

Our Ref: MB/SA
Your Ref:

12 July 2012

Jonathan Hulme
Office of Rail Regulation
1 Kemble Street
London
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SENT BY EMAIL

Dear Jonathan

ALIGNING INCENTIVES TO IMPROVE EFFICIENCY

Thank you for giving us the opportunity to respond to the ORR's further consultation on Aligning Incentives to Improve Efficiency.

You will have noted the concerns and issues we raised in our more substantial response to the initial consultation and these still stand.

We note the additional option arising from DfT and Transport Scotland's concerns (which we share) but we have a number of issues in relation to the additional option (and which relate back to our original submission).

Firstly, there needs to be clarity over where the additional option might be applicable. If 'Alliancing' is the pre-dominant mechanism for aligning incentive and efficiency sharing, this will presumably cover much of the TOC geography except where there isn't a clear alignment between Network Rail route and TOC geography – as could be the case across most of our areas (except for the Merseyrail concession).

Secondly, as the consultation letter notes the scale of benefits may not be as great under the additional option. When combined with the issue of geography, this may mean that areas outside of the scope of Alliancing could be disadvantaged in some way.

Thirdly, more thought is required on producing a mechanism that work to produce efficiencies at a sufficient granular level to allow local transport authorities (and potentially local franchising authorities) sufficient clarity to influence. The present route level structure will not achieve this. Similarly for franchises which are covered by more than one route, there needs to be a sufficiently joined up system that allows for the fragmented geography to be aligned.

Finally, as we stressed in our original submission, the mechanisms for aligning incentives do need to take account of what happens at a local level so that partnerships and projects developed locally are not put at a disadvantage. Any new mechanisms should facilitate the delivery of the local railway and do so in a way that allows efficiencies to be reinvested locally.

In conclusion, we remain uncertain about whether the proposed mechanisms will deliver the desired outcomes for local rail services and would urge caution before setting up complex financial mechanisms which might not add value to the industry.

Yours sincerely,

Matt Brunt
Assistant Director, *pteg* Support Unit