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Ben Worley.
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Dear Ben,

GB Railfreight Ltd. (GBRf) response to "Freight caps – consultation on variable usage charge (VUC) and freight only line charge initial cost estimates" documents:

GB Railfreight is pleased that consultation on CP5 variable track access charges has commenced early on in the process. As well as GBRf having strong concerns, our end customers are, themselves, already concerned with how costs may escalate from April 2014 onwards. An example of this is the Association of Coal Importers' Rail Working Group which is now meeting regularly to discuss this important topic and feed its views to us (the freight operating companies) and also directly to the ORR and DfT.

GBRf is supportive of Network Rail using a similar methodology to that as in PR08 but, as then, there are a number of assumptions that have gone into the modelling that now need challenging. GBRf is also supportive of the freight cap principle but, particularly, in reaching an agreement on that figure as early as possible. The freight cap, once agreed, is an important tool for FOCs to try to fix their costs for both their existing and, importantly, new customers. Our own customers have already made it clear to us that any ambiguity in the level of our costs, in PR13, will deter them from investing in new and expanded infrastructure, rightly so.

The issue of how many structures and which figures to include for underbridge and culvert renewals, in producing the PR13 cost estimates, is an extremely important issue worthy of far more detailed examination. Your initial cost estimates for PR13 are, initially, lower but for the inclusion of the bridges, culverts and embankments issue. GBRf needs to be clear that, in reaching the large figure for these items, assumptions haven't been made that all structures and embankments are in as poor a condition as the worst identified structure. From that point, more clarity is required.

In responding to this report, as written, GBRf cannot accept the figures quoted for civils and signalling asset renewals without far more insight into the figures.

In dealing with freight only line charges and affordability, your report states that Network Rail will give consideration to certain segments of the rail freight market contributing to the fixed costs of the mixed railway network.

GBRf is very concerned that any contribution to these fixed costs exposes it to real additional costs and not just another cost to be factored into the price of a franchise, as would be the case with a franchised TOC. Network Rail's fixed costs cover its "Headquarters" functions and, with that example and the many other fixed costs to which GBRf might be exposed, there would need to be absolute certainty that these costs are the most efficient possible, in line with the McNulty Report.

Even then, if the ORR chooses to go down this road, it will be a complicated piece of work to do properly, not just on assumptions, which will then draw out the whole PR13 process. If the fixed costs issue were to be taken forward, GBRf would want to see clear evidence of rigor and analysis in the data being used also, as mentioned above, using the most efficient fixed costs possible. Up to now, it's clear that freight data is not accurate enough to be trusted in such an important area of cost.

Answers to Annex A consultation questions, not dealt with in the above general response:

(Note – where there is no comment to be made, the question number has not been shown).

1) The range of traffic growth scenarios is acceptable but there also needs to be at least one scenario for a decrease in traffic to make the cost model as accurate as it can be. Accuracy is key to this report's credibility.

2) The use of a +20% traffic scenario across the board of the various freight sectors is, I believe, too high given that it's not definite that all infrastructure enhancements, that will help achieve this "across the board" growth, will be in place during PR13.

3) This is the biggest issue for GBRf, in determining the level of variable track access costs over PR13, and the calculations being input must be accurate beyond any doubt. As mentioned above, the inclusion of such large figures for brick & masonry, also metallic underbridge renewals, giving the main direction to this report, must be challenged both in the figures (£s) and judgement as to how bad some of Network Rail's assets really are. Detailed analysis of this is needed and also agreement on exactly which parts of the network are "fixed" and "variable". Without this, there are too many assumptions being made.

Coupled with the above, there must be more work presented, as part of this report, to show why such a proportion of works (civils, signalling and track) needs to be included in CP5 and not spread further afield.

4) GBRf is happy that the CP4 allocation methodology is sound for CP5.

5) GBRf is happy that the maximum average "£/kgtkm" is the basis of a rate for a freight cap.

6) GBRf believes that a +/- 20% confidence interval is too high. I'd like to see far more rigour placed on inputting accurate data in the first place then have a far lower confidence interval, say < +/- 10%. There's a pattern emerging throughout the report - importing high averages with a high confidence level, leading to a high freight cap. Unfortunately, in stakeholders' minds, this approach means uncertainty and dilutes the perceived accuracy of the report - it's accuracy that's required at this point.

7) As mentioned in 6), with high ends of forecasts being proposed throughout, GBRf feels that having the cap charges at the upper limit is too generous. FOCs are looking for real Network Rail efficiencies from the CP4 figures.

9) The PR08 definition of "freight only line" was and still is sound and GBRf supports the continuation of the definition. There is a big debate to had, in future PR13 consultations, as to which, if any, sector of the rail freight market can afford to pay a greater part of the variable track access charge and any part of the fixed charges. Our customers have already made it clear to us that there are unseen elements of their cost bases that can change significantly from just a modest proposal to increase the variable track access charge.

11) There is a large increase in track kilometres in the "freight only line" list in Annex B, albeit caused by the previous omission in the CP4 list. This points to the fact that Network Rail had no accurate asset register, however, with this mistake in mind, GBRf needs to be convinced that this list of lines is accurate and the final picture and that the "track km" figures are also accurate.

GBRf needs to be convinced that that the current operating system of reporting train consists is accurate and robust for it to have such an important role in the decision on PR13 charging. Various Network Rail departments, including its billing team, have made it clear that train consist data is not always recorded properly, on every occasion, as there are anomalies which often skew the figures.

Having *estimated* the total cost of freight lines, proposing a 24% mark up on ESI coal and 14% mark up on spent nuclear fuel costs, without the most accurate of data to support this, is not the right way forward in putting together the best case for CP5 costs. For GBRf, the ESI coal proposed increase does not make good reading and our customers will want to know what science is behind this proposal.

14) As with the variable usage charge confidence intervals, +/- 20% is too high for similar reasons. Accurate data supplied into the model from operational systems, with a confidence limit of < +/- 10%, is what's needed to make this report credible.

15) GBRf's views on this are as 14). There needs to be more rigor to justify every cost that's being used in this report, with a lower confidence level attached.

The simple message that GB Railfreight is making is that, for this report on cost estimates for PR13 to be acceptable as a way forward to the next stage of discussion, there needs to be a far more detailed examination and justification, of all figures, shared and discussed with operators, and not what appears to be too many assumptions.

Yours sincerely,

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National Access Manager.