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Dear Joel,

Consultation on Schedule 8 compensation payment rates in Control Period 5

This letter constitutes the response of the Go-Ahead Group, Govia and Southeastern, Southern and London Midland TOCs. I confirm no part of this response is confidential and that it can be published on your web site.

We do not agree with Network Rail's proposition.

The Network Rail arguments are interesting for the industry to consider but do not sufficiently support the principle of change to Schedule 8. These arguments are, however based on a narrow and selective dataset. We particularly question the fact that the proposal seeks to change the Schedule 8 regime for one group of TOCs without comparable analysis and consideration for the routes of other TOCs.

It is our understanding that the supporting evidence and arguments underpinning the Halcrow/ITS proposals were considered by the Passenger Demand Forecasting Committee and the Passenger Demand Forecasting Handbook has now been agreed following that discussion. The implementation of the proposed values would not follow the agreed industry methodology and deviates from a set process which the industry has accepted as an approved standard. You also point out in your letter of 15 May that Network Rail have no direct evidence that rates calculated on the proposed basis would be precisely correct. This further supports our view that we will be unable to agree to this proposal.

Importantly, Passenger Income Demand modelling is a key component of franchise bids and is done on the basis of the Passenger Demand Forecasting Handbook and so any change to the basis of calculation of Schedule 8 rates would introduce inconsistency between the basis of forecasting franchise income and the matching payments to NR.

Having read the consultation document and attended the meeting on 31 May, we do not think that the proposal is the right response to the evidence and arguments. For example, with reference to the graph presented by Network Rail in the appendix to the consultation letter, the changes do not appear to materially resolve the problem described by Network Rail.

Practically, we believe that the payment rates should be calculated in a consistent manner with income modelling using the most recent agreed PDFH values. The more important aspect of the Schedule 8 regime to get right is the Benchmarks. Setting benchmarks correctly would result in a

cost-neutral regime. The reputational risk to the industry can and should be managed by focusing on this part of the periodic review.

Yours sincerely

Richard Stuart
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