

**Periodic Review 2013 – Consultation on the capacity charge
Response from Alliance Rail Holdings**

Introduction

Alliance Rail Holdings (“Alliance”) is an Open Access Train Operating Company with plans to operate long-distance high speed (125 mph+) services between London and a number of northern destinations via both the ECML and WCML. It currently has a track access application lodged with the ORR to operate WCML services from May 2014.

As you note in your consultation document, Open Access operators currently pay both the Variable Track Access Charge (VTAC) and Capacity Charge, as well as station charges, but not the Fixed Charge. However, in return for not paying any element of Fixed Charge, access to the network is heavily restricted because of the need to pass the ‘not primarily abstractive test’ set by the Office of Rail Regulation (ORR).

In this respect, an increase in either the VTAC or the Capacity Charge is not cost-neutral, as it broadly is for franchised passenger operators, because there is no corresponding Fixed Charge to be reduced if the variable elements are increased. Clearly, we are well aware that Open Access Operators may be required to follow a different charging regime in future.

The responses below to your consultation questions are the views of Alliance Rail Holdings, and not necessarily those of any related company.

1. Do you agree that, beyond the arrangements that are currently in place, capacity charge tariffs that vary across time should not be introduced?

In principle, we feel that capacity charge tariffs should vary by time of day (and location) to reflect variability in congestion that occurs. Only in this way is it likely that operators will respond to the economic signals by reducing demand – albeit marginally – at the most congested times.

However, we accept that without a more sophisticated model and billing system in place, this is unlikely to be practicable for CP5.

2. Do you agree that the weekend discount should remain in place? Do you agree that the magnitude of the discount should be revisited, and informed by analysis undertaken as part of the capacity charge recalibration exercise?

We agree with all these proposals.

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3. Do you agree that the capacity charge should be disaggregated to service code (rather than service group) level in CP5?

Yes. It is important that the tariff is granular enough to give operators the right incentives to shift demand away from times of peak capacity utilisation.

We suggest it might be possible to disaggregate the existing service codes by time of day where there is a significant difference in capacity utilisation at different times of day. Train service codes already change *en route* for some trains. For example, changes are used to distinguish PTE and non-PTE areas through which a single train passes.

The only drawback is that Network Rail will need to manage more carefully than it does now the allocation of service codes to trains during preparation of the timetable offer. Train service codes are clearly defined in Track Access Contracts, so these may also have to be updated.

4. What are your views on developing a tool to calculate capacity charge tariffs for new or amended service codes? How could this be best accommodated contractually?

In principle it would be better to assign a Capacity Charge tariff to each route section, rather than train service code, since it is the infrastructure capacity that is utilised, not the train. Otherwise, it will be easy for subjective judgments to creep into the tariff and there may be an increased chance of disputes between operators with overlapping routes but significantly different tariffs.

Even if the tool then has to aggregate individual route elements in a way that creates a tariff by service code, the underlying model should examine individual route sections.

5. Do you agree that all freight operators should pay the same single capacity charge tariff in CP5? What are your views on the level of the discount applied to freight services?

In principle, freight operators should be subject to the same Capacity Charge regime as passenger operators, in order to send similar economic signals to them. In some ways, it is even more important for freight operators to have a tariff that is differentiated by time of day as, in the longer term (i.e. beyond existing customer contracts), they may have more flexibility in timing trains than a passenger operator that is obliged to run a half-hourly service.

6. Do you agree with Network Rail's proposals in relation to the de minimis threshold?

If this means that the services operating on, say, the least congested 10% or 20% of routes do not pay, then we agree.

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7. What are your views in relation to arrangements for handling large timetable changes in CP5?

If the Capacity Charge model is realistic and properly calibrated, it should be possible to assess a tariff for new routes such as Crossrail, or new timetables arising from other enhancement schemes. We see no particular issues in extending the model to new train services.

8. Do you consider that the proposed methodology for recalibration of the capacity charge described above and detailed in Appendix 2 is appropriate?

Broadly yes – but see the response to question 9.

9. Do you agree that the CUI should be used as the basis for capacity charge recalibration as part of PR13?

The CUI has a part to play in calibrating the capacity charge tariff. However, we have two key concerns about its use.

- a) The CUI measures utilisation based on line headways. A significant amount of reactionary delay – I wish I could quote the proportion – is attributable to waiting for trains to cross at junctions, or awaiting a platform at a station. In fact, it is much more likely that these other factors will cause a train to stop completely, rather than just slow down. We feel strongly that the CUI must be used in conjunction with other metrics that reflect these constraints.
- b) You refer to CUI taking account of planning headways. We believe this is the incorrect approach. A route is only operating at full capacity when it reaches the limits determined by the signalling system. The utilisation must therefore be assessed against the technical headways, and not the planning headways. Our observation is that the setting of planning headways is somewhat arbitrary and has no fixed relationship to technical headways. For example, on some single line sections, the planning rule for minimum re-occupation time is right on the limit of technical capabilities, whereas on some routes with modern signalling the planning headway is almost twice the ‘green to green’ signalling headway.

We would urge you to consider these points when designing a new capacity charge model for CP5.

You also comment on the fact that CUI can vary along a route. We would urge you to apply the ‘Watford Test’ to any model. Three trains an hour using the WCML Fast Lines call at Watford Junction. We don’t doubt there are good commercial and social reasons for this. However, without these calls, the line would be capable of operating 4 or 5 additional paths each hour. So on this route section, each train is consuming 2½ ‘standard’ paths. Does the CUI determine that the route is operating at 55% capacity (11 paths out of a theoretical 20) or 80% (16 out of 20)?

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10. What are your views about accounting for other determinants of reactionary delay as part of the CP5 recalibration of the capacity charge?

As noted in the response to question 9, we believe that other determinants of reactionary delay – in particular station dwells and crossing moves at flat junctions – are at least as important as headways, if not more so. Again, any modelling needs to take account of the technical limits of the signalling system rather than the more arbitrary planning rules.

11. What are your views about the functional form used to model the relationship between reactionary delay and capacity utilisation?

We believe that Network Rail should seek recommendations on the functional form of the model from those tendering for the work to build the model.

If the model can reduce the ‘statistical noise’ in regression analyses, then this would be a good indication that the right functional form has been found.

We hope that the model might eventually form a better basis for Network Rail deciding when it is acceptable – and when it is not – to allow additional trains onto the network on performance grounds. This is of particular interest to Alliance as we have found it difficult to persuade Network Rail that there is room to accommodate our proposed services, even where they can be validated against the timetable planning rules.

12. How do you think the industry can guard against analytical risk in the capacity charge recalibration? In the unlikely event that statistical recalibration approach described above is not fully successful, how should we proceed to secure a capacity charge which is fit for purpose in CP5?

Our view is that there is enough technical expertise in the marketplace that Network Rail should be able to develop and calibrate a model that improves the validity and usefulness of the new tariff.

Otherwise, we have no particular view on how Network Rail should move from the existing tariff to a new one for CP5.

13. How should changes in the capacity charge between CP4 and CP5 be managed?

Calibration should indicate the main ‘winners and losers’ between CP4 and CP5. We would expect Network Rail to consult affected train operators and, where appropriate, funders.

We would expect the biggest issues to arise with freight and open access passenger operators, as these have no protection through franchise funding mechanisms or adjustments to fixed charges. We would expect the ORR to take a view about how any significant increases in tariffs for these operators would be introduced.

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14. Do you support the creation of a capacity charge working group? How do you consider that its membership should be decided? What should be its remit?

We support the creation of such a working group. We believe the ORR should have the final say on membership. We also believe that at least one operator should be invited to be a member from each of the following groups, as each will have a different view of the capacity charge: freight; franchised passenger; open access.

15. Do you have any further views or suggestions about our approach to stakeholder engagement in relation to the capacity charge?

None, other than that Alliance would be pleased to be involved in the process.

16. Do you prefer fewer and longer consultations or more regular and shorter consultation?

We would prefer regular shorter consultation.

17. Do you have any further views or suggestions about our approach to stakeholder engagement in general?

No.

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