

REDACTED



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10 April 2015

Dear Rachel and Russell,

RE: Section 17 Application by East Coast Trains Ltd for Open Access services on ECML

Thank you for the opportunity to comment on the Section 17 application between East Coast Trains Limited (ECTL) and Network Rail Infrastructure Limited (NR). Virgin Trains East Coast (VTEC) is particularly grateful to First Group for sharing their (public) timetable proposals in advance on a confidential basis and for clarifying some of our initial queries.

Please note that this response includes some sensitive and confidential information that has been redacted - the following symbol denotes redacted text [♦]. A full unredacted response and accompanying confidential analysis have been provided to the ORR and will not be approved for wider publication without our further written consent.

VTEC has a number of concerns and issues with this application. There are seven core themes that we will raise in this response:

1. Revenue Abstraction from existing VTEC core London markets
2. ECTL timetable assumptions, ECML Capacity & Performance
3. Surplus Passenger Capacity
4. Open Access and well served core ECML markets
5. Morpeth
6. Funds Available to the Secretary of State
7. Airline Markets

1. Revenue Abstraction from existing VTEC core London Markets

VTEC considers that this application is primarily targeted at existing, well established rail markets, notably Edinburgh <> London and Newcastle <> London. Our analysis shows that your application adds relatively little gain of revenue for National Rail [♦] yet is highly abstractive from VTEC [♦], giving a NPA result of 0.12. This is based on our current timetable (May 2014 service quantum and stopping patterns) with assumed journey time savings enabled by introduction of Class 800/1 fleets and ongoing ECML upgrade work. (The full analysis will be provided on a confidential basis to ORR).



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VTEC notes the ORR's Moderation of Competition - Final Conclusions "*The Regulator acknowledges that competing services that are primarily abstractive of incumbents' revenue without compensating economic benefits - cherry-picking services - are undesirable.*" VTEC strongly believes that this application is primarily an undesirable cherry-picking exercise.

2. ECTL timetable assumptions, ECML Capacity & Performance

ECTL's proposal envisages many of their southbound trains being held at Darlington station for eight minutes so that the closely adjacent VTEC service would overtake, so that the VTEC service could be assumed to be unaffected.

VTEC can see no logical timetabling reason for this and should NR and ORR successfully implement "quantum only rights", we do not believe that the Decision Criteria in Part D of the Network Code would support such a scenario.

In practice, there would be no reason at all for Network Rail to do anything other than path the ECTL trains ahead of VTEC's train service throughout the journey, thus avoiding the need for overtaking and the performance risk this incurs. This results in £1.8m additional annual revenue abstraction from VTEC.

Overall, VTEC considers that the application proposal is unrealistic in terms of timetable assumptions and does not accept ECTL's repeated assertions that both its proposals and VTEC's own timetable proposals can be accommodated side by side.

The ECTL application repeatedly acknowledges the Network Rail "ECML 2020 Capacity - Timetable Assessment" report and its conclusions and recommendations. Furthermore, ECTL confirm in the application that their own analysis has also concluded that 8 LDHS paths per hour in each direction can be accommodated.

However, from the timetable information provided to us by ECTL, which uses the VTEC proposal for May 2020 as a base (including the identification of paths for existing Open Access services), it is apparent that in 7 out of the 10 hours that ECTL propose to operate services, it would take the quantum of LDHS services up to 9 TPH.

This is not consistent with the Network Rail conclusions and as such provides no evidence that the ECTL proposals can fit with the VTEC proposals.

In addition to this, the Network Rail report concluded that there was insufficient capacity between York and Edinburgh to satisfy all the service aspirations that had been tested. In particular, between Newcastle and Edinburgh, there is no confirmation that 3 LDHS TPH from London can be accommodated. This is on a section where there are currently no plans for infrastructure enhancements.

Moreover, VTEC notes that ECTL proposes to commence its services from December 2018. It is our understanding from latest information from Network Rail, there is an increasing likelihood that not all of the ECML Connectivity infrastructure enhancement schemes will be delivered by December 2018.

In relation to the potential performance impact on the ECML, VTEC would expect NR to undertake detailed performance modeling of these proposals in conjunction with all other current ECML track access proposals.

3. Surplus Passenger Capacity

ECTL’s proposal states that it would provide significant additional capacity on the route between London, the North East and Scotland. However, we believe that the proposals would introduce unnecessary surplus passenger carrying capacity onto the route over and above that committed to be provided by our own proposals. This would lead to a wasteful use of scarce line capacity on the route.

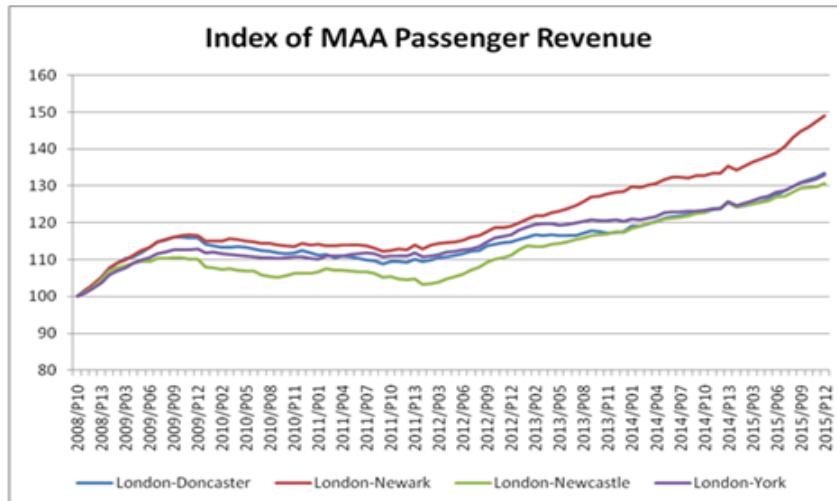
Our proposals provide more than sufficient seating to carry forecast passenger demand on the Edinburgh <> London route to 2023/4 and beyond. Our forecast passenger loadings (occupying Standard accommodation at the “critical” i.e. busiest point on the journey) have been analysed versus the ECTL timetable and we believe that there is sufficient spare capacity each day. The table below details the forecast spare capacity on the immediately adjacent VTEC trains to the proposed ECTL five trains in each direction, at the end of the Franchise (2023/4):

Average no. of spare seats on the relevant adjacent VTEC trains in 2023/4	Mondays to Thursdays	Fridays
Southbound Edinburgh Trains	[♦] seats per day	[♦] seats
Northbound Edinburgh Trains	[♦] seats per day	[♦] seats
Southbound Newcastle Trains	[♦] seats per day	[♦] seats
Northbound Newcastle Trains	[♦] seats per day	[♦] seats

Please note that there are other VTEC services throughout the day, also with spare capacity. ECTL’s proposals therefore provide further seating capacity that is simply not required, representing poor use of scarce network capacity.

4. Open Access and well served core ECML markets

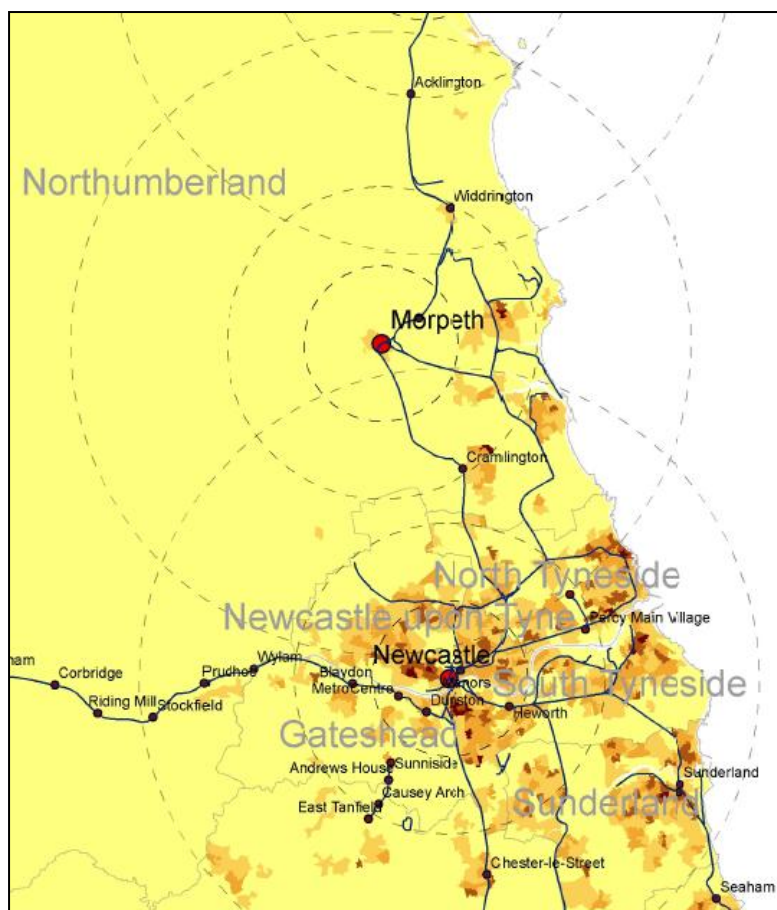
While we acknowledge that open access has developed new markets using the ECML from off core origins (e.g. Hull to London), VTEC believes that open access operation offers little scope to develop UK rail revenue on well served East Coast markets, i.e. Edinburgh <> London and Newcastle <> London. This view is based on our analysis of UK rail revenue on core markets on the ECML since Grand Central achieved a regular timetable in summer 2008. There is no evidence of core flows with open access operation outperforming those without in terms of UK passenger revenue growth.



5. Morpeth

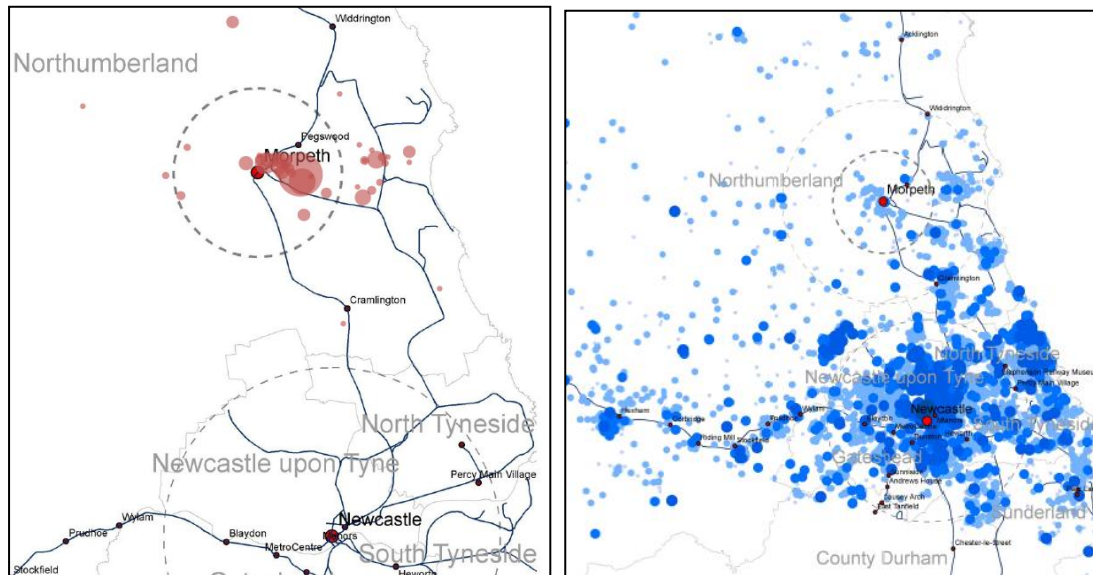
ECTL cites a major expansion of long distance services at Morpeth (which has 170,000 people within a 20km catchment of the station) as a key benefit of their proposal. VTEC fundamentally disagrees that a 20km catchment area is in anyway suitable for Morpeth. Indeed, a 20km catchment area would suggest much of North Tyneside and North Newcastle would railhead 15km-20km north to Morpeth to then travel south to London for 7 direct trains per day to London, rather than travelling 6-7km to Newcastle which offers 44 direct trains per day (under VTEC's proposals). This simply would not happen.

The map below illustrates the 5km (inner circle) 10km (middle circle) and 20km (outer circle) of catchment areas for Morpeth and Newcastle.



The industry norm is that a 5km radius around an ECML station is a sensible starting point for assessing a catchment area. Whilst there are exceptions to this, for example where there is a high frequency service or particular demographics resulting in a high propensity for travel, we do not believe that such factors exist for Morpeth. We therefore believe that a 5km radius is far more appropriate for assessing Morpeth.

Indeed, our own ticket sales data (from the VTEC website) supports the assertion that the majority of demand is derived from people within a 5km radius around the station. The first dot map (red) below illustrates this. Bedlington and Ashington (to the East) are the only exceptions to this. Therefore, there is no evidence to support ECTL's assertion that a 20km catchment is in any way justified. Indeed, the second dot map (blue) illustrates the wide catchment of Newcastle, clearly demonstrating that passengers will railhead to Newcastle because of fast and frequent services to and from London.



VTEC's current well established services are specifically timed to target the principal demand time bands, i.e. to serve demand for early morning travel to London, and peak demand out of London, and the above map illustrates Morpeth's actual catchment area from our customer database. There is no evidence to suggest that Morpeth's catchment area would suddenly change with the introduction of ECTL's off peak services, indeed, we would expect the catchment area to be very similar to that currently using our own London services.

In addition, the station car park in Morpeth is very limited (only 72 spaces) and our experience is that it is often full, with passengers parking on adjacent streets by the early morning, making it unsuitable to accommodate further rail-heading passengers accessing by car.

6. Funds available to the Secretary of State

VTEC does not believe that there is sufficient capacity for these proposed services to operate alongside VTEC's proposals. Should access rights be granted to ECTL in such a way that VTEC could not run its full May 2020 timetable, then compensation would be available to VTEC from the DfT, directly impacting the funds available to the Secretary of State.

In addition, any further increase in Open Access on the ECML would diminish long term franchise value, directly impacting future funds available to the Secretary of State.

Government has funded some £670m over CP4 and CP5 in infrastructure enhancements on the ECML that has helped increase capacity. Should this Open Access proposal be granted the additional capacity at the expense of the Franchised Operator, who in turn returns significant premiums to government, the business case for future ECML investment would be seriously undermined.



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7. Airline Markets

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A key element of the ECTL proposal is to grow the overall travel market between London, Edinburgh and the North East. Once the interlining air market has been discounted, rail already hold a significant share of the Newcastle <> London market (88%) and 41.6% of the Edinburgh <> London market. The opportunities from Newcastle are very limited.

Whilst we acknowledge that Edinburgh does offer opportunities for modal shift, VTEC does not believe that ECTL's proposals will achieve this. For example, whilst ECTL's 10:00 arrival into Edinburgh is clearly earlier than our proposed 11:00 arrival, it requires a 05:30 departure (compared to a 07:00 departure under VTEC's proposals). Given the very limited public transport available to King's Cross to connect into a 05:30 departure, overall, we do not believe that this will be a competitive proposition. There are a number of flights arriving into Edinburgh for 10:00, but the later departure time of these flights (08:30) is far more attractive versus the 05:30 departure set out in ECTL's proposal. Rail's advantage of city centre departures is less strong at times when no public transport is running. Once taxi is considered as an access mode, air is much more attractive.

VTEC believes that its own proposals for an hourly fast service between Edinburgh and London that regularly achieves the market sensitive time of 4 hours, a service that runs throughout the day including the peaks into and out of London for the critical business market, is a far more competitive proposition for modal shift from air to rail, than ECTL's slower, off-peak proposal.

8. Conclusion

This proposal adds no new markets to rail - it merely serves existing markets more slowly than proposed by VTEC. The only significant improvement envisaged is for Morpeth outside the busier timebands for London travel which we already serve with direct trains. We have demonstrated the limited scale of Morpeth's relevant catchment area (that isn't already served better by Newcastle), and consider this to be insufficient to justify the additional station calls proposed.

The ECTL proposal would be severely damaging to route performance if allowed in addition to VTEC's proposals. In particular, the proposed overtaking would be a performance risk and wouldn't happen when NR applied the Decision Criteria.

Overall, this proposal is highly abstractive, would significantly reduce future franchise value and could reduce the funds available to the Secretary of State in the current franchise.

For these reasons, we formally object to this proposal.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Phil Dawson'.

Phil Dawson
Regulation & Track Access Manager

cc David Reed, ORR