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11 June 2013

By email only

Dear Joel,

Thank you for your letter dated 15 May 2013 outlining some of Network Rail's concerns regarding London and South East commuting Lateness Multipliers and GJT elasticities contained in the PDFH 5.1 and their implications for Schedule 8 payment rates in CP5.

Please note this is a joint response on behalf of Greater Anglia and Northern Rail train operating companies.

Consultation question

Do you agree with Network Rail's proposition above? If you do not agree, please explain your reasons why. Do you propose any other alternatives?

We agree with Network Rail that it is fundamental to the successful operation of the performance regimes in track access contracts that Schedule 8 payment rates are set correctly. However, nothing we have seen yet gives us any reason to doubt that the work undertaken to date by Halcrow in relation to CP5 Schedule 8 benchmarks and payment rates is incorrect, or will lead to setting of CP5 payment rates incorrectly.

We accept that whilst Network Rail may appear to have demonstrated a case to explore further with regard to a potential "gap" between predicted effect on performance and what appears to be the actual effect but we do not believe we have yet been shown anything which amounts to a substantial evidence base to support those assertions.

The GJT elasticities and LM values in PDFH 5.1 have been derived following a comprehensive review of several studies and associated research. Network Rail's back casting exercise appears to draw on very little substantive research in comparison. Whilst Network Rail is keen to demonstrate that there appears to be a significant difference in the sensitivity of demand to performance in comparison with what is implied by the LM and GJT elasticities in PDFH 5.1, the solution it proposes is simply to use GJTs from 2004/05. However we have not seen any evidence that there

is a problem relating to the GJTs and therefore we cannot agree there is justification to change these values. This will achieve nothing but create potential inconsistencies in the model and simply seems to be a way of mitigating the effect of increased schedule 8 payment rates in CP5.

We do not propose any other alternatives because we are content with the approach that has been taken for the GJT elasticities and LMs in PDFH 5.1.

Yours sincerely

Helen Cavanagh
Track Access Manager
On behalf of Northern Rail and Greater Anglia