

## **System Operation**

### **Rail Freight Group response to consultations by Office of Rail and Road and by Network Rail**

**October 2015**

1. Rail Freight Group (RFG) is pleased to respond to the consultations from Office of Rail and Road (ORR) and Network Rail (NR) on system operation. Given that both consultations relate to the same themes, we have prepared a joint response, with individual comments provided in separate Annexes. No part of this response is confidential.
2. RFG is the representative body for rail freight in the UK. We represent around 120 member companies who are active across the rail freight sector including train operators, customers, ports, terminal operators and developers, supply chain and support services. Our aim is to grow the volume of goods moved by rail in the UK.

#### ***Scope of Consultation***

3. Effective system operation, wherever and however it is carried out, is critical to the success of rail freight. As NR's routes become increasingly devolved, and the ambitions for political as well as geographical devolution of transport increase, the need to better define and structure these functions is ever more pressing. To that end, we welcome these two consultations in their own right and as a vitally important input to the Shaw Review on the future of NR.
4. That said, we do consider that, as presented, the consultations are to some extent incomplete. We would consider that defining system operation might require a number of stages;
  - a. What are the essential functions of a system operator – and in consequence 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 hazards of different choices for different parties?
  - 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, we consider that further work is required particularly in respect of the first three areas above. These are not fully discussed in either consultation.
6. We recognise that there is yet no consensus on what the future structure of NR might be, or indeed even on the options for consideration emerging from the Shaw review or elsewhere. Decisions on political devolution of transport powers are also still unknown. However, NR have already announced that they will work to devolve more power and authority to their existing routes, and ORR's direction of travel, as defined in the Long Term Regulatory Statement, also supports such an approach. These moves alone make the proper implementation of system operation a necessity now, if freight operators and their customers are to be protected.
7. As such, we consider that further work is required in the areas not covered by this consultation, in parallel with the necessary follow up to the areas which are included.

### ***Why System Operation matters to Freight***

8. Effective system operation is essential to protect and grow 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.
9. *Rail freight is a nationwide business.* Without exception, freight operators work over multiple parts of the network, with the majority active in all NR's current devolved routes. Whilst some freight flows (particularly coal) are contained within one of the present areas, most are cross boundary, many crossing multiple routes. A Felixstowe to Manchester train via F2N travels on three routes for example. This means that the planning and management of services across boundaries is a critical activity, and ensuring consistent standards across the network is also vital.
10. *Freight is not always a priority.* With rail freight accounting for just 4% of all trains, and around 8% of all train miles, freight is often not seen as a priority by route managing directors today. Indeed, it can be hard for route managing directors, who are often under pressure from their lead passenger operators, to make time for freight at all. Similarly, it is hard for the freight operators who are themselves thinly staffed to maintain effective relationships with all eight routes, as well as the central freight team. In today's structure of NR, there is a broad equilibrium, but as more power is devolved, this will likely become a greater concern without the necessary safeguards in place.
11. It is also unclear how political devolution will impact on rail freight, not least as different areas may see different forms of control over rail. There are good examples, particularly in the north, of local and regional support for rail freight, but this is not replicated everywhere, nor have we yet seen this support translated into actual outcomes.

12. *Cost efficiency is vital* Freight customers are, for the most part, able to choose between road and rail, and will do so. ORR's own analysis undertaken for PR13 demonstrated that, aside from coal and some other small sectors, increases in cost would lead to modal shift. This means that freight operators need both to be assured about the stability and affordability of access charges, and also need to ensure that the operation of trains remains cost effective. Additional pathing time, restricted access, bespoke charges or delays at route boundaries can all add to the cost base and make rail less competitive.
13. *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 expected growth in freight is able to be accommodated.
14. *Network Rail is our largest customer* The freight operators move around 1.7bn tonne-km pa for NR, contracted on a centralised basis via National Supply Chain. Other RFG members also support this work through the provision and maintenance of equipment and the supply of rail ballast. Ensuring that such business persists is vital, and maintaining economy of scale in the contracting of such operations is also important for reducing the costs of rail maintenance and enhancement.
15. *Enhancements for Freight are Cross Boundary* The majority of recent enhancements for freight have taken place across multiple NR routes. This has not been without challenge already, and with greater devolution, such projects may well be harder to achieve if appropriate safeguards are not in place.

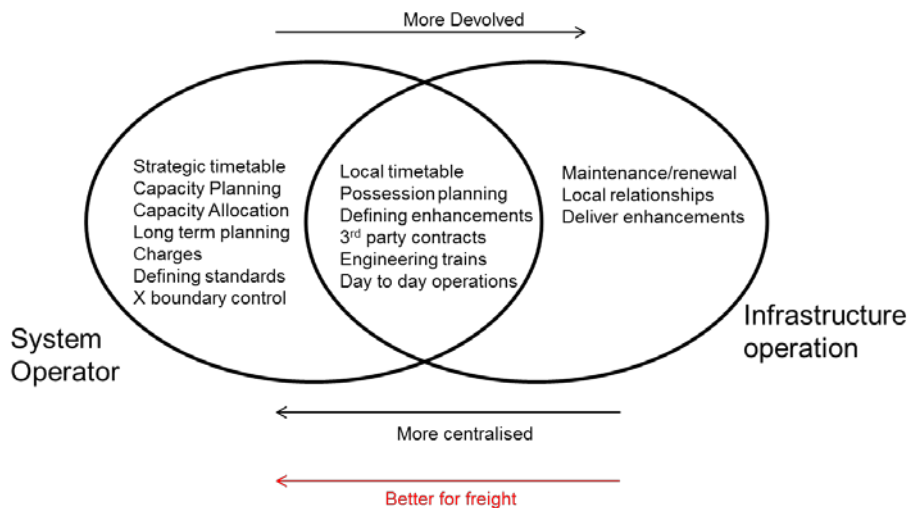
### ***System Operation for Freight Today***

16. Today, the management of freight on the network already contains some elements of system operation. In particular the central freight team under the Head of Freight manage most aspects of the relationship with freight operators and their customers including commercial contracts (including connection agreements as well as freight operating contracts), new services and facilities and industry liaison. Timetable planning is also led from central teams based at Milton Keynes.
17. NR define a number of strategic freight corridors which are used for the management and measurement of freight on the network. These corridors are indifferent to the underlying geography of NR routes, but are based on actual freight flows and user requirements. The introduction of this approach has been instrumental in raising freight performance and allowing greater insight into the holistic management of freight, including for example, better measurement of attained velocity. Such an approach aligns well with the concept of system operation. An example is provided at Annex 3.
18. Other elements, such as day to day signalling and control are provided on a mixed basis, with some elements centrally provided, such as freight controllers to

manage cross boundary issues, and others on a route basis. In an integrated company such as NR, this pragmatic approach has some merit, but it must be questioned whether it is sustainable with greater power devolved to the routes, and/or different structural models.

### Functions of System Operation

19. As an illustration, the diagram below shows 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, recognising that there are choices in some areas. For freight, we believe that models which place more functions within system operator are likely to be better for freight.



20. For example, we would assert that 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 tandem. However, an increasingly empowered route might assert that in order to deliver cost efficiencies they need autonomy of how and when engineering access is taken.

21. Similarly, we consider 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.

22. 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 of different options are assessed.

23. 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***

24. In considering the structure and form of systems operation, and devolved routes, there are therefore a number of important considerations for 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
  - 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. An holistic and consistent approach to disruptive access regimes across the network, not per route.
- e. An organisational solution that facilitates understanding/challenging/reducing Network Rail (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 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.

25. Aside from systems operation, full vertical separation of infrastructure and train operation also remains essential for freight, as does independent regulation.

## **Annex 1 : Response to Specific Questions in ORR Consultation**

### **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?*

26. As outlined above, we consider 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.

27. With reference to the outcomes defined in the Executive Summary and elsewhere, we believe 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.

28. In terms of the discussion on capacity, we note 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?*

29. We agree 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.
30. We are concerned over some of the rhetoric 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.
31. Appendix 3 of the Credo report talks explicitly about freight capacity and is a reasonable summary. However, recent progress in a number of areas is not captured, and highlights some of the more subtle points around freight capacity.
- 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 good progress in this area over recent years which is not acknowledged in the report.
  - b. NR and the freight operators have been systematically releasing unused paths. In the last 18 months over 1,800 paths have been released, but less than 500 of these have been retained as useful paths in 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 as performance margin.
  - c. Recent analysis on the Midland Main Line in respect of the congested infrastructure assessment analysed 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 crossing move mid-way along the route.
32. These examples highlight the complexity of capacity management for freight, and the perils of high level approaches, when detailed assessment is necessary for actual improvement. The consultation perhaps make too 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.*

33. As indicated previously, we believe 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.*

34. A consistent, predictable and fair system of charges and incentives is necessary for freight, and these must be set at a national level to avoid anti-competitive effects for freight customers.
35. We are engaging with the early work on charges and incentives for PR18 where these issues are being addressed. We are concerned to get 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 train operator.



## **Annex 2 : Response to Specific Questions in Network Rail Consultation**

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

36. We believe the description of system operator in this consultation more closely aligns with our understanding than that in the ORR document. However, and as described above, we believe more work is necessary to properly capture and define the essential elements, particularly given the move for greater devolution.

37. 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?*

38. Whilst information provision is an essential part of decision making, we consider 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.

*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?*

39. Greater availability of information will be a tool to effective decision making, but only if it is flexible enough to support analysis at a sufficient level of detail. For example, the presently published freight performance statistics do not provide any detail of route based performance, and are therefore essentially useless for customers seeking to understand the relative performance of their trains.

40. 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 needed. The latter is likely to support effective customer decision making, and allow better links to be made with other systems and measures – including 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?*

41. We agree that the measures listed are likely to be useful, but see no reason why greater transparency of data should not be pursued more quickly. There is a

distinction between doing so, and regulating on the basis of, but there are good reasons why greater availability of information would be good for the industry in its own right.

42. For example, as outlined above, freight performance is shown as a national measure in Annex A, yet exists within NR by strategic freight corridor and by route. Whilst there is no necessity for this to be a regulated output other than at aggregated level, there is equally no reason why this information should not be transparent for end customers today.
43. Equally, in respect of regulated data on a dashboard, we consider 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.

## Annex 3: Strategic Freight Corridor Example – Data from Network Rail