DB SCHENKER

By Appointment to
Her Majesty The Queen
Royal Train Operator
English Welsh & Scottish Railway Ltd
Doncaster

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Richard Owen
Office of Rail Regulation
1 Kemble Street
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Dear Richard,

13 February 2012

PR13 - CONSULTATION ON INCENTIVES

This letter contains the response of DB Schenker Rail (UK) Limited ("DB Schenker") to the consultation entitled "Periodic Review 2013 – Consultation on incentives" issued by ORR on 14 December 2011.

DB Schenker supports the principle of providing incentives for all parts of the railway industry to extend themselves beyond the reasonable standards of performance that might be expected. It does not, however, support incentives that merely act as a reward for doing the basic job or are counter-productive - such as performance regimes that incentivise Network Rail to plan to finish work two hours early in order to avoid the risk of a possession overrun and the associated penalties. DB Schenker considers that such so-called incentives are one reason that the productivity of the majority of the UK rail industry has deteriorated since privatisation, one of the key factors highlighted in Sir Roy McNulty's "Rail Value for Money Study" published in May 2011.

As a basic principle any incentive structure should not impose additional costs or complexity on the industry. At a time when profit margins are very low or even negative there is no place for exquisitely designed incentive mechanisms if their effect is to drive traffic away from the railway because of increased costs.

Instead, DB Schenker considers that any incentive regime should be designed to make using the railway more, not less, affordable. Thus any incentive structure that increases the cost of capital or the cost of operation to DB Schenker in pursuit of some rather theoretical behavioural ideal has very little attraction. In contrast, DB Schenker is looking for financial regimes that reduce the cost of capital and therefore the cost of funding – especially with regard to Network Rail. The future of the rail industry is too important to become embroiled in a purist economic debate. If the UK is to remain competitive, it must have a low-cost sustainable transport network in which rail must play a central part. Anything that causes an artificial inflation of cost has no place in the rail industry.

Rail freight is a private sector activity in which the dominant mode in most sectors is road haulage. It is rail freight's road competitors that set the service and price parameters that rail has to match or beat in order to win business. It is important that in considering rail industry

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incentives this is not overlooked as the net effect of additional cost, risk or complexity will be to make it even harder for rail freight to compete. Customers and potential customers already perceive rail to be overly-complex – this must not be exacerbated as a result of any genuine attempt to devise rail industry incentives.

DB Schenker was disappointed that this Consultation did not seem to explicitly take into account the Initial Industry Plan produced in September 2011, which encompassed the considerable work on outcomes and outputs that might apply in CP5. Instead, DB Schenker felt that this Consultation was rather repetitive of the First PR13 Consultation published in May 2011to which DB Schenker responded in September 2011. This response therefore needs to be read in conjunction with DB Schenker's September 2011 response.

DB Schenker's comments to ORR's specific questions raised in the consultation document are contained in the Annex to this letter.

If you have any questions, or would like clarification or amplification of any points, please do not hesitate to contact me.

Yours sincerely,

Nigel Jones
Head of Planning & Strategy

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