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27 March 2012

Dear Rob

Alliance Arrangements Proposed in Relation to Wessex Route (Wessex Alliance)

I am writing to you in order to seek formal consent under Licence Condition 5 of the Network Licence to enable Network Rail to enter into an alliance with Stagecoach South Western Trains (SSWT) in relation to the Wessex route.

In terms of the detail of our proposed arrangement, we have discussed this with you and your colleagues over the past few months. We have also issued an industry consultation (attached at Appendix A) which sets out our proposal in more detail as well as a policy statement on Network Rail's approach alliancing more broadly (attached at Appendix B). We have also provided you with a draft of the alliance agreement and will provide any further drafts as they are agreed, as well as the final, signed version.

In summary however, we are seeking to enter into an alliance agreement with SSWT which will cover the period from April 2012 to the end of SSWT's franchise (expected to be in February 2017 but capable of being terminated in 2014 on grounds of performance). The alliance will manage the operation and maintenance of the network (including stations) and the rolling stock from day one. We intend to include renewals and enhancements at a later date, at which time we will review again what consents may be needed to achieve this. The alliance will consist of one joint management team, headed up by a single Alliance Managing Director. Underpinning the alliance will be a risk and reward sharing mechanism by which Network Rail and SSWT will share the financial up and downside of operating the alliance. Downside risk is capped at £20 million for each party, and this cap covers the first two years of the alliance (i.e. it is not an annual cap).

Other forms of alliance referred to in our policy statement would not generally require consent per se but they could lead to specific initiatives which require consent and we would address this as necessary.



Consent under Licence Condition 5 (LC5)

Condition 5 of our network licence specifically prohibits Network Rail, except in so far as ORR may otherwise consent from being 'directly or indirectly interested in the ownership or operation of any railway vehicle in Great Britain' – save for interest in vehicles used to undertake the Permitted Business. Condition 5 goes on to state that the licence holder shall be regarded as being directly interested in the ownership or operation of railway vehicles where the licence holder:

- (a) has any legal or beneficial interest in any railway vehicle (in whole or in part);
or
- (b) has the right to manage the affairs of another person who has any such interest in, or operates, any railway vehicle.

Condition 5 goes on to state that the licence holder shall be regarded as indirectly interested in the ownership or operation of any railway vehicle which is operated by any of its affiliates or in which the licence holder or any of its affiliates has any legal or beneficial interest (in whole or in part).

The Wessex Alliance will result in Network Rail having an indirect financial interest in rolling stock by virtue of the risk and reward sharing mechanism in the Wessex Alliance. Additionally it could result in Network Rail having a role in relation to the operation of rolling stock through the Alliance Agreement and through the Alliance Executive roles where we have combined portfolios in order to achieve improvements in the interface between the parties. For example, we expect the Alliance Operations Director to be a Network Rail employee from day one. This role will manage the operation of both the network (for Network Rail) and the train services (for SSWT) on a day to day basis. Additionally, the Commercial Director (a role which will be undertaken by a Network Rail employee on day one) is responsible for collating the business plan for the alliance as a whole and this will include plans for rolling stock. This role is also responsible for pricing, revenue development and train service strategies and also for procurement. This is in addition to Network Rail activities such as monitoring, reporting and review of business performance through periodic reviews.

As discussed with you, we believe that LC5 was not drafted with alliances in mind; its main purpose was to prevent vertical integration and to prevent Network Rail, as licence holder, from becoming a ROSCO. In our view, the arrangement does not create a new vertically integrated operating company. This is because in constructing the alliance agreement we have had regard to the existing (and proposed) UK and European legislation which is clear about the need for the separation of infrastructure manager and operator roles. The alliance is a contractual arrangement between Network Rail and SSWT under which we have agreed to work together but remain separate companies. In addition, the alliance is a time limited contractual arrangement and will end in February 2017 unless terminated early (unless it is terminated by the parties under the terms of the agreement) at which point it must be capable of being entirely unwound.

In our view, Network Rail will also not be operating as a ROSCO. The management of rolling stock leases may sit within the contractual and organisational structure, and the terms of these rolling stock agreements could in theory be varied during the operation of the alliance. However, Network Rail will not be acting as a ROSCO for the purposes of the alliance.

Network Rail will continue to prepare its regulatory and statutory accounts (as indeed will SSWT separately and independently). The cost sharing mechanism will be governed via a financial model, which will be subject to audit by both organisations. While the commercial terms of an alliance may be commercially confidential, any aggregated financial flows from other alliances would be identified through the regulatory accounts. This would therefore be subject to independent audit and potentially further review by ORR or the independent reporters.

Our proposal enables alignment of incentives by sharing over and underperformance relative to a baseline, and we believe that this is an effective way for industry parties to achieve savings through closer working, as envisaged by the McNulty report and as reinforced by the recent government command paper. Having visibility of and an interest in each other's costs and revenues and by organising ourselves in a more efficient way, we will be able to make smarter decisions across the wheel/rail interface. Therefore to the extent that the alliance arrangement does create an interest in rolling stock or in the operation of rolling stock, the potential for this arrangement to provide efficiency savings and operational improvements is a benefit which outweighs any potential disbenefits.

Consent under Licence Condition 4 (LC4)

We will write to you separately regarding the approach under LC4.

Other Licence conditions assessed

Network Rail recognises that it must continue to comply with its obligations under its network licence. Similarly, SSWT will remain responsible for compliance with its franchise agreement and licences. We will hold the alliance executive to account for its activities via the governance board, particularly in relation to these points.

We have considered all of our obligations in turn, and whilst no licence compliance issues have been identified we would specifically note the following:

Licence condition 8 – Stakeholder relationships

We have drafted a policy statement setting out the principles for negotiating and agreeing alliances with train operators. We are considering whether it is appropriate for this statement (or an iteration of it) to form part of the 'Stakeholder Relations Code of Practice'.

Licence condition 9 – Non-discrimination

Licence condition 9 places an obligation on Network Rail (except in so far as ORR may otherwise consent) not to unduly discriminate between particular persons or between any classes or description of person.

We treat this obligation very seriously and we are particularly focused on being able to maintain a thoroughly consistent approach in all of our dealings with our passenger and freight operating customers. We have set out this approach in our industry consultation document, and also in our draft policy statement on alliancing (which is appended). We are also committed to treating all operators fairly in negotiating and agreeing alliances and their overall operation.

As well as seeking formal responses through our industry consultation, we are also undertaking a series of meetings with other operators to outline our proposals and seek feedback. We held an initial set of meetings in December 2011, and followed up the publication of our consultation document with a further set of more detailed discussions with affected operators, undertaken by the Wessex Route Managing Director and SSWT Managing Director. We are reviewing our proposals in light of the responses that we receive. We intend to keep the successful operation of the alliance in relation to other users of the Wessex route under review.

We have proposed that all operators using the Wessex route meet to discuss the operation of the alliance four times per year. While this of course would not replace any day to day interaction, it gives a more formal forum in which to raise any concerns. We intend to invite ORR as an observer to these meetings.

We are also satisfied that capacity allocation activities are separated out from the activities of the alliance. While there is a degree of information gathering about capacity requirements within the route (which is inevitable as it requires local operational knowledge), our capacity allocation activity is largely managed by a separate business unit in Milton Keynes. We have also separated out the Customer Relationship Executive role from the alliance activity. We will keep this separation under review to satisfy ourselves that it is working on a practical as well as structural level and expect to work closely with ORR in relation to this.

The role of the governance board will be to hold the alliance to account in regard to these points, particularly in relation to the interests of other operators and how the alliance interacts with them. We see this as being a key role of the independent observer on the board, who will be a Network Rail employee who will sit entirely outside the alliance arrangement. The independent member's role will be to have particular regard to the position of other stakeholders on the route. As such we are proposing that Richard O'Brien (who sits outside the alliance arrangement) would be well placed to undertake this role from day one of the alliance.

Next steps

We trust that you will be able to provide consent in relation to Licence Condition 5 prior to our intended go live date in April. We will be happy to discuss the detail of this proposal further with you as you require.

Additionally, should ORR provide consent under LC5, we will of course discuss with ORR any further consents that may be required if and when there are any material changes to the arrangement.

We recently suggested that ORR may wish to join Network Rail and SSWT to observe (with DfT) the drafting of the full agreement, but it was felt that this was not necessary. For clarity this offer remains open should you wish to take this offer up at any time to assist your understanding of our proposals as they are translated into the final agreement.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Paul Plummer".

Paul Plummer

Appendices

- Appendix A1 – Covering letter to industry consultation
- Appendix A2 – Industry consultation document
- Appendix B – Network Rail draft policy statement on alliancing
- Appendix C – Organisation chart

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To: See distribution list

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21 February 2012

Dear Colleague

Industry briefing and consultation for a proposed alliance between Network Rail Infrastructure Limited and Stagecoach South Western Trains Limited within the Wessex Route

As part of an objective to improve output to customers and reduce cost, Network Rail is developing plans with some train operators to form alliances.

Network Rail and Stagecoach South Western Trains (SSWT) have been discussing ways of entering into an alliance, taking a pioneering new approach. The proposal developed sees the establishment of a single, senior joint management team in order to secure a much more integrated way of working. It is fundamental that both parties in this proposed alliance retain their existing accountabilities. Network Rail will remain focused on delivering its obligations to all parties, protecting the interest of all customers whilst maintaining the seamless operation of the whole network. We are targeting an implementation date of 2nd April 2012 in order to secure the benefits of the arrangement at the earliest opportunity.

I am writing therefore to provide you with further details of how we envisage that this alliance will operate and relate to your business. Please find attached a briefing and consultation document. It seeks to address questions already raised by stakeholders who operate train services on the Wessex Route, picked up from face to face informal discussions in December 2011 and January 2012.

I'd be grateful if you could provide comments by close of business on Thursday 15 March 2012 if you still have questions or concerns that have not been addressed by the briefing paper. In the meantime, I would be very pleased to discuss the detail around this proposal with you. You do not need to respond however if you do not have any comments.

Please send responses by reply to me, richard.obrien@networkrail.co.uk, and copy to John Salmon, Customer Relationship Executive, at john.salmon@networkrail.co.uk.

It is our intention to share responses provided with SSWT, other operators, ORR and DfT. If you wish any comments to be kept confidential to Network Rail, please indicate so in your reply. The outcome of this consultation will be submitted to ORR prior to implementation of the alliance arrangements.

Thank you for giving these proposals your consideration, and I look forward to discussing them with you.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Richard O'Brien', written over a printed name and title.

Richard O'Brien
Route Managing Director

**Industry briefing and consultation
for a proposed alliance between
Network Rail Infrastructure Limited
and Stagecoach South Western
Trains Limited within the Wessex
Route**

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Background

1. Introduction

- 1.1 As part of an objective to improve output to customers and reduce cost, Network Rail is developing plans with some train operators to form alliances. This objective is in the context of the McNulty report, which argued that the industry should look to find better ways of working together to reduce costs and maximise efficiency, in order to secure a sustainable railway.
- 1.2 Network Rail and Stagecoach South Western Trains (SSWT) have been exploring ways of entering into an alliance, and have been developing proposals for a pioneering new approach. In order to start delivering some of the industry benefits anticipated from this alliance, an implementation date of 2nd April 2012 has been targeted.
- 1.3 The proposal developed sees the establishment of a single, senior joint management team in order to secure a much more integrated way of working. It is fundamental that both parties in this proposed alliance retain their existing accountabilities and Network Rail will remain focused on delivering its obligations to all parties, protecting the interests of all customers whilst maintaining the seamless operation of the whole network.
- 1.4 Unlike the framework alliance agreements which are being developed by Network Rail with some other operators, the alliance proposed with SSWT is made possible by the close alignment between the route and TOC geography, the length of time remaining on the existing franchise and the appetite of SSWT to enter into such an agreement.
- 1.5 We are writing to provide further details of how we envisage this alliance will operate and relate to your business. It also seeks to address questions already raised by stakeholders who operate train services on the Wessex Route, identified at face to face discussions in December 2011 and January 2012.

2. What is the consultation asking?

- 2.1 We wanted to consult with other users of the network in the Wessex area in order to confirm that we have adequately identified and taken account of any reasonable concerns that there may be about the creation of this new arrangement.
- 2.2 Implementation of the alliance will not change the terms or the operation of the track access contract between Network Rail and SSWT for SSWT's passenger services. This will continue in the usual way between Network Rail and SSWT. A further explanation of this point is provided in paragraph 12 below.
- 2.3 This document supplements on-going face to face discussions that have taken place and that are scheduled with affected stakeholders.
- 2.4 The arrangements outlined in this document are subject to union consultation, safety validation and continuing discussions with other key stakeholders such as ORR and DfT, as well as to on-going commercial discussions between the

parties themselves. However, our plans are now firm enough that we want to formally provide you more detail of the proposed arrangements.

- 2.5 It is our intention to submit the outcome of this industry consultation to ORR. We are also having discussions with ORR around our approach to technical approvals that may be needed under the Network Licence.
- 2.6 A consultation question is provided in paragraph 24 of this document. Network Rail welcomes comments you may have. The list of consultees is provided in Appendix A. It is our intention to share responses provided with SSWT, other operators, ORR and DfT, but if you wish any comments to be kept confidential to Network Rail, please indicate so in your reply.

3. What are Network Rail and SSWT seeking to achieve?

- 3.1 Network Rail and SSWT are in discussions to form a new, closer and more collaborative way of working together, called an alliance. It will cover the management of the infrastructure and delivery of rail services on the Wessex route and the operation of SSWT's train services.
- 3.2 The Wessex Route, along with Scotland, was the first Route to be "devolved" in May 2011, as part of Network Rail's desire to bring more accountability closer to its customers. The plan for an alliance with SSWT will build on devolution, and aims to make decision making easier and faster, bringing more focus on passengers and freight customers, as well as lowering costs.
- 3.3 Network Rail and SSWT have a strong history of working closely together to help secure effective train service delivery for all users of the network on the Wessex Route, and this forms a strong foundation for the creation of an alliance. Examples of where such aligned working has been to the benefit of the wider industry include:
- the early implementation of the Wessex Integrated Control Centre at Waterloo in 2005;
 - the development of the Right Time Railway process in 2006; and
 - the planning of the December 2004 South West Trains timetable recast around the longer distance national freight and passenger train operator timetable requirements.

4. Why are we doing this and what are the intended benefits of an alliance?

- 4.1 At the heart of the alliance will be a change of approach, with a much more collaborative way of working. Both Network Rail and SSWT want to work more closely together in a transparent way, putting passengers and freight customers first, cutting out red tape and making faster decisions.
- 4.2 It is anticipated that by forming an alliance between Network Rail and SSWT:
- we can have more focus on passengers and freight users who use the Wessex Route;
 - it will mean better, faster and more local decision making;
 - investment decisions and improvements can be speeded up;
 - we can lower costs for both companies and for the tax payer through more efficient ways of working.

- 4.3 The proposed objectives of the alliance are to:
- a) maintain current safety performance, or, where required, improve it to meet relevant targets;
 - b) achieve a joint safety improvement plan;
 - c) deliver the required level of service delivery output for a reduced overall unit net cost, thus contributing towards the objective of reducing industry costs and therefore ultimately reducing the burden of the railway on the taxpayer;
 - d) maintain a level of customer satisfaction, as measured by the National Passenger Survey, that is higher for SSWT passengers relative to other London and South East TOCs;
 - e) deliver improvements in train performance by working collaboratively with all train and freight operators on the Wessex Route and by delivering targeted improvements in delays within the responsibility of the alliance parties and in the SSWT moving annual average Public Performance Measure (PPM);
 - f) deliver obligations to all parties, protecting the interest of all customers whilst maintaining the seamless operation of the whole network
 - g) maintain current and sustainable levels of asset stewardship as required by Network Rail's regulatory settlement; and
 - h) deliver agreed efficiency targets related to the infrastructure asset value
- 4.4 Improvement in value for money will be achieved by unlocking the costs inherent in the contractual interfaces and encouraging behaviours that are consistent with 'one team' rather than two contractual counterparties. Barriers and duplication between organisations will be removed creating new opportunities to outperform operating, passenger, asset and financial targets. The multilateral nature of the network means multilateral decision making is a fundamental principle in the industry, and the alliance will work entirely within this environment.

Scope of the alliance, organisational structure and safety

5. What will the alliance look like?

- 5.1 The alliance does **not** create a new legal entity. It is a commercial contractual arrangement by which Network Rail and SSWT have agreed to work together.
- 5.2 A key principle is that the "ultimate accountabilities" of Network Rail and SSWT are not changed as a result of the alliance. Further information on this principle is set out at paragraph 11. Put simply however, it means that Network Rail will retain its key statutory and regulatory accountabilities as well as its responsibilities and requirements in any regulated contract or contract of employment. This will include obligations on Network Rail in the Network Licence.
- 5.3 The alliance will have a single executive team responsible for infrastructure and passenger operations drawn from existing people within Network Rail and SSWT. The alliance will be led by one Alliance Managing Director representing and reporting back to both organisations. It will be overseen by an Alliance Governance Board, which is described in more detail in paragraph

16. The Alliance Managing Director will have a direct contractual relationship with both Network Rail and SSWT.

- 5.4 The Alliance MD's executive team (Alliance Executive) is illustrated in Appendix B. The teams working under the Alliance Executive's direction will be existing staff from Network Rail and SSWT whose roles fall within the scope of the alliance, as described in paragraph 6. They will remain contracted to their original employer and will retain their existing terms of employment. A Trade Union consultation is currently underway in relation to the Network Rail staff whose reporting line is proposed to change in order to align with the Alliance Executive team.
- 5.5 This initial organisation of the alliance has been structured with a view to achieving the target implementation date of 2 April. The scope of the alliance activities are described in paragraph 6 below.
- 5.6 An announcement will be made nearer to the implementation date confirming the names of people appointed to the key roles within the alliance.
- 5.7 Following the implementation of the alliance, there may be opportunities for operational streamlining identified, but any change implications associated with this will be handled in the usual ways.

6. What will the alliance do?

- 6.1 For Network Rail, it is proposed that all the roles currently reporting to the Route Managing Director (with the exception of those listed in paragraph 7.2), will be transferred into the alliance structure. This includes those teams involved with the maintenance, operation and safety improvement of the network, the Director Route Asset Management and team, and the Route Enhancement Manager's team. In addition, it is proposed that financial and commercial procurement roles specific to the Wessex Route will be mapped to the alliance.
- 6.2 SSWT is including within the alliance structure all its activities under its franchise, with the exception of IT, which is managed by Stagecoach Group.
- 6.3 There will be no change in the way the network will be operated. The Network Rail Route General Manager will retain responsibility for Operations Managers, Local Operations Managers, Signallers and Mobile Operations Managers. The Network will continue to be operated in accordance with the Network Code and Railway Operational Code, for example, in relation to train regulation. The only difference arising from the alliance will be a change in reporting line for this team to the Alliance Operations Director, who will be accountable for the operation of both the network and the SSWT train service.
- 6.4 Appendix D sets out the full extent of what is within the scope of the alliance.

7. What parts of the Network Rail organisation will remain at Route level?

- 7.1 It is intended that the role of Route Managing Director, Wessex, will be retained, but outside the scope of the alliance. The Route Managing Director will play a significant role on the Alliance Governance Board (described in

paragraph 16 below) as an independent observer and will also oversee the transition of the management arrangements.

- 7.2 It is intended that the Network Rail Customer Relationship Executive for SSWT will report to the Route Managing Director, and remain outside of the structure of the alliance. In addition, it is proposed that two programme management roles will remain outside the alliance and continue reporting to the Route Managing Director.

8. What are the safety considerations around the implementation of the alliance?

- 8.1 The two alliance parties will retain their separate safety management systems. Both Network Rail and SSWT believe that the alliance creates an opportunity to make a positive step to improving rail system safety on Wessex Route, in conjunction with other train and freight operators.
- 8.2 Network Rail and SSWT are working together, with facilitation provided by RSSB, to assess the safety implications of moving to the alliance arrangement through a series of risk workshops. An interface risk workshop involving wider input from other train and freight operators was held on 15 February.
- 8.3 We intend to conduct a joint safety validation panel for Level 3 safety validation. The panel will be chaired by Rod Reid (Network Rail) and Brian Cook (SSWT), and we will have independent observers from Lloyds Register and ORR.
- 8.4 It is intended that the changes affecting the interface between the alliance and other operators on the Wessex Route will be communicated as part of the Go Live process.
- 8.5 Post implementation reviews will be held after 3, 6, 9 and 12 months following the commencement of the alliance arrangements.

9. How will the allocation of capacity be handled?

- 9.1 Capacity allocation will remain an activity carried out by Network Rail, independent of any train operator. This ensures that there continues to be a level playing field between all operators in relation to the allocation of capacity, particularly on an increasingly congested network.
- 9.2 We are, and will continue to be, set up to manage this in an independent way. Decisions in relation to the allocation of capacity that Network Rail is required to make under the provisions of Network Code Part D are made within the train planning organisation in Milton Keynes, by individuals who are organisationally separate from any alliance. This will continue unaffected.
- 9.3 We are also taking some additional steps to reinforce this separation:
 - (a) Given that key capacity allocation functions will be outside the alliance, the Network Rail Customer Relationship Executive for SSWT will not be part of the alliance organisation, as described in paragraph 7.2.

- (b) We are validating that confidential data relating to customers (other than SSWT) is kept entirely separate from the alliance
- 9.4 Train planning arrangements made through Very Short Term Planning (VSTP), relating to bids from any TOC or FOC for trains that originate on the Wessex Route, are currently managed through the Wessex Integrated Control Centre. It is intended that these current arrangements will continue following the introduction of the alliance.

10. What happens to possession planning?

- 10.1 As part of the devolution process (since 9 January 2012), the Lead Access Planner and team for Wessex within Network Rail has reported to the Route General Manager, moving from the National Delivery Service organisation. The Lead Access Planner does not formally allocate capacity, as this is carried out independently in Milton Keynes at a national level, as described in paragraph 10.3.
- 10.2 The Lead Access Planner is responsible for developing the Engineering Access Statement, Confirmed Period Possession Plan and Weekly Operating Notice. The construction of Network Rail's engineering possession requirements are developed in a consultative manner amongst the community of industry planners, so that consideration can be given at an early stage to the potential impact that proposals might have on the train service of affected operators.
- 10.3 Network Rail issues the formal documentation however, in line with its obligations under Network Code Part D, through the Engineering Access Planning Unit (EAPU), which is part of the train planning organisation located in Milton Keynes.
- 10.4 It is intended that the role of Lead Access Planner will remain located within the Route, and therefore will form part of the alliance organisation structure. It is intended that the consultative nature of the way that engineering access plans are developed will continue. We believe that, by doing this, we will promote the opportunity for more integrated and customer focused thinking in the planning process, and reduce the scope for planning errors. The Planning Integration team at Milton Keynes, sitting outside of the alliance, will retain the responsibility for keeping an overview of planning at a national level.
- 10.5 In line with the requirement to keep the allocation of capacity separate from the alliance organisation, the formal issue of the Engineering Access Statement, Confirmed Period Possession Plan and Weekly Operating Notice will remain the responsibility of the EAPU in Milton Keynes.
- 10.6 It is the intention of the alliance to develop access plans that meet the requirements of all users of the network. All customers will retain the right however, to register a dispute formally through the Access Dispute Resolution Rules, through the EAPU, if Network Rail has been unable to resolve issues raised to the satisfaction of all parties. In addition, Network Rail retains accountability under its licence for not unduly discriminating between its customers.

- 10.7 As is currently the case, there may be scenarios where, due to the operational and safety requirements of the railway, additional disruptive possession access will need to be requested after issuing the Confirmed Period Possession Plan and thus proposals might need to be discussed at a more senior level across the industry. It should be noted that, following the implementation of the alliance, any formal request for such additional access remains the responsibility of Network Rail through the EAPU, but in some circumstances, the Alliance Managing Director or team may need to engage with affected operators to help reach industry consensus on the most appropriate course of action.
- 10.8 Emergency engineering work requirements that may arise to maintain the safe operation of the network will continue to be secured through the Wessex Integrated Control Centre, as is the current arrangement.

Legal framework

11 What does “Ultimate Accountability” mean and how does it affect me?

- 11.1 Following the implementation of the alliance, both Network Rail and SSWT will remain as two separate legal entities. The principle of Ultimate Accountability, as referenced in paragraph 5.2 above, will be defined in the Alliance Agreement between Network Rail and SSWT. This will put an obligation on the Alliance Executive to deliver against all existing commitments that Network Rail and SSWT hold. This means that Network Rail will remain solely accountable for everything that it is currently accountable for to all its customers.
- 11.2 In the areas of Network Rail's ultimate accountability, Network Rail can, if necessary, direct staff working in the alliance (including the Alliance Managing Director) to take action necessary for it to discharge its responsibilities - for example, where this relates to requirements of other customers, or the long term stewardship of the network.
- 11.3 More details on the operation of this principle are shown in the diagram contained in Appendix C.
- 11.4 If a decision is made that leads to a breach of Network Rail's Licence Conditions and that breach gives rise to a fine being imposed on Network Rail by ORR, then the financial consequences of this will be shared by the parties through provisions within the Alliance Agreement. In this way, the Alliance Executive will have a financial incentive to honour their obligations under the Ultimate Accountability principle.

12 Will there be changes to the Track Access Contract between Network Rail and SSWT?

- 12.1 There will be no changes or modifications to the Track Access Contract arising from the implementation of the alliance. There will be no change to the actual or intended operation of Schedule 4 (Restrictions of Use) and Schedule 8 (Performance Regime) within the Track Access Contract; the process and any related payments between all parties will continue as currently. There will be no change to the way the track access charging

mechanisms operate within Schedule 7. Particular detail on the operation of Schedule 7 Part 2 Paragraph 3.2 (relating to the Efficiency Benefit Share) is described in paragraph 15 below.

- 12.2 It is possible that, during the life of the alliance, initiatives may be developed that will require an amendment to the access contract in the usual way. Should this situation arise, such changes will be formally consulted and submitted to ORR for approval under Section 22 of the Railways Act 1993.
- 12.3 Network Rail retains the responsibility for the allocation of capacity in connection with disruptive engineering work, as described in paragraphs 9 and 10 above. The financial outcomes of this are defined in Schedule 4, and will be calculated by Network Rail within the train planning organisation in Milton Keynes, outside of the alliance. All customers (including SSWT from within the alliance) will continue to have the opportunity to dispute the Day 42 statement issued by Network Rail, as set out in that customer's Track Access Contract.
- 12.4 For Schedule 8, Network Rail will remain incentivised to improve performance through the operation of the performance regime. Delay attribution between Network Rail and SSWT is currently already conducted in an integrated way in the Wessex Integrated Control Centre. Network Rail takes responsibility for attributing all delays in real time on behalf of Network Rail and SSWT, with SSWT retaining the right of audit, and taking the opportunity to raise disputes as appropriate at Level 2, 3 and 4 of the delay attribution process. The same delay attribution team seek to explain the causes of delay affecting the services of other Operators using the Wessex Route. This process will continue to operate as it currently does. Each other TOC and FOC affected will continue to have the ability to dispute attribution with Network Rail at Level 1 (in real time) or through the subsequent stages of dispute resolution.
- 12.5 It is intended to make no change to the delay attribution process within the Wessex Integrated Control Centre.
- 12.6 SSWT will be offering the right of audit to DfT in order to demonstrate the intent of the parties that there will be no change in the intended operation of Schedule 4 and 8.

13 Maintaining my contractual relationship with Network Rail

- 13.1 There will be no change arising from the operation of the alliance that would give rise for the requirement to change any Track Access Contract that Network Rail holds with other passenger and freight train operators. Network Rail remains committed to its obligations with all customers on the Wessex Route contained within these agreements and as noted above will continue to be held accountable by ORR under its licence for avoiding undue discrimination.
- 13.2 The contractual relationship with each customer will continue to be managed by Network Rail through the Customer Relationship Executive, who remains outside the structure of the alliance.

Financial Principles

14 How will the financial mechanics of the alliance work?

- 14.1 At the heart of the alliance is an agreement to share outperformance or under performance relative to agreed baseline projections for our respective costs and revenues, for those activities within the scope of the alliance at the Network Rail and SSWT interface.
- 14.2 Whilst Network Rail and SSWT will retain separate statutory company accounts, the costs and revenues included within the scope of the alliance will be reflected in a “virtual” Joint Alliance Financial Statement. This statement will then be used to measure financial performance against the baseline, which initially will be set until April 2014.
- 14.3 Network Rail and SSWT will reset their financial baselines from April 2014, once ORR has issued its Final Conclusions in relation to the Periodic Review for Control Period 5 (CP5).
- 14.4 Network Rail believes that bespoke arrangements such as this provide a very effective means of incentivising operators to help us increase our efficiency.
- 14.5 We would welcome engagement from other passenger and freight operators who can identify opportunities for helping Network Rail reduce cost and increase efficiency.

15 How can my business get involved and share in the success of helping Network Rail achieve financial efficiencies?

- 15.1 The ORR has already established a mechanism in the Periodic Review Conclusions for Control Period 4 (CP4) whereby TOCS and FOCs can share in Network Rail’s outperformance of its regulatory efficiency assumptions (if such is achieved) where they can demonstrably assist in that outperformance. This is referred to as the Efficiency Benefit Sharing Mechanism (EBSM). Such arrangements for operators using the Wessex Route would form part of a mechanism operating at a national level for England and Wales.
- 15.2 Given the financial adjustment provisions in franchise agreements (which protect franchised passenger operators against the impact of a periodic review), the EBSM is currently a mechanism that will only benefit open access passenger and freight operators, or franchise operators whose term commenced within CP4.
- 15.3 It is important for Network Rail to consider how financial outperformance generated by the alliance impacts on the CP4 EBSM mechanism as we would want other operators (other than SSWT under the alliance) to be incentivised to help Network Rail achieve savings, noting that SSWT would be directly incentivised through the alliance sharing arrangement. The way we see this working is that the Network Rail share of savings generated by the alliance would contribute to the overall England and Wales assessment of Network Rail’s outperformance for EBSM purposes. Thus if the alliance generates £100 saving then the Network Rail share of £50 would go into the EBSM outperformance pot and other operators (not SSWT) would get 25% of the outperformance in proportion to their variable usage charges as per the

EBSM mechanism. This means that other TOCs/FOCs who are not in the alliance would still be incentivised to help Network Rail operate efficiently.

15.4 Network Rail believes this to be appropriate, given that SSWT will not have benefited from the EBSM mechanism in CP4, and therefore would not have been directly financially incentivised to encourage Network Rail to improve its expenditure decisions or efficiency, if an alliance arrangement was not entered into. Those TOCs / FOCs that are eligible to benefit from EBSM in CP4 will continue to be so, and all operators (and also funders such as DfT) should benefit in the longer term through the Period Review Determination for CP5 when efficiencies are achieved that otherwise would not have been, had it not been for an alliance arrangement being in place.

15.5 ORR is currently consulting the industry on arrangements for a route-based Regional Efficiency Benefit Sharing Mechanism (REBS) for CP5, and it will be for ORR to determine how the alliance arrangements relate to this. Network Rail's view on this is summarised as follows:

- We welcome ORR's assessment of the role of bespoke arrangements and agree that they could supplement or replace the default REBS mechanism. The formation of alliances will facilitate a more collaborative working approach 'on the ground', and should achieve changes in behaviours across the industry.
- We believe that a presumption in favour of bespoke arrangements should be established.
- The parties involved in an alliance need to agree and determine between themselves how the specifics of each alliance should operate. It is important that individual alliances have the flexibility to agree mutually beneficial arrangements, which suit the specifics of the relationship in question.
- An important matter is how REBS payments will be calculated when Network Rail has formed alliances or bespoke deals with operators on a particular route. Alliances will only be entered into in instances where the parties expect them to give rise to significant joint cost savings beyond those that could otherwise be realised. Alliancing has the potential to release substantial additional cost savings. Alliancing arrangements should, therefore, benefit not only the parties subject to the alliance, but also non-alliance parties on that route through reducing our costs.
- We consider that REBS payments should be calculated as follows:
 - Route-based alliance debits or credits computed according to the rules set out under the alliance arrangements; and
 - REBS payments calculated on the basis of route outperformance or underperformance *net of* route-based alliance debits or credits.
- Since alliances will only be entered into if the parties believe they will give rise to cost savings that could not otherwise be realised, this approach will not place non-alliance parties at a disadvantage. The approach has a number of additional advantages. It provides a pragmatic means of ensuring that operators' rewards from helping Network Rail reduce its costs closely reflect their efforts, avoiding free riding, undue castigation and the creation of perverse incentives. Finally, it is simple and transparent, and avoids disputes around which cost savings are attributable to which parties and the associated complex calculations.

- It may also be appropriate to make adjustments to alliance parties' REBS payments in order to avoid rewarding or penalising twice for outperformance or underperformance on costs within the alliance. In principle, it should be possible to deal with this as part of alliance agreements.
- We agree with ORR that REBS payments should be computed and paid annually.

Governance Arrangements

16 What governance arrangements will be in place to assure me that my business interests on the Wessex Route will not be adversely affected by the alliance?

- 16.1 The alliance governance framework will be implemented to provide assurance that the Ultimate Accountabilities are delivered for both parties, by establishing an Alliance Governance Board involving equal numbers of senior Directors of Network Rail and Stagecoach Group.
- 16.2 There will be a role on the Alliance Governance Board for an observer, so that there is transparency of the activities and decisions being made by the Alliance Executive. Given that Network Rail's accountability to all customers remains unchanged following the implementation of the alliance, we intend to appoint a Network Rail person from outside the alliance structure as the independent observer. This role will be taken initially by Richard O'Brien, as Route Managing Director. The intention is that the role will verify that the interests of, and obligations to, third parties who are stakeholders in the operation of the network in Wessex Route are delivered by the alliance within the Ultimate Accountability framework.
- 16.3 There will be no change to the regulated contracts in place affecting the operation of the Network, stations and depots on the Wessex Route. Network Rail will continue to have obligations to all operators who use the Wessex Route through the provisions of the Network Code, Track Access Contract and Network Licence. Similarly, arrangements made through Station Access Contracts with beneficiaries at stations where SSWT is the Station Facility Operator will not change.
- 16.4 Network Rail's contractual and day to day business customer interface will remain being managed by the Customer Relationship Executive for each customer. These posts will remain separated from the alliance organisation.

How will the alliance impact on my business?

17 Who will I need to talk to after the alliance is implemented?

- 17.1 The Alliance Managing Director will assume the role currently undertaken by the Network Rail's Route Managing Director in being accountable to other Train and Freight Operators for train service delivery on the Wessex Route and will be the direct point of contact for Network Rail's customers who use the Wessex Route. It is the intention that the Alliance Managing Director will establish a regular contact with the Managing Directors of other Train and Freight Operating Companies that use the Wessex Route.

- 17.2 The Alliance Operations Director will be accountable for the operational responsibilities of Network Rail's Route General Manager, as well as for train operations. The Alliance Infrastructure Director will be responsible for infrastructure maintenance activities on Wessex Route, currently led by the Route Infrastructure Maintenance Director. These roles and their teams will continue to interface with customers on the Wessex Route.
- 17.3 The Alliance Managing Director will in effect report into Robin Gisby, Network Rail Managing Director Network Operations, in relation to the Network Rail accountabilities within the alliance operating area. Therefore the senior interface with Network Rail will not change.
- 17.4 It is intended that operational contact with customers will continue at a local level and through the Wessex Integrated Control. The Customer Services Manager role will be retained within the Route General Manager's team to champion the interests of other Train and Freight Companies within the alliance operating area, as is the case now within the Network Rail Route structure. This Customer Services Manager role is distinct from the Customer Relationship Executive for each customer, whose roles remain outside the alliance structure, as described in paragraphs 7.2, 9.3 and 16.4. It is proposed that cross industry meetings such as the Wessex Area Performance Group and OPSRAM will continue, to help manage industry safety and performance on the Wessex Route.

18 When neutral decisions need to be taken to balance the needs of all operators using the Wessex network, how will I know that I will be treated fairly?

- 18.1 Network Rail has a set of obligations within the Network Licence Conditions (including Stewardship of the Licence Holder's Network, Timetabling and Non-discrimination) that protects customers if they feel that their reasonable requirements are not being met. In addition, operators have recourse to ORR under the Access and Management Regulations. The Alliance Managing Director will be required to discharge these obligations through the principle of Ultimate Accountability (described in paragraph 11 above) that will be contained within the Alliance Agreement.
- 18.2 As described in paragraph 11.2, Network Rail can, if necessary, direct staff working in the alliance to take action necessary for it to discharge its responsibilities.
- 18.3 At a practical level, this will involve Directors of the alliance taking operational decisions involving the availability of the network (for example, with regards to operational difficulties or safety judgements on emergency engineering work requirements). These will need to be made in the best interest of the railway network as a whole, balancing the requirements of all customers with system safety, performance and cost. To this extent, it is the intention that users of the network on the Wessex Route will experience a "business as usual" approach, but where opportunities for more joined up thinking and for decisions to be made with a more integrated system approach, these will be taken.
- 18.4 It is recognised that all of Network Rail's customers on the Wessex Route

have business objectives that will require the support and commitment from the Alliance Managing Director and team to help deliver them. In addition, it is noted that the economics of securing freight growth for the UK rail industry means that it is important to recognise the societal benefit of freight when making financial decisions relating to railway operation on the Wessex Route. Whilst the need for the Alliance Managing Director to take this balanced view will be discharged through the legal principle of Ultimate Accountability, Network Rail feels confident that the behaviours demonstrated in recent years across the Network Rail and SSWT interface show a level of maturity that recognises this need to secure full industry co-operation. An example of this is the way SSWT worked closely with Network Rail and other Train and Freight Operators during the implementation of the heavily disruptive W10 gauge enhancement project at Southampton Tunnel in December 2009 / January 2010.

- 18.5 As part of the governance of the Ultimate Accountability principle (described in paragraphs 11), there will be the role of an observer on the Governance Board (paragraph 16). The Alliance Managing Director will also have a contractual relationship with Network Rail and SSWT (paragraph 5.3). In addition, the Customer Relationship Executive for each customer will remain outside the alliance organisation and will look to facilitate ways in which Network Rail can further help to meet customer objectives. Capacity allocation will remain separate from the alliance (paragraphs 9 & 10).

19 I operate on lines of route within Wessex where SSWT train services do not operate. How can I be assured that an alliance between Network Rail and SSWT will not lose focus on performance improvement and investment on these routes?

- 19.1 Network Rail's obligations do not change as a result of the alliance. Network Rail will remain accountable for the whole network as is now, through its obligations to other customers and within the Network Licence. There will therefore be no change in approach in relation to the management of performance and investment on these routes. The governance arrangements described in paragraph 16 will provide assurance that the alliance delivers against these Network Rail obligations.

- 19.2 Network Rail is not currently planning to make boundary changes to the operational limits of the Wessex Route as part of the Day 1 arrangements of the alliance implementation. Should customers wish to make representations about how Network Rail can improve delivery against their requirements, these discussions would be welcome, particularly in light of experience that may be gained following the implementation of the alliance.

20 How will commercially sensitive information about my business be handled by Network Rail once it has entered an alliance with another train operator?

- 20.1 We accept that certain information you provide to Network Rail is shared on a confidential basis with us, and anticipate that most commercially sensitive information that passes from your business to Network Rail will do so outside

the alliance structure. The Customer Relationship Executive for your business can help with this if you have concerns. In particular, there may be opportunities that you wish to explore with Network Rail that might require the input from local staff within the alliance, and so arrangements will need to be made if there are aspects of these discussions that need to remain confidential between your business and Network Rail.

20.2 It is recognised that the refranchising process in particular has requirements for robust commercial confidentiality. The confidentiality provisions regarding Network Rail's involvement in this process will remain as now, and the activity to provide input into the process will be held separately from the operation of the alliance. Network Rail's engagement with the refranchising process will be coordinated by the Strategic Network Planning team for London and South East, which remains outside the alliance team, and reports ultimately to the Group Strategy Director.

21 I expect better train performance from Wessex Route. How will the alliance deliver this? How will the alliance be implemented without distracting from the day to day train service delivery?

21.1 Despite a healthy trend of continuous performance improvement being enjoyed on Wessex Route and with SSWT train services up to the end of 2010/11, the current financial year has seen a drop in punctuality experienced by customers. Whilst the total number of incidents appears still to show a gradual improving trend (despite a very significant increase in the number of external incidents such as fatalities and cable theft), the delays per incident have increased.

21.2 Network Rail and SSWT launched in January 2012 a Joint Performance Recovery Plan, which seeks to address the issues that we have now identified that appear to be contributing to this dip in train punctuality on Wessex Route. This includes significant plans from both an infrastructure and train operation perspective, that take a rail system approach to performance management in the spirit of what we also intend to achieve from the alliance. Examples include agreeing increased weekend engineering access on SSWT only routes into London Waterloo to deliver a significant re-railing programme in the Clapham area, in order to remove temporary speed restrictions and unplanned safety and performance risk arising from Rolling Contact Fatigue. Another example is a significant review of train crew arrangements in order to improve service recovery following incidents.

25.3 All the initiatives within the plan will help us aim towards restoring the Right Time Railway principles in train service delivery. With SSWT operating approximately 80% of the train miles of Wessex Route, it is anticipated that by improving the efficiency and performance delivery of SSWT train services through the alliance, Network Rail will be able to deliver a more reliable railway for all users of the Wessex network to enjoy.

22 How will the strategic interests of the railway be developed?

22.1 Network Rail's Group Strategy Director and team will retain responsibility for the overall strategic interests of the Network, such as the development of

the Strategic Freight Network and Route Utilisation Strategies. This activity falls outside of the scope of the alliance.

- 22.2 Network Rail however will continue to rely on the significant input into the development of this strategy from people within the Wessex Route, and this support will continue to be provided following the implementation of the alliance.

23 What will happen to the alliance at the end of SSWT's franchise in February 2017?

- 23.1 The alliance will terminate with SSWT's franchise. It is possible that DfT may wish to continue the arrangement with a subsequent franchisee, but if this is the case, it will be factored into the franchise Invitation To Tender. Network Rail would then engage with any bidders and with the successful franchisee.

- 23.2 Additionally we are including termination provisions into the alliance agreement in the event that either the alliance or the franchise terminates early, in order to prevent disruption to the services of passengers and of other operators.

Consultation

24 Consultation question

We would like to hear from you if you have a question that has not been addressed by this briefing paper, or if there is any aspect of the alliance proposal that requires further explanation.

It would be appreciated if any response that you wish to make is provided by close of business on Thursday 15th March.

List of Appendices:

APPENDIX A: List of consultees

APPENDIX B: Organisational structure for the Alliance Executive

APPENDIX C: Details on the operation of the principle of Ultimate Accountability

APPENDIX D: The scope of the alliance: What's in and what's out?

APPENDIX A – list of consultees

Train Operators

Mark Hopwood, Managing Director, First Great Western
Kevin Gale, Operations Director, First Great Western
Chris Burchill, Managing Director, Southern Railway
James Burt, Service Delivery Director, Southern Railway
Andy Cooper, Managing Director, Cross Country
Helen Waters, Production Director, Cross Country
Steve Murphy, Managing Director, London Overground
Stuart Griffin, Operations Director, London Overground
Mike Brown, Managing Director, London Underground Limited
Nigel Holness, Network Services Director, London Underground Limited
Mike Challis, General Manager District Line, London Underground Limited
Peter Maybury, Chief Executive Officer, Freightliner Group
Adam Cunliffe, Managing Director, Freightliner Ltd
Paul Smart, Managing Director, Freightliner Heavy Haul
Lindsay Durham, Head of Rail Strategy, Freightliner Ltd
Nigel Jones, Planning Director, DB Schenker
Nick Gibbons, National Planning Manager, DB Schenker
Neil McDonald, Managing Director, DBS Industrial, DB Schenker
Nigel Smith, Managing Director, DBS Construction, DB Schenker
Carsten Hinne, Managing Director, DBS logistics, DB Schenker
John Smith, Managing Director, GB Railfreight
Simon Ball, Head of Freight, Colas Rail

In relation to Station Operations

Neal Lawson, Managing Director, First Capital Connect (interface at Wimbledon)
Charles Horton, Managing Director, South Eastern (interface at Waterloo)

Charter Train Operators

Neil McNicholas, Managing Director, Direct Rail Services
John Smith, Managing Director, GB Railfreight
David Smith, Managing Director, West Coast Railway Company (by post)

Also distributed to:

Distribution list of track access contacts within the franchised passenger, freight and charter train operators, plus track access contacts in government, local transport and statutory bodies (including Mayor of London and Olympic Delivery Authority)

Government, local transport and statutory bodies

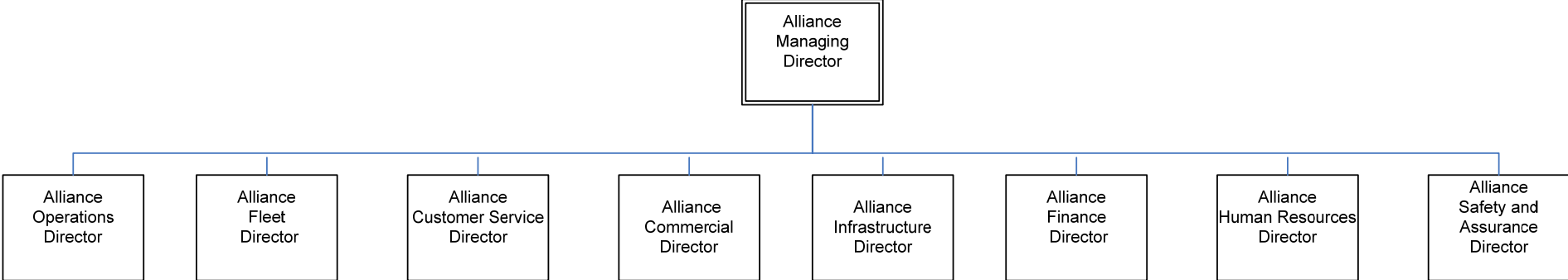
Colette Carroll, Department for Transport
David Hibbs, Department for Transport (Community Rail)
Brian Kogan, Office of Rail Regulation
Anthony Smith, Chief Executive, Passenger Focus
Janet Cooke, Chief Executive, London Travel Watch

Copies to:

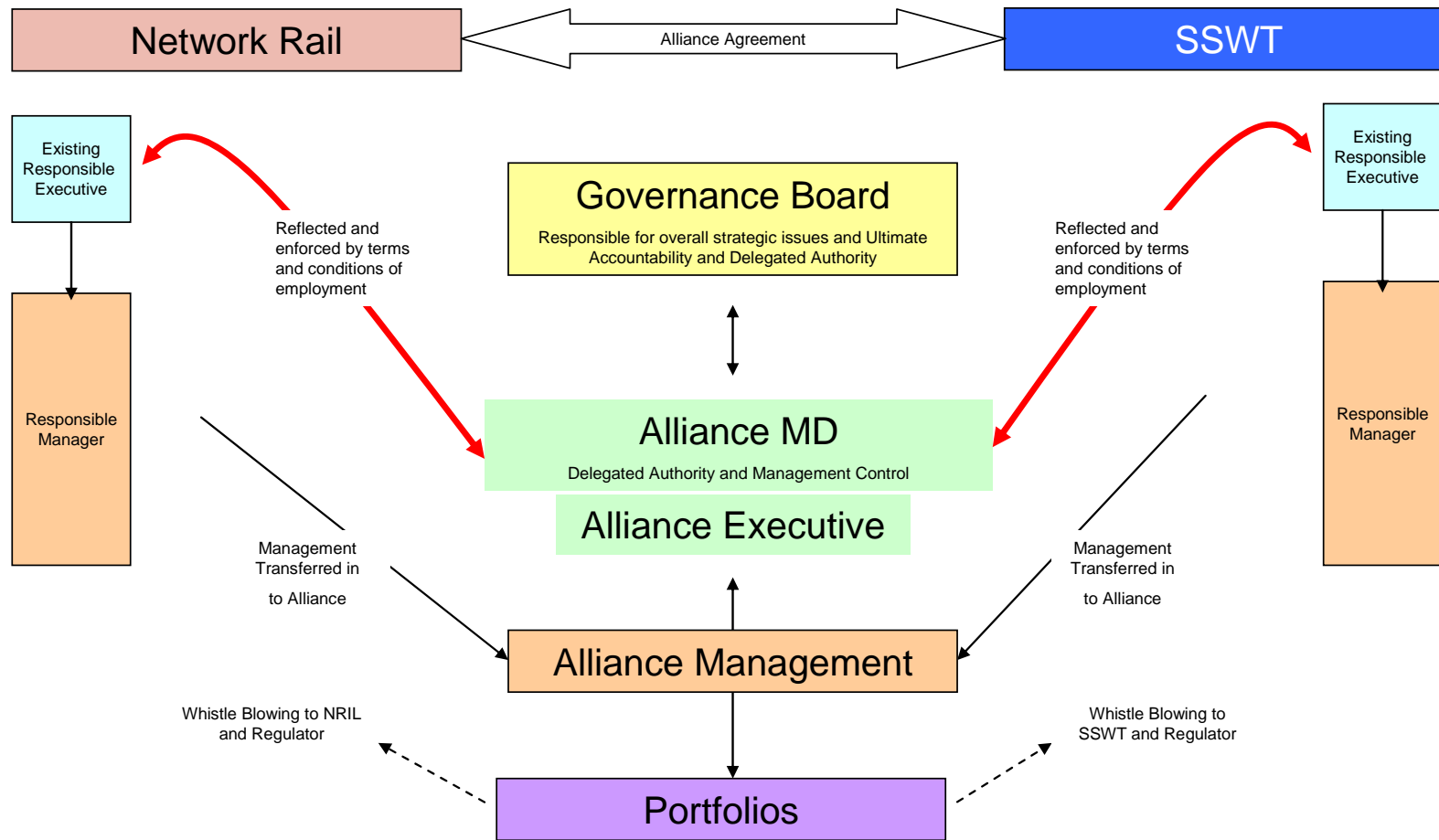
Paul Plummer, Group Strategy Director, Network Rail
Robin Gisby, Network Operations Director, Network Rail

Tim Robinson, Freight Director, Network Rail
Network Rail Customer Relationship Executives
Tim Shoveller, Managing Director, Stagecoach South Western Trains

APPENDIX B – organisation structure



APPENDIX C: Details on the operation of the principle of Ultimate Accountability



APPENDIX D: The scope of the alliance: What's in and what's out?

WHAT'S IN WHAT'S OUT - Key Portfolios:

The following list sets out which of the key activities of Network Rail and SSWT that will be included/excluded as at Day one operation of the Alliance.

ACTIVITIES INCLUDED

Operational

- Development of local operational standards
- SSWT train planning
- Engineering access planning (within the constraints described in Paragraph 10)
- Performance investigation and analysis
- Delay attribution
- Signalling operations and management of signallers
- Wessex Integrated Control (WICC)
- Electrical control operations and operators
- Management of MOMs, LOMs and other response staff
- Management of train crews

Infrastructure

- Maintenance works as carried out by the infrastructure maintenance units
- Asset stewardship to include: track, S&T, E&P, off track, SSWT operational property
- NR smaller scale maintainer delivered project delivery
- NR smaller scale maintainer delivered renewals works delivery
- Maintaining and improving, where required, asset reliability
- NR Route Asset Management

Customer Service

- Station operations (platforms, ticket offices, gate lines, station trading, car parks)
- Security and crime prevention
- Revenue protection
- Customer relations (SSWT passengers)

Fleet

- Fleet engineering and standards development
- Management of fleet contracts
- Fleet light maintenance
- Train cleaning and servicing
- Fleet depot operations
- Fleet maintenance planning
- Maintaining and improving fleet reliability

Safety

- Local safety policies and procedures
- Accident/ incident investigation co-ordination, analysis and SMIS input
- Environmental programme co-ordination
- Fire safety activities
- Document control functions
- Internal safety assurance activities

Finance

- Alliance management accounting

- Financial planning
- Claims handling
- Compliance
- Financial management
- SSWT payroll and pensions
- Financial reporting
- NR maintenance unit costs analysis and management
- SSWT statutory accounts
- SSWT treasury activities

Commercial

- Enhancement sponsorship
- Franchise agreement management
- Revenue analysis and pricing
- Business planning, to include local strategic updates
- Regulated contract management for SSWT (but not for NR, which remains separate from the alliance)
- Marketing
- Train service specification
- Strategic sourcing
- Regulatory reporting to include efficiency reporting
- SWT procurement and NR local Contracts & Procurement
- Business case analysis
- SSWT Capital reporting and capital investment assurance

HR (SSWT only)

- Recruitment
- Local HR policy development
- Employee relations support
- Training and development
- Occupational health
- Personnel database administration (subject to legal restrictions on data sharing)
- The NR HR function does not form part of the alliance but their services will be procured by the alliance, just as this service is currently provided centrally to the NR Route team. The route based HR team will have a dotted line into the Alliance HR Director,

ACTIVITIES EXCLUDED

- NR train planning and capacity allocation activities (to maintain separation to overview fair allocation)
- NR Customer Relationship Executive (CRE) role to remain external to overview fair consideration of all stakeholders
- NR payroll and pensions management to remain a central activity for the foreseeable future.
- NR statutory reporting to remain a central activity, along with all treasury activities.
- IT functions – not yet devolved for NR and currently under Group control in SSWT
- NR operational property maintenance – not yet devolved, but is intended to fall within the scope of the alliance when it does become a devolved activity
- NR retail and advertising activities – will remain organisationally separate but financial arrangements will be put in place so that the alliance will be incentivised to help optimise revenues that can be generated
- National contract level procurement to remain a central activity

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Alliancing: Draft Network Rail Policy Statement

ORR has published a statement on alliancing which confirms its support for the aim of alliancing and sets out some of the key regulatory principles so that alliances are worthwhile not just to the parties involved but so that benefits also accrue to rail users and taxpayers. Network Rail welcomes the statement from ORR and the purpose of this draft statement is for the company to set out the principles it is adopting in negotiating and agreeing alliances with train operators.

- 1. Purpose:** Network Rail sees its purpose (i.e. why we exist) as to generate outstanding value for taxpayers and users by continually improving the railway; and we see our role (i.e. what we do) as to develop, maintain and operate rail infrastructure in partnership with our customers, suppliers and other stakeholders. We consider that two of the key obstacles to improved value for money are the lack of alignment of incentives between industry parties and their lack of flexibility to deliver the required outputs in the most efficient way. Accordingly, we consider that the ultimate purpose of alliancing with passenger and freight train operators is to achieve improvements in value for money by enabling more effective cooperation or partnership with these customers. Separately, we are also seeking to develop relevant alliances with our suppliers.
- 2. Objectives:** Network Rail's objectives from alliancing with its customers are to:

 - drive continuous safety improvement;
 - deliver financial benefits beyond that which could be achieved without alliancing;
 - drive improved performance and user satisfaction through alignment of incentives around the market and customers; and
 - apply learning from alliancing to other parts of the business.

Network Rail expects to achieve these outcomes by using alliancing to:

 - challenge constraints which would otherwise be regarded to be outside the control of the parties;
 - reduce interface inefficiencies and duplication of resource with operators;
 - transform behaviours and interface management away from being driven by defending current contractual positions towards collaborating to improve industry outcomes; and
 - drive positive change across the industry by improving Network Rail and operator understanding of each others' business.
- 3. Safety issues:** Network Rail is committed to continuous improvement in safety including by addressing the safety culture of the business and helping to embed the concept of system safety across the industry. We would expect closer working to result in improved safety. Alliance parties will retain their existing safety management systems under which relevant changes will be subject to safety validation both in establishing alliances and in operating an alliance.
- 4. Network issues:** To varying degrees all routes are used by multiple operators. In addition, many operators operate across more than one of our routes. Our approach to alliancing will ensure that any arrangements with individual operators do not compromise our ability to provide excellent service to other operators on a route or to plan, develop and operate the network as a whole so that it is seamless to individual operators or rail users. This reflects Network Rail's role as system operator.

- 5. National activities and support services:** Devolution is based on a principle that Network Rail is devolving decision making to a local level except where there is a strong case for doing otherwise. Some activities will continue to be delivered nationally for example where there are clear benefits from standardisation or economies of scale. This is also reflected in our approach to alliancing.
- 6. Stewardship issues:** Part of Network Rail's role involves it taking a whole-life approach to stewardship of the infrastructure. Our approach to alliancing is intended to maintain this focus while gaining greater input from operators to help inform tradeoffs. This includes network wide asset policies and assurance processes.
- 7. Legal issues:** Alliances will be encouraged to promote innovation which will ultimately benefit taxpayers and rail users. However, any alliancing arrangements will comply with Network Rail's existing statutory, contractual and regulatory obligations. This includes the prohibition on undue discrimination in our network licence and the provisions of the network code.
- 8. Ultimate accountability:** Network Rail has sought to reconcile the purpose and objectives outlined above with the other issues referred to above by maintaining the principle that alliancing should not change Network Rail's ultimate accountability (or that of the relevant operators). Thus, for example, Network Rail as a company will continue to be accountable for its existing statutory, contractual and regulatory obligations. Moreover, the alliance arrangements with individual operators are designed such that they do not prevent the company from taking necessary action to discharge Network Rail's accountabilities. Even in the case of a "deep alliance" explained below, Network Rail will be able to determine that additional costs should be incurred or other actions should be taken locally to meet longer term requirements or the requirements of other operators using the route. The company will continue to be held to account by the ORR.
- 9. Bespoke alliances:** Network Rail is keen to explore mutually beneficial opportunities with any passenger or freight train operator. The company has signalled this willingness to explore opportunities both to existing passenger and freight train operators and to shortlisted franchise bidders. The precise arrangements will differ, however, according to the characteristics and use of the relevant parts of the network, the characteristics and markets served by the relevant operators' train services, the challenges facing this part of the network and the relevant operators over the period in question, and the aspirations and approach of the operators concerned.
- 10. Framework alliance agreement:** Network Rail has developed a framework alliance agreement which has evolved through discussions with a number of operators. This framework agreement template approach need not constrain discussions and it will continue to evolve in the light of experience. The current framework agreement provides for transparent sharing of information on the performance of the respective businesses to help identify mutual opportunities; for the establishment of a code of conduct to underpin the mutually desired changes in behaviour; and for the identification of specified alliance projects which the joint teams intend to progress. Where the identified projects result in proposals for change, these changes are still subject to the existing industry change processes. Our intention would be to engage

as early as possible with all operators where they would potentially be impacted by a change. The nature of the projects which are included and the way in which they are progressed will vary depending upon the circumstances of the case.

- 11. Non-framework alliancing projects:** In some routes, specific projects are being progressed without a framework agreement of the nature described above. These specific projects could potentially change the way in which Network Rail works with operators on the routes but this would still be subject to the same principles as described above. There is therefore no requirement for a specific alliance agreement in order to progress such initiatives.
- 12. Deep alliances:** A “deep” alliance can be defined as one in which one of Network Rail’s routes (or potentially part of a route) and a train operator share upside or downside risk against an agreed baseline for all and most of their activities. In Network Rail’s view, this would only be appropriate where an operator has a very strong geographic alignment with the route – such that it has very little traffic on other routes and other operators have a small proportion on the route in question. Network Rail has also taken the view that it would be inappropriate and impractical to enter into such an arrangement with an incumbent franchisee except where there are several years remaining on the franchise term. In addition, it has taken the view that for the duration of Control Period 4 it was only practical for it to enter into one such deep alliance with an incumbent train operator. Network Rail has been exploring the possibility of a deep alliance between the Wessex Route and SSWT. There is expected to be an integrated management team with a single Managing Director who is accountable to both companies. The principles outlined above around Network Rail’s ultimate accountability would continue to apply and the Alliance Board would include an independent Network Rail Director from outside the alliance team. Other operators have been consulted on the detailed arrangements including the interface arrangements for these other operators to ensure that they continue to receive fair treatment.
- 13. Refranchising:** Network Rail will continue to provide input to government in relation to the specification of franchises and in future we would hope to agree with government the basis for alliancing opportunities which would be encouraged through the franchise specification and evaluation processes. In addition, Network Rail has increasingly sought to engage with shortlisted franchise bidders on potential alliancing arrangements and in future we would expect this engagement to build upon whatever arrangements are included in the franchise specification. Alliancing projects which are developed with the incumbent franchisee in advance of the refranchising process would be made transparent to bidders in the competitive process. By contrast, alliancing conversations with shortlisted bidders would be non-exclusive and would be treated as confidential where appropriate. The points of contact for discussion with potential franchisees are within the Network Strategy and Planning teams.
- 14. Freight and open access operators:** In taking forward a range of alliancing opportunities with franchised train operators, Network Rail will remain focused on providing service to freight and open access operators. In addition, Network Rail welcomes the opportunity to explore mutually beneficial commercial opportunities with freight and open access operators. The nature of the arrangements is likely to

differ since the circumstances are different but the same principles as outlined above would apply to such arrangements.

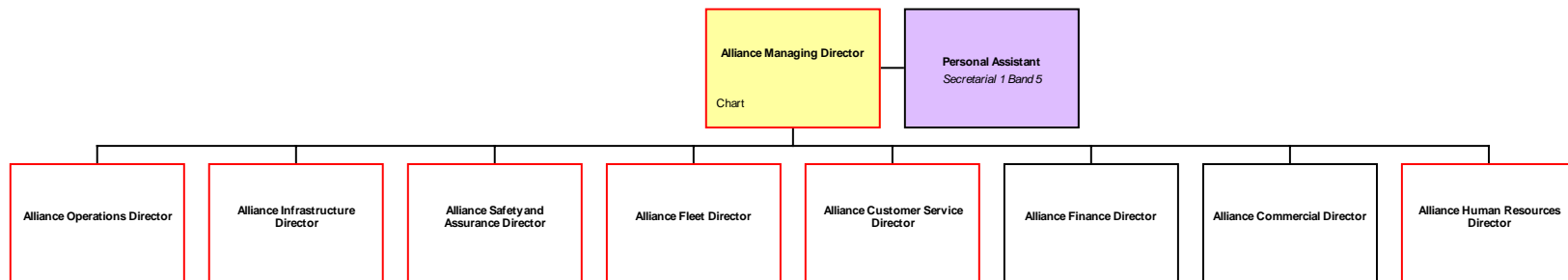
- 15. Best practice and learning:** Network Rail would expect to apply general lessons from alliancing arrangements to other parts of its network. In addition, alliance arrangements with an incumbent operator would be expected to inform the potential for opportunities from refranchising. The precise model from one situation is, however, unlikely to be applicable elsewhere.
- 16. Transparency:** Network Rail is committed to transparency in relation to its financial and operational performance. While the commercial terms of an alliance may be commercially confidential, any aggregated financial flows as a result of alliancing for each of Network Rail's routes would be identified through the regulatory accounts. This would therefore be subject to independent audit and potentially further review by ORR or the independent reporters.
- 17. Efficiency benefit sharing:** The Efficiency Benefit Sharing mechanism in the track access agreement provides for sharing of OM&R (operations, maintenance and renewals) efficiency benefits with operators pro-rata to their use of the network. In CP5 it is expected that this will be applied on a Route basis rather than nationally. Bespoke alliancing arrangements are intended to operate alongside this mechanism. Where bespoke alliances result in the sharing of benefits between Network Rail and operators, Network Rail will negotiate any baseline such that this incorporates improvements which it considers can be achieved without such an alliance. Network Rail has proposed in response to ORR's consultation that Network Rail's relevant payments and receipts arising from the alliance would be included in the Efficiency Benefit Sharing Mechanism. If accepted, this would mean that any further benefits from the alliance over and above the baseline referred to above will be shared with other operators.
- 18. Concessions:** Network Rail is also considering the potential benefits and issues which would need to be addressed for it to let a long-term concession for part of the infrastructure. This is independent of alliancing and the implications would be quite different. Unlike an alliance, letting an infrastructure concession would involve the creation of a new company and that company would be accountable for the relevant infrastructure. In such a scenario, however, Network Rail would expect to continue to act as system operator for the network as whole. Network Rail currently has no plans to let an infrastructure concession but any decision to proceed with this option would take account of the same issues as described above. It would therefore need to be justified in terms of additional benefits to rail users and taxpayers, it would need to enable continued whole-life optimisation of the whole network, and it would need to conform with the relevant legislation.

This draft statement is subject to modification following consultation with the industry, ORR and governments. Comments on the draft should be sent to Cara Stimson (cara.stimson@networkrail.co.uk) by 30 March 2012.

Key	
	Key Safety Post
	One and only one
	One or more minimum one
	Nought or more (optional)
	Nought or one only (optional)
	Unique in single Route / Territory / Area

Network Operations - Wessex

Proposed Organisation Structure Chart

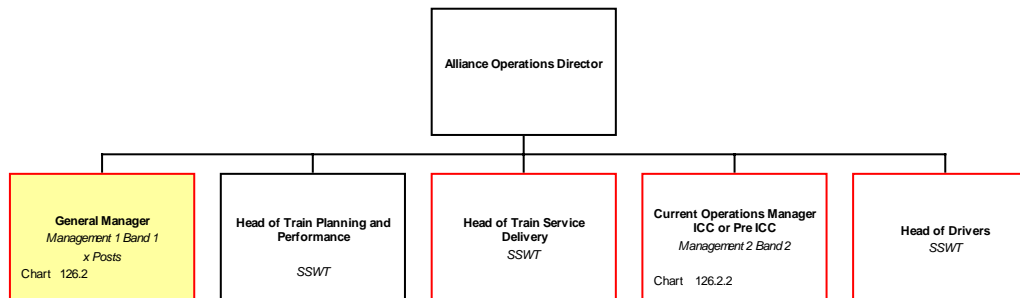


January 2012

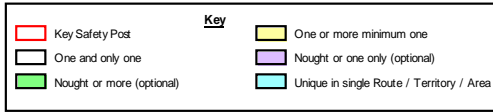
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Network Operations - Wessex

Proposed Organisation Structure Chart

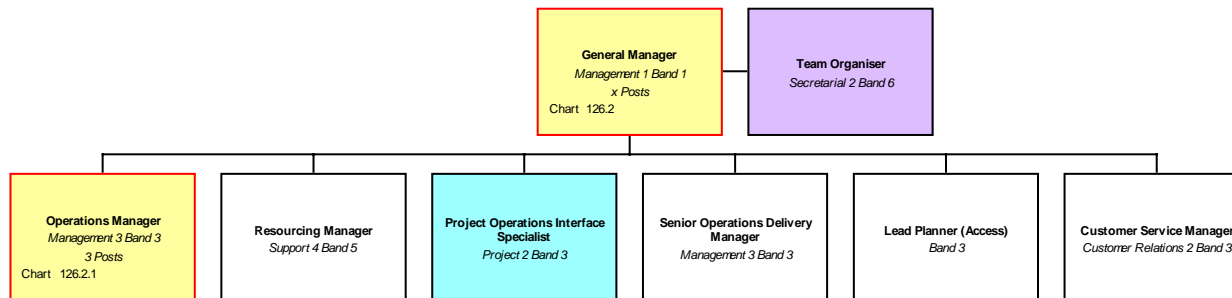


January 2012



Network Operations - Wessex

Proposed Organisation Structure Chart

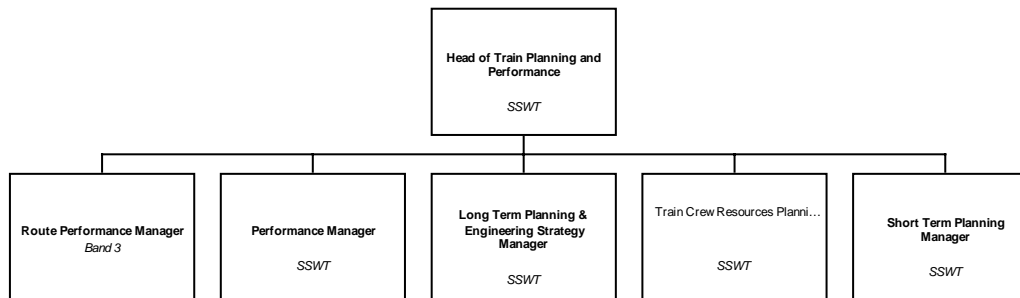


January 2012



Network Operations - Wessex

Proposed Organisation Structure Chart

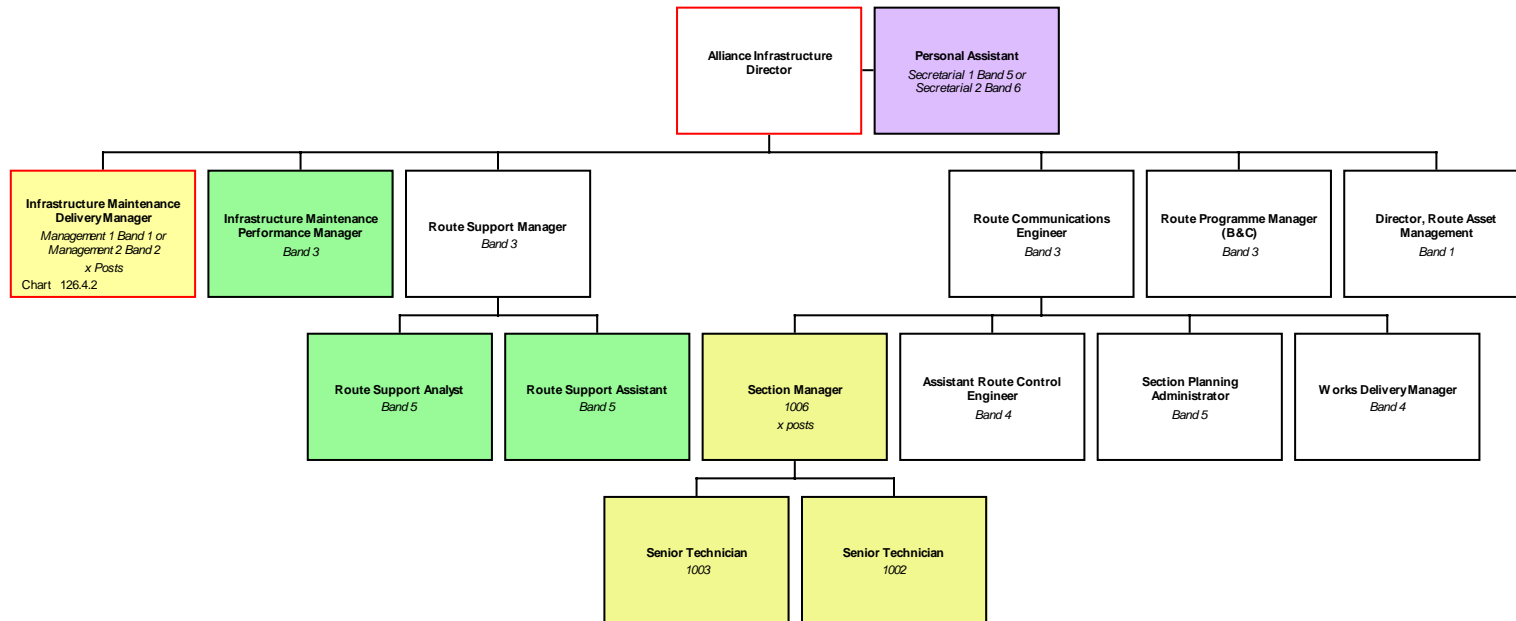


January 2012



Network Operations - Wessex

Proposed Organisation Structure Chart



January 2012

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Network Operations - Wessex

Proposed Organisation Structure Chart

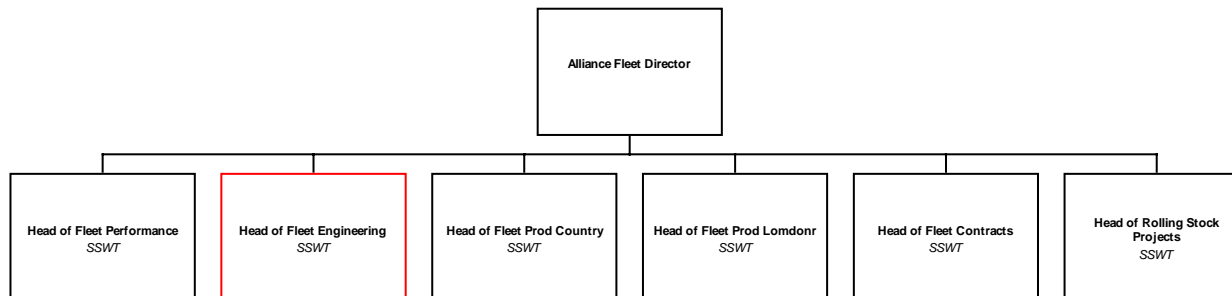


January 2012

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Network Operations - Wessex

Proposed Organisation Structure Chart

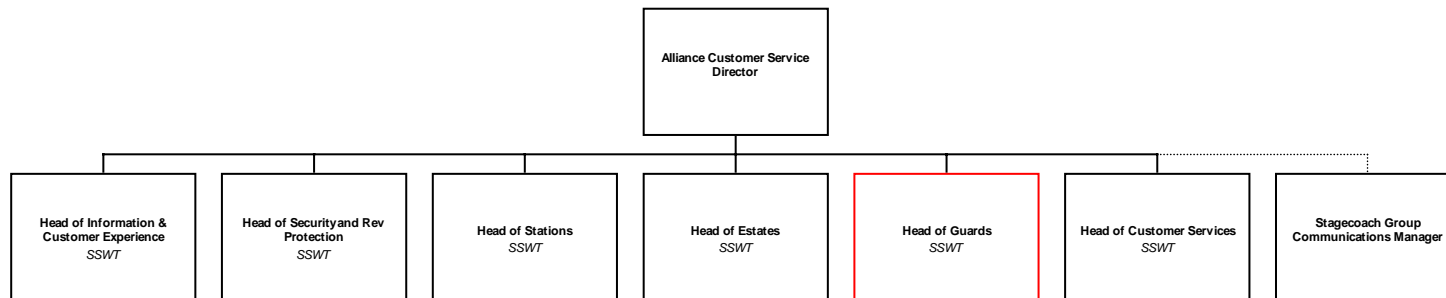


January 2012



Network Operations - Wessex

Proposed Organisation Structure Chart

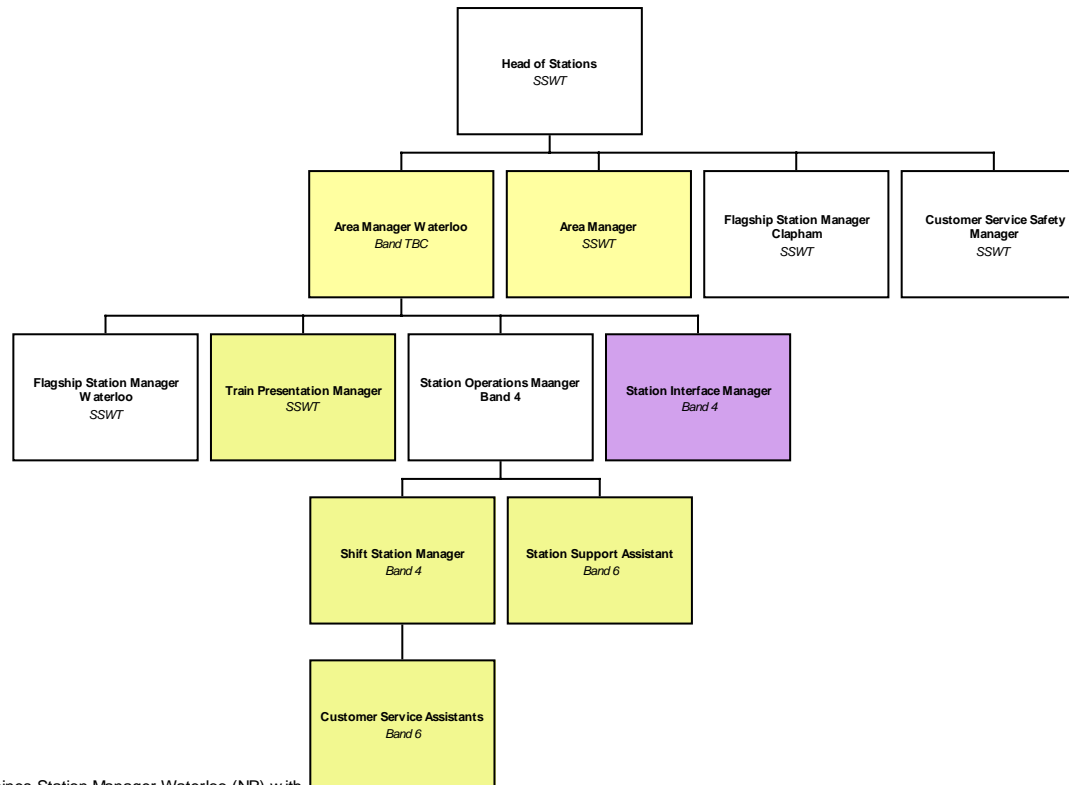


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Network Operations - Wessex

Proposed Organisation Structure Chart



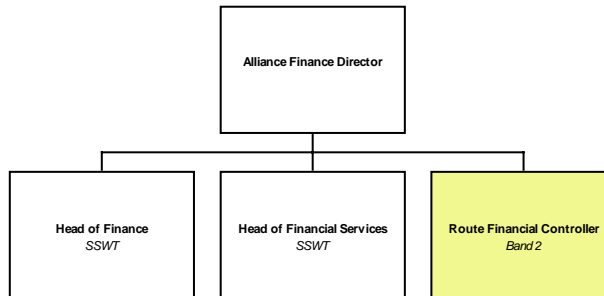
Note: Area Manager Waterloo combines Station Manager Waterloo (NR) with Area Manager Waterloo (SSWT)

January 2012

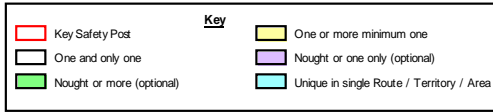
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Network Operations - Wessex

Proposed Organisation Structure Chart

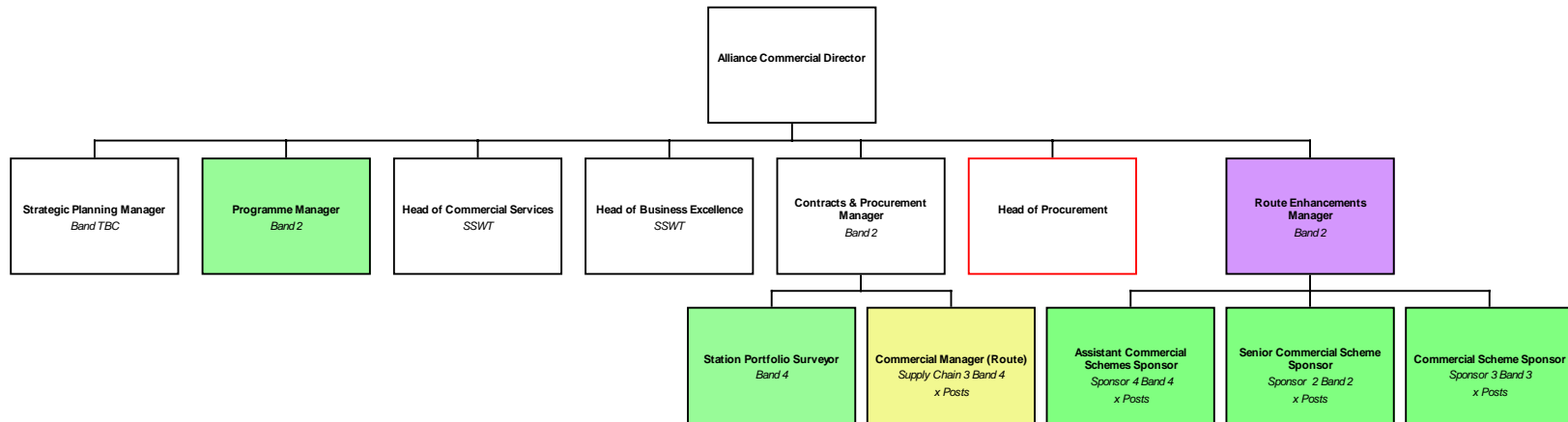


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Network Operations - Wessex

Proposed Organisation Structure Chart

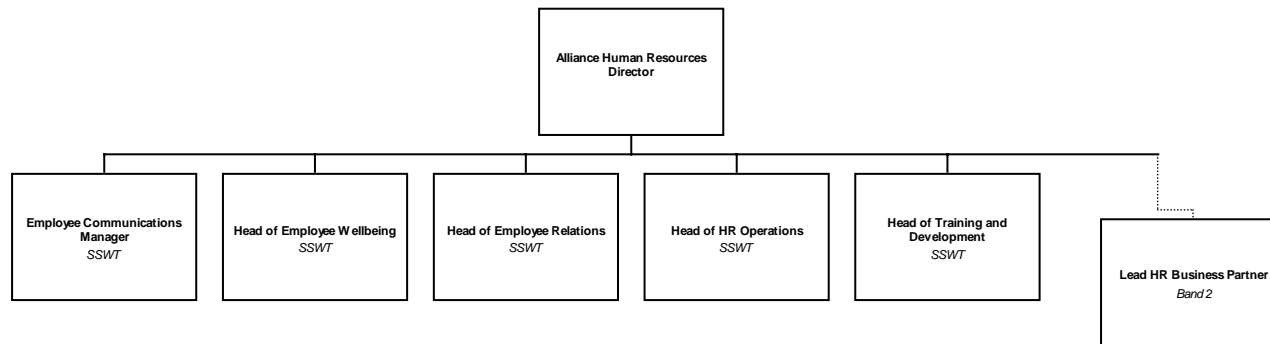


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Network Operations - Wessex

Proposed Organisation Structure Chart



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