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Dear Ekta

Network Rail consultation on traction electricity and electrification asset usage charges in CP5

Thank you for giving SSWT the opportunity to respond to this consultation.

We strongly support the views expressed in ATOC's response. Network Rail is clearly focused on encouraging the fitment of on-train meters, as reflected in the proposals on consumption rates and the removal of regenerative braking discounts. However, there are no proposals designed to enable TOCs to produce a positive business case for switching to metering in the DC area. We believe that the measures proposed tilt the balance towards fully-metered operation without justifying either the case for doing this or the cross-subsidies (in particular from unmetered to metered operators) that are proposed to deliver it. We would encourage Network Rail to consider offering incentives, rather than penalties, for metering.

We do not believe that the proposals put forward in this consultation can be implemented without also re-examining the level at which the system losses uplift is set for metered EC4T consumption in the DC area. We note that Network Rail will be consulting on DC losses later in the year and are strongly of the view that any decisions taken on measures to incentivise the switch to metering should not be taken in isolation of the issues to be considered by that consultation. We have made the point in response to several previous consultations from Network Rail and ORR in this area that there is no business case for SSWT to switch to on-train metering with the losses mark up set at its current level of 27%. We believe that Network Rail must be incentivised by ORR in CP5 to reduce losses to an efficient level of around 15%. We would be happy to engage with Network Rail and

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ORR on how SSWT could assist in providing the necessary evidence to support a reduction in the system losses uplift factor.

We would also like to emphasise the following detailed points.

Modelled consumption rates

- It is not clear from the consultation which elements of the changes to EC4T charges new franchises (and existing TOCs) might be exposed to, e.g. solely consumption rate uplifts, or whether the intention is for TOCs to be exposed to all changes. There must be a broader multi-party dialogue involving DfT, ORR and Network Rail before any of these proposals are taken further.
- We agree that existing modelled EC4T consumption rates should remain unchanged, as should the uplifts for EMU length and the methodology for calculating new rates.
- We oppose the proposal to uplift modelled consumption rates by 10% to incentivise metering for the following reasons:
 - There are other, better, mechanisms for encouraging the uptake of on-train metering; primarily through the franchising process. Longer, more flexible franchise terms would enable TOCs to develop a commercial business case for metering and this development should be allowed to play out rather than manipulating the charging mechanism. Alternatively, specification in franchise tenders is another option.
 - The proposal to redistribute the additional funds to all TOCs pro rata to volume creates a cross-subsidy from unmetered to metered TOCs. We are not convinced that a crude cross-subsidy of this kind is a wise proposal, having regard to the already complicated system of incentives in use in the rail industry. Adding a surcharge would simply increase a TOC's working capital requirement during Network Rail's financial year with the expectation of a refund at the end of the year through the wash-up.
 - More generally, Network Rail should be putting more emphasis on cost-effective techniques for billing metered trains, particularly partially-metered fleets. ATOC has been working to develop procedures to allow bills to be produced based on sampling of fleets rather than the current requirement that every separate journey has to be recorded, aggregated and then charged in a global, overall bill. A sample, based on meter readings derived from perhaps 20-30% of a fleet or data taken from just 20-30% of days in the month would provide a reliable estimate at an excellent degree of statistical uncertainty. We believe Network Rail should, on grounds of whole system cost-effectiveness, put more focus on this area.

Regenerative braking

We do not support the proposal to remove the regenerative braking discount in CP5. We have invested heavily in this initiative, modifying our Class 444, 450 and 458 fleets (202 units) to drive down our EC4T costs. It is totally unreasonable to remove this discount before we have delivered the savings that drove our business case. Removing the discount could also incentivise TOCs to

switch regenerative braking off because they will not benefit from it. This is counter to the aim of reducing overall industry EC4T consumption.

Electricity prices

We support the proposal for freight operators to move to similar pricing arrangements to those of passenger operators from the start of CP5.

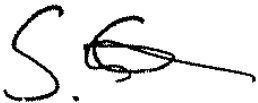
Electrification asset usage charge

We are very concerned at Network Rail's proposal to calculate this element of cost through a long run average approach, which would result in EAU costs increasing significantly. We believe that this change should be justified more fully by Network Rail and be subject to detailed ORR scrutiny. It should only be introduced to the extent that Network Rail can justify what will happen to any surplus funds that it will collect during CP5.

Conclusion

We are concerned at the cost of EC4T, particularly given the recent notification from Network Rail regarding significant increases in transmission and distribution costs and EDF's proposal to pass feed in tariffs through to their customers, and believe that some of the proposals outlined would add significant additional cost uncertainty with little obvious value and no clear business case. We would like to meet with Network Rail to discuss our concerns further. I would be happy to arrange a suitable date.

Yours sincerely

A handwritten signature in black ink, appearing to be "S. Gibbins".

Sam Gibbins
Track Access Manager
Stagecoach South Western Trains Limited