

29 May 2015

Phil Dawson  
Regulation & Track Access Manager  
Virgin Trains East Coast  
East Coast House  
25 Skeldergate  
York  
YO1 6DH

First Rail Holdings Ltd  
4th Floor  
Capital House  
25 Chapel Street  
London NW1 5DH  
[www.firstgroupplc.com](http://www.firstgroupplc.com)

Dear Phil,

### **Section 17 Application by East Coast Trains Ltd for Open Access services on ECML**

Thank you for your letter of 10 April 2015 with respect to our application to operate services on the East Coast Mainline (ECML).

A number of matters were raised in your letter in relation to our application, which we would like to take the opportunity to respond to and that we hope will aid your understanding of our proposition. Of the seven points that you identified in your letter, four of them relate to the market that we are proposing to serve and are therefore dealt with together, with the remaining three points addressed separately:

(1) Revenue Abstraction, (3) Passenger Capacity, (4) Markets and (7) Airline  
As you will appreciate, we have provided significant confidential information to ORR within our Business Plan that forms part of our application, which demonstrates the viability of our business model. However, there are some key elements of our approach that we are happy to share in this response.

Our service proposition is focused on growing rail's share of an enlarged travel market, achieved through: a new customer orientated model new offering simple ticketing and low fares which will form the bulk of our tickets offered on each service; utilising modern state of the art rolling stock; and one class of travel.

We are targeting those destinations that have large air markets, are served by the coach market or are currently underserved by rail.

We have undertaken significant analysis using a range of techniques and data, and have been able to determine that of the existing total travel market between London and Edinburgh the vast majority of trips are taking by plane. Rail is the next largest, followed by a smaller but not insignificant amount of journeys by road, particularly by coach. Rail does not provide an arrival into Edinburgh from London prior to 11:00 whereas there are a significant volume of flights that land early in the day attracting travellers who wish to spend the day in Edinburgh. Our proposition includes an earlier arrival into Edinburgh and a return journey, therefore competing directly with the airline market.

We will be providing five additional trains a day between London and Edinburgh, a modest increase over the number that VTEC will operate in total. Our proposition targets

modal shift as well as increasing the overall market, and therefore provides capacity to accommodate this shift.

Whilst the market between London and Newcastle is dominated by rail, our research shows that there remains a significant non-rail market and that a majority of these passengers would consider using rail. Our proposition provides that incentive to switch to rail.

We acknowledge that the ORR has undertaken separate analysis of our proposals which will be presented in due course. However we are confident that our proposal significantly exceeds the NPA test.

## (2) ECTL timetable assumptions & Performance

As we set out, the timetable that we have provided is indicative based on your kind provision of the proposed 2020 VTEC timetable, and takes into account the findings of the December 2014 Network Rail study into capacity on the ECML. To be clear, we have developed our indicative timetable in order to demonstrate that the capacity exists on the route to enable our proposed services to operate as well as the current open access operators and VTEC proposals (from 2020). We recognise that our planned implementation date of the timetable year commencing December 2018 is ahead of the 2020 VTEC proposals, but adopting this approach has ensured that we are able to demonstrate that our services can be accommodated.

We are therefore confident that there is sufficient capacity on the ECML for our proposed services from 2018 alongside the current LDHS operators as well as the proposed Virgin Trains East Coast (VTEC) and Thameslink services from 2018. Our analysis has concluded that eight LDHS paths per hour in each direction in the off-peak are available following the planned investment in the route during CP5 and coupled with the performance characteristics and capability of our rolling stock. In the hours in which the Lincoln services operate there are nine Long Distance High Speed (LDHS) paths per hour, which is consistent with the findings of the Network Rail study. The ninth path is a feature of the nature of the service pattern on the route, which repeats over a two hour period during the off-peak.

We have also proposed that following ORR's decision on access rights an industry Event Steering Group (ESG) is established such that all operators together with Network Rail can develop a timetable that meets the requirements of all users.

The NR ECML 2020 Capacity Study published in December 2014 provides an indicative view for performance on the ECML with a total of eight LDHS paths on the route. The report concludes that increasing the number of LDHS paths could lead to a reduction in PPM of 1.8 - 2.0%. However, our view is that this will be mitigated through the introduction of a more standard two hourly pattern of services plus the introduction of new highly reliable state of the art rolling stock (by both ourselves and VTEC). Our experience of service changes has led us to conclude that the Network Rail view on performance could be overly pessimistic, particularly as it appears to be based on results in the periods directly after a major timetable change. The report cites the examples of Virgin West Coast December 2008, May 2011 ECML and May 2014 FTPE timetable



changes. By basing the performance assessment on performance immediately after the change, there is a risk of overstatement because of the typical 'bedding in' period around a major timetable change. For example, in both the first two cases performance had recovered or improved a year after the change was made:

- Virgin West Coast: 83.2% (2009/10 P08) vs. 83.1% (2008/09 P08)
- East Coast: 86.5% (2012/13 P01) vs. 83.3% (2011/12 P01)

In the case of the most recent change on FTPE, the dip in performance was affected by other issues, including asset reliability, and has recovered to 91.0% in period 11/12 2014/15. The figure of a 1.8%-2.0% drop in PPM represents around a 14% increase in PPM failures, compared with current performance levels. This implies a comparable increase in delay experienced by train on the route due to congestion. This figure seems high, given the substantial investment at the critical junction points on the route. Our view is that this investment is expected to provide a capacity increase of at least 25%, offsetting the impact of additional paths on performance. For the above reasons, we assess that despite the increase in the quantum of paths performance would be at the very least maintained and it is likely that it could be improved.

#### (5) Morpeth

We welcome your in-depth analysis of the Morpeth area. However, we believe that the current rail opportunity to London does not meet the needs of the size of the potential market. The existing rail service compares poorly with other similar sized catchment areas on both the East Coast and West Coast.

Morpeth has a strategic position close to the A1, and is located near to a number of medium-sized market towns, such as Blyth, Cramlington, Bedlington and Ashington. Indeed, around 150,000 people live within a 15-minute drive radius from Morpeth station (excluding those in Newcastle suburbs), with over 100,000 people living less than a ten minute drive away. Despite this large catchment area for passengers, Northumberland is extremely poorly served by direct trains to the capital. Rail passengers currently face a choice between existing unsuitable local rail services into Newcastle, which are poorly timed for connecting services, or substantial car journeys into Newcastle, potentially through city traffic, with the associated cost of parking to consider.

We are also committing investment at Morpeth focused on improving access to the station for rail customers.

#### (6) Secretary of State Funds

Early in the development process of our plans, we noted a specific risk to the public purse, arising from the potential that an open access application would trigger a Secretary of State Risk Assumption (SoSRA) included in the ITT for the East Coast franchise. Mindful that this could have an unacceptable impact on public finances, we have designed our timetable to ensure that this application is compatible with VTEC aspirations. This should enable VTEC to secure sufficient access rights to operate the increased services associated with this SoSRA. We are therefore confident that our proposition of five return trips a day can operate alongside VTECs proposed 2020 service without leading to the need to invoke the SoSRA provisions and impact on Secretary of State funds.

Our proposition will grow the overall rail market, which will lead to an increase in volume and revenue in the sector. There is also a significant wider economic benefit to the country as a whole through the implementation of our proposed services. We firmly believe that there is a compelling case for the access rights to be granted to enable these innovative, industry leading plans and investments to proceed. We will support the growth of local economies and jobs on the route and enable very significant reductions in carbon emissions, and boost competition across all modes by offering customers greater choice and lower fares.

Once again thank you for taking the time to respond to the consultation on our proposals. I trust that the information contained within this letter is useful. I am copying this letter to Rob Plaskitt at ORR.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Russell Evans', with a long horizontal flourish extending to the right.

Russell Evans  
Policy & Planning Director