight paths, and found that everyone was breached at some point. This means that a path which, for example, may appear unused for most of the journey from London to Leicester (say) is in fact unusable due to a conflicting movement at somewhere along the route.
7. The above examples highlight the complexity of capacity management for freight, and the perils of high level approaches, when in actual fact detailed assessment is necessary for actual improvement. The consultation makes little reference to the need for such approaches.

Consultation question 3

Can you give us any examples, based on your experience, where these functions improve outcomes? This could include examples of when system operation has helped you in running your business and delivering for your customers. Please also feel free to highlight any areas where you think system operation could help you in the future.

8. As indicated previously, DB Schenker believes effective system operation is a must if rail freight is to continue and grow in an increasingly devolved railway system.

Consultation question 4

To regulate and incentivise Network Rail, we use a range of tools, such as regulating and monitoring Network Rail against certain outcomes and providing for a charging regime that should encourage economic and efficient behaviour by all users.

Do you have any views on what the desired outcomes and functions associated with system operation might mean for the regulation and incentivisation of network system operation?

Please highlight any particular areas where you think a different approach to regulation or incentivisation of system operation could help you better run your business in the future, and why.

9. A consistent, predictable and fair system of charges and incentives is necessary for freight, and these must be set at a national level given the network-wide nature of freight operations and the markets in which DB Schenker's customers trade.
10. DB Schenker is engaging with the early work on charges and incentives for PR18 where some of these issues are being addressed. DB Schenker is concerned to receive early clarity on the extent to which different industry parties are to be exposed both to changes in charges, and by the decision to pass Network Grant via passenger train operators.

Annex 2: Response to Specific Questions in Network Rail consultation document entitled “*Network System Operation*” published in August 2015

Question 1: What importance do you attach to network system operation as described? Are there other elements?

1. DB Schenker believes that the description of system operator in this consultation more closely aligns with its understanding than the description set out in ORR’s consultation document. However, and as described above, DB Schenker believes that more work is necessary to properly capture and define the essential elements, particularly given the movement towards greater devolution.
2. System operation is an essential feature of operating network wide freight services as described in the consultation.

Question 2: Besides transparency of information, are there other issues that should be prioritised to support improved network system operation?

3. Whilst information provision is an essential part of decision making, DB Schenker considers it is not directly and specifically linked to system operations. Transparency of information is a necessity of a modern industry, and NR, ORR and the operators should be working towards this as a goal in its own right.
4. A particular challenge will be that many elements of system operation are more subjective than objective in nature, which makes automatic or simplified measurement and monitoring complex. An example is train planning - how does a measurement system distinguish between a “good” path delivered one day outside of any laid down criteria as against a “poor” path (that is essentially unusable) delivered within the criteria?

Question 3: How effective do you think the dashboard and related information will be as tools to support decisions by industry parties and funders? Can you see any other potential audiences?

5. Greater availability of information can be a tool to effective decision making, but only if it is flexible enough to support analysis at a sufficient level of detail and that it is sufficiently relevant to the enquiry or issue in question. Much system operation data will be aggregated, of necessity, which will limit its use in individual circumstances.
6. As such there should be a balance between published data, regulated data and information which is made available for interrogation by a wider audience as required. The latter can help to support effective customer decision making, and allow better links to be made with other systems and measures – including those used outside of the rail industry.

Question 4: Do you support inclusion of each measure, and its definition, on the dashboard (Annexes A & B) given current data availability? What other measures do you think could be included now, and why do you think they would be useful?

Question 5: Which measures would you like to be shown in comparison with each other in the data supporting the dashboard, and why?

Question 6: Which of the potential future measures listed in Annex C do you think should be prioritised for development, and why? Can you see any other information that it would be useful to develop for inclusion?

39. The measures in Annex A are essentially pre-existing measures that have been assembled into a new format, and in many cases are of only indirect relevance to system operation. Annex A is also very large.
40. As stated before, many aspects of system operation call for a greater level of subjective analysis and measurement and this needs further work. DB Schenker agrees that the measures listed may be useful, but sees no reason why greater transparency of data should not be pursued more quickly.
41. Equally, in respect of regulated data on a dashboard, DB Schenker considers it premature to define this before a consensus is reached on the role of system operator, and its place within any structural change or greater devolution.

End